Tax Supported
New Issue

Los Angeles County Public Works Financing Authority, California

Ratings

New Issues

Lease Revenue Bonds (Multiple Capital Projects I), 2010 Series A (Tax-Exempt)	A+
Lease Revenue Bonds (Multiple Capital Projects I), 2010 Series B (Taxable Build America Bonds)	A+
Lease Revenue Bonds (Multiple Capital Projects I), 2010 Series B (Recovery Zone Economic Development Bonds; Taxable)	A+

Outstanding Debt

Lease Revenue Bonds, Series 2005A (Calabassas Landfill)	A+
Los Angeles County Capital Asset Leasing Corporation Lease Revenue Bonds, Series 2002A, 2008A, and 2009A	A+
Los Angeles County Certificate of Participation, Series 1993 (Disney Parking Project)	A+
Sonnenblick-Del Rio El Monte Asset Leasing Corporation, Certificates of Participation, Series 1999A, 1999B, 2000, and 2001	A
City of Los Angeles, California (Exposition Park West Asset Leasing Corporation, Certificates of Participation, Series 1999A and 1999B	A

Rating Outlook

Stable

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New Issue Details

Sale Information: $89,780,000 Lease Revenue Bonds (Multiple Capital Projects I), 2010 Series A (Tax-Exempt), $519,995,000 Lease Revenue Bonds (Multiple Capital Projects I),

Rating Rationale

- The Los Angeles County economy is vast and diverse with evident cyclical vulnerability.
- Financial operations are well managed with significant reserves but threatened by near- and long-term structural deficits in the county's Department of Health Services (DHS), which receives significant general fund support.
- Finances are also vulnerable to state funding reductions and heavy social service expenditures.
- The county has a large other post-employment benefits (OPEB) unfunded actuarial accrued liability and actuarially required contribution (ARC); support for establishing a trust; and funding beyond pay-go with some resources identified.
- The county has a low debt burden, despite this sizable new issue.

Key Rating Drivers

- Ability to achieve long-term fiscal balance at the county's DHS, with permanent solutions and affordable general fund support.
- Development of an affordable plan to handle sizable OPEB liability.
- Continuation of good management practices, including retaining a sound general fund balance, enabling the county to handle upcoming fiscal challenges.

Credit Summary

The county's ratings reflect its diverse and mature economy, sound financial reserves, prudent management efforts to achieve fiscal balance, and low debt burden balanced by ongoing and sizable financial pressures. These pressures stem from a heavy social service spending burden, coupled with the ongoing possibility of lower state funding; the continued fiscal imbalance in the county's DHS; and a costly retiree medical

Considerations for Taxable/Build America Bonds Investors

This sector credit profile is provided as background for investors new to the municipal market.

Local Government Appropriation-Backed Bonds
The unlimited taxing power of most local government general obligation pledges is the broadest security a U.S. local government can provide to the repayment of its long-term borrowing and, therefore, is the best indicator of its overall credit quality. Some debt repayment requires annual legislative appropriation, and this lesser long-term commitment to repayment is reflected in a lower rating than that of the general obligation rating, usually by one to two notches.

The average local government general obligation rating is 'AA', with approximately 85% rated at or above 'AA–' and 1% rated 'BBB+' or below. The relatively high ratings reflect local governments' inherent strengths: the authority to levy property taxes, nonpayment of which can result in property foreclosures; additional taxing power that can include sales, utility, and income taxes; and essentiality of and lack of competition for services provided by local governments. Those with low investment-grade or below-investment-grade ratings generally have a combination of a limited or highly volatile economic base, high levels of long-term liabilities, including debt and post-employment benefits, and/or unusually limited financial flexibility. For additional information on these ratings, see "U.S. Local Government Tax-Supported Rating Criteria," dated Oct. 8, 2010, available on Fitch's Web site at www.fitchratings.com.

2010 Series B (Taxable Build America Bonds), and $108,985,000 Lease Revenue Bonds (Multiple Capital Projects I), 2010 Series B (Recovery Zone Economic Development Bonds; Taxable) to be sold on or about Nov. 4 via negotiation.
Security: Lease payments made by Los Angeles County to the Los Angeles County Public Works Financing Authority, for use and occupancy of the Los Angeles County-USC Medical Center.
Purpose: Bond proceeds to be used to fund seven capital projects, including seismic and other improvements to four medical facilities and rehabilitation of the county's Hall of Justice.
Final Maturity: Aug. 1, 2040.

Related Research

Applicable Criteria
For information on Build America Bonds, visit www.fitchratings.com/BABs.

Applicable Criteria
- *Tax-Supported Rating Criteria, Aug. 16, 2010*
- *U.S. Local Government Tax-Supported Rating Criteria, Oct. 8, 2010*

Other Research
- *Los Angeles County Capital Asset Leasing Corporation, California, Nov. 11, 2009*

Rating History

Rating	Action	Outlook/ Watch	Date
A+	Affirmed	Stable	10/22/10
A+	Affirmed	Stable	9/6/10
A+	Revised[a]	Stable	4/30/10
A	Affirmed	Stable	11/4/09
A	Affirmed	Stable	6/4/09
A	Affirmed	Stable	6/6/05
A	Affirmed	Stable	7/29/04
A	Upgraded	—	5/23/00
A–	Downgraded	—	6/21/95
A+	Assigned	—	1/14/93

[a]Reflects revision.

program. Nonetheless, the county's reserve levels, while reduced, remain above average and provide a needed financial cushion. DHS pressures could be exacerbated by the outcome of negotiations to continue a federal waiver and public resistance to efforts to streamline service delivery.

Economic indicators show the recession's impact, including high unemployment at 12.1% in August 2010 for the metropolitan area, up from 11.3% in August 2009. Housing market statistics show median home sale prices slowly rising in three of the past four quarters, although at levels significantly below the 2007 peak. The county has a moderate vulnerability to future losses through exposure to subprime and negative amortization mortgages. However, because of the county's highly developed and mature nature, assessed value losses have been relatively low at a 0.5% decline for fiscal 2010 and a 1.9% decrease for fiscal 2010.

After years of general fund operating surpluses, building up a sizable fund balance, the county expects to show a moderate operating deficit in fiscal 2010 for the second consecutive year. Nonetheless, reserves have remained high. The total general fund balance is estimated to be nearly $3 billion, well above average at 18% of the budgeted $16.4 billion in spending. The unreserved portion is reduced to an estimated $1.4 billion, still high at 8.5% of spending. The unreserved balance is net of $110 million set aside for the rainy day fund, which the county hopes to grow to 10% of locally generated revenue, or about $475 million. However, the fiscal 2011 budget is balanced, using $30 million of the rainy day fund. While the county states a desire for annual contributions, Fitch Ratings believes current fiscal circumstances will preclude meaningful contributions in the near term.

The fiscal 2011 budget shows a very small decrease in spending, with unavoidable increases mostly offset by position reductions and labor groups settling for no cost-of-living adjustment. The budget has a low net negative impact by the recently adopted state budget, and the County Board of Supervisors continues to indicate that it will not back-fill state funding reductions. However, Fitch believes the county could be vulnerable to midyear and future state funding losses, given that balance in the state fiscal plan includes some uncertain elements. The county's general fund budget closed a moderate 3% of spending gap, with about one-half ongoing solutions. Fitch notes that the county has a strong history of outperforming its budget plan and retaining high reserves.

While acknowledging the county's considerable efforts and progress in achieving fiscal balance in its health delivery system, Fitch remains concerned about projected and rising operating deficits. Near-term balance is achieved this year primarily by using hospital provider fee revenue, a new source that is set to expire on Dec. 31, 2010. However, the budget assumes it is extended through the end of the fiscal year. The budget also assumes the extension of $300 million in federal funds provided under a waiver that is set to expire at the end of this month. The county is currently negotiating this extension. DHS' five-year forecast shows nearly $2 billion in cumulative operating deficits by fiscal 2014. While the county has achieved better federal and state reimbursement for care and enacted several efficiencies and other cost-saving measures, Fitch believes the rising gap may need to be filled by general fund resources. Fitch also notes that the county has made slow progress in streamlining its healthcare delivery system, often impaired by actions taken by citizens and advocacy groups.

Along with the DHS imbalance described above, the county's other sizable financial challenge is its $20.9 billion liability for OPEB, which the county is beginning to address. The board supports establishing some type of OPEB fund or trust, using about $470 million in excess pension fund earnings and $17 million set aside in fiscal 2007. The county also expects to use some of the $372 million in general fund revenue freed up with the

fiscal 2011 maturity of their pension obligation bonds. With the ARC estimated at $1.6 billion, more than four times the current pay-as-you-go expense, Fitch views the OPEB funding effort as important in the county's long-term fiscal stability.

This sale is the county's first sizable issuance of new money, long-term debt in nearly 10 years. Some projects funded were expedited to take advantage of the Build America Bond and Recovery Zone programs. Including overlapping debt, the debt burden totals $3,242 per capita and 2.7% of taxable market value.

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