MOODY'S INVESTORS SERVICE

New Issue: Moody's Investors Service has assigned a MIG 1 rating to the City of Oakland's 2013-14 Tax and Revenue Anticipation Notes

Global Credit Research - 29 May 2013

Approximately $80 million in debt affected

OAKLAND (CITY OF) CA
Cities (including Towns, Villages and Townships)
CA

Moody's Rating

ISSUE		RATING
2013-14 Tax and Revenue Anticipation Notes		MIG 1
Sale Amount	$80,000,000	
Expected Sale Date	06/15/13	
Rating Description	Note: Tax and/or Revenue Anticipation	

Moody's Outlook

Opinion

NEW YORK, May 29, 2013 --Moody's Investors Service has assigned a MIG 1 rating to the City of Oakland's 2013-14 Tax and Revenue Anticipation Notes.

RATING RATIONALE

The rating reflects the city's solid level of current and projected general fund cash, healthy amount of alternate liquidity, somewhat higher than typical borrowing amount and late set aside timing for note repayment. The TRANs are secured by the city's pledge of unrestricted fiscal 2014 receipts.

STRENGTHS

-Solid level of current and projected general fund cash

-Healthy amount borrowable alternate liquidity

-History of outperforming budgeted cash results

CHALLENGES

-Higher than typical borrowing amount

-Late set aside timing

DETAILED CREDIT DISCUSSION

SATISFACTORY LEVEL OF CURRENT AND PROJECTED CASH

As it has in years past, the city's actual ending cash balance exceeded budgeted expectations, thereby positioning the city to maintain stable fiscal operations. The city's original projection anticipated a fiscal 2012 ending cash balance that would be 11.7% of total general fund receipts, an amount that would have been somewhat stronger than the amount typically maintained by a Moody's-rated California TRAN issuer. However, the actual cash balance was a very healthy 20.7% of total general fund receipts, the city's highest amount in several years. The results were driven by economically sensitive receipts that began to strengthen after several years of weakness during the recession.

The city's penchant for outperforming its cash projections continued in fiscal 2013. The city originally expected to close fiscal 2013 with a more modest but still satisfactory ending cash balance of 9.4% of total general fund receipts. Actual receipts are likely to be 17.4%, which is another very solid figure despite a small projected 2.8% ending cash deficit. This level of deficit is in-line with the amount of cash drawdown the city expected when it projected a 2.5% deficit. As it did last year, the city may not spend all of its budgeted monies in June and finish with a small cash surplus.

For fiscal 2014, the projected ending cash balance of 17.6% is again solid and includes a fairly conservative projection of receipts. The city forecasts that total receipts will fall by 2%, a cautious projection given the likelihood that the economy will continue to recover from the downturn. The fiscal 2014 cash flows are essentially balanced with only a very small $415,000 deficit. It is reasonable to expect that the city will again outperform its projections in fiscal 2013 and finish somewhat better than reflected in the cash flows. However, even if the cash decline is absorbed as shown in the cash flows, the resulting balance will still be appropriate for the rating level.

SOUND LEVEL OF ALTERNATE LIQUIDITY

The city's cash flows are supplemented by a sound level of alternate liquidity found across a range of funds. In fiscal 2013, these funds amounted to $81.8 million and are anticipated to remain stable in 2014 with a projected year-end amount of $80.9 million. These funds could be used as a source of note repayment and include money that can be utilized by the city without having to be repaid in the same fiscal year in which it was borrowed. If these funds are included, the city's total ending cash balance rises to a healthy 30.8% of total receipts. The largest source of alternate liquidity is approximately $41.9 million in the city's sewer service fund.

LATE SET ASIDE TIMIING AND SOMEWHAT HIGHER THAN TYPCIAL BORROWING AMOUNT

The city is setting aside 50% of its note repayment funds in March and May to result in a late dollar weighted-average set aside of 2 months prior to the fiscal year end. Such late set-asides have been a regular practice of the city and are a credit weakness relative to other California cities with set-asides that are generally 1 month sooner. As it has in years past, the city will be placing the note repayment funds with a third-party trustee.

As in previous years, the city's borrowing amount is 13% and somewhat higher than typical for a Moody's-rated TRAN issuer. This fact combined with the late timing for repayment set asides is a moderate credit weakness. However, this weakness is somewhat offset by the city's history and likelihood of producing satisfactory cash results and the availability of alternate liquidity that is approximately equal to the borrowing amount.

WHAT COULD CHANGE THE RATING UP

N/A

WHAT COULD CHANGE THE RATING DOWN

-Significant deterioration of cash position

KEY STATISTICS

Ending cash as a % of receipt, FY 2012: 20.7%

Projected ending cash as % of receipts, FY 2013: 17.4%

Projected ending cash as % of receipts, FY 2014: 17.6%

Alternate Liquidity, Projected FY 2014 as a % of receipts: 30.8%

Projected amount borrowed as % of receipts, FY 2014: 13%

RATING METHODOLOGY

The principal methodology used in this rating was Short-Term Cash Flow Notes published in April 2013. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

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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