

ISSUER COMMENT

20 October 2017

RATING

General Obligation (or GO Related) ¹

A1 No Outlook

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City of Gardena, CA

Annual Comment on Gardena

Issuer Profile

The City of Gardena is located in Los Angeles County, California, approximately 12 miles southwest of downtown Los Angeles, within the greater LA metro area. The county has a population of 10,038,388 and a high population density of 2,493 people per square mile. The county's median family income is \$62,703 (2nd quartile) and the July 2017 unemployment rate was 5.2% (3rd quartile) ². Los Angeles County is commonly associated with the entertainment industry. All six major film studios, including Paramount Pictures, 21st Century Fox, Sony, Warner Bros., Universal Pictures, and Walt Disney Studios, are located within the county. Los Angeles County has a very diverse economy beyond entertainment. The other largest industry sectors that drive the local economy are health services, retail trade, and professional/scientific/technical services.

Credit Overview

The credit position for Gardena is healthy and its Aa3 rating matches the median rating of Aa3 for US cities. The key credit factors include a robust financial position, a small debt burden, an inflated pension liability, and a large tax base with moderate income levels.

Finances: Gardena has a very strong financial position, which is a strength in comparison to the assigned rating of Aa3. The cash balance as a percent of operating revenues (33.1%) is consistent with the US median, and increased between 2012 and 2016. Additionally, the fund balance as a percent of operating revenues (38.2%) is slightly above other Moody's-rated cities nationwide.

Debt and Pensions: The debt burden of Gardena is extremely small and is favorable with respect to its Aa3 rating. The net direct debt to full value (0.4%) is materially below the US median, and did not change from 2012 to 2016. On the other hand, the pension liability of the city is elevated and is weak in relation to the assigned rating of Aa3. The Moody's-adjusted net pension liability to operating revenues (3.3x) is much higher than the US median.

Economy and Tax Base: Overall, Gardena has a sound economy and tax base, which are consistent with its Aa3 rating position. The full value (\$5.7 billion) is considerable compared to the US median, and saw an impressive increase between 2012 and 2016. Also, the city's full value per capita (\$94,133) approximates the US median. That said, the median family income equals only 80.9% of the US level.

Management and Governance: California cities have an Institutional Framework score ³ of A, which is moderate compared to the nation. Institutional Framework scores measure a sector's legal ability to increase revenues and decrease expenditures. California cities' major

revenue sources can only be raised with voter approval, or, in the case of ad valorem property taxes, cannot be raised except to meet GO bond payments. Ad valorem property tax rates cannot be increased above 1% except to meet GO bond payments, and assessed valuation growth is also generally limited to 2% annually unless a property changes ownership. Unpredictable revenue fluctuations tend to be moderate, or between 5-10% annually. Across the sector, fixed and mandated costs are generally less than 25% of expenditures. However, California has strong public sector unions, which can limit the ability to cut expenditures. Unpredictable expenditure fluctuations tend to be moderate, between 5-10% annually.

Sector Trends - California Cities

California cities will continue to benefit from a strong and improving state economy. Growing assessed value trends and resulting property taxes, as well as robust statewide sales tax growth, will continue to raise city property tax and sales tax revenues. Housing values statewide continue to increase and provide long-term strength to the state's cities. Employment trends are positive and will continue to boost the statewide economy, particularly in the high tech sector. California cities, however, remain exposed to growing long term pension and OPEB liabilities.

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.moody's.com for the most updated credit rating action information and rating history.

EXHIBIT 1

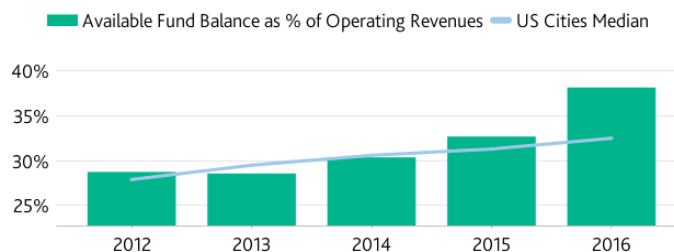
Key Indicators 4.5 Gardena

	2012	2013	2014	2015	2016	US Median	Credit Trend
Economy / Tax Base							
Total Full Value	\$4,714M	\$4,784M	\$4,903M	\$5,119M	\$5,686M	\$1,787M	Improved
Full Value Per Capita	\$79,953	\$80,789	\$82,155	\$85,429	\$94,133	\$88,380	Improved
Median Family Income (% of US Median)	89%	85%	83%	81%	81%	113%	Weakened
Finances							
Available Fund Balance as % of Operating Revenues	28.7%	28.6%	30.4%	32.7%	38.2%	32.5%	Improved
Net Cash Balance as % of Operating Revenues	25.2%	26.3%	28.0%	28.8%	33.1%	35.4%	Improved
Debt / Pensions							
Net Direct Debt / Full Value	0.5%	0.5%	0.5%	0.5%	0.4%	1.2%	Stable
Net Direct Debt / Operating Revenues	0.54x	0.52x	0.47x	0.44x	0.38x	0.93x	Stable
Moody's-adjusted Net Pension Liability (3-yr average) to Full Value	2.0%	3.0%	3.5%	3.5%	3.5%	1.7%	Weakened
Moody's-adjusted Net Pension Liability (3-yr average) to Operating Revenues	2.06x	3.03x	3.39x	3.42x	3.25x	1.46x	Weakened
	2012	2013	2014	2015	2016	US Median	
Debt and Financial Data							
Population	58,960	59,226	59,682	59,931	60,414	N/A	
Available Fund Balance (\$000s)	\$13,173	\$13,465	\$15,342	\$17,310	\$23,195	\$7,221	
Net Cash Balance (\$000s)	\$11,542	\$12,400	\$14,140	\$15,278	\$20,096	\$7,930	
Operating Revenues (\$000s)	\$45,824	\$47,124	\$50,516	\$52,956	\$60,793	\$21,262	
Net Direct Debt (\$000s)	\$24,968	\$24,323	\$23,681	\$23,562	\$22,810	\$18,822	
Moody's Adjusted Net Pension Liability (3-yr average) (\$000s)	\$94,494	\$142,964	\$171,221	\$181,228	\$197,617	\$29,896	

Source: Moody's Investors Service

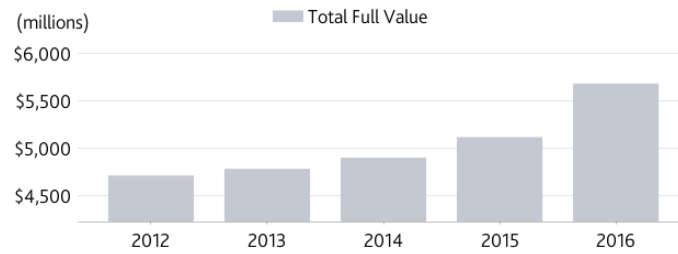
EXHIBIT 2

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



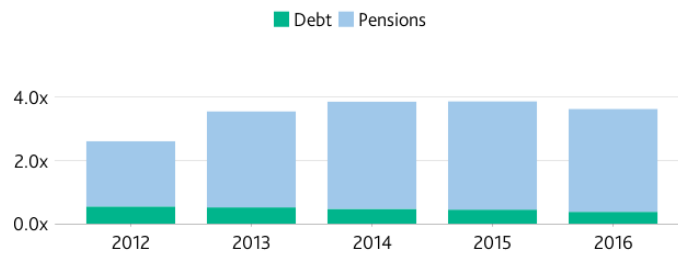
Source: Issuer financial statements; Moody's Investors Service

EXHIBIT 3

Full value of the property tax base increased from 2012 to 2016

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 Moodys.com. The medians presented here are based on the key metrics outlined in Moody's GO methodology and the associated scorecard.

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