Moody's Investors Service

Global Credit Research
Rating Update
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Rating Update: **J. Paul Getty Trust, CA**

MOODY'S REVISES FROM Aaa TO Aaa/VMIG1 THE RATINGS ASSIGNED TO THE J. PAUL GETTY TRUST'S REVENUE REFUNDING BONDS, SERIES 2007A1-A4 UPON CONVERSION TO LONG-TERM MODE FROM AUCTION RATE MODE; OUTLOOK IS STABLE

TRUST HAS $657 MILLION OF OUTSTANDING RATED DEBT, WITH COMMERCIAL PAPER LIMITED TO $40 MILLION

California Infrastruc. & Econ. Dev. Bank, CA
Not-for-Profit Organization
CA

Opinion

NEW YORK, Mar 11, 2008 -- Moody's Investors Service has revised from Aaa to Aaa/VMIG1 the ratings for The J. Paul Getty Trust's (The Getty's) $270.475 million of Revenue Refunding Bonds, Series 2007A-1, 2007A-2, 2007A-3, and 2007A-4 which are being converted from auction rate mode to long-term mode (with a mandatory tender scheduled for April 1, 2009). At the same time, we have affirmed the Aaa/VMIG1 ratings on the J. Paul Getty Trust's outstanding rated debt and the P-1 rating on the Trust's commercial paper program. The VMIG1 and P-1 short term ratings are based solely on the Trust's substantial own liquidity in the unlikely event of a failed remarketing. The long-term rating carries a stable outlook.

LEGAL SECURITY: The Series 2007A bonds are an unsecured general obligation of the Getty Trust and are on parity with its other outstanding rated debt. The bonds have a maturity of forty years, with no principal payments until the final five years.

INTEREST RATE DERIVATIVES: The Getty has entered into six primary interest rate swaps with a total notional of $628 million with JP Morgan Chase Bank, Bear Stearns Financial Products Inc. and Morgan Stanley Capital Services to synthetically fix its outstanding Series 2003, 2004 and 2007 bonds. In these swaps, The Getty receives some percentage of LIBOR (ranging from 62.5% to 70%) and pays a fixed rate ranging from 3.38% - 3.75%. Additionally, The Getty has entered into four secondary swap transactions for a portion of its Series 2003 and 2004 bonds that have been remarketed in a fixed interest rate mode through 12/1/2011; the total notional amount is $181 million. We believe that with the Getty's large unrestricted financial resource base, any risks associated with the swaps are manageable.

STRENGTHS

*Exceptional financial flexibility derived from $6.3 billion of unrestricted financial resources for FY 2007, cushioning debt 9.2 times and 20.4 years of annual operating expenses.

*Healthy investment returns leading to continued reserve growth, with nearly 21% investment return for FY 2007. The Getty has diversified its investment portfolio and has an established investment management team overseeing its portfolio, particularly in alternatives and real assets. Investment management is ultimately under the purview of the Investment Committee of the Board, with the Board's Investment Committee also containing one non-Trustee with investment expertise. Regular ongoing monitoring of the investment portfolio is the responsibility of the Chief Investment Officer with substantial previous investment experience prior to joining the Trust. Currently The Getty's portfolio hold about 18% in domestic equity, 18% in international equity, 13% in fixed income, 21% in hedged funds, 10% in private equity, 11% in real assets, and 9% in distressed/high yield securities. We believe this target allocation is consistent with the Trust's asset size and liquidity needs.

*No debt plans for the foreseeable future. The Trust has a $225 million commercial paper program with an internally established $40 million limit, but has no plans to use the commercial paper program to meet any funding needs.

*Prominent position as an internationally known cultural institution, operating two museums, a research institute, a conservation institute, and a foundation.

*Relatively new management team and resolution of multiple legal challenges, with the implementation or revision of board policies, including a revision of the Art Acquisition Policy to adopt stricter guideline; the finalization of the State Attorney General's investigation, and agreement reached with the Italian government regarding the transfer of art objects. Outstanding claims remain from other countries, but are at differing stages of the legal process. These claims are for substantially fewer pieces than were at stake with Italy, and we expect no material impact on the credit profile of the Getty as a result. Although the possibility of future claims remains a risk, the revised Art Acquisition Policy provides the Getty with practices consistent with other international museums.

*Sufficient self-liquidity, solid treasury management, and appropriate liquidation procedures (see SHORT-TERM RATIONALE).

CHALLENGES:

*Thin operating performance and operating cash flow, with a three year average operating deficit of approximately 11.7% for FY2007, as calculated by Moody's, although operating cash flow was favorable at 18% for the year. Charging no admission fees, The Getty is highly reliant on investment performance, with the annual endowment spending accounting for 93% of total operating revenues for FY 2007. As a result, the Getty is vulnerable to market volatility. However, during these times, the Getty can take cost containment measures and reduce expenses to help operating performance. We expect the Getty to continue to produce deficits given Moody's inclusion of depreciation expense as an operating expense. However, adjusted for non-cash depreciation, debt service coverage should remain sound. Further, given the magnitude of the Trust's unrestricted asset base and expectation of continued growth in unrestricted resources, the deficits should not have a significant impact on the Getty's credit profile.

SHORT-TERM RATIONALE: The tender short-term features of the Series 2003B & D bonds and Series 2004B bonds (totaling $178 million), with the commercial paper program limited to the $40 million outstanding permitted by Board resolution, continue to be supported by The Getty's own liquid resources. We believe the Getty's holdings in high quality investments, such as its short term investment funds and Treasuries and agencies, provide adequate coverage of variable rate demand debt and commercial paper. For 12/31/2007, The Getty's coverage was good at 1.43 times. The Getty's management has appropriate expertise and procedures in place to ensure the timely liquidation of securities to meet the purchase price in the unlikely event of a failed remarketing of variable rate demand debt.

Outlook

The stable rating outlook is based on The Getty's large and growing unrestricted financial resource base with no borrowing plans.

What Could Change the Rating - UP

Not applicable

What Could Change the Rating - DOWN

Multiple years of investment losses, significant unexpected debt issuance

KEY INDICATORS (FY 2007 Financial Results)

Total Direct Debt: $683 million

Total Unrestricted Financial Resources: $6.3 billion

Unrestricted Resources to Debt: 9.2 times

Unrestricted Resources to Operations: 20.4 times

Three Year Average Operating Margin: -11.7%

Operating Cash Flow Margin: 18.0%

Operating Reliance on Investment Income: 93%

RATED DEBT

Series 2004 B, Series 2003B, 2003D, 2007A1-a4: Aaa/VMIG1 (based on self-liquidity)

Variable Rate Revenue Bonds, Series 2003 A and C, 2004 A: Aaa (in long-term mode) with next reset on

12/1/2011

Tax-Exempt Commercial Paper Notes: P-1 (based on self-liquidity)

CONTACTS

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