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ISSUER COMMENT
31 August 2018

RATING

General Obligation (or GO Related) [1]	
Aaa	No Outlook

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City of Newport Beach, CA

Annual Comment on Newport Beach

Issuer Profile

The City of Newport Beach is located in coastal Orange County, California, approximately 35 miles southeast of Los Angeles, in the greater LA metro area. The county has a population of 3,132,211 and a high population density of 3,968 people per square mile. The county's median family income is $88,056 (1st quartile) and the May 2018 unemployment rate was 2.6% (1st quartile) [2]. The largest industry sectors that drive the local economy are professional/scientific/technical services, health services, and retail trade.

Credit Overview

Newport Beach has an exceptional credit position, and its Aaa rating is much higher than the median rating of Aa3 for US cities. The key credit factors include an extensive tax base, a very strong wealth and income profile, and a robust financial position. It also reflects a moderate debt burden and an elevated pension liability.

Economy and Tax Base: The economy and tax base of the city are exceptionally healthy and are consistent with the assigned rating of Aaa. Newport Beach's full value per capita ($592,848) is much stronger than the US median, and saw an impressive increase between 2013 and 2017. Furthermore, the total full value ($50.3 billion) greatly exceeds the US median. Lastly, the median family income equates to a robust 231.6% of the US level.

Finances: The city has a healthy financial position, which is in line with its Aaa rating. Newport Beach's cash balance as a percent of operating revenues (39.9%) is roughly equivalent to the US median. However, this metric fell modestly from 2013 to 2017 as a portion of the city's operating reserves were transferred to capital project funds. Also, the fund balance as a percent of operating revenues (35.6%) is consistent with other Moody's-rated cities nationwide.

Debt and Pensions: The debt and pension liabilities of Newport Beach are somewhat elevated overall and unfavorable in relation to the assigned rating of Aaa. The net direct debt to full value (0.2%) is materially below the US median, and remained stable from 2013 to 2017. That said, the Moody's-adjusted net pension liability to operating revenues (3.4x) is well above the US median.

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.

EXHIBIT 1

Key Indicators [4] [5] Newport Beach

	2013	2014	2015	2016	2017	US Median	Credit Trend
Economy / Tax Base							
Total Full Value	$40,183M	$42,341M	$44,752M	$47,388M	$50,341M	$1,867M	Improved
Full Value Per Capita	$467,240	$488,962	$514,918	$545,868	$592,848	$89,200	Improved
Median Family Income (% of US Median)	226%	235%	234%	232%	232%	113%	Improved
Finances							
Available Fund Balance as % of Operating Revenues	40.5%	38.3%	37.8%	32.7%	35.6%	33.9%	Stable
Net Cash Balance as % of Operating Revenues	44.1%	43.8%	45.6%	31.2%	39.9%	36.9%	Stable
Debt / Pensions							
Net Direct Debt / Full Value	0.3%	0.3%	0.3%	0.2%	0.2%	1.1%	Stable
Net Direct Debt / Operating Revenues	0.73x	0.70x	0.63x	0.57x	0.53x	0.88x	Stable
Moody's-adjusted Net Pension Liability (3-yr average) to Full Value	1.2%	1.3%	1.3%	1.3%	1.4%	1.8%	Stable
Moody's-adjusted Net Pension Liability (3-yr average) to Operating Revenues	2.80x	3.24x	3.19x	3.10x	3.43x	1.51x	Weakened

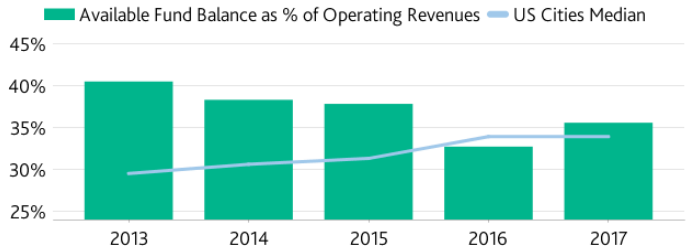
	2013	2014	2015	2016	2017	US Median
Debt and Financial Data						
Population	86,001	86,594	86,911	86,813	84,915	N/A
Available Fund Balance ($000s)	$69,958	$67,477	$71,129	$65,908	$73,511	$7,419
Net Cash Balance ($000s)	$76,265	$77,155	$85,782	$62,950	$82,548	$8,404
Operating Revenues ($000s)	$172,833	$176,222	$188,140	$201,492	$206,738	$21,930
Net Direct Debt ($000s)	$127,030	$123,055	$118,995	$114,855	$110,595	$18,580
Moody's Adjusted Net Pension Liability (3-yr average) ($000s)	$484,261	$571,357	$599,938	$624,810	$710,081	$32,507

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

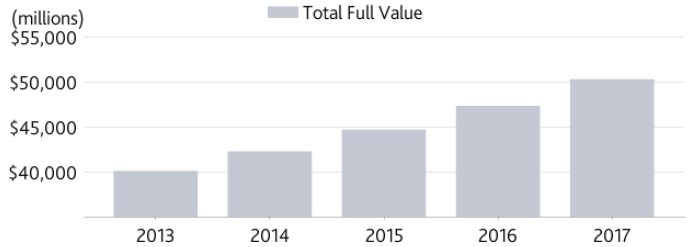
Available fund balance as a percent of operating revenues decreased from 2013 to 2017



Source: Issuer financial statements; Moody's Investors Service

EXHIBIT 3

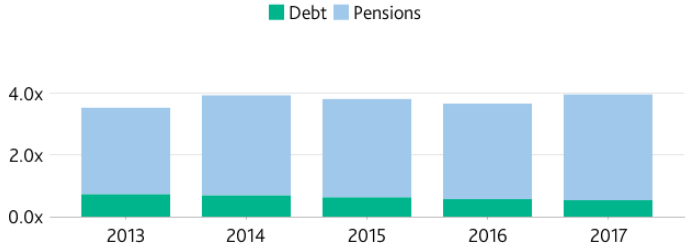
Full value of the property tax base increased from 2013 to 2017



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

EXHIBIT 4

Moody's-adjusted net pension liability to operating revenues increased from 2013 to 2017



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 - Property values key to stability, but pension burdens remain a challenge (March 2018) 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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