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Introduction

The FY 2014 Multnomah County budget reflects a balanced approach to spending, cautious optimism, and continued responsible fiscal management. Overall, Multnomah County is in a better fiscal position than most states and local governments, thanks to prudent leadership from the Chair and the Board, firm management of and adherence to policies and practices that result in strong long-term financial planning, low debt obligations, and the maintenance of responsible fund balance amounts. The County's commitment to long range planning, sound budgeting practices and conservative financial management continue to pay off. The FY 2014 budget also maintains the County's long-term fiscal position by fully funding our General Fund reserves and maintaining a Business Income Tax (BIT) stabilization reserve.

Over the past few years, the County has planned pragmatically for an anemic economic recovery, hedging for political and financial uncertainties at the local, state, and national level. Although this budget continues to assume a slow and steady recovery, the County's expenditures and revenues should be roughly in balance for the next several years. The stabilization of the local real estate market, with home prices now rising for the first time in years, should start to reduce property tax compression. Unemployment, however, remains unacceptably high and the demand for County services has not receded. There remain many economic and political uncertainties, such as disproportionate Federal austerity measures, which could provide economic headwinds and slow the recovery.

Throughout most of the past decade, since the onset of the previous recession in the early 2000's, Multnomah County has been reducing budgets to align expenditures with revenues. The continued focus on budget reductions has forced the County to think about how it conducts its business and the need to do it differently. This strategic thinking has become an embedded part of the County's culture.

All levels of the organization continuously search out best practices that result in service and process efficiencies. Over the course of the last decade, the County has restructured and downsized its workforce, streamlined administration and related functions, offered early retirement incentives, instituted hiring and wage freezes, reduced benefits, and eliminated programs and services. The County has implemented all of the usual strategies and employed all of the fiscal tools that governments use to reduce costs and budgets. After more than a decade of cutting, the County is embarking on some new and innovative approaches to protect and stabilize its long range financial security.

Multnomah County is now actively seeking alternative service delivery options that include partnering with the private sector or non-profit agencies, sharing services with other governments, and utilizing technology to improve the efficiency of operations. These efforts take time to plan and implement, and can extend out many fiscal years before the savings or efficiencies are realized. There are many examples of investments to ensure the County's future health, including: early planning for the Downtown Courthouse, which is both seismically unsafe and no longer large enough to safely accommodate the increased use over the past few decades; the Energy Saving Capital Projects (HVAC and boiler upgrades and replacements); the Fleet Pilot program with the City of Portland; a capital investment to replace 30 vehicles/year over three years to decrease maintenance costs and gain fuel efficiencies; an Electronic-Timesheet self-service pilot to help streamline administrative processes; the new Health Department Headquarters; and SAP risk analysis. More detail about these projects can be found in the department program offers section of this document.

The FY 2014 budget has targeted a few specific areas with enhanced funding to address: mental health first aid training that will help people learn to identify and provide help to individuals in emotional distress; retrofitting old buildings with energy efficient equipment and meeting other capital needs (including fleet, information technology, and facilities); the apprehension and prosecution of those who engage in the commercial sexual exploitation of children; homeless services and shelter; emergency management preparedness; public safety, including jail beds; investment in our workforce; and increased library services, using funding that comes from the creation of the new Library District. There are many other existing community needs that the County will endeavor to address in future years as resources allow.

As the County moves toward the adoption of the budget in June, the County can be cautiously optimistic and plan for continued improvement in its fiscal condition. This year, the County is fortunate to be making spending decisions instead of cutting decisions, but these decisions must be prudent to ensure that restored services are fiscally sustainable in future years. Only four years ago, the County's General Fund gap was projected at $24 million. Even though the County has finally turned the cusp of aligning its expenditures and revenues after many long years, it would only take a few changes to policy decisions to return the County to a position of cutting budgets in subsequent years.

It should be noted that the County will likely adopt its budget prior to knowing the full impacts of automatic federal budget cuts ("sequestration"). A great deal of ambiguity also remains regarding the impacts of Federal healthcare transformation initiatives. On the State level, there is continuing uncertainty, particularly with respect to the outcomes of legislation that may be passed in the State's 2013 General Session, including bills addressing the Public Employees Retirement System (PERS), healthcare transformation and public safety reforms. Due to the timing of these issues, the budget reserves $2.1 million in ongoing funding to address some of the most critical impacts that result from decisions at the State and Federal levels.

The budget increases the County's workforce from 4,472.87 FTE (full time equivalents) last year to 4,564.71 FTE in FY 2014, an increase of 91.84 FTE. Of these FTE, 60.50 are in the Library, which is due to the voter approval of the new Library District.

FY 2014 Program and Policy Highlights

Health and Human Services

The FY 2014 budget preserves existing services in Health and Human Services departments and adds new programs targeting vulnerable populations. The County invested:

- $207,000 for Mental Health First Aid education to enable and empower the public to identify and address mental health issues before they evolve into crises.
- $1.0 million for enhanced coordination to increase immediate temporary housing access for homeless families who otherwise move first through emergency warming shelters; this funding is provided in addition to existing homeless family services and $1.5 million for short-term assistance for those at risk of becoming homeless.
- $460,125 for shelter, housing, and assertive engagement for girls under the age of 18 who are victims of commercial sexual exploitation of children.
- $986,000 for SUN community school sites concentrated in high poverty, East Portland, and Mid/East County neighborhoods; these sites were historically funded by the Portland Children's levy, which was affected by tax compression as a result of formation of the Library District.
- $125,000 in one-time-only funding for capital construction at The Children's Center at Steven's Creek Crossing and $500,000 for the Earl Boyles/David Douglas Early Learning Facility.
- $250,000 in one-time-only funding for targeted services to improve educational outcomes for African American students in the Reynolds and David Douglas school districts.
- $3.3 million for the Southeast Health Clinic, now in its first full year of operations, which brings primary care, behavioral health, pharmacy, and lab services closer to southeast Portland residents.

Multnomah County is also part of a statewide effort, which began in FY 2012 and continues in FY 2014, to transform Oregon's healthcare system into one that better integrates physical health, mental health, long-term care, and other services. Because payment systems are still evolving, the County anticipates an ongoing, but currently unknown, impact on County health clinics, senior centers, and community-based mental health providers. County Health and Human Services managers are working closely with coordinated care organizations and providers to carry out this transformation.

Public Safety

The FY 2014 budget preserves the core functions of public safety and maintains the current number of jail beds (1,310). The budget maintains probation and parole services, jail alternatives, and prosecutorial services. One-time-only funds were used to:

- Equip all attorneys with tablets using secure wireless internet access for use in the courtroom ($180,000).
- Purchase seven slots in the Intercept Program ($294,000), which will combine with the three slots budgeted with State Gang Transition Services funds, for a total of 10 slots. The Intercept Program is a comprehensive, holistic and intensive array of services provided 24 hours per day, seven days per week to the families and youth involved in the juvenile justice system as an alternative to or a diversion from out-of-home placement such as foster care, residential treatment centers, or detention.

Most State funding for public safety comes from Senate Bill 1145, which gives counties responsibility for all aspects of parole and probation supervision. SB 1145 directs that parole and probation sanctions are to be served in local jails instead of prisons and that all felony offenders sentenced to a term of incarceration of 12 months or less remain in local custody. Currently, the County receives over $23 million dollars annually to pay for these services, broken out as follows for the Biennium:

Year One	
DCJ Year One	$14,919,162
MCSO Year One	$8,033,395
LPSCC Year One	<u>$425,171</u>
TOTAL Year One	$23,377,727

Year Two	
DCJ Year Two	$15,528,107
MCSO Year Two	$8,361,288
LPSCC Year Two	<u>$425,171</u>
TOTAL Year Two	$24,314,566

The latest State Department of Corrections SB 1145 statewide allocation, based on an actual cost study, is at $215 million for the biennium. The Governor's budget assumed a total statewide allocation of $197 million and did not include any actual cost study adjustments.

General Government

The County Chair's Multnomah Evolves initiative, which began in FY 2011 and protects direct service resources by making administrative cost reductions, continues with the FY 2014 budget:

- In FY 2013, the Department of County Assets implemented Strategic Sourcing procurement, with the Multco Marketplace system and a Countywide Strategic Sourcing Council. In FY 2014, Strategic Sourcing will develop key commodity sourcing plans to maximize the degree to which the County's purchases align with values of sustainability and local economy support.
- The Department of County Assets is on track in its collaborative Fleet Maintenance Pilot Project with the City of Portland and will evaluate the results to assess best practice alignment, service improvements, and fuel cost savings in FY 2014.
- The Department of County Management has made significant progress on a new web-based Budget and Performance Management System, which will go live with the FY 2015 budget and replace a collection of stand-alone software programs that require extensive maintenance and manual processes for basic budget document production and analysis. The new system will streamline and automate current work as well as facilitate more in-depth data analysis and user-friendly reporting to inform County policies.
- The Central Human Resources Division in the Department of County Management has released its FY 2014 – 2016 Strategic Plan. The plan incorporates stakeholder input from all levels of the County workforce and prioritizes the automation and streamlining of current systems along with further integration of equity and empowerment into HR practices, recruitment enhancements, and workforce development.

Capital Assets

Over the past decade, capital building and information technology (IT) system requirements to support the County's continually evolving services, together with deferred maintenance liabilities, have outpaced dedicated ongoing capital funds. The Chair's Multnomah Evolves initiative is continuing efforts to change how the County manages its capital asset portfolio. In addition, the FY 2014 budget dedicates one-time-only funds of:

- $1.0 million for capital IT system replacements. Dedicating this central funding source separate from departments' ongoing internal service reimbursements will allow the IT Advisory Board (ITAB) to capture and prioritize implementation of large-scale projects across the County.
- $1.2 million to accelerate the replacement of 90 vehicles and allow the County to realize savings from a more fuel efficient fleet sooner rather than later.
- $500,000 to evaluate the ongoing use of SAP for the County's Integrated Enterprise System.

- $8.9 million for Facilities Capital Projects that include the Health Department Headquarters building on the U2 block, relocation of the Sheriff's Office from and re-capitalization of the Hansen Building site, and selected energy conservation projects in various County facilities.

As part of the Multnomah Evolves initiative, the Department of County Asset's Facilities & Property Management (FPM) Division will start FY 2014 with a renewed focus on long-term efficiency outcomes by implementing prudent business investments. FPM's asset strategic plan, completed in FY 2013, aims to reduce the County's 3.1 million square foot space footprint, while recapitalizing and replacing facilities that are aging from valued assets into liabilities.

One such project is the construction of the new Health Department Headquarters (HDHQ) in partnership with the City of Portland and Home Forward. Work continues on the facility, with groundbreaking expected in FY 2014. Health Department services currently located in the McCoy Building, which has significant maintenance requirements and seismic liability, will move to a new HDHQ designed for more efficient, client-centered services.

Other major capital projects in the FY 2014 budget include ongoing work on the replacement of the Sellwood Bridge, with expected completion by November 2016, and continued planning for a replacement of the Downtown Courthouse.

Planning for the FY 2014 Budget - Economic Climate

The County continues to face a slowly recovering national and local economy. It is a recovery that has been frustrating, anemic, and protracted, especially for those seeking employment. The recovery is characterized by a steady stream of headwinds – uncertainty about European debt, austerity, and its monetary union; natural disasters, such as the Japanese tsunami; unrest in the Middle East; and, more recently, the United States' federal government flirtation with the debt ceiling and austerity.

Gross domestic product (GDP) – the output of goods and services produced in the U.S. – increased at an annual rate of 0.4% in the final quarter of 2012, the fourteenth consecutive quarter of growth. The anemic 0.4% growth rate, combined with GDP growth rates of 1.9%, 1.2%, and 3.1% in the preceding three quarters, has only very slowly brought down national unemployment levels, with the rate dropping from 8.3% in January 2012 to 7.8% in December 2012.

The first quarter of 2013 has seen mixed trends. On the positive side, residential construction has been strong, with housing starts in February up 27.7% over year ago levels. Building permits for privately owned housing were 33.8% higher than year ago levels. While this growth is from severely depressed levels, housing is now contributing to growth. On the negative side, year-over-year retail sales have been weakening and were negative (down 0.4%) on a month-over-month basis from February to March. The larger concern is the degree to which Federal austerity measures, such as the expiration of the 2% payroll tax or the Federal sequestration cuts, will be a drag on the economy.

Locally, the residential real estate market has begun to rebound, especially in the Portland core. The S&P/Case-Shiller Home Price Index for the Portland metropolitan area increased 8.3% on a year-over-year basis in January 2013. It is once again not uncommon to see homes sell in a matter of days with multiple offers. For some perspective, Portland house prices peaked in July 2007 and fell 30.6% before stabilizing. Even with the recent gains, prices are down 24.3% from their peak. The exceptionally low interest rates due to Federal Reserve actions, limited inventory, and few distressed sales should supply a foundation for prices and provide for further appreciation. Absent low interest rates, home prices are close to historical norms based on affordability measures and any significant price appreciation may not be sustainable.

Nationally, at the state level, and locally, unemployment rates continue to inch down from double digit levels seen in 2009 and 2010. As of March 2013, the U.S. unemployment rate stood at 7.6% vs. 8.2% a year earlier. For the state of Oregon, the March 2013 rate was 8.2% vs. 8.8% a year earlier. For Multnomah County, the similar figures are 7.5% vs. 7.7% a year earlier. On the positive side, Multnomah County continues to have a lower unemployment rate than the state of Oregon, which is generally attributable to urban areas performing better than rural areas. The County has also performed slightly better than the U.S. over the last several years with respect to unemployment. However, as the recent statistics show, the U.S. rate is now roughly equal to the County's. More worrisome is that the County has seen little improvement in its unemployment rate over the last year.

The consensus forecast (from Western Blue Chip) for Oregon employment growth is 2.2% in 2013 while the Oregon Office of Economic Analysis (OEA) projects a more tepid 1.4% gain. Consensus personal income growth is projected to increase 4.6% in 2013 while OEA estimates 3.1%.

Forecasting the General Fund

Multnomah County uses ongoing financial forecasting and monitoring to estimate revenues and expenditures in the General Fund, the County's largest source of discretionary revenues. These forecasts are made for a five-year time horizon and updated on a quarterly basis. The five-year forecast helps form the basis on which Multnomah County builds its annual budget.

The Budget Office's December 2012 Five-Year General Fund Forecast projected a gap between General Fund revenues and expenditures of $5.2 million for FY 2014, representing approximately a 1.3% gap. Unchecked, the gap would grow to $8.8 million by FY 2018. This projection, prepared in October, excluded any impacts from the proposed formation of a new Library District, which was subsequently approved by voters in November 2012.

The formation of the Library District impacts the County in three ways; it:

1. Eliminates the County's $15.3 million General Fund ongoing contribution to library operations for FY 2014;
2. Increases property tax compression on the County's General Fund, resulting in a loss of approximately $7.2 million; and
3. Eliminates the need for the County's use of $10.0 million of one-time-only funds to support Library operations from FY 2013 to FY 2015, saving and making available an additional $6.6 million of OTO funds.

The County's March 2013 forecast, which incorporates the impacts of the Library District, projected revenues exceeding expenditures in FY 2014 by $4.1 million or 1.1%. This is a remarkable result, which the County has not seen in decades. This good news is tempered by the tail-end of the forecast, which projects expenditures beginning to exceed revenues by $1.7 million by FY 2018. Assuming the unreasonable assumption of a perfect forecast, the County could support $1.9 million of additional ongoing programs. This does not include any additional commitment for programs, such as SUN Schools, which will be adversely impacted by the new Library District.

The forecast excluded any unmet needs such as capital infrastructure. The forecast also assumed State funds backfilled with one-time-only General Fund resources would not be continued into FY 2014 and that no new or expanded General Fund programs would occur in FY 2015.

The original $5.2 million gap is close to what was forecast when the Board adopted the current year's budget. It is worth noting, however, that property tax revenue estimates (before formation of the Library District) were reduced by $3.5 million. This was offset by the County's projected personnel cost growth being lowered from a very pessimistic 6.7% to 'just' 5.1%. Flat medical dental rates rather than an assumed increase of 6.0% accounted for much of the difference.

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

Local Revenues

Property tax is the single largest discretionary source of revenue in the General Fund, accounting for 64% of ongoing revenues. General Fund revenue growth, therefore, is particularly sensitive to taxable value growth and compression.

The FY 2014 budget assumes the following rates of growth (as measured from the FY 2013 adopted budget) for each revenue source:

- Property Tax – Decline 0.8% (due to increased compression & lower current year assessed values)
- Business Income Tax – Increase 6.25%
- Motor Vehicle Rental Tax – Increase 7.2%
- Recording Fees/CAFFA Grant – Increase 8.6%
- U.S. Marshal (and Ballot Measure 73) Jail Bed Rental – Flat

State Revenues

The County's FY 2014 budget marks the first half the State of Oregon's 2013-2015 biennium. The State Legislature is still in session as of the publication of this budget. Even though there are no major surprises in the State revenue forecast, there is a degree of uncertainty regarding the County's funding from the State. This funding is important as State and Federal revenues account for roughly 25% to 30% of the County's operating budget.

Healthcare transformation, public safety reforms and PERS legislation are a major system changes with a number of uncertainties. In anticipation of a significant amount of unknowns regarding the outcome of the State budget, as well as concerns related to the Federal budget, the County's FY 2014 budget sets aside $2.1 million in ongoing general fund revenue to help mitigate the negative impacts of any reductions.

Cost Drivers

Expenditures are forecast to grow roughly 4% annually through FY 2018 – a rate of growth that takes into account inflation, employee compensation, and long term fixed costs. For FY 2014, the cost of providing current service levels is expected to grow by 4%. This was driven by personnel costs, which are forecast to grow by 5.1%. Specifically, the personnel cost increase was derived from the following sources:

- Cost of Living Adjustment – 2.25% (of base pay)
- Step/Merit Increases – 1.45% (of base pay)
- Medical/Dental – 0.0%
- PERS – 4.10% (of base pay) or 18.3% compared to current rates

The moderation in medical/dental costs and inflation (as measured by the CPI-W Portland second half, to which the County's labor contracts are tied) has helped to offset sharply increased PERS rates. Had medical/dental rates not been flat and PERS rates come in slightly lower than previously forecast, personnel costs would have grown at 6.7% -- a level that far exceeds the County's revenue growth. The County has not assumed any PERS reforms savings as proposed in the Governor's Budget or various bills currently under consideration in the Legislature.

For FY 2014, internal service rates charged to departments for items such as IT services and facilities was assumed to increase 3.98%, roughly mirroring Countywide cost growth.

Policy Direction from the Chair and Balancing the General Fund

The Chair directed all departments to make a 1.0% reduction from current service levels in their General Fund budget requests. Departments were directed to preserve direct services where possible, while internal service providers built their budgets using current service levels. This reduction allowed the Chair to prioritize programs and invest in some new initiatives, allow for changes in the compression forecast, and set aside a small amount of revenue to help bridge legislative and funding changes at the local, state, and federal levels.

The Multnomah Evolves initiative continued through FY 2014. The most notable projects for FY 2014 are Strategic Sourcing, the new Budget System and the Fleet Pilot program. Departments were asked to self report on Span of Control and describe their progress towards an 11 to 1 ratio of staff to management.

The BIT reserve was set at 10% of BIT revenues for FY 2014 versus 8% for FY 2013. This is on top of the County's 10% General Fund revenue reserve. It is also assumed that departments will fully spend their FY 2013 appropriations. Lastly, it is assumed that $1.8 million of unused General Fund contingency from FY 2013 will be carried over to FY 2014.

During FY 2012, the Board passed Resolution 2012-004, which committed to providing $10.0 million of one-time-only General Fund funding for the Library. With the voter approved new Library District, approximately $6.6 million of the $10.0 million one-time-only funds will be returned to the General Fund.

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

Budget Overview - All Funds

Local Budget Law requires that Multnomah County report the total budget. The budget for FY 2014 totals $1,535,756,480. When adopted, the budget sets the legal appropriation. The total budget reflects the actual resources needed by the County, plus internal charges, transfers, loans, and accounting entities.

Because the total budget overstates what is actually spent, the County often refers to the net budget. The FY 2014 net budget of $1,173,475,402 is a more accurate statement of the money the County actually plans to spend on operations during the year. The net budget subtracts all internal charges, transfers, and loans from one fund to another. Internal transactions between funds are typically the result of one department providing a service to another, such as information technology or facilities services. It also removes all reserves for future years to more accurately reflect the ongoing operating budget.

Please see the next page for a table detailing the change in budget by fund compared with FY 2013.

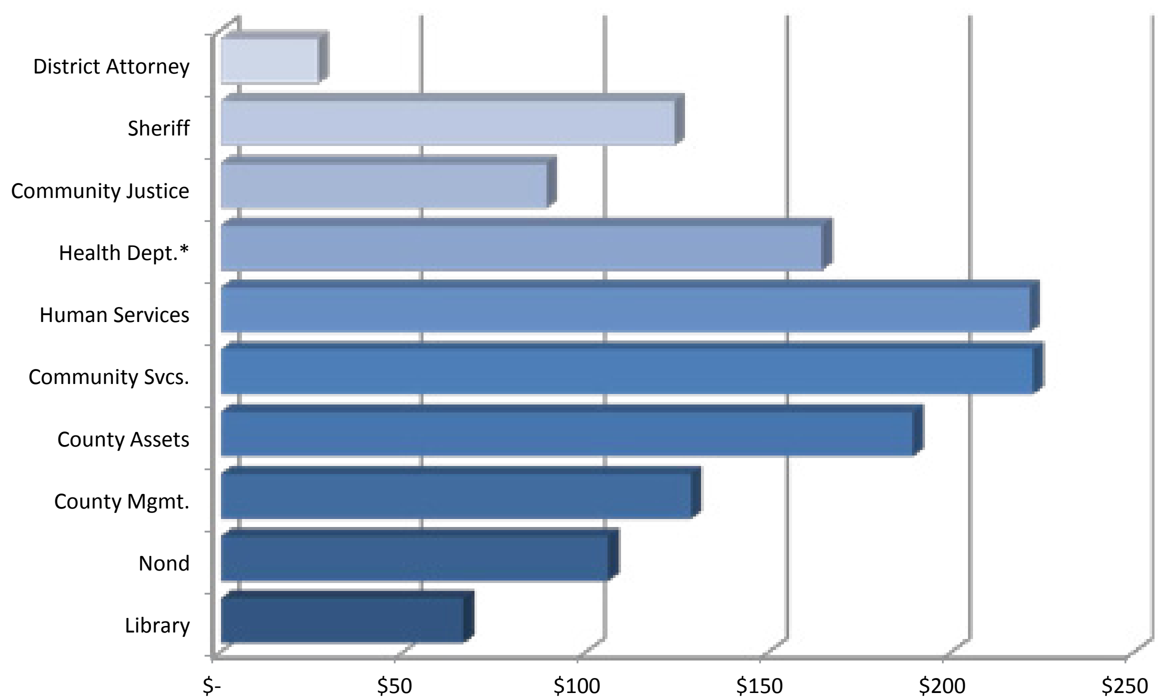
FY 2014 Proposed Budget	
Department Expenditures	$1,124,600,568
Contingency	48,874,834
Total Net Budget	**$1,173,475,402**
Service Reimbursements	214,045,776
Internal Cash Transfers	15,453,014
Reserves	132,782,288
Total Budget	**$1,535,756,480**

#	Fund Name	FY 2013 Adopted	FY 2014 Proposed	Change	Notes
1000	General Fund	$454,482,709	$468,803,274	$14,320,565	Beginning Working Capital (BWC) +$1.1m, financing -$0.6m, taxes +$2.9m, service charges +$6.3m, licenses & permits +$0.5m, other rev +$2.2m, intergov. +$1.9m
1501	Road Fund	45,808,171	48,107,569	2,299,398	BWC -$1.2m, financing sources -$0.4m, intergov. +$4m
1502	Emergency Communications Fund	250,000	0	(250,000)	intergov. -$0.3m
1503	Bicycle Path Construction Fund	408,500	484,575	76,075	
1504	Recreation Fund	102,080	102,160	80	
1505	Federal/State Program Fund	231,197,467	228,403,064	(2,794,403)	BWC -$0.8m, intergov. +$1.7m, service charges -$2.6m, other -$1.1m
1506	County School Fund	23,800	20,000	(3,800)	
1508	Animal Control Fund	2,975,694	2,333,462	(642,232)	BWC -$0.3m, licenses/permits -$0.2m, intergov. & other revenues -$0.2m
1509	Willamette River Bridge Fund	11,857,856	17,261,714	5,403,858	BWC -$0.7m, intergov. +$6.9m, other -$0.8m
1510	Library Serial Levy Fund	66,929,062	72,078,563	5,149,501	Financing sources -$24.9m, intergov. +$65m, other -$2.9m, taxes -$31.8m
1511	Special Excise Taxes Fund	23,689,500	27,329,500	3,640,000	Taxes +$3.6m
1512	Pub Land Corner Preservation Fund	1,888,500	2,684,500	796,000	BWC +$0.5m, other +$0.3m
1513	Inmate Welfare Fund	1,219,838	1,329,229	109,391	
1516	Justice Services Special Ops Fund	5,814,575	6,316,236	501,661	Other +$0.5m
1518	Oregon Historical Society Local Option Levy Fund	1,837,418	1,744,253	(93,165)	
1519	Video Lottery Fund	5,223,488	6,051,364	827,876	BWC +$0.8m
2001	Revenue Bond Sinking Fund	150,000	0	(150,000)	
2002	Capital Lease Retirement Fund	22,732,109	22,460,047	(272,062)	BWC -$3.1m, intergov. +$0.3m, other +$2.6m
2003	General Obligation Bond Sinking Fund	15,989,750	16,190,000	200,250	BWC +$0.2m
2004	PERS Bond Sinking Fund	75,427,500	78,170,000	2,742,500	BWC +$2.4m, other +$0.4m
2503	Asset Replacement Revolving Fund		476,000		Financing sources
2504	Financed Projects Fund	3,531,283	3,441,875	(89,408)	BWC
2507	Capital Improvement Fund	28,696,077	71,553,530	42,857,453	BWC -$1.8m, financing sources +$17.2m, service charges +$27m
2508	Capital Acquisition Fund	1,424,943	0	(1,424,943)	BWC
2509	Asset Preservation Fund	7,740,158	10,793,960	3,053,802	BWC +$2.6m, financing sources +$0.4m
2511	Sellwood Bridge Replacement Fund	212,986,452	142,564,649	(70,421,803)	BWC +$50m, financing sources -$127m, intergov. -$4.3m, licenses & permits +$10.8m
3002	Behavioral Health Managed Care Fund	57,525,623	60,013,809	2,488,186	BWC -$0.6m, intergov. +$3.1m
3500	Risk Management Fund	135,405,059	143,218,855	7,813,796	BWC +$17m, financing sources -$9.1m
3501	Fleet Management Fund	10,657,182	10,770,594	113,412	BWC +$0.5m, financing sources +$1m, other -$0.6m, service charges -$0.8m
3503	Information Technology Fund	44,122,617	46,489,233	2,366,616	BWC -$0.6m, other +$3m
3504	Mail Distribution Fund	3,767,634	3,539,105	(228,529)	BWC
3505	Facilities Management Fund	42,176,988	43,025,360	848,372	BWC +$0.5m, other +$0.8m, service charges -$0.5m
	Total	**$1,516,042,033**	**$1,535,756,480**	**$19,238,447**	

Department Requirements All Funds ($1.34 billion)

Department expenditures, excluding cash transfers, contingencies, and unappropriated balances, for all funds total $1.34 billion in FY 2014 vs. $1.28 billion in FY 2013.

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



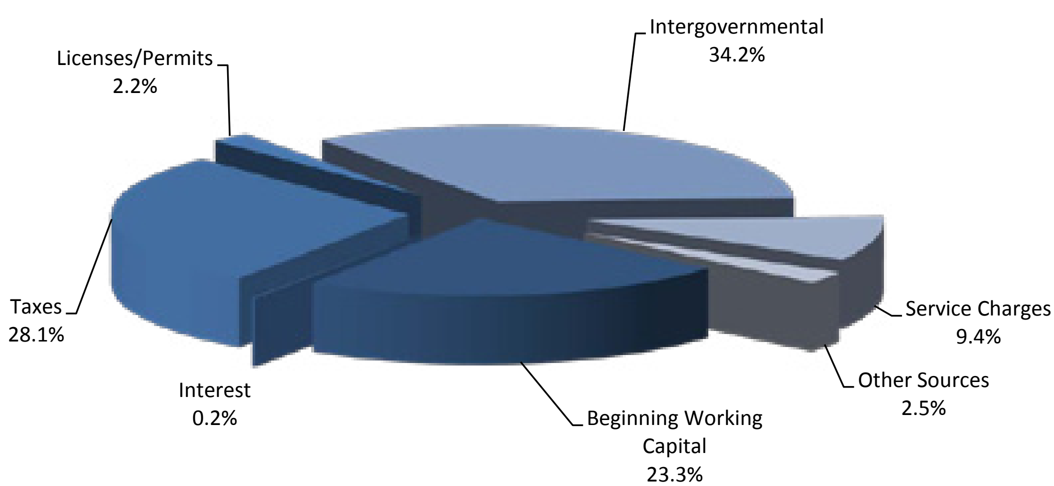
The Health Dept. includes the FQHC and Quality Improvement Payments

Department Revenues All Funds ($1.28 billion)

Total direct resources or 'revenues' for FY 2014 are $1.28 billion vs. $1.25 billion in FY 2013 (excluding service reimbursements and cash transfers between funds). Intergovernmental revenues are now the County's single largest revenue category at $438.9 million. The significant jump from $360.7 million in FY 2013 is due mainly to the newly formed Library District reimbursing the County $65.6 million via an intergovernmental agreement to operate the Library.

Local taxes constitute the next largest revenue source and include property tax, business income tax, motor vehicle rental tax, transient lodging tax, and county gas tax. For FY 2014, they will fall from to $386.2 million in FY 2013 to $360.8 million. The large decline is due to the County no longer levying a local option property tax for Library services. In FY 2013, the Library local option levy accounted for $32.6 million in taxes. Adjusted for the Library levy, property taxes are declining by 0.7% while other taxes, such as the BIT, motor vehicle rental tax, and transient lodging tax are increasing in the 6% to 8% range.

Beginning Working Capital (BWC), as a share of total budgeted resources, has increased from last year. The FY 2013 adopted budget contained $234.6 million of BWC across all funds while FY 2014 contains $299.4 million. The most notable is the $50 million increase in the Sellwood Bridge Replacement Fund due the issuance of bonds in FY 2013, which will be spent down as the multi-year construction project continues. The Risk Management Fund BWC increased from $28 million to $45 million, due in large part to an internal loan repayment from the Sellwood Bridge Replacement Fund.

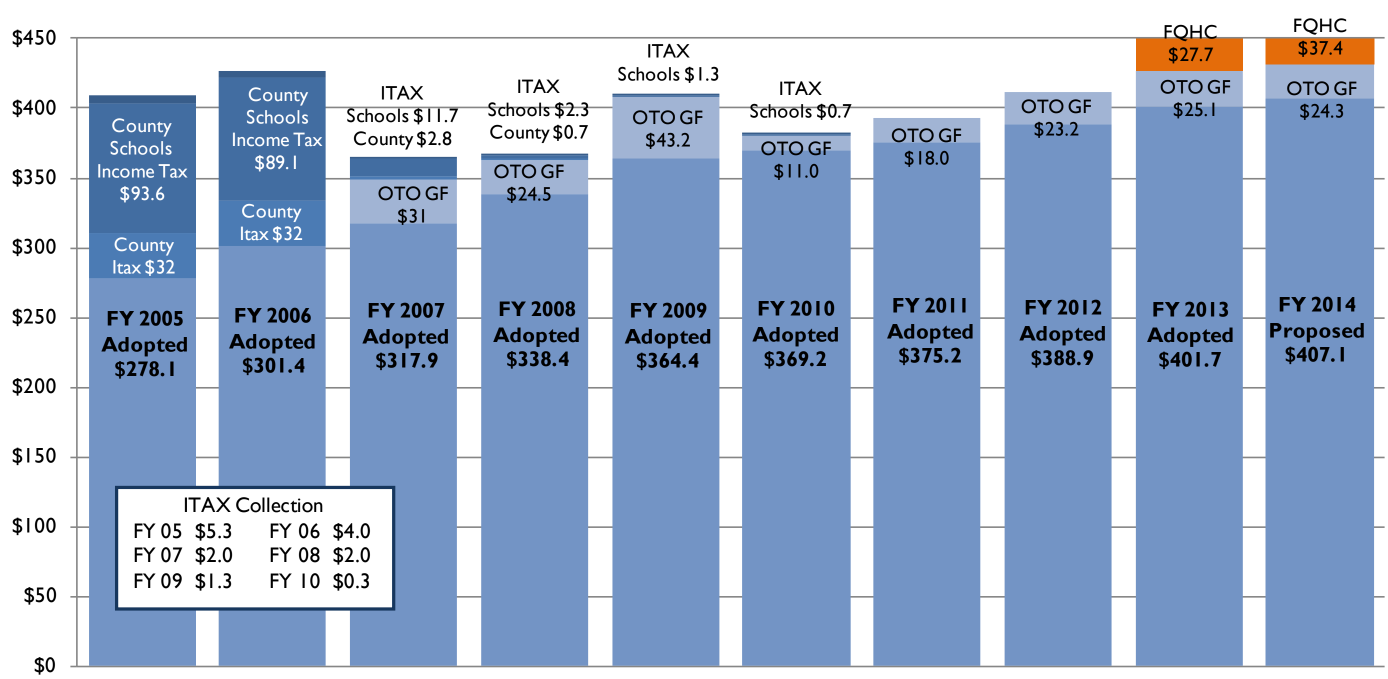


The General Fund

General Fund Expenditures and Reserves ($468.8 million)

The $468.8 million General Fund comprises approximately one-third of the County's budget. It is the largest pool of discretionary funds that the Board of County Commissioners can allocate with few restrictions. Resources include property taxes, business income taxes, motor vehicle rental taxes, interest earnings, state shared revenues, and beginning working capital. The General Fund also includes FQHC Medicaid wraparound reimbursement.

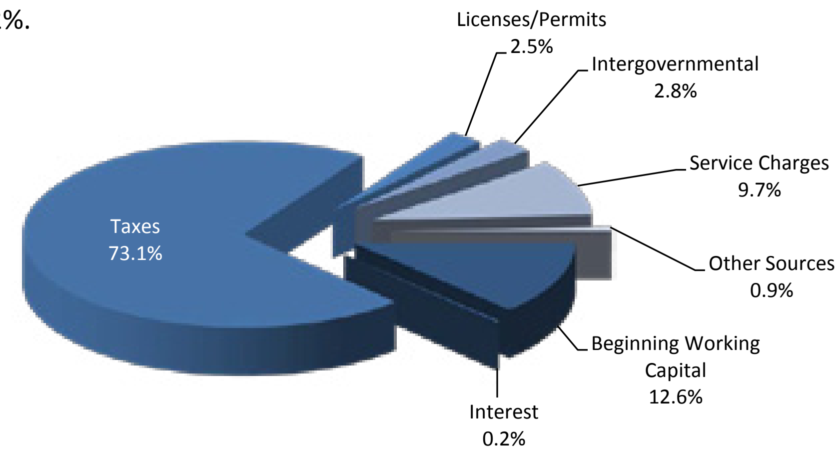
The following graph shows total General Fund 'spending', including cash transfers, service reimbursements, contingencies, and unappropriated balances (reserves), from FY 2005 through FY 2014. The Temporary Personal Income Tax (ITAX) is shown from FY 2005 to FY 2010 and is not significant enough to warrant being called out separately in subsequent years. Additionally, the graph shows how much one-time-only (OTO) and ongoing funding was spent in the General Fund in fiscal years FY 2007 - FY 2014. Combining each segment provides the total General Fund.



General Fund Revenues

General Fund resources for FY 2014 (excluding service reimbursements and cash transfers) have increased modestly from FY 2013. Resources are budgeted at $443.4 million – a $13.9 million or 3.2% increase over FY 2013. The increase in General Fund revenues can be mainly be attributed to a $6.4 million (23.6%) increase in FQHC wraparound payments in the Health Department (shown below as service charges) and the recording of prospective health payments of $3.5 million in the General Fund. A $2.9 million (0.9%) increase in taxes and $1.1 million (2.0%) higher BWC are the other major contributors.

As the graph below shows, taxes make-up the majority of General Fund revenues, and if one excludes BWC, service reimbursements, and the $33.9 million of budgeted FQHC payments, taxes account for nearly all of the Board's discretionary ongoing funds. Property taxes, accounting for $237.4 million, are budgeted to decline by 0.8% due to increased property tax compression from formation of the Library District. Business income taxes, accounting for $57.8 million, are budgeted to be up $3.4 million or 6.25%. Motor vehicle rental taxes, accounting for $20.4 million, are budgeted to increase by $1.4 million or 7.2%.



Use of One-Time-Only (OTO) Funds

The FY 2014 budget contains approximately $24.3 million of one-time-only General Fund resources. These funds include $8.8 million from the projected FY 2013 ending balance (after fully funding the General Fund and BIT reserves); the unused $4.2 million BIT reserve (which is rolled over); $1.8 million of the unused FY 2013 General Fund contingency; the unneeded $6.6 million set aside for years two and three of Library support that was previously committed; and $1.0 million of prospective health care payments being transferred from the Federal/State Fund.

The table on the following pages shows how the OTO resources are planned to be used in FY 2014. The table lists OTO resources supporting OTO expenditures or programs not expected to continue beyond FY 2014. There are no OTO resources supporting ongoing programs or those expected to operate beyond FY 2014.

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

Prog #	Program Name	Dept.	FY 2014 TOTAL General Fund	Other Funds	OTO Only General Funds	% OTO General Funds
10015	Emergency Management - Vulnerable Population Specialist	NOND	106,122	0	106,122	100%
10018B	Office of Sustainability - Beginning Urban Farm Program 1/	NOND	0	40,000	40,000	100%
10019B	Office of Economic Development - Microloans 1/	NOND	0	70,000	70,000	100%
10029	SummerWorks Internship Program 1/	NOND	0	245,000	245,000	100%
15002B	DA Tablet Project	DA	105,000	0	105,000	100%
15002C	Courthouse Wireless Project	DA	75,575	0	75,575	100%
15002D	DA Conference Room Technology Enablement	DA	2,800	0	2,800	100%
25000E	Director's Office - Business Analysis	DCHS	100,000	0	100,000	100%
25000D	Director's Office - Health System Transformation	DCHS	109,090	0	109,090	100%
25111E	Homeless Families Shelter & Emergency Services (HFSES) - Coordinated Entry for Homeless Families	DCHS	610,000	0	610,000	100%
25133F	Facility Based Transitional Housing	DCHS	238,009	0	238,009	100%
25133B	HSVP - Short Term Rent Assistance	DCHS	1,500,000	0	1,500,000	100%
25136B	HYS - MH and Addictions Engagement Services	DCHS	471,000	0	471,000	100%
25139C	AP - Computers for Head Start Graduates 1/	DCHS	0	20,000	20,000	100%
25157	SUN Long Term Evaluation	DCHS	50,000	0	50,000	100%
25158	SUN Early Learning HUB Development	DCHS	50,000	50,000	50,000	100%
25159	East County Education Outcomes Support	DCHS	250,000	0	250,000	100%
25160	Capital Development at Earl Boyles	DCHS	500,000	0	500,000	100%
25161	Children's Center at Steven's Creek Crossing	DCHS	125,000	0	125,000	100%
40000	Health Department Leadership Team	HD	1,616,122	0	50,000	3%
40034B	Quality Improvement for Primary Care	HD	1,029,600	0	1,029,600	100%
40053	Fresh and Healthy Food Project	HD	75,000	0	75,000	100%
50012B	Juvenile Services Management - Intercept	DCJ	293,825	0	293,825	100%
72025B	DART County Clerk	DCM	361,000	0	361,000	100%
91009	Animal Service Workforce Study	DCS	30,000	0	30,000	100%
91025	Sauvie Island Planning	DCS	0	60,000	60,000	0%
95000	Cash Transfers	Countywide				
	~ Facilities Capital Improvement Fund (78006A)		8,861,646	0	8,861,646	100%
	~ IT Innovation & Investment Fund (78013A)		500,000	0	500,000	100%
	~ IT Capital Replacement (78013B)		1,000,000	0	1,000,000	100%
	~ Fleet Vehicle Replacement Gap (78031)		1,203,958	0	1,203,958	100%
95000	BIT Reserve at 10%	Countywide	5,782,105	0	5,782,105	100%
95000	Additional Contingency	Countywide	413,691	0	413,691	100%
		Total OTO for OTO	**$25,459,543**	**$485,000**	**$24,328,421**	

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

General Fund Reserves

The County maintains General Fund reserves outlined in the County's Financial and Budget Policies. In FY 2014, reserves are maintained in the General Fund equal to 10% of ongoing "corporate" General Fund revenues – resources that the Board has wide discretion over, such as property taxes. The FY 2014 budget fully funds the General Fund reserves at $32.6 million and is in compliance with the Financial and Budget Policies. The level of General Fund reserves is considered a fundamental measure of financial health.

The FY 2014 budget also contains an additional 10% BIT Stabilization Reserve of $5.8 million. This stabilization reserve is in addition to the General Fund reserve and is specifically intended to mitigate the risk of an unexpected downturn in the regional economy as the BIT is a volatile revenue source.

Policy Issues and Opportunities

Organization-wide Issues

Library District

FY 2014 will be the first year of the newly-formed Multnomah County Library District. In the past, the Library has been funded by a series of local option levies and support from the County General Fund. Because of steadily-increasing property tax compression, the Library's revenue from its local option levy has decreased significantly in recent years. The creation of the Library District, with a permanent rate for property taxes, will dramatically alleviate the impact of compression and provide a stable, dedicated funding source for library services. It will also eliminate the need for annual contributions from the County General Fund.

In FY 2013, the Library made significant cuts to services. In May 2012, voters approved a local option levy renewal at the same rate as the expiring five-year local option levy: $0.89 per $1,000 of assessed value. However, that levy did not provide sufficient funding to maintain library services at previous levels. Even with a large commitment of additional General Fund support, there was a funding gap of about 10% - or roughly $6.5 million - in FY 2013. In order to close that gap, the Library made service reductions that included closing all locations one-day/week and reducing hours; a $1.0 million reduction in the budget for library materials; and corresponding reductions in management, administrative, and support costs.

With the establishment of the Library District, the Library will be able to restore services to FY 2012 levels. The Library District's proposed rate of $1.18 per $1,000 of assessed value for FY 2014 will generate enough revenue to reinstate hours and seven-day/week access to all locations; return the library materials budget to FY 2012 levels; and maintain library services, programs, and activities.

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

Health System Transformation

The State is in the midst of transforming the way healthcare is delivered to people covered by the Oregon Health Plan, with the ultimate goals of improving health, providing better care, and reducing costs. Multnomah County is part of a Coordinated Care Organization (CCO) called Health Share of Oregon, a local health entity that will work to improve the health of the Medicaid and high-risk uninsured population in Multnomah, Clackamas, and Washington counties. The State is assuming significant savings from health system transformation over the next few years, which will be reflected in changes to state funding and how the County's budget accounts for those changes.

For the new biennium, the Governor's Budget commits to reducing the annual increase in the cost of care of the Oregon Health Plan by two percentage points per member per year. This is part of an agreement in which the Federal government will spend $1.9 billion over five years, with $910 million expected in the 2013-2015 biennium to assist with the transformation. With Oregon reducing Medicaid cost growth by two percent, there could be up to $11 billion in Federal and State savings over the course of a decade.

The Governor's Budget also extends Oregon Health Plan coverage to all Oregonians below 138% of the Federal Poverty Level. Under the Affordable Care Act, all newly-eligible individuals will be fully covered by a Federal match in the 2013-2015 biennium, as of January 2014. This expansion of coverage can be expected to lead to an increase in demand for services in County health clinics and throughout the region.

Public Safety Reform

State forecasters say a growing population and tougher sentencing measures, mainly Measure 11, will add 2,300 people to Oregon's inmate count in the next decade, with an estimated cost over the next 10 years of $600 million. Governor John Kitzhaber convened a Commission on Public Safety in early 2011 to find ways to avoid that increased cost and reinvest those funds in other parts of the public safety system and in other functions of State government such as services to families and support for schools.
The Governor's 2013-2015 budget does not include funds for the costs of additional prison space. In line with recommendations from the commission, the Legislature's Joint Committee on Public Safety is looking at some changes

to daily prison costs; modifying prison sentences for selected crimes, including some mandatory minimum sentences; increasing the use of several forms of earned early release from prison; changing community supervision practices; and providing incentives to counties to reduce their use of prison beds. Once the County sees the results of this Legislative session, it will be better able to estimate what impacts, if any, changes may have on the County's public safety system.

Other State Legislative Changes

- Preemption on Local Tobacco Taxes - The Oregon Legislature is considering legislation that would remove the preemption on local tobacco taxes. Under current law, counties cannot impose taxes on cigarettes and other tobacco products. Multnomah County has long pursued such a legislative change, which would not impose a local tobacco tax, but would allow the County to do so.
- Early Childhood: To support kindergarten readiness critical to Governor Kitzhaber's education goals, SB 909 (enacted in 2011) and HB 4165 (enacted in 2012) created a new Early Learning Council and authorized Early Learning Service "Hubs" to coordinate and streamline early childhood services throughout Oregon. Additional legislation affecting this issue is being considered during the current session, and the County currently plans to apply to be a hub for this geographic region.
- Public Employees Retirement System (PERS): Over 40 bills related to PERS have been introduced during the 2013 Oregon Legislative Session, ranging from individual changes to major overhauls of the system. In April, the Legislature passed a bill (SB 822) that caps cost-of-living increases, delays $350 million in employer increases for two years, and adjusts out-of-state benefits. The bill is expected to result in over $800 million in savings over the biennium. Additional changes to PERS may be enacted as the session continues.
- Property Tax Reform: The Legislature is considering a number of bills related to property tax reform, many of which involve constitutional amendments that will also require voter approval. Potential changes could affect the calculation of assessed value, constitutional limits on tax rates related to real market value, limits on the growth of assessed value, the impact of compression on local option levies, and other issues.

Personnel Costs

Merit, Step, and COLA Wage Increases
The backbone of the County has been and continues to be its workforce, which absorbed increased workloads and achieved increased efficiencies with fewer resources amidst competing demands and increased community expectations and needs during this economic downturn. The County plans no wage or COLA freezes for FY 2014. Over the past few years, these groups have taken wage and/or COLA freezes.

Public Employees Retirement System (PERS)
The County participates in PERS, a cost sharing, multi-employer defined benefit pension plan administered by the State of Oregon. Effective July 1, 2013, the rates employers pay for their contribution to PERS are scheduled to increase by an average of 4.4% of payroll. The County's increase is in alignment with the system-wide average, but the County is using reserves accumulated to offset PERS increases to buy down 0.25% of that increase. Proposals to limit the impact of PERS rate increases on employers are currently making their way through the Oregon Legislature. It is likely that these proposals will offer rate relief; however, the County will not know the final outcome until after adoption of the FY 2014 budget.

The County has accumulated reserves in the PERS Bond Fund that has allowed the County to provide an offset to future rate increases. For instance, Departments were charged a higher internal rate than the County was required to pay into the PERS system when the County recognized that losses after the actuarial valuation would lead to higher rates in the long-term. This allowed the County to smooth, and stabilize, the budgetary impact to direct services and programs. Proactive management of the PERS liability has been noted in recent Moody's rating analysis. Significantly, an additional 6.0% contribution to uniformed employees in one bargaining unit has been reduced through bargaining and will ultimately be phased out. This will have a positive impact on the County's long-term PERS liability.

Based on the December 2012 actuarial valuation, the PERS system is funded at approximately 80%. This is up from 72% in the aftermath of the great recession. However, in order to make up for the steep decline in the PERS valuation that occurred in 2008, forecasts suggest that employer rates will continue to increase for the next few biennia unless investment returns exceed long-term averages. The County will continue to look for creative and innovative ways to manage the PERS liability, but its ability to completely avoid rate increases may be limited.

Healthcare Costs

The County strives to offer its employees a wage package that is competitive with peer organizations in the public and private sector labor markets. Over the last few years, one of the greatest challenges facing the County has been the increased cost of health insurance. Annual increases (e.g., for treatment, hospitalization, and prescriptions) have historically risen at roughly double the rate of core inflation. Recently, however, the increases in healthcare costs have slowed somewhat. This has enabled the County to hold flat the internal service charges for employee healthcare benefits for FY 2014. The County continues to explore trends in the healthcare industry and alternatives to the current benefits plans in order to minimize future increases in healthcare costs.

New Facilities and Operations

Sellwood Bridge

The Sellwood Bridge project will replace the current 84-year old Willamette River crossing with a new bridge and will connect with Highway 43 right-of-way. The existing bridge was moved to new temporary piers to serve as a detour bridge in January 2013. The project has started construction of the new bridge, approaches, and interchange. The new bridge is expected to open in 2015.

The current cost estimate is $307.5 million and the funding plan includes the following secured sources:

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

County funding has increased to from $127.0 million to $164.4 million to cover the decrease in funding from the City of Portland and the increase in the total cost of the project. This was accomplished through applying $22.7 million in vehicle registration fee proceeds received through December 2012 directly to the project and $141.7 million from bonds issued in December 2012. The City of Portland funding for the project is down from $80.0 million to $74.7 million because of an amendment to the agreement that changes the cost sharing formula and the timing of payments to the County. The overall project cost has increased from $290.0 million to $307.5 million due primarily to increases in landslide stabilization work, retaining walls and the cost of materials.

Facilities Asset Strategic Plan

The County has an estimated deferred maintenance and seismic liability of $226.0 million for County buildings, of which $205.0 million is seismic liability. Addressing the deferred maintenance backlog and seismic liability will require new sources of revenue to replace or repair these County assets.

Facilities & Property Management will start FY 2014 with a renewed focus on seeking long-term efficiency outcomes by implementing prudent business investments. The Facilities Asset Strategic Plan, completed in FY 2013, has as its goal to reduce the County's 3.1 million square foot space footprint, while seeking avenues to recapitalize and replace aging facilities that are becoming liabilities rather than valued assets. The first such project is the construction of the new Health Department Headquarters in partnership with the City of Portland and Home Forward.

Health Department Headquarters/U2 Block Development

In 2011, Multnomah County and Home Forward (formerly Housing Authority of Portland) prepared a feasibility report to relocate operations from the outdated McCoy Building on 426 S.W. Stark to a new Health Department facility on the east half of block U in downtown Portland. The McCoy facility, built in 1923, needs significant maintenance and seismic investments, and the U2 site is well situated next to the Bud Clark Commons day center and shelter with easy access to public transportation. The McCoy facility houses the Westside Health Clinic, TB and STD clinics, and a variety of other clinical functions.

The FY 2014 budget includes a one-time-only general fund appropriation of $5.2 million to provide for initial development costs that will be incurred during the year to cover cash flow requirements. The County anticipates receiving a $26.9 million distribution from the Portland Development Commission for River District capital projects by the end of FY 2014. The total new building and relocation of current operations together would cost an estimated $40.6 million and the County will need to determine whether to finance the gap of approximately $8.0 million or to set aside additional one-time resources in the subsequent year.

Facilities Re-capitalization Opportunities

Top priorities for re-capitalizing the County's aging facilities portfolio include relocating the County's animal shelter, replacing or reconstructing the Downtown Courthouse, and identifying strategies for replacing the County's Hansen Building complex. One opportunity for taking advantage of the Hansen site's excellent location includes developing a consolidated County multi-function facility, or working with jurisdictional partners to determine if co-location or co-financing/development opportunities exist to site future facilities. The FY 2014 budget includes one-time funding to move the Sheriff's

Office out of the Hansen site and to develop estimates for redevelopment; for continued program planning for a replacement for the Downtown Courthouse; and for developing strategies for relocating County Animal Services.

New Information Technology

Network Convergence (Voice over Internet Protocol)
After an extensive needs analysis and selection process, the County's aging phone system will be replaced with Voice over Internet Protocol (VoIP) technology. This technology uses the Internet to make voice phone calls and allows the County to combine its voice and data networks, known as network convergence. Implementation planning and system configuration is underway, and the County will start implementing this new technology in July 2013. The phased implementation will go building-by-building over the next 12-18 months. Numerous new features will increase the County's mobility and flexibility, while adding new tools. The first goal is to replace the existing technology, but this will position the County to provide a platform for future innovations.

Countywide Budget System
On July 25, 2012, Multnomah County initiated the project to implement its new Countywide budget software, TeamBudget by Questica. Questica simplifies budgeting, making it possible to store information in one place and alleviating the need for County employees to rely on multiple systems. The software also uses current technology and is tailored to fit local government needs.

SAP Electronic Timesheet Pilot
After completing the required upgrades to the SAP platform, the SAP e-timesheet project is underway. A pilot group has been selected that includes management only in the Department of County Assets and the Department of County Management. The system will be implemented "out of the box" to minimize complexity and reduce implementation time. Testing is underway and the pilot is scheduled go live in the summer of 2013.

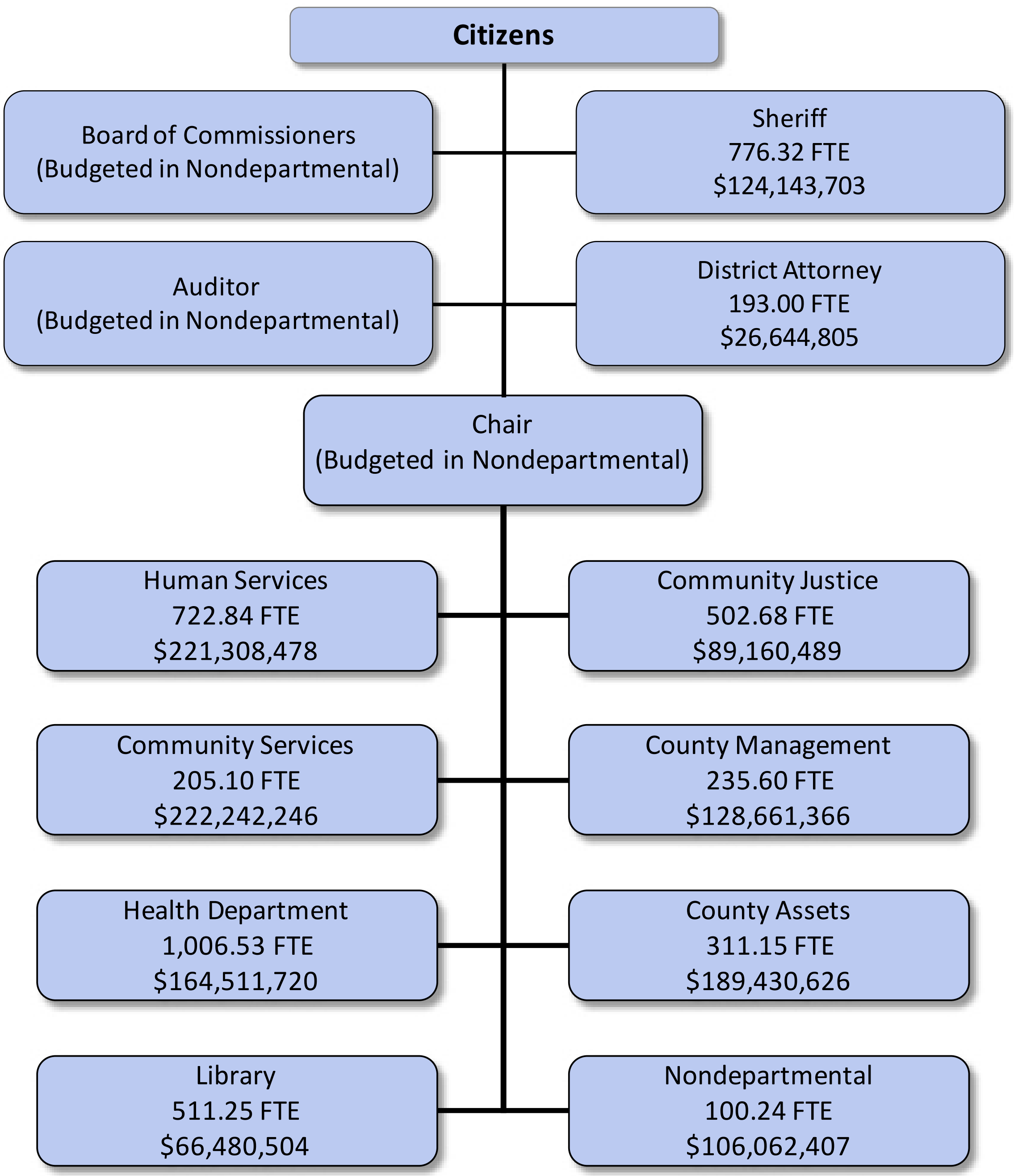
Future Budget Pressure

While the County is in the midst of an economic recovery, it is not immune to broader economic issues and will continue to face internal and external budget pressures in years to come. For example, past budget decisions, such as the opening of new facilities, have an impact on future years' budgets. The following list is a brief outline of the budget pressures that the County will monitor for impact beyond FY 2014.

- State and Federal budget cuts – The County has experienced significant State funding reductions since FY 2009. Additional cuts could be forthcoming in the State's next biennial budget and result in continued cost-shifting by the State. The President and Congress are also pursuing Federal budget cuts and/or freezes to key County funding sources.
- City of Portland – The City of Portland projects a $21.5 million shortfall in their General Fund for FY 2014. The Mayor has asked departments for a 10% across the board reductions. Part of the City's proposed strategy to reduce the gap is to eliminate any funding for programs that support the County. No City of Portland General Fund cuts have been backfilled in the Proposed Budget.
- Capital investment – There is currently no ongoing funding stream to pay for capital investments to maintain the portion of the County's infrastructure that is near the end of its useful life or for new facilities.
- Healthcare costs – While the rate of growth in County healthcare costs has slowed in recent years, it still exceeds the rate of inflation.
- Pension and post-employment benefit costs – While the County's pension and post employment benefit funds are among the best funded in the country, funding will need to increase with costs (e.g., increasing salaries) to maintain these favorable levels.
- Technology – As technology becomes more prevalent in day-to-day County operations, the associated infrastructure and support costs also increase. There is currently no ongoing funding stream to pay for technological investments.

Multnomah County Organization Chart

Multnomah County delivers its services through ten departments including three managed by independently-elected officials: Dan Staton, Sheriff; Rod Underhill, District Attorney; and Steve March, County Auditor. There are 4,564.71 full time equivalent (FTE) positions in this budget.



Appreciation

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

Finally, I want to acknowledge the remarkable teamwork by the people in the Central Budget Office who gave their very best in putting this budget together: Mike Jaspin, Ching Hay, Christian Elkin, Shannon Busby, Paula Watari, Jennifer Unruh, Althea Gregory, and Shaun Coldwell.

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

Karyne Kieta
Multnomah County Budget Director