

ISSUER COMMENT

12 April 2017

RATING

General Obligation (or GO Related) ¹

Aa2 Stable

Contacts

Nathan Carley 312-706-9958
Associate Analyst
nathan.carley@moodys.com

Eric Hoffmann 415-274-1702
Senior Vice President
eric.hoffmann@moodys.com

City of Torrance, CA

Annual Comment on Torrance

Issuer Profile

The City of Torrance is located in Los Angeles County in southern California, bounded by the Palos Verdes Peninsula on the south, and the cities of Redondo Beach and Gardena on the north. Los Angeles County has a population of 10,116,705 and a population density of 2,493 people per square mile. The county's per capita personal income is \$49,400 (1st quartile) and the November 2016 unemployment rate was 4.8% (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

Torrance has a high quality credit position, and its Aa2 rating is slightly above the median rating of Aa3 for cities nationwide. The notable credit factors include a strong socioeconomic profile with an extensive tax base, and a satisfactory financial position. It also incorporates a low debt liability and an outsized pension burden.

Economy and Tax Base: The economy and tax base of the city are exceptionally healthy and are relatively strong with respect to the assigned rating of Aa2. Torrance's total full value (\$25.8 billion) is significantly above the US median. Furthermore, the full value per capita (\$175,253) is much stronger than other Moody's-rated cities nationwide and grew from 2013 to 2016. Lastly, the median family income equals a significant 143.6% of the US level.

Finances: The financial position of the city is satisfactory. Yet, it is slightly weak when compared to its Aa2 rating. Torrance's available fund balance as a percent of operating revenues (23.5%) falls just short of the US median. Moreover, the net cash balance as a percent of revenues (13.7%) is much lower than other Moody's-rated cities nationwide and contracted between 2013 and 2016.

Debt and Pensions: The city has an extremely small debt liability that is favorable when compared with the assigned rating of Aa2. The net direct debt to full value (0.2%) is materially below the US median. However, Torrance has an elevated pension burden that is a credit weakness compared to the Aa2 rating. The Moody's-adjusted net pension liability to operating revenues (4.8x) is significantly above the US median and increased markedly between 2013 and 2016.

Management and Governance: Balanced financial operations indicate sound financial management. In this case, Torrance's operations were approximately break-even while the tax base generally grew.

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.

EXHIBIT 1

Key Indicators ⁴ ⁵
Torrance, CA

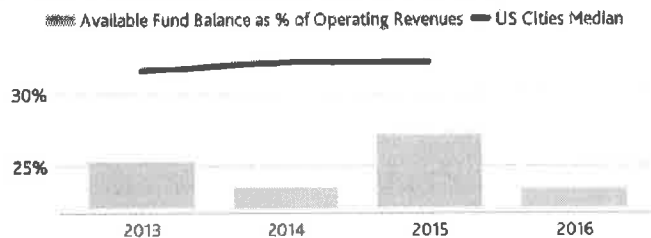
	2013	2014	2015	2016	US Median	Credit Trend
Economy / Tax Base						
Total Full Value	\$24,024M	\$24,903M	\$25,927M	\$25,793M	\$1,722M	Improved
Full Value Per Capita	\$164,338	\$169,197	\$175,671	\$175,253	\$85,195	Improved
Median Family Income (% of US Median)	141.4%	143.8%	143.6%	143.6%	115.2%	Stable
Finances						
Available Fund Balance as % of Operating Revenues	25.3%	23.6%	27.1%	23.5%	32.1%	Stable
Net Cash Balance as % of Operating Revenues	19.0%	20.5%	19.3%	13.7%	34.4%	Weakened
Debt / Pensions						
Net Direct Debt / Full Value	0.25%	0.23%	0.22%	0.22%	1.2%	Stable
Net Direct Debt / Operating Revenues	0.37x	0.35x	0.32x	0.32x	0.94x	Stable
Moody's-adjusted Net Pension Liability (3-yr average) to Full Value	2.3%	2.7%	2.7%	3.2%	1.7%	Weakened
Moody's-adjusted Net Pension Liability (3-yr average) to Operating Revenues	3.55x	4.00x	3.95x	4.79x	1.35x	Weakened

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.com for the most updated credit rating information and rating history.

EXHIBIT 2

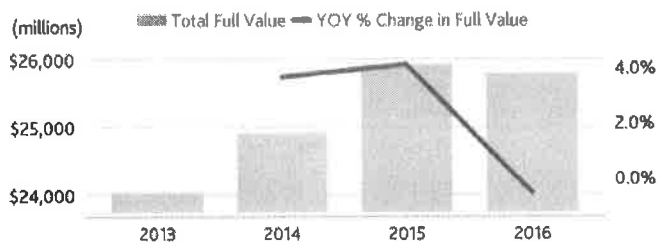
Available fund balance as a percent of operating revenues decreased from 2013 to 2016



Source: Issuer financial statements; Moody's Investors Service

EXHIBIT 3

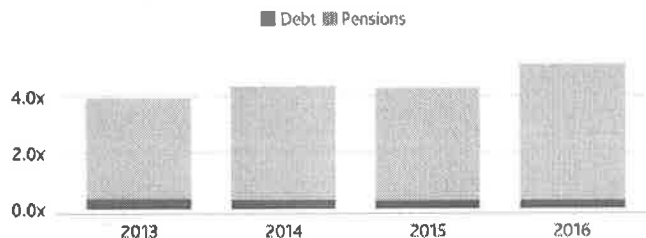
Total full value increased between 2013 and 2016



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

EXHIBIT 4

Moody's-adjusted net pension liability to operating revenues grew from 2013 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 government's General Obligation (GO) rating or its highest public rating that is GO-related. A GO bond is generally a security backed by the full faith and credit pledge and total taxing power of the local government. See [Local Government GO Pledges Vary Across States](#) for more details. GO-related ratings include issuer ratings, which are GO-equivalent ratings for governments that do not issue GO debt. GO-related ratings also include ratings on other securities that are notched or otherwise related to what the government's GO rating would be, such as 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 guarantee or enhancement programs or bond insurance.
- 2 The per capita personal income data and unemployment data for all counties in the US census are allocated to 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. The first quartile consists of the top 25% of observations in the dataset, the second quartile consists of the next 25%, and so on. The median per capita personal income for US counties is \$46,049 for 2014. The median unemployment rate for US counties is 5.1 % for June 2016.
- 3 The institutional framework score measures 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 \(January 2014\)](#) 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). The population figure used in the Full Value Per Capita ratio is the most recently available, most often sourced from either the US Census or the American Community Survey.

Similarly, the Median Family Income data reported as of 2012 and later is always the most recently available data and is sourced from the American Community Survey. The Median Family Income data prior to 2012 is sourced from the 2010 US Census. The Full Value figure used in the Net Direct Debt and Moody's-adjusted Net Pension Liability (3-year average ANPL) ratios is matched to the same year as audited financial data, or if not available, lags by one or two years.

Certain state-specific rules also apply to Full Value. For example, in California and Washington, assessed value is the best available proxy for Full Value. Certain state specific rules also apply to individual data points and ratios. Moody's makes adjustments to New Jersey local governments' reported financial statements to make it more comparable to GAAP.

Additionally, Moody's ANPLs reflect analyst adjustments, if any, for pension contribution support from non-operating funds and self-supporting enterprises. Many local government pension liabilities are associated with its participation in the statewide multiple-employer cost-sharing plans. 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 \(March 2016\)](#). The medians conform to our US Local Government General Obligation Debt rating methodology published in January 2014.

As such, the medians presented here are based on the key metrics outlined in the methodology and the associated scorecard. The appendix of this report provides additional metrics broken out by sector, rating category, and population. We use data from a variety of sources to calculate the medians, many of which have differing reporting schedules. Whenever possible, we calculated these medians using available data for fiscal year 2014.

However, there are some exceptions. Population data is based on the 2010 Census and Median Family Income is derived from the 2012 American Community Survey. Medians for some rating levels are based on relatively small sample sizes. These medians, therefore, may be subject to potentially substantial year-over-year variation. Our ratings reflect our forward looking opinion derived from forecasts of financial performance and qualitative factors, as opposed to strictly historical quantitative data used for the medians.

Our expectation of future performance combined with the relative importance of certain metrics on individual local government ratings account for the range of values that can be found within each rating category. Median data for prior years published in this report may not match last year's publication due to data refinement and changes in the sample sets used, as well as rating changes, initial ratings, and rating withdrawals.

© 2017 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 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's.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 61 009 399 657 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. ("MJJK") 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 MJJK. 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. MJJK 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.

MJJK 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 MJJK or MSFJ (as applicable) have, prior to assignment of any rating, agreed to pay to MJJK or MSFJ (as applicable) for appraisal and rating services rendered by it fees ranging from JPY200,000 to approximately JPY350,000,000.

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

REPORT NUMBER 1066979