# FITCH RATES LOS ANGELES COUNTY, CA NOTES 'F1+'; AFFIRMS OUTSTANDING RATINGS

Fitch Ratings-San Francisco-06 June 2012: Fitch Ratings has assigned the following rating to Los Angeles County, California tax and revenue anticipation notes (TRANs):

--$1.1 billion 2012-13 TRANs, series A-C at 'F1+'.

The notes will be sold via negotiation on June 7, 2012. There are three tranches of notes due on Feb. 28, 2013 ($300 million), March 29, 2013 ($400 million), and June 28, 2013 ($400 million) respectively.

In addition, Fitch affirms the following ratings:

--The county's implied general obligation (GO) bond rating of 'AA-'.
--$27.3 million county COPs, series 1993 Disney Parking Project at 'A+';
--$50.7 million county (Disney Concert Hall Parking Garage) refunding COPs, series 2012 at 'A+';
--$51.5 million Los Angeles County Capital Asset Leasing Corporation lease revenue bonds (LAC-CAL Equipment Program), series 2009A and 2011A at 'A+';
--$819.0 million Los Angeles County Public Works Financing Authority lease revenue bonds, series 2005 (Calabasas Landfill Project) and lease revenue bonds (multiple capital projects), 2010 series A (tax-exempt) and series B (Build America Bonds) at 'A+';
--$32.3 million City of Los Angeles (Exposition Park West Asset Leasing Corporation) COPs, series 1999A and 1999B (Department of Public Social Services Facility) at 'A';
--$74.7 million Sonnenblick-Del Rio El Monte Asset Leasing Corporation senior COPs, series 1999 (Department of Public Social Services Facility) and series 2001 (Department of Public Social Services Facility - Phase II) at 'A';
--$35.8 million Sonnenblick-Del Rio West Los Angeles Leasing Corporation senior COPs, series 2000 (Department of Public Social Services Facility) at 'A'.

The Rating Outlook is Stable.

SECURITY
The notes are general obligations of the county, secured by unrestricted general fund revenue attributable to fiscal 2013, including requirements to set aside the first such funds received during specified time periods for note repayment.

KEY RATING DRIVERS

LOCAL ECONOMIC STRENGTH: The diversity and maturity of the county's vast economy and tax base helps offset its 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).

STRONG SHORT-TERM DEBT COVERAGE: Pledged revenues provide strong note principal and interest coverage, as do month-end balances when court-verified borrowable resources are included, and full note principal and interest set-asides occur well in advance of note maturity.

## CREDIT PROFILE

### STRONG NOTE REPAYMENT STRUCTURE

Fitch's 'F1+' rating reflects the sound note repayment structure, strong coverage of all note repayment set-asides when borrowable funds are included, and the large size of the borrowable resources relative to the set-aside amounts. The repayment deposit structure sets aside 100% of principal and interest well in advance of each note maturity.

The notes are secured by a first lien on unrestricted revenue received between December 2012 and April 2013 (projected $3.9 billion), which is projected to cover note principal and interest 3.5x. Funds for repayment will be set aside based on an aggressive schedule beginning in December 2012. By February 2013, 75% of the estimated principal and 100% of the estimated interest due will be impounded; the full amount will be set aside by April 2013. The projected cash flow covers all five set-asides well when the county's vast borrowable resources are included. Fitch notes that fiscal 2013's projected cash flow, with just two months of negative ending cash balances, is stronger than its fiscal 2012 initial projections which showed six months ending with negative cash balances. While the county does not anticipate needing to use intrafund loans, the county's pool of resources available for intrafund loans remains ample, averaging between $1.8 billion and $4.7 billion on a monthly basis during December 2011 to April 2012. Fitch notes that the county has a long history of outperforming its initial cash flow projections, and that about one-third of the borrowable cash is later allocated to the general fund.

The county's projected fiscal 2013 cash flow, when borrowable funds are included, holds up well to severe stress scenarios. The county does not anticipate backfilling state services that are reduced or eliminated, in line with its customary practice.

### CONTINUED STRONG GENERAL FUND RESULTS DESPITE BUDGETARY PRESSURES

The 'F1+' rating also reflects the county's long-term credit quality. The implied long-term GO rating of 'AA-' 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 historical 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.

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 health care 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 expects to end fiscal 2012 with another modest surplus ($9.6 million). DHS's fiscal 2013 budget includes a $132 million revenue placeholder which is expected to be resolved through enhanced health care revenues.

While the general fund continues to generate operating surpluses, maintaining a sizable general fund balance, the county had a moderate net operating deficit after transfers 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 billion (21% of spending) the year prior. The unrestricted general fund was a strong $2.4 billion or 17% of spending. Fiscal 2012 is expected to end with lower total and unrestricted general fund balances ($2.6 billion and $2.0 billion respectively) due to a fourth year of moderate net operating deficit spending after transfers.

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 sizeable 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. The county's cash contributions, which are equal to the annually required contribution (ARC), continue to grow, to a projected $1.1 billion in fiscal 2013 from an estimated $1 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 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 has a funding challenge as the county's annually required OPEB contribution, estimated at almost $2 billion in fiscal 2011, was 4.8x its actual pay-as-you-go expense that year ($406.9 million).

Excluding pension and OPEB liabilities, the county's overall debt burden is a moderate $3,303 per capita and 3.1% of taxable assessed value (TAV). Total debt principal and interest amortization is average at approximately 50% in 10 years.
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 non-standard leases for Department of Social Services buildings which the county leases but does not purchase, due to non-appropriation risk, since the county will not own the facilities upon lease maturity.

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% in April 2012. Due to the county's highly developed and mature nature, taxable assessed value (TAV) losses were 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 1.1% TAV increase projected for fiscal 2013.

Contact:

Primary Analyst
Alan Gibson
Director
+1-415-732-7577
Fitch, Inc.
650 California Street, 4th Floor, San Francisco, CA 94108

Secondary Analyst
Amy Laskey
Managing Director
+1-212-908-0568

Committee Chairperson
Kathy Masterson
Senior Director

+1-415-732-5622

Media Relations: Elizabeth Fogerty, New York, Tel: +1 (212) 908 0526, Email: elizabeth.fogerty@fitchratings.com.

Additional information is available at 'www.fitchratings.com'. The ratings above were solicited by, or on behalf of, the issuer, and therefore, Fitch has been compensated for the provision of the ratings.

In addition to the sources of information identified in Fitch's Tax-Supported Rating Criteria, this action was additionally informed by information from Creditscope, University Financial Associates, S&P/Case-Shiller Home Price Index, IHS Global Insight, Zillow.com, and National Association of Realtors.

Applicable Criteria and Related Research:
--'Tax-Supported Rating Criteria' (Aug. 15, 2011);
--'U.S. Local Government Tax-Supported Rating Criteria' (Aug. 15, 2011).

Applicable Criteria and Related Research:
Tax-Supported Rating Criteria
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=648898
U.S. Local Government Tax-Supported Rating Criteria
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=648842