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2011-12

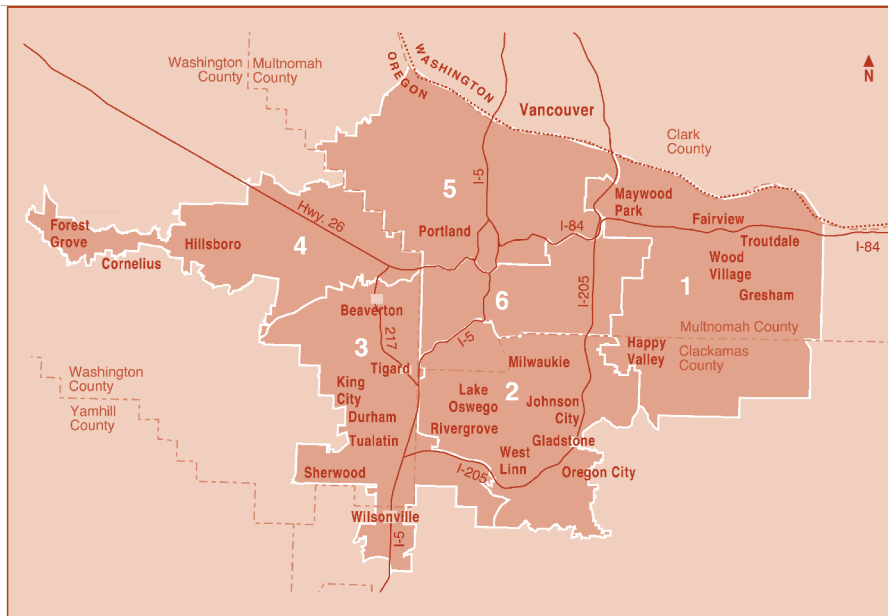
ADOPTED BUDGET Summary



Metro | *Making a great place*

2011-12

ADOPTED BUDGET Summary



Metro **Making a great place**

Clean air and clean water do not stop at city limits or county lines. Neither does the need for jobs, a thriving economy and good transportation choices for people and businesses in our region. Voters have asked Metro to help with the challenges that cross those lines and affect the 25 cities and three counties in the Portland metropolitan area.

A regional approach simply makes sense when it comes to protecting open space, caring for parks, planning for the best use of land, managing garbage disposal and increasing recycling. Metro oversees world-class facilities such as the Oregon Zoo, which contributes to conservation and education, and the Oregon Convention Center, which benefits the region's economy.

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Adopted Budget Fiscal Year 2011-12

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**GFOA
Distinguished
budget
presentation
award**



The Government Finance Officers Association (GFOA) of the United States and Canada presented a Distinguished Presentation Award to Metro for its annual budget for the fiscal year beginning July 1, 2010.

In order to receive this award, a governmental unit must publish a budget document that meets program criteria as a policy document, as an operations guide, as a financial plan, and as a communication device. This is the fifteenth consecutive year Metro has received this award.

The award is valid for a period of one year only. We believe our current budget continues to conform to program requirements, and we are submitting it to GFOA to determine its eligibility for another award.

FY 2011-12 Adopted Budget

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This guide is intended to assist readers in finding information in the three volumes of the Metro FY 2011-12 Proposed Budget. Information generally is grouped according to the sections identified by tabs or colored dividers in the budget document. In addition, Metro's budget and other financial information are available online at www.oregonmetro.gov.

SUMMARY (VOLUME 1)

The summary presents the entire Metro budget and general information pertinent to the development of the budget.

Budget message

By law the budget message is given at the time the budget is proposed and identifies any significant changes from one year to the next. The Metro Chief Operating Officer serves as Metro's Budget Officer. After the budget is proposed, the Metro Council considers public comment and shapes the final budget to reflect any changes or new priorities. These are described in the Highlights form the FY 2011-12 Proposed to Adopted Budget, which follows the budget message.

What is Metro

This section provides the reader with an overview of Metro's history, a timeline showing the development of the agency, information regarding Metro's charter, and an overview of the region's economy. Also included are maps of Metro's facilities, pioneer cemeteries, regional parks and Open Spaces and Natural areas land acquisitions and target areas.

Budget and financial structure

This section describes the budget process at Metro. It reviews the budget calendar and budget development guidelines.

Budget summary

This section provides a comprehensive summary of the detailed information contained in the three budget volumes: Summary, Line Item Detail and Program Budget. It provides information on revenues and expenditures, including trends and fund balances, and summarizes staffing changes in the organization.

Revenue analysis

The revenue analysis provides an overview of the major revenue sources. This overview includes a description of each source and the underlying assumptions for revenue estimates and recent trends.

Organizational summary

The organizational summary presents Metro's appropriations units as required by Oregon budget law. In FY 2009-10 centers and services replaced former departments under the Sustainable Metro Initiative, Metro's strategy to align programs and services more effectively and efficiently. In FY 2011-12 Metro presents Visitor Venues as an organizational unit for the first time. Centers and services may be budgeted in one fund only or in several funds, but always by appropriations unit. This section discusses the purpose, organization and accomplishments related to the prior year's objectives. It identifies service level changes in the proposed budget and the new objectives for the upcoming budget year. It also connects specific programs to the program budget volume.

Fund summaries

This section presents summary financial information and analysis for each of Metro's 14 funds, the legal units by which the budget is appropriated. For example the Solid Waste Revenue Fund contains all revenues, other financial resources and expenditures necessary for the operation and maintenance of the region's solid waste disposal and recycling system. This ensures that revenues generated by the solid waste system are used to support that system.

Capital Improvement Plan

Metro's capital budget for fiscal years 2011-12 through 2015-16 is included in the FY 2011-12 budget document. The capital improvement plan is divided into the following sections: Overview, Project Summaries and Analysis, Lists of Unfunded Projects, Current Projects Status Reports and Capital Asset Management Policies.

Debt summary

Information about Metro's current debt position and future debt obligations is provided here. This section also provides information on Metro's debt capacity and the debt service for existing revenue bonds, general obligation bonds, capital leases and other debt.

Appendices

The appendices include several related documents that are legally required to be included with Metro's budget document or that provide additional policy background information. These appendices include the FY 2011-12 schedule of appropriations, calculations for property and excise taxes and fringe benefits, budget transfers, limited duration positions, charter of limitations on expenditures, annual contracts list, chart of accounts, compensation salaries and a glossary of technical terms and acronyms used throughout all three documents.

LINE ITEM DETAIL (VOLUME 2)

The line item detail contains technical information used by Metro managers to manage their programs. This detail includes current as well as historical line item revenues and line item expenditures required by law.

The section also provides line item detail of resources and requirements for each fund. The line item detail is the breakdown of revenues and expenditures which comprise Metro's budget.

PROGRAM BUDGET (VOLUME 3)

The FY 2011-12 program budget is organized by the four Metro goals: Great Communities, Healthy Environment, Regional Services and Responsible Operations. Each budget program begins with a visual map showing the main operational area and key projects or activities within the program.

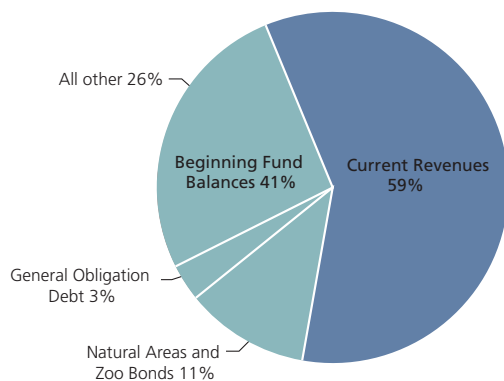
Chief Operating Officer's Budget Message

As presented on April 7, 2011

To the Metro Council, citizens and regional partners and valued employees:

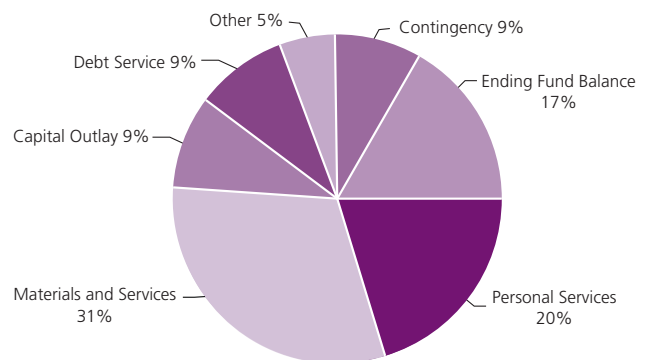
We are pleased to present Metro's Fiscal Year 2011-12 proposed budget. This is the final budget I have prepared, and it will be presented by Dan Cooper, now the acting Chief Operating Officer and Budget Officer. Our challenge this year goes beyond balancing the budget. It sets Metro on a 5-year path to preserve its financial sustainability, to provide the highest public service, to deliver on the promises made to voters and to invest in the region's future. This is the essence of Metro's mission, to preserve and enhance the quality of life and the environment for ourselves and future generations.

FY 2011-12 Resources



Total resources \$389.4 million

FY 2011-12 Requirements



Total requirements \$389.4 million

By law Metro must present a balanced budget. The legal budget, accounting for all resources and all requirements, tops \$389 million, a drop of almost 10 percent. At the operating level we anticipate annual revenues of \$230 million and planned expenditures of \$291 million without contingency, also a decline of about 10 percent. The difference between annual revenues and expenditures is use of fund balance. In all instances the spending of fund balance is intentional, from acquiring and protecting more natural areas to moving forward on construction to improve both the animal welfare and the environmental footprint at the zoo. Delivering on the bond promises is a key priority in this budget. Preserving and maintaining public assets entrusted to Metro through strategic one-time capital expenditures is vital for our visitor venues and sustainability goals. And finally, Metro has chosen to invest in the future of the region through collaborative, multi-year projects aimed directly toward achieving the Council's desired outcomes.

Metro employs just fewer than 750 regular, year-round staff and as many as 1,500 agency employees during the busy season. Labor costs exceed \$79 million, an increase of 2.74 percent over last year despite a net reduction in seven full-time positions. Health care and pension costs are the significant drivers of the increase in personal services. Debt service payments are reduced by \$6.7 million as balances are paid down. While the majority of capital spending continues to be for land acquisition (\$21 million), an additional \$15 million in capital projects provides good jobs in the local economy.

**Six desired
outcomes**

Seeing the budget as an essential investment strategy

This year the Metro Council has engaged regional leaders in significant conversation about the future of the region. The lingering economic downturn has renewed a sense that collaboration and partnerships are essential to regional progress and prosperity. The Council amended the Regional Framework Plan to include six characteristics of a successful region:

- *Vibrant communities* People live, work and play in vibrant communities where their everyday needs are easily accessible.
- *Economic Prosperity* Current and future residents benefit from the region's sustained economic competitiveness and prosperity.
- *Safe and reliable transportation* People have safe and reliable transportation choices that enhance their quality of life.
- *Leadership on climate change* The region is a leader in minimizing contributions to global warming.
- *Clean air and water* Current and future generations enjoy clean air, clean water and healthy ecosystems.
- *Equity* The benefits and burdens of growth and change are distributed equitably.

The FY 2011-12 budget is an essential strategy for achieving these outcomes.

Paying attention to core services

In order to move forward with key investments for the future, Metro must deliver its core services with excellence and efficiency. The Visitor Venues – Oregon Convention Center, Portland Expo Center, the Portland Center for the Performing Arts and the Oregon Zoo, – greet 3.5 million guests annually, a high proportion of regional citizens among them. Add to them the visitors to our public parks, users of the regional solid waste system, community gardeners and paint purchasers, and Metro has 5 million opportunities each year to demonstrate how we operate. To engage the region in our future vision requires that we make the most of each opportunity. In FY 2011-12 we invest \$160 million or 55 percent, more than half of the operating budget, in meeting this daily, operational requirement.

To deliver on the bond promises for Natural Areas acquisition and protection as well as leveraging local projects through local share and capital grants, we will spend \$38 million. Planning, pre-construction and construction activities for infrastructure and animal welfare at the zoo, approved by voters in 2008, will add another \$7.4 million. Capital spending to maintain and refresh our convention and arts facilities, our parks and our buildings adds an additional \$7.3 million investment. Capital spending and capital maintenance account for 16 percent of the operating expenditures, or \$52 million.

Supporting these core services requires an internal structure of transparency, accountability, public review and an efficient engine room. Without this structure Metro cannot deliver on the core services and support investments for the future. Metro's internal structure, from governance to management to business processes, is an efficient 9.5 percent of the budget.

To pay attention to these core services and deliver on the bond promises commits 80 percent of the annual operating expenditures.

Key initiatives

If the direct public service programs, supported by the agency structure, are the daily essence of Metro, the key initiatives are the future. Under the Council's leadership Metro is directing and driving its land use and transportation programs straight at the regional outcomes.

- Integrated corridor planning, the integration of land use and transportation plans for mobility corridors, will stimulate community and economic development.
- The Research Center has developed a Greenhouse Gas Emissions Analysis Toolkit for use in evaluating policy choices and public investments for their effectiveness in reducing greenhouse gases. This and other analytic tools will support land use and transportation planning for climate smart communities.
- The Community Investment Strategy is focused on the 2040 vision of thriving centers and effective corridors. Working as regional partners, public and private, a Community Investment Initiative Leadership Council will craft an integrated federal, state, regional and local investment strategy to close the gap between the region's needs and financial resources.
- A regional parks system planning effort, pairing internal, cross-functional programs and supported by the Community Investment Strategy, will be key to addressing the long-term operational costs of the more than 11,000 acres of natural lands acquired for the region.
- The future of the regional solid waste system must consider new technologies, more active management of what is in the waste stream and greater product stewardship to prevent materials from entering the waste stream. This future will also require Metro to examine the intensifying tension between its environmental sustainability and its financial sustainability.

KEY INITIATIVES:
Corridors
Climate Change
Community
Investment Strategy
Regional Parks
Funding
Solid Waste Road Map

Strategies for balancing the budget – for the long term

Our goal in preparing the FY 2011-12 budget is to plan for the future. Among the lessons of the economic downturn which began in 2007, Metro has seen the value of its disciplined financial policies, its strategic use of fund balance to support multi-year initiatives and its willingness to make difficult choices and take another approach. The FY 2011-12 budget continues this direction, choosing to shift resources toward key initiatives, making some hard choices to refocus current efforts and even increasing some spending now in order avoid higher costs in the future.

Oregon budget law directs the budget officer to highlight significant changes in the proposed budget. The changes reflect Metro's strategy to ride out the downturn without damaging core services and losing momentum. As our region prepares to emerge from the downturn, Metro must maintain focus, care for its public structures, operate with transparency and accountability and continue to anticipate and meet the needs of the region's future.

Labor costs

The most significant budget assumptions are related to labor costs. These assumptions are applied consistently across all programs with differences between and among individual bargaining units and non-represented employee groups. The largest bargaining unit, American Federation of State, County, and Municipal Employees (AFSCME) is currently engaged in bargaining; the current contract expires on June 30, 2011.

In FY 2011-12 Metro 's employer rates for Public Employees Retirement System (PERS) will increase from an average of 3 percent to an average of 8.2 percent. Metro has been preparing for this expected increase and will use a portion of its PERS reserves, accumulated over the last five years, to ease this transition. Operating units will no longer contribute 3 percent to a reserve for future rates, and the accumulated reserves will be used to make the annual debt service for the limited tax obligation bonds, an annual obligation of about \$1.5 million. Accumulated reserves will fund this debt service payment for as many as five years and will position Metro for the next PERS rate period which will begin on July 1, 2013. Beginning July 1, new non-represented employees will be responsible for the 6 percent employee contribution.

More than 20 bills affecting PERS have been introduced at the 2011 legislative session. Depending on the outcome, additional PERS changes may be in Metro's future.

Benefit-eligible employees have been paying a portion of their health benefit costs for a number of years. Recent collectively bargained agreements have designated a specific 94 percent/6 percent cost sharing. Beginning July 1 non-represented employees will move to a 92 percent/8 percent sharing. A cost sharing approach may give additional incentive to benefit plan design changes that reduce costs for both Metro and its employees.

Salary increases for non-represented employees will be limited to an average of 1 percent, applied progressively and paid out as a lump sum. Employees at the lowest salary levels may be eligible for as much as 2.5 percent, while employees at the highest end of the salary plan will be limited to no more than 0.25 percent. Other cost-of-living adjustments will follow collective bargaining agreements.

The proposed budget also includes the following service level changes:

Metro Council

The Metro Council budget includes the Council, the Office of the Chief Operating Officer, Government Affairs and Policy Development and the Community Investment Strategy, the signature initiative of the agency. The proposed budget eliminates the special appropriation for federal lobbying until a formal plan is developed and discontinues a position previously loaned to the Oregon Department of Transportation for the Columbia River Crossing. Individual Councilor budgets remain at \$3,000 annually. In FY 2011-12 the Council will appoint a new Chief Operating Officer, following the departure of Michael Jordan in spring 2011. The Metro Attorney will serve as acting COO until a successor is named later in the year.

The Community Investment Strategy will serve as the focus for many of Metro's top priorities, carrying the vision of thriving centers and effective corridors, supporting and moving forward regional funding for parks and trails and steering Metro's internal and external climate and sustainability objectives.

Office of Metro Auditor

Metro's elected Auditor operates independently and is a link between the public and Metro. The Office of the Metro Auditor conducts performance auditing and oversees the financial auditing of the agency. The Auditor assesses how well Metro services and activities are performing, ensuring accountability and transparency. There are no service level changes for FY 2011-12.

Office of Metro Attorney

In addition to its continuing due diligence responsibilities for the Natural Areas acquisitions, the Office of Metro Attorney is a primary advisor to the Oregon Zoo for the master planning, land use and development approvals for the new bond measure. OMA also provides review and advice to the Metro Council to support its land use and transportation decisions. The Metro Attorney is currently serving as the interim Chief Operating Officer; the Deputy Metro Attorney is serving as the interim Metro Attorney. There are no other service level changes for FY 2011-12.

Visitor Venues

The FY 2011-12 budget presents the Visitor Venues together, unifying the Oregon Convention Center, the Portland Center for Performing Arts, the Portland Expo Center and the Oregon Zoo. A General Manager of Visitor Venues oversees all four venues and reports to Metro's Chief Operating Officer.

Organizationally the Visitor Venues represent 35 percent of the annual operating revenues and 45 percent of the agency's payroll.

The Oregon Zoo will be implementing a new agreement with The Oregon Zoo Foundation to recognize the respective roles and the financial costs related to member admissions, member services and major fundraising campaigns. While the zoo and the foundation provide the majority of support to the zoo's operations, the General Fund funds about 28 percent of the zoo's operating costs. The zoo is considering a fee increase to be implemented later in FY 2011-12.

The Portland Expo Center is completely self-supporting, including the use of annual operating revenues to meet debt service payments for the Exhibit Hall D renovation. The Oregon Convention Center depends on transient lodging tax for 36 percent of its operating revenues; Portland Center for Performing Arts receives a smaller share of transient lodging tax as well as support from the City of Portland, owner of the facilities. Transient lodging tax receipts have begun to recover from the economic slump of the past two years; receipts are expected to be 5 percent higher in the coming year.

The Metro and MERC business services began its merger in FY 2010-11. The FY 2011-12 budget recognizes this steady progression, transferring a number of staff positions to agencywide services resulting in individual cost savings to MERC and to the agency as a whole. Transitions have occurred in Information Services, Human Resources, procurement (FRS) and construction management (PES).

Oregon Convention Center

The Oregon Convention Center will complete construction and begin startup of both the Community Café on the Metro Plaza and the new Convention Center Plaza located across from OCC on Martin Luther King Jr. Boulevard. The business strategy is to focus on customer service and retaining repeat clients. Currently 30 national or regional conventions are booked for FY 2011-12, a decrease of seven.

Portland Center for the Performing Arts

The number of Broadway series' weeks affects every budget year at PCPA. For FY 2011-12 the series is scheduled for 12.5 weeks compared to 13 weeks in FY 2010-11 and nine weeks in FY 2009-10. Broadway and commercial rental rates will increase by 3 percent; user fees for resident tenants will increase by 50 cents per ticket, an increase deferred from last year. A part-time marketing position is increased to full-time with emphasis on enhancing sales and marketing through the website. Exterior renovations at the Arlene Schnitzer Concert Hall will be completed.

Portland Expo Center

The Expo Center has completed its Conditional Use Master Plan and expects its approval in FY 2011-12. Individual space (exhibit hall/meeting room) rental rates will increase by approximately 3 percent, and combined exhibit hall rental fees are proposed to increase by approximately 6 percent. No other service changes are expected.

Oregon Zoo

Guests continue to visit the Oregon Zoo in record numbers, and guest spending is beginning to recover to prerecession levels. A catering position is restored, and a number of new food cart options will be introduced to guests; three premium concerts will be added to the summer lineup. The marketing division is restructured, converting several temporary positions into a permanent position and adding a web content and social media position.

The conservation surcharge continues to support internal conservation programs, and a new education manager position will energize a cross-functional approach to delivering all Metro's education programs. The Sustainable Metro Initiative in 2008 identified the need to consolidate all conservation education at Metro. A proposed plan for consolidating the human and financial resources of education staff at both the Sustainability Center and the Oregon Zoo begins in this budget. The overall vision is to create a regionwide program that creates environmental stewardship in our community through classes, camps, school curriculum and youth leadership programming. By combining the staffs from the Resource Conservation and Recycling programs in the Sustainability Center, zoo and community programs given by parks' naturalists, a framework will be created to provide real behavior change by centering programming at the zoo, which already has an audience of over 1.6 million people and an award-winning youth program. A common classification for educators across all programs is underway. In FY 2011-12 we will undertake a one-to-two year transition to create a unified set of curricula that serves K-12 children in a variety of programs designed to increase environmental awareness and future consumer behaviors and lifestyles. This transition will be led by the Sustainability Center and the Oregon Zoo with staff eventually reporting to the zoo management team, dovetailing with the planning and eventual opening of the new conservation education facility, an important zoo bond project. The new education manager will be responsible for meeting specific benchmarks to achieve the integration and vision during the transition period.

The Veterinary Medical Center will be completed in FY 2011-12. The master plan project will also be completed, producing refined individual project scopes, sequencing and budget estimates. The bond program continues to purchase public engagement support from Metro's communications group. As construction projects proceed, the zoo will encounter more operating challenges, including guest circulation, train circulation and disruption of animals on exhibit. Special temporary exhibits and well-timed openings will be key to maintaining a positive guest experience.

Parks and Environmental Services

Parks and Environmental Services operates Metro's parks facilities, including pioneer cemeteries, the Metro Regional Center building and its associated services, and solid waste facilities. At the Metro Regional Center parking fees will be increased to generate additional revenue to support recent upgrades and maintenance. A cemetery fee proposal will be made when the business plan is completed. PES will implement a Project Management Office for major construction projects, merging former MERC construction staff to form an agency team. A contract analyst is transferred to the procurement section in Finance and Regulatory Services and one finance management analyst position, vacant following a retirement, will not be filled.

The solid waste operations will study alternative uses for methane gas generated at the St. Johns Landfill; the current contract to purchase the collected gas expires in 2012. Capital projects include improvements at Metro Central to increase the capacity to handle commercial and residential organic food waste. Metro collects excise tax on the recovery service and on the sale of paint products and compost bins.

The operations contract for Glendoveer golf course also expires in 2012. A master plan for the site is being completed by the Sustainability Center.

Planning and Development

Planning and Development includes three units: Land Use Planning and Development; Transportation System Planning; and Corridor Planning and Development. Together its programs and projects work with communities throughout the region to boost economic vitality, provide transportation choices and prepare for population growth consistent with shared local and regional aspirations.

The delays in federal reauthorization of transportation funds have significantly reduced federal planning grants and complicated project planning. Some corridor planning work program may proceed at a slower pace that advances projects at the speed with which revenue, including local match, is available. Still, Metro has been awarded a \$2 million multi-year grant from the Federal Transit Administration to study the best ways to improve transit in the Southwest corridor between downtown Portland and Sherwood. The Alternatives Analysis grant is part of the U.S. Department of Transportation's livability initiative. At the same time, grants authorized by the 2009 legislature (HB 2001) are in the second of three years and provide resource to initiate state-mandated greenhouse gas scenarios project in coordination with Metro's Climate Smart Communities activities.

One limited duration planner position related to the Development Opportunity fund ends on June 30, 2011, as planned, and a program analyst for Active Transportation will conclude in February 2012. A limited duration records and information analyst position is eliminated in Planning and Development, but is proposed as an addition to the Records Information Management group unit in Information Services to manage planning records for public access and long-term electronic storage.

Research Center

The Research Center provides accurate and reliable data, information, mapping and technical services to support public policy and regulatory compliance for Metro programs and for the region. The Research Center also supports and complements the Community Investment Strategy initiative by integrating its HB 2001 greenhouse gas research and model enhancement work with the strategy. Data collection, spatial analysis, mapping and visualization, requirements of the HB 2001 scenario planning, are underway.

The proposed budget eliminates two part-time limited duration GIS specialists doing contract work. A limited duration planner for the Greater Portland-Vancouver Indicators project is continued until September 30. Metro will then hand off this project to an outside agency and make a financial contribution to support the ongoing effort. A vacant transportation modeler position is eliminated, allowing grant funds to be applied to other planning functions.

Sustainability Center

The Sustainability Center contributes directly to the region's livability and focuses on providing accessible regional natural areas, parks and trails, and maintaining and enhancing environmental quality. It also promotes sustainable resource management through waste reduction initiatives, hands-on interpretive programs, youth and adult education, grants and demonstration projects and volunteer opportunities.

The proposed budget extends a limited duration planner position for an additional year to continue work on the longer-range financial needs for Metro's growing natural areas land base and The Intertwine. This work is integrally aligned with the Community Investment Strategy and is a key to future resources. A GIS technician will be transferred from the Research Center to the Natural Areas bond program to increase direct mapping support for acquisitions.

The Sustainability Center and the Oregon Zoo will be leading a project to consolidate all conservation education at Metro. The overall vision is to create a region wide program that creates environmental stewardship in our community through classes, camps, school curriculum and youth leadership programming. In FY 2011-12 we will undertake a one-to-two year transition to create a unified set of curricula that serves K-12 children in a variety of programs designed to increase environmental awareness and future consumer behaviors and lifestyles. The program and staff will eventually be located and report to the zoo, dovetailing with the planning and eventual opening of the new conservation education facility, an important zoo bond project.

Nature in Neighborhoods will also undergo an evolution, transitioning from a series of small programs to a more comprehensive way of doing business throughout Metro. Two positions associated with the smaller programs will be eliminated, and the focus will shift to the Community Investment Strategy and corridor projects. Remaining Nature in Neighborhoods staff will be realigned in the Sustainability Center to leverage the previous work of the program and incorporate those principles throughout Metro.

The Resource Conservation and Recycling program will shift its climate change work toward the Climate Smart Communities work managed in Planning and Development. After completing the project objectives established by the Council with the completion of the Climate Prosperity Greenprint and the creation of the greenhouse gas lens and measurement tools, climate change staff is reassigned to the Community Investment Strategy.

Operational support

Communications

Communications provides strategic communications guidance and coordinates a full range of services to advance the region's six desired outcomes, helps Metro programs achieve desired results and supports the effectiveness of the agency.

In FY 2010-11 Communications launched Opt In, an innovative online opinion panel designed to increase diverse, sustained community engagement and provide a cost-effective public opinion research tool. Participating Metro users include Planning and Development and the Sustainability Center. Other users may include the Visitor Venues and Parks and Environmental Services, although any Metro service is eligible to participate. Users fund field surveys through their individual budgets, anticipated to be \$125,000 collectively.

An administrative support position is eliminated in the FY 2011-12 budget. In addition, the integration of the Nature in Neighborhoods program with other Metro programs and projects will change the communication strategy somewhat.

Finance and Regulatory Services

In addition to its portfolio of financial services, risk management and procurement, FRS is responsible responsibility for solid waste regulation, rate setting and financial analysis and modeling for solid waste operations. The proposed budget includes the transfer of two contracts analysts, one from Parks and Environmental Services and one from MERC, into the FRS procurement unit to standardize the contracting business process. This additional effort allows a vacant contracts analyst position to be eliminated. The Risk Management staff, 2.8 FTE, is transferred from the Risk Fund into the FRS General Fund, to simplify cost allocation and limit the Risk Fund to claims-only transactions.

The second phase of the Solid Waste Information System project will be completed into FY 2011-12. This SWIS project will provide a more robust and effective system for collecting and reporting on the more than \$30 million in annual revenues from regional system and excise taxes paid by privately owned solid waste facilities. SWIS will also increase efficiency in monitoring compliance with regulatory requirements of licensees and franchisees and management compliance with the non-financial obligations of the long-term waste disposal contract.

Human Resources

Human Resources supports both the operating units and the individuals of Metro, providing strategic leadership, building collaborative relationships, promoting diversity and instilling best human resources management practices.

To deliver the best and most efficient services, Human Resources has restructured its organization and transferred in a MERC human resources manager. The proposed budget adds a Diversity coordinator, the highest priority of Metro's Diversity Action Plan, to increase recruitment and retention efforts for all Metro programs. A half-time payroll position is eliminated, and a current position is redeployed to assist the benefits section with an emphasis on leave management. The limited duration position for maintaining the Learning Management System becomes a regular position and will provide support in other areas as well. A new limited duration position will focus on updating and upgrading human resources policies for the agency.

Information Services

Keeping pace with technology remains a challenge for Metro. Information Services provides technology-based leadership and solutions to support Metro's goals and business processes through the development, implementation, support and management of key information systems.

The MERC/Metro business practices study has unified the Information Services function under single management. Two positions remain in the MERC Fund to provide exclusive service to the MERC venues while two positions are reclassified and moved to the central Information Services budget to facilitate standardization and strategic planning. A part-time position is eliminated to offset this change. A limited duration records management analyst position is increased from part-time to full-time and transferred from Planning and Development to the Records Information Management group in IS. The position will transfer planning records into TRIM for public access and long term electronic storage.

General Expense

The General Expense category in the General Fund includes non-program revenues such as property tax, excise tax and interest earnings as resources. On the expenditure side, it includes non-operating expenses such as general obligation debt, transfers, and special appropriations that are not tied to an individual program service or center.

Revenues

Interest rates are at a significant low due to the economic climate and the federal monetary policy. In FY 2007-08 all Metro funds earned \$12 million; in FY 2011-12, we expect to earn less than \$1 million. The excise tax may increase annually based on a specific consumer price index and the average tonnage from the previous two years. In 2010 the Council updated the excise tax code and combined the various aspects of the tax into a single rate calculation, increasing stability and predictability. With CPI at record low levels, the excise tax yield for FY 2011-12 increases very modestly (1.59 percent). Because the tonnage period includes the significant declines of the past two years, the rate per ton increases by 86 cents. Excise tax on other Metro facilities and services remains at 7.5 percent. Construction excise tax is projected to increase modestly compared to the recession years but will not recover to prerecession levels for at least two more years.

Property taxes are levied for both operations and general obligation debt service. The operating levy has a permanent rate of .0966, about ten cents. The levy for general obligation debt will decrease from \$39 million to \$28 million, based on debt schedules and cash flow requirements. Despite economic conditions, collections have remained strong and are estimated to be 94 percent. Combined, the estimated tax rate for an urban Metro resident is 32 cents (.3165) per thousand, or about \$48 for owners of property assessed at \$150,000 (approximately \$220,000 market value).

Expenditures

The general expense spending includes general agency payments for elections, the outside annual audit, a minimum \$100 appropriation for Measure 37 claims and, in accordance with the financial policies, the appropriated contingency for the General Fund. A \$500,000 Opportunity fund is also budgeted to provide Council with a modest resource to take advantage of new opportunities that arise which require a partnership match or otherwise leverage existing budgeted funds.

The General Expense category also includes special appropriations. These include payments for previously awarded grants for Nature in Neighborhoods small projects and Construction Excise Tax grants; and payments for specific organizational dues and sponsorships such as Rail-Volution, the Regional Arts and Culture Council and the Lloyd Business Improvement District. The proposed FY 2011-12 budget also includes new payments which recognize a fresh approach to participating in regional programs: \$25,000 for regional economic development membership; an initial \$100,000 for Intertwine organizational support, intended to diminish over three years as the organization becomes more self-supporting; and \$45,000 to support the Greater Portland-Vancouver Indicators project at Portland State University. This approach maintains Metro as an active and collaborative partner, using Metro resources to leverage financial participation from other partners, public and private, to assure a truly regional approach.

CAPITAL IMPROVEMENT PLAN

The 5-year Capital Improvement Plan identifies all capital projects, whether new capital projects or renewal and replacement projects, which exceed \$100,000 and meet the State of Oregon's definition for public improvements. Of the 102 projects identified, 75 percent is for new acquisitions or construction; 23 percent is for renewal and replacement, and 2 percent is for expansion or remodeling. The Capital Improvement Plan now includes a Visitor Venues section, incorporating all MERC venues in the plan. This transition began in FY 2010-11 and will become fully integrated this year.

New capital projects

New capital project spending continues to be dominated by land acquisition and stabilization under the Natural Areas bond measure (48.5 percent of CIP expenditures), new capital projects under the Zoo Infrastructure and Animal Welfare Bond program (23 percent) and, to a lesser extent, new capital projects at solid waste facilities funded by the Solid Waste Revenue Fund capital reserves. In FY 2011-12 natural areas land acquisition and stabilization will continue, although still at a slower pace than in pre-recession years. At the zoo construction of the Veterinary Medical Center and the master plan for the remaining bond projects will be completed. Progress on the remote elephant facility will depend on securing an appropriate site which meets land use conditions. New projects for the solid waste facilities include Phase I (feasibility) for gas-to-energy conversion at the St. Johns Landfill and improvements at Metro Central for the organics/food handling area.

The Solid Waste Fund maintains reasonable reserves for new capital. The MERC Fund, following an intensive study of reserves this year, has identified very modest reserves for either new capital or strategic business opportunities. The Portland Center for Performing Arts has relied on the Friends of PCPA to assist with new capital funding. The General Fund, however, does not have reserves for new capital acquisition in the future. The Oregon Zoo relies on The Oregon Zoo Foundation for new capital funds for small-to-medium projects such as the *Predators of the Serengeti* exhibit completed in 2009. Otherwise the General Fund has relied on voter-approved debt financing for major new capital acquisitions.

Renewal and replacement

The consolidated General Renewal and Replacement Fund provides for scheduled renewal and replacement of assets at the Oregon Zoo, parks facilities and the Metro Regional Headquarters. Established by the Metro Council in FY 2008-09, the fund contains a favorable balance which, when combined with the annual contribution of \$1.5 million, will meet the General Fund needs for the foreseeable future. The annual contribution is increased in FY 2011-12 to recognize the fleet program assumed from Multnomah County in 2010 and the addition of newly completed assets in the zoo and parks programs. The Solid Waste Revenue Fund continues to maintain renewal and replacement reserves, and MERC has designated renewal and replacement reserves in FY 2011-12. The proposed budget also includes funding for the periodic inventory and asset condition evaluation required by the Capital Asset Management Policies.

SOLID WASTE RATES

Under the rate making process implemented last year, the proposed rates and a rate report now accompany the proposed budget, and the Council will also receive a review of the rates prepared by an independent consultant. The public will be able to review the proposed rates, the rate report and the consultant's opinion, and comment to the Council at any public hearing on the budget. If the Council considers and makes changes affecting the Solid Waste Revenue Fund during the budget process, the rate impact will be known immediately. Likewise, if the Council considers changes to the rates, the budget impact will be known immediately. Based on the proposed budget, the anticipated tip fee, including all fees and taxes, will be \$89.53, an increase of \$3.68 over current rates. Tonnage estimates, contract escalators and concerns about increasing fuel prices are the primary factors in the rate increase.

CHARTER LIMITATION ON EXPENDITURES

Metro's charter includes a limitation on expenditures of certain tax revenues imposed and collected by Metro, specifically the general excise tax and the construction excise tax. The general excise tax is a yield-base tax which may increase annually only by the consumer price index. The majority of the excise tax is collected on solid waste activities and is calculated as a per-ton tax. The rate for FY 2011-12 is \$11.80 per ton, an increase of 86 cents. The excise tax on services and product sales provided by Metro facilities remains 7.5 percent. Activities at the Oregon Zoo are specifically exempted by Metro Code; activities at the Portland Center for Performing Arts are excluded by intergovernmental agreement with the City of Portland, owner of the facilities. The expenditure limit for FY 2011-12 is \$19.4 million; budgeted expenditures are \$18.8 million. The proposed budget does not exceed this limitation.

KEYS TO THE FUTURE

The FY 2011-12 budget was undertaken with a clear intention to balance the budget not for one year, but for the future. The economic downturn has lasted already longer than originally thought, and we believe that it will be an additional two years before Metro's revenues return to prerecession growth patterns. The downturn has shed harsh light on areas Metro has been concerned about, thought about, talked about, but not resolved.

The past year the Council and the region have adopted six desired outcomes. The Council and the Senior Leadership Team have engaged employees in recommitting to the values that guide our day-to-day actions and earn the confidence and trust of our partners and citizens.

The proposed budget is based on the Metro's priorities and collaborative initiatives. At the same time it has been developed around four intersecting influences: footprint, focus, employee compact and resources. Each is a key to our future sustainability.

METRO VALUES:

Public Service

Excellence

Innovation

Respect

Teamwork

Sustainability

Footprint

How big is Metro and have we organized ourselves in the best possible way?

The proposed budget eliminates 17 positions, some limited duration and scheduled to end; some, but not all, vacant. The budget proposes to add 10 positions and transfers a number of positions, decreasing the overall footprint by 7 FTE. But the footprint story is not exclusively a count of positions.

The budget reflects the maturing of the Sustainable Metro Initiative, a new approach to structuring Metro's operations that began in 2008. We continue that work in the proposed budget by formalizing our Visitor Venues. United under single management in 2010, this budget presents our Visitor Venues as an organizational unit. Already we are seeing new synergies in marketing strategies, asset sharing and the breadth and capability brought to problem solving.

The MERC/Metro business practices study has brought new consolidation among the business practice groups. A common approach to labor relations, benefits and business processes is honing our efficiency. The MERC reserves study, a key analytical tool for financial stability, is smart thinking in action.

The proposed budget strives to further evolve and integrate the Nature in Neighborhoods mission into Metro's work across program areas and activities. Nature in Neighborhoods becomes a way of doing business for the organization – not an isolated program. By integrating the Nature in Neighborhoods approach into a wider range of Metro activities and programs, we can reduce our footprint while expanding our influence.

Focus

Are we focusing on our priorities, applying our expertise in a way that Metro can make the most significant contributions?

In order to see Metro through the next five years and address financial sustainability, it may be necessary to increase our investment in the short term or decide on new ways of doing business.

The Community Investment Strategy, launched in FY 2010-11, is representative of this new way. The region has limited dollars to invest and these resources should be used strategically to leverage past investments so we can build and maintain the thriving communities our growing population desires. In December 2010 the Metro Council adopted a new regional framework in its capacity ordinance, committing to policy and investment actions that maintain and improve existing communities and protect the urban growth boundary. In addition to specifying the six overall regional outcomes to which Metro and its local government will aspire, the new policies aim to focus public and private investments in city centers, main streets, corridors connecting centers and light rail stations. The new policies will use transportation investments to offer lower-income residents less expensive modes of travel to leave more household income for housing. Finally, new policies will aim to improve the regional economy by ensuring a supply of large sites for industries that need them to prosper.

The Community Investment Strategy is the focal point for Metro's integrated corridor planning, its climate smart communities' work and the integration of green spaces, trails and nature. The FY 2011-12 proposed budget continues to rely heavily on federal transportation dollars for its corridor work. A \$2 million multi-year Alternatives Analysis grant, part of the U.S. Department of Transportation's livability initiative, helps move this work along despite the delay in reauthorization of underlying federal transportation funds.

One of the six desired outcomes is for the region to be a leader in minimizing contributions to global warming. Metro's premier contribution to this effort is the

greenhouse gas modeling work led by the Research Center. Focusing our efforts on modeling, an area where Metro excels, will benefit the region and the state. We will maintain our internal commitment to reducing our footprint in construction, in our operations and in our consumption through sustainable procurement practices.

Metro has served as a catalyst for The Intertwine work. Within Metro and within the proposed budget we continue our important work in land acquisition with the Natural Areas bond program, now at more than 11,000 acres. In conjunction with the Community Investment Strategy we continue to convene and lead discussions about regional parks financing. We are also prepared to make a direct payment of \$100,000 to the new Intertwine organization to support its initial formation and work plan, reducing funding over three years to a membership level consistent with other participating partners. Metro is also ready to transition from a lead agency to a funding partner in the Greater Portland-Vancouver Indicators work. By catalyzing these efforts and promoting shared responsibility among partners of common interest, Metro will maintain our focus while reducing our footprint.

The proposed budget also reflects a small additional investment in conservation education, adding traction to an alignment identified for future development during the Sustainable Metro Initiative. The overall vision is to create a region wide program that creates environmental stewardship in our community. Led by the Sustainability Center and the Oregon Zoo, the consolidation of program will mesh with the construction of the new Conservation Discovery Zone, one of the significant zoo bond projects. By investing now in the consolidation effort, we see the potential for a strengthened program at lower future costs.

Employee Compact

What is Metro's strategy as an employer?

Metro is not alone in struggling to maintain its balance as a responsible employer and as a responsible steward of public resources. We share with other local governments and private employers the desire to hire and retain top flight staff while addressing the accelerating costs of health care and retirement.

The budget is being proposed during a time of collective bargaining at Metro and a legislative session in which multiple bills have been introduced to modify the Public Employees Retirement System (PERS). The outcomes are uncertain. Metro is committed to a fair and responsible total compensation plan, and we recognize that labor costs have been our fastest accelerating cost center for many years. The proposed FY 2011-12 budget includes a longer-term plan to address rising health care costs. Non-represented employees, mostly management employees, currently pay an average of 6 percent of their health care costs; beginning in FY 2011-12 this will increase to 8 percent, increasing by 1 percent a year to 10 percent. New non-represented employees hired after July 1, 2011, will pay the 6 percent employee share of PERS, consistent with some other Metro bargaining unit members. Non-represented employees will receive a progressive, lump sum salary adjustment, awarding a higher percentage to lower paid employees and excluding the highest paid employees from any adjustment. The lump sum payment does not adjust the salary ranges, a key element in managing future costs. Metro is able to do this because our salary ranges still remain competitive with comparable local governments. Changes for represented employees will be addressed through the collective bargaining process.

Resources

Is Metro moving the resource dial?

Resource work is less visible in the proposed budget, but clearly visible in our planning. There are some small, customary fee increases in parking fees and facility rental rates, reflecting the cost of doing business. Solid waste rates are a function of

disposal costs, program costs and tonnage. Excise tax is regulated by formula. We are looking forward to executing a new agreement with The Oregon Zoo Foundation that recognizes the operational cost of an increasing number of members. The cemetery program will bring forward a new business model and fee structure. The budget proposes to reinstate a small fee for household hazardous waste disposal. These are modest operational changes to the resource dial.

But as the recession has pointed out painfully, Metro has a significant, unsustainable resource plan. Metro's sustainability goals emphasize waste prevention – less waste and tonnage in our disposal system – while our financial sustainability depends on more waste in the system. This has to change, and the Solid Waste Road Map project will examine this dilemma and raise broader resource questions in the coming year.

The capacity ordinance, urban and rural reserves and Community Investment Strategy work have given sharp focus to the difficulty Metro and local governments have in funding the front-end policy and infrastructure planning necessary for more innovative public and private investments. As the economic downturn has illustrated, the Construction Excise Tax, one positive resource strategy in this effort, may not be sufficient. The Community Investment Strategy will need to consider how basic regional and local planning is funded in the future.

The voters have asked Metro twice, once in 1995 and again in 2006, to preserve thousands of acres of wildlife habitat, to improve water quality, to provide trail corridors and to preserve access to nature for future generations. Bond funds allow Metro to acquire the land, but there is no identified revenue for sustainable operations and maintenance of these lands and public access parks. Metro is not alone in this dilemma. We are working with our partners to find solutions to fund regional parks and open spaces. This is part of The Intertwine strategy as well as the Community Investment Strategy.

Decisions for the future

As budget officer I am required to bring forward a balanced budget for your consideration. The budget is proposed with a deliberate strategy for the next five years, not a single year. With your guidance and the hard work of the Senior Leadership Team, I have proposed a budget that reflects the highest quality public services, delivers on the bond promises made to the voters, meets our mandated requirements and supports your budget priorities. The budget proposes some new ways of approaching internal programs and some different ways of accomplishing Metro's work by collaborating with external partners. It proposes to limit some labor costs, and it sets in motion the consideration of future resources. The proposed budget remains true to Metro's financial policies, funding prudent operating reserves and applying one-time accumulated reserves to one-time or limited duration projects.

While I will not be with you during the consideration of this proposed budget, I have complete confidence that your deliberations and decisions will be made not for the year, but for the future.

Sincerely,



Michael Jordan

Chief Operating Officer

Highlights from FY 2011-12 Proposed to Adopted Budget

Each year the proposed budget signals the beginning of a dynamic process where citizens review and speak to the elected Metro Council about the proposal. After considering the public's ideas and concerns, the Council shapes the final budget to reflect any changes since the budget was proposed and any new or changed priorities since the Council gave its original guidance to the Budget Officer about developing the budget.

This year an Acting Chief Operating Officer proposed Metro's FY 2011-12 budget on April 7, 2011, to a Council whose membership had changed by three: a new President and two new councilors who had not participated in setting the initial direction for the proposed budget. A divided state legislature was taking up an agenda dominated by serious budget challenges. And the economy continued to tease its observers, offering good news followed by bad news, often in the same week, if not the same day.

Against this backdrop, the Metro Council and staff nonetheless remained focused on its six desired outcomes and true to the financial policies that have sustained the agency through the economic uncertainty.

By the numbers

The adopted budget, accounting for all resources and all requirements, is \$385 million, a decrease from the \$389 million proposed budget primarily due to a technical change in an internal service fund. Operating expenses (excluding contingency) increased from \$291 million to \$297 million. About half of the increase is related to the carry-forward of capital projects begun but not completed in the prior year. Personal services increased by \$700,000 in the benefits category, related to implementing new cost-sharing provisions and eliminating the internal service fund. Total FTE increased by 2.5 which included 1.4 FTE in new grant-funded positions and the extension of one limited duration position for climate change activities. The primary changes are described more completely below.

Councilor Amendments

The Metro Council approved six amendments proposed by its members. The amendments address the six desired regional outcomes, use one-time money for one-time efforts and are intended to inform future budget priorities. The amendments are funded by the General Fund and total \$585,000. They are funded with one-time funding due to structural changes in the Risk Management Fund (\$238,000); redeploying the remaining balance for future election costs set aside in the strategic reserves plan three years ago (\$58,000); and tapping into the FY 2011-12 Opportunity Account for \$289,000, leaving a remaining balance of \$211,000. The Council was very cautious in structuring its amendments to enhance or augment existing work programs, to produce information that would guide Council and stakeholder discussions about future investments and to limit future commitments until funding strategies were clear and reliable.

In summary the amendments include:

- Adding \$170,000 to continue targeted investments through a Development Opportunity Fund, partnering with local jurisdictions and communities. The amendment sets up a clear expectation that projects are intended to enhance or complement existing programs and projects in centers and corridors.
- Adding \$50,000 to implement an eco-efficient business strategy in one or two additional communities where readiness to proceed will be a key determinant in selection.

- Adding \$65,000 for collecting, augmenting and quantifying data related to brownfields; and
- Adding \$65,000 for accumulating, quantifying and organizing data related to small lots and parcels in centers, corridors and employment and industrial areas. Together these two proposals are intended to assist existing staff in producing the current and best available data to aid the Metro Council and stakeholders in indentifying strategies and techniques for overcoming barriers to development. The efforts would focus on the 2040 design types targeted for redevelopment in centers, corridors and employment and industrial areas.
- Adding \$100,000 to initiate planning for a publicly accessible canoe and other motorless watercraft launch on the Tualatin River. The first phase is to conduct the necessary planning and feasibility studies to identify a preferred launch site, to estimate the probable costs for the construction and long-term maintenance and to be positioned to apply for grants and other funding for construction of the launch site.
- Adding \$135,000 to complete a Climate Preparation plan in coordination with state and local partners; provide coordination with external partners as well as within Metro; support other climate change related activities; and prepare recommendations for continuing progress towards regional desired outcome of climate leadership. The amendment funds a 1.0 FTE limited duration staff position (\$110,000) and modest materials and services (\$25,000).

Technical Adjustments

Technical amendments generally reflect changes in currently approved activities that, for a variety of reasons, did not conclude in the prior year as planned. Many technical adjustments reflect the continuation of capital projects delayed by permitting, weather and the availability of construction materials as scheduled. Other non-capital amendments reflect obligations Metro has undertaken contractually for projects or grant awards not yet concluded. Finally, technical amendments may update or correct information that was not available when the budget was proposed. The most significant technical amendments include:

- Implementing the Solid Waste rate ordinance and adding \$445,000 to address rising fuel costs for transporting solid waste from Metro transfer stations to disposal in Arlington. Sharp fuel increases from December to March indicated a need to increase the fuel price assumption in setting the solid waste disposal rates which were proposed in April.
- Adding \$275,000 to recognize additional grant funding from ODOT for HB 2001 climate smart scenarios, including the addition of 1.4 limited duration GIS specialists.
- Carrying forward \$917,000 in all funds for renewal and replacement projects underway but not completed.
- Carrying forward \$1.64 million in new capital projects for MERC venues including the OCC Plaza block development and the Keller Auditorium boiler replacement which must be scheduled around booked events.
- Carrying forward \$127,000 in Development Opportunity Fund projects approved but not yet completed by local partners or vendors.
- Carrying forward \$115,000 for Intertwine activities including final website development for ultimate off-site hosting and final installation of trail signage.
- Recognizing \$642,000 remaining in available but not spent bond proceeds for the Zoo Infrastructure and Animal Welfare projects.

- Carrying forward \$227,000 in agreed upon work for the Community Investment Strategy and Community Investment Initiative.
- Consolidating the General Renewal and Replacement Fund and the Metro Capital Fund into a single General Asset Management Fund. The consolidation of the funds provides greater efficiencies for ongoing management of the General Fund's assets. Within the new fund, separate accounts will allow for the tracking and reporting of renewal and replacement as well as all new capital projects.
- Eliminating \$9.7 million from the Risk Management Fund, an internal service fund, for Health and Welfare premiums paid directly by the operating funds. This is a significant but technical adjustment to reflect direct costs of the operating units, particularly as Metro moves to a different premium cost-sharing strategy with its benefit-eligible employees, and to anticipate requirements of the Health Care Reform Act.

External Review

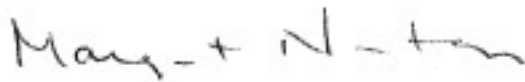
Metro's budget process provides many opportunities for public review. In addition the Tax Supervising and Conservation Commission of Multnomah County conducted a public hearing on June 9, 2011, and certified that Metro has prepared a proper tax levy and budget.

Financial Policies remain a central framework

When the Metro Council adopts the budget, it also reviews and readopts its key financial policies, its capital asset management policies and its investment policies. These policies are the backbone of Metro's financial accountability and transparency. By operating within this framework Metro has demonstrated that it is an admirable steward of the public's financial and physical assets, that it delivers on the promises made to the voters, and that it weighs the risks and benefits of its decisions carefully.

This thoughtful and focused approach has enabled Metro to continue to move itself and the region forward, in spite of the economic climate. We remain mindful that FY 2011-12 will present continuing challenges for performing this budget and for framing the decisions for the next several budgets. At the same time we remain confident that our policy framework and our financial framework work together to produce positive results.

Sincerely,



Margaret Norton

Finance and Regulatory Services Director

July 1, 2011

