

Table of Contents

Introduction	3
FY 2012 Program and Policy Highlights	4
<i>Public Safety</i>	4
<i>Health and Human Services</i>	4
<i>General Government</i>	5
<i>Capital Assets</i>	6
Planning for the FY 2012 Budget - Economic Climate	7
<i>Forecasting the General Fund</i>	8
<i>Local Revenues</i>	8
<i>State Revenues</i>	9
<i>Cost Drivers</i>	9
<i>Policy Direction from the Chair</i>	10
Budget Overview - All Funds	11
<i>Department Requirements All Funds (\$1.17 billion)</i>	13
<i>Department Revenues All Funds (\$1.20 billion)</i>	14
The General Fund	15
<i>General Fund Expenditures & Reserves</i>	15
<i>General Fund Revenues</i>	16
<i>Use of One-Time-Only (OTO) Funds</i>	16
<i>One-Time-Only Resources Spent on One-Time-Only Programs</i>	17
<i>One-Time-Only Resources Spent on Ongoing Programs</i>	18
<i>General Fund Reserves</i>	19
Policy Issues and Opportunities	19
<i>Organization-wide Issues</i>	19
<i>Personnel Costs</i>	20
<i>New Facilities and Operations</i>	21
Multnomah County Organization Chart	24
Appreciation	25
FY 2012 Budget Notes	26
<i>Transportation Revenue Shortfall</i>	26
<i>Capital Planning Process</i>	26
<i>Black Women for Peace Other</i>	26
<i>Post Employment Benefits - OPEB</i>	27
<i>Funding for Department Specific Capital Projects and Assets</i>	27
<i>Aligning Internal Service Policies with the Financial Condition Report</i>	27
<i>Commercial Sexual Exploitation of Children</i>	27

(this page intentionally left blank)

Introduction

State and local governments across the country have faced fiscal challenges since the global economic recession began in 2007. Tax revenues fell sharply and demand for safety net programs increased. This created large budget gaps that were closed with a combination of drastic cuts in services, tax and fee increases, and the use of funding from the federal stimulus and other one-time resources.

Multnomah County is in a better fiscal position than most state and local governments thanks to prudent leadership from the Chair and the Board, strong management and adherence to policies and practices that result in strong long-term financial planning, low debt obligations, and maintaining responsible fund balance amounts. The FY 2012 budget was balanced by bringing ongoing spending in balance with ongoing revenues and by limiting the use of one-time General Fund resources for ongoing programs. The FY 2012 budget also improves the County's long-term fiscal position by fully funding our reserves, maintaining the Business Income Tax stabilization reserve and reducing debt service liabilities. The FY 2012 budget made significant strides toward balancing FY 2013 budget, leaving only a small \$200,000 gap between revenues and expenditures to address.

The FY 2012 budget focuses on maintaining direct services by reducing administrative costs: it freezes management and executive wages, eliminates management positions and restructures administration. The budget strategically increases funding for safety net services for some of the County's most vulnerable residents - the homeless, the mentally ill, and survivors of domestic violence. At the same time, public safety service levels have been maintained and there have been no reductions in the capacity of our jails. The budget also invests in some of our most critical capital needs, including the Sellwood Bridge and funding for emergency communications equipment that will improve safety and services to our citizens and employees. The budget also earmarks \$1 million for planning and costs related to renovating or replacing the Downtown Courthouse.

While this is all good news, there is still uncertainty on the horizon. Although the County's general fund fiscal position is stabilizing, there is still much ambiguity surrounding the timing and service impact of State's budget. The State is projecting a \$3.5 billion shortfall for the 2011-13 biennium, approximately 22% of the State's current general fund services. Because Federal and State funds support 25%-30% of the County's budget, reductions at the State will likely mean service reductions to clients served by the County. The Governor's 2012-13 Biennial budget relies on major policy changes (discussed below) to balance in the second year of the biennium. If the Governor's budget were to be adopted intact, the impacts on County clients and services will likely be greater in FY 2013 than FY 2012. Federal cuts could further reduce services to residents in FY 2012.

The County's FY 2012 budget assumes that the State legislature will adopt their budget after the County adopts our budget in June 2011. Given this

FY 2012 Program and Policy Highlights

Public Safety

timing, departments were instructed to create a placeholder budget for State revenues in anticipation of a midyear rebalance to address State decisions. We will calibrate our midyear rebalance process to the magnitude of the state cuts. The FY 2012 Budget earmarks \$4.2 million of one-time-only funding to ramp-down State funded services and \$1.6 million of ongoing funding to allow the Board to prioritize critical programmatic needs.

The FY 2012 budget preserves the core functions of public safety and maintains the current number of jail beds. The Sheriff's Office, the District Attorney's Office and the Department of Community Justice accomplished this goal through a combination of restructuring, streamlining business processes and sharing resources. The budget includes investments in effective prosecution of elder financial abuse and restitution for victims. The budget also funds programs that increase safety within jail operations while reducing overtime costs. One-time capital funds were included to upgrade the juvenile detention center security electronics and emergency communication radios.

Most state funding for public safety comes from Senate Bill 1145, which gives counties responsibility for all aspects of parole and probation supervision. SB 1145 directs that parole and probation sanctions are to be served in local jails instead of prisons and that all felony offenders sentenced to a term of incarceration of 12 months or less remain in local custody. Currently, the County receives over \$24 million dollars annually to pay for these services. Any reduction to state public safety funding will have the greatest impact on parole and probation services provided by the Department of Community Justice.

Health and Human Services

The FY 2012 budget preserves existing services in Health and Human Services departments and adds new programs targeting vulnerable populations. The County invested in short-term rent assistance to help individuals who are at risk of becoming homeless to maintain their housing. Additional funds were also set aside for rapidly re-housing individuals and families who have become homeless. Aging and Disabilities Services has developed an effort to train 'gatekeepers' to identify vulnerable seniors in the community and refer them to the County for services.

The State's budget is likely to have a large (but currently unknown) impact on Health and Human Services programs during FY 2012. The Governor's budget includes 19% reductions in rates for services to clients who are on the Oregon Health Plan (OHP), a reduction in the number of services covered by OHP, and a complete transformation of the health care delivery system to better integrate physical health, mental health, long-term care and other services. These changes would impact the County's health clinics, senior centers, and community-based mental health providers. Senior Health and Human Service managers at Multnomah County are involved in guiding the system transformations that will be implemented in FY 2012 and FY 2013. We

General Government

will know the impact of these changes after the Legislature passes the state budget, likely in early FY 2012.

The Chair started the Multnomah Evolves initiative during FY 2011 in order to restructure our administrative and support services, reduce administrative costs, and protect direct services from reductions. Multnomah Evolves resulted in a number of changes that are included in the FY 2012 budget:

- The Department of County Assets (DCA) was created by the Board in April 2011. DCA includes Facilities and Property Management, Fleet, Records, Electronics and Distribution, and Information Technology. The Department of County Management includes Budget, Finance, Human Resources and the Division of Assessment, Recording and Taxation. The FY 2012 budget combines the positions of Chief Operating Officer and Department Director of the Department of County Management. All County departments will now report to this new position. These changes are intended to create clearer responsibility and accountability for organizational decision making and outcomes. This change resulted in approximately \$540,000 of savings to the County.
- As part of Multnomah Evolves, the ratio of supervisors to employees, or “span of control” was reviewed for the departments of County Management, Community Services and County Assets. The FY 2012 budget reduces the number of management positions and increases the span of control, resulting in approximately \$714,000 in cost savings to the County. This is partially offset by \$154,000 of reduced CAFFA grants, resulting in a net savings of \$560,000. The Department of County Human Services, Community Justice, Health and the Library will undertake span of control reviews concurrent with the planned midyear state budget rebalance process.
- Two work groups have been convened to study how to implement other recommendations of the Multnomah Evolves project: one to investigate outsourcing Fleet Maintenance and one to look at alternatives to operating the County's Central Stores. The teams are developing recommendations for how these functions could be operated differently and will report back to the Chair during the next few months, after which the Chair will make final decisions on how these services will be provided. Changes resulting from the work of the teams have not been included in the FY 2012 budget but may take place during the course of FY 2012.

Capital Assets

Over the past decade funding for the County's capital requirements has not kept up with the County's changing service needs or our deferred maintenance liabilities. The Chair's Multnomah Evolves Initiative includes major changes to the way that the County manages its capital asset portfolio to address these issues. The Department of County Assets was created in part to ensure the effective management of the County's capital assets.

As part of the Multnomah Evolves Initiative, the Chair has requested that a new Facilities Strategic Plan be developed. The new plan will describe current and future facility needs for County programs based upon the demographics of our clients, as well as the location, cost and physical conditions of County buildings and leased space. The plan will propose new policy to guide long term capital asset strategy for County buildings and propose transactions and projects to transform the current building portfolio into one that is financially sustainable for the long term.

In addition to these administrative changes, there are several major capital projects that will continue in the FY 2012 budget. The East County Courthouse and Data Center relocation project is scheduled to be finished in the spring 2012. The project to replace the Sellwood Bridge will begin construction in late FY 2012. Other major capital projects in the FY 2012 budget include planning for a replacement for the Downtown Courthouse and finishing our new Assessment and Taxation IT system. The FY 2012 budget earmarks \$1 million for the Downtown Courthouse.

Planning for the FY 2012 Budget - Economic Climate

The County faces a slowly recovering national and local economy. It is one that continues to be frustratingly protracted and uneven, especially for those seeking employment. Gross domestic product (GDP) – the output of goods and services produced in the U.S. – increased at a revised annual rate of 1.9% in the first quarter of 2011, the seventh consecutive quarter of GDP growth. However, this is down from the 3.1% rate in the fourth quarter of 2010 and is too low to significantly reduce unemployment rates.

The two percentage point reduction in social security taxes passed in late 2010 will provide additional stimulus to the economy. Rapidly increasing oil prices earlier in 2011, the tragic earthquake and tsunami in Japan, unrest in the Middle East, and European debt issues will provide countervailing headwinds. Continued government contraction, especially at state and local levels, will partially offset private hiring increases and moderate the recovery.

Locally, the Portland metropolitan area felt the impact of the housing boom and bust 12 to 18 months later than other regions, and prices continue to decline. Portland housing prices peaked in July 2007 and have fallen 28.8% from their peak based on the S&P/Case-Shiller Home Price Index. During the summer of 2010, prices briefly stabilized but have trended sharply down since then on a year-over-year basis. From April 2010 to April 2011, prices are down 9.2%; from June 2010 prices are down 10.7%. Based on affordability measures, prices are now close to historical norms, but given the high level of unemployment they could continue to drift downward for several more quarters.

After remaining stubbornly high at roughly 9.7% throughout 2010, U.S. unemployment levels have edged downward, ranging between 8.8% and 9.1% in recent months. The four-week moving average of initial unemployment claims stands at 428,000 as of June 30th, down from over 630,000 at the peak of the recession, signaling a weak, but improving labor market.

Unemployment increased faster and peaked at higher levels in Oregon and Multnomah County than in the rest of the country. In May 2008, Oregon's unemployment rate was 5.7%. Twelve months later, it stood at 11.6%. By May 2010, the rate had inched down to 10.9% and stands at 9.3% for May 2011. For Multnomah County, unemployment followed a similar pattern - increasing from 5.0% in May 2008 to 10.7% in May 2009 and then easing to 10.0% by May 2010. It currently is 8.4%. At these rates, it could be roughly 3 years before employment levels reach pre-recession levels.

Forecasting the General Fund

While housing prices and unemployment rates paint a grim but improving picture, the local economy has stabilized and small improvements can be seen. Business spending on equipment and software has risen significantly, benefiting large local employers such as Intel. Exports, especially to China, have been strong and growing. Inflation continues to be low. In the second half of 2010, the CPI – Urban Wage Earners and Clerical Workers index for Portland grew at just 1.2%. The County continues to assume a stabilizing national and local economy, with a protracted and uneven recovery. The consensus forecast has Oregon employment growing 2.1% in 2011 and 2.7% in 2012. Personal income growth is projected to increase 4.7% in 2011 and 4.8% in 2012.

Multnomah County uses ongoing financial forecasting and monitoring to estimate revenues and expenditures in the General Fund, the County's largest source of discretionary revenues. These forecasts are made for a 5-year time horizon and are updated on a quarterly basis. The 5-year forecast helps form the basis on which Multnomah County builds its annual budget.

The Budget Office's March 2011 5-Year General Fund Forecast projected a gap between General Fund revenues and expenditures of \$4.4 million for FY 2012. Unchecked, the gap will grow \$3 to \$4.2 million per year through FY 2016. This projection excluded unmet needs such as capital infrastructure, and any policy implications of decisions under consideration by the Chair for his proposed budget. The forecast also assumed that expiring State grants will not be supported by the General Fund and that there will be no new or expanded General Fund programs other than debt and operating costs for the East County Court Facilities and the Crisis and Assessment and Treatment Center (CATC).

The \$4.4 million shortfall was a result of 1) one-time-only revenues used for ongoing programs in FY 2011 and 2) the debt and operating costs for the East County Court Facilities and the CATC. The County's normal structural deficit of one to two percent was not an issue in FY 2012 due higher BIT growth and slower personnel cost growth.

The adopted budget is balanced so no expenditure revenue gap exists for FY 2012. For FY 2013 a very modest gap of 200,000 exists. In FY 2014, this gap grows to \$4.4 million. The gaps continues to grow by \$3.2 to \$3.8 million in FY 2015 and FY 2016. The cumulative gap is \$11.5 million.

Local Revenues

Property tax is the single largest source of revenue in the General Fund and it accounts for about 63% of ongoing revenues. General Fund revenue growth, therefore, is particularly sensitive to changes in taxable value and compression. The FY 2012 budget assumes the following rates of growth for each revenue source:

- Property Tax – Increase 2.1%
- Business Income Tax – 15.5% from FY 2011 adopted or 5% from FY

State Revenues

2011 current forecast

- Motor Vehicle Rental Tax – Increase 3.7%
- Recording Fees/CAFFA Grant – Increase 7.3%
- State Shared Revenues – Increase 16.2%

The State is projecting a \$3.5 billion shortfall for the 2011-13 biennium. That equates to about 22% of the State's current general fund services. This is a cause for concern because Federal and State funds support 25%-30% of the County's operating budget. The State's Proposed 2011-13 biennial budget is heavily front-end loaded (i.e., spending reductions in the second year) and relies on major policy changes and efficiency gains to balance. If the Governor's Budget remains relatively intact, it will lessen the potential impact to the County for FY 2012 but will create a greater impact for FY 2013.

We anticipate information from the State to trickle out over time with the final impacts to the County being unknown until this summer, after we adopt our budget. Given the timing and uncertainty of the outcome of the State's budget, departments were instructed to create a "placeholder" budget in anticipation of a midyear rebalance to address state decisions. The budget earmarks \$4.2 million of one-time-only resources and \$1.6 million of ongoing resources in the General Fund contingency to allow the Board to consider any policy implications brought about by State reductions, to prioritize critical programmatic needs, and ramp down State programs in a thoughtful fashion. We will calibrate our midyear rebalance process to the magnitude of the State cuts.

Cost Drivers

Expenditures are forecast to grow 4% to 5% annually through FY 2016 – a rate of growth that takes into account inflation, employee compensation, and long term fixed costs. For FY 2012, the cost of providing current service levels was initially projected to grow between 3.25% and 3.50%. This estimate was driven by personnel costs, which is the County's primary General Fund cost driver. Personnel cost growth of 3.71% was derived from the following sources:

- Cost of Living Adjustment – 1.58%
- Step and Merit Increases – 1.69%
- Medical/Dental – 4.50%
- PERS – 0.00%
- Retiree Medical – 0.25%
- Liability/Unemployment/Admin – 0.35%

Lower inflation (and hence COLA costs), slower medical/dental cost growth, and the need not to increase our PERS rates (due to our efforts to smooth the rates), resulted in a lower than typical personnel cost growth.

Policy Direction from the Chair

The Chair's subsequent decision to freeze COLA and merit pay for exempt and management employees further reduces personnel cost growth. Likewise, direction to internal service providers to keep rates flat (or lower them) eliminated cost growth due to internal service reimbursement costs.

In light of General Fund shortfalls projected in the 5-year Forecast, the Chair directed all departments to make a 2% reduction from current service levels in their General Fund budget requests. Internal service providers were instructed to hold rates flat or reduce them. Management cost-of-living and merit increases for FY 2012 were frozen. And, through the Multnomah County Evolves process, span of control was increased. These actions saved the General Fund a net \$6.3 million.

- 2% Constraint - \$6.4 million
- Internal Services Savings -\$2.4 million (offsets 2% constraint)
- Management COLA & Merit freeze - \$1.5 million
- Multnomah Evolves/Span of Control/DCA - \$800,000

These savings produced a greater reduction than was needed to close the gap for FY 2012. Consequently, Chair Cogen's proposed budget was able to maintain current service levels for direct service programs for FY 2012 using these savings while also allowing for some strategic reinvestments for critical services or projects.

Combined with additional indirect revenues of \$2.1 million and lower required General Fund support for CATC, these savings were also used to address the County's shortfall for FY 2013.

The Chair's budget message provides additional information on his policy initiatives and the following sections of the Budget Director's Message address our one-time-only resources and spending.

The Board adopted the Chair's proposed budget with relatively few changes.

Budget Overview - All Funds

Local Budget Law requires that Multnomah County report the total budget. The budget for FY 2012 totals \$1,487,769,834. When adopted, the budget sets the legal appropriation. The total budget reflects the actual resources needed by the County, plus internal charges, transfers, loans, and accounting entities.

Because the total budget overstates what is actually spent, the County often refers to the net budget. The FY 2012 net budget of \$1,044,354,982 is a more accurate statement of the money the County actually plans to spend on operations during the year. The net budget subtracts all internal charges, transfers, and loans from one fund to another. It also removes all reserves for future years to more accurately reflect the ongoing operating budget. Internal transactions between funds are typically the result of one department providing a service to another, such as information technology or facilities services.

FY 2012 Adopted Budget	
Department Expenditures	\$972,786,749
Contingency	<u>71,568,233</u>
Total Net Budget	\$1,044,354,982
Service Reimbursements	201,713,520
Internal Cash Transfers	71,366,988
Reserves	<u>170,334,344</u>
Total Budget	\$1,487,769,834

Please see the next page for a table detailing the change in budget by fund compared with FY 2011.

Budget Director's Message

fy2012 adopted budget

#	Fund Name	FY 2011 Adopted	FY 2012 Adopted	Change	Notes
1000	General Fund	393,247,902	412,093,990	18,846,088	Beginning Working capital (BWC) +\$3.8m, taxes +\$11.7m, intergov +\$1.2m, other revenues +\$2.7m, licenses & Permits +\$0.8m, financing sources -\$1.2m, interest -\$0.2m.
1500	Strategic Investment Program Fund	161,000	0	(161,000)	Rolled into the General Fund
1501	Road Fund	45,096,682	49,018,176	3,921,494	BWC +0.5m, intergov +\$5.4m, financing sources -\$0.8m, service charges, taxes, other revenues -\$1.2m
1502	Emergency Communications Fund	250,000	250,000	0	
1503	Bicycle Path Construction Fund	430,500	359,250	(71,250)	
1504	Recreation Fund	101,700	105,000	3,300	
1505	Federal/State Program Fund	277,794,258	273,175,292	(4,618,966)	BWC +\$2.5m, licenses & permits +\$0.6m, service charges +\$1.9m, intergovernmental -\$9.2m, other revenues -\$0.3m
1506	County School Fund	191,500	187,100	(4,400)	
1508	Animal Control Fund	2,691,373	2,692,050	677	
1509	Willamette River Bridge Fund	175,862,964	33,736,272	(142,126,692)	BWC +\$18.4m, other revenues +\$1.3m, financing sources -\$150m, intergov -\$5.4m, licenses & permits -\$6m, interest -\$0.4m
1510	Library Serial Levy Fund	77,403,916	69,221,502	(8,182,414)	BWC -\$2.1m, taxes -\$5m, financing sources & interest -\$0.8m, other revenues -\$0.2m
1511	Special Excise Taxes Fund	19,014,000	20,055,250	1,041,250	Taxes +\$0.9m
1512	Pub Land Corner Preservation Fund	1,685,000	1,719,000	34,000	
1513	Inmate Welfare Fund	1,384,015	1,250,668	(133,347)	
1516	Justice Services Special Ops Fund	8,196,814	7,925,717	(271,097)	
1518	Oregon Historical Society Local Option Levy Fund		1,945,151	1,945,151	New fund. Taxes \$1.9m
2001	Revenue Bond Sinking Fund	1,692,500	2,680,690	988,190	Financing sources +\$1.5m, BWC -\$0.5m
2002	Capital Lease Retirement Fund	30,781,512	30,469,235	(312,277)	
2003	General Obligation Bond Sinking Fund	15,795,357	16,389,888	594,531	
2004	PERS Bond Sinking Fund	60,840,000	72,325,000	11,485,000	BWC +\$13m, other revenues -\$1.5m
2504	Financed Projects Fund	5,106,000	3,701,038	(1,404,962)	BWC +\$3.1m, financing sources -\$4.5m
2507	Capital Improvement Fund	47,332,900	39,753,610	(7,579,290)	BWC +\$6.4m, financing sources -\$15.5m, interest -\$0.2m, intergovernmental -\$1.4m, service charges & other revenues +\$3.1m
2508	Capital Acquisition Fund	6,007,000	4,233,353	(1,773,647)	BWC -\$1.8m
2509	Asset Preservation Fund	5,427,865	7,243,197	1,815,332	BWC +\$1m, financing sources -\$2.1m, other revenues +\$3m
2511	Sellwood Bridge Replacement Fund		153,452,258	153,452,258	New capital fund for the Sellwood Bridge. Financing sources +\$144m, intergov. \$9m
3002	Behavioral Health Managed Care Fund	57,715,295	60,019,416	2,304,121	BWC +\$0.7m, intergovernmental +\$1.7m
3500	Risk Management Fund	114,847,695	120,931,210	6,083,515	BWC -\$22.1m, financing sources +\$25.1m, other revenues +\$3.3m, interest -\$0.2m
3501	Fleet Management Fund	11,317,605	10,895,342	(422,263)	BWC -\$0.5m
3503	Information Technology Fund	47,712,090	43,386,848	(4,325,242)	BWC -\$2.4m, financing sources +\$1m, other revenues -\$2.8m
3504	Mail Distribution Fund	8,125,842	8,122,221	(3,621)	
3505	Facilities Management Fund	44,154,994	40,432,110	(3,722,884)	BWC +\$0.4m, service charges +\$3.4m, other revenues -\$7.8m
Total		1,460,368,279	1,487,769,834	27,401,555	

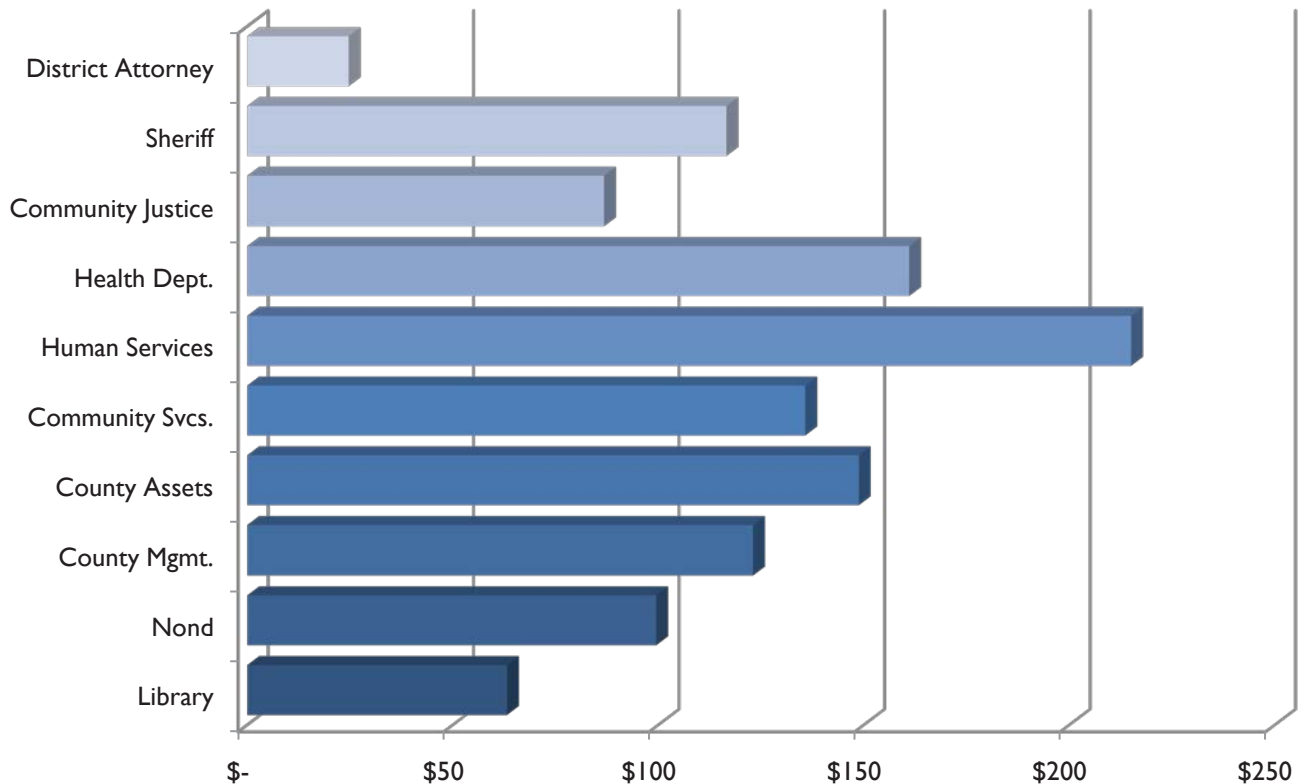
Budget Director's Message

fy2012 adopted budget

Department Requirements All Funds (\$1.17 billion)

Department expenditures, excluding cash transfers, contingencies, and unappropriated balances, for all funds total \$1.17 billion in FY 2012. Just over half of the County's departments experienced increases in their budgets over the prior fiscal year.

The bar chart below shows the amount of funding required by each department in millions. This figure includes internal service payments, and thus represents some double-counting.

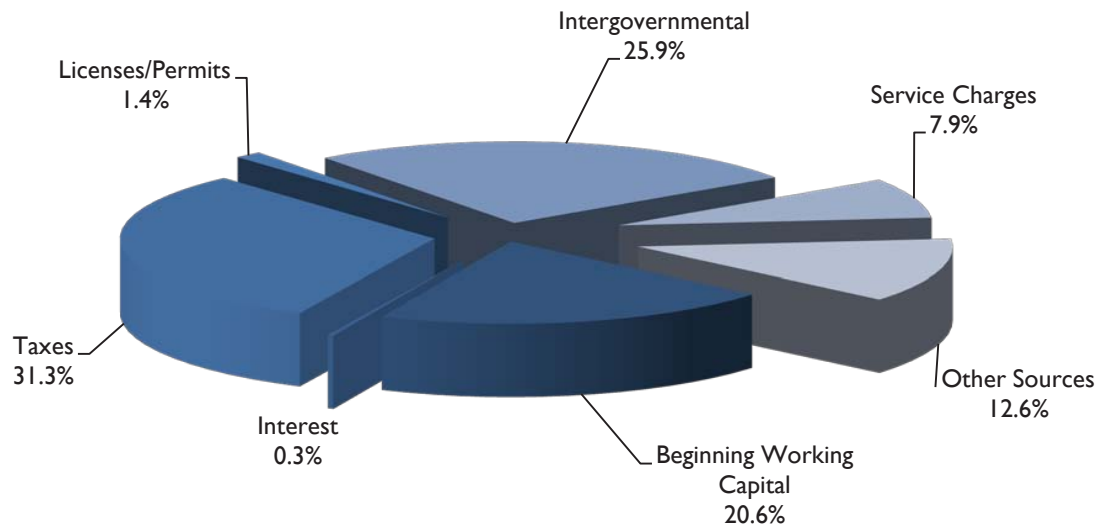


Department Revenues All Funds (\$1.20 billion)

Total direct resources or 'revenues' for FY 2012 are \$1.20 billion (excluding service reimbursements and cash transfers between funds). Local revenues are generally growing at increased rates, while property taxes are increasing at a modest rate. Taxes constitute the largest single revenue source and include property tax, business income tax, motor vehicle rental tax, transient lodging tax and county gas tax.

The decrease in direct resources from \$1.21 billion in FY 2011 to \$1.20 billion in FY 2012 is attributable primarily to financing assumptions for the Sellwood Bridge. Proceeds from bond sales were budgeted at \$150 million FY 2011, but \$127 million in FY 2012.

Beginning Working Capital (BWC), as a share of total budgeted resources, has increased from last year. The FY 2011 adopted budget contained \$230.8 of BWC million across all funds, but FY 2012 contains \$247.1 million.



Budget Director's Message

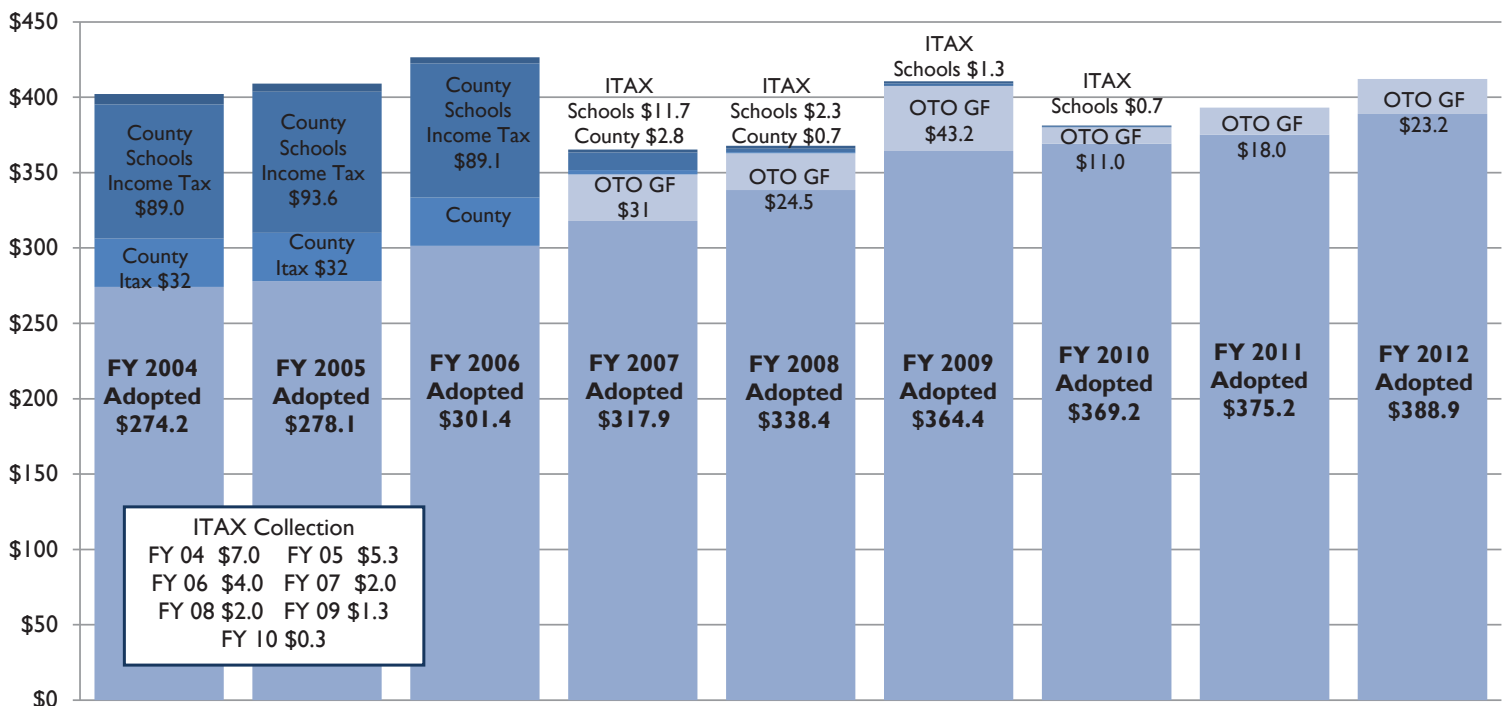
fy2012 adopted budget

The General Fund

General Fund Expenditures & Reserves

The \$412.0 million General Fund comprises approximately one-third of the County's budget. It is the largest pool of discretionary funds that the Board of County Commissioners can allocate with few restrictions. Resources include property taxes, business income taxes, motor vehicle rental taxes, interest earnings, and state shared revenues and beginning working capital.

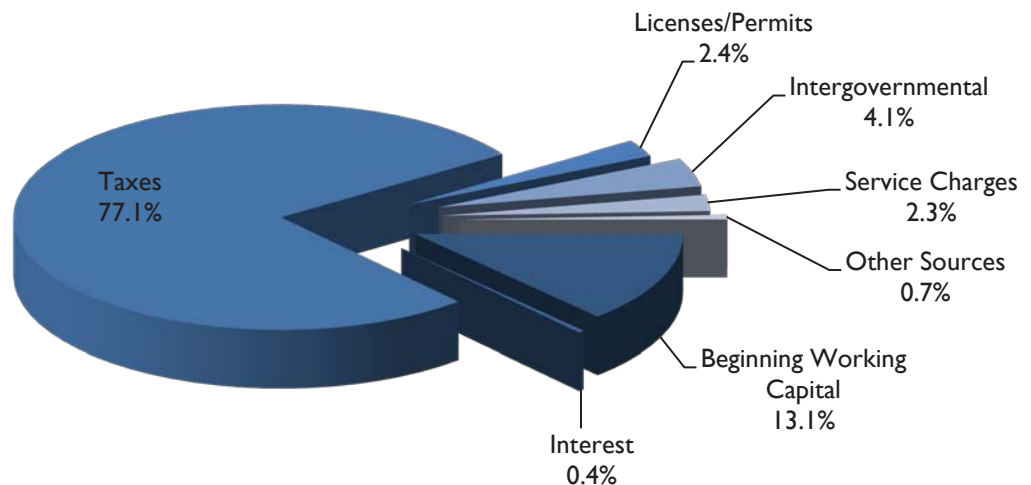
The following graph shows total General Fund 'spending', including cash transfers, service reimbursements, contingencies, and unappropriated balances (reserves), from FY 2004 through FY 2012. The Temporary Personal Income Tax is shown from FY 2004 to FY 2010 and is not significant enough to warrant being called out separately in subsequent years. Additionally, the graph shows how much one-time-only and ongoing funding was spent in the General Fund in fiscal years FY 2007 - FY 2012. Combining each segment provides the total General Fund.



General Fund Revenues

General Fund direct resources (excluding service reimbursements and cash transfers) have increased from FY 2011. Budgeted General Fund direct resources are \$391.6 million – an increase of 4.7% over the FY 2011 adopted budget. The majority of the increase is driven by higher business income taxes (BIT) and property tax growth.

There are five revenues in the General Fund that make up about 88% of the ongoing revenue stream. Those revenues are—in order of magnitude—property tax, BIT, motor vehicle rental tax, state-shared assessment and taxation and recording fees, and other state shared revenues, including video lottery, liquor control commission, cigarette and amusement device taxes. The following chart shows the major direct revenue resources within the General Fund.



Use of One-Time-Only (OTO) Funds

The FY 2012 budget contains approximately \$23.2 million of one-time-only General Fund resources after fully funding the County's General Fund reserves for FY 2012. The majority of these funds are attributable to the projected FY 2011 ending balance, which includes the unused BIT reserve.

The tables on the following two pages show how the OTO resources were used. The first table lists OTO resources supporting OTO expenditures (i.e., capital expenditures) or programs that are not expected to continue beyond FY 2012 (i.e., planning projects). The second table lists OTO resources supporting ongoing programs or those expected to operate beyond FY 2012.

Budget Director's Message

fy2012 adopted budget

One-Time-Only Resources Spent on One-Time-Only Programs

Prog. #	Program Name	Dept.	TOTAL General Fund	Other Funds	OTO General Funds	% OTO General Funds
I0034	Office of Sustainability - Food System Economic Cluster	Nond	\$579,444	\$0	\$52,000	9%
I0035B	Microlending	Nond	150,000	0	150,000	100%
I0036	NACo Conference	Nond	225,000	0	225,000	100%
I0037	Climate Adaption Plan Specialist	Nond	94,199	0	94,199	100%
I0039	Continuity of Operations Planning	Nond	125,000	0	125,000	100%
I0040	Emergency Coordination Center Development	Nond	250,000	0	250,000	100%
I0041	Disaster Preparedness for Vulnerable Populations	Nond	84,070	0	84,070	100%
25020A	ADS Access and Early Intervention	DCHS	3,062,779	6,236,424	46,182	2%
25028	Bed Bug Eviction Mitigation	DCHS	102,053	0	102,053	100%
25032	Gatekeeper Outreach - Identifying Vulnerable Populations	DCHS	43,827	0	43,827	100%
25090	Addictions Detoxification and Post-Detoxification Housing	DCHS	1,237,166	1,878,359	200,000	16%
25111C	Rapid Re-Housing Initiative	DCHS	325,000	0	325,000	100%
25133D	Streetroots - Rose City Resource Guide	DCHS	20,000	0	20,000	100%
25133E	Short-Term Rent Assistance	DCHS	500,000	0	500,000	100%
25139B	Action for Prosperity	DCHS	195,000	0	195,000	100%
50018C	Detention Electronics Replacement	DCJ	1,400,000	0	1,400,000	100%
50025B	Restorative Justice Training	DCJ	60,000	0	60,000	100%
60050	In-Jail Human Trafficking Sergeant	MCSSO	160,683	0	160,683	100%
60083	Child Abuse Team Detective	MCSSO	118,000	0	118,000	100%
72030	Budget System Replacement	DCM	1,000,000	0	1,000,000	100%
72036B	DART Consolidation of Customer Service	DCM	600,000	0	600,000	100%
78001	F&PM Strategic Plan	DCA	1,037,966	0	150,000	14%
78001	DCA Business Process Improvement Implementation	DCA	1,037,966	0	200,000	19%
95000	Cash Transfers	Countywide				
	~ Port City Debt				1,500,000	
	~ LID Assessment				380,000	
	~ Yeon Debt				836,000	
	~ Detention Electronics (see offer 50018C)					
	~ Downtown Courthouse				1,000,000	
	~ CIP Fees				221,059	
	~ Asset Preservation Fees				227,175	
	~ Budget System Replacement (offer 72030)					
95000	Additional Contingency	Countywide			500,000	
95000	BIT Reserve				4,882,500	
95000	Contingency for Radio Replacement & Emergency Management Communications				1,490,000	
95000	IT Innovation & Investment Contingency				1,500,000	
95000	Board Earmark - Black Women for Peace				50,000	
95000	Board Earmark - Sexual Exploitation of Children - Victim Beds				258,420	
95000	Contingency for State Ramp Down				4,229,675	
Total OTO for OTO Programs			\$10,682,221	\$10,190,715	\$23,175,843	

Note: The General Fund expense for Detention Electronics (50018C) and Budget System Replacement (72030) is technically a cash transfer from the Overall County Offer (95000) to internal service funds, but is shown above in the responsible department.

Budget Director's Message

fy2012 adopted budget

One-Time-Only Resources Spent on Ongoing Programs

Prog. #	Program Name	Dept.	FY 2012 General Fund	Other Funds	OTO General Funds	% OTO General Funds
25133C	East County Homeless Outreach	DCHS	\$75,000	\$0	\$75,000	100%
25145A	SUN Schools - East County	DCHS	<u>3,187,998</u>	<u>450,444</u>	<u>130,000</u>	4%
Total OTO for Ongoing			\$3,262,998	\$450,444	\$205,000	

General Fund Reserves

The County maintains General Fund reserves outlined in the County's Financial and Budget Policies. In FY 2012, reserves are maintained in the General Fund equal to 10% of ongoing "corporate" General Fund revenues – resources that the Board has wide discretion over, such as property taxes. The FY 2012 budget fully funds the General Fund reserves at \$31.2 million and is in compliance with the Financial and Budget Policies. The level of General Fund reserves is considered a fundamental measure of financial health.

The FY 2012 budget also contains an additional 10% BIT Stabilization Reserve of \$4.9 million. This stabilization reserve is in addition to the General Fund reserve and is specifically intended to mitigate the risk of an unexpected downturn in the regional economy as the BIT is a volatile revenue source.

Policy Issues and Opportunities

Organization-wide Issues

Climate Action Plan - On October 28th & 29th, 2009, the Multnomah County Board of Commissioners and Portland City Council unanimously adopted the 2009 Climate Action Plan, which established a goal of reducing community-wide greenhouse gas emissions 80% below 1990 levels by 2050. The Climate Action Plan serves as a road map for the City and County to achieve this goal, and is designed around nearly 100 specific actions that will be revised every three years.

In FY 2011, significant progress was made in advancing the early City and County actions. In FY 2012, work will continue to be implemented, including critical work in the area of adapting County operations to climate change. Identified vulnerabilities will serve as the basis for the development of a separate adaptation plan. At the end of FY 2012, implementation progress will be assessed and the process of developing action for next three year will begin.

Historical Society Levy – Established in 1898, the Oregon Historical Society (OHS) collects and maintains the county and state's major collection of Oregon, Portland and Multnomah County historical documents, letters, photographs, books, maps artifacts and more. About 60% of the library materials relate directly to Multnomah County history and OHS acts as the Multnomah County Historical Society. On November 2, 2010, voters approved a five year local option levy of \$0.05 per \$1,000 of assessed value to keep the Oregon History Library and Museum open to the public. The levy funds restore operating hours and provide free admission for all school children and all Multnomah County residents. The levy will raise an estimated \$12 million in funding over the course of its life.

Library District – The Library's current local option levy expires June 30, 2012. A library funding measure will need to be placed on the November 2011 ballot. With the passage of Measure 26-114 in November 2010, the Multnomah County Home Rule Charter has been amended to allow for the direct referral of a library district measure by the Board of County

Personnel Costs

Commissioners. This creates a new funding option for the library - a library district. Creating a separate property taxing district has long been discussed as a mechanism to secure permanent funding for the Library. Currently the Library relies on a 5-year local option levy for the majority of its funding. The County General Fund provides another \$14.3 million, or 24% of its ongoing funds. The levy must be renewed every 5 years, creating uncertainty for operations and planning. The local option levy has been reduced in recent years due to property tax limitation measures: in FY 2009, property tax compression was 13.2%, and by FY 2011 it had increased to 21.6%. This increase means the library lost an additional 8.4% of its planned revenues. For FY 2012, compression is estimated at 29.0%.

There are a number of assumptions and financial impacts that the Board will need to consider prior to moving forward with the formation of a new Library District. September 8, 2011 is the deadline to file the measure and explanatory statement if the Board chooses to place a district measure on the November 2011 ballot.

COLA/Wage Freeze for Management and Executive Employees

– The FY 2012 budget is balanced in part through a wage freeze for management and executive employees that saved a total of \$3.4 million (\$1.5 million in the General Fund and \$1.9 in other funds) for FY 2012. The County is currently negotiating several labor contracts and is seeking a wage freeze from represented employees as part of those negotiations.

Other Post-Employment Benefits – The County offers retirees over the age of 58 the benefit of subsidized medical benefits until the retiree is eligible for Medicare. In 2004, an accounting rule change by the Governmental Accounting Standards Board required the County to report the value of the insurance benefits promised to retirees as a liability on our annual financial statements. The County contributes 2.00% of current payroll costs to support the retiree medical insurance program, which goes to a reserve in the Risk Fund established to account for post-employment medical benefits. That reserve is not sufficient to cover the full amount of the anticipated liability. The unfunded liability is approximately \$130 million and our current reserve is \$20 million. The County's financial policies establish a goal of funding 20% of the liability by 2013, and the current reserve amount represents 16.3% funding of the full actuarial liability.

Public Employee Retirement System (PERS) - For FY 2012, the County's PERS rates remained essentially unchanged from the previous biennium. The biannual actuarial valuation for the period ending December 31, 2009, significantly increased the County's rates. However, due to losses incurred after the date of the prior actuarial valuation, the County maintained higher internal rates and has accumulated the excess in a reserve account. This allows the County to offset the expected increases with the reserves

New Facilities and Operations

and smooth the rate increases, minimizing the budgetary impact to County programs. While most internal rates did not change significantly, the rate for uniformed employees in one bargaining unit under the Oregon Public Service Retirement Plan (OPSRP) were substantially increased to account for the additional 6% contribution requirement resulting from union arbitration in FY 2010. The County will seek to eliminate this additional 6% contribution requirement through future collective bargaining agreements.

Healthcare Costs - The County strives to offer its employees a wage package that is competitive with peer organizations in the public and private sector labor markets. Over the last few years, one of the greatest challenges facing the County has been the increased cost of health insurance. Annual increases (e.g., for treatment, hospitalization, and prescriptions) have historically risen at roughly double the rate of core inflation. Recently, however, the increases in health care costs appear to have slowed somewhat. This has enabled the County to maintain relatively flat internal services charges for employee health care benefits for FY 2012. The County continues to explore trends in the health care industry and alternatives to the current benefits plans in order to minimize future increases in health care costs.

Sellwood Bridge - The Sellwood Bridge project is in the design and right of way acquisition phase of the effort to replace the current 84-year old Willamette River crossing. A regional funding plan is in place to secure the estimated \$290 million needed to fund the project and construction is projected to begin in late FY 2012. The cost includes the new bridge, an interchange where the bridge connects with Highway 43, right-of-way, design, and mitigating impacts to protected environmental resources. The funding plan includes the following sources:

- \$127 million - Multnomah County Vehicle Registration Fee (\$19 per year)
- \$22 million - Clackamas County Vehicle Registration Fee (increase of \$5, passed by the Clackamas Board of Commissioners, was referred to the voters and the additional fee failed). Options are being considered to mitigate this funding gap.
- \$80 million - City of Portland (new revenues from the Oregon Jobs and Transportation Act)
- \$30 million - State of Oregon (Jobs and Transportation Act) for Highway 43 interchange
- \$11 million - Previously secured funds remaining after planning phase
- \$20 million - Request for Federal funds

Of this funding, \$248 million is secured. An additional \$22 million is expected to be secured in 2011. The remaining \$20 million is dependent on the reauthorization of the federal transportation bill which Congress has yet to consider.

The FY 2012 budget anticipates a debt issue of \$127 million backed by the Multnomah County Vehicle Registration Fee. A new fund has been established to better account for the revenue and expense associated with this project.

East County Courthouse (ECC) – The Board approved the construction of the \$19.6 million East County Courthouse facility in October 2010. The courthouse is being built on County-owned land (185th and Stark) in the Rockwood neighborhood of Gresham. The facility will include three courtrooms and office space for the District Attorney. The space is designed to achieve LEED Gold Certification, the second highest sustainable building standard. In addition to court facilities, the County's Data Center is being co-located within the same building. The annual debt service for the courthouse will be approximately \$1.5 million per year with annual operating costs estimated at \$430,000. The courthouse facility should be completed in the spring of 2012.

New Information Technology Data Center and Disaster Recovery Capabilities - In FY 2010, the County began a project to replace the current IT Data Center facility, which houses critical IT infrastructure and data storage. IT partnered with Facilities to select the new East County Courthouse Building as the location for the new IT Data Center.

The current data center is at risk due to the age, design, and capacity of the facility and the associated equipment. The new Data Center will add critical disaster recovery capabilities to ensure the county's ongoing IT operations in case of an emergency or disaster. These capabilities will require significant upgrades to our network infrastructure and additional technical capabilities provided by a vendor. The integration of IT resources will improve oversight for the State Courts and reduce the costs of redundant equipment and connectivity for both organizations.

Construction of the Data Center is currently underway as a part of the East County Courthouse construction. The budget had been revised based on the site selection, building requirements, and the finalized data center design. IT will pay for approximately \$2.3 million out of the IT fund balance in FY 2011 and \$3.0 million from the Full Faith and Credit debt issued in FY 2010. Operating costs for the site of approximately \$500,000 have been budgeted in the IT rates for FY 2012.

Crisis Assessment and Treatment Center - The Multnomah County Crisis Assessment and Treatment Center (CATC) is a 16 bed adult mental health sub-acute facility offering short-term crisis stabilization in a secure environment to 850 clients annually. The CATC is a cost-effective diversion from unnecessary psychiatric hospitalization and incarceration as well as an essential part of the county's continuum of crisis mental health services. The program is located on the second floor of the David P. Hooper building and will open on June 20, 2011. The total cost of operating the CATC for FY 2012 is \$3.4 million, which is jointly funded by the county, city and state.

Approximately fifty percent of the operating budget is funded through Verity with the county and city each contributing \$597,500 of General Funds. The remainder of the budget is funded with State General Funds.

Facilities, Capital Planning Asset Preservation and the Capital Budget - A capital preservation fee is assessed to all County tenants based on space occupied in order to pay for the replacement of building systems at the end of their useful lives; this is the major ongoing source of revenue for the facilities capital program. For FY 2012, the fee is \$2.75 per square foot and will collect approximately \$6 million for repairs to County buildings. The annual capital fee has proven to be inadequate in light of a deferred maintenance and seismic liability of approximately \$230 million for County buildings, of which \$209 million is seismic. A full solution to deferred maintenance would require new sources of revenue in order to replace or repair important County buildings, if no changes to the building portfolio are made. The FY 2012 Budget includes an 8% increase in the capital preservation fee paid for out of one-time only General Funds in order to maintain capital fee rates at their FY 2011 level.

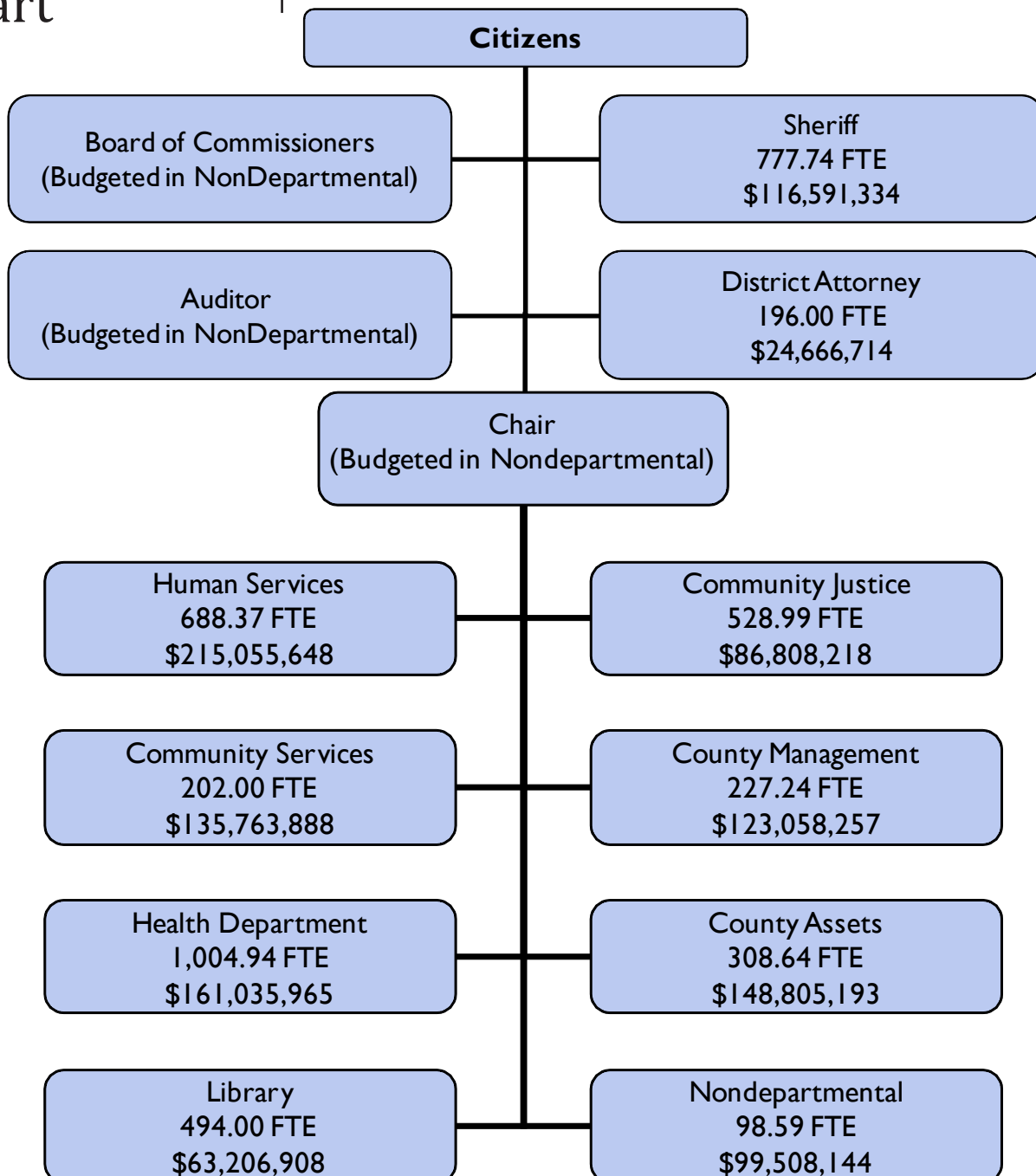
Facilities Strategic Plan – In 2005, the current Facilities Strategic Plan was adopted by the Board. That plan laid out capital strategy and policies for the County. As the County is faced with ongoing budgetary constraints, continued facility deferred maintenance, and building costs that are above manageable levels, the Chair has requested that a new Facilities Strategic Plan. The new plan will describe current and future facility needs for County programs based upon the demographics of their clients, as well as the location, cost and physical conditions of County buildings and leased space. The plan will propose new policies to guide long term capital asset strategy for County buildings and transactions and projects to transform the current building portfolio into one that is financially sustainable.

Downtown Courthouse Planning – The current downtown Courthouse is obsolete and poses a hazard to the County in the event of an earthquake. In FY 2006, the Board declared the North Bridgehead Block as the preferred site for the proposed new downtown Courthouse. The County has been investigating the zoning and land use issues which currently encumber the site. Relocating the Hawthorne Bridge off-ramp that bisects the property will take place after the zoning and land use issues are addressed. The County recently completed an architectural study describing the feasibility of renovating the Downtown Courthouse while maintaining a substantial portion of operations during construction. The study is being reviewed by Board members and no policy decisions have been made that have changed the 2006 plan.

Wapato - The 525-bed Wapato Jail was built in 2006. There is currently insufficient funding to operate this facility. The FY 2012 budget includes \$373,000 for “mothball” costs for the year. The County continues to seek sustainable funding for operating this facility or opportunities for leasing it to another jurisdiction.

Multnomah County Organization Chart

Multnomah County delivers its services through ten departments including three managed by independently-elected officials: Dan Staton, Sheriff; Michael Schrunk, District Attorney; and Steve March, County Auditor. There are 4,526.51 full time equivalent (FTE) positions in this budget. Department spending (including internal services which are double-counted) totals just over \$1.17 billion in the budget. Below is an organization chart for the County:



Appreciation

This document is the outcome of many hours of hard work and analysis by County agencies and their budget teams. I would like to take this opportunity to thank the many people involved in its preparation. Particularly, I want to thank the department budget teams and recognize with sincere appreciation the assistance and cooperation of our department heads, constitutional officers, and staff for many hours of hard work and assistance.

I also want to acknowledge and praise the remarkable teamwork embodied by the people in Central Budget Office who gave their very best in putting this budget together in particularly trying times: Julie Neburka, Ching Hay, Christian Elkin, Mike Jaspin, Shannon Busby, and Patrick Heath.

It is my honor to work with the dedicated people who serve our County.

Karyne Kieta
Multnomah County Budget Director

FY 2012 Budget Notes

Transportation Revenue Shortfall

The following budget notes were adopted by the Board of County Commissioners on June 9, 2011. Board discussion and deliberation is an integral part of the county budget process. Budget notes document policy discussions and decisions made by the Board of County Commissioners during the budget worksessions and provide direction to departments in achieving the Board's policy goals during the fiscal year.

The Board of County Commissioners periodically receives reports of transportation deferred maintenance calculations. These reports have been consistent in predicting shortfalls in excess of \$200 million over a twenty year horizon. The Board is concerned and is requesting some insight into solutions.

The Board of County Commissioners directs the Land Use and Transportation Program to examine transportation revenue mechanisms in practice elsewhere in the region and around the country. The Land Use and Transportation Program will work with Finance and the Department of Government Affairs to present information and frame solutions. The briefing will be presented to the Board of County Commissioners by December 2011.

Capital Planning Process

The Department of County Assets has been charged to develop a strategic plan for all the county's assets.

The Board of County Commissioners directs the Department of County Assets to brief the Board on the process of developing a strategic plan. A robust capital plan will include analyzing the costs of maintaining aging infrastructure, the costs of debt service for building new, and strategies for replacing or selling county buildings in a way that enhances the county's mission. The briefing will be presented to the Board of County Commissioners by December 2011.

Black Women for Peace

The Board requests that the Chief Operating Officer work with County departments to further the work of the community group Black Women for Peace. This group was convened by BCC-District 2 in order to engage the community in addressing youth and gang violence. Black Women for Peace has begun to identify and address the root causes of youth and gang violence in our community, and has worked closely with the Portland State University School of Social Work on research projects and on developing potential solutions. \$50,000 is earmarked in the General Fund contingency to enable this group to operate independently of the County. The Chief Operating Officer is to return to the Board by August 2011 with a proposal for using this one-time funding to further the group's goals.

Other Post Employment Benefits - OPEB

The Board requests that the Department of County Management (DCM) conduct a briefing for the Board in early FY 2012 on the County's financial policy for funding Other Post-Employment Benefits (OPEB).

Funding for Department Specific Capital Projects and Assets

The Board seeks a reliable, consistent means of funding capital projects and assets that County departments require for efficient operations. Consistent with the Auditor's recommendations in the 2011 Financial Conditions report, the Board requests that the Department of County Assets and Budget Office staff report back with options for an ongoing financing mechanism and process for capital asset projects and replacements prior to the FY 2012 state funding rebalance this fall.

Aligning Internal Service Policies with the Financial Condition Report

Add language to the Financial Policy for Internal Services to reflect the Auditor's recommendation to true-up the actual costs to the charges incurred by departments.

Commercial Sexual Exploitation of Children

The Board earmarks \$258,420 in the General Fund contingency for funding to combat the Commercial Sexual Exploitation of Children pending a briefing by July 28, 2011. Staff from the Department of County Human Services and Community Justice will return to the Board to provide details about program services, outcomes and clients served by the program.