

Summary:

Los Angeles County, California; Note

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Credit Profile

US\$700.0 mil TRANs dtd 07/01/2019 due 06/30/2020

Short Term Rating

SP-1+

New

Rationale

S&P Global Ratings assigned its 'SP-1+' short-term rating to Los Angeles County, Calif.'s 2019-2020 \$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 2019-2020, 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 2019-2020 TRANs are secured by all legally available revenue of the county attributable to fiscal 2020. The series mature June 30, 2020.

Coverage for the fiscal 2019-2020 TRANs at maturity is anticipated by management to be a strong 2.02x with assumed estimated interest costs. The county's cash flows indicate payments set aside in December, January, and April. Set-aside coverage is strong, above 2.46x 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 4.07x, according to our calculation. County officials report transfers of these funds do not require board action.

Los Angeles County's cash flow assumes 4.0% growth in secured property tax revenue in fiscal 2019-2020, which is slightly below the assessor's estimates, consistent with the county's conservative budgeting practices. The county assumes 0.8% growth in sales tax receipts. The county has conservatively estimated that its cash position will decrease in fiscal 2020, consistent with its trend of conservative beginning cash and revenue projections. For expenditures, salary and postemployment benefit contribution increases are included in the cash flow estimates. Overall, cash flow indicates disbursements in excess of revenue for fiscal 2020; however, overall cash flow assumptions have had positive variations in at least the last 12 years, resulting in stronger-than-projected coverage. We expect the county will

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continue its trend of positive variance for fiscal 2020. Although we believe the individual revenue and expenditure line-item results may fluctuate somewhat, the general fund has historically maintained strong budgetary flexibility.

For the previous year, the fiscal 2019 TRANs coverage at maturity, based on the projected June 2019 cash balance, is expected to be 2.77x. This is higher than the original 1.92x cash coverage projected at the time of issuance, partially because 2018 initial projections showed a lower fund balance. Overall, the county's current projected year-end cash balance is expected to be \$583.4 million higher than original 2019 projections.

We understand the county intends to invest TRAN proceeds and repayment amounts in its investment pool. As of March 2019, the pool is highly liquid, with an average weighted maturity of 526 days, and about 39.7% of the pool's investments mature within 60 days.

For more information about our long-term rating on the county's debt, please see the article published July 3, 2018, on RatingsDirect.

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.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.

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