RatingsDirect®

Summary:

Oakland, California; Note

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Table Of Contents

Rationale

Related Criteria And Research

Summary:

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Credit Profile		
US$55.0 mil TRANs ser 2014-2015 due 06/30/2015		
Short Term Rating	SP-1+	New

Rationale

Standard & Poor's Ratings Services assigned its 'SP-1+' short-term rating to Oakland, Calif.'s 2014-2015 tax and revenue anticipation notes (TRANs).

The rating reflects our opinion of the city's:

- Very strong coverage of principal and interest at 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, revenue, cash receipts, and other money that the city receives for the general fund for fiscal 2015.

As has been the case in prior years, the city has agreed 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 very strong. Management projects that the city's general fund, on the TRANs' June 30, 2015 maturity date, will hold $121.2 million, which would cover principal and interest by 3.17x. Management also projects that on the TRANs' March 2015 set-aside date, the general fund will hold $67.2 million, which would cover principal and interest by a still very strong 3.44x, and the $73.5 million that management projects for May 2014 translates into 3.78x. In addition, management has identified 35 other funds available for interfund borrowing, which it forecasts will hold $73.5 million at the TRANs' maturity date. This would increase coverage to 4.48x, which we consider very strong.

Underlying these ratios is what management projects will be an overall 4.5% increase in receipts excluding TRANs, led by property taxes, which represent 31% of non-TRAN projected receipts. The city projects faster growth in its other leading taxes than it experienced in fiscal 2014, with business license taxes (9% of projected non-TRAN receipts) up 3% for fiscal 2015 and sales and use taxes (8%) up 2.6%. At the same time, the city projects taxes on property sales (8% of projected non-TRANS receipts) to step down 6.6% after a robust fiscal 2014. The city's projections show service charges, which can be rate-sensitive and include parking revenue and fees to utilities rising by 15%. The city's projected disbursements also show an overall 4.5% rise for fiscal 2015 (excluding TRAN payments) using management's projections, led by a 14% rebound in operations and maintenance expenses (such as contracted services) and an 8% increase in salaries and benefits. We understand that the city eliminated employee furloughs in fiscal 2014 and that the bulk of its employee contracts run through fiscal 2015 with its contract with its firefighters tentatively approved and set to be renewed in July 2014.

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 and the fiscal 2013 ratio at 2.69x compared with 1.58x. For fiscal 2014, we calculate, based on management's latest estimates and projections, that coverage will be 2.81x, compared with 2.35x 12 months prior. Contributing to this positive variance in fiscal 2014 was a conservative beginning-cash assumption and faster-than-forecast increases in taxes on property sales and hotel stays. The city projects that such receipts will close fiscal 2014 at 41% and 15%, respectively, higher than the city projected at this time last year.

Encompassing slightly fewer than 400,000 residents and $45 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 strong, at 119% of the U.S. 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 3,100-unit residential project on its waterfront that broke ground in March 2014. The city's property tax base has surpassed its prior peak in fiscal 2009 and employment growth has continued, which has helped to drive the city's unemployment rate down to 11.3% for 2013 from a peak of 16.9% in 2010.

Related Criteria And Research

Related Criteria

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

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