

NEW YORK--([BUSINESS WIRE](#))--Fitch Ratings affirms the following rating on Burbank Public Financing Authority (authority), California's tax allocation bonds (TABs):

--Approximately \$51.5 million TABs, series 2007A (Golden State Redevelopment Project) at 'BBB+'.

The Rating Outlook is Stable.

SECURITY

The TABs are secured by a senior lien on tax increment within the Golden State Project area (the project area) net of the 20% housing set-aside.

KEY RATING DRIVERS

NO IMPACT FROM ANALYTICAL REFINEMENT: Fitch recently refined its analysis of California TABs and is now considering their liens to be effectively closed and surplus housing revenues to be available to pay non-housing debt service. This action resulted in improvement of the TABs' debt service coverage, but was not sufficient to offset other risks.

SIGNIFICANT UNSECURED PROPERTY VALUATION EXPOSURE: The 'BBB+' rating reflects the project area's inherent vulnerability to unsecured aviation and film industry-related equipment valuation declines.

CONCENTRATED TAX BASE: The project area tax base displays very high concentration among the top 10 taxpayers.

IMPROVED DEBT SERVICE COVERAGE, AV CUSHION: Fitch's refined analysis of surplus housing revenues has improved the bonds' debt service coverage and resilience to drops in assessed value (AV).

ABOVE-AVERAGE ECONOMIC INDICATORS: The area economy has low levels of unemployment and solid income and wealth indices.

SATISFACTORY AB 1X26 IMPLEMENTATION: The rating assumes continued satisfactory implementation of AB 1x26 (dissolution legislation) procedures and prioritization of debt service payments.

RATING SENSITIVITIES

SHIFTS IN REVENUE AVAILABLE FOR DEBT SERVICE: The rating is sensitive to shifts in pledged tax increment revenues. Downward shifts in AV resulting in meaningful debt service coverage declines could prompt a negative rating action. Given the high exposure to unsecured property, the rating is likely capped at the current level for the foreseeable review cycle.

CREDIT PROFILE

The city of Burbank is located just 12 miles northeast of downtown Los Angeles. The city's population in 2013 totaled about 104,709, up 4% from 100,316 in 2000.

The project area was formed in 1970 and encompasses 1,107 acres or approximately 10% of the city's geographic area.

PROJECT AREA

The project area is largely build out, and includes the Bob Hope Airport (Burbank-Glensdale-Pasadena Airport Authority, rated 'A+', Outlook Negative by Fitch) and surrounding area adjacent to the Golden State Freeway. The airport's strong regional origination and destination profile within a wealthy and highly populated air trade service area provides a solid anchor to the project area.

Since the project area is well established, it enjoys a very high ratio of incremental value (IV) to base year AV (6.9x). However, this does not translate to low revenue volatility due to the project area's high exposure to both unsecured IV (42% of total AV in fiscal 2014) and taxpayer concentration. The top 10 taxpayers accounted for a very high 36% of AV and 41% of IV in fiscal 2014.

MIXED TAX BASE TRENDS; HIGH APPEALS

AV has fluctuated in recent years after a period of sustained growth. Fiscal 2013 AV grew 5.5% followed by a decline of 3.9% in fiscal 2014 due to a \$159 million decline in aircraft values. Each year, the state selects a random day to conduct an aircraft inventory. This day changes every year and is confidential until the inventory is completed. Privately owned aircraft are more prone to wide fluctuations in value since these assets do not follow fixed flight routes unlike commercial aircraft. The approach to aircraft inventory creates inherent volatility in valuation, dependent on the number of aircraft present on the inventory date.

Fiscal 2015 projections estimate a decrease in AV of 11% or roughly \$280 million due primarily to the assumption that AV will capture losses realized from a high level of pending appeals being finalized in fiscal 2015. The authority is projecting a \$312 million AV loss due to pending appeals, offset slightly by \$27 million in property transfers. Fitch believes this assumption is somewhat conservative. While the total outstanding level of appeals and projected AV loss is high (the above \$312 million plus an additional \$75 million to be finalized after fiscal 2015, for a cumulative 15% of total AV), Fitch notes positively that no appeals succeeded in either fiscal 2013 or fiscal 2014. Additionally, the historical loss rate of about 18% of original contested values could represent a more moderate future AV loss of \$56.2 million (2% of total AV).

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 1X 26). 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 passed since dissolution, during which the factors 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.

COVERAGE ENHANCED BY HOUSING REVENUES

Coverage of the senior bonds' maximum annual debt service (MADS) based on fiscal 2014 total revenues (including the former housing set-aside revenues), is about 1.7 times (x). If the 20% housing set aside were maintained, MADS coverage on senior non-housing debt service from revenues would be about 1.4x. Coverage stands up well to various Fitch-designed stress scenarios, including the loss of the top 10 taxpayers. The inclusion of the housing revenues improved both debt service coverage and resilience to AV volatility. An AV decline of about 37% would be required to reduce debt service coverage to 1.0x MADS.

STRONG ECONOMIC PROFILE

City unemployment rates are historically below state and national levels, and the April 2014 rate of 6.1% was well below the comparable state average (7.3%), and slightly above the national average (5.9%). Wealth and income indices are solid, with per capita money income 114% and 121% above state and national averages.

IMPLEMENTATION of AB1X26

The City of Burbank has been recognized as the successor agency (SA) to the RDA. ROPS, which include 2014 debt service, have been approved by the oversight board and state. The SA has received approval for sufficient payments to cover 2014 debt service.

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, and the National Association of Realtors.

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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