Financial Condition
Multnomah County, Oregon

March 2003

Suzanne Flynn
Multnomah County Auditor

SUZANNE FLYNN, Auditor
Multnomah County
501 SE Hawthorne, Room 601
Portland, Oregon 97214
Telephone (503) 988-3320
Telefax (503) 988-3019

www.co.multnomah.or.us/auditor

MEMORANDUM

Date: March 26, 2003

To: Diane Linn, Multnomah County Chair
Maria Rojo de Steffey, Commissioner, District 1
Serena Cruz, Commissioner, District 2
Lisa Naito, Commissioner, District 3
Lonnie Roberts, Commissioner, District 4

From: Suzanne Flynn, Multnomah County Auditor

Subject: Financial Condition Report

The attached report covers our biennial review of the County's financial condition which was included in the FY02-03 Audit Schedule. This is the sixth such report produced by the Auditor's Office and covers the financial period from FY93 to FY02.

This report is a ten year historical look at the County's financial health and does not reflect the current year situation. It is intended to identify areas that need attention and to add perspective to budget deliberations. While the report concludes with FY02 data, the trends are especially relevant to action the County will take this fiscal year.

We urge the Board to continue its committment to the long-term financial health of the County. Over the years, the County has responded to financial circumstances in a responsible and deliberative manner. Most recently, the Board has completed two difficult mid-year rebalances of the budget and adopted a financial policy to increase reserves. A plan of action is also needed to address the County's reduced ability to meet short-term obligations.

We have reviewed this report with the Finance Division and Budget and Service Improvement managers in the Department of Business and Community Services. A written response from the Chair's Office is included the last section of the report. We appreciate their assistance and cooperation.

Audit Team: Judith DeVilliers, Senior Management Auditor
Rie Anderson, Audit Intern

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Executive Summary

The County's financial health is not as strong as it has been in the past. Revenue shortfalls in FY01 and FY02 resulted in mid-year budget cuts. The decline in reserves and increase in fixed costs in recent years have weakened the County's ability to pay short term obligations.

The Auditor's Office looked at measures of resources coming into the County, how these resources were used, and the County's overall financial health from FY93 to FY02. This year's report offers a unique vantage point. Warnings included in previous reports are now influencing the County's financial condition:

- An increasing dependence on revenues from state and federal sources is leading to service reductions outside of the County's control
- Reserves or "rainy day" funds are not sufficient to weather economic downturns

Until FY02, there was continued growth in County revenues due to economic prosperity and the transfer of social and justice programs from the state and federal governments to local control. Spending for justice services increased by 60% and spending for social and health services increased by 100% since FY93.

During the last ten years, the funds from other governments (primarily state and federal) have increased from 44% of total revenues to 51%. While this brings increased local control to the delivery of criminal justice, social, and health services, it also means that the County is greatly affected by economic downturns at the federal and state levels. The County is currently feeling the pressure to use local resources to retain services funded by intergovernmental revenues.

Report Highlights

- ⬆ Annual growth averages 6%
- ⬇ Dependence on state and federal revenues increases pressure on the County in economic downturns
- ⬇ Declining County gas taxes mean less revenues to maintain roads
- ⬆ Employee benefits have remained steady
- ⬆ General government costs have not increased at the same rate as other services
- ⬆ Unfunded pension liability has been alleviated
- ⬇ Cash flow needs close monitoring

The last ten years were also a time for growth in County facilities. Voters supported serial and bond levies for libraries and justice services. New jails, libraries, and an aging services and health clinic were built, and administrative offices were consolidated in one building. However, these additions have increased fixed costs by $37 million annually and reduced the County's ability to adjust spending in response to economic decline.

The County has made efforts to balance short-term and long-term costs. Employee benefits as a percentage of total personnel costs have remained stable. The unfunded pension liability was alleviated through the sale of bonds that should save the County $36 million over the next 30 years.

The County also responded strongly to recent declines in revenues by twice re-balancing the budget mid-year and strengthening its effort to maintain reserve accounts. Despite these actions, the liquidity ratio is not favorable and reserves are low. We recommend the County develop a plan of action to improve the ability to meet short-term obligations.

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Introduction

This is the sixth report the Auditor's Office has done on the financial condition of Multnomah County. The report is issued biennially and covers measures for a ten-year period. These measures are commonly used by local governments to indicate their ability to fund services on a continuing basis. A county in good financial condition can continue services to the public, withstand economic slumps, and meet the demands of changing service needs.

The Auditor's Office looked at measures of resources coming into the County, how it uses these resources and its financial health over time. We also included indicators about how the population and economy are changing and how those changes can affect County services.

Since we began these reports, the County has undergone major changes in the property tax system and assumed responsibility for many social services previously under state government control. However, the measures or indicators of good financial management remain the same.

Objectives, Scope, and Methodology

The objective of this report is to evaluate the financial condition of Multnomah County using the Financial Trend Monitoring System developed by the International City and County Management Association (ICMA) and the draft indicators developed by the Government Accounting Standards Board (GASB). We relied on the County's budgets, Comprehensive Annual Financial Reports, and financial accounting systems for the financial data. We used published sources for most socio-economic data. In developing and analyzing the indicators of financial condition, we interviewed personnel in the Finance and Budget offices, and other county departments.

Prior reports covered the fiscal year 1981-1982 through fiscal year 1999-2000. This report covers the period from fiscal year 1992-1993 through fiscal year 2001-2002. We expressed most amounts over the ten-year period to the equivalent of the purchasing power of money in fiscal year ending June 30, 2002. The adjustments are based upon the Portland-Salem (PMSA) Consumer Price Index for all urban consumers.

The ICMA and GASB stress the importance of developing a consistent and meaningful definition of the entity being evaluated. For purposes of this report, "the County" will include the revenues, expenditures, and activities covered by the general fund, special revenue funds, and debt service funds. Excluded are the capital construction, internal services, enterprise, and trust and agency funds. However, we did include the Behavioral Health Managed Care Fund because it is an integral part of the Mental Health and Addiction Services Program. This work was done in accordance with generally accepted government auditing standards.

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County Revenues

Overview

Operating revenues are used to pay for on-going services. Decreasing revenues may reduce a government's ability to maintain existing service levels.

In general, the revenue trend has been one of increasing resources. In current dollars, operating revenues increased from $357 million in FY93 to $588 million in FY02. All categories of revenues show increases except excise and income taxes, which after increases during the late 1990s dropped in the last two years to the same level as in FY93.

Both the ICMA and GASB recommend showing indicators for total revenues, major revenue sources, and others such as revenues subject to economic fluctuations and temporary or short-term revenue sources. Below is a list of the revenue indicators included in this report that we believe are relevant to Multnomah County.

Indicators

- Operating Revenues
- Revenues from Federal, State and Local Governments
- Property Tax Revenues
- Business Income and Car Rental Taxes
- User Charges
- Short-term Revenues
- Revenue Shortfalls

County Revenues

County income has grown 65% since FY93

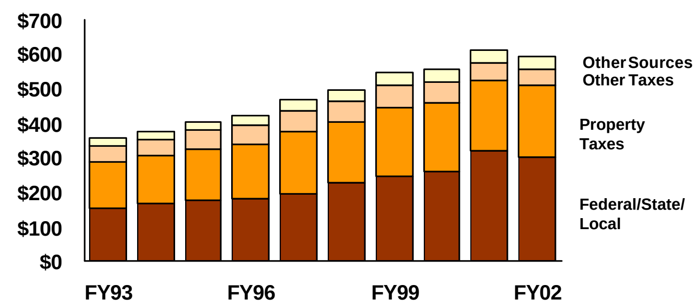
Operating revenues are used to pay for on-going services. These services include elections, road maintenance, health services, jails, libraries, social services, criminal prosecution, assessment and taxation, animal control, and administration.

Some of the County's growth in revenues is due to the transfer of State programs to county government. In FY97 the State transferred the responsibility for custody of felons sentenced for a year or less to the County and in FY98 transferred programs and responsibilities for disability services. Other overall increases were a result of voter approved bond and serial levies for libraries and jails.

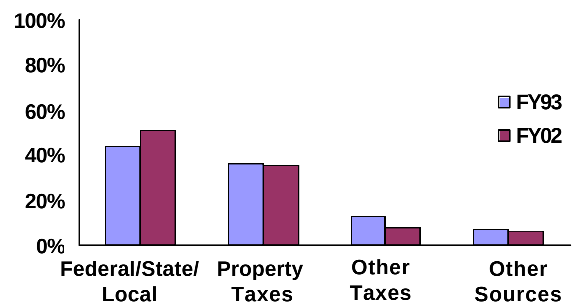
Operating revenues have steadily increased each year. What appears to be a decline from FY01 to FY02 is primarily the effect of one time only revenues received by the Health Department in FY01. Charts on the following pages show detail by revenue source.

In FY02, Federal, State and other local governments made up 51% of the County's operating revenues, property taxes were 35%, other taxes were 8%, and other sources were 6%. The proportion of revenues from Federal, State and other local governments increased from 44% of the total in FY93 to 51% in FY02.

Operating Revenues
Adjusted for inflation (in millions)



Operating Revenue Source as a Percent of Total



County Revenues

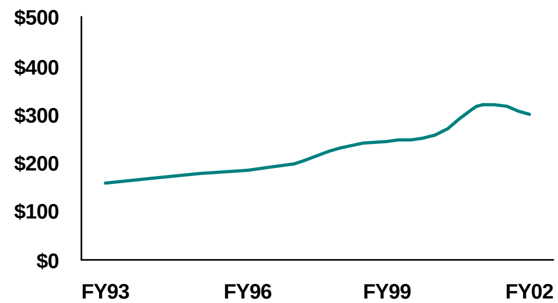
Increasing Federal and State revenue for County services may create an over-dependence

Multnomah County receives a variety of revenues from other governments at the Federal, State, and local levels. Recent Federal and State policies continue to shift responsibilities to lower levels of government to increase local control over service delivery.

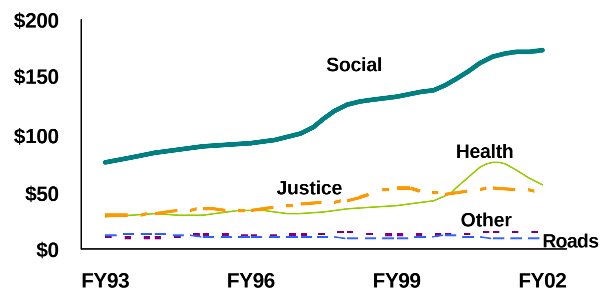
Increased Federal and State revenue to support County services may create an over-dependence on these sources. Revenue decisions made in Salem or Washington, DC can have a large impact on the community and the County's budgeting decisions. If these revenues were withdrawn, the County would be forced to find additional revenue or cut services. In the last decade Federal, State and local government revenues:

- Increased for social service programs from $75 million in FY93 to $173 million in FY02
- For health programs nearly doubled from $29 million to $56 million. The increase in FY01 was a one-time retroactive Medicaid reimbursement
- Increased for justice programs from $30 million to $50 million
- For roads and bridges continue to decline from $10.6 million in FY93 down to $7.8 million in FY02

Total Revenues from Federal, State and Local Governments
Adjusted for inflation (in millions)



Total Revenues from Federal, State, and Local Governments by Service Area
Adjusted for inflation (in millions)



County Revenues

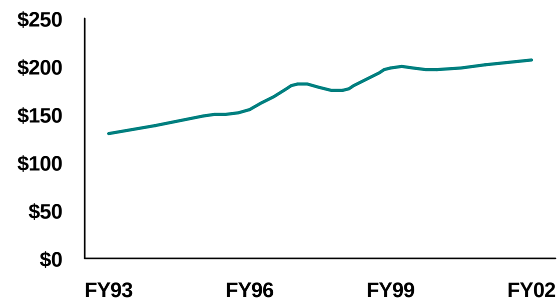
Property tax revenues have increased

Property taxes averaged about 6% annual growth over inflation during the past ten-years. Over half of the growth was due to voter-approved serial levies and bond measures.

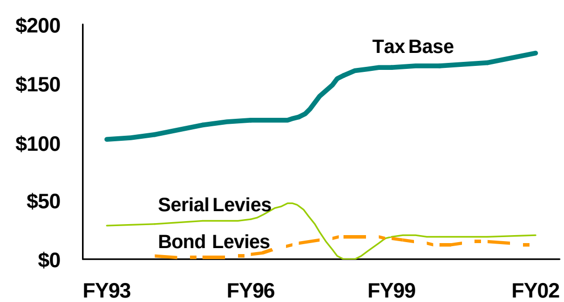
Total property taxes decreased in FY98 with Ballot Measure 50, but began growing when voters approved an additional library serial levy. The voters again approved a new 5 year library levy in November 2002 for an average of $25 million annually.

The County's tax base increased in FY98 when the existing serial levies were rolled into the County's tax base as a result of Ballot Measure 50.

Total Property Tax Revenues
Adjusted for inflation (in millions)



Total Property Tax Revenues by Type
Adjusted for inflation (in millions)



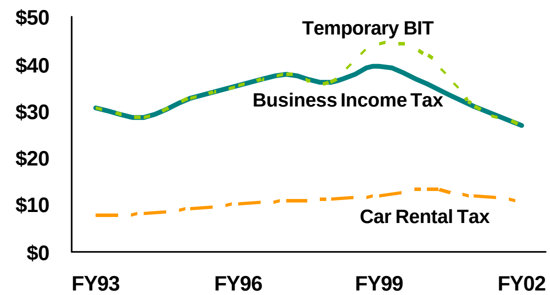
County Revenues

Total revenue from Business Income and Car Rental Taxes has decreased in the last few years

The Business Income and Car Rental taxes fluctuate with the economy and have experienced declines in five of the last 10 years. A temporary increase in the Business Income Tax to support schools is reflected in FY99 and FY00.

Over-dependence on these taxes can result in program cuts when the economy worsens. These taxes represent about 8% of the County's operating revenues.

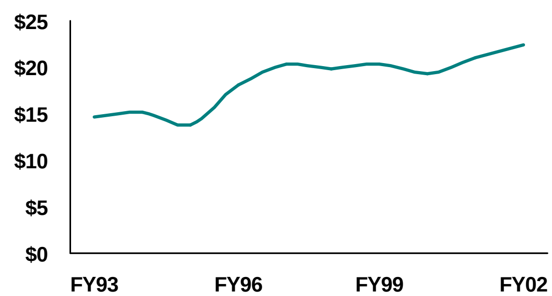
Business Income and Car Rental Taxes
Adjusted for inflation (in millions)



User charges continue to increase

User charges are intended to recover the cost of services from citizens whenever possible. These fees also fluctuate from year to year. Some fees, such as real estate recording fees, are affected by the economy. Other fees, such as election fees, are cyclical, based on election years.

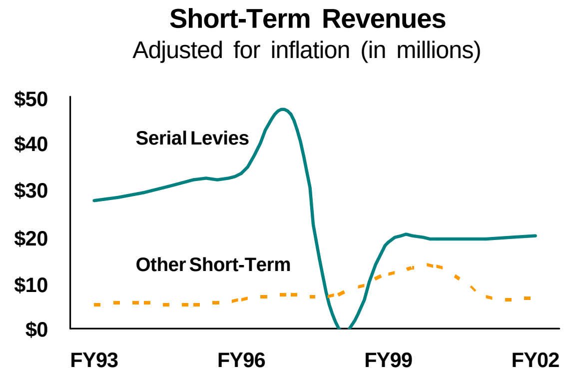
User Charges
Adjusted for inflation (in millions)



County Revenues

The County continues to rely on short-term revenues to finance on-going operations

Continued use of short-term revenues, such as voter approved serial levies, reserves, surpluses, and sales of property to balance the budget signals a warning trend. With Measure 50, the County's short-term serial levies were folded into the permanent tax rate and continued as part of the base, therefore decreasing this reliance. Voters approved two additional 5 year library levies; one for $18 million annually in November 1997, and another for $25 million annually in November 2002.

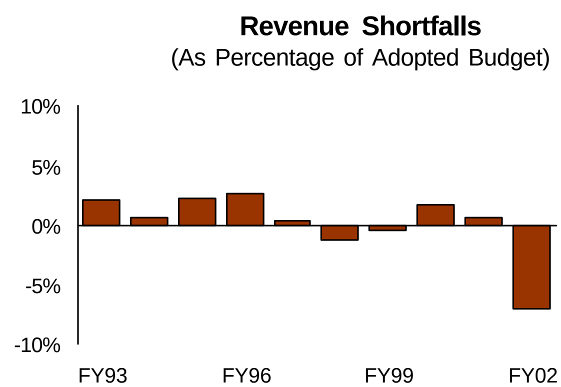


Revenue Shortfalls

Revenue shortfalls measure how well the County estimates expected revenues each year. Significant shortfalls require mid-year cuts of services, spending of reserve funds, or increased use of short-term borrowing, all to be avoided if possible.

Revenue shortfalls occur most often in the Federal/State fund (7 out of 10 years), with large fluctuations in FY01 and FY02.

In FY02, revenues were $46 million below budget estimates. Of this, 65% was from Federal and State revenues sources, 25% from the Business Income Tax and Car Rental Taxes, and 9% from other sources.



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County Spending

Overview

Spending has increased 73% in the past ten years. We show indicators for all operating costs in the County by expense type as well as by program area.

Spending on personnel increased by nearly 50%, while spending for contracted services and for materials and supplies have increased over 100%.

In FY02, over half the County's spending was for social and health services, 30% for justice programs, 8% for library, 7% for general government, and 3% for roads and bridges.

Additional indicators are shown for number of employees and employee benefits. Below is a list of spending indicators included in the following pages.

Indicators

- County Spending
- Justice Services
- Social and Health Services
- Library
- Roads and Bridges
- General Government
- Internal Services
- Number of Employees
- Employee Benefits

County Spending

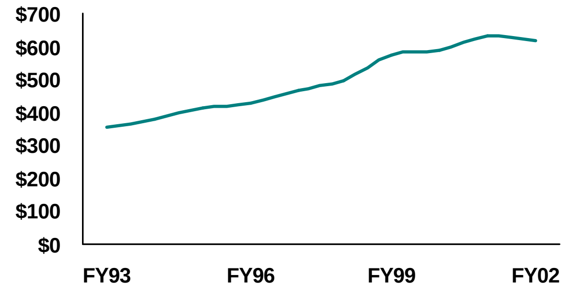
Spending has increased faster than inflation and population

Total spending has increased by 73% over the past 10 years with social programs and library services doubling their spending from FY93 to FY02, and community justice programs increasing over 90%. Other programs with increases of 50% or less were the Health Department, Sheriff, District Attorney and General Government. Roads had a decrease of 21%.

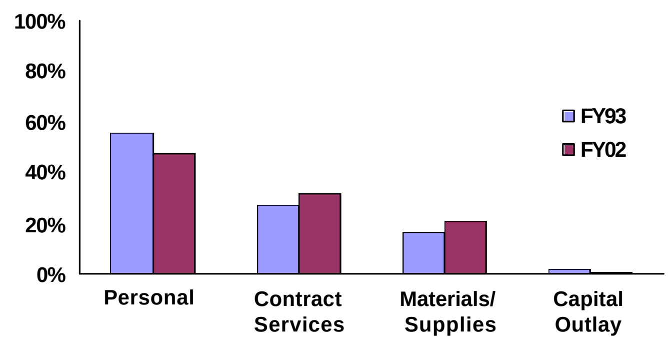
In FY93 55% of total expenditure was for personal services (personnel). This dropped to 47% in FY02 while proportionate spending on contract services and materials and supplies increased.

The majority of spending on County services are in health and social services (52%) and justice services (30%) In FY02 spending per citizen ranged from $469 for health and social services to $24 per citizen for County roads.

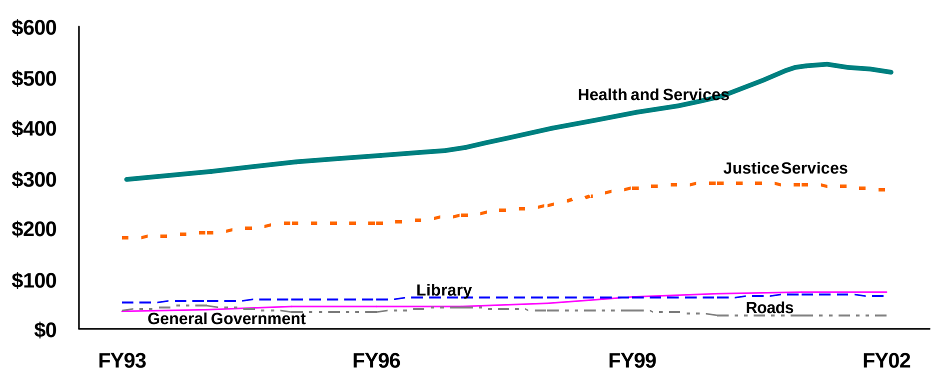
County Spending
Adjusted for inflation (in millions)



A Comparison of County Spending



County Spending Per Citizen
Adjusted for inflation (in millions)



County Spending

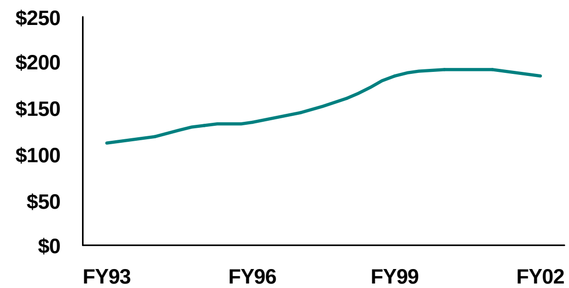
Spending for justice services has increased 66%

Spending for justice services has increased from $112 million in FY93 to $185 million in FY02. The largest increase occurred in juvenile and adult community justice programs, with an increase from $35 million to $68 million (96%).

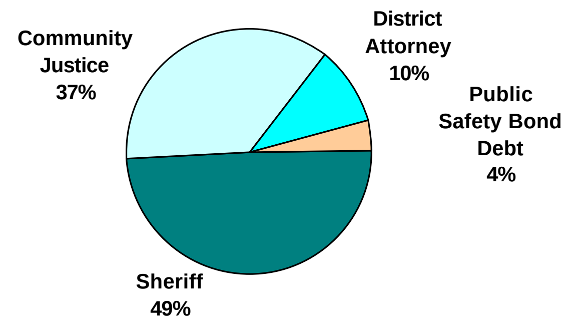
About half of the County spending in justice services is for the Sheriff's Office. The increase in Sheriff's Office spending was funded by voter-approved levies.

Among the revenue sources, General Fund contribution for justice services doubled in the last 10 years from $61 million in FY93 to $122 million in FY02. About $20 million of that increase was from the serial levy rolled-up into the County's tax base as a result of Measure 50. Other causes for the increase were a voter approved bond levy outside the tax base and increased funding from the State for sentenced felons.

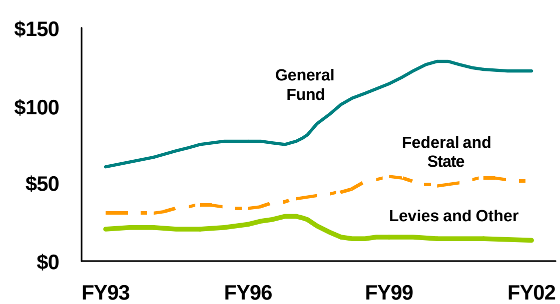
Total Spending - Justice Services
Adjusted for Inflation (in millions)



Justice Services FY02



Spending in Justice Services by Revenue Source
Adjusted for inflation (in millions)



County Spending

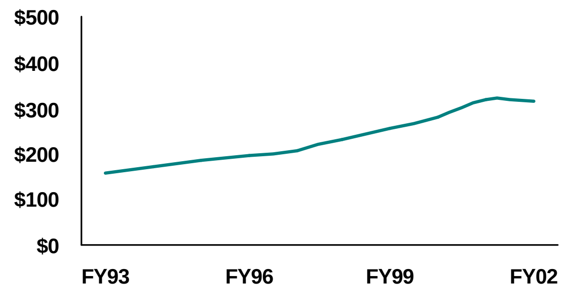
Social and health services have doubled

Expenditures for social and health services have doubled since FY93 from $158 million to $315 million in FY02. The largest increase in spending in the past 10 years was for social service programs.

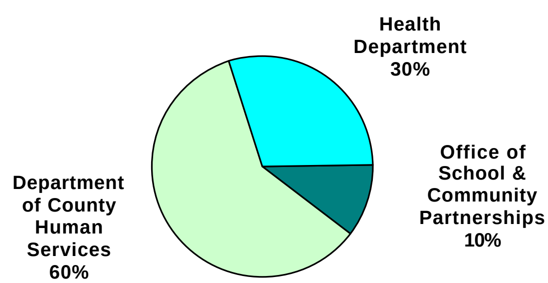
Examples of social and health services include programs for mental health, developmental disabilities, youth, housing, services for the elderly, health and dental clinics, and regulatory health services.

The General Fund contribution to social and health programs increased 67% from $46 million to $77 million. Federal and State resources have more than doubled over the past 10 years, from $105 million to $226 million.

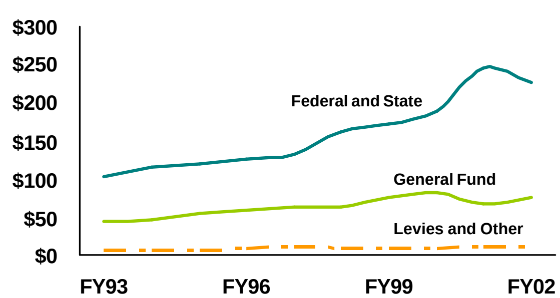
Total Spending - Social and Health Services
Adjusted for inflation (in millions)



Social and Health Services FY02



Spending on Social and Health Services by Revenue Source
Adjusted for inflation (in millions)



County Spending

Library spending more than doubled

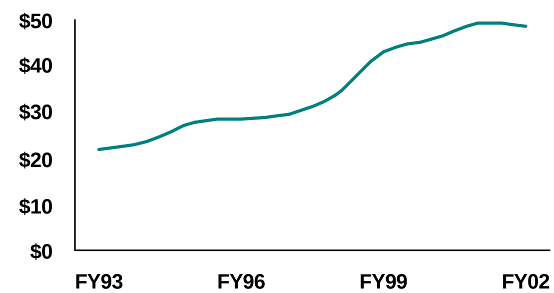
Library spending more than doubled, increasing from $22 million in FY93 to $49 million in FY02. This $22 million increases is from serial levies ($8 million), general fund ($10 million), and other sources ($4 million).

In FY98, the library serial levy was added to the County's tax base as a result of Measure 50. Since then voters approved a 5 year levy of $18 million per year in 1997 and another in November 2002, for $25 million per year to begin in FY03.

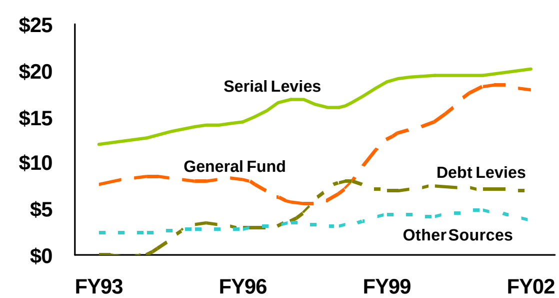
General Fund support of the Library also continued to grow, from $7.6 million in FY93 to $18 million in FY02.

Other funding sources are debt levies for $7 million per year. The debt levies are also voter-approved and are outside the County's base tax rate limitation.

Total Spending - Library
Adjusted for inflation (in millions)



Spending on the Library by Revenue Source
Adjusted for inflation (in millions)



County Spending

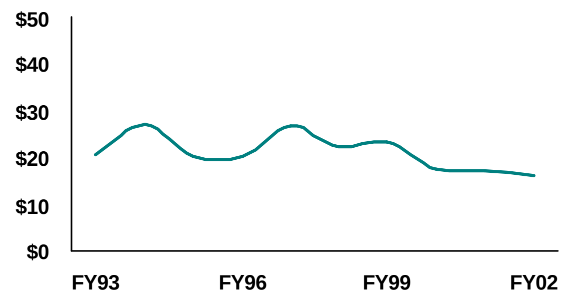
Total spending on roads and bridges continued to decline

Funding for roads and bridges comes from State and County gas tax revenues and special project funding from the State and Federal governments. No General Fund dollars are allocated to road and bridge repairs and maintenance.

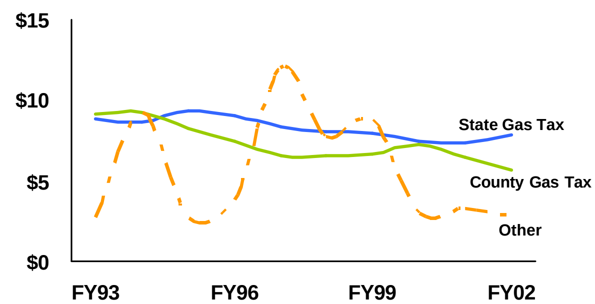
Total spending on roads and bridges has declined over the last 10 years from $21 million in FY93 to $16 million in FY02. Although funding fluctuates due to State and Federal funding for special projects, the revenues from State and County gas taxes have declined in constant dollars from $18 million in FY93 to $14 million in FY02.

Approximately $20 million per year of the collected Gas Tax is transferred to the City of Portland; these are not included in the figures here.

Total Spending - Roads and Bridges
Adjusted for inflation (in millions)



Spending on Roads and Bridges by Revenue Source
Adjusted for inflation (in millions)



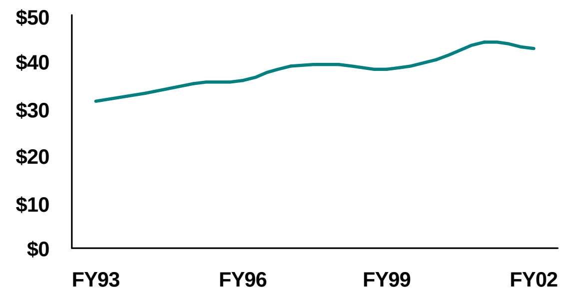
County Spending

General government increased slightly

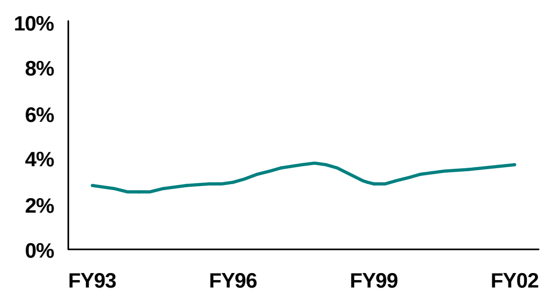
General government costs include administration and general government programs. Some of the administration costs include personnel, legal, accounting, Auditor's Office, and the County Commissioners and Chair's Offices. We were not able to distinguish some of the administrative costs recovered from State and Federal funds through overhead charges. Other general government programs include elections, animal control, assessment and taxation, and land use programs that serve all citizens. Some of these services offset costs by user charges. All other costs are funded by General Fund dollars.

General government spending has increased in the last 10 years from $32 million in FY93 to $43 million in FY02. Administration costs as a percent of total spending have increased slightly from 2.8% to 3.8%.

Total Spending - General Government
Adjusted for inflation (in millions)



Administration as a Percent of Total County Spending



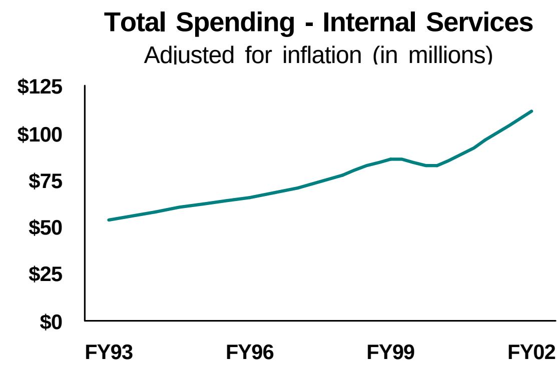
County Spending

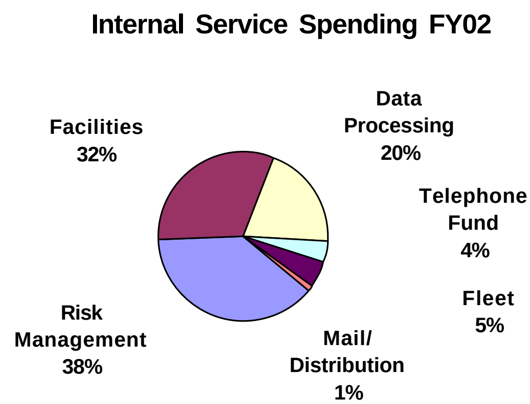
Spending on some internal services has increased

Costs of internal services such as risk management and insurance, facilities, data processing, fleet, telephone, and mail distribution are charged to County programs.

This spending is already reflected in the previous exhibits as costs in personal services and other services.

In FY93, total spending for internal services was $53 million; this increased to $112 million in FY02. Some of this increase was due to the folding in of department data processing personnel into the Information Services Division.





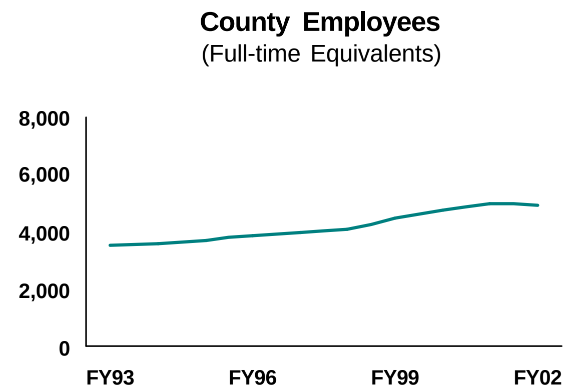
County Spending

Number of employees has increased

Growth in County services has increased the number of County employees from 3,500 in FY93 to 4,900 in FY02.

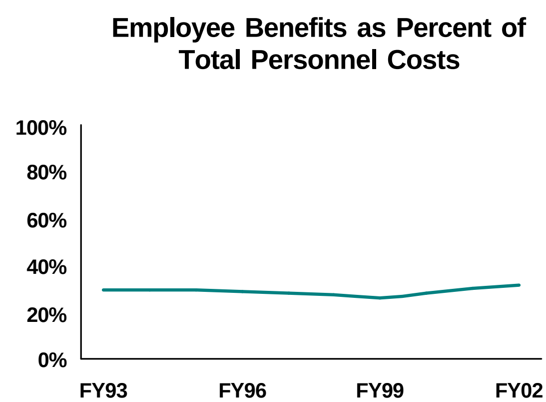
Some of the staff increase is due to program transfers of State employees to the County. Other growth is due to increases in social and health services funded by State and Federal dollars.

In FY97, 90 additional positions were funded from State dollars to pay for felons formerly housed in State prisons. In FY98, 137 employees were transferred from the State of Disability Services Programs.



Proportionately, the cost of employee benefits has remained steady

Employee benefits include the cost of health and dental insurance, worker's compensation, retirement, and the employer-paid portion of social security. Paid holidays are not included. The cost of employee benefits as a ratio of total personnel costs declined in the late 1990s, but has been increasing in the last three years and is 1.5% greater than in FY93.



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Financial Health

Overview

Financial health is difficult for governments to evaluate. Unlike businesses, governments do not have a bottom line. Government does not exist to make a profit, but rather to provide quality services to its citizens at a price they are willing to pay. But, just like its citizens, the County must pay bills, save money, and plan ahead. How well it achieves these activities will ultimately affect the quality of services. Some of the indicators explored here measure savings, the ability to meet short-term obligations, and long-range capital spending and debt management.

The County needs to pay attention to the warning signs of decreasing revenues and decreasing ability to pay short-term obligations. These, combined with signs of declining conditions, indicate that some policy action is needed to improve the County's financial health.

Indicators

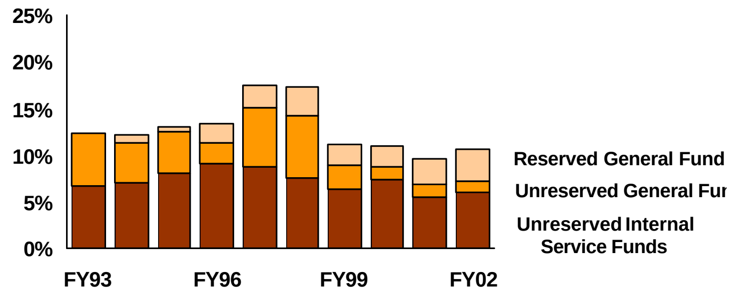
- Unreserved Fund Balances
- General Fund Reserve
- Liquidity Ratio
- Accounts Payable
- Capital Spending
- Capital Assets
- Long Term Debt and Leases

County funds available for emergencies has decreased

The unreserved fund balances of the General Fund and Internal Service Funds combined with the General Fund reserves can be thought of as "rainy day funds." The size of a government's unreserved fund balances can affect its ability to withstand short-term financial emergencies.

This indicator measures the unreserved fund balances of the General Fund and the Internal Service funds and the set aside reserves of the General Fund. The ratio of these fund balances has declined in the last four of the 10 years shown here.

Fund Balances as Percent of General Fund and Internal Service Fund Revenues

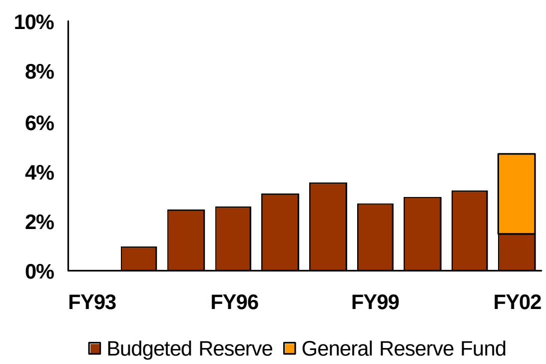


County has not yet reached its goal for General Fund reserves

Recently, the County's financial and budget policy set a goal of maintaining two reserve accounts at approximately 10% of the budgeted General Fund revenues.

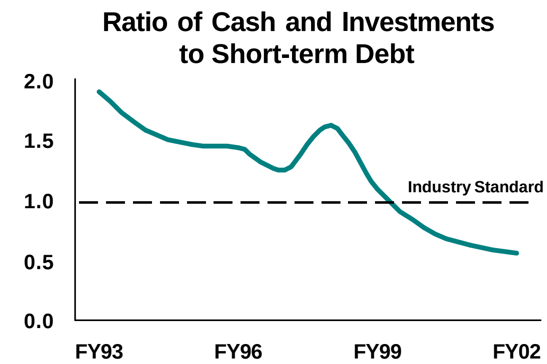
- The first 5% is a budgeted reserve account in the General Fund, designated as unappropriated fund balance. This reserve account is to be used when basic revenue growth falls below the rate of basic revenue change achieved during the prior 10 years.
- The second 5% is a reserve maintained separate from the General Fund in the General Reserve Fund. This reserve fund is to be used for non-reoccurring extreme emergencies.

General Fund Reserves As Percent of Budgeted Revenues



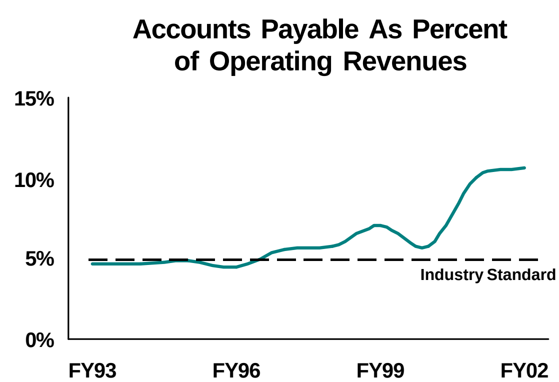
Liquidity ratio is not favorable

Liquidity is an indicator of the County's ability to pay its short-term obligations. The credit industry considers a liquidity ratio of less than $1 of cash and investments to $1 of current obligations to be a negative indictor. Although the County maintained a good ratio in the prior seven years, the ratio for the last three years was under the $1 ratio.



Short-term debt increased faster than revenues

This indicator shows County payments due at fiscal year end (accounts payable) as a percentage of its operating revenues. Increasing short-term debt may indicate cash shortages. The credit industry considers short-term debt over 5% or a trend of increasing short-term debt as a negative factor. The County's ratio has been over 5% in six of the last 10 years and has increased significantly in the last two years.



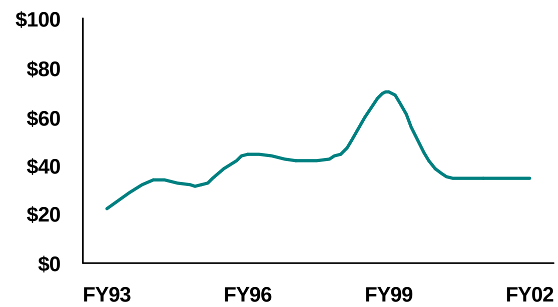
Total capital spending has decreased in recent years

Spending for land and buildings increased from FY93 through FY99; it decreased and leveled off in the three most recent years. During this 10 year period, the County has constructed two jails, the juvenile justice complex, a number of libraries, and new health centers and it purchased the Multnomah Building. Construction continues after FY02 on the Wapato Jail and Children's Receiving Center, among other projects in process.

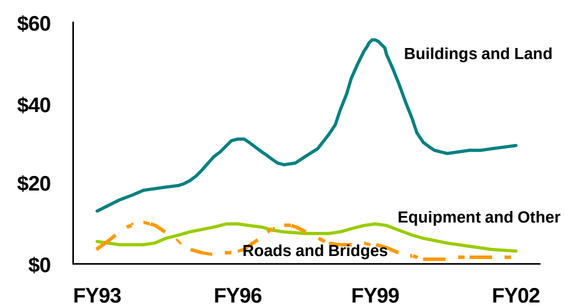
Spending for machinery and equipment fluctuates, but declined in the last two fiscal years. Capital spending on roads and bridges decreased significantly over the last three years, and is at less than half the spending in FY93.

The need for additional capital improvements is still great. The County Courthouse and many County owned buildings do not meet standards and will require future replacement. Continued deterioration of buildings, roads and bridges make this an area of concern which should not be ignored.

Capital Spending
Adjusted for inflation (in millions)



Capital Spending by Type
Adjusted for inflation (in millions)



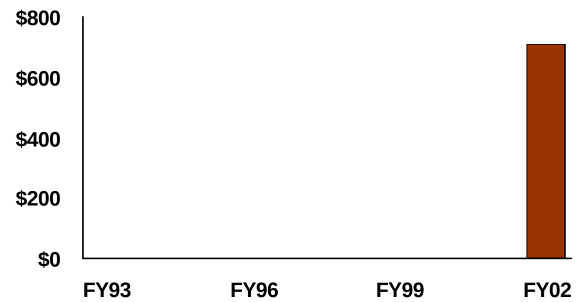
Capital Assets

The County owns land, buildings and other improvements, equipment, and infrastructure to provide its services. Accounting standards require that assets be valued in the financial statements at their original purchase or construction costs less accumulated depreciation. Replacement value for assets would be substantially more than the depreciated values.

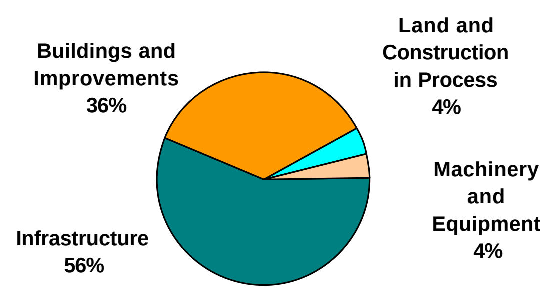
Total County assets prior to FY02 are not shown because previously only the assets of the enterprise funds and internal service funds were recorded and shown in financial statements. The Government Accounting Standards Board set new reporting requirements for governments which now requires all assets of a government be reported.

Over half the County's assets are infrastructure which includes roads, streets and bridges. Buildings and improvements are the next largest category with 36% of the value.

Capital Assets (after depreciation)
Adjusted for Inflation (in millions)



Capital Assets by Type FY02



Financial Health

Income needed to pay for long-term debt and leases has increased

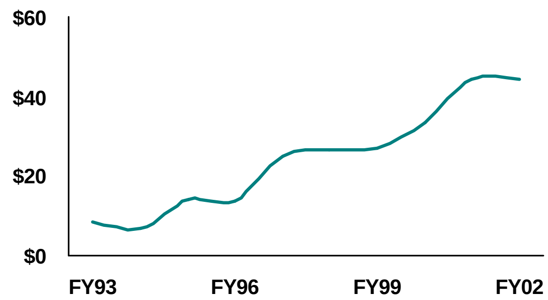
Fixed costs include the principal and interest on long-term debt and operating leases. These costs have increased as a result of construction of new libraries, jails, and other justice facilities financed by general obligation bonds approved by voters.

The more recent increases of $15 million in FY01 and FY02 are debt for the following:

- $184 million borrowed to cover the County's unfunded pension liability, which will result in a savings of nearly $36 million over a 30 year period
- $61 million in Full Faith and Credit Bonds to finance the costs of acquiring and installing an integrated enterprise computer system, purchase of the Multnomah Building, construction of the East County Health Center, and other projects

Scheduled debt payments should remain constant for the next 30 years if no new debt is incurred.

Fixed Costs
Adjusted for inflation (in millions)



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Economic and Demographic Trends

Overview

Economic and demographic indictors that help measure service needs of specific populations are useful for looking at the future.

Most economic indicators have declined in the last three years, after many years of growth. The number of businesses has declined. Unemployment rates began rising in FY01 up to rates in FY93, and climbed to 7.5% at June 30, 2002.

Some County services are provided to all citizens, while others are targeted. Keeping an eye on characteristics of the County's population over time can help plan for needed services. Demographic trends for some service populations have not changed over the last 10 years.

The economic indicators presented here are those recommended by the ICMA. We also include demographic indicators such as population growth, income and poverty, and crime rates. However, it is difficult to find measures for some of the health and social programs.

Indicators

Economic

- Property Values
- Number of Businesses
- Unemployment Rate
- New Construction

Demographic

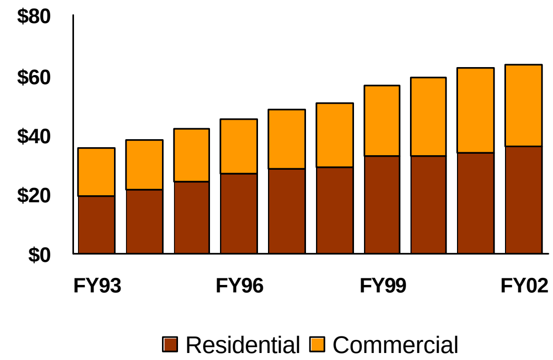
- County Population
- Population over 70 and under 20 years of age
- Average Income
- Perception of Income Adequacy
- Households in Poverty
- Reported Crimes

Economic and Demographic Trends

Property values continue to increase

The real market value for properties in Multnomah County has continued to increase in the last 10 years from $36 billion to $63 billion. The largest increase is in residential property values, increasing by 90% over the last 10 years, compared to 66% growth for commercial and industrial property values.

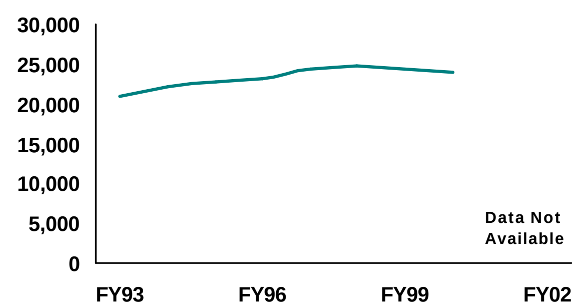
Real Market Value
Adjusted for inflation (in billions)



The County experienced a decline in the number of businesses from FY98 after many years of growth

The number of businesses in Multnomah County grew from 21,000 in FY93 to nearly 24,000 in FY00, down from a peak of nearly 25,000 in FY98.

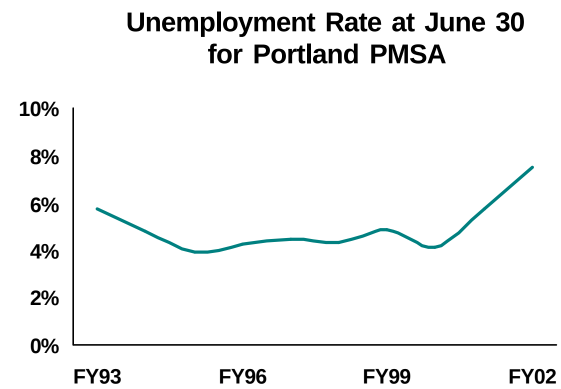
Businesses in Multnomah County at December 31



Economic and Demographic Trends

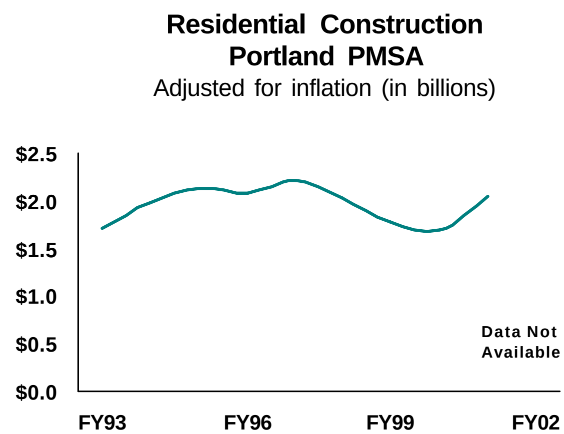
Unemployment sharply increased

Unemployment reflects a declining economy in FY01 and FY02. Rates climbed from 4.1% at June 30, 2000 to 7.5% on June 30, 2002.



Residential construction has fluctuated between $1.7 billion and $2.2 billion over the last nine years

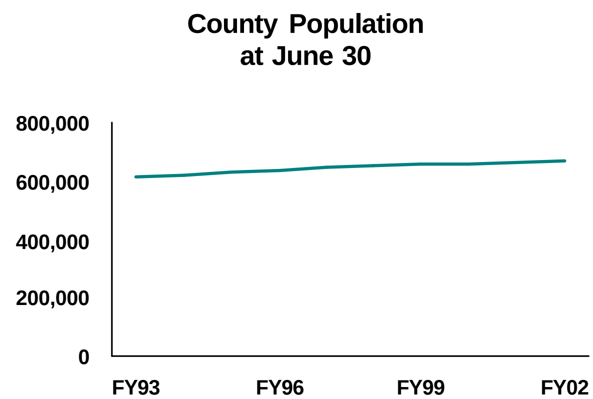
New residential construction is a positive economic indicator that means increases in the County's tax base. New residential construction increased somewhat in FY01 after three years of decreases from FY98 through FY00.



Economic and Demographic Trends

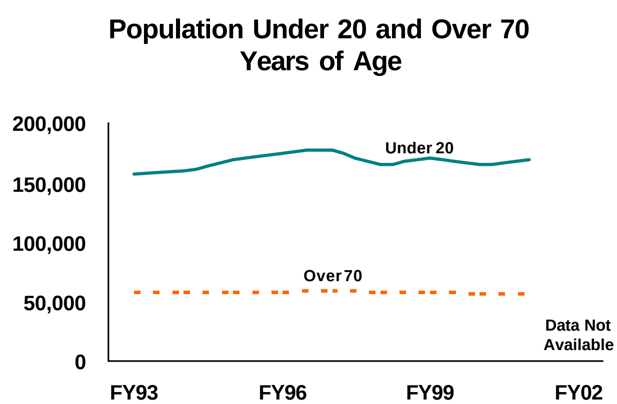
Population growth has been slow

Rapid change in population can increase service costs or reduce the County's revenue base. Population has increased at an average of less than one percent per year, or a total of 54,000 over the last 10 years.



The number of people under 20 and those over 70 has remained steady over the last nine years.

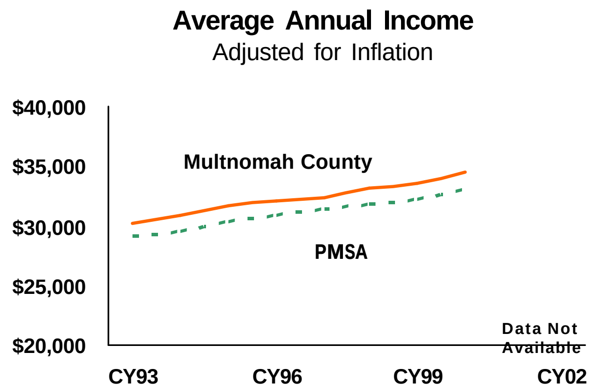
Many County services are for the elderly or families with children. Large changes in these groups could dramatically affect the need for County services. The percentage of residents over 70 has decreased from 9.3% to 8.5% over the last nine years, and the percentage under 20 years of age has remained at 25.5% after a slight increase in the mid-1990s.



Economic and Demographic Trends

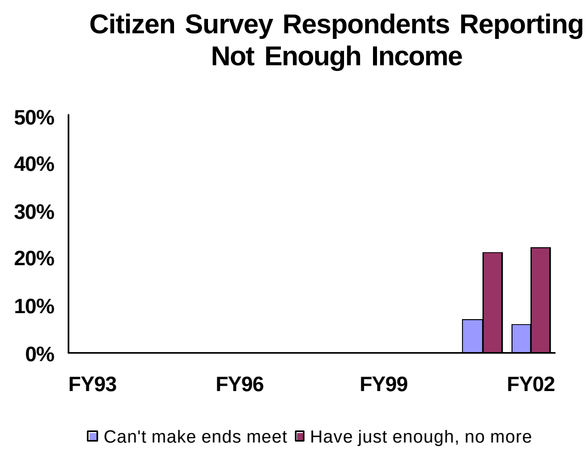
Average income has increased faster than inflation

The average annual income is based on information gathered by the State of Oregon Employment Division. The average income for Multnomah County is slightly higher than for the Portland Metropolitan Statistical Area (PMSA) and has been increasing over the last eight years. Declines in income may affect consumer activity, reduce business incomes, and increase tax delinquencies.



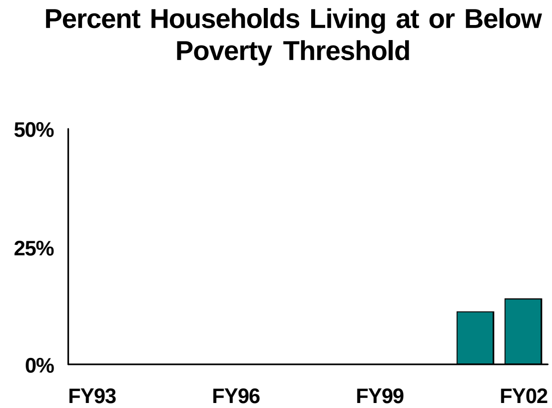
6% of citizens report not enough income to make ends meet

In FY01, the Auditor's Office began to survey citizens about the quality of services and the community. In FY01, 7% of citizens reported not enough income to make ends meet. This decreased to 6% in FY02.



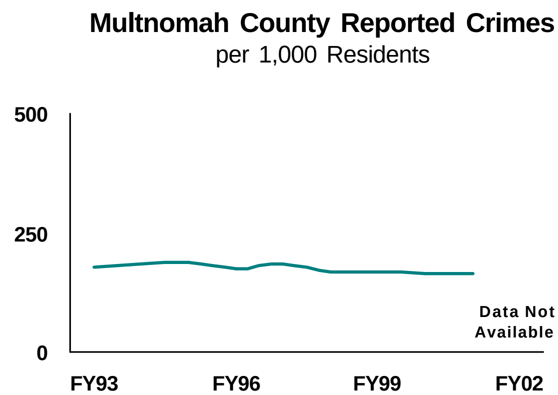
Percent of households reporting at or below poverty level increases

The citizen survey also found 14% of respondents reported they were living at or below the poverty threshold; this is an increase of 3% from the prior year.



Reported crimes continue to decrease since FY93

About 30% of the County's costs are for justice services. The reported crime rate has decreased nearly 8% since FY93. This trend should be watched to see if it continues and whether it might affect the need for services.



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Recommendations

The Board of Commissioners and budget and finance managers have taken steps in the past to preserve the sound financial condition of Multnomah County. As a result of a previous report, the County adopted a Budget and Financial Policy. Most recently, the County has implemented a policy to create stronger reserves. Although these are difficult budget times, we think the County should:

- Develop a formal action plan to improve the County's ability to meet short-term obligations
- Consider developing priorities for those times when a declining economy significantly affects intergovernmental revenues to determine whether lost funding will be replaced by General Fund
- Improve the County's capacity to forecast revenues

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Response to Audit

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Diane M. Linn, Multnomah County Chair

501 SE Hawthorne Blve., Suite 600
Portland, Oregon 97214
Phone: (503) 988-3308
Email: mult.chair@co.multnomah.or.us

Ms. Suzanne Flynn, Auditor
Multnomah County
501 SE Hawthorne, Room 601
Portland, Oregon 97214

Dear Ms. Flynn:

Thank you for continuing to publish the Financial Condition Report on Multnomah County. This report reflects the difficult economic and financial conditions the County has been facing over the last two years and will continue to face this next fiscal year.

Multnomah County has taken steps this past year to address the revenue shortfalls created by decreases in the County's General Fund revenues and the declining State revenues by setting priorities and making difficult budget decisions. I am committed to facing these financial challenges and my Executive Budget, that will be presented in the near future, will address setting priorities that are in align with the work we started this past year. These priorities will be developed in cooperation with the Board of County Commissioners and other elected officials.

This Executive Budget will maintain the separate $10 million General Reserve Fund that was created in fiscal year 2002 and we will strengthen our budgeted General Fund reserves by refinancing the 1993 Certificate of Participation (COP) which will reduce General Fund requirements by about $1.5 million of one time only funds. By maintaining the separate General Reserve Fund and replacing some General Fund reserves with the savings created by the refinancing we will bring the liquidity ratios back to an acceptable level.

The County has contracted with ECONorthwest to assist the Budget Office in analyzing the revenue forecasting models. I am also convinced that when the County amends the Business Income Tax code to a combination payroll based and income based tax that we will be able to make better estimates of this revenue source.

Thank you for the Financial Condition Report and recommendations to assist the Board and the citizens of Multnomah County in maintaining its financial position.

Sincerely,

Diane M. Linn, Chair
Multnomah County

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10 Years of Change

Year	Events	Transfers of responsibility
FY93	• 3-year Jail levy $15 million • 3-year Library levy $12 million	
FY94	• Reorganize social services • $22 million GO bonds for Libraries • $36 million COP for Juvenile Justice	County transfers responsibility for Parks/Expo to Metro
FY95	• $9 million GO bond for Libraries	
FY96	• Flood costs County $1 million • 3-year Jail levy $25 million • 3-year Library levy $14 million	
FY97	• $10 million to schools • $29 million GO bonds for Libraries • $79.7 million GO bonds for public safety • Inverness jail expanded • Justice Center double-bunked	State transfers responsibility for felons incarcerated less than 1 year to County Responsibility for CareOregon program moves to a Public Corporation
FY98	• Measure 50 loss of $18 million • 5-year Local option Library levy for $20 million • 1-year business income tax surcharge for schools • Open 330 beds at Inverness	State transfers responsibility for Disability Services to County
FY99	• $36 million COP for Multnomah Building	
FY00	• $184 million taxable revenue pension obligation bonds • $61 million bond issues for new construction and financial software	
FY01	• $20 million revenue shortfall	
FY02	• Major reorganiztion of social, business and environmental services • 5 year Library Levy approximately $25 million • Revenue shortfall of $22 million	