



Office of Multnomah County Auditor

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Date: 4/27/2011

To: Multnomah County Chair Jeff Cogen
Commissioners Deborah Kafoury, Loretta Smith, Judy Shiprack, & Diane McKeel

From: Steve March, County Auditor
Amanda Lamb, Management Auditor
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Subject: Financial Condition Report

The economic decline in recent years has had a significant impact on state and local government resources and their abilities to maintain continuity of services. Despite difficult times, Multnomah County has continued to maintain a strong financial condition so that it may withstand current and future economic downturns and adapt to changing service needs. The *2011 Financial Condition of Multnomah County*, our tenth biennial review, provides public officials, managers, and citizens with an independent perspective and analysis of these challenges. The data in this report mostly covers FY01 through FY10 and provides valuable historical information about the county's financial health, the effect of the current economic downturn and impact on county revenues, and recommended areas of improvement. For instance, we found:

- While total operating revenues have increased modestly over the last ten years they have not kept pace with the growth in population, resulting in spending per capita actually declining by 5%.
- Intergovernmental revenues from the federal government and state continue to be a major source of funding for County programs and services.
- Property tax revenues have grown by 16% over ten years while revenues from fees and service charges have declined; business income taxes dropped in FY09 but appear to have stabilized.
- While spending for most programs is down, spending for health and human service programs has increased, primarily as a result of additional intergovernmental revenues. Spending for Libraries has also increased due to additional voter-approved levies.
- The County's General Fund Reserves are generally in line with best practices.
- The County's revenue base and economy data indicate some cautions in future economic conditions.

In recent years, the Board of County Commissioners has been faced with a number of difficult choices with regard to the funding of county programs and services. Overall, we find that the Board responded in a responsible and deliberate manner, maintaining its commitment to a strong financial condition. The foresight and restraint applied in prior years serves to reduce the negative impact of the economic downturn on the long-term financial health of the county.

While the majority of this report highlights the relative stability of the county's financial condition, we also make recommendations for improvement through strengthening of policies covering fund balances and reserves for internal service funds and increasing strategic planning with regard to unfunded liabilities, deferred maintenance, and seismic upgrades for the County's buildings, roads and bridges.

We wanted to thank the various staff who provided assistance in this report and its recommendations.

Table of Contents

Introduction	1
County Revenues	2
County Spending	5
Financial Health	11
Revenue Base and the Economy.....	14
Demographics	16
Recommendations	18
Ten Year History of Significant Financial Events	20
Reporting Methodology and Sources	21

Introduction

This is the tenth report completed by the Auditor's Office on the financial condition of Multnomah County. The report is issued biennially and covers indicators over a ten-year period. These measures are commonly used by local governments to demonstrate their ability to fund services on a continuing basis. A local government in good financial condition can maintain services to the public, withstand economic downturns, and meet the demands of changing service needs.

The Auditor's Office looked at measures of resources coming into the county, how these resources were used, and the county's financial health over time. We also included indicators showing changes in population and the economy, and assessed how those changes can affect county services.

Since we began issuing these reports, the county has undergone major shifts in the property tax system and assumed responsibility for some state human service and public safety programs. The county has responded to these challenges by developing policies to maintain the financial health of county government while providing better service to the public.

The majority of this report shows financial indicators over a ten-year period. However, we find it interesting to note revenue trends over the last twenty years to see how the county got to where it is today. Chart 1 below shows operating revenues over twenty years. These include revenues from all funds used to pay for ongoing services, but not bond proceeds for capital projects or some revenues collected for other governments. (For further details see page 21).

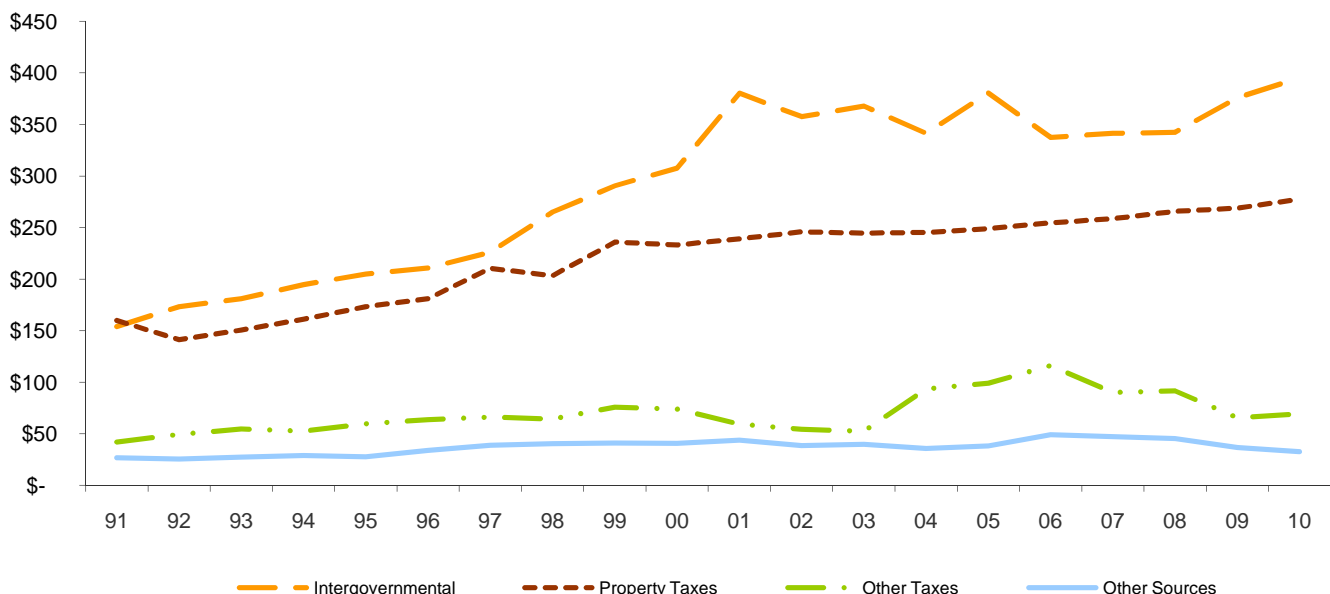
Intergovernmental revenues increased until 2001 as the county took on the responsibility for many state run programs, such as probation and parole in 1992, criminal justice services for felony offenders in 1997, and disability services in 1998. As a result of these changes, the county has become more dependent on these resources and has limited discretion over how they are spent.

Property taxes continue to grow, although at a reduced pace since property tax limitation measures. Other taxes and other sources have increased more slowly. The increase in other taxes from FY04 through FY06 was from the county's temporary personal income tax (ITAX).

Chart 1 Twenty-Year Operating Revenues by Source

Fiscal year ended June 30

Adjusted for inflation (in millions)



County Revenues

Chart 2 Total Operating Revenues

Fiscal year ended June 30

Adjusted for inflation (in millions)

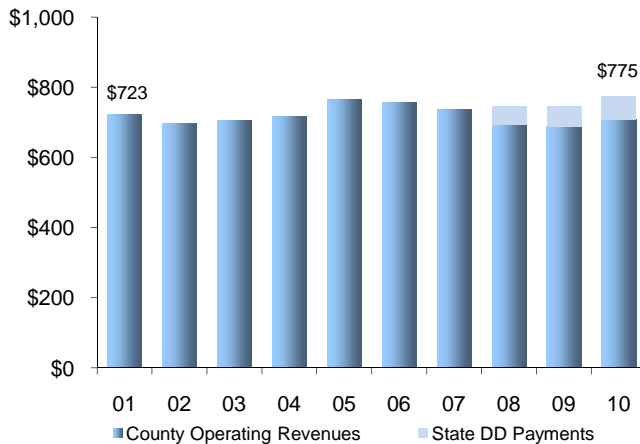


Chart 3 Total Operating Revenues by Source

Fiscal year ended June 30, 2010

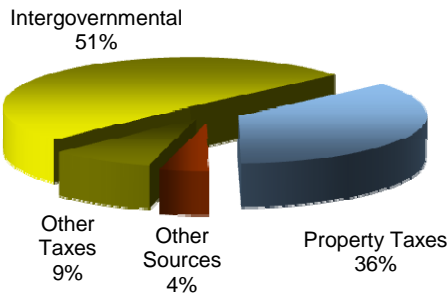
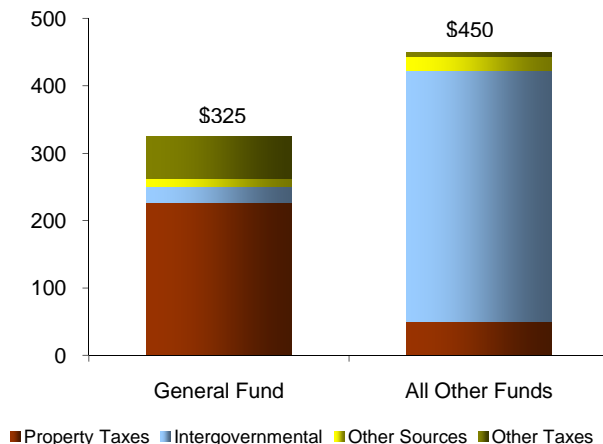


Chart 4 Total Operating Revenues by Fund

Fiscal year ended June 30, 2010 (in millions)



Operating Revenues

Since we began reporting on the county's financial condition, the nature of county services has changed. Responsibility for parks and many county roads was transferred to other local governments. The county assumed responsibility for community justice programs, developmental disability programs, and additional health and human services from the state. Consequently, the county has become more dependent on intergovernmental revenues, most of which are restricted to specific programs. The county has discretion with regard to revenues from property taxes, other taxes, and other sources.

The state's decision to pay Developmental Disability (DD) service providers directly, as opposed to passing funds (which totaled \$66 million in FY10) through the county, is reflected in Chart 2 and throughout this report. (See page 21 for details.)

Revenues in FY10 also included \$6.3 million in one-time stimulus money from the federal government.

Operating Revenues by Fund

As Chart 4 shows, in FY10 42% of the county's operating revenues were accounted for in the General Fund, with the remainder in other funds. The largest of these is the Federal and State Program Fund, which accounted for most of the intergovernmental revenues. The county has more discretion over General Fund spending because other funds are dedicated to specific programs or services.



Tom McCall Waterfront Park

County Revenues

Budgeting County Revenues

This indicator reflects the difference between operating revenues estimated in the adopted budget and actual revenues received. Major shortfalls can indicate inaccurate estimating or sharp fluctuations in the economy. Because Oregon budget law does not allow deficit spending, significant shortfalls require mid-year cuts in services or spending of reserve funds.

Since FY02, revenue shortfalls in the general fund were under 5% and, in FY05-07 and FY10, revenues exceeded budget forecasts.

Short-term Revenues

It is the intent of the Board to use short-term and one-time only revenues to fund priority services only after all other sources have been deemed unfeasible. Library programs, which rely partially on serial levies to finance ongoing operations, are an exception.

From FY04 to FY06, the ITAX allowed the county to continue services that had lost federal and state funding. In FY09, the county began receiving one-time federal stimulus grants, which amounted to \$6.3 million in FY10.

Intergovernmental Revenues

Many county programs are highly dependent on intergovernmental revenues, which fluctuate based on federal and state budgets. Most of this funding goes to health and human services, which together received 80% of these revenues in FY10 (including an accounting adjustment for developmental disabilities programs, see page 21). When these revenues decrease, the county is forced to find additional revenue or cut services.

Chart 7 Intergovernmental Revenues

Fiscal year ended June 30
Adjusted for inflation (in millions)

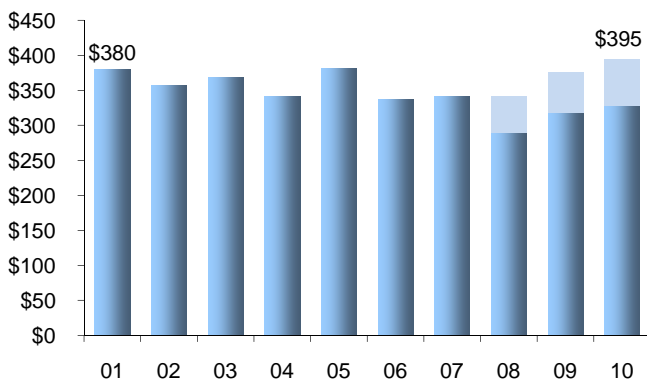


Chart 5 Budgeting County Revenues

As a percent of budgeted revenues
Fiscal year ended June 30

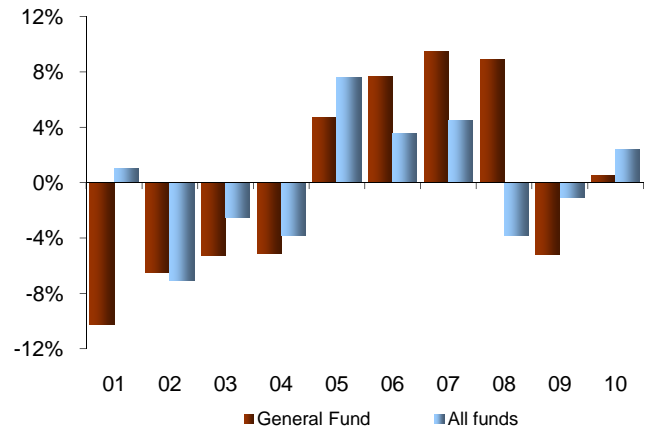


Chart 6 Short-term Revenues

Fiscal year ended June 30
Adjusted for inflation (in millions)

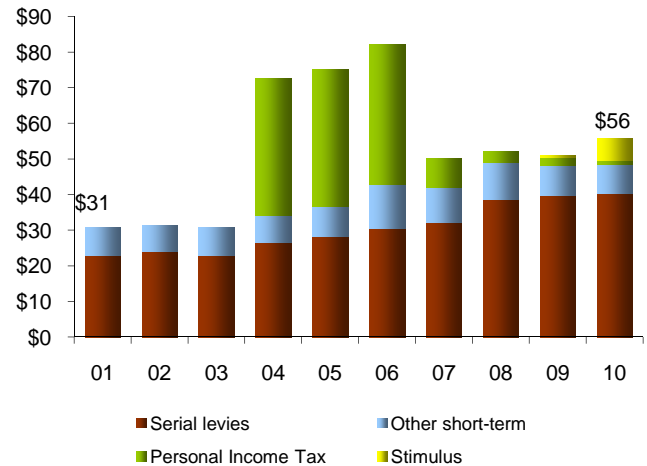
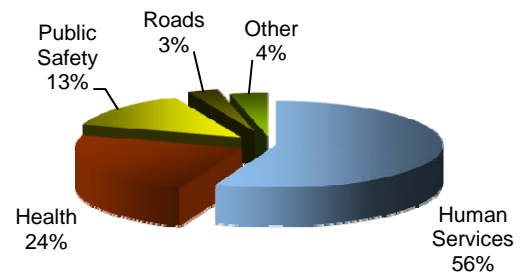


Chart 8 Intergovernmental Revenues by Program Area

Fiscal year ended June 30, 2010

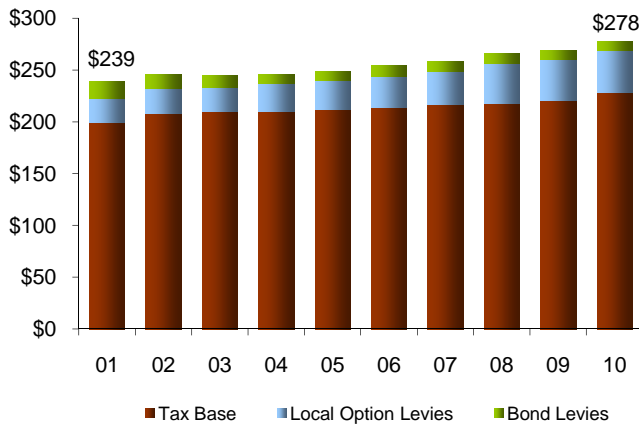


County Revenues

Chart 9 Property Tax Revenues

Fiscal year ended June 30

Adjusted for inflation (in millions)



Property Tax Revenues

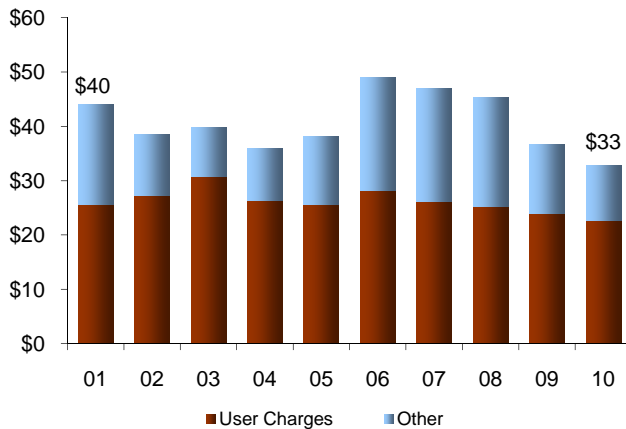
In total, property tax revenues increased 16% from FY01 to FY10. About 82% of property taxes in FY10 were used for general county operations. The voter-approved local option and bond levies are dedicated to specific uses. Property tax is based on assessed value, not real market value.

County local option levies for library operations increased 75% over the last ten years. Payment on the general obligation debt has reduced the bond levies from \$17 million to \$9 million from FY01 to FY10 (adjusted for inflation).

Chart 10 Other Revenues

Fiscal year ended June 30

Adjusted for inflation (in millions)



Other Revenues

User charges include fees and charges intended to recover the cost of services whenever possible. Other income from fines, non-governmental grants, donations, and interest income are impacted by economic conditions. When adjusted for inflation, these revenues fell 33% from a peak of \$49 million in FY06 to \$33 million in FY10, primarily as a result of a decrease in interest revenue.

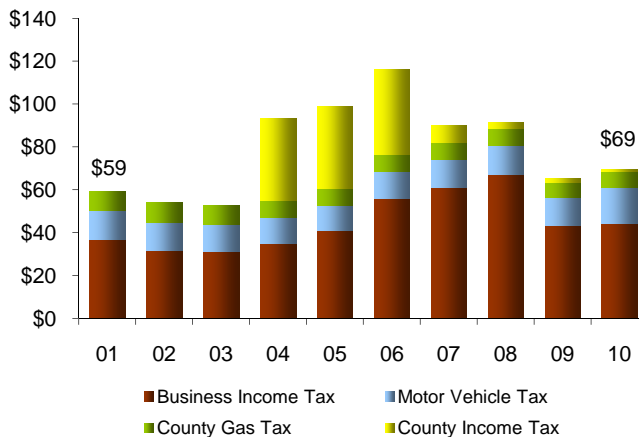
Other Taxes

Other taxes include the Business Income Tax (BIT), which is unrestricted. About 10% of the BIT is passed through to east county cities. Revenues from the BIT fluctuate with the economy and fell by \$24 million from FY08 to FY10, a 34% decrease. However, the county Budget Office's forecasts suggest that BIT revenues will begin to rise starting in FY11.

Chart 11 Other Taxes

Fiscal year ended June 30

Adjusted for inflation (in millions)



The county gas tax is dedicated to roads and bridges, and remained relatively stable. However, when adjusted for inflation, revenues from the gas tax are decreasing.

The temporary income tax (ITAX) was dedicated to specific uses. The ITAX in this chart includes only the county's share of revenues; school districts received approximately 69% of ITAX revenues. Since FY06, revenues from the ITAX are from delinquent taxes.

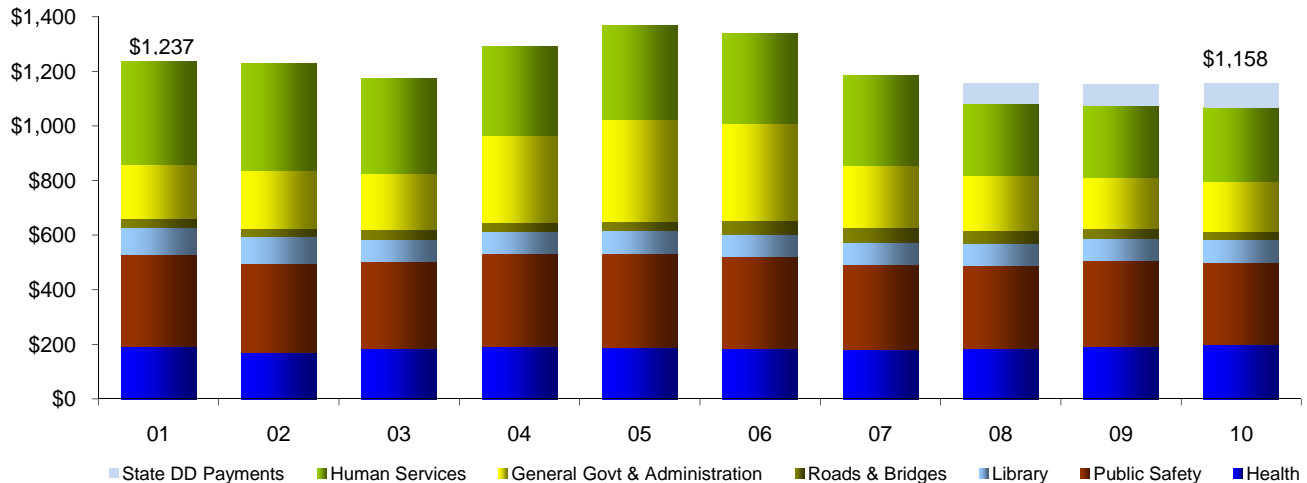
The Board's decision in May of 2009 to increase the Motor Vehicle Tax from 12.5% to 17% resulted in a \$4 million (30%) increase in unrestricted Motor Vehicle Tax revenues between FY09 and FY10, when adjusted for inflation.

County Spending

Chart 12 Spending Per County Resident

Fiscal year ended June 30

Adjusted for inflation



Total Spending Per County Resident

Total spending per county resident decreased by 5% between FY01 and FY10, while total county population increased 10.4% over this ten-year period. Fiscal years 2004 through 2006 include approximately \$38 million per year in spending from the three-year, temporary ITAX (excluding money passed through to schools). Most county programs have decreased per capita spending over the past ten years, with the exception of a 4% increase in Health Department spending. The most significant decrease occurred in public safety programs, which experienced an 11% decrease per capita. Roads and bridge programs decreased by 10%, while both general government and library experienced an 8% decrease. Even including state funds paid directly to developmental disabilities service providers (see page 21), there was a 4% decrease in per capita spending for Human Service.

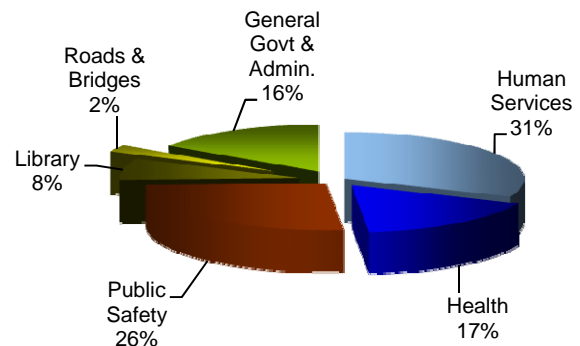


Spending by Program

In FY10, the largest percentage (48%) of spending per county resident was for health and human service programs. Public safety programs made up 26%, and include jails, community justice programs, and prosecution. The remaining 26% was for programs that serve most citizens: library services; road and bridge operations and maintenance; and general government services, such as animal control, elections, property tax assessment and collection, emergency management, and land use planning.

Chart 13 Spending by Program

Fiscal year ended June 30, 2010



County Spending

Chart 14 Spending by Type

Fiscal year ended June 30, 2010

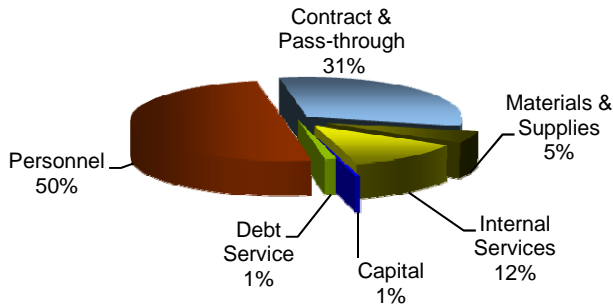


Chart 15 County Employees

Total FTE

Fiscal year ended June 30

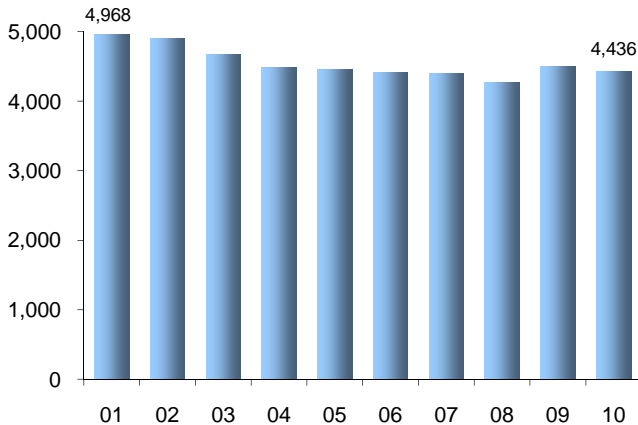
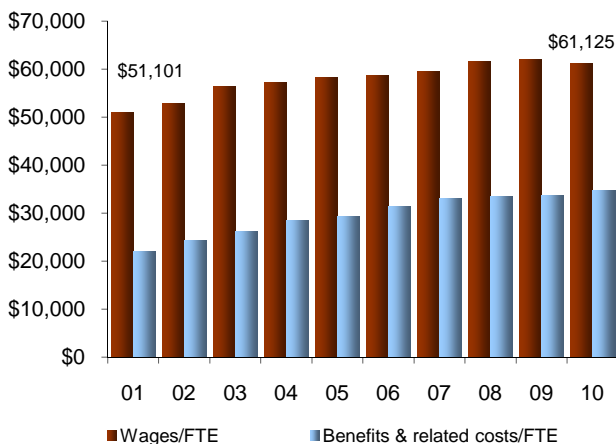


Chart 16 Wages, Benefits and Other Costs

Averages per FTE, adjusted for inflation

Fiscal year ended June 30



Spending by Type for Operations

Personnel costs, which include salaries, benefits, and other related costs, totaled \$387 million in FY10. Spending on personnel has increased by 14% from FY01 to FY10 as a result of wage and benefit cost increases (see Chart 16).

Spending on contracts and pass-through accounted for 31% of the county's spending for operations in FY10. This included \$28 million in county matching for federal programs, \$26 million for direct client assistance, \$32 million in professional services, \$113 million in pass-through and program support, and \$66 million in state payments for developmental disabilities services.

Internal services (12% of overall spending) are those provided internally by the county, such as building maintenance, motor pool, information technology, and mail distribution services. Spending on internal services has increased by 7% in the past ten years, after adjusting for inflation.

Materials and supplies, capital spending, and debt service make up the remaining 7% of overall spending for county operations.

Number of Employees

The county experienced an overall decrease in full time equivalent employees (FTE actual hours worked) of 532 FTE, a decrease of nearly 11% from FY01 to FY10. However, the total number of FTE increased by 169 from FY08 to FY10, though most departments reduced FTE. The majority of the net increase was due to hiring in health and human services programs.

Wages and Benefits

Average wages for county employees have increased. The 20% increase for county employees from FY01 to FY08 is comparable to the overall wage increase per capita for Multnomah County residents for the same period, which was 22% (see Chart 41 on page 15).

Growing health insurance costs contributed to the increased cost of employee benefits, which rose by 57% from FY01 to FY10. Total benefits in FY10 include payroll taxes and overhead costs (accounting for 15% of total benefits paid), FICA taxes (14%), PERS, including payment on bonds (38%), and health insurance (33%).

County Spending

Public Safety

Total spending for public safety was roughly stable from FY01 to FY10 as the county's general fund made up for lost revenues from other sources. ITAX revenues in FY04, FY05, and FY06 helped mitigate some of the impact of declining federal and state resources for public safety programs. For FY10, resources were primarily from the county's general fund (70%). Intergovernmental sources represented 24% and other sources, including property taxes to repay the debt for public safety bonds, were 3% of the total resources.

Public safety programs in FY10 include: the Sheriff's Office, which operates the county's jails and other corrections services and provides law enforcement to smaller cities and unincorporated Multnomah County; the Department of Community Justice, which provides supervision of juvenile and adult offenders in the community; the District Attorney's Office, which prosecutes offenders and protects crime victims; and debt repayment of general obligation bonds used for technical upgrades for public safety. Corrections Health spending is included with the Health Department.

Roads and Bridges

Spending for roads and bridges includes bridge operations and maintenance, road maintenance, and capital for repairs and improvements. Funding comes primarily from the county gas tax and state motor vehicle tax revenue sharing. The portion of revenue sharing that is passed through to cities in the county is not included here (\$22 million in FY10). No general fund dollars are allocated for these functions. Most of the other sources of funding represent project revenues from the federal and state governments dedicated for specific capital repairs or improvements.

After adjusting for inflation, spending for roads and bridges is the same in FY10 as it was in FY01. Because the county includes spending for major capital improvements and construction in the Road Fund and Bridge Fund, the spending fluctuates with large capital projects, such as the Sauvie Island Bridge project in FY06-08. In February of 2009, the Board signed an intergovernmental agreement with the City of Portland whereby \$127 million of the \$330 million Sellwood Bridge project will be funded by revenues from the county's new vehicle registration fee (\$19 per vehicle, per year).

Chart 17 Public Safety Programs

Fiscal year ended June 30

Adjusted for inflation (in millions)

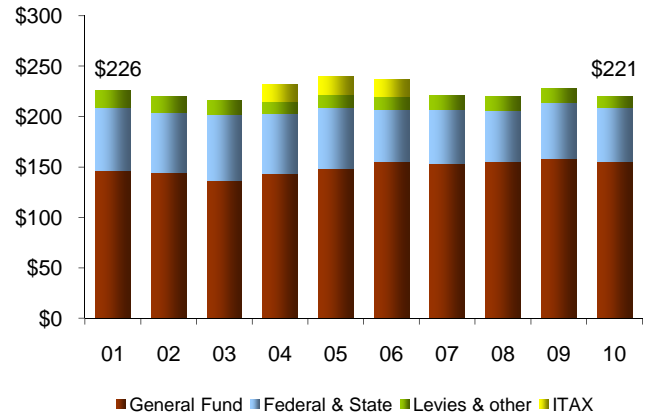


Chart 18 Public Safety by Department

Fiscal year ended June 30, 2010

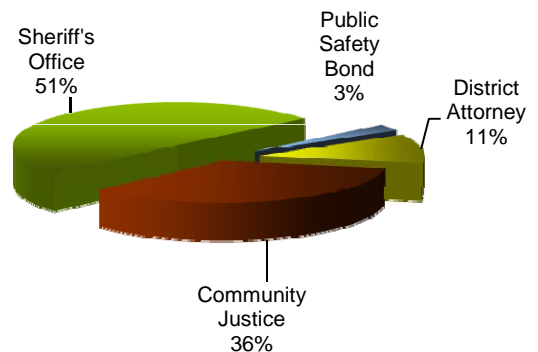
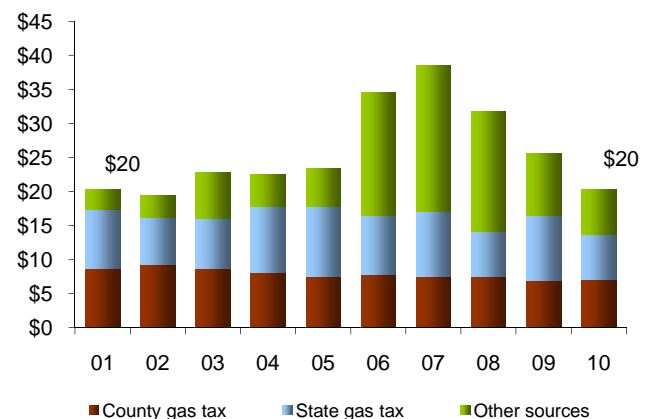


Chart 19 Roads and Bridges

Fiscal year ended June 30

Adjusted for inflation (in millions)

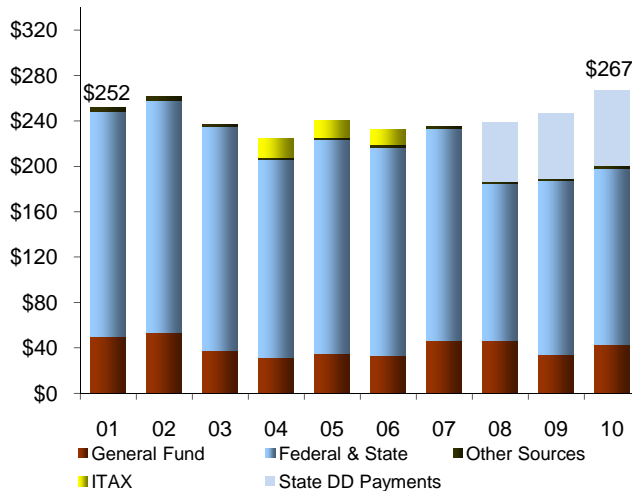


County Spending

Chart 20 Human Services

Fiscal year ended June 30

Adjusted for inflation (in millions)



Human Services

Human services are provided by the Department of County Human Services for the elderly; individuals with developmental or physical disabilities; those with alcohol and drug addictions; people with mental health concerns; school-age children; survivors of domestic violence; and those living in poverty.

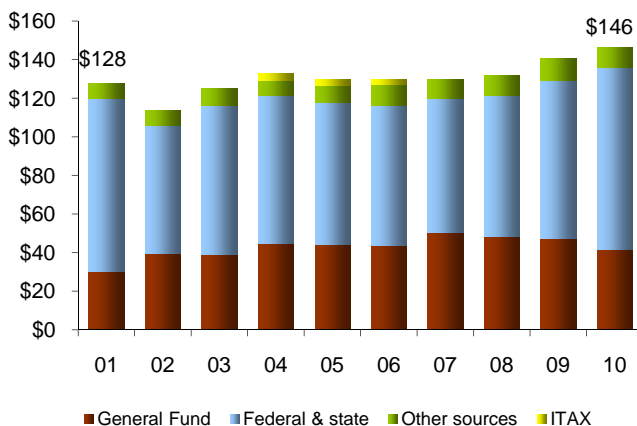
Including funding from the state to developmental disabilities service providers, just over 34% of funds for human services in FY10 went to providing direct client assistance, 36% went to community-based providers, and the remaining 29% was for direct services provided by county staff and other costs.

Overall spending on human service programs has fluctuated from FY01 to FY10. Spending on human service programs increased by \$15 million (6%) from FY01 to FY10.

Chart 21 Health Services

Fiscal year ended June 30

Adjusted for inflation (in millions)



Health Services

Health Services, which are provided by the County Health Department, include medical and dental clinics, public health services, school clinics, and other health care and education services for the community. The Department also provides health care for the county's jail population. Most Health Department services are provided by county employees, including medical doctors, nurses, outreach workers, sanitarians, interpreters, epidemiologists, environmental health experts, and educators.

The Health Department spent about \$146 million in FY10, an increase of \$19 million (nearly 15%) from FY01, when adjusted for inflation. The Department received a large, one-time, retroactive Medicaid reimbursement in FY01.

From FY08 to FY10, the Health Department has received 13% fewer General Fund dollars, but saw a nearly 29% increase in funding from federal and state sources. This increase was partially due to an 86% increase in Medicaid reimbursements between FY01 and FY10 as the county expanded clinical services, increased community education, and improved Medicaid eligibility services.



County Spending

Library

Multnomah County serves the public with a main library downtown and 18 library branches throughout the county. Spending for library services totaled \$64 million in FY10. Spending remained flat from FY03 through FY08, but increased again in FY09. In November 2006, voters approved a new five-year local option levy for an average of \$35 million per year to begin in FY08 for



continued library services, plus opening two new branches. The debt levy shown here is for general obligation bonds for new libraries

and improvements and is paid for directly by a separate property tax debt levy.

Chart 22 Library Services

Fiscal year ended June 30

Adjusted for inflation (in millions)

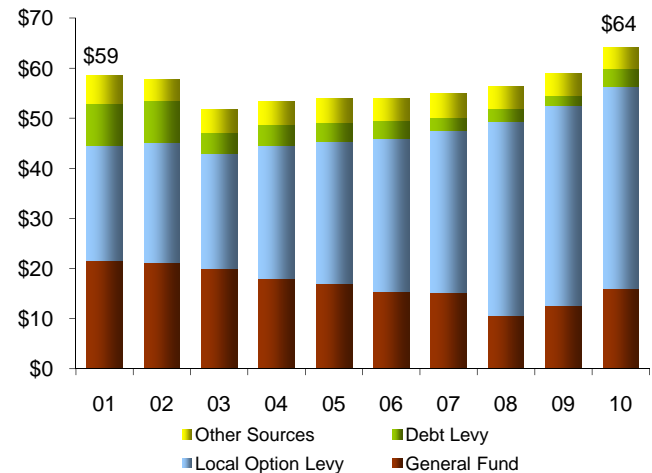


Chart 23 General Government

Fiscal year ended June 30

Adjusted for inflation (in millions)

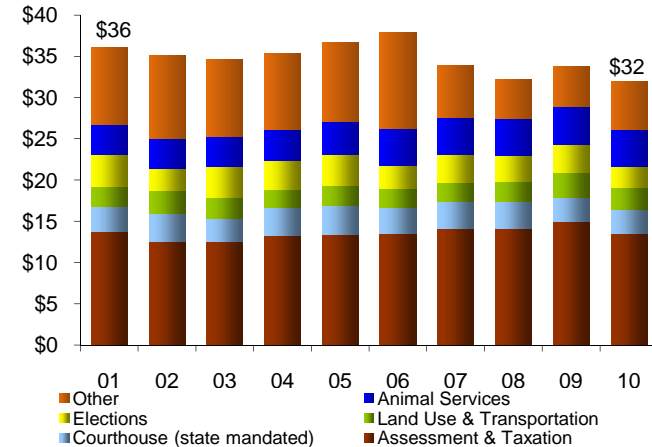
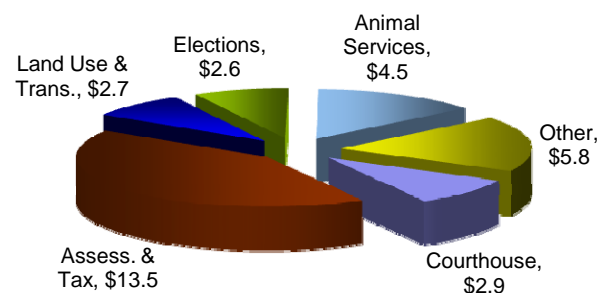


Chart 24 General Government by Program

Fiscal year ended June 30, 2010 (in millions)



County Spending

Chart 25 Internal Services and Administration

Fiscal year ended June 30

Adjusted for inflation (in millions)

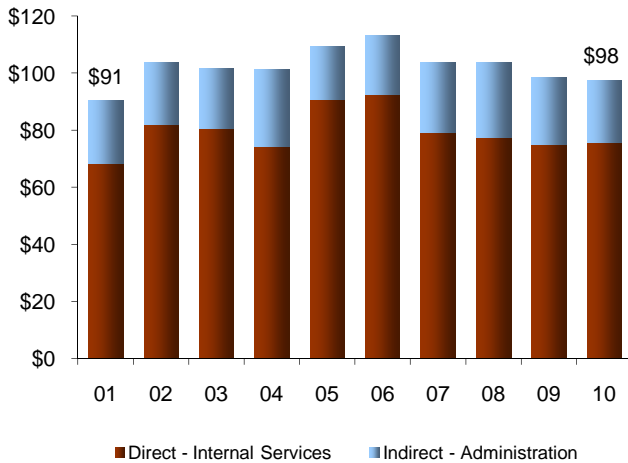


Chart 26 Direct - Internal Service Funds

Fiscal year ended June 30, 2010 (in millions)

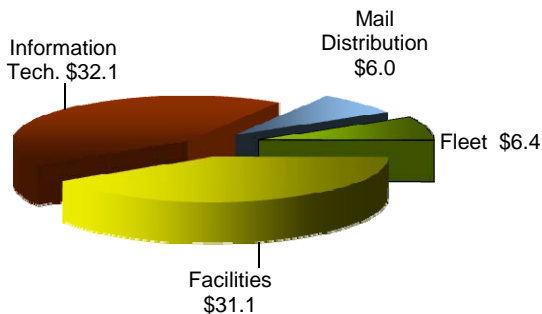
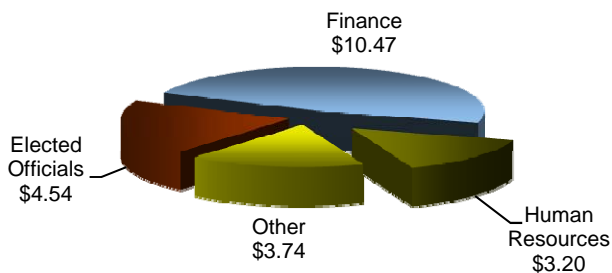


Chart 27 Indirect - Countywide Administration

Fiscal year ended June 30, 2010 (in millions)



Internal Services and Administration

Spending for internal services and administration has increased 8% over the last ten years, all of which was due to increased costs in direct services. The increases in FY05 and FY06 resulted from the county's shared services initiative which centralized some services and staff from individual departments into the Business Services Fund for those years only.

Internal services and countywide administration costs are included in county departments' total program spending. Of the total for FY10, \$76 million was charged directly to departments by internal service funds and \$22 million was for countywide administrative costs.

Direct - Internal Service Funds

As noted above, services provided by the Internal Service Funds are charged directly to county departments and programs. About 11% of internal service funds costs, not included in Chart 26, were charged to other governments and non-profit organizations that purchase these services. Internal Service Funds include:

- Facilities - manages all owned and leased properties;
- Mail Distribution - manages mail and distribution;
- Fleet Maintenance - manages county vehicles and motor pool; and
- Information Technology - manages data processing and telephone services.

Indirect - Countywide Administration

Countywide administrative costs are primarily paid out of the General Fund, much of which is charged indirectly to other funds and programs through the indirect cost allocation plan. Countywide administration includes:

- Elected Officials, including the Chair, Commissioners, and the County Auditor's Office;
- Finance also includes risk management, budget, treasury, payroll, and, until FY10, SAP administration;
- Central Human Resources (including benefits); and
- Other, which includes Departments of County Management and Community Services director's offices, the Public Affairs Office, the Office of Citizen Involvement, and special countywide projects.

Financial Health

General Fund Reserves- Industry Benchmark

The unreserved fund balance for the county's General Fund (GF) constitutes the amount available for county discretionary spending. Maintaining an appropriated reserve helps the county maintain its favorable bond rating. Moody's Investors Services' generally established benchmark for the GF balance or reserve is a dollar amount equal to at least 10% of the actual GF revenues. Reserves grew substantially from FY04 through FY08. Reserves for the General Fund declined by \$45 million from FY08 to FY09. About half of the decline was due to a transfer of \$24.2 million to the Debt Service Fund to reduce future debt payments. Additional transfers were made to capital projects and internal service funds.

To comply with changes in required accounting standards (GASB 54), the county changed its financial policies in FY11 to state a goal of a GF budgeted reserve funded at 10% of the "corporate" revenues of the GF (defined as revenues over which the Board has wide discretion). Looking retroactively in FY10, this reserve was budgeted at \$32.9 million, or 11% of GF corporate revenues, which complies with the FY11 county policy.

Unreserved Fund Balance in Internal Service Funds

According to the county's financial policies, "internal service funds are used to account for services provided on a cost reimbursement basis without profit or loss. Surpluses and deficits in internal service funds may be an indication that other funds were not charged properly for goods or services received."

The increasing fund balances for the county's internal services funds reflect overcharges from these funds to other funds, including the county's General Fund, Federal and State Program Funds, and other funds.

The county should consider measures to reduce internal service fund reserves per county financial policy. See recommendations on page 18 for additional details.

Chart 29 General Fund Unreserved Fund Balance

Fiscal year ended June 30

Adjusted for inflation (in millions)

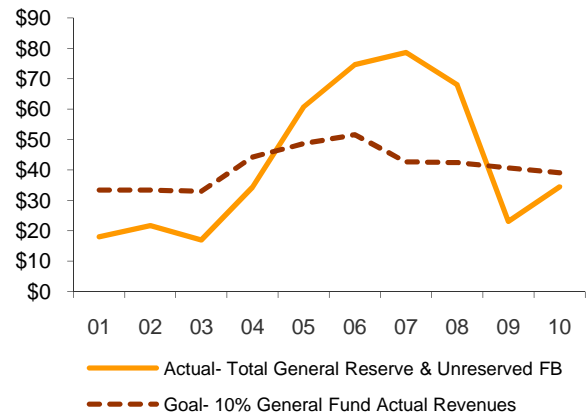
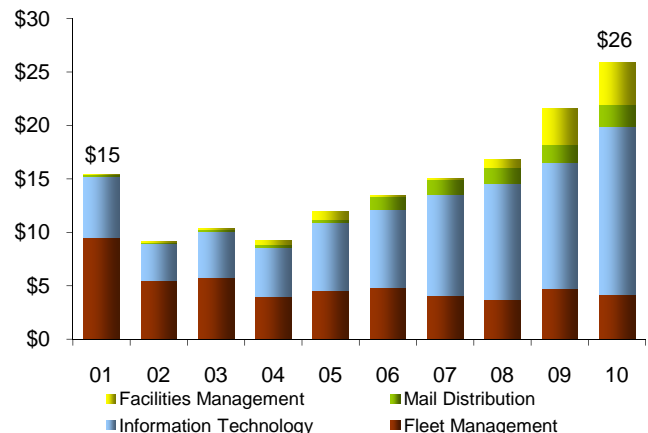


Chart 30 Internal Service Funds (Unreserved FB)

Fiscal year ended June 30

Adjusted for inflation (in millions)

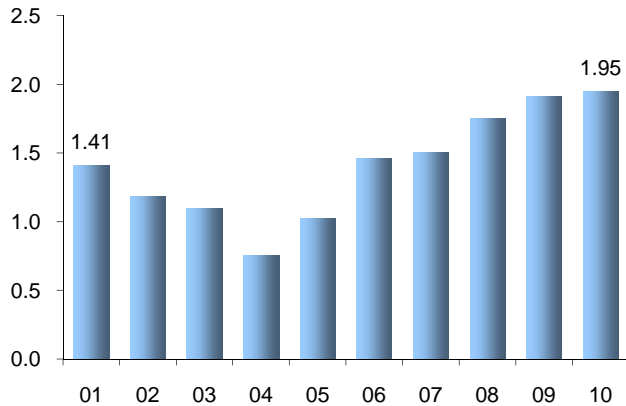


Financial Health

Chart 31 Liquidity

Current assets to current liabilities

Fiscal year ended June 30



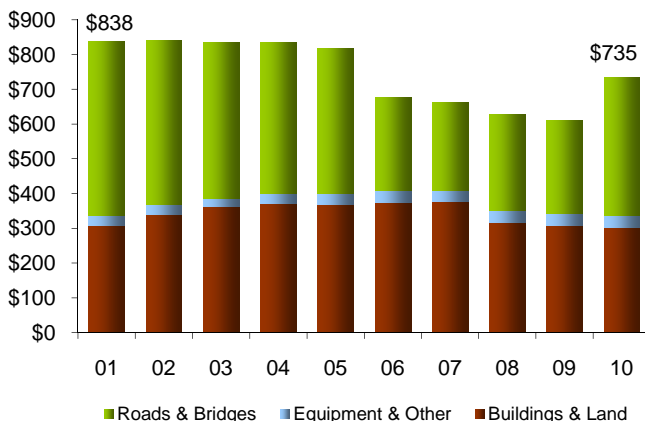
Liquidity

The liquidity ratio compares total cash and short-term investments to current liabilities, measuring the ability to pay short-term obligations. The credit industry considers a liquidity ratio of \$1 of cash and investments to \$1 of current obligations to be acceptable; county policy sets the goal of a ratio of \$1.50 to \$1. Since FY06, the county liquidity ratio has exceeded both county policy and industry standards. The county's liquidity ratio currently exceeds industry standards due to large amounts invested in the Oregon Local Government Investment Pool, which provides short-term liquidity and maximizes interest revenues.

Chart 32 Capital Assets

Fiscal year ended June 30

Adjusted for inflation (in millions)



Rendering of new East County Courthouse, scheduled to open in 2012



Capital Assets

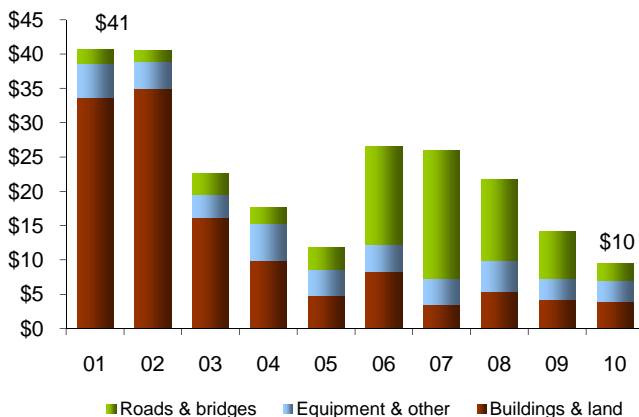
Capital assets include land, buildings, equipment, and infrastructure used to provide county services. Accounting standards require that assets are reported in financial statements at their original purchase or construction costs minus accumulated depreciation. Replacement value for assets would be substantially more than the depreciated values.

The decrease from FY05 to FY06 resulted from the transfer of 50 miles of county roads to the City of Gresham. The increase in FY10 is an accounting adjustment made for depreciation charged to right of ways prior to FY10. Since FY05, capital asset figures include \$51 million each year for the Wapato Jail, which is unused and not currently being depreciated.

Chart 33 Capital Spending

Fiscal year ended June 30

Adjusted for inflation (in millions)



Capital Spending

Capital spending has decreased since FY01. In prior years, capital spending included purchase, construction, and remodeling of jails, libraries, an East County health and aging facility, and the county's administration building. The spending increase for roads and bridges in FY06 - FY08 was for the county's share of the Sauvie Island Bridge construction. In FY10, capital spending was at its lowest level in ten years. However, the Sellwood Bridge and East County Courthouse projects will increase the county's capital spending over the next five years.

Financial Health

Fixed Costs

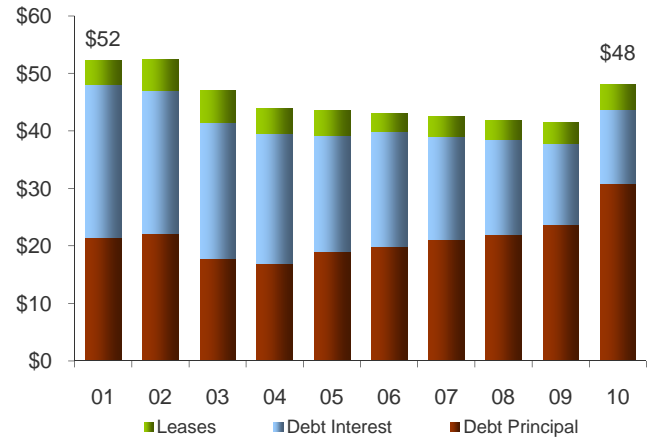
Fixed costs include the principal and interest on long-term debt and operating leases. Debt results from construction of new libraries, jails, and other facilities financed by general obligation bonds and other debt.

The spending levels in FY01 and FY02 were due to new bond issues, including \$184 million for the county's unfunded pension liability, which will result in a savings of nearly \$36 million over a 30-year period, and \$61 million to finance the costs of acquiring and installing an integrated enterprise computer system, purchase of the Multnomah Building, construction of the Multnomah County East Building, and other projects. In FY10, the 1998 capital lease obligation was paid off early and in full, totaling nearly \$10 million. The only remaining capital lease is the Sellwood Lofts capital lease.

Chart 34 Fixed Costs

Fiscal year ended June 30

Adjusted for inflation (in millions)



Future Fixed Payments

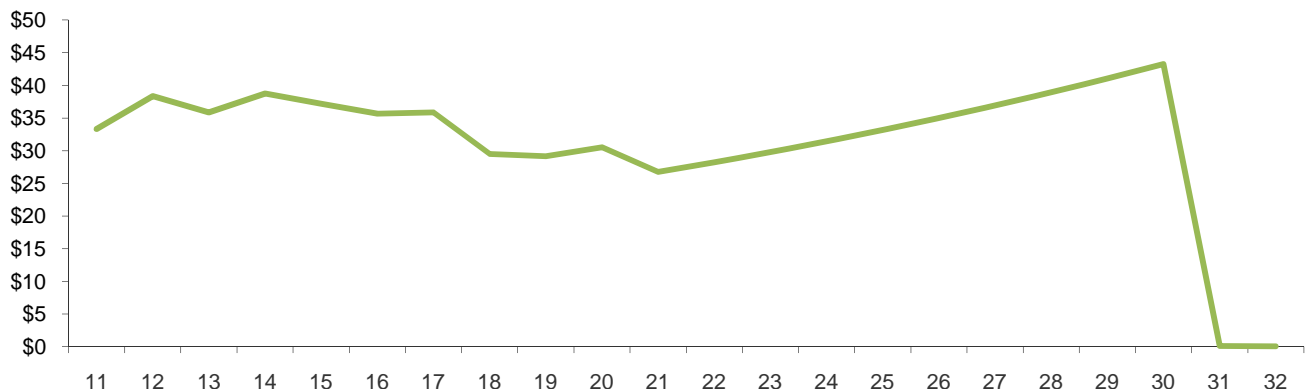
As of June 30, 2010, the county had fixed payments for debt and long-term leases extending until year 2032. The amount ranges from a high of \$43 million in 2030 to a low of \$27 million in 2021. The county continues to restructure debt when opportunities arise, such as the March 2010 refunding bonds that resulted in an economic gain of over \$5 million. In FY10, the county was within legal debt margins for its budgeted debt and within the policy of 5% of budgeted general fund revenues. The chart below does not consider future needs for unfunded liabilities or deferred maintenance on county buildings, bridges, and roads (see recommendation on page 18). It also does not include any bonds issued after FY10 or for the Sellwood Bridge project, which has not been financed.



Photosimulation of the new Sellwood Bridge

Chart 35 Future Fixed Payments

Fiscal year ended June 30 (in millions)

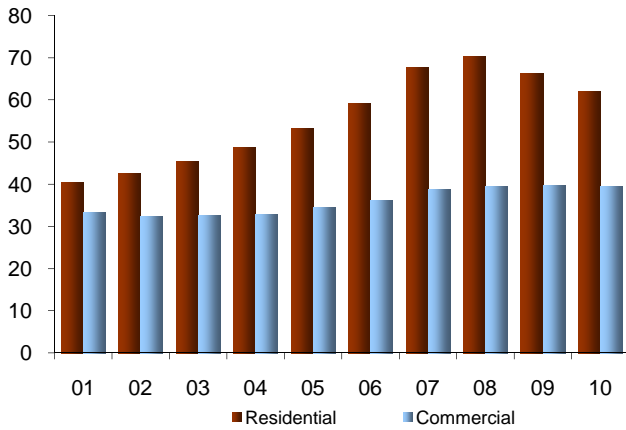


Revenue Base and the Economy

Chart 36 Real Market Value

Fiscal year ended June 30

Adjusted for inflation (in billions)



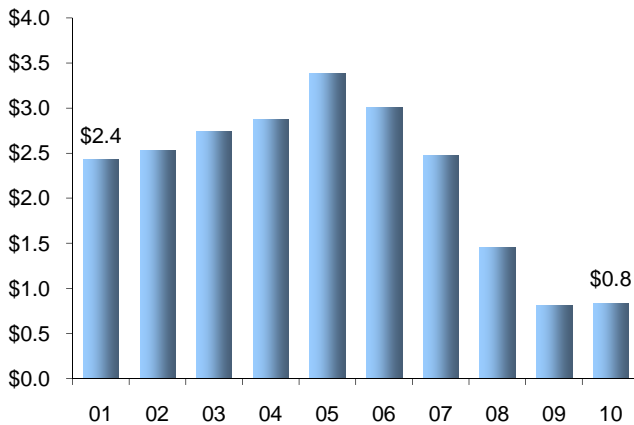
Real Market Value

Real market value is an indicator of the health of the economy. The real market value for properties in Multnomah County increased from \$74 billion in FY01 to \$107 billion in FY08, a 49% increase, when adjusted for inflation. The largest increase was in residential property values, increasing by 74% from FY01 to FY08, compared to 18% growth for commercial and industrial property values. Real market value declined in FY09 and FY10. Real market value for residential property declined by 12% (\$8 billion) from FY08 to FY10. For the same period, commercial and industrial property decreased by less than 1% (\$0.1 billion).

Chart 37 New Construction-PMSA

Calendar year ended December 31

Adjusted for inflation (in billions)



New Residential Construction

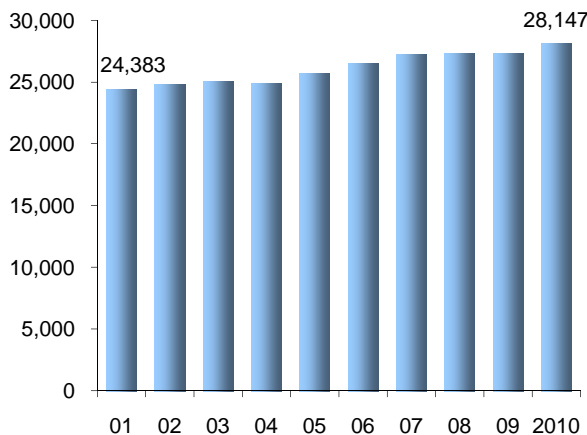
New construction figures are based on permits in the Portland Metropolitan Statistical Area (PMSA). The value of new construction units increased from \$2.4 billion in 2001 to \$3.4 billion in 2005, when adjusted for inflation. The downward trend began in 2006, with a 75% drop between 2005 and 2010. Declines in new construction and property sales affect county revenues from recording fees.

Number of Businesses

The number of businesses in the county is another trend related to the county's revenue base and the economy. There was a 15% increase from 2001 to 2010. Changes in the number of businesses have an effect on revenues from the county's business income tax.

Chart 38 Number of Businesses in Multnomah County

Calendar year ended December 31



Hawthorne Bridge, looking into downtown Portland

Revenue Base and the Economy

The Economy

Three major indicators of economic health included here are the unemployment rate, number of jobs in the county, and per capita income. Although official data lags slightly, these indicators reflect the current economic climate for the county.

Unemployment Rate

The unemployment rate improved continually after FY03 until FY08, going from a high of 9% in FY03 down to 5% in FY07. However, the rate increased to more than 10% for both FY09 and FY10 (11.3% and 10.1%, respectively). The unemployment rate dropped to 9.5% as of March 2011. Since 2005, the county's unemployment rate has remained slightly below the rate across Oregon, though the general trend parallels the state trend.

Number of Jobs

The number of jobs (including full-time, part-time, and temporary positions) provided by employers in Multnomah County fluctuated somewhat, but remained between 420,000 and 450,000. In total, there were about 20,400 fewer jobs in 2009 compared to 2001. For 2010, the number of jobs in Multnomah County continued to decline, though at a slower rate.



Multnomah County CROPS program donates produce grown on county-owned land to the Oregon Food Bank.

Per Capita Income

The average annual per capita income in Multnomah County has been increasing. When adjusted for inflation, per capita income for Multnomah County increased by \$1,428 (3.5%), from \$40,725 to \$42,153. For the state as a whole, the increase was \$2,831 (8.24%), from \$34,355 to \$37,186.

Chart 39 Unemployment Rate-Multnomah County

At June 30

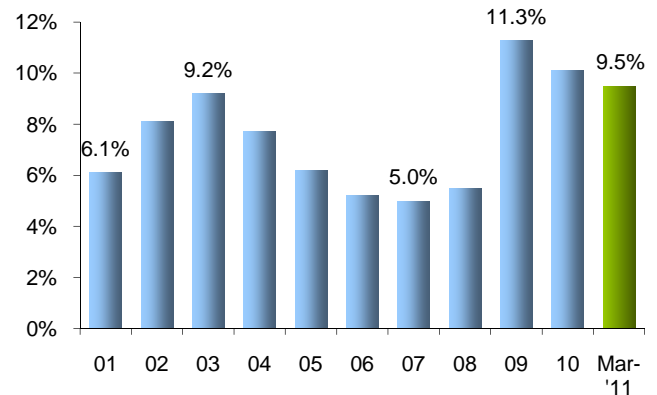


Chart 40 Jobs Provided by Employers

in Multnomah County

At December 31

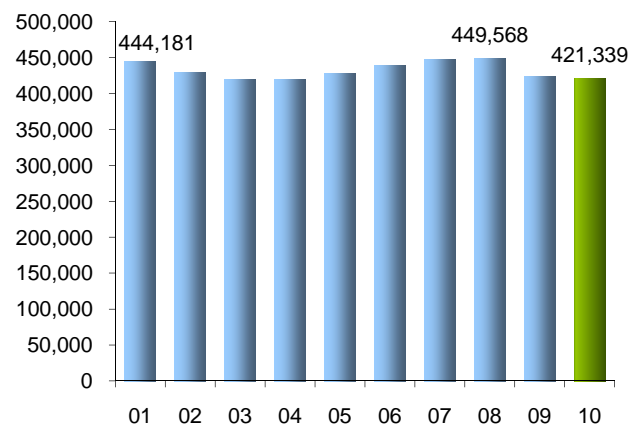
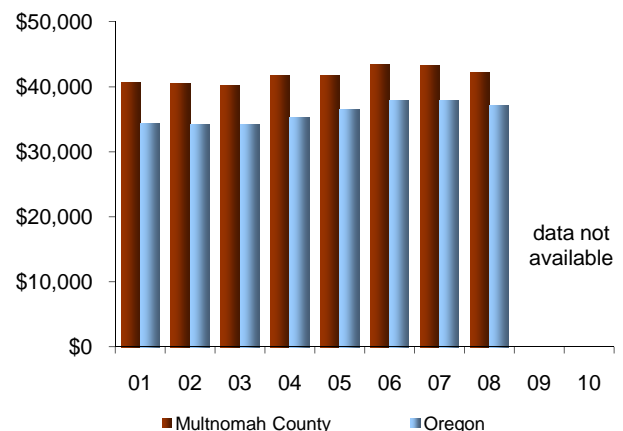


Chart 41 Average Annual Per Capita Income

Calendar year ended December 31

Adjusted for inflation

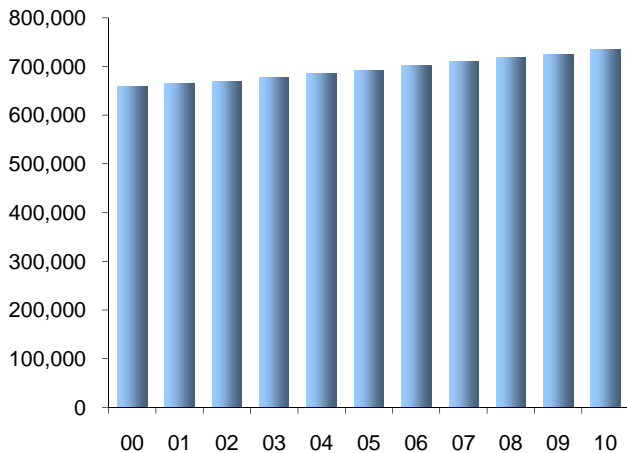


Demographics

Chart 42 County Population

At April 1 for FY00 and FY10

At June 30 for FY01-FY09



Total County Population

The county's population grew from 666,349 to 735,334 (11.3%) between the 2000 and 2010 Census.

Neighboring Washington County had a higher growth rate, with an 18.9% increase from 2000 to 2010.

Clackamas County had a slower rate of growth at 11.1% between 2000 and 2010.

Many county services are for the elderly or children. Large population changes in these groups could dramatically affect the need for county services. The population of individuals over 65 years of age increased by 9%, while the population of those under 18 years of age increased 5% since FY01.

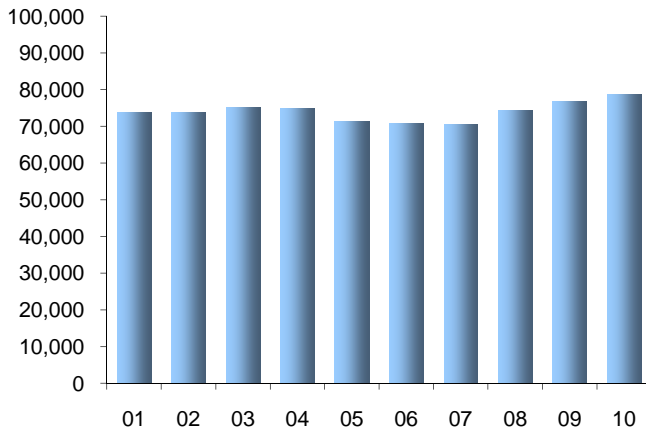
Population Over 65 Years of Age

Chart 43 shows the population over 65 years of age.

There has been a net increase of 4,807 (7%) from 73,789 in FY01 to 78,596 in FY10.

Chart 43 Over 65 Years of Age

Fiscal year ended June 30



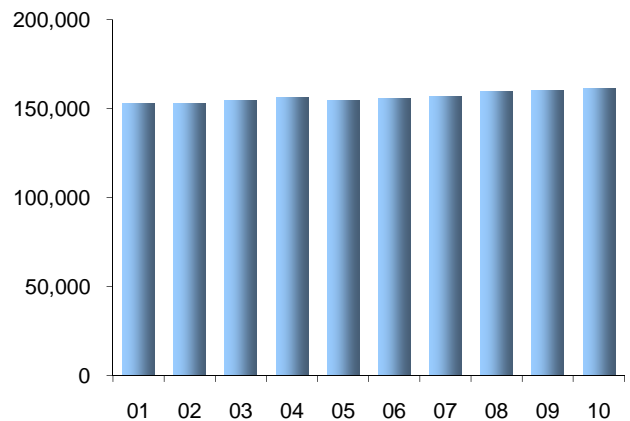
Population Under 18 Years of Age

Chart 44 shows the population under 18 years of age.

There has been a net increase of 8,207 (5%) from 153,089 in FY01 to 161,296 in FY10.

Chart 44 Under 18 Years of Age

Fiscal year ended June 30



Demographics

Residents in Poverty

According to the US Census Bureau's annual American Community Survey, the number of Multnomah County residents in poverty increased from 13.1% in 2001 to 14.9% in 2009.

This indicator provides some measure of the number of low income persons who might utilize county human service and health programs.

Reported Crimes

Public safety services represent a large and costly responsibility for the county, and accounted for 26% of per capita operating expenditures for FY10.

The number of reported crimes has decreased for both Part I and Part 2 crimes. Part I crimes include murder, rape, robbery, aggravated assault, burglary, larceny, motor vehicle theft, and arson. Part 2 crimes include drug possession or distribution, driving under the influence of intoxicants, vandalism, and other crimes.

The actual crime rates are likely to be higher because some crimes are not reported by victims.

Chart 45 Percent of County Residents in Poverty

Calendar year ended December 31

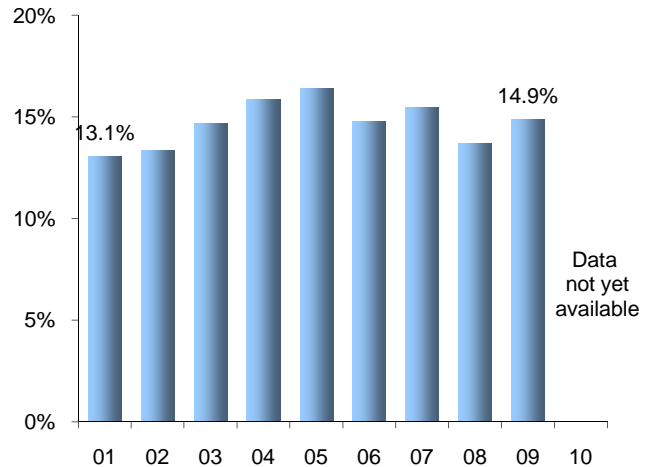
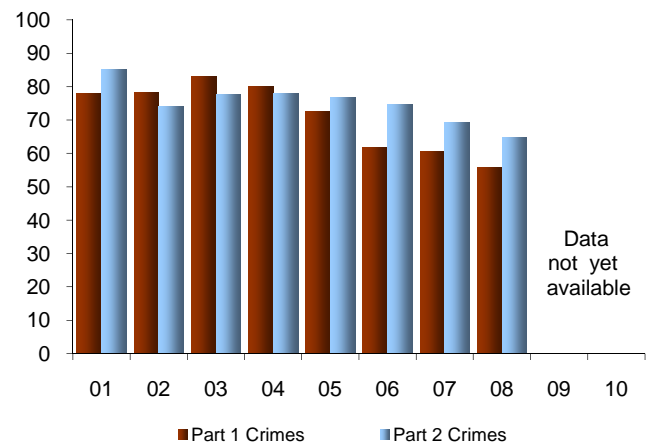


Chart 46 Reported Crimes per 1,000 Residents

Calendar year ended December 31



Recommendations

Recommendation One: Internal Services Unreserved Fund Balances

While spending for most county programs has decreased over the last few years (see page 5), spending in the county's internal services funds has not (see page 10). County policy requires internal services funds to return excess fund balances by decreasing future rates. However, three of the four internal service funds included in this report have built up reserves in excess of federal or county requirement, starting in FY07. County financial policy states, "The charges will include a contingency or reserve requirement not greater than 5%." Additionally, external requirements for allocating internal service charges to federal grants and awards set a maximum limit of 60 days working capital, which would equal a 16.4% reserve. Chart 47 compares the county policy and federal guidelines to the county's unrestricted fund balances in the internal services funds (not including the Risk Management Fund). See Chart 29 on page 11 for details on actual unreserved fund balances by fund.

When departments are charged more for internal services than the actual cost the effect is to limit the use of those dollars for spending on direct services. Additionally, this puts the county at risk for unallowable costs for federal programs. In fact, this has occurred, as reported in the county's annual financial audit; the county is in the process of returning funds in the amount of \$120,000 to a federal grant for overcharges from the Information

Technology Fund. We recommend the Board clarify and more strongly monitor its financial policy for internal service funds. Specifically, we recommend:

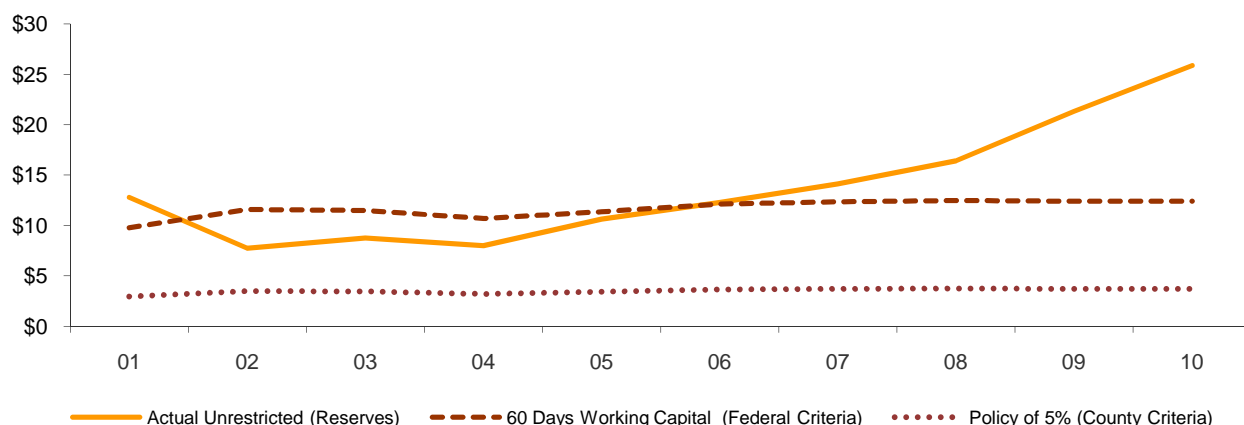
- 1.) The Board set a reasonable reserve amount: For 2010 the 5% policy amount would lead to a \$3.7 million total for all internal service funds. An amount of up to 10% (or \$7.4 million) might be a more realistic goal. This reserve amount would cover the costs for ongoing capital outlay needs and unusual fluctuations in cost.
- 2.) The Board more closely monitor the unreserved fund balances in internal service funds, based on the Board's policy and require reserves be reported.
- 3.) Internal service funds true up internal service rates on an annual basis per county policy.
- 4.) The Board remove the exception for "reserves to fund new initiatives". New initiatives, specifically capital projects that benefit a particular department or program, should not be funded from internal service rates. These initiatives should be funded more transparently and require Board approval. The county should consider funding all capital projects in a more transparent manner subject to Board approval. The county is then not at risk of violating federal rules for overcharging internal service costs to federal programs and grants.

Chart 47 Internal Service Unreserved Fund Balance

Combined totals for Fleet, Facilities, Mail Distribution, and

Information Technology funds

Fiscal year ended June 30



Recommendations

Recommendation Two: Long-Range Planning

For a number of years, county management has noted infrastructure issues that have yet to be addressed by the Board. The longer action on long-term liabilities is postponed, the greater the costs will be. Significant issues include:

- Deteriorating infrastructure: The county has estimated deferred maintenance for county buildings at \$230 million, of which \$209 million is seismic liability.
- The county has a further \$156 million in seismic liability for the Willamette River bridges.
- Unfunded Liabilities: The county has an unfunded liability for Other Post-Employment Benefits (OPEB) of over \$123 million as of June 30, 2010.

We recognize that the Board has a history of making decisions that look toward long-term financial stability for county government. For instance, the county replaced the Sauvie Island Bridge and progress is currently being made with the replacement of the Sellwood Bridge. The creation of the Department of County Assets may allow for better management of county buildings and other assets. However, more comprehensive planning is needed. Addressing these issues will require identifying sources of revenue to replace or repair important county assets and the continued funding of OPEB.

Thus, we recommend the Board increase their awareness of and involvement in long-term financial planning by establishing a policy of addressing the infrastructure needs and OPEB funding.

Specifically,

- 1.) To fund at least a portion of these liabilities, the county could begin by using some of the annual "One-Time only" funding that has ranged from \$11 to \$43 million over the last five years. Since those are undedicated General Fund dollars, a portion could be dedicated to long-term liabilities. The county could choose a flat amount of \$2 to \$4 million, or alternatively use a fixed percentage, such as 20%, to start dealing with long-term financial needs.
- 2.) Work to identify additional funding streams or mechanisms to address the funding of the county's deteriorating infrastructure.
- 3.) In light of recent geological events, it is crucial that the county not delay in seeking seismic stability for county infrastructure, particularly with regard to the Willamette River bridge system. The county should work with our federal and state delegation to secure funding for seismic upgrades to bridges and other assets, in a priority order worked out with our community partners, emergency responders, and management.
- 4.) Per county policy, the county has made steps toward funding 20% of the OPEB liability by 2013, with \$16 million now dedicated for that purpose. The county should continue efforts beyond 2013 to more fully fund this liability in a reasonable timeframe.

Ten Year History of Significant Financial Events

FY01

- \$20 million revenue shortfall

FY02

- Major reorganization of human services, business functions, and environmental services
- Mid-year revenue shortfall of \$22 million
- 5-Year Local Option Library Levy for approximately \$25 million per year
- Fairview and NW Portland libraries opened
- New Hollywood library opened

FY03

- Voters approved 3-year temporary personal income tax (ITAX)
- \$15.6 million mid-year budget cut

FY04

- First year of ITAX, \$66.9 million to schools and \$33.2 million to county
- New Hillsdale Library opened

FY05

- \$25 million Oregon Transportation Investment Act awarded for county bridges
- Second year of ITAX, \$96 million to schools, \$34.2 million to county
- Construction of Wapato Jail completed
- Departments of County Management and Community Services created

FY06

- Transfer 50 miles of county roads to Gresham
- Third year of ITAX, \$84.8 million to schools, \$36.1 million to county

FY07

- Remaining ITAX collections, \$8.3 million to schools, \$7.7 million to county
- \$6.4 million one-time-only to schools

FY08

- Remaining ITAX collections, \$3.7 million to schools, \$2.9 million to County
- Sauvie Island Bridge opened to traffic in June 2008. Total cost of the bridge was \$45.7 million
- Sale of Edgefield property for \$14.2 million

FY09

- The county transfers \$24 million from the General Fund to retire debt related to county buildings and pay off other debt issues

FY10

- Refund series 1999 General Obligation Bonds \$49.7 million with an economic gain of \$5.3 million
- Issued \$9.8 million in Full Faith and Credit Obligations to replace the county's data center, telephone enhancements, and other projects
- Capital lease obligation reduced due to the \$9.8 million of the 1998 capital lease obligation paid
- The county received \$8.8 million for the Portland Development Commission to be used for the Hawthorne Bridge ramp relocation project
- Planning begins on the Sellwood Bridge and East County Courthouse projects. According to the FY11 budget, the county is responsible for \$127 million of the \$330 million total. The City of Portland will contribute \$100 million, \$22 million will come from Clackamas County, \$30 million from the State of Oregon, \$11 million in previously secured funds, and \$40 million from the federal government.

Reporting Methodology and Sources

Objectives, Scope, and Methodology

The objective of this report was to evaluate the financial condition of Multnomah County using the Financial Trend Monitoring System developed by the International City and County Management Association (ICMA) and the indicators suggested by the Government Accounting Standards Board (GASB). In developing and analyzing the indicators of financial condition, we interviewed personnel in Finance and Budget and other county departments.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The prior reports covered the years FY82 through FY08 and are available on the County Auditor's web page at www.co.multnomah.or.us/auditor

ICMA and GASB stress the importance of developing a consistent and meaningful definition of the entity being evaluated. For the purposes of this report, "the county" includes the revenues, expenditures, and activities covered by the General Fund, Special Revenue Funds, and Debt Service Funds.

Excluded are Capital Construction, Internal Services, Enterprise, and Fiduciary Funds. However, we did include the Behavioral Health Managed Care Fund, which is an Enterprise Fund, because it is an integral part of mental health and addiction services provided by the county. We also excluded revenues collected for and turned over to other governments and internal revenues and spending that are duplicated in financial reports. For FY10, this amounted to \$32 thousand in remaining ITAX dollars transferred to the county's school districts, \$21.8 million in State Motor Vehicle and Gas Tax revenues transferred to the cities of Portland, Gresham, Fairview, and Troutdale, and \$18.4 million Transit Lodging Tax collected for Metro.

Throughout this report, we included state payments to developmental disability service providers. In FY08, the state began paying community service providers directly, where in prior years these funds passed through the county. Though the county no longer receives these funds, the shift was an accounting change only and did not impact services. In FY08, this amounted to \$52 million paid directly to DD service providers. The amount totaled \$58 million in FY09 and \$66 million in FY10.

We expressed most indicators in constant dollars. These adjustments for inflation convert dollar amounts over the ten-year period to the equivalent of the purchasing power of money in fiscal year ending June 30, 2010. The adjustments are based on the Portland-Salem Consumer Price Index for all urban consumers.

Data Sources

We relied on the county's enterprise accounting system, budgets, Comprehensive Annual Financial Reports, and other management reports for revenues, spending, and financial health indicators.

We used published sources for most economic and demographic indicators as follows:

- County Assessor's Office: Chart 36 "Real Market Value"
- U.S. Census Bureau - Chart 37 "New Construction" - State of Oregon Employment Division - Chart 38 "Number of Businesses," Chart 39 "Unemployment Rate", Chart 40 "Jobs Provided by Employers", and Chart 42 "County Population" (for FY00 and FY10)
- U.S. Department of Commerce, Bureau of Economic Analysis: Chart 41 "Average Annual Per Capita Income"
- Portland State Population Research Center: Chart 42 (FY01-09), and Charts 43 & 44 for population indicators
- U.S. Census Bureau, American Community Survey- Chart 45 "Percent of County Residents in Poverty"
- Oregon Uniform Crime Reporting Law Enforcement Data System- Chart 46 "Reported Crimes"

County photos:

- Tom McCall Waterfront Park: Sanne Stienstra
- East County Courthouse rendering: LRS Architects
- Hawthorne Bridge: Multnomah County photo
- Sellwood Bridge photosimulation: T.Y. Lin International
- County CROPS: Tara Bowen-Biggs

Reporting Methodology and Sources

For More Information

The county's financial policy is adopted and published annually in its adopted budget. The county's financial statements and budget can be accessed at www.multco.us.

Additional economic information can be obtained through the State of Oregon for the State Employment Department at www.qualityinfo.org or the Office of Economic analysis at www.oregon.gov/DAS/OEA.

For information about the county's property tax structure and limitations, see Tax Supervising & Conservation Commission at www.co.multnomah.or.us/orgs/tscc.