

Los Angeles County Public Works Financing Authority, California

Lease Revenue Bonds New Issue Report

Ratings

New Issue

Lease Revenue Bonds,
2016 Series D AA-

Outstanding Debt

| | |
|----------------------------------------------------------------------------------------------------------------------------|-----|
| Implied County Unlimited Tax General Obligation Bond Rating ^a | AA |
| Certificates of Participation | AA- |
| Los Angeles County Capital Asset Leasing Corporation Lease Revenue Bonds (LAC-CAL Equipment Program) ^b | AA- |
| Los Angeles County Public Works Financing Authority Lease Revenue Bonds ^b | AA- |
| Sonnenblick-Del Rio El Monte Asset Leasing Corporation Senior Certificates of Participation ^c | A+ |
| Sonnenblick-Del Rio West Los Angeles Leasing Corporation, Senior Certificates of Participation ^c | A+ |
| Implied County Unlimited Tax General Obligation Bonds ^a | AA |
| Certificates of Participation ^b | AA- |
| Los Angeles County Capital Asset Leasing Corporation Lease Revenue Bonds (LAC-CAL Equipment Program) ^b | AA- |
| Los Angeles County Public Works Financing Authority Lease Revenue Bonds ^b | AA- |
| Sonnenblick-Del Rio El Monte Asset Leasing Corporation Senior Certificates of Participation ^c | A+ |

^aUpgraded from 'AA-' to 'AA' on Feb. 23.

^bUpgraded from 'A+' to 'AA-' on Feb. 23.

^cUpgraded from 'A' to 'A+' on Feb. 23.

Rating Outlook

Stable

Related Research

[Los Angeles County, California \(January 2015\)](#)

[Los Angeles County, California \(June 2014\)](#)

Analysts

Alan Gibson
+1 415 732-7577
alan.gibson@fitchratings.com

Amy Laskey
+1 212 908-0568
amy.laskey@fitchratings.com

New Issue Details

Sale Information: \$246,255,000 Lease Revenue Bonds, 2016 Series D, via negotiation the week of Feb 29.

Security: Los Angeles County's (the county) annual lease rental payments to the Los Angeles County Public Works Financing Authority (the authority), payable from legally available funds, under a covenant to budget an appropriate, subject to abatement.

Purpose: To finance and refinance certain capital improvement projects at Martin Luther King, Jr. Community Hospital, including commercial paper repayment.

Final Maturity: Serially, Dec. 30, 2017–2045. Subject to optional, mandatory sinking fund and extraordinary redemption prior to final maturity.

Key Rating Drivers

Solid Financial Management: The ratings upgrade reflects the county's well-managed financial operations, with strong general fund balances throughout the economic cycle and strengthened reserve policies.

General Fund Support for DHS: The performance of the county's Department of Health Services' (DHS) continues to benefit from wider health sector reform, a five-year extension of the federal hospital financing waiver, and internal changes. Fitch Ratings expects that DHS will continue to need general fund support at a significant but stable and sustainable level.

Long-Term Liability Exposure: While the county has a moderate overall debt burden, it faces large unfunded accrued actuarial liabilities (UAAL) for its pensions and other-post employment benefits (OPEB). A new OPEB funding policy is a credit positive.

Local Economy Continues to Improve: The county's vast economy and tax base is vulnerable to economic cycles despite its diversity and maturity. Economic indicators are somewhat mixed, but the tax base and revenue streams continue to grow.

Lease Debt Rating Distinction: The one-notch rating distinction between the county's implied unlimited tax GO (ULTGO) rating of 'AA' and the 'AA-' rating on the majority of its lease revenue bonds represents the county's covenant to budget and appropriate for lease payments, subject to abatement. There is a further one-notch distinction ('A+') for non-standard leases for Department of Social Services buildings that the county leases but does not purchase, resulting in an increased non-appropriation risk.

Rating Sensitivities

Stable Rating Outlook: The ratings are sensitive to fundamental changes in financial operations, general fund balances, reserves, liabilities, and the level of general fund support for DHS. The Stable Rating Outlook reflects Fitch's expectation that the county will maintain its current solid financial profile.

Rating History — GOs

| Rating | Action | Outlook/ Watch | Date |
|--------|----------|----------------|----------|
| AA | Upgraded | Stable | 2/23/16 |
| AA- | Affirmed | Positive | 6/1/15 |
| AA- | Affirmed | Positive | 12/24/14 |
| AA- | Affirmed | Stable | 6/2/14 |
| AA- | Affirmed | Stable | 5/31/13 |
| AA- | Affirmed | Stable | 9/27/12 |
| AA- | Affirmed | Stable | 6/6/12 |
| AA- | Affirmed | Stable | 2/22/12 |
| AA- | Affirmed | Stable | 11/15/11 |
| AA- | Assigned | Stable | 6/9/11 |

Rating History — Standard Lease Obligations

| Rating | Action | Outlook/ Watch | Date |
|--------|------------|----------------|----------|
| AA- | Upgraded | Stable | 2/23/16 |
| A+ | Affirmed | Positive | 7/22/15 |
| A+ | Affirmed | Positive | 6/1/15 |
| A+ | Affirmed | Positive | 12/24/14 |
| A+ | Affirmed | Stable | 6/2/14 |
| A+ | Revised | Stable | 4/30/10 |
| A | Upgraded | — | 5/23/00 |
| A- | Downgraded | — | 6/21/95 |
| A+ | Assigned | — | 1/14/93 |

Fitch recently published exposure drafts of state and local government tax-supported criteria (Exposure Draft: U.S. Tax-Supported Rating Criteria, dated Sept. 10, 2015 and Exposure Draft: Incorporating Enhanced Recovery Prospects into U.S. Local Tax-Supported Ratings, dated Feb. 2, 2016). The drafts include a number of proposed revisions to existing criteria. If applied in the proposed form, Fitch estimates the revised criteria would result in changes to less than 10% of existing tax-supported ratings. Fitch expects that final criteria will be approved and published in the first quarter of 2016. Once approved, the criteria will be applied immediately to any new issue and surveillance rating review. Fitch anticipates the criteria to be applied to all ratings that fall under the criteria within a 12-month period from the final approval date.

Related Criteria

[Exposure Draft: Incorporating Enhanced Recovery Prospects into U.S. Local Tax-Supported Ratings \(February 2016\)](#)

[U.S. Local Government Tax-Supported Rating Criteria \(August 2012\)](#)

[Tax-Supported Rating Criteria \(August 2012\)](#)

[Exposure Draft: U.S. Tax-Supported Rating Criteria \(September 2015\)](#)

Credit Profile

Solid Financial Management

The implied long-term ULTGO rating of 'AA' reflects the county's diverse and mature economy, moderate debt burden, sound financial reserves, and prudent management efforts to successfully maintain fiscal balance amid ongoing and sizable financial pressures. These pressures stem from a heavy social service spending burden, state funding changes, DHS cash flow issues, a large unfunded pension liability, and a costly retiree medical program.

The county ended fiscal 2014 with a surplus for the third consecutive year, increasing the unrestricted general fund balance to \$2.862 billion (18.2 % of spending) from the prior year's \$2.790 billion (18.1%). These results follow a pattern of notably stable county financial operations throughout the most recent economic downturn.

The county is currently projecting another general fund surplus in fiscal 2016 (year ending June 30). Consequently, the total general fund balance is projected to improve from \$3.190 billion in fiscal 2015. In fiscal 2016 to date, both general fund revenues and expenditures reportedly are coming in as budgeted.

The county is expecting to benefit from further revenue growth in fiscal 2017, particularly related to property and sales tax revenues. However, these gains will be at least partially offset by personnel cost increases. The county has agreed to 10% salary increases for most classifications which will be implemented incrementally between October 2015 to April 2018 (at an annual cost of approximately \$150 million); fringe benefit increases for certain classifications will cost an additional \$35 million–\$40 million annually through fiscal 2019. The county notes that its expenditure flexibility is protected by a steady employee vacancy rate.

The county's rainy day reserve fund is now \$337.7 million. The county remains committed to achieving its reserve goal of 10% of ongoing locally generated revenues (currently equivalent to approximately \$539 million) through the annual allocation of at least 10% of surplus revenues to either the rainy day reserve fund and/or the county's OPEB trust.

In September 2014, the county added a budget policy requiring the annual appropriation of 5%–10% of new ongoing discretionary revenues to a contingency reserve, with any unused monies at the end of the year transferred to the rainy day reserve fund and/or the OPEB trust. As part of the county's fiscal 2016 adopted budget, \$15.9 million was set aside in the contingency reserve (5% of discretionary revenues) and a further \$5.0 million was allocated for deferred maintenance needs. The county's general fund liquidity has been gradually improving in recent years and it has sizable funds available for intrafund borrowing, if needed (a projected \$3.955 billion in January 2016).

DHS Financials Improving but General Fund Support Still Required

The county projects that DHS will end fiscal 2016 with a fund balance at least comparable to its fiscal 2015 ending balance of \$350 million, representing its seventh consecutive year of improved year-end financial results. This is the result of more stable revenue streams, stable contributions from the general fund, improved patient demographics under healthcare reform, and significant operational changes.

In fiscal 2016, the net county contribution is \$635.5 million, or 15.5% of the total DHS budget. By contrast, the net county contribution peaked in fiscal 2008 at \$827.7 million, or 18.2% of the total DHS budget. The net county contribution increases in fiscal 2016 compared to fiscal 2015 (\$561 million) because board policy allows DHS to retain savings generated from the state's

**Rating History —
Nonstandard
Certificates of
Participation**

| Rating | Action | Outlook/ Watch | Date |
|--------|----------|-------------------|----------|
| A+ | Upgraded | Stable | 2/23/16 |
| A | Affirmed | Positive | 6/1/15 |
| A | Affirmed | Positive | 12/24/14 |
| A | Affirmed | Stable | 6/2/14 |
| A | Revised | Stable | 4/30/10 |
| A- | Upgraded | Stable | 1/16/04 |
| BBB+ | Assigned | — | 6/14/99 |

redirection of less realignment revenues to social services under Assembly Bill (AB) 85. Regarding AB 85, \$100 million is being redirected by the state to social services programs in fiscal 2016, much less than the \$238.3 million redirected in fiscal 2015. (Both amounts could be adjusted under a two-year reconciliation process.) The county has successfully negotiated with the state not to redirect further monies in fiscal 2017, which will be a boost to DHS funding.

The county expects general fund cash flow loans to DHS to decline to between \$500 million and \$600 million outstanding per year. Fiscal 2015 ended with an unusually low \$419.6 million in outstanding general fund loans, down from \$870.7 million a year prior and a fiscal 2011 peak of \$1.049 billion; the reduction was due to improved DHS cash flows and fund balance. To date, each month in fiscal 2016 has required considerably smaller loans year over year; however, the county is expecting to end the year with around \$550 million in outstanding general fund loans, more in line with its projections.

DHS pressures continue to be partially alleviated by the extension of a federal section 1115 waiver through Dec. 31, 2020 (renamed Medi-Cal 2020). The county does not expect that DHS's budget will be materially affected by lower funding levels under Medi-Cal 2020 as the maximum reduction is projected to be approximately \$55 million in any one year from fiscal 2016 onward.

Significant Long-Term Liability Exposure

The county's overall debt burden is a moderate \$3,528 per capita, or 2.7% of market valuation. Principal amortization is above average at an estimated 64% in 10 years. No long-term debt issuances are currently planned until fiscal years 2019 and 2020.

The county faces sizeable long-term unfunded pension and OPEB liabilities. As of June 30, 2015, the county's net pension liability was \$6.957 billion. On an actuarial basis, the June 30, 2015 funded ratio is 83.3% using the county's 7.5% assumed rate of return. This does not recognize \$980 million of deferred investment gains still to be smoothed in. Fitch estimates the funded ratio at 81.2% when adjusted to reflect a more conservative 7% rate of return. The county's cash contributions to the pension system, which are equal to the annually required contribution (ARC), are budgeted at \$1.376 billion in fiscal 2016, after years of steady growth. The county's fiscal 2017 pension contributions are projected to decrease by \$74 million due to smoothing in investment gains.

The county also has a \$27.3 billion UAAL for OPEB (July 1, 2014), which it has begun to address by establishing an OPEB trust. At its current balance of \$530 million, the trust funds approximately 1.9% of the outstanding OPEB liability. The county aims to increase its OPEB trust funding from future surplus revenues. The fiscal 2016 adopted budget includes a \$24 million contribution to the OPEB trust. Additionally, in January 2016 \$50 million was transferred from excess in the pension system's retiree health premium reserve. The county has enacted a new policy to increase its annual OPEB contributions to \$60 million annually until the actuarially required annual contribution is fully funded from fiscal 2028 onwards. The \$60 million will consist of \$25 million general fund monies plus \$35 million from federal and state subventions.

The combined carrying costs for debt service, pension ARC, and OPEB pay-as-you-go in fiscal 2015 were manageable at 14.3% of total governmental spending.

General Fund Financial Summary

(\$000, Audited Fiscal Years Ended June 30)

| | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|-----------------------------------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| Taxes | 3,970,566 | 3,864,654 | 3,843,366 | 3,980,409 | 4,267,858 | 4,520,755 | 4,772,762 |
| Licenses and Permits | 54,877 | 49,079 | 56,656 | 57,144 | 61,412 | 59,886 | 61,561 |
| Fines and Forfeits | 264,375 | 258,842 | 244,787 | 217,972 | 222,226 | 207,094 | 207,684 |
| Charges for Services | 1,654,173 | 1,659,224 | 1,641,399 | 1,700,540 | 1,565,937 | 1,743,447 | 1,491,656 |
| Intergovernmental | 7,211,150 | 7,337,716 | 7,506,492 | 7,632,814 | 8,182,687 | 8,395,672 | 8,574,288 |
| Other Revenue | 382,609 | 315,927 | 275,554 | 237,100 | 306,818 | 281,164 | 346,782 |
| Total Revenues | 13,537,750 | 13,485,442 | 13,568,254 | 13,825,979 | 14,606,938 | 15,208,018 | 15,454,733 |
| General Government | 946,008 | 859,319 | 883,854 | 983,077 | 979,989 | 998,438 | 1,155,070 |
| Public Safety | 4,420,786 | 4,412,935 | 4,401,985 | 4,538,075 | 4,694,982 | 4,843,148 | 5,136,461 |
| Health and Social Services | 0 | 2,421,615 | 0 | 2,689,192 | 2,779,870 | 3,204,177 | 2,931,257 |
| Culture and Recreation | 242,999 | 247,094 | 263,046 | 255,818 | 272,835 | 282,660 | 304,895 |
| Capital Outlay | 772 | 2,115 | 32,598 | 20,106 | 8,065 | 2,398 | 866 |
| Debt Service | 247,248 | 271,378 | 278,477 | 24,602 | 30,816 | 28,928 | 27,060 |
| Other | 7,276,712 | 5,025,312 | 7,694,084 | 5,108,516 | 5,247,031 | 5,430,398 | 5,682,198 |
| Total Expenditures | 13,134,525 | 13,239,768 | 13,554,044 | 13,619,386 | 14,013,588 | 14,790,147 | 15,237,807 |
| Operating Surplus/(Deficit) | 403,225 | 245,674 | 14,210 | 206,593 | 593,350 | 417,871 | 216,926 |
| Extraordinary and Special Items | 0 | 0 | 0 | 0 | 0 | 0 | 870 |
| Transfers In | 299,247 | 360,412 | 422,680 | 466,078 | 504,567 | 466,108 | 391,287 |
| Other Sources | 1,658 | 3,075 | 52,550 | 18,917 | 3,520 | 2,506 | 866 |
| Transfers Out | 911,752 | 780,168 | 762,808 | 772,080 | 863,738 | 663,327 | 522,934 |
| Net Transfers and Other | (610,847) | (416,681) | (287,578) | (287,085) | (355,651) | (194,713) | (129,911) |
| Net Op. Surplus/(Deficit) After Transfers | (207,622) | (171,007) | (273,368) | (80,492) | 237,699 | 223,158 | 87,015 |
| Total Fund Balance | 3,166,818 | 2,995,811 | 2,722,443 | 2,641,951 | 2,879,650 | 3,102,808 | 3,189,823 |
| % Total Expenditures, Transfers Out, and Other Uses | 22.5 | 21.4 | 19.0 | 18.4 | 19.4 | 20.1 | 20.2 |
| Unreserved Fund Balance | 2,626,967 | 2,211,383 | 0 | 0 | 0 | 0 | 0 |
| % Total Expenditures, Transfers Out, and Other Uses | 18.7 | 15.8 | 0 | 0 | 0 | 0 | 0 |
| Unrestricted Fund Balance | 0 | 0 | 2,427,939 | 2,327,239 | 2,566,028 | 2,790,224 | 2,861,745 |
| % Total Expenditures, Transfers Out, and Other Uses | 0 | 0 | 17.0 | 16.2 | 17.2 | 18.1 | 18.2 |

Note: Numbers may not add due to rounding.

Local Economy Continues to Improve

The county's unemployment rate (5.8% in December 2015) is in line with the state's (5.8%) and remains somewhat higher than the nation's (4.8%). Growth in both employment opportunities and the labor force has brought the unemployment rate down from 7.5% a year prior. The county's socioeconomic characteristics are below average relative to the state and somewhat mixed relative to the nation.

Due to the county's highly developed and mature nature, taxable assessed valuation (TAV) losses were relatively small at 0.5% and 1.9% in fiscal years 2010 and 2011, respectively, indicating a significant Proposition 13 cushion. In the subsequent five years, the property market has rebounded by 21.4% through fiscal 2016, with further 5% growth projected for fiscal 2017. This strong TAV growth is supported by a combination of rising house prices, increased construction, decreasing defaults and foreclosures, Proposition 8 TAV restorations, ownership changes, and healthier commercial and industrial real estate markets.

Essential Assets

The 2016 series D bonds are on parity with 2015 series A, B, and C bonds (rated 'AA-' by Fitch); they have the same bondholder protections and share a pool of leased assets. All 13 leased facilities provide essential county services and include courthouses, a sheriff station, a library, county department buildings, the civic center heating and refrigeration plant, and various components of the Martin Luther King Jr. Community Hospital. Their combined value of an estimated \$860.2 million comfortably exceeds the outstanding cumulative par amount of the parity bonds (\$605.3 million).

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

ALL FITCH CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS LINK: [HTTPS://FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS](https://fitchratings.com/understandingcreditratings). IN ADDITION, RATING DEFINITIONS AND THE TERMS OF USE OF SUCH RATINGS ARE AVAILABLE ON THE AGENCY'S PUBLIC WEB SITE AT WWW.FITCHRATINGS.COM. PUBLISHED RATINGS, CRITERIA, AND METHODOLOGIES ARE AVAILABLE FROM THIS SITE AT ALL TIMES. FITCH'S CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, AFFILIATE FIREWALL, COMPLIANCE, AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THE CODE OF CONDUCT SECTION OF THIS SITE. FITCH MAY HAVE PROVIDED ANOTHER PERMISSIBLE SERVICE TO THE RATED ENTITY OR ITS RELATED THIRD PARTIES. DETAILS OF THIS SERVICE FOR RATINGS FOR WHICH THE LEAD ANALYST IS BASED IN AN EU-REGISTERED ENTITY CAN BE FOUND ON THE ENTITY SUMMARY PAGE FOR THIS ISSUER ON THE FITCH WEBSITE.

Copyright © 2016 by Fitch Ratings, Inc., Fitch Ratings Ltd. and its subsidiaries. 33 Whitehall Street, NY, NY 10004. Telephone: 1-800-753-4824, (212) 908-0500. Fax: (212) 480-4435. Reproduction or retransmission in whole or in part is prohibited except by permission. All rights reserved. In issuing and maintaining its ratings and in making other reports (including forecast information), Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third-party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings and reports should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating or a report will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings and its reports, Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings and forecasts of financial and other information are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings and forecasts can be affected by future events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed.

The information in this report is provided "as is" without any representation or warranty of any kind, and Fitch does not represent or warrant that the report or any of its contents will meet any of the requirements of a recipient of the report. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion and reports made by Fitch are based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings and reports are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating or a report. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at any time for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US\$1,000 to US\$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US\$10,000 to US\$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.

For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty Ltd holds an Australian financial services license (AFS license no. 337123) which authorizes it to provide credit ratings to wholesale clients only. Credit ratings information published by Fitch is not intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001.