

CREDIT OPINION

25 July 2016

Update

Rate this Research >>

Contacts

Steven Goodman- +1 415-274-1723
Leibof
Associate Analyst
steven.goodman-leibof@moodys.com

Alexandra J. 415-274-1754
Cimmiyotti
VP-Senior Analyst
alexandra.cimmiyotti@moodys.com

Torrance (City of), CA

Rating Update - Moody's Affirms Torrance, CA's Aa2 Issuer Rating and A1 COP Rating, Outlook Remains Stable

Summary Rating Rationale

Moody's Investors Service has affirmed an Aa2 rating to Torrance, California's issuer rating. Moody's has also affirmed the A1 rating on the city's outstanding Series 2009 Certificates of Participation (COPs) totaling \$17.3 million. The outlook remains stable.

The Aa2 issuer rating reflects the city's large and diverse tax base that is supported by strong resident wealth indicators. We expect continued moderate growth in the district's tax in the near term. The rating also reflects the district's stable financial profile that is characterized by ample reserves with a narrow but stable general fund cash position that is likely to remain below-average going forward. The city's debt burden should remain low and manageable given the strong economic growth. The city's elevated pension burden and high fixed costs (lease payments, OPEB and pension contributions) have also been incorporated into the rating.

The two notch rating distinction between the A1 rating on the city's lease-backed obligations and the Aa2 issuer rating represents the weaker security pledge for standard California abatement lease obligations and the additional risk to bondholders from the city's financial, operational, and economic conditions over the more secure general obligation pledge. A "lease pledge" is a contractual obligation, conditioned on use and/or occupancy of the least asset, effectively on parity with a city's other unsecured obligations. The city's issuer rating reflects what its secured, general obligation rating would be if the city issued such debt.

Moody's is currently evaluating comments we received on our proposed, methodological revisions to rating state and local government lease-backed obligations. Our comment period closed on December 2, 2015, and the publication of the final, revised methodology could affect the city's lease-backed obligation ratings. With respect to the city's abatement lease rating, we note that we have proposed to "eliminate the additional downward notch we currently assign for lease-backed obligations with abatement risk relative to lease-backed obligations with appropriation risk." (p.2)

Credit Strengths

- » Large and diverse tax base
- » Strong financial operations featuring sizeable reserves
- » Sound resident wealth levels

Credit Challenges

- » Elevated pension liability
- » Rising pension costs
- » High public safety expenditures

Rating Outlook

The outlook is stable and reflects the city's demonstrated ability to maintain a healthy financial position as well as the city's growing tax base and local economy.

Factors that Could Lead to an Upgrade

- » Continued growth in assessed valuation
- » Significant improvement in the city's financial position
- » Continued work to address city's pension and benefit obligations

Factors that Could Lead to a Downgrade

- » Significant deterioration in the city's financial position
- » Protracted decline in the city's assessed valuation
- » Weakening of the city's economic activity
- » Inability to effectively manage retirement costs

Key Indicators

Exhibit 1

Torrance (City of) CA	2011	2012	2013	2014	2015
Economy/Tax Base					
Total Full Value (\$000)	\$ 23,450,789	\$ 23,904,302	\$ 24,024,022	\$ 24,902,529	\$ 25,927,077
Full Value Per Capita	\$ 162,152	\$ 164,355	\$ 164,338	\$ 169,197	\$ 174,679
Median Family Income (% of US Median)	141.6%	140.8%	141.4%	143.8%	143.8%
Finances					
Operating Revenue (\$000)	\$ 153,467	\$ 157,442	\$ 158,795	\$ 167,694	\$ 179,235
Fund Balance as a % of Revenues	25.9%	35.0%	25.3%	23.6%	27.1%
Cash Balance as a % of Revenues	19.5%	19.7%	19.0%	20.5%	19.3%
Debt/Pensions					
Net Direct Debt (\$000)	\$ 62,175	\$ 60,695	\$ 59,470	\$ 58,279	\$ 57,300
Net Direct Debt / Operating Revenues (x)	0.4x	0.4x	0.4x	0.3x	0.3x
Net Direct Debt / Full Value (%)	0.3%	0.3%	0.2%	0.2%	0.2%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	N/A	3.2x	3.5x	4.0x	3.9x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	N/A	2.1%	2.3%	2.7%	2.7%

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

Detailed Rating Considerations

Economy and Tax Base: Moderate Growth in Tax Base Expected; Solid Socioeconomic Profile

Moody's expects moderate growth in the tax base to continue in the near term due to the large number of homes assessed below market value as well as new commercial development underway. The fiscal 2016 total assessed value (AV) reached \$26.8 billion, and far exceeds the median for the rating category of \$14.9 billion for California and \$2.6 billion nationally, with 3.6% growth over the prior year and a three-year growth rate of 2.7%. Torrance weathered the Great Recession better than most of California with only one small 1.3% decline in fiscal 2011. With two thirds of the secured AV in residential property and only modest recessionary drop in the median home sale price, that number is currently up over \$600,000 and increasing, Torrance is a largely built-out community that has shown remarkable resilience in the tax base.

We expect the city's economy to remain healthy because of its location in the Greater Los Angeles area and the presence of large industrial employers. The city's proximity to the port complexes of Long Beach Port Facility (Aa2/Stable Revenue Bonds) and Los Angeles Harbor Department (Aa2/Stable Revenue Bonds), the Los Angeles International Airport (Aa3/Positive revenue bonds), and several major freeways make it an active player in the local economy with attractive infrastructure benefits to companies. The city has experienced significant growth in the retail sector in 2015 with a large expansion to Del Amo Fashion Center mall adding roughly 100 new stores and restaurants and the addition of two new high end car dealerships that will yield healthy sales tax receipts for the city.

There is some concentration in the tax base with the top ten taxpayers equaling 11.2% of AV. The taxpayers do however represent a diverse mix of industrial, retail, office, hotel, and multi-family residential properties. The top taxpayer in fiscal 2016 was ExxonMobil, owner of a petroleum refinery that suffered a catastrophic fire in February 2015. The property was sold to PBF Energy on July 1, 2016 for an undisclosed price, it will remain to be seen the impact this has on the tax base. Also of note is the divestment of Toyota Motor Sales USA Inc. Toyota is moving the majority of its operations to Texas and will leave a much smaller, one-third the size, footprint in Torrance. Management expects the overall impact to assessed value to be neutral as new businesses move into the current Toyota facility.

The city's fiscal 2016 full value per capita of \$180,922 and MFI equal to 143.8% of US are somewhat higher than the medians for the Aa2 rating category of 119.6% nationally and 114% for California. Positively, employment in Torrance continues to increase and the unemployment rate was an extremely low 3.2% in April 2016, compared to 5.3% in California and 5.0% nationally for the same period.

Financial Operations and Reserves: Conservative Management Healthy Results Despite Volatile Revenue Source

We anticipate that as the economy continues to improve, the city's financial position will continue to strengthen though that may be somewhat muted by rising pension costs. Based on year-to-date figures, fiscal 2016 will mark the city's third consecutive operating surplus, maintain reserves at healthy levels.

While the city suffered decreasing revenues and deficit spending through the recession, in recent years the city has enjoyed stronger financial results as expenditure cuts and revenue increases have led to significant surpluses of 5% and 3% of general fund revenues in fiscal years 2014 and 2015, respectively. The fiscal 2015 total fund balance of \$66.7 million (36% of revenues) is comparable to the median for national and state Aa2-rated cities. The year to date actuals for fiscal 2016 results indicate slight total fund balance increase of around \$1.5 million due to revenues coming in higher than expected from increased sales tax and recovery of the utility user tax.

The Los Angeles metro area has been in a state of economic expansion which has led to an improved funding environment that should continue in the near term. Torrance, as a part of the this area has enjoyed in the economic gains. General fund revenues for the city have been steadily increasing over the last four fiscal years growing 15.6% since 2011. The city's utility users tax, which accounts for 18% of revenues, continues to be the most volatile revenue source for the city as utility usage fluctuates depending on the economic activity of the city's industries and residents. Recent disruptions in service of the Exxon-Mobil refinery slowed overall utility user tax receipts leading to a readjustment of projected revenue increases from a 3% increase to a 1.6% increase in fiscal 2016.

Historically, city management has adjusted expenditures when revenues have diminished. Moody's expects the city's expenditure reduction practices to help address the risks posed by the prevalence of economically sensitive city tax revenues. The city's practice of holding vacant positions open and cutting administrative expenses when revenues fall short is a credit positive.

As with many full service cities, public safety costs as a percentage of total operating expenditures continues to be a large portion of the city's operating expenditures and will likely remain so for the predictable future. Public safety costs have increased from approximately \$86.9 million or 54% of total operating expenditures in fiscal 2008 to \$101.7 million or 58.6% of operating expenditures in fiscal 2015. Public safety costs will continue to be a high portion of the city's overall expenditures and has the potential to crowd out future financial flexibility.

LIQUIDITY

The city's year-end net cash balances have remained relatively stable and are expected to remain adequate for the rating category. Ending net cash balances (excluding TRAN receipts), have declined from a high of \$44.7 million (26.5% of revenues) in fiscal 2007 to \$30.9 million (16.7% of revenues) in fiscal 2015. Similar to the city's reserve position, we expect its liquidity position to remain stable.

Debt and Pensions: Low Direct Debt with Moderate Lease Burden; Outsized Pension Liability that Could Pose Budget Constraints in the Long-Term

The fiscal 2015 net direct debt represents just 0.2% of AV and \$386 per capita, while the lease burden as a percentage of general fund expenditures is low at 2%. Payout of principal is slow but comparable to other California cities at 25.2% in ten years. Moody's expects the debt burden to decrease in the near term as management cited a City Council mandate to pay down existing debt and liabilities prior to issuing any future debt.

DEBT STRUCTURE

The city has all fixed rate certificates of participation (\$57.1 million currently outstanding) and a small \$155 thousand in capital lease obligations.

DEBT-RELATED DERIVATIVES

The city has not entered into any derivative agreements.

PENSIONS AND OPEB

The city's pension obligation continues to be a financial pressure point. Current contribution levels are manageable given the city's strong financial position, however California Public Employees' Retirement System (CalPERS) is projecting escalating contribution rates for all of its participants through 2021 which will create future budgetary pressure. The city has acknowledged this financial pressure and has taken some measures to address the unfunded liability such as contributing above its 2015 annual contribution (\$3 million from one-time revenues related to a sale of property) and adjusted benefits for new hires.

As of fiscal 2015, the city contributed \$30 million on behalf of their employees to the city's defined pension benefit plan provided through the CalPERS. The city's fiscal 2015 contribution to CalPERS as a percentage of general fund expenditures was 16.35%. These pension costs are projected to increase for the foreseeable future. When combining the city's fiscal 2015 CalPERS contribution with the fiscal 2015 debt service on the lease obligations, and OPEB contribution the city's debt burden as a percentage of total general fund expenditures increases to 19.67%, an above-average general fund obligation burden. The city also runs a small single employer pension plan that contributed \$1.3 million in 2015.

Moody's 3-year average adjusted net pension liability (ANPL) for the city, under our methodology for adjusting reported pension data, is \$707 million or, compared to other California cities, an elevated 3.95 times operating revenues and 2.73% of AV in FY 2015. Moody's ANPL reflects certain adjustments we make to improve comparability of reported pension liabilities. The adjustments are not intended to replace the city's reported liability information, but to improve comparability with other rated entities.

OPEB

The city's OPEB plan currently has an unfunded actuarial accrued liability of \$73.2 million or 69.7% of covered payroll at the end of fiscal year 2015. The city contributed 39.8% of the annual OPEB cost in 2015. The city has adopted a policy in fiscal year 2017 to pre-fund 100% of the OPEB annual required contribution at the beginning of the fiscal year which is seen as credit positive.

Management and Governance

California cities have an institutional framework score of "A," or moderate. Revenue predictability is moderate, because the primary sources are property taxes and sales taxes. Property taxes are very predictable, given the state's constitutional formula, known as Proposition 13, while sales taxes are economically sensitive. Revenue-raising ability is moderate because increases almost always

require voter approval. Expenditure reduction ability is moderate, because of collective bargaining and growing pension and OPEB pressures. Expenditure predictability is high, as police and fire typically make up 60% of discretionary spending in full-service cities.

Legal Security

The lease revenue bonds are secured by payments made by the Public Facilities Financing Authority of the City of Torrance, which are derived from rental payments made by the city to the authority for the use and occupancy of leased property.

Use of Proceeds

Not applicable

Obligor Profile

The City of Torrance is located in Los Angeles County (Issuer Rating Aa2/Positive) and has a large and diverse tax base that should remain healthy for the foreseeable future. The city is Los Angeles County's sixth largest with a population of 145,927 as of 2011 and borders the Pacific Ocean. Economic activity incorporates a wide range of services, including the headquarters of several auto manufacturers, auto dealerships, and a large regional shopping mall. Notable corporations headquartered in Torrance include Toyota Motor Sales USA, American Honda Motor Company, and ExxonMobil Torrance Refinery.

Methodology

The principal methodology used in this rating was US Local Government General Obligation Debt published in January 2014. An additional methodology used in rating the lease rental debt was The Fundamentals of Credit Analysis for Lease-Backed Municipal Obligations published in December 2011. Please see the Ratings Methodologies page on www.moody.com for a copy of these methodologies.

© 2016 Moody's Corporation, Moody's Investors Service, Inc., Moody's Analytics, Inc. and/or their licensors and affiliates (collectively, "MOODY'S"). All rights reserved.

CREDIT RATINGS ISSUED BY MOODY'S INVESTORS SERVICE, INC. AND ITS RATINGS AFFILIATES ("MIS") ARE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES, AND CREDIT RATINGS AND RESEARCH PUBLICATIONS PUBLISHED BY MOODY'S ("MOODY'S PUBLICATIONS") MAY INCLUDE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES. MOODY'S DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL, FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS AND MOODY'S OPINIONS INCLUDED IN MOODY'S PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. MOODY'S PUBLICATIONS MAY ALSO INCLUDE QUANTITATIVE MODEL-BASED ESTIMATES OF CREDIT RISK AND RELATED OPINIONS OR COMMENTARY PUBLISHED BY MOODY'S ANALYTICS, INC. CREDIT RATINGS AND MOODY'S PUBLICATIONS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. NEITHER CREDIT RATINGS NOR MOODY'S PUBLICATIONS COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MOODY'S ISSUES ITS CREDIT RATINGS AND PUBLISHES MOODY'S PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL, WITH DUE CARE, MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.

MOODY'S CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT INTENDED FOR USE BY RETAIL INVESTORS AND IT WOULD BE RECKLESS AND INAPPROPRIATE FOR RETAIL INVESTORS TO USE MOODY'S CREDIT RATINGS OR MOODY'S PUBLICATIONS WHEN MAKING AN INVESTMENT DECISION. IF IN DOUBT YOU SHOULD CONTACT YOUR FINANCIAL OR OTHER PROFESSIONAL ADVISER.

ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT.

All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. MOODY'S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources MOODY'S considers to be reliable including, when appropriate, independent third-party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information received in the rating process or in preparing the Moody's Publications.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability to any person or entity for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers is advised in advance of the possibility of such losses or damages, including but not limited to: (a) any loss of present or prospective profits or (b) any loss or damage arising where the relevant financial instrument is not the subject of a particular credit rating assigned by MOODY'S.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability for any direct or compensatory losses or damages caused to any person or entity, including but not limited to by any negligence (but excluding fraud, willful misconduct or any other type of liability that, for the avoidance of doubt, by law cannot be excluded) on the part of, or any contingency within or beyond the control of, MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers, arising from or in connection with the information contained herein or the use of or inability to use any such information.

NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY SUCH RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

Moody's Investors Service, Inc., a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by Moody's Investors Service, Inc. have, prior to assignment of any rating, agreed to pay to Moody's Investors Service, Inc. for appraisal and rating services rendered by it fees ranging from \$1,500 to approximately \$2,500,000. MCO and MIS also maintain policies and procedures to address the independence of MIS's ratings and rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold ratings from MIS and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at www.moody.com under the heading "Investor Relations — Corporate Governance — Director and Shareholder Affiliation Policy."

Additional terms for Australia only: Any publication into Australia of this document is pursuant to the Australian Financial Services License of MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657 AFSL 336969 and/or Moody's Analytics Australia Pty Ltd ABN 94 105 136 972 AFSL 383569 (as applicable). This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001. MOODY'S credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail investors. It would be reckless and inappropriate for retail investors to use MOODY'S credit ratings or publications when making an investment decision. If in doubt you should contact your financial or other professional adviser.

Additional terms for Japan only: Moody's Japan K.K. ("MJKK") is a wholly-owned credit rating agency subsidiary of Moody's Group Japan G.K., which is wholly-owned by Moody's Overseas Holdings Inc., a wholly-owned subsidiary of MCO. Moody's SF Japan K.K. ("MSFJ") is a wholly-owned credit rating agency subsidiary of MJKK. MSFJ is not a Nationally Recognized Statistical Rating Organization ("NRSRO"). Therefore, credit ratings assigned by MSFJ are Non-NRSRO Credit Ratings. Non-NRSRO Credit Ratings are assigned by an entity that is not a NRSRO and, consequently, the rated obligation will not qualify for certain types of treatment under U.S. laws. MJKK and MSFJ are credit rating agencies registered with the Japan Financial Services Agency and their registration numbers are FSA Commissioner (Ratings) No. 2 and 3 respectively.

MJKK or MSFJ (as applicable) hereby disclose that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MJKK or MSFJ (as applicable) have, prior to assignment of any rating, agreed to pay to MJKK or MSFJ (as applicable) for appraisal and rating services rendered by it fees ranging from JPY200,000 to approximately JPY350,000,000.

MJKK and MSFJ also maintain policies and procedures to address Japanese regulatory requirements.

Contacts

Steven Goodman-Leibof +1 415-274-1723
Associate Analyst
steven.goodman-leibof@moodys.com

Alexandra J. Cimmiyotti 415-274-1754
VP-Senior Analyst
alexandra.cimmiyotti@moodys.com

CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454