FitchRatings

Fitch Upgrades Atascadero Community RDA, (CA)'s TABs to 'AA'

Fitch Ratings-New York-06 April 2017: Fitch Ratings has upgraded the Atascadero Community Redevelopment Agency, CA (RDA) tax-allocation bonds (TABs) as follows:

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

SECURITY

Pursuant to the indenture, the bonds are secured by a first lien on gross tax increment on all taxable property within the agency's project area, less a 20% set-aside for low- and moderate-income housing, and net of senior pass-through payments, if any, and administrative fees. Following dissolution of California redevelopment agencies, bonds are payable from all tax increment revenue net of any senior obligations.

KEY RATING DRIVERS

The upgrade of the TABs to 'AA' reflects the implementation of Fitch's revised criteria for U.S. state and local governments (released on April 18, 2016), which places increased focus on the structure's financial resilience through economic cycles.

The 'AA' rating is based on the structure's strong resilience given minimal recessionary declines and the closed lien.

Growth Prospects For Revenues: After recessionary declines, the project area's taxable assessed value (TAV) stabilized in fiscal 2013 and has seen increasing annual growth. City income and wealth levels are above average and unemployment is below state and national average.

Moderate Concentration: The project area's top 10 taxpayers comprise 13% TAV and 21% of IV. This moderate includes commercial centers, a hotel, and multi-tenant shopping centers.

RATING SENSITIVITIES

MATERIAL CHANGES IN AV CUSHION: Tax base declines that materially decrease available 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.

CREDIT PROFILE

The city of Atascadero is located midway between Los Angeles and San Francisco within San Luis Obispo County (Fitch implied general obligation rating 'AAA'/ 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.

The City's employment trends remain positive with unemployment below the state's and national levels. The City's wealth and income indicators continue to be above state and national rates.
The project area's tax base represents a mix of residential (72%) and commercial (26%) properties, with industrial properties at 2.46%. The top taxpayer, Walmart, represents 3% of TAV and 5% of incremental value (IV). The top 10 taxpayers comprise of 13% of TAV and 21% of IV, including commercial centers, a hotel, and multi-tenant shopping centers.

Given the closed lien, the structure is very resilient against volatility. The state constitution limits AV growth on existing properties to the lower of 2% or CPI unless there is a change of ownership. This tends to result in less volatility in AV and TIF revenues in a downturn.

To evaluate the sensitivity of the dedicated revenue stream to cyclical decline, Fitch considers both the revenue sensitivity results (using a 1% decline in national GDP scenario) and the largest decline in revenues over the period covered by the revenue sensitivity analysis. Based on the agency's revenue history, Fitch's analytical sensitivity tool (FAST) generates a 1% scenario decline in tax increment revenues. The largest actual cumulative decline in historical tax increment revenues is an 11.5% decline over fiscal years 2010-2012. The structure could tolerate a 79% decline in revenues, or 6.9x the largest historical decline, before maximum annual debt service (MADS) coverage reaches 1.0x.

The 10-year compound annual growth rate (CAGR) of 9.2% for gross tax increment receipts (through fiscal 2015) was greater than the U.S. GDP CAGR of 3.1% over the same period. Growth has increased annually in fiscal 2013 - 2017 following the three years of revenue declines in 2010 - 2012. Since development in the project area is no longer actively managed, Fitch believes growth may slow from historically robust levels.

Fitch has not assigned an Issuer Default Rating (IDR) to the agency given its minimal operating risk. Successor agencies are distinct and separate public entities under California law, so the agency is not exposed to the operating risk of the city of Atascadero.

Contact:

Primary Analyst
Mario Civico
Senior Director
+1-212-908-0796
Fitch Ratings, Inc.
33 Whitehall Street
New York, NY 10004

Secondary Analyst
Janet Rosen
Analytical Consultant
+1-312-368-3172

Committee Chairperson
Amy Laskey
Managing Director
+1-212-908-0568

In addition to the sources of information identified in Fitch's applicable criteria specified below, this action was informed by information from Lumesis and InvestorTools.

Media Relations: Elizabeth Fogerty, New York, Tel: +1 (212) 908 0526, Email: elizabeth.fogerty@fitchratings.com.

Additional information is available on www.fitchratings.com

Applicable Criteria

U.S. Tax-Supported Rating Criteria (pub. 18 Apr 2016) (https://www.fitchratings.com/site/re/879478)

Additional Disclosures

Dodd-Frank Rating Information Disclosure Form (https://www.fitchratings.com/creditdesk/press_releases/content/ridf_frame.cfm?pr_id=1021812&cft=0)
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