

# RatingsDirect®

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## Summary:

# Los Angeles County, California; Note

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Rationale

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### Credit Profile

US\$700.0 mil 2018-19 TRANs due 06/28/2019

*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 2018-2019 \$700 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
- 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 moneys of the county attributable to fiscal 2018-2019, 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 2018-2019 TRANs are secured by all legally available revenue of the county attributable to fiscal 2019. The series mature June 28, 2019.

Coverage for the fiscal 2018-2019 TRANs at maturity is anticipated to be a strong 1.92x 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 1.99x 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 3.86x, according to our calculation. County officials report transfers of these funds do not require board action.

Los Angeles County's cash flow assumes 6.0% growth in secured property tax revenue in fiscal 2018-2019, which is consistent with the assessor's estimates. The county assumes 0.9% growth in sales tax receipts. The county has conservatively estimated that cash flows will decrease in fiscal 2019, primarily due to a projected delay in repayment of loans from the hospital. Management reports this is primarily due to costs associated with the new programs, which may take additional time to recoup. For expenditures, salary and postemployment benefit contribution increases are included in the cash flow estimates. Overall, cash flows indicate disbursements in excess of revenues for fiscal 2019; however, the general fund has historically maintained strong budgetary flexibility. Although we believe the individual revenue and expenditure line-item results may fluctuate somewhat, historically, overall cash flow assumptions have

had positive variations, resulting in stronger-than-projected coverage.

For the previous year, the fiscal 2018 TRANs coverage at maturity, based on the projected June 2018 cash balance, is expected to be 3.11x. This is higher than the original 1.78x cash coverage projected at the time of issuance, partially due to 2017 projections, which showed a lower fund balance. Additionally, property tax revenue receipts exceeded projections, among other things. On the expenditure side, the hospital loan balance increased by \$17 million but remains well below historical norms. Overall, the county's projected year-end cash balance is expected to be over \$1.2 billion higher than original 2018 projections.

We understand the county intends to invest TRAN proceeds and repayment amounts in its investment pool. As of March 2018, the pool is highly liquid, with an average weighted maturity of 564 days, and about 37.9% of the pool's investments mature within 60 days.

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](http://www.standardandpoors.com) for further information. Complete ratings information is available to subscribers of RatingsDirect at [www.capitaliq.com](http://www.capitaliq.com). All ratings affected by this rating action can be found on S&P Global Ratings' public website at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column.

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