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Summary:

San Diego Community Facilities District No. 2 (Santaluz), Improvement Area No. 1; Special Assessments

Primary Credit Analyst:
Kaiti Wang, San Francisco (1) 415-371-5084; kaiti.wang@standardandpoors.com

Secondary Contact:
Michael Z Stock, New York (1) 212-438-2611; michael.stock@standardandpoors.com

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San Diego Comnty Facs Dist No. 2 (Santaluz) Imp Area No. 1 spl tax rfdg bnds		
Long Term Rating	BBB+/Stable	Affirmed

Rationale

Standard & Poor's Ratings Services affirmed its 'BBB+' rating on San Diego Community Facilities District No. 2 (Santaluz) Improvement Area No. 1, Calif.'s series 2011A special tax refunding bonds. The outlook is stable.

The rating reflects our view of:

- The adequate, 17.2 to 1 combined direct and overlapping value-to-lien (VTL);
- A Standard & Poor's calculated 16% of the levy from properties with an overall VTL ratio below 10 to 1; and
- Only adequate coverage of 1.1x annual debt service from special tax revenue, including from property without improvement value.

The preceding credit weaknesses are offset in part by our view of:

- The diverse, primarily residential nature of the district in San Diego;
- An improved tax collection rate in the past couple of years; and
- A closed parity lien except for refunding purposes.

The bonds are secured by special taxes collected from real property in the district, net of administrative expenses.

San Diego Community Facilities District No. 2 is 20 miles northeast of downtown San Diego and encompasses 2,546 gross acres. The district is primarily residential and levied a special tax on 996 parcels in fiscal 2014 with 84% of the special tax levy from completed parcels.

The district's direct and overlapping, or overall, VTL ratio is about 17.2 to 1 in fiscal 2015, reflecting what we consider to be a relatively large amount of district debt. The direct VTL ratio in fiscal 2015 is 27.6 to 1. In fiscal 2015, district assessed value (AV) increased 14.4% to about $1.25 billion, marking the second year of AV increase after the recession. While the obligation to pay special taxes is unrelated to AV, AV does drive VTL ratios on the properties.

In our view, given the primarily residential composition of the district, the tax base is diverse, with the top 10 taxpayers responsible for 6.4% of the special taxes. The leading taxpayer, a golf course, constitutes only 2.7% of the fiscal 2015 special tax levy.

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Special tax rates vary across parcels and are based on square footage. The fiscal 2015 actual special tax ranged from $1,645 to $6,393, depending on square footage, for a developed single family residence. An "undeveloped" property, as defined by the rate and method, is property owned by owners in the business of home building. The assigned maximum special tax for an undeveloped lot is very high, in our view, at $22,969; there are nine undeveloped parcels left in the district. While the district has not levied special taxes on undeveloped property as defined by the rate and method, the 2015 special tax levy is imposed on 76 vacant residential parcels that are undeveloped and owned by nonhomebuilders. Given the level of unimproved property, about 16% of the fiscal 2015 levy is generated by properties with an overall VTL under 10 to 1, which we consider weak.

The median AV for improved single-family homes in the district is about $1 million. The district's effective tax rate is about 1.44% in fiscal 2015.

About 0.65% of the fiscal 2014 tax levy was delinquent as of August 2014; however, all of the previous-year delinquencies had been collected. We understand the district has historically set the actual levy based on historical delinquency rates, estimated administrative fees, and debt service.

The district's 2014 levy represented roughly 63% of its maximum levy. The maximum tax levy would generate $6.2 million, which would cover annual debt service in each year by about 1.5x. However, we estimate a lower practical levy given state law that limits the levy increase to 10% on residential owners as a result of delinquencies. Assuming the district was to levy at 1.1x annual debt service, it could withstand a 14.3% delinquency rate over the life of the bonds with the use of the debt service reserve.

Median household effective buying income for San Diego is strong in our view, at 117% of the national level. Unemployment for both the city and San Diego County was 5.2% in December 2014.

Outlook

The stable outlook reflects our view of the district's diversity and strong median incomes, which we believe will likely provide support for continued good collections and coverage. Given the level of unimproved properties in the district, we are unlikely to raise the rating in the next two years. If there is substantial development on vacant parcels, and delinquency rates remain low, we could raise the rating. If delinquency rates were to return to the higher levels seen in previous years, or if AV values fall significantly, we could lower the rating.

Related Criteria And Research

Related Criteria

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

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