Financial Condition:

Increasing internal service costs and aging assets may challenge County in uncertain, post-COVID-19 economic future

May 2020

A Report by the County Internal Auditor

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Foreword

The World Health Organization declared the novel coronavirus, COVID-19, a ‘pandemic’ on March 11, 2020. Days before, Oregon’s first identified COVID-19 case involved exposure in Clackamas County. As a result, the Clackamas County Board of County Commissioners made an emergency declaration on March 2, 2020. On March 23, 2020, Oregon Governor Brown issued Executive Order 20-12, ordering Oregonians to stay at home, closing specified retail businesses, requiring social distancing measures, and imposing other requirements. On March 29, 2020, the federal government issued to Oregon a major disaster declaration.

Socially and economically the impacts have been devastating and far-reaching. As of May 8, 2020[1]:

- Globally, 3.8 billion people have been infected with COVID-19 with over 250,000 deaths.
- In the U.S., there are over 1.2 billion confirmed cases with nearly 75,000 deaths.
- In Oregon, nearly 3,000 cases have been confirmed with 121 deaths.
- Clackamas County has a total of 241 confirmed cases and 8 deaths.
- The national unemployment rate has risen from 3.5% in February 2020 to 14.7% in April 2020.
- The Oregon Employment Department has received 381,800 unemployment claims since mid-March 2020.
- Clackamas County residents have filed over 24,000 unemployment claims since March 15, 2020.

The long-term economic impacts of this unprecedented national event remain unseen. Clackamas County’s financial sustainability and stability will need to be monitored closely, as data and impacts are recognized. Recent operational efforts to enhance the County’s financial reporting frequency will be significant in the County’s continued ability to be strategic and responsive. Frequently reassessing the County’s financial health indicators (liquidity, debt ratio, fund ratio, net position, and revenue overages/shortfalls) is strongly recommended.

In alignment with the County’s 2020-2021 budget strategy currently underway, this financial condition analysis and report have been completed and presented according to the pre-pandemic design and substantial effort. The report presents the June 30, 2019 financial condition of the County as supported by the most recently audited Comprehensive Annual Financial Report. The long-term pandemic impacts are unknown and have not been taken into consideration. The presentation of historical data has been expanded to include Great Recession data points, 2007 through 2009, in addition to the ten year analysis period of 2010 to 2019. While the Great Recession was a result of a leading period of economic decline and the current economic crisis has occurred extremely quickly during a period of strong economic growth, awareness of its impacts and the recovery period associated with the recession may inform County strategy in the coming months and years. Whether similar revenue decline and recovery trends will occur is unknown. The long-term impacts on property tax, federal and state funding, and other sources of revenue are undetermined.

This evaluation of the County’s pre-pandemic financial health will provide a baseline for future analysis of COVID-19 impacts and will inform continuing evaluations of the County’s five strategic priorities and its 12 goals. New considerations may emerge, which result in goal adjustments, as the County’s social and economic landscapes react to this worldwide event.

[1] Clackamas County Emergency Operations Center Situation Status Report #57, 5/8/2020

Executive Summary

The County's financial health is stable. The County has a balanced budget and the County's debt, liquidity, fund balance, and credit ratings are strong. Revenues continue to trend upward, but are being outpaced by an upward trend in expenses. The County needs to monitor its increasing internal service costs and unmet infrastructure needs.

	Indicator	Change from FY2017	10-year Trend	Interpretation
Financial Health	Liquidity: Cash resources to meet immediate needs	↑	↑ Above standard since 2007	OK
	Debt Ratio: Compares total debt to total assets	↑	↑ Above standard since 2007	OK
	Fund Balance Ratio: Reserves for adequate cash flow and capacity to withstand financial emergencies	↑	↑ Above standard since 2010	OK
	Capital Assets Aging: Maintenance and repair of County's buildings, roads, bridges, machinery, and equipment	↓	↓	Alert
	Net Position: What we own versus what we owe	↓	↓	Alert
Revenues	Revenue per County resident	↓	↑	Alert
	Property taxes collected per County resident	↑	↑	OK
	Percentage of General Fund Intergovernmental Revenues: County general fund dollars received from state and federal government	↑	↓	OK
Expenditures	Expenses per County resident	↓	↑	Alert
	County employees per 1,000 County residents	↑	↑	OK
	Internal service expenses	↑	↑	Alert
Debt	Percentage of spending on debt: County dollars spent on principal and interest	↓	↓	OK
	Credit Ratings: Independent assessment of County's debt health	↑	↑	OK
	Outstanding debt per County resident	↑	↑	Alert
Demographics	Per capita income	↑	↑	OK
	Poverty	↓	↓	OK
	Residents without health insurance	↑	↓	OK
	Unemployment	↓	↓	OK

Background

What is financial condition?

This report provides residents and public officials information on Clackamas County's financial health. The report uses information, primarily from the County's audited Comprehensive Annual Financial Report (CAFR) and identifies favorable and unfavorable trends at a high level. Monitoring County finances over time enables public officials and residents to assess the County's financial condition and fiscal sustainability, and to identify problem areas that may need attention.

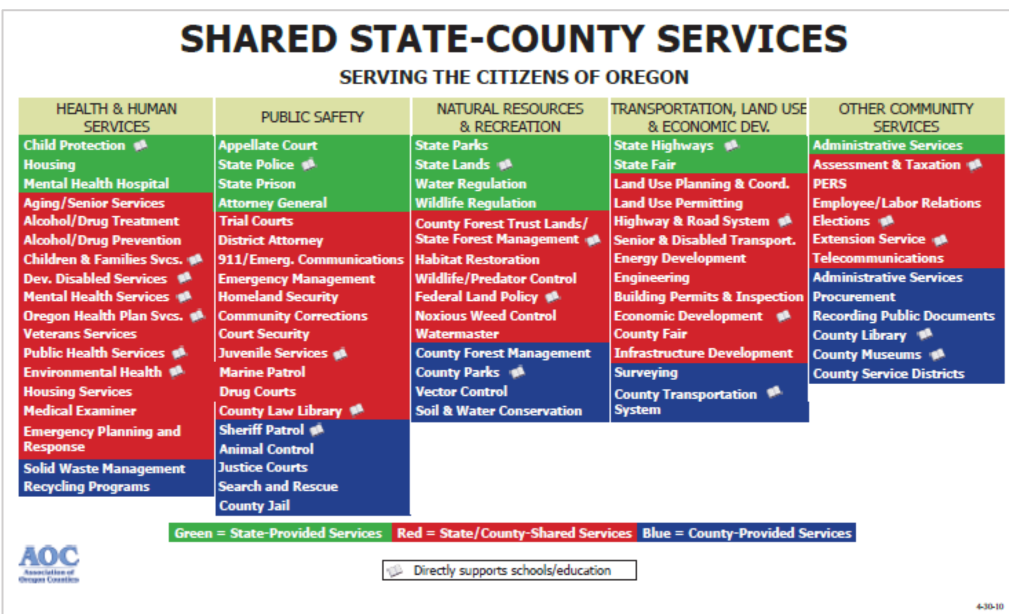
A financially sustainable County can meet its obligations and provide services on an ongoing basis. It can address effects of fiscal interdependency between governments, withstand economic disruptions, and respond to changes in the environment. A financially stable County collects enough revenue to pay its short and long-term bills and finance major needs without shifting disproportionate costs to future generations.

Clackamas County profile

Clackamas County was established on July 5, 1843. It is governed by an elected Board of Commissioners. The County encompasses 1,883 square miles and is "urban, suburban, rural, and wild."[2]

County services

The County provides direct services to both urban and rural residents of Clackamas County. Some of these services are supported with local taxes. Others rely in part on state and federal revenue. The Association of Oregon Counties[3] identified major services provided by the state, counties and by both entities.



[2] Clackamas County internet home page
[3] http://oregoncounties.org/news/publications/shared-services/

Revenues and Expenses

Why are revenues and expenses important?

Revenues are necessary for government to provide services to residents. Diverse sources of revenues can help the County weather a downturn in the economy. Expenses are government's cost of providing public services, not just what the government spent (expenditures) during the year. Some common expenses are salaries and wages, pension obligations, and asset depreciation. The County can have a balanced budget each year on its anticipated resources and budget expenditures, but actual revenues may not equal or exceed the total costs of services provided.

Both revenues and expenses have grown; Savings gap is shrinking

Revenues increased over 32% from fiscal year 2010 (FY10) to FY19 (adjusted for inflation). The change is the result of a continuing, steady economic recovery after the Great Recession of December 2007 to June 2009.

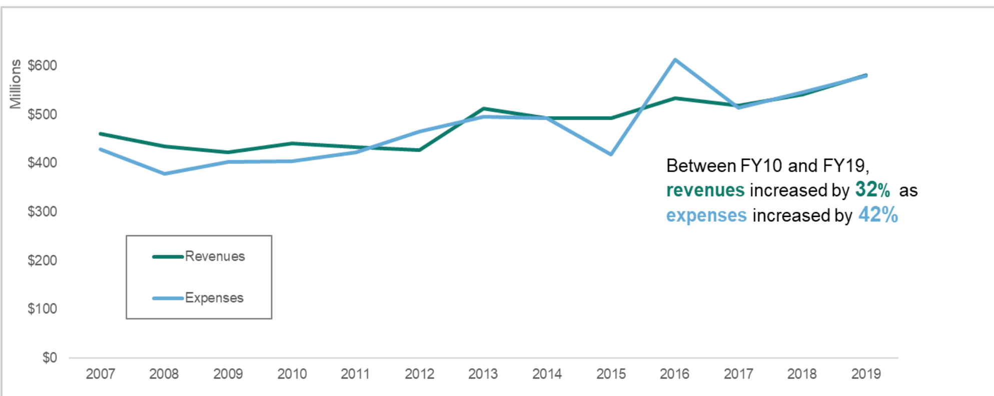


Figure 1 Revenues versus expenses (in millions, adjusted for inflation)

Expenses increased by 42% from FY10 to FY19 (adjusted). The change in expenses is the result of the County's response to the impact of the changes in revenues[4]. The significant expense increase in FY16 is mainly attributed to implemented GASB standards that require the accrual of pension items and the result of the Oregon Supreme Court decision in Moro v. the State of Oregon (issued April 30, 2015) addressing cost of living adjustments. The impact of these reporting changes are illustrated in *Figure 23.*

The County experienced consecutive fiscal overages, periods when revenues were greater than expenses, FY07 through FY11. During FY12, FY16 and FY18 the County

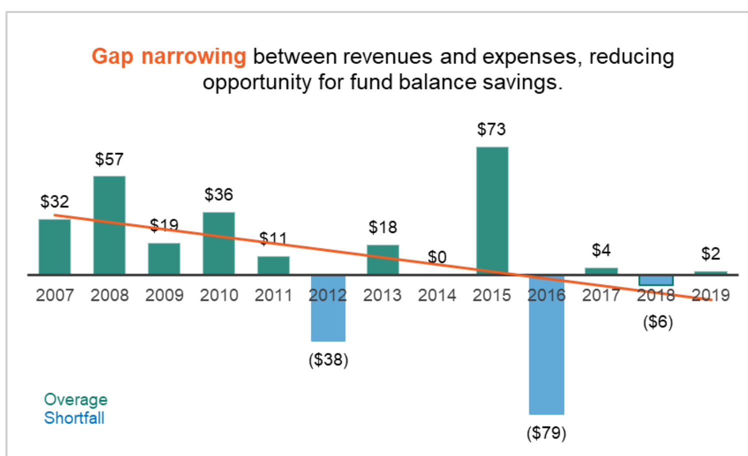


Figure 2 Revenue Overages and Shortfalls (in millions, adjusted)

[4] Does not include Workforce Investment Council of Clackamas County (WICCO) revenue and expenses

experienced shortfalls, periods when expenses were greater than revenues. Overages have slowly decreased in size and frequency as the gap between revenues and expenses narrows *(Figure 2).*

Where does the money come from?

Diverse sources of revenues can help the County weather a downturn in the economy. Combined, grants and contributions and property taxes accounted for 72% of County revenues sources in 2019. In addition to these two largest revenue sources, the County

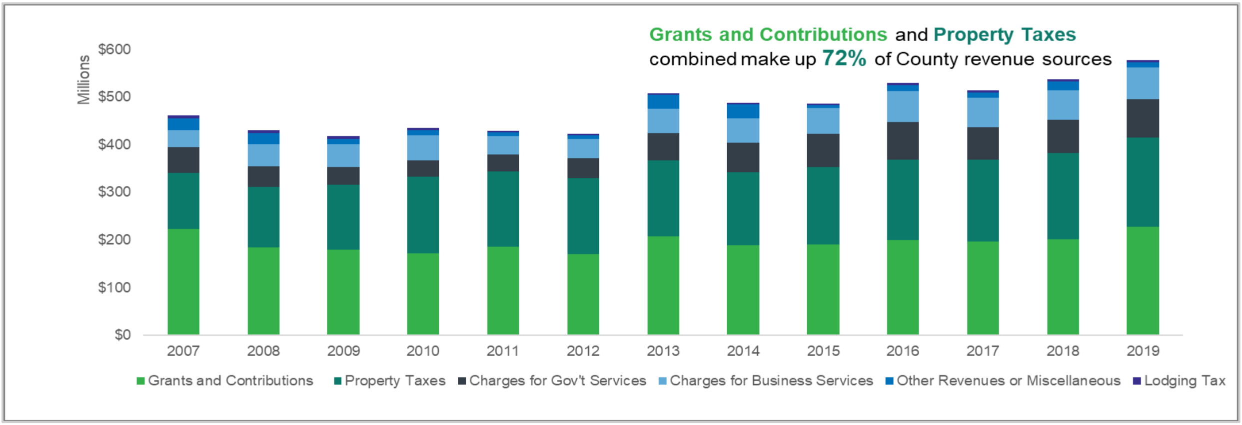


Figure 3 Revenues by source (in millions, adjusted for inflation)

receives revenues from charges for government services, charges for business services, lodging tax, and other miscellaneous sources. County revenue sources appear to meet the diversification threshold. With the exception of "other or miscellaneous" revenues, revenues have generally increased in every category in recent years *(Figure 3).*

Grants and contributions are the largest revenue source for the County

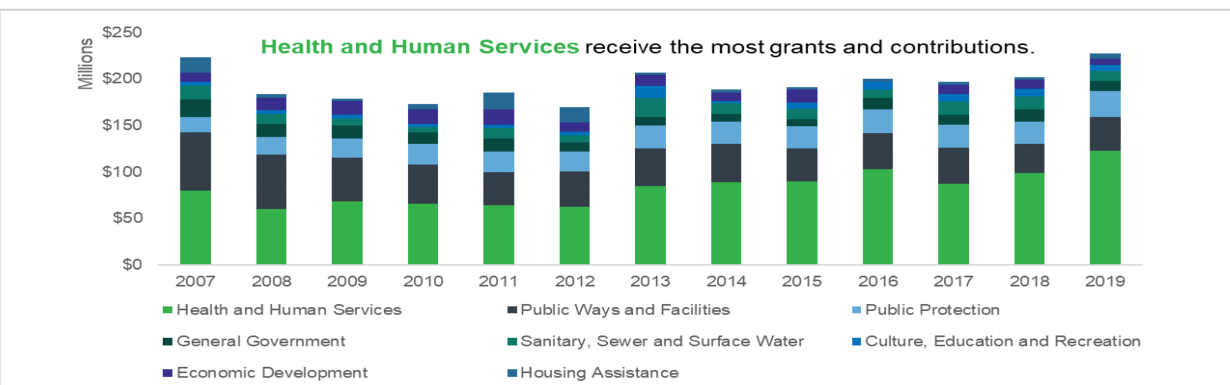


Figure 4 Grants and contributions (in millions, adjusted for inflation)

Grants and contributions are the largest revenue source for the County *(Figure 4)*. These revenues are from federal, state, as well as federal funding passing through the state to the County, and local funding sources. Many programs are supported by these revenues. Health and Human Services, Public Ways and Facilities, and Public Protection receive the most grants and contributions. General Government; Sanitary, Sewer, and Surface Water; Culture, Education, and Recreation; Economic Development;

and Housing Assistance programs also receive revenue through grants and contributions.

The overall percentage of grants and contributions received by the County has remained stable or decreased for most programs. Increases in Health and Human Services grants and contributions represent the majority of the overall County increase in these revenues *(Figure 5)*.

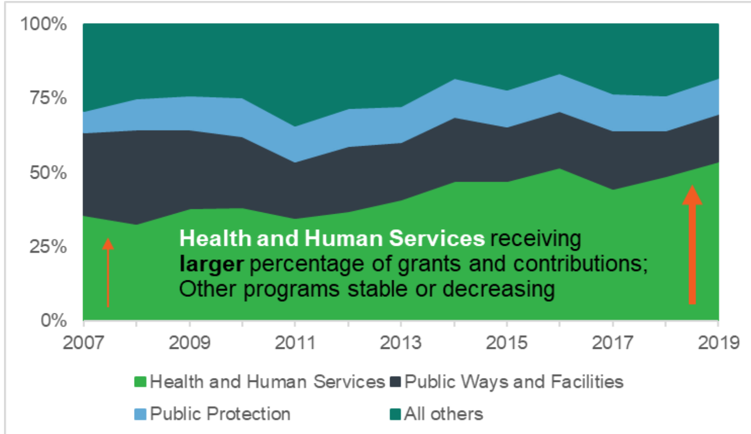


Figure 5 Percentage of Expenses by Source (adjusted)

The County's General Government reliance on grants and contributions, as represented by general fund intergovernmental revenues, has steadily decreased, with a slight increase in recent years from a low 4% of total general fund revenues (*Figure 6*).

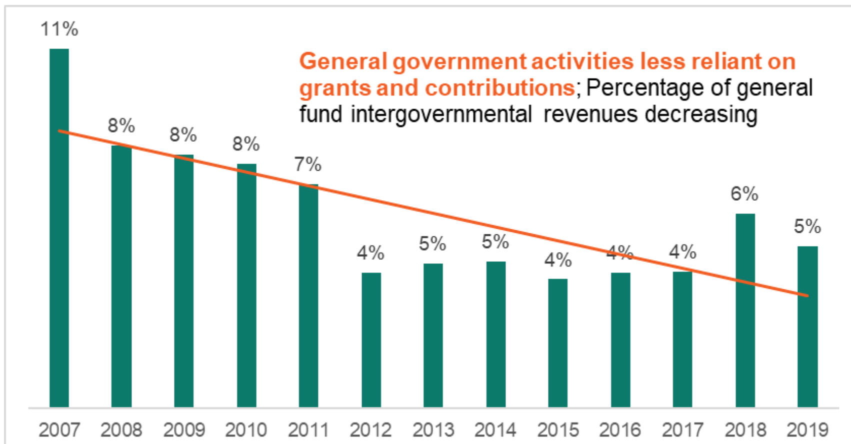


Figure 6 General Fund Intergovernmental Revenues - Percent of Total GF Revenue

Property taxes have grown an annual average of 5% in the last 10 years

Property tax revenue primarily supports general government programs, as well as library services. Excluding property tax revenue for other reasons (e.g. component units and service districts), the County received almost $187 million in County property taxes in fiscal year 2019 (FY19). In the last 10 years, the County has received almost $1.54 billion in County related property taxes, with an average increase of 5% per year (unadjusted). Since 2010, approximately 70% of County property taxes were for general County purposes *(Figure 7)*.

These property tax revenue proportions have been relatively stable. The only significant shift, when comparing property tax revenue today as compared to the past, is related to library services and the redevelopment district. Due to new library service levies, library revenues have increased, while the closing of urban renewal areas caused redevelopment district funds to dwindle. In FY07, for each dollar of property tax revenue received, less than 1 cent was for library services and ~10 cents was for the redevelopment district. In FY19, 10 cents was to fund library services, while 2 cents was for the redevelopment district.

Figure 7 Programs funded with property tax revenue (Averaged FY10 to FY19, unadjusted)

Adjusting for inflation and considering population increases, property taxes collected per person have grown 3% each year, from $311 per person to $434 per person *(Figure 8).*

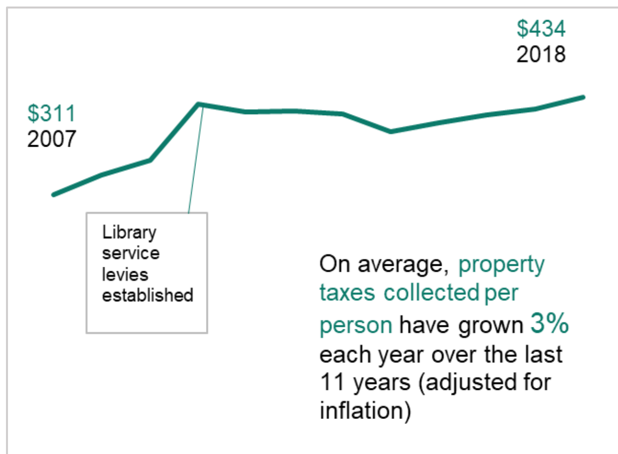


Figure 8 Property taxes collected per person (adjusted)

Fees, fines and charges for services are the third largest revenue source

Fees, fines and charges for services can be broken down into two categories: Government and business type activities. Each category accounts for roughly fifty percent of this revenue source *(Figure 9)*. This relationship was impacted slightly during the Great Recession, 2007 to 2009.

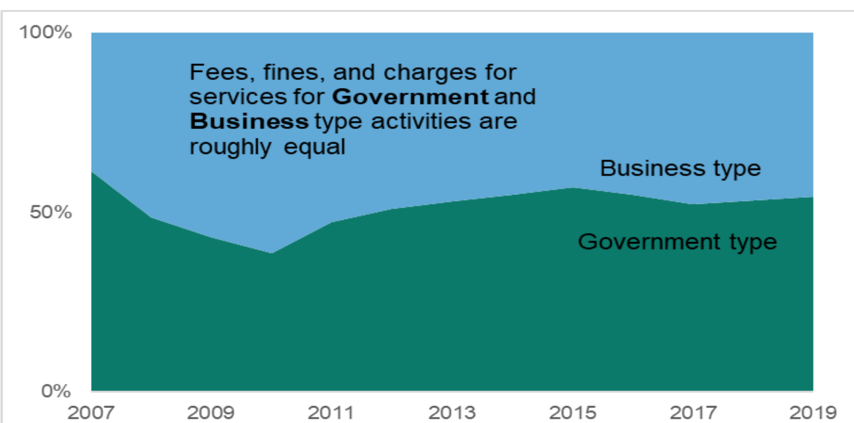


Figure 9 Government and business fees, fines and charges percentages of total (adjusted)

Government type activities generally occur when no “exchange” relationship between resources provided and services received exists. For example, most individual property taxes do not pay for a specific service, even though individual taxes or portions of taxes are sometimes dedicated to particular activities. The matching relationship that normally exists between resources and services received is a timing relationship (both occurring during the fiscal year) rather than an exchange relationship that may occur in the same day as money is exchanged for services or goods received. Health and Human Services is the largest source of revenue for government type activities *(Figure 10).*

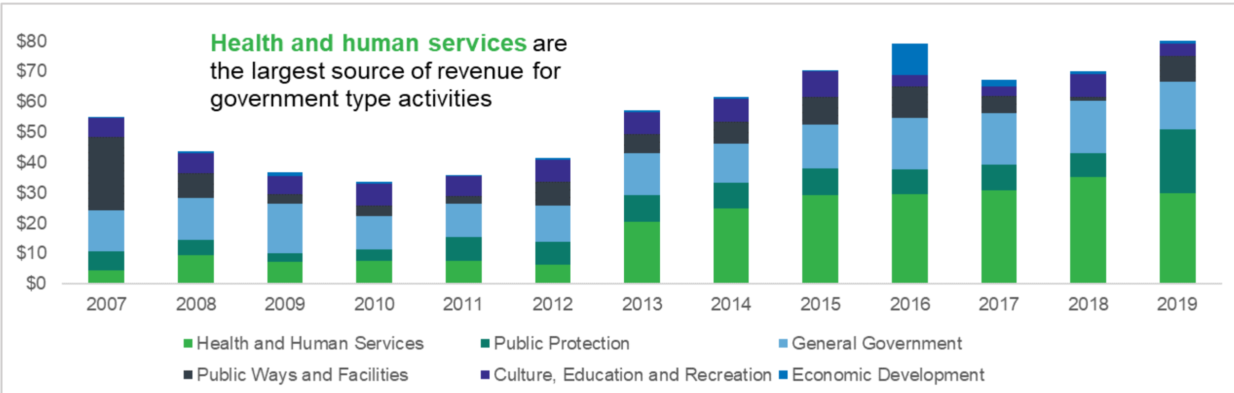


Figure 10 Government fees, fines and charges for services (in millions, adjusted for inflation)

As a percentage of total revenue collected for government type activities, fees, fines and charges for health and human services and public protection services are increasing, while revenues collected by other programs are decreasing slightly.

Business type activities are generally characterized by an exchange relationship, manifested by user charges that may be based on the costs of providing a particular service. Some business-type activities receive significant operating subsidies, capital grants, or taxes from the general government, diminishing the role of costs in establishing users' charges. Sanitary, Sewer, and Surface Water and Housing Assistance programs generate the majority business type revenue *(Figure 11).*

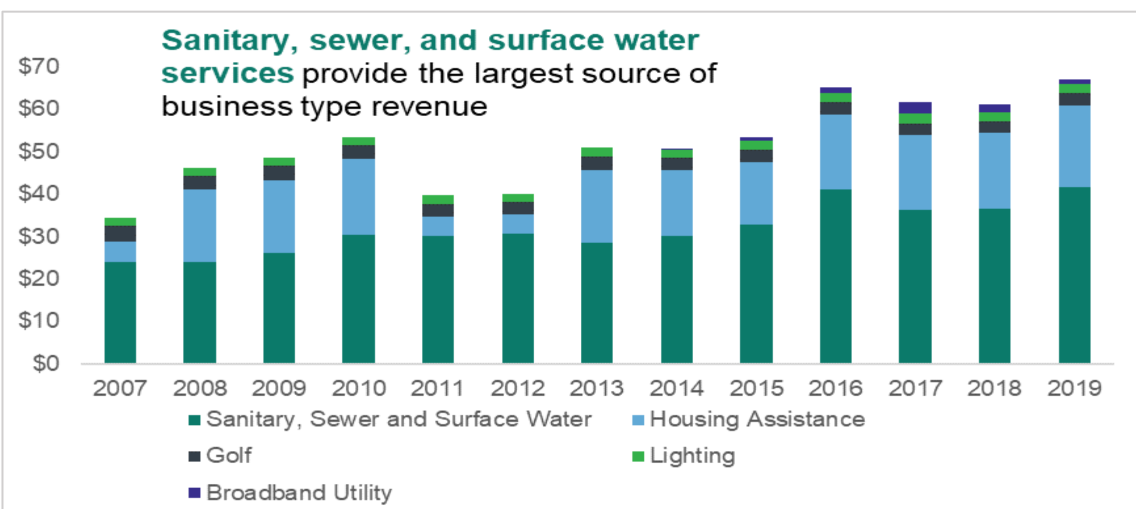


Figure 12 Business fees, fines and charges for services (in millions, adjusted for inflation)

Where does the money go?

Health and human services and public protection expenditures represent, on average, 50% of the County's expenditures *(Figure 12).* In addition to these two largest expenditure programs, the County expends resources supporting utility, public ways and facilities, recreation, economic development, administration, and financing services and efforts. While total expenses have increased over time, the relative proportions have remained consistent, with health and human services and public protection trading the first and second spots occassionally, and utility expenditures routinely sitting in the third position. Public ways and facilities and administration represent the largest portion of all other program expenditures.

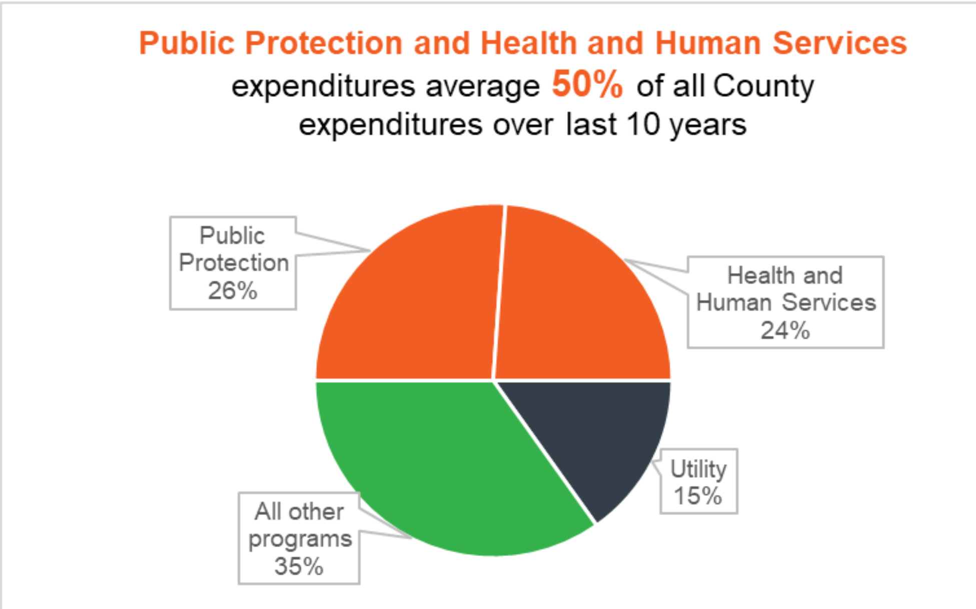


Figure 12 Percentage of expenditures by program (averaged from FY2010 to FY2019)

Health and Human Services

County Health Centers include medical and dental clinics, public health services, school-based clinics, and other health care and education services for the community. The Social Services Division provides assistance to seniors, people with disabilities, veterans, and low-income residents of the County. Behavioral Health provides mental health, alcohol and drug treatment services, mental health and addictions clinics and Oregon Health Plan information. Public Health handles a multitude of

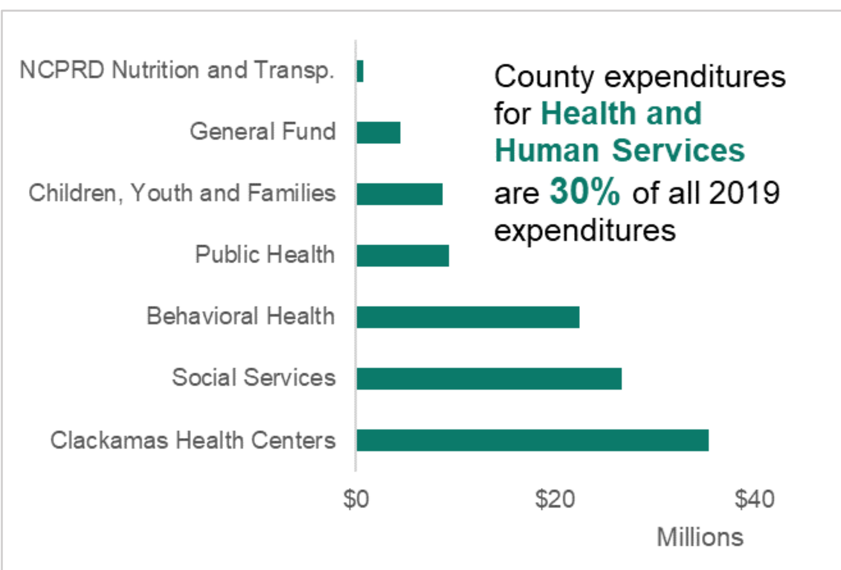


Figure 13 Health & Human Services' expenditures for FY 2019 (in millions)

things, including infectious disease control and prevention, healthy places, access to care, environmental health, and more. The mission of Children, Youth and Families is to promote wellness and positive outcomes for County children and families. These programs accounted for 30% of all 2019 County expenditures *(Figure 13).*

Public Protection

Public Protection expenditures for the Sheriff's Office are for operating the County's jail and providing patrol, investigation and civil processing services to incorporated and unincorporated areas of Clackamas County. The levy helps fund additional jail beds and deputies. The Department of Community Corrections provides supervision of adult offenders in the community, while the Juvenile Department provides supervision of juvenile offenders in the community. The District Attorney's Office prosecutes offenders and protects crime victims. The County's Justice Court generally has jurisdiction over misdemeanors and violations sited to its court. Expenditures for these programs have been proportionately consistent and accounted for 25% of all 2019 expenditures *(Figures 14 and 15).*

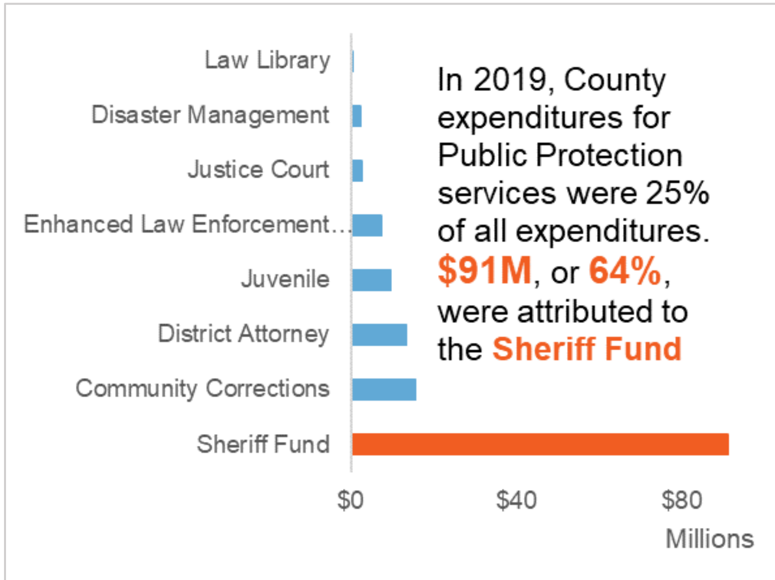


Figure 14 Public Protection expenditures for FY2019 (in millions)

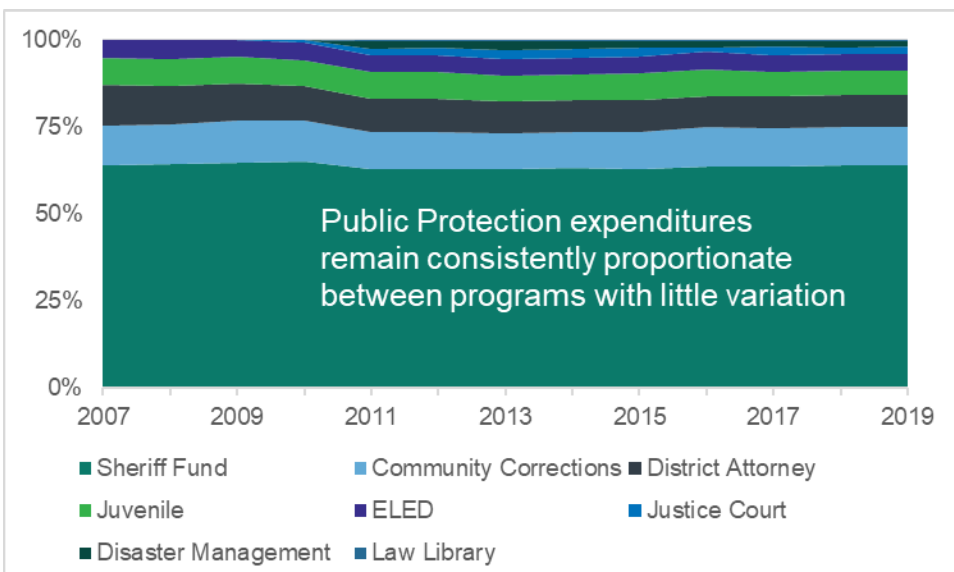


Figure 15 Public Protection program expenditures as a percent of total (adjusted)

Self-Insurance strategy has increased internal service fund expenditures

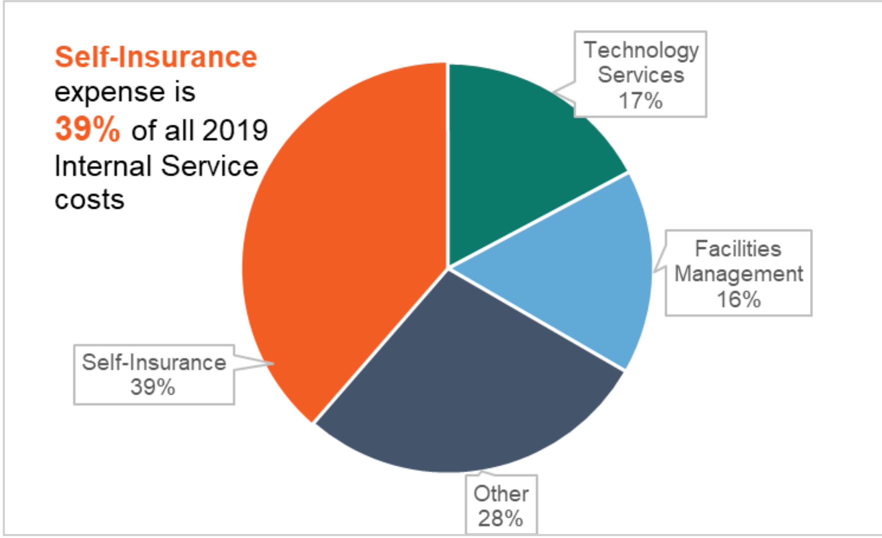


Figure 16 Internal Service fund FY2019 expenditures – Major program percentages

Internal service funds account for services and activities provided by the County for other units primarily within the County (e.g. Human Resources, Finance). In 2019, self-insurance costs, $28 million, represented 39% of all internal service costs, $73 million. Technology Services and Facilities Management are the next two largest internal service funds *(Figure 16*). Removing the impact of the self-insurance fund, internal service costs have remained relatively proportionate between funds and averaged 2% increases annually *(Figure 17)*. The self-insurance fund, which significantly increased in 2015, accounts for the dental, health and short-term disability self-insured programs, employee assistance and wellness activities, and flexible spending accounts for health care and dependent care expenses.

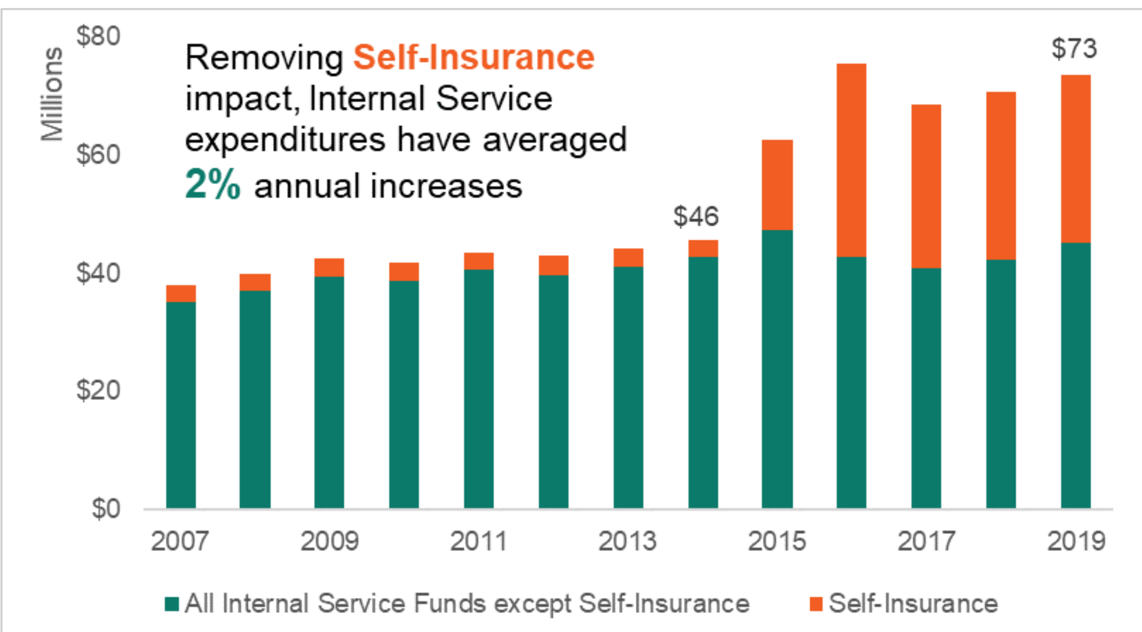


Figure 17 Internal Service fund expenditures (in millions, adjusted for inflation)

Number of County employees remains near five per 1,000 residents

The number of County employees and the County overall population have both increased, on average, 1% annually for the last 10 years. While the distribution of employees among County programs and areas of government fluctuates, the County has maintained an average relationship of 5.13 employees to 1,000 County residents since 2007 *(Figure 18)*. As of the end of fiscal year 2018, the County employed ~5.164 employees per 1,000 County residents. The fluctuations in the number of full-time equivalent (FTE) employees over the years reflect the County's response to changes in economic factors and funding availability, as well as the demand for County services.

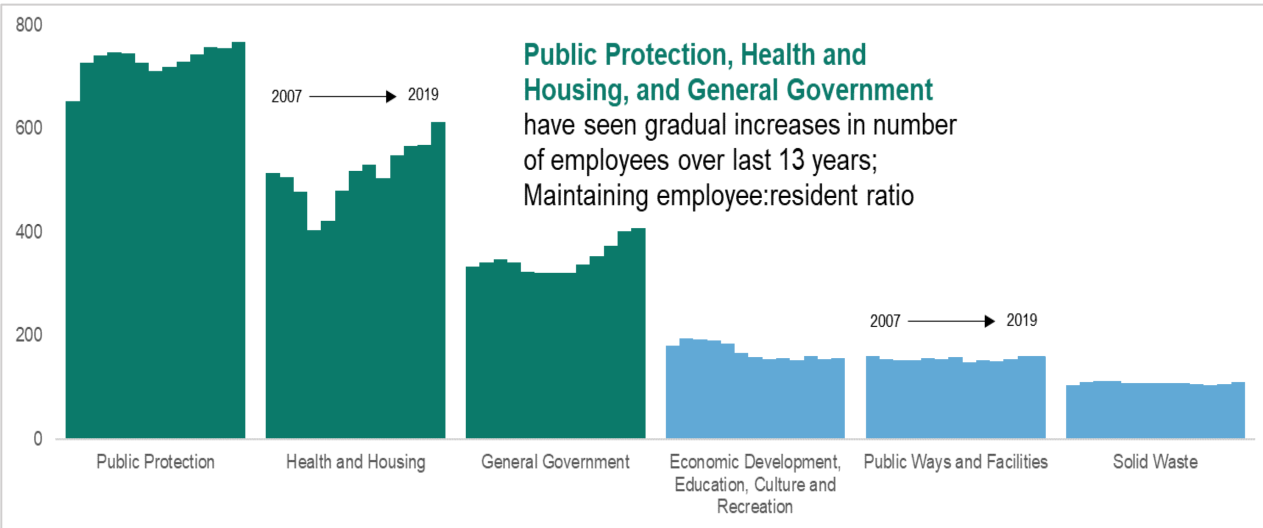


Figure 18 Number of FTE by area of government (does not include temporary employees)

Employee wages, benefits and other costs continue to increase

As the number of employees has increased, workforce compensation expenses have also increased. Wages, benefits and other costs have increased, on average, 2% annually since 2010 *(Figure 19)*. In 2019, these costs totaled $267

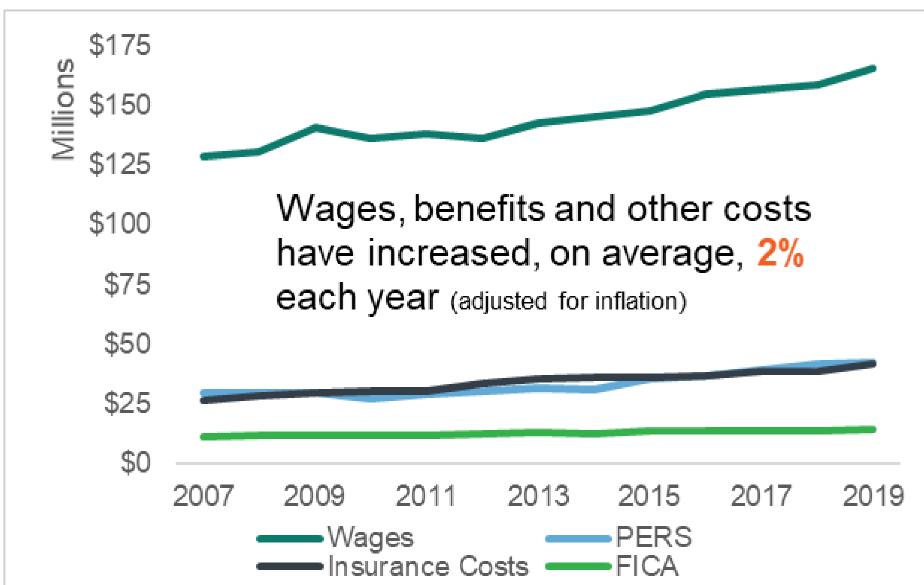


Figure 19 Wages, benefits and other costs (in millions, adjusted for inflation)

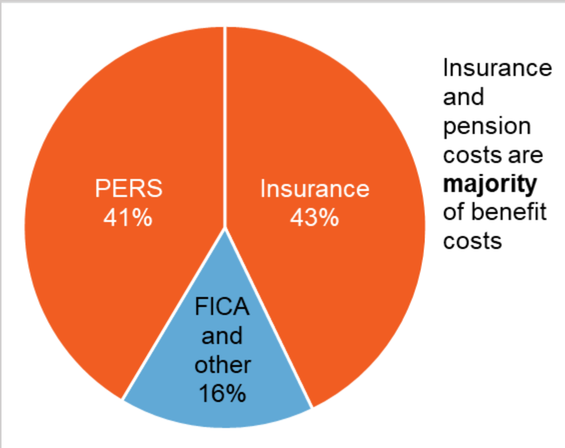


Figure 20 Benefits and other costs FY10 to FY19 average percentage

million. Benefits and other costs account for, on average, 36% of total workforce compensation expenses. Insurance and PERS costs represent the majority, 84%, of these costs *(Figure 20*).

Increasing expenses per capita outpacing revenues per capita growth; narrowing savings potential

Revenues per capita measures the average revenue earned by the County per person in the County. From 2010 to 2018, revenues per capita increased by 11% (adjusted for inflation). Expenses per capita is the average amount of government spending by the County to provide services to each person who lives in the County. Expenses per capita increased by 22% from 2010 to 2018 (adjusted for inflation). The significant expense per person increase in FY16 is mainly attributed to the Moro v. State of Oregon decision and the accrual of pension items. Prior to FY16 these items were not required to be reported in the County's Statement of Activities and expenses. The savings potential resulting from excess revenues is narrowing *(Figure 21).*

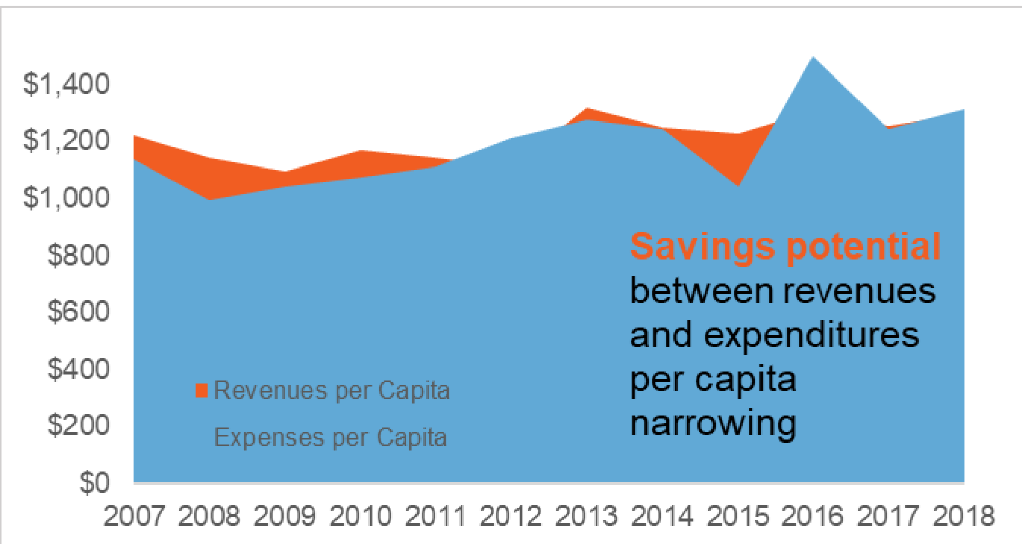


Figure 21 Expenses and revenues per capita (adjusted for inflation)

Long-Term Debt

Long-term debt structure

The issuance of long-term debt allows a county to acquire major assets and finance large projects such as buildings, bridges and roads, and jails. The increase in the amount of debt to repay, however, limits the County's ability to react to current economic conditions. Individual state agencies may issue debt for specific purposes pursuant to law, but the total amount of debt a county may incur is generally limited by Oregon State law.

The County's outstanding debt falls into three broad categories.

Full Faith and Credit Bonds (FFCB) – bonds issued to finance major construction projects. The bonds are backed by the full faith and credit of the County, within the limitations of Article XI of the Oregon Constitution, and are to be repaid from existing revenue sources.

Revenue Bonds – bonds issued to pay for projects with specific revenue sources for repayment.

General Obligation (GO) Bonds – bonds issued to finance major construction projects in governmental activities. These bonds are general obligations of the County and are also backed by the full faith and credit of the County. The County will levy, annually, as provided by law, in addition to its other ad valorem (general) property taxes, a district ad valorem tax upon all of the taxable property within the County in sufficient amount, to repay these general obligations.

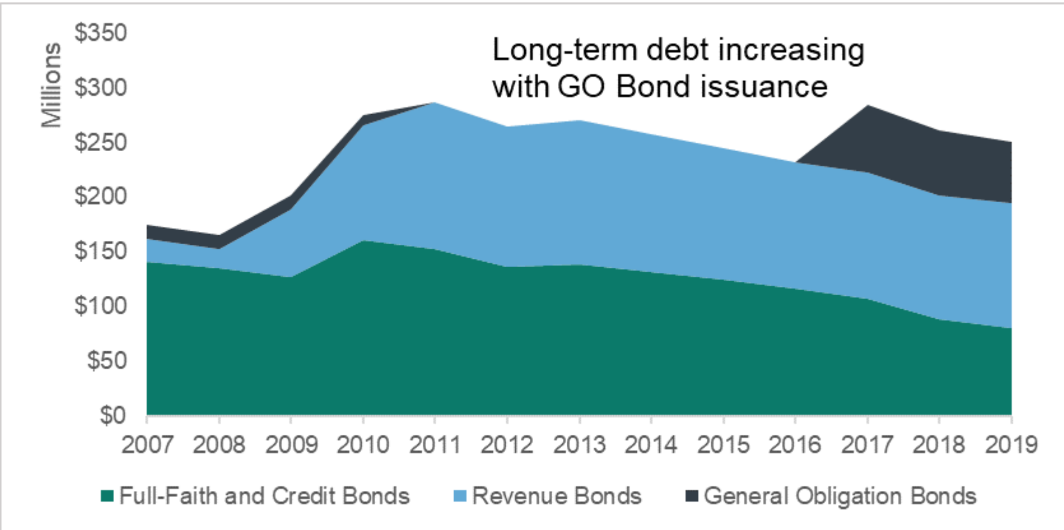


Figure 22 Long-term Debt (in millions, adjusted for inflation)

The County's long-term debt has increased steadily since 2007. The spike in 2009-10 was due to the GO 2009A and 2009B, and the 2010 revenue bond issues for capital improvements to the Clackamas County Service District No. 1's sanitary sewage system. The recent spike in general obligation debt is associated with the Series 2016A and 2016B bond issues for the replacement of the Clackamas 800 Radio Groups' emergency communications system and to expand existing radio coverage *(Figure 22).*

Independent assessments of the County's debt health are regularly performed by credit agencies prior to a bond issuance. The County's credit rating has continued to improve since the FFCB issue in 2012 when the rating was Aa2 by Moody's. Moody's assigned an Aaa rating, its highest, to the FFCB Series 2018. This quality equates to lower borrowing costs, as rating agencies favorably view the County's ability to pay its debt.

Total debt per person continues to fluctuate

Total debt per capita is the amount of total debt the County has per person living in the County. The amount of debt per County resident has fluctuated over the years. With the exception of the increase from 2015-2016, most increases are associated with bond issuances. The increase in 2015-16 was mainly attributed to GASB Statement No. 68

and 71 which required the net pension liability be reported on the Statement of Net Position as a noncurrent liability, increasing liabilities in 2016 by $111 million. Net pension liability represented 36% of total 2018 debt *(Figure 23).* These GASB requirements and the Moro v. State of Oregon decision also have an effect on pension expense *(Figure 1).*

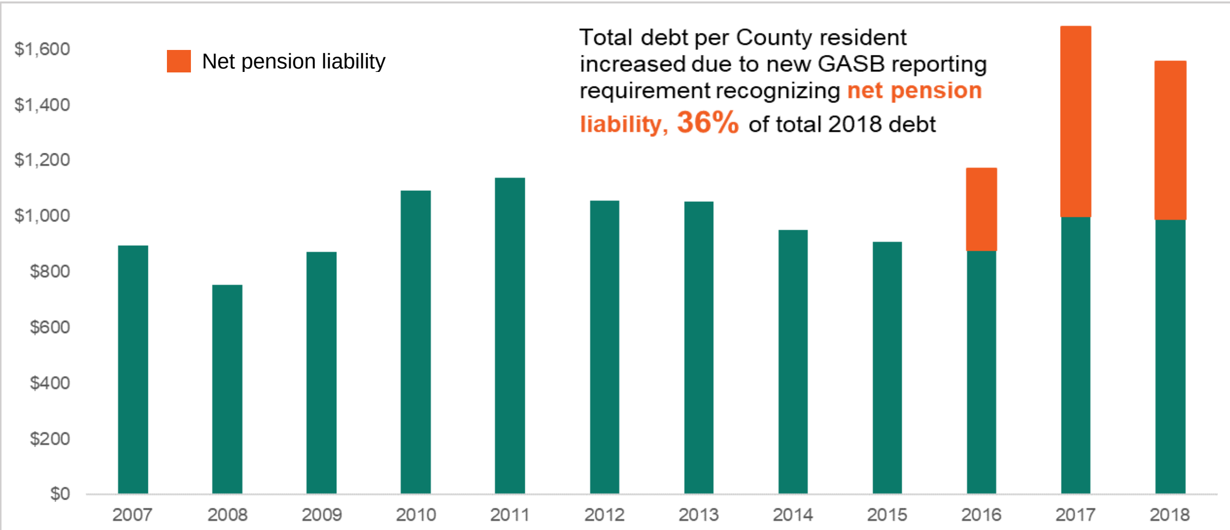


Figure 23 Total debt per County resident (adjusted for inflation)

Percentage of spending used for debt below benchmark

The amount of total county spending used for debt principal and interest payments as compared to net operating revenues is trending downward. For each year analyzed, total spending for debt was below 10%[5] of net operating revenues, which is considered acceptable and well below 20%[6] *(Figure 24)*.

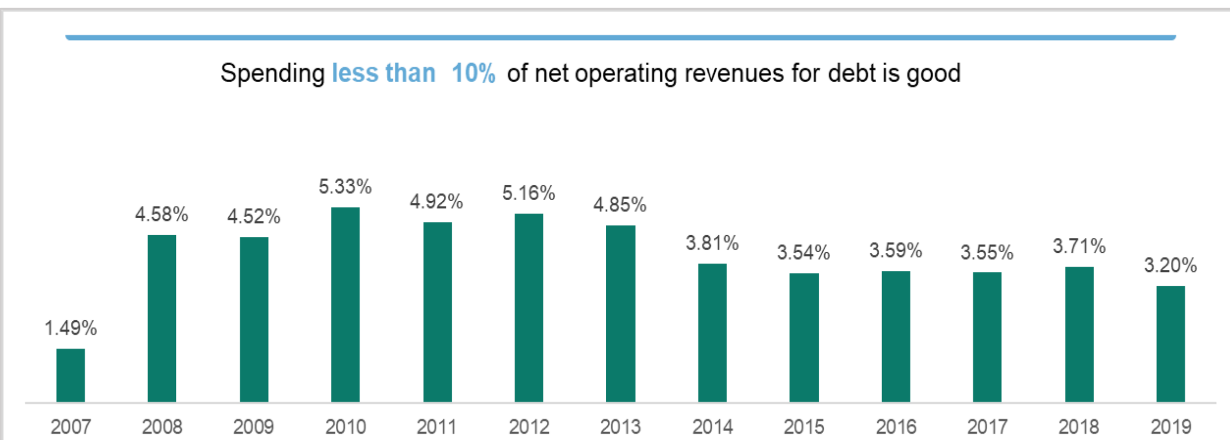


Figure 24 Debt service as a percentage of net operating revenues

[5] Evaluating Financial Condition - A Handbook for Local Government; International City/County Management Association (ICMA), Copyright 2003, Page 83.
[6] Once debt service on net direct debt exceeds 20% of operating revenues it is considered a potential problem.

Financial Health

Governmental Fund Balance

The County budgets on an annual basis. Accounting standards require governments report fund balances based upon constraints on the use of the resources reported in the governmental funds. The five fund balance classifications are nonspendable, restricted, committed, assigned and unassigned. Nonspendable balances are things like inventories. Restricted fund balances identify constraints imposed by state or federal law, the Oregon Constitution, or external parties such as creditors or grantors. Committed balances are constrained through the legislative process. Assigned balances reflect the County's intent to use the funds for specific purposes. Unassigned balances are amounts not otherwise restricted, committed or assigned. (*Figure 25)*

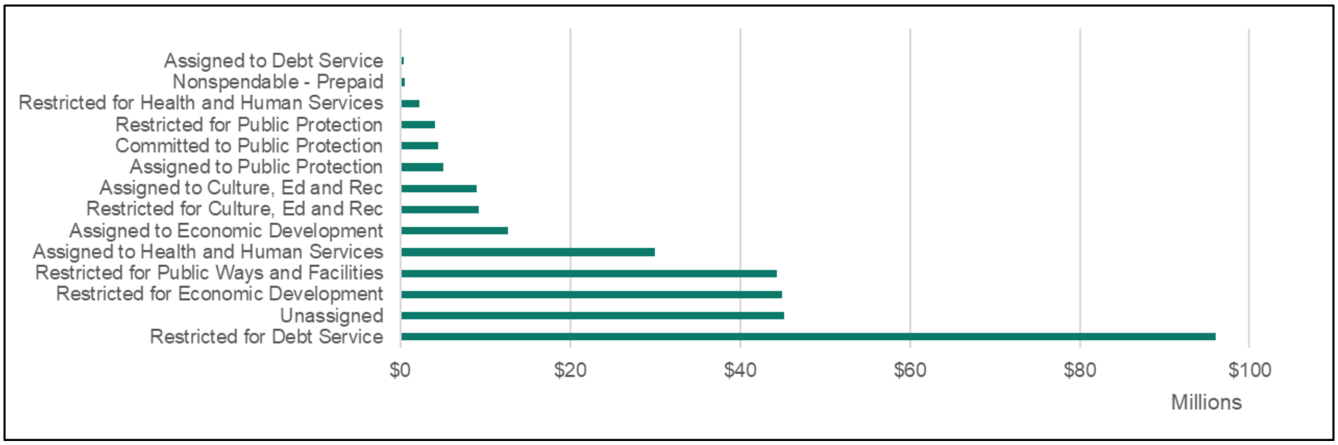


Figure 25 FY2019 Governmental Fund Balance (in millions)

General Fund Balances have been recovering since the Great Recession

Unrestricted balances in *Figure 26* includes unavailable revenue. These resources are considered unrestricted; however, there is a timing lag of when cash is to be received. Therefore, these funds are not considered available at fiscal year-end. They are a receivable. Excluded from the balances are items that are considered restricted, committed or nonspendable as these are not available for discretionary spending.

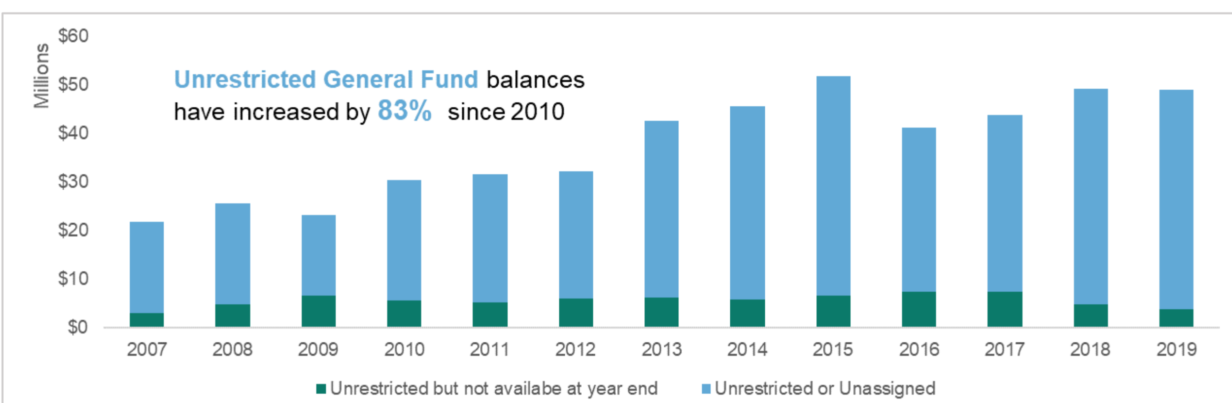


Figure 26 General Fund Unrestricted Balances (in millions, adjusted for inflation)

General Fund Balance Ratio

Fund balance ratios recognize discretionary funds and the County's ability to address one-time funding needs. The GFOA recommends a benchmark of 16.7% (two months) or greater of general fund reserves[7]. The County has consistently met and exceeded this standard for both general fund revenue and general fund expense fund balance ratios (Figure 27).

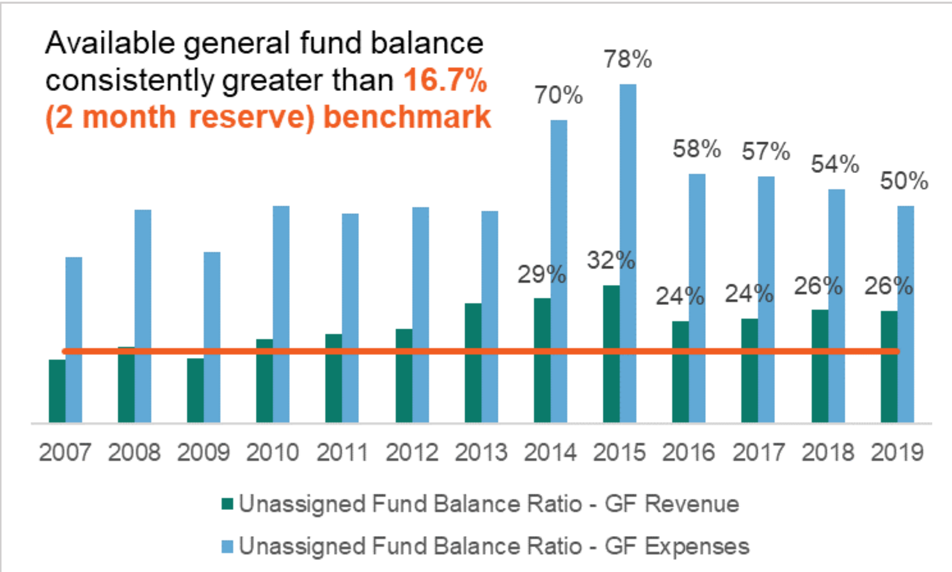


Figure 27 General Fund Unassigned Balances as percentages of General Fund Revenue and Expenses

What we own versus what we owe

Evaluating the short-term and long-term relationships between what is owned and what is

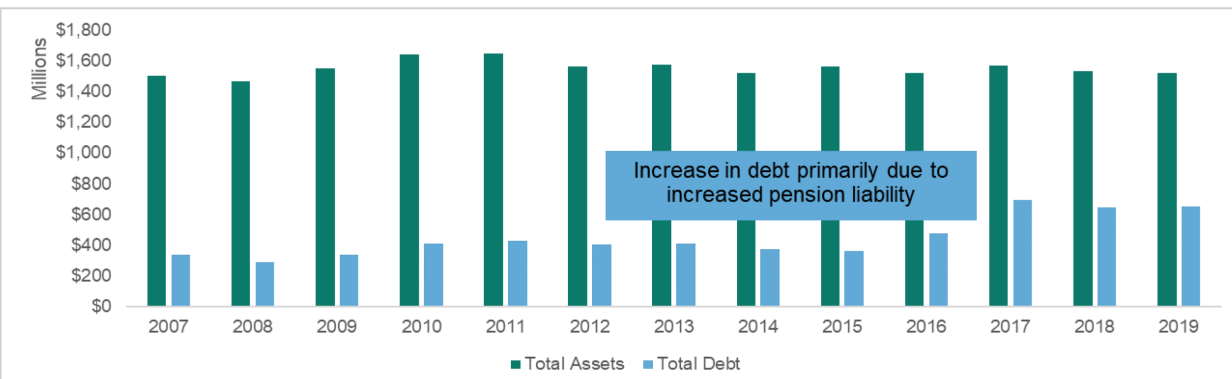


Figure 28 Total assets (net of depreciation) versus total debt (in millions, adjusted for inflation)

owed is critical. The significant increases in net pension liability and the continuing depreciated value of capital assets have reduced the long-term assets to debt ratio.

Liquidity remains positive

Liquidity is measured by a ratio of current assets to current liabilities. Current assets are those that can be converted into cash or used within 12 months. Current liabilities are bills the County intends to pay within 12 months. A low ratio, below $1 of assets to $1 of liabilities is a warning trend. It may indicate a cash flow problem. County liquidity has stayed above the 1:1 recommended ratio for the last 10 years *(Figure 29).*

[7] GFOA Fund Balance Guidelines for the General Fund

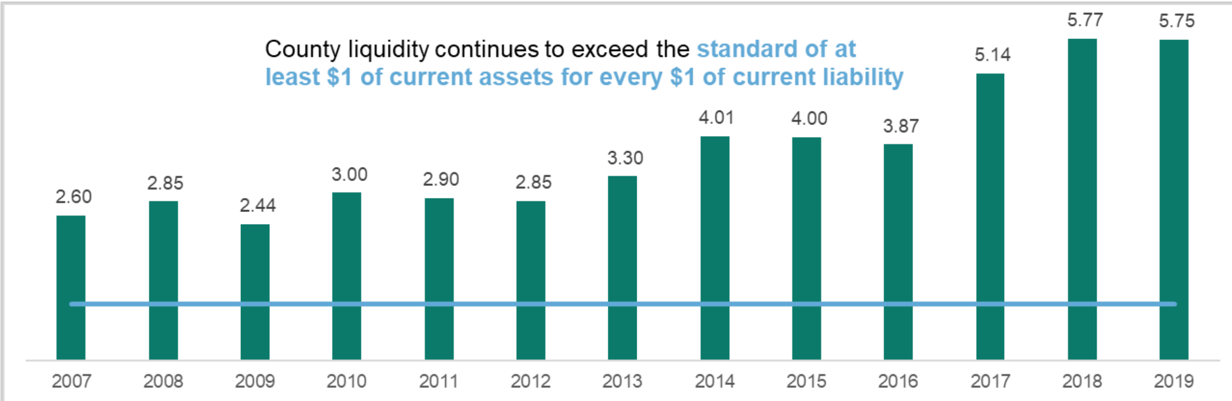


Figure 29 Liquidity Ratio

Debt ratio is good

The debt ratio compares total debt to total assets, measuring the proportion of the County's assets which are financed through debt. The credit industry considers a debt ratio of 1.0 or less to be acceptable. Clackamas County exceeds industry standards *(Figure 30).*

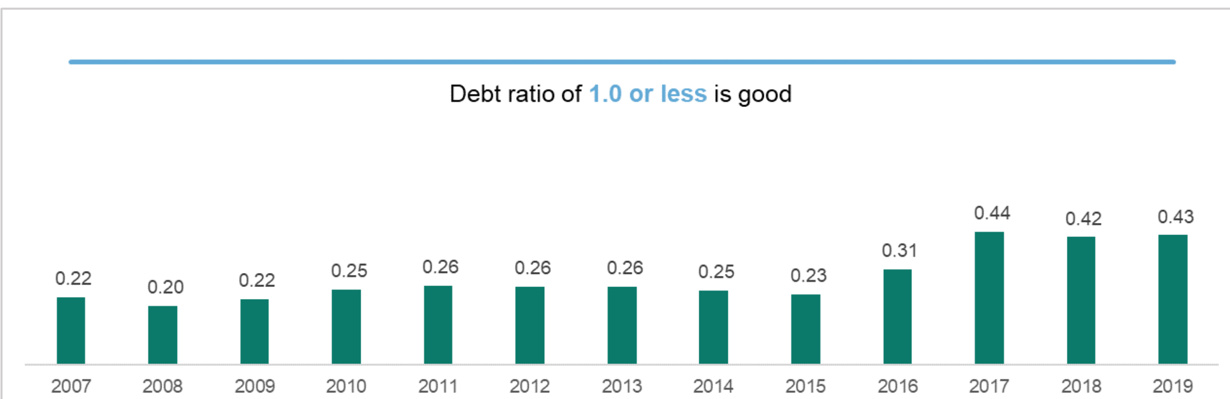


Figure 30 Debt Ratio

Capital assets are getting old

The County uses physical infrastructure (capital assets), such as streets and buildings, to provide services. The condition of these assets impacts the quality of services residents receive. Good asset management requires investment in regular, preventive maintenance. This increases the life of the asset and reduces costs. Lack of preventative maintenance risks early asset failure and increased expenditures.

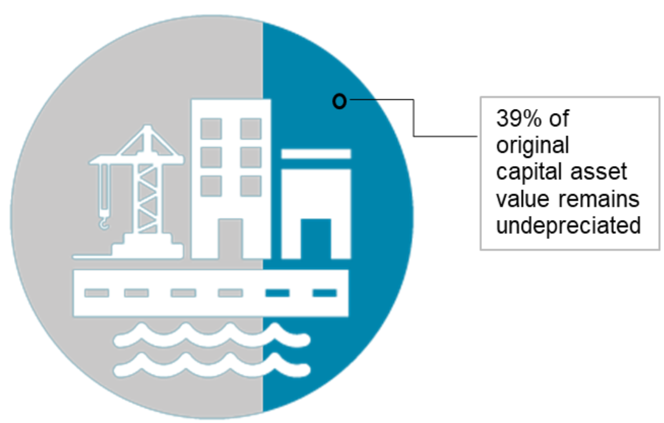


Figure 31 Original value of capital assets (government & business) being depreciated in 2019, $1,239M

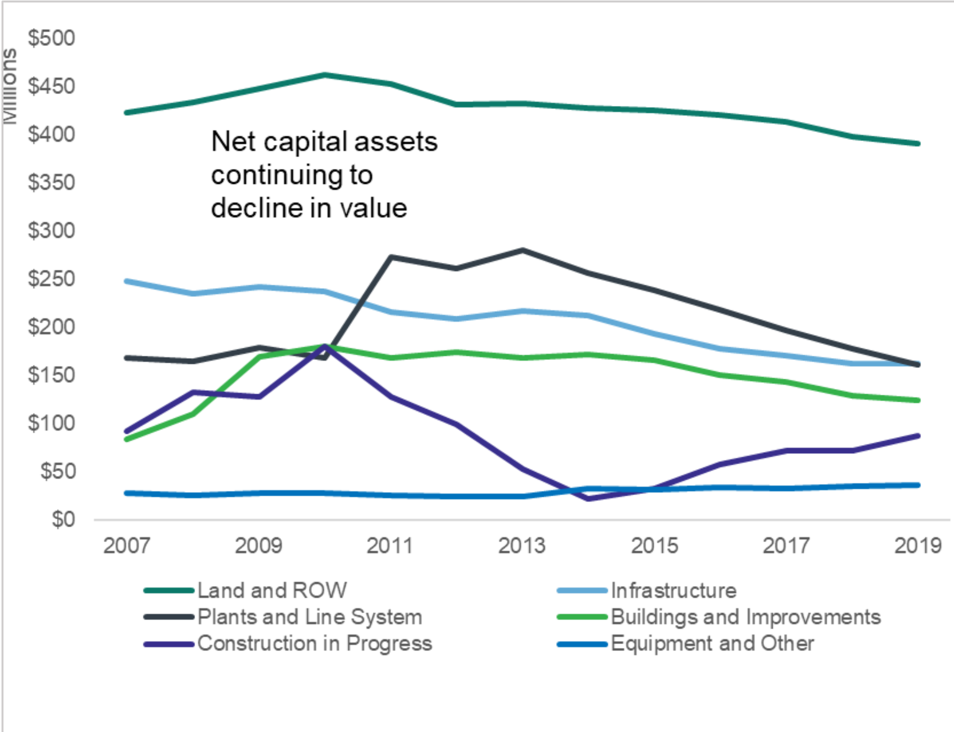


Figure 32 Capital assets, net of accumulated depreciation (in millions, adjusted)

Capital assets include land, buildings, equipment, and infrastructure used for County services. Infrastructure includes roads and bridges. Accounting standards require that assets are reported in financial statements at their original cost. Donated capital assets are recorded at estimated fair market value at the date of donation. Depreciable assets are shown net of accumulated depreciation (*Figure 32*); thus, the steady decline in nearly all asset categories. Of the original cost, $1,239 million, 39% remains undepreciated *(Figure 31).*

Aging County assets put the County at risk for significant replacement or repair costs, or service disruptions for both government and business activities *(Figure 33).*

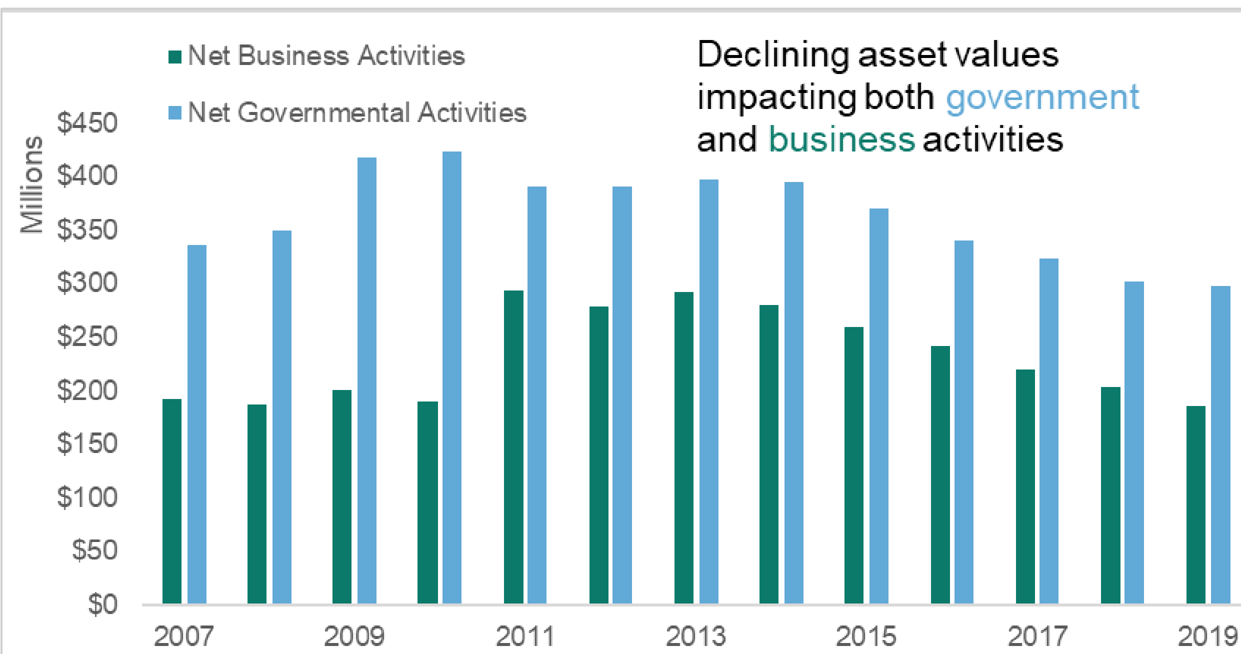


Figure 33 Capital assets, net of depreciation by activity (in millions, adjusted for inflation)

The County's net position is trending down slightly

The County's net position for the primary government has decreased 11% since 2010 *(Figure 34)*. Net position is the difference between what a government owns and what it owes. A change in net position would tell us whether the County's financial position has improved or declined based on the decisions and actions in the previous year.

Some of the reasons for the recent decline in net position are outside of the County's control. For example, part of the decline is because of changes in policy and assumptions for the State retirement system, PERS *(Figure 23)*. Other factors, such as streets, buildings and other infrastructure declining in value faster than the County makes repairs *(Figure 32)* are the responsibility of the County.

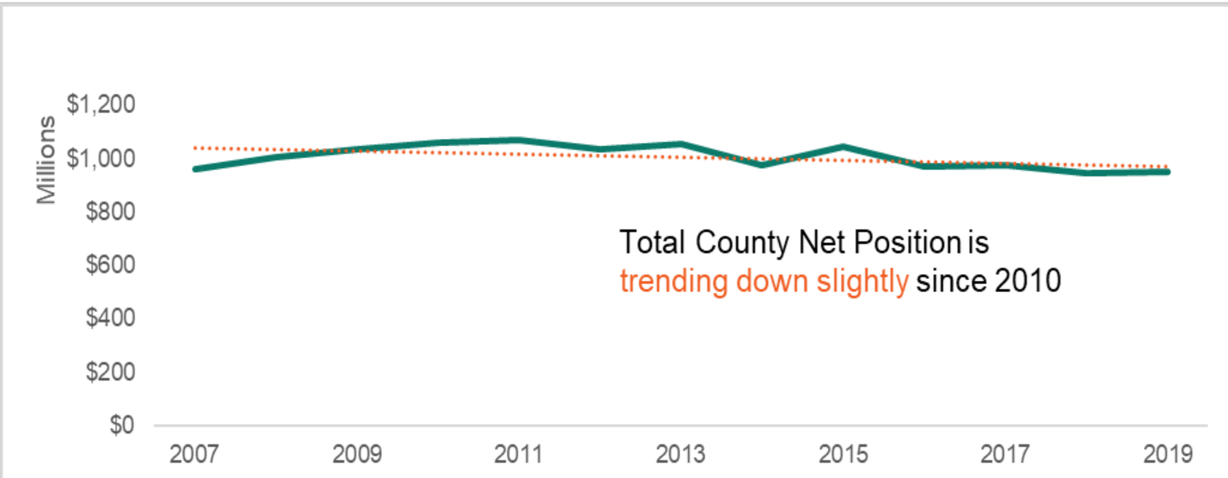


Figure 34 Net position (in millions, unadjusted)

Demographics

Why are demographics important?

Economic and demographic information highlights community needs and resources. Some indicators are also the basis used by the federal and state government to allocate funding for services.

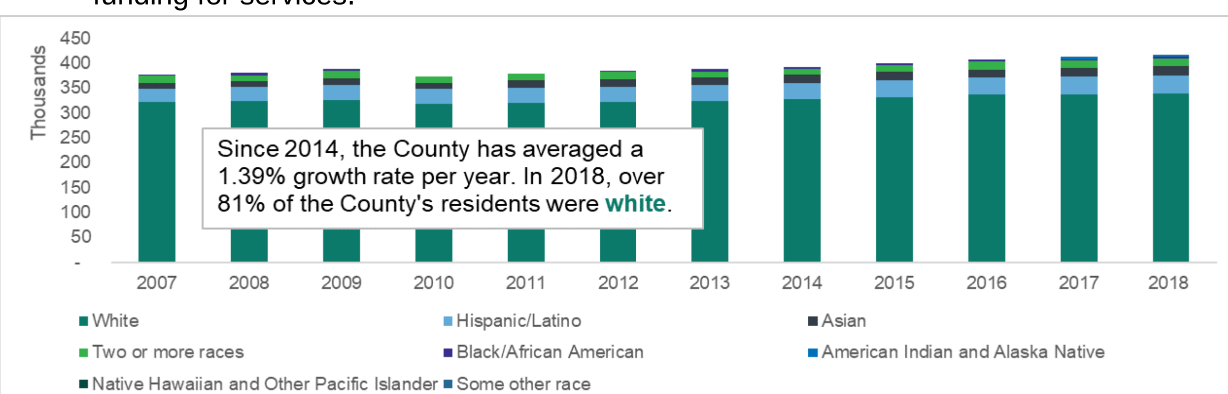


Figure 35 County population (in thousands)

Population has increased in recent years

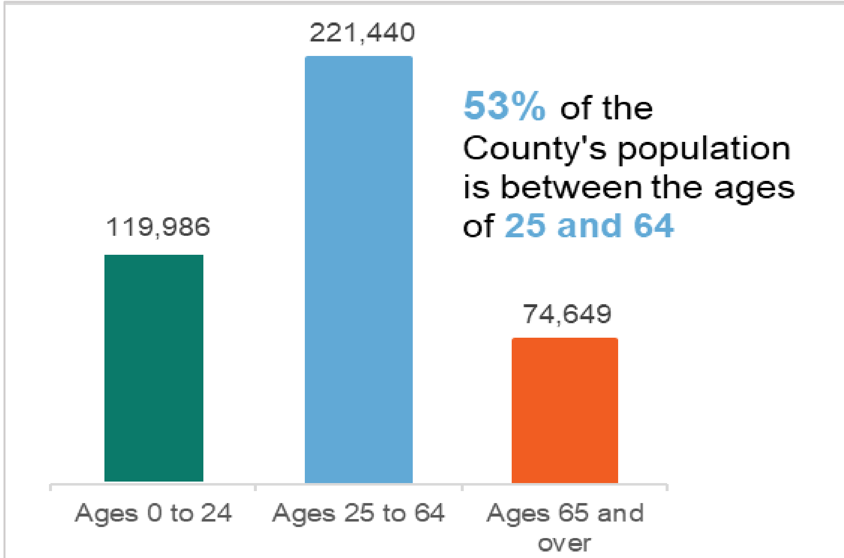


Figure 36 County 2018 population by age

The County's population increased from 386,143 in 2009, to 416,075 in 2018. In the last five years, the County's population has averaged a 1.39% growth per year. According to the most recent census data[8], the top three fastest growing cities[9] (by percent, not count,) in Oregon from 2010 to 2018 are Happy Valley (54.7%), Wilsonville (23.9%), and Sandy (22.3%). Molalla is ranked sixth (18%) and Oregon City is ranked ninth (16.3%). All, or at least a portion of these cities, reside in the nearly 1,900 square miles that make up Clackamas County.

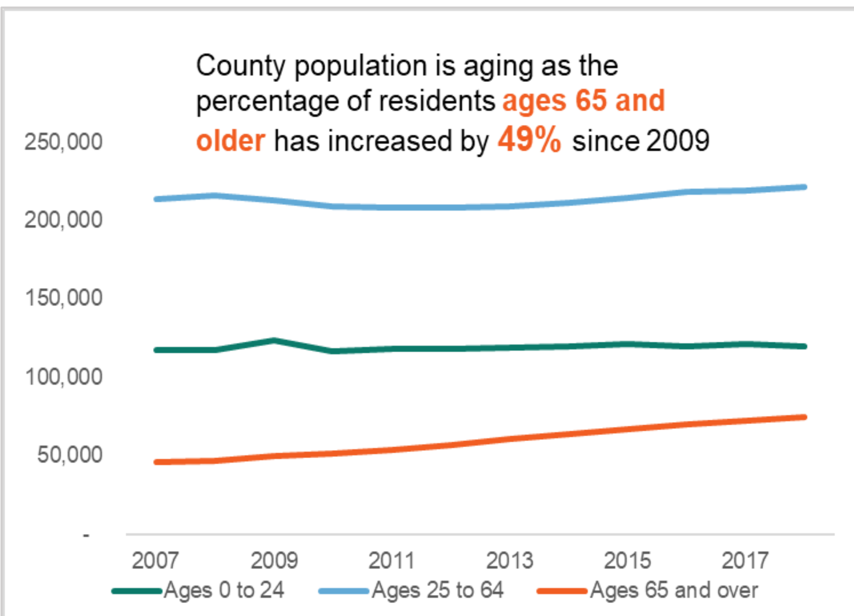


Figure 37 County population by age - 2007 to 2018

The majority of the County's population is between the ages of 25 and 64 *(Figure 36).* The population is aging as a percent of residents ages 65 and older has increased by 49% in the last ten years *(Figure 37)*. Eighty-one percent of the County's residents in 2018 were white *(Figure 35)*.

Poverty remains low in Clackamas County

This indicator provides some measure of the number of low income residents who might utilize County human services and health programs. The poverty line is defined as the minimum level of income necessary to achieve an adequate standard of living. In 2018,

[8] December 2018.
[9] Analysis performed only over cities in Oregon with a population over 5,000. 77 cities were included in this analysis. ((Population 2018 – Population 2010) / Population 2010). https://www.homesnacks.net/fastest-growing-cities-in-oregon-127098/

a family of four with a gross yearly income of $25,701 or less, would be considered living in poverty. Clackamas County had the lowest poverty level in the state at 7% in 2018 *(Figure 38).* Oregon's poverty level was 12.5% in 2018.

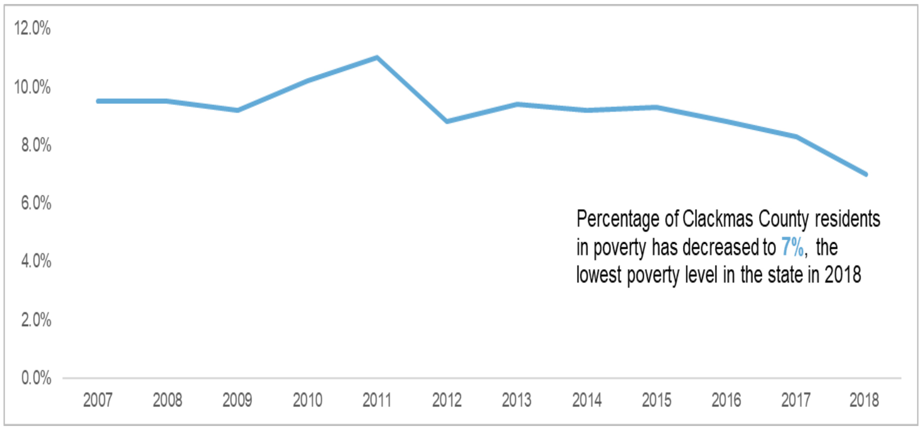


Figure 38 Percentage of County residents experiencing poverty

The percentage of residents ages 65 and older in poverty is increasing while the percentage of residents below age 64 in poverty is decreasing *(Figure 39).* In 2018, ~7% of each age group experienced poverty.

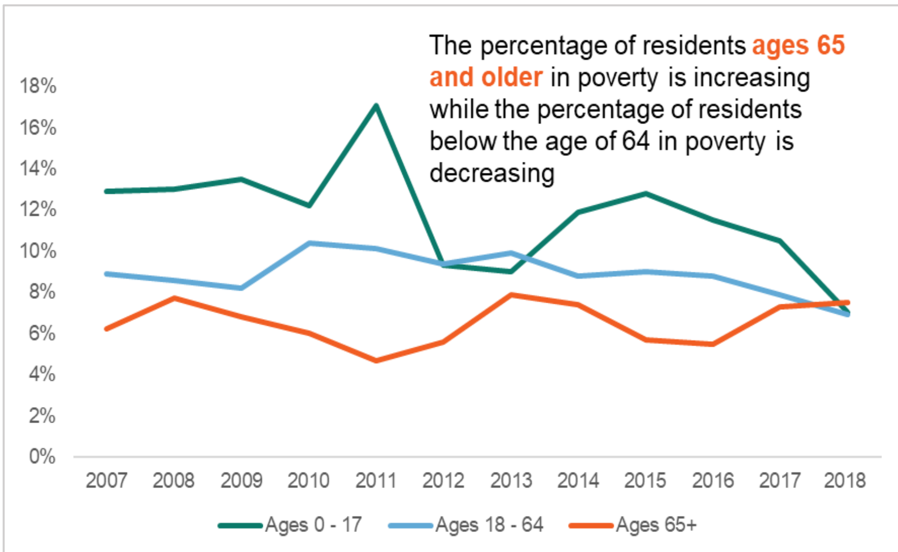


Figure 39 Percentage of County residents experiencing poverty, by age

When evaluated by education level, the percentage of County residents in poverty in each category has remained relatively consistent over the last ten years. Residents with education exposure less than a high school graduate experience the greatest percentage of poverty, 15.5%. Four percent of County residents with a bachelor's degree or higher experience poverty *(Figure 40).*

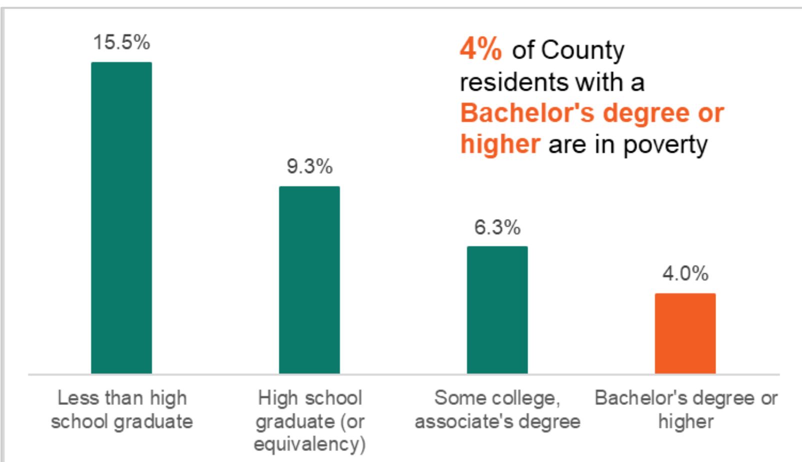


Figure 40 Percentage of residents experiencing poverty, by education level

Residents without health insurance

The County provides low-cost health care to underserved, low-income and uninsured residents of Clackamas County. While the number of uninsured County residents continues to trend down, there has been a slight increase in recent years *(Figure 41)*.

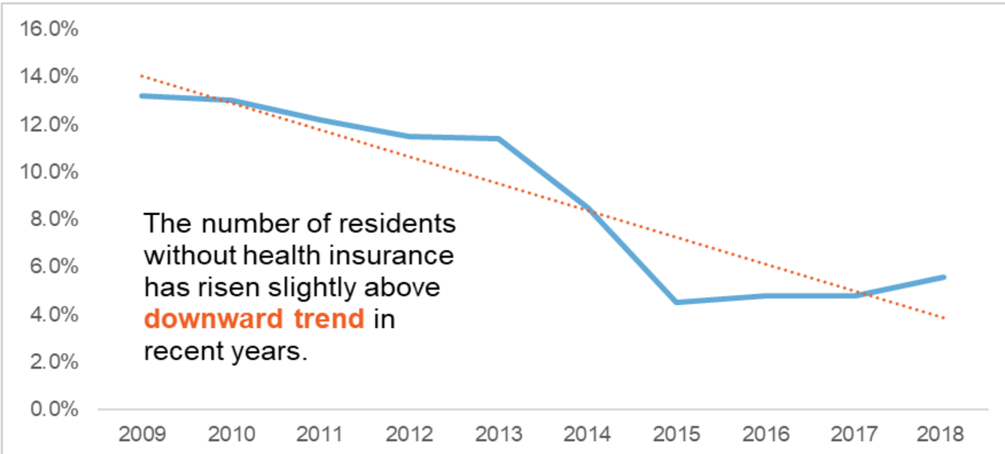


Figure 41 Percentage of County residents without health insurance

Residents between the ages of 18 and 64 represent the age group with the highest percentage of uninsured residents, followed by children under the age of 18 *(Figure 42)*. The percentages of both groups have increased in the last three years. The first and second highest percentage groups without insurance, as evaluated by education level, have also seen an increase in recent years. County residents with a high school graduate education or less represent the highest percentage of uninsured residents *(Figure 43).*

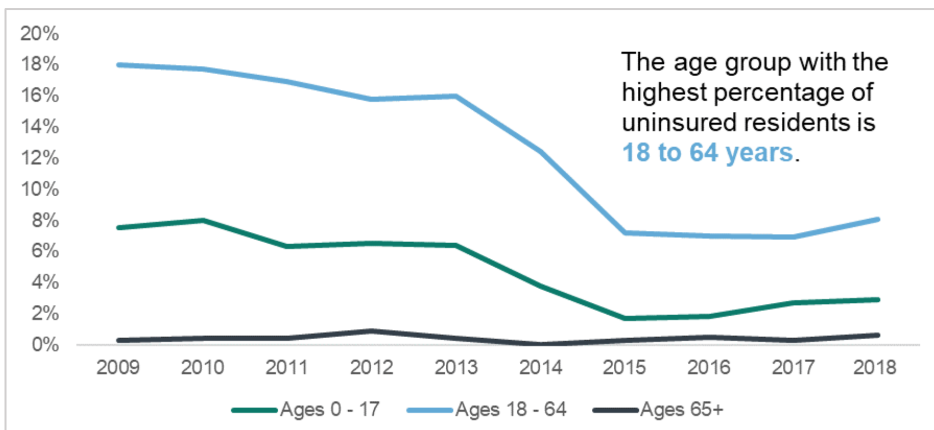


Figure 42 Percentage of residents without health insurance, by age

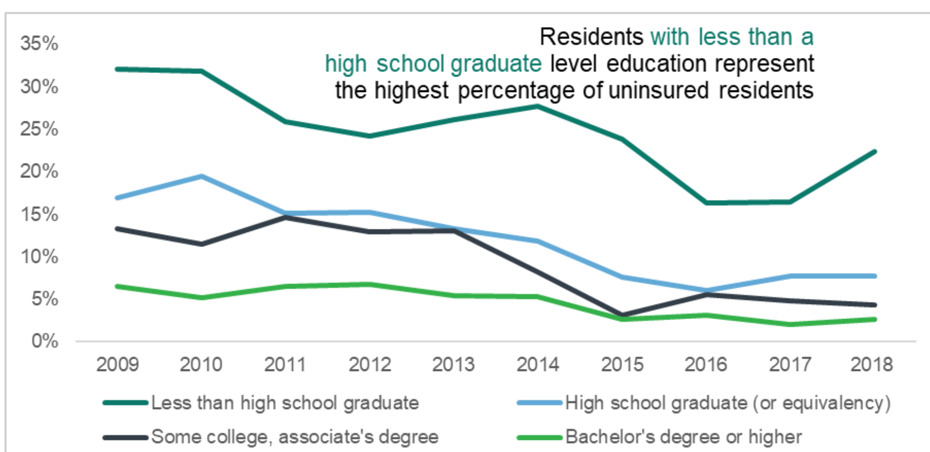


Figure 43 Percentage of residents without health insurance, by education level

Economy

Unemployment

The County's unemployment rate has been on a decline since the high of 10.4% in 2009 to 3.4% in 2019 *(Figure 44)*, which is slightly below the US and Oregon rate of 3.7%. The unemployment rate measures those who are without employment and are actively seeking employment. Within Oregon, Benton and Washington counties have the lowest rates of 2.9% and 3.1%, respectively, while Klamath and Grant counties have the highest rates of 6.2% and 6.9%, respectively.[10]

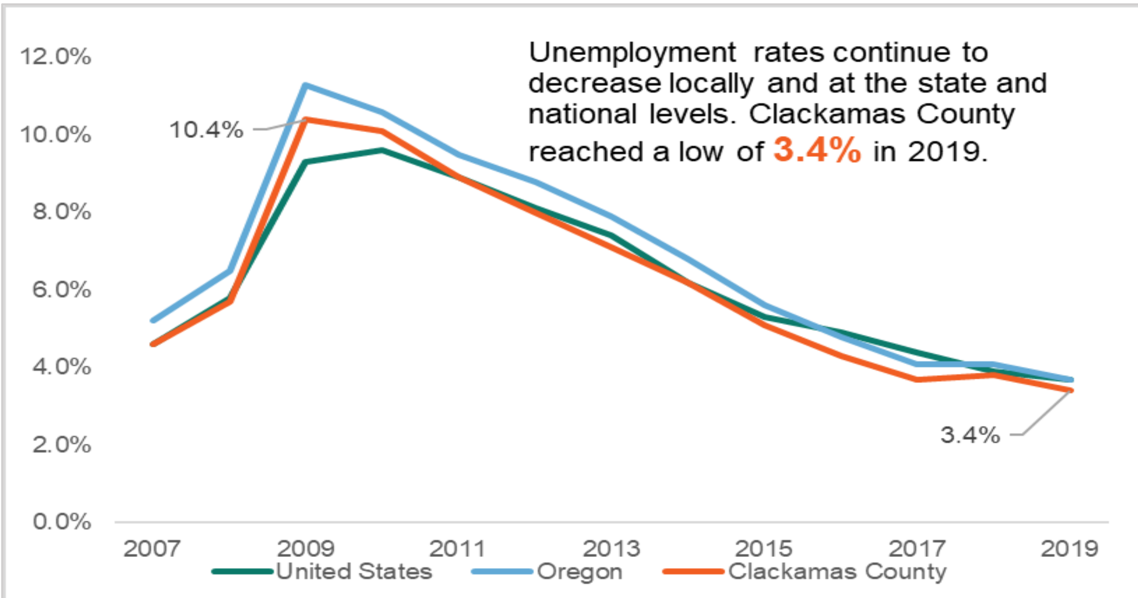


Figure 44 Unemployment rate (seasonally adjusted, calendar year ended December 31)

Growth continues in per capita income

Per capita income is considered a major indicator of economic health. Per capita income measures the average income earned per person in the County. The average annual per capita income in Clackamas County decreased approximately 7% from 2007 to 2010 (adjusted)

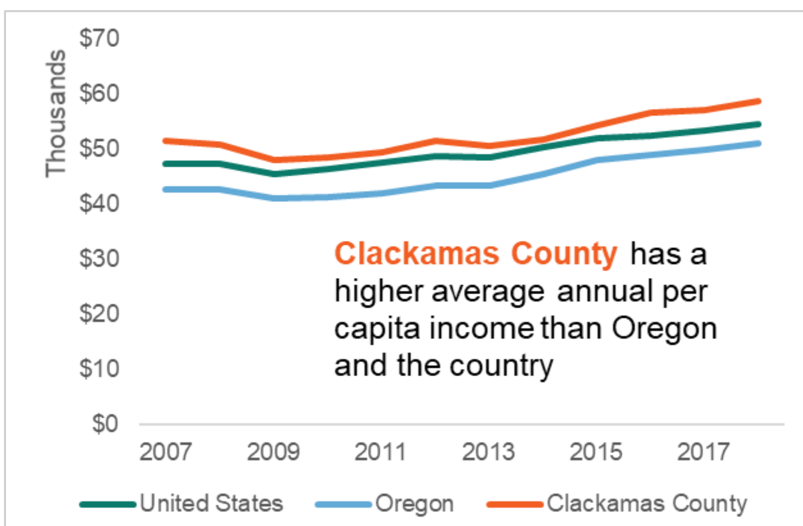


Figure 45 Average annual per capita income (adjusted for inflation)

[10] Oregon Employment Department Qualityinfo.org

due to the Great Recession, then recovered nearly 22% from 2010 to 2018 (adjusted). Per capita income in the County is higher than in the State *(Figure 45)*.

The number of businesses in Clackamas County continues to grow

The number of businesses in the County is another indicator of economic health related to the County's revenue base. In line with the County's population *(Figure 35*), the amount of businesses in the County has continued to grow since the Great Recession. In 2019, the County had a reported 15,550 businesses, a 29% increase from 2010 *(Figure 46).*

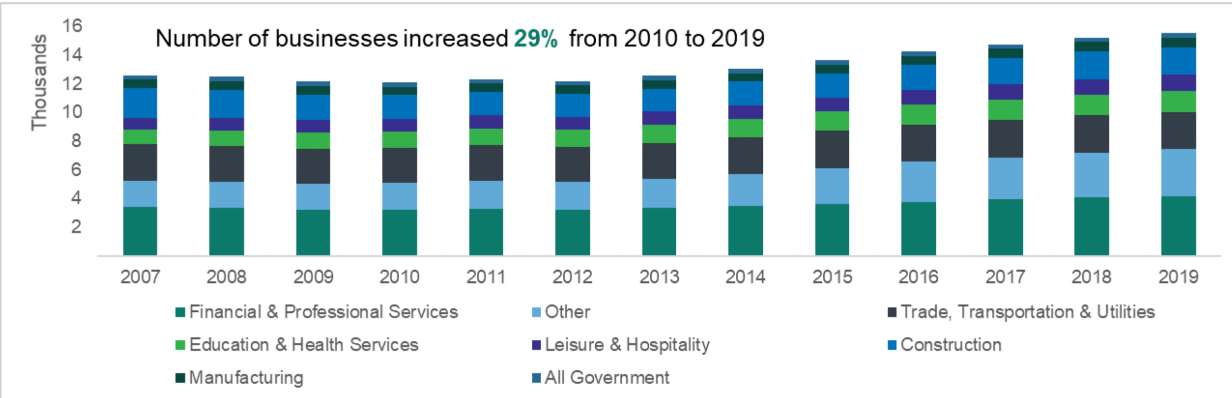


Figure 46 Businesses in County by industry

Number of jobs provided by employers in Clackamas County increases

The number of jobs (including full-time, part-time, and temporary positions) provided by employers in the County is also an indicator of economic health. From calendar year 2007 to 2010 the number of jobs decreased with the loss of nearly 13,500, 9%, jobs due to the economic downturn. However, the indicator also reflects recent improvements with the addition of over 32,000 jobs, 24%, from calendar year 2010 to 2019 *(Figure 47).*

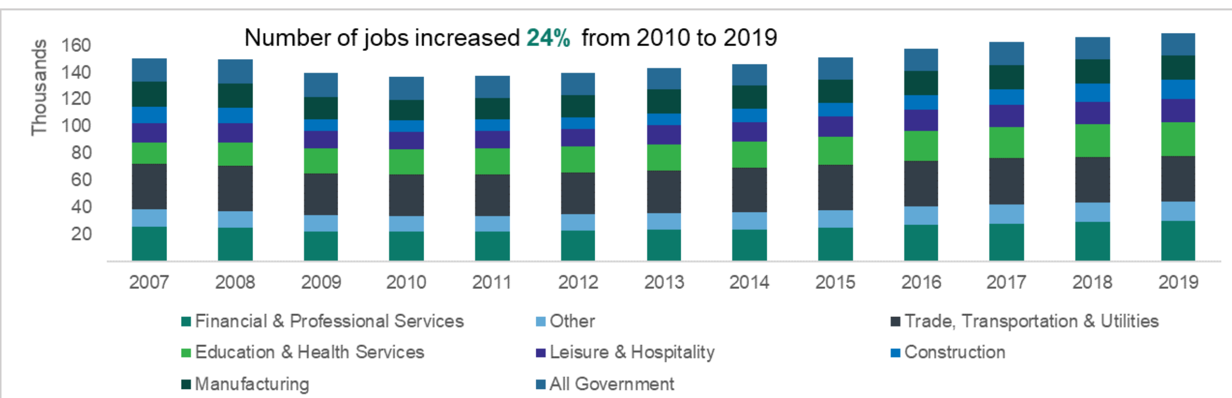


Figure 47 Number of jobs provided by employers in County, by industry

The gap widens between real market value and assessed value

Real market value serves as one of many indicators of economic health and will experience volatility with the market. Total assessed property values, which are the basis for property taxes, will not experience the same level of volatility as the real market values. This is in part due to Measure 5 (1990), Measure 47 (1996) and Measure 50 (1997). These Measures essentially established limits, such as increases, on Oregon's property taxes. The increase in the assessed values was about 16% from fiscal year 2014 to 2019; compared to 53% for the increase in real market values over the same period (adjusted) (*Figure 48*).

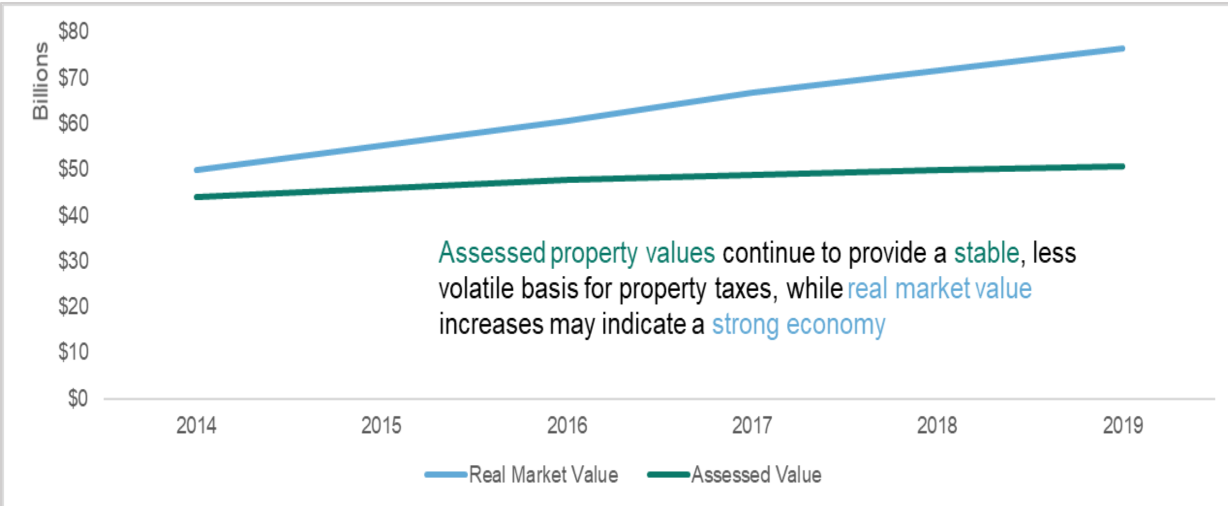


Figure 48 Real market value versus assessed value (in billions, adjusted for inflation)

New construction has increased since the Great Recession

New construction figures are based on Portland Metropolitan Statistical Area (PMSA)[11] building permits. The inflation adjusted value of new construction units decreased $1.89 billion, 67%, from calendar year 2006 to 2009. From 2010 to 2018, the value increased by $2.2 billion, from $1.1 to $3.3 billion (adjusted for inflation); a 200% increase indicating the economy has experienced some recovery from the recession *(Figure 49).*

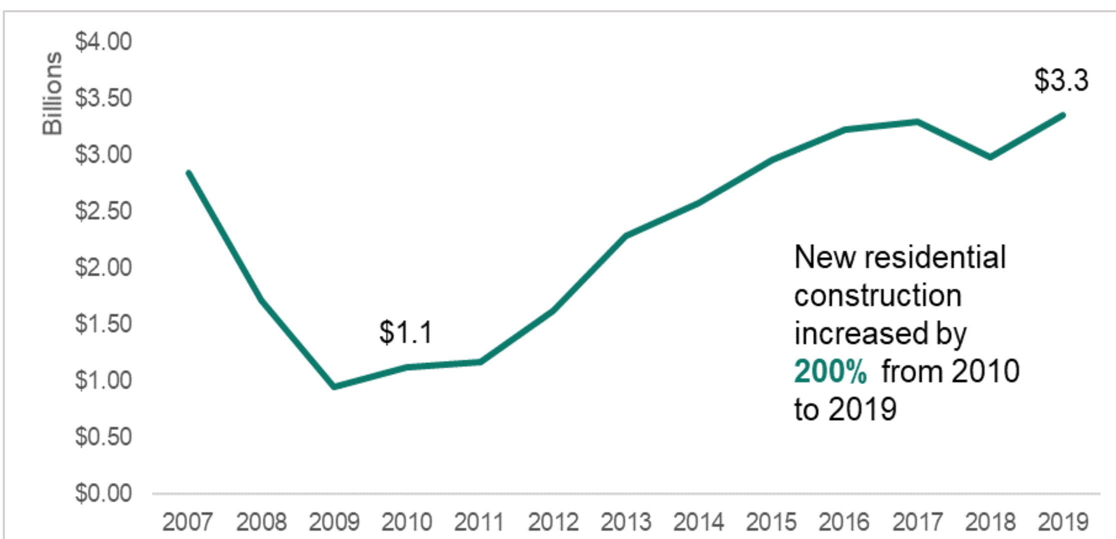


Figure 49 New residential construction in the PMSA (in billions, adjusted for inflation)

[11] PMSA counties: Clackamas, Columbia, Multnomah, Washington, Yamhill (Oregon); Clark and Skamania (Washington)

Objectives, Scope, and Methodology

In accordance with the Clackamas County 2020 internal audit plan, County Internal Audit evaluated the financial condition of Clackamas County as of June 30, 2019. The financial condition of the County's component units or service districts were *not* included in this evaluation.

This evaluation was designed to provide an update to the 2018 financial condition report issued by County Internal Audit and to support the County's strategic decision-making abilities through enhanced financial trend analysis. When originally designed, the scope of this evaluation included an analysis of how the County's financial condition would impact its strategic priority to build a new courthouse. The economic instability resulting from the COVID-19 pandemic significantly lessened the value of projections made based solely on historical trends. Future funding sources, locally and at state and federal levels, are uncertain. In alignment with the County's budgeting strategy, discussed at its April 22, 2020 Budget Committee meeting, the implications and impact of any courthouse construction scenarios were not addressed in this evaluation. As the economic impacts of the pandemic become clearer, it is highly recommended that key financial condition indicators be updated and reviewed to better inform County efforts toward addressing the strategic priority to build a new courthouse.

The objective of this report was to evaluate the financial condition of Clackamas County using the Evaluating Financial Condition and Financial Trend Monitoring System books developed by the International City/County Management Association (ICMA), as well as indicators suggested by the Government Accounting Standards Board (GASB). The selected indicators were also chosen based on the relevance to Clackamas County and on input from County officials regarding what they would want to know about the financial health of the County.

The data analysis in the report generally covers a ten-year period from fiscal year 2010 through 2019. Unless otherwise indicated, data is presented on a fiscal year basis (e.g. fiscal year 2019 represents July 1, 2018 through June 30, 2019). Financial data is expressed in constant dollars to account for inflation by adjusting dollar amounts from each prior year to equal the purchasing power of money in 2019. The Consumer Price Index (CPI) for the West region – Size Class B/C, as reported by the Bureau of Labor Statistics, US Department of Labor was used in these calculations. The CPI program was updated in 2018. Because the index did not meet a new population threshold, the Portland-Salem, OR-WA index, used in the 2017 Financial Condition analysis, was not published under the new CPI design. Prior year data used in developing the 2017 Financial Condition report was restated to reflect the new CPI index selection. Chart titles indicate if amounts have been adjusted for inflation.

Information was reviewed for reasonableness and consistency. Data that was not reasonable or needed additional explanation was questioned and researched. The accuracy of the source documents or the reliability of the data in computer-based systems was not audited. The review of data was not intended to give absolute assurance that all information is free from error. Rather, the intent was to provide reasonable assurance that the reported information presents a fair picture of the

County's financial condition. As nearly all financial information presented is from the County's Comprehensive Annual Financial Reports (CAFR), reliance was placed on the work performed by the County's external financial auditors. Unmodified (clean) opinions were given on all reviewed CAFRs. In addition, while the report offers financial highlights, it does not thoroughly determine the reasons for negative or positive performance. More analysis may be needed to provide such explanations.

Additional information, such as economic and demographic indicators, was obtained from the United States Department of Labor, Bureau of Labor Statistics; Oregon Employment Department; Oregon Department of Education; Oregon Department of Human Services; and Oregon Public Employees Retirement System. This report was produced for informational purposes.

About the Office of Internal Audit

The Office of Internal Audit helps Clackamas County accomplish its mission by bringing a systematic, disciplined approach to evaluating and improving the effectiveness of governance, risk management, and control processes. The Office of Internal Audit governs itself by adherence to The Institute of Internal Auditors' mandatory guidance, including the Definition of Internal Auditing, the Code of Ethics, and the *International Standards for the Professional Practice of Internal Auditing*.[12] The Chief Audit Executive reports functionally to the Internal Audit Oversight Committee and administratively to the publicly elected County Treasurer. This authority allows the Office of Internal Audit to provide independent, objective assurance and consulting activities designed to add value and improve County operations and its ability to serve.

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[12] https://na.theiia.org/standards-guidance/mandatory-guidance/pages/standards.aspx