

RatingsDirect®

Summary:

Los Angeles County, California; Appropriations; General Obligation

Primary Credit Analyst:

Lisa R Schroeer, Charlottesville (1) 434-220-0892; lisa.schroeer@standardandpoors.com

Secondary Contact:

Jennifer Hansen, San Francisco (1) 415-371-5035; jen.hansen@standardandpoors.com

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Credit Profile

US\$29.5 mil lse rev bnds ser 2014 A due 06/01/2018

Long Term Rating

AA/Stable

New

Rationale

Standard & Poor's Ratings Services affirmed its 'AA+' issuer credit rating (ICR) on Los Angeles County, Calif. At the same time, we affirmed our 'AA' rating on the county's existing appropriations ratings.

Standard & Poor's also assigned its 'AA' rating to Los Angeles County Capital Asset Leasing Corp. series 2014A lease revenue bonds. The county's covenant to budget and appropriate lease payments for use of equipment secures the bonds. The outlook on all the ratings is stable.

The county is issuing \$30 million of bonds to purchase equipment. We understand that the series 2014A bond proceeds will be used to redeem bond anticipation notes (BANs) used to purchase equipment. The bonds mature on June 1, 2018, and the county reports the average life of the bonds is shorter than the useful life of the equipment. Unused BAN proceeds will be included as a source of funds for the current bond sale. Property substitution is permitted and has been used for damaged or destroyed equipment. The debt service payment dates of June 1 and Dec. 1, which occur at least five months after the end of the county's fiscal year-end, mitigate the risk of late budget adoption, in our view. The lease agreement also requires the county to maintain two years of rental interruption insurance, and all risk insurance at least equal to the replacement value of the equipment amount, and up to a \$1 million deductible. The county may self-insure for risks except rental interruption.

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

- Strong economy, which is broad and diverse, with declining unemployment;
- Strong budgetary flexibility, with 2013 audited available general fund reserves close to 15% of general fund expenditures including ongoing transfers out;
- Very strong liquidity, with cash levels that cover both debt service and expenditures;
- Very strong management with strong financial policies;
- Strong budgetary performance; and
- Strong debt and contingent liabilities position.

Strong economy

We consider Los Angeles County's economy strong, based on our assessment of its broad and diverse nature. The county's unemployment declined below 10% for calendar year 2013, strengthening our view of the economy when comparing it with its above-10% 2012 levels. Market value per capita in 2014 of about \$114,000 is what we consider

strong, although projected per capita income is close to that of the nation's at 99.4%. Assessed value (AV) has stabilized and grown since fiscal 2011 to \$1.13 trillion in fiscal 2014, including annual 4.7% growth in fiscal 2014 compared with fiscal 2013, reflecting stabilization in the economy and home prices. According to management, assessor estimates show an estimated 5% growth for fiscal 2015.

Strong budgetary flexibility

In our opinion, the county's budgetary flexibility remains strong, with available general fund reserves on a generally accepted accounting principles (GAAP) basis at about 14% of expenditures for audited fiscal 2013. In the available reserves we include roughly \$86.6 million, which is considered committed for budget uncertainties. The fiscal 2012 available general fund balance includes about \$200 million of committed fund balances for general governmental purposes. Current estimates for fiscal 2014 show the available balance with the assigned and unassigned at basically the same levels as audited 2013. Therefore, we do not anticipate any substantial changes in the county's available reserves over the next two years.

Very strong liquidity

Supporting the county's finances is liquidity we consider very strong, with total government available cash above 15% of total governmental fund expenditures and well above 120% of debt service. In addition, we believe the county has exceptional access to external liquidity as it has issued bonds frequently in the past 15 years, including lease revenue bonds, commercial paper, assessment debt, and tax and revenue anticipation notes.

Very strong management conditions

We view Los Angeles County's management conditions as very strong, with strong financial practices and policies. 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 meeting the goal at present, but continues to transfer a portion of surplus revenue either to the rainy day fund or to pay down its other postemployment benefit (OPEB) liability.

Strong budgetary performance

We consider the budgetary performance strong for fiscal 2013, with a slight surplus in the total governmental funds and a roughly 1.6% surplus in the general fund. 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.

Fiscal 2013 results reflect improvement in budgetary performance over 2012 after regional economic stabilization and slight revenue growth.

Strong debt and contingent liability profile

In our opinion, the county's debt and contingent liability profile is strong, with low total governmental fund debt service at 1.3% of total governmental fund expenditures and net direct debt at 10% of total governmental fund revenue. We don't expect medium-term debt plans to change these ratios significantly.

The county contributes to the Los Angeles County Employees Retirement Association. Our estimates show the combined annual required contribution (ARC) pension costs and OPEB pay-as-you-go costs for fiscal 2013 were slightly 10% of governmental expenditures. The county contributed 100% of its pension ARC, but also increased its OPEB contribution from 20% to 43% of the ARC. The increase in the OPEB contribution, while slightly raising the annual cost to the county, is helping to pay down the overall liability. 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, for new employees, dependents will no longer be included in retiree health benefits. On the pension side, Los Angeles County has contributed 100% of the pension ARC since fiscal 1998, but the pension funding ratio was 75% in fiscal 2013 due to smoothing of previous-year asset losses, as well as changes to return assumptions. Our calculation of pension ARC costs plus OPEB payments for 2013 came to 12.3% of total governmental expenditures, which does not include any expenditure for enterprises. This number also reflects the larger OPEB contribution than was paid in 2012. We consider these liabilities as a possible growing cost pressure, but we believe management is taking some steps to address these issues.

Strong institutional framework

We consider the Institutional Framework score for California counties with a federal single audit requirement as 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 large pension and OPEB liabilities, and its 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 consistently balanced operations 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: Appropriation-Backed Obligations, June 13, 2007

Related Research

- Institutional Framework Overview: California Local Governments

Ratings Detail (As Of June 5, 2014)

Ratings Detail (As Of June 5, 2014) (cont.)

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 (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

California Infrastructure & Econ Dev Bnk, California

Los Angeles Cnty, California

California Infrastructure & Econ Dev Bnk (Los Angeles Cnty) (LA Cnty Dept of Pub Social Svces Fac) (Vermont Village Human Services Corp) (AMBAC)

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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