

# RatingsDirect®

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## Summary:

# Los Angeles County, California; Note

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## Summary:

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### Credit Profile

US\$900.0 mil tax rev antic nts due 06/30/2015

*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 2014-2015 \$900 million tax revenue anticipation notes (TRANs).

The ratings reflect 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 mitigating concerns regarding fluctuations of projected versus actual ending monthly cash flows, 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 2015, and lawfully available for payment. The repayment fund will be held by the county treasurer.

The 2014-2015 TRANs are secured by \$900 million (plus interest to accrue on all series) of the first unrestricted revenues of the county attributable to fiscal 2015 to be received on and after Dec. 20, 2014, Jan. 1, 2015, and April 1, 2015. The series mature June 30, 2015.

Coverage for fiscal 2015 TRANs at maturity is anticipated to be a strong 1.5x. The county's cash flows indicate payments set aside in December, January, and April. Currently ending general fund cash flows show negative balances in December and April, but the county has strong alternative liquidity available which brings coverage of these payments well above 10x and coverage at maturity above 3x. Additionally, as the fiscal year 2014 comes to a close, management anticipates beginning cash for fiscal 2015 will be close to \$200 million stronger, if not more, than current cash flow estimates. These higher-than-current estimated beginning cash balances, coupled with very strong available cash from alternate funds, mitigate concerns regarding sufficient cash to set aside TRAN payments.

For the previous year's TRANs, the county's 2014 cash flow coverage at maturity for its two series is basically aligned with its previous year projections. Projections indicated \$697 million of net general fund cash available for final maturity at Feb. 28, 2014, and the county's actual ending balance for February was \$689 million, a coverage level of 2.3x. Estimated coverage at year-end with \$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 and management estimates coverage at maturity to be higher, at 2.0x.

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's cash flow projections assume conservative property tax assumptions below the 5% projected by the assessor at a more conservative 4.06%. Cash flow assumptions for sales tax include an increase of 3.9%. Additionally, the county included an AB 85 estimated reduction in revenues of \$150 million for the 2015 cash flows. For expenditures, salary and pension contribution increases are included in the cash flow estimates. Compared with last year, hospital costs are anticipated to decline from the higher 2014 actuals as the county adjusts to the new health care laws and implementation. Overall, cash flows show a slight surplus and the general fund has maintained strong budgetary flexibility.

For the previous year's TRAN, the county's 2014 cash flow coverage at maturity is slightly stronger than its projections. Projections indicated \$697 million of net general fund cash available for final maturity at Feb. 28, 2014, and the county's actual ending balance for February was \$689 million, a coverage level of 2.3x. Estimated coverage at year-end, with \$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, and management estimates current coverage at maturity to be higher, at 2.0x. Some revenues came in higher than estimated, including additional funding provided for public safety realignment and reimbursement for mental health programs. However, the county's estimated loan to the hospital was anticipated to be reduced by \$104 million, but increased \$231 million. The county attributes the increase to the midyear transition to the health care reform and anticipates fiscal 2015 will not see another increase once the transition is complete and savings begin to be realized.

We understand the county intends to invest TRAN proceeds and repayment amounts in its investment pool. As of March 31, 2014, the pool had a book value of about \$23.5 billion; the pool is liquid, with an average weighted maturity of 683 days and 38.6% of the pool's investments mature within 60 days. As of March 31, 2014, investments consisted of U.S. government agency obligations (52%), commercial paper (29%), certificates of deposit (17%), and corporate notes (1%). Only 8.4% of the county treasury pool participants are discretionary depositors.

## **Related Criteria And Research**

### **Related Criteria**

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

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