MOODY'S
INVESTORS SERVICE

Rating Action: Moody's assigns A1 to LA County, CA's Lease Revenue Bonds, 2016 Series D; Outlook is Positive

Global Credit Research - 23 Feb 2016

New York, February 23, 2016 -- Issue: Lease Revenue Bonds (MLK Hospital Project), 2016 Series D; Rating: A1; Sale Amount: $246,255,000; Expected Sale Date: 03/03/2016; Rating Description: Lease Rental: Abatement

Summary Rating Rationale

Moody's Investors Service has assinged an A1 rating to Los Angeles County's $246.3 million Lease Revenue Bonds, 2016 Series D. Concurrently, Moody's has affirmed the county's A1 and A2 lease revenue bond ratings and Aa2 issuer rating. The outlook remains positive.

The Aa2 issuer rating, which is equivalent to a general obligation unlimited tax rating, reflects the county's massive tax base and strong economy, sound financial position supported by healthy reserve levels, strong management team and low debt burden. The rating also incorporates the county's unfunded pension and Other Post Retirement Benefits (OPEB) liabilities representing long term, but manageable, risks for the county.

The two notch distinction between the county's issuer rating and the A1 lease revenue bond rating represents the weaker security pledge for lease-backed obligations and the additional risk to bondholders from the county's financial, operational, and economic conditions over the more secure assumed general obligation pledge of the issuer rating. Security for the lease payments is a contractual pledge of the county of all of its available financial resources, subject to abatement of the leased property, effectively on parity with other unsecured obligations.

The current offering is under the Master Indenture and Master Lease established in 2015 and unlike some earlier county lease obligations, it does not provide the Authority with the right to re-enter or re-let the leased property in the event of a county payment default. While this change represents a weakening of bondholder security, it does not materially alter our estimate of the probability of default or loss relative to the county's other A1 rated obligations.

With respect to the county's equipment leases, the atypical three notch rating distinction between the A2 lease revenue bond rating and the county's Aa2 Issuer Rating represents Moody's standard notching differential for equipment leases relative to a California issuer's general obligation rating. The three 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 and the lack of essentiality of equipment.

Moody's is currently evaluating comments we received on our proposed, methodological revisions to rating state and local government lease-backed obligations. Our comment period closed on December 2, 2015, and the publication of the final, revised methodology could affect Los Angeles County's lease-backed obligation ratings. With respect to the county's abatement lease ratings, we note that we have proposed to "eliminate the additional downward notch we currently assign for lease-backed obligations with abatement risk relative to lease-backed obligations with appropriation risk." (p.2)

Rating Outlook

The positive outlook reflects the county's improved financial operations and our expectation that reserves will continue to be maintained at healthy levels, the decline in general fund subsidies to the department of health services (DHS) over the past five years and our expectation that the county's support to DHS will stabilize at the current level, and management's on-going progress of addressing its OPEB and unfunded pension liabilities.

Factors that Could Lead to an Upgrade

Ongoing operating surpluses and sustaining reserves at a healthy level

Continued financial stability of the county's health system, including DHS continuing to pay down its outstanding working capital loan to the county

Ongoing progress toward addressing long-term, unfunded pension and OPEB liabilities

Factors that Could Lead to a Downgrade

Significant deterioration of the county's financial position

Inability to effectively manage retirement costs

Legal Security

Security for the lease payments is a contractual pledge of the county of all of its available financial resources, subject to abatement of the leased property, effectively on parity with other unsecured obligations.

Use of Proceeds

The bond proceeds will be used to repay commercial paper notes that were issued to provide interim financing for the Martin Luther King, Jr. Community Hospital.

Obligor Profile

Los Angeles County is largest county in the nation both by size ($1.26 trillion tax base) and population (10.1 million). The county's economy continues to improve, and while the unemployment rate is still above the state and nation has decreased over the prior year to 5.7% from 7.1%.

Methodology

The principal methodology used in this rating was US Local Government General Obligation Debt published in January 2014. An additional methodology used in the lease backed rating was The Fundamentals of Credit Analysis for Lease-Backed Municipal Obligations published in December 2011. Please see the Ratings Methodologies page on www.moodys.com for a copy of these methodologies.

Regulatory Disclosures

For ratings issued on a program, series or category/class of debt, this announcement provides certain 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 certain regulatory disclosures in relation to the credit rating action on the support provider and in relation to each particular credit rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain 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.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

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.

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