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Summary:

Successor Agency to the Oakland Redevelopment Agency, California; Tax Increment

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Credit Profile		
US$85.775 mil subordinated tax alloc rfdg bnds ser 2015-T due 09/01/2036		
Long Term Rating	A-/Stable	New
US$22.365 mil subordinated tax alloc rfdg bnds ser 2015-TE due 09/01/2036		
Long Term Rating	A-/Stable	New

Rationale

Standard & Poor's Ratings Services assigned its 'A-' long-term rating to the Successor Agency (SA) to the Oakland Redevelopment Agency, Calif.'s series 2015-TE subordinated tax allocation refunding bonds (TARBs) and series 2015-T taxable subordinated TARBs. The outlook is stable.

The rating reflects our view of the SAs:

- Stable trend of assessed value (AV) growth since fiscal 2009;
- Good, 1.42x maximum semi-annual debt service (MADS) coverage for the subordinate lien;
- Geographic and economic diversity within the seven pledged project areas encompassing close to half of Oakland; and
- Strong income indicators with projected 2018 per capita effective buying income of 120% of the national level.

Partly offsetting the above strengths, in our view, are the SA's:

- Moderate volatility ratio of 0.35 and
- Moderately high number of anticipated AV appeals given that the SA anticipates $610.3 million, or about 4% of fiscal 2015 AV, potentially erasing a full year of AV growth, based on the historical success rate, which includes recession-era data.

Based on the 2015 bond indenture, the bonds are secured by a subordinate lien on pledged tax revenue generated by the SA's Broadway/MacArthur/San Pablo, Central City East, Central District, Coliseum Area, Oak Knoll, Oakland Army Base, and West Oakland project areas deposited from time to time into the redevelopment property tax trust fund (RPTTF), net of senior obligations that include the 17th Street Garage DDA, the Uptown Ground Lease, and the remaining outstanding tax allocation bond (TAB) obligations. The proceeds from the series 2015 TARBs will be used to refund callable maturities of the series 2006 series A, B, and C (tax-exempt) TABs for the Central City East, Broadway/MacArthur/San Pablo, and Coliseum project areas and the series 2006 series A (tax-exempt and taxable) TABs for the subordinated housing. [Upon the successful closing of the series 2015 TARBs, the ratings on the 2006C-TE (Broadway/MacArthur/San Pablo) and 2006A-TE (Central City East), 2006A (Subordinated Housing) TABs are subject to discontinuation.

The pledged project areas, combined, cover approximately 13,000 acres within Oakland, or close to 40% of the city's total land boundary. The Broadway/MacArthur/San Pablo project area, formed in 2000, encompasses 676 acres in the northwest portion of the city, contributing about 5.4% of total pledged revenue. The Central City East project area, formed in 2003, encompasses 3,339 acres in the southeast portion of the city and contributes approximately 11% of total pledged revenue. The Central District project area, originally adopted in 1969 and amended in 1982 and 2001, encompasses 828 acres (250 city blocks) in the south-central portion of the city and contributes approximately 37% of total pledged revenue. The Coliseum project area, formed in 1995 and amended in 1997, is the largest project area, encompassing 6,764 acres along the south-southwest border of the city and contributing approximately 27% of total pledged revenue. The Oakland Army Base project area, formed in 2000, encompasses 1,375 acres along the western border of the city (north of Alameda) contributing approximately 10% of total pledged revenue. The West Oakland project area, formed in 2003, encompasses three sub-areas in the west-central portion of the city and contributes approximately 7% of total pledged revenue. Finally, the Oak Knoll project area, which is the smallest of the project areas, at 183 acres, is located on the eastern portion of the city and contributes about 1% of total pledged revenue.

The geographic and economic diversity of the seven project areas within the city is reflected in the land use and contribution to AV-based revenue. Specifically to the project area's AV contribution, the Broadway/MacArthur/ San Pablo project area is split in its concentration as it comes in with residential at 48% and commercial at 42%. 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. The West Oakland project area is also concentrated in residential, which is 56% of AV, or 4,129 of the 5,756 total parcels zoned as residential. The remainder project areas in terms of AV contribution and land use, with the exception of the Army Base and Oak Knoll project areas, are generally diverse, with even contribution ratios between commercial, residential, and some industrial. We note that the Army Base and Oak Knoll project areas, though the smallest, are concentrated in commercial (Oak Knoll with 98% of AV) and unsecured (Army with 81% of AV) although their combined total contribution to pledged revenues is only 11.4%. Taken altogether, the combined project areas are economically diverse with residential being the largest portion at 42% of total AV spread among the 31,646 parcels, commercial coming in second at 28% of total AV (3,579 parcels), unsecured following at 15% of total AV, and industrial a distant fourth at 12% of total AV with 1,567 parcels.

In fiscal 2014, the combined project area's total AV reached $15.17 billion, a 0.9% increase from the fiscal 2013 value of $15.04 billion. Fiscal 2015 AV shows a general acceleration of the growth trend as total AV grew 4.8% to $15.9 billion. The SA attributes the growth to the strength of the San Jose-San Francisco-Oakland Metropolitan Statistical Area economy, growth within the local employment base, and continued positive movement of Oakland's residential property market. Looking into the total AV found within individual project areas, the trend is positive as only two project areas posted negative growth in fiscal 2015 from fiscal 2014. The Broadway/MacArthur/San Pablo project area posted a 15.7% decline, driven by the Sutter East Bay Hospitals, which was valued at $182 million but had a tax exemption in fiscal 2015. The Army Base project area lost $78 million of AV, or a 7% decline, which reflects unsecured value from large cargo handling taxpayers. The remaining project areas posted growth from a low of 3% (Oak Knoll project area) to a high of 8.4% (Central City East). We note that the combined project area AV in fiscal 2015 from fiscal 2014 underperformed that of the City of Oakland as a whole, as the project area grew 4.8% compared with the city's 5.8% increase. Historically, the combined project areas' total AV was fairly resilient as AV only declined for a couple of years during the recession. Net AV performance in the past few years demonstrated a general trend of inter-year growth as AV posted 0.6%, 3.3%, 0.9%, and 4.8% in fiscal years 2012 through 2015, respectively. We note that the secured and unsecured combined fiscal 2015 AV value exceeded the fiscal 2009 AV level though underlying secured AV is slightly below the 2009 level.

Looking ahead, the SA projects additional growth within the project area as a variety of recently completed as well as planned future developments will be hitting the tax rolls in the coming years. Notable recently completed projects include the recent BART Coliseum – Oakland Airport Connector (Coliseum Project Area) and the Alta Bates Summit Medical Center (Broadway/MacArthur/San Pablo project area). In addition, the SA reported that several large redevelopment projects in the pipeline include the Brooklyn Basin (Central City East project area), which is expected to add about 3,100 homes (one of the largest city revitalization projects in the past 50 years); the Oakland Global Trade and Logistics Center (Army Base project area) will redevelop about 1.5 million square-feet of industrial land use and will support the Port of Oakland, and the MacArthur Transit Village (Broadway/MacArthur/San Pablo project area) will add about 675 housing units. Taken altogether, the SA is projecting steady growth in total AV, similar to recent historical levels.

With regard to AV appeals, the SA is reported 649 pending assessment appeals within the combined project areas. The total value under appeal is $3.6 billion, with the individual property owners seeking $2 billion of total fiscal taxable value reduction, or about 13% of total fiscal 2015 AV. Based on the historical success rate, which we note may be inflated due to the economic recession appeal data that is backed into the historical data, the SA estimates that about 415 of the 649 appeals will be allowed in fiscal 2016 with a total AV reduction of about $610.3 million, or about 4% of fiscal 2015 AV, potentially erasing a full year of AV growth. In terms of specific project areas, AV appeals are concentrated in the Central District ($209 million), Army Base ($190 million), and the Coliseum ($163 million). We note that the expected reduction in the Army Base project area of about $190 million is about 8.6% of total fiscal 2015 AV.

Pledged RPTTF revenue, net of senior payments that include senior obligations, for the combined project area mirrored the SA's total AV trend through fiscal 2015. Given the agency's cash management practices as covenanted in the bond indenture, and based on the 2015 TARB debt service schedule, we calculate MADS coverage of 1.42x, which we consider good.

The project area's taxpayer base is modestly concentrated, in our view, with the top 10 taxpayers for the combined project areas constituting roughly 17.8% of the project area's incremental AV in fiscal 2015. The largest taxpayer, SSA Terminal, represents 3.5% of incremental AV. The top taxpayer is an operating terminal for 20 international shipping lines at the Port of Oakland, handling about 74 port calls a month. The combined project area's volatility (base-year to total AV) ratio of 0.35 suggests that tax increment revenue is moderately sensitive to overall AV fluctuations. At the additional bonds test of 1.25x and given the moderate volatility figure, we calculate that the project area could withstand a decline of 12.98% of AV before MADS coverage fell to less than 1x. We note that this would cover the loss of the top six taxpayers.

Within the individual project areas, the top 10 taxpayers shows a nuanced picture though our observation is that each individual project area is generally concentrated in one category (residential, commercial, or industrial). While one of the smallest projects in both AV and total acreage, the Oak Knoll project area's top 10 taxpayers contribute all of both total incremental AV and total AV. The Army Base project area, middle-sized in both AV contribution (10%) and acreage (1,375), taxpayer concentration also accounts for a similar level of incremental AV. In terms of total AV, the remaining project areas' respective top 10 taxpayers represent 35% (Broadway/MacArthur/San Pablo), 32% (Central District), 30% (West Oakland), 22% (Coliseum), and 17% (Central City East). Taken together, the Coliseum and Central City East, two of the largest project areas by AV contribution and acreage, are holding down the aggregated 17.8% top 10 taxpayer concentration (of incremental AV). The combined AV controlled by the SA's top 10 taxpayers is $1.8 billion, led by the Central District at $1.38 billion.

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.

Under the bond indenture, the SA covenants to request semi-annual debt service as it comes due on future recognized obligation payment statement request. We calculate, based on historical RPTTF distributions, that semiannual debt service coverage is sufficient to meet debt service requirements. We believe that the covenant is weaker than the original bond indenture's requirement, which was that money be set aside until sufficient money for debt service had been held until payment.

Dissolution legislation permits the SA to issue debt only for certain purposes, such as paying or amending an enforceable obligation, generating savings, or flattening spikes in debt service. The 2015 indenture does allow for additional debt on the pledged tax revenue that is a parity lien, indicating that the SA may refund the 2015 TARBs and other existing obligations as long as the annual debt service is lower than the 2015 TARBs' debt service and that the final maturity does not exceed the 2015 TARBs' maturity. The 2015 TARBs also covenant to a 1.25x additional bonds parity test prior to the issuance of parity debt. Finally, per the bond indenture, the senior lien is legally closed.

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% 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 anticipation that MADS coverage will remain good given the combined project areas' AV diversity. Although we do not anticipate changing the rating during our two-year outlook horizon, we could lower it should AV decline or coverage decrease to a level that we consider less than adequate. We do not anticipate raising the rating during the outlook horizon but could do so if the SA's coverage were to increase for multiple years.

Related Criteria And Research

Related Criteria

USPF Criteria: Special-Purpose Districts, June 14, 2007

Related Research

U.S. State And Local Government Credit Conditions Forecast, April 2, 2015

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