

RatingsDirect®

Summary:

Lake Oswego, Oregon; General Obligation

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Summary:

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Credit Profile

US\$18.9 mil GO bnds ser 2019 due 06/01/2039

Long Term Rating

AAA/Stable

New

US\$9.645 mil full faith and credit obligations ser 2019 dtd 6//20/11/0 due 06/01/2039

Long Term Rating

AAA/Stable

New

Rationale

S&P Global Ratings assigned its 'AAA' long-term rating to Lake Oswego, Ore.'s series 2019 general obligation (GO) bonds and full-faith-and-credit obligations. At the same time, S&P Global Ratings affirmed its 'AAA' long-term rating on the city's GO bonds and full-faith-and-credit obligations outstanding. The outlook is stable.

The city will have about \$88.5 million in direct governmental debt outstanding after the issuance of the series 2019 bonds.

Security and use of proceeds

The GO bonds are secured by the full-faith-and-credit obligation of the city, including the obligation to levy sufficient property taxes, without limitations to rate or amount. The GO bond proceeds will finance the acquisition of real property open space or parks, and costs for renovations, replacement, or development of park and recreation facilities.

The full-faith-and-credit obligations are secured by the full-faith-and-credit obligation of the city, including the obligation to levy sufficient property taxes, within statutory restrictions. The full-faith-and-credit obligation proceeds will finance the costs of capital projects relating to streets.

Lake Oswego's GO bonds and full-faith-and-credit obligations are eligible to be rated above the sovereign because we believe the city can maintain better credit characteristics than the U.S. in a stress scenario. Under our criteria "Ratings Above the Sovereign--Corporate and Government Ratings: Methodology and Assumptions," published Nov. 19, 2013 on RatingsDirect), U.S. local governments are considered moderately sensitive to country risk. The city's locally derived property tax revenue secures the bonds, and the institutional framework in the U.S. is predictable with significant local government autonomy. In a potential sovereign default scenario, local governments would maintain financial flexibility through their ability to continue collecting locally derived revenue and their independent treasury management.

Credit overview

Residents' extremely strong property wealth and very strong income levels, robust local job market, and access to the greater Portland Area employment opportunities anchor Lake Oswego' credit quality. The city has leveraged this wealth to fortify its financial position, maintaining very strong budgetary flexibility and strong budgetary performance to meet its goals.

The ratings further reflect our view of the city's:

- Very strong economy, with access to a broad and diverse metropolitan statistical area;
- Very strong management, with strong financial policies and practices under our financial management assessment methodology;
- Strong budgetary performance, with an operating surplus in the general fund and a slight operating surplus at the total governmental fund level in fiscal 2018;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2018 of 48% of operating expenditures;
- Very strong liquidity, with total government available cash at 96.1% of total governmental fund expenditures and 26x governmental debt service, and access to external liquidity we consider strong;
- Adequate debt and contingent liability position, with debt service carrying charges at 3.7% of expenditures and net direct debt that is 111.9% of total governmental fund revenue; and
- Strong institutional framework score.

Very strong economy

We consider Lake Oswego's economy very strong. The city, with an estimated population of 40,082, is located in Clackamas, Multnomah, and Washington counties in the Portland-Vancouver-Hillsboro metropolitan statistical area, which we consider broad and diverse. The city has a projected per capita effective buying income of 213% of the national level and per capita market value of \$303,393. Overall, the city's market value grew by 7.7% over the past year to \$12.2 billion in 2019. The weight-averaged unemployment rate of the counties was 3.8% in 2018.

Property taxes, which account for about 57% of the city's total annual revenue, are based on total taxable assessed value (AV). The city's AV has grown consistently over the past several years, most recently by 3.6% to \$7.7 billion in fiscal 2019. Real market values, which were decreasing before fiscal 2014, have also demonstrated strong growth over the past five fiscal years, and most recently increased by 7.7% to \$12.2 billion in fiscal 2019. We believe this continued growth reflects the local economy's overall strength as well as the city's ongoing capital improvements and redevelopments. Management projects property taxes will continue to increase in the near term.

Very strong management

We view the city's management as very strong, with strong financial policies and practices under our financial management assessment methodology, indicating our view that financial practices are strong, well embedded, and likely sustainable.

Key policies and practices include using historical trends to project revenue and expenditures, maintaining a long-term strategic financial plan that looks back five years and ahead five to seven years, and making quarterly budget amendments and updates. The city has a detailed five-year capital improvement plan that identifies projects for completion and identifies the funding sources needed to construct and operate them. Lake Oswego also maintains a formal investment policy and reviews investment results with the city council quarterly, a formal debt management policy, and a formal reserve policy that requires the city to maintain a 14% contingency fund and a 16% ending fund balance.

Strong budgetary performance

Lake Oswego's budgetary performance is strong, in our opinion. The city had a surplus operating result in the general fund of 1.5% of expenditures and a slight surplus result across all governmental funds of 0.6% in fiscal 2018. General fund operating results of the city have been stable over the past three years, with a result of 1.2% in 2017 and a result of 2.1% in 2016.

The city has demonstrated strong budgetary performance over the past several years in light of its increasing trend in AV, which translates to increasing amounts of property tax revenue collected each year. Property tax revenue accounts for about 57% of total operating revenue, and the upward trend in revenue growth has enabled the city to report operating surpluses in the past three fiscal years.

Fiscal 2019's unaudited actual results show an operating surplus of approximately \$4.6 million (8% of expenditures). Fiscal 2020's balanced budget includes fund balances, contingency reserve, and interfund transfers. However, net of the fund balances, contingency reserve, and interfund transfer, the fiscal 2020 budget shows a shortfall of about \$5.4 million mainly because of the \$8.2 million interfund transfers out. The city has historically outperformed its budgets consistently with stronger-than-budgeted operating results from management's conservative budgeting practices and higher-than-expected revenue collected annually. We expect the city to maintain its strong financial position and post balanced-to-positive operations given its trend and management's effective budgeting practices.

Very strong budgetary flexibility

Lake Oswego's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2018 of 48% of operating expenditures, or \$28.5 million. We expect the available fund balance to remain above 30% of expenditures for the current and next fiscal years, which we view as a positive credit factor. Over the past three years, the total available fund balance has been consistent, totaling 47% of expenditures in 2017 and 50% in 2016.

The city has maintained very strong reserves over the past several years. Given the positive trend in property tax revenue, we do not expect the city's flexibility score to worsen over the next several years. In addition, Lake Oswego is setting aside approximately \$7 million to \$8 million from its available reserves for a portion of the city hall project, but we expect the city's available reserves to remain very strong and in compliance with its reserve policy of maintaining at least 30% of operations.

Very strong liquidity

In our opinion, Lake Oswego's liquidity is very strong, with total government available cash at 96.1% of total governmental fund expenditures and 26x governmental debt service in 2018. In our view, the city has strong access to external liquidity if necessary.

Lake Oswego has maintained very strong liquidity over the past several years, and we do not expect liquidity levels to worsen given the positive trend in operations. The city has been able to tap the credit markets for external liquidity, given its issuance of GO bonds in 2015 and currently. The city primarily invests in the State of Oregon's Local Government Investment Pool, which we consider very conservative.

Adequate debt and contingent liability profile

In our view, Lake Oswego's debt and contingent liability profile is adequate. Total governmental fund debt service is

3.7% of total governmental fund expenditures, and net direct debt is 111.9% of total governmental fund revenue.

Management anticipates another full-faith-and-credit debt issuance in 2020 for projects in the LORA Lake Grove Village Center Urban Renewal Plan, the second issuance for the Boone's Ferry Road Project (series 2018 full-faith-and-credit obligations). After the series 2019 GO bonds, the city will have approximately \$10 million of unissued authorization remaining and expects to issue the remainder in the next three to four years for additional park projects. Additionally, the city will regularly monitor its direct debt for refunding opportunities. Finally, we note that a large portion of the city's existing debt comes from full-faith-and-credit obligations that are paid with revenue from the city's water and sewer operations. We anticipate that the water and sewer operations will continue to fully support this debt and that the city will not need to rely on the general fund for debt service.

Pension and OPEB

Lake Oswego's required pension and actual other postemployment benefits (OPEB) contributions totaled 7.2% of total governmental fund expenditures in 2018. The city made its full annual required pension contribution.

The city participates in the Oregon Public Employees Retirement System (PERS) and made 100% of its annual required pension contribution in the past three years. The Oregon pension system is 82.1% funded. Lake Oswego is required to offer the same health care benefits for current city employees to all retirees and their dependents, until they are eligible for Medicare. The city does not pay for any explicit retiree OPEB and only has a non-PERS OPEB liability based on the implicit subsidy.

In our opinion, we view Lake Oswego's pension and OPEB liabilities as manageable and not as an immediate source of credit pressure, despite lower funding levels and our expectation that costs will increase.

Strong institutional framework

The institutional framework score for Oregon municipalities is strong.

Outlook

The stable outlook reflects our view of Lake Oswego's very strong local economy and its increasing property tax revenue collections, which have enabled the city to maintain its very strong flexibility and strong performance scores. We do not expect to change the rating over the two-year outlook period.

Downside scenario

If the city's economy score worsens, resulting in declines in property tax revenue and weaker budgetary performance and flexibility scores that are no longer comparable with those of similarly rated peers, we could lower the rating.

Related Research

- U.S. State And Local Government Credit Conditions Forecast, July 31, 2019
- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Incorporating GASB 67 And 68: Evaluating Pension/OPEB Obligations Under Standard & Poor's U.S. Local

Government GO Criteria, Sept. 2, 2015

- 2018 Update Of Institutional Framework For U.S. Local Governments

Ratings Detail (As Of October 10, 2019)		
Lake Oswego full faith & credit rfdg oblig		
<i>Long Term Rating</i>	AAA/Stable	Affirmed
Lake Oswego GO bnds ser 2015A due 06/01/2039		
<i>Long Term Rating</i>	AAA/Stable	Affirmed
Lake Oswego GO rfdg bnds ser 2011A dtd 09/20/2011 due 06/01/2012-2020		
<i>Long Term Rating</i>	AAA/Stable	Affirmed
Lake Oswego GO		
<i>Long Term Rating</i>	AAA/Stable	Affirmed

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