W-8.b.

Memorandum Date: January 28, 2009
Order Date: January 28, 2009

TO: Board of County Commissioners

DEPARTMENT: Management Services

PRESENTED BY: Kay Blackburn, Financial Services Manager

AGENDA ITEM TITLE: FINANCE & AUDIT – PRESENTATION OF ANNUAL DEBT AFFORDABILITY REPORT

I. MOTION

None. This is an informational item.

II. AGENDA ITEM SUMMARY

In accordance with APM Chapter 2, Section 21, Management Services is submitting the Annual Debt Affordability Report to the Finance and Audit Committee of the Board for review and comment.

III. BACKGROUND/IMPLICATIONS OF ACTION

A. Board Action and Other History

The Administrative Procedures Manual Chapter 2, Section 21 as authorized by Lane Manual 4.025 and 4.030 provides specific direction to the Management Services Director in the issuance and management of debt. The Annual Debt Affordability Report is provided annually to the Finance and Audit Committee for review and analysis of the County's debt position.

B. Policy Issues

Lane County's debt is issued and managed in conformance with ORS 287. Debt is managed with the goal of minimizing debt service requirements while maintaining adequate capacity for capital projects. Additionally, the County strives to maintain the highest practical credit rating.

C. Board Goals

This item is consistent with the strategic plan goals of allocating resources strategically, strengthening analytical capabilities, providing efficient and effective financial and administrative support and systems, and protecting the public's assets.

D. Financial and/or Resource Considerations

Review of the Annual Debt Affordability report has no direct financial impact, but allows the County to continue to issue and manage debt in an efficient and effective manner.

E. Analysis

The County's current level of debt appears manageable and is well within established benchmarks and compares favorably with levels for similar organizations. Additionally, during 2008 Moody's Investors Service updated the County's bond rating which resulted in an affirmation of the Aa3/A1 ratings, and the "negative outlook" was removed. This affirmation reflected management's adoption and adherence to stronger policies and prudent fiscal operations.

F. Alternatives/Options

1. Accept the report as presented.
2. Provide the Financial Services Manager with recommendations for changes to the debt management policies.

IV. RECOMMENDATION

The Financial Services Manager recommends no changes to the debt management policies at this time.

V. TIMING/IMPLEMENTATION

None.

VI. FOLLOW-UP

None.

VII. ATTACHMENTS

Annual Debt Affordability Report

Debt Affordability Report

Lane County, Oregon

For the Fiscal Year Ended
June 30, 2008

LANE
COUNTY
OREGON

Financial Services Division
Department of Management Services

Introduction

Financial Services Division 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 will provide an analysis of County debt compared to 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 of citizen 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 will allow the County to monitor its financial and debt position and provide a framework for evaluating the impact of proposed debt issues.

Current Debt Position

As of June 30, 2008, the County had bonded debt outstanding of $101 million. Of that amount, $17 million represents general obligation bonds serviced by general property taxes. The remaining $84 million is limited tax bonds which are also backed by the full faith and credit of the County.

Excluded from this report are $1 million in revenue bonds issued by HACSA that are not backed by the County, but rather are secured by HACSA real estate and revenues. Also excluded are notes payable and lines of credit (non-bonded debt) totaling $6.1 million used to finance construction projects for HACSA and the Fair Board and $6.2 million used to acquire the Charnelton Place building.

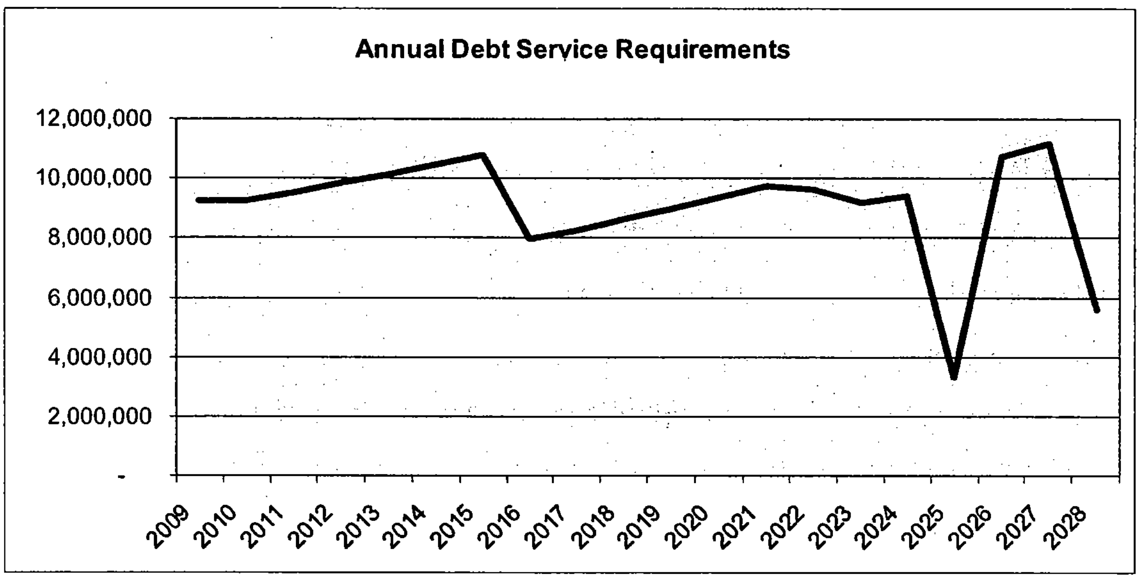
Overlapping debt represents the amount of property tax-backed debt issued by other agencies within the County. Lane County is not obligated by this debt, but it has been included as an indicator of the total debt burden on taxpayers within the County, and provides insight as to how much debt the community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

Net Overall Property Tax Backed Debt Outstanding for the year ended June 30, 2008

Type of Debt	Outstanding at June 30, 2007	Additions	Reductions	Outstanding at June 30, 2008
General Obligation Bonded Debt	19,360,000		2,070,000	17,290,000
Limited Tax Bonded Debt	91,702,530	1,340,529	8,838,020	84,205,039
Direct Debt	111,062,530	1,340,529	10,908,020	101,495,039
Less Fund Balance in Debt Service Funds				231,154
Net Direct Debt				**101,263,885**
Overlapping Debt				421,489,922
Net Overall Property Tax Backed Debt				522,753,807

Future Debt Service Requirements

Future payment on bonded debt, including future interest payments is as follows:



* $6.5 million pension obligation bond maturing in 2025 was called in December 2007

Rebatable Arbitrage

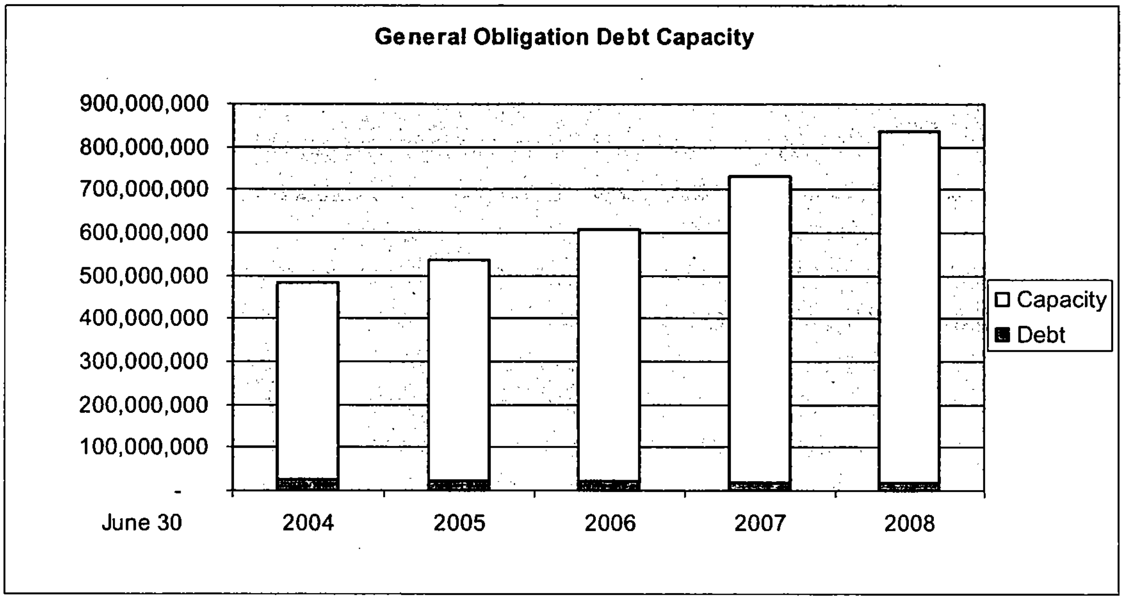
The County has no liability for rebatable arbitrage at June 30, 2008.

Additional detailed information on long-term debt can be found in the Notes to Basic Financial Statements of the Comprehensive Annual Financial Report issued by the County.

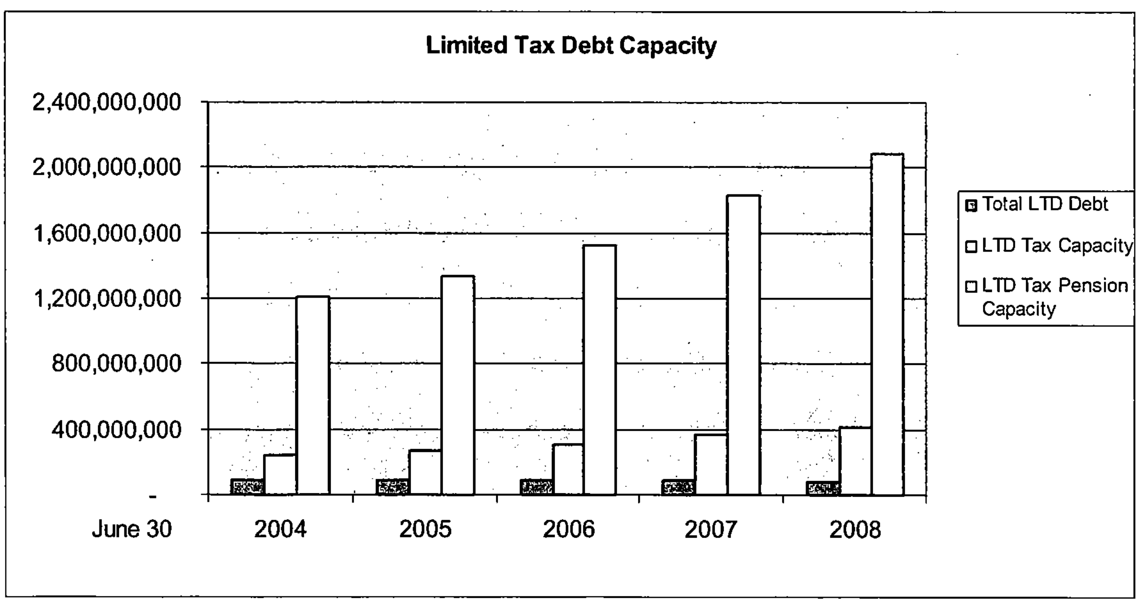
Benchmarks

Statutory Limits

ORS 287.054 limits outstanding General Obligation Bonded indebtedness to 2% of the real market value of all taxable property within the county. Current County general obligation bonded debt is at 2.07% of the statutory limit.



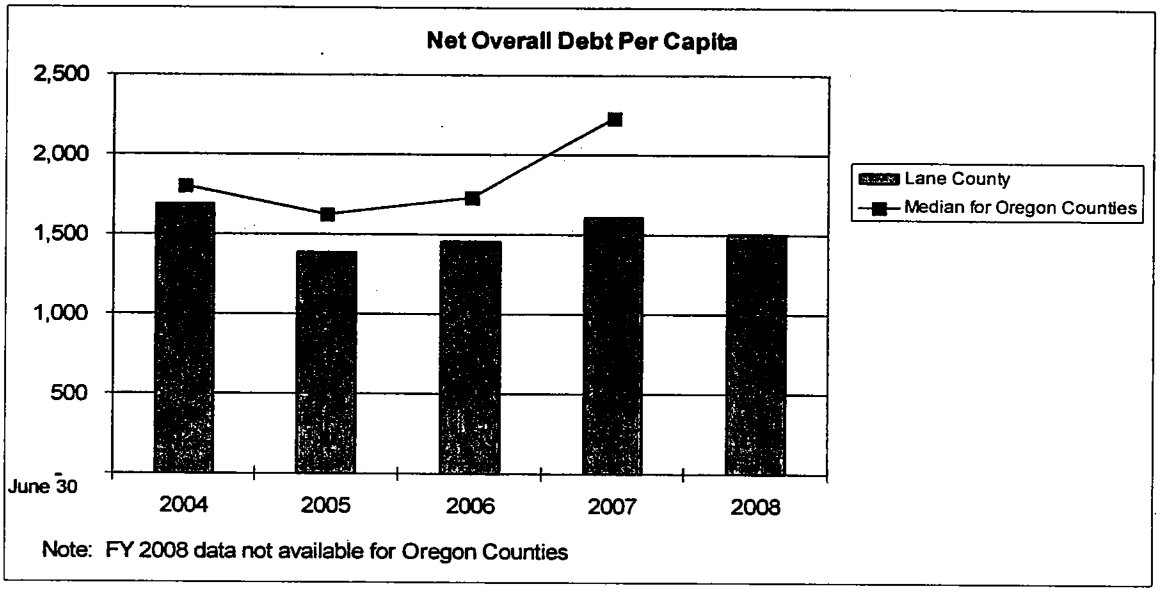
General Limited Taxable Bonded indebtedness is limited by ORS 287.053 to 1% of the real market value of all property within the county, while Limited Tax Pension Bonded indebted is limited to 5%. Current County limited tax bonded debt is at 3.62% and 3.32% of the respective limits.



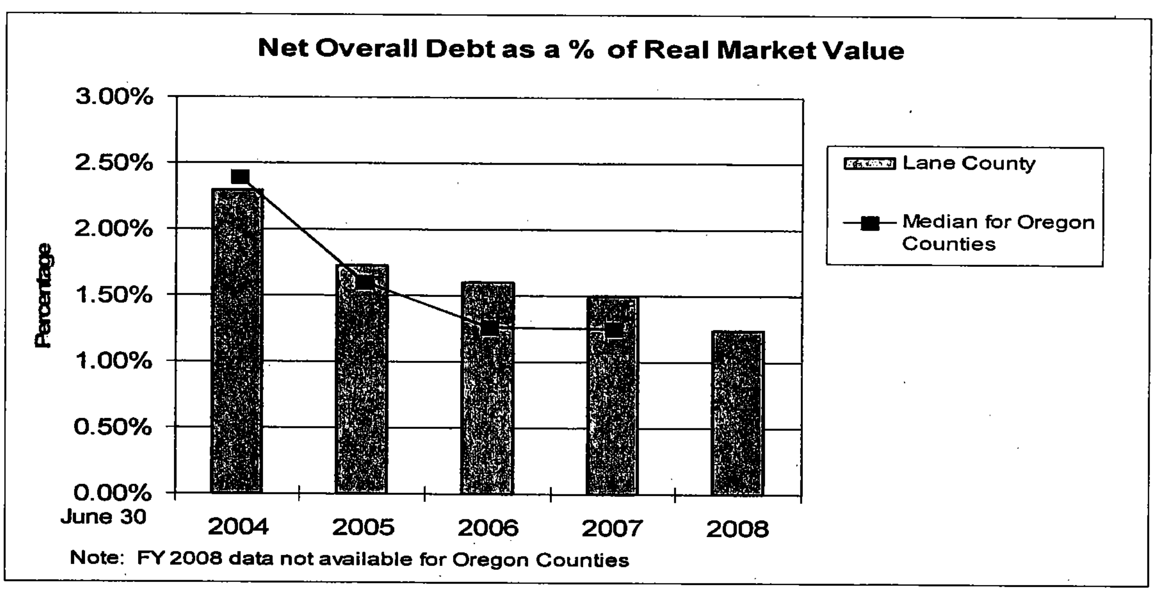
Affordability Measures

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 below to the median for selected Oregon counties[1].



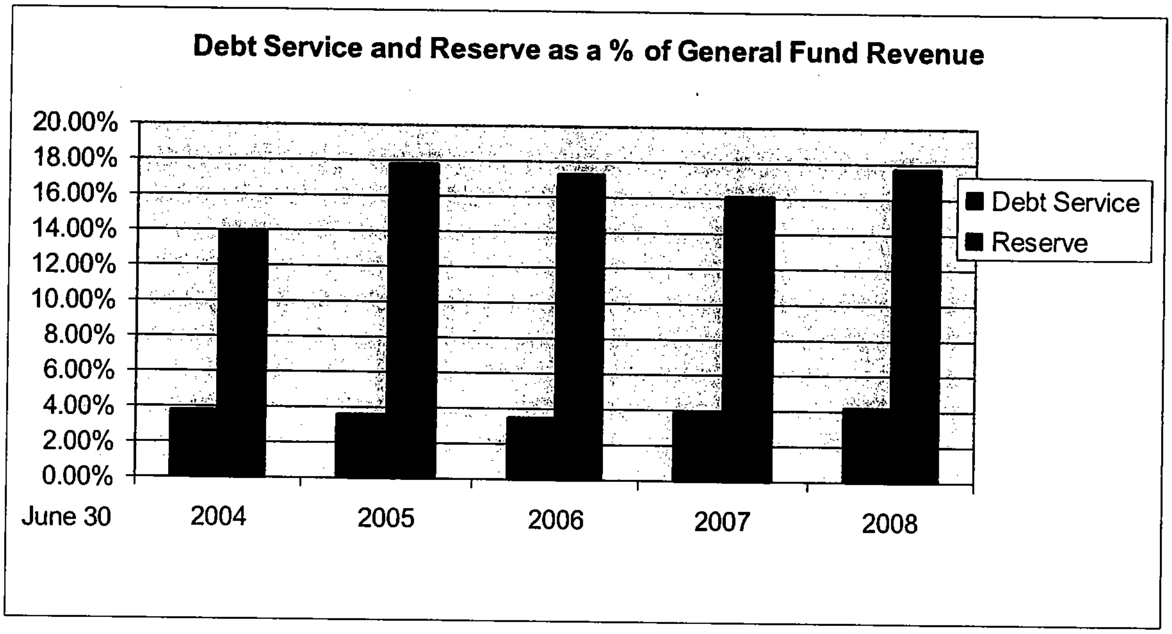
Net overall debt as a percentage of real market value of taxable real property located within the county provides an indication as to citizen affordability based on property ownership.



1 Counties included are Benton, Clackamas, Deschutes, Jackson, Marion, Multnomah and Washington

The percentage of General Fund revenues dedicated to debt service requirements is an indicator of the capacity of the County to meet debt obligations. For the fiscal year ended June 30, 2008, debt service requirements were 4.16% of General Fund revenues.

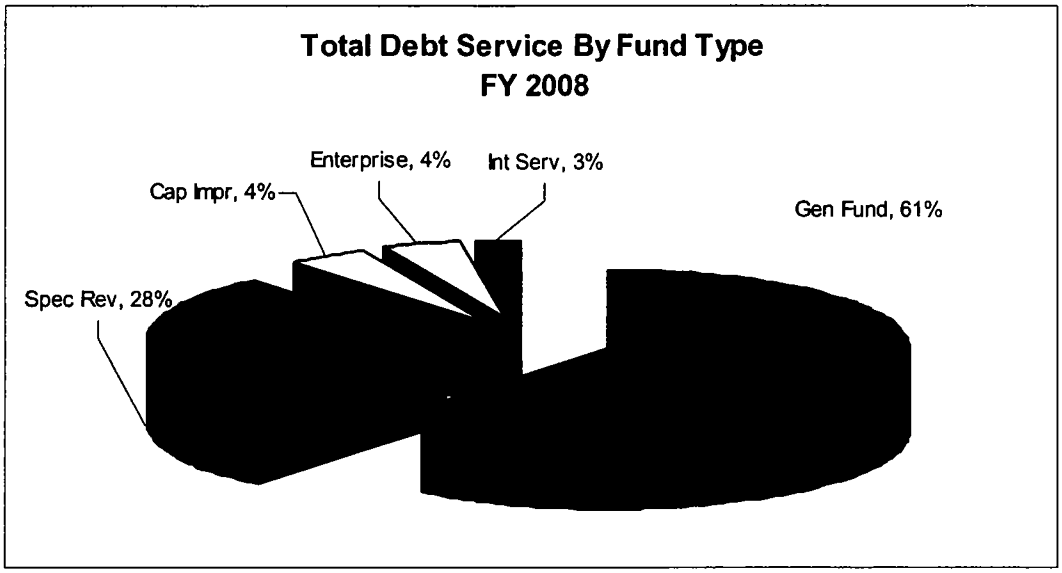
Another measure of particular interest to rating agencies is the level of General Fund reserves, which are stated below as a percentage of revenue. It is the County's policy to strive for General Fund reserves of at least 10%.

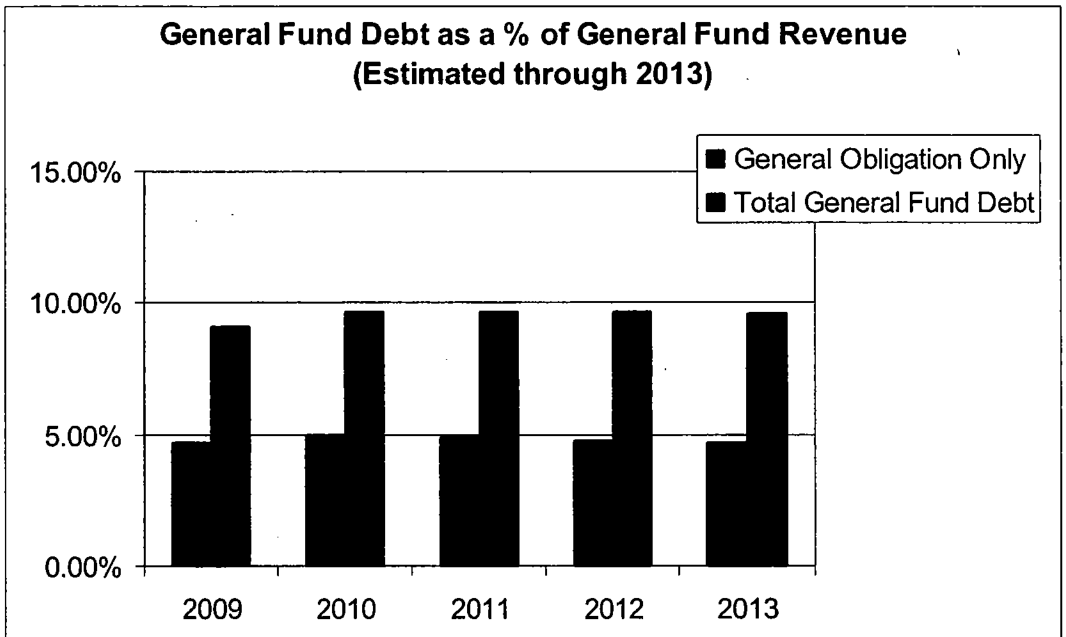


The current trend in General Fund reserve level and the debt services as a percent of that reserve are very positive. As a result of management actions to strengthen the reserve level, General Fund reserves have increased from 9.36% of revenues to 17.74% in five years.

Note: Internal Analysis

The debt service indicators above are important for rating agencies and benchmarking against external organizations. However, these measures reflect only general obligation debt service requirements balanced against General Fund resources. A portion of the County's limited obligation debt is also serviced by General Fund resources, depending on the original use of the debt proceeds. For example, the limited tax bonded debt includes $69 million in pension bonds that are serviced by a payroll assessment on all funds containing budgeted positions. To analyze the ability of the General Fund to support additional debt, the following tables reflect an estimate of the total debt service obligation of the General Fund (including a portion of limited tax bonded debt).





Note: Revenues are based on adopted budget financial plan which assumed no renewal of Secure Rural Schools

Another key statistic of interest to rating agencies is the ten-year payout level. This represents the percentage of outstanding principal that will be repaid within 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 10 years	84%
Moody's median	64%

Conclusion

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. Moody's Investors Service updated the County's bond rating in 2008. The Aa3/A1 ratings were affirmed and the "negative outlook" was removed. The review committee was impressed by the improvements in the general fund reserves, the adoption and adherence to stronger policies and prudent fiscal operations.