New Issue: Moody’s Assigns A1 Rating to Lease Supported Obligations of Los Angeles County, CA

Global Credit Research - 03 Oct 2012

Approximately $335 Million of Debt Affected

LOS ANGELES COUNTY PUBLIC WORKS FINANCE AUTHORITY, CA

Moody’s Rating

<table>
<thead>
<tr>
<th>ISSUE</th>
<th>RATING</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lease Revenue Bonds (Multiple Capital Projects II), Series 2012</td>
<td>A1</td>
</tr>
</tbody>
</table>

| Sale Amount | $335,000,000 |
| Expected Sale Date | 10/18/12 |
| Rating Description | Lease Rental: Abatement |

Moody’s Outlook

Opinion

NEW YORK, October 03, 2012 --Moody's Investors Service has assigned an A1 rating to Los Angeles County’s Lease Revenue Bonds, Series 2012 (Multiple Capital Projects II).

RATINGS RATIONALE

The ratings reflect the county's large and diverse economy. Although it remains currently weak, robust annual growth in the regional economy of 2.6% or more is expected this year. The rating also reflects the county's generally strong financial operations with still sufficient reserves, and its easily manageable debt position. The sizable burden of the county's health care system on its financial operations also weighs on the rating.

The underlying security for the current issue is a lease between the County of Los Angeles and the Los Angeles County Public Works Financing Authority. The lease is a typical, abatable general fund lease secured by the county’s pledge to budget and appropriate lease payments so long as it has use and possession of the leased assets. The leased assets will be Los Angeles County USC Medical center and High Desert Multi-Service Ambulatory Care Center. . . The assigned rating also reflects the strength of the county’s general fund pledge, the specific terms of the lease, and the county’s other fundamental credit strengths stated above.

The two notch rating distinction between the A1 on the current offering and the county's Aa2 Issuer Rating represents Moody's standard notching differential for essential asset leases relative to a California issuer’s general obligation rating. Broadly speaking the typical two notches reflect the risk of abatement, the narrower, general fund security pledge for leases compared to the very strong, voter-approved unlimited property pledge securing general obligation bonds.

Proceeds of this issue will be used to fund major upgrades to the county’s health care system and other core assets.

KEY CREDIT STRENGTHS

Large and diverse economy.

Strong financial management.
Low lease burden.

KEY CREDIT CHALLENGES

Large health care burden.

Four consecutive general fund deficits though 2011.

DETAILED CREDIT DISCUSSION

FINANCIAL OPERATIONS ARE STRONG WITH AMPLE RESERVES

The county’s ability to preserve its above average financial strength, even through the current climate of sluggish economic conditions and the state’s budgetary challenges, is notable. During periods of strong economic expansion and revenue growth the county has balanced its budgets with tight controls on expenditures, and with the embedded conservatism of these budgets, the general fund yielded notable surpluses adding to the county’s sizable reserves. Key to the county’s fiscal discipline has been its ability to maintain a significant number of positions unfilled during the recent period of financial uncertainty, particularly related to the financial difficulties of the state. The county has also been decisive in eliminating positions, which has at times resulted in actual lay-offs, but the budgets from 2010 through 2013 were free of lay-offs and furloughs.

As of June 30, 2011, the end of the most recent fiscal year for which there are audited financial results, the county's general fund enjoyed a total balance of $2.7 billion and Unrestricted, Spendable Fund Balance of $2.4 billion equaling 20.1% and 17.9% of general fund revenues respectively. These figures approximate the figures for similarly rated counties in California, although are somewhat less than the figures for similarly rated counties nationwide. The 2011 balance reflects a decrease of $273 million for the year, which was the third consecutive decrease after twelve consecutive surpluses since 1996, during which time the general fund balance increased from $160 million to $3.4 billion in 2008. The 2011 general fund deficit was largely the result of expenditure reductions not keeping pace with flat revenues. Despite the decrease in reserves, 2011 saw a modest 1.4% increase in revenues while expenditures increased by 2.1%.

While the county’s commitment to strong financial operations is evident, we believe that the key pressure on the county's expenditures remains its enormous health care system. In 2011, the county spent $2.5 billion in health related expenses from the general fund, which represented 17.5% of expenditures before transfers. In addition, the county's five major health care facilities had combined operating expenses of $3.1 billion, and received $672 million in inter-fund transfers from the general fund. For many years, the health care system has operated with structural deficits, relying on its reserves, general fund transfers and other one-time measures. The latter include state and federal waivers which, in return for operating improvements, allow the county to seek reimbursements for certain normally ineligible expenditures.

Unaudited results for 2012 indicate yet another GF operating deficit, though much smaller than the previous ones. The estimated GF decrease is $80 million, reducing it to $2.6 billion or 18.8% of 2011 GF revenues.

The county’s 2013 budget indicates no dramatic changes from 2012. The budget relies less on cancellation of reserves and designations of fund balance than in 2012, which may reflect incrementally closer structural balance. The hiring freeze and reducing headcount is still the county’s primary tool for controlling expenditures. Some labor concessions, including 0% COLA in 2010, 2011, 2012, and 2013 also result in measurable savings. Based on the county’s assessment, the state budget impact on its 2013 budget is minimal. Overall, we expect a 2013 general fund balance that is not significantly different than in 2012. An unchanged or increasing fund balance would reverse the four year trend of declining reserves. If these deficits resume beyond 2012, the county’s reserve levels may begin to fall short of reserves consistent with the current rating, and downward pressure may mount on the rating.

LARGE, DIVERSE AND AGAIN GROWING ECONOMY WITH SLIGHTLY BELOW AVERAGE WEALTH AND INCOME LEVELS

Los Angeles is by far the largest county in the state. The economy remains diverse with higher education, manufacturing, healthcare and biotech firms, trade, tourism and perhaps most importantly, the TV/motion picture industry prominent among the county’s largest private sector employers. The county’s population and employment recovered strongly through the 1990’s following the severe contraction of the defense industry in the early 1990’s. However, since 2000 population growth has moderated with out-migration outpacing in-migration.

Through 2008 total employment remained between 4.4 and 4.7 million and the unemployment rate in mid single
digits approximated the rates of the state as a whole. During the most recent recession the county seems to have lost approximately 400,000 jobs with over two thirds of the losses occurring in 2009, when the metro area gross product contracted by 3.9%.

Between June, 2011 and June, 2012 approximately 50,000 jobs seem to have been gained, with the unemployment rate decreasing to a still high 11.1% from 12.4%. The county's recovery is still weighed down by its stalled labor market, but the gross metro area product is expected to increase by 2.6 % in 2012. Entertainment and tourism are among the few industries to add to payrolls in recent months. We don't expect the unemployment rate to be in single digits until 2013.

The county's trillion dollar tax base has fared somewhat better than other counties' in the state. After decreasing by 0.6% and 1.9% respectively in 2010 and 2011, the county's assessed value (AV) increased by a small but notable 1.4% in 2012. The AV grew by another 2.2% in 2013. This relative stability is due to the more built out and aged nature of the county's residential base. The county's 2012 full value per capita of $102,000 remains notably lower than the California county median of $177,000 but higher than the national median of $75,780. The 2010 census estimate indicates that the average resident's socio-economic profile strengthened in real terms and relative to state and national averages. For example, as of the 2000 census, per capita income in Los Angeles County was only 91.1% of the state average and 95.8% of the national average, compared to 94.5% and 100.2% respectively, according to the 2010 estimate. Going forward, although the county's economy, wealth and income levels may not grow as rapidly as in the recent past, we believe the county will continue to enjoy one of the most diverse and steadily growing economies in the state.

MANAGEABLE DEBT POSITION

Proceeds of this issue will be used to refund outstanding Commercial Paper and fund improvements throughout the county, most notably improvements to medical facilities. These lease revenue bonds and approximately $790 million of outstanding similarly secured bonds are secured by the county's lease payments for the use of its new 600 bed hospital, which is valued at over $1.05 billion and a Multi-Service Ambulatory Care Center valued at $142 million. The new hospital has no outstanding debt because it was funded with large grants, mostly from the federal government. The total amount of debt secured by the lease payments is $1.123 billion.

Including the current offering the county will have approximately $1.9 billion in outstanding direct debt. The county's direct debt burden is 0.2% and overall debt 3.1% of assessed value. While the county's direct debt equals the state average of 0.2% for counties, overall debt is above the median of 2.1% due to the significant debt of overlying entities, most notably the Los Angeles Unified School District. Moody's nonetheless believes that the county's debt levels remain very easily manageable. It is noted that the county's lease ratios - perhaps the best measure of the budget burden of county debt - compare better with medians. The typical median net lease burden for a California county is 1.7% of general fund revenues while the total burden of lease and General Fund obligations (e.g. pension obligation bonds) is 1.9%. With the current offering the county's peak lease payment, as a percent of general fund revenue, will be about 1.2%. The county's POBs were retired in 2011.

The county's annual actuarially required contribution for its Other Post Employment Benefits (OPEB) is $1.72 billion but the county's practice is to fund its OPEB on a pay-as-you-go basis, which in 2013 is approximately $440 million. The OPEB liability is likely to continue to grow each year. The county recognizes the importance of better managing its OPEB liability, and established an OPEB Trust in May, 2012, which should be funded with a $400 million contribution in 2013. In the meantime, the retirement of the pension obligations will afford the county some relief in the short term. The county's pension systems are in healthier positions. The Los Angeles County Employee Retirement Association's Retirement plan had a funding ratio of 80.6% as of June 30, 2011.

LEGAL PROVISIONS FOR THE CURRENT OFFERING ARE SATISFACTORY FOR THIS TYPE OF TRANSACTION

The county pledges to budget and appropriate for lease payments; as such, the Bonds represent an obligation of its general fund subject only to abatement. Security provisions provide protection against abatement risk, primarily through the county's commitment to obtain rental interruption insurance in an amount equal to two years' rental payments. The debt service reserve fund for the Series 2012 bonds will be maintained at the reserve requirement of approximately $22.4 million.

Outlook

Moody's outlook on Los Angeles County's long-term ratings is stable. The stable outlook reflects the county's demonstrated ability to preserve its financial position through challenging economic and financial cycles. The
financial health with which the county emerges from the expected fiscal challenges in the current and coming years will be an important contributor to future rating considerations.

WHAT COULD MAKE THE RATING GO UP

Long term financial stability of the county’s health system with structural budgetary balance

Significant improvement in the area economy with fundamental improvement in area income levels

WHAT COULD MAKE THE RATING GO DOWN

Significant deterioration of the county’s financial position

KEY STATISTICS

2010 estimated population: 10 million.

20 per capita income (est), $26,988 (94.5% of state)

2013 full valuation: $1.08 trillion

Overall debt burden: 3.1%

Net direct debt burden: 0.2%

FY 2011 General Fund balance: $2.7 billion (20.1% of 2011 General Fund revenues)

FY 2011 , Spendable Fund Balance of $2.4 billion (17.9% of 2011General Fund revenues)

Net lease burden, est. 1.2%

The principal methodology used in this rating was General Obligation Bonds Issued by U.S. Local Governments published in October 2009. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

The Global Scale Credit Ratings on this press release that are issued by one of Moody’s affiliates outside the EU are endorsed by Moody's Investors Service Ltd., One Canada Square, Canary Wharf, London E 14 5FA, UK, in accordance with Art.4 paragraph 3 of the Regulation (EC) No 1060/2009 on Credit Rating Agencies. Further information on the EU endorsement status and on the Moody’s office that has issued a particular Credit Rating is available on www.moodys.com.

For ratings issued on a program, series or category/class of debt, this announcement provides relevant regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody’s rating practices. For ratings issued on a support provider, this announcement provides relevant regulatory disclosures in relation to the rating action on the support provider and in relation to each particular rating action for securities that derive their credit ratings from the support provider’s credit rating. For provisional ratings, this announcement provides relevant regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

Information sources used to prepare the rating are the following: parties involved in the ratings, parties not involved in the ratings, public information, confidential and proprietary Moody’s Investors Service’s information, and confidential and proprietary Moody’s Analytics’ information.

Moody’s considers the quality of information available on the rated entity, obligation or credit satisfactory for the purposes of issuing a rating.

Moody’s adopts all necessary measures so that the information it uses in assigning a rating is of sufficient quality and from sources Moody’s considers to be reliable including, when appropriate, independent third-party sources.
However, Moody’s is not an auditor and cannot in every instance independently verify or validate information received in the rating process.

Please see the ratings disclosure page on www.moodys.com for general disclosure on potential conflicts of interests.

Please see the ratings disclosure page on www.moodys.com for information on (A) MCO’s major shareholders (above 5%) and for (B) further information regarding certain affiliations that may exist between directors of MCO and rated entities as well as (C) the names of entities that hold ratings from MIS that have also publicly reported to the SEC an ownership interest in MCO of more than 5%. A member of the board of directors of this rated entity may also be a member of the board of directors of a shareholder of Moody’s Corporation; however, Moody’s has not independently verified this matter.

Please see Moody’s Rating Symbols and Definitions on the Rating Process page on www.moodys.com for further information on the meaning of each rating category and the definition of default and recovery.

Please see ratings tab on the issuer/entity page on www.moodys.com for the last rating action and the rating history.

The date on which some ratings were first released goes back to a time before Moody’s ratings were fully digitized and accurate data may not be available. Consequently, Moody’s provides a date that it believes is the most reliable and accurate based on the information that is available to it. Please see the ratings disclosure page on our website www.moodys.com for further information.

Please see www.moodys.com for any updates on changes to the lead rating analyst and to the Moody’s legal entity that has issued the rating.

Analysts

Kevork Khrimian
Lead Analyst
Public Finance Group
Moody’s Investors Service

Gregory W. Lipitz
Additional Contact
Public Finance Group
Moody’s Investors Service

Contacts

Journalists: (212) 553-0376
Research Clients: (212) 553-1653

Moody’s Investors Service, Inc.
250 Greenwich Street
New York, NY 10007
USA

© 2012 Moody’s Investors Service, Inc. and/or its licensors and affiliates (collectively, “MOODY’S”). All rights reserved.
OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES. MOODY'S DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL, FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS AND MOODY'S OPINIONS INCLUDED IN MOODY'S PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. CREDIT RATINGS AND MOODY'S PUBLICATIONS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. NEITHER CREDIT RATINGS NOR MOODY'S PUBLICATIONS COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MOODY'S ISSUES ITS CREDIT RATINGS AND PUBLISHES MOODY'S PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.

ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT. All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. MOODY'S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources Moody's considers to be reliable, including, when appropriate, independent third-party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information received in the rating process. Under no circumstances shall MOODY'S have any liability to any person or entity for (a) any loss or damage in whole or in part caused by, resulting from, or relating to, any error (negligent or otherwise) or other circumstance or contingency within or outside the control of MOODY'S or any of its directors, officers, employees or agents in connection with the procurement, collection, compilation, analysis, interpretation, communication, publication or delivery of any such information, or (b) any direct, indirect, special, consequential, compensatory or incidental damages whatsoever (including without limitation, lost profits), even if MOODY'S is advised in advance of the possibility of such damages, resulting from the use of or inability to use, any such information. The ratings, financial reporting analysis, projections, and other observations, if any, constituting part of the information contained herein are, and must be construed solely as, statements of opinion and not statements of fact or recommendations to purchase, sell or hold any securities. Each user of the information contained herein must make its own study and evaluation of each security it may consider purchasing, holding or selling. NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY SUCH RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

MIS, a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MIS have, prior to assignment of any rating, agreed to pay to MIS for appraisal and rating services rendered by it fees ranging from $1,500 to approximately $2,500,000. MCO and MIS also maintain policies and procedures to address the independence of MIS's ratings and rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold ratings from MIS and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at www.moodys.com under the heading "Shareholder Relations — Corporate Governance — Director and Shareholder Affiliation Policy."

Any publication into Australia of this document is by MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657, which holds Australian Financial Services License no. 336969. This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a
representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001.

Notwithstanding the foregoing, credit ratings assigned on and after October 1, 2010 by Moody's Japan K.K. ("MJKK") are MJKK's current opinions of the relative future credit risk of entities, credit commitments, or debt or debt-like securities. In such a case, "MIS" in the foregoing statements shall be deemed to be replaced with "MJKK". MJKK is a wholly-owned credit rating agency subsidiary of Moody's Group Japan G.K., which is wholly owned by Moody’s Overseas Holdings Inc., a wholly-owned subsidiary of MCO.

This credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail investors. It would be dangerous for retail investors to make any investment decision based on this credit rating. If in doubt you should contact your financial or other professional adviser.