

Summary:

Montebello Community Redevelopment Agency, California; Tax Increment

Primary Credit Analyst:

Alda Mostofi, CFA, San Francisco (1) 415-371-5061; alda_mostofi@standardandpoors.com

Secondary Contact:

Sussan Corson, New York (1) 212-438-2014; sussan_corson@standardandpoors.com

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Credit Profile

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Unenhanced Rating

A-(SPUR)/Stable

Affirmed

Many issues are enhanced by bond insurance.

Rationale

Standard & Poor's Ratings Services affirmed its 'A-' underlying rating (SPUR) on Montebello Community Redevelopment Agency, Calif.'s housing tax allocation bonds (TABs). The outlook is stable.

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

- Good, 2.13x maximum annual debt service (MADS) coverage and
- Extremely low volatility ratio of only 0.09, indicating minimal fluctuation in incremental assessed value (AV).

Partly offsetting the above strengths, in our view, is the combined project area's moderate concentration, with the leading taxpayers accounting for 35.4% of incremental AV, and further concentration within the leading taxpayer as it accounts for 11.2% of incremental AV.

The housing TABs are secured by a first lien on the agency's 20% housing set-aside revenue generated from the agency's Montebello Hills, South Montebello Industrial, and Montebello Economic Revitalization project areas. The agency's housing parity TABs include the series 1997B, 2002A, and 2007A bonds.

The combined project area encompasses 1,615 acres in Montebello (40% commercial, 28% residential, and 24% industrial) and includes Montebello Town Center Mall, a major retail center. Total project area AV remained nearly flat for fiscal year 2012 at \$1.68 billion. The total AV has remained resilient, having experienced growth in each of the past four years, despite the overall AV declines seen across the nation. We believe the resilience is due to the combined project area's large commercial and industrial presence and growth that has mitigated the declines in the residential values experienced elsewhere.

The 10 leading taxpayers account for 35.4% of the project's fiscal year 2012 incremental AV, which we consider moderately concentrated. The leading taxpayer is Montebello Town Center, a regional shopping center constructed in 1985 and anchored by Macy's and J.C. Penney Co. Inc., which accounts for roughly 11% of total incremental AV. The second-largest taxpayer is Plains Exploration & Production Co., an oil production company, growth in the AV of which fluctuates from year to year based on mineral rights valuations and which accounted for 8.2% of fiscal year 2012 incremental AV.

Pledged 2012 revenue covers MADS (in fiscal 2012) by 2.13x, and MADS is projected to gradually decline through the maturity of the bonds in fiscal 2019. The project area's very low volatility ratio (base-year to total AV) of 0.09 makes it less sensitive to fluctuations in AV.

The additional bonds test (ABT) requires 1.25x coverage of MADS for all new and previously issued bonds, based on tax revenue as evidenced by the current county tax roll, but no further bond issuance will be allowed based on AB 1X 26, which abolished redevelopment agencies.

Based on AB 1X 26, the agency reports that the city will be the successor agency. The agency also reports that it has received its December 2011 county tax increment disbursement of \$2.2 million related to the housing funds, which it used for the March interest payments. It also placed approximately \$1.6 million on its January to June recognized obligation payment schedule, which should be sufficient to meet its full year debt service obligation on the bonds. The agency has expressed to us that it will designate the remaining funds not used for the March payment for the September debt service payment.

Montebello, with a population of 64,247 in 2010, is about 10 miles southeast of downtown Los Angeles in Los Angeles County. The local economy is predominantly centered on industry and retail activity. Median household effective buying income (EBI) is good, in our view, at 96% of the national level. However, per capita EBI is only adequate, in our view, at 71% of the national level, indicating an area with multiple wage earners per household.

Outlook

The stable outlook reflects our view of the area's nearby location to downtown Los Angeles and participation in the city's economy with continued historical assessed valuation growth. It also reflects our view that, despite some taxpayer concentration within the project area, a low volatility ratio provides some debt service coverage protection.

Related Criteria And Research

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

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