

**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**

<b>ISSUE</b>	<b>RATING</b>
Subordinated Housing Set Aside Revenue Bonds, Series 2011A-T	A2
<b>Sale Amount</b>	\$56,000,000
<b>Expected Sale Date</b>	03/15/11
<b>Rating Description</b>	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 and 2006A-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.

Moody's adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources Moody's considers to be reliable including, when appropriate, independent third-party sources. However, Moody's is not an auditor and cannot in every instance independently verify or validate information received in the rating process.

Please see ratings tab on the issuer/entity page on Moodys.com for the last rating action and the rating history.

The date on which some Credit Ratings were first released goes back to a time before Moody's Investors Service's Credit Ratings were fully digitized and accurate data may not be available. Consequently, Moody's Investors Service provides a date that it believes is the most reliable and accurate based on the information that is available to it. Please see the ratings disclosure page on our website [www.moodys.com](http://www.moodys.com) for further information.

Please see the Credit Policy page on Moodys.com for the methodologies used in determining ratings, further information on the meaning of each rating category and the definition of default and recovery.

**Analysts**

Michael Wertz  
Analyst  
Public Finance Group  
Moody's Investors Service

Dari Barzel  
Backup Analyst  
Public Finance Group  
Moody's Investors Service

**Contacts**

Journalists: (212) 553-0376  
Research Clients: (212) 553-1653

Moody's Investors Service  
250 Greenwich Street  
New York, NY 10007  
USA



© 2011 Moody's Investors Service, Inc. and/or its licensors and affiliates (collectively, "MOODY'S"). All rights reserved.

**CREDIT RATINGS ARE MOODY'S INVESTORS SERVICE, INC.'S ("MIS") CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES. MIS DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS**

**CONTRACTUAL, FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. CREDIT RATINGS DO NOT CONSTITUTE INVESTMENT OR FINANCIAL ADVICE, AND CREDIT RATINGS ARE NOT RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. CREDIT RATINGS DO NOT COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MIS ISSUES ITS CREDIT RATINGS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.**

ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT. All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. MOODY'S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources Moody's considers to be reliable, including, when appropriate, independent third-party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information received in the rating process. Under no circumstances shall MOODY'S have any liability to any person or entity for (a) any loss or damage in whole or in part caused by, resulting from, or relating to, any error (negligent or otherwise) or other circumstance or contingency within or outside the control of MOODY'S or any of its directors, officers, employees or agents in connection with the procurement, collection, compilation, analysis, interpretation, communication, publication or delivery of any such information, or (b) any direct, indirect, special, consequential, compensatory or incidental damages whatsoever (including without limitation, lost profits), even if MOODY'S is advised in advance of the possibility of such damages, resulting from the use of or inability to use, any such information. The ratings, financial reporting analysis, projections, and other observations, if any, constituting part of the information contained herein are, and must be construed solely as, statements of opinion and not statements of fact or recommendations to purchase, sell or hold any securities. Each user of the information contained herein must make its own study and evaluation of each security it may consider purchasing, holding or selling. NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY SUCH RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

MIS, a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MIS have, prior to assignment of any rating, agreed to pay to MIS for appraisal and rating services rendered by it fees ranging from \$1,500 to approximately \$2,500,000. MCO and MIS also maintain policies and procedures to address the independence of MIS's ratings and rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold ratings from MIS and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at [www.moodys.com](http://www.moodys.com) under the heading "Shareholder Relations — Corporate Governance — Director and Shareholder Affiliation Policy."

Any publication into Australia of this document is by MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657, which holds Australian Financial Services License no. 336969. This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001.

Notwithstanding the foregoing, credit ratings assigned on and after October 1, 2010 by Moody's Japan K.K. ("MJKK") are MJKK's current opinions of the relative future credit risk of entities, credit commitments, or debt or debt-like securities. In such a case, "MIS" in the foregoing statements shall be deemed to be replaced with "MJKK". MJKK is a wholly-owned credit rating agency subsidiary of Moody's Group Japan G.K., which is wholly owned by Moody's Overseas Holdings Inc., a wholly-owned subsidiary of MCO.

This credit rating is an opinion as to the creditworthiness or a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail investors. It would be dangerous for retail investors to make any investment decision based on this credit rating. If in doubt you should contact your financial or other professional adviser.