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ISSUER COMMENT
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RATING

General Obligation (or GO Related)[1]	
A2	No Outlook

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City of Stayton, OR

Annual Comment on Stayton

Issuer Profile

The City of Stayton is located along the Santiam River in Marion County in northwestern Oregon, approximately 15 miles southeast of Salem. Marion County has a population of 326,110 and a population density of 276 people per square mile. The county's per capita personal income is $35,614 (3rd quartile) and the February 2016 unemployment rate was 5.4% (2nd quartile).[2] The largest industry sectors that drive the local economy are health services, retail trade, and state government.

Credit Overview

Stayton's credit position is sound. That said, its A2 rating falls short of the median rating of Aa3 for US cities. Key credit factors include a very strong financial position, and a sizable pension burden with an exceptionally low debt liability. It also reflects a solid socioeconomic profile with a modestly sized tax base.

Finances: The financial position of the city is robust and is a notable strength with respect to the assigned rating of A2. For example, the fund balance as a percent of operating revenues (85.4%) is far stronger than the US median. Furthermore, Stayton's cash balance as a percent of revenues (35.8%) is roughly equivalent to other Moody's-rated cities nationwide and grew significantly from 2012 to 2015.

Debt and Pensions: The debt and pension burdens of the city are negligble and moderate, respectively. Taken together, they are very favorable in relation to its A2 rating. The city has no direct debt outstanding, and as such, the net direct debt to full value (0%) is materially below the US median. In contrast, the Moody's-adjusted net pension liability to operating revenues (2.5x) is materially above the US median. Positively, this ratio favorably contracted between 2012 and 2015.

Economy and Tax Base: The economy and tax base of Stayton are solid and represent a modest credit strength in comparison to the A2 rating assigned. For example, the full value per capita ($98,772) is stronger than the US median. That said, the city's total full value ($775 million) is weaker than other Moody's-rated cities nationwide, despite rising from 2012 to 2015. Finally, the median family income is just 87.6% of the US level.

Management and Governance: The ability to generate surplus operating margins is a sign of strong financial management. On average, Stayton's operations were positive while the tax base generally expanded.

Oregon cities have an institutional framework score [3] of "Aa," or strong. Property taxes are the primary revenue source for cities and are highly predictable. Revenue-raising ability is

moderate as, under Oregon law, assessed values and related property taxes for operations may increase by up to 3% annually plus assessments on new construction. Additionally, cities control the rates they charge for various services and can increase franchise taxes. Expenditures, which consist mostly of personnel costs, are highly predictable. Expenditure reduction ability for cities is moderate due to union presence and high fixed costs.

Sector Trends - Oregon Cities

Oregon cities are expected to perform well as the state's economy continues to expand. Full values are increasing and gaining back much of the loss experienced during the downturn. Property tax revenue growth will be strong as a result of economic expansion. The improving economy continues to attract in-migration, which will, over time, increase the cost of service provision. Additionally, statewide economic expansion should result in increased state revenues, which could mean additional grant funding for local governments. Pension costs remain a long-term concern, and contribution rates are expected to increase in coming years.

Exhibit 1

Key Indicators[4] [5]

Stayton, OR

	2012	2013	2014	2015	US Median	Credit Trend
Economy / Tax Base						
Total Full Value	$738M	$700M	$728M	$775M	$1,722M	Improved
Full Value Per Capita	$95,660	$90,101	$92,808	$98,772	$85,195	Stable
Median Family Income (% of US Median)	87.6%	87.6%	87.6%	87.6%	115.2%	Stable
Finances						
Fund Balance as % of Operating Revenues	81.2%	80.2%	76.4%	85.4%	32.1%	Stable
Cash Balance as % of Operating Revenues	20.4%	22.8%	31.9%	35.8%	34.4%	Improved
Debt / Pensions						
Net Direct Debt / Full Value	0%	0%	0%	0%	1.2%	N / A
Net Direct Debt / Operating Revenues	0x	0x	0x	0x	0.94x	N / A
Moody's-adjusted Net Pension Liability (3-yr average) to Full Value	1.4%	1.6%	1.3%	1.0%	1.7%	Stable
Moody's-adjusted Net Pension Liability (3-yr average) to Operating Revenues	4.01x	4.05x	3.19x	2.53x	1.35x	Improved

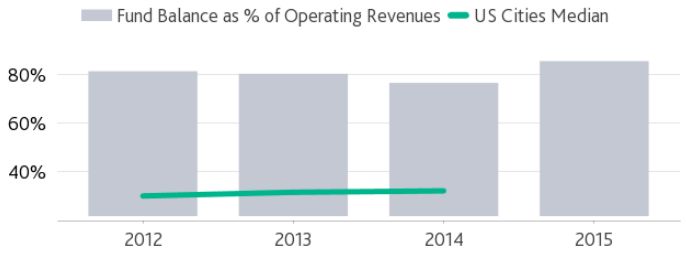
Source: Moody's

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

Fund balance as a percent of operating revenues increased from 2012 to 2015

Fund Balance as a Percent of Operating Revenues

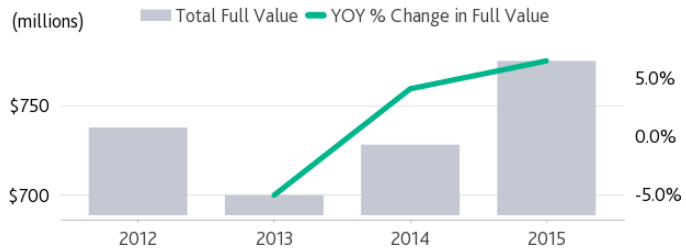


Source: Issuer financial statements; Moody's

Exhibit 3

Full value of the property tax base grew between 2012 and 2015

Total Full Value

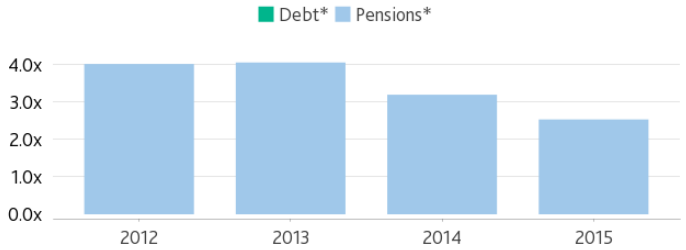


Source: Issuer financial statements; Government data sources; Offering statements; Moody's

Exhibit 4

Moody's-adjusted net pension liability to operating revenues decreased from 2012 to 2015

Net Direct Debt and Adjusted Net Pension Liability / Operating Revenues



*Debt is represented as Net Direct Debt / Operating Revenues. Net Direct Debt is defined as gross debt minus self supporting debt. Pensions are represented as ANPL / Operating Revenues. ANPL is defined as the average of Moody's-adjusted Net Pension Liability in each of the past three years.
Source: Issuer financial statements; Government data sources; Offering statements; Moody's

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 4.9% for February 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.

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