

# RatingsDirect®

---

## Summary:

# Ocean Shores, Washington; General Obligation

### Primary Credit Analyst:

Li Yang, San Francisco (1) 415-371-5024; li.yang@spglobal.com

### Secondary Contact:

Benjamin P Geare, San Francisco (415) 371-5047; benjamin.geare@spglobal.com

## Table Of Contents

---

Rationale

Outlook

Related Research

## Summary:

# Ocean Shores, Washington; General Obligation

### Credit Profile

US\$4.415 mil ltd tax GO rfdg bnds ser 2016 due 12/01/2032

*Long Term Rating* A+/Stable New

Ocean Shores unlted tax GO rfdg bnds

*Long Term Rating* A+/Stable Affirmed

### Ocean Shores GO

*Unenhanced Rating* A+(SPUR)/Stable Affirmed

## Rationale

S&P Global Ratings assigned its 'A+' long-term rating on the city of Ocean Shores, Wash.'s limited tax general obligation (GO) refunding bonds, series 2016. At the same time, S&P Global Ratings affirmed its 'A+' long-term and underlying rating (SPUR) on the city's existing GO bonds. The outlook is stable.

The city's full faith and credit, including the obligation to levy ad valorem taxes subject to statutory limitations that include a revenue growth limitation of 1% per year (excluding new construction) and a levy rate cap, secure the city's limited-tax GO bonds.

The rating reflects our view of the city's:

- Adequate economy, with projected per capita effective buying income at 92.4% of the national level and market value per capita of \$157,055;
- Adequate management, with "standard" financial policies and practices under our financial management assessment (FMA) methodology;
- Strong budgetary performance, with an operating surplus in the general fund but an operating deficit at the total governmental fund level in fiscal 2014;
- Very strong budgetary flexibility, with an available cash reserve in fiscal 2014 of 21% of operating expenditures, and the flexibility to raise additional revenues despite statewide tax caps;
- Very strong liquidity, with total government available cash at 1.6x total governmental fund expenditures and 9.8x governmental debt service, and access to external liquidity we consider strong;
- Weak debt and contingent liability position, with debt service carrying charges at 16.9% of expenditures and net direct debt that is 364.7% of total governmental fund revenue, but rapid amortization, with 81.5% of debt scheduled to be retired in 10 years; and
- Adequate institutional framework score.

### Adequate economy

We consider Ocean Shores' economy adequate. The city, with an estimated population of 5,955, is located in Grays Harbor County. The city has a projected per capita effective buying income of 92.4% of the national level and per

capita market value of \$157,055. Overall, the city's assessed value grew by 0.7% over the past year to \$935.3 million in 2016. The county unemployment rate was 8.9% in 2015.

We believe the city's market value per capita is boosted by the seasonal nature of its summer-tourism-focused economic base on the Pacific Coast. Historically, the city has shown some decreases in taxable assessed value (AV) with a 14.1% decline in 2015. However in 2016, the city's AV levels remained flat with a modest 0.7% increase bringing total AV up to \$935.2 million. Management indicates that they are not anticipating any large decreases in AV over the next two years.

### **Adequate management**

We view the city's management as adequate, with "standard" financial policies and practices under our FMA methodology, indicating the finance department maintains adequate policies in some but not all key areas.

We believe Ocean Shores' management conditions are adequate with "standard" financial practices under our FMA methodology, indicating our view that the government maintains adequate policies in some but not all key areas. Key policies include using historical trends to project future revenues and inclusion of known expenditures in projections, monthly budget-to-actual financial reporting to city council, maintenance of a four-year capital improvement plan, although we note that this is only updated once every four years, maintenance of a formal debt management policy, and maintenance of an informal general fund reserve goal of \$1.5 million. We note that the city currently is not in compliance with the reserve goal but management expects it will be able to meet the \$1.5 million requirement over the next two years.

### **Strong budgetary performance**

Ocean Shores' budgetary performance is strong in our opinion. The city had surplus operating results in the general fund of 8.4% of expenditures, but a deficit result across all governmental funds of negative 4.5% in fiscal 2014.

Recent operational results have been positive for the city with general fund surpluses reported in each of the past four fiscal years. We note that the city took what we consider significant steps to restore financial health after a period of weakness, including the creation of an ambulance utility, which receives service fees and revenue from a dedicated property tax that voters approved for 2013 through 2015. For fiscal 2015, unaudited figures show another positive surplus of \$205,000. Management has budgeted for balanced operations for fiscal 2016.

### **Very strong budgetary flexibility**

Ocean Shores' budgetary flexibility is strong, in our view, with an available cash reserve in fiscal 2014 of 21% of operating expenditures, or \$1.2 million. In addition, the city has the flexibility to raise additional revenues despite statewide tax caps, which we view as a positive credit factor. Negatively affecting budgetary flexibility, in our view, is Ocean Shores' use of cash accounting, which reduces clarity about the amount of funds that are truly available.

The city has been able to build its general fund reserves up to stronger levels over the past few years. Management has a goal to continue to build its available cash reserves up to a target goal of \$1.5 million and to maintain a minimum cash reserve above that amount. We understand that the city expects to be able to reach this goal in the next two years. Given the city's historical surpluses in the general fund, we expect the city's flexibility score to remain strong

going forward. Additionally, management indicates the city has banked levy capacity of \$444,925 or roughly 8.3% of 2014 general fund revenues. We understand the city can raise property taxes by that amount without voter approval. Management plans to ask city council for approval to use some of this banked levy capacity for 2017.

### **Very strong liquidity**

In our opinion, Ocean Shores' liquidity is very strong, with total government available cash at 1.6x total governmental fund expenditures and 9.8x governmental debt service in 2014. In our view, the city has strong access to external liquidity, if necessary.

Based on past issuance of GO, utility, and assessment debt over the past 20 years, we believe that the city has strong access to capital markets to provide for liquidity needs if necessary. Given the city's positive performance in the general fund, we do not expect its liquidity to weaken over the next two years.

### **Weak debt and contingent liability profile**

In our view, Ocean Shores' debt and contingent liability profile is weak. Total governmental fund debt service is 16.9% of total governmental fund expenditures, and net direct debt is 364.7% of total governmental fund revenue. Approximately 81.5% of the direct debt is scheduled to be repaid within 10 years, which is in our view a positive credit factor.

We understand the city has no immediate additional debt plans going forward. As a result, we do not expect the city's debt score to worsen over the next two years.

Ocean Shores' pension contributions totaled 3.9% of total governmental fund expenditures in 2016. The city made its full annual required pension contribution in 2016.

The city participates in pooled defined benefit retirement systems managed by the state and in 2015, fulfilled its annual required pension contribution. Annual pension costs account for 8% of total government expenditures in fiscal 2013. The city does not offer any other postemployment benefits.

### **Adequate institutional framework**

The institutional framework score for Washington municipalities is adequate.

## **Outlook**

The stable outlook reflects our view of the city's strong budgetary performance and flexibility as well as the city's adequate economy score, reflecting an improvement from its score in fiscal 2015. We do not expect to change the rating over the next two years in light of the city's stable financial performance.

### **Upside scenario**

Should the city's local economy continue to show improvement with increases in assessed value or income levels with falling unemployment rates and if the city improves its financial management score with its planned implementation of several new policies and practices, then the rating could be raised.

### Downside scenario

We could lower the rating during the next two years if the city's financial performance score significantly weakens resulting in a negative effect on its financial flexibility.

### Related Research

S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013

#### Ratings Detail (As Of September 7, 2016)

Ocean Shores unlted tax GO rfdg bnds ser 2012A dtd 05/15/2012 due 12/01/2012-2021

*Long Term Rating*

A+/Stable

Affirmed

Many issues are enhanced by bond insurance.

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at [www.standardandpoors.com](http://www.standardandpoors.com) for further information. Complete ratings information is available to subscribers of RatingsDirect at [www.globalcreditportal.com](http://www.globalcreditportal.com). All ratings affected by this rating action can be found on the S&P Global Ratings' public website at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column.

Copyright © 2016 by S&P Global Market Intelligence, a division of S&P Global Inc. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED, OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses, and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw, or suspend such acknowledgement at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal, or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain nonpublic information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, [www.standardandpoors.com](http://www.standardandpoors.com) (free of charge), and [www.ratingsdirect.com](http://www.ratingsdirect.com) and [www.globalcreditportal.com](http://www.globalcreditportal.com) (subscription) and [www.spcapitaliq.com](http://www.spcapitaliq.com) (subscription) and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at [www.standardandpoors.com/usratingsfees](http://www.standardandpoors.com/usratingsfees).

STANDARD & POOR'S, S&P and RATINGSDIRECT are registered trademarks of Standard & Poor's Financial Services LLC.