

MOODY'S ASSIGNS MIG 1 TO CITY OF OAKLAND'S TRANSGlobal Credit

Research

New Issue

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New Issue: Oakland (City of) CA

MOODY'S ASSIGNS MIG 1 TO CITY OF OAKLAND'S TRANS

APPROXIMATELY \$142 MILLION IN DEBT AFFECTED

Municipality

CA

Moody's Rating ISSUERATING

Tax and Revenue Anticipation Notes, Series AMIG 1

Sale Amount\$65,000,000

Expected Sale Date06/30/07

Rating DescriptionTax and Revenue Anticipation Notes

Tax and Revenue Anticipation Notes, Series BMIG 1

Sale Amount\$77,000,000

Expected Sale Date 06/30/07

Rating Description Tax and Revenue Anticipation Notes

Opinion

NEW YORK, Jun 20, 2007 -- Moody's has assigned a MIG 1 rating to the City of Oakland's 2007-2008 Tax and Revenue Anticipation Notes (TRAN) Series A and B. The Series A TRAN is in the amount of \$65 million and the proceeds of the sale will be used to finance the city's anticipated mid-year cash flow needs. The \$77 million Series B TRAN is federally taxable and proceeds of the sale will be used to pre-pay the City's annual contribution to the California Public Employees Retirement System (CALPERS) for fiscal year 2007-08. The notes are general obligations of the City but are only payable from the City's 2007-08 unrestricted general fund receipts. A later than average TRAN repayment set-aside schedule is noted, however the City has pledged to set-aside money for the repayment of the notes in a trust. The MIG 1 rating is driven by the City's stable though narrowing cash flow position, reasonable cash flow assumptions, and manageable borrowing amount.

NARROWING GENERAL FUND CASH POSITION DOES NOT DETRACT FROM OVERALL LIQUIDITY

The City has a projected fiscal 2007 ending cash balance position of \$39.8 million or 7.3% of receipts, which Moody's considers to be satisfactory despite its significant decline from the 2006 ending cash balance of \$65.9 million or 11.7% of receipts. This \$26 million decline is a result of the City's establishment of a Development Services Fund. To establish the fund

the City redirected \$17 million in license and permit revenue as well as \$9 million in service charge funds. It should be noted that the development services monies are still unrestricted funds and available to the general fund, thus overall liquidity available to the notes has not diminished.

In 2008, the City's ending cash position is projected to be \$31 million or 5.6% of total receipts. This amount represents an \$8 million decline from 2007 driven by deficits in the city's Lighting and Landscape Assessment District (LLAD), and Internal Service Funds which are being subsidized with money from the general fund. Despite the fiscal 2008 decline, the city's cash position at 5.6% of total receipts would still be satisfactory.

The City has made its cash projections based upon fairly conservative revenue expectations. For 2008, the city has forecast modest increases in receipts across its various line items. The city has also projected a conservative 5.3% increase in property tax receipts in keeping with their expectation of a slowing real estate market. Despite the fact that the real estate market is slowing across the state, the city will likely exceed this amount given its five-year assessed valuation (AV) growth average of 9% including 11% growth in 2007. In addition, the city is expecting a 2008 growth rate of 10%. Moody's also expects that the 2008 ending cash balance will actually be higher given that the City has historically outperformed its ending cash balance projections. The City's labor contracts are settled through 2008 which gives the City an additional measure of budget certainty.

Moody's considers the city's 2007 alternate sources of liquidity to include \$18.4 million from the city's Measure B funds, Alameda Street Aid, and insurance proceeds. The ending balance for the sources of alternated liquidity is expected to remain stable through fiscal 2008.

MANAGEABLE BORROWING AMOUNT; LATE SET-ASIDE TIMING

This year's TRAN borrowing is double last year's transaction size due to Series B funding the pre-payment of the City's CALPERS obligation. Despite the size of the issuance, which is 25.7% of projected 2008 revenues, Moody's believes the amount to manageable particularly given that the Series B portion does not add a new expenditure to the city's cash flow, and the expectation that the city will exceed its revenue projections. The City will set-aside 50% of the repayment funds in both April and June 2008. This results in a late dollar weighted -average set aside of only one month prior to fiscal year-end which has also been the City's practice in previous TRAN transactions.

KEY STATISTICS

Projected Amount Borrowed as a % of Receipts, FY 2008: 25.7%

Actual Ending Cash as a % Receipts, FY 2006: 11.7%

Estimated-Actual Ending Cash as a % of Receipts, FY 2007: 7.3%

Projected Ending Cash as a % of Receipts, FY 2008: 5.6%

Alternate Liquidity: \$18.4 million

Pledged Set-Aside Timing (months before June): 1.0

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