STANDARD & POOR'S RATINGS SERVICES
McGRAW HILL FINANCIAL

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Summary:

Los Angeles County, California; Appropriations; General Obligation

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Table Of Contents

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Summary:

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Credit Profile		
US$246.255 mil lse rev bnds (Mlk Hospital Project) ser 2016 due 12/01/2045		
Long Term Rating	AA/Stable	New
Los Angeles Cnty ICR		
Long Term Rating	AA+/Stable	Affirmed
Los Angeles Cnty APPROP		
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

Rationale

Standard & Poor's Ratings Services assigned its 'AA' rating to Los Angeles County, Calif.'s $246.3 million lease revenue bonds, 2016 series D. The county's covenant to budget and appropriate lease payments secures the bonds. At the same time, Standard & Poor's affirmed its 'AA+' issuer credit rating (ICR) on the county, as well as its 'AA' long-term rating and underlying rating (SPUR) on the county's existing appropriations debt. The outlook on all ratings is stable.

The county is issuing the bonds to fund improvements to the Main Lobby and Admitting Building, the In-Patient Tower Building, the Hospital Services Building, a healing garden and the Ancillary Building, all of which are located in the MLK Hospital campus. The county is funding a common debt service reserve at the lowest of 50% of maximum annual debt service, 10% of the original aggregate principal amount, and 125% of average annual debt service of the 2016D lease revenue bonds. The county is issuing these bonds on a previous master lease, which requires a covenant to budget and appropriate subject to abatement. The abatement concern is offset by the requirement to maintain two years of rental interruption insurance. The legal documents require risk insurance at least equal to the full insurable value of the property, subject to a $100,000 loss deduction. The county may self-insure for risks except rental interruption. All leased assets have passed our earthquake risk assessment.

The ratings further reflect our view of:

- Strong economy, with access to a broad and diverse metropolitan statistical area (MSA);
- Very strong management, with strong financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Strong budgetary performance, with slight operating surpluses in the general fund and at the total governmental fund level in fiscal 2015;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2015 of 17% of operating expenditures;

- Very strong liquidity, with total government available cash at 35.7% of total governmental fund expenditures and 33.3x governmental debt service, and access to external liquidity we consider exceptional;
- Very strong debt and contingent liability position, with debt service carrying charges at 1.1% of expenditures and net direct debt that is 6.9% of total governmental fund revenue, as well as low overall net debt at less than 3% of market value, but a large pension and other postemployment benefit (OPEB) obligation; and
- Strong institutional framework score.

Strong economy

We consider the county's economy strong. Los Angeles County, with an estimated population of 10.1 million, is located in the Los Angeles-Long Beach-Anaheim, Calif. MSA, which we consider to be broad and diverse. The county has a projected per capita effective buying income of 94.3% of the national level and per capita market value of $127,514. Overall, the county's market value grew by 6.8% over the past year to $1.3 trillion in 2016. The county unemployment rate was 8.3% in 2014.

Los Angeles is the largest county in the U.S. by population. As we would expect in a population of this size, per capita income is close to the national average. Assessed value has grown since fiscal 2011, reflecting a stabilization in the economy and home prices. The county's unemployment rate continues to decline and is down from over 10% in fiscal 2012. The county benefits from two major ports, the ports of Los Angeles and Long Beach. The area's employment in high-technology jobs has also grown. The county's gross domestic product is 28% of the state's overall level.

Very strong management

We view the county's management as very strong, with strong financial policies and practices under our FMA methodology, indicating financial practices are strong, well embedded, and likely sustainable.

The county uses state economic data and actual historical trends in revenue forecasting, and it 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 currently meeting the goal, but continues to transfer a portion of surplus revenue either to the rainy day fund or to pay down its OPEB liability. The county recently passed a new policy to set aside 5%-10% of its discretionary revenues for contingencies.

Strong budgetary performance

Los Angeles County's budgetary performance is strong in our opinion. The county had slight operating surpluses of 1.4% of expenditures in the general fund and of 1.3% across all governmental funds in fiscal 2015. General fund operating results of the county have been stable over the last three years, with a result of 2.3% in 2014 and a result of 1.6% in 2013.

General fund and governmental fund revenue and expenditures were adjusted to account for recurring transfers to and from the county's hospital funds. In addition, the general fund expenditures were adjusted to account for recurring transfers to the library and various debt service funds. Property taxes represent 22% of the audited fiscal 2015 general fund revenues. The other major revenues stream for the county came from intergovernmental revenues from the federal and state government and represented about 45% of revenues. Charges for services are the other 20% of revenues. The county's highest general fund expenditures are for its public assistance and public protection. We do not anticipate a significant deviation from balanced operations over the next two years. Fiscal 2016 marks the third year in which the county has not budgeted for a budget gap, reflecting balanced operations. The major revenues supporting the county's expenditure goals are mostly growing year over year. Property tax has experienced strong growth with estimated growth of 5.7% in 2016, which excludes revenues associated with redevelopment dissolution. Sales-tax-related revenues continue to grow as well, with Proposition 172 sales tax are budgeted to be up by 4.4%. Deed transfer revenues have increased significantly, to $78.0 million budgeted in 2016 from fiscal 2009, when they bottomed out at $36.5 million. For fiscal 2016, management focuses on budgets that align ongoing revenues with ongoing expenditures. The budget also begins to address the county's OPEB liability by setting aside $10 million in the adopted budget for 2015-2016 as part of a multiyear plan to prefund it.

The county's support for its hospital operations decreased in 2015 to 12.6% of the Department of Health Services budget as the county worked to adjust to the Affordable Care Act. However, the fiscal 2016 budget has increased that support to 15.4%. Previously, the hospital required substantial contributions from the county. County contributions were $1 billion in fiscal 2011, about 16% of the Department of Health Services budget.

Very strong budgetary flexibility

Los Angeles County's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2015 of 17% of operating expenditures, or $2.6 billion.

County management originally projected 2015 ending balances slightly below 2014 levels. However, results exceeded expectations and the fund balance increased by 1.1% to $2.6 billion. Management continues to work to improve its reserve position and add to its rainy day fund. This fund is co-mingled with the unassigned fund balance. The rainy day target is 10% of ongoing discretionary revenues, though the county is not fulfilling this target. Further, the county has implemented an additional 5%-10% of new ongoing discretionary revenue to be set aside annually for contingencies. Should any of these set-asides remain at the end of the year, they will be transferred to the reserves or the OPEB trust. We expect reserves will remain close to or slightly higher than current levels, given management's commitment to reserves and due to what we expect to be at least stable operations over the next two years.

Very strong liquidity

In our opinion, Los Angeles County's liquidity is very strong, with total government available cash at 35.7% of total governmental fund expenditures and 33.3x governmental debt service in 2015. In our view, the county has exceptional access to external liquidity if necessary.

Supporting our view of the county's exceptional access to liquidity, the county has issued various types of debt in the past 15 years, including lease revenue bonds, commercial paper (CP), assessment debt, and tax and revenue anticipation notes (TRANs). In April 2013, the county entered into a direct-purchase revolving credit agreement with Bank of America and Los Angeles County Capital Asset Leasing Corp. The county could draw up to $150 million under the terms of the agreement. There are no acceleration provisions in the agreement, beyond the annual lease payment. The county also has $367 million of CP outstanding. While the state allows for what we consider permissive investments, the county mostly invests in investments we consider nonpermissive, such as U.S. agency securities, certificates of deposit, and CP with an 'A-1' rating.

Very strong debt and contingent liability profile

In our view, Los Angeles County's debt and contingent liability profile is very strong. Total governmental fund debt service is 1.1% of total governmental fund expenditures, and net direct debt is 6.9% of total governmental fund revenue. Overall net debt is low at 2.8% of market value, which is in our view a positive credit factor.

The county plans to issue about $900 million in TRANs in June for cash flow purposes. The county does not have plans for additional long-term debt over the next two years.

In our opinion, a credit weakness is Los Angeles County's large pension and OPEB obligation. Los Angeles County's combined required pension and actual OPEB contributions totaled 10.9% of total governmental fund expenditures in 2015. Of that amount, 8.2% represented required contributions to pension obligations, and 2.7% represented OPEB payments. The county made its full annual required pension contribution in 2015. The funded ratio of the largest pension plan is 83.2%.

The county pension is with Los Angeles County Employees Retirement Assn. We consider these liabilities as a possible growing cost pressure, but we believe management is taking some steps to address these issues. In addition to the multiyear plan addressing the county's OPEB liability, including $10 million in the 2015-2016 adopted budget, 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 – the trust currently has a balance of approximately $530 million. After recent negotiations about new employees, dependents will no longer be included in retiree health benefits. The county's required pension contribution is its Actuarially Determined Contribution (ADC), based on an actuary study..

Strong institutional framework

The institutional framework score for California counties required to submit a federal single audit is strong.

Outlook

The stable outlook reflects our view that Los Angeles County's budgetary performance and flexibility will likely remain strong to very strong as a result of economic stabilization and conservative budgeting. We do not expect to change the ratings in the next two years, given, in part, the county's 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.

Upside scenario

Should the county demonstrate sustained strong budgetary performance and greatly increased flexibility, along with substantially improved funded levels for its liabilities, we could raise the ratings.

Downside scenario

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, we could consider lowering the ratings.

Related Criteria And Research

Related Criteria

- USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013
- USPF Criteria: Financial Management Assessment, June 27, 2006
- USPF Criteria: Debt Statement Analysis, Aug. 22, 2006
- USPF Criteria: Appropriation-Backed Obligations, June 13, 2007
- USPF Criteria: Assigning Issue Credit Ratings Of Operating Entities, May 20, 2015
- Criteria: Use of CreditWatch And Outlooks, Sept. 14, 2009

Related Research

- U.S. State And Local Government Credit Conditions Forecast, Jan. 11, 2016
- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Alternative Financing: Disclosure Is Critical To Credit Analysis In Public Finance, Feb. 18, 2014
- Incorporating GASB 67 And 68: Evaluating Pension/OPEB Obligations Under Standard & Poor's U.S. Local Government GO Criteria, Sept. 2, 2015
- Institutional Framework Overview: California Local Governments

Ratings Detail (As Of February 23, 2016)		
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 APPROP		
Long Term Rating	AA/Stable	Affirmed
Los Angeles Cnty Pub Wks Fing Auth, California		
Los Angeles Cnty, California		
Los Angeles Cnty Pub Wks Fing Auth (Los Angeles Cnty) lse rev rfdg bnds (Master Rfdg Proj) ser 2015C due 06/30/2034		
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 (Los Angeles Cnty) (Multi Cap Proj I)		
Long Term Rating	AA/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.

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column.

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