Summary:
Los Angeles County, California; Note

Primary Credit Analyst:
Tim Tung, CFA, San Francisco + 1 (415) 371 5041; tim.tung@spglobal.com

Secondary Contact:
Jennifer Hansen, San Francisco + 1 (415) 371 5035; jen.hansen@spglobal.com

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Rating Action

S&P Global Ratings assigned its 'SP-1+' short-term rating to Los Angeles County, Calif.'s pro forma $900 million series 2022-23 tax and revenue anticipation notes (TRANs).

The notes are secured by all legally available revenue of the county attributable to fiscal 2023 and mature on June 30, 2023.

Credit overview

The county's current projections for fiscal 2023 are based on the budget approved on April 19, 2022, and do not include significant federal and state revenues such as $975 million of American Rescue Plan Act (ARPA) funds or additional revenues from the state for programs contemplated under the May revision to the 2022-2023 proposed state budget. The county conservatively estimates to end the year with a reduction in cash balances, but we expect that the ending cash position will significantly exceed these projections. The county has a strong revenue base in property taxes that we anticipate will continue to grow based on stored assessed valuation under Proposition 13. We expect the county's history of strong positive variance of projected ending cash balances to actuals will continue in fiscal 2023.

For more information on our long-term rating on the county's debt, see our article published March 18, 2022, on RatingsDirect.

The rating reflects our view of the county's:

• Very strong projected coverage of 1.7x at maturity;
• Availability of alternative liquidity that the county can use for repayment during the life of the notes, boosting coverage to a very strong 3.4x at maturity;
• Broad and diverse economy and extremely strong long-term creditworthiness; and
• History of conservative cash flow projections with actual results that consistently exceed projections.

Environmental, social, and governance

We analyzed the county's environmental, social, and governance (ESG) risks in coming to a credit opinion on the notes. Although wildfires have broadly affected California, we do not consider wildfire within the county a significant risk given the county's vast geographic area and the fact that property values are concentrated in urban areas with little combustible vegetation. The county also has elevated exposure to seismic risk; however, we believe this risk is mitigated in part by strong state building codes. We consider the county's social and governance risk to be neutral.
within our short-term credit analysis.

Credit Opinion

Note provisions
The county will deposit 45% of the note principal, 45% of the note principal, and 10% of the note principal and all interest into the note repayment fund on Dec. 20, 2022; Jan. 1, 2023; and April 1, 2023, sequentially. 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 the unrestricted taxes, income, revenue, cash receipts, and other money of the county attributable to fiscal 2023, and lawfully available for payment. The repayment fund will be held by the county auditor-controller and is invested in the county treasury pool. We understand the county intends to also invest the TRAN proceeds in its treasury pool. As of March 2022, the pool is highly liquid, with an average weighted maturity of 1,006 days, and about 36% of the pool's investments mature within 60 days.

Coverage
Based on the county's cash flow forecast, we calculate that coverage for the 2022-23 TRANs at maturity will be a very strong 1.7x. The county's cash flows indicate payment set-asides in December, January, and April, which correspond with property tax apportionment dates. Projected coverage at Jan. 1, 2023, is modestly insufficient at 0.93x; however, we anticipate that actual coverage will likely be at a level that we consider at least strong given the conservatism embedded within the county's cash flow projection. 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 3.4x, according to our calculation. County officials report that transfers of these alternative cash sources do not require board action.

Los Angeles County's cash flow assumes 7.5% growth in secured property tax revenue in fiscal 2023, which is consistent with the assessor's preliminary estimates. The county budget does not include $975 million of ARPA funds that the county expects to receive in June 2022. Additionally, the budget does not include additional funds from the state for programs contemplated under the governor's May revision to the 2022-2023 proposed state budget. The county has conservatively estimated that its cash position will decrease in fiscal 2023, 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, projected cash flows indicate disbursements in excess of revenue by about $1 billion for fiscal 2023; however, overall cash flow assumptions have had positive variations in at least the last 14 years, resulting in stronger-than-projected coverage. We expect the county will continue its trend of positive variance for fiscal 2023. 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 2022 TRANs coverage at maturity, based on the projected June 2022 cash balance, is expected to be 2.6x. This is higher than the original 1.5x cash coverage projected at the time of issuance, partly because the initial projections conservatively showed a significantly lower starting cash balance than was actually expected. Overall, the county's current projected year-end cash balance for fiscal 2022 is expected to be $1.16 billion higher than the original projections.
Related Research

Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022

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.