MOODY'S
INVESTORS SERVICE

Rating Action: Moody's Assigns Aa3 to City of Oakland's (CA) Lease Revenue Refunding Bonds, Series 2018; Affirms Aa2 GOs, Aa3 Lease Rev Bonds and Aa3 POBs; Outlook is Stable

Global Credit Research - 17 Apr 2018

New York, April 17, 2018 -- Moody's Investors Service has assigned a Aa3 rating to the City of Oakland's (CA) Lease Revenue Refunding Bonds (Oakland Administration Buildings), Series 2018 that have an expected par amount of $61.4 million. Concurrently, we have affirmed the following ratings for the city: Aa2 GOs, Aa3 lease revenue bond Series 2008B and Aa3 pension obligation bonds. The outlook is stable.

RATINGS RATIONALE

The Aa2 GO rating reflects the city's large and diverse tax base that will continue to benefit from ongoing commercial and residential development, a moderate socioeconomic profile, as well as the city's strong financial position that we expect to remain stable. The rating also incorporates the city's low debt burden and above average unfunded pension and OPEB liabilities. The city has long term budgetary and fiscal challenges, including rising pension and health care costs, and we expect management to successfully address these issues over time given its prudent fiscal practices, commitment to containing costs, and property tax override revenues that are solely available for pension costs. The GO rating further incorporates the strength of the voter-approved, unlimited property tax pledge securing the bonds.

The Aa3 lease-backed rating on the city's outstanding Lease Revenue Bonds, Series 2008B are one notch lower than the Aa2 GO rating, reflecting a standard California abatement lease legal structure and leased assets that we view as "more essential." The Aa3 lease-backed rating on the current offering is also one notch lower that the Aa2 GO rating, which incorporates the legal provisions for the Lease Revenue Refunding Bonds, Series 2018 and leased asset that we view as "more essential."

The legal provisions for the Lease Revenue Refunding Bonds, Series 2018 include that the city will provide rental interruption insurance for 24 months, title insurance, and will not require a debt service reserve fund, which is a negative credit factor. This negative credit factor is mitigated by the leased asset, The Wilson Building, which was renovated and strengthened in 1998 to be fully operational after an earthquake with a magnitude of 7.0 on the Richter scale and the property substitution provision under the lease agreement. The city has identified the Dalziel Building, which was constructed in 1998 to be fully operational after an earthquake with a magnitude of 7.0 on the Richter scale, as a currently available asset for substitution in the occurrence of an abatement event at the Wilson Building. The Dalziel Building has an estimated market value of $139.0 million as of April 2018. The Wilson and Dalziel buildings both house critical city departments. While the Dalziel Building is the only asset that has currently been identified as a substitution asset, management also has a number of other city owned properties that it would consider should an abatement event occur.

The Aa3 pension obligation bond rating is one notch lower than the city's Aa2 GO rating, and reflects the availability of property tax override revenues, which are the primary security for the bonds, and provide over 1.0x debt service coverage.

RATING OUTLOOK

The outlook on the city's long-term ratings is stable. The outlook recognizes the city's large and diverse tax base, and its strong financial position, which should remain stable given the financial policies implemented by city management.

FACTORS THAT COULD LEAD TO AN UPGRADE

- Significant and sustained increase in reserves and liquidity

- Sizeable reduction in the city's pension and OPEB obligations

- Material improvement in the city's socioeconomic profile

FACTORS THAT COULD LEAD TO A DOWNGRADE

- Erosion of the city's fiscal health

- Inability to manage retirement costs

- Prolonged economic decline

LEGAL SECURITY

The general obligation bonds are secured by an unlimited property tax pledge of all taxable property within the city boundaries. Debt service on the rated debt is secured by the city's voter-approved unlimited property tax pledge.

Security for the lease payments is a contractual pledge of the city of all of its available financial resources, subject to abatement in the event of damage or destruction of the leased property.

The Pension Obligation Bonds are secured by all legally available monies of the city, including property tax override revenues that provide over 1.0x debt service coverage.

USE OF PROCEEDS

Bond proceeds will refund the City's outstanding Lease Revenue Bonds, Series 2008B and generate an estimated net present value savings of $6.5M or 9.9% of the refunded bonds.

PROFILE

The City of Oakland is located in Alameda County (Aaa, stable) on the Eastern shore of the San Francisco Bay, approximately seven miles from downtown San Francisco via the San Francisco-Oakland Bay Bridge. It has a diverse economic base, and some of the major industries include retail trade, transportation and logistics, hi-tech, science research, and health care. The city's population is 412,040.

METHODOLOGY

The principal methodology used in the general obligation ratings was was US Local Government General Obligation Debt published in December 2016. An additional methodolgy used in the lease ratings and pension obligation bond ratings was the Lease, Appropriation, Moral Obligation and Comparable Debt of US State and Local Governments published in July 2016. Please see the Rating Methodologies page on www.moodys.com for a copy of these methodologies.

REGULATORY DISCLOSURES

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the credit rating action on the support provider and in relation to each particular credit rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

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