County of Los Angeles

Los Angeles 2nd Regional Investors Conference

February 26, 2014

County Overview

- Los Angeles County is the most populous county in the nation and has an economy larger than 44 states
  - With approximately 10 million people, represents over 26% of the State's population
  - Includes the City of Los Angeles with approximately 3.9 million people and 87 other cities and unincorporated areas
  - 2013 gross product of $584 billion
- County is governed by a 5-member Board of Supervisors
- In California, counties combine local, State and Federal revenues to administer a broad scope of programs at the local level

Social Services | **Public Protection** | **Culture and Recreation**

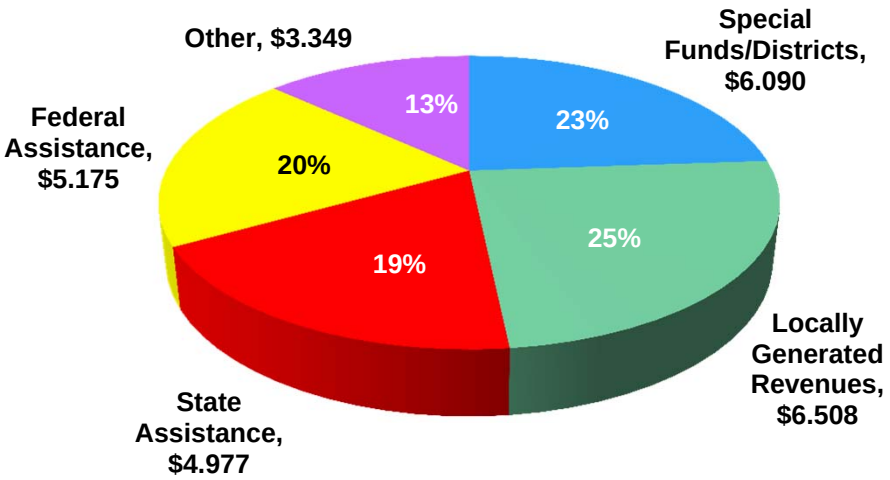
Healthcare | **General Government**

- County has strong financial management practices to administer programs and services
  - County has a policy to not backfill State or Federal funding cuts to County administered programs

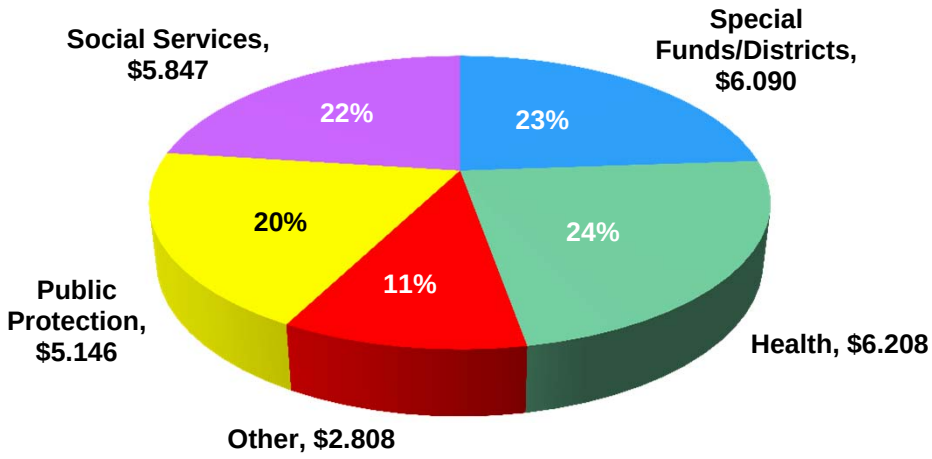
2013-14 Final Adopted Budget

- 2013-14 Final Adopted County Budget totals $26.1 billion and funds 103,678 budgeted positions
- General County Budget includes the General Fund and Hospital Funds and represents $20.0 billion of the Final Adopted Budget
  - General County Budget does not include Special Funds/Districts
- Locally Generated Revenues of $6.5 billion represent the discretionary portion of the General County Budget
  - $4.2 billion of property tax revenues and $1.5 billion of fund balance are the principal components of 2013-14 Locally Generated Revenues

Total Revenues
$26.099 Billion



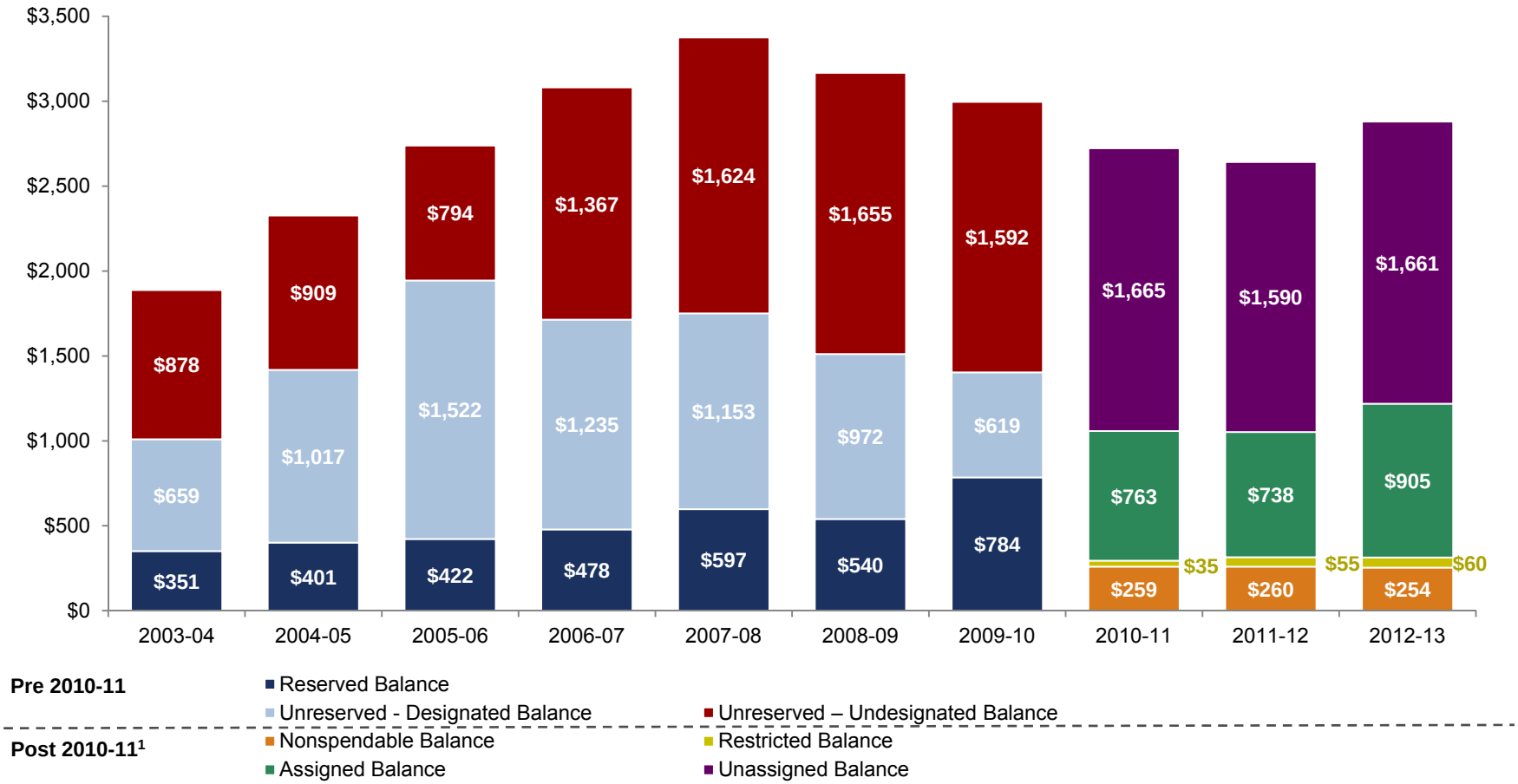
Total Expenditures
$26.099 Billion



GAAP Fund Balance Again Exceeded $2.5 Billion

- $1.6 billion Unassigned Fund Balance in 2012-13 closely tracks Budgetary Fund Balance of $1.5 billion

Fiscal Year End Fund Balance History



[1] Beginning in Fiscal Year 2010-11, the County displays final GAAP fund balances as "nonspendable," "restricted," "committed," and "assigned." At present, "committed" fund balance is not applicable to the County General Fund. Fund balance formerly referred to as "unreserved-undesignated" is now classified as "unassigned."

County Budget Update

2013-14 Final Adopted County Budget

- The County emerged from five years of budget deficits and fiscal challenges with a no cuts and no deficit budget for FY 2013-14
- For the first time in 5 years, Department of Health Services presented a balanced budget at the onset of the fiscal year
- County employees received their first cost-of-living adjustment since August 2008 for public safety personnel and January 2009 for remaining employees
  - Employees will receive a 6% salary increase over a 2-year period
- Expect to close FY 2013-14 with a modest amount of excess fund balance

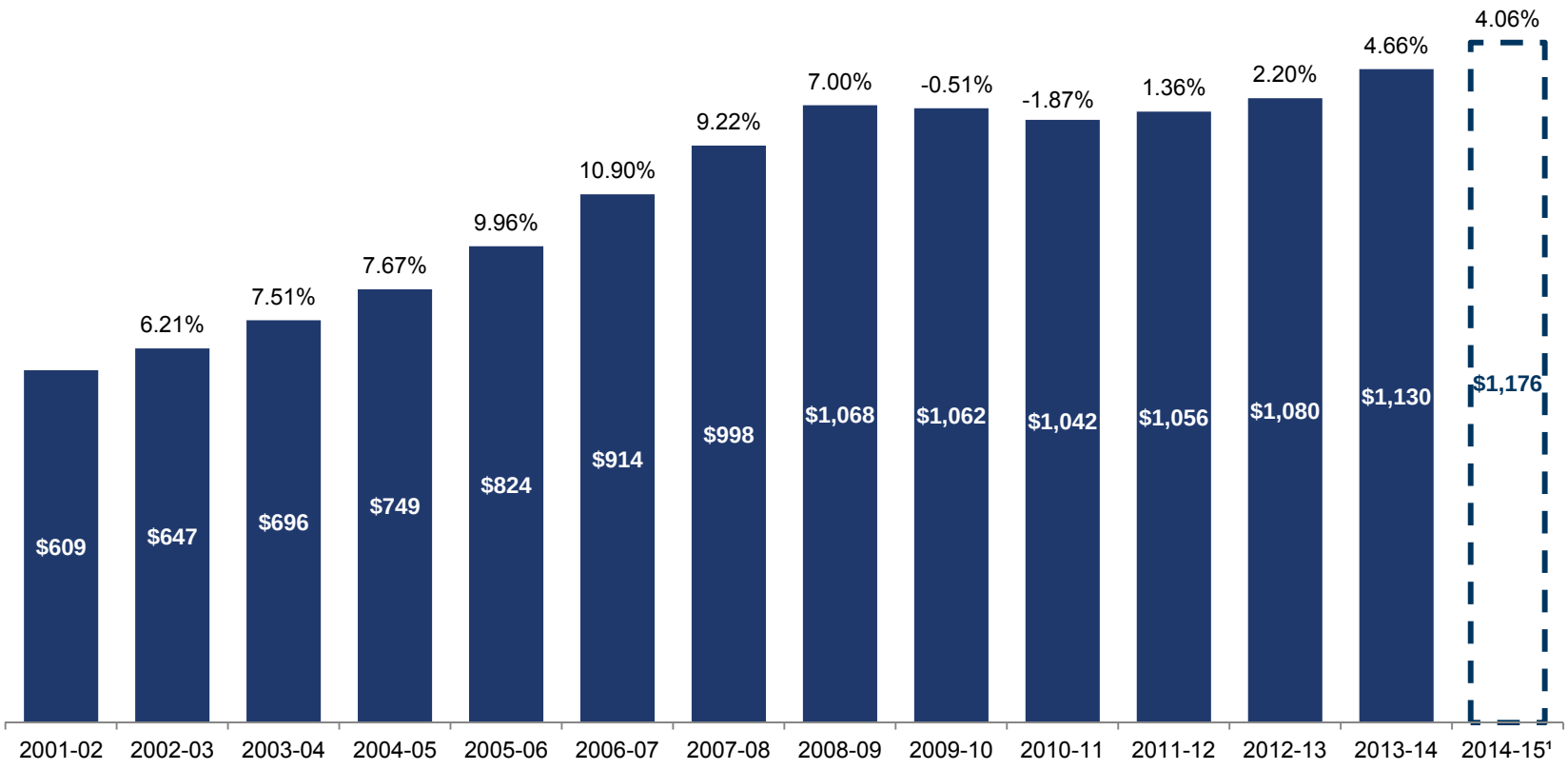
2014-15 County Budget Preview

- Preliminary estimates indicate the County will be facing a manageable budget deficit in FY 2014-15 primarily due to unavoidable cost increases
- Key revenue components in the 2014-15 Recommended Budget include the following:
  - Assessed valuation (and property tax revenue) is expected to grow by 4.06%
  - Sales taxes are estimated to grow by 4.0% statewide

Assessed Property Valuation Continues to Grow

- FY 2014-15 revenue-producing valuation projected to grow by 4.06%

Net Assessed Valuation and YOY Growth Rates – Fiscal Years 2002–2014 ($ in billions)

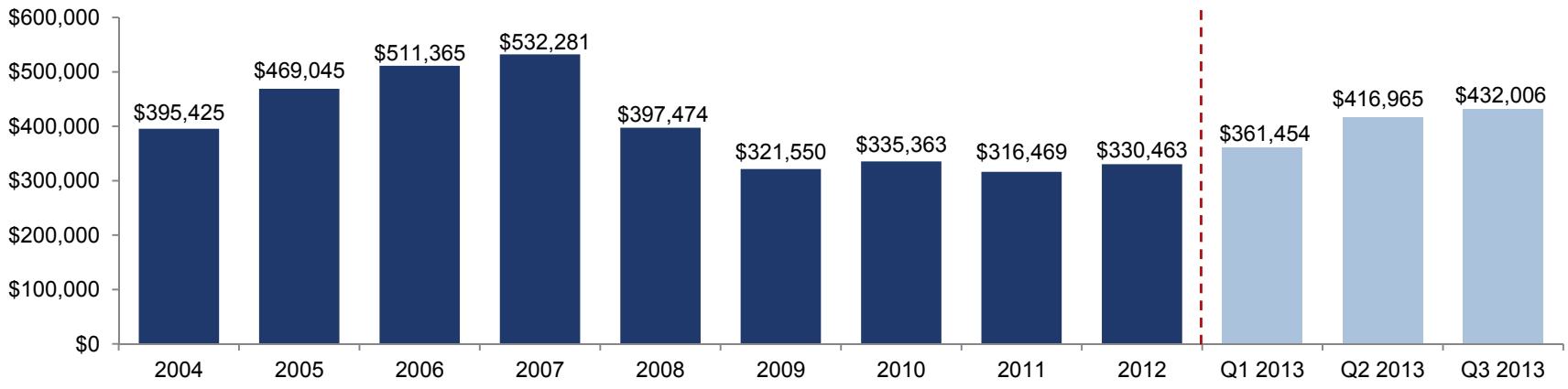


[1] *Estimate*

Real Estate Market

- The residential real estate market experienced significant growth in 2013, with average median home prices increasing by 31% through Q3 2013
- Significant "stored value" as a result of Proposition 13 cushioned the impact of declining home values during the economic downturn
  - Although average median home prices decreased by 41% from 2007-2011, assessed valuation increased by 1% over the corresponding valuation period (FY 2008-09 to FY 2012-13)
- Proposition 13 will continue to provide future stability for the County's primary source of discretionary revenue
  - Approximately 14% of the property tax roll is assessed at 1975 base-year values, with 25% assessed at pre-1985 values
  - Reversal of prior year Proposition 8 Decline-in-Value adjustments could increase FY 2014-15 assessed valuation by more than $10 billion

County's Historical Median Home Prices[1]

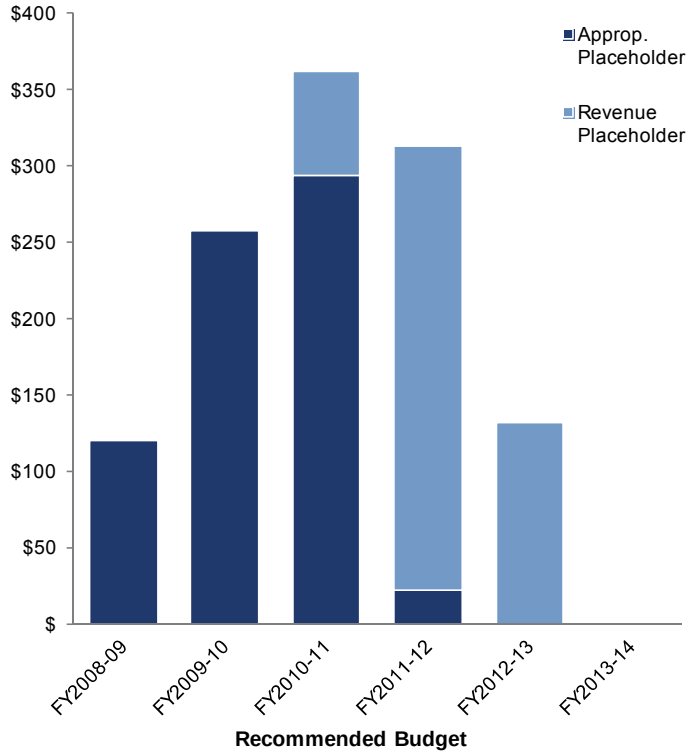


[1] *Source: Los Angeles Economic Development Corporation, Real Estate Research Council of Southern California.*

Health Services

- County health care system includes 4 hospitals, 2 ambulatory care centers, 17 health centers, and more than 100 contracted Community Partner clinics
- Department of Health Services ("DHS") recommended a balanced budget for FY 2013-14 that did not include any deficit placeholders
- General Fund subsidy to DHS decreased from $515 million in FY 2012-13 to $444 million in FY 2013-14
- Affordable Care Act ("ACA") provides opportunities to the County through patient choice and expansion of Medi-Cal coverage
  - Additional revenues generated by the ACA will be measured against the loss of realignment funding resulting from State Assembly Bill 85
  - County is investing heavily in health care infrastructure in order to compete for covered patients under the ACA

DHS Summary of Deficit Placeholders ($mm)



Retirement System Overview

- Los Angeles County Employees Retirement Association (LACERA) provides retirement benefits pursuant to the County Employees Retirement Law of 1937
- County first implemented pension reform in 1979, creating a new tier with reduced retirement benefits
- Funded ratio of pension plan as of June 30, 2012 was 76.8% (Actuarial Basis)
- Unfunded OPEB liability is sizeable at $25 billion, but mitigated by the following:
  - County transferred $448.8 million into an OPEB Trust during FY 2012-13
  - Reduced spousal and dependent coverage and mandatory enrollment in Medicare have been negotiated for all new County employees hired on or after July 1, 2014
  - Potential reduction of more than 20% in OPEB liability due to recently negotiated changes
- Total pension and OPEB related payments account for only 6.5% of the Total County Budget

County Pension and OPEB Related Payments ($ in thousands)

FY Ending	Pension Payment to LACERA	OPEB Payment to LACERA	Pension Obligation Bonds Debt Service	Total Pension and OPEB Related Payments	Percent of Total County Budget
30-Jun-2010	802,500	384,034	358,165	1,544,699	**6.5%**
30-Jun-2011	898,803	406,937	372,130	1,677,870	**6.9%**
30-Jun-2012	1,026,867	424,030	–	1,450,897	**6.0%**
30-Jun-2013	1,118,514	441,063	–	1,559,577	**6.1%**
30-Jun-2014[1]	1,257,487	448,906	–	1,706,393	**6.5%**

[1] *Preliminary estimates; subject to change.*

County General Fund Debt Profile

- County has financed its capital needs through a combination of pay-go expenditures and lease obligations
- As of December 31, 2013, all of the County's $1.556 billion long-term general fund lease revenue bonds and certificates of participation are fixed rate obligations
- Tax-exempt Commercial Paper Program provides cost-effective interim financing

Implied GO Ratings → **Aa2 (Stable) / AA+ (Stable) / AA- (Stable)**

Lease Revenue Bond Ratings → **A1 (Stable) / AA (Stable) / A+ (Stable)**

Modest Debt Burden →

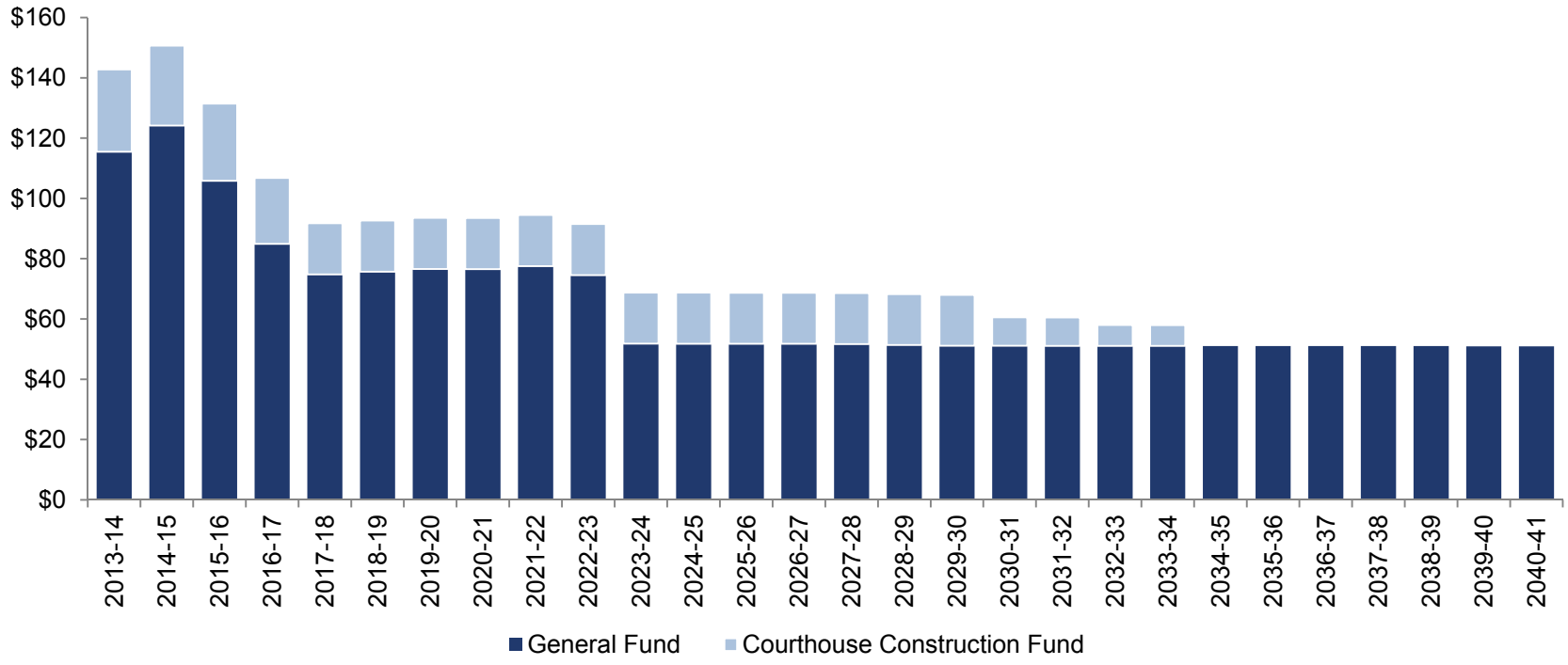
Debt Service as a % of Revenues	1.30%
Principal as a % of total Assessed Valuation	0.14%
Debt per Capita	$156

Debt Profile – Debt Service Requirements

Modest debt burden provides a high degree of flexibility for financing future capital projects

- Lease revenue bonds are typically structured with level debt service
- Certain County debt obligations are reimbursed in full by the State of California through the Courthouse Construction Fund

Annual Debt Service[1] ($ in millions)



[1] *Does not include operating leases.*

2014-15 TRANs

- County expects to issue approximately $900 million of 2014-15 Tax and Revenue Anticipation Notes
  - Pricing is currently scheduled for early June 2014
- Structure will include a single June 30, 2015 maturity
- County TRANs are supported by an extremely strong cash position
  - June 30, 2014 ending cash balance is conservatively estimated at over $600 million
  - Including borrowable resources available to the General Fund, June 30, 2014 cash balance should comfortably exceed $2 billion
- County ratings on current 2013-14 TRANs are as follows:
  - Standard & Poor's: SP-1+
  - Moody's: MIG 1
  - Fitch: F1+

2014 Lease Revenue Bonds

- County anticipates issuing lease revenue bonds in late 2014 to “take-out” outstanding commercial paper notes and finance major capital projects
- Par amount is expected to range between $250 million and $500 million
- Projects to be financed may include:
  - New Martin Luther King, Jr. Hospital
  - San Fernando Valley Family Support Center
  - Various hospital improvement and general government projects
- Current lease revenue bond ratings are as follows:
  - Standard & Poor’s: AA
  - Moody’s A1
  - Fitch A+
- Standard & Poor’s recently upgraded the County’s appropriation-backed debt (e.g., lease revenue bonds) to AA and the its Issuer Credit Rating to AA+

2014 County Redevelopment Refunding Program

- Established in January 2013, the County Redevelopment Refunding Program seeks to refinance outstanding tax allocation bonds issued by the 71 former redevelopment agencies in the County
- Refunding revenue bonds are issued by a County JPA and include structural enhancements that make the credit superior to stand-alone transactions:
  - County intercept of all debt service payments
  - County management of continuing disclosure and other post-issuance tasks
- In December 2013, $145 million of refunding bonds were issued on behalf of seven agencies and generated gross debt service savings in excess of $33 million
  - All savings benefit local taxing entities, including the County, cities, and school districts
- County anticipates issuing more than $300 million in tax allocation refunding revenue bonds in 2014:
  - First series expected to price in August
  - Second series to price in November

Closing Remarks

- Strong and stable financial position
  - $2.5 billion fund balance
  - $1.2 trillion tax base
  - Annual gross product of $584 billion
- Political will to make difficult decisions to balance the budget
  - Implemented pension reform in 1979
  - No COLA increases for 5 years during economic downturn
  - Formation of OPEB Trust and reductions in retiree health benefits for new County hires
- Investing in health care system to improve competitiveness under the ACA
- Low debt burden provides flexibility to finance future capital projects
  - Annual debt service is only 1.30% of total revenues

Contact Information

County of Los Angeles

Mark J. Saladino
Treasurer and Tax Collector

Glenn Byers
Assistant Treasurer and Tax Collector
Phone: 213-974-7175
Email: gbyers@ttc.lacounty.gov

Doug Baron
Director of Public Finance
Phone: 213-974-8359
Email: dbaron@ttc.lacounty.gov

Investor Information

http://ttc.lacounty.gov/Proptax/investor_info.asp