



New Issue: MOODY'S ASSIGNS Aaa RATING TO METRO, OREGON'S UNLIMITED TAX G.O. BONDS

Global Credit Research - 10 May 2012

\$290 Million of Rated Debt Affected

METRO, OR
Other Special Districts
OR

Moody's Rating

ISSUE	RATING
General Obligation Bonds, Series 2012A	Aaa
Sale Amount	\$140,000,000
Expected Sale Date	05/23/12
Rating Description	General Obligation
General Obligation Refunding Bonds, Series 2012B	Aaa
Sale Amount	\$29,075,000
Expected Sale Date	05/23/12
Rating Description	General Obligation

Moody's Outlook STA

Opinion

NEW YORK, May 10, 2012 --Moody's Investors Service has assigned a Aaa rating to Metro, Oregon's General Obligation Bonds, Series 2012A and Series 2012B in the combined amounts of \$169.1 million. At this time, Moody's affirms the district's Aaa rating on UTGO debt outstanding in the amount of \$105.9 million post-refunding, the Aa1 rating on rated full faith and credit obligations outstanding in the amount of \$15.0 million, and also the district's stable rating outlook. The current offerings are secured by the district's full faith, credit, and unlimited property tax pledge. Proceeds of the Series A bonds will finance capital projects for the Oregon Zoo and the district's Natural Areas Program. Proceeds from the Series B bonds will refinance certain maturities of the district's outstanding General Obligation Refunding Bonds, Series 2002 as well as General Obligation Bonds, Series 1995A and Series 1995C.

SUMMARY RATING RATIONALE

The Aaa rating primarily reflects the district's very large tax base encompassing the City of Portland (Aaa UTGO rating with stable outlook) metro area's large and diverse economy, strong general fund reserves supported by a demonstrated high level of financial flexibility and conservative financial planning, and a low debt burden.

The district's stable outlook primarily reflects the service area's large economy and tax base facing an anticipated slow recovery. It is also expected that the district will continue to maintain a strong financial position that is consistent with the district's high level of financial flexibility and management's conservative operating practices.

STRENGTHS

- Portland metro area's economy is a regional center, featuring a skilled work force and advanced industries
- Strong financial flexibility and large general fund reserves bolstered by conservative management

- Very low debt burden

CHALLENGES

- A moderate, delayed real estate market contraction

- Volatility in grant revenues

DETAILED CREDIT DISCUSSION

METRO SERVES THE GREATER PORTLAND AREA

The district provides a multitude of services to approximately 1.6 million residents in the greater Portland metropolitan area. The service population spans a large area that includes about 40.0% of Oregon's population across the urban portions of Multnomah (Aaa UTGO rating with stable outlook), Washington (Aaa UTGO rating), and Clackamas (Aa1 issuer rating) counties. The metropolitan area's economy benefits from the presence of a skilled work force and advanced industries that include high tech manufacturing, business services, and healthcare. The economy also benefits from international trade ties, particularly air and marine exports to Asia. Portland's unemployment rate fell significantly over the last year to 8.5% in February 2012 and remained below both state (9.7%) and near national (8.7%) levels. The metro area's economic downturn has decelerated as job losses slowed and unemployment levels improved, though public sector job losses are weighing on the local economy. The pace of near-term recovery is uncertain, and export growth may soften with possible slowing in the pace of economic growth in Asia. Using Portland as a proxy for wealth levels across the service area, per capita and median family incomes represented 104.9% and 100.4% of national levels, respectively, which was similar to many other large urban areas nationally.

The Portland area's real estate market correction was delayed relative to many other urban areas and property values have fallen, albeit less sharply than for many peers nationally. Recent and moderate declines in the district's real market value (RMV) averaged 5.2% annually over the last three years as the local housing market works through downward revaluations and a backlog of foreclosures. Nevertheless, the district's large service area still has a substantial RMV of \$186.1 billion as of 2012. Importantly, the district's AV continues to realize stable annual growth despite recent declines in RMV, which is due to the intricacies of Oregon's property tax system. Specifically, the state's Measure 50 provisions allow AV for properties across most classes to grow by up to 3.0% annually as long as AV remains below RMV plus adjustments for new development and improvements. As of 2012, the district's aggregate ratio of AV to RMV increased to 68.7% due to weakness in RMV for some properties, but the margin between AV and RMV remains significant such that AV growth is expected to continue in line with Measure 50 provisions despite any near-term declines in RMV.

SIGNIFICANT FINANCIAL FLEXIBILITY SUPPORTS CONSISTENTLY STRONG RESERVES

Metro is unique in the diversity of services it provides, which include: operating the Oregon Zoo, operating convention and performing arts facilities, managing parks and open space conservation, overseeing regional development and transportation planning, and also managing solid waste processing. The district's home rule charter approved by voters in 1992 gives the district independent flexibility in assuming regional service functions, though management's practice is prudently to not expand into additional services without related funding resources.

Metro's financial position remains strong given large general fund reserves and conservative financial management practices. The district's general fund operations include administrative functions, regional planning, zoo operations, open space management, and various community outreach programs. Unrestricted general fund reserves averaged an ample 50.3% of revenues on a GAAP basis for fiscal years 2007 through 2011. Including restricted and dedicated portions of fund balance mostly attributed significantly to transportation development, the district's total general fund reserves averaged 65.7% over the period. Year-over year volatility in reserves is partly attributed to variable capital outlay needs and volatility in grant funding. The largest general fund resources are culture and recreation fees (27.6% of revenues in fiscal 2011), excise taxes from use of Metro's services and facilities as well as new construction within the service area (23.9%), property taxes (17.8%), and grants (14.6%). Culture and recreation fees have grown overall in recent years and are anchored by stable levels of ticketed admissions to the zoo. Excise tax revenues declined significantly in fiscal 2009 amid a recessionary climate but since rebounded significantly toward prior levels. Property taxes are derived from the district's fixed operating tax rate of \$0.10 per \$1,000 of AV and slow, stable growth in this revenue stream is supported by Measure 50 provisions. Lastly, grant revenues have been volatile and management expects that this revenue stream will remain soft in coming years, particularly for

governmental grants related to transportation projects. Also, Moody's notes that accounting for the district's convention and arts center operations as well as solid waste operations are within self-supported enterprises outside the general fund.

Looking forward, management anticipates that Metro's financial performance will remain strong. The district utilizes prudent fiscal management, multi-year forecasting, and quarterly reporting to actively plan and monitor operating performance. Importantly, the district has strong financial flexibility as demonstrated by management's willingness and ability to scale operations in line with available resources. For fiscal 2012, management projects from data in its latest quarterly assessment that total general fund balance will be 65.3% of revenues (\$43.8 million) on a GAAP basis, which is modestly above prior estimates for operating performance but still a modest decline relative to the prior year. Grant receipts will be below forecasted expectations and a delay in contributions from a local government partner for a transportation project have reduced revenues, but management also reduced expenditures accordingly for related projects in order to preserve reserve levels.

The district's approved budget for fiscal 2013 estimates that general fund reserves will decline, but expectations are highly conservative and actual performance will likely be above the budgeted draw down of \$11.5 million that would result in still ample reserves of 43.5% of revenues (\$32.3 million). Specifically, management budgets for maximum potential payout of awards to local government partners for development projects and historically has under-spent significantly relative to budget for these payments, often by several million dollars each year (\$7.4 million of the budgeted draw down is attributed to these programs). Also, reserves are often appropriated to fund one-time projects and the full amount is appropriated up-front even if funds will be expended over a multi-year period (over \$2.0 million of the draw down is attributed to such projects). The general fund is also expected to make a temporary interfund loan of \$2.2 million to the convention center's enterprise as an economical way to fund for an assessment related to street car project. Additionally, management reduced budgeted operating costs by modestly reducing staff mostly through attrition, having new employees fund their share of pension contributions, and resizing planning and development programs to match reduced availability of grant funds. Lastly, the district may seek voter approval for a local option levy of \$0.09 or \$0.10 per \$1,000 of AV in 2013 or 2014 in order to support open space operations as well as mitigate volatile and waning grant resources. A local option levy may cause some property tax levy compression in parts of the service per the state's Measure 5 provisions that limit overlapping property tax levies for general government purposes to \$10.00 per \$1,000 of AV; however, the levy would beneficially bolster stable property taxes as a share of the general fund's resources.

FAVORABLE DEBT PROFILE WITH LIMITED MEDIUM-TERM PLANS FOR ADDITIONAL DEBT

The district's debt burden remains favorable given modest debt issuance relative to its large tax base, even considering medium-term plans for additional debt issuance. The district's net direct debt burden is low at 0.2% and payout is average at 67.4% in ten years, post-issuance. The Series A bonds are installments related to two voter-approved initiatives for the district's Natural Areas Program (representing \$75.0 million of proceeds) and for the Oregon Zoo (\$65.0 million of proceeds). In 2008, 57.5% of the district's voters approved \$125.0 million of UTGO bond authorization for various capital improvements to the zoo, and officials anticipate issuing the remaining \$40.0 million of bond authorization in 2015 for additional capital projects. In 2006, 58.5% of the district's voters approved \$227.4 million of UTGO bond authorization for the Natural Areas Program, and officials anticipate issuing the remaining \$28.1 million of bond authorization also in 2015 for additional land purchases and restoration of natural areas. Proceeds of the Series 2012A bonds plus planned UTGO issuances will fund the majority of the district's capital improvement projects over the medium-term. Metro's other anticipated projects include a potential hotel by the Oregon Convention Center and community development initiatives, neither of which would be funded with publicly-issued debt.

WHAT COULD MAKE THE RATING GO UP

- Not applicable

WHAT COULD MAKE THE RATING GO DOWN

- Significant deterioration of the district's strong financial position
- Protracted and substantial tax base declines

KEY STATISTICS

Estimated service population: 1.6 million

2012 real market value: \$186.1 billion

Average annual growth in real market value (2007-2012): 0.5%

2012 estimated real market value per capita: \$112,334

1999 per capita income, City of Portland: 104.9% of U.S. (\$22,643)

1999 median family income, City of Portland: 100.4% of U.S. (\$50,271)

Direct debt burden: 0.2%

Overall debt burden: 2.2%

Payout of principal (10 years): 67.4%

Fiscal 2011 unrestricted general fund balance: 47.4% of revenues (\$30.8 million)

Fiscal 2011 total general fund balance: 69.3% of revenues (\$45.0 million)

Pension funding, 2009: 85.8% (combined basis for state plans)

Other postemployment benefits (OPEB) liability, 2011: \$3.0 million (implicit subsidy)

PRINCIPAL RATING METHODOLOGY

The principal methodology used in this rating was General Obligation Bonds Issued by U.S. Local Governments published in October 2009. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

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