

Fitch Affirms Rialto RDA, CA TABs at 'BBB+'; Outlook Stable

Written by Australian Business

NEW YORK--([BUSINESS WIRE](#))--Fitch Ratings has affirmed the following tax allocation bonds (TABs) for the Rialto Redevelopment Agency, California:

--\$21.9 million TABs (Merged Project Area) series 2003A at 'BBB+';

--\$17.1 million TABs (Merged Project Area) series 2005C at 'BBB+';

--\$20.3 million TABs (Merged Project Area) series 2008C at 'BBB+';

--\$24.1 million TABs (Merged Project Area) series 2005A at 'BBB+';

--\$37.6 million TABs (Merged Project Area) series 2008A at 'BBB+';

--\$9.4 million tax allocation housing set-aside bonds (Merged Project Area) series 2005B at 'BBB+';

--\$26.7 million tax allocation housing set-aside bonds (Merged Project Area) series 2008B at 'BBB+'.

The Rating Outlook is Stable.

SECURITY

The non-housing tax allocation bonds are special obligations payable from

non-housing Rialto merged project area gross tax increment revenues, less senior pass-throughs and county administrative fees, and a subordinate lien on housing set-aside revenues.

The tax allocation housing bonds are special obligations payable from the Rialto merged project area's housing set-aside revenues.

KEY RATING DRIVERS

GROWING PROJECT AREA AV: The project area's large and heavily developed commercial and industrial tax base has posted solid gains over the past two years, although fiscal year 2014 total assessed value (AV) remains slightly below its pre-recession peak. Fitch believes that current development activity will foster continued AV growth.

MODERATELY HIGH TAXPAYER CONCENTRATION: Top ten taxpayer concentration is moderately high at 27%; the top two taxpayers comprise over 16% of incremental value (IV) this year.

SOUND AV CUSHIONS: Non-housing and housing TABs are characterized by sound AV cushions (defined by the percentage of one-time AV decline that the tax base is able to withstand while maintaining 1x MADS coverage) of 36% and 29%, respectively.

BELOW-AVERAGE ECONOMIC CHARACTERISTICS: City per capita income levels are well below average and the unemployment rate is well above the state and national averages.

SATISFACTORY AB1X26 IMPLEMENTATION: The rating incorporates the expectation that the agency will continue its satisfactory implementation of AB1x26 (dissolution legislation) procedures.

RATING SENSITIVITIES

COVERAGE CHANGES: Significant shifts in AV resulting in meaningful debt service coverage changes could prompt a rating action, either positive or negative.

CREDIT PROFILE

The city of Rialto (2012 estimated population 101,740) is located 60 miles east of Los Angeles in San Bernardino County. The Rialto merged project area, formed in 1977 and amended in 2002, encompasses over 7,500 acres and over 50% of the city and has a significant industrial presence. The project area is about 15 miles from the Ontario International Airport, and has excellent access to the Interstate-10 freeway and the Alameda Corridor rail line that links it to the Ports of Los Angeles and Long Beach. As a result the city and the project area have large distribution and warehousing concerns. The project area enjoys good diversity by property type and is roughly 41% industrial, 19% residential, 14% commercial, 9% vacant, and 17% unsecured.

ANALYTICAL REFINEMENT CONSIDERS POSITIVE EFFECTS OF DISSOLUTION

On May 1 Fitch refined its California RDA analysis pertaining to the beneficial impact of dissolution legislation (AB 1x26). Fitch now considers TAB liens to be closed and surplus housing revenues to be available for non-housing TAB debt service.

Fitch formerly excluded positive dissolution factors from consideration, reflecting a conservative approach to a dissolution environment marked by legislative, administrative, and judicial uncertainty. Two-and-a-half years and six recognized obligation payments schedule (ROPS) cycles have benefitted TAB credit quality with no successful legal challenges to date. Although uncertainties remain, Fitch views the continued presence of closed TAB liens and surplus housing revenue availability as more likely than not to remain a feature of California TABs.

SOUND COVERAGE AND AV CUSHION

Current MADS coverage on the non-housing TABs improved slightly to 2.05x from 1.83x. However, the AV cushion for the non-housing TABs remained unchanged at 36% upon consideration of surplus housing revenue. The current AV cushion on the housing TABs remains sound at 29%.

Tax increment revenues are sufficient to sustain other moderate stresses. MADS coverage for both housing and non-housing bonds stays above 1x under various stress scenarios, such as the loss of top 10 taxpayers and 100% of outstanding appeals loss.

LARGE, CONCENTRATED PROJECT AREA

The project area is very large and includes several large distribution centers including Target Corp., FedEx Corp., Staples Inc. and Toys R Us Inc. The project area's tax base continued to grow in fiscal 2014 following several years of modest declines. Total AV increased 1.7% in fiscal 2014 to \$2.8 billion, slightly below its pre-recessionary peak. Nonetheless, AV results in a solid AV to base year (\$633 million) ratio of 3.5x resulting in a low volatility of IV to changes in AV.

The top 10 taxpayers comprise a moderately high 30% of the project area's total IV in fiscal year 2014 led by Prologis, Inc. at 9.5% and Target Corp. at 8.6%. As expected, Enertech, a former top taxpayer, ceased operations and its value was significantly reduced, resulting in a \$47 million decline in project area AV. Offsetting concerns regarding this loss are the project area's continued AV growth and a temporary site use agreement for the facility that management expects will soon transition into a long-term lease agreement.

AV growth is expected to remain steady with the ongoing construction of several major development projects. Current outstanding appeals are significantly reduced in fiscal year 2014 from fiscal year 2013, and the success rate of tax appeals remains low.

BELOW AVERAGE ECONOMIC INDICATORS

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Per capita income for the city of Rialto is very low at about 54% of the state average. Median single family home prices in Rialto as measured by the Zillow Home Value Index remain well below their pre-recession peaks; however, this metric is somewhat less applicable for the project area given its highly industrial concentration. The city's unemployment rate at 13.5% in March 2014 remains well above average for the San Bernardino MSA (10.5%), California (9.4%), and the nation (7.6%).

Additional information is available at 'www.fitchratings.com'.

In addition to the sources of information identified in Fitch's Tax-Supported Rating Criteria, this action was additionally informed by information from Creditscope, University Financial Associates, S&P/Case-Shiller Home Price Index, IHS Global Insight, National Association of Realtors, and Zillow.

Applicable Criteria and Related Research:

--'Tax-Supported Rating Criteria' (Aug. 14, 2012);

--'U.S. Local Government Tax-Supported Rating Criteria' (Aug. 14, 2012).

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Tax-Supported Rating Criteria

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=686015

U.S. Local Government Tax-Supported Rating Criteria

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=685314

Additional Disclosure

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