New Issue: Oakland (City of) CA

MOODY'S ASSIGNS A1 RATING TO CITY OF OAKLAND (CA) GO BONDS SERIES 2006 MEASURE G; OUTSTANDING A1 AFFIRMED

APPROXIMATELY $247.0 MILLION IN DEBT AFFECTED, INCLUDING CURRENT OFFERING

Municipality
CA

Moody's Rating

ISSUE	RATING
General Obligation Bonds, Series 2006, Measure G	A1

Sale Amount	$21,000,000
Expected Sale Date	06/09/06
Rating Description	General Obligation Bonds

Opinion

NEW YORK, Jun 7, 2006 -- Moody's has assigned an A1 rating to the City of Oakland's $21 million General Obligation Bonds (Series 2006, Measure G) and affirmed the A1 rating on the city's outstanding parity debt. The rating primarily reflects the city's continued property tax base growth, an above average debt burden, and the relative diversity and strength of the Oakland-area economy compared to the rest of the Bay Area. The rating also reflects the city's maintenance of its comparatively modest reserve fund. Proceeds of the current offering will primarily be used to fund construction and improvements to recreational facilities and amenities at the Oakland Children's Zoo. These voter approved bonds are a general obligation of the city secured by its unlimited property tax pledge.

STRONG RESIDENTIAL PROPERTY MARKET CONTINUES TO BOLSTER THE CITY'S FINANCES; SIGNIFICANT NEW RESIDENTIAL AND COMMERCIAL DEVELOPMENT ANTICIPATED

The city's assessed valuation grew 9.6% in fiscal 2006, continuing a five-year growth cycle that averaged 8.9% annually. The strong real estate market has led to very strong property tax receipts and real estate transfer tax revenues which again exceeded budgeted levels by a combined 15%, offsetting other areas of slower revenue growth and increases in general expenditure. Areas of typical revenue weakness related to business economic cycle sensitivity (e.g. sales taxes, business license taxes) also exhibited overall improvements as the Oakland area economy continues to grow. Evidence of the expansion is supported by the fact that the property taxes, the city's largest source of revenues represent only 23% of its revenue base. In contrast from other Bay Area cities, the economic downturn of 2000 and 2001 was slightly less severe in Oakland. As a result, the economic recovery provided the city with an opportunity to undertake several public redevelopment projects which in turn spurred private developer interest and new investment; resulting in numerous projects being at various phases of construction. In the longer-term, the Oakland metro area may become one of the healthiest of the Bay Area cities on certain indices. Evidence of the commercial expansion is found in the opening of a Super Wal-mart Center, a Home Depot and plans to open a Whole Foods Grocery store are well underway as well as other commercial and retail development activities.

Housing development continues, with more than 4,000 additional units currently under construction. Other proposed developments include a $700 million expansion at the Oakland Airport and the $200 million BART Oakland Airport extension. Moody's believes that this level of activity should provide a sound anchor for long-term growth and based on the median home prices of these new units, modest improvements in the Cities overall socio-economic profile may begin to take shape. If the latter should occur, the city will benefit in terms of sales tax revenue growth as the number of households with greater amounts of disposable income increases albeit incrementally. However, based on the 2000 census figures, the city's median family and per capita income statistics are slightly below the state median at 83.7% and 96.6% respectively of the state average. Moreover, the city's median family income of $44,384 is only 62.4% of the median for similarly rated California cities.

RESERVE FUND TARGET MAINTAINED; INCREASED REVENUES PROVIDE SOME EXPENDITURE FLEXIBILITY

The city ended fiscal 2005 with a general fund balance totaling approximately 12.1% of revenues. At present, city officials project a surplus of approximately $8.5 million in fiscal 2006, of this amount approximately $5.3 million will be used for one-time expenditures, with the remainder falling to its general fund balance, thus ensuring that the city will again exceed its 7.5% general fund reserve target. While considerably less than a typical California city's reserve level, this reserve is notably better than the city's historical reserve position in the early 1990s, and Oakland expects to over time increase this reserve as revenue growth, expenditure pressures and economic conditions permit. The 7.5% reserve was incorporated into the city's adopted two-year (FYs 2003-05) budget.

Moody's believes that the city's fiscal 2007 budget appears reasonably conservative, as it does assume continued economic growth and modest revenue growth (of only 1.2%). The city has proven over the past three years that it can and will make timely mid-year budget adjustments, which is positively factored into our analysis. This is particularly important as the city continues to be challenged by rising labor costs, particularly post employment and pension benefits which are expected increase in the next few years as a result of rate increases and employee retirements. Approximately 60% of the city's general fund expenditures are for fire and police services. The City's relatively long, multi-year labor contracts are in place for the city's major, full-time employee unions.

ABOVE AVERAGE DEBT BURDEN REMAINS YET MANAGEABLE AND OFFSET SOMEWHAT BY THE NATURE OF THE DEBT

Even with recent strong assessed valuation growth, the city's overall debt burden (6.0% as of June 2006) remains quite high, in part due to the overlapping school district and community college districts' continued substantial issuance. The city's direct debt burden is also well above average at 3.5%. However, Moody's notes that the city's rate of direct debt retirement is favorable with approximately 46% of principal amortized in ten years. In additional credit positive is that a substantial portion of the city's direct debt is self-supporting. Also notable, is that more than half of the city's net direct debt is accounted for by voter-approved, property-tax supported pension obligation bonds. Oakland's property tax delinquency rate remains modest, averaging between five and six percent annually on a current collection basis.

KEY STATISTICS

2005 population: 412,300

Fiscal 2005:

Total general fund balance as % of revenues: 12.1% [1]

Unreserved general fund balance as % of revenue: 9.7% [1]

Net direct debt as % of A.V.: 3.5%

2006 Assessed value: $32.6 billion

Average annual assessed valuation growth, FYs 2001-2006: 8.9%

Assessed value per capita, FY 2005: $79,126

2000 Census,

Median family income: $44,384 (83.7% of the state)

Per capita income: $21,936 (96.6% of the state)

City unemployment rate, March 2006: 7.0%

[1] Audit basis: The City's total general fund balance includes up front cash and balances from restricted funds. In this report, Moody's total fund balance calculation is based solely on our conservative estimate of unrestricted cash balances that have not been pledged to prepay other obligations or future liabilities.

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