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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 (Central City East Redev Proj) tax alloc bnds		
Unenhanced Rating	A(SPUR)/Stable	Upgraded
Many issues are enhanced by bond insurance.		

Rationale

Standard & Poor's Ratings Services raised its long-term rating to 'A' from 'A-' on Oakland Redevelopment Agency, Calif.'s series 2006 (Central City East project area) tax allocation bonds (TABs). 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 3.14x maximum annual debt service (MADS). The outlook is stable.

The rating reflects our view of:

- The large size of the project area, which includes 10% of the city of Oakland;
- Legally closed lien;
- Good median household effective buying income (EBI) at 100% of the national level; and
- Strong 3.14x MADS coverage.
- In our view, the preceding credit strengths are partly offset by the lack of an investment grade debt service reserve in the form of an AMBAC surety as well as the high volatility figure of 0.56.

The bonds are secured by tax increment revenue collected from the agency's Central City East project area, net of the required 20% low- and moderate-income housing set-aside. All pass-through payments have been subordinated.

The Central City East project area, formed in 2003, encompasses 3,339 acres in the southeast portion of the city and is mostly developed. The project area shares its southern border with the Coliseum project area and its westerly border with the central district project area. 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. Looking ahead, the SA reports that several large redevelopment projects in the pipeline include the Brooklyn Basin within the project area.

Pledged tax increment revenue for the project area totaled $13.9 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 8.6% to $3.48 billion from $3.2 billion in fiscal 2015. The fiscal 2016 growth figure represents the fourth consecutive year of growth within the project area as the fiscal 2016 AV is about $649 million or 23% above the fiscal 2012 recession-era level. The project area's taxpayer base is very diverse, in our view, with the top 10 taxpayers constituting about 14.2% of the project area's incremental AV in fiscal 2016. The base-to-total project area AV volatility ratio of 0.56 suggests high tax-increment revenue sensitivity to overall AV fluctuations. The largest taxpayer is Eastmont Town Center, retail center located on 73rd Avenue and Bancroft Avenue. The top taxpayer constitutes about 4.55% of incremental AV (2% 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 strong annual MADS coverage of 3.14x, an increase from 2.2x MADS in fiscal 2015. At the current annual MADS coverage of 3.14x and given the high volatility figure, we calculate that the project area could withstand a decline of 29.6% 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 a SA's debt management practices after dissolution become more important to credit quality. We note that the SA is in compliance with bond indenture provisions as it is requesting the full bond-year debt service on the recognized obligation payment schedule (ROPS) and is reserving redevelopment property tax trust fund (RPTTF) proceeds to the next ROPS period.

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 Assembly Bill (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 post-dissolution maintain the same validity as those issued pre-dissolution 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 series 2006 Central City East Area Redevelopment Project TABs.

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 effective buying income (EBI) of 120% of the national level, which we consider strong; however the median household EBI is 100% of the national level, which we just consider 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 a 5.8% increase in AV 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 strong 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 the agency increase its AV and resulting MADS coverage and acquire an investment grade debt service reserve, in the form of a cash reserve or investment grade surety, we could raise the rating.

Downside scenario

We could lower the rating if the SA's MADS coverage were to fall to a level that we consider less than strong 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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