



CITY OF OAKLAND

# AGENDA REPORT

**TO:** City Council

**FROM:** Jestin D. Johnson  
City Administrator

**SUBJECT:** Informational Report on Oakland 2025  
Bond Issuance Plan

**DATE:** April 9, 2025

## **RECOMMENDATION**

**Staff Recommends That The City Council Receive A Written Informational Report From The City Of Oakland's City Administrator Or Their Designee On The Status, Current Process, Immediate Next Steps, and Plan For The City Council Of Oakland's 2025 Bond Issuance**

## **EXECUTIVE SUMMARY**

The City Council requested for information on the appropriate timing for the City of Oakland's (City) next general obligation bond issuance under Measure U, which was approved by voters in 2022 to finance improvements to City streets and facilities and assist in the financing of low-income housing. This informational report is intended to provide current information about timing based on advice from our financial advisors in concert with our Finance Department. The optimal timing will need to balance several considerations:

- Meeting the City's funding needs for capital planning, contract award and expenditure
- Obtaining the lowest possible rate of interest on the debt, and thus a lower property tax rate, and
- Ensuring that the City's disclosure of its financial condition meets the standards of federal securities law.

Generally, given the City's budget challenges, we think that the last of these three considerations presents the greatest challenge and argues for delaying a sale until the City's fiscal year 2024-25 Annual Comprehensive Financial Report (ACFR) has been released, which given past practice would likely be in December 2025. As such, timing a sale for January 2026 would seem optimal. However, the City's capital funding needs may necessitate an earlier sale, with a possible October or November 2025 closing, in which case unaudited fiscal year 2024-25 results will suffice to ensure accurate financial disclosures.

## **BACKGROUND / LEGISLATIVE HISTORY**

Over the years, voters have approved multiple measures authorizing the City to issue general obligation ("G.O.") bonds, including Measure DD, Measure KK (the 2016 Infrastructure Bond)

City Council  
April 14, 2025

and Measure U (the 2022 Affordable Housing and Infrastructure Bond). G.O. bonds are secured by the City's pledge to levy a supplemental property tax, and the proceeds of that tax are used to pay the debt service on the bonds. Because of this supplemental property tax revenue, no General Funds are used to pay debt service.

The City currently has the authority to issue \$817.090 million from prior voter authorizations: \$35.755 million from Measure DD (approved in 2002 for water quality and recreation improvements), \$32.465 million from Measure KK (approved in 2016 for street and facility improvements and affordable housing), and \$748.870 from Measure U (approved in 2022 for similar purposes as Measure KK).

Typically, the City would issue bonds every few years to provide funding for projects that are ready or near ready for expenditures for design, acquisition or construction. We understand that currently there are a number of projects that are ready for financing. It is common practice for the City to include specific projects in its annual capital budget, and to appropriate bond proceeds for those purposes. Expenditures that are made prior to the actual issuance of the bonds would be cash-flowed from available funds, to be reimbursed, where permitted, out of bond proceeds.

The timing of bond sales is usually driven primarily by the need for capital. The City's recent budget challenges, which have been well publicized and reflected by recent downgrades of the City's bond ratings, have complicated that calculus.

## **ANALYSIS AND POLICY ALTERNATIVES**

### *Rating Agency Response to Budget Challenges*

Ratings and the reports that accompany rating actions are significant factors in determining the interest rates that investors will require to buy a bond issue, and thus the City's cost of obtaining this capital, i.e., the interest rates on the G.O. bonds.

While the security for the City's G.O. bonds is the taxes generated by the supplemental levy on the property tax base to pay debt service, the bond market takes a broader look at the City's credit, including the condition of its General Fund. The rating on the City's G.O. bonds represent the benchmark rating of the City's credit condition, and its ability to repay its debt obligations on a timely basis. Key factors in determining a rating, besides the quality of the property tax base, include the issuer's other sources of revenues, its ability to achieve long-term budget balance, its ability to maintain reserves, and the competing obligations for funding, including salaries and retirement costs.

While the rating agencies routinely monitor a City's credit condition, the well-publicized nature of Oakland's budget struggles over the past year have been well publicized and triggered rating reviews in recent months. The City also chose to publish a voluntary disclosure last September to communicate elements of its financial conditions to keep the investing community informed.

As a result of the current challenge to achieving fiscal balance and the reliance on reserves and one-time revenues, all three of the agencies that currently rate the City's bonds lowered their

ratings, two of them by multiple levels, and expressed a negative outlook for their ratings looking forward.

The following summarizes recent rating actions regarding the City’s general credit conditions generally and its G.O. bonds specifically.

**Table 1: Recent Credit Rating Actions**

	<b>MOODY’S (12/05/24)</b>	<b>S&amp;P GLOBAL RATINGS (02/01/25)</b>	<b>FITCH RATINGS (11/27/24)</b>
<b>Rating Action</b>	Downgraded from Aa1 to Aa2 (1 notch)	Downgraded from AA+ to AA-(2 notches)	Downgraded from AA- to A (2 notches)
<b>Future Rating Outlook</b>	Negative	Negative	Negative
<b>Key Drivers of Rating Action</b>	<ul style="list-style-type: none"> <li>Has not made sufficient and timely budget adjustments to fully absorb the one-time pandemic relief monies (used to fund operations) and declining revenue</li> <li>Despite plans to reduce operating expenditures, still projecting deficits</li> </ul>	<ul style="list-style-type: none"> <li>Significant structural budgetary imbalance for fiscal 2025, the city’s recent deficit in fiscal 2024, and forecast structural imbalance through fiscal 2028.</li> <li>While actions were taken to bridge the fiscal 2025 budgetary gap, uncertain as to the extent savings will be realized</li> </ul>	<ul style="list-style-type: none"> <li>Reflects notable projected general fund budget gap for fiscal 2025 and future years.</li> <li>Significant expenditure reductions will be difficult to implement in the near term</li> </ul>

Absent a bond sale, it is not clear when the agencies will next review the City’s ratings. A review could be triggered by the adoption of the fiscal year 2025-2027 budget, the release of financial statements, or other information regarding the City’s financial condition. The ratings will certainly be reviewed at the time of the next bond sale. The City’s current and projected financial condition is likely to remain the rating agencies’ top concern.

*Considerations for the Next City of Oakland General Obligation Bond Issuance*

An important factor in deciding when to issue G.O. Bonds should be the City’s ability to release a bond offering document—(i.e., an official statement)—that adequately discloses the City’s financial situation. In order to provide the most current and accurate information to the market, it is best that the offering document is prepared when the City has stabilized its fiscal year 2024-25 budget and adopted its two-year budget for fiscal years 2025-27. Furthermore, a proper disclosure will describe the longer-term financial outlook for the City, and the major risks that could undermine that outlook. Ideally, the official statement will be able to report actual results for fiscal year 2024-25, which is typically accomplished by publication of its audited financial report. The preparation of a sound disclosure document is not simply a matter of good policy and market expectations; it is a requirement of federal law. Municipal issuers and officials

(as well as other market participants) are subject to the anti-fraud provisions of the Securities Exchange Act of 1934 and the various rules established by the U.S. Securities and Exchange Commission (SEC) under this law. Failure to comply with securities law would expose the City, its elected officials, and its staff to both federal and civil enforcement.

Should the City want to accelerate the bond issuance to a October/November 2025 sale and closing, due to its funding needs it should, at the very least, have general confidence in the Fiscal 2024-25 financial results and the City would need to be in a position to disclose current unaudited data regarding the General Fund at that time among other things. A preliminary schedule for an accelerated bond issuance could be as follows:

**Table 2: City of Oakland Pro-Forma General Obligation Bond Schedule (October or November 2025 Transaction Close)**

<b>Month</b>	<b>Activity</b>
Late April	City determines key elements of finance team, determines need for additional procurement/RFP process <ul style="list-style-type: none"> <li>• Bond counsel</li> <li>• Disclosure counsel</li> <li>• Municipal advisor</li> <li>• Underwriter</li> <li>• Fiscal Agent</li> </ul>
May	Kick-Off Meeting with Working Group Distribute draft Bond Ordinance & Reimbursement Resolution <b>Proposed Budget released</b>
June	Staff report released <b>First reading of Bond Ordinance and adoption of Reimbursement Resolution by Council</b> Distribute drafts of Fiscal Agent Agreement, Financing Resolution <b>Budget deliberations and adoption</b> <b>Capital budget adopted and preliminary bond sizing</b>
July	Distribute 1st draft of POS (Preliminary Official Statement), including Appendix A describing City financial condition <b>Second reading of Bond Ordinance</b> <b>Financing resolution and related legal documents approved by Council</b> <b>[Tax levy ordinance based on estimated requirements]</b>
August	Draft POS completed for rating agency distribution Distribute Resolution identifying projects as required by bond measure(s) <b>Council Summer Recess</b>
September	Preliminary FY 2025 financial results available to staff Meet with rating agencies <b>Council approves POS and Project Resolution</b>
October	Receive Ratings Electronically post POS Price Bonds
October / November	Post Final Official Statement Closing (funds available)

***\*Actions in bold occur at City Council meetings***

### **FISCAL IMPACT**

No fiscal impacts are associated with the production of this informational report.

### **PUBLIC OUTREACH / INTEREST**

No public outreach was conducted in preparing this informational report beyond the required posting on the City of Oakland's website.

### **COORDINATION**

This report was prepared in coordination between the City Administrator's Office and the Finance Department.

### **SUSTAINABLE OPPORTUNITIES**

***Economic:*** There are no known economic opportunities associated with the production of this informational report.

***Environmental:*** There are no known environmental opportunities associated with the production of this informational report.


***Race & Equity:*** A detailed race and equity analysis was not conducted in relation to this informational report.

**ACTION REQUESTED OF THE CITY COUNCIL**

Staff Recommends That The City Council Receive A Written Informational Report From The City Of Oakland's City Administrator Or Their Designee On The Status, Current Process, Immediate Next Steps, and Plan For The City Council Of Oakland's 2025 Bond Issuance.

For questions regarding this report, please contact MONICA ELISE DAVIS, DEPUTY CITY ADMINISTRATOR, at 510-238-7689.

Respectfully submitted,

  
Jestin Johnson (Apr 10, 2025 16:33 PDT)

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Jestin D. Johnson  
City Administrator

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