STANDARD & POOR'S RATINGS SERVICES
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Summary:

Los Angeles County; Appropriations; General Obligation

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Table Of Contents

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Credit Profile		
US$120.35 mil lse rev rfdg bnds (Master Rfdg Proj) ser 2015C due 06/30/2034		
Long Term Rating	AA/Stable	New
US$85.38 mil lse rev bnds (Master Rfdg Proj) ser 2015B due 06/30/2023		
Long Term Rating	AA/Stable	New

Rationale

Standard & Poor's Ratings Services affirmed its 'AA+' issuer credit rating (ICR) on Los Angeles County, Calif., as well as our 'AA' rating on the county's existing appropriations ratings. At the same time, we assigned our 'AA' rating to the county's $120.35 million 2015 lease revenue refunding bonds series B and $85.38 million in lease revenue refunding bonds series C (taxable). The county's covenant to budget and appropriate lease payments secures the bonds. The outlook on all the ratings is stable.

The county is issuing the bonds to refinance the series 2005, 2005A, and 2006B lease revenue bonds for savings. It is funding a common debt service reserve at the lesser of 50% of maximum annual debt service (MADS), 10% of original aggregate principal amount, 125% of average annual debt service of the 2015A (issued in February 2015), B, and C lease revenue bonds. The county is issuing these bonds on a previous master lease which requires a covenant to budget and appropriate subject to abatement. The abatement concern is offset by the requirement to maintain two years of rental interruption insurance. The legal documents require risk insurance at least equal to the full insurable value of the property, subject to a $100,000 loss deduction. The county may self-insure for risks except rental interruption. All leased assets have passed our earthquake risk assessment.

The ICR reflects our assessment of the following factors for the county, specifically its:

- Strong economy, with access to a broad and diverse metropolitan statistical area (MSA);
- Very strong management, with "strong" financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Strong budgetary performance, with an operating surplus in the general fund and balanced operating results at the total governmental fund level;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2014 of 15% of operating expenditures;
- Very strong liquidity, with total government available cash of 29.5% of total governmental fund expenditures and 11.7x governmental debt service, and access to external liquidity we consider exceptional;
- Very strong debt and contingent liability position, with debt service carrying charges of 2.5% of expenditures and net direct debt that is 5.6% of total governmental fund revenue, and low overall net debt at less than 3% of market value, but a large pension and other postemployment benefit (OPEB) liability; and
- Strong institutional framework score.

Strong economy

We consider the county's economy strong. Los Angeles County, with an estimated population of 10.1 million, is located in the Los Angeles-Long Beach-Anaheim, CA MSA, which we consider to be broad and diverse. The county has a projected per capita effective buying income of 94.0% of the national level and per capita market value of $125,596. Overall, the county's market value grew by 6.0% over the past year to $1.3 trillion in 2015. The county unemployment rate was 8.3% in 2014.

The diverse economy supports the growth in the tax base and declines in unemployment. Assessed value (AV) has grown since fiscal 2011, reflecting a stabilization in the economy and home prices. The county's unemployment rate continued to decline, down from just below 10% for calendar year 2013, strengthening our view of the economy when comparing the unemployment rate with its above-10% 2012 levels. The county benefits from two major ports, the Ports of Los Angeles and Long Beach. The area's employment in high-technology jobs has also grown. The county's gross domestic product reflects a little over one-quarter of the state's overall level.

Very strong management

We view the county's management as very strong, with "strong" financial policies and practices under our FMA methodology, indicating financial practices are strong, well embedded, and likely sustainable.

The county uses state economic data and actual historical trends in revenue forecasting and reviews expenditures and revenues monthly against budget. It prepares a five-year revenue and expenditure forecast, as well as a seven-year long-term capital plan. The county has adopted a debt management plan and a written investment policy and prepares monthly investment performance reports submitted to the county board. While it has set a goal of building 10% of locally generated revenues in a rainy day and economic reserve, officials report that the county is not currently meeting the goal, but continues to transfer a portion of surplus revenue either to the rainy day fund or to pay down its OPEB liability. The county recently passed a new policy to set aside 5%-10% of its discretionary revenues for contingencies.

Strong budgetary performance

Los Angeles County's budgetary performance is strong in our opinion. The county had surplus operating results in the general fund of 2.3% of expenditures, and balanced results across all governmental funds of 0.2% in fiscal 2014.

General fund and governmental fund revenue and expenditures were adjusted to account for recurring transfers to and from the county's hospital funds. Additionally, the general fund expenditures were adjusted to account for recurring transfers to the library and various debt service funds. Taxes represent 30% of the audited fiscal 2014 general fund revenues. The other major revenues stream for the county came from intergovernmental revenues from the federal and state government and represent about 55% of revenues. The county's highest general fund expenditures are for its public assistance and public protection. We do not anticipate a significant deviation from balanced operations over the next two years. Fiscal 2015 numbers are not yet finalized, but management anticipates results which could end reserves higher than the previous year. The major revenues support the county's expenditure goals are mostly growing year over year. Property tax has experienced strong growth with estimated growth of 4.9% in 2015, which excludes revenues associated with redevelopment dissolution. Sales tax-related revenues continue to grow as well, with local sales tax estimated to be up by 5% in 2015 and Proposition 172 sales tax up by 2.8%. For fiscal 2016, management focuses on budgets that align ongoing revenues with ongoing expenditures. The budget also begins to address the county's OPEB liability by setting aside $10 million in the adopted budget for 2015-2016 as part of a multiyear plan to pre-fund it. Furthermore the county's support for its hospital operations has decreased over time as the county works to adjust to the Affordable Care Act. Previously, the hospital required substantial contributions from the county. County contributions were at $1 billion in fiscal 2011, about 16% of the Department of Health Services budget, and have declined to 13.1% in 2015-2016.

Very strong budgetary flexibility

Los Angeles County's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2014 of 15% of operating expenditures, or $2.4 billion.

County management originally projected 2015 ending balances slightly below 2014 levels. However, based on closer to year-end numbers, results could exceed the previous years' audited levels. Management continues to work to improve its reserve position and add to its rainy day fund. This fund is co-mingled with the unassigned fund balance. The rainy day target is 10% of ongoing discretionary revenues, though the county is not fulfilling this target. Further, the county has implemented an additional 5%-10% of new ongoing discretionary revenue to be set aside annually for contingencies. Should any of these set-asides remain at the end of the year, they will be transferred to the reserves or OPEB trust. We expect reserves will remain close to or slightly higher than current levels, given management's commitment to reserves and due to what we expect to be at least stable operations over the next two years.

Very strong liquidity

In our opinion, Los Angeles County's liquidity is very strong, with total government available cash of 29.5% of total governmental fund expenditures and 11.7x governmental debt service in 2014. In our view, the county has exceptional access to external liquidity if necessary. Weakening our assessment of Los Angeles County's liquidity position is the county's exposure to a non-remote contingent liability that could come due within 12 months, but the coming year's cost is less than 10% of general fund revenues.

Supporting our view of the county's exceptional access to liquidity, the county has issued various types of debt in the past 15 years, including lease revenue bonds, commercial paper (CP), assessment debt, and tax and revenue anticipation notes. In April 2013, the county entered into a direct-purchase revolving credit agreement with Bank of America and Los Angeles County Capital Asset Leasing Corp. The county could draw up to $150 million under the terms of the agreement. Given the relatively minimal amount that could be due under the agreement compared with average county balances, we believe the county would have sufficient resources to meet its obligations under the terms of the agreement, even if the full payment was due immediately. (For additional details, see the summary analysis titled, "Los Angeles County, California; Appropriations; General Obligation," published June 4, 2013, on RatingsDirect.) While the state allows for what we consider permissive investments, the county mostly invests in investments we consider non-permissive, such as U.S. Agency securities, certificates of deposit, and CP with an 'A-1' rating.

Very strong debt and contingent liability profile

In our view, Los Angeles County's debt and contingent liability profile is very strong. Total governmental fund debt service is 2.5% of total governmental fund expenditures, and net direct debt is 5.6% of total governmental fund revenue. Overall net debt is low at 2.9% of market value, which is in our view a positive credit factor.

In our opinion, a credit weakness is Los Angeles County's large pension and OPEB liability. Its combined pension and OPEB contributions totaled 10.1% of total governmental fund expenditures in 2014. Of that amount, 7.4% represented contributions to pension obligations and 2.7% represented OPEB payments. The county made its full annual required pension contribution in 2014. The pension funded ratio is 79.5% for fiscal year-end 2014.

We consider these liabilities as a possible growing cost pressure, but we believe management is taking some steps to address these issues. In addition to the multiyear plan addressing the county's OPEB liability, including $10 million in the 2015-2016 adopted budget, in fiscal 2013, the county transferred almost $449 million into an irrevocable OPEB trust fund to help pay for future obligations, which officials expect will help reduce the future OPEB unfunded actuarial accrued liability. After recent negotiations about new employees, dependents will no longer be included in retiree health benefits.

Strong institutional framework

The institutional framework score for California counties required to submit a federal single audit is strong.

Outlook

The stable outlook reflects our view that Los Angeles County's budgetary performance and flexibility will likely remain strong as a result of economic stabilization and conservative budgeting. We do not expect to change the rating in the next two years, given, in part, the county's relationship with the hospital. Although the latter has substantially improved, there remains some uncertainty because we believe hospitals are facing some challenges over the next few years. The county's broad and diverse economy enhances stability.

While unlikely in the next two years, should the county demonstrate sustained strong budgetary performance and greatly increased flexibility, along with substantially improved funded levels for its liabilities, we could raise the rating. Alternatively, should Los Angeles County's hospital and medical center operations deteriorate or other expenditures rise unexpectedly such that they weaken the county's budgetary performance and flexibility profiles, the rating could be pressured.

Related Criteria And Research

Related Criteria

- USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013
- USPF Criteria: Financial Management Assessment, June 27, 2006
- USPF Criteria: Debt Statement Analysis, Aug. 22, 2006
- USPF Criteria: Appropriation-Backed Obligations, June 13, 2007
- USPF Criteria: Contingent Liquidity Risks, March 5, 2012
- USPF Criteria: Assigning Issue Credit Ratings Of Operating Entities, May 20, 2015

Related Research

- Institutional Framework Overview: California Local Governments

Ratings Detail (As Of July 31, 2015)		
Los Angeles Cnty cert of part ser 1993		
Long Term Rating	AA/Stable	Affirmed
Los Angeles Cnty lease rev bnds (Multiple Capital Projects Ii)		
Long Term Rating	AA/Stable	Affirmed
Los Angeles Cnty lse rev bnds ser 2014 A due 06/01/2018		
Long Term Rating	AA/Stable	Affirmed
Los Angeles Cnty lse rev bnds (Lac-cal Equip Fincg)		
Long Term Rating	AA/Stable	Affirmed
Los Angeles Cnty rfdg COPs (Disney Concert Hall Parking Garage)		
Long Term Rating	AA/Stable	Affirmed
Los Angeles Cnty ICR		
Long Term Rating	AA+/Stable	Affirmed
Los Angeles (Los Angeles Cnty) certs of part (Dept of Pub Social Svcs Fac) ser 1999A dtd 08/01/1999 due 08/01/2002-2011 2019 2024 2031		
Unenhanced Rating	AA(SPUR)/Stable	Affirmed
Los Angeles Cnty Pub Wks Fing Auth, California		
Los Angeles Cnty, California		
Los Angeles Cnty Pub Wks Fing Auth (Los Angeles Cnty) (Multi Cap Proj I)		
Long Term Rating	AA/Stable	Affirmed
Los Angeles Cnty Pub Wks Fing Auth (Los Angeles Cnty) (Multi Cap Proj I)		
Long Term Rating	AA/Stable	Affirmed
Los Angeles Cnty Pub Wks Fing Auth (Calabasas Landfill Proj) ser 2005		
Unenhanced Rating	AA(SPUR)/Stable	Affirmed
Sonnenblick-Del Rio El Monte Asset Lse Corp, California		
Los Angeles Cnty, California		
Sonnenblick-Del Rio El Monte Asset Lse Corp certs of part (Dept Of Pub Soc Svc Fac) ser 1999 dtd 01/15/1999 due 06/01/2001-2014 2019 2030		
Unenhanced Rating	AA(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.

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