MOODY'S
INVESTORS SERVICE

New Issue: MOODY'S DOWNGRADES TO A2 FROM A1 THE RATING ON OAKLAND REDEVELOPMENT AGENCY'S SUBORDINATED HOUSING TAX ALLOCATION BONDS

Global Credit Research - 01 Mar 2011

APPROXIMATELY $130 MILLION IN DEBT AFFECTED INCLUDING THE CURRENT ISSUE

Other Sectors
CA

Moody's Rating

ISSUE	RATING
Subordinated Housing Set Aside Revenue Bonds, Series 2011A-T	A2

Sale Amount	$56,000,000
Expected Sale Date	03/15/11
Rating Description	Tax Allocation Bonds

Opinion

NEW YORK, Mar 1, 2011 -- Moody's Investors Service has downgraded to A2 from A1 the rating on the Redevelopment Agency (RDA) of the City of Oakland's Subordinated Housing Set Aside Bonds, Series 2006A and2006A-T. We have also assigned an A2 rating to the RDA's current sale of Series 2011 A-T Subordinate Housing Set Aside Bonds.

RATINGS RATIONALE

The downgrade reflects the moderate erosion of the project areas' notably large assessed value, which has occurred over the last two years and appears likely to continue for a third. The decline in assessed value also weakened the RDA's ratio of incremental to total assessed value, which is another key rating element. The rating action also incorporates the significantly narrowed debt service coverage that will result from the sale of the Series 2011 bonds. Pledged revenues consist of the housing set-aside portion of tax increment revenues generated in all ten of the Agency's project areas combined, after payment of debt service on a senior debt issue. The senior issue is secured by both the housing and non-housing revenues from just two of the ten project areas, and this senior lien is now closed. Moody's notes that over the life of the debt four of the ten project areas will drop out of the revenue stream, and one of these is currently the largest income generator. However, even in the absence of these four project areas, the tax base will be quite sizeable and the bonds have been structured to maintain adequate coverage. The bonds are secured by the combined 20% housing set aside revenues of each of the RDA's project areas.

PRESSURED ECONOMIC ENVIRONMENT UNDERSCORED BY CONSECUTIVE YEARS OF ASSESSED VALUE DECLINE

In 2010 and 2011, the total assessed valuations of the project areas fell by 3.5% and 4.7% respectively. The agency anticipates another 3.5% decline in 2012 owing to an expectation that $522.6 million will be granted in property value appeals. The number of property tax appeals has risen sharply since 2006 with 2,332 filings through 2010. There are still 1,263 appeals currently outstanding, which represent approximately 22% of the agency's total value. The project areas cover 14,420 acres, which is 42% of the City of Oakland. The $14.6 billion tax base remains one of the largest in the state despite the recent losses as the city has absorbed the impacts of the economic downturn. As a result of the assessed value decline, the ratio of incremental to total assessed value has fallen to just 61%, which is a fairly weak level for a Moody's rated California redevelopment agency project area.

The project areas feature a satisfactory level of taxpayer diversity with the top ten taxpayers representing only 21% of the total incremental value. No single taxpayer accounts for more than 4% of the incremental value. The approximately 41,000 parcels are significantly residential at 39%, though commercial enterprises make up a meaningful 28% of the total assessed value. Commercial interests are also the primary filers of property tax appeals with most residential appeals having already been addressed during the Proposition 8 reductions of the last two years. Oakland appears to have passed through the worst of the economic recession and to have entered a period of slow recovery. Nonetheless, appeals and return to a protracted economic downturn could continue to pressure the local tax base.

CURRENT SALE WILL SIGNIFICANTLY DIMINISH DEBT SERVICE COVERAGE TO A NARROWER BUT STABLE LEVEL ASSUMING NO ADDITIONAL ISSUANCES

Following the current sale, the agency's coverage of maximum annual debt service will fall to approximately 1.53 times from 2.87 times prior to the sale. Under an unlikely zero assessed value growth assumption, annual coverage is approximately 1.50 times. Debt service has been structured to decline as project areas reach their time limit for debt repayment. This includes the central district project area, which reaches its repayment limit in 2022 and contributes 47% of the housing set aside revenues. Accordingly, debt service falls 47% in 2023 to maintain the stability of coverage. It should be noted that the agency plans to adopt a plan extension for central district in 2011, though this could be jeopardized by legislation at the state level that could eliminate redevelopment agencies or limit their ability to take on additional debt. Using a less conservative growth assumption of 2% after 2012, the agency's strongest level of coverage would occur in 2022 at 1.87 times maximum annual debt service with annual coverage thereafter of greater than 2 times to maturity in 2041. Coverage could weaken with the issuance of additional bonds, though the agency asserts that it has no additional parity debt plans.

The Agency does not suffer from any taxpayer delinquencies, since the County effectively uses a method of tax allocation similar to the Teeter plan. Under this approach, the agency's tax revenues are made whole regardless of the actual number of delinquencies.

STANDARD TAX ALLOCATION DEBT LEGAL COVENANTS

The Agency's key legal covenants governing the current transaction are typical for tax allocation bonds, including a cash-funded standard debt service reserve fund and a 1.25x additional bonds test. Proceeds from the sale will be used to finance low and moderate income housing projects within the project areas.

What could change the rating-Up

Significantly improved assessed valuation growth resulting in materially stronger maximum annual debt service coverage

What could change the rating-Down

Continued declines in debt service coverage or assessed valuation

KEY STATISTICS:

2011 Assessed valuations: $14.6 billion

Total acreage: 14,420

Projected maximum annual debt service coverage 1.53 times

Top ten taxpayer concentration: 21% of incremental value

The principal methodology used in this rating was Moody's Analytic Approach To Rating California Tax Allocation Bonds published in December 2003.

REGULATORY DISCLOSURES

Information sources used to prepare the credit rating are the following: parties involved in the ratings, public information, confidential and proprietary Moody's Investors Service information, and confidential and proprietary Moody's Analytics information.

Moody's Investors Service considers the quality of information available on the credit satisfactory for the purposes of assigning a credit rating.

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