Department of County Managment
MULTNOMAH COUNTY OREGON
501 SE Hawthorne Blvd, Suite 531
Portland, Oregon 97214
(503) 988-3312 phone
(503) 988-3292 fax

Multnomah County

November 8, 2013

Honorable County Chair, Board of County Commissioners
and Citizens of Multnomah County, Oregon

We are pleased to submit the Comprehensive Annual Financial Report of Multnomah County, Oregon, for the fiscal year ended June 30, 2013, together with the opinion thereon of our independent certified public accountants, Moss Adams LLP. This report, required by Oregon Revised Statutes 297.425, is prepared by the Department of County Management. Also included are Audit Comments and Disclosures required under the Minimum Standards for Audits of Oregon Municipal Corporations Section of the Oregon Administrative Rules.

In addition, the County is required to have a comprehensive single audit of its Federal Assistance Programs in accordance with the Single Audit Act, Office of Management and Budget (OMB) Circular A-133 and the provisions of *Government Auditing Standards* promulgated by the U.S. Comptroller General as they pertain to financial and compliance audits. A report on the County's compliance with applicable Federal laws and regulations related to the Single Audit Act, OMB Circular A-133 is included with this report beginning on page 184.

This report presents fairly the financial position of the various funds of the County at June 30, 2013, and the results of operations of such funds and the cash flows of the proprietary fund types for the year then ended in conformity with accounting principles generally accepted in the United States of America (US GAAP). It is prepared in conformance with the guidelines for financial reporting developed by the Government Finance Officers Association of the United States and Canada and the principles established by the Governmental Accounting Standards Board (GASB), including all effective GASB pronouncements. The report consists of management's representations concerning the finances of the County. Consequently, management assumes full responsibility for the completeness and reliability of all information presented in this report. To provide a reasonable basis for making these representations, County management has established a comprehensive internal control framework that is designed both to protect the County's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the County's financial statements. Because the cost of internal controls should not outweigh their benefits, the County's comprehensive framework of internal controls has been designed to provide reasonable assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

US GAAP requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. Multnomah County's MD&A can be found immediately following the independent auditors' report. Unless otherwise noted, dollar amounts are expressed in thousands.

PROFILE OF MULTNOMAH COUNTY, OREGON

Multnomah County, incorporated in 1854, is located in northwestern Oregon at the confluence of the Columbia and Willamette rivers, approximately 110 river miles and 80 highway miles from the Pacific Ocean. The County covers 465 square miles, and serves a population of 748,445 residents. The cities of Portland and Gresham are the largest incorporated cities in the County.

Multnomah County is governed according to its Home Rule Charter. The County's charter, adopted in January 1967, has had several subsequent amendments. The County is governed by a Board of County Commissioners consisting of four non-partisan members elected from designated districts within the County and the Chair of the Board, elected at large. The Board of County Commissioners conducts all legislative business of the County.

Multnomah County provides a full range of services, including public safety protection; corrections and probation; construction and maintenance of roads, highways, bridges and other infrastructure; health and social services; library and community enhancement; and internal business support. Certain sanitary and lighting services are provided as legally separate Service District Authorities, which function, in essence, as departments of the County and therefore are included in the County's financial statements as component units. Also included in the County's financial statements is information on the Library Foundation, a tax-exempt foundation whose primary purpose is to support the County's libraries through raising, receiving, administering and disbursing funds, grants, bequests and gifts for the benefit of the County libraries. The County also maintains a Hospital Facilities Authority (Authority) whose primary purpose is to issue conduit debt for health care facilities. The Hospital Facilities Authority is also considered a component unit but it is not included in the County's financial statements as the activity of the Authority is not material to the County's financial statements. Additional information on these legally separate entities can be found in note 1 of the notes to the financial statements.

The County's budget is prepared on the modified accrual basis of accounting. In accordance with State statutes, the County budgets all funds except trust and agency funds. The County budget is adopted by the Board of County Commissioners by department for each fund. The expenditure appropriations lapse at the end of the fiscal year. Additional resources and corresponding appropriations may be added to the budget during the fiscal year through a supplemental budget process. Original and supplemental budgets may be modified during the fiscal year by the use of appropriation transfers between categories. The appropriation transfers must be approved by the Board of County Commissioners in public meetings. During the fiscal year, three supplemental budgets were adopted.

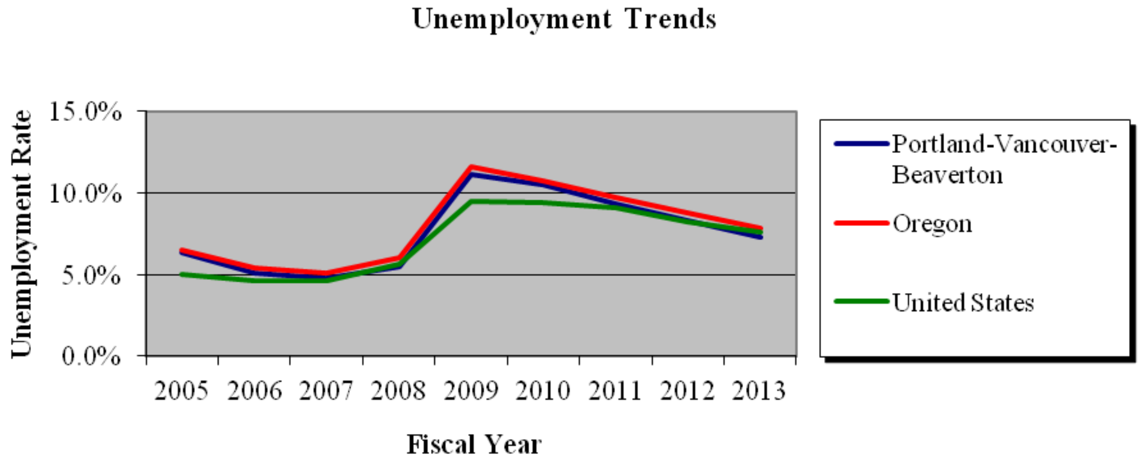
Budget to actual comparisons are provided in this report for each individual governmental and proprietary fund for which an appropriated annual budget has been adopted. The General fund and Federal State Program special revenue fund budget to actual comparisons are provided on pages 43-44 as part of the basic financial statements for the governmental funds. For all other governmental funds with appropriated annual budgets, this comparison is presented in the governmental fund subsection of this report, which starts on page 90.

FACTORS AFFECTING FINANCIAL CONDITION

Local Economy: The Portland metropolitan area is the financial, trade, transportation and service center for Oregon, southwest Washington State and the Columbia River basin. Its manufacturing base includes electronics, machinery, transportation equipment, and fabricated metals.

The Portland-Vancouver-Beaverton PMSA's (Primary Metropolitan Statistical Area) economy experienced above long-term trend growth according to the University of Oregon Index of Economic Activity during fiscal year 2013. Like the rest of the nation, the region saw stabilized real estate values with some areas of the County seeing double-digit growth. High levels of unemployment continue to slowly decline. The rest of the State, however, continues to experience below to average growth and reflects the general divide between more urban, diverse economies and rural, less diverse economies seen elsewhere around the Country. It is likely that the local economy will continue average growth in the upcoming years.

The area's unemployment rate has steadily declined over the past four years after doubling between 2008 and 2009. As of June 30, 2013 the Portland-Vancouver-Beaverton PMSA's unemployment rate was at 7.3%, down one percentage point from 8.3% a year ago, but still higher than the 5.5% in 2008. The unemployment rate for the area is better than the State of Oregon (at 7.8%) and is slightly below the national average of 7.6%. The chart below compares the area's unemployment rate to the rates for the state and nation.



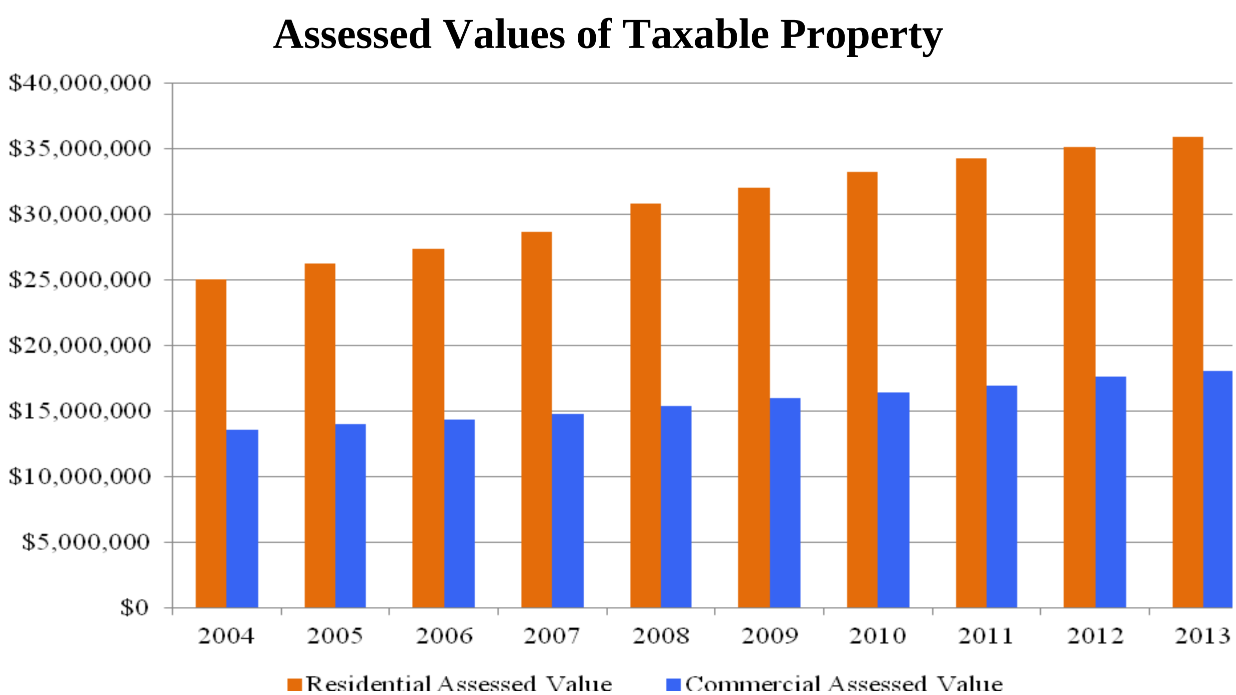
Financial outlook: Multnomah County has been fortunate to have weathered the economic recession better than many local governments. The County has closed significant budget gaps in recent fiscal years while maintaining a wide array of health, social, and public safety services. Prudent financial planning, careful management of long term liabilities, and a low inflation environment allowed the County to adopt essentially a current service level General Fund budget for fiscal year 2014. One-time-only General Fund resources were used to address a number of facility, information technology, and fleet capital needs, reducing future funding needs.

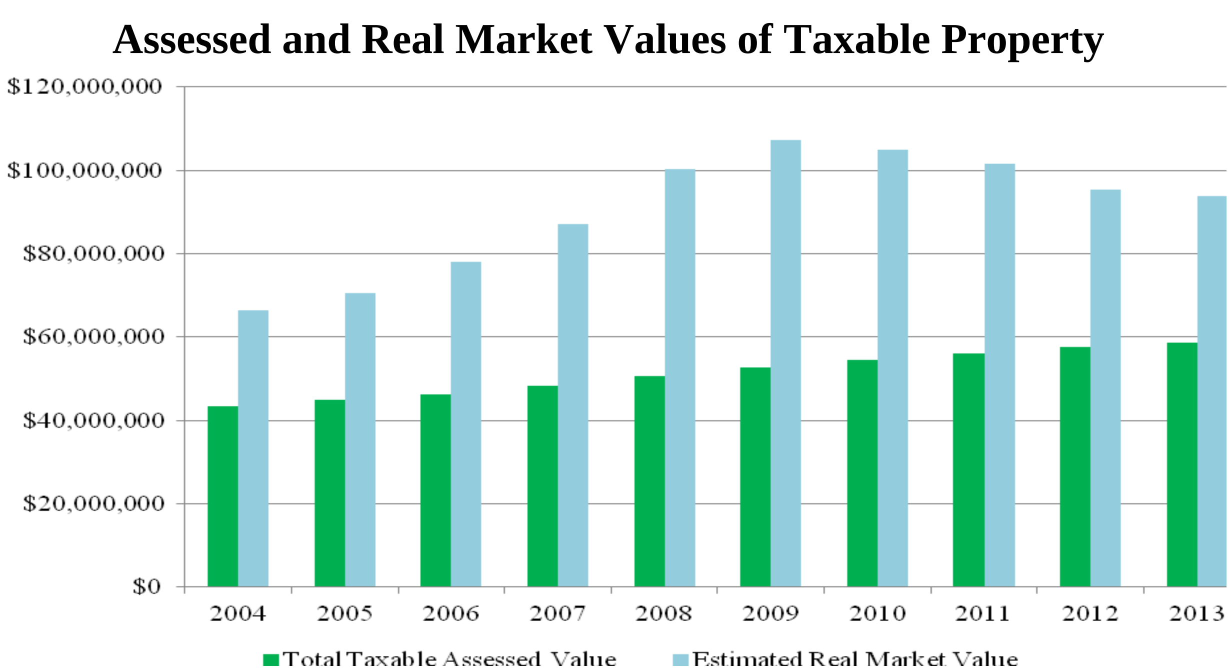
In November 2012, voters approved the formation of a Library District with a permanent tax rate of $1.24 per thousand of assessed value. The Library District formation relieved the County of a $15.3 million commitment for ongoing General Fund support in fiscal year 2014 and beyond. Increased property tax compression results in an offsetting loss of approximately $7.2 million. For the Library, the County and its patrons, it means it will no longer be dependent on successive 5-year local option tax levies. The permanent tax rate of $1.24 replaces a lower local option rate of $0.89 and addresses significant cuts the Library experienced in fiscal year 2013.

The current forecast assumes steady growth in employment and personal income over the next few years. Barring a recession or unexpected reductions in State or Federal funding, the General Fund should be able to provide funding at current service levels in fiscal year 2015. The current five year forecast projects that expenditures will grow at approximately the same rate as revenues from fiscal year 2014 to 2018.

The economic recession has had an impact on the County's revenue stream. The business income tax, in particular, has experienced significant volatility and declines since fiscal year 2008. However, the property tax, which accounts for approximately 75% of General Fund tax revenues, has remained relatively insulated from declining real estate values. Property taxes are governed by two state constitutional measures, Measure 5 and Measure 50, which set limits on the amount of tax that can be collected. In general, property taxable values cannot grow by more than 3% year over year. For fiscal year 2014, property tax collections are expected to be flat due to formation of the Library District and increased compression. Absent the Library District compression, property taxes would grow by 3%.

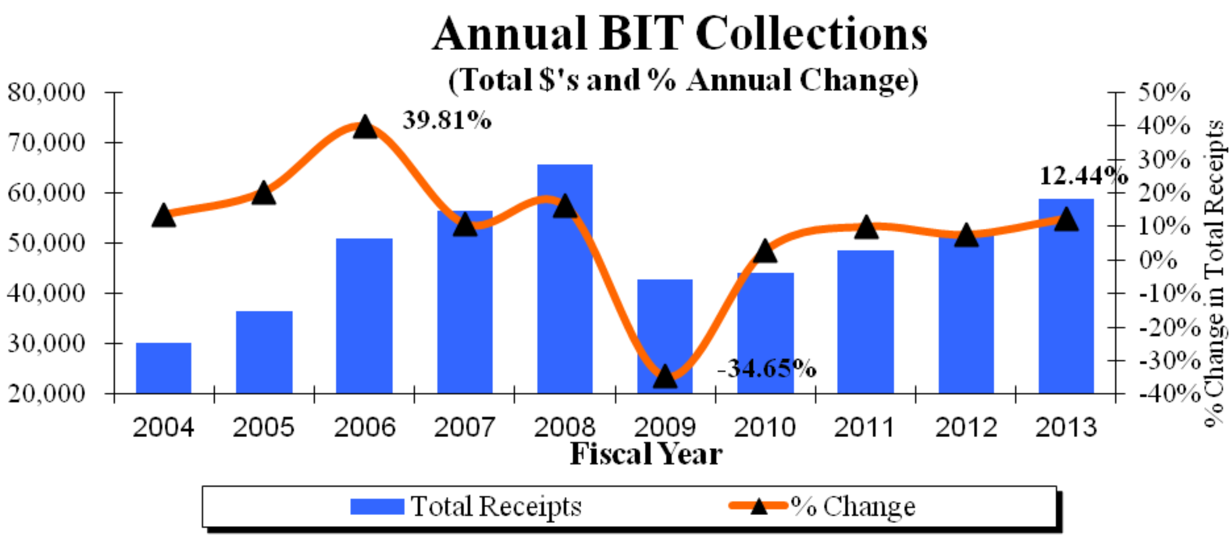
The following chart highlights the County's residential and commercial assessed (taxable) values over the past ten years. Residential property has experienced a 43.4% increase in taxable property value over a ten year period compared to a 32.7% increase for commercial property value over the same period. Because assessed values remain below real market values for many properties, property tax collections are *relatively* inelastic despite several years of falling real market values. Had real market values continued to decline rather than stabilize and grow once again there would have been an adverse impact on the rate of property tax growth.





Business income tax (BIT) is the second largest source of revenue in the General Fund and it is set at a rate of 1.45% of net income. BIT collections generally parallel economic cycles. Prior to the onset of the 'Great' recession, fiscal year 2008 BIT collections were nearly $66 million and had exhibited five years of double-digit growth. The following year they declined by nearly a third, with fiscal year 2009 collections coming in at just under $43 million. For fiscal year 2013, collections recovered to nearly $59 million, a 12% increase over fiscal year 2012.

The following chart highlights the volatility of BIT collections over the past ten years. Current forecasts assume moderate growth in BIT revenue, and collections are expected to reach 2008 levels by fiscal year 2016. The County has taken proactive measures to establish a separate contingency amount in the General fund to guard against downturns in the BIT. For fiscal year 2014, this "BIT Stabilization Reserve" was set at $5.8 million reflecting an additional 10% buffer.



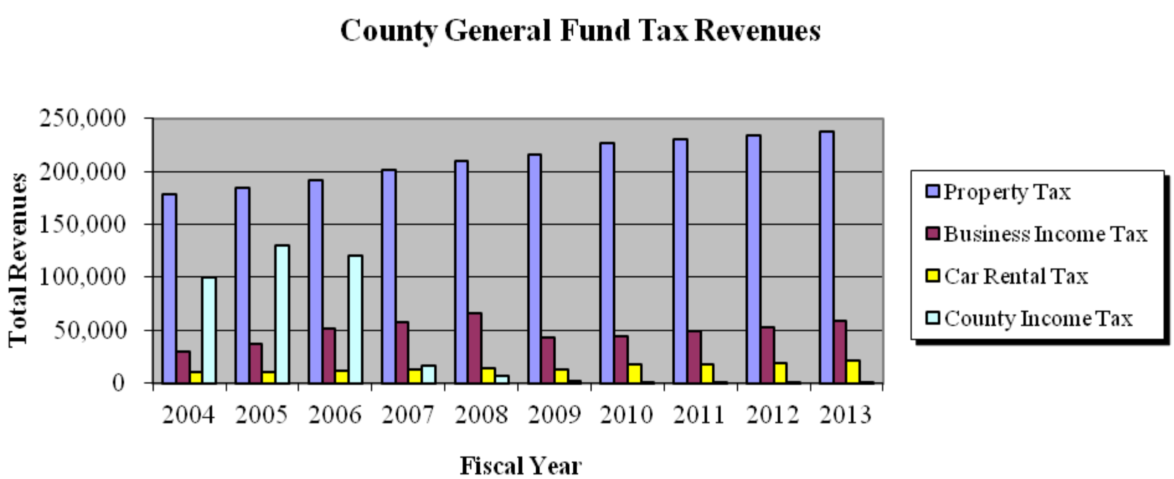
Motor vehicle rental taxes (MVRT) account for about 6.7% of General Fund tax revenues. In June, 2009 the Board increased the MVRT from 12.5% to 17.0% as part of balancing the fiscal year 2010 budget. The rate increase generated an additional $4.2 million for the General Fund. MVRT collections are highly influenced by the economy. For example, MVRT collections declined for three consecutive years following the September 11, 2001 terrorist attacks. With the travel and tourism industry being particularly hard hit by the recession, tax collections declined by about 14.0% from fiscal year 2008 to fiscal year 2010. They rebounded by 3.7% in fiscal year 2011, 4.8% in fiscal year 2012, and a robust 13.3% in fiscal year 2013 and now total $21.1 million. The expectation is for MVRT to continue modest growth over the five year forecast period.

A number of years ago the County's Budget Office identified a "structural deficit" in the General Fund. This represents the ongoing gap that exists before any Board actions required to balance revenues and expenditures. It is an estimate that takes into account the rate of inflation, growth in employee benefits and long term fixed costs. This gap is chiefly the result of property tax limitation measures passed by Oregon voters in 1990 and 1997. As noted earlier, property taxes cannot grow (with a few exceptions) by more than 3% a year. Since property taxes make up a large percentage of General Fund revenues, the property tax limits have the effect of constraining overall revenue growth. The volatility of the BIT also factors into this equation. Expenditures, driven by health care costs (which are moderating) and PERS (which are increasing), typically tend to grow faster than revenues.

That said, the "structural deficit" of roughly 1% of revenues will be masked for the next several years by moderating cost growth and decreasing property tax compression. The structural deficit will reappear as inflation returns to more normal levels and property tax compression can no longer fall. Because the budget, by state statute, must be balanced it is likely that the County will need to trim program spending, allocate one-time sources of revenue, or some combination thereof to bring expenditures in line with revenues. The County will only draw down on budgeted reserves under very limited circumstances to meet ongoing operational requirements.

The State of Oregon provides a significant portion of the County's funding, mostly recorded in the Federal and State Special Revenue fund. The State's General fund is highly dependent upon economically sensitive personal income taxes, with approximately 85% of State General fund revenue attributable to this tax. During the 2011 legislative session, the state faced a $3.5 billion deficit for the 2011-2013 biennium, or roughly a 22% shortfall. The Board of County Commissioners took a series of actions prior to and during fiscal year 2012 (which was the first year of the state biennium) to scale state funded activities to match available revenues and in several, limited situations, used County General Fund to minimize reductions in critical public safety and social service programs. The majority of reductions occurred in the first year of the biennium and the County faced few reductions for the second half of the biennium, which covers the County's fiscal year 2013. For the County's fiscal year 2014 and the State's 2013-15 biennium, State funding was generally stable as the State's financial picture improved with the economy.

In 2003 Multnomah County voters approved a temporary personal income tax of 1.25% on residents for fiscal years 2004, 2005, and 2006. The tax primarily provided support to the schools in the County but also provided support to the County's health, human services, and public safety programs. Fiscal year 2006 was the final year the tax was imposed, and in fiscal year 2013 the County's General fund recognized $76 in collections on delinquent accounts as compared to $205 in tax revenue in fiscal year 2012. The following graph highlights the County's major tax sources.



Financial and budget policies. The County has established financial and budget policies which are reviewed and adopted annually by the Board of County Commissioners in connection with the budget process. Some of the goals of the financial policies include preserving capital through prudent budgeting and financial management, achieving a stable balance between the County's ongoing financial commitments and the continuing revenues available to the County, and to leverage local dollars with Federal and State funding grants. Consistent application of these financial policies has helped ensure that the County has appropriately recorded and accounted for transactions in our financial statements.

The County's adopted financial and budget policies generally provide for the County to use one time only resources for costs that will not recur in future years. However, the policies allow the use of one-time only resources when, in the short term, it would be more beneficial to allocate such resources to the highest priority public services than to restrict them to non-recurring costs. The result of this practice is to expand operational levels and public expectations beyond the capacity of the organization, thereby providing continuing funding which can lead to future budget shortfalls. The 2014 adopted budget includes approximately $24.9 million of one-time only General Fund resources. The majority of these one-time only funds are used for one-time-only expenses, including: $5.8 million for the business income tax reserve, $1.5 million for short-term rent assistance, $8.9 million for facilities capital projects, $1 million for IT capital replacement, $1.2 million for vehicle replacement and $1 million to address any Federal or State funding issues. A complete list of the uses of one-time-only funds can be found on page 20 of the Budget Director's Message in the County's fiscal year 2014 adopted budget.

By adopting the financial and budget policies, the Board acknowledges that, to avoid financial instability, continuing requirements should be insulated from temporary fluctuations. Therefore one of the goals of the Board is to fund and maintain a General fund reserve designated as unappropriated fund balance and set at 10% of budgeted "corporate" revenues (i.e., property taxes, business income taxes, and motor vehicle rental tax) of the General fund. The reserve is to be used for periods where revenues experience significant declines or used for non-recurring extreme emergencies such as disaster relief. Maintaining an appropriate reserve also helps the County maintain its favorable bond ratings. Moody's Investor Services currently rates the County as Aaa, the highest possible rating, for general obligation debt and Aa1 (second highest) for full faith and credit debt. In addition, the County issued full faith and credit obligations in fiscal year 2012 and received a rating of AA from Standard & Poor's, which is their second highest rating and again indicates that the County's financial capacity to repay the debt obligations is very strong.

Long-term financial planning. The County's Chief Financial Officer and Budget Director work closely with the Board of County Commissioners and the Chair's Chief Operating Officer to develop short-term and long-term financial goals and to address the financial stability of the County. The County's Chief Financial Officer and Budget Director also meet with other local jurisdictions to confer on financial issues that either overlap or impact each entity.

Major initiatives. The "structural deficit" and the immediate need to close an estimated $45.9 million General fund shortfall in fiscal year 2009 was the major focus of the County. However, Board actions taken since then have significantly improved and maintained the County's financial condition. For the first time in recent years, the growth in economy-driven revenues, primarily the business income tax (BIT), and slower personal cost growth has temporarily eliminated the structural deficit. The County has been able to focus on longer-term initiatives, such as formation of a new Library District and health care transformation. The County is a founding member of Health Share, the regional Coordinated Care Organization, which is a key element in the State of Oregon's aim to provide better care and reduce costs for people enrolled in the Oregon Health Plan. A number of information technology projects are underway during fiscal year 2014, the most notable of these being a replacement of the County's aging phone system with Voice over Internet Protocol (VoIP).

The County's capital project initiatives include funding for improvements and construction on many of the County owned buildings, roads and Willamette River bridges. Included in the County's capital project plan is the replacement of an 85-year old Willamette River bridge, the Sellwood bridge. A regional funding plan is in place and has secured the estimated $307.5 million needed to fund the project. The cost includes the new bridge, an interchange where the bridge connects with Highway 43, right of way, design, and mitigating impacts to protected environmental resources. In addition, the 2009 State Legislature authorized the County to implement a Vehicle Registration Fee to provide revenue for the new bridge. The Legislature also committed an appropriation of $30,000 for improvements to the bridge interchange with state highway 43 which will limit the amount of local funds needed for the project. Construction is currently underway with the new bridge expected to be completed in 2015.

Another significant capital project initiative is the construction of a new Health Department headquarters, to relocate operations from the outdated McCoy Building to the east half of Block U in downtown Portland. The new building is expected to accommodate approximately 250 employees, which will include health care personnel, the office of the Health Officer, and administrators and staff who oversee Multnomah County's health clinics, services for children and families, and public health emergency preparedness. The total cost of the new building and relocation of current operations is expected to cost an estimated $38.6 million, with $26.9 million anticipated from the Portland Development Commission for River District capital projects by the end of fiscal year 2014, $5.4 million in one-time-only general fund appropriation, and an additional $6.3 million to be decided in fiscal year 2015.

AWARDS AND ACKNOWLEDGEMENTS

Awards. The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the County for its comprehensive annual financial report (CAFR) for the year ended June 30, 2012. This was the twenty-eighth year that the County has received this prestigious award. In order to be awarded a Certificate of Achievement, the County published an easily readable and efficiently organized CAFR. This report satisfied both GAAP and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current CAFR continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

Acknowledgements. The preparation of this report would not have been possible without the efficient and dedicated services of the employees in the Department of County Management who maintained the County's financial records and assisted in the preparation of this report. Special thanks are extended to the General Ledger Staff who were instrumental in preparing this report. Appreciation is also extended to the Chair of the Board, Board of County Commissioners, Department Directors, and other County personnel for their assistance and support in planning and conducting the financial operations of the County in a prudent manner.

Respectfully Submitted,

J Mark Campbell | Cara Fitzpatrick

Joseph Mark Campbell
Chief Financial Officer

Cara Fitzpatrick, CPA, CFE
Accounting Manager