

Fitch Rates Oakland, California's \$75 MM TRANs 'F1+'

Fitch Ratings-San Francisco-June 5, 2006: Oakland, California's (the city) approximately \$75 million 2006-2007 tax and revenue anticipation notes (TRANs) are rated 'F1+' by Fitch Ratings. The notes are scheduled to sell competitively on July 11 and mature July 2007, with Public Financial Management providing financial advisory services.

The 'F1+' rating on the notes reflects the sound note repayment structure, strong coverage of all note repayment set-asides, and the availability of considerable borrowable resources. The city's 'A+' long-term general obligation bond credit quality is also a rating factor.

Fitch's highest short term rating for these notes reflects projected coverage of the notes from all unrestricted revenues during fiscal 2007 at 8.0 times (x), healthy coverage of set-asides at 2.5x and 1.7x in April and June, respectively, and the city's long-term credit quality (Fitch affirmed Oakland 'A+' general obligation rating last week.) Substantial borrowable resources, currently estimated at more than \$134.4 million for fiscal 2007, are also available if needed. The \$75 million par amount is up from \$70 million last year.

To provide for cash flow needs, the city issues TRANs. The city anticipates a \$75 million sale for the fiscal 2007 notes, due in July 2007. The city sold approximately \$70 million in TRANs for fiscal 2006 and \$65 million for fiscal 2005. Set-asides for the notes occur in equal 50% installments in April and June of the 2007 fiscal year; interest is set-aside in June.

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.

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