CREDIT OPINION

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City of Oakland, CA

Update to credit analysis following downgrade to Aa2 and outlook revision to negative

Summary
The City of Oakland, CA's (Aa2, negative) credit profile is underpinned by a large and diverse tax base that will continue to experience moderate growth. That growth will continue to support strong property wealth currently at $195,083 assessed value (AV) per capita. The city's local economy benefits from its central positioning in the San Francisco Bay Area, and while slowing the regional economy, remains a credit strength. The city's challenged yet still sound financial position is supported by solid reserves. Based on fiscal 2024 unaudited actuals, the city will record a $30.3 million deficit yet available general fund balance will remain sound at $211 million or 22% of revenue. While management has implemented a plan to reduce operating expenditures, they are still projecting to end fiscal 2025 with a $93.1 million deficit in their general purpose fund. Management's continued ability to align on going revenue with ongoing expenditures will remain a key credit factor. The city's elevated long-term liabilities and fixed cost ratios are also factored into its credit profile.

Credit strengths

» Large and diverse tax base in San Francisco Bay Area

» Demonstrated voter support for supplemental local revenues

Credit challenges

» Reduced financial flexibility with expenditure growth outpacing revenue growth

» Elevated long-term liabilities and fixed cost ratios

» Social challenges related to housing affordability and homelessness

Rating outlook
The negative outlook incorporates the near term financial headwinds facing the city. Expenditure growth continues to outpace revenue growth largely due to public safety costs exceeding budget, leading to current and out year budget gaps.

Factors that could lead to an upgrade

- Meaningful increase in financial flexibility with general purpose reserves exceeding 30%
- Significant decline in long-term liabilities ratio to below 200%

Factors that could lead to a downgrade

- Management's inability to make timely budget adjustment to preserve a sound financial position and rebuild reserves in the general purpose fund
- Sustained decline in the available fund balance ratio to below 20%
- Meaningful growth in fixed costs and long-term liabilities to above 20% and 450%, respectively

Key indicators

Exhibit 1
Oakland (City of) CA

	2020	2021	2022	2023	Aa Medians
Economy					
Resident income ratio (%)	103.3%	103.4%	106.5%	N/A	115.2%
Full Value ($000)	$63,514,406	$69,954,466	$74,099,351	$80,125,813	$2,753,876
Population	422,575	437,548	437,825	N/A	22,803
Full value per capita ($)	$150,303	$159,878	$169,244	N/A	N/A
Annual Growth in Real GDP	0.1%	11.0%	-0.2%	N/A	4.9%
Financial Performance					
Revenue ($000)	$1,310,954	$1,471,501	$1,541,744	$1,637,561	$49,930
Available fund balance ($000)	$438,782	$504,574	$652,073	$707,851	$27,007
Net unrestricted cash ($000)	$906,962	$1,138,494	$1,315,259	$1,445,672	$36,277
Available fund balance ratio (%)	33.5%	34.3%	42.3%	43.2%	54.0%
Liquidity ratio (%)	69.2%	77.4%	85.3%	88.3%	75.9%
Leverage					
Debt ($000)	$946,891	$843,955	$985,356	$878,215	$35,831
Adjusted net pension liabilities ($000)	$4,389,346	$5,400,947	$4,757,707	$3,707,299	$55,367
Adjusted net OPEB liabilities ($000)	$681,763	$779,622	$703,261	$576,305	$5,248
Other long-term liabilities ($000)	$221,349	$227,507	$224,278	$238,972	$1,716
Long-term liabilities ratio (%)	475.9%	492.8%	432.7%	329.8%	244.9%
Fixed costs					
Implied debt service ($000)	$60,152	$67,809	$59,195	$68,817	$2,465
Pension tread water contribution ($000)	$164,756	$171,893	$139,772	N/A	$1,563
OPEB contributions ($000)	$28,917	$29,517	$43,003	$43,420	$178
Implied cost of other long-term liabilities ($000)	$16,575	$15,851	$15,957	$15,664	$116
Fixed-costs ratio (%)	20.6%	19.4%	16.7%	16.3%	10.7%

For definitions of the metrics in the table above please refer to the US Cities and Counties Methodology or see the Glossary in the Appendix below. Metrics represented as N/A indicate the data were not available at the time of publication. The medians come from our most recently published US Cities and Counties Median Report.
The real GDP annual growth metric cited above is for the San Francisco-Oakland-Berkeley, CA Metropolitan Statistical Area Metropolitan Statistical Area.
Sources: US Census Bureau, Oakland (City of) CA's financial statements and Moody's Ratings, US Bureau of Economic Analysis

Profile

The City of Oakland is in the County of Alameda 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, logistics, hi-tech, science research, and health care. The city's population is 437,825.

Detailed credit considerations

Economy and tax base: large Bay Area tax base poised for continued solid growth

The city will continue to benefit from a large and diverse tax base and firm integration in the economically diverse San Francisco Bay Area. All of which will support ongoing solid tax base growth and strong property wealth. The city's assessed value (AV) reached $85.4 billion in fiscal 2024. This is a solid 6.6% increase from the previous year and significantly higher than the Aa national median at $2.7 billion. The growth supports strong property wealth, reflected in an assessed value per capita of $195,206. The 10 largest taxpayers comprise a low 4.2% of total fiscal 2024 AV, which illustrates the diversity of the tax base.

The city and local economy benefit from being a transportation hub. All Bay Area Rapid Transit (BART) (Aaa negative) lines go through Oakland; the Port of Oakland (A1 stable) is the third largest port in California and the 9th largest in the US by container volume; and Oakland International Airport is the third largest in the San Francisco Bay Area by passenger volume. Moody's economic growth metric for the city has been a strong 2.1%, an indication that the area has performed well with real gross domestic product (GDP) growth outpacing the nation.

The city has an economically diverse residential population resulting in a resident income ratio of 106.5%. While this level is slightly below the Aa national median (115%) it has been trending upward over the past several years.

Financial operations: sound financial position challenged by near-term financial headwinds

Management is challenged by near-term financial headwinds that affect the city's financial flexibility. Macroeconomic factors such as high interest rates, which have slowed real estate sales, and higher costs associated with inflation have led to losses in revenue and an increase in expenses. The city is also facing a structural problem with expenditure growth outpacing revenue growth, which is contributing to the projected current and out year budget deficits.

The adopted fiscal 2025 budget includes $63 million in one-time revenue from the sale of the Oakland Coliseum. Given that the term sheet for the sale had not been finalized by budget adoption, management approved a contingency budget should the sale be stalled, which included expenditure cuts for the like amount of the sale proceeds. The sale has still not been finalized, and in October administrative action was taken to implement the contingency budget.

Management has taken steps to cut expenses, including a hiring freeze for non-sworn positions and delaying the beginning of new sworn trainee academies. However, based on the city's first quarter trends, management expects to end fiscal 2025 with a $93 million deficit in its general purpose fund, largely due to public safety expenses exceeding budget. As such, additional expenditure cuts are being considered as well as reducing costs through negotiations with all of the city's bargaining units to close the budget gap.

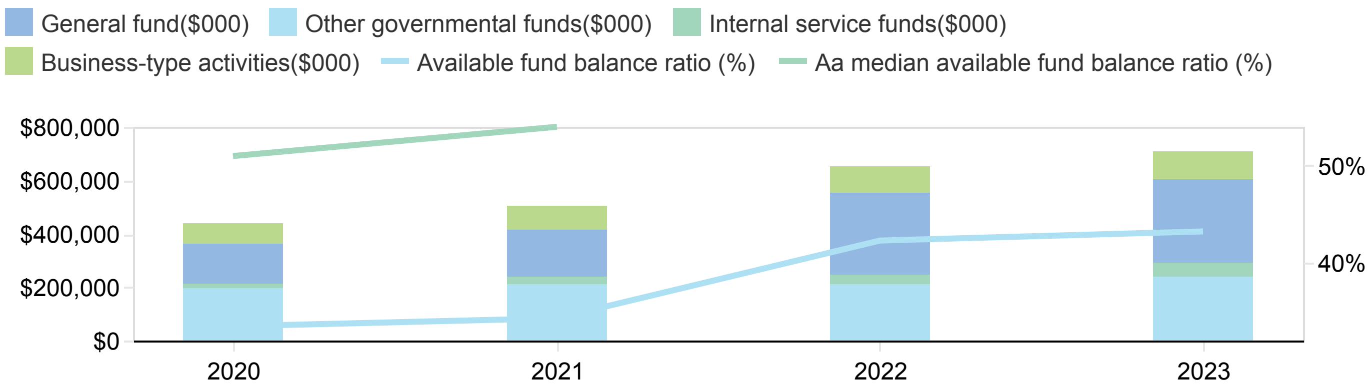
Unaudited actuals for fiscal 2024 show the city recording a $30.3 million deficit largely due to real estate transfer taxes coming in below budget by $52.8 million. Despite this draw down in reserves, available general fund balance remained sound at $211 million or 22% of general fund revenue.

The city also faces challenges similar to many large urban cities such as an increase in homelessness and declining housing affordability. The city's management team has various strategies to address these challenges such as partnering with Alameda County on programs and funding, and issuing general obligation (GO) bonds under Measure KK and Measure U for affordable housing developments.

The city's operating revenue primarily consists of governmental funds (96% of revenue), and the largest sources of revenue are local property taxes (32%) followed by other local taxes (31%). The city benefits from strong voter approval of several supplemental local tax measures. Per uncertified results, voters approved Measure NN in November, which extended and increased an existing parking tax surcharge and parcel tax, raising approximately $47.4 million annually. These funds can only be used for public safety costs and will be collected for nine years starting on July 1, 2025.

Exhibit 2

City is Facing Near-Term Financial Challenges After Reserves Reached a Peak in 2023



Source: Moody's Ratings

Liquidity

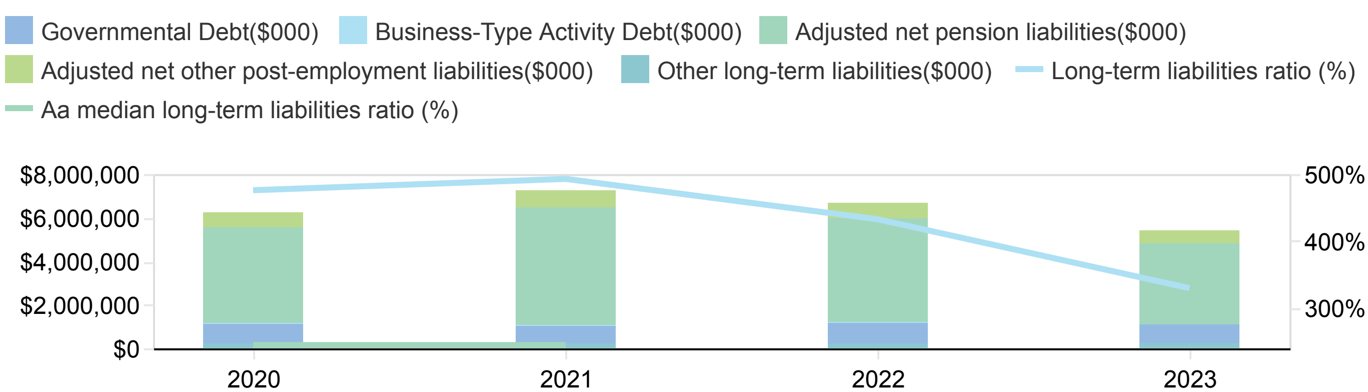
Liquidity will likely decline in the near-term given current financial headwinds. General fund cash and investments remained strong in fiscal 2024 (unaudited) at $842.4 million or 86% of general fund revenue.

Leverage: long-term liabilities ratio will remain elevated

The city's long-term liabilities ratio will remain elevated, largely driven by the city's adjusted net pension liability, and ongoing debt plans. While a significant retirement of outstanding debt will occur in the coming years, the city has a large amount of authorized unissued debt outstanding ($35.8 million under Measure DD, $32.0 million of remaining authorization against its voter approved measure KK and $749.0 million under measure U), and plans to regularly issue bonds to support the city's capital plans. The city's fixed costs are also high at 16.3% of operating revenue when compared to the Aa national median at 10.7%, but approximates other large cities in California.

Exhibit 3

Long Term Liabilities Remain Elevated Largely Due to the City's Pension Liability



Source: Moody's Ratings

Legal security

The city's general obligation bonds are secured by 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.

Debt structure

The city's debt structure includes about $878 million in long-term debt and the final maturity is 2053. The city's annual debt service payments materially decline after 2026 when the pension obligation and lease revenue bonds mature.

Pensions and OPEB

Oakland's adjusted net pension liability remains the main driver of the city's overall elevated leverage profile. 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 0.0705% 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 and other Police and Fire Retirement System obligations such as the actuarially determined contribution) are held in the city's restricted general fund.

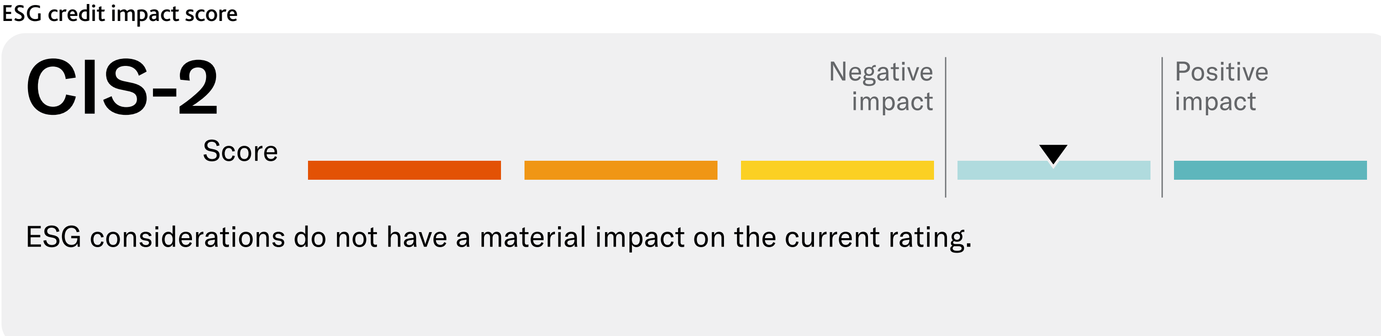
Management has taken steps to address its unfunded OPEB liability by adopting a policy of making contributions into its OPEB trust, in addition to the city's pay-as-you-go requirements. In addition, management implemented cost containment measures such as capping benefits for existing public safety employees and retirees and establishing lower cost-tiers for employees hired after January 1, 2019.

ESG considerations

Oakland (City of) CA's ESG credit impact score is CIS-2

Exhibit 4

ESG credit impact score

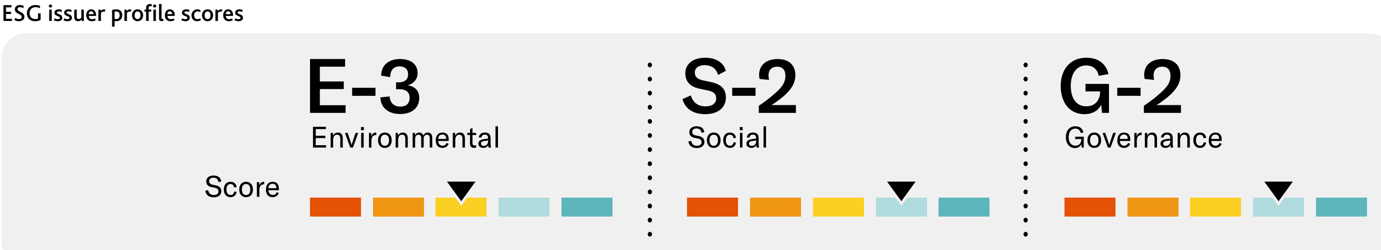


Source: Moody's Ratings

The City of Oakland's ESG Credit Impact Score is **CIS-2**, reflecting moderately negative exposure to environmental risks, and neutral to low social and governance risks.

Exhibit 5

ESG issuer profile scores



Source: Moody's Ratings

Environmental
The city's environmental issuer profile score is **E-3**. Similar to many California local governments, the city's exposure to water stress is relatively high. However, this exposure is largely offset by strong regional planning and conversation efforts. The city is also exposed to sea level rise, although immediate risks are low. There is regional collaboration among flood control managers and scientists that are working to reduce flood risk and build resilience to sea level rise in the Bay Area.

Social
The City of Oakland's social issuer profile score is **S-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 bond measures that included $450 million for affordable housing.

Governance
The **G-2** issuer profile score reflects the city's institutional structure, policy credibility & effectiveness, and budget management with strong transparency & disclosure. Management produces regular financial disclosures, budget updates and long-range financial forecasts on a timely basis.

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 Cities and Counties Methodology includes a scorecard, which summarizes the rating factors generally most important to city and county credit profiles. Because the scorecard is a summary, and may not include every consideration in the credit analysis for a specific issuer, a scorecard-indicated outcome may or may not map closely to the actual rating assigned.

Exhibit 6
Oakland (City of) CA

	Measure	Weight	Score
Economy			
Resident income ratio	106.5%	10.0%	Aa
Full value per capita	195,083	10.0%	Aaa
Economic growth metric	2.1%	10.0%	Aaa
Financial Performance			
Available fund balance ratio	43.2%	20.0%	Aaa
Liquidity ratio	88.3%	10.0%	Aaa
Institutional Framework			
Institutional Framework	Aa	10.0%	Aa
Leverage			
Long-term liabilities ratio	329.8%	20.0%	A
Fixed-costs ratio	16.3%	10.0%	A
Notching factors			
No notchings applied			
Scorecard-Indicated Outcome			Aa2
Assigned Rating			**Aa2**

The Economic Growth metric cited above compares the five-year CAGR of real GDP for San Francisco-Oakland-Berkeley, CA Metropolitan Statistical Area Metropolitan Statistical Area to the five-year CAGR of real GDP for the US.
Sources: US Census Bureau, Oakland (City of) CA's financial statements and Moody's Ratings

Appendix

Exhibit 7
Key Indicators Glossary

	Definition	Typical Source*
Economy		
Resident income ratio	Median Household Income (MHI) for the city or county, adjusted for Regional Price Parity (RPP), as a % of the US MHI	MHI: US Census Bureau - American Community Survey 5-Year Estimates RPP: US Bureau of Economic Analysis
Full value	Estimated market value of taxable property in the city or county	State repositories; audited financial statements; continuing disclosures
Population	Population of the city or county	US Census Bureau - American Community Survey 5-Year Estimates
Full value per capita	Full value / population	
Economic growth metric	Five year CAGR of real GDP for Metropolitan Statistical Area or county minus the five-year CAGR of real GDP for the US	Real GDP: US Bureau of Economic Analysis
Financial performance		
Revenue	Sum of revenue from total governmental funds, operating and non-operating revenue from total business-type activities, and non-operating revenue from internal services funds, excluding transfers and one-time revenue, e.g., bond proceeds or capital contributions	Audited financial statements
Available fund balance	Sum of all fund balances that are classified as unassigned, assigned or committed in the total governmental funds, plus unrestricted current assets minus current liabilities from the city's or county's business-type activities and internal services funds	Audited financial statements
Net unrestricted cash	Sum of unrestricted cash in governmental activities, business type activities and internal services fund, net of short-term debt	Audited financial statements
Available fund balance ratio	Available fund balance (including net current assets from business-type activities and internal services funds) / Revenue	
Liquidity ratio	Net unrestricted cash / Revenue	
Leverage		
Debt	Outstanding long-term bonds and all other forms of long-term debt across the governmental and business-type activities, including debt of another entity for which it has provided a guarantee disclosed in its financial statements	Audited financial statements; official statements
Adjusted net pension liabilities (ANPL)	Total primary government's pension liabilities adjusted by Moody's to standardize the discount rate used to compute the present value of accrued benefits	Audited financial statements; Moody's Ratings
Adjusted net OPEB liabilities (ANOL)	Total primary government's net other post-employment benefit (OPEB) liabilities adjusted by Moody's to standardize the discount rate used to compute the present value of accrued benefits	Audited financial statements; Moody's Ratings
Other long-term liabilities (OLTL)	Miscellaneous long-term liabilities reported under the governmental and business-type activities entries	Audited financial statements
Long-term liabilities ratio	Debt + ANPL + ANOL + OLTL / Revenue	
Fixed costs		
Implied debt service	Annual cost to amortize city or county's long-term debt over 20 years with level payments	Audited financial statements; official statements; Moody's Ratings
Pension tread water contribution	Pension contribution necessary to prevent reported unfunded pension liabilities from growing, year over year, in nominal dollars, if all actuarial assumptions are met	Audited financial statements; Moody's Ratings
OPEB contribution	City or county's actual contribution in a given period	Audited financial statements
Implied cost of OLTL	Annual cost to amortize city or county's other long-term liabilities over 20 years with level payments	Audited financial statements; Moody's Ratings
Fixed-costs ratio	Implied debt service + Pension tread water + OPEB contributions + Implied cost of OLTL / Revenue	

*Note: If typical data source is not available then alternative sources or proxy data may be considered. For more detailed definitions of the metrics listed above please refer to the US Cities and Counties Methodology .
Source: Moody's Ratings

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