

RatingsDirect®

Summary:

Los Angeles County, California; Appropriations; General Obligation

Primary Credit Analyst:

Lisa R Schroeer, Charlottesville (1) 434-220-0892; lisa.schroeer@standardandpoors.com

Secondary Contact:

Jennifer Hansen, San Francisco (1) 415-371-5035; jen.hansen@standardandpoors.com

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Summary:

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Credit Profile

US\$167.795 mil lse rev bnds due 06/30/2045

Long Term Rating

AA/Stable

New

Rationale

Standard & Poor's Ratings Services affirmed its 'AA+' issuer credit rating (ICR) on Los Angeles County, Calif. At the same time, we affirmed our 'AA' rating on the county's existing appropriations ratings.

Standard & Poor's also assigned its 'AA' rating to Los Angeles County Capital Asset Leasing Corp.'s series 2015 lease revenue bonds. The county's covenant to budget and appropriate lease payments for the Manhattan Beach library, the civic center heating and refrigeration plant, and the Internal Services Department office building secures the bonds. The outlook on all the ratings is stable.

The county is issuing \$168 million of bonds to construct the Zev Yaroslavsky Family Support Center and the Manhattan Beach Public Library. Property substitution is permitted and prevents the county from using capitalized interest while the support center is under construction. The county is funding a debt service reserve at 50% of maximum annual debt service (MADS) The lease agreement also requires the county to maintain two years of rental interruption insurance, and 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.

The ICR reflects our assessment of the following factors for the county, specifically its:

- Strong economy, which is broad and diverse, with declining unemployment;
- Very strong budgetary flexibility, with 2014 audited available general fund reserves slightly above 15% of general fund expenditures, including ongoing transfers out;
- Very strong liquidity, with cash levels that are support both debt service and expenditures;
- Very strong management with strong financial policies;
- Strong budgetary performance; and
- Strong debt and contingent liabilities position.

Strong economy

We consider Los Angeles County's economy strong, based on our assessment of its broad and diverse nature. The county's unemployment declined to just below 10% for calendar year 2013, strengthening our view of the economy when comparing it with its above-10% 2012 levels. Market value per capita in 2014 of about \$114,000 is what we consider strong, although projected per capita income is close to that of the nation's at 100%. Assessed value (AV) has stabilized and grown since fiscal 2011 to \$1.2 trillion for tax-roll 2015, including annual 5.5% growth in fiscal 2015

compared with fiscal 2014, reflecting stabilization in the economy and home prices.

Very strong budgetary flexibility

In our opinion, the county's budgetary flexibility is very strong, with available general fund reserves on a generally accepted accounting principles (GAAP) basis just above 15% of expenditures for audited fiscal 2014. In the available reserves, we include roughly \$86.6 million, which is considered committed for budget uncertainties. Management anticipates 2015 will likely end with similar results in the reserves, if not stronger. Management is aiming to improve its reserve position but adding to its rainy day fund. This fund is co-mingled with the unassigned fund balance. 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

Supporting the county's finances is liquidity we consider very strong, with total government available cash around 30% of total governmental fund expenditures and near 1000% of debt service. In addition, we believe the county has exceptional access to external liquidity as it has issued bonds frequently in the past 15 years, including lease revenue bonds, commercial paper, assessment debt, and tax and revenue anticipation notes. Additionally, 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 corporation). The county could draw up to \$150 million under the terms of the agreement. Given the relatively minimal amount that could be due under the agreement compared with average county balances, we believe the county would have sufficient resources to meet its obligations under the terms of the agreement even if the full payment was due immediately. For additional details, reference the June 4, 2013 county report.

Very strong management conditions

We view Los Angeles County's management conditions as very strong, with strong financial practices and policies. The county uses state economic data and actual historical trends in revenue forecasting and 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 meeting the goal at present, but continues to transfer a portion of surplus revenue either to the rainy day fund or to pay down its other postemployment benefit (OPEB) liability. The county recently passed a new policy to set aside 5%-10% of its discretionary revenues for contingencies.

Strong budgetary performance

We consider the budgetary performance strong for fiscal 2014, with a slight surplus in the total governmental funds and in the general fund. General fund and governmental fund revenue and expenditures were adjusted to account for recurring transfers to and from the county's hospital funds. Additionally, the general fund expenditures were adjusted to account for recurring transfers to the library and various debt service funds.

We anticipate the county's budgetary performance over the next two years will be similar to 2014. The budget for 2015 is balanced and we believe management will be able to maintain similar performance in the future.

Very strong debt and contingent liability profile

In our opinion, the county's debt and contingent liability profile is strong, with low total governmental fund debt service at 2.5% of total governmental fund expenditures and net direct debt at about 5.5% of total governmental fund revenue. We don't expect medium-term debt plans to change these ratios significantly.

The county contributes to the Los Angeles County Employees Retirement Association. Our estimates show the combined annual required contribution (ARC) pension costs and OPEB pay-as-you-go costs for fiscal 2014 were slightly above 10% of governmental expenditures. Our calculation of pension ARC costs plus OPEB payments for 2014 do not include any expenditure for enterprises. We consider these liabilities as a possible growing cost pressure, but we believe management is taking some steps to address these issues. . 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. After recent negotiations, for new employees, dependents will no longer be included in retiree health benefits.

Strong institutional framework

We consider the Institutional Framework score for California counties with a federal single audit requirement as strong.

Outlook

The stable outlook reflects our view that Los Angeles County's budgetary performance and flexibility will likely remain strong as a result of economic stabilization and conservative budgeting. We do not expect to change the rating 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.

While unlikely in the next two years, 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 rating. Alternatively, 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, the rating could be pressured.

Related Criteria And Research

Related Criteria

- USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013
- USPF Criteria: Appropriation-Backed Obligations, June 13, 2007
- USPF Criteria: Contingent Liquidity Risks, March 5, 2012

Related Research

- Institutional Framework Overview: California Local Governments

Ratings Detail (As Of January 6, 2015)

Ratings Detail (As Of January 6, 2015) (cont.)

Los Angeles Cnty cert of part ser 1993		
<i>Long Term Rating</i>	AA/Stable	Affirmed
Los Angeles Cnty lease rev bnds (Multiple Capital Projects Ii)		
<i>Long Term Rating</i>	AA/Stable	Affirmed
Los Angeles Cnty lse rev bnds ser 2014 A due 06/01/2018		
<i>Long Term Rating</i>	AA/Stable	Affirmed
Los Angeles Cnty lse rev bnds (Lac-cal Equip Fincg)		
<i>Long Term Rating</i>	AA/Stable	Affirmed
Los Angeles Cnty rfdg COPs (Disney Concert Hall Parking Garage)		
<i>Long Term Rating</i>	AA/Stable	Affirmed
Los Angeles Cnty ICR		
<i>Long Term Rating</i>	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

<i>Unenhanced Rating</i>	AA(SPUR)/Stable	Affirmed
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California Infrastructure & Econ Dev Bnk, California

Los Angeles Cnty, California

California Infrastructure & Econ Dev Bnk (Los Angeles Cnty) (LA Cnty Dept of Pub Social Svces Fac) (Vermont Village Human Services Corp) (AMBAC)

<i>Unenhanced Rating</i>	AA(SPUR)/Stable	Affirmed
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Los Angeles Cnty Pub Wks Fing Auth, California

Los Angeles Cnty, California

Los Angeles Cnty Pub Wks Fing Auth (Los Angeles Cnty) (Multi Cap Proj I)

<i>Long Term Rating</i>	AA/Stable	Affirmed
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Los Angeles Cnty Pub Wks Fing Auth (Los Angeles Cnty) (Multi Cap Proj I)

<i>Long Term Rating</i>	AA/Stable	Affirmed
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Los Angeles Cnty Pub Wks Fing Auth (Calabasas Landfill Proj) ser 2005

<i>Unenhanced Rating</i>	AA(SPUR)/Stable	Affirmed
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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

<i>Unenhanced Rating</i>	AA(SPUR)/Stable	Affirmed
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Many issues are enhanced by bond insurance.

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