

New Issue: Oakland (City of) CA

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

APPROXIMATELY \$75 MILLION IN DEBT AFFECTED

Municipality
 CA

Moody's Rating

ISSUE	RATING
Tax and Revenue Anticipation Notes	MIG 1
Sale Amount \$75,000,000	
Expected Sale Date 06/19/06	
Rating Description Tax and Revenue Anticipation Notes	

Opinion

NEW YORK, Jun 15, 2006 -- Moody's has assigned a MIG 1 rating to the City of Oakland's 2006-2007 Tax and Revenue Anticipation Notes. The rating primarily reflects the city's stable general fund cash position, reasonable cash flow assumptions, and conservative budget and revenue forecasting methods. While Oakland's projected, year-end general fund cash balance is slightly low compared to other California cities, Moody's believes it to be sufficient thus enabling the City to absorb any unexpected cash flow developments. We also note that, based on the City's forecasting track record and demonstrated willingness to make timely budget adjustments when needed, actual ending cash balances are likely to exceed forecasted levels. In addition, the city has a substantial amount of borrowable cash outside its general fund. A later than typical TRAN repayment set-aside schedule is noted, compared to the other MIG 1-rated TRAN. Oakland's TRANs are being issued to finance the city's anticipated mid-year general fund cash flow needs, and they are secured by the city's pledge of unrestricted fiscal 2007 general fund receipts. Moody's rates the city's general obligation bonds A1 with a stable outlook.

STABLE GENERAL FUND CASH POSITION BENEFITING FROM SLIGHT REVENUE INCREASES

The city has balanced its budget for fiscal 2007 and the cash flow projection for 2006 indicates a higher ending balance than originally projected, resulting in an ending cash balance of \$51.0 million or 8.5% of projected receipts. Projections for 2007 conservatively indicate an ending balance of 7.3% of projected receipts incorporating city officials lowered expectations regarding revenue performance. While this projected ending cash balance is fairly modest, it is yet more than adequate to address unexpected economic weakness or receipt/disbursement timing issues. Considering the city's conservative approach to its general budget, improved accuracy in overall cash flow projection, and the modest assumptions about revenue growth underlying the city's fiscal 2007 budget, Moody's expects Oakland's year-end cash balance will quite likely be at or slightly better than the projected level. In three of four prior to fiscal years, Oakland's actual year-end cash balance proved somewhat greater than initially projected. The one anomaly (fiscal 2002) resulted from that year's unexpectedly sharp economic slowdown. Moreover, city officials have demonstrated a willingness to make timely, mid-year budget adjustments as needed.

REASONABLE CASH FLOW ASSUMPTIONS; RELATIVELY MODEST BUDGET UNCERTAINTY

Almost all of the city's labor contracts are in place and the fiscal risk posed to municipalities by the state government's budget difficulties is relatively low compared to prior years. Oakland's assumed growth rates in key cash flow line items appear reasonable and appropriately conservative. Property tax receipts are projected to increase by 7.6% (the actual increase for 2006 was approximately 10.2% compared to an original projection of 7.4%) and sales tax by 3.5%; largely due to the increases in retail activity in Oakland. City officials have incorporated increases in the business license tax (3.1%), utility users' tax (2.5%), and service charges (3.5%). The regional economy continues to display signs of fundamental stability, but employment growth remains somewhat slow. The local real estate remains a bright spot notwithstanding recent slowdowns in real estate activity. Despite the widely reported slowing pace of real estate transactions, the city's assessed value increased by 9.6% in 2006 topping the 8.0% in assessed value growth from the prior year. Nevertheless, Oakland has again conservatively forecasted a \$7.1 million, or 10.2%, decline in its real estate transfer tax receipts, not unreasonably reflecting an assumed slowdown in the real estate market, even though slowdown to date has not resulted in actual declines in value. This line item has proven

particularly significant for the city since its recent performance well above budget has more than offset weaknesses in some other line items, particularly increased spending in the area of public safety related overtime.

MANAGEABLE BORROWING AMOUNT; IMPROVED BUT STILL RELATIVELY LATE SET-ASIDE TIMING

Oakland's \$75 million 2006-2007 TRAN is slightly larger (by 0.4%) than last year's \$70 million but modest in size on a percentage of receipts basis (12.6%). As in prior years, the city's set-aside schedule for the TRAN repayment is quite late compared to a typical MIG 1 rated TRAN, though the timing of the first set-aside has been moved up to April from May, improving the dollar-weighted average set-aside. With the second set-aside scheduled for June at 50% of principal and 100% of interest, the dollar-weighted average is still only 1.0 months prior to the fiscal year-end. A more typical schedule for a MIG 1 rated California TRAN borrower would be almost three months. Nevertheless, Moody's believes this schedule does not pose undue risk, given the city's favorable history of mid-year budget adjustments, overall cash flow projection accuracy, substantial alternate liquidity, and well established, successful history of managing the late set-asides.

The city forecasts the availability of almost \$134.4 million in alternate liquidity at June 30, 2007, which represents 29.2% of projected cash flow receipts. These funds would be available for short-term borrowing, including across the fiscal year-end, in the event of an unexpected general fund cash shortfall. We do note, however, that 61.3% of these funds (\$82.5 million), while legally available for borrowing, belong to the Port of Oakland. The Port is a separate public entity required by the city's charter to maintain its funds in the city treasury. This makes using its funds somewhat more politically sensitive than using the city's own, more typical, alternate liquidity.

KEY STATISTICS

Projected Amount Borrowed as % of Receipts, FY 2007: 12.6%

Actual Ending Cash as % of Receipts, FY 2005: 13.6%

Estimated-Actual Ending Cash as % of Receipts, FY 2006: 8.5%

Projected Ending Cash as % of Receipts, FY 2007: 7.3%

Alternate Liquidity: \$134.4 million

Alternate Liquidity, % of projected FY 2005 Receipts: 29.2%

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

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