MOODY'S
INVESTORS SERVICE

Rating Action: Moody's assigns Aa2 rating to Los Angeles County's (CA) Lease Revenue Bonds, 2020 Series A

26 Jun 2020

New York, June 26, 2020 -- Moody's Investors Service has assigned a Aa2 rating to Los Angeles County's (CA) Lease Revenue Bonds, 2020 Series A (LAC-CAL Equipment Program). The expected par amount is approximately $24.0 million. Concurrently, we affirmed the county's Aa1 issuer rating, Aa2 rating on outstanding lease revenue bonds and Aa3 rating on outstanding certificates of participation (COPs) affecting $1.9 billion and $54.6 million, respectively. The outlook is stable.

RATINGS RATIONALE

The Aa1 issuer rating reflects the county's massive assessed value that stands at an all-time high at $1.6 trillion in fiscal 2020 as well as its large and diverse economy. We expect that assessed value will continue to experience solid growth although at a slower rate due to the sharp decline in the economy because of coronavirus. The rating also incorporates the county's strong financial position supported by healthy reserves and liquidity. Solid financial practices anchor the county's operating performance and drove multiyear surpluses. These institutionalized practices highlighting favorable governance make the county well positioned to manage through the current economic challenges due to coronavirus. The county's moderate debt and pension profile and elevated OPEB burden are also factored into the rating.

The one notch difference between the county's issuer rating and Lease Revenue Bonds, 2020 Series A and outstanding lease revenue bond ratings reflects the standard legal structure for these California abatement lease financings and "more essential" leased assets. These leased assets include 1,243 equipment items that primarily consists of vehicles and tractors. The notching also reflects certain strong legal features of California general obligation bonds that are not shared by lease-backed obligations.

The legal provisions for the Lease Revenue Bonds, 2020 Series A include that the county will provide rental interruption insurance for 24 months and will not require a debt service reserve fund, which is a negative credit factor. This negative credit factor is mitigated by the county identifying several unencumbered assets that are available for substitution under the lease structure with total property value exceeding the par amount of the Lease Revenue Bonds, 2020 Series A.

The county's outstanding Refunding Certificates of Participation (Disney Concert Hall Parking garage), Series 2012 and Certificates of Participation, Series 1993 are rated Aa3. 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 shared by lease-backed obligations.

We regard the coronavirus outbreak as a social risk under our ESG framework, given the substantial implications for public health and safety. The coronavirus crisis is not a key driver for this rating action. We do not see any material immediate credit risks for Los Angeles County, CA. The county has received close to $1.1 billion from the CARES act, which will significantly help offset costs related to the coronavirus that the county has incurred.

RATING OUTLOOK

The stable outlook reflects the county's large and diverse tax base, which is expected to experience ongoing moderate growth. It also reflects management's effective fiscal practices which will continue to support the county's sound financial position.

FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATINGS

- Continued strong financial position, including maintaining or building available reserves

- Significantly improved wealth indicators of county residents

- Sizeable decrease in pension and OPEB liabilities

FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATINGS

- Substantial and sustained decrease in reserves and liquidity

- Material increase in leverage from unfunded pension and OPEB liabilities

LEGAL SECURITY

The county's Lease Revenue Bonds, 2020 Series A, outstanding lease revenue bonds and COPs are secured by a contractual pledge of the county of all of its available financial resources, subject to abatement in the event of damage or destruction of the leased property.

USE OF PROCEEDS

The bonds will refund outstanding Bond Anticipation Notes issued to purchase essential equipment for operations.

PROFILE

Los Angeles County is the largest county in the nation both by assessed value ($1.6 trillion) and population (10.3 million). It's large and diverse economy is larger than 45 states and all but 17 countries. The county is governed by a five-member Board of Supervisors and day-to-day operations are managed by the Chief Executive Officer.

METHODOLOGY

The principal methodology used in the issuer rating was US Local Government General Obligation Debt published in September 2019 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBM_1191097. The principal methodology used in the lease ratings was Lease, Appropriation, Moral Obligation and Comparable Debt of US State and Local Governments published in July 2018 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBM_1102364 . Alternatively, please see the Rating Methodologies page on www.moodys.com for a copy of these methodologies.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found at: https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_79004.

For ratings issued on a program, series, category/class of debt or security this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series, category/class of debt, security 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.

The ratings have been disclosed to the rated entity or its designated agent(s) and issued with no amendment resulting from that disclosure.

These ratings are solicited. Please refer to Moody's Policy for Designating and Assigning Unsolicited Credit Ratings available on its website 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.

Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1133569 .

The Global Scale Credit Rating on this Credit Rating Announcement was issued by one of Moody's affiliates outside the EU and is endorsed by Moody's Deutschland GmbH, An der Welle 5, Frankfurt am Main 60322, Germany, 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 issued the credit rating is available on www.moodys.com.

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