FitchRatings

Public Finance
Tax-Supported
U.S.A.

Los Angeles County, California

Ratings

Long-Term Issuer Default Rating	AA+

New Issues

$341,905,000 Lease Revenue Bonds, 2020 Series A (Los Angeles Museum of Art Building for the Permanent Collection Project) (Green Bonds)	AA

Outstanding Debt

Los Angeles County Certificates of Participation	AA
Los Angeles County Public Works Financing Authority Lease Revenue Bonds	AA
Los Angeles County Capital Asset Leasing Corporation Lease Revenue Bonds	AA
Sonnenblick-Del Rio El Monte Asset Leasing Corporation Certificates of Participation	AA
Sonnenblick-Del Rio West Los Angeles Leasing Corporation Certificates of Participation	AA
Los Angeles County Capital Leasing Corporation Lease Revenue Bonds (LAC-CAL Equipment Program)	AA
Los Angeles County Facilities, Inc. Lease Revenue Bonds (Vermont Corridor County Administration Building)	AA
Los Angeles County 2020-21 Tax and Revenue Anticipation Notes, Series A	F1+

Rating Outlook

Stable

Applicable Criteria

U.S. Public Finance Tax-Supported Rating Criteria (March 2020)

Related Research

Fitch Rates $342MM Los Angeles County Public Works Financing Authority, CA Lease Revs 'AA'; Outlook Stable (October 2020)

New Issue Summary

Sale Date: The lease revenue bonds, 2020 series A, are due to be sold by negotiation on Oct. 21, 2020.

Series: $341,905,000 Lease Revenue Bonds, 2020 Series A (Los Angeles Museum of Art Building for the Permanent Collection Project) (Green Bonds).

Purpose: Proceeds will finance and refinance the demolition, construction, and equipping of capital improvements to the Los Angeles Museum of Art (LACMA).

Security: The lease revenue bonds, 2020 series A are payable from Los Angeles County's (the county) facility lease rental payments to the authority. The county covenants to budget and appropriate the lease rental payments annually.

The county's 'AA+' Issuer Default Rating (IDR) reflects the combined strength of the county's historically solid revenue performance, its huge and diverse economy, a moderate-to-low long-term liability burden and superior gap-closing capacity. The county's demonstrated ability to cut spending, sound financial cushion and limited revenue cyclicality offset the county's exposure to federal and state funding decisions, Department of Health Services (DHS) operations and state law's constraints on the county's independent legal ability to raise revenues. In the medium to longer term, Fitch Ratings expects resumption of normal business activity to produce a return to economic, population and tax base gains in line with pre-pandemic trends.

The 'AA' rating for the county's certificates of participation (COPs) and lease revenue bonds corresponds to the county's IDR; a one-notch distinction from the IDR reflects the slightly higher optionality inherent in appropriations for debt service repayment.

Key Rating Drivers

Revenue Framework: 'aa': The county's revenues have demonstrated limited volatility, reflecting the size and maturity of the economy and tax base, which retains a large Proposition 13 cushion. Medium-term growth prospects for revenues are solid. The county's independent legal ability to raise revenues is limited by state law but satisfactory due to control over fees and charges for services.

Expenditure Framework: 'aa': The county demonstrated strong expenditure control during the Great Recession and continues to enjoy solid expenditure flexibility to address the budgetary challenges associated with the current downturn. Fitch expects expenditure growth to be in line with, to marginally above, future revenue growth in the absence of policy action. The portion of the budget allocated to carrying costs will increase as the county ramps up contributions to pay down its net pension liability and significant other post-employment benefit (OPEB) obligations but is expected to remain moderate.

Long-Term Liability Burden: 'aa': The county's long-term liability burden for debt and pensions is at the very low end of the 'aa' range relative to total personal income. The majority of debt is issued by overlapping jurisdictions.

Operating Performance: 'aaa': The county demonstrates an ongoing commitment to bolster its financial cushion, aided in part by the DHS's improved financial position. The county, which has superior gap-closing capacity, is very well positioned to address the current and future cyclical downturns.

Rating Sensitivities

Factors that could, individually or collectively, lead to a positive rating action/upgrade:

- Increased revenue growth rate, decreased expenditure pressures, and a consistently low long-term liability burden, achieved primarily through reduction of unfunded pension and OPEB liabilities.

Factors that could, individually or collectively, lead to a negative rating action/downgrade:

- Financial flexibility pressured by reduced revenue growth, expenditure growth that outpaces revenues and/or sustained reductions in reserves.
- A return to economic contraction in the U.S., consistent with Fitch's coronavirus downside scenario, which triggers sustained and deep revenue declines and materially erodes the county's gap-closing capacity.

Economic Resource Base

The county covers over 4,000 square miles and includes 88 incorporated cities and 100 school districts. With a population exceeding 10 million, it is more populous than most U.S. states. The county's huge, diversified economy represents over a quarter of California's total economy.

Current Developments

Sectorwide Coronavirus Implications

The outbreak of coronavirus and related government containment measures worldwide have created an uncertain global environment for U.S. state and local governments and related entities. Fitch's ratings are forward-looking in nature, and Fitch will monitor the severity and duration of the budgetary impact on state and local governments and incorporate revised expectations for future performance and assessment of key risks.

While the initial phase of economic recovery has been faster than expected, GDP in the U.S. is projected to remain below its 4Q19 level until at least 4Q21. In its baseline scenario, Fitch assumes continued strong GDP growth in 3Q20 followed by a slower recovery trajectory from 4Q20 onward amid persisting social distancing behavior and restrictions, high unemployment and a further pullback in private-sector investment. Additional details, including key assumptions and implications of the baseline scenario and a downside scenario, are described in the report "Fitch Ratings Coronavirus Scenarios: Baseline and Downside Cases - Update", published on Sept. 8, 2020, and "Fitch Ratings Updates Coronavirus Scenarios for U.S. State and Local Tax-Supported Issuers," published on Oct. 1, 2020 on www.fitchratings.com.

County Budget Performance During the Pandemic

The county expects to end fiscal 2020 with an increased unrestricted general fund balance relative to fiscal 2019, outperforming previous expectations primarily due to hiring and departmental spending curtailments, social services program savings, unspent program and project funds carried over to fiscal 2021 and higher than expected revenues, including federal and state aid. The county closed fiscal 2020 without drawing on the rainy day fund and has budgeted to add almost $54 million to it in fiscal 2021. The current balance of the rainy day fund is almost $696 million, which the county calculates as just under 10% of ongoing discretionary revenues.

The county is currently projecting by fiscal 2021 year end it will draw down its unrestricted general fund balance by almost one-fifth. While it is too early to tell if the county will need to draw down its unrestricted general fund balance by that degree, the unrestricted general fund balance would remain well above the reserve safety margin necessary to maintain a 'aaa' financial resilience assessment. The county maintains a notable amount of expenditure control due to moderate carrying costs and labor contracts with considerable flexibility. The county does not expect to implement furloughs or layoffs in fiscal 2021, and it is no longer seeking labor

Rating History — IDR

Rating	Action	Outlook/ Watch	Date
AA+	Affirmed	Stable	10/14/20
AA+	Upgraded	Stable	5/31/19
AA	Upgraded	Stable	2/23/16
AA–	Affirmed	Positive	12/24/14
AA–	Assigned	Stable	6/9/11

Rating History — Certificates of Participation and Lease Revenue Bonds

Rating	Action	Outlook/ Watch	Date
AA	Affirmed	Stable	10/14/20
AA	Upgraded	Stable	5/31/19
AA–	Upgraded	Stable	2/23/16
A+	Affirmed	Positive	12/24/14
A+	Revised	Stable	4/30/10
A	Affirmed	Positive	11/5/01
A	Upgraded	—	5/23/00
A–	Downgraded	—	6/21/95
A+	Assigned	—	9/11/92

Rating History — TRANs

Rating	Action	Outlook/ Watch	Date
F1+	Assigned	—	6/26/20

concessions to closed contract terms. However, the county might pursue labor concessions in the 2021 bargaining round, if necessary.

Including over $2 billion in resources that could have been borrowed by the general fund, the county estimates it had almost $4 billion in available cash at June 30, 2020, considerably higher than previous projections. Including $1.5 billion in borrowable resources, the county projects it will have over $1.6 billion in available cash at June 30, 2021. The county routinely outperforms its cash flow projections by a significant margin. Fitch expects the county will continue to prudently manage its liquidity and costs to maintain a financial cushion consistent with the current rating based on the strong fiscal trend demonstrated by the county in recent years.

Credit Profile

Los Angeles County is a major economic and manufacturing center and incorporates two ports and an airport that are usually among the busiest in the world. Taxable assessed valuation has grown strongly over the past decade after very small recessionary declines, reflecting the county's highly developed and mature nature and large Proposition 13 cushion with a significant, albeit slowly declining, portion of properties listed on the tax roll at less than market value. While the majority of recent growth is tied to ownership transfers of existing properties and inflation, ongoing new development and redevelopment continues to support future tax base growth.

Fiscal 2021 represents the tenth consecutive year of tax base growth, with a 6% increase to over $1.7 trillion. Fitch anticipates the county might experience some softening of its TAV trend in fiscal 2022 (valuation at Jan. 1, 2021) due to the current economic contraction's potential effect on property values, particularly for commercial and retail properties. However, the size and diversity of the economy underpinning the county's tax base remains a credit strength. The significant stored property tax value as a result of Proposition 13 should help mitigate any temporary declines in property tax values.

Despite strong economic and tax base characteristics, the unemployment rate has historically been higher than the nation's, and that gap has been exacerbated by recent events. The county's unemployment rate shot up to 20.3% in April, from 4.6% in February (seasonally unadjusted). This compares to the national unemployment rate of 14.7% in April, which was a significant increase over the 3.5% national unemployment rate in March. While the unemployment rates have subsequently improved significantly, the county's unemployment rate (16.6%) in August remained almost double the nation's (8.5%). Wealth indicators are below the state but generally above or in line with the nation, incorporating some highly urbanized and low-income areas.

Revenue Framework

In fiscal 2019, over half of general fund revenues came from federal and state funding for social services, although this amount can fluctuate significantly through the economic cycle due to caseloads, reimbursement timing, and state budget issues. Two other key revenue sources were locally generated taxes (31%) and charges for services (13%).

On a 10-year CAGR basis, total general fund revenue growth has been slightly below national GDP but has outpaced inflation. Excluding intergovernmental revenues, the 10-year CAGRs for locally controlled revenues typically outperformed national GDP growth until fiscal years 2017 and 2018 when they dipped slightly below and fiscal 2019 when they were on par. Fitch expects future intergovernmental revenues will be determined by federal and state policy decisions and economic performance, while locally controlled revenues will mirror future economic trends at the county level.

The final adopted general fund budget for fiscal 2021 projects overall revenues to increase relative to fiscal 2020. Compared to the final recommended budget, it includes over $273 million in additional revenues related to state realignment, sales taxes, child support services, and departmental services. These additional moneys reduce the county's reliance on a rainy day fund draw, one-time funding solutions, and use of departmental trust accounts.

To date, the county's allocation of Coronavirus Aid, Relief and Economic Security (CARES) Act, estimated FEMA and other federal and state aid is approximately $2.5 billion, which the county expects to expend fully within the deadlines set for each of the various funding sources.

The county has satisfactory independent revenue-raising capacity relative to its modest historical cyclical revenue declines. However, its ability to raise revenues is constrained by state laws (in particular, Propositions 13 and 218) requiring voter approval for tax increases. Independent revenue-raising ability is largely limited to licenses, permits, fines, and charges for service.

Expenditure Framework

The majority of fiscal 2019 general fund expenditures were related to public assistance (34%), public safety (31%), and health and sanitation services (26%), which are key roles for county governments in California. Personnel costs remain the largest driver of expenditure increases. The county operates within a strong labor environment and labor has the ability to strike. Nevertheless, labor relations are productive and multiyear labor contracts have considerable flexibility.

The pace of spending growth absent policy actions is likely to be in line with, to marginally above, revenue growth patterns given high-needs communities within the county. Fitch expects the county will continue to control expenditures aggressively. It is currently absorbing extraordinary coronavirus-related expenses, expecting that a significant portion of those costs will be eligible for reimbursement from CARES Act funds. While the final adopted general fund budget for fiscal 2021 shows an increase in expenditures relative to fiscal 2020, the increase is in line with projected general fund revenue growth. The over $273 million in additional revenues in the final adopted budget allows the county to avoid furloughs and layoffs, restore services and fund some program changes while meeting negotiated remuneration cost increases.

The county has three-year labor agreements with all of its 62 bargaining units, with varying expiration dates from Dec. 31, 2020 to Sept. 30, 2021. These agreements provide for 7% cost of living adjustments (COLAs) implemented incrementally over those three years; the 7% COLA also applies to nonrepresented employees. Represented employees are additionally covered by two fringe benefit agreements through 2021. They increase the county's contribution toward healthcare benefits, while instituting a cap on the amount of unused county contribution returned to employees as taxable cash. All agreed labor cost increases have been included in the fiscal 2021 budget.

Although Fitch expects debt, pension, and OPEB carrying costs will grow as a percentage of general fund spending, due to rising pension contributions and increased retiree healthcare benefit prefunding, it also expects the county's expenditure flexibility will remain solid.

Long-Term Liability Burden

Direct and overlapping debt of $40 billion represents 64% of the county's overall long-term liability burden. In combination with Fitch-adjusted pension liabilities of $22.7 billion, the county's overall long-term liability burden is a moderate-to-low burden on county taxpayers' resources at 10% of personal income.

The majority is debt issued by overlapping jurisdictions outside of the county's control (60% of the overall long-term liability burden). This portion could grow significantly. By themselves, school and community college districts located within the county have $16.4 billion in unissued bond authorizations. By contrast, net direct county debt of about $2.5 billion, including tobacco settlement asset-backed bonds and interest accretions, represents only 4% of the overall long-term liability burden.

Fitch-adjusted pension liabilities represent about 36% of the county's overall long-term liability burden. The Los Angeles County Employees Retirement Association (LACERA) reported a $10.3 billion net pension liability at June 30, 2018 (an asset-to-liabilities ratio of 84%, assuming a 7.25% discount rate). Fitch's standard 6% discount rate increases the net pension liability to an estimated $22.7 billion, reducing the asset-to-liabilities ratio to 70%.

In January 2020, LACERA made actuarial assumption changes, lowering the rate of return assumption in the future to 7.0% from 7.25% and shortening the amortization methodology for future unanticipated changes in unfunded liabilities to 22 years from 30 years. These changes, in combination with adjustments for prior year investment performance, will result in increased retirement contribution costs in fiscal years 2021 to 2023. In addition, since LACERA investments performed well below fiscal 2020's 7.25% actuarial assumed investment rate of return, the county's pension system contribution in fiscal 2022 will need to increase further.

The county's unfunded actuarial accrued OPEB liability was sizable at $24.6 billion in fiscal 2020, or 4% of personal income. The county has the ability to reduce it. The county enacted OPEB reforms in 2015 and is increasing its annual contributions by $60 million annually, funded in part by maximizing subvention revenues from other governments. The county has budgeted for a $309 million prefunding contribution to its OPEB trust fund in fiscal 2021, its sixth annual increase. The county is projecting it will be able to reach full actuarially required OPEB contributions in fiscal 2028. In addition to the county's irrevocable OPEB trust (with a June 30, 2020 balance of over $1.4 billion), LACERA has an almost $132 million reserve for annual healthcare premium fluctuations.

Operating Performance

The Fitch Analytical Stress Test (FAST) scenario analysis tool, which relates historical tax revenue volatility to GDP to support the assessment of operating performance under Fitch's criteria, has now been adjusted to reflect GDP parameters consistent with Fitch's global coronavirus forecast assumptions. The FAST is not a forecast, but it represents Fitch's estimate of possible revenue behavior in a downturn, based on historical revenue performance. Hence, actual revenue declines will vary from FAST results and Fitch expects the county will implement decisive corrective actions to offset them. The FAST does provide a relative sense of the risk exposure of a particular local government entity compared to other local government entities.

Fitch anticipates the county will absorb the budgetary effects of Fitch's coronavirus baseline and downside scenarios by utilizing its midrange inherent budget flexibility and superior gap-closing capacity to rebuild its financial resilience through the eventual recovery period. Under the baseline and downside scenarios, the county's FAST results show its financial resilience through Fitch's three-year scenario period would likely compare favorably with other government entities. In recent years, the county has prioritized maintenance of strong general fund balances and continued strengthening of its reserves, in the face of increasing employee remuneration costs. An unrestricted general fund balance of over $4 billion in fiscal 2019 (20% of general fund spending) has consequently provided a considerable cushion against subsequent revenue declines.

Department of Health Services

The county operates the second largest public health system in the nation. The general fund is responsible for DHS administration, online medical records and the managed care program. State Assembly Bill (AB) 85 established a maintenance of effort funding requirement for the annual county general fund contribution to DHS, with 1% increases annually. On this basis, the base net county contribution (NCC) has been stable, increasing 1% annually since fiscal 2015. In fiscal years 2019 and 2020, county officials report the base NCC represented around 5% of DHS's total budget. The base NCC is again budgeted to be around 5% of DHS's fiscal 2021 budget at approximately $350 million.

In addition to the base NCC, other departments transferred resources to support DHS's absorption of correctional health services, the county board of supervisors provided new funding for strategic initiatives, and the state increased pass-through funding for mental health programs. Consequently, gross county contribution increases in recent years have been driven primarily by policy decisions, rather than DHS budgetary pressures.

DHS ended fiscal 2020 with a fund balance of almost $1.3 billion. However, $230 million of this ending fund balance is a long-term receivable since payments awaiting approval from the Federal Centers for Medicaid and Medicare Services are not expected to be collected until September 2021. The remaining almost $1.1 billion of the ending fund balance is available to fund future DHS operations and balance its budget, as needed. Taking this into account, the general fund's hospital working capital loan to DHS is projected to drop to $215 million at June 30, 2020, down from $539 million at June 30, 2019.

DHS is currently projecting a minimal fund balance drawdown in fiscal 2021 for a number of reasons. Recent state law changes have reduced intergovernmental transfer obligations for the Medi-Cal expansion population, seniors and persons with disabilities. The state has increased Enhanced Payment Program revenues, the Quality Incentive Program allocation for public hospitals, and realignment backfill revenue. There have also been increased prior year settlements and other revenue adjustments. Since these improvements largely carry forward, DHS expects to substantially reduce its projected fiscal 2022 fund balance drawdown. DHS continues to work on a number of initiatives that could support greater structural balance through creating new revenue programs and instituting cost efficiencies. Beyond the growth factor associated with AB 85, DHS is not planning to seek additional support from the county general fund. DHS estimates it maintains sufficient resources to cover unanticipated needs.

DHS continues to benefit from a number of external and internal reforms, most notably the Affordable Care Act (ACA) and an improved payor mix, the 'Medi-Cal 2020' extension for California public hospitals through Dec. 31, 2020 (DHS is working with the state on successor plans), healthcare service and electronic system integration, infrastructure investments and departmental reorganization. DHS considers itself well placed to respond to potential future federal healthcare funding policy changes, given its stronger continuum of care, better health outcomes, and improved patient demographics.

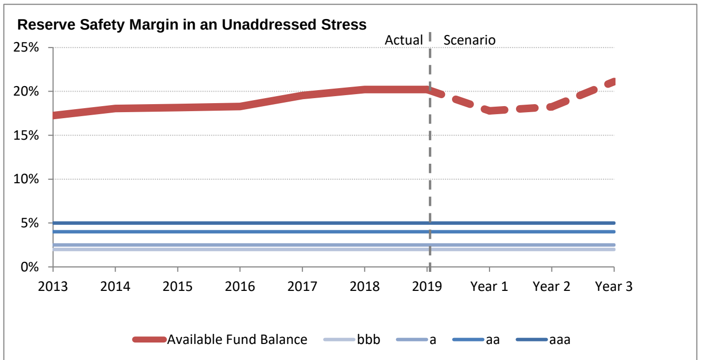
ESG Considerations

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of ‘3’ — ESG issues are credit neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity.

For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

Los Angeles County (CA)

Scenario Analysis



Analyst Interpretation of Scenario Results:

The Fitch Analytical Stress Test (FAST) scenario analysis tool, which relates historical tax revenue volatility to GDP to support the assessment of operating performance under Fitch's criteria, has now been adjusted to reflect GDP parameters consistent with Fitch's global coronavirus forecast assumptions. The FAST is not a forecast, but it represents Fitch's estimate of possible revenue behavior in a downturn, based on historical revenue performance. Hence, actual revenue declines will vary from FAST results and Fitch expects the county will implement decisive corrective actions to offset them. The FAST does provide a relative sense of the risk exposure of a particular local government entity compared to other local government entities.

Scenario Parameters:					Year 1	Year 2	Year 3
GDP Assumption (% Change)					(4.6%)	4.0%	3.0%
Expenditure Assumption (% Change)					0.0%	2.0%	2.0%
Revenue Output (% Change)	*Min Y1 Stress:*	**-5%**	*Case Used:*	**Baseline**	(5.0%)	5.4%	4.4%
Inherent Budget Flexibility						Midrange	

Revenues, Expenditures, and Fund Balance	Actuals							Scenario Output		
	2013	2014	2015	2016	2017	2018	2019	Year 1	Year 2	Year 3
Total Revenues	14,606,938	15,208,018	15,454,733	16,190,186	17,081,934	17,726,265	19,551,091	18,573,536	19,575,950	20,446,101
% Change in Revenues	-	4.1%	1.6%	4.8%	5.5%	3.8%	10.3%	(5.0%)	5.4%	4.4%
Total Expenditures	14,013,588	14,790,147	15,237,807	15,863,407	16,573,050	17,531,885	19,170,861	19,170,861	19,554,278	19,945,364
% Change in Expenditures	-	5.5%	3.0%	4.1%	4.5%	5.8%	9.3%	0.0%	2.0%	2.0%
Transfers In and Other Sources	508,087	468,614	393,023	374,195	438,769	734,228	981,144	932,087	982,392	1,026,059
Transfers Out and Other Uses	863,738	663,327	522,934	506,555	680,922	684,390	822,556	822,556	839,007	855,787
Net Transfers	(355,651)	(194,713)	(129,911)	(132,360)	(242,153)	49,838	158,588	109,531	143,384	170,272
Bond Proceeds and Other One-Time Uses	-	-	-	-	-	-	-	-	-	-
Net Operating Surplus(+)/Deficit(-) After Transfers	237,699	223,158	87,015	194,419	266,731	244,218	538,818	(487,794)	165,056	671,009
Net Operating Surplus(+)/Deficit(-) (% of Expend. and Transfers Out)	1.6%	1.4%	0.6%	1.2%	1.5%	1.3%	2.7%	(2.4%)	0.8%	3.2%
Unrestricted/Unreserved Fund Balance (General Fund)	2,566,028	2,790,224	2,861,745	2,991,807	3,368,535	3,680,895	4,042,841	3,555,047	3,720,104	4,391,113
Other Available Funds (GF + Non-GF)	-	-	-	-	-	-	-	-	-	-
Combined Available Funds Balance (GF + Other Available Funds)	2,566,028	2,790,224	2,861,745	2,991,807	3,368,535	3,680,895	4,042,841	3,555,047	3,720,104	4,391,113
Combined Available Fund Bal. (% of Expend. and Transfers Out)	17.2%	18.1%	18.2%	18.3%	19.5%	20.2%	20.2%	17.8%	18.2%	21.1%

Reserve Safety Margins	Inherent Budget Flexibility				
Moderate	**Minimal**	**Limited**	**Midrange**	**High**	**Superior**
Reserve Safety Margin (aaa)	16.0%	8.0%	5.0%	3.0%	2.0%
Reserve Safety Margin (aa)	12.0%	6.0%	4.0%	2.5%	2.0%
Reserve Safety Margin (a)	8.0%	4.0%	2.5%	2.0%	2.0%
Reserve Safety Margin (bbb)	3.0%	2.0%	2.0%	2.0%	2.0%

Notes: Scenario analysis represents an unaddressed stress on issuer finances. Fitch's scenario analysis assumes the GDP and expenditure growth sequence shown in the 'Scenario Parameters' section. Inherent budget flexibility is the analyst's assessment of the issuer's ability to deal with fiscal stress through tax and spending policy choices, and determines the multiples used to calculate the reserve safety margin. For further details, please see Fitch's US Tax-Supported Rating Criteria.

The ratings above were solicited and assigned or maintained at the request of the rated entity/Issuer or a related third party. Any exceptions follow below.