STANDARD & POOR'S
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Summary:

Hermiston, Oregon; General Obligation

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Table Of Contents

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Credit Profile		
Hermiston GO bnds		
Long Term Rating	AA-/Stable	Upgraded

Rationale

Standard & Poor's Ratings Services raised its long-term rating on Hermiston, Ore.'s general obligation (GO) debt to 'AA-' from 'A+' based on our local GO criteria released Sept. 12, 2013. The outlook is stable.

The rating reflects our view of the city's:

Weak economy

We consider Hermiston's local economy weak, with projected per capita effective buying income at 73% of the national average and per capita market value at roughly $55,000. The Umatilla County unemployment rate in 2013 was 8.1%, according to the Bureau of Labor Statistics, and has been declining. The city's location at the intersection of routes connecting Seattle and Portland with the inland cities of Boise and Spokane makes it a valuable center for processing, distribution, and logistics for the surrounding agricultural area.

Strong management

We revised our assessment of Hermiston's management conditions to strong from good, based on its recent adoption of formal debt management, financial reserves, investment management, and long-term financial planning policies. Strengths of the assessment, in our opinion, include the city's analysis of historical trends in its revenue and expenditure assumptions, monthly budget-to-actual reporting to the council, and reserve policy that calls for general fund reserves to equal at least 15% expenditures.

Very strong budgetary flexibility

In our view, Hermiston's budgetary flexibility is very strong, with available reserves at 59.8% of operating expenditures in fiscal 2013, and anticipated ending reserves in excess of 50% of expenditures for fiscal 2014. Reserves are a credit strength, in our opinion, because the available fund balance was above 30% for the most recent audited year and we expect it will remain above 30% for the current and following years.

Very strong liquidity

The city's finances are supported by very strong liquidity, in our opinion, with total government available cash equal to 233% of government fund expenditures and 178.3x debt service. Based on past issuance of debt, we believe that the issuer has strong access to capital markets to provide for liquidity needs if necessary.

Adequate budgetary performance

Hermiston's budgetary performance is adequate overall, in our opinion, with a deficit of 2.5% for the general fund and a surplus of 2.9% for the total governmental funds in fiscal 2013. Unaudited estimates for fiscal 2014 indicate similar results in the general fund, primarily stemming from growth in public safety personnel costs, although revenues are also growing. Based on the fiscal 2015 budget, we do not anticipate that budgetary performance will worsen next year. The city is currently constructing a trade and events center as a joint venture with Umatilla County, and will jointly support operations upon the center's opening in 2016. We do not expect the operating costs will negatively affect financial performance; however, should costs exceed expectations or revenues not materialize as projected, we will assess the impact on the city's budget.

Strong debt and contingent liabilities

We consider Hermiston's debt and contingent liabilities profile strong. Net direct debt is 56% of total governmental funds revenue, and total governmental funds debt service is 1.3% of expenditures. Last year, Hermiston contributed 100% of its annual required pension contribution. While annual pension and other postemployment benefit costs accounted for 11% of total government expenditures in fiscal 2013, which we view as somewhat elevated, we do not consider the city's pension burden to be high given that the Oregon Public Employees Retirement System plan is 92.5% funded and is not expected to cause significant budgetary pressure as a result of increasing contributions in the future.

Strong institutional framework

We consider the institutional framework score for Oregon municipalities to be strong. See Institutional Framework score for Oregon.

Outlook

The stable outlook reflects our opinion of the city's very strong reserves, which we believe give it the ability to withstand further deficits in the general fund before structural imbalance puts pressure on the rating. In light of the city's strong management policies and practices, we do not expect to lower the rating during the two-year outlook horizon; however, if management were to allow deficits to grow without taking action to address them, we could lower the rating in the future. We do not expect to raise the rating given our view of the city's limited economy and adequate budgetary performance.

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

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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