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Introduction

The FY 2015 Multnomah County budget reflects a balanced approach to spending, cautious optimism, and continued responsible fiscal management. Overall, Multnomah County continues to be in a better fiscal position than most states and local governments, thanks to prudent leadership from the Chair and the Board, firm adherence to policies and practices that result in strong long-term financial planning, low debt obligations, and the maintenance of responsible fund balance amounts. The County's commitment to long-range planning, sound budgeting practices, and conservative financial management continue to pay off. Maintaining high bond ratings while providing a full range of services to Multnomah County residents remains a significant achievement. The FY 2015 budget continues to maintain the County's long-term fiscal position by fully funding our General Fund reserves and providing for a Business Income Tax (BIT) stabilization reserve.

This budget signals a turning point – the County was able to plan for current service levels while making additional strategic investments with ongoing and one-time-only resources. Yet even without the pressure of budget reductions, the County must be smart about what we do and how we do it, ensuring that we reflect our community's values and can meet the continuing challenges we face. Years of budget reductions have left many programs operating at bare bones levels, and the County is feeling the pressure to enhance and expand selected services in areas of community concern. This budget includes enhanced investments in the areas of capital infrastructure, public safety, land use planning, and health and human services.

While the national and state economies continue their slow recovery, the local economy has been growing at an average to slightly above average rate. This hasn't been fast enough to dramatically pull down unemployment, or quickly pull folks back into the workforce that have dropped out, or reduce the number of people who are employed only part-time for economic reasons. It has been strong enough, though, that non-farm employment is back to pre-recession levels. The housing market has seen double digit gains, and economically sensitive revenues, such as transient lodging taxes, motor vehicle rental taxes, and business income taxes have rebounded strongly (although the BIT remains below pre-recession levels).

On the cost side of the ledger, Legislative reforms to the PERS system, flat health care costs, and a low inflationary environment have helped to control the County's cost growth. Combined with moderate revenue growth, this left the County with ongoing General Fund revenue exceeding ongoing expenditures by \$8.3 million (or 2.1%) for FY 2015. In creating the FY 2014 budget, \$4.7 million of these funds were treated as one-time-only funds so that the County's ongoing expenditures and revenues would be balanced for roughly 3 years.

Although the County is fortunate to be making decisions about where to invest instead of where to cut, the Board must be cognizant that the future is not without challenges. There are a number of revenue risks and unresolved policy decisions that will likely come to fruition shortly after adopting this budget. Some will require very difficult deliberations and decisions.

If US Marshal bed rental revenue persists at current levels, the Board will need to determine whether to backfill this revenue or make offsetting expenditure reductions. Additionally, for the past two years, the Health Clinics have experienced some significant revenue shortfalls. As Healthcare transformation continues to evolve, those revenues may or may not catch up with expenditure requirements. If the negative trends continue, there will be difficult choices around how we deliver those critical health services into the future. On a countywide note, it is always difficult to forecast our most volatile general fund revenue, the Business Income Tax. Lastly, it would only take a few changes to policy decisions to return the County to a position of cutting budgets as in subsequent years.

The budget increases the County's workforce from 4,570.96 FTE (full time equivalents) last year to 4,645.97 FTE in FY 2015, an increase of 75.01 FTE. The majority of the increase in FTE is in County Human Services (57.35 FTE), mainly as a result in State funded programs, followed by the Department of Community Justice (16.37 FTE).

FY 2015 Program and Policy Highlights

Health and Human Services

The FY 2015 budget preserves existing services in Health and Human Services departments, expands existing services and adds new programs that target support for vulnerable populations. These investments include:

\$1.97 million of ongoing General Fund for after school, rent assistance, and senior center programs. This funding implements a proposal by the Multnomah County Chair, the City of Portland Mayor, school districts, the Children's Levy and Home Forward to realign and expand six cross-jurisdictional programs.

- \$1.41 million of new General Fund in three Mental Health Pilot Program Offers in the Departments of Health, County Human Services, and Community Justice for individuals with mental illness who are in or at risk of entering the justice system.
- \$235,357 for Veterans' Services to expand outreach and resources that secure State and Federal benefits for veterans.
- \$200,247 for school attendance support that provides integrated social service delivery to students whose family challenges include food-insecurity, homelessness and unemployment and who struggle with chronic absenteeism.
- \$200,000 to add emergency food distribution sites in North Portland, Outer Southeast Portland and East County. This funding will leverage community resources to provide over 345,000 meals.
- \$168,476 to expand a three-week Early Kindergarten Transition program for children who have little to no preschool experience.
- \$439,000 to bring the Corrections Health budget in line with actual hospitalization costs for inmates.
- \$250,000 earmarked in General Fund Contingency to address disparities in services experienced by communities of color in Multnomah County and improve the quality of life for youth of color experiencing generational poverty and discrimination.
- \$210,556 for additional staff in the jails to support Medicaid enrollment and healthcare.
- \$56,241 of ongoing General Fund to coordinate high quality healthcare and mental health services for newly arriving refugees.

Multnomah County is also part of a statewide effort, which began in FY 2012 and continues in FY 2015, to transform Oregon's healthcare system into one that better integrates physical health, mental health, long-term care, and other services. Because payment systems are still evolving, the County anticipates an ongoing, but currently unknown, impact on County health clinics, senior centers, and community-based mental health providers. County Health and Human Services managers are working closely with coordinated care organizations and providers to carry out this transformation.

Public Safety

The FY 2015 budget preserves the core functions of public safety and maintains the current number of jail beds (1,310). The budget maintains probation and parole services, jail alternatives, and prosecutorial services. The County invested:

- \$365,000 in one-time-only funds to provide supportive housing and case management to offenders with mental illness, with the goal of reducing jail admissions.
- \$175,134 in one-time-only funds to hire two additional Background Investigators to support the recruitment of additional Sheriff's Office staff.
- \$81,100 in one-time-only funds to provide 40 hours of Crisis Intervention Training to Sheriff's Office Patrol personnel to improve their ability to identify and work with people suffering from a mental health crisis.
- \$95,816 in ongoing funding to hire an additional Special Investigations Unit (SIU) Detective in the Sheriff's Office. The SIU has the responsibility to pursue, apprehend, and aid in the prosecution of suspects in cases dealing with illegal drugs, vice, and human trafficking activities.
- \$75,000 in one-time-only funds to purchase a virtualization device for servers that will improve the District Attorney's office's ability to restore their Document Management System in the case of an emergency.
- \$212,635 in ongoing funding to hire a Program Coordinator in the Prevention, Intervention, and Reentry Program to oversee the effectiveness and outcomes of Multnomah County's specialty courts and work with system partners to reduce recidivism and find alternatives to jail and prison.
- \$148,549 in ongoing funding to support the Restitution Recovery Program which upholds the rights of crime victims by investigating the economic loss to victims and ensuring that such losses are accurately and properly presented to the court.
- \$149,531 in ongoing funding to hire two additional Support Enforcement Division (SED) Agents to improve the District Attorney's capacity to enforce child support and medical support orders from the court.
- \$136,069 in ongoing funding to provide a Community Resource Deputy in Corbett to assist the community with emergency preparedness, safety education, and act as a liaison with the Sheriff's Office.

Most State of Oregon funding for public safety comes from Oregon 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 \$22.9 million dollars annually to pay for these services.

General Government

The FY 2015 Budget commits the following General Fund to support sound planning and strategic General Government investments:

- \$586,000 of one-time-only funds to update the County's Comprehensive Land Use Plan which identifies land use and transportation planning goals, policies, and strategies to protect natural resources and guide development within the unincorporated portions of the County.
- \$500,000 of one-time only funds to replace the County's aging ballot tally system.
- \$330,000 to expand County employee access to quality child care, which correlates with productivity improvements and absenteeism reductions, through tuition discounts and priority access in a designated child care provider network.
- \$126,055 for a Language Communications Coordinator to improve access to information about health care, behavioral health, housing support and other County services for people with limited English proficiency
- \$71,225 of one-time-only funds for Emergency Management Kits with basic survival gear for County employees in the event of an emergency.
- \$400,000 in contingency in the event that a Special Election is needed.

Capital Assets

The FY 2015 budget continues to supplement ongoing building and information technology (IT) system funding that is outpaced by evolving service requirements and deferred maintenance liabilities. The FY 2015 budget dedicates one-time-only funds of:

- \$2.3 million for the early planning stages of the new Downtown Courthouse, including a business case analysis and site selection criteria.
- \$1.1 million for the ongoing replacement of the County's aging phone system with Voice over Internet Protocol (VoIP) technology.
- \$1.0 million for the Downtown Health Department Headquarters, now in the planning stages with completion planned for 2016.
- \$700,000 to right-size and update Animal Services facilities.
- \$600,000 to support continuous IT operations in the event of power outages.
- \$100,000 to plan for replacing a Marine Building at Metro's Gleason facility that houses the Sheriff's Office Columbia River Patrol unit.

Planning for the FY 2015 Budget - Economic Climate

While the national and state economies have continued their slow recoveries, the County has been fortunate to see average to slightly above average growth for the last year or two. Non-farm employment within Multnomah County has recovered to pre-recession levels and the local housing market has seen strong gains. And, while unemployment remains relatively high, it has dropped to 6.7% from double-digit levels at the peak of the recession.

Gross domestic product (GDP) – the output of goods and services produced in the U.S. – increased at an annual rate of 2.6% in the final quarter of 2013 and 4.1% in the preceding quarter. Considering the Federal government shutdown during this period, this reflects respectable growth, albeit still slower than the economy should be performing.

Moving through 2014 and into 2015, four key trends should contribute to continued growth.

- Continued residential investment & household formation.
- State & local governments no longer downsizing.
- Improved household balance sheets.
- Federal fiscal reductions winding down.

Locally, the residential real estate market rebounded strongly in calendar year 2013. As measured by the S&P Case-Shiller Home Price Index for the Portland metropolitan area, home prices increased 13.1% during 2013. It was not uncommon to once again see homes sell in a matter of days with multiple offers. For some perspective, Portland house prices peaked in July 2007 and then fell 30.6% before stabilizing. With the recent price gains, prices are still down 13.6%. Exceptionally low interest rates, fewer distressed sales, and limited inventory have supported the recent run-up in prices. Based on affordability measures, however, continued, double-digit appreciation is unlikely and mid-single digit increases are expected during 2014. Homes in close-in Portland neighborhoods are becoming increasingly unaffordable, and apartment construction continues to boom within Portland.

Unemployment rates at the local, state, and national levels continue to fall from the double digits seen in 2009 and 2010. As of February 2014, the U.S. unemployment rate stood at 6.7% vs. 7.7% a year earlier. For Oregon, the February 2014 rate was 6.8% vs. 8.1% a year earlier. In Multnomah County, the similar figures are 6.7% vs. 7.7% a year earlier. Nonfarm employment within Multnomah County has been averaging above 460,000, which puts employment roughly at pre-recession levels. This does not account for population growth over the 6-years it took for employment to recover.

The consensus forecast (from Western Blue Chip) for Oregon employment growth is 2.6% in 2014 and 2.4% in 2015. Consensus personal income growth is estimated at 5.0% in 2014 and 5.3% in 2015.

Forecasting the General Fund

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. Forecasts are made for a five-year time horizon and updated on a quarterly basis. The forecast helps form the basis on which Multnomah County builds its annual budget.

The Budget Office's March 2014 Five-Year Forecast projected ongoing revenues exceeding ongoing expenditures by \$8.3 million, or 2.1%, for FY 2015. The 'surplus' shrinks over the life of the forecast, narrowing to \$2.7 million, or 0.6%, in FY 2019. Based on this forecast and assuming a five-year planning horizon, the County could support an additional \$2.5 million of ongoing programs.

This relatively positive outlook is driven by average revenue growth and very modest personnel cost growth of 2.24%. In particular, reduced PERS rates and flat medical/dental costs have driven the rosier outlook for the County's General Fund.

More information on the County's forecast can be found at www.multco.us/budget.

Local Revenues

Property tax is the single largest discretionary source of revenue in the General Fund, accounting for 62% of ongoing revenues. General Fund growth, therefore, is particularly sensitive to taxable value growth and compression.

The FY 2015 budget assumes the following rates of growth (as measured from the FY 2014 Adopted Budget) for each revenue source:

- Property Tax – An increase of 4.0%
- Business Income Tax – An increase of 8.9%
- Motor Vehicle Rental Tax – An increase of 10.2%
- Recording Fees/CAFFA Grant – A decline of 8.2%
- US Marshal Jail Bed Rental – A decline of 14.5%

The US Marshal bed rental assumption warrants an additional note. The FY 2015 budget assumes 95 beds rented per day, which is down from 112 beds per day in the FY 2014 budget. However, current daily rentals are hovering around 50 beds. Should Columbia County close its jail (due to its May 2014 local option failing), the County could see additional bed rentals by the US Marshal. Absent an increase in the rental rate, the County's General Fund would be short roughly \$2.1 million (assuming 50 vs. 95 beds).

Cost Drivers

Expenditures are forecast to grow at roughly 3.5% to 4.0% annually through FY 2019 – a rate of growth that takes into account inflation, employee compensation, and long-term fixed costs. For FY 2015, the cost of providing current service levels is expected to grow at just 2.16%. This relatively modest rate is driven by personnel costs, which are forecast to grow at 2.24%. Specifically, the personnel cost increase is driven by:

- Cost of Living Adjustment: 2.7% (of base pay)
- Step/Merit Increases: 1.5% (of base pay)
- Medical/Dental: 0.0%
- PERS: -2.0% (of base pay)

The County did not assume any PERS savings in FY 2014. The incorporation of these savings in FY 2015, results in the below average growth in personnel costs and hence the modest overall growth in costs. The changes to PERS made by the Oregon Legislature in 2013 are under legal challenge. If the reforms are not be upheld, a significant portion of the assumed savings may not materialize over the long-term.

For FY 2015, internal service rates charged to departments for items such as IT services and facilities are assumed to increase 2.27%. As the County's internal services are heavily labor dependent, the lower personnel cost growth has also helped to keep these costs in check.

Policy Direction from the Chair and Balancing the General Fund

The Chair directed all departments, including internal service providers, to construct current service level budgets as a starting point for the FY 2015 budget. Departments were also free to propose service expansions, restoration of prior reductions, and new programs in consultation with the Chair's Office. Departments also requested one-time-only funds.

The General Fund was balanced by the Chair accepting most current service level budgets as they were proposed. The additional \$8.3 million of ongoing General Fund and \$17 million of one-time-only funds were then allocated to new or expanded program offers or program offers requesting General Fund backfill. These offers are explicitly flagged to help identify where additional investments were funded. As previously noted, roughly \$4.7 million of the \$8.3 million was treated as one-time-only funds (for a total of \$21.7 million of one-time-only funds) so that the County's ongoing expenditures and revenues would be balanced for roughly three years.

Per past practice, the BIT reserve was set at 10% of BIT revenues for FY 2015. This is on top of the County's 10% General Fund revenue reserve. The FY 2015 budget conservatively assumes that departments will fully spend their FY 2014 General Fund appropriations.

The Chair's budget message provides additional information on her policy initiatives. The following sections of the Budget Director's Message provide more detailed information on the County's one-time-only resources and spending.

Budget Overview - All Funds

Local Budget Law requires that Multnomah County report the "total" budget. The total budget reflects the actual resources needed by the County, plus internal charges, transfers, loans, and accounting entities. The budget for FY 2015 totals \$1,617,303,040. When adopted, the budget sets the legal appropriation.

Because the total budget overstates what is actually spent, the County often refers to the net budget. The FY 2015 net budget of \$1,304,427,815 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. Internal transactions between funds are typically the result of one department providing a service to another, such as information technology or facilities services. It also removes all reserves for future years to more accurately reflect the ongoing operating budget.

Please see the next page for a table detailing the change in budget by fund compared with FY 2014.

FY 2015 Proposed Budget	
Department Expenditures	\$1,246,496,789
Contingency	<u>\$57,931,026</u>
Total Net Budget	\$1,304,427,815
Service Reimbursements	\$136,191,526
Internal Cash Transfers	\$29,113,971
Reserves	<u>\$147,569,736</u>
Total Budget	\$1,617,303,048

Budget Director's Message

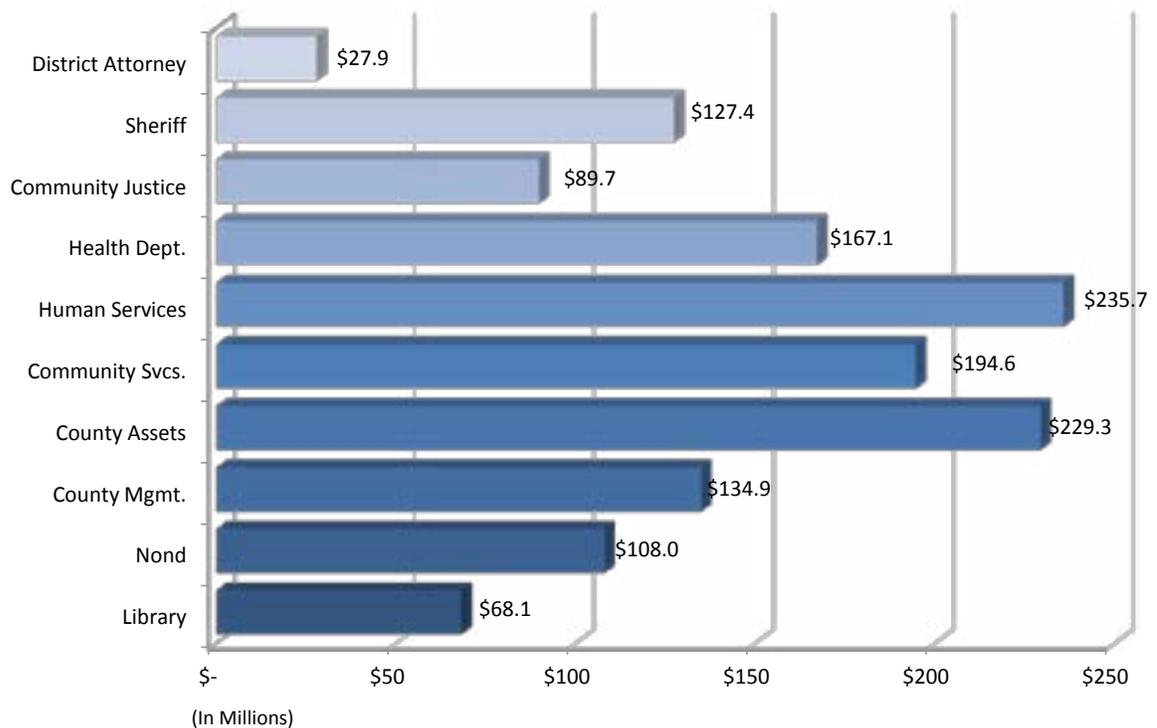
fy2015 proposed budget

#	Fund Name	FY 2014 Adopted	FY 2015 Proposed	Change	Notes
1000	General Fund	\$468,747,019	\$479,471,153	\$10,724,134	Beginning Working Capital (BWC) -\$4.9m, financing sources -\$0.4m, taxes +\$16.8m, fees/permits/service charges/misc. revenues -\$0.3m, intergov. -\$0.5m
1501	Road Fund	48,107,569	49,061,405	953,836	BWC +\$1.7m, intergov. -\$0.7m, service charges +\$0.3m, taxes -\$0.3m
1503	Bicycle Path Construction Fund	484,575	481,800	(2,775)	
1504	Recreation Fund	102,160	102,340	180	
1505	Federal/State Program Fund	230,443,058	230,247,536	(195,522)	BWC +\$1.2m, fees/permits/service charges/misc. revenues +\$3.7m, intergov. -\$5.1m
1506	County School Fund	20,000	20,275	275	
1508	Animal Control Fund	2,427,462	2,435,310	7,848	
1509	Willamette River Bridge Fund	17,261,714	12,259,909	(5,001,805)	BWC +\$1.2m, financing sources +\$0.2m, intergov. -\$6.5m
1510	Library Fund	72,786,638	74,639,830	1,853,192	BWC +\$0.9m, intergov. +\$1.6m, taxes -\$0.6m
1511	Special Excise Taxes Fund	27,329,500	30,756,130	3,426,630	BWC +\$0.3 m, taxes +\$3.2m
1512	Land Corner Preservation Fund	2,684,500	3,372,138	687,638	BWC +\$0.5m
1513	Inmate Welfare Fund	1,329,229	1,173,889	(155,340)	
1516	Justice Services Special Ops Fund	6,316,236	6,085,332	(230,904)	
1518	Oregon Historical Society Levy Fund	1,744,253	1,829,324	\$85,071	
1519	Video Lottery Fund	6,051,364	5,306,067	(745,297)	BWC -\$0.2m, intergov. -\$0.6m
2002	Capital Debt Retirement Fund	22,458,169	19,886,987	(2,571,182)	BWC -\$3.7m, financing sources +\$1.8m, misc. -\$0.6m
2003	General Obligation Bond Sinking Fund	14,701,075	12,786,175	(1,914,900)	BWC -\$1.1m, taxes -\$0.8m
2004	PERS Bond Sinking Fund	78,170,000	88,317,930	10,147,930	BWC +\$10.5m, misc. -\$0.3m
2500	Downtown Courthouse Capital Fund	0	42,494,600	42,494,600	Financing Sources +\$27.5m, intergov. +\$15m
2503	Asset Replacement Revolving Fund	476,000	476,000	0	
2504	Financed Projects Fund	3,441,875	5,400,000	1,958,125	BWC +\$0.5m, financing sources +\$1.5m
2506	Library Capital Construction Fund	0	2,358,680	2,358,680	Financing sources +\$1.3m, misc. +\$1.1m
2507	Capital Improvement Fund	66,153,530	34,591,900	(31,561,630)	BWC +\$8.2m, financing sources -\$14.1m, misc. -\$26.4m, service charges +\$0.7m
2509	Asset Preservation Fund	11,809,000	9,684,000	(2,125,000)	BWC -\$1.3m, financing sources -\$0.3m, misc. -\$0.6m
2510	Health Headquarters Capital Fund	0	46,000,000	46,000,000	Financing sources +\$19.1m, misc. +\$26.9m
2511	Sellwood Bridge Replacement Fund	142,564,649	117,569,464	(24,995,185)	BWC +\$14.4m, intergov. -\$39.3m
3002	Behavioral Health Managed Care Fund	60,026,954	80,426,534	20,399,580	BWC +\$6.2m, intergov. +\$14.2m
3500	Risk Management Fund	143,478,877	153,446,609	9,967,732	BWC +\$8.5m, interest -\$0.3m, misc. +\$1.7m
3501	Fleet Management Fund	10,771,594	10,886,844	115,250	BWC +\$1.4m, financing sources -\$1.2m
3503	Information Technology Fund	46,988,363	48,554,140	1,565,777	BWC -\$0.9m, financing sources +\$0.2m, misc. +\$1.9m, service charges +\$0.3m
3504	Mail Distribution Fund	3,538,905	2,903,802	(635,103)	BWC -\$0.7m
3505	Facilities Management Fund	43,025,360	44,276,937	1,251,577	BWC -\$1.7m, misc. +\$2.1m, service charges +\$0.8m
	Total	\$1,533,439,628	\$1,617,303,040	\$83,863,412	

Department Requirements All Funds (\$1.38 billion)

Department expenditures, excluding cash transfers, contingencies, and unappropriated balances, for all funds total \$1.38 billion in FY 2015 vs. \$1.34 billion in FY 2014.

The bar chart below shows appropriations by department in millions across all funds. This figure includes internal service payments, and thus represents some double-counting.

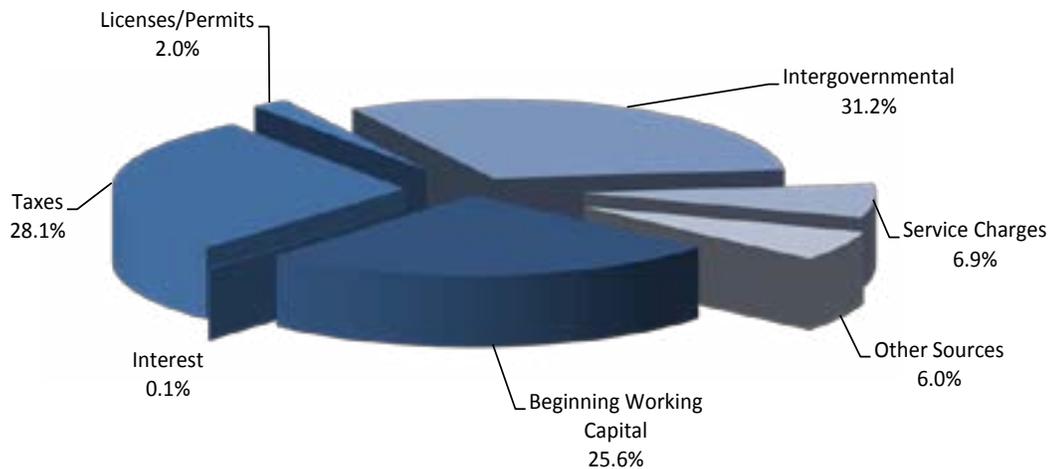


Department Revenues All Funds (\$1.34 billion)

Total direct resources, or 'revenues,' for FY 2015 are \$1.34 billion vs. \$1.28 billion in FY 2014 (excluding service reimbursements and cash transfers between funds). Intergovernmental revenues are now the County's single largest revenue category at \$419.2 million. This reflects a \$22 million or 5.0% decline from FY 2014. Of note is a \$39 million or 52% decline in the Sellwood Bridge Replacement Fund as construction progresses on this capital project, and a \$15 million increase in the Downtown Courthouse Capital Fund associated with an assumed contribution from the State of Oregon.

Taxes constitute the next largest revenue source and include property tax, business income tax, motor vehicle rental tax, transient lodging tax, and county gas tax. For FY 2015, tax collections are anticipated to increase 5.1% from \$359.8 million in FY 2014 to \$378.2 million.

Beginning Working Capital (BWC), as a share of total budgeted resources, has increased from last year. The FY 2014 adopted budget contained \$302.7 million of BWC across all funds while FY 2015 contains \$344.1 million. Roughly \$14.4 million of this increase is due to the Sellwood Bridge Replacement Fund. Other increases include a \$10.5 million increase in the PERS Bond Sinking Fund and a \$6.2 million increase in the Behavioral Health Managed Care Fund.

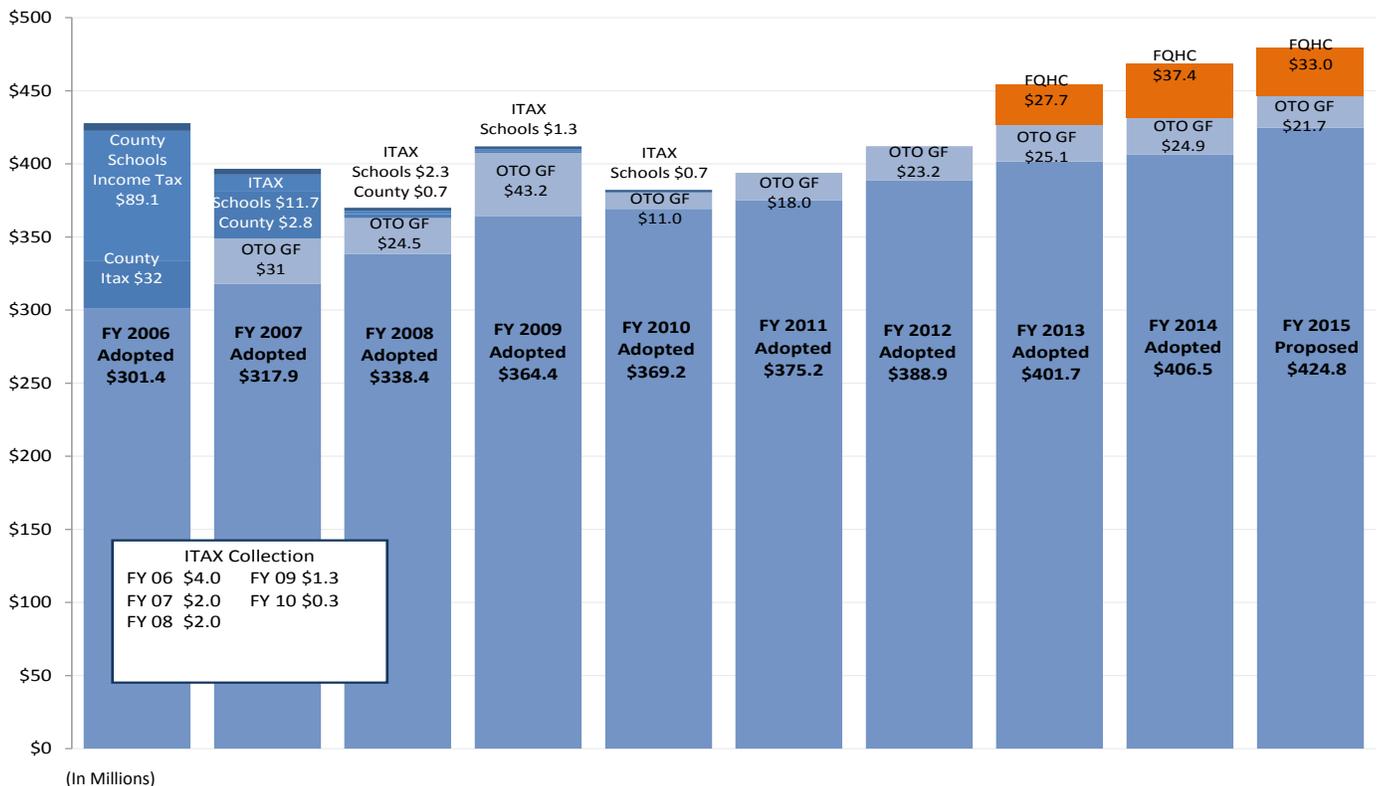


The General Fund

General Fund Expenditures and Reserves (\$479.5 million)

The \$479.5 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. Resources include property taxes, business income taxes, motor vehicle rental taxes, interest earnings, state shared revenues, and beginning working capital. The General Fund also includes Federally Qualified Health Center (FQHC) Medicaid wraparound reimbursement.

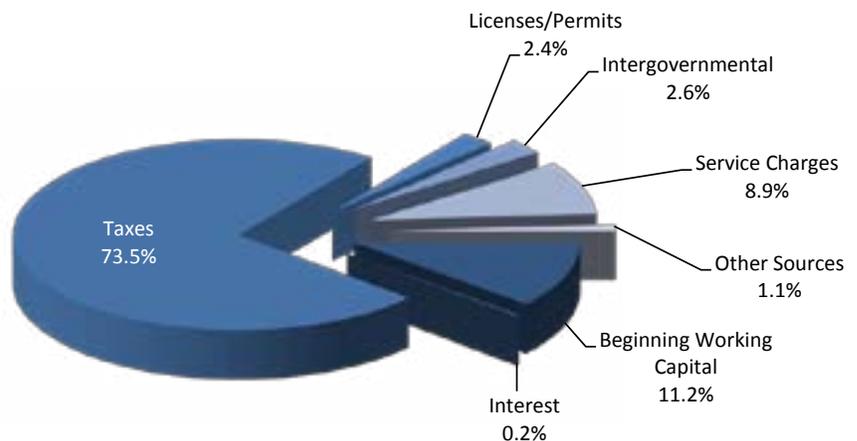
The following graph shows total General Fund 'spending,' including cash transfers, service reimbursements, contingencies, and unappropriated balances (reserves), from FY 2006 through FY 2015. The Temporary Personal Income Tax (ITAX) is shown from FY 2006 to FY 2010 and is not significant enough to warrant being called out separately in subsequent years. Additionally, the graph shows how much one-time-only (OTO) and ongoing funding was spent in the General Fund from FY 2007 to FY 2015. Combining each segment provides the total General Fund.



General Fund Revenues

General Fund resources for FY 2015 (excluding service reimbursements and cash transfers) have increased modestly from FY 2014. Direct resources are budgeted at \$452.9 million – a \$9.8 million or 2.2% increase over FY 2014. The increase in General Fund revenues is actually more robust than this suggests. Ongoing taxes are budgeted to increase by \$16.8 million or 5.3%, while one-time-only BWC is projected to be \$4.9 million (8.7%) lower.

As the graph below shows, taxes make-up the majority of General Fund revenues. If one excludes BWC, service reimbursements, and the \$33.0 million of budgeted FQHC and prospective health payments, taxes account for nearly all of the Board's discretionary ongoing funds. Property taxes, accounting for \$247.0 million, are budgeted to increase by \$9.6 million or 4.0%. Business income taxes, accounting for \$63.0 million, are budgeted to be up \$5.2 million or 8.9%. Motor vehicle rental taxes, accounting for \$22.5 million, are budgeted to increase by \$2.1 million or 10.2%.



Use of One-Time-Only (OTO) Funds

The FY 2015 budget contains approximately \$21.7 million of one-time-only General Fund resources after fully funding the General Fund reserve. These funds include \$14.0 million of additional BWC in FY 2014, the unused \$5.8 million BIT reserve (which is rolled over), and \$4.7 million of ongoing funds that were treated as one-time-only to balance the budget for the next three years.

The table on the following pages shows how OTO resources are planned to be used in FY 2015. The table lists OTO resources supporting OTO expenditures, or programs not expected to continue beyond FY 2015. There was a minimal amount of OTO resources supporting ongoing programs, or those expected to operate beyond FY 2015.

Budget Director's Message

fy2015 proposed budget

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

Prog #	Program Name	Dept.	FY 2015 TOTAL General Fund	Other Funds	OTO Only General Funds	% OTO General Funds
10009B	DSS-Justice Funding	NOND	\$205,336	\$0	\$205,336	100%
10013	Emergency Management Kits	NOND	71,225	0	71,225	100%
10018B	Office of Sustainability - Summit/Intertwine	NOND	33,500	0	33,500	100%
10030	RDPO - Multnomah County Matching Contribution for Regional Disaster Preparedness Organization	NOND	38,200	0	38,200	100%
10031	Emergency Management - Radios	NOND	40,000	0	40,000	100%
10035	Multnomah Youth Engagement ^{1/}	NOND	168,084	397,001	250,000	63%
15002B	Server Virtualization - NetApp	DA	75,000	0	75,000	100%
25136A	HYS - MH and Addictions Engagement Services	DCHS	471,000	0	471,000	100%
25139C	AP - Computers for Head Start Students ^{1/}	DCHS	0	20,000	20,000	100%
40008B	Vector-Borne Disease Prevention and Code Enforcement – Replace Vector Boat	HD	49,000	0	49,000	100%
40032B	Medical Coding ICD 10 Training	HD	194,112	0	194,112	100%
40050D	Corrections Health MCDC – Hospital Services for Inmates	HD	439,000	0	439,000	100%
40051E	Corrections Health – Eligibility Screening and Nursing Services	HD	210,556	0	210,556	100%
40059	Mental Health Pilot - Corrections Health	HD	385,820	0	385,820	100%
50041	Mental Health Pilot - Supportive Housing	DCJ	365,000	0	365,000	100%
60004	MCSO Additional Hiring Process Backgrounders	MCSO	174,077	0	174,077	100%
60023A	MCSO Crisis Intervention Training - Patrol Enhanced	MCSO	81,100	0	81,100	100%
72025B	DART County Clerk Carryover	DCM	226,000	0	226,000	100%
91026	Upgraded Ballot Tally System	DCS	500,000	0	500,000	100%
91027	Land Use Comprehensive Plan Update ^{1/}	DCS	0	586,000	586,000	100%
91030	Veterinary Services ^{2/}	DCS	197,316	0	197,316	100%
91031	Pedestrian Crossing	DCS	40,000	0	40,000	100%
95000	Cash Transfers	Countywide				
	~ Facilities Capital Improvement Program for Health Department Headquarters (78006)		1,000,000	0	1,000,000	100%
	~ Facilities Downtown Courthouse (78013)		2,300,000	0	2,300,000	100%
	~ Columbia River Boathouse and Portage Building (78014)		100,000	0	100,000	100%
	~ Animal Services Renovation (78015)		700,000	0	700,000	100%
	~ IT Continuity of Operations (78017)		600,000	0	600,000	100%
	~ IT Network Convergence (78018B)		1,139,000	0	1,139,000	100%
	~ DART Assessment & Taxation System Upgrade (72035B)		1,500,000	0	1,500,000	100%
	~ Capital Debt Retirement Fund (10026)		1,800,000	0	1,800,000	100%
95000	Contingency for to Address Services Disparities in Communities of Color		250,000	0	250,000	100%
95000	Contingency for Run-Off Election		400,000	0	400,000	100%
95000	BIT Reserve at 10%		6,298,702	0	6,298,702	100%
95000	Additional Contingency Set-aside		<u>858,471</u>	<u>0</u>	<u>858,471</u>	100%
	Total One-Time-Only		\$20,910,499	\$1,003,001	\$21,598,415	

1/ The OTO funds for this program are budgeted in Video Lottery Fund (1519)

2/ Assumed to end-after FY 2015 unless other funding sources found.

One-Time-Only Resources Spent on Ongoing Programs

Prog #	Program Name	Dept.	FY 2015 TOTAL General Fund	Other Funds	OTO Only General Funds	% OTO General Funds
15018B	Service Coordination Team Deputy District Attorney	DA	141,529	0	141,529	100%
Total One-Time-Only			\$141,529	\$0	\$141,529	

General Fund Reserves

The County maintains General Fund reserves as outlined in the County's Financial and Budget Policies. In FY 2015, 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 2015 budget fully funds the General Fund reserves at \$34.3 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 2015 budget also contains an additional 10% BIT Stabilization Reserve of \$6.3 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

Library District

Fiscal Year 2015 is the second year of the newly-formed Multnomah County Library District. The creation of the Library District, with a permanent rate for property taxes, has significantly lessened the impact of property tax compression and will provide a stable, dedicated funding source for library services. It has also eliminated the need for annual contributions to the Library from the County General Fund. As in FY 2014, the Library District will be levying a rate of \$1.18 per \$1,000 of assessed value for FY 2015, which will allow the Library to maintain its current level of services along with a few targeted additions.

The Multnomah County Board of Commissioners serves as the governing body of the Library District, referred to as the Multnomah County Library District Board. Through separate actions as the County Board and the Library District Board, the two entities entered into an intergovernmental agreement by which the County will provide library services and be reimbursed for such services by the District. That agreement is expected to be extended through FY 2015.

Health System Transformation

Health System Transformation continues in Multnomah County and throughout the State of Oregon. Its primary impact on the FY 2015 budget is in Medicaid expansion from the Affordable Care Act. The Multnomah County Departments of Health, Community Justice, and County Human Services have been pivotal in this expansion during Cover Oregon website challenges.

While the expansion is expected to increase rates of insured County clients, if and how this will allow the County to expand or enhance services is still uncertain. In many cases, Medicaid funds come with more rigorous standards that may require additional resources. Newly insured clients have provider choices outside the County, and the cost of care for clients new to the

healthcare system is unknown. Furthermore, the State has begun to reduce formula-based funding for the uninsured, once a steady source of County funding, and to replace it with competitive grants. Therefore, projections of revenue from Medicaid expansion must be conservative, and new dollars must go to stabilize existing systems and reduce long-term costs in the face of uncertainty.

In the Health Department, the FY 2015 Budget for Primary Care Clinics only increases \$1.7 million or 4 percent over the FY 2014 Adopted Budget. While the clinics may experience a higher rate of insured clients, new dollars must address current revenue shortfalls. It is too soon to know how much Medicaid expansion will reduce the cost of hospital stays within Corrections Health. Outside of Medicaid expansion, new State legislation will prohibit private insurers from suspending coverage for individuals in jail awaiting trial, but it is too early to project any related savings from this legislation.

The Department of County Human Services projects a \$14.5 million increase in Medicaid premium payments to the Multnomah Mental Health insurance plan associated with enrollment increases that reached 18% in January. However, it is unknown if the additional revenue will both cover costs of new members and offset a \$10.5 million reduction in the Mental Health Division's Federal/State Fund.

Finally, the Department of Community Justice budget projects that \$2.9 million of General Fund once dedicated to residential addictions treatment for the uninsured will be reimbursed by Medicaid. These dollars are reinvested to improve outcomes, while lowering long-term costs by investing in wrap-around services that replace, shorten the duration of, and reduce clients' need for residential services.

Public Safety Reform – HB 3194

In 2013, House Bill 3194 (HB 3194) was passed by the Oregon legislature with the goals of reducing recidivism, decreasing utilization of State prisons, protecting the public, and holding offenders accountable. HB 3194 reduces prison sentences, allows for early release from supervision, and reduces probation. The law is expected to reduce the need for additional State prison capacity, with the associated savings to be passed on to counties to fund investments to manage populations at the local level. Multnomah County has received just over \$3.1 million for the 2013-2015 biennium, along with an additional \$1.0 million for the Multnomah County Sheriff's Office to offset any costs associated with higher local jail usage.

In order to guide the program, HB 3194 established a Task Force on Public Safety. The Multnomah County Local Public Safety Coordinating Council (LPSCC) appointed a Steering Committee of local public safety partners to

make recommendations to the Board of County Commissioners on the best use of funds. The Steering Committee is comprised of the Presiding Judge, District Attorney, Defense Bar, Sheriff, Community Corrections Director, Municipal Law Enforcement, and a community/business representative. The Task Force will be bringing its funding recommendations for the Board's consideration as part of the upcoming budget worksessions.

As of April 2014, \$410,675 of the \$3,165,000 for the biennium has been appropriated and will be expended. Additional spending of \$832,900 is included in the FY 2015 budget for a total of \$1,243,575 committed, leaving \$1,921,425 available for the Board to appropriate.

US Marshal Bed Rental Revenue

Over the past several years, the Multnomah County Sheriff's Department has experienced a reduction in revenue associated with lower US Marshal jail bed use. In FY 2014, this trend continued, resulting in the mid-year lowering of forecasted use from 112 beds at the beginning of the fiscal year to 95 beds in October, and then to 64 beds in March. Actual US Marshal bed usage has been as low as 35 beds per day in April 2014. As a result, forecasted FY 2014 revenue dropped from \$5.5 million at the beginning of the year to \$3.2 million in March 2014, resulting in a \$2.3 million shortfall.

The FY 2015 budget maintains the 95 beds-per-day estimate by assuming the pending closure of the Columbia County jail and the associated influx of their US Marshal's prisoners into Multnomah County jails. Should the Columbia County jail remain open, or US Marshal's bed usage otherwise fail to reach the forecasted 95 bed-per-day level, the resulting fall in revenue would require either a backfill of General Fund funds or a reduction of expenses.

City of Portland Urban Renewal Modification

State law allows a city-created urban renewal agency to redirect local property tax revenues for the purpose of increasing development in blighted and underdeveloped areas designated as urban renewal areas (URAs). When a URA is established, the tax base of each property within the URA is "frozen" for the County and all other jurisdictions that levy property taxes on the property. For the duration of the URA, the taxing jurisdictions receive only property taxes that are attributable to the frozen tax base. The incremental taxes that result from any increase in the value of taxable property while the URA is active are directed to the urban renewal agency.

The urban renewal agency issues debt to raise capital to make urban renewal investments in the URA, and the debt is repaid with the stream of incremental taxes during the life of the URA. The County and other taxing jurisdictions will not start receiving property taxes from increases in taxable property value until the debt for a URA is fully repaid and the URA has been closed, at which time the urban renewal agency ceases to receive the incremental taxes

New Initiatives

for that URA, and the taxing jurisdictions resume receiving taxes on the full taxable value of the properties.

A proposal put forth by Mayor Charlie Hales to make changes to Portland-area URAs could result in one-time money for the County's FY 2015 budget. Last fiscal year, \$26.3 million of Multnomah County property tax revenue went to Portland-area URAs. Under the Mayor's proposal, elimination of some URAs and the shrinking of others would release an estimated \$1.5 million in property tax dollars to the County for FY 2015. However, the Mayor's plan also includes expansion of two other urban renewal districts, so impacts to County property tax revenue from these modifications in future fiscal years are uncertain. The Portland City Council will vote on a resolution to modify the urban renewal areas at the end of April.

Veterans Services

The FY 2015 budget includes \$235,357 to expand programs that focus directly on improving services to and securing available benefits for veterans. Veterans Services (a program in the Department of County Human Services) will increase the number of qualified Veterans Service Officers by an additional 2.67 full time equivalents. These Officers will work to connect veterans with the services they need. Having additional officers on staff will allow for better service to Oregon's deserving veterans.

Local Public Safety Reinvestment: Mental Health Pilot Program

The FY 2015 Budget invests \$1.4 million of new General Fund in three Mental Health Pilot Programs for individuals with mental illness who are in or at risk of entering the justice system. This combination of programs will provide more effective client services and reduce costly incarceration and recidivism, while lessening the need for public safety involvement in mental health crisis management.

- Crisis Assessment & Treatment Center (CATC) Behavioral Health Triage: \$658,721 to add behavioral health triage services, which include rapid medical screening and psychiatric assessments, on-site at CATC, a secure, short-term mental health treatment program. This will be an alternative to triage services that currently occur following jail bookings and emergency room admissions, after which an additional transfer to CATC could be required. (25051)
- Corrections Health: \$385,820 to allow 24/7 mental health suicide watch support with a new 10pm to 9am shift of mental health professionals who conduct assessments, authorize suicide watch releases and prepare hospitalization recommendations for the courts. This will reduce Sheriff's Office staffing requirements for suicide watch as well as delays in court proceedings and transfers to hospitals that result from the current gap in mental health staffing. (40059)

- Supportive Housing: \$365,000 for 20 specialized supportive housing beds that will include mental health treatment, case management, job training and other supports after incarceration, which are critical to recidivism reduction, for offenders with mental illness who commit low level crimes. This will be an alternative to existing housing and wrap-around services that has an added focus on these clients' mental health needs. (50041)

Aligning City/County Services

The FY 2015 budget increases ongoing General Fund commitments to implement a proposal by the Multnomah County Chair, the City of Portland Mayor, school districts, the Children's Levy and Home Forward to expand, realign, and increase ongoing funding across six cross-jurisdictional programs. Ongoing County General Fund increases are:

- SUN Community Schools Scale: \$943,000 for the County share of a \$2,219,000 proposal for the City and County, together with school districts and the Children's Levy, to provide permanent funding for 10 existing and 10 new SUN schools. (25145B)
- ADS Senior Center Prevention Services: \$566,000 for Senior Centers previously funded by the City and then funded with a combination of City and one-time-only County General Fund in FY 2014. (25020B)
- Mental Health Crisis Assessment & Treatment Center (CATC): \$600,000 to fully fund the Crisis Assessment and Treatment Center that was previously funded with a 50/50 split of County and City funds. (25056)
- HSVP - Short-Term Rent Assistance: \$500,000 for the County share of a proposal for the City and Home Forward to replace \$1,500,000 of one-time-only County General fund for Short Term Rent Assistance (STRA). (25133B)

This \$2,609,000 is offset by a \$639,000 reduction from the City fully funding the Sobering program (no longer reflected in the County Budget) that was previously funded with a 50/50 split of County and City funds, for a net increase of \$1,970,000. Additionally, the City will reimburse the County \$117,000 for services provided by the Specified Animals Program in program offer "Vector-Borne Disease Prevention and Code Enforcement (40008A)."

Language Access Initiative

The FY 2015 budget includes \$126,055 for a language communications coordinator to better serve residents whose primary languages include Spanish, Chinese, Vietnamese, Laotian and Russian. The coordinator will help the Communications Office respond to increasing information requests from these residents and work with departments to cultivate relationships that inform and improve public information about County services across communities. Together, these efforts will improve access to health care, behavioral health, housing assistance and other services.

Personnel Costs

Merit, Step, and COLA Wage Increases

The backbone of the County has been and continues to be its workforce, which absorbed increased workloads and achieved increased efficiencies with fewer resources amidst competing demands and increased community expectations and needs during this economic downturn. The County plans no wage or COLA freezes for FY 2015.

Public Employees Retirement System (PERS)

The County participates in PERS, a cost sharing, multi-employer defined benefit pension plan administered by the State of Oregon. For FY 2015, the County's PERS rates remain unchanged from the previous year. PERS rates are established biennially with the next valuation scheduled to take effect July 1, 2015.

In 2013, the Oregon Legislature made changes to PERS that lowered projected future benefit payments. The Legislature passed legislation (SB 822 and SB 861) that capped cost-of-living increases for retirees and delayed \$350 million in employer payments for the 2013-2015 rate cycle, resulting in a one-time reduction to employer rates. The legislation also adjusted out-of-state benefits, which further reduced employer payments.

Although changes made by the Legislature will keep rates lower than they would have been otherwise, in order to make up for the steep decline in the PERS valuation that occurred in 2008, forecasts suggest that employer rates will continue to increase for the next few biennia unless investment returns exceed long-term averages. The County has accumulated reserves in the PERS Bond Fund that has allowed the County to provide an offset to future rate increases. For instance, Departments were charged a higher internal rate than the County was required to pay into the PERS system when the County recognized that losses after the actuarial valuation would lead to higher rates in the long-term. This allowed the County to smooth, and stabilize, the budgetary impact to direct services and programs. Proactive management of the PERS liability has been noted in a recent Moody's rating analysis.

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 healthcare costs have slowed somewhat. This has enabled the County to hold flat the internal service charges for employee healthcare benefits for FY 2015. The County continues to explore trends in the healthcare industry and alternatives to the current benefits plans in order to minimize future increases in healthcare costs.

Investing in Infrastructure

Sellwood Bridge

The Sellwood Bridge project, which began in December 2011, will replace the current 88 year-old Willamette River crossing with a new bridge and interchange with Highway 43. The existing bridge was moved to new temporary piers to serve as a detour bridge in January 2013. Construction of the new bridge, approaches, and interchange is in progress. The new bridge is expected to open in the fall of 2015, with project completion in the summer of 2016.

The current cost estimate for the project is \$307.5 million. However, challenging site conditions and unanticipated project costs may ultimately impact project contingency funds. Revenue from Bond sales and the Multnomah County Vehicle Registration Fee has yielded revenue higher than originally forecasted and would be available if necessary to augment unanticipated contingencies. The current funding plan includes the following secured sources:

- \$164.4 million - Multnomah County Vehicle Registration Fee (\$19 per year per vehicle)
- \$74.7 million - City of Portland (new revenues from the Oregon Jobs and Transportation Act)
- \$35.0 million - State of Oregon (Jobs and Transportation Act) for Highway 43 interchange
- \$17.7 million – Federal TIGER III grant awarded January 2012
- \$15.7 million - Previously secured funds after the planning phase

Health Department Headquarters/U2 Block Development

In 2011, Multnomah County and Home Forward prepared a feasibility report to relocate operations from the outdated McCoy Building on 426 S.W. Stark to a new Health Department facility on the east half of block U in downtown Portland. The McCoy facility, built in 1923, needs significant maintenance and seismic investments, and the new site is well situated next to the Bud Clark Commons day center and shelter with easy access to public transportation. The new building is expected to accommodate up to 350 employees, which will include health care personnel; the office of the Health Officer; and administrators and staff who oversee Multnomah County's health clinics,

services for children and families, and public health emergency preparedness. The new building will also house some clinic and pharmacy services.

Together, the new construction and relocation of current operations will cost an estimated \$46 million. The FY 2014 budget included a one-time-only General Fund appropriation of \$5.4 million, much of which will be carried over to the FY 2015 budget and combined with an additional \$1.0 million of

New Information Technology

one-time-only General Fund. The County anticipates receiving a \$26.9 million distribution from the Portland Development Commission for River District capital projects by mid-FY 2015. It is likely that the County will borrow the remaining amount in early 2016. The project is expected to be completed in 2016, with the Health Department moving into the building in the fall of that year.

Network Convergence (Voice over Internet Protocol)

After an extensive customer-focused needs analysis and selection process, the County's aging phone system replacement is underway with Voice over Internet Protocol (VoIP) technology. This technology uses the Internet to make voice phone calls and allows the County to combine its voice and data networks, known as network convergence. The phased implementation is occurring building-by-building. The first site, the Multnomah Building, was successfully converted in October 2013. To date, 2,230 phones have been converted, representing 48% of the total phones, and twelve sites have been completed, representing 13% of the total sites. The majority of the remaining phones and sites will be completed in FY 2015 with the final three sites scheduled for FY 2016. Numerous new features will increase the County's mobility and flexibility, while adding new tools. The first goal is to replace the existing technology, while positioning the County for future innovations

Future Budget Pressure

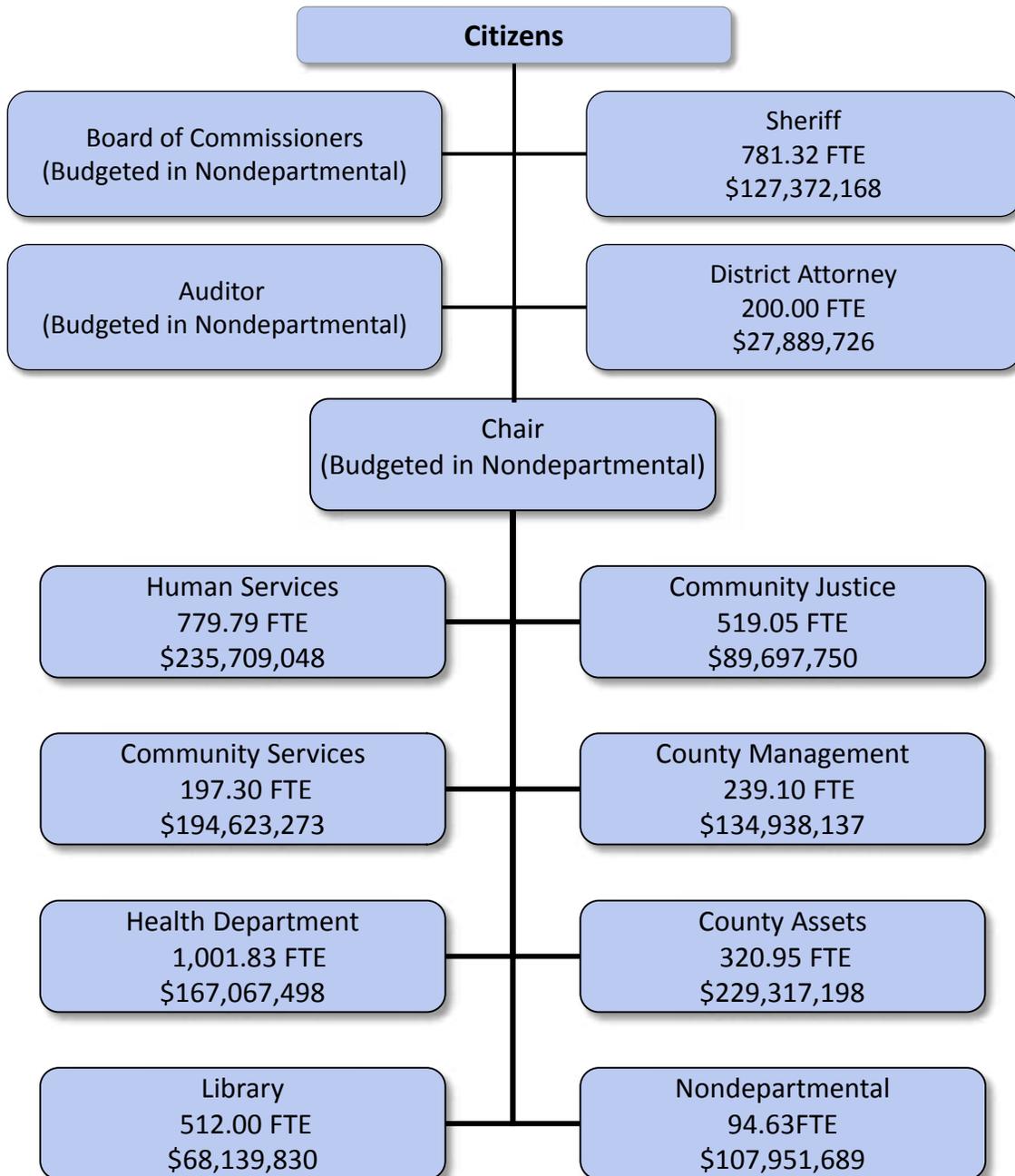
While the County is in the midst of an economic recovery, it is not immune to broader economic issues and will continue to face internal and external budget pressures in years to come. For example, today's budget decisions, such as the opening of a new facility, have an impact on future years' budgets. The following list is a brief outline of the budget pressures that the County will monitor for impact beyond FY 2015.

- **Revenue** – The business income tax is inherently volatile and will invariably decline during the next recession. The property tax, while relatively stable, is constitutionally limited in its growth rate. If inflation were to increase, costs would grow faster than the County's core property tax revenue stream.
- **Capital investment** – There is currently no significant ongoing funding stream to pay for new capital investments in facilities. However, the Chief Financial Officer and the Budget Director are recommending a change to the financial policies with regard to the use of one-time-only funds (OTO), which would prioritize 50% of the annual available OTO funds (after contingencies and reserves are fully funded) for capital needs.
- **Healthcare costs** – While the rate of growth in County healthcare costs has slowed in recent years, a return to previous rates of growth would put significant pressure on County costs.

- **Pension and post-employment benefit costs** – While the County's pension and post-employment benefit funds are among the best-funded in the country, recent PERS reform legislation remains subject to legal challenge and the PERS system is structurally dependent on stock market returns to fund a significant portion of its cost.
- **Technology** – As technology becomes more prevalent in day-to-day County operations, the associated infrastructure and support costs also increase. The most problematic issue tends to be semi-routine replacement of IT applications. There is currently no ongoing funding stream to pay for these replacements or new technological investments.

Multnomah County Organization Chart

Multnomah County delivers its services through ten departments, including three managed by independently-elected officials: Dan Staton, Sheriff; Rod Underhill, District Attorney; and Steve March, County Auditor. There are 4,645.97 full time equivalent (FTE) positions in this budget.



Appreciation

This document is the outcome of many hours of hard work and analysis by County agencies and their staff and I would like to take this opportunity to thank these people for their contributions. Particularly, I want to thank the leadership in the Chair's Office: Interim County Chair, Marissa Madrigal; Chief of Staff, Emerald Walker; and Chief Operating Officer, Joanne Fuller. I also want to extend my sincere appreciation to the staff in the County Assets Administrative Hub and to department heads and constitutional officers along with their budget teams and staff for their cooperation and assistance.

Finally, I want to acknowledge the remarkable teamwork by the people in the Central Budget Office who gave their very best in putting this budget together: Mike Jaspin, Ching Hay, Christian Elkin, Shannon Gutierrez, Paula Watari, Jennifer Unruh, Althea Gregory, Allen Vogt, Anna Plumb, Chris Yager, and Allegra Willhite.

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

Karyne Kieta
Multnomah County Budget Director/
Department of County Management Deputy Director