Los Angeles County, California

Refunding Certificates of Participation

New Issue Report

Ratings

New Issue

Lease Revenue Bonds (Multiple Capital Projects II), Series 2012	A+

See Page 2 for a Full Listing of Outstanding Debt.

Rating Outlook

Stable

Related Research

Fitch Rates Los Angeles County, CA Notes 'F1+'; Affirms Outstanding Ratings, (June 2012)

Los Angeles County, California (February 2012)

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New Issue Details

Sale Information: $330,000,000 Lease Revenue Bonds (Multiple Capital Projects II), Series 2012, to be sold via negotiation on Oct. 11.

Security: Los Angeles County lease rental payments, payable from legally available funds, under a covenant to budget and appropriate, subject to abatement.

Purpose: To finance and/or refinance capital improvement projects, including repayment of CP notes issued to provide interim financing for some of the projects, and fund a portion of a debt service reserve fund.

Final Maturity: Serially, Aug. 1, 2013–2042. Subject to optional, mandatory sinking fund, and extraordinary redemption.

Key Rating Drivers

Implied ULTGO Rating: The 'AA–' rating reflects the county's diverse and mature economy, sound financial reserves, prudent management efforts to achieve fiscal balance, and moderate debt burden balanced by ongoing and sizable financial pressures.

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

Solid Financial Management: Financial operations are well managed, with strong general fund balances and significant reserves. The federal section 1115 waiver extension through Oct. 31, 2015 reduces near-term pressure on the general fund to subsidize the Department of Health Services (DHS) whose financial position has been steadily improving.

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 moderate overall 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 (UAAL).

Lease Ratings: The one-notch rating distinction between the county's implied unlimited tax GO (ULTGO) rating and the majority of its certificates of participation (COPs) and lease revenue bonds represents the county's covenant to budget and appropriate for lease payments. There is a further one-notch distinction for nonstandard leases for Department of Social Services buildings that the county leases but does not purchase due to non-appropriation risk, since the county will not own the facilities upon lease maturity.

Rating History — Implied GO

Rating	Action	Outlook/ Watch	Date
AA–	Affirmed	Stable	9/27/12
AA–	Affirmed	Stable	6/6/12
AA–	Affirmed	Stable	2/22/12
AA–	Assigned	Stable	6/9/11

Rating History — Standard Lease Obligations

Rating	Action	Outlook/ Watch	Date
A+	Affirmed	Stable	9/27/12
A+	Affirmed	Stable	6/6/12
A+	Affirmed	Stable	2/22/12
A+	Revised	Stable	4/30/10
A	Affirmed	Stable	7/29/04
A	Upgraded	—	5/23/00
A–	Downgraded	—	6/21/95
A+	Assigned	—	1/14/93

Rating History — Nonstandard Lease Obligations

Rating	Action	Outlook/ Watch	Date
A	Affirmed	Stable	9/27/12
A	Affirmed	Stable	6/6/12
A	Affirmed	Stable	2/22/12
A	Revised	Stable	4/30/10
A–	Upgraded	Stable	1/16/04
BBB+	Assigned	—	1/19/00

Related Criteria

U.S. Local Government Tax-Supported Rating Criteria (August 2012)

Tax-Supported Rating Criteria (August 2012)

Outstanding Debt

Los Angeles County Implied General Obligation Bond Rating	AA–
Los Angeles County Certificates of Participation, Series 1993 Disney Parking Project and 2012 Refunding Certificates of Participation (Disney Concert Hall Parking Garage)	A+
Los Angeles County Capital Asset Leasing Corporation Lease Revenue Bonds (LAC-CAL Equipment Program), Series 2009A and 2011A	A+
Los Angeles County Public Works Financing Authority Lease Revenue Bonds, Series 2005 (Calabasas Landfill Project) Lease Revenue Bonds (Multiple Capital Projects I), 2010 Series A (Tax-Exempt) and Series B (Build America Bonds/Recovery Zone Economic Development Bonds)	A+
Los Angeles County Public Works Financing Authority Certificates of Participation, Series 1999A and 1999B (Department of Public Social Services Facility)	A
City of Los Angeles (Exposition Park West Asset Leasing Corporation) Senior Certificates of Participation, Series 1999 (Department of Public Social Services Facility)	A
City of Los Angeles (Exposition Park West Asset Leasing Corporation) Senior Certificates of Participation, 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

Credit Profile

Strong General Fund Results Despite Budgetary Pressures

Budgetary pressures stem from a heavy social service spending burden, ongoing state funding uncertainty, the historic fiscal imbalance in the county's 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 extension of the federal section 1115 waiver through Oct. 31, 2015 and improved financial results.

The section 1115 waiver permits the federal government to provide matching grants for Medi-Cal services that would otherwise be ineligible, improving the predictability of 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 improvements.

DHS ended fiscal 2011 with a $13.2 million surplus and fiscal 2012 with a higher than expected surplus of $27.6 million (although the majority of that will be required to cover known fiscal 2013 costs). DHS's fiscal 2013 budget includes a $43.3 million revenue placeholder that is expected to be resolved through enhanced healthcare revenues. At the time of the previous Fitch Ratings review, this funding gap had been much larger, at $132.0 million.

While the general fund continues to generate operating surpluses, maintaining a sizable general fund balance, the county had a moderate net deficit in fiscal 2011 for the third consecutive year. As a result, its fiscal 2011 total general fund balance decreased to $2.7 billion (a still high 19% of spending) from almost $3.0 billion (21% of spending) the year prior.

The unrestricted general fund balance was a strong $2.4 billion, or 17% of spending. Fiscal 2012 is expected to end with slightly lower total and unrestricted general fund balances ($2.6 billion and $2.3 billion respectively) due to a fourth year of moderate net operating deficit spending after transfers.

The fiscal 2013 budget closed a gap of $103.7 million, the lowest since fiscal 2010, but remained heavily reliant on one-time funding solutions. The county is anticipating ongoing property and sales tax revenue increases in fiscal 2013. The county has successfully negotiated labor cost control. However, Fitch notes that county labor agreements contain binding arbitration requirements that could limit negotiating flexibility in the future.

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 be increased by $10.0 million each in fiscal 2013. Fitch expects the county to generally meet its plan to increase these reserves more significantly once the economy and budget situation improves.

Significant Long-Term Debt Exposure

The county's other sizable financial challenge relates to its unfunded pension and OPEB liabilities. As of June 30, 2011, the county's pension UAAL was $9.4 billion due to heavy investment losses in fiscal 2009 and subsequent actuarial assumption changes. Despite the size of the UAAL, the funded ratio remains good at 81% (using the county's assumed 7.70% rate of return for fiscal 2011). Nevertheless, there was deterioration from a year prior when the UAAL was $7.8 billion and the funded ratio was 83% (using the county's assumed 7.75% rate of return for fiscal 2010).

A further $607 million of deferred investment losses still have to be recognized over the next three fiscal years, and the impact of the extremely poor investment returns in fiscal 2012 (only 0.3% compared to the 7.6% budgeted) will have to be smoothed in over the next five years. The county's cash contributions to the pension system, which are equal to the annually required contribution (ARC), continue to grow, to a projected $1.1 billion in fiscal 2013 from $1.0 billion in fiscal 2012. Fitch considers this increase to be manageable. Due to the county's conservative pension benefits structure, no new cost-containment initiatives are being discussed for the county's pension system. The impact of recent state pension reform (AB 340) is not expected to be material.

The county also has a $22.9 billion liability for OPEB, which it is beginning to address through the establishment of an OPEB trust (which will fund approximately 2% of the liability) using a contribution credit reserve in the pension system. Fitch 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 of almost $2.0 billion in fiscal 2011 was 4.8 times its actual pay-as-you-go expense that year ($407 million). The board of supervisors is currently considering OPEB reform measures to constrain future growth of its OPEB liabilities.

The county's overall debt burden (excluding pension and OPEB liabilities) is a moderate $3,308 per capita and 3% of taxable assessed value (TAV). Total debt principal and interest amortization is slightly below-average at approximately 46% in 10 years. The combined carrying costs for pension ARC, OPEB pay-as-you-go, and debt service in fiscal 2011 were manageable at 9.4% of general fund spending.

Continued High Unemployment, But Tax Base Stabilizing

Economic indicators show the recession's impact on the county, particularly the stubbornly high unemployment rate at 11.1% in June 2012. Due to the county's highly developed and mature nature, TAV losses were relatively low at a 0.5% and 1.9% decrease in fiscal years 2010 and 2011, respectively, indicating a significant Proposition 13 cushion. Apparent property market stabilization is indicated by the 1.4% and 2.2% TAV increases for fiscal years 2012 and 2013.

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