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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, CA Subordinated Hsg Set-Aside Tax Alloc Bnds (Taxable)		
Long Term Rating	A+/Stable	Upgraded
Oakland Redev Agy Sub Hsg Set-Aside Tax Alloc Bonds		
Unenhanced Rating	A+(SPUR)/Stable	Upgraded

Many issues are enhanced by bond insurance.

Rationale

Standard & Poor's Ratings Services raised its long-term rating and underlying rating (SPUR) to 'A+' from 'A' on Oakland Redevelopment Agency, Calif.'s housing tax allocation bonds. The rating action is based on our view of the agency's strong assessed value (AV) growth as well as a reduced debt service schedule resulting in good 2.58x maximum annual debt service (MADS). The outlook is stable.

The ratings reflect our view of:

- The large size of the combined tax base, which includes 42% of the city of Oakland;
- Good 2.58x MADS coverage;
- The legally closed lien; and
- 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 moderately high volatility ratio of 0.32.

The bonds are secured by the 20% of tax increment revenues set aside for low- and moderate-income housing generated from 10 individual project areas of the Oakland Redevelopment Agency, including (ordered by amount of increment generated) Central District, Coliseum, Central City East, Oakland Army Base, Broadway/MacArthur/San Pablo, West Oakland, Oak Knoll, and Acorn.

The pledged project areas, combined, cover approximately 13,000 acres within Oakland, or close to 42% of the city's total land boundary. The Broadway/MacArthur/San Pablo project area, formed in 2000, encompasses 676 acres in the northwest portion of the city. The Central City East project area, formed in 2003, encompasses 3,339 acres in the southeast portion of the city. The Central District project area, originally adopted in 1969 and amended in 1982 and 2001, encompasses 828 acres (250 city blocks) in the south-central portion of the city. The Coliseum project area, formed in 1995 and amended in 1997, is the largest project area, encompassing 6,764 acres along the south-southwest border of the city. The Oakland Army Base project area, formed in 2000, encompasses 1,375 acres along the western border of the city (north of Alameda). The West Oakland project area, formed in 2003, encompasses three sub-areas in the west-central portion of the city. Finally, the Oak Knoll project area, which is the smallest of the project areas, at

183 acres, is located on the eastern portion of the city.

The geographic and economic diversity of the seven project areas within the city is reflected in the land use and contribution to AV-based revenue. Specifically to the project area's AV contribution, the Broadway/MacArthur/San Pablo project area is split in its concentration, as it is both residential, at 48% of AV, and commercial, at 42%. With 14,108 of the 15,895 parcels zoned as residential, the Central City East project area is concentrated in residential, at about 80% of AV. The West Oakland project area is also concentrated in residential, which is 56% of AV; 4,129 of the 5,756 total parcels are zoned as residential. The remaining project areas in terms of AV contribution and land use, with the exception of the Army Base and Oak Knoll project areas, are generally diverse, with even contribution ratios among commercial, residential, and some industrial. We note that the Army Base and Oak Knoll project areas, though the smallest, are concentrated in commercial (Oak Knoll with 98% of AV) and unsecured (Army with 81% of AV) although their combined total contribution to pledged revenues is only 11.4%. Altogether, the combined project areas are economically diverse, with residential being the largest portion, at 42% of total AV spread among the 31,646 parcels; commercial coming in second, at 28% of total AV (3,579 parcels); unsecured following, at 15% of total AV; and industrial a distant fourth, at 12% of total AV (1,567 parcels).

Pledged tax increment revenue for the project area totaled $23.689 million in fiscal 2016, a strong increase from fiscal 2015. Total AV for the project area mirrored the tax increment growth trend, as fiscal 2016 total AV grew by 9.4% to $17.39 billion from $15.9 billion in fiscal 2015. Fiscal 2016 marked the fifth consecutive year of growth within the project area. The project area's taxpayer base is very diverse, in our view, with the top 10 taxpayers constituting about 17.9% of the project area's incremental AV in fiscal 2016. The base-to-total project area AV volatility ratio of 0.32 suggests moderately high tax increment revenue sensitivity to overall AV fluctuations. The largest taxpayer is reported as Digital 720 2nd LLC, but is also known as the Jack London Technology Center, a telecommunications facility. The top taxpayer constitutes about 4.22% of incremental AV (2.9% of total AV). Finally, reassessment appeals are relatively minor for the project area, including estimated appeals based on the historical success rate.

For the lien, pledged tax increment revenues, based on fiscal 2016 AV and the debt service schedule, provide good annual MADS coverage of 2.58x, an increase from 1.31x MADS in fiscal 2015, largely due to the new debt service schedule. At the current annual MADS coverage of 2.58x and given the moderately high volatility figure, we calculate that the project area could withstand a decline of 41.8% 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 requesting debt service on a semiannual basis, for the housing bonds, as the debt service comes due, contrary to the covenant as prescribed within the bond indenture. The bonds have a cash-funded debt service reserve, funded at MADS.

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 pre-dissolution 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 housing bonds.

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 a 5.1% increase 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 is likely to remain at a level that we consider good and the agency continues 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 AV and resulting MADS coverage increase significantly, 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 good 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

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