Summary:
Norco Community Facilities District (CFD) No. 2001-1, California; Special Assessments

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Credit Profile

Norco Comnty Facs Dist No. 2001-1 special assessments (BAM)

Long Term Rating A+/Stable Upgraded

Rationale
S&P Global Ratings raised its long-term rating and underlying rating (SPUR) to 'A+' from 'BBB' on Norco Community Facilities District (CFD) No. 2001-1, Calif.'s special tax bonds outstanding. The outlook is stable.

The rating action reflects the application of our updated methodology "Special Assessment Debt," published April 2, 2018, on RatingsDirect.

The bonds are secured by per-parcel assessments collected from developed properties within the district. Special taxes were authorized under the Mello-Roos Community Facilities Act of 1982. A debt service reserve funded at the lowest of maximum annual debt service (MADS), 10% of principal, or 125% of average annual debt service provides additional bondholder security. The reserve is funded 50% by cash and 50% by surety. The fiscal agent agreement authorizes the district to issue additional parity bonds only for the purpose of refunding outstanding debt.

The ratings reflect our view of the district's:

- Strong economic fundamentals, reflecting strong median household effective buying income (EBI), access to a broad and diverse metropolitan statistical areas (MSA), a historically volatile real estate market, and relatively low unemployment rates;
- Adequate to strong district characteristics, such as little taxpayer concentration, a virtually developed tax base consisting of all residential parcels, a relatively small size based on 557 total parcels, and an adequate overall value-to-lien (VTL) ratio; and
- Adequate to strong financial profile, reflecting the maximum-loss-to-maturity (MLTM) ratio, minimal taxpayer concentration, and a fully funded debt service reserve.

Strong economic fundamentals
The CFD was formed in 2001 for the purpose of financing certain public improvements within the district. The district is located in the city of Norco in southeastern Riverside County, roughly 50 miles east of Los Angeles, along Interstate 15. District residents have access to employment opportunities throughout Los Angeles, Orange, and Riverside counties, all of which we consider broad and diverse. It serves an estimated population of 27,300, and growth has been limited for the past 10 years, in our view, at less than 1% compared with the nation's 8.4%. In our opinion, median household EBI in the district is strong, at 149% of the national level. As of November 2018 (not seasonally adjusted),
Riverside County's unemployment rate was 4.1% compared with the nation's 3.7%, according to the U.S. Bureau of Labor Statistics.

According to the Federal Housing Finance Agency (FHFA) housing price index, the local real estate home price volatility measured 19.4% over 10 years, compared with the state's 17.1% and the nation's 9.3%. The local real estate market's FHFA home price index changes measured 26.2% for the past 10 years, compared with the state's 31.8% and the nation's 17.6%. The median housing price is 651% of median EBI (the affordability ratio), compared with 806% for the state and 412% for the U.S. as a whole.

**Adequate to strong district characteristics**
The district consists of 557 residential, developed parcels that are subject to the special levy and covers 976 acres, including 445 acres of parks and open space, in the city of Norco. The district is essentially built out (98% developed) with most of its properties sold to end users. In our view, the tax base is very diverse, with the top 10 taxpayers in fiscal 2018 accounting for roughly 2.7% of the total levy for the district, which reflects the district's maturity. Assessed value (AV) in the district has increased over the last seven years after experiencing substantial declines (a cumulative 37.6% from fiscal 2009 to fiscal 2012) after the economic downturn. More recently, AV increased 4.7% to $367.3 million in fiscal 2019. The district's overall VTL ratio on property is, in our view, adequate, at 11 to 1. The district does not have any overlapping land-secured debt. All but two parcels have an overlapping VTL ratio of greater than 5 to 1, with the majority between 10 to 1 and 20 to 1.

**Adequate to strong financial profile**
The district's fiscal 2018 levy of $2.47 million, together with accumulated funds the district holds, provided sufficient debt service coverage on the outstanding debt. Debt service escalates 2% per year, and the annual per-parcel special tax is permitted to increase 2% per year to cover this increase in debt service. We expect coverage to be at or slightly above 1x in 2019.

When considering coverage and the debt service reserve funded at MADS, we calculate that the authority could withstand an MLTM of 16%, covering the permanent loss of the top 10 taxpayers over the life of the bonds while meeting all debt service obligations at 5.9x. Our calculation for the MLTM accounts for each CFD's allowance for the special taxes to increase by as much as 10% to account for delinquencies, according to the bond indenture, along with the annual per-parcel special tax increase at 2% per year. We understand the district holds approximately $601,000 in its surplus fund, and although these funds are not pledged to the bonds, they can be used to lower the special tax levy and provide another source to manage delinquencies. Our calculation of MLTM does not include the surplus fund, but we note the ratio improves slightly when considering the additional funds.

Delinquencies are relatively low at 2% in fiscal 2018, down from a high of 23% in fiscal 2008. The district has covenanted to initiate foreclosure proceedings by Oct. 1 of the fiscal year following the fiscal year in which the delinquency occurs against all delinquent parcels; however, such proceedings need not be commenced against a single parcel with delinquencies less than $5,000 if delinquencies in the entire district for the prior fiscal year are below 5% and the reserve balance meets the reserve requirement.
Outlook

The stable outlook reflects our expectation that the local economy will remain strong given its access to a broad and diverse MSA, strong incomes, and low unemployment rates. The stable outlook also reflects the district's mature status of development. We anticipate that the district's collection rates, along with the reserve and surplus funds, will be sufficient for debt service payments. We do not anticipate changing the ratings over the two-year outlook horizon.

Upside scenario

If the district's financial profile strengthens, such that the district can withstand a higher permanent delinquency rate over the life of the bonds, we could consider a higher rating.

Downside scenario

If pressure in the local economy or other unforeseen events lead to a rise in delinquencies in a manner that requires the use of the transaction's liquidity support, we could lower the ratings.

Ratings Detail (As Of January 22, 2019)

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<tr>
<th>Norco Comnty Facs Dist No. 2001-1 special tax rfdg bnds ser 2017 due 09/01/2033</th>
<th>Unenhanced Rating</th>
<th>A+(SPUR)/Stable</th>
<th>Upgraded</th>
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Many issues are enhanced by bond insurance.

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.