Financial Condition
Multnomah County Oregon
June 2013

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Date: June 12, 2013

To: Multnomah County Chair Jeff Cogen
Commissioner Deborah Kafoury, District 1
Commissioner Loretta Smith, District 2
Commissioner Judy Shiprack, District 3
Commissioner Diane McKeel District 4
Sheriff Daniel Staton
District Attorney Rod Underhill

From: Steve March, Multnomah County Auditor
Judith DeVilliers, Principal Management Auditor
Mark Ulanowicz, Principal Management Auditor
Nicole Dewees, Performance Auditor

Subject: Financial Condition Report, 2013

This is the eleventh biennial financial condition report completed by the Auditor's Office. For most indicators we use a ten-year period, which is commonly used by local governments to demonstrate the ability to fund services on an ongoing basis. A local government that can maintain services to the public while meeting changing service demands and withstanding economic downturns is generally considered to be in good financial condition. We believe the County has met this standard.

Over the past twenty-plus years we have worked with the County's Boards, Budget Directors and Chief Financial Officers, who have made the difficult decisions that have affected the past, present and future of the County. In five of the eleven reports we have published we have made recommendations for policies or actions to improve the County's financial condition. We are not making additional recommendations in this report and are pleased to report that nearly all of our recommendations have been implemented to date.

Because a financial condition report is a look back, nearly all of the most recent data trends negatively reflecting the economic downturn suffered locally and nationally, but a couple of indicators, New Construction and the Number of Businesses, point upward. The County's past commitment to solid financial policies has put us in a good financial condition to serve our constituents as conditions improve.

We would like to thank the various staff who provided assistance in this report and in contributing to the strength of the County.

Table of Contents

Introduction

This is the eleventh report completed by the Auditor's Office on the financial condition of Multnomah County. The report is issued biennially and covers indicators over a ten-year period. These measures are commonly used by local governments to demonstrate their ability to fund services on a continuing basis. A local government in good financial condition can maintain services to the public, withstand economic downturns, and meet the demands of changing service needs.

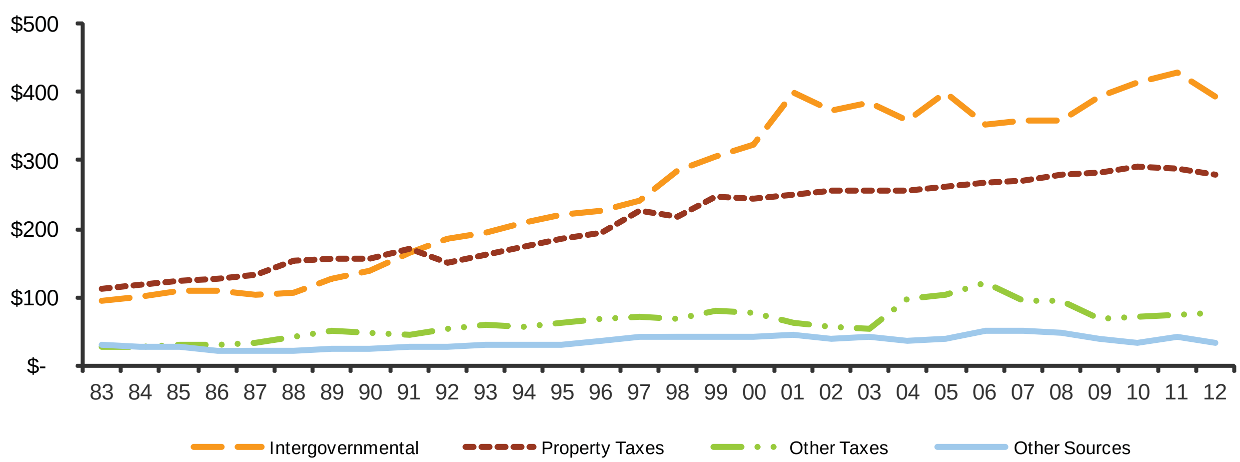
The Auditor's Office looked at measures of resources coming into the County, how these resources were used, and the County's financial health over time. We also included indicators showing changes in population and the economy, and assessed how those changes can affect County services.

Five of our eleven reports had recommendations for policy or actions to improve the County's financial condition; we have listed these in "Recommendations from Prior Reports" on page 20. Nearly all of our recommendations have been implemented because of the strong financial leadership of the County's Budget Directors and Chief Financial Officers over the years, and Boards of County Commissioners willing to make the difficult decisions that affect both the present and future of the County.

Since we began issuing these reports, the County has undergone major changes in the property tax system, assumed responsibility for some state human service and public safety programs, and experienced economic downturns. We believe the current financial health of Multnomah County is the result of difficult decisions made by County Boards who responded to these challenges by creating and following sound financial policies while providing better service to the public.

The following two charts provide a brief look at the thirty-years covered in our last ten reports and this, our eleventh. Although property tax revenues have grown with the economy and an increasing population, the County has also increased its dependence on intergovernmental revenues from state and federal sources for many essential County services.

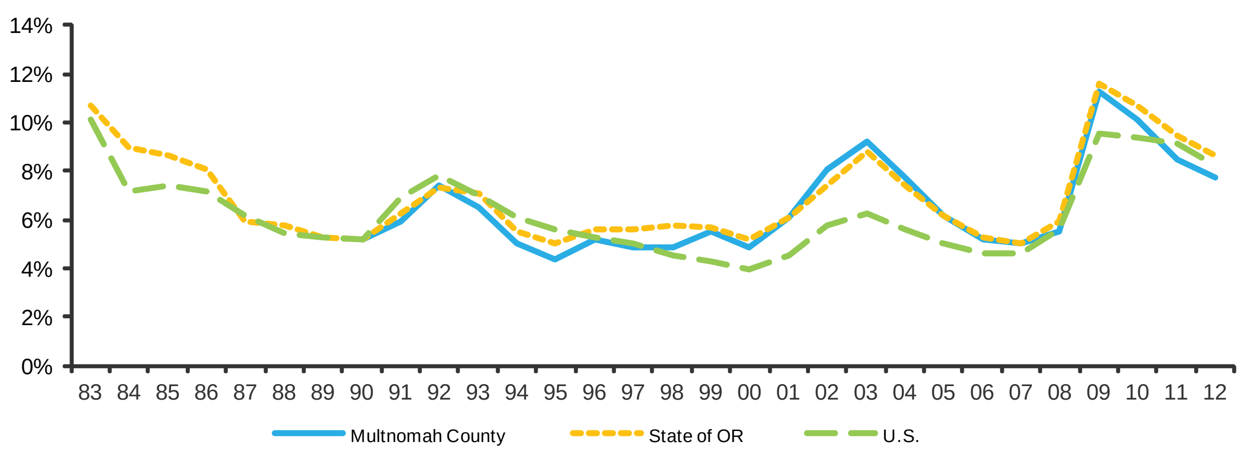
Thirty-Year Operating Revenues by Source
Fiscal year ended June 30 (in millions)



Introduction

Our report on the financial condition of the County includes indicators relating to the economy and demographics in addition to revenues and spending. Economic conditions influence resources such as business income tax, and even more recently property taxes. A poor economy and loss of jobs puts more County residents at risk and in need of services. The unemployment rate is one indicator of the economic conditions in the County. In the last thirty-years covered by our reports, the unemployment rate has fluctuated from occasional low rates under 5% up to some years with high rates over 10%. Maintaining a healthy financial condition for the County has been challenging for the Board of County Commissioners who have to make difficult decisions of meeting the immediate needs of County residents and maintaining a healthy government that can meet the ongoing and future needs.

Thirty-Year History Unemployment Rates
Fiscal year ended June 30 (in millions)



The remainder of this report shows financial indicators over the ten-year period of FY03 to FY12. The revenues and spending are those from all funds used to pay for ongoing services, but not bond proceeds for capital projects or some revenues collected for other governments. All indicators in the report are adjusted for inflation. See page 21 for further details describing the scope of our review.

County Revenues

Chart 1 Total Operating Revenues
Fiscal year ended June 30
Adjusted for inflation (in millions)

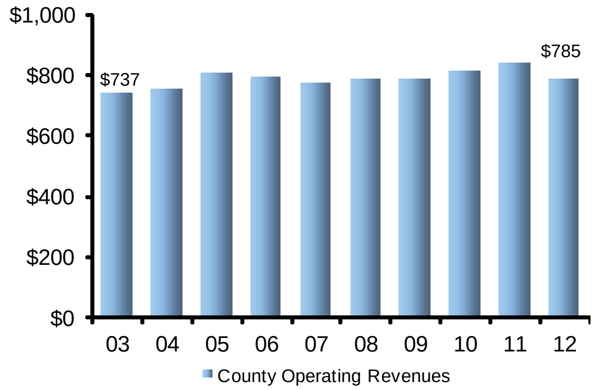


Chart 2 Total Operating Revenues by Fund
Fiscal year ended June 30, 2012 (in millions)

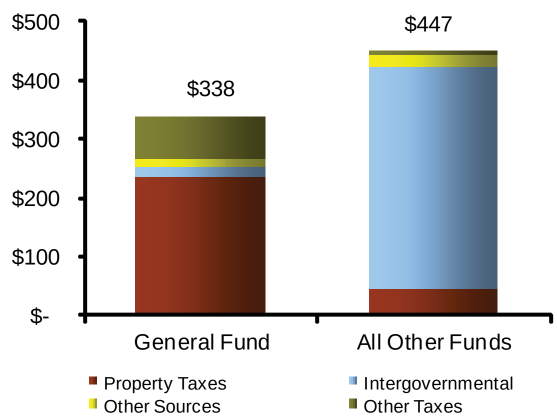
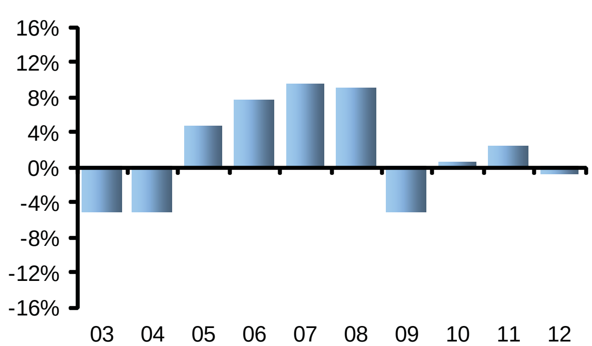


Chart 3 Budgeting General Fund Revenues
Actual revenues as a percent of adopted budget
Fiscal year ended June 30, 2012



Operating Revenues

The County is dependent on intergovernmental revenues for about half of its operating revenues, which are generally restricted to specific programs. The County has discretion with regard to revenues from property taxes, other taxes, and other sources. The decline in operating revenues from FY11 to FY12 was primarily from a decrease in intergovernmental revenues sources.

Operating Revenues by Fund

In FY12 43% of the County's operating revenues were accounted for in the General Fund, which is the County's chief operating fund. The County has more discretion over General Fund spending because other funds are dedicated to specific programs or services. 57% of operating revenues were accounted for in other funds, the largest of these is the Federal and State Program Fund.

Budgeting County Revenues

This indicator reflects the difference between General Fund operating revenues estimated in the adopted budget and actual General Fund revenues received. Major shortfalls can indicate inaccurate estimating or sharp fluctuations in the economy. Because Oregon budget law does not allow deficit spending, significant shortfalls require mid-year cuts in services or spending of reserve funds. The General Fund revenues consist primarily of property taxes and the business income tax. FY04 – FY06 also included the County's three-year temporary income tax. The Business Income Tax has always been volatile and dependent on the economy, and recently property taxes have decreased due to economic declines. The variance between the budgeted and actual revenues for the General Fund was 5% or less in the last few years, even with an unstable economy.

Chart 4 Intergovernmental Revenues
Fiscal year ended June 30
Adjusted for inflation (in millions)

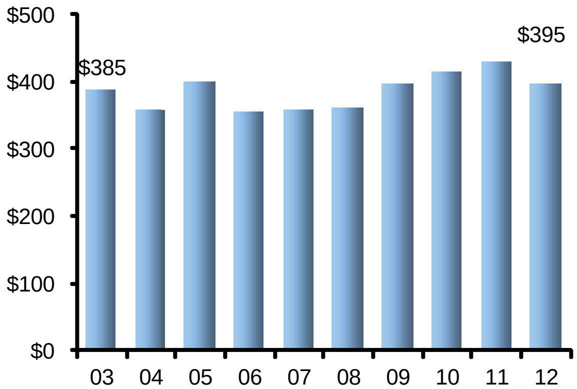


Chart 5 Intergovernmental Revenues by Program
Fiscal year ended June 30, 2012

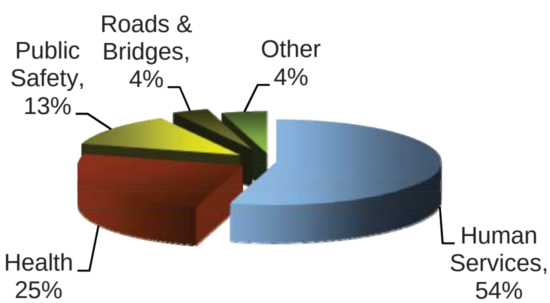
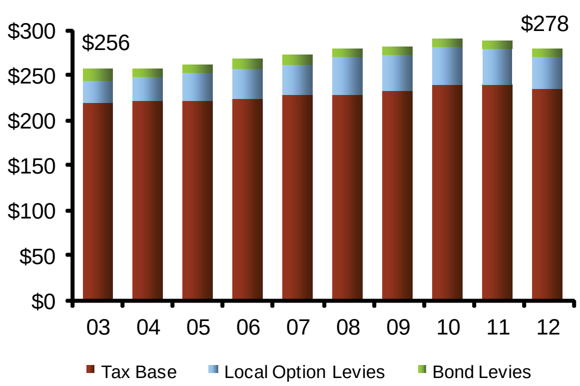


Chart 6 Property Tax Revenues
Fiscal year ended June 30
Adjusted for inflation (in millions)



Intergovernmental Revenues

Most County programs are highly dependent on intergovernmental revenues, which fluctuate based on federal and state budgets. In FY12, 54% of these revenues went to human services and 25% to health services. The County is forced to cut services or use one-time sources or General Fund reserves when these revenues decrease. For example, intergovernmental revenues made up 31% of the resources for public safety programs in FY03, and only 22% in FY12. Spending did not decline as the General Fund made up the difference.

Overall intergovernmental revenues increased by $10 million from FY03 to FY12; however the County experienced a decrease of $34 million from FY11 to FY12. Nearly half of this decrease was for human services' programs, with decreases also in health and public safety programs. A small part of this decrease was due to the decline in federal stimulus dollars. The increase in FY05 includes $25 million in the Bridge Fund for construction of the Sauvie Island Bridge.

Property Tax Revenues

In total, property tax revenues increased 9% from FY03 to FY12. Property tax revenues decreased from FY10 to FY12 by nearly $12 million, most of the decline was due to the economy and the decline in real estate values, and in some cases assessed values, which resulted in lower tax revenues.

Most of the property taxes are from the tax base and available for County operations. The voter-approved local option and bond levies are dedicated to specific uses; for FY12 $33.8 million was dedicated for County libraries and $1.9 million to the Oregon Historical Society. These voter approved local option levies for library operations increased $9.6 million (40%) over the last ten years. Property taxes levied for general obligation bonds continue to decrease as the County repays these bonds

Chart 7 Other Taxes
Fiscal year ended June 30
Adjusted for inflation (in millions)

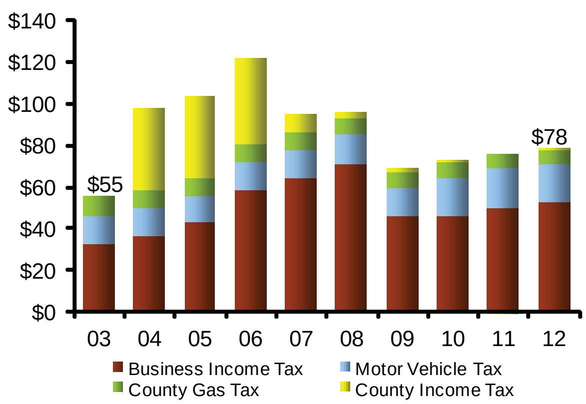
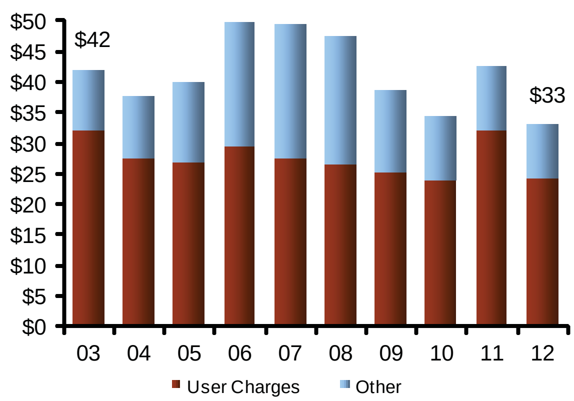


Chart 8 Other Revenues
Fiscal year ended June 30
Adjusted for inflation (in millions)



Other Taxes

Other taxes include the Business Income Tax (BIT), Motor Vehicle Rental Tax, County Gas Tax, and in FY04, FY05, and FY06 a temporary income tax. Revenues from the BIT fluctuate with the economy and went from a high in FY08 of $70 down to $52 million in FY12. The BIT revenues are not restricted and made up 15% of the County's General Fund discretionary revenues; approximately 10% of the BIT is passed through to East County cities. The County's share of the Motor Vehicle Rental Tax is also unrestricted; the total for FY12 was $19 million. The Board's decision in May of 2009 to increase the Motor Vehicle Tax from 12.5% to 17% resulted in a $5.4 million (41%) increase in unrestricted Motor Vehicle Tax revenues between FY03 and FY12. The County Gas Tax of $7 million in FY12 is restricted for roads and bridges.

Other Revenues

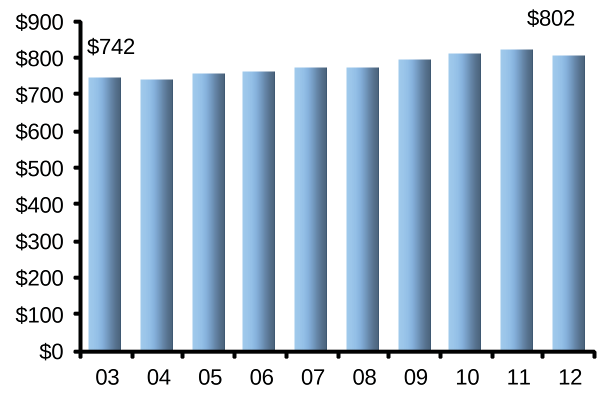
User charges include fees and charges intended to recover the cost of services whenever possible. Other income from fines, non-governmental grants, donations, and interest income are impacted by economic conditions. In FY11, there was an increase in User Charges due to a new revenue source, vehicle registration fees, which are dedicated to the Sellwood Bridge construction.

County Spending

Total Spending for County Operations

The total spending for operations increased by $60 million (8%) from FY03 to FY12, however the amount per County resident decreased by 2% as the County population increased. Over 70% of the increase was spending for personal services; other increases were in contract and pass-through spending, and for materials and services. There was a decline in debt service payments as the County has continued paying down on long-term debt.

Chart 9 Total Spending for Operations
Fiscal year ended June 30
In millions. adjusted for inflation

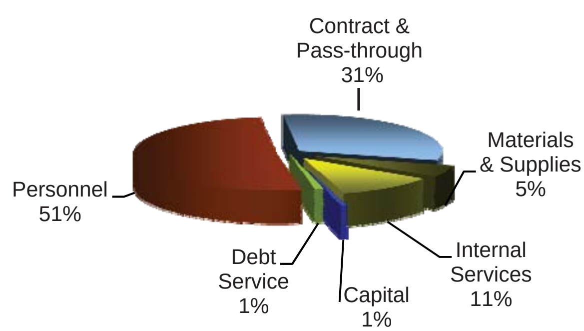


Spending by Type

Personnel costs, which include salaries, benefits, and other related costs, totaled $413 million in FY12 and represented 51% of the total spending. Spending on personnel has increased by 13% from FY03 to FY12. Spending on contracts and pass-through accounted for 31% of the County's spending in FY12. This amount includes $34 million in the County's matching for federal programs, $16 million for direct client assistance, $19 million in professional services, $142 million in pass-through and program support, and $67 million in state payments for developmental disabilities services.

Internal services made up 11% of overall spending. These are services provided internally by the County, such as building rent and maintenance, fleet services, information technology, and mail distribution services. Spending on internal services has decreased by 2% in the past ten years. Materials and supplies, capital spending, and debt service make up the remaining 5% of overall spending

Chart 10 Spending by Type
Fiscal year ended June 30, 2012



Spending by Program

In FY12, 55% of spending was for health and human service programs. Public safety programs, which includes jails, community justice programs, and prosecution made up 28% of spending. The remaining 17% was for programs that serve most citizens such as library services; road and bridge operations; and general government services including animal control, elections, property tax assessment and collection, emergency management, and land use planning.

Chart 11 Spending by Program
Fiscal year ended June 30, 2012

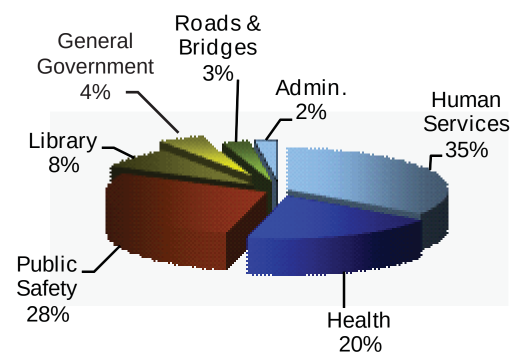


Chart 12 County Employees

Total FTE
Fiscal year ended June 30

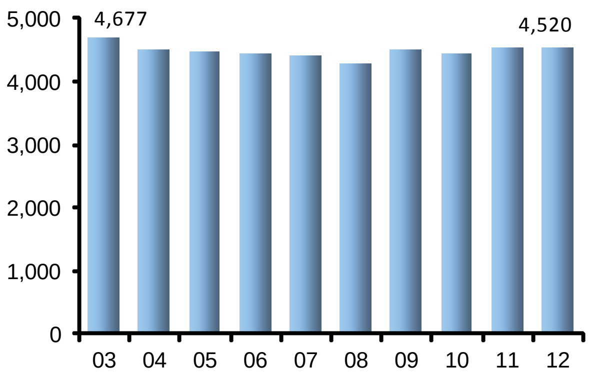


Chart 13 Wages, Benefits and Other Costs

Total Wages and Benefits adjusted for inflation
Fiscal year ended June 30

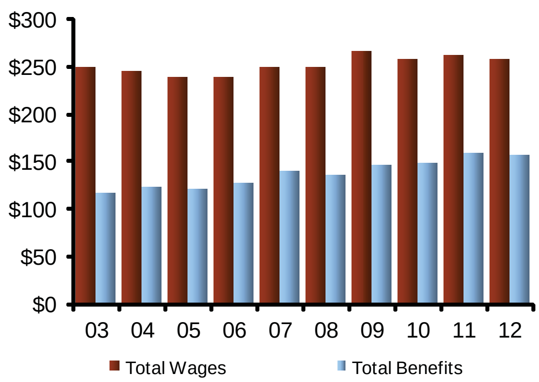
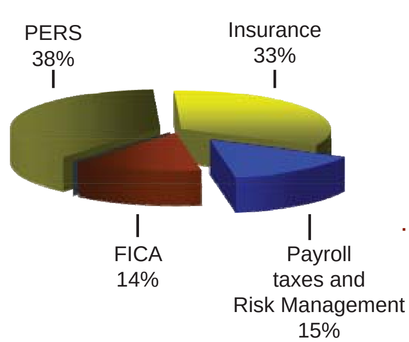


Chart 14 Benefits and Other Costs by Type

Fiscal Year ended June 30, 2012



Number of Employees

The County experienced an overall decrease in full time equivalent employees (FTE actual hours worked) of 157 FTE (-3.4% from FY03 to FY12).

Wages and Benefits

Total wages for County employees peaked in FY09 and have declined slightly in recent years. Some of the decrease is attributable to a wage freeze for employees during this time.

Growing health insurance costs contributed to the increased cost of employee benefits, which rose by 34% from FY03 to FY12. Total benefits in FY12 include payroll taxes and risk management costs (accounting for 15% of total benefits paid), , FICA taxes (14%), PERS, including payment on bonds (38%), and health insurance (33%).

For FY12, the County's annual pension cost for PERS was equal to the County's required and actual contributions. Health insurance includes other post employment benefits (OPEB); the County has not established a trust fund to supplement the costs for the net OPEB obligation, which was $105 million at June 30, 2012. Details about the County's PERS and OPEB obligations can be found in the County's Comprehensive Annual Financial Reports, which can be found at www.multco.us.

Public Safety

Total spending for public safety has maintained stability because the County's General Fund made up for declining federal and state resources, except for FY04, FY05, and FY06 when the ITAX helped mitigate losses of federal and state resources. For FY12, resources were primarily from the County's General Fund (73%). Intergovernmental sources represented 22% and other sources, including property taxes to repay the debt for public safety bonds, were 5% of the total resources.

Public safety programs in FY12 include: the Sheriff's Office, which operates the County's jails and provides law enforcement to smaller cities and unincorporated Multnomah County; the Department of Community Justice provides supervision of juvenile and adult offenders in the community; the District Attorney's Office prosecutes offenders and protects crime victims; and debt repayment of general obligation bonds used for construction and technical upgrades for public safety programs. Corrections Health spending is included with the Health Department

Chart 15 Public Safety Programs
Fiscal year ended June 30
Adjusted for inflation (in millions)

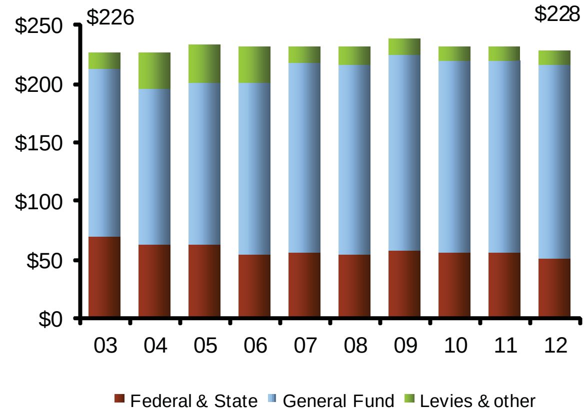
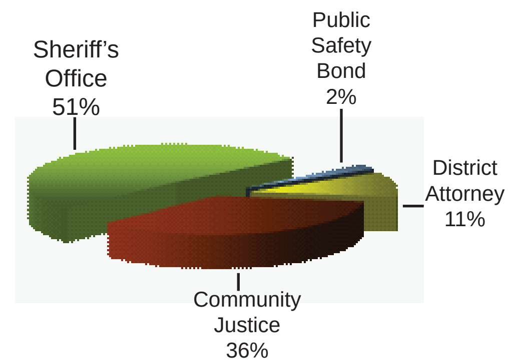


Chart 16 Public Safety by Department
Fiscal year ended June 30, 2012



Roads and Bridges

Spending for roads and bridges includes bridge operations and maintenance, road maintenance, and capital for repairs and improvements. Resources for road and bridge operations are primarily from the County gas tax and state motor vehicle tax revenue sharing. The portion of revenue sharing that is passed through to cities in the County is not included here as operating revenues or spending, this was $27 million in FY12. No General Fund dollars are allocated for these functions.

Most of the other sources of funding represent capital project revenues from the federal and state governments dedicated for specific capital repairs or improvements. These are accounted for along with operations, rather than in capital project funds. This accounting creates fluctuations in these funds, such as with the Sauvie Island Bridge project in FY06-08. However, construction for the Sellwood Bridge is being reported in a separate capital project fund. See page 14 for more information about this major bridge project.

Chart 17 Roads and Bridges
Fiscal year ended June 30
Adjusted for inflation (in millions)

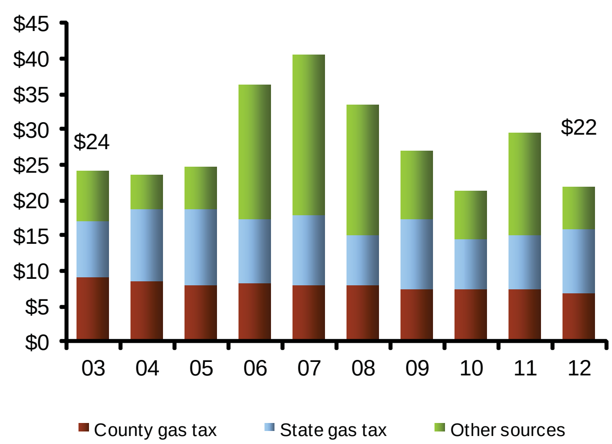
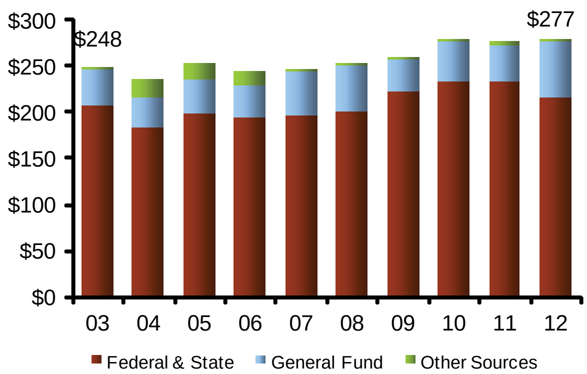


Chart 18 Human Services
Fiscal year ended June 30
Adjusted for inflation (in millions)

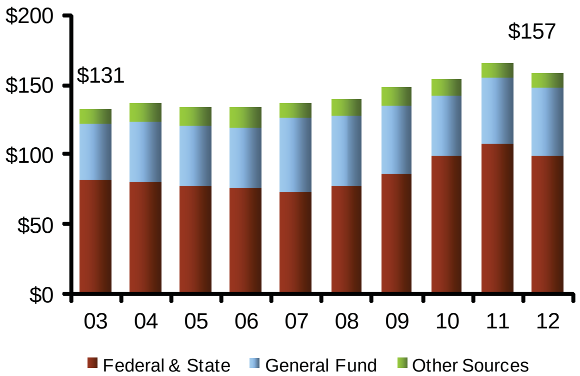


Human Services

Human services are provided by the Department of County Human Services for the elderly; individuals with developmental or physical disabilities; those with alcohol and drug addictions; people with mental health concerns; school-age children; survivors of domestic violence; and those living in poverty. Including funding from the state to developmental disabilities service providers, about 29% of spending in FY12 went to providing direct client assistance, 43% went to community-based providers, and the remaining 28% was for direct services provided by County staff and other costs.

Overall spending on human service programs has fluctuated from FY03 to FY12. Spending on human service programs increased by $29 million (12%) from FY03 to FY12, $21 million of the increase was from the General Fund.

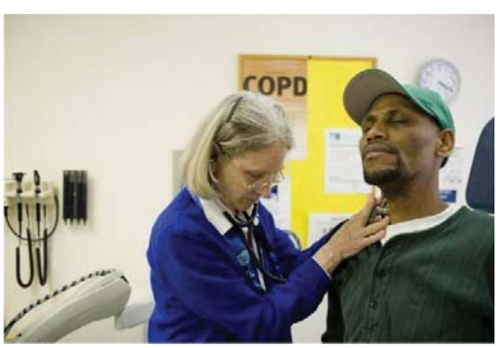
Chart 19 Health Services
Fiscal year ended June 30
Adjusted for inflation (in millions)



Health Services

Health Services, which are provided by the County Health Department, include medical and dental clinics, public health services, school clinics, and other health care and education services for the community. The Department also provides health care for the County's jail population.

The Health Department spent about $157 million in FY12, an increase of $26 million (20%) from FY03. From FY08 to FY12, the Health Department has received 3% fewer General Fund dollars, but saw a 28% increase in resources from federal and state governments. This increase was partially due to an increase in Medicaid reimbursements as the County expanded clinical services, increased community education, and improved Medicaid eligibility services.



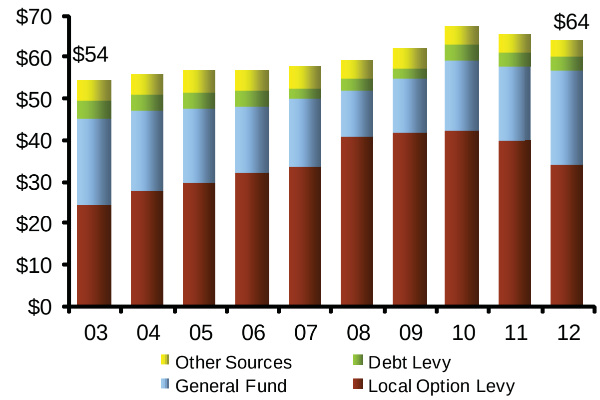
Multnomah County runs seven health clinics

Library

The County serves the public with a main library downtown and 18 library branches throughout the County. Spending for library services totaled $64 million in FY12, an increase of $10 million (18%) from FY03. In May 2012, voters approved a three-year local option levy which continued the same rate of levy funding as the previous levy that expired on June 30, 2012. In November 2012, voters approved Measure 26-143 creating a permanent library district to fund library services that will take effect July 1, 2013. The County will continue to operate the libraries through an intergovernmental agreement with the Library District.

The debt levy shown here is for general obligation bond borrowing for new libraries and improvements paid for directly by a separate property tax debt levy in addition to the local option levy

Chart 20 Library Services
Fiscal year ended June 30
Adjusted for inflation (in millions)



General Government

Spending for general government services has fluctuated over the last ten years. Included are mandated services such as property assessment and tax collection, elections and cost of providing space for the state courts. General government services also include Animal Services, Land Use & Transportation Planning, Emergency Management and several other programs.

Resources for most general government services come from the General Fund, user fees and charges, and some intergovernmental sources for property assessment and tax collection and emergency services.

Chart 21 General Government
Fiscal year ended June 30
Adjusted for inflation (in millions)

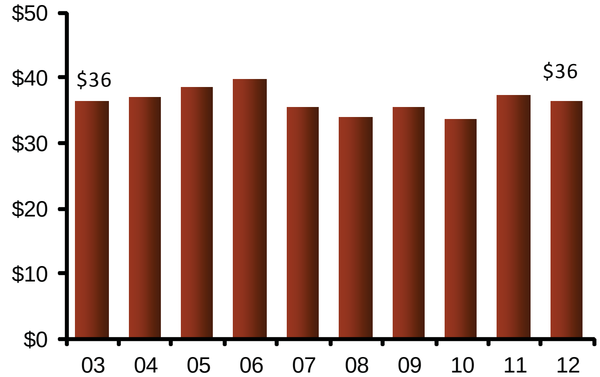
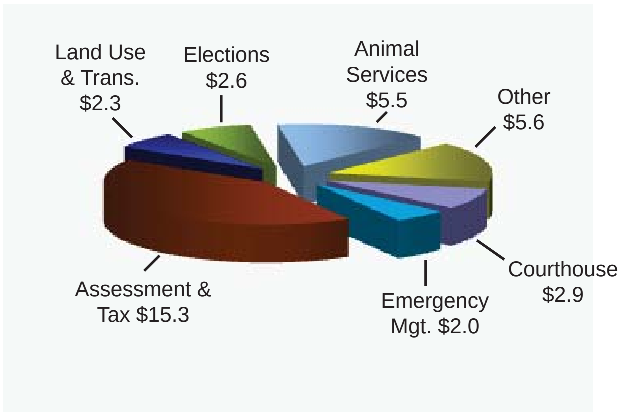


Chart 22 General Government by Program
Fiscal year ended June 30, 2012 (in millions)



County Spending

Chart 23 Internal Services and Administration
Fiscal year ended June 30
Adjusted for inflation (in millions)

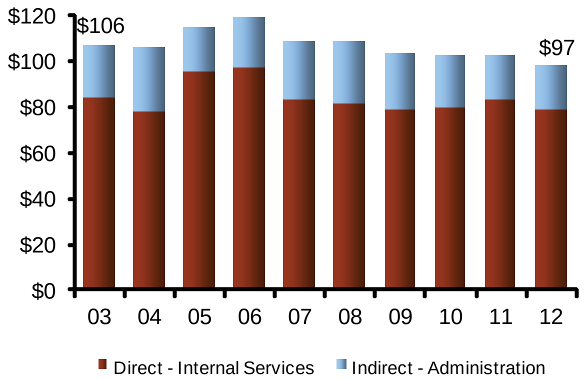


Chart 24 Direct - Internal Service Funds
Fiscal year ended June 30, 2012 (in millions)

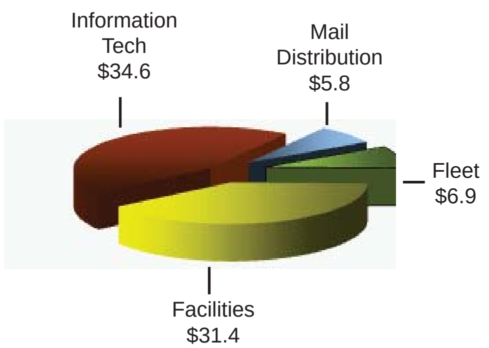
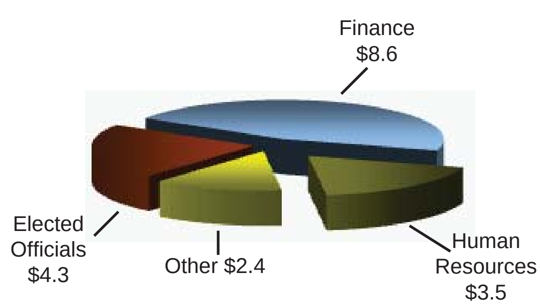


Chart 25 Indirect - Countywide Administration
Fiscal year ended June 30, 2012 (in millions)



Internal Services and Administration

Spending for internal services and administration has decreased 8% over the last ten years. The increases in FY05 and FY06 were from the County's shared services initiative that centralized some services and staff from individual departments into the Business Services Fund for those years only.

Internal services and countywide administration costs are charged to and included in County departments' total program spending. Of the total for FY12, $79 million was charged directly to departments by internal service funds and $18 million was for countywide administrative costs.

Direct - Internal Service Funds

As noted above, services provided by the Internal Service Funds are charged directly to County departments and programs. About 10% of internal service funds costs, not included in Chart 23, were charged to other governments and non-profit organizations that purchase these services directly. Internal Service Funds include:

- Information Technology - manages data processing and telephone services
- Facilities - maintains and manages all owned and leased properties
- Fleet Maintenance - manages County vehicles and motor pool
- Mail Distribution - manages mail and distribution

Indirect - Countywide Administration

Countywide administrative costs are primarily paid out of the General Fund, much of which is charged indirectly to other funds and programs through the indirect cost allocation plan. Countywide administration includes:

- The Chair, and County Commissioners, and the County Auditor's Office
- Budget and Finance, which also includes Risk Management, Treasury, and Payroll,
- Administration for Central Human Resources and Benefits
- Other, includes Departments of County Management and Community Services director's offices, the Communications Office, the Office of Citizen Involvement, and special countywide projects.

General Fund Balance

The County's General Fund balances are classified as to the amount that is restricted or reserved, and the amount that is unreserved or unassigned and available for discretionary spending. The Board has set goals to increase and maintain an appropriate level of reserves in the General Fund, and recently established a stabilization reserve for Business Income Tax. These reserves help avoid financial instability from temporary fluctuations in revenues due to the volatility of and a lack of diversity of General Fund revenues.

About half of the decline in reserves in FY09 was due to a transfer of $24.2 million to the Debt Service Fund to reduce future debt payments saving $5 million, and transfers to capital projects and internal service funds.

This reserved fund balance is also needed to maintain a favorable bond rating. Since FY05 the General Fund reserves have exceeded the 10% benchmark needed. The unreserved/unassigned balance of $39 million in FY12 includes the $4.9 million for the BIT stabilization reserve.

Internal Service Fund Balances

According to the County's financial policies, "Internal service funds are used to account for services provided on a cost reimbursement basis without profit or loss. Surpluses and deficits in internal service funds may be an indication that other funds were not charged properly for goods or services received."

The Board's goal is set at 10% of operating expenses, based on recommendations from our most recent Financial Condition report. A more liberal guideline based on criteria for federal grants is based on 60-days working capital (16.4%). For FY12, the unreserved fund balances for the Fleet, Information Technology and Distribution funds did not meet these goals. Our last Report in 2011 recommended the County take some action to reduce overcharges in these fund balances; although the County has taken steps, more attention is needed.

Chart 26 Unreserved General Fund Balance
Fiscal year ended June 30
Adjusted for Inflation (in millions)

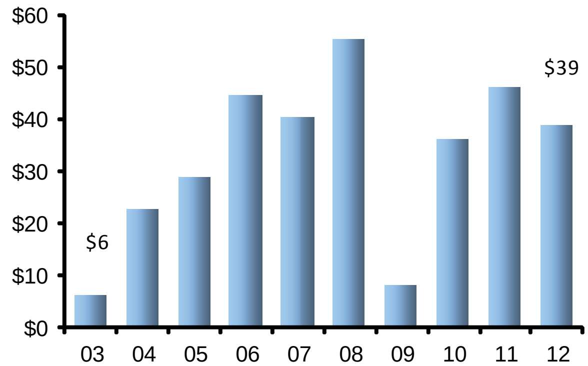


Chart 27 Internal Service Unreserved Balances
Fiscal year ended June 30
Adjusted for inflation (in millions)

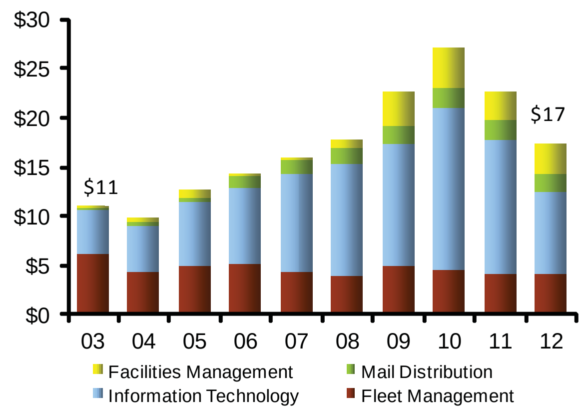


Chart 28 Internal Service Funds (Balances & Goals)
Fiscal year ended June 30, 2012

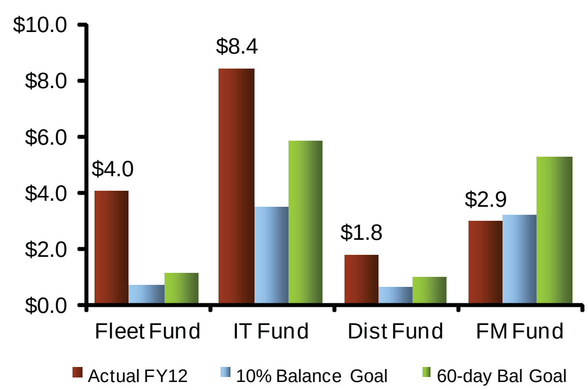
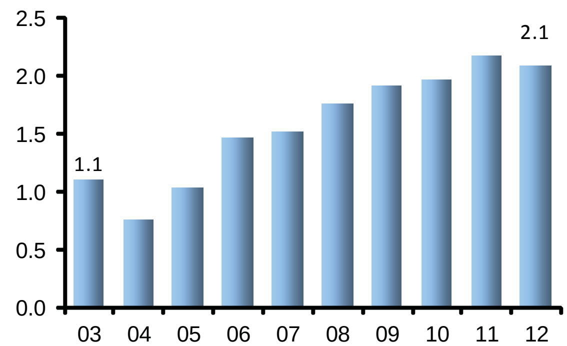


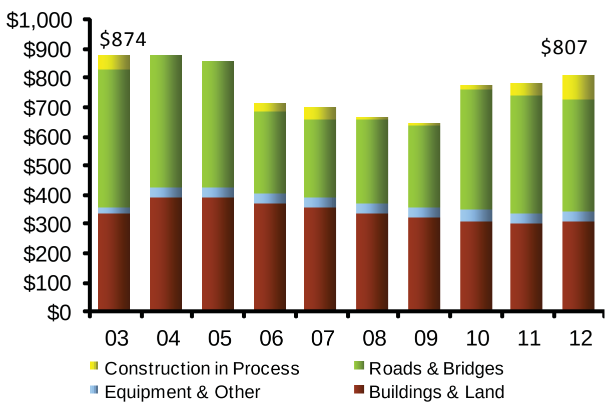
Chart 29 Liquidity
Current assets to current liabilities
Fiscal year ended June 30



Liquidity

The liquidity ratio compares total cash and short-term investments to current liabilities, measuring the ability to pay short-term obligations. The credit industry considers a liquidity ratio of $1 of cash and investments to $1 of current obligations to be acceptable; County policy sets a more stringent goal of a ratio of $1.50 to $1. Since FY07, the County's liquidity ratio has met or exceeded both County policy and industry standards. The County's liquidity ratio currently exceeds industry standards due to large amounts invested in the Oregon Local Government Investment Pool, which provides short-term liquidity and maximizes interest revenues.

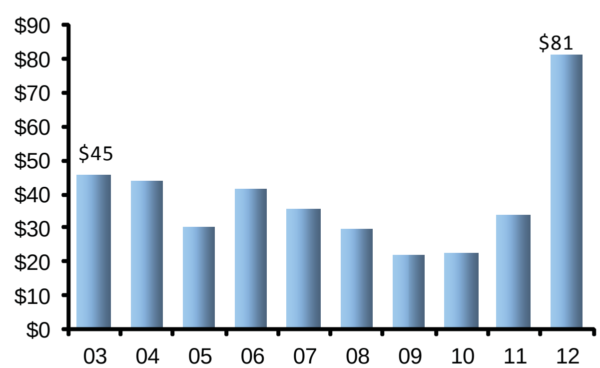
Chart 30 Capital Assets
Fiscal year ended June 30
Adjusted for inflation (in millions)



Capital Assets

Capital assets include land, buildings, equipment, and infrastructure used to provide County services. Accounting standards require that assets are reported in financial statements at their original purchase price or at construction cost minus accumulated depreciation. Replacement value for assets would be substantially more than the depreciated values. The change from FY03 to FY12 is primarily from the transfer of 50 miles of County roads to the City of Gresham in FY06. The increase in FY10 is an accounting adjustment made for depreciation charged to right-of-ways prior to FY10. Since FY05, capital asset totals also include $51 million each year for the Wapato Jail, which is unused and not currently being depreciated. Construction in process in FY11 & FY12 is associated with the East County Courthouse and the Sellwood Bridge projects.

Chart 31 Capital Spending
Fiscal year ended June 30
Adjusted for inflation (in millions)



Capital Spending

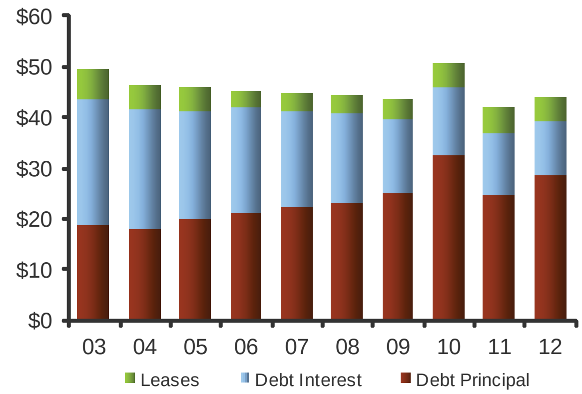
Capital spending in FY03 and FY04 included continuing public safety projects funded by Justice Bonds and state funds, including the Wapato Jail, among other building and improvement projects. The spending increase FY06 - FY08 was for the County's share of the Sauvie Island Bridge construction; and the increase in capital spending in FY12 is associated with construction of the new East County Courthouse and the Sellwood Bridge.

Fixed Costs

Fixed costs include the principal and interest on long-term debt and operating leases. Ten years ago in 2003 the County's total long term debt was $418 million, and at June 30, 2012 was $254 million. The decrease was from scheduled annual payments and the decision by the Chair and Board to put the County in strong financial position by using one-time revenues to reduce long-term debt.

December 2012, the County added $128 million in full faith and credit obligations for construction of the Sellwood Bridge. Annual debt payments for these obligations will be from dedicated sources from County Vehicle Registration Fees. The County's outstanding debt is significantly under legal debt limits.

Chart 32 Fixed Costs
Fiscal year ended June 30
Adjusted for inflation (in millions)



Future Fixed Payments

The current outstanding debt was issued to finance major building projects and bridge construction. The County also issued debt to pay off unfunded pension liability, which saved nearly $36 million over the life of the debt. As of June 30, 2012, the County had annual fixed payments for debt and long-term leases extending until year 2032. The County continues to restructure debt when opportunities arise, such as the March 2010 refunding bonds that resulted in an economic gain of over $5 million. The amount in 2022 reflects $15 million of interim financing for the Sellwood Bridge, which were subsequently paid off with proceeds from the $128 million in bonds issued in December 2012. The future debt payments here do not include these bonds.

Artist rendition of new Sellwood Bridge

Chart 33 Future Fixed Payments as of June 30,2012
Fiscal year ended June 30 (in millions)

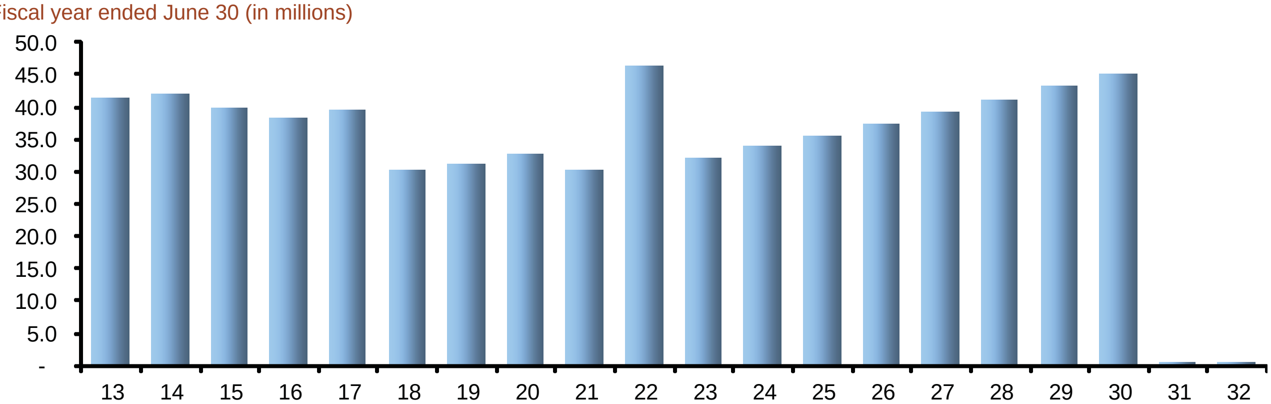
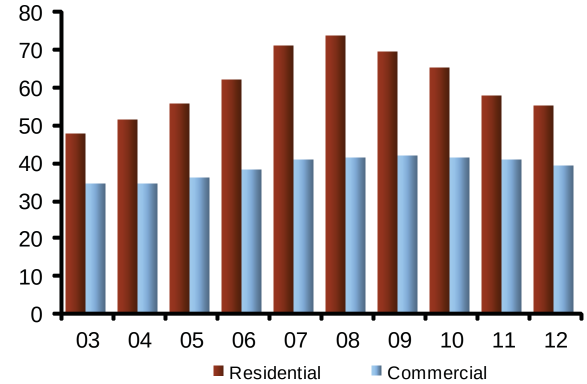


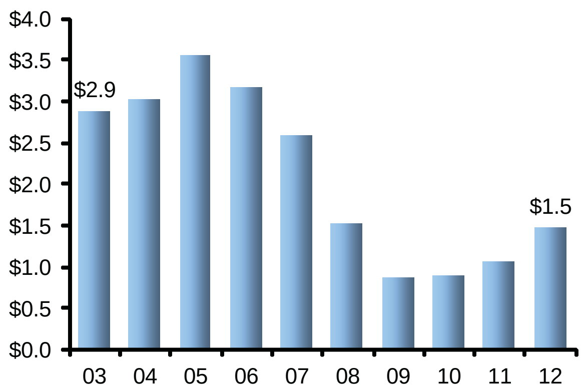
Chart 34 Real Market Value
Fiscal year ended June 30
Adjusted for inflation (in billions)



Real Market Value

Real market value serves as one of many economic indicators. The inflation adjusted real market value for residential properties in Multnomah County peaked at $74 billion in FY08, before dropping 25% to $55 billion in FY12. The decline in the value of commercial and industrial property was not nearly as severe,and only declined about 6% during this same time period. Total assessed property values, which are the basis for property taxes, declined by $1.5 billion from FY11 to FY12.

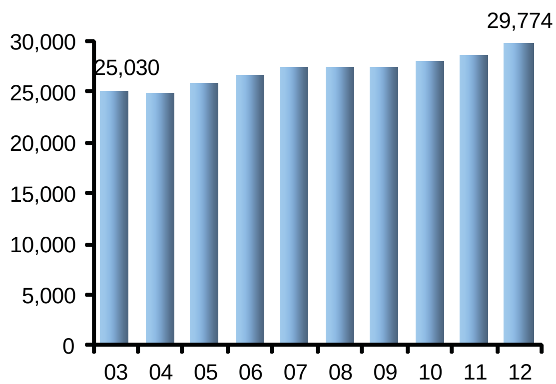
Chart 35 New Construction - PMSA
Calendar year ended December 31
Adjusted for inflation (in billions)



New Residential Construction

New construction figures are based on permits in the Portland Metropolitan Statistical Area (PMSA). The value of new construction units increased from $2.9 billion in 2003 to $3.5 billion in 2005. The downward trend began in 2006, with a 76% drop between 2005 and 2009. Since 2009, new construction values have grown 72% to nearly $1.5 billion in 2012. Changes in new construction and property sales affect County revenues from recording fees.

Chart 36 Number of Businesses in Multnomah County
Calendar year ended December 31



Number of Businesses

The number of businesses in the County is another trend related to the County's revenue base and the economy. Growth in the number of new businesses in Multnomah County leveled off from 2007 through 2009; since then the number of new businesses has grown 9%.

The Bike Commuter is the recipient of a small business loan through Multnomah County's microloan program.

The Economy

Three major indicators of economic health included here are the unemployment rate, number of jobs in Multnomah County, and per capita income. Although official data lags slightly, these indicators reflect the current economic climate for the County. Although these three trends indicate some economic growth, the State Economic and Revenue Forecast report for March 2013 indicates that "there is little hope that Oregon will see much immediate improvement in economic growth.

Unemployment Rate

Both the County and the state had hardly recovered from the recession of the early 2000's, when hit by the national economic downturn in 2009. Although unemployment rates have been decreasing from this 2009 high, they are still above pre-recession unemployment rates. The unemployment rate improved continually after FY03 until FY08, going from a high of 9.2% in FY03 down to 5% in FY07. However, the rate increased to more than 10% for both FY09 and FY10 (11.3% and 10.1%, respectively), before declining to 7.7% in 2012.

Number of Jobs

The number of jobs (including full-time, part-time, and temporary positions) provided by employers in Multnomah County also reflected the economic downturn in 2009 with a decrease in the number of jobs by nearly 25,798 from 2008 to 2009. The indicator also reflects recent improvements with recovery of 9,210 jobs in 2011 and 10,209 in 2012.

Per Capita Income

The average annual per capita income in Multnomah County increased from 2003 to 2011 by 2% after being adjusted for inflation. This 2% increase represents an 8% increase from 2003 to 2006 offset by a 6% decrease from 2006 to 2011. Per capita income in Multnomah County is higher than in the state of Oregon, but the gap has narrowed in the last three years.

Chart 37 Unemployment Rate - Multnomah County
At June 30

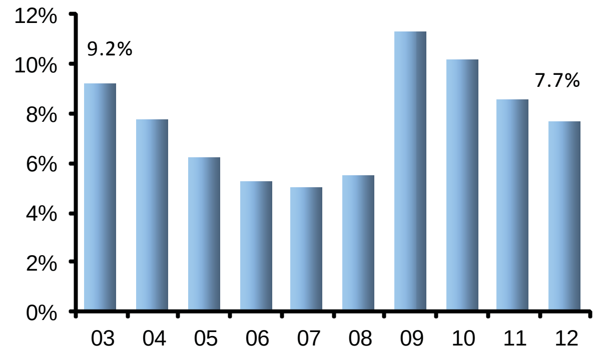


Chart 38 Jobs Provided by Employers
in Multnomah County
At December 31

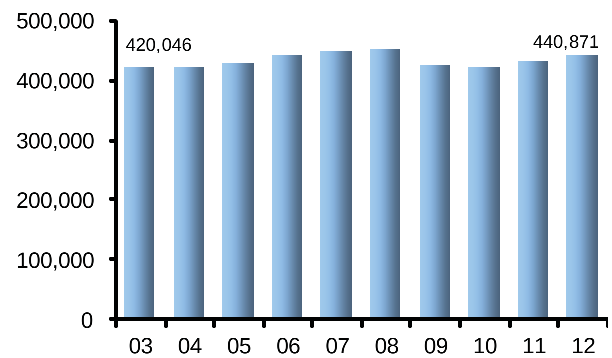
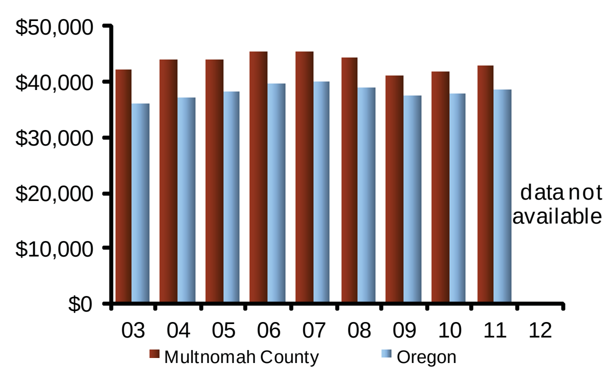


Chart 39 Average Annual Per Capita Income
Calendar year ended December 31
Adjusted for inflation

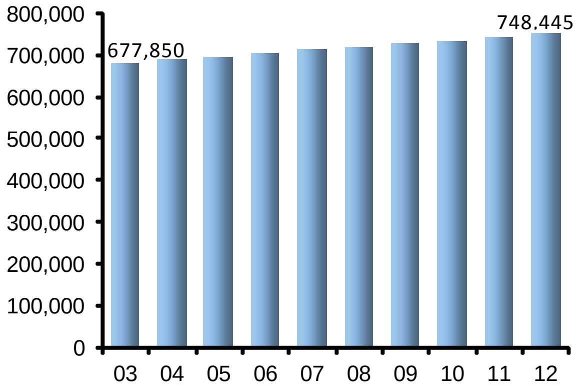


Demographics

Total County Population

Multnomah County has 19% of the State's population. The County's population grew from 677,850 in 2003 to 748,445 in 2012 (10%). Many County health and human service programs are targeted to the elderly and to children. Population changes in these groups, along with economic declines dramatically affect the need for County services.

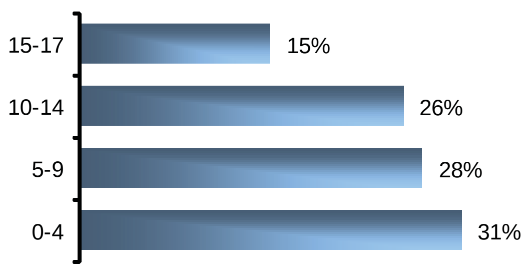
Chart 40 County Population
At June 30



Population Under 18 Years of Age

The population under age 18 declined by about a half of a percent. Fifty-nine percent of this age group was under 10-years of age, 26% from 10-14-years, and 15% between ages 15-17. According to the American Community Survey, 27% of the County's children under age 18 were below poverty level in 2011.

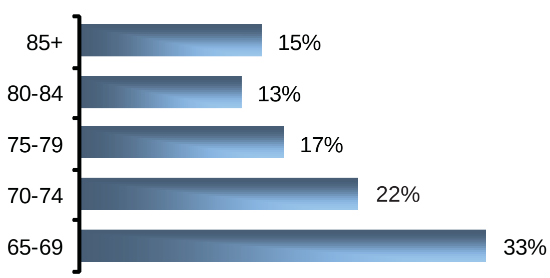
Chart 41 Under 18 Years of Age by Age Group
At June 30, 2012



Population Over 65 Years of Age

The number of people 65 and older represents 11% of the total population. The population of individuals over 65 years of age has grown by 10% since 2003, the same growth rate as general population of the County. One-third of the people in this group are between the ages 65 and 69.

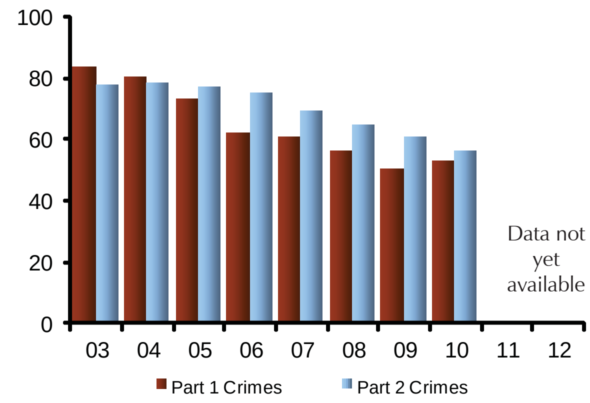
Chart 42 Over 65 Years of Age by Age Group
At June 30, 2012



Reported Crimes

Public safety services represent a large and costly responsibility for the County, and accounted for 26% of operating expenditures for FY10. The number of reported crimes has decreased for both Part I and Part 2 crimes. Part I crimes include murder, rape, robbery, aggravated assault, burglary, larceny, motor vehicle theft, and arson. Part 2 crimes include drug possession or distribution, driving under the influence of intoxicants, vandalism, and other crimes. The actual crime rates are likely to be higher because some crimes are not reported by victims.

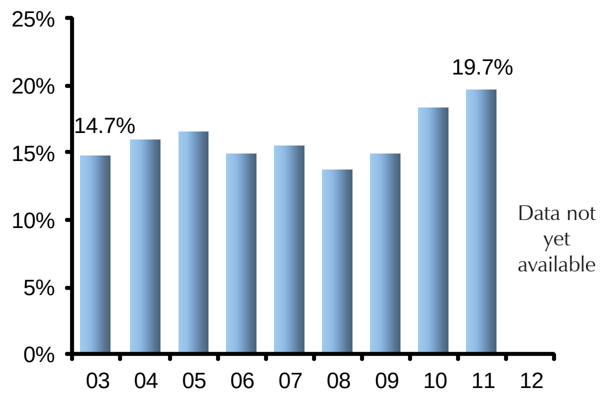
Chart 43 Reported Crimes per 1,000 Residents
Calendar year ended December 31



Residents in Poverty

This indicator provides some measure of the number of low income persons who might utilize County human service and health programs. According to the US Census Bureau's annual American Community Survey, the number of Multnomah County residents in poverty increased from a low of 13.7% in 2008 up to 19.7% in 2011; data is not available for 2012. The percent of residents estimated below poverty level for 2011 is significantly higher (27.2%) for children under 18 years.

Chart 44 Percent of County Residents in Poverty
Calendar year ended December 31



The County's Restitution Garden gives juvenile offenders the opportunity to pay restitution to victims of their crimes by growing and selling fresh produce

Ten Year History

FY03
- Voters approved 3-year temporary personal income tax (ITAX)
- $15.6 million mid-year budget cut
- November 2002 voters approved a 5 year local option Library Levy

FY04
- First year of ITAX, $66.9 million to schools and $33.2 million to County
- New Hillsdale Library opened

FY05
- $25 million Oregon Transportation Investment Act awarded for County bridges
- Second year of ITAX, $96 million to schools, $34.2 million to County
- Construction of Wapato Jail completed
- Departments of County Management and Community Services created

FY06
- Transfer 50 miles of County roads to Gresham
- Third year of ITAX, $84.8 million to schools, $36.1 million to County
- November 2006 voters approved a local option levy of $.89 per $1,000 of assessed value for the libraries

FY07
- Remaining ITAX collections, $8.3 million to schools, $7.7 million to County
- $6.4 million one-time-only to schools

FY08
- Remaining ITAX collections, $3.7 million to schools, $2.9 million to County
  million with an economic gain of $5.3 million
- Sauvie Island Bridge opened to traffic in June 2008. Total cost of the bridge was $45.7 million
- Sale of Edgefield property for $14.2 million

FY09
- The County transfers $24 million from the General Fund to retire debt related to County buildings and pay off other debt issues

FY10
- Refund series 1999 General Obligation Bonds $49.7 million with an economic gain of $5.3 million
- Issued $9.8 million in Full Faith and Credit Obligations to replace the County's data center, telephone enhancements, and other projects
- Capital lease obligation reduced due to the $9.8 million of the 1998 capital lease obligation paid
- Received $8.8 million for the Portland Development Commission to be used for the Downtown Courthouse Hawthorne Bridge ramp relocation project

FY11
- The $19 million per year Vehicle Registration Fee began, and will be in place for 20 years to provide resources for construction and subsequent debt service requirements for the Sellwood Bridge.
- The County issued $15 million in Full Faith and Credit bonds to finance the construction of the new East County Courthouse.
- On November 2, 2010, voters approved a five year local option levy to keep the Oregon History Library and Museum open to the public.

FY12
- Reorganized Department of County Management and Chief Operating Officer functions and created the Department of County Assets.
- The project to replace the Sellwood Bridge began construction in late FY12.
- The East County Courthouse and Data Center relocation project was completed in the spring of 2012.
- Interim financing with Taxable Non-revolving Credit Facility to help finance the construction of the Sellwood Bridge. At year-end $15 million of these bonds was outstanding.
- May 2012, voters approved a local option levy renewal at the same rate as the expiring five-year for the County's libraries.

Subsequent Events
- November 2012, voters approved the formation of a Library District with a permanent rate for property taxes. The County will continue to operate the libraries through an intergovernmental agreement with the Library District. FY014 will be the first year of the newly-formed Multnomah County Library District.
- FY13 the County issued $128 million in Full Faith and Credit obligations in December 2012 for the Sellwood Bridge project. With the issuance of the Full Faith and Credit Bonds, the balance on the Credit Facility Bonds was paid off.

Recommendations from Prior Reports

1st Report – issued January 19, 1993

- Develop a comprehensive financial policy.
- Establish benchmarks and guidelines that address
  - Minimum reserve requirements
  - The use of short-term revenues and reserves to finance operating expenses
  - Compensation negotiations
  - Capital replacement planning for the County's major assets
- Increase cash reserves in anticipation of emergencies, revenue shortfalls, or poor economic conditions
- Advocate for fewer restrictions on shared state and federal revenues to allow the Board to allocate them according to the County's particular needs
- Budget facilities management in an internal service fund and develop an estimated value of its physical assets to incorporate into its capital maintenance program.

2nd Report – issued May 2, 1995

- Continue building cash reserves in compliance with the financial policy
- Discontinue County reliance on short-term serial levy revenues to fund on-going operations
- Complete the development of a regular review process for user charges to comply with the County's Financial Policy
- Continue to refine the financial policy and make it an integral part of decision-making.
- Board should advocate for changes to those elements of the collective bargaining statutes which tend to produce wage increases that exceed inflation.

3rd Report – issued May 6, 1997

- Ensure that budget and finance decisions comply with the principles of the Financial Policy
- Work with PERS to determine whether County contributions are adequate to continue reducing the unfunded liability
- Review Financial Policy after the impacts and constraints of Measure 47 are better understood.

6th Report – issued March 26, 2003

- Develop 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.

10th Report – issued April 27, 2011

- Reduce internal service fund charges to recover only costs, rather than building up reserves. Recommendation for 10% of annual spending; Federal allows 16%.
- Recommended that Board increase their awareness of and involvement in long-term financial planning by establishing a policy of addressing the infrastructure needs and OPEB funding. Board has actively addressed the infrastructure needs, not OPEB.

Reporting Methodology and Sources

Objectives, Scope, and Methodology

The objective of this report was 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 indicators suggested by the Government Accounting Standards Board (GASB). In developing and analyzing the indicators of financial condition, we interviewed personnel in Finance and Budget and other County departments.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The prior reports covered the years FY82 through FY12 and are available on the County Auditor's web page at multco.us/auditor.

ICMA and GASB stress the importance of developing a consistent and meaningful definition of the entity being evaluated. For the purposes of this report, "the County" includes the revenues, expenditures, and activities covered by the General Fund, Special Revenue Funds, and Debt Service Funds.

Excluded are Capital Projects, Internal Services, Enterprise, and Fiduciary Funds. However, we did include the Behavioral Health Managed Care Fund, which is an Enterprise Fund, because it is an integral part of mental health and addiction services provided by the County. We also excluded revenues collected for and turned over to other governments, and internal revenues and spending that are duplicated in financial reports. For FY12, this amounted to $27.2 million in State Motor Vehicle and Gas Tax revenues transferred to the cities of Portland, Gresham, Fairview, and Troutdale, and $10.4 million Transit Lodging Tax collected for Metro.

Throughout this report, we included state payments to developmental disability service providers. In FY08, the state began paying community service providers directly, where in prior years these funds passed through the County. Though the County no longer receives these funds directly, the shift was an accounting change only and did not impact services. In FY12, this amounted to $66.8 million paid directly to DD service providers.

We expressed all indicators in constant dollars. These adjustments for inflation convert dollar amounts to the equivalent of the purchasing power of money in fiscal year ending June 30, 2012. The adjustments are based on the Portland-Salem Consumer Price Index for all urban consumers.

Data Sources

We relied on the County's enterprise accounting system, budgets, Comprehensive Annual Financial Reports, and other management reports for revenues, spending, and financial health indicators.

We used published sources for most economic and demographic indicators as follows:

- County Assessor's Office: Chart 34 "Real Market Value"
- U.S. Census Bureau: Chart 35 "New Construction"
- State of Oregon Employment Division - Chart 36 " Number of Businesses," Chart 37 "Unemployment Rate", Chart 38 "Jobs Provided by Employers",
- U.S. Department of Commerce, Bureau of Economic Analysis: Chart 39 "Average Annual Per Capita Income"
- Portland State Population Research Center: Chart 40 (FY03-12), and Charts 41 & 42 for population indicators by age
- Oregon Uniform Crime Reporting Law Enforcement Data System- Chart 43
- U.S. Census Bureau, American Community Survey- Chart 44 "Percent of County Residents in Poverty"

For More Information

The County's financial policy is adopted and published annually in its adopted budget. The County's financial statements and budget can be accessed at www.multco.us .

Additional economic information can be obtained through the State of Oregon for the State Employment Department at www.qualityinfo.org or the Office of Economic analysis at www.oregon.gov/DAS/OEA.

For information about the County's property tax structure and limitations, see Tax Supervising & Conservation Commission at http://tsccmultco.com