

Lane County, Oregon

Long-Term Debt – What Are the Options?

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County Debt Profile

- Conservative and very strong. In September 2008, Moody's referred to "a very low debt burden."
 - \$17.92MM GO debt outstanding – 2.07% of statutory GO limit
 - \$15.195MM FF&C debt outstanding – \$3.62% of statutory limited tax limit
 - \$62.457MM pension debt outstanding – 3.32% of pension debt limit

- Key Ratios and comparison to medians:

	Lane County	Median*
GF debt service as % of expenditures	3%	7%
Overall net debt per capita	\$1,634	\$1,999
Net direct debt as % of RMV	0.4%	0.5%
Overall net debt as % of RMV	2.4%	2.5%

- Not favorable conditions to advance refund eligible outstanding debt.

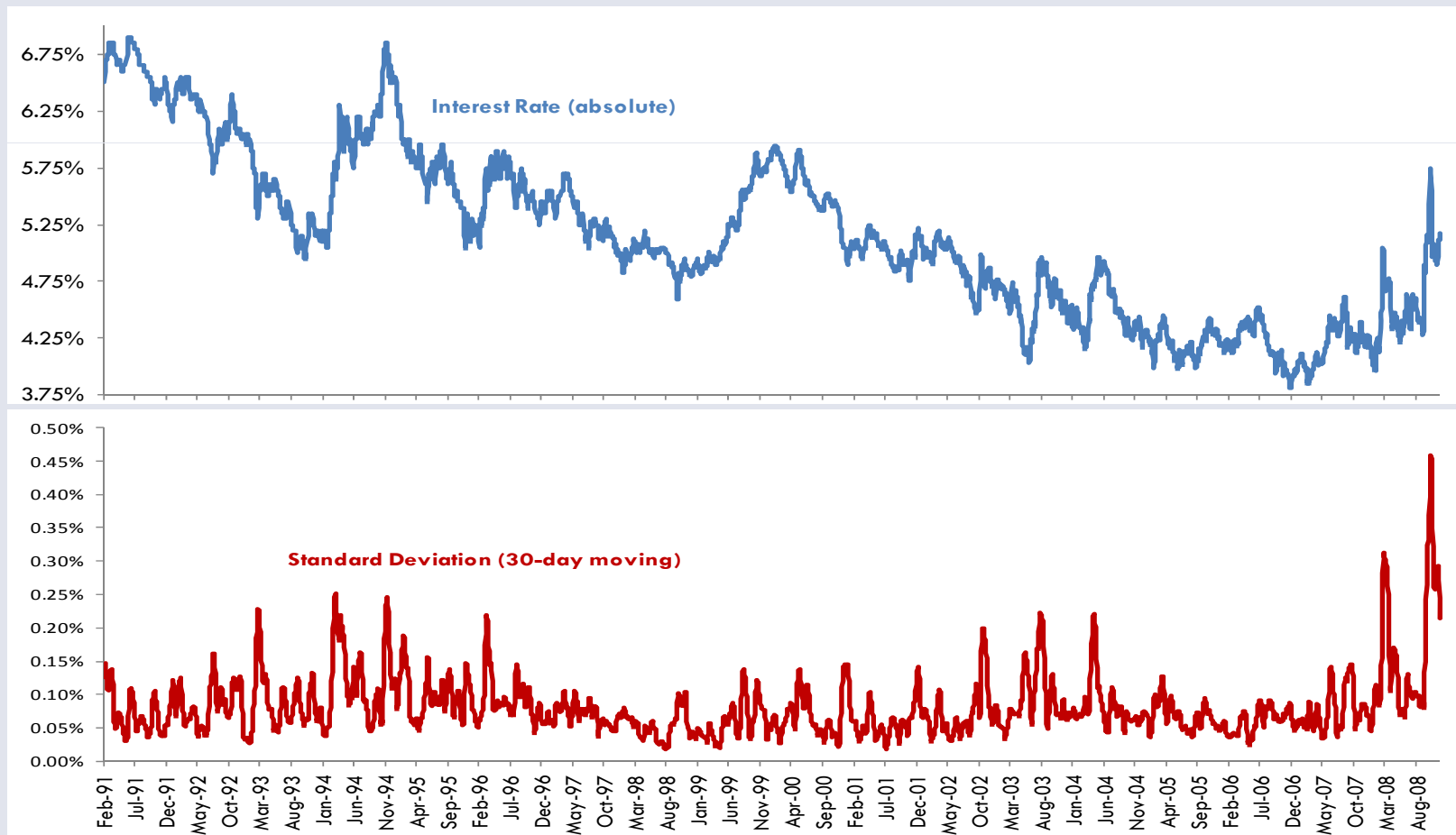
**Moody's 2007 report and S&P 2008 report.*



Current Municipal Debt Market

- Increased volatility.

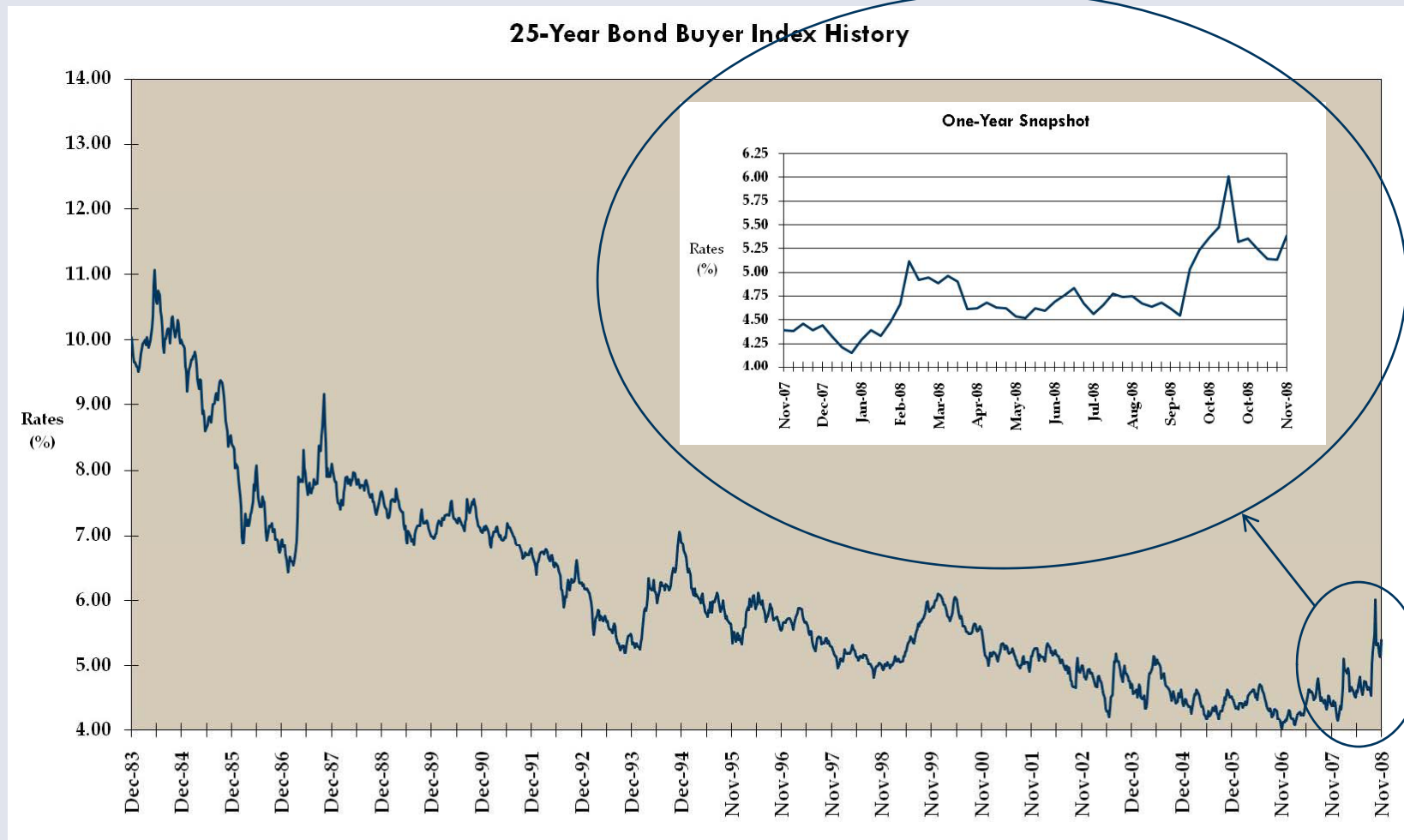
Tax-Exempt Municipal Market Data Index (20-year maturity)





Current Municipal Debt Market

- However, bonds still being sold at historically reasonable interest rates.





Current Municipal Debt Market

- Increased costs of borrowing – premium on specialty knowledge to navigate increasingly complex environment.
- Diminished impact of bond insurance.
- Intense focus on underlying rating.
- Reduced pool of potential bond investors / liquidity constraints.
- Credit markets are rapidly changing! Highlights importance on maintaining fundamental financial stability and borrowing flexibility.



Future Borrowing

- Approximately \$20MM FF&C debt contemplated in fall 2009.
- Estimated annual debt payment (over 20 years) is approximately \$1,685,000. Average interest rate (TIC) on debt around 5.75%.
- \$1.7MM debt service (\$85,000 annually) saved for every \$1MM cash used to reduce future borrowing.
- **Bank Qualification (BQ)** – \$10MM or less total borrowing in calendar year provides benefit of lower interest rates.
 - Estimated annual debt payment on \$10MM if BQ = \$795,000.
 - Estimated annual debt payment on \$10MM if not BQ = \$845,000.



Pension Bonds

- \$1.565MM due in 2025 is eligible for early redemption.
 - Savings = \$103,290 annually through FY2024, plus \$1,668,290 in FY2025 (\$3,320,930 total).

- Could potentially defease maturities with cash.
 - Set cash aside in dedicated escrow – predetermined escrow earnings applied to payment of future debt.
 - *Example:* use \$10MM to pay latest maturing principal.
 - Estimated savings = \$454,840 annually through 2026, \$1.9MM in 2027, \$5.56 in 2028 (\$15,638,845 total).

- Advance refunding and/or defeasance is not advantageous in current market due to underperforming escrow investment rates.



Estimated Annualized Savings Comparison

Amount /Use of Funds	Total Debt Service Reduction	Estimated Annualized Savings (per dollar)
\$1.565MM to call 2025 Pension Obligations	\$3,320,930	6.6%
Use \$10MM to obtain BQ status	\$17,614,892	3.8%
Reduce future debt by \$1MM	\$1,671,378	3.4%
Use \$10MM to defease Pension Obligations	\$15,638,845	2.8%

NOTE: Changes to assumptions will produce varying results.



OPEB Bonding / Funding

- County is in good shape compared to peers.
 - As of FY2007, most Oregon governments using only pay-as-you-go.
 - County has \$8.4MM set-aside, equal to 12.9% of UAL.
- Rating agencies have not yet indicated any major concern with OPEB liabilities.
- GFOA recommends pre-funding, but acknowledges that pay-as-you-go may be appropriate in given situations.
- No one in Oregon is looking yet towards bonding for OPEB liability. Continue to monitor...



General Fund Balance / Contingency Reserves

- FY2008 GF balance was 18% of GF revenues.
- Moody's median for Aa-rated County is around 22%.
- Can continue earning on cash (with no arbitrage restriction).
- Future uncertainty and value of maintaining flexibility to react to rapidly changing environment.
 - Local economy
 - State funding
 - Financial markets



Conclusions

- The County's current debt profile is favorable and strong.
- Current tax-exempt muni market is challenging and rapidly changing.
- Using cash to fund capital needs reduces County's exposure to current interest rate environment.
- Cost of future debt can potentially be decreased by using cash to get Bank Qualified (BQ) status for borrowing in calendar 2009.
- Pension bonds could be defeased to reduce annual payment obligation and offset liability, but current market does not present advantageous escrow earnings opportunity.
- In volatile and uncertain times, value is placed on maintaining flexibility and strong fundamentals – including cash position.