STANDARD & POOR'S

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February 23, 2012

Summary:

Los Angeles County, California; Appropriations; General Obligation

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Credit Profile		
US$50.71 mil rfdg COPs (Disney Concert Hall Parking Garage) ser 2012 due 03/01/2023		
Long Term Rating	A+/Positive	New
Los Angeles Cnty pension oblig taxable ser 94		
Long Term Rating	A+/Positive	Affirmed

Rationale

Standard & Poor's Ratings Services assigned its 'A+' long-term rating, and positive outlook, to Los Angeles County, Calif.'s series 2012 refunding certificates of participation (COPs) (Disney Concert Hall Parking Garage).

At the same time, Standard & Poor's affirmed its 'AA-' issuer credit rating (ICR) and 'A+' long-term rating on the county's appropriation-backed debt outstanding. The outlook on these ratings is positive.

The ratings on the appropriation-backed debt reflect what we view as:

- The long-term creditworthiness of Los Angeles County; and
- A covenant to budget and appropriate pledged lease payments on the individual leased assets pledged to each bond series, subject to abatement in the event of damage or impairment to the leased properties.

The 'AA-' ICR and the county's long-term general creditworthiness reflect what we consider:

- A very large, deep, and diverse economic base, although one currently experiencing elevated unemployment levels;
- Relatively stable property tax revenue and assessed valuation (AV) in the county despite large home price declines in the past several years; and
- Historically strong unreserved general fund balances and strong financial management practices.

Partially offsetting the above factors are what we see as Los Angeles County's:

- Responsibility for health care and social service spending for a large urban population;
- Limited revenue-raising capability combined with mandated costs and state funding cuts, including a recent state action to realign certain services at the local level that will require permanent funding sources in the future; and
- Long-term need to address a large $23 billion unfunded other postemployment benefits (OPEB) liability.

The 2012 COPs represent an interest in base rental payments made by the county, as lessee, to the Parking Authority of the County of Los Angeles, as lessor, for the use and possession of the leased asset, Disney Concert Hall Parking Garage.

We understand that the series 2012 COPs proceeds will be used to refund the county's 1998 COPs. We understand the reserve fund totals $11.3 million, which mitigates the risk of late budget adoption in our view. The trust agreement requires a reserve fund at the lesser of $11.3 million, 10% of par, 1.25x average annual debt service, or maximum semi-annual base rental payment. The lease agreement also requires the county to maintain all risk insurance at least equal to the replacement value or the COPs outstanding, as well as rental interruption insurance. The lease agreement permits the county to self-insure for risks other than rental interruption.

Los Angeles County's (estimated population 10 million) regional economy has shown some signs of recovery with a moderation of the unemployment rate to 11.6% at the end of 2011 from 12.6% although it remains above the national level of 8.5%. Entertainment, international trade, and tourism are leading employment sectors for the county. Los Angeles County full cash property value in fiscal 2012 increased by 1.6% to $1 trillion, after a 1.6% decline in fiscal 2011. Although the county reports median home prices fell by 45% between 2007 and 2011, property value has remained relatively stable due to underassessment of property with base-year values that predate Proposition 13. Since value for these properties has not reset to market value levels in more than 30 years, home price declines have had less of an effect on the county's AV. County per capita market value is extremely strong, in our view, at $101,000 based on 2012 values and median household effective buying income was what we consider good at 104% of the national average in 2011.

Due to stabilized AV, the county projects increases in property tax revenue, which drives most of its discretionary revenue, or about 20% of its general fund and hospital enterprise cash. About half of the revenue for Los Angeles county's general budget comes from the federal and state governments for public service programs and management estimates only 26.5% of county budgeted costs are discretionary. A portion of federal and state revenue funds the county's public health system, which serves a large uninsured, low-income population. The public health system has historically operated with a deficit and posted negative unrestricted net assets, which has burdened general fund expenditures and cash; however, county officials estimate a small $1.2 million operating surplus for the department of health services at the end of fiscal 2012, due primarily to increased federal waiver funding. While the general fund continues to budget a $680 million transfer to the hospital enterprise, officials expect the stabilized operations of the enterprise should mitigate further increases to this subsidy.

Although Los Angeles County continues to maintain what we view as very strong audited unreserved general fund balances on a generally accepted accounting principles basis, it has posted general fund operating deficits after transfers in the previous three audited fiscal years. In fiscal 2011, general fund expenditure and transfers out exceeded revenue and transfers in by $273,000, although the assigned and unassigned balance increased slightly to $2.4 billion, or a still very strong 18% of expenditures and transfers, due in part to the implementation of Government Accounting Standards Board 54. The county's general fund assets in fiscal years 2010 and 2011 also included about $1 billion in short-term and long-term cash advances to the medical center funds due primarily to the timing of federal and state receipts. The unassigned balance includes the county's rainy-day reserve and totaled almost $1.7 billion, or a strong 12% of expenditures and transfers, in our opinion.

Los Angeles County originally projected a $175 million budget gap in fiscal 2012, driven by a holdover of one-time budget solutions from previous years as well as the expiration of federal stimulus funding and increased pension costs and public health service caseloads. The county budgeted the use of one-time funds previously designated for capital programs as a primary means to close the gap. Even after midyear state trigger cuts, it estimates that concurrent reductions to county service levels to match reduced funding would result in only minimal additional costs of about $380,000 in fiscal 2012, including In-Home Support Services program reductions, which are on hold under a federal district court injunction. County officials expect another small draw on the general fund balance at the end of fiscal 2012, although firm estimates are not available at this time.

In fiscal 2012, in addition to the trigger cuts, California also shifted certain mental health and public safety service responsibilities to the counties and budgeted for existing state sales tax and vehicle license fees funding to counties to cover these realigned costs in the current fiscal year. County officials estimate they will receive about $125 million of realignment funding from the state in fiscal 2012 and intend to match the additional costs of providing these services to the state funding levels. The county also adopted a realignment implementation plan that budgets for these additional costs in quarterly intervals with temporary staff to maintain the flexibility necessary in the event of future funding cuts.

County officials estimate the governor's proposed state budget for fiscal 2013 would result in a small net $12 million cost to the county even with program reductions. The governor's fiscal 2013 budget also provides for midyear trigger cuts in that fiscal year. Officials expect the dissolution of redevelopment agencies in the county could actually benefit its general fund due to higher property tax revenue, although they are not factoring any revenue increases into their forecasts at this time. Los Angeles County does not expect the realignment plan or potential future midyear state budget cuts will significantly affect its finances in fiscal 2013 since it intends to match funding with program levels. However, given the state budget pressures and no current guarantee of future funding for additional costs associated with the realignment of services, we believe the county could face additional future structural budget gaps.

We consider Los Angeles County's financial practices "strong" under our Financial Management Assessment (FMA) methodology. An FMA of strong indicates that, in our view, practices are strong, well embedded, and likely sustainable.

Overlapping county net debt is moderate, in our opinion, at 3.4% of property market value and $3,288 per capita. Amortization of general fund and special district principal is average, with 52% of principal retired in 10 years. The annual debt service carrying charge is low in our view at only 3.1% of governmental expenditures, less capital outlay, as of audited fiscal 2011.

The county contributes to the Los Angeles County Employees Retirement Association. Funded pension ratios have declined over the previous four years to 81% in fiscal 2011 as a result of a five-year smoothing method and market value losses in fiscal years 2008 and 2009. Los Angeles County expects its pension annual required contribution (ARC) will increase by 7.5% in fiscal 2013 compared with current fiscal 2012. The county had an unfunded OPEB liability of $23 billion and a $1.9 billion OPEB ARC as of fiscal year-end 2010. The county's actual OPEB contribution on a pay-as-you-go basis was $411 million, or 21% of the OPEB ARC. The county plans to transfer $470 million of previous excess retirement fund earnings into an irrevocable OPEB trust fund to help pay for future obligations. In addition, the county is evaluating potential changes to retiree benefits, including changes for new hires and earlier enrollment in Medicare, which could reduce the long-term OPEB liability for the county. Officials estimate a pension ARC of $1 billion in fiscal 2012 that, combined with the OPEB ARC as of fiscal 2010, represents a high 16% of the general county budget in fiscal 2012. Future OPEB actuarial liabilities are a contributing factor to the county's governmental unrestricted net asset deficit position of $4.2 billion at fiscal year-end 2011, despite what we see as the good health of the general fund.

(For further information on the county's general credit, see the full rationale published Nov. 18, 2011, on RatingsDirect on the Global Credit Portal.)

Outlook

The positive outlook reflects our expectation that Los Angeles County will continue to proactively adjust its budget to minimize reliance on one-time sources and maintain strong fund balances despite recent economic weakness and state funding cuts. The outlook also reflects our expectation that revenue and economic trends in the county will continue to stabilize in the next year given the depth and diversity of its economy and the relative stability of the tax base. Should health system operations and transfers from the general fund stabilize and the county maintain strong reserves while improving structural budgetary balances as well as obtaining a more dedicated long-term source of ongoing revenue to cover the new mandates associated with realignment, we could raise the rating in the next year. Should health system or state budget pressures--including potential unfunded realignment measures and mandated program costs--materially pressure the county's budget, we would revise the outlook to stable.

Related Criteria And Research

- USPF Criteria: Appropriation-Backed Obligations, June 13, 2007
- USPF Criteria: GO Debt, Oct. 12, 2006

Ratings Detail (As Of February 23, 2012)		
Los Angeles Cnty cert of part ser 1993		
Long Term Rating	A+/Positive	Affirmed
Los Angeles Cnty lse rev bnds (Lac-cal Equip Fincg)		
Long Term Rating	A+/Positive	Affirmed
Los Angeles Cnty Cap Asset Lsg Corp lse rev bnds (Lac-Cal Equipment Program) ser 2009A		
Long Term Rating	A+/Positive	Affirmed
Los Angeles Cnty ICR		
Long Term Rating	AA-/Positive	Affirmed
Los Angeles (Los Angeles Cnty) certs of part (Dept of Pub Social Svcs Fac) ser 1999A dtd 08/01/1999 due 08/01/2002-2011 2019 2024 2031		
Unenhanced Rating	A+(SPUR)/Positive	Affirmed
California Infrastructure & Econ Dev Bnk, California		
Los Angeles Cnty, California		
California Infrastructure & Econ Dev Bnk (Los Angeles Cnty) (LA Cnty Dept of Pub Social Svces Fac) (Vermont Village Human Services Corp) (AMBAC)		
Unenhanced Rating	A+(SPUR)/Positive	Affirmed
Los Angeles Cnty Pub Wks Fing Auth, California		
Los Angeles Cnty, California		
Los Angeles Cnty Pub Wks Fing Auth (Los Angeles Cnty) (Multi Cap Proj I)		
Long Term Rating	A+/Positive	Affirmed
Los Angeles Cnty Pub Wks Fing Auth (Los Angeles Cnty) (Multi Cap Proj I)		
Long Term Rating	A+/Positive	Affirmed
Los Angeles Cnty Pub Wks Fing Auth (Calabasas Landfill Proj) ser 2005		
Unenhanced Rating	A+(SPUR)/Positive	Affirmed

Ratings Detail (As Of February 23, 2012) **(cont.)**		
Sonnenblick-Del Rio El Monte Asset Lse Corp, California		
Los Angeles Cnty, California		
Sonnenblick-Del Rio El Monte Asset Lse Corp certs of part (Dept Of Pub Soc Svc Fac) ser 1999 dtd 01/15/1999 due 06/01/2001-2014 2019 2030		
Unenhanced Rating	A+(SPUR)/Positive	Affirmed
Many issues are enhanced by bond insurance.		

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