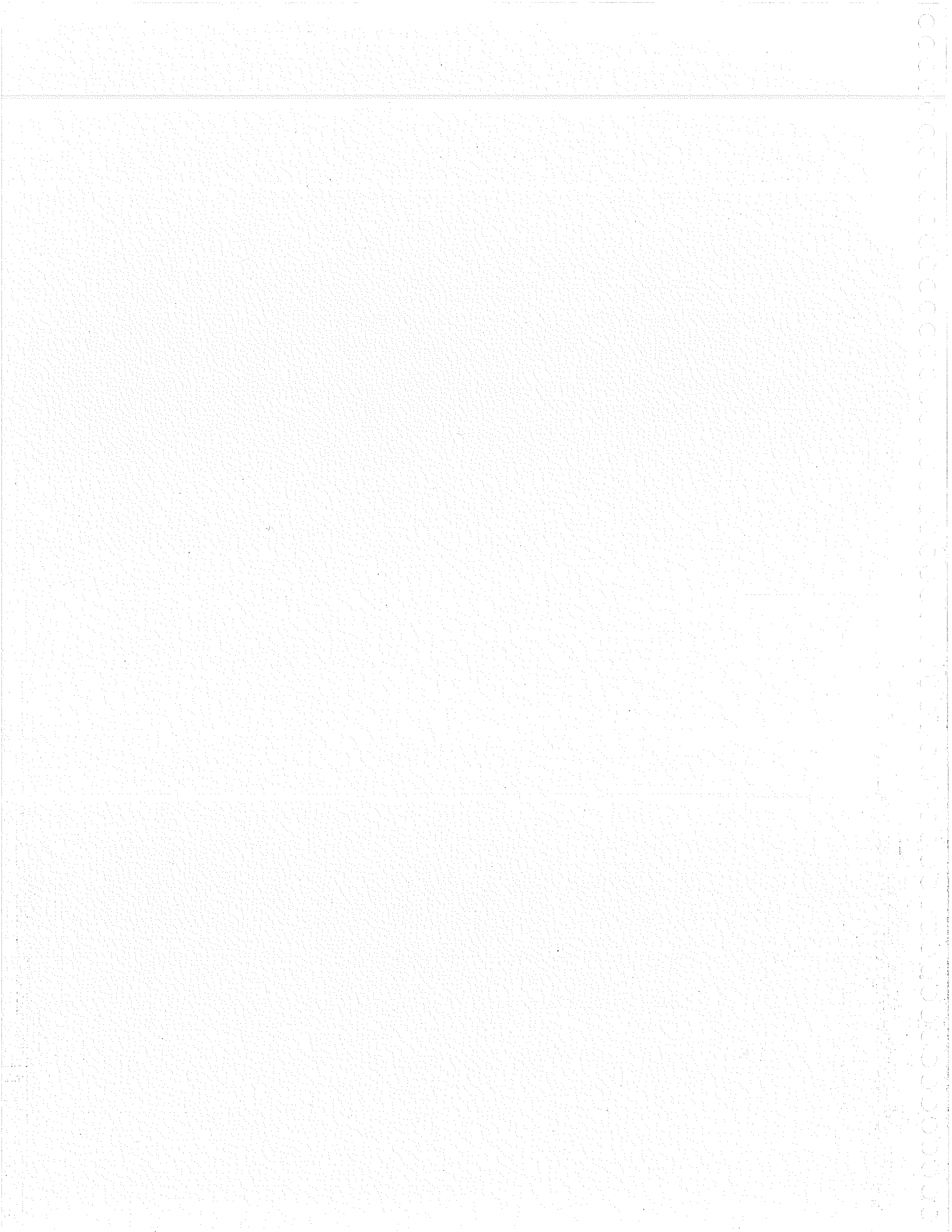

FINANCIAL CONDITION

Multnomah County, Oregon

January 1993



Gary Blackmer
Multnomah County Auditor





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MULTNOMAH COUNTY OREGON

M E M O R A N D U M

DATE: January 19, 1993

TO: Gladys McCoy, Multnomah County Chair
Dan Saltzman, Commissioner, District 1
Gary Hansen, Commissioner, District 2
Tanya Collier, Commissioner, District 3
Sharron Kelley, Commissioner, District 4

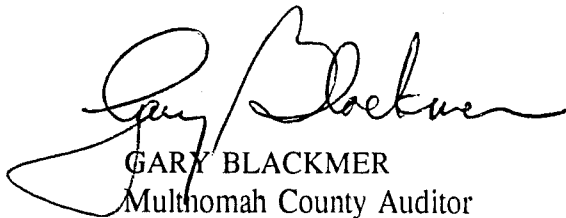
SUBJECT: 1993 Financial Condition Report

This report evaluates the financial condition of the County. Like a doctor's checkup, it tracks indicators of economic health and vitality to identify warning signs. This material was largely drawn from eleven years of Comprehensive Annual Financial Reports, and is presented in a visual format to more easily evaluate our current financial circumstances in the context of previous years.

This general overview of County finances can help us to place this year's budget deliberations in a historical context. We can see the imprint of previous budget deliberations on the County's financial condition, both the circumstances from which we benefit and those for which we are liable. As we review our current circumstances, I hope that we can gain a greater understanding of the consequences, both good and bad, that we may produce in succeeding years.

We have discussed this report with the managers of the Budget and Finance Divisions and they are in general agreement with its conclusions and findings. We appreciate the extensive cooperation and assistance they provided us in the course of this review.

We would appreciate receiving a written status report from the County Chair's Office within one year indicating what progress has been made on the recommendations in this report. The status report should also be circulated to the County Board of Commissioners.



GARY BLACKMER
Multnomah County Auditor

Auditor: Judith DeVilliers
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Summary

This report assesses the financial condition of Multnomah County. We found that the County has generally controlled costs, reduced liabilities, and responded to changing service demands over the past eleven years. However, we also found an increasing reliance on three-year serial levies, reserve funds, and revenues from federal and state governments to finance on-going services. Management response to this review is included at the back of the report.

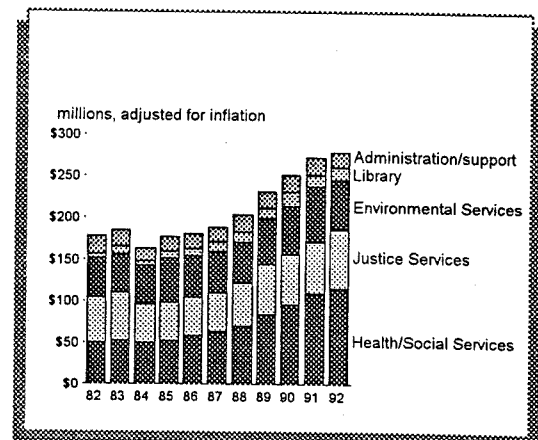
In the past eleven years Multnomah County services have shifted as it exchanged program responsibilities with the State of Oregon and the City of Portland. The County also took responsibility for the libraries, opened new jails and began several new non-custody corrections programs.

To control costs, the County contained its central administration and support spending, increased contracting for services, and held wage increases to the inflation rate for most employees.

To finance its added responsibilities, the County obtained new revenues from state and federal sources, from six voter-approved property tax levies, from two tax rate increases on business income, and from charges for jail beds for U.S. Federal Marshal prisoners.

The largest increase in revenues came from state and federal sources, which doubled from approximately \$60 million to over \$120 million during the eleven years when corrected for inflation. These funds now comprise about half of all County revenues, with the largest increases directed at social service programs. The County has also allocated an increasing share of the General Fund to social and health services.

Over the past eleven years the County became increasingly dependent upon three-year property tax levies to finance its on-going operations. Despite these added revenues, the County often had to spend its reserve funds. As a result, the level of fund balances has not matched the growth in revenues since FY88, which may hamper the County's ability to respond to future budget shortfalls.



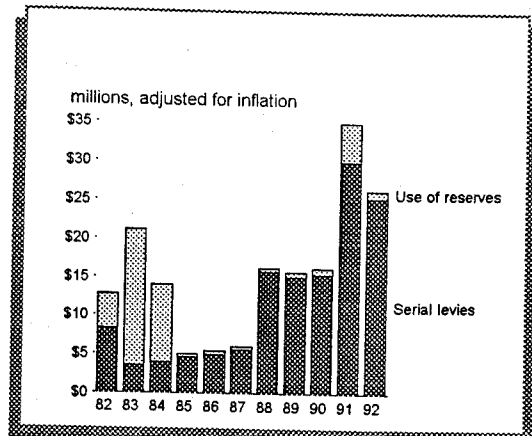
Expenditures, p.20

Indicators show that the County adequately managed its cash and liabilities. And, although the County has reduced its lease costs, it has increasingly relied upon certificates of participation to purchase or construct facilities. Debt payments grew from \$1 million to \$4.3 million in the past five years, with the County committed to another \$3.3 million annually to pay for construction of a new juvenile detention facility.

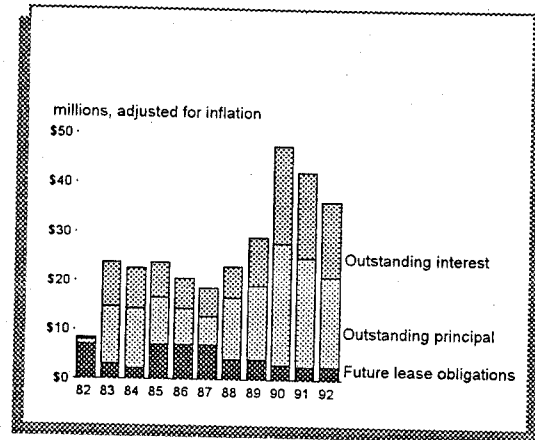
During this period economic indicators generally showed a trend of improving conditions in Multnomah County, although unemployment grew to 6% in recent years.

Statistics on the citizens of Multnomah County generally show a stable population. However, the number of households qualifying for poverty-level federal assistance increased in FY91 and FY92 after a seven-year trend of decline. Despite an improving economy, reported crime increased through most of the 80s until large declines appeared in 1989 and 1990. However, 1991 reported crimes again increased from the prior year.

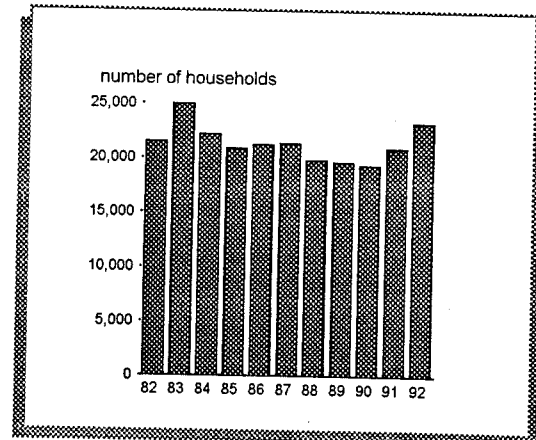
To maintain and improve the County's financial condition, the Auditor's Office recommends that the Budget and Finance Divisions work with the Board of Commissioners to develop a comprehensive financial policy. This policy can include existing policies and provide additional direction such as guidelines for cash reserves, reliance on short-term revenues, and expenditure priorities and control. The County should also consider rebuilding cash reserves, advocating for fewer restrictions on State-shared revenues, and improving the tracking of capital improvements.



Short-term Revenues, p. 12



Debt and Lease Obligations, p. 32



Poverty Households, p.49

Introduction

This report covers our review of the County's financial condition, using methods developed by the International City and County Management Association (ICMA) and methods being developed by the Government Accounting Standards Board (GASB). The audit was included in the FY92-93 Audit Schedule. The work was conducted in accordance with generally accepted government auditing standards, except for the new requirement for periodic external quality control review. The office will have its procedures reviewed by the National Association of Local Government Auditors for compliance with audit standards in 1993.

Objectives, Scope, and Methodology

The objective of this audit was to evaluate the financial condition of Multnomah County using the Financial Trend Monitoring System developed by the ICMA and the draft indicators developed by the GASB. We limited our analysis to the period from FY81 through FY91-92. We relied on the County's budgets, Comprehensive Annual Financial Reports, and other management reports for financial data. We used published sources for most socio-economic data.

Fiscal years in this report are identified by their ending date, such as FY92 for FY91-92, the fiscal year ending June 30, 1992. We expressed most indicators in constant dollars. These adjustments for inflation convert dollar amounts over the eleven-year period to the equivalent of the purchasing power of money in FY92. The adjustments are based upon the Portland-Vancouver 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. This combination of funds represents about 97% of total County resources. In accordance with ICMA and GASB methods, certain activities along with their revenues and expenditures were excluded. In developing and analyzing the indicators of financial condition, we interviewed personnel in the Finance Division, the Budget Division, and other County departments. Enterprise activities (business-like operations such as sewer services) are excluded from the analysis.

Internal service activities (such as County fleet and telephone services) are also excluded from the analysis except where noted.

Background

Financial Condition

Financial condition is defined as a local government's ability to finance services on a continuing basis. A county in good financial condition can sustain existing services to the public, withstand economic slumps, and meet the demands of changing service needs.

Sound financial condition covers four measures of solvency.

- ▶ Cash solvency is the ability of a government to generate sufficient cash over a 30 to 60 day period to pay its bills.
- ▶ Budgetary solvency is the ability to generate enough revenues during the budget year to meet expenditures and not incur deficits.
- ▶ Long-term solvency is the ability to pay not only the costs of doing business in the current year, but also those that will come due in future years.
- ▶ Service-level solvency is the ability to provide service at the level and quality desired by citizens and required for the health, safety, and welfare of the community.

A county's on-going revenues should be sufficient to meet short-term expenditure needs, as well as finance major capital expenditures and long-term costs. Monitoring financial condition allows managers to identify existing and emerging financial problems and develop solutions in a timely manner. Effective monitoring can also provide additional information for the annual budget process, give the County Board of Commissioners a wider context for decision-making, and establish a starting point for setting financial policies. The County currently has no comprehensive financial policies to assist in its budget deliberations.

Monitoring Financial Condition

The ICMA first developed a monitoring system in its publication *Evaluating Financial Condition: A Handbook for Local Government*, by Groves and Valente, 1986. With the assistance of over 30 state and local jurisdictions, the authors identified factors that affect financial condition. Most of the data for the factors is available in annual financial reports, budgets, management reports, and local population and economic statistical reports. The authors organized the factors to allow for consistent reporting, display, and evaluation of the factors. The ICMA system also incorporates the major financial indicators used by national bond rating organizations to evaluate a government's credit-worthiness. Over 30 measures or indicators of financial condition were developed.

More recently, the Government Accounting Standards Board (GASB) began research on financial condition measures to supplement each local government's annual financial report.

Many measures are similar to the indicators developed by the ICMA. Both systems recommend tracking the indicators over a number of years to quantify and evaluate a government's financial condition and to identify strengths and potential problem areas.

The solvency of the government depends on the organization's ability to balance the demands for service with its available financial resources. Sound financial condition evidenced by cash, budgetary, long-term and service-level solvency is reflected in the following major financial factors:

- ▶ Revenues
- ▶ Expenditures
- ▶ Operating position
- ▶ Debt and liabilities
- ▶ Infrastructure
- ▶ Revenue base
- ▶ Service populations

Financial condition can be evaluated based upon changes in these factors over a period of time. Some trends are more critical than others. In addition, the trends may require further analysis to better understand the nature and magnitude of potential problems.

If problem areas are identified, officials can develop strategies for dealing with them. The ICMA suggests that governments establish financial policies to address problem areas and set specific goals for the indicators as a means of measuring progress toward improving the jurisdiction's financial condition.

County Government

Multnomah County government, like the other 35 Oregon counties, receives its authority from the Oregon Constitution and many of its responsibilities from the state legislature. As a Home Rule County, there is a charter which also defines authority and responsibilities. In some cases, the County is required to provide services that meet legal requirements. In other cases, the County has undertaken service responsibilities on the basis of community needs. Some services are provided throughout the County, such as elections; some services are provided to specific populations, such as mental health services; and some services are provided to geographic areas, such as maintenance of roads in the unincorporated areas.

During the eleven years included in this review Multnomah County has undergone considerable change, profoundly affecting its organizational structure, its services, and its finances. The first year in our analysis, FY82, was a year of revenue shortages, with the Board using a serial levy to supplement health, public safety, parks, library, and social services.

In FY83, County revenues were falling behind the high inflation rates, requiring service cuts, and a voter-approved serial levy. The County closed Edgefield Manor, a nursing home for the elderly, and on January 1 of that fiscal year all Oregon counties transferred the administration of courts to the State. In the following four years the County paid a declining percentage of court costs to the State. The County also merged its retirement system into the Oregon Public Employee Retirement System (PERS) in FY83. The Board also approved "Resolution A" which called for a phase-out of municipal-type services and a move toward providing general, county-wide services. During this fiscal year it was discovered that expenditures would exceed revenues by about \$6 million due to the depressed economy. In addition, voters approved an initiative which made numerous amendments to the Charter, among them giving the Sheriff responsibility for the jails which had been a separate County department.

In FY84, the County found itself with sharply reduced reserves, an expiring serial levy, a weak economy, and no more Federal revenue sharing. Rocky Butte jail was closed and the County began the operation of a more costly, new Justice Center. Portland transferred its Area Agency on Aging, a \$3.3 million program, to Multnomah County's Aging Services Division.

In FY85 the County transferred some of its services to the City of Portland. Road funds and about 35 maintenance employees were transferred to Portland which assumed responsibility for all County roads within its boundaries. Over 60 deputies were transferred to the Police Bureau which began providing law enforcement services in the mid-County area. Planning

and zoning responsibilities were also transferred to Portland. A library levy provided about \$2.7 million beginning in this fiscal year to the Library Association.

In FY86 about 90 state employees transferred to the County Aging Services Division to provide state- and federal-funded programs.

In FY87 the County opened an 80-bed restitution center, re-opened the Courthouse Jail, and created or expanded five non-custody corrections programs. Despite the increased corrections services, jail overcrowding cost the County nearly \$1 million more than was budgeted. The business income tax was increased from 0.6% to 0.95% of net income to cover increased justice services costs.

In FY88, the County developed alternative housing and programs to manage sentenced and pre-trial prisoners in response to a federal court order imposing a population limit on the Justice Center. In addition, Portland transferred its Youth Service Centers to Multnomah County. The County increased the business income tax to 1.46%. The County received the revenues from a \$4.7 million levy approved by the voters to construct a new jail facility. A new voter-approved library levy also began in this fiscal year, adding about \$7.5 million in property tax revenues.

FY89 and FY90 were relatively stable years. The new Inverness Jail began operations, and budgets were increased to restore support services and to strengthen management capabilities in the County. In addition, the County began a strategic planning process.

In FY91 the Library became a County department, adding over 340 staff to the County budget. In prior years the library system, operated by a non-profit association, had been financed by the County. The County received property tax revenues beginning in this fiscal year from two new serial levies, a \$10.3 million library levy and a \$13.5 million levy to construct and operate a new jail. In November of 1990, voters also approved a state-wide ballot measure to limit property taxes and the County began preparing for reductions to its FY92 budget.

In FY92, as a result of the tax limitation, the cost of services was estimated at \$19 million over expected revenues. The County avoided about \$3.5 million in additional cuts by drawing down reserve funds, and increased revenues by making more jail beds available to the Federal Marshal. Approximately \$12.4 million was cut from County departments. The County also chose to assume the responsibility of administering probation and parole services from the State, combining about 150 State employees and \$9 million of State money with the County's Community Corrections operations.

Revenues

Summary

County revenues have increased substantially over the past eleven years. The largest revenue increase was from state and federal sources which doubled from approximately \$60 million to over \$120 million, when adjusted for inflation. These funds now comprise about half of all County revenues. The other half of County revenues comes from sources such as property taxes, business income taxes, and user fees which also showed growth, largely as a result of rate increases.

Property taxes increased as a result of voter-approved serial levies and also increased in relative value when inflation dropped below the 6% statutory growth rate allowed for property taxes. Over the eleven-year period, the County collected additional property taxes for six voter-approved levies. However, property tax revenues dropped sharply in the last year as a result of the tax limit imposed by Ballot Measure 5.

User fee revenues increased in each of the past four years, with a large jump in FY92 with the County's new responsibility to manage parole and probation services, formerly a state function. Intergovernmental revenues also increased when the County assumed those responsibilities. However, the largest increases in intergovernmental revenues were directed at social services, which grew from less than \$20 million to almost \$60 million over the eleven-year period.

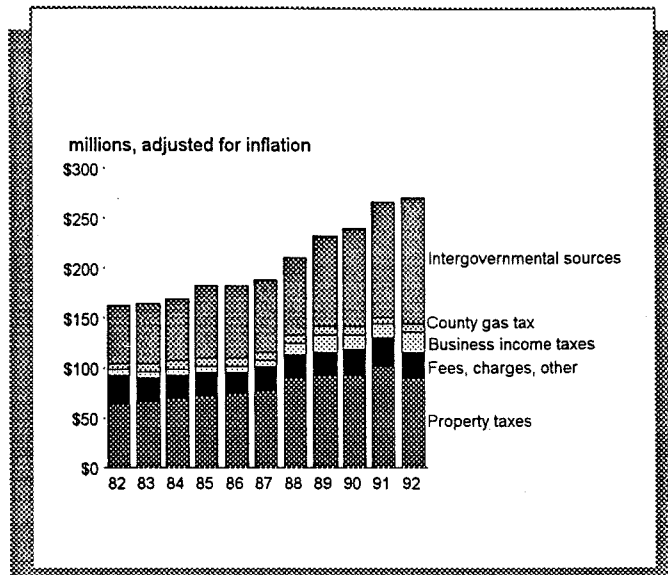
An increasing share of County revenues are from short-term sources such as three-year serial levies. In FY92 over \$25 million in revenues came from voter-approved serial levies scheduled to end at the close of FY93. Likewise, an increasing share of County revenues was restricted to specific purposes.

Indicators

Operating revenues
Property tax revenues
User charges
Intergovernmental revenues
Elastic revenues
Short-term revenues
Restricted revenues
Revenue shortfalls

Operating revenues

Operating revenues, when corrected for inflation, have increased 65% in the past eleven years, a favorable trend.



These are all the County's operating revenues which are available for on-going County services. Some examples include elections, road maintenance, health clinics, parks, jails, libraries, social services, prosecution, animal control, and administration.

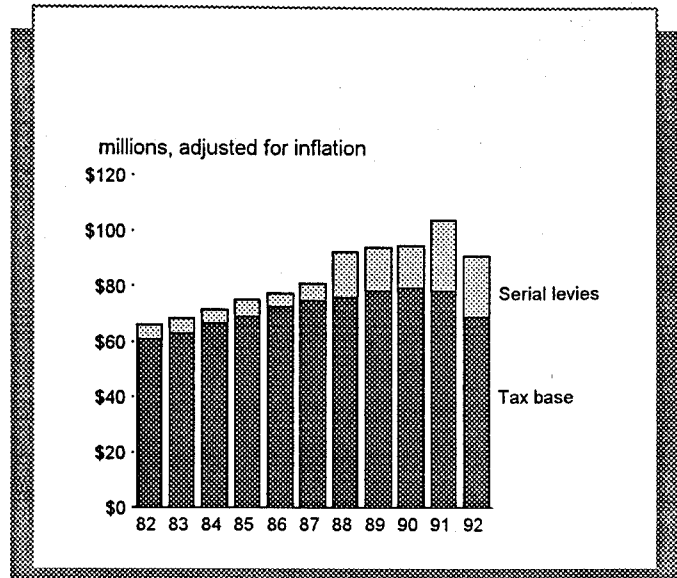
Decreasing revenues may reduce a government's ability to maintain existing service levels.

Analysis

The revenues trend has been favorable over the past eleven years. In current dollars, operating revenues increased from \$164 million in FY82 to \$270 million in FY92. Each of the five categories of revenues increased, although state and federal funds showed the largest growth.

Property tax revenues

Except in the last year, property tax revenues show a favorable increase, in part due to voter-approved serial levies.



Property taxes are paid on the assessed value of real, personal, and utility property. County property taxes are currently generated by three separate levies which support on-going County services: the tax base levy, a three-year levy for jails, and a three-year levy for the library. In the past, other serial levies have also been approved by voters to finance on-going County services.

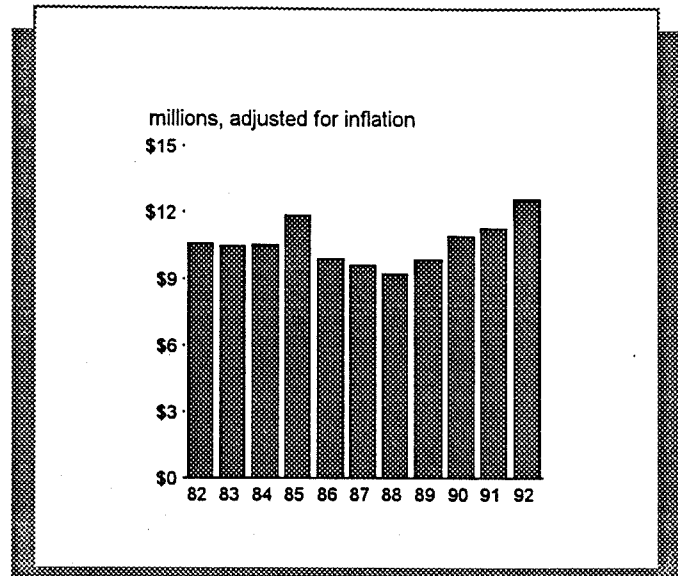
The Oregon Constitution allows the tax base levy for the General Fund to be increased by 6% over the previous year's levy amount without a vote of the taxpayers. In FY92, most property owners in Multnomah County paid about \$25 per \$1,000 assessed value, with a majority of the taxes going to support schools and only 15% going to County services. Ballot Measure 5 placed an additional constitutional limit on tax rates. As a result, the total tax rate for the County and all other non-school governments cannot exceed \$10 per \$1,000 assessed value. The Measure allows voters to approve levies for capital projects in excess of the limit.

Analysis

Property taxes averaged about 3% annual growth over inflation during the eleven years, largely due to voter-approved serial levies. Excluding the serial levies, average annual growth in the tax base was about 1% over inflation. Property tax revenues decreased significantly in FY92 as a result of the tax limitation imposed by Ballot Measure 5.

User charges

User charges have grown in the past four years, a favorable trend.

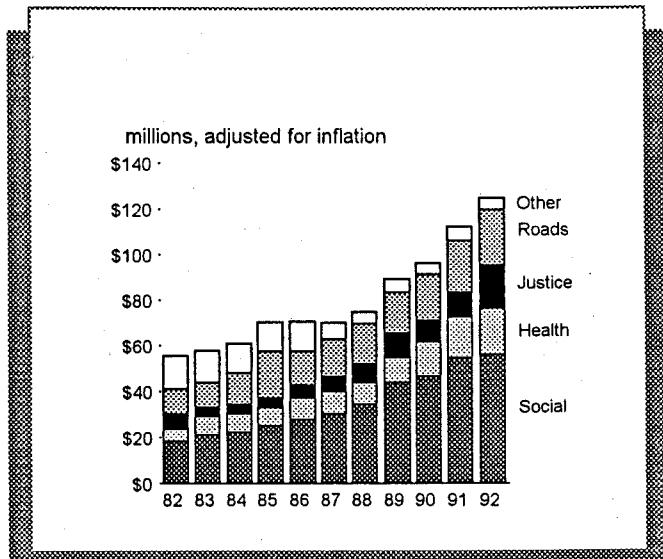


User charges are intended to cover all the cost (or an agreed upon percentage of the cost) for providing services such as dog licensing, recreation activities, and restaurant inspection. This indicator measures service fees and charges in constant dollars. Inflation can easily erode user charge coverage if the cost for services increases faster than rate increases. A decline in user fees is a warning trend.

Analysis

County fees and charges increased in the past four years partly due to expanded responsibilities. The increase in FY85 is due to changes in the lease agreement with Portland and the State of Oregon for the Justice Center. The County received additional fees when it assumed state programs such as parole and probation in FY92. Increases in user charges in health services, animal control, and recreation programs also contributed to the growth.

Intergovernmental revenues
 Multnomah County reliance on intergovernmental revenues has increased significantly over the past eleven years, an unfavorable trend.



Federal and State funds comprise the largest portion of these revenues, with most funds restricted to a specific purpose such as mental health services, medicaid for the elderly, community-based corrections programs, or emergency planning. Some revenues are not restricted, such as alcohol and tobacco taxes shared by the State or revenues from timber sales shared by the Federal government.

Increasing intergovernmental revenue to support County services may indicate an over dependence. If these revenues were withdrawn, the County would be forced to find additional revenue or cut services to reduce costs. Increasing reliance upon intergovernmental revenues is viewed as a warning trend.

Analysis

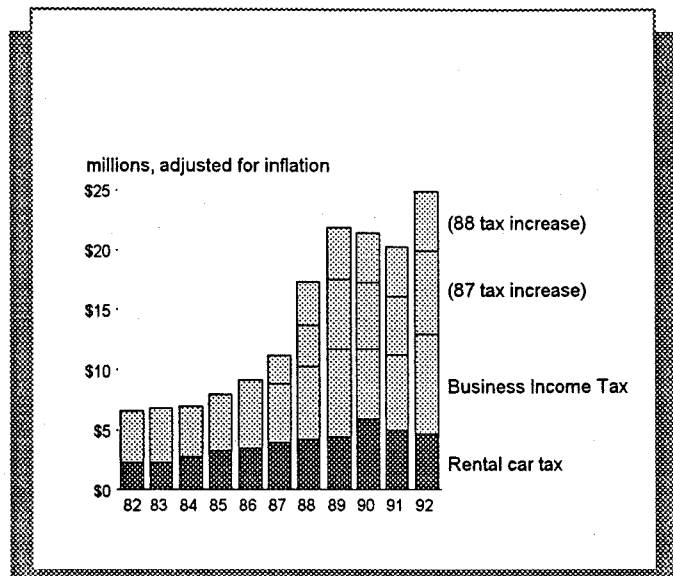
Intergovernmental revenues have grown from 34% of total operating revenues in FY82 to 46% in FY92. In constant dollars, intergovernmental revenues have more than doubled in the eleven year period. Large increases occurred in many areas. In FY92 nearly half the intergovernmental revenues were for social service programs which, in current dollars, increased from \$19.4 million to \$57.6 million. Health program revenues increased from \$5.8 million in FY82 to \$19.4 million in FY92.

Intergovernmental revenues for justice programs increased from \$6.4 million to \$19.1 million. Approximately \$6 million of the increase is State payments to the County for assuming parole and probation responsibilities beginning in FY92. A large portion of the increase can be attributed to the County's contract to provide jail beds to Federal Marshal prisoners, approximately \$4.2 million in FY92.

Revenues for roads increased from \$9 million to \$20 million in constant dollars. The "other" category shows the only decline with the loss of Federal Revenue Sharing, which was the equivalent of \$8.5 million in FY82.

Elastic revenues

Elastic revenues have increased as a result of an improved economy and rate increases, a favorable trend.



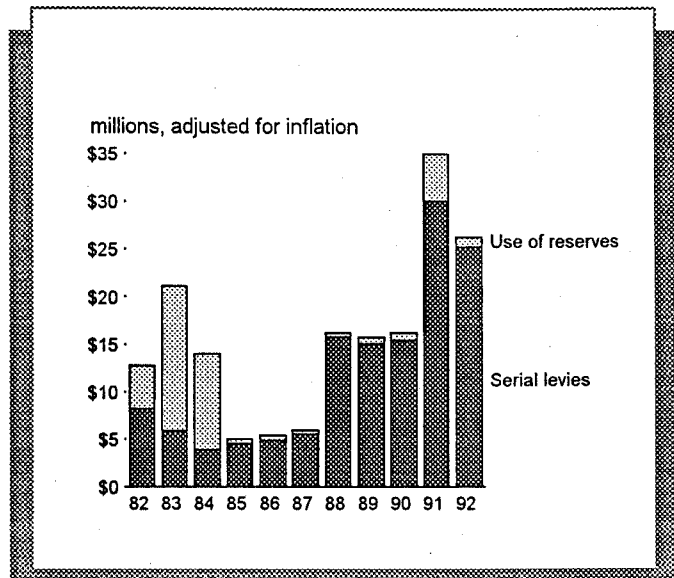
Elastic revenues are responsive to economic changes. The only major County revenues which we consider elastic are the business income tax and motor vehicle rental tax. A balance between elastic and inelastic revenues mitigates the effects of economic growth and decline. Insufficient elastic revenues may produce revenue shortages during periods of high inflation or rapid economic growth. Over-dependence on elastic revenues can reduce revenues during economic downturns.

Analysis

Adjusted for inflation, elastic revenues have increased over the eleven years from less than \$7 million to \$25 million. The County business income tax rate was 0.6% of net income until FY86 when it was increased to 0.95%. In FY87 the rate was again raised to 1.46%. The large increase in FY92 resulted from the change to quarterly collections of estimated taxes which produced a one-time increase of \$3 to \$4 million in additional revenues. Elastic revenues comprised only about 4% of total revenues in FY82, increasing to about 9% in FY92, indicating movement to a better balance of elastic and inelastic revenues.

Short-term revenues

The County is increasingly dependent on short-term revenues to provide for its services, a warning trend.



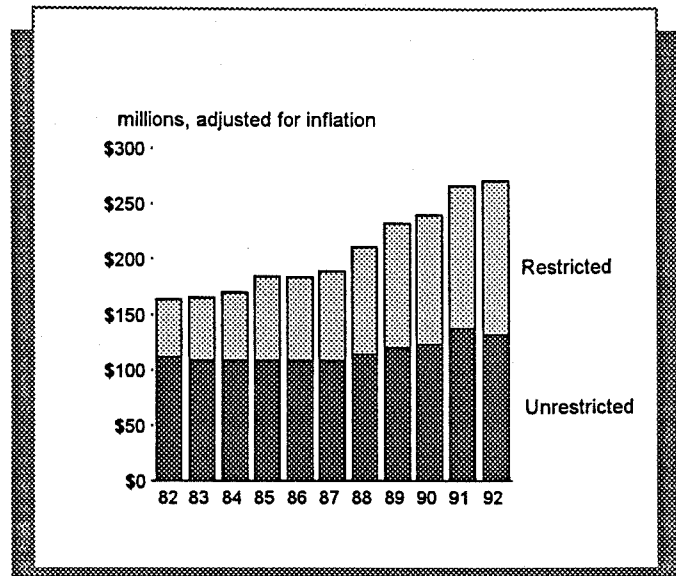
Short-term revenues are resources of a limited duration. These revenues include three-year serial levies, inter-fund transfers and loans, use of reserves and surpluses, and sales of property. Continued use of short-term revenues to balance the budget indicates current service level costs exceed ordinary revenue and signals a warning trend.

Analysis

The County has become increasingly dependent upon revenues with limited durations to finance its on-going operations. Chief among these were two serial levies which provided more than \$25 million in revenues for jails and libraries in FY92. These levies will expire at the end of FY93 requiring service reductions or additional revenues.

Restricted revenues

An increasing share of County revenues are restricted-use, a warning trend.



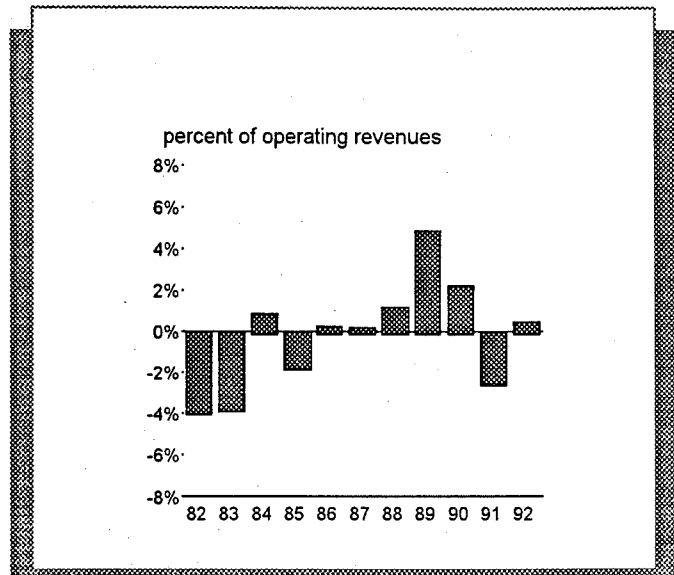
This indicator determines the share of all County revenues which are restricted. Restricted revenues are legally reserved for specific purposes and include federal and state funding for specific programs, gasoline taxes, and serial levies approved by the voters for specific programs such as jails or the library.

Analysis

An increasing percentage of the County's revenues are restricted-use. In FY82 only one-third of County revenues had restrictions on their use. By FY92 these restricted funds increased to more than one-half of all revenues. Most of the restricted revenues are from state or federal sources and some may require the County to contribute locally-raised revenues. Although restricted revenues have increased substantially in the County, unrestricted revenues have also shown some growth. In constant dollars unrestricted revenues increased from \$110 million to \$122 million, an annual increase averaging about 1% more than inflation during the eleven-year period.

Revenue shortfalls

Actual revenues have generally exceeded budget forecasts in seven of the past nine years, a favorable trend.



This indicator reflects the difference between operating revenues estimated in the adopted budget and revenues actually received. Major shortfalls can indicate inaccurate estimating techniques, sharp fluctuations in the economy or inefficient revenue collection. The ICMA also suggests that shortfalls may indicate that high revenue estimates were made to accommodate political pressures.

Revenue shortfalls may require mid-year cuts of services, spending of reserve funds, or increased use of short-term borrowing. Large or frequent shortfalls constitute a warning trend.

Analysis

Actual revenues have been within 5% of projections in the past eleven years. Greater variances have occurred for particular revenues such as business income taxes, but the differences were often countered by variances in other revenues. Actual revenues exceeded estimates in six of the last seven years. The shortfall in FY91 was due to overestimated business taxes. The shortfalls in the early 80s resulted from overestimated intergovernmental revenues.

Expenditures

Summary

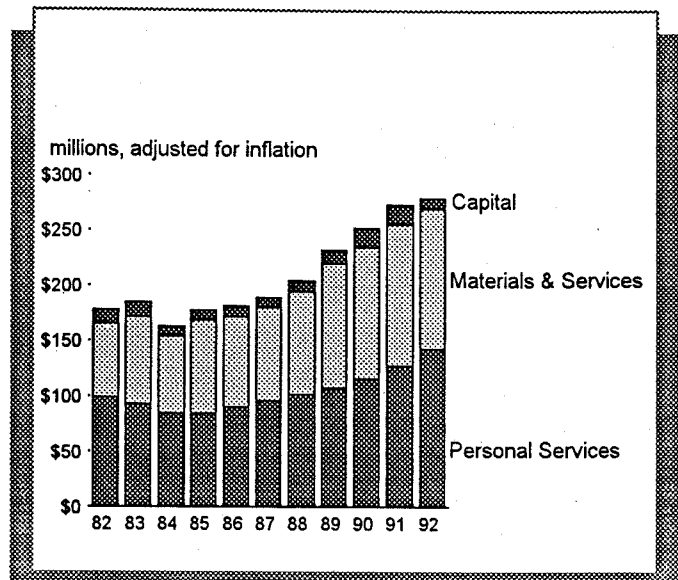
Spending nearly doubled in the past nine years, in part because of increased levels of services. To provide these services the County hired more employees and contracted for more services. Wages for the largest group of employees kept pace with inflation, while the wages of public safety and nurse employees grew faster than inflation in the late 80s. The cost of fringe benefits grew during the eleven years, largely driven by health care cost increases.

An increasing share of the General Fund has gone to social and health services over the past nine years. During this period, General Fund contributions to justice services and libraries declined, although voter-approved levies maintained or increased overall expenditures. Spending for roads and bridges grew steadily until the last three years when it levelled off. Spending for administration and support services has remained relatively constant despite the large increase in County spending.

Indicators

Operating expenditures
Number of employees
Employee wage increases
Employee benefits
Program expenditures

Operating expenditures
 Spending has increased, largely because of increased County responsibilities.



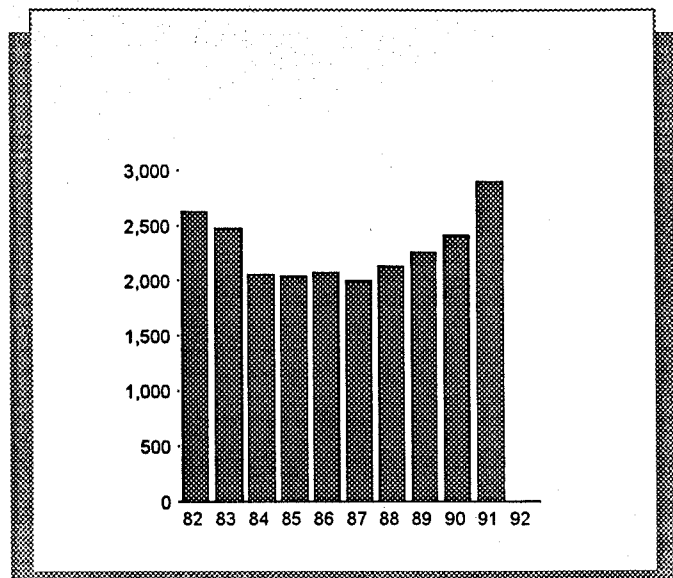
These are all the County's operating expenditures. Operating expenditures include personnel costs, materials and services, and capital costs for on-going services.

Increased expenditures may be the result of new service responsibilities. Increasing expenditures may also indicate that service costs are exceeding the community's ability to pay. Further analysis of specific program spending, service levels, and specific populations such as low income, juvenile, or elderly may be necessary to determine whether the government is operating efficiently.

Analysis

Expenditures have increased faster than inflation, with the largest spending increase for materials and services which doubled in the eleven-year period. Increased responsibilities contributed to most of these increases. Materials and services costs increased as a result of expanded contract services for mental health programs, developmental disability programs, alcohol and drug treatment, and programs for the elderly. Staffing new jails increased personnel costs.

Number of employees
In recent years changing responsibilities have increased the number of employees.



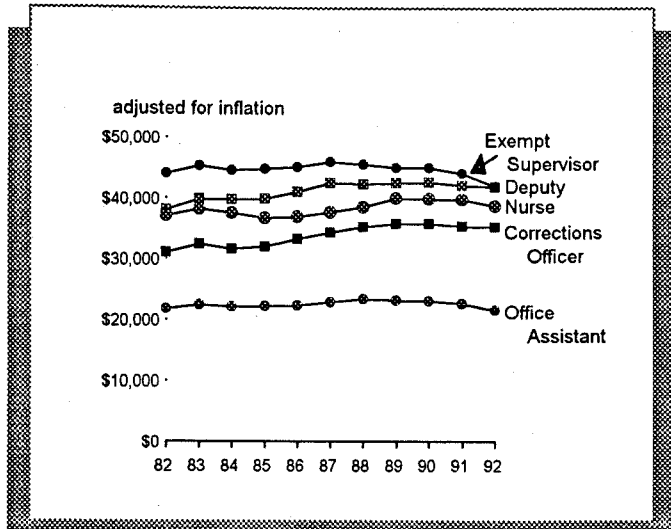
This measure is based upon the number of full-time employees in the County. FY92 data was not available. Vacant positions are not included. The County also provides services through contracts with non-County organizations. In FY92 over \$47 million of its social service responsibilities were contracted to community-based, non-profit organizations and are reflected as materials and services.

An increasing number of employees may be a warning trend, indicating more labor intensive work or declining productivity. Changing service responsibilities or use of contracting may also affect the number of employees.

Analysis

In the early 80s the number of full-time equivalent employees declined from over 2,600 to about 2,000 as a result of budget cuts and transfers of courts to the State and of public safety, planning and road maintenance personnel to Portland. Increases occurred in later years as a result of staffing for new jails and increased social and health services, reaching 2,900 in FY91.

Employee wage increases
 Wages for some bargaining units increased faster than inflation in the late 80s, but lagged in recent years.



Wage increases are negotiated between collective bargaining units and the County. Other employee benefits such as health and pension benefits must also be considered in assessing compensation levels. To maintain fair and competitive wages, most agreements use the consumer price index as a basis for annual increases. This indicator uses wage rates for the most senior employee in the most common job classification. For the 490 managers, professionals, and technicians not represented by a collective bargaining unit, we used the average earnings of a representative group of supervisors.

Wages increasing faster than inflation indicate rising costs for County services. Wages which lag too far behind inflation may produce disparities in the job market, making it difficult to attract or retain quality personnel.

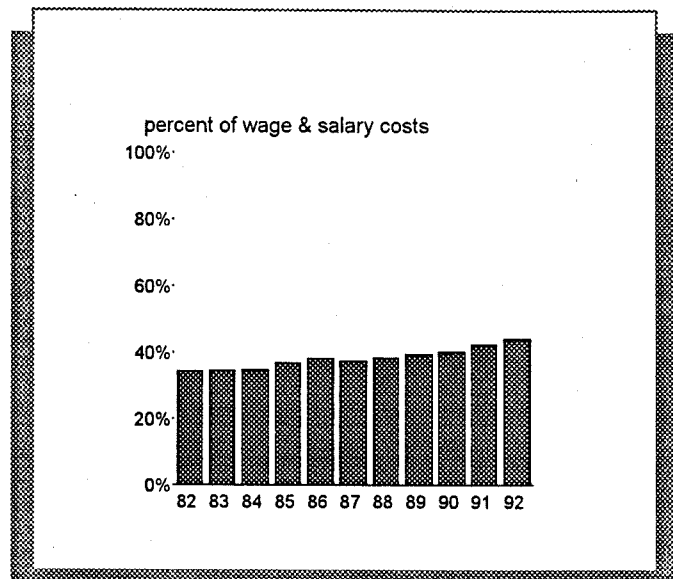
Analysis

For most County employees, earnings kept pace with inflation. While the relative income of exempt employees declined over the eleven-year period, the income of nurses and public safety employees grew faster than inflation. The table below shows the major bargaining units, the number of employees represented, and the annual earnings of a senior employee expressed in current dollars for FY82 and FY92.

<u>Bargaining Unit</u>	<u>Represented</u>	<u>Example</u>	<u>FY82</u>	<u>FY92</u>
none	490	exempt supervisors	\$45,000	\$44,000
Deputy Sheriff's Assn.	130	Deputy Sheriff	\$38,000	\$42,000
Oregon Nurses Assn.	250	Nurse	\$37,000	\$39,000
Corrections Officers Assn.	335	Corrections Officer	\$31,000	\$35,000
AFSCME Local 88	2,170	Office Assistant 2	\$22,000	\$22,000

Employee fringe benefits

Fringe benefits have grown from 32% of the average employee's wage in FY82 to 42% of wages in FY92, an unfavorable trend.

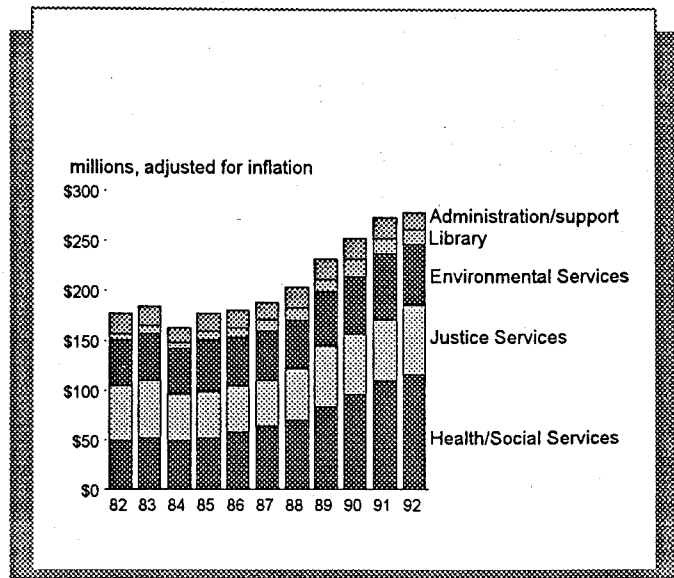


Employee benefits expressed as a percent of wages, include the cost of health and dental insurance, worker's compensation, retirement, and the employer-paid portion of social security. Paid holidays are not included. It is expressed as a percent of wages and salaries.

Analysis

The cost of fringe benefits has increased faster than salaries and wages, growing from 32% of wages to 42%, indicating a warning trend. The increases are due to increased health care costs, and increased social security and PERS retirement costs. In FY92 PERS, Social Security, and Tri-Met Payroll taxes were 27% of salary costs for general County employees and 37% for public safety employees. PERS retirement costs grew because of the increase in the number of corrections officers whose retirement contributions cost 52% more than the County's other non-public safety employees.

Program expenditures
Spending for health and social services grew faster than any other program area.



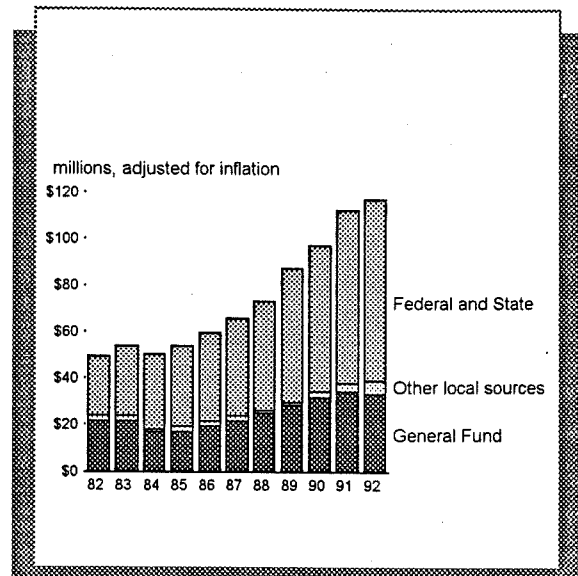
Program expenditures reflect allocation decisions among service responsibilities. Because of reorganizations, past program spending was adjusted to reflect the current County organization. Increased expenditures can result from local initiatives, or from increased responsibility from State or Federal authorities. The level of program expenditures is one indicator of service level solvency. A decline in expenditures may indicate that, if efficiency improvements did not also occur, the level of services to the public may be declining.

Analysis

Like revenues, expenditures have increased faster than inflation over the past eleven years, with the largest increases in health and social services. The trend shows an increase in justice services following the transfer of responsibility for the courts from the State of Oregon. Environmental services also grew over the eleven-year period, mostly for roads and bridges. Despite large increases elsewhere, costs remained relatively constant for administration and support services. The following exhibits show the allocation of revenues for each of the major program areas.

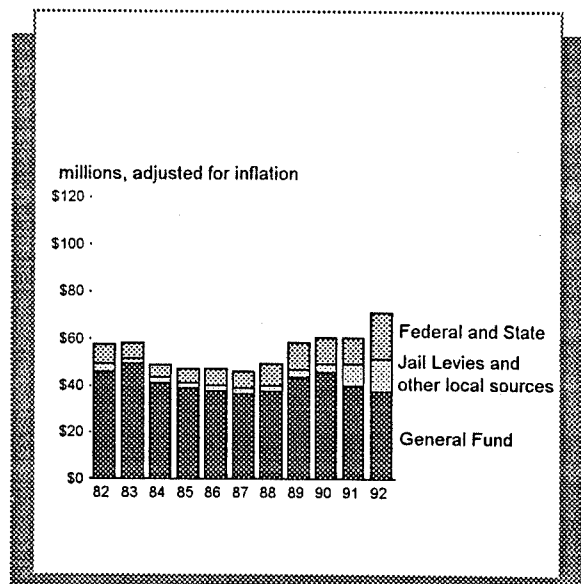
Social and Health Services

These services represent the largest share of county spending and include: mental health services, developmental disabilities services, youth programs, housing programs, juvenile detention, services for the elderly, health and dental clinics, and regulatory health services. General Fund spending in these areas has increased over the past eight years, although less than the growth in Federal and State funding.



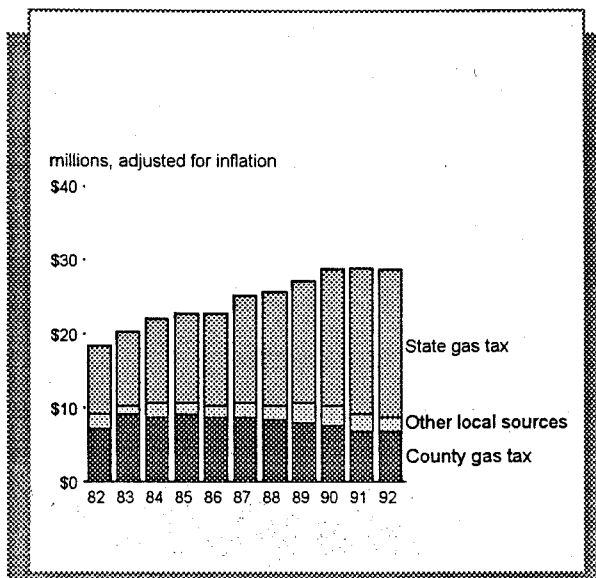
Justice Services

The transfer of Court responsibilities in the early 80s reduced justice services costs significantly. The remaining activities include: jails, prosecution, law enforcement, and parole and probation services. Transfers of some law enforcement responsibilities to Portland also reduced justice costs in FY85 and FY86. However, new jails increased costs to the General Fund until voter-approved tax levies began in FY91. Federal funding increased during the eleven years for holding Federal Marshal prisoners. In FY92 State funding increased when the County took over State responsibility for parole and probation services.



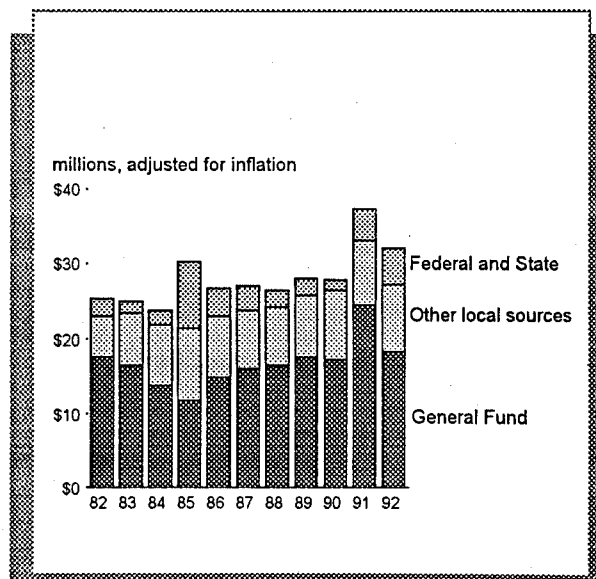
Environmental Services - Roads

In addition to road construction and maintenance, this program area includes maintenance of the Willamette River bridges, transportation planning, and traffic management. State gas tax revenues showed steady growth through the eleven-year period. County gas tax revenues have declined, due to inflation and a revenue-sharing agreement with the City of Portland. No General Fund dollars are allocated to these activities.



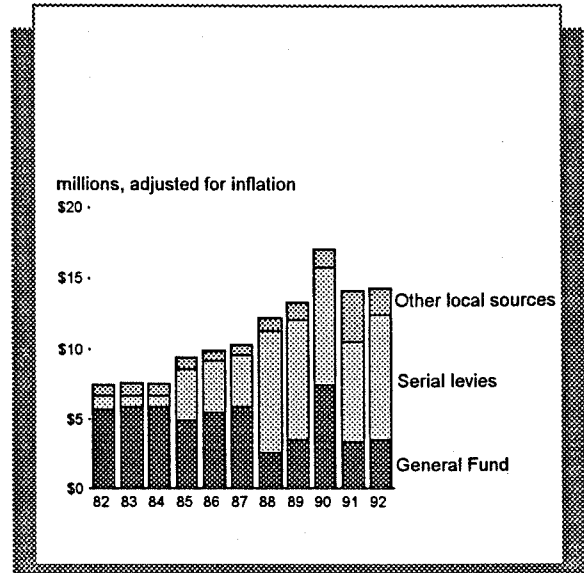
Environmental Services - Non-roads

These activities include land use planning, cemeteries, parks, animal control, assessment and taxation, elections and operations of the Exposition Center and Glendoveer Golf Course. Most spending in these areas is covered by the General Fund, although fees and charges also contribute a significant portion. Cutbacks in the early 80s are reflected in General Fund reductions which returned to previous levels in subsequent years. The increase in the General Fund allocation in FY91 was for jail construction costs which were paid with jail levy funds.



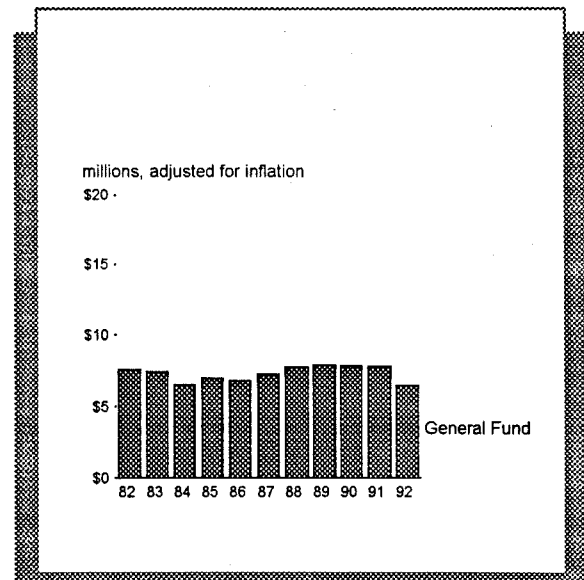
Library

Library spending doubled from FY82 to FY90, but dropped sharply in the last two years. In the past eight years library services became increasingly dependent upon serial levies as General Fund dollars diminished.



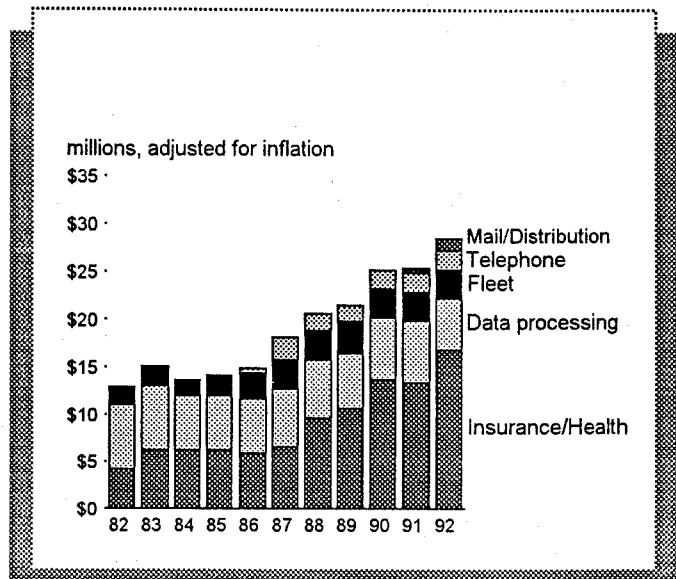
Administration/Support

Despite large increases in other County programs, spending in this area has remained relatively constant. However, increases of administration and support staff at the department level may also be occurring. Financed almost entirely with General Fund dollars, this program area provides services such as personnel, payroll, finance, budget, the Board and its staff, Auditor's Office, and purchasing. The cost for some of these services is recovered from State and Federal funds through overhead charges which we were not able to distinguish. Reductions in FY92 reflects cuts in many areas of administration and support.



Internal Services

County programs purchase internal services which include data processing, telephones, printing, mail, and fleet. The expenditures are already reflected in the previous exhibits as expenses in personal services and materials and services. The largest growth occurred in health benefit costs for County employees which are covered by the Insurance Fund. Data processing costs declined over the eleven year period, while fleet costs increased. Costs were not segregated for telephone and mail distribution activities before they were placed in internal service funds in FY86 and FY92, respectively.



Operating Position

Summary

County spending for operations in six of the past eleven years has generally matched revenues. However, when spending exceeded revenues in the other five years, the County had to use reserves and other funding sources to make up the difference. In addition, reserves were reduced to cover liabilities for accumulated employee leave and post-retirement health benefits. This has contributed to a general decline in fund balances since FY88, and may hamper the County's ability to respond to future budgetary shortfalls. The County's liquidity ratio continues to show good short-term solvency.

Indicators

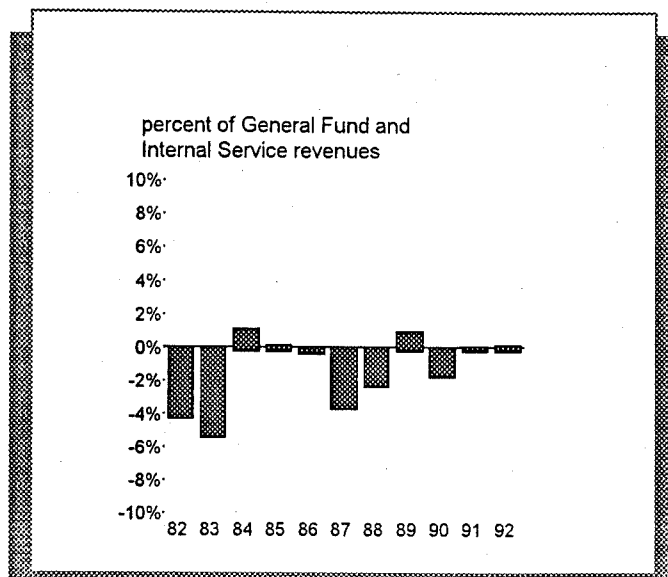
Operating revenues over or under expenditures

Fund balances

Liquidity

Revenues over or under expenditures

Differences between spending and revenues in the past eleven years indicate a warning trend.



This indicator shows the difference between the revenues and expenditures of the combined general and internal service funds as a percent of operating revenues. Unlike the Federal government, Oregon governments are prohibited by State Budget Law from spending more money than they have. However, if a county spends more on operations than it collects in a year, the deficit can be covered by cash reserves, transfers from other funds, or from other sources. An operating deficit may occur as a result of lower revenues or higher costs than were budgeted for these funds. An operating deficit may also result when the County Board intentionally spends accumulated reserve funds.

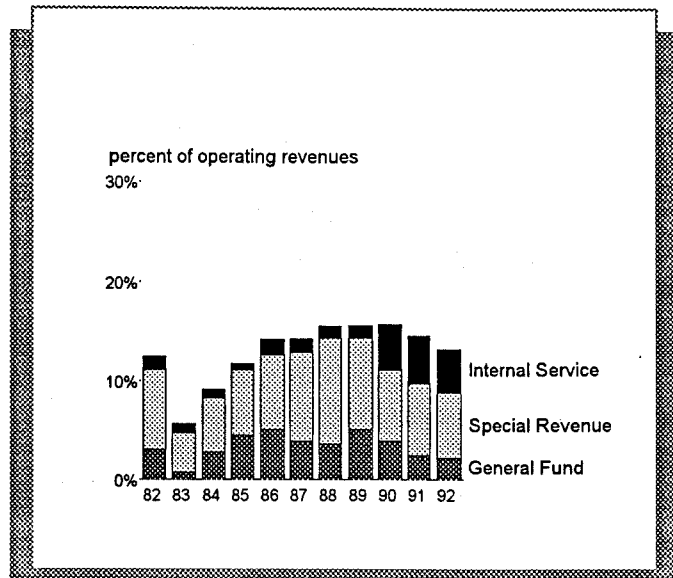
Frequent and increasing operating deficits may indicate a warning that operating expenditures are exceeding revenues.

Analysis

Although the trend appears to be improving, the County has spent more for general operating expenses than it has received in three of the last six years. These deficits have been covered by cash reserves and transfers from other funds. In some years spending of reserve funds was intentional, and in others a result of revenue shortfalls.

Fund balances

Fund balances have declined in recent years, an unfavorable trend.



Fund balances are accumulated money to pay for self-insurance, capital purchases, financial emergencies, and minor fluctuations between planned and actual revenues or expenditures. The balances maintained in the General, special revenue, and internal service funds are used in this indicator.

Reductions of fund balances may be the result of intentional spending of some of the fund balances, under-estimating expenditures, over-estimating revenues, or not reserving funds in proportion to the growth in operating revenues.

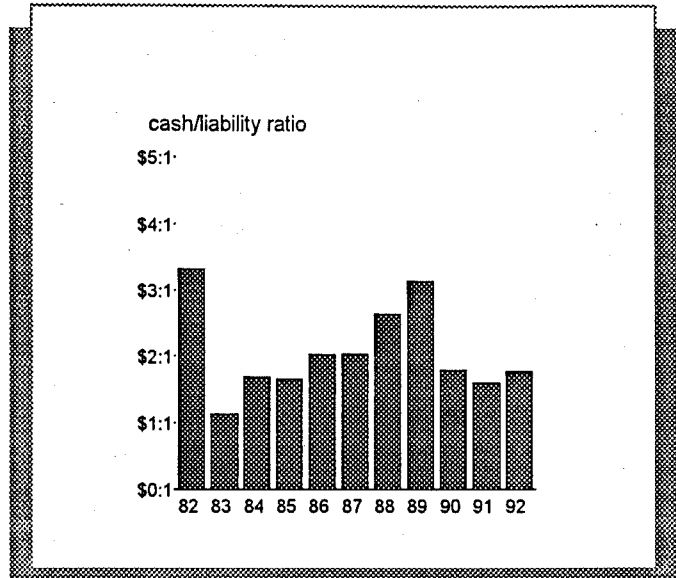
Declining fund balances are a warning trend. Unplanned declines or very low fund balances may mean that the County will be unable to meet service needs should a financial emergency or downturn in the economy occur.

Analysis

Although fund balances increased in absolute amounts from about \$7 million in FY83 to about \$37 million in FY91, County revenues grew faster, resulting in a relative decline. The General Fund has dropped from about 5% of operating revenues in FY86 to only 2.5% of operating revenues in FY92. The increase in FY90 in the Internal Service Fund is a balance maintained for County fleet replacement. The Special Revenue fund balance is largely restricted to road and bridge maintenance.

Liquidity

The County has maintained a favorable liquidity ratio over the past eleven years.



Liquidity is an indicator of the County's ability to pay its short-term obligations. Liquidity is the ratio of cash and short-term investments to current liabilities. A low ratio may result in cash-flow problems for the County and require greater use of short-term borrowing to cover expenses. Decreasing liquidity is a warning trend.

The credit rating industry considers a liquidity ratio of less than \$1 of cash to \$1 of debt to be a negative indicator.

Analysis

The County has generally maintained a liquidity ratio of at least \$2 of available cash to every \$1 of current liabilities. Increases in reserves are reflected in the high liquidity ratios in FY88 and FY89. The ratios indicate an adequate level of cash solvency and are considered acceptable by the credit-rating industry.

Debts and Liabilities

Summary

The County has maintained a favorable level for its accounts payable liabilities, and it has not used general obligation debt to finance capital. However, the County has increasingly relied upon certificates of participation to finance capital improvements such as the purchase or construction of facilities. Debt payments have grown from \$1 million to \$4.3 million in the past five years, with the County committed to another increase in the future to pay for construction of a new juvenile detention facility.

Indicators of Multnomah County liabilities show a decline in recent years, a favorable trend. The County participates in the Public Employee Retirement System and has a declining unfunded liability. In addition, the liability for unpaid employee leave has shown a decline in recent years as a result of increases in funds reserved for that purpose.

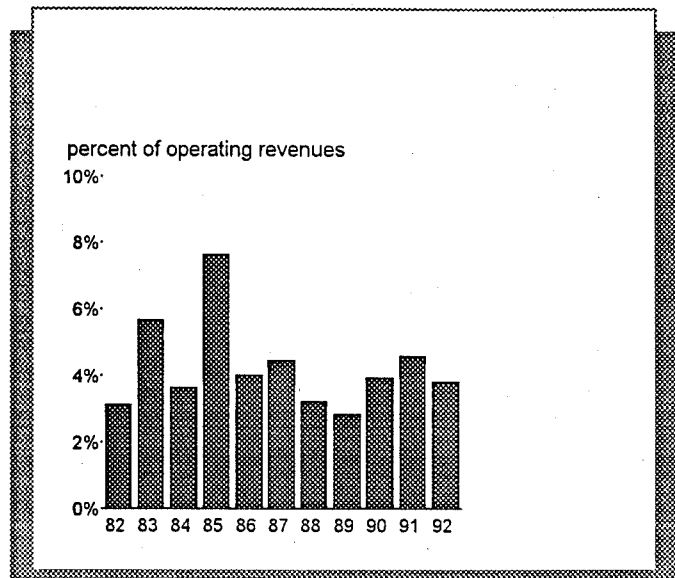
Actuaries have determined that the FY92 level of County self-insurance funds is adequate to cover most claims against the County. These funds are also supplemented by insurance policies to cover extraordinary claims.

Indicators

Accounts payable
Combined long-term debt
Debt service
Unfunded pension liability
Accumulated employee leave
Loss coverage

Accounts payable

The County has maintained a low level of short-term debt, a favorable trend.



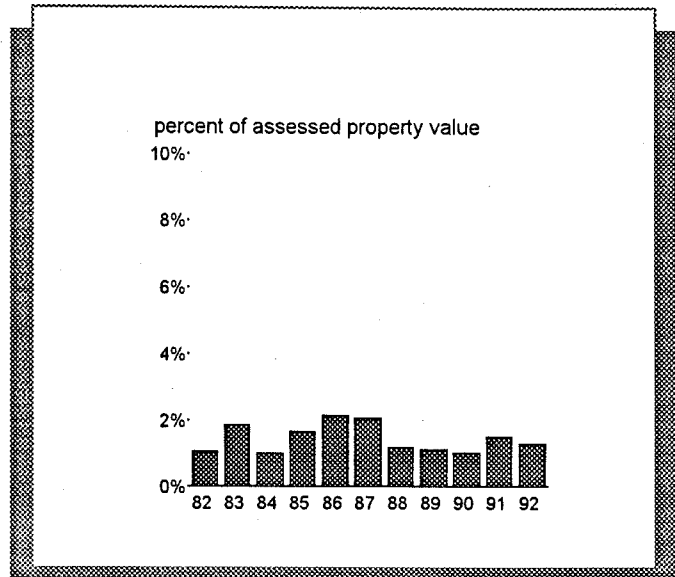
This indicator shows County payments due at fiscal year end as a percentage of operating revenues. These liabilities are comprised of warrants and accounts payable, accrued interest payable, and matured bonds payable.

Increasing accounts payable may indicate cash shortages and, therefore, is a warning trend.

Analysis

Except for FY83 and FY85, accounts payable have been in the range of 3% to 5% of revenues, a favorable indicator of County cash solvency.

Combined long-term debt
Combined debt of all other jurisdictions has been very low, a favorable trend.



Combined long-term debt represents the portion of debt dependent upon property taxes for payment and is a measure of the community's ability to pay. Multnomah County has no long-term bonded debt, but other governments such as school districts, cities, and special service districts have issued debt against the value of property in the County.

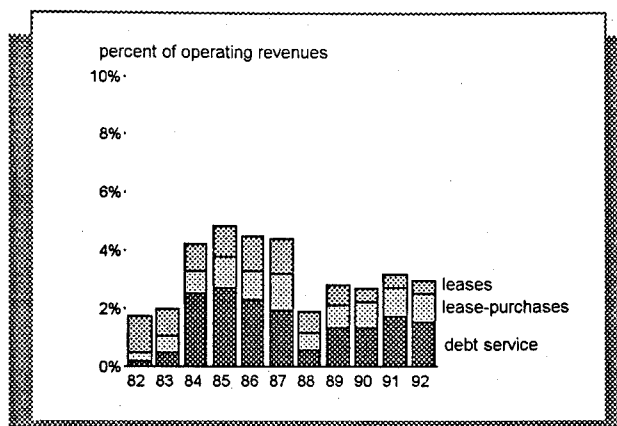
The credit rating industry considers combined debt exceeding 10 percent of assessed valuation as a warning.

Analysis

The County has issued no general obligation bonds, and other governments have kept debt at 2% or less of the value of property in the County during the eleven-year period.

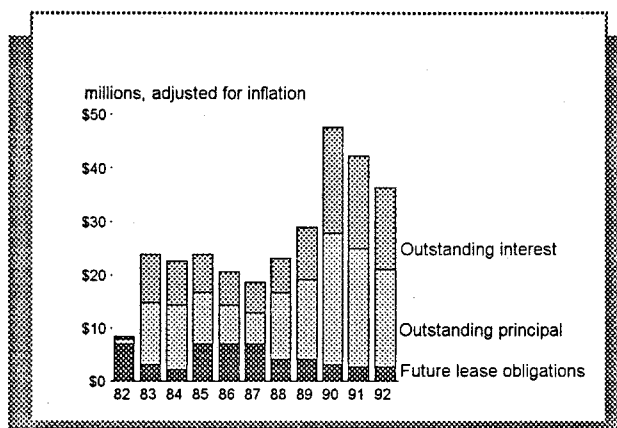
Fixed costs

Debt service and lease costs have generally declined during the past 9 years, a favorable trend.



Debt and lease obligations

While outstanding debt has declined in the past two years, there has been a longer, unfavorable trend of increasing obligations.



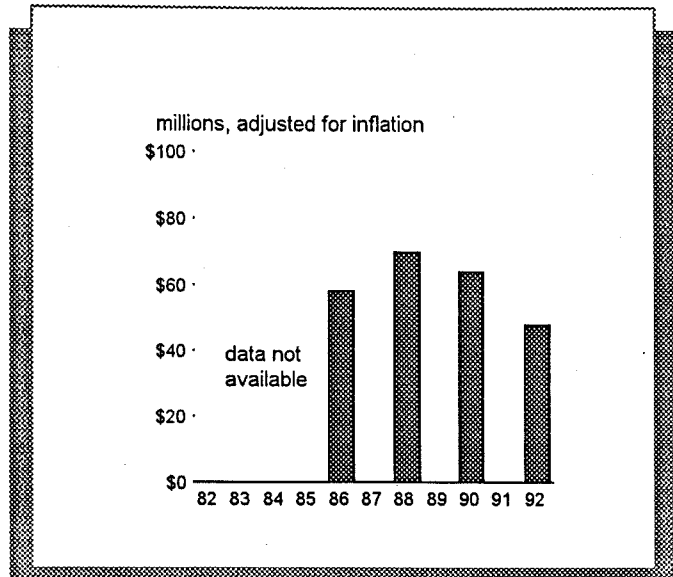
Fixed costs represent the annual payment of leases and long-term debt. It also includes interest on short-term debt that is used to finance services at the beginning of the fiscal year in anticipation of property tax receipts in November. The credit rating industry considers debt service up to 10% of operating revenues acceptable, and County Executive Order Number 204 sets a limit of 5%.

Analysis

Multnomah County has not issued any bonds for long-term debt, but has used certificates of participation to finance major capital projects. Under this arrangement, a facility is financed by an independent corporation which leases the facility to the County at a rate sufficient to pay off the debt. The County is also involved in lease-purchase contracts with some facilities and standard leases with others.

County outstanding obligations increased from \$19 million to \$36 million in the past five years with the construction or purchase of six buildings. In some cases, buildings were purchased with certificates of participation to replace or avoid leases. Debt and debt service will again increase in FY94 as a result of construction of the new juvenile detention facility.

Unfunded pension liability
The decline in unfunded pension liability is a favorable indicator.



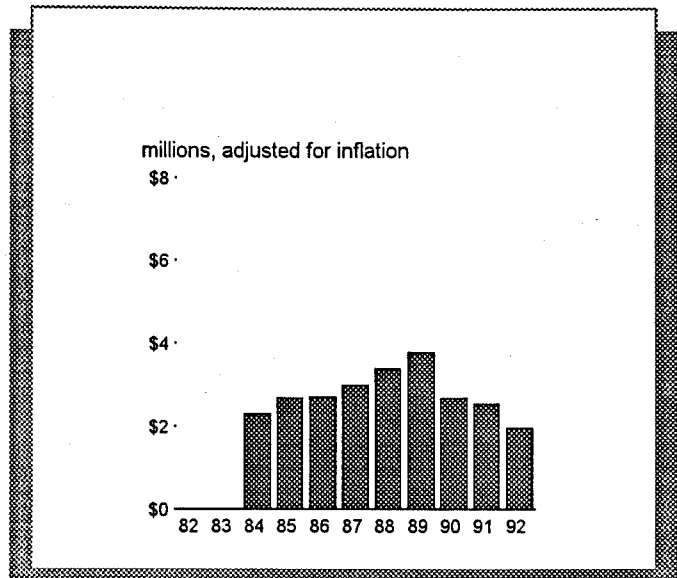
The unfunded pension liability is an estimate of the cost of the future retirement payments of present employees for which the County does not have funds already set aside. Inadequate funding of retirement programs can cause large, long-term liabilities. Increasing unfunded pension liability or diminishing pension assets are both warning indicators.

Analysis

Employees in Multnomah County are covered by the Oregon Public Employee Retirement System (PERS). PERS is a defined-benefit pension plan funded by employer contributions, member contributions, and earnings from investments. Contribution rates are evaluated every two years by an actuary and adjusted to cover the expected costs of retirements. Data is not available for years prior to FY86.

County employees covered by the Employees Retirement System and the Sworn Law Enforcement Officers Retirement Plan were integrated into PERS on July 1, 1981. Unfunded liabilities were to be made up through adjusted PERS rates over a 30-year period. Current library employees are also covered by PERS, but retired library employees are covered by another pension system which is fully-funded.

Accumulated employee leave
The decline in the liability for accumulated employee is a favorable indicator.



Accumulated employee leave is the value of unused vacation leave accrued to County employees. For employees who retire or leave the employment of the County, the unused vacation leave represents an actual cost. For employees who remain on the payroll and use their vacation leave, it poses no additional costs to the County, except in loss of services while they are absent. Increasing accumulated leave indicates growing unfunded liabilities and is considered a warning trend.

Analysis

The liability for employee leave has declined by nearly half in the past three years because the County has been setting funds aside to cover an increasing portion of the liability. Data for FY82 and FY83 were not calculated consistent with later years.

Self insurance

Employee health benefits
Tort and general liability
Workers' compensation
Employee post-retirement benefits
County assets
Unemployment claims

Loss coverage

The County's insurance reserves are adequately funded, a favorable condition.

Loss coverage is the level of funding available to manage claims against the County. Claims are generally litigation, or for worker injuries or unemployment benefits. Insurance reserves are also maintained to cover unexpectedly high medical or dental benefits for employees. Inadequate reserve funds to cover these costs can require the diversion of operating revenues to meet unexpected losses or demands.

Analysis

The County maintains reserve funds to cover liability, workers' compensation, post-retirement benefits, County assets, and unemployment claims. The County also purchases insurance coverage for claims in excess of its own coverage. Analyses conducted by independent actuaries indicate that each of the funds contain adequate reserves to cover ordinary losses and expenditures. These levels, combined with liability insurance purchased by the County for large liability claims, indicate a favorable condition.

Infrastructure

Summary

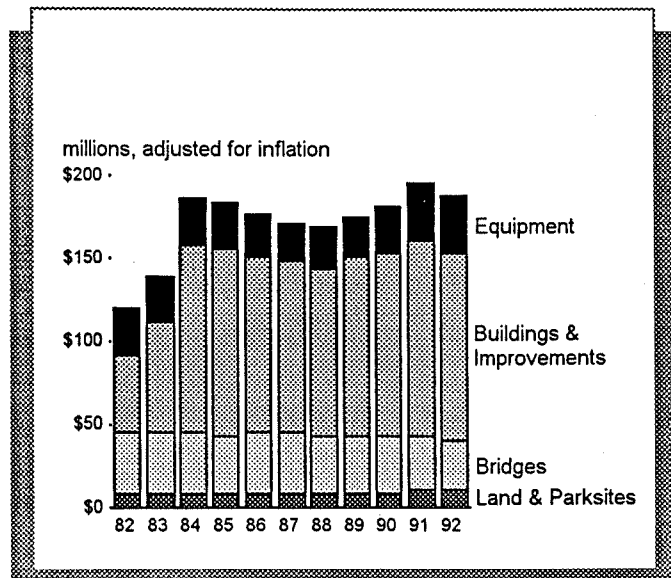
The County's largest valued assets are its buildings and improvements, which have shown further increases in recent years as a result of new acquisitions. Information on the County's roads and roadway improvements, possibly its most valuable assets, was not available for this analysis. Trends are generally favorable, with capital spending remaining relatively constant. The depreciation rates of County assets have remained relatively constant as well.

Indicators

Assets
Capital outlay
Depreciation

Assets

Buildings are the highest valued category of County physical assets.



The County owns land, buildings and other improvements, and equipment to provide cost-effective services. Regular maintenance efforts are necessary to ensure that the general condition of the assets does not deteriorate. Deferring expenditures for regular maintenance can create liabilities which far exceed the deferred expenditures. In addition, deteriorating physical assets can discourage business activity, reduce property values, and increase County operating expenses.

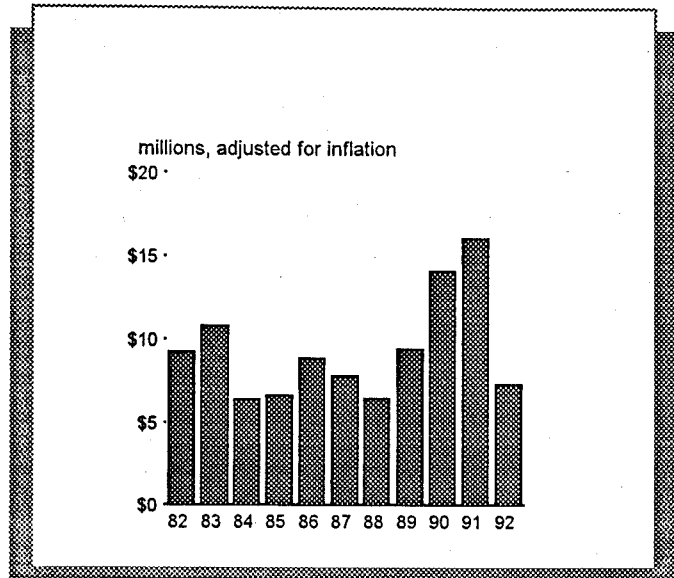
Accounting standards require that assets must be valued in the financial statements at their original purchase or construction costs less any depreciation in value. Replacement value for assets could be substantially more.

Analysis

According to financial statements, the most valued category of County assets are its buildings. The acquisition of additional buildings and jails contributed to the relative increases in the past five years. Historical data has not been collected on maintenance effort for most of the categories. Other assets which could also be considered include roads, signals, and street lighting, although an engineering manager stated that there is no deferred road maintenance.

Capital outlay

Capital spending has remained relatively constant, a favorable trend, with additional outlays in FY90 and FY91.



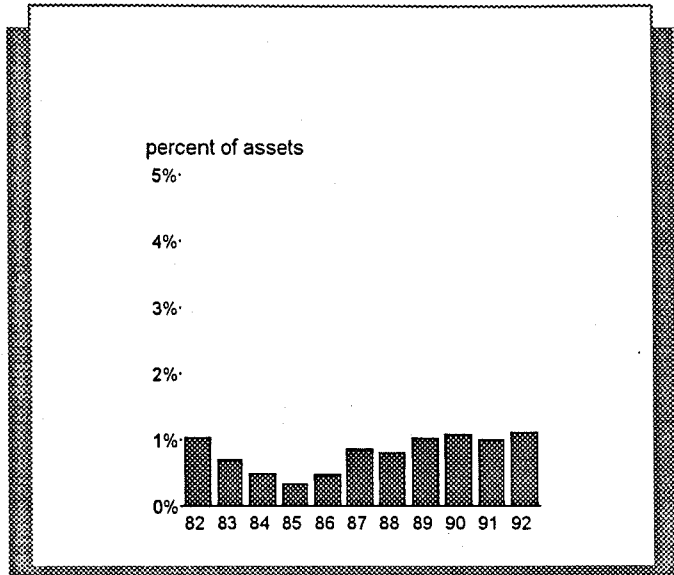
Capital outlay refers to expenditures for facility improvements and equipment such as desks and personal computers. During this period equipment costing \$500 was considered a capital purchase. The warning trend is declining capital expenditures which may indicate the use of inefficient or obsolete equipment.

Analysis

Capital spending has remained in the \$6 million to \$10 million range, except for FY90 and FY91 when the construction of two jails increased this category of spending. This pattern generally indicates a favorable trend.

Depreciation

The general value of County fixed assets has remained stable in the past four years, a favorable trend.



Depreciation allocates the cost of enterprise and internal service fixed assets over their useful life. A declining percent occurs when the general value of these County assets declines, and is considered a warning trend.

Analysis

The declining depreciation in the early 80s reflects the County's financial strains of that period. Depreciation has returned to earlier levels since that time, a favorable trend.

Revenue Base

Summary

Multnomah County's revenue base shows both favorable and unfavorable trends. In constant dollars, property values showed a five-year decline, although values began increasing again in FY91 and FY92. The decline in values occurred despite over \$3.5 billion in new construction during the eleven-year period. The value of new residential construction generally showed increases, while non-residential construction showed less of a pattern with several years of large volume. Property tax delinquencies generally declined throughout most of this period.

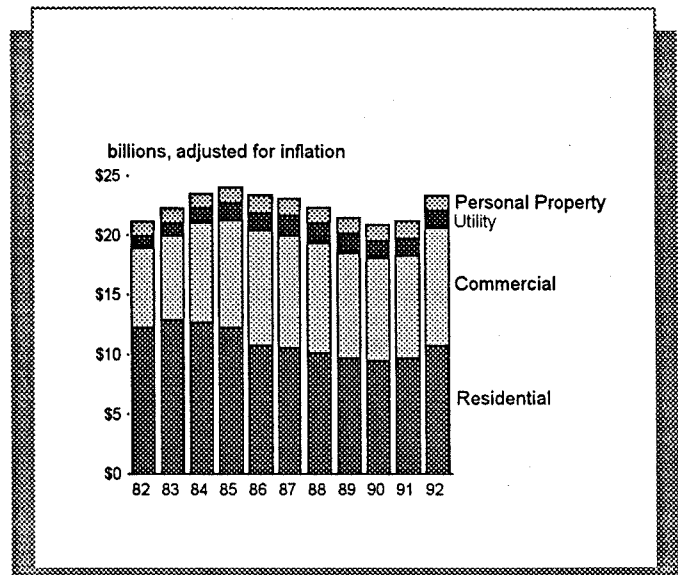
Business activity in Multnomah County showed a trend of improving economic conditions. The number of businesses showed steady growth in the past six years. Unemployment declined from nearly 10% in FY82 to a low of about 4% in FY90, although recent years show unemployment growing to 6%.

Indicators

Assessed property values
Uncollected property taxes
New construction
Business Activity

Property value

Property values, adjusted for inflation have shown a cycle of decline, with some growth in the past two years.

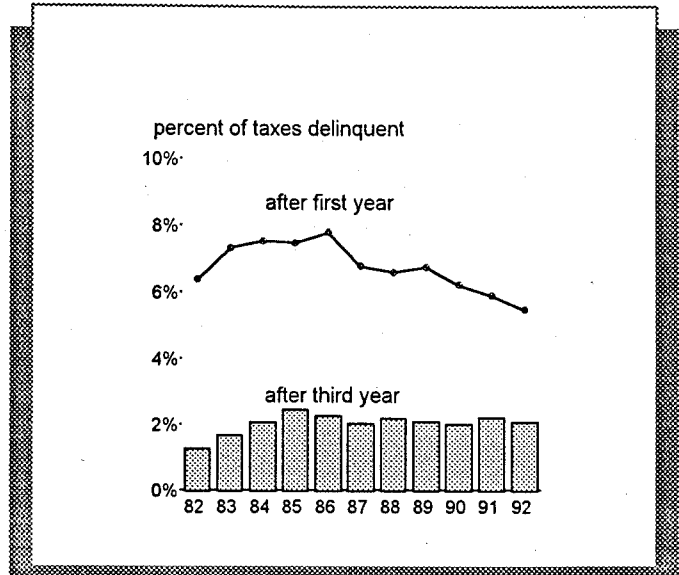


Assessed property value is a measure of the market value of taxable real, personal, and utility property in Multnomah County, based upon Tax Assessor records. It is expressed in constant FY92 dollars.

Analysis

In constant dollars the assessed value of Multnomah County property shows a cycle of growth, followed by five years of decline, followed by an increase of about 12% in the last two years. In the mid-80s commercial property values increased while residential values declined. Beginning in FY86 both commercial and residential property values failed to keep pace with inflation. Values increased slightly in FY91 and grew substantially in FY92. Part of the increase was also due to a change in the annual date of assessment from January 1 to July 1, resulting in a one-time 18-month period for the FY92 assessment. This change was required by Ballot Measure 5.

Uncollected property taxes
 Property tax collections show a favorable trend of declining first-year delinquencies and low delinquencies after three years.



Uncollected property taxes are affected by economic conditions, penalties for delinquency, and the owner's ability to pay. Increases over time may show a decline in local economic health. This indicator shows the delinquency rate one year and three years after the taxes were due. An increase in uncollected property taxes is considered a warning trend.

The credit rating industry reviews the delinquency rate after two to three years of collection efforts. A delinquency rate of 2 to 3 percent is normal but rates above 5 percent, or two consecutive years of increasing rates, are considered negative factors.

Analysis

The weak economy in the early 80s increased first-year delinquency rates, although they have been steadily declining since FY85-86. The third-year rates were constant at 2% throughout the ten-year period.