

ISSUER COMMENT

19 October 2017

RATING

General Obligation (or GO Related) ¹

A2 No Outlook

Contacts

Matthew A. Jones +1.415.274.1735
*Senior Vice President/
 Manager*
 matthew.jones@moodys.com

Michael S. Higgins 212-553-1619
Associate Analyst
 michael.higgins@moodys.com

City of Gearhart, OR

Annual Comment on Gearhart

Issuer Profile

The City of Gearhart is located in Clatsop County on Oregon's northern Pacific Coast, approximately 80 miles northwest of Portland. The county has a population of 37,382 and a low population density of 45 people per square mile. The county's median family income is \$58,825 (3rd quartile) and the August 2017 unemployment rate was 4.1% (2nd quartile) ². The largest industry sectors that drive the local economy are accommodation/food services, retail trade, and health services.

Credit Overview

Gearhart has a sound credit position, despite its A2 rating being lower than the median rating of Aa3 for US cities. The city's key credit factors include a fairly healthy socioeconomic profile, a modestly sized tax base, and a light debt burden. The rating also reflects a moderate pension liability and a favorable financial position.

Economy and Tax Base: Compared to the assigned rating of A2, the economy and tax base of the city are very strong and are credit strengths. The full value per capita (\$432,185) is materially above the US median and remained level between 2012 and 2016. Moreover, the median family income equals just 86.4% of the US level. Full value (\$632 million) is weaker than other Moody's-rated cities nationwide.

Debt and Pensions: Gearhart has small debt and pension burdens overall, which is a credit strength with respect to its A2 rating. The net direct debt to full value (1.1%) approximates the US median, and this percentage slightly declined between 2012 and 2016. Moreover, the Moody's-adjusted net pension liability to operating revenues (0.89x) is favorably lower than the US median.

Finances: Gearhart's financial position is satisfactory and is relatively strong when compared to the A2 rating assigned. The city's cash balance as a percent of operating revenues (14.7%) is materially below the US median, even after growing markedly from 2012 to 2016. Additionally, the fund balance as a percent of operating revenues (14.7%) is materially lower than other Moody's-rated cities nationwide.

Management and Governance: Oregon cities have an Institutional Framework score ³ of Aa, which is high compared to the nation. Institutional Framework scores measure a sector's legal ability to increase revenues and decrease expenditures. Property tax, a major revenue source, is subject to a cap which can be overridden with voter approval only. However, the cap of approximately 3% for most properties still allows for moderate revenue-raising ability. Unpredictable revenue fluctuations tend to be minor, or under 5% annually. Across the sector, fixed and mandated costs are generally less than 25% of expenditures.

However, Oregon has public sector unions, which can limit the ability to cut expenditures. Unpredictable expenditure fluctuations tend to be minor, under 5% annually.

Sector Trends - Oregon Cities

Oregon cities are expected to perform well as the state's economy continues to expand. Full values are increasing and gaining back losses experienced during the downturn. Property tax revenue growth will be strong as a result of economic expansion. The improving economy continues to attract in-migration, which will, over time, increase the cost of service provision. Additionally, statewide economic expansion should result in increased state revenues, which could mean additional grant funding for local governments. Pension costs remain a long-term concern, and contribution rates will increase in coming years.

EXHIBIT 1

Key Indicators ^{4 5} Gearhart

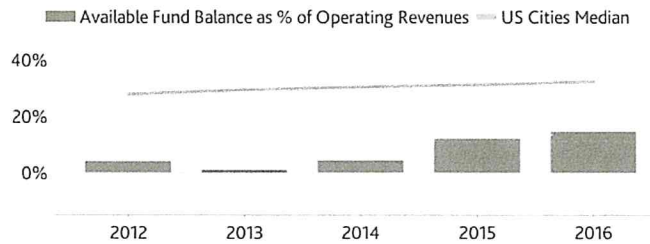
	2012	2013	2014	2015	2016	US Median	Credit Trend
Economy / Tax Base							
Total Full Value	\$635M	\$616M	\$620M	\$620M	\$631M	\$1,787M	Stable
Full Value Per Capita	\$424,072	\$407,350	\$389,594	\$424,673	\$432,185	\$88,380	Stable
Median Family Income (% of US Median)	92%	82%	84%	86%	86%	113%	Weakened
Finances							
Available Fund Balance as % of Operating Revenues	4.0%	0.8%	4.4%	12.2%	14.7%	32.5%	Improved
Net Cash Balance as % of Operating Revenues	4.0%	0.8%	4.4%	19.8%	14.7%	35.4%	Improved
Debt / Pensions							
Net Direct Debt / Full Value	1.4%	1.4%	1.3%	1.2%	1.1%	1.2%	Stable
Net Direct Debt / Operating Revenues	4.48x	4.07x	4.08x	4.22x	3.62x	0.93x	Improved
Moody's-adjusted Net Pension Liability (3-yr average) to Full Value	N/A	0.4%	0.4%	0.3%	0.3%	1.7%	Stable
Moody's-adjusted Net Pension Liability (3-yr average) to Operating Revenues	N/A	1.28x	1.18x	1.12x	0.89x	1.46x	Stable
	2012	2013	2014	2015	2016	US Median	
Debt and Financial Data							
Population	1,498	1,513	1,592	1,462	N/A	N/A	
Available Fund Balance (\$000s)	\$81	\$18	\$87	\$219	\$286	\$7,221	
Net Cash Balance (\$000s)	\$81	\$18	\$87	\$357	\$286	\$7,930	
Operating Revenues (\$000s)	\$2,018	\$2,115	\$1,994	\$1,799	\$1,951	\$21,262	
Net Direct Debt (\$000s)	\$9,050	\$8,614	\$8,130	\$7,595	\$7,055	\$18,822	
Moody's Adjusted Net Pension Liability (3-yr average) (\$000s)	N/A	\$2,701	\$2,353	\$2,019	\$1,743	\$29,896	

Source: Moody's Investors Service

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moodys.com for the most updated credit rating action information and rating history.

EXHIBIT 2

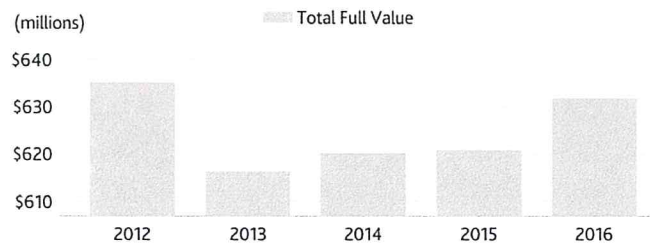
Available fund balance as a percent of operating revenues increased from 2012 to 2016



Source: Issuer financial statements; Moody's Investors Service

EXHIBIT 3

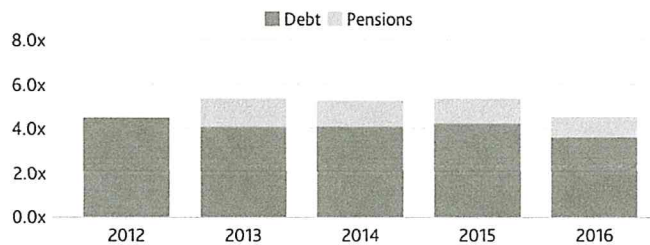
Full value of the property tax base decreased from 2012 to 2016, yet has rebounded over the last four years



Source: Issuer financial statements; Government data sources; Offering statements; Moody's Investors Service

EXHIBIT 4

Moody's-adjusted net pension liability to operating revenues decreased from 2012 to 2016



Source: Issuer financial statements; Government data sources; Offering statements; Moody's Investors Service

Endnotes

- 1 The rating referenced in this report is the issuer's General Obligation (GO) rating or its highest public rating that is GO-related. A GO bond is generally backed by the full faith and credit pledge and total taxing power of the issuer. GO-related securities include general obligation limited tax, annual appropriation, lease revenue, non-ad valorem, and moral obligation debt. The referenced ratings reflect the government's underlying credit quality without regard to state guarantees, enhancement programs or bond insurance.
- 2 The demographic data presented, including population, population density, per capita personal income and unemployment rate are derived from the most recently available US government databases. Population, population density and per capita personal income come from the American Community Survey while the unemployment rate comes from the Bureau of Labor Statistics.

The largest industry sectors are derived from the Bureau of Economic Analysis. Moody's allocated the per capita personal income data and unemployment data for all counties in the US census into quartiles. The quartiles are ordered from strongest-to-weakest from a credit perspective: the highest per capita personal income quartile is first quartile, and the lowest unemployment rate is first quartile.
- 3 The institutional framework score assesses a municipality's legal ability to match revenues with expenditures based on its constitutionally and legislatively conferred powers and responsibilities. See [US Local Government General Obligation Debt \(December 2016\)](#) methodology report for more details.
- 4 For definitions of the metrics in the Key Indicators Table, [US Local Government General Obligation Methodology and Scorecard User Guide \(July 2014\)](#). Metrics represented as N/A indicate the data were not available at the time of publication.
- 5 The medians come from our most recently published local government medians report, [Medians – Growing Tax Bases and Stable Fund Balances Support Sector's Stability \(March 2016\)](#) which is available on [Moody's.com](#). The medians presented here are based on the key metrics outlined in Moody's GO methodology and the associated scorecard.