

New Issue: Oakland (City of) CA

MOODY'S ASSIGNS MIG 1 RATING TO CITY OF OAKLAND'S 2008-09 TRANS

APPROXIMATELY \$155 MILLION IN DEBT AFFECTED

Municipality
 CA

Moody's Rating

ISSUE	RATING
Tax and Revenue Anticipation Notes, Series A (Tax-Exempt)	MIG 1
Sale Amount \$70,000,000	
Expected Sale Date 07/08/08	
Rating Description Tax and Revenue Anticipation Notes	
Tax and Revenue Anticipation Notes, Series B (Taxable)	MIG 1
Sale Amount \$85,000,000	
Expected Sale Date 07/08/08	
Rating Description Tax and Revenue Anticipation Notes	

Opinion

NEW YORK, Jun 23, 2008 -- Moody's Investors Service has assigned a MIG 1 rating to the City of Oakland's 2008-09 Tax and Revenue Anticipation Notes (TRAN) Series A and B. The rating reflects the city's lower but satisfactory projected ending cash balance and the availability of alternate liquidity which provides an additional financial cushion. The rating also considers that the city typically outperforms its cash expectations. The late TRAN repayment set-aside schedule is noted, however the city has pledged to set-aside money for the repayment of the notes in a trust which helps offset the slower than average set-aside timing. Proceeds of the Series A TRAN will be used to finance the city's anticipated mid-year cash flow needs. The Series B TRAN is federally taxable and proceeds of the sale will be used to pre-pay the city's annual contribution to the California Public Employees Retirement System (CALPERS) for fiscal year 2008-09. The total borrowing will not exceed \$155 million though the borrowing amount for each series is not yet final. The notes are payable from the City's 2008-09 unrestricted receipts.

LOWER BUT STILL SATISFACTORY ENDING CASH BALANCES

The city's projected fiscal 2008 ending cash balance is lower than 2007 but is still a satisfactory 10.4% of total receipts and well above the typical balance maintained by California cities. The fiscal 2008 ending cash balance of \$62.6 million is a \$29 million decline from 2007. This decline is largely due a \$20 million decline in real estate transfer taxes reflecting the slowdown in the housing market. The city's internal service fund disbursements were also up \$8 million reflecting various capital outlays.

The city's fiscal 2009 projected ending cash balance is expected to remain stable at 9.3% which is still stronger than typical for a California city. The \$5 million decline in cash to a projected \$57 million ending cash balance reflects the city's planned purchase of new police vehicles, and the impact of higher fuel and utility costs.

The city has approximately in \$9.8 million in alternate liquidity resources that can be utilized for note repayment without having to be replenished in the same fiscal year. The sources of alternate funds include \$4.1 million in the city's street aid fund and \$3 million an insurance proceeds fund. Including these sources, the city's 2009 projected cash balance rises to a sound 11% of total receipts.

CITY TYPICALLY OUTPERFORMS ITS ENDING CASH BALANCE PROJECTIONS

Since 2004, the city's ending cash balance has averaged 11.4% of receipts versus an original projection average of 5.6%. The City has been able to outperform projections due to its conservative approach to forecasting property tax receipts. In 2007, the city prepared for the continuing slowdown of the housing

market by forecasting \$157 million in property tax receipts. By the end of 2007, the city had exceeded that mark by 14%. The city continues to practice prudent budgeting with property tax receipts likely to close 2008 in excess of 16% of the original projections. The city has lowered the property tax growth rate assumption to 3.3% for 2009. Though commercial development continues at a sound pace, this tempered projection is prudent given the uncertainty of the residential market. Nevertheless, the slowed residential market presents challenges to the city. Real estate transfer receipts for 2008 are expected to be \$40.6 million, which would be a \$20.9 million or 34% decline from 2007. The city is projecting \$44 million in transfer tax receipts for 2009 based on the availability of new developments set to come online in 2009. Given the steep decline in transfer taxes in 2008, and the continued uncertainty of the housing market, this projection may be optimistic.

MANAGEABLE BORROWING AMOUNT; LATE SET-ASIDES

The size of the issuance is projected to be 25.1% of projected 2009 receipts. However, Moody's believes the note amount to be manageable particularly given that the Series B portion does not add a new expenditure to the city's cash flow. This is because Series B will be used to prepay the city's annual CALPERS obligation for 2009. The city pre-pays its CALPERS obligation for the purpose of getting a 3% discount on the total amount owed. Also, Moody's expects that the city will likely exceed its receipt expectations as it has in years past. The city will set-aside 50% of the note repayment funds in both April and June 2009. This will result in a late dollar weighted -average set aside of only one month prior to fiscal year-end which has also been the city's practice in previous TRAN transactions.

KEY STATISTICS

Projected Amount Borrowed as a % of Receipts, FY 2009: 25.1%

Amount Borrowed as a % of Receipts, FY 2007: 12.7%

Actual Ending Cash as a % Receipts, FY 2007: 15.5%

Estimated-Actual Ending Cash as a % of Receipts, FY 2008: 10.4%

Projected Ending Cash as a % of Receipts, FY 2009: 9.3%

Alternate Liquidity: \$9.8 million

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

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