

## **FITCH RATES CITY OF OAKLAND, CALIFORNIA \$21MM GOS 'A+'**

Fitch Ratings-San Francisco-01 June 2006: Fitch assigns an 'A+' rating to \$21 million City of Oakland general obligation bonds (series 2006, measure G). Also, Fitch affirms the 'A+' rating on the City of Oakland's \$212 million in outstanding general obligation bonds. The bonds are scheduled to sell competitively on June 14. Public Financial Management, Inc. serves as the city's financial advisor. The Rating Outlook is Stable.

The 'A+' rating reflects the city's growing tax base, rising assessed values, above-average debt burden, and good financial position. Financial performance in fiscal 2005, along with estimates for fiscal 2006, further replenishes year-end general fund balances to healthy levels.

The City of Oakland is a major commercial and trade center and includes one of the West Coast's busiest ports. It is California's eighth largest city, with around 412,000 residents. Oakland's economy is benefiting from both residential and commercial development that is part of the City's redevelopment efforts to attract residents to the downtown area. Taxable assessed values continue to rise, posting a 10% increase in fiscal year 2006, and increasing by 8.9% annually since fiscal year 2000. Nonetheless, the city's employment situation, while improving, has not recovered from the recent regional recession, with the unemployment rate, at 8% in 2005, being higher-than-average. Similarly, income levels remain below county, state, and national averages.

The city's financial situation is good and improving. General fund revenues rose by 18% in fiscal year 2005, largely due to growth in property taxes and real estate transfer tax. Other revenue sources experienced moderate growth as a result of the city's improving economy. Relative to revenues, expenditures grew at a manageable pace, rising by 5% in fiscal 2005. The ending unreserved/undesignated general fund balance was a healthy \$46.3 million, or 9% of expenditures and transfers out. This is a marked improvement over the fiscal year 2004 result where the balance was \$30.9 million, or 6.3% of spending. Preliminary estimates for fiscal year 2006 indicate a further replenishment of the ending general fund balance, which management has earmarked for one-time use only-an action Fitch views favorably.

Fitch notes a sizable \$268.7 million unfunded actuarial accrued liability in the city's closed Police and Fire Retirement System (PFRS), with a funding status of 69.6%, as well as city efforts to date to address it. As a result of a funding agreement between the PFRS board and the city following a pension obligation bond issue in 1997, the city is not required to make any contributions through fiscal year 2011. However, beginning in fiscal year 2012, the actuary expects the city payment to be \$41 million, a significant figure relative to the city's operating budget. Oakland is beginning to proactively manage this upcoming cost by establishing a stabilization fund to collect excess property tax payments levied solely for the PFRS. While noting the city's recent prudent actions, Fitch will continue to monitor continuation of efforts to moderate the PFRS long-term budget implications.

The 2006 bonds constitute the second and final series of bonds issued from a \$59 million authorization (Measure G) approved by two-thirds of the voters in March 2002. Bond proceeds will be used to acquire, renovate, improve, construct, and finance existing and additional educational facilities for the Oakland Museum of California and the Oakland Zoo. The city's direct and overall debt burdens are moderate to high at \$2,759 and \$4,345, respectively.

Contact: Michael Borgani +1-415-732-5620 or Amy S. Doppelt +1-415-732-5612, San Francisco.

Media Relations: Christine Pollak, New York, Tel: +1 212-908-0526.

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