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Summary:

Oakland Redevelopment Agency, California; Tax Increment

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Credit Profile		
US$80.585 mil Subordinated hsg Set-Aside Tax alloc bnds (fed Taxable) ser 2011-T due 09/01/2041		
Long Term Rating	A/Stable	New
Oakland Redev Agy Sub Hsg Set-Aside Tax Alloc Bonds		
Unenhanced Rating	A(SPUR)/Stable	Downgraded

Many issues are enhanced by bond insurance.

Rationale

Standard & Poor's Ratings Services lowered its underlying rating (SPUR) to 'A' from 'A+' on Oakland Redevelopment Agency, Calif.'s subordinated housing set-aside revenue bonds based on our view of a significant reduction in coverage due to increased leverage and recent assessed value (AV) declines. The outlook is stable. At the same time, we assigned our 'A' rating to the agency's series 2011-T bonds based on our opinion of the agency's:

- Very large combined tax base, which has contributed to good taxpayer diversity;
- Good projected coverage of maximum annual debt service (MADS);
- Policy, although not a pledge to the bonds, of contributing an additional 5% of gross tax increment revenue to the agency's housing fund; and
- Adequate 1.25x MADS additional bonds test (ABT).

The bonds are secured by the 20% of tax increment revenues set aside for low- and moderate-income housing generated from 10 individual project areas of the Oakland Redevelopment Agency, including (ordered by amount of increment generated): Central District, Coliseum, Central City East, Oakland Army Base, Broadway/Macarthur/San Pablo, West Oakland, Oak Knoll, and Acorn. Although Oak Center and Stanford/Adeline project areas' housing revenues are also pledged to the bonds, these project areas have reached their tax increment collection limits and can no longer collect revenue generated from these areas. The lien on revenue generated from the Central District project area is subordinate to a closed senior lien by the series 1992 bonds. The agency reported that annual debt service is about $6.8 million through final maturity in 2014. We understand that the agency has pledged all tax increment revenue of the project area and has historically paid debt service nonhousing tax increment revenue and plans to continue to do so.

The combined project areas cover a sizable 14,420 acres, or 42% of the City of Oakland, and account for about $14.6 billion in total AV for fiscal 2010. The combined project areas are diverse, in our view, with the top 10 taxpayers overall accounting for 13.31% of total AV and 21.5% of incremental AV. As a whole, the volatility ratio (measured by the base year divided by the total AV) for all project areas is 0.38 based on fiscal 2011 AV. Although AV declined 8% between fiscals 2009 and 2011, medium-term growth has been good: AV has increased by 8% since fiscal 2007.

Based on an issue amount of $70 million, the agency's pro forma MADS coverage would be 1.37x by estimated fiscal 2011 housing revenues, which we understand is based on actual AV. Although not pledged to the bonds, an agency-adopted policy increased the housing set-aside from 20% to 25% for project areas with debt coverage ratios of over 1.2x. However, the increase is subordinate to all existing and future tax allocation debt. For fiscal 2011, the agency reported that the additional 5% of gross revenue from qualifying project areas is projected to total $5.5 million.

While the Coliseum project area is the largest by land area, at 6,500 acres, the Central District project area generates the most pledged revenue: $10.3 million, or 47% of the $21.6 million total pledged revenue estimated for fiscal 2010. The last year that tax revenue can be collected from the Central District is 2022, before the bonds mature in 2041. Pro forma debt service schedule is structured around the elimination of the Central District -- annual debt service will drop to just over $8 million beginning in 2023, with annual pledged revenue for that year projected by the agency to be about $15.7 million. The ABT requires at least 1.25x annual debt service coverage, including years following this drop in increment in 2022 and tax override in 2026. In addition, Oak Center and Stanford/Adeline reached their tax increment caps in fiscals 2008 and 2009, respectively, and no longer generate tax increment revenue. Acorn, another smaller project area, is projected to reach its cap this year. We understand that the agency has no plans to issue additional parity debt.

Oakland serves as the major employment enter in the Bay Area's East Bay and is located roughly seven miles from downtown San Francisco. The city is an integral part of the Bay Area economy, with many employment opportunities. The city has access to a broad transportation network -- including highway, port, rail, and airport facilities -- providing commuters access to San Francisco and Silicon Valley.

Outlook

The stable outlook reflects our view of the cushion provided by a very large tax base, which has led to good debt service coverage, and good overall taxpayer diversity, both of which we believe could withstand some economic cyclicality and exposure to individual taxpayer losses. The outlook also reflects our expectation that the combined tax base will continue to expand over the long term, which will likely limit the credit impact following the loss of the Central District area in 2022.

Related Criteria And Research

USPF Criteria: Special Tax Bonds, June 13, 2007

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