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INVESTORS SERVICE

CREDIT OPINION
6 June 2017

New Issue

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Los Angeles County, CA

New Issue - Moody's Upgrades Los Angeles County's Issuer Rating to Aa1; Assigns Aa2 to Lease Revenue Bonds Series 2017 A

Summary Rating Rationale

Moody's Investors Service has upgraded Los Angeles County, CA's Issuer rating to Aa1 from Aa2. The upgrade reflects the county's continued strong and stable financial position, five-year annual tax base growth that exceeds both national and state medians, management's on-going progress of addressing its unfunded Other Post Retirement Benefits (OPEB) and pension liabilities and ongoing financial improvement of the county's health system. The Aa1 rating also incorporates the county's massive and diverse tax base, large and expanding economy, healthy cash and reserve levels, low debt burden. The rating also incorporates the county's strong management team that has positioned the county well to address on-going challenges such as rising pension and OPEB costs as well as a potential decrease in intergovernmental revenues, specifically federal funding.

Moody's Investors Service has assigned an Aa2 rating to the county's $37.8 million Lease Revenue Bonds, 2017 Series A (LAC-CAL Equipment Program). Concurrently, we upgraded the county's outstanding Lease Revenue Bonds and Certificates of Participation to Aa2 from Aa3. The one notch difference between the county's Aa1 Issuer rating and lease-backed obligation rating reflects the standard legal structure for these California abatement lease financings and "more essential" leased assets. The one notch also reflects certain strong legal features of California general obligation bonds that are not shared by lease-backed obligations.

We have also upgraded the county's outstanding Refunding Certificates of Participation (Disney Concert Hall Parking garage), Series 2012 and Certificates of Participation, Series 1993 to Aa3 from A1. The two notch difference between the county's Aa1 Issuer rating and lease-backed obligation rating reflects the standard legal structure for California abatement lease financings and "less essential" leased asset which includes the parking garage of the Walt Disney Concert Hall. The two notches also incorporate certain strong legal features of California general obligation bonds that are not share by lease-backed obligations

Credit Strengths

» Large and diverse economy

» Sound financial position supported by healthy reserve and cash levels

» Strong management team

» Low debt burden

Credit Challenges

» Department of Health Services' (DHS) reliance on the county's support for operations, while considerably manageable, could fluctuate given the volatility of the health care industry

» Unfunded pension and Other Post Retirement Benefits (OPEB) liabilities representing long term, but manageable, risks for the county

Rating Outlook

The stable outlook reflects the county's large and diverse tax base, which is expected to experience ongoing moderate growth. The outlook is also inclusive of the county's sound financial position with reserves expected to be maintained within current levels.

Factors that Could Lead to an Upgrade

» Strong financial performance that contributes to sustained growth in reserve and cash levels

» Significantly improved socioeconomic indicators

» Sizeable decrease in 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

» Weakened hospital operations that materially increase reliance on the county's general fund

Key Indicators

Exhibit 1

Los Angeles (County of) CA	2012	2013	2014	2015	2016
Economy/Tax Base					
Total Full Value ($000)	$ 1,070,483,326	$ 1,093,824,574	$ 1,145,207,970	$ 1,207,822,625	$ 1,282,484,495
Full Value Per Capita	$ 107,999	$ 109,175	$ 113,736	$ 118,507	$ 125,072
Median Family Income (% of US Median)	97.0%	96.2%	95.2%	95.0%	95.0%
Finances					
Operating Revenue ($000)	$ 13,854,364	$ 14,611,055	$ 15,210,968	$ 15,457,073	$ 16,192,098
Fund Balance as a % of Revenues	17.1%	18.2%	18.9%	19.1%	18.9%
Cash Balance as a % of Revenues	15.3%	11.9%	13.3%	17.9%	20.1%
Debt/Pensions					
Net Direct Debt ($000)	$ 1,822,805	$ 1,879,522	$ 1,585,747	$ 1,668,075	$ 1,875,593
Net Direct Debt / Operating Revenues (x)	0.1x	0.1x	0.1x	0.1x	0.1x
Net Direct Debt / Full Value (%)	0.2%	0.2%	0.1%	0.1%	0.1%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	1.2x	1.6x	1.7x	1.8x	1.7x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	1.6%	2.1%	2.2%	2.3%	2.2%

Source: Moody's Investors Service

Detailed Rating Considerations

Economy and Tax Base: Large and Diverse Economy Continues To Grow and Fuel Revenue Growth

The county's extremely large assessed value (AV) continues to exhibit moderate growth and reached an all-time high of $1.34 trillion in fiscal 2017, which is by far the largest of any county in the nation. The property taxes generated from this base represent the county's largest source of discretionary revenues (at approximately 25%), and its continued growth is a key credit strength. The county's AV has remained relatively stable over a long period of time, which serves to moderate revenue swings. During the run-up of housing values prior to the recession, the AV breached 10% annual growth only once, in 2007, while elsewhere in the state, double digit annual increases were commonplace. This relative stability is rooted in the generally older, and more mature nature of the housing stock within the county.

AV experienced modest declines in 2010 and 2011 totaling a very low negative 2.3%. Since then, AV has grown in each of the following years for an aggregate amount of 25.5%. The twenty largest taxpayers of the county are just 3.3% of total 2017 AV. Helping to fuel the county's AV growth are single-family home sale prices that remain well above the median assessed value as well as new commercial and residential development. Some notable developments underway include the Wilshire Grand Center, which will become the tallest building in the Western US when completed in 2017. This $1 billion private investment in downtown Los Angeles will include an InterContinental Hotel, office space and condominiums. A new state of art stadium for the NFL Rams and Chargers is expected to open in the 2020 NFL season at a cost that is expected to exceed $2 billion.

Los Angeles County's unemployment rate at 4.3% is below the state and U.S. rates and is significantly down from its peak of 12.6% in 2010. The county's growing economy is not only a catalyst for regional economic expansion and job creation but remains an economic engine for the state. The county's economy is larger than 44 states and all but 19 countries. Los Angeles County's Gross Domestic Product (GDP) grew from $530 billion in 2009 to $629 billion in 2016, and represents 27.6% of the state's GDP and 3.7% of the United States' GDP.

The county's wealth levels continue to approximate nationwide medians. Estimated 2016 median family income is 95.0% of the US and compared to Aa-rated large counties, these levels are relatively low, but satisfactory for the rating given the county's other credit strengths.

Financial Operations and Reserves: Strong Financial Position Supported by Healthy Reserves

We expect that the county's trend of strong financial operations to continue, given management's prudent fiscal practices and commitment to maintaining reserves within current levels. In fiscal 2016, the county generated its fourth consecutive operating surplus, increasing available operating fund balance to $2.9 billion or a strong 18.1% of revenues. Based on year-to-date- projections, the county's management team expects that reserves will be at least level to the prior year due to carry-over of funds and expenditure savings across all departments.

The proposed fiscal 2018 budget includes a modest increase of 0.5% over the prior year and is based on reasonable revenue assumptions such as 5.79% AV growth and a 3.5% increase in sale tax revenues. In addition, management understands the potential instability of federal and state funding in the upcoming years and has prepared several curtailment scenarios which can be timely implemented, if necessary.

One of the county's major expense items involves healthcare for the county's indigent population, provided through its Department of Health Services. DHS is heavily reliant on its operating subsidy, which comprises roughly one- third of total DHS revenues. Positively, DHS has recently become less reliant on county general fund support for operations. The county's general fund fiscal 2017 contribution of $443 million is 10% of total DHS budget and just 1.9% of 2017 county general fund revenues. This is significantly down from 2013, when the county's general fund contribution was $718 million or 4.28% of 2013 county general fund revenues. Further, the DHS loan balance owed to the county decreased to $134 million in fiscal 2017, which is a significant improvement from 2011, when the balance was over $1 billion.

DHS's improved financial operations are related to the Patient Protection and Affordable Care Act, the state's improved efficiency in submitting reimbursements and receipt of revenues through the Section 1115 Hospital Financing Waiver (the Waiver), now known as

Medi-Cal 2020. DHS management continues to implement strategies to maximize efficiencies and is developing ideas to mitigate the potential long-term impact of the proposed repeal/replace of the Affordable Care Act.

LIQUIDITY

The county's liquidity position remains strong with unrestricted cash and investments at $3.1 billion or a strong 19.2% of operating revenues in fiscal 2016. The county's liquidity position is further augmented with total of $1.41 billion of alternate liquidity available for borrowing purposes, if needed.With the county's continued strong operating performance, the county's liquidity position should remain healthy.

Debt and Pensions: Low Debt Burden; Moderate Unfunded Pension Liability and New Plan Implemented to Address Growing Unfunded OPEB Liability

The county's direct net debt burden is low at 0.14% of AV. The above-average overall debt burden of 2.75% of AV, compared to the nationwide median of 1.9% AV for Aa1 counties, reflects the large amount of debt of the overlapping jurisdictions, mainly Los Angeles Unified School district. We expect that the county's debt burden will remain modest given our expectation that the county's AV will continue to moderately grow in the medium term.

DEBT STRUCTURE

The county's long-term debt is in fixed rate mode and the final maturity is in 2046.

DEBT-RELATED DERIVATIVES

The county has not entered into any derivative agreements.

PENSIONS AND OPEB

The county's three-year adjusted net pension liability (ANPL) is moderate at 2.2% of AV and 1.7 times operating revenues, which equate to an A-rating score on our scorecard. Moody's ANPL reflects certain adjustments we make to improve comparability of reported pension liabilities. The adjustments are not intended to replace the county's reported liability information, but to improve comparability with other rated entities.

The county's OPEB liability is sizeable at $26.8 billion. In an effort to stem the looming burden of its OPEB liability, the county established an irrevocable OPEB trust in 2012. As of March 31, 2017, the trust had a net position of $640 million. The Board of Supervisors adopted a funding plan commencing in fiscal 2016 that would enable the county to fully fund its annual contribution ($2.2 billion) by fiscal 2028. The county remains on target in meeting this goal and the fiscal 2018 budget includes a $120.8 million appropriation in addition to its pay-go contribution of $558 million. Further, the county has eliminated spousal and dependent coverage and implemented mandatory enrollment in Medicare. This is expected to save more than $840 million in savings over the next 30 years.

The county's fixed cost burden, which includes debt service, pension and OPEB contributions, is a moderate 13.2% of revenues (fiscal 2016). We expect fixed costs to increase, especially due to recent changes to the county's pension plan, but will remain manageable relative to the county's overall budget. Pension costs are budged to increase by 13% in fiscal 2018 due to management's recently adopted changes to its pension plan which include an actuarial assumed investment rate of return of 7.25% (down from 7.5%) and an increased employer contribution rate that is being implemented over the next three years.

Management and Governance

California counties have an Institutional Framework score of A, which is moderate compared to the nation. Institutional Framework scores measure a sector's legal ability to increase revenues and decrease expenditures. California counties' major revenue sources are determined by the state government or, for the most part, can only be raised with voter approval. Ad valorem property tax rates cannot be increased above 1% except to meet GO bond payments, and assessed valuation growth is also generally limited to 2% annually unless a property changes ownership. Unpredictable revenue fluctuations tend to be moderate, or between 5-10% annually. Across the sector, fixed and mandated costs are generally greater than 25% of expenditures. However, California has strong public sector unions, which can limit the ability to cut expenditures. Unpredictable expenditure fluctuations tend to be minor, under 5% annually.

Management has demonstrated its ability to preserve the county's financial position through challenging economic and financial cycles and given their continued prudent budgetary practices, and we expect reserves to remain healthy.

Legal Security

Security for the lease payments are secured by monthly lease payments from County Departments, subject to abatement of the leased property, effectively on parity with other unsecured obligations.

Use of Proceeds

The bond proceeds will permanently finance outstanding Bond Anticipation Notes that funded equipment purchases.

Obligor Profile

Los Angeles County is largest county in the nation both by size ($1.34 trillion tax base) and population (10.2 million). The county's economy continues to expand, and the unemployment rate at 4.3% (March 2017) is below the state (5.1%) and nation (4.4%).

Methodology

The principal methodology used in this rating was Lease, Appropriation, Moral Obligation and Comparable Debt of US State and Local Governments published in July 2016. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

Ratings

Exhibit 2

Los Angeles (County of) CA

Issue	Rating
Lease Revenue Bonds, 2017 Series A (LAC-CAL Equipment Program)	Aa2
Rating Type	Underlying LT
Sale Amount	$37,845,000
Expected Sale Date	06/13/2017
Rating Description	Lease: Abatement

Source: Moody's Investors Service

REPORT NUMBER 1075464

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