

Fitch Upgrades San Diego RDA, CA's Sub. Parking Bonds to 'AA-'; Outlook Stable

Written by Australian Business

NEW YORK--([BUSINESS WIRE](#))--Fitch Ratings has taken the following action on San Diego Redevelopment Agency, CA's (the RDA) subordinate parking bonds:

--\$14.8 million Centre City Redevelopment Project subordinate parking bonds series 2003B upgraded to 'AA-' from 'A'.

In addition, Fitch has affirmed the ratings on the following RDA tax allocation bonds (TABs):

--\$245 million Centre City Redevelopment Project subordinate TABs series 1999C, 2000A, 2000B, 2001A, 2003A, 2004A, and 2006A at 'AA-';

--\$109 million Centre City Redevelopment Project tax allocation housing bonds (taxable) series 2004C, 2004D, 2006B, and 2008A at 'AA-';

--\$5 million City Heights Redevelopment Project housing set-aside TABs series 2003A at 'A+';

--\$16.7 million Horton Plaza Redevelopment Project subordinate TABs series 2000 and 2003A at 'A-';

--\$5.1 million Horton Plaza Redevelopment Project tax allocation housing bonds series 2003C (taxable) at 'A-';

--\$16 million North Park Redevelopment Project TABs series 2000, 2003A, and 2003B at 'A+';

The Rating Outlook is Stable.

SECURITY

Centre City:

The subordinate TABs are payable from Centre City project area gross tax increment revenues. This is less the 20% housing set aside, statutory pass-through payments and the county's administrative fee and subordinate to senior lien bonds, which are not rated by Fitch.

The tax allocation housing bonds are payable from the Centre City project area's 20% of gross revenues set aside for housing, net of the county's administrative fee.

The subordinate parking bonds are secured by parking facilities operating revenues, net of operation and maintenance costs, and a pledge of the City of San Diego parking meter revenues, subordinate to senior parking revenue bonds, which are not rated by Fitch. The bonds are also secured by a third lien pledge of tax increment revenue up to the parking bonds' maximum annual debt service (MADS).

City Heights:

The tax allocation housing bonds are payable from the City Heights project area 20% of gross revenues housing set-aside revenues. Debt with a subordinate lien on housing set-aside revenues is not rated by Fitch.

Horton Plaza:

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The subordinate TABs are payable from Horton Plaza project area gross tax increment revenues, less the 20% housing set aside, subordinate to senior lien bonds, which are not rated by Fitch. Junior lien bonds, subordinate to the subordinate TABS, are not rated by Fitch.

The tax allocation housing bonds are payable from the Horton Plaza project area 20% of gross revenues housing set-aside revenues.

North Park:

The senior TABs are payable from North Park project area gross tax increment revenues. This is less the 20% housing set aside, statutory pass-through payments and the county's administrative fee. Additional security is provided by the ability of the 20% housing set-aside to pay 24% of senior lien debt service. Subordinate lien bonds are not rated by Fitch.

All Fitch-rated TABS benefit from a cash-funded debt service reserve funded at the lower of MADS, 125% average annual debt service (AADS) or 10% outstanding principal.

KEY RATING DRIVERS

UPGRADE REFLECTS CLOSED LIEN, GOOD DEBT SERVICE COVERAGE: Fitch now considers TAB liens to be closed under dissolution legislation (AB 1X26), based on a recent analytical refinement. The subordinate parking bonds, whose lien on tax increment revenues is subordinate to the senior and subordinate TABs, benefit from the closed lien, as it protects pledged revenues against further leverage. Debt service coverage on combined senior, subordinate, and subordinate parking bonds is solid at 3.5x MADS based on fiscal 2014 revenues.

SOUND DEBT SERVICE COVERAGE LEVELS: Debt service coverage levels and assessed value (AV) cushions remain sound for the TABs, with some enhancement for the

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non-housing bonds from inclusion of surplus housing revenues in the coverage calculation, as permitted under the recent analytical refinement.

STABLE LOCAL ECONOMY: The project areas benefit from their location in the city of San Diego. The city features a diverse economy, declining unemployment, and a recovering tax base. Project areas' AV have experienced recent growth after prior year declines/flat performance. Outstanding appeals are not expected to have a material impact on pledged revenues.

TAX BASE CONCENTRATION: Tax base concentration is generally low to moderate. The exception is the Horton Plaza project area, which features significant taxpayer concentration.

RATING SENSITIVITIES

SHIFTS IN REVENUE AVAILABLE FOR DEBT SERVICE: The ratings are sensitive to shifts in pledged revenue due to tax base changes. Tax base declines that decrease pledged revenues could have a negative effect on ratings. Given recent AV performance, Fitch believes such shifts are not likely in the near term.

CREDIT PROFILE:

The project areas benefit from their location in the city of San Diego (Fitch implied unlimited tax general obligation rating at 'AA-', with a Stable Outlook). The city has a diverse economy and above-average socio-economic characteristics. Recent employment trends have been positive and unemployment is lower than state and national levels. Per capita and household income levels are above average.

City AV has returned to growth following prior year declines. Individual project area AV has also seen recent year growth. Overall project area AV appeals have declined significantly in recent years and estimated pending appeals are not expected to materially negatively impact AV or debt service coverage.

CENTRE CITY

The 'AA-' ratings on the Centre City Redevelopment Project subordinate TABs, housing bonds, and subordinate parking bonds reflect sound debt service coverage and moderate taxpayer concentration. Parity ratings on the subordinate TABs and the subordinate parking bonds reflect that debt service coverage for both is strong and the small amount of parking bonds results in very similar debt service coverage levels. In addition, the subordinate parking bonds benefit from the pledge of net parking revenues.

SOUND DEBT SERVICE COVERAGE LEVELS

Fiscal 2014 revenues cover senior and subordinate TABs' MADS by 3.7x. MADS coverage for senior and subordinate TABs, and subordinate parking bonds is 3.5x. Housing TAB MADS coverage from 2014 revenues is 1.7x. Coverage stands up well to various Fitch-designed stress scenarios, including the loss of the top 10 taxpayers. AV declines of about 63% and 62% would be required to reduce debt service coverage to 1.0x MADS for the senior and subordinate TABs and the combined senior, subordinate, and subordinate parking bonds, respectively. An AV decline of about 36% would reduce debt service coverage to 1.0x MADS for the housing TABs.

While the indenture permits use of tax increment to cover only 1x debt service on a third-lien basis for the subordinate parking bonds, the base from which this revenue is drawn generates strong coverage. Parking revenue bonds are also supported by a second lien pledge on net parking garage revenue at two facilities as well as parking meter revenue appropriated by the City of San Diego. Available revenues from these sources have historically been very strong (about \$4 million in fiscal 2013 or 2.6x coverage of MADS), but annual operational and financial performance could impact future parking revenue coverage levels.

MATURE PROJECT AREA; DIVERSE TAX BASE

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The fully-developed 1,400 acre project area tax base is sizable, with AV at \$12.8 billion in fiscal 2014. The project area experienced significant growth between 2004 and 2009 which increased AV by 150% to a peak of \$13.3 billion in fiscal 2009. Subsequent annual declines reduced AV by about 8%, to \$12.3 billion in fiscal 2012, but recent performance has been positive. AV grew by 1.2% in fiscal 2013 and 2.9% in fiscal 2014.

Located in the core of San Diego's downtown, the project area includes waterfront locations and diverse economic activities. Among them are a government center, financial and legal services, culture, performing arts, visitor and tourism industries, mass transit, air and sea transport and a Major League Baseball (MLB) stadium. Top 10 taxpayers are moderately concentrated at 27% of incremental value (IV) in fiscal 2013.

CITY HEIGHTS

The 'A+' rating on the City Heights Redevelopment Project housing set-aside TABs reflects sound debt service coverage, taxpayer diversity, but with a concentration in residential properties.

SOUND DEBT SERVICE COVERAGE LEVELS

Fiscal 2014 revenues cover housing TABs' MADS by 5.4x. Sound coverage is maintained, even under various Fitch-designed stress scenarios, including the loss of the top 10 taxpayers. An AV decline of about 45% would be required to reduce debt service coverage to 1.0x MADS.

DIVERSE TAX BASE; CONCENTRATED LAND USE

The project area, 1,984 acres in total, is located two miles from San Diego's downtown and three miles from the San Diego Airport. AV totaled \$2.2 billion in fiscal 2014. Following annual declines in fiscal years 2010 through 2012, AV returned to growth in fiscal 2013 (1.1%) and 2014 (4.2%). Land use is concentrated, with residential properties at over 80% of AV. Top 10 taxpayers are diverse at a low 13% of IV in fiscal 2013.

HORTON PLAZA

The 'A-' ratings on the Horton Plaza Redevelopment Project subordinate TABs and tax allocation housing bonds reflect sound debt service coverage and significant taxpayer concentration.

SOUND DEBT SERVICE COVERAGE

Fiscal 2014 revenues cover senior and subordinate TABs' MADS by 2.5x. MADS coverage for the housing TABs is 2.0x. Coverage remains sound, even under various Fitch-designed stress scenarios, including the loss of the top 10 taxpayers. AV declines of about 54% and 48% would be required to reduce debt service coverage to 1.0x MADS for the senior and subordinate TABs and the housing TABs, respectively.

MATURE BUT SMALL AND CONCENTRATED PROJECT AREA

Located in the core of San Diego's downtown, the project area is small in size (41.5 acres) and highly concentrated. The top 10 taxpayers make up 78% of fiscal 2013 IV, with a large component consisting of a major regional shopping center. AV declined by about 8% from fiscal 2009 through 2012. However, fiscal years 2013 and 2014 saw growth of 1% and 2.3%, respectively.

NORTH PARK

The 'A+' rating on the North Park Redevelopment Project TABs reflects sound debt service coverage, taxpayer diversity, but with a concentration in residential properties.

SOUND DEBT SERVICE COVERAGE LEVELS

Fiscal 2014 revenues cover TABs' MADS by 4.0x. Coverage remains sound, even under various Fitch-designed stress scenarios, including the loss of the top 10 taxpayers. An AV decline of about 45% would be required to reduce debt service coverage to 1.0x MADS.

SMALL PROJECT AREA; DIVERSE TAX BASE WITH CONCENTRATED LAND USE

Located five miles from San Diego's downtown next to Balboa Park, the project area is small (555 acres) and land use is concentrated. Residential properties make up about 74% of AV. Top 10 taxpayers are diverse at a low 9.6% of IV in fiscal 2013.

The project area experienced significant growth between 2002 and 2009 which increased AV to a peak of \$1.17 billion in fiscal 2009. Declines and flat performance in subsequent years led to a decrease in AV to \$1.11 billion (4.6%) in fiscal 2013. AV returned to growth in fiscal 2014, increasing by 5.3% to 1.2 billion.

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 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.

IMPLEMENTATION of AB 1X26

The city of San Diego 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 payments. While debt service for all RDA project area debt is included and funded jointly under one ROPS, the county continues to track tax increment revenue by project area.

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.

Applicable Criteria and Related Research:

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

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

Applicable Criteria and Related Research:

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

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