MOODY'S INVESTORS SERVICE

CREDIT OPINION
20 November 2017

New Issue

Rate this Research

Contacts

Patrick Liberatore *AVP-Analyst* patrick.liberatore@moodys.com	+1.415.274.1709
Leonard Jones *MD-Public Finance* leonard.jones@moodys.com	+1.212.553.3806
Dan Steed *AVP-Analyst* dan.steed@moodys.com	+1.415.274.1716

CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454

Multnomah County, OR

New Issue - Moody's Assigns Aaa to Multnomah County, OR's 2017 FFC Obligations; Outlook Stable

Summary Rating Rationale

Moody's Investors Service assigned a Aaa rating to Multnomah County, Oregon's Full Faith and Credit Obligations, Series 2017 in the expected amount of $175 million. Moody's maintains a Aaa issuer rating on the county and Aaa ratings on its outstanding full faith and credit obligations and pension bonds of $140.1 million and $94.3 million, respectively. The county's outlook is stable.

The Aaa rating reflects the county's very large tax base and the strong Portland metro economy, a healthy financial position even as reserves will moderate in the near term with one-time spending, and debt and pension burdens that are expected to remain manageable.

Credit Strengths

» Strong local economy with favorable demographics supported by greater Portland metro economy

» Low debt and moderate pension burden lead to manageable fixed costs

» Satisfactory reserves and liquidity support operating flexibility

» Reliance on relatively predictable and moderately growing property taxes to fund operations and debt service

» Large and growing tax base

Credit Challenges

» Fixed costs will increase, to expectedly still manageable levels, with escalating debt service and pension contributions

» Smaller tax revenue streams from business income and tourism subject to economic volatility

Rating Outlook

The stable outlook reflects expectations that the Portland metro area's economy will remain strong and that the county will maintain a satisfactory financial position. The county's fixed costs should remain manageable despite growth in debt and pension burdens over the next few years.

Factors that Could Lead to an Upgrade

» Not applicable

Factors that Could Lead to a Downgrade

» Substantial deterioration of the county's financial position

» Material growth in fixed costs burden

» Significant and prolonged deterioration of the economy and tax base

Key Indicators

Exhibit 1

Multnomah (County of) OR	2012	2013	2014	2015	2016
Economy/Tax Base					
Total Full Value ($000)	$ 95,354,432	$ 93,735,420	$ 98,078,710	$ 108,173,728	$ 119,581,740
Full Value Per Capita	$ 129,363	$ 125,375	$ 129,499	$ 140,775	$ 153,805
Median Family Income (% of US Median)	101.1%	101.8%	101.6%	104.1%	104.1%
Finances					
Operating Revenue ($000)	$ 411,981	$ 435,940	$ 486,588	$ 499,399	$ 552,585
Fund Balance as a % of Revenues	27.0%	26.0%	24.9%	30.8%	29.5%
Cash Balance as a % of Revenues	30.8%	27.6%	27.1%	33.4%	33.1%
Debt/Pensions					
Net Direct Debt ($000)	$ 249,916	$ 342,965	$ 316,564	$ 293,833	$ 273,840
Net Direct Debt / Operating Revenues (x)	0.6x	0.8x	0.7x	0.6x	0.5x
Net Direct Debt / Full Value (%)	0.3%	0.4%	0.3%	0.3%	0.2%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)		3.0x	2.8x	2.3x	2.0x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)		1.4%	1.4%	1.0%	0.9%

Note: operating funds include the general fund and debt service funds
Source: Moody's Investors Service; Multnomah County

Recent Developments

Recent developments incorporated into Detailed Rating Considerations.

Detailed Rating Considerations

Economy and Tax Base: Strong Portland Metro Economy; Very Large and Growing Tax Base

Multnomah County is a large jurisdiction with 790,670 residents, anchored by the City of Portland (Aaa stable). The greater metro area is a regional economic center of the Pacific Northwest and exhibited an unusually strong recovery from the recession. The diverse economy is in an ongoing expansion driven by technology, particularly with growth in software, according to Moody's Analytics. Nevertheless, economic expansion is broadly-based and benefits from a favorably diverse job mix accompanied by rising wages. Unemployment fell to a low 4% as of August 2017 and notably below the nation. Median family income is somewhat modest at 104.1% of the US but is not unlike some other large, urban areas.

The county's tax base grew rapidly in recent years to a very large real market value (RMV) of $158.6 billion for FY2018, an all-time high. Robust growth is driven by appreciation in values for existing property as well as commercial and residential development underpinned by economic expansion. The ten largest taxpayers comprised just 4.7% of FY2017 assessed value (AV), reflective of the large and diverse economy. Full value per capita, a proxy for wealth, is strong at $200,528.

Financial Operations and Reserves: Healthy Finances Supported by Strong Economy; Reserves to Moderate after One-Time Spending

The county exhibited a trend of better than balanced finances with operating funds' revenues averaging 1.02 times expenditures for FY2012-16. Finances benefit from broad-based growth in taxes supported by growing property values and new development, along with the strong economy. At the same time, expenditure growth is not on an atypical trend and the county also makes pay-go capital contributions from its operating funds to support projects. Available reserves in operating funds grew to a healthy 29.5% of revenues by FY2016 ($162.8 million). We include the general fund and all governmental debt service funds as the county's operating funds. The general fund alone had satisfactory reserves of 13.6% of revenues ($69.3 million), leaving the majority of operating funds attributable to cash accumulated in the pension bond fund ($85.8 million) from interdepartmental charges, along with small balances in other debt service funds.

Unaudited data for FY2017 indicates that operations were slightly better than balanced, though available reserves declined to approximately $146.1 million due to a $25 million supplemental deposit to the county's employer account with the Oregon Public Employees Retirement System (OPERS). The county made this additional contribution from its pension bond fund to help with its funded status for pension liabilities, and was in addition to its actuarial contributions. For FY2018, the budget is balanced and supported by estimated 5% growth in taxes and expenditure growth of less than 4% for the general fund. The county anticipates making an additional $25 million supplemental deposit to OPERS, which would further narrow reserves but could reduce the pace of future pension contribution growth.

The county's revenues continue to grow with support from strong economic fundamentals. Property taxes, the county's largest resource at half of operating funds' revenues, continue to grow with AV which realizes stable annual growth due to Measure 50 provisions. AV across most classes on per-property basis grows by up to 3% annually as long as AV remains below RMV, plus adjustments for new development and improvements. This provides important downside protection to the taxable base and property tax revenues in periods of RMV contraction. The county's aggregate ratio of AV to RMV retreated to a low 49.4% in aggregate as of FY2018, implying significant and widening margin that supports continued AV growth. Total net AV growth was 4.1% for both FY2016 and FY2017 with the impact of new development. Other notable tax revenue streams include business income tax (14.6% of FY2016 operating revenues) which grew at a strong five-year average of 10.7% through FY2016 due to the expanding regional economy, and motor vehicle rental taxes (5.1% of FY2016 operating revenues) were supported by the economy and growth in tourism.

Expenditures in operating funds are driven by public safety and health and social services. Public safety costs grow unevenly but average a single-digit pace which aligns to growth in compensation under labor agreements as well as increasing pension contributions. Health and social services grew since the implementation of the Affordable Care Act and the state's expansion of Medicaid coverage, as did related revenues; the county has flexibility to right-size services as needed to match available resources. Expenditure growth in FY2016 largely reflected resources for mental health and addiction services that were transferred to health and human services during the year, and a one-time transfer from the general fund of $28.1 million for the county courthouse project. General government, another large expenditure, continued to grow at a modest pace. Officials noted that departments tend to under-spend by 3% annually, which allows some budgetary upside and additional flexibility for operations.

LIQUIDITY

Available liquidity in operating funds was a healthy 33.1% of revenues in FY2016 ($182.8 million) and follows a trend similar with fund balances. The county does not engage in cash flow borrowing for operations.

Debt and Pensions: Low Leverage; Moderate Fixed Costs to Remain Manageable

The county's debt burden is very low at 0.3% of FY2018 RMV and 0.7 times FY2016 operating revenues, including the current offering. Future debt plans are modest so the county's debt burden should remain favorable.

Management anticipates issuing an additional full faith and credit backed obligations of approximately $110 million in the coming year for completion of the county courthouse. However, the state is expected to provide $92.6 million in the 2017-19 biennium from its bond proceeds to contribute funds on a reimbursement basis to the county for the project. Those funds would represent the remainder of the state's $125 million appropriation for the courthouse.

The county's fixed costs were moderate at 15.2% of operating revenues in FY2016, though fixed costs will rise over the long term to levels expected to remain manageable. Fixed costs primarily consist of debt service and employer pension contributions as well as modest OPEB payments for explicit benefits. Pension contributions will rise in coming years, but management is contributing supplemental funds to the pension system to address its long-term pension liability, which is uncommon amongst local governments in Oregon. Scheduled debt service will grow with the current and planned issuances. However, continued though modest revenue growth will somewhat blunt the impact on the county's fixed costs, and the burden is currently favorable compared to many local governments nationally.

DEBT STRUCTURE

Estimated debt service for full faith and credit obligations, following the current offering, is $32 million in FY2019 and FY2020 then steps down incrementally thereafter until final maturity in FY2047 (when debt service would be only $5.9 million annually).

The county's pension bonds (also secured by its full faith and credit) have escalating debt service, owing to compounding interest for future maturities due to deferred interest, with annual repayments growing from $23.8 million in FY2019 to $43.2 million by FY2030. Interdepartmental charges are a substantial resource for funding debt service and also pension contributions.

Policies also require that not more than 5% of general fund expenditures are used for debt service, which helps to preserve financial flexibility and a portion of debt service is paid from other resources related to debt purposes.

DEBT-RELATED DERIVATIVES

The county does not have debt-related derivatives.

PENSIONS AND OPEB

The county participates in the statewide OPERS plans. The county's adjusted net pension liability (ANPL) averaged $1.1 billion for FY2014-16, which was equivalent to 2.0 times FY2016 operating revenues and 0.7% of FY2018 real market value. ANPL reflects certain adjustments we make to improve comparability of reported pension liabilities. Moody's adjustments are not intended to replace reported liability information, but to improve comparability with other rated entities.

OPERS employer contributions are rising starting in FY2018 (using the plan's 2015 valuation) with new biannual contribution rates that reflect the unfavorable impacts of recent legal setbacks from the overturning of legislative reforms to slow growth in pension benefit payments statewide (the *Moro* decision from the Oregon Supreme Court), uneven investment returns, and changes to actuarial assumptions. Also, OPERS just reduced its assumed earnings rate to 7.2% from 7.5%, which alone will increase unfunded liabilities in the system's next actuarial valuation. Investment returns, especially in the current year, are strong so far and would help with the plan's funded status. The county annually funds 100% of its actuarially determined pension contributions which totaled $60.9 million as of FY2017.

The county has a supplemental account with OPERS funded initially with $180 million of pension bond proceeds in 1999. The county is now appropriating accumulated balances in its pension bond fund to make supplemental deposits to improve the county's funded status with OPERS and slow its pace of pension contribution increases by having these funds invested alongside OPERS assets. The FY2017 supplemental payment was estimated to reduce the county's employer contribution rate by 0.55%, equivalent to a 12-17% reduction in its contribution rate increase for the 2017-19 biennium.

The county provides two explicit OPEB for employees are modest liabilities. The single-employer plan provides qualified retirees with 50% coverage of medical insurance premiums, and contributions were $8.4 million and $6.3 million, respectively, in FY2016 and FY2017. However, only a fraction represents the explicit benefit and was $2.5 million and $2.8 million, respectively, in FY2016 and FY2017 with the majority relating to implicit benefits. The county also contributes to the statewide Retiree Health Insurance Account (RHIA) administered by OPERS that provides a monthly subsidy for health insurance and its annual contribution was small at $1.6 million in FY2016. The county has a risk management fund with a reported $40 million of fund balance set aside for OPEB liabilities.

Management and Governance: Prudent Leadership

Te county has extensive policies that guide its financial position. For instance, the general fund is required to have an unappropriated reserve balance of 10% of corporate revenues (property, business income, and motor vehicle rental taxes), which it regularly surpasses, and also a reserve of 10% of business income taxes as a contingency against economic volatility. The county also fully funds management's stipulated reserve requirements then allocates 50% of one-time excess balances to capital projects, which limits debt needs.

Oregon Counties have an Institutional Framework score of Aa, which is high compared to the nation. Institutional Framework scores measure a sector's legal ability to increase revenues and decrease expenditures. Property tax, a major revenue source, is subject to a cap which can be overriden with voter approval only. However, the cap of approximately 3% for most properties still allows for moderate revenue-raising ability. Unpredictable revenue fluctuations tend to be minor, or under 5% annually. Across the sector, fixed and mandated costs are generally less than 25% of expenditures. However, Oregon has public sector unions, which can limit the ability to cut expenditures. Unpredictable expenditure fluctuations tend to be minor, under 5% annually.

Legal Security

The city's debt obligations are secured by the city's full faith and credit pledge of all legally available resources, and debt service is not subject to appropriation.

Use of Proceeds

The obligations will finance portions of capital projects to replace or improve facilities, including: the central court house, the health department's administrative building and downtown clinics, and remodeling parole and probation services offices. The remainder will finance a portion of replacing the county's enterprise resource planning system.

Obligor Profile

Multnomah County spans the City of Portland and some suburbs within the greater metro area. The county is the largest population center in Oregon with 790,670 residents.

Methodology

The principal methodology used in this rating was US Local Government General Obligation Debt published in December 2016. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

Ratings

Exhibit 2

Multnomah (County of) OR

Issue	Rating
Full Faith and Credit Obligations, Series 2017	Aaa
Rating Type	Underlying LT
Sale Amount	$175,000,000
Expected Sale Date	11/30/2017
Rating Description	General Obligation Limited Tax

Source: Moody's Investors Service

REPORT NUMBER 1099640

CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454

MOODY'S INVESTORS SERVICE