STANDARD & POOR'S
RATINGS SERVICES
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Summary:

Reedley Redevelopment Agency, California; Tax Increment

Primary Credit Analyst:
Alyssa B Farrell, Centennial (1) 303-721-4184; alyssa.farrell@standardandpoors.com

Secondary Contact:
Li Yang, San Francisco (1) 415-371-5024; li.yang@standardandpoors.com

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Credit Profile		
Reedley Redev Agy tax increment (Hsg)		
Long Term Rating	A/Stable	Upgraded
Reedley Redev Agy Tax Increment ser 1998B		
Long Term Rating	NR	Withdrawn
Unenhanced Rating	NR(SPUR)	Withdrawn
Reedley Redev Agy Tax Increment (Redley Redev Project)		
Unenhanced Rating	NR(SPUR)	Withdrawn

Rationale

Standard & Poor's Ratings Services raised its long-term rating to 'A' from 'A-' on Reedley Redevelopment Agency, Calif.'s series 2011A tax allocation bonds (TABs). The raised rating reflects the project area's recent growth in assessed value (AV) and improved coverage, given limited ability to issue additional debt, as the lien is effectively closed. The outlook is stable. At the same time, Standard & Poor's withdrew its ratings from the agency's series 1998A and 1998B TABs, which were defeased with the 2011 bond issuance.

The rating reflects our view of the project area's:

- Large size encompassing 2,415 acres or 92% of the city of Reedley;
- Strong 2.43x maximum annual debt service (MADS) coverage; and
- Relatively stable tax base with increasing total AV.

Partly offsetting our view of the above strengths is the project area's high volatility ratio of 0.46, suggesting increased sensitivity of tax increment revenues to overall fluctuations in AV.

It is our understanding that the series 2011A bond proceeds were used to refinance the agency's outstanding series 1998A TABs and to fund additional activities relating to the agency's redevelopment plan. The series 2011A bonds are secured by a senior lien on incremental property tax revenues, net of pass-through payments, but inclusive of low-and moderate-income housing set-aside revenues.

Pledged tax increment revenues for the lien, based on the fiscal 2016 AV and the debt service schedule, provide annual MADS coverage of 2.43x, a level we consider strong. The project area's total AV, the driver of tax increment revenue, experienced several years of decline from fiscal 2009 to 2013.

Total AV has been improving in recent years and stood at $532 million in fiscal 2015, representing a cumulative 5.6% increase from fiscal 2013, and is expected to continue to grow by an additional 2.3% to $544 million in fiscal 2016.

Based on fiscal 2016 AV, the project area's volatility ratio is what we consider a high 0.46, suggesting increased sensitivity of tax increment revenues to overall fluctuations in AV. We note there are no outstanding reassessment appeals within the project area.

Dissolution legislation permits the successor agency to issue indebtedness only for limited purposes, such as paying or amending an enforceable obligation, generating savings, or flattening spikes in debt service. After reviewing the enforceable obligations as listed on the agency's recognized obligation payment schedule (ROPS) and confirming the outstanding obligations with management, we view the possibility of additional debt as unlikely except for refunding purposes. The indenture does include an additional bond test.

Assembly Bill (AB) x1 26 and AB 1484 require agency and oversight officials to adhere to deadlines for requesting debt service payment amounts on ROPS to receive tax revenue. Since the law limits the revenue to payment on enforceable obligations on its ROPS, and since it requires more proactive management than under the pre-dissolution flow of funds, we believe an agency's debt management practices after dissolution become more important to credit quality. We note that the agency is not currently abiding by its indenture covenants, which require it to set aside full annual debt service with the trustee before releasing pledged revenue for other obligations.

The city of Reedley is acting as successor agency (SA) to the former RDA after the state legislature and a subsequent court ruling dissolved all RDAs in California in February 2012, pursuant to AB 1X26 and subsequent amending legislation, AB 1484. AB 1X26 and AB 1484 provide an agency and its oversight board with the ability to issue refunding debt. AB 1484 also provides that bonds issued after dissolution maintain the same validity as those issued pre-dissolution and include provisions that make it possible to issue refunding debt. The agency has received its finding of completion, which allows it to reinstate previously rejected loans and spend bond proceeds. The agency also completed its due diligence review with the Department of Finance (DOF), which found Other Funds and Accounts (OFA) balances available for distribution to the taxing entities, as well as its asset transfer review report from the State Controller's Office (SCO), which found unallowable transfer that were required to be turned over to the SA. The agency has since resolved both of the aforementioned transfers.

The project area, which was established in 1991 and amended in 1996, spans 2,415 acres covering roughly 92% of the city of Reedley. Reedley is an agricultural city located 25 miles southeast of Fresno in the San Joaquin Valley. Its economy is rooted in residential properties, produce cultivation and processing. In our view, Reedley's median household effective buying income (EBI) is adequate at 85% of the national level, while its per capita EBI is a low 57% of the national level, suggesting multiple low- to moderate-income earners per household.

Outlook

The stable outlook reflects our view of the bond's consistently strong MADS coverage levels and recent steady growth in project area AV. The rating also reflects our expectation that the project area's tax base will likely remain strong and will provide tax increment revenues sufficient to generate what we consider continued strong coverage.

Upside scenario

Should the project area's economy become more robust, volatility were to mitigate, and combined AV growth continues, bringing MADS coverage up to very strong levels comparable to higher-rated peers, we could raise the rating.

Downside scenario

We could lower the rating if project area AV declines during the two-year outlook period, resulting in a weaker coverage ratio to levels we no longer consider comparable with similarly rated peers.

Related Criteria And Research

Related Criteria

- USPF Criteria: Special-Purpose Districts, June 14, 2007
- Criteria: Use of CreditWatch And Outlooks, Sept. 14, 2009