S&P Global Ratings

RatingsDirect®

Summary:

Successor Agency to the Community Redevelopment Agency of Atascadero, California; Tax Increment

Primary Credit Analyst:
Li Yang, San Francisco + 1 (415) 371 5024; li.yang@spglobal.com

Secondary Contact:
Krystal Tena, New York + 1 (212) 438-1628; krystal.tena@spglobal.com

Table Of Contents

Credit Highlights

Outlook

Credit Opinion

Related Research

Summary:

Successor Agency to the Community Redevelopment Agency of Atascadero, California; Tax Increment

Credit Profile		
US$15.59 mil TARBs ser 2024A dtd 04/11/2024 due 10/01/2040		
Long Term Rating	A+/Stable	New
US$1.425 mil taxable TARBs ser 2024B dtd 04/11/2024 due 10/01/2028		
Long Term Rating	A+/Stable	New

Credit Highlights

- S&P Global Ratings assigned its 'A+' long-term rating to the Successor Agency (SA) to the Community Redevelopment Agency of Atascadero, Calif.'s anticipated $15.59 million series 2024A and anticipated $1.425 million series 2024B (taxable) tax allocation refunding bonds.
- The outlook is stable.

Security

A lien on tax revenue the SA receives from time to time in its redevelopment property tax trust fund (RPTTF) generated by the Atascadero Redevelopment project area secures the existing bonds. We are analyzing the tax allocation bonds based on the application of our "Special-Purpose District" criteria (published June 14, 2007, on RatingsDirect). Bond proceeds will be used to refund the: existing series 2004 tax allocation bonds, issued by the Atascadero Community Redevelopment Agency; and the series 2010A lease revenue bonds, issued by the Atascadero Public Financing Authority. The series 2024A and series 2024B (taxable) bonds will also have a debt service reserve fund secured by an investment-grade surety policy. The series 2024A and the series 2024B are the only debt outstanding for the SA and all passthrough payments have been subordinated.

Credit overview

The project area's continued assessed value (AV) growth has supported very strong maximum annual debt service (MADS) coverage, at 4.89x for fiscal 2024, and a decreasing volatility ratio that we consider to be moderate at 0.27. We estimate the project area could withstand a loss of 58% of total AV before coverage falls to 1.0x, which fully covers the loss of the top 10 taxpayers located within the project area. Given the SA's very strong debt service coverage and its limited ability to issue additional debt except for refunding purposes, we do not anticipate debt service coverage will weaken to materially weaker levels during the next two years. As a result, we expect the outlook will remain stable in the near term.

The rating further reflects our view of:

- Growing local economy with a mix of residential and commercial properties within the project area, coupled with steady growth in AV during the past several years;
- Very strong MADS coverage on the series 2024A and series 2024B (taxable) bonds of 4.89x and the ability to withstand a loss of 58% of total AV before coverage falls to 1.0x;
- Diverse project area tax base concentration with the top 10 taxpayers comprising 13.5% of total project area AV; and
- Limited ability to issue additional debt, except for refunding debt.

Partly offsetting factors include our view of the project area's moderate volatility ratio of 0.27, reflecting moderate sensitivity in tax increment revenues to changes in overall AV.

Environmental, social, and governance

We analyzed the SA's environmental, social, and governance (ESG) factors relative to its economy, management, financial measures, and debt and liability profile. We believe the project area's tax base has elevated exposure to acute physical risks in the form of earthquakes. We consider social and governance factors neutral within our credit analysis.

Outlook

The stable outlook reflects our view that the project area will continue to experience steady tax base growth and will maintain very strong debt service coverage levels. We do not expect to change the rating within the two-year outlook horizon.

Downside scenario

Although unlikely in our view, we could lower the rating if coverage levels weaken to a level that we no longer consider very strong as a result of significant AV declines or otherwise.

Upside scenario

We could raise the rating should AV continue to grow, resulting in stronger MADS coverage levels on the bonds and a lower volatility ratio for the project area.

Credit Opinion

Steadily growing tax base coupled with a diverse taxpayer concentration

Atascadero is located in San Luis Obispo County, midway between San Francisco and Los Angeles, and represents the largest city in terms of square miles within the county with an estimated population of 29,642. The local economy for the city is stable with a diverse employment base, including a portion of its economy that is tied to tourism given the proximity to the city of San Luis Obispo, Morro Bay, and several wineries in the region. The project area itself encompasses approximately 1,110 acres and is primarily residential. Approximately 58.6% of the project area comprises residential property with 30% comprising commercial property. Management indicates that demand for housing properties remains strong in this area with home prices remaining steady despite a high interest rate environment. Commercial properties are also stable in this area without any major business closures, according to management.

Overall, project area AV has grown steadily during the past few years with an average growth rate of 5.6% annually. Most recently, project area AV increased by 7.3% in fiscal 2024, bringing total project area AV up to $1.037 billion with incremental AV increasing to $755.4 million. Management indicates that they expect this growth trend will continue, with further growth expected for the foreseeable future. Taxpayer concentration is diverse in our view with the top 10 taxpayers reflecting only 13.5% of project area AV.

Median household and per capita effective buying income were 118% and 106% of the national averages--which we consider strong and good, respectively. The annual unadjusted unemployment rate for the city is only 2.8% for 2022, which continues to be lower than the state and national levels.

Very strong debt service coverage with the ability to cover the loss of the top 10 taxpayers

MADS coverage generated by the project area is very strong at 4.89x. Given this coverage and a moderate volatility ratio of 0.27, we calculate that the project area could withstand a 58% decline in total AV before MADS coverage falls to less than 1.0x, which would fully cover the loss of the top 10 taxpayers. Given the project area's steady growth in AV and the SA's limited ability to issue additional debt except for refunding purposes, we expect MADS coverage levels will likely continue to grow and remain very strong.

Debt management

The city of Atascadero is acting as SA to the former RDA after the state legislature and a subsequent court ruling dissolved all RDAs in California in February 2012, pursuant to Assembly Bill (AB) x1 26 and amending legislation, AB 1484. The dissolution law permits the SA to issue debt only for limited purposes. We note the indenture also limits the SA's ability to issue additional debt except for refunding purposes. The law requires an SA to receive approval from its oversight board and the California Department of Finance (DOF) before it can issue refunding bonds.

Related Research

Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022