STANDARD & POOR'S RATINGS SERVICES
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Summary:

Atascadero Community Development Agency, California; Tax Increment

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Credit Profile		
Atascadero Comnty Dev Agy (Atascadero Redev Proj) Tax Alloc Bnds		
Unenhanced Rating	A(SPUR)/Stable	Upgraded

Many issues are enhanced by bond insurance.

Rationale

Standard & Poor's Ratings Services raised its long-term rating and underlying rating (SPUR) to 'A' from 'A-' on the Atascadero Community Development Agency (CDA), Calif.'s series 2004 tax allocation bonds. The rating action is based on our view of the agency's improved assessed valuation (AV) and debt service coverage, as well as its limited ability to issue debt. The outlook is stable.

The ratings further reflect our view of:

- The project area's very strong, 3.41x maximum annual debt service (MADS) coverage from pledged revenue;
- The agency's strong cash management; and
- The project area's medium size and location within San Luis Obispo County, an area with strong economic and income indicators.

Partly offsetting the above strengths is our opinion of the project area's moderately high volatility ratio, indicating some sensitivity to AV fluctuations, as well as the lack of an investment grade surety for the debt service reserve fund.

The series 2004 bonds are secured by a first lien on tax increment revenue generated within the Atascadero redevelopment project area, net of the 20% housing set-aside and senior pass-through payments. The successor agency (SA) to the Atascadero CDA does not have any other outstanding bonds. However, the SA is using residual Redevelopment Property Tax Trust Fund receipts to pay debt service on series 2010 lease revenue bonds issued by the Atascadero Public Financing Authority, which do not have a formal pledge of tax increment.

The city of Atascadero has acted as SA to the former CDA since the state legislature and a subsequent court ruling dissolved all redevelopment agencies in California in February 2012, pursuant to Assembly Bill (AB) 1X 26 and its subsequent amending legislation, AB 1484. AB1X 26 and AB 1484 provide an SA and its oversight board with the ability to issue refunding debt. The law requires an SA to receive approval from its oversight board and the state department of finance before it can issue refunding bonds, and the agency has received approval from both entities.

AB1X 26 and AB 1484 require agency and oversight officials to adhere to deadlines for requesting debt service payment amounts on its recognized obligation payment schedule (ROPS) to receive tax revenue. Since the law limits the revenue to payment on enforceable obligations on its ROPS, and since it requires more proactive management than under the predissolution flow of funds, we believe an agency's debt management practices after dissolution become more important to credit quality.

We note that the SA does request full annual debt service in their ROPS before other obligations are met, as required in the indenture. While we view these cash management practices favorably, we also note that the surety for the debt service reserve fund lacks an investment-grade rating.

The Atascadero Redevelopment Project Area encompasses approximately 1,110 acres in the central portion of the city and the commercial corridor of El Camino Real bisecting the city from north to south. The project area's land use categories are primarily residential (49.7% of AV) and commercial (37.5%), with some industrial (1.8%) properties. AV has steadily increased, by 9.8% from 2013 to 2016, with growth of 3.6% in 2016. The project area's current volatility ratio has declined slightly but remains moderately high, in our opinion, at 0.42.

We view the district's tax base as diverse. The top 10 taxpayers in 2016 account for 14.2% of total AV, and include a mix of commercial property. The top taxpayer is retail company accounting for 3% of total AV. The SA indicated that the project area had tax appeals totaling $8.8 million, or 1.3% of total AV, with the top appeal requesting only $4.4 million, or 0.7% of total AV.

We estimate that pledged revenue for the bonds -- tax increment revenue generated by the project area net of required housing set-asides and senior pass-throughs -- can cover MADS by 3.41x, which we consider very strong. At this coverage level and volatility ratio, we estimate that the project area could lose approximately 41% of total AV (or more than the top 10 taxpayers) before coverage would drop below 1x.

Dissolution legislation permits the SA to issue debt only for limited purposes, such as paying or amending an enforceable obligation, generating savings, or flattening spikes in debt service. After reviewing the enforceable obligations as listed on the agency's ROPS and confirming the outstanding obligations with management, we view the possibility of additional debt as unlikely except for refunding purposes. The 2004 indenture does include an additional bonds test.

The agency has received a Finding of Completion from the state, which makes it eligible to place loans between the SA and the city on its ROPS as enforceable obligations, submit a long-range property management plan for approval, and spend stranded bond proceeds. The California Department of Finance found, in its March 2013 Due Diligence Review, that $851,205 had to be distributed from the SA to the affected taxing agencies. Management confirmed that a payment was made in March 2013 to settle this obligation. In December 2014, the California State Controller's Office found, in its Asset Transfer Review, that $115,223 in unallowable transfers had to be returned from the city to the SA; however, the city is still disputing the State Controller's determination.

Atascadero is located in San Luis Obispo County, midway between San Francisco and Los Angeles. The city, which encompasses approximately 26 square miles, has an estimated population of 28,906. Median household and per capita effective buying income were 118% and 106% of the national averages -- which we consider strong and good, respectively. Unadjusted unemployment in the region declined to 4.7% as of August from 10.4% in January 2011, which continues to be lower than the state and national levels.

Outlook

The stable outlook reflects our expectation that the tax base within the midsize project area will remain at least stable over the two-year outlook horizon, and that the agency will continue to request on its ROPS and receive sufficient pledged revenue to make semiannual debt service payments.

Upside scenario

We could raise the ratings if AV growth during the next two years results in a significantly reduced volatility ratio and MADS coverage levels that are significantly stronger than those of peers.

Downside scenario

Although we don't anticipate doing so, we could lower the ratings within the next two years should the agency encounter cash flow issues related to requesting ROPS disbursements. An unexpected drop in AV and corresponding pledged revenue could also cause us to lower the ratings.

Related Criteria And Research

Related Criteria

- USPF Criteria: Special-Purpose Districts, June 14, 2007
- Criteria: Use of CreditWatch And Outlooks, Sept. 14, 2009

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