

Summary:

Los Angeles County, California; Note

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Summary:

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Credit Profile		
US\$400.0 mil 2012-2013 TRANs ser C due 06/28/2013		
Short Term Rating	SP-1+	New
US\$400.0 mil 2012-2013 TRANs ser B due 03/29/2013		
Short Term Rating	SP-1+	New
US\$300.0 mil 2012-2013 TRANs ser A due 02/28/2013		
Short Term Rating	SP-1+	New

Rationale

Standard & Poor's Ratings Services assigned its 'SP-1+' short-term rating to Los Angeles County, Calif.'s 2012-2013 series A (\$300 million), series B (\$400 million), and series C (\$400 million) tax revenue anticipation notes (TRANs).

The rating reflects what we view as the county's:

- Very diverse economy and good long-term creditworthiness (issuer credit rating: AA-/Positive);
- Adequate note structure, which includes early set-asides of TRAN repayment amounts;
- Adequate projected TRANs debt service coverage of at least 1.0x at each of the maturity dates by projected general fund cash, including cash in the repayment fund, and at least 4.6x by projected total net available ending cash fund balances, including intrafund borrowable cash; and
- Recent history of generally conservative cash flow projections, including better-than-projected estimated cash coverage on the series 2011-2012 TRANs maturing June 29, 2012.

According to the resolution and financing certificate, on and after the set-aside dates the county auditor-controller will deposit into the note repayment fund unrestricted taxes, income, revenue, cash receipts, and other monies of the county attributable to fiscal 2013, and lawfully available for payment. The repayment fund will be held by U.S. Bank N.A.(A+/Stable/A-1) as trustee according to the trust agreement.

The 2012-2013 series A TRANs are secured by \$385 million (plus interest to accrue on all series), \$330 million, and \$110 million of the first unrestricted revenues of the county attributable to fiscal 2013 to be received on and after Dec. 20, 2012, Jan. 1, 2013, and Feb. 1, 2013. The series A notes mature Feb. 28, 2013.

The 2012-2013 series B TRANs are secured by the revenues above as well as the first \$55 million of unrestricted revenues to be received on and after March 1, 2013, attributable to fiscal 2013. The series B notes mature March 29, 2013.

The 2012-2013 series C TRANs are secured by the revenues above as well as the first \$220 million of unrestricted revenues to be received on and after April 1, 2013, attributable to fiscal 2013. The series C notes mature June 28, 2013.

The county projects \$1.1 billion of net general fund cash available for note repayment at Feb. 28, 2013, including

general fund monies set aside in the repayment fund, which we calculate would provide what we consider a strong 3.5x coverage of the series A notes at maturity. The county projects \$403 million of general fund cash available at March 29, 2013, to cover the series B note principal and interest at maturity by what we consider a weak, but adequate 1.01x. Projected general fund cash available of \$448 million at June 28, 2013, covers the series C notes at maturity by what we view as a weak, but adequate 1.12x.

Los Angeles County has access to other significant internal cash sources including primarily unapportioned property taxes as well as a variety of other available county funds held outside the general fund and county officials report transfers of these funds do not require board action. Los Angeles County represents it regularly transfers monies from these funds to the general fund for operations through the year and that about 30% of the identified intrafund borrowable resources is general fund revenue that is received at regular intervals through nongeneral-fund trust funds but that is attributed to the general fund. Including these projected cash balances, note coverage is what we view as strong at 9.5x, 6.1x, and 4.6x at each maturity date for the series A, B, and C notes, respectively. The county's cash flows do not assume any transfers into the general fund from intrafund borrowable sources within fiscal 2013.

The county's historical general fund cash projections have generally been what we consider conservative when compared with actual cash balances. Based on actual cash flows through April 2012, Los Angeles County estimates it will end fiscal 2012 with general fund cash of at least \$355.8 million, which would provide 1.27x coverage of the county's fiscal 2012 TRANs outstanding, which is better than the 1.00x coverage that the county originally projected at the time the 2011-2012 TRANs were sold, due primarily to higher actual beginning balances in fiscal 2012.

Los Angeles County's cash flow projections assume 1.4% higher overall year-over-year cash receipts in fiscal 2013, net of the TRANs proceeds, including 1.1% higher property tax receipts based on county assessor's estimates of 1.1% growth in county assessed value. Cash flow assumptions also include higher sales tax revenue related primarily to realignment of services from the state. The county projects 2% higher cash disbursements compared with fiscal 2012 estimates, due primarily to higher salaries and benefits related to realignment and increased retirement contribution rates. Although the governor's proposed state budget includes cuts to health and social services if voters do not approve a statewide tax initiative in November 2012, county officials indicate that the county would make corresponding program cuts, which would result in estimated savings to the county's local contributions. Los Angeles County's cash flow projections do not assume these savings. The county also assumes a net \$71 million of hospital general fund loans pending state reimbursement will be repaid in fiscal 2013. In fiscal 2012, the county estimates the state and federal governments owe it about \$800 million for various cost reimbursements related to the hospital, although this is an improvement from fiscal 2011, when cash loaned by the general fund for reimbursable hospital services totaled \$1 billion.

We understand the county intends to invest TRAN proceeds and repayment amounts in its investment pool. As of April 30, 2012, the pool had a book value of about \$25.5 billion; the pool is liquid, with an average weighted maturity of 597 days and 52% of the pool's investments mature within 60 days. As of April 30, 2012, investments consisted of U.S. government agency obligations (41%), commercial paper (35%), certificates of deposit (20%), and corporate notes (3%). Only 8.2% of the county treasury pool participants are discretionary depositors.

In Standard & Poor's view, Los Angeles County's long-term credit quality is characterized by a very broad and diverse economic base, as well as what we view as very strong assigned and unassigned general fund balance of \$2.4

billion in fiscal 2011, or 18% of expenditures. Officials estimate this general fund balance will decline slightly to \$2.2 billion at the end of fiscal 2012. The county's fiscal 2013 recommended budget assumes the use of \$76 million in reserves to cover the projected gap primarily due to higher projected retirement contribution costs. The fiscal 2013 projected budget gap is lower than it has been in the previous three years due to higher property tax and sales tax trends as well as previous years' cuts in department expenditures. (For more information on Los Angeles County's general long-term credit characteristics, see the summary rating report published Feb. 23, 2012, on RatingsDirect on the Global Credit Portal.)

Related Criteria And Research

USPF Criteria: Short-Term Debt, June 15, 2007

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