Oakland-Alameda County Coliseum Authority, California

Lease Revenue Bonds

New Issue Report

Ratings

New Issue

Lease Revenue Bonds (Oakland Coliseum Arena Project), 2015 Refunding Series A (Federally Taxable)	AA–

Outstanding Debt

Lease Revenue Refunding Bonds (Oakland Coliseum Project), Series 2012	AA–

Rating Outlook[a]

Positive

[a]Revised from Stable on March 31, 2015.

Related Research

Alameda County Joint Powers Authority, California (August 2013)

Oakland-Alameda County Coliseum Authority, California (May 2012)

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New Issue Details

Sale Information: $79,735,000 Lease Revenue Bonds (Oakland Coliseum Arena Project), 2015 Refunding Series A (Federally Taxable), to sell via negotiation on April 16.

Security: Payable from county and city lease rental payments for use of the arena, subject to abatement; supported by covenants to budget and appropriate.

Purpose: To reimburse the letter of credit draw that would refund all $79.7 million of the authority's outstanding variable-rate lease revenue bonds (Oakland Coliseum Arena Project), 1996 series A-1 (taxable) and A-2 (taxable).

Final Maturity: Serially, June 30, 2016–2026. Bonds are subject to redemption prior to maturity.

Key Rating Drivers

County Rating Drives Credit Quality: The joint and several obligation to pay results in a rating that is based on the strongest link, which, in this case, is Alameda County (the county). The county's 'AA+' unlimited tax general obligation (ULTGO) rating reflects the county's consistently positive general fund operating margins, high cash balances and substantial reserves.

Non-Essential Assets; Uncertain Futures: The leased assets are aging stadium and arena facilities originally constructed in the mid-1960s, with substantial improvements completed in the mid-1990s. Both facilities have key tenants who are expected to relocate in the near future.

Above-Average Abatement Risk: The facilities' age, combined with uninsured seismic risk, contribute to Fitch Ratings' assessment of above-average abatement risk. The expected loss of key tenants will likely necessitate increased county and city general fund contributions and reduce their incentive to repair and rebuild the facilities in an abatement event.

Incentive to Appropriate: Abatement risk is balanced by the county's expected future issuance of appropriation debt for its capital needs. Fitch considers the county's desire to maintain market access at advantageous rates as providing significant incentive to make lease rental payments regardless of abatement.

Lengthy Payment History; Affordable Obligations: The county and city have subsidized operating losses for 20 years and have ample budgetary capacity to continue doing so through maturity.

Rating Sensitivities

County's Support for Health Services: Based on its strongest link analysis, Fitch views as a key credit factor for the county the Alameda Health System's (AHS) ability to make an orderly transition to the new federal healthcare funding structure in a manner that does not increase the risk to the county's general government financial operations. A smooth transition, combined with continued strong county financial performance, would likely result in a rating upgrade.

Support for Stadium and Arena Operations: Any indication of a retreat from the county's and the city's willingness to continue supporting arena and stadium operations could place downward pressure on the ratings. However, based on the 20-year history of subsidization, this appears unlikely.

Rating History

Rating	Action	Outlook/ Watch	Date
AA–	Affirmed	Positive	3/31/15
AA–	Affirmed	Stable	8/28/13
AA–	Assigned	Stable	5/8/12

Credit Profile

The Oakland-Alameda County Coliseum Authority is a joint powers authority of the city of Oakland (the city) and Alameda County, established to finance improvements to and manage the Oakland Coliseum Complex. The complex is composed of two major leased assets: an arena and a stadium.

County Rating Drives Credit Quality

The use of the county's ULTGO rating as the basis for the authority's bond ratings arises from the joint and several commitments to make full lease rental payments. The county and city have each covenanted to budget and appropriate their respective shares of lease rental payments annually for the life of the bonds. The joint and several commitment further obligates each party to make supplemental appropriations and fund any payment insufficiency by the other. The county has the stronger implied ULTGO rating of 'AA+'/Positive, while the city has a ULTGO bond rating of 'A+'/Stable.

The 'AA–' rating is two notches below the county's 'AA+' implied ULTGO rating because Fitch views the risks as somewhat greater than in a typical California abatement lease. Fitch considers abatement risk as above average for these non-essential assets, in part due to recurring operating losses at the stadium and the likelihood of future operating losses at the arena. These losses would reduce the county and city's incentive to rebuild in the event of damage to either facility.

The county's 'AA+' ULTGO rating and Positive Rating Outlook reflect the county's consistently positive general fund operating margins, high cash balances and substantial reserves, as well as its diverse economy and strong tax base. The county is an integral part of the greater San Francisco Bay Area economy. For more details on the county's credit quality, see Fitch Research on "Fitch Affirms Alameda County Joint Powers Authority, Lease Revenues at 'AA'; Outlook Revised to Positive," dated March 2015, available on Fitch's website at www.fitchratings.com.

Non-Essential Assets; Uncertain Futures

The 50-year old arena, upgraded in 1997, is used primarily for basketball games, concerts and conventions. The arena and its 8.5-acre lot is the leased asset for the authority's variable-rate lease revenue bonds (Oakland Coliseum Arena Project), 1996 series A-1 and A-2. When those variable-rate bonds are refunded with this issuance, the arena and its site will become the leased asset for the lease revenue bonds (Oakland Coliseum Arena Project), 2015 refunding series A.

The arena has a primary tenant, the Golden State Warriors basketball team (Warriors), whose operating license agreement will expire in 2017. The Warriors have publicly stated their intention to build a new arena elsewhere. To date, arena debt has been self-supported by arena-generated revenues. Over the past five years, county and city contributions have been limited to supporting operations, ranging between $130,000 and $3.3 million annually, well below their annual contribution cap of $19 million for the arena. The rating assumes that the county and city would continue to make more significant annual contributions if the Warriors leave.

The 51-year old open-air sports stadium, upgraded in 1996, is configurable for football and baseball. The stadium and its 111-acre site, with approximately 10,000 surface parking spaces, is the leased asset for the authority's lease revenue refunding bonds, series 2012. The stadium has two chief tenants, the Oakland Athletics baseball team (Oakland As) and the Oakland

Related Criteria

Tax-Supported Rating Criteria (August 2012)

U.S. Local Government Tax-Supported Rating Criteria (August 2012)

Raiders football team (Raiders). The Oakland As have a newly negotiated stadium license agreement through 2024 with early termination rights.

The Raiders have just agreed to a new one-year lease extension (subject to city, county and NFL approval) through the end of the 2016 football season and actively continue to explore relocation options. The stadium has run an operating loss since it was upgraded, requiring county and city general fund contributions for debt service and operations. Over the past five years, these annual contributions have ranged between $16.6 million and $19.5 million, remaining below the annual contribution cap of $22.0 million for the stadium.

Above-Average Abatement Risk

As with most California lease credits, the county's and the city's obligation to make lease rental payments is subject to abatement. Property and 24-month rental interruption insurance help to mitigate abatement risk, but seismic damage is typically excluded from such coverage due to limited commercial availability. Seismic risks for the leased facilities, while unknown, must be presumed material as a result of their ages and general location.

The non-essential nature of the leased assets, in combination with the stadium's recurring operating losses, the possible need for increased county and city support for the arena and potential lack of property insurance coverage, reduce county and city incentives to rebuild or repair the leased facility following an abatement event. Continued lease rental payments in such circumstances would rely instead on the county and city's commitment to bondholders rather than underlying legal provisions.

County and city management have both expressed their strong commitment to make all scheduled lease rental payments regardless of future events, but their legal obligation to do so could be greatly diminished upon abatement.

Incentive to Pay; Lengthy Payment History; Affordable Obligations

Fitch believes that the above abatement risks are mitigated by the county's and the city's longstanding commitment to the leased facilities and the professional sports teams based in them, and the county's reliance on appropriation debt for future capital spending. The county and the city have demonstrated their willingness to honor financial commitments even when operating results have been disappointing.

Debt service and operating costs for the stadium continue to be budgeted and appropriated annually, and the county and city have actively sought to retain the stadium's professional sports teams despite substantial recurring losses from such activities. Full funding by the county of all stadium lease payments and operating subsidies, up to the annual $22 million cap, would remain affordable at approximately 1.1% of its fiscal 2014 general fund spending.

To date, the county and city have only had to partially subsidize activities at the arena. Greater contributions might be required in the future, if the Warriors relocate, to the degree that the resulting revenue losses are not offset by reduced game-day expenditures and increased revenues from alternate facility uses. Full funding by the county of all arena lease payments and operating subsidies, up to the annual $19 million cap, would remain affordable at approximately 0.9% of its fiscal 2014 general fund spending.

In a worst-case scenario, if the county had to fully fund all stadium and arena lease payments and operating subsidies up to the combined annual $41 million cap, it would remain affordable at approximately 2.0% of its fiscal 2014 general fund spending. Paying the full $41 million in fiscal 2014 would have increased the county's total debt repayment costs to a still-manageable 7.1% of total governmental spending, up from 5.9%.

The ratings above were solicited by, or on behalf of, the issuer, and therefore, Fitch has been compensated for the provision of the ratings.