Department of County Management

Finance & Risk Management Division

Multnomah County

TO:	Board of County Commissioners
FROM:	Mark Campbell, Chief Financial Officer MK
DATE:	May 14, 2015
SUBJECT:	**Capital Debt Budget and Estimated Debt Capacity**

This memo provides an overview of the County's outstanding debt obligations as of July 1, 2015. It describes planned borrowing in the FY 2016 budget and includes an estimate of the remaining debt capacity under the County's *Financial and Budget Policies*.

Summary of Debt Obligations

The FY 2016 Approved Budget includes bond proceeds attributable to the Health Department Headquarters construction project. However, it is unlikely that long-term debt will be issued within the coming fiscal year. Cash flow needs will dictate the size and timing of any new debt issue. Principal and interest 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, could provide for additional borrowing of approximately **$206 million**. If new debt is issued in FY 2016 for the Health Department Headquarters construction project, it would use $13.7 million of that debt capacity.

Debt proceeds budgeted in the FY 2016 Approved Budget are as follows:

FUND 2510 – HEALTH DEPARTMENT HQ PROGRAM FUND, PROGRAM OFFER # 78018

- ***Ongoing Project – Health Department Headquarters - $13,739,000***

The County, in partnership with the City of Portland, is constructing a new Health Department headquarters facility on the U2 block in downtown Portland. Preliminary work is ongoing (planning and design of building), with ground breaking expected to occur within FY 2017.

The project is budgeted to cost **$46 million**. The Portland Development Commission (PDC) is contributing $26.9 million ($10 million received in FY 2014) in the form of a grant included in the amended River District Urban Renewal Area plan. Those funds are scheduled to be received upon completion of a series of milestones contained in the intergovernmental agreement between the County and PDC. The balance of the project costs will be supported by a combination of one-time-only (OTO) revenues and bond proceeds. Bond proceeds are budgeted at $13.7 million.

However, we do not expect it will be necessary to issue long-term debt until the following fiscal year. Proceeds are budgeted as a placeholder to provide the necessary budget authority should the project progress at a more rapid pace than anticipated.

Outstanding Debt and Current Limits

There are three 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 **$206 million** in FY 2016.

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, 2015.

Real Market Value 2014 - 2015	$108,173,728,101
Debt limit at 2%	2,163,474,562
Outstanding Debt (7/1/2015)	(11,570,000)
Legal Debt Margin	$2,151,904,562

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, 2015.

Real Market Value 2014 – 2015	$108,173,728,101
Debt limit at 1%	1,081,737,281
Outstanding Debt (7/1/2015)	(164,170,000)
Legal Debt Margin	$ 917,567,281

ORS 238.694 provides a debt limit on bonds issued to finance pension obligations of 5% of the real market value of all taxable property within the County. The following table represents the estimated pension obligation bond capacity as of July 1, 2015.

Real Market Value 2014 – 2015	$108,173,728,101
Debt limit at 5%	5,408,686,405
Outstanding Debt (7/1/2015)	(118,093,000)
Legal Debt Margin	$5,290,593,405

In addition to these statutory debt limits, the County's internal *Financial and Budget Policies*, adopted by the Board, further limit our non-voter approved debt to annual payments that will not exceed 5% of General Fund budgeted revenues. As of July 1, 2015 the County will have approximately $36 million in outstanding debt subject to the limit established by policy.

Current County Debt Obligations

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
- Pension Obligation Bonds
- Full Faith & Credit Obligations
- Capital Leases

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 2015 the GO Bond levy cost Multnomah County taxpayers a little less than 10 cents per $1,000 of assessed value. That translates to **a tax payment of about $24 per year** for the "average" homeowner in the County. These bonds will be retired in FY 2017.

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. At the time it was estimated that issuance of these bonds would provide **present value savings of up to $30 million**. However, PERS Fund losses from two recessions over the past twelve years have probably eroded much of the estimated savings. Multnomah County's unfunded pension liability (as of the December 31st 2013 valuation) stands at approximately $89 million. Principal and interest payments are recovered from departments in the form of a payroll surcharge. For FY 2016 the rate charged to departments is 6.25% 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 County 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. Finally, Series 2012 bonds were issued to pay for the County's share of the Sellwood Bridge replacement project.

The Series 2014 was a refunding of Series 2004 completed in late FY 2014. The savings from the refunding are $2.6 million or approximately 10.3% of the refunded principal. Refinancing savings can and are being used to reduce the amount of debt service allocated to County departments. 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.

The County has approximately **$164 million of outstanding FFC debt**. This represents the non-voter approved debt against which the internal financial policy is measured. In FY 2013 the Board revised this policy to provide more flexibility and additional capacity. The policy now states that the limit applies to debt payments that are backed specifically by the General Fund. Ultimately, the General Fund is responsible for repayment of FFC debt. The policy shift recognizes that debt payments associated with the Sellwood Bridge replacement project, for example, have a dedicated funding source associated with them.

Debt payments are **approximately $17.0 million** in FY 2016. Most FFC debt, not attributable to the Sellwood Bridge, is recovered from departments in the form of facility charges and IT charges. For example, tenants in the Multnomah Building pay their share of debt service based on the space they occupy in the facility. A small portion of the annual debt service is supported with the remaining proceeds from a $24.2 million debt "buydown" package in FY 2009.

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 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 three to six years in their analysis.

Capital Leases exist when the value of a lease meets certain tests related to the overall fair market value of the property. The County currently has two such leases – one for the Sellwood branch library and another for the Sheriff's Office warehouse. These leases count as long-term debt and are included in the calculation of debt capacity. But, the obligations are to the property owners and are not subject to external rating review or other conditions that are placed on bond issues.

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 $242 million of FFC debt – assuming a 20 year amortization at 4% annual interest. This would provide for the issuance of **approximately $206 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.

TABLE 1

Description	Credit Rating	Dated	Maturity Date	Amount Issued	Principal Outstanding	2015-16 Prin & Int Payment
General Obligation Bonds	Aaa	3/31/2010	10/1/2016	$ 45,175	$ 11,570	$ 6,015
Pension Obligation Bonds	Aa2	12/1/1999	6/1/2030	$ 184,548	$ 118,093	$ 20,187
OR Transportation Infrastructure Bank	n/a	9/1/2008	9/1/2025	$ 3,133	$ 2,723	$ 311
Full Faith and Credit Obligations						
Series 2010A Full Faith & Credit	AA	3/31/2010	6/1/2017	9,800	2,935	1,538
Series 2010B Full Faith & Credit	Aa1	12/15/2010	6/1/2030	15,000	15,000	713
Series 2012 Full Faith & Credit	Aa1	12/1/2012	12/1/2032	128,000	119,790	9,469
Series 2014 Full Faith & Credit	Aa1	6/1/2014	8/1/2019	22,530	22,530	4,725
Total - Full Faith & Credit				$ 175,330	$ 160,255	$ 16,445
Capital Leases						
Sellwood Library	n/a	1/1/2002	1/1/2032	$ 1,093	935	118
Sheriff's Office Warehouse	n/a	7/1/2010	7/1/2017	815	257	134
Total - Capital Leases				$ 1,908	$ 1,192	$ 252
Total Subject to Financial Policy					**$ 164,170**	**$ 17,008**
Less Non General Fund Supported Debt						
Road Fund (OTIB)					(2,723)	(312)
Library Fund (Series 2010A FFCO and Capital Lease)					(1,175)	(243)
Sellwood Bridge (Series 2012 FFCO)					(119,790)	(9,469)
IT Fund (Series 2010A FFCO)					(1,797)	(950)
Facilities Fund (Series 2010A and Series 2014 FFCO)					(2,769)	(718)
Total General Fund Obligations					**$ 35,916**	**$ 5,316**
(Less) Annual Payment From Other Sources						(20)
Net General Fund Obligation						$ 5,296
REMAINING BORROWING CAPACITY						
Debt Capacity (Supported by General Government Fund Types Only)						
FY 2016 General Fund Revenues[1]						$ 407,133
Policy Limitation (5% of GF Revenues)						x 5.00%
5% Policy Limit Dollar Amount						$ 20,357
Debt Capacity Used (Net General Fund Obligations)						(5,296)
Annual Payment Available					$ 15,061	
Estimated Principal Value Available						**$ 206,000**