STANDARD & POOR'S RATINGS SERVICES
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Summary:

Moreno Valley Towngate Community Facilities District No. 87-1, California; Tax Increment

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Moreno Vy Towngate Comnty Fac Dist No. 87-1 Spl Tax		
Unenhanced Rating	A+(SPUR)/Stable	Upgraded
Many issues are enhanced by bond insurance.		

Rationale

Standard & Poor's Ratings Services raised its long-term rating and underlying rating (SPUR) to 'A+' from 'A' on Moreno Valley Towngate Community Facilities District (CFD) No. 87-1, Calif.'s series 2007 special tax refunding bonds. The upgrade reflects our view of recent tax base growth, which has resulted in extremely strong coverage equal to 6.2x maximum annual debt service (MADS) in fiscal 2016, together with the bonds' closed senior lien. The outlook is stable.

The ratings further reflect our opinion of:

- The large, 4,676-acre project area (the Moreno Valley Redevelopment Project) made up primarily of residential uses, combined with the area's participation in the Inland Empire economy, and
- A cash-funded debt service reserve (DSR).

Partly offsetting factors include our opinion of some modest concentration in the 10 largest taxpayers, which make up 25% of incremental assessed value (AV), combined with cash management practices that, while sufficient to meet semiannual debt service requirements, violate bond indenture provisions and increase liquidity risk.

The ratings reflect the security of net tax increment revenues, which the Moreno Valley Community Redevelopment Agency (RDA) has pledged to the district under the Agency Towngate Agreement on a senior basis. The CFD 87-1 bonds are secured by net taxes, which are made up of special taxes (levied on a per-parcel basis under Community Facilities Act of 1982) and amounts on deposit in the special tax fund. Under the Agency Towngate Agreement, the Moreno Valley Community RDA has covenanted to pay net tax increment revenues to the district on a prior and senior lien. Under the indenture, tax increment revenues received from the agency are deposited into the special tax fund. Although Mello-Roos special taxes also secure the bonds, in practice agency payments have meant that special taxes have not been levied since 2003, and the ratings reflect the strength of the tax increment revenue pledged to the district. The series 2007 bonds have a cash-funded DSR.

Tax increment revenue to pay debt service for the CFD 87-1 series 2007 bonds is paid before the agency's series 2007A bonds. Coverage of senior debt service is strong, in our view, at 6.2x MADS in fiscal 2016. Payments due under the Agency Towngate Agreement for debt service on the CFD 87-1 bonds are fixed and cannot be refunded into longer or higher annual debt service payments, and the special tax lien is closed for CFD 87-1 at the local level, except for refunding. In addition, the redevelopment successor agency's (SA) senior tax increment lien is closed.

Coverage has increased since fiscal 2012, as has AV, which has grown by an average of 4.3% annually. We expect the agency's primarily residential tax base to continue to grow, albeit at a more moderate pace, along with new commercial and industrial development in the area, particularly in the expanding warehouse and logistics sector. At the current MADS coverage, and given the agency's inability to issue new parity debt, we believe that the project area could withstand an 83% decline in AV before coverage would fall below 1.0x MADS. Tax base volatility, which measures the base-year valuation over the total tax base, is moderate, in our view, at 0.20 for the project area in fiscal 2016. Top 10 taxpayers are moderately concentrated, in our opinion, at 25% of incremental and 20% of total AV. The top taxpayer, a warehouse and logistics center, makes up 5.2% of total AV.

The city of Moreno Valley is acting as SA to the former Community RDA after the state legislature and a subsequent court ruling dissolved all RDAs in California in February 2012. The agency has completed and resolved all required due diligence reviews by the state Dept. of Finance, and has received its finding of completion. The State Controller's Office asset transfer review found that the former RDA improperly transferred $298,000 to the city in 2011, and the SA has provided documentation indicating that it has complied with the controller's order to reverse the transfer. Recent cleanup legislation (State Bill 107) clarified that cumulative tax increment limitations no longer apply to SAs.

California's RDA dissolution law requires SA and oversight officials to adhere to deadlines for requesting debt service payment amounts on recognized obligation payment schedules (ROPS) to receive tax revenue. Since the law limits the SA revenue to payment on enforceable obligations on its ROPS, and since it requires more proactive management than under the predissolution flow of funds, we believe an SA's debt management practices and DSRs after dissolution become more important to credit quality. The SA has been requesting debt service on its semiannual ROPS as it becomes due, which we consider to be out of compliance with indenture provisions requiring it to set aside full annual debt service with the trustee before releasing pledged revenue to pay other obligations. To date, semiannual requests have provided more than sufficient cash to cover both senior and subordinate debt service.

The Moreno Valley Redevelopment Project encompasses 4,676 acres, or approximately 14% of the city of Moreno Valley. The tax base is moderately concentrated, in our view, with the 10 largest taxpayers making up 25% of incremental AV and 20% of total AV in fiscal 2016. Moreno Valley (population: 200,000) is located 12 miles southeast of the city of Riverside in the Inland Empire. In our view, the city has moderate median household income, at 101% of the national level. The project area is primarily residential (50%), and it lost a combined total of 14% of AV during the recent recession.

Outlook

The stable outlook reflects our expectation that the agency will continue to monitor projected revenues and manage debt repayment to minimize the chance of a draw on the DSR. The stable outlook further reflects our expectation that AV will remain stable, or perhaps improve, during the two-year outlook horizon.

Upside scenario

Although we do not expect to take a positive rating action during the outlook time frame, we could raise the ratings over the long term if a combination of AV growth and economic development should result in significantly stronger coverage, more tax base diversity, and higher income levels than those of than similarly rated peers.

Downside scenario

Should multiyear AV declines cause coverage to deteriorate, or should the agency alter its cash management resulting in a draw on reserves, we could lower the ratings; however, we do not expect to do so within the two-year outlook horizon.

Related Criteria And Research

Related Criteria

- USPF Criteria: Special-Purpose Districts, June 14, 2007
- USPF Criteria: Methodology: Rating Approach To Obligations With Multiple Revenue Streams, Nov. 29, 2011
- Criteria: Use of CreditWatch And Outlooks, Sept. 14, 2009

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