

METRO

Transition Savings and Costs

June 2004

A Report by the Office of the Auditor



METRO

PEOPLE PLACES
OPEN SPACES

Alexis Dow, CPA
Metro Auditor



METRO

OFFICE OF THE AUDITOR

June 4, 2004

To The Metro Council and citizens of the Metro region:

In January 2003, Metro's governing structure changed in response to a charter amendment approved by the region's voters in November 2000. The charter amendment eliminated the Office of the Executive Officer, created the Council President position, and reduced the number of Metro Councilors from seven to six. Metro estimated that it would save between \$400,000 and \$500,000 a year once the changes brought about by the charter amendment were carried out.

The Metro Auditor's Office undertook a project to identify the one-time costs and the ongoing savings associated with the transition to the new governance structure. Metro leadership changes in January 2003 occurred simultaneously with the restructuring and our results include the costs and savings associated with the leadership changes.

We estimate that actual savings from the charter amendment are about \$331,000 a year. If the effects of standard salary and wage increases and two unfilled positions are considered, the savings rate could run as much as an estimated \$669,000 annually. One of the positions had been unfilled for approximately two years and the other unfilled for about three months.

One time costs incurred to transition to the new organization structure and leadership change totaled an estimated \$484,000. The accompanying report contains more information about these costs and our approach to this project.

We appreciate the cooperation and assistance provided by Metro departments and staff during this review.

Very truly yours,

A handwritten signature in black ink, appearing to read 'Alexis Dow'. The signature is fluid and cursive, with a long, sweeping underline that extends to the right.

Alexis Dow, CPA
Metro Auditor

Auditor: Douglas U'Ren, CIA

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Background Information

History of the Transition

In January 2003 Metro's governing structure changed in response to a charter amendment approved by voters in November 2000. The charter amendment eliminated the Office of the Executive Officer, created the Council President position, and reduced the number of Metro Councilors from seven to six. The Explanatory Statement accompanying the ballot measure estimated that Metro would save \$400,000 to \$500,000 a year by eliminating duplicate staff positions. Besides streamlining Metro's structure, the charter amendment's purpose was to reduce the level of conflict among Metro's elected officials and unify its communications with the public.

The charter amendment established that the Council President presides over the Council and sets the agenda of the Council subject to rules established by ordinance. The Council President is elected at-large from the entire Metro service area, while the Councilors are elected from separate geographic districts within the Metro region.

Purpose of this Project

The objective of this study was to identify the costs and savings associated with Metro's new governance structure. Since Metro leadership changes in January 2003 occurred at the same time as the charter-driven structural changes, included in the study are the costs and savings of the leadership changes as well.

We attempted to identify all added costs and savings that occurred during the transition period, but not all costs and savings could be quantified. For example, the Council and staff spent considerable time during 2001 and 2002 preparing for the transition to the new governance structure. One task they undertook was revising the Metro Code so that it would be consistent with the newly amended charter. They did not have a system to capture the cost of their labor time to prepare, process and adopt these ordinances, and accordingly we did not attempt to identify these costs. However, we did identify additional costs, such as amounts they paid to outside consultants for transition advice. We identified both the one-time costs and the ongoing savings and costs.

Study Results

The charter amendment has helped Metro save at least \$331,000 a year in labor costs

The Explanatory Statement Metro submitted with the November 2000 ballot measure estimated that Metro would save between \$400,000 and \$500,000 a year if voters approved the charter amendment. We estimate that the savings, based on comparing actual labor costs during December 2003 with December 2002 costs, are about \$331,000 a year. The cost comparison included the areas affected by the transition – the Council Office, the Office of the Executive Officer, and four departments in which Directors and an Assistant Director were replaced. The departments where these management changes occurred were the Oregon Zoo, Finance, Solid Waste and Recycling and Regional Parks and Greenspaces. Table 1, below, summarizes the cost changes:

**Table 1
Actual Labor Savings Brought About by Transition**

Actual December 2002 Labor Costs in Areas Affected, Annualized	\$2,572,800
Actual December 2003 Labor Costs in the Same Metro Areas, Annualized	\$2,241,400
Annual Decrease in Actual Labor Costs	\$331,400 ¹

If the financial effects of two positions that were budgeted but unfilled during December 2002 are considered, the estimated annual savings would be \$502,300. However, one position, an Executive Analyst post in the Executive Office, had remained unfilled since March 2001 – a period of almost two years. The other position was in Public Affairs and had been vacant for about three months. Both of these positions were eliminated when actual implementation of restructuring plans began in January 2003.

The ballot measure estimate of ongoing cost savings was based on the assumption that Metro would eliminate up to eight “duplicate” staff positions. Although action was taken during early 2003 to achieve the promised annual savings rate of \$400,000 to \$500,000 a year, the savings rate diminished as the year proceeded. This was the result of creating

¹ Metro salaries and wages increased about 6.5% during 2003, primarily as a result of cost-of-living adjustments and merit increases. If actual labor costs during December 2002 are adjusted by this percentage, the transition savings per Table 1 would total about \$498,600 instead of \$331,400.

some new positions and paying higher salaries for other positions. For example, Metro's new Chief Operating Officer (COO) earns a base salary of approximately \$147,500 a year. Under the Executive Officer in 2002, the Metro COO earned about \$105,300 annually. Additionally, Metro now has a Director of Public Affairs, a position that didn't exist during 2002. This Director is paid \$90,000 a year. These salaries and related fringe benefit costs are included in Table 1.

**One-time
transition
costs totaled
about
\$484,500**

Table 2 presents the significant "one-time" costs that Metro paid in connection with the change in governance structure as well as the change in agency leadership:

**Table 2
Summary of One-time Transition Costs**

Description	Expenditures
Transition consulting fees	\$96,500
Severance payments made to six Council and Executive Office employees	40,200
Costs to recruit a new Chief Operating Officer	27,000
Severance payments provided to three department directors and an assistant director	282,800
Legal fees	15,000
Cost to remodel Council offices and move Council employees	11,300
Other costs	<u>11,700</u>
Total one-time transition costs	<u>\$484,500</u>

Ballot measure materials provided by Metro did not contain an estimate of one-time costs. Therefore, these costs cannot be compared to a publicly recognized estimate or standard.

Methodology and Limitations

How we performed our work

Costs and savings were identified using a multi-faceted approach. We performed our work by carrying out the following steps:

- We identified management and staff changes by reviewing Metro press releases, Council actions, and other documents starting from the date the charter change was referred to voters (in August 2000) through the end of calendar year 2003.
- We reviewed transition costs and savings as identified by Metro's Chief Operating Officer in a letter he sent the Metro Council in June 2003.
- We performed an in-depth analysis of Metro accounts to identify transition-related expenditures, focusing on the General Fund and Support Fund, but including other funds as well.
- We interviewed a number of Metro managers and staff, including those working for the Council, the Metro Attorney, and the Finance Department.

Limitations

Management did not establish a system to accurately and fully capture transition-related costs as they were being incurred. As a result, some transition costs may not have been identified. However, we believe the approach we used, as described above, enabled us to identify all the significant expenditures and expenditure changes.

The potential for cost savings was only one element of the 2002 Metro charter amendment. The amendment was primarily aimed at clarifying Metro's roles and decision-making processes, making them more efficient, and reducing some of the conflicts that occurred when the Metro Council and the Office of the Executive Officer existed together. It was beyond the scope of this review to identify or evaluate the non-financial benefits and drawbacks of Metro's new organizational structure.



Metro Auditor Report Evaluation Form

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Your feedback helps us do a better job. If you would please take a few minutes to fill out the following information for us, it will help us assess and improve our work.



Name of Audit Report: Transition Savings and Costs

Please rate the following elements of this report by checking the appropriate box.

	Too Little	Just Right	Too Much
Background Information	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Details	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Length of Report	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Clarity of Writing	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Potential Impact	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Suggestions for our report format: _____

Suggestions for future studies: _____

Other comments, ideas, thoughts: _____

Name (optional): _____

Thanks for taking the time to help us.

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Metro

People places • open spaces

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 24 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.

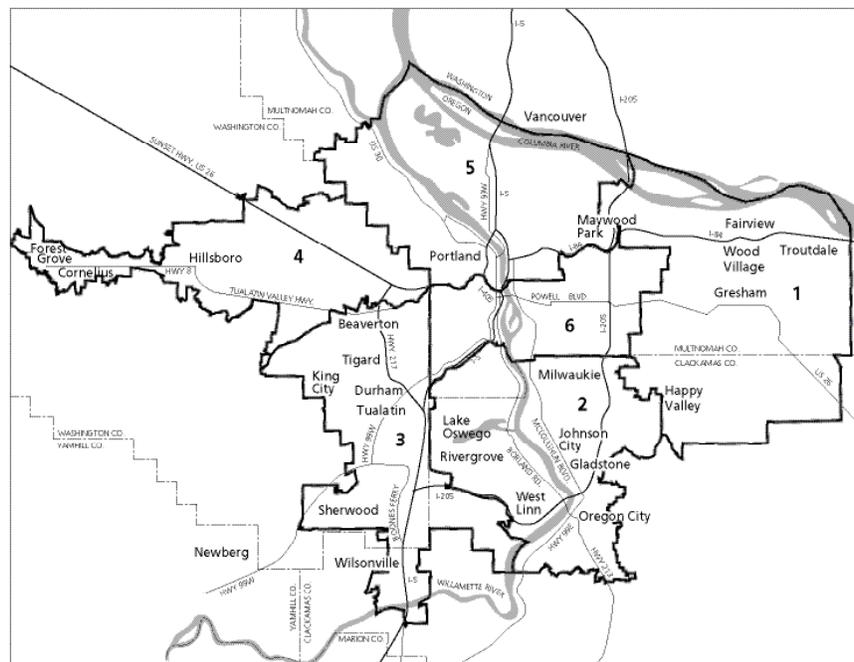
Your Metro representatives

Metro Council President – David Bragdon

Metro Councilors – Rod Park, deputy council president, District 1; Brian Newman, District 2; Carl Hosticka, District 3; Susan McLain, District 4; Rex Burkholder, District 5; Rod Monroe, District 6.

Auditor – Alexis Dow, CPA

Web site: www.metro-region.org



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