

## **FITCH AFFIRMS OAKLAND REDEVELOPMENT AGENCY, CALIFORNIA'S HOUSING REVS AT 'A-'**

Fitch Ratings-San Francisco-03 July 2014: Fitch Ratings has affirmed the following revenue bond rating for the Oakland Redevelopment Agency, CA (the RDA):

--\$72.7 million subordinated housing set-aside revenue bonds, series 2006A and 2006A-T at 'A-'.  
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The Rating Outlook is Stable.

### **SECURITY**

The bonds are secured by a pledge of the 20% housing set-aside tax increment revenue from 10 project areas. The successor agency continues to segregate housing and non-housing tax increment revenues.

### **KEY RATING DRIVERS**

**ADEQUATE DEBT SERVICE COVERAGE:** Debt service coverage from the 20% of tax increment set aside for low- and moderate-income housing projects remains adequate and is generated in 10 large, well-established project areas. Together these represent 41% of the city's total area. Due to RDA dissolution, no additional debt issuance is permitted.

**TAX BASE TO BENEFIT FROM REDEVELOPMENT:** The 10 project areas' combined tax base is slowly rebounding from recessionary losses and is well positioned to benefit from improving property prices, rising rents, and the gradual rollout of significant redevelopment construction projects.

**MIXED SOCIOECONOMIC CHARACTERISTICS:** While Oakland's mixed demographics are expected to persist, its high unemployment rate is declining.

**NO IMPACT FROM ANALYTICAL REFINEMENT:** Fitch recently refined its analysis of California TABs and is now considering their liens to be effectively closed and surplus housing revenues to be available to pay non-housing debt service. This action did not affect this rating because the bonds were already payable from housing set-aside revenue.

### **RATING SENSITIVITIES**

The rating is sensitive to shifts in pledged tax increment revenues. Significant downward shifts in AV resulting in meaningful debt service coverage declines could prompt a negative rating action. Given the low IV to base year ratio, adequate debt service coverage, adequate AV cushion, and surety-funded debt service reserve fund, the rating is likely capped at the current level unless there were repeated, unexpectedly high annual AV increases going forward.

### **CREDIT PROFILE**

Tax increment revenues are generated by 10 project areas in Oakland, which represent a combined 14,240 acres or 41% of the city's total area. The Central District Project Area is the largest tax increment generator and expires in 2022, but debt service drops off significantly in the same year and tax increment revenues from that project area continue to be collected for a further 10 years.

Now that all bond funds and developable property have been transferred to the city, no further oversight board or state Department of Finance approvals are required for redevelopment projects, just city council approvals. However, successful implementation of redevelopment initiatives could be adversely affected by high turnover among the city's senior personnel.

## ADEQUATE DEBT SERVICE COVERAGE

Fiscal 2014 parity annual debt service coverage and maximum annual debt service (MADS) coverage are both an adequate 1.80 times (x). Assuming 2% annual growth from fiscal 2016 onwards (which Fitch regards as a realistic planning assumption), MADS coverage would grow to 2.34x by fiscal 2027. In the unlikely event of prolonged zero AV growth, MADS coverage would remain an adequate 1.65x between fiscal years 2016-2027. The AV cushion provides a somewhat adequate buffer against future AV volatility. It would take an unprecedented 24.5% AV reduction in fiscal 2016 to reduced MADS coverage to 1.00x.

Fitch regards the availability of unused bond proceeds to contribute towards redevelopment projects within the combined project areas as a credit positive.

## IMPLEMENTATION OF AB1X26

The city of Oakland has been recognized as the successor agency to the former RDA. Recognized obligation payment schedules (ROPS), which include 2014 debt service, have been approved by the oversight board and the state. The successor agency has received approval for sufficient payments to cover 2014 debt service.

## PERSISTENT ECONOMIC AND TAX BASE CHALLENGES MODERATING

Oakland's mixed socioeconomic characteristics could hinder future development, particularly its above-average unemployment rate. At 8.9% in April 2014, the city's unemployment rate remains noticeably above the state (7.3%) and the nation (5.9%). However, it has improved markedly since the August 2009 peak of 17.6%. While median household income and individual poverty rate data also indicate below-average socioeconomic characteristics, per capita money income and educational attainment are above-average.

Following incremental valuation (IV) declines of 5.2% in fiscal 2010 and 7.5% in fiscal 2011, primarily due to residential and industrial property valuation losses, IV has slowly rebounded by a cumulative 5.5% through fiscal 2015 (projected). For planning purposes, the city is assuming 2% annual growth thereafter. IV is a low 1.75x the combined project areas' base value, which indicates high tax increment revenue volatility in the event of future IV decline.

The combined project areas' tax base remains somewhat vulnerable to appeals. Currently, there are 931 appeals covering \$3.442 billion in taxable value (22.6% of the combined project areas' projected taxable AV in fiscal 2015). Between fiscal years 2009-2013, the city lost an average of 20.7% of valuations for the properties appealed. If that historical loss rate persists, the combined project areas could face a future tax base loss of approximately \$797.6 million (5.2% of the combined project areas' taxable AV in fiscal 2015). However, given the rebounding property market, such a loss would likely be at least partially offset by the increased value generated by rising property prices, the recovery of Proposition 8 valuation reductions, and the gradual rollout of new redevelopment construction projects.

## ANALYTICAL REFINEMENT CONSIDERS POSITIVE EFFECTS OF DISSOLUTION

On May 1 Fitch refined its California RDA analysis pertaining to the beneficial impact of dissolution legislation (AB 1X 26). Fitch now considers TAB liens to be closed and surplus housing revenues to

be available for non-housing TAB debt service. Although Fitch views these factors as positive credit characteristics, they did not affect this analysis of subordinated housing set-aside revenue bonds.

Fitch formerly excluded positive dissolution factors from consideration, reflecting a conservative approach to a dissolution environment marked by legislative, administrative, and judicial uncertainty. Two-and-a-half years and six recognized obligation payments schedule (ROPS) cycles have passed since dissolution, during which the factors have benefitted TAB credit quality with no successful legal challenges to date. Although uncertainties remain, Fitch views the continued presence of closed TAB liens and surplus housing revenue availability as more likely than not to remain a feature of California TABs.

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In addition to the sources of information identified in Fitch's Tax-Supported Rating Criteria, this action was additionally informed by information from Creditscope, University Financial Associates, S&P/Case-Shiller Home Price Index, IHS Global Insight, and National Association of Realtors.

Applicable Criteria and Related Research:

--'Tax-Supported Rating Criteria' (Aug. 14, 2012);

--'U.S. Local Government Tax-Supported Rating Criteria' (Aug. 14, 2012).

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Tax-Supported Rating Criteria

[http://www.fitchratings.com/creditdesk/reports/report\\_frame.cfm?rpt\\_id=686015](http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=686015)

U.S. Local Government Tax-Supported Rating Criteria

[http://www.fitchratings.com/creditdesk/reports/report\\_frame.cfm?rpt\\_id=685314](http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=685314)

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