MOODY'S
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New Issue

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Oakland (City of), CA

New Sale – Moody's assigns Aa2 to Oakland, CA's GOULT 2017C

Summary Rating Rationale

Moody's Investors Service has assigned an Aa2 rating to the City of Oakland, CA's General Obligation Bonds (Series 2017C, Measure DD) totaling approximately $26.5 million. Moody's has also affirmed the Aa2 rating on the city's other outstanding general obligation bonds totaling approximately $201.8 million.

The city's Aa2 general obligation rating also reflects the nature of the general obligation offering, which is secured by an unlimited property tax pledge of all taxable property within the city's boundaries. The county rather than the city will levy and collect the constitutionally restricted property tax revenues for debt service, while the city will transmit the debt service proceeds to the trustee.

We affirmed the Aa3 rating on the city's lease revenue bonds totaling $71.3 million, secured by the city's primary administrative buildings, which we view as "more essential" assets. We have affirmed the Aa3 rating on the city's portion of the Oakland-Alameda County Coliseum Authority's lease revenue bonds totaling $82.7 million, despite the non-essential nature of the assets securing the bonds; the debt service on these bonds benefits from a step-up provision of the county should the city be unable to make debt service payments.

The city's ratings reflect its very large and growing Bay Area economy and average socioeconomic profile. The city has an improving financial profile, characterized by growing revenues and growing operating reserves to healthy levels, a trend we expect will continue in the near term. While the city has long term budgetary and fiscal challenges, including pension and health care costs and sustaining grant funded programs in spite of reduced state or federal funding, management will effectively address these issues over time. The city has an above average debt burden, as well as above average pension and OPEB obligations.

Credit Strengths

» Very large and growing Bay Area tax base

» Healthy and improving financial profile

Credit Challenges

» Long term budgetary challenges including pension and health care costs

» Above average debt, pension, and OPEB obligations

Rating Outlook

The outlook is stable and reflects the positive trends of the city's economic and financial position that are offset by the city's elevated debt, pension, and OPEB position.

Factors that Could Lead to an Upgrade

- Material and sustained improvement in the city's assessed value and socioeconomic indicators
- Significant reduction in the city's debt, pension, and OPEB obligations

Factors that Could Lead to a Downgrade

- Significant increase in the city's debt burden, particularly debt supported by the city's general fund
- Further pension and OPEB burden on the city's general fund
- Erosion of the city's fiscal health
- Prolonged economic decline

Key Indicators

Oakland (City of) CA	2012	2013	2014	2015	2016
Economy/Tax Base					
Total Full Value ($000)	$ 41,940,552	$ 42,838,031	$ 45,042,337	$ 47,676,125	$ 51,286,225
Full Value Per Capita	$ 106,749	$ 99,615	$ 101,429	$ 106,973	$ 122,244
Median Family Income (% of US Median)	92.1%	92.1%	92.4%	92.4%	92.4%
Finances					
Operating Revenue ($000)	$ 597,903	$ 590,046	$ 600,637	$ 659,214	$ 706,581
Fund Balance as a % of Revenues	24.3%	16.4%	18.6%	20.5%	20.9%
Cash Balance as a % of Revenues	48.3%	50.9%	47.3%	45.8%	51.6%
Debt/Pensions					
Net Direct Debt ($000)	$ 794,297	$ 1,119,645	$ 1,052,038	$ 923,653	$ 879,898
Net Direct Debt / Operating Revenues (x)	1.3x	1.9x	1.8x	1.4x	1.2x
Net Direct Debt / Full Value (%)	1.9%	2.8%	2.6%	2.1%	1.7%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	N/A	N/A	N/A	4.1x	4.2x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	N/A	N/A	N/A	6.3%	5.8%

Source: Moody's Investors Service

Detailed Rating Considerations

Economy and Tax Base: Large and Growing Tax Base; Sustained Economic Improvement Expected

The City of Oakland has a strong Bay Area economy which will continue to expand over the next few years. The city enjoys buoyant spillover growth from the greater Bay Area's technology expansion. The city is enjoying a vibrant construction renaissance, which is fueling the city's assessed value (AV) as well as property values. The city is also undergoing its own organic tech expansion which will sustain economic growth in the near term. Job and income growth will surpass US averages over the next few years. Proximity to the world's tech capitol ensures long term strength.

The city's AV increased to $55.1 billion in fiscal 2017, a 7.5% increase from the previous year. We expect an approximately 6% increase in fiscal 2018 and a 4% increase in fiscal 2019. The 10 largest taxpayer concentration is low at 4.1% of total fiscal 2017 AV.

The city's unemployment rate continues to trend downward and fell to 5.4% as of September 2016, compared to the state (5.3%) and nation (4.8%) for the same period. The city has an economically diverse residential population resulting in a median family income of 92.4% of the US average.

Financial Operations and Reserves: Growing Revenues and Reserve Levels; Long Term Budgetary Challenges Remain

The city has a strengthening financial profile which should continue in the near term. The city's total revenues have increased year over year since fiscal 2011, resulting in a continuously improving operating reserve position. Property tax revenues are strong and increased 13.0% in fiscal 2016. Property tax delinquency rates continue to decline (the city is not on the county's Teeter Plan). The city also underwent healthy revenue growth in its real estate transfer tax, transient occupancy tax, and sales and use tax in fiscal 2016. Public Safety expenditures increased noticeably in fiscal 2016 with the hiring of additional police and fire workers. Public Safety expenditures will likely increase only modestly moving forward, given the city has nearly reached its program targets. The city's fiscal 2017 financial profile continues to look strong and reserve levels will continue to increase in fiscal 2017, which also helps to improve the city's liquidity position.

Available reserves (unassigned, assigned, committed general fund and restricted debt service fund) were exceptionally strong in fiscal 2016 totaling $148.0 million (20.9% of revenues), up from $135.2 million in fiscal 2015, with revenue growth outpacing the increase in public safety expenditures mentioned above.

Some long term budgetary challenges remain, including managing overall expenditure growth and addressing pension and health care cost increases. The city is also looking for ways to sustain grant funded programs in the face of reduced or eliminated state and federal funding.

Salary negotiations with employees are finalized and under contract largely through June 2017. Additional salary expenses will affect the city's fiscal 2018 budget.

LIQUIDITY

The city's liquidity continues to improve. Net cash and investments were strong in fiscal 2016 at $364.7 million (51.6% of revenues).

Debt and Pensions: Elevated Debt, Pension, and OPEB Obligations; Additional Debt Expected

Despite an already above average debt burden, Oakland will continue to issue additional debt. Net direct debt for the city was 1.7% of AV in fiscal 2016, with net direct debt per capita at $2,097, both figures elevated for a California city. The city will have $35.8 million in general obligation bond authorization outstanding under Measure DD after the current issuance. The city received voter authorization to issue an additional $600 million in general obligation bonds in the November 2016 election. The city will likely issue additional general obligation bonds in 2017, but AV growth should help to keep the debt as a percentage of AV stable in the near term.

The following outstanding totals are as of October 31, 2016:

The city has $201.8 million of general obligation bonds outstanding, supported by an unlimited property tax pledge.

Debt supported by the city's general fund include the city's $85.7 million Lease Obligations and $82.7 million Coliseum Authority debt attributed to the city. General fund-supported debt service is a modest 2.8% of fiscal 2016 operating revenues.

The city's $313.2 million Pension Obligation Bonds are supported by property tax override revenues. The Taxable Pension Obligation Bonds, Series 2001 and Taxable Pension Obligation Bonds, Series 2012A benefit from senior, parity lien of property tax override revenues.

DEBT STRUCTURE

The city has only fixed-rate obligations outstanding.

DEBT-RELATED DERIVATIVES

The city has one stand-alone swap that is not associated with any outstanding bonds. The rating termination triggers for the swap are a function of the city's and the swap provider's (Goldman Sachs Mitsui Marine Derivative Products) ratings, with the city's option to terminate if the counterparty's rating falls below A3 and the counterparty's option to terminate if the city's rating falls below Baa3. The most recent mark to market valuation was -$4.6 million as of October 2016, which is not burdensome given the city's available unrestricted cash and reserves. Under the swap, the city pays the counterparty a fixed payment of 5.6775% and receives a variable payment computed at 65% of LIBOR rate (total rate not to exceed 12%). The city's payments to the counterparty are insured.

PENSIONS AND OPEB

Pension-driven budgetary pressures for Oakland City are significant and will be a long term fiscal challenge.

Moody's adjusted net pension liability (ANPL) for the city, under our methodology for adjusting reported pension data, is $3.6 billion, or a notably above-average 4.2 times operating revenues. Rate increases will increase the funded ratio to 75% for each the city's California Public Employees' Retirement System (PERS) plans, which are currently at 67.2% for the Safety Plan and 70.2% for the Miscellaneous Plan. The city makes 100% of its required annual contribution to CalPERS. These combined annual costs in fiscal 2016 were $111.7 million (15.8% of operating revenues), which is an above average burden on the general fund relative to other California cities.

The city also maintains its Police and Fire Retirement System (PFRS) plan, which should be fully funded by 2026 and has a current funded ratio of 54.0%. The city issued its Pension Obligation Bonds to prepay PFRS contributions in July 2012 and reduced the unfunded liability by $210.0 million.

Oakland has a large unfunded OPEB liability of $860.0 million, an exceptionally high 238.3% of covered payroll, as of the July 1, 2015 actuarial valuation date. The city historically funds its OPEB on a pay-as-you-go basis with some additional contributions. As of November 29, 2016, the city had deposited a total of $3.9 million into its OPEB Trust to offset its OPEB liability and has budgeted to pay $665,000 annually until June 30, 2022.

Fixed costs for the city, including its pension contributions, OPEB ARC, and general fund-supported debt service are elevated. The large fixed costs are largely attributable to the city's pension costs and OPEB ARC.

Management and Governance

The city has an exceptionally strong management team, which we feel will carefully guide the city through its long term fiscal challenges.

California cities have an institutional framework score of "A," or moderate. Revenue predictability is moderate, because the primary sources are property taxes and sales taxes. Property taxes are very predictable, given the state's constitutional formula, known as Proposition 13, while sales taxes are economically sensitive. Revenue-raising ability is moderate because increases almost always require voter approval. Expenditure reduction ability is moderate, because of collective bargaining and growing pension and OPEB pressures. Expenditure predictability is high, as police and fire typically make up 60% of discretionary spending in full-service cities.

Legal Security

The general obligation offering is secured by an unlimited property tax pledge of all taxable property within the city boundaries. Debt service on the rated debt is secured by the city's voter-approved unlimited property tax pledge. The county rather than the district will levy and , collect the city's property taxes, including the portion constitutionally restricted to pay debt service on general obligation bonds, while the city will disburse the proceeds to the trustee.

Use of Proceeds

Proceeds from the Series 2017C bonds will be used to finance citywide improvement projects included in the Measure DD authorization.

Obligor Profile

The City of Oakland is located 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. Occupying approximately 53.8 square miles, the city is the largest and most established of the "East Bay" cities. Population for the city is 422,856.

Methodology

The principal methodology used in the general obligation rating was US Local Government General Obligation Debt published in December 2016. An additional methodology used in rating the lease revenue bonds was Lease, Appropriation, Moral Obligation and Comparable Debt of US State and Local Governments published in July 2016. Please see the Rating Methodologies page on www.moodys.com for a copy of these methodologies.

Ratings

Exhibit 2

Oakland (City of) CA

Issue	Rating
General Obligation Bonds (Series 2017C, Measure DD)	Aa2
Rating Type	Underlying LT
Sale Amount	$26,500,000
Expected Sale Date	01/12/2017
Rating Description	General Obligation

Source: Moody's Investors Service

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