MOODY'S
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Rating Update: Moody's upgrades Successor Agency to City of Oakland's Redevelopment Agency (CA) Tax Allocation Bonds to Baa1

Global Credit Research - 30 Jul 2015

$328.0M in rated-debt affected

SUCCESSOR AGENCY TO THE OAKLAND REDEVELOPMENT AGENCY, CA
Tax Increment/Tax Allocation
CA

NEW YORK, July 30, 2015 --Moody's Investors Service has upgraded to Baa1 from Ba1 the Successor Agency to the City of Oakland's Redevelopment Agency (RDA) Tax Allocation Bonds.

On June 24, 2015, in connection with the release of our Tax Increment Debt methodology, we placed the ratings for nearly all California tax allocation bonds (TABs) on review for upgrade, including this successor agency's (SA) TABs. This rating action completes our review for this SA.

SUMMARY RATING RATIONALE

The upgrade to Baa1 takes into account the successor agency's large, growing tax base, moderate debt service coverage levels, somewhat elevated taxpayer concentration and average socioeconomic profile of area residents. The city's individual project areas, and the project areas on a combined basis, have a relatively weak incremental AV to total AV ratio reflected in the rating. The rating also reflects the SA's successful adaptation to post dissolution processes and administrative procedures and our expectation that this trend will continue. The rating also incorporates our generally positive assessment of the implementation of redevelopment agency dissolution legislation by most successor agencies over the last three years, leading to timely payment of debt service on California TABs.

In 2012, state legislation dissolved all California redevelopment agencies, replacing them with "successor agencies" to serve as fiduciary agents. The dissolution effectively changed the flow of funds and processes around the payment of debt service on TABs. Tax increment revenue is placed in trust with the county auditor, who makes semi-annual distributions of funds sufficient to pay debt service on tax allocation bonds and other "enforceable obligations."

As our administrative concerns related to the payment of debt service have lessened, we are now placing greater weight on some of the positive features of the dissolution legislation including the closed lien status of the bonds, potential availability of surplus housing revenues and revenues from other project areas that flow into the Redevelopment Property Tax Trust Fund (RPPTF).

OUTLOOK

Outlooks are generally not applicable for local government credits of this size.

WHAT COULD MAKE THE RATING GO UP

-Sizable increase in incremental AV of the project area, leading to greater debt service coverage

-Increase in each project areas' (and on a combined basis) ratio of incremental AV to total AV

WHAT COULD MAKE THE RATING GO DOWN

-Protracted decline in AV

-Erosion of debt service coverage levels

-Additional state administrative or legislative changes that create uncertainty relating to the timely payment of debt service

STRENGTHS

-Large, growing AV

-Moderate debt service coverage

-Average wealth levels

-Mixed cash-surety funded debt service reserve at lesser of standard three-tiered test

CHALLENGES

-Somewhat elevated taxpayer concentration

-Relatively weak incremental AV to total AV

RECENT DEVELOPMENTS

Recent developments are incorporated in the Detailed Rating Rationale.

DETAILED RATING RATIONALE

ECONOMY AND TAX BASE: STRONG REBOUND IN AVS IN LAST 3 YEARS; RELATIVELY WEAK INCREMENTAL TO TOTAL AV; AVERAGE SOCIOECONOMIC INDICATORS

The Moody's-rated Oakland TABs are legally supported by several different project areas that will likely continue to increase in value in the near-term, fueled by the city's diverse economy that is undergoing strong economic growth. Each of the project area's relatively weak ratio of incremental AV to total AV, however, continues to be a credit weakness for the city's TABs, because it amplifies pledged revenue volatility.

The strong economic growth is fueled by increased building permits, increase in taxable sales, and rising residential home values. Planned commercial and housing developments continue to fuel economic activity and help to create the city as a Bay Area destination for commercial and residential activity. There are as many as 11,000 new housing units in the development pipeline (under construction, have received, or applied for entitlements) throughout the city, with additional retail space planned with the developments. The city remains a transportation hub for the Bay Area economy and the city's port remains the 5th largest container port in the nation. Supporting the city's economy are high-income sectors, such as technology, research, and digital arts.

The Broadway/MacArthur/San Pablo Project Area is divided into two separate parcels of land. The area has a fiscal 2015 $531.2 million incremental AV that should be fueled by the city's. The project area has a slightly elevated ten largest taxpayers as a percentage of incremental AV of 35.3% in fiscal 2015. Three of the largest taxpayers are hospitals, which should provide some taxpaying stability, the area is also supported by an auto mall and multi-family residential units. The area's incremental AV to total AV is average at 59.4% in fiscal 2015.

The Central City East Project Area was formed in July 2003 and contains neighborhoods throughout East Oakland. The project area is approximately six square miles and is primarily residential in nature. The fiscal 2015 $1.2 billion incremental AV should continue to be supported by rising median home prices citywide. The area has a relatively low ten largest taxpayers as a percentage of incremental AV of 17.3% in fiscal 2015. The largest taxpayers are commercial centers that support residential housing. The area's incremental AV to total AV is weak at 38.6% in fiscal 2015.

The Coliseum Project Area is the city's largest project area by size, covering 11 square miles. The area contains the city's international airport, sporting event centers of the Coliseum and the Arena, and several BART stations which serve as a regional transportation hub. The fiscal 2015 $2.5 billion incremental AV should continue to increase given the important commercial activities located within the project area boundaries. The area has a relatively low ten largest taxpayers as a percentage of incremental AV of 22.3% in fiscal 2015. The largest taxpayers are distribution, commercial, and industrial facilities. The area's incremental AV to total AV is average at 59.7% in fiscal 2015.

The city has other project areas that support other TABs not rated by Moody's. The Central District has a fiscal 2015 incremental AV of $4.3 billion, which is supported by three geographical components in the city's central area. The Central District is the major and economic and transportation hub of the city with 30 office buildings. The ten largest taxpayers are an average 32.4% of fiscal 2015 incremental AV. The area has a very strong fiscal 2015 incremental AV to total AV ratio of 94.3%.

The Oak Knoll Project Area largely consists of a former military base known as the Naval Medical Hospital and includes 183 acres, of which 5.45 acres are owned by the city. The area has a fiscal 2015 incremental AV of $82.5 million. The area is supported by only three taxpayers, signifying very high taxpayer concentration. 87% of the tax-supporting property is vacant commercial and residential land. The area has no incremental AV to total AV.

The Oakland Army Base Project Area is 1,375 acres and includes the former Oakland Army Base. The area includes the Port of Oakland and existing marine terminal facilities. The area has a highly concentrated group of taxpayers at 124.2% of 2015 incremental AV. The incremental AV to total AV is a healthy 65.4% of AV.

The West Oakland Project Area is made up of three sub-areas: Prescott/South Prescott, Clawson/McClymonds/Bunche, and West MacArthur/Hoover. The area was adopted to facilitate residential, commercial, and industrial development of blighted, underutilized, and contaminated sites. The area has a fiscal 2015 incremental AV of $578.7 million. The area has an average percentage of ten largest taxable property owners at 30.8% of fiscal 2015 incremental AV. The area has a relatively weak 39.2% incremental AV to total AV.

STANDARD SOCIO METRICS; DECLINING UNEMPLOYMENT

Resident wealth levels for the city are slightly lower than national averages with median family income at 92.1% of the US. The city's unemployment rate continues to trend downward to 5.5% as of April 2015, and remains lower than the state (6.3%) and nation (5.5%) for the same period.

Liquidity

Liquidity is not a major factor in our assessment of tax allocation bond credit quality. Due to the RDA dissolution legislation, successor agencies generally are not able to retain cash.

DEBT SERVICE COVERAGE AND REVENUE METRICS: HEALTHY ANNUAL COVERAGE

Each of the individual project areas have healthy annual coverage and annual coverage remains healthy on a combined basis after administrative fees and housing set aside for debt service, though coverage is average relative to other California RDA coverage ratios. Assuming a 2% incremental AV growth for all project areas through fiscal 2020, coverage should continue to increase incrementally from current levels.

The Broadway project area had a healthy 3.13 times annual coverage from available tax revenues in fiscal 2015. Coverage should increase to nearly 4.5 times coverage by fiscal 2020, assuming steady incremental AV growth of 2%.

The Central City East project area has healthy 2.46 times coverage in fiscal 2015 from available tax revenues. Coverage should increase to 4.02 times in fiscal 2020 after continued incremental AV growth.

The Coliseum project area had a stronger 3.7 times coverage in fiscal 2015 from available tax revenues. Coverage for this area should increase to 5.95 times by fiscal 2020, the strongest coverage of the city's project areas after continued incremental AV growth.

On a combined basis, coverage was 2.53 times from available revenues in fiscal 2015 when including all the city's TABs, including the city's subordinate Housing Bonds. Total combined coverage on an annual basis should increase to 3.84 times in fiscal 2020 assuming continued incremental AV growth, including the net funds from other areas.

At these healthy coverage levels, the tax base would need to decline by more than 60% for coverage to decline to sum-sufficient, which we view as an unlikely scenario.

DEBT AND LEGAL COVENANTS

The district has $430.2 million in TABs outstanding, of which Moody's rates $328.0 million.

Legal covenants related to the issuance of additional bonds are no longer applicable given SA's are generally not permitted to issue new money debt since the dissolution 2012. This is a credit strength as debt coverage cannot be diluted by additional issuance. Management reports that they are considering issuing refunding bonds which would lower debt service, and, if the savings are taken on an level annual basis, would positively impact debt service coverage levels in each remaining year.

Each of the bonds are supported by either a cash or surety-funded debt service reserve at the lesser of the standard three-tiered test.

Debt Structure

All of the SA's debt is fixed rate with debt service level throughout the life of the bonds. The SA has debt outstanding (not rated) secured by a subordinate lien on the tax increment revenue.

Debt-Related Derivatives

The successor agency is not party to any derivative transactions.

Pensions and OPEB

Pensions and OPEB liabilities are not a factor in our assessment of tax allocation bond credit quality

MANAGEMENT AND GOVERNANCE

Management has demonstrated a clear understanding of the post RDA dissolution administrative process for payment of enforceable obligations including the TABs. Favorably, they have submitted their semi-annual ROPs on time in all semiannual periods since the dissolution in 2012 and have policies in place to ensure the timely payment of debt service continues.

Management requests the majority of the year's annual debt service payments in the first January to June payment period. In the January to June 2015 payment period, the city requested $48.8 million for debt service payments from an available revenues of $53.4 million after all pass-through distributions. Management requests an additional approximately $14.6 million in the July to December payment period for debt service on the city's subordinate housing bonds.

SAs and the payment of their respective TABs are now largely governed by legislation enacted in 2011 and 2012. SAs' role are to wind down the former RDA's outstanding obligations, including TABs.

The Baa score for the California TABs' legal structure and governing framework factor reflects the unique features of the post RDA dissolution legislation, including the semiannual allocation and distribution structure of revenues, closed lien status, lack of ability to retain excess cash flows and numerous administrative and procedural requirements. The score also takes into account the state's highly restrictive governance framework for SAs. Successor agencies have almost no operating flexibility. Revenues consist mostly of a passive revenue stream (tax increment revenues), and expenditures are composed of TAB debt service and other state approved "enforceable obligations". Although the risks posed by California's post-dissolution redevelopment legal structure have greatly diminished from a few years ago. However, the factor score continues to reflect the legislative change to the flow of tax increment revenues, which created additional administrative and managerial risks otherwise not present in TABs prior to 2012.

KEY STATISTICS (Combined Project Areas)

-Median family income as a % of US: 92.1%

-Incremental AV: $10.4 billion

-Top ten taxpayers as a % of incremental AV: 17.8%

-Ratio of incremental AV to total AV: 65.1%

-MADS Coverage: 2.53x

-3 year CAGR of tax increment revenues: 2.9%

-California Legal Structure Score: Baa

OBLIGOR PROFILE

The SA is a separate legal entity from the City of Oakland. The SA is responsible for winding down the operations of the former RDA, making payments on state approved "Enforceable Obligations" and liquidating any unencumbered assets to be distributed to other local taxing entities.

The City of Oakland is located in the County of Alameda on the eastern shore of the San Francisco Bay, approximately seven miles from downtown San Francisco via the San Francisco-Oakland Bay Bridge. Occupying approximately 53.8 square miles, the city is the largest and most established of the "East Bay" cities.

LEGAL SECURITY

The legal security for the project area(s) is tax increment revenue net of housing set asides and senior pass-throughs.

While not legally pledged, the dissolution laws permit the TABs to be paid from all available monies in the Redevelopment Property Tax Trust Fund, after payment of senior pass through payments and certain administrative charges. This includes excess housing set aside tax increment revenues.

USE OF PROCEEDS

N/A

PRINCIPAL METHODOLOGY

The principal methodology used in this rating was Tax Increment Debt published in June 2015. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

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