

RatingsDirect®

Summary:

Oakland, California; Note

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Credit Profile

US\$83.534 mil TRANs ser 2013-2014 due 06/30/2014

Short Term Rating

SP-1+

New

Rationale

Standard & Poor's Ratings Services assigned its 'SP-1+' short-term rating to Oakland, Calif.'s 2013-2014 tax and revenue anticipation notes (TRANs).

The rating reflects our opinion of the city's:

- Strong coverage of principal and interest at maturity and at set-aside dates prior to maturity;
- Substantial alternative liquidity sources available for interfund loans at the maturity date; and
- Record of conservative projections relative to actual performance

The notes are general obligations of the city and are payable from taxes, income, revenues, cash receipts, and other money that the city receives for the general fund for fiscal 2014.

As has been the case in prior years, the city has covenanted to set aside funds in advance of the maturity dates in amounts equal to half of principal in March, the remaining half of principal in May, and interest in May. The city has resolved to deposit such funds with a fiscal agent in a dedicated account to be applied solely for the purpose of paying the principal and interest on the notes. The fiscal agent is required to invest the proceeds in accordance with the city's investment policy, which is governed by state guidelines that, among other elements, require the preservation of principal as the primary goal.

We consider the coverage at TRAN maturity to be strong. Management projects that the city's general fund, on the TRANs' June 30, 2014 maturity date, will hold \$108.5 million, which would cover principal and interest by 2.35x. Management also projects that on the TRANs' March 31, 2014 set-aside date, the general fund will hold \$21.4 million, which would cover principal and interest by a still good 1.55x, and the \$50.8 million that management projects for May 2014 translates into 2.24x. In addition, management has identified 36 other funds available for interfund borrowing, which it forecasts will hold \$81.0 million at the TRANs' maturity date. This would increase coverage to 3.36x, which we consider very strong.

Underlying these ratios is what management projects will be an overall decline in receipts although we calculate that receipts will show modest growth after adjusting for a one-time factor affecting fiscal 2013 performance. For fiscal 2014, the city projects that overall receipts (excluding TRAN proceeds) will decline by 1.6%, with property taxes, which represent 33% of non-TRAN projected receipts, projected to decline by 2.7%. However, we calculate that the property tax receipts' fiscal 2014 level represents an increase of about 2% after adjusting for the removal of a fiscal 2013 receipt by the city associated with the dissolution of its redevelopment agency. This same adjustment translates

into 0.8% growth in overall receipts (excluding TRANs), which we consider modest. The city projects a slow economic recovery to translate into generally positive growth in other major sources of receipts, with business license taxes (10% of projected non-TRAN receipts) up 2.1% and sales and use taxes (8%) up 0.3%. At the same time, the city projects service charges (10%) to be down by 0.5%.

The city's projected disbursements also show an overall decline for fiscal 2014 that becomes a modest increase after adjusting for the removal of a one-time payment in fiscal 2013. We calculate that overall receipts (excluding TRAN payments) will decline by 4.6% for fiscal 2014 with the most significant contributor, in our view, payments in May 2013 of \$32.4 million to the county (which manages property tax collections and disbursements for local governments) and \$2.6 million to the Oakland Redevelopment Successor Agency. These fiscal 2013 payments, which represent 5% of projected fiscal 2013 non-TRAN disbursements, follow the state's determination that the city could not retain a portion of funds that it transferred to the general fund in fiscal 2012 from the soon-to-be dissolved Oakland Redevelopment Agency. Management has indicated that the city's budgeting process for fiscal 2014 incorporated the potential for this to occur, including the share of the \$32.4 million that returns to the city consistent with its position as one of the taxing agencies eligible to receive a portion of the distribution of agency resources. Excluding this fiscal 2013 event, we calculate that overall disbursements, excluding TRANs, will rise for fiscal 2014 by 0.8% using management's projections, reflecting reductions in spending from proposed staffing reductions more than offset by the expiration of furloughs and other one-time employee concessions effective in fiscal 2013.

The city's projections have been conservative in recent years in our view. We calculate that actual coverage of TRANs maturing in fiscal 2012 was 2.57x compared with the 1.85x projected prior to their issuance. We calculate, based on management's latest estimates and projections, that coverage for fiscal 2013 will be about 2.3x, compared with 1.58x 12 months prior. Contributing to this positive variance in fiscal 2013 were conservative revenue assumptions for business license taxes; sales and use taxes; and, particularly, historically volatile real estate transfer taxes, which represent 7% of fiscal 2013 projected receipts excluding TRANs. The city projects that such receipts will finish fiscal 2013 at a level 51% higher than the city projected at this time last year.

Encompassing just less than 400,000 residents and \$42.8 billion in market value, Oakland is situated in the core of the San Francisco Bay Area and at the nexus of the regional freeway and commuter rail networks. We consider its median household effective buying income to be good, at 97% of the national level, albeit below much of the region. The city is home to one of the largest West Coast ports and has multiple major redevelopment projects in the planning or construction phases, including the first phase of a 130-acre redevelopment of property surrounding the port, slated to begin summer 2013, to complement port activities. Suggesting positive economic momentum are 31 consecutive months of year-over-year growth in its count of employed residents and two consecutive years of assessed valuation growth although neither measure has reached its prior peak.

Related Criteria And Research

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

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