Clackamas County S.D. 46 (Oregon Trail), OR

New Issue - Moody’s Assigns Aa2 Underlying, Aa1 Enhanced to Clackamas County SD 46, OR’s GOULT Bonds

Summary Rating Rationale
Moody’s Investors Service has assigned an Aa2 underlying rating to Clackamas County School District 46 (Oregon Trail), Oregon’s General Obligation Refunding Bonds, Series 2017 (Oregon State School Bond Guaranty), expected to be issued in the amount of $71.9 million. The bonds will also receive the Aa1 enhancement rating of the Oregon School Bond Guaranty Program.

The Aa2 rating reflects the district’s large and growing tax base with average resident wealth and income, healthy financial reserves and liquidity position, strong management and elevated debt burden and pension liabilities.

The Aa1 enhanced rating reflects the State of Oregon’s (GO rated Aa1 with stable outlook) full faith, credit and taxing power which is pledged to guarantee qualified school districts’ bond debt service when due. Key aspects of the program include third party notification of any unpaid debt service and favorable state oversight.

Credit Strengths
» Large, growing tax base within the Portland MSA
» Healthy financial position with ample reserves; history of stable operations

Credit Challenges
» High fixed costs which are expected to increase
» Elevated pension burden similar to peers in Oregon

Rating Outlook
Moody’s generally does not assign outlooks to local governments with this amount of debt outstanding.

Factors that Could Lead to an Upgrade
» Significant increase in reserves and liquidity levels
» Expansion of the tax base and improved wealth indicators
Factors that Could Lead to a Downgrade

» Significant growth in pension liabilities that exceed expectations and increase fixed cost pressures
» Material weakening of the district’s financial position
» Significant declines in the district’s tax base and deterioration of wealth levels

Key Indicators

Exhibit 1

<table>
<thead>
<tr>
<th>Oregon Trail School District No. 46 (Clackamas County)</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Economy/Tax Base</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Full Value ($000)</td>
<td>$3,419,310</td>
<td>$3,456,718</td>
<td>$3,805,588</td>
<td>$4,195,602</td>
<td>$4,570,605</td>
</tr>
<tr>
<td>Full Value Per Capita</td>
<td>$118,508</td>
<td>$118,005</td>
<td>$127,964</td>
<td>$138,969</td>
<td>$149,118</td>
</tr>
<tr>
<td>Median Family Income (% of US Median)</td>
<td>94.4%</td>
<td>99.9%</td>
<td>96.6%</td>
<td>102.3%</td>
<td>102.3%</td>
</tr>
<tr>
<td><strong>Finances</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operating Revenue ($000)</td>
<td>$38,316</td>
<td>$38,688</td>
<td>$41,231</td>
<td>$43,381</td>
<td>$46,137</td>
</tr>
<tr>
<td>Fund Balance as a % of Revenues</td>
<td>13.6%</td>
<td>15.5%</td>
<td>14.8%</td>
<td>14.7%</td>
<td>16.6%</td>
</tr>
<tr>
<td>Cash Balance as a % of Revenues</td>
<td>31.2%</td>
<td>21.4%</td>
<td>20.8%</td>
<td>20.0%</td>
<td>22.6%</td>
</tr>
<tr>
<td><strong>Debt/Pensions</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net Direct Debt ($000)</td>
<td>$112,870</td>
<td>$111,350</td>
<td>$109,595</td>
<td>$107,595</td>
<td>$105,330</td>
</tr>
<tr>
<td>Net Direct Debt / Operating Revenues (x)</td>
<td>2.9x</td>
<td>2.9x</td>
<td>2.7x</td>
<td>2.5x</td>
<td>2.3x</td>
</tr>
<tr>
<td>Net Direct Debt / Full Value (%)</td>
<td>3.4%</td>
<td>3.3%</td>
<td>3.2%</td>
<td>2.8%</td>
<td>2.5%</td>
</tr>
<tr>
<td>Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)</td>
<td>N/A</td>
<td>N/A</td>
<td>4.5x</td>
<td>3.3x</td>
<td>2.7x</td>
</tr>
<tr>
<td>Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)</td>
<td>N/A</td>
<td>N/A</td>
<td>4.9%</td>
<td>3.4%</td>
<td>2.7%</td>
</tr>
</tbody>
</table>

Source: Moody’s Investors Service

Detailed Rating Consideration

Economy and Tax Base: Large Suburb East of Portland

Clackamas County School District 46 (Oregon Trail) is located approximately 28 miles east of downtown Portland (Aaa stable) and serves suburban and rural communities in Clackamas County (Aa1 stable). The 424 square mile district includes the City of Sandy as well as the unincorporated communities of Welches, Boring and Government Camp and includes one high school, three middle schools, five elementary schools and one district-supported K-12 charter school.

With a 2017 RMV of $4.7 billion, the district’s tax base is large and has been steadily growing. Between 2009 and 2012, from peak to trough, the district saw a 21.6% decline in RMV due to the housing crisis and economic recession. However, over the last five years the district’s tax base has seen significant growth with compound annual increases of 6.6%. In the 2017 tax year, the district has seen its tax base surpass its prerecession peak. The district is part of the Portland metropolitan statistical area (“MSA”), which has seen significant growth and has a broad and diverse economy. Within the district, taxpayer concentration is minimal with the top ten taxpayers accounting for 5.2% of assessed value; per capita RMV is high at $149,118.

The district’s population of 31,118 has average wealth levels with per capita income and median family income at 92.7% and 102.3% of national medians, respectively. Unemployment, at 3.4% is low and poverty is slightly below-average at 11%. Clackamas County is the third largest county in the state and is experiencing a fair amount of new development. The City of Sandy, the primary community served by the district has seen robust growth, with its population growing 10.9% over the last five years and management notes a number of new residential developments.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moodys.com for the most updated credit rating action information and rating history.
Financial Operations and Reserves: Stronger Finances Than Many Oregon Peers

The district’s financial position has been steadily improving over the last five years since the economic downturn when declining state aid resulted in operating deficits and draws on reserves. For fiscal 2015, the district saw a surplus of approximately $252,000 in its operating funds (General Fund and Debt Service Fund), leaving available operating fund balance at 14.7% of revenues. In fiscal 2016, the district realized an operating surplus of $1.3 million, growing general fund balance to a healthy 19.1% of revenues and available operating fund balance to 16.6% of revenues. The recent surpluses have largely been the result of lower staffing costs and better than anticipated property tax revenues.

For fiscal 2017, the district budgeted a $499,738 draw on general fund reserves however now anticipates a surplus of approximately $600,000. Management notes that for the current fiscal year, revenues are largely as budgeted and the surplus is due mostly to conservative budgeting of expenditures, primarily staffing costs.

Like most Oregon school districts, Oregon Trail School District is primarily funded by state aid, which in fiscal 2016 accounted for 63.2% of general fund revenues followed by local property taxes at 35.1%. State education funding is allocated primarily through average daily membership, commensurate to state appropriations set in its biennial budget. District enrollment, which is at 4,422 students for fiscal 2017, has been relatively stable with compound annual growth over the last five years of 1.6%. The district commissioned an enrollment study from Portland State University in 2012 and has regularly outperformed the study’s projections. Continued enrollment growth is expected with approximately 4,700 students by 2021.

LIQUIDITY

Like reserves, the district’s liquidity position has improved in recent years. In fiscal 2016, the district’s net cash and investments were a healthy 22.6% of operating funds revenues and a solid 26.0% of general fund revenues.

Debt and Pensions: Elevated Debt and Pension Burden Driving Fixed Costs

The district’s net debt burden, post sale, is somewhat elevated relative to comparable Oregon districts at 2.2% of RMV. When overlapping debt is considered, the district’s debt burden rises to 3.1% of RMV which is in line with state and national medians. In fiscal 2016, debt service accounted for 14.7% of operating expenses.

DEBT STRUCTURE

All of the district’s debt is fixed rate. Amortization of principal is average at 63.6% within ten years.

DEBT-RELATED DERIVATIVES

The district is not party to any interest rate swaps or other derivatives.

PENSIONS AND OPEB

Oregon Trail School District participates in retirement pension benefit programs under the Oregon Public Employees Retirement System (“OPERS”). Based on standard adjustments by Moody’s, the district’s three-year average of adjusted net pension liability (“ANPL”) is 2.7 times operating revenues and 3.2% of current RMV. ANPL reflects certain adjustment’s Moody’s makes to improve the comparability of reported pension liabilities. The adjustments are not intended to replace the district’s or OPERS’ reported liability information, but to improve comparability with other rated entities.

The district’s fiscal 2016 pension contribution was $5.1 million, or 11.3% of operating expenses. Looking forward, Moody’s expects ANPL to increase significantly as investment returns have not met expectations and recent court decisions have nullified previous pension reform efforts that had reduced valuations of the systems’ long-term liabilities. The district does provide OPEB to employees and in fiscal 2016, its required contribution was 1.0% of operating expenses.

The district’s total fixed costs (debt service, pension contribution and OPEB) for fiscal 2016 were 27.0% of expenses, which is elevated for similarly rated school districts. Near-term growth in pension contributions will be a challenge, but the district benefits from revenue growth from increasing enrollment and tax base growth.

Management and Governance

Oregon Trail School District’s management is strong as evidenced by its prudent budgetary management which has led to increased reserves and liquidity as well as long-term capital planning.
Oregon School Districts have an Institutional Framework score of A, which is moderate compared to the nation. Institutional Framework scores measure a sector’s legal ability to increase revenues and decrease expenditures. Property tax, a sizable revenue source, is subject to a cap which can be overridden with voter approval only. However, the cap of 3% for most properties still allows for moderate revenue-raising ability. Unpredictable revenue fluctuations tend to be minor, or under 5% annually. Across the sector, fixed and mandated costs are generally greater than 25% of expenditures. Oregon has public sector unions, which can limit the ability to cut expenditures. Unpredictable expenditure fluctuations tend to be minor, under 5% annually.

**Legal Security**
The current offering is secured by the district’s full faith, credit and unlimited property tax pledge. Debt service for GOULT bonds in Oregon is funded by a separate property tax levy that is dedicated to bondholders and secured through statute, a beneficial credit strength for bond holders.

The state pledges its full faith, credit and taxing power under the Oregon School Bond Guaranty Program to guarantee debt service when due for qualified school district’s GOULT bonds.

**Use of Proceeds**
Bond proceeds will be used to advance refund portions of the district’s outstanding Series 2009 bonds for an anticipated net present savings of approximately 9.6%.

**Obligor Profile**
The District is located within the Portland MSA and covers 424 square miles including the City of Sandy as well as the unincorporated communities of Welches, Boring and Government Camp. The district has an enrollment of approximately 4,422 students and operates one high school, three middle schools, five elementary schools and one K-12 charter school.

**Methodology**
The principal methodology used in the underlying rating was US Local Government General Obligation Debt published in December 2016. The principal methodology used in the enhanced rating was Rating Transactions Based on the Credit Substitution Approach: Letter of Credit-backed, Insured and Guaranteed Debts published in December 2015. Please see the Rating Methodologies page on www.moodys.com for a copy of these methodologies.

**Ratings**

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<tr>
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<th>Sale Amount</th>
<th>Expected Sale Date</th>
<th>Rating Description</th>
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<td>Underlying LT</td>
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*Source: Moody’s Investors Service*
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