STANDARD & POOR'S
RATINGS SERVICES
McGRAW HILL FINANCIAL

RatingsDirect®

Summary:

Monterey Park Redevelopment Agency, California
Successor Agency to the Monterey Park Redevelopment Agency; Tax Increment

Primary Credit Analyst:
Carl J Hargreaves, San Francisco (1) 415-371-5089; carl.hargreaves@standardandpoors.com

Secondary Contact:
Sussan S Corson, New York (1) 212-438-2014; sussan.corson@standardandpoors.com

Table Of Contents

Summary:

Monterey Park Redevelopment Agency, California Successor Agency to the Monterey Park Redevelopment Agency; Tax Increment

Credit Profile		
Monterey Park Pub Fin Auth, California		
Successor Agy to the Monterey Pk Redev Agy, California		
Monterey Park Pub Fin Auth (Successor Agy to the Monterey Park Redev Agy) (Monterey Park Merged Project Area) Tax Increment		
Long Term Rating	A-/Stable	Upgraded

Rationale

Standard & Poor's Ratings Services raised its long-term rating to 'A-' from 'BBB+' on Monterey Park Redevelopment Agency, Calif.'s series 1998 tax allocation bonds issued for the successor agency (SA). The outlook is stable.

The rating action reflects our view of strengthened maximum annual debt service (MADS) coverage stemming from assessed value (AV) increases in fiscal years 2013 and 2014.

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

- Strong 3.02x MADS coverage;
- 17% increase in 2013 AV fueled by development by the project area's top taxpayer; and
- Continued, 4%, AV growth in 2014.

Partly offsetting the above strengths, in our view, are the project area's moderately high 0.31 volatility (base-year to total AV) ratio and concentrated tax base.

The bonds are secured by loan agreement between the authority and the agency's merged project area. Project area tax increment revenue, net of senior pass-throughs and the required low and moderate housing set-aside payments, fund the authority-level revenue fund, which pays debt service. Providing additional security for the bonds is a cash-funded debt service reserve fund maintained at the least of MADS, 10 % of par, or 125% average annual debt service.

The merged project area consists of five sub-areas -- freeway, freeway amendment, central commercial, Monterey Pass merged amendment, and southeast -- which cover a combined 620 acres and 992 total parcels. The southeast project area does not generate tax increment revenue. Land-use statistics for the revenue generating sub-areas show that the project area is mainly commercial, with 54% of 2014 AV from commercial use parcels. Residential use parcels accounted for 17% of AV, industrial use parcels for 14%, and vacant parcels for 4%. AV for the project area totals $901 million after a 3.7% increase in 2014. This increase comes on the heels of a large 17.3% AV jump in 2013 predominantly stemming from increases in the top taxpayer's (Atlantic Times Square LLC) improvement value. At current AV levels the project area has a moderate volatility ratio of 0.31, indicating our view that tax increment revenue is moderately sensitive to fluctuations in AV.

The project area is concentrated, with the top 10 taxpayers accounting for 51% of incremental AV, or 35% of total AV. The top taxpayer, mixed retail and housing developer Atlantic Times Square, accounts for approximately 25% of incremental AV. The remaining top 10 taxpayers, consisting of a mix of commercial properties and a medical facility, account for an additional 26%.

At the 2014 AV level, the project area's pledged revenue, tax increment revenue net pass-through, and housing set-aside amounts cover MADS by 3.02x. Given the 0.31 volatility ratio, we estimate that the agency could lose 46% of AV (but not the the area's top 10 taxpayers) before dropping below 1x MADS coverage. Although Assembly Bill (AB) 1X 26 and AB 1484 further limit the agency's ability to issue parity debt, the indenture allows for parity bonds to be issued if coverage of MADS remains above 1.25x. Aside from the 1998 bonds the agency has no other bonds secured by revenue from the merged project area, but does have debt secured by revenue from the Atlantic Garvey project area that could dilute coverage if refunded with the 1998 bond proceeds.

AB1X 26 and its trailer legislation, AB 1484, dissolved redevelopment agencies and instituted a system of semiannual revenue disbursement for the SAs. The City of Monterey Park has acted as SA since then. The new disbursement system created a need for many agencies with uneven semiannual debt service payments to set aside reserves on their recognized obligation payment schedules (ROPS) to avoid insufficiency of funds available for the larger semiannual bond payment or to adhere to indenture provisions related to the flow of funds. The SA has thus far not requested such reserves on its submitted ROPS, as the available semiannual amount of redevelopment property tax trust fund (RPTTF) revenue ($5.3 million in June of 2012) is sufficient to cover the larger semiannual $1.5 million principal and interest payment by 3.6x. Although the agency has had no problems making its debt service payments (because of strong semiannual coverage from available RPTTF, which we view as a strength), the agency is out of compliance with indenture provisions for the bonds by not requesting reserves at the start of the bond year that would set aside funds for bond year debt service prior to use of tax increment revenue for other obligations.

Monterey Park, population of 60,420, is a 7.7-square-mile city located approximately nine miles east of downtown Los Angeles in West San Gabriel Valley. Median household effective buying income is good in our view at 99% of the national level. Unemployment is below both the state and national levels at 3.6%.

Outlook

The stable outlook reflects our view of strong coverage and upward-trending AV. We could raise the rating should coverage further increase or the tax base become less concentrated. We could lower the rating if the agency does not manage its ROPS in a manner that ensures timely payment of debt service from RPTTF revenue.

1222041 | 301908238

Related Criteria And Research

Related Criteria

USPF Criteria: Special-Purpose Districts, June 14, 2007

Related Research

- Assessing The Credit Impact Of California's Redevelopment Agency Legislation, Oct. 24, 2011
- Credit FAQ: How Will The Dissolution Of California Redevelopment Agencies Affect The Credit Quality Of Tax Allocation Bonds?, Jan. 25, 2012

Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column.