Secretary of State Audit Report

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Oregon’s Counties: 2016 Financial Condition Review

Summary

We first issued a county financial condition report for the State of Oregon in 2012 with updated reports to be issued every two years. The primary source of data for the report is each county’s audited financial statements for fiscal years 2006 through 2015. Since our report in 2014, many counties have improved their financial condition. For example, every county experienced increases in per capita income and declines in unemployment rates. Nearly all counties indicate a strong liquidity position with a ratio of at least $5 of cash on-hand for each $1 of short-term obligation.

For purposes of our analysis of Oregon’s 36 counties, we selected 10 indicators that provide a general assessment of financial condition. For each indicator we present a detailed discussion. We also looked at the declining federal timber revenue to counties to identify added financial strain.

Although many counties have improved their financial condition since 2012, four counties continue to be identified as counties to monitor; that is, counties whose financial condition may indicate a higher risk of distress. We performed additional analysis on these four counties, which are individually portrayed in the *Counties to Monitor* section of this report:

- Curry
- Douglas
- Josephine
- Polk

Some of the counties have initiated varying strategies to address their situation. We summarized their actions and plans within this report. We do not propose solutions for counties because decisions about county taxes and the level of services are based on local priorities, within practical and legal requirements and limitations.

Early identification of financial problems enables a government to introduce remedies sooner. State monitoring of local governments can provide assurance key partners in service delivery are financially sound, and if warning trends appear, can also prompt action. A key challenge facing several states and their local governments is the right solution when a government is in severe financial distress.

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Background

County and State Interrelationships

Counties play a key role in providing government services, and even precede Oregon's statehood. Once *Oregon Country* and its counties were carved into states, Oregon transitioned from a provisional government to a territorial government, and finally to a state government. This evolution was mirrored at the county level, starting with four counties in 1843, with further divisions becoming the current 36 counties in 1917.

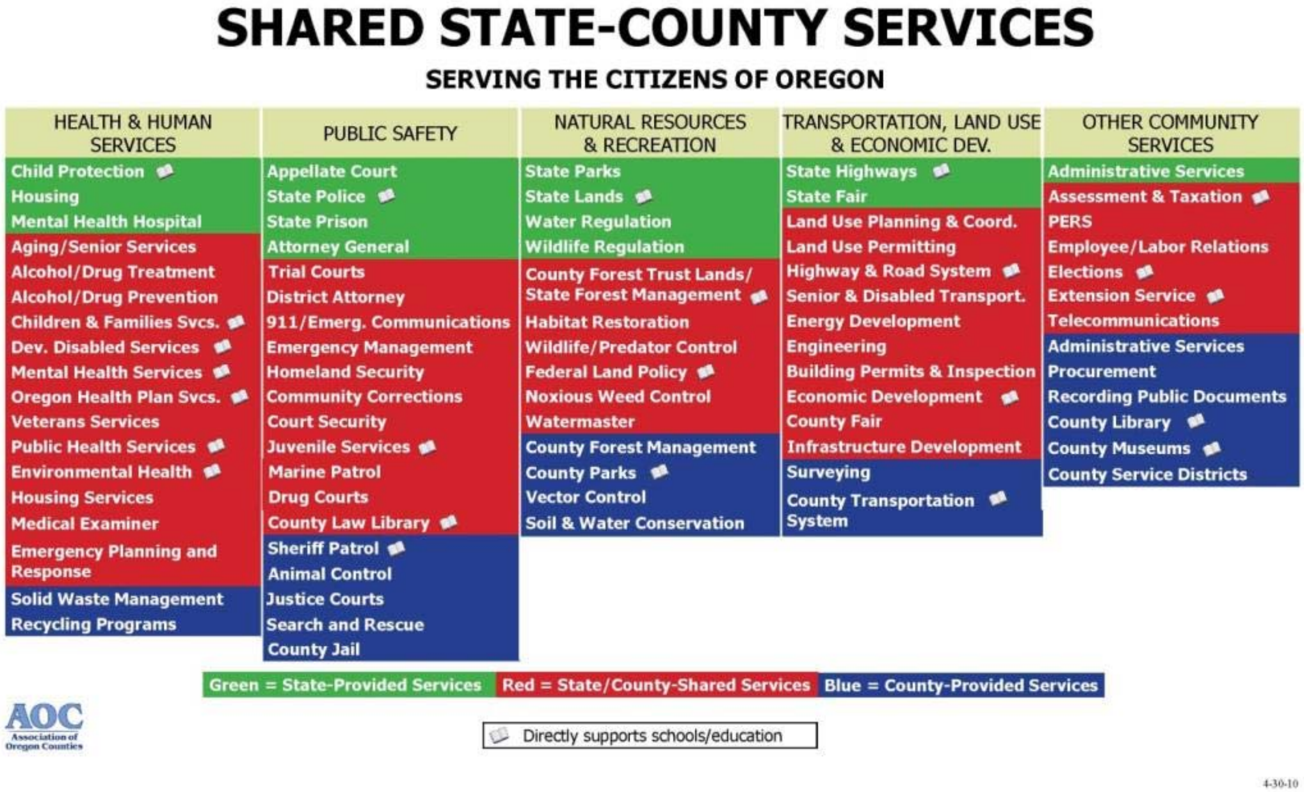
Originally, all counties functioned almost exclusively as agents of state government; all their activity had to be either authorized or mandated by state law. Under the provisional government, they were responsible for tracking property, probating estates, overseeing minor judicial functions, enforcing laws, operating jails, and conducting elections. The territorial government added some responsibility for "poor relief," public health, and agricultural services.

In 1958 an amendment to the Oregon Constitution authorized counties to adopt *home rule* charters, and a 1973 state law granted all counties the power to exercise broad home rule authority. Nine have adopted home rule charters wherein voters have the power to adopt and amend their own county government organization.

Today's counties provide a wide range of public services including:

- public health
- mental health
- community corrections
- juvenile services
- criminal prosecution
- hospitals
- nursing homes
- airports
- parks
- libraries
- land-use planning
- building regulation
- refuse disposal
- air-pollution control
- elections
- veterans services
- economic development
- urban renewal
- public housing
- vector control
- county fairs
- museums
- animal control
- civil defense
- senior services

Some of these services are supported with local taxes, whereas others rely in part on state and federal revenue, such as public health and senior services. As shown in the following chart, the Association of Oregon Counties identified major services provided by the state, counties, and by both entities.



Financial and Demographic Indicators

The ability to evaluate the financial condition of a local government, whether by key decision makers within the government, taxpayers, rating agencies, bondholders or other parties, is critically important in today's economic environment.

Counties in Oregon are not immune to financial troubles. Public attention has been directed to counties including Curry, Josephine, and Douglas, who have been reported as facing financial hardship. Revenues from local sources such as property taxes and interest income, as well as intergovernmental revenues from state and federal agencies, have declined since 2008. Oregon, more than some other states, is further affected by the anticipated loss of federal timber payments.

How each county has addressed the current situation has varied. Some held back prior year receipts in reserve with plans to allocate out over the next few years when sources are no longer available. Some tried to pass local tax levies to support programs such as public safety. Some explored alternative sources of revenues such as wind farms and local sales taxes. Counties are examining and considering changes to expenditures including staff reductions and program restructuring. Some have looked to outsourcing services such as libraries. The 2012 legislature passed legislation allowing counties to use road funds to help with sheriff's patrols. A few counties made use of interfund borrowings of dedicated funds to support ongoing services. This last practice has potential implications if a county is unable to repay these loans. So far none of the counties have issued long-term debt to support current services.

Financially stressed local governments are not new; economic conditions threatened local governments in the past and many states developed mechanisms to monitor financial condition and respond when necessary.

Evaluating financial condition involves a number of factors including the national and local economies, population, and composition of the community, and the internal finances of the local government.

Our research of how other states assess the financial condition of local governments found there are a number of different approaches and definitions of what constitutes distress. Despite the differences, one thing is certain; a combination of carefully selected indicators can provide a valuable tool for assessing the overall health of a local government.

The term *financial condition* can have many meanings. In a narrow accounting sense, financial condition means a government's ability to generate enough cash over 30 or 60 days to pay its bills. In a broader sense, it can mean a government's ability to generate enough revenues over its normal budgetary period to meet its expenditures and not incur deficits.

Analysis of Financial Condition of Oregon Counties

The objective of this report is to analyze the financial condition of county governments within the state of Oregon. We looked closely at federal timber revenue to counties. We did not propose specific solutions because the decisions about county taxes and service levels are based on local priorities, within practical and legal requirements and limitations.

We first prepared a financial condition report for the State of Oregon in 2012 based on the methodology developed by the International City and County Managers' Association (ICMA: *Evaluating Financial Condition: A Handbook for Local Governments, 1985*) and our research of efforts undertaken by other states. We applied the same general methodology to this effort, but because it involved 36 counties, we first developed a means of identifying counties warranting particular attention.

For purposes of this report, we define *financial condition* as a local government's ability to maintain existing service levels, withstand local and regional economic disruptions, and meet the demands of natural growth, decline, and change.

We included timber revenues as an indicator due to the expected end of federal timber payments, which many counties rely upon for their daily operations.

For purposes of our analysis, we selected the following 10 indicators that we feel provide a general assessment of the financial condition of Oregon's counties:

- Local Support
- Timber Revenue Dependence
- Debt Burden
- Liquidity
- Fund Balance
- Retirement Benefit Obligation
- Public Safety
- Personal Income
- Population Trends
- Unemployment

For each indicator, we present a detailed discussion and analysis. Much of the data included in this report was obtained from each county's audited financial statements. In addition, our analysis focused on the financial condition of each county's governmental funds, which includes the General Fund. Unless otherwise noted, the data is presented on a fiscal year basis (e.g., 2015 represents the fiscal year beginning July 1, 2014 and ending June 30, 2015). The data analyzed is through fiscal year 2015. Averages are presented on a five-year basis except that Wasco County's 2015 report has not been received to date; therefore, its information is only through 2014 with averages presented on a four-year basis.

Using the results of our analysis, we identified the counties whose financial condition may indicate a higher risk of distress. These counties were selected for additional analysis, and are presented in the *Counties to Monitor* section of this report.

County Indicators Overview

Local Support

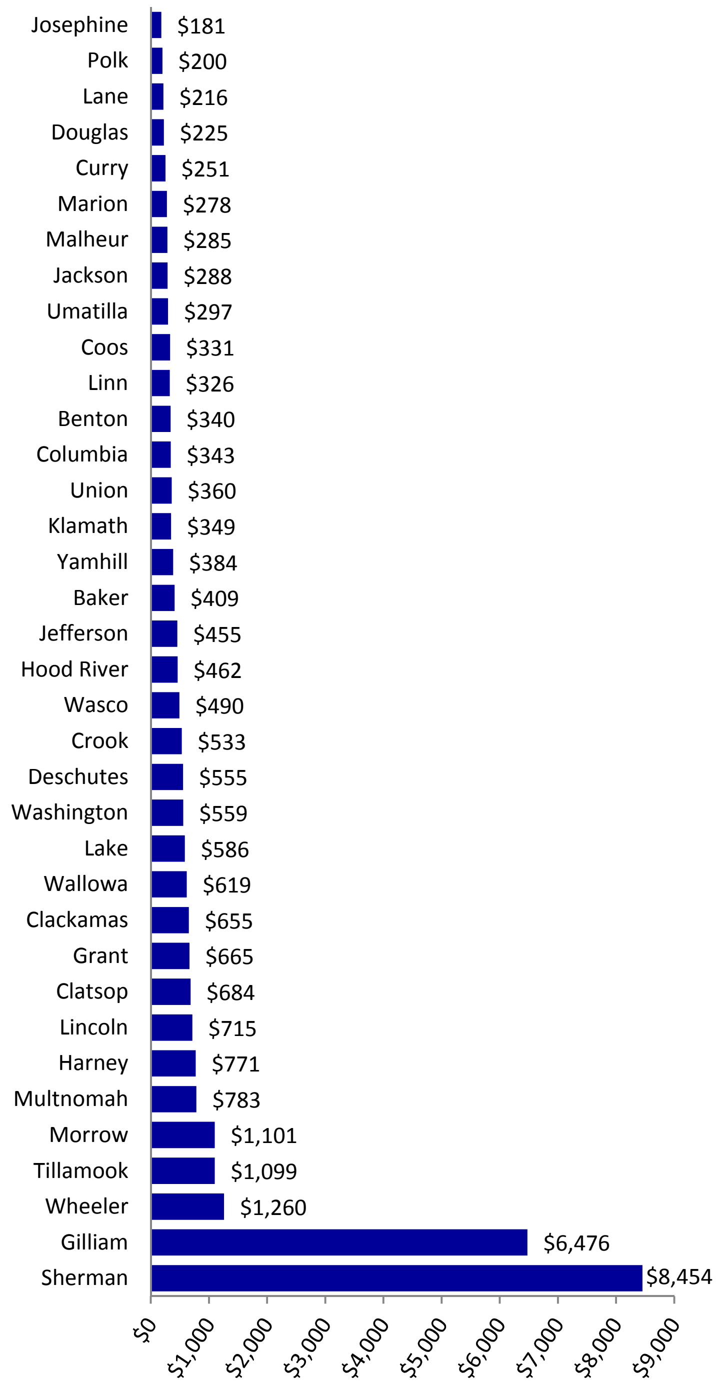
Locally generated revenues should be sufficient to meet a county's current and future service needs. The ability to generate local revenues is dependent on several factors including property values, taxable property, and population.

Property taxes are one of the most important sources of locally generated revenues for a county. Property taxes are composed of three primary parts:
1) permanent rate and gap bond levies,
2) local option levies, and 3) bond levies. Most taxing districts can utilize these options. The passage of statewide constitutional tax limitations in the 1990s (Measures 5, 47, and 50), established permanent rates for each taxing district. A county's permanent tax rate is the maximum rate it can impose without approval by voters. Taxes from the permanent rates are discretionary and fund the general operating budgets of the taxing districts. The property tax rate chart does not include rates for special taxing districts created to fund specific county services such as enhanced law enforcement or libraries.

Between 2011 and 2015, most counties generated an average of at least $300 per capita in local revenues, an average equal to that reported in our previous report. Gilliam and Sherman counties, on average, generated the largest local revenues per capita, which were five times greater than the next highest county. Revenues generated from wind farms and/or landfill and recycling centers contributed to the high averages in these counties.

Local Revenue per Capita

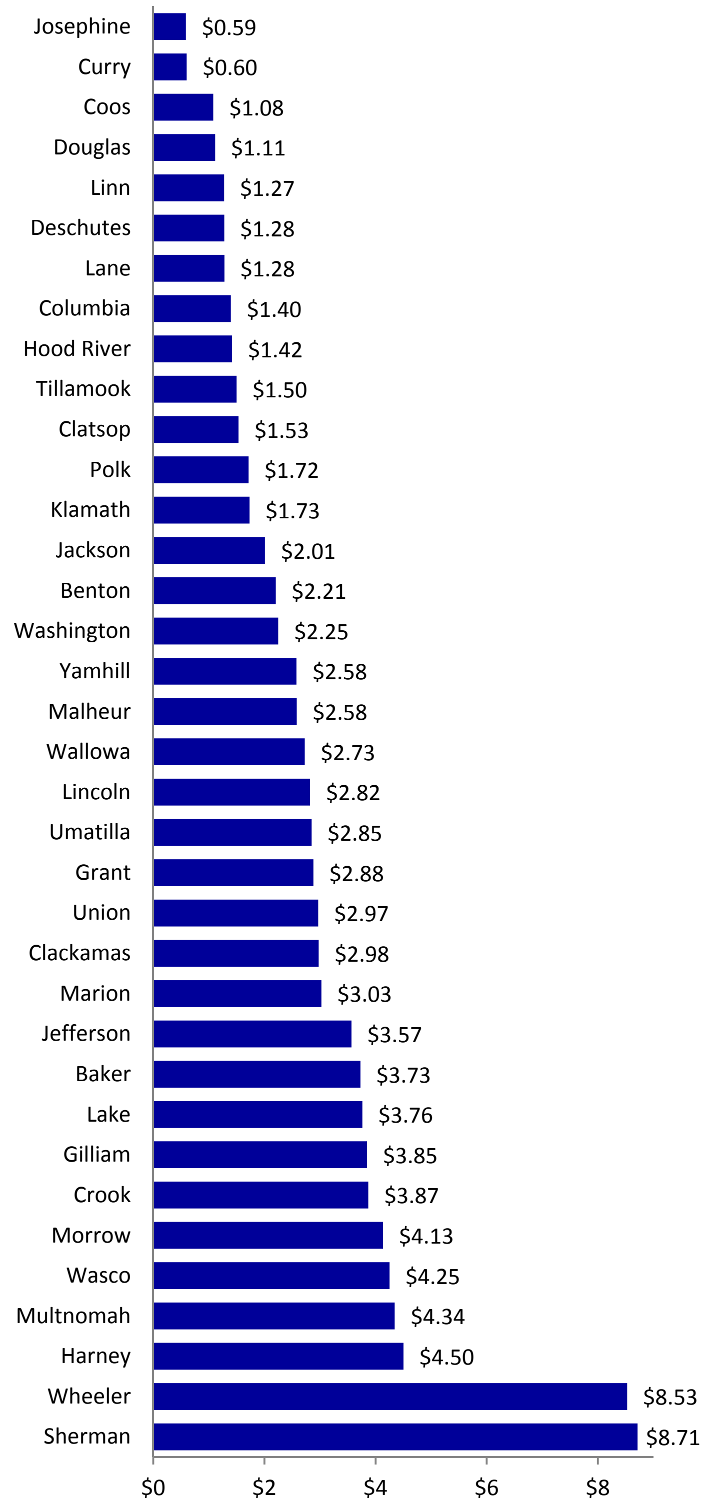
5-year average, FY 2011-2015



The average permanent tax rate among Oregon counties is $2.82 per $1,000 of assessed property value. Josephine and Curry counties have the lowest permanent tax rates and the only rates below $1.00. Low permanent rates combined with limited taxable property can constrain a county's ability to raise revenues. To illustrate, Josephine County, with the lowest permanent tax rate of $0.59 and 62% of its area in non-taxable federal lands, generated the least amount of local revenues at $190 per capita in 2015; however, this is an increase from the previous low of $174 in 2013.

Property Tax Rates

Permanent rate per $1,000, FY 2014-15



Timber Revenue Dependence

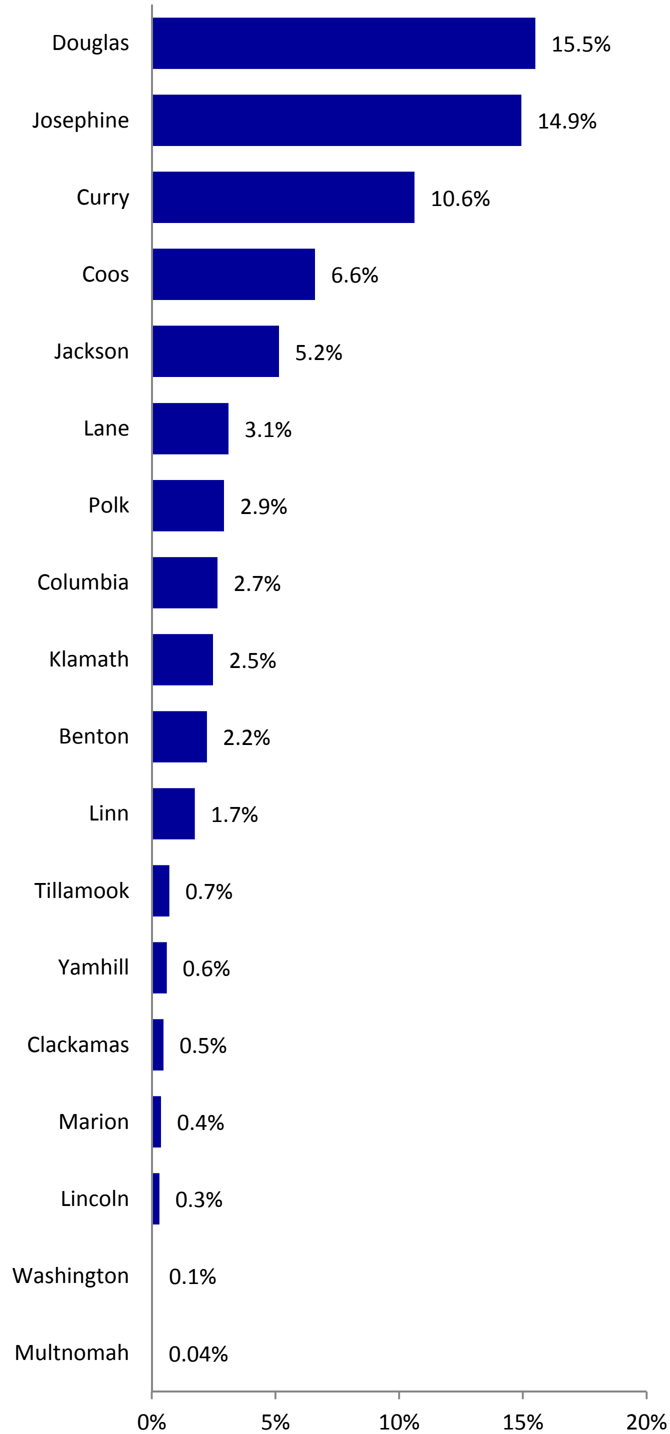
Revenues determine the capacity of a government to provide services to citizens and are affected by economic and policy changes. Oregon counties generate revenues from several sources, including other governments. The federal government provides timber revenue to eligible counties for 1) loss of property tax revenue, which results from an inability to impose taxes on federally owned forest lands, and 2) reduction in the amount of logging allowed on federal forest lands. Federal timber revenues are often restricted for specific purposes such as funding schools or road maintenance. The unrestricted portion of timber revenues can be used by a county for general operating expenditures.

For purposes of our analysis, we focused this indicator solely on federal timber revenues from the Department of Interior's Bureau of Land Management (BLM) to 18 Oregon counties. These revenues, known as Oregon and California (O&C) and Coos Bay Wagon Road (CBWR) payments, are generally unrestricted and their availability greatly impacts a county's General Fund. For counties heavily dependent on timber payments, the loss of this revenue may result in cash flow problems and fewer services provided to its citizens. Over the five-year period between 2011 and 2015, the average federal timber revenues in Curry, Douglas and Josephine counties ranged from 11% to 16% of their respective governmental fund revenues; a decrease from our previous report, which reflected a range of 14% to 20% between 2009 and 2013 for the same three counties. Accordingly, with the decline in timber revenues counties must rely more and more on other revenues for general operations.

Percent of Governmental Fund Revenue from Federal BLM Timber Payments

5-year average, FY 2011-2015

Only includes recipient counties



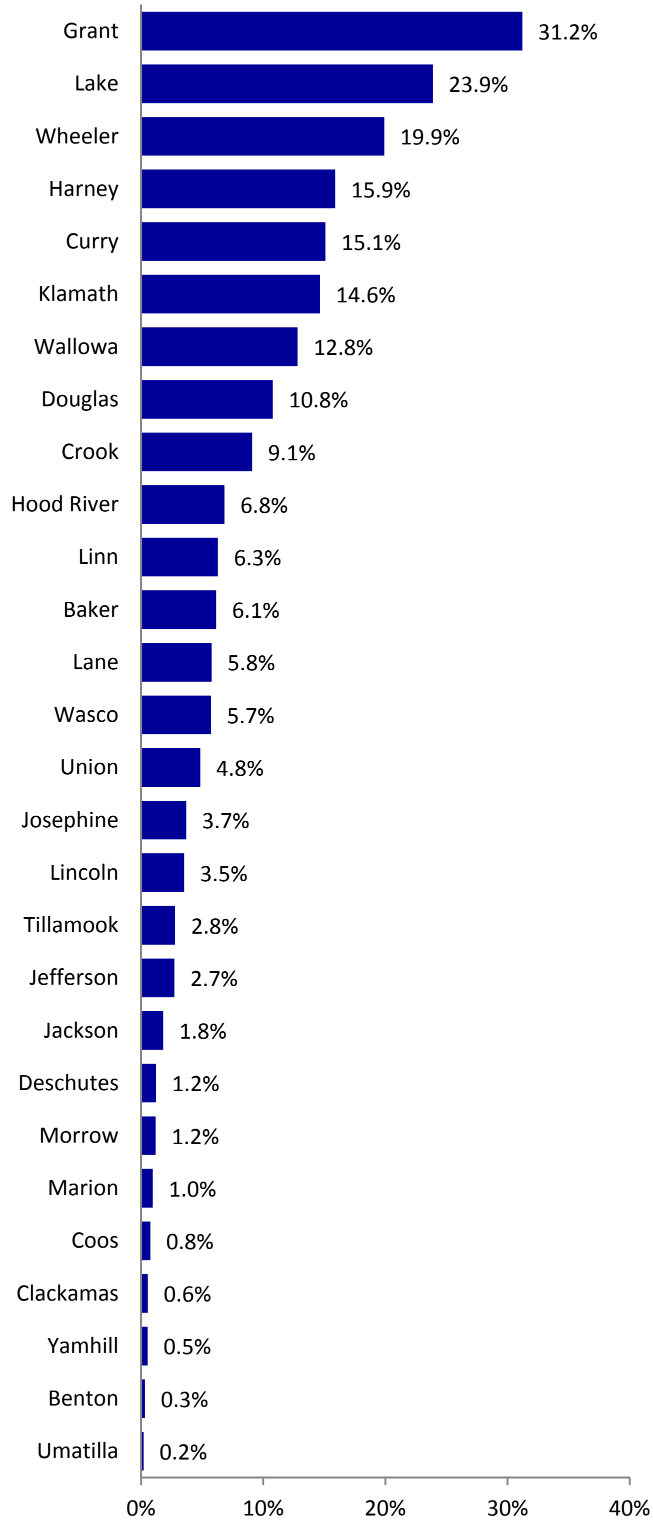
Counties also receive and depend on funding for roadways from the United States Forest Service (USFS) and the State of Oregon. We did not include these transportation funds in our analysis of counties to monitor because they are restricted for specific purposes. Oregon counties received about $44 million in federal funding directed to roads in FY 2014-15, down from $46 million in FY 2012-13. This funding, which was based on past timber revenues to Oregon counties, is not expected to continue in future years. In addition to federal funding, counties also received about $234 million from the State of Oregon in FY 2014-15 (up from $214 million in FY 2012-13), which was based on different factors such as their number of registered motor vehicles. The Oregon Constitution restricts the use of these federal and state revenues to roadway improvements.

For many of the larger counties with more miles of roads but fewer registered motor vehicles, federal funds were a substantial supplement to their state road funds. These counties will now only receive state revenue related to their registered vehicles, adversely affecting their transportation programs. Collectively, Oregon's counties lost nearly half of their road maintenance funding since 2009. Inadequate spending on road maintenance could have immediate consequences for many counties, though some built substantial reserves in an effort to delay the impact. The extent of the loss, the restricted use of the funds, and the challenge in determining the timing and magnitude of the economic impact make it difficult to assess the effect on financial conditions. The chart shows the reliance of Oregon counties on federal road funds to help pay the cost of road maintenance. Counties receive other federal revenue such as payments in lieu of taxes and state forest payments, but the amounts have less effect on the county's government funds.

Percent of Governmental Fund Revenue from Federal USFS Timber Payments (Road Fund Portion Only)

5-year average, FY 2010-2014

Only includes recipient counties



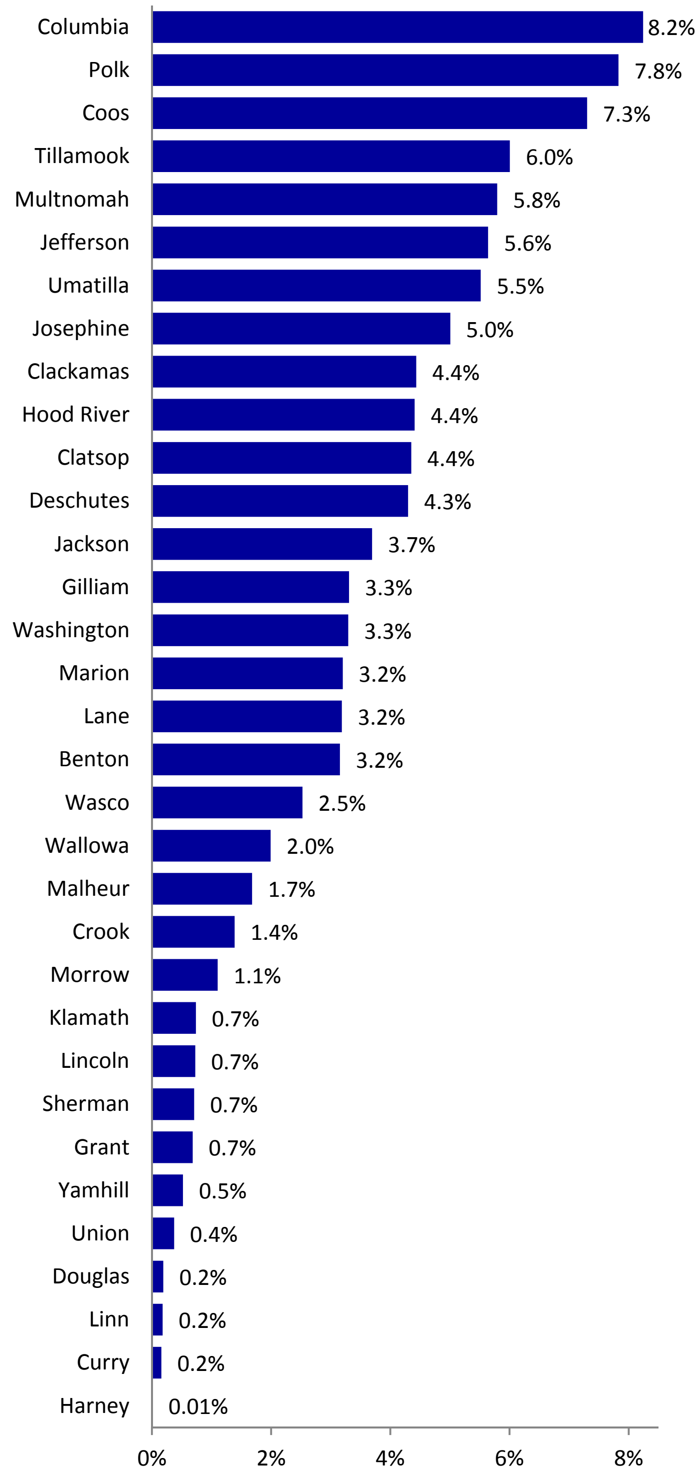
Debt Burden

The issuance of debt is one strategy a county can use to provide cash to fund expenditures. However, increasing debt service (principal and interest payments on outstanding debt) reduces expenditure flexibility by adding to a county's obligations. It can be a major part of a county's fixed costs, and its increase may indicate excessive debt and fiscal strain. A key indicator used to evaluate a county's debt burden is the percentage of debt service to revenues. States recognized as having sound debt management practices typically use a range between 5% and 8% of revenues. The State of Oregon uses a target of 5%.

From 2011-2015, seven counties had an average debt service to governmental fund revenues percentage exceeding 5%, an improvement from the nine counties in our previous report for 2009-2013. However, all 36 counties continue to remain within the range recognized as sound debt management.

Debt Service to Total Governmental Fund Revenues

5-year average, FY 2011-2015



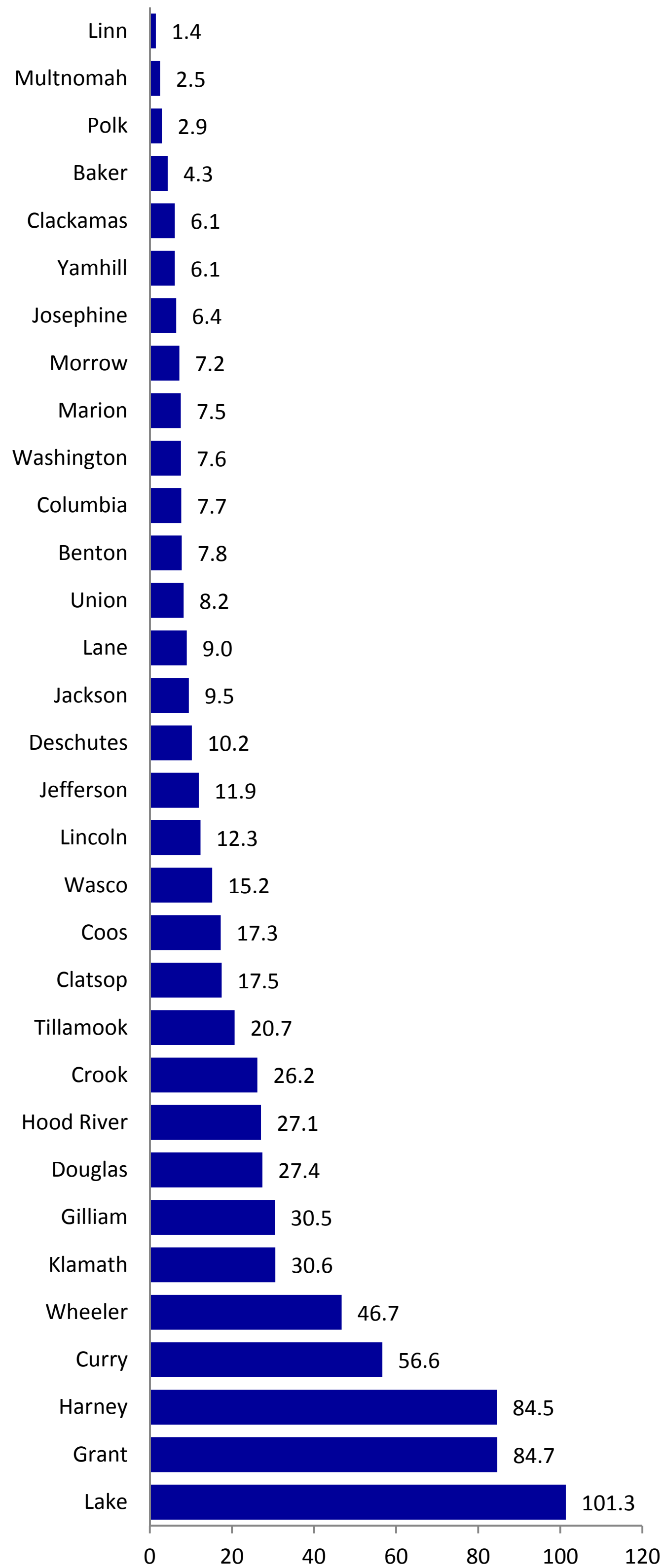
Liquidity

A good measure of a county's short-term financial condition is its liquidity or cash position. Cash position determines a county's ability to pay its short-term obligations by measuring the amount of cash on hand at the end of the year in relation to the amount of current liabilities. A ratio of less than one indicates the county's cash position is not sufficient to meet its short-term obligations.

As with our last report covering 2009-2013, all 36 counties maintained an average cash position sufficient to meet their short-term liabilities during 2011-2015. Nearly all counties showed a favorable cash position of at least 5:1, indicating the counties had a minimum of $5 available to cover each dollar of short-term obligations. The number of counties with a 5:1 ratio has increased over the last two years.

Malheur, Sherman, Umatilla, and Wallowa counties are excluded from the liquidity analysis and graph on the right because they prepare their financial statements on the modified cash basis of accounting and no current liabilities are reported.

Liquidity
5-year average, FY 2011-2015



Fund Balance

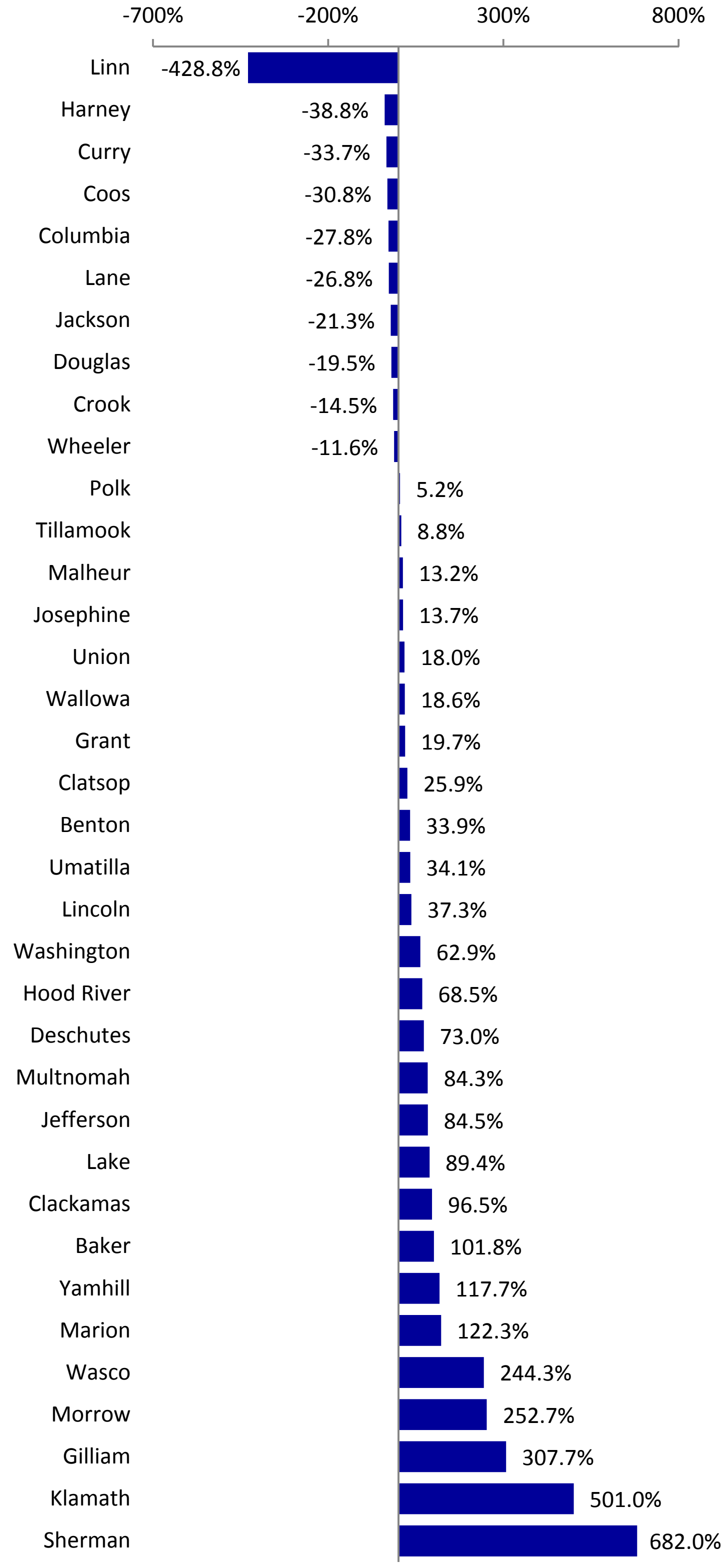
Most counties rely on property tax revenue as a primary source of income for the General Fund to cover annual operating costs. A positive fund balance provides resources to weather revenue shortfalls or expenditure overruns. Continuous reductions in fund balance could lead to future problems, even if the current fund balance is positive.

In 2011, professional reporting standards changed fund balance classifications from reserved and unreserved to nonspendable, restricted, committed, assigned, and unassigned. The last three classifications are similar to the previous unreserved fund balance and are considered unrestricted because they are within the government's authority to determine how those funds are spent. From 2010 to 2015 ten counties experienced decreases in their respective General Fund unrestricted fund balance.

Linn County experienced the sharpest decrease of about $5 million or 429% and reported a negative General Fund balance in each year analyzed. County officials reported the negative balance is due primarily to extensive use of interfund loans from the county's Road Fund. Five other counties experienced decreases ranging from 27-39% during this period.

Percent Change in General Fund Unrestricted Fund Balance

FY 2010-2015



Retirement Benefit Obligation

An unfunded liability is one incurred during the current or a prior year that does not have to be paid until a future year, and for which reserves have not been set aside. It is similar to long-term debt in that it represents a legal commitment to pay at some time in the future. If such obligations are permitted to grow over a long period of time, they can have a substantial effect on a county's financial condition. This indicator measures the burden of each county's unfunded actuarial liability associated with its pension and other post-employment benefit plans (OPEB) on its citizens.

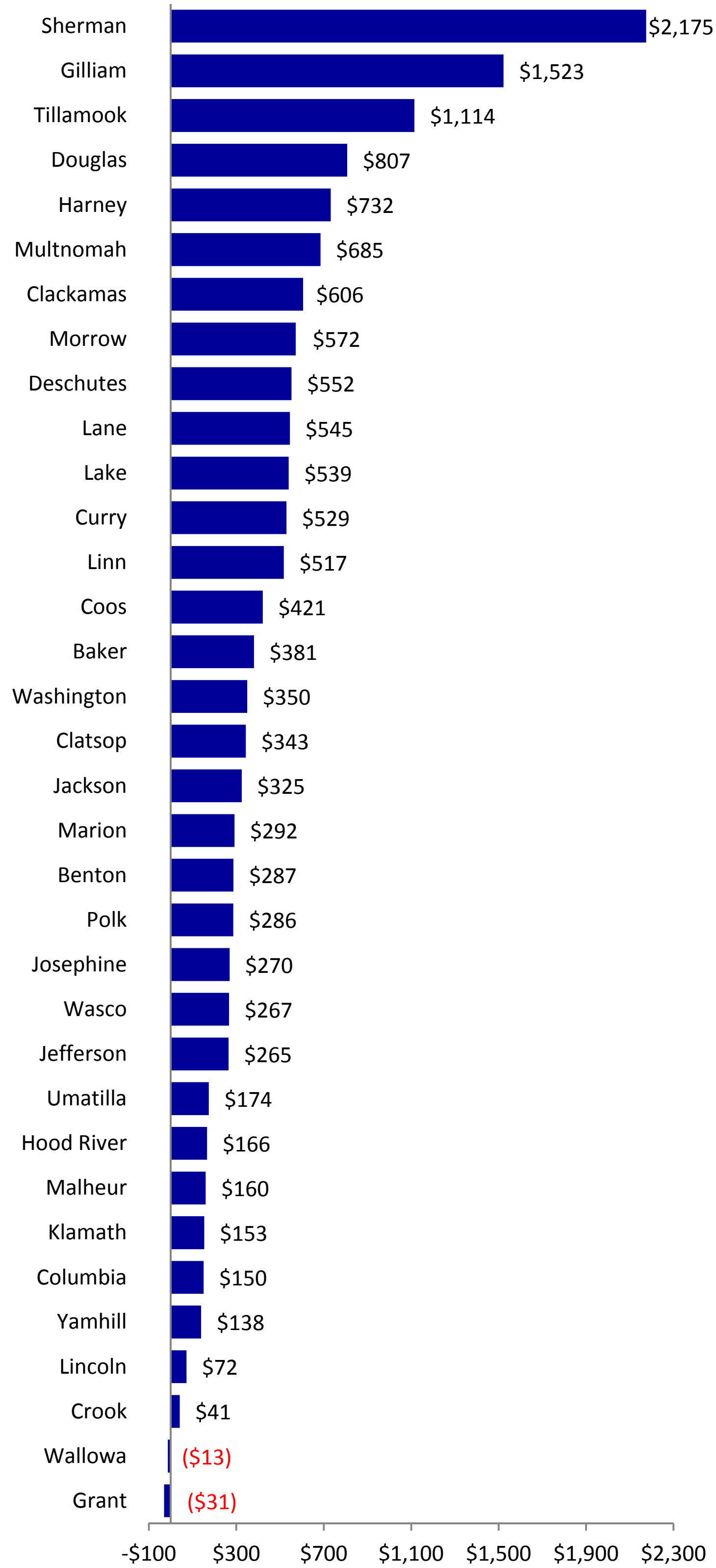
The average obligation in 2015 was $453 per capita, a significant increase from the 2013 average of $255 reflected in our last report. Pension plans in two counties were fully funded with no outstanding liability. Counties with retirement benefit obligations per capita of $0 or less are considered fully funded. This generally occurs when pension bonds were issued to reduce the county's retirement obligation.

In 2015, Sherman and Gilliam counties had the highest retirement benefit obligations per capita. Although Sherman and Gilliam counties are making 100% of their annual required contributions, their unfunded liabilities are $3.9 million and $3 million, respectively (up from $2.4 million and $1.5 million, respectively, in 2013). Investment losses and a stagnant population result in a higher retirement obligation per capita.

Retirement Benefit Obligation per Capita

FY 2015

$0 or less indicates fully funded



Public Safety

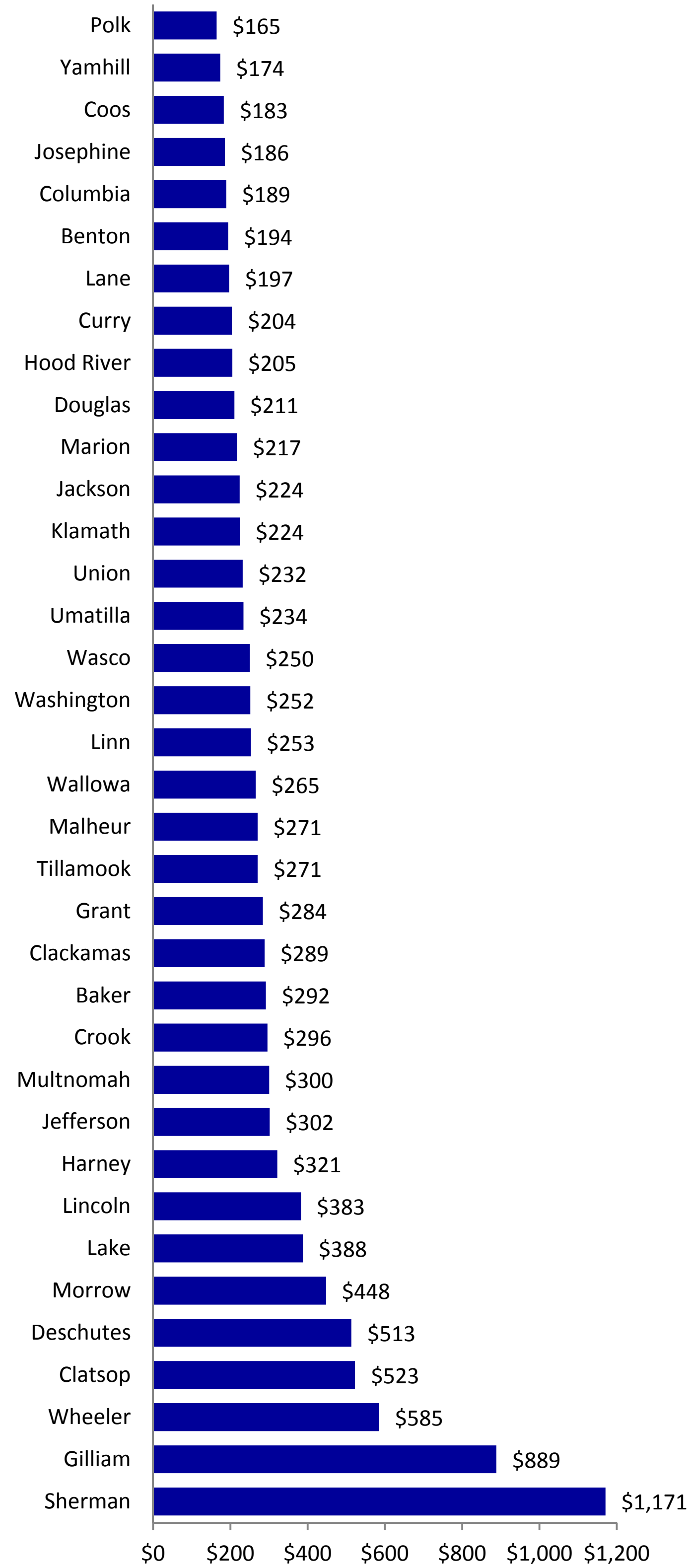
Public safety is a primary responsibility of a county to ensure its citizens are protected. Consistent with our previous report Sherman and Gilliam continued to significantly out-spend all other counties in this area. On the other hand, Yamhill, Coos, and Polk counties continue to spend the least amount on public safety. For example, Polk County road patrols were limited to 10 hours per day in 2015 compared to 24 hour/7 days a week patrols. Overall, the average public safety expenditures for each county increased from amounts presented in our last report.

Public safety programs are supported with discretionary funds. When resources are constrained, public safety is one of the first areas subjected to expenditure reductions. Some counties turned to the Oregon State Police to help supplement needed patrols. Other counties are getting creative by considering the possibility of volunteer crime scene investigators and park patrols, or strategically placing unmanned patrol cars throughout the area to create the impression of a higher police presence.

Some counties have attempted to reverse recent cuts in public safety by proposing property tax levies, which must receive a majority vote from the local citizens to pass. Polk County passed a levy in May 2015 to increase staffing for its jail and expanded patrol hours. Elsewhere in the state, voters in Curry and Josephine counties rejected multiple proposed ballot measures to fully fund public safety.

Public Safety Spending Per Capita

5-year average, FY 2011-2015



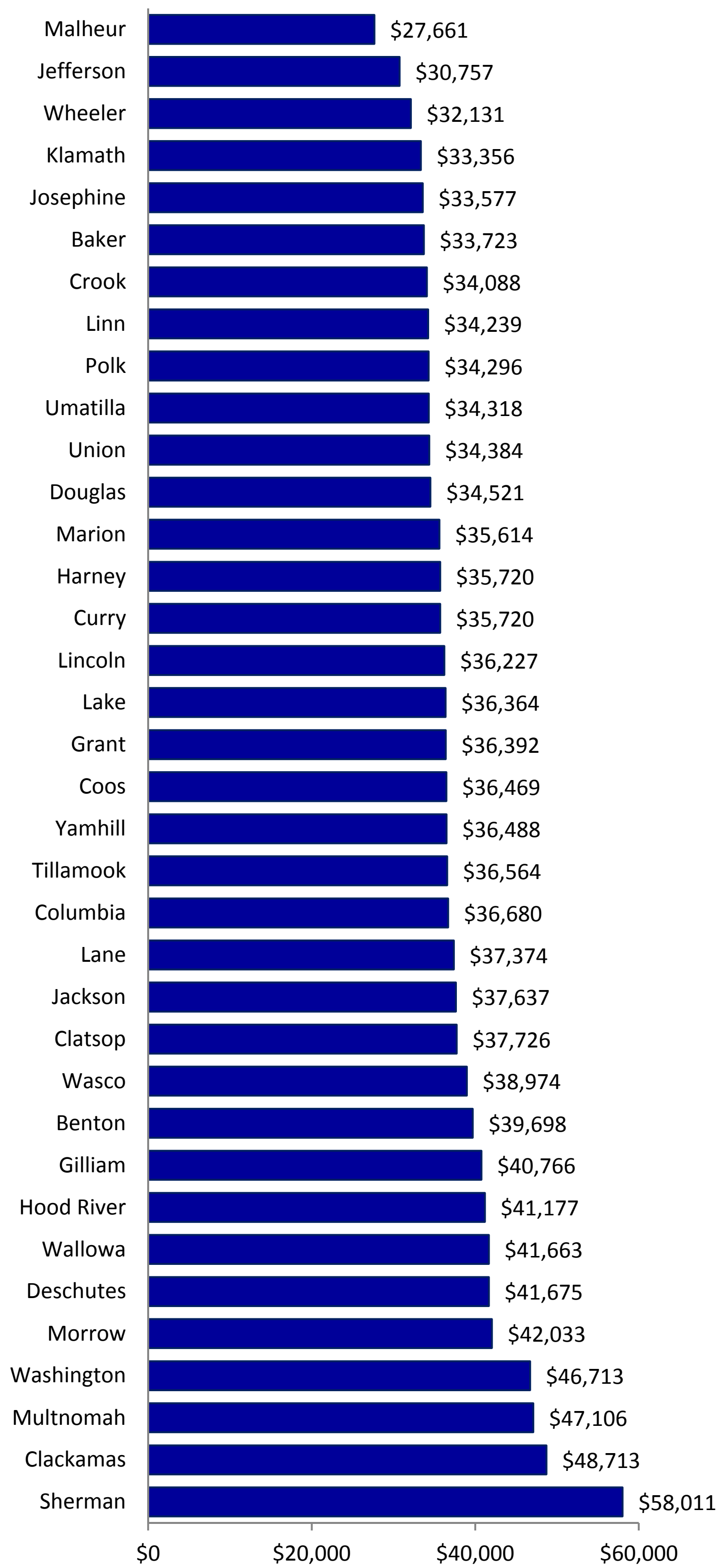
Personal Income

Personal income per capita is one measure of a county's ability to raise taxes: the higher the per capita income, the more property tax, income tax, and business tax the county can generate. If income is evenly distributed, a higher per capita income will usually mean a lower dependency on government services such as transportation, health, recreation, and public assistance. A decline in per capita income causes a drop in consumer purchasing power and can provide advance notice that businesses, especially in the retail sector, will suffer a decline that can ripple through the rest of the county's economy.

Income data for 2014 is the latest available, and based on those figures the per capita personal income among Oregon's 36 counties ranged from about $28,000 to $58,000, up from the low of $26,000 reported for 2012. Every county experienced increases from 2012. Morrow and Sherman counties had the largest increases of over 30% since 2009, while Harney and Lake counties experienced the largest increases of 13% since 2012. The per capita increases in Morrow, Sherman, and Lake counties occurred in conjunction with population increases while Harney County's population remained fairly stable between 2012 and 2013.

Personal Income per Capita

FY 2014*



** Income data for 2015 was not available.*

Population Trends

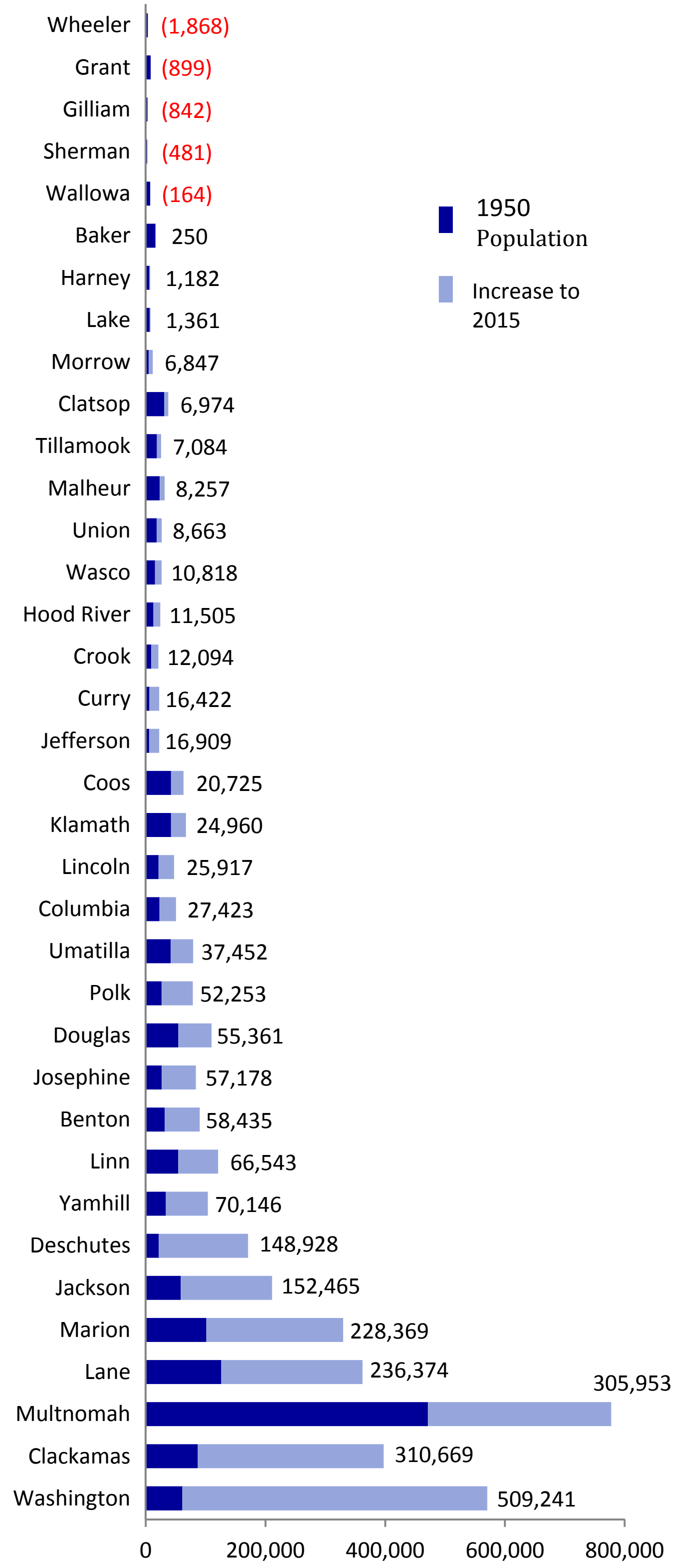
Population change can directly affect governmental revenues. For example, some taxes are collected on a per capita basis, and many intergovernmental revenues and grants are distributed according to population. A decline in population would, at first glance, appear to relieve the pressure for expenditures, because the population requiring services is smaller. In practice though, a county faced with population decline is rarely able to make reductions in expenditures proportional to the population loss.

From 1950 through 2015, most counties experienced an overall growth in population. Populations more than doubled during this period in 18 counties, and an additional five counties experienced increases of over 50%. Deschutes and Washington Counties experienced the largest growth in population with increases of 148,928 or 683% and 509,241 or 831%, respectively. This growth is consistent with trends reflected in our previous report.

A few counties, however, continue to experience declines. Wheeler, Gilliam, Sherman, and Grant counties all experienced declines greater than 10% since 1950. Wheeler and, Gilliam counties had the greatest decreases of 1,868 (57%) and 842 (30%), respectively.

Consistent with our previous report, between 2010 and 2015, the largest population increases occurred in Washington (40,800) and Multnomah (42,156) counties. The next two largest increases were in Clackamas (21,393) and Marion (14,435) counties. The remaining counties either increased by fewer than 14,000 or decreased in population. Coos, Grant, and Harney counties experienced a population decrease during this same period ranging from a loss of 15 to 127 persons.

Population Change, 1950 to 2015



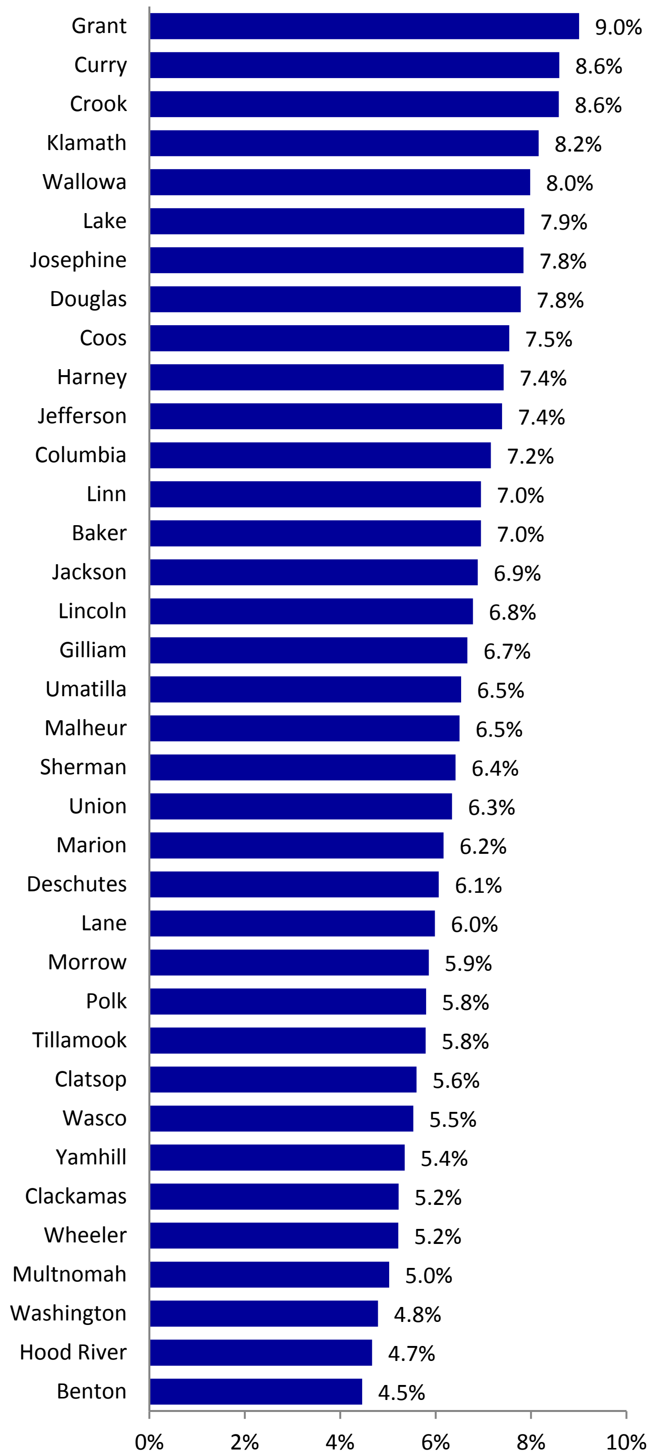
Unemployment

A county's unemployment rate is a key indicator of economic health, as well as a county's long-term financial prospects. During 2015, the average county unemployment rate ranged from a low of 4.5% to a high of 9.0%, down from 5.9% to 12.5% during 2013.

The State's seasonally adjusted unemployment rate during this period was 5.73% (7.9% in 2013). Unemployment in 25 counties exceeded the State rate, up from 22 counties in 2013.

Unemployment Rate

FY 2015 Seasonally Adjusted



Another way to gauge the local economy is by measuring whether people are participating in the workforce. The labor force is the number of persons employed or unemployed and looking for work. The participation rate is calculated by dividing that number by the total population age 16 and older. The Oregon Department of Employment produces an annual analysis of the labor force participation rate.

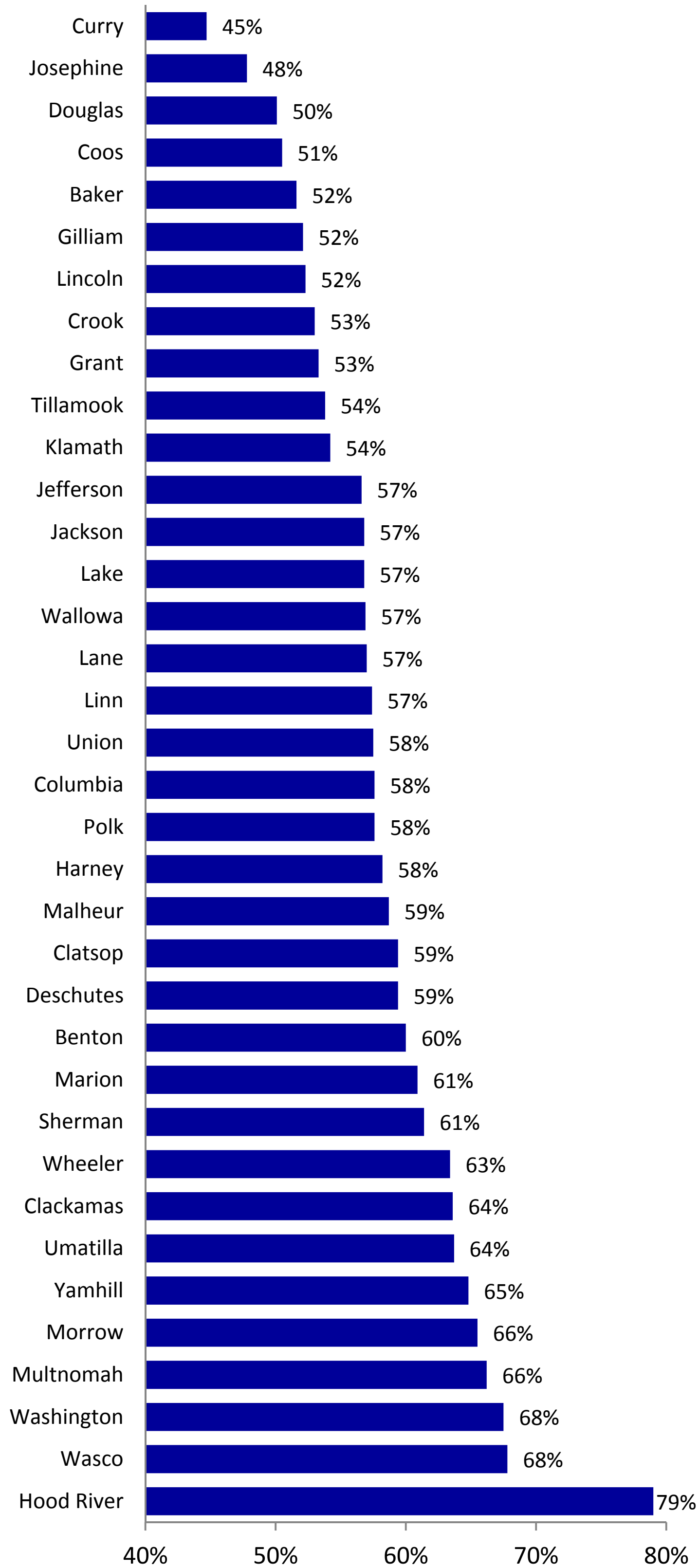
The rate varies from a low of 45% in Curry County with a higher than average unemployment rate and relatively older population, to a high of 79% in Hood River County with a high concentration of younger prime-age workers. This range is consistent with the 2013 estimate of 45% to 82%. The statewide average rate of 61% is unchanged from 2013.

A much higher percentage of the population is participating in the workforce in the counties along the Columbia Gorge, such as Wasco, Sherman, and Hood River.

High unemployment and relatively older populations affect the counties with relatively low participation rates.

Labor Force Participation Rate

2014 Estimate



Counties to Monitor

As presented in the previous section, for the purposes of our analysis, we selected 10 indicators that provide a general assessment of the financial condition of Oregon's 36 counties. We included timber revenues as an indicator since some counties are heavily reliant on timber monies.

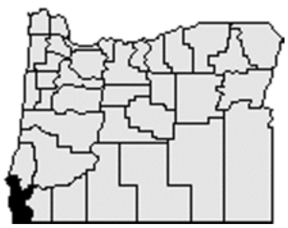
The results of our analysis indicate the following four counties may be at a higher risk of distress than other counties. We reported these four counties as counties to monitor in our 2012 and 2014 reports. Five counties reported in our 2014 report (Columbia, Coos, Jackson, Lane, and Linn) are no longer counties to monitor given improvements in various indicators such as unemployment, public safety per capita, and fund balance. The counties to monitor are presented in alphabetical order. Because the circumstances of each county are different, much more information is needed to rank them in order of severity, and to draw a clear distinction between those with a weaker financial condition.

- Curry
- Douglas
- Josephine
- Polk

We performed additional analysis of these counties and contacted county officials to determine what action they are taking to address the financial condition of their county. Their responses are presented within their individual sections of this report.

We did not propose any specific solutions because the decisions about county taxes and the level of services are based on local priorities, within practical and legal requirements and limitations.

Curry County



Overview

Curry County is approximately 1,648 square miles, of which about 66% is publicly owned. The county's major industries are agriculture, forest products, fishing and tourism. Curry has the second lowest property tax rate in Oregon and is reliant on federal timber revenues. The county's labor force participation rate is the lowest of the counties, its unemployment rate is the second highest, and its spending on public safety is among the bottom 10 counties. A number of county services ranging from animal control, health and human services, home hospice care, and environmental sanitation transitioned to non-profit organizations between 2011 and 2014. Despite these trends, the county has shown good debt management practices and has strong liquidity.

County Response

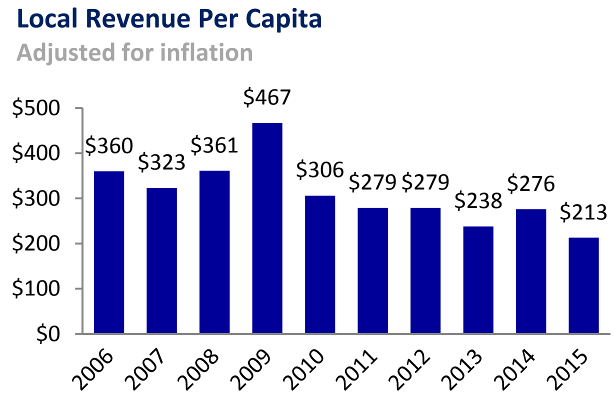
As mentioned above, Curry County has little to no debt and strong liquidity. Curry County's land allocation of 66% federal, 22% private forest and 7% farming and agricultural and 1% state, only leaves 4% of taxable land base at the second lowest rate in the State. With the end of federal timber payments to fund services and minimal tax revenues, Curry County will have a multimillion-dollar budget shortfall beginning in fiscal year 2017-18. This shortfall will cause major county services, such as public safety, assessment and taxation, and elections, to receive drastic reductions in staff and department closures, resulting in a subsequent loss of crucial services to citizens.

County commissioners are working closely with the Association of Oregon Counties, the National Association of Counties, the Association of O&C Counties, and state and federal legislators to increase harvest yields and restore federal forest timber payments to counties. Proposed local funding solutions to bridge the impending budget shortfall have not been passed by county residents.

Curry County

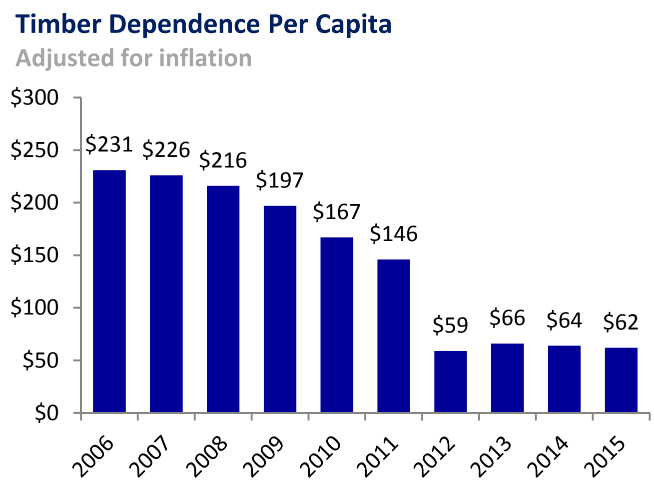
Local Support

Local revenues per capita slowly declined over the past decade. From 2006 to 2015 local revenues decreased from $7.8 million to $4.8 million while the county's population increased by about 1,100. The county's permanent tax rate of $0.60 per $1,000 of assessed property value is the second lowest in Oregon.



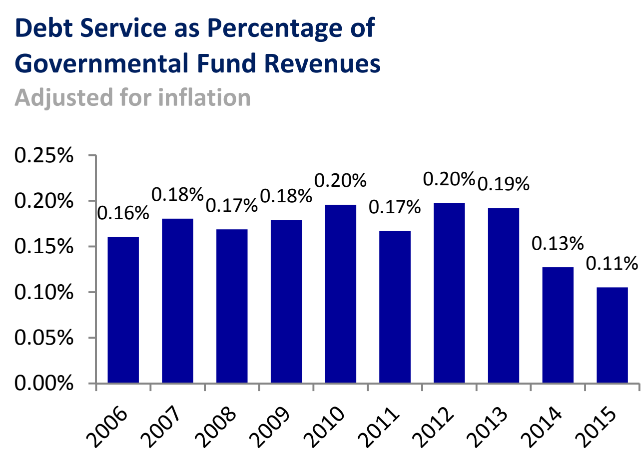
Timber Revenue Dependence

In 2015 Curry County received about $1.4 million in federal timber revenues, which represented about 9% of the county's total governmental fund revenues. The county's reliance on timber revenues has declined since 2006, when timber revenues were $5 million or about 17% of total governmental fund revenues. Curry is one of 18 counties receiving federal timber revenues. The county's 2015 timber revenues provided about $62 in revenues per capita.



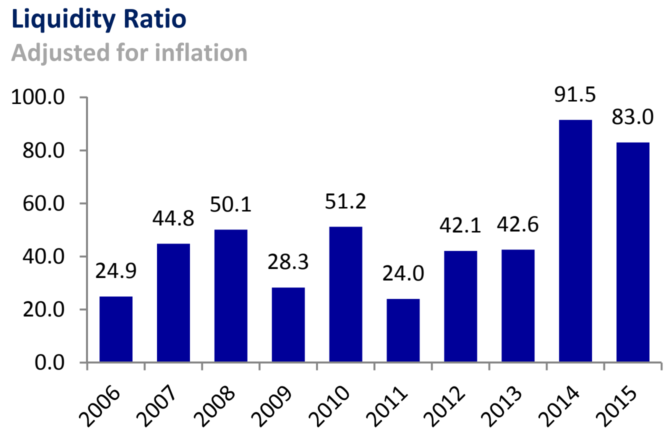
Debt Burden

The county's debt service payments remained stable from 2006 to 2015. At 0.11% of 2015 total governmental fund revenues, the debt service level is one of the lowest of the Oregon counties and indicates the county has implemented sound debt management practices.



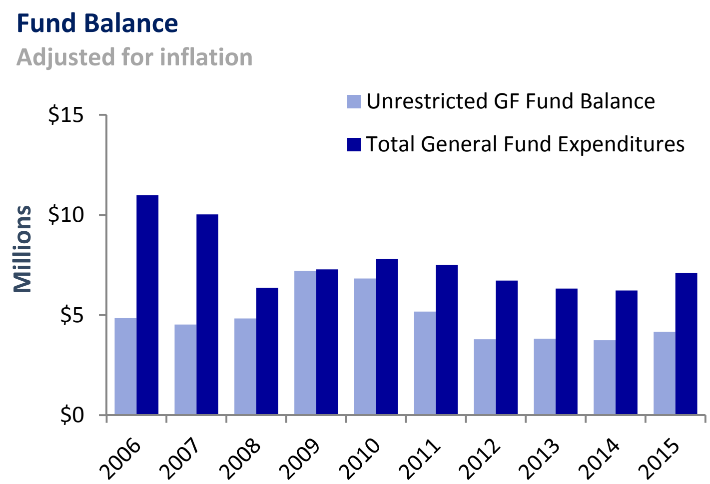
Liquidity

Curry's liquidity ratio varied over the past 10 years but has consistently maintained a ratio greater than 23. At this level, it has more than enough cash to meet its short-term liabilities. County officials reported the liquidity level is a result of efforts to put General Fund monies into reserves in anticipation of the loss of federal timber revenues. The liquidity ratio improved in 2014 due to a decrease in short-term liabilities.



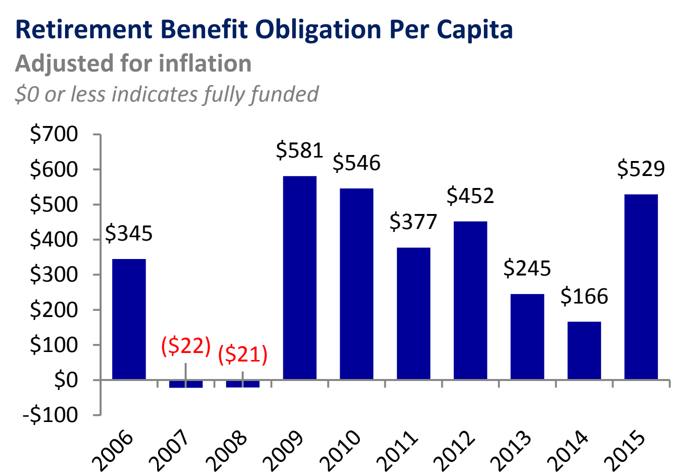
Fund Balance

The county's General Fund unrestricted fund balance as a percentage of total General Fund expenditures fluctuated between a low of 44% in 2006, to a high of 99% in 2009, to its current 59% in 2015. These percentages are considered indicative of adequate reserves.



Retirement Benefit Obligation

The county provides pension and other retirement benefits to its employees. Its unfunded actuarial liability fluctuated each year since 2006. The current liability of $11.9 million in 2015 is close to the $12.4 million in 2009. The increase in 2015 is attributed to multiple factors including poor investment returns and market fluctuations.

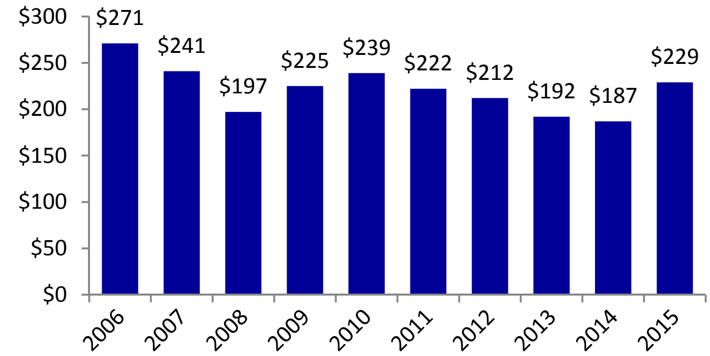


Public Safety

Public safety expenditures per capita increased by 22% to $229 in 2015 after the low of $187 in 2014.

Public Safety Expenditures per Capita

Adjusted for inflation

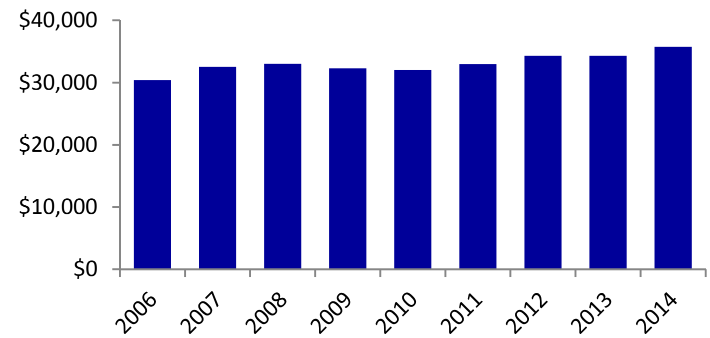


Personal Income

Personal income per capita gradually increased from 2006 to 2014. The county's 2014 per capita personal income level of $35,720 is 22nd among Oregon counties.

Personal Income Per Capita

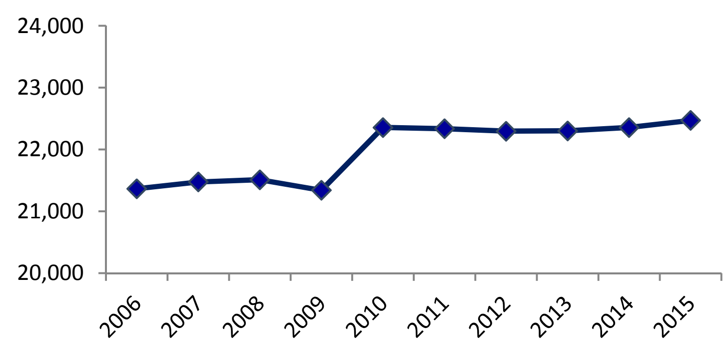
Adjusted for inflation based on 2014 dollars



Population Trends

Curry had an estimated population of 22,470 in 2015, which ranks 25th among Oregon counties. The county's population has increased slowly since 2006.

10-Year Population Trend



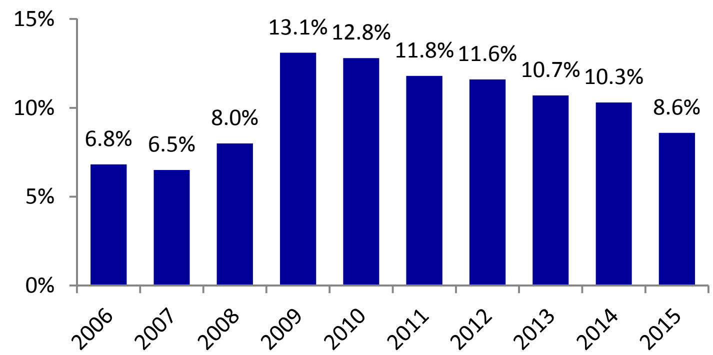
Curry County

Unemployment

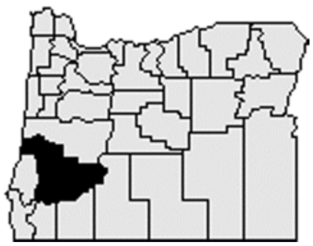
Since spiking in 2009 the county's unemployment rate has decreased due to the improving economy. The county's unemployment rate in 2015 was the second highest of Oregon counties and was about 2.9% higher than the State's unemployment rate for the year.

County Unemployment Rates

Seasonally adjusted average



Douglas County



Overview

Approximately 50% of Douglas County's 5,071 square miles is public land, with forest products and agriculture being key to its economy. The county levies the fourth lowest property tax rate in Oregon, which limits its ability to generate local revenues. Declines in revenue have outpaced reductions in spending resulting in operating deficits each year since 2012. Douglas is the most dependent among counties on federal timber payments, and has the third lowest labor participation rate. The county's large fund balance has helped the county to weather its declining revenues.

The financial management indicators show the county has sound debt management practices and one of the largest fund balances among counties. In addition, Douglas County has strong liquidity and a steady population growth over the past several decades.

County Response

Douglas County continues to deal with decreases in timber revenue and safety net funding from the federal government. Over the past 10 years, Douglas County has cut service costs, reduced staff by 30%, and until the safety net allocation was cut in half in 2011, increased reserve funds to help weather the fiscal transition.

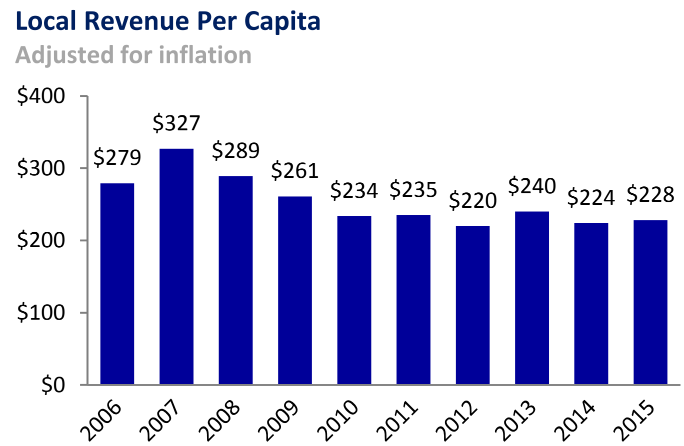
The county began drawing on reserve funds in 2011 to maintain critical public safety services and instituted new fees and charges to replace safety nets in departmental budgets. Raising property taxes has been problematic in Douglas County as much of the population lives in unincorporated cities that have met the $10 cap on taxes. Residents outside incorporated areas are unwilling to bear an inequitable share of property tax increases.

In 2015, county residents began paying parking fees at county parks and tipping fees for household trash sent to the landfill. The county is also considering forming a taxing district for the library system. County leaders indicated reinstating a harvest program while instituting the original revenue sharing formulas with the BLM and USFS on the 52% of county land owned by the federal government is the most equitable solution to the county's funding problems.

Douglas County

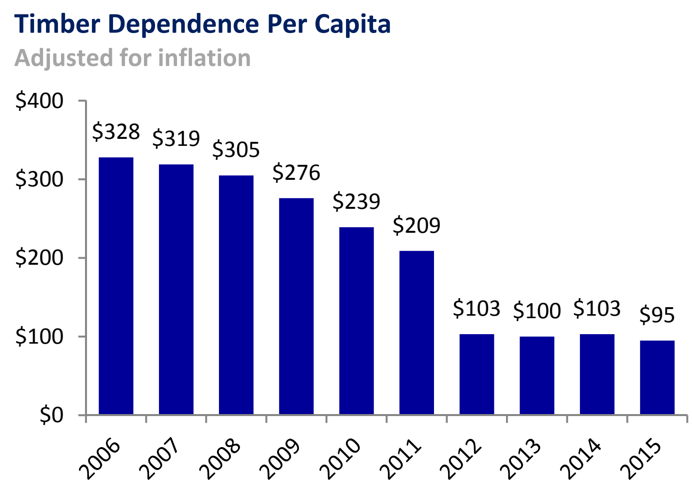
Local Support

The county's local revenues of $25 million in 2015 is down from $29 million in 2006, resulting in a decrease of local revenues per capita to $228 in 2015 compared to $279 in 2006. Local revenues per capita in 2015 were the fourth lowest in the state. Its permanent tax rate of $1.11 per $1,000 of assessed property value is the fourth lowest rate in Oregon.



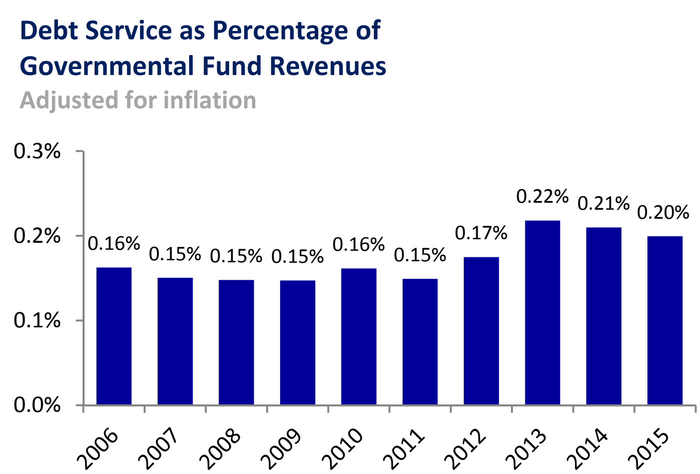
Timber Revenue Dependence

Douglas County is the most dependent on federal timber revenues. Those resources contributed 26% of the county's total governmental fund revenues in 2006, declining to 16% in 2015.



Debt Burden

The county's debt service payments remained stable from 2006 to 2015. At 0.20% of 2015 total governmental fund revenues, the debt service level is one of the lowest of the Oregon counties and indicates the county has implemented sound debt management practices.



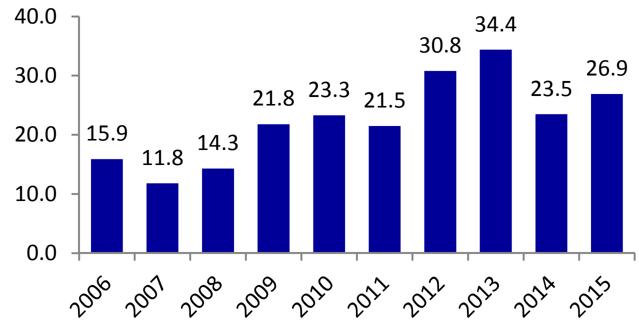
Douglas County

Liquidity

Douglas County consistently maintained a liquidity ratio greater than 11 between 2006 and 2015. At its current level, the county has sufficient cash to meet its short-term liabilities.

Liquidity Ratio

Adjusted for inflation

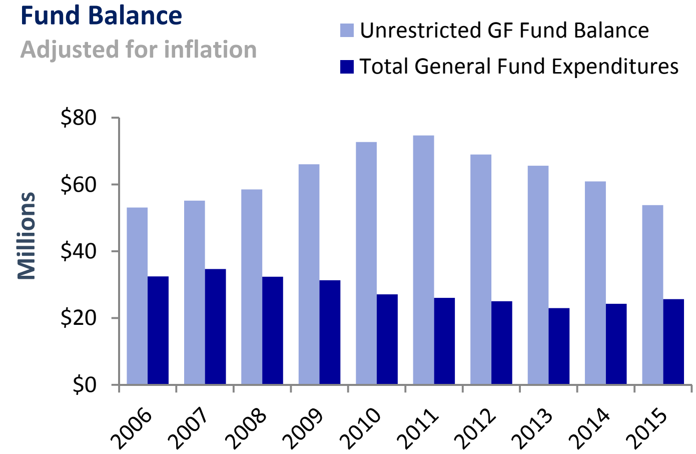


Fund Balance

The county's General Fund unrestricted fund balance of $53.8 million in 2015 is consistent with $53.1 million in 2006. During this same period, total fund expenditures decreased from $32.4 million to $25.7 million. As a result, the General Fund unrestricted fund balance meets its current needs. The county's 2015 unrestricted fund balance is the largest among Oregon counties.

Fund Balance

Adjusted for inflation

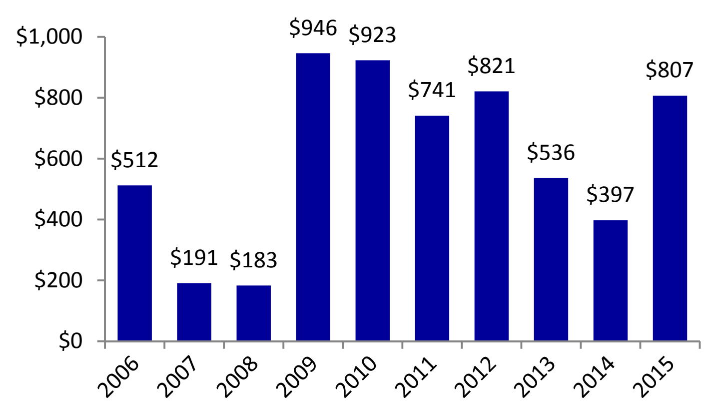


Retirement Benefit Obligation

The county provides pension and other retirement benefits to its employees. The unfunded liability associated with these benefits has fluctuated over the decade. Douglas's retirement obligations declined significantly from 2009 to 2013 due to pension reform and improved returns on investments, but returned to a higher level in 2015 due to multiple factors.

Retirement Benefit Obligation Per Capita

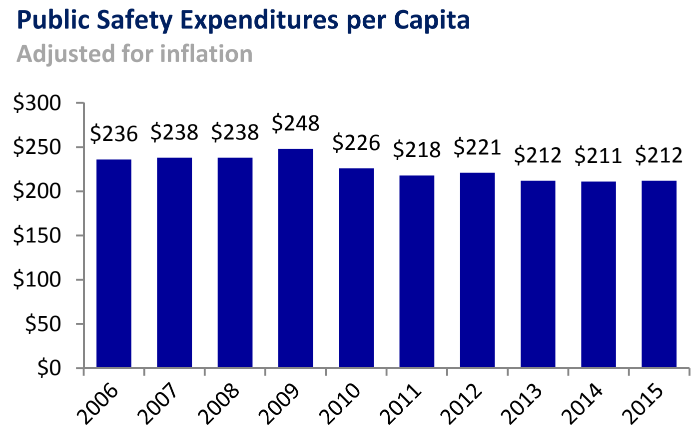
Adjusted for inflation



Douglas County

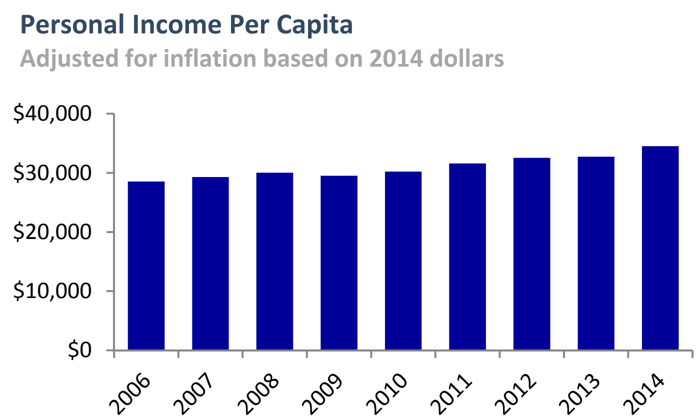
Public Safety

Spending per capita on public safety programs decreased about 10% since 2006, but has remained fairly consistent since 2013. At its current funding level, the county is in the bottom 10 counties for public safety spending per capita.



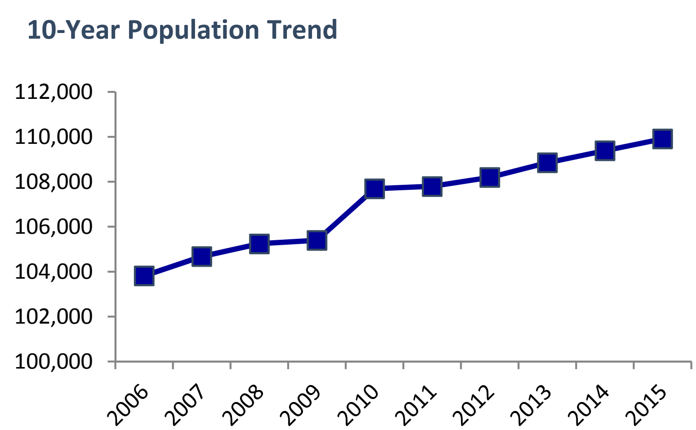
Personal Income

Per capita personal income levels in Douglas County rose from about $28,500 in 2006 to about $34,500 in 2014, an increase of about 21%, but the county still remained in the bottom third of all counties.



Population Trends

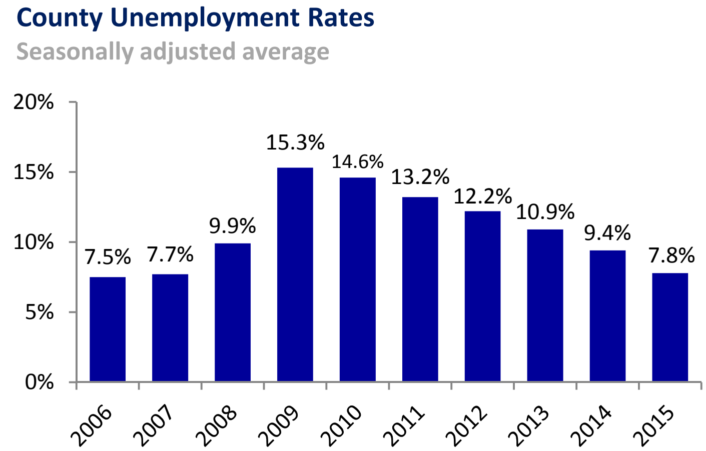
Douglas County ranks ninth among Oregon counties with an estimated population of 109,910 in 2015. The population continued to grow over the last decade.



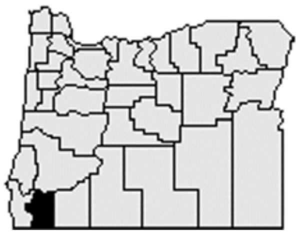
Douglas County

Unemployment

Although Douglas County's unemployment rate declined each year since 2009 due to an improving economy, its 2015 rate was the eighth highest of Oregon counties. It was 2% higher than the State's unemployment rate.



Josephine County



Overview

Josephine County was the last county created before statehood and relies on lumber, tourism, and agriculture. Roughly 62% of its 1,641 square miles is publicly owned.

Josephine is one of the most dependent on federal timber payments and levies the lowest property tax rate. While a number of financial management indicators such as the county's debt burden and liquidity are positive, the majority indicate a high degree of risk. For example, the county's low property tax rate limits its ability to generate local revenues. Labor force participation is low and per capita personal income is the fifth lowest among counties. Cuts in public safety spending have led to the closure of the county juvenile jail and significant layoffs in the sheriff's department.

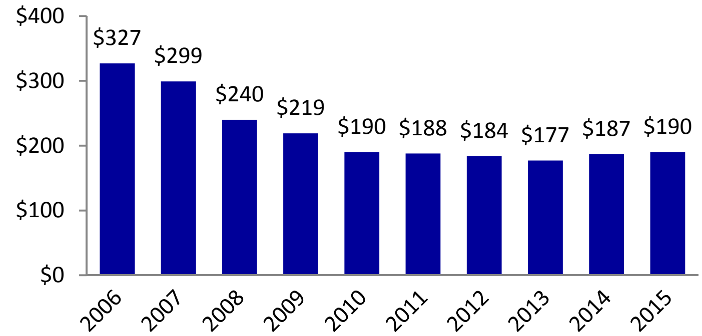
County Response

The County anticipates a stable budget for fiscal year 2016-17, with adequate revenues to maintain current service levels. However, for fiscal year 2017-18 the County is anticipating the loss of federal timber payments, in which case the County will prepare a balanced budget with strategic reductions in services and staffing, notably in the Public Safety Fund but also in the General Fund and the Internal Services Fund. Most other county funds operate on their own dedicated revenue sources and will not be significantly affected by the loss of federal timber payments.

Local Support

Local revenues decreased by 40% since 2006, to $15.9 million in 2015. Local revenue per capita in 2015 was the lowest of the counties. The decline is likely due to a combination of factors, including population change and economic conditions. The county's permanent tax rate of $0.59 per $1,000 of assessed property value is the lowest in Oregon.

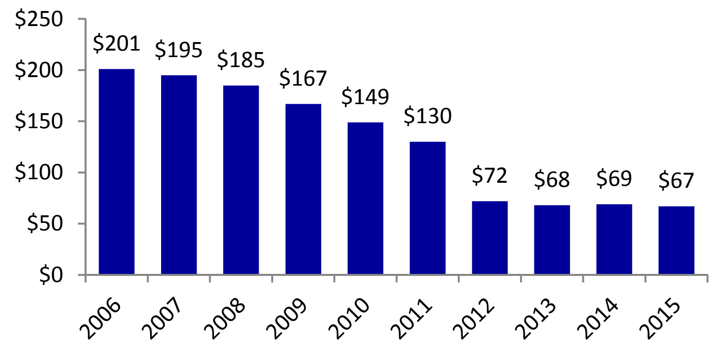
Local Revenue Per Capita
Adjusted for inflation



Timber Revenue Dependence

Federal timber payments decreased about 66% over the last decade falling from $16.3 million in 2006 to $5.6 million in 2015. About 13% of total revenues came from timber payments in 2015.

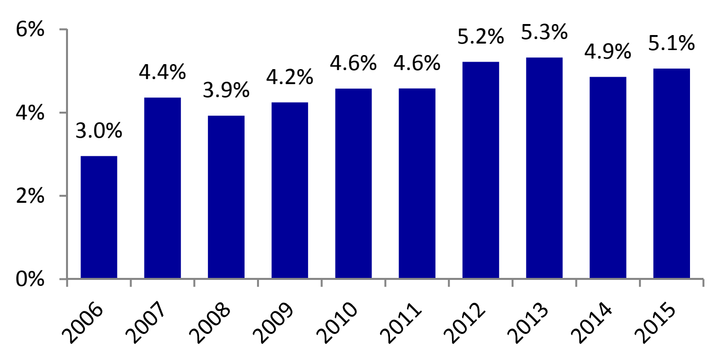
Timber Dependence Per Capita
Adjusted for inflation



Debt Burden

The county's debt service payments, as a percentage of total governmental fund revenues, gradually increased over the past 10 years. However, the percentages still fall within the range of sound debt management.

Debt Service as Percentage of Governmental Fund Revenues
Adjusted for inflation

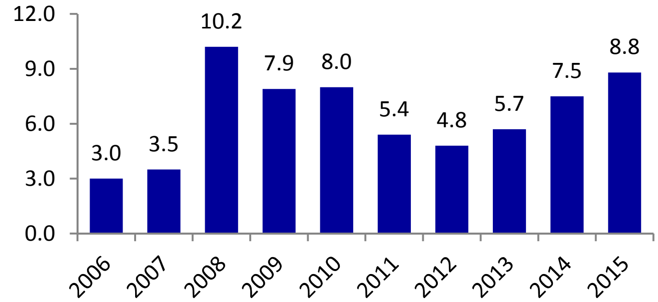


Liquidity

The county has strengthened its liquidity ratio the last eight years. At its current level, the county has sufficient cash to meet its existing short-term liabilities.

Liquidity Ratio

Adjusted for inflation

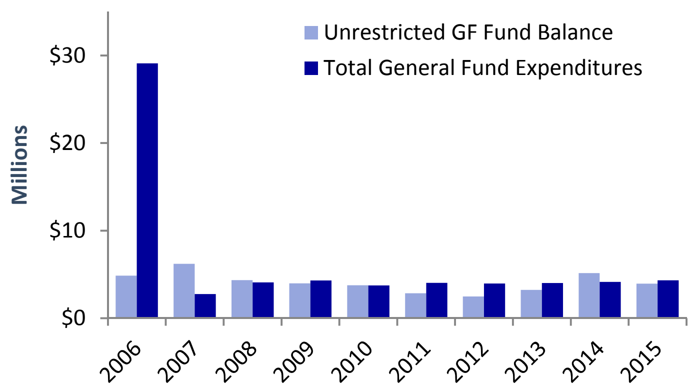


Fund Balance

The county's unrestricted General Fund balance was about $5 million in 2006 while total General Fund expenditures were $29 million. In 2007 the county began recording public safety expenditures in the new Public Safety Fund rather than the General Fund. Since then, the unrestricted General Fund balance has been generally comparable to total General Fund expenditures.

Fund Balance

Adjusted for inflation



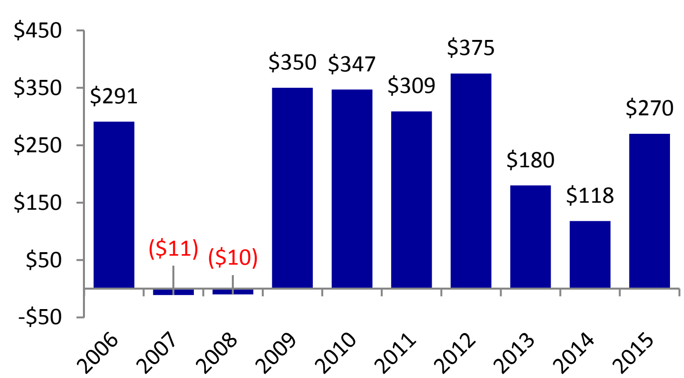
Retirement Benefit Obligation

The county provides pension and other retirement benefits to its employees. The unfunded liability and resulting per capita obligation associated with these benefits more than doubled from 2014 to 2015. This is due to multiple factors including poor investment returns in current market conditions. At $270 per capita, the county's retirement obligation is among the lowest of all Oregon counties.

Retirement Benefit Obligation Per Capita

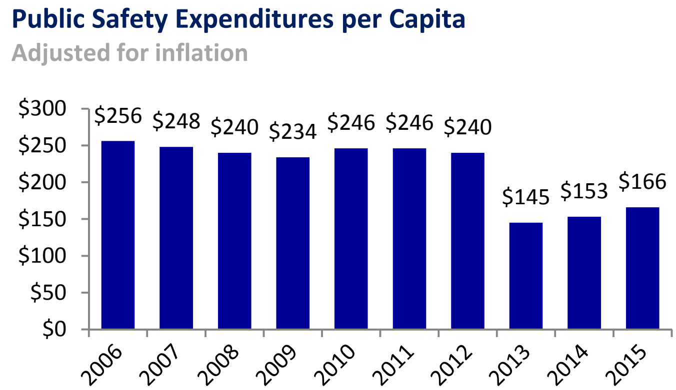
Adjusted for inflation

$0 or less indicates fully funded



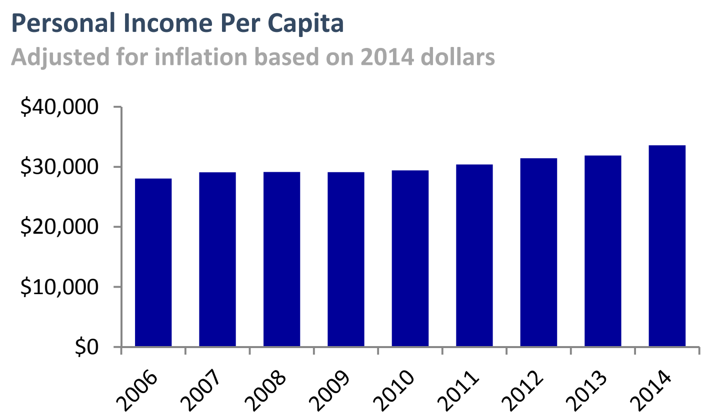
Public Safety

Josephine County's per capita spending on public safety programs was relatively stable each year until 2013 when it decreased about 40% from $20 million to $12 million, primarily due to a decrease in federal timber revenue. The county has the second lowest public safety expenditure per capita in 2015.



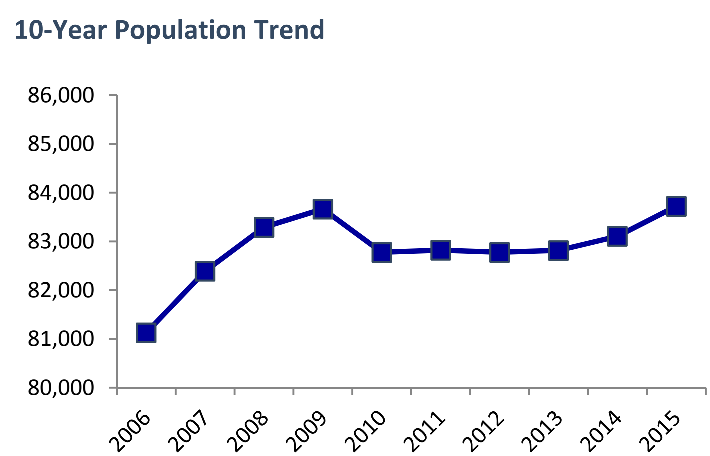
Personal Income

Per capita personal income levels increased about 20% since 2006. Even with these increases the county was the fifth lowest among Oregon counties in 2014.



Population Trends

In 2015, Josephine County was the 12th largest among Oregon counties with an estimated population of 83,720. The population has more than tripled since 1950. The county's population has been steadily increasing since 2010.

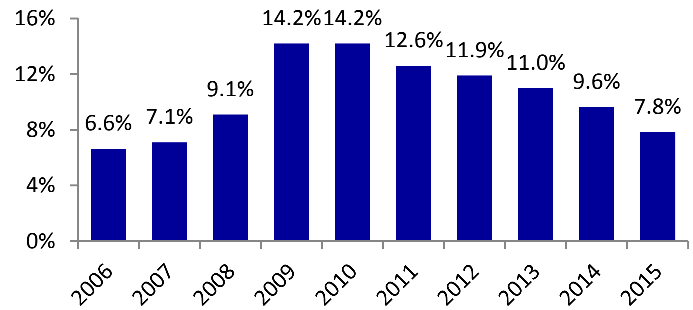


Unemployment

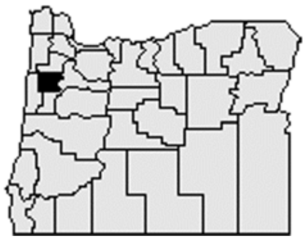
The county's unemployment rate decreased since 2009 with the improved economy. In 2015 the county's unemployment was the seventh highest in Oregon and was 2.1% higher than the State's rate.

County Unemployment Rates

Seasonally adjusted average



Polk County



Overview

Polk County covers approximately 745 square miles (11.3% is publicly owned). Its major industries are agriculture, forest products, manufacturing, and education.

The county is not overly reliant on federal timber revenues and enjoys the 11^{th} lowest unemployment rate in Oregon. County spending on public safety is the lowest in the state; however, a law enforcement local option levy passed by voters in May 2015 is expected to generate approximately $2.3 million annually to help pay for additional law enforcement. Although it has one of the highest debt burdens, it is still within the range recognized as sound debt management. The county experienced significant population growth the last two decades.

County Response

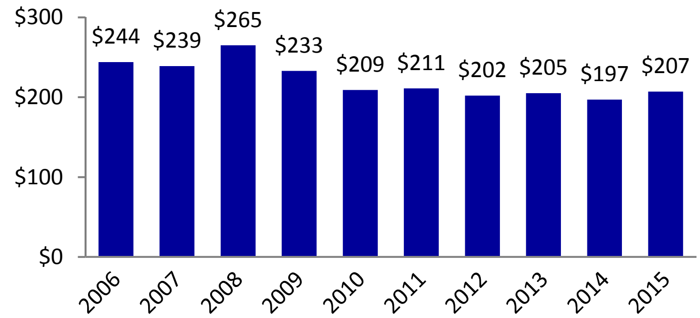
With the passage in May 2015 of a five year public safety operating levy to address public safety needs and increase fund balances in both the general fund and other funds, the “counties to monitor” label is no longer applicable in the county’s opinion. A report of this type is based on historical information and does not address future plans or solutions. Polk County will continue to monitor and manage its revenues and expenditures in a prudent manner to ensure fiscal responsibility and professional service delivery to its citizens.

Polk County

Local Support

Locally generated revenues remained fairly consistent over the past 10 years at approximately $16 million annually. For 2015, local revenues per capita were the second lowest in the state. The county's permanent tax rate of $1.72 per $1,000 of assessed property value is the 12th lowest in Oregon.

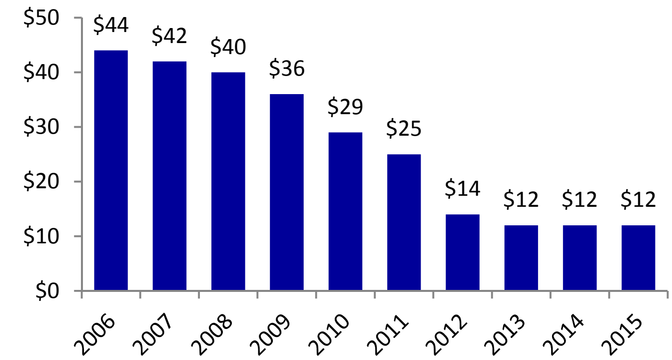
Local Revenue Per Capita
Adjusted for inflation



Timber Revenue Dependence

In 2006, Polk County received about $2.9 million in federal timber revenues, which represented 6% of the county's total governmental fund revenues. In 2015, these revenues were about $0.9 million or about 2% of total governmental fund revenues. The county's 2015 federal timber revenues provided about $12 in revenues per capita.

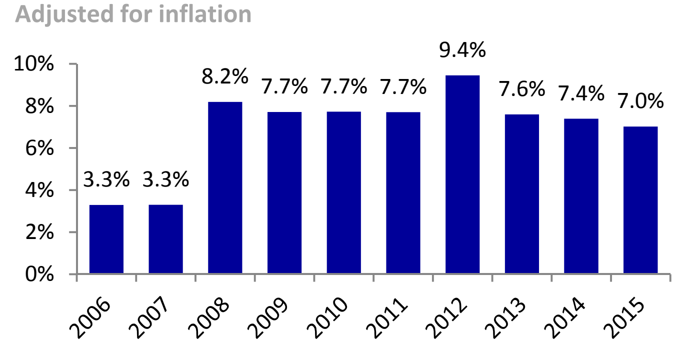
Timber Dependence Per Capita
Adjusted for inflation



Debt Burden

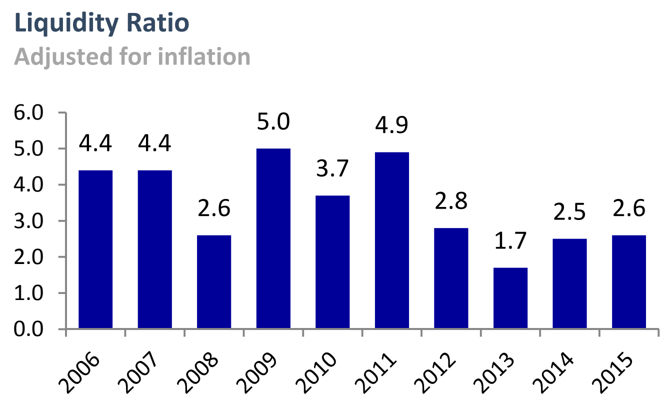
At 7% of its 2015 total governmental fund revenues, the county's debt service ranks among the highest of Oregon's counties. However, its level of debt service is still within the range recognized as sound debt management.

Debt Service as Percentage of Governmental Fund Revenues
Adjusted for inflation



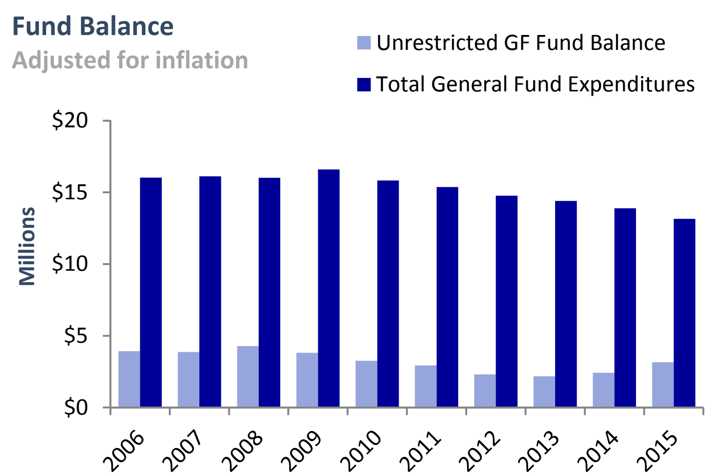
Liquidity

Over the past 10 years, the county maintained an adequate liquidity ratio each year to meet its current needs. Although the county has sufficient cash to meet its existing short-term liabilities, its 2015 liquidity ratio of 2.6 is the third lowest of the counties.



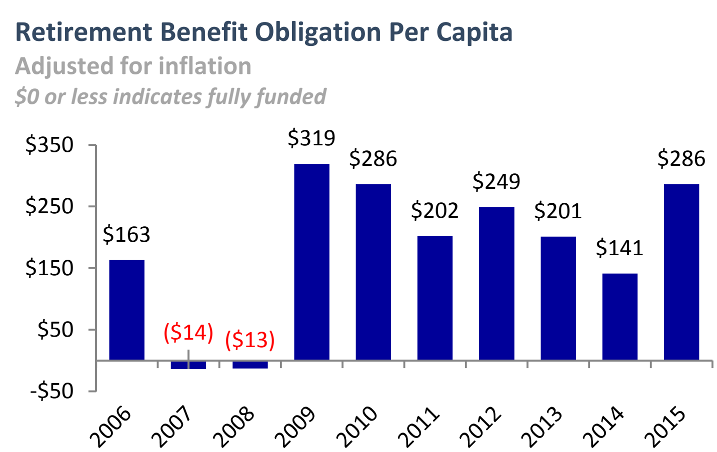
Fund Balance

The county's General Fund unrestricted fund balance decreased from $3.9 million in 2006 to $3.1 million in 2015. During this same period expenditures decreased from $16 million to $13 million.



Retirement Benefit Obligation

The county provides pension and other retirement benefits to its employees. In 2015, the retirement obligation per capita increased due in part to poor returns on the State's investments. When compared with other counties, Polk's retirement obligation is in the bottom third.



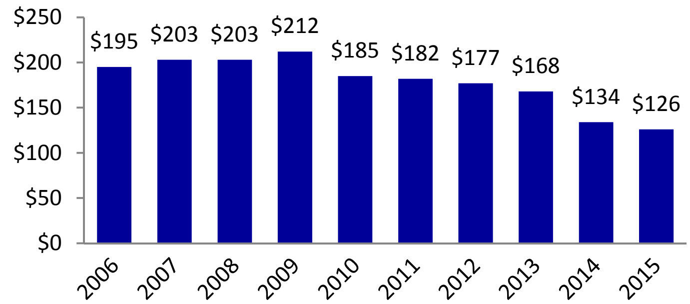
Polk County

Public Safety

Polk County's public safety expenditures per capita declined since 2009. Public safety program expenditures decreased from $14.6 million in 2009 to $9.9 million in 2015. Polk County is the lowest county in public safety expenditure spending per capita. In May 2015 a levy was passed to generate funding for additional law enforcement.

Public Safety Expenditures Per Capita

Adjusted for inflation

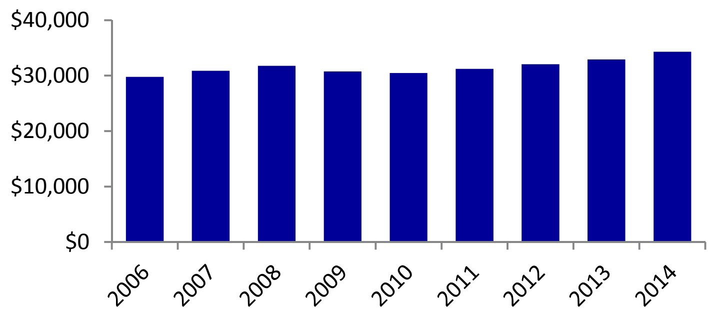


Personal Income

Although personal income per capita in Polk County steadily increased since 2006, it ranks in the bottom 10 among Oregon counties.

Personal Income Per Capita

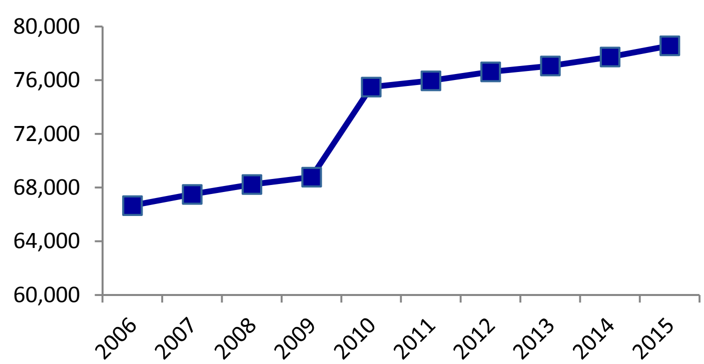
Adjusted for inflation based on 2014 dollars



Population Trends

Polk County ranks 14th among Oregon counties with an estimated population of 78,570 in 2015. The population has continued to grow the past 10 years.

10-Year Population Trend

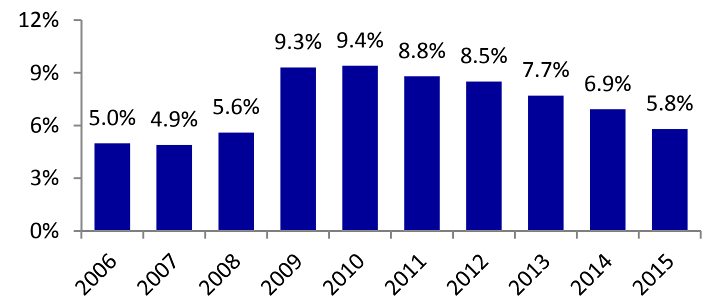


Unemployment

The county's unemployment rate gradually decreased since 2009 due to an improving economy. In 2015, the unemployment rate is close to the State's average rate of 5.7%.

County Unemployment Rates

Seasonally adjusted average



Oregon's Approach to Financial Monitoring and Intervention

During the 2012 legislative session, Oregon enacted laws to address financial distress among its counties; the legislation was designed to assist troubled counties that were impacted by the recent loss of federal timber revenues.

The purpose of the legislation was to provide assistance to counties that had received federal timber revenues through the Secure Rural Schools and Community Self-Determination Act of 2000 (SRS) and are now facing a financial crisis. Under this law, counties whose SRS revenues exceeded 10% of their property tax revenue qualified to declare distress and seek state assistance and intervention. The legislation allowed several timber impacted counties to use road funds for sheriff patrols without repayment until January 2016 and allowed all counties to transfer road funds for public safety costs as long as the road funds were repaid within three years.

During the 2013 session, legislation was passed that allows the Governor to determine if a public safety fiscal emergency exists within one or more counties. The purpose of this law is to reduce the loss of life, injury to persons or property and suffering that could result from a public safety fiscal emergency. Once an emergency is declared, the state will bear 50% of the cost of public safety and the county will bear the remaining 50% through income tax, tax on telecommunications services, any assessment the county is lawfully capable of imposing, or existing sources of county revenues.

If assistance is requested, the law allows for the establishment of a fiscal assistance board with the power to, among other things, reallocate funds, cut services, lay off employees, reduce expenditures, sell or lease real or personal county property, issue bonds, and renegotiate debt repayment. However, implementation of the governor's board actions require a majority vote of its members and a majority vote of the county's governing board.

Unfortunately, counties that do not qualify under the new law have few remedies at the state level. While Oregon does allow Irrigation and Drainage Districts to file bankruptcy, it does not allow counties to file for bankruptcy. Other than these few measures, local governments are responsible for managing their own financial problems.

Best Practices

Dr. Charles Coe, a professor in the School of Public and International Affairs at North Carolina State University, has studied local government financial monitoring. Based on his research, he recommends the following best practices to prevent fiscal crises:

- Utilize a system that provides early warning of fiscal distress. The ideal system analyzes the most current financial reports; states that use budgets or interim financial information are able to identify problems earlier than those that use annual financial reports. However, audited financial reports may contain more accurate information. The system also needs to carefully consider which indicators to use. Some indicator systems may tend to produce false warnings or false assurances. In order to be effective, the system must accurately predict distress.
- Assist troubled local governments when evidence of possible distress is detected. States that are successful in assisting local governments also have adequate staff to provide the technical assistance. This assistance could also be achieved through referral systems or other means to help the local government help itself.
- Strongly intervene if a crisis occurs. For the state to protect its interests, it must be able to mandate action. States with a strong ability in this area can take the extreme action of local government takeover for the duration of the crisis.

Our 2012 report includes an appendix of laws existing in other states related to local government financial oversight and state intervention.

http://sos.oregon.gov/Documents/audits/full/2012/2012-17.pdf

Objectives, Scope and Methodology

The objective of this report is to evaluate the financial condition of Oregon's county governments using the Financial Trend Monitoring System developed by the International City and County Management Association (ICMA). In addition, we sought to identify general strategies used by other states to monitor and address counties with financial problems.

This report was produced for informational purposes and does not constitute an audit performed in accordance with generally accepted government auditing standards.

The primary source of data in this report was obtained from each county's audited financial statements of fiscal years 2006 through 2015. In addition, our analysis focused on the financial condition of each county's governmental funds, which includes its General Fund. Unless otherwise indicated, data are presented on a fiscal year basis (e.g., 2015 represents the fiscal year beginning July 1, 2014 and ending June 30, 2015). In order to account for inflation, we expressed financial data in constant dollars. We adjusted dollar amounts for each prior year to equal the purchasing power of money in fiscal year 2015. We used the Consumer Price Index – All Urban Consumers U.S. city Average, as reported by the Bureau of Labor Statistics, U.S. Department of Labor. Charts that have been adjusted for inflation will be indicated in the chart title.

Financial indicators used in this report were derived primarily from information contained in the ICMA *Evaluating Financial Condition: A Handbook for Local Governments*. However, additional factors were considered and, in some cases, the indicators were modified to fit Oregon's unique situation. For example, differences in accounting principles employed by counties made it difficult to identify discretionary operational spending.

Counties selected for additional analysis were identified using a number of criteria including: 1) the county's dependence on federal timber revenue, 2) the number of indicators in which the county was identified as high risk of distress, and 3) our general understanding of the counties (i.e., publicly known financial troubles).

We reviewed information for reasonableness and consistency. We did not, however, audit the accuracy of source documents or the reliability of the data in computer-based systems. Our review of data was not intended to give absolute assurance that all information was free from error. Rather, our intent was to provide reasonable assurance that the reported information presented a fair picture of the financial condition of county governments in the State of Oregon. In addition, while the report offers financial highlights, it does not thoroughly determine the reasons for negative or positive performance. More analysis is needed to provide such explanations.

Additional information, such as economic and demographic indicators, was obtained from the following sources:

- Oregon Employment Department
- Oregon Department of Administrative Services
- Oregon Department of Revenue
- Oregon Public Employees Retirement System
- Oregon Secretary of State, Archives Division
- Portland State University Population Research Center
- United States Department of the Interior, Bureau of Land Management
- United States Department of Labor, Bureau of Labor Statistics
- Curry County Officials
- Douglas County Officials
- Josephine County Officials
- Polk County Officials
- ICMA *Evaluating Financial Condition: A Handbook for Local Governments*

About the Secretary of State Audits Division

The Oregon Constitution provides that the Secretary of State shall be, by virtue of her office, Auditor of Public Accounts. The Audits Division exists to carry out this duty. The division reports to the elected Secretary of State and is independent of other state agencies within the Executive, Legislative, and Judicial branches of Oregon government. The division audits all state officers, agencies, boards, and commissions and oversees audits and financial reporting for local governments.

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This report, a public record, is intended to promote the best possible management of public resources. Copies may be obtained from:

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The courtesies and cooperation extended by officials and employees of Oregon counties and the Association of Oregon Counties during the course of this review were commendable and sincerely appreciated.