

CREDIT OPINION

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Contacts

Kirstyn Lee +1.415.274.1715
Associate Analyst
 kirstyn.lee@moodys.com

Patrick Liberatore +1.415.274.1709
AVP-Analyst
 patrick.liberatore@moodys.com

Steven Goodman-Leibof +1.415.274.1723
Associate Lead Analyst
 steven.goodman-leibof@moodys.com

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 Japan 81-3-5408-4100
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The Dalles, OR

Update following upgrade to Aa2

Summary

[The Dalles, OR's](#) (Aa2) credit profile reflects the city's modest size and growing tax base within north-central Oregon, as well as strong financial profile, supported by robust reserve and liquidity levels which have strengthened in years. Going forward we expect reserves and liquidity will remain strong given management's track record of conservative budgeting. The city also benefits from a low debt burden and an uncommonly low pension burden, given city employees participate in a defined contribution pension plan. These strengths are in contrast to the city's below-average resident wealth levels and the city's relatively small and rural tax base and local economy.

On April 18, 2019 Moody's upgraded the city's issuer and full faith and credit ratings to Aa2 from Aa3.

Credit strengths

- » Strong financial position, including robust reserve and liquidity levels
- » No unfunded pension liability, given the city's defined contribution pension plan
- » Very low debt burden

Credit challenges

- » Tax base is modest in size for the rating level
- » Real market values are somewhat volatile historically
- » Below-average resident wealth levels

Rating outlook

Outlooks are not typically assigned to credits with this amount of debt outstanding

Factors that could lead to an upgrade

- » Substantial tax base growth
- » Material strengthening of resident wealth measures

Factors that could lead to a downgrade

- » Sustained, protracted decline in the city's tax base, including real market value
- » Deterioration of the city's financial position, including reserves and liquidity

Key indicators

Exhibit 1

The Dalles (City of) OR	2014	2015	2016	2017	2018
Economy/Tax Base					
Total Full Value (\$000)	\$1,491,340	\$1,298,752	\$1,625,848	\$1,795,228	\$1,933,064
Population	15,068	15,136	15,276	15,224	15,224
Full Value Per Capita	\$98,974	\$85,806	\$106,432	\$117,921	\$126,975
Median Family Income (% of US Median)	75.1%	73.4%	76.4%	74.9%	74.9%
Finances					
Operating Revenue (\$000)	\$9,398	\$10,167	\$10,928	\$10,414	\$10,757
Fund Balance (\$000)	\$3,727	\$3,866	\$4,078	\$4,622	\$5,312
Cash Balance (\$000)	\$4,375	\$4,347	\$5,134	\$5,175	\$6,498
Fund Balance as a % of Revenues	39.7%	38.0%	37.3%	44.4%	49.4%
Cash Balance as a % of Revenues	46.5%	42.8%	47.0%	49.7%	60.4%
Debt/Pensions					
Net Direct Debt (\$000)	\$11,046	\$10,400	\$9,757	\$9,089	\$8,417
3-Year Average of Moody's ANPL (\$000)	\$0	\$0	\$0	\$0	\$0
Net Direct Debt / Operating Revenues (x)	1.2x	1.0x	0.9x	0.9x	0.8x
Net Direct Debt / Full Value (%)	0.7%	0.8%	0.6%	0.5%	0.4%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	0.0x	0.0x	0.0x	0.0x	0.0x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	0.0%	0.0%	0.0%	0.0%	0.0%

Source: The Dalles, OR; Moody's Investors Service

Profile

The Dalles is a small city of 7 square miles with about 15,000 residents located on the Columbia River in north-central Oregon (Aa1 stable). The Dalles is the county seat and the largest city in Wasco County and has historically been a regional trade center and hub for river, rail and road transport for the agricultural economy in north-central Oregon.

Detailed credit considerations

Tax base and economy: small city in north-central Oregon; below-average socioeconomic profile

The city's tax base is relatively small and rural for the rating level, a moderate credit weakness expected to continue. As of fiscal 2019, real market value (RMV) totaled \$1.9 billion, which is below the medians for Aa2-rated cities nationally, \$2.8 billion, and within Oregon, \$6.6 billion. The city's RMV has historically demonstrated greater volatility, including a large 26% correction from a peak of \$1.7 billion in 2010 to \$1.3 billion as of fiscal 2015 during the residential downturn, however recent growth has been strong, a positive trend. Since 2015, RMV has grown a cumulative 49%, including strong increases of 25% in 2016, 10.4% in 2017 and 7.7% in 2018. Favorably, the city's tax base is well diversified, with the top ten taxpayers comprising a moderate 9.3% of assessed value.

Strategically located on the Columbia River, the city's relatively small local economy has historically served as a regional trade center and hub for river, rail and road transport for the agricultural economy in north-central Oregon. Over the past decade a major source of local economic growth includes development of The Port of The Dalles Industrial Center, following the removal of an old aluminum smelter in 2008, which freed up over 300 acres of industrial land. Recent development within the industrial park includes Google data center expansions as well as investments from other existing businesses such as Columbia PhytoTechnology and Hydro Extrusions USA. Despite having modest economic growth, unemployment within the city remains elevated at 6.3% as of January 2019, which is above the state (4.9%) and national (4.4%) marks for the same period.

Measures of resident wealth include median family income (MFI) equal to 75% of the US median, according to the 2017 American Community Survey, and per-capita RMV of approximately \$127,000. MFI is somewhat weak relative the median of Aa2-rated cities nationally (124%) although per-capita RMV is strong, given the city's small population size.

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Financial operations and reserves: robust reserve and liquidity supported by conservative budgeting

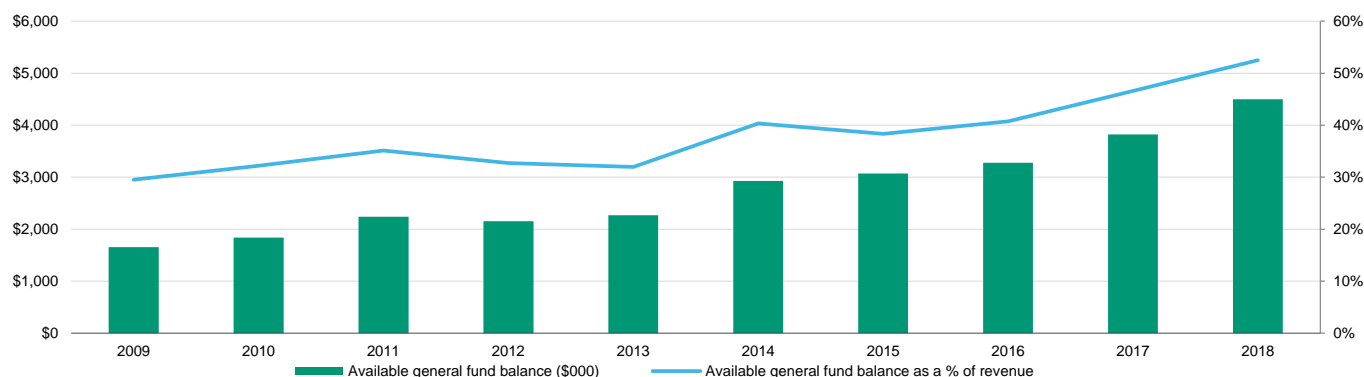
The Dalles' financial position is strong, characterized by robust reserve and liquidity levels which have strengthened in recent years, a main driver of the upgrade. Going forward we expect the city's financial position will remain strong, supported by management's track record of conservative budgeting and commitment to maintaining strong reserve targets. The city has out-performed general fund budget projections consistently in the last five fiscal years and targets maintaining reserves approximately equal to 4 to 6 months of general fund expenditures.

Following consecutive surpluses in the last six fiscal years, the city's available general fund reserves totaled \$4.5 million as of fiscal 2019, equaling a robust 54.4% of revenues. This is above the city's average of the prior five fiscal years, \$3.2 million or 39.6% of revenue. While the city's operation size is relatively small for an Oregon city with only \$8.5 million general fund revenue as of fiscal 2019, the city's robust reserve levels are a key strength consistent with the rating level. On an operating basis (including the general fund, debt service fund and library fund) available reserves are broadened slightly to \$5.3 million or 49.4% of revenue.

The city's largest source of operating revenue is property taxes, which accounts for 47% of the city's governmental revenue in fiscal 2019. Property taxes are derived from the city's permanent tax rate of 3.0155% of assessed value and taxes levied for the repayment of bonded indebtedness. Going forward these revenues are expected to continue to increase given Oregon's stability inducing property tax law, Measure 50, which allows AV for most property to increase by 3% annually, plus new development. We expect the stability of the city's main revenue stream will continue to allow management to budget conservatively and maintain a sound financial profile.

Exhibit 2

The city's available general fund reserves are robust and have strengthened in recent years



Source: The Dalles, OR; Moody's Investors Service

LIQUIDITY

The city's liquidity is similarly, robust and as of fiscal 2018, general fund cash totaled \$4.1 million, equaling a robust 47.6% of revenues. On an operating basis, liquidity is broadened to \$6.4 million or 60.4% of revenues as of fiscal 2018. This is a key strength relative to the median for Aa2-rated cities nationally (41.1% operating cash).

Debt and pensions: low debt burden; no unfunded pension liability is an uncommon credit strength

The city will continue to benefit from a low debt burden given our expectation of modest tax base growth and given management does not have near term plans for debt issuance. As of fiscal 2018, the district's net direct debt totaled \$8.4 million, equaling just 0.4% of RMV or approximately \$540 per-capita. Including overlapping debt, the debt burden is increased to a manageable 1.6% of RMV.

DEBT STRUCTURE

All of the district's outstanding debt carries fixed interest rates with final maturity in 2033.

DEBT-RELATED DERIVATIVES

The city does not have debt-related derivatives.

PENSIONS AND OPEB

The city administers two defined contribution pension plans, and accordingly has no unfunded pension liability. This is a notable credit strength, particularly compared to peers in Oregon and nationally as the defined contribution pension plan limits the city's exposure to long-term liabilities and projected funding increases that will impact other Oregon local governments.

The city provides an implicit rate subsidy for other post-employment benefits (OPEB), although no retirees participate in the plan. As of the June 30, 2018 actuarial valuation date, the city's reported net OPEB liability (NOL) was measured at \$1.4 million. Moody's NOL was \$1.2 million, equaling a modest 0.1 times operating revenue. Moody's NOL reflects the use of the same discount rate we apply to pensions to improve comparability between pension and OPEB liabilities across rated issuers.

Management and governance: prudent, conservative leadership

Oregon Cities have an Institutional Framework score of Aa, which is high. Institutional Framework scores measure a sector's legal ability to increase revenues and decrease expenditures. Property tax, a major revenue source, is subject to a cap which can be overridden with voter approval only. However, the cap of approximately 3% for most properties still allows for moderate revenue-raising ability. Unpredictable revenue fluctuations tend to be minor, or under 5% annually. Across the sector, fixed and mandated costs are generally less than 25% of expenditures but growing pension contributions are increasing fixed costs burdens. However, Oregon has public sector unions, which can limit the ability to cut expenditures. Unpredictable expenditure fluctuations tend to be minor, under 5% annually.

Positively, unlike many Oregon local governments, the city's defined contribution plan limits the city's exposure to projected pension contribution funding increases that will impact other Oregon local governments.

The city's five-year ratio of operating revenues to expenditures is strong at 1.05 times as of fiscal 2018, representing surplus operations on average. The city has produced favorable operating surpluses in each of the last five fiscal years. Additionally, management has outperformed the general fund budget consecutively in the last five fiscal years.

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