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CREDIT OPINION
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Redwood City, CA

Update to credit analysis

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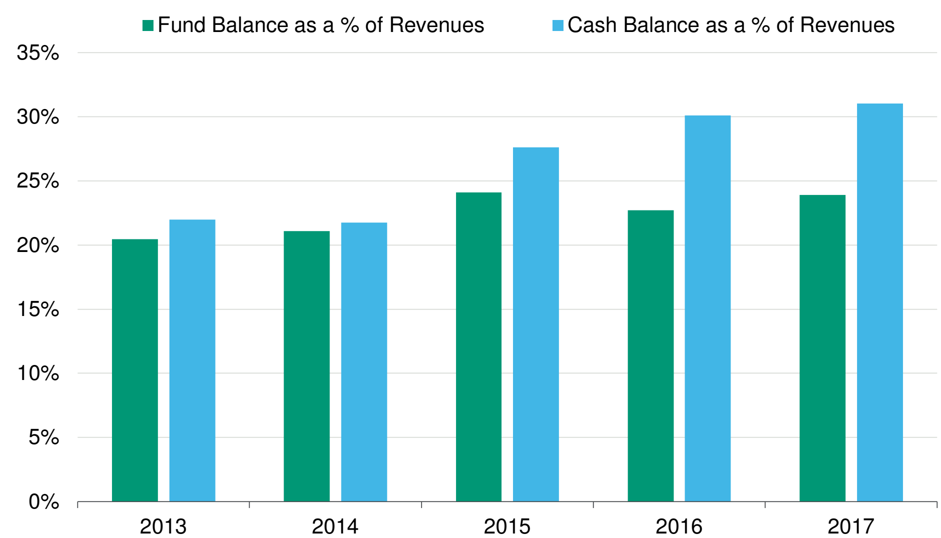
Summary

Redwood City (Aa1) benefits from a sizeable and primarily residential tax base, strong wealth indicators and a healthy financial position that we expect to remain stable given management's prudent fiscal practices and adopted reserve policy. The city has no direct debt outstanding and has been funding its capital needs on a pay-go basis. Similar to many California cities, rising pension and other post-employment benefits (OPEB) costs will continue to be budgetary pressures, however given management's commitment to maintaining a strong financial position as evidenced by its financial sustainability plan, the city is well positioned to afford these rising costs.

Exhibit 1
Redwood City's Strong Financial Position is Supported by Healthy Reserves and Liquidity



Source: Moody's Investors Service

Credit strengths

» Large and diverse tax base that we expect will continue to experience moderate growth

» Strong wealth indicators

» Healthy financial position supported by strong reserves and liquidity

Credit challenges

» Rising pension and OPEB costs

» Expenditures are projected to outpace revenue growth, however management has adopted a financial sustainability plan

Rating outlook

Outlooks are generally not assigned to local governments with this amount of debt outstanding.

Factors that could lead to an upgrade

» Material increase in assessed value

» Sizeable and sustained increase in reserves and liquidity

» Significant decline in the city's unfunded pension and OPEB liabilities

Factors that could lead to a downgrade

» Significant contraction in assessed value

» Material weakening in reserves or liquidity

» Inability to manage retirement costs

Key indicators

Exhibit 2

Redwood City	2013	2014	2015	2016	2017
Economy/Tax Base					
Total Full Value ($000)	$15,154,217	$16,247,747	$17,116,621	$18,716,551	$20,562,251
Population	78,241	79,736	81,342	82,595	85,992
Full Value Per Capita	$193,686	$203,769	$210,428	$226,606	$239,118
Median Family Income (% of US Median)	144.1%	150.0%	157.0%	163.6%	163.6%
Finances					
Operating Revenue ($000)	$97,559	$105,439	$112,922	$119,135	$130,323
Fund Balance ($000)	$19,969	$22,240	$27,216	$27,050	$31,145
Cash Balance ($000)	$21,461	$22,932	$31,190	$35,853	$40,429
Fund Balance as a % of Revenues	20.5%	21.1%	24.1%	22.7%	23.9%
Cash Balance as a % of Revenues	22.0%	21.7%	27.6%	30.1%	31.0%
Debt/Pensions					
Net Direct Debt ($000)	$3,360	$3,035	$2,378	$1,712	$1,035
3-Year Average of Moody's ANPL ($000)	$289,940	$346,667	$369,953	$400,404	$467,335
Net Direct Debt / Full Value (%)	0.0%	0.0%	0.0%	0.0%	0.0%
Net Direct Debt / Operating Revenues (x)	0.0x	0.0x	0.0x	0.0x	0.0x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	1.9%	2.1%	2.2%	2.1%	2.3%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	3.0x	3.3x	3.3x	3.4x	3.6x

Source: Redwood City, CA and Moody's Investors Service

Profile
Redwood City is located south of San Francisco on the peninsula and has a current population of 86,380. The city benefits from the strong Bay Area economy, and the city's top employers include a wide range of industries such as tech, healthcare and government. San Mateo County's unemployment rate, which serves as a proxy for the city, is significantly low at 1.9%.

Detailed credit considerations

Economy and Tax Base: large and primarily residential assessed value; strong socioeconomic profile
The city's assessed value (AV) reached $22.3 billion in 2018 and is poised for continued moderate growth primarily due to the strong real estate market and housing turnover. Redwood City's AV grew at a strong 8.0% over the past five years, which is significantly higher than the Aa1 national and state medians at 1.9% and 4.7%, respectively. The city's assessed valuation is about 90% residential and assessed values are significantly below current market value for single family homes which adds significant growth in AV as homes turnover. The city also benefits from its desirable location with easy access to Silicon Valley and San Francisco, with the option of using public transportation such as Caltrain. The tax base is also fairly diverse with the top ten taxpayers representing slightly below 15.0% of the total assessed value and include Oracle Corporation and Google Inc., which both have a long standing commitment to the city.

Despite the high home prices, the city's population has continued to grow with a current population of 86,380 versus 75,402 in 2000. The city's median family income has also increased from 147.5% of the US to 163.6% of the US over the same time frame. The 2018 assessed valuation per capita is very strong as well at $260,544 compared to a national median of approximately $134,675. Unemployment for the county is remarkably low at just 1.9% reflecting resident's access to major job centers within the greater Bay Area.

Financial Operations and Reserves: healthy financial position supported by strong reserves and liquidity
The city's financial position will remain healthy due to management's prudent fiscal practices and its adopted reserve policy of maintaining reserves at a minimum of 15%. The city has generated four surpluses out of the past five years and available fund balance reached $31.1 million or a strong 23.9% of general fund revenues in fiscal 2017. Based on year-to-date projections, the city's fiscal 2018 reserve position will be in-line with the prior year.

The city's general fund revenues are largely comprised of property taxes (36.5%) followed by sales taxes (16.8%) and charges for services (11.7%), and strong revenue growth over the past five years has largely been a result of the healthy economy. Moving forward, city management expects revenue growth to moderate and expenditure growth will outpace revenues, primarily due to rising pension costs. As such, management has implemented a fiscal sustainability plan, which includes various practices to maximize efficiencies, reduce costs as well as proposed revenue enhancements. The City Council just approved two potential revenue measures for the November 2018 ballot, which includes a general sales tax measure and cannabis excise tax measure. Should the tax measures fail to be approved, management has identified various expenditure reductions in order for the city to maintain a healthy financial position and remain in compliance with its reserve policy.

LIQUIDITY
The city's liquidity has increased over the past five years and similar to its reserve position, we expect that it will also be maintained at a healthy level. In fiscal 2017, unrestricted general fund cash was $40.4 million (31.0% of general fund revenues) which is considerable higher than in 2012 at $23.4 million (26.4% of general fund revenues).

Debt and Pensions: very low debt burden; moderate pension burden
The city has no direct debt outstanding and its overall debt burden is low at 1.8% of AV. The city maintains a five-year capital improvement plan, which has been funded on a pay-go basis. Management is considering the possibility of bringing a bond measure to voters in 2020, however the details have yet to be determined.

DEBT STRUCTURE
Not applicable.

DEBT-RELATED DERIVATIVES
The city has no debt-related derivatives.

PENSIONS AND OPEB

City employees participate in one of two plans administered by CalPERS. As of fiscal 2017, Moody's adjusted net pension liability (ANPL) for the city, under our methodology for adjusting reported pension data, was $570.5 million. The three-year average ANPL to operating revenues is 3.59 times which is considerably higher than the Aa1 national median at 1.57 times and slightly higher than the Aa1 state median at 3.21 times. 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.

The city's unfunded OPEB liability is $57.4 million (100.3% of payroll) and the city has established an irrevocable trust to fund this liability. As of June 30, 2017, the plan had a funded ratio of 31.6%. The city's OPEB contribution in 2017 was $6.16 million (4.9% of general fund revenues) of which $3.04 million was a contribution to the trust and the balance of $3.12 million was allocated for the current year costs.

Management and Governance

California cities have an Institutional Framework score 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.

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