

# *Debt Affordability Report*



## *Lane County, Oregon*



As of June 30, 2015



County Administration  
County Operations  
Financial Services

## *Introduction*

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Financial Services issues this report annually in accordance with the debt policy as stated in APM Chapter 2, Section 21. The report is intended to provide a method for evaluating the current debt position and proposed new issues in the context of legal constraints, the County's ability to service the debt, and the impact of the debt on the County's credit rating. Decisions regarding issuance or refinancing of debt should give consideration to the availability of County resources as well as the capital needs of the County.

The report provides an analysis of County debt compared with benchmarks in the following areas:

- Statutory limits - Legal constraints imposed by Oregon Revised Statutes.
- Affordability measures - Indicators of the County's ability to service the debt within current or projected cash flow levels and citizens' affordability based on local economic conditions.
- Bond rating - Indicators of how debt issues impact the County's ability to maintain a strong credit rating.

Establishing an acceptable range for the selected indicators allows the County to monitor its financial and debt position and provides a framework for evaluating the impact of proposed debt issues.

Information included herein is as of June 30, 2015.

## ***Current Debt Position***

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As of June 30, 2015, the County had bonded debt outstanding of \$99.9 million of limited tax bonds that are backed by the full faith and credit of the County, but cannot be repaid with special property tax levies. The GO bond, *General Obligation Refunding Bonds, Series 2003A*, was paid off in June 2015 as scheduled; there was no balance outstanding as of June 30, 2015.

Excluded from this report are:

- Notes payable of \$2.1 million (non-bonded debt) to the Oregon Department of Energy for the Lane County Date Center Remodel project.
- Revenue bonds of \$.5 million issued by Housing and Community Services Agency of Lane County (HASCA) that are not backed by the County, but rather are secured by HACSA real estate and revenues.
- Notes payable and lines of credit of \$6.4 (non-bonded debt) used to finance construction projects for HACSA.

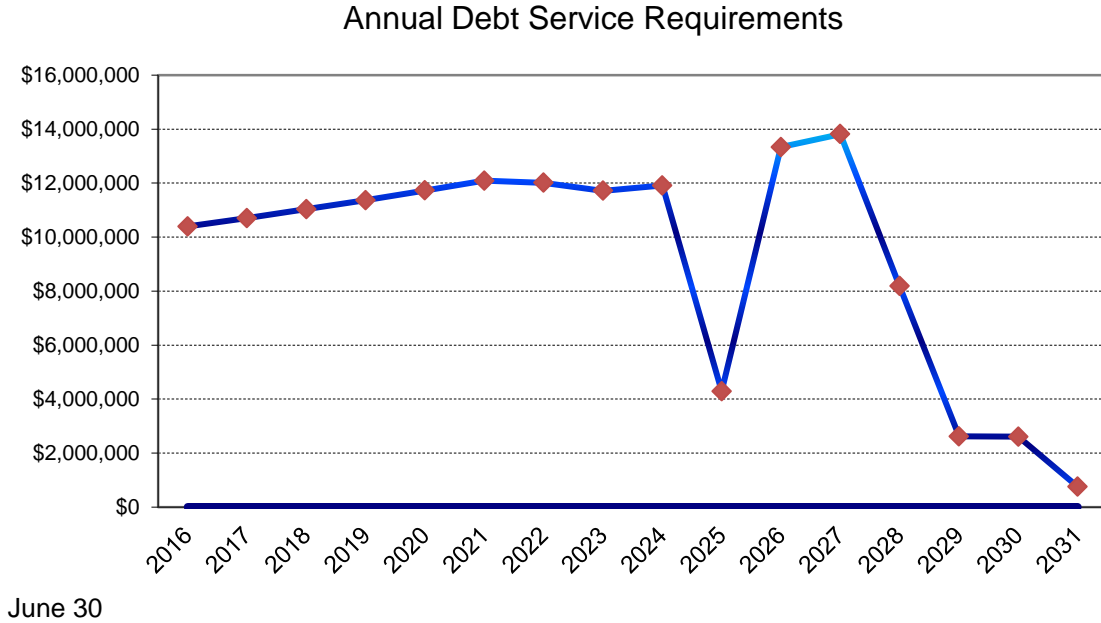
Overlapping debt represents the amount of property tax-backed debt issued by other agencies within the County. Lane County is not obligated by this debt, but it has been included as an indicator of the total debt burden on taxpayers within the County, and provides insight as to how much debt the community can afford.

Net Overall Property Tax Backed Debt Outstanding for the year ended June 30, 2015

Type of Debt	Outstanding at June 30, 2014	Additions	Reductions	Outstanding at June 30, 2015
General obligation bonds	2,870,000		2,870,000	-
Limited tax bonds	103,988,254	1,196,042	5,235,000	99,949,296
Direct debt	106,858,254	<u>1,196,042</u>	<u>8,105,000</u>	99,949,296
Less fund balance in debt service funds	<u>(238,743)</u>			<u>(124,963)</u>
Net direct debt	106,619,511			99,824,333
Overlapping debt	590,058,017			755,252,991
Net overall property tax backed debt	696,677,528			855,077,324

### **Future Debt Service Requirements**

Future fiscal year payments on bonded debt, including future interest payments as of June 30, 2015 are as follows:



Notes:

- The debt service decline in 2025 is due to an early redemption of pension obligations bonds as follows:
  - \$6.5 million in December 2007
  - \$1.5 million in June of 2010
- The debt service decline in 2029 to 2031 is due to the payoff of the pension obligation bonds

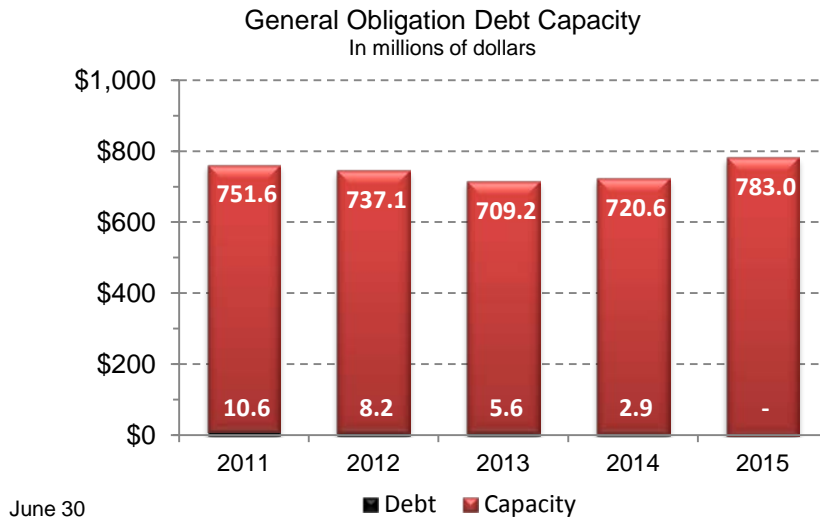
### **Rebatable Arbitrage**

The County has no liability for rebatable arbitrage at June 30, 2015.

## Benchmarks

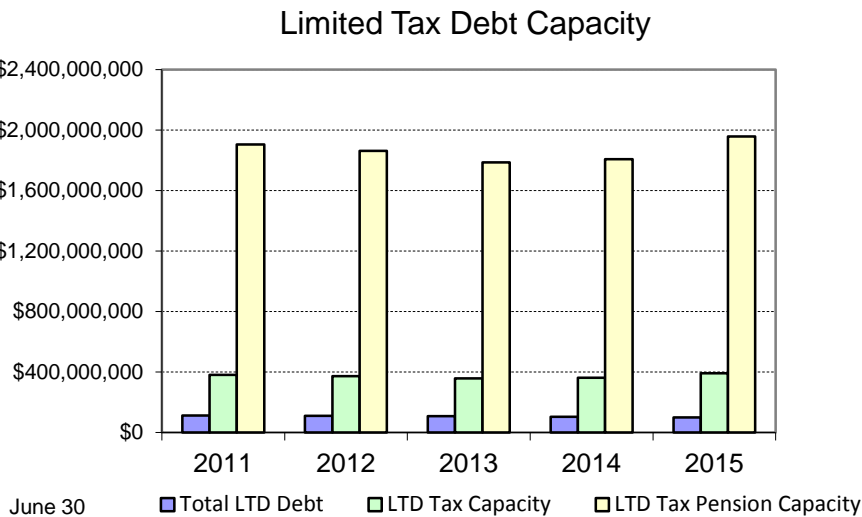
### Statutory Limits

ORS 287A.100 limits outstanding General Obligation Bonded indebtedness to 2 percent of the real market value of all taxable property within the county. Lane County has no general obligation bonded debt outstanding.



In August 2013, Moody's Investors Service affirmed the County's general obligation bond rating to be Aa2.

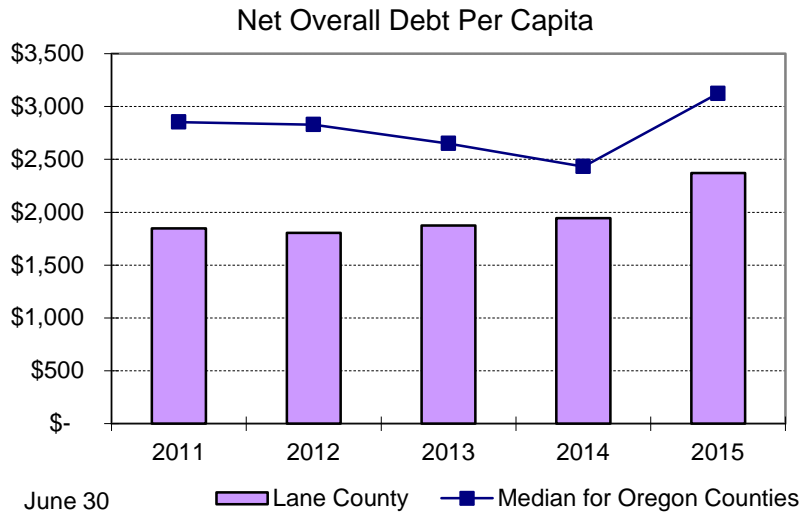
Limited Taxable Bonded indebtedness is limited by ORS 287A.105 to 1 percent of the real market value of all property within the county, while Limited Tax Pension Bonded indebtedness is limited by ORS 238.694 to 5 percent. Current County limited tax bonded debt is at 9.35 percent and 3.23 percent of the respective limits.



In 2011, Moody's Investors Service rated both the County's Full Faith and Credit 2011 and the 2011 Refunding limited tax bonds as Aa3.

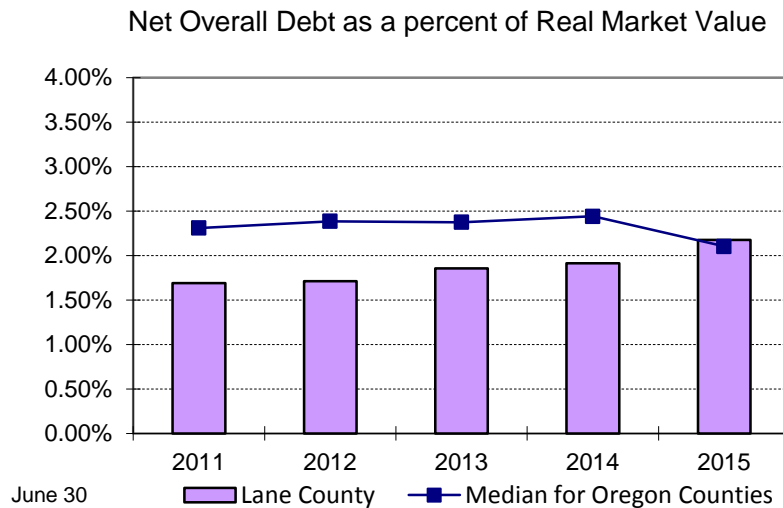
## Affordability Measures

Debt per capita is a measure of the net overall debt burden on each individual residing within the County. This measure includes overlapping debt of other agencies in the County to provide an indication of the ability of the taxpayers to carry the debt. Debt per capita is compared to the median for selected Oregon counties<sup>1</sup>. The Government Finance Officers Association (GFOA) recommends net direct debt per capita should not exceed \$2,500. As of June 30, 2015, the County's net direct debt per capita is \$2,372.



1 - Counties included are Clackamas, Deschutes, Jackson, Marion, and Washington

Net overall debt as a percentage of real market value of taxable real property located within the county provides an indication as to citizen affordability based on property ownership. The GFOA recommends net direct debt to property market value should not exceed 6 percent. As of June 30, 2015, the County's ratio is 2.17 percent.

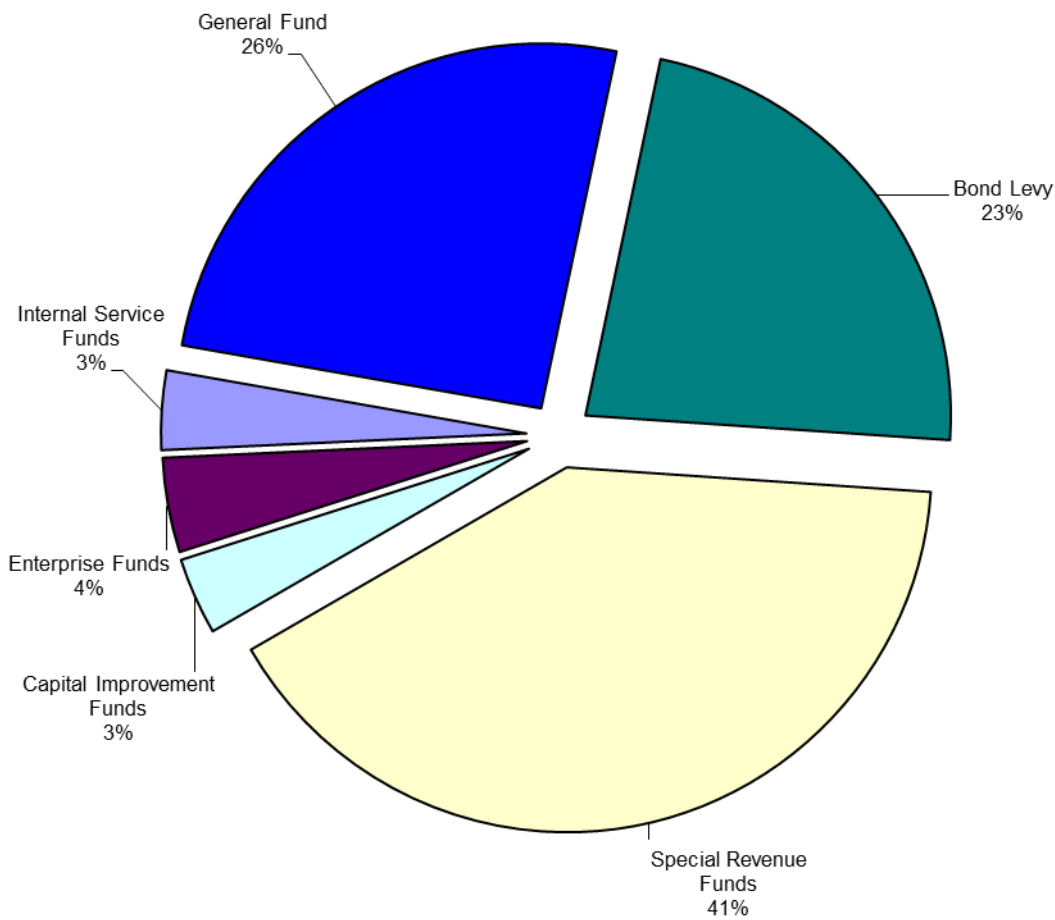


1 - Counties included are Clackamas, Deschutes, Jackson, Marion, and Washington

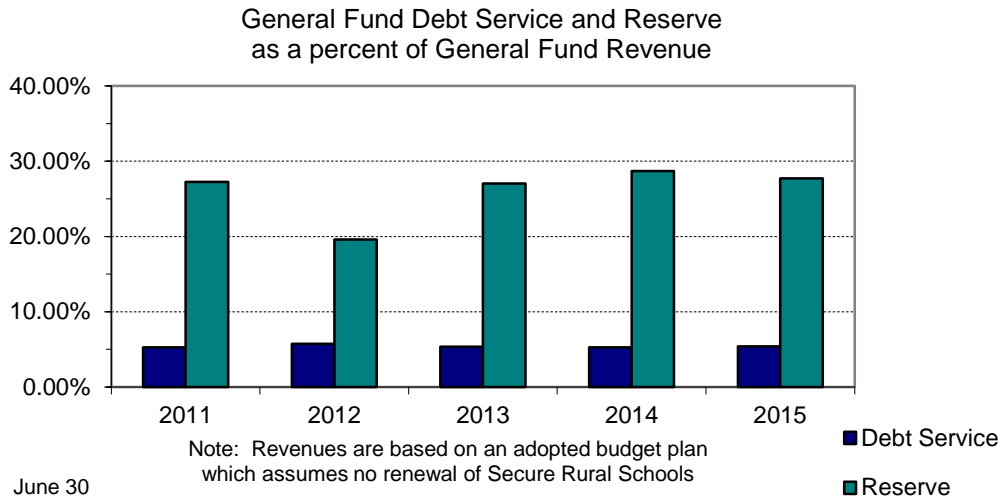
General Fund Analysis:

A portion of the County's bonded debt is serviced by General Fund resources, depending on the original use of the debt proceeds. For example, the limited tax bonded debt includes \$63.2 million in pension bonds that are serviced by a payroll assessment on all funds containing budgeted positions. In fiscal year 2015, the General Fund paid 30.24 percent of the payroll assessment. To analyze the ability of the General Fund to support additional debt, the following charts and tables reflect an estimate of the total debt service obligation of the General Fund (including an allocated portion of limited tax bonded debt).

Total Debt Service By Fund Type  
FY 2015

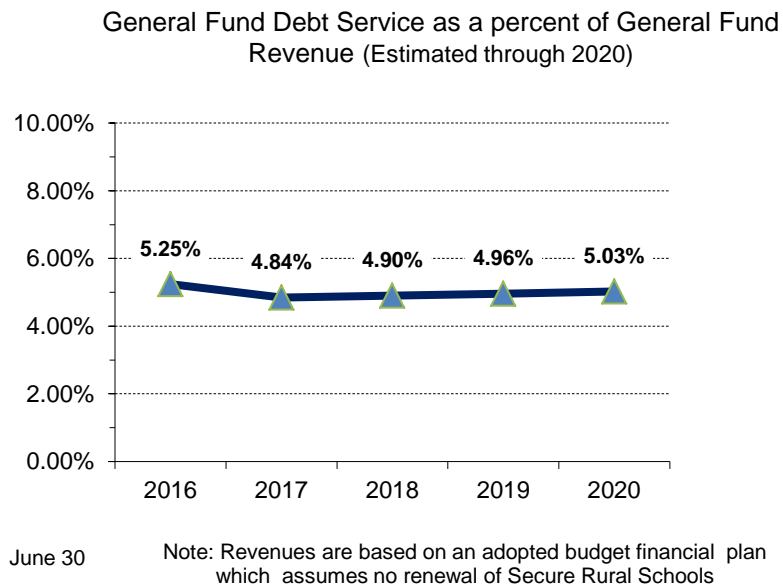


The percentage of General Fund revenues dedicated to meet debt service requirements is an indicator of the County's capacity to meet its debt obligations. The GFOA recommends general fund debt service not exceed 10 percent to general fund revenues. For the fiscal year ended June 30, 2015, General Fund debt service requirements were 5.39 percent of General Fund revenues.



The current trend in the General Fund reserves and the general fund debt service as a percent of general fund revenues are positive. The rise and fall of General Fund reserves over the last five years can be directly linked to budget actions that strengthened the reserve levels to help smooth the transition to the loss of Secure Rural Schools funding. Unless reinstated by the Federal government, reserves will continue to be reduced in future years to a minimum of 10 percent of revenue.

Another measure of particular interest to rating agencies is the projected level of General Fund reserves as a percentage of revenue over the next five years.



It is the County's policy to maintain General Fund reserves of at least 10 percent of revenue.



## Payout Levels

Another key statistic of interest to rating agencies is the five-year and ten-year payout levels. This represents the percentage of outstanding principal that will be repaid within five and ten years. A higher payout ratio preserves the County's capacity to borrow for future capital needs. For this calculation, the pension obligation debt has been excluded. The pension obligation debt repayment period matches the underlying PERS liability amortization period.

Lane County current payout of principal within 5 years	36%
Moody's 5 year median	25%

Lane County current payout of principal within 10 years	67%
Moody's 10 year median	50%

## ***Conclusion***

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Although the County's current level of debt appears manageable and well within established benchmarks, a close analysis is merited prior to issuing any additional debt. External factors outside the County's control also affect the affordability of debt. These include fluctuation in the state's economic indicators, debt issued by other municipalities in the County, and local per capita income.