

Rating Action: Moody's Assigns Aa2 to Los Angeles, CA's GO Bonds; Outlook is Stable

Global Credit Research - 09 Jun 2017

New York, June 09, 2017 -- Issue: General Obligation Bonds Series 2017-A (Taxable); Rating: Aa2; Rating Type: Underlying LT; Sale Amount: \$86,585,000; Expected Sale Date: 06/27/2017; Rating Description: General Obligation;

Issue: General Obligation Refunding Bonds Series 2017-B (Tax-Exempt); Rating: Aa2; Rating Type: Underlying LT; Sale Amount: \$82,815,000; Expected Sale Date: 06/27/2017; Rating Description: General Obligation;

Summary Rating Rationale

Moody's Investors Service has assigned an Aa2 rating to the City of Los Angeles, CA's \$86.6 million General Obligation Bonds, Series 2017A (Taxable) and \$82.8 million General Obligation Refunding Bonds, Series 2017-B (Tax-Exempt). Moody's maintains a Aa2 rating on the City's approximately \$703.8 million of outstanding parity General Obligation debt. The outlook is stable.

The assignment of the Aa2 rating reflects an exceptionally large and highly diverse local economy that is both growing and keeping pace with the nation as a whole, a robust citywide assessed valuation that has continued with healthy growth, and an improved financial position marked by steady gains in reserves and cash. Additionally factored in the rating is the City's strong fiscal management that continues to successfully address the financial challenges inherent to an extremely large and complex city, with particular attention to managing long term liabilities, including an above average pension burden and well funded other post employment benefits.

Rating Outlook

The outlook on the rating is stable. Moody's expects the City will continue to operate with strong fiscal discipline resulting in a stable financial position and continued progress in closing the gap in its four year budget outlook. We also expect continued improvement in the City and regional economy contributing to steady growth in the City's overall revenues.

Factors that Could Lead to an Upgrade

Sustained, robust economic recovery leading to significant revenue growth in excess of projected expenditure growth

Materially reduced pension cost pressures

A material increase in reserve and liquidity position to further protect financial flexibility in the face of future economic downturns

Factors that Could Lead to a Downgrade

Return to structural imbalance, declines in the City's reserve and cash position

Economic or tax base stagnation or contraction

Legal Security

General obligation bond debt service is derived from a dedicated, voter-approved property tax, which is restricted for use to the related bonds' debt service and therefore largely insulated from any City operational challenges.

Use of Proceeds

Proceeds from the GO Bonds Series 2017-A are the first series of bonds issued under the \$1.2 billion Proposition HHH GO Bond Authorization - Homelessness Reduction and Prevention, Housing and Facilities. Bond proceeds from this sale will provide loan proceeds for developers to build homeless supportive.

Proceeds from the GO Refunding Bonds Series 2017-B will be used to fully refund Series 2005-B, 2006-A and 2008-A GO Bonds for savings at an estimated 9.67% of net present value of refunded bonds.

Obligor Profile

The City is the second largest in the US by population with a population of a little more than 4 million people. It is the principal metropolitan city of a vast region that stretches from the City of Ventura to the north, the City of Clemente to the south and the City of San Bernardino to the east and Pacific Ocean to the west. The City's boundaries cover an area of 470 square miles and include 39% of the population of Los Angeles County (Issuer Rating Aa1/Stable). Tourism and hospitality, professional and business services, direct international trade, entertainment, and wholesale trade and logistics contribute significantly to local employment.

Methodology

The principal methodology used in this rating was US Local Government General Obligation Debt published in December 2016. Please see the Rating Methodologies page on www.moody.com for a copy of this methodology.

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