

# Introductory Section





# Oregon

John A. Kitzhaber, M.D., Governor



## Housing and Community Services

Street Address: 1600 State Street  
Mailing Address: PO Box 14508  
Salem, OR 97301-4246



(503) 986-2000  
FAX (503) 986-2020  
TTY (503) 986-2100  
<http://www.hcs.state.or.us>

November 19, 2001

The Honorable John A. Kitzhaber  
Governor of the State of Oregon  
State Capitol  
Salem, Oregon 97310

We are pleased to submit the Annual Financial Report of the Oregon Housing and Community Services Department's (OHCS) Proprietary Fund Type - Enterprise Funds, for the fiscal year ended June 30, 2001. The financial statements, presented on pages 16-43, do not present all activities and financial positions of OHCS, but the enterprise activities only. These activities are reported as a separate fund of OHCS and an annual financial report is issued for these activities in accordance with OHCS's Indentures of Trust. OHCS's Governmental and Fiduciary Fund Types and Account Group Statements are presented as Supplementary Information for the purpose of additional analysis. OHCS management is responsible for both the accuracy of data and the completeness and fairness of the presentation, including all disclosures.

The report consists of three sections, plus supplementary information: (1) an Introductory Section, composed of this letter of transmittal and an organization summary; (2) the Financial Section which contains the audit opinion of the Oregon Audits Division as well as the Department's financial statements for its Proprietary Fund Type - Enterprise Funds; and (3) the Statistical Section, which includes significant data related to the Enterprise Funds. Supplementary Information includes data on Governmental Fund types, Fiduciary Fund types and Account Groups.

## ECONOMIC CONDITION AND OUTLOOK

According to the Oregon Office of Economic Analysis (OEA), the State's economy "grew slower than the U.S. economy in 1998, 1999, and 2000." The OEA expects the Oregon economy to continue its slow growth and again be lower than the U.S. economic growth for 2001. While the Oregon economy is forecasted to continue its slow growth between 2002 and 2007, the U.S. economy is expected to have even slower growth. The OEA forecasts "employment growth to be flat for 2001" and to "continue to be slow in 2002 before reaching above 2.0% growth in 2003."

Personal income and total wage and salary are predicted to increase 4.0% in 2001, which is forecasted significantly lower than the growth rates experienced in 2000. The 2000 personal income growth was 8.1%, while the wage salary growth increased by 9.5% from its 1999 rate. The State Economist predicts personal income to increase in 2002 by 5.5%, and wage and salary is forecasted to increase by 6.0%. Both of these projections are expected to be higher than the national average.

Oregon continues to have some of the least affordable housing markets in the nation. Housing prices increased by 4.1% in 2000, compared to the 5.0% increase in housing prices seen nationally. However, the OEA is forecasting a reversal of trends over the next two years. Oregon housing prices are forecasted to increase by 5.8% in 2001, and 4.9% in 2002, while the national forecast is projected to only increase by 2.6% and 4.2% for 2001 and 2002, respectively.

## **MAJOR INITIATIVES**

Over the past year, OHCSO has continued to be involved with the Community Solutions Teams (CST). The CST is an inter-agency team that includes the departments of Transportation, Environmental Quality, Land Conservation and Development, and Economic and Community Development, as well as OHCSO. The CST network promotes collaborative problem solving between state agencies and works with local partners to help resolve community development problems. The CST has continued over this past year to focus on implementing the Oregon Livability Initiative. The 1999 Legislature passed the main elements of the Initiative, which is designed to create jobs in distressed communities, increase the supply of affordable housing, reduce traffic congestion and sprawl, revitalize downtowns, and form community solutions teams throughout the state. Five full-time Regional Coordinators are now in place, strengthening Regional Community Solutions Teams in the field and working directly with the teams, as well as regional partnerships, local officials, and citizens to help solve community development problems at the local level. The Coordinators also help facilitate collaborative problem solving by providing an additional bridge between state and local agencies. One of the primary initiatives of the Community Solutions Team over the past year has been outlining the future of Community Solutions agency coordination and collaboration. The five CST agency directors have identified specific steps they will take to ensure their agency structures and cultures reflect a commitment to solving problems at the local level. OHCSO is providing strong leadership in this area by focusing on developing additional farmworker housing, administering the Community Incentive Fund for community development projects, and developing a housing needs analysis model to help communities determine future housing needs.

The Department of Administrative Services issued \$5 million of lottery-backed bonds in support of the Community Incentive Fund in March of 2001. The Community Incentive Fund is administered by OHCSO and is aimed at revitalizing downtowns and mainstreets, developing affordable housing near jobs and transportation, and helping to rebuild rural and distressed communities. With the \$5 million of bond proceeds, the Department awarded funds to 14 projects throughout geographically diverse locations within the state that vary in size and scope. Examples of these projects included rehabilitation of historic buildings, infill mixed-use developments, and public infrastructure. There was a total of \$73 million additional state, local and private investments leveraged through the funding of these 14 projects. The 2001 Legislature appropriated \$20 million of lottery-backed bond authority for the 2001-03 biennium to be utilized through the Community Incentive Fund.

OHCSO delivered a report to the Legislature in November of 2000 that provided the current state of homelessness in Oregon. This report showed that in 1999, the average number of persons who are homeless or at risk of becoming homeless and seeking shelter assistance on any given night was 8,840. 37%, or 3,236, of those were children age 17 and under. Of the 3,236 children age 17 and under, 67% were age 11 and under. The face of homelessness has definitely changed during the last ten years. Ten years ago, the homeless population was predominately single men. Families facing homelessness usually arrived there due to a single major event in their lives such as severe illness, job injury, job loss, and natural disaster. The homeless population also tended to be unemployed. Today the homeless look very different. Community Action Programs report at least tripled numbers for teens, pregnant teens, those escaping domestic violence and single parent families. The number of children on the streets has doubled. Families facing homelessness today are generally employed, but their incomes do not meet the living wage needed to maintain housing. These are the working poor. Many of the homeless ten years ago were older than 45 while now the highest percentage is age 24-44. Community Action Programs also report a dramatic increase in the number of homeless

with mental illness, drug and alcohol issues, and inmates released from prison with a mental illness. The 2001 Legislature shifted \$1.4 million of funding to assist OHCS D in confronting the problem of homelessness in the 2001-03 biennium. The Department has identified homeless assistance as one of its top priorities within its strategic plan.

During the 2001 Legislative Session, OHCS D was designated as the primary state agency for farmworker housing information and other specific duties. In addition, the Department was assigned the administration of the farmworker housing tax credit program, which was previously administered by the Department of Consumer and Business Services. With these new responsibilities, and the lack of adequate farmworker housing in the State of Oregon, the Department has identified farmworker housing as one of its top strategic initiatives. In the 1999-2001 biennium, OHCS D allocated \$2.2 million in grants and \$1.8 million in tax credits from a combination of special funds appropriated by the Legislature and the OHCS D consolidated funding cycle. These funds created the necessary gap funding to create a total of 301 affordable housing units, in which 121 units were specifically for migrant farmworkers and their families. A total of 481 migrant farmworkers were housed with these units. The total state and private resources put into these projects was \$18.3 million.

In August 2000, OHCS D assumed its new responsibility as Housing Urban Development's (HUD) Section 8 Contract Administrator for federal HUD-financed Section 8 properties located throughout Oregon. During the last year, the Department has monitored and enforced compliance for 169 HUD-financed projects throughout the state to ensure that safe, decent, sanitary, and affordable housing is available for low-income Oregonians. These 169 projects equate to 5,877 units of affordable housing. To date, OHCS D has performed all contracted services above the acceptable quality levels established by HUD.

OHCS D's focus is to achieve excellence in all aspects of its internal operations and to set the standard for state government service delivery. The Department has identified nine major initiatives as part of its strategic plan for the 2001-03 biennium. As mentioned above, homeless assistance and farmworker housing are two of these initiatives. The Department has also identified affordable housing preservation, community capacity building, and transitional housing assistance and services for offenders as three other externally focused initiatives. In addition, OHCS D has four initiatives related to improving its operational efficiencies. These goals relate to research, evaluation, data collection, communications, internal controls, performance measurements, and program development. Collectively, all nine goals will help the Department to better meet the housing and community service needs of low-income Oregonians.

## FINANCIAL INFORMATION

### Discussion of Controls

Management is responsible for establishing and maintaining a system of internal controls designed to provide reasonable assurance regarding the achievement of the objectives of reliable financial reporting, effective and efficient operations, and compliance with applicable laws and regulations. The concept of reasonable assurance recognizes that the cost of an internal control should not exceed the benefit derived from that internal control.

### Financial Overview

The OHCS D's Proprietary Fund Type - Enterprise Funds includes both revenue bonds and general obligation bonds. The revenues for OHCS D's bond programs are generated through interest on loans made and through income on investments. These revenues are used to pay interest on outstanding debt, and related program and administrative expenses. A ten-year history is provided in the Statistical Section of this report to provide information on trends in these revenue and expense categories.

## **Debt Administration**

Statutory provisions authorized the issuance of up to \$2 billion in revenue bonds to finance the construction, purchase and rehabilitation of housing for lower-income persons and families. OHCS D has constitutional authority to issue general obligation bonds to finance housing for elderly and disabled persons. As of June 30, 2001, OHCS D was authorized to issue up to \$1,291,069,462 in general obligation bonds for this purpose.

OHCS D's general obligation bonds are rated as a part of the State of Oregon's general obligation bond program. The Department's most recent general obligation bond issues were rated as follows:

### **OHCS D'S MOST RECENT GENERAL OBLIGATION BOND RATINGS**

Moody's Investors Service	Aa2
Standard & Poor's	AA
Fitch Investors Service	AA

OHCS D's revenue bonds receive a rating separate from the general obligation bond issues. Moody's Investors Services assigned the rating of Aa2 to OHCS D's most recent long-term Mortgage Revenue Bond issues.

As of June 30, 2001, OHCS D had a total of \$1,431,874,827 in outstanding debt. During fiscal year 2001, the Department issued a total of \$311,070,000 in revenue bonds for the Single-Family Mortgage Program and \$18,325,000 in revenue bonds for the Multifamily Housing Revenue Bond Program. In addition, the Department issued \$18,625,000 of Housing Development Revenue Bonds. These bonds were issued as conduit debt obligations as described in the Notes to the Financial Statements (Note 7).

The proceeds from the Single-Family Mortgage Program revenue bonds are used to purchase below-market interest loans made to low- and moderate-income households. The proceeds from the Multifamily Housing Revenue Bonds, Housing Development Revenue Bonds, and the general obligation bonds provide financial support to developers for the new construction, remodeling, and/or acquisition of rental housing. The Multifamily Housing and Housing Development revenue bond proceeds supply housing for persons or families with lower and moderate incomes. The general obligation bond proceeds are for projects housing the elderly and for persons with disabilities.

## **Cash Management**

The primary objective of the Department's investment program is preservation of capital. Consistent with that objective and subject to arbitrage regulations, OHCS D's cash flow needs, Bond Indenture requirements, and the 'Prudent Person Rule', available funds are managed and traded to mitigate risk while achieving the maximum allowable yield. All deposits held in the name of OHCS D are either insured by federal depository insurance or collateralized. The Notes to the Financial Statements (Note 2) provide specific information on OHCS D's cash and investments as of June 30, 2001.

## **Risk Management**

OHCS D participates in the State of Oregon's Risk Management Program administered through the Department of Administrative Services (DAS). DAS, through the Insurance Fund, provides for the State's self-insurance programs and for the administration, investigation, and settlement of claims against the Insurance Fund. The Insurance Fund must operate on an actuarial sound basis in accordance with legislative directives. Assessments are charged to each state agency accordingly, based on its share of losses.

## OTHER INFORMATION

### Independent Audit

The Secretary of State, Audits Division, has audited the financial records, books of account, and transactions of OHCS D's Proprietary Fund Type - Enterprise Funds for the year ended June 30, 2001. The auditors used generally accepted auditing standards in conducting the engagement. Their unqualified opinion on the Combined Enterprise Fund financial statements is included in the Financial Section of this report.

### Certificate of Achievement

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to OHCS D for its annual financial report for the fiscal year ended June 30, 2000. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports.

In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized financial report, whose contents conform to program standards. The annual financial report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. OHCS D has received a certificate of Achievement for the last six consecutive years. We believe our current report continues to conform to the Certificate of Achievement program requirements, and we are submitting it to the GFOA

### Acknowledgments

The preparation of this report reflects the combined efforts of OHCS D's Financial Management Division staff. It is intended to provide complete and reliable information as a basis for making management decisions and for presenting the financial condition of OHCS D's Proprietary Fund Type - Enterprise Funds to the officials of the State of Oregon and to the finance community.

We would like to express our gratitude to all OHCS D staff, the State Housing Council, the Community Action Directors of Oregon, and our many partners and advisors who work so diligently to assure the successful operation of OHCS D.

Respectfully submitted,



Bob Repine  
Director



Rick Crager  
Chief Financial Officer

# Certificate of Achievement for Excellence in Financial Reporting

Presented to

Oregon Housing and  
Community Services  
Department

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
June 30, 2000

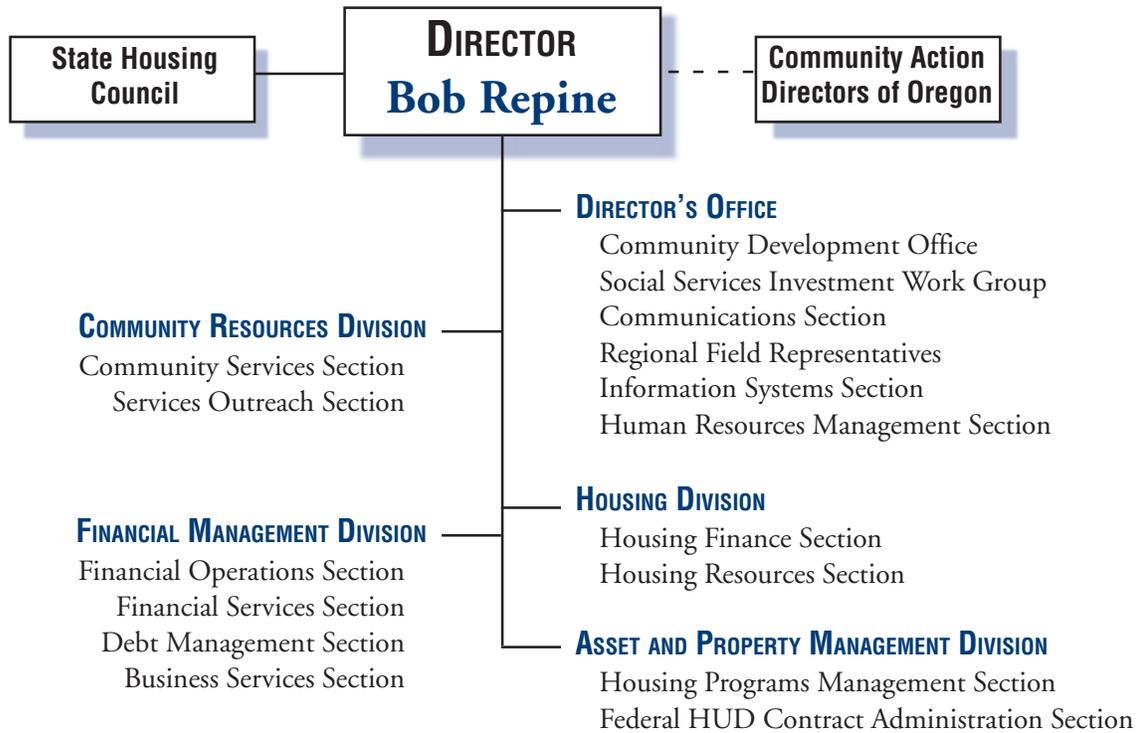
A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



*James D. Howe*  
President

*Jeffrey L. Esser*  
Executive Director

ORGANIZATION STRUCTURE  
AS OF JUNE 30, 2001



**STATE HOUSING COUNCIL**

The State Housing Council consists of seven members appointed to four year terms by the Governor. Members, who serve on a volunteer basis, come from a variety of occupations and geographical locations. The Council develops policies to stimulate and increase the supply of affordable housing for lower income individuals and families in Oregon. The Council advises the Governor, Legislature, state agencies, and local governments on actions that affect the cost or supply of housing, and adopts rules necessary for the administration and enforcement of OHCS's housing related statutes.

**State Housing Council Members:**

- Daniel Robertson, Chair
- Nancy Pope-Schlangen, Vice Chair
- Paul Colbert
- Patricia Moss
- Monica Hardy
- Buz Ortiz
- Peter Tarzian

**COMMUNITY ACTION DIRECTORS OF OREGON**

The Community Action Directors of Oregon (CADO) serves in an advisory capacity to the Department on programs which assist the homeless and other at-risk populations to obtain the services and skills necessary to move toward self-reliance. CADO is a private, non-profit association comprised of the Executive Directors of Oregon's Community Action Agencies, the Oregon Human Development Corporation and associate member agencies which all share an interest in promoting the self-sufficiency of lower income persons.

**CADO Executive Committee Staff:**

- Jim Slusher, President
- Judith St. Claire, 1st Vice President
- Patty Claeys, 2nd Vice President
- Tom Clancey-Burns, Treasurer
- Margaret Davidson, At Large
- Teresa Cox, At Large
- Steve Manela, Past President



**Bob Repine**

Oregon Housing and Community Services partners with local Community Action Agencies and other public, private or non-governmental agencies to help lower income Oregonians realize their potential for self-reliance and to develop healthy, vital communities. The Department administers federal and state antipov-erty programs including homeless assistance, food assistance, energy assistance, and community service programs. We are the State of Oregon's housing finance agency, providing financial and program support to create and preserve opportunities for quality, safe, affordable housing for Oregonians of lower and moderate income.

Under the leadership of Bob Repine, Oregon Housing and Community Services celebrates its 30<sup>th</sup> year of helping Oregonians improve their quality of life. The Department's mission is to "reach out for opportunities to create partnerships that improve Oregonians' lives and the quality of our communities." Our vision is "to be acknowledged as the agency that maximizes oppor-tunities through the creative and efficient use of resources." The Department strives to uphold its values of public trust, fiduciary responsibility, customer service, leadership, diversity, innovation and creativity.



**OHCS Staff**

## A LOOK AT THE PAST 30 YEARS OF HELPING OREGONIANS

- 1971** .... The Housing Division is created within the Department of Commerce to set overall housing policy for the state. A seven member State Housing Council is established to advise the Housing Division and the state on housing policy. The Oregon Legislature creates the State Economic Opportunity Office to help identify the problems of the disadvantaged and develop a poverty plan.
- 1973** .... Housing programs are expanded to include the financing of housing for low income individuals through the issuance of tax-exempt bonds.
- 1974** .... The State Community Services Program is born within the Governor's Office and later moves to the Director's Office of the Department of Human Resources.
- 1977** .... The Housing Division is authorized to administer a program to provide financing for housing for the elderly. The first General Obligation bonds are issued. The Single Family Mortgage Program and the Loans to Lending Institutions Program are established.
- 1978** .... The Assisted or Insured Multi-Unit Program is created.
- Late 1970's** .. The Federal Low Income Energy Assistance Program is created and administered by the State Community Services Program.
- 1979** .... The State Housing Council is given authority to approve all rules adopted by the Housing Division and all loans over \$100,000.
- 1981** .... The Oregon Community Action Program Director's Association is formed, currently known as the Community Action Directors of Oregon (CADO). The State Community Services Program administers the Community Services Block Grant, the Energy Assistance Block Grant, the Weatherization Programs, and the Food and Nutrition Programs.
- 1982** .... The Oregon Constitution is amended to authorize the Housing Division to administer a program to provide financing for housing for disabled persons.
- 1987** .... The Department of Commerce is abolished and the Housing Division becomes the Oregon Housing Agency. The Housing Development Account is established to expand opportunities for low-income housing development assistance. The State Community Services Program administers the State Homeless Assistance Program.
- 1989** .... The Manufactured Dwelling Park Ombudsman Program is created to encourage landlords and tenants to resolve concerns associated with their parks and living situations through informal dispute resolution.
- 1991** .... The State Community Services Program merges with the Oregon Housing Agency to create the Oregon Housing and Community Services Department. The Housing Development Guarantee program is created to provide grants for predevelopment costs, construction of new low-income housing; and the acquisition and/or rehabilitation of existing structures. The Emergency Housing Account is established to assist homeless persons and those persons at risk of becoming homeless.
- Mid 1990's** .. The Department experiences further expansion with additional programs: the Home Ownership Assistance Program, the Oregon Rural Rehabilitation Program, and the Multifamily Risk Sharing Program.
- 1998** .... Governor John Kitzhaber appoints Bob Repine to lead Oregon Housing and Community Services.
- 2000** .... The Department receives additional funding for Farmworker Housing and Community Development.
- 2001** .... Oregon Housing and Community Services administers approximately 37 programs.