

METRO

Metro's Financial Trends
1993-2000

July 2001

A Report by the Office of the Auditor



METRO

2001-10771-AUD

Alexis Dow, CPA
Metro Auditor



METRO

Office of the Auditor

July 6, 2001

To the Metro Council, Executive Officer and Metropolitan Exposition-Recreation Commission:

This is our second report on financial trends at Metro. Like our 1998 financial trends report, we prepared this report to provide more easily understood information on Metro's financial condition. This report uses data from 1993 through 2000 and focuses on individual operating funds in order to illustrate the distinct features of Metro's operations and how the outlook for programmatic activities (such as transportation planning) can be quite different from the outlook for enterprise activities (such as MERC operations).

The various funds Metro uses provide a logical way to separate Metro's activities for individual analysis. By examining the funds, we are able to demonstrate both the unique and common elements of Metro's different operations. We selected six funds for review and analysis: the General Fund, the Planning Fund, the Regional Parks Fund, the MERC Operating Fund, the Zoo Operating Fund, and the Solid Waste Revenue Fund. We selected the General, Planning, and Regional Parks Funds because, taken together, they consume the majority of the discretionary revenue Metro spends each year. We selected the other three funds – MERC Operating,

Zoo Operating, and Solid Waste Revenue – because they are expected to cover a significant portion (or all) of their costs through user charges. These three funds are also the largest operating funds at Metro – accounting for about 40 percent of Metro fund balances.

We sincerely appreciate the cooperation and assistance we received from Metro's Financial Planning staff as we conducted 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 tail on the final letter.

Alexis Dow, CPA
Metro Auditor

Auditor: Mark Ulanowicz

Executive Summary

Metro accounts for the finances of its various departments separately by establishing individual accounting entities known as funds. While separate, these funds are also linked in important ways. For example, nearly all the activities of the Metro Executive and Council are paid for by an excise tax raised on the sale of goods and services by other Metro departments. The various funds Metro uses provide a logical way to separate Metro's activities for individual analysis. We selected six funds for review and analysis: the General Fund, the Planning Fund, the Regional Parks Fund, the MERC Operating Fund, the Zoo Operating Fund and the Solid Waste Revenue Fund. We selected the General, Planning and Regional Parks funds because, taken together, they consume the majority of the discretionary revenue Metro spends each year. Moreover, these funds support Metro activities that are least able to support themselves through user charges – activities such as growth management. We selected the other three funds – MERC Operating, Zoo Operating and Solid Waste Revenue – because they are expected to cover a significant portion (or all) of their costs through user charges. These three funds are also the largest operating funds at Metro – accounting for about 40 percent of Metro fund balances.

Our analysis of these funds yielded the following observations:

- With excise tax revenue relatively flat and demand for General Fund transfers increasing, Metro is facing some difficult choices. Unless additional sources of revenue can be tapped, departments like Parks and Growth Management, that are heavily dependent on transfers from the General Fund, may be forced to cut back programs as competing demands arise.
- Reclassifying the funding of positions, as was done in fiscal year 2000, provided some short-term relief for the General Fund, but this sort of “rearranging the furniture” puts additional pressure on other departments.
- Metro's operational needs continue to evolve. Ensuring a stable source of funding for Charter mandated activities that is consistent with Metro's mission and that keeps pace with this evolution is an ongoing challenge. Metro took a step in this direction when it restructured the excise tax charged on solid waste processed in the Region from a percentage of the fee to a flat rate per ton. By making this change, Metro can pass solid waste processing savings onto consumers in the form of lower fees, without affecting excise tax revenue.
- Metro currently does not have a policy regarding the overall level of fund balances or the level of specific reserves within fund balances. The Government Financial Officers Association (GFOA) recommends that state and local governments develop these policies to address matters such as temporary cash flow shortages, emergencies and one-time events. A commonly used guideline is a fund balance equal to 90 days of operating expenses, but this guideline can be modified to accommodate the uniqueness of individual fund requirements.

Introduction and Background

Metro has a wide range of responsibilities. It is organized into departments and the Metropolitan Exposition-Recreation Commission (MERC), with each component responsible for fulfilling its part of the overall mission. Funding for Metro's departments come from a variety of sources. Some departmental responsibilities – like solid waste processing – are funded entirely through user charges, while others – such as growth management planning – rely on resources raised through Metro's taxing authority and grants.

The Government Accounting Standards Board (GASB) established the framework with which Metro accounts for its activities. In line with this framework, Metro accounts for the finances of its various departments separately by establishing individual accounting entities known as funds. In some cases, the activities of more than one department are combined into a single fund.¹ The GASB framework reflects the boundaries set in policy and law regarding the way money within funds can be spent or moved from one fund to another. For example, Metro cannot use the money it makes selling recycled latex paint to pay for elephant food at the Oregon Zoo. While separate, these funds are also linked in important ways. For example, nearly all the activities of the Metro Executive and Council are paid for by an excise tax raised on the sales of good and services by other Metro departments. Metro uses three types of funds in the accounting of its activities.

- Metro currently uses *governmental funds* to account for its government-type activities. There are four types of governmental funds: general funds, special revenue funds, debt service funds and capital project funds. Metro's General Fund is a "catch-all" fund designed to include activities that there is no compelling reason to separate. The Planning, Regional Parks and Zoo Operating funds are *special revenue funds* because they include sources of revenue that are legally or otherwise restricted to specific uses other than debt service or capital projects. Metro's General Obligation Bond Debt Service Fund is a *debt service fund*, and the Zoo Capital Fund and the Open Spaces Fund are *capital project funds*.
- To account for its business type activities, Metro uses *proprietary funds*. There are two types of proprietary funds: enterprise funds and internal service funds. The Solid Waste and MERC² funds are *enterprise funds*, where the intent is that costs of providing goods and services will be recovered primarily by user charges (also called enterprise revenue). The Building Management, Risk Management and Support Services funds, are *internal service funds* created to account for the cost of centralized services such as human resources.
- To account for the financial resources Metro holds as an agent or in a fiduciary capacity, Metro uses the following *fiduciary funds*: the Rehabilitation and Enhancement Fund, the Smith

¹ For example, the accounting for the Growth Management Services and Transportation Departments' financial activities are combined in the Planning Fund. In FY 2002 these two departments merged as the Planning Department.

² The MERC Fund is made up of four individual budgetary funds, each with a specific purpose: the MERC Operating Fund, the Convention Center Project Capital Fund, the MERC Pooled Capital Fund, and the General Revenue Bond Fund-Expo.

and Bybee Lakes Trust Fund, the Regional Parks Trust Fund and the Deferred Compensation Fund.

Each year, Metro produces two documents that are the primary source of financial information regarding the individual funds: the comprehensive annual financial report (CAFR) and the Metro budget. In short, the CAFR provides traditional accounting data for each fund for activities in the previous year, and the budget document reports audited figures for the previous two years as well as budget figures for the current and upcoming years.³

Objectives, Scope and Methodology

The CAFR and Metro budget provide information on the financial condition of Metro as a whole and condition of individual funds, along with an outlook for the coming year. However, the two documents do not provide much historical trend information. Moreover, both documents are lengthy – the CAFR contains more than 100 pages of tables and text, and the Metro budget comprises two volumes and a total of nearly 600 pages – and are not necessarily easy to understand for readers not familiar with financial statements and budgets.

Like our 1998 financial trends report, we prepared this report to provide more easily understood information on Metro's financial condition.⁴ This report differs from our previous work in the way the data were compiled and the period of time covered. The 1998

report contained trend data and analysis that was largely aggregated for Metro as a whole from 1993 through 1997. This report uses data from 1993 through 2000 and focuses on individual operating funds in order to illustrate the distinct features of Metro's operations and how the outlook for programmatic activities (such as transportation planning) can be quite different from the outlook for enterprise activities (such as MERC operations).

The various funds Metro uses also provide a logical way to separate Metro's activities for individual analysis. Metro uses 18 funds to account for its activities. We selected six funds for review and analysis: the General Fund, the Planning Fund, the Regional Parks Fund, the MERC Operating Fund, the Zoo Operating Fund and the Solid Waste Revenue Fund. We selected the General, Planning and Regional Parks funds because, taken together, they consume the majority of the discretionary revenue Metro spends each year. Moreover, these funds support Metro activities that are least able to support themselves through user charges – activities such as growth management. We selected the other three funds – MERC Operating, Zoo Operating and Solid Waste Revenue – because they are expected to cover a significant portion (or all) of their costs through user charges. These three funds are also the largest operating funds at Metro – accounting for about 40 percent of Metro fund balances. We excluded the other funds from this analysis largely because they serve a very limited function – such as the Risk Management Fund, which accounts for costs related to health liability, workman's compensation and unemployment insurance.⁵

³ Financial results are reported using both generally accepted accounting principles (GAAP) and a modified accrual basis in accordance with Oregon Local Budget Law.

⁴ See [Metro's Financial Trends 1993 - 1997](#), September 28, 1998, Office of the Metro Auditor

⁵ Funds that we did not include in the analysis include: Building Management, Convention Center Capital, General Obligation Bond Debt Service, General Revenue Bond, Open Spaces, Regional Parks Trust, Rehabilitation and Enhancement, Risk Management, Smith and Bybee Lakes Trust, Support Services, and Zoo Capital.

In performing this trend analysis, we used CAFR data from 1993 through 2000 along with consumer price index and population data for the Portland Metro area for the same time period. We concentrated on operating revenues, expenditures and interfund transfers in order to minimize the effect of large one-time events. For example, in 1993, the Solid Waste Revenue Fund recorded nearly \$26 million in pass-through debt service receipts (as revenue) and an offsetting amount in debt service expenditures. By removing the very large one-time figures, the trends in total revenue and expenditures were consistent with those in the studied years. In order to eliminate the effect of inflation on the trends, we also reported all our figures in constant (1993) dollars. We also tried to be consistent from year to year as individual line items changed names after reorganizations, but it is not possible to ensure that each line item includes identical components from one year to the next.

We also reviewed the figures that went into developing these graphs with Metro's Financial Planning Division staff to ensure that we captured and analyzed the data in a consistent manner. The finance staff provided additional information that allowed us to separate Expo Center revenue and expenses from what had been the Regional Parks and Expo Fund from 1993 up to and including 1997. This allowed us to present eight years of Regional Parks Fund data. To provide eight years of MERC Operating Fund data, the finance staff also combined the four funds that (together) became the MERC Operating Fund in 1998.

We performed this work between February and June 2001, according to generally accepted government auditing standards.

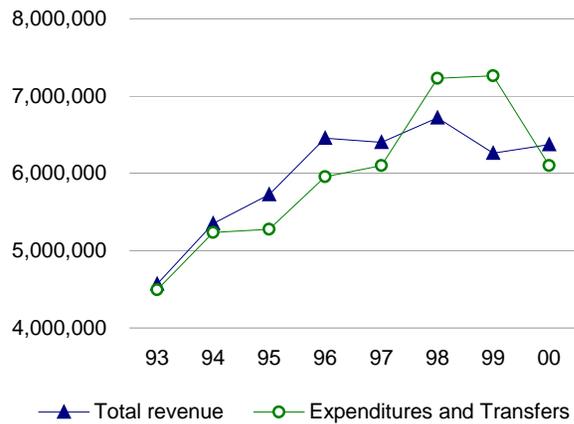
General Fund

Overview

The General Fund is the mechanism by which Metro accounts for its general government functions. Money comes into the General Fund primarily from an excise tax paid when goods and services are purchased from Metro. The majority of the excise tax revenue comes from Metro's solid waste processing activities. Money goes out of the General Fund to pay the expenses of the Executive Officer, the Metro Council and their staffs as well as the Public Affairs, Government Relations and Communications departments.⁶ General Fund money is also transferred to other Metro funds to pay for [Metro Charter](#) authorized activities that are not supported by user charges and other revenue, such as grants. Some examples of the Charter authorized activities supported by the General Fund include regional growth and transportation planning, and the operation and maintenance of parks and open spaces.

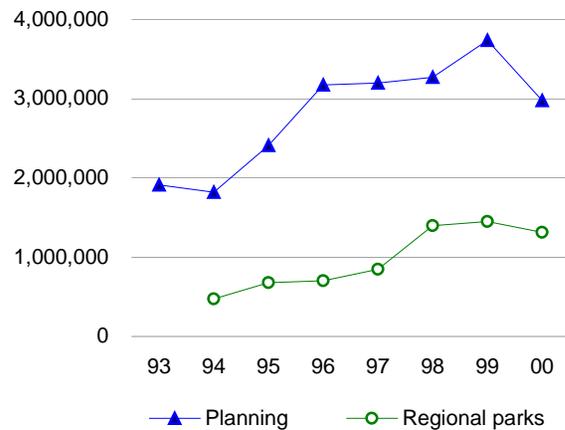
⁶ Special appropriations, such as elections, also come from the General Fund.

General Fund Revenues and Expenditures and Transfers



- General Fund revenue is made up almost entirely of excise tax receipts. The excise tax is Metro's only agency-wide discretionary revenue source. Metro collects excise tax on all the revenue it generates (with the exception of revenue collected at Civic Stadium and the Performing Arts Center).⁷
- Metro's solid waste processing generates about 75 percent of the excise tax revenue. After growing steadily, excise tax revenue has declined slightly in constant dollars since 1998. In an attempt to make excise tax revenue more stable, the Metro Council changed the structure of the solid waste excise tax for FY 2001 from an 8.5 percent rate to a flat rate per ton of solid waste processed.
- From 1993 until 1998 expenditures and transfers out of the General Fund grew at an annual rate of nearly 10 percent, while revenue growth lagged nearly 2 percentage points behind.
- General Fund revenue has trended slightly downward in constant dollar terms since 1996, which has led to a flattening in transfers from the General Fund to other program funds, such as the Planning and Parks funds.

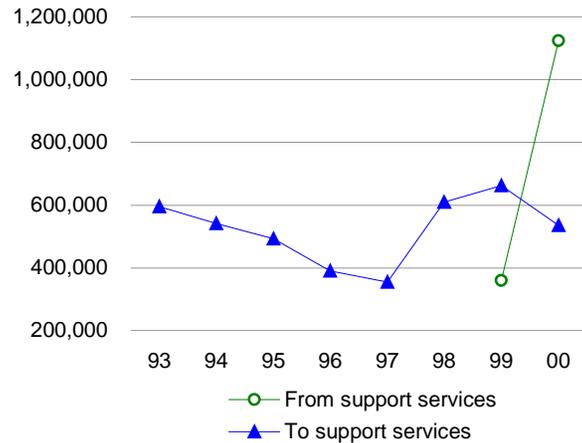
Transfers Out of General Fund



- General Fund transfers to the Planning and Regional Parks funds have essentially been flat or declined in constant dollar terms over the last several years, after a period of increases.

⁷ These facilities are managed by MERC and owned by the City of Portland. Revenue generated at the facilities is exempt from the excise tax. On July 1, 2000, management of Civic Stadium was transferred back to the City of Portland.

General Fund Transfers to and from Support Services Fund



- Net transfers to the Support Services Fund changed 195 percent from 1998 to 2000 (from a transfer *out* of the General Fund of about \$600 thousand in FY 1998 to a net transfer *into* the General Fund of about \$600 thousand in FY 2000). This sharp turnaround occurred largely due to reclassifying positions within Metro.

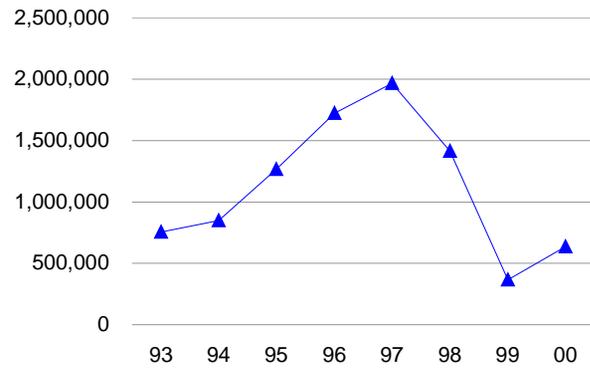
The first change took place in FY 1999 when the Offices of Public Outreach, Public Affairs and Government Relations were moved from the Support Services Fund to the General Fund.⁸ Prior to the move, Metro departments contributed to the Support Services Fund to pay for these positions. After the move, the user departments continued to transfer money to the Support Services Fund for these positions, but instead of it staying there, the money was passed along to the General Fund.

The second, and more significant, change occurred in FY 2000, when six positions were transferred from Metro departments to Council and the Executive.⁹ Prior to the transfer, these positions were budgeted to be paid for with excise tax revenue from the General Fund. After the transfer, the positions were reclassified and budgeted for out of the Support Services Fund. The effect of this change was to further increase the amount of money transferred from the Support Services Fund to the General Fund. More significantly, this change spread the cost of these positions to all Metro departments, which freed up excise tax revenue for other purposes.

⁸ Metro accounts for its central administrative and business support functions through the Support Services Fund. Metro departments transfer money into the Fund to pay for these services according to their usage and the benefits they receive according to a cost allocation formula.

⁹ When these positions were transferred, staff members occupied the two that went to the Executive; the four that went to the Council were initially vacant. Three of the four positions transferred to the Council were subsequently filled.

General Fund Balance



- In 2000, the General Fund balance rebounded from an 80 percent decline over the prior two years. The General Fund rebounded from operating at about \$1 million in the red in FY 1999 to nearly \$300 thousand in the black in FY 2000. About half this rebound was the result of the increase in transfers *from* the Support Services Fund, and the other half came from a decrease in transfers *to* the Planning and Parks funds.

MERC Operating Fund

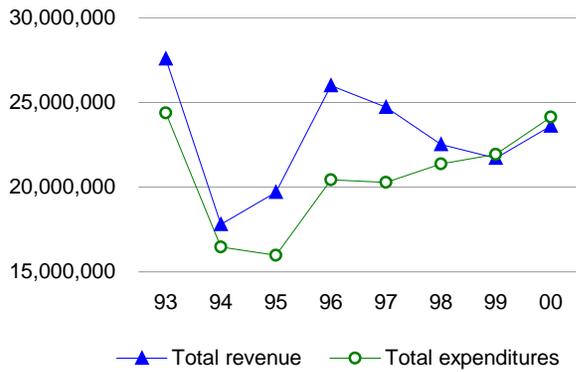
Overview

The Metro Exposition-Recreation Commission (MERC) Operating Fund holds the operating revenues and expenditures associated with the Oregon Convention Center (OCC), the Portland Metropolitan Exposition Center (Expo), the Portland Center for the Performing Arts (PCPA) and Civic Stadium.¹⁰ The MERC Operating Fund was created in FY 1998 by combining the Oregon Convention Center Operating Fund, the Spectator Facilities Fund, the MERC Administration Fund and the Expo portion of the Regional Parks and Expo Fund.

Money comes into the fund in the form of user charges related to the operation of the MERC facilities – such as convention center rentals and food service sales. The MERC operating fund also receives money from other governments – such as Multnomah County via its lodging tax – to support Convention Center operations. Money goes out of the fund to pay for MERC operating expenses and construction.

¹⁰ Metro owns OCC and Expo. Metro managed Civic Stadium until July 1, 2000 and still manages PCPA through an intergovernmental agreement with its owner, the City of Portland.

MERC Operating Fund Revenues and Expenditures

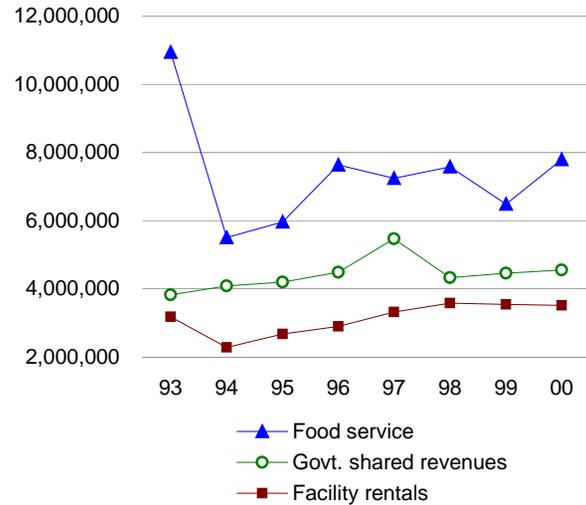


- MERC Operating Fund expenditures have risen in constant dollar terms (about 6.5 percent per year) since 1994.¹¹ While total revenue has exceeded total expenditures for most of the years since 1993, they have grown more slowly than expenditures at a rate of about 5 percent per year.¹²

¹¹ Both revenue and expenditures dropped sharply from FY 1993 to FY 1994 when Metro transferred Memorial Coliseum operations back to the City of Portland.

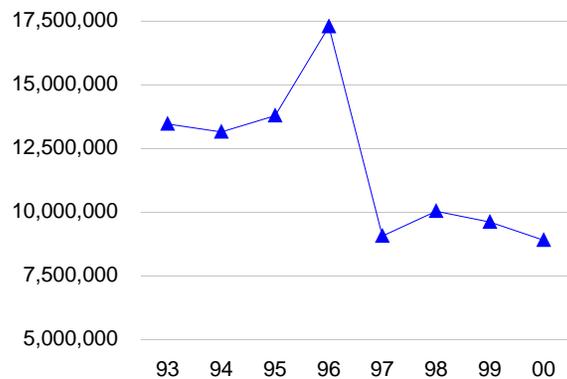
¹² The trend line for total expenditures does not include a large one-time capital outlay (about \$12 million) used to fund the Expo Center Exhibit Hall E project.

MERC Operating Fund Primary Sources of Revenue



- The primary sources of MERC Operating Fund revenue are enterprise revenues – such as rental, food service/catering and parking fees.¹³ The primary source of governmental shared revenue is the Multnomah County hotel/motel lodging tax passed through to MERC in support of the Convention Center and PCPA.
- Metro has seen relatively steady growth in food service (about 6 percent per year) and rental revenue (about 7.5 percent per year) since 1994. Rental revenue has trended downward slightly since 1998, and Metro expects this trend to continue as a result of Convention Center construction. Once the Convention Center expansion is complete, Metro expects to see rental revenue increase.

MERC Operating Fund Ending Fund Balance



- The MERC Operating Fund balance has declined in constant dollar terms since 1993. The large drop in 1997 was due to capital outlay for the Exhibit Hall E project, and the decline from 1998 to 2000 was due in part to debt service associated with the replacement of Exhibit Hall D.

¹³ The large drop in food service revenue from 1993 to 1994 resulted from the transfer of Memorial Coliseum back to the City of Portland.

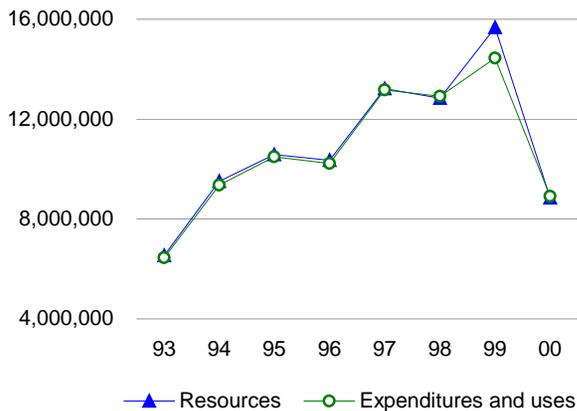
Planning Fund

Overview

Metro's growth management and transportation planning activities are accounted for out of Metro's Planning Fund. About one-third of the money coming into the Planning Fund comes from the General Fund, while around 55 percent comes from federal, state and local grants. The remaining revenue comes from payments for services from other Metro departments and enterprise revenue from the Data Resource Center – which provides mapping, analysis and forecasting services to other governments and the general public. Money goes out of the Planning Fund to pay for the activities of the Growth Management and Transportation departments. These activities include Charter authorized urban growth and land-use planning (such as the [2040 Framework](#)) and compliance with federal transportation planning requirements.¹⁴

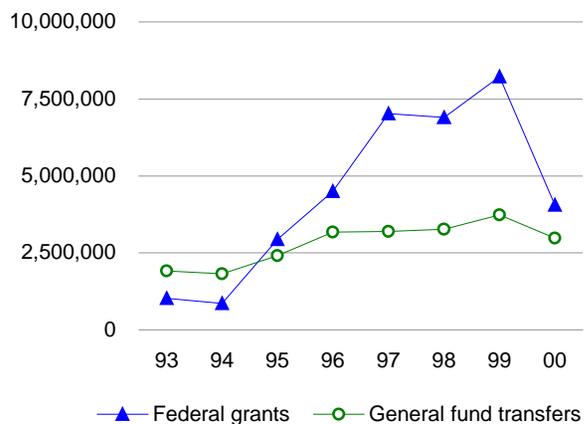
¹⁴ Metro serves as the federally designated *metropolitan planning organization* for transportation planning in the Portland metropolitan area. The transportation department maintains the [2000 Regional Transportation Plan](#), in order to comply with federal law.

Planning Fund Resources and Expenditures



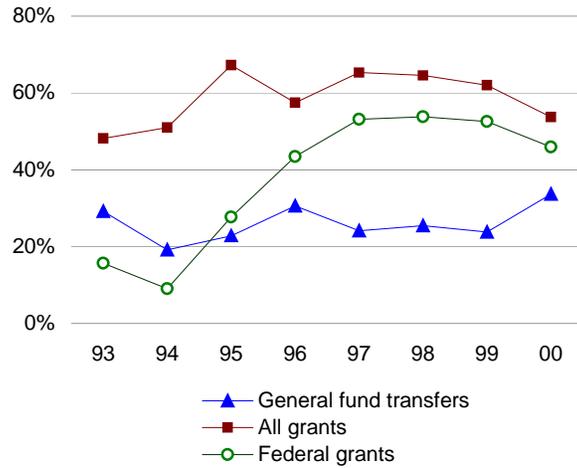
- Planning Fund expenditures are project-driven and have closely tracked resources. For example, spending for material and services and personnel fell 44 percent from FY 1999 to FY 2000 as federal grants and General Fund transfers fell about 50 percent and 20 percent, respectively, during the same time.

Primary Source of Planning Fund Resources



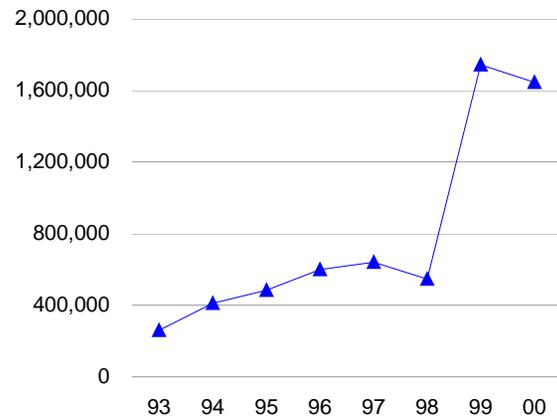
- The Planning Fund depends on grants and General Fund transfers for the majority of its resources, with the transportation department receiving about 95 percent of the grant funding. Both these sources of revenue trended down in 2000. Federal grants rose at an annual rate of about 40 percent from 1993 to 1999 before falling nearly 50 percent for 2000. General Fund transfers into the Planning Fund had risen about 12 percent per year from 1993 to 1999 and then fell about 20 percent in 2000.
- Transfers from the General Fund are particularly important to the growth management department, because these transfers fund approximately 60 percent of growth management activities.
- Grants can provide an important source of revenue, but are only a good substitute for excise tax revenue (transferred from the General Fund) to the extent that grant requirements and goals are consistent with Metro's mission.

Grants and General Fund Transfers as a Percent of Total Planning Fund Resources



- Federal grants make up the majority of the Planning Fund's grant revenue. The sharp decline in grant funding has effectively increased the importance of General Fund transfers (in terms of their share of total fund resources), even though the amounts of these transfers have declined as well. With a change in the federal administration, it is possible that the focus and level of this funding will change as well. Should federal grant funding decline further, it is unlikely that the difference will be made up by state and local grants, as these governments also rely (in part) on federal funding for planning activities and are facing funding difficulties of their own.

Planning Fund Ending Balance



- The Planning Fund balance is project specific – it generally serves as a temporary storage vehicle for unspent project funds. The increase in the fund balance in 1999 is associated with activity in the Transit-Oriented Development Program (TOD).¹⁵

¹⁵ For more information about TOD, see [Transit-Oriented Development: Improving accountability through Enhanced Measure of Service Efforts and Accomplishments](#), Metro Auditor, March 2001.

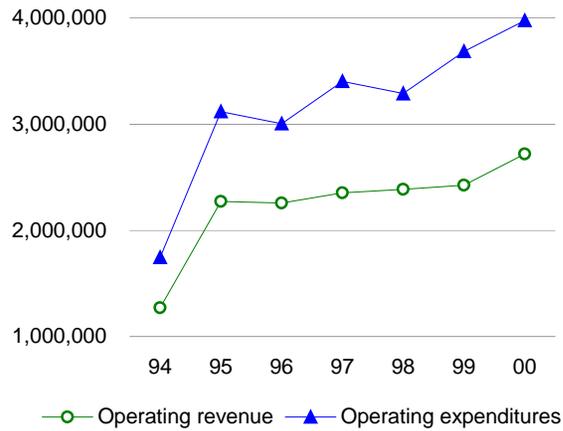
Regional Parks Fund

Overview

The Regional Parks Fund has been in its current form since the FY 1998. Prior to that, it was called the Regional Parks and Expo Fund and was created to account for the parks, property and other assets transferred to Metro by Multnomah County. Currently, the Fund covers the financial activities involving the regional parks, Glendoveer Golf Course, Metro's marine facilities, the Pioneer cemeteries and the Metro Open Spaces landbanked properties. Money comes into the Fund via transfers from the General and Open Spaces funds, user fees, shared revenue from other local governments and donations. Money goes out of the Fund to pay the expenses related to maintaining and operating the parks and greenspaces and to pay for capital improvements related to the local share portion of the [Open Spaces Program](#).¹⁶

¹⁶ Multnomah County is entitled to a portion of the local share portion of the Open Spaces bond measure passed in 1995 for capital improvements at County parks. Metro manages Multnomah County's portion of [Local Share Program](#) funds. Also see [Open Spaces Acquisitions](#), Metro Auditor, June 2000.

Parks Fund Operating Revenue and Expenditures

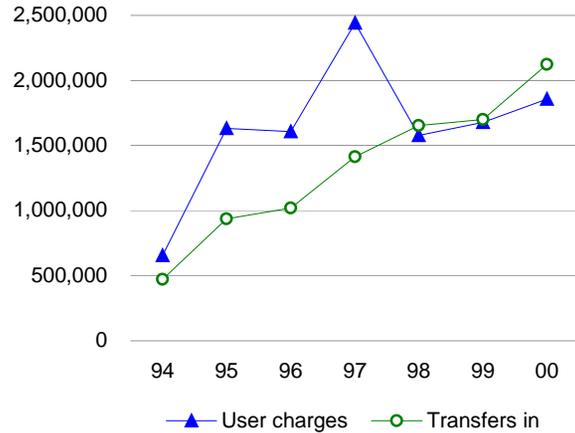


- Since 1998, Parks Fund operating expenditures have grown about 9 percent per year faster than operating revenue.¹⁷ This trend is particularly problematic, since General Fund transfers that had been making up part of the difference are now declining.
- Landbanking costs associated with the Open Spaces Program are proving to be higher than anticipated.¹⁸ At the same time, rental income from Open Space Property has been higher than expected, which has mitigated some of the effect of the high costs. However, until all the land is purchased and stabilized, it will not be clear how much it costs to maintain the land, but the trend appears to be negative.

¹⁷ To calculate operating revenue and expenditures for the Parks Fund, we removed the capital costs and related grant revenue associated with the Local Share Program from the expenditure and revenue figures. We also added the transfers out of the Parks Fund to cover administrative overhead to the expenditure totals.

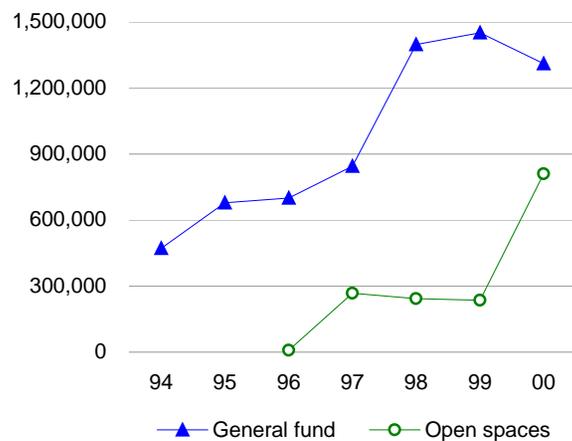
¹⁸ When all the property has been purchased, Metro will be responsible for maintaining an estimated 7,000 acres. In 1994 Metro estimated that maintenance of the land would cost about \$83 per acre. Current estimates, reflecting inflation and a better understanding of costs, are \$124 per acre.

Primary Sources of Parks Fund Resources



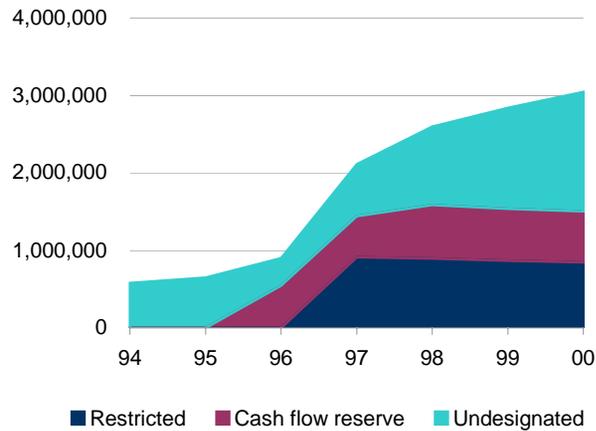
- The primary sources of revenue for the Parks Fund are user charges and transfers from other funds. Revenues earned through operation of the Glendoveer Golf Course and fees for the use of park facilities make up the majority of the revenue from user charges.
- In 1997, the transfer of parks and other property from Multnomah County to Metro was completed. When the transfer was completed, Metro billed the County for the balance of the Multnomah County Natural Areas Acquisition and Protection Fund. Metro saw a one-time increase in operating revenue of nearly \$1 million as a result of this charge. Under the transfer agreement, this money was to be used for the sole purpose of maintaining, improving or operating parks and cemetery facilities transferred to Metro by the County.

Parks Fund Transfers In



- General Fund transfers fell 8 percent in 2000 and are scheduled to decline another 10 percent for 2001. General Fund transfers support the [Greenspaces Master Plan](#) and the parks portion of the [Regional Framework Plan](#), as well as landbanking operations, maintenance and regional parks operations support.
- Transfers from the Open Spaces fund grew about 240 percent in 2000. Resources coming from the Open Spaces Fund pay for capital improvements associated with Multnomah County's portion of local share funding for the Open Spaces Program. As such, these funds cannot be used in support of Metro's other parks related programmatic goals.

Parks Fund Ending Balance



- The Parks Fund ending balance has grown steadily over the last three years (in constant dollar terms). The fund balance increase is the result of several factors, including better than expected revenue for properties where weather plays a key role (such as Glendoveer Golf Course) and unexpected rental revenue from open spaces purchases. Looking ahead, the trend of increases in the fund balance is not expected to continue. Budgeted General Fund transfers are declining, operating revenue projections are flat, salaries and indirect costs are rising and costs associated with open spaces landbanking activities are proving to be higher than originally estimated. Moreover, Metro decided to maintain rather than eliminate programs.
- According to Metro's FY 2001 budget, the gap between current revenue and expenditure trends will result in the elimination of all but the restricted portion of the fund balance in three years. The Metro Council established the restricted portion of the fund balance in 1997 for improvements to the former Multnomah County properties that have a capacity to provide cash flow to replace the capital invested.

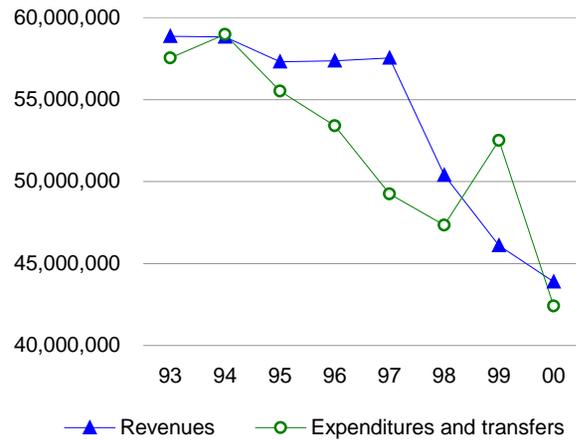
Solid Waste Revenue Fund

Overview

Metro's solid waste processing is managed by the Regional Environmental Management Department (REM) and funded almost exclusively by user charges through the Solid Waste Revenue Fund. Metro operates two transfer stations where waste is collected and contracts with private facilities for the collection of the remainder of the region's waste. REM also operates Metro's two hazardous waste disposal facilities and a latex paint recycling facility.

Money comes into the Solid Waste Revenue Fund primarily from a variety of user charges. Metro currently collects fees for solid waste disposed of at Metro transfer stations and other licensed facilities in the region. Other revenue comes from operations such as disposing of tires and yard debris, as well as recycling and selling latex paint. These operations account for about 7 percent of total revenue.

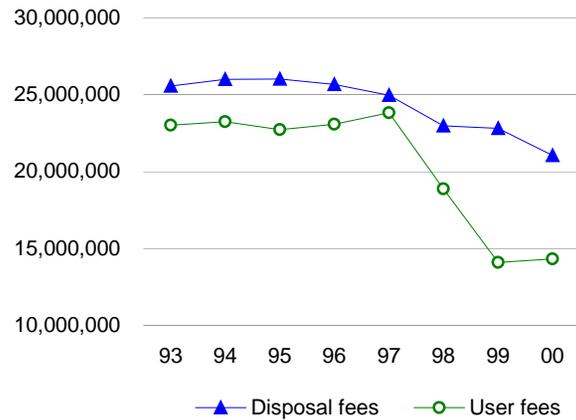
Solid Waste Revenues and Expenditures and Transfers



- Since 1993, Solid Waste Revenue Fund expenditures and revenues have declined at roughly the same rate (4.3 percent per year for expenditures and 4.1 percent per year for revenue) in constant dollars. With the exception of 1999, where Metro made a large payment (more than \$6.6 million) to buy down the per-ton rate it pays for hauling solid waste to the landfills, revenues have also been higher than expenditures.¹⁹
- The decline in both expenditures and revenue is due at least in part to a reduction in the cost of processing solid waste and the associated reduction in the fees Metro charges, rather than a decline in the amount of solid waste being processed. Solid waste processed has increased about 3 percent per year since 1993.
- While Solid Waste Revenue Fund expenditures have been kept in line with revenues, the decline in revenue has been significant because it is directly associated with the decline in excise tax revenue (about 75 percent of the General Fund revenue is derived from an excise tax on solid waste processing). With the recent change in the way the excise tax is levied on solid waste processing (from a percentage of the fees collected to a flat tax per ton of waste processed), excise tax generated through solid waste processing should become more stable.

¹⁹ The revenue and expense/transfer figures do not include \$25,900,757 in pass-through debt receipts (revenue) and the same amount of debt service payments (expense) in 1993 and \$12,374,562 in bond proceeds (transfers into the fund) and debt service payments in 1994. While these transactions represent important fund activities, their size and unique nature skew the overall operating revenue and expense/transfer trend.

Primary Sources of Solid Waste Fund Revenue

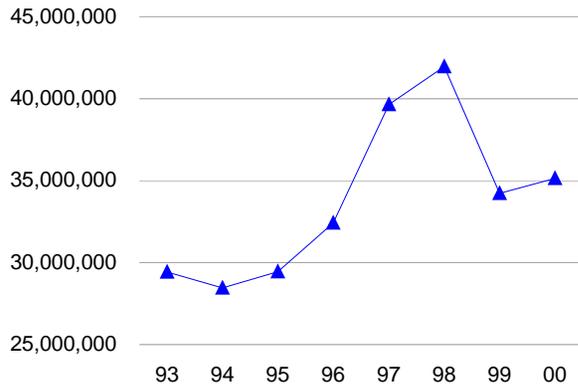


- The primary sources of revenue for the Solid Waste Revenue Fund have trended down in constant dollars since 1993, with disposal fees²⁰ declining about 3 percent per year. User fee²¹ revenues fell sharply from 1997 to 1999 – primarily because these fees were reduced.

²⁰ Disposal fees are charged for solid waste processed at Metro transfer stations. The fees cover the cost of disposing and transporting the waste from the stations.

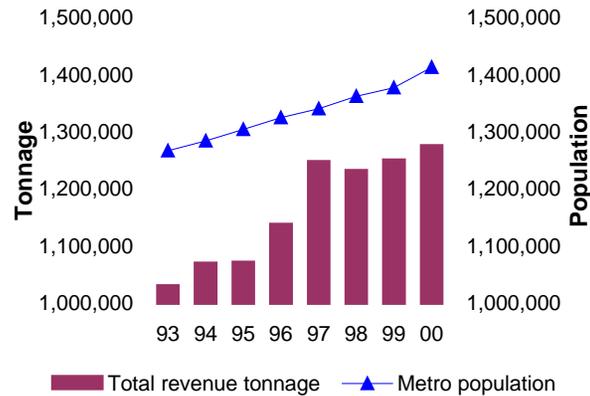
²¹ The regional system fee represents more than 90 percent of the "user fees" Metro reports in its financial statements. The system fee is charged on all waste processed in the region (either at transfer stations or licensed contractors) and is designed to recover the administrative and fixed costs, facility operations, debt service, and capital improvement costs for the entire regional solid waste system.

Solid Waste Enterprise Fund Balance



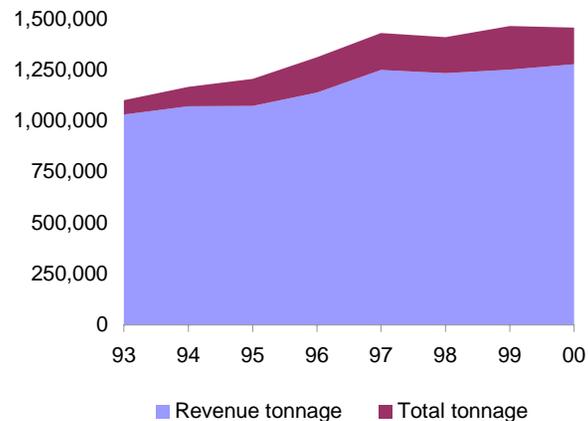
- With the exception of 1999, the Solid Waste Enterprise Fund has grown steadily since 1993 in constant dollar terms. The drop in the Fund balance in 1999 was due to the reduction in the regional system fee and the \$6.6 million prepayment to buy-down future waste hauling fees. The effect of the fee reduction was to transfer a portion of the fund balance back to consumers, as it was clear looking at the upward trend that the fees more than covered costs.
- Even with the reduced system fee, the fund balance rebounded in 2000, as Metro took advantage of the lower rate it negotiated for the transfer of solid waste to the region's landfills.
- Approximately 19 percent of the fund has been reserved by the Metro Council to dampen the effect of changes in the basis for some fees. Another 22 percent of the balance is legally restricted to debt service and capital reserves.

Revenue Generating Solid Waste Tonnage and Metro Population



- The level of solid waste processed has risen nearly every year, although not as fast as Metro's population.
- The significant growth in the amount of solid waste processed from 1995 to 1997 was largely the result of (1) the strength of the local economy and (2) the reclassification of some waste by the Environmental Protection Agency (EPA), which allowed for additional waste to be disposed of at landfills rather than hazardous waste sites.²²
- Metro's most recent forecast projects about a 1 percent increase in tonnage each year – a decrease from previous 3 percent annual increases. The slowing growth in solid waste tonnage is at least partially caused by the slowing economy as well as the success of Metro's recycling/recovery program. Although growth in the recycling/recovery rate has stalled at about 43 percent, the overall rate has grown nearly 15 percent from 1993.

Solid Waste Tonnage Processed by Fiscal Year



- Total solid waste tonnage within Metro has grown at a faster rate (about 4 percent growth per year) than revenue producing tonnage (about 3 percent growth per year) from 1993 to 2000.
- Metro does not charge for disposal of some solid waste – non-revenue tonnage – when it benefits the region. For example, charging for the disposal of oil contaminated soil might be a disincentive to dispose of the soil properly.

²² Prior to EPA's reclassification, Metro had not been processing this waste.

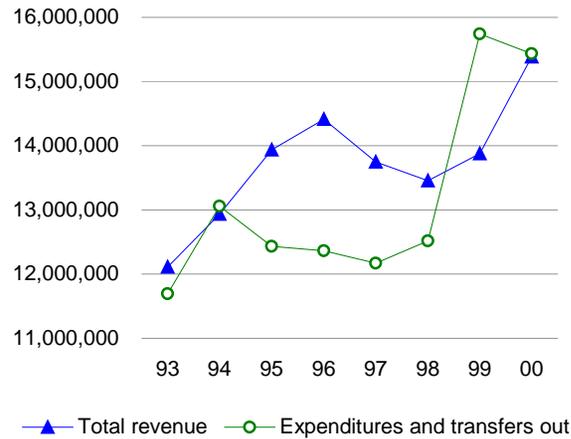
Zoo Operating Fund

Overview

Most of the financial activities of the Oregon Zoo are accounted for with Metro's Zoo Operating Fund.²³ Money comes into the Zoo Operating Fund from enterprise activities (such as Zoo admissions, concessions and catering) as well as property tax revenue. Money goes out of the fund to pay for Zoo operating expenses and (via transfers to the Zoo Capital Fund) for capital improvement projects.

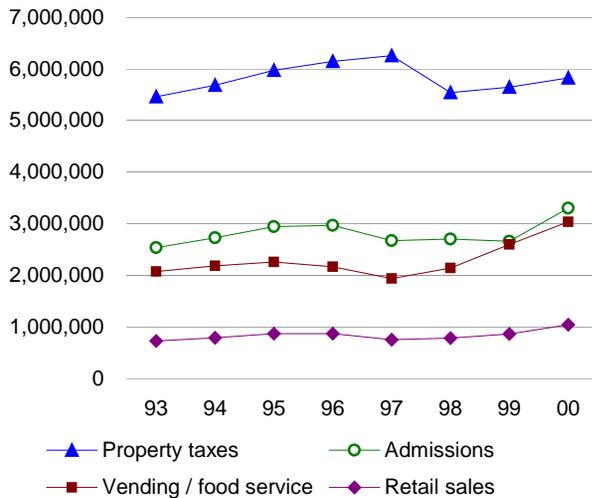
²³ Metro accounts for the Zoo's major capital improvements (those with total project costs greater than \$50,000) in the Zoo Capital Fund.

Zoo Operating Fund Revenues and Expenditures



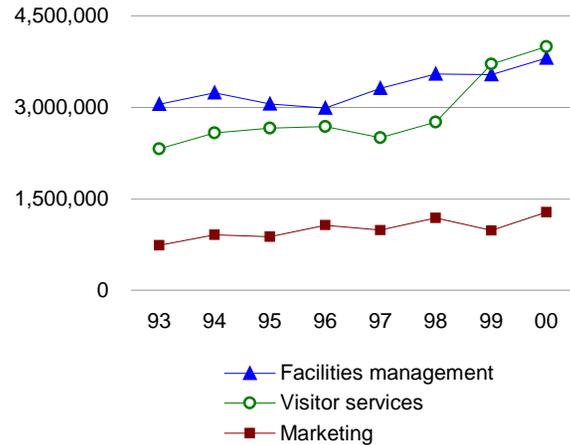
- For most of the years between 1993 and 2000, Zoo Operating Fund revenues have exceeded expenditures and transfers in constant dollar terms. The significant jump in expenditures and transfers in 1999 coincides with the Great Northwest Project construction as well as the expanded food service and retail facilities.
- The \$2 million transfer to the Zoo Capital Fund to help pay for the Great Northwest Project represented the majority of the jump in expenditures and transfers in 1999.

Zoo Operating Fund Primary Sources of Revenue



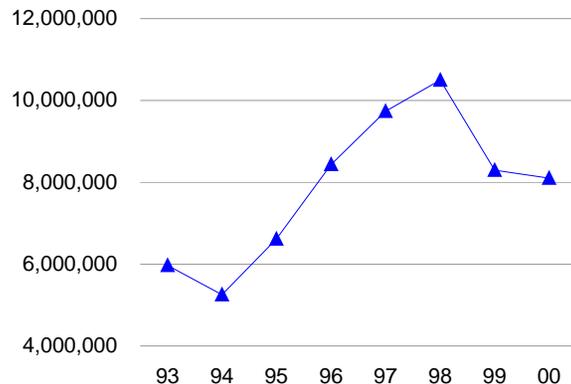
- The Zoo Operating Fund is the only Metro enterprise fund that directly taps into property tax revenue for operating funds. Property tax revenues had been rising steadily in constant dollar terms until 1998, when statewide ballot measures limited these taxes.
- Enterprise revenue – admissions, vending/food service and retail sales – has risen in constant dollar terms. The admissions revenue increase from 1999 to 2000 was due in part to an increase in the price of admission in 1999. Vending/food service revenue growth (about 16 percent per year since 1997) may be directly tied to the completion of new restaurant and catering facilities. Donations to the Zoo represent about 4 percent of total revenue.

Zoo Operating Fund Primary Expenditures



- Expenditures at the Zoo have also risen with Zoo attendance, as staff has been added (9.75 FTE), and maintenance is needed for the additional exhibits.
- Total expenditures have risen nearly 4 percent per year since 1993. Notable among the components of total expenditures are visitor services²⁴ (which grew 8 percent per year since 1993 and has been growing around 17 percent per year since 1997) and marketing (which grew by 8 percent per year since 1993 and 9 percent per year since 1997).
- Expenditures for visitor services have grown to about 29 percent of total expenditures. Facilities management, the second largest operating expense, has been as high as 30 percent of total expenditures, but is down to 27 percent in 2000.

Zoo Operating Fund Ending Balance



- The Zoo Operating Fund grew at a fairly steady rate (about 19 percent) in constant dollars from 1994 to 1998.
- Transfers to the Zoo Capital Fund in 1994 and to the Capital Fund and General Revenue Bond Fund in 1999 and 2000 drew down reserves. The transfers to the Capital fund in 1999 (\$2 million) were associated with the Great Northwest Project and the transfers to the General Revenue Bond Fund in 2000 (\$432,000) related to the debt service for Metro's share of the Zoo MAX station and the reconfiguration of the parking lot. Metro originally intended to pay for this debt service with parking fees, but decided against it. Metro is now considering several options to pay this expense, including raising Zoo admission fees.

²⁴ Visitor Services expenditures include food service, retail operations and gate admissions.

