



# City of Independence

Work Session Agenda

City Council

Tuesday, June 9, 2026 @ 5:30 PM

Civic Center - Council Chambers

(see agenda footer for meeting attendance information)

1. Call to Order
2. Roll Call
3. Reports/Presentations
  - 3.1. Finance and Bond Review (Carey)
4. Adjournment

### Meeting Attendance Information:

The City Council will hold this work session in-person in City Hall Council Chambers, via video conference (Zoom) or by phone. Meetings are also live-streamed on the City's YouTube channel at: <https://www.youtube.com/c/CityofIndependenceOR>.

- To attend in person, the City Hall address is 555 S. Main St.
- For Zoom login  
visit: <https://us06web.zoom.us/j/85343318162?pwd=TKjDGaJaYC8dsXqiaacmhvbZNYcr1s.1>
- To participate in the meeting **by phone**, dial **US: +1-253-215-8782** and enter **Webinar ID: 853 4331 8162** and **Passcode: 147884**

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## **Executive summary**

Across the full 2010 – 2020 period, S&P’s view is consistent: Independence’s financial stress was caused by structural obligations and fund interdependencies and the combined effect of both on General Fund reserves, liquidity, transparency, and debt burden.

The positive shift in 2026 is that S&P finally describes management as actively correcting the historical structure: eliminating masked interfund dependencies, reducing fixed costs, improving transparency, using outside technical assistance, creating a fiscal recovery plan, and developing long-term forecasting tools.

## **Date-order review**

### **2010 — Early warning signs: MINET, transfers, low cash**

S&P assigned/affirmed an A-/Stable rating. Positives were proximity to Salem, steady assessed value growth, and a history of good unreserved balances. But the concerns were already clear: limited revenue flexibility, reliance on a large interfund transfer in FY2009 to maintain fund balance, expected reliance on MINET’s future growth to pay debt service, high debt, and low cash.

The city had used about \$1.1 million of transfers, including \$650,000 from transportation SDCs, to support the General Fund/city hall project, then repaid the \$650,000 in FY2010, driving the General Fund balance negative.

**Condition:** stable rating, but fragile cash and early structural dependence on transfers and MINET assumptions.

### **2012 — Outlook turns negative due to structural imbalance**

S&P revised the outlook to Negative while affirming A-. The reason was direct: a structural imbalance had reduced General Fund reserves to low levels, with risk of further decline.

The main cause shifted from the 2010 interfund-transfer issue to the Urban Renewal District. URD tax receipts were insufficient to pay urban renewal debt service, so the city transferred about \$622,400 to the URD and expected to do so again. Management responded with major spending cuts, including workforce reductions of more than 20%.

**Condition:** reserves depleted, negative outlook, major staff reductions, URD debt burden emerging as the primary stressor.

### **2013 — Low cash, URD burden, refunding used to relieve General Fund**

S&P assigned/affirmed A-/Negative. The city had passed a GO bond election to refund existing obligations and generate savings. S&P noted that the refunding was expected to save about \$356,600 annually, or roughly 8.3% of FY2014 General Fund expenditures.

The General Fund reserve had fallen to about **\$7,000**, or 0.2% of expenditures, due mainly to the city's support of URD debt service after weak URD property tax receipts.

**Condition:** still very weak reserves, but debt restructuring underway.

#### **2014 — Outlook returns to stable after refunding relief**

S&P revised the outlook from negative to Stable and affirmed A-. The reason was the successful GO refunding, which relieved pressure on the General Fund and restored cash balances to "good" levels.

Still, S&P rated the economy very weak, total governmental performance very weak, and debt/contingent liabilities very weak. The General Fund improved, but total governmental funds still showed a large deficit tied to URD underperformance.

**Condition:** short-term stabilization, but structural URD and debt problems remained.

#### **2015 — Stronger reserves, but Debt remains a drag**

S&P assigned/affirmed A-/Stable. General Fund reserves improved significantly to about \$1.25 million, or 28.6% of expenditures.

However, the report again identified debt as a major historic cause of drawdowns. The city had paid about \$819,000 from the General Fund in FY2012 for MINET-related debt service, declining to about \$432,000 in FY2014.

**Condition:** reserves much improved, but debt exposure remained major weaknesses.

#### **March 2016 — Adequate performance, but low adjusted reserves**

S&P assigned/affirmed A-/Stable. The report rated management adequate, liquidity very strong, but debt very weak. General Fund operations had a deficit, though total governmental funds showed a surplus.

A key issue was that the city began using GAAP accounting, and S&P adjusted out about \$704,000 in General Fund balance due from Urban Renewal because the UR fund had been negative since FY2010.

**Condition:** good liquidity, but adjusted reserves were thin and dependent on repayment from Urban Renewal.

### **July 2016 — Same themes, with water fund support for MINET clarified**

S&P again assigned/affirmed A-/Stable. The report repeated that the city's water fund had supported MINET debt service. Water Fund payments declined from about \$697,657 in FY2012 to about \$554,810 in FY2016, but debt remained a burden.

S&P again viewed adjusted reserves as vulnerable and debt as very weak.

**Condition:** stable rating, but still structurally dependent on enterprise funds and exposed to URD receivables.

### **2017 — Most pointed criticism: interfund complexity and transparency risk**

S&P affirmed/assigned A-/Stable, but this report is the clearest critique.

S&P rated:

- Budgetary performance: weak
- Budgetary flexibility: very weak
- Debt and contingent liabilities: very weak
- Management: adequate, but with above-average management risks

The key issue---S&P said the city's interfund relationships were highly complex, reducing transparency and increasing the risk of errors if management or council turned over.

S&P specifically focused on:

1. MINET, which was supposed to be self-supporting but had not generated enough revenue to pay the city's related debt.
2. Utility transfers into the General Fund, which were large and recurring.
3. Urban Renewal overdrafts, which reduced the city's adjusted General Fund reserve position.

The General Fund's adjusted available balance was only about 0.3% of expenditures, or roughly **\$20,000**.

**Condition:** rating stable, but the underlying message was that the city's financial structure was unusually difficult to understand and manage.

### **2020 — Upgrade to A, but structural risks remain**

S&P upgraded the city to A/Stable. The upgrade reflected improved operating performance and reserves, especially reduced General Fund allocation to URA pooled cash overdrafts.

But the 2020 report repeats the 2017 warning about above-average management risks from complex interfund relationships. MINET was still not fully self-supporting as expected, and S&P still questioned the large utility transfers supporting General Fund operations.

S&P also warned that COVID-related recessionary pressure could slow economic development and further pressure URA and MINET recovery.

**Condition:** stronger rating due to improved reserves and operations, but underlying structural issues were not solved.

### **2026 — A rating affirmed, outlook negative, but management tone improves sharply**

S&P affirmed A but revised the outlook to Negative due to diminished reserves that could weaken further during the transition after major structural adjustments.

#### **The weaknesses were:**

- Limited/rural economy
- Nominally low adjusted reserves
- General Fund exposure to URA receivables
- Historically stagnant revenues
- Risk of not following through with implementation of the 2025 fiscal recovery plan
- Legacy/Historic debt burden and contingent liability risk from certain obligations

#### **But the positive shift is significant. S&P credits the new management team with:**

- Disentangling interfund dependencies
- Reducing fixed costs
- Cutting budgets to minimal staffing levels
- Improving transparency
- Working with HUD technical assistance and outside consultants
- Creating a fiscal recovery plan
- Establishing a forecasting model
- Improving budgetary practices
- Developing long-term capital and financial plans

Also, MINET is now self-supporting as of FY2023 and begins repaying the existing loan receivable.

**Condition:** outlook negative because recovery is incomplete, but management assessment is materially more favorable than in prior reports.

### **Final conclusion**

From 2010 to 2020, S&P repeatedly identified the same underlying weaknesses: reliance on transfers, MINET underperformance, URD deficits, low adjusted reserves, high debt, and complex interfund relationships.

By 2026, those weaknesses still affect the city's financial condition, but S&P's tone changes. The report does not read as an indictment of current management. But rather, it reads as a turnaround report: management has identified and begun correcting the legacy structure, but reserves remain thin and S&P wants evidence that the 2025 recovery plan will be implemented to restore sustainable liquidity.

### Summary:

# Independence, Oregon; General Obligation

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### Table Of Contents

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Rationale

Outlook

Related Criteria And Research

## Summary:

# Independence, Oregon; General Obligation

### Credit Profile

US\$7.535 mil Full Faith And Credit bnds ser 2010

*Long Term Rating* A-/Stable New

Independence GO (AGM)

*Unenhanced Rating* A-(SPUR)/Stable Affirmed

Many issues are enhanced by bond insurance.

## Rationale

Standard & Poor's Ratings Services assigned its 'A-' rating to Independence, Ore.'s series 2010 full faith and credit obligations. In addition, Standard & Poor's affirmed its 'A-' underlying (SPUR) rating on the city's outstanding full faith and credit obligations. The outlook is stable.

The ratings reflect our opinion of the city's:

- Proximity to the state capital, Salem, with participation in the Salem metropolitan statistical area (MSA);
- Steady assessed value (AV) growth; and
- Record of maintaining good unreserved fund balances.

Constraining credit factors in our view include the city's:

- Limited revenue flexibility, including constitutional restrictions on property taxes;
- Reliance on an interfund transfer in fiscal 2009 to maintain good fund balances and an estimated negative fund balance in fiscal 2010 to repay that transfer;
- Expected reliance on Monmouth-Independence Network's (MINET) nascent operations, with assumed large customer growth to pay debt service on these bonds; and
- High overall net debt and low cash.

The bonds are full faith and credit obligations of the city and are secured by an ad valorem property tax pledge subject to constitutional restrictions, including a limit on AV growth at 3% per year plus new construction and a maximum levy rate by all non-school entities to \$10 per \$1,000 of market value.

We understand that bond proceeds will be used to refund Oregon Business Development Department of Public Works loans and for capital projects related to the MINET project, an intergovernmental entity formed by the cities of Monmouth and Independence to provide broadband services to users there and in the surrounding communities. We also understand that although the bonds are secured by a full faith and credit pledge of the city, there will be a pledge agreement between each city and MINET whereby MINET pledges to repay from its net revenues to each respective city its scheduled interest and principal payments.

Additional terms under the pledge agreement include:

- MINET is prohibited from pledging or granting a lien on its net revenues that is equal or superior to the lien that

## Summary: Independence, Oregon; General Obligation

it has granted to each city unless approved by the city in question.

- In the event MINET cannot meet its full debt service repayment, it must distribute available net revenues on a pro rata basis to each city until all payments are made, and will either raise rates or take actions as necessary to meet full debt service repayment.
- Any debt incurred by MINET will be obligations of MINET unless the city in question agrees to guarantee the obligations.

Estimated combined debt service for this issuance is roughly \$1.1 million annually, of which Independence accounts for about \$520,000. Historical debt service coverage (DSC) for MINET has ranged from 1x to 1.1x in fiscals 2008-2010. Management forecasts DSC to range from 1x to 1.9x in fiscals 2011-2015, reflecting assumed customer growth.

Encompassing approximately 2.8 square miles and 8,240 residents within Polk County (A+/Stable), the city is located in the Mid-Willamette River Valley, approximately 13 miles southwest of the City of Salem (AA-/Stable), the state capital, and is adjacent to the City of Monmouth to the west. We consider the city's effective buying income to be adequate on a median household basis at 82% of the national level but low on a per capita basis at 59%.

The city's employment base is primarily concentrated in manufacturing. As of June 2010, the Salem MSA unemployment rate reached 10.3%, in line with the state rate of 10.4%. Top employers in the city include Mountain Forestry Inc. (323 employees), Marquis Corp. (190), Medallion Cabinetry Inc. (141), Robert Lloyd Sheet Metal Inc. (125), and Forest River Inc. (100). In line with the current economic slowdown, total market value fell by roughly 7% in 2010 after several years of increases. However, total AV, the primary driver of property tax revenues, grew about 3.2% to \$317.8 million. City officials expect continued AV growth in the near term. The top 10 taxpayers represented, in our view, a very diverse 11.3% of AV for fiscal 2010. The city does not have a local option levy rate, but does have an urban renewal special levy associated with its urban renewal bonds.

The city's financial performance has been good, with unreserved general fund balances that we consider good to strong (in relative terms, but small on an absolute dollar basis), ranging from approximately 11% to 25% of operating expenditures, or roughly \$226,000 to \$675,000, in 2004-2008. However, in fiscals 2008 and 2009, the city experienced general fund operating deficits (net of transfers) of about \$198,010 and \$222,569, respectively, having had increased capital outlay expenditures during those years.

Based on the city's preliminary fiscal 2009 audit, ending unreserved fund balance was about \$254,131, or in our view a good 5.8% of operating expenditures. According to management, this fund balance reflects a transfer-in of roughly \$1.1 million, \$650,000 of which was from the transportation systems development charges (SDC) fund used to fund the new city hall project and the remainder from other operating funds reimbursing the general fund for overhead expenditures. The \$650,000 transfer was repaid by the general fund in fiscal 2010, resulting in a decline in fund balances for fiscal 2010.

Based on preliminary, unaudited fiscal 2010 results, city officials estimate an unreserved fund balance of negative \$36,096, or a low negative 0.9% of operating expenditures. Management had expected \$100,000 in proceeds from the sale of the old city hall building in fiscal 2010, but now expects the sale to occur in fiscal 2011. After the interfund loan repayment to the transportation SDC fund, the city expects to restore its reserves.

Excluding the asset sale, the city's fiscal 2011 budget shows an ending fund balance of roughly \$451,600, or a strong 14% of operating expenditures, including \$280,000 in debt service savings from this refunding. Management

expects the city's cash balance in the general fund to decrease to near zero for fiscal 2010, as compared with an unaudited \$465,000 in fiscal 2009. Management expects to apply most of the cash to the city hall project and to funding the debt service reserve for the city hall bonds issued for the project.

We consider the city's management practices "standard" under Standard & Poor's Financial Management Assessment (FMA) methodology. An FMA of "standard" indicates that the finance department maintains adequate policies in some but not all key areas.

Following the city's March 2010 debt issuance, combined direct and overlapping debt supported by city taxpayers stands at what we consider to be a high 10.2% of market value and a high \$6,587 per capita. Approximately 63% of the city's debt is from overlapping debt related to school districts and the county. Based on the city's preliminary audit, its carrying charges were a moderate 12% of government expenditures in fiscal 2009. Independence's estimated portion of annual debt service for this issuance is approximately \$520,000 annually beginning in fiscal 2013, of which all is expected to be funded by MINET net revenues. However, if MINET is unable to generate sufficient net revenues, then the city's debt burden may increase to even higher levels, resulting in what we believe could be significant pressure on the general fund.

### Outlook

The stable outlook reflects our expectation that the city will restore strong reserves in fiscal 2011. Although the city's general fund balances have historically been good to strong as a percentage of operating expenditures, major fluctuations on a nominal basis could quickly pressure credit quality due to the city's small budget base. If the city's audited fiscal 2009 and/or fiscal 2010 results are materially worse than management's current estimates and fiscal 2011 results do not show a return to a positive fund balance, and/or if the city is unable to meet its large debt service requirements (especially if MINET is unable to generate sufficient revenues to fully cover its debt obligations), then we could lower the ratings. We believe that the rating is constrained by the city's high debt burden, expected negative reserves in fiscal 2010, and estimated low general fund cash balance, and do not expect to raise the rating over the near term.

### Related Criteria And Research

USPF Criteria: GO Debt, Oct. 12, 2006

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## Summary:

# Independence, Oregon; General Obligation

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## Table Of Contents

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Rationale

Outlook

Related Criteria And Research

## Summary:

# Independence, Oregon; General Obligation

### Credit Profile

Independence GO (AGM)

*Unenhanced Rating*

A-(SPUR)/Negative

Affirmed

Many issues are enhanced by bond insurance.

## Rationale

Standard & Poor's Ratings Services revised its outlook to negative and affirmed its 'A-' underlying rating (SPUR) on Independence, Ore.'s existing general obligation (GO) bonds.

The negative outlook reflects our view of the city's structural imbalance resulting in declines in its general fund reserve levels to low levels coupled with the possibility of further declines during the next two fiscal years.

The ratings reflect our opinion of the city's:

- Proximity to the state capital, Salem, with participation in the Salem metropolitan statistical area (MSA); and
- Steady assessed value (AV) growth.

Constraining credit factors in our view include the city's:

- Drop in reserves down to low levels during the past two fiscal years; and
- High overall net debt and low cash levels in the city's general fund, although total cash government-wide is sufficient.

All of the city's full faith and credit bonds are full faith and credit obligations of the city and are secured by an ad valorem property tax pledge subject to constitutional restrictions, including a limit on AV growth at 3% per year plus new construction and a maximum levy rate by all non-school entities to \$10 per \$1,000 of market value. The city also issued its 2010 full faith and credit bonds for the Monmouth-Independence Network (MINET) project, which is an intergovernmental entity formed by the cities of Monmouth and Independence to provide broadband services to users there and in the surrounding communities. We understand that although these bonds are secured by a full faith and credit pledge of the city, there will be a pledge agreement between each city and MINET whereby MINET pledges to repay from its net revenues to each respective city its scheduled interest and principal payments. We note that to date, the revenues from the MINET project have been meeting its current obligations and the city expects MINET to continue to do so.

Encompassing approximately 2.8 square miles and 8,240 residents within Polk County (A+/Stable), the city is located in the Mid-Willamette River Valley, approximately 13 miles southwest of the City of Salem (AA-/Stable), the state capital, and is adjacent to the City of Monmouth to the west. We consider the city's effective buying income to be adequate on a median household basis at 85% of the national level but low on a per capita basis at 64%. The city's employment base is primarily concentrated in manufacturing. Top employers in the city include:

- Mountain Forestry Inc. (323 employees);
- Marquis Corp. (190);
- Medallion Cabinetry Inc. (141);
- Robert Lloyd Sheet Metal Inc. (125); and
- Forest River Inc. (100).

In line with the current economic slowdown, total market value fell by roughly 7% in 2010 although the city's assessed value (AV), which determines the amount of property tax revenues the city receives, increased by roughly 5.5% and 2.4% in fiscal 2011 and fiscal 2012, respectively. The city's AV per capita ended at strong levels in our view at roughly \$55,700. We understand city officials expect continued AV growth in the near term. The top 10 taxpayers represented, in our view, a very diverse 10.4% of AV for fiscal 2012. The city does not have a local option levy rate, but does have an urban renewal special levy associated with its urban renewal bonds.

The city's fund balance levels have declined in recent years to low levels in our view, primarily due the city's decision to fund a portion of the Independence Urban Renewal District's outstanding urban renewal bonds. Based on the city's 2011 audit, its general fund reserve levels ended at roughly \$887,000, although we understand this amount falls to only \$108,525 or 2.1% of general fund expenditures, at the end of fiscal 2012. Management indicates this decline in reserves in fiscal 2012 occurred due to an unanticipated lackluster growth in the Urban Renewal District's property tax receipts during the past two years. We understand the Urban Renewal District's property tax receipts alone were not sufficient to pay for debt service on the urban renewal bonds. As a result, the city decided to pay a portion of the district's debt service requirements on its urban renewal bonds. Based on the city's estimated actuals for fiscal 2012, the city transferred roughly \$622,400 to the Urban Renewal District and will likely do so again for fiscal 2013. City management indicates they have also cut back on city spending in light of the unforeseen expenses related to the Urban Renewal District. These spending cuts primarily include staffing reductions, resulting in a reduction of its workforce by more than 20% as well as the use of some of the city's general fund reserves.

For fiscal 2013, management indicates the budget includes additional staffing reductions, primarily in the administration and finance department which provided enough spending cuts to balance the budget. Additionally, we understand the budget conservatively assumes a 2.5% cost of living adjustment (COLA) for most staff, although management indicates this will likely result in a 0% COLA, which would result in a higher reserve balance in the general fund. Overall, management has budgeted for a general fund ending reserve of \$240,000 or 4.9% of general fund expenditures, which we consider good. Furthermore, we understand the city maintains enough liquidity across all funds in order to maintain operations without having to borrow short-term liquidity from outside sources. Based on the fiscal 2011 audit, the city reported roughly \$2.2 million in cash across all government funds.

We consider the city's management practices "standard" under Standard & Poor's financial management assessment (FMA) methodology. An FMA of "standard" indicates that the finance department maintains adequate policies in some but not all key areas.

The city's combined direct and overlapping debt supported by city taxpayers stands at what we consider to be a high 12.9% of market value and a high \$7,165 per capita. Approximately 63% of the city's debt is from overlapping debt related to school districts and the county. Based on the city's 2011 audit, its carrying charges were a high 16% of government expenditures, which does not include the debt service on the MINET bonds since we consider these

bonds to be self-supporting. The city also participates in the Oregon Public Employees Retirement System (OPERS) to fund its pension obligations. In fiscal 2011, the city contributed roughly \$324,358 which equaled 100% of the required contribution for that year.

## **Outlook**

The negative outlook reflects our view of the city's declining reserve balances and reflects the possibility that its reserve levels could fall even further below adequate levels should city's costs rise faster than its major revenue streams. Should reserve levels fall below adequate levels during the next fiscal year, then the rating could be lowered. However, if the city restores its general fund reserves to good levels and if the tax base grows sufficiently enough for the urban renewal district to fully pay debt service on the urban renewal bonds without city support, we could revise the outlook to stable.

## **Related Criteria And Research**

USPF Criteria: GO Debt, Oct. 12, 2006

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## Summary:

# Independence, Oregon; General Obligation

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## Table Of Contents

---

Rationale

Outlook

Related Criteria And Research

## Summary:

# Independence, Oregon; General Obligation

### Credit Profile

Independence GO (AGM)

*Unenhanced Rating*

A-(SPUR)/Negative

Affirmed

Many issues are enhanced by bond insurance.

## Rationale

Standard & Poor's Ratings Services affirmed its 'A-' underlying rating (SPUR) on Independence, Ore.'s existing general obligation (GO) bonds. The outlook is negative.

The negative outlook reflects our view of the city's structural imbalance resulting in declines in its general fund reserves to low levels, coupled with the possibility of further declines during the next two fiscal years absent an issuance of additional GO bonds which would refund existing appropriation debt.

The rating reflects our opinion of the city's:

- Proximity to the state capital, Salem, with participation in the Salem metropolitan statistical area (MSA); and
- Steady assessed value (AV) growth.

Constraining credit factors in our view include the city's:

- Drop in reserves down to low levels during the past two fiscal years; and
- Very high overall net debt and low cash levels in the city's general fund, although total cash governmentwide is sufficient.

All of the city's full faith and credit bonds are full faith and credit obligations of the city and are secured by an ad valorem property tax pledge subject to constitutional restrictions, including a limit on AV growth at 3% per year plus new construction and a maximum levy rate by all nonschool entities to \$10 per \$1,000 of market value.

The city's fund balances have declined in recent years to low levels, in our view, primarily due the city's decision to fund a portion of the Independence Urban Renewal District's (URD) outstanding urban renewal bonds. Based on the city's 2011 audit, its general fund reserves ended at roughly \$887,000, although we understand this amount falls to only \$7,000 or 0.2% of general fund expenditures based on the fiscal 2012 audit. Management indicates this decline in reserves in fiscal 2012 occurred due to an unanticipated lackluster growth in the URD's property tax receipts during the past two years. We understand the URD's property tax receipts alone were not sufficient to pay for debt service on the urban renewal bonds. As a result, the city decided to pay a portion of the district's debt service requirements on its urban renewal bonds. City management indicates they have also cut back on city spending in light of the unforeseen expenses related to the URD and in light of the substantial declines in reserves. These spending cuts primarily include staffing reductions, resulting in a reduction of its workforce by more than 20% as well as the use of some of the city's general fund reserves.

## Summary: Independence, Oregon; General Obligation

For fiscal 2013, management indicates the budget includes additional staffing reductions, primarily in the administration and finance department, which provided enough spending cuts to balance the budget. Additionally, we understand the budget conservatively assumes a 2.5% cost of living adjustment (COLA) for most staff, although management indicates this will likely result in a 0% COLA, which would result in a higher reserve balance in the general fund. Overall, management has budgeted for a general fund cash balance of \$240,000 or 4.9% of general fund expenditures for fiscal 2013, although we note the end balance may be lower on a cash accrual basis. Additionally, management indicates they intend to go to ask resident voters to approve of an issuance of GO bonds in May 2013, which would refinance some of the city's outstanding general fund-backed appropriate debt. We understand this would save the county roughly \$300,000 annually or roughly 7.2% of general fund expenditures and would only require a simple majority vote. However, management indicates should this election fail, the county would look into implementing significant staffing reductions, which would cut roughly \$1.4 million in spending from the general fund. Additionally, management notes these additional spending cuts would not require approval from its bargaining units.

We understand Independence maintains enough liquidity across all funds to maintain operations without having to borrow short-term liquidity from outside sources. Based on the fiscal 2012 audit, the city reported roughly \$1.2 million in cash across all government funds or roughly 52.5% of general fund expenditures.

The city encompasses roughly 2.8 square miles in Polk County with an estimated population of roughly 8,957. It is in the Mid-Willamette River Valley, approximately 13 miles southwest of the city of Salem, and is adjacent to the city of Monmouth to the west. We consider the city's effective buying income adequate on a median household basis at 85% of the national level, but low on a per-capita basis at 64%. In line with the current economic slowdown, the city's market value (MV) has continued to decline in each year since fiscal 2009. Most recently, the city's MV fell by 2%, ending with a MV of roughly \$498.9 million or a MV per capita of roughly \$55,700. The city's taxable value, however, has increased in fiscal 2012 by 2.4%. The top 10 taxpayers represented, in our view, a very diverse 10.4% of AV for fiscal 2012. The city does not have a local option levy rate, but does have an urban renewal special levy associated with its urban renewal bonds.

We consider the city's management practices "standard" under Standard & Poor's financial management assessment methodology, indicating the finance department maintains adequate policies in some, but not all, key areas.

Independence's combined direct and overlapping debt supported by city taxpayers stands at what we consider a high 12.8% of market value and a high \$7,156 per capita. Approximately 63% of the city's debt is from overlapping debt related to school districts and the county. Based on the city's 2012 audit, its carrying charges were a high 32.9% of government expenditures, which does not include the debt service on the Monmouth-Independence Network (MINET) bonds since we consider them self-supporting. The city also participates in the Oregon Public Employees' Retirement System to fund its pension obligations. In fiscal 2012, the city contributed roughly \$351,647, which equaled 100% of the required contribution for that year or approximately 4.9% of noncapital government expenditures.

The city also issued its 2010 full faith and credit bonds for the MINET project, an intergovernmental entity formed by the cities of Monmouth and Independence to provide broadband services to users there and in the surrounding communities. We understand that, although these bonds are secured by a full faith and credit pledge of the city, there will be a pledge agreement between each city and MINET whereby MINET pledges to repay from its net revenues to

each respective city its scheduled interest and principal payments. We note that to date, the revenues from the MINET project have been meeting its current obligations and the city expects MINET to continue to do so.

## **Outlook**

The negative outlook reflects our view of the city's declining reserves and the possibility that they could fall even further over the next year below adequate levels should city's costs rise faster than its major revenue streams. Should the city fail to reduce its general fund expenditures over the next year either through a failure to issue refunding GO bonds or reduced staffing resulting in inadequate general fund reserves, then we could lower the rating. However, if the city restores its general fund reserves to good levels and if the tax base grows sufficiently enough for the URD to fully pay debt service on the urban renewal bonds without city support, we could revise the outlook to stable.

## **Related Criteria And Research**

USPF Criteria: GO Debt, Oct. 12, 2006

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## Summary:

# Independence, Oregon; General Obligation

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## Table Of Contents

---

Rationale

Outlook

Related Criteria And Research

## Summary:

# Independence, Oregon; General Obligation

### Credit Profile

US\$5.7 mil GO bonds ser 2013 due 06/01/2033

*Long Term Rating* A-/Negative New

Independence GO (AGM)

*Unenhanced Rating* A-(SPUR)/Negative Affirmed

Many issues are enhanced by bond insurance.

## Rationale

Standard & Poor's Ratings Services assigned its 'A-' long-term rating to Independence, Ore.'s series 2013 general obligation (GO) bonds. At the same time, Standard & Poor's affirmed its 'A-' underlying rating (SPUR) on the city's existing limited tax GO bonds. The outlook is negative.

The negative outlook reflects our view of the city's structural imbalance, resulting in declines in its general fund reserves, bringing them to low levels, coupled with the possibility of further declines during the next two fiscal years. We understand the city recently passed a GO bond election, which allowed the city to issue the series 2013 bonds and will be used to refund some of its outstanding general fund obligations and provide savings. Although the city projects that its cash balances will increase during the next two years, its current general fund balance remains low on a cash basis.

The rating reflects our opinion of the city's:

- Proximity to the state capital, Salem, with participation in the Salem metropolitan statistical area (MSA); and
- Recovering regional economy, with growth in both population levels and housing demand, according to management.

Constraining credit factors in our view include the city's:

- Drop in cash balances in the general fund to low levels during the past two fiscal years, although total cash governmentwide is sufficient; and
- Very high overall net debt.

The 2013 GO bonds are full faith and credit obligations of the city and are secured by a pledge of ad valorem property tax on all taxable property within the city without limitation as to rate or amount. The limited obligation bonds are full faith and credit obligations of the city and are secured by an ad valorem property tax pledge subject to constitutional restrictions, including a 3% annual limit on assessed value (AV) growth plus new construction and a maximum levy rate by all nonschool entities to \$10 per \$1,000 of market value.

In 2013 city voters passed a GO bond election and on June 25, 2013, the city council authorized the city to issue GO bonds to refund some of its existing general fund obligations. The series 2013 GO bonds will refund the city's

outstanding series 2007 urban renewal bonds as well as other obligations, including the city's outstanding water revenue bonds. Management projects that this refinancing will save the general fund roughly \$356,600 annually or roughly 8.3% of general fund expenditures in fiscal 2014.

In recent years, the city's fund balances have declined to low levels in our view, primarily due the city's decision to fund a portion of the Independence Urban Renewal District's (URD) outstanding urban renewal bonds. Based on the city's 2011 audit, its general fund reserves ended at roughly \$887,000, although we understand this amount fell to only \$7,000 or 0.2% of general fund expenditures based on the fiscal 2012 audit. Management indicates the fiscal 2012 decline in reserves occurred due to unanticipated lackluster growth in the URD's property tax receipts during the past two years. We understand the URD's property tax receipts alone were not sufficient to pay for debt service on the urban renewal bonds. As a result, the city decided to pay a portion of the URD's debt service requirements on its urban renewal bonds. City management indicates they have also cut back on city spending in light of the unforeseen expenses related to the URD and due to the substantial declines in the city's cash reserves. The spending cuts primarily included staffing reductions, resulting in a more than 20% reduction of its workforce.

For fiscal 2013, management has again cut spending significantly, which includes additional staffing reductions, primarily in the administration and finance department. Management estimates the general fund will end fiscal 2013 with slightly higher cash balances at roughly \$133,814 or approximately 3.1% of general fund expenditures. As a result of the recent bond election, management plans to hold off on implementing additional spending cuts and held firm on its expenses, with no increase in personnel, benefits, or salaries in fiscal 2014. Overall, the fiscal 2014 budget reflects no growth in both property tax and sales tax revenues with general fund cash balances reaching roughly \$500,000, according to management. Furthermore, management indicates it has a target goal of maintaining cash reserves at roughly 20% of expenditures at a minimum, although this goal may require a few years to achieve.

We understand Independence maintains enough liquidity across all funds to maintain operations without having to use short-term liquidity from outside sources. Based on the fiscal 2012 audit, the city reported roughly \$1.2 million in cash across all government funds or roughly 52.5% of general fund expenditures.

The city encompasses roughly 2.8 square miles in Polk County with an estimated population of roughly 8,585. It is in the mid-Willamette River Valley, approximately 13 miles southwest of Salem, and is adjacent to Monmouth to the west. We consider the city's effective buying income adequate on a median household basis at 85% of the national level, but low on a per-capita basis at 64%. In line with the current economic slowdown, the city's market value (MV) has declined annually since fiscal 2009. Most recently, the city's MV fell by 8.8% in fiscal 2013, ending with a MV of roughly \$455.2 million or a MV per capita of roughly \$53,000. The city's taxable value, however, increased 1% in fiscal 2013. The top 10 taxpayers represented, in our view, a very diverse 12.6% of AV for fiscal 2013. The city does not have a local option levy rate, but does have an urban renewal special levy associated with its urban renewal bonds.

We consider the city's management practices "standard" under Standard & Poor's financial management assessment methodology, indicating the finance department maintains adequate policies in some, but not all, key areas.

Independence's combined direct and overlapping debt supported by city taxpayers stands at what we consider a high 13.8% of market value and a high \$7,300 per capita. Approximately 49.8% of the city's debt is from overlapping debt

related to school districts and the county. Based on the city's 2012 audit, its carrying charges were a high 32.9% of government expenditures, which does not include the debt service on the Monmouth-Independence Network (MINET) bonds since we consider them self-supporting. The city also participates in the Oregon Public Employees' Retirement System to fund its pension obligations. In fiscal 2012, the city contributed roughly \$351,647, which equaled 100% of the required contribution for that year or approximately 4.9% of noncapital government expenditures.

The city also issued its 2010 full faith and credit bonds for the MINET project, an intergovernmental entity formed by the cities of Monmouth and Independence to provide broadband services to users there and in the surrounding communities. We understand that, although these bonds are secured by a full faith and credit pledge of the city, there will be a pledge agreement between each city and MINET whereby MINET pledges to repay from its net revenues to each respective city its scheduled interest and principal payments. We note that the city loaned MINET roughly \$364,286 in fiscal 2013. For fiscal 2014, management has budgeted to loan MINET \$336,000.

### Outlook

The negative outlook reflects our view of the city's decreased reserves and the possibility that continued pressures may prevent the city from being able to restore its financial position. The city's plans to issue the series 2013 GO refunding bonds will be used to alleviate some of the downward pressure on the district's general fund cash reserves. If the city restores its general fund cash balances to good levels consistently during the next two years, we could revise the outlook to stable. However, if the city's general fund cash reserve levels fall to inadequate levels during the next two years, we could lower the rating.

### Related Criteria And Research

USPF Criteria: GO Debt, Oct. 12, 2006

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## Summary:

# Independence, Oregon; General Obligation

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## Table Of Contents

---

Rationale

Outlook

Related Criteria And Research

## Summary:

# Independence, Oregon; General Obligation

### Credit Profile

Independence GO (AGM)

*Unenhanced Rating*

A-(SPUR)/Stable

Outlook Revised

Many issues are enhanced by bond insurance.

## Rationale

Standard & Poor's Ratings Services revised its outlook to stable from negative and affirmed its 'A-' underlying rating (SPUR) on Independence, Ore.'s existing general obligation (GO) bonds and full faith and credit obligations. The affirmation is based on our local GO criteria released Sept. 12, 2013. The outlook revision reflects our view of the city's successful issuance of its GO refunding bonds, which relieves pressure from the general fund, enabling the city to restore its general fund cash balance to good levels.

The series 2013 GO bonds are full faith and credit obligations of the city and are secured by a pledge of ad valorem property tax on all taxable property within the city without limitation as to rate or amount. The limited obligation bonds are full faith and credit obligations of the city and are secured by an ad valorem property tax pledge subject to constitutional restrictions, including a 3% annual limit on assessed value (AV) growth plus new construction and a maximum levy rate by all non-school entities to \$10 per \$1,000 of market value.

The rating reflects our assessment of the following factors for the city.

- Very weak economy, with its projected per capita effective buying income at only 60% of the U.S. and per capita market value of \$44,190. The city encompasses roughly 2.8 square miles in Polk County, with an estimated population of roughly 8,585. The city is in the mid-Willamette River Valley, approximately 13 miles southwest of Salem, and is adjacent to Monmouth to the west. The county's unemployment rate for calendar year 2012 was only 8.4%.
- Adequate budgetary flexibility, with general fund cash reserves reaching 11.3% of general fund expenditures in fiscal 2013 after posting a large operating surplus. We understand the city has budgeted for a slight general fund operating surplus for fiscal 2014 and no plans to significantly spend down its existing cash reserves. Audited fiscal 2013 cash reserves were \$479,000 or 11.3% of expenditures.
- Very weak overall budgetary performance, with a 10.2% general fund surplus in fiscal 2013, but a large 20.1% deficit of total governmental funds. Management indicates the large total governmental deficits are primarily due to unanticipated lackluster growth in the urban renewal district's property tax receipts during the past two years. However, the city was able to issue refunding GO bonds, which relieves some pressure on both the general fund as well as the urban renewal district fund.
- Adequate liquidity, with total government available cash at 13.2% of total governmental fund expenditures and 46.8% of debt service. We believe the city has strong access to external liquidity with its most recent issuance of GO bonds in fiscal 2014.
- Adequate management conditions with standard financial practices.
- Very weak debt and contingent liabilities profile, with total governmental fund debt service at 28.2% of total

governmental fund expenditures, and with net direct debt at 471.2% total governmental fund revenue. We note that the town's overall net debt is also very high at 16.4% of market value. The city also participates in the Oregon Public Employees' Retirement System to fund its pension obligations. In fiscal 2013, the city contributed roughly \$347,063, which equaled 100% of the required contribution for that year or approximately 4.8% of noncapital government expenditures.

- We consider the institutional framework score for Oregon cities as strong. (See Institutional Framework score for Oregon).

## Outlook

The stable outlook reflects our view of the city's successful issuance of its GO refunding bonds, which relieves pressure from the general fund and the restoration of the city's general fund cash balances back up to good levels leading to an adequate flexibility score. The outlook reflects our expectation that the city will maintain its flexibility score at adequate levels at a minimum during the next two years. However, if the performance score worsens, leading to a lower flexibility and liquidity score, then we could lower the rating. We do not expect to raise the rating during the next two years, given the city's very weak economy and debt profile.

## Related Criteria And Research

### Related Criteria

USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013

### Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Institutional Framework Overview: Oregon Local Governments

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## Summary:

# Independence, Oregon; General Obligation

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## Table Of Contents

---

Rationale

Outlook

Related Criteria And Research

## Summary:

# Independence, Oregon; General Obligation

### Credit Profile

US\$4.11 mil taxable full faith and credit rfdg obligations ser 2015 due 12/01/2031

|                         |           |     |
|-------------------------|-----------|-----|
| <i>Long Term Rating</i> | A-/Stable | New |
|-------------------------|-----------|-----|

Independence GO bnds ser 2013 dtd 07/25/2013 due 06/01/2015-2026 2028 2031 2033

|                          |                 |          |
|--------------------------|-----------------|----------|
| <i>Unenhanced Rating</i> | A-(SPUR)/Stable | Affirmed |
|--------------------------|-----------------|----------|

Independence GO (AGM)

|                          |                 |          |
|--------------------------|-----------------|----------|
| <i>Unenhanced Rating</i> | A-(SPUR)/Stable | Affirmed |
|--------------------------|-----------------|----------|

Many issues are enhanced by bond insurance.

## Rationale

Standard & Poor's Ratings Services assigned its 'A-' long-term rating to Independence, Ore.'s taxable full faith and credit refunding obligations, series 2015. At the same time, Standard & Poor's affirmed its 'A-' underlying rating (SPUR) on the city's existing general obligation (GO) bonds and full faith and credit obligations. The outlook on all ratings is stable.

The series 2015 bonds are full faith and credit obligations of the city and are secured by a pledge of ad valorem property tax on all taxable property within the city taxed within current limitations as to rate or amount.

The rating reflects our assessment of the following factors for the city.

- Very weak economy, with its projected per capita effective buying income at only 56.8% of the U.S. and per capita market value of \$53,692. The city encompasses roughly 2.8 square miles in Polk County, with an estimated population of roughly 8,605. The city is in the mid-Willamette River Valley, approximately 13 miles southwest of Salem, and is adjacent to Monmouth to the west. The county's unemployment rate for calendar year 2013 was only 7.7%.
- We believe the city's budgetary flexibility score is strong with general fund cash reserves reaching \$1.25 million or 28.6% of general fund expenditures. We note that the city has made an effort to increase its cash balances in general fund and has been successful during the past few years with another projection of increasing cash balances up to \$1.5 million or 44.7% of expenditures by the end of fiscal 2015.
- The city's budgetary performance score is adequate in our view with a good operating surplus of 8.2% in the general fund with a modest 0.2% operating deficit in the total governmental fund. Historically, the city has faced large drawdowns in the general fund and the total governmental funds which were largely related to outstanding debt service payments related to the MINET debt fund due to prior unanticipated lackluster performance of the MINET program. The MINET program is a muni-owned internet service provider shared between the cities of Independence and Monmouth. Historically, the city has had to cover debt service payments for debt issued by MINET, although the amount of contributions has been on a downward trend. In fiscal 2012, the city's general fund paid roughly \$819,000. However, in fiscal 2014 the city only paid about \$432,000. Management expects this trend to continue during the next few years.
- The city's liquidity score is adequate, with total government available cash at 17.9% of total governmental fund

expenditures and 35.4% of debt service. We believe the city has strong access to external liquidity with its most recently issuance of GO bonds in fiscal 2014.

- The city's management conditions are adequate with "standard" financial practices. Key policies include maintenance of a 20-year master plan with all sources of funding identified and a formal investment policy with investment results reviewed by the city council quarterly. Currently absent is a formal debt management policy.
- The city's debt and contingent liabilities profile is very weak with total governmental fund debt service at 50.7% of total governmental fund expenditures, and with net direct debt at 400% total governmental fund revenue. We note that the town's overall net debt is also very high at 13% of market value. The city also participates in the Oregon Public Employees' Retirement System to fund its pension obligations. In fiscal 2014, the city contributed roughly \$351,000, which equaled 100% of the required contribution for that year or approximately 4.4% of noncapital government expenditures.
- We consider the institutional framework score for Oregon cities as strong.

## Outlook

The stable outlook reflects our view of the city's successful issuance of its GO refunding bonds, which relieves pressure from the general fund and the restoration of the city's general fund cash balances back up to good levels leading to a strong flexibility score. The outlook reflects our expectation that the city will maintain its flexibility score at adequate levels at a minimum during the next two years. However, if the performance score worsens, leading to a lower flexibility and liquidity score, we could lower the rating. We do not expect to raise the rating during the next two years, given the city's very weak economy and debt profile.

## Related Criteria And Research

### Related Criteria

USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013

### Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Institutional Framework Overview: Oregon Local Governments

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## Summary:

# Independence, Oregon; General Obligation

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## Table Of Contents

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Rationale

Outlook

Related Criteria And Research

## Summary:

# Independence, Oregon; General Obligation

### Credit Profile

US\$6.385 mil full faith and credit rfdg bnds (City Hall Proj) ser 2016A dtd 03/23/2016 due 06/15/2040

*Long Term Rating* A-/Stable New

US\$1.73 mil full faith and credit rfdg bnds (Minet Proj) ser 2016B dtd 03/23/2016 due 06/15/2040

*Long Term Rating* A-/Stable New

Independence GO (AGM)

*Unenhanced Rating* A-(SPUR)/Stable Affirmed

## Rationale

Standard & Poor's Ratings Services assigned its 'A-' long-term rating to Independence, Ore.'s taxable full faith and credit refunding bonds, series 2016A (City Hall Projects) and 2016B (MINET Projects). At the same time, Standard & Poor's affirmed its 'A-' underlying rating (SPUR) on the city's existing general obligation (GO) bonds and full faith and credit obligations. The outlook on all ratings is stable. The series 2016 bonds are full faith and credit obligations of the city and are secured by a pledge of ad valorem property tax on all taxable property within the city taxed within current limitations as to rate or amount.

The ratings reflect our assessment of the following factors for the city:

- Weak economy, with market value per capita of \$57,765 and projected per capita effective buying income at 68.0%, but that is benefitting from access to a broad and diverse metropolitan statistical area (MSA);
- Adequate management, with standard financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Adequate budgetary performance, with an operating deficit in the general fund but an operating surplus at the total governmental fund level in fiscal 2015;
- Adequate budgetary flexibility, with an available fund balance in fiscal 2015 of 6.2% of operating expenditures but that is low on a nominal basis at \$333,000;
- Very strong liquidity, with total government available cash at 52.1% of total governmental fund expenditures and 1.7x governmental debt service, and access to external liquidity we consider strong;
- Very weak debt and contingent liability position, with debt service carrying charges at 30.0% of expenditures and net direct debt that is 326.3% of total governmental fund revenue, as well as high overall net debt at greater than 10% of market value; and
- Strong institutional framework score.

### Weak economy

We consider Independence's economy weak. The city, with an estimated population of 8,775, is located in Polk County in the Salem, Ore. MSA, which we consider to be broad and diverse. The city has a projected per capita effective buying income of 68.0% of the national level and per capita market value of \$57,765. Overall, the city's market value grew by 7.2% over the past year to \$506.9 million in 2016. The county unemployment rate was 6.9% in

2014.

The city encompasses roughly 2.8 square miles in Polk County. It is in the mid-Willamette River Valley, approximately 13 miles southwest of Salem, and is adjacent to Monmouth to the west.

### **Adequate management**

We view the city's management as adequate, with standard financial policies and practices under our FMA methodology, indicating the finance department maintains adequate policies in some but not all key areas.

The city does a more thorough analysis for enterprise-related debt forecasting than for the general fund, and it factors in data from outside consultants when forecasting its general government growth trends and state revenue trends. A staff report on the budget is provided to and reviewed by the board monthly. The city prepares and maintains a two-year forecast, for the current budget and the following year. The city prepares detailed cash flow analyses. The city follows State Statute 294 for investments. It has a formal written investment policy, with a reporting requirement that the finance officer make available to city council on a quarterly basis a register of outstanding investments. Any deviations from the written guidelines must be authorized by the city council. The city does not have a formal debt management policy. The city prepares a five-year capital plan with funding sources identified. The city has a goal of maintaining at least \$500,000 or 25% of revenues in its unreserved fund balance, whichever is greater.

### **Adequate budgetary performance**

Independence's budgetary performance is adequate in our opinion. The city had deficit operating results in the general fund of 4.7% of expenditures, but a surplus result across all governmental funds of 12.1% in fiscal 2015.

The city drew down its fund balances substantially in fiscal 2012 and fiscal 2011, primarily due to management's decision to fund a portion of the city's outstanding urban renewal bonds. The city has cut spending significantly and issued GO bonds that refunded the outstanding urban renewal debt, which resulted in balanced general fund operations for fiscal 2014. However, the city then reported another, small deficit in fiscal 2015. Although the city has budgeted for a deficit in fiscal 2016, management reports that the budget includes a \$600,000 contingency, and it expects to end the year with basically balanced operations. We expect that the city will post similar results in the near term.

We note that the city's water fund has been supporting debt service payments issued for the city's MINET program. The MINET program is a municipal-owned internet service provider shared between the city of Independence and the city of Monmouth. Historically, the city has had to cover debt service payments for debt issued by MINET, although the amount of contributions has dropped. The city's general fund paid roughly \$819,000 in fiscal 2012, but management reports that it paid \$562,545 from the general fund in fiscal 2015 and expects to pay \$535,000 in fiscal 2016.

### **Adequate budgetary flexibility**

Independence's budgetary flexibility is adequate, in our view, with an available fund balance in fiscal 2015 of 6.2% of operating expenditures. The city's reserves are low on a nominal basis at \$333,000, which we view as vulnerably low and a negative credit factor.

The city began using GAAP accounting in 2015; prior to this, the city had used modified cash. We adjusted out

\$704,000 in unassigned general fund balance that is due to the general fund from the urban renewal projects fund. The urban renewal projects fund has been negative since fiscal 2010. Management reports that it plans to sell property, which will bring the urban renewal fund into the black. If the property is sold and a portion of the funds are used to pay back the general fund, we expect reserves will increase to a very strong level. If it is not sold, or the funds are not used to pay back the general fund, we expect that the fund balance will remain adequate.

### **Very strong liquidity**

In our opinion, Independence's liquidity is very strong, with total government available cash at 52.1% of total governmental fund expenditures and 1.7x governmental debt service in 2015. In our view, the city has strong access to external liquidity if necessary.

We consider the city to have strong access to external liquidity, as it has issued GO and revenue-backed debt in the past 20 years. We expect that liquidity will remain very strong.

We do not consider the city's investments aggressive, as they are held with the State Treasurer in the Oregon Short-Term Fund.

### **Very weak debt and contingent liability profile**

In our view, Independence's debt and contingent liability profile is very weak. Total governmental fund debt service is 30.0% of total governmental fund expenditures, and net direct debt is 326.3% of total governmental fund revenue. Negatively affecting our view of the city's debt profile is its high overall net debt of 11.0% of market value.

The city plans to issue \$951,000 in debt for water projects, and it has a \$4 million sewer project that it plans to fund with a mixture of bond and grant proceeds. We do not expect the debt and liability score to improve in the near term.

Independence's pension contributions totaled 4.1% of total governmental fund expenditures in 2015. The city made its full annual required pension contribution in 2015.

The city participates in the Oregon Public Employees Retirement System, a cost-sharing multiple-employer defined benefit pension plan. The city's required pension contribution is its actuarially determined contribution, based on an actuary study. We view the funded ratio, which is calculated as the plan fiduciary net position as a percentage of the total pension liability, as good and consider it a good ratio to approximate the funding level of the pension liability.

### **Strong institutional framework**

The institutional framework score for Oregon municipalities is strong.

## **Outlook**

The stable outlook reflects our view of the city's access to the broad and diverse Salem MSA. The outlook also takes into account the recent successful issuance of the city's GO refunding bonds, which relieved pressure from the general fund. We do not expect to change the ratings within the next two years.

**Downside scenario**

If the performance score worsens, leading to lower budgetary flexibility and liquidity scores, then we could lower the ratings.

**Upside scenario**

We could consider raising the ratings if the city's adjusted general fund balance increased to greater than \$500,000, either through operating surpluses or a reduction in money due from the urban renewal fund.

**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**

- U.S. State And Local Government Credit Conditions Forecast, Jan. 11, 2016
- 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
- Institutional Framework Overview: Oregon Local Governments

**Ratings Detail (As Of March 1, 2016)**

|   |                 |          |
|---|-----------------|----------|
| Independence GO (AGM)<br><i>Unenhanced Rating</i> | A-(SPUR)/Stable | Affirmed |
| Independence GO (AGM)<br><i>Unenhanced Rating</i> | A-(SPUR)/Stable | Affirmed |

Many issues are enhanced by bond insurance.

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## Summary:

# Independence, Oregon; General Obligation

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## Table Of Contents

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Rationale

Outlook

Related Criteria And Research

## Summary:

# Independence, Oregon; General Obligation

### Credit Profile

|  |                 |          |
|--|-----------------|----------|
| US\$1.08 mil Full Faith & Credit bnds (Tax-Exempt) ser 2016A dtd 08/04/2016 due 06/15/2036 |                 |          |
| <i>Long Term Rating</i>  | A-/Stable       | New      |
| US\$0.15 mil Full Faith & Credit bnds (Taxable) ser 2016B dtd 08/04/2016 due 06/15/2036    |                 |          |
| <i>Long Term Rating</i>  | A-/Stable       | New      |
| Independence GO (AGM)  |                 |          |
| <i>Unenhanced Rating</i>   | A-(SPUR)/Stable | Affirmed |

## Rationale

S&P Global Ratings assigned its 'A-' long-term rating to Independence, Ore.'s series 2016A tax-exempt full faith and credit bonds and 2016B taxable full faith and credit bonds. At the same time, S&P Global Ratings affirmed its 'A-' underlying rating (SPUR) on the city's existing general obligation (GO) bonds and full faith and credit obligations. The outlook on all ratings is stable.

The series 2016A and 2016B bonds are full faith and credit obligations of the city and are secured by a pledge of ad valorem property tax on all taxable property within the city taxed within current limitations as to rate or amount. The bonds are being issued to finance capital projects for the city's water system.

The ratings reflect our assessment of the following factors for the city:

- Weak economy, with projected per capita effective buying income at 53.2% and market value per capita of \$58,451, though that is advantageously gaining from access to a broad and diverse metropolitan statistical area (MSA);
- Adequate management, with standard financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Adequate budgetary performance, with an operating deficit in the general fund but an operating surplus at the total governmental fund level in fiscal 2015;
- Adequate budgetary flexibility, with an available fund balance in fiscal 2015 of 6.2% of operating expenditures but that is low on a nominal basis at \$333,000;
- Very strong liquidity, with total government available cash at 52.1% of total governmental fund expenditures and 1.7x governmental debt service, and access to external liquidity we consider strong;
- Very weak debt and contingent liability position, with debt service carrying charges at 30.0% of expenditures and net direct debt that is 376.1% of total governmental fund revenue, as well as high overall net debt at greater than 10% of market value; and
- Strong institutional framework score.

### Weak economy

We consider Independence's economy weak. The city, with an estimated population of 8,672, is located in Polk County in the Salem, Ore. MSA, which we consider to be broad and diverse. The city has a projected per capita

effective buying income of 53.2% of the national level and per capita market value of \$58,451. Overall, the city's market value grew by 7.2% over the past year to \$506.9 million in 2016. The county unemployment rate was 5.7% in 2015.

The city encompasses roughly 2.8 square miles in Polk County. It is in the mid-Willamette River Valley, approximately 13 miles southwest of Salem, and is adjacent to Monmouth to the west.

### **Adequate management**

We view the city's management as adequate, with standard financial policies and practices under our FMA methodology, indicating the finance department maintains adequate policies in some but not all key areas.

The city does a more thorough analysis for enterprise-related debt forecasting than for the general fund, and it factors in data from outside consultants when forecasting its general government growth trends and state revenue trends. A staff report on the budget is provided to and reviewed by the board monthly. The city prepares and maintains a two-year forecast, for the current budget and the following year. The city prepares detailed cash flow analyses. The city follows State Statute 294 for investments. It has a formal written investment policy, with a reporting requirement that the finance officer make available to city council on a quarterly basis a register of outstanding investments. Any deviations from the written guidelines must be authorized by the city council. The city does not have a formal debt management policy. The city prepares a five-year capital plan with funding sources identified. The city has a goal of maintaining at least \$500,000 or 25% of revenues in its unreserved fund balance, whichever is greater.

### **Adequate budgetary performance**

Independence's budgetary performance is adequate in our opinion. The city had deficit operating results in the general fund of 4.7% of expenditures, but a surplus result across all governmental funds of 12.1% in fiscal 2015.

The city drew down its fund balances substantially in fiscal 2012 and fiscal 2011, primarily due to management's decision to fund a portion of the city's outstanding urban renewal bonds. The city has cut spending significantly and issued GO bonds that refunded the outstanding urban renewal debt, which resulted in balanced general fund operations for fiscal 2014. However, the city then reported another, small deficit in fiscal 2015. Although the city has budgeted for a deficit in fiscal 2016, management reports that the budget includes a \$600,000 contingency, and it expects to end the year with basically balanced operations. We expect that the city will post similar results over the near term.

We note that the city's water fund has been supporting debt service payments issued for the city's MINET program. The MINET program is a municipal-owned internet service provider shared between the city of Independence and the city of Monmouth. Historically, the city has had to cover debt service payments for debt issued by MINET, although the amount of contributions has dropped. The city's water fund paid \$697,657 in fiscal 2012, but management reports that it paid \$562,545 from the water fund in fiscal 2015 and \$554,810 in fiscal 2016.

### **Adequate budgetary flexibility**

Independence's budgetary flexibility is adequate, in our view, with an available fund balance in fiscal 2015 of 6.2% of operating expenditures. The city's reserves are low on a nominal basis at \$333,000, which we view as vulnerably low and a negative credit factor.

The city began using GAAP accounting in 2015; prior to this, the city had used modified cash. We adjusted out \$704,000 in unassigned general fund balance that is due to the general fund from the urban renewal projects fund. The urban renewal projects fund has been negative since fiscal 2010. Management reports that it plans to sell property, which will bring the urban renewal fund into the black. If the property is sold and a portion of the funds are used to pay back the general fund, we expect reserves will increase to a very strong level. If it is not sold, or the funds are not used to pay back the general fund, we expect that the fund balance will remain adequate.

### **Very strong liquidity**

In our opinion, Independence's liquidity is very strong, with total government available cash at 52.1% of total governmental fund expenditures and 1.7x governmental debt service in 2015. In our view, the city has strong access to external liquidity if necessary.

We consider the city to have strong access to external liquidity, as it has issued GO and revenue-backed debt in the past 20 years. We expect that liquidity will remain very strong.

We do not consider the city's investments aggressive, as they are held with the State Treasurer in the Oregon Short-Term Fund.

### **Very weak debt and contingent liability profile**

In our view, Independence's debt and contingent liability profile is very weak. Total governmental fund debt service is 30.0% of total governmental fund expenditures, and net direct debt is 376.1% of total governmental fund revenue. Negatively affecting our view of the city's debt profile is its high overall net debt of 11.8% of market value.

The city plans to issue additional debt to finance a sewer project and capital leases for police vehicles. We do not expect the debt and liability score to improve in the near term.

Independence's pension contributions totaled 4.1% of total governmental fund expenditures in 2015. The city made its full annual required pension contribution in 2015.

The city participates in the Oregon Public Employees Retirement System, a cost-sharing multiple-employer defined benefit pension plan. The city's required pension contribution is its actuarially determined contribution, based on an actuary study. We view the funded ratio, which is calculated as the plan fiduciary net position as a percentage of the total pension liability, as good and consider it a good ratio to approximate the funding level of the pension liability.

### **Strong institutional framework**

The institutional framework score for Oregon municipalities is strong.

## **Outlook**

The stable outlook reflects our view of the city's access to the broad and diverse Salem MSA. The outlook also takes into account the recent successful issuance of the city's GO refunding bonds, which relieved pressure from the general fund. We do not expect to change the ratings within the next two years.

### Downside scenario

If the performance score worsens, leading to lower budgetary flexibility and liquidity scores, then we could lower the ratings.

### Upside scenario

We could consider raising the ratings if the city's adjusted general fund balance increased to greater than \$500,000, either through operating surpluses or a reduction in money due from the urban renewal fund.

## 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

- U.S. State And Local Government Credit Conditions Forecast, April 19, 2016
- 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
- 2015 Update Of Institutional Framework For U.S. Local Governments

### Ratings Detail (As Of July 20, 2016)

Independence full faith and credit rfdg bnds (Minet Proj) ser 2016B dtd 03/23/2016 due 06/15/2040

|                          |                 |          |
|--------------------------|-----------------|----------|
| <i>Long Term Rating</i>  | A-/Stable       | Current  |
| Independence GO (AGM)    |                 |          |
| <i>Unenhanced Rating</i> | A-(SPUR)/Stable | Affirmed |
| Independence GO (AGM)    |                 |          |
| <i>Unenhanced Rating</i> | A-(SPUR)/Stable | Affirmed |
| Independence GO (AGM)    |                 |          |
| <i>Unenhanced Rating</i> | A-(SPUR)/Stable | Affirmed |

Many issues are enhanced by bond insurance.

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](http://www.standardandpoors.com) for further information. Complete ratings information is available to subscribers of RatingsDirect at [www.globalcreditportal.com](http://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](http://www.standardandpoors.com). Use the Ratings search box located in the left column.

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## Summary:

# Independence, Oregon; General Obligation

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## Table Of Contents

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Rationale

Outlook

Related Research

## Summary:

# Independence, Oregon; General Obligation

### Credit Profile

|   |           |     |
|---|-----------|-----|
| US\$5.35 mil full faith and credit rfdg bnds (MINET) ser 2017B due 06/01/2037           |           |     |
| <i>Long Term Rating</i>   | A-/Stable | New |
| US\$2.215 mil full faith and credit rfdg bnds ser 2017A due 06/01/2030                  |           |     |
| <i>Long Term Rating</i>   | A-/Stable | New |
| US\$2.08 mil full faith and credit rfdg bnds (MINET - Taxable) ser 2017C due 06/01/2027 |           |     |
| <i>Long Term Rating</i>   | A-/Stable | New |

### Rationale

S&P Global Ratings assigned its 'A-' long-term rating to Independence, Ore.'s series 2017A (city hall), 2017B (Monmouth Independence Network, or MINET), and 2017C (MINET) full faith and credit refunding bonds. S&P Global Ratings also affirmed its 'A-' long-term and underlying rating (SPUR) on the city's existing full faith and credit obligations and its 'A-' SPUR on the city's existing GO bonds.

Both the GO bonds and full faith and credit obligations are secured by the city's full faith and credit, including the obligation to levy ad valorem property taxes. The property tax pledge applicable to its full faith and credit obligations is subject to certain constitutional restrictions on property tax revenue, such as a limit on assessed valuation (AV) growth, while the property tax pledge applicable to the GO bonds is unlimited. However, we believe the city possesses the financial stability to sustain identical ratings on its limited- and unlimited-tax GO obligations.

The city will use the proceeds of each series to achieve interest expense savings through advance refundings.

The rating reflects our view of the city's:

- Weak economy, with projected per capita effective buying income at 55.4% and market value per capita of \$68,036, though it benefits from access to a broad and diverse metropolitan statistical area (MSA);
- Adequate management, with standard financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Weak budgetary performance, with a slight operating surplus in the general fund but an operating deficit at the total governmental fund level in fiscal 2016;
- Very weak budgetary flexibility, with an available fund balance after our quantitative adjustments for analytical consistency in fiscal 2016 of 0.3% of operating expenditures that is also low on a nominal basis at \$20,000;
- Very strong liquidity, with total government available cash at 30.8% of total governmental fund expenditures and 108.4% of governmental debt service, and access to external liquidity we consider strong;
- Very weak debt and contingent liability position, with debt service carrying charges at 28.4% of expenditures and net direct debt that is 388.8% of total governmental fund revenue; and
- Strong institutional framework score.

### Weak economy

We consider Independence's economy weak. The city, with an estimated population of 9,250, is located in Polk County in the Salem MSA, which we consider to be broad and diverse. The city has a projected per capita effective buying income of 55.4% of the national level and per capita market value of \$68,036. Overall, the city's market value grew by 12.3% over the past year to \$629.3 million in 2018. The county unemployment rate was 5.1% in 2016.

Located 12 miles south of the state capital, Salem, on the Willamette River, Independence is within commuting distance of major state offices to the north as well as Western Oregon University (900 employees) in its sister city, Monmouth, to the west and Oregon State University (11,300 employees) 23 miles to the south in Corvallis. Management's analysis of census data finds that nearly half of all residents work locally or in these three nearby cities, while a sizable portion of the balance commute to Portland (60 miles) and nearby cities. The city itself has an active manufacturing presence, including Marquis Corp. (hot tubs) and Forest River (recreational vehicles).

Total market value is on a strong upswing after a five-year, 20% aggregate loss at the end of the Great Recession, with a four-year, 37% aggregate increase since then, including a 12% increase for fiscal 2018. Management reports that the city is participating in a downtown revitalization trend we have observed in other western U.S. states, with renovations of two historical buildings and the development of a 52,000-square-foot building that had previously been stalled for 12 years. It is using its municipal telecommunication infrastructure venture, MINET, as an economic development tool; this has attracted a call center that has put \$1 million into a building renovation and has 200 employees, with capacity to grow by another 100. Given the market value growth trend, hotel and multifamily developments underway in the city's northeast corner that are anchored by a grant-supported park and recreation investment, and our expectation of real GDP growth in the Western U.S. states through 2018, we anticipate that the city's market value will continue to grow in some form in the medium term.

Despite the city's major market value losses earlier in the decade, we understand that the city's property-tax-heavy general fund revenue structure was not subject to major property tax "compression," a situation in which property tax revenue (which is set relative to AV) as a ratio of market value comes up against state constitutional limits.

### Adequate management

We view the city's management as adequate, with standard financial policies and practices under our FMA methodology, indicating our view that the finance department maintains adequate policies in some but not all key areas.

Highlights of the city's policies and practices include:

- Budget development process that uses external consultants for some revenue assumptions but has limited analysis of general fund revenue and expenditure trends,
- Quarterly budget-to-actual updates to the council,
- Lack of multiyear financial forecasting,
- Annually updated capital plan with a five-year horizon and includes detail on timing and funding sources for each project;
- Formal internal investments policy but no current reporting on holdings to the council other than at audit adoption,
- Formal debt policy that requires a cost benefit analysis be done when debt is considered and limits aggregate debt to the statutory limit but does not have material numerical constraints, and

- General fund reserve policy of 16% of expenditures in its current strategic plan although this is not yet institutionalized as an evergreen policy and is well in excess of what we view as the general fund's actual available balance after adjusting for its exposure to the urban renewal capital projects fund.

We see the city as having above-average management risks relative to its peers as a result of high complexity in interfund relationships that we think diminishes transparency and increases the risk of errors in the event of significant management or city council turnover.

Chief among them is the city's relationship to MINET, the telecommunications utility it formed with its sister city, Monmouth. Although the enterprise was set up to be self-supporting through user fees and is governed by a board made up of city officials and citizens from both communities, it has been unable to generate revenue sufficient to support payments on full faith and credit obligations of the city that were intended to be paid by the utility. The city could eventually be reimbursed for such payments, but to date has needed to pull resources from various funds to make these payments, such as in the form of a "capital contribution" from the water fund. Notwithstanding what we understand is MINET's intention to fully support the city's annual debt service by 2019, we see a risk that faltering performance by the utility could lead the city to escalate its support in the form of operating dollars or additional debt.

To a lesser degree, the use of regular and substantial transfers in from utility funds to support general fund operations raises the question of policy alignment between user fees that typically are set at levels to sustainably support utility operations and these funds' transfers to the general fund for central administrative support. For fiscal 2016, for example, aggregate transfers in to the general fund were \$2.8 million compared with \$1.2 million in general fund government expenditures and \$670,000 in transfers out for debt service. Given the scale of support that the utility enterprises provide to the general fund, we think that disentangling this relationship would be difficult should the city ever wish to shift operational overhead to the utilities from the general fund but maintain general fund services at current levels. But based on our understanding of the city's flexibility under state law to adjust utility rates, we view the current arrangement as sustainable if it is closely managed.

### **Weak budgetary performance**

Independence's budgetary performance is weak, in our opinion. The city had slight surplus operating results in the general fund of 1.3% of expenditures, but a deficit result across all governmental funds of 13.4% in fiscal 2016.

Although general fund revenue in aggregate has been on the rise, the city's carrying charges related to full faith and credit bonds that paid for investments in its telecommunications venture, MINET, continue to be a drag on general fund performance, while capital spending by its urban renewal agency hurt total governmental funds performance in fiscal 2016.

A new cannabis tax, which to date has represented less than 1% of general fund revenue, could become a significant source of revenue depending on how the industry develops and how state and federal policy evolve around it. Similar to many other communities in the state, Independence voters approved a state-maximum 3% excise tax on retail sales of recreational marijuana in November 2016.

Inclusive of our quantitative adjustments to make the city's financial performance comparable with that of its peers and year to year (such as treating regular transfers in to the general fund from utility funds to pay for centralized

services or to deduct from expenditures principal payments associated with debt refinancing), we calculate that the city's general fund has generally been operating at a surplus, with preliminary fiscal 2017 results showing a positive 1.5%-of-expenditures general fund net result comparable to that of fiscal 2016. Management reports that the city has made modest additions to staff in recent years after major cuts in 2010 to address a major structural imbalance and to shore up its balance sheet. We understand that the city's current consensus is that the staffing level of its largest expenditure line item, police, is about at the correct ratio of the city's population. Notwithstanding a fiscal 2018 general fund budget that suggests a substantial negative general fund net result, we anticipate that the city's general fund performance through fiscal 2019 will be comparable to that of fiscal years 2016 and 2017 given expenditure assumptions that substantially overstate what is likely to occur, partly as a result of a lack of flexibility in state budget law.

Likewise, we think that total governmental funds performance after our quantitative adjustments could continue to be similarly negative until development within the urban renewal area generates revenue from one-time receipts of property owned by the urban renewal agency and from incremental property tax revenue as development is added to the tax rolls. Under an executed development agreement, the agency is slated to add about \$40 million in hotel and housing value within its renewal area boundaries, but we don't think the project by itself, at about \$46,000 in property tax revenue at the current urban renewal levy rates, is likely to turn total governmental funds performance positive.

### **Very weak budgetary flexibility**

Independence's budgetary flexibility is very weak, in our view, with an available fund balance in fiscal 2016 of 0.3% of operating expenditures. In addition, the city's reserves are low on a nominal basis at \$20,000, which we view as vulnerably low and a negative credit factor.

Our calculation of the city's general fund position reflects multiple quantitative adjustments to make the ratios comparable with those of its national peers. This includes the treatment of regular transfers out as expenditures and for the general fund's exposure to the urban renewal capital projects fund's claim on other funds' cash because of an otherwise negative cash position: In its fiscal 2016 audit, the city allocated \$600,000 of the \$1.6 million overdraft of pooled urban renewal capital projects fund cash to the general fund, another \$814,800 to the sewer fund, and \$200,000 to its economic development loan fund. We understand that the city has the discretion to shift allocations between funds under state law, and thus have calculated the city's available general fund balance downward using the average proportion allocated to the general fund during the past three years. For fiscal 2017, we understand that the general fund's allocation of cash overdrafts is likely to be comparable with that of fiscal 2016, but that the water fund will receive an allocation and the sewer fund will see its allocation reduced. We see the potential to remove this adjustment in the coming years to the degree that development within the urban renewal area leads to higher revenue that improves the urban renewal capital projects fund's financial position and reduces the fund's claim on pooled cash diminishes. Management anticipates that the urban renewal capital projects fund will take about eight years to return to positive from the \$3 million negative balance at the end of fiscal 2016, which suggests that our negative adjustment to the general fund for overdraft exposure may be eliminated early in the next decade.

The city began using generally accepted accounting principles in fiscal 2014, and we view this as a credit positive in that it helps stakeholders better understand the city's financial operations and complex interfund relationships. Based on our expectation of stable general fund operations through fiscal 2019, we anticipate a weak but stable financial

position.

### **Very strong liquidity**

In our opinion, Independence's liquidity is very strong, with total government available cash at 30.8% of total governmental fund expenditures and 108.4% of governmental debt service in 2016. In our view, the city has strong access to external liquidity if necessary given its issuance of GO and revenue-backed debt in the past 20 years. We expect that liquidity will remain very strong through fiscal 2019 but see long-term risk that a delayed turnaround in the urban renewal capital projects fund could reduce total governmental cash.

We do not consider the city's investments aggressive, as they are held in the state pool, which is managed under what we consider conservative policies.

Management has confirmed that the city has no alternative financing obligations, which we find can represent a source of contingent liquidity risk, outstanding.

### **Very weak debt and contingent liability profile**

In our view, Independence's debt and contingent liability profile is very weak. Total governmental fund debt service is 28.4% of total governmental fund expenditures, and net direct debt is 388.8% of total governmental fund revenue.

The city does not plan to issue additional debt for the foreseeable future, but based on the slow amortization and the size of its direct debt relative to its total governmental funds revenue we anticipate that the city's debt will remain weak into the next decade.

Independence's pension contributions totaled 3.5% of total governmental fund expenditures in 2016. The city made its full annual required pension contribution.

The city's required pension contribution is its actuarially determined contribution, which is calculated at the state level based on an actuary study for Oregon Public Employees Retirement System, which manages pooled multi-employer plans. We view the city's reported proportional share funded ratio, which we calculate as the plan fiduciary net position as a percentage of the total pension liability, as good, at 104%. The city lacks an other postemployment benefits (OPEB) liability.

### **Strong institutional framework**

The institutional framework score for Oregon municipalities is strong.

## **Outlook**

The stable outlook reflects our view that economic conditions will be sufficient for the city to maintain a financial position, inclusive of our adjustments, that is very weak but close to the fiscal 2016 level and that governmental liquidity will remain at least strong. Our rating incorporates our expectation of policy and administrative stability that will allow the city to continue to manage complex relationships between the general fund, its utility enterprises, and MINET. We do not expect to change the ratings within the next two years.

### Downside scenario

We could lower our rating if we come to view the city's liquidity position as weakening or if unexpected weak performance or capital needs at MINET lead to additional general fund exposure through contributions or additional full faith and credit debt issuances. We could also lower the rating if we come to view the urban renewal capital projects fund's cash overdrafts as significantly escalating, which could weaken our view of the city's available general fund balance.

### Upside scenario

We could raise the rating if substantial tax base growth materially improves the health of the urban renewal capital projects fund, thereby significantly reducing the general fund's exposure and leading us to view the available general fund balance inclusive of our adjustments as materially stronger.

## Related Research

- U.S. State And Local Government Credit Conditions Forecast, July 24, 2017
- Standard & Poor's Earthquake Model, Oct. 25, 2012
- Incorporating GASB 67 And 68: Evaluating Pension/OPEB Obligations Under Standard & Poor's U.S. Local Government GO Criteria, Sept. 2, 2015
- 2017 Update Of Institutional Framework For U.S. Local Governments

| Ratings Detail (As Of November 10, 2017)  |                 |          |
|---|-----------------|----------|
| Independence full faith and credit rfdg bnds (Minet Proj) ser 2016B dtd 03/23/2016 due 06/15/2040 |                 |          |
| <i>Long Term Rating</i>   | A-/Stable       | Affirmed |
| Independence GO (AGM)   |                 |          |
| <i>Unenhanced Rating</i>  | A-(SPUR)/Stable | Affirmed |
| Independence GO (AGM)   |                 |          |
| <i>Unenhanced Rating</i>  | A-(SPUR)/Stable | Affirmed |
| Independence GO (AGM)   |                 |          |
| <i>Unenhanced Rating</i>  | A-(SPUR)/Stable | Affirmed |
| Independence GO (AGM)   |                 |          |
| <i>Unenhanced Rating</i>  | A-(SPUR)/Stable | Affirmed |
| Independence GO (MAC)   |                 |          |
| <i>Unenhanced Rating</i>  | A-(SPUR)/Stable | Affirmed |
| Independence GO (MAC)   |                 |          |
| <i>Unenhanced Rating</i>  | A-(SPUR)/Stable | Affirmed |

Many issues are enhanced by bond insurance.

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](http://www.standardandpoors.com) for further information. Complete ratings information is available to subscribers of RatingsDirect at [www.capitaliq.com](http://www.capitaliq.com). All ratings affected by this rating action can be found

## Summary: Independence, Oregon; General Obligation

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## Summary:

# Independence, Oregon; General Obligation

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## Table Of Contents

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Rating Action

Stable Outlook

Credit Opinion

Related Research

## Summary:

# Independence, Oregon; General Obligation

### Credit Profile

|   |                |          |
|---|----------------|----------|
| US\$4.87 mil full faith and credit rfdg bnds ser 2020 due 06/01/2040                              |                |          |
| <i>Long Term Rating</i>   | A/Stable       | New      |
| Independence full faith and credit rfdg bnds (Minet Proj) ser 2016B dtd 03/23/2016 due 06/15/2040 |                |          |
| <i>Long Term Rating</i>   | A/Stable       | Upgraded |
| Independence GO (AGM)   |                |          |
| <i>Unenhanced Rating</i>  | A(SPUR)/Stable | Upgraded |

## Rating Action

S&P Global Ratings raised its long-term rating to 'A' from 'A-' on Independence, Ore.'s existing full faith and credit obligations, as well as its underlying rating (SPUR) to 'A' from 'A-' on the city's existing GO bonds. At the same time, S&P Global Ratings assigned its 'A' long-term rating to the city's series 2020 full faith and credit refunding bonds (MINET Project). The outlook is stable.

Both the GO bonds and the full faith and credit obligations are secured by the city's full faith and credit, including the obligation to levy ad valorem property taxes. The property tax pledge applicable to its full faith and credit obligations is subject to certain constitutional restrictions on property tax revenue, such as a limit on assessed valuation (AV) growth, while the property tax pledge applicable to the GO bonds is unlimited. However, we believe the city possesses the financial stability to sustain identical ratings on its limited- and unlimited-tax GO obligations.

The series 2020 bonds will be issued in the par amount of approximately \$5 million, and proceeds will be used to refund the city's series 2010A and 2017B bonds outstanding for cost savings. The city will have \$31.2 million in net direct debt outstanding.

### Credit overview

The raised ratings reflect our view of the city's improved operating performance and reserve position. The city's improved budgetary flexibility primarily reflects a reduction in the general fund's allocation of pooled cash for overdrafts for the urban renewal authority, a component unit of the city. The urban renewal authority fund currently maintains a negative net position and typically relies on other funds to cover its annual overdraft. While the city has discretion over the allocation to other funds, the general fund allocation has made up the entirety in the last two years. Despite the reduced reliance in fiscal 2019, we believe that budgetary pressure resulting from the economic recession could further encumber the general fund in coming years, as the urban renewal authority fund continues to recover and become self-sustaining. However, we believe that the city has made prudent budgetary decisions to reduce operating expenditures and maintain balanced general fund operations in the near term in light of the anticipated reduction in revenues stemming from the economic downturn, alleviating budgetary pressure and providing an adequate cushion to withstand a near-term increase in allocations to the urban renewal authority. We will continue to

monitor the longer-term impacts on the general fund should the recovery period exceed management's current projections.

For more information, please see the most recent S&P Global Economics article "An Already Historic U.S. Downturn Now Looks Even Worse" (April 16, 2020). Generally our rating outlook time frame is up to two years; however, given the current uncertainty around the pandemic, our view of the credit risks to the district are centered on the more immediate budget effects in 2020.

The ratings reflect our view of the city's:

- Adequate economy, with projected per capita effective buying income at 61.7% and market value per capita of \$83,378, that is gaining advantage from access to a broad and diverse metropolitan statistical area (MSA);
- Adequate management, with standard 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 2019, which closed with operating surpluses in the general fund and at the total governmental fund level;
- Adequate budgetary flexibility, with an available fund balance that we expect will decrease in the near term from its fiscal 2019 level of 16% of operating expenditures, as well as limited capacity to reduce expenditures;
- Very strong liquidity, with total government available cash at 69.6% of total governmental fund expenditures and 3.4x governmental debt service, and access to external liquidity we consider strong;
- Very weak debt and contingent liability profile, with debt service carrying charges at 20.5% of expenditures and net direct debt that is 358.6% of total governmental fund revenue; and
- Strong institutional framework score.

### **Environmental, social, and governance factors**

Our rating incorporates our view regarding the health and safety risks posed by the COVID-19 pandemic. We consider Independence's environmental risks slightly above that of the sector, stemming from the risk of wildfires in its expansive forests. We view the city's governance risks as being in line with the sector.

## **Stable Outlook**

### **Downside scenario**

We could lower the ratings if we come to view the urban renewal capital projects fund's cash overdrafts as significantly escalating, which could weaken our view of the city's available general fund balance. We could also lower our ratings if we come to view the city's liquidity position as weakening or if unexpected weak performance or capital needs at MINET lead to additional general fund exposure through contributions or additional full faith and credit debt issuances.

### **Upside scenario**

While unlikely given the current economic environment, we could raise the ratings if the city's tax base grows materially, improving wealth and income indicators, as well as the health of the urban renewal capital projects fund,

thereby significantly reducing the general fund's exposure and leading us to view the available general fund balance inclusive of our adjustments as very strong.

## Credit Opinion

### Adequate economy

We consider Independence's economy adequate. The city, with an estimated population of 9,530, is located in Polk County in the Salem, Ore., MSA, which we consider broad and diverse. Located 12 miles south of the state capital, Salem, on the Willamette River, Independence is within commuting distance of major state offices to the north, as well as Western Oregon University in its sister city, Monmouth, to the west and Oregon State University 23 miles to the south in Corvallis. The city itself has an active manufacturing presence, including Marquis Corp. (hot tubs) and Forest River (recreational vehicles), as well as food processing and wood and paper products. The city has a projected per capita effective buying income of 61.7% of the national level and per capita market value of \$83,378. The county unemployment rate was 4.1% in 2019; however, we anticipate an increase in the unemployment rate in the near term as a result of the reduction in economic activity.

The city's market value grew by 12.6% over the past year to \$794.6 million in 2020. The city is participating in a downtown revitalization trend we have observed in other western U.S. states, with ongoing renovations of historical buildings, hotels, and mixed-use development occurring within the downtown area. Management reports that residential development persists throughout the city as well, contributing to its expectations of continued market value and AV growth. However, we believe the current growth rate will likely slow in response to the economic recession. We consider the city's tax base diverse, with the leading 10 taxpayers--consisting of four apartment communities, a cabinet manufacturer, Marquis Corp., a utility company, a shopping center, the city itself, and a storage facility--accounting for 13.7% of total AV. Management reports that operations remain steady at the manufacturing facilities and, while portions of the mall remain temporarily closed in response to the COVID-19 pandemic, permanent closures have not been announced to date, and we do not anticipate near-term AV declines for the city, although property tax revenues could decline due to lower collection rates.

Despite the city's major market value losses earlier in the decade, we understand that the city's property tax-heavy general fund revenue structure was not subject to major property tax "compression," a situation in which property tax revenue (which is set relative to AV) as a ratio of market value comes up against state constitutional limits. Throughout the Great Recession, the city's market value declined by 20%, while its AV grew gradually but consistently.

### Adequate management

We view the city's management as adequate, with standard financial policies and practices under our FMA methodology, indicating the finance department maintains adequate policies in some but not all key areas. Highlights of the city's policies and practices include:

- A budget development process that uses external consultants for some revenue assumptions, but has limited analysis of historical general fund revenue and expenditure trends;
- Quarterly budget-to-actual updates to the council, which management indicated will likely be increased to monthly reviews in the next year with more robust discussions with department heads in light of the uncertain revenue

environment;

- Lack of multiyear financial forecasting;
- Annually updated capital plan as part of the budget process, with a five-year horizon and including detail on timing and funding sources for each project;
- Formal internal investments policy, with annual review of investment holdings and earnings at audit adoption;
- Formal debt policy that requires a cost benefit analysis be done when debt is considered and limits aggregate debt to the statutory limit, but does not have material numerical constraints; and
- General fund reserve policy of 16% of operating revenue, which the city has been in compliance with by its calculations, although it varies from our calculations, given our quantitative adjustments for certain receivables.

We see the city as having above-average management risks relative to its peers as a result of high complexity in interfund relationships that we think diminishes transparency and increases the risk of errors in the event of significant management or city council turnover.

Chief among them is the city's relationship to MINET, the telecommunications utility it formed with its sister city, Monmouth. Although the enterprise was set up to be self-supporting through user fees and is governed by a board made up of city officials and citizens from both communities, it has been unable to generate revenue sufficient to support payments on full faith and credit obligations of the city that were intended to be paid by the utility. The city could eventually be reimbursed for such payments, but to date has needed to pull resources from various funds to make these payments, such as in the form of a "capital contribution" from the water fund. The city had previously anticipated MINET would fully support the city's annual debt service by 2019; however, given the lower-than-anticipated revenues through 2020 and the onset of the economic recession, management now expects an additional year or two before the utility is self-supporting.

To a lesser degree, the use of regular and substantial transfers in from utility funds to support general fund operations raises the question of policy alignment between user fees that typically are set at levels to sustainably support utility operations and these funds' transfers to the general fund for central administrative support. Given the scale of support that the utility enterprises provide to the general fund, we think that disentangling this relationship would be difficult should the city ever wish to shift operational overhead to the utilities from the general fund but maintain general fund services at current levels. However, based on our understanding of the city's flexibility under state law to adjust utility rates, we view the current arrangement as sustainable if it is closely managed.

### **Adequate budgetary performance**

Independence's budgetary performance is adequate, in our opinion. The city had operating surpluses of 7.0% of expenditures in the general fund and of 15.9% across all governmental funds in fiscal 2019. Our calculations reflect certain quantitative adjustments to operating revenues and expenditures to include regular transfers in and out of the general fund. The city has reported positive operating results in the last two audited fiscal years inclusive of transfers from the utility funds for centralized services, but notes that general fund expenditures have consistently outpaced revenues. Our assessment accounts for our expectation that budgetary results could deteriorate somewhat from 2019 results in the near term.

Although general fund revenue in aggregate has been on the rise, the city's carrying charges related to full faith and credit bonds that paid for investments in its telecommunications venture, MINET, continue to be a drag on general fund performance. Additionally, while total governmental funds performance was strong in fiscal 2019, past capital spending by the urban renewal authority contributed to deficit spending in prior years, which could occur again should capital projects ramp up in future years.

Due to the sudden rapid economic deterioration, we have revised our budgetary performance assessment downward. This assessment incorporates heightened near-term uncertainty that exists due to the recessionary pressures related to the COVID-19 pandemic and resulting financial pressures. The city's estimates for fiscal 2020 project a slight general fund surplus. However, the bulk of the COVID-19 and recessionary impact is expected to be realized in fiscal 2021. The city's proposed fiscal 2021 budget reflects a 57% reduction in lodging taxes, a 17% reduction in state-shared revenues, and a 7% reduction in gas taxes. To offset the anticipated revenue declines, the city has implemented a hiring freeze, eliminated one personnel position, negotiated lower salary increases for nonrepresented staff, and delayed certain capital purchases. Current projections assume balanced operations in the upcoming fiscal year, with the goal of maintaining its current reserve levels. However, we believe that the slowed economic development could further pressure the city's urban renewal authority and MINET's ability to become self-supporting, which could further burden the city's general fund performance.

### **Adequate budgetary flexibility**

Independence's budgetary flexibility is strong, in our view, with an available fund balance that we expect could decrease in the near term from its fiscal 2019 level of 16% of operating expenditures, or \$1.2 million.

Our calculation of the city's general fund position reflects multiple quantitative adjustments to make the ratios comparable with those of its national peers, including a reduction in the unassigned reserve to reflect the general fund's exposure to the urban renewal capital projects fund's claim on other funds' cash because of an otherwise negative cash position. In fiscal 2019, the general fund's allocation of the unsettled overdrafts of pooled cash was \$506,544, a decline from \$1.3 million in fiscal 2018. We understand that the city has the discretion to shift allocations between funds under state law, but the general fund has covered 100% of this amount in the last two audited fiscal years, indicating limited capacity to reduce certain expenses. In addition to the claim on pooled cash, the general fund further supports the urban renewal authority with two of its debt obligations. The city is legally responsible for half of the debt service related to the civic center project and up to \$2.1 million for the Independence Landing Project. The city expects the urban renewal authority to begin making debt service payments by 2023 on the civic center obligations, but we note this could be prolonged. The \$3.8 million loan receivable for the civic center loan and the \$108,744 loan receivable for the general fund's portion of the Independence Landing Project is included in the general fund nonspendable fund balance and excluded from our calculations of available reserves.

We see the potential to remove this adjustment in the coming years to the degree that development within the urban renewal area leads to higher revenue that improves the urban renewal capital projects fund's financial position and reduces the fund's claim on pooled cash diminishes. Management had anticipated that the urban renewal capital projects fund will take about five more years to return to positive from the \$6.3 million negative balance at the end of fiscal 2019. However, depending on the severity of economic recession, this recovery period could be prolonged. Should the general fund's allocation of the overdrafts increase, we believe that our calculation of the reserve position

could materially weaken, particularly if the adjusted fund balance is reduced to a level below \$500,000, or what we consider nominally low.

### **Very strong liquidity**

In our opinion, Independence's liquidity is very strong, with total government available cash at 69.6% of total governmental fund expenditures and 3.4x governmental debt service in 2019. In our view, the city has strong access to external liquidity if necessary, as evidenced by its issuance of full faith and credit bonds, GO bonds, and utility revenue bonds within the last 15 years. We do not consider the city's investments aggressive, as they are held in the state pool, which is managed under what we consider conservative policies. We expect that liquidity will remain very strong in the near term, but see long-term risk that a delayed turnaround in the urban renewal capital projects fund could reduce total governmental cash.

The city entered into two bank loans in 2019 and 2020: the 2019 \$800,000 full faith and credit financing agreement for water rights with JP Morgan Chase Bank, and the 2020 \$650,000 full faith and credit financing agreement for the museum with JP Morgan Chase Bank. We consider the events of default to be standard with acceleration of principal prohibited, and therefore, we do not believe the loans to pose a significant liquidity risk to the city.

### **Very weak debt and contingent liability profile**

In our view, Independence's debt and contingent liability profile is very weak. Total governmental fund debt service is 20.5% of total governmental fund expenditures, and net direct debt is 358.6% of total governmental fund revenue. The city is currently drawing on its Infrastructure Finance Authority loan to finance the Independence Landing Infrastructure Project and the Clean Water State Revolving Fund loan, which it expects to continue in the near term. Otherwise, the city does not have any additional debt plans for the next three years.

We note that MINET has contracted with the city to reimburse the city for the debt service requirements on the MINET borrowings. To date, MINET has not been able to reimburse the city for the full debt service amounts, which have been booked by the city as loans receivable. In total, the loans receivable was \$13.6 million as of fiscal 2019, but adjusted downwards for an allowance for doubtful accounts in the amount of \$6.0 million.

Pension and other postemployment benefit (OPEB) highlights:

- In our view, Independence's pension and OPEB liabilities are not a current source of credit pressure, though we expect plan-level underfunding will lead to rising pension costs in the medium and longer term.
- Given its low combined pension and OPEB carrying charge, we believe Independence has capacity to absorb some increase in pension costs without experiencing an erosion in credit quality.
- Independence's net OPEB liability is manageable, with low servicing costs and a modest liability relative to Independence's overall operations and available reserves.

The district participated in the following plans funded as of June 30, 2019:

- Oregon Public Employees' Retirement System (PERS): 80.2% funded, with a net pension liability of \$5.3 million, and
- A cost sharing multiple-employer OPEB plan in addition to an implicit healthcare subsidy: funded on a pay-as-you-go basis, with a combined net OPEB liability of \$240,572.

Independence's combined required pension and actual OPEB contributions totaled 5.1% of total governmental fund expenditures in 2019. Although the city consistently makes 100% of its contractually required pension contributions, PERS plan total actuarially determined contributions fell short of both static funding and minimum funding progress in fiscal 2019, leading to an increase in total liabilities. We expect this underfunding will lead to rising costs for PERS participants in the future. Lower investment returns and reduced discount rate assumptions resulted in the PERS pension funded ratio declining to 82.1% in fiscal 2019 from 83.1% in fiscal 2018. The PERS plan's assumed rate of return was reduced to what we consider a more prudent, though still somewhat optimistic, 7.2% for the fiscal 2018 valuation year from 7.5% in fiscal 2017. In anticipation of future cost increases, the city has established a pension set-aside within its general fund unassigned reserve.

Independence's OPEBs consist of an implicit subsidy in allowing retirees to join its single-employer health care plan, as well as fixed-dollar contributions to the PERS retiree health care plan. The city's OPEB carrying charge represented a very low 0.3% of total governmental funds expenditures in fiscal 2019.

### Strong institutional framework

The institutional framework score for Oregon municipalities is strong.

## Related Research

- Through The ESG Lens 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020
- 2019 Update Of Institutional Framework For U.S. Local Governments

| Ratings Detail (As Of June 9, 2020)                         |                |          |
|---|----------------|----------|
| Independence GO ser 2017A (AGM)<br><i>Unenhanced Rating</i> | A(SPUR)/Stable | Upgraded |
| Independence GO ser 2017B (AGM)<br><i>Unenhanced Rating</i> | A(SPUR)/Stable | Upgraded |
| Independence GO ser 2017C (AGM)<br><i>Unenhanced Rating</i> | A(SPUR)/Stable | Upgraded |
| Independence GO (AGM)<br><i>Unenhanced Rating</i>           | A(SPUR)/Stable | Upgraded |
| Independence GO (AGM)<br><i>Unenhanced Rating</i>           | A(SPUR)/Stable | Upgraded |
| Independence GO (AGM)<br><i>Unenhanced Rating</i>           | A(SPUR)/Stable | Upgraded |
| Independence GO (MAC)<br><i>Unenhanced Rating</i>           | A(SPUR)/Stable | Upgraded |

Many issues are enhanced by bond insurance.

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## Summary: Independence, Oregon; General Obligation

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Research Update:

# Independence, OR GO Debt Rating Outlook Revised To Negative From Stable On Diminished Reserve Position

May 29, 2026

## Overview

- S&P Global Ratings revised the outlook to negative from stable and affirmed its 'A' long-term rating on the City of **Independence**, Oregon's existing full faith and credit obligations and general obligation (GO) debt.
- The outlook revision reflects our view of Independence's diminished reserve position that we believe could weaken further in the near term as the city continues its transition following material adjustments to address its structural deficit.

## Rationale

### Security

Independence's GO bonds outstanding and full faith and credit obligations are secured by the city's full faith and credit, including the obligation to levy ad valorem property taxes. The property tax pledge applicable to its full faith and credit obligations is subject to certain constitutional restrictions on property tax revenue, such as a limit on assessed valuation growth, while the property tax pledge applicable to the GO bonds is unlimited. We rate the full faith and credit obligations on par with our view of the city's general creditworthiness given the fungibility of Independence's resources and because pledged revenue is not measurably narrower or subject to disproportionate risks relative to the obligor's overall revenue.

### Credit highlights

The rating reflects our view of the city's relatively limited economy and nominally low available cash position, which we believe could decline further in the near term. Providing credit uplift is Independence's improving financial management practices and transparency, with recent support from federal and external consultants providing grant funding and a fiscal recovery plan. The city's new management team has made notable improvements to address a structural imbalance by disentangling interfund dependencies, reducing fixed costs, and prioritizing

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economic development and revenue enhancements that we believe bolster Independence's overall operating framework. However, long-term structural balance remains dependent on revenue growth and improvement in the general fund's exposure to liabilities in underperforming funds that we believe could take some time and, if replenishment of liquidity is prolonged, we could take a negative rating action.

The city's general fund has historically supported other funds with negative or declining liquidity positions, including the urban renewal authority (URA). The URA fund currently maintains a negative net position and typically relies on other funds to cover its annual overdraft. Although Independence has discretion over the allocation to other funds, the general fund allocation has made up the entirety in the past several years, contributing to a growing receivable amount. Management expects recent enhancements to interfund dependencies and efforts to stimulate economic momentum will replenish the general fund over time, which we view as a credit positive overall; however, we believe that historically stagnant revenues could slow the city's progress in materially improving the overall liquidity position. In addition, Independence's auditors have confirmed that the fiscal 2025 fund balance position is inadvertently overstated due to the exclusion of non-spendable funds for a \$3.8 million loan receivable in the general fund. After netting out the nonspendable amount, available reserves are approximately \$1.3 million, or 24% of revenues. Excluding the interfund receivable from the URA, the available fund balance declines to about \$657,222, or about 11.5% of revenue, which we consider nominally low. Finally, the city also has a history of supporting debt service requirements related to MINET, the telecommunications utility it formed with its sister city, Monmouth, with the intention of being reimbursed. As of fiscal 2023, MINET has been self-supporting the outstanding obligations--limiting city general fund exposure--and will begin repaying the existing loan receivable.

Under the guidance of a new management team, Independence has made various structural improvements to improve its fiscal standing and address a structural deficit. In fiscal 2024, the city eliminated interfund dependencies that masked a general fund deficit, cut budgets to a minimal staffing level, and began working with external consultants to enhance budgetary practices. The city received technical assistance through the Federal Department of Housing and Urban Development's Distressed Cities and Persistent Poverty Technical Assistance Program in 2025 to improve its financial position with a team of consultants that prepared a comprehensive overview of the operating funds and established a forecasting model that the city intends to use as a long-term budgeting tool. In 2025, Independence published its fiscal recovery plan, which aims to restore structural balance and identifies one-time and ongoing budget initiatives to replenish reserves. The city indicates ongoing expenditure growth is expected to outpace revenue growth in the near term and the growing budget gap is unlikely to be addressed through additional cuts given the current minimal service levels, shifting the focus to revenue enhancements. The city plans to sell certain properties for one-time cash infusions to the general fund and received approval to increase various service fees by approximately \$1 million annually, which it expects will contribute to closer-to-balanced operations in fiscal years 2026 and 2027, though we will continue to monitor the city's ability to close the budget gap in the near term.

The rating reflects our view of Independence's:

- Limited, rural economy, reflecting economic output metrics and income indicators that are well below those of national peers. Population growth has been relatively strong in recent years, which we consider a credit strength if sustained. Located 12 miles south of the state capital, Salem, on the Willamette River, Independence is within commuting distance of major state offices to the north, as well as Western Oregon University in its sister city, Monmouth, to the west and Oregon State University 23 miles to the south in Corvallis. The city itself has an

active manufacturing presence, as well as food processing and wood and paper products. It aims to attract economic activity in the near term to aid in its path to fiscal recovery;

- Nominally low adjusted reserve position, which could be reduced further in the near term if revenue growth does not keep pace with expenditure growth. The fiscal 2026 result is expected to be balanced, but rising costs and stagnant revenues adds pressure to the budgets for fiscal 2027 and beyond. One-time revenue from sale of property could add an additional buffer to provide medium-term support, but ongoing budgetary amendments are necessary to ensure long-term fiscal stability. We view the recent budget enhancements as a credit positive but note some implementation risk related to the ongoing fiscal recovery plan;
- Enhanced financial practices following significant updates by the new management team and external consultants, including a robust budget development process, budget monitoring with quarterly budget-to-actual reports provided to the council, and recently developed long-term capital and financial plans that the city intends to maintain on a rolling basis. The current policies for debt and investment management largely reflect state guidelines, and the current management team expects to update all policies and practices. The informal general fund reserve target is \$1.8 million, which the city is currently below. Independence's cyber-risk mitigation measures align with our view of the city's overall risk management policies and practices.
- Moderately high debt burden, with no additional debt plans within the next three fiscal years. The city's debt outstanding is composed of several privately placed obligations, including a 2017 loan from the Oregon Infrastructure Authority (a state entity). The agreements allow for acceleration of outstanding principal as a remedy of default (currently \$2.7 million), which we consider posing a contingent liability risk. However, we note the city's sufficient total cash position and the historical state support as mitigating factors;
- Manageable long-term pension and other postemployment benefit costs and liabilities. The city participates in the Oregon Public Employees' Retirement System (PERS). Although Independence consistently makes 100% of its contractually required pension contributions, PERS plan total actuarially determined contributions fell short of both static funding and minimum funding progress in fiscal 2025, and we have adjusted our assessment to incorporate expected costs should they meet minimum funding progress; and
- Institutional framework, which incorporates the statutory limitations on revenue raising, a relatively predictable operating environment without a history of voter-initiative activity or frequent state-level changes that materially affect local government revenue-raising opportunities or expenditure requirements, and the city's history of producing annual generally accepted accounting principles-based audits. For more information on our institutional framework assessment for Oregon municipalities see "[Institutional Framework Assessment: Oregon Local Governments](#)," Sept. 11, 2024.

## **Environmental, social, and governance**

Independence is exposed to acute physical risks in the form of potential seismic activity, drought, flooding, and wildfires; we view these events as introducing risk to property values and operating revenue by extension. We consider social and governance factors neutral in our credit analysis.

## **Outlook**

The negative outlook reflects the one-in-three chance we could lower the rating in the next two years if the implementation of Independence's fiscal recovery plan is insufficient or delayed in

restoring the city’s reserve and liquidity position to a level we consider sustainable and comparable with those of similarly rated peers.

**Downside scenario**

We could lower the rating, potentially by multiple notches, if the city’s reserve position declines further as a result of growing cash overdrafts in the urban renewal funds or otherwise, without a credible plan in place to restore liquidity in a reasonable time frame.

**Upside scenario**

Should Independence’s recent and planned structural enhancements prove fruitful in stabilizing financial performance and indicate progress toward improving reserves, we could revise the outlook to stable.

**Independence, Oregon--credit summary**

|                                 |      |
|---------------------------------|------|
| Institutional framework (IF)    | 2    |
| Individual credit profile (ICP) | 4.01 |
| Economy                         | 6.0  |
| Financial performance           | 4    |
| Reserves and liquidity          | 4    |
| Management                      | 2.3  |
| Debt and liabilities            | 3.75 |

**Independence, Oregon--key credit metrics**

|  | Most recent | 2025      | 2024      | 2023      |
|--|-------------|-----------|-----------|-----------|
| <b>Economy</b>                               |             |           |           |           |
| Real GCP per capita % of U.S.                | --          | --        | 40        | 37        |
| County PCPI % of U.S.                        | --          | --        | 78        | 77        |
| Market value (\$000s)                        | --          | 1,410,255 | 1,341,874 | 1,200,384 |
| Market value per capita (\$)                 | --          | 134,940   | 128,397   | 116,181   |
| Top 10 taxpayers % of taxable value          | --          | --        | --        | 15.0      |
| County unemployment rate (%)                 | --          | 4.4       | 4.0       | 3.7       |
| Local median household EBI % of U.S.         | --          | --        | 95        | 95        |
| Local per capita EBI % of U.S.               | --          | --        | 69        | 66        |
| Local population                             | --          | --        | 10,451    | 10,332    |
| <b>Financial performance</b>                 |             |           |           |           |
| Operating fund revenues (\$000s)             | --          | 5,535     | 5,226     | 4,656     |
| Operating fund expenditures (\$000s)         | --          | 6,129     | 6,289     | 6,748     |
| Net transfers and other adjustments (\$000s) | --          | 213       | 328       | 1,398     |
| Operating result (\$000s)                    | --          | (381)     | (735)     | (694)     |
| Operating result % of revenues               | --          | (6.9)     | (14.1)    | (14.9)    |
| Operating result three-year average %        | --          | (12.0)    | (7.1)     | (10.2)    |
| <b>Reserves and liquidity</b>                |             |           |           |           |
| Available reserves % of operating revenues   | --          | 24.1      | 29.0      | 44.1      |

**Independence, Oregon--key credit metrics**

|                                      | Most recent | 2025   | 2024   | 2023   |
|--------------------------------------|-------------|--------|--------|--------|
| Available reserves (\$000s)          | --          | 1,333  | 1,514  | 2,053  |
| <b>Debt and liabilities</b>          |             |        |        |        |
| Debt service cost % of revenues      | --          | 17.1   | 27.7   | 21.6   |
| Net direct debt per capita (\$)      | 2,280       | 2,200  | 2,430  | 2,504  |
| Net direct debt (\$000s)             | 23,829      | 22,993 | 25,394 | 25,867 |
| Direct debt 10-year amortization (%) | 66          | 67     | 62     | --     |
| Pension and OPEB cost % of revenues  | --          | 7.0    | 9.0    | 8.0    |
| NPLs per capita (\$)                 | --          | 687    | 687    | 653    |
| Combined NPLs (\$000s)               | --          | 7,177  | 7,177  | 6,751  |

Financial data may reflect analytical adjustments and are sourced from issuer audit reports or other annual disclosures. Economic data is generally sourced from S&P Global Market Intelligence, the Bureau of Labor Statistics, Claritas, and issuer audits and other disclosures. Local population is sourced from Claritas. Claritas estimates are point in time and not meant to show year-over-year trends. GCP--Gross county product. PCPI--Per capita personal income. EBI--Effective buying income. OPEB--Other postemployment benefits. NPLs--Net pension liabilities.

**Ratings List**

**Outlook Action**

|   | To         | From     |
|---|------------|----------|
| <b>Local Government</b>                               |            |          |
| Independence, OR Limited Tax General Operating Pledge | A/Negative | A/Stable |
| Independence, OR Unlimited Tax General Obligation     | A/Negative | A/Stable |

The ratings appearing below the new issues represent an aggregation of debt issues (ASID) associated with related maturities. The maturities similarly reflect our opinion about the creditworthiness of the U.S. Public Finance obligor's legal pledge for payment of the financial obligation. Nevertheless, these maturities may have different credit ratings than the rating presented next to the ASID depending on whether or not additional legal pledge(s) support the specific maturity's payment obligation, such as credit enhancement, as a result of defeasance, or other factors.

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