FitchRatings

Public Finance
Tax-Supported
U.S.A.

Los Angeles County, California

FACT Tools

Ratings

Long-Term Issuer Default Rating	AA+

New Issues

$250,180,000 Los Angeles County Public Works Financing Authority Lease Revenue Bonds, 2021 Series F (Green Bonds)	AA
$221,475,000 Los Angeles County Public Works Financing Authority Lease Revenue Bonds, 2022 Series G (Forward Delivery)	AA

Outstanding Debt

Los Angeles County Certificates of Participation	AA
Los Angeles County Public Works Financing Authority 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 2021–2022 Tax and Revenue Anticipation Notes	F1+

Rating Outlook

Stable

Applicable Criteria

U.S. Public Finance Tax-Supported Rating Criteria (May 2021)

Related Research

Fitch Rates $472MM Los Angeles County Public Works Fin Auth, CA Lease Revs 'AA' (October 2021)

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New Issue Summary

Sale Date: Scheduled for around Oct. 14, 2021, via negotiated sale

Series: $250,180,000 Los Angeles County Public Works Financing Authority Lease Revenue Bonds, 2021 Series F (Green Bonds); and $221,475,000 Los Angeles County Public Works Financing Authority Lease Revenue Bonds, 2022 Series G (Forward Delivery)

Purpose: The 2021 series F proceeds will finance and refinance various capital improvement projects in Los Angeles County (the county). The 2022 series G proceeds will refund the Los Angeles County Public Works Financing Authority's (the authority) lease revenue bonds (multiple capital projects II), series 2012.

Security: The authority's lease revenue bonds are payable from the county's facility lease rental payments to the authority and are secured by a portfolio of real estate assets pledged as collateral under a 2015 master lease between the county and the authority.

The county's 'AA+' Issuer Default Rating (IDR) reflects the combined strength of the county's solid revenue performance, its vast and diverse economy, a moderately 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 laws' constraints on the county's independent legal ability to raise revenues. Fitch Ratings expects the ongoing resumption of normal business activity to produce a return to economic and revenue gains in line with pre-pandemic trends.

The 'AA' rating for the county's lease revenue bonds and COPs is one notch below the IDR due to the slightly higher optionality inherent in appropriation debt. The 'F1+' short-term rating on the 2021–2022 tax and revenue anticipation notes (TRANs) corresponds to the county's IDR.

Key Rating Drivers

Revenue Framework: 'aa': The county's revenues demonstrate limited volatility, reflecting the size and maturity of the economy and tax base, which retains a large Proposition 13 cushion. 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': Fitch expects expenditure growth to be in line with to marginally above future revenue growth in the absence of policy action. The county continues to enjoy solid expenditure flexibility, although policy changes and potential litigation outcomes could somewhat constrain that flexibility in the future. The portion of the budget allocated to carrying costs for debt and retiree benefits will increase as the county ramps up contributions to pay down its net pension liability (NPL) 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 moderately low relative to total personal income. The majority of debt is issued by overlapping jurisdictions.

Operating Performance: 'aaa': The county demonstrates an ongoing commitment to support a strong 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 economic downturns.

Rating Sensitivities

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

- An 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 negative rating action/downgrade:

- Financial flexibility pressured by reduced revenue growth, expenditure growth that outpaces revenues, increased restrictions on what moneys can be used for and/or sustained reductions in reserves.

Current Developments

Federal and State Coronavirus Pandemic-Related Aid

The county has benefited from $1.1 billion in Coronavirus Aid, Relief and Economic Security (CARES) Act funding, followed by an expected $1.9 billion in American Rescue Plan Act (ARPA) funding, of which the county has received the first $975 million, with the balance expected in May 2022.

Fiscal 2022 Budget

The county's structurally balanced $28.3 billion fiscal 2022 adopted general county budget (general fund and hospital enterprise fund) is $971 million lower than the previous year's final budget, primarily due to the end of the first tranches of one-time federal and state pandemic-related aid. The adopted total budget of $36.5 billion (including special districts and special funds) includes a net increase of 315 positions, mainly in healthcare, and does not require layoffs or furloughs.

The county board of supervisors is scheduled to approve the final adopted budget on Oct. 5, 2021. There are no material changes that would adversely affect the county's financial condition. In fact, the total available financing for the general fund and hospital enterprise fund increases by almost 6% to $29.9 billion. The proposed total final adopted budget of $39.3 billion includes an additional 224 positions.

The budget does not yet include either the county's ARPA funding or additional funds from the May 2021 revision to the governor's proposed fiscal 2022 state budget. These will be handled through midyear budget adjustments. The ARPA funds will largely be channeled through the general fund.

Care First and Community Investment Program

Measure J, approved by voters in November 2020, requires that at least 10% of locally generated unrestricted general fund revenues (as determined through the annual budget process) be allocated annually to community programs and alternatives to incarceration, with a three-year ramp-up period. In July 2021, Measure J was declared unconstitutional; the county intends to appeal that court decision. Nevertheless, the county board of supervisors retains full authority to appropriate moneys for homelessness services, and the 2022 budget earmarks an initial $100 million for Care First and Community Investment Program spending as originally conceived under Measure J. The county plans to establish a roadmap to achieving the full Measure J set-aside, potentially around $300 million annually, by fiscal 2024.

While manageable, ringfencing 10% of the county's locally generated unrestricted general fund revenues will somewhat constrain the county's flexibility in spending from that important funding source. For example, those funds cannot be used for certain public safety expenditures. The most likely source of a further $200 million in offsetting budget reductions, over and above the $100 million already identified in the fiscal 2022 budget, would be county-funded carceral services and law enforcement agencies. Reducing such funding will pose its own political and logistical challenges within a relatively tight timeframe. The Measure J ordinance does permit

Rating History — IDR

Rating	Action	Outlook/ Watch	Date
AA+	Affirmed	Stable	10/4/21
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 — COPs and Lease Revenue Bonds

Rating	Action	Outlook/ Watch	Date
AA	Affirmed	Stable	10/4/21
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	—	6/8/21

temporary suspension of the Measure J allocation in the event of a fiscal emergency, subject to a four-fifths vote of the board of supervisors.

Homelessness Litigation

In March 2020, a nonprofit organization sued both the county and the City of Los Angeles on the grounds they are taking insufficient action to address homelessness. Attempting to negotiate a settlement, the city agreed to provide 6,700 new beds within 18 months, with the county contributing $53 million in fiscal 2021 and up to $60 million for each of the following four years, plus a one-time bonus of $8 million if 5,300 new beds opened by April 16, 2021 (this is currently being verified by audit).

After the parties failed to reach a settlement, the district court issued a preliminary injunction requiring the county and the city to offer housing to every homeless individual in downtown Los Angeles's Skid Row area by October 2021 and to fund additional supportive services and operations. The county preliminarily estimated its compliance costs at $448 million, requiring curtailment of other services, the potential layoff of 2,000 employees and a multiyear effort to create enough new beds. The preliminary injunction has just been vacated by the Ninth Circuit Court of Appeals, potentially relieving the county of the near-term pressure to fully absorb this level of ongoing cost under its balanced budget requirement. However, Fitch expects continued pressure on the county to result in increased spending to alleviate homelessness.

Credit Profile

Los Angeles 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 vast, diversified economy represents over one quarter of California's total economy.

The county is a major economic and manufacturing center. It incorporates two ports and an airport that are typically among the busiest in the world. Taxable assessed valuation (TAV) grew 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 well 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 projects continue to support future tax base growth.

Fiscal 2022 represents the 11th consecutive year of tax base growth, with an almost 4% increase to over $1.76 trillion. The size and diversity of the economy that underpins the county's tax base remain a credit strength. The residential real estate market continues to perform strongly. After dropping sharply in 2020, construction lending has started to rebound for the commercial real estate sector. While the office market vacancy rate continued to increase in 2021, some excess industrial property capacity has been absorbed.

The county's unemployment rate has historically been higher than the nation's, a gap that has been exacerbated by pandemic mitigation measures. The county's unemployment rate increased sharply to 20.3% in April 2020, from 4.6% in February 2020. While unemployment rates improved significantly in the ensuing months, the county's unemployment rate in July 2021 (10.2%) remained noticeably above the unemployment rates of the state (7.9%) and the nation (5.7%) for that period. Wealth indicators are below the state but generally above or in line with the nation, reflecting the county's incorporation of some highly urbanized and low income areas.

Revenue Framework

Over half of general fund revenues in fiscal 2020 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. Locally generated taxes and charges for services are the two other key revenue sources.

Historically, the 10-year CAGR for 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 outperform national GDP growth, except in fiscal years 2017 through 2019. Fitch expects future intergovernmental revenues to 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 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 services.

Expenditure Framework

The majority of fiscal 2020 general fund expenditures were related to public assistance, public safety and health and sanitation services, all key roles for California county governments. 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. In their one-year labor agreement extensions for fiscal 2022, all major employee groups have tentatively accepted a $1,000 per employee payment in lieu of a cost of living adjustment, with a $500 appreciation payment for frontline workers and an additional bonus of up to $650 for DHS employees. Fringe benefit plans will increase by 2.5%. Outstanding negotiating points largely relate to noneconomic issues.

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.

Fixed carrying costs are moderate. The county's pension system contribution rates increase by 9% in fiscal 2022, primarily due to past investment underperformance and the phase-in of revised economic assumptions.

Long-Term Liability Burden

Direct and overlapping debt of $42.9 billion represents nearly two thirds of the county's overall long-term liability burden. Of that debt, the majority was issued by overlapping jurisdictions, which retain considerable unissued bond authorizations.

The Los Angeles County Employees Retirement Association (LACERA) reported an $11.6 billion NPL as of June 30, 2020 (an asset-to-liabilities ratio of 83%, assuming a 7.25% discount rate). Fitch's standard 6% discount rate increases the NPL to an estimated $24.5 billion, reducing the asset-to-liabilities ratio to 70%. In January 2020, LACERA lowered the discount rate to 7%; the resulting increase to the employer contribution rate is being phased in over three years from fiscal 2021.

Combining debt and Fitch-adjusted pension liabilities, the county's overall long-term liability burden is a moderately low burden on county taxpayers' resources, at just over 10% of personal income.

The county's unfunded actuarial accrued OPEB liability was sizable at $24.8 billion in fiscal 2020. This is high in relation to personal income, at almost 4%, but more moderate relative to the tax base at over 1% of market valuation. The county has the legal ability to reduce this liability. The county enacted OPEB reforms in 2015 and is increasing its annual contributions by $60 million annually, funded in significant part by maximizing subvention revenues from other governments. The county is in its seventh year of a multiyear plan to reach the full actuarially required OPEB contribution in fiscal 2028. In addition to the county's irrevocable OPEB trust (over $2.2 billion as of June 30, 2021), LACERA has a reserve for annual healthcare premium fluctuations ($148 million as of Aug. 31, 2021).

Operating Performance

The Fitch Analytical Stress Test (FAST) scenario analysis tool relates historical tax revenue volatility to GDP to support the assessment of operating performance under Fitch's criteria. 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 would vary from FAST results, and Fitch expects that the county would implement decisive corrective actions to offset them. The county demonstrates minimal revenue volatility under the FAST model's moderate scenario.

In recent years, the county has prioritized maintenance of strong general fund balances and continued strengthening its reserves in the face of increasing employee remuneration costs. An unrestricted general fund balance of over $4.3 billion in fiscal 2020 (nearly 20% of general fund spending) provides a considerable cushion against revenue declines. For fiscal 2021, the county expects the total general fund balance to exceed the fiscal 2020 total general fund balance of

$4.5 billion given the unassigned general fund's more than $200 million yoy increase on a budgetary basis. This is due to higher than budgeted revenues, federal pandemic-related aid and lower than budgeted expenditures.

The county has two specific reserve policies. First, its $732 million rainy day fund balance meets the county's policy goal of 10% of discretionary revenues. The county made no draws from the rainy day fund in fiscal years 2020 or 2021. Second, the county has a policy to set aside 5% to 10% of new ongoing discretionary revenues annually as an appropriation for contingency. The fiscal 2022 budget includes a $24 million contribution to comply with that policy.

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. The county closed fiscal 2021 with a general fund cash balance of almost $2.8 billion, excluding federal pandemic-related aid.

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 the DHS, with 1% increases annually. On this basis, the base net county contribution (NCC) has been stable, increasing 1% annually since fiscal 2015 to $353 million in fiscal 2022. County officials report the base NCC represented around 5% of the DHS's total budget in fiscal years 2019 through 2021.

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

The DHS ended fiscal 2021 with a fund balance of over $1.5 billion when including a $175 million reserve for equipment purchases and $155 million restricted for provider relief funds. The DHS expects to hold its fund balance relatively steady, ending fiscal 2022 at just under $1.3 billion. In line with recent projections, it then projects annual fund balance draws in fiscal years 2023 and 2024. These are inherently conservative, based on confirmed revenues only.

County general fund support for the DHS's cash position has reduced sharply. The balance of general fund working capital loans to hospitals remains at zero. The DHS has benefited from $503 million in federal and state pandemic-related aid, will receive some ARPA funding through the county for nonmedical services and is working with the state on a replacement state funding waiver through which it hopes to secure additional state funding.

The county is working on a $1.6 billion Harbor-UCLA Medical Center replacement project, the cost of which will be shared between the DHS (90%) and the county's Department of Mental Health (10%). The department will fund its share from available resources and by leveraging federal and state revenues through Medi-Cal to fund the construction of psychiatric emergency service facilities and inpatient beds. The general fund will not be contributing to the project, which is due to be completed in 2027.

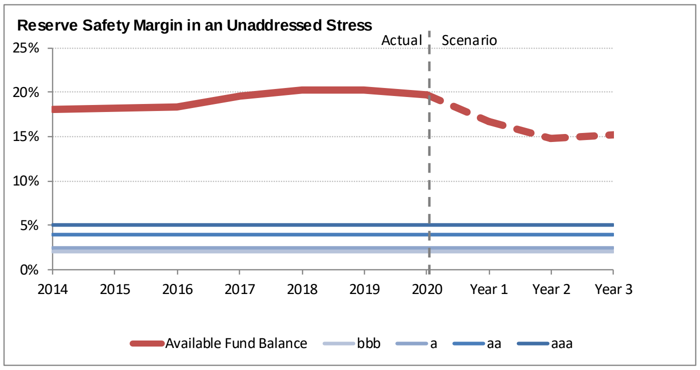
ESG Considerations

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, due to either 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

Ver 48



Analyst Interpretation of Scenario Results

The Fitch Analytical Stress Test (FAST) scenario analysis tool relates historical tax revenue volatility to GDP to support the assessment of operating performance under Fitch's criteria. 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 would vary from FAST results and Fitch expects the county would implement decisive corrective actions to offset them. The county demonstrates minimal revenue volatility under the FAST model's moderate scenario.

Scenario Parameters:		Year 1	Year 2	Year 3
GDP Assumption (% Change)		(1.0%)	0.5%	2.0%
Expenditure Assumption (% Change)		2.0%	2.0%	2.0%
Revenue Output (% Change)	*Min Y1 Stress:* **-1%** *Case Used:* **Moderate**	(1.0%)	3.0%	4.4%
Inherent Budget Flexibility			Midrange	

Revenues, Expenditures, and Fund Balance	Actuals							Scenario Output		
	2014	2015	2016	2017	2018	2019	2020	Year 1	Year 2	Year 3
Total Revenues	15,208,018	15,454,733	16,190,186	17,081,934	17,726,265	19,551,091	20,978,099	20,768,318	21,395,247	22,327,828
% Change in Revenues	-	1.6%	4.8%	5.5%	3.8%	10.3%	7.3%	(1.0%)	3.0%	4.4%
Total Expenditures	14,790,147	15,237,807	15,863,407	16,573,050	17,531,885	19,170,861	20,699,250	21,113,235	21,535,500	21,966,210
% Change in Expenditures	-	3.0%	4.1%	4.5%	5.8%	9.3%	8.0%	2.0%	2.0%	2.0%
Transfers In and Other Sources	468,614	393,023	374,195	438,769	734,228	981,144	984,358	974,514	1,003,932	1,047,692
Transfers Out and Other Uses	663,327	522,934	506,555	680,922	684,390	822,556	1,178,412	1,201,980	1,226,020	1,250,540
Net Transfers	(194,713)	(129,911)	(132,360)	(242,153)	49,838	158,588	(194,054)	(227,466)	(222,088)	(202,849)
Bond Proceeds and Other One-Time Uses	-	-	-	-	-	-	-	-	-	-
Net Operating Surplus/(Deficit) After Transfers	223,158	87,015	194,419	266,731	244,218	538,818	84,795	(572,383)	(362,340)	158,770
Net Operating Surplus/(Deficit) (% of Expend. and Transfers Out)	1.4%	0.6%	1.2%	1.5%	1.3%	2.7%	0.4%	(2.6%)	(1.6%)	0.7%
Unrestricted/Unreserved Fund Balance (General Fund)	2,790,224	2,861,745	2,991,807	3,368,535	3,680,895	4,042,841	4,308,802	3,736,419	3,374,079	3,532,848
Other Available Funds (GF + Non-GF)	-	-	-	-	-	-	-	-	-	-
Combined Available Funds Balance (GF + Other Available Funds)	2,790,224	2,861,745	2,991,807	3,368,535	3,680,895	4,042,841	4,308,802	3,736,419	3,374,079	3,532,848
Combined Available Fund Bal. (% of Expend. and Transfers Out)	18.1%	18.2%	18.3%	19.5%	20.2%	20.2%	19.7%	16.7%	14.8%	15.2%

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.

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