

Los Angeles County, California

New Issue Report

Ratings

Long-Term Issuer Default Rating AA

Outstanding Debt

Los Angeles County Facilities, Inc.
(Vermont Corridor County
Administration Building) Lease
Revenue Bonds, Series 2018A AA-

Los Angeles County Facilities, Inc.
(Vermont Corridor County
Administration Building) Lease
Revenue Bonds (Taxable),
Series 2018B AA-

Rating Outlook

Stable

New Issue Summary

Sale Date: Negotiated sale on July 12, 2018.

Series: \$297,015,000 Lease Revenue Bonds, Series 2018A (Vermont Corridor County Administration Building) (Tax-Exempt) and \$5,195,000 Lease Revenue Bonds, Series 2018B (Vermont Corridor County Administration Building) (Federally Taxable).

Purpose: To fund construction of a new Vermont Corridor County Administration Building and adjacent parking garage.

Security: The series 2018 lease revenue bonds are payable from Los Angeles County's (the county) lease rental payments to Los Angeles County Facilities, Inc. (LACF) for use and occupancy of the new Vermont Corridor County Administration Building and adjacent parking garage to be constructed using the bond proceeds.

Key Rating Drivers

Appropriation Security: The 'AA-' ratings on the series 2018 lease revenue bonds (LRBs) are one notch below the 'AA' Issuer Default Rating (IDR) for Los Angeles County, reflecting the optionality inherent in appropriations for debt service repayment.

The county's lease rental payments are subject to abatement but are not dependent on revenues generated by the completed project. Fitch Ratings' LRB rating reflects the assumption that the county will act to ensure project completion given the essential nature of the services to be delivered out of the new office building, the difficulty in siting social service delivery facilities, the county's significant investment to date (including land ownership) and its desire to preserve strong credit quality.

County Credit Quality: The 'AA' IDR reflects the county's strong economic underpinnings, with solid revenue growth prospects, exceptionally strong gap-closing capacity and a long-term liability burden at the low end of the moderate range. A demonstrated ability to cut spending, a sound financial cushion and limited revenue cyclicity offset the county's exposure to federal and state funding decisions, Los Angeles County Department of Health Services' operations and state law constraints on the county's independent ability to raise revenues. For further information on the county's IDR, please refer to Fitch's June 1, 2018 new issue report.

Rating Sensitivities

Stable County IDR: The rating on the series 2018 lease revenue bonds is sensitive to changes in the county's IDR, to which it is linked.

Vermont Corridor County Administration Building Project

LACF is a single purpose entity created to construct, finance and operate new buildings on the county's behalf. It has no social service delivery functions. LACF will issue the series 2018 lease revenue bonds to fund the design and construction of a new office building and parking garage for Los Angeles County's Departments of Mental Health and Workforce Development, Aging and Community Services.

LACF will be staffed by Public Facilities Group (PFG), a nonprofit corporation experienced in developing and financing such projects for public agencies. The county expects this financing

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Rating History

Rating	Action	Outlook/ Watch	Date
AA	Affirmed	Stable	5/31/18
AA	Upgraded	Stable	2/23/16
AA-	Affirmed	Positive	12/24/14
AA-	Assigned	Stable	6/9/11

model and the use of a fixed price development agreement to result in quicker construction, lower costs and less exposure to cost overruns.

Until the bonds are paid off, LACF will own the new facilities, and the county will be the tenant responsible for service delivery from the new office building. Once the bonds have been fully repaid on Dec. 1, 2051 (30 years following a three-year construction period with capitalized interest), the county is assured of property ownership under the capital lease arrangement. However, the county also has the right to acquire the new facilities at any time.

LACF has engaged Trammell Crow LA Development, Inc. as the master developer responsible for management of construction for a guaranteed maximum price of almost \$296 million. Trammell Crow LA Development is the wholly owned but independent subsidiary of a national real estate development firm, Trammell Crow Company. There is no parent company guarantee. LACF has also engaged Hathaway Dinwiddie and Bomel Construction as the general contractors, respectively, for the office building and the parking garage. (None of these entities is rated by Fitch.)

There are significant construction risk mitigants. The project is construction ready, and the construction price and schedule have been independently vetted. The project budget must be balanced as a condition of monthly disbursements or the developer must post funds. The developer has 100% payment and performance sureties that remain in place for one year after the project's substantial completion. The guaranteed maximum price contract contains a 5% contingency reserve for both construction and soft costs, and interest is capitalized six months beyond the project's expected substantial completion date to address unforeseen schedule changes. Under certain circumstances, the developer is obligated to pay a portion of the rent (up to the amount of its annual fee) if substantial completion has not occurred by the agreed date. The general construction contracts provide for liquidated damages due to delayed substantial completion.

In addition to standard insurance requirements (including 24-month rental interruption insurance to address abatement risk and title insurance), the county provides earthquake insurance coverage. Although LACF owns the lease rental payments made by the county, those monies are paid directly from the county to the trustee, and the trustee's accounts are pledged to the bondholders.

Related Research

[Fitch Rates Los Angeles County Facilities, Inc. \\$302MM Lease Revs 'AA-'; Outlook Stable \(July 2018\)](#)

Related Criteria

[U.S. Public Finance Tax-Supported Rating Criteria \(April 2018\)](#)

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