Financial Condition Report

State of Oregon

2010

Secretary of State
Kate Brown

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Dear Fellow Oregonians:

Oregon is truly at a financial crossroads. The opportunity to set the state on a course to a brighter future is now. As your Secretary of State and Auditor of Public accounts I thought it both relevant and timely to produce for the first time a financial condition report for the State of Oregon. A financial condition report provides important information on current and historical financial trends.

It is my hope that the analysis provided by the Audits Divison will give Oregonians and public officials the tools they need to understand the unfavorable trends the state experienced and identify potential solutions to forge a better future for our state and for our people. The data in this report covers a 9-year period from FY 2001 through FY 2010.

The most favorable trends are:

- Oregon's unemployment fund helped cover the needs of many Oregonians during this deep recession, unlike many other states that are borrowing from the federal government to support the unemployed;
- Payments to state PERS retirees appear to be leveling out in recent years; and
- Oregon continues to see a declining rate of violent property crimes.

Unfortunately, less favorable trends are prevalent in this report:

- Basic conditions for Oregonians have worsened with increased unemployment, increasing poverty rates, and greater dependence on Medicaid and other public assistance;
- K-12 education costs have grown substantially in the past 9 years;
- Oregon's Rainy Day Fund, created 3 years ago, has already been reduced by two-thirds; and
- Oregon has doubled its long-term debt over the last 9 years, limiting its future options.

I would like to commend the Audits Division for their remarkable work. We plan to produce a financial condition report biennially with the purpose of helping create a roadmap to put Oregon on a more solid and sustainable path.

Sincerely,

Kate Brown
Secretary of State

Contents

Revenues

Total Revenues

Revenues determine the capacity of a government to provide services to citizens and are affected by economic and policy changes. Total revenues have increased 29% over the last nine years. In fiscal year 2010 (FY10) the state's revenues increased by $3 billion from the prior year. The majority of the increase is attributable to an increase in federal revenues for unemployment compensation and health and social services federal programs.

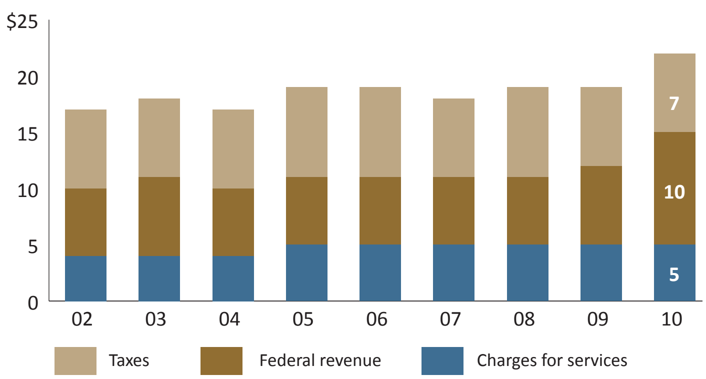
Tax Revenues

In 2009, Oregon ranked 39th nationally in the amount of state taxes collected per capita. Oregon's primary source of taxes is the personal income tax. Oregon ranks 4th highest in terms of personal income tax collections per capita. Other tax revenues include inheritance taxes, public utility taxes, and insurance premium taxes.

Total Revenues by Source

Adjusted for inflation (in billions), FY ended June 30

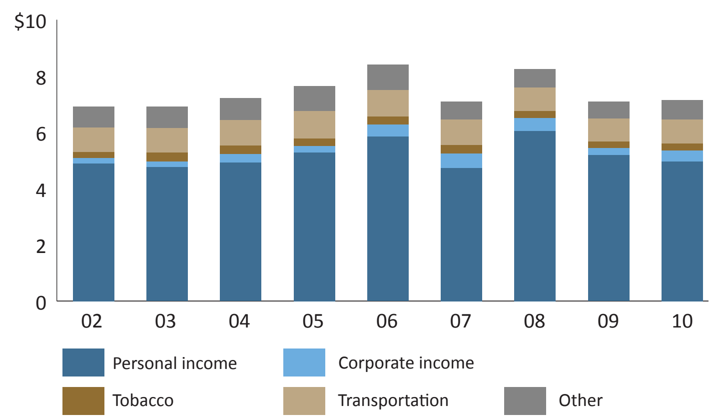
Chart 1



Tax Revenues

Adjusted for inflation (in billions), FY ended June 30

Chart 2



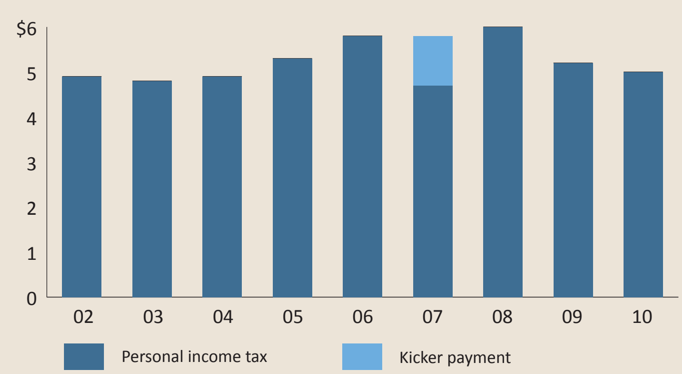
Personal Income Tax Revenues and Kicker

Personal income taxes are the main revenue source for the state's General Fund. When personal income tax revenues exceed forecasted revenues by 2%, state law requires the excess amount (referred to as the "kicker") be refunded to taxpayers. During the past nine years, this occurred following the 05-07 biennium when the state refunded about $1 billion. In the 15 biennia since the kicker became effective, 8 biennia resulted in kicker payments to taxpayers. To set aside excess revenues for future budget shortfalls, legislative action is required to suspend the kicker law.

Personal Income Tax Revenues

Adjusted for inflation (in billions), FY ended June 30

Chart 3



Revenues

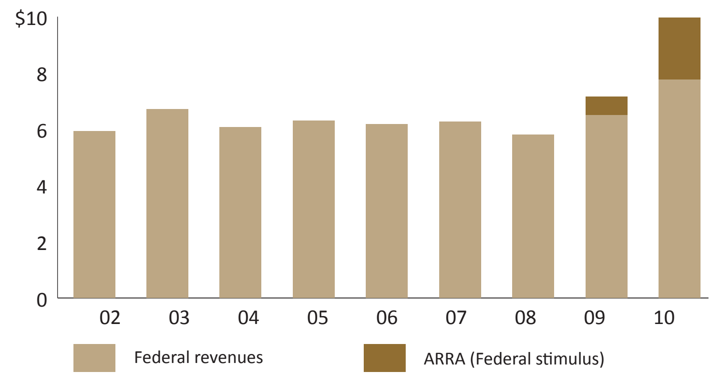
Federal Revenues

Federal revenues are grants and reimbursements received from the federal government for numerous programs and services provided to eligible recipients. The state received additional federal funding through the American Recovery and Reinvestment Act (ARRA) totaling $665 million in FY09 and $2.2 billion in FY10. ARRA funding is expected to end in FY12.

Federal Revenues

Adjusted for Inflation (in billions), FY ended June 30

Chart 4

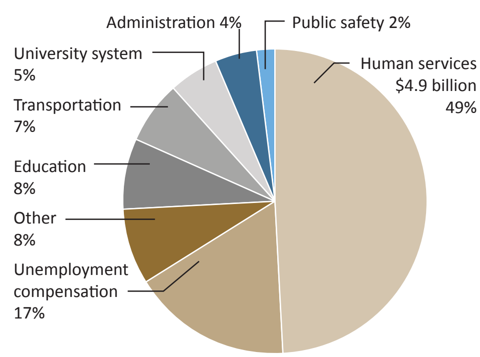


Federal Revenues by Program Area

The state received about $10 billion in federal assistance in FY10, an increase of $3 billion from FY09. Traditionally, the largest federal revenue source is for Medicaid in the human services program area, for which Oregon receives between $1.8 and $3 billion annually. Other large human services programs include Supplemental Nutrition Assistance Program (SNAP – formerly known as Food Stamps) and Temporary Assistance to Needy Families (TANF). Due to the high unemployment rate, federal assistance for unemployment compensation has increased dramatically in the last year by 220% or $1.2 billion.

Fiscal Year 2010 Federal Revenues by Program Area

Chart 5



Revenues

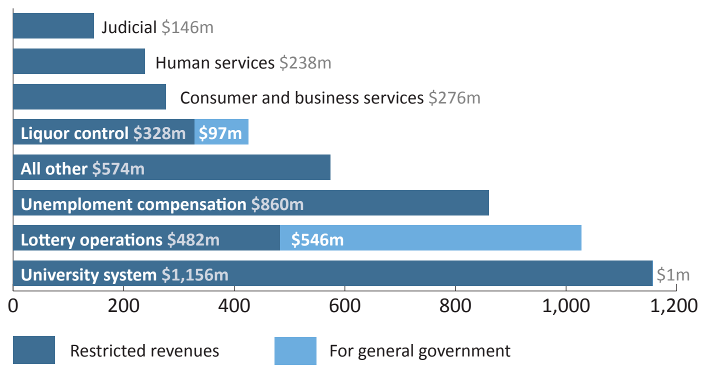
Charges for Services

Charges for services are fees from customers, applicants, and others who use, purchase, or directly benefit from services provided. In FY10, charges for services totaled about $5 billion and represented about 23% of total state revenues. These revenues have increased from $3.6 to $5 billion or 40% over the last nine years. Of total charges for services, 14% is used for general government purposes. The remainder is used for the specific purpose collected.

Fiscal Year 2010 Charges for Services

(in millions)

Chart 6



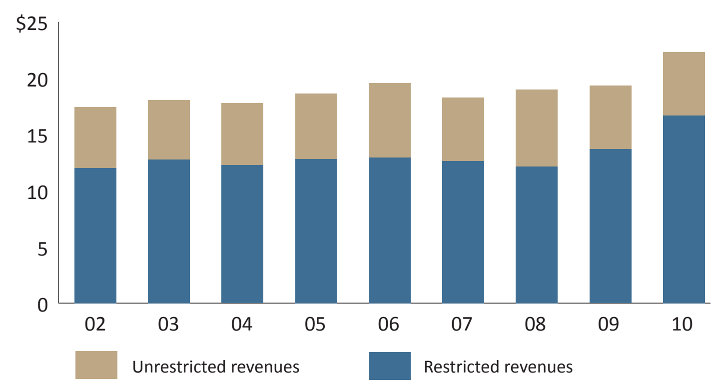
Restricted and Unrestricted Revenues

The legislature has discretion over the spending of General Fund revenues. Of the total state revenues collected, about 25% are unrestricted and accounted for in the state's General Fund with the majority going to support education, human service, and public safety programs. The remaining revenues are generally restricted by statute, grant agreement or the Oregon Constitution for specific purposes. About 60% of restricted revenues are federal revenues that can only be used for specific federal programs. Other restricted revenues include motor vehicle and fuel taxes, which are restricted by the Oregon Constitution to roadway and bridge improvements and maintenance.

Restricted and Unrestricted Revenues

Adjusted for inflation (in billions), FY ended June 30

Chart 7



Expenditures

Total Expenditures

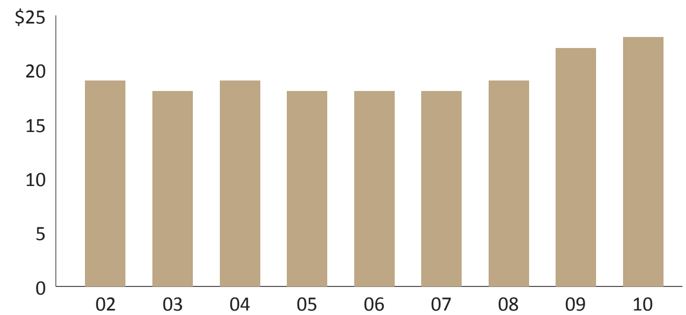
After adjusting for inflation, the state's total expenditures were level from FY02 through FY08, then grew substantially in the last two years. This increase was in response to the recession, with increased spending for human services and unemployment compensation using state and federal funds, including the ARRA funds. In 2010 about 83% of the state's $23 billion in expenditures occurred in six areas: Human Services, K-12 Education, Unemployment Compensation, the Oregon University System, Transportation, and Public Safety.

In contrast, about 83% of the state's $5.9 billion General Fund expenditures occurred in just three program areas: K-12 Education, Human Services, and Public Safety. The remaining 17% funded the Oregon University System, state-wide administration, debt service, and a variety of other programs.

Total State Expenditures

Adjusted for inflation (in billions), FY ended June 30

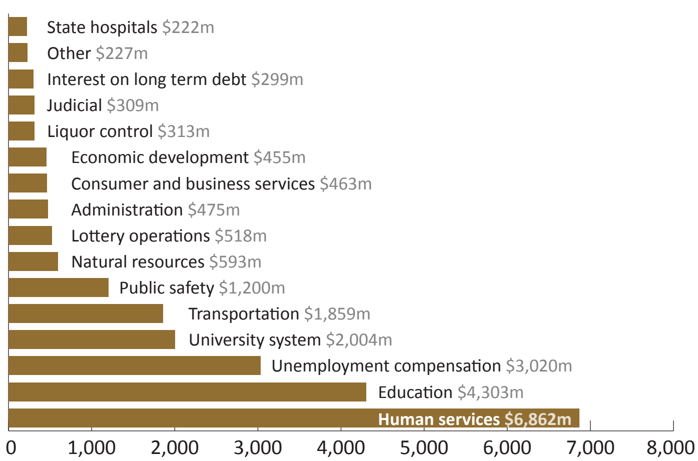
Chart 8



Total Expenditures by Program in FY10

(in millions)

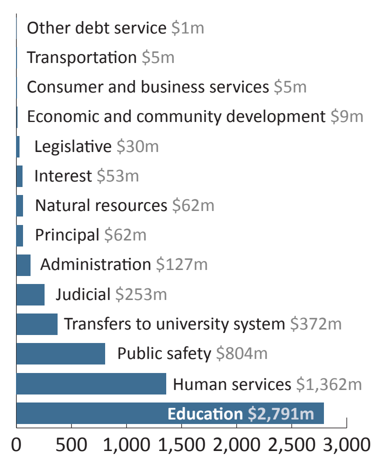
Chart 9



General Fund Expenditures by Program in FY10

(in millions)

Chart 10



Expenditures

Human Services

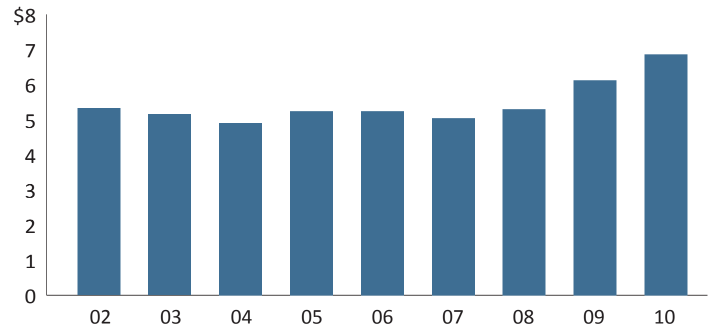
Spending in human services has been relatively steady from FY02 through FY09. The recession increased the number of persons who met the eligibility requirements to receive benefits. The largest program administered by the state is Medicaid. More than one in every five dollars spent by the state is related to Medicaid. This program is an "entitlement program" which compensates health care and nursing home providers for services provided to eligible individuals. The federal government reimburses each state for a portion of eligible Medicaid expenditures. In 2010, Oregon spent $1.8 billion of state dollars for Medicaid-eligible services and the federal government provided an additional $3 billion.

As the federal government seeks to reduce its own deficits, Medicaid is a likely program to receive less federal assistance. A 5% reduction in the federal matching rate translates into a $246 million loss of federal revenues to Oregon, based upon service levels in a typical year such as 2008, not including inflation.

Human Services Expenditures

Adjusted for inflation (in billions), FY ended June 30

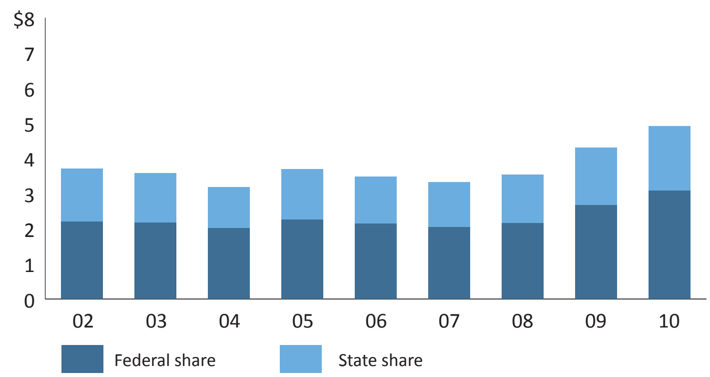
Chart 11



Total Medicaid Spending

Adjusted for inflation (in billions), FY ended June 30

Chart 12



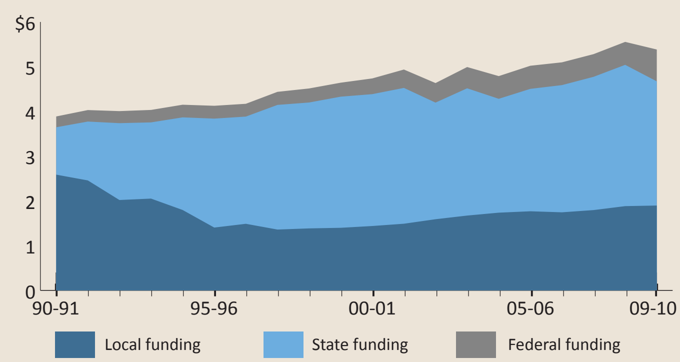
K-12 Education

In 1990, Oregon voters passed ballot Measure No. 5, which phased in property tax limitations for local governments and transferred a significant portion of the school funding responsibility to the state. More recently, local funding from property taxes is increasing, when adjusted for inflation.

Education (K-12) Spending by Source 1991-2010

Adjusted for inflation (in billions)

Chart 13



Expenditures

Unemployment Insurance

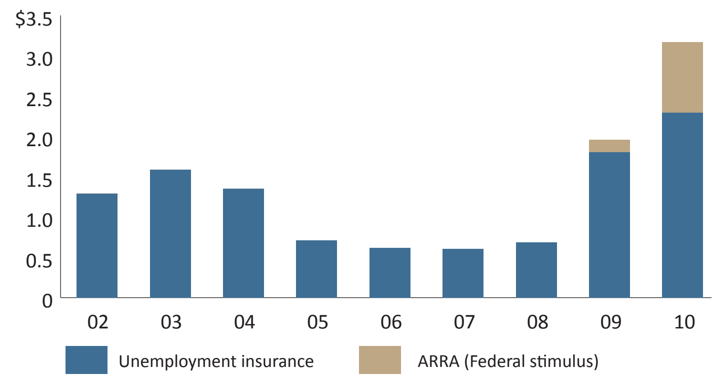
The Unemployment Insurance program provides payments to eligible individuals who have lost their jobs. Employers are assessed a payroll tax based on employee earnings, which is used to make benefit payments. When tax assessments exceed benefit payments, the unemployment compensation fund balance increases, building a reserve to help weather periods of high unemployment. Due to the current economic downturn and high levels of unemployment, expenditures have significantly increased and have exceeded assessments; as a result, the unemployment compensation fund balance has declined $1.4 billion or 64% since 2008. In 2010, the state paid more than $3 billion in benefit payments; $874 million was from federal stimulus (ARRA) funding and the remainder from state funds.

The funds available to pay benefits are at their lowest point in the past nine years, with a June 30, 2010, cash balance of approximately $774 million. However, unlike many other states, Oregon's unemployment cash balance has been sufficient to avoid borrowing from the federal government to maintain benefits.

Unemployment Insurance Expenditures

Adjusted for inflation (in billions), FY ended June 30

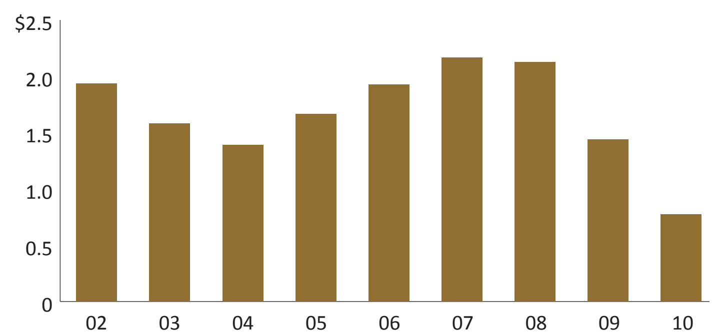
Chart 14



Unemployment Insurance Cash Balance

Adjusted for inflation (in billions), FY ended June 30

Chart 15



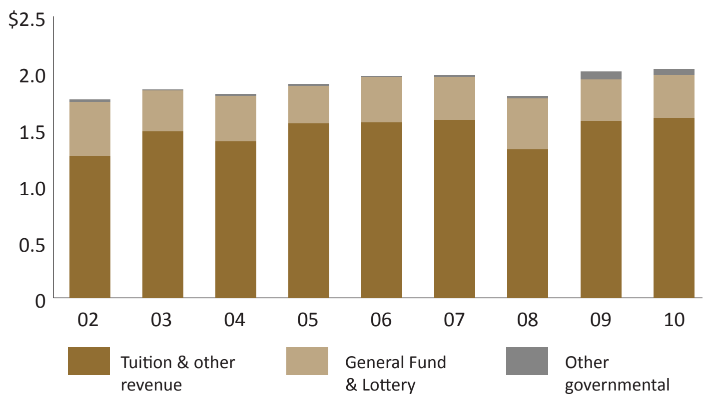
Oregon University System

The Oregon University System consists of seven colleges and universities throughout the state and does not include the community colleges. The majority of the funding is from tuition and grants, with additional funding from the state's General Fund, Oregon State Lottery, and other sources. In 2010, the universities received about $369 million from the General Fund, and another $44 million in other state sources.

Oregon University System Expenditures by Source

Adjusted for inflation (in billions), FY ended June 30

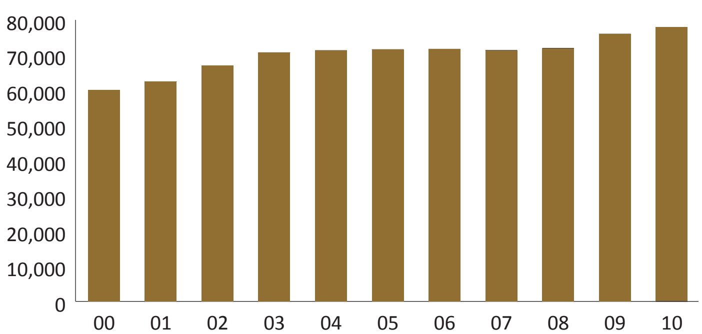
Chart 16



Oregon University System Student Enrollment

FY ended June 30

Chart 17



Transportation

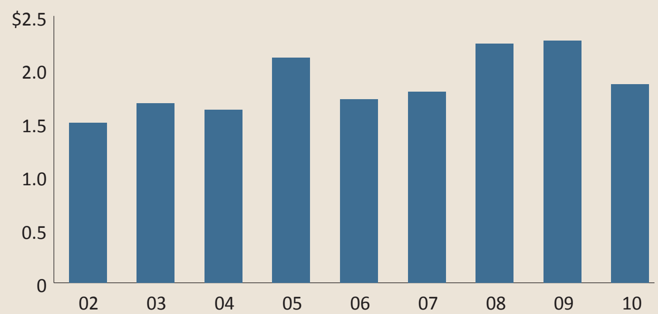
Expenditures are incurred for transportation purposes such as maintaining, building, and repairing Oregon's network of highways, tunnels and bridges. Transportation spending in the past six years was augmented with debt-financed funding. Transportation expenditures are primarily funded from the Highway Trust Fund, which includes constitutionally dedicated highway user taxes and vehicle registration taxes, in addition to various federal highway funds.

As of June 30, 2010, the value of Oregon's highways, tunnels and bridges was estimated at over $15.2 billion.

Transportation Expenditures

Adjusted for inflation (in billions), FY ended June 30

Chart 18



Expenditures

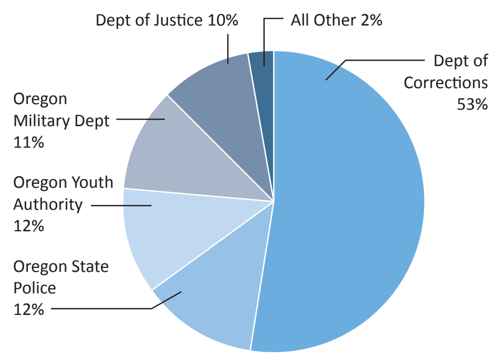
Public Safety

In 2010, public safety programs expended $804 million from the General Fund and $396 million from other sources such as federal revenues. The Department of Corrections spent about 53% of the public safety funds in 2010 to operate its 14 correctional facilities, which held approximately 14,000 inmates. The remainder was mostly spent by four agencies (Oregon Youth Authority, Oregon State Police, Oregon Military Department, and the Department of Justice) who each spent 10-12% of public safety funds.

Oregon's prison inmate population grew significantly from 2000 to 2004 and has remained more stable since 2005. The growth from 2000 to 2010 represents a 41% increase in the prison inmate population.

Fiscal Year 2010 Public Safety Expenditures by Agency

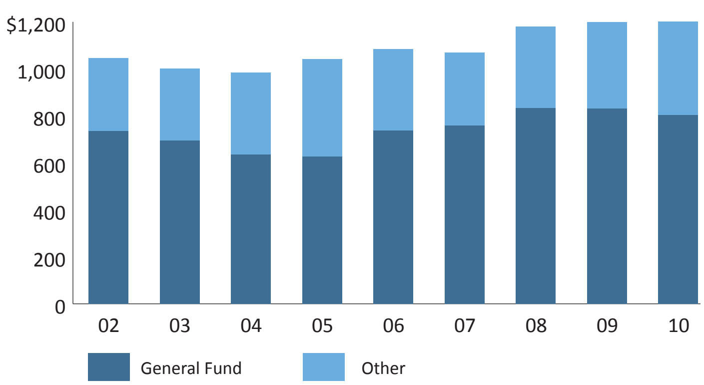
Chart 20



Public Safety Expenditures

Adjusted for inflation (in millions), FY ended June 30

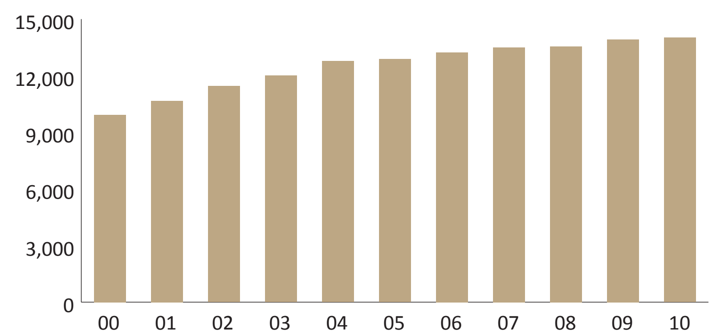
Chart 19



Prison Inmate Population

FY ended June 30

Chart 21



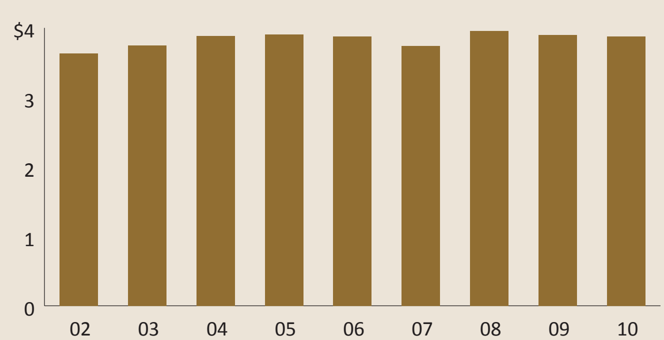
Other

The other expenditures are comprised of many smaller categories. Examples include expenditures for legislative purposes, operations of the judicial system, economic development, and expenditures for preserving and maintaining natural resources.

All Other Expenditures

Adjusted for inflation (in billions), FY ended June 30

Chart 22



Long-Term Debt

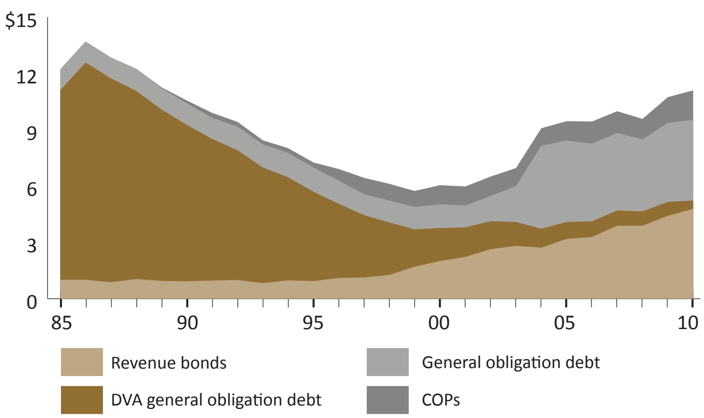
Long-Term Debt

The issuance of long-term debt allows a state to acquire major assets and finance large projects such as buildings, bridges and highways, and prisons. The increase in the amount of debt to repay, however, limits the state's ability to react to current economic conditions. The Oregon Constitution places limits on the total amount of debt the state may incur and state law authorizes state agencies to issue debt for specific purposes.

Long-Term Debt

Adjusted for inflation (in billions), FY ended June 30

Chart 23



Oregon's outstanding debt falls into four broad categories:

- Revenue bonds pay for projects that have specific revenue sources to repay the debt. The amount outstanding as of June 30, 2010, was approximately $4.8 billion.
- General obligation bonds issued by the Department of Veterans' Affairs (DVA) finance housing loans to qualifying veterans. These bonds are paid with loan repayments, but will be paid with other state funds if DVA is unable to repay the bonds. The amount outstanding as of June 30, 2010, was $441 million.
- General obligation bonds finance a variety of governmental projects. These bonds are secured by a pledge of the full faith, credit, and taxing power of the state, and are limited to a percentage of the real market value of all taxable real property in the state. The amount outstanding as of June 30, 2010, was approximately $4.6 billion, or 5.5% of the maximum allowed.
- Certificates of Participation (COPs) are financing agreements used to purchase computer and telecommunication systems and other state facility projects. The amount outstanding at June 30, 2010, was approximately $1.6 billion.

Oregon's long-term debt decreased through the late 1990s and then started increasing. The decline is mainly attributed to the repayment of outstanding debt related to the Veterans' Loan Program. The more recent increase in general obligation debt is due to the 2004 issuance of $2 billion in pension bonds to refinance the state employees' retirement and $1.9 billion in revenue bonds to renovate and replace the state's bridges and highways.

Long-Term Debt

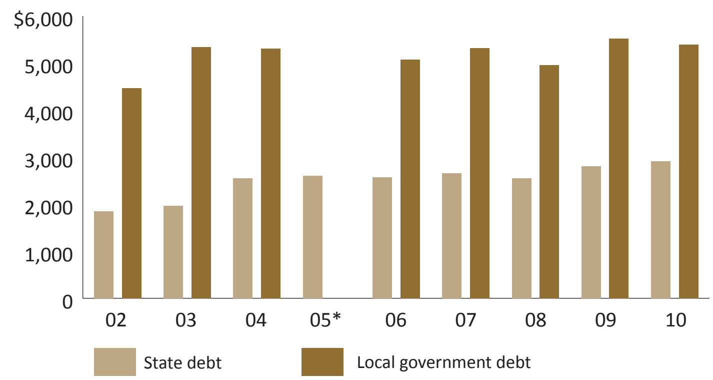
Debt Per Capita

For fiscal year 2010, the state's long-term debt totaled $11.2 billion or $2,900 per Oregonian and the estimated local government outstanding debt totaled $20.8 billion, or an additional $5,400 per Oregonian.

Debt Per Capita

Adjusted for inflation, FY ended June 30

Chart 24



*2005 Local Government Debt is unavailable

Future Debt Service

Future debt service payments are the future amounts to be paid on existing debt using General Fund monies and tax revenues. Other tax is defined as all debt serviced by tax revenues of the state and includes lottery revenue bond debt and state highway bond debt.

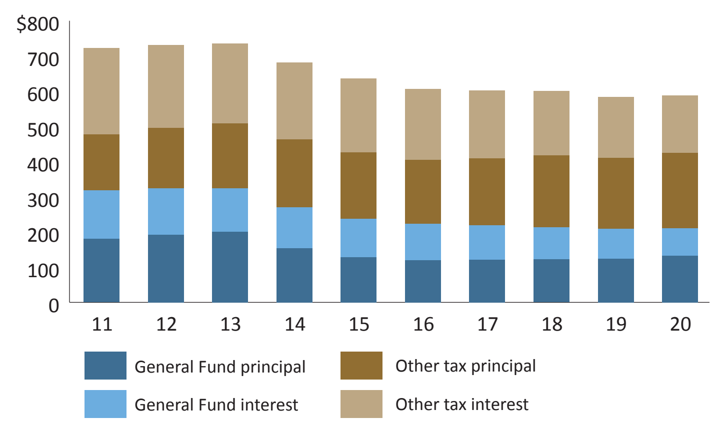
In 2010, 2% of the state's General Fund expenditures were incurred to pay $62 million in principal and $53 million in interest on outstanding debt. An additional $225 million of lottery funds and transportation taxes were used to pay debt service on the other tax supported debt. As of June 30, 2010, the outstanding General Fund debt was $2.9 billion and other tax supported debt totaled more than $5 billion.

While issuing debt provides quick access to resources to finance projects, the debt burden can impact the state's ability to support current services. When resources are committed to pay fixed amounts for debt service, the ability to maintain service levels becomes more difficult, especially when revenues decline.

Future Debt Service Payments 2011-2020

(in millions)

Chart 25



Fiscal Health

General Fund

The General Fund is the state's primary operating fund to support education, human services, and public safety programs. The unreserved, undesignated portion of the fund balance represents the amount at a point in time that is not reserved for a specific purpose. A negative fund balance occurs when resources used exceed resources received.

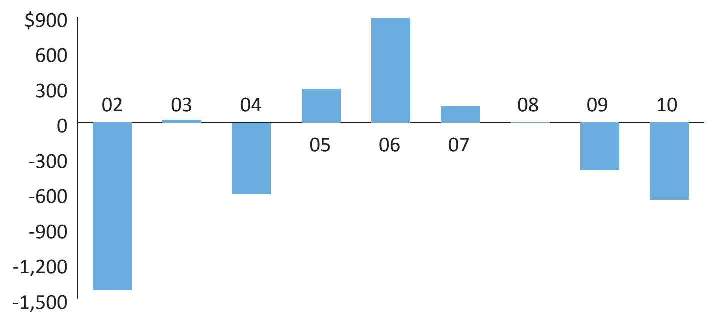
The state budgets on a biennial basis with bienniums ending on June 30 of odd-numbered years. Ending balances in even-numbered years are less important than at the end of the biennium. Because budget forecasts are made at least two years prior to the end of a biennium, revenues may exceed or fall short of budgeted amounts.

In periods when revenues have been less than expected, the state used reserves, reduced agency and program budgets, and/or borrowed from other funds to maintain service levels. For example, the unreserved, undesignated fund balance was a deficit midway through the 2001-2003 biennium, but due to a concerted effort to reduce spending the fund balance was positive by the end of the biennium, June 30, 2003. For the last two years, the General Fund used more resources than it received, which resulted in borrowing from other governmental funds and in negative ending fund balances.

General Fund Unreserved, Undesignated Fund Balance

Adjusted for inflation (in millions), FY ended June 30

Chart 26



Fiscal Health

Governmental Funds

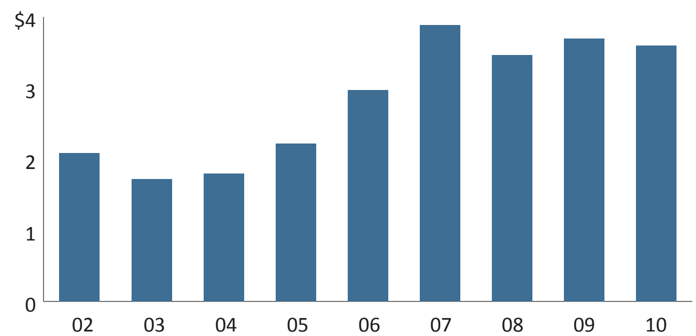
Governmental funds are used to account for most of the state's basic services. The monies within these funds are restricted to the purposes of the fund and are not available for the purposes of the general government. The monies are used to pay for health and human services, the repair and construction of Oregon's highways, the operations of environmental agencies such as the Department of Fish and Wildlife, educational support, and to make payments on bonds outstanding. A large portion of the fund balance of a governmental fund is classified as unreserved, undesignated and is available for spending on governmental programs subject to statutory, constitutional, regulatory, or contractual constraints. The remainder of the fund balance is reserved for specific purposes of the governmental fund. Part of the overall increase over the last five years is due to the addition of two more governmental funds, the Common School Fund and the Oregon Rainy Day Fund.

Governmental Funds Unreserved, Undesignated Fund Balance

Other than General Fund

Adjusted for inflation (in billions), FY ended June 30

Chart 27



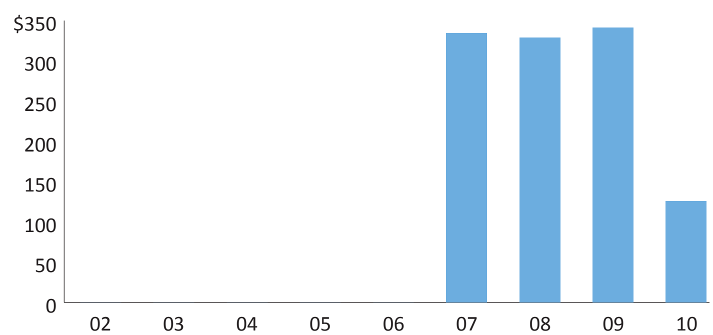
Oregon Rainy Day Fund

The 2007 Legislature established the Oregon Rainy Day Fund and directed the transfer of $319 million in excess corporate income taxes ("corporate kicker") to this fund. Its purpose is to serve as a resource in times of economic downturns that significantly impact state government. In 2010, the legislature authorized the use of approximately $235 million in this fund.

Oregon Rainy Day Fund

Adjusted for inflation (in millions), as of June 30, 2010

Chart 28



Fiscal Health

State Retirement Liabilities

The state of Oregon provides pension and other retirement benefits to its employees. Pension benefits are administered through the Public Employees Retirement System (PERS). In addition to the benefits for state agencies, PERS administers the pension plans for local governments including cities, counties, and school districts. *The charts are limited to only the state's share of the pension liabilities and are not intended to provide a comprehensive analysis of all plans administered by PERS.*

The funded ratio is an analysis of resources to pay estimated pension obligations. As of December 31, 2009, the state was 88% funded and had an unfunded liability of approximately $1.7 billion, which is the liability expected to be paid over a 30-year period. The recent economic crisis had a significant impact on the PERS investment portfolio, resulting in a significant decline in the funded ratio in 2008. Generally, an 80% funded ratio is considered a strong rating. Many states are significantly below Oregon's funding level.

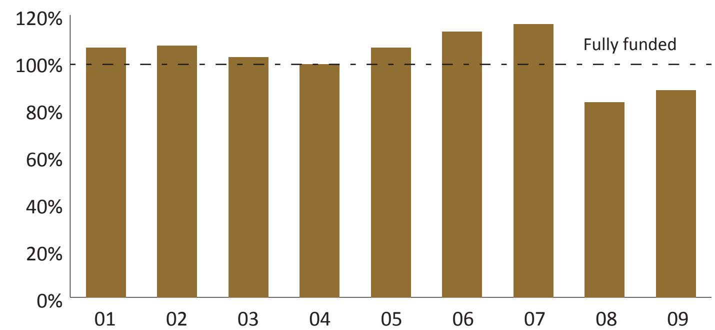
To pay for pension benefits, state agencies make required contributions based on a percentage of employee payroll. The retirement contribution rate includes a PERS employer rate, member contribution rate, and a rate for pension bond costs. The PERS Board sets the employer rates every two years, changing July 1 of every odd-numbered year. The increase in the FY12 and FY13 retirement contribution rates are mainly due to the increase in the PERS employer rate, which increased due to investment balance declines during calendar years 2008 and 2009. Currently, the member contribution, known as the "6% pick-up" is paid by state agencies. These two contributions are paid to the state's pension system and are invested at an acceptable level of investment risk as determined by the Oregon Investment Council. In 2003 the state issued $2 billion in pension obligation bonds to reduce the state's pension liability. The pension bond rate covers the payments on these bonds.

The Oregon State Legislature enacted significant reforms to the state's pension system in 2003, which has contributed to a somewhat steady level of benefit payments.

Funded Ratio: State Agencies

Calendar Year ended Dec 31

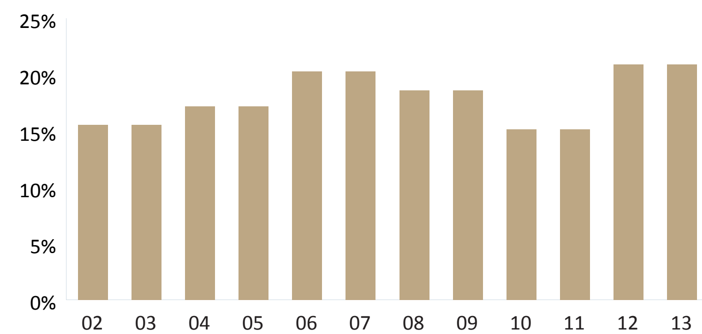
Chart 29



State Agency Retirement Contribution Rates

Percentage of payroll, FY ended June 30

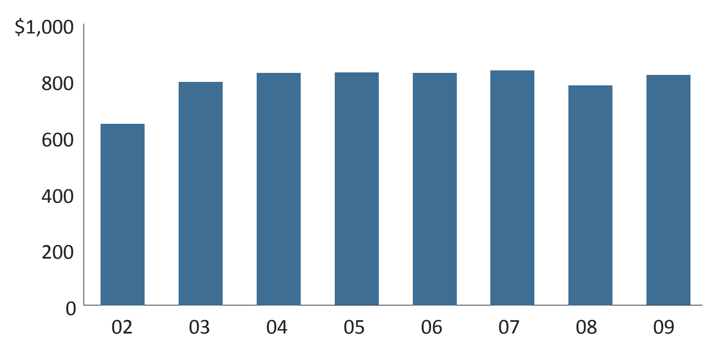
Chart 30



State Service Retirement Total Benefit Payments

Adjusted for inflation (in millions), FY ended June 30

Chart 31



Demographics

Population

Oregon ranks 27th among the states, with its population of 3,844,195 in July 2010. The growth has slowed since the period of 2005 through 2008 when it exceeded 1.4% per year on average. Forecasters expect Oregon's population growth rate to rise annually by 1% starting in 2013.

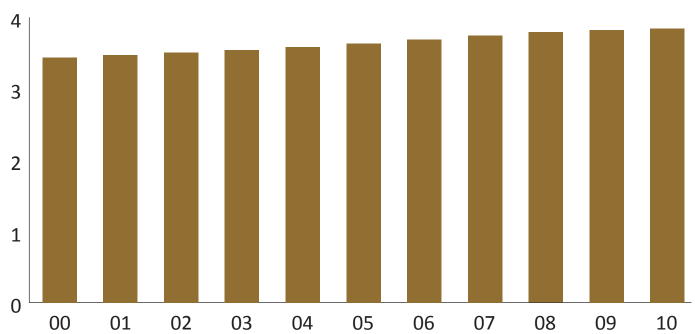
Age Structure

Oregon's population is aging. Forecasters expect a steady increase in those 65 and over from now until 2020. The eldest members of the baby boom generation are becoming eligible for Social Security benefits, and many are considering retirement. About one in five workers in Oregon is already over 55 years old. As the generation ages, employers will need to find new workers with the skills to replace their retiring workforce. At the same time, the growing number of retirees will demand more health care services. The average annual growth of the elderly population will be nearly 4% from 2010-2020 as the baby boom generation enters retirement age.

Oregon Population

(in millions), Calendar Year as of July 1

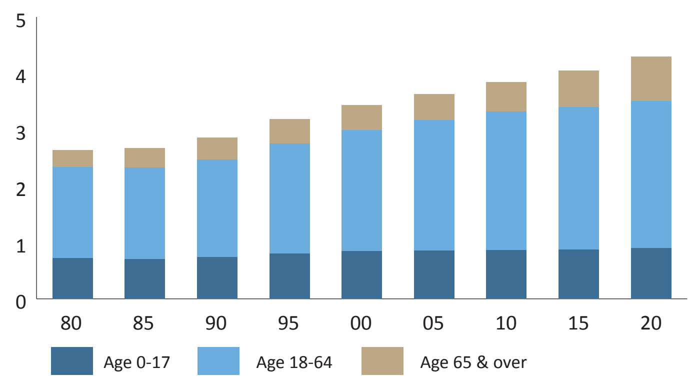
Chart 32



Age Structure (1980-2020)

(in millions), Calendar Year as of July 1

Chart 33



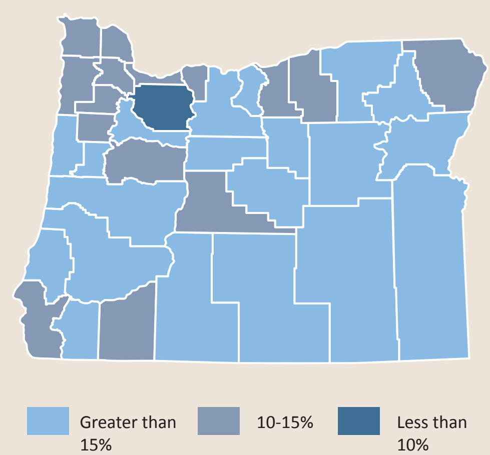
Poverty

The poverty line is defined as the minimum level of income necessary to achieve an adequate standard of living. For example, in 2009 a family of four with a gross yearly income below $22,050 would be considered living in poverty. People living in poverty increase demand for many state services such as health care, unemployment, and public assistance.

In 1999, about 11.6% of the population was in poverty. In 2009, the rate increased to about 14.3%, matching the national poverty rate. Clackamas County had the lowest poverty level in the state at 9.4%. The highest was Malheur County at 23.3%. According to the US Census Bureau, more than 530,000 Oregonians, including 160,000 children, lived in poverty in 2009.

Percentage of Persons in Poverty in 2009

Chart 34



Demographics

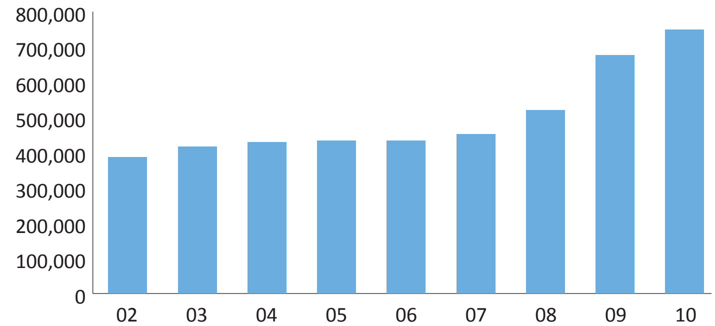
Supplemental Nutrition Assistance Program (SNAP) - (formerly food stamps)

According to state officials, nearly one in five Oregonians rely on government assistance to eat, whereas the national average is one in eight. Even though Oregon's population has not changed by more than 5% in the last nine years, the demand for benefits has increased dramatically because of the downturn in the economy. In December 2002, there were 386,627 individuals receiving SNAP benefits. By December 2010 it increased to 748,886 individuals. From 2009 to 2010 alone, the demand increased 10.8%.

Supplemental Nutrition Assistance Program (SNAP)

Number of Individuals, Calendar Year ended Dec 31

Chart 35



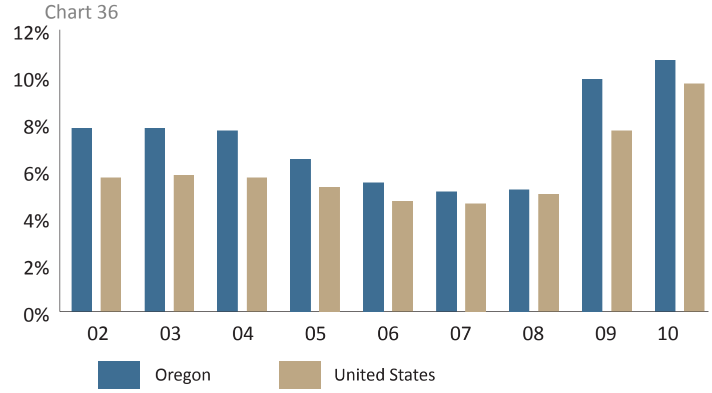
Percent Unemployed

As of December 2010, Oregon's unemployment rate was the 7th highest in the nation at 10.6%. Nevada had the highest at 14.5% and North Dakota had the lowest at 3.8%. Within the state itself, Crook and Harney counties were the highest at 18.5% and 15.3%, respectively. Oregon unemployment rates have exceeded U.S. rates since 2002.

Percent Unemployed

Seasonally adjusted, Calendar Year ended Dec 31

Chart 36



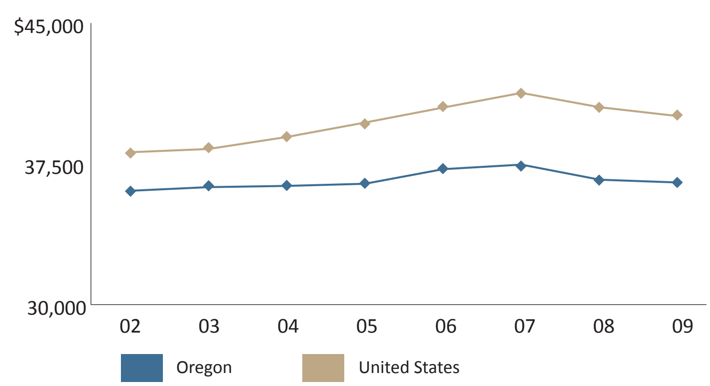
Per Capita Personal Income

Oregon's per capita personal income (PCPI) has fallen behind national trends in recent years. The last time that Oregon was similar to the national average was 1980. Oregon reached an all-time low in 2008, with Oregonians earning only 90.5% of the national average. In 2009 Oregon's PCPI totaled $36,125 or 91.2%, making Oregon 31st among states. Connecticut was ranked first with a PCPI of $55,063 and Mississippi last at $30,426.

Per Capita Personal Income

Adjusted for Inflation, Calendar Year ended Dec 31

Chart 37



Demographics

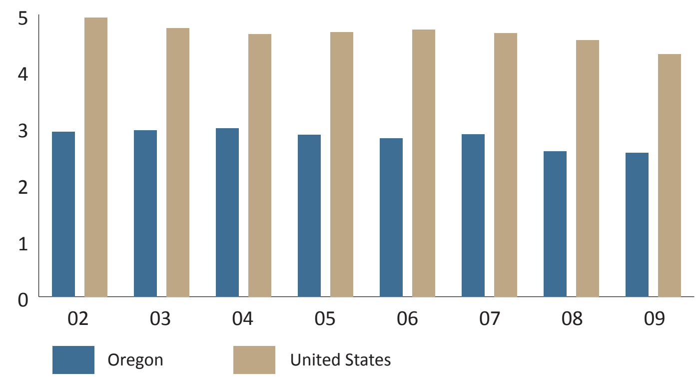
Violent Crime Rate

Oregon's crime rate is related to public safety expenditures such as prisons and state police. In the FBI's Uniform Crime Reporting Program, violent crime is composed of four offenses: murder, forcible rape, robbery, and aggravated assault. Violent crimes are defined by the program as those offenses that involve force or threat of force. Oregon has historically had a lower violent crime rate than the nation as a whole. Violent crime in Oregon fell by 1 percent from 2008 to 2009 and by 14 percent from 2002 to 2009. In 2009, Oregon was ranked 38th in the nation with a violent crime rate of 2.5 crimes per 1,000 residents. Nevada was 1st with a violent crime rate of 7 and Maine was 50th with a violent crime rate of 1.2.

Violent Crime Rate

Crimes per 1,000 residents, Calendar Year ended Dec 31

Chart 38



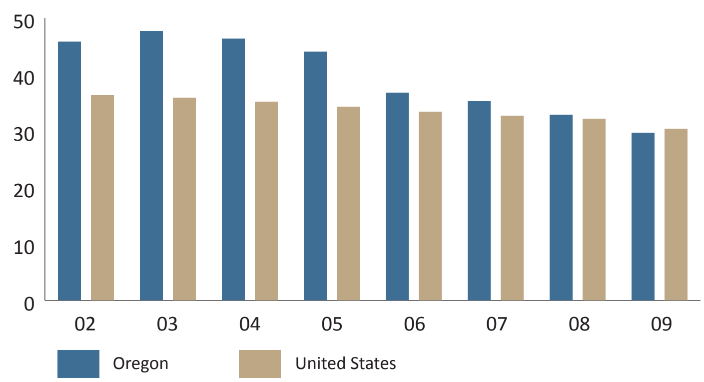
Property Crime Rate

In the FBI's Uniform Crime Reporting Program, property crime is composed of four offenses: burglary, larceny-theft, motor vehicle theft, and arson. The object of the theft-type offenses is the taking of money or property, but there is no force or threat of force against the victims. Oregon has also experienced decreases in the property crime rate. From 2002 to 2009 property crime fell by 38 percent. In 2009, Oregon was ranked 23rd highest in the nation with a property crime rate of 29.7 crimes per 1,000 residents. Texas was 1st with a property crime rate of 40.2 and South Dakota was 50th with a crime rate of 17.2.

Property Crime Rate

Crimes per 1,000 residents, Calendar Year ended Dec 31

Chart 39



Significant Financial Events

FY02

— Oregon appears to be bottoming out of its recession that began in 2001.

— Job growth is weak and is expected to remain so in the near future.

— Oregon's total debt outstanding increased by $155.7 million to $5.3 billion.

FY03

— Oregon is expected to experience overall decline in jobs for the third consecutive year.

— Oregon's total debt outstanding increased by $579.2 million to $5.9 billion.

— Temporary (three year) income tax increases are enacted to help balance the General Fund for the 2003-05 biennium.

FY04

— Oregon experiences four consecutive quarters of job growth.

— Oregon's total debt outstanding increased primarily due to the issuance of $2 billion in bonds as a result of 2003 legislative action to reform the public employees' retirement system. The state's total debt outstanding increased to $7.9 billion.

FY05

— Oregon's unemployment rate is 6.0 percent, down from 7.3 percent the previous year.

— Job growth increased for the eighth consecutive quarter.

— Oregon's total debt outstanding increased by $512.3 million to $8.4 billion.

— Voters disapprove Measure 30, temporary and permanent tax increases, to maintain current levels of public education, senior services, and public safety, resulting in a final budgeted decrease of $356.8 million in General Fund expenditures.

— Corporate income tax revenues exceeded the forecast for the 2003-2005 biennium by $101 million. The excess collections triggered a future tax credit through Oregon's "kicker" tax law, which ultimately refunded $161 million to corporate taxpayers.

FY06

— Oregon's total debt outstanding increased by $410.2 million to $8.8 billion.

FY07

— Legislature creates the Oregon Rainy Day Fund to set aside resources in difficult economic times.

— Revenues decreased by $775.4 million, largely due to the $1 billion reduction of personal income tax revenue associated with the kicker law.

— State pension plan assets increased in value by $9.5 billion.

— Oregon's total debt outstanding increased by $639.2 million to $9.5 billion, which included $250 million for the Southeast Portland Light Rail Project.

FY08

— Rainy Day Fund receives $319 million transfer from state General Fund.

— Oregon's total debt outstanding increased by $185.1 million to $9.7 billion.

FY09

— Oregon's total debt outstanding increased by $948.1 million to $10.6 billion, which included $347.3 million to finance projects under the Oregon Transportation Investment Act and $381.2 million to fund multimodal transportation projects, the Portland Light Rail Project, and Oregon street car project.

— Oregon experiences significant decreases in personal and corporate taxes and investment income while at the same time the downturn in the economy resulted in increased spending in the area of human services.

— Oregon received $665 in federal ARRA funds.

— The net assets in the state retirement fund decreased by $15.4 billion, primarily due to the decrease in the fair value of investments.

FY10

— Oregon's total debt outstanding increased by $610.3 million to a total of $11.2 billion, which included $544.7 million for transportation projects under the Oregon Transportation Investment Act.

— Voters approved tax increases for both personal income taxes and corporate income taxes.

— Unemployment benefit payments increased by 61%.

— Oregon received an additional $2.2 billion in federal ARRA funds.

— Legislature created the GO Oregon stimulus package with the infusion of $175 million into local economy projects.

— Legislature approved transfers totaling $235 million from the Rainy Day Fund.

Reporting Methods and Sources

Objectives, Scope, and Methodology

The objective of this report is to evaluate the financial condition of the State of Oregon using the Financial Trend Monitoring System developed by the International City and County Management Association (ICMA).

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on those objectives.

The data in the report covers a 9 year period from FY 2001-02 through FY 2009-10. Unless otherwise indicated, data are presented on a fiscal year basis (e.g., 2006, represents FY 2005-06, 2005 represents FY 2004-05). 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 FY 2010. 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 title of the chart.

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 state of Oregon's financial condition. In addition, while the report offers financial highlights, it does not thoroughly determine the reasons for negative or positive performance. More analysis may be needed to provide such explanations.

Data Sources

Nearly all financial information was obtained from the State of Oregon Comprehensive Annual Financial Reports. Additional information, such as environmental indicators, was obtained from state and federal agencies such as the Oregon Employment Department and the U.S. Census Bureau and may present different time periods because it is only available on the basis of calendar year instead of fiscal year. Some information extends beyond the nine fiscal years covered in the report but is nevertheless useful to readers. We used the following sources for economic and demographic indicators:

- Oregon Criminal Justice Commission
- Oregon Department of Education
- Oregon Department of Human Services
- Oregon Department of Revenue
- Oregon Employment Department
- Oregon Office of Economic Analysis
- Oregon Public Employees' Retirement System
- Oregon State Lottery
- Oregon State Treasury
- Oregon University System
- Portland State University Population Research Center
- United States Bureau of Economic Analysis
- United States Census Bureau
- United States Department of Labor, Bureau of Labor Statistics
- Comprehensive Annual Financial Reports issued by the Department of Administrative Services for Fiscal Years Ended June 30, 2002 through June 30, 2010.
- Schedule of Expenditures of Federal Awards for the year ended June 30, 2010, provided by the Department of Administrative Services.

Expenditures by Program Area and State Agency

FY ended June 30, not adjusted for inflation

	2002	2003	2004	2005	2006	2007	2008	2009	2010
Oregon Student Assistance Commission	59,290,550	55,781,922	52,380,830	43,941,555	34,676,393	39,652,164	42,735,483	76,239,561	84,549,850
Department of Education	3,020,050,008	2,649,729,904	3,231,695,023	2,968,971,070	3,523,901,326	3,495,340,995	3,764,856,504	3,910,420,544	3,799,884,166
Teacher Standards & Practices Commission	1,717,130	1,589,680	1,760,826	1,917,237	2,052,150	2,124,785	2,393,329	2,613,356	2,652,347
Department of Community Colleges & Workforce Development	307,659,665	236,523,934	331,573,787	225,182,986	346,645,735	251,947,188	393,713,268	331,272,644	447,941,715
Education totals	**$3,388,717,353**	**$2,943,625,440**	**$3,617,410,466**	**$3,240,012,848**	**$3,907,275,604**	**$3,789,065,132**	**$4,203,698,584**	**$4,320,546,105**	**$4,335,028,078**
Department of Human Services	4,599,241,838	4,432,726,466	4,303,179,711	4,767,351,538	4,971,914,255	4,900,859,577	5,501,689,441	6,290,514,137	7,237,331,751
Long Term Care Ombudsman	891,352	921,445	963,018	1,044,603	1,019,616	1,053,151	1,293,012	1,413,524	1,476,750
Psychiatric Security Review Board	329,794	337,915	341,383	390,283	382,149	484,941	511,924	539,377	543,124
State Commission on Children & Families	28,580,850	41,076,462	26,410,851	35,222,308	26,026,815	39,960,496	33,184,409	45,953,124	27,322,249
Office of Private Health Partnerships	9,874,908	11,689,570	15,360,255	22,997,264	41,796,173	39,560,220	47,889,541	24,644,736	25,678,883
Commission for the Blind	5,921,163	6,207,313	5,558,753	6,549,289	6,999,465	8,829,183	7,780,676	7,495,762	7,179,951
Human Services totals	**$4,644,839,905**	**$4,492,959,171**	**$4,351,813,971**	**$4,833,555,285**	**$5,048,138,473**	**$4,990,747,568**	**$5,592,349,003**	**$6,370,560,660**	**$7,299,532,708**

	2002	2003	2004	2005	2006	2007	2008	2009	2010
Department of Justice	30,055,437	36,961,911	83,043,028	87,322,574	92,909,189	96,290,622	114,297,489	119,110,915	122,995,597
District Attorneys and their Deputies	4,997,729	4,273,628	5,113,181	4,214,279	4,967,682	4,191,383	5,144,047	5,319,728	5,186,956
Oregon Criminal Justice Commission	9,686,691	9,269,518	4,150,116	4,343,181	1,013,922	2,147,783	3,151,850	3,299,729	8,134,454
Military Department	41,918,862	40,422,569	41,026,131	48,788,862	48,234,477	50,702,584	171,351,995	202,849,431	193,896,107
State Board of Parole and Post Prison Supervision	1,454,893	1,509,834	1,686,574	1,608,155	1,755,742	1,638,863	2,137,321	1,780,797	1,966,438
Department of State Police	178,175,938	173,632,873	196,696,702	228,836,566	243,454,759	238,509,777	157,166,074	161,980,552	168,314,143
Department of Public Safety Standards & Training	10,465,095	11,022,390	11,710,111	38,249,787	54,443,105	25,809,033	22,391,834	24,612,379	19,111,514
Department of Corrections	734,121,995	481,020,820	475,595,896	541,741,491	616,350,582	663,184,626	698,928,887	683,949,454	824,544,803
Oregon Youth Authority	146,671,995	124,040,102	107,663,627	120,799,788	119,867,175	123,441,086	139,100,536	150,980,164	154,826,460
Public Safety totals	**$1,157,548,635**	**$882,153,645**	**$926,685,366**	**$1,075,904,683**	**$1,182,996,633**	**$1,205,915,757**	**$1,313,670,033**	**$1,353,883,149**	**$1,498,976,472**
Business Oregon	82,914,822	81,060,058	105,098,491	106,938,616	76,269,632	96,457,511	110,851,631	105,033,730	117,368,686
Oregon Department of Veterans' Affairs	86,873,526	79,775,415	67,050,439	71,547,149	62,076,985	66,398,229	60,577,783	43,011,096	34,931,542
Employment Department	1,191,121,587	1,489,821,784	1,271,413,938	763,327,885	706,421,183	712,626,669	848,619,215	1,975,687,117	3,255,158,385
Housing & Community Services Department	206,979,200	222,774,473	216,075,252	224,801,048	232,928,575	243,628,585	253,493,774	275,394,505	302,593,432
Economic and Community Development totals	**$1,567,889,135**	**$1,873,431,730**	**$1,659,638,120**	**$1,166,614,698**	**$1,077,696,375**	**$1,119,110,994**	**$1,273,542,403**	**$2,399,126,448**	**$3,710,052,045**

	2002	2003	2004	2005	2006	2007	2008	2009	2010
Department of State Lands	1,691,679	1,744,019	1,505,104	1,500,883	30,925,788	11,052,201	15,392,192	27,616,105	18,923,124
Oregon State Marine Board	9,826,124	11,386,379	10,071,310	14,449,388	12,535,449	15,525,971	12,331,010	19,994,223	13,353,089
Oregon Department of Energy	18,961,960	18,180,619	16,981,231	15,178,418	15,875,401	16,625,217	22,541,252	30,642,444	32,089,454
Department of Environmental Quality	87,070,289	86,192,634	98,046,219	104,921,736	105,267,276	83,342,435	90,520,765	98,910,131	91,347,201
Columbia River Gorge Commission	306,397	394,621	306,773	308,948	411,252	440,539	521,585	500,481	422,161
Oregon Department of Agriculture	37,299,507	35,015,173	32,081,949	34,041,262	34,745,733	38,029,325	38,325,268	40,239,166	37,693,454
Oregon Forest Resources Institute	3,073,102	3,131,014	3,327,495	3,704,899	3,930,791	4,347,702	3,961,290	2,906,067	2,535,464
Department of Forestry	102,745,096	140,206,073	110,938,705	102,693,914	118,001,061	116,685,400	121,900,427	126,730,957	127,517,710
Department of Geology & Mineral Industry	3,243,641	3,675,802	3,821,357	3,444,745	3,903,267	3,952,489	4,561,139	7,490,783	6,991,406
Parks and Recreation Department	64,957,102	70,175,347	79,994,110	87,602,788	88,433,451	100,181,591	101,740,775	104,400,675	83,321,658
Oregon Department of Fish & Wildlife	86,806,024	90,861,817	95,698,367	107,153,335	102,962,960	107,138,865	113,498,322	123,509,384	121,418,055
Department of Land Conservation & Development	6,217,551	7,948,430	5,835,508	8,570,226	8,180,783	11,663,373	11,054,438	12,995,804	11,485,388
Land Use Board of Appeals	630,030	616,901	587,616	623,226	671,738	694,699	788,651	778,870	766,091
Water Resources Department	12,541,924	13,953,160	12,383,476	13,878,219	12,511,531	13,641,477	14,214,758	16,964,105	14,384,518
Oregon Watershed Enhancement Board	20,059,017	28,460,339	33,805,970	30,823,657	25,954,743	33,891,886	34,299,019	46,263,262	36,408,597
Natural Resources totals	**$455,429,443**	**$511,942,328**	**$505,385,190**	**$528,895,644**	**$564,311,224**	**$557,213,170**	**$585,650,891**	**$659,942,457**	**$598,657,370**
Department of Aviation	3,873,232	6,908,566	6,542,163	5,918,934	7,098,038	5,241,147	6,663,261	7,736,632	4,856,373
Department of Transportation	809,986,926	1,047,549,632	1,015,112,674	1,641,733,716	1,220,813,578	1,646,199,161	1,461,887,565	1,612,345,290	1,801,472,197
Transportation totals	**$813,860,158**	**$1,054,458,198**	**$1,021,654,837**	**$1,647,652,650**	**$1,227,911,616**	**$1,651,440,308**	**$1,468,550,826**	**$1,620,081,922**	**$1,806,328,570**

Appendix

	2002	2003	2004	2005	2006	2007	2008	2009	2010
Board of Licensed Professional Counselors & Therapists	167,557	220,321	275,784	223,991	261,298	393,732	329,803	337,518	440,316
Oregon Board of Investigators	151,903	181,062	197,930	219,016	70,418	-	-	-	-
State Board of Tax Practitioners	461,056	334,393	368,085	415,054	426,865	470,212	476,179	511,056	556,705
State Board of Accountancy	682,097	738,552	702,384	715,898	715,063	752,713	756,924	907,357	733,681
State Board of Psychologist Examiners	270,107	269,312	274,771	311,093	340,335	366,880	436,041	559,624	406,524
State Board of Licensed Social Workers	229,770	232,574	238,387	255,749	286,046	296,234	359,930	433,198	462,100
Department of Consumer & Business Services	245,704,710	227,701,787	239,440,553	259,182,621	277,464,594	315,391,928	354,702,043	378,230,103	353,004,955
State Board of Chiropractic Examiners	384,705	459,794	429,211	460,180	496,286	506,602	583,743	528,066	589,417
Oregon Health Licensing Agency	1,844,814	1,918,889	1,978,715	2,458,545	2,496,061	2,567,257	3,075,019	3,074,338	3,176,962
Health Related Licensing Boards	3,317,318	3,525,277	3,557,594	2,174,341	3,147,386	3,398,555	1,669,386	1,755,864	1,650,681
Board of Dentistry	-	-	40,554	1,435,768	829,423	838,792	1,004,574	965,034	939,290
Bureau of Labor and Industries	9,249,110	9,054,403	9,827,288	9,210,437	9,909,622	10,238,967	10,691,447	10,681,148	9,804,852
Oregon Medical Board	2,833,497	2,909,892	3,084,099	3,258,937	3,403,097	3,616,058	4,005,248	4,628,859	4,738,614
Board of Nursing	3,440,819	3,636,707	3,433,363	3,647,456	3,797,868	4,413,775	4,922,768	5,312,679	5,674,094
State Board of Pharmacy	-	-	-	-	-	-	2,115,145	2,288,742	2,318,489
Public Utility Commission	56,260,217	65,782,697	66,128,766	69,076,966	68,132,398	69,287,573	66,228,151	60,312,007	61,182,417
Construction Contractors Board	4,994,829	4,829,133	5,224,736	5,136,572	5,391,988	5,881,154	7,243,346	7,467,110	7,355,925
Real Estate Agency	2,832,548	2,748,529	2,892,944	3,416,423	3,268,209	3,535,783	3,685,205	3,263,943	3,486,563
Consumer and Business Services totals	**$332,825,057**	**$324,543,322**	**$338,095,164**	**$361,599,047**	**$380,436,957**	**$421,956,215**	**$462,284,952**	**$481,256,646**	**$456,521,585**

	2002	2003	2004	2005	2006	2007	2008	2009	2010
Department of Administrative Services	98,366,839	186,335,441	282,852,193	251,056,572	259,354,307	266,723,214	318,852,342	307,613,190	419,876,884
Oregon Facilities Authority	144,201	104,529	84,825	128,908	111,610	164,011	167,660	167,369	208,174
Oregon Liquor Control Commission	194,868,224	203,739,487	220,060,754	237,608,038	263,748,427	284,264,636	307,284,935	315,166,332	313,587,852
Employment Relations Board	1,409,039	1,367,833	1,291,431	1,331,439	1,405,480	1,396,347	1,630,892	1,732,448	1,535,816
Office of the Governor	4,495,291	4,029,364	4,766,240	5,027,047	5,785,956	5,116,583	8,395,230	7,382,396	8,670,649
Oregon Advocacy Commissions Office	566,102	666,712	443,926	424,392	82,569	168,660	151,611	200,590	176,859
Department of Revenue	60,657,623	84,277,155	65,889,726	86,819,580	73,851,964	78,100,045	82,585,254	83,127,090	82,110,386
Secretary of State	12,325,245	17,442,162	19,614,944	21,447,027	17,563,740	20,051,925	29,654,456	20,320,912	19,548,229
Oregon State Treasury	149,007	202,746	395,198	717,189	853,519	1,373,331	1,502,171	1,697,194	1,607,614
Oregon Government Ethics Commission	544,634	321,085	284,576	288,800	324,176	315,573	572,038	686,959	722,227
Oregon State Library	6,368,812	5,373,842	5,781,561	6,447,699	6,462,148	7,227,386	6,955,179	7,181,750	6,625,293
Oregon Racing Commission	1,579,830	2,367,601	2,533,044	2,409,077	2,422,543	2,559,087	2,774,978	2,888,947	2,686,420
Central Agency/State General Fund/Backup WH	574,529	15,811,120	1,097,581	18,356,898	206,940	4,934,701	26,129,856	13,328,267	4,020,577
Administration totals	**$382,049,376**	**$522,039,077**	**$605,095,999**	**$632,062,666**	**$632,173,379**	**$672,395,499**	**$786,656,602**	**$761,493,444**	**$861,376,980**
Legislative Counsel Committee	3,871,817	3,929,825	4,012,653	4,192,327	4,044,390	4,784,571	5,112,815	5,383,853	4,999,018
Legislative Revenue Officer	654,163	722,065	685,279	723,792	769,605	813,033	847,250	952,415	1,005,089
Legislative Fiscal Officer	1,704,999	1,936,062	1,870,286	2,013,808	2,069,134	2,497,026	2,307,470	3,089,540	2,821,886
Legislative Assembly	10,145,961	13,134,444	10,139,497	13,476,917	11,767,493	16,172,209	13,664,355	18,393,931	13,841,844
Legislative Administration Committee	10,716,399	12,840,424	9,221,756	11,478,202	11,793,698	14,306,259	34,399,479	29,551,126	14,537,636
Commission on Indian Services	160,887	125,448	122,076	145,945	156,250	133,468	192,569	188,315	187,420
Legislative totals	**$27,254,226**	**$32,688,268**	**$26,051,547**	**$32,030,991**	**$30,600,570**	**$38,706,566**	**$56,523,938**	**$57,559,180**	**$37,392,893**
Council on Court Procedures	47,281	40,095	3,468	2,126	7,694	2,919	-	-	-
Commission on Judicial Fitness	94,272	91,871	73,651	87,022	114,874	108,064	73,456	86,269	76,827
Judicial Department	206,097,925	180,014,790	130,233,528	143,656,636	149,601,116	165,543,350	177,584,381	188,534,240	180,079,909
Office of Public Defense Services	2,146,213	3,043,998	84,698,177	81,086,077	93,423,537	90,434,911	104,010,790	108,461,973	110,176,823
Judicial totals	**$208,385,691**	**$183,190,754**	**$215,008,824**	**$224,831,861**	**$243,147,221**	**$256,089,244**	**$281,668,627**	**$297,082,482**	**$290,333,559**
Total governmental activities expenses	**$12,978,798,979**	**$12,821,031,933**	**$13,266,839,484**	**$13,743,160,373**	**$14,294,688,052**	**$14,702,640,453**	**$16,024,595,859**	**$18,321,532,493**	**$20,894,200,260**

About the 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 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.

Audit Team

Mary Wenger, CPA, Deputy Director

Philip Hopkins, CPA, Audit Manager

Geoff Hill, CPA, Principal Auditor

Jamie Ralls, CFE, Principal Auditor

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

internet:
http://www.sos.state.or.us/audits/index.html

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The courtesies and cooperation extended by state agencies were commendable and sincerely appreciated.