

# RatingsDirect®

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**Summary:**

## Oakland, California; Appropriations; General Obligation

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### Credit Profile

Oakland GO

*Long Term Rating*

AA+/Watch Neg

On CreditWatch Negative

## Credit Highlights

- S&P Global Ratings placed its various ratings on Oakland, Calif.'s outstanding general obligation (GO) bonds, non-ad valorem bonds, and lease revenue bonds on CreditWatch with negative implications.
- The CreditWatch placement reflects our view that there is at least a one-in-two chance of a lower rating, potentially by multiple notches, in the next 90 days, given the material and rapid deterioration in the city's financial position, largely driven by overspending, as well as what we view as potential governance weaknesses that could complicate fiscal decision-making under challenging circumstances.

## Security

Revenue from unlimited ad valorem taxes levied on taxable property within the city secures the city's GO bonds. The city's non-ad valorem obligations, which were issued for funding its pension liabilities, are payable from any legally available revenue of the city and are rated on par with the city's 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 CreditWatch action follows the city's recently published fiscal year 2025 first-quarter (Q1) report, dated Nov. 15, 2024, which revealed significant estimated deviations from the city's adjusted 2025 general purpose fund budget, as well as preliminary net results for fiscal year-end 2024. The city is estimating revenues, inclusive of the use of encumbered carryforwards from the prior year, will be in line with its adjusted budget but that expenditures will come in \$93 million above the adjusted budget. This would result in a negative net result equivalent to 12% of general purpose fund revenues and a fiscal 2025 ending balance equivalent of negative 15% of revenues (negative \$114.9 million). (The city's general purpose fund substantially overlaps with but is not equivalent to its general fund as reported in its annual financial reports.)

The city indicates that substantial overspending is largely driven by ballooning public safety costs from overtime from both the city's police and fire departments. The city's adjusted budget excluded an anticipated substantial \$63.1 million in proceeds from the sale of the Oakland Coliseum, from which the city has received \$5 million to date, but were assumed at the time of the original fiscal 2025 budget adoption. We believe that the city will be challenged to make

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mid-year budget adjustments that set it on a course of fiscal sustainability, and that there is elevated potential for political gridlock and turnover in key management positions following the yet-to-be certified recall of the city's mayor and that this environment is likely to complicate decision-making around budget solutions that could play a role in avoiding credit deterioration.

### CreditWatch

The CreditWatch placement reflects a greater than one in two chance that we could lower the ratings within the next 90 days, with a key consideration the degree to which we consider any actions taken by city council and management as likely to be effective in addressing the current and projected budget gap, as well as our view of any ongoing governance or management challenges the city may face in restoring its path to fiscal balance. While the CreditWatch period extends for 90 days, we expect to complete a review of our ratings as soon as we deem sufficient information to be available to resolve the CreditWatch.

#### Ratings Detail (As Of November 20, 2024)

Oakland taxable POB		
<i>Long Term Rating</i>	AA+/Watch Neg	On CreditWatch Negative
Oakland GO GO (BAM) (SECMKT)		
<i>Unenhanced Rating</i>	AA+(SPUR)/Watch Neg	On CreditWatch Negative
Oakland GO (BAM)		
<i>Unenhanced Rating</i>	AA+(SPUR)/Watch Neg	On CreditWatch Negative
Oakland GO (BAM) (SECMKT)		
<i>Unenhanced Rating</i>	AA+(SPUR)/Watch Neg	On CreditWatch Negative
<b>Oakland Joint Power Financing Authority, California</b>		
Oakland, California		
Oakland Jt Pwrs Fing Auth (Oakland) lse rev rfdg bnds		
<i>Long Term Rating</i>	AA/Watch Neg	On CreditWatch Negative

Many issues are enhanced by bond insurance.

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at [www.spglobal.com/ratings](http://www.spglobal.com/ratings) for further information. Complete ratings information is available to RatingsDirect subscribers at [www.capitaliq.com](http://www.capitaliq.com). All ratings affected by this rating action can be found on S&P Global Ratings' public website at [www.spglobal.com/ratings](http://www.spglobal.com/ratings).

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