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ISSUER COMMENT
7 April 2020

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 3,164,182 and a high population density of 4,008 people per square mile. The county's median family income is $97,050 (1st quartile) and the December 2019 unemployment rate was 2.4% (1st quartile) [2]. The largest industry sectors that drive the local economy are professional/scientific/technical services, health services, and retail trade.

We regard the coronavirus outbreak as a social risk under our Environmental, Social, and Governance (ESG) framework, given the substantial implications for public health and safety. We do not see any material immediate credit risks for Newport Beach. However, the situation surrounding Coronavirus is rapidly evolving and the longer term impact will depend on both the severity and duration of the crisis. If our view of the credit quality of Newport Beach changes, we will update our opinion at that time. Positively, Newport Beach has substantial budget flexibility to cut discretionary expenditures should financial challenges occur.

Credit Overview

The credit position for Newport Beach is extremely strong. Its Aaa rating is significantly above the median rating of Aa3 for US cities. Notable credit factors include an extensive tax base, a very strong wealth and income profile and a robust financial position. It also reflects a negligible debt burden and a significant pension liability.

Economy and Tax Base: The city has an exceptionally healthy economy and tax base, which are in line with the assigned rating of Aaa. Newport Beach's total full value ($57.5 billion) greatly exceeds the US median, and increased dramatically between 2015 and 2019. Also, the median family income equals a robust 235.9% of the US level. Lastly, the full value per capita ($659,872) is above other Moody's-rated cities nationwide.

Finances: The financial position of Newport Beach is very strong and is in line with its Aaa rating. The cash balance as a percent of operating revenues (38.3%) is consistent with the US median. That said, this metric contracted from 2015 to 2019. Moreover, the fund balance as a percent of operating revenues (34.9%) is roughly equivalent to the US median.

Debt and Pensions: Overall, the debt and pension liabilities of the city are low. On the contrary, they are weak with respect to the assigned rating of Aaa. The net direct debt to full value (0.2%) is materially below the US median, and did not change between 2015 and 2019.

Also, Newport Beach's Moody's-adjusted net pension liability to operating revenues (3.5x) is unfavorably much higher than the US median.

Management and Governance: California cities have an institutional framework score [3] 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 limits on property taxation and assessed valuation changes, 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.

Sector Trends - California Cities

California cities will continue to benefit from a strong and improving state economy. Employment and income trends are positive and will continue to boost the statewide economy, particularly in the high tech sector. Housing values statewide continue to increase, strengthening city property tax revenues. However, housing affordability is an increasing challenge that could constrain economic growth. Statewide, sales tax growth has also been healthy, though more so on the urban coast than inland. California cities remain significantly exposed to growing, long-term pension and health care costs, as well as to increase costs for state clean water and waste recovery mandates.

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 1

Key Indicators [4] [5] Newport Beach

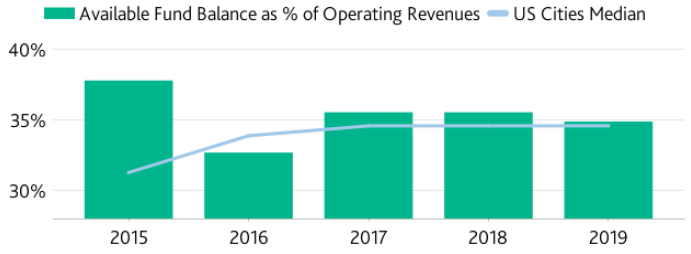
	2015	2016	2017	2018	2019	US Median	Credit Trend
Economy / Tax Base							
Total Full Value	$44,752M	$47,388M	$50,341M	$53,780M	$57,527M	$1,904M	Improved
Full Value Per Capita	$514,918	$545,868	$580,020	$616,873	$659,872	$94,106	Improved
Median Family Income (% of US Median)	234%	232%	236%	236%	236%	111%	Stable
Finances							
Available Fund Balance as % of Operating Revenues	37.8%	32.7%	35.6%	35.6%	34.9%	34.6%	Stable
Net Cash Balance as % of Operating Revenues	45.6%	31.2%	39.9%	38.2%	38.3%	39.6%	Weakened
Debt / Pensions							
Net Direct Debt / Full Value	0.3%	0.2%	0.2%	0.2%	0.2%	1.1%	Stable
Net Direct Debt / Operating Revenues	0.63x	0.57x	0.53x	0.49x	0.45x	0.84x	Stable
Moody's-adjusted Net Pension Liability (3-yr average) to Full Value	1.3%	1.3%	1.4%	1.4%	1.4%	1.9%	Stable
Moody's-adjusted Net Pension Liability (3-yr average) to Operating Revenues	3.19x	3.10x	3.43x	3.50x	3.50x	1.56x	Stable

	2015	2016	2017	2018	2019	US Median
Debt and Financial Data						
Population	86,911	86,813	86,793	87,182	87,180	N/A
Available Fund Balance ($000s)	$71,129	$65,908	$73,511	$77,834	$81,044	$8,028
Net Cash Balance ($000s)	$85,782	$62,950	$82,548	$83,630	$88,999	$9,530
Operating Revenues ($000s)	$188,140	$201,492	$206,738	$218,905	$232,188	$23,172
Net Direct Debt ($000s)	$118,995	$114,855	$110,595	$107,410	$104,100	$19,139
Moody's Adjusted Net Pension Liability (3-yr average) ($000s)	$599,938	$624,810	$710,081	$766,339	$811,998	$35,448

Source: Moody's Investors Service

EXHIBIT 2

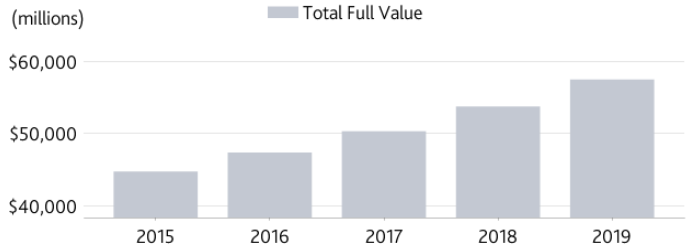
Available fund balance as a percent of operating revenues was stable from 2015 to 2019



Source: Issuer financial statements; Moody's Investors Service

EXHIBIT 3

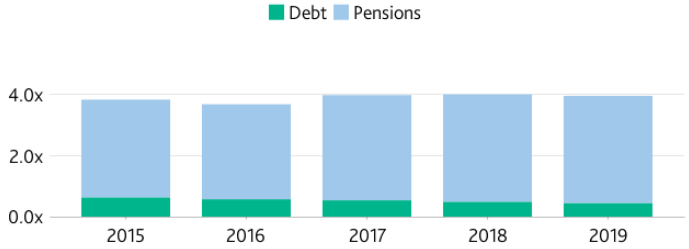
Full value of the property tax base increased from 2015 to 2019



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

EXHIBIT 4

Moody's-adjusted net pension liability to operating revenues was stable from 2015 to 2019



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 - Tax base growth underpins sector strength, while pension challenges remain (May 2019) 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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