



# MEMORANDUM

**TO:** HONORABLE MAYOR &  
CITY COUNCIL

**FROM:** Katano Kasaine

**SUBJECT:** Moody's Credit Downgrade

**DATE:** October 11, 2012

City Administrator

Date

Approval

/s/ Scott P. Johnson

10/12/12

## INFORMATION

On October 9, 2012, Moody's Rating Agency placed under review for downgrade the lease-backed obligation ratings of 32 cities in California and downgraded the pension obligation bonds of eight cities. According to Moody's, the rationale behind the downgrades reflect the economic pressures in California which include the effects of the recent economic and property market downturns, limitations on the cities' ability to raise property taxes, rising fixed costs, and state laws and local precedents that make bankruptcy filings a potentially viable means to address these pressures. Most cities affected by Moody's action are cities with debt obligations that are paid out of a city's general fund.

Moody's actions impacted the City of Oakland's Taxable Pension Obligation Bonds as follows: The Series 2001 were downgraded from Aa2/Stable Outlook to Aa3; the Lease Revenue Refunding Bonds, 2008 Series A-1 and A-2 were downgraded from Aa3/Stable Outlook to A1, and the Taxable Pension Obligation Bonds, Series 2012A were downgraded from Aa3 to A1. Moody's report also indicated that all of the affected bonds noted above are under review for possible further downgrade.

This action by Moody's was unexpected and the City was not given an opportunity to present its position, especially since the 2012 Pension Obligation Bonds were just recently assigned a rating of Aa3 by Moody's in June 2012. Again, the City was not afforded the professional courtesy to discuss this action with Moody's prior to the downgrade action they took. It should be noted that unlike other pension obligation bond structures, the City has a dedicated revenue source outside of the general fund and there have been no changes to the tax revenue structure since Moody's rated the 2012 bonds only three months ago, in June 2012. It is also important to note that the listed pension obligations are all fixed rate bonds, and therefore the rating downgrade will not have any impact on the City's debt service payments. The City is in the process of contacting Moody's to address the ratings downgrade.

Respectfully submitted,

/s/

Katano Kasaine  
Treasurer, Treasury Division

For questions please contact Katano Kasaine, City Treasurer, at 238-2989.