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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 US Median)	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.

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.

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