



CITY OF PORTLAND
OFFICE OF MANAGEMENT AND FINANCE

Eric H. Johansen, Debt Manager
1120 S.W. Fifth Avenue, Rm. 1250
Portland, Oregon 97204
(503) 823-4222
Eric.johansen@portlandoregon.gov

Ted Wheeler, Mayor
Tom Rinehart, Chief Administrative Officer

MEMORANDUM

TO: Mayor Ted Wheeler
Councilor Chloe Eudaly
Councilor Nick Fish
Councilor Amanda Fritz
Council Dan Saltzman
Auditor Mary Hull Caballero

FROM: Eric Johansen, Debt Manager
Ken Rust, Director, Bureau of Revenue and Financial Services

COPIES: Tom Rinehart, Chief Administrative Officer

DATE: February 16, 2017

SUBJECT: Change in City Limited Tax Bond Ratings

On February 15, 2017, Moody's Investors Service raised the rating on approximately \$471 million of the City's outstanding limited tax bonds to Aaa from Aa1. Aaa is the highest possible rating under Moody's rating scale. The City's outstanding unlimited tax general obligation bonds and first lien water revenue bonds are currently rated Aaa.

In December 2016, Moody's revised its Rating Methodology for local government general obligation debt. In its revised methodology, Moody's recognized that certain limited tax obligations that include a "full faith and credit" or other broad revenue pledge, have no practical distinction from an unlimited tax pledge, and therefore the ratings of the two credits need not be different.

The rating increase is expected to have three benefits to the City and its bondholders:

1. Lower borrowing costs on future fixed rate bonds secured by the City's limited tax and full faith and credit. Based on current interest rates and credit spreads, this reduction in borrowing costs is likely to be in the range of 10-20 basis points (0.10% to 0.20%).
2. Lower borrowing costs on approximately \$67.5 million of outstanding pension obligation bonds whose variable interest rate formula is based on the rating of the bonds. Based on current market rates, this reduction in interest costs is about 16 basis points (0.16%) per year.
3. An increase in the secondary market value of limited tax bonds held by the City's bondholders.

With the change in the rating of the City's limited tax bonds, approximately \$1.04 billion, or 32.2%, of the City's total outstanding debt, is currently rated Aaa by Moody's.

If you have any questions about the rating upgrade, please feel free to call.

An Equal Opportunity Employer

To help ensure equal access to programs, services and activities, the Office of Management & Finance will reasonably modify policies/procedures and provide auxiliary aids/services to persons with disabilities upon request.