MOODY'S
INVESTORS SERVICE

New Issue: Moody's assigns MIG 1 rating to Los Angeles County's, CA 2013-14 TRANs

Global Credit Research - 02 Jun 2013

$1.0 billion in short term debt affected

LOS ANGELES (COUNTY OF) CA
Counties
CA

Moody's Rating

ISSUE		RATING
2013-14 Tax and Revenue Anticipation Notes, Series B		MIG 1
Sale Amount	$700,000,000	
Expected Sale Date	06/04/13	
Rating Description	Note: Tax and/or Revenue Anticipation	
2013-14 Tax and Revenue Anticipation Notes, Series A		MIG 1
Sale Amount	$300,000,000	
Expected Sale Date	06/04/13	
Rating Description	Note: Tax and/or Revenue Anticipation	

Moody's Outlook

Opinion

NEW YORK, June 02, 2013 --Moody's Investors Service has assigned MIG 1 ratings to Los Angeles County's combined $1.0 billion issue of 2013-14 Tax and Revenue Anticipation Notes, Series A and 2013-14 Tax and Revenue Anticipation Notes, Series B. The Notes are issued to fund the County's cash flow needs and are secured by a pledge of unrestricted, fiscal 2014 general fund receipts. Series A, ($300 million) is expected to mature at the end of February, 2014; and Series B, ($700 million) at the end June, 2014.

Key Credit Strengths

- Moderate amount of note borrowing

- Annual note issuer

- In last eleven years actual cash flow results have been better than projections

- Conservative projections with reasonable assumptions

- Abundant alternate liquidity

Key Credit Challenges

- Significant revenue dependence on the state

- General Fund Cash balance for 2014 is projected to be 1.5% of receipts

RATINGS RATIONALE

The key credit strengths reflected in the rating include the early setting aside for Note repayment, the robust coverage levels during the months of the set-asides by receipts in those months, the manageable size of the Note relative to estimated 2014 receipts. Also key to the ratings is the relatively long history of conservative projections wherein actual year- end cash balances exceed projections and, critically, a significant amount of readily accessible alternate liquidity.

The key credit weakness is the relatively narrow general cash position in which the County's general fund is projected to find itself at the end of 2014. However, this weakness is mitigated by the abundance of the County's available liquidity outside of the cash flows, which is available to be drawn upon and not repaid until the following year. Also reflected in the rating are the County's still strong overall financial position, a proposed budget based on reasonable assumptions, and the Board's demonstrated willingness to make significant program cuts when necessary to maintain balanced operations.

The County still faces a number of notable long-term challenges, particularly in the health department, but these do not affect the credit quality of its Note issues for the upcoming fiscal year. The County's budget takes into account the State's Proposed Budget and its May revisions whose combined effect on the County in fiscal 2014 is easily manageable. In 2013 the County was able to keep the net County cost of the state budget cuts to essentially zero as it maintained the practice of not backfilling any programs which were affected by state funding cuts. We believe that such budgetary discipline would be helpful in minimizing the erosion of the County's cash position, as the estimated cash drawdown in the current year and the projected drawdown in 2014 indicate depletion of general fund cash. In fact, the current rating relies heavily on the County's cash resources which are excluded from the cash flows but are available for short term borrowing.

OPERATING FUND LIQUIDITY REMAINS NARROW BUT OVERALL LIQUIDITY IS STRONG

In 2012, the most recent year for which there are final cash flows, the County reversed a four year trend of declines and recorded a cash increase. The cash surplus of $249 million increased the year-end balance to $817 million or 4.6% of receipts. While this balance remains somewhat low compared to pre-recession levels, its increase from the previous year may indicate that the County's cash position is beyond its recession driven low point.

The improved cash balance is also notable because it underscores the inherent conservative nature of the County's projections. The County's ending balances have historically outperformed projections and for 2012 the original projection called for a cash decrease of $195 million, which would completely deplete the cash position.

In the current fiscal year the County's cash position appears to be headed for another decrease, aggravated by loans from the general fund to the hospital system. The current projections, which reflect actual results through April 2013, show a cash decrease of only $158 million for the year, instead of the previously projected decrease of $398 million. The projected June 30, 2013 cash balance is estimated at $659 million or 4.0% of receipts, which is higher than the previously projected ending balance of 0.3% of receipts. Also, the total cash decline of $158 million is $150 million better than the initially projected drawdown of $308 million; the starting cash position for 2013 was $461 million higher than previously projected, leading to the year ending estimate that is $611 million higher than originally projected. While the current estimates for 2013 are significantly better than the original projections, they are based on only ten months of actual results and May and June cash flows continue to reflect conservative assumptions. Therefore, past experience suggests that the estimated cash decrease of $158 million for 2013 may still be overly conservative and the final results may show a cash surplus.

The County's 2014 cash flow are developed based on the same methodology as in previous years and they are likely to be similarly conservative. The projected ending balance of $261 million is only 1.5% of receipts and indicates a decrease of $398 million. Neither of these figures are favorable, but they are significant improvement over the initial projections from recent years. If the past pattern of conservative projections holds, actual results are likely to be much stronger. Overall, total receipts for fiscal 2014, are projected to be $19 million more than in 2013, and this does not include any net draws on alternate liquidity. Total disbursements are estimated to be $277 million higher. These changes combine for a cash decline of $398 million compared to $158 million cash decrease in 2013.

Significant assumptions in the 2014 cash flow include 0.2% decrease in property tax receipts, which may be conservative as the Assessed Value (AV) is likely to increase by 4%. Similarly, all other receipts are assumed to be largely flat. On the expenditure side, welfare warrants are expected to remain flat, and salaries and benefits are expected to increase by $285 million, or 3.9%. If these results are not achieved, the County asserts that it would make cuts in other areas.

It is notable that while the County has eliminated nearly three thousand positions in recent years, there have been no actual lay-offs or furloughs.

While the County's general fund cash position has suffered in recent years, its overall financial health has remained generally strong on a GAAP basis. The audited 2012 general fund balance stood at $2.6 billion or 18.5% of revenues. Despite the significant decline in cash, the 2013 general fund balance is currently estimated at $2.5 billion or closer to 17.5% of revenues. This is a preliminary estimate and the final results are likely to show a small increase over the previous year. If this were to come to pass, it would be the county's first GAAP based GF surplus in five years, reversing the previous four-year trend on declines.

AMPLE COURT-VALIDATED ALTERNATE LIQUIDITY

As the current projections stand, the County estimates a substantial, but decreasing cash deficit at fiscal year-end 2014 without draws on its alternate liquidity. The projected ending balance of just $261 million includes no borrowing from sources outside the general fund. The funds identified by the County for such support were challenged in court and the County prevailed. The estimated alternate liquidity balance for June 2014 is $1.46 billion, and equal 8.6% of projected 2014 receipts.

The County estimates that a substantial portion of the identified alternate liquidity is comprised of funds that are held in trusts prior to transfer to the general fund. For example, for the 2013-14 year end, the estimated amount of these general fund bound funds is greater than $576 million, which would enhance the estimated surplus of $261 million. In fact the County estimates that if such funds were included in the cash flows, the projections would show no monthly deficits.

EARLY SET-ASIDE AND STRONG COVERAGE DURING SET-ASIDE MONTHS

The County's Note issues are manageable at 5.9% of projected fiscal 2014 receipts. While the end-of year balances are important to assess the County's overall cash position for the year, also important for our analysis is the cash performance in months when the funds for Note repayment are set aside. The 2014 cash flows indicate the following schedule for setting aside funds for Note repayment: December, 2013, $350 million; January, 2014, $300 million; February, 2014, $100 million; March, 2014, $50 million and April, 2014, $200 million. The weighted average for these set asides is a very early 5.1 months prior to the end of the fiscal year. However, the notes will be issued as two separate series with maturities on February 28 and June 30, 2014. For the February maturity the funds will be set-aside by December, 2013. Funds for the final, June maturity, will be set aside by April, 2014. Also importantly, as the TRANs have first claim on unrestricted revenues of the County, coverage ratios with unrestricted general fund receipt in these months ranges from 3.6x in December to 5.6x in April.

What Could Help The Rating Go UP

NA

What Could Help The Rating Go DOWN

Significantly higher than anticipated reduction of cash position

Significant lowering of the outstanding long term rating

KEY STATISTICS

Projected Amount Borrowed as % of Receipts, FY 2014: 5.9%

Actual Ending Cash as% of Receipts, FY 2012: 4.6%

Projected Ending Cash as% of Receipts, FY 2013: 4.0%

Alternate Liquidity Projected at 6/30/14 : $1.46 billion

Alternate Liquidity % of FY 2014 receipts: 8.6%

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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