

June 22, 2009

Summary:
Oakland, California; Note

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Credit Profile

US\$185. mil 2009-2010 TRANs ser A&B due 06/30/2010

Short Term Rating

SP-1+

New

Rationale

Standard & Poor's assigned its 'SP-1+' short-term rating to Oakland, Calif.'s 2009-2010 tax and revenue anticipation notes (TRANs) series A and B.

The rating reflects our opinion of the city's:

- Good coverage of note principal based on projected ending fiscal 2010 cash position; and
- Alternate liquidity sources available for inter-fund loans.

The notes are general obligations (GO) of the city, according to the note ordinance, and are secured by a first lien and charge against the first moneys received by the city from pledged revenues. Pledged revenues include unrestricted moneys in an amount equal to 50% of principal from unrestricted moneys on deposit with the city in the months ending March 31, 2010, and May 31, 2010, plus an amount sufficient to pay interest on the notes at maturity from the first unrestricted moneys on deposit in the month ending May 31, 2010. Unrestricted moneys means taxes, revenues, income, cash receipts, and other moneys which are received by the city for the general fund for fiscal year 2009-2010, and are available for payment of current expenses and other obligations of the city. To the extent unrestricted moneys are insufficient for payments on the notes, the notes may be paid from any legally available moneys. The notes are being issued to meet the county's anticipated cash flow needs during fiscal years 2009-2010. The notes mature on June 30, 2010.

Although we recently revised the outlook on our long-term ratings on the city's GO debt (AA-) and its appropriation-backed debt (A+) to negative, we believe the city is likely to retain at least a strong capacity to repay its debt obligations. Based on the city's pro-forma cash flows, the city projects coverage at final maturity, June 30, 2010, to be good at 1.26x by pledged revenues. The city projects debt service coverage for the March and May set-aside dates to be 1.62x and 1.0x, respectively. The city projects ending cash balances in other non-general fund sources to be \$122.6 million, which would grow coverage to 1.91x at June 30, 2010.

The cash flows are based on the current budget assumptions, including negative growth in property, sales, and business license tax. Additionally, changes from prior-year actual annual results (based on year-to-date actuals through April 2009), include 4.8% growth to franchise fees, 4.1% in licenses and permits, and an increase in fines and penalties. Expenditures are forecasted to decline by \$53 million, or 8%, for fiscal 2010 over the prior year, based on annualized actuals through April 2009. Reduction assumptions include layoffs, closure of non-essential service for a total of 12 days, and an increase in employees' contribution rates. Not included in the budget proposal is an \$11.8 million estimated impact if the state takes Proposition 1A funds. It is our understanding from the administration that debt financing is being considered as an offset because it is not being considered as a permanent loss, with the state repaying it in the following year. If the end-of-year cash balance is reduced by this amount,

coverage by general fund ending cash and combined general fund and alternative liquidity at June 30, 2010, would be 1.20x and 1.85x, respectively.

The city issued TRANs for fiscal year ending 2009. At the time the 2008-2009 TRANs were issued, the city projected year-end receipts and disbursements would be 9% and 5% higher, respectively, than they are currently estimating for the year end. By applying this variance to the current pro-forma cash flows, coverage at maturity would be adequate at 1.10x.

Related Research

USPF Criteria: "Short-Term Debt," June 15, 2007

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