

RatingsDirect®

Summary:

Successor Agency To Richmond Community Redevelopment Agency, California; Tax Increment

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Credit Profile

US\$15.24 mil rfdg bnds (tax exempt) ser 2021A due 09/01/2036		
<i>Long Term Rating</i>	A-/Stable	New
US\$2.8 mil rfdg bnds (taxable) ser 2021B due 09/01/2036		
<i>Long Term Rating</i>	A-/Stable	New
Richmond Comnty Redev Agy Successor Agy (BAM)		
<i>Unenhanced Rating</i>	A-(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.

Rating Action

S&P Global Ratings assigned its 'A-' long-term rating on the Successor Agency (SA) to Richmond Community Redevelopment Agency (RDA), Calif.'s \$15.2 million refunding bonds series 2021A (tax-exempt) and \$2.8 million refunding bonds series 2021B (taxable). At the same time, S&P Global Ratings affirmed its 'A-' long-term and underlying rating on the SA's series 2014A (tax-exempt) refunding bonds. The outlook on all ratings is stable.

A lien on tax revenue the SA receives from time to time in its redevelopment property tax trust fund (RPTTF) generated by the SA's merged project area, net of several liens of senior debt obligations and pass-through payments, secures the 2021A, 2021B, and the 2014A bonds. The series 2021A and series 2021B bonds will be used to prepay a SA housing loan payment obligation, which will refund the outstanding series 2004B (tax-exempt) housing set-aside tax allocation revenue bonds issued by the Richmond Joint Powers Financing Authority, and refund the SA's 2010 series A subordinate tax allocation refunding bonds (Merged Project Areas). The ratings on these refunded bonds are subject to discontinuance once they are fully defeased. Series 2021B bond proceeds will also be used to terminate a basis SWAP related to the 2010 series A bonds.

Credit overview

Historically, the SA's merged project area has experienced good growth in assessed value (AV) in each of the fiscal years since fiscal 2014, which has led to growth in pledged revenues, providing what we consider strong coverage on the bonds. The merged project area has benefited from continued demand for residential properties as well as new industrial property developments, which have contributed to the historical growth in merged project area AV. We note that the merged project area is primarily made up of residential properties that make up 58% of total merged project area AV followed by 7% commercial and 24% industrial. The local economy also benefits from its location in the greater San Francisco Bay Area, giving residents access to the employment opportunities in the metropolitan region. However, we believe that there is potential for downward pressure on the local economy due to the recent economic recession and ongoing COVID-19 pandemic, although there is continuing uncertainty over the size of any declines in

AV, if any, in the merged project area in our view. Given the inability of the SA to issue additional debt except for refunding purposes and its strong pro-forma debt service coverage on the series 2021 bonds, we believe coverage is unlikely to weaken to low levels or below during the next two years. As a result, we expect the outlook to remain stable in the near-term.

The recent global spread of COVID-19 has provided some national economic and credit uncertainty. While the tax base is largely residential, we note that the recent recession and higher unemployment filings could affect credit quality somewhat in the medium term. We will monitor economic conditions, particularly uncertainty related to COVID-19 and uncertain state aid as a result of state budgetary pressures. For more information on the coronavirus' effect on U.S. public finance, see "Staying Home For The Holidays", published Dec. 2, 2020 on RatingsDirect.

The rating reflects what we view as the SA's:

- Strong pro forma 2.79x all-in maximum annual debt service (MADS) coverage for the series 2021A and series 2021B bonds using RPTTF revenues collected in fiscal 2021;
- A moderate volatility ratio of 0.27, which indicates moderate sensitivity in pledged revenue to overall AV fluctuations; and
- Low concentration among the merged project area's taxpayers, with the top 10 taxpayers representing only 10% of total merged project AV.

Environmental, social, and governance (ESG) factors

We analyzed the SA's ESG risks relative to its economy, management, financial measures, and debt-and-liability profile. Our ratings incorporate our view of the health and safety risks posed by the COVID-19 pandemic and the recent economic recession. In addition, we believe the merged project area's tax base is somewhat exposed to environmental risks posed by the threat of wildfires. We consider the city's governance risks in line with our view of the sector standard.

Stable Outlook

Downside scenario

Should coverage levels weaken to a level we no longer consider good as a result of significant AV declines with a projection of further declines in the near-term, we could lower the rating.

Upside scenario

Should AV continue to grow and result in stronger MADS coverage and if the tax base shows resilience against the negative effects of the ongoing pandemic, then we could raise the ratings.

Credit Opinion

Tax base

Richmond serves an estimated population of 105,562 in Contra Costa County and is about 16 miles northeast of San Francisco. In our view, the city's participation within the Bay Area provides residents with numerous employment

opportunities. Housing prices in Richmond, though growing rapidly, remain below those of surrounding areas as well, attracting buyers seeking an affordable, alternative to San Francisco and Oakland. A break-bulk port and major oil refining facilities anchor a regional logistics and industrial cluster. Median household effective buying income is just above the national level, at 106%, which we consider good. The city's tax base is concentrated within Chevron USA; the merged project area does not include Chevron property.

Coverage

AV for the SA's merged project area has grown during the past several years, with growth reported in each year since fiscal 2014. While merged project area AV declined substantially by 21% in fiscal 2010 and by 4.6% in fiscal 2011 due to the Great Recession, recent years have reflected a recovery in AV with growth reported consistently in recent years. Most recently, AV grew by 6.8% in fiscal 2021, bringing total merged project area AV to \$4.7 billion, with incremental AV reaching \$3.5 billion. While historical growth in AV has been good, we believe there is some uncertainty surrounding the influence of the recent economic recession in 2020 as well as the ongoing pandemic due to COVID-19 on project area AV. We believe there may be declines in AV reflected on the fiscal 2022 AV figures, which would reflect property values as of Jan. 1, 2021, the first set of AV figures that would reflect any negative credit risks or influences from the recession and pandemic.

The merged project area's volatility ratio is moderate in our view at 0.27. This indicates that incremental tax revenue will fluctuate moderately with overall total merged project area AV fluctuations in our view. We note that the volatility ratio has been on a declining trend, primarily due to growth in merged project area AV.

For the series 2014A, series 2021A, and the series 2021B bonds, pro forma all-in MADS coverage generated by the merged project area's RPTTF revenues in fiscal 2021 is 2.79x, a level we consider strong. Given the 2.79x coverage level and the 0.27 volatility ratio, we calculate that the merged project area could withstand a 47% decline in total AV before coverage falls below 1.00x, which covers the top 10 taxpayers.

Debt management

The city of Richmond 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 ABx1 26 and subsequent amending legislation AB 1484. The SA received its finding of completion (FOC) from the county and its asset transfer review has been completed. ABx1 26 and AB 1484 require SA and oversight officials to adhere to deadlines for requesting debt service payment amounts on the recognized obligation payment schedule (ROPS). Because the law limits the SA revenue to payment on enforceable obligations on its ROPS and because it requires more proactive management than under the pre-dissolution flow of funds, we believe an SA's debt management practices after dissolution become more important to credit quality.

The trust indenture requires the SA to request an amount sufficient to fund the full annual debt service for the series 2014A, series 2021A and series 2021B bonds on its January-June ROPS, and the balance (if any) of debt service due in September on its July-December ROPS. To date, SA management has requested additional amounts above upcoming debt service on its ROPS to capture sufficient pledged revenue to meet semiannual debt service without using its debt service reserve funds.

Related Research

Through The ESG Lens 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020

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