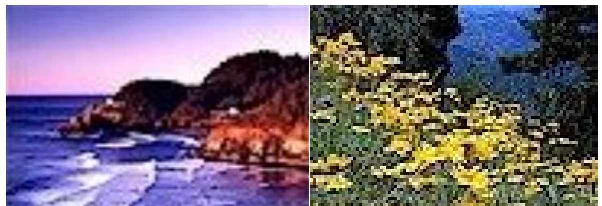
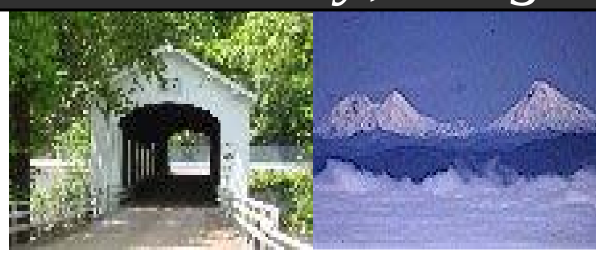
Debt Affordability Report



Lane County, Oregon



As of June 30, 2011

Financial Services Division
Department of Management Services

Introduction

The 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.

Information included herein is as of June 30, 2011. However, comparative analysis with other Oregon counties is included for fiscal years through June 30, 2010.

Current Debt Position

As of June 30, 2011, the County had bonded debt outstanding of $124.1 million. Of that amount, $10.6 million represents general obligation bonds serviced by a special property tax levy. The remaining $113.5 million is limited tax bonds which are also backed by the full faith and credit of the County, but cannot be repaid with special property tax levies.

Excluded from this report are $.8 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 $5.5 million used to finance construction projects for HACSA and Lane Events Center projects.

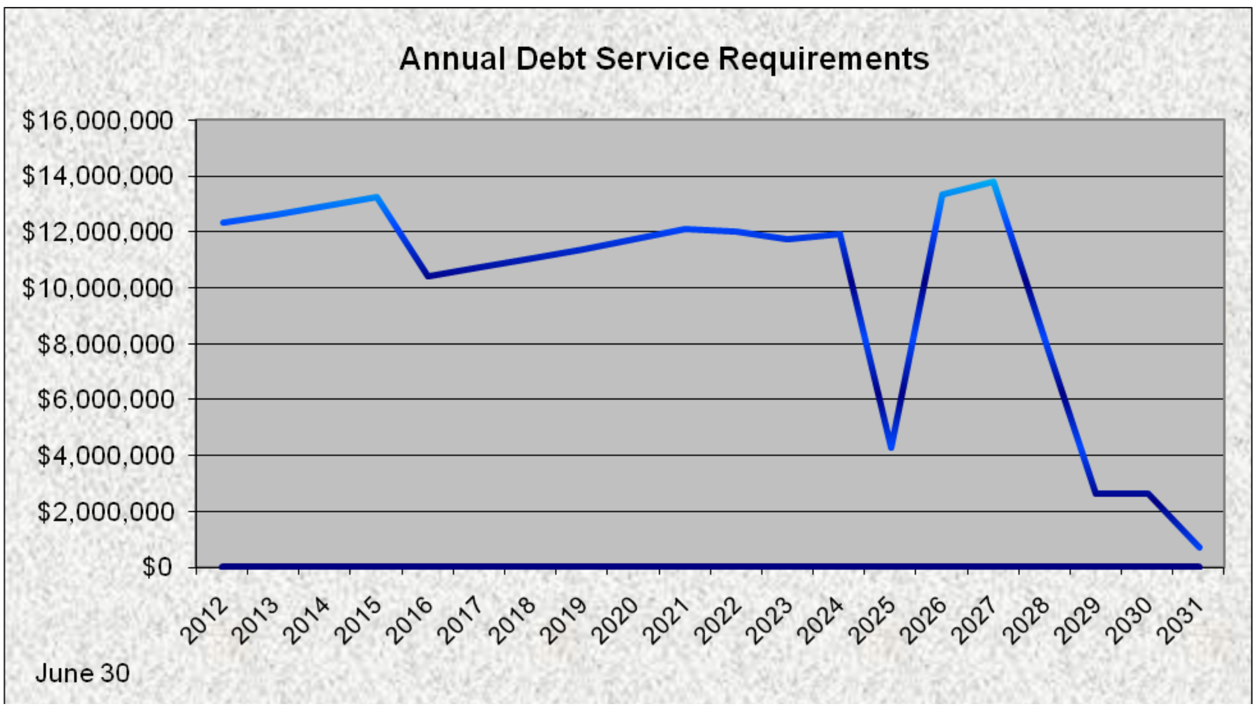
Overlapping debt represents the amount of property tax-backed debt issued by other agencies within the County. Lane County is not obligated by this debt, but it has been included as an indicator of the total debt burden on taxpayers within the County, and provides insight as to how much debt the community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

Net Overall Property Tax Backed Debt Outstanding for the year ended June 30, 2011

Type of Debt	Outstanding at June 30, 2010	Additions	Reductions	Outstanding at June 30, 2011
General Obligation Bonded Debt	12,940,000		2,330,000	10,610,000
Limited Tax Bonded Debt	105,193,305	16,683,083	8,350,000	113,526,388
Direct Debt	118,133,305	16,683,083	10,680,000	124,136,388
Less Fund Balance in Debt Service Funds				274,724
Net Direct Debt				**123,861,664**
Overlapping Debt				524,596,748
Net Overall Property Tax Backed Debt				648,458,412

Future Debt Service Requirements

Future fiscal year payments on bonded debt, including future interest payments as of June 30, 2011 is as follows:



Note: $8 million in pension obligation bonds maturing in 2025 were redeemed early as follows:

- $6.5 million in December 2007
- $1.5 million in June of 2010

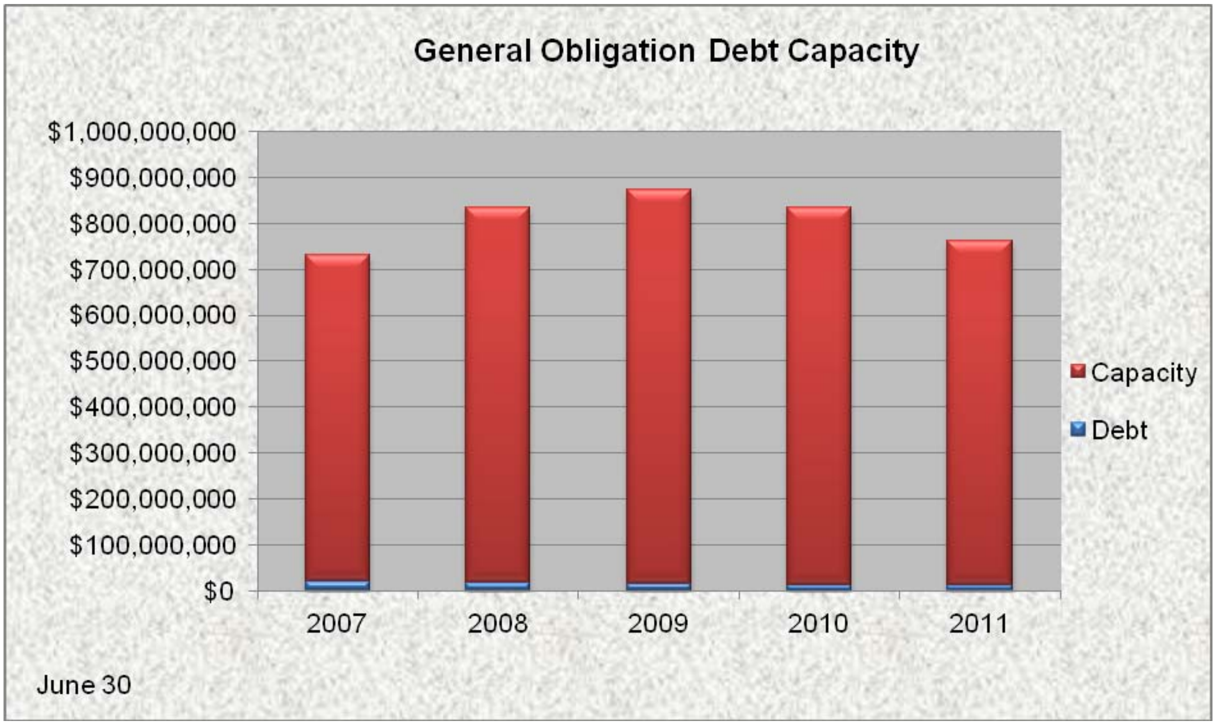
Rebatable Arbitrage

The County has no liability for rebatable arbitrage at June 30, 2011.

Benchmarks

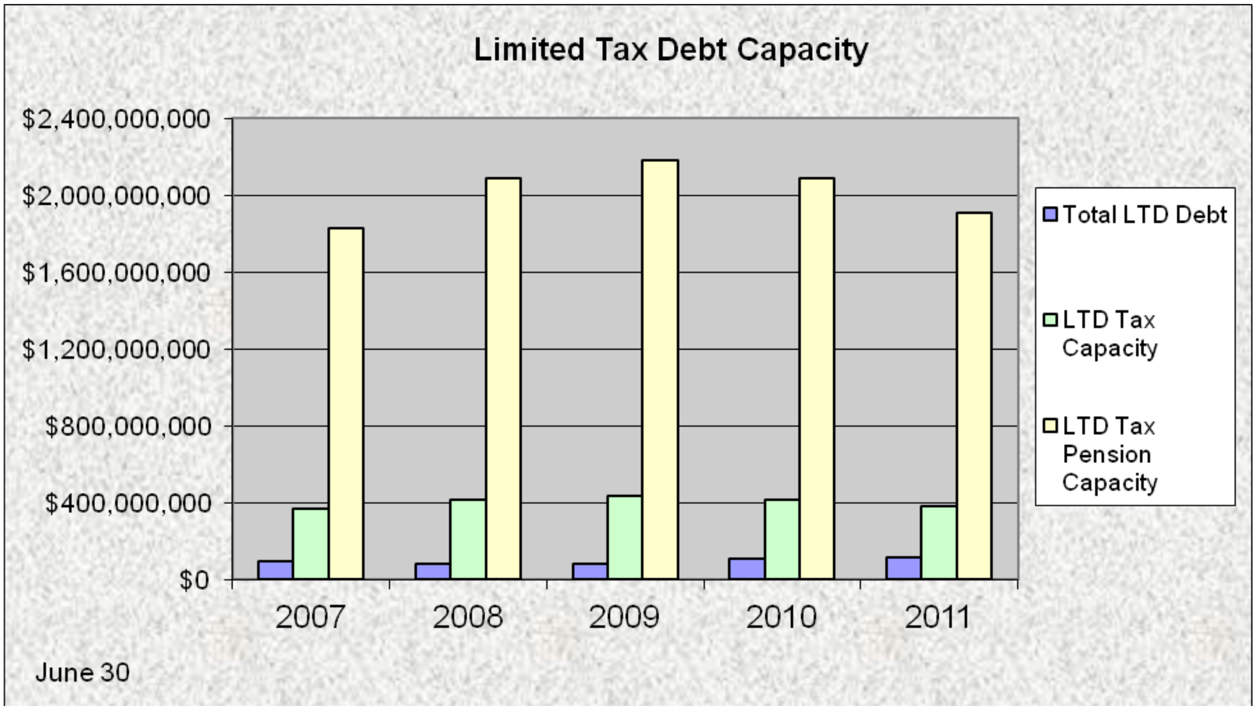
Statutory Limits

ORS 287A.100 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 1.39% of the statutory limit.



Limited Taxable Bonded indebtedness is limited by ORS 287A.105 to 1% of the real market value of all property within the county, while Limited Tax Pension Bonded indebted is limited by ORS 238.694 to 5%. Current County limited tax bonded debt is at 12.06% and 3.54% of the respective limits.

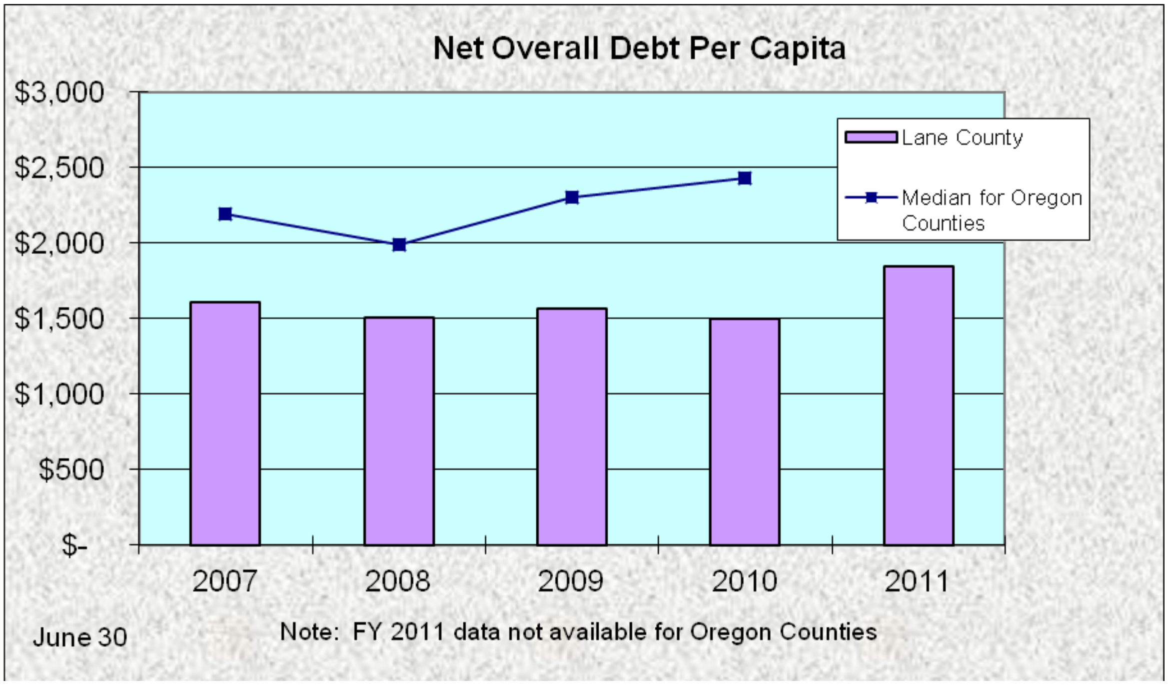
Moody's Investors Service rated the County's general obligation rating to be Aa3. The last time this rating was affirmed was 2008.



In 2011, Moody's Investors Service rated both the County's Full Faith and Credit 2011 and the 2011 Refunding limited tax bonds as Aa3. This is an increase from the previous rating of A1 in 2009.

Affordability Measures

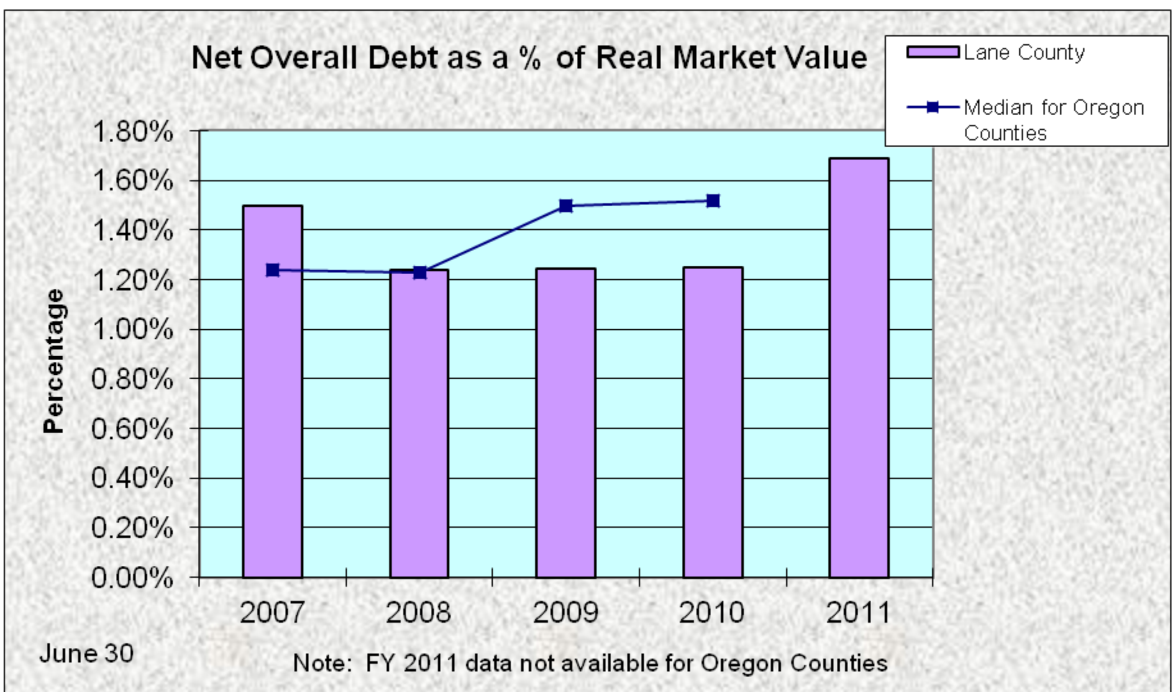
Debt per capita is a measure of the net overall debt burden on each individual residing within the County. This measure includes overlapping debt of other agencies in the County to provide an indication of the ability of the taxpayers to carry the debt.



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

Debt per capita is compared 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.

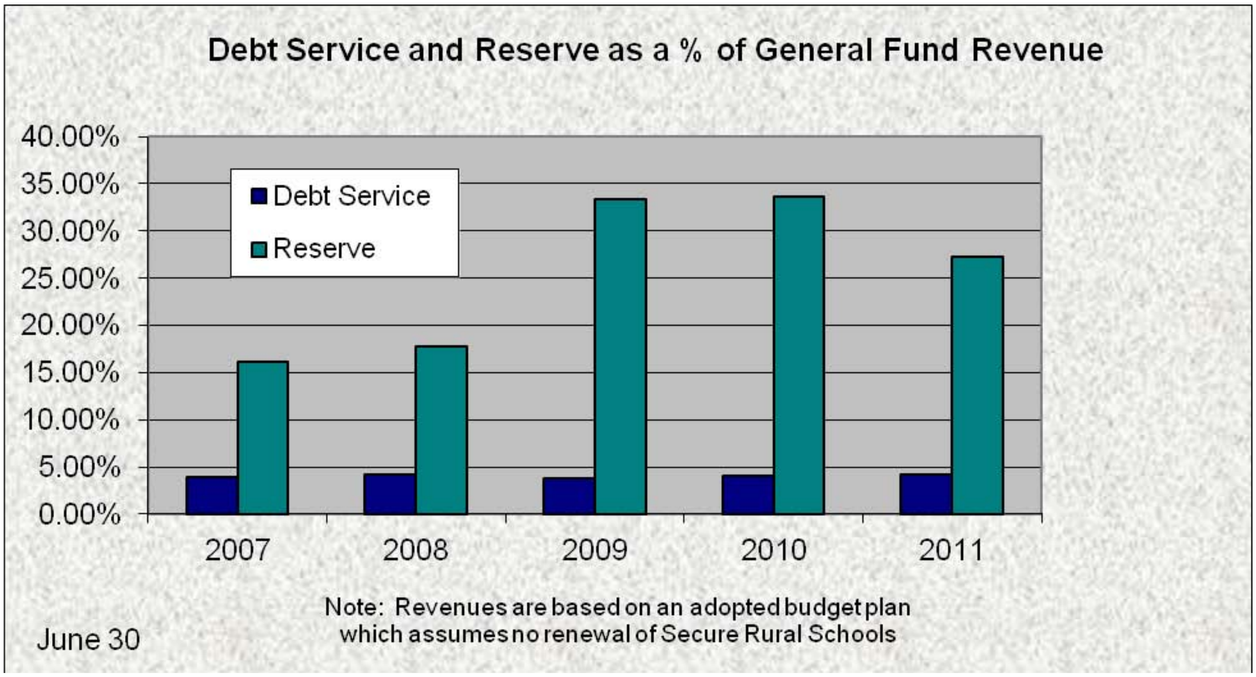


1 - Counties included are Benton, Clackamas, Deschutes, Jackson, Marion, Multnomah and Washington

General Fund Analysis:

The percentage of General Fund revenues dedicated to meet debt service requirements is an indicator of the capacity of the County to meet its debt obligations. For the fiscal year ended June 30, 2011, general obligation debt service requirements were 4.14% of General Fund revenues.

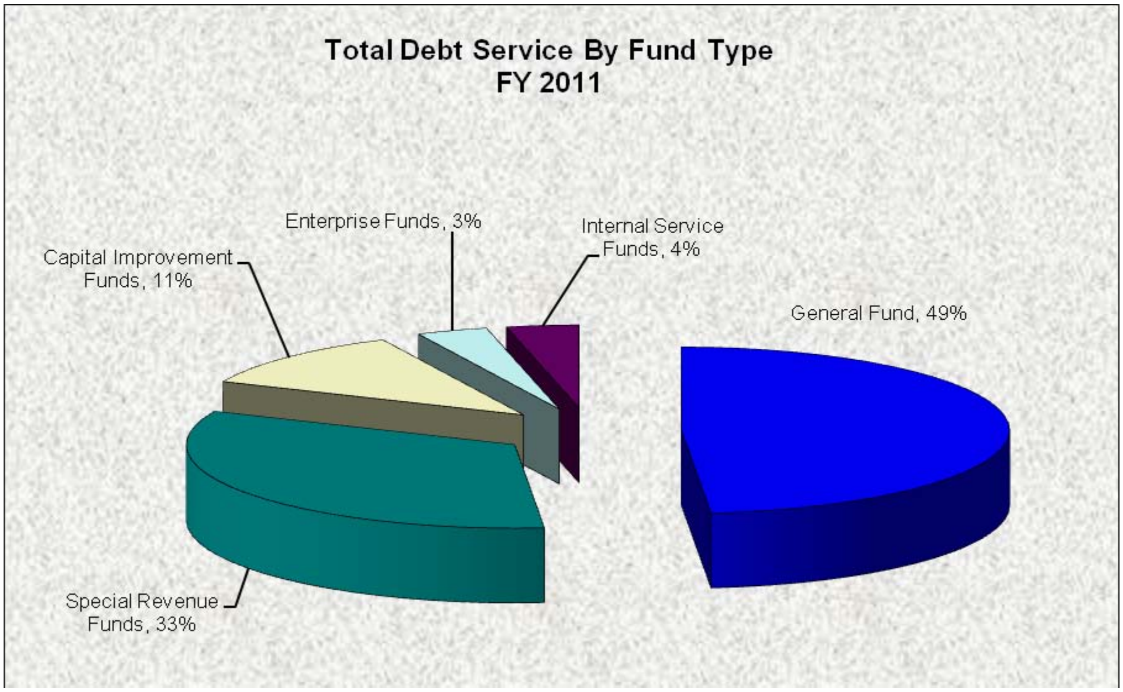
Another measure of particular interest to rating agencies is the level of General Fund reserves, which are stated below as a percentage of revenue. It is the County's policy to strive for General Fund reserves of at least 10%.

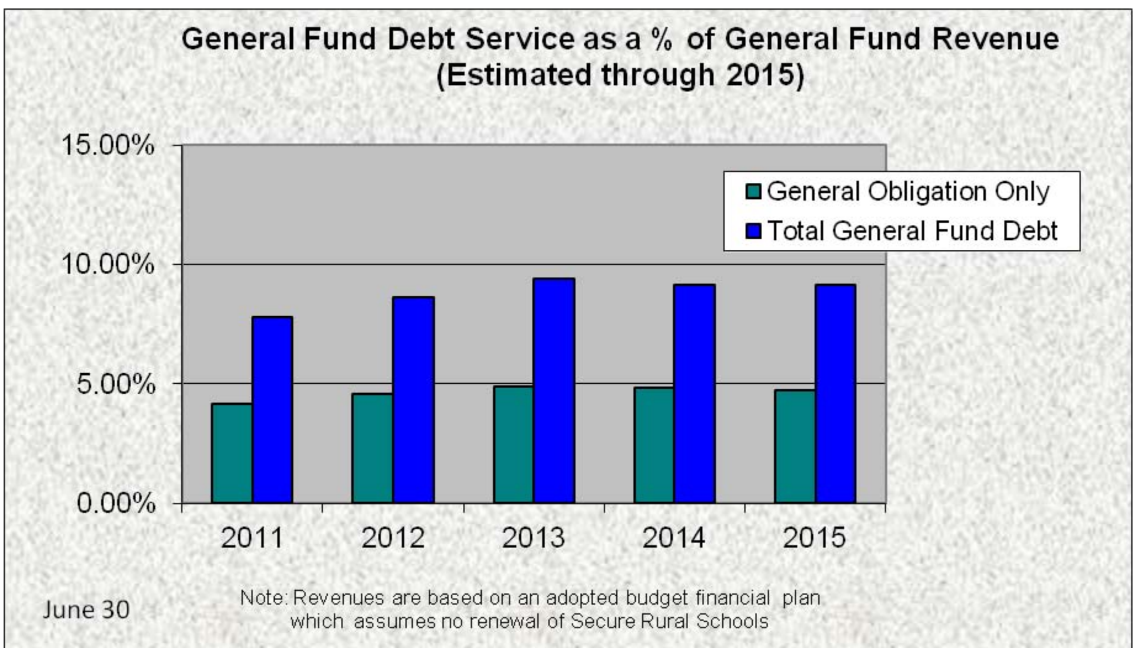


The current trend in the General Fund reserve level and the general obligation debt service as a percent of general fund revenues is very positive. This rise of General Fund reserves from 16.13% of revenues to 27.24% can be directly linked to budget actions that strengthened the reserve level in the short-run to help smooth the transition to the loss of Secure Rural Schools funding. Unless reinstated by the Federal government, reserves will continue to be reduced in future years to a minimum of 10%.

Caveat:

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 $67.5 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).





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	63%
Moody's median	50%

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.