

# *Debt Affordability Report*



*Lane County, Oregon*



As of June 30, 2016



Prepared by:  
*Financial Services*  
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# Lane County, Oregon Debt Affordability Report For the Fiscal Year Ended June 30, 2016

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## *Introduction*

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Lane County – Operations, Financial Services issues the Debt Affordability Report annually in accordance with debt policy as stated in Administrative Procedures Manual (APM) Chapter 2, Section 21. The report provides information regarding the County’s outstanding debt and presents selected indicators of the County’s debt position to inform debt-related decisions and to identify areas that require enhanced monitoring.

Large capital projects can be funded through large one-time fee increases, by accumulating resources over a period of time, or through the use of long-term debt financing. A primary benefit of debt financing is that it encourages payment equity by spreading costs over time among all users of a financed asset during its useful life. The offsetting impact of financing an asset is an increase in outstanding debt balances. The debt balance associated with that asset will decrease over time as payments are made and principal is amortized

This report presents both a broad view of changes and accomplishments related to overall County debt as well as detailed information regarding specific categories of debt. There is no one single indicator that effectively describes the County’s debt profile, and broad-stroke comparisons may provide an incomplete picture of the County’s financial health and sustainability. Indicators that look at specific categories of debt provide more useful information regarding revenues supporting the debt, year-over-year changes, and the health and specific risks associated with a given category of debt. It is also important to recognize that changes in policy, major capital requirements, and economic conditions may have varying impacts on different categories of debt.

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.

The County’s fiscal year is July 1 through June 30. Unless otherwise noted, all figures in this report are as of June 30, 2016.

## ***Current Debt Position***

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As of June 30, 2016, the County had bonded debt outstanding of \$95.6 million. There were no General Obligation (GO) bonds outstanding as of June 30, 2016.

Excluded from this report are:

- Notes payable of \$2.0 million (non-bonded debt) to the Oregon Department of Energy for the Lane County Date Center Remodel project.
- Revenue bonds of \$.4 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 \$6.7 (non-bonded debt) used to finance construction projects for HACSA.

The County issues limited tax bonds and are backed by the full faith and credit of the County, within the limitations of Article XI of the Oregon Constitution, and are to be repaid from existing revenue sources. Descriptions of outstanding limited tax bonds are as follows:

*Full Faith and Credit Obligations, Series 2002A* - Original issue amount \$7,615,000 used to refund the 1998 Municipal Loan Agreement issued to finance public improvements to the County fairgrounds. In June 2011, all but \$1,170,000 was refunded with the issuance of Series 2011R. Remaining annual principal and semi-annual interest payments range from \$101,600 to \$115,500 per year (increasing) with final payment scheduled on June 1, 2022. Payment of principal and interest was originally insured by MBIA, and the policy is now held by the National Public Finance Guarantee Corp (NPFPG).

*Full Faith and Credit Obligations, Series 2003B* - Original issue amount \$5,655,000 used in part to refund the Special Obligations, Series 1993 and Limited Tax Revenue, Series 1995 bonds issued to finance public improvements to the county courthouse and jail, and to finance new costs of a facility for the County Elections Division and the Plaza/Free Speech area at the County Courthouse. Remaining annual principal and semi-annual interest payments are \$219,372 in fiscal year 2017 and then average \$220,000 per year thereafter with final payment scheduled on June 1, 2023. Payment of principal and interest was originally insured by MBIA, and the policy is now held by NPFPG.

*Limited Tax Pension Bonds, Series 2002* – Original issue amount \$71,408,377 (\$14,853,377 in deferred interest bonds and \$56,555,000 in current interest bonds) used to finance a portion of the estimated unfunded actuarial liability with the Oregon Public Employees Retirement System. Remaining annual principal and semi-annual interest payments fluctuate from \$6.7 million to \$11.2 million per year (increasing) with final payment scheduled on June 1, 2028. Payment of principal and interest is insured by AMBAC.

*Full Faith and Credit Obligations, Series 2009A* – Issued in the amount of \$27,930,000 on November 2, 2009 and used to refund a majority of the Series 2000 obligations and to finance the purchase and improvements to the Public Health Facility, the purchase of the Riverstone Health Clinic building, additional AIRS conversion costs, and upgrades to the heating and air conditioning system at the County correctional facility. Annual principal and semi-annual interest payments are approximately \$2.3 million through 2021, and drop down to \$1.9 million in 2022 and thereafter with the final payment scheduled on November 1, 2029. The bonds are not insured.

*Full Faith and Credit Obligations, Series 2011* – Issued in the amount of \$10,345,000 on March 30, 2011 and used to finance improvements to the Riverstone Health Clinic building, Richardson Park Marina, the Public Works Customer Service Center, the Lane Events Center Convention Center roof, and the Public Services Building steam conversion. Annual principal and semi-annual interest payments are approximately \$750,000 with the final payment scheduled on June 1, 2031. The bonds are not insured.

*Full Faith and Credit Refunding Obligations, Series 2011R* – Issued in the amount of \$4,945,000 on June 2, 2011 and used to refund a majority of the Series 2002A obligations. Annual principal and semi-annual interest payments are approximately \$580,000 with the final payment scheduled on June 1, 2022. The bonds are not insured.

Limited tax bonds outstanding as of June 30, 2016 are as follows:

<b>Limited Tax Bond</b>	<b>Ending Balance</b>
Limited Tax Full Faith & Credit Bonds, Series 2002A	\$ 545,000
Limited Tax Full Faith & Credit Bonds, Series 2003B	1,305,000
Limited Tax Full Faith & Credit Bonds, Series 2009A	21,040,000
Limited Tax Full Faith & Credit Bonds, Series 2011	8,360,000
Limited Tax Full Faith & Credit Bonds, Series 2011R	3,065,000
Limited Tax Pension Bonds, Series 2002	61,235,394
<b>Total limited tax bonds</b>	<b>\$ 95,550,394</b>

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.

<b>Net Overall Property Tax Backed Debt Outstanding for the year ended June 30, 2016</b>				
Type of Debt	Outstanding at June 30, 2015	Additions	Reductions	Outstanding at June 30, 2016
Limited tax bonds - Direct Debt	\$ 99,949,296	\$ 1,081,098	\$ 5,480,000	\$ 95,550,394
Less fund balance in debt service funds	(124,963)			(6,931,945)
Net direct debt	99,824,333			88,618,449
Overlapping debt	755,252,991			814,359,516
<b>Net overall property tax backed debt</b>	<b>\$ 855,077,324</b>			<b>\$ 902,977,965</b>

### ***Arbitrage Rebate Calculations***

The federal government requires that the County monitor and provide periodic reporting regarding the use and investment of tax exempt bond proceeds. Investment earnings on bond proceeds that exceed specific levels determined by the federal government must be returned to the federal government as “arbitrage rebate.” The County is in compliance with all rebate calculation requirements as of June 30, 2016. The County was not required to rebate any arbitrage earnings to the federal government during FY16.

## County Bond Ratings

A bond rating is an indicator of credit quality, assigned by an independent rating organization that monitors and reviews the County’s ability to repay debt. In February 2017, Lane County was notified by Moody’s Investors Service, Inc. independently reviewed and increased Lane County’s General Obligation Limited Tax (GOLT) bond rating from Aa3 to Aa2. This rating is the highest of its kind in Lane County’s history, an improvement in the County’s general credit profile and a reflection of its long-term financial stability. An Aa2 rating identifies an organization as a very low credit risk. A high bond rating allows Lane County to reduce costs to taxpayers when refinancing existing debt and for financing public projects. It is considered a reflection of an organization's quality financial management, lower credit risk and increased capacity to meet financial commitments.

Lane County’s previous rating of Aa3 was assigned by Moody’s in 2011, an increase from the original A1 rating first assigned in 1993. Lane County’s General Obligation Unlimited Tax (GOULT) bond rating is also rated Aa2. Governments have two ratings: the GOLT rating represents bonds secured by a limited property tax pledge while a GOULT rating represents bonds backed by the full faith and credit pledge and total taxing power of the local government.

Moody’s provides credit ratings and risk analysis of commercial and governmental entities around the world. When evaluating an organization’s credit profile, Moody’s reviews many factors of financial health, including: the local economy/tax base; finances/fund balances; management; and debt/pensions. For more information about Moody’s rating methodology, visit [www.moody.com](http://www.moody.com).

The ratings by Moody’s Investor Service on the County’s limited tax bonds are as follows:

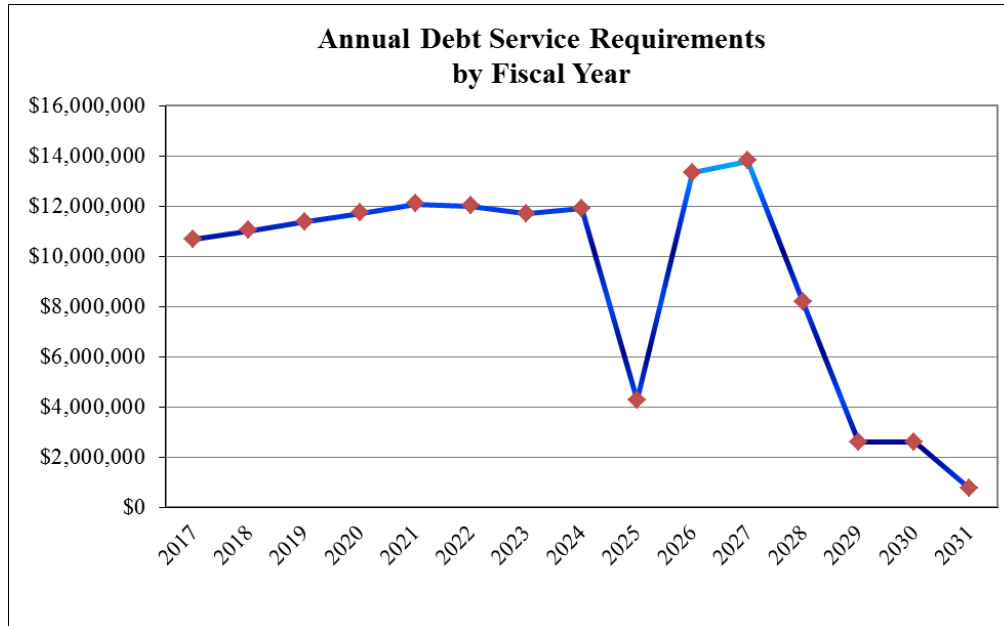
<b>Limited Tax Bond</b>	<b>Rating</b>
Limited Tax Full Faith & Credit Bonds, Series 2002A	Aa2
Limited Tax Full Faith & Credit Bonds, Series 2003B	Aa2
Limited Tax Full Faith & Credit Bonds, Series 2009A	Aa2
Limited Tax Full Faith & Credit Bonds, Series 2011	Aa2
Limited Tax Full Faith & Credit Bonds, Series 2011R	Aa2
Limited Tax Pension Bonds, Series 2002 (Oregon Local Governments Pool)	A2

### Moody’s Rating Key

Highest grade credit	Aaa
Very high grade credit	Aa1, Aa2, Aa3
High grade credit	A1, A2, A3
Good credit grade	Baa1, Baa2, Baa3, Baa4
Speculative grade credit	Ba1, Ba2, Ba3
Very speculative credit	B1, B2, B3
Substantial risks - In default	Caa1, Caa2, Caa3, Ca

## Future Debt Service Requirements

Future fiscal year payments on bonded debt, including future interest payments as of June 30, 2016 are as follows:



Notes: The debt service decline in 2025 is due to an early redemption of pension obligations bonds of \$8 million as follows: \$6.5 million in December 2007 and \$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.

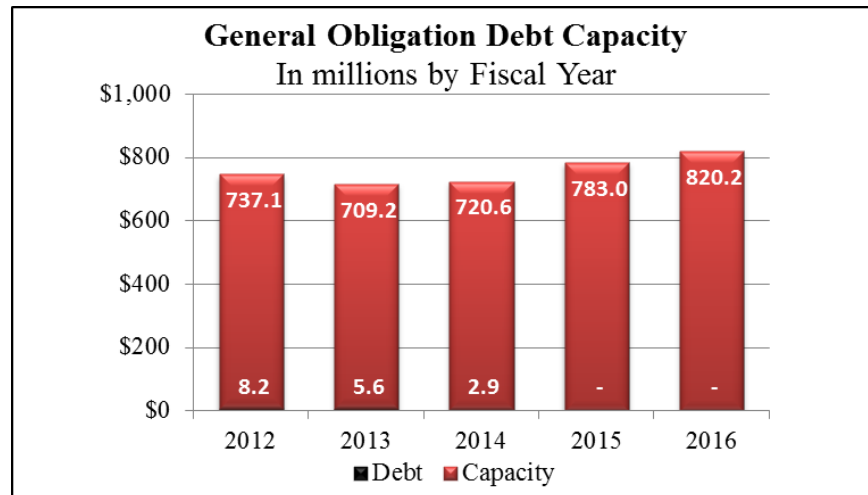
Annual debt service requirements to maturity for limited tax bonds are as follows:

Year Ending June 30	Limited Tax Bonds, excluding Limited Tax Pension Bonds		Limited Tax Pension Bonds		Total Limited Tax Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest
2017	\$ 2,495,000	\$ 1,496,570	\$ 1,140,305	\$ 5,566,260	\$ 3,635,305	\$ 7,062,830
2018	2,595,000	1,397,180	1,163,055	5,873,510	3,758,055	7,270,690
2019	2,710,000	1,281,825	1,170,369	6,201,196	3,880,369	7,483,021
2020	2,835,000	1,160,688	1,423,282	6,303,283	4,258,282	7,463,971
2021	2,960,000	1,028,580	4,800,000	3,298,274	7,760,000	4,326,854
2022-2026	10,615,000	3,561,737	27,995,000	11,065,491	38,610,000	14,627,228
2027-2031	10,105,000	1,083,366	15,355,000	1,408,703	25,460,000	2,492,069
	<u>\$ 34,315,000</u>	<u>\$ 11,009,946</u>	<u>\$ 53,047,011</u>	<u>\$ 39,716,717</u>	<u>\$ 87,362,011</u>	<u>\$ 50,726,663</u>

## Benchmarks

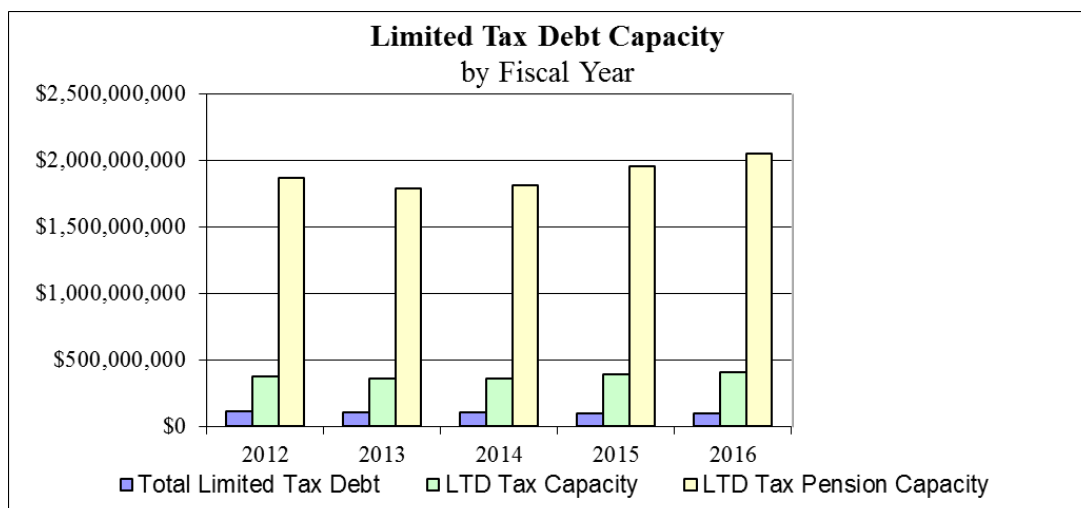
### Statutory Limits

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



It should be noted that the County's limited use of debt supported by property taxes is an important consideration for the rating agencies when evaluating the County's credit strength. The County does not, and should not, strive to utilize its full debt capacity within the County's policy limits. It is prudent for the County to retain borrowing capacity to limit overexposure to debt, to maintain sustainable cash flows, and to protect capacity in the event of need during catastrophic or emergency events.

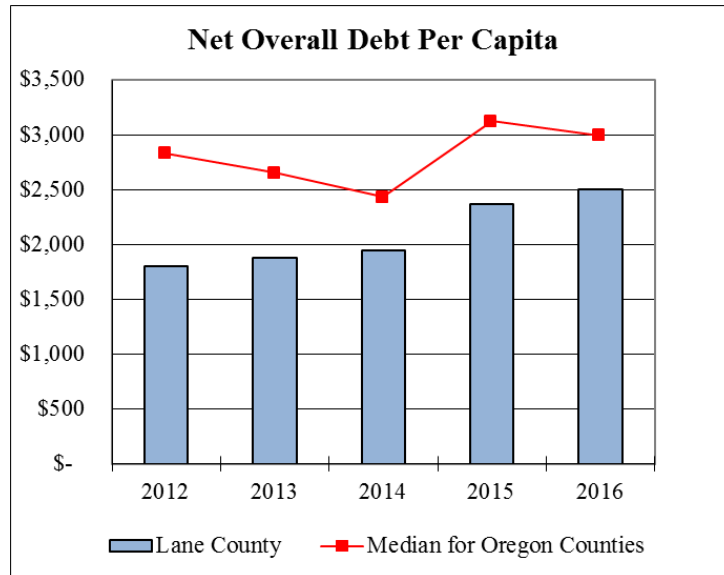
Limited Taxable Bonded indebtedness is limited by ORS 287A.105 to one percent of the real market value of all taxable property in the county, while Limited Tax Pension Bonded indebtedness is limited by ORS 238.694 to five percent. Current County limited tax bonded debt is at 8.34 percent and 2.99 percent of the respective limits. In February 2017, Moody's Investors Service upgraded the County's General Obligation Limited Tax bond rating to Aa2.



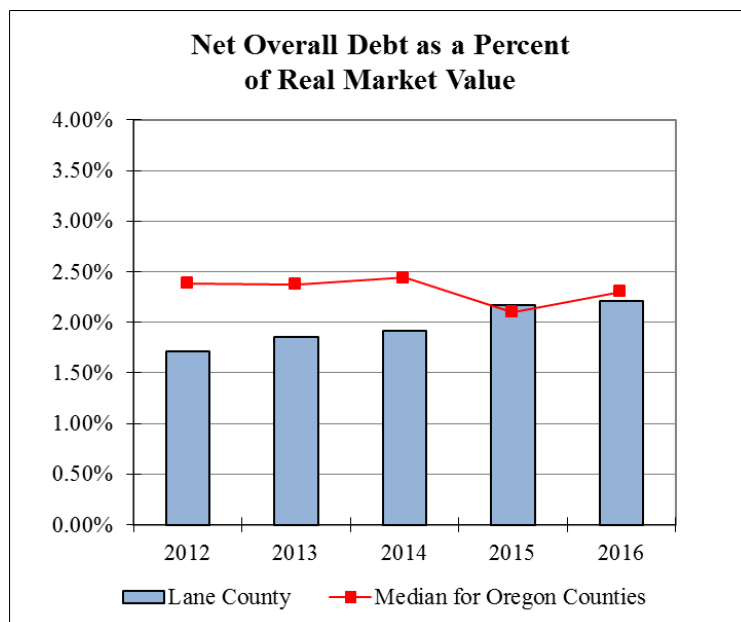


**Affordability Measures**

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, 2016, the County’s net direct debt per capita is \$2,503.



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 six percent. As of June 30, 2016, the County’s ratio is 2.21 percent.

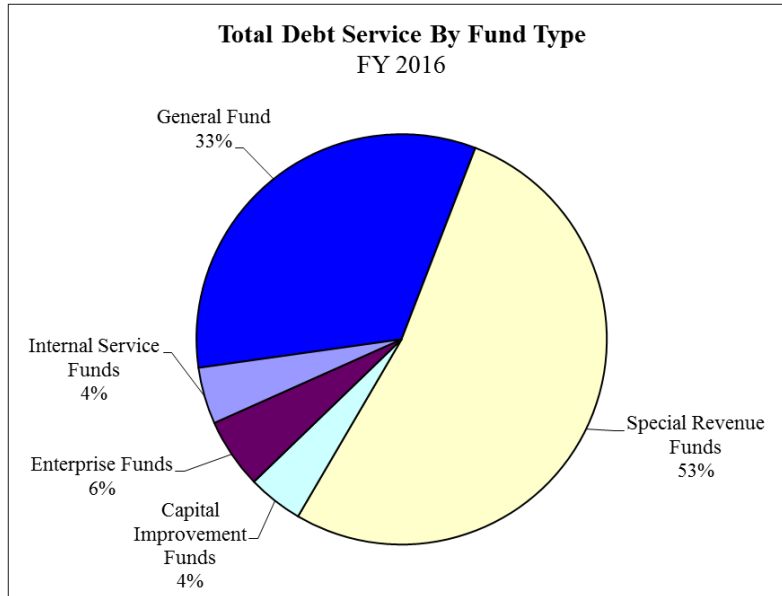


<sup>1</sup> Counties included are Clackamas, Deschutes, Jackson, Marion, and Washington

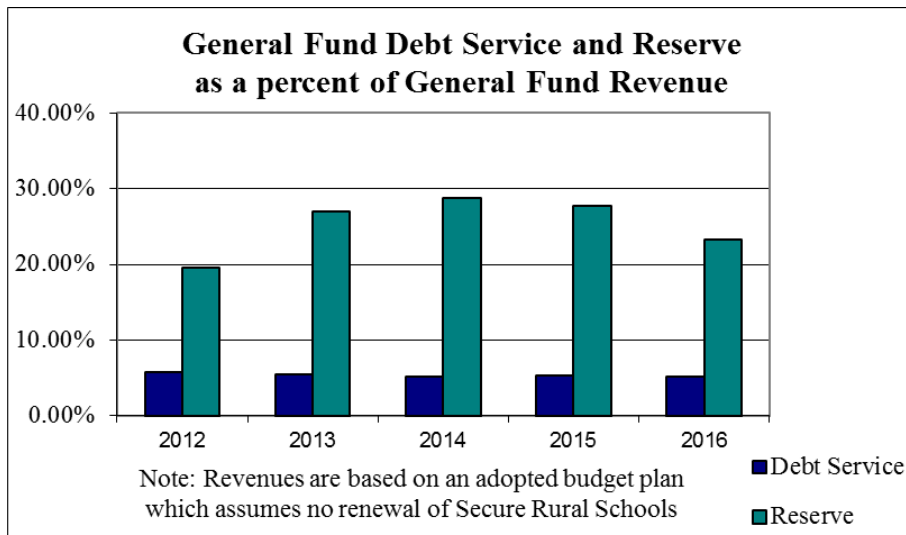
**General Fund Analysis**

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 \$61.2 million in pension bonds that are serviced by a payroll assessment on all funds containing budgeted positions. In fiscal year 2016, the General Fund paid 31.88 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). General Fund resources serviced 33 percent of the County’s debt service in fiscal year 2016.

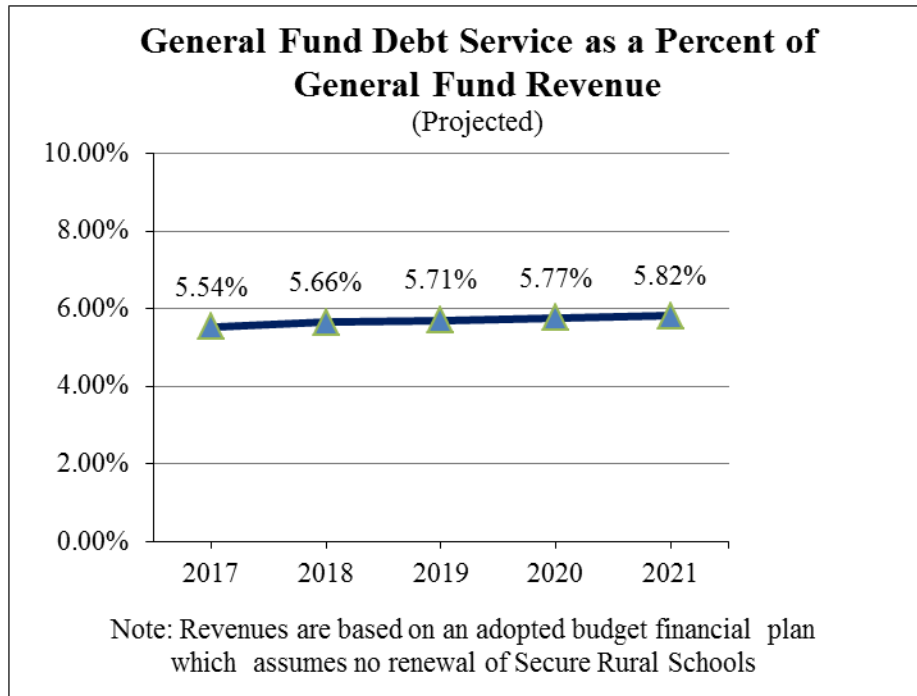


The percentage of General Fund revenues dedicated to meet debt service requirements is an indicator of the County’s capacity to meet its debt obligations. The GFOA recommends general fund debt service not exceed 10 percent to general fund revenues. For the fiscal year ended June 30, 2016, General Fund debt service requirements were 5.24 percent of General Fund operating 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. It is the County’s policy to maintain a reserve balance of at least 10 percent of General Fund operating revenues.

Another measure of particular interest to rating agencies is the projected level of General Fund debt service as a percentage of revenue over the next five year period.



***Payout Levels***

The debt payout indicator reflects how quickly the County expects to repay outstanding debt. A more rapid repayment period reduces risks associated with future loss of revenue and is an indicator of repayment strength. Rapid repayment also allows debt capacity to be released and made available for future capital needs. Five-year and ten-year payout levels represent the percentage of outstanding principal that will be repaid within five and ten years. 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	40%
Moody’s 5 year median	25%
Lane County current payout of principal within 10 years	71%
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.

The County continues to manage within its financial resources and without reliance on unplanned debt issuance. Metrics related to debt issuance have remained within healthy, historical norms. Future debt payments are not expected to outpace the revenue streams that support the various categories of County debt. When compared to industry benchmarks, comparative rating information, and debt service coverage capacity, the County's debt position is favorable.

Responsible use of debt financing spreads costs of County infrastructure over the usable life of an asset, allows the County to accommodate large capital needs, provides management control over cash flows and expenses, and contributes to a healthy government financial system. This report provides a helpful presentation of key information the County uses to monitor and maintain stable and sustainable County debt programs.

### ***Requests for Information***

Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

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