MOODY'S
INVESTORS SERVICE

CREDIT OPINION
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City of Oakland, CA

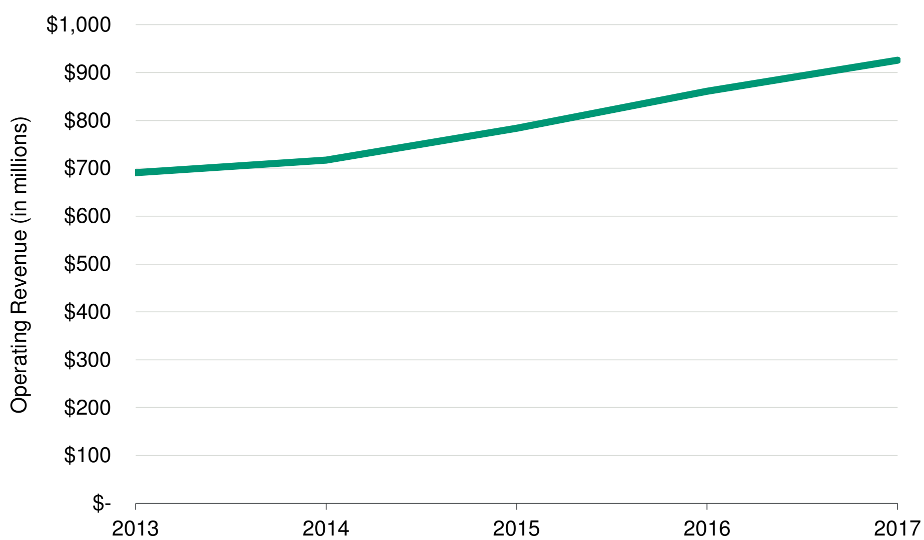
Update to Credit Analysis

Summary

The City of Oakland (Aa2, stable) benefits from a large and diverse tax base that is poised for continued moderate growth from ongoing commercial and residential development. The city further benefits from the greater Bay Area economy and the spillover from the San Francisco and San Jose tech sectors. The city's strong financial position is supported by healthy reserve and cash levels that we expect to remain stable. Similar to many California local governments, the city has long term fiscal challenges, including rising pension and health care costs. However, we expect management to successfully address these issues over time given the city's prudent fiscal practices, commitment to containing costs and the availability of property tax override revenues that are solely available for pension costs.

The city's credit fundamentals incorporate the strength of the voter-approved, unlimited property tax pledge securing the GO bonds.

Exhibit 1
Strong Revenue Growth Supports City's Healthy Financial Position



Source: Moody's Investors Service

Credit strengths

» Very large and diverse tax base poised for continued moderate growth

» Stable and diverse economy

» Healthy financial position that we expect to remain stable

» Strong management team

Credit challenges

» Long term budgetary challenges including pension and health care costs

» Above average fixed costs

Rating outlook

The outlook on the city's long-term ratings is stable. The outlook recognizes the city's large and diverse tax base, and the city's strong financial position, which should remain stable given the financial policies implemented by city management.

Factors that could lead to an upgrade

» Maintaining reserves and liquidity within current levels

» Significant reduction in the city's pension and OPEB obligations

» Improvement in socioeconomic indicators

Factors that could lead to a downgrade

» Erosion of the city's fiscal health

» Inability to manage retirement costs

» Prolonged economic decline

Key indicators

Exhibit 2

Oakland (City of) CA	2013	2014	2015	2016	2017
Economy/Tax Base					
Total Full Value ($000)	$42,838,031	$45,042,337	$47,676,125	$51,286,225	$55,120,060
Population	397,011	402,339	408,073	412,040	423,191
Full Value Per Capita	$107,901	$111,951	$116,832	$124,469	$130,249
Median Family Income (% of US Median)	92.1%	92.4%	92.7%	95.1%	95.1%
Finances					
Operating Revenue ($000)	$690,820	$716,631	$783,716	$861,058	$925,712
Fund Balance ($000)	$145,705	$159,656	$191,341	$230,283	$269,277
Cash Balance ($000)	$350,339	$335,998	$359,216	$449,312	$588,526
Fund Balance as a % of Revenues	21.1%	22.3%	24.4%	26.7%	29.1%
Cash Balance as a % of Revenues	50.7%	46.9%	45.8%	52.2%	63.6%
Debt/Pensions					
Net Direct Debt ($000)	$589,377	$533,603	$427,930	$407,199	$401,768
3-Year Average of Moody's ANPL ($000)	N/A	$2,685,797	$2,682,637	$2,766,461	$3,233,747
Net Direct Debt / Operating Revenues (x)	0.9x	0.7x	0.5x	0.5x	0.4x
Net Direct Debt / Full Value (%)	1.4%	1.2%	0.9%	0.8%	0.7%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	N/A	3.7x	3.4x	3.2x	3.5x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	N/A	6.0%	5.6%	5.4%	5.9%

Source: Moody's Investors Service and the City of Oakland, CA

Profile

The City of Oakland is located 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 423,191.

Detailed credit considerations

Economy and Tax Base: large and growing tax base; sustained economic improvement expected

The city's significantly large and stable tax base will continue to experience moderate growth given ongoing residential and commercial development coupled with the mechanics of Prop 13. The city's assessed value (AV) increased to $59.1 billion in fiscal 2018, which is a strong 7.2% increase from the previous year and the city currently projects between 6.0% and 7.0% AV growth in 2019. Average annual AV growth has been 6.7% over the past five years, which is significantly higher than the Aa2 national median (1.0%) and above the state median (4.4%) as well. The 10 largest taxpayers comprise a low 3.5% of total fiscal 2018 AV.

We expect the city's economy to continue to expand over the next few years and benefit from the spillover growth from San Francisco and San Jose's tech sector, which will remain the centerpiece of the city's expansion. The proximity to the world's tech capital supports long term strength in the economy and tax base. Job and income growth will surpass national averages over the next few years, yet the area still enjoys significant affordability advantages over San Francisco and San Jose, where affordable labor is very scarce.

The city's unemployment rate continues to trend downward and fell to 3.7% as of December 2017, which is below with the state (4.2%) and nation (3.9%) for the same period. The city has an economically diverse residential population resulting in a median family income of 95.1% of the US average.

Financial Operations and Reserves: healthy financial position though long term budgetary challenges remain

We expect that the city's financial position will remain stable given the city's strong reserve and cash levels and management's prudent fiscal practices. Over the past five years, operating revenues have grown an average of 5.5% per year, which outpaced operating expenditure growth at an average of 3.4%. City tax revenue continues to experience solid annual growth, especially property taxes, and management has contained operating costs. In fiscal 2017, available operating fund balance reached $269.3 million or a strong 29.1% of operating revenues. Based on year to date figures, the city will generate its third consecutive operating surplus, and reserves will remain in-line with the previous year.

The city began with a $32.5 million budget gap for its 2017-2019 biennial budget, but through various cost saving measures and revenue enhancements such as revised fees, the city was able to balance the adopted budget. Long term budgetary challenges remain, including managing overall expenditure growth and addressing pension and health care cost increases. We expect that the city will maintain its strong financial position given management's commitment to strategic, long-term financial planning that is supported by prudent fiscal policies.

LIQUIDITY

Similar to its reserve position, the city's liquidity will remain very strong. Operating net cash and investments reached $588.2 million in fiscal 2017, or an exceptionally healthy 63.6% of revenues. Based on projected fiscal 2018 results, the city's liquidity position will remain in-line with prior year's level.

Debt and Pensions: debt burden will remain low; pension and OPEB unfunded liabilities are above-average

The city's direct debt burden is low at 1.3% of AV, and its overall debt burden is significantly higher at 4.7% of AV yet just modestly above the national median at 3.6%. We expect that AV will continue to grow at a moderate rate and keep debt as a percentage of AV stable in the medium term.

DEBT STRUCTURE

The city has only fixed-rate debt obligations outstanding.

DEBT-RELATED DERIVATIVES

The city has one stand-alone swap. 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 termination risk for the city is low and the most recent mark to market valuation is negative $2.1 million (April 12, 2018), which the city could easily afford given its strong unrestricted cash position. 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

The city provides defined benefit pensions to both safety and miscellaneous employees through the California Public Employees' Retirement System (PERS). The combined, annual pension costs for fiscal 2018 are $127.0 million or 13.7% of operating revenues. The city also maintains a closed Police and Fire Retirement System (PFRS) plan. The city issued its Pension Obligation Bonds to prepay PFRS contributions in July 2012 and reduced the unfunded liability by $210.0 million.

Pension-driven budgetary pressures for the City of Oakland will be a long term fiscal challenge. Positively, Oakland is one of the few cities in California that is authorized to levy a “property tax override” to fund pension obligations. The revenues generated by this 0.1575% of AV levy are currently used to pay the debt service on the city's outstanding pension obligation bonds which mature in 2026. The city projects that starting in 2024, these revenues will fully fund the actuarial recommended contribution (ARC) for the city's PFRS pension liability, providing some budgetary relief to the city's operating funds. The fiscal 2018 ARC for PFRS is 26.1% of the city's total ARC for all pension plans.

The city's pension contribution is below our “tread water” indicator. The “tread water” indicator measures the annual government contribution required to prevent the reported net pension liability from growing, under reported assumptions. Contributions above this level cover all net pension liability interest plus pay down some principal; this is stronger from a credit perspective compared to contributions below this level.

Moody's three-year average adjusted net pension liability (ANPL) for the city, under our methodology for adjusting reported pension data, is $3.2 billion, or a moderate 3.5 times (x) operating revenues. The city's three-year average ANPL is below the state median (3.8x) but more than double the national median at 1.6x.

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 and recently budgeted a $10.0 million contribution in fiscal 2018 and in fiscal 2019. Management has a goal of continuing funding at this level, which would result in fully funding its annual required contribution in three to four years. As of March 3, 2018, the city had deposited a total of $15.7 million into its OPEB Trust.

Fixed costs for the city, which include pension contributions, OPEB contribution, and total debt service are above-average at 25.3% of operating revenues when compared to the median for CA cities at 19.5% of revenues.

Management and Governance

California cities have an Institutional Framework score of A, which is moderate compared to the nation. Institutional Framework scores measure a sector's legal ability to increase revenues and decrease expenditures. California cities' major revenue sources can only be raised with voter approval, or, in the case of ad valorem property taxes, cannot be raised except to meet GO bond payments. Ad valorem property tax rates cannot be increased above 1% except to meet GO bond payments, and assessed valuation growth is also generally limited to 2% annually unless a property changes ownership. Unpredictable revenue fluctuations tend to be moderate, or between 5-10% annually. Across the sector, fixed and mandated costs are generally less than 25% of expenditures. However, California has strong public sector unions, which can limit the ability to cut expenditures. Unpredictable expenditure fluctuations tend to be moderate, between 5-10% annually.

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