

RatingsDirect®

Summary:

Salem, Oregon; General Obligation

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Credit Profile

Salem GO bnds ser 2009 dtd 06/01/2009 due 12/01/2009 2010 06/01/2010-2024

<i>Long Term Rating</i>	AA/Stable	Affirmed
Salem GO		
<i>Long Term Rating</i>	AA/Stable	Affirmed

Rationale

S&P Global Ratings affirmed its 'AA' long-term rating on Salem, Ore's. 2009 general obligation (GO) and full faith and credit bonds. The outlook is stable.

Installment payments under a loan agreement between an escrow agent and the city secure the full faith and credit obligations. We understand that Salem's obligation to make these payments is unconditional, and that it has pledged its full faith and credit taxing power within state constitutional limitations. Ad valorem taxes on property within the city secure the GO bonds; the city has the obligation to levy these taxes for the bonds' repayment.

The rating reflects our opinion of the city's:

- Strong economy, with access to a broad and diverse metropolitan statistical area (MSA);
- Very strong management, with strong financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Adequate budgetary performance, with operating results that we expect could deteriorate in the near term relative to fiscal 2015, which closed with an operating surplus in the general fund and a slight operating surplus at the total governmental fund level;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2015 of 25% of operating expenditures;
- Very strong liquidity, with total government available cash at 113.2% of total governmental fund expenditures and 9.1x governmental debt service, and access to external liquidity we consider strong;
- Adequate debt and contingent liability position, with debt service carrying charges at 12.4% of expenditures and net direct debt that is 131.7% of total governmental fund revenue, as well as rapid amortization, with 90.1% of debt scheduled to be retired in 10 years; and
- Strong institutional framework score.

Strong economy

We consider Salem's economy strong. The city, with an estimated population of 160,519, is located in Marion and Polk counties in the Salem, Ore. MSA, which we consider to be broad and diverse. The city has a projected per capita effective buying income of 74.3% of the national level and per capita market value of \$104,945. Overall, the city's market value grew by 4.9% over the past year to \$16.8 billion in 2015. The weight-averaged unemployment rate of the counties was 6.0% in 2015.

Salem is the county seat for Marion County and is located 40 miles southwest of Portland alongside the Willamette River. We believe Salem's status as the state capital acts as a stabilizing influence on an otherwise weaker economy with below-median income levels. According to the city's 2015 comprehensive annual financial report (CAFR), the state's 21,000 employees accounted for roughly 28% of the city's labor force, with another 9,900 employees of other city, school, and federal government employers. Total government employment represents more than 41% of the labor force.

Very strong management

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

Management highlights include:

- A budget formation process that incorporates historical revenue and expenditure trends, as well as some independent revenue forecasts;
- An annual budget process with formal revision once per calendar year, coupled with quarterly monitoring of budget-to-actuals by the full council;
- A five-year financial forecast--updated annually--that utilizes 15 years of tax data;
- A 20-year master facilities plan with a five-year rolling capital improvement plan, updated annually as part of budget process, that identifies all known revenue sources to support potential projects in the current year;
- A formal investment policy that details permitted instruments and portfolio objectives and includes monitoring requirements with quarterly presentation to council;
- A formal debt policy that is well defined and monitored annually within the CAFR; and
- A minimum reserve and fund balance policy of 15% of general fund revenue, based on an analysis for two month of expenditures.

Adequate budgetary performance

Salem's budgetary performance is adequate in our opinion. The city had surplus operating results in the general fund of 3.2% of expenditures, and slight surplus results across all governmental funds of 0.7% in fiscal 2015. Our assessment accounts for the fact that we expect budgetary results could deteriorate somewhat from 2015 results in the near term.

We have adjusted general fund expenditures and the corresponding net transfers in 2013, 2014, and 2015 to reflect ongoing transfers out for to various special funds to support maintenance and operation. The city is currently projecting deficits for fiscal 2016 and has budgeted an additional deficit for fiscal 2017. Over the five-year forecast period, the city will have to cut expenditures or identify new revenue to offset slow growth in property tax revenue if trends continue.

Very strong budgetary flexibility

Salem's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2015 of 25% of operating expenditures, or \$23.5 million.

Although the city is budgeting for drawdowns over the next two years, we expect the city to maintain available reserves we consider very strong, given current levels. Due to the city's robust budgetary flexibility, even if the planned drawdowns occur, we still expect our assessment of the city's budgetary flexibility to remain very strong.

Very strong liquidity

In our opinion, Salem's liquidity is very strong, with total government available cash at 113.2% of total governmental fund expenditures and 9.1x governmental debt service in 2015. In our view, the city has strong access to external liquidity if necessary.

Based on the issuance of GO and utility revenue bonds during the past 20 years, we believe that the city has strong access to capital markets to provide for liquidity needs if necessary. We believe the city's investment policy restricts its ability to maintain an aggressive investment portfolio, and we have not identified any contingent risks that would jeopardize the city's liquidity. Given the city's robust liquidity position, even if the planned drawdowns occur, we still expect our assessment of the city's liquidity to remain very strong.

Adequate debt and contingent liability profile

In our view, Salem's debt and contingent liability profile is adequate. Total governmental fund debt service is 12.4% of total governmental fund expenditures, and net direct debt is 131.7% of total governmental fund revenue.

Approximately 90.1% of the direct debt is scheduled to be repaid within 10 years, which is in our view a positive credit factor.

According to management, the city has no authorized but unissued bonds outstanding, nor does it anticipate issuing additional long-term bonds within the next 12 months.

The district has privately placed 2015A and 2015B refunding full faith and credit bonds issued in the original amount of \$649,000 and \$5,481,000 outstanding, with a final maturity of June 1, 2018. Based on our review of the bond documents, which do not contain acceleration provisions and do not include a most-favored-nation clause, we believe this debt is manageable at the current rating level.

Salem's combined required pension and actual other postemployment benefits (OPEB) contributions totaled 6.2% of total governmental fund expenditures in 2015. Of that amount, 5.7% represented required contributions to pension obligations, and 0.5% represented OPEB payments. The city made 103% of its annual required pension contribution in 2015.

The city participates in defined-benefit pension plans managed by the Oregon Public Employees Retirement System. Using updated reporting standards in accordance with Governmental Accounting Standard Board (GASB) Statement No. 67 and 68, as of June 30, 2015, the city reported a net pension asset of \$23.3 million. However, according to management, when the next valuation incorporates the effects of a recent state supreme court decision regarding the treatment of cost-of-living-adjustments for projected future benefits, the city's pension valuation will likely return to a net liability.

Strong institutional framework

The institutional framework score for Oregon municipalities is strong.

Outlook

The stable outlook reflects our opinion of the city's stable economy supported by the city's status as the state capital,

as well as our expectation that financial flexibility will not deteriorate substantially within the next two years. We do not anticipate changing the rating during the two-year outlook period.

Upside scenario

We could raise the rating if the city experiences a significant increase in income and wealth metrics to levels comparable with those of peers and if the city implements changes to address outyear deficits.

Downside scenario

We could lower the rating if the city's financial performance and budgetary flexibility significantly deteriorate to levels we consider weak.

Related Criteria And Research

Related Criteria

- USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013
- USPF Criteria: Financial Management Assessment, June 27, 2006
- USPF Criteria: Debt Statement Analysis, Aug. 22, 2006
- USPF Criteria: Limited-Tax GO Debt, Jan. 10, 2002
- USPF Criteria: Assigning Issue Credit Ratings Of Operating Entities, May 20, 2015
- Criteria: Use of CreditWatch And Outlooks, Sept. 14, 2009

Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Alternative Financing: Disclosure Is Critical To Credit Analysis In Public Finance, Feb. 18, 2014
- Incorporating GASB 67 And 68: Evaluating Pension/OPEB Obligations Under Standard & Poor's U.S. Local Government GO Criteria, Sept. 2, 2015
- 2015 Update Of Institutional Framework For U.S. Local Governments

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com. All ratings affected by this rating action can be found on the S&P Global Ratings public website at www.standardandpoors.com. Use the Ratings search box located in the left column.

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