



## Mission Viejo, California

<b>CREDIT PROFILE</b>	<b>UPGRADED</b>	<b>TO</b>	<b>FROM</b>
<b>February 6, 2001</b>	Mission Viejo ICR	AA+	AA
	Outlook Revised	STABLE	POSITIVE

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### RATIONALE

The upgrade on Mission Viejo, Calif.'s issuer credit rating (ICR) reflects the strong growth of the tax base and a significant increase of retail sales activity and sales tax revenues. Additional credit factors include:

- High income levels and per capita market values,
- Strong financial performance and management, and
- Moderate debt levels.

Located in southern Orange county, Mission Viejo is a wealthy, primarily residential master planned community with easy access to employment opportunities throughout the county. With a 2000 population of 98,464. Mission Viejo is 95% developed with full build-out anticipated in the next five years, including some potential annexations of developments. Wealth levels in Mission Viejo are high with household incomes at 159% of state and 167% of national averages and 141% and 136%, respectively on a per capita basis. Assessed valuation (AV) has grown an average of 5.5% annually since 1~0 to \$7.8 billion in 2000, equal to a high per capita market value of approximately \$79,400. AV increased a strong 13% this past year. Even through the recent recession and economic restructuring throughout southern California, there were no annual declines in Mission Viejo's AV, demonstrating the strength and stability of its local economic base. With a good number of additional new developments actually under construction as well as planned, the tax base should continue to experience solid growth.

With a stable and experienced management team in place, financial performance has been strong.

Audited 2000 results indicate an unreserved fund balance of \$19.9 million equal to 55.8% of expenditures with budgeted 2001 showing a balance of \$18 million or 50.7% of budgeted revenues. Mission Viejo's master financial plan projects revenues, operating expenditures, capital needs and reserve requirements for the general fund for seven years with updates occurring every two years. While it is a financial policy to maintain at least 15% unreserved general fund balance, actually fund balances have been much higher. While economic data on retail sales activity through 1998 indicated per capita sales at a low 53% of state and 45% of U.S. averages, this has significantly improved with a recent large scale mall expansion. With a 50% expansion to 1.2 million square feet completed last year, the Shops at Mission Viejo Mall, which features south

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Orange County's first Nordstroms and other high-end retail shops, per capita retail sales are now 92% of Calif. and 80% of U.S. averages. General fund sales tax revenues have increased 21% in 1 year since 1999 and totaled \$12.4 million for fiscal 2000. A conservative 7.2% annual increase is currently budgeted for 2001.

Debt levels remain moderate but have also declined with a noticeable toll-off of overlapping debt. Overall net debt levels are now \$1,908 per capita and 2.4% of market value compared to \$2,296 per capita and 3.2% of market value a year ago. No additional debt needs are anticipated for at least the next five years.

**OUTLOOK**

The stable outlook reflects the depth and diversity of the area economic base and the expectation of continued strong financial performance with solid reserve fund balances.