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FITCH DOWNGRADES LOS ANGELES, CA'S $3B GO & LEASE DEBT; OUTLOOK REVISED TO NEGATIVE

Fitch Ratings-San Francisco-24 November 2009: Fitch Ratings assigns an 'A+' rating to the following Municipal Improvement Corporation of Los Angeles (MICLA), CA's lease revenue bonds:

--$40.4 million series 2009-C (capital equipment) tax exempt;
--$21.5 million series 2009-D (recovery zone economic development bonds);
--$69.6 million series 2009-E (real property) tax exempt.

The bonds are expected to sell via negotiation on Dec. 1-2 and are separately secured by the city's lease rental payments to MICLA for various equipment and facilities.

In addition, Fitch downgrades the following ratings:

--$1.5 billion in outstanding City of Los Angeles general obligation bonds to 'AA-' from 'AA';
--$25.9 million in City of Los Angeles judgment obligation bonds to 'A+' from 'AA-';
--$1 billion in outstanding MICLA refunding certificates of participation (Refunding Program AY), series 2005, and lease revenue bonds, series 2006-A, 2007-A, 2007-B1, 2007-B2, 2008-A, 2008-B, 2009-A, and 2009-B to 'A+' from 'AA-';
--$419.7 million in Los Angeles Convention and Exhibition Center Authority lease revenue bonds, series 2003A and series 2008A to 'A+' from 'AA-'.

The Rating Outlook remains Negative.

The downgraded ratings reflect the city's reduced general fund reserves and the limited ability to replenish them given the city's weakened economy and future years' projected sizable general fund structural imbalance. The ratings acknowledge the city's meaningful response to this year's projected budget gap, although solutions enacted provide ongoing savings that address only about one-half of the projected fiscal 2011 operating deficit. As rising pension costs contribute significantly to the future financial needs, the city cites pension reform as necessary to achieve fiscal balance and has already begun discussions with some labor groups. However, Fitch views the ability to achieve savings in this expense as uncertain in both amount and timing, especially since any change to the police and fire retirement systems requires voter approval. Fitch also believes that the city's economic decline, as evidenced by high unemployment, sales tax weakness, assessed value losses, and high home foreclosure and negative amortization mortgage exposure, will impede financial recovery. The revised ratings also reflect the economy's strong underpinnings as the commercial and cultural center of a large and populous geographical area, moderate overall debt burden, and some funding for retiree medical costs beyond current year payments.

The Negative Outlook results from the size of future years' projected budget gaps along with substantial efforts needed to further reduce spending, enhance revenues, or a combination of both. Fitch views meaningful and ongoing progress in achieving savings through pension reform or other means as critical to retaining ratings at these new levels.

In the meantime, fiscal 2010 is likely to be balanced at year-end through the drawdown of at least some reserve funds, significantly diminishing reserve levels to low amounts. The fiscal 2010 adopted budget closed a $529 million budget gap, including $326 million in personnel expenditure reductions, of which $13 million still need to be finalized. Due to outstanding solutions, delayed implementation of previously agreed solutions, and a $75 million shortfall in revenue receipts, the total budget shortfall for fiscal 2010 is currently $98.1 million. Solutions for this budget shortfall have yet to be fully detailed and agreed upon by all needed parties including labor unions. If these savings cannot be achieved, the city will use reserves to fund the residual imbalance.