

Fitch Rts Oakland, California \$75MM GOs 'A+' & \$76MM TRANS 'F1+'

Fitch Ratings?San Francisco-July 8, 2003: Fitch Ratings assigns Oakland, California's \$75,000,000 general obligation bonds, series 2003A, measure DD an 'A+' rating. The bonds are scheduled to sell competitively on July 23 and mature Jan. 15, 2004?2033. In addition, approximately \$76,000,000 2003-2004 tax and revenue anticipation notes are rated 'F1+'. The notes are scheduled to sell competitively on July 22 and mature July 2004. The 'A+' rating on approximately \$167.4 million outstanding general obligation bonds and the 'A' rating on approximately \$434.3 million outstanding pension obligation bonds is affirmed. The rating outlook on the city's long-term obligations is stable.

Oakland is the urban core of the San Francisco Bay Area's east bay and a major commercial and trade center. The city is California's eighth largest city, with over 400,000 residents. Like most other bay-area communities, the national and regional economic weakness has resulted in significant increases in unemployment levels. Meanwhile, Oakland's labor force continues to grow as impressive assessed value gains continue. Ongoing construction and strong building permit activity suggest that assessed value will likely continue to improve. Land, office space, and general cost of living remain below many nearby areas, attracting new businesses and residents. Oakland has an international airport and is home to one of the West Coast's busiest ports. Income levels remain below county, state, and national averages.

The Measure DD bond offering are voter-approved general obligations to support and improve park and recreation facilities within the city. Debt levels are excessive and continue to be a long-term credit concern. With the inclusion of taxable pension obligation bonds, overall debt is high at 8.6% of market value. Excluding the pension bonds, debt levels remain well above average. Principal amortization of long-term debt is slow.

The city recently approved a balanced fiscal 2004 and 2005 biennial budget. The new budget plan includes major restructuring of city departments, layoffs, limited service reductions, and significant hikes in city levied fines and penalties. The cost cutting measures and fee increases represent

a prudent effort to offset substantial increases in salary and benefit spending to maintain structural balance. The city expects fiscal 2003 general fund operations will maintain the fund balance at fiscal 2002 levels including maintenance of its 7.5% general fund balance goal. Balanced operations in fiscal 2003 were achieved through mid-year expenditure cuts including layoffs, reduced overtime, and employee furloughs. As a result, the city's financial position offers adequate cushion against near-term uncertainty with respect to the state's budget crisis.

To provide for cash flow needs, the city issues tax and revenue anticipation notes. The city anticipates a \$76 million sale for the fiscal 2004 notes, due on July 29, 2004. The city sold \$54.5 million in TRANS for the prior fiscal year 2003. Set-asides for the notes occur in May and June of the fiscal year. Coverage of the notes from unrestricted revenues during the fiscal year is a strong 7.7x; substantial borrowable resources also are available if needed.

Participation with Alameda County in the Oakland-Alameda County Coliseum Authority (the authority) continues to require city resources; both entities are jointly and severally liable for repayment of the authority's bonds. Ongoing litigation costs, the authority's inability to self-support its coliseum operations, and the ongoing coliseum debt service expenses remain substantial, though reduced from those of previous years. In particular, arena operations have improved and are expected in fiscal 2004 to cover the majority of operating and debt service costs.

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