ATTACHMENT C

S&P Global Ratings

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Research Update:

Oakland, CA Series 2025, 2025B-1, B-2, And B-3 GO Refunding Bonds Rated 'AA-'; Outlook Is Negative

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Overview

- S&P Global Ratings assigned its 'AA-' long-term rating to Oakland, Calif.'s anticipated $94.260 million series 2025B-1 (tax exempt), $180.475 million series 2025B-2 (tax exempt), $10.050 million 2025B-3 (taxable), and $49.1 million series 2025 (tax exempt) refunding general obligation (GO) bonds.
- At the same time, S&P Global Ratings affirmed its 'AA-' long-term rating on the city's previously issued GO bonds, its 'AA-' long-term rating and underlying rating (SPUR) on the city's previously issued non ad valorem obligations, and its 'A+' long-term rating on the city's previously issued appropriation obligations.
- The outlook is negative.

Rationale

Security

Revenue from unlimited ad valorem taxes levied on taxable property within Oakland secures the city's GO bonds.

Oakland's pension obligation bonds are payable from any legally available revenue of the city, which include a voter-approved property tax override, and are rated on par with its GO obligations given a lack of legal limitations on fungibility of resources within the city. Oakland's appropriation obligations are secured by, or represent an interest in, lease-rental payments by the city, as lessee. We rate these obligations one notch lower than the city's general creditworthiness (as reflected in our GO rating) to account for the appropriation risk associated with lease payments.

Proceeds from series 2025B-1, series 2025B-2, and series 2025B-3 new money bonds will finance a variety of citywide projects including the acquisition and improvement of affordable housing, roadway safety and improvement projects, and the renovation of parks, the Oakland Ice Center, libraries, senior centers, watershed/stormwater system and general public infrastructure. The

2025 refunding bonds will refund and redeem the city's existing 2015A GO bonds, expecting to yield net present value savings of about 4% of refunded principal.

Credit highlights

The rating reflects our view of Oakland's large and resilient economic base and participation in the Bay Area regional economy, adequate-but-declining available reserves as a percent of revenue relative to higher levels the city posted in recent fiscal years, and continuing budget challenges driven in large part by public safety overspending and the combined impact of underperformance relative to budgeted estimates of the city's local revenues, including real estate transfer tax, sales and use tax, and transient occupancy tax revenues. Recent budgets have relied heavily on one-time items and optimistic assumptions, leading to a structural imbalance that will take some time to correct. Although the city is actively pursuing measures to achieve structural balance, its five-year financial forecast is projecting structural imbalances through 2030. As of year-end fiscal 2024, available reserves as a percent of revenue have diminished considerably relative to highs posted in fiscal years 2022 and 2023, leaving the city less room to maneuver as it works to bring expenditures in line with ongoing revenue.

After posting a 3%-of-revenues ($30 million) deficit in fiscal 2024, the city's fiscal 2025 midyear projections estimated a $130 million deficit in its general purpose fund for fiscal 2025, which, by the end of the third quarter, it reduced to an estimated $55 million with corrective measures including expenditure cuts and freezes as well as the one-time appropriation of $40 million of restricted reserves to fund operations. The city projects it was able to fully bridge the budget deficit it projected in December 2024 by year-end fiscal 2025 after implementing midyear remedial measures, combined with an additional $25 million in real estate transfer tax revenue received in June 2025.

Despite notable steps taken to close the fiscal gap, including the passage of a half-cent sales tax increase in April, we believe the city still operates with a structural deficit. Oakland adopted its biennial (fiscal 2025-2027) budget totaling $4.2 billion, which is balanced as required by the city charter. The approved budget includes cuts to staff vacancy and high salary roles and assumes an additional $30 million in annual sales tax revenue from its Measure A sales tax approved by voters in April 2025. The fiscal 2027 budget also assumes $40 million in anticipated revenue from a tax measure the city expects to propose to voters on the June 2026 ballot. While the city also approved a contingency budget should the tax not be approved, we believe the optimistic budget assumptions add risk that further emergency cuts will be required to preserve the city's financial position.

City officials indicate they have implemented stricter measures to limit police overtime expenditures, including requiring case-by-case approvals by the police chief. Overtime spending through May exceeded the budgeted amount by $19 million (79%), and the police and fire departments are projected to end the year 8% and 15% over budget, respectively. The city is working on implementing a new digital scheduling system to assist in managing police overtime, which has been applied successfully in other departments and is expected to go live in about 18 months. In our view, the fiscal impact of budget-balancing measures remains uncertain, particularly given the limited flexibility Oakland has to cut public safety expenditures both for fire and police, which together made up 59% of the fiscal 2024 general fund budget. The negative outlook reflects our view that the city might continue to face large outyear budget gaps absent structural budgetary adjustments.

Oakland demonstrated a pattern of positive operating performance for 10 years through fiscal 2023. However, we believe the city's receipt of federal stimulus funds, totaling $188 million, helped conceal a growing operating deficit between fiscal years 2021 and 2023. Oakland allocated all funds toward revenue replacement and all funds were used before the end of fiscal 2023. The city has subsequently experienced pronounced budgetary pressure, as well as significant turnover in key executive positions recently, including in its mayor, director of finance, and controller positions.

The city's debt profile contributes to what we view as limited financial flexibility, given that Oakland's debt and liabilities total about 28% of governmental funds revenue. The city’s 2018 lease revenue bonds, as well as its portion of the Coliseum Authority lease revenue bonds are both scheduled to fully mature in fiscal 2026, which may free up capacity to cover growing expenditures. The city approved an other postemployment benefits (OPEB) funding policy in 2018 that committed 2.5% of payroll (about $10 million per year) to an irrevocable trust to address its unfunded liabilities; contributions were suspended in fiscal years 2020 and 2021, but have since resumed and decreased the city's liability by about $240 million in total. Despite some improvement in the OPEB unfunded liability, the city's total unfunded liability was about $2.6 billion in 2024.

Key credit factors supporting the 'AA-' rating include the following:

- An imbalanced fiscal structure and outyear deficits that are forecast to total $245 million over the next two fiscal years although the city has identified and taken some corrective action measures that have yet to fully materialize.
- Reserves and operating liquidity that we expect will remain at least adequate, as the city has recently applied restricted funds--rather than depleting assigned and unassigned fund balance--to bridge the structural deficit and it expects to add $15 million to replenish its general purpose fund.
- Large debt and liabilities of almost 30% of total governmental funds revenue and per capita net pension liabilities (NPLs) of $4,806, with an expectation that liabilities will continue to increase.
- A solid economic base that has experienced growth in the past decade and benefits from participation in the San Francisco-Oakland-Fremont metropolitan statistical area. Oakland is the county seat and most populous city in Alameda County where per capita gross county product and personal income are consistently well above the U.S. level.
- Our management assessment that reflects the city's optimistic budgeting assumptions, turnover in key management positions, and some lack of internal controls, given the significant structural imbalance that Oakland faces, despite having a comprehensive funding policy that the city expects to be in compliance with as of fiscal 2025, five-year forecasting, and multiyear capital improvement plans.
- For more information on our institutional framework assessment for California municipalities, see "Institutional Framework Assessment: California Local Governments," Sept. 9, 2024, on RatingsDirect.

Environmental, social, and governance

We view Oakland as having elevated exposure to acute physical risks, including wildfires, sea-level rise, and earthquakes. However, we believe California's strong building codes partially mitigate the environmental risk associated with seismic activity. In addition, Measure MM, approved by voters in November 2024, creates a 20-year dedicated funding source to address wildfire risk through vegetation management, enhanced fire patrols, and evacuation route protections, among other actions within the city's Wildfire Prevention Zone. The measure would also fund the implementation of a 10-year vegetation management plan and the special tax is estimated to yield $2.67 million in its first year for wildfire resilience efforts. The city's series 2025B-2 bonds are designated as social bonds based on the social benefits of addressing affordable housing in the city. We view the city's social and governance factors as credit neutral.

Outlook

The negative outlook reflects our expectation that there is a one-in-three chance we could take an additional negative rating action should Oakland be unable to meaningfully bridge its anticipated structural deficit within the outlook horizon.

Downside scenario

We could lower the rating if Oakland can't stabilize reserves at levels in line with those of peers and in keeping with its own financial policies, or if the city fails to implement structural budget adjustments that place it on a more sustainable trajectory.

Upside scenario

We could revise the outlook to stable if Oakland sustainably reduces its structural budget gap such that it no longer deficit spends and demonstrates a track record of positive operating performance, while continuing to exhibit economic growth that is approximately in line with that of the nation.

Oakland, California--credit summary

Institutional framework (IF)	2
Individual credit profile (ICP)	3.17
Economy	1.0
Financial performance	4
Reserves and liquidity	2
Management	3.35
Debt and liabilities	5.50

Oakland, California--key credit metrics

	Most recent	2024	2023	2022
Economy				
Real GCP per capita % of U.S.	137	--	137	140
County PCPI % of U.S.	152	--	152	152
Market value ($000s)	89,306,765	85,412,303	80,125,813	74,099,351
Market value per capita ($)	208,802	199,697	183,742	173,874
Top 10 taxpayers % of taxable value	4.2	4.0	4.1	3.9
County unemployment rate (%)	4.6	4.5	3.8	3.2
Local median household EBI % of U.S.	121	121	122	122
Local per capita EBI % of U.S.	130	130	128	139
Local population	427,710	427,710	436,077	426,166

Oakland, California--key credit metrics

Financial performance				
Operating fund revenues ($000s)	--	975,499	967,768	926,596
Operating fund expenditures ($000s)	--	927,318	808,968	690,654
Net transfers and other adjustments ($000s)	--	(78,479)	(100,744)	(85,997)
Operating result ($000s)	--	(30,298)	58,056	149,945
Operating result % of revenues	--	(3.1)	6.0	16.2
Operating result three-year average %	--	6.4	9.6	6.7
Reserves and liquidity				
Available reserves % of operating revenues	--	16.1	26.3	27.9
Available reserves ($000s)	--	157,263	254,272	258,286
Debt and liabilities				
Debt service cost % of revenues	--	7.0	9.3	8.2
Net direct debt per capita ($)	2,950	2,544	2,357	2,658
Net direct debt ($000s)	1,261,750	1,087,954	1,027,807	1,132,586
Direct debt 10-year amortization (%)	36	48	--	--
Pension and OPEB cost % of revenues	--	21.0	19.0	19.0
NPLs per capita ($)	--	4,900	4,806	4,861
Combined NPLs ($000s)	--	2,095,797	2,095,797	2,071,495

Financial data may reflect analytical adjustments and are sourced from issuer audit reports or other annual disclosures. Economic data is generally sourced from S&P Global Market Intelligence, the Bureau of Labor Statistics, Claritas, and issuer audits and other disclosures. Local population is sourced from Claritas. Claritas estimates are point in time and not meant to show year-over-year trends. GCP--Gross county product. PCPI--Per capita personal income. EBI--Effective buying income. OPEB--Other postemployment benefits. NPLs--Net pension liabilities.

Ratings List	
New Issue Ratings	
US$180,875,000 City of Oakland, California, General Obligation Bonds, (Measure U Social Bonds), Series 2025B-2, dated: November 04, 2025, due: July 15, 2050	
Long Term Rating	AA-/Negative
US$49,100,000 City of Oakland, California, General Obligation Refunding Bonds, Series 2025, dated: November 04, 2025, due: July 15, 2039	
Long Term Rating	AA-/Negative
US$10,050,000 City of Oakland, California, General Obligation Bonds, (Measure U), Series 2025B-3, dated: November 04, 2025, due: July 15, 2028	
Long Term Rating	AA-/Negative
US$94,260,000 City of Oakland, California, General Obligation Bonds, (Measure U), Series 2025B-1, dated: November 04, 2025, due: July 15, 2055	
Long Term Rating	AA-/Negative
Ratings Affirmed	
Local Government	
Oakland, CA General Fund Pledge	AA-/Negative
Oakland, CA Lease Appropriation	A+/Negative
Oakland, CA Unlimited Tax General Obligation	AA-/Negative

The ratings appearing below the new issues represent an aggregation of debt issues (ASID) associated with related maturities. The maturities similarly reflect our opinion about the creditworthiness of the U.S. Public Finance obligor's legal pledge for payment of the financial obligation. Nevertheless, these maturities may have different credit ratings than the rating presented next to the ASID depending on whether or not additional legal pledge(s) support the specific maturity's payment obligation, such as credit enhancement, as a result of defeasance, or other factors.