STANDARD & POOR'S RATINGS SERVICES
McGRAW HILL FINANCIAL

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**Summary:**

# Oakland, California; Note

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## Summary:

# Oakland, California; Note

| Credit Profile | | |
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| US$109.635 mil 2015-2016B TRANs dtd 07/01/2015 due 06/30/2016 | | |
| *Short Term Rating* | SP-1+ | New |
| US$49.365 mil 2015-2016A TRANs dtd 07/01/2015 due 06/30/2016 | | |
| *Short Term Rating* | SP-1+ | New |

## Rationale

Standard & Poor's Ratings Services assigned its 'SP-1+' short-term rating to Oakland, Calif.'s 2015-2016 series A and B tax and revenue anticipation notes (TRANs).

The notes are general obligations of the city and are payable from taxes, income, revenue, cash receipts, and other money that the city receives for the general fund for fiscal 2016.

The rating reflects our opinion of the city's:

- Very strong coverage of principal and interest at maturity,
- Substantial alternative liquidity sources available for interfund loans at maturity, and
- Record of conservative projections relative to actual performance.

As has been the case in prior years, the city has agreed to set aside funds in advance of the maturity dates in amounts equal to half of principal in March, the remaining half of principal in May, and interest in May for series A, but plans to set aside principal payments on the series B monthly during July 2015 through May 2016. The city has resolved to deposit set-aside funds with a fiscal agent in a dedicated account to be applied solely to paying the principal and interest on the notes. The fiscal agent is required to invest the proceeds in accordance with the city's investment policy, which is governed by state guidelines that, among other elements, require the preservation of principal as the primary goal.

We consider the coverage at TRAN maturity to be very strong. Management projects that the city's general fund, on the TRANs' June 30, 2016 maturity date, will hold $163.7 million, which would cover principal and interest by what we consider a very strong 2.02x. We calculate based on management's projections that coverage at the two set-aside dates will be 2.63x and 2.26x. In addition, management has identified 35 alternative funds available for interfund borrowing that it forecasts will hold $77.9 million at the TRANs' maturity date. This would increase coverage to 2.5x, which we consider also very strong.

Underlying these ratios is what management projects will be an overall 10.5% increase in receipts excluding TRANs, led by property tax revenue, which represents 32% of non-TRAN projected receipts in fiscal 2016. The city projects another strong year for tax receipts growth, with property tax revenue up by 7.7%, followed by sales tax receipts (6.0%) and business license tax revenue (5.7%) At the same time, the city projects taxes on property transfers (8% of projected fiscal 2016 non-TRANS receipts) to be flat after 3.1% growth in fiscal 2015. The city's projections show service charges, which can be rate sensitive and include parking revenue and fees to utilities, rising by 11%.

The city's projected disbursements show an overall 9.3% rise for fiscal 2016 (excluding TRAN payments) using management's projections, led by 11% growth in operations and maintenance expenses (such as contracted services) and an adjusted 7.3% increase in salaries and benefits. (This adjustment for salaries and benefits uses city estimates for what the salaries and benefits line item would be if not for a planned prepayment of pension contributions in July 2015 that management reports will provide the city with 3.55% gross savings from the state pension manager, CalPERS; this savings greatly exceeds likely returns on existing cash and the cost of borrowing on the series 2015-2016 B TRANs, which are taxable.) Management reports that employment contracts for most bargaining groups are up for renewal for fiscal 2016 and, although the fiscal 2016 budget has not yet passed, anticipates based on prior experience and current city council discussions that lower spending elsewhere in the budget or attrition will offset any negotiated salary and benefits increases.

The city's projections have been consistently conservative in recent years. We calculate actual coverage of TRANs at maturity during fiscal years 2012 through 2015 to have ranged from 22% to 70% above projections in the year prior, most recently at the low end of this scale. Contributing to this positive variance in fiscal 2015 were faster-than-forecast increases in property taxes, with receipts 8% above forecast, and smaller receipts sources totaling 10% of fiscal 2015 receipts that both materialized 15% above forecast: property transfers and parking. The city validates its internal analyses of property and sales tax revenue trends with consultant forecasts.

Encompassing 404,400 residents and $48 billion in market value, Oakland is situated in the core of the San Francisco Bay Area and at the nexus of the regional freeway and commuter rail networks. We consider its median household effective buying income good, at 100% of the U.S. level. The city is experiencing a surge in economic activity, with a 5.8% assessed value increase to $47.7 billion in 2015 after a 5.1% increase in fiscal 2014. Although we understand that much of this growth represents spillover activity from the robust information technology clusters in Silicon Valley and San Francisco, we believe that the city is well placed geographically to absorb growth as an increasing number of real estate projects become economically viable. Significant projects slated to enter major construction phases in 2016 are a 360-acre trade and logistics center adjacent to the city's maritime port and a 3,100-unit housing development on the city's waterfront. Employment growth has continued, which has helped to drive the city's average monthly unemployment rate down to 7.3% for 2014 from a peak of 15.4% in 2009.

## Related Criteria And Research

### Related Criteria

USPF Criteria: Short-Term Debt, June 15, 2007

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