

ATTACHMENT D

Fitch Ratings

RATING ACTION COMMENTARY

Fitch Affirms Oakland, CA's IDR at 'A'; Outlook Negative

Fri 30 May, 2025 - 6:00 PM ET

Fitch Ratings - San Francisco - 30 May 2025: Fitch Ratings has affirmed Oakland, CA's (the city) Issuer Default Rating (IDR) at 'A'.

The Rating Outlook is Negative.

RATING ACTIONS

ENTITY / DEBT ▲	RATING ▲	PRIOR ▲
[Redacted]	[Redacted]	[Redacted]
Oakland (CA) [General Government]	LT IDR A Affirmed	A

Oakland (CA) /Issuer Default Rating - General Government/1 LT	LT A Affirmed	A
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VIEW ADDITIONAL RATING DETAILS

Oakland's 'A' IDR incorporates an 'a' level of financial resilience, based on Fitch's expectation for reserves to remain at least equal to 15% of spending, the minimum reserve level for the assessment based on the city's 'minimal' budget flexibility. The rating also

expectation for reserves to remain at least equal to 15% of spending, the minimum reserve level for the assessment based on the city's 'minimal' budget flexibility. The rating also reflects the combination of Oakland's 'Midrange' demographic metrics, and 'Weak' long-term liability burden, largely related to its net pension liability.

The 'A' IDR also factors in Additional Analytical Factors equal to -1 notch for Management Practices and -1 notch for Non-Recurring Support or Spending Deferrals. The Additional Analytical Factor notch adjustments capture risk associated with the city's irresolute decision making in closing budget gaps, mixed budget practices resulting in actual and projected deficits, and elected and appointed leadership turnover. The Negative Outlook reflects the scale of projected deficits through the city's five-year forecast, coupled with the political difficulty in enacting large-scale cuts including public safety.

Oakland's budget challenges have led to significant erosion in its available reserve position, which could worsen based on city multi-year projections. Based on preliminary estimates from the city, Fitch expects available reserves to decline to approximately 15% of spending at the close of fiscal 2025 (June 30 YE) compared to 33% of spending in fiscal 2023. The sharp change in the city's reserve position reflects overly aggressive revenue assumptions (including revenue from the sale of the Oakland Coliseum) and cost overruns, particularly in police and fire overtime.

Fitch does not expect the city's enacted contingency budget for fiscal 2025 to yield material improvement in its fiscal outlook, given the political headwinds many of the cuts surrounding public safety face. The previous mayor was recalled by voters in part due to public safety concerns. To date, management has been unable to find an agreement with police and fire on managing overtime costs within budgeted amounts.

The city's five-year forecast shows widening gaps despite some positive changes in revenues, including a new sales tax and an increase in a parcel tax which were both approved by voters in November 2024. All told, management assumes these revenues sources will provide an additional \$40 million - \$50 million annually. The five-year forecast depicts annual budget gaps of approximately \$125 million on average through fiscal 2030, or roughly 13% of total general fund spending, inclusive of the recent revenue increases.

The size of the current deficits are outliers from years past, but Fitch notes the high levels of unrestricted reserves that were built up over the past few years provide a temporary cushion. Fitch recognizes the immediate need of the city to sharply reduce its deficit spending to more sustainable levels, while also anticipating some fund balance use throughout the potential revenue recovery, likely stabilizing near pre-pandemic levels.

Leadership turnover casts some uncertainty on the timeliness of the city to make the necessary cuts and align expenditures with revenues. Delayed corrective budgetary action causing a diminishment of reserves below 15% of spending will result in additional negative pressure on the rating.

RATING SENSITIVITIES

Factors that Could, Individually or Collectively, Lead to Negative Rating

Action/Downgrade

--Inability to significantly close the projected budget gap, causing unrestricted general fund reserves to fall and be sustained below 15% of spending and transfers out, the minimum reserve level for 'a' financial resilience when issuers have 'minimal' budgetary flexibility;

--Erosion in the city's demographic or economic metrics, particularly unemployment or income levels due to the escalating trade war or other economic decay.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

--Ability to significantly close the projected budget gap, while maintaining unrestricted general fund reserves above 15% of spending and transfers out, which could result in a revision of the Outlook to Stable;

--Improved management practices and budget solutions that result in sharply reduced budget deficits in the city's forecast, which could lead to removal of one or both of the Additional Analytical Factors Fitch has applied to the city's IDR;

--A nearly 40% decrease in the city's long-term liability metric, assuming current personal income levels and total government revenue and expenditures.

SECURITY

The Issuer Default Rating reflects the city's relative creditworthiness and its ability to meet its financial commitments.

FITCH'S LOCAL GOVERNMENT RATING MODEL

The Local Government Rating Model generates Model Implied Ratings, which communicate the issuer's credit quality relative to Fitch's local government rating portfolio. (The Model Implied Rating will be the IDR except in certain circumstances explained in the applicable criteria.) The Model Implied Rating is expressed via a numerical value calibrated to Fitch's long-term rating scale that ranges from 10.0 or higher (AAA), 9.0 (AA+), 8.0 (AA), and so

forth down to 1.0 (BBB- and below).

Model Implied Ratings reflect the combination of issuer-specific metrics and assessments to generate a Metric Profile and a structured framework to account for Additional Analytical Factors not captured in the Metric Profile that can either mitigate or exacerbate credit risks. Additional Analytical Factors are reflected in notching from the Metric Profile and are capped at +/-3 notches.

RATINGS HEADROOM & POSITIONING

Oakland Model Implied Rating: 'A' (Numerical Value: 5.14)

-- Metric Profile: 'AA-' (Numerical Value: 7.14)

-- Net Additional Analytical Factor Notching: -2.0

Individual Additional Analytical Notching Factors:

-- Non-Recurring Support or Spending Deferrals: -1.0

-- Management Practices: -1.0

Oakland's Model Implied Rating is 'A'. The associated numerical value of 5.14 is at the lower end of the 5.0 to 6.0 range for a 'A' rating.

KEY RATING DRIVERS

FINANCIAL PROFILE

Financial Resilience - 'a'

Oakland's financial resilience is driven by the combination of its 'Low' revenue control assessment and 'Low' expenditure control assessment, culminating in a 'Minimal' budgetary flexibility assessment.

-- Revenue control assessment: Low

-- Expenditure control assessment: Low

-- Budgetary flexibility assessment: Minimal

-- Minimum fund balance for current financial resilience assessment: $\geq 15.0\%$

-- Current year fund balance to expenditure ratio: 20.8% (2024)

-- Lowest fund balance to expenditure ratio for the fiscal-year period 2020-2024: 17.3% (2020)

Revenue Volatility - 'Midrange'

Oakland's weakest historic three-year revenue performance has a modest negative impact on the Model Implied Rating.

The revenue volatility metric is an estimate of potential revenue volatility based on the issuer's historical experience relative to the median for the Fitch-rated local government portfolio. The metric helps to differentiate issuers by the scale of revenue loss that would have to be addressed through revenue raising, cost controls or utilization of reserves through economic cycles.

-- Lowest three-year revenue performance (based on revenues dating back to 2005): 3.2% decrease for the three-year period ending fiscal 2010

-- Median issuer decline: -4.3% (2024)

Financial Profile Additional Analytical Factors and Notching: -2.0 notch (for Management Practices and Non-Recurring Support or Spending Deferrals)

Fitch has applied a -1.0 notch for the city's near-term reliance on non-recurring support of ongoing expenditures. The fiscal 2025 initial budget's reliance on the sale of the coliseum, the fiscal 2026's budget indicating an expected use of non-recurring support, and growing out-year budget misalignments in the five-year forecast show the city's inability to close its structural gap. Reigning in budget gaps through sizable budget adjustments could lead to the removal of this Additional Analytical Factor.

Fitch has applied a -1.0 notch for Management Practices. The 2025 budget balancing steps show a level of irresolute decision making by elected officials to find long-term, sustainable solutions to close the projected budget gaps. When the contingency budget was enacted due to delayed payments for the sale of the Coliseum, many of the action items included public safety cuts, which are unlikely to be enforced due to the highly charged political

climate demanding greater public safety services. Fitch believes the city's ability to make these cuts is exacerbated by the high turnover in both elected and appointed positions.

DEMOGRAPHIC AND ECONOMIC STRENGTH

Population Trend - 'Weak'

Based on the median of 10-year annual percentage change in population, Oakland's population trend is assessed as 'Weak'.

Population trend: 0.4% 2023 median of 10-year annual percentage change in population (26th percentile)

Unemployment, Educational Attainment and MHI Level - 'Midrange'

The overall strength of Oakland's demographic and economic level indicators (unemployment rate, educational attainment, median household income [MHI]) in 2024 are assessed as 'Midrange' on a composite basis, performing at the 56th percentile of Fitch's local government rating portfolio. This is due to very high education attainment levels and midrange median-issuer indexed adjusted MHI offsetting elevated unemployment rate.

-- Unemployment rate as a percentage of national rate: 117.5% 2024 (30th percentile), relative to the national rate of 4.0%

-- Percent of population with a bachelor's degree or higher: 47.9% (2023) (85th percentile)

-- MHI as a percent of the portfolio median: 103.5% (2023) (54th percentile)

Economic Concentration and Population Size - 'Strongest'

Oakland's population in 2023 was of sufficient size and the economy was sufficiently diversified to qualify for Fitch's highest overall size/diversification category.

The composite metric acts asymmetrically, with most issuers (above the 15th percentile for each metric) sufficiently diversified to minimize risks associated with small population and economic concentration. Downward effects of the metric on the Metric Profile are most pronounced for the least economically diverse issuers (in the 5th percentile for the metric or lower). The economic concentration percentage shown below is defined as the sum of the absolute deviation of the percentage of personal income by major economic sectors

relative to the U.S. distribution.

- Population size: 439,455 (2023) (above the 15th percentile)
- Economic concentration: 22.1% (2024) (above the 15th percentile)

Analyst used 2023 population, the most currently available data.

LONG-TERM LIABILITY BURDEN

Long-Term Liability Burden - 'Weak'

Oakland's long-term liability metrics remain moderately weak across each of the three dimensions: liabilities to personal income, liabilities to governmental revenue, and carrying costs to governmental expenditures. The long-term liability composite metric in 2024 is at the 23rd percentile, indicating a somewhat elevated liability burden relative to the Fitch's local government rating portfolio.

- Liabilities to personal income: 7.4% Analyst Input (34th percentile) (vs. 7.6% 2024 Actual)
- Liabilities to governmental revenue: 210.9% Analyst Input (35th percentile) (vs. 217.2% 2024 Actual)
- Carrying costs to governmental expenditures: 24.3% (2024) (7th percentile)

Direct debt was adjusted to remove scheduled principal amortized in fiscal 2024. Fitch-adjusted net pension liability was adjusted to remove the portion associated with the city's enterprises and port.

PROFILE

Oakland, the third-largest San Francisco Bay Area city, benefits from a large and diverse service-based economy that is growing rapidly amid a boom in the region's technology-driven economy. The city is the commercial, service, health care and governmental center of the East Bay region. The city is also a regional transportation hub with one of the largest ports in the nation and an international airport.

Sources of Information

In addition to sources of information identified in Fitch's applicable criteria specified below, this action was informed by data from DIVER by Solve.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG CONSIDERATIONS

Oakland has an ESG Relevance Score of '5' for Rule of Law, Institutional & Regulatory Quality, Control of Corruption, which reflects certain governance factors that have a negative impact on the credit profile and highly relevant to the rating. Governance concerns center on the recall of the mayor and turnover in other key management positions that will likely strain the city's ability to reach consensus on fiscally sustainable solutions to its existing budget gap in a timely manner.

Oakland maintains some margin to sustain the 'A' rating but additional negative rating action is foreseeable should the city prove unwilling or unable to control overspending reported across most city departments in order to stave off ongoing revenue pressures and continued draws on existing reserves.

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit

<https://www.fitchratings.com/topics/esg/products#esg-relevance-scores>.

Additional information is available on www.fitchratings.com

PARTICIPATION STATUS

The rated entity (and/or its agents) or, in the case of structured finance, one or more of the transaction parties participated in the rating process except that the following issuer(s), if any, did not participate in the rating process, or provide additional information, beyond the issuer's available public disclosure.

APPLICABLE CRITERIA

[U.S. Public Finance Local Government Rating Criteria \(pub. 02 Apr 2024\) \(including rating assumption sensitivity\)](https://www.fitchratings.com/research/us-public-finance/fitch-affirms-oakland-ca-idr-at-a-outlook-negative-30-05-2025)

APPLICABLE MODELS

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

U.S. Local Government Rating Model, v1.2.0 ([1](#))

ADDITIONAL DISCLOSURES

[Dodd-Frank Rating Information Disclosure Form](#)

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ENDORSEMENT STATUS

Oakland (CA) EU Endorsed, UK Endorsed

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