MOODY'S
INVESTORS SERVICE

# New Issue: Moody's upgrades Oakland-Alameda County (CA) Lease Revenue Bonds to Aa3

Global Credit Research - 06 Apr 2015

**$186.2M debt affected, including the current refunding**

OAKLAND-ALAMEDA COUNTY COLISEUM AUTHORITY, CA
Cities (including Towns, Villages and Townships)
CA

**Moody's Rating**

| ISSUE | | RATING |
|---|---|---|
| Lease Revenue Bonds (Oakland Coliseum Arena Project) 2015 Refunding Series A (Federally Taxable) | | Aa3 |
| **Sale Amount** | $79,700,000 | |
| **Expected Sale Date** | 04/16/15 | |
| **Rating Description** | Lease Rental: Abatement | |

**Moody's Outlook** STA

NEW YORK, April 06, 2015 --Moody's Investors Service has assigned an Aa3 rating to the Oakland-Alameda County Coliseum Authority's (CA) Lease Revenue Bonds (Oakland Coliseum Arena Project) 2015 Refunding Series A (Federally Taxable) totaling approximately $79.7 million. We have also upgraded to Aa3 from A1 the rating to the authority's 2012 Refunding Series A Lease Revenue bonds totaling approximately $106.5 million.

SUMMARY RATING RATIONALE

The upgrade to Aa3 from A1 of the authority's lease revenue bonds reflects the underlying credit strength of both the County of Alameda and the City of Oakland, which are the obligors for the security, and the sustained credit improvement of the County of Alameda since the last review. The county maintains an exceptionally strong financial position with one of the highest reserve positions among the largest and most highly-rated counties in the state. The county has also undergone steady economic recovery, which we expect will continue.

Alameda County's Aa1 Issuer Rating and Aa3 lease rating reflect the county's large, growing, and diverse economy; exceptionally strong financial operations with ample reserves; and slightly above-average debt position that remains manageable for the general fund.

Oakland City's Aa2 general obligation rating and A1 lease rating are supported by the city's very large Bay Area economy that is successfully emerging from the economic downturn; improving financial position that remains constrained by increased demand for city services and rising pension and medical costs; and above-average net direct burden and elevated lease burden on the general fund.

The two-notch rating distinction between the current lease rating and the County's Issuer Rating represents Moody's standard notching for essential purpose, fixed-asset leases relative to a California issuer's general obligation rating (equivalent to an Issuer Rating). The two notches reflect the risk of abatement (and the lack of seismic insurance coverage) and the narrower, general fund security pledge for leases compared to the unlimited property tax pledge security general obligation bonds. While the Arena does not meet the typical definition of essentiality, this weakness is offset by the high credit quality of the obligors.

The authority's lease rating is only one-notch lower than Oakland City's general obligation rating, but this is consistent with the strong-link component of our pool methodology. The strong-link element of our pool methodology allows for the rating to be based on the highest rated entity, if we determine that the strongest link (Alameda County) could absorb all of the outstanding debt financing with only a minimal impact on its credit position. The authority's lease revenue bonds benefit from strong step-up provisions that require the county or the city to make up any deficiency should the other party fail to pay its half of the base rental payments.

## OUTLOOK

There is no outlook associated with the authority's outstanding lease revenue bonds. Outlooks are usually not assigned to local government credits with this amount of debt outstanding.

## WHAT COULD MAKE THE RATING GO UP

- Improvement to the credit quality of the county and the city

## WHAT COULD MAKE THE RATING GO DOWN

- Deterioration of the county or city's credit quality

## STRENGTHS

- Strong credit quality of the County of Alameda and the City of Oakland

- Modest lease burden

- Strong step-up provisions for lease payments

- Current refunding will result in a fixed-rate debt portfolio for the authority

## CHALLENGES

- Upcoming budgetary challenges for the City of Oakland

- Planned relocation of the Warriors could potentially undermine public support for lease payments

## RECENT DEVELOPMENTS

Recent developments are incorporated in the Detailed Rating Rationale.

## DETAILED RATING RATIONALE

### ECONOMY AND TAX BASE

The County of Alameda benefits from a healthy economy that continues to expand. The county continues to undergo population and employment growth. Supporting the county economy are high-income sectors, such as technology, research, and digital arts. The county's assessed value (AV) reached a new high of $222.2 billion in fiscal 2015, representing the fourth consecutive year of AV growth since the economic downturn. There is very low concentration of the county's largest taxpayers at 2.7% of total 2015 AV. The county's unemployment rate continues to trend downward and fell to 5.0% in December 2014. Socioeconomic indicators for the county are also strong with median family income at 135.0% of the US.

The City of Oakland also benefits from a strong local economy that is currently undergoing strong growth fueled by increased building permits, increase in taxable sales, and rising residential home values. The city's AV increased by 5.8% in fiscal 2015 to $47.7 billion, its highest AV ever. The city has low taxpayer concentration at 3.4% of total fiscal 2015 AV. The city's unemployment rate continues to trend downward at 7.8% as of December 2014, though remains higher than the state (6.7%) and nation (5.4%) for the same period. Resident wealth levels are slightly lower than national averages with median family income at 90.4% of the US.

### FINANCIAL OPERATIONS AND RESERVES

The County of Alameda maintains robust reserves and management has a proven history of adjusting its budget to maintain strong reserves, which practice we expect will continue. Despite the fiscal challenges of the recent recession, the county continued to increase reserves. In fiscal 2011, the county increased its fund balance policy to appropriate 5% of the general fund budget to a designated account and maintain a fund balance of at least 15% in this account. The county had an available fund balance of $991.0 million (45.6% of revenues) in fiscal 2014, which we expect will be stable in the fiscal 2015 audited results. In addition to the county's general fund reserve, the county maintains a reserve of $325.8 million in its Emerald Fund. The deposit for this fund derived from the sale of land assets, and interest earnings on the fund are used for capital projects.

Supporting the county's financial operations are local sales taxes used to finance healthcare expenditures (Measure AA approved in June 2014) and transportation expenditures (Measure BB approved in November 2014, which extended and increased the tax).

The City of Oakland continues to face budgetary challenges, but positively, maintains stable financial reserves and increased revenues that will likely continue in the near-term. The city's economically sensitive revenues continue to increase, with strong growth in fiscal 2015 in the city's property tax, sales tax, business license tax, and transient occupancy tax revenues. The city will likely have an $8.0 million operating surplus by fiscal 2015 yearend, which is largely attributable to strong revenue growth. The city had an available fund balance of $97.4 million (16.8% of revenues) in fiscal 2014, which should be stable in the fiscal 2015 audited figures. The city still faces budgetary challenges, including rising pension and medical costs, upcoming collective bargaining agreements, and increased demand for city services. We feel the city's positive economic trend will provide some revenue growth to address these challenges while management maintains stable reserves in the near-term.

Liquidity

The County of Alameda maintains solid general fund liquidity. General fund cash was $976.3 million (44.9% of revenues) at yearend fiscal 2014.

The City of Oakland maintains ample general fund liquidity. General fund cash was $270.9 million (46.8% of revenues) at the end of fiscal 2014.

DEBT AND PENSIONS

Alameda County has a low net direct debt burden that will likely remain low in the long-term with no new debt issuances planned. The county has $20.6 million in Certificates of Participation outstanding and $759.7 million in Lease Revenue Bonds outstanding, which are supported by the county's general fund. Also supported by the county's general fund are $253.3 million of Pension Obligation Bonds and $98.6 million of the authority's debt attributed to the county. The county has a low 0.5% net direct debt burden and an above-average lease burden of approximately 7.0% of general fund expenditures. Important in the current rating and the rating upgrade is the fact that should the county be independently required to make all debt service payments on the authority's lease revenue bonds, the county's lease burden would only increase by 1.1% of 2014 expenditures.

Oakland City has an above-average net direct debt burden for a California city that should remain stable. The city maintains $219.7 million of general obligation bonds supported by an unlimited property tax pledge. Debt supported by the city's general fund include the city's $110.0 million Lease Obligations and $89.3 million authority debt attributed to the city. The city's $330.4 million Pension Obligation Bonds are supported by a property tax override. The city has an elevated 2.0% of AV net direct debt burden and an above-average 6.0% lease burden as a percentage of general fund expenditures.

Debt Structure

After the current refunding, both the county and the city will have only fixed-rate obligations outstanding, which is a credit positive for both issuers.

Debt-Related Derivatives

The county has no 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 -$9.7 million as of June 30, 2014, 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 Alameda County are stable and will not likely be a budgetary burden.

Moody's adjusted net pension liability (ANPL) for the county, under our methodology for adjusting reported pension data, is $5.9 billion, or an average 2.2 times operating revenues. Moody's ANPL reflects certain adjustments we make to improve comparability of reported pension liabilities. The adjustments are not intended to replace the district's reported liability information, but to improve comparability with other rated entities. The county has made 100% of its annual required contribution in all years and maintains a funded ratio of 75.9%, though still maintains a somewhat high $1.3 billion portion of the unfunded liability.

Pension-driven budgetary pressures for Oakland City could prove to be a budgetary burden.

Moody's adjusted net pension liability (ANPL) for the city, under our methodology for adjusting reported pension data, is $3.2 billion, or an above-average 4.4 times operating revenues. Rate increases will increase the funded ratio to 75% for each the city's PERS plans, which are currently at 67.9% for the Safety Plan and 69.5% for the Miscellaneous Plan. The city also maintains PFRS plan, which should be fully funded by 2026. The city issued its Pension Obligation Bonds to prepay PFRS contributions in July 2012 and reduced the unfunded liability by $210.0 million.

Alameda County has a relatively low unfunded OPEB liability of $106.9 million and a high 85.2% funded ratio. The county made an OPEB contribution of $53.5 million (2.4% of 2014 revenues) in fiscal 2014, which was 198.6% of the annual OPEB cost.

Oakland City has a large unfunded OPEB liability of $463.8 million, and is currently making approximately half of its annual required contribution of $40.5 million (6.7% of 2014 revenues).

MANAGEMENT AND GOVERNANCE

California counties have an institutional framework score of "A" or moderate. Revenues consist primarily of a mix of state aid, property and sale, and use taxes. Property taxes are fairly predictable, given the state's constitutional formula, known as "Prop. 13". State and federal revenues are more variable. Counties' ability to raise revenues is very limited. Most county expenditures are state and federal mandates, which are funded with state and federal revenues. Counties have shown their ability and willingness to reduce expenditures during years when the state reduces revenues.

California cities have an institutional framework score of "A" or moderate. Primary sources of unrestricted revenues come from property tax, sales tax, and utility users tax. Service charges and state aid make up significant sources of city revenues as well, however are usually restricted to specific purposes. Property taxes are fairly predictable, given the state's constitutional formula, known as "Prop. 13", while sales taxes are extremely sensitive, either to the local economy or the state's financial position. Expenditure flexibility is similarly limited, although somewhat less so than revenues. For full service cities police and fire expenditures makeup nearly 2/3 of discretionary spending and California cities operate in an environment with collective bargaining and pressures associated with growing pension and OEPB burdens.

KEY STATISTICS

County of Alameda

- Assessed Value, Fiscal 2015: $222.2 billion

- Assessed Value Per Capita, Fiscal 2015: $141,238

- Median Family Income as % of US Median: 135.0%

- Fund Balance as % of Revenues, Fiscal 2014: 45.6%

- 5-Year Dollar Change in Fund Balance as % of Revenues: 16.6%

- Cash Balance as % of Revenues, Fiscal 2014: 44.9%

- 5-Year dollar Change in Cash Balance as % of Revenues: 12.0%

- Institutional Framework: A

- 5-Year Average Operating Revenues/Operating Expenditures: 1.03x

- Net Direct Debt as % of Assessed Value: 0.46%

- Net Direct Debt / Operating Revenues: 0.5x

- 3-Year Average ANPL as % of Assessed Value: 2.2%

- 3-Year Average ANPL / Operating Revenues: 2.2x

City of Oakland

- Assessed Value, Fiscal 2015: $47.7 billion

- Assessed Value Per Capita, Fiscal 2015: $117,907

- Median Family Income as % of US Median: 92.1%

- Fund Balance as % of Revenues, Fiscal 2014: 16.8%

- 5-Year Dollar Change in Fund Balance as % of Revenues: -3.83%

- Cash Balance as % of Revenues, Fiscal 2014: 46.8%

- 5-Year dollar Change in Cash Balance as % of Revenues: 4.95%

- Institutional Framework: A

- 5-Year Average Operating Revenues/Operating Expenditures: 0.99x

- Net Direct Debt as % of Assessed Value: 1.85%

- Net Direct Debt / Operating Revenues: 1.5x

- 3-Year Average ANPL as % of Assessed Value: 5.48%

- 3-Year Average ANPL / Operating Revenues: 4.4x

OBLIGOR PROFILE

The County of Alameda was established on March 25, 1853. Located on the east side of the San Francisco Bay, the county extends from the cities of Albany and Berkeley in the north to the city of Fremont in the south. The county covers 813 square miles and contains 14 incorporated cities. The county is the seventh most populous county in the state, with a population of 1,573,254 as of January 1, 2014. The county seat is located in the City of Oakland.

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.

LEGAL SECURITY

The bonds are limited obligations of the authority payable solely from revenues of the authority, consisting primarily of base rental payments made by Alameda County and Oakland City under a Master Lease dated June 1, 1996. The county and the city have agreed to lease the Arena from the Authority. The base rental payments are payable jointly and severally by the county and the city from their respective general funds. The base rental payments are divided equally between the county and the city and are calculated to be sufficient to pay principal and interest on the bonds.

The current issuance benefits from step-up provisions which requires that the county or the city to make up any deficiency should the other party fail to pay its half of the base rental payments. The leased property is the Arena, including an 8 acre arena parcel that excludes the Coliseum Facility and the parking lot. The leased property can be substituted for another property of equal value. The bonds benefit from hazard insurance and rental interruption insurance. One weakness in the structure of the bonds is a relatively small debt service reserve fund, which is cash funded, though sized to the maximum annual interest payment on the 2015 bonds of approximately $2.1 million.

The debt service schedule for the current refunding will require each entity to contribute approximately $4-5 million (less than 1% of 2014 revenues for each entity) in annual base rental payment through maturity of the bonds on

June 30, 2026. Under current practice, payment of debt service for the bonds benefits from $7.4 million from the Warriors derived from premium seating revenues. The county and city have made combined payments to the authority for the Arena anywhere from $3.3 million to $825,000 annually for the last five fiscal years.

The Warriors are under a license agreement that matures at the end of the 2016-17 NBA season, with 5-year renewal options available after that. Under the current license agreement, the authority receives $1.5 million in annual rents, 5% facility fee on the ticket price of all ticket sales, 1/3 of all food and beverage commissions, and up to $7.4 million from premium seating revenues.

The Warriors announced intentions to move to a new facility commencing in the 2018-19 NBA season. It is likely the Warriors could remain in the Arena for one more year after its license agreement ends.

After the Warriors relocate, the authority will continue to pursue sporting and entertainment events for the Arena. Relocation of the Warriors does not create abatement under the Master Lease. The county and city are required to make lease payments regardless of Arena usage and both entities intend to continue debt service payments through maturity of the bonds.

The county and the city are also liable for debt service payments related to the Coliseum should either the Oakland A's or the Oakland Raiders relocate to other venues. Coliseum revenues have not been sufficient to meet expenses without contributions from the county and the city. Combined contributions to Coliseum operations from both the county and the city have been more than $16.0 million annually. Alameda County contributed $9.9 million to the Coliseum complex in fiscal 2014 to fund its share of operating deficits and debt service payments of the Coliseum. Favorably, the county also maintains a reserve of $53.2 million in a separate fund to fund any contingent liabilities for the Coliseum. The A's and Raiders each contribute $1 million to $1.5 million in annual rental payments to the Coliseum.

Neither the Oakland A's or the Oakland Raiders have any continuing financial obligation to the authority if they were to relocate. In July 2014, the Oakland A's signed a 10-year lease agreement with the Coliseum, with options to exit the agreement before the 10 years have expired. The agreement renewed the annual license fee of $1.5 million. The Oakland Raiders recently signed a one-year lease extension. Authority management feels that there could actually be savings to the county and the city if the Raiders were to relocate from the elimination of game-day operating expenses.

USE OF PROCEEDS

The current issuance will be used to refund all of the authority's outstanding variable-rate Lease Revenue Bonds, Series 1996 A-1 and A-2 to fixed-rate bonds.

PRINCIPAL METHODOLOGY

The principal methodology used in this rating was The Fundamentals of Credit Analysis for Lease-Backed Municipal Obligations published in December 2011. An additional methodology used in this rating was the Public Sector Pool Financings published in July 2012. Please see the Credit Policy page on www.moodys.com for a copy of these methodologies.

REGULATORY DISCLOSURES

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the rating action on the support provider and in relation to each particular rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

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**Analysts**

Christian Ward
Lead Analyst
Public Finance Group
Moody's Investors Service

Alexandra J. Cimmiyotti
Backup Analyst
Public Finance Group
Moody's Investors Service

Moses Kopmar
Additional Contact
Public Finance Group
Moody's Investors Service

**Contacts**

Journalists: (212) 553-0376
Research Clients: (212) 553-1653

Moody's Investors Service, Inc.
250 Greenwich Street
New York, NY 10007
USA