S&P Global
Ratings

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Summary:

Oakland, California; Appropriations; General Obligation

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Credit Profile		
Oakland GO		
Long Term Rating	AA-/Negative	Downgraded
Oakland taxable POB		
Long Term Rating	AA-/Negative	Downgraded
Oakland GO (BAM)		
Unenhanced Rating	AA-(SPUR)/Negative	Downgraded
Oakland Joint Power Financing Authority, California		
Oakland, California		
Oakland Jt Pwrs Fing Auth (Oakland) lse rev rfdg bnds		
Long Term Rating	A+/Negative	Downgraded

Credit Highlights

- S&P Global Ratings lowered its rating two notches on the City of Oakland, Calif.'s pension obligation bonds (POBs) and general obligation (GO) debt outstanding to 'AA-' from 'AA+' and removed the rating from CreditWatch, where it had been placed with negative implications Nov. 20, 2024.
- At the same time, S&P Global Ratings lowered its rating two notches on the city's appropriation obligations outstanding to 'A+' from 'AA' and removed it from CreditWatch negative. The outlook is negative.
- The downgrade reflects our view that the city's 2025 budget estimates a sizable structural imbalance that we expect will also make balancing the budget in 2026 and outyears more challenging. The rating action and outlook also reflect our opinion that, while city leadership has taken actions to bridge the fiscal 2025 budgetary gap, we are uncertain as to the extent of savings these actions will realized this fiscal year, combined with forecasts of continued structural imbalance for the outyears.

Security

Revenue from unlimited ad valorem taxes levied on taxable property within Oakland secures the city's GO bonds. Oakland's POBs are payable from any legally available revenue of the city and are rated on par with its GO obligations given a lack of legal limitations on fungibility of resources within the organization. Oakland's appropriation obligations are secured by, or represent an interest in, lease-rental payments by the city, as lessee. We rate these obligations one notch lower than the city's general creditworthiness (as reflected in our GO rating) to account for the appropriation risk associated with lease payments.

Credit overview

The rating reflects our view of Oakland's significant structural budgetary imbalance for fiscal 2025 largely driven by public safety overspending, the city's recent deficit in fiscal 2024, and forecast structural imbalance through fiscal 2028.

Although city leadership has taken action to bridge the budget gap in the current year, in our view, the extent of the fiscal impact such actions will have is either uncertain or one-time in nature, particularly given the limited flexibility Oakland has to cut public safety expenditures both for fire and police. In addition, the negative outlook reflects our view that the city might continue to face large outyear budget gaps absent structural budgetary adjustments.

Oakland demonstrated a pattern of positive operating performance for 10 years through fiscal 2024. However, we believe the city's receipt of federal stimulus funds, totaling $188 million, helped cushion fiscal distress between fiscal years 2021 and 2023; Oakland allocated all funds toward revenue replacement and all funds were used before the end of fiscal 2023. Given the expiration of stimulus funding, the city has subsequently experienced pronounced budgetary pressure, most notably spurred by the Oakland Police Department's overspending, which totaled $93 million in overtime costs in the current year. The city has taken measures to fully bridge the forecast $130 million budget gap in fiscal 2025; however, we believe such measures will fall short and note that 30% of the balancing measure is one-time in nature. In addition, Oakland's forecast identifies structural imbalance through fiscal 2028 that requires immediate corrective action.

The city's debt profile, while not what spurred the downgrade, contributes to what we view as limited financial flexibility, given that Oakland's debt and liabilities total about 28% of governmental funds revenue. The city approved an other postemployment benefits (OPEB) funding policy in 2018 that committed 2.5% of payroll (about $10 million per year) to an irrevocable trust to address its unfunded liabilities; contributions were suspended in fiscal years 2020 and 2021, but have since resumed and decreased the city's liability by about $240 million in total. Despite some improvement in the OPEB unfunded liability, the city's total unfunded liability was about $2.6 billion in 2024.

Key credit factors supporting the 'AA-' rating include the following:

- An imbalanced fiscal structure for fiscal 2025, and outyear deficits that are forecast to total $280 million (projected deficits of 17% in fiscal 2026 and 15% in fiscal 2027);
- Reserves and operating liquidity that we expect will remain at least adequate, as the city is applying restricted funds--rather than depleting assigned and unassigned fund balance--to bridge the structural deficit in the near term;
- Large debt and liabilities of almost 30% of total governmental funds revenue and per-capita net pension liabilities (NPLs) of $4,806, with an expectation that liabilities will continue to increase;
- A solid economic base that has experienced growth in the past decade and benefits from participation in the San Francisco-Oakland-Fremont metropolitan statistical area. Oakland is the county seat and most populous city in Alameda County where per-capita gross county product and personal income are consistently well above the U.S. level.
- Our management assessment that reflects the city's optimistic budgeting assumptions and some lack of internal controls, given the significant structural imbalance that Oakland faces, despite its comprehensive funding policy, five-year forecasting, and multiyear capital improvement plans.
- For more information on our institutional framework assessment for California municipalities, see "Institutional Framework Assessment: California Local Governments," published Sept. 9, 2024, on RatingsDirect.

Environmental, social, and governance

We view Oakland as having elevated exposure to acute physical risks, including wildfires, sea-level rise, and earthquakes. However, we believe California's strong building codes partially mitigate the environmental risk associated with seismic activity. In addition, Measured MM, approved by voters in November 2024, creates a 20-year dedicated funding source to address wildfire risk through vegetation management, enhanced fire patrols, and evacuation route protections, among other actions within the city's Wildfire Prevention Zone. The measure would also fund the implementation of a 10-year vegetation management plan and the special tax is estimated to yield $2.67 million in its first year for wildfire resilience efforts. However, proposed solutions for the fiscal 2025 budget gap include reductions to the city's firefighting budget, which could raise further physical risk. We view the city's social and governance factors as credit neutral.

Outlook

The negative outlook reflects our expectation that there is a one-in-three chance we could take an additional negative rating action should Oakland be unable to meaningfully bridge its anticipated structural deficit in the near term.

Downside scenario

We could lower the rating if Oakland is unable to implement structural budget adjustments that place it on a more sustainable trajectory, resulting in meaningful deterioration in the city's financial position. Evidence of such deterioration could include prolonged inaction or ineffectual policymaking to contain the structural budget deficit, significantly weaker reserves or liquidity, or outsized reliance on other one-time budget-balancing measures.

Upside scenario

We could revise the outlook to stable if Oakland were to sustainably reduce its structural budget gap such that it no longer deficit spends and demonstrates a track record of positive operating performance, while continuing to exhibit economic growth that is approximately in line with that of the nation.

Credit Opinion

Economic center within the San Francisco Bay Area region, with ongoing development and real estate demand

The city's tax base has expanded steadily in recent years, with assessed values continuing to grow; however, Oakland's downtown has yet to fully recover from the impact of the COVID-19 pandemic and the shift to hybrid and remote work models. In addition, the city's population and income metrics continue to improve and large development projects are in the works, which include high density transit-oriented developments and new master-planned neighborhoods.

Current-year structural imbalance driven by overspending, with structural imbalance projected over the next several fiscal years absent immediate corrective action

As of Oakland's first-quarter report in December 2024, the city was projecting a budget deficit for fiscal 2025 totaling $130 million (15% of revenue), largely caused by substantial overspending in public safety overtime costs from both the city's police and fire departments ($93 million, or 11% of the general-purpose fund revenue). The $130 million deficit was also driven by an unanticipated negative balance of $22 million from fiscal 2024, as well as $27 million in carryforward liability from that fiscal year. In addition, the city's original fiscal 2025 budget was balanced assuming an anticipated $63.1 million in proceeds from the sale of the Oakland Coliseum, which has been delayed and from which the city has received only $5 million to date.

On adopting its midcycle budget in July 2024, Oakland made service cuts and implemented a hiring freeze. In addition, it included contingency provisions in case the Coliseum sale proceeds were delayed or not received. As of December 2024, the city implemented a contingency budget, in addition to adding measures for the city council to take in an effort to fully close the large budgetary gap. Oakland's proposed measures to close the $130 million budget gap for this fiscal year are in two phases, with the first phase consisting of assumption changes ($11 million); expenditure controls, service cuts, and cost shifts ($65.6 million); and the transferring and unrestricting of funds ($38 million). The second phase consists of eliminating 92 full-time positions and browning out four fire engines ($15.9 million), though the city is considering feasible alternatives to the fire engine brownouts. City council and management are largely in agreement with these measures, which have been formally approved, and many implemented. However, we believe Oakland's expected budgetary savings from such actions is somewhat optimistic and, therefore, we estimate the actions council take will yield savings short of the city's goal, potentially leaving a significant budget gap for fiscal 2025. Our estimate assumes the city will face opposition to eliminate staff positions and that police overtime might not fully meet its anticipated budgetary savings of $25 million. We also caution that Oakland's budget balancing exercise for this fiscal year relies largely on a one-time $38 million transfer of funds.

Furthermore, Oakland's multiyear forecast is estimating growing budget deficits through fiscal 2028, assuming no corrective action, driven by moderated revenues and increasing expenditures, including wages and benefits, insurance claims, and fixed operational costs such as fuel and utilities. The estimated deficit for fiscal 2026 is $149 million, or an 18% deficit, and a $129 million deficit (14.7%) in fiscal 2027. By law, the city is required to pass a balanced budget, and it has already begun the planning process for the fiscal 2026-2028 biennial budget. We expect Oakland will need to pursue deep and permanent cost-cutting measures to meaningfully mitigate the estimated structural deficit.

Potential stop-gap measures on the revenue side are the sale of the Oakland Coliseum, for which the city expects to receive $110 million. In addition, the city is expecting to put a half-cent sales tax measure on the April 2025 ballot, which is estimated to yield about $21 million in the first year of collection if approved by voters; these revenues would not hit its books until fiscal 2027.

High debt and liabilities limit financial flexibility

Oakland's debt profile, while not a driver of the downgrade, contributes to what we view as limited financial flexibility, given the city's debt and liabilities total about 28% of its budget. Oakland's largest pension plan, the California Public Employees' Retirement System (CalPERS) miscellaneous plan, is 70% funded, with a 6.9% discount rate and a net pension liability of $977 million. Its second-largest plan, the CalPERS safety plan, is 63.8% funded, also with a 6.9% discount rate and net pension liability of $1 billion. The city approved an OPEB funding policy in 2018 that committed 2.5% of payroll (about $10 million per year) to an irrevocable trust to address its unfunded liabilities; contributions were suspended in fiscal years 2020 and 2021 but have since resumed, which in total have decreased Oakland's liability by about $240 million; the net OPEB liability totaled $632 million in fiscal 2024. Despite some improvement in the OPEB unfunded liability, the city's unfunded liability totals almost $2.6 billion. All figures include liabilities for city and port retiree plans.

Management

Our management assessment incorporates our opinion that Oakland's finances face exposure to optimistic budget assumptions as well as limitations in the city's internal controls, as evidenced by the substantial 2025 structural deficit. However, Oakland has formal policies and practices that we generally view as strong, including a comprehensive five-year forecast, a robust capital improvement plan that identifies funding and projects, and a fund balance policy that is two-pronged, establishing an emergency rainy-day fund requiring 7.5% of general-purpose fund appropriations as well as a vital services fund, funded with excess real estate transfer tax revenue. Oakland operates on biennial budgets and formally reviews budgets quarterly. The city is also experiencing turnover within its executive positions: its mayor was recently recalled and one of its long-standing council members was elected to another position. We are monitoring the extent to which this turnover affects Oakland's ability to enact prudent fiscal policy decisions.

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Oakland, California--credit summary	
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Table 2

Oakland, California--key credit metrics	Most recent	2024	2023	2022
Economy				
Real GCP per capita % of U.S.	140	--	--	140
County PCPI % of U.S.	148	--	--	148
Market value ($000s)	89,306,811	91,022,717	85,251,575	79,224,353
Market value per capita ($)	204,796	208,731	195,497	185,900
Top 10 taxpayers % of taxable value	4.2	4.1	2.1	3.6
County unemployment rate (%)	4.7	4.7	4.1	3.4
Local median household EBI % of U.S.	122	--	122	122
Local per capita EBI % of U.S.	128	--	128	139
Local population	436,077	--	436,077	426,166
Financial performance				
Operating fund revenues ($000s)	--	975,499	967,768	926,596
Operating fund expenditures ($000s)	--	927,318	808,968	690,654
Net transfers and other adjustments ($000s)	--	(78,479)	(100,744)	(85,997)
Operating result ($000s)	--	(30,298)	58,056	149,945
Operating result % of revenues	--	(3.1)	6.0	16.2
Operating result three-year average %	--	6.4	9.6	6.7

Table 2

Oakland, California--key credit metrics (cont.)	Most recent	2024	2023	2022
Reserves and liquidity				
Available reserves % of operating revenues	--	16.1	26.3	27.9
Available reserves ($000s)	--	157,263	254,272	258,286
Debt and liabilities				
Debt service cost % of revenues	--	7.0	9.3	8.2
Net direct debt per capita ($)	2,495	2,495	2,357	2,658
Net direct debt ($000s)	1,087,954	1,087,954	1,027,807	1,132,586
Direct debt 10-year amortization (%)	45	48	--	--
Pension and OPEB cost % of revenues	--	21.0	19.0	19.0
NPLs per capita ($)	--	4,806	4,806	4,861
Combined NPLs ($000s)	--	2,095,797	2,095,797	2,071,495

Financial data may reflect analytical adjustments and are sourced from issuer audit reports or other annual disclosures. Economic data is generally sourced from S&P Global Market Intelligence, the Bureau of Labor Statistics, Claritas, and issuer audits and other disclosures. GCP--Gross county product. PCPI--Per capita personal income. EBI--Effective buying income. OPEB--Other postemployment benefits. NPLs--Net pension liabilities.

Related Research

U.S. Local Governments 2025 Outlook: A Stable Start To The Year While Prospects Look Precarious, Jan. 8, 2025

Ratings Detail (As Of February 19, 2025)		
Oakland GO GO (BAM) (SECMKT)		
Unenhanced Rating	AA-(SPUR)/Negative	Downgraded
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Many issues are enhanced by bond insurance.