

RatingsDirect®

Summary:

Los Angeles County, California; Note

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Summary:

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Credit Profile

US\$800.0 mil tax rev and antic nts ser 2016-17 due 06/30/2017

Short Term Rating

SP-1+

New

Rationale

S&P Global Ratings assigned its 'SP-1+' short-term rating to each of Los Angeles County, Calif.'s 2016-2017 \$800 million tax revenue anticipation notes (TRANs).

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

- Very diverse economy and good long-term creditworthiness;
- Strong coverage at maturity, and access to very strong alternate liquidity; and
- Recent history of conservative cash flow projections that exceed 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 2016-2017, and lawfully available for payment. The repayment fund will be held by the county treasurer.

The 2016-2017 TRANs are secured by \$800 million (plus interest to accrue on all series) of the first unrestricted revenues of the county attributable to fiscal 2017 to be received on and after Dec. 20, 2016; Jan. 1, 2017; and April 1, 2017. The series mature June 30, 2017.

Coverage for the fiscal 2016-2017 TRANs at maturity is anticipated to be a strong 2.3x with assumed estimated interest costs. The county's cash flows indicate payments set aside in December, January, and April. Set-aside coverage is good, above 1.8x for all periods. The county benefits from alternate cash sources ranging from property tax and other trust funds to liquidity available from the hospital group funds. These sources bring set-aside coverage to at least 16x. Coverage at maturity with alternative liquidity would rise to almost 3.6x.

Los Angeles County has access to other significant internal cash sources, including 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's cash flow assumes a growth in secured property tax revenue of 4.8%, which is aligned with the assessor's estimates. The county assumes 4% growth in sales tax revenue, resulting in revenue levels anticipated to be slightly higher than the fiscal 2016 year forecast. For expenditures, salary and postemployment benefit contribution increases are included in the cash flow estimates. The general fund subsidy to the hospitals is budgeted to increase by about \$59 million this year as the county continues to adjust to the health care requirements. Overall, cash flows show

a slight deficit and the general fund has maintained strong budgetary flexibility. Although we believe there may be some fluctuation in the individual revenue and expenditure line-item results, historically, overall cash flow assumptions have had positive variations, resulting in stronger-than-projected coverage.

For the previous year, the fiscal 2016 TRANs coverage at maturity is expected to be 2.3x with actual cash through April. This is higher than the original 1.3x projection at maturity. Actual cash flows throughout the year were much stronger, and set-aside coverages were all above 4x. The county benefited from increases in property tax revenue and vendor payments, which are lower due to grant funding. On the expenditure side, the hospital loan balance increased but remains below historical norms. Overall, the county's projected year-end cash balance is expected to be over \$866 million higher than original projections.

We understand the county intends to invest TRAN proceeds and repayment amounts in its investment pool. As of March 31, 2016, the pool is highly liquid, with an average weighted maturity of 554 days and about 37% of the pool's investments mature within 60 days.

Related Criteria And Research

Related Criteria

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

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