
Financial Condition Multnomah County 2000

April 2001



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MEMORANDUM

Date: March 23, 2001

To: Bill Farver, Interim Multnomah County Chair
Pauline Anderson, Interim Commissioner, District 1
Serena Cruz, Commissioner, District 2
Lisa Naito, Commissioner, District 3
Lonnie Roberts, Commissioner, District 4

From: Suzanne Flynn, Multnomah County Auditor

Subject: Financial Condition Report

The attached report covers our biennial review of the County's financial condition which was included in the FY00-01 Audit Schedule. This is the fifth report produced by the Auditor's Office and covers the financial period from FY91 to FY00.

This report is a ten year historical look at the County's financial health and does not reflect the current year situation. It is intended to identify areas that need attention and to add perspective to budget deliberations. Over the years, the County has responded to financial circumstances in a responsible and deliberative manner. One significant response to these reports was the development of a financial and budget policy. The challenge is to remain committed to that policy even in more difficult times.

This year's report identifies some strengths and other areas that need watching. Notable this year, the County alleviated the unfunded pension liability and should save \$35 million over the next 30 years. Two areas of concern are the continued reliance on short-term revenues to finance operations and the decrease in unreserved fund balances.

We have reviewed this report with the County Chair's Office and managers in the Department of Support Services. Their written response is in the last section of the report. We appreciate their assistance and cooperation.

Auditor: Judith DeVilliers

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Executive Summary

The primary purpose of gathering data and evaluating trends is to provide a look into the future by reflecting on the past. Over time, financial indicators can identify warning trends and allow government to make corrections. Financial indicators can also add perspective to budget deliberations.

The last ten years have seen continued growth in County revenues caused by economic prosperity and the transfer of social and justice programs from the state and federal governments to local control. Spending for justice services has more than doubled in the last ten years. Programs for social and health services have nearly doubled.

Increased reliance on state and federal funds has a risk associated with it. Revenue decisions made at the state or federal levels of government could impact the community particularly if revenues were withdrawn.

During the last ten years, the County has also enjoyed strong public support for libraries and justice services. Serial and bond levies have funded the renovation of Central Library, improvements to the branch library system, and additional jail space. Uncompleted projects are a new jail, booking facility and additional library replacements and renovations.

The County has made efforts to balance short-term and long-term costs. Employee benefits as a percentage of total personnel costs have remained

stable. The unfunded pension liability was alleviated through the sale of bonds that should save the County \$35 million over the next 30 years. The County has also invested significantly in land and buildings.

We continue to be concerned over the County's reliance on short-term revenues to support operations. A turn in voter approval could affect programs such as the Library, social, health, and justice services.

And, despite the County's recent investments, the need for additional capital improvements is still great. Continued deterioration of buildings, roads, and bridges make this another area of concern that should not be ignored.

There are some economic signs that the rate of growth is slowing. Two warning trends suggest closer attention should be given to the financial condition:

- The County's "rainy day funds," unreserved fund balances, have been decreasing over the past two years

- The ability to meet short-term obligations is below industry standards

The County is preparing a "constraint" budget for next fiscal year based upon current revenue projections. We would also recommend they not lose sight of the financial goals that have guided the County into the current position of good financial management.

Report Highlights

- Annual growth in revenues averages 6%
- Over 1/2 of revenues are from federal and state government
- Declining county gas taxes could affect County roads
- County continues to rely on short-term revenues for operating expenses
- Despite a significant increase in number of employees, the cost of benefits have remained steady
- General government costs have not increased at the same rate as services
- Unfunded pension liability alleviated

Introduction

This is the fifth report the Auditor's Office has done on the financial condition of Multnomah County. The report is issued biennially and covers measurements for a ten-year period. These measures are commonly used by local governments to indicate their ability to fund services on a continuing basis. A county in good financial condition can continue existing services to the public, withstand economic slumps, and meet the demands of changing service needs.

The Auditor's Office looked at measures of resources coming into the County, how it uses these resources, and its financial health over time. We also included indicators about how the population and economy are changing and how those changes can affect County services.

Since we began these reports, the County has undergone major changes in the property tax system and assumed responsibility for many social services previously under state government control. The County has responded to these challenges by developing sound policies to provide for the financial health of County government and better serve its citizens.

Objectives, Scope, and Methodology

The objective of this report was to evaluate the financial condition of Multnomah County using the Financial Trend Monitoring System developed by the International City and County Management Association (ICMA) and the draft indicators developed by the Government Accounting Standards Board (GASB). We relied on the County's budgets, Comprehensive Annual Financial Reports, and other management reports for financial data. We used published sources for most socio-economic data. In developing and analyzing the indicators of financial condition, we interviewed personnel in the Finance Division, the Budget and Quality Division, and other County departments.

The prior four reports covered the fiscal year 1981-1982 through fiscal year 1987-1998. This report covers the period from fiscal year 1990-1991 through fiscal year 1999-2000. Fiscal years in this report are identified by their ending date, such as FY00 for fiscal year 1999-2000. We expressed most indicators in constant dollars. These adjustments for inflation convert dollar amounts over the ten-year period to the equivalent of the purchasing power of money in fiscal year ending June 30, 2000. The adjustments are based upon the Portland-Salem Consumer Price Index for all urban consumers.

The ICMA and GASB stress the importance of developing a consistent and meaningful definition of the entity being evaluated. For purposes of this report, "the County" will include the revenues, expenditures, and activities covered by the general fund, special revenue funds, and debt service funds. Excluded are capital construction, internal services, enterprise and trust and agency funds. However, we did include the Behavior Health Managed Care Fund because it is an integral part of the Behavior Health Program. This work was done in accordance with generally accepted government auditing standards.

County Revenues

Overview

Operating revenues are used to pay for on-going services. Decreasing revenues may reduce a government's ability to maintain existing service levels.

In general, the revenue trend has been favorable over the past ten years. In current dollars, operating revenues increased from \$316 million in FY91 to \$529 million in FY00. Although each of the four categories of revenues increased, state and federal funds showed the largest growth, which may not be a favorable trend.

Both the ICMA and GASB recommend showing indicators for total revenues, major revenue sources, and others such as revenues subject to economic fluctuations and temporary or short-term revenue sources. Below is a list of indicators included in this report, which we believe are relevant to Multnomah County.

Indicators

- Operating Revenues
- Revenues from Federal, State and Local Government
- Property Tax Revenues
- Business Income and Car Rental Taxes
- User Charges
- Short-term Revenues
- Revenue Shortfalls

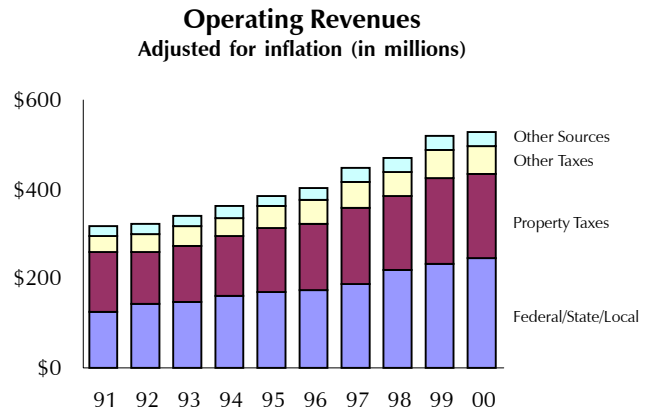
County Revenues

County income has grown an average of 6% per year

Operating revenues are used to pay for on-going services. These services include elections, road maintenance, health services, jails, libraries, social services, criminal prosecution, assessment and taxation, animal control, and administration.

Most of the County's growth in revenues is due to the transfer of state programs to county government. In the past ten years, the State transferred programs and responsibilities for parole and probation, and more recently disability services. Refer to diagram in appendix, page 31, for more complete information.

Other increases were a result of voter-approved bond and serial levies for libraries and jails. In FY00, federal, state and other local governments funded 47% of the County's operating revenues, property taxes 36%, excise and income taxes 11%, and other sources 6%.



County Revenues

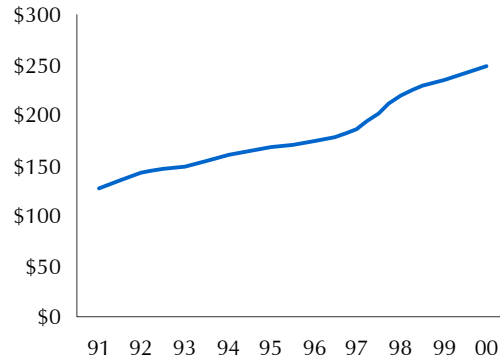
Increasing federal and state revenue for County services may indicate an over-dependence

Recent federal and state policies have shifted more responsibilities to lower levels of government to increase local control over service delivery.

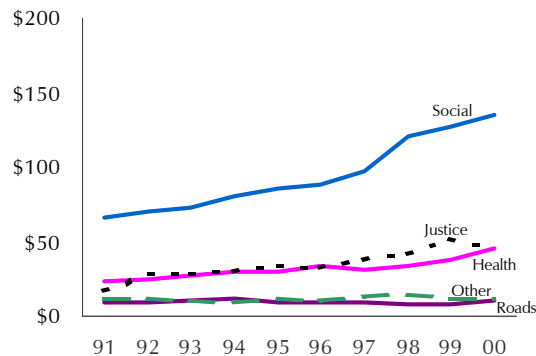
Increasing federal and state revenue to support County services may indicate an over-dependence on these sources. Revenue decisions made in Salem or Washington, DC can have a large impact on the community and the County's budgeting decisions. If these revenues were withdrawn, the County would be forced to find additional revenue or cut services. In the last decade:

- Expenditures for social service programs increased from \$67 million to \$135 million in current dollars. A large part of this growth was from the state transferring its Disability Program, including 137 staff, to the County's Aging and Disability Services Department.
- Federal/state program revenues for health services nearly doubled from \$23 million in FY91 to \$45 million in FY00.
- Federal/state program revenues for justice services increased from \$16 million to \$46 million. Approximately \$12.5 million of the increase is State payments to the County for assuming parole and probation responsibilities in FY92.
- Revenues for roads is the County's share of state gas taxes and other special project grants which fluctuate from year to year.

Total Revenues from Federal, State and Local governments
Adjusted for inflation (in millions)



Revenues from Federal, State and other Local Governments by Program
Adjusted for inflation (in millions)



County Revenues

Property tax revenues have increased

Property taxes averaged about 5% annual growth over inflation during the past ten years. Over half of the growth was due to voter-approved serial levies and bond measures.

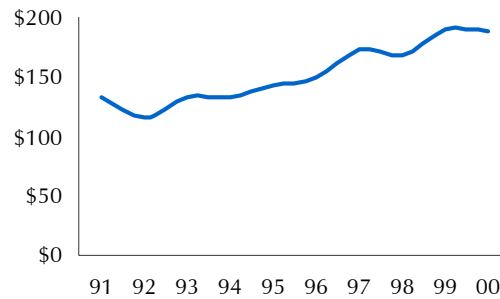
Property tax revenues:

- Decreased in FY92 as a result of the tax limitation imposed by Measure 5
- Recovered since that time as a result of increases in the market value of residential property
- Show a decrease in FY98 as a result of Ballot Measure 50

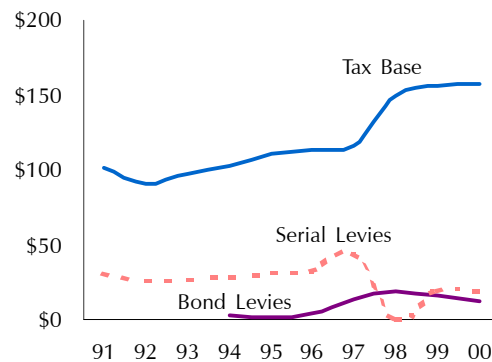
Both the library and public safety serial levies were folded into the County's permanent tax rate with Measure 50. As a result, in FY98 there were no serial levies and the tax base increased by \$42 million. Under Measure 50, voter-approved general obligation bonds are also outside of the tax base and property tax limitation.

With the approval of an additional \$18 million library serial levy in FY99, revenue from serial levies began to increase.

Total Property Tax Revenues
Adjusted for inflation (in millions)



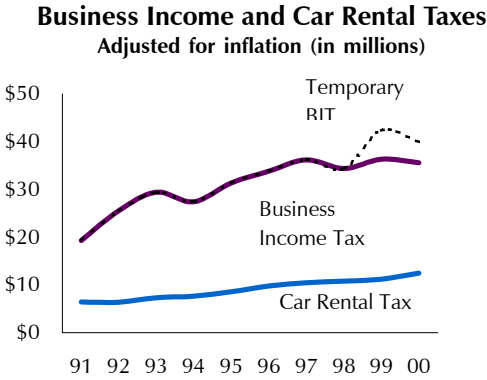
Property Tax Revenues by Type
Adjusted for inflation (in millions)



County Revenues

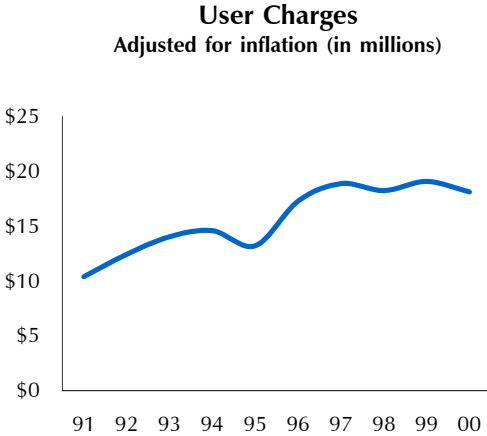
Total revenue from Business Income and Car Rental taxes has increased in the last ten years

The Business Income and Car Rental taxes change with the economy. Over dependence on these taxes can result in program cuts when the economy worsens. Although total revenues have increased, the taxes have consistently been about 10% of the total operating revenues for the County. A temporary increase in the Business Income Tax to support schools is reflected in FY99 and FY00.



User charges have increased

User charges are intended to recover the cost of services from citizens whenever possible. These fees fluctuate from year to year. Some fees, such as real estate recording fees, are affected by the economy. Other fees, such as election fees, are cyclical, based on election years.

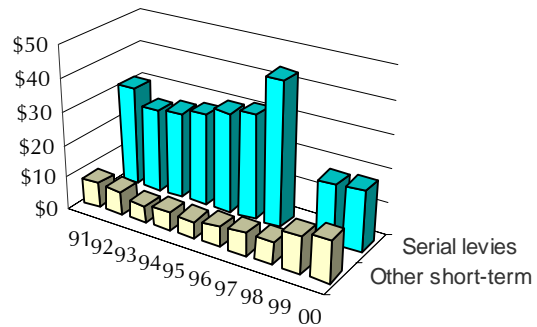


County Revenues

The County is reliant on short-term revenues to finance on-going operations

Continued use of short-term revenues such as voter approved serial levies, reserves, surpluses, and sales of property to balance the budget signals a warning trend. With Measure 50, the County's short-term serial levies were folded into the permanent tax rate and continued as part of the base, therefore decreasing this reliance. However, an additional 5-year library levy for nearly \$18 million annually approved in November 1997 indicate continued reliance on temporary revenue sources.

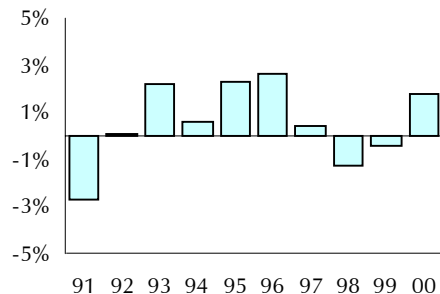
Short-Term Revenues
Adjusted for inflation (in millions)



Recently, revenues have been within 3% of projections

Revenue shortfalls measure how well the County estimates expected revenues each year. Significant shortfalls could require mid-year cuts of services, spending of reserve funds, or increased use of short-term borrowing, all to be avoided if possible. Actual revenues have exceeded estimates seven of the last ten years.

Revenue Shortfalls
As percentage of operating revenues



County Spending

Overview

Spending has increased 79% in the past ten years, in part because of increased service responsibilities. To provide these services the County hired more employees and contracted for more services.

Nearly half the County's spending was for social and health services, which have increased in constant dollars, from \$134 million in FY91 to \$267 million in FY00. Spending for justice services has more than doubled, going from \$86 million in FY91 to \$182 million in FY00. Spending on the County's libraries grew 140% from \$18 million in FY91 to \$43 million in FY00. Spending for general government has had only slight increases, and spending for roads and bridges has gone down over the last ten years.

We consider indicators for all operating costs in the County by expense type as well as by program area. Additional indicators are shown for number of employees and employee benefits. Below is a list of spending indicators included in the following pages.

Indicators

- County Spending
- Justice Services
- Social and Health Services
- Library
- Roads and Bridges
- General Government
- Internal Services
- Number of Employees
- Employee Benefits

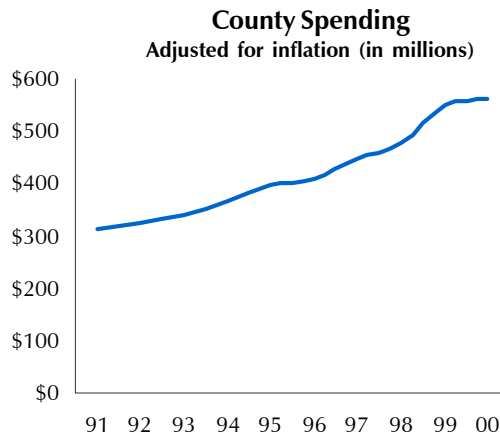
County Spending

Spending has increased faster than inflation, largely because of increased County responsibilities

Expenditures have increased by 79% over the past ten years largely due to the increased responsibilities transferred to the County from state government.

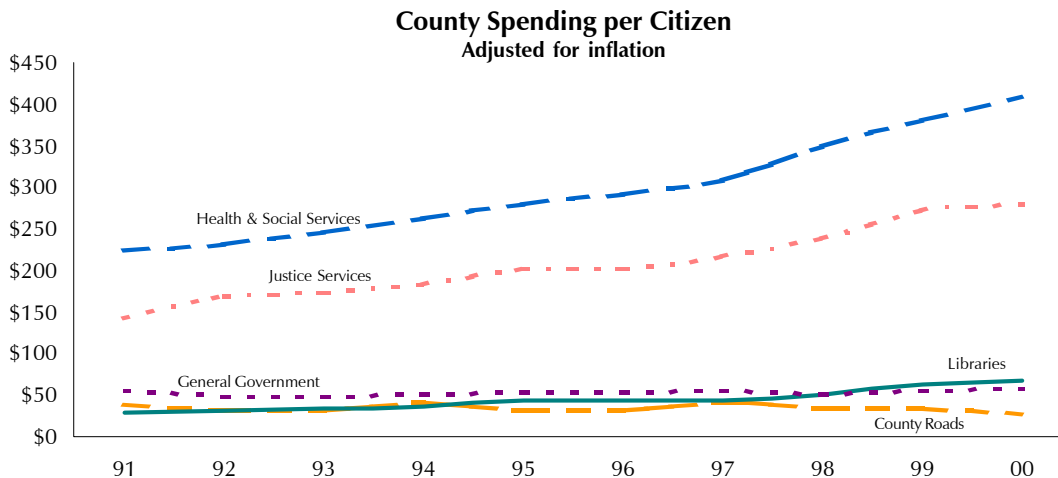
Spending on personnel increased by 64% and on contract services by 96%. In FY00 the County's operating expenditures include personnel costs (47%), contract services (31%), materials and supplies (21%), and capital costs for on-going services (1%). The majority of County services are in health and social services (49%) and justice services (33%).

In FY00 spending per citizen ranged from \$409 for Health and Social Services to \$26 per citizen for County roads. Between FY91 and FY00, spending per citizen for health, social, and justice services and the library doubled. General government spending per citizen increased slightly and spending on roads decreased.



A Comparison of County Spending Per Citizen FY91 to FY00

Program	FY91	FY00
Health & Social Services	\$224	\$409
Justice Services	\$143	\$279
Libraries	\$30	\$66
General Government	\$55	\$57
County Roads	\$39	\$26



County Spending

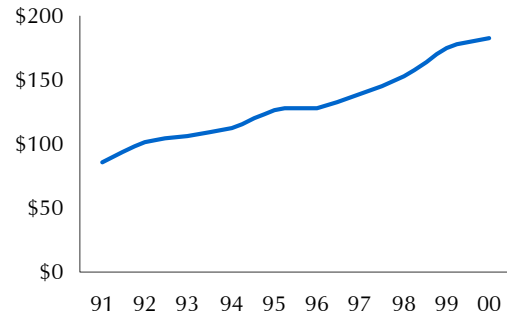
Spending for justice services has more than doubled

Spending for justice services has increased from \$86 million in FY91 to \$182 million in FY00. The largest increase occurred in juvenile and adult community justice programs, with an increase from \$18 million to \$67 million in constant dollars.

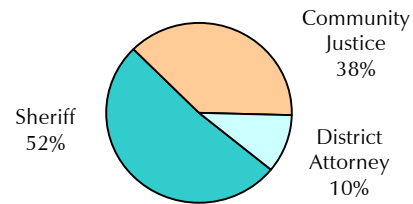
Over half of county spending in justice services is for the Sheriff's Office. Increase in Sheriff's Office spending was funded by voter-approved levies.

Among the revenue sources, General Fund contribution for justice services shows the largest increase from \$57 million in FY91 to \$122 million in FY00. About \$20 million of that increase was from the serial levy rolled up into the County's tax base as a result of Measure 50. Other causes for the increase were a voter approved bond levy outside the tax base and increased funding from the State for sentenced felons.

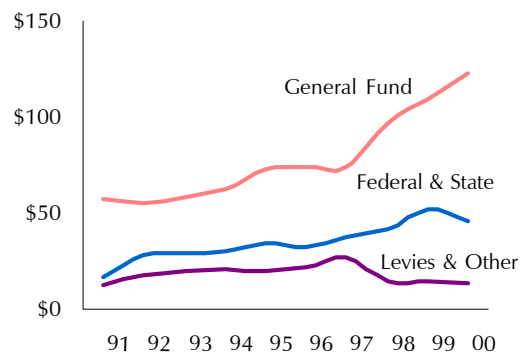
Total Spending - Justice Services
Adjusted for inflation (in millions)



Justice Services FY00



Spending in Justice Services by Revenue Source
Adjusted for inflation (in millions)



County Spending

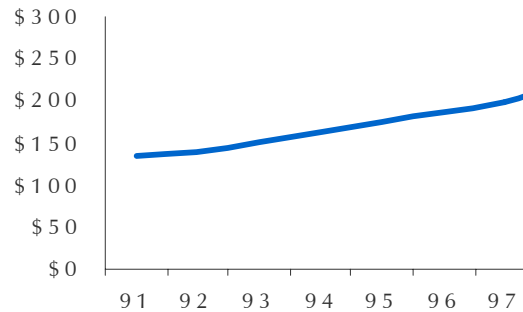
Social and health services have nearly doubled

Expenditures for social and health services have increased 99% since FY91. The largest increase in spending in the past 10 years was for Community and Family Services with the Behavioral Health Managed Care Fund which added \$27 million in services.

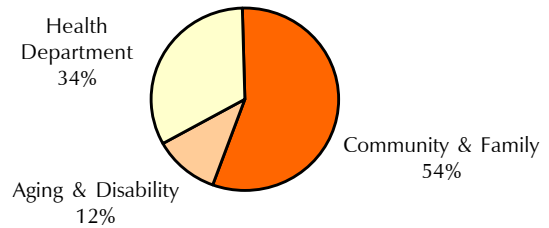
These programs included the Health Department, the Department of Community and Family Services, and the Department of Aging and Disability Services. Examples of programs are mental health, developmental disabilities, youth, housing, services for the elderly, health and dental clinics, and regulatory health services.

The General Fund contribution to social and health programs increased 101% from \$39 million to \$79 million. Federal and State resources have increased by 100% over the past ten years.

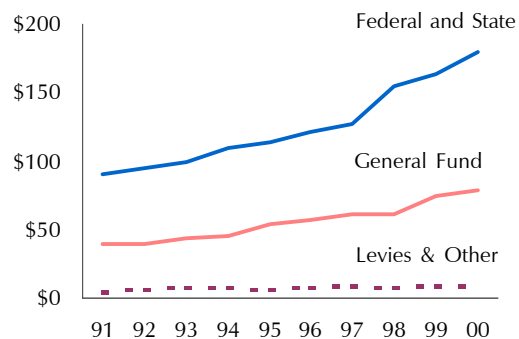
Total Spending - Social and Health Services
Adjusted for inflation (in millions)



Social and Health Services FY00



Spending on Social and Health Services by Revenue Source
Adjusted for inflation (in millions)

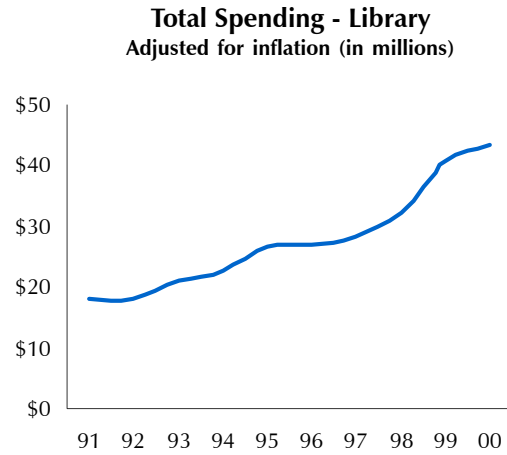


County Spending

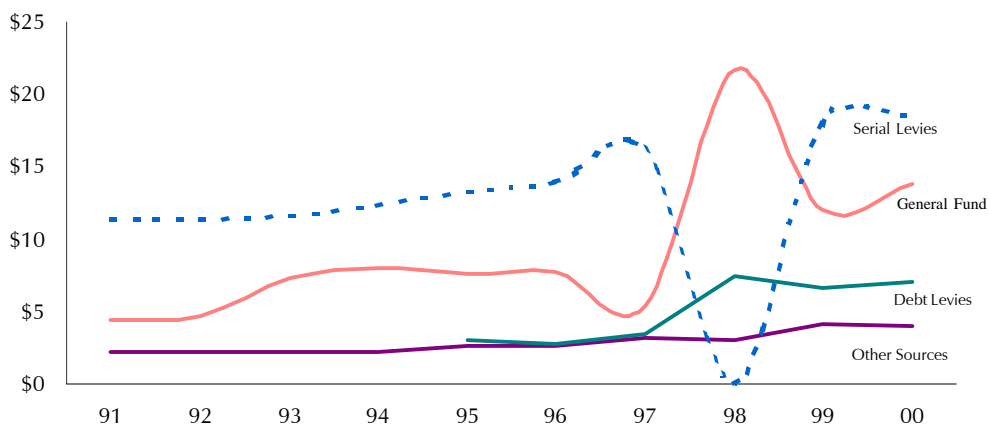
Library spending continues to rise with increased voter-approved serial levies

Library spending increased 140% from \$18 million to \$43 million in the last ten years. The libraries continue to be dependent on serial levies for daily operations.

In FY98, the library serial levy was added to the County's tax base as a result of Measure 50. Since then voters have approved an additional 5 year levy of \$18 million. General Fund support of the library continues to increase, growing from \$4 million in FY91 to \$14 million in FY00. Other funding sources are debt levies, from \$3 million to \$7 million since FY98. The debt levies are also voter-approved and are outside the County's base tax rate limitation.



Spending on the Library by Revenue Source



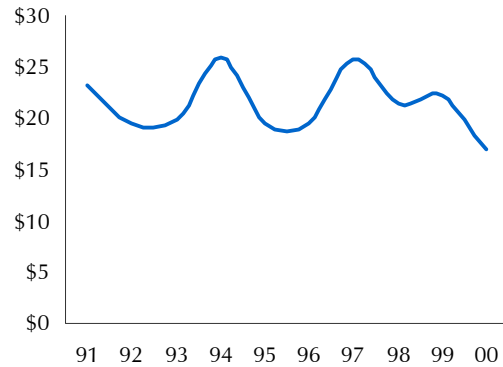
County Spending

Total spending on roads and bridges has declined over the last ten years

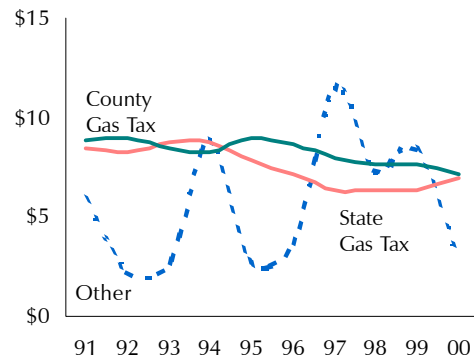
Funding for roads and bridges comes from State and County gas tax revenues and special project funding from the State and Federal government. No General Fund dollars are allocated to road and bridge repairs and maintenance.

Total spending on roads and bridges has declined over the last ten years from \$23 million in FY91 to \$17 million in FY00. Funding fluctuates due to state and federal funding for special projects. However, the revenues from State and County gas taxes have declined in constant dollars from \$17.3 million in FY91 to \$14 million in FY00.

Spending - Roads and Bridges
Adjusted for inflation (in millions)



Spending on Roads and Bridges by Revenue Source
Adjusted for inflation (in millions)



County Spending

General government has increased slightly

General government costs include administration such as personnel, accounting, legal, and county commissioners as well as other services such as elections, animal control, assessment and taxation, and land use programs that serve all citizens. Most of the services are funded by General Fund dollars.

General government has been increasing in the last 10 years from \$33 million in FY91 to \$37 million in FY00. The largest increase was in finance, which increased from \$2.5 million in FY91 to \$6.3 million in FY00. We were not able to distinguish some of the administrative costs recovered from state and federal funds through overhead charges.

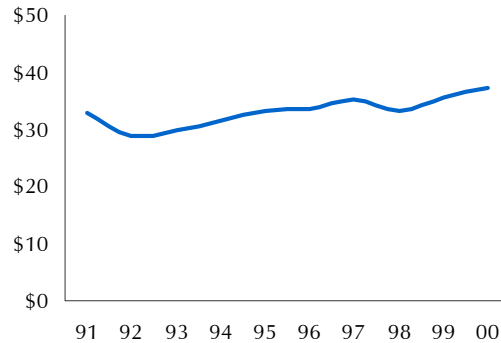
Spending on some internal services has increased

Costs of internal services such as: risk management programs, facilities management, data processing, fleet, telephone, and mail distribution are charged to County programs.

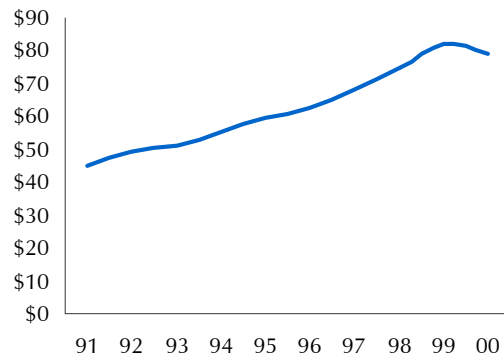
This spending is already reflected in the previous exhibits as costs in personal services and other services.

In FY00 total spending for Internal Services was \$79 million. Facilities Management and Risk Management each spent \$29 million while Data Processing spent nearly \$11 million.

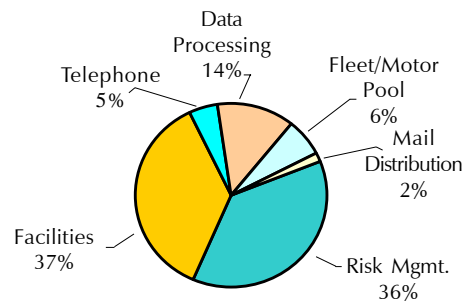
Spending - General Government
Adjusted for inflation (in millions)



Spending - Internal Services
Adjusted for inflation (in millions)



Internal Service Spending
FY00



County Spending

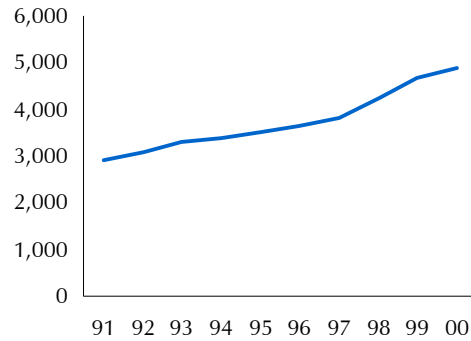
Number of employees has increased

Changing responsibilities have increased the number of County employees from 2,900 in FY91 to 4,900 in FY00.

Some of the staff increase was due to program transfers of State employees to the County for parole and probation and disability services. Other increases resulted from staffing the new jails and increases in social and health services funded by state and federal dollars.

In FY97, 90 positions were funded from State dollars to pay for felons formerly housed in State prisons. In FY98, 137 employees were gained from State Disability Service Programs.

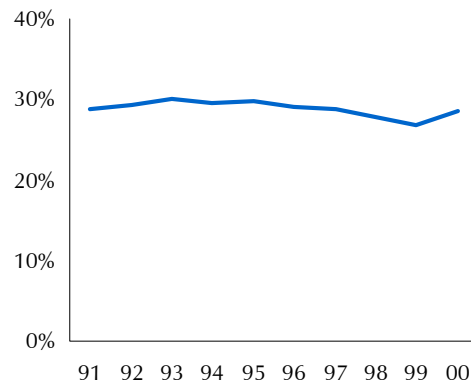
Number of Employees



Proportionately, the cost of employee benefits has remained steady

Employee benefits include the cost of health and dental insurance, worker's compensation, retirement, and the employer-paid portion of social security. Paid holidays are not included. The cost of employee benefits has remained steady over the last ten years.

Employee Benefits as % of Total Personnel Costs



Financial Health

Overview

Financial health is difficult for government to evaluate. Unlike businesses, governments do not have a bottom line. Government does not exist to make a profit, but rather to provide quality services to its citizens at a price they are willing to pay. But, just like its citizens, the County must pay bills, save money, and plan ahead. How well it achieves these activities will ultimately affect the quality of services. Some of the indicators explored here measure savings, the ability to meet short-term obligations, and long-range capital spending and debt management.

The County needs to heed some early warning signs of decreasing reserves and decreasing ability to pay short-term obligations. These combined with a slowing economy may indicate some policy action is needed to maintain the County's financial health.

Indicators

- Unreserved Fund Balances
- General Fund Reserve
- Liquidity Ratio
- Accounts Payable
- Unfunded Employee Leave
- Capital Spending
- Long Term Debt and Leases
- Debt Structure

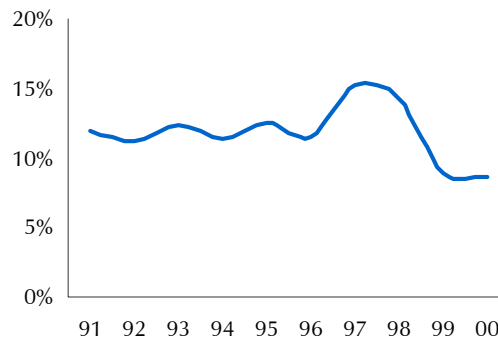
Financial Health

Percentage of unreserved fund balances has decreased

Unreserved fund balances can be thought of as “rainy day funds.” The size of a government’s unreserved fund balances can affect its ability to withstand short-term financial emergencies.

This indicator measures the unreserved fund balances of the General Fund and Internal Service Funds as a percentage of revenues for the General and Internal Service Funds. This ratio has declined from 12% in FY91 to 8.6% in FY00.

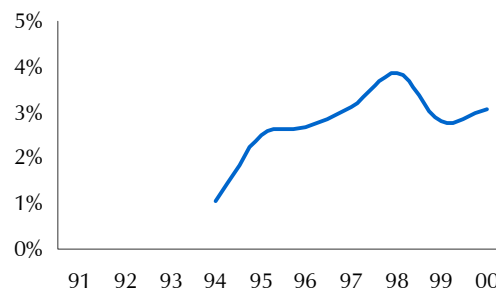
Unreserved Fund Balances
(As % of revenues)



County has not yet reached its goal to target 5% in reserve

The County’s financial and budget policy sets a goal of maintaining a reserve account of approximately 5% of the General Fund budget. To that end, the Board of County Commissioners set aside approximately \$8.6 million in FY00, which represented 3% of the budgeted general fund expenditures.

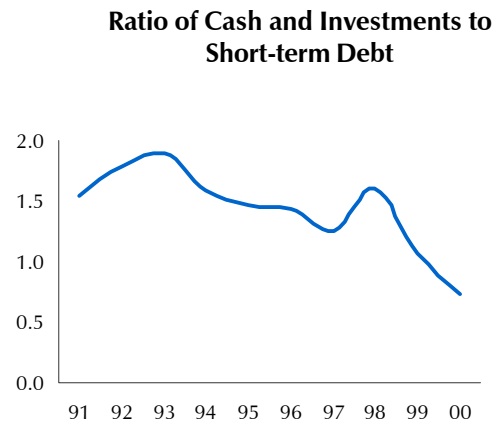
Budgeted General Fund Reserve
(As a % of general fund budgeted expenditures)



Financial Health

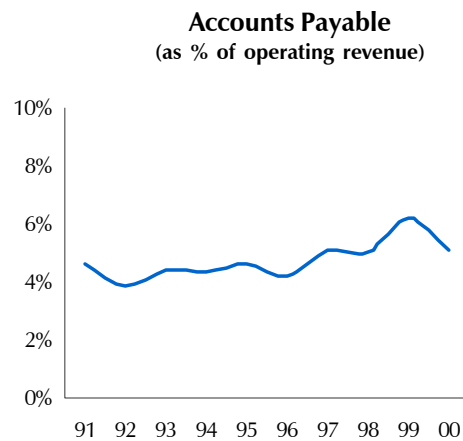
Liquidity ratio needs watching

Liquidity is an indicator of the County's ability to pay its short-term obligations. The credit industry considers a liquidity ratio of less than \$1 of cash and investments to \$1 of current obligations to be a negative indicator. Although the County has maintained a good ratio in the prior nine years, the ratio for FY00 is under the \$1 to \$1 ratio, indicating a warning trend.



Income needed to pay short-term debt is satisfactory

This indicator shows County payments due at fiscal year end as a percentage of its operating revenues. Increasing short-term debt may indicate cash shortages. The credit industry considers short-term debt over 5% or a trend of increasing short-term debt as a negative factor.



Recently unfunded employee leave is increasing

Accumulated employee leave is the value of unused vacation leave accrued to County employees. For employees who remain on the payroll and use their vacation leave, it poses no additional costs to the County, except in loss of services while they are absent. Although the total liability for employee leave has increased due to growth in the number of employees over the last ten years, the unfunded portion decreased until FY96 when it began to rise.

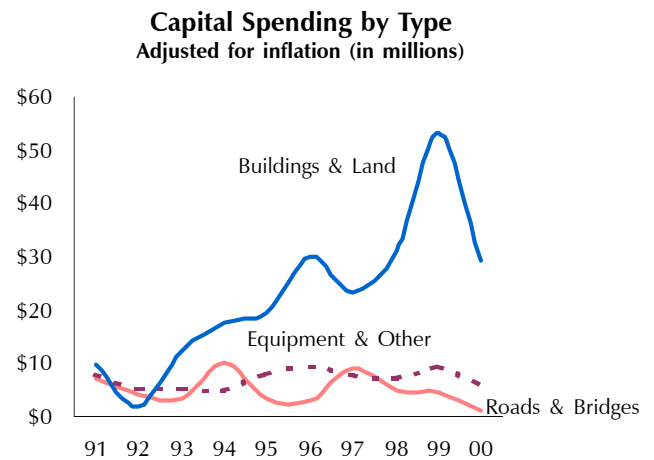
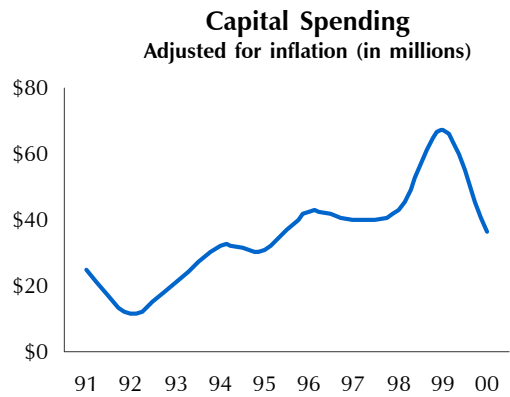


Financial Health

Capital spending has increased for land and buildings

Spending for land and buildings has increased with the construction of two jails, the juvenile justice complex, and several libraries, as well as the purchase of the Multnomah Building in FY99. These were primarily funded by voter-approved general obligation bonds. Spending for equipment and other categories has remained stable. Spending on roads and bridges fluctuates by project. Declining capital expenditures is a warning trend that may indicate the use of inefficient or obsolete equipment.

The need for additional capital improvements is still great. The County Courthouse and many County owned buildings do not meet standards and will require future replacement. Continued deterioration of buildings, roads, and bridges make this an area of concern which should not be ignored.

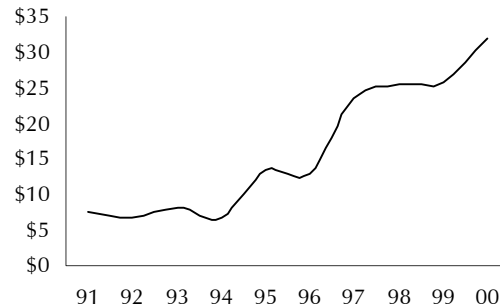


Financial Health

Income needed to pay for long-term debt and leases has increased

Fixed costs include the principal and interest on long-term debt and operating leases. These costs have increased as a result of construction of new libraries, jails, and other justice facilities financed by general obligation bonds approved by voters. More recently, in December 1999, the county issued taxable Revenue Pension Obligation Bonds to cover the County's Public Employees Retirement System (PERS) unfunded liability which will result in a savings of nearly \$36 million over a 30 year period.

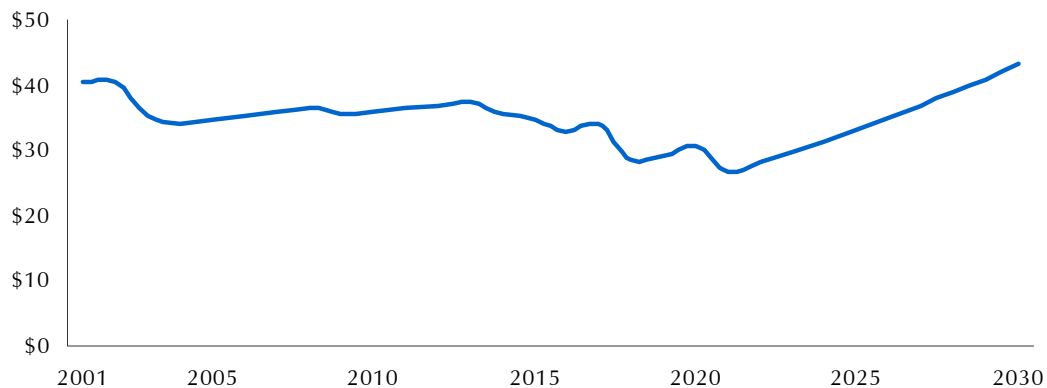
Fixed Costs
Adjusted for inflation (in millions)



Principal and interest payments will remain constant if no new debt is incurred

Although debt has been rising as a result of new borrowing, the annual payments of principal and interest over the next 30 years will remain fairly constant.

Principal and Interest Payments for the Next Thirty Years
(In millions of dollars)



Economic and Demographic Trends

Overview

Economic Trends

Economic indicators and demographic indicators that help measure services to specific populations are useful for looking at the future.

The economy has remained strong over the last ten years. Unemployment rates remained under 5% for eight of the last ten years. Property values have grown. New residential construction grew from FY91 through FY97, and the number of businesses grew from 20,000 to over 24,000 over the last ten years. However, there are signs in the last two years that the County may not experience this rate of growth in the near future.

Service Populations (Demographic Trends)

Service populations have also been changing. In some cases, County services benefit all citizens while in other cases particular citizens benefit. Keeping an eye on characteristics of the County's population over time can help plan for needed services. It can also help determine if County efforts have had an impact. Service population indicators show favorable trends.

The following economic indicators are ones recommended by the ICMA. We also include demographic indicators such as population growth, income and poverty, and crime rates. However it is difficult to find measures for some of the health and social service programs.

Indicators

Economic

- Property Values
- Uncollected Property Taxes
- Number of Businesses
- Unemployment Rate
- New Construction

Demographic

- County Population
- Population over 70 and under 20 years of age
- Average Income
- Households in Poverty
- Reported Crimes

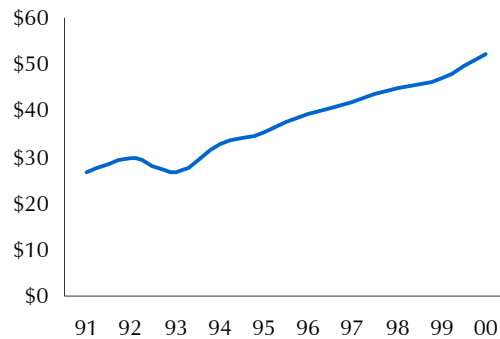
Economic and Demographic Trends

Property value continues to increase and delinquency rates to decrease

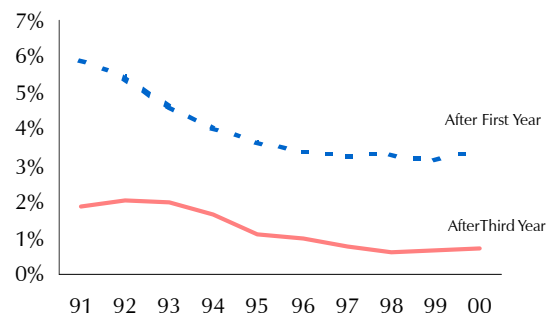
The Real Market value for properties in Multnomah County has continued to increase for the last ten years from \$27 billion in FY91 to \$52 billion in FY00. Much of this increase is due to the strong economy and new construction.

The effects of the strong economy have also been seen in the percent of uncollected property taxes after the first year, which decreased from 6% in FY91 to 3.4% in FY00.

Assessed Property Values
Adjusted for inflation (in billions)



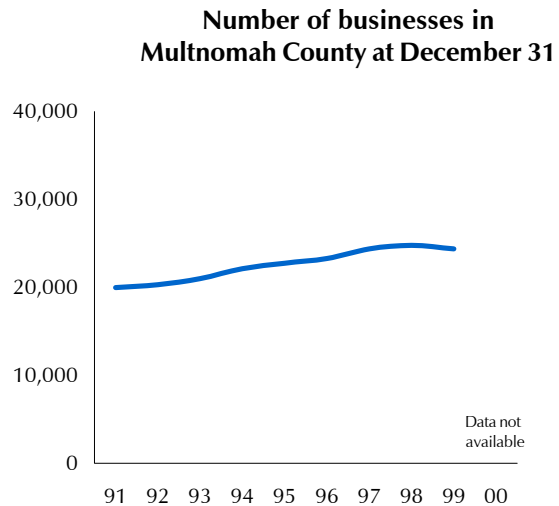
Uncollected Property Taxes
Percent of taxes delinquent



Economic and Demographic Trends

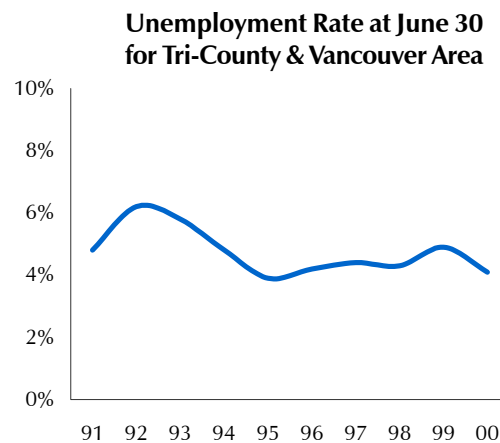
The County experienced growth in the number of businesses from FY91 through FY99

The number of businesses in Multnomah County grew from 20,000 to over 24,000 in the nine-year period for which we have data.



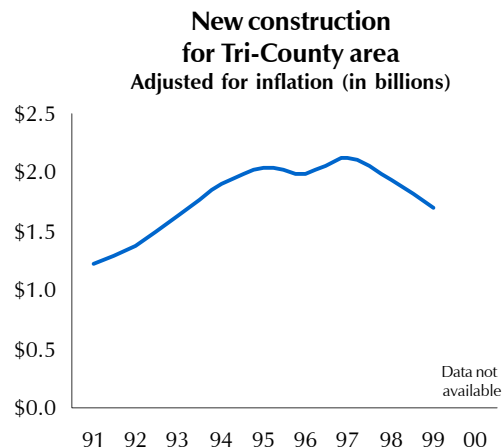
Unemployment remains low: under 5% for the last seven years

Unemployment as measured at June 30, each year and has been under 5% since FY93.



New construction is decreasing

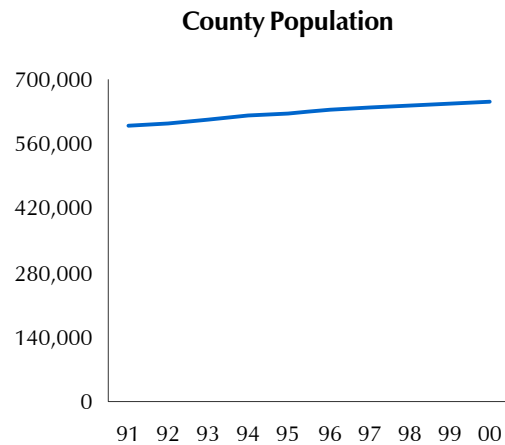
New residential construction is a positive economic indicator that means increases in the County's tax base. New residential construction grew through FY97. The indicator for subsequent years shows a less aggressive economy than in earlier years.



Economic and Demographic Trends

Population growth has been steady

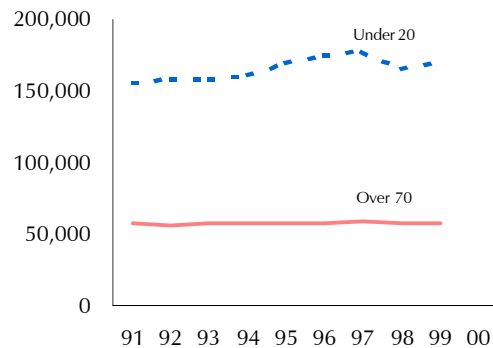
Rapid change in population can increase service costs or reduce the County's revenue base. Population has only increased by about 54,000 since FY91.



The number of people under 20 has increased by 10% while the number over 70 has remained steady

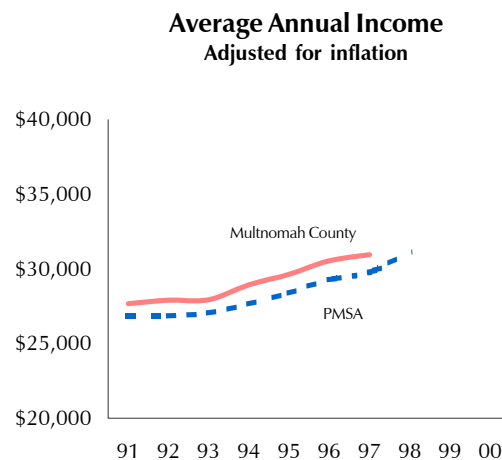
Many County services are for the elderly or families with children. Large changes in these groups could dramatically affect the need for County services.

Population Under 20 and Over 70 Years of Age



Average income has increased faster than inflation

The average annual income is based on information gathered by the State of Oregon Employment Division. The average income for Multnomah County is slightly higher than for Portland Metropolitan Statistical Area (PMSA) and has been increasing over the last ten years. Declines in income may affect consumer activity, reduce business incomes, and increase tax delinquencies.

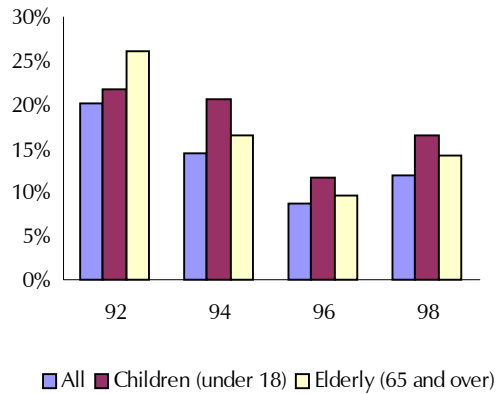


Economic and Demographic Trends

In FY98 about 12% of households in the County were in poverty

Many County health and social programs provide services for low-income citizens. Poverty in 1996 was defined as earning less than \$16,000 annually for a family of four.

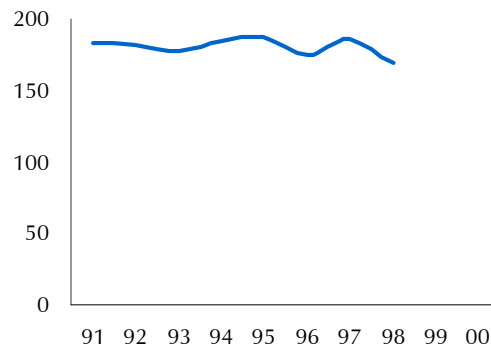
Households in Poverty



Reported crimes have decreased

About 1/3 of the County's costs are for justice services. The reported crime rate has decreased 8% since FY91. This trend should be watched to see if it continues and whether it might affect the need for services

Multnomah County Reported Crimes per 1,000 residents



Response to Audit



Bill Farver, Multnomah County Chair

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501 S.E. Hawthorne Blvd.
Portland, Oregon 97214

Phone: (503) 988-3308
FAX: (503) 988-3093
Email: mult.chair@co.multnomah.or.us

To: Suzanne Flynn, County Auditor

From: Bill Farver, Acting Chair

RE: Chair's Response to Financial Condition Report

Thanks to you and your staff for your work on the Financial Condition Report on Multnomah County. I will describe what I believe are the major learnings from your work and comment on what, if anything, we can do to address them in light of our current estimated \$20 million dollar budgetary shortfall for fiscal year 2001/2002 .

Increasing federal and state revenues

As you state, our increase in these revenues is in part a result of policy decisions in Washington D.C. and Salem to transfer functions previously delivered at the federal and state level to local government. Unfortunately we cannot guarantee continued funding and are left with the responsibility to our citizens to provide the needed services. We should begin discussions with federal and state leaders to to stabilize these funding sources and reduce the number of prospective legislative acts that restrict how we spend the money.

Other County revenues

Your favorable report on property taxes, car rental taxes and business income taxes needs to be watched carefully in the future. As you point out, the County has relied on short-term revenues through voter approved serial levies, and we will be crafting measures to replace and or increase the current levies when they expire or tolerate service declines. With the slowing economy, the County's elastic business income tax and car rental taxes are responsive to economic changes and we expect the taxes to increase at a much slower pace than they have experienced during the last several years.

Cost of employee benefits

Although the cost of employee benefits have remained steady over the last 10 years, the costs have skyrocketed during the last two years. Based upon latest estimates, medical and dental benefits are expected to increase by double digit inflation during the next few years. The County has been taking steps to work together with our Unions to search for better benefits design and contain the costs of benefits.

Financial health overall

The County needs to continue to strive to reach its goal to target 5% in reserves. This is a difficult task with the current financial situation, but the County intends to monitor and put a plan in place to achieve this goal.

The liquidity ratios will continually be monitored as we attempt to bring them back to a good ratio.

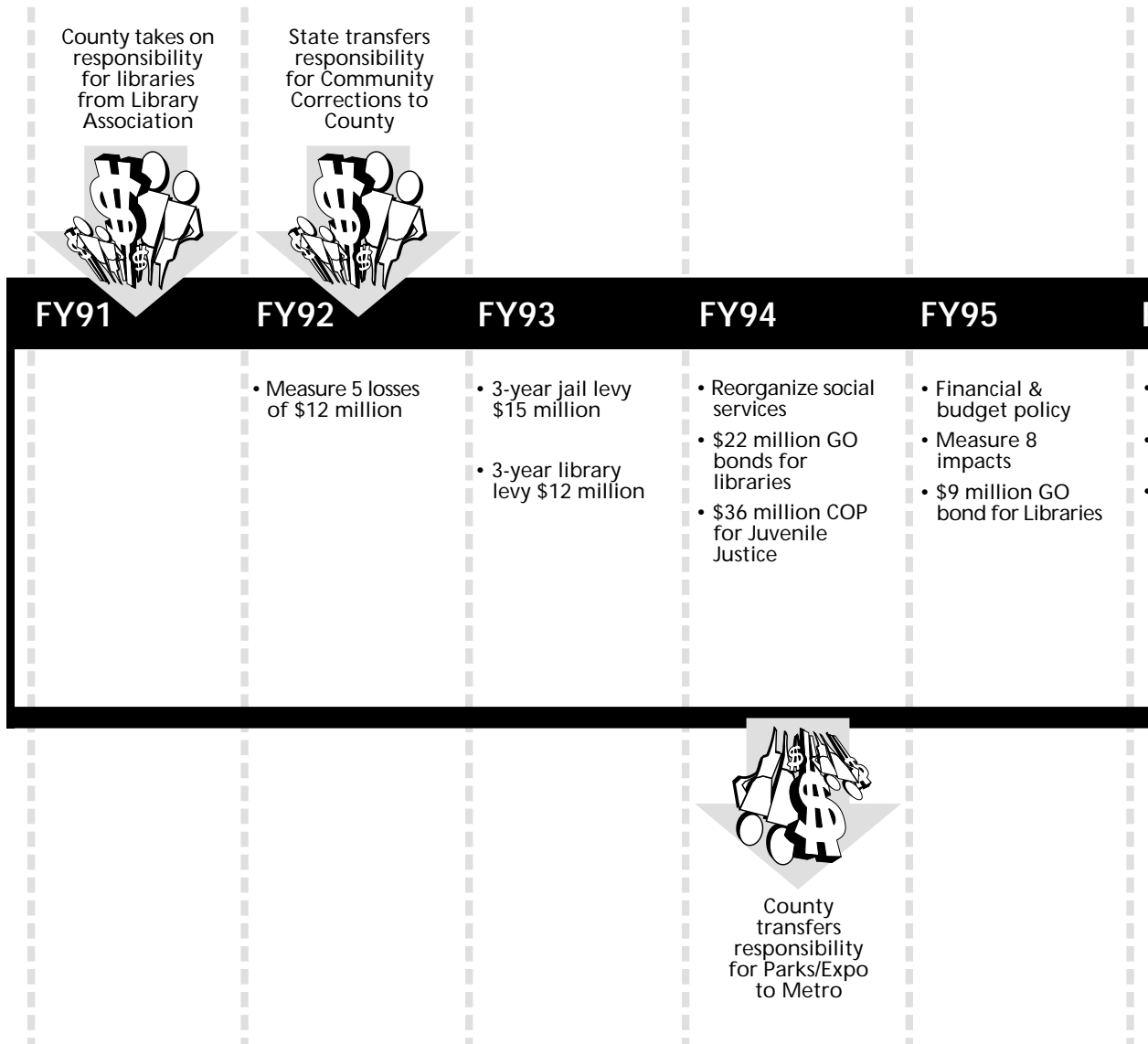
We continue to make progress with addressing our assets and buildings. Your office is in the process of initiating an audit of capital construction activity and this should help us in defining the needs.

We are very pleased to have addressed our PERS unfunded liability and believe that the restructuring of this liability will reduce our costs over the next thirty years.

Thank you for an excellent report to assist the Board and citizens of Multnomah County .

Appendix

10 Years of Change



10 Years of Change

