MOODY'S
INVESTORS SERVICE

Rating Action: Moody's assigns Aa2 to LA County's (CA) Lease Revenue Bonds; outlook stable

30 Sep 2021

New York, September 30, 2021 -- Moody's Investors Service has assigned Aa2 ratings to Los Angeles County's Lease Revenue Bonds, 2021 Series F (Green Bonds) and Lease Revenue Refunding Bonds, 2022 Series G (Forward Delivery). The expected par amounts are $250.2 million and $221.5 million, respectfully. Moody's maintains the county's Aa1 issuer, and Aa2 lease revenue bond ratings. The county's issuer rating is equivalent to what would be its general obligation unlimited tax bond rating. Post issuance, the county will have about $2.7 billion in lease revenue bonds. The outlooks is stable.

RATINGS RATIONALE

The Aa1 issuer rating reflects the county's massive assessed value that stands at an all-time high at $1.8 trillion in fiscal 2022 as well as its large and diverse economy. 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 has driven multiyear surpluses, which based on unaudited results is expected to continue in fiscal 2021. Institutionalized financial practices, such as not backfilling cuts for programs funded by the state and federal government, continued practice of prefunding its OPEB trust, and meeting its reserve target highlight favorable governance. 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 bond ratings reflects the standard legal structure for California abatement lease financings and "more essential" leased assets. These leased assets include the county's hospitals, libraries, and social service buildings, to name a few. The notching also reflects certain strong legal features of California general obligation bonds that are not shared by lease-backed obligations.

The Lease Revenue Bonds, 2021 Series F and 2022 Series G are under the Master Lease established in 2015, which unlike some of the county's earlier lease obligations does not provide the creditor with the right to re-enter or re-let the leased property in the event of a county payment default. This limitation results in a relatively weaker security. But given the county's overall credit quality, this relative weakness is not sufficient at this time to warrant a rating distinction.

The legal provisions for the Lease Revenue Bonds 2021 Series F and 2022 Series G include that the county will provide rental interruption insurance for 24 months, title insurance, but will not require a debt service reserve fund, which is a negative credit factor. This negative credit factor is mitigated by the county having seismic insurance. In addition, the county has identified unencumbered assets that are available for substitution under the lease structure.

RATING OUTLOOK

The stable outlook reflects management's effective fiscal practices, which will continue to support the county's strong financial position. The outlook also considers that federal relief funds combined with local revenue will provide the resources necessary for the county to manage through the health and economic pressures caused by COVID-19.

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

Security for the lease payments is a contractual pledge of all the county's available financial resources, subject to abatement in the event of damage or destruction of the leased properties.

USE OF PROCEEDS

The Lease Revenue Bonds 2021 Series F will finance various capital improvement projects as well as refinance outstanding Commercial Paper Notes.

The Lease Revenue Bonds, 2022 Series G will refund Series 2012 (Multiple Capital Projects II) Lease Revenue Bonds for savings. The forward delivery bonds will allow the county to issue the bonds on a tax-exempt basis on the call date of August 1, 2022.

PROFILE

Los Angeles County is the largest county in the nation both by assessed value ($1.8 trillion) and population (nearly 10.2 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 these ratings was Lease, Appropriation, Moral Obligation and Comparable Debt of US State and Local Governments Methodology published in June 2021 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBM_1274696 . Alternatively, please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

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.

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