Department of County Management

Finance & Risk Management Division

TO: Board of County Commissioners

FROM: Eric Arellano, Chief Financial Officer

DATE: May 12, 2020

SUBJECT: Capital Debt Budget and Estimated Debt Capacity

This memo provides an overview of the County's outstanding debt obligations as of July 1, 2020. It describes anticipated borrowing in the FY 2021 budget and includes an estimate of the remaining debt capacity under the County's *Financial and Budget Policies*.

Summary of Debt Obligations

The FY 2021 budget includes financing proceeds associated with the following project:

- Levee Ready Columbia Project

In April 2016 the County entered into a finance agreement with State of Oregon, through the Oregon Infrastructure Authority (IFA) to finance the Multnomah County Levee Accreditation Evaluation for Levee Ready Columbia regional project. The financing provides funding for phase II of the project, engineering analysis on the levees along the Columbia River, which are maintained by the Sauvie Island Drainage Improvement Company, Multnomah County Drainage District No. 1, and Sandy Drainage Improvement Company. The County is servicing as the fiscal agent for the project and the loans will be repaid by partnering agencies within the region.

On March 5th of 2020 the County board approved a General Obligation Bond referral request of $405.5 million to finance capital costs for Library facilities. The ballot measure is currently planned for the November 2020 election and if approved by the voters the debt issuance would occur in March of 2021. As currently estimated the bonds will mature over a period not to exceed 9 years with an estimated average cost of $0.64 per $1,000 of assessed value. This debt obligation is not currently budgeted for FY 21 pending voter approval.

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

There are three 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 corporate General Fund revenues can be used to support debt service payments. An exception exists where a dedicated revenue source supports the debt service. 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 County is currently **using approximately 55% of the debt capacity** upon which the internal policy is based. The remaining capacity would support **approximately $170 million in additional proceeds** assuming bonds are issued for 20 years at 3.75% annual interest rate. All current debt service payments have been factored into the General Fund forecast prepared by the budget office.

Financing proceeds budgeted in the FY 2021 budget are as follows:

FUND 1505 – FEDERAL/STATE FUND, PROGRAM OFFER # 91013-21

- Ongoing Project – Levee Ready Columbia Support - $300,000

The County, as a regional partner in the Oregon Solutions Columbia River Levee Improvement Project, has supported the work necessary to ensure improvements are identified and addressed within several drainage districts along the Columbia River levee system in Multnomah County. The County acts as the fiscal agent in administering state grants and loans for the regional partnership. Responsibility for loan repayment is apportioned to all of the regional partners.

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 **approximately $170 Million** of additional General Fund supported debt.

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, 2020.

Real Market Value 2019 - 2020	$176,570,949,385
Debt limit at 2%	3,531,418,988
Outstanding Debt (7/1/2020)	0
Legal Debt Margin	$3,531,418,988

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, 2020.

Real Market Value 2019 – 2020	$176,570,949,385
Debt limit at 1%	1,765,709,494
Outstanding Debt (7/1/2020)	(270,022,807)
Legal Debt Margin	$ 1,495,686,687

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, 2020.

Real Market Value 2019 – 2020	$176,570,949,385
Debt limit at 5%	8,828,547,469
Outstanding Debt (7/1/2020)	(47,274,202)
Legal Debt Margin	$8,781,273,267

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 corporate General Fund budgeted revenues**. As of July 1, 2020 the County is using approximately 2.7% of the General Fund revenue (or, about 55% of the policy limit) to support full faith and credit obligations.

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.

- Pension Obligation Bonds
- Full Faith & Credit Obligations
- Oregon Transportation Infrastructure Bank (OTIB) Loan

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**. PERS Fund losses from two recessions since 2001 and more recently impacts from COVID-19 have eroded some of the estimated savings. Though the full extent of COVID-19 impacts on the County's unfunded pension liability are to be determined, in the first quarter of 2020 the OPERS system estimated losses were approximately 7.8 percent. Any losses from COVID-19 will not come into effect until the 2023-25 biennium. Multnomah County's unfunded pension liability (as of the December 31st 2018 valuation) stands at approximately $689.8 million. Principal and interest payments are recovered from departments in the form of a payroll surcharge. For FY 2021 the rate charged to departments is 8.97% 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 2010B 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.

The County issued $164.1 million of Series 2017 bonds in December of, 2017. Those bonds support the County's obligations for the following projects:

- Downtown Courthouse
- Gladys McCoy Health Department Headquarters - (***maturity FY 2037***)
- Enterprise Resource Planning (ERP) System - (***maturity FY 2024***)
- DCJ East Campus - (***maturity FY 2037***)

Debt service associated with these bonds is approximately $15 million in FY 2021. The bonds have varying maturity dates that reflect their expected "useful life". The bonds that support ERP project, for example, will be paid off by FY 2024. This reflects the fact that the County depreciates software and computer systems over an 8-10 year time period. Bonds that support the Downtown Courthouse do not mature until FY 2047 which reflects the longer depreciation schedule associated with facilities. Additional debt capacity is generated as bonds are paid off.

In September of 2019 the County issued $16.075 million in Series 2019 direct placement loan to fund the National Environmental Policy Act (NEPA) phase of the Earthquake Ready Burnside Bridge Project. Repayment of the loan is supported from Vehicle Registration Fees (VRF). The direct placement loan has a 10 year term (maturity in FY 2029) and was issued at a true interest cost (TIC) of 1.74 percent. The NEPA phase of the project is scheduled to be completed in fiscal year 2021.

The County has approximately **$270 million of outstanding FFC debt** as of July, 2020. This represents the non-voter approved debt against which the internal financial policy is measured. Approximately $111 million of the total is supported by the Sellwood Bridge Replacement Fund and Burnside Bridge Fund, therefore, is not subject to the policy.

The County entered into a loan agreement with the State of Oregon, through the Oregon Department of Transportation, in September of 2009 to finance the County's share of costs associated with the 223rd Avenue railroad undercrossing reconstruction project. This loan will be paid in full by FY 2026 and debt service on it is supported by the Road Fund. Approximately **$1.5 million is outstanding** as of July, 2020.

Summary

The County enjoys the highest credit rating available from Moody's Investor Services (Aaa) and Standard & Poor's (AAA) partly because of its low debt burden and prudent management of long term debt. This enables the County to borrow at the most favorable rates and its credit highly sought after by investors.

All current debt service payments are incorporated into the FY 2021 budget and planned debt obligations have been factored into the General Fund forecast prepared by the budget office. Under current policy the County could issue another $170 million (estimated) of Full Faith and Credit bonds assuming a 20 year amortization at 3.75% annual interest rate. Actual interest rates and amortization schedules will influence the debt capacity calculation. A .25% increase in interest rates, for example, reduces debt capacity by nearly $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: Displays the list of outstanding debt obligations as of 6/30/20 and the planned debt service (principal and interest) for fiscal year 2021. Also provided is debt capacity limit calculation.

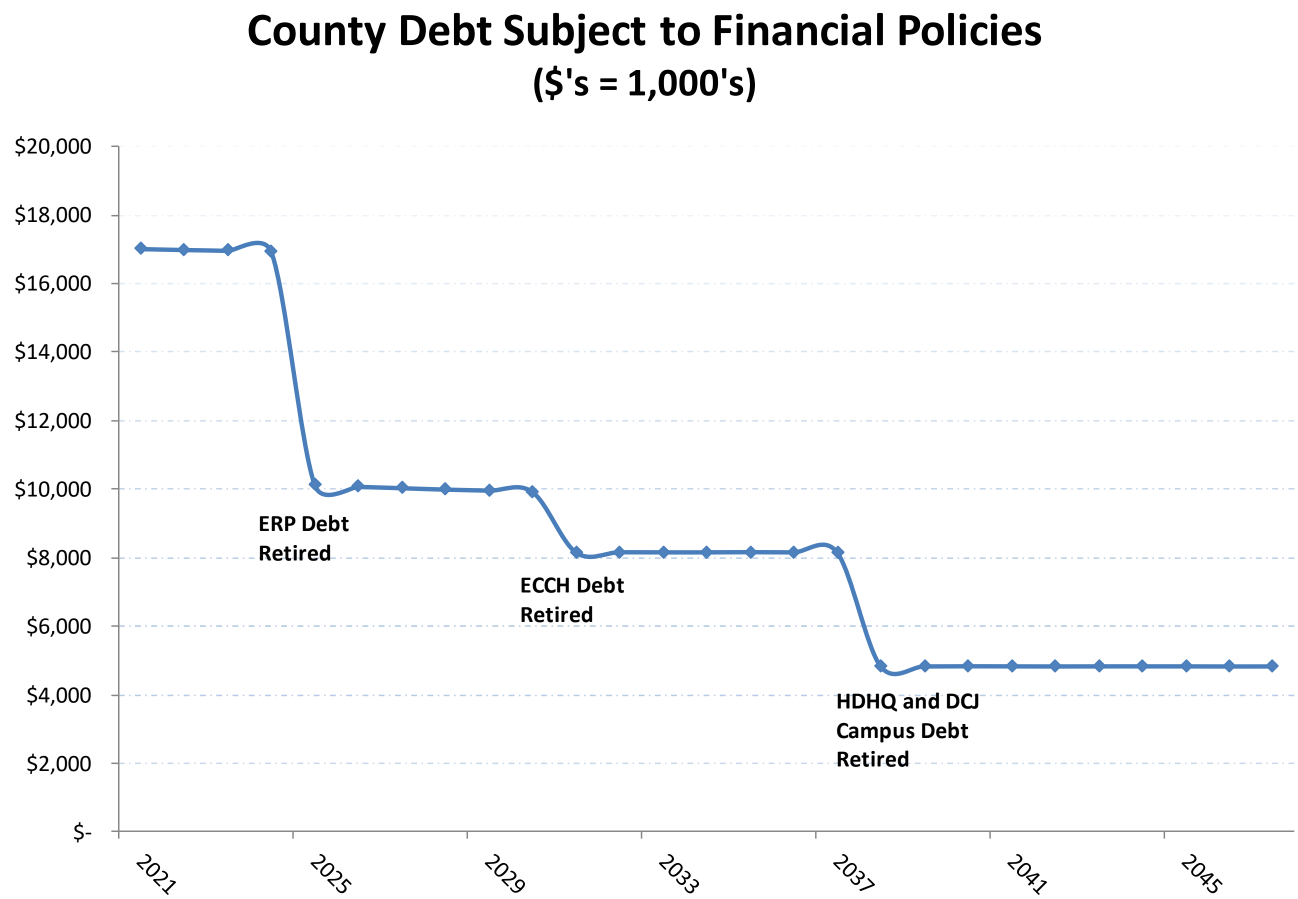
Graph 1: Displays all debt obligations subject to County financial policies through maturity.

TABLE 1

($'s in 1,000s)

Description	Credit Rating	Dated	Maturity Date	Amount Issued	Principal Outstanding	2020-21 Debt Service
Pension Obligation Bonds	Aaa	12/1/1999	6/1/2030	$ 184,548	$ 47,274	$ 26,615
OR Transportation Infrastructure Bank Loan	n/a	9/1/2008	9/1/2025	$ 3,200	$ 1,531	$ 292
Full Faith and Credit Obligations						
Series 2010B Full Faith & Credit	Aaa	12/14/2010	6/1/2030	15,000	15,000	2,063
Series 2012 Full Faith & Credit	Aaa	12/13/2012	6/1/2033	128,000	95,855	9,472
Series 2017 Full Faith & Credit	Aaa	12/14/2017	6/1/2047	164,110	144,195	14,965
Series 2019 Full Faith & Credit	n/a	9/12/2019	6/1/2029	16,075	14,973	1,812
Total - Full Faith & Credit				$ 323,185	$ 270,023	$ 28,312
Total Subject to Financial Policy					**$ 271,554**	**$ 28,604**
Less Non General Fund Supported Debt						
Road Fund (OTIB)					(1,531)	(292)
Sellwood Bridge (Series 2012 FFCO)					(95,855)	(9,472)
Burnside Bridge NEPA (Series 2019 FFCO)					(14,973)	(1,812)
Total General Fund Obligations					**$ 159,195**	**$ 17,029**
(Less) Annual Payment From Other Sources						(2,499)
Net General Fund Obligation						$ 14,530
REMAINING BORROWING CAPACITY						
Debt Capacity (Supported by General Government Fund Types Only)						
FY 2021 General Fund Revenues[1]						$ 535,479
Policy Limitation (5% of GF Revenues)						x 5.00%
Total - Maximum Debt Service per Policy						$ 26,774
(Less) Current GF Commitment					$ (14,530)	
Annual Debt Service Payment Available						$ 12,244
Estimated Principal Value Available[2]						**$ 170,000**

1. General Fund Revenues are net of BWC and Dedicated Health Department funds
2. Estimated Principal calculated at 3.75% annual interest rate amortized over 20 years


County Debt Subject to Financial Policies
($'s = 1,000's)
$20,000
$18,000
$16,000
$14,000
$12,000
$10,000
$8,000
$6,000
$4,000
$2,000
$-
ERP Debt Retired
ECCH Debt Retired
HDHQ and DCJ Campus Debt Retired
2021
2025
2029
2033
2037
2041
2045