STANDARD & POOR'S RATINGS SERVICES
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Summary:

Successor Agency to the San Diego Redevelopment Agency, California; Tax Increment

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Credit Profile		
US$153.685 mil tax alloc rfdg bnds ser 2016A due 09/01/2033		
Long Term Rating	AA-/Stable	New
US$30.15 mil tax alloc rfdg bnds (federally taxable) ser 2016B due 09/01/2033		
Long Term Rating	AA-/Stable	New

Rationale

Standard & Poor's Ratings Services assigned its 'AA-' rating to the Successor Agency (SA) to the San Diego Redevelopment Agency, Calif.'s tax allocation refunding bonds (TARBs), series 2016. The outlook is stable.

The rating on the 2016 TARBs reflects our view of the agency's:

- Very strong 2016 coverage of maximum annual debt service (MADS), at 3.02x;
- Large and moderately diverse tax base spanning multiple project areas over 10,000 acres throughout the city of San Diego, with a combined valuation in excess of $25 billion;
- Moderately low volatility ratio of 0.18 across all project areas, and
- Limited ability to issue additional debt pursuant to the 2016 indenture.

Partially offsetting these strengths, in our view, is the significant size of open pending taxpayer appeals, which we account for in our fiscal 2016 coverage calculation, as well as consistently large historical appeals activity.

The bonds are secured by a lien on money available from time to time in the agency's redevelopment property tax trust fund (RPTTF), after payment of senior pass-throughs and debt service on senior obligations issued for individual project areas. A debt service reserve funded in cash or investment-grade surety at the lowest of MADS, 10% of principal, or 125% of average annual debt service further protects the bonds.

Following the refunding, the ratings on any bonds refunded by the 2016 TARBs will be subject to discontinuation. Of the bonds scheduled to be refunded, those that Standard & Poor's currently rates and that will be subject to discontinuation include Centre City series 2004 A-C and 2001A, North Park series 2000 and 2003 A-B, Horton Plaza series 2000, City Heights series 2003A (Housing) and 1999 A&B, and North Bay series 2000.

We calculate that 2016 pledged revenue, after accounting for projected discounts due to open pending appeals, provides 3.02x coverage of senior and parity debt service. Our calculation is based on a tax rate of 1% and excludes 20% housing set aside pledged revenue generated by the Grantville project area (approximately 0.16% of pledged revenue from all project areas combined), which has a senior developer agreement with an indeterminate payment schedule due in an amount not to exceed $9.8 million. Coverage for fiscal 2016 is also calculated assuming a loss of

$8.6 million (4.2% of gross tax increment) to account for open pending appeals. The Naval Training Center project area also has a senior developer agreement, under which the agency is obligated to reimburse the developer for certain yet-to-be-completed improvements within the project area. We understand that the agency has subordinated to debt service payments due to the developer for future improvements, and we consider amounts due from tax increment for completed improvements, which total $800,000 due within the next two years, to be minimal.

Following a cumulative decline of just 5.5% between fiscal years 2009 and 2012, the combined project areas' assessed value (AV) has increased to an all-time high of $25.1 billion in 2016, 8.2% above its 2009 peak. The Centre City Expansion project area makes up 32% of combined project AV in 2016, while the Marina and Columbia project areas account for 12.5% and 10.2%, respectively.

The top 10 taxpayers are, in our view, moderately diverse, accounting for 17% of incremental and 14% of total AV. The leading taxpayer, a large hotel in the Marina project area, is significant, at 4% of incremental AV; however, we believe the risk of delinquent tax payments is mitigated by the fact that vacancy rates at the hotel, a major attraction for tourists and conference goers in the city's popular waterfront area, are consistently low. At the current combined volatility ratio of 0.18 and coverage of 2.97x, we calculate that the project areas could withstand the loss of 54% of AV before coverage on the bonds fell below 1x.

San Diego, the second-largest city in California by population, is a significant employment center in its own right. The economy combines a historical reliance on the tourism, military, and defense sectors with growing aerospace, biotech, and telecommunications clusters. Its economic base is also anchored by higher education and major scientific research institutions, including the University of California-San Diego, San Diego State University, Scripps Research Institute, the Salk Institute for Biological Studies, and the San Diego Supercomputer Center. Median household effective buying income in the city is 114% of the national level, which we consider good.

Postdissolution debt administration

The city is serving as SA to the former redevelopment agency after Assembly Bill (AB) x126 and its trailer legislation AB1484 dissolved these agencies. The SA has received its finding of completion from the state Department of Finance (DOF), and completed an asset transfer review by the State Controller's Office with no significant findings. Management has reported that the SA has been issued a loan from the city currently outstanding in the amount of $18.5 million, which the state has not recognized as an enforceable obligation. The SA also currently has two lawsuits outstanding for the contention of property and cash that were not retained by the agency as part of the housing fund due diligence review, and to dispute the DOF's rejection of the agency's Ballpark Cooperation Agreement as an enforceable obligation. We currently do not believe that the disputes pose a significant threat to the agency's redevelopment property tax trust fund (RPTTF) distribution, given that the agency has complied under protest with the DOF's direction to transfer disputed cash to the SA.

ABx126 and AB1484 require SA and oversight officials to adhere to deadlines for requesting debt service payment amounts and subordinating pass-through payments when necessary. Since the law limits the SA revenue to payment on enforceable obligations, and since it requires more proactive management than under the predissolution flow of funds, we believe an SA's debt management practices after dissolution become more important to credit quality. We understand the SA has historically not requested amounts on semiannual recognized obligation payment schedule

(ROPs) to capture pledged revenue sufficient to fund full annual debt service payments on its outstanding bonds as required by the indenture.

The 2016 indenture requires the agency to request on its annual ROPS all amounts due on all outstanding bonds, including the 2016 bonds, for the full bond year. Should the agency receive insufficient RPTTF in its Jan. 2 distribution to cover all its debt service for the year, its senior indentures require it to deposit with the trustees from the first available revenue received each year from applicable project areas an amount sufficient to cover all payments due under senior indentures for the bond year, and to apply any remaining available revenues toward annual debt service on the bonds, with any shortfall to be cured as soon as possible from the next semiannual RPTTF distribution. Based on available RPTTF funds reported in the county auditor semiannual distribution estimate reports, we anticipate that the SA will have sufficient available revenues in the RPTTF to cover full annual debt service on all (senior and parity) bonds from the January distribution.

Under the 2016 indenture, the SA may issue additional senior or parity bonds only to refund existing senior or parity debt as permitted by section 34177.5 of the Dissolution Act. We understand that the agency does intend to issue additional refunding bonds on parity with the 2016 bonds to achieve debt service savings on outstanding senior debt; however, we do not expect that any such issuance would dilute debt service coverage.

Outlook

The stable outlook reflects our anticipation of continued strong debt service coverage supported by a robust and growing tax base.

Upside scenario

We could raise the rating on the bonds should continued growth in the combined project areas contribute to increased coverage levels and improved volatility and taxpayer diversity such that the agency's credit characteristics are no longer commensurate with those of similarly rated peers.

Downside scenario

We could lower the rating should AV experience significant and sustained declines, causing coverage on the bonds to decrease to levels we no longer view as consistent with peers'.

Related Criteria And Research

Related Criteria

- USPF Criteria: Special-Purpose Districts, June 14, 2007
- Criteria: Use of CreditWatch And Outlooks, Sept. 14, 2009

Related Research

Revisiting The Dissolution Of California Redevelopment Agencies, June 11, 2013

Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column.