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Introduction

Change is on the horizon for Multnomah County as we approach the upcoming fiscal year. That change will take many forms – including new political leadership on both the Board of County Commissioners and Portland City Council - and it can present both challenges and opportunities. The implications of a changing regional economy are largely unknown at this time. Local governments have been the beneficiary of strong economic growth over the past few years. Yet, County services tend to be countercyclical to the economy and demand for services tends to grow when there is an economic downturn.

The budget for FY 2009 takes a cautious approach in light of this uncertain political and economic environment. It is a budget that has been developed with a view toward maintaining vital County programs and maximizing the use of one-time-only resources to reduce ongoing expenditures. The primary fiscal challenge we face will be one of balancing competing needs while addressing the very likely possibility of slower growth, if not absolute reductions, in some of our key General Fund revenue sources.

Over the past several years the County has benefited from a strong resurgence in the regional economy. However, that growth was fueled largely by what now appears to have been unsustainable growth in the housing sector. Until recently, Portland was one of the few cities to post positive year over year housing gains as a sign that we are more insulated against the downturn in the housing market. We cannot predict if we will be spared from the effects of the housing slump that has affected the rest of the nation – but it is equally clear that we must plan for its eventuality. The economic effects of this recession will likely hit Multnomah County in six months to a year as revenues and budgets catch up with economic conditions

The economic recession of 2001 – 2003 was brought about by the collapse of what analysts describe as the "dot-com bubble." Speculation in technology and telecommunication ventures was not dissimilar to the speculation that occurred in the housing market over the past few years. That downturn sparked a period of retrenchment in both state and local government from which we have not yet fully recovered. It also highlighted what we now describe as a *structural deficit* – an imbalance between ongoing revenues and the cost of providing services.

In May, 2003 the ITAX was described as a bridge to better economic times. It was also touted as a local solution that demonstrated the community's commitment to maintaining adequate schools and public services. The ITAX largely met the goals that had been established for it. Local schools were able to maintain full academic years and the County was able to maintain a number of vital core services.

The sunset of the ITAX has presented some challenges for the Board of County Commissioners. School districts were made whole through the state funding formula. And, because of the strong local economy they have seen increases in their own local tax sources. The County, on the other hand, was faced with an immediate reduction of $32 million. While it is true that the strong economy helped to buoy County revenues, the jury is still out on whether this growth can be sustained.

The "bridge" only took us part of the way. While it is true that County revenue growth has been strong over the past few years it has only allowed us to recoup about $20 million of the $32 million provided by the ITAX. It is not likely that this gap can be totally eliminated, partially as a result of constitutional limits on property tax revenue and the volatile nature of the Business Income Tax.

In addition, the County receives approximately 30% of its total revenue from federal and state sources. Because the State of Oregon is heavily dependent on income taxes, it is especially sensitive to economic conditions, and a recession could significantly impact the revenues the County receives from the state as happened during the last recession. State revenues support programs in nearly every department and range from parole & probation to support for mental health programs.

For the past three years, the County has not cut expenditures that were supported by the ITAX, but instead compensated by funding ongoing programs with one-time-only (OTO) revenue sources. In FY 2008, approximately $18 million of existing services were supported with OTO revenues. While backfilling the loss of the ITAX revenue with OTO has allowed the continuation of some core County services it has also had the effect of putting off significant financial decisions for future Boards.

What We Are Facing

Multnomah County faced an estimated $18.7 million General Fund shortfall when planning for the for FY 2009 budget process began. This shortfall does not take into account the many unmet needs in capital infrastructure, building maintenance and the operating costs associated with the Wapato Jail. A majority of the shortfall is a direct result of the loss of the ITAX ($12 million) and the structural deficit ($6 million). For more information on the structural deficit refer to the *Challenges and Opportunities* section.

The FY 2009 adopted budget is responsive to current economic conditions. The General Fund increased by 2.75% over the FY 2008 adopted budget. This increase essentially mirrors the forecast revenue growth. It provides for modest expenditure growth, although it does not provide fully for inflationary costs which are driven by the Portland CPI-W.

The adopted budget resulted in a net reduction of ongoing costs of $12.2 million from existing operating programs. The balance of the shortfall is slated to be covered by additional revenues and operating efficiencies. The majority of the expenditures in this budget are focused on meeting our commitments and obligations in the delivery of core services. The one significant departure from this approach relates to funding for the Wapato facility. The adopted budget uses $6.9 million of OTO funds to open Wapato although the specifics surrounding the proposal will need to be determined over the next few months.

Growth in expenditures outlined in the budget are mainly attributable to funding for County obligations and mandates that are due either to federal, state or local regulation or in response to a policy direction or initiative that has previously been established by the Board or proposed by the Chair. Even though we have been able to balance this budget, there continue to be significant threats to the County's fiscal health.

This budget is a starting point for the community dialogue that will take place over the coming months regarding levels of service, programmatic priorities, taxing policy and fiscal management policy. We continue to monitor current year and projected revenues closely and are continuing to look for ways to reduce the operating budget further without significantly impacting levels of service.

How We Balanced the General Fund

The focus on financial stewardship, while always a critical aspect of our operations, will continue to receive very careful scrutiny as we respond to changing economic conditions over the next year and beyond. Fortunately, over the past few years economic conditions had improved considerably since the ITAX was implemented in 2003 and subsequently sunset in 2006. The robustness of the economy allowed the county revenues to close $20 million of the $32 million revenue gap left by the sunset of the ITAX.

Forecasts offer a picture of the future based on a snapshot in time. Since the current forecast was developed it has become clear that economic conditions in Oregon and the Northwest in general, have begun to decline. There are a number of risks to the current forecast that cannot be quantified at this time. They include:

- Impact of state and federal budget deficits
- Spiraling cost of health care
- Citizen initiatives and legislative referrals
- Return of high inflation and its impact on County service delivery

In order to close the gap, meet our obligations and still balance the budget within available revenues, significant reductions have been made in county expenditures. Departments were asked to make a 3.0% reduction in current service levels, in order to generate approximately $8 million in General Fund reductions. The constraint budget process provided the opportunity for the Chair to give specific policy direction to departments.

Summarily the gap was closed by the 3% constraint, $3 million of new revenues in the Health Department, programs absorbing $1.8 million in inflationary increases, spending $24.4 million of OTO to buy down debt which in turn releases $4 million of ongoing resources, $1 million cuts to internal service divisions, and reducing the Sheriff's budget by an additional $1 million over constraint to allow the Chair more flexibility to reallocate resources.

The adopted budget is a balanced budget as required by state law, and reflects the budget priorities for organizational funding to meet the needs of the community. The budget serves as a policy document and fiscal plan for the fiscal year starting July 1, 2008 and ending June 30, 2009.

FY 2009 Budget Overview - All Funds

The FY 2009 adopted budget takes into consideration both the difficult choices that must be made now, and the equally difficult choices that will need to be made next year. The program offers have been prepared with the best available information, but adjustments will be inevitable as the details of the State's budget are revealed.

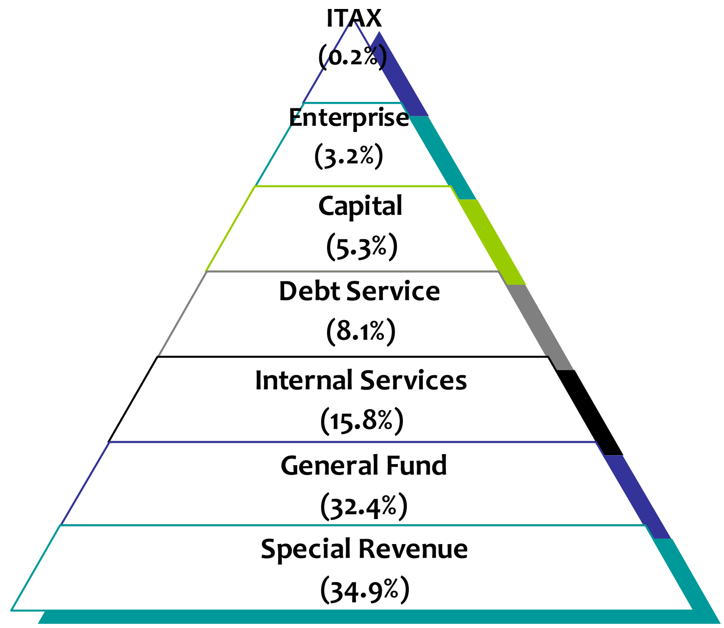
The County continues to ameliorate the potential impacts associated with the loss of ITAX revenue with the use of $43.2 million of one-time only revenue. Ongoing programs supported by OTO revenue are targeted to be ramped down within the first two quarters of FY 2009.

Local Budget Law (ORS 294) requires a reporting of the total budget. The adopted budget for FY 2009 totals $1,259,203,434. When adopted, the total budget sets the legal appropriation. The total budget reflects the actual resources needed by the County, plus internal charges, transfers, loans, and accounting entities. Because this overstates what is actually spent, the County often refers to the net budget.

The net budget ($920,994,330) is a more accurate statement of the money the County actually plans to spend during the year. The net budget subtracts all internal charges, transfers, and loans from one fund to another. It also removes all reserves for future years to more accurately reflect the ongoing operational budget. Internal transactions between funds are typically the result of one department providing a service to another, such as information technology or facilities services.

FY 2009 Adopted Budget	
Department Expenditures	$881,651,241
Contingency	$39,343,089
Total Net Budget	**$920,994,330**
Service Reimbursements	$168,849,688
Internal Cash Transfers	$58,524,341
Reserves	$110,835,075
Total Adopted Budget	**$1,259,203,434**

The following diagram provides an overview of the County's total budget by type of fund:



Types of Funds

Multnomah County prepares budgets for 32 funds. Funds are defined on the basis of Generally Accepted Accounting Principles (GAAP) and include the General Fund, Special Revenue Funds, Debt Service Funds, Capital Projects Funds, and Internal Services Funds. The budget also includes one Enterprise Fund (the Behavioral Health Managed Care Fund).

As its name implies, the General Fund is made up of resources that are available to support a wide array of services. It is the largest source of discretionary revenue that can be allocated by the Chair and Board of County Commissioners. Special Revenue funds include revenues dedicated for specific services. Examples of Special Revenue funds in the Multnomah County budget include the Road Fund, the Willamette River Bridge Fund, and the Library Fund.

The budget includes four Debt Service funds. The General Obligation Bond Fund is supported by a property tax levy that is dedicated to repayment of bonds issued for library construction and renovation and construction of the Wapato Jail. Other debt service funds are used to account for financing proceeds related to capital acquisitions and improvements, deferred pension obligations, and bonds issued on behalf of non-profit agencies.

Capital Project funds account for spending on capital improvements as well as acquisition and preservation of County assets. Internal Services funds account for business functions such as fleet management, self-insurance, information technology, and operation of County facilities. These funds derive their revenues from chargebacks to County and external agencies.

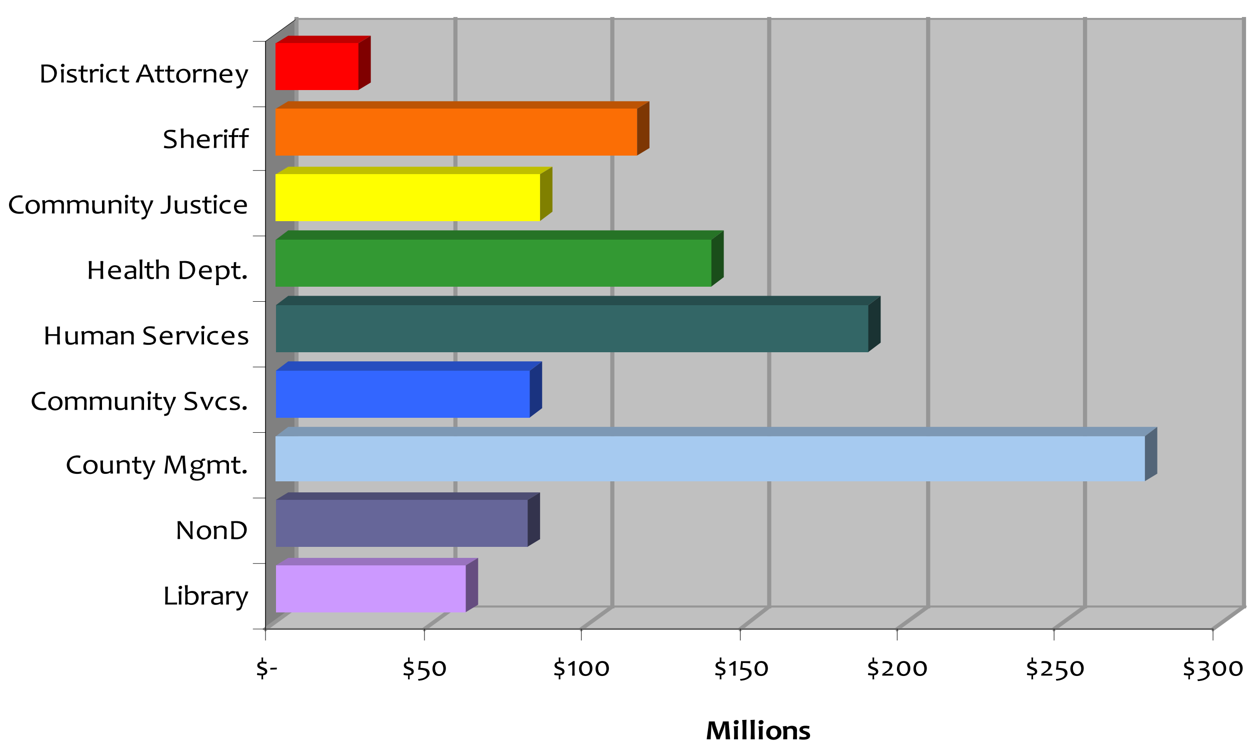
Please see the next page for a table detailing out a comparison of funds from FY 2008 adopted to the FY 2009 adopted budget.

Fund	Fund Name	FY 2008 Adopted	FY 2009 Adopted	Change	Note
1000	General Fund	367,930,512	410,669,016	42,738,504	BWC 21.8m higher; Property Tax revenue $10.7m higher, Business Income Tax $3.5m higher, Intergovernmental $5.1m higher
1500	Strategic Investment Program Fund	750,137	488,258	(261,879)	BWC $112,000 lower
1501	Road Fund	52,138,295	51,626,824	(511,471)	
1502	Emergency Communications Fund	240,000	240,000	0	
1503	Bicycle Path Construction Fund	524,000	639,000	115,000	BWC $105,000 higher
1504	Recreation Fund	120,000	120,000	0	
1505	Federal/State Program Fund	268,070,883	235,945,572	(32,125,311)	Developmental Disabilities pass thru payments reduced by $51m
1506	County School Fund	75,000	260,000	185,000	
1507	Tax Title Land Sales Fund	720,516	678,016	(42,500)	
1508	Animal Control Fund	1,559,298	1,850,885	291,587	BWC increased by $201,000; Donations $95,000 higher
1509	Willamette River Bridge Fund	29,615,065	21,733,096	(7,881,969)	BWC $6.0m lower
1510	Library Serial Levy Fund	56,798,353	76,537,520	19,739,167	BWC $13.9m higher; Property Tax revenue $4.0m higher
1511	Special Excise Taxes Fund	19,600,000	23,000,000	3,400,000	Transient Lodging Tax $3.2m higher
1512	Pub Land Corner Preservation Fund	2,877,500	2,680,000	(197,500)	BWC $162,000 lower
1513	Inmate Welfare Fund	2,492,056	2,526,212	34,156	
1516	Justice Services Special Ops Fund	5,270,552	5,779,075	508,523	Charges for services $578,000 higher
1517	General Reserve Fund	14,750,000	15,600,000	850,000	BWC/Unappropriated Balance Increased
2001	Revenue Bond Sinking Fund	5,721,380	5,211,500	(509,880)	
2002	Capital Lease Retirement Fund	19,205,298	36,496,843	17,291,545	Cash transfer $24.2 m debt buy down
2003	General Obligation Bond Sinking Fund	17,541,585	17,217,474	(324,111)	
2004	PERS Bond Sinking Fund	33,450,000	43,017,288	9,567,288	BWC increased by $6.3m; Reimbursements increased by $3.25m
2500	Justice Bond Project Fund	685,606	990,000	304,394	BWC increased by $215,000
2504	Financed Projects Fund	8,950,000	8,550,000	(400,000)	
2507	Capital Improvement Fund	60,370,221	50,447,941	(9,922,280)	
2508	Capital Acquisition Fund	2,412,913	363,135	(2,049,778)	
2509	Asset Preservation Fund	5,435,110	6,612,240	1,177,130	BWC increased by $2.4m; Cash transfer down $341,000
3002	Behavioral Health Managed Care Fund	38,061,305	40,575,884	2,514,579	BWC increased by $2.0 million; OHP revenue up $479,000
3500	Risk Management Fund	88,434,367	94,880,662	6,446,295	Increased due to higher contribution rates and greater FTE
3501	Fleet Management Fund	11,329,541	11,283,022	59,691	
3503	Data Processing Fund	41,162,245	43,951,153	2,788,908	BWC increased by $2.1 million; Service charges increased $1.6 million; Cash transfer revenue down $1.5 million
3504	Mail Distribution Fund	7,977,939	8,134,815	156,876	
3505	Facilities Management Fund	40,898,983	41,098,002	199,019	
	Total	**1,205,168,660**	**1,259,203,434**	**54,140,983**	

FY 2009 Department Requirements - All Funds ($1.050 billion)

Most departments experienced nominal increases in their budget over the previous fiscal year. The two exceptions include the Library, which increased by 8% over last year. This increase reflects the second year of a five year local option levy which calls for the opening of two new branch libraries. The Department of County Human Services experienced a reduction of more than 17% from FY 2008. This $38 million reduction represents a programmatic shift in Developmental Disabilities whereby the State of Oregon makes payments directly to service providers rather than passing those funds through the County as was done in the past.

The bar chart below shows the amount of the budget required by each department. This figure includes internal service payments, and thus represents some double-counting. However, the figure does not include $3.0 million of ITAX revenue which is passed directly to school districts in Multnomah County.

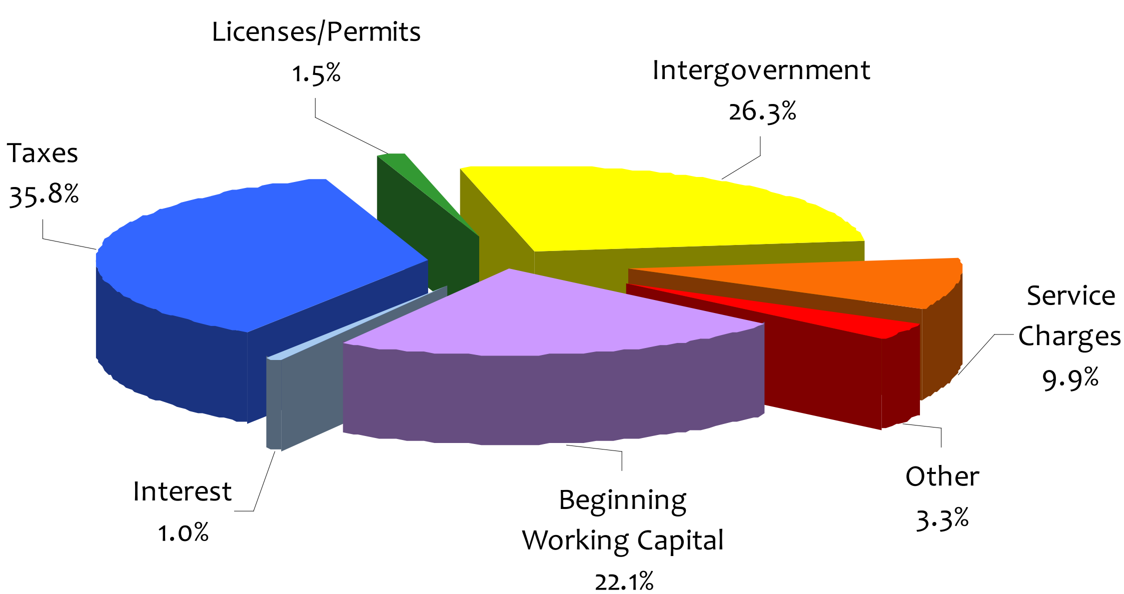


FY 2009 Revenues - All Funds ($1.020 billion)

With a couple of exceptions, revenue growth has followed normal patterns. Taxes constitute the largest single revenue source and include property tax, business income tax, motor vehicle rental tax, transient lodging tax, and county gas tax.

The Beginning Working Capital as a share of the total budget has increased slightly over the past year. Fund balances increased by about 30% over FY 2008 reflecting both strong revenue growth and the unspent balance of dedicated capital construction funds.

Most notably, though, intergovernmental revenues have declined by about 10%. This is primarily a function of the change in Developmental Disabilities described previously.



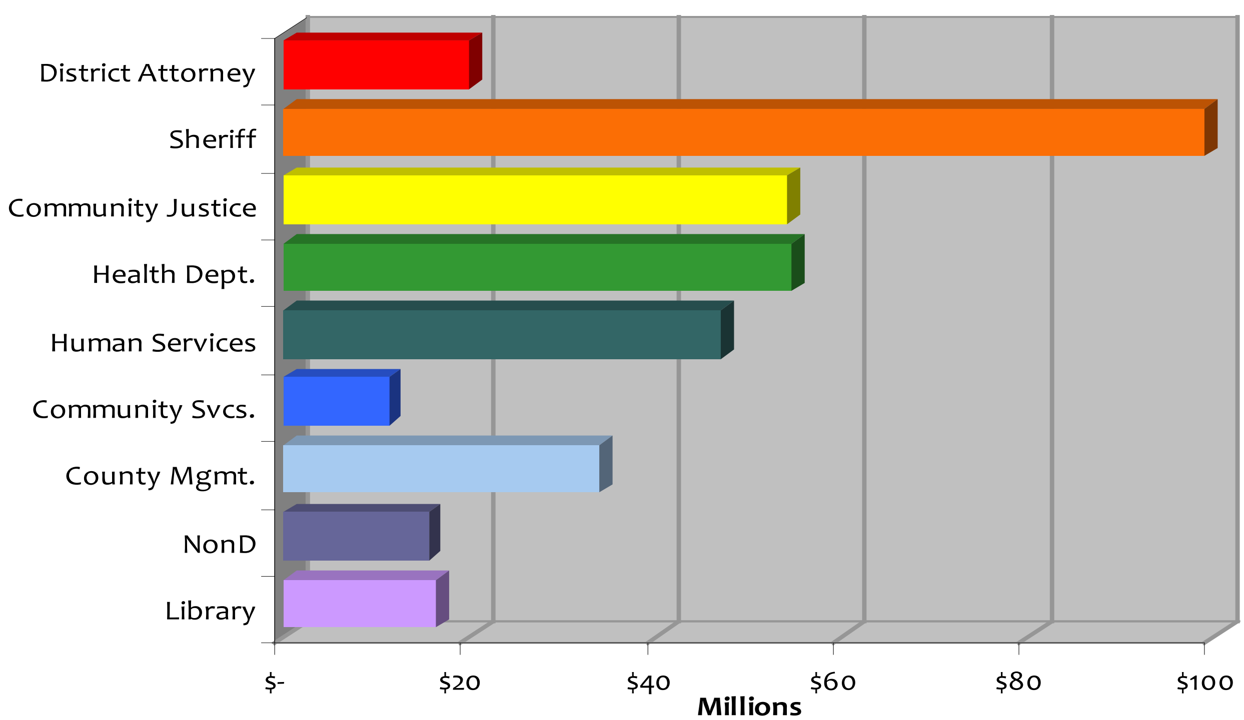
FY 2009 General Fund Overview

The General Fund of $410,669,019 comprises about a third of the County's budget and includes the largest pool of discretionary funds. Discretionary resources are those that the Board of County Commissioners can allocate to support any department; there are few restrictions on how these resources can be allocated. Discretionary resources include property taxes, business income taxes, motor vehicle rental taxes, interest earnings, and state shared revenues (i.e., video lottery, cigarette tax.), and beginning working capital. These sources make up about 90%, or $369 million, of total General Fund revenues.

The remaining 10%, or $41 million, of the General Fund represents revenues primarily budgeted within departmental program offers. These revenues are credited to the General Fund but they may be non-discretionary in nature. Examples include contracts with other governments, fees that fully support program costs, and reimbursements for the cost of conducting elections.

The departmental General Fund expenditures below do not include the $3.0 million budgeted for ITAX, cash transfers, contingency or the unappropriated balance. However, it does account for the $16.2 million cash transfer from the General Fund to the Library Fund.

FY 2009 Departmental Expenditures - General Fund ($351.0 million)



General Fund resources are further categorized as ongoing or one-time-only (OTO). Examples of OTO resources are receipts from the settlement of a lawsuit or the collection of prior year Multnomah County ITAX. The FY 2009 budget includes $43.2 million of OTO in the General Fund. An ongoing resource is one that can reasonably be expected to recur in the future. For example, an increase in property tax revenues associated with increased assessed valuation would be considered to be an ongoing resource.

In light of the anticipated economic slowdown the County has taken a relatively conservative approach to forecasting General Fund revenues. Overall revenue growth is forecast to range from 2% to 3% annually for the current five year forecast period. Property tax is the single largest source of revenue in the General Fund and it accounts for about 63% of ongoing revenues. General Fund revenue growth, therefore, is particularly sensitive to changes in taxable value.

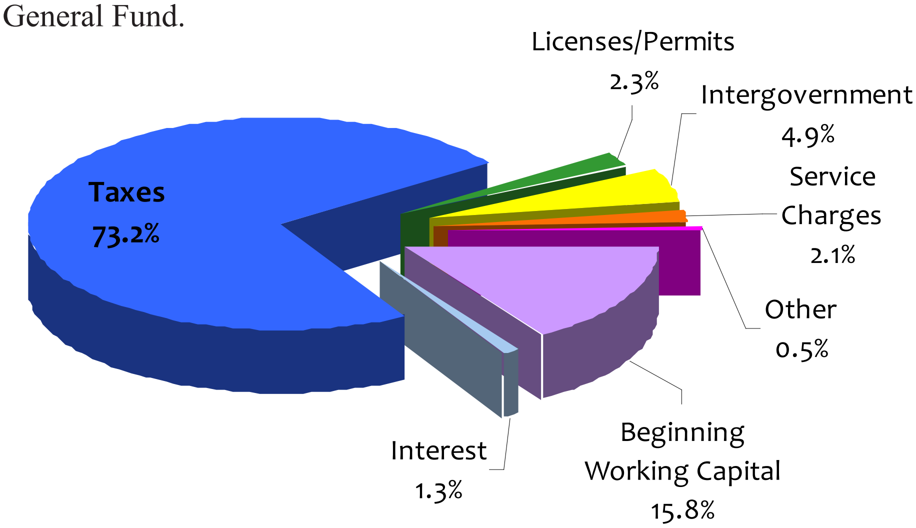
Expenditures are forecast to grow by 4% to 5% annually – a rate of growth that takes inflation, employee compensation, and long term fixed costs into account. This creates a gap between ongoing expenditures and ongoing revenues that is about 2% annually. That gap is in addition to the shortfall created by the sunset of the ITAX.

For FY 2009, we originally forecasted an $18.7 million gap between ongoing revenues and expenditures. That translates to about 6% of ongoing General Fund program costs. The adopted budget reduced ongoing program costs by a net of $12.2 million, the remainder of the gap was closed though a combination of reallocating proposed resources, new revenues and using OTO to buy down debt to free up ongoing revenue.

FY 2009 Revenues - General Fund ($393.3 million)

Overall, ongoing General Fund direct resources (does not include service reimbursements and cash transfers) have increased slightly from the previous year. Total General Fund direct resources are just less than $400 million – an increase of 8.5% over the FY 2008 adopted budget. That figure is a little misleading because it includes a fairly large increase in Beginning Working Capital (BWC) that represents the majority of our OTO resources. Adjusting for the BWC, and other one-time-only revenue, General Fund resources are a little less than 3% higher than the previous year. There are six revenues in the General Fund that make up about 90% of the ongoing revenue stream. Those revenues are in order of magnitude: property tax, Business Income Tax (BIT), motor vehicle rental, Assessment and Taxation (A&T) – grant recording fees, state shared revenues (video lottery, OLCC, cigarette and amusement device taxes), and interest earnings.

The following chart shows the major direct revenue resources within the General Fund.



Property Taxes

Property tax is the largest source of revenue in the General Fund; it represents roughly 63% of *ongoing* General Fund revenue (does not include the $61.2 million of BWC). Property tax revenues have been limited in Oregon, in one form or another, since FY 1991. As a result of the most recent limitation (Measure 47 passed in November 1996) taxes on existing properties cannot grow by more than 3% per year. In 1998, Measure 50 established a permanent property tax rate for each local government. In other words, we have a revenue source that accounts for more than half of the General Fund and is limited to a growth rate that, at best, just keeps pace with inflation. Multnomah County's permanent tax rate is $4.3434 per $1,000 of assessed value.

As assessed value grows, the taxes collected by Multnomah County also grow. Assessed value grows in two ways:

- For most properties, it can grow no more than 3% annually;
- The value of new construction is above the 3% maximum growth.

FY 2009 property tax estimates were based on the assumption that value growth would average 3.5% throughout the county, reflecting the Measure 50 limits and a $300 million increase in "exception" value associated with new construction. There is $215 million of property taxes appropriated in the General Fund.

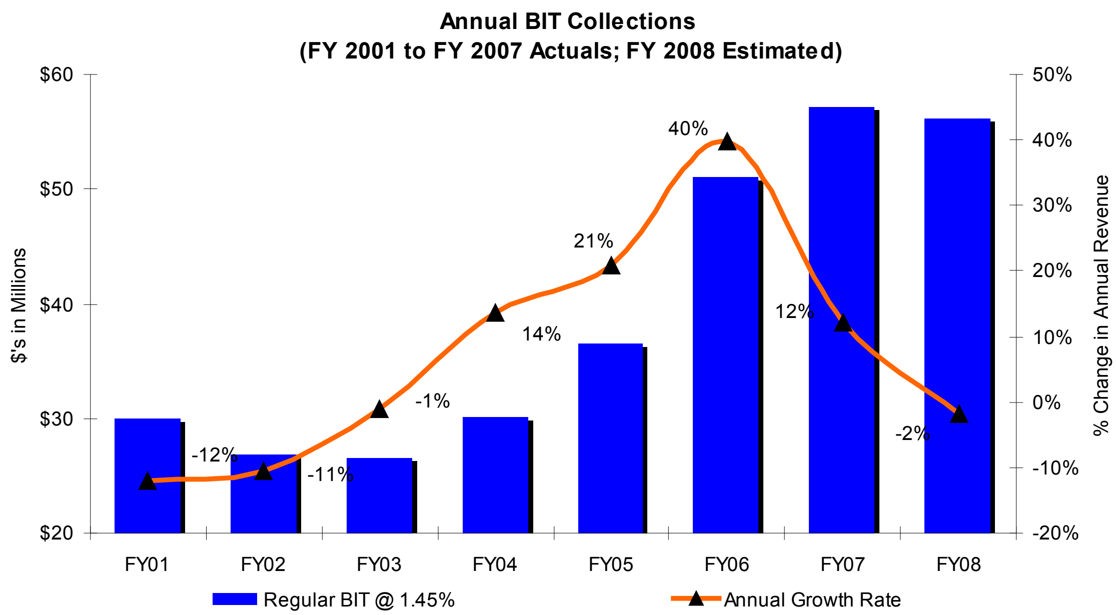
Business Income Tax (BIT)

The Business Income Tax (BIT), established in 1976, is the second largest source of revenue in the General Fund. Since 1993, it has been set at a rate of 1.45% of net income. In March 1998, voters in Multnomah County passed a one-year 0.50% BIT surcharge. Proceeds from this surcharge were dedicated to school districts within the county.

Business Income Tax collections have soared over the past four years, a clear indication of the resurgent regional economy. In FY 2006, for example, the BIT grew by 40% over the previous year. At first glance, the estimate for FY 2008 may seem to be too low ($56,251,020 or -2% less than FY 2007). However, it would not be unprecedented for BIT collections to drop below the previous year's collections. Recent month over month comparisons (i.e., comparing collections from September, 2007 to September, 2006) have shown a slowing trend. In addition, estimated, quarterly payments for the current tax year appear to be lagging approximately 3% - 5% behind the level recorded in the previous year.

The forecast for FY 2009 is much more conservative. Given that we are experiencing historically high levels of BIT collections we cannot reasonably expect collections to continue to increase at this rapid rate. The adopted budget assumes an immediate 2.5% reduction for FY 2009 while the five year revenue forecast sets the annual rate of growth at about 3.5% - the "average" trend experienced over the past dozen years.

The BIT is a very volatile revenue source that is cyclical and dependent upon economic conditions. The following chart highlights the volatility of this revenue source over time. The left axis, represented in columns, shows the change in actual revenue collected since FY 1990. The right axis, represented by the line, tracks the annual percentage change in collections over that same time period



The ups and downs generally follow the same cycles that we have witnessed in the regional economy. This makes the development of a long range BIT forecast somewhat problematic. There is evidence that the economy is slowing and may be headed into a recession. It is not known at this time if it will surpass the order of magnitude experienced in the early 2000's.

In addition, on April 12, 2007, the Board of County Commissioners adopted a resolution which will increase the levels for owner's compensation allowance and gross receipts exemption. When enacted, the increase in these tax deductions will reduce revenue collections in the short term. The resolution further stated that the County would implement a minimum tax that will offset some of the revenue loss associated with the other two measures. The details of how the minimum tax will be implemented have yet to be addressed.

Motor Vehicle Rental Tax

The County imposes a Motor Vehicle Rental Tax (currently set at 12.5%) that is paid by businesses that lease or rent vehicles within Multnomah County. The majority of this tax revenue is a General Fund resource. It is the third largest source of discretionary revenue in General Fund. The balance supports costs and programs associated with the Oregon Convention Center.

Motor Vehicle Rental Tax collections are expected to increase moderately in FY 2009 and are estimated at $13.2 million. The longer range forecast suggests a much slower rate of growth, primarily as a result of two factors. First, the impact of the airport MAX line on automobile rentals has not been fully assessed but it has proven to be very popular with travelers. Also, increased travel costs (i.e., airfares and gasoline) may tend to depress the number of casual travelers who may choose to defer their vacation travel.

A&T Grant Recording Fees

In 1989 the Legislature created a grant-funded program (CAFFA) because Assessment and Taxation (A&T) programs were competing with essential services which resulted in the deterioration of the state and local system. This program spread some of the costs of administering the property tax to the users of the system through two sources: interest on unpaid taxes, and real property document recording fees. In this way, all taxing and education districts that benefit from the county and state administration of the tax collection contribute to its costs. Other users of the system also contribute to this fund through a property-recording fee.

The State Department of Revenue (DOR) reviews grant applications, which include appraisal plans and staffing. DOR sets minimum standards and the compares each grant application to those standards to ensure each county maintains sufficient support for its assessment and collection functions. For FY 2009 A&T grant recording fees at estimated at $8.9 million which is virtually identical to the FY 2008 budget

State Shared Revenues

State shared revenues include Video Lottery, Cigarette and Liquor Tax and Amusement Device Tax that are distributed by formula to Oregon counties. Together, these sources account for about $9.66 million (3%) of ongoing General Fund revenues.

With the exception of video lottery revenues, these sources have remained fairly flat, or even declined, over the past several years. The introduction of line games to the Oregon Lottery has spurred rapid growth in total video lottery proceeds. Collections have increased by 15% and 18%, respectively, over the past two years.

Liquor tax and cigarette tax receipts have increased at a rate roughly equivalent to the change in population over time

Temporary Personal Income Tax (ITAX)

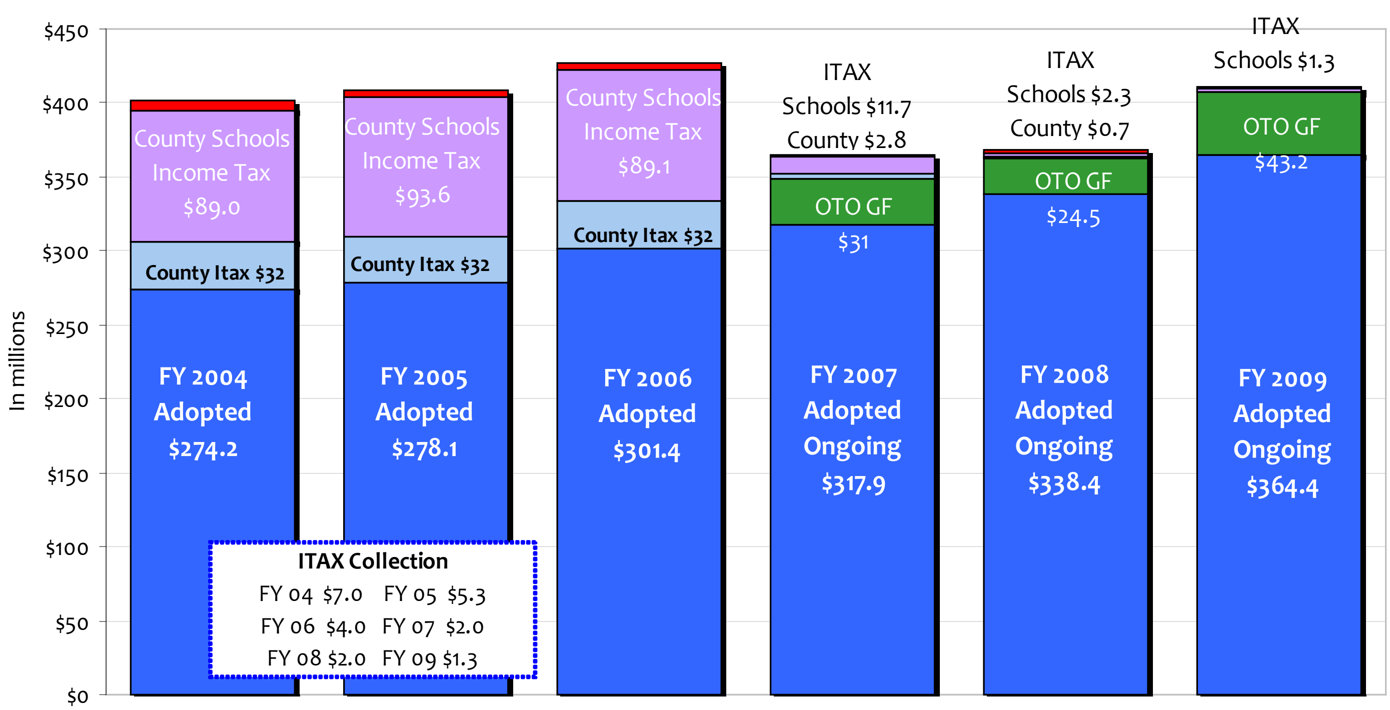
In 2003, County voters approved a temporary personal income tax (Measure 26-48) to benefit public schools, public safety, and human services. It enacted a 1.25% ITAX that was estimated to raise $132 million annually for three years, ending in December 2005. The tax reached its sunset after FY 2006, but we continue to collect delinquent prior year taxes and pass the fund on to schools. The estimated BWC includes about $3 million that is attributable to the ITAX. This additional BWC is chiefly the result of delinquent collections. Schools have and will continue to receive 70% of the total revenue collected. We have assumed that the additional OTO revenue related to the ITAX is available for General Fund uses.

General Fund Reserve Status

The FY 2009 adopted General Fund Reserve is scheduled to be increased by $500,000. This increase is necessary for the reserve to keep pace with the Finance and Budget Policy goals to fully fund reserves. One of the major reasons the County has been able to maintain its high general obligation bond rating of Aa1 is because of the Board's adherence to established fiscal policies. Moody's Investors Services monitors how the County manages its finances during both strong and challenging economies and has based its rating on how the County has managed budget issues over the last several years. Moody's looks very favorably on the maintenance of reserves at adequate levels. The County maintains two separate reserves as outlined in the Financial and Budget Policies. Each reserve has a target equal to 5% of identified General Fund ongoing revenues. Based on FY 2009 budgeted revenues that target amounts to approximately $32 million. This budget fully funds one of the two reserves – the General Reserve Fund – at just under $16 million. Rapid revenue growth over the past two years has caused us to reset the General Fund reserve at a higher level. The budget includes a $14 million unappropriated balance in the General Fund. The reserve may be fully funded by the beginning of FY 2010 to the extent that revenues exceed the budget projections.

General Fund Expenditure Summary

The following graph shows the total General Fund appropriation (including cash transfers and service reimbursements) from FY 2004 through FY 2009 adopted budget with the Temporary Personal Income Tax. In addition, it shows for FY 2007, FY 2008 and FY 2009 how much one-time-only funding was spent in the General Fund.



Use of One-Time-Only Funds

The FY 2009 adopted budget has approximately $43.2 million of OTO revenue. This is made up of the following components from FY 2008:

Beginning Working Capital Higher Than Budget	$22 million
FY 2008 Forecast Revenue Higher Than Budget	$12 million
Department Underspending	$ 9 million
Total – OTO Revenue Available	**$43 million**

Most of the additional FY 2008 revenue comes from property taxes and BIT – about $9 million of the $12 million. Some of that increase also translates into additional ongoing revenue. Approximately $24 million is targeted to buy down debt. This action will free up $4 million of ongoing revenue to support programs. Several programs also have limited OTO which will allow them to ramp down operations for closure over the first half of the fiscal year.

The following table on the following page shows how the OTO was allocated in the adopted budget.

Program	Program Name	FY 2009 General Fund Adopted	Other Funds	OTO Only General Funds	% OTO General Funds
10001	BCC District 1	$459,800	$0	$40,000	8.7%
10001	Carryover Funds for CCFC staff to attend conference	2,500	0	2,500	100.0%
10003	BCC District 3	459,800	0	40,000	8.7%
10004	BCC District 4	459,800	0	40,000	8.7%
10035	Debt Buy-Down	24,200,000	0	24,200,000	100.0%
25040D	Safe Supervised Visitation in DV Cases	30,000	0	30,000	100.0%
25056A	Mental Health Sub-Acute Facility for Adults (Build-Out)	1,000,000	0	1,000,000	100.0%
25083	ALT: Addictions DUII	394,174	268,845	394,174	100.0%
25114	Bridges to Housing	704,543	0	704,543	100.0%
25136B	Homeless Youth Alternative: Staff Training	108,000	0	108,000	100.0%
25141	Communities of Color: Participatory Research	100,000	0	100,000	100.0%
25144	SUN Service System Coordinating Council Support	53,427	0	53,427	100.0%
40016B	Medicaid Enrollment Outreach & Referral Partnerships	590,434	0	590,434	100.0%
40045A	Reducing Racial & Ethnic Disparities - 2010 Census	25,000	0	25,000	100.0%
50023C	Juvenile Detention Services - 16 Bed Regional Close Custody Unit	610,989	370,898	610,989	100.0%
50055	Juvenile Sex Offender Residential Treatment (SRTP)	437,468	947,660	437,468	100.0%
60038A	Field Based Work Release - Offer A Revised 3 Months	120,840	0	120,840	100.0%
72005	Public Services Pathways	50,000	0	50,000	100.0%
72057A	Facilities Fund Operating Contingency	1,075,000	0	1,075,000	100.0%
72057B	Facilities OTO Repay Capital for Operations Shortfall	560,000	0	560,000	100.0%
72106	Fleet Fund Contingency/Reserves	299,901	0	299,901	100.0%
95001	Revenue Reserve	3,000,000	0	3,000,000	100.0%
95000	Contingency Earmark Set-aside	2,403,660	0	2,403,660	100.0%
91024	Presidential Election 2008	467,150	0	467,150	100.0%
95000/ 60053	Wapato Jail Set-aside (Contingency + Dept Ramp Up)	6,900,000	0	6,900,000	100.0%
	Total One-Time-Only Funds	**$44,512,486**	**$1,587,403**	**$43,253,086**	**97.2%**

Expenditure Changes to Departments

The following is a brief summary of changes to departments. For more detail consult the department sections in Volume Two

Community Justice (DCJ)

Budget Trends	FY 2007 Actual	FY 2008 Current Estimate	FY 2008 Adopted Budget	FY 2009 Adopted Budget	Difference
Staffing FTE	532.21	539.89	534.80	566.26	31.46
Personal Services	$45,574,084	$47,041,725	$48,797,642	$52,431,293	$3,633,651
Contractual Services	15,307,466	16,329,131	16,409,974	18,234,370	1,824,396
Materials & Supplies	13,690,903	14,378,299	14,968,034	13,505,342	(1,462,692)
Capital Outlay	8,795	0	0	0	0
Total Costs	**$74,581,248**	**$77,749,155**	**$80,175,650**	**$84,171,005**	**$3,995,355**

The FY 2009 adopted budget is approximately $84.1 million dollars and includes 566.26 FTE. The General Fund supports $54.1 million. Grants and dedicated revenues account for $30.1 million. The total budget has increased by $4.0 million or 5.0%. The number of full time equivalent positions has increased by 31.46 FTE, 5.9%. The majority of these positions come from the nutrition services program in Juvenile Detention (11.4 FTE). The General Fund has increased by $3.0 million or 5.9%. Most of the increase comes from the addition of the new and significant program changes including 50053 Adult Community Supervision Sanctions Capacity, 50027A Court Appearance Notification System and 50054 Addictions and Public Safety 60053 Wapato Ramp-up and the annual cost of living increases for both county employees and contractors.

Community Services (CS)

Budget Trends	FY 2007 Actual	FY 2008 Current Estimate	FY 2008 Adopted Budget	FY 2009 Adopted Budget	Difference
Staffing FTE	221.67	221.50	221.50	217.50	(4.00)
Personal Services	$17,500,668	$19,113,694	$19,306,762	$19,703,428	396,666
Contractual Services	$26,452,980	$28,368,985	$28,655,540	$28,605,669	(49,871)
Materials & Supplies	$8,980,491	$10,492,955	$10,598,944	$11,163,701	564,757
Capital Outlay	$17,736,559	$22,791,173	$23,021,387	$21,005,666	(2,015,721)
Total Costs	**$70,670,697**	**$80,766,807**	**$81,582,633**	**$80,478,464**	**($1,104,169)**

The Department of Community Services (DCS) is funded by two primary revenue sources – the Road Fund which supports all Transportation related programs and is generated from State Motor

Vehicle funds to the County and County Gas Tax; and the General Fund which supports Land Use Planning, Animal Services, and Elections. Both the Tax Title and the Survey (Land Corner) programs are self sustaining.

DCS' FY 2009 adopted budget is 1% less than its FY 2008 adopted budget, reflecting declining capital construction programs. General Fund reductions were taken in the Elections Division, and the County's Emergency Management program was transferred to the Department of County Management.

County Human Services (DCHS)

Budget Trends	FY 2007 Actual	FY 2008 Current Estimate	FY 2008 Adopted Budget	FY 2009 Adopted Budget	Difference
Staffing FTE	623.68	651.86	631.75	694.05	62.30
Personal Services	$49,631,700	$53,973,219	$52,465,436	$58,580,309	$6,114,873
Contractual Services	158,724,537	112,910,383	160,092,395	115,331,711	(44,760,684)
Materials & Supplies	13,121,179	13,473,440	12,748,955	13,766,386	1,017,431
Capital Outlay	0	0	0	0	0
Total Costs	**$221,477,416**	**$180,357,042**	**$225,306,786**	**$187,678,406**	**($37,628,380)**

The DCHS budget is $187.7 million or $38 million less than FY 2008. The General fund is $46.9 million, $2.1 million more than FY 2008 due to $1 million for the build-out of a Mental Health Sub-Acute Facility (program 25056A). . The Non-General fund is $140.7 million or $39.8 million less than FY 2008 due to a $51 million decrease in State and Federal Funds from the State of Oregon for a change in payment processes in Developmental Disabilities.

The most significant changes were the reduction of Sobering (25091A) to fund it for 6 months and the reduction of Addictions DUII Alternative (25083) to fund it with one-time-only funds for 6 months. Staff will work with the Court to transition the Addictions DUII screening authority back to the Court.

County Management (DCM)

Budget Trends	FY 2007 Actual	FY 2008 Current Estimate	FY 2008 Adopted Budget	FY 2009 Adopted Budget	Difference
Staffing FTE	569.63	573.00	573.00	575.15	2.15
Personal Services	$50,285,753	$53,796,689	$55,460,504	$57,819,654	2,359,150
Contractual Services	$10,123,926	$32,724,430	$33,736,526	$33,037,212	(699,314)
Materials & Supplies	$106,726,673	$131,708,017	$135,781,461	$137,441,240	1,659,779
Capital Outlay	$5,832,597	$52,498,162	$54,121,817	$47,406,811	(6,715,006)
Total Costs	**$172,968,949**	**$270,727,299**	**$279,100,308**	**$275,704,917**	**($3,395,391)**

The Department of County Management (DCM) provides the essential infrastructure that supports all County operations and services. DCM touches every other County department and is responsible for managing key County resources – people, finances, facilities and equipment, and technology – with a county-wide perspective.

DCM's FY 2009 adopted budget is 1.22% lower than its FY 2008 adopted budget, reflecting a reduction in capital construction programs. The department's headcount has increased by 2.15. The County's Emergency Management program was transferred n from the Department of Community Services; and the County's contribution to the Regional Arts & Culture Council was transferred in from Nondepartmental.

District Attorney (DA)

Budget Trends	FY 2007 Actual	FY 2008 Current Estimate	FY 2008 Adopted Budget	FY 2009 Adopted Budget	Difference
Staffing FTE	221.30	222.30	222.30	225.30	3.00
Personal Services	$19,684,697	$21,008,125	$21,088,448	$21,975,694	887,246
Contractual Services	1,122,945	1,337,124	1,262,019	1,535,813	273,794
Materials & Supplies	2,566,430	3,079,025	3,066,935	2,805,974	(260,961)
Capital Outlay	0	0	20,000	25,000	5,000
Total Costs	**$23,374,072**	**$25,424,274**	**$25,437,402**	**$26,342,481**	**$905,079**

The DA's budget for FY 2009 is $26.3 million. The total budget has increased by 3.6%, mostly due to personnel costs. The number of positions has increased by 3.00 FTE to 225.30 FTE. These additional positions are funded by limited duration grants. The District Attorney's FY 2009 budget supports 84.80 Deputy DA positions; this is an increase of 1.00 FTE from the FY 2008 Adopted budget. The most significant changes were the reduction of 2.00 DDA's, 1.00 in the Juvenile Division and 1.00 in Community Courts.

Health Department (HD)

Budget Trends	FY 2007 Actual	FY 2008 Current Estimate	FY 2008 Adopted Budget	FY 2009 Adopted Budget	Difference
Staffing FTE	820.39	850.40	910.96	921.17	10.21
Personal Services	$77,410,110	$85,350,266	$85,350,266	$89,821,528	4,471,262
Contractual Services	15,120,155	$13,991,594	13,991,594	14,905,433	913,839
Materials & Supplies	29,492,041	$32,551,228	32,551,228	33,378,621	827,393
Capital Outlay	194,704	$171,948	171,948	92,000	(79,948)
Total Costs	**$122,217,009**	**$132,065,036**	**$132,065,036**	**$138,197,582**	**$6,132,546**

The Health Department seeks to protect against threats to health, to ensure access to healthcare for Multnomah County residents, and to promote health. The department operates health protection and promotion programs, and is a major healthcare provider for low-income residents by operating an extensive and integrated system of care.

The FY 2009 program offers reflect a reorganization of the School Based Health program that was implemented in FY 2008, resulting in approximately $600,000 savings for FY 2009. Medicaid revenues were increased by $1.5 million in anticipation of increased revenue from formerly uninsured clients becoming enrolled in the Oregon Health Plan. 2.8 FTE Corrections Health Nursing staff positions were added to the jails to increase efficiency and reduce the need for on-call nursing.

Library (LIB)

Budget Trends	FY 2007 Actual	FY 2008 Current Estimate	FY 2008 Adopted Budget	FY 2009 Adopted Budget	Difference
Staffing FTE	453.25	464.75	464.75	477.50	12.75
Personal Services	$31,211,933	$32,493,350	$33,010,653	$34,795,542	1,784,889
Contractual Services	1,109,512	719,124	981,583	1,343,052	361,469
Materials & Supplies	17,011,559	17,674,255	20,875,870	23,348,885	2,473,015
Capital Outlay	115,076	52,798	244,000	689,000	445,000
Total Costs	**$49,448,080**	**$50,939,527**	**$55,112,106**	**$60,176,479**	**$5,064,373**

The FY 2009 adopted budget for the Library maintains the level of service promised in the five-year levy, (approved in the fall of 2006). Included in the operating budget are $3.56 million of OTO for the opening of the two new neighborhood libraries in Kenton and Troutdale. Part year staffing is also included for these new branches. One-time-only funding of $1.37 million is included for program offer 80022 – Protecting Central Library's Collection.

Nondepartmental (Nond)

Budget Trends	FY 2007 Actual	FY 2008 Current Estimate	FY 2008 Adopted Budget	FY 2009 Adopted Budget	Difference
Staffing FTE	72.07	79.10	79.10	82.55	3.45
Personal Services	$7,351,407	$7,986,902	$8,233,920	$9,034,029	800,109
Contractual Services	$43,310,608	$28,194,474	$29,066,468	$31,709,976	2,643,508
Materials & Supplies	$42,444,064	$41,939,894	$43,237,004	$41,764,986	(1,472,018)
Capital Outlay	$403,334	$16,878	$17,400	$363,135	345,735
Total Costs	**$93,509,413**	**$78,138,148**	**$80,554,792**	**$82,872,126**	**$2,317,334**

The Nondepartmental area consists of the Board of County Commissioners and Chair; the Auditor; the County Attorney; the Public Affairs Office; Non-County Agencies; Independent County Organizations; the County's ITAX transfer to school districts; and Accounting Entities. Fund level program offers also are shown here.

Significant changes include $24,200,000 in one-time General Fund resources to pay down debt on the Mead, McCoy, and Donald E. Long buildings; to pay down debt associated with asset preservation work on other County buildings; and to pay off small energy loans from the state. New positions include an Auditor for public safety programs, and a Deputy Chief Operating Officer for Public Safety position in the Chair's Office.

Sheriff's Office (MCSO)

Budget Trends	FY 2007 Actual	FY 2008 Current Estimate	FY 2008 Adopted Budget	FY 2009 Adopted Budget	Difference
Staffing FTE	819.86	802.52	802.52	797.19	(5.33)
Personal Services	$84,197,042	$89,462,324	$90,814,264	$93,658,159	$2,843,895
Contractual Services	1,670,663	1,707,173	2,073,236	1,146,241	(926,995)
Materials & Supplies	18,847,844	18,286,918	18,828,099	19,822,000	993,901
Debt Service	10,962	0	0	0	0
Capital Outlay	107,520	117,916	124,835	253,069	128,234
Total Costs	**$104,834,030**	**$109,574,331**	**$111,840,434**	**$114,879,469**	**$3,039,035**

The Sheriff's Office budget is $115 million. General funds support $98.8 million or 86% of the total budget. The general fund increased by $2.7 million, 2.8%. Most of the increase is due to personnel costs. The Federal/State Fund is primarily composed of State Community Corrections funds, at $9.4 million. The number of jail beds funded is 1,539, a decrease of 94 beds from the FY 2008 budget. 126 of these beds are funded for 7 months, pending the potential opening of the Wapato Facility.

Challenges and Opportunities

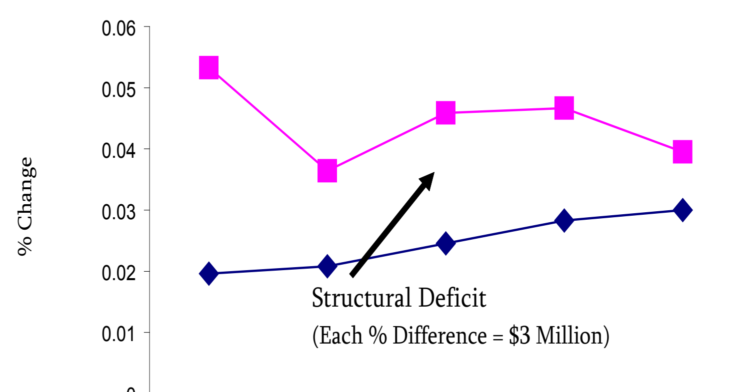
The FY 2009 adopted budget is based on the information available at the time of development. Future decisions regarding new jail operations, bridges, and State funding add some uncertainty to the County's financial future and need to be noted.

Ongoing Structural Deficit

The County continues to experience a growing structural budget deficit. A structural deficit occurs when expenditures grow faster than anticipated revenues. Property tax revenues which represent approximately 63% of our general fund have been limited in Oregon in one form or another since FY 1991. As a result of the most recent limitation (Measure 47 passed in November 1996) taxes on existing properties cannot grow by more than 3% per year. In 1998, Measure 50 established a permanent property tax rate for each local government. In other words, we have a revenue source that accounts for more than half of the General Fund and is limited to a growth rate that, at best, just keeps pace with inflation. Expenditures grow between 4% and 6% each year. Therefore, the ongoing gap related to this dynamic can be as much as 2% or approximately $6 million annually.

Forecast General Fund Growth

Excludes Personal Income Tax



	08-09	09-10	10-11	11-12	12-13
Ongoing Revenue	0.01962885	0.02081175	0.02455239	0.02830712	0.03001492
Estimated Spending	0.05326495	0.03643269	0.04587439	0.04666346	0.0395212

The County has been using excess OTO to bridge the gap. These funds are an unpredictable and potentially unstable source of funding for operating budgets. Rapidly increasing salaries and benefits are one of the factors causing the structural deficit. Since FY 2005, these costs have increased about 28%. Furthermore, the County has added new positions, negotiated salary and benefit increases and budgeted for additional funding to ensure we meet our obligations for retirees and their health care needs.

Labor Contracts

In Multnomah County, labor costs tend to drive overall expenditure growth and that certainly will be true in FY 2009. The County engages in collective bargaining with ten bargaining units, representing nearly 4,000 employees. One labor contract has been referred to arbitration and we do not expect to hear the results back until after this budget is published. As a point of reference, each one percent change in payroll increases costs in the General Fund by more than $1.25 million. In addition to wage inflation, Multnomah County also faces increasing costs for employee pensions and medical/dependent healthcare.

Unbudgeted Cuts

The labor contracts that have been negotiated to date all include wage provisions that set annual increases at the Portland CPI-W for the second half of the year. Inflation picked up steam in the second half of last year. At the national level, the increase for the year ending December 31, 2007 was over 4% - the first time the rate has been so high for over a decade.

The FY 2009 budget requests were based on an estimate that the Portland CPI-W would come in at 3%. The actual rate of increase was 3.8%. Because that figure is set in mid-February departments had already submitted budgets that included the lower CPI estimate. In balancing the Chair's budget, the decision was made to have departments absorb the difference within their programs. The net additional cost is slightly more than $4 million for all funds. The General Fund represents a little less than half, or $1.8 million, of that increase.

Departments will need to manage their spending and monitor position vacancies in order to absorb the increase. Because it is an unbudgeted cost in FY 2009, we will need to factor this additional cost into the planning process for FY 2010.

State of Oregon Budget

The impacts of the State of Oregon's budget decisions are not reflected in the net reductions described above. There may be some further reductions to County programs if state funding does not materialize as budgeted for FY 2009.

Sub-Acute Facility for Mental Health

The proposed Mental Health Sub-Acute Facility is a 16-bed facility offering 600 adults short-term mental health treatment in a secure environment annually. This service provides an intervention and short term stabilization when an individual's symptoms escalate beyond those manageable in an outpatient setting or the person becomes a danger to themselves. Sub-acute care is less expensive than hospitalization or incarceration. Site identification and construction is estimated at two years. Program development, staffing and training will take one year and may be performed concurrently with site development. The adopted budget funds $1 million toward the $1.8 million cost for development of a site. The County will seek the remaining $800,000 from community partners and stakeholders who will also use the facility. Ongoing funding for operating the Sub-Acute Facility is estimated at $2.9 million per year and projected to begin in 2009-2010. This funding will need to be identified.

Employee Compensation

The County strives to offer its employees a wage package that is competitive with our peers in the public and private sector labor markets. Over the last few years, the single biggest challenge facing the County has been the increased cost of health insurance, property and liability insurance, workers compensation and retirement. The most dramatic increases have been seen in our contributions to the Public Employee Retirement System (PERS). In the General Fund, salaries and benefits make up approximately two-thirds of total operating costs, recently negotiated and approved salary and benefit increases have added stress to the overall balancing of the General Fund.

Assuming that cost of living adjustments will follow the change in inflation, departments budgeted a 3.0% increase in wages in program offers. In addition to the cost of living (COLA) and step increases, contractual costs have increased, including employee medical insurance premiums and PERS contributions. Since personnel costs comprise the majority of local government expenses, even small percentage increases have a significant impact on the bottom line. Like most employers, Multnomah County faces rising healthcare costs. Annual increases (e.g., for treatment, hospitalization, and prescriptions) continue to rise at roughly double the rate of core inflation.

Post-Employment Unfunded Liability

The Government Accounting Standards Board (GASB) issues statements that dictate how governments should account for incurred and anticipated costs in their annual financial reports. In 2004, GASB issued Statement 45, which outlines reporting requirements for post-employment benefits other than pensions. GASB 45 dictates that those expenses represent a liability to the County and must be reported as such in the annual financial report. Previously, these costs did not have to be reported, and many jurisdictions will discover that they are not prepared for the impact of this statement.

Multnomah County subsidizes post-employment medical benefits to retirees and their dependents until the time that the employee is eligible for Medicare. The County contributes 1.5% of current payroll costs to support the retiree medical insurance program and the former employees pay half the premium rate that is set for active employees each year. Multnomah County established a reserve in the Risk Fund to account for post-employment medical benefits. That reserve is not sufficient to cover the anticipated liability. The unfunded liability is approximately $130 million and our current reserve is approximately $14 million.

Wapato Operations

Wapato Jail is a 525-bed facility that was completed in FY 2007. There is currently insufficient ongoing funding to fully operate this facility. The adopted budget includes $5.4 million set aside of one-time-only in contingency to operate this facility in some fashion for a portion of the year. There is an additional $0.8 million earmarked in contingency for programmatic and capital start up costs associated with commissioning the facility and ramping up operations. $0.7 million was appropriated to departments to start the building commissioning and staff ramp-up. Proposed in the Budget Notes is a plan to open Wapato in January with 75 jail beds and 50 treatment beds. Operating, legal, labor, and budget details are still being vetted at the time this document was published.

Urban Renewal

The City of Portland, through its economic development agency the Portland Development Commission, operates eleven urban renewal districts. The cities of Gresham and Troutdale also operate one urban renewal district apiece. The concept of urban renewal is familiar. Government agencies issue debt to pay for public improvements designed to spur economic development in blighted areas.

However, because of the property tax limitations established in the state constitution, urban renewal taxes directly compete with other taxing jurisdictions. In Portland, this means that City and County taxes are limited by the amount of outstanding urban renewal debt. Taxes foregone by Multnomah County total more than $18 million annually. However, to be fair, there is a reasonable debate as to how much tax revenue would be available absent the creation of the urban renewal districts. Recently the County has gained a "seat at the table" in discussions about the future of urban renewal in Portland. In the future, we are hopeful that the County's voice will be heard when considering the financial impacts of expanding existing or creating new districts.

PERS

On March 31, 2006, the PERS Board adopted some changes to the way its actuarial valuations will be performed in the future. These changes are considered acceptable under retirement financial guidelines and generally accepted accounting principles. In addition, the PERS board modified how they would smooth interest earnings and the use of reserves.

Over time, these changes should produce significant savings for all PERS covered employers. For FY 2009, however, the County's PERS rates have essentially remained unchanged from the previous year. This is primarily the result of a ruling made by the PERS Board last year which requires employers to pay the same rate on their entire payroll, regardless of eligibility status (Tier 1, Tier 2, or OPSRP). This OTO change compensates for jurisdictions that had unfunded liabilities as a result of the stock market downturn. In future years we believe that the County can expect PERS rate changes to be manageable from one year to the next.

Use of One-Time-Only Funds

While the use of OTO revenue to support ongoing programs is not ideal the OTO revenue allocated to ongoing programs in this budget accounts for a fairly miniscule share of "ongoing" General Fund expenses. Those expenses will be taken into account in planning for the FY 2010 budget to ensure that the structural imbalance described earlier does not worsen.

The use of these OTO revenues provides a short term solution that allows us to continue to fund important programs. Those programs are ones that might otherwise have been eliminated as a result of the ITAX sunset. We have benefited greatly from the economic recovery experienced over the past few years but economic recovery alone cannot offset the loss of 10% of ongoing General Fund revenue. Multnomah County will continue to streamline services, seek innovative solutions to reduce ongoing costs in future years, and explore collaborative funding partnerships with other jurisdictions and non-profits.

City Funding for Jail Beds, District Attorney and Alcohol and Drug Treatment

The City of Portland has reimbursed Multnomah County for some of the cost of 57 jail beds under an inter-governmental agreement (IGA) that has been in place since FY 2006. This budget reflects the fourth year of funding for "Project 57". However, the funding level has been decreased to $450,000 to fund 10 beds in FY 2009. The County however, will be charging the same rate as stipulated in the US Marshal Contract. That rate is $125 per bed day. The City has agreed to use that rate with the understanding the $450,000 would purchase 10 beds, not 57 beds (10 beds x 365 days x $125/bed day = $450,000).

At the same time that the funding was reduced for jail beds, the City increased funding to support services in the District Attorney's Office and alcohol and drug treatment and outpatient treatment and supportive housing in the Department of Community Justice.

Total funding year over year has remained the same; however, the Board of County Commissioners will continue to fund the jail beds not funded by P57.

Property Disposition

In FY 2009, Facilities will continue putting major efforts into projects that align with the adopted Disposition Strategy (2004) and the adopted Strategic Plan (2005). This spring work begins on updating the Strategic Plan specifically aimed at finding solutions for the long-term problems and needs identified in the current Plan. The Capital Budget for FY 2009 and plan for FY 2009-12 has been developed to concentrate spending on facilities the County expects to keep, and to avoid spending on facilities it may be eliminating.

Notable FY 2009 projects include:

- Beginning construction of a new downtown medical clinic and preparing for the relocation of the McCoy Building tenants to the Lincoln Building in anticipation of selling the McCoy Building.
- Completing site acquisition and design and then beginning construction of the new East County Justice Center.
- Preparing the Downtown Courthouse site for development by completing design and beginning construction of a relocated Hawthorne Bridge off ramp and by pursuing required zoning changes.
- Facilities will also be researching solutions for buildings that still have major deferred maintenance and operating issues such as Mead, Animal Services, Walnut Park, Yeon, and Kelly Buildings.

Bridges and Road Funding

Fuel tax collections generate the single largest amount of revenue for the state highway fund. The state highway fund and county gas tax at $0.03 per gallon represent the county's primary revenue source for the care of county roads and bridges. County Transportation will continue to monitor the effect of the recently passed federal energy legislation dealing with the fuel efficiency of light passenger vehicles which requires cars to achieve 35 mpg by the year 2020.

The affects of increased fuel efficiency vehicles remain to be seen in the actual fuel tax revenue receipts coupled with no new revenue increases from the state or county for the transportation program.

Existing transportation revenues are inadequate to address bridge rehabilitation and replacement, maintenance, preservation, and modernization program budgets. The impacts of declining revenues are seen in staffing reductions, redesigning program service delivery, deferring maintenance and delaying capital projects. Although the County has been successful in securing Federal and State funds for bridge capital projects, a $490 million shortfall exists between identified needs and identified funds over the next 20 years.

Bridge Fund repayment of an $8 million loan from the County's General Fund to cover a higher than expected bid impacts the ability to fund other priorities. The new Sauvie Island Bridge is currently under construction. The next priority is rehabilitation or replacement of the Sellwood Bridge; at an estimate of approximately $300 million.

Asset Preservation and the Capital Budget

Beginning in FY 1999, a Capital Improvement Fee was assessed to all County tenants based on space occupied. The fee is intended to pay for the replacement of building systems at the end of their useful life; this is the major ongoing source of revenue for the capital program. For FY 2009, the fee is $2.55 per sq. ft. and is budgeted to collect approximately $2.4 million from Tier I buildings and $3.3 million from Tier II and Tier III buildings.

- Tier I: structures in compliance with all applicable building codes.
- Tier II: buildings not up to current standards and may require substantial capital work but are deemed appropriate for continued investment and long-term retention in the County inventory.
- Tier III: facilities that are uneconomical or impractical for long-term retention, and will be analyzed to determine if they should be disposed. declared surplus and offered for disposition.

This fee is currently set for an 8% annual increase to raise it and bring it in line with the building needs. Facilities has identified a deferred maintenance and seismic liability of approximately $120 million for County buildings in 2004. The County's seismic liability is currently being updated but will not be available in time for the FY 2009 adopted budget. Through the Disposition Plan, Facilities has successfully reduced the deferred maintenance liability by over $14 million. A full solution to deferred maintenance will require new sources of revenue in order to replace or repair important County buildings. Facilities will continue to aggressively manage County building vacancies and move forward with the Disposition Strategy and Long Term Strategic Plan to create a portfolio of well sited, functional, flexible buildings that could be managed with the Asset Preservation and Capital Improvement Fees.

Citizen Sponsored Initiatives and Legislative Referrals

Initiative 40 creates mandatory minimum prison sentences for certain theft, identify theft, forgery, drug and burglary crimes. IP 40 will require 14-36 month minimum sentences. If passed, it would take effect on January 1, 2009. IP 40 is estimated to cost the State between $256 and $400 million per biennium when fully implemented, not including prison construction costs. IP 40 contains no funding for drug and alcohol treatment. Financial support for pre-trial jail costs is included, but it does not indicate how that rate would be determined.

SB 1087 is the proposed legislative referral that would increase sentences for repeat drug and property offenders and require increased drug and alcohol treatment for addicted offenders in prison and the community to reduce the likelihood of future crimes. It is two-thirds enhanced punishment and one-third rehabilitation. The prison bed and treatment components are estimated to cost the State between $140 million per biennium when fully implemented but actual costs may vary.

Passage of either could have a significant impact on state funding that supports courts, district attorney, indigent defense and community corrections as well as state funds supporting other local programs including education, health, mental health, and addictions treatment. Funding reductions on any of these programs will likely have a direct impact on county public safety and/or health and human services programs. The outcome will be unknown until after the November, 2008 election.

Senate Bill 400 passed by the 2007 Oregon legislature, became effective on January 1 2008. It modified the definition of "employment relations" for strike prohibited public sector bargaining units to include certain staffing and safety issues. This means that these subjects, which had previously been considered management rights, are now mandatory subjects of bargaining. Contracts which are effective on or after the effective date, as well as any changes during the term of a contract which would impact safety or staffing as specified in the new law, are now subject to.

Courthouse Construction (Downtown and East County)

On December 14, 2006 the Board passed resolution 06-203 declaring the North Bridgehead Block as the preferred site for the new Courthouse. With the siting decision made, the County is proceeding with plans to relocate the Hawthorne Bridge off-ramp that bisects the property, and addressing the zoning and land use issues which currently encumber the site. In March 2008, the County received $9 million from the Portland Development Commission as part of the final bond sale for the Downtown Waterfront Urban Renewal Area. The County will continue its pursuit of different funding sources for the actual design and construction of the Courthouse.

In February 2007, the Board passed resolution 07-038 which shifted the East County Justice Center concept from planning to an actual Capital Project. County staff has completed acquisition of the primary site and is currently working on several related real estate transactions to complete assembly of the site. An architect and a contractor have been retained and design initiated for this facility. The project should break ground late 2009.

IT Advisory Group and Innovation Fund

County programs are requiring greater demands for information technology solutions to business processes requiring significant capital and ongoing support. This demand has created a number of problems:

- Projects without clear business needs and sponsors.
- No process for prioritizing IT investments for one-time funding or projects that impact more than one department or the County.
- 90% of the IT budget maintains existing applications.
- It is difficult for citizens to access services due to lack of unified IT strategies across departments.

To address these issues, the Information Technology Advisory Board Concept was finalized in November. The goal is to define and implement processes for selecting and managing IT investment projects in the County. More information can be found in program offer 72096A $4 million is included in the FY 2009 adopted budget.

Where to Find Other Information

Comprehensive Annual Financial Report (CAFR) – this reports actual revenues and expenditures for the last completed fiscal year, discusses financial policies, and provides demographic and economic information about the region. The CAFR, required by state statute, is prepared in accordance with GAAP (Generally Accepted Accounting Principles). It reconciles differences between the budgetary basis – as presented in the annual Adopted Budget – and the modified accrual method used for the CAFR.

Tax Supervising and Conservation Commission Annual Report – this discusses the property tax system and taxing levels for all governments in Multnomah County; as well as summarizing budgets and actual revenues and expenditures for all governments in Multnomah County.

County Auditor's Financial Condition Report – this discusses the performance of the County and the region according to guidelines recommended by the International City Managers' Association.

The Progress Board Benchmarks – this site contains data and graphic information about benchmarks obtained through surveys and other analysis.

Citizen Involvement Process – Citizen Budget Advisory Committees
The Citizen Budget Advisory Committees are made up of citizens appointed by the Citizen Involvement Commission. The committees monitor department budgets and operations and identify issues for the Commissioners' consideration. All County departments have a CBAC. Each Committee is provided with time during the Budget worksessions to present its reports. The CBACs are partners with the Commissioners, departments, and the public during the budget cycle.

During the budget development process, citizens and employees are encouraged to submit their questions, thoughts, or suggestions about the budget. This input is compiled and communicated to the elected officials.

Public Testimony & Public Hearings
In addition to participating in the budget advisory committees and other forums described above, citizens have several opportunities to personally testify on the budget. Or written material can be hand delivered, mailed, faxed or submitted via email.

Specifically, citizens have the opportunity to testify at:

- The Tax Supervising and Conservation Commission Hearing – TSCC holds a public hearing on the Budget, and public testimony is taken.
- The Budget Hearing—testimony is taken at the Board session for final adoption of the budget. This is scheduled to occur on June 5, 2008.

Annual Budget Hearings— for FY 2008, the Board, sitting as the Budget Committee, will hold several public hearings after the approval, but before the adoption, of the budget. The public may testify on any topic. Four evening hearings are scheduled for 6:00 – 8:00 p.m. at the following dates and locations:

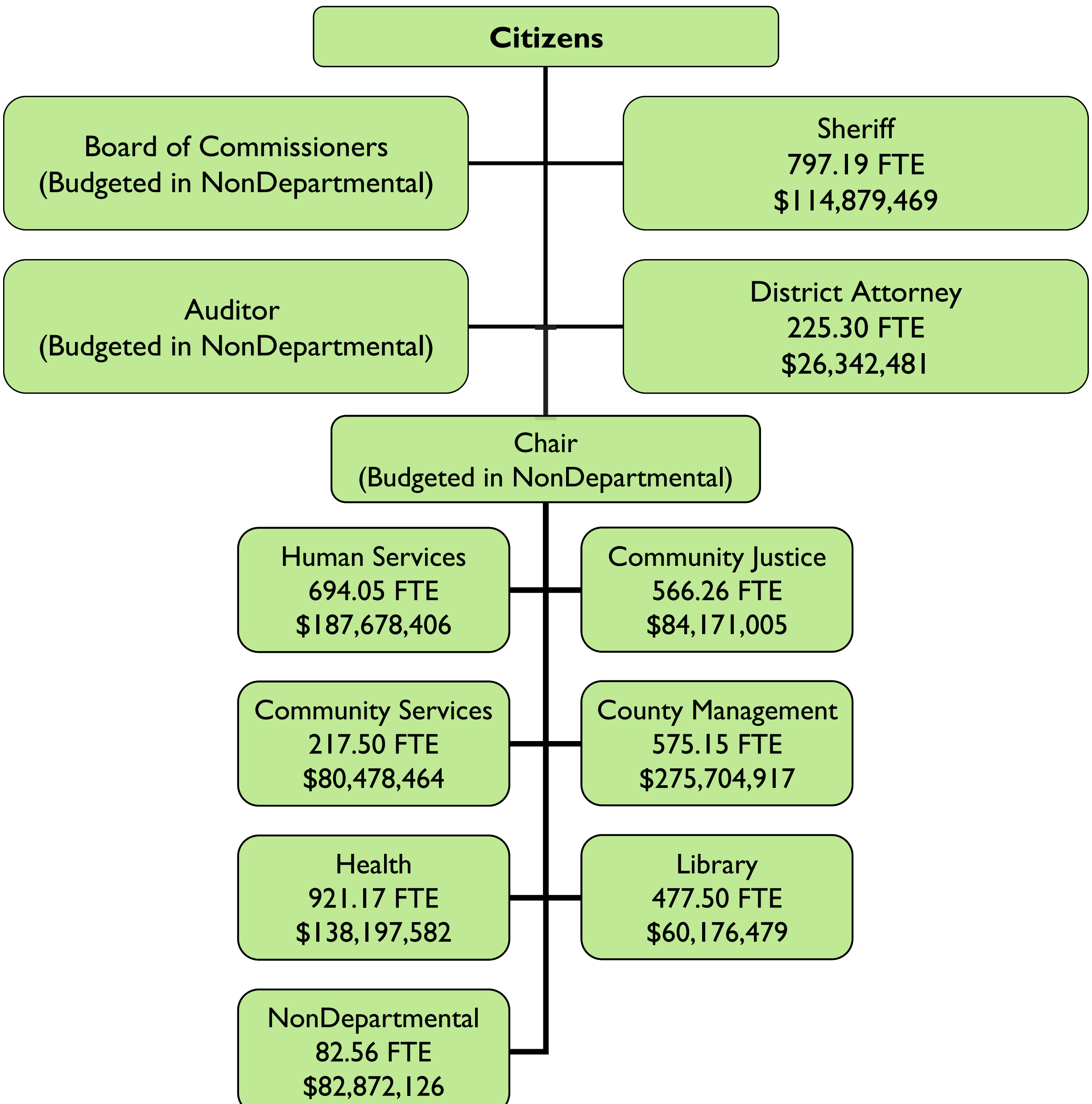
- May 6, 2008 Public Budget Hearing – Multnomah County East Building, Sharron Kelley Conference Room, 600, NE 8th, Gresham.
- May 12, 2008 Public Budget Hearing - (IRCO) Gymnasium, 10301 NE Glisan
- May 13, 2008 Public Budget Hearing – SEI, Inc. Auditorium, 3920 N. Kerby, Portland.
- May 19, 2008 Public Budget Hearing – Multnomah Building, Commissioners Boardroom, 501 SE Hawthorne Boulevard, Portland.

Citizens may also contact the Chair or Commissioner's offices directly to provide input to the budget work-sessions.

Budget Website
Multnomah County offers its citizens and employees the opportunity to participate in the budget process through the County's internet site. From the County's home page, http://www.co.multnomah.or.us/budget, citizens and employees may access a budget site that contains a summary of the FY 2009 Budget and links to frequently asked questions (FAQs); budget summaries; a timeline of events; live and archived video streaming of budget work sessions; and other information, input opportunities and employee resources.

Multnomah County Organization Chart

Multnomah County delivers its services through nine departments including the following elected officials: Bernie Giusto, Sheriff; Michael Schrunk, District Attorney; and LaVonne Griffin-Valade, County Auditor. There are 4,556.68 full time equivalent (FTE) positions in this budget. Department spending, including internal services which are double-counted, totals just over $1.0 billion in the adopted budget. Below is an organization chart for the County:



Appreciation

This document is the outcome of many hours of hard work and analysis by the requesting agencies and their budget teams. I would like to take this opportunity to thank the many people involved in its preparation. Particularly, I want to thank the department budget teams and recognize with sincere appreciation the assistance and cooperation of our department heads, constitutional officers, and staff for many hours of hard work and assistance to this budget. I specifically want to recognize the Central Budget Team: Mark Campbell, Ching Hay, Julie Neburka, Mike Jaspin, Christian Elkin, Angela Burdine, Liang Wu, Sarah Durant and especially Rodney Gibbs who is the glue that keeps the office running smoothly.

I look forward to working with the Board over the coming weeks to review this budget in preparation for adoption of the FY 2009 budget.

Karyne Dargan

Karyne Dargan
Multnomah County Budget Director

Tax Information

Property tax administration, governed by the Oregon Constitution, State tax laws, and regulations of the Department of Revenue, includes the assessment, equalization, levy, and collection of taxes. A tax limitation measure ("Measure 50") affecting property tax collections was approved by the voters in the May 1997 special election. This legislation changed the property tax administration system substantially, with changes to levy rates, assessments and equalization. For information regarding the history of tax revenues and property tax limitations please see the Financial Policies.

Permanent Tax Rate

Each local taxing district which imposed operating ad valorem taxes in FY 1998 received a permanent tax rate. The rate was calculated by dividing the total operating ad valorem taxes imposed by the County in FY 1998 (reduced by an average of approximately 17% statewide) by the property's AV. Measure 50 prohibits increases in permanent tax rates. Permanent tax rates are subject to the Measure 5 limitations. The County's permanent tax rate is $4.3434 per $1,000 Assessed Value.

Exemptions

Measure 50 exempted from its limitations taxes levied to pay voter-approved general obligation bonds. Levies to pay general obligation bonds are also exempt from the Measure 5 limitations. See "General Obligation Bonded Indebtedness" below.

Measure 50 also exempted the following levies, which are subject to Measure 5 limitations:

1. Levies to pay bonds and other borrowings, if they were made before December 5, 1996, and were secured by a pledge or explicit commitment of ad valorem property taxes or a covenant to levy or collect ad valorem property taxes.
2. Certain local government pension levies.

The County has no levies of the types described in paragraphs 1 and 2, above.

Local Property Tax Option

Local governments are able to override Measure 50 for limited-term local option levies subject to voter approval under the participation requirements discussed below. Local option levies may last up to five years for any purpose or ten years for capital projects.

Local option levies are subject to "special compression" under Measure 5. If operating taxes for non-school purposes exceed Measure 5's $10/$1,000 limit, local option levies are reduced first to bring operating taxes into compliance with this limit. This means that local option levies can be entirely displaced by future approval of permanent rate levies for new governments, or by urban renewal and the City of Portland's pension levy.

Measure 50, which passed in 1997, requires that local option levies be approved by a majority of the voters at a general election in an even-numbered year or at any other election in which not less than 50% of the registered voters cast a ballot. For example, voters approved an extension of the Library Levy in the May, 2002 election but less than 50% of the registered voters cast a ballot. Therefore, the Library Levy failed. Subsequently the County resubmitted the Library Local Option to voters in November 2002 and the measure passed.

Voter Participation

In order to be exempt from the cap provisions of Measure 50, general obligation bonds other than refunding bonds must be approved by a majority of the voters voting on the question either: (i) at a general election in an even numbered year, or (ii) at any other election in which not less than fifty percent (50%) of the registered voters eligible to vote on the question cast a ballot.

General Obligation Bonded Indebtedness

Levies to pay the following general obligation bonds are exempt from the limitations of Measure 50 and Measure 5:

1. General obligation bonds authorized by a provision of the Oregon Constitution;
2. General obligation bonds issued on/before November 6, 1990; or
3. General obligation bonds incurred for capital construction or capital improvements; and
   a) if issued after November 6, 1990, and approved prior to December 5, 1996, by a majority of voters; or
   b) if approved after December 5, 1996, in accordance with Measure 50's voter participation requirements, or bonds issued to refund the preceding bonds.

Tax Collection

The County Tax Collector extends authorized levies, computes tax rates, bills and collects all taxes, and makes periodic remittances of collections to levying units. Tax collectors are charged with calculating public school and local government taxes separately, calculating any tax rate reductions to comply with tax limitation law, and developing percentage distribution schedules. The tax collector then reports to each taxing district within five days the amount of taxes imposed.

Tax collections are now segregated into two pools, one for public schools and one for local governments, and each taxing body shares in its pool on the basis of its tax rate (adjusted to tax limitation rate caps), regardless of the actual collection experience within each taxing body. Therefore, in effect, the amount for each taxing body becomes a pro rata share of the total tax collection record of all taxing bodies within the County. Thus, an overall collection rate of 90% of the county-wide levy indicates a 90 percent tax levy collection for each taxing body.

Taxes are levied and become a lien on July 1 and tax payments are due November 15 of the same calendar year. Under the partial payment schedule the first third of taxes are due November 15, the second third on February 15 and the remaining third on May 15. If property taxes are paid in full by November 15, a 3% discount is allowed; if two-thirds of property taxes are paid by November 15, a 2% discount is allowed. For late payments interest accrues at a rate of 1.33% per month. Property is subject to foreclosure proceedings four years after the tax due date.

A Senior Citizen Property Tax Deferral Program allows homeowners to defer taxes until death or the sale of the home. Qualifications include a minimum age of 62 and household income under $24,500 for claims filed between January 1 and December 31, 2000 and $27,500 for claims filed after January 1, 2001. Taxes are paid by the State, which obtains a lien on the property and accrues interest at 6%..

The property tax computation can be found in the Financial Summaries section on page 7.

FY 2009 Budget Notes

The following budget notes were adopted by the Board of County Commissioners on June 5, 2008. Board discussion and deliberation is an integral part of the County budget process. Budget Notes document policy discussions and decisions made by the Board of County Commissioners during budget deliberations, and provide direction to departments in achieving the Board's policy goals during the fiscal year.

SCAAP Grant

The Sheriff's Office applies for the State Criminal Alien Assistance Program (SCAAP) each year through the Bureau of Justice Administration (BJA). Typically the Sheriff's Office does not receive notice of award or grant amount until at least the 3rd quarter of the fiscal year. Historically, award amounts have ranged from $250,000 - $700,000, with an average of about $450,000. Uses of the funds are restricted to Corrections activities and the BJA provides criteria defining appropriate use. In past years, due to the uncertainty of the grant, we have not budgeted for this potential revenue. However, by not estimating the potential grant revenue during budget adoption, when an award is made Oregon Budget Law requires a supplemental budget to appropriate the funds.

By earmarking the potential grant award in contingency, the funds can be appropriated by a simple budget modification. The Sheriff's Office has requested the earmark of $500,000 for FY 2009.

Flash Money

The County understands that, on occasion, the use of large sums of money known as "flash money" is a necessary element to the successful investigation of drug, property, and other types of crimes by the Sheriff's Office. In order to further an investigation, the use of flash money is an important tool to the infiltration of the criminal enterprise and in gaining the acceptance and confidence of an alleged criminal. The County also understands that there is a risk of loss when flash money is used during these types of investigations. The County acknowledges the sum of $100,000 as an acceptable risk when using flash money in a criminal investigation.

Wapato

Prior to any request to appropriate funds for Wapato operations, the Board desires a detailed policy briefing reporting on the data, analysis and resolution of the following issues:

- SB 400 implementation impact and risk
- Long term financial sustainability
- IP 40/SB 1087 outcome planning; active state partnership
- Evaluation of the proposal with recommendations by professionals outside of the County
- Jail - clarification staffing levels at the jails
- Treatment – discussion of the programs relationship to community and other partners and different populations
- Treatment – comparison of this program to River Rock and Interchange; and an analysis of the expected outcomes
- Treatment – comparison of costs for providing the program in-house vs. contracting out services
- Treatment – discussion of the screening criteria
- Treatment – why is alcohol and drug treatment not operated by the Department of County Human Services (DCHS)?
- Treatment – discussion of the program design and evidence based results
- Treatment – more information on EMS response time

Wapato Decision Making Process

1. Approve the budget amendment addressing the start up costs incurred by Facilities, DCJ, Corrections Health, and MCSO between July 1 and December 31, 2008. (This amendment draws approximately $766,186 on the $6.9 million reserved in contingency for Wapato operations in FY 2009)
2. Schedule briefing sessions in mid-June with the current Board on options for a public safety levy for November, 2008.
3. Schedule briefing sessions with new and prospective Board members on options for a public safety services levy for November, 2008, and to explain the Wapato proposal.
4. Schedule another briefing session with the current Board (with prospective Board members invited) to review the more detailed plans for the operations of Wapato.
5. Make a final decision on the operation of Wapato by August, 2008.

Pretrial Continuum, Sobering and Detox Programs, Mental Health Crisis Triage and Sub-Acute Capital and Jail Reentry Plan

This additional $2.4 million placed in contingency can be allocated as needed amongst any of the following issues:

A. Changes to **the Pretrial System.** The Deputy Chief Operating Officer is working with the current CJAC pre-trial work group in developing a proposal for a cost efficient, data driven pretrial data collection and release decision framework. The recommendations will address the best long term structure for providing pretrial services in the County. The goals of the project are:

1. Streamlined data gathering system; create one system, used by all criminal justice staff to gather relevant information for evaluation, classification, and potential release of inmates.
2. Uniform release criteria, validated to increase likelihood of no additional criminal behavior and appearance for legal proceedings.
3. Appropriate levels of supervision to govern releases, based on dangerousness to community and likelihood of court appearance.
4. Overall most efficient use of system resources by providing a single, prompt comprehensive review that results in timely release decision and appropriate level of supervision. Maintain a single list of most likely to be released. Have list available as needed, subject to jail override based on conduct in jail and/or changes in charges by the DA.

B. Stable funding for the **Sobering and Detox Programs**. The Chair has sponsored discussions with various community partnerships around stable, increased funding for the sobering and detox programs offered by Central City Concern. Those discussions have produced some positive developments, but are not complete. To insure continuity for FY09, the Chair may need to request some additional funding.

C. A **Mental Health Crisis Triage Center/Sub-Acute Facility** would supply much-needed 24/7 psychiatric support for mentally ill persons, diverting them from the far more costly options of incarceration or hospital admission. Sub-acute service ensures that individuals who might otherwise be hospitalized will have the opportunity to stabilize and return to their community. The Board directs the Department of County Human Services (DCHS) to bring forward a plan for operating the Sub-Acute Facility for Mental Health to the Board by September 1st.

This budget note will allow consideration of additional one time only expenditures if needed to move forward on construction of the Sub-

Acute Facility for Mental Health in the event the County is not able to find the cooperation and full commitment necessary from the City, the State and/or partner agencies.

D. **Jail Reentry Plan:** This budget note earmarks an additional expenditure of up to $500,000 in contingency for the Multnomah County Second Chance Project: Successful Reentry from Jail to Community. The funds would be released following Board adoption of a "Plan for The Multnomah County Second Chance Project: Successful Reentry from Jail to Community".

To prepare the Plan for The Multnomah County Second Chance Project: Successful Reentry from Jail to Community we must establish a work group to:

- Prepare an inventory of current services for jail reentry; this would include services in the Department of Community Justice for reentry from prison, jail discharge planning, transition services, Project 57, and others;
- Design The Multnomah County Second Chance Project including housing, employment, health and mental health care, reunification with families, drug and alcohol treatment, recovery support, parenting classes for incarcerated parents, domestic violence prevention services;
- Identify staff functions that would seek to "span" the boundary between the jail and community providers and to determine the necessary training and/or qualifications for this work. For example, staff could be located in the jails to facilitate jail staff training and to work with the inmates on their individual reentry plans while they are incarcerated – plans would include linking inmates to housing and service providers. Also, staff could be located in the community to advocate for increased employment and other reentry services by working with service providers, employers, faith-based groups and others.

Sheriff's Office Authorization for Over-Staffing Deputies

The recruitment, hiring and training of Law Enforcement Deputies and Corrections Deputies (Deputy) is a competitive and resource intensive process. Before a Sheriff's Deputy can become a self-sufficient employee, six months to a year of recruitment, hiring, and training must occur. The Sheriff's Office wants to keep Deputy vacancies, as well as other post-driven classification vacancies to a minimum. Over the next five years, approximately 17% of the Deputy work force will be eligible for retirement. Historically, the Sheriff's Office has averaged a 7% annual attrition rate in the Deputy job classifications. It is important to minimize the amount of time a position is vacant and careful management of vacancies by anticipating attrition events will result in both a positive impact on the employee's well-being and contribute to the reduction of the agency's dependence upon overtime.

This budget note authorizes the Sheriff's Office to overfill budgeted Deputy positions by 10.00 FTE. It is expected that this strategy will provide the needed flexibility to keep vacancies filled yet remain within budgeted appropriation.

Courthouse Entitlements

The current zoning for the North Hawthorne Bridgehead Block, the preferred site for a new Multnomah County Courthouse, limits the height of development and precludes the construction of a building of sufficient size to meet the needs of the new courthouse.

The process for obtaining the required zoning for the new courthouse is a significant step in the process. It is important that the work to obtain the zoning begin immediately to insure that the site is ready once construction funding is identified.

This budget note authorizes the Facilities Division to engage outside legal counsel, if necessary, specializing in land use matters, to assist in land use entitlements for the North Hawthorne Bridgehead for a County Courthouse and implement Resolution 08-076. All work will be done in partnership with the County Attorney's Office. Facilities has $100,000 budgeted in FY 2009 within the Courthouse project to assist with obtaining the necessary zoning requirements.

Courthouse 2010 Project Manager

In order to continue the momentum the Courthouse Project has experienced over the past several years, $50,000 is earmarked in the Facilities Fund Contingency to provide for a part-time Courthouse Project Manager dedicated to developing a financing plan for the Courthouse Project. The position would commence January 1, 2009.