

RatingsDirect®

Summary:

Los Angeles County, California; Note

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Summary:

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Credit Profile

US\$700.0 mil 2013-14 TRANs ser B due 06/30/2014

Short Term Rating

SP-1+

New

US\$300.0 mil 2013-14 TRANs ser A due 02/28/2014

Short Term Rating

SP-1+

New

Rationale

Standard & Poor's Ratings Services assigned its 'SP-1+' short-term rating to each of Los Angeles County, Calif.'s 2013-14 series A (\$300 million) and series B (\$700 million) tax revenue anticipation notes (TRANs).

The ratings reflect what we view as the county's:

- Very diverse economy and good long-term creditworthiness (see the recent report on the county published Oct. 1, 2012, on RatingsDirect);
- Adequate note structure, which includes early set-asides of TRAN repayment amounts;
- Strong-to-good projected TRANs debt service coverage at each of the respective maturity dates by projected general fund cash, including cash in the repayment fund, and very strong note coverage when including intrafund borrowable cash; and
- Recent history of generally conservative cash flow projections.

According to the resolution and financing certificate, on and after the set-aside dates the county auditor-controller will deposit into the TRANs repayment fund unrestricted taxes, income, revenue, cash receipts, and other monies of the county attributable to fiscal 2014, and lawfully available for payment. The repayment fund will be held by the county treasurer.

The 2013-14 series A TRANs are secured by \$350 million (plus interest to accrue on all series), \$300 million, and \$100 million of the first unrestricted revenues of the county attributable to fiscal 2014 to be received on and after Dec. 20, 2013, Jan. 1, 2014, and Feb. 1, 2014, respectively. The series A notes mature Feb. 28, 2014.

The 2013-14 series B TRANs are secured by the revenues above as well as the first \$50 million of unrestricted revenues to be received on and after March 1, 2014, and the first \$200 million of unrestricted revenues to be received on and after April 20, 2014, attributable to fiscal 2014. The series B notes mature June 30, 2014.

The county projects \$697 million of net general fund cash available for note repayment at Feb. 28, 2014, including general fund monies set aside in the repayment fund, which we calculate would provide what we consider a strong 2.3x coverage of the series A notes at maturity. The county projects \$961 million of general fund cash available at June 30, 2014, to cover the series B note principal and interest at maturity by what we consider a good 1.4x.

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 very strong at 8.9x and 3.4x at each maturity date for the series A and B notes, respectively. The county's projected cash flows do not assume any transfers into the general fund from intrafund borrowable sources within fiscal 2014.

The county's historical general fund cash projections have generally been what we consider conservative when compared with actual estimated cash balances, although actual cash balances at the end of March 2013 for the series 2012-13B notes were worse than originally projected. Based on actual cash flows through April 2013, Los Angeles County ended February 2013 with net general fund cash and amounts in the repayment fund to cover series A note maturity by 3.7x compared with original projections of 3.5x. However, it ended March 2013 with less-than-projected total net general fund cash and amounts in the repayment fund, covering series B TRANs repayment by only 0.7x, due primarily to lower-than-projected realignment sales tax and hospital loan repayment receipts through March 2013 as well as higher-than-projected employee benefit and vendor payment disbursements in the same period, which required the county to temporarily borrow from other funds in the short-term for operations. The county projects total net general fund cash of \$659 million and amounts in the repayment fund will cover series C notes by 2.7x at maturity, much-better-than-original projections of 1.1x due primarily to higher actual beginning balances in fiscal 2013, and one-time property tax revenue associated with redevelopment agency dissolution.

Los Angeles County's cash flow projections assume generally flat overall year-over-year cash receipts in fiscal 2014, net of the TRANs proceeds. Cash flow assumptions include higher sales tax revenue related primarily to realignment of services from the state, but lower assumed other intergovernmental revenue. County officials have not incorporated about \$51 million of higher property tax revenue in current cash flow projections related to higher expected assessed value growth in fiscal 2014. The county's current cash flow projections assume 1.6% higher cash disbursements, net of TRANs, compared with fiscal 2013 estimates, due primarily to higher assumed employee benefits associated with pension costs. The current cash flow projections also do not incorporate recently negotiated salary increases for some county employees, but officials expect the incremental growth in fiscal 2014 property tax revenue will cover the additional salary costs. Los Angeles County also assumes a net \$100 million of hospital general fund loans pending state reimbursement will be repaid in fiscal 2014 due to administrative system efficiencies resulting in faster cost reimbursements.

We understand the county intends to invest TRAN proceeds and repayment amounts in its investment pool. As of March 31, 2013, the pool had a book value of about \$22.5 billion; the pool is liquid, with an average weighted maturity of 638 days and 36% of the pool's investments mature within 60 days. As of March 31, 2013, investments consisted of U.S. government agency obligations (57%), commercial paper (27%), certificates of deposit (14%), and corporate notes (2%). Only 9.2% 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 an assigned and unassigned general fund balance of about \$2 billion in fiscal 2012, or a

strong 14.6% of expenditures, in our opinion. Including a \$200 million committed fund balance designated for general government purposes that county officials report is generally available without a firm commitment, the county's available general fund balance totals about \$2.2 billion, or what we consider a very strong 16% of expenditures. County operations showed signs of stabilization in fiscal 2012, with the general fund posting only an \$80 million operating deficit after transfers in fiscal 2012, compared with a \$273 million operating deficit in fiscal 2011. Officials estimate another potential \$88 million reduction in the ending fiscal 2013 unassigned and assigned general fund balance, but expect this is conservative. The county's recommended fiscal 2014 budget projects that higher property tax and sales tax revenue as well as ongoing cost savings will result in structurally balanced operations for the first time in several years.

Related Criteria And Research

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

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