FORM GEN. 160

CITY OF LOS ANGELES
INTER-DEPARTMENTAL CORRESPONDENCE

0670-00006-0000

Date: February 24, 2010

To: The Mayor
The Council

From: Miguel A. Santana, City Administrative Officer

Subject: **COMMUNICATION FROM STANDARD & POOR'S**

Yesterday, Standard & Poor's Ratings Services (S&P) lowered by one notch the ratings on the City's General Obligation bonds and General Fund-secured debt obligations. As shown on the attached, S&P now rates our General Obligation bonds AA-, and our General Fund-secured debt A+.

In its statement, S&P indicated that the ratings downgrade was a result, in part, of the City's "...slow approval of necessary budget-cutting measures in response to dramatically lower revenues..." On a positive note, S&P views the City's ratings outlook as stable and credits the Mayor and Council's recent actions to reduce spending to better align with revenues.

S&P's action follows a November 2009 ratings downgrade of the City's General Obligation and General Fund-secured debt by Fitch Ratings, and last week's negative revision of our ratings outlook by Moody's Investors Service.

Attachment

MAS:MV:09100186.doc

STANDARD &POOR'S

Global Credit Portal
RatingsDirect®

February 23, 2010

Los Angeles, CA's GO Bonds Downgraded To 'AA-'; Appropriation-Backed Bonds Downgraded To 'A+'; Outlook Stable

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SAN FRANCISCO (Standard & Poor's) Feb. 23, 2010--Standard & Poor's Ratings Services lowered its rating to 'AA-' from 'AA' on Los Angeles, Calif.'s $1.3 billion general obligation bonds. At the same time, Standard & Poor's lowered its rating to 'A+' from 'AA-' on Los Angeles' $1.9 billion appropriations-backed bonds.

"The downgrades reflect what we view as the overly slow approval of necessary budget-cutting measures in response to dramatically lower revenues and the resulting depletion of general fund reserves," said Standard & Poor's credit analyst Ian Carroll.

Additional rating factors include our view of the city's:

- Cutting of thousands of positions from its payroll and eliminating over $400 million in spending (10% of the budget) in fiscal 2010 due to the economic recession;
- Continuing need to reduce general fund spending, with a 2011 budget deficit that the city expects to match that of 2010 at $400 million;
- Rising long-term liabilities, mainly pension contributions, that the city expects to rise 86% to $556 million in 2013 from $298 million in fiscal 2010; and
- Need to replenish reserves from one-time revenues that the city may receive in 2011, such as expected privatizations and legal settlements.

The stable outlook reflects our view of the city's ability and willingness to reduce spending sufficiently so that its cost structure is better aligned with revenues that have fallen with economic indicators such as housing and jobs. We additionally expect that Los Angeles' economic base will gradually stabilize, allowing for a return to positive growth in revenue categories. If budget-cutting measures are further delayed and plans for rebuilding reserves levels are not executed, we could lower the ratings further.

RELATED RESEARCH

- USPF Criteria: GO Debt, Oct. 12, 2006
- USPF Criteria: Appropriation-Backed Obligations, June 13, 2007

Complete ratings information is available to RatingsDirect on the Global Credit Portal subscribers at www.globalcreditportal.com and RatingsDirect subscribers at www.ratingsdirect.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column.