National municipal Research, Inc.

Analysis of Fiscal Condition

Bend Metro Park & Recreation District, Deschutes County, Oregon

Full Faith and Credit Obligations, Series 2005

Bend Metro Park and Recreation District borrowed $7.2 million in 2005 to renovate the swim and fitness center and make other recreational improvements. The bonds were insured by AMBAC and do not carry a public underlying rating.

The bonds are secured by general non-restricted revenues of the district, including taxes levied. There is no appropriation risk and no lien on property or other assets. There is a covenant to budget and appropriate; however the district reserves the right to reallocate available revenues for other purposes. (Note: this type of security is slightly weaker than a general obligation unlimited tax, but common in the municipal finance world.)

There is no limitation on debt of this type. The district's real market value. (RMV) was $7.8 billion in 2005. According to the official statement, at the time of issuance the overall debt burden was about 1.1%. Pension liabilities, OPEB (other retiree benefits), limited tax debt and other long term obligations that consume taxpayer/ratepayer and district resources are not typically included as part of the debt burden. Properly, these obligations for all overlapping units should be included in the analysis — but this data is not easily available.

Employees are covered by the Oregon Public Employee Retiree System (OPERS), a state system that manages the pension funds on behalf of local government units. While OPERS was 116% funded in 2007, investment losses may have occurred since then and they assume an 8% investment return (common, but unrealistic in the recent and near term environment, even with a smoothing approach).

In 2004 a developer borrowed $3.4 million to create a community based on JRR Tolkien's Lord of the Rings. The community never got built.

We note that taxpayer activism in Oregon is part of the political culture. The state is an initiative and referendum state. These bonds did not have to be voted.

Park and recreation districts are especially exposed to liability risk in the use of their facilities. For example, an accident at the pool or on playground equipment could put a district into financial strain if a judgment goes against them. The district is a member of a pooled program called "Special District Insurance Services," a good fact.

A significant component of the district's revenues are system development charge fees. These are restricted to capital improvements and are charged on a per unit basis on new development. Given the virtual halt to new development, these revenues were down 52% in fiscal year 2008 and are down another 38% year to date in the district's audit. As a result, the district will likely cut back on capital improvements and appears aware of the importance of fiscal conservatism at this time.

Bend is located in central Oregon, 17 miles from Redmond, and is an attractive tourist and recreation destination. The city serves as a retail center and includes a major regional hospital (St. Charles). The district puts its population at about 79,000 which comprises about half of Deschutes County. The city's general obligation is rated A1. Unemployment in June 2009 was 14.8% in the Bend MSA, significantly higher that the 9.7% U.S. average.

The attractiveness of the area along with easy money led to a building boom in the 2004-2007 period. For example, in 2004 a developer borrowed $3.4 million to create a residential community based on JRR Tolkien's *Lord of the Rings*. The community never got built, Umpqua Bank received no bids on auction and foreclosed in January 2009. Roughly one in every 160 homes is in foreclosure, according to Realtytrac.

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CREDIT OPINION

Probability of default is relatively low. The district has strong flexibility to cut programs and capital expenditures as necessary. The district also appears to be managing its finances in a fiscally conservative manner, given the economic difficulties. While the services provided are important and much-loved, they are not essential and relatively flexible (i.e. shorter swim hours, selected closings, plus eliminating or reducing capital projects.) Unemployment and foreclosures are high, which continue to reduce tax collections and collection of the system development fee. We put this credit a bit below the city's general obligation unlimited tax bonds on account of the "available revenue" security in the financing agreement.

KEY FACTS

Dated Date:	April 15, 2005
Original Issue Amount (outstanding):	$7,155,000 ($6,155,000)
Final Maturity:	2025
Sample CUSIP:	081645BR3
Credit Enhancement:	AMBAC
Call Feature:	June 1, 2016
Issuer Website:	www.bendparksandrec.org
Sector:	Special District
Auditor's Opinion:	(2008) Clean

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