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Summary:
San Diego Community Facilities District No. 1 (Miramar Ranch North), California; Special Assessments

Primary Credit Analyst:
Sussan Corson, New York (1) 212-438-2014; sussan_corson@standardandpoors.com

Secondary Contact:
Misty Newland, San Francisco (1) 415-371-5073; misty_newland@standardandpoors.com

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Credit Profile		
US$25.73 mil spl tax rfdg bnds ser 2012 due 09/01/2020		
Long Term Rating	A/Stable	New

Rationale

Standard & Poor's Ratings Services assigned its 'A' rating, and stable outlook, to San Diego Community Facilities District No. 1 (Miramar Ranch North), Calif.'s series 2012 special tax refunding bonds.

The rating reflects what we view as San Diego Community Facilities District (CFD) No. 1's:

- Strong 27:1 direct and overlapping value-to-lien ratio with relatively stable district assessed value (AV) trends in the past few years;
- Diverse and fully developed tax base, with 95% of the fiscal 2012 levy from residential parcels;
- Good 1.6x debt service coverage from the maximum special tax levy and a moderate 1.6% effective tax rate at the maximum levy;
- Low historical delinquency rates of about 1% at fiscal year-end in the previous five fiscal years; and
- Closed lien on additional parity bonds.

The bonds are secured by special taxes collected from real property within the district, net of administrative expenses, levied annually according to the CFD's rate and method of apportionment. The senior administrative expense is subject to an annual $50,000 cap, which is escalated by 2% each year.

The district's rate and method of apportionment authorizes a special tax levy on each property within the CFD up to a maximum rate for no more than 25 years; the maximum rate does not escalate annually. Officials estimate the levy on the majority of district property will continue until bond maturity, although 3.1% of the fiscal 2012 levy comes from properties with levies that will expire in the final year before bond maturity.

San Diego CFD No. 1 is about 15 miles north of downtown San Diego and 10 miles inland from the Pacific Ocean, and southwest of the City of Poway; it is fully developed at 3,125 residential units and about 27 acres of commercial property. About 95% of the fiscal 2012 levy comes from residential parcels while the remaining 5% of the levy comes primarily from commercial property. In our view, the tax base is diverse, with the 10 leading taxpayers representing only 4.6% of the levy. The leading taxpayer, a multiple-tenant shopping center, comprised only 2% of the fiscal 2012 special tax levy. Although the CFD encompasses 1,200 acres and is built out, only half of it is developed while the remaining acres are designated for open space and parks.

The district's total direct and overlapping value-to-lien ratio is what we consider strong at 27:1 in fiscal 2012. District AV has remained relatively stable in our opinion, falling by a cumulative 0.5% since fiscal 2008 to $1.5

billion, including a 1.7% increase in fiscal 2012. Only 0.2% of the special tax levy in 2012 is paid by parcels with direct and overlapping value-to-lien ratios of less than 10:1. While the obligation to pay special taxes is unrelated to AV, AV does drive value-to-lien ratios on the properties.

The CFD is not on the San Diego County Teeter Plan; however, we consider delinquencies to be low. As of May 2012, current delinquent taxes in fiscal 2012 are 1.3% and substantially all of the previous year delinquencies had been collected. Historical annual delinquencies have averaged about 1% annually as of August in each of the previous five years. We understand that officials have sent early notifications to delinquent owners, which they believe have led to lower delinquencies historically. We understand there have been no prepayments by owners in the history of the district.

The district's fiscal 2012 actual levy represented about 72% of the maximum levy. This levy is to generate $6.25 million, which would cover pro forma annual debt service in each year by a good 1.6x, in our opinion, until the final year before bond maturity in which it would cover pro forma debt service by 1.55x. Pro forma coverage declines due to the expiration of the levy on 71 residential units and 4.9 acres of commercial property in the last year and that generate 3% of the maximum special tax levy. Since the CFD was formed in 1991, officials indicate there are no restrictions on the district's ability to raise the tax rate to its maximum rate due to delinquencies. We calculate the district's average effective tax rate at the maximum levy to be 1.6%, which we consider moderate.

San Diego covenants to commence judicial foreclosure proceedings against properties once $10,000 in special taxes become delinquent on an individual property or once delinquencies within the CFD reach 5% unless debt service reserves are fully funded. Although the judicial foreclosure process is accelerated compared with a normal tax foreclosure sale in the state, owner bankruptcies or other factors could still delay the foreclosure sale and the recapture of delinquent special tax revenue to the district. We calculate that, assuming the district levied at the maximum tax rate, it could withstand a 42.7% annual delinquency rate over the life of the bonds with the use of the debt service reserve and still meet debt service requirements.

Median household effective buying income for the San Diego is what we view as strong at 114% of the national levels. Unemployment for the city was 9.5% in March 2012, which remains below the state level of 11.0%, based on seasonally unadjusted data by the Bureau of Labor Statistics.

Outlook

The stable outlook reflects Standard & Poor's expectation that good debt service coverage by the maximum special tax levy and a moderate effective tax rate should continue to protect the district against potential significant future delinquencies. Given the district's strong overlapping and direct value-to-lien ratios and low historical delinquency rates, we don't expect to change the rating in the next two years, despite the limitations on the special tax levy. Although not expected, should AV decline significantly or delinquency rates rise considerably in the next two years, we could lower the rating.

Related Criteria And Research

USPF Criteria: Special-Purpose Districts, June 14, 2007

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