Fitch upgrades Atascadero Community Redevelopment Agency, CA's TABs to 'A'; Outlook Stable

Fitch Ratings-New York-27 January 2016: Fitch Ratings has upgraded the following Atascadero Community Redevelopment Agency, CA's (RDA) tax allocation bonds (TABs):

--$11 million TABs series 2004 to 'A' from 'A-'.

The Rating Outlook is Stable.

SECURITY

The bonds are secured by a pledge of the agency's net tax increment revenues produced by levies against the incremental valuation in the project area, subject to various statutory set-asides and pass-throughs, as well as revenues held in certain funds by the agency. The bonds are additionally payable from housing set-aside increment revenues.

KEY RATING DRIVERS

IMPROVED AV CUSHION: The upgrade reflects the TABs' materially improved debt service coverage (DSC) and assessed value (AV) cushion. Improved DSC is a result of Fitch's inclusion of surplus housing revenues post-dissolution, as well as taxable AV growth. A TAV decline of about 45% would be required to reduce TABs MADS coverage to 1.0x, which is more consistent with the 'A' rating.

CLOSED LIEN AFTER DISSOLUTION: Fitch considers all TAB liens to be closed, as successor agencies (SAs) are not permitted to issue new money TABs. Maximum annual debt service (MADS) coverage should remain strong as a result of the closed lien.

STABLE ECONOMY; GROWING TAV: After recessionary declines aggregating about 6.6%, project area taxable assessed value (TAV) stabilized in fiscal 2013 and has seen annual growth since then. City income and wealth levels are above average and unemployment is below state and national averages.

RATING SENSITIVITIES

MATERIAL CHANGES IN AV CUSHION: Tax base declines that materially decrease pledged revenues could have a negative effect on the rating. Given recent AV stability and growth trends, Fitch believes such shifts are not likely in the near term. Tax base growth that materially increases pledged revenues could have a positive effect on the rating.

CREDIT SUMMARY:

The city of Atascadero is located midway between Los Angeles and San Francisco within San Luis Obispo County (Fitch implied general obligation rating 'AAA' with a Stable Outlook), approximately 20 miles north of the city of San Luis Obispo. The agency project area was established in 1999 and contains about 1,100 acres, encompassing the downtown area, including several commercial and residential developments. The project area represents 6.6% of the city's total area.
After strong growth in prior years, the project area recorded 2% to 2.5% annual declines in TAV starting in fiscal 2010. Values stabilized in fiscal 2013, with good annual growth in the last two years (about 4%). Management expects continued growth going forward, which appears reasonable given ongoing residential and commercial development.

The project area's tax base represents a mix of residential (54%) and commercial (40%) properties, with industrial properties at about 4%. Tax base concentration is moderate. The top taxpayer, Wal-Mart, represents 3.0% of TAV and 5.4% of incremental value (IV), while the top 10 taxpayers are at 14.2% of AV and 25.2% of IV. In addition to Wal-Mart, leading taxpayers include several large commercial centers, a hotel, and multi-tenant shopping centers.

City employment trends have been positive. Unemployment has declined to 3.6% in November 2015 from 4.5% a year prior and remains below state (5.7%) and national (4.8%) levels. City wealth and income indicators are above state and national rates.

SOLID DEBT SERVICE COVERAGE

Coverage of TABs MADS remains solid. Fiscal 2016 revenues, including the 20% housing set-aside, cover MADS by an estimated 4.3x (vs. about 3.4x excluding housing set-aside revenues). Coverage stands up well to various Fitch-designed stress scenarios, including the loss of the top 10 taxpayers. A TAV decline of about 45% would be required to reduce TABs MADS coverage to 1.0x.

The city of Atascadero (the city) has been recognized as the successor agency (SA) to the RDA. Recognized obligation payment schedules (ROPS) that include 2016 debt service have been approved by the oversight board and state, and the SA has received approval for sufficient funds to cover 2016 debt service payments. Dissolution-related (AB 1X 26) risks are lessening as management is continuing to adhere to indenture requirements, and necessary revenue tracking is in place. Since dissolution, the SA’s procedures to manage dissolution have become well-established, lessening operational risks.

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Fitch recently published an exposure draft of state and local government tax-supported criteria (Exposure Draft: U.S. Tax-Supported Rating Criteria, dated Sept. 10, 2015). The draft includes a number of proposed revisions to existing criteria. If applied in the proposed form, Fitch estimates the revised criteria would result in changes to less than 10% of existing tax-supported ratings. Fitch expects that final criteria will be approved and published by the end of the first quarter of 2016. Once approved, the criteria will be applied immediately to any new issue and surveillance rating review. Fitch anticipates the criteria to be applied to all ratings that fall under the criteria within a 12-month period from the final approval date.

In addition to the sources of information identified in Fitch's Tax-Supported Rating Criteria, this action was additionally informed by information from Creditscope, Lumesis, University Financial Associates, S&P/Case-Shiller Home Price Index, IHS Global Insight, National Association of Realtors.

Applicable Criteria
Exposure Draft: U.S. Tax-Supported Rating Criteria (pub. 10 Sep 2015)
Tax-Supported Rating Criteria (pub. 14 Aug 2012)
U.S. Local Government Tax-Supported Rating Criteria (pub. 14 Aug 2012)

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