NOTE LIBRARY LOCATION!!!

A G E N D A
EUGENE BUDGET COMMITTEE
Wednesday, May 18, 2011
Downtown Library, Bascom-Tykeson Room
100 West 10th Avenue, 5:30 p.m. – 8:00 p.m.

5:30-5:35 p.m.	I. OPENING REMARKS Claire Syrett, Chair
5:35-7:00 p.m.	II. MOTIONS, DISCUSSION AND COMMITTEE ACTION
7:00-7:10 p.m.	-BREAK-
7:10-8:00 p.m.	III. MOTIONS, DISCUSSION AND COMMITTEE ACTION
8:00 p.m.	ADJOURN

We are committed to access for all participants. All events are held in wheelchair accessible rooms. For individuals who are hearing impaired, an interpreter, note taker or FM assistive listening system (if available) can be provided with one week notice prior to the event. Materials can be made available in alternate formats if requested in advance and are available on the City's website at www.eugene-or.gov/budget. To arrange for services or for more information about the session, please contact the Finance Division at (541) 682-5512.

Budget Committee Motions

FY12 Budget Committee

May 18, 2011

Motion Passed

#	Source	Motion	FY12 Budget Changes: Fund	FY12 Budget Changes: Revenue Change	FY12 Budget Changes: Expenditure Change	FY12 Budget Changes: Net Amount	1X$	Vote	Opposed, Absent, Abstain Votes
PROCEDURAL MOTIONS									
1	Taylor	Create a citizen subcommittee of the Budget Committee comprised of the appointed Budget Committee members to review all aspects of the budget and provide recommendation to the City Council for budget additions, changes and deletions prior to the development of the FY13 proposed budget.						4-8, failed	Opposed: Clark, Farr, Ortiz, Poling, Pryor, Syrett, Smith, Zelenka. Absent: Barofsky, Holser, McDonald.
2	Pryor	Make a recommendation to the City Council that they (City Council) pursue options and a mechanism to secure an increased level of stable and long term funding for human services.						9-2, passed	Opposed: Poling, Taylor. Abstain: Shojai. Absent: Barofsky, Holser, McDonald.
GENERAL FUND MOTIONS									
1	Clark	Move to recommend to City Council upon receipt of unanticipated EWEB CILT (Contribution in Lieu of Taxes) revenue, take $707,000 for 10 more jail beds in FY12 (20 total) and 10 beds in FY13.	General Fund	$350,000	$350,000	$0	2X$	10-0, passed	Opposed: none. Absent: Brown, Holser, McDonald, Taylor, Zelenka.
2	Poling	Reallocate $150,000 of LRAPA funding towards one-time funding for the Human Services Commission.	General Fund	$0	$0	$0	1X$	3-8, failed	Opposed: Brown, Miller, Ortiz, Pryor, Smith, Syrett, Taylor, Zelenka. Abstain: Shojai. Absent: Barofsky, Holser, McDonald.
3	Syrett	Reallocate $75,000 of the $1.3 million proposed General Fund transfer for fleet replacement and $75,000 of $685,300 proposed for ambulance transport fund transfer for a total of $150,000 to the Human Services Commission to fund shelter related services for Eugene residents.	General Fund	$0	$0	$0	1X$	10-2, passed	Opposed: Poling, Taylor. Absent: Barofsky, Holser, McDonald.
4	Clark	Move to recommend to the City Council, upon receipt of unanticipated EWEB CILT revenues, that up to (at the City Manager's discretion) a total of $300,000 in FY12 and FY13 may be allocated to Buckley House.	General Fund	$150,000	$150,000		2X$	9-3, passed	Opposed: Poling, Shojai, Taylor. Absent: Barofsky, Holser, McDonald.
Total Budget Committee Approved FY12 General Fund Ongoing Motions				**$0**	**$0**	**$0**			
Total Budget Committee Approved FY12 General Fund 1X$ Motions				**$500,000**	**$500,000**	**$0**			
OTHER MOTIONS									
1	Barofsky	Move to recommend to the City Council that $200,000 of the FY12 marginal beginning working capital (MBWC) in the General Fund, after the $900,000 transfer to the General Capital Projects Fund, is transferred to the Public Works enhanced pothole program ($100,000) and ($100,000) to the parks department as a onetime allotment for operations and maintenance.	General Fund	$200,000	$200,000	$0	1X$	9-1, passed	Opposed: Taylor. Abstain: Shojai. Absent: Brown, Holser, McDonald, Zelenka.
Total Budget Committee Approved FY12 Other Ongoing Motions				**$0**	**$0**	**$0**			
Total Budget Committee Approved FY12 Other 1X$ Motions				**$200,000**	**$200,000**	**$0**			

Budget Committee Motions
FY12 Budget Committee

May 18, 2011
Motion Passed

#	Source	Motion	FY12 Budget Changes: Fund	Revenue Change	Expenditure Change	Net Amount	1X$	Vote	Opposed, Absent, Abstain Votes
BUDGET RECOMMENDATION TO THE CITY COUNCIL									
1	Syrett	Move that the Budget Committee recommend to the Eugene City Council the FY12 Budget for the City of Eugene that consists of the City Manager's Proposed FY12 Budget, including the property tax levies and/or rates contained therein, amended to reflect appropriations for prior year encumbrances and prior year capital projects, and the following amendments: <list of motions approved by the Budget Committee>.						11-0, passed	Opposed: none. Abstain: Shojai. Absent: Barofsky, Holser, McDonald.
2	Syrett	Move that the Budget Committee recommend to the Eugene City Council, acting as the Urban Renewal Agency Board of Directors, the FY12 Budget for the Eugene Urban Renewal Agency that consists of the City Manager's FY12 Proposed Budget, including the property tax levies and/or rates contained therein, amended to reflect appropriations for prior year encumbrances and prior year capital projects.						11-0, passed	Opposed: none. Abstain: Shojai. Absent: Barofsky, Holser, McDonald.

Central Services
Financial Services
Budget Office

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MEMORANDUM

Date: **May 18, 2011**

To: **Budget Committee Members**

From: **Mia Cariaga, Assistant Finance Director, (541) 682-5408**

Subject: **Outstanding Requests**

The following are updates to outstanding requests. Please let me know if you have any questions.

#	Date Requested	BC Member	Question/Information Request	Department
1.	5/17/11	Syrett	Request for cost estimates for 1.0 FTE and one van for Adaptive Recreation.	LRCS

The cost of an additional 1.0 FTE in Adaptive Recreation would be approximately $60,000 annually. Adaptive Recreation would review their current service needs in the community to determine the best use of the additional resources.

A new para-transit van would cost approximately $72,000 for the initial purchase and $23,000 annually.

2.	5/11/11	Farr	What else is included in the cost of CAHOOTS other than the response to specific calls for service?	EPD

In progress.

3.	5/11/11	Poling	Why did calls for CAHOOTS service increase by the number indicated in the presentation?	EPD

In progress.

4.	5/11/11	Syrett	Request for CAHOOTS response data breakdown for both citywide calls and downtown.	EPD

In progress.

Eugene Budget Committee
Intended Motions List as of May 18, 2011

Procedural Motions	
None.	
FY12 Budget Motions	
Syrett	Reallocate $75,000 of $5.1 million proposed for fleet replacement and $75,000 of $685,300 proposed for Ambulance Transport Fund transfer for a total of 150,000 to the Human Services Commission to fund HSC priority services.
Clark	Buckley House
Clark	Fire Station No. 2
Ortiz	Portable restrooms for homeless camping sites
Motions Approved on 5/17/11	
Barofsky	Move to recommend to the City Council that $200,000 of the FY12 marginal beginning working capital (MBWC) in the General Fund, after the $900,000 transfer to the General Capital Projects Fund, is transferred to the Public Works enhanced pothole program ($100,000) and ($100,000) to the parks department as a one-time allotment for operations and maintenance. **MOTION PASSED 9:1:1 (Taylor opposed; Shojai abstained; Zelenka, Brown, Holser, McDonald absent).**
Clark	Move to recommend to the City Council that upon receipt of unanticipated EWEB CILT revenue, $707,000 be used for 10 more jail beds in FY12 (20 total) and 10 beds in FY13. **MOTION PASSED 10:0 (Zelenka, Brown, Holser, McDonald, Taylor - absent).**

Central Services
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Budget & Analysis

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MEMORANDUM

Date: **May 18, 2011**

To: **Budget Committee Members**

From: **Twylla Miller, Senior Financial Analyst, (541) 682-8417**

Subject: **Updated Debt Capacity Analysis**

In 2003, the City presented its first debt capacity study. At that time, staff committed to updating the analysis every two years in connection with the Capital Improvement Program process. This is the fourth update of that study.

Attached is the current update of the debt capacity analysis. The conclusions around the amount of available debt capacity are similar to previous versions of the study. While the City has sufficient capacity available to fund most of the unfunded projects using debt, it is not prudent to utilize the full capacity available, particularly at this time, due to the uncertainty of the economy and the recent downward trend in property values which impact future debt capacity.

The City has authorized but unissued debt for three projects: Parks, Athletic Fields & Open Space Projects, BEDI Grant/HUD Section 108 Loan for the Beam projects and Street Bonds. Including bonds issued for these projects, the City's net direct debt is expected to decline over the next few years.
At the peak projection of debt outstanding, the City will have 0.20% of net direct debt to real market value in FY11. The debt policy limit is 1.0% of net direct debt to real market value. In FY12, there is expected to be about $182 million of debt capacity available for additional projects.

This item is provided to the Budget Committee for information only. There is no action required on this debt capacity analysis update.

Please feel free to contact me if you have any questions or comments.

City of Eugene

Debt Capacity Analysis

May 2011

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EXECUTIVE SUMMARY

Like many other jurisdictions, the City of Eugene had evaluated proposed borrowing programs on an ad hoc basis in the past. There was no systematic method for examining the impact of future debt issues on the City's debt position and finances. A debt capacity analysis was introduced in 2003 as a way to improve the City's debt and financial management practices. The study is updated every two years in conjunction with the Capital Improvement Program.

The City's bond rating on its unlimited tax General Obligation ("G.O.") bonds is "Aa1" from Moody's Investors Service. The City was previously rated Aa2 beginning in 1957 and until May 2010 when the bond rating was adjusted to Aa1 as part of Moody's recalibration of municipal bond ratings. Recalibration adjustments are not upgrades but align municipal bond ratings on a global scale with their corporate counterparts.

Moody's characterizes the City's debt burden as low and manageable. The City's debt position has decreased over the past few years. During the past five years, voters have approved issuance of $63.4 million of General Obligation bonds for street preservation and parks, athletic fields, & open space projects. During the same period, the City has issued limited tax debt for assessment projects. While the amount of debt issued during the past five years has been limited, the City has continued to pay off existing debt. The result is that the City's net direct debt has gone from $44.0 million at June 30, 2006 down to $39.6 million at June 30, 2010.

On the November 2008 ballot, voters approved $35.9 million of General Obligation Street Bonds, which is one step towards addressing the backlog of street preservation projects that totaled more than $170 million. The Parks, Recreation and Open Space Comprehensive Plan consists of about $160 million of future projects, most of which would be bond financed. The first $27 million of those projects was approved by voters in a November 2006 bond measure. In addition to these major projects, the Capital Improvement Program for 2012-2017 contains more than $160 million of projects without identified funding sources, and placeholder projects for additional transportation improvements.

Under Oregon statutes, the City can issue G.O. debt up to 3.0% of the real market value of all property in the City. As of June 30, 2010, the City had a legal limit on G.O. bonds of $677 million of which 95% remained untapped. The City could not afford to issue this level of debt, however. The concept of debt capacity is meant to take into account the affordability of future debt issues.

Affordability is defined by a set of debt ratios that are commonly examined by credit rating analysts and bond investors. Some of the most commonly used ratios are debt to market value of property and debt service to expenditures. The rapidity of debt repayment is also analyzed.

The Budget Committee adopted revised and updated debt policies in February 2004. The Budget Committee determined that the City of Eugene should have direct debt outstanding of no more than 1% of its real market value. This defines what the policy makers determined is the affordable level of debt for the City. In addition, the debt policies include a limit on the level of debt service to expenditures, and a minimum amount of debt to be retired over the next ten years. These additional ratios set prudent parameters around the type and structure of debt issued by the City.

Under the revised debt policies, the City has sufficient capacity to undertake the highest priority major capital projects over the next several years, such as funding for street preservation and the addition of more parks, recreation facilities and open space. While there is sufficient capacity available to fund most of the unfunded projects using debt, it is not prudent to utilize the full capacity available. Debt capacity is impacted by outside forces such as the economy and the value of property. Due to the uncertainty of the economy and the recent downward trend in property values it is likely our debt capacity will diminish somewhat in the near term. The uncertainty means that careful choices will have to be made in the use of the remaining debt capacity.

In addition, while there may be sufficient bonding capacity to undertake major capital projects in the next few years, the City has been experiencing shortfalls in the General Fund budget, which has resulted in underfunding of operations and maintenance activities. As a result, some capital projects have been delayed until an on-going funding source can be identified to adequately fund operations and maintenance of new capital facilities.

INTRODUCTION

This debt capacity analysis is an additional tool for the City of Eugene to use in its multi-year financial planning process. This analysis will examine the affordability of the City's debt over a six-year period. It will join several other tools used by the City to improve its financial decision making, such as the General Fund Six Year Financial Forecast, the Multi-Year Financial Plan and the Capital Improvement Program.

The goals and objectives of this analysis are:

1. To further demonstrate the City's commitment to long-term financial planning
2. To improve financial decision making regarding future debt issue proposals.
3. To incorporate a debt affordability component into the Capital Improvement Program planning process.
4. To maintain the City's "Aa1" credit rating by ensuring that an appropriate balance is struck between the City's capital needs and its ability to pay for them.

THE CITY'S BOND RATING

Bond ratings are provided by three major credit rating services: Moody's Investors Service, Standard & Poor's Corporation and Fitch Investors Service. Bond ratings represent the opinion of the rating service about the ability and willingness of the issuer of debt to make the principal and interest payments on time over the life of a bond issue. The opinion is based on an evaluation of a wide variety of factors, such as the economic base of the community, financial indicators, debt factors, administrative factors, and specifics of the particular borrowing (security, repayment schedule, etc).

Investors use the bond ratings to make investment decisions. Securities that have higher credit ratings are those with a lower level of risk. Investing in debt with a high credit rating will typically result in a lower return on investment than investing in a more risky investment with a lower credit rating. Municipal issuers with high credit ratings benefit when they borrow money because they pay lower interest costs over the life of the debt obligation.

Each rating service has developed its own symbols for their ratings. Appendix A includes Moody's rating symbol definitions for long-term municipal debt obligations.

The City of Eugene has two different credit ratings from Moody's Investors Service. The rating depends on the type of security pledged to repay the debt. What is usually referred to as the City's bond rating is the rating on the unlimited tax General Obligation bonds. Unlimited tax bonds are backed by the City's ability to levy property taxes on its citizens in an unlimited amount to ensure full repayment of the debt. This kind of debt is typically used to finance projects that benefit the community as a whole. The City has issued unlimited tax G.O. bonds for parks and open space projects, public safety facilities, airport improvements, street preservation, and the Hult Center.

City of Eugene Bond Ratings from Moody's Investors Service, Inc.	
Unlimited Tax General Obligation	Aa1
Limited Tax	Aa2

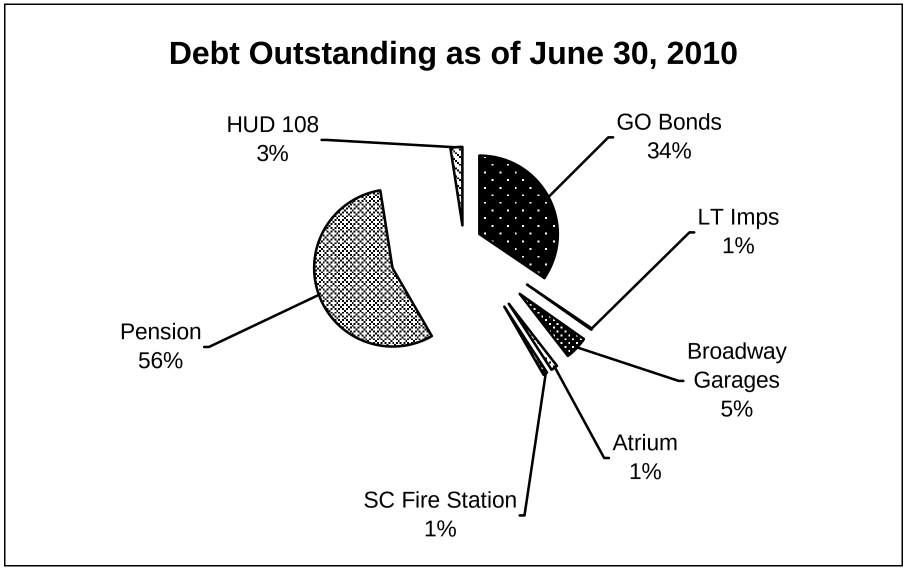
The City's unlimited tax G.O. bond rating from Moody's has risen over the years, from 'Baa' in 1938, to 'A' in 1949. The double-A rating was first assigned in 1957. In May 2010 the municipal bond rating was adjusted to Aa1 as part of Moody's recalibration of municipal bond ratings.

The City also has a limited tax bond rating. This rating applies to those debt issues that do not carry the ability of the City to raise property taxes to repay the debt. For this kind of debt, the City must have the ability to repay the debt within its existing resource base. The City has issued limited tax debt in past years to accomplish several types of projects, such as construction of the library and the garages at Broadway Place, as well as to purchase the Atrium Building and pay off the City's unfunded pension liability with the Public Employees Retirement System.

The City's limited tax rating from Moody's is 'Aa2'. This rating is one step below the City's unlimited tax bond rating because there is slightly more risk to bondholders that the City will not be able to raise adequate resources to repay the debt. The City's last rating review by Moody's was in 2006. At that time, Moody's noted as positive factors that the City had a low debt burden and an above-average debt repayment schedule.

Types of Debt

The City of Eugene had a total of $102 million of bonded debt outstanding as of June 30, 2010. The City's debt consists of several types of obligations, as shown in the following chart and described below.



Voter-Approved General Obligation Bonds: The City had $35.4 million of G.O. debt outstanding as of June 30, 2010. The bonds have been issued for parks and open space projects, public safety facilities, and street preservation. Under current law, all General Obligation bonds must be approved by the voters. The debt service on G.O. bonds is typically paid from a property tax levy.

Limited Tax Improvement Bonds: Limited tax improvement bonds are issued for local improvement projects that have been assessed against benefited properties in the City. The bonds are secured by assessments, liens against the benefited properties, and reserves available in the bond fund. To the extent that funds are not available in the bond fund, the City has pledged its full faith and credit to repay the bonds, which means all legally available resources will be used to repay this debt. These bonds are considered self-supporting because they are repaid from property owner payments.

Broadway Garages Bonds: The City has issued limited tax bonds to finance construction of two parking garages. The garages are part of the Broadway Place project, a mixed-use, public-private partnership project consisting of two garages owned and operated by the City with privately owned housing on top. The bonds are limited tax bonds of the City which are payable from all legally available funds of the City. Since these bonds were issued in 1997, the City has paid the debt service on the bonds from parking system revenues. Starting in FY11, debt service on the bonds will be paid by the Urban Renewal Agency from incremental property tax revenues and are considered self-supporting obligations.

Atrium Full Faith & Credit Obligations: These obligations were issued for purchase of the Atrium Building, a commercial building located in downtown Eugene. The City has pledged its full faith and credit and all of the City's legally available revenues, taxes and other funds to make the loan payments on these obligations. The City makes the loan payments from rent on the Atrium Building, approximately 30% of which was derived from private tenants in fiscal year 2009-10, and the rest was paid from City government tenants. Overall, 66% of the rent is derived from non-tax sources and is considered self-supporting, but only 50% is shown in the net direct debt calculation as self-supporting for year-to-year consistency purposes.

Pension Bonds: In order to fund the unfunded actuarial accrued liability to the Oregon Public Employees Retirement System, the City issued limited tax pension bonds in 2002. The bonds are full faith and credit obligations of the City and are paid from charges levied upon all City departments and funds. The City is not authorized to levy property taxes for these bonds. Approximately 63% of the revenues to pay the pension bond debt service is derived from non-property tax sources and is therefore considered self-supporting.

HUD Section 108 Loan: The City received approval for $7,895,000 of loan authorization through the HUD Section 108 program. In July 2008, the City received the first installment of this loan in the amount of $2.7 million. The first installment was for the acquisition of the Centre Court and Washburne properties for the Beam project. A second draw is to be used for construction costs. The loans will be serviced from payments made by Beam Development LLC.

This debt will be considered net direct debt until a history of successful payments is established with Beam and at that point the debt could be considered self-supporting.

Urban Renewal Agency Debt: The Urban Renewal Agency of the City of Eugene currently has no outstanding bonded debt.

Assessment Line Of Credit: The City has a line of credit with Bank of America, N.A. in a maximum amount of $2.5 million to finance construction of local improvement projects within the city limits such as street paving, sidewalks and storm sewers. Upon completion of the projects, the property owners are assessed and long-term assessment bonds are sold to reduce the line of credit. As of June 30, 2010, the City had a $829,000 outstanding balance on the line of credit. The City plans to continue to use the line of credit to finance construction of local improvement projects on an as-needed basis.

Operating Leases: The City has several leases for office space, some of which have terms of longer than one year. The payments on the office space leases totaled approximately $719,000 during fiscal year 2009-10.

Other Agency And Authority Debt: The Eugene Water and Electric Board ("EWEB") issues debt for water, electric and telecommunications projects from time to time. All of EWEB's debt is revenue debt secured solely by system revenues. The City of Eugene's taxing authority is not pledged to repayment of EWEB debt.

Conduit Debt: Subsequent to June 30, 2010, the City issued $6.9 million of Recovery Zone Facility Bonds for the Bennett project in downtown Eugene. These bonds are not secured by the City; they are to be repaid solely from revenues from the Bennett project.

DEFINITION OF NET DIRECT DEBT

Analysts at Moody's look at "net direct debt" when evaluating an entity's debt position. Net direct debt is generally defined as all outstanding long-term debt less any self-supporting debt. The chart on the following page sets out the classification of the City's debt into net direct debt and excluded debt. Only debt issues that are deemed to be net direct debt are included in the debt capacity model. Moody's specifically excludes debt paid with tax increment funds from net direct debt. One reason for looking at net direct debt (which is sometimes called tax-supported debt) is that this can give a truer comparison of the debt load between entities in which the government provides services versus entities where the same service is provided by the private sector.

Pension obligations are excluded from the definition of net direct debt. The pension obligation bonds issued to pay the City's unfunded actuarial liability to PERS are not new debt obligations. Prior to the issuance of the bonds, the City had a liability to PERS and made periodic payments to pay off that liability. After issuance of the pension obligation bonds, the City has a liability to bondholders and makes periodic payments on the bonds. In other words, the City is no worse off due to the issuance of pension obligation bonds. In order to provide a debt statement comparable to other jurisdictions that have not bonded out their pension liabilities, Moody's and many other credit analysts exclude pension obligation bonds from the calculation. Therefore, the City has done the same in this debt capacity study and in the debt issuance guidelines.

As of June 30, 2010, about two-thirds of the City's debt was considered self-supporting according to the definitions used by Moody's when evaluating the City's debt burden. The chart on the next page sets out all of the City's bonding programs and puts each item into one of two categories: net direct debt and excluded debt. The items are placed into the categories according to Moody's definition of net direct debt.

All Authorized Borrowing for the City of Eugene

Net Direct Debt

- G.O. Fire Projects, Series 2002
- G.O. Parks & Open Spaces, Series 2004
- G.O. Parks, Athletic Fields & Open Space, Series 2008
- G.O. Refunding, Series 2006
- Atrium, Series 1998 A&B (50%)
- Santa Clara Fire Station, Series 2003
- HUD Section 108 Loan*

* Until payment history from non-tax revenues is established.

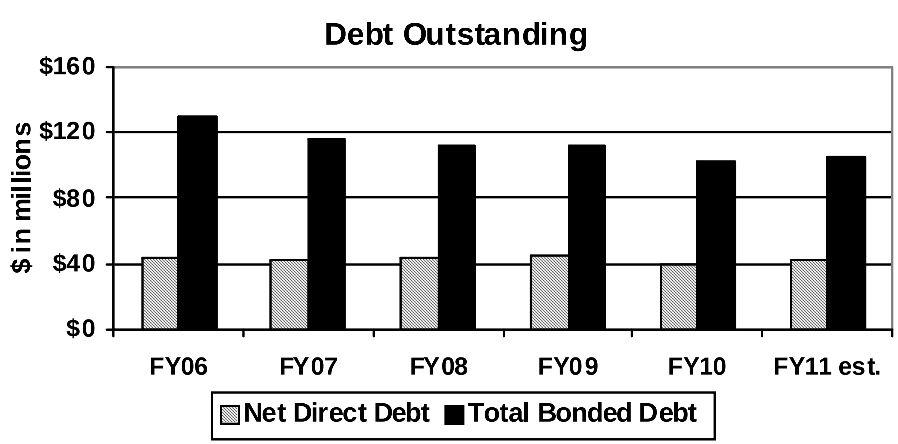
Excluded Debt

- Assessment Debt
- Broadway Garages, Series 1997
- Atrium, Series 1998 A&B (50%)
- Pension Obligation Bonds, Series 2002
- Operating Leases
- Agency and Authority Debt
- Conduit Debt

HISTORY OF EUGENE'S DEBT OUTSTANDING

The City's net direct debt position has dropped over the past few years, after having risen during the early 1990's. Voters approved General Obligation bonds for street preservation in 2008, parks and open spaces projects in 1998 and 2006, and fire station projects in 2002. Debt for the library was added during FY00. The largest increase in debt occurred in FY02 when the City issued $68 million of pension obligations.

Appendix B sets out a debt statement for the City for a five-year period, plus a projection of the debt outstanding by the end of the current fiscal year. The debt statement is summarized below.



MEASURES OF DEBT CAPACITY

There are two ways to look at debt capacity. The first is the capacity to issue debt under legal constraints. The second is the affordability of the debt, recognizing that there is a limit to the City's ability to repay debt and meet all of the other service demands of its citizens.

The City's ability to issue debt is limited by state statutes to 3% of real market value of all property for General Obligation bonds. As of June 30, 2010, the City was significantly under the limitation of this state statute. The limit was about $677 million and the City had $39.6 million outstanding debt subject to the limit, which left about 94% of the maximum legal capacity unused. Self-supporting debt and revenue bonds are exempt from this limitation. There is also a limit of 3% of real market value for assessment bonded debt. As of June 30, 2010, the City had less than $0.5 million outstanding of this type of debt, which used up less than 0.1% of the maximum legal capacity.

Debt capacity is concerned with the ability of the City to afford the capital projects that are needed over the next several years. Capacity can be looked at in several different ways. The three major credit rating agencies take debt capacity into account when they examine a local government's credit rating.

Analysts typically look at several key debt ratios when determining debt capacity for a city. In addition to measuring capacity, these ratios are also used to track trends in debt position over time. It is important to note, however, that debt ratios are among many factors that are taken into account when evaluating an entity's credit rating. Economic, demographic, administrative and other factors may offset any of the debt ratios in the credit rating process. In addition, not all of the ratios are equal in weight during the credit evaluation. The rating process is meant to determine an issuer's ability and willingness to pay its obligations, and a rote evaluation of debt ratios does not take into account the complex factors that go into determining ability and willingness. Each municipal credit is unique, and the evaluation of numerous credit factors, each weighed separately, leads to the determination of a bond rating.

The following section includes information on the key debt ratios used by rating agencies in examining the debt burden of a city.

Debt as a percent of total market value of property

This ratio measures the ability of property owners and taxpayers in the community to repay the debt. This ratio is calculated on the same property value basis as the statutory debt limits.

The City's current policy limit is 1.0% of debt to real market value of all property in the City, which would allow a maximum of about $226 million of net direct debt to be outstanding as of June 30, 2010.

In a July 2010 report, Moody's calculated the median ratio of direct net debt as a percent of full value of property for 3,600 cities in the United States, as well as for different rating categories updated for global scale ratings. The results are in the chart below. The higher rated cities have a lower ratio of debt to full value (which is the same as real market value in Oregon), as would be expected.

Moody's Debt Medians for US Cities

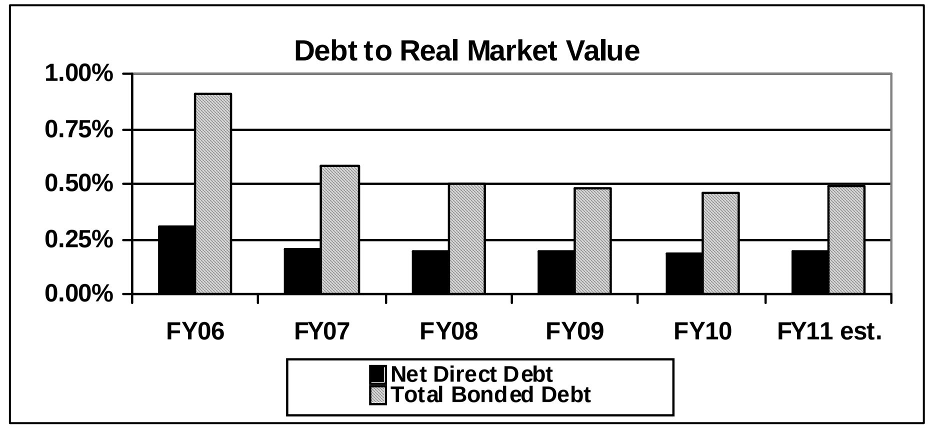
	Aaa	Aa	A	Baa	Ba
Direct Net Debt as % of Full Value	0.68%	0.88%	1.39%	2.04%	4.03%

Source: Moody's Investors Service, 2009 U.S. Local Government National Medians, Updated for Global Scale Ratings, July 2010. "Full value" is equivalent to real market value.

The median for all rating categories combined was 1.39%. The City's policy limit of 1% of real market value is below the national median, and slightly higher than the median for US cities rated "Aa" (or "double-A") from Moody's. The City's actual outstanding debt to real market value ratio has been below 0.5% for more than ten years, however.

In a Fitch Investors Service report from June 2004, the average range of total debt as a percentage of market value was determined to be 2% to 5%. A ratio below 2% is low and one above 6% trends towards high. Fitch also points out that the level of acceptable debt to market value will depend on where a jurisdiction is in its life cycle. A growing community may have a higher debt burden because it is expanding and has additional infrastructure needs, and a growing tax base to support those expenditures. A mature community may have a higher debt burden because of aging infrastructure or a lower debt burden because it is ignoring facility replacement needs. In those instances, the credit analyst will examine the reasons for the low debt burden to determine the appropriate impact on the jurisdiction's credit rating.

The City's ratio of total debt to real market value has been below 1.0% and net direct debt to real market value has been below 0.5% over the past several years, as shown in the following chart. As of June 2011, it is estimated that the City will have $182 million of debt capacity available under its debt policy limit of 1% of real market value.



The amount of debt capacity available under this limit will change over time, as the real market value of property changes, as principal payments are made on outstanding debt, and as new debt is issued.

Rapidity of debt repayment

If debt is repaid rapidly, additional capacity for future debt is created and total interest costs are reduced. The trade-off is that there is less funding available for current needs if the debt service payments are higher. The general rule used by credit analysts to evaluate rapidity of debt repayment is that a minimum of 50% of debt should be retired within a 10 year period. A slower payout schedule is a negative financial factor. A more rapid payout schedule is generally positive unless it impairs the ability of the debt issuer to meet current obligations.

Credit analysts review the structure of each bond measure separately, as well as the overall debt structure of an issuer. Extending and back-loading debt principal retirement may reduce the issuer's financial flexibility, and increases the overall cost of borrowing.

The City's policy is to retire 50% of its debt within 10 years. The City is currently scheduled to pay approximately 82% of the principal of its net direct debt within the next 10 years.

Debt service to expenditures

This measures the amount of financial flexibility in the City's budget. All of the factors that go into determining this ratio are within the City's control; therefore, this is an indicator of the financial management skills of the City's decision makers.

Debt service payments are fixed and cannot be changed; therefore, a higher percentage of debt service to expenditures indicates a lower level of financial flexibility. Analysts generally conclude that if more of the City's budget is dedicated to debt service payments, there is less flexibility to respond to economic slowdowns, citizen initiatives that affect revenues or expenditures, unexpected expenditure increases and changes in budget priorities. On the other hand, if debt service expenditures are high because debt is being rapidly amortized, the rating agencies will take that into account in their analysis.

Credit analysts consider an issuer's debt service to expenditures ratio to be acceptable when it is between 5% and 10%. In the City's debt policies, this ratio applies to debt that is primarily or secondarily secured by the General Fund. General Fund-backed debt differs from net direct debt. General Fund-backed debt includes assessment bonds, the Broadway Place bonds, the Atrium bonds, and pension obligations.

G.O. debt is excluded from the calculation of this ratio because the voters determine whether G.O. debt service expenditures are reasonable. If voters approve a G.O. debt issue, then they have authorized the City to levy the amount of taxes necessary to service the debt. Therefore, the City's debt policies should not place a limit on this ratio for G.O. debt.

The City's current policy is that the maximum annual debt service on any General Fund-backed debt should not exceed 10% of General Fund expenditures in the year in which the debt is issued. Of that amount, no more than 5% shall be for debt that has a primary pledge of General Fund resources.

The City's current ratio of debt service on General Fund-backed debt to General Fund expenditures is 1.4% (excluding the pension bonds). Debt service on debt with a primary pledge of the General Fund is at 0.3%. Both ratios are well below the policy limits.

DEBT PROJECTIONS

The City has authorized but unissued debt for three projects:

- $27.4 million was authorized for Parks, Athletic Fields and Open Space Projects in 2006, and about $14.0 million remains unissued as of December 2010
- $7,895,000 million was authorized for the BEDI Grant/HUD Section 108 Loan for the Beam project, and $5.2 million remains unissued as of December 2010
- $35.9 million was authorized by voters for Street Bonds on the November 2008 ballot, and about $27.4 million remains unissued as of December 2010.

Including bonds issued for these projects, the City's net direct debt is expected to decline over the next few years.

The City's debt ratios estimated at the end of the current fiscal year and projected ratios as of June 2017 are shown in the following chart, and compared to the policy limits.

Net Direct Debt (excluding pension bonds)	Estimate As of June 2011	Estimate As of June 2017	Policy
Net Direct Debt Outstanding	$42.0 million	$15.6 million	--
As a % of RMV	0.20%	0.07%	1.0% maximum
% retired in 10 years	82%	75%	50% minimum

In addition to the ratios shown in the chart, the ratio of debt service on all General Fund debt as a percent of General Fund expenditures is currently 1.4%, and it is projected to remain well within the policy limit of 10% over the foreseeable future. Debt service on debt with a primary General Fund pledge as a percent of General Fund expenditures is currently 0.3% and is currently projected to remain at that level or lower, which is also significantly under the 5.0% policy limit.

Conclusions and Recommendations

The City will have sufficient capacity to issue debt for the highest priority major unfunded capital projects over the next several years. While there is sufficient capacity for all additional unfunded projects that are currently planned in the CIP through FY17 within the current debt policy limits, issuing debt at this level is not recommended. It is not prudent to utilize the full capacity available as debt capacity is impacted by the economy and the value of property. In these uncertain economic times, it is likely our debt capacity will diminish somewhat in the near term. This uncertainty means that careful choices will have to be made in the use of the remaining debt capacity.

It is recommended that the concept of debt affordability continue to be incorporated into the City's other long-term planning efforts. Specifically, the update to the Capital Improvement Program every two years should include a section on the impact of the CIP on the City's debt capacity.

In addition, whenever a new major capital project is proposed to be debt financed, the impact on the City's debt burden and debt policies should be reviewed and incorporated into the decision-making process.

In addition, it is recommended that the City continue to evaluate the ability to fund on-going operations and maintenance activities for new capital facilities prior to undertaking new capital projects.

Appendices

APPENDIX A: MOODY'S LONG-TERM OBLIGATION RATINGS

Moody's long-term ratings are opinions of the relative credit risk of financial obligations with an original maturity of one year or more. They address the possibility that a financial obligation will not be honoured as promised. Such ratings use Moody's Global Scale and reflect both the likelihood of default and any financial loss suffered in the event of default.

Aaa: Obligations rated Aaa are judged to be of the highest quality, with minimal credit risk.

Aa: Obligations rated Aa are judged to be of high quality and are subject to very low credit risk.

A: Obligations rated A are considered upper-medium grade and are subject to low credit risk.

Baa: Obligations rated Baa are subject to moderate credit risk. They are considered medium grade and as such may possess certain speculative characteristics.

Ba: Obligations rated Ba are judged to have speculative elements and are subject to substantial credit risk.

B: Obligations rated B are considered speculative and are subject o high credit risk.

Caa: Obligations rated Caa are judged to be of poor standing and are subject to very high credit risk.

Ca: Obligations rated Ca are highly speculative and are likely in, or very near, default, with some prospect of recovery of principal and interest.

C: Obligations rated C are the lowest rated class and are typically in default, with little prospect of recovery of principal and interest.

Note: Moody's applies numerical modifiers 1, 2, and 3 to each generic rating classification from Aa to Caa. The modifier 1 indicates that the obligation ranks in the higher end of its generic rating category; the modifier 2 indicates a mid-range ranking; the modifier 3 indicates a ranking in the lower end of that generic rating category.

Source: Moody's Investors Service web site.

APPENDIX B: CITY OF EUGENE DEBT STATEMENT

	Actual 06/30/06	Actual 06/30/07	Actual 06/30/08	Actual 06/30/09	Actual 06/30/10	Projected 06/30/11
Full Faith & Credit Obligations						
Voter Approved General Obligation Bonds						
Airport Refunding Bonds, Series 1997	810,000	415,000	0	0	0	0
Parks & Open Spaces, Series 1999*	2,575,000	1,760,000	900,000	0	0	0
Fire Projects, Series 2002	7,185,000	6,860,000	6,520,000	6,170,000	5,805,000	5,430,000
Parks & Open Spaces, Series 2004	5,635,000	5,300,000	4,965,000	4,630,000	4,295,000	3,960,000
Refunding, Series 2006	24,990,000	23,900,000	22,765,000	21,595,000	19,425,000	17,170,000
G.O. Bond and Revolving Credit Facility (POS)	0	1,425,000	4,980,000	1,696,200	684,414	1,770,000
Parks, Athletic Fields & Open Space, Series 2008	0	0	0	5,600,000	5,180,000	4,710,000
G.O. Street Bond & Revolving Credit Facility (Street)	0	0	0	485,000	0	0
Subtotal General Obligation Bonds	41,195,000	39,660,000	40,130,000	40,176,200	35,389,414	33,040,000
General Fund Secured Obligations						
Improvement Bonds, Series 1999-S	100,000	40,000	0	0	0	0
Improvement Bonds, Series 2006	1,036,427	876,370	708,423	587,109	468,008	339,000
Improvement Bonds, Series 2011	0	0	0	0	0	1,125,000
Broadway Garages, Series 1997	6,040,000	5,790,000	5,505,000	5,180,000	4,810,000	4,390,000
Atrium, Series 1998 A&B	1,755,000	1,650,000	1,540,000	1,425,000	1,305,000	1,175,000
Library, Series 2000	8,625,000	6,650,000	4,550,000	2,350,000	0	0
Pension Obligation Bonds, Series 2002	67,299,211	59,214,981	58,687,793	58,060,554	57,353,568	56,571,822
Santa Clara Fire Station, Series 2003	1,695,000	1,485,000	1,275,000	1,065,000	855,000	645,000
Subtotal General Fund Secured Obligations	86,550,638	75,706,351	72,266,216	68,667,664	64,791,576	64,245,822
GROSS DIRECT DEBT	127,745,638	115,366,351	112,396,216	108,843,864	100,180,990	97,285,822

*A portion of the 1999 bonds were refinanced with the 2006 bonds.

	Actual 06/30/06	Actual 06/30/07	Actual 06/30/08	Actual 06/30/09	Actual 06/30/10	Projected 06/30/11
Revenue Bonds						
Airport Revenue Refunding Bonds, Series 2000	1,145,000	590,000	0	0	0	0
HUD 108 Loan #1 (Beam Project)	0	0	0	2,706,000	2,706,000	2,578,000
HUD 108 Loan #2 (Beam Project)	0	0	0	0	0	5,189,000
Total	1,145,000	590,000	0	2,706,000	2,706,000	7,767,000
Conduit Bonds						
Recovery Zone Facility Bonds (Bennett)	0	0	0	0	0	6,900,000
TOTAL BONDED DEBT	128,890,638	115,956,351	112,396,216	111,549,864	102,886,990	111,952,822
Less: Debt Supported by Non-Tax Revenues						
Airport Refunding Bonds, Series 1997	(810,000)	(415,000)	0	0	0	0
Improvement Bonds	(100,000)	(40,000)	0	(587,109)	(468,008)	(1,464,000)
Broadway Garages Bonds	(6,040,000)	(5,790,000)	(5,505,000)	(5,180,000)	(4,810,000)	(4,390,000)
Atrium FF&C Bonds	(877,500)	(825,000)	(770,000)	(712,500)	(652,500)	(587,500)
Library FF&C Obligations	(8,625,000)	(6,650,000)	(4,550,000)	(2,350,000)	0	0
Pension Bonds	(67,299,211)	(59,214,981)	(58,687,793)	(58,060,554)	(57,353,568)	(56,571,822)
Revenue Bonds	(1,145,000)	(590,000)		0	0	0
Subtotal Debt Supported by Non-Tax Revenues	(84,896,711)	(73,524,981)	(69,512,793)	(66,890,164)	(63,284,076)	(63,013,322)
Less: Conduit Debt						
Recovery Zone Facility Bonds (Bennett)	0	0	0	0	0	(6,900,000)
NET DIRECT DEBT	43,993,927	42,431,370	42,883,423	44,659,700	39,602,914	42,039,500

APPENDIX C: DEBT ISSUANCE GUIDELINES

The following debt issuance guidelines were approved by the Budget Committee in February 2004 and amended in May 2007. They apply to debt issued by the City of Eugene and the Eugene Urban Renewal Agency.

CREDIT WORTHINESS

1. The City will seek to maintain and, when feasible, improve its credit rating so its borrowing costs are minimized and its access to credit is preserved and enhanced.

2. The City will maintain good communications about its financial condition with credit rating agencies and the credit market.

3. The City will follow a policy of full disclosure that meets or exceeds the disclosure guidelines developed by the Government Finance Officers Association and the Governmental Accounting Standards Board.

PURPOSES FOR BORROWING

1. The City will not fund current operations from externally borrowed funds, except to meet short term cash flow requirements.

2. The City may borrow on a short-term basis for capital improvements in anticipation of issuing long-term debt or for cash flow purposes during a construction project.

3. The City will confine long-term borrowing to capital improvements or projects that cannot be fully funded from current revenues.

4. The City will encourage the use of pay-as-you-go financing for capital improvements when feasible and affordable.

5. Assessment bonds may be issued for local improvements in accordance with the City's assessment policies.

6. The City may refund existing debt according to the policies set out under "Refunding Debt" below.

7. The City may act as a conduit issuer according to the policies set out under "Conduit Financings" below.

REFUNDING DEBT

1. Borrowing externally to fund the unfunded accrued liability of the Public Employees Retirement System ("PERS") is considered refunding of an existing liability to PERS.

2. The City will issue advance refunding bonds (as defined by federal tax law) when advantageous, legally permissible, prudent and when the net present value savings is a minimum of three percent of the refunding par amount, as required by state law.

3. The City will issue current refunding bonds (as defined by federal tax law) when advantageous, legally permissible, prudent and when the net present value savings exceed $100,000.

4. Refundings may also be undertaken for other reasons when legally permissible, prudent and when in the best interests of the City.

SECURITY FOR DEBT ISSUES

1. Approval to use the general obligation pledge will be sought from voters only for projects that cannot be self-supporting and that provide a general benefit to City residents.

2. The City's full faith and credit (i.e., the General Fund) may be pledged as a primary or secondary source of repayment of long-term debt obligations when it is determined that this pledge is in the best interests of the City. Debt secured by the City's full faith and credit should be supported by predictable revenues. In addition, the City may require administrative measures designed to protect the City's General Fund, such as internal rate covenants and reserves. These internal administrative measures will not be pledged to bondholders.

3. Enterprise funds and other revenue-backed bond issues will maintain the highest level of debt service coverage ratios and reserves as possible, balanced against the cost of such measures, the need to preserve equity and a desire to maintain affordability in user fees.

4. Credit enhancement should be considered for debt issues where the cost of the enhancement is expected to be less than the savings in interest over the life of the issue.

5. Prior to issuing Bond Anticipation Notes, the City will have secured authority for the permanent bond financing that will be used to repay the notes.

FINANCING METHODS

1. The City will analyze the various financing methods available for any proposed borrowing and choose the method that is most cost effective, that is appropriate from a risk perspective, and that is legally and administratively feasible. Financing methods examined could include, but are not limited to, general obligation bonds, full faith and credit securities, revenue bonds, notes, lines of credit, commercial paper, lease or lease purchase transactions, grants, federal or state loans, intergovernmental agreements, or partnerships with the private sector.

2. Lease purchase debt, including certificates of participation, will be considered as an alternative financing method for capital projects or long-term vendor leases when cost effective and when the City does not want to seek the General Obligation pledge from voters.

ADMINISTRATION OF CITY DEBT

1. The City will consider affordability prior to entering into any new borrowing program. The debt ratio guidelines contained in this policy define the affordable level of debt for the City.

2. When the City issues long-term debt, it will repay the debt within a period not to exceed the useful life of the improvements or equipment.

3. The City will repay debt rapidly to recapture its credit capacity for future use and to minimize interest costs. For major capital projects, repayment on such debt will not exceed 21 years. Assessment debt will mature over a 10-year period. Debt issued to fund a pension obligation may be for a longer period of time to match the amortization schedule used by PERS in determining the City's annual payment obligation.

4. Revenues dedicated to make bond payments are to be budgeted for debt service payments before they are appropriated for any other purpose.

5. All voter-approved general obligation debt will be sold through competitive bids. Exceptions may be made for refunding bond issues or where the City is issuing bonds with different security pledges at the same time as the general obligation debt. Non-general obligation debt may be sold on a negotiated basis if the City determines that it offers significant advantages in marketing the issue.

6. Private placement of debt may be appropriate under certain circumstances. The costs of private placement of debt will be compared to market financing before recommending this method.

Conduit Financings

1. Conduit financings are financings that the City provides for the benefit of non-governmental entities to allow those non-governmental entities to obtain low cost, tax-exempt financing. Conduit financings are not secured by any revenues or assets of the City except revenues and assets provided by the non-governmental entities that benefit from the conduit financings.

2. The United States Internal Revenue Code substantially limits the ability of the City to provide conduit financing; conduit financings are only available for small manufacturing facilities, facilities used by qualified 501(c)(3) organizations, certain kinds of low income housing projects, and other projects that can be financed with "qualified bonds" as defined in the Internal Revenue Code.
3. Recognizing that the City is able to issue debt for broad purposes, it may be appropriate to enter into a conduit financing on behalf of another party when the City Council determines that the proposed project will provide a general benefit to City residents and/or the City economy.

4. Conduit financing will be considered only when a project is consistent with the city's overall service and policy objectives.

5. The City should not incur any moral or financial obligation under a conduit borrowing.

6. The City will only consider conduit financings that will insulate the City from any credit risk.

7. Any financing issued through the City must qualify for an investment grade rating by one of the nationally recognized statistical rating agencies or provide alternative credit enhancement from a third party satisfactory to the City or a corporate guaranty if the corporation carries an investment grade rating.

8. All expenses related to conduit financing will be borne by the third-party applicant for whom the debt is being issued.

9. The City will establish review procedures of the requesting party for projects, including adherence to public contracting requirements, development of a financial feasibility study of the project, and submission of annual financial statements to ensure the ability to repay the debt.

Key Debt Ratios

The City's ability to issue general obligation debt is limited by state statutes to 3% of real market value. This level of outstanding debt would be financially burdensome and not considered a prudent amount of debt by credit analysts and bond investors. There are several key debt ratios that investors and financial analysts use when reviewing a city's credit worthiness. The City of Eugene has established this set of debt ratio guidelines that are to be used as a measure of the affordability of a new debt program. These guidelines are periodically reviewed by the Investment Advisory Board.

1. Net direct debt as a percentage of real market value shall be a maximum of 1.0%

2. A minimum of 50% of net direct debt shall be retired within 10 years

3. Maximum annual debt service on all General Fund-backed debt shall be limited to 10% of General Fund expenditures in the year in which the debt is issued. Of this amount, long-term debt that has a primary pledge of General Fund resources shall be no more than 5% of General Fund expenditures.

The following definitions apply to the City's debt ratio guidelines:

- ***Net direct debt*** includes all debt that is repaid from taxes (excluding URA tax increment revenues), such as General Obligation bonds and bonds backed by the City's full faith and credit pledge. Debt secured solely by revenues and Urban Renewal Agency debt are excluded from the City's net direct debt.

- Debt that includes a General Obligation or full faith and credit pledge may be excluded from the calculation of net direct debt as ***self-supporting debt*** where it can be demonstrated that there are other non-tax revenues available that are sufficient to make the debt service payments.

- ***Pension obligation debt*** will be excluded from the City's calculation of net direct debt in order to provide a debt statement comparable to other jurisdictions. This debt does not represent a new obligation of the City; rather, it represents replacement of an existing obligation that the City had in the form of an unfunded pension obligation that had previously been paid in installments to PERS.

- Short-term debt and leases that are subject to appropriation are not included in the statement of gross direct debt or net direct debt.

- The definition of net direct debt may change as the revenues supporting a debt issue change, or as new types of debt are added to the City's debt position. In categorizing debt on the statement of net direct debt, the City will attempt to mirror the calculation prepared by the bond rating agencies that rate the City's debt.

- ***General Fund-backed debt*** is debt that has a primary or secondary security pledge from the City's General Fund, such as limited tax assessment bonds, Broadway Place Limited Tax Bonds, and Atrium Full Faith & Credit Obligations. Voter-approved General Obligation bonds and the pension obligation bonds are excluded from the definition of General Fund debt.

- The ***General Fund expenditures*** used for the purpose of measuring debt service to expenditures will be those in the main General Fund, excluding any sub funds.

- Extraordinarily high debt service on a bond issue in the first or last year (such as a long first interest payment or a balloon payment at the end) shall not be subject to the debt service to expenditures policy.