



Financial Condition:

Assessment of Clackamas County's financial health and fiscal sustainability

June 2023

Report by the Office of County Internal Auditor

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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. Revenue and expense per county resident indicators continue to increase. The county needs to monitor its aging capital assets and unmet infrastructure needs.

	Indicator	Change from Previous Year	10-year Trend	Interpretation
Financial Health	Liquidity: Cash resources to meet immediate needs	↓	↑ <small>Above standards since 2007</small>	OK
	Debt Ratio: Compares total debt to total assets	↓	↑ <small>Above standards since 2007</small>	OK
	Fund Balance Ratio: Reserves for adequate cash flow and capacity to withstand financial emergencies	↓	↑ <small>Above standards since 2010</small>	OK
	Capital Assets Aging: Maintenance and repair of county's buildings, roads, bridges, machinery, and equipment	↓	↓	Needs more attention
	Net Position: What we own versus what we owe	↑	↓	Needs more attention
Revenues	Revenue per county resident	↑	↑	Needs more attention
	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	↑	↑	Needs more attention
	County employees per 1,000 county residents	↑	↑	OK
	Internal service expenses	↓	↑	OK
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	↑	↑	Needs more attention
Demographics	Per capita income	↑	↑	OK
	Poverty	↑	↓	OK
	Residents without health insurance	↓	↓	OK
	Unemployment	↓	↓	OK

Background

What is the 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 Annual Comprehensive Financial Report—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 the 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.

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 Counties¹ identified major services provided by the state, counties, and by both entities.

SHARED STATE-COUNTY SERVICES					
Serving the Citizens of Oregon					
	HUMAN SERVICES	PUBLIC SAFETY	NATURAL RESOURCES	TRANSPORTATION & COMMUNITY DEVELOPMENT	GOVERNANCE, REVENUE, & VETERANS
STATE-PROVIDED SERVICES	Child Protection State Hospital	Appellate Courts Department of Justice State Police State Prisons	State Lands State Parks Water Regulation Wildlife Regulation	State Fair State Highways	Administrative Services Contracting & Procurement
STATE/COUNTY-SHARED SERVICES	Behavioral Health Services Civil Commitment Child & Family Services Disability Services Early Learning Environmental Health Foster Care Healthcare Housing Services Mental Health Services Public Health Services Senior Services Substance Abuse Prevention Substance Abuse Treatment	Community Corrections County Law Libraries Court Security District Attorney Services Drug Policy Emergency Services Juvenile Services Marine Patrol Services Medical Examiner Trial and Specialty Courts	Agriculture County Forest Trust Lands County Parks Endangered Species Energy Development Federal Land Policy Land Use (resource lands) Ocean & Coastal Policy Pesticide Control Predator Control Private & State Forests Watermaster Weed Control Wetlands Wildfires	Broadband Building Code & Inspections County Fairs Engineering Highway & Road System Infrastructure Development Land Use (non resource lands) Ports Railroads Telecommunications Transit Workforce Development	Economic Development Elections Extension Service Fees Finance & Investment Insurance & Liability Labor Relations PERS Public Records & Meetings Revenue & Taxation Veteran Services
COUNTY-PROVIDED SERVICES		Animal Control County Jails Justice Courts Search & Rescue Sheriff Patrol	County Parks County Property Soil & Water Conservation Vector Control	County Road System Recycling Solid Waste Management Surveying	Administrative Services County Library County Museums County Service Districts County Governance Document Recording

Disclaimer: Please note this list is not all inclusive. | Last updated January 2023

AOC ASSOCIATION OF OREGON COUNTIES

Source: Association of Oregon Counties Shared Services Chart

¹ <http://oregoncounties.org/news/publications/shared-services/>



Clackamas County's Financial Condition

This report is intended to provide additional analysis and transparency of the county's financial health. It is not intended to provide explanations or analysis on the cause of changes, nor provide recommendations on operational processes.

In the fiscal year beginning July 1, 2021, the county changed the chart of accounts to tie to county strategic goals and streamline processes and fund management. In changing the chart of accounts, some funds were consolidated and reclassified.

Unless otherwise indicated, data is presented on a fiscal year basis. Years on the graphs represent data as of the fiscal year ended (e.g., 2022 represents June 30, 2022).

About Clackamas County

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

The county's Land Acknowledgement states: "What we now call Clackamas County is the traditional lands and waterways of the Clackamas, Chinook Bands, Kalapuya, Kathlamet, Molalla, Multnomah, Tualatin, Tumwater, Wasco and many other tribes of the Willamette Valley and Western Oregon. We will never be able to name every tribe that visited or lived upon this land because these communities frequently traveled for trade and other reasons. The Indigenous people lived, traded and navigated along great rivers and tributaries presently named the Clackamas, Molalla, Pudding, Sandy, and Willamette. Many of the original inhabitants of this land died from disease, war and other conflicts. Those that survived these tragedies were forcibly removed and relocated by European settlers and the United States Government because of the land's value. Today, their descendants live on, still carrying on the traditions and cultures of their ancestors.

"We honor the Native American people of Clackamas County as a vibrant, foundational and integral part of our community here today. We respectfully acknowledge Wy'east, also known as Mount Hood, and Hyas Tyee Tumwater, also known as Willamette Falls, as sacred sites for many Native Americans. We thank those who have connection to this land and serve as stewards, working to ensure our ecosystem stays balanced and healthy."²

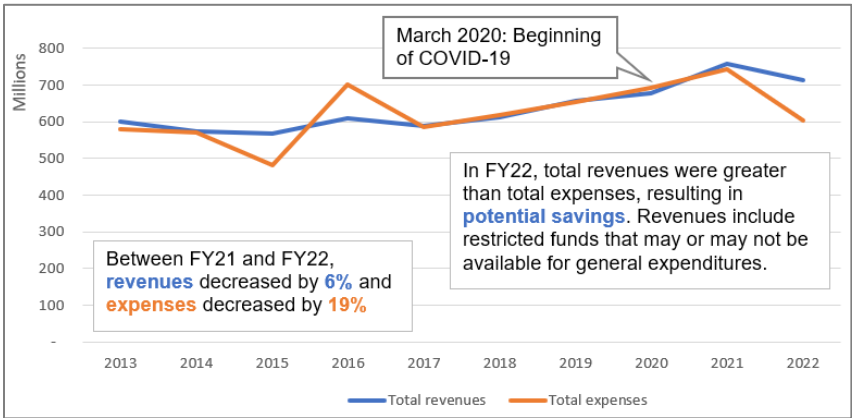
² About [Clackamas County](#)

Revenues and Expenses

Why are Revenues and Expenses Important?

Revenues are necessary for a government to provide services to its residents. Diverse sources of revenues can help the county weather a downturn in the economy. Expenses are a 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 based on its anticipated resources and budgeted expenditures. Actual revenues may not equal or may not exceed the total costs of services provided.

Total Revenues Greater than Expenses Result in Potential Savings



Within the last ten years (FY13 to FY22), revenues increased approximately 19% (adjusted for inflation). When compared to the previous year (FY21), revenues and expenses decreased by approximately 6% and 19%, respectively (Figure 1).

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

Total revenues greater than expenses result in a revenue overage, and total expenses greater than revenues result in a revenue shortage. In FY22, revenues were approximately \$714.2 million and expenses were \$603.4 million³. This meant a revenue overage that created a potential for savings (Figure 2). Between FY17 and FY21, the county fluctuated between having small revenue overages and shortages, meaning the amount of funds received (revenues) were about the same as the amount spent (expenses). It should be noted that revenues can include funds that are restricted and may not be available for general expenditures. For more information about restricted fund balances, see the “Financial Health” section.

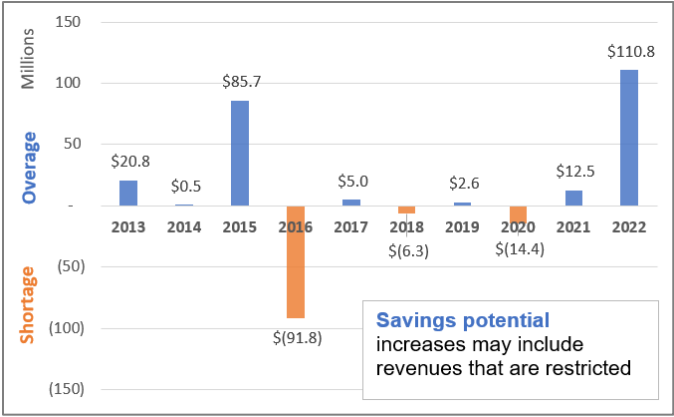


Figure 2 Revenue overages and shortfalls (in millions, adjusted for inflation)

³ Excludes legally separate, tax-exempt component units of Clackamas County



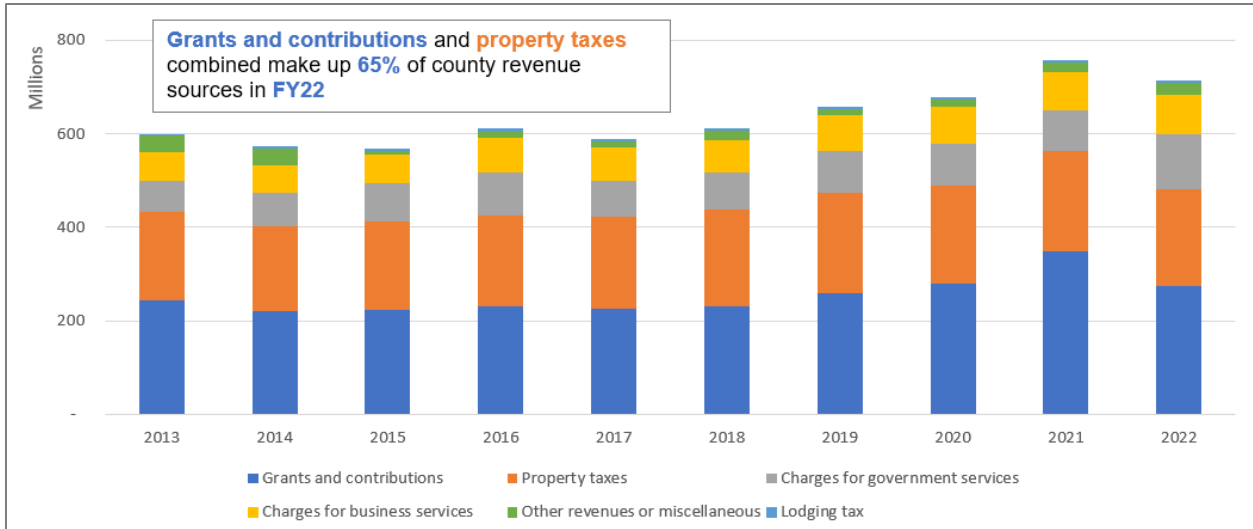


Figure 3 Revenues by source (in millions, adjusted for inflation)

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 65% of county revenues sources in FY22. In addition to these two largest revenue sources, the county receives revenues from charges for government services, charges for business services, lodging tax, and other miscellaneous sources. For the purposes of this report, revenue of discretely presented component units were excluded as the county has no financial benefit or burden relationship with these legally separated, tax-exempt component units⁴. Grants and contributions decreased by 21% from the prior year and property taxes decreased by 4%. Revenues in all other categories had an increase from the prior year (Figure 3).

Grants and contributions were the largest revenue source

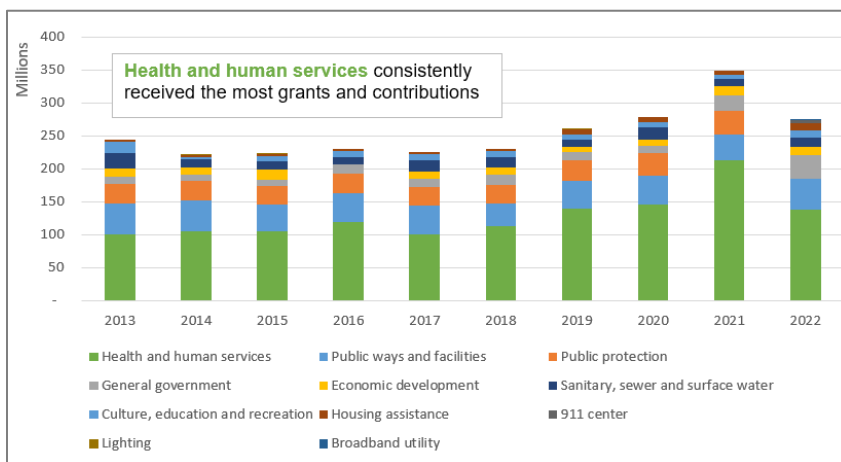


Figure 4 Grants and contributions (in millions, adjusted for inflation)

Grants and contributions were the largest revenue source for the county (Figure 4). These revenues included direct federal, state, and local funding, as well as federal funding passing through the state to the county. Many programs were supported by these revenues.

⁴ Clackamas County [Annual Comprehensive Financial Report](#) for the fiscal year ended June 30, 2022

During the last half of FY20, the World Health Organization declared the novel coronavirus, COVID-19, a pandemic. Assistance for state, local, and tribal governments to provide critical relief and continuing support during the pandemic included, and not limited to, funding through the CARES Act through the Coronavirus Relief Fund and the American Rescue Plan Act⁵.

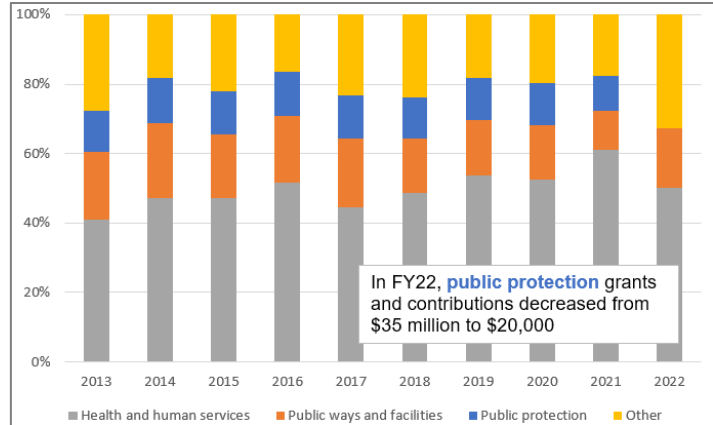


Figure 5 Percentage of grants and contributions by revenue source (adjusted for inflation)

Significant amounts of COVID-19 assistance and relief funds received as a result of the state of emergency⁶ led to an increase in health and human services grants and contributions in FY21. Health and human services, public ways and facilities, and public protection combined consistently represent more than half of all grants and contributions (Figure 5). In FY22, public protection grants and contributions significantly decreased. During this period, the county revised its funding structure and reporting classifications. A portion of this decrease can be attributed to the change in fiscal reporting.

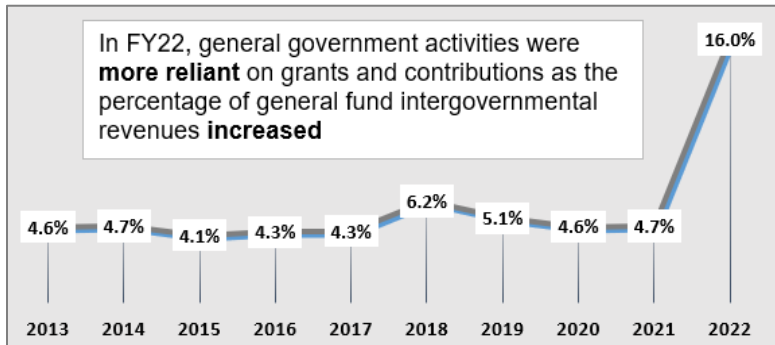


Figure 6 General fund intergovernmental revenues as a percentage of total general fund revenues

The county's general government reliance on grants and contributions can be represented as a percentage of general fund intergovernmental revenues. This percentage remained steady from FY13 through FY21. An increase of \$30 million in general fund intergovernmental revenues during FY22 resulted in a percentage increase from 5% of total general fund revenues to 16% (Figure 6).

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

General government programs, as well as library services, were primarily supported by property tax revenues. In FY22, the county received approximately \$206.5 million in county property taxes⁷. In the last 10 years, the county received just over \$1.71 billion in county related property taxes, with an average increase of 4% per year (unadjusted). Since FY14, approximately 71% of county property taxes paid for general county services.

⁵ U.S. Department of the Treasury COVID-19 Economic Relief [Assistance for State, Local, and Tribal Governments](#)

⁶ State of Oregon [Executive Order No. 20-03](#) signed on March 8, 2020

⁷ Property tax revenue from component units and service districts excluded

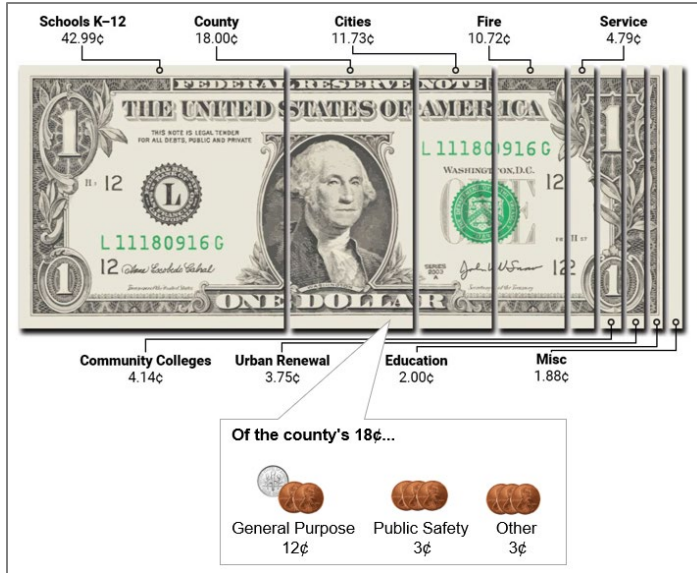


Figure 7 Programs funded with property tax revenue allocated to the county in FY22; dollar bill chart provided by Clackamas County Budget

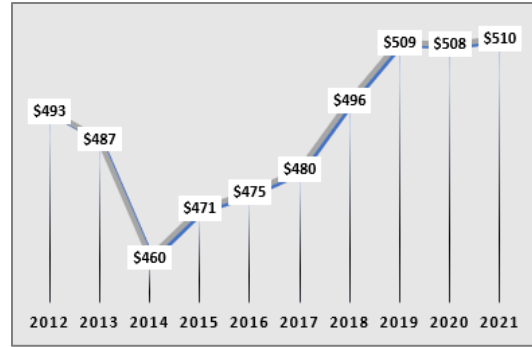


Figure 8 Property taxes collected per person (adjusted for inflation)

About 18% of property taxes collected within Clackamas County went to the county, and the remainder of property tax revenues were passed to schools and community colleges, fire districts, service districts, and more⁸. This means for every dollar of property

taxes, 18¢ goes to the county. Of that 18¢, about 12¢ were used for general purpose, three cents for public safety, and three cents for other services such as the library, parks and recreation, education outreach, and more (Figure 7). Property taxes collected per person averaged a two percent annual increase from FY15 though FY19 and had since held relatively steady at around \$510 per person (Figure 8).

Third largest revenue source was fees, fines and charges for services

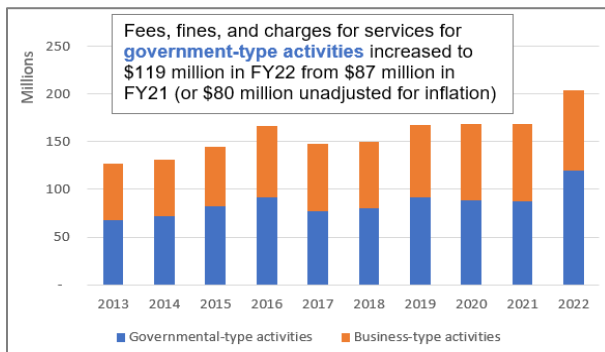


Figure 9 Government and business fees, fines, and charges (in millions, adjusted for inflation)

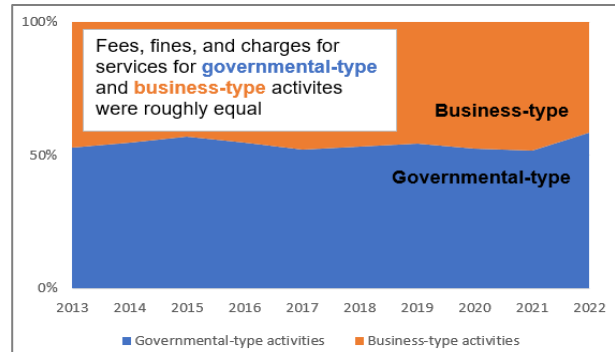
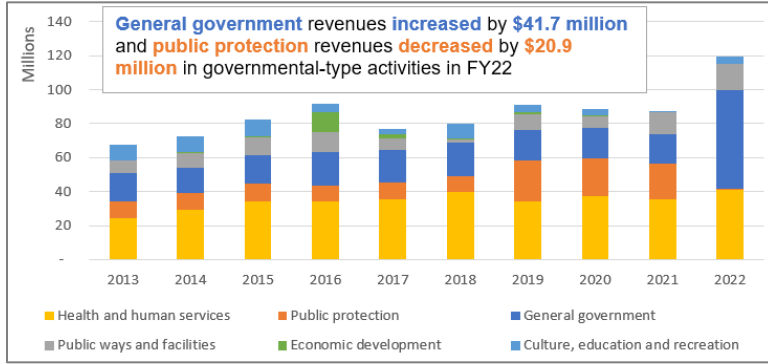


Figure 10 Government and business fees, fines, and charges percentages of total (adjusted for inflation)

Fees, fines and charges for services can be broken down into two categories: government-type and business-type activities. Each category accounts for roughly fifty percent of this revenue source though FY21 (Figure 9 and Figure 10). In FY22, fees, fines, and charges for services for governmental-type activities increased from 52% to 58% of the total fees, fines, and charges for services.

⁸ Clackamas County [Budget](#) and [Assessment & Taxation](#)



Governmental-type activities generally occur when no “exchange” relationship exists between resources provided and services received. 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.

Figure 11 Government fees, fines and charges for services (in millions, adjusted for inflation)

Health and human services were the largest source of revenue for governmental-type activities through FY21, and general government was the largest source of revenue in FY22 (Figure 11). In FY22, Health and human services fees, fines and charges for services increased by about \$5.7 million and culture, education and recreation fees, fines and charges for services increased by about \$4.0 million.

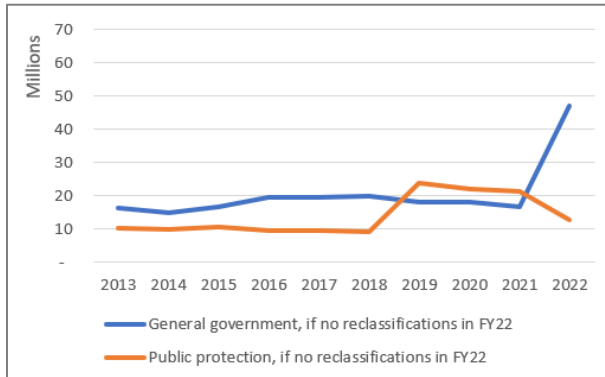


Figure 12 General government and public protection fees, fines and charges for services if no reclassifications⁹ were made in FY22 (in millions, adjusted for inflation)

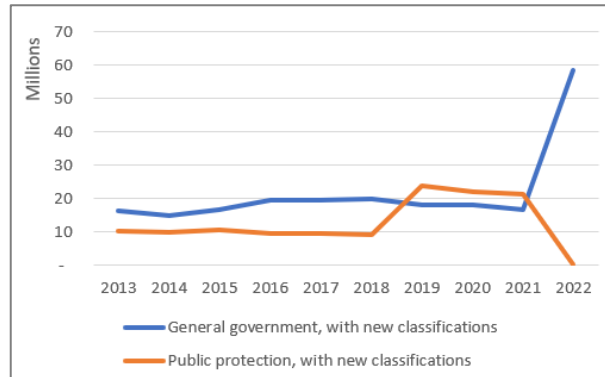


Figure 13 General government and public protection fees, fines and charges for services using the new classifications (in millions, adjusted for inflation)

As a result of the county’s change in funding structure and classifications in FY22, the presentation of total revenues by function type (i.e., general government, public protection, health and human services, etc.) may have changed. Figure 12 provides a visual of what the fees, fines, and charges for services revenue would look like if the funding structure and classifications did not change (i.e., public protections funds were not reclassified as general government funds)⁹. Figure 13 is shown to provide a comparison of what the FY22 financial statement stated. Both graphs have been adjusted for inflation.

Due to the reclassification, approximately \$12.4 million of FY22 public protection fees, fines, and charges for services were grouped as part of the general government function. Excluding the \$12.4 million reclassification from public protection, general government fees, fines, and charges for services increased by an additional \$29.3 million in FY22.

⁹ The process of regrouping individual function revenue to what it would have been if no reclassifications were made in FY22 involved estimations and professional judgment and therefore were not based on audited amounts

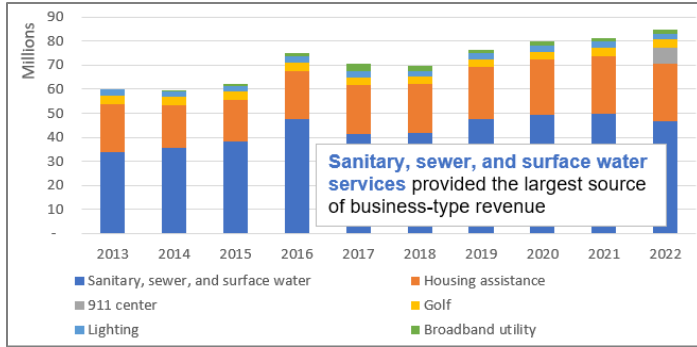


Figure 14 Business fees, fines, and charges for services (in millions, adjusted for inflation)

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 generated majority of the business-type revenues (Figure 14). The total increase in business-type revenue for FY22 was about 4%.

Where Does the Money Go?

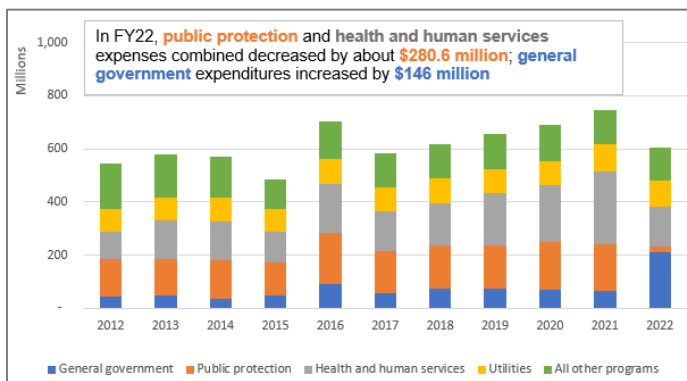


Figure 15 Expenditures by program excluding legally separate, tax-exempt component units of the County (in millions, adjusted for inflation)

Over a 10-year trend, public protection and health and human services expenditures combined have consistently represented the majority of total expenditures. In FY22, general government expenditures represented 35% of total expenditures¹⁰, and health and human services expenditures represented 25% (Figure 15). A portion of the general government expenditures increase during FY22 was due to the county's change in funding structure and classifications.

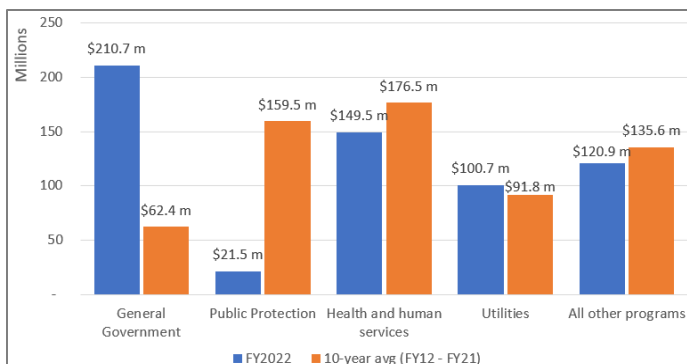


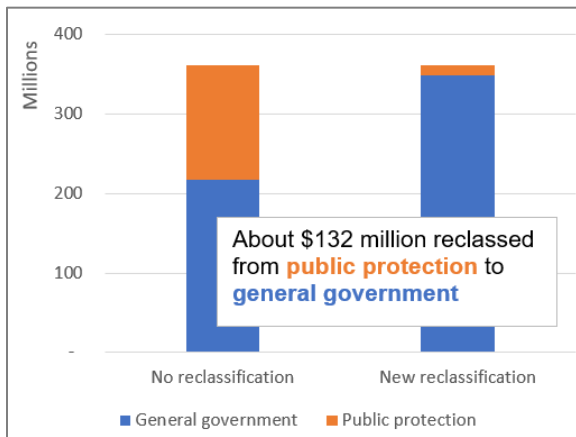
Figure 16 FY22 Expenses by program compared to 10-year average (in millions, adjusted for inflation)

In addition to these two largest expenditures programs, the county expended resources supporting public protection, utility, public ways and facilities, and more (Figure 16). From FY17 to FY21, total expenditures slowly increased. In FY22, total expenditures decreased by approximately \$140.6 million. Public protection expenditures decreased by about \$155.5 million, and health and human services expenditures decreased by about \$125.2 million.

¹⁰ Excludes legally separate, tax-exempt component units of Clackamas County

Public protection expenditures shift due to reclassification

Prior to the change in funding structure and classifications in FY22, public protection expenditures included activities to support the Sheriff's Office, Juvenile department, District Attorney's Office, Community Corrections, the Law Library, Public Safety Local Option Levy, and more. 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 Public Safety Local Option Levy, renewed in May 2021, 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.



and protects crime victims. The county's Justice Court generally has jurisdiction over misdemeanors and violations sited to its court.

Due to the reclassification, approximately \$132 million of FY22 public protection program expenditures were regrouped and reported as part of the general government category (Figure 17). Figure 18 provides a continuation of the trend analysis within public protection program expenditures had there been no fund classification change in FY22¹¹. Expenditures for these activities have been proportionately consistent throughout FY21.

Figure 17 Comparison of public protection program expenditures for FY22 before and after reclassifications¹¹ were made (in millions)

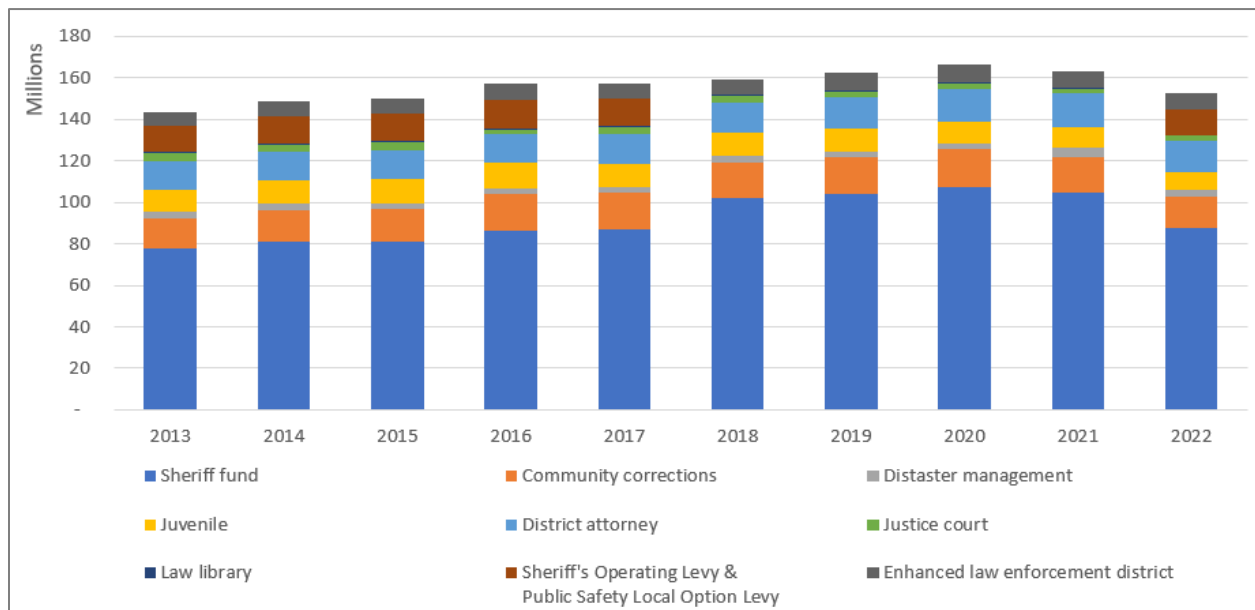


Figure 18 Public protection program expenditures if no reclassifications¹¹ were made in FY22 (in millions, adjusted for inflation)

¹¹ The process of regrouping individual function revenue to what it would have been if no reclassifications were made in FY22 involved estimations and professional judgment and therefore were not based on audited amounts

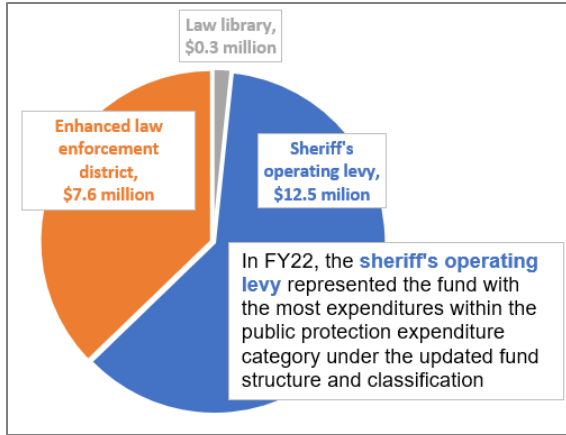


Figure 19 Public protection expenditures by funds under the updated fund structure and classification in FY22 (in millions)

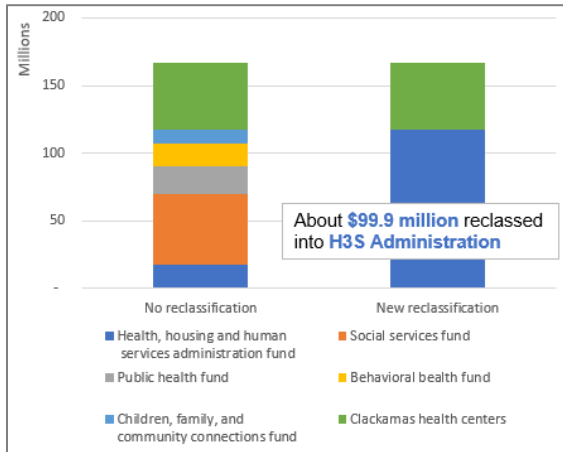


Figure 20 Comparison of health and human service program expenditures for FY22 before and after reclassifications¹⁸ were made (in millions)

Under the new public protection fund structure and classification, three funds had public protection expenditures in FY22: Sheriff's operating levy, enhanced law enforcement district, and the law library fund (Figure 19).

Health and human services expenditures reclassified in fiscal year 2022

County Health Centers include medical and dental clinics, public health services, school-based clinics, and other health care and education services for the community.¹² The Social Services division provides assistance to seniors, people with disabilities, veterans, and low-income residents of the county.¹³ Behavioral Health provides mental health, alcohol and drug treatment services, mental health and addictions clinics, and Oregon Health Plan information.¹⁴ Public Health handles infectious disease control and prevention, healthy places, access to care, environmental health, and more.¹⁵ Children, Family & Community Connections promotes wellness and positive outcomes for county children and families.¹⁶ The mission of the Community Development division is to strengthen and improve neighborhoods throughout the county through the use of federal grants.¹⁷

Due to the change in funding structure and classification in FY22, the aforementioned divisions (i.e., behavioral health, social services, public health, etc.) were consolidated into the Health, Housing, and Human Services (H3S) Fund. Approximately \$99.9 million were reclassified into the H3S fund (Figure 20).¹⁸ Figure 21 provides a visual of the trend continuation had there been no changes.

¹² Clackamas County [Health Centers](#)

¹³ Clackamas County [Social Services](#)

¹⁴ Clackamas County [Behavioral Health](#)

¹⁵ Clackamas County [Public Health](#)

¹⁶ Clackamas County [Children, Family & Community Connections](#)

¹⁷ Clackamas County [Community Development](#)

¹⁸ The process of regrouping individual function revenue to what it would have been if no reclassifications were made in FY22 involved estimations and professional judgment and therefore were not based on audited amounts

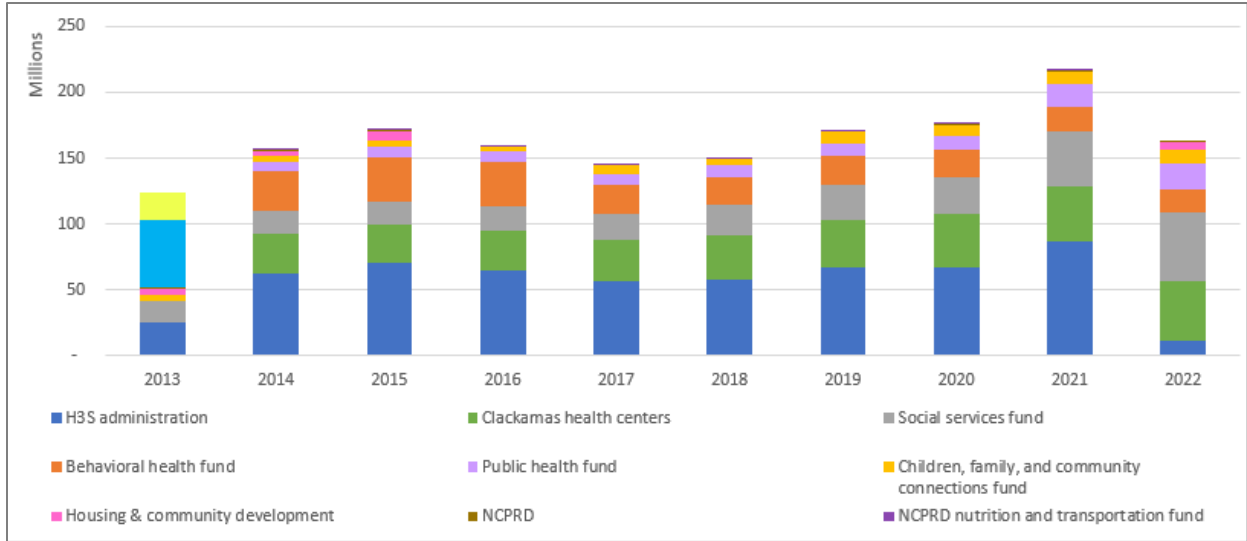


Figure 21 Health and Human Services expenditures if no reclassifications were made in FY22 (in millions, adjusted for inflation)

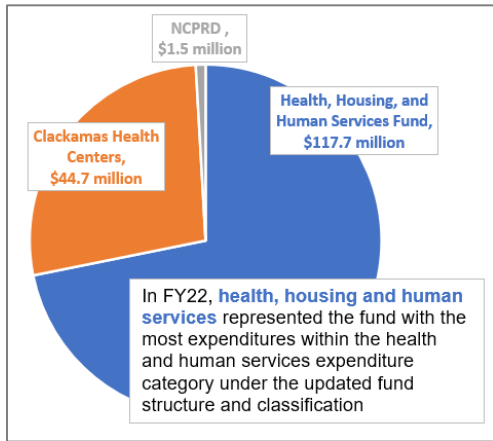


Figure 22 Health and Human Services expenditures by funds under the updated fund structure in millions)

Under the new health and human services fund structure and classification, three funds had health and human service expenditures in FY22: H3S, Clackamas health centers, and North Clackamas parks and recreation (NCPRD) (Figure 22).

Self-insurance strategy has increased internal service fund expenditures

Internal service funds account for services and activities provided by the county for other units primarily within the county (e.g., Human Resources, Finance, etc.). Self-insurance cost accounted for the dental and short-term disability self-insured programs, employee assistance and wellness activities, and flexible spending accounts for health care and dependent care expenses.

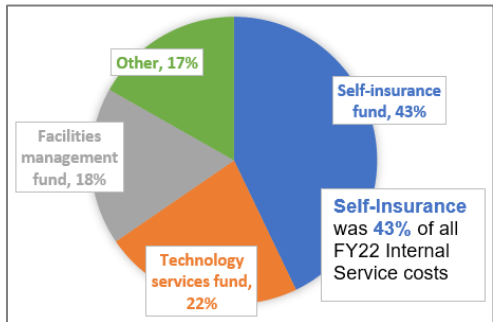


Figure 23 Internal service fund expenditures major program percentages in FY22

In FY22, self-insurance costs were \$31 million and represented 43% of all internal service costs. Technology services and facilities management were the two next largest costs (Figure 23). Removing the impact of the self-insurance fund, internal service costs remained relatively proportionate since FY17 with an averaged 5% increase from FY17 through FY21 (Figure 24). In FY22, self-insurance fund decreased by \$1.1 million and all other internal service fund charges decreased by \$14.9 million.

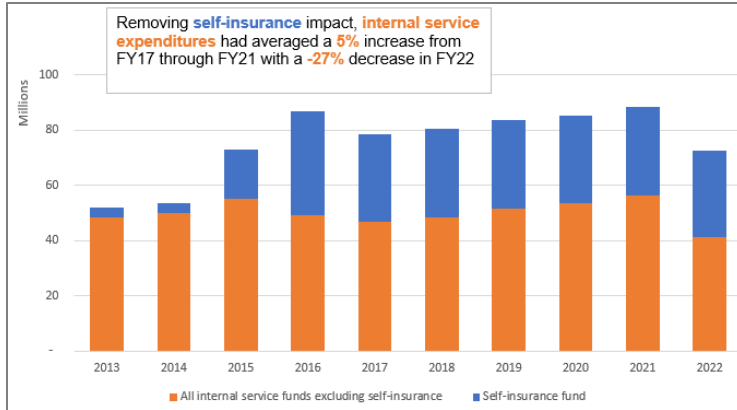


Figure 24 Internal service fund expenditures (in millions, adjusted for inflation)

Number of county employees remained near five per 1,000 residents

The number of county employees and the county overall population both increased, on average, 2.2% annually for the last 10 years. While the distribution of employees among county programs and areas of government fluctuated (Figure 25), the county maintained an average relationship of 5.18 employees to

1,000 county residents since 2012. At the end of 2021, the county employed ~5.55 employees per 1,000 County residents (Figure 26). 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.

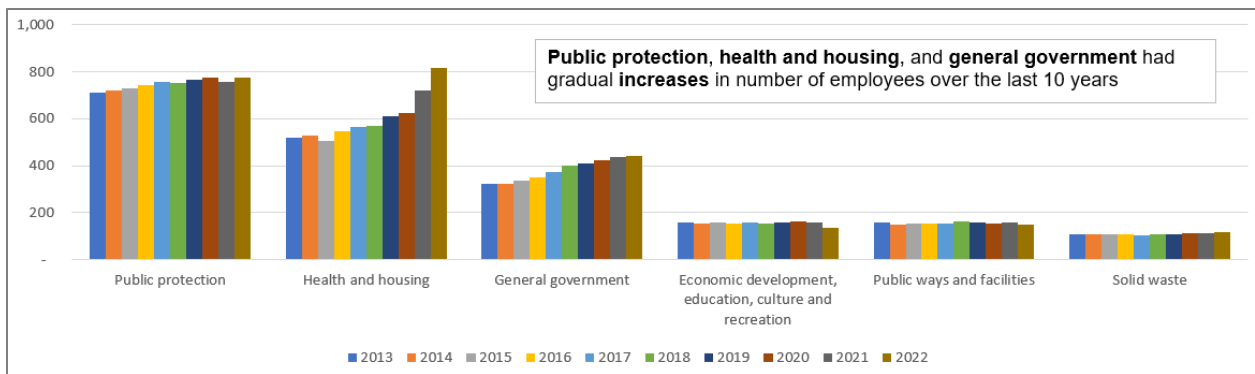


Figure 25 Number of FTE by area of government (does not include temporary employees)

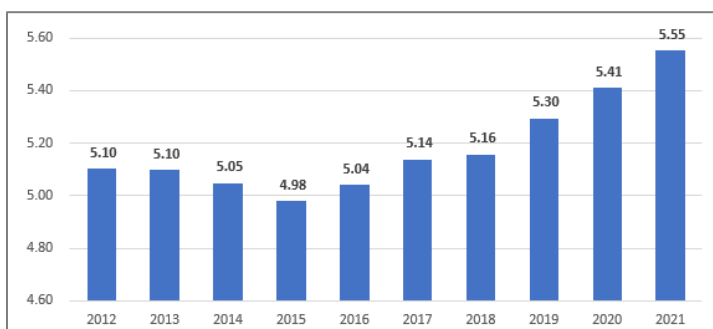


Figure 26 County employees per 1,000 county residents

Employee wages, benefits, and other costs continued to increase

As the number of employees increased, workforce compensation expenses also increased. Since FY13, annual increase in wages averaged 2%, PERS increase averaged 6%, taxes averaged 12% increase, fringe benefits averaged a 3% decrease, and

other benefits were held relatively stable (Figure 27). It should be noted that due to the change in funding structure and classifications, the tracking of benefit types in the fringe benefits category has changed. The “taxes” category, as of FY22, reflected the following three types of taxes: Employer FICA, Trimet Tax, and Workers Benefit fund.

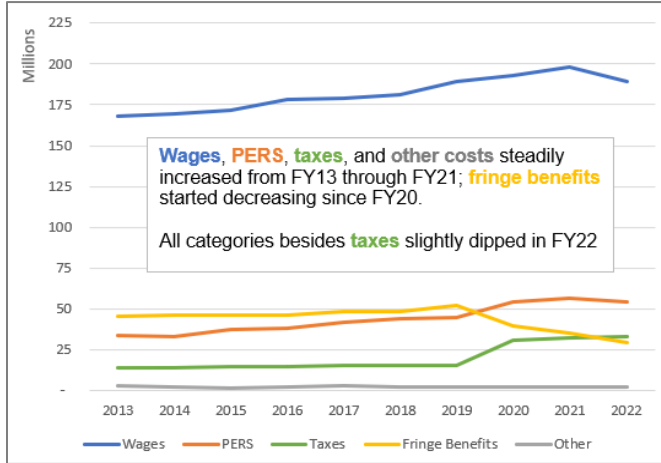


Figure 27 Wages, benefits and other costs (in millions, adjusted for inflation)

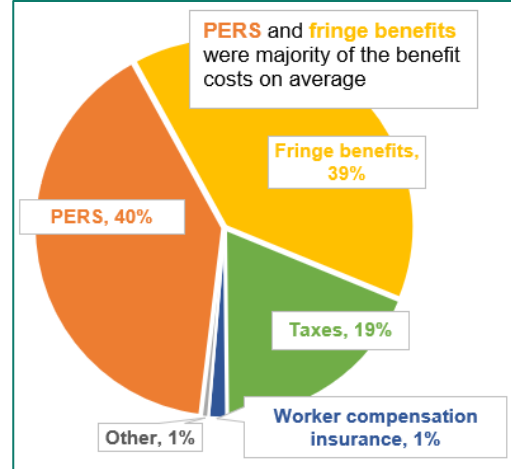


Figure 28 Benefits and other costs FY13 to FY22 average percentage

In FY22, total wages and benefits costs totaled around \$309 million. On average, benefits and other costs accounted for 38% of total workforce compensation expenses. PERS cost and fringe benefits represented majority of these costs (Figure 28).

Increasing expense per capita in the last four years narrowed the savings potential

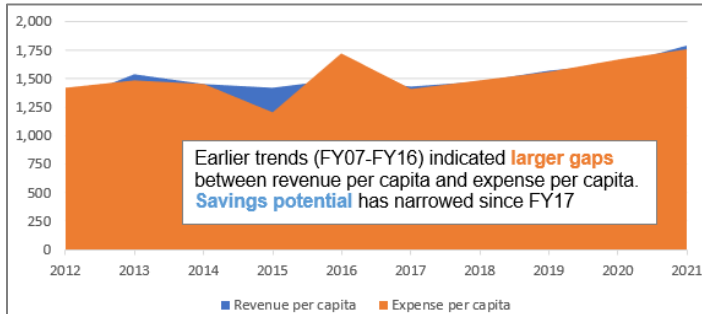


Figure 29 Expenses and revenues per capita (in dollars, adjusted for inflation)

Revenue per capita measures the average revenue earned by the county per person in the county. Expense per capita is the average amount of government spending by the county to provide services to county residents.

In FY16, expenses per person significantly increased due 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 financials. Earlier trends from FY07 through FY16 indicated larger gaps between revenue per capita and expense per capita. In some years such as FY13 or FY15, there was a savings potential as the revenue per capita was greater than the expense per capita. In other years such as FY12 and FY16, there was a savings shortage as expense per capita was greater than the revenue per capita.

From FY17 to FY21, both revenue per capita and expense per capita averaged an increase of 5.8% and 5.6%, respectively¹⁹. Between FY17 and FY21, a small savings potential existed every other year. In FY21, revenue per capital was \$30 greater than expense per capita, a shift from the year before in which expense per capita was \$35 greater (Figure 29). In the last four years, increase in expense per capita created narrowing savings potential as per capita nets were nearly zero.

¹⁹ 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. Annually, the county will levy to repay these general obligations in addition to other taxes²⁰.

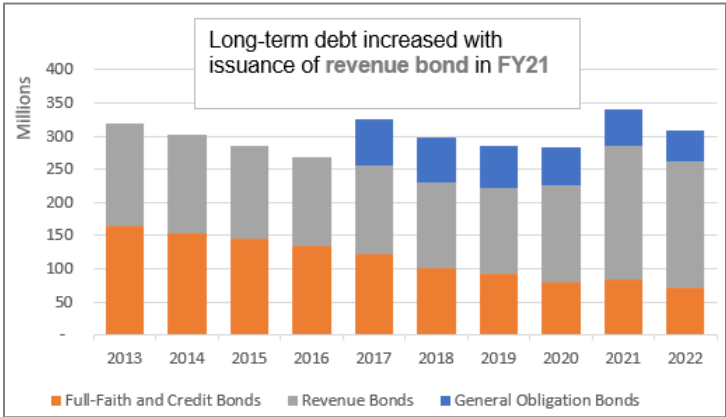


Figure 30 Long-term debt (in millions, adjusted for inflation)

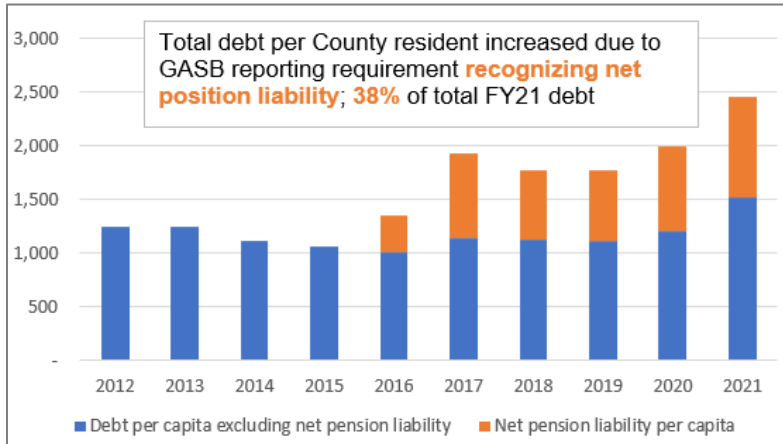
The county’s long-term debt had steadily decreased until the GO Bond Series 2016A and 2016B were issued in FY17 for the replacement of the Clackamas 800 Radio Groups’ emergency communications system and existing radio coverage expansion. Additionally, Revenue Obligations Series 2021 was issued in FY21 in the amount of \$40 million to finance capital projects and fund a debt service reserve (Figure 30).

Independent assessments of the county’s debt health are regularly performed by credit agencies prior to a bond issuance. The county’s credit rating 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 Full Faith and Credit and Refunding Obligations, Series 2020. Moody’s also maintained Aaa rating on the county’s general obligation unlimited tax bonds and the parity Full Faith and Credit obligations, and a Aa2 ratings on the county’s Multifamily Housing Revenue Bonds, Series 2013A (Easton Ridge Apartments Project).

²⁰ Other taxes include ad valorem (general) property taxes, which is a district tax upon all of the taxable property within the County

Total debt per person continued to increase

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 fluctuated over the years with a steady increase since FY19. With the exception of the increase from FY15 to FY16, most increases were associated with bond issuances. The increase in FY16 was mainly

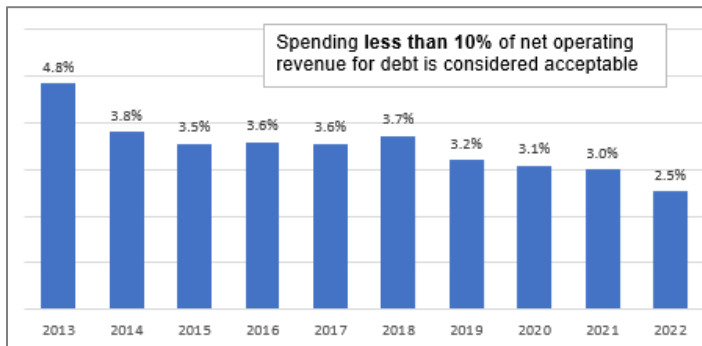


attributed to GASB Statement No. 68 and 71, which required the net pension liability be reported on the Statement of Net Position as a noncurrent liability, increasing liabilities in 2016 by \$111 million. Net pension liability represented 38% of total FY21 debt (Figure 31). These GASB requirements and the *Moro v. State of Oregon* decision also affected pension expense.

Figure 31 Total debt per county resident (in dollars, 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 trended downward. For each year analyzed, total spending for debt was below 10%²¹ of net operating revenues, which is considered acceptable and well below a 20%²² warning threshold (Figure 32).



In FY23, the county entered into an agreement for the construction of a new courthouse²³ using a public-private partnership. The project value is approximately \$313 million, and funding is through Oregon Courthouse Capital Construction Improvement Fund, the State of Oregon General Fund, the Oregon Judicial Department, and budgeted county general funds.

Figure 32 Debt service as a percentage of net operating revenues

²¹ Evaluating Financial Condition - A Handbook for Local Government; International City/County Management Association (ICMA), Copyright 2003, Page 83

²² Per ICMA, debt service on net direct debt exceeding 20 percent of operating revenues is considered a potential problem

²³ Clackamas County [Replacement Courthouse Project](#)

Financial Health

Governmental Fund Balance

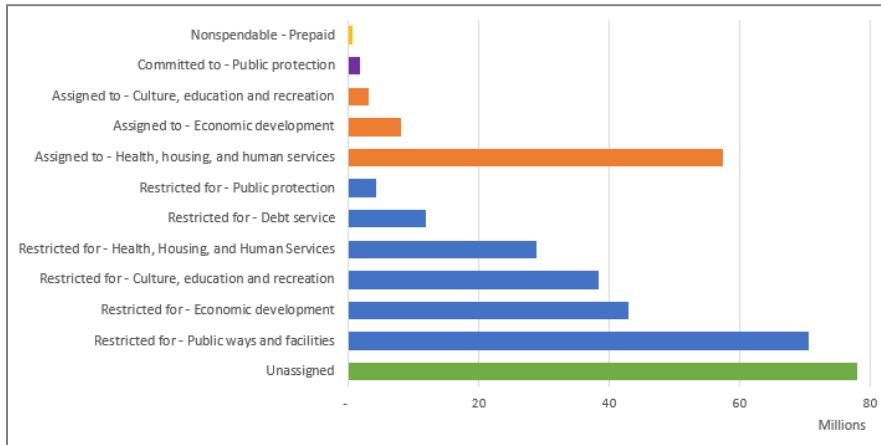


Figure 33 Governmental fund balance in FY22 (in millions)

The county budgets on an annual basis. Accounting standards require governments to report fund balances based upon constraints on the use of the resources reported in the governmental funds (Figure 33). 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.

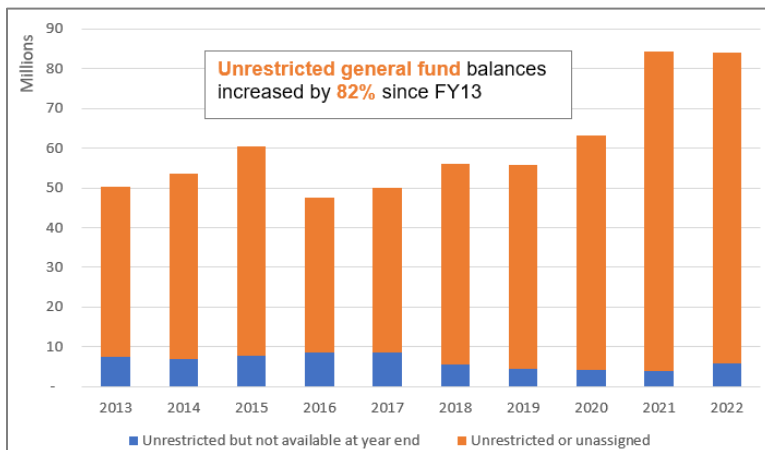


Figure 34 General fund unrestricted balances (in millions, adjusted for inflation)

Unrestricted general fund balances had increased

Unrestricted balances can include unavailable revenue, which are considered unavailable at fiscal-year end and are classified as a receivable due to a delay of when cash is received. Excluded from the balances are items that are considered restricted, assigned, committed, or nonspendable as they are not available for discretionary spending. Since FY13, unrestricted general fund balances increased by 82% (Figure 34).

General fund balance ratio

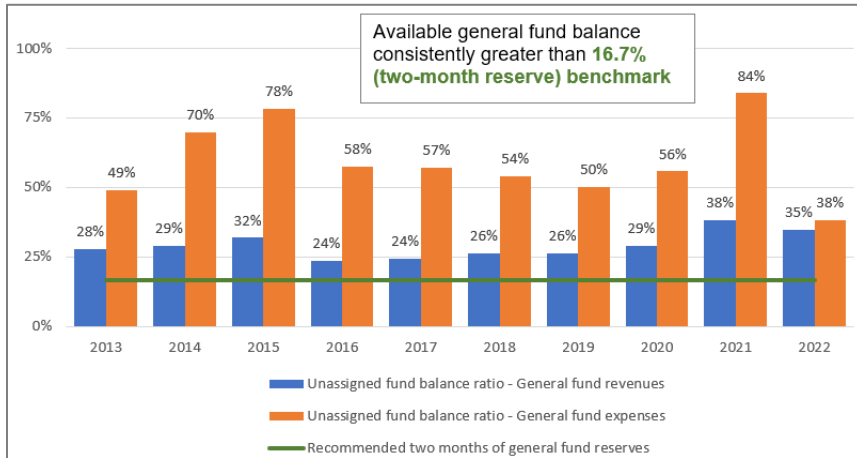


Figure 35 General fund unassigned balances as percentages of general fund revenues and expenses

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 reserves²⁴. The county has consistently met and exceeded this standard for both general fund revenue and general fund expense fund balance ratios for the last ten years (Figure 35).

What We Own Versus What We Owe

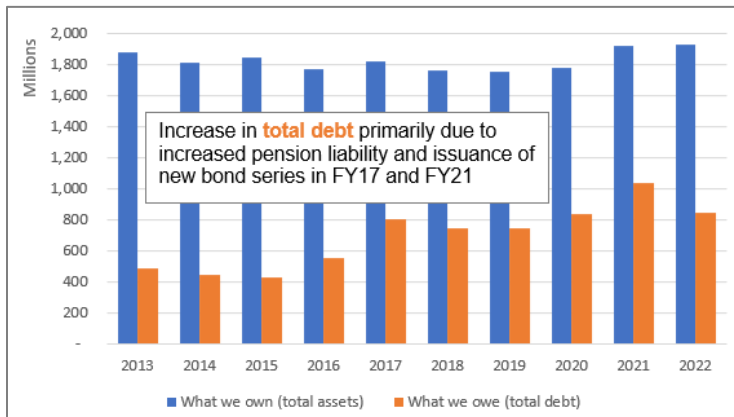


Figure 36 Total assets (net of depreciation) versus total debt (in millions, adjusted for inflation)

Evaluating the short-term and long-term relationships between what is owned and what is owed is critical (Figure 36). The significant increase in net pension liability and the continued depreciated value of capital assets reduced the long-term assets to debt ratio.

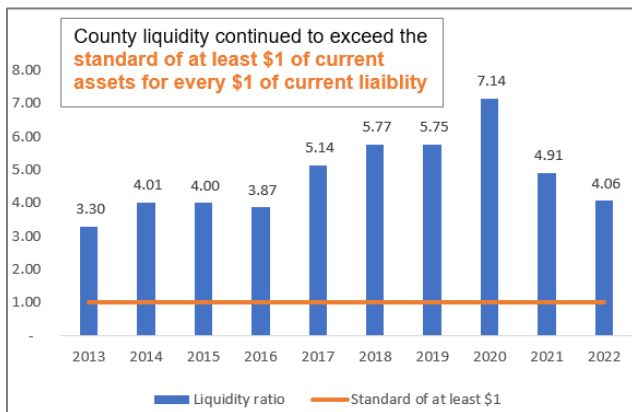


Figure 37 Liquidity ratio

Liquidity remained 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 had stayed above the 1:1 recommended ratio for the last ten years (Figure 37).

²⁴ [GFOA Fund Balance Guidelines for the General Fund](#)

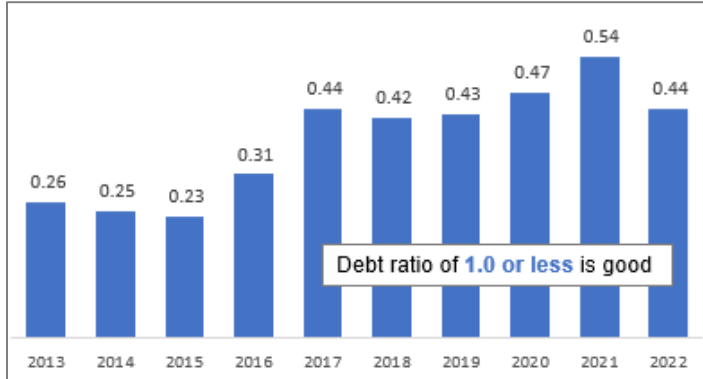


Figure 38 Debt ratio

Debt ratio remained below warning trend

The debt ratio compares total debt to total assets, measuring the proportion of the county’s assets financed through debt. The credit industry considers a debt ratio of 1.0 or less to be acceptable. With an averaged debt ratio of 0.46 between FY17 and FY22, Clackamas County has exceeded the industry standard in the last ten years (Figure 38).

Capital Assets Are Getting Old

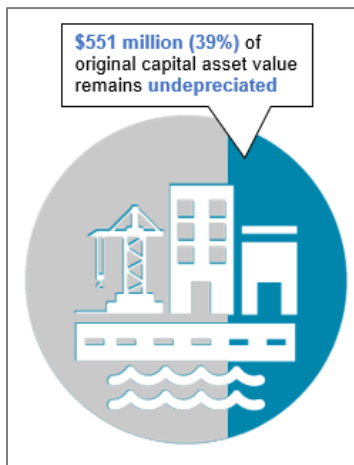


Figure 39 Original value of capital assets (government & business-type activities) being depreciated in FY22, \$1,419MM

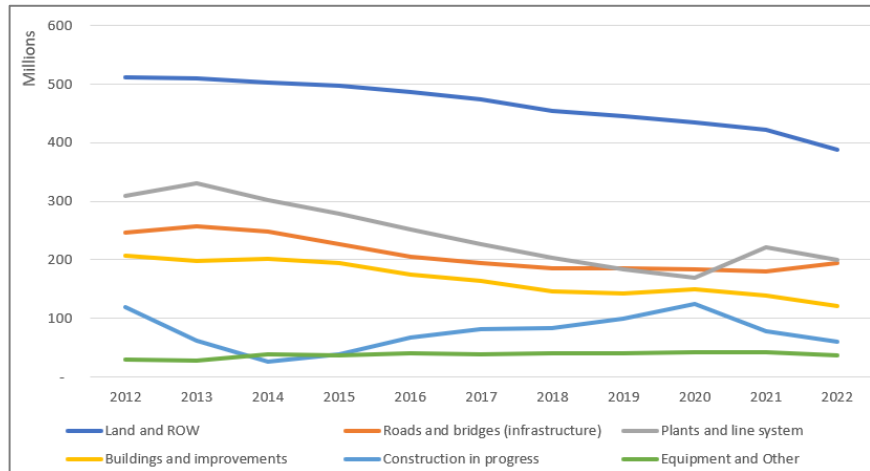


Figure 40 Capital assets, net of accumulated depreciation (in millions, adjusted for inflation)

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.

Capital assets include land, buildings, equipment, and infrastructure used for county services. Infrastructure includes roads and bridges. Accounting standards require assets to be 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 40). Nearly all asset categories had a steady decline in value. Of the original cost, \$1,419 million (equivalent to 39%) remained undepreciated (Figure 39).

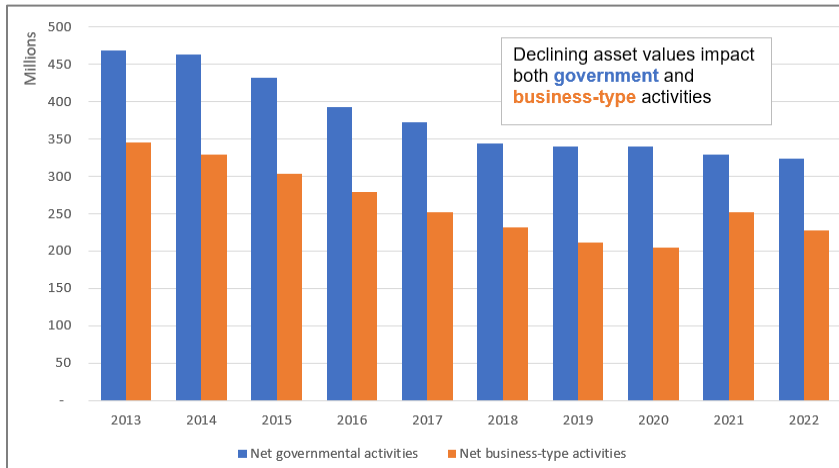


Figure 41 Capital assets, net of depreciation by activity (in millions, adjusted for inflation)

Aging county assets put the county at risk for significant replacement or repair costs, or service disruptions for both government and business-type activities (Figure 41).

The County's Net Position has been Fluctuating

Net position is the difference between what a government owns and what it owes. A

change in net position indicates if the county's financial position improved or declined based on the decisions and actions from the previous year. Between FY13 and FY21, the county's net position for the primary government was slowly decreasing. Some of the reasons for the decline in net position were outside of the county's control. For example, part of the decline was because of changes in policy and assumptions for the state retirement system, PERS (Figure 28). Factors that were the county's responsibility include the inability to make repairs faster than the decline of assets, such as streets, buildings, and other infrastructure (Figure 40).

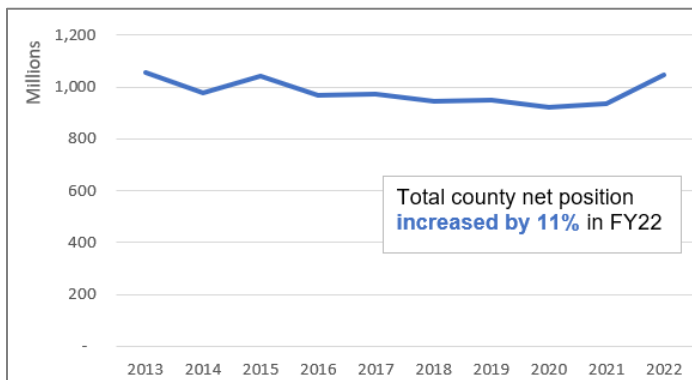


Figure 42 Net position (in millions, unadjusted)

In FY22, the county's net position increased by 11% to \$1,044 million (Figure 42). One reason for this was because of increased total assets of \$152.5 million primarily due to cash from advanced grant funds and capital assets while total liabilities decreased by \$109.8 million due to a reduction in the accounts payable balance, decreased net pension, and other postemployment benefit liabilities.

Demographics

Why are Demographics Important?

Economic and demographic information highlights community needs and resources. Federal and state governments can use some of these indicators as the basis to allocate funding for services.

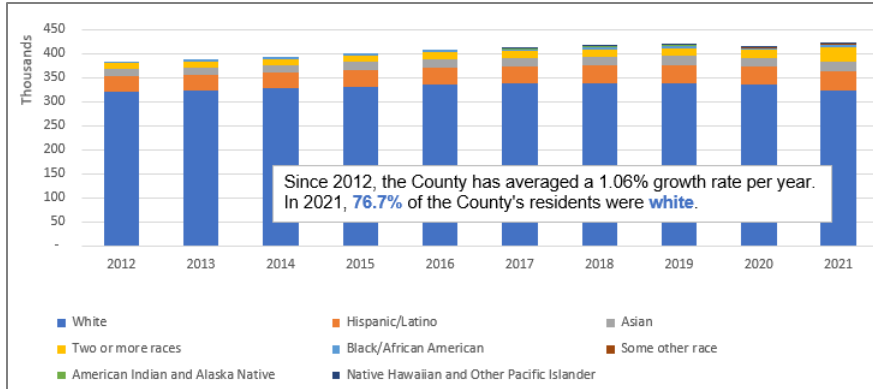


Figure 43 County population (in thousands)

Population increased in recent years

The county's population increased from 384,241 in 2012 to 422,537 in 2021, a 10% increase²⁵. In the last five years, the county's population had averaged a 0.7% growth per year. According to the most recent census

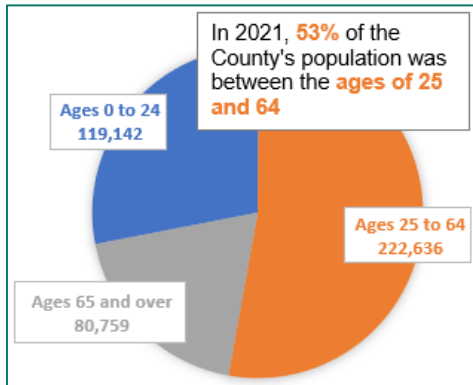


Figure 44 County population by age in 2021

data²⁶, the top five fastest growing cities²⁷ in Oregon (by percent, not count) from 2020 to 2022 are: Estacada (23.3%), Cornelius (13.4%), Redmond (12.9%), Happy Valley (12.5%), and Madras (8.2%).

In 2021, 81% of the county's residents were white (Figure 43)²⁸. Majority of the county's population were between the ages of 25 and 64 (Figure 44) with an aging population. In the last ten years, the percent of residents ages 65 and older had increased by 41% (Figure 45).

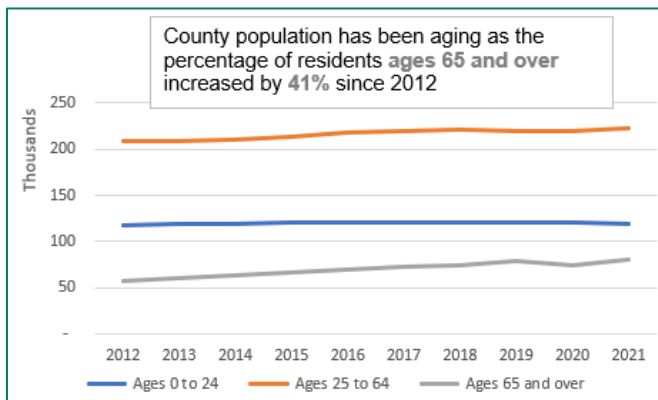


Figure 45 County population by age, 2012 to 2021 (in thousands)

Poverty remained low in the county

The poverty percentage indicator measures 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.

²⁵ U.S. Census Bureau American Community Survey Demographic and Housing Estimates

²⁶ Portland State University Population Research Center: [Population Estimate Reports](#), April 2023

²⁷ Analysis performed only over cities in Oregon with a population over 5,000. 80 cities were included in this analysis

²⁸ U.S. Census Bureau data for 2020 was based on a 5-year estimate; all other years were based on 1-year estimates

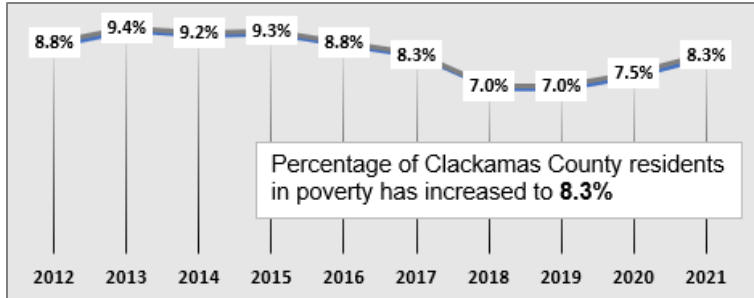


Figure 46 Percentage of county residents experiencing poverty

In 2022, a family of four with two children under two and a gross yearly income of \$29,678 or less would be considered living in poverty²⁹. In 2021, Clackamas County had the second lowest poverty level in Oregon for families at 5.5% and lowest poverty level by population at 8.3% (Figure 46).

The percentage of residents ages 65 and older in poverty had remained relatively stable averaging 7.4% in the last five years. The percentage of residents ages zero to 17 in poverty had increased from 5.9% in 2019 to 9.7% in 2021 (Figure 47).

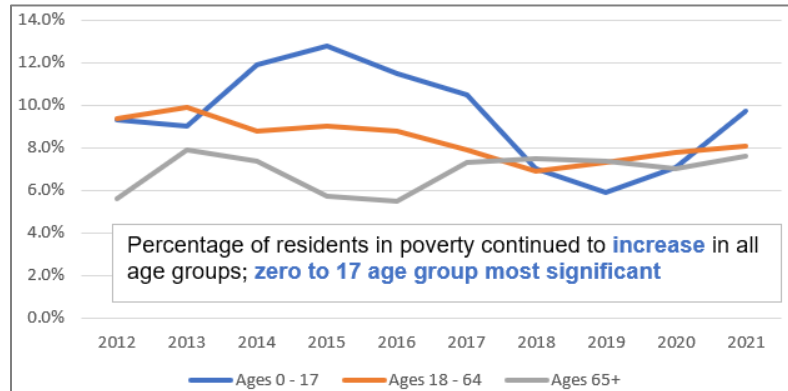


Figure 47 Percentage of county residents experiencing poverty, by age

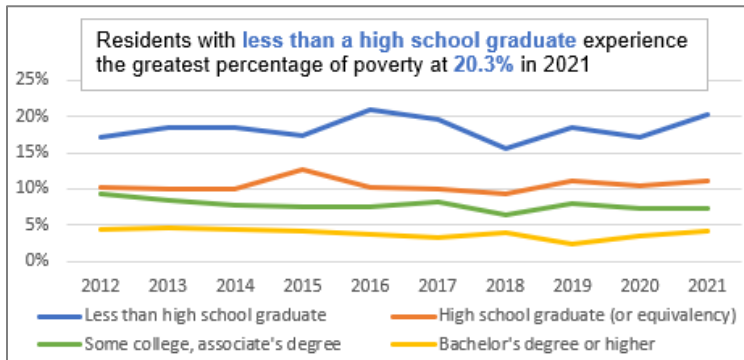


Figure 48 Percentage of county residents experiencing poverty by education level

The percentage of county residents in poverty by education level had remained relatively consistent over the last ten years with the exception to residents with less than a high school graduate (Figure 48). Four percent of county residents with a bachelor's degree or higher experienced poverty.

Residents without health insurance began to trend downwards

The county provides low-cost healthcare to underserved, low-income and uninsured residents of Clackamas County. The percentage of uninsured county residents continued to trend downwards (Figure 49).

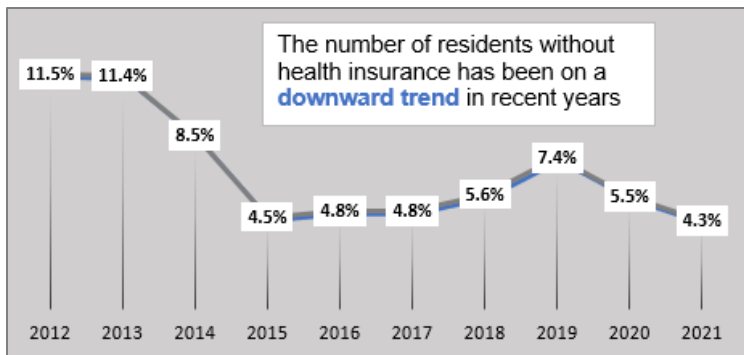


Figure 49 Percentage of county residents without health insurance

²⁹ U.S. Census Bureau [Poverty Thresholds](#), 2022

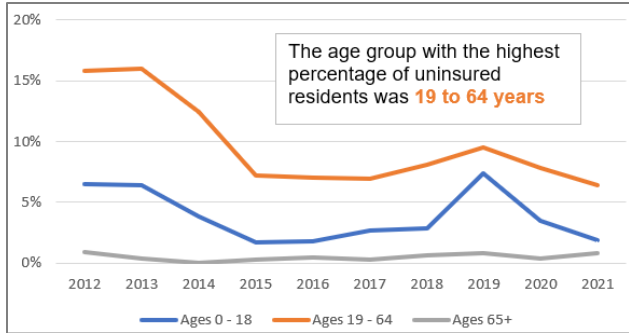


Figure 50 Percentage of residents without health insurance, by age

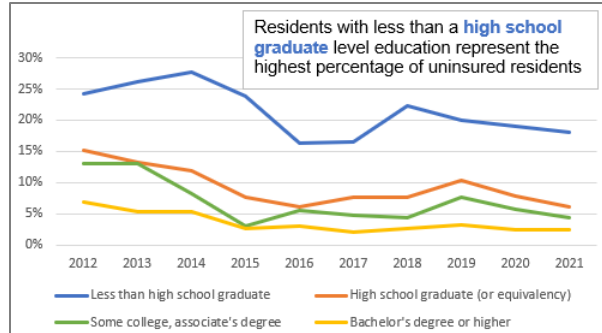


Figure 51 Percentage of residents without health insurance, by education level

Residents between the ages of 19 and 64 represent the age group with the highest percentage of uninsured residents, followed by children under the age of 18 (Figure 50)³⁰. The percentages of both groups have decreased in the last two years.

County residents with less than a high school graduate education represent the highest percentage of uninsured residents (Figure 51). Overall, the general trend was a decrease in percentage of residents without insurance.

³⁰ The US Census Bureau changed the age groups categories in 2017. Age groups changed from 0-17 to 0-18, and 18-64 to 19-64. Figure 50 represents the updated categories.

Economy

Unemployment rates declined after spike in 2020

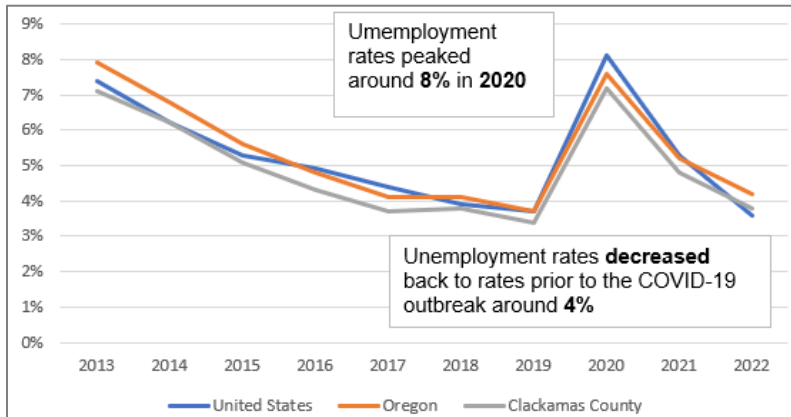


Figure 52 Unemployment rate (seasonally adjusted, calendar year ended December 31)

The unemployment rate measures those who are without employment and are actively seeking employment. The county's unemployment rate has been on a decline since a spike in 2020, which corresponded to the outbreak of COVID-19. County unemployment rates have gone down from 7.2% in 2020 to 3.8% in 2022 (Figure 52), which is slightly below the Oregon rate of 4.2% and below the United States rate of 3.6%.

As of December 2022, Wheeler and Sherman counties have the lowest rates in Oregon at 3.2% and 3.4%, respectively. Grant County and Klamath counties have the highest rates of 6.7% and 6.4%, respectively.³¹

Per capita income continued to steadily grow

Per capita income is considered a major indicator of economic health. Per capita income measures the average income earned per person in the county. In the last ten years, the average annual per capita income in Clackamas County increased approximately 22% (adjusted for inflation). Per capita income in the county was higher than in Oregon or the US (Figure 53).

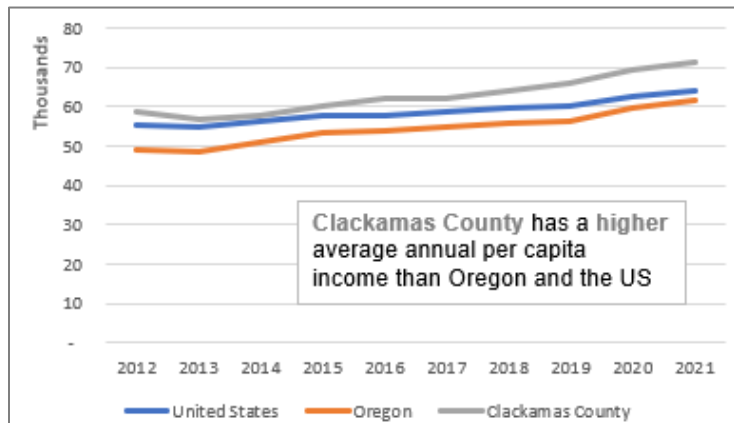


Figure 53 Average annual per capita income (in thousands, adjusted for inflation)

³¹ Oregon Employment Department, Local Area Unemployment tool, Qualityinfo.org

The number of businesses in Clackamas County continued to grow

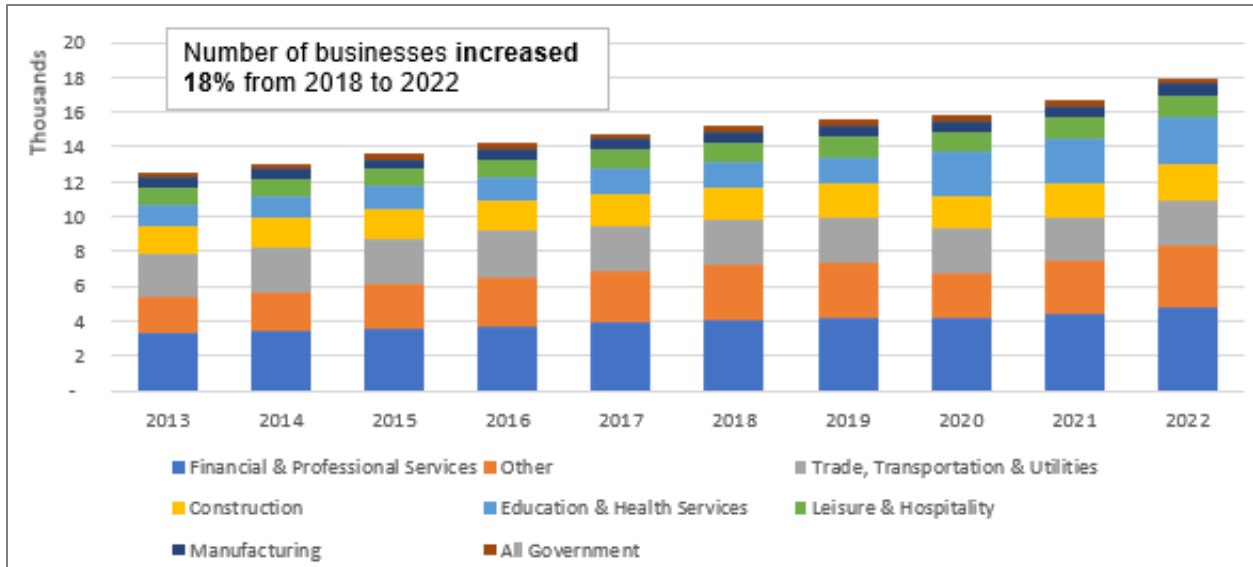


Figure 54 Businesses in Clackamas County by industry

Another indicator of economic health related to the county’s revenue base is the number of businesses within the county. In line with the county’s population (Figure 43), the number of businesses has continued to grow. In 2022, the county had a reported 17,946 businesses, an 18% increase from 2018 (Figure 54).

Number of jobs provided by employers in Clackamas County increased

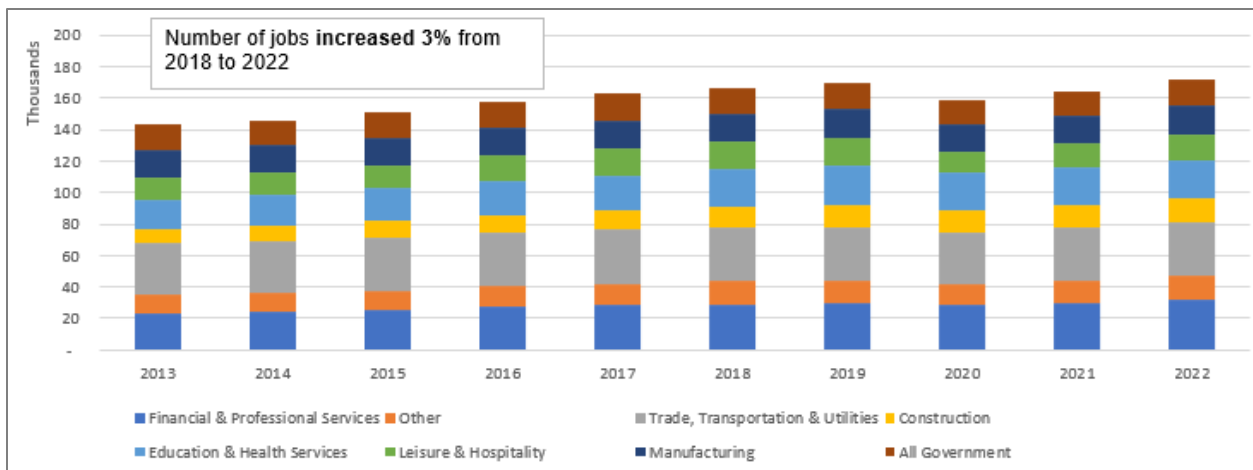


Figure 55 Number of jobs provided by employers in Clackamas County, by industry

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 the calendar year 2019 to 2020, the number of jobs decreased with the loss of nearly 10,500 jobs due to the economic downturn. However, the indicator also reflected recent improvements with the addition of almost 12,500 jobs from the calendar year 2020 to 2022 (Figure 55).

The gap widened between real market value and assessed value

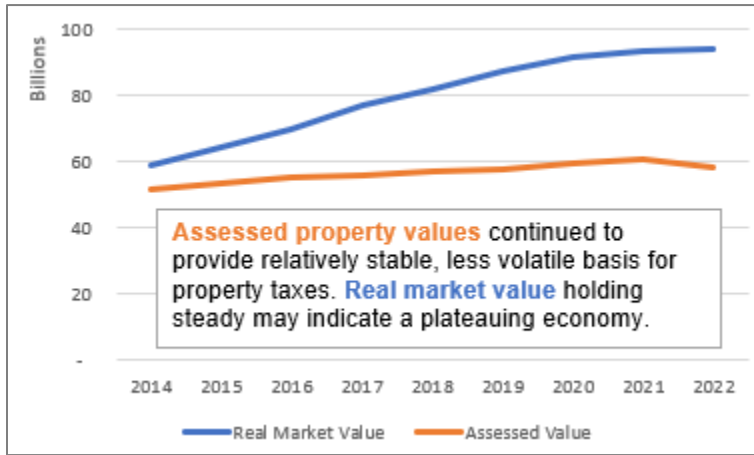


Figure 56 Real market value versus assessed value (in billions, adjusted for inflation)

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 due to limitations established by several Oregon tax measures³² (e.g., limits on property tax increases). From FY14 to FY19, assessed values increased by 16% and real market values increased by 53% (Figure 56).

New construction continued to fluctuate in the last few years

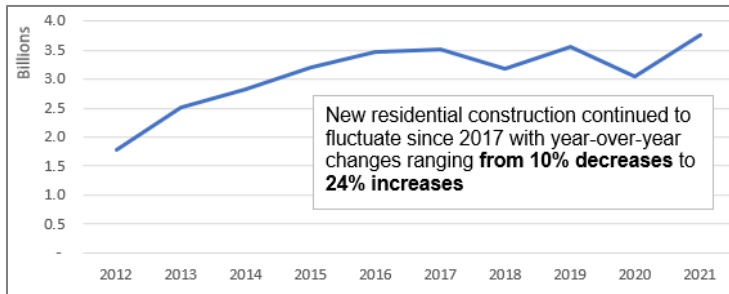


Figure 57 New residential construction in the PMSA (in billions, adjusted for inflation)

New construction figures are based on Primary Metropolitan Statistical Area (PMSA)³³ building permits. The value of new residential construction has fluctuated from calendar years 2017 to 2021. At the lowest during this period, the value of new construction units was \$3.05 billion in 2020; at the highest, the value was \$3.77 billion in 2021³⁴ (Figure 57).

³² Measure 5 (1990), Measure 47 (1996) and Measure 50 (1997)

³³ PMSA counties, as [Metro](#): Clackamas, Columbia, Multnomah, Washington, Yamhill (Oregon); Clark and Skamania (Washington)

³⁴ Adjusted for inflation

Objectives, Scope, and Methodology

In accordance with the Clackamas County 2022 amended internal audit plan, County Internal Audit evaluated the financial condition of Clackamas County as of June 30, 2022. 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 2020 financial condition report issued by the Office of County Internal Audit and to support the county's strategic decision-making abilities through enhanced financial trend analysis. General objectives for the 2022 Financial Condition Assurance Engagement were to:

- independently evaluate the current financial condition of Clackamas County
- provide continuity through an update of the prior financial condition report
- create transparency for the county

To achieve engagement objectives, the Office of County Internal Audit, among other potential engagement activities:

- used the financial trend monitoring system developed by the International City/County Management Association (ICMA) and documented in its publication, *Evaluating Financial Condition: A Handbook for Local Government*
- reviewed financial indicators suggested by the Government Accounting Standards Board (GASB)
- analyzed results against identified criteria

The data analysis in the report generally covers a ten-year period from fiscal year 2013 through 2022. Unless otherwise indicated, data is presented on a fiscal year basis (e.g., fiscal year 2022 represents July 1, 2021, through June 30, 2022). 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 2022. 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 presented a fair picture of the county's financial condition. As nearly all financial information presented were from the county's Annual Comprehensive Financial Reports, reliance was placed on the work performed by the county's external financial auditors. Unmodified (clean) opinions were given on all reviewed Annual Comprehensive Financial Reports. 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.

About the Office of County Internal Audit

Our Mission – Provide county leadership objective assurance, advice and insight to optimize county efforts and achievements.

Our Vision – The public:

- engages with an accountable, high performing, and transparent local government
- is confident that its interests are protected

Our Strategic Objectives – The Office supports Clackamas County by:

- focusing on risks to county achievement
- promoting continuous improvement
- enhancing accountability and transparency
- fostering county SPIRIT
- building public trust

Our Professional Standards – The Office of County Internal Audit governs itself by adhering to The Institute of Internal Auditors' mandatory guidance, including the:

- definition of internal auditing
- Code of Ethics
- *International Standards for the Professional Practice of Internal Auditing*³⁵

The Office does not fully conform to the *Standards* to the extent the Office has not yet received an external review. Obtaining an external peer review is one of the Office's performance goals.

Our Independence – The County Internal Auditor reports functionally to the Internal Audit Oversight Committee and administratively to the elected County Treasurer. This authority ensures the Office is free of undue influence.

Our Team –

Jodi Cochran, CPA, CIA, CGMA, CRMA, County Internal Auditor
Kathy Yeung, CPA, Senior Internal Auditor

Contact Us –

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³⁵ <https://na.theiia.org/standards-guidance/mandatory-guidance/pages/standards.aspx>