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Los Angeles County Public Works Financing Authority, CA's Series 2010A & B Bonds Rated 'A+'; Outlook To Pos On Par Debt

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NEW YORK (Standard & Poor's) Oct. 25, 2010--Standard & Poor's Ratings Services assigned its 'A+' long-term rating to Los Angeles County Public Works Financing Authority, Calif.'s lease revenue bonds, multiple capital projects I, series 2010A (tax-exempt) and series 2010B (Build America bonds/Recovery Zone Economic Development bonds).

At the same time, Standard & Poor's revised the outlook to positive from stable on its 'AA-' issuer credit rating (ICR) on Los Angeles County and its 'A+' long-term rating on the county's lease-secured debt and pension obligation bonds outstanding. The outlook on the series 2010A and 2010B bonds is also positive.

"The ratings on the series 2010A and 2010B bonds, and other lease secured debt, reflect our opinion of the long-term creditworthiness of Los Angeles County, as well as a covenant to budget and appropriate pledged lease payments on the individual leased assets pledged to each bond series, subject to abatement in the event of damage or impairment to the leased properties," said Standard & Poor's credit analyst David Hitchcock.

The 'AA-' ICR and the county's long-term general creditworthiness reflect what we view as:

- A very large, deep, and diverse economic base, although one currently experiencing elevated unemployment levels;
- Very strong unreserved general fund balances; and
- Low debt.

Partially offsetting our view of the above factors is our view of Los Angeles County's responsibility for health care and social service spending for a large urban population, combined with limited revenue-raising capability and a discretionary budget that is a relatively small share of the total budget, as well as the long-term need to address a large $2.5 billion unfunded other postemployment benefits (OPEB) liability.

The positive outlook reflects our view of Los Angeles County's maintenance of what we consider to be very strong fund balances in a period of rising AV. If the county is able to maintain its very strong fund balances through timely budget-closing action in the next two fiscal years, despite current economic challenges, possible future state programs cuts, ongoing health system deficits, and projected moderate future declines in AV, we could raise the rating. The outlook also recognizes what we believe to have been recent county conservative budgeting practices and the depth and diversity of its economy. We believe Los Angeles County will face potential rising social service and indigent health care costs if economic weakness continues, but the property tax base will also be buffered by what we consider to be substantial underassessment of older properties as the result of Proposition 13's previous limitations on AV increases. Should fund balances decline materially in the next two years, we could revise the outlook to stable.

The pension obligation bonds are secured by the county's covenant to budget and appropriate payments for debt service, but without a pledge of unlimited ad valorem revenues.

We understand that the series 2010A and B bond proceeds will be used to finance various projects, including the county's Harbor-UCLA Medical Center, seismic retrofitting at the Olive-View Medical Center, rehabilitation of the County Hall of Justice, and improvements at the county's Coroner Crypt building, as well to refinance the commercial paper used to fund these projects.

RELATED CRITERIA AND RESEARCH

- USPF Criteria: Appropriation-Backed Obligations, June 13, 2007
- USPF Criteria: GO Debt, Oct. 12, 2006
- USPF Criteria: Key General Obligation Ratio Credit Ranges – Analysis Vs. Reality, April 2, 2008

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