Department of County Management
Finance & Risk Management Division

Multnomah County

TO: Board of County Commissioners

FROM: Mark Campbell, Chief Financial Officer

DATE: April 26, 2017

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

This memo provides an overview of the County's outstanding debt obligations as of July 1, 2017. It describes planned borrowing in the FY 2018 budget and includes an estimate of the remaining debt capacity under the County's *Financial and Budget Policies.*

Summary of Debt Obligations

The FY 2018 Approved Budget includes bond proceeds associated with the following four projects:

- Multnomah County Central Courthouse
- Gladys McCoy Health Department Headquarters
- Enterprise Resource Planning (ERP) Implementation
- DCJ Mid-County Facility

These projects and their anticipated financing needs are described below. The County has pursued a funding strategy that will allow us to issue bonds for all four projects in one offering. A bond sale is currently planned for September, 2017. This will result in savings in issuance costs, reduced staff time to prepare for bond sales, and mitigation of interest rate risk.

There are also financing proceeds budgeted in the Road Services program. This is revenue from loans to be issued by the Oregon Infrastructure Financing Authority (IFA) and is related to the Levee Ready Columbia project. The County is serving as the fiscal agent for the project and the loans will be repaid by partnering agencies within the region.

All principal and interest payments for existing obligations are budgeted according to established amortization schedules.

There are two statutory limits, as well as an internally developed policy, on the amount of debt the County can have outstanding at any given time. The internal policy is more restrictive and provides that no more than 5% of General Fund revenues can be used to support debt service payments. An exception exists where a dedicated revenue source supports the payments. For example, debt service on the Sellwood Bridge is supported by the County Vehicle Registration Fee and, therefore, not counted against the County's internal policy limit.

The four projects listed above will use **$182 million to $184 million of the estimated available debt capacity** under the County's internal policy. They will add an estimated $16.5 million of debt service payments which will push the amount supported by the General Fund up to 4.6% of estimated resources. Based on the assumptions made regarding interest rates and amortization schedules the General Fund could support approximately $37 million in additional debt proceeds under the current policy. It should be noted that the additional debt service payments planned in FY 2018 have been factored into the General Fund forecast prepared by the Budget Office.

Financing proceeds budgeted in the FY 2018 Approved Budget are as follows:

FUND 2500 – DOWNTOWN COURTHOUSE CAPITAL FUND, PROGRAM OFFER # 78212

- Ongoing Project – Downtown Courthouse - $95,684,000

The County is in the process of building a new courthouse in downtown Portland to replace the existing facility which is over one hundred years old and is both structurally and functionally obsolete. The project will be partially funded through a partnership with the State of Oregon. In its 2013 session, the Oregon legislature enacted a statute whereby the State will pay up to 50% of the costs related to "acquiring, constructing, remodeling, repairing, equipping, or furnishing courthouses." One-time-only General Fund revenues allocated over the past few years, along with a planned $18 million contribution in the FY 2018 budget, have reduced the amount of long-term debt required to fund the project.

The project is estimated to cost **$300 million** and is scheduled for completion late in FY 2020. A breakdown of the anticipated funding sources is shown below:

GF Cash Transfers (Prior to FY18)	$ 51,335,000
GF Cash Transfer (FY18)	18,000,000
State of Oregon	125,000,000
Sale of Morrison Bridge Property	10,056,000
Long Term Debt	95,684,000
Total	$300,075,000

The FY 2018 budget includes all the bond proceeds that are estimated to be needed for completion of the project. **The allocation of OTO resources, including property sales, to the project has reduced debt service obligations by approximately $4.5 million annually.**

FUND 2510 – HEALTH HEADQUARTERS CAPITAL FUND, PROGRAM OFFER # 78214

- Ongoing Project – Health Department Headquarters - $39,990,962

Construction is underway on a new Multnomah County Health Department headquarters facility. The project being constructed is a 157,000 gross square foot, nine story building located on the U2 block, adjacent to the Bud Clark Commons, in downtown Portland. It will house all of the functions and staff currently located in the Gladys McCoy Building and many of the Health Department staff currently located in the Lincoln Building.

The cost to construct this project is estimated to be between **$90 million and $95 million**. The project will make use of approximately **$36.4 million** in tax increment financing (TIF) funds due to its location in the River District urban renewal area. It is assumed that the balance of the project will be financed primarily with long-term debt. Prior General Fund cash contributions of $6.4 million, along with $7 million allocated in the FY 2018 budget, will reduce the amount of long-term debt issued for the project.

A breakdown of the anticipated funding sources, assuming the project comes in near the mid-point of the range, is shown below:

GF Cash Transfers (Prior to FY18)	$ 6,400,000
GF Cash Transfer (FY18)	7,000,000
TIF Funds (River District)	36,397,868
Long Term Debt	42,802,132
Total	$92,600,000

The FY 2018 budget includes approximately $40 million in bond proceeds. Should additional resources be necessary to complete the project they could be offset in future years through the dedication of proceeds from selling the existing McCoy Building. The application of these proceeds is identified as a resource in the amended project plan approved by the Board in November, 2015.

FUND 2513– ERP CAPITAL PROJECT FUND, PROGRAM OFFER # 78320

- NEW Project – ERP Implementation/Integration- $41,300,000

The County recently underwent a process to evaluate its existing Enterprise Resource Planning (ERP) application to determine if it could continue to meet its business needs. The current ERP solution, SAP, was implemented as a Y2K project and has been the County's system of record since FY 2001. Technology has changed along with the County's business needs.

Bond proceeds budgeted in FY 2018 support the implementation of a new ERP suite of integrated technology that includes Workday, Tririga, Jaggaer, and Questica. The result of this effort will modernize County business operations, improve staff efficiency and effectiveness, and provide software functionality that does not currently exist. The total cost of the project is **estimated to be nearly $43 million**. The FY 2017 budget included a $2 million OTO appropriation that has been used to prepare for the transition to the new ERP.

FUND 2507– DCJ MID COUNTY FACILITY, PROGRAM OFFER # 78220

- Ongoing Project – Mid County Facility Renovation- $5,250,000

The Department of Community Justice (DCJ), in collaboration with the Facilities & Property Management Division, identified a need to acquire a mid-county location to consolidate four separate sites into a single County owned campus. In FY 2017, the County purchased a three building office development property, of approximately 36,000 square feet, located on SE 122nd Avenue in Portland. Acquisition of this site will increase operational efficiency, align services with DCJ's client base, and eliminate risks associated with existing leases.

The total project is **expected to cost $12 million**. The FY 2017 budget included a $6.75 million OTO appropriation to acquire the site and begin design work. Work will be completed in the upcoming year to renovate the buildings in high performing facilities and it is expected that DCJ will take occupancy in the following year. The balance of the project will be supported with bond proceeds. The debt will be repaid beginning in FY 2019 with savings associated with expiring lease. Should the County sell the current Central Probation building the sale proceeds could also be applied to offset the debt service.

FUND 1505 – FEDERAL/STATE PROGRAM FUND , PROGRAM OFFER # 91013A

- Ongoing Project – Ready Levee Columbia - $3,100,000

In 2015, Multnomah County joined over 20 organizations in signing a Declaration of Cooperation to ensure that the levee systems along the Columbia River, from Sauvie Island to the Sandy River, meet the requirements for participation in federal programs and continues to reduce the risk of flooding for important regional assets in the area. To accomplish the project's goals, both Sauvie Island Drainage Improvement Company and the Levee Ready Columbia group have been performing engineering evaluations, extensive communications and outreach, planning work and inventories, system design, and finance activities.

The County serves as the fiscal agent for this project by processing loan proceeds through the Oregon Infrastructure Finance Authority (IFA), completing pass through payments and managing the loan repayments. The financing proceeds in the FY 2018 budget reflect a continuation to draw down loans from Oregon IFA to pay for investigation of the levees maintained by the Sauvie Island Drainage Improvement Company, Multnomah County Drainage District and the Sandy Drainage Improvement Company. Loan repayment is apportioned to all the partnering jurisdictions proportionate to their share of the project costs per the intergovernmental agreements they signed with the County.

Outstanding Debt and Current Limits

There are three statutory limits on local government borrowing and an internal County policy that establishes limits on debt service payments. The most restrictive limit would provide for additional borrowing of approximately $220 million in FY 2018. Planned borrowings in the Approved Budget will use approximately $183 million of that amount.

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, 2017.

Real Market Value 2016 - 2017	$139,355,901,407
Debt limit at 2%	2,787,118,028
Outstanding Debt (7/1/2017)	n/a
Legal Debt Margin	$2,787,118,028

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, 2016.

Real Market Value 2015 – 2016	$139,355,901,407
Debt limit at 1%	1,393,559,014
Outstanding Debt (7/1/2016)	(144,392,396)
Legal Debt Margin	$1,249,166,618

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, 2017.

Real Market Value 2015 – 2016	$139,355,901,407
Debt limit at 5%	6,967,795,070
Outstanding Debt (7/1/2016)	(94,263,370)
Legal Debt Margin	$6,873,531,700

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 <u>will not exceed 5% of General Fund budgeted revenues</u>. As of July 1, 2017 the County will have approximately $28 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
- Pension Obligation Bonds
- Full Faith & Credit Obligations

GO Bonds that supported various public safety and Library projects were retired in FY 2017. These bonds were originally issued in 1996 and refunded, most recently in FY 2010, to generate savings for Multnomah County taxpayers. The refunding savings allowed the County to discontinue levying a Property Tax to support these bonds in FY 2016.

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 <u>present value savings of up to $30 million</u>. However, PERS Fund losses from two recessions over the past 15 years have probably eroded some of the estimated savings. Multnomah County's unfunded pension liability (as of the most recent actuarial valuation) stands at approximately $540 million. Principal and interest payments are recovered from departments in the form of a payroll surcharge. For FY 2018 the rate charged to departments is 6.25% of payroll.

There are three 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 2010B bonds were issued to support construction of the East County Courthouse. The Series 2012 bonds were issued to pay for the County's share of the Sellwood Bridge replacement project.

Finally, the Series 2014 bonds represented a refunding of a number of previous issues. That refunding resulted in $2.6 million of ongoing savings to the General Fund. These bonds will mature at the end of FY 2020. At that time the Series 2010B bonds will be the only currently outstanding obligation subject to the debt limitation established in policy.

The County has approximately <u>**$142 million of outstanding FFC debt**</u> as of June 30, 2017. This represents the non-voter approved debt against which the internal financial policy is measured. Approximately $114 million of that total is supported by funds other than the General Fund and, therefore, not subject to the policy.

Total debt payments for the existing debt are **approximately $15.8 million** in FY 2018. 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. It is important to note that, although it is the County's practice to allocate debt service costs without regard to funding source, the General Fund is the ultimate source of repayment.

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 Aaa – the highest rating they assign. Moody's noted our low overall debt burden, sound financial management practices, and adequate reserves as key factors supporting their upgrade.

<u>Summary</u>

The County enjoys the highest credit rating available from Moody's because of our 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.

The FY 2018 budget plans for the issuance of approximately $183 million of FFC bonds. We are planning to issue the bonds in September, 2017. Debt service payments are included in the Approved Budget and have been factored into the General Fund forecast prepared by the Budget Office. Under current policy, the County could issue another $37 million of FFC bonds assuming a 20 year amortization at 4% annual interest. Actual interest rates and amortization schedules will influence the debt capacity calculation. A .25% reduction in interest rates, for example, increases the capacity by $5 million.

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	2017-18 Debt Service
Pension Obligation Bonds	Aaa	12/1/1999	6/1/2030	$ 184,548	$ 94,263	$ 22,566
OR Transportation Infrastructure Bank	n/a	9/1/2008	9/1/2025	$ 3,133	$ 2,172	$ 291
Full Faith and Credit Obligations						
Series 2010B Full Faith & Credit	Aaa	12/15/2010	6/1/2030	15,000	15,000	713
Series 2012 Full Faith & Credit	Aaa	12/1/2012	12/1/2032	128,000	110,910	9,470
Series 2014 Full Faith & Credit	Aaa	6/1/2014	8/1/2019	22,530	14,175	5,317
Total - Full Faith & Credit				$ 165,530	$ 140,085	$ 15,500
Total Subject to Financial Policy					**$ 142,257**	**$ 15,791**
Less Non General Fund Supported Debt						
Road Fund (OTIB)					(2,172)	(291)
Sellwood Bridge (Series 2012 FFCO)					(110,910)	(9,470)
Facilities Fund (Series 2010A and Series 2014 FFCO)					(1,177)	(268)
Total General Fund Obligations					**$ 27,998**	**$ 5,762**
(Less) Annual Payment From Other Sources						(590)
Net General Fund Obligation						$ 5,172

REMAINING BORROWING CAPACITY
Debt Capacity (Supported by General Government Fund Types Only)

FY 2018 General Fund Revenues[1]		$ 488,480
Policy Limitation (5% of GF Revenues)		x 5.00%
Total - Maximum Debt Service per Policy		$ 24,424
(Less) Current GF Commitment	$ (5,172)	
(Less) Planned Series 2017 Commitment	(16,515)	
Total - Current and Planned Commitments		(21,687)
Annual Debt Service Payment Available		**$ 2,737**
Estimated Principal Value Available[2]		**$ 37,200**

1. General Fund Revenues include Video Lottery proceeds but exclude BWC and dedicated Health Department funds.
2. Estimated Principal calculated at 4% annual interest amortized over 20 years.