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Ratings

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Summary:

Azusa Community Facilities District No. 2005-1 (Rosedale) Improvement Area No. 1, California; Special Assessments

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Credit Profile		
US$30.0 mil spl tax rfdg bnds (imp area no. 1) (Azusa CFD No. 2005-1 (Rosedale) ser 2019 due 09/01/2037		
Long Term Rating	A/Stable	New

Rationale

S&P Global Ratings assigned its 'A' long-term rating to the City of Azusa Community Facilities District (CFD) No. 2005-1 (Rosedale) Improvement Area No. 1, Calif.'s 2019 special tax refunding bonds. The outlook is stable.

Security

The bonds are secured by revenue from special taxes levied on taxable parcels within the improvement area. The special taxes are not unlimited ad valorem property taxes but are collected on the same applicable homeowners' property tax bill. The bonds are issued pursuant to the Mello-Roos Community Facilities Act of 1982. The bond proceeds will be mainly used to refund the improvement area No. 1's 2007 bonds outstanding.

Bond provisions

Bond provisions include a debt service reserve funded at the lowest at 100% of maximum annual debt service, 125% average annual debt service, or 10% of par. The lien is closed except for refunding purposes.

Credit overview

The rating reflects the application of our updated "Special Assessment Debt" criteria, published April 2, 2018 on RatingsDirect, and our view of the improvement area's adequate-to-strong economic fundamentals and district characteristics and adequate financial profile.

The rating further reflects our view of the improvement area's:

- Adequate-to-strong economic fundamentals, characterized by a broad and diverse metropolitan statistical area (MSA) with access to a robust employment hub, better real estate market distress metrics such as foreclosure and delinquencies compared with national levels, historically volatile county real estate market that has since recovered with average home prices at approximately 10% above prerecession peaks, stable population growth, good median household effective buying income (EBI), and above-average county unemployment rates;
- Adequate-to-strong district characteristics, such as very low taxpayer concentration, full development with all single-family residential parcels, average size based on total parcels supporting the special tax levy, and adequate overall value-to-lien (VTL) ratio with a low 1.6% of special taxes from parcels with an overall VTL ratio of less than 5 to 1; and
- Adequate financial profile, characterized by an adequate maximum-loss-to-maturity (MLTM) ratio of 14.1%

compared with a very low taxpayer concentration of 2.6%, fully funded debt service reserve at the lowest of the stand three-pronged test, closed lien, and adequate annual debt service coverage at 1.1x.

Adequate-to-strong economic fundamentals

The improvement area is located within the City of Azusa in Los Angeles County, approximately 25 miles northeast of Los Angeles. The improvement area is a residential community within the city. Azusa serves an estimated population of 53,000, which has grown about 7.9% over the past 10 years compared with the national rate of 8.2%. Azusa's median household EBI is what we consider good at 106.5% of the national level. As of March 2019, Los Angeles County's average unemployment rate was 4.6% compared with the nation's 3.4%, according to the U.S. Bureau of Labor Statistics. Azusa participates in the Los Angeles-Long Beach-Anaheim MSA, which we consider broad and diverse. Top employers within the city's tax base include Azusa Pacific University, Azusa Unified School District, Northrop Grumman, and several major retailers. In our opinion, the city's local economy is adequate-to-strong and stable with new residential and commercial development that is ongoing.

According to the Federal Housing Finance Agency housing price index, Los Angeles County's real estate market volatility was at 17.4% over the past 10 years, compared with the state's 18.0% and the nation's 10.0%. The Los Angeles County real estate market's home price index rebounded and grew 46% in the past 10 years compared with the state's 45% and the nation's 23%, and is overall approximately 10% above prerecession peak prices. The City of Azusa's median housing prices are at 771%% (the affordability ratio) of median household EBI compared with 820% for the state and 412% for the U.S. as a whole. Azusa's real estate market distress metrics include foreclosure and delinquency rates that are in line with those of the state and county levels but significantly lower than national levels. Overall, Los Angeles County's real estate market experienced home price volatility during the Great Recession that is lower than the state level and higher than the national level, but has rebounded to a level above prerecession peak prices.

Adequate-to-strong district characteristics

Azusa CFD No. 2005-1 (Rosedale) Improvement Area No. 1 was formed in June 2006 pursuant to the Mello-Roos Community Facilities Act of 1982, and the city council adopted required resolutions with the intention to establish the district and authorize the special levy on taxable parcels within the district and the improvement area. The improvement area is fully built-out and consists of total 961 parcels, 783 of which are privately owned single-family residential and are subject to the special tax levy as of fiscal 2019, and this constitutes average or adequate district size, in our view. In our opinion, taxpayer concentration is very low with the top 10 taxpayers accounting for 2.6% of the special tax levy and the top taxpayer for only 0.4%.

Although the improvement area is levied on a per parcel basis and does not depend on assessed value (AV), we view AV as an indicator of tax base performance. The improvement area's AV has grown annually to approximately $593.5 million for fiscal 2020, and the overall VTL ratio is, in our opinion, adequate at 13.4 to 1. In our view, a low 1.6% of the special tax levy comes from parcels with what we consider a very weak overall VTL ratio of less than 5 to 1.

Our opinion of the improvement area's adequate-to-strong district characteristics reflects our view of its very low taxpayer concentration, full development status with all single-family residential parcels, average district size based on total parcels supporting the special levy, and an adequate overall VTL ratio with a low amount of special taxes that come from parcels with a very weak overall VTL ratio of less than 5 to 1.

Adequate financial profile

Our opinion of the improvement area's adequate financial profile reflects its adequate MLTM ratio of 14.1% compared with its very low taxpayer concentration of 2.6%, its ability to withstand a permanent loss of its top taxpayers given its MLTM ratio of 5.4x, fully funded debt service reserve, adequate annual debt service coverage for the life of the bonds around 1.1x, and closed lien.

The bonds have a final maturity in 2037. The improvement area plans to levy its special tax annually at a level that will provide annual debt service coverage of approximately 1.1x for the life of the bonds. When considering this coverage and additional liquidity from the fully debt service reserve maximum annual debt service, we calculate that the improvement area could withstand an MLTM ratio of 14.1%, which we consider adequate when compared to its taxpayer concentration of 2.6%. The MLTM ratio reflects our view that the improvement area could withstand a permanent loss of 14.1% of its taxpayers and still make 1x debt service payments for the life of the bonds. In our opinion, the improvement area has had a low annual delinquency trend averaging around 1% and could make timely debt service payments given its fully funded debt service reserve, adequate coverage, and low delinquency trend.

Outlook

The stable outlook reflects our expectation that the improvement area will fulfill its annual debt service requirements given its projected annual special tax levy and low annual delinquency trend. We anticipate that the local economy will remain adequate-to-strong given its good income levels, broad and diverse MSA, and growing steady tax base growth. We do not anticipate changing the rating over the two-year outlook horizon.

Upside scenario

We could raise the rating if the improvement area's financial profile improves with an MLTM ratio that we consider strong, its economic fundamentals improve with income levels that we consider strong, and if district characteristics improve with an overall VTL ratio that we consider strong.

Downside scenario

We could lower the rating if the local economy experiences significant housing volatility and rising delinquency rates, challenging the improvement area's ability to make full and timely debt service payments.

Related Research

U.S. State And Local Government Credit Conditions Forecast, Oct. 24, 2018

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