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KBRA Comments on Los Angeles Area Wildfires and Potential Risk to Real Property Leased Assets Associated with Certain MICLA Lease Revenue Bonds.

NEW YORK-(BUSINESS WIRE)-With wildfires still burning in the Los Angeles area, KBRA is tracking real property leased assets of the City associated with various series of KBRA-rated lease revenue bonds issued by the Municipal Improvement Corporation of Los Angeles ("MICLA").

Under the respective Lease Agreements, the City of Los Angeles ("the City") agrees to pay MICLA, as rent, basic lease payments from the City's General Fund. The City also agrees to pay "additional payments" which include insurance premiums on insurance required under each Lease Agreement.

Lease payments are subject to abatement if there is substantial interference with the use and possession of the real property because of loss, damage or destruction. However, lease payments are not subject to abatement to the extent that the proceeds of rental interruption insurance relating to the series of lease revenue bonds are available to pay lease payments which would otherwise be abated.

Per the Lease Agreements, during the term of the Lease Agreements, the City must maintain rental interruption or use and occupancy insurance to cover the total or partial loss of the use of any part of a MICLA property caused by any covered hazard for a period of 24 months. The City is not permitted to self-insure rental interruption insurance through its risk retention program. The Trustee is the beneficiary, and any amounts received shall be credited towards the relevant lease payments in the order in which they become due.

The City has also covenanted in the Lease Agreements to maintain insurance against certain risks, and the City's annual budget includes funds for commercial insurance against loss or damage to the MICLA properties by fire and lightning. Extended coverage is also required for loss or damage by explosion, windstorm, smoke and certain other hazards.

Given the structural protections of the MICLA Lease Revenue Bonds, KBRA does not currently see any near-term credit impact on the KBRA-rated MICLA Lease Revenue Bonds. We will continue to monitor the status of the fires and their impact, if any, on the underlying properties.

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