S&P Global
Ratings

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Summary:

Oakland, California; Appropriations; General Obligation

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Credit Profile		
US$68.4 mil GO bnds (measure U) (taxable) ser 2023A-2 due 07/15/2041		
Long Term Rating	AA+/Stable	New
US$52.58 mil GO bnds (measure KK) (tax-exempt) ser 2023D due 07/15/2053		
Long Term Rating	AA+/Stable	New
US$32.825 mil GO bnds (measure U) (tax-exempt) ser 2023A-1 due 07/15/2053		
Long Term Rating	AA+/Stable	New
Oakland GO		
Long Term Rating	AA+/Stable	Upgraded

Credit Highlights

- S&P Global Ratings raised its long-term rating and underlying rating (SPUR) to 'AA+' from 'AA' on Oakland, Calif.'s outstanding general obligation (GO) and non-ad valorem bonds.
- At the same time, S&P Global Ratings raised its rating to 'AA' from 'AA-' on the city's outstanding appropriation obligations.
- Finally, S&P Global Ratings assigned its 'AA+' long-term rating to the city's anticipated $52.5 million series 2023 D (Measure KK), $32.8 million series 2023 A-1 (Measure U), and $68.4 million series 2023 A-2 (Measure U) GO bonds.
- The outlook is stable.
- The raised ratings reflect our view of the city's strengthened reserves and positive operating results, which we anticipate will continue given its growing tax base and record of voter support for dedicated taxes and capital projects.

Security

Inclusive of the current transaction, the city will have about $1.2 billion in governmental debt, including tax-increment obligations associated with its successor agency. The city will use the proceeds of the series 2023 bonds for a variety of capital improvements, including public works, transportation, and affordable housing projects.

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

Despite budgetary challenges experienced during the pandemic, Oakland's financial profile has remained strong by strategically using one-time funds and managing expenditures. The city has also benefitted from healthy property tax growth, its primary operating revenue, which reflects an expanding tax base supported by continued housing demand and ongoing development projects. With the exception of transient occupancy tax (TOT) revenue, major revenue streams have largely recovered from pandemic-driven declines. The city received a total of $188 million in American Rescue Plan Act (ARPA) funds, which has been a key driver of recent surpluses as the city primarily used these funds to offset public safety spending and other general fund expenditures. As a result, the city was able to contribute $54 million to a new emergency reserve fund in fiscal 2022, boosting the total available general fund balance to 32% of operating expenditures.

The city's long-term forecast reflects expenditure growth outpacing revenue growth during the next five years, absent structural adjustments to address budget gaps. Its biennial budget addresses these forecasted shortfalls for fiscals 2024 and 2025 through cost reduction measures such as hiring freezes and consolidating departments. The city applies conservative assumptions for its long-term forecasts and has, in our view, effectively used these forecasts to identify sources of structural imbalance and to inform its biennial budgets, as evidenced by its track record of positive budget variance. We believe that controlling expenditure growth will remain an ongoing challenge for the city, considering its high fixed costs, significant infrastructure needs, and high public safety spending. In particular, we view the city's elevated debt metrics and large, unfunded pension and other postemployment benefit (OPEB) liabilities as limiting credit factors as they could pose budgetary challenges in the long-term if not adequately addressed. Our view of credit quality will depend on how successfully the city manages budgetary pressures, while maintaining healthy fund balances and utilizing reserves in adherence to its policies. We believe that its reserves provide ample budgetary flexibility and that tax base growth will remain supportive of its financial profile.

The ratings additionally reflect our view of the city's:

- Economic base in the center of the large and diverse San Francisco Bay Area, with substantial infrastructure assets including a container seaport, airport, and nodes of the region's freeway and commuter rail network;
- Track record of voter support for dedicated taxes and bond authorizations.
- Robust financial policies and practices that include detailed long-term financial planning, formal reserve policies, and detailed budget-to-actual updates presented to city council;
- Elevated carrying charges and high debt burden that we expect to remain elevated given its additional debt plans to finance its significant capital needs; and
- Large pension and OPEB liabilities and what are likely to be rising costs this decade, even with the advantage of a special ad valorem tax restricted to pension costs.

Environmental, social, and governance

We believe that physical risks are elevated relative to those of its peers, with a major earthquake fault running through the city, a history of wildfire within its boundaries, and an extensive shoreline exposing its infrastructure and economy to sea-level rise. To address these credit risks, Oakland is actively inventorying its climate hazards and implementing planning efforts to build resiliency. Social capital risk is also above average, in our view, with demographics that include a long-standing community of unhoused people and high housing costs. We expect the city will prioritize resources in the budget to support housing and homelessness services, including continuing to use debt proceeds to alleviate these issues to help ensure long-term economic viability. Lastly, we consider governance factors neutral though we note that the city was the target of a ransomware cyberattack in February 2022 that resulted in the exfiltration of certain city records and data. Although the attack did not result in a material financial impact, and recovery of its systems and network is complete, the city bolstered its risk management practices through security improvements and allocated funding for cybersecurity enhancements as part of its fiscal 2023-2025 biennial budget.

Outlook

The stable outlook reflects our expectation that the city will make structural adjustments as needed to maintain balanced operations and that healthy tax base trends will support ongoing revenue growth.

Downside scenario

We could lower the ratings if the city were to experience structural imbalance, particularly from fixed costs materially increasing or a significant weaking in revenue growth, resulting in sustained draws on reserves.

Upside scenario

We could raise the ratings if the city's economic metrics continue to strengthen in line with higher-rated peers and debt metrics moderate, while maintaining robust reserves and balanced operations.

Credit Opinion

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

The city's downtown has yet to fully recover from the impact of the COVID-19 pandemic and the shift to hybrid and remote work models. Data suggests that commercial office vacancy rates in the downtown core are high, though we understand the diversity of the city center has supported stronger recovery compared to some peers. The city's tax base trends remain healthy, with year-over-year growth in total AV averaging 7% during the past three years, supported by strong housing demand and ongoing development. Large development projects continue within the city, which include high density transit-oriented developments and new master-planned neighborhoods.

Strong institutionalized policies and practices, with formal forecasting and a two-prong reserve policy

Key highlights include its robust biennial budget process and long-term forecasts. The city maintains a five-year operating forecast that is integrated with the biennial budget process and includes an extensive analysis of assumptions and the implications of current decisions relative to city policies, which, in our view, has been an effective tool in maintaining its steady financial position. Other strengths include its two-prong reserve policy that addresses emergencies and a "vital services" rainy day reserve that is funded with excess revenue from economically volatile real estate transfer taxes. The city's two-year capital improvement plan (CIP), updated as part of its biennial budget process, has an extensive focus on addressing physical and social risk factors. The city lacks an annually updated comprehensive long-term capital plan despite its significant infrastructure needs, but as of July 2022 the city's updated debt policy includes a requirement for a 10-year capital plan, which the city is developing.

The institutional framework score for California municipalities required to submit a federal single audit is strong.

One-time funds and revenue spikes supported large surpluses, but structural adjustments will be key to maintaining positive results

Oakland's large $150 million (18%) surplus at fiscal 2022 year-end was driven by the use of $87 million in ARPA funds and a particularly strong year for real estate transfer tax revenue (RETT). Officials estimate another year of positive operations for fiscal 2023, during which the city used its remaining ARPA balance of $67 million. Though one-time funds have been drivers for the recent surpluses, expenditure reductions and costs savings from job vacancies have been meaningful to balancing operations. The fiscal 2024 budget includes expenditure reductions and structural adjustments to fill the forecasted $195.5 million budget gap. The city expects to draw on its vital services rainy day fund during the next few years, in accordance with its reserve policy, but we do not expect its overall available fund balance to deteriorate significantly.

Debt metrics are expected to remain elevated, given significant additional debt plans

The series 2023A-1 and 2023A-2 are the first tranche under the city's $850 million Measure U bond authorization. We understand the city will continue issuing debt and could consider another bond authorization to finance its significant capital needs. We expect carrying charges to remain elevated during the next few years, but we understand that debt service capacity is expected to significantly increase by fiscal 2026 due to the maturing of the city's outstanding pension obligation bonds and lease revenue bonds.

Significant pension and other postemployment benefit (OPEB) liability despite dedicated property tax

The city's pension plans' funded status will likely lead to accelerating costs in the medium term, but a dedicated property tax (unusual in the state) that also supports pension obligation payments, provides some budgetary relief. Although Oakland is not making full actuarially determined contributions (ADCs) toward its OPEB liability, we think the city's formal funding policy to contribute to a trust, which was suspended during the pandemic but resumed in fiscal 2023, will moderate long-term cost growth.

The city participated in the following plans funded as of fiscal year 2022:

- California Public Employees' Retirement System (CalPERS) agent multiple-employer plan for miscellaneous employees: $603 million in net liability, and 80% funded;
- CalPERS agent multiple-employer plan for safety employees: $631 million in net liability, and 74% funded;
- Single-employer Police and Fire Retirement System (PFRS) plan: $120 million in net liability, and 79% funded; and
- Single-employer OPEB plan: $617 million in net liability, and 6% funded.

The city's PFRS plan was closed to new members in 1976 and its contributions are structured to amortize the liability by fiscal 2026. Its approach to funding this liability has been unusual, with POBs issued in 1997, 2001, and 2012 and associated agreements enabling the city to forgo annual required contributions during most of the past two decades. Debt service on the POBs and annual contributions are fully funded by the dedicated property tax override. Should the plan's assets experience major investment losses after fiscal 2026, the city would need to make contributions from the general fund or other legally available sources.

Oakland, California--Key credit metrics				
	Most recent	**Historical information**		
		2022	**2021**	**2020**
Very strong economy				
Projected per capita EBI % of U.S.	127			
Market value per capita ($)	200,420			
Population		426,166	426,708	427,089
County unemployment rate(%)		3.3		
Market value ($000)	85,412,303	74,099,351		
Ten largest taxpayers % of taxable value	4.4			
Strong budgetary performance				
Operating fund result % of expenditures		18.8	7.1	(2.6)
Total governmental fund result % of expenditures		7.0	1.7	(0.5)
Very strong budgetary flexibility				
Available reserves % of operating expenditures		32.3	16.6	13.5
Total available reserves ($000)		258,286	138,980	117,441
Very strong liquidity				
Total government cash % of governmental fund expenditures		96	83	73
Total government cash % of governmental fund debt service		1089	940	734
Strong management				
Financial Management Assessment	Good			
Very weak debt & long-term liabilities				
Debt service % of governmental fund expenditures		8.8	8.8	9.9
Net direct debt % of governmental fund revenue	79			
Overall net debt % of market value	3.5			
Direct debt 10-year amortization (%)	49			
Required pension contribution % of governmental fund expenditures		16.6		
OPEB actual contribution % of governmental fund expenditures		3.9		
Strong institutional framework				

EBI--Effective buying income. OPEB--Other postemployment benefits. Data points and ratios may reflect analytical adjustments.

Related Research

Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022

Ratings Detail (As Of September 8, 2023)		
Oakland taxable POB		
Long Term Rating	AA+/Stable	Upgraded
Oakland GO GO (BAM) (SECMKT)		
Unenhanced Rating	AA+(SPUR)/Stable	Upgraded

Ratings Detail (As Of September 8, 2023) (cont.)		
Oakland GO (BAM)		
Unenhanced Rating	AA+(SPUR)/Stable	Upgraded
Oakland GO (BAM) (SECMKT)		
Unenhanced Rating	AA+(SPUR)/Stable	Upgraded
Oakland Joint Power Financing Authority, California		
Oakland, California		
Oakland Jt Pwrs Fing Auth (Oakland) lse rev rfdg bnds		
Long Term Rating	AA/Stable	Upgraded

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.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.