Department of County Management
MULTNOMAH COUNTY OREGON
Finance & Risk Management Division

TO: Board of County Commissioners

FROM: Mark Campbell, Interim Director of Finance & Risk Management

DATE: May 20, 2011

SUBJECT: **Capital Debt Budget and Estimated Debt Capacity**

This memo provides an overview of the County's outstanding debt obligations as of July 1, 2011. It describes planned borrowing in the FY 2012 budget and includes an estimate of the remaining debt capacity under the County's *Financial & Budget Policies.*

Summary of Debt Obligations

The FY 2012 Approved Budget includes bond proceeds attributable to the Sellwood Bridge replacement project. For the upcoming fiscal year, we have established a dedicated Capital Project fund to account for that project. Debt payments for existing obligations are budgeted according to established amortization schedules.

There are two statutory limits on borrowing as well as the internal County policy on outstanding debt limits. The more restrictive, the County's internal policy, would provide for additional borrowing of up to approximately **$125 million**. There are no obligations planned in FY 2012 that would tap that capacity. However, depending upon the amount and structure of the bond issue(s) related to the Sellwood Bridge it is possible that some portion of the estimated capacity may be required to service that debt.

Debt proceeds budgeted in the FY 2012 Approved Budget are as follows:

FUND 2511 – SELLWOOD BRIDGE REPLACEMENT FUND, PROGRAM OFFER # 91017

- Continuing Project – Sellwood Bridge Replacement - $127,000,000

Debt proceeds budgeted for this project in FY 2012 represent an amount that would fund the County's share of what is estimated to be a $290 million project to replace the Sellwood Bridge. This is a multi-year project with completion scheduled for FY 2016. In FY 2012 efforts will primarily focus on right-of-way acquisition, design work, and construction preparation.

Principal and interest payments associated with this debt issue will be supported by proceeds from the County's Vehicle Registration Fee (VRF). That fee is set at $19 per year for most passenger cars and light-duty trucks registered in Multnomah County.

Outstanding Debt and Current Limits

There are two statutory limits on local government borrowing and internal County policy that establishes limits on debt service payments. The most restrictive limit would provide for additional borrowing of approximately **$125 million** in FY 2012.

ORS 287A.100 provides a debt limit on voter approved general obligation (GO) bonds of 2% of the real market value of all taxable property within the County. The following table represents the GO debt capacity as of July 1, 2011.

Real Market Value 2010 - 2011	$101,559,353,188
Debt limit at 2%	2,031,187,064
Outstanding Debt (7/1/2011)	(38,620,000)
Legal Debt Margin	$1,992,567,064

ORS 287A.105 provides a debt limit on non-voter approved debt of 1% of the real market value of all taxable property within the County. The following table represents the estimated debt capacity as of July 1, 2011.

Real Market Value 2010 - 2011	$101,559,353,188
Debt limit at 2%	1,015,593,532
Outstanding Debt (7/1/2011)	(74,935,000)
Legal Debt Margin	$940,658,532

In addition to these statutory debt limits, the County's internal *Financial & Budget Policies*, adopted by the Board, further limit our non-voter approved debt to annual payments that <u>will not exceed 5% of General Fund budgeted revenues</u>. As of July 1, 2011 the County will have an estimated $75 million in outstanding debt subject to the limit established by policy.

<u>Current County Debt Obligations</u>

At this time, the County has the following debt obligations. Each obligation has a dedicated revenue stream that supports the debt service payments.

- General Obligation Bonds
- Revenue Bonds
- Pension Obligation Bonds
- Full Faith & Credit Obligations

GO Bonds were originally issued during the 1990's and refunded in FY 2010. They were issued to support, among other things, construction of the Wapato Jail and restoration of the Central Library. GO Bonds are supported by a property tax levy that is exempt from Measure 5 limits on assessments. In FY 2011 the GO Bond levy cost Multnomah County taxpayers a little more than 15 cents per $1,000 of assessed value. That translates to <u>a tax payment of about $30 per year</u> for the "average" homeowner in the County. These bonds will be retired in FY 2017.

Revenue Bonds were issued for three projects where the County partnered with not-for-profit agencies to provide funds for capital construction. Two of those bonds remain outstanding. The Series 2000A bonds were issued on behalf of Port City Development while the Series 2000B bonds were issued on behalf of the Oregon Food Bank. Both agencies entered into loan agreements that included an amortization schedule outlining their responsibility for repaying the debt. Bonds issued in support of the Edgefield Children's Campus were retired in FY 2009 with proceeds from the sale of the Edgefield south property.

Pension Obligation Bonds were issued in FY 2000 to cover the County's estimated unfunded actuarial liability (UAL) to PERS. The County issued $185 million of taxable debt for this purpose. It is estimated that issuance of these bonds provided **present value savings of up to $30 million** based on projected increases in PERS rates that would otherwise have been necessary to make up the UAL over time. Debt service payments are covered through internal service charges based on payroll. For FY 2012 the rate charged to departments is 6.5% of payroll.

There are four outstanding **Full Faith and Credit Obligations (FFCs)**. As the name implies, FFCs are backed by the County's credit worthiness and are payable from any legally available revenue source. The Series 2003 FFC was issued in support of the Health Department's clinic system. They Series 2004 FFC was an advance refunding that rolled several small issues into one. Projects supported by this issue include acquisition of the Multnomah Building, construction of the Multnomah County East facility, and costs related to acquisition and implementation of SAP. Last year we issued Series 2010A to support facilities capital, IT projects, and the Library materials movement project. Series 2010B was issued to support construction of the East County Courthouse.

The County has approximately $75 million of outstanding FFC debt. This represents the non-voter approved debt against which the internal financial policy is measured. Debt payments are **approximately $11.4 million** in FY 2012. Most FFC debt is recovered from departments in the form of facility charges. For example, tenants in the Multnomah Building pay their share of debt service based on the space they occupy in the facility. A portion of the annual debt service (about $3 million) is supported with the remaining proceeds from the $24.2 million debt "buydown" package that was included in the FY 2009 budget.

Ultimately, the General Fund is the primary source for repayment of FFC debt. Because principal and interest payments are allocated to buildings and projects based on usage it is estimated that approximately one quarter of total debt payments are supported by other funds. Ratings agencies have taken note of the fact that the County has taken steps to minimize the impact of debt service payments on the General Fund. Moody's Investor Services recently upgraded the County's FFC debt rating to Aa1 – the second highest rating available – and noted the low overall debt burden and the fact that most FFC debt is retired within the next seven to ten years in their analysis.

Summary

The County enjoys a very high bond rating because of its low debt burden and prudent management of long-term debt. This enables us to borrow at more favorable rates than other jurisdictions and our credit is highly sought after by investors.

Under current policy, the County could issue up to $200 million of FFC debt – assuming a 20 year payback at 4.75% annual interest. This would provide for the issuance of **approximately $125 million** in additional debt after deducting the existing outstanding FFC obligations.

Ability to pay, and the stability of revenues pledged to debt service, is always the primary issue to consider when issuing debt. The General Fund is heavily reliant on Property Tax and Business Income Tax. One source is constitutionally limited and the other is extremely sensitive to economic cycles. Given the mix of revenues available to service additional debt future issues should be viewed in terms of how they may limit the ability of the County to support ongoing programs and operations.

The following table highlights the County's outstanding debt obligations and debt limit calculation, per the internal policy, as of July 1, 2011:

Description	Credit Rating	Dated	Maturity Date	Amount Issued	Principal Outstanding	2011-12 Prin & Int Payment
General Obligation Bonds	Aaa	3/31/2010	10/1/2016	$ 45,175	$ 38,620	$ 8,470
Revenue Bonds						
Port City (Revenue Bond/2000A)	Aa3	11/1/2000	11/1/2015	$ 2,000	$ 880	$ 201
Oregon Food Bank (Revenue Bond/2000B)	Aa3	11/1/2000	11/1/2015	3,500	1,550	347
				$ 5,500	$ 2,430	$ 547
Limited Pension Obligation Bonds						
Pension Obligation Bonds	Aa2	12/1/1999	6/1/2030	$ 184,548	$ 142,223	$ 16,098
Full Faith and Credit Obligations						
Series 2003 Full Faith & Credit	Aa2	7/1/2000	7/1/2013	$ 9,615	$ 3,185	$ 1,194
Series 2004 Full Faith & Credit	Aa2	10/1/2004	8/1/2019	54,235	48,260	7,895
Series 2010A Full Faith & Credit	AA	3/31/2010	6/1/2017	9,800	8,490	1,620
Series 2010B Full Faith & Credit	Aa1	12/15/2010	6/1/2030	15,000	15,000	713
				$ 88,650	$ 74,935	$ 11,421
Total FFFCO and Capital Leases					**$ 74,935**	**$ 11,421**
Less Non General Fund Supported Debt						
Road Fund (Series 2000A/Series 2004 FFCO)					(1,010)	(288)
Library Fund (Series 2010A FFCO)					(693)	(125)
IT Fund (Series 2010A FFCO)					(5,198)	(950)
Facilities Fund (Series 2010A FFCO)					(2,599)	(450)
Total General Fund Obligations					**$ 65,435**	**$ 9,608**
(Less) Annual Payment From Prior Debt Buydown						(3,186)
Net General Fund Obligation						$ 6,422
REMAINING BORROWING CAPACITY						
Debt Capacity (Supported by General Government Fund Types Only)						
2011-2012 General Fund Revenues (Exlcluding BWC)						$ 360,651
Policy Limitation (5% of GF Revenues)						x 5.00%
5% Policy Limit Dollar Amount						$ 18,033
Lease/Debt Capacity Used (Total General Fund Obligations)						(9,608)
Annual Payment Available					$ 8,425	
Estimated Principal Value Available						**$ 125,000**

Note: $'s Expressed in $1,000's.