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Reader's Guide

Volume 1 – Narrative Document

The Adopted Budget document for Multnomah County consists of two (2) separate volumes structured as summarized below.

Chair's Budget Message – This section presents Chair Diane Linn's Budget Message to citizens, which highlights major issues, policies, and budget decisions for FY 2005.

Summaries – This section includes the Budget Manager's Message, which provides an introduction to the budget, explains the major issues affecting budget decisions, and offers a summary of resources and requirements.

Service Area Groups – The budget and operations of the County are structured around the following service areas: Public Safety (the Sheriff's Office, the District Attorney, and the Department of Community Justice); Health and Human Services (the Health Department, the Office of School and Community Partnerships, and the Department of County Human Services) and General Government (the Library, Non-departmental entities, and Business and Community Services).

Department Budgets – Within the Service Area Groups are the department-specific budgets. These sections include:

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- Department Services (a description of each department and what it does)
- How the Department Delivers Its Services
- Department Organization
- Budget Issues and Highlights (a review of some of the revenue and expenditure concerns affecting the department this year)
- The FY 2005 Budget, with budget trends, costs by division, and staffing by division
- Division Description (the purpose, responsibilities, and services of each division within a department)
- Action Plans (what the division expects to accomplish during the coming fiscal year)
- Significant Budget Changes for each division (detailing efforts at streamlining processes and implementing shared services)
- Budget Trends (a table showing how the division allocates resources by major category—Personal Services, Contractual Services, Materials and Supplies, and Capital Outlay)
- Program Narrative (a description of each program in the division, with FY 2004 and FY 2005 staffing summaries)

Capital Budget – This section includes an introduction to the County's Capital Improvement Plans and explains the decision process for funding both capital projects and projects within funds such as Asset Preservation or Transportation.

Financial and Budget Policies – This is a summary of the County's financial policies. It explains the background for the policies and has a statement of the policy directions approved by the Board of County Commissioners.

Appendices – Appendices include economic and demographic information as well as information on Multnomah County's governance structure. This information will help the reader understand the environment in which decisions are reached. The section also includes information on the basis for accounting (which details funds and their uses), a glossary, the detail of service reimbursement between funds, and the detail of cash transfers.

Volume 2 – Detail Document

This document displays the object code information for each major County division, the personnel information for those divisions, and a financial summary with revenue information for each income source as well as summaries of revenues and expenditures for each fund in the accounting. Also included is a Financial Summary Section which provides a categorical review of expenditure and revenues by Fund by Department.

Where to Find Other Financial Information

Comprehensive Annual Financial Report (CAFR) – this reports actual County revenues and expenditures for the last completed fiscal year, discusses financial policies, and provides demographic and economic information about the region. The CAFR, required by state statute, is prepared in accordance with GAAP (Generally Accepted Accounting Principles). It reconciles differences between the budgetary basis – as presented in the annual Adopted Budget – and the modified accrual method used for the CAFR.

Tax Supervising and Conservation Commission Annual Report – this discusses the property tax system and taxing levels for all governments in Multnomah County; as well as summarizing budgets and actual revenues and expenditures for all governments in Multnomah County.

County Auditor's Financial Trends Report – this discusses the performance of the County and the region according to guidelines recommended by the International City Managers' Association.

The Progress Board Benchmarks Web Site – this contains data and graphic information about benchmarks obtained through surveys and other analysis: www.p-m-benchmarks.org.

Budget Manager's Message

The Adopted Budget was developed in a challenging economic climate. Despite signs of economic recovery, local and state governments across the nation continue to experience deficits, and communities face major service reductions. Oregon is no exception, and it is currently struggling with both the short-term cyclical and long-term structural problems of its taxing structure and the economy. The State's reliance on income tax is a particular burden now, when it has one of the highest unemployment rates in the nation.

Introduction

Department budgets have been prepared with the best available information, but adjustments will be inevitable as the details of the State budget reductions are revealed. We made difficult choices to balance the FY 2005 budget—increasing some fees, reorganizing programs, cutting budgets, and drawing on available fund balances. These choices have resulted in reduced administrative capacity, a closed health clinic, and a new jail facility that will remain unopened. But, to reveal the real magnitude of the effects of these cuts, we need to show them in the context of the past decade.

In 1990, the voters passed Ballot Measure 5 (BM 5) by a narrow margin. BM 5 established constitutional limits on local property tax rates for all taxing districts and established state funding for education. The property tax rate limits greatly reduced the revenue collected by local governments. BM 5 proponents claimed that the measure would not impact school funding because it directed the state to replace the property tax revenue lost to school districts. During the 1990's the economy flourished, and new revenues partially offset the reductions in property taxes.

In 1996, anti-tax activists proposed BM 47, which proposed to roll back property tax levels (but not assessed value) to 90% of their 1995-1996 level; the measure also required a double majority to pass local tax levies, and capped new assessed value growth at 3%. Because of technical and legal issues associated with the initiative, BM 47 was rewritten as BM 50 and it passed narrowly in May, 1997.

BM 50 enacted permanent tax rates, reduced assessed values to 90 % of their 1995-96 levels, allowed for time-limited local option levies, and maintained the double majority and 3 % cap tenets of BM 47. BM 50 limited Multnomah County's ability to solve its financial problems through local option levies, or even to increase locally enacted fees and charges. It locked the County into a "Permanent Rate" of \$4.34 per \$1,000 of assessed valuation. As the name implies, the Permanent Rate cannot be adjusted.

For two years, BM 50 had little negative effect, because a robust economy caused income taxes and State support to continue to grow; Oregon voters also approved an increase in tobacco taxes in order to fund the Oregon Health Plan. In early 2000, however, the economic downturn began to erode State income taxes.

From 2001 to 2003, revenue forecasts were revised downward eight times in succession. In 2003, the State held six special legislative sessions to rebalance the budget in response to declining income tax revenue projections. State actions affected counties and schools throughout the state, with the Portland Public Schools facing a loss of up to 20 school days.

As a result of this fiscal crisis, BM 28 was sent to the voters, to increase State income taxes by half a percent. This measure was defeated in January 2003, but it passed in Multnomah County; as a result, the Board of County Commissioners championed a Multnomah County Personal Income Tax. This 3-year temporary income tax was passed by County voters in May, 2003. It was estimated that this tax would raise approximately $128 million annually and would be distributed as follows:

ITAX Distribution

	Amount	
School Districts		$ 89,000,000
County		39,000,000
Public Safety	$ 16,000,000	
Health & Human Services	16,000,000	
Administration, Collection, Audits	7,000,000	
Total		**$ 128,000,000**

In the meantime, the Legislature proposed, passed, and signed into law two bills, HB 2152 and HB 5077. HB 2152 was a State revenue package that included both income tax increases and reductions and eliminations of tax credits and deductions. It was expected to generate approximately $792 million for 2003-2005 and $311.5 million for 2005-2007. HB 5077 was referred to as the disappropriation bill and included a section that reduced education, health and human services, and public safety budgets in the event that HB 2152 was referred to the ballot and defeated at the polls. HB 5077 identified $544 million in cuts. Signatures were gathered to refer most elements of HB 2152 to the voters, as Ballot Measure 30. BM 30 asked voters to ratify a package of higher taxes for government services such as schools, health and human services, and public safety. In February, 2004, Oregon voters rejected BM 30. The failure of this measure triggered $544 million in cuts, while still leaving the State budget with a deficit of $235 million.

The bottom line is that the Multnomah County budget is inextricably linked with the State's, and any shortfalls at the State level have a direct and negative impact on services delivered by the County. We will have to plan for further reductions as State forecasts indicate another significant shortfall for the next biennium.

Budget Process Overview

It is difficult to understand the order of magnitude of the projected $10 million gap facing the General Fund in FY 2005 without considering the $51 million of ongoing and one-time-only reductions that have occurred in the General Fund since FY 2002.

Adopted and Midyear General Fund Reduction Budget Cuts

		Amount
FY 2002 Rebalance	$	(11,000,000)
FY 2003 Adopted		(11,000,000)
FY 2003 Rebalance		(13,000,000)
FY 2004 Adopted		(16,000,000)
FY 2005 Proposed		(10,000,000)
Total	**$**	**(61,000,000)**

These reductions do not reflect additional cuts passed down to the County via the State of Oregon. Additionally, the ITAX will sunset at the end of 2006, which will require Multnomah County to either cut an additional $40 million or find alternative revenue sources to replace the ITAX in FY 2007.

Although the County has had four financially challenging years in a row, we have responded swiftly to adjust spending and revenues in order to continue County services and build capacity to sustain existing programs into the future. Revenue forecasts suggest that revenues will not keep pace with expenditures in future years. The County will require a "right sizing" of government to create stability while maintaining flexibility to make additional adjustments in the future based on the availability of revenue and the need for services.

The County has already limited the expansion of ongoing operational costs, and will continue to work on diversifying revenues sources. Although serious challenges remain, the County will meet them, and focus the energies of its innovative and dedicated staff on operational improvements as well as the provision of critical services.

In this difficult climate, the Chair and Board have provided the leadership to aggressively pursue strategies to address the County's financial situation while collaborating with the City and school districts to propose a solution to the crisis in school funding.

The FY 2005 Adopted Budget is the product of work that began in September, 2003. The following is a summary of major events and milestones:

October: The first quarterly report was presented to the Board of County Commissioners. This detailed an approximate $7 million dollar General Fund shortfall. Expenditures and revenues for various programs were reviewed to evaluate costs, levels of service, and resource allocation.

February: The second quarterly report was presented to the Board of County Commissioners. The report detailed an approximate $10 million General Fund shortfall, as well as highlighting the County's structural issues. The County has seven revenue sources that make up 90% of the General Fund; property taxes account for 70%. Revenues are expected to grow at no more than the rate of inflation, which is estimated to range from 2% to 3% over the forecast period.

Expenditures are expected to reflect normal growth associated with the provision of County services, or approximately 5.5% annually. When estimated costs are overlaid with estimated revenues a structural deficit is identified. This deficit will be difficult to overcome, mainly as a result of Measures 47 and 50, which limited most property tax growth to 3% annually. This gap between ongoing revenue and expenditures translates to an annual shortfall of about $2.5 million which will need to be addressed in upcoming budget processes.

Departments completed the first set of internal analyses to determine budget requests, and met with the Chair to discuss impacts. Departments summarized issues and justified spending requests. The Budget Office began a review of departments' requested budgets to assure compliance with instructions, procedures, and policies in preparation for the executive budget and hearings

March: Departments met with the Commissioners to discuss their requested budgets.

April: The third quarterly report was presented to the Board of County Commissioners. The report detailed positive movement in several General Fund revenue sources, indicating further signs of economic recovery. However, several departments were added to the budgetary over-expenditure watch list for FY 2004 year end. The Chair's budget decisions were finalized

May: The Chair's Executive Budget was released. The Board approved the budget and began formal hearings and deliberations. The Approved Budget was made available for public review. Appropriations were reviewed to assure that matters relating to the County's current and future missions and mandates were addressed. Departments presented policy issues and clarified areas of concern with the Board. Public hearings were conducted to receive testimony from service providers, program staff, and the public.

June: The public hearings were completed, amendments were proposed, and the Board adopted the budget on June 10th. The budget authorized funding and staffing levels for each department.

Executive Direction

The FY 2005 Adopted Budget reflects the Chair's incorporation of Board priorities into County policy. As a starting point, departments were asked to submit budgets reflecting a 5.8% reduction from Current Service Levels. The constraint target was slightly larger than necessary to offset reductions in the General Fund and to allow the Chair's Office to ameliorate some of the most onerous cuts to public safety, health and human services, and library programs. Additionally, the Board restored funding for jail beds, neighborhood DA's, school based health clinics, homeless programs, gang and gang involved youth and outreach mental health services for the Eastern European population.

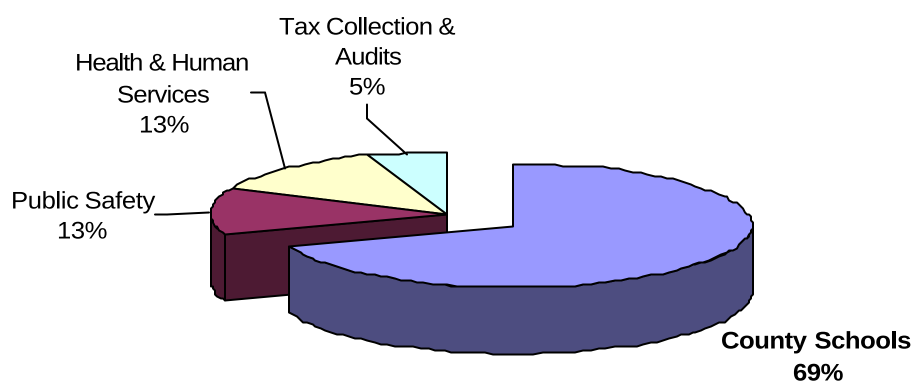
Other County priorities include:

- Continuing to focus resources on services
- Providing sufficient funds to support a framework for a rational public safety system.
- Restoring General Fund Reserves.
- Meeting the commitment to voters regarding the Library levy.
- Meeting the commitment to voters regarding the Personal Income Tax.
- Balancing the budget and creating a sustainable level of support to assure a well planned sunset of the ITAX in 2006.

Multnomah County Temporary Personal Income Tax

In March 2003, the County adopted a resolution to submit to the voters an ordinance to levy a temporary Personal Income Tax to benefit Public Schools, Public Safety, and Human Services. Measure 26-48 was approved by the voters on May 20, 2003. It enacted a 1.25% income tax, expected to raise between $128 and $132 million annually for three years. For additional information regarding the temporary Personal Income Tax please see the Appendix. The following graph illustrates how temporary Personal Income Tax funding is allocated in the budget.

Temporary Personal Income Tax Distribution ($128 Million)



Services Restored by the Personal Income Tax

We are entering year two of this three-year tax, which has allowed the County to help public schools close their funding gaps and to restore some basic local services in public safety, health, mental health, and services to seniors and the disabled. Nearly 70% of the revenue will provide funds for the eight County school districts, while about 26% will provide funds for senior services, the mentally ill, low-income health care, and public safety. The Board identified the following services as those to be supported by the measure:

? Housing and living assistance to seniors and the disabled;
? Prescription drug assistance for low-income seniors;
? Emergency mental health services;
? Health, mental health, and addiction treatment for offenders, to help reduce recidivism;
? Restoration of jail beds;
? Juvenile justice and gang services;
? Sheriff's deputies; and
? Alcohol and drug treatment for repeat offenders.

ITAX Comparision FY 2004 to FY 2005

Department	FY 2004 ITAX	FY 2005 ITAX	Difference
DA	2,112,000	2,112,000	-
MCSO	6,249,000	6,249,000	-
DCJ	5,900,000	5,900,000	-
OSCP	200,000	200,000	-
DCHS	14,410,000	14,410,000	-
Health	3,092,000	3,092,000	-
BCS	6,855,000	5,318,000	(1,537,000)
Total	**38,818,000**	**37,281,000**	**(1,537,000)**

The $1.5 million difference is a result of one-time-only start-up expenses incurred in FY 2004 and unnecessary in FY 2005.

BM 30 & ITAX

The State did not release the final details of its BM 30 cuts prior to Multnomah County's June budget adoption. As such, we may be required to reopen the budget at a later time to reflect the reductions as we learn about them.

Because ITAX programs backfilled state programs which were reduced or eliminated, the BM 30 cuts will force us to reexamine the validity of the funding framework and distribution of ITAX revenues. The Board has indicated its commitment to meet the intent of the voters and the legal requirements of the Temporary Personal Income for Public Schools, Public Safety and Human Services.

We now have a fairly accurate picture of the status of ITAX revenue collections. Revenue estimates were made in an environment of uncertainty, due to a lack of historical experience. Through May we have received gross revenue of nearly $100 million from 2003 tax returns. We ultimately expect to collect anywhere from $115 - $118 million when all 2003 tax collections are tallied.

There are a couple of reasons why collections are expected to fall short of original estimates. One factor that has a significant impact is the decision to exempt state and federal retirees from paying the tax. This represents approximately $5 million that was assumed in the original forecast. We also discovered that the data used to develop estimates of tax revenue in Multnomah County included taxpayers who filed from a Portland address but actually reside in other counties. Given that many of those taxpayers live in high income areas of Portland we believe that could account for another $5 million in "lost" tax revenue.

Because the state funded schools at a higher rate in FY 2004 the revenue collected to date has allowed school districts to receive all that they expected this year. There were several County programs that were not fully ramped-up in FY 2004 and administrative costs are about $2 million less than anticipated, thus leaving some savings to offset the shortfall in revenue collections. All County ITAX programs were fully funded in FY 2004.

The final challenge will be to develop a budget strategy to address the sunset of the ITAX in 2006. A planning process is scheduled to begin late summer of 2004.

Opportunities, Risks, & Other Considerations

The FY 2005 Adopted Budget was based on the best information available at the time of development.. Future decisions regarding new jail operations, bridges, and State funding add some uncertainty to the County's financial future and need to be noted.

Potential Repeal of the ITAX

Two ballot measures have been filed to repeal the County's personal income tax. The first initiative measure would repeal the three-year 1.25% personal income tax that voters approved in 2003 (Measure 26-48) for County schools, health and senior care, and public safety. Taxes collected for 2003 and taxes withheld and paid to the County in 2004 would be refunded. No County tax would be assessed on personal income earned during 2004 and 2005. The second measure would repeal the County tax only for years 2004 and 2005.

Petitioners have six months to gather 14,710 required to place the measures on the ballot. If this occurs, the County expects the measures to be voted on in the September or November election. About 70% of County ITAX revenues from Measure 26-48 are dedicated to providing assistance to County public schools, including those in the Centennial, Corbett, David Douglas, Gresham-Barlow, Parkrose, Portland, Reynolds, and Riverdale Districts, to close funding gaps and to restore some local services. The other 30% is dedicated to providing funds for health care, mental health, senior services, and public safety.

If the first measure is approved, the County and schools will be required to refund to taxpayers approximately $105 million in taxes collected in 2003 and already spent. School budgets will need to be reduced by about $156 million in FY 2005 and $90 million in FY 2006. Loss to the County will be about $32 million in each FY 2004 and 2005. The cost of refunds together with the loss of revenue will result in reductions for the services described above of about $78 million in FY 2005 and $32 million in FY 2006.

If the second measure is approved, school budget reductions will be about $90 million in FY 2005 and $90 million in FY 2006. Loss to the County will be about $32 million in both 2004 and 2005.

Wapato Jail Operations

Construction will be completed on the new 525 bed Wapato Jail in the summer of 2004. As a result of General Fund and State reductions over the past few years, there is insufficient funding to operate this facility. Due to several recent tax levies approved by the voters and the approval of the ITAX, it is unlikely that the Board will place a public safety levy before the voters.

The Sheriff has recommended that the jail be closed for a year to enable the Board and the Sheriff to broaden discussions with State corrections officials about renting beds to the state. As discussions are in the early stages, a cost benefit analysis has not been completed. The Adopted Budget includes resources to cover the minimum maintenance expenses at the facility.

Reconfiguration of Health Department Clinical Services

The Reconfiguration of Clinical Services (ROCS) process that the Health Department began in March 2004 developed clinical models to close revenue gaps. ROCS produced a two-phase plan. Originally, the first phase reduced the hours and days for School-Based Health Clinics. More significantly, it closed one Primary Care site, and reduced the number of provider teams and support to the remaining teams. The Board restored $1.1 million funding for School-Based Health Clinics, $270,000 for the Dental Sealant Program and $500,000 to restore La Clinica de Buena Salud to full funding.

The Primary Care system will also transition to an Advanced Access service model, which will improve services and access by changing the way that appointments are made. There will be minimal use of phone triage; instead, same day appointments will address urgent and emergent medical needs. While this will be a significant implementation challenge, it is expected to result in improved client and provider satisfaction. The next phase of the clinic reduction strategy will be proposed if current OHP Standard clients become uninsured.

PERS

A PERS lawsuit was filed in May 2000 on behalf of contributing public employers: the cities of Eugene, Portland, Roseburg, and Huntington; the counties of Lane and Multnomah; the Canby Utility Board; and the Rogue River Valley Irrigation District.

In October 2002, Marion County Circuit Court Judge Paul Lipscomb ruled that the Public Employees Retirement Board (Board) had abused its discretion and improperly managed the retirement system. The court ruled that the complaints of the petitioning employers relating to claims of mismanagement and abuse of administrative discretion were well founded. "As a direct result of the Board's improper management of PERS, particularly in recent years, there have been funding shortfalls which should not have occurred if the Board had been faithful to its duties under the statutes. These funding shortfalls have resulted in employer contribution rate orders which have been ratcheted up to levels which are disproportionately higher than they otherwise would be for the petitioning employers." Other aspects of the ruling were:

Money Match on Variable Earnings

? Employers challenged the Board's actions calculating the money match benefit for employees participating in the variable annuity program. The court agreed with the employers' position and ruled that the Board had improperly applied the money match calculation to the variable accounts. The Board was ordered to recalculate the employers' contributions and adjust rate orders accordingly.

Outdated Mortality Tables

? The Board was found to have been unlawfully calculating benefits using outdated mortality tables, which resulted in higher retirement benefits than if the Board had used more accurate and updated mortality factors. The court ordered the Board to comply with the actuarial equivalency requirement "immediately and fully." The court also ruled that PERS cannot charge employers for the cost of its past improper use of outdated mortality tables.

Failure to Fund and Use the Contingency Reserve

? State law requires the Board to fund and use a reserve account to fund unforeseen contingencies. The court found this law neither discretionary nor ambiguous, and stated that the Board's failure to follow it was improper. The Board was instructed to fund and maintain a Contingency Reserve.

Gain/Loss Reserve

? The Board "inexplicably failed" to fund the Gain-Loss Reserve Account with enough of the available 1999 earnings to meet its own goal of covering the Tier 1 guaranteed rate for 30 months of losses. "Why the Board's own articulated 30-month goal for this reserve account was not fully funded when the Board had an excellent opportunity to do so in a record breaking earnings year has never been adequately explained," the court wrote.

Tier 1 Employee Allocations

? Employers challenged the Board's action in crediting to the regular, non-variable Tier 1 employee account an amount more than double the statutorily guaranteed amount of 8%. (For the 1999 earnings year, the Board credited Tier 1 accounts at 20%.) The court stated that the Board's practice was "clearly contrary" to the legislative policy and that the cumulative effect of the Board's practice had been to "drive up Tier 1 employee accounts to levels which are likely to be sustainable only at much additional expense to the employers for years to come." The Board, on remand, was directed to credit the extraordinary earnings in 1999 in a "much less aggressive, and in a much more prudent fashion."

Case Remanded to PERS Board

The PERS Board settled the lawsuit in March of 2004. The settlement agreement is:

PERS Board Settles Lawsuit

? The settlement will result in dismissal of an appeal of a Marion County Circuit Court decision by Judge Paul Lipscomb that the former PERS

Board misapplied the law and abused its discretion in administering the retirement system.

Future Challenges and the Pension Bond Fund

The actual PERS rate that was effective July 1, 2003 declined from a projected rate of 12.85% (estimated rate prior to legislation) to 7.13% of payroll. The Board of County Commissioners approved placing savings generated by the various PERS bills in the Pension Bond Fund, to build reserves. The amount placed in the Pension Bond Fund would offset any future developments based on the downturn in the market, or offset any rate increase if the challenges made to the 2003 legislation are validated by the State Supreme Court.

Bond Rating & Reserves

The FY 2005 Adopted Budget continues the Board's policy of funding reserves. One of the major reasons the County has been able to maintain its high general obligation bond rating of Aa1 is because of Board adherence to the fiscal policies it has established. Moody's monitors how the County manages its finances during both strong and challenging economies and has based its rating on how the County has managed budget issues over the last several years. Moody's also looks very favorably on the maintenance of reserves at adequate levels.

The Board has a policy of maintaining two General Fund reserves. The goal of each General Fund Reserve is set at 5% of General Fund revenues, or about \$13.5 million. One is in a separate General Reserve Fund, and by the end of FY 2005 we expect that the County will have reserved about \$12.5 million. The County expects this fund to be fully funded by FY 2006. The other is maintained in the General Fund as unappropriated fund balance, and it is estimated to be funded at about \$12 million by the end of FY 2005.

Compensation Plans

One major uncertainty is that eight of the nine bargaining unit contracts expire at the end of the current fiscal year. For the purposes of developing the FY 2005 forecast, we assumed that the language in those contracts "rolls over" to the next contract period. For example, most of the contracts have language that sets a floor of 2.5% for cost of living (COLA) increases. We have assumed that the cost of living increases will follow the change in the CPI.

In addition to the COLA, and steps increases, certain contractual costs have increased (employee medical insurance premiums, PERS employer contributions, etc.). Since personnel costs comprise a majority of local government expenses, even small percentage increases can have a significant impact on the bottom line.

Like most employers, Multnomah County faces rising health care costs. Annual cost increases in health care (including treatment, hospitalization, and prescriptions) continue to rise at a far greater rate than overall inflation. Our original estimate was that health insurance costs would increase by 10-12% next year. As a result of actions taken by the Employee Benefits Board (EBB) health insurance cost will only increase by about 5% next year. This is below the 8.5% predicted in the financial forecast and used in budget preparation.

In March, 2004, the EBB voted to "buy down" the composite rate to be paid by County departments. The buy down will reduce the accumulated EBB reserve by about $5.4 million and result in $500,000 savings to the General Fund, which was used to fund reserves.

Homeland Security

The nationwide emphasis on homeland security has impacted Multnomah County as well. Since Spring of 2003, over $5 million has come into the County from the federal government. The total funding coming into local government agencies is anticipated to be about $20 million. A combination of highly targeted grants and broader system improvement grants has enabled departments to improve equipment inventory, training, and planning. While the funding is geared toward preventing terrorism or mitigating the impacts of a terrorist attack, much of the new equipment - and certainly the new levels of cooperation - will aid those who respond to a variety of incidents.

Library Levy Compression

The Library's local option levy—entering its second year—is generating less revenue than initially forecast due to the effects of compression from the substantial and unforeseen increase in the Portland FPD&R (Fire/Police Disability and Retirement) and underperforming assessed property values. The revised estimate for FY 2005 shows a decrease of $3.6 million over original estimates. Current estimates put the revenue loss at $19.2 million over the life of the levy, or between 28% - 32% of the total anticipated revenue yield.

Bridges

Current funding levels are inadequate to address future bridge rehabilitation and replacement. As a result of the 2003 State legislature, the Bridge fund will receive a yearly increase of approximately $1.5 million. In addition, under the Oregon Transportation Investment Act (OTIA), the County has been awarded $25 million for bridge projects. The County has also been successful in securing Federal and State funds for bridge capital projects. Despite these funds, a $191 million shortfall exists between identified needs and identified funds in the upcoming 20 years. Federally funded projects require a local match, placing additional pressures on the County's transportation budget. The County now has funding in place for replacement of the Sauvie Island Bridge. The next priority on the horizon is replacement of the Sellwood Bridge, estimated at $90 million.

Mainframe Migration – Exodus Project

In 1998, the County developed an information technology plan to migrate all systems off the IBM mainframe. These systems included accounting, payroll, facilities management, fixed assets, health practice management, assessment and taxation, the regional justice data warehouse, and the District Attorney's case tracking system and Sheriff's warrants and inmate system. Through FY 2004 approximately $12.6 million has been expended in this effort. The IBM mainframe migration project teams have completed work on all but the public safety systems. This budget includes an internal loan from the Risk Management Fund to the Public Safety Bond Fund in the amount of $6,585,000 to fund the remaining mainframe projects. It is estimated that the migration will be complete by September 2005, and once the loan is repaid, the County will save over $1.2 million per year in license fees that will no longer be needed.

Asset Preservation and the Capital Budget

Beginning in FY 1999, an Asset Preservation (AP) Fee was assessed to all County tenants based on space occupied. The fee is intended to pay for the replacement of major building systems as they reach the end of their useful life; it is the major ongoing source of revenue for the capital program. In FY 2003, this fee was dedicated to be collected from and to support Tier I buildings (buildings that are in substantial compliance with all applicable building codes and which have no required capital work). For FY 2005 this fee will be $1.80 per sq. ft. and is budgeted to collect approximately $1.4 million from tenants of Tier I County buildings.

Also in FY 2003, a Capital Improvement Project (CIP) fee was established and collected to support Tier II and Tier III buildings. This fee was also set at $1.65 per square ft. Tier II buildings are not up to current building standards and may require substantial capital work but are deemed appropriate for continued investment and long-term retention in the County facilities inventory. Tier III buildings are uneconomical or impractical for long-term retention, and will be analyzed to determine if they should be declared surplus and offered for disposition. For FY 2005 this fee will be $1.65 per sq. ft. and is budgeted to collect approximately $2.3 million from tenants of Tier II and Tier III County buildings. This fee was not increased in FY 2003 (as was the AP Fee), pending a thorough disposition plan to be created for County buildings.

Facilities and Property Management has identified a current deferred maintenance and seismic liability of approximately $120 million (which over the next 15 years will grow to an estimated $220 million) for County buildings now in operation. In addition, new sources of revenue will be needed to replace or repair important County buildings, such as the County Courthouse. Aggressively managing County building vacancies and the timely disposition or redevelopment of surplus properties will only marginally contribute to lowering this liability. Facilities and Property Management is continuing development of alternatives which will address departmental concerns, and long-term funding issues.

Long-Range Considerations

Future considerations and long-range goals include:

? Maintaining sound fiscal policies for debt management and maintenance of fund balance.
? Maintaining a fair and competitive employee compensation package.
? Staying alert for opportunities to reduce costs through innovation, use of technology, and alternative ways of delivering services – without loss of quality or attention to our citizens.
? Seeking legislative relief for necessary statutory changes.

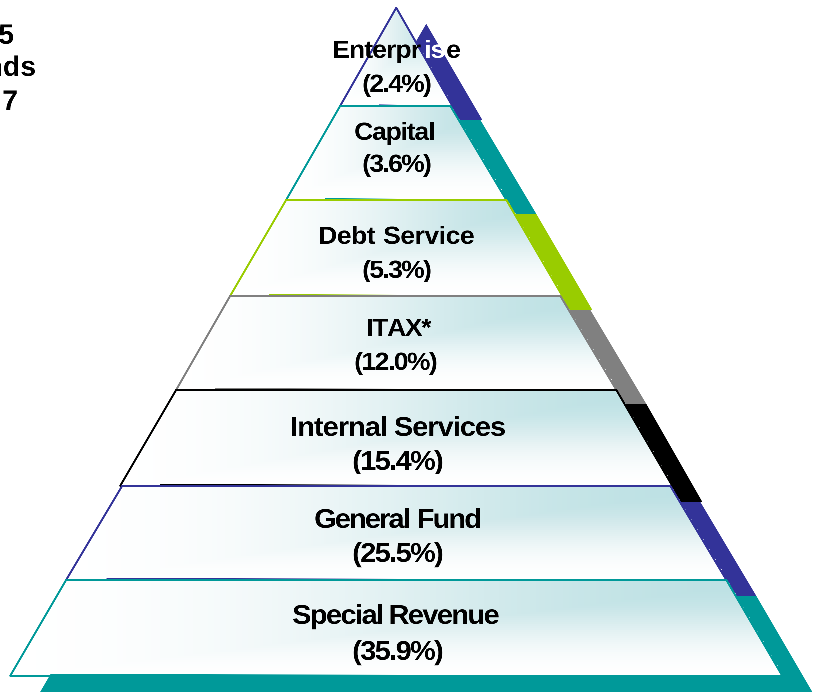
FY 2005 Budget Overview

The State of Oregon Local Budget law requires a reporting of the total budget. The FY 2005 total Adopted Budget is $1,092,793,082. The total budget is the legal appropriation finally adopted by the Board of County Commissioners.

The total budget reflects the actual resources needed by the county, plus internal charges, transfers, loans, and accounting entities. The total budget figure overstates actual program expenditures because internal transactions are counted twice. Internal transactions between funds are typically the result of one department providing a service to another, such as information technology or facilities services. Because this overstates what is actually spent, the County often refers to the net budget.

The following graphs illustrates the County's *total budget* for all funds in FY 2005:

FY 2005
All Funds
$1,092.7



**ITAX includes the $89 million payment for County Schools.*

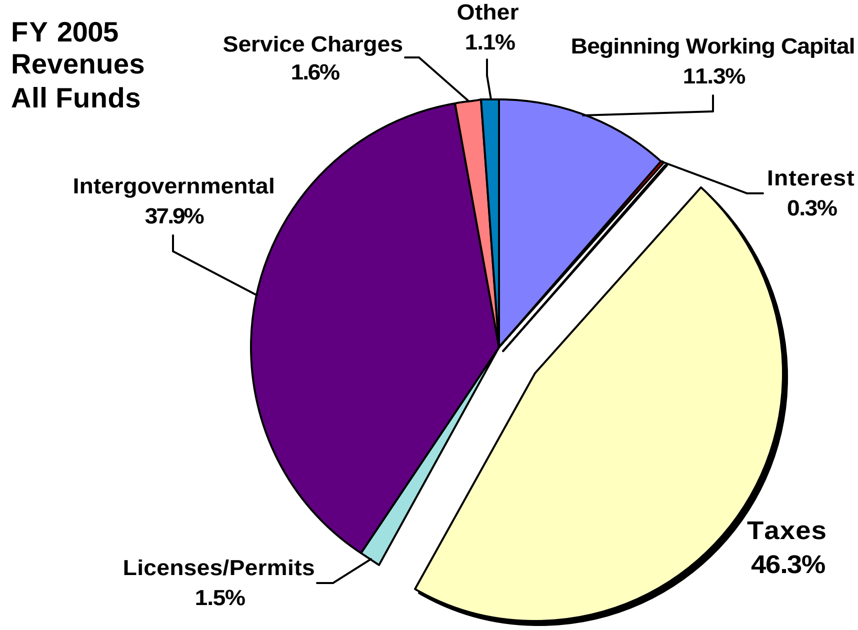
The net budget is a more accurate statement of the money the County actually plans to spend during the year. The net budget subtracts all internal charges, transfers, and loans from one fund to another. It also removes all reserves for future years to more accurately reflect the ongoing operational budget.

The following provides a brief overview of the County's net budget:

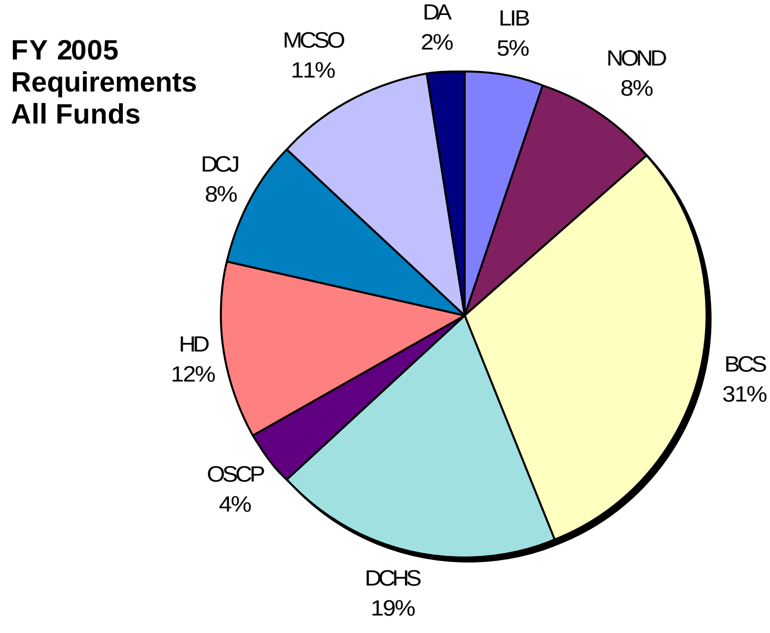
? Total departmental expenditures (including payments from one fund to another and therefore double-counted), $996,989,746.

? Eliminating the double count from internal transfers, contingency and reserves the Total County Net Budget is $837,740,787.

? Total Contingency accounts and Reserves, $64,484,232.



The Adopted Budget represents a reduction in services. While some departments with dedicated revenues have modest increases, many others within the General Fund have made substantial reductions. This is primarily due to the loss of dedicated revenue or the elimination of one-time resources used to balance department budgets in FY 2004.



Economic Conditions and Outlook

Oregon, in general, and the Portland metropolitan area, in particular, have been mired in an economic slump for much of the past three years. The state’s unemployment rate has been among the highest in the nation during this time. It has only been in recent months that the unemployment rate has fallen below 8%. Recently, though, there have been signs of economic improvement.

It is true that Oregon tends to lag national growth trends. The economic recovery that is predicted for the Northwest will be slow with normal, seasonal fits and starts. The most positive signs that the state economy has begun to improve comes from information gleaned from tax withholdings. Personal Income Tax withholdings are expected to grow at an annual rate of 5.5% - a significant increase over the 2002 tax year.

To put that in perspective, personal income in Multnomah County declined in each of the past two years.

Covered Employment by Industry, Multnomah County

Industry	2000:Q1	2003:Q1	Change
Total Nonfarm	446,450	417,994	(28,456)
Construction	20,913	17,951	(2,962)
Finance, Insurance and Real Estate	32,599	33,923	1,324
Manufacturing	52,683	40,489	(12,194)
Federal Government	11,780	11,633	(147)
State Government	7,168	7,238	70
Local Government	44,830	46,891	2,061
All Else	276,477	259,868	(16,609)

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This table highlights pre-recession (2000:Q1) employment levels compared to the similar quarter at the height of the economic downturn. Overall, Multnomah County has experienced a 6.4% decline in employment over this time period.

Of particular note has been the loss of high paying manufacturing jobs, primarily in the transportation sector. Manufacturing accounts for nearly 40% of the total job loss experienced over the past three years. While it is not highlighted specifically in this table, information technology employment has also seen significant declines over this time period. Information technology accounts for roughly 6,000 of the jobs lost in the “All Else” category.

Employment figures, of course, tell only part of the story. They are instructive, though, in understanding why the forecast suggests a gradual economic recovery. The region is heavily dependent on industrial, manufacturing, and high technology which historically lag behind other sectors during upturns in the business cycle.

The economic downturn has had a pronounced impact on Multnomah County's two largest General Fund revenue sources – Property Tax and Business Income Tax (BIT). As discussed earlier, Property Tax collections are limited by two constitutional amendments approved by the Oregon electorate over the past decade. Assessed value growth is limited to 3% for most property types. The only way local governments and school districts generate additional revenue is when construction adds new value to the tax roll.

The Property Tax system put in place following passage of Measures 47/50 is extremely sensitive to the business cycle. To illustrate that point tax collections have grown by less than the constitutionally limited 3% in each of the past two years. The FY 2005 budget is based on the assumption that assessed value will grow at about 2.75%. It is unlikely that value growth will exceed 4% throughout the forecast period.

Commercial and Industrial property accounts for slightly less than 40% of the tax roll but they are primarily responsible for the lag in assessed value growth. The chart below shows the relative change in values by property type over the past four years.

Assessed Value by Type (2000 - 2003)

$'s in Millions

Year	Res'l	% Change	Comm'l/Ind'l/ Utility	% Change	All Other	% Change
2000	22,164		14,917		2,515	
2001	23,116	4.3%	16,042	7.5%	2,582	2.7%
2002	24,166	4.5%	15,524	-3.2%	2,660	3.0%
2003	25,058	3.7%	15,638	0.7%	2,713	2.0%

A number of industry groups have experienced significant value losses over the past couple of years. Notable among those are airline and telecommunications companies. To highlight how severe those losses have been the major passenger airlines have seen their assessed value decline by more than 50% since 2001.

Likewise, BIT collections have been impacted by the economic downturn. Five years ago the BIT accounted for 15% of total General Fund revenues. The BIT budgeted for FY 2005 represents just slightly more than 9% of the General Fund. Declining BIT collections have been the chief factor contributing to the shortfalls documented earlier.

During the pre-recession period (1996-2000) BIT collections grew, on average, by about 7.5% annually. However, the County suffered an immediate drop of nearly 25% in FY 2001. Actual collections for the most recently concluded fiscal year were down by about 7% - and, at $26.5 million, represent the lowest total in ten years.

The BIT generally serves as a reasonably accurate barometer of business activity in Portland and Multnomah County. There are encouraging signs in the collections that have been recorded to date in FY 2004.

The County has contracted with a local economic consulting firm, ECONorthwest, to develop models of business activity and, by extension, BIT collections for the Portland metropolitan area. Those models show a high degree of correlation between the local BIT and the state's Corporate Income Tax collections. Recent state forecasts suggest a strong surge in corporate tax collections.

The BIT forecast prepared by ECONorthwest offers a more conservative view of the local recovery. Most local economic indicators, nonetheless, are showing positive signs that a recovery is underway. Through the second quarter of the FY collections appear to be growing at an annual rate of about 2%. Perhaps this does not seem significant when compared to the average growth figures noted above. However, if the trend continues, this will be the first time in the past five years that the BIT has experienced year over year growth.

In summary, many sectors of the local economy have experienced historical lows and are now beginning to emerge from their troughs. The economy of the Portland metropolitan area will likely recover more quickly than the state as a whole because it has a more diverse employment base.

A few areas of concern remain and serve to temper the short term outlook. For example, Portland is no longer home to major corporate headquarters. This could have repercussions for business formation in professional service and administrative support type functions. It is also unclear how soon, if ever, manufacturing employment will return to pre-recession levels.

Slow, if not necessarily steady, growth will be the norm as Portland and Multnomah County emerge from the economic downturn.

FY 2005 Overview

County services and facilities are financed by a variety of taxes, fees, reimbursements and intergovernmental assistance. Each year resources are evaluated, analyzed and projected, so that the County may plan to spend only that which it receives. The County is prohibited by law from incurring a deficit.

The FY 2005 Adopted Budget, including the $130.8 million of Temporary Personal Income Tax (ITAX) funding, totals $996 million, a ***decrease of $16.5 million from the FY 2004 Adopted Budget***. The decrease is mainly attributable to the Children’s Levy and the completion of capital construction on the jails and libraries.

In FY 2004, a $9 million Children’s Levy was passed by the City of Portland. This amount was budgeted in FY 2004, in anticipation of the County being assigned management of these funds. During the year, the City and County reached agreement that the funds would not be passed through the County. As a result that fund has been completely eliminated in FY 2005.

A new internal service fund was established in FY 2005 to account for expenditures and services related to administration of County business services. This fund accounts for most of the $20 million increase in the Department of Business and Community Services. It is important to note, though, that those expenditures are not new to the County.

Several Capital Construction projects have been completed or are near completion and those capital funds have been nearly depleted. Wapato is anticipated to be complete by early summer and the new Hillsdale library was completed and opened in March.

Department	FY 2004 Adopted	FY 2005 General Fund	FY 2005 ITAX	FY 2005 Other Funds	FY 2005 Total	Total Difference
Non D	$ 179,755,795	$ 14,388,043	$ 93,590,520	$ 55,900,998	$ 163,879,561	$ (15,876,234)
DA	21,044,445	14,118,456	2,112,076	5,548,533	21,779,065	734,620
OSCP	30,617,614	15,142,422	200,000	16,656,694	31,999,116	1,381,502
DCHS	171,877,353	16,106,789	14,409,998	142,038,739	172,555,526	678,173
Health	112,074,241	42,785,943	3,092,552	63,633,979	109,512,475	(2,561,766)
DCJ	75,039,357	37,547,575	5,905,329	31,320,020	74,772,924	(266,433)
MCSO	117,566,457	74,743,700	6,249,068	16,720,828	97,713,596	(19,852,861)
DBCS	257,027,959	27,048,970	5,318,189	244,741,438	277,108,597	20,080,638
Library	48,513,952	17,390,189	-	30,278,697	47,668,886	(845,066)
Total	**$ 1,013,517,173**	**$ 259,272,087**	**$ 130,877,732**	**$ 606,839,926**	**$ 996,989,746**	**$ (16,527,427)**

General Fund Overview

The General Fund comprises about a third of the County's budget and represents the largest pool of discretionary funds. The General Fund has both discretionary and non-discretionary resources. Discretionary resources are those that the Chair and Board of County Commissioners can allocate to support any department; there are few restrictions on how these resources can be allocated.

Discretionary resources include property taxes, business income taxes, motor vehicle rental taxes, interest earnings, and state shared revenues (i.e., Video Lottery, Cigarette Tax.). The General Fund also includes a number of resources—including grants, contract revenues, service reimbursements, and inter-governmental revenues—that are dedicated to specific purposes.

General Fund resources are categorized as ongoing or one-time-only. An example of a one-time-only resource is a major donation or payment from the settlement of a lawsuit. An example of an ongoing resource is an increase in property tax revenues which is expected to be sustained over time.

The County takes a conservative approach to forecasting General Fund revenues. Overall revenue growth is forecast to range from 3.25% to 4% over the five year forecast period. Property Tax is the single largest source of revenue in the General Fund and it accounts for more than 68% of total revenues. General Fund revenue growth, therefore, is particularly sensitive to changes in property valuation.

Expenditures are forecast to grow between 4.5% and 5.25% annually – a rate that is not above normal expectations. For FY 2005 we projected a current service level shortfall of roughly $10 million. This shortfall did not take into account any operating costs associated with the Wapato facility. As noted above, the General Fund has a structural deficit that will require us to identify approximately one percent in savings/reductions each year over the forecast period.

In FY 2005 the General Fund includes $130.8 million in revenue from the Temporary Personal Income Tax approved by the voters in May, 2003. The ITAX will raise $93.6 million in revenue to support of County school districts, and also provide funding for County programs in the areas of Public Safety and Health and Human Services that would otherwise have been cut from the budget.

The ITAX is set at a rate equal to 1.25% of Oregon taxable income for a period of three years. The tax proposal provides a $2,500 exemption for single taxpayers and a $5,000 exemption for joint filers. It also provides a "severability clause" in the event that the legislature provides funding to restore the services and programs being supported by the tax. The Department of Revenue (DOR) has estimated the ITAX will generate between $128 million and $135 million annually for the years the tax is imposed.

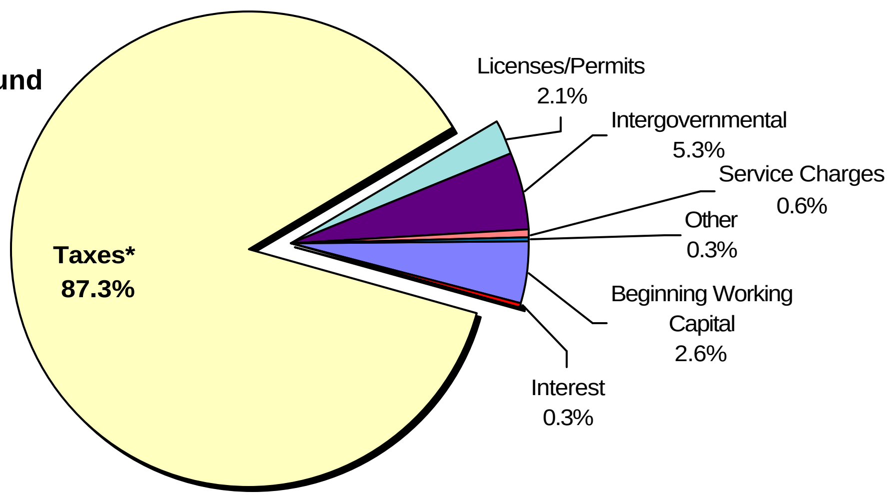
General Fund Spending and Revenues

The following is an overview of the FY 2005 General Fund:

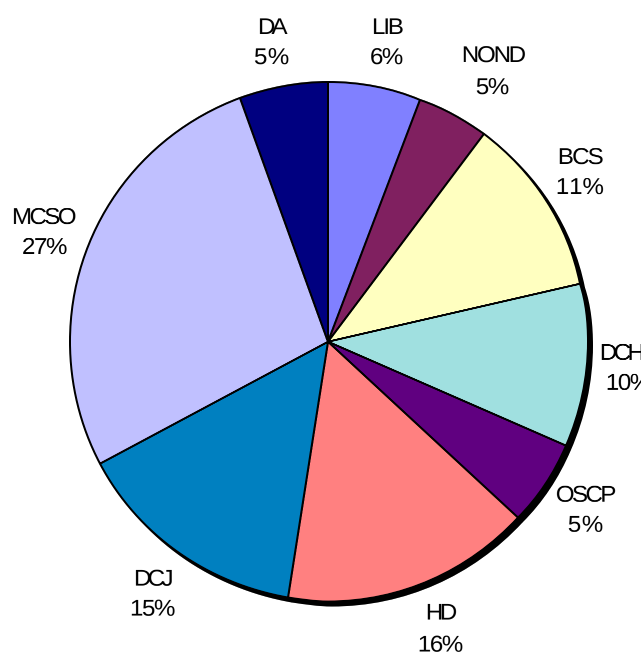
- Total current General Fund revenues, $409,015,566.
- Total departmental expenditures (including cash transfers to other funds), $371,765,181.
- Total Contingency accounts and Reserves, $18,865,747.
- Temporary Income Tax Revenues, $130,877,732.

The following pie charts show major revenue sources and the distribution of expenditures among departments.

FY 2005 General Fund Revenues



FY 2005 General Fund Spending by Department



Budget Manager's Message

General Fund Revenues

Overall, General Fund resources have essentially stayed flat. Adjusting for changes in accounting practices, General Fund resources are approximately one quarter of one percent higher than FY 2004. The following description highlights the changes within the major resource categories.

Fund Balance

The ending balance in the General Fund has declined over the past several years as a result of the economic downturn described earlier. The FY 2004 budget assumed there would be enough ongoing expenditure reductions to restore reserves to the level they were at prior to the FY 2002 rebalance.

The FY 2005 Adopted Budget assumes Beginning Working Capital (BWC) of $16.3 million, an increase of $10.9 million from the previous year. A large portion of this increase ($4.3 million) represents ITAX revenues collected in FY 2004 that will be passed on to schools. Factoring out ITAX revenues, we anticipate the General Fund reserve will be within one percent of meeting the target outlined in the Financial & Budget Policies.

Multnomah County Temporary Personal Income Tax

Multnomah County voters have passed a 3-year Temporary Personal Income Tax. In FY 2005, this tax is anticipated to raise:

- $93.6 million for County Schools;
- $16 million for Public Safety;
- $16 million for Health and Human Services; and
- $ 5.3 million for tax administration, collection and audits.

The goal behind this measure is to provide a bridge to better economic times. Beginning in the Fall of 2004, the Executive Council will be developing a budgetary strategy to tighten programs in anticipation of the ITAX sunset in 2006. For FY 2005, departments were asked to budget the same amount and the same programs as in FY 2004. The exception is a reduction in expenses for administration and collection due to one-time-only expenditures in FY 2004 and not required in FY 2005. Because many ITAX-funded programs backfilled state cuts, and the final outcome of BM 30 is not known, we asked that departments wait to make any proposed adjustments to ITAX programs until State cuts are finalized.

However, there were three exceptions included in the adopted budget. The Board approved the following ITAX amendments:

- Internal shifts in the District Attorney's budget to manage the gap between low and high risk offenders;
- DCHS reallocated $71,000 in contract funds in the Adult Residential & Commitment Monitoring Unit to fund a position to expand outreach capacity; and
- Increase ITAX pass through expenditures to schools by $4.3 million to reflect estimated carryover from FY 2004.

Property Taxes

Property taxes are Multnomah County's largest single source of revenue. Revenue from this source constitutes roughly two-thirds of the total General Fund.

In 1998, Measure 50 established a permanent property tax rate for each local government. Multnomah County's permanent tax rate is $4.3434 per $1,000 of assessed value. As assessed value grows, the taxes collected by Multnomah County also grow. Assessed value grows in two ways:

- For most properties, it can grow no more than 3% annually;
- The value of new construction is added above the 3% maximum growth.

FY 2005 property tax estimates were based on the assumption that value growth would average about 2.75% throughout the County, slightly less than the constitutionally limited 3%.

Business Income Tax

The Business Income Tax (BIT), established in 1976, is the second largest source of revenue in the General Fund. Since 1993, it has been set at a rate of 1.45% of net income. In March 1998, voters in Multnomah County passed a temporary .50% BIT surcharge. Proceeds from this surcharge were dedicated to school districts within the county.

In FY 1998, the BIT generated approximately 15% of total General Fund revenue. A number of factors, primarily related to the condition of the regional economy, have contributed to an absolute decline in BIT revenue over the past four years. As the table below indicates, actual collections fell below budgeted estimates in every year since FY 2000.

Annual BIT Collections

Excludes Temporary Surcharge Passed Thru to County Schools

FY	Budget	Revised	Actual	% Change
98-99	36,660,000	36,660,000	36,593,000	
99-00	36,590,000	36,590,000	34,200,000	-6.54%
00-01	42,682,000	34,030,000	30,011,000	-12.25%
01-02	37,177,000	30,240,000	26,858,000	-10.51%
02-03	29,635,000	25,190,000	26,418,000	-1.64%
03-04	*25,075,000*	*25,075,000*	*26,900,000*	*1.82%*

Note:
FY 03-04 Actual is Estimated Based on 2nd Quarter Collections

The BIT forecast for FY 2005 was developed on the assumption that the current tax structure would be amended to increase the owners compensation allowance from $50,000 to $75,000. This would have the impact of reducing estimated revenues by approximately $1.5 million per year.

The Board did pass an amendment to increase the BIT by $630,618 in order to fund consensus add packages. The additional revenue brings the FY 2005 Adopted Budget more into line with forecast FY 2004 collections. We believe this still provides the Board with some flexibility to have a policy discussion on changes to the tax structure with a view toward mid-year implementation.

Transient Lodging Tax and Motor Vehicle Rental Tax

The County imposes a Transient Lodging Tax (a tax on hotel and motel occupancy) and a Motor Vehicle Rental Tax. The Transient Lodging Tax is collected and transferred to Metro for the operating costs of the Convention Center. A portion of the Motor Vehicle Rental Tax is a General Fund resource, with the balance used to support the Convention Center.

The Motor Vehicle Rental Tax is expected to rebound slowly as travel and tourism have yet to return to pre-9/11/2001 levels. Air passenger traffic through the Port of Portland, as measured in number of emplanements, has only recently shown signs of a recovery for the local tourism industry. The summer travel season will soon be upon us and it is possible that this could be the year we see significant improvement in Motor Vehicle Rental Tax revenues.
In 1998, Metro proposed to the voters a regional general obligation bond to expand the Convention Center. The proposal was defeated. In 1999, in collaboration with the City of Portland and Metro, the County increased the rates of both the Transient Lodging Tax and the Motor Vehicle Rental Tax, dedicating the proceeds to the expansion of the Convention Center. The proceeds are now used to retire debt issued by the City of Portland and to provide additional operating support to the expanded Convention Center.

Balancing the General Fund: *The Shortfall*

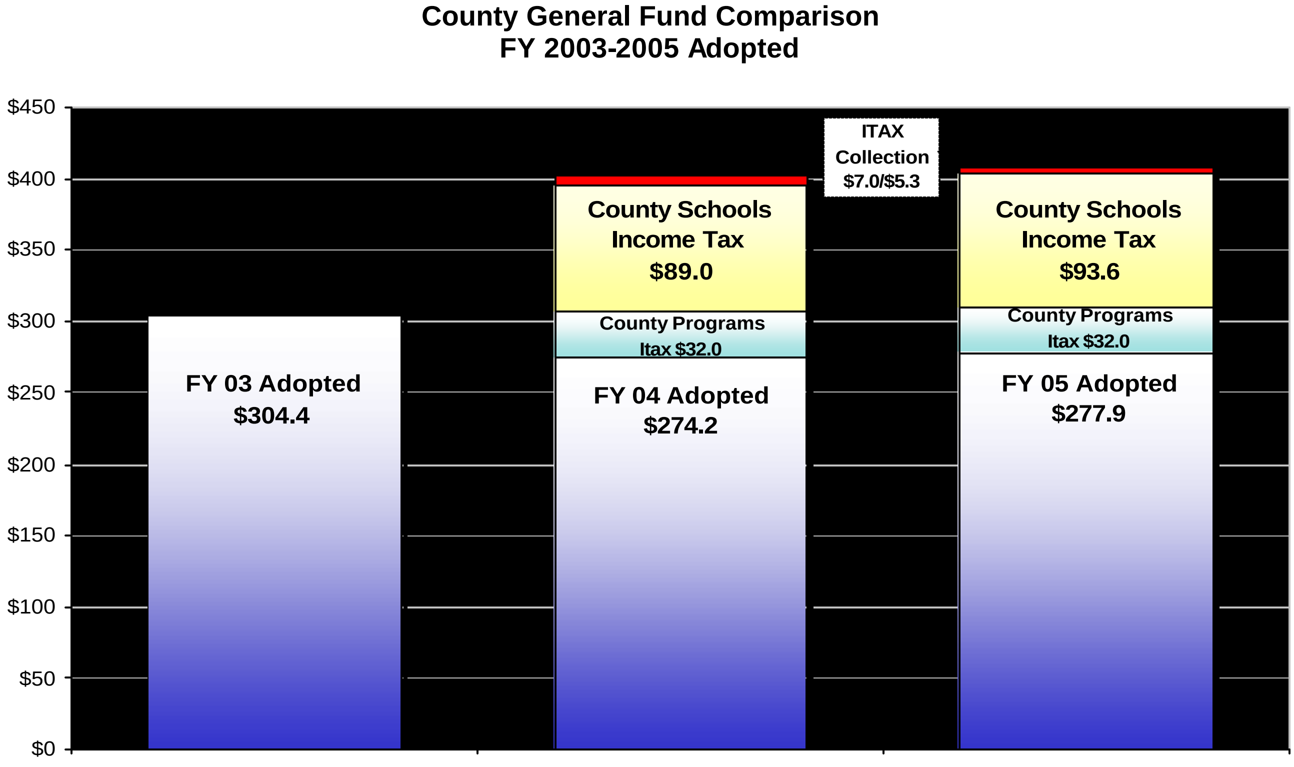
In October 2003, the first quarter General Fund forecast update identified a gap of approximately $6 - $7 million between expenditures and revenues estimated for FY 2005. In February, 2004 the forecast was again updated and the gap grew to roughly $9.5 million. The forecast also showed a widening of the "current service level" gap that will increase by approximately $2.5 million per year unless corrective actions are taken.

General Fund targets for FY 2005 were complicated by the new method of recovering the costs of Human Resources and Finance Operations functions. These costs, which in prior years had been recovered through the Indirect Cost Plan, are budgeted in a new internal service fund. The General Fund that formerly supported these functions was redistributed among departments.

Departments were asked to make a <u>5.8% current service level reduction</u> in order to generate approximately $12.6 million in General Fund cuts. Departments were asked to cut slightly more than required to balance the General Fund so that the Chair and the Board would have flexibility in responding to anticipated State cuts. This strategy also afforded an opportunity for the Chair and the Board to provide specific policy direction to departments.

General Fund Expenditure Summary

The following graph shows the General Fund appropriation from FY 2003 Adopted, FY 2004 Adopted to FY 2005 Adopted with and without the Temporary Personal Income Tax.



General Fund Reserve Status

The level of General Fund reserves is considered a fundamental measure of financial health and is closely monitored by credit rating agencies. The status of the General Fund's reserve account became critical at the end of FY 2001 when it was clear that revenues had fallen substantially below projections.

In October 2001, the Board of County Commissioners adopted a policy setting a targeted reserve level equal to 10% of General Fund current revenue. The first 5% is maintained as an unappropriated balance in the General Fund, while the second 5% is held in a separate General Reserve Fund.

The estimated FY 2004 *General Reserve Fund* balance will total $11.3 million. Interest on the balance in that fund will add roughly $300,000 to the reserve in FY 2005. It is the goal of the County to continue funding the General Reserve Fund with one-time-only revenue until it is fully funded.

The following table highlights the budgeted reserves and shows the County's progress toward reaching the 10% goal established in the Financial & Budget Policies. Each of the 5% reserves translate to $13.5 million based on forecast FY 2004 revenues. It should be noted that the General Fund reserve calculation excludes revenue from the Temporary Personal Income Tax.

	General Fund	General Reserve Fund	Total Reserves
Target (10% of GF Revenue)	$ 13,500,000	$ 13,500,000	$ 27,000,000
Estimated Available @ 6/30/04	10,140,000	11,350,000	21,490,000
FY 04-05 Budget Additions	1,960,000	306,000	2,266,000
Assumed Available @ 6/30/05	$ 12,100,000	$ 11,656,000	$ 23,756,000
Required to Fully Fund Reserves	$ 1,400,000	$ 1,844,000	$ 3,244,000

Changes to Programs

The following is a brief summary of changes to department General Fund programs. For more detail consult the department sections of this document. It is important to note that while the ITAX is technically part of the General Fund, for the purposes here it has been shown separate from the General Fund.

District Attorney

FY 2004 GF Exp: $14,056,113 FY 2005 GF Exp: $14,118,456
FY 2004 ITAX: $2,112,076 FY 2005 ITAX: $2,112,076
FY 2004 All Funds: $21,044,445 FY 2005 All Funds: $21,779,065

The District Attorney is responsible for prosecuting crimes that occur in Multnomah County, representing the State in dependency and delinquency cases, and enforcing child support. The core services of the prosecutor's office reflect these statutory obligations and include prosecution of criminal cases, protection of children and enforcement of child support, victims' assistance services, and attention to crime reduction strategies. In FY 2004, prosecution of low- and medium-level crimes was funded by the ITAX. As a result of State cuts, the Board of County Commissioners approved the DA shifting some of the ITAX resources for prosecutors to medium and serious crimes.

The Adopted Budget *restores 1.00 DDA2 within the Family and Community Justice Division in the amount of $100,000 and 1.00 DDA2 in the Gresham Neighborhood DA Unit in East County in the amount of $98,000.*

Sheriff's Office

FY 2004 GF Exp: $74,803,554 FY 2005 GF Exp: $74,743,700
FY 2004 ITAX: $6,249,066 FY 2005 ITAX: $6,249,068
FY 2004 All Funds: $117,566,457 FY 2005 All Funds: $97,713,596

The Sheriff's Office performs law enforcement and corrections functions. The Sheriff met his *constraint target* of $4.2 million by cutting 290 jail beds, slightly reducing DUII enforcement, Civil Process, Patrol and Traffic Safety.

The Adopted Budget *restores $1.49 million in cuts, adding a minimum of 58 jail beds. Another $300,000 was identified in the Facilities budget to cover basic Wapato mothball expenses. Another $2.3 million in restoration was approved by the Board through a combination of General Fund Carryover ($1 million), contingency tap ($800,000), and increasing US Marshal revenues by 12 beds to more closely align actual bed rentals with the budget ($507,642). These restorations bring the Sheriff's budget back to current services levels.*

Department of Community Justice

FY 2004 GF Exp: $37,626,394 FY 2005 GF Exp: $37,547,575
FY 2004 ITAX: $5,900,209 FY 2005 ITAX: $5,905,329
FY 2004 All Funds: $75,039,357 FY 2005 All Funds: $74,772,924

The Department of Community Justice is responsible for the supervision of adults and juveniles involved in the criminal justice system as well as the detention of youth. To meet the General Fund reduction and cover personnel cost increases, the Department of Community Justice concentrated the cuts in the adult and administrative areas to preserve juvenile programs. DCJ has focused on core services, cut administrative positions, and prioritized high-risk offenders. It has also worked to diversify revenue sources.

Eliminations and reductions include the Forest Project, one of the only non-jail sanctions available to courts and Parole Officers; the SAMHSA grant, which funded Clean Court; the JAIBG grant for youth gang outreach and prosecution of gang offenders; and diversion for juvenile offenders. Furthermore, funding from the State DOC has declined approximately $1.5 million.

The Adopted Budget *restored 1.00 Juvenile Counselor in the Gang Unit ($65,000). Professional services were funded ($82,250) for gang outreach and prevention services for high risk youth of color.*

Health Department

FY 2004 GF Exp: $38,189,570	FY 2005 GF Exp: $42,785,944
FY 2004 ITAX: $3,092,543	FY 2005 ITAX: $3,092,552
FY 2004 All Funds: $112,074,241	FY 2005 All Funds: $109,512,475

The Health Department needed to cut $12 million to balance the FY 2005 budget. Due to the size of the reductions, one clinic sites will be closed (South East Health Clinic) to collapse the operating base and reduce fixed costs. Field teams will be consolidated from five sites to three; School-Based health Centers at George and Whitaker middle schools will close; and reductions will be made in staffing at Wapato and Donald E Long, HIV clinics, and the dental program.

The Adopted Budget *fully restored La Clinica de Buena Salud ($500,000), School Based Health Clinics ($1.1 million) and the Dental Sealant program ($270,000).*

County Human Services

FY 2004 GF Exp: $15,298,920	FY 2005 GF Exp: $16,106,789
FY 2004 ITAX: $14,410,000	FY 2005 ITAX: $14,409,998
FY 2004 All Funds: $171,877,353	FY 2005 All Funds: $172,555,526

DCHS provides a range of care and support to the elderly and to people with serious physical, emotional or developmental disabilities. DCHS was able to offset a majority of its General Fund cuts due to restored State funds. DCHS was able to maintain stable funding in a majority of its other revenues sources. However, in FY 2007 when ITAX funds are no longer available, the department will face a $14.4 million reduction.

The Adopted Budget *includes restoration of the Prostitution Alternatives Program ($95,000) to be found within existing DCHS resources; the addition of 2.00 Sr. Case Workers ($157,812) in the Adult Protective Services program in the ADS division; $218,000 for DCHS to contract for mental health and A&D services to gang affected or gang involved youth. $400,000 of funding within MHAS division was reallocated to the General Fund to offset the costs of some of these services. $75,000 was designated for Mental Health Services to the Eastern European population.*

Office of School and Community Partnerships

FY 2004 GF Exp: $14,183,535	FY 2005 GF Exp: $15,142,422
FY 2004 ITAX: $200,000	FY 2005 ITAX: $200,000
FY 2004 All Funds: $30,617,614	FY 2005 All Funds: $31,999,116

The Office of School and Community Partnerships' primary focus is childhood poverty as it pertains to education. It works to align services to children and families in order to improve outcomes, and develops, promotes, and implements best practices into its partnerships. OSCP has been relatively insulated from State budget cuts due to its particular revenue streams.

However, the ***Adopted Budget*** *does cut $707,000 in General Fund programs as measured from FY 04 service levels. A majority of the reduction comes from the downtown Portland Homeless Youth System ($75,000), the School Attendance Initiative ($500,000), and the County funded and staffed Marshall High SUN site ($89,000).*

In addition to the reductions, the ***Adopted Budget*** *provides $21,120 to the Community Transitional School for Homeless families, $10,000 to Learn Links, and $89,300 for Teen Pregnancy Prevention whose General Funds and State funds were moved into the SAPF. The Adopted budget also backfills $115,000 of State youth investment cuts.*

Library

FY 2004 GF Exp: $16,841,893 FY 2005 GF Exp: $17,390,189
FY 2004 ITAX: $0 FY 2005 ITAX: $0
FY 2004 All Funds: $48,621,472 FY 2005 All Funds: $47,668,886

The first goal of the Library is to maintain its commitment to the voters as outlined in the levy language and then to follow the service priorities outlined in the Library’s five year plan. In order to meet constraint and to address the loss of revenue due to compression, the library reduced hours at Central Library and the four large branches (Gresham, Midland, Hollywood and Hillsdale); it also moved to a single shift model to save on personnel costs. This will allow the Library to remain open on a single 8 hour shift instead of a more costly 10-12 hour period.

The Adopted Budget *restored outreach services and youth librarians at the four large branches, increases the book budget, and pays for costs associated with the implementation of Shared Services.*

Business & Community Services

FY 2004 GF Exp: $36,966,825 FY 2005 GF Exp: $27,048,970
FY 2004 ITAX: $6,855,312 FY 2005 ITAX: $5,318,189
FY 2004 All Funds: $257,027,959 FY 2005 All Funds: $277,108,597

Business and Community Services has three major divisions that function as small departments: Finance, Budget, and Taxation; Community Services; and Business Services. This department is more complex due to the number of unrelated services it provides and the fact that it involves more than twenty one funds.

In FY 2005, a new fund was created for Business Services, to implement an alternative method of recovering the costs of County Human Resources and Finance Operations functions. These costs, which in prior years were recovered through the County’s Indirect Cost Plan, are budgeted in a new dedicated fund and recovered through service reimbursements. The General Fund appropriations that formerly supported these functions were re-distributed among departments.

***The Adopted Budget** included the reduction of 3.00 Account Managers in the Shared Services Program area ($442,493); the addition of 1.00 Research and Evaluation Specialist ($80,500) in the Budget Office, and reallocation of Facilities Fund Resources to absorb basic mothball costs of Wapato Facility ($300,000); account for living wage adjustments ($200,000) and increase Facilities Fund contingency by $148,257.*

Non-departmental

FY 2004 GF Exp: $13,983,143	FY 2005 GF Exp: $13,393,593
FY 2004 ITAX: $89,300,000	FY 2005 ITAX: $93,590,520
FY 2004 All Funds: $177,882,313	FY 2005 All Funds: $163,879,561

The Non-departmental section of the budget includes support for the Chair's Office, the Commissioners' offices, the County Auditor, the County Attorney, contracts with community organizations, and a number of debt service payments.

***The Adopted Budget** restored an 8% one-time-only cut in FY 2004 and provided sufficient funding to cover current service levels. $25,000 was added for the East and West Soil and Water conservation district, $25,000 for a 0.50 FTE for Citizen Involvement Committee (CIC), $50,000 was added to increase funding for the Federal Legislative Agenda in the PAO's Office; and SIP Community Service Fee ($709,776) monies were redirected from General Fund reserves to the General Fund.*

The Budget Process

Local Budget Law

Budgeting in Oregon is governed by Local Budget Law, Chapter 294 of the Oregon Revised Statutes. The law has four major objectives:

To provide standard procedures for preparing, presenting, and administering local budgets;
To ensure citizen involvement in the preparation of the budget;
To provide for a method of estimating revenues, expenditures, and proposed taxes; and
To offer a way of outlining the programs and services provided by local governments and the fiscal policy used to carry them out.

Budgeting in Oregon is a collaboration between the citizens who receive the services funded by the budget and the elected or appointed officials who are responsible for the provision of those services. Citizens involved in the budget process work to ensure that the services they need and want are adequately funded. County officials are responsible for ensuring that the annual budget reflects the public interest, balances competing needs and interests, is sustainable over the long term, and meets the technical requirements of the law. To plan for the effective delivery of services and to manage efficiently the revenue that supports these services, the Board of County Commissioners adopts an annual budget. Although this budget document may appear complicated, its purpose is quite simple: to plan, manage, and control revenues and expenditures. Additionally, the budget intends to relate fiscal and operational policies, priorities and goals.

At an advertised public meeting, the budget prepared by the Chair of the Board is approved by the Board of County Commissioners by appropriation categories—i.e., personal services, materials and services, and capital outlay—and by department for each fund. The Budget is then sent on to the Tax Supervising and Conservation Commission (TSCC).

The TSCC, a five-member citizen board appointed by the Governor, reviews the budgets of all governmental jurisdictions in Multnomah County. The Commission, together with the State Department of Revenue, is responsible for ensuring that budgets comply with local budget law.

The budget must be approved by the Board no later than May 15, when it is submitted to the TSCC. TSCC holds a public hearing and then returns the budget to the County no later than June 24. Accompanying the budget is a letter of certification with instructions for corrections, recommendations, and objections. The Board is required to respond to these recommendations and objections. Another public meeting is held at which the Board adopts the final budget, makes appropriations, and declares tax levies.

Basis of Budgeting

The County budget is prepared in a manner consistent with its financial structure and as required by Oregon Revised Statutes. All funds are included in the budget with the organizations and programs that they support. The budget is prepared on a modified accrual basis; this means that the budget anticipates revenues based on when they will actually be received and upon expenditures when they will likely occur.

One exception to this rule is the acknowledgement of revenues. Property tax and BIT revenues are acknowledged in the budget for 90 days after the close of the fiscal year. Items which are not fully expended at year-end must be re-budgeted in the following fiscal year.

Modifying the Budget During the Fiscal Year

The Adopted Budget is the County's financial and operational plan for the fiscal year. However, during the year, events occur which require the plan to be modified. State law gives the Board of County Commissioners wide latitude to change the budget during the year. County departments request changes, and the Board reviews them and then passes a resolution signifying their approval. During the year, the Board has the authority to:

? Alter appropriations to reflect changed priorities during the year;
? Incorporate new grant revenue into the expenditure plan;
? Change approved staffing levels; and
? Transfer appropriations from contingency accounts.

Supplemental Budgets

The appropriation of new, unanticipated revenue requires that the Board adopt a supplemental budget through a resolution. If the adjustment is greater than 10% of the affected fund, the supplemental budget process must include a review by TSCC prior to adoption.

Basis of Accounting

Governmental accounting, governed by State statute and Generally Accepted Accounting Principles (GAAP), differs substantially from private sector accounting. Private sector financial reports measure economic profits, whereas governmental accounting focuses on disclosing how public money is spent.

Citizen Involvement Process

Citizen Budget Advisory Committees

The Citizen Budget Advisory Committees are made up of citizens appointed by the Citizen Involvement Commission. The committees monitor department budgets and operations and identify issues for the Commissioners' consideration. All County departments have a CBAC. Each Committee is provided with time during the Budget Hearings to present its reports. The CBACs are active partners with the Commissioners, departments, and the public during the budget cycle.

During the Approved stage of the budget development process, citizens and employees are encouraged to enter their questions, thoughts, or suggestions about the budget. This input is compiled and communicated to the elected officials. The input is also reviewed by the Budget Office with feedback to participants provided as appropriate.

Public Testimony

In addition to participating in the budget advisory committees and other forums described above, citizens have several opportunities to personally testify on the Approved Budget. Or written material can be hand delivered, mailed, faxed or submitted via email.

Specifically, citizens have an opportunity to testify at:

Public Hearings

The Tax Supervising and Conservation Commission Hearing – TSCC holds a public hearing on the Approved Budget, and public testimony is taken.

Annual Budget Hearings— for FY 2005, the Board, sitting as the Budget Committee, will hold several public hearings after the approval, but before the adoption, of the budget. The public may testify on any topic.

The Adopted Budget Hearing—testimony is taken at the Board session for final adoption of the budget. This typically occurs in mid- to late June.

Annual Budget Hearings – The County held 3 evening sessions from 6:00 to 8:00 pm at the following dates and locations:

May 18, 2004 Public Budget Hearing – North Portland Library
May 25, 2004 Public Budget Hearing – Multnomah County East Building, Sharron Kelley Conference Room, 600, NE 8th, Gresham
June 1, 2004 Public Budget Hearing – Multnomah Building, Commissioners Boardroom 100, 501 SE Hawthorne Boulevard, Portland

Citizens may also contact the Chair's or Commissioner's offices directly to provide input to the budget work-sessions.

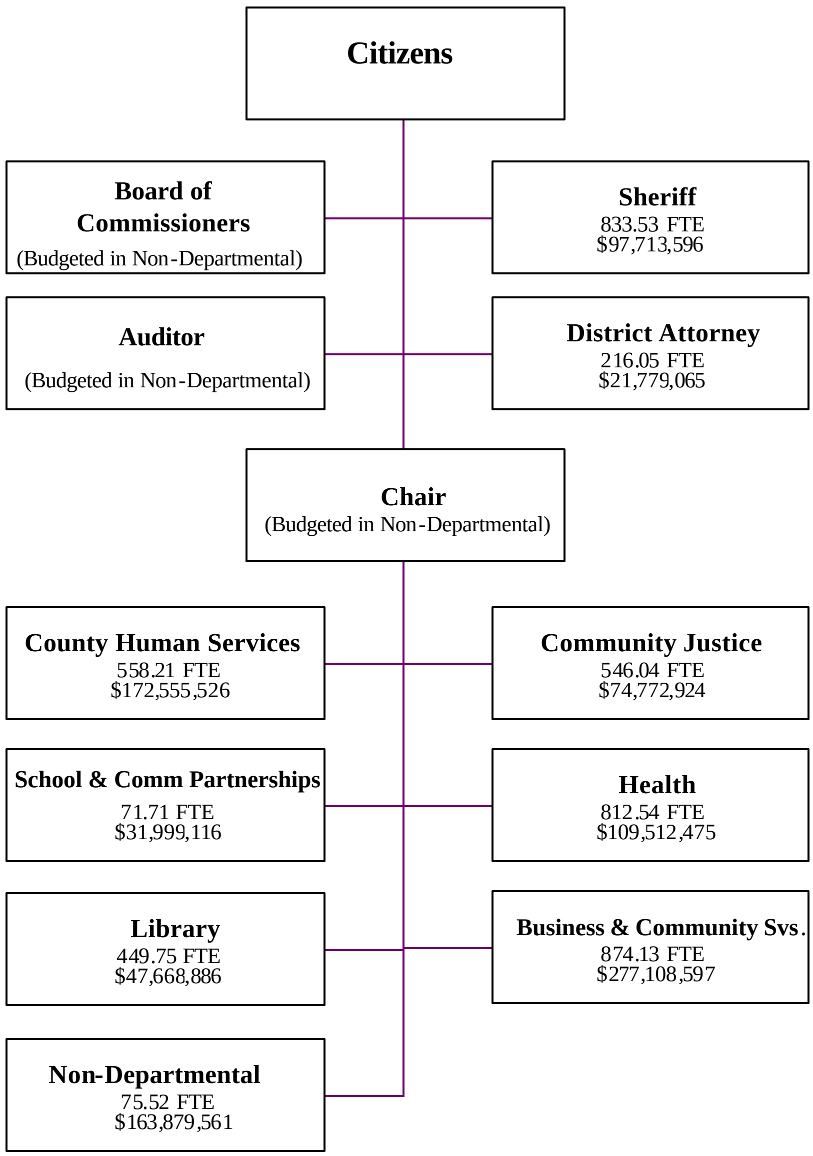
Budget Website

Multnomah County offers its citizens and employees the opportunity to participate in the budget process through the County's internet site. From the County's home page, http://www.co.multnomah.or.us/, citizens and employees may access a budget site that contains a summary of the FY 2005 Adopted Budget and links to frequently asked questions (FAQs); budget summaries; a timeline of events; live and archived video streaming of budget work sessions; and other information, input opportunities and employee resources.

County Org. Chart

Multnomah County delivers its services through nine departments including the following elected officials: Bernie Giusto, Sheriff; Michael Schrunk, District Attorney; and Suzanne Flynn, County Auditor. The total number of adopted full time equivalent (FTE) positions is 4,437.48. Below is an organization chart for the County:

Multnomah County Organization



Budget Notes

During the budget deliberations, the Board of County Commissioners deliberated on certain policies. The Budget Notes document the policy directions and actions for departments to pursue during the upcoming fiscal year.

Maximize Use of Available Beds

In an effort to better use the limited number of jail beds for those offenders who pose the greatest risk to community safety, the County's public safety group in partnership with other public safety agencies shall address the following four issues:

1) Streamline the unsentenced supervision services system (Closed Street Supervision and Pre-trial Release Services) by reducing the amount of time in jail from booking to supervision, decreasing the number of repeat offender interviews while increasing the proportion of interviews which lead to program acceptance, and assuring that programs receive only those clients consistent with their risk-level.

2) Increase the number and proportion of in-custody offenders, both sentenced and unsentenced, under electronic monitoring by subsidizing eligible candidates who do not have the resources to pay and through enhanced electronic monitoring (GPS) for offenders with housing stability issues that may bar them from traditional electronic monitoring.

3) Identify the amount, proportion, and cost of failures to appear (FTA) which occur at booking, which utilize jail space, which are handled by the DA's office, and which impact the backlog of undelivered warrants.

4) Clarify how County booking and various bed rental policies impact the number and type of matrix releases that occur in the community.

The Board of County Commissioners shall be briefed quarterly on their progress of each of these areas. Briefings shall include identification of the issue, the associated direct cost to the county, and corrective actions which include both anticipated savings and implementation timelines to address the problem.

Flash Money

The County understands that, on occasion, the use of large sums of money known as "flash money" is a necessary element to the successful investigation of drug, property, and other types of crimes by the Sheriff's Office. In order to further an investigation, the use of flash money is an important tool to the infiltration of the criminal enterprise and in gaining the acceptance and confidence of an alleged criminal. The County also understands that there is a risk of loss when flash money is used during these types of investigations. The County acknowledges the sum of $100,000 as an acceptable risk when using flash money in a criminal investigation.

Position Control

The Budget Office will develop a plan to implement position control in SAP. The Budget Office will report back to the Board on scope of work, timeline, requirements, costs and risks. Human Resources will assign sufficient staff resources to help support the Budget Office until the completion of the project. The Budget Office will provide quarterly updates to the Board of Commissioners on progress.

All newly created positions or positions proposed for reclassification must receive prior approval from the Board. Human Resources will work with the County Attorney's Office to establish a procedure for this process.

Military Duty

Human Resources shall develop and propose a countywide policy and procedure regarding the management and tracking of persons on active military duty. Human Resources shall bring this policy back to the Board by September 2004, for Board approval.

Out of State Travel

All out of state travel must be approved for payment by the Chair's Office or the Elected Official to whom the employee reports prior to any departure. This Budget Note shall be incorporated into the County's Administrative Rules.

Facilities Capital & Maintenance Projects

No reallocation of funds from capital or maintenance projects shall occur without review and approval from the Chief Financial Officer. Projects that will exceed their budgeted appropriation in excess of five percent up to $25,000 will need to be approved by the Chief Financial Officer; over $25,000 will need to be brought back to the Board for approval. Facilities shall report to the Board on a semi annual basis the progress of capital projects and the financial status of capital and maintenance projects.

Departmental Reorganizations

Multnomah County continually strives to provide public services in the most efficient, effective manner possible. A rapidly changing social and financial environment has frequently required the County to re-align its services to meet community needs—but constant service delivery system changes do not allow time for efficiencies to be fully realized.

Therefore, because the structure and organization of the Multnomah County departments can have a profound effect on the financing and delivery of services and the ability to track and report data, proposed department reorganizations will be reviewed by a committee designated by the Chair's Office, to include but not limited to representatives from the department, advisory committee or CBAC, and Budget Office. The department head and the Budget Office will report back to the Board of

County Commissioners regarding the costs and risks involved and that reorganization is in fact the appropriate means to accomplish the end. The Board will have final approval on the proposed reorganization. The Chair's Office will work with the Budget Office and County Attorney's Office to establish a procedure for this process.

Use of Carryover

For FY 2005, general fund carryover amendments have been approved by the Board. These carryover amendments propose to use one-time resources to fund on-going program expenditures. Using one-time-only funding for on-going programs is generally not a recommended budgetary practice. The Financial & Budget Policies state that "the County will fund ongoing programs with ongoing revenues." The policy also addresses conditions when the allocation of one-time-only resources is appropriate.

Any Board approved general fund carryover amendments will be held in contingency until FY 2004 has closed in order to ensure that FY 2005 General Fund beginning working capital meets, or exceeds, the amount estimated in the Approved Budget. ***This requirement must be met before any contingency transfers will be considered by the Board regardless of whether any given department has realized savings in FY 2004.***

Finance and Budget is also directed to return to the Board prior to development of the FY 2006 budget for a policy discussion regarding the future use of carry over.

Mead Building Security Contract

The Department of Community Justice will issue an RFP for contracted security services for the exterior of the Mead Building at the end of the current security contract in 2005.

Teen Pregnancy Prevention

Budget Amendment 05-OSCP-BA-06 funds ($89,300) to be used for teen pregnancy prevention. The Commission on Children Families and Community will develop service model components in collaboration with Multnomah County Teen Parent Network, the Community Safety Net Advisory Council and others and report back to the Board on the service model by September 2004.

Youth Involvement in Gangs

Budget Amendment 05-DCHS-BA-03 funds ($218,000) to be used to provide 2.00 bilingual (Spanish) – bicultural intensive case managers and 1.00 bilingual (Spanish) alcohol & drug treatment specialist. These services will reduce youth involvement in gangs. Youth living in East County and in Portland will be served. DCHS will work with DCJ Juvenile Community Justice and members of the Latino Gang Violence

Prevention Task Force to develop the program model and the RFP by September 2004.

Mental Health Services for Eastern European Communities

Multnomah County's Eastern European community does not have good access to the County Mental Health services. Budget Amendment 05-DCHS-BA-04 funds will be used in conjunction with $50,000 of DCHS funds to enhance culturally specific services to the Eastern European community. DCHS will report back to the Board with a proposal by September 2004

School Attendance Initiative

The Office of School and Community Partnerships will meet with Portland Public School District and MESD over the summer months to discuss strategies for how to address the school attendance and retention issues as a result of the reduction of County funding for the School Attendance Initiative for FY 2005. The department will report back to the Board of County Commissioners in September 2004 with the outcome of these discussions.