Los Angeles County Capital Asset Leasing Corp., California

Lease Revenue Bonds
New Issue Report

Ratings

New Issue

Lease Revenue Bonds, 2011 Series A (Los Angeles County Capital Asset Leasing Corporation Equipment Program)	A+

See Page 2 for a Full Listing of Outstanding Debt.

Rating Outlook

Stable

Related Research

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

Los Angeles County, California, June 13, 2011

Los Angeles County Capital Asset Leasing Corporation, California, November 11, 2009

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New Issue Details

Sale Information: $59,160,000 Lease Revenue Bonds, 2011 Series A (Los Angeles County Capital Asset Leasing Corporation Equipment Program), via competition Dec. 6.

Security: Los Angeles County's (the county) equipment lease rental payments to the Los Angeles County Capital Asset Leasing Corporation (the corporation). The county covenants to budget and appropriate annually sufficient equipment lease rental payments from any source of legally available funds, subject to abatement.

Purpose: To redeem bond anticipation notes (BANs) that funded the acquisition of more than 1,000 pieces of essential equipment to be leased to the county and fund a reserve fund.

Final Maturity: Serially, June 1, 2012–2017.

Key Rating Drivers

Inherent Local Economic Strength: The diversity and maturity of the county's vast economy helps offset its evident cyclical vulnerability.

Solid Financial Management: Financial operations are well managed, with strong general fund balances, significant reserves, and an improving cash position. The five-year extension of the federal section 1115 waiver reduces pressure on the general fund from the Department of Health Services' (DHS) ongoing structural deficit.

Ongoing Exposure to Funding Pressures: Finances remain vulnerable to state funding reductions, realignment of potentially underfunded state functions to the county, and heavy social service expenditures.

Significant Pension and Benefits Obligations: While the county has a low net direct debt burden, it also has heavy investment losses to absorb in its pension system, a costly retiree medical program, and a large other-post employment benefits (OPEB) unfunded accrued actuarial liability.

Sound Equipment Lease Program: The equipment lease financing program has a strong 25-year history, the bonds' lease features are typical of California lease transactions, and the debt matures rapidly since it is matched to the leased equipment's useful life. All of the leased equipment is essential to service delivery and is in use.

Rating History

Rating	Action	Outlook/ Watch	Date
A+	Affirmed	Stable	11/15/11
A+	Revised	Stable	4/30/10
A	Assigned	Stable	6/6/05

Outstanding Debt[a]

County Certificates of Participation, Series 1993 Disney Parking Project	A+
Los Angeles County Capital Asset Leasing Corporation Edmund D. Edelman Children's Court Lease Revenue Bonds, Series 2002A	A+
Lease Revenue Bonds (LAC-CAL Equipment Program), Series 2009A	A+
Los Angeles County Public Works Financing Authority Lease Revenue Bonds, Series 2005 (Calabasas Landfill Project)	A+
Lease Revenue Bonds (Multiple Capital Projects), 2010 Series A (Tax-Exempt) and Series B (Build America Bonds)	A+
City of Los Angeles (Exposition Park West Asset Leasing Corporation) Certificates of Participation, Series 1999A and 1999B (Department of Public Social Services Facility)	A
Sonnenblick-Del Rio El Monte Asset Leasing Corporation Senior Certificates of Participation, Series 1999 (Department of Public Social Services Facility) and Series 2001 (Department of Public Social Services Facility – Phase II)	A
Sonnenblick-Del Rio West Los Angeles Leasing Corporation Senior Certificates of Participation, Series 2000 (Department of Public Social Services Facility)	A

[a]Los Angeles County implied GO bond rated 'AA–'.

Credit Profile

The county's implied long-term GO rating reflects its diverse and mature economy, sound financial reserves, prudent management efforts to achieve fiscal balance, and low direct debt burden balanced by ongoing and sizable financial pressures. These pressures stem from a heavy social service spending burden, ongoing state funding uncertainty, the continued fiscal imbalance of the DHS, and a costly retiree medical program. Nonetheless, the county's reserve levels remain above average, providing a needed financial cushion, and DHS pressures are being partially alleviated by the five-year extension of the federal section 1115 waiver.

Finances

While the general fund continues to generate operating surpluses, building up a sizable general fund balance, the county had a moderate net deficit in fiscal 2010 for the second consecutive year. As a result, its fiscal 2010 unreserved general fund balance decreased to $2.2 billion (15.8% of spending) from $2.6 billion (18.7% of spending) the year prior. Further erosion is evident with fiscal 2011 unaudited results showing a projected unreserved general fund balance of approximately $2.0 billion, largely due to one-time budget solutions. The county expects that its two main reserves, the rainy day fund reserve ($93.3 million) and the provisional financing uses economic reserve ($83.6 million), will remain at current levels through fiscal 2012. The county intends to increase these reserves once the economy and budget situation improves.

Despite anticipated slight revenue increases from property tax, sales tax, and vehicle licensing fees, the fiscal 2012 budget has to solve a $175 million general fund budget gap with a fourth year of departmental curtailments and consolidations and one-time solutions such as capital program reductions and a retiree health insurance premium refund.

The county continues to focus on the need to achieve fiscal balance in its health delivery system, given its historical reliance on significant general fund support ($681 million in fiscal 2011) and cash flow advances (approximately $800 million outstanding). The county reports difficulty in reducing spending due to the size of the population served, their significant medical needs, and overcapacity in aging, inefficient facilities that have proved very difficult to close.

DHS's medium-term financial balance has been improved significantly by a section 1115 waiver permitting the federal government to provide matching grants for Medi-Cal services that would otherwise be ineligible. This waiver, worth approximately $300 million per year, is effective through Oct. 31, 2015 and represents more predictable cash flows. It will assist the county in bridging the gap until federal healthcare reform is implemented in fiscal 2014 by expanding coverage, improving the payor mix, and providing new funding for system

Related Criteria

Tax-Supported Rating Criteria, Aug. 15, 2011

U.S. Local Government Tax-Supported Rating Criteria, Aug. 15, 2011 improvements. The county's fiscal 2012 budget has resolved the projected DHS deficit of $136 million with both cost savings and additional revenue generation.

Debt

The county's other sizable financial challenge relates to its unfunded pension and OPEB liabilities. As of June 30, 2010, the county's pension unfunded actuarial accrued liability was $7.8 billion due to heavy investment losses in fiscal 2009 and the funded ratio was 83%. While a further $6.2 billion of deferred investment losses will be recognized over the next three fiscal years; these should be partially offset by recent improved investment returns (20.4% in fiscal 2011). Nonetheless, the county's cash contributions, which are equal to the annual required contribution, continue to grow, to a projected $1.1 billion in fiscal 2012, compared to $803 million in fiscal 2010. Due to the county's conservative pension benefits structure, no new cost-containment initiatives are being discussed for the county's pension system.

The county also has a $22.9 billion liability for OPEB, which it is beginning to address through the establishment of an OPEB trust totaling approximately 2% of the liability using a contribution credit reserve in the pension system. Fitch Ratings views the OPEB funding effort as important for the county's long-term fiscal stability but recognizes the county has a funding challenge as the county's annually required OPEB contribution, estimated at $1.9 billion, is more than four times the current pay-as-you-go expense.

Including overlapping debt, the debt burden is a moderate $3,364 per capita and 3.1% of taxable assessed value (TAV). Total debt principal and interest amortization is average at approximately 49% in 10 years. The corporation's lease revenue bonds, 2011 series A (Los Angeles County Capital Asset Leasing Corporation Equipment Program) are the latest installment of a 25-year program of issuing lease revenue bonds to refund BANs used to purchase essential equipment that the corporation leases to the county. Bondholder protections include a $2 million bond-funded reserve, an additional reserve of excess county payments, and mandatory insurance coverage, including two years of rental interruption insurance to address abatement concerns.

All pieces of equipment are in use, and their average useful life exceeds the weighted average bond maturity. The one-notch rating distinction between the county's implied GO rating and lease revenue bonds represents the county's covenant to budget and appropriate for lease payments.

Economy

Economic indicators show the recession's impact on the county, including stubbornly high unemployment at 13.3% in July 2011 and ongoing declines in many key employment sectors. Due to the county's highly developed and mature nature, TAV losses have been relatively low at a 0.5% decrease for fiscal 2010 and a 1.9% decrease for fiscal 2011, indicating a significant Proposition 13 cushion. Property market stabilization is indicated by a 1.4% TAV increase for fiscal 2012.

The ratings above were solicited by, or on behalf of, the issuer, and therefore, Fitch has been compensated for the provision of the ratings.