Los Angeles County, California

Refunding Certificates of Participation

New Issue Report

Ratings

New Issue

2012 Refunding Certificates of Participation (Disney Concert Hall Parking Garage)	A+

See Page 2 for a Full Listing of Outstanding Debt.

Rating Outlook

Stable

Related Research

Los Angeles County Capital Asset Leasing Corp., California, Nov. 17, 2011

Los Angeles County, California, June 13, 2011

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New Issue Details

Sale Information: $50,710,000 2012 Refunding Certificates of Participation (Disney Concert Hall Parking Garage) to be sold via negotiation on March 6.

Security: Los Angeles County covenants to budget and appropriate lease rental payments to the Parking Authority of the County of Los Angeles (authority) for use of the Disney Concert Hall parking garage from any source of legally available funds, subject to abatement.

Purpose: To refund all of the county's outstanding $58 million in COPs (1998 Disney Parking Refunding Project) to achieve estimated net present value savings of $7 million (12%).

Final Maturity: Serially, March 1, 2013–2023.

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, and the five-year extension of the federal section 1115 waiver reduces pressure on the general fund to subsidize the Department of Health Services (DHS).

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 (UAAL).

Outstanding Debt

Los Angeles County Implied General Obligation Bond Rating	AA–
Los Angeles 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+
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

The county's implied long-term general obligation 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 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 five-year extension of the federal section 1115 waiver.

The section 1115 waiver permits 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 creates 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 improvements. DHS ended fiscal 2011 with a $13 million surplus and expects to end fiscal 2012 with a balanced budget, but will likely need to close a $145 million shortfall in fiscal 2013 with new and expanded revenue streams available under the 1115 waiver.

Continued Strong General Fund Results Despite Budgetary Pressures

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. There might be further slight erosion in fiscal 2012 due to the potential need to drawdown on $117 million of general fund monies to balance the fiscal 2012 budget, unless that drawdown can be offset by increased revenues.

The county's fifth month budget status report for fiscal 2012 indicated that the county budget is tracking better than the final adopted budget. The general fund cash balance as of Jan. 31, 2012 (excluding TRANs proceeds) was $61 million, a year-over-year increase of $220 million. The general fund is being less pressured by advances to county hospitals that total $800 million, $200 million less than in recent years. The county is carefully managing increased costs related to two initiatives, state public safety realignment, and the dissolution of redevelopment agencies by using flexible staffing arrangements until the level of increased permanent funding for each initiative is known.

Rating History — Implied GO

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

Rating History — Standard Lease Revenue Bonds and COPs

Rating	Action	Outlook/ Watch	Date
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 COPs

Rating	Action	Outlook/ Watch	Date
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, Aug. 15, 2011

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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 2013. The county intends to increase these reserves 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 as a dollar amount, the funded ratio remains good at 81%. Nevertheless, there was deterioration from a year prior when the UAAL was $7.8 billion and the funded ratio was 83%. A further $607 million of deferred investment losses still have to be recognized over the next three fiscal years. The county's cash contributions, which are equal to the ARC, continue to grow to a projected $1.1 billion in fiscal 2013, compared to $898 million in fiscal 2011. 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 views the OPEB funding effort as important for the county's long-term fiscal stability but recognizes the county's funding challenge as the annually required OPEB contribution, estimated at $1.4 billion in fiscal 2012, is 3.7 times its current pay-as-you-go expense ($379.3 million).

Including overlapping debt, the debt burden is a moderate $3,368 per capita and 3.1% of taxable assessed value (TAV). Total debt principal and interest amortization is average at approximately 49% in 10 years. By fully advance refunding the county's COPs (1998 Disney Parking Refunding Project), the 2012 refunding COPs are estimated to achieve net present value savings of $7 million (12%). Bondholder protections are standard and the leased asset (the land and structure of the parking garage beneath the Disney Concert Hall) is considered essential by the county as it provides parking for the county-owned center, other nearby entertainment venues, and downtown courthouses.

The one-notch rating distinction between the county's implied GO rating and the majority of its 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.

Signs of Economic Improvement

Economic indicators show the recession's impact on the county, particularly the stubbornly high unemployment rate at 11.5% in November 2011. However, many key employment sectors are starting to grow again. 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 1.8% decrease for fiscal 2011, indicating a significant Proposition 13 cushion. Property market stabilization is indicated by the 1.4% TAV increase for fiscal 2012 and the 1.8% TAV increase projected for fiscal 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.