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Introduction

Multnomah County's \$1.87 billion FY 2017 Proposed budget is balanced over a three-year period and strikes a balance between addressing our community's pressing needs today and investing for the future.

Investments in the future are balanced as well, reflecting investments in infrastructure, people, and financial resiliency. The investments span the County's departments and geography, and are targeted across our diverse population.

The County's ability to balance its budget over multiple years and address our community's needs is due to the region's strong economy, but also the prudent financial management of the Chair and Board. As the economy has recovered and grown, the Board has adhered to its financial policies by focusing on long-term planning, maintaining low debt obligations and high bond ratings.

The FY 2017 budget addresses our community's needs today. Several examples include:

- Adding over \$10 million in General Fund resources to address homelessness and housing needs
- Backfilling \$450,000 of grant funds with General Fund to continue the STRYVE (Striving to Reduce Youth Violence Everywhere) program
- Adding \$438,666 to address staffing and facility needs at Animal Services
- Adding \$200,000 for new capacity to provide victims of sexual assault with services and \$192,376 for increased public guardian capacity

The budget devotes an additional \$34 million of one-time-only General Fund resources to capital infrastructure. This not only address the County's capital needs, but reduces future borrowing needs. These include:

- \$19.9 million for the new Downtown Courthouse, in addition to the \$28.1 million provided in FY 2016.
- \$3.0 million for replacement of the Hansen building in East Multnomah County.
- \$1.8 million for the North Portland Dental Clinic.
- \$7.5 million to consolidate the Department of Community Justice facilities in a mid-County campus.
- \$1.85 million for replacement of the District Attorney's CRIMES software.

The Proposed budget does not lose sight that the strong Portland economy is not recession-proof. Even without a recession, the County's revenue growth is projected to slow while labor costs are projected to grow at a faster rate. The proposed budget provides financial resiliency by:

- Balancing the budget over a three year period
- Contributing \$25 million to a PERS side account to address the County's unfunded liability
- Preemptively raising our internal PERS rates by 2% to address future increases
- Fully funding our General Fund Reserves per the Board's Policy
- Funding a 10% business income tax (BIT) reserve
- Spending one-time-only resources on one-time-only expenditures
- Using one-time-only funds to address capital needs to reduce future borrowing requirements, saving \$1.95 million in ongoing debt payments

The FY 2017 budget does include a number of reductions and reallocations. Of significant note are:

- Administrative and back-office reductions across a number of departments
- The closure of two jail dorms (118 beds) at Inverness Jail.

While the focus of budget discussions tends to naturally fall on the 'adds and cuts', the vast majority of the County's programs are unchanged from FY 2016. And, the County's 5,000 plus employees (5,146.91 FTE (full time equivalents)) will continue to provide services ranging from law enforcement and health care to bridge maintenance and elections in FY 2017.

The following pages and the two volumes that make-up the FY 2017 Proposed budget contain much more information on the County's financial picture and operational and investment plans for FY 2017.

We encourage you to attend a budget hearing or ask questions. The County's budget information for FY 2017, as well as past years, can be found at: www.multco.us/budget. The Board's work session schedule can be found here: www.multco.us/file/40948/download.

Planning for FY 2017

Economic Climate

The Portland metropolitan economy remains remarkably strong, growing above its historical growth rate since mid-2012. Unemployment in Multnomah County has fallen to 4.1% as of February 2016, and from February 2015 to February 2016 non-farm employment grew by 12,400 - from 479,000 to 491,400, a 2.6% increase. At the state level, Oregon's unemployment rate remained below the U.S. rate, continuing to fall to 4.8% in February. Low oil prices, and hence gasoline prices, have benefited Oregon consumers, while the dearth of oil related industries in Oregon has meant little negative impact from reduced employment in oil related industries.

At the national level, Gross Domestic Product (GDP) – the output of goods and services produced in the U.S. – increased at an annual rate of 1.4% in the final quarter of 2015, but 2.0% and 3.9% in the preceding two quarters of FY 2015. The 2016 annual growth rate is expected to be in the 2.0% to 2.7% range.

Locally, the residential real estate market remained strong in calendar year 2015. As measured by the S&P Case-Shiller Home Price Index for the Portland metropolitan area, home prices increased 11.4% during 2015. It was 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 then fell 30.6% before stabilizing. With the recent price gains, prices have finally exceeded the previous peak. As of January 2016, prices were 2.4% above the July 2007 peak.

Even with the Federal Reserve's action to raise rates, mortgage interest rates remain at historically- low levels. Combined with limited inventory, population growth, and employment gains, house prices should see further price increases. These increases continue to be tempered by affordability concerns as many homes in close-in Portland neighborhoods are becoming increasingly unaffordable. Consequently, mid single-digit increases are expected during 2016. Apartment construction continues to boom within Portland with supply starting to catch-up with demand. During calendar year 2015, real market values of multifamily housing grew 22.5%.

Unemployment rates at the local, state, and national levels continue to fall from the double digits seen in 2009 and 2010. As of March 2016, the U.S. unemployment rate stood at 5.0%, vs. 5.5% a year earlier. For Oregon, the February 2016 rate was 5.4% vs. 5.8% a year earlier. In Multnomah County, the similar figures are 4.1% vs. 5.1% a year earlier. With nonfarm employment in Multnomah County at 491,400, employment levels are roughly 29,000 or 6.3% higher than pre-recession levels. The strong job growth and falling unemployment rate have finally led to real wage growth, which had been missing from the recovery.

Forecasting the General Fund

The Oregon Office of Economic Analysis forecasts employment growth of 2.7% in 2016 and 2.6% in 2017, and personal income growth of 4.7% in 2016 and 4.6% in 2017.

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. Forecasts are made for a five-year time horizon and updated on a quarterly basis. The forecast helps form the basis on which Multnomah County builds its annual budget.

The Budget Office's March 2016 Five-Year Forecast projected ongoing revenues exceeding ongoing expenditures by \$21.3 million, or 4.8%, for FY 2017. The 'surplus' shrinks over the life of the forecast, leaving a small deficit of \$1.8 million, or 0.3%, in FY 2021, the fifth year of the forecast.

This forecast does not assume any additional debt payments associated with the proposed Downtown Courthouse replacement project or the new Health Department headquarters building. Accounting for potential debt payments for these two projects, the County could support existing programs for the next three years, or through FY 2019. In the fifth year of the forecast, or FY 2021, the County would face a deficit of \$12.2 million, or 2.3%.

Based on this forecast and assuming a five-year planning horizon, the County cannot support any additional ongoing spending without reallocating from existing programs, increasing revenues, or increasing operational or programmatic efficiencies.

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 60% of ongoing revenues. General Fund growth, therefore, is particularly sensitive to taxable value growth and compression. The FY 2017 budget assumes the following rates of growth (as measured from the FY 2016 Adopted budget) for each revenue source:

- Property Tax – An increase of 5.8%
- Business Income Tax – An increase of 6.9%
- Motor Vehicle Rental Tax – An increase of 7.5%
- Recording Fees/CAFFA Grant – An increase of 11.1%
- US Marshal Jail Bed Rental – A decline of 9.1%

As measured from the FY 2016 Adopted budget, ongoing General Fund resources for FY 2017 are projected to increase by nearly 5.1%. However, as measured from currently forecasted FY 2016 revenues, ongoing General Fund resources are projected to increase a more modest 3.1%.

Cost Drivers

Expenditures are forecast to grow at roughly 4.0% to 4.5% annually through FY 2021, a rate of growth that takes into account inflation, employee compensation, and long-term fixed costs. For FY 2017, the cost of providing current service levels is expected to grow at 4.2%. This relatively strong rate versus prior years is driven by personnel costs, which are forecast to grow at nearly 5.0%. Specifically, the personnel cost increase is driven by:

- Cost of Living Adjustment: 1.60% (of base pay)
- Step/Merit Increases: 1.85% (of base pay)
- Medical/Dental: 6.0%
- PERS: 2.00% (of base pay)

Two items warrant further discussion. First, FY 2017 marks the first time in five years that medical/dental rates charged to departments have increased. These rates are projected to continue increasing modestly above inflation rates in the upcoming years after a period of below average growth.

Secondly, the County's pension costs via the Public Employee's Retirement System (PERS) are expected to rise significantly over the foreseeable future. This is due to a number of factors, which are discussed in more detail later, but are driven by three simple factors:

1. On April 30, 2015 the Oregon Supreme Court in the *Moro* case invalidated the majority of the 2013 reforms passed by the Oregon Legislature.
2. The PERS Board reduced the assumed earnings rate from 7.75% to 7.50%.
3. The PERS Board updated its mortality assumptions.

The impact of these changes was to increase the County's unfunded liability (UAL) from \$89.2 million to \$379.9 million. This increase does not include any impacts due to earnings below the assumed rate PERS experienced during calendar year 2015.

The County has historically 'smoothed' the internal rates it charges to departments to provide predictability, stability and mitigate risk. In FY 2017, the rates charged to departments were increased by 2% of base pay to begin addressing the significant future increases in the County's rates and unfunded liability.

For FY 2017, internal service rates charged to departments for items such as information technology and facilities services are assumed to increase 3.73%. As the County's internal services are heavily labor dependent, the increase in personnel cost growth has put upward pressure on internal costs. This has been somewhat offset by lower energy costs.

Policy Direction from the Chair and Balancing the General Fund

The Chair directed all departments to submit General Fund budgets that reflected a 2% reduction from current service level budgets as a starting point for the FY 2017 budget. These reductions generated \$7.5 million in 'savings' for the Chair to reallocate. Departments could also propose service expansions, restoration of reductions, backfill of grants, and new programs. Departments were also able to request one-time-only funds.

The Chair's Proposed General Fund was balanced by:

- Treating \$22.3 million of the FY 2017 ongoing funds as one-time-only to balance the budget for the next three years. This assumes the General Fund will need to cover debt payments for the Courthouse and Health Department Headquarters by FY 2019.
- Accepting some, but not all, of the proposed departmental reductions.
- Allocating \$34.0 million to capital projects.
- Adding \$11.0 million to homeless & housing related services.
- Allocating \$7.5 million for restorations, expansions, and backfills of grant funds outside of capital projects and homeless & housing related services.

Per past practice, the BIT reserve is funded at 10% of BIT revenues for FY 2017. This is on top of the County's 10% General Fund revenue reserve. The FY 2017 budget conservatively assumes that departments will fully spend their FY 2016 General Fund appropriations.

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

Overview of Additions & Reductions

Health & Human Services Additions

The FY 2017 budget includes a number of General Fund additions and reductions. The following tables summarize these by broad service area. Investments in infrastructure have been included by the most relevant service area. The additions to the newly created Joint Office for Homeless Services are reported in their own table, given their size and importance. The tables do not reflect cuts that were proposed by departments but restored in the Chair's Proposed budget.

Looking at both the reductions and additions, one can see how resources were reallocated.

Prog. #	Program Offer Name	General Fund Adds	FTE Adds
County Human Services			
25002B	Business Services and Operations	77,349	1.00
25003	Economic Opportunity Initiative	225,000	0.00
25006	Food Policy - SNAP Eligibility	103,744	1.00
25026B	ADVSD Public Guardian/Conservator Expansion	115,027	1.00
25049	Sexual Assault Services	200,000	0.00
25115B	Benefits Recovery Program - Benefits Services	250,000	0.00
25133	Housing Stabilization for Vulnerable Populations (Facilities-based Transitional Housing)	243,244	0.00
25138	East County Youth Reception	75,000	0.00
25139B	Multnomah Stability Initiative- Employment Services	250,000	0.00
25149B	SUN Youth Advocacy Program Funding Enhancement	304,561	0.00
25159B	Attendance Initiative	240,000	0.00
Health Department			
40004B	Ambulance Service Plan Consulting Services	100,000	0.00
40011D	HIV Pre-Exposure Prophylaxis Strategy (PrEP)	104,217	0.75
40017B	North PDX Dental Expansion	1,800,000	0.00
40038B	Public Health Approach to Preventing Community Violence	450,000	2.83
40038C	Training Community Health Workers for Immigrant and Refugee Communities	100,000	0.75
40058	Healthy Birth Initiative	50,000	0.00
40065B	MHASD Office of Consumer Engagement	150,000	2.00
40092	Community Primary Care Expansion	500,000	0.00
County Management			
72040	Tax Title Affordable Housing	2,500,000	0.00
Total		7,838,142	9.33

Health & Human Services Reductions

The single largest General Fund reduction in the Health and Human Services area is not a service cut, but rather using non-County General Fund resources to cover some Quality Assurance costs in the Health Department. This effectively allows the General Fund resources to re-allocated.

Several domestic violence related programs have been reduced. A number of these reductions reflect a reorganization and shifting of work. The reductions include an office assistant, a supervisory position (that was replaced with a senior program specialist), and reduced professional services.

Prog. #	Program Offer Name	General Fund Reductions	FTE Cuts
County Human Services			
25000	Director's Office	(64,620)	0.00
25020	ADVSD Access & Early Intervention Services	(97,887)	0.00
25044	Domestic Violence Coordination	(215,910)	(2.00)
25045	Domestic Violence Defending Childhood Program	(103,680)	0.00
25139	Multnomah Stability Initiative (Youth Employment Services)	(59,117)	0.00
25147	Child and Family Hunger Relief (Growing gardens and Hunger Outreach)	(87,910)	0.00
25154	SUN Youth Substance Abuse Prevention Services	(130,000)	0.00
Various	Various throughout department	(68,839)	0.00
Health Department			
40011	STD/HIV/Hep C Community Prevention Program	(92,961)	(1.25)
40034	Quality Assurance (Funding swap w/Other Funds, no cut)	(294,950)	0.00
40037A	Environmental Health Community Programs	(66,520)	(0.50)
40039	Human Resources and Training	(152,483)	(1.00)
40043	Health Department Operations	(68,948)	0.00
Various	Various throughout department	<u>(193,927)</u>	<u>0.00</u>
		Total (1,697,752)	(4.75)

Public Safety Additions

The additions in the public safety area are mainly infrastructure related. The most notable of these is additional Courthouse funding. These investments will help to reduce future capital and debt requirements, allowing more funds for operations. Likewise, the CHI mentoring addition adds to the County's effort at reducing youth involvement in gangs, and hopefully future costs.

Prog. #	Program Offer Name	General Fund Adds	FTE Adds
District Attorney's Office			
15012	CRIMES Replacement Project (reflects total cost includes \$1.6 million in County Assets program 78319)	1,849,456	0.00
Community Justice			
50019B	Forensics	97,780	1.00
50065C	CHI Mentoring	223,520	0.00
County Assets			
78212	Facilities Downtown Courthouse	19,900,000	0.00
78218	Hansen Building Replacement	3,000,000	0.00
78220	DCJ Mid-County Facility Consolidation	7,500,000	0.00
78221	MCDC Detention Electronics	<u>100,000</u>	<u>0.00</u>
Total		32,670,756	1.00

Public Safety Reductions

The most notable public safety reduction is the closure of 118 jail beds, leaving 1,192 beds available. The positions (12.74 FTE) associated with the jail bed reductions are anticipated to be vacant resulting in few, if any, layoffs.

Prog. #	Program Offer Name	General Fund Reductions	FTE Cuts
District Attorney's Office			
15202B	Misdemeanor Trial Unit	(125,611)	(1.00)
Various	Various Throughout Department	(23,488)	0.00
Community Justice			
50023	Adult Field Generic Supervision	(135,333)	(1.00)
50028A	Adult Change Center	(113,632)	(1.10)
Various	Various Throughout Department	(133,001)	(1.30)
Sheriff's Office			
60041J	MCIJ Dorm 4 (59 Beds)	(591,736)	(5.46)
60041I	MCIJ Dorm 5 (59 beds)	(404,257)	(3.64)
60041H	MCIJ East Escort Post	(418,904)	(3.64)
Various	Various Throughout Department	<u>(680,862)</u>	<u>0.00</u>
Total		(2,626,824)	(17.14)

Library Additions

The Library additions shown below are funded by the Library District's property tax and are not County General Fund. They reflect the Library's targeted strategic investments above its current service level.

Prog. #	Program Offer Name	Library Fund Adds	FTE Adds
Library			
80007	Library Director's Office	310,000	0.00
80019	System Access & Information Services	246,900	1.75
80021	Diversity Initiative	136,000	1.00
Various	Other Adds	<u>117,700</u>	<u>1.25</u>
Total		810,600	4.00

General Government Additions

The General Government additions respond to the Auditor's report on Animal Services, provide additional funding for the 2016 presidential election and in the case of Levee Ready Columbia and the Land Use Comprehensive Plan, update carryover funds. The investment in SummerWorks is doubled using Video Lottery Funds.

Prog. #	Program Offer Name	General & Video Lottery Fund Adds	FTE Adds
Nondepartmental			
10009C	Decision Support System-Justice System Evaluation	1,000,000	0.00
10012	Office of Emergency Management	178,429	0.00
10018B	Promoting Opportunities in the CSPACE Market	60,000	0.00
10018C	Diesel Bus Retrofits	73,954	0.00
10029B	SummerWorks Expanded Internship Program	786,000	0.00
10031	County Commissioner Office Transitions	150,000	0.00
Various	Various adds	40,000	0.00
Community Services			
91006B	Animal Services Field Officer Lease Space	60,000	0.00
91006C	Animal Services Field Officer Lease Space Relocation	200,000	0.00
91007B	Animal Service Staffing 2.0 FTE Animal Care	178,666	2.00
91008B	Presidential Election	335,000	0.00
91023	Levee Ready Columbia	450,000	0.00
91027	Land Use Comprehensive Plan Update	250,000	0.00
91013A	Yeon Garage	<u>116,000</u>	<u>0.00</u>
Total		3,878,049	2.00

General Government Reductions

The reductions in the general government area total \$1.0 million, and are mainly in the Department of County Management. They will result in little impact to direct services for Multnomah County citizens.

Prog. #	Program Offer Name	General Fund Reductions	FTE Cuts
Nondepartmental			
10000	Chair's Office	(31,774)	0.00
10007	Communications Office	(24,956)	0.00
10009A	Local Public Safety Coordinating Council (LPSCC)	(13,400)	0.00
10012	Emergency Management	(26,697)	0.00
10017	Office of Diversity and Equity	(22,292)	0.00
10018	Sustainability	(12,837)	0.00
County Management			
N/A	Child Care Network and Tuition	(330,000)	0.00
Various	Salary savings from staff turnover	(303,752)	0.00
County Assets			
Various	Various throughout Department	(37,246)	0.00
Community Services			
91000C	Director's Office Research and Evaluation	(135,233)	(1.00)
91008C	Elections Voter Education & Outreach	<u>(89,800)</u>	<u>(1.00)</u>
		Total (1,027,987)	(2.00)

Joint Office Homeless Services Additions

The Joint Office Homeless Services shows the additional General Fund invested by Multnomah County. The table does not include existing and new funding from the City of Portland or transfers from County Human Services. For more information, see page 21.

Prog. #	Program Offer Name	General Fund Adds	FTE Adds
Nondepartmental			
10030	A Home for Everyone Initiative	256,158	2.00
10060A	Lead Agency Administration	400,000	0.00
10061B	Safety Off the Streets - Expanded Services	2,500,000	0.00
10062B	Rapid Re-Housing - Expanded Services	4,487,500	0.00
10063B	Supportive Housing - Expanded Services	1,912,500	0.00
10064	Eviction Prevention - Expanded Services	160,000	0.00
10065	Diversion - Expanded Services	<u>440,000</u>	<u>0.00</u>
		Total 10,156,158	2.00

Budget Overview - All Funds

Local budget law requires that Multnomah County report the “total” budget. The total budget reflects the actual resources needed by the County, plus internal charges, transfers, loans, and accounting entities. The total budget for FY 2017 is \$1.87 billion. When adopted, the budget sets the legal appropriation.

Because the total budget overstates what is actually spent, the County often refers to the net budget. The FY 2017 net budget of \$1.52 billion is a more accurate statement of the money the County actually plans to spend on operations during the year. The net budget (shown in the table below) 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.

The table on the following page compares the FY 2016 Adopted budget to the FY 2017 Proposed budget at the fund level. Two new funds, 2508 Information Technology Capital Fund and 2512 Hansen Building Replacement Fund, were created in FY 2017 to better track capital projects. Year-over-year the budget (including internal charges, transfers, and loans) has increased by 7.9%. Most of the major increases and decreases come from the ramp down/start up of major capital projects.

FY 2017 Budget	
Department Expenditures	\$1,479,033,108
Contingency	<u>\$38,212,435</u>
Total Net Budget	\$1,517,245,543
Service Reimbursements	\$149,459,477
Internal Cash Transfers	\$42,317,581
Reserves	<u>\$161,592,385</u>
Total Budget	\$1,870,614,986

Budget Director's Message

fy2017 proposed budget

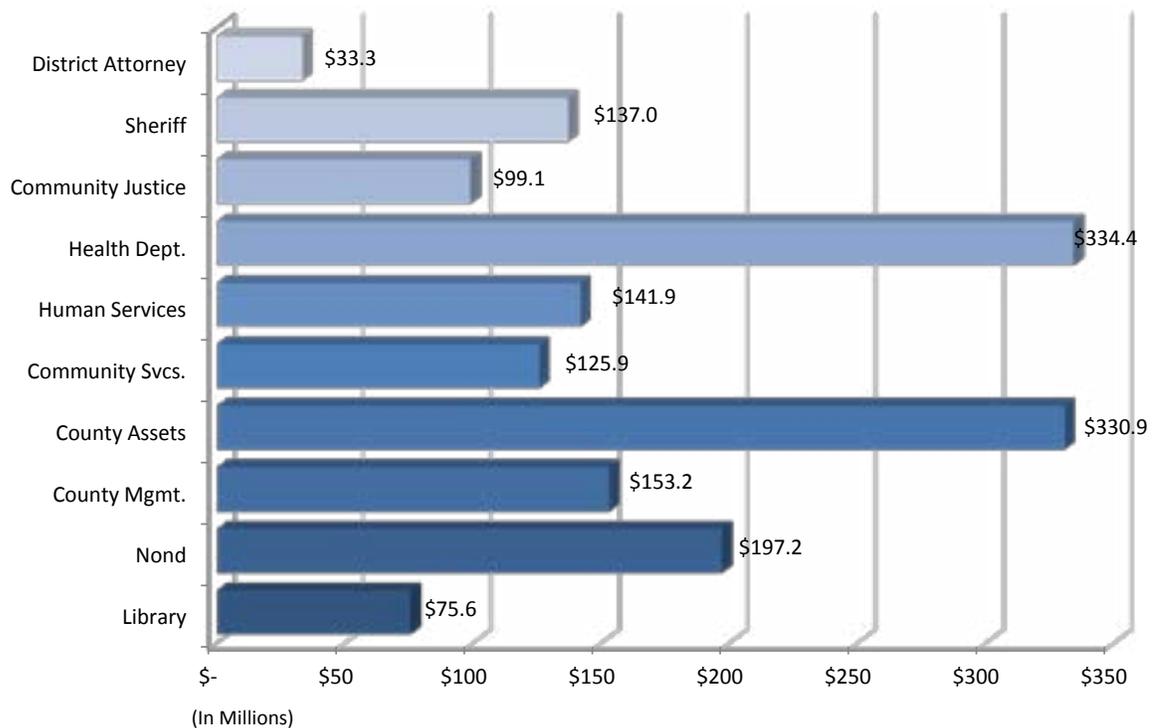
Fund Comparison: Year over Year

Fund	Fund Name	FY 2016 Adopted	FY 2017 Proposed	Change	% Change
1000	General Fund	\$563,295,405	\$583,123,778	\$19,828,373	3.5%
1501	Road Fund	51,878,375	53,810,897	1,932,522	3.7%
1503	Bicycle Path Construction Fund	369,900	437,800	67,900	18.4%
1504	Recreation Fund	102,710	102,640	(70)	-0.1%
1505	Federal/State Program Fund	265,102,251	309,170,960	44,068,709	16.6%
1506	County School Fund	77,230	80,300	3,070	4.0%
1508	Animal Control Fund	2,828,713	2,421,500	(407,213)	-14.4%
1509	Willamette River Bridge Fund	10,862,852	15,631,201	4,768,349	43.9%
1510	Library Fund	80,933,930	82,745,346	1,811,416	2.2%
1511	Special Excise Taxes Fund	37,146,403	42,177,226	5,030,823	13.5%
1512	Land Corner Preservation Fund	3,527,150	4,373,000	845,850	24.0%
1513	Inmate Welfare Fund	1,096,365	903,313	(193,052)	-17.6%
1516	Justice Services Special Ops Fund	6,579,527	6,634,162	54,635	0.8%
1518	Oregon Historical Society Levy Fund	2,122,143	2,604,278	482,135	22.7%
1519	Video Lottery Fund	5,440,419	6,736,100	1,295,681	23.8%
2002	Capital Debt Retirement Fund	18,705,360	18,690,593	(14,767)	-0.1%
2003	General Obligation Bond Sinking Fund	12,037,600	6,023,100	(6,014,500)	-50.0%
2004	PERS Bond Sinking Fund	97,171,626	117,895,916	20,724,290	21.3%
2500	Downtown Courthouse Capital Fund	54,330,900	98,602,542	44,271,642	81.5%
2503	Asset Replacement Revolving Fund	406,351	375,186	(31,165)	-7.7%
2504	Financed Projects Fund	4,930,000	4,094,000	(836,000)	-17.0%
2506	Library Capital Construction Fund	2,948,700	3,439,790	491,090	16.7%
2507	Capital Improvement Fund	20,324,215	22,647,592	2,323,377	11.4%
2508	Information Technology Capital Fund	0	6,861,123	6,861,123	N/A
2509	Asset Preservation Fund	14,664,374	16,398,538	1,734,164	11.8%
2510	Health Headquarters Capital Fund	45,139,000	64,800,000	19,661,000	43.6%
2511	Sellwood Bridge Replacement Fund	61,615,356	37,499,519	(24,115,837)	-39.1%
2512	Hansen Building Replacement Fund	0	5,390,766	5,390,766	N/A
3002	Behavioral Health Managed Care Fund	96,009,198	68,289,964	(27,719,234)	-28.9%
3500	Risk Management Fund	163,575,287	172,908,540	9,333,253	5.7%
3501	Fleet Management Fund	10,121,118	11,121,253	1,000,135	9.9%
3503	Information Technology Fund	50,682,035	53,821,742	3,139,707	6.2%
3504	Mail Distribution Fund	3,277,576	3,146,130	(131,446)	-4.0%
3505	Facilities Management Fund	<u>46,490,036</u>	<u>47,656,191</u>	<u>1,166,155</u>	<u>2.5%</u>
Total		\$1,733,792,105	\$1,870,614,986	\$136,822,881	7.9%

Department Requirements All Funds (\$1.48 billion)

Department expenditures, excluding cash transfers, contingencies, and unappropriated balances, for all funds total \$1.48 billion in FY 2017 vs. \$1.47 billion in FY 2016.

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.



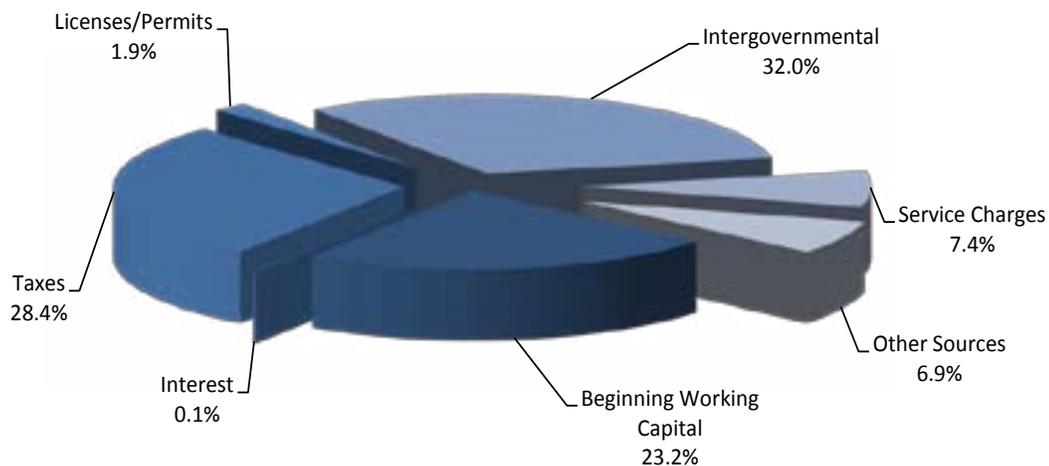
Department Revenues All Funds (\$1.54 billion)

Total direct resources, or 'revenues,' for FY 2017 are \$1.54 billion vs. \$1.43 billion in FY 2016 (excluding service reimbursements and cash transfers between funds). Intergovernmental revenues are the County's single largest revenue category at \$493.9 million or 32.0%. This reflects a \$56.9 million or 13.0% increase from FY 2016.

Taxes constitute the next largest revenue source (28.4%) and include property tax, business income tax, motor vehicle rental tax, transient lodging tax, and county gas tax. For FY 2017, tax collections are anticipated to increase 5.3% from \$416.9 million in FY 2016 to \$439.1 million.

Beginning working capital (BWC) is the County's third largest resource for FY 2017 at \$359.1 million or 23.2%. While relatively stable as a percentage of total resources, it has decreased from FY 2016 by \$7.3 million or 2.0%. This masks several significant changes by fund, including:

- A \$4.6 million decrease in the General Fund.
- A \$26.9 million decrease in the Sellwood Bridge Replacement Fund.
- A \$12.8 million increase in the PERS Bond Sinking Fund.
- A \$21.1 million increase in the Downtown Courthouse Capital Fund.

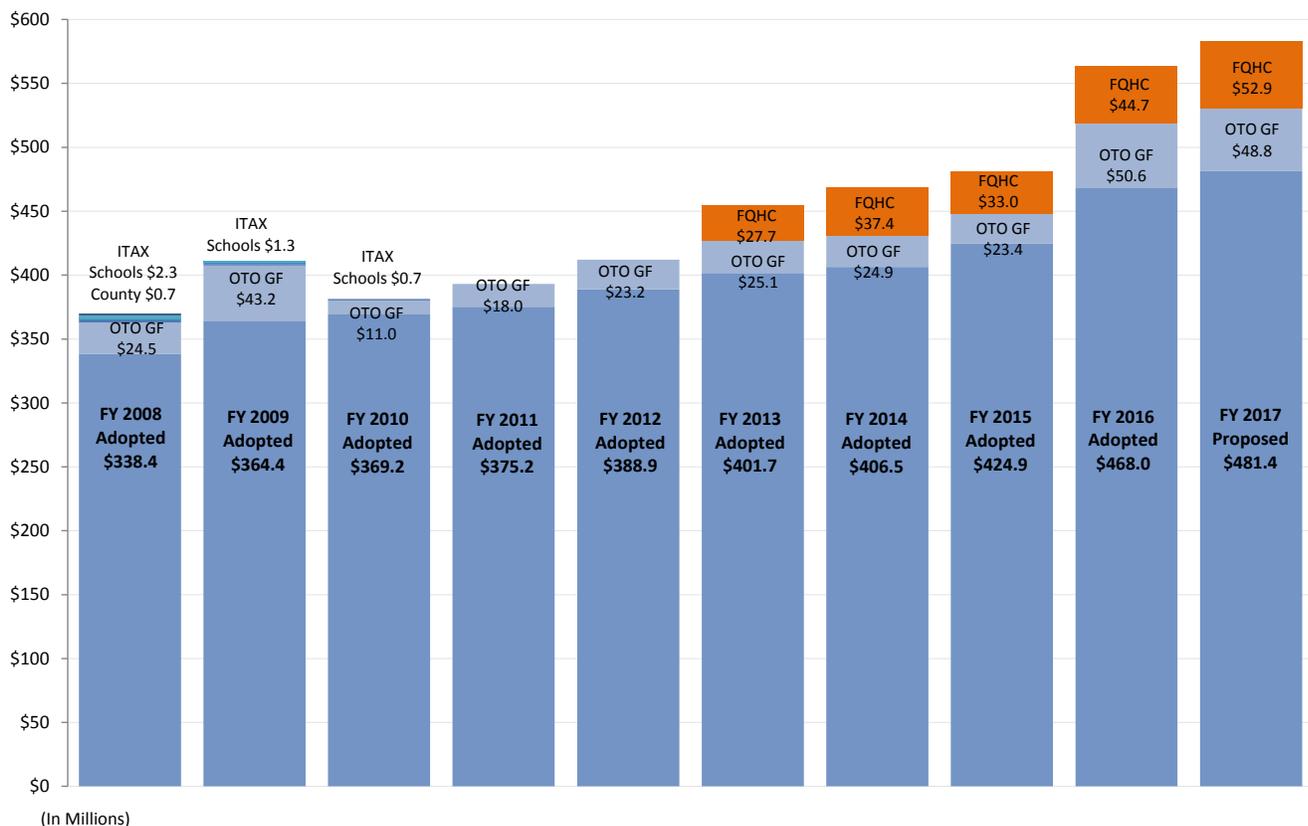


The General Fund

General Fund Expenditures and Reserves (\$583.1 million)

The \$583.1 million General Fund comprises just over one-third of the County's budget. It is the largest pool of discretionary funds that the Board of County Commissioners can allocate. 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 Federally Qualified Health Center (FQHC) Medicaid wraparound reimbursement.

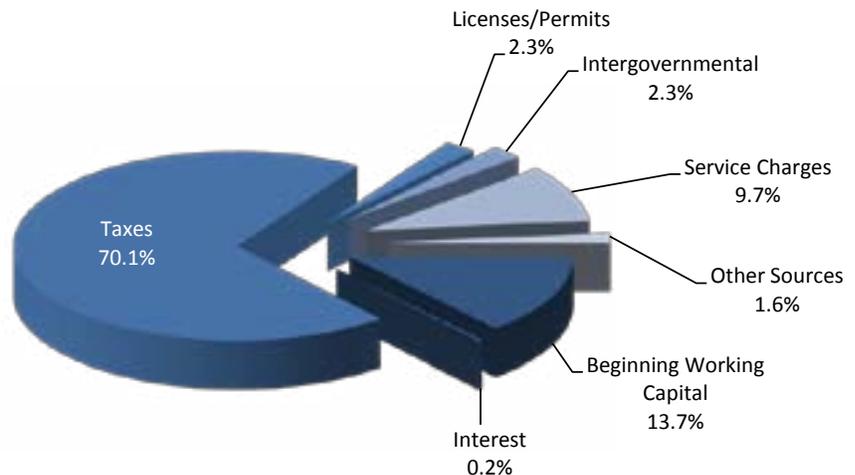
The following graph shows total General Fund 'spending,' including cash transfers, service reimbursements, contingencies, and unappropriated balances (reserves), from FY 2008 through FY 2017. The Temporary Personal Income Tax (ITAX) is shown from FY 2008 to FY 2010 and is not significant enough to warrant 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 from FY 2008 to FY 2017. Combining each segment provides the total General Fund.



General Fund Revenues

General Fund resources for FY 2017 (excluding service reimbursements and cash transfers) have increased from FY 2016. Direct resources are budgeted at \$552.4 million – a \$23.9 million or 4.5% increase over FY 2016. Ongoing taxes are budgeted to increase by \$22.3 million or 6.1%, while one-time-only BWC is projected to be \$4.6 million (5.7%) lower.

As the graph below shows, taxes make up the majority of General Fund revenues. If one excludes BWC, service reimbursements, and the \$52.9 million of budgeted FQHC and prospective health payments, taxes account for nearly all of the Board's discretionary ongoing funds. Property taxes, accounting for \$279.1 million, are budgeted to increase by \$15.4 million or 5.8%. Business income taxes, accounting for \$79.6 million, are budgeted to be up \$5.1 million or 6.8%. Motor vehicle rental taxes, accounting for \$28.2 million, are budgeted to increase by \$2.0 million or 7.6%.



Use of One-Time-Only (OTO) Funds

The FY 2017 budget contains approximately \$48.8 million of one-time-only General Fund resources after fully funding the General Fund reserve and the BIT reserve. These funds include:

- \$15.0 million of additional BWC in FY 2016 (from departmental underspending and higher revenues in FY 2015).
- \$12.9 million of additional resources from FY 2016 (mainly from higher-than-budgeted property and business income taxes).
- \$22.3 million of FY 2017 ongoing funds that were treated as one-time-only to balance the budget for the next three years.
- \$1.0 million of funds carried over (unspent) from FY 2016.
- Less \$2.8 million used to fully fund reserves.

The table on the following page shows how the County plans to use one-time-only resources in FY 2017. The table lists one-time-only resources supporting one-time-only expenditures, or programs not expected to continue beyond FY 2017. There were no one-time-only resources supporting ongoing programs or those expected to operate beyond FY 2017.

Budget Director's Message

fy2017 proposed budget

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

Prog #	Program Name	Dept.	FY 2017 TOTAL General Fund	Other Funds	OTO General Funds
10009C	DSS-J Evaluation and System Upgrade	NOND	1,000,000	0	1,000,000
10018B	Promoting Opportunities in the CPACE Market	NOND	60,000	0	60,000
10018C	Fixing Dirty Diesel School Buses	NOND	73,954	0	73,954
10029B	SummerWorks Expanded Internship Program ^{1/}	NOND	786,000	0	786,000
10031	County Commissioner Office Transitions	NOND	150,000	0	150,000
10062B	Rapid Re-Housing - Expanded Services	NOND	4,487,500	4,275,000	4,487,500
10064	Eviction Prevention - Expanded Services	NOND	160,000	0	160,000
10065	Diversion - Expanded Services	NOND	440,000	1,100,000	440,000
10066	Recovery Oriented Services and Engagement (ROSE)	NOND	470,000	0	470,000
15012	CRIMES Replacement	MCDA	275,000	0	275,000
25003	Economic Opportunity Initiative	DCHS	225,000	0	225,000
25006	Food Policy - SNAP Eligibility	DCHS	103,744	0	103,744
25115B	Benefit Recovery Program - Benefits Services	DCHS	250,000	0	250,000
25133B	HSVP - Facilities Based Transitional Housing	DCHS	243,244	0	243,244
25138	Runaway Youth Services (RYS)	DCHS	922,535	175,000	25,000
25139B	Multnomah Stability Initiative - Employment Services	DCHS	250,000	0	250,000
25149B	SUN Youth Advocacy Program Funding Enhancement	DCHS	304,561	0	304,561
25159B	School Attendance Supports	DCHS	240,000	0	240,000
40004B	Ambulance Service Plan Consulting Services	HD	100,000	0	100,000
40011D	HIV Pre-Exposure Prophylaxis Strategy (PrEP)	HD	104,217	0	104,217
40017B	North Portland Dental Expansion	HD	1,800,000	0	1,800,000
40038C	Community Health Worker Training Carryover	HD	100,000	0	100,000
40092	Community Primary Care Expansion	HD	500,000	0	500,000
50019B	Adult Forensics OTO	DCJ	97,780	0	97,780
50067	Juvenile Community Interface Services OTO	DCJ	114,000	0	114,000
72025B	DART County Clerk Carryover	DCM	164,000	0	164,000
72040	Tax Title Affordable Housing	DCM	2,500,000	0	2,500,000
91006C	Animal Services Field Officer OTO Moving/Renovation	DCS	200,000	0	200,000
91008B	Presidential Elections	DCS	335,000	0	335,000
91023	Levee Ready Columbia ^{1/}	DCS	450,000	0	450,000
91027	Land Use Comprehensive Plan Update ^{1/}	DCS	250,000	0	250,000
95000	Cash Transfers	Countywide			
	~ Hansen Building Replacement (78218)		3,000,000	0	3,000,000
	~ DCJ Mid County Facility (78220)		7,500,000	0	7,500,000
	~ MCDC Detention Electronics (78221)		100,000	0	100,000
	~ CRIMES Replacement (78319)		1,574,456	0	1,479,456
	~ Downtown Courthouse (78212)		19,900,000	0	19,900,000
95000	General Fund Contingency	Countywide			
	~ Mental Health Crisis Earmark		629,532	0	629,532
95000	BIT Reserve at 10%	Countywide	<u>7,962,395</u>	<u>0</u>	<u>7,962,395</u>
Total One-Time-Only			\$57,822,918	\$5,550,000	\$56,830,383

1/ The OTO funds for these programs are budgeted in Video Lottery Fund (1519)

General Fund Reserves

The County maintains General Fund reserves as outlined in the County's Financial and Budget Policies. In FY 2017, 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 2017 budget fully funds the General Fund reserves at \$39.9 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 2017 budget continues to maintain a 10% BIT Stabilization Reserve of \$8.0 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

Homelessness and Housing Affordability

In 2015, a point-in-time count of people experiencing homelessness in Multnomah County found 3,801 individuals living on the streets, in shelter, or in transitional housing. The number of entirely unsheltered people was 1,887, including a growing number of families with children, adult women and people of color. At the same time, Multnomah County continues to rank among the communities with the most significant year-over-year rent increases and lowest vacancy rates, even as real incomes for low-income households continue to stagnate.

In response to this continuing housing affordability and homeless crisis, in 2014 Multnomah County joined forces with the City of Portland, the City of Gresham, Home Forward, and representatives of the philanthropic, faith, and business communities to create A Home for Everyone (AHFE). The AHFE Executive Committee adopted a set of strategies and funding recommendations that if fully implemented would reduce the unmet need for housing by as much as 50% over a three year period.

The AHFE Executive Committee also recommended that in order to improve the efficiency and effectiveness of the delivery of homeless services in Multnomah County, the City of Portland and Multnomah County should consider the creation of a Joint Office of Homeless Services. They recommended consolidating the government staff and General Fund resources invested in homelessness, and responsibility for administering the Federal Continuum of Care ending homelessness funds into a single office.

In keeping with the Executive Committee's recommendation, the Chair's budget contemplates the creation of a Joint Office of Homeless Services. This will be a Nondepartmental Office, reporting directly to the Chair, with responsibility for planning and implementation of homeless services on behalf of Multnomah County and the City of Portland.

The program offers related to the Joint Office represent the consolidation of existing City of Portland and Multnomah County General Funds, previously budgeted to the Portland Housing Bureau and the Department of County Human Services in the areas of:

1. Access and stabilization;
2. Rapid rehousing;
3. Supportive housing;
4. Prevention and diversion; and
5. Shelter and emergency services.

These existing investments provide services to all populations, including youth, adults, families with children, and survivors of domestic violence. Last year those investments assisted approximately 3,500 people into permanent housing, provided prevention assistance to more than 4,500 people, and supported more than 600 year-round shelter beds for all populations.

There are also program offers representing new investments of both City of Portland and Multnomah County General Fund that will come to the Joint Office. These program offers are for the same categories of services as those related to existing funding: (1) access and stabilization; (2) rapid rehousing; (3) supportive housing; (4) prevention and diversion; and (5) shelter and emergency services. Again, these new investments will serve the full of range of populations experiencing homelessness. They are expected to achieve 1,350 additional permanent placements into housing, 1,000 additional preventions/diversions, and fund the operations of 650 additional shelter spaces.

Oregon Historical Society Levy Renewal

On May 17, 2016, Multnomah County voters will decide whether to renew the Oregon Historical Society's 5-year local option levy. Prior to 2009, the State of Oregon provided a significant portion of OHS funding. After state funding ended, OHS was in danger of having to cease all operations without a new funding source. Multnomah County agreed to propose a 5-year local option levy on behalf of OHS, which was approved by voters in November 2010. OHS used funds from the expiring levy to provide free museum admission to Multnomah County residents, and support educational and cultural preservation programs. The renewed levy is expected to generate \$2.5 million per year for OHS operations.

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 during the economic downturn. All labor groups will receive merit or step increase and COLAs for FY 2017. It is also worth noting that in FY 2016, the County implemented 6-weeks of paid parental leave for employees.

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. PERS rates are established biennially, with the most recent set of rates taking effect July 1, 2015 based on the December 31, 2013 valuation.

As noted in the cost driver section, the reforms made by the Oregon Legislature in 2013 were largely invalidated by the Oregon Supreme Court on April 30, 2015. A key component of the legislation (SB 822 and SB 861) was that it capped cost-of-living increases for retirees. A 1.25% COLA was to be provided for the first \$60,000 of annual benefit with 0.15% on all amounts over \$60,000. This effectively lowered projected future benefit payments and consequently employer rates.

The impact of these reforms not being upheld, along with the PERS Board reducing the assumed earning from 7.75% to 7.50% and updating its mortality assumptions, was to increase the County's unfunded actuarial liability (UAL) from \$89.2 million to \$379.9 million as of the December 31, 2014 valuation.

In response, for FY 2017 the County increased its internal PERS rates by 2.00% of payroll to pro-actively address the UAL. The County is also proposing to establish a PERS side account. Regardless of these measures, the County will face rising PERS costs for the foreseeable future.

More information on PERS can be found at www.oregon.gov/PERS, in the County's Comprehensive Annual Financial Report, and in staff's PERS Briefing to the Board, which is located here: <https://multco.us/file/42452/download>.

Investing in Infrastructure

Sellwood Bridge

The Sellwood Bridge project, which began in December 2011, met its most significant project milestone on February 29th, 2016, with the opening of the new bridge to traffic. Work continues on the new structure, the completion of the east approaches, and the west side signalized intersection. The project is expected to be complete by mid FY 2017.

The initial cost estimate for the project was \$307.5 million. Due to challenging site conditions and unanticipated project costs, the project cost may increase by \$12 million. Revenue from Bond sales and the Multnomah County Vehicle Registration Fee is yielding revenue higher than originally forecasted and will be available to fund this increased estimate.

The City of Portland amended its earlier payment agreement to hold off the final payment until the final share amount could be determined. Payments now include \$50 million paid in June 2014, \$20 million in April 2015, and up to \$16 million to be paid by June 30, 2017. The current funding plan includes the following secured sources:

- \$164.4 million - Multnomah County Vehicle Registration Fee (\$19 per year per vehicle)
- \$74.7 million (guaranteed) and up to \$86 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

Burnside Bridge Feasibility Study

The Burnside bridge was built in 1926 and has been designated as an official emergency transportation route by Metro. The bridge is not up to current seismic standards and is in need of rehabilitation or replacement in order to ensure it can meet its obligation to serve as a lifeline corridor in an emergency.

The County Board approved resolution 2015-116 on November 5, 2015 authorizing a \$3.0 million internal loan to fund a feasibility study for the seismic rehabilitation or replacement of the Burnside Bridge. The feasibility study will occur over a three year period, with expected completion in FY 2018. The loan will be repaid over a ten year period, with interest only payments of \$16,200 during years one through five. The project resides in program offer 91018 Transportation Capital.

Downtown Courthouse

The existing Multnomah County Courthouse is over 100 years-old and is functionally and structurally obsolete. It is also at capacity and there is no room for additional growth. The County has partnered with the State of Oregon, as well as other stakeholders, to plan a 425,000 to 435,000 square foot building to meet modern standards for court operations and security.

Planning for a new downtown Multnomah County Courthouse began a number of years ago. The project took a significant step forward in FY 2015 when the State of Oregon passed legislation to provide up to 50% of the construction cost for State court related functions. The County moved into the design phase in FY 2016.

The project is anticipated to cost between \$290 and \$295 million. In FY 2016, the County closed on the sale of the Morrison Bridgehead property with net proceeds from the \$10 million transaction applied to the courthouse. The County's FY 2017 budget earmarks an additional \$19.9 million of General Fund, in addition to the \$28.1 million provided in FY 2016.

The final phase of design is in process and construction is anticipated to begin in the Spring of 2017 after securing necessary permits. The new Multnomah County Courthouse is scheduled to open in 2020.

More information on the Courthouse can be found here: www.multco.us/central-courthouse

Health Department Headquarters

The proposed Multnomah County Health Department (MCHD) headquarters building will replace the County's aging and obsolete McCoy building. The new facility will be located on the east half of block U, adjacent to Bud Clark Commons in downtown Portland.

The MCHD headquarters will be 150,000 square feet at an estimated cost of \$85 million to \$95 million. The new facility will house approximately 500 employees providing administrative, clinical, pharmacy and laboratory services. Project funding includes \$36.6 million from the Portland Development Commission's River District Urban Renewal Area. An additional \$6.4 million of one-time-only General Fund revenue was dedicated in the previous years budgets. The County intends to issue debt for the balance of the project.

In FY 2016, project work was focused on final programming and early design. Final design, permitting and construction are anticipated in 2017 with project completion slated for 2019.

Hansen Building Replacement

Built in 1956, the Hansen Building was constructed as a County Health Clinic. In 1976, it was modified to operate as the County's primary law enforcement facility. The building is functionally and physically obsolete and lacks the critical infrastructure to support modern best practices for public safety.

In 2014, the initial planning commenced to identify the short and long term needs for a modern, safe, and centrally located Multnomah County Sheriff's Office to replace the Hansen Building. The FY 2014 budget earmarked \$2.2 million in one-time-only funds for site redevelopment and program costs. Another \$500,000 of one-time-only funds was added in FY 2016. For FY 2017, \$3.0 million is added to the project. Planning and due diligence will continue through FY 2017.

Energy Savings Performance Contracts (ESPC)

- Juvenile Justice Complex (JJC) Lighting (78215) - This ESPC project at JJC will modernize the lighting fixtures to include LED's where appropriate and retrofit existing fixtures throughout the facility with energy saving technology. The ESPC lighting project is supported with incentives from the Energy Trust of Oregon, and potentially the Oregon Department of Energy. This lighting project is guaranteed to reduce electrical consumption within the facility by 23%, and save the County over \$42,000 per year.
- Inverness Jail Water (78216) - This ESPC program will implement a comprehensive water saving project at Inverness Jail that modernizes the facility's plumbing fixtures and adds controls to improve water management. The ESPC is guaranteed to save the County \$196,000 per year with an anticipated 44% reduction in the facility's water consumption. The project will offset the \$1,496,627 cost within eight years.

Fleet Fuel Tank Installation

Program offer 78217 budgets \$436,661 of one-time-only funding from FY 2016 to install above-ground fuel tanks at the Yeon complex and provide a dedicated fuel resource for County vehicles in the East County area. These tanks will ensure sufficient fuel to perform mission critical activities during an emergency event.

Columbia River Levee Improvement Project

As a regional partner in the Oregon Solutions Columbia River Levee Improvement project, the County supports the work necessary to ensure improvements are identified and addressed within several draining districts along the Columbia River levee system in Multnomah County. Failure to

New Information Technology

address identified deficiencies puts communities at risk of flooding and poses a risk of loss of levee accreditation under the Federal Emergency Management (FEMA) National Flood Insurance Program. The \$450,000 in program offer 91023 Levee Ready Columbia is the projected amount remaining at the end of FY 2016.

Animal Services

The County Auditor recently completed an audit of Animal Services. The Auditor's Office recommended additional staffing and noted that the facility is obsolete and will eventually need replacing. According to the Association of Shelter Veterinarians Guidelines for Standards of Care, the minimum staffing pattern for a shelter is 15 minutes per day for each animal. Currently, staffing is inadequate to meet the minimum standards.

The Chair's budget provides \$178,666 to fund two new full-time Animal Care Technicians to address deficiencies in staffing (program offer 91007B). The budget also includes \$260,000 of additional resources to relocate Animal Field Services to a nearby location, freeing up needed space at the operating facility (program offers 91006B-C).

CRIMES Replacement

The District Attorney's (DA's) Office is legislatively required to keep a register of all official business. The DA's Office currently uses a case management system consisting of two modules (CRIMES Juvenile and CRIMES Adult) to keep an official record of all District Attorney Court proceedings, including information on hearings, judgments, defendants, witnesses, and victims. The 15 year-old case management system is built on obsolete technology and has become cost prohibitive to maintain. The CRIMES replacement project will replace the current outdated system with a new web-based application. The FY 2016 budget included funding for planning and vendor identification. The FY 2017 budget includes \$1.85 million for contract completion and implementation of the project (program offers 15012 and 78319). Project completion is anticipated by the end of FY 2017.

Cybersecurity

Program offer 78318 budgets \$1,267,000 for cybersecurity. Several aspects of the County's cybersecurity components are in the process of being addressed: replacement of the County's obsolete firewall (the primary network defense system that protects the County from external cyber threats); replacement of the end of life email security monitoring and archiving service; development of a County security awareness training program; and implementation tools dedicated to the management of data and systems in the cloud.

Future Budget Pressure

Enterprise Resource Planning Replacement

Multnomah County is actively pursuing a replacement for our Enterprise Resource Planning (ERP) system. An ERP is a collection of software applications, workflows, and systems used to integrate the operations of an organization including, but not limited to, financials, human resources, purchasing, and assets. SAP, installed in 1999, is the foundation of the County's current ERP solution. In addition, the County uses Qwestica for budgeting, Sciquest for supply chain management, Neogov for recruiting (and soon for performance management) and Moodle for learning management.

In FY 2015, the County completed an analysis project to define the ERP needs of each department. The outcomes showed that our current SAP-based system does not fulfill all of the needs identified by our staff. Based on the results of this analysis, County leadership published a Request for Proposal (RFP) to seek offers from vendors that specialize in ERP software. The RFP was posted in November 2015 and the County received 12 proposals from vendors of all sizes. Based on a comprehensive evaluation process, the County expects to select both a vendor and a systems integrator to assist in the implementation by June 2016. Planning and preparation will occur in FY 2017 with the formal implementation scheduled for FY 2018.

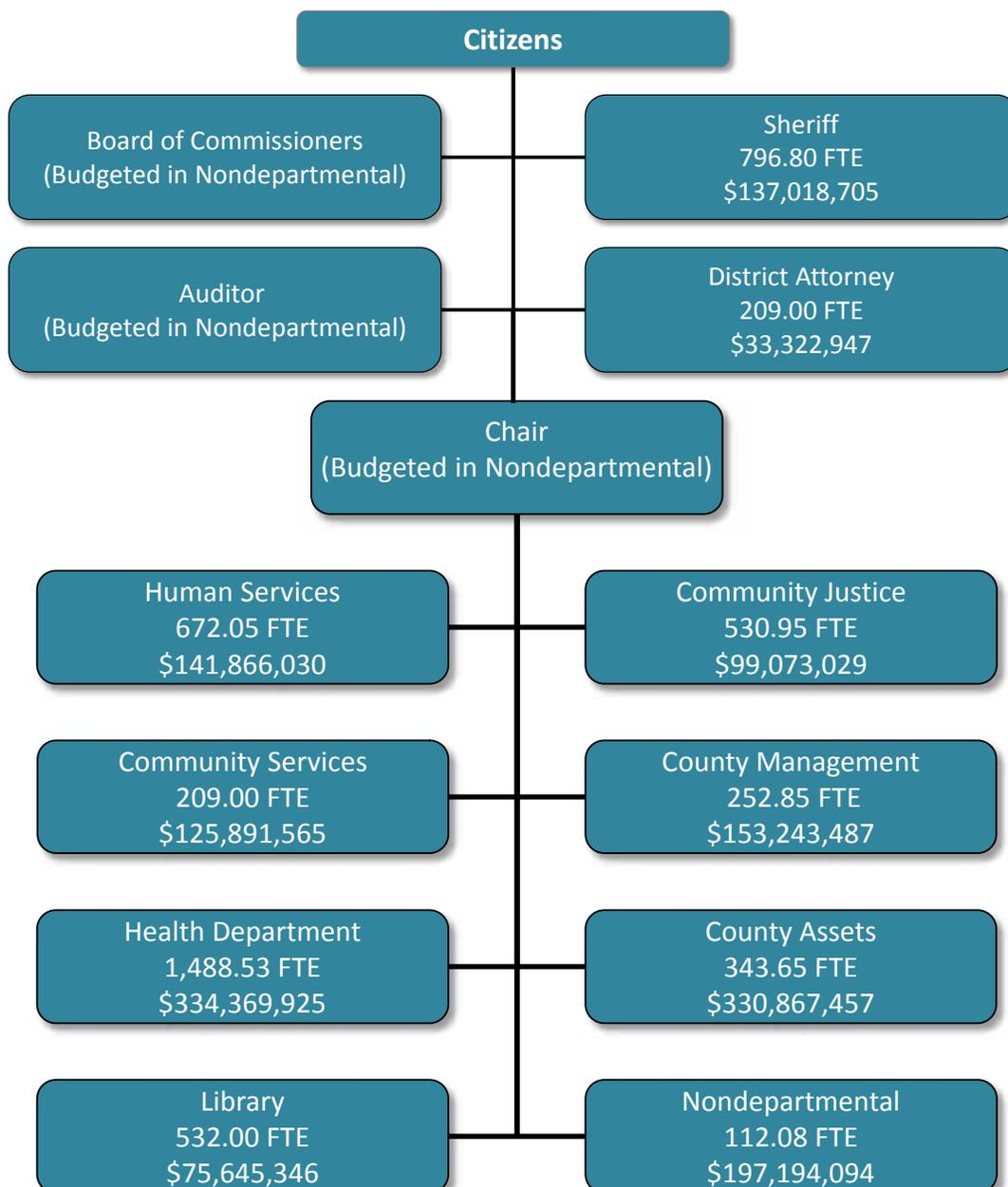
While the County is experiencing strong economic growth, it is not immune to broader economic issues and will continue to face internal and external budget pressures in years to come. For example, today's budget decisions, such as the opening of a new facility, have an impact on future years' budgets. The following list is a brief outline of the budget pressures that the County will monitor for impact beyond FY 2017.

- Revenue – The Business Income Tax is inherently volatile and will invariably decline during the next recession. The property tax, while relatively stable, is constitutionally limited in its growth rate. If inflation were to increase, costs would grow faster than the County's core property tax revenue stream.
- Capital Investment and Debt – The County is poised to undertake several major capital projects, such as replacement of the downtown Courthouse and construction of a new Health Department Headquarters building. Board policy directs 50% of one-time-only funds (after contingencies and reserves are fully funded) for capital needs, which will cover a significant amount of the funding for these buildings. However, debt will still be required to some degree and servicing that debt will put pressure on future budgets.

- Healthcare Costs – While the rate of growth in County healthcare costs has slowed in recent years, a return to previous rates of growth would put significant pressure on County costs.
- Pension and Post-Employment Benefit Costs – While the County's pension and post-employment benefit funds are among the best-funded in the country, the recent overturning of the 2013 PERS reforms will add additional cost pressure in future years. The PERS system is structurally dependent on stock market returns to fund a significant portion of its cost so poor market returns may create additional budget pressures.
- Technology – As technology becomes more prevalent in day-to-day County operations, the associated infrastructure and support costs also increase. The most problematic issue tends to be semi-routine replacement of IT applications. There is currently no ongoing funding stream to pay for these replacements or new 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 5,146.91 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, Deborah Kafoury; Chief of Staff, Nancy Bennett; and Chief Operating Officer, Marissa Madrigal. I also want to extend my appreciation to the department heads and constitutional officers along with their budget teams and staff for their hard work, cooperation and assistance.

Finally, I want to acknowledge the remarkable teamwork by the people in the Central Budget Office who gave their best in putting this budget together: Adam Brown, Christian Elkin, Jillian Girard, Shannon Gutierrez, Ching Hay, Anna Plumb, Jeff Renfro, Allison Sachet, Paula Watari, Allegra Willhite and Chris Yager.

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

Mike Jaspin
Interim-Budget Director and County Economist