

U.S. Municipal Bond Market

Improving Credit Metrics Support Our “Stable” Outlook for California CFDs

Summary

- Improving value-to-lien ratios and continued assessed-value growth support our “Stable” outlook for California CFDs.
- Strong investor demand and limited issuance should support stable spreads, although affordability and development pressures remain risks.

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Property Growth Offsets Pressures

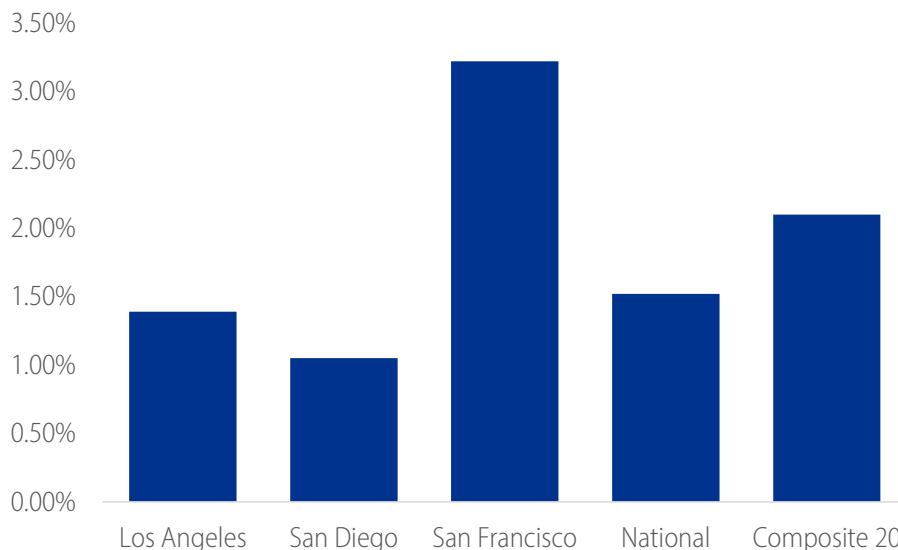
Improving value-to-lien ratios and continued growth in assessed valuations support our “Stable” municipal sector credit outlook for California community facilities districts (CFDs). Housing demand remains relatively strong, property values continue to rise, and limited new issuance should help preserve credit metrics and market spreads despite affordability and development pressures. Our previous sector outlook, which was also “Stable” was published back in February 2026 in [The Municipal Market in 2026, HilltopSecurities’ Sector Credit Outlooks](#).

CFDs provide infrastructure financing, mainly for residential developments in California. CFD debt is repaid with special taxes that are levied based on parcel size, as opposed to property taxes that are levied based on property value, however, one metric of the creditworthiness of CFD debt is the value-to-lien ratio, which is the ratio of assessed valuation to debt outstanding of the district.

Housing demand remains relatively strong, property values continue to rise, and limited new issuance should help preserve credit metrics and market spreads despite affordability and development pressures.

Continued Home Price Growth Supports California CFD Values

■ Case-Shiller Home Price Index Year-over-Year Change (June 2026)



Source: S&P and HilltopSecurities

Demand for housing continues to be relatively strong in California due to housing shortages in various areas of the state. Increased mortgage rates could soften demand statewide, and affordability and development restrictions (based on water availability, local zoning and other factors) have hampered growth in some areas. Commercial and industrial property values have stabilized, so value-to-lien ratios for commercial and industrial CFDs are stable. Home prices and property values in California continue to grow, albeit at a lower rate than in the past. Overall, value-to-lien ratios have improved.

Los Angeles County's assessment roll reached a record \$2.272 trillion, an increase of \$96 billion, or 4.42%, from the previous year. The countywide increase shows continued growth in the tax base despite severe losses associated with the Palisades and Eaton fires, although individual affected districts may face materially different conditions. All the counties that have released their 2026/27 assessment roll figures so far this year have reported similar growth in their property tax base to that of Los Angeles County.

Rising assessed valuations and restrained issuance should continue to improve value-to-lien ratios, while strong investor demand and limited supply should support stable spreads.

Rising assessed valuations and restrained issuance should continue to improve value-to-lien ratios, while strong investor demand and limited supply should support stable spreads. Our sector outlook remains "Stable," although higher mortgage rates, affordability pressures, development restrictions, and localized property-value weakness remain the principal risks.

Recent HilltopSecurities Municipal Commentary

- Modernization Meets the Limits of Public-Sector Capacity, Results of 2026 HTS Public Finance Leaders Survey, October 7, 2026
- A Stronger-Than-Expected Economy Is Offering Less Support to the Public Sector, While Municipal Yields and Relative Value Remain Very Attractive, October 5
- The Municipal Opportunity Strengthens as Yields and Relative Value Rise, September 28, 2026
- The Return of Higher Yields Rewards Investors and Tests Borrowers, September 21, 2026
- The Bond Market Selloff Is Making Attractive M/T Ratios the New Municipal Opportunity of 2026, September 14, 2026

Readers may view all of the HilltopSecurities Municipal Commentary [here](#).

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