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Ratings

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Summary:

Multnomah County, Oregon; General Obligation

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Credit Profile		
US$175.0 mil full faith and credit oblig (New County Courthouse) ser 2017 due 06/01/2047		
Long Term Rating	AAA/Stable	New
Multnomah Cnty Full Faith and Credit GO		
Long Term Rating	AAA/Stable	Upgraded

Rationale

S&P Global Ratings raised its rating to 'AAA' from 'AA+' on Multnomah County, Ore.'s full faith and credit obligations outstanding. At the same time, S&P Global Ratings assigned its 'AAA' rating to the county's full faith and credit obligations, series 2017. The outlook is stable.

The raised rating reflects our view of the county's improved economic indicators, including both market values and incomes, coupled with the county's ability to manage through very rapid growth by maintaining strong budgetary performance and flexibility.

The bonds are full faith and credit obligations of the county and are payable from all lawfully available funds of the county, taxed within current limitations as to rate or amount.

The 2017 obligations are being issued to finance the replacement of the Multnomah County Central Courthouse, the Health Department administrative offices and downtown clinics, and the Enterprise Resource Planning system, as well as improvements to county-owned facilities that house parole and probation services.

The county's full faith and credit obligations are eligible to be rated above the sovereign because we believe the authority can maintain better credit characteristics than the U.S. in a stress scenario. Under our criteria "Ratings Above The Sovereign: Corporate And Government Ratings--Methodology And Assumptions," published Nov. 19, 2013, on RatingsDirect, U.S. local governments are considered to have moderate sensitivity to country risk. The institutional framework in the U.S. is predictable for local governments, allowing them significant autonomy, independent treasury management, and no history of government intervention. The pledged revenues are also all locally derived.

The rating additionally reflects our view of the county's:

- Very strong economy, with access to a broad and diverse metropolitan statistical area (MSA);
- Strong management, with good financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Strong budgetary performance, with an operating surplus in the general fund and break-even operating results at the total governmental fund level in fiscal 2016;
- Strong budgetary flexibility, with an available fund balance in fiscal 2016 of 14.7% of operating expenditures;
- Very strong liquidity, with total government available cash at 27.5% of total governmental fund expenditures and

7.2x governmental debt service, and access to external liquidity we consider strong;
- Very strong debt and contingent liability position, with debt service carrying charges at 3.8% of expenditures and net direct debt that is 36.2% of total governmental fund revenue, as well as low overall net debt at less than 3% of market value; and
- Strong institutional framework score.

Very strong economy

We consider the county's economy very strong. Multnomah County, with an estimated population of 787,297, is located in the Portland-Vancouver-Hillsboro, Ore.-Wash. MSA, which we consider to be broad and diverse. The county has a projected per capita effective buying income of 112% of the national level and per capita market value of $245,062. Overall, the county's market value grew by 13.6% over the past year to $192.9 billion in 2018. The county unemployment rate was 4.3% in 2016.

Multnomah County is the state's most populous county and the home to Portland, the county seat and the state's largest city. The county has been growing rapidly since the Great Recession and is home to many large companies. The largest employers in the Portland region are Nike, Intel, Providence Health System, Safeway, Oregon Health & Sciences University, Fred Meyer, Kaiser Foundation Health Plan, and Legacy Health System. Due to its proximity to Washington State, the county also benefits from the growing Vancouver, Wash., economy.

Strong management

We view the county's management as strong, with good financial policies and practices under our FMA methodology, indicating financial practices exist in most areas, but that governance officials might not formalize or monitor all of them on a regular basis.

The county uses data from the state economist and the Oregon Economic Forum for its revenue assumptions. Expenditures are based on contracted and expected contracts with unions. The county presents quarterly budget-to-actual reports to its board. Additionally, the county maintains a five-year financial forecast, which is used for outyear budget planning purposes. The county also has an investment policy that calls for monthly reports on holdings and that complies with state law. The county's debt policy limits debt service to 5% of budgeted revenues and specifies which types of bonds can be issued. The county is in the process of finalizing a 20-year capital plan that will be reviewed annually, but this plan has not yet been finalized. Finally, the county complies with its reserve policy of 10% of discretionary revenues.

Strong budgetary performance

Multnomah County's budgetary performance is strong in our opinion. The county had surplus operating results in the general fund of 7.9% of expenditures, and balanced results across all governmental funds of 0.5% in fiscal 2016. Our assessment accounts for the fact that we expect budgetary results could deteriorate somewhat from 2016 results in the near term.

The county has posted operating surpluses the last three years, including a very strong, 7.9% surplus in fiscal 2016, after adjusting $28.1 million in one-time expenses to pay for the downtown courthouse capital construction.

Fiscal 2017 unaudited actuals show a small, $2.2 million surplus, which boosted reserves to $75.5 million, or 13.3% of expenditures. Although the county had budgeted to use unappropriated fund balance, it ended significantly better than budgeted, consistent with prior years. The surpluses are due to conservative budgeting on revenues, which were $20 million more than budgeted. Additionally, the county budgeted for $9.5 million in contingency, which it did not use, and underspent on most of its expenditure line items.

Similarly, the fiscal 2018 budget includes the use of fund balance to balance the budget. The county has included $12.7 million in contingency funding and $25 million in one-time costs related to the county courthouse and health buildings. While we do expect that the county will not have surpluses greater that 5% of expenditures in the general fund, we expect that the performance will remain at least balanced.

Strong budgetary flexibility

Multnomah County's budgetary flexibility is strong, in our view, with an available fund balance in fiscal 2016 of 14.7% of operating expenditures, or $69.3 million.

The county continues to maintain strong reserves, consistent with current budgeting and recent trends. We expect that the fund balance will remain strong. While the county is self-funding a significant portion of its courthouse and health center capital projects, they have been built into its budget and are not expected to cause a deterioration in fund balance.

Very strong liquidity

In our opinion, Multnomah County's liquidity is very strong, with total government available cash at 27.5% of total governmental fund expenditures and 7.2x governmental debt service in 2016. In our view, the county has strong access to external liquidity if necessary.

The county's liquidity remains very strong, and we do not expect it to weaken in the near term, given the county's strong financial position and conservative budgeting. Although state law allows for some permissive investments, we do not consider the county's investments to be aggressive, as they are invested primarily in U.S. treasuries and agencies with the State Treasurer's Local Government Investment Pool. The county does not have any direct purchase or private placement debt that could pose a liquidity risk.

Very strong debt and contingent liability profile

In our view, Multnomah County's debt and contingent liability profile is very strong. Total governmental fund debt service is 3.8% of total governmental fund expenditures, and net direct debt is 36.2% of total governmental fund revenue. Overall net debt is low at 1.7% of market value, which is in our view a positive credit factor.

To complete the courthouse project, the state will contribute about $100 million in matching funds. Due to timing issues, the county may issue short-term debt to finish the project before the state funding arrives. However, we do not expect that this debt will weaken the county's debt metrics due to the short-term nature of the projected issuance.

Multnomah County's combined required pension and actual other postemployment benefit (OPEB) contributions totaled 3.9% of total governmental fund expenditures in 2016. Of that amount, 3.2% represented required contributions to pension obligations, and 0.7% represented OPEB payments . The county made its full annual required pension contribution in 2016.

Multnomah County participates in the Oregon Public Employees Retirement System, and made its full contribution of

$36.6 million toward its pension plan in fiscal 2016. The county expects that pension costs will rise and has set aside $25 million in a side fund to help offset the increasing liability. Additionally, the county offers OPEBs to employees from age 58 to 65 and funds these expenses on a pay-as-you-go basis. With the state pension system increasing the age of retirement to 65, the county expects that this liability will eventually be greatly reduced.

Strong institutional framework

The institutional framework score for Oregon counties is strong.

Outlook

The stable outlook reflects our anticipation that the county's reserve levels will remain strong. Adding to the stability of the rating are the county's access to the diverse economy of Portland and the area's wealth, which, in our opinion, can support the county's debt needs. We could lower the rating if the county is unable to maintain at least an adequate level of reserves due to a weakening of budgetary performance spurred by the needs of a growing population outpacing revenue growth.

Related Criteria And Research

2017 Update Of Institutional Framework For U.S. Local Governments