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Summary:
Oakland Redevelopment Agency, California; Tax Increment

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Credit Profile		
US$7.31 mil Second Lien Tax Alloc Bnds (RZEDBs) (Broadway/macarthur/san Pablo Redev Proj) ser 2010-T due 09/01/2040		
Long Term Rating	A-/Stable	New
Oakland Redev Agy (Broadway/MacArthur/San Pablo Redev Proj) tax incr		
Unenhanced Rating	A+(SPUR)/Stable	Upgraded

Many issues are enhanced by bond insurance.

Rationale

Standard & Poor's Ratings Services raised its underlying rating (SPUR) to 'A+' from 'A-' on Oakland Redevelopment Agency, Calif.'s series 2006C and 2006C-T (MacArthur/Broadway/San Pablo project areas) tax allocation bonds, based on our view of the closure of the first lien, which prevents additional dilution of coverage from new debt, combined with strong current coverage of maximum annual debt service (MADS).

Standard & Poor's also assigned its 'A-' rating to the agency's series 2010-T second-lien tax allocation revenue bonds (MacArthur/Broadway/San Pablo Redevelopment Project).

The rating reflects our view of the project area's:

- Primarily residential and commercial tax base;
- Strong coverage of MADS in fiscal 2011 on the senior-lien bonds at 3.3x MADS and good coverage of the senior- and subordinate-lien debt service at 2.3x MADS (when including the interest subsidy as revenue); and
- Good local incomes, and easy access to the broad and diverse San Francisco Bay Area economy.

Partially offsetting our view of the preceding credit strengths is our opinion of:

- An above-average base-year-to-total-assessed-value (AV) volatility ratio of 0.46 for the project area, suggesting more sensitivity in tax increment revenues to overall changes in AV;
- Above-average appeals outstanding representing 13.9% of incremental AV, although the agency is projecting successful appeals of only 1.7% of incremental AV; and
- Moderate taxpayer concentration in the project area, with the 10 largest taxpayers making up 35% of fiscal 2011 incremental AV (although a more modest 19% of total AV).

The series 2006C and 2006C-T bonds are secured by tax increment revenue collected from the agency's MacArthur/Broadway/San Pablo project area net of the 20% required to be set aside for low- and moderate-income housing projects. All statutory passthrough payments have been subordinated to debt service. As a result of the current financing, the lien on the series 2006C and 2006C-T bonds is closed, except for refunding. The series 2010-T bonds are secured by second-lien tax increment revenues from the MacArthur/Broadway/San Pablo Project, net of low- and moderate-income housing set-asides. We understand that series 2010-T will be issued as Recovery

Zone Economic Development Bonds with a 45% interest subsidy from the federal government. The agency has pledged the interest subsidy payment to the bonds; however, the agency is obligated to pay the full debt service regardless of whether it receives the subsidy.

The 676-acre MacArthur/Broadway/San Pablo Project encompasses two noncontiguous areas along the major commercial corridors of Telegraph/Broadway and San Pablo avenues in northern Oakland. The project area was formed relatively recently, in July 2000. Taxable property comprises a mix of land uses, the majority of which are residential (48% of fiscal 2011 AV) and commercial (39%); industrial uses are minimal (4%). Multifamily uses make up the majority of the residential portion (34% of total AV), with the largest single grouping in five-plus-unit multifamily/condominium residences. The MacArthur/Broadway portion is located adjacent to a major BART transit station as well as intersecting freeways that provide quick access to San Francisco and the greater Bay Area.

Project area AV had increased by what we consider a very strong 13.8% average annual rate in the three years through fiscal 2009. AV declined by 5.0% in fiscal 2010, and by a more modest 1.0% in fiscal 2011 to a total of $781 million. Management is projecting fiscal 2012 AV will decrease slightly, and reported that a projected $7.2 million reduction in appeals will slightly outpace growth and increases from transfers of ownership. The volatility ratio, a measure of the base-year valuation over total AV, remains, in our opinion, above average for the project area, at 0.46 in fiscal 2011. An above-average volatility ratio represents our view of more sensitivity to reductions in overall AV.

Fiscal 2011 AV appeals for the project area are, in our opinion, above average -- the difference between current AV and requested reductions is $58 million, or 13.9% of incremental AV (7.4% of total AV). The second-largest taxpayer is appealing for a value change of $13 million, which represents 3.2% of incremental AV. The agency's fiscal consultant is projecting successful appeals of $7.2 million, or 1.7% of incremental AV.

The 10 largest taxpayers make up 35% of fiscal 2011 project area incremental AV, which we consider moderately concentrated. The 10 largest taxpayers make up 19% of total AV in fiscal 2011. The top taxpayer, Alta Bates Summit Medical Center, accounts for 9.8% of incremental AV (and 5.3% of total AV); it operates a medical center and related properties. The second-largest taxpayer, SKB Webster LLC & Broadway Saratoga, makes up 6.3% of incremental AV (3.4% of total AV) and is made up of medical offices. The remaining eight largest taxpayers are a mix of multifamily residential, medical properties, and industrial and commercial uses.

Senior-lien MADS coverage (the series 2006C and 2006C-T bonds), not including the interest subsidy pledged to the subordinate bonds, is 3.3x MADS. Coverage of the senior and subordinate bonds is 2.3x MADS when including the subsidy as revenue, as pledged. If the agency were to not receive the subsidy (whether due to a late federal payment or otherwise), coverage of the gross senior and subordinate debt service is 2.1x MADS. Given that the senior lien is closed to additional bonds, at the current 3.3x MADS coverage, we believe the agency could withstand the loss of 37% of total AV and still provide 1.0x MADS senior-lien coverage.

The subordinate-lien additional bonds test (ABT) requires 1.25x MADS coverage for all senior and subordinate bonds, based on revenue from the most recent tax rolls (based on AV), including allowances for completed construction and transfers of ownership as well as revenue from interest rate subsidies. For coverage at the ABT of 1.25x MADS, we calculate that the project area could withstand a 11% drop in AV or the loss of the top three taxpayers before falling below 1x MADS coverage.

The bonds have a debt service reserve that is funded at a level equal to the least of MADS, 125% of the average aggregate annual debt service (AADS) requirement, or 10% of the bond proceeds; however, AADS and MADS are adjusted to reflect debt service net of the interest rate subsidy.

There are no cumulative or annual tax increment caps for the project area.

Located roughly 7 miles from downtown San Francisco, Oakland serves as the major employment enter in the Bay Area's East Bay. The city is an integral part of the Bay Area economy, and has many employment opportunities. The city also has access to a broad transportation network -- including highway, port, rail, and airport facilities -- that provides commuters access to San Francisco and Silicon Valley. Median household effective buying income and per capita income are 98% and 102%, respectively, of the national averages.

Outlook

The stable outlook reflects our expectation that tax increment revenues will provide what we consider to be strong senior debt service coverage and at least solid debt service coverage of combined senior and subordinate debt service. In addition, the outlook reflects our expectation that AV appeals in the project area will not significantly exceed management-projected levels so as to impact debt service coverage. If the project area were to experience significant growth such that the volatility ratio declined and/or taxpayer concentration improved, we could take a positive rating action. If all outstanding appeals were successful and/or AV were to decline (or, in particular, if coverage were reduced due to significant additional debt), the rating could be negatively affected.

Related Criteria And Research

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

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