METRO

Financial Condition of Metro

FY00 - FY09

Suzanne Flynn, Auditor

May 2010

To: *David Bragdon, Council President*
Rod Park, Councilor, District 1
Carlotta Collette, Councilor, District 2
Carl Hosticka, Councilor, District 3
Kathryn Harrington, Councilor, District 4
Rex Burkholder, Councilor, District 5
Robert Liberty, Councilor, District 6

From: *Suzanne Flynn, Metro Auditor*

Subject: ***Financial Condition of Metro, FY00 - FY09***

The following report represents our audit of the financial condition of Metro for FY00-FY09. It provides a check-up of how well Metro is doing financially, based primarily upon indicators recommended by the International City/County Management Association. This year our analysis did not result in any management recommendations.

I would like to acknowledge Margo Norton, Director of Finance and Regulatory Services, and her staff for their assistance and cooperation in preparing the report.

Suzanne Flynn
Metro Auditor

Revenues	4-5
Expenditures	6
Financial Condition	7-8
Economic & Demographic Trends	9-11

Introduction

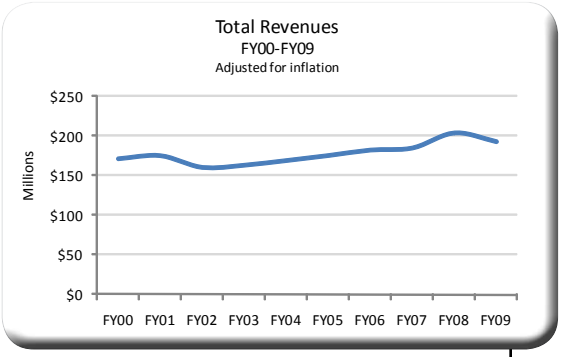
A government in good financial condition can afford to provide services on an on-going basis without disruption and can respond to changes. Financial condition can be monitored by reviewing long-term trends in the areas of revenues received, expenditures, debt, assets and the community's demographics and economy.

This report provides citizens and public officials with an overview of Metro's financial condition. It includes 23 financial and demographic measures covering a 10-year period, for fiscal years 2000 through 2009.

Highlights

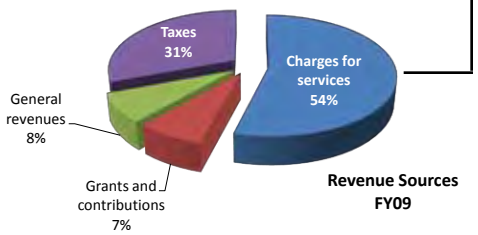
- Metro revenues and expenditures increased at the same rate and grew faster than inflation.
- Revenues per capita remained about the same.
- Revenues from property taxes increased by 50% as the result of a 2006 voter-approved bond measure to acquire and improve regional natural areas.
- Revenues received by the Metropolitan Exposition Recreation Commission (MERC) facilities increased 14%.
- Solid Waste revenues and expenditures have declined in response to reduced tonnage at Metro facilities.
- General Fund expenditures increased 32% in the last ten years.
- Employee benefits continue to increase at a higher rate than wages.
- Because of two new bond measures (Natural Areas and Oregon Zoo), total capital project spending has increased. In addition, total debt and fixed costs for debt repayments have increased.
- Metro continues to be strong in maintaining liquidity ratios and unreserved fund balances to offset any financial emergencies or downturns that might occur.

Revenues



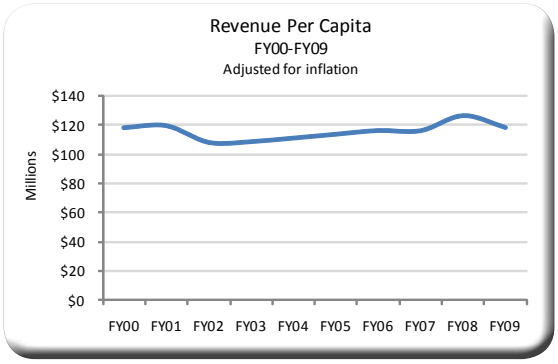
Total Revenues

In FY09, total Metro revenues were $193 million. This is an increase of 13% over the 10-year period.



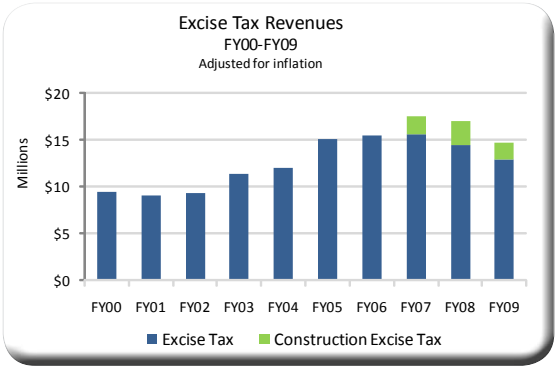
Revenue Sources

Over half of Metro's revenues were from service charges. Taxes represent almost a third of revenues. Metro receives two types of tax revenues: one from property taxes and the other through an excise tax. Included in general revenues are proceeds MERC receives through an intergovernmental agreement through Multnomah County's Transient Lodging Tax and Motor Vehicle Rental Tax.



Revenue per Capita

Because population in the region increased at about the same rate, revenues per resident mirrored the revenue trend and hovered around $120 per capita.

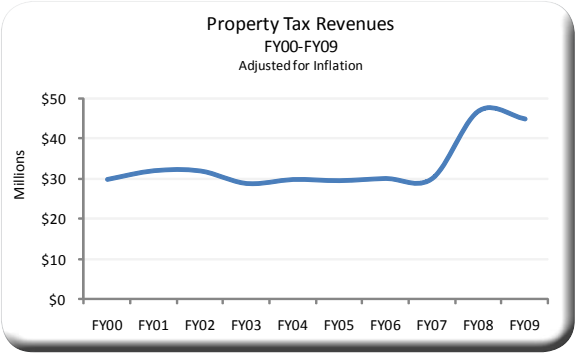


Excise Tax Revenues

Excise taxes are governed by the Metro Charter and Code and are typically revenues received from users of Metro services or facilities. From FY00 to FY09, revenues from excise taxes rose 55%. In FY09, the Oregon Zoo was exempted from this tax. Beginning in FY07, Metro imposed a tax on new construction within the region to fund planning in new areas brought into the Urban Growth Boundary.

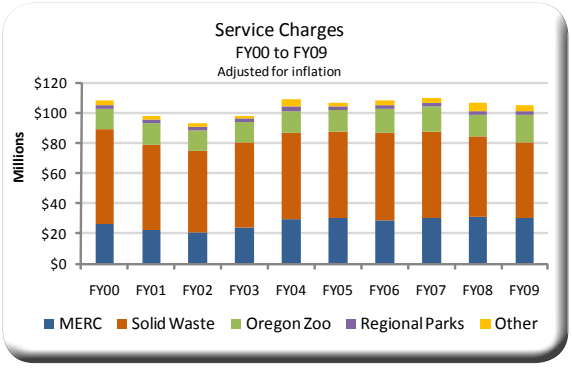
Property Tax Revenues

Revenue from property taxes was relatively stable at around $30 million. In FY08, tax revenues increased as the result of a voter-approved bond measure for the purchase of open spaces and natural areas.



Service Charges

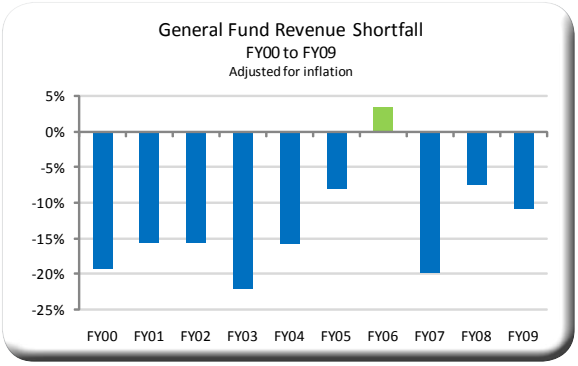
MERC facilities (Oregon Convention Center, Portland Center for the Performing Arts, and Exposition Center), Solid Waste facilities, the Oregon Zoo and Regional Parks all receive revenues from fees charged for attendance or use of their facilities and services. Solid Waste revenues were generated almost entirely by fees. Since FY07, these revenues have been declining. MERC facilities received about 70% of their revenues from fees. These revenues increased 14% in the 10-year period. Strong attendance and visitor spending accounted for the increase in Oregon Zoo revenues in the last fiscal year.



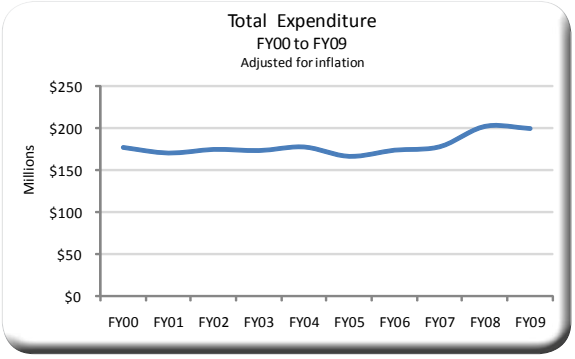
Revenue Shortfall

Revenue shortfall measures how well expected revenues were estimated each year. Significant shortfalls could require mid-year cuts of services or spending if funds were relied on. Metro has overestimated revenues in nine out of the past ten years.

In the Financial Condition Report FY98-07, it was determined that these shortfalls were primarily the result of over-estimation of grant receipts in the Planning and Development Department. The report recommended that Metro adopt a financial policy to encourage more conservative procedures for forecasting revenues. Revenue shortfalls caused by over estimating grant receipts have declined since FY07. An unanticipated drop in excise taxes received in FY09 added to the shortfall that year.



Expenditures

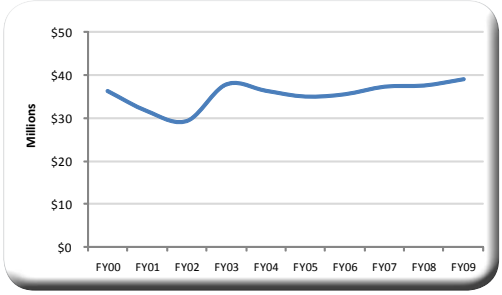


Total Expenditure

Total expenditure, adjusted for inflation, increased 13%. Included are operating expenditures for the General Fund, MERC and Solid Waste funds.

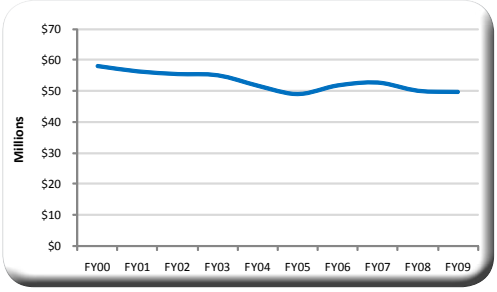
MERC

MERC facilities include the Oregon Convention Center, Portland Center for the Performing Arts and the Exposition Center. Total spending for all three operations increased 8% since FY00.



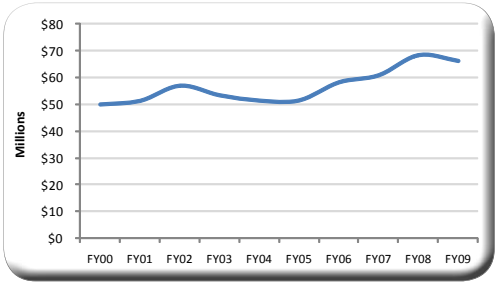
Solid Waste

Metro manages the region's solid waste system and operates two solid waste and recycling transfer stations. For the most part, Solid Waste expenditure has declined 14% over the last ten years. Five percent of that decline was in the last two years.



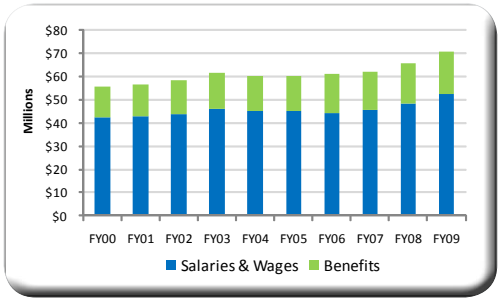
General Fund

General fund expenditure includes the Oregon Zoo, Regional Parks and Greenspaces, Planning and Development and internal business services, including the Office of the Auditor. Expenditures increased 32% in the last ten years.



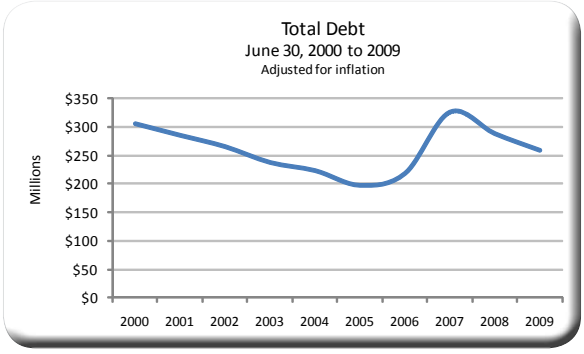
Wages & Benefits

Total employee salaries and benefits have increased 27% over inflation. Benefits increased at a higher rate (37%) than salaries and wages (24%).



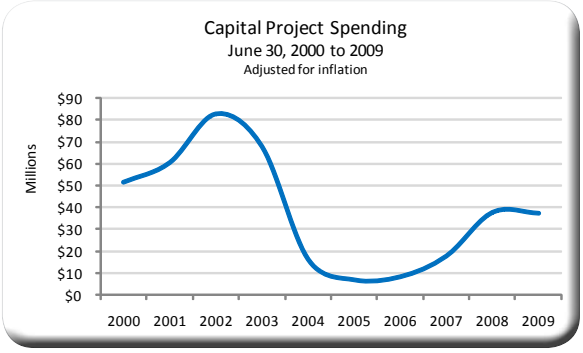
Total Debt at June 30

From 2000 to 2005, long-term debt declined as Metro completed payments. In 2007, Metro issued $124 million in bonds for the purchase and preservation of natural areas. In 2009, Metro issued $5 million in bonds to begin projects at the Oregon Zoo to improve animal welfare and make structural improvements.

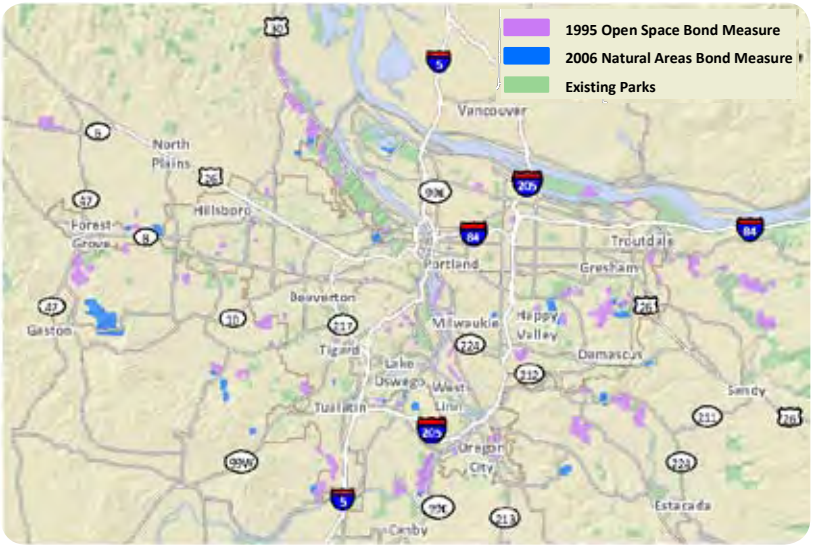


Capital Project Spending at June 30

Spending on capital projects increased significantly in 2008 after the Natural Areas Bond Measure Program started. Spending will continue to climb as capital spending begins for the Zoo Infrastructure and Animal Welfare Bond. Increased expenditure in 2001 through 2003 reflected the expansion of the Oregon Convention Center.

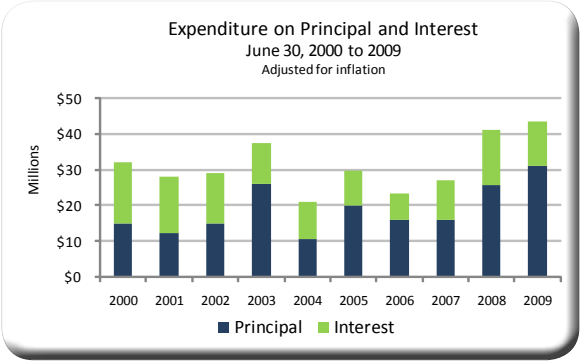


Land Acquired by Metro as the Result of Bond Measures



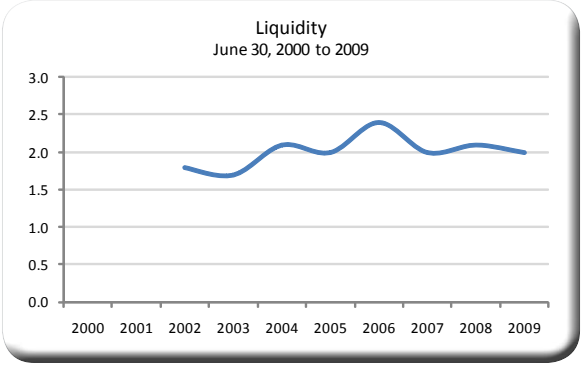
Source: Metro FLIS, Data Resource Center, 2010

Financial Condition



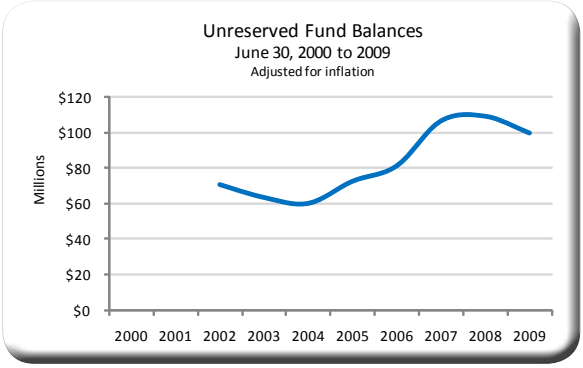
Expenditure on Principal & Interest at June 30

Debt repayment represents a fixed cost. Spending to repay debt has increased since 2007 due to two voter-approved bond measures. The Natural Areas Bond Measure was approved to acquire and preserve natural areas. The Zoo Infrastructure and Animal Welfare Bond funds improvements to Zoo structures and animal welfare.



Liquidity at June 30

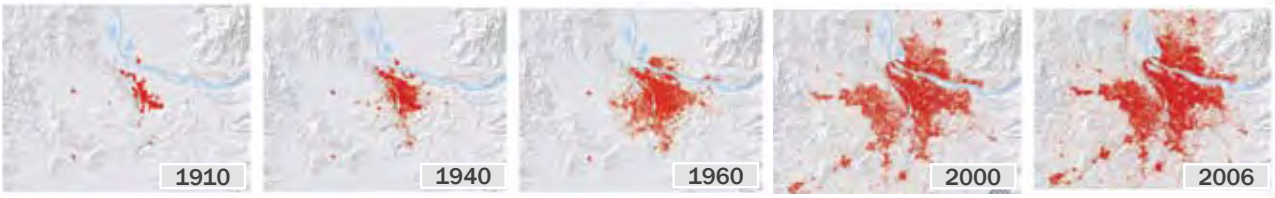
Liquidity measures Metro's ability to meet its short-term obligations. It is the ratio of cash to short-term liabilities. A ratio of less than one-to-one is considered a warning sign. Metro has consistently been above that ratio. Because of changes to meet new accounting standards, comparable data is not available prior to 2002.



Unreserved Fund Balances at June 30

The size of Metro's fund balances can affect the ability to withstand financial emergencies. Unreserved fund balances declined in 2009 but increased 41% from 2002 to 2009.

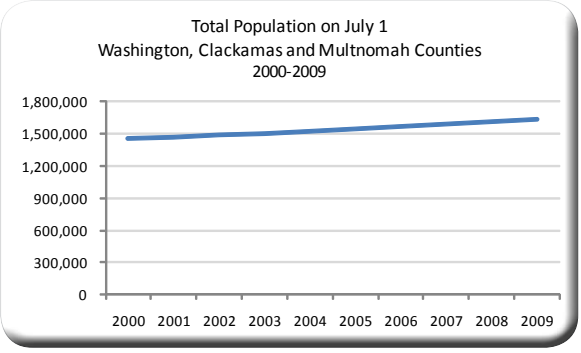
Urbanization in the Greater Portland Area



Source: 1910, 1940, 1960 Historic Metropolitan Planning Commission maps, 2000 NOAA CCAP Landcover, 2006 NLCO from MRLC

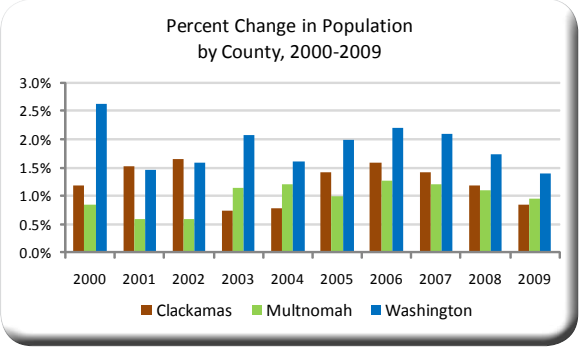
Population

Total population for the three counties in the region increased 12% from 2000 to 2009.



Source: Portland State University, Population Research Center

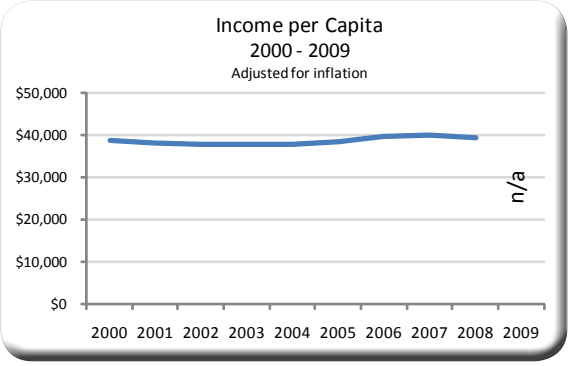
Of the three counties, Washington County's population increase was the largest at 17%. For most years, Multnomah County's population increased at a lower rate than the two other counties.



Source: Portland State University, Population Research Center

Income per Capita

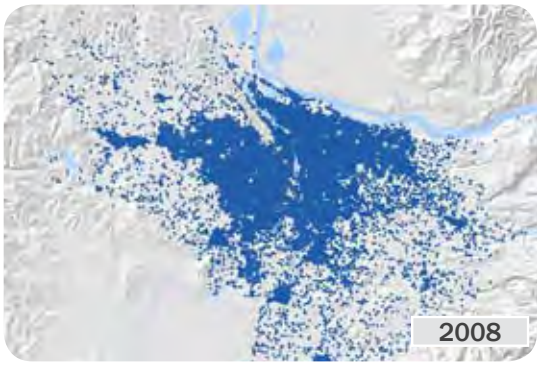
Once adjusted for inflation, per capita income in the Metro region increased slightly (1.5%).



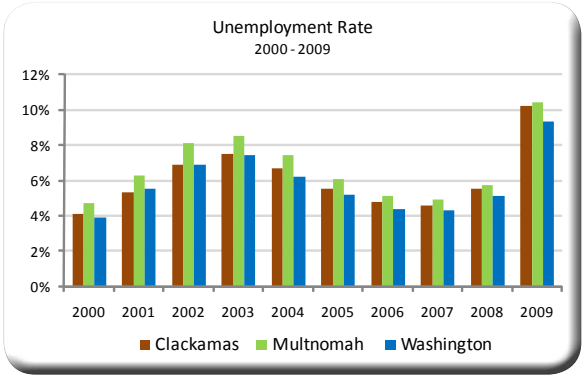
Source: U.S. Bureau of Economic Analysis

Economic & Demographic Trends

Location of Employers for the Tri-county Area



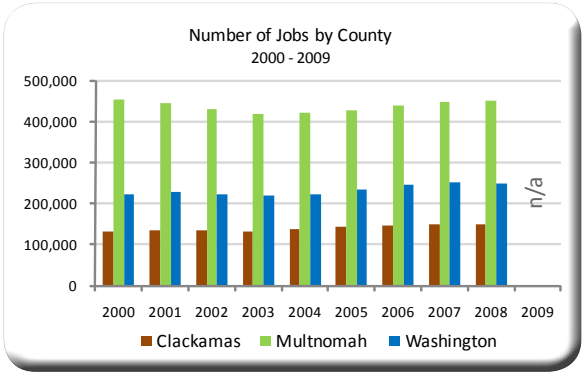
Source: Bureau of Labor Statistics Quarterly Census of Employment and Wages (ES-202)



Source: State of Oregon, Employment Department

Unemployment Rate

The rate of unemployment in 2009 was the highest it had been in the last ten years. The unemployment rate in Multnomah County has consistently been higher than in Washington or Clackamas counties.



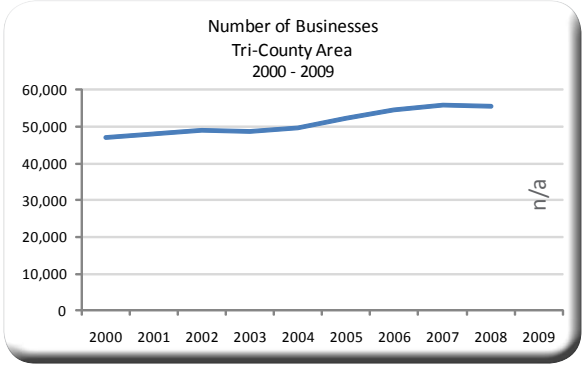
Source: State of Oregon, Employment Department

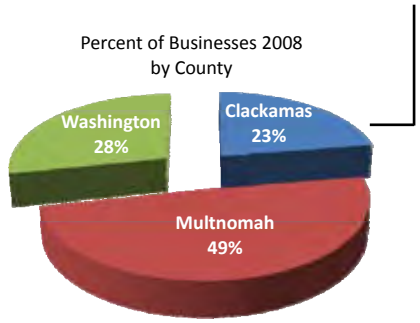
Number of Jobs by County

The number of jobs began to decline in Clackamas and Washington counties in 2008. Data is not yet available for 2009. Multnomah County accounts for 1/2 of all jobs in the tri-county area.

Number of Businesses

Although the number of businesses in Clackamas, Multnomah and Washington counties dropped slightly from 2007 to 2008, there was an 18% increase from 2000. In 2008, Multnomah County accounted for 49% of total businesses in the area.

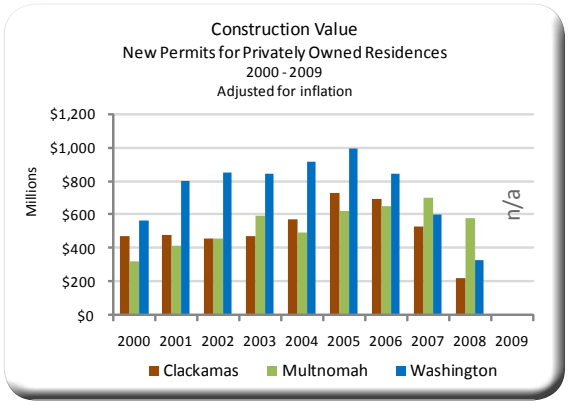




Source: Oregon Employment Department, Covered Employment and Wages

Construction Value

The value of permits for new construction in Multnomah County increased 79% over the last 10 years. Clackamas and Washington counties experienced declines.



Source: U.S. Census Bureau Building Permits

Scope & Methodology

The purpose of this audit was to evaluate the financial condition of Metro. We identified information from Metro's budgetary and financial accounting systems and reports, combined it with economic and demographic data and created a series of financial indicators. When plotted over time, these indicators can be used to monitor changes in financial condition and provide information to assist decision makers. Our scope included both general government operations and business-type operations such as those of the Metropolitan Exposition and Recreation Commission and the Solid Waste System. We did not include capital project funds, internal service funds or trust funds.

We obtained data from the independently audited Comprehensive Annual Financial Reports (CAFR). We also obtained some information from the adopted budgets and more detailed information about revenue sources, personnel costs and budget shortfalls from Metro's financial accounting system. Economic and demographic data was obtained from outside published sources. All dollars were adjusted for inflation in current FY09 or 2009 dollars, whichever was appropriate.

We conducted this performance audit in accordance with generally accepted government auditing standards. These 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 our audit objectives.

Much of the financial information in this report is from the CAFR and therefore, we relied on the work of Metro's external financial auditors. We reviewed other information for reasonableness and consistency. We did not audit the accuracy of source documents or reliability of data in computer-based information.

METRO

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