

CREDIT OPINION

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Oakland (City of) CA

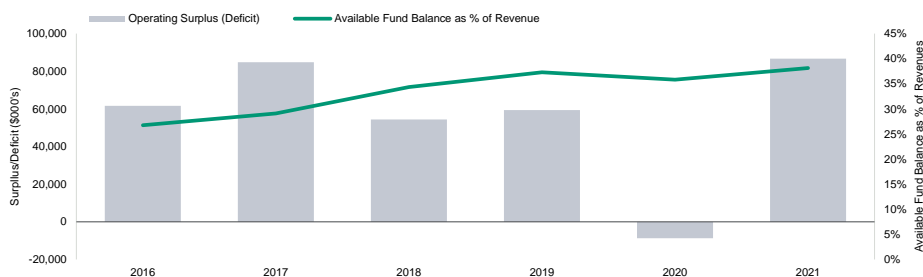
Update to credit analysis

Summary

[The City of Oakland's](#) (Aa1 stable GOULT; Aa2 stable lease revenue; Aa2 stable POB) financial position is strong, underpinned by management's sound fiscal policies and multi-year financial forecasting. Oakland's tax base is very large and the local economy benefits from its central positioning in the economically vibrant San Francisco Bay Area. Despite a slow reopening of the city's central business district since the height of the pandemic, a considerable pipeline of new development, valuable housing stock, and an improving resident wealth and income profile represent strengths that should help the city move through the lingering economic headwinds of the pandemic. The city's leverage profile is elevated, driven primarily by above average pension and post-employment benefit liability burdens.

Exhibit 1

Strong multi-year operating performance has strengthened Oakland's fund balance position



*Available operating fund balance includes unrestricted, assigned, and committed fund balance across the city's General Fund, State Gas Tax Fund, Traffic Safety and Control Fund, Other Special Revenue Fund and Debt Service Fund
 Source: audited financial statements

Credit strengths

- » Large and diverse tax base in San Francisco Bay Area
- » Strong liquidity and reserve positions underpinned by sound fiscal management
- » Demonstrated voter support for supplemental local revenues
- » Considerable and diverse development pipeline
- » Meaningful pandemic-related aid largely mitigates short term revenue shortfalls
- » Strong budget management

Credit challenges

- » Elevated leverage and fixed cost burdens
- » City center economy remains sluggish to rebound from depths of pandemic
- » Social challenges related to housing affordability and homelessness

Rating outlook

The stable outlook incorporates the city's large and diverse tax base that is poised for continued healthy growth and our expectation that the city's financial position will remain strong given management's prudent fiscal practices.

Factors that could lead to an upgrade

- » Material reduction of city's pension and OPEB burdens
- » Improvement in resident wealth and incomes

Factors that could lead to a downgrade

- » Increase in debt, pension or OPEB burden
- » Meaningful growth to fixed costs
- » Material deterioration of financial position
- » Prolonged pandemic-related economic sluggishness resulting in tax base decline or financial weakening

Key indicators

Exhibit 2

Oakland (City of) CA

	2017	2018	2019	2020	2021
Economy/Tax Base					
Total Full Value (\$000)	\$55,120,060	\$55,025,497	\$58,876,019	\$63,514,406	\$69,954,466
Population	417,442	421,042	425,097	425,097	425,097
Full Value Per Capita	\$132,042	\$130,689	\$138,500	\$149,412	\$164,561
Median Family Income (% of US Median)	100.1%	102.8%	106.9%	106.9%	106.9%
Finances					
Operating Revenue (\$000)	\$925,712	\$1,008,437	\$1,074,580	\$1,076,271	\$1,153,290
Fund Balance (\$000)	\$269,277	\$346,548	\$400,702	\$385,719	\$439,849
Cash Balance (\$000)	\$588,526	\$670,486	\$745,994	\$820,094	\$926,640
Fund Balance as a % of Revenues	29.1%	34.4%	37.3%	35.8%	38.1%
Cash Balance as a % of Revenues	63.6%	66.5%	69.4%	76.2%	80.3%
Debt/Pensions					
Net Direct Debt (\$000)	\$401,768	\$488,006	\$459,507	\$598,269	\$548,288
3-Year Average of Moody's ANPL (\$000)	\$3,233,747	\$3,614,376	\$3,798,156	\$3,877,275	\$4,365,758
Net Direct Debt / Full Value (%)	0.7%	0.9%	0.8%	0.9%	0.8%
Net Direct Debt / Operating Revenues (x)	0.4x	0.5x	0.4x	0.6x	0.5x
Moody's - ANPL (3-yr average) to Full Value (%)	5.9%	6.6%	6.5%	6.1%	6.2%
Moody's - ANPL (3-yr average) to Revenues (x)	3.5x	3.6x	3.5x	3.6x	3.8x

Sources: US Census Bureau, Oakland (City of) CA's financial statements and Moody's Investors Service; population based on US Census/American Community Survey

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Profile

The City of Oakland is in the [County of Alameda](#) (Aaa stable) on the eastern shore of the San Francisco Bay, approximately seven miles from downtown San Francisco via the San Francisco-Oakland Bay Bridge. It has a diverse economic base and some of the major industries include retail trade, transportation, and logistics, hi-tech, science research, and health care. The city's population is 435,514.

Detailed credit considerations

Economy and tax base: large Bay Area tax base with substantial local development; sluggish downtown recovery through pandemic

Although the economic recovery of the city's downtown core remains sluggish, a considerable pipeline of development, firm integration into the economically diverse San Francisco Bay Area, and valuable housing stock positions the city's economy well over the medium to long term.

Oakland's robust local economy is supported by ongoing investments from a diverse group of large employers relocating or expanding their presence in the city. Notable tenants in the process of expanding their footprints in the city include [PG&E](#) (Ba2 stable), Credit Karma, Blue Shield, [Twitter](#) (Ba2 stable) and [Square](#) (Ba2 stable) and a variety of new hotel developments have recently been completed and opened in 2021. The city and local economy also benefit from being a transportation hub. All [Bay Area Rapid Transit](#) (BART; Aaa stable) lines go through Oakland and the [Port of Oakland](#) (A1 stable) is the third largest port in [California](#) (Aa2 stable) and the 8th largest in the US by container volume. Oakland International Airport is the third largest in the San Francisco Bay Area by passenger volume.

The city's assessed value (AV) increased to \$73.7 billion in fiscal 2022, which is a strong 5.4% increase from the previous year. The average annual AV growth has been 6.0% over the past five years and future AV growth will likely continue given the substantially lower median home AV (estimated at \$371,833) relative to median home market value (estimated at \$947,458), meaning that future turnover of properties will reassess values at a considerably higher taxing rate and support increased revenue growth. The city's resident wealth and incomes are average, with median family income 107% of national median and AV per capita a considerably stronger \$173,447 based on 2022 AV.

The coronavirus pandemic has had a modestly negative impact on the city, particularly declining foot traffic downtown associated with fewer office workers and a decline of local tourism. Favorably, no major projects have been canceled, only delayed. The last few months, however, have seen some material improvements in the city's reopening and management expects this to accelerate as the economy continues to reopen.

Finances and liquidity: healthy financial position supported by pandemic-related aid

Although the city had originally projected a financial hit from the pandemic, healthy core revenue growth and pandemic relief aid have put the city's finances in a stronger than anticipated position.

Despite initially projected deficits through the pandemic, strong performance in core property and real estate transfer taxes combined with pandemic-relief aid helped stabilize the city financially, despite a decline in more economically sensitive revenues. The city incurred a \$86.6 million operating funds (general fund, debt service fund, state gas tax fund, traffic safety and control fund, other special revenue fund) surplus in 2021, driven by a strong annual increase in property taxes (10.3%) and real estate transfer taxes (23.8%) and further supported by roughly \$70 million in pandemic-relief money. Despite a steep annual decline in city TOT taxes (-45.8%), parking revenues (-30.9%), and other economically sensitive revenues the growth in two of the city's core property-based revenue streams offset weakness in other less meaningful revenues. The operating surplus was the city's fifth in six years and brought available fund balance to a strong \$439.8 million or 38.1% of revenues.

Based on year-to-date projections for fiscal 2022, management expects to end the year at least within budget with break even to modestly positive operations; however, given management's conservative budgeting practices it is likely that the city will outperform. We expect reserves to remain healthy and in-line with the previous year.

The city's largest sources of revenue are local property taxes (42.0%) followed by other local taxes (35.0%) and then charges for services (9.3%) and sales and use taxes (6.4%). The city benefits from strong voter approval of several supplemental local tax measures. Nine supplemental parcel, TOT, and parking taxes collectively raise between \$100-\$120 million in revenue per year. The taxes

have various expiration dates, with the city's Measure Z and Measure Q parcel taxes expiring in 2024, which collectively generate \$54 million annually for the city. Non-renewal of these parcel taxes would be credit negative; however, given the history of strong local support for parcel measures and adequate amount of time before expiration we view the city as well positioned to obtain re-authorization of these measures.

In addition to the \$70 million in aid recognized in 2021 the city anticipates being eligible for an additional nearly \$155 million in pandemic-related relief through 2024.

Liquidity

Similar to its reserve position, the city's liquidity will remain very strong. Operating net cash and investments reached \$926.6 million in fiscal 2021, or an exceptionally healthy 80.3% of revenue. The discrepancy between the city's available fund balance and cash is largely attributed to a considerable portion (\$217.6 million) of assets recognized as restricted fund balance for repayment of the city's police and fire retirement system.

The city is a regular issuer of Tax and Revenue Anticipation Notes, primarily for the prepayment of the City's CalPERS obligations. In fiscal year 2022 they issued \$124 million in TRANS.

Debt and pensions: above average leverage profile driven by pension liabilities

The city's leverage and fixed cost burdens are elevated, but should remain manageable given the significant retirement of outstanding debt in the coming years. With the current \$212.3 million Series 2022 GO bond issuance the city's debt will be a moderate 1.03% of AV or 0.66 times operating revenues. After the current issuance the city will have approximately \$84.9 million of remaining authorization against its voter approved measure KK.

Legal security

The city's general obligation bonds are repaid from an unlimited property tax pledge of all taxable property within the city boundaries.

Security for the lease payments is a contractual pledge of the city of all of its available financial resources, subject to abatement in the event of damage or destruction of the leased property.

The Pension Obligation Bonds are secured by all legally available monies of the city, including property tax override revenues that provide over 1.0x debt service coverage.

Debt structure

The city's debt structure includes \$662.4 million in general obligation bonds (including its upcoming bond sale), \$174.8 million in pension obligation bonds and \$81.2 million in lease revenue bonds. The final maturity is 2051. The city's annual debt service payments materially decline after 2026 when the pension obligation bonds mature. The city's amortization is slow, with roughly 35% of principal outstanding retiring within the next 10 years.

Debt-related derivatives

The city has no debt-related derivatives.

Pensions and OPEB

The city provides defined benefit pensions to both safety and miscellaneous employees through the California Public Employees' Retirement System (PERS). The city also maintains a closed Police and Fire Retirement System (PFRS) plan. The city's pension burden is larger than its debt and OPEB burdens and, though only slightly elevated at this time, represent credit challenges. The table below summarizes the total 2021 pension and OPEB contributions and unfunded liabilities.

Exhibit 3

Oakland's pension liabilities are the largest portion of its elevated leverage profile

2021	(000)	% of Operating Revenues	Discount Rate
Operating Revenue	1,153,290	n/a	n/a
Reported Unfunded Pension Liability	1,754,458	152%	6.94%
Moody's Adjusted Net Pension Liability	5,255,446	456%	2.70%
Reported Net OPEB Liability	928,071	80%	2.99%
Moody's Adjusted Net OPEB Liability	973,251	84%	2.70%
Net Direct Debt	548,288	48%	n/a
Debt & unfunded retirement benefits (Moody's adjusted)	6,776,985	587.62%	
Pension Contribution	214,461	18.60%	n/a
OPEB Contribution	43,935	3.81%	n/a
Debt Service	121,229	10.51%	n/a
Total Fixed Costs	379,625	32.92%	n/a

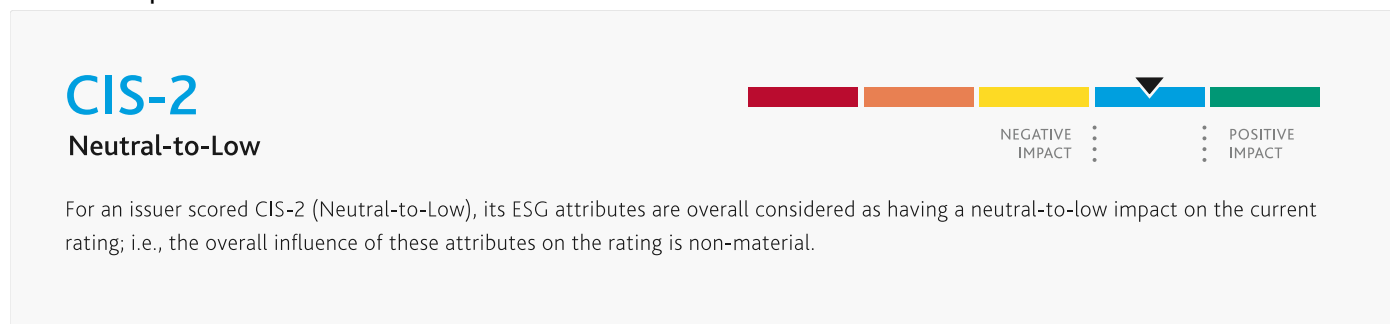
*Does not include the city's outstanding POBs

Source: Moody's Investors Service

Positively, Oakland is one of the few cities in California that is authorized to levy a "property tax override" to fund pension obligations. The revenue generated by this 0.1575% of AV levy are currently used to fund its outstanding unfunded pension liabilities and pay the debt service on the city's outstanding pension obligation bonds (POBs) which mature in 2026. Because of the strong growth in assessed value, the revenues generated from the property tax override have been growing and the revenues (net of debt service payments for the POBs) are held in the city's restricted general fund.

ESG considerations**OAKLAND (CITY OF) CA's ESG Credit Impact Score is Neutral-to-Low CIS-2**

Exhibit 4

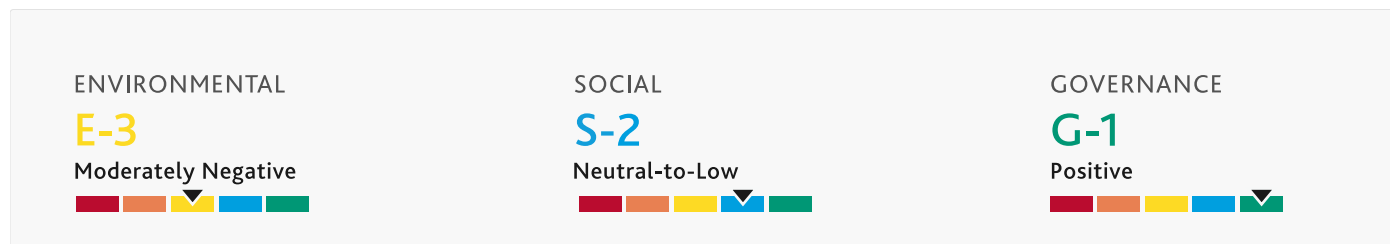
ESG Credit Impact Score

Source: Moody's Investors Service

The City of Oakland's ESG Credit Impact Score is neutral to low (**CIS-2**), reflecting moderately negative exposure to environmental risks, neutral to low social risks and strong governance, which supports the city's credit rating, resilience and capacity to respond to shocks.

Exhibit 5

ESG Issuer Profile Scores



Source: Moody's Investors Service

Environmental

The city's overall environmental issuer profile score is moderately negative (**E-3**). The city has low exposure to environmental risks such as carbon transition, natural capital, and waste and pollution. Climate change risks are also generally low, with the exception of "water stress", a measure of local water demand versus local water supply. Based on data from Moody's affiliate Four Twenty-Seven, the city's exposure to water stress is relatively high. However, this exposure is largely offset by strong regional planning and conversation efforts.

Social

The City of Oakland's social issuer profile score is neutral to low (**E-2**), reflecting low exposure to social risks across most categories such as demographics, labor and income, health and safety as well as access to basic services. However, housing poses moderately negative risks, due to the high need for affordable housing that could lead to higher social spending than current levels. Notably, residents are supportive of the city's efforts to address this social risk and approved a bond measure that included \$100 million for affordable housing.

Governance

The city's very strong governance profile is reflected in a positive G issuer profile score (**G-1**), which reflects demonstrated policy effectiveness, strong budget management and excellent transparency and disclosure.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click [here](#) to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Rating methodology and scorecard factors

The US Local Government General Obligation Debt methodology includes a scorecard, a tool providing a composite score of a local government's credit profile based on the weighted factors we consider most important, universal and measurable, as well as possible notching factors dependent on individual credit strengths and weaknesses. Its purpose is not to determine the final rating, but rather to provide a standard platform from which to analyze and compare local government credits.

Exhibit 6

Oakland (City of) CA

Rating Factors	Measure	Score
Economy/Tax Base (30%)[1]		
Tax Base Size: Full Value (in 000s)	\$73,731,593	Aaa
Full Value Per Capita	\$173,447	Aaa
Median Family Income (% of US Median)	106.9%	Aa
Finances (30%)		
Fund Balance as a % of Revenues	38.1%	Aaa
5-Year Dollar Change in Fund Balance as % of Revenues	18.2%	Aa
Cash Balance as a % of Revenues	80.3%	Aaa
5-Year Dollar Change in Cash Balance as % of Revenues	41.4%	Aaa
Management (20%)		
Institutional Framework	A	A
Operating History: 5-Year Average of Operating Revenues / Operating Expenditures	1.1x	Aaa
Debt and Pensions (20%)		
Net Direct Debt / Full Value (%)	0.7%	Aa
Net Direct Debt / Operating Revenues (x)	0.5x	Aa
3-Year Average of Moody's Adjusted Net Pension Liability / Full Value (%)	5.9%	Baa
3-Year Average of Moody's Adjusted Net Pension Liability / Operating Revenues (x)	3.8x	Baa
Notching Factors:[2]		
Unusually Strong or Weak Security Features		Up
	Scorecard-Indicated Outcome	Aa1
	Assigned Rating	Aa1

[1] Economy measures are based on data from the most recent year available.

[2] Notching Factors are specifically defined in the US Local Government General Obligation Debt methodology.

[3] Standardized adjustments are outlined in the GO Methodology Scorecard Inputs publication.

Sources: US Census Bureau, {OrgName}'s financial statements and Moody's Investors Service

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