

New Issue: Moody's assigns MIG 1 to Los Angeles County's (CA) TRAN

Global Credit Research - 02 Jun 2014

Affects \$900 million in debt

LOS ANGELES (COUNTY OF) CA
Counties
CA

Moody's Rating

ISSUE

RATING

2014-15 Tax and Revenue Anticipation Notes

MIG 1

Sale Amount \$900,000,000

Expected Sale Date 06/03/14

Rating Description Note: Tax and/or Revenue Anticipation

Moody's Outlook STA

Opinion

NEW YORK, June 02, 2014 --Moody's Investors Service has assigned a MIG 1 rating to Los Angeles County's (CA) 2014-15 Tax and Revenue Anticipation Notes (TRANS).

RATING RATIONALE

The MIG 1 rating is based, in part, on the Aa2-stable long-term rating of the county, the modest amount of short-term borrowing relative to the county's projected cash receipts, the early set aside of cash well in advance of the maturity of the notes, and the county's history of conservative budgeting. The rating also factors in the county's narrow cash balances, although it has a significant amount of liquidity against which the county could borrow for short periods of time.

STRENGTHS

- Highly rated county
- Moderate amount of note borrowing relative to receipts
- Actual cash flow results have been consistently better than projections
- Ample alternate liquidity

CHALLENGES

- Significant revenue dependence on the state

DETAILED CREDIT DISCUSSION

TRAN BORROWING SIZE LOW RELATIVE TO CASH RECEIPTS; SET-ASIDES SOUND

The county is an annual issuer of short-term tax anticipation notes (TRANS), as this borrowing provides relief against the volatility of its cash flow receipts. The county's revenues peak in December-January and April-May, reflecting the semi-annual property tax receipts, while monthly expenditures remain fairly constant throughout the year. This year's TRAN borrowing is low, representing 5.1% of projected fiscal 2015 receipts. Importantly, the county's TRAN issuance relative to its receipts will have declined over the last three fiscal years, dropping from

6.4% of fiscal 2013 receipts.

The TRANS will be dated as of July 1, 2014 and mature on June 30, 2015.

The county's dollar-weighted-average set-aside is a sound 5.1 months before the fiscal year-end. The county pledges to set aside 70% of the TRAN's principal by January 1, 2015 and all of the TRAN's debt service by April 1, 2015.

PROJECTED ENDING CASH AS A PERCENT OF GENERAL FUND IS NARROW BUT COUNTY CONSISTENTLY BEATS PROJECTIONS; COUNTY HAS ADDITIONAL LIQUIDITY TO OFFSET LOW GENERAL FUND CASH LEVELS

The county is projecting its fiscal year 2015 ending cash position to be \$414 million, which represents a very narrow 2.2% of projected receipts. Positively, the county is consistently conservative in its projections. For the current fiscal year (2014), the county's estimate for its cash levels is \$449 million, greater than its originally projected \$261 million. As a result, year-ending cash should be approximately \$710 million, which is 4.0% of total revenue (net of TRAN repayment). Actual results for the prior ten years show the county similarly outperforming original projections.

The county has substantial alternate liquidity to offset its narrow general fund cash levels, however. While these funds are not pledged to note holders, they nonetheless provide a measure of credit support. The county has projected a total of \$1.455 billion available at fiscal year-end 2014. Together with the pledged revenue, this amount represents approximately (could not verify number) of total FY 2014 receipts.

COUNTY'S IMPROVING FINANCIAL POSITION IS TIED TO THE STATE

The improving local economy combined with the state's improving finances-and more timely cash reimbursements are the primary drivers for the better-than-projected results in fiscal 2014, which is providing significantly more revenue than the county anticipated, specifically in funding for public safety and welfare advances. Also, the county's hospitals are showing improved results, which has resulted in a reduction of \$247 million in cash flow subsidies to the county's hospitals.

For fiscal 2015, the county is projecting a \$296 million drawdown in cash to \$414 million, mainly because it anticipates significant reduction in state transfers to offset large gains in property and sales taxes. It estimates overall receipts falling slightly in 2015 by approximately 1.4%.

On the expenditure side, the county projects total disbursements to remain effectively unchanged. This is because large increases in salaries and pension costs (approximately \$435 million) are effectively offset by decreases in the amount of the hospital subsidy and loans (\$387 million).

The county has traditionally conservatively projected receipts and we anticipate that the county's expenditure controls will compensate appropriately to the extent that projected receipts don't meet expectations.

FINANCIAL POSITION IMPROVING

The county's overall financial position has remained stable for the last five years, despite four consecutive years of operating deficits, which ended in fiscal 2012. This is a notable accomplishment given the challenges faced by California local governments generally in recent years. The county's total fund balances in the general fund stood at \$2.9 billion at fiscal year-end 2013, which was 19.1% of total revenues, and net cash as a percent of revenues was 10.9%. While these ratios are below the national medians for Aa2-rated counties, they are in-line with other California Aa2-rated counties. Additionally, the county's strong operating surplus of \$238 million in 2013 and projections for further gains in fiscal 2014 are positive developments for the long-term rating.

What Could Help The Rating Go UP

NA

What Could Help The Rating Go DOWN

- Higher than anticipated reduction of cash position
- Significant lowering of the outstanding long term rating

KEY STATISTICS

Fiscal 2013 ending cash balance: 5.2%

Projected fiscal 2014 ending cash balance: 4.0%

Projected fiscal 2015 ending cash balance: 2.2%

RATING METHODOLOGY

The principal methodology used in this rating was Short-Term Cash Flow Notes published in April 2013. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

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Analysts

Gregory W. Lipitz
Lead Analyst
Public Finance Group
Moody's Investors Service

Robert Azrin
Additional Contact
Public Finance Group
Moody's Investors Service

Contacts

Journalists: (212) 553-0376
Research Clients: (212) 553-1653

Moody's Investors Service, Inc.
250 Greenwich Street
New York, NY 10007
USA

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