

**Tax Supported
New Issue**

Oakland, California

Ratings

New Issues	
General Obligation Bonds, Series 2009B (Measure DD) 2009–2010 Tax and Revenue Anticipation Notes, Series A and B (Federally Taxable)	A+
Outstanding Debt	
City of Oakland	
General Obligation Bonds	A+
Pension Obligation Bonds	A
Oakland Joint Powers Financing Authority	
(City of Oakland General Obligation Bond Program) Refunding Revenue Bonds, Series 2005	
Lease Revenue Refunding Bonds (Oakland Administration Buildings), 2008 Series A-1, A-2, and B	A+

^aOn June 18, 2009, the 2009–2010 TRANS, Series A and B, were rated 'F1' by Fitch Ratings based on the city's initial projected fiscal 2010 cash flow. Based on the city's subsequent revision of its projected fiscal 2010 cash flow, Fitch upgraded the 2009–2010 TRANS, Series A and B, to 'F1+' on June 22, 2009.

Rating Outlook

Negative^a

^aRevised from Stable on June 18, 2009.

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New Issue Details

Sale Information: \$61,970,000 General Obligation Bonds, Series 2009B (Measure DD), at or about July 16 via negotiation. Not exceeding \$185,000,000 2009–2010 Tax and Revenue Anticipation Notes, Series A and B (Federally Taxable), on July 8 via negotiation.

Rating Rationale

- The city of Oakland benefits from a diverse economic base; a variety of revenue streams that have the potential to be diversified further; good financial management policies and procedures, which are being further enhanced; and strong general fund balances.
- Oakland faces significant near-term budgetary pressure due to declines in its economically sensitive tax revenues and property values and the doubling of its unemployment rate.
- During the course of fiscal 2009, the city adjusted its budget downward three times, cutting costs and increasing revenues where possible, while relying heavily on one-time budget solutions to maintain structural balance.
- Revenue pressure is projected to persist into fiscal years 2010 and 2011 due to ongoing revenue declines, growing retirement and other post-employment benefit (OPEB) liabilities, increasing property tax collection delinquencies related to taxable assessed valuation (TAV) declines, and unmet infrastructure and maintenance needs.
- Balancing structural shortfalls within the general purposes fund is complicated by the fact that less than one-quarter of the fund is truly discretionary. In addition, budget adjustments during fiscal years 2008 and 2009 have greatly reduced the city's flexibility to cut further, and some fiscal 2010 balancing measures require voter approval.
- Coverage of note principal and interest by the city's revised fiscal 2010 cash flow projections is improved and the city now projects that it can set aside 50% of note principal and interest in each of March and May 2010 without drawing upon borrowable funds.

What Could Trigger a Downgrade?

- Failure to retain fiscal balance in light of a slowing economy, increasing personnel costs, and likely state funding reductions.
- Inability to diversify revenue streams, build general fund financial reserves, reduce the city's work force size, and set new staffing and service baselines.

Credit Summary

The 'A+' long-term rating reflects the city's diverse economic base, variety of revenue streams, good financial management policies and procedures, and strong general fund balances. The Rating Outlook revision to Negative is based on Oakland's significant near-term budgetary pressure due to declines in its economically sensitive tax revenues and property values, coupled with rising fixed costs. Revenue pressure began building in fiscal 2009 and is projected to persist into fiscal years 2010 and 2011 due to ongoing economic pressures that impact property tax and other revenues, growing retirement and OPEB annual costs, labor pressures, and unmet infrastructure and maintenance needs. The city's continued ability to balance structural shortfalls will likely be negatively affected by adverse state funding actions and the fact that many of the fiscal solutions to date have been nonrecurring in nature.

**New Issue Details
(continued)**

Security: GO bonds: Payable from ad valorem property tax revenues. TRAns: Payable from unrestricted general fund taxes, income, revenue, cash receipts, and other moneys received by the city for the general fund during fiscal 2010. **Purpose:** GO bonds: to fund water quality improvements; educational and recreational facilities for children; and acquisition, preservation, and/or renovation of open space. TRAns: for general fund cash flow needs (tax-exempt portion) and to prepay the fiscal 2010 CalPERS obligation for the city's safety plan (taxable portion). **Final Maturity:** GO bonds: fiscal 2039. Subject to optional and mandatory redemption prior to maturity. TRAns: June 30, 2010. Not subject to redemption prior to maturity.

Related Research

- *Fitch Rates Oakland, CA \$62 Million General Obligation Bonds 'A+' and \$185 Million TRAns 'F1'; Outlook Negative, June 18, 2009*
- *Oakland, California, June 20, 2008*
- *Oakland Joint Powers Financing Authority, California, March 27, 2008*

Rating History — GO Bonds

Rating	Action	Outlook/ Watch	Date
A+	Affirmed	Negative	6/18/09
A+	Affirmed	Stable	4/2/08
A+	Assigned	Stable	4/8/97

Rating History — TRAns

Rating	Action	Outlook/ Watch	Date
F1+	Upgraded	—	6/22/09
F1	Assigned	—	6/18/09

The 'F1+' short-term rating reflects improved coverage of note principal and interest by the city's revised fiscal 2010 cash flow projections. The city prudently sets aside 50% of note principal and interest each March and May, which it can now do without drawing upon its \$122.6 million in borrowable funds. In the base case scenario, the May set-aside coverage without borrowables is a slim 1.00 times (x); however, when borrowables are included, May set-aside coverage increases to 2.28x. The projected cash flow, supported by borrowable funds, holds up sufficiently to stress scenarios that envision the state borrowing funds from the city, as well as several types of general fund revenue underperformance relative to budget.

Oakland is a major commercial and trade center in the San Francisco Bay area. The city's economy is diverse, but growth has slowed considerably. While the economy had expanded in the high-technology, medical, government, construction, and service sectors, since 2008, Oakland has experienced contraction in most of its employment sectors. The unemployment rate doubled between April 2008 and April 2009, rising to 15.5%, somewhat reflecting a strong 5.5% increase in the labor force. Oakland is home to Kaiser Permanente's headquarters, several large hospitals, Oakland International Airport, the Port of Oakland, and a regional federal government center.

While Oakland was the beneficiary of TAV growth averaging 8.5% per year between fiscal years 2002 and 2009, it now faces up to a 3.2% TAV decline in fiscal 2010, which will negatively affect the city's property tax revenues. Property tax delinquencies have been rising. Although the local property market is expected to remain soft over the next one to two years, significant residential, office, and retail developments recently opened or are under construction.

The city is currently in contract negotiations with the majority of its unions for agreements that expired at the end of fiscal 2008. The city is seeking labor concessions, which will help close the general fund structural imbalance in fiscal 2010. The city faces considerable financial pressure going forward in terms of funding fully its growing pension and OPEB liabilities. Fitch views the ability to achieve labor savings as an uncertainty that requires positive resolution to retain fiscal balance, a key element to the ratings remaining at their current levels.

In the third consecutive year of operating deficits, the fiscal 2008 unreserved general fund balance fell to a still strong 20.8% of spending, down from 25.5% in fiscal 2007. This was the lowest level in five fiscal years and reflects three consecutive fiscal years of operating deficits, including the highest Oakland has experienced to date. In fiscal 2009, the city revised its budget three times to offset general fund revenues underperforming optimistic assumptions. The city projects ending fiscal 2009 with a moderate operating loss after revising its budget three times to offset underperforming general fund revenues. The city council is currently refining the proposed fiscal 2010 budget, which closes a baseline shortfall of \$83 million created by the city's ongoing revenue declines and rising personnel and other costs.

Debt

The city's net direct debt totals \$975.3 billion, or a moderately low \$2,321 per capita and 2.2% of TAV. Overall net debt is much higher at \$2.5 billion, or \$5,987 per capita and 5.7% of TAV. Principal amortization of the city's long-term, fixed-rate debt is above average at 71.3% retiring within 10 years. The city's only outstanding variable-rate debt exposure relates to its \$135.1 million share of the Oakland-Alameda County Coliseum Authority lease revenue bonds. The city has one remaining swap, which currently has a value of negative \$20.4 million.

General Obligation Bonds, Series 2009B (Measure DD)

On Nov. 5, 2002, more than two-thirds of voters approved the \$198.3 million Measure DD for the funding of recreational and aquatic facilities. To date, \$71.5 million has been issued (general obligation bonds, series 2003A). The series 2009B bonds represent the second issuance against Measure DD and may include taxable Build America Bonds. Repayment of the bonds is secured by ad valorem property tax revenues.

2009–2010 Tax and Revenue Anticipation Notes, Series A and B (Federally Taxable)

In line with many California municipalities, Oakland issues notes to assist its annual cash flow by mitigating timing differences among property, state, and local tax receipts and expenditures. The city receives 43% of its property taxes, which make up slightly more than 30% of projected general fund receipts, in December and 35% in April and May combined. However, the city's diverse revenue stream, including utility user, real estate, hotel, and parking taxes, assists the cash flow by leveling the revenue stream. The city's cash flow projections are based on the proposed fiscal 2010 budget, which realistically assumes ongoing declines in Oakland's economically sensitive revenue streams. The notes are secured by unrestricted general fund revenues to be received during fiscal 2010.

The tax-exempt portion (series A) will offset the uneven nature of property and other tax revenues during the year, while the taxable portion (series B) will prepay the fiscal 2010 pension obligation for the city's safety and miscellaneous employee plans, with the city receiving a discount on the payments. The city does not expect to issue any other notes or warrants for cashflow borrowing purposes in fiscal 2010.

To further ensure noteholder payment, the city covenants to deposit 50% of the principal due by March 31, 2010; the remaining 50% of principal, as well as accrued interest, will be deposited by May 31, 2010. The set-aside payments are restricted solely for note repayment. The March set-aside is covered 1.62x by cash available during that period. While the May set-aside is covered a slim 1.00x by May's ending balance; taking into account June's ending balance, the coverage increases to a stronger 1.52x.

The city's borrowable funds add a strong cushion against unanticipated revenue or expenditure variances. The borrowable funds are substantial, estimated at roughly \$122.6 million for fiscal year-end 2010, about the same as in fiscal 2009 (\$122.5 million). These funds include city revenue received but not yet credited to the general fund and separate revenue that belongs to other city funds but legally available for lending to the general fund, if necessary. Additional flexibility is achieved in that the funds are unrestricted and do not require City Council approval for use. Under the baseline case, the general fund balance plus borrowables provides 2.95x coverage for the March set-aside and 2.28x coverage for the May 2010 set-aside (which rises to 2.80x coverage after taking into account the June 2010 ending balance).

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