

CREDIT OPINION

29 January 2019

 Rate this Research

Contacts

William Oh +1.415.274.1739
AVP-Analyst
 william.oh@moodys.com

Patrick Liberatore +1.415.274.1709
AVP-Analyst
 patrick.liberatore@moodys.com

CLIENT SERVICES

Americas 1-212-553-1653

Asia Pacific 852-3551-3077

Japan 81-3-5408-4100

EMEA 44-20-7772-5454

Eugene (City of) OR

Update to credit analysis

Summary

The [City of Eugene, Oregon](#) (Aa1 stable) benefits from a large tax base and economy anchored by the presence of the University of Oregon. Credit strength is supported by a strong financial profile, including healthy available reserve levels and ample liquidity. A low debt burden and manageable pension and OPEB liabilities are also supportive credit factors. The city's management team is also particularly strong, as evidenced by conservative practices and solid track record.

Credit strengths

- » Large tax base and healthy economy anchored by the University of Oregon
- » Strong financial profile, with favorable reserve levels and ample liquidity
- » Low debt burden
- » Strong management team with conservative practices

Credit challenges

- » Unfavorable wealth measures compared to highly rated cities due partly to the large student population
- » Rising, but still manageable, pension liabilities

Rating outlook

The city's rating outlook is stable, reflecting our expectation that the local economy and tax base will continue to expand, and that the city's management team will deliver long-run structural balance featuring strong financial metrics.

Factors that could lead to an upgrade

- » Improvement in the city's wealth measures
- » Decline in the city's pension liabilities

Factors that could lead to a downgrade

- » Material weakening in the city's financial profile, including substantial draws on reserves
- » Prolonged economic contraction, including a shrinking of the city's tax base
- » Substantial growth in debt or pension obligations

Key indicators

Exhibit 1

Eugene (City of) OR	2014	2015	2016	2017	2018
Economy/Tax Base					
Total Full Value (\$000)	\$20,739,271	\$22,488,946	\$23,442,742	\$24,318,523	\$26,701,029
Population	158,131	159,615	161,649	165,885	167,780
Full Value Per Capita	\$131,152	\$140,895	\$145,022	\$146,599	\$159,143
Median Family Income (% of USMedian)	95.5%	93.7%	94.8%	94.8%	94.8%
Finances					
Operating Revenue (\$000)	\$233,980	\$232,849	\$260,790	\$256,661	\$269,886
Fund Balance (\$000)	\$90,788	\$91,890	\$109,752	\$117,045	\$118,073
Cash Balance (\$000)	\$122,400	\$126,890	\$132,182	\$157,570	\$161,065
Fund Balance as a % of Revenues	38.8%	39.5%	42.1%	45.6%	43.7%
Cash Balance as a % of Revenues	52.3%	54.5%	50.7%	61.4%	59.7%
Debt/Pensions					
Net Direct Debt (\$000)	\$91,015	\$82,132	\$81,510	\$74,404	\$67,393
3-Year Average of Moody's ANPL (\$000)	\$389,061	\$339,216	\$313,718	\$427,711	\$579,893
Net Direct Debt / Full Value (%)	0.4%	0.4%	0.3%	0.3%	0.3%
Net Direct Debt / Operating Revenues (x)	0.4x	0.4x	0.3x	0.3x	0.2x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	1.9%	1.5%	1.3%	1.8%	2.2%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	1.7x	1.5x	1.2x	1.7x	2.1x

Source: Moody's Investors Service

Profile

The City of Eugene is located in Oregon along I-5, approximately 65 miles from of [Salem](#) (Aa2) and 110 miles from [Portland](#) (Aaa stable). The city is a full service municipal entity for a population of approximately 168,000 residents, including approximately 23,000 students at the University of Oregon. The city operates as a council-manager form of government, with a mayor and eight member city council.

Detailed credit considerations

Tax base and economy: large tax base and healthy economy anchored by the University of Oregon

The city's tax base and local economy are credit strengths. The city's 2019 real market value is \$28.9 billion, an increase of 8.2% over 2018 and the sixth consecutive year of growth. Since hitting bottom in 2013, the city's real market value has increased by 41.2%. The city continues to see strong residential and non-residential permit activity, indicating continued tax base growth. Also, the ten largest taxpayers represented just 4.4% of 2018 assessed value.

The growth in market value is driven by the city's strong economy, which is anchored by the [University of Oregon](#) (Aa2 stable) and its approximately 23,000 students. With more than 300 tech companies in the city, the "Silicon Shire" is benefitting from investments in technology and innovation, and is benefitting from its position as an attractive, cheaper alternative to Portland. The city's median age is nearly four years lower than the national average, and has an above average educational attainment level, both of which support positive long-run economic expectations. Unemployment in the city is low at just 3.8% as of September 2018, despite having a growing labor force. Wealth measures are slightly below-average, with median family income at 94.8% of the US, likely reflective of the large student population. Full value per capita, a proxy measure of wealth, is strong at \$172,136.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moody's.com for the most updated credit rating action information and rating history.

Financial operations and reserves: well-managed finances reflect long-term stability despite expected one-time draws in 2019

The city's financial profile is a credit strength. Audited fiscal 2018 financial results show the city ended the year with available operating funds reserves of \$117.0 million, or 45.6% of revenues (we define operating funds to include the city's General, total internal service, Construction and Rental Housing, Library Local Option Levy, Library, Parks and Recreation, Public Safety Communications, Road, Solid Waste and Recycling, and debt service funds). Excluding the internal service self-insurance fund (Risk and Benefits) unrestricted net position \$13.1 million, the city's financial position remains healthy, and the bulk of the city's available reserves are within its General Fund (\$62.5 million in 2018). The city's total operating funds fund balance was \$144.6 million, or 56.3% of revenues. Available operating fund balances have averaged 41.3% of revenues for the five year period ending in 2018, and total fund balances have averaged 51.9%. At these levels, the city's financial position compares favorably to most cities of its size and at its rating category across the country.

The city's management team has delivered operating surpluses in each of the last five audited fiscal years (2014 through 2018). They have done this principally by budgeting for both revenues and expenditures very conservatively, though the city did benefit from a one-time windfall of approximately \$19 million in fiscal 2016 from a settlement with a telecommunications franchise. The cumulative surplus on an operating funds basis in the past five years has been \$37.8 million, including a surplus of \$10.2 million in 2018. In 2019, the city expects to have a substantial one-time expenditures of \$17.3 million for various public safety and community needs. As part of its six-year financial forecast, the city anticipates modestly rebuilding reserves in 2020 and 2021 before returning to balanced operations.

The city's revenues are primarily from property taxes (54.5% of governmental revenues in 2018), followed by charges for services (19.4%). The city's reliance on property tax revenues is a credit strength given the structure of property tax collections in Oregon under Measure 50, which limits assessed value growth to 3% annually plus new construction, up to real market value. Because real market values have substantially outpaced 3% annual growth, the city has ample ability to withstand a "compression" between assessed values and real market value in a market correction and still maintain property tax revenue growth. Since 2013, the city's operating funds revenues have experienced a compound annual growth rate of 3.9%.

Operating expenses are primarily for public safety, including police (20.9% of 2018 revenues), and fire and emergency medical services (12.4%), followed by library, recreation, and cultural services (13.2%), public works (7.3%), and central services (7.2%). Operating expenses have increased at a compound annual growth rate of just under 3.1% since 2013.

LIQUIDITY

The city has ample liquidity. At the end of fiscal 2018, the city had \$157.6 million in cash and investments in its operating funds, equal to 61.4% of revenues. Over the past five years the city has averaged a net cash and investments position equal to 54.9% of revenues, which is extremely strong.

Debt and pensions: low debt burden and rising but manageable pension liabilities

The city has a very low debt burden of just 0.31% of full value and 0.3 times 2018 operating funds revenues. Following the issue of the 2019 bonds, outstanding debt includes \$35.5 million in voter-approved general obligation (unlimited tax) bonds, \$50.0 million in full faith and credit (limited tax) bonds primarily for pensions, and \$5.3 million in HUD loans. The city has approximately \$69.2 million in remaining authorized but unissued debt capacity.

DEBT STRUCTURE

The city long-term debt consists of fixed-rate obligations. The final maturity of the city's general obligation bonds is in 2038.

DEBT-RELATED DERIVATIVES

The city has no debt-related derivatives.

PENSIONS AND OPEB

The city participates in the Oregon Public Employees Retirement System (OPERS). The city's 3-year average of Moody's adjusted net pension liability (ANPL) is somewhat elevated relative to similarly rated peers at 2.01% of full value and 2.1 times operating revenues. ANPL reflects certain adjustments we make to improve comparability of reported pension liabilities.

In 2018, the city made \$17.9 million in contributions, equal to 6.6% of operating funds revenues. This is below our "treadwater" indicator mark of \$28.6 million, or the amount necessary to keep pension liabilities from growing under plan assumptions. This treadwater gap is approximately 3.9% of operating funds revenues, which is relatively high. Pension contributions will rise materially for at least the next six years for OPERS. Biannual contribution rates reflect unfavorable impacts of recent legal setbacks from the overturning of legislative reforms to slow the growth in pension benefit payments (the Moro decision), uneven investment returns the last few years, and changes to actuarial assumptions. Also, the system's assumed earnings rate was cut to 7.2% from 7.5%, which alone will increase net pension liabilities for the next actuarial valuation.

The city participates in two OPEB plans. The first is the Retirement Health Insurance Account (RHIA), a cost-sharing, multi-employer defined benefit OPEB plan administered by OPERS. Under statute, RHI can contribute up to \$60 per month towards the monthly health insurance costs of eligible members. The city also administers the Retiree Health and Life Insurance Plan (RHLI), a single-employer defined benefit health care plan. The city reported a net OPEB liability of \$17.5 million in 2018. According to Moody's approach to analyzing OPEB liabilities, the city's adjusted net OPEB liability is equal to 7.0% of revenues and just 0.07% of full value.

Management and governance: strong institutional framework and management

Oregon Cities have an Institutional Framework score of Aa, which is high. Institutional Framework scores measure a sector's legal ability to increase revenues and decrease expenditures. Property tax, a major revenue source, is subject to a cap which can be overridden with voter approval only. However, the cap of approximately 3% for most properties still allows for moderate revenue-raising ability. Unpredictable revenue fluctuations tend to be minor, or under 5% annually. Across the sector, fixed and mandated costs are generally less than 25% of expenditures but growing pension contributions are increasing fixed costs burdens. However, Oregon has public sector unions, which can limit the ability to cut expenditures. Unpredictable expenditure fluctuations tend to be minor, under 5% annually.

Moody's views the city's management team as strong with strong financial management practices and policies. The city engages in an annual six-year financial forecast and maintains reserves that include an unappropriated ending fund balance equal to two months of operating expenses and a reserve for revenue shortfall equal to 8% of General Fund expenditures. Debt guidelines for the city include net direct debt at a maximum of 1.0% of real market value, a minimum principal amortization of 50% within ten years, and a maximum annual debt service of 10% of General Fund revenues for General Fund-backed debt.

© 2019 Moody's Corporation, Moody's Investors Service, Inc., Moody's Analytics, Inc. and/or their licensors and affiliates (collectively, "MOODY'S"). All rights reserved.

CREDIT RATINGS ISSUED BY MOODY'S INVESTORS SERVICE, INC. AND ITS RATINGS AFFILIATES ("MIS") ARE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES, AND MOODY'S PUBLICATIONS MAY INCLUDE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES. MOODY'S DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT OR IMPAIRMENT. SEE MOODY'S RATING SYMBOLS AND DEFINITIONS PUBLICATION FOR INFORMATION ON THE TYPES OF CONTRACTUAL FINANCIAL OBLIGATIONS ADDRESSED BY MOODY'S RATINGS. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS AND MOODY'S OPINIONS INCLUDED IN MOODY'S PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. MOODY'S PUBLICATIONS MAY ALSO INCLUDE QUANTITATIVE MODEL-BASED ESTIMATES OF CREDIT RISK AND RELATED OPINIONS OR COMMENTARY PUBLISHED BY MOODY'S ANALYTICS, INC. CREDIT RATINGS AND MOODY'S PUBLICATIONS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. NEITHER CREDIT RATINGS NOR MOODY'S PUBLICATIONS COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MOODY'S ISSUES ITS CREDIT RATINGS AND PUBLISHES MOODY'S PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL, WITH DUE CARE, MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.

MOODY'S CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT INTENDED FOR USE BY RETAIL INVESTORS AND IT WOULD BE RECKLESS AND INAPPROPRIATE FOR RETAIL INVESTORS TO USE MOODY'S CREDIT RATINGS OR MOODY'S PUBLICATIONS WHEN MAKING AN INVESTMENT DECISION. IF IN DOUBT YOU SHOULD CONTACT YOUR FINANCIAL OR OTHER PROFESSIONAL ADVISER. ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT.

CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT INTENDED FOR USE BY ANY PERSON AS A BENCHMARK AS THAT TERM IS DEFINED FOR REGULATORY PURPOSES AND MUST NOT BE USED IN ANY WAY THAT COULD RESULT IN THEM BEING CONSIDERED A BENCHMARK.

All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. MOODY'S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources MOODY'S considers to be reliable including, when appropriate, independent third-party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information received in the rating process or in preparing the Moody's publications.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability to any person or entity for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers is advised in advance of the possibility of such losses or damages, including but not limited to: (a) any loss of present or prospective profits or (b) any loss or damage arising where the relevant financial instrument is not the subject of a particular credit rating assigned by MOODY'S.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability for any direct or compensatory losses or damages caused to any person or entity, including but not limited to by any negligence (but excluding fraud, willful misconduct or any other type of liability that, for the avoidance of doubt, by law cannot be excluded) on the part of, or any contingency within or beyond the control of, MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers, arising from or in connection with the information contained herein or the use of or inability to use any such information.

NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY CREDIT RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

Moody's Investors Service, Inc., a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by Moody's Investors Service, Inc. have, prior to assignment of any rating, agreed to pay to Moody's Investors Service, Inc. for ratings opinions and services rendered by it fees ranging from \$1,000 to approximately \$2,700,000. MCO and MIS also maintain policies and procedures to address the independence of MIS's ratings and rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold ratings from MIS and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at www.moody.com under the heading "Investor Relations — Corporate Governance — Director and Shareholder Affiliation Policy."

Additional terms for Australia only: Any publication into Australia of this document is pursuant to the Australian Financial Services License of MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657 AFSL 336969 and/or Moody's Analytics Australia Pty Ltd ABN 94 105 136 972 AFSL 383569 (as applicable). This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001. MOODY'S credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail investors.

Additional terms for Japan only: Moody's Japan K.K. ("MJKK") is a wholly-owned credit rating agency subsidiary of Moody's Group Japan G.K., which is wholly-owned by Moody's Overseas Holdings Inc., a wholly-owned subsidiary of MCO. Moody's SF Japan K.K. ("MSFJ") is a wholly-owned credit rating agency subsidiary of MJKK. MSFJ is not a Nationally Recognized Statistical Rating Organization ("NRSRO"). Therefore, credit ratings assigned by MSFJ are Non-NRSRO Credit Ratings. Non-NRSRO Credit Ratings are assigned by an entity that is not a NRSRO and, consequently, the rated obligation will not qualify for certain types of treatment under U.S. laws. MJKK and MSFJ are credit rating agencies registered with the Japan Financial Services Agency and their registration numbers are FSA Commissioner (Ratings) No. 2 and 3 respectively.

MJKK or MSFJ (as applicable) hereby disclose that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MJKK or MSFJ (as applicable) have, prior to assignment of any rating, agreed to pay to MJKK or MSFJ (as applicable) for ratings opinions and services rendered by it fees ranging from JPY125,000 to approximately JPY250,000,000.

MJKK and MSFJ also maintain policies and procedures to address Japanese regulatory requirements.

REPORT NUMBER

1159078

CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454