STANDARD & POOR'S RATINGS SERVICES
McGRAW HILL FINANCIAL

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Summary:

Oakland, California; Special Assessments

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Table Of Contents

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Credit Profile		
Oakland ltd ob rfdg imp bnds (Reasmt Dist 99-1)		
Long Term Rating	A/Stable	Affirmed

Rationale

Standard & Poor's Ratings Services affirmed its 'A' rating on Oakland, Calif.'s series 2012 limited-obligation refunding improvement bonds (reassessment district no. 99-1). The outlook is stable.

The rating reflects our opinion of:

- The moderate size and affluent nature of the residential district,
- The district's good historical tax collections and currently adequate projected 1.0x coverage of annual debt service, and
- The fully funded debt service reserve to protect against annual delinquencies.

In our view, the preceding credit strengths are partly offset by the fixed nature of the assessment tax and adequate, though not high, coverage of annual debt service.

The bonds are limited obligations of the city payable from a first lien on unpaid reassessments levied annually against property within the Oakland Reassessment District No. 99-1. The bonds have a debt service reserve fund, which we understand is required be funded at the lowest of 100% of maximum annual debt service on the bonds, 125% of average annual debt service on the bonds, 10% of the principal amount of the then-outstanding bonds, or 10% of the net proceeds of the bonds.

The district is located in Oakland, Calif., and consists primarily of single-family homes on 1,600 acres. The district was formed to facilitate the refunding of debt originally issued by Oakland's Fire Utility Underground Assessment District No. 1994-1 and Oakland Assessment District No. 1994-2 to fund the cost of installing underground utilities that were destroyed in the Oakland Hills fire of 1991. Incomes in Oakland were at a good 98.6% of the nation on a median household basis and a strong 113.5% on a per capita basis, relative to national levels, in our opinion.

Of the 3,376 parcels in the district, about 2,584 have unpaid reassessments. Of the parcels with unpaid reassessments, roughly 90% are residential with structural value and 11% are unimproved residential land uses. Reassessments are levied based on parcel size and pro rata share of the originally issued debt. The city's amortization schedule for unpaid assessments is equal to the bonds' debt service schedule. Reassessments are levied on the annual general property tax bill and bear the same penalties and interest for delinquencies. Reassessments constitute a lien against each parcel, according to the bond documents.

We calculate that the district could withstand an 8.5% delinquency rate each year until final maturity before depleting the debt service reserve fund, assuming it is funded at the reserve requirement. The city reported that annual reassessment levy delinquencies have been 1% to 2% between fiscal 2008 and fiscal 2011, with delinquencies rising to 3% for fiscal 2012. Most recently, fiscal 2015 delinquencies by June 30 were 1.73% of the total assessment billing.

Outlook

The stable outlook reflects our view of the 1.0x projected coverage, as well as our anticipation that the debt service reserve will provide adequate cushion given current delinquency rates.

Upside scenario

We do not expect to raise the rating during the current two-year outlook period based on our view of the fixed nature of the assessments that are structured to produce 1.0x coverage of the bond debt service.

Downside scenario

We could lower the rating if delinquency rates rise significantly over the medium term, or if we expect it to remain slightly elevated for a prolonged period.

Related Criteria And Research

Related Criteria

- Criteria: Use of CreditWatch And Outlooks, Sept. 14, 2009
- USPF Criteria: Special-Purpose Districts, June 14, 2007

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