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Summary:

Los Angeles County, California; Note

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Credit Profile		
US$800.0 mil 2017-18 TRANs ser 2017-18 dtd 07/03/2017 due 06/29/2018		
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 2017-2018 $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 alternative 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 2017-2018, and lawfully available for payment. The repayment fund will be held by the county auditor-controller, and is invested in the county treasury pool.

The 2017-2018 TRANs are secured by all legally available revenue of the county attributable to fiscal 2018. The series mature June 29, 2018.

Coverage for the fiscal 2017-2018 TRANs at maturity is anticipated to be a strong 1.78x 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 2.3x for all periods. The county benefits from alternative cash sources ranging from property tax and other trust funds to liquidity available from the hospital group funds. These sources bring coverage at maturity to 3.58x, according to our calculation. 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 5.3% in 2018, which is slightly below the assessor's estimates of 6.0%. The county assumes 3.5% growth in sales tax revenue, resulting in revenue levels anticipated to be slightly higher than the fiscal 2017 year forecast. For expenditures, salary and postemployment benefit contribution increases are included in the cash flow estimates. Cash flows reflect an increase in general fund subsidy payments to the hospital of roughly $110 million this year as the county continues to adjust to health care requirements. Overall, cash flows indicate disbursements in excess of revenues for fiscal 2018; however, the general fund has historically 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 2017 TRANs coverage at maturity, based on the projected June 2017 cash balance, is expected to be 3.06x. This is higher than the original 2.3x cash coverage projected at the time of issuance, due in part to property tax revenue receipts in excess of projections, among other things. On the expenditure side, the hospital loan balance decreased and remains below historical norms. Overall, the county's projected year-end cash balance is expected to be over $1 billion higher than original projections.

We understand the county intends to invest TRAN proceeds and repayment amounts in its investment pool. As of April 30, 2017, the pool is highly liquid, with an average weighted maturity of 632 days, and about 34% of the pool's investments mature within 60 days.