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Summary:

Oakland Redevelopment Agency, California; Tax Increment

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Summary:

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Credit Profile		
Oakland Redev Agy (Coliseum Area Redev Proj) tax alloc bnds		
Unenhanced Rating	A(SPUR)/Stable	Affirmed
Many issues are enhanced by bond insurance.		

Rationale

Standard & Poor's Ratings Services affirmed its 'A' long-term rating and underlying rating (SPUR) on Oakland Redevelopment Agency, Calif.'s series 2006 (Coliseum Area Redevelopment Project) tax allocation bonds (TABs). The outlook is stable.

The ratings reflect our view of:

- The large size of the project area, which includes 20% of the city of Oakland;
- The legally closed lien;
- Strong 3.74x maximum annual debt service (MADS) coverage; and
- The city's good median household effective buying income (EBI) at 100% of the national level.

In our view, the preceding credit strengths are partly offset by the lack of an investment-grade debt service reserve in the form of an AMBAC surety.

The bonds are secured by a first lien on tax increment revenues generated from the agency's Coliseum Area Redevelopment Project, net of low- and moderate-income housing set-asides. All statutory pass-through payments have been subordinated to debt service.

The project area, formed in 1995, is mostly developed. The area borders the Interstate 880 corridor and ranges from the San Leandro border to well into the city of Oakland. The area includes many large public enterprises, including portions of the Oakland International Airport and the Oakland Coliseum. The project area is very large, encompassing 6,734 acres, or almost 20% of the city of Oakland. By assessed value (AV), the project area is made up predominantly of industrial and commercial land uses, though residential valuation has been an increasing component of the total base due to residential in-fill construction.

Pledged tax increment revenue for the project area totaled $23.7 million in fiscal 2016, a strong 8.7% increase from $21.8 million in fiscal 2015. Total AV for the project area mirrored the tax increment growth trend, as fiscal 2016 total AV grew by 5.2% to $4.36 billion from $4.15 billion in fiscal 2015. Fiscal 2016 marks the fourth consecutive year of growth within the project area, as the fiscal 2016 AV is about $625 million, or 16.8%, above the fiscal 2012 recession-era level. The project area's taxpayer base is diverse in our view, with the top 10 taxpayers constituting about 20.1% of the project area's incremental AV in fiscal 2016. The base-to-total project area AV volatility ratio of 0.38 suggests moderately high tax increment revenue sensitivity to overall AV fluctuations. The largest taxpayer is FedEx Express Corp., a logistical center located near the Oakland airport. The top taxpayer accounts for about 4% of incremental AV (2.5% of total AV). Finally, we note that reassessment appeals are moderately low, as the estimated successful fiscal 2016 appeals amount to about 3% to 4% of AV.

For the lien, pledged tax increment revenues, based on fiscal 2016 AV and the debt service schedule, provide strong annual MADS coverage of 3.74x, an increase from 3.52x MADS in fiscal 2015. At the current annual MADS coverage of 3.74x and given the moderately high volatility figure, we calculate that the project area could withstand a decline of 45.2% of total AV before MADS coverage fell below 1.00x. We note that this would cover the loss of the top 10 taxpayers.

Assembly Bill (AB) 1x26 and AB 1484 require successor agency (SA) and oversight officials to adhere to deadlines for requesting debt service payment amounts and subordinating pass-through payments when necessary. Since the law limits the SA revenue to payment on enforceable obligations, and since it requires more proactive management than under the predissolution flow of funds, we believe an SA's debt management practices after dissolution become more important to credit quality. We note that the SA is in compliance with bond indenture provisions as it is requesting the full bond-year debt service on the recognized obligation payment schedule (ROPS) and is reserving redevelopment property tax trust fund (RPTTF) proceeds to the next ROPS period.

Oakland is acting as SA to the former redevelopment agency after the state legislature and a subsequent court ruling dissolved all redevelopment agencies in California in February 2012, pursuant to AB x1 26 and subsequent amending legislation, AB 1484. AB x1 26 and AB 1484 provide an SA and its oversight board with the ability to issue refunding debt. AB 1484 also provides that bonds issued postdissolution maintain the same validity as those issued predissolution and include provisions that make it possible, in practice, to issue refunding debt. The law requires an SA to receive approval from its oversight board and the state Department of Finance before it can issue refunding bonds. The SA has received its finding of completion, which allows it to reinstate previously rejected loans, spend bond proceeds, and create a long-range property management plan. AB x1 26 and AB 1484 require SA and oversight officials to adhere to deadlines for requesting debt service payment amounts and subordinating pass-through payments, when necessary. Since the law limits the SA revenue to payment on enforceable obligations, and since it requires more proactive management than under the predissolution flow of funds, we believe an SA's debt management practices after dissolution become more important to credit quality.

Dissolution legislation permits the agency to issue indebtedness only for limited purposes, such as paying or amending an enforceable obligation, generating savings, or flattening spikes in debt service. Per the 2015 tax allocation refunding bond indenture, issued in the summer of 2015, the agency legally closed the senior lien, which includes the series 2006 Coliseum Area Redevelopment Project TABs.

We consider Oakland's economy to be very strong. With an estimated population of 411,400, the city is located in Alameda County in the broad and diverse San Francisco-Oakland-Hayward metropolitan statistical area. The county unemployment rate was 7.4% in 2013, and preliminary 2014 data suggest that it edged down to 5.9% for 2014. The city has a projected 2018 per capita EBI of 120% of the national level, which we consider strong; however, the median household EBI is 100% of the national level, which we consider just good. The per capita market value is $117,900, an extremely strong level, in our view. The city is experiencing a surge in economic activity, with AV increasing by 5.8% to $47.7 billion in 2015 after rising by 5.1% in fiscal 2014. Although we understand that much of this growth represents spillover activity from the robust information technology clusters in Silicon Valley and San Francisco, we believe that the city is well placed geographically to absorb growth as an increasing number of real estate projects become economically viable.

Outlook

The stable outlook reflects our view that the agency's MADS coverage will likely remain at a level that we consider strong and the agency will continue to remain in compliance with dissolution law through the two-year outlook period.

Upside scenario

While we do not expect this within the outlook period, should project area AV and resulting MADS coverage increase and the agency acquire an investment-grade debt service reserve, in the form of a cash reserve or investment-grade surety, we could raise the ratings.

Downside scenario

We could lower the ratings if the SA's MADS coverage were to fall to a level that we consider less than strong or if the agency were to mismanage its cash.

Related Criteria And Research

Related Criteria

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

Related Research

Revisiting The Dissolution Of California Redevelopment Agencies, June 11, 2013