MOODY'S
INVESTORS SERVICE

New Issue: Moody's assigns MIG 1 to Oakland City's (CA) TRAN

Global Credit Research - 23 Jun 2014

$55.0M in short-term debt affected

OAKLAND (CITY OF) CA
Cities (including Towns, Villages and Townships)
CA

Moody's Rating

ISSUE		RATING
2014 - 2015 Tax and Revenue Anticipation Notes		MIG 1
Sale Amount	$55,000,000	
Expected Sale Date	07/07/14	
Rating Description	Note: Tax and/or Revenue Anticipation	

Moody's Outlook STA

Opinion

NEW YORK, June 23, 2014 --Moody's Investors Service has assigned a MIG 1 rating to Oakland City's (CA) 2014-2015 Tax and Revenue Anticipation Notes (TRAN) totaling approximately $55.0 million. The notes are being issued to fund the city's fiscal year cash flow needs and are secured by a pledge of unrestricted fiscal 2015 general fund receipts. The notes will be issued in July 2014 and will mature on June 30, 2015.

RATING RATIONALE

The MIG 1 rating reflects the city's strong short-term credit metrics and also the city's long-term credit quality. The rating also reflects the stable and ample cash margins projected for fiscal 2015 and ample alternate funds available for note repayment. The credit strength of the notes benefits from the sound predictability of revenues and timing of receipts for TRAN repayment, with noteholder protections that include the segregation of repayment funds into a dedicated fund held by the fiscal agent. We have incorporated the city's quality management, as measured by the accuracy of past projections and reasonable future cash flow assumptions, into the rating.

STRENGTHS

- Moderate amount of note borrowing

- Annual note issuer

- Actual cash flows are traditionally better than projections

- Conservative projections with reasonable assumptions

- Healthy amount of borrowable alternate liquidity

CHALLENGES

- Significant revenue dependence on economically sensitive revenues

- Late set aside timing, though within 30 days of maturity

DETAILED CREDIT DISCUSSION

STRONG LONG-TERM CITY RATING

Oakland City has an Aa2 stable general obligation rating that was last reviewed in May 2013. The city's long-term rating reflects the recovery of the local economy and healthy financial position of the city that should remain stable, though must be closely monitored amid potential challenges to reserves. The city also has manageable outstanding debt that includes general obligation bonds, pension obligation bonds, and lease-backed securities.

HEALTHY CASH POSITION BASED ON CONSERVATIVE ASSUMPTIONS

The city has strong projected cash balances at the time of note repayment that will likely be stronger than the current projections. The city projects to have approximately $712.1 million in total general fund cash receipts by the end of fiscal 2015 and an ending general fund cash balance of $121.6 million, which is 17.1% of total fiscal 2015 general fund receipts. Historic cash flow projections have traditionally been conservative compared to the actual cash flows, and these conservative assumptions add credit strength to the city's already solid cash flow estimates. We traditionally expect to see ending cash from pledged funds at least 5% of total receipts for the MIG 1 rating level. The receipt of revenues from property taxes is highly reliable with scheduled and timely collection dates and does not depend on voter approval. We note, however, the city's dependence on several economically sensitive revenues, which are currently undergoing positive growth and will likely remain strong through maturity of the notes.

ADEQUATE ALTERNATE SOURCES OF LIQUIDITY

General fund cash receipts for June 2015 should be $96.4 million, which is comfortably larger than the approximately $55.6 million due for note repayment on June 30, 2015. Adding additional credit strength is the city's alternate funds available, but not legally pledged, for TRAN repayment. Management expects to have approximately $73.5 million of available funds held outside the general fund for note repayment should the city need to access additional cash at maturity. We do not anticipate these funds will be needed for note repayment; however, the availability of these funds adds strength to the TRAN rating.

ADEQUATE SET ASIDE PLAN FOR REPAYMENT

The credit rating of the notes benefits from a short maturity and the timely set aside of the pledged receipts. We anticipate that the city will set aside funds for TRAN repayment in advance of note maturity. The city is planning to set aside $27.5 million in March 2015 and $28.1 million in May 2015 from receipts in each of these respective months. These set asides are adequately in advance of note repayment by meeting our 30 day threshold for a MIG 1 rating. We anticipate full note repayment set aside 30 days prior to note maturity. The set asides will be deposited in trust in the city's "2014-2015 Tax and Revenue Anticipation Notes Special Account." Any money deposited by the fiscal agent into the account will be for the benefit of the note holders.

SMALL BORROWING AMOUNT RELATIVE TO PLEDGED RECEIPTS

The borrowing is small relative to pledged receipts. The $55.0 million note is 7.7% of the pledged fiscal 2015 general fund receipts available for note repayment. A typical borrowing size for a Moody's-rated MIG 1 note is generally less than 35% of pledged revenues.

SATISFACTORY CASH PROJECTIONS AND REASONABLE ASSUMPTIONS

The city's past projections have been conservative and reflect reasonable assumptions. The beginning cash balance in the projected cash flows for fiscal 2014 is less than the ending cash balance in the fiscal 2013 year audit. The city projects to have generally lower cash receipts in fiscal 2015 than the actual cash receipts in fiscal 2013 audit as a conservative measure. The ratios calculated using these conservative cash flow estimates are still strong, and can only improve, which we anticipate given the historically conservative nature of the city's estimates. Actual cash receipts have been higher than the original projections for the past several fiscal years.

WHAT COULD MOVE THE RATING-UP

- N/A

WHAT COULD MOVE THE RATING-DOWN

- Reduction of cash position

- Erosion of alternate sources of liquidity prior to set aside dates

KEY STATISTICS

Borrowing as a % of anticipated pledged receipts: 7.7%

Alternate liquidity: $73.5 million

Alternate liquidity as % of note repayment: 132.2%

Projected Ending Cash as % of Receipts, Fiscal 2015: 17.1%

The principal methodology used in this rating was Short-Term Cash Flow Notes published in April 2013. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the rating action on the support provider and in relation to each particular rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

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