Research Update:

Successor Agency to the Indian Wells Redevelopment Agency, CA Bond Rating Raised To 'AA-' On Assessed Value Growth

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Overview

- S&P Global Ratings raised its long-term rating on the Successor Agency (SA) to the Indian Wells Redevelopment Agency, California's outstanding tax allocation refunding bonds to 'AA-' from 'A+'.
- At the same time, S&P Global Ratings assigned its 'AA-' long-term rating to the SA's anticipated $32.775 million series 2026A consolidated whitewater redevelopment project area tax allocation refunding bonds.
- The outlook is stable.
- The upgrade reflects our view of the project area's continued growth in assessed value (AV) and maximum annual debt service (MADS) coverage that we believe to be sustainable.

Rationale

Security

The bonds are secured by pledged tax revenue generated by the consolidated whitewater redevelopment project area deposited from time to time into the redevelopment property tax trust fund (RPTTF), on parity with the SA's series 2020A tax allocation bonds outstanding. In addition, a debt service reserve will be funded by an investment-grade surety at the lowest of MADS, 10% of principal, or 125% of average annual debt service on each series. Proceeds from the series 2026A bonds will refinance the SA's series 2015A and 2016A bonds outstanding for cost savings.

Credit highlights

The upgrade is supported by the large tax base that has seen consistent property value growth over the past five years, which in conjunction with expected debt service savings from the current refunding, has improved coverage to very strong levels. Although seasonal tourism spurs

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commercial activity for the city and project area, the project area is primarily residential, which we view as a comparably more stable AV base for pledged revenues. With a low volatility ratio, in our opinion, the tax base could withstand a substantial reduction in AV before coverage is materially diminished, supporting our view of strong insulation from swings in tourism activity, which we note has historically been stable.

The consolidated whitewater project area is largely built out and encompasses approximately 3,327 acres, which represents about 80% of the city's total acreage. Management notes ongoing infill and redevelopment within the project area, which we expect will contribute to consistent AV growth, with additional high-end resort and residential communities nearby likely to spur additional demand throughout the area. The project area's land use consists primarily of single-family homes (65% of AV), followed by condominiums at 18%, other (primarily high-valuation homes) at 9%, and commercial at 6%. The 10 largest taxpayers--a mix of hotels and resorts, golf courses, and shopping centers--represented about 7% of total AV, which we consider very diverse. Taxpayer appeals remain relatively low, and management estimates AV reductions of approximately 1.5% based on historical success rates and ongoing appeals.

For more information on our tax-increment ratings in California, see "U.S. Local Governments Credit Brief: California Tax Increment Financing Means And Medians," Oct. 12, 2022.

The ratings further reflect our opinion of:

- The tax base is large and mature with continued AV appreciation and development. The City of Indian Wells is in Riverside County, about 20 miles southeast of Palm Springs. The city is primarily a retirement and second-home residential area, and its population doubles during the winter season. The city contains a few large hotels--some of which are within the project area--along with golf courses and a large tennis stadium, which annually hosts the fifth-largest tournament in the world. Income indicators are well above national averages, with median household effective buying incomes (EBI) of 129% and per capita EBI of 207%.
- The very low volatility ratio of 0.06 suggests that tax increment revenues have relatively minimal sensitivity to overall AV fluctuations. We estimate that property values in the project area could drop by almost 72% before coverage falls to 1.0x, amply covering the 10 largest taxpayers.
- MADS coverage is very strong at 4.3x based on fiscal 2026 revenue. Under a 0% growth scenario, coverage remains very strong through 2034, when the final series on the lien matures.
- Bond provisions limit the ability to issue additional debt except for refunding purposes, and require a debt service reserve fund sized at the lesser of the standard three-prong test funded by an investment-grade surety. The SA has covenanted to request all debt service for the bond year in the first revenue distribution from the county and reserve excess revenues for the bond payment later in the fiscal year, mitigating our view of cash flow risks.
- We view the project area as having elevated exposure to physical climate risk due to the potential for wildfires, earthquakes, drought, extreme heat, and water stress. If a severe physical hazard occurred, it could affect tax-generating assets and disrupt pledged revenues.
- The agency is taking steps to mitigate cyber risk.

Outlook

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The stable outlook reflects our expectation that the project area's AV will remain at least stable, supporting very strong coverage on the lien.

Downside scenario

We could lower the rating if a material decline in AV, a significant increase in successful appeals, or the loss of a major top taxpayer leads to substantially weaker coverage metrics.

Upside scenario

Should the project area continue to grow, contributing to further improvement to MADS coverage, we could raise the rating.

Ratings List		
New Issue Ratings		
US$32,775,000 Successor Agency To The Indian Wells Redevelopment Agency, Consolidated Whitewater Redevelopment Project Area, Tax Allocation Refunding Bonds, Series 2026A, dated: September 1, 2026, due: September 1, 2034		
Long Term Rating	AA-/Stable	
Upgraded		
	To	**From**
Local Government		
Successor Agy to the Indian Wells RDA, CA Whitewater Redev Proj Area Tax Increment and Housing Set Aside Revenues 2nd Lien	AA-/Stable	A+/Stable

The ratings appearing below the new issues represent an aggregation of debt issues (ASID) associated with related maturities. The maturities similarly reflect our opinion about the creditworthiness of the U.S. Public Finance obligor's legal pledge for payment of the financial obligation. Nevertheless, these maturities may have different credit ratings than the rating presented next to the ASID depending on whether or not additional legal pledge(s) support the specific maturity's payment obligation, such as credit enhancement, as a result of defeasance, or other factors.

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 https://disclosure.spglobal.com/ratings/en/regulatory/ratings-criteria for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at https://disclosure.spglobal.com/ratings/en/regulatory/article/-/view/sourceId/504352. Complete ratings information is available to RatingsDirect subscribers at www.capitaliq.com. All ratings referenced herein can be found on S&P Global Ratings' public website at www.spglobal.com/ratings.

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