2004
Financial Condition
Multnomah County Oregon

Suzanne Flynn, County Auditor
Judith DeVilliers, Senior Management Auditor
Rie Anderson, Management Auditor

Multnomah County Auditor's Office

Introduction

A government is responsible for providing quality services to its citizens and for carefully managing public money. This report shows where Multnomah County's money comes from, how County leaders have decided to spend it, and some indicators of the County's financial health. The report's purpose is to be accountable to the public, whose money the County manages.

The County's decisions are similar to those of a family. The family looks at income and how much it's spending. To prepare for major purchases or emergencies, money is put into savings. If a large portion of each paycheck is spent on payments for charge accounts, the family may not be able to buy some things that are needed in the future. If too much money is tied up in debt, an unforeseen event may be very difficult to overcome. Similarly, a county in good financial condition can continue services to the public, withstand economic slumps, and meet the demands of changing service needs.

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 (CAFR), and financial accounting systems for the financial data.

Financial Condition of the County

This is the seventh report the Auditor's Office has done on the financial condition of Multnomah County. The report is issued biennially and covers measurements for a ten-year period. Since we began these reports, the County has undergone major changes in the property tax system, assumed responsibility for many social services previously under state government control, and, more recently, undergone revenue declines due to worsened economic conditions. Over the years, the County has developed and followed sound financial policies. The County's reserves and stable financial policies allow the County good bond ratings resulting in lower interest rates when borrowing.

Highlights:

- The County's revenues and related spending have seen many years of growth. During the last ten years, the County has assumed responsibility and transferred staff from the state for both social and public safety programs.
- Periods of economic prosperity enabled the County to add services in a number of areas.
- The County has had mid-year budget revisions and cuts during the last four years due to a downturn in the economy that resulted in declining revenues and cuts in Federal and State resources.
- Recent construction and related debt have increased fixed costs, which have decreased the County's ability to cut costs in some areas.
- In recent years, the County has used its taxing authority to help schools with two temporary taxes. First was $10 million in a temporary business income tax in FY99 and FY00 and, more recently, $66 million to schools from a temporary three-year personal income tax in FY04.
- Recent indicators have reflected a declining economy. A poor economy increases needs of vulnerable citizens and demand for services as both private and public resources decrease. In our survey of the community, we found 7% of the citizens surveyed reported they did not have enough income to make ends meet.

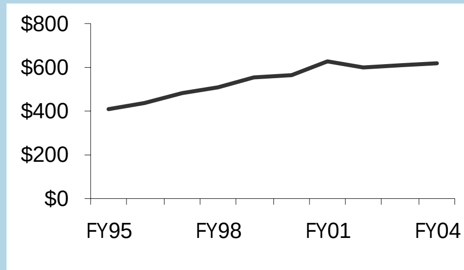
Methodology:

- We used published sources for most socio-economic data. In developing and analyzing the indicators of financial condition, we interviewed personnel in the Finance, Budget and Tax Office, and other County departments.
- We expressed most amounts over the ten-year period to the equivalent of the purchasing power of money in the fiscal year ending June 30, 2004. The adjustments are based on the Portland-Salem (PMSA) Consumer Price Index for all urban consumers. For purposes of this report, "the County" includes the revenues, expenditures, and activities covered by the general fund, special revenue funds, and debt service funds, which represent 82% of all funds. Excluded are the capital construction, internal services, enterprise, 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.

County Revenues

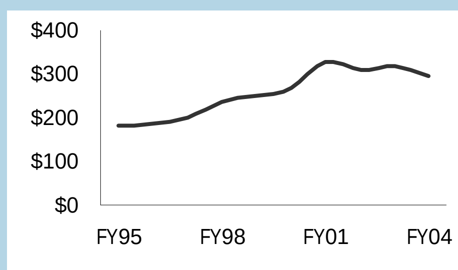
Operating revenues are used to pay for on-going services. In general, the revenues increased in the last ten years from $412 million to $618 million in current dollars. In FY04, operating revenues came from: federal, state, and other local governments (48%), property taxes (34%), other taxes (13%), and other sources (5%).

Operating Revenues Adjusted for inflation (in millions)



County programs and services have become increasingly dependent on revenues from federal and state governments. Almost all are restricted to specific services and programs. Revenue decisions made in Salem or Washington, DC can have a large impact on the County's budgeting decisions. As these revenues have decreased in recent years, the County has been forced to find additional revenue or cut services.

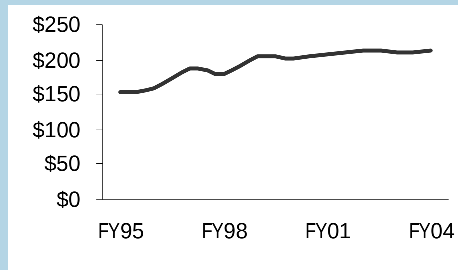
Revenues from other Governments Adjusted for inflation (in millions)



County Revenues

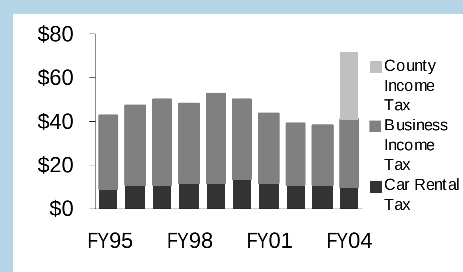
In most cases, the County can decide on how property tax revenues can be spent. However, 14% is restricted for library services and to repay bond debt. Total property taxes decreased in FY98 with Ballot Measure 50 . Since then, additional bond levies were approved by voters for construction of new libraries, jails, and other public safety projects, as well as for library operations.

Property Tax Revenues
Adjusted for inflation (in millions)



Taxes other than property taxes represent 13% of the County's operating revenues and include car rental tax, business income tax, and the temporary personal income tax. Tending to fluctuate based on the economy, these revenues have declined. Not included in this chart are $10 million generated from a temporary increase in the business income tax in FY99 and FY00, and, more recently, $67 million of the personal income tax both of which went directly to schools.

Other Taxes
Adjusted for inflation (in millions)

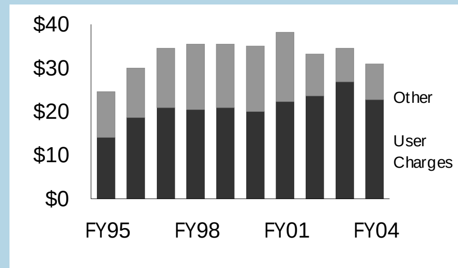


County Revenues

Other revenues, about 5% of operating revenues, include charges intended to recover the cost of services from users and other sources, such as interest income, sales of property, and other one-time sources.

- User charges have increased in the last ten years

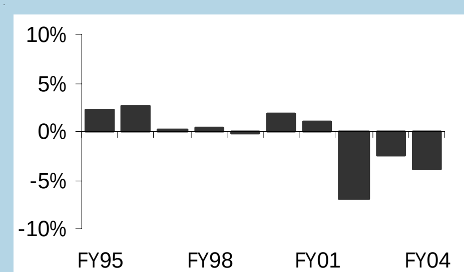
Other Revenues
Adjusted for inflation (in millions)



Revenue shortfalls measure how well the County estimates expected revenues each year. Significant shortfalls require mid-year cuts of services or spending of reserve funds.

- A change in the economy, combined with related reductions in federal and state funds, has made budget projections difficult in recent years

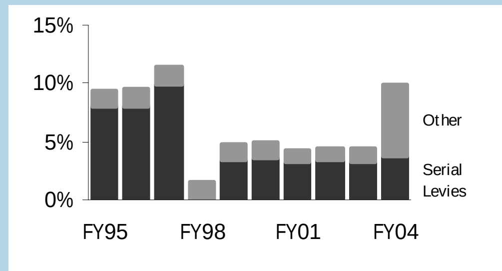
Revenue Shortfalls
as Percent of Adopted Budget



County Revenues

Short-term revenues illustrate the level of reliance the County has on temporary revenue sources. In the past, when the County relied on serial levies for library operations and some public safety programs the ratio of short-term revenues to total revenue was around 10%. In FY98, Measure 50 resulted in any existing serial levies being included the County's tax rate. Since then, additional library levies and the personal income tax have been approved by voters and the ratio is again 10% of total revenue in FY04.

Short-Term Revenues as Percent of Total Operating Revenue

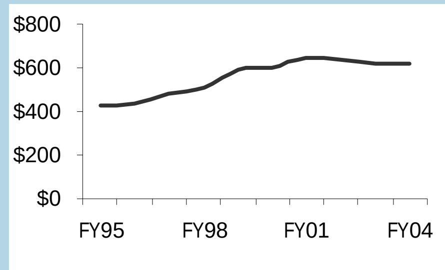


County Spending

County spending increased in most areas. Some of the contributing factors to these increases were:

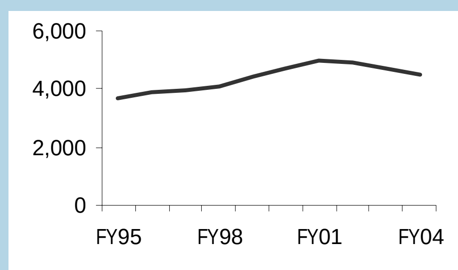
- Responsibility for social services and public safety programs transferred from state government
- Services expanded as additional resources became available
- New construction of libraries and other County buildings increased costs of providing services

County Spending
Adjusted for inflation (in millions)



Recently, the Board of County Commissioners has had to reduce County services and programs and cut the equivalent of 482 full-time positions. Most of these reductions were caused by increases in fixed costs and a decline in revenues due to an economic downturn.

County Employees
Full-time equivalent

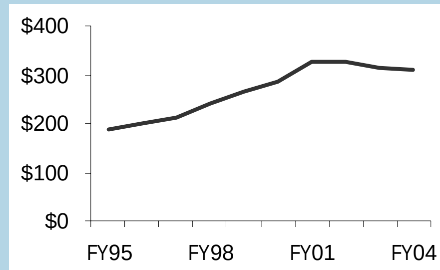


County Spending

Social and health services include programs for mental health, developmental disabilities, youth, seniors, housing, public health, medical and dental clinics, and alcohol and drug treatment.

- Half the County's total operating costs in FY04 were for social and health services
- Major source of funding in FY04 was federal and state governments (71%)
- Spending increased 63% over the last ten years but declined 7% in the last three years
- FY04 funds also included $17.5 million from the temporary personal income tax

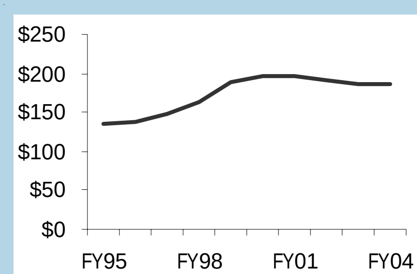
Social and Health Services
Adjusted for inflation (in millions)



Public safety services include prosecution, jails, law enforcement, and adult and juvenile parole and probation.

- Public Safety represented 31% of total operating costs in FY04 and has increased 38% over the last ten years
- County General Fund provided 59% of the operating resources in FY04
- Funding for FY04 also included $14.5 million from the temporary personal income tax

Public Safety
Adjusted for inflation (in millions)

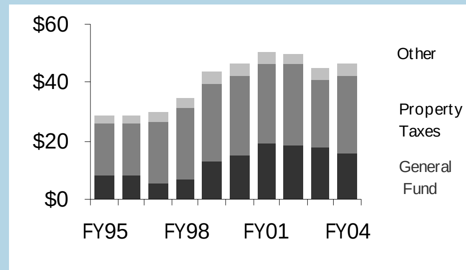


County Spending

The County's libraries made up 8% of total operating costs for FY04.

- Total spending has increased 62%
- The Library's serial levy and bond levy contributed 57% of revenue in FY04
- General Fund was 34% of the total in FY04

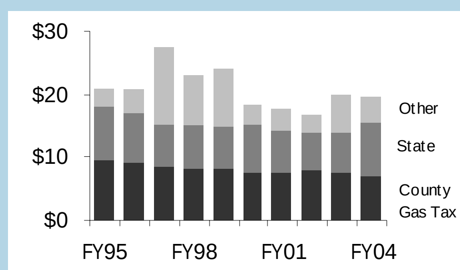
Library
Adjusted for inflation (in millions)



Funding for roads and bridges comes from state and county gas tax revenues and special project funding from the state and federal governments which fluctuates by project.

- Roads and bridges represented 3% of total operating costs
- Total spending decreased 15% over the last ten years as tax revenues have decreased
- No General Fund dollars were allocated to road and bridge repairs and maintenance

Roads and Bridges
Adjusted for inflation (in millions)

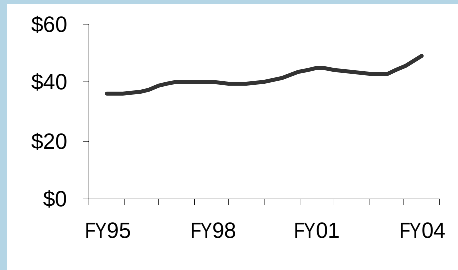


County Spending

General Government includes administration, elections, animal control, assessment and taxation, and land use programs that serve all citizens.

- General Government represented 8% of the spending for operations in FY04
- Some services offset costs with user charges
- All other costs are funded by General Fund dollars
- Operating costs for most services have decreased, except administrative costs

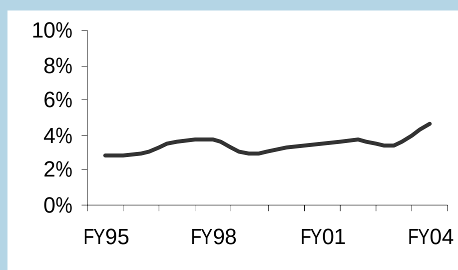
General Government
Adjusted for inflation (in millions)



Administrative costs as a percentage of all County spending have increased recently. Most of the increase was in the Finance, Budget and Tax office.

- Administrative costs in FY04 were 59% of General Government costs
- About one-half of the increase in FY04 was for the administration of the new personal income tax

Administration as Percnt of Total County Spending

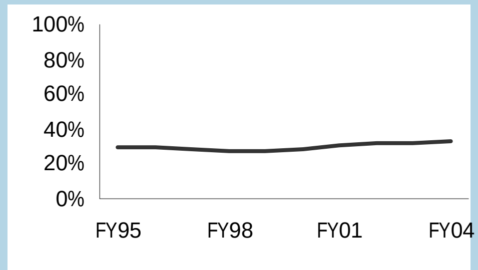


County Spending

Personnel costs represent nearly half the County's operating costs. A major portion of employee benefits is health care. The national trend of increasing insurance costs has contributed to the increases in employee benefit costs.

- Employee benefits as a ratio of total personnel costs declined in the late nineties, but increased in the last five years
- The ratio of employee benefits to total personnel costs increased 3.5%

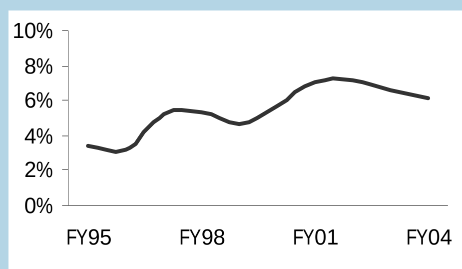
Employee Benefits as Percent of Total Personnel Costs



The higher the level of fixed expenditures, the less freedom local officials have to adjust spending in response to economic change. Fixed costs include only the annual payments of principal and interest on long-term debt and operating leases.

- Fixed costs as a percent of total spending have increased 2.8 percentage points from 3.4% to 6.2% in the last ten years

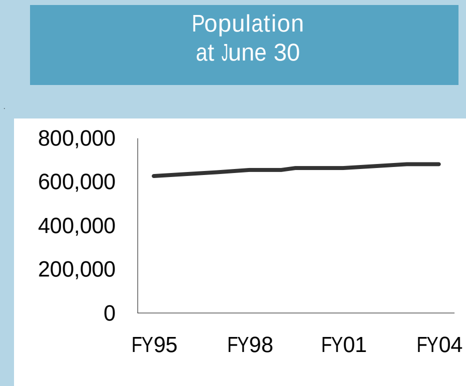
Annual Debt and Long-term Lease Payments as Percent of Total Spending



Community Needs

Rapid changes in population can increase service costs or reduce the County's revenue base.

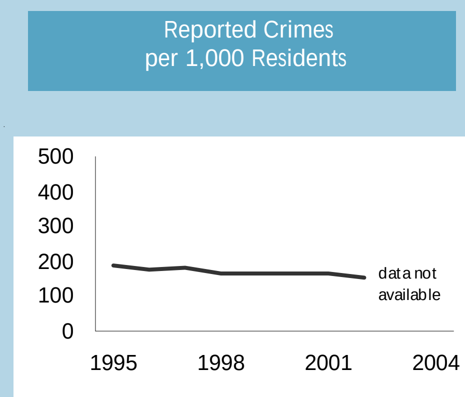
- Population has increased a total of 57,000 (9%) over the last ten years
- There has been little change in the percentage of residents 70 and over or in the number of residents under 20, two populations the County serves



Reported crimes continued to decrease between 1995 and 2002.

- About 30% of the County's costs are for public safety
- The reported crime rate has decreased nearly 19%

This trend should be watched to see if it continues and whether it might affect the need for services.

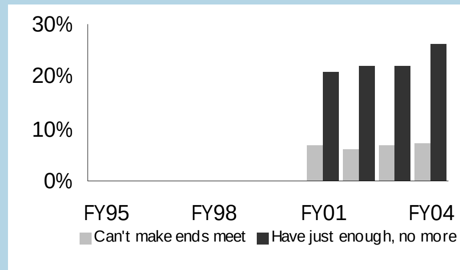


Community Needs

In FY01, the Multnomah County Auditor's Office began to survey citizens about the quality of government services and the community. Two questions are used to measure the level of poverty in the county.

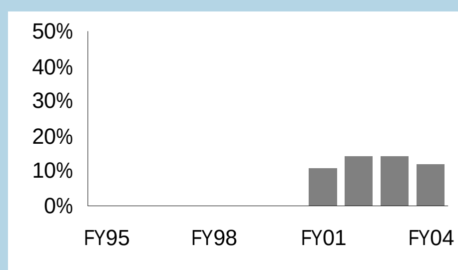
- 7% surveyed reported they did not have enough income to make ends meet in FY04
- 26% of those surveyed reported they had just enough income and no more in FY04

Citizen Perception of income Adequacy



- 12% of survey respondents answered they were living at or below the poverty threshold; a decrease of 2% from the prior year

Households Living At or Below Poverty Threshold

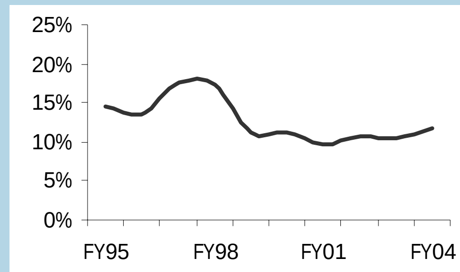


County Financial Health and the Economy

Financial health for a government is strengthened by having adequate reserves and cash available to meet obligations. These are important to weather temporary fluctuations in resources.

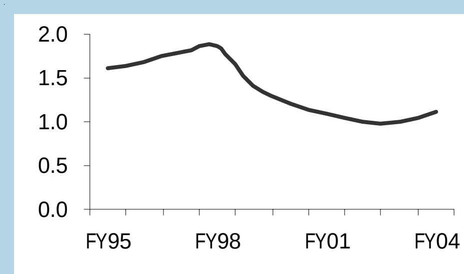
The unreserved fund balances in the General Fund and the Internal Service Funds can be thought of as "rainy day funds," and can affect the County's ability to withstand short-term financial emergencies. The ratio of these fund balances to General Fund and Internal Service Fund revenues have remained adequate over the last ten years.

Unreserved Fund Balances as Percent of Funds Revenues



The liquidity ratio measures the County's ability to pay current debts without borrowing additional money. Although the ratio has declined, the County's current assets have exceeded its current liabilities in the last ten years.

Ratio of Current Assets to Current Liabilities

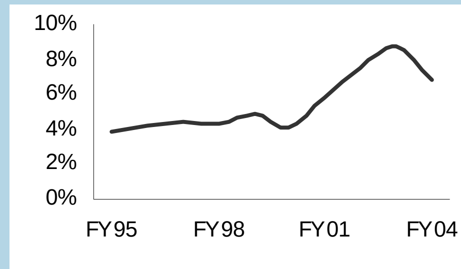


County Financial Health and the Economy

Many of the County's revenues are directly affected by the economy. As a result, the overall financial health of the County is largely dependent upon the economy. The economy has worsened in recent years.

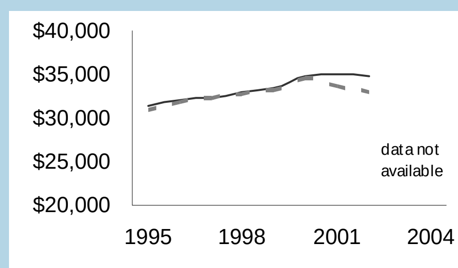
- Unemployment increased significantly after FY01
- Although still high, the unemployment rate was down to 6.8% on June 30, 2004 which may indicate improvement

Unemployment Rate at June 30
for Portland PMSA



- Average annual wages paid by employers located in Multnomah County is slightly higher than for the Portland Metropolitan Statistical Area (PMSA), but has decreased after seven years of increases

Average Annual Wages
Adjusted for Inflation

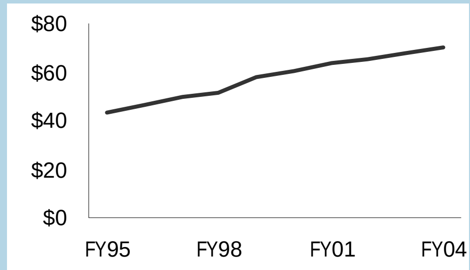


County Financial Health and the Economy

The County's tax base has increased over the last ten years. Indicators of this increase are the real market value trends and number of businesses in the County.

- Real market value for properties in Multnomah County has continued to increase in the last ten years from $43 billion to $71 billion
- The largest increase is in residential property values, increasing by 71% over the last ten years, compared to 53% growth for commercial and industrial property values

Property Values - Real Market Value Adjusted for Inflation (in billions)



- The County experienced a 10% growth in the number of businesses. The number of businesses in Multnomah County grew from 23,000 in 1995 to 25,000 in 2003, after a decline from 1999 through 2001

Business in Multnomah County at December 31