Fitch Research

Public Finance
Tax Supported

New Issue

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Metropolitan Service District, Oregon

Rating
General Revenue Bonds......................... A+
Credit Trend .... Stable

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New Issue Details
Approximately $23,000,000 General Revenue Bonds (Metro Headquarters Building Project), 1991 Series A. Sale is expected through negotiation Dec. 10 by a syndicate led by PaineWebber. Serial maturities July 1, 1992–2003. Optional prepayment July 1, 1999 at initial price of 102, declining to 100 July 1, 2001 and thereafter. Terms due July 1, 2012 and 2022.

Security: Trust estate that consists of moneys in the reserve, construction, and debt service accounts; bonds payable from the district's revenues (unless restricted by law), and other legally available funds.

Purpose: To acquire and improve a new headquarters building including parking facilities.

December 6, 1991

Outlook

The Metropolitan Service District's large service area, substantial resource base, and sound finances, as well as the bonds' strong security structure, provide the basis for the 'A+' rating. The bonds are issued under the district's revenue bond authority. However, the bonds are payable from all district revenues (unless restricted by law) and other legally available resources, making them, in effect, limited general obligations of the district. Bondholder protections include the requirement to annually budget debt service coverage, a prohibition against senior lien bonds, and a strong additional bonds test. The credit trend is stable.

Rating Considerations

The district serves 1.2 million people in the urban Portland region and is responsible for a broad range of functions including solid waste management, transportation planning, regional planning, and management of various spectator facilities. Created in 1977, the district is the only directly elected regional government in the nation. Most of the $112 million revenue base now comprises enterprise revenues, but the district has broad revenue-raising authority. The district's various departments will be assessed annually to provide 1.10 times (x) debt service coverage, based on the square footage occupied in the new headquarters building. Since debt service costs on the bonds will be allocated to each department as an operating expense, such costs would have a claim on resources before payment of revenue bonds being paid from net departmental revenues.

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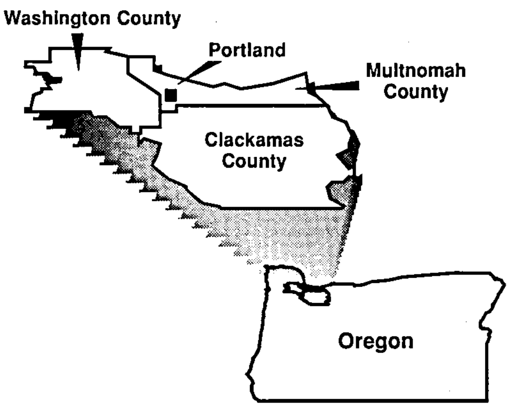
Service Area



The district's budgetary levels have quadrupled since 1985 to over $110 million in fiscal 1991–92 because it has continued to assume additional functions. Its financial position is strong, with $9.5 million in unreserved governmental funds in fiscal 1989–90. The capital plan includes $155–$265 million in new bonds, most of it planned to be supported by unlimited property taxes. The Portland region has a growing, diverse economic base with above-average wealth levels.

Strengths

- Bonds approximate limited general obligations, although they are issued under the district's revenue bond authority; additional bondholder protections are provided.
- Revenues are diverse and broad-based.
- The large, growing service area has a diverse economy.
- The district's finances are strong.

Risks

- The relatively new and expanding organization has broad functions; growth could place pressure on resources, although the district has significant revenue-raising capacity.
- Capital plans are sizeable, but future issuance plans focus on unlimited tax bonds and departmental revenue bonds.

The District

The Metropolitan Service District serves the Portland region and is the only directly elected regional government in the nation. With more than one million residents, the service region consists of the urban areas of Clackamas, Multnomah, and Washington counties. The district was created in 1977 and is governed by a 12-member council. The district's extensive statutory responsibilities and functions include management of the region's solid waste system and promotion of recycling; planning of the regional transportation system and regional growth; operation of the Metro Washington Park Zoo; and management of the Oregon Convention Center, Memorial Coliseum, Civic Stadium, and Portland Center of the Performing Arts under the umbrella of the Metro Exposition-Recreation Commission. The district also is authorized to provide regional sewerage, water supply, transportation, parks and recreation, and correctional facilities. The district employs 1,200 full time and seasonal employees including 216 located at its current headquarter facilities, which are leased.

Financing Plan

The bonds are being issued under the district's revenue bond authority as provided under state law. A master ordinance will be enacted concurrently with the bond sale to provide for this type of financing as well as issuance of parity bonds in the future.

The bonds are payable from the district's revenues (unless restricted by law) and other legally available resources. Sources of bond repayment include all taxes, fees, charges, rentals, investments, or other liquid assets of the district, except that property taxes imposed for repayment of voted general obligation bonds for the convention center are restricted to that purpose. In effect, these bonds are a limited general obligation of the district.

Each of the district's seven departments will be assessed annually for its share of debt service costs from current revenues to provide 1.10x coverage, based on the square footage occupied in the new headquarters building. Since these assessments are operating costs of each department, they are available for debt service payments on these bonds prior to any claim on a particular department's enterprise revenues that may support repayment of revenue bonds. To supplement or replace department assessments, the district also may impose a general assessment on its agencywide resources sufficient to provide 1.10x coverage. If a department fails to generate enough revenues to cover its share of debt service, the district can reassess each department or impose a general assessment to cover the shortfall. The trustee may bring suit if the district fails to set aside revenues to meet its obligations.

To repay these bonds, the district plans to assess the departments 80% of total debt service costs with the remainder paid from a general assessment on the district's resources. The district intends to pay this general assessment from parking garage revenues and excise taxes.

No senior lien bonds may be issued. Additional parity bonds may be issued under either a historical or prospective test. Under the historical test, a qualified consultant must determine that in each of the prior three years, net revenues after payment of all expenditures cover average annual debt

Estimated Coverage on Net Revenue Basis
($000)

	Fiscal Years-Ended June 30 1993–4	1994–5	1995–6
Revenues*	112,507	118,091	124,508
Expenditures**	105,010	110,252	116,305
Remaining Balance	7,497	7,839	8,203
Total Assessments†	2,060	2,055	2,060
Amount Remaining After Assessments	5,437	5,784	6,143
Total Debt Service Coverage (x)	2.90	3.10	3.28

*Includes enterprise funds and all governmental funds except taxes restricted to convention center bond repayment. **Includes debt service payments on revenue bonds. †Total assessments represent 1.10x debt service coverage.

service on the proposed bonds 1.10x. Expenditures include payment of all debt obligations except revenue bonds supported by departmental revenues. Debt obligations include the 1.10x coverage assessment required on outstanding parity bonds, and payments made under lease-purchase and installment purchase agreements. Under the prospective test, a consultant must determine that in each of three years following a period of capitalized interest, revenues will cover all existing expenditures and maximum annual debt service on proposed bonds (including the 1.10x coverage factor).

The debt service reserve for these bonds will be funded from bond proceeds. The master ordinance authorizes a credit facility (letter of credit, bond insurance, or other credit enhancement device) in one of the three highest rating categories to meet the reserve requirement. The district covenants to annually budget assessments to provide 1.10x coverage, set adequate rates and fees to meet its obligations, and maintain adequate insurance. Debt service is capitalized through most of fiscal 1993.

Debt

The district's existing outstanding debt consists of $65.0 million Convention Center bonds secured by unlimited property taxes; $28.5 million Metro East (waste) Station bonds secured by departmental solid waste revenues; and $30.1 million Composter Project bonds secured by tipping fee revenues. These new $23.0 million in general revenue bonds will fund the acquisition and improvement of the district's new headquarters, which include a parking garage. The district plans to occupy the first two floors of the headquarters building.

The district may issue an additional $155–$265 million in bonds to fund planned future projects, including solid waste transfer stations and a green-spaces program. The district plans to request voter approval of $100–$200 million unlimited tax bonds to support the green-spaces program.

Finances

The district has assumed responsibility for convention, trade, and spectator facilities as well as other functions in recent years, so its total budget has grown to over $110 million in fiscal 1991–92 from $23 million in fiscal 1985–86. Its financial position is strong. At fiscal year-end 1990, the district had $9.5 million in unreserved moneys in governmental funds.

The district has broad powers to raise revenues. Available district revenues consist primarily of enterprise revenues (78% of the total) generated from the solid waste system,

Financial Summary*
($000)

	Fiscal Years-Ended June 30 1988	1989	1990
Revenues	15,038	19,861	20,978
Expenditures	22,928	18,416	23,491
Add Enterprise Reimbursement	1,488	2,142	2,298
Results Before Transfers	(6,402)	3,587	(215)
Unreserved Balances	6,793	8,359	9,529

*Governmental funds only; includes general, special revenue, debt service, and capital projects funds; excludes transfers and enterprise funds, except for enterprise reimbursement of administrative costs.

zoo, and the district's spectator, trade, and convention operations. The district imposes a per capita tax. In fiscal 1991–92, the $0.43 per capita tax is expected to generate $578,000 in revenues and will help fund transportation planning. The $0.51 per capita maximum authorization expires in 1993. However, the state legislature has renewed this authority every four years since 1977. The district also receives hotel/motel taxes (about 3% of total revenues) through an intergovernmental agreement with Multnomah County. An excise tax of up to 6% of the district's total gross revenues is authorized on the revenues of enterprise operations, with certain exceptions. The excise tax is now imposed at a rate of 5.25%, mostly on tipping fees and zoo admissions, but could be increased to about 8% before the gross 6% limit is met. These taxes comprise about 4% of total revenues. Exclusive of the unlimited taxes imposed to repay the convention center bonds, property taxes are levied for zoo operations and account for 4% of revenues. As a result of the recent Measure 5 tax limitation, these property taxes were reduced by 12% this year to meet the overall tax rate limit. No other district revenues are affected by the Measure 5 tax limitation. If approved by district voters, an income tax also could be imposed.

Revenue Composition*
1991-92 Budget

	$000	% of Total
Revenues		
Enterprise	87,385	77.7
Property Tax (Zoo)	4,765	4.2
Excise	4,015	3.6
Hotel/Motel	3,000	2.7
Grants	3,895	3.5
Interest Earnings	4,394	3.9
Other**	5,027	4.5
Total†	112,480	100.0

*Includes enterprise funds; excludes $72 million fund balances and $5.5 million restricted property taxes for convention center bond repayment. **Includes about $578,000 in per capita tax revenues. †Numbers may not add due to rounding.

Economy

The district covers 350 square miles in the urban Portland region. As the state's major urban area, Portland is the center of Oregon's financial, trade, transportation, and service activity. Population growth in the district has been relatively rapid, increasing by nearly 12% over 1980–90 to nearly 1.2 million, or over 40% of the state's entire population. Washington county has been the fastest growing county in the state. Portland's population increased 10.2% to 437,319 over the ten-year period. The district's market value of property has more than doubled since 1980 and currently is a sizeable $50.9 billion. Wealth levels in the Portland PMSA are above the state average and slightly above national figures. The PMSA per capita income of $18,163 in 1989 was 113% of the state average and 103% of the national level.

The area's economic and employment base continues to diversify, with relatively little dependence now on the forest products industries. The area is a center of financial services in the Northwest and benefits from Pacific Rim trade and its proximity to California. Although trade and services employment is somewhat above national averages, the overall composition of the employment base is relatively balanced. Trade and services each account for 26% of nonfarm employment. Lumber and wood products account for only 1% of the district's employment base. After a sharp 13% decline in employment during 1981–83, nonagricultural employment in the Portland PMSA has increased 31.5% since 1983. While jobs in manufacturing remain significantly below the 1980 total, growth in regional manufacturing activity has been strong in recent years. Since 1986, manufacturing jobs have increased by over 13%, with particularly strong growth in the machinery, electronics, transportation equipment, and fabricated metal products industries. Major private sector employers include Fred Meyer, Inc. (retail variety chain — 9,000 jobs), Tektronix, Inc. (electronics — 7,000 jobs), Legacy Health System (health care — 8,000 jobs) and U.S. Bancorp (banking — 4,820 jobs). Other employers providing 3,000 jobs or more include Intel Corp. (semiconductors), Precision Castparts (steel castings), Kaiser Permanente (hospitals), and First Interstate Bank (banking).

Unemployment rates have been consistently below state and national averages in recent years. Since 1988, the area's average annual unemployment rate has been below 5%. Notwithstanding national recession, September's unemployment rate was a low 4.8%, which is 89% of the state level and 75% of the national unadjusted average.