

## CREDIT OPINION

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# City of Oakland, CA

## Update to credit analysis

### Summary

[The City of Oakland, CA's](#) (Aa1 stable) financial position is strong, underpinned by management's sound fiscal policies and multiyear financial forecasting. Oakland's tax base is very large and its diverse local economy benefits from its central positioning in the vibrant San Francisco Bay Area. 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
- » Strong liquidity and reserve positions underpinned by sound fiscal management
- » Demonstrated voter support for supplemental local revenues
- » Considerable and diverse development pipeline

### Credit challenges

- » Elevated long-term liabilities and fixed cost ratios
- » Social challenges related to housing affordability and homelessness

### Rating outlook

The stable outlook incorporates the city's large and diverse economic base, which is expected to experience ongoing moderate 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

- » Significant decline in long-term liabilities ratio
- » Materially improved fixed costs ratio

### Factors that could lead to a downgrade

- » Meaningful growth to fixed costs and long-term liabilities
- » Significant deterioration of the city's liquidity and reserves

## Key indicators

Exhibit 1

### Oakland (City of) CA

	2019	2020	2021	2022	Aa Medians
<b>Economy</b>					
Resident income ratio (%)	98.4%	103.4%	103.5%	N/A	115.0%
Full Value (\$000)	\$58,876,019	\$63,514,406	\$69,954,466	\$74,099,351	\$2,649,338
Population	425,097	422,575	437,548	N/A	22,694
Full value per capita (\$)	\$138,500	\$150,303	\$159,878	N/A	\$108,666
Economic growth metric (%)	N/A	3.2%	3.2%	N/A	-0.5%
<b>Financial Performance</b>					
Revenue (\$000)	\$1,281,330	\$1,310,954	\$1,471,501	\$1,541,744	\$48,404
Available fund balance (\$000)	\$449,520	\$438,782	\$504,574	\$652,073	\$24,069
Net unrestricted cash (\$000)	\$831,547	\$906,962	\$1,138,494	\$1,315,259	\$32,092
Available fund balance ratio (%)	35.1%	33.5%	34.3%	42.3%	51.0%
Liquidity ratio (%)	64.9%	69.2%	77.4%	85.3%	69.0%
<b>Leverage</b>					
Debt (\$000)	\$825,022	\$946,891	\$843,955	\$985,356	\$34,496
Adjusted net pension liabilities (\$000)	\$3,668,903	\$4,389,346	\$5,400,947	\$4,757,707	\$55,543
Adjusted net OPEB liabilities (\$000)	\$803,285	\$681,763	\$779,622	\$703,261	\$6,316
Other long-term liabilities (\$000)	\$227,341	\$221,349	\$227,507	\$224,278	\$1,623
Long-term liabilities ratio (%)	431.2%	475.9%	492.8%	432.7%	244.8%
<b>Fixed costs</b>					
Implied debt service (\$000)	\$66,016	\$60,152	\$67,809	\$59,195	\$2,436
Pension tread water contribution (\$000)	\$158,374	\$164,756	\$206,573	N/A	\$1,565
OPEB contributions (\$000)	\$38,545	\$28,917	\$29,517	\$43,003	\$178
Implied cost of other long-term liabilities (\$000)	\$17,140	\$16,575	\$15,851	\$15,957	\$109
Fixed-costs ratio (%)	21.9%	20.6%	21.7%	21.1%	11.1%

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 Economic Growth metric cited above compares the five-year CAGR of real GDP for San Francisco-Oakland-Berkeley, CA 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 Investors Service, US Bureau of Economic Analysis

## 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 437,548.

## Detailed credit considerations

### Economy and tax base: large Bay Area tax base with substantial local development

The city will continue to benefit from a strong economic profile given the pipeline of development, firm integration into the economically diverse San Francisco Bay Area. All of which, will also support ongoing healthy tax base growth and strong property wealth. The city's assessed value (AV) reached \$85.4 billion in fiscal 2024, which is a strong 6.6% increase from the previous year and is significantly higher than the Aa national median at \$2.7 billion, and supports the favorable property wealth with assessed value per capita at \$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's robust local economy is supported by ongoing capital investments from employers, including Samuel Merritt University breaking ground on a new campus in May and PG&E's relocation of its headquarters to Oakland from San Francisco in 2022 and recently purchasing 300 Lakeside for \$900 million (current assessed value is \$467 million). Based on the mechanics of Prop 13, the sale of this property will generate additional property tax revenue. The city and local economy benefit from being a transportation hub.

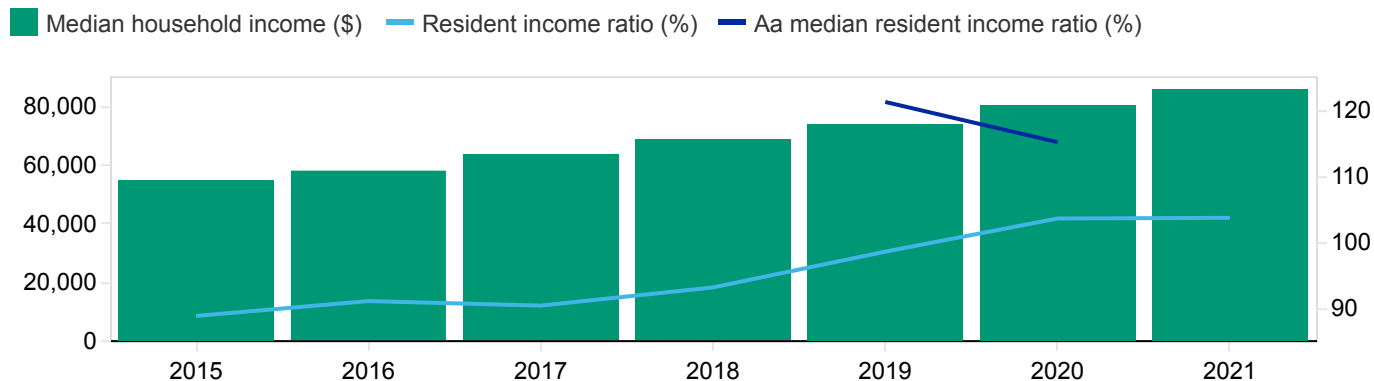
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All [Bay Area Rapid Transit \(BART\)](#) (Aaa negative) lines go through Oakland; the [Port of Oakland](#) (A1 stable) is the third largest port in California and the 8th largest in the US by container volume; and Oakland International Airport is the third largest in the San Francisco Bay Area by passenger volume.

The city's unemployment rate at 4.7%, as of June 2023, is below the state (4.9%) and slightly above the US (3.8%), which has been a long standing trend. The city has an economically diverse residential population resulting in resident ratio of 103.5%. While this level is slightly below the Aa national median (115%) it has been trending upward over the past several years.

Exhibit 2

### Resident Income



Source: Moody's Investors Service

### Financial operations: healthy financial position supported by prudent fiscal management

The city's financial position will remain strong given management's prudent fiscal practices supported by adopted policies. Based on fiscal 2023 (June 30 year end) year-to-date projections, management expects to end the year with its third consecutive surplus, adding \$80 million to \$100 million to reserves. The positive variance largely consists of about \$60 million in carry-over restricted funds, savings from self-insurance costs and vacant positions. The city's biennial budget included a \$195.5 million revenue shortfall for fiscal 2024, however through budget balancing measures such as cost containment measures and the use of surplus from vacancies and reserves, the city was able to close this budget gap.

The city's financial projections for fiscal 2025 through fiscal 2028 show expenditure growth outpacing revenue growth in each year, however we expect that the city will maintain its strong financial position given management's commitment to strategic, long-term financial planning.

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. The ten supplemental parcel, transient occupancy taxes, and parking taxes are estimated to collectively raise about \$173 million or 23% of budgeted general fund revenue in fiscal 2024.

### Liquidity

With the city's continued strong operating performance, its liquidity position will remain healthy. Net unrestricted cash reached \$1.3 billion, or a robust 85.3% of operating revenue.

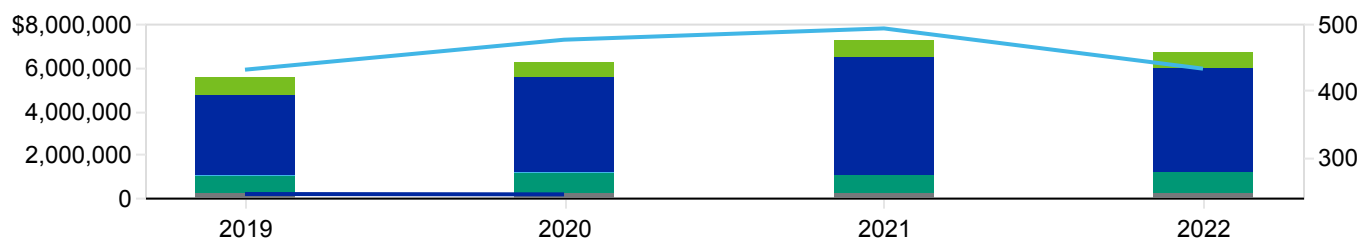
## Leverage

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 post issuance (\$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 21% of operating revenue when compared to the Aa national median at 11%, but approximates other large cities in California.

Exhibit 3

### Total Primary Government - Long Term Liabilities

■ Governmental Debt   
 ■ Business-Type Activity Debt   
 ■ Adjusted net pension liabilities  
■ Adjusted net other post-employment liabilities   
 ■ Other long-term liabilities   
 — Long-term liabilities ratio (%)  
— Aa median long-term liabilities ratio (%)



Source: Moody's Investors Service

### 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 approximately \$751.4 million in general obligation bonds (including its upcoming bond sale), \$151.4 million in pension obligation bonds and \$48.9 million in lease revenue bonds. The final maturity is 2053. The city's annual debt service payments materially decline after 2026 when the pension obligation bonds mature.

### Debt-related derivatives

The city has no debt-related derivatives.

### Pensions and OPEB

Oakland's pension and other post employment benefits (OPEB) liabilities are high, and are drivers 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 0.1575% 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 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. These contributions were \$15 million in fiscal 2022 and fiscal 2023 and the

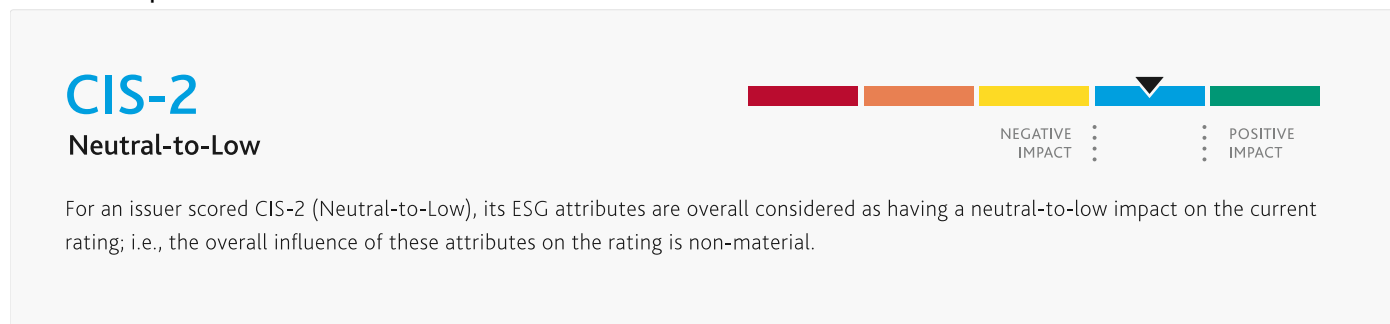
estimated contributions for each of the following fiscal years is \$16 million. In addition, management implemented cost containment measures such as capping benefits for existing public safety employees and retirees and establishing lower cost-tiers for employees hired after January 1, 2019.

## ESG considerations

### Oakland (City of) CA's ESG Credit Impact Score is CIS-2

Exhibit 4

#### ESG Credit Impact Score

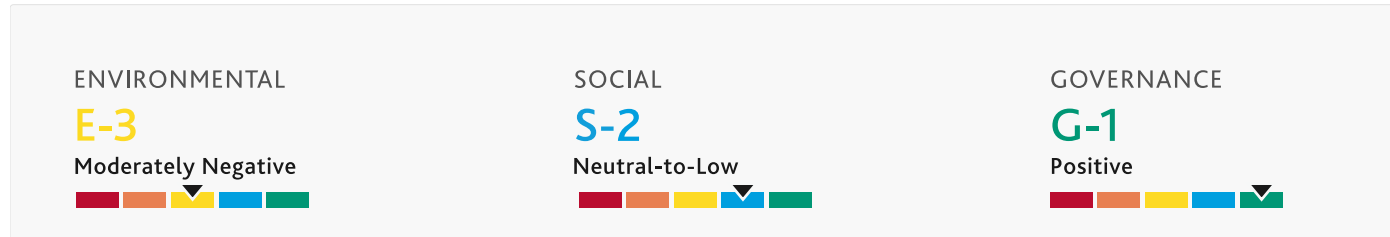


Source: Moody's Investors Service

The City of Oakland's ESG Credit Impact Score is **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 **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. 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 **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 bond measures for affordable housing.

### Governance

The city's very strong governance profile is reflected in its **G-1** score, 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 Cities and Counties Rating 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.

The assigned rating of Aa1 is two notches above the scorecard outcome, which incorporates the city's good governance, our expectation that the city will continue to benefit from a robust economy as well as a strong and stable financial position.

Exhibit 6

### Oakland (City of) CA

	Measure	Weight	Score
<b>Economy</b>			
Resident income ratio	103.5%	10.0%	Aa
Full value per capita	182,291	10.0%	Aaa
Economic growth metric	3.2%	10.0%	Aaa
<b>Financial Performance</b>			
Available fund balance ratio	42.3%	20.0%	Aaa
Liquidity ratio	85.3%	10.0%	Aaa
<b>Institutional Framework</b>			
Institutional Framework	Aa	10.0%	Aa
<b>Leverage</b>			
Long-term liabilities ratio	432.7%	20.0%	Baa
Fixed-costs ratio	21.1%	10.0%	Baa
<b>Notching factors</b>			
No notchings applied			
Scorecard-Indicated Outcome			Aa3
<b>Assigned Rating</b>			<b>Aa1</b>

The complete list of outstanding ratings assigned to the Oakland (City of) CA is available on their [issuer page](#). Details on the current ESG scores assigned to the Oakland (City of) CA are available on their [ESGView page](#).

Sources: US Census Bureau, Oakland (City of) CA's financial statements and Moody's Investors Service

## Appendix

Exhibit 7

### Key Indicators Glossary

	Definition	Typical Source*
<b>Economy</b>		
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
<b>Financial performance</b>		
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	
<b>Leverage</b>		
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 Investors Service
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 Investors Service
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	
<b>Fixed costs</b>		
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 Investors Service
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 Investors Service
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 Investors Service
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 City and Counties Methodology](#).

Source: Moody's Investors Service



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