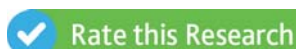


## CREDIT OPINION

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### Contacts

Alexandra J. Cimmiyotti +1.415.274.1754  
 VP-Sr Credit Officer  
 alexandra.cimmiyotti@moodys.com

Michael Wertz +1.212.553.3830  
 VP-Senior Analyst  
 michael.wertz@moodys.com

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Americas 1-212-553-1653  
 Asia Pacific 852-3551-3077  
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## Los Angeles County, CA

Update to credit analysis following the assignment of MIG 1 to 2019-2020 TRANS

### Summary

[Los Angeles County](#) (Aa1 stable) benefits from strong long-term credit quality as well as healthy short-term credit metrics. These include the county's stable and adequate cash margins projected for fiscal 2020, and ample alternate funds available for note repayment. The credit strength of the notes also benefits from the predictability of the county's revenues and timing of receipts for repayment, with note holder protections that include the segregation of repayment funds into a dedicated account. The MIG 1 rating incorporates the quality of cash flow management, as indicated by the accuracy of the county's past projections and reasonable future cash flow assumptions.

### Credit strengths

- » Highly rated county
- » Low amount of Tax and Revenue Anticipation Notes (TRANS) borrowing relative to receipts
- » Actual cash flow results have been consistently better than projections
- » Ample alternate liquidity

### Credit challenges

- » Significant revenue dependence on the state and federal governments

### Rating outlook

Outlooks are not assigned to short-term ratings.

### Factors that could lead to an upgrade

- » Not applicable

### Factors that could lead to a downgrade

- » Significant reduction in anticipated cash position
- » Erosion of alternate sources of liquidity
- » Significant lowering of the outstanding long term rating

## Key indicators

Exhibit

| Los Angeles (County of) CA                                                | 2014            | 2015            | 2016            | 2017            | 2018            |
|---------------------------------------------------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Economy/Tax Base                                                          |                 |                 |                 |                 |                 |
| Total Full Value (\$000)                                                  | \$1,085,743,686 | \$1,146,946,428 | \$1,218,549,286 | \$1,287,688,313 | \$1,435,385,951 |
| Population                                                                | 10,069,000      | 10,192,000      | 10,240,000      | 10,278,000      | 10,328,000      |
| Full Value Per Capita                                                     | \$107,830       | \$112,534       | \$118,999       | \$125,286       | \$138,980       |
| Median Family Income (% of US Median)                                     | 95.2%           | 95.0%           | 95.5%           | 96.4%           | 96.4%           |
| Finances                                                                  |                 |                 |                 |                 |                 |
| Operating Revenue (\$000)                                                 | \$15,210,968    | \$15,457,073    | \$16,192,098    | \$17,083,590    | \$17,871,298    |
| Fund Balance (\$000)                                                      | \$2,872,559     | \$2,948,546     | \$3,060,999     | \$3,398,212     | \$3,706,202     |
| Cash Balance (\$000)                                                      | \$2,020,888     | \$2,770,039     | \$3,255,581     | \$4,208,725     | \$4,446,230     |
| Fund Balance as a % of Revenues                                           | 18.9%           | 19.1%           | 18.9%           | 19.9%           | 20.7%           |
| Cash Balance as a % of Revenues                                           | 13.3%           | 17.9%           | 20.1%           | 24.6%           | 24.9%           |
| Debt/Pensions                                                             |                 |                 |                 |                 |                 |
| Net Direct Debt (\$000)                                                   | \$1,585,747     | \$1,668,075     | \$1,875,593     | \$1,802,056     | \$1,746,547     |
| 3-Year Average of Moody's ANPL (\$000)                                    | \$25,351,862    | \$27,658,863    | \$25,984,797    | \$30,354,366    | \$34,151,562    |
| Net Direct Debt / Full Value (%)                                          | 0.1%            | 0.1%            | 0.2%            | 0.1%            | 0.1%            |
| Net Direct Debt / Operating Revenues (x)                                  | 0.1x            | 0.1x            | 0.1x            | 0.1x            | 0.1x            |
| Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%) | 2.3%            | 2.4%            | 2.1%            | 2.4%            | 2.4%            |
| Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)   | 1.7x            | 1.8x            | 1.6x            | 1.8x            | 1.9x            |

Source: Los Angeles County's Audits and Moody's Investors Service

## Profile

Los Angeles County is the largest county in the nation both by size (\$1.5 trillion tax base) and population (10.3 million). The county has a large and diverse economy and the unemployment rate is 4.0%, which is slightly above the state (3.9%) and US (4.4%).

## Detailed credit considerations

### Long-Term Credit Quality: strong long-term credit quality

The county benefits from an exceptionally large assessed value that stands at an all-time high at \$1.5 trillion in fiscal 2019 as well as a large and diverse economy. Financial operations are well managed and supported by healthy reserve levels that we expect to remain stable and the county's debt burden remains modest. Los Angeles County has moderate pension and OPEB burdens, however county management has taken progressive actions to increase funding for these long-term liabilities.

### Cash Flow: cash position will remain healthy given management's prudent fiscal practices

County management estimates that its cash level will exceed its original cash projection by at least \$583.0 million by fiscal 2019 year-end. The primary driver behind this positive variance is due to strong expenditure controls and historically conservative cash flow projections. The fiscal 2019 year-ending cash balance is projected at approximately \$1.3 billion, which is 6.0% of total revenue (net of TRANs repayment). Management reports that this estimated cash balance is conservative and expects to end the year with a higher balance given that the year-to-date cash balance is tracking \$300 million above projections. According to our methodology, we expect to see ending cash from pledged funds be at least 5% of total receipts for the MIG 1 rating level, which the county's conservative cash balance exceeds.

The receipt of revenue is highly reliable and does not depend on voter approval. Pledged receipts largely consist of property taxes, which have scheduled and timely collection dates and very low delinquency rate of 1.2%.

## LIQUIDITY

Management is projecting its fiscal year 2020 ending cash position to be \$781.5 million, which represents a low 3.4% of projected receipts (net of TRANs). However, management has consistently been conservative in its projections and actual results have outperformed original projections for more than a decade. We expect this trend to continue given management's conservative revenue assumptions, in particular property tax receipts and that salary and benefit expenditures are largely known since the county

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has finalized contracts with almost all of its bargaining units for the next three years (through fiscal 2022). In addition, the county actively manages its liquidity position, which includes providing daily auditor-controller cash reports, monthly reports to the board of supervisors, and continuous monitoring and updating of monthly cash flow estimates.

Adding additional credit strength is the county's alternate, but not legally pledged, funds available for the TRANs repayment. Management expects to have approximately \$1.5 billion of available funds held outside the general fund for note repayment should the county need access to additional cash at maturity. We incorporate an alternate liquidity amount of \$1.3 billion into our analysis, adjusting for solely the county's tax revenues held in the tax collector trust fund. While we do not anticipate these available funds to be needed for note repayment, the availability of these funds adds strength to the TRANs rating. The county's fiscal 2020 projected total available liquidity, including adjusted alternate sources, will be approximately 9.1% of total revenues (net of TRANs repayment).

#### **Debt and Legal Covenants: strong set-aside plan for note repayment**

The county is an annual issuer of 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 TRANs borrowing at \$700.0 million is the same level of borrowing as the previous year and represents a low 3.1% of projected fiscal 2020 receipts.

#### **DEBT STRUCTURE**

The Tax and Revenue Anticipation Notes will be dated as of July 1, 2019 and mature on June 30, 2020.

The county pledges to set aside 90% of the principal for the TRANs in January and all of the debt service in April.

#### **DEBT-RELATED DERIVATIVES**

The county has no debt-related derivatives.

#### **PENSIONS AND OPEB**

Pensions and OPEB are not factored in assigning a short-term rating.

#### **Management and Governance**

The county's management has a long standing practice of utilizing conservative budgeting assumptions, and has consistently outperformed original cash flow projections for over a decade.

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