Financial Condition of Metro:
FY 2001-02 to FY 2010-11

June 2012
A Report by the Office of the Auditor

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Metro Auditor
Metro Ethics Line

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Metro audit receives ALGA Gold Award

An audit released in 2011 entitled “Large Contract Administration” received the Gold Award for Small Shops by ALGA (Association of Local Government Auditors.) The office was presented with the award at the ALGA conference in Tempe, Arizona in May 2012. Knighton Award winners are selected each year by a judging panel, and awards presented at the annual conference.
June 6, 2012

To: Tom Hughes, Council President  
Shirley Craddick, Councilor, District 1  
Carlotta Collette, Councilor, District 2  
Carl Hosticka, Councilor, District 3  
Kathryn Harrington, Councilor, District 4  
Rex Burkholder, Councilor, District 5  
Barbara Roberts, Councilor, District 6

From: Suzanne Flynn, Metro Auditor

Re: Financial Condition of Metro, FY 2001-02 to FY 2010-11

The following report is a review of Metro’s financial condition over the last ten years. My office completes this audit every two years and this is the third report in the series. It provides a check-up of how well Metro is doing financially based upon financial indicators that are recommended by the International City/County Management Association. This year, in an attempt to improve the quality of the information, I added expenditure information by individual departments.

Most of the information in this report is derived from the Comprehensive Annual Financial Report prepared each year by the Finance and Regulatory Services and audited by the external auditor. It is intended to give a long term review for Metro’s financial history. Despite the economic downturn, most indicators remain positive for Metro.

We have discussed our findings and recommendations with management of Finance and Regulatory Services, the Chief Operating Officer and Deputy Chief Operating Officer. I would like to acknowledge their assistance and cooperation in preparing and reviewing the report.
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Summary

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

This report provides citizens and public officials with an overview of Metro’s financial condition. It includes 38 measures and covers a 10-year period from FY 2001-02 through FY 2010-11.

Most revenues increased

Metro receives revenues from a variety of sources. Some are restricted to a particular use or program and some are not. Once adjusted for inflation, total revenues increased 19%. This is a positive trend. In FY 2010-11, fees that were charged for services made up 54% of revenues received. Taxes were the second largest source, at 33%. Details for each revenue source are as follows:

- Charges for services: Fees received for services at the Oregon Zoo and the facilities of the Metro Exposition and Recreation Commission (Oregon Convention Center, Portland Center for the Performing Arts, Exposition Center) increased. User fees for Metro’s parks and solid waste disposal system declined.

- Property taxes: Property taxes to fund general government and taxes to repay debt on Metro’s bond measures increased.

- Excise taxes: Taxes received from users of Metro facilities and services increased overall, but declined in the last three years.

- Grants: Revenues received from grants trended up, but fluctuated up and down from year-to-year.

Expenditures increased in most categories

We reviewed total expenditure, expenditure for risk management, employee costs, fixed costs, capital and individual departments. Once adjusted for inflation, total expenditure increased 17%. This is both a positive and negative trend.

- Risk Management Fund: These expenditures are for expenses relating to employee insurance premiums, claims and studies related to insurance issues. Expenditures have increased 54%, a negative trend.

- Employee costs: Expenditure for employee salaries and benefits increased 22%. Benefits have consistently been around 26% of total employee costs.
• *Fixed costs:* This expenditure is primarily for payments on long-term debt. Metro's debt payments decreased in the earlier years as debt was paid off, increased as bonds were issued, and began to decline in FY 2010-11 as debt was paid off. A significant portion of Metro's debt is covered by a tax increase approved by voters to fund the purchase of natural areas and improvements at the Oregon Zoo.

• *Capital expenditure:* Metro's spending on physical assets was primarily for land purchases or construction and improvements at the Oregon Zoo. Expenditure declined until FY 2006-07 and has increased with the approval of bond measures. This is a positive trend.

• *Expenditure by department:* Most departments increased expenditures, which could lead to increased services, a positive trend. However, this does not measure efficiency and effectiveness of the increased expenditure. The solid waste system experienced a decline in service fees that fund the program.

**Financial standing indicators are positive**

• *Liquidity:* Liquidity measures Metro's ability to meet its short-term obligations. Metro has consistently been well above the recommended ratio, a positive trend.

• *Total debt:* The majority (75%) of Metro's debt is covered by a voter-approved tax increase to pay off general obligation bonds. Debt increased in FY 2006-07 and has since declined as debt is paid off, a positive trend.

• *Net assets:* This is a measure of all assets, physical and monetary, after what is owed (liabilities) is subtracted. Net assets have increased, a positive trend.

• *Capital assets:* Capital assets are physical assets and can be non-depreciable, such as land, or depreciable, such as buildings or zoo exhibits. The value of non-depreciable assets increased, a positive trend.

• *Fund balance – General Fund:* This is a new measure beginning in FY 2010-2011. It is the ratio of unreserved fund balance to operating revenues in the General Fund. The General Fund pays for Metro's primary government programs and support services. A declining fund balance would be a warning.

**Demographic and economic trends show effect of recession**

Demographic and economic indicators suggest a cautious approach until the economy strengthens.

• *Population:* Population in the tri-county area has increased 12%, but growth slowed in recent years.
• *Per capita personal income:* This indicator *increased slightly* (0.4%), but *declined* in the last two years.

• *Unemployment rate and number of jobs:* In the past three years, the Portland metropolitan area experienced an *increasing* unemployment rate, and a *decline* in the number of jobs.

• *Number of businesses:* The number of businesses grew until 2007, but remained at about the same level since then.

• *Annual value of new construction:* This measure *dropped* significantly from 2005 to 2009.

• *Real market property values:* This indicator *declined* from 2009 to 2011.
The amount of money Metro receives determines its capacity to deliver services. The sources of Metro’s revenues are diverse; some programs charge for their services, while others are funded by taxes. In this section, we show total revenues and the different types of revenue.

In the last 10 years, total revenue increased 19%. However, not all revenues have increased and the rate of increase has varied by revenue source.

Several factors affected changes in revenues since FY 2007-08. Revenues from property taxes increased primarily as the result of two new voter-approved bond measures, one to purchase natural areas and the other to make improvements at the Oregon Zoo. Revenues were also affected by the Great Recession and declined in FY 2008-2009.

Metro has a diverse array of revenue sources. Several are restricted and can only be used for one service, while others support several types of services.

In FY 2010-11, the largest source of revenues at Metro was charges for services. In the last 10 years, the percentage of revenues received from charges for services has been as high as 63%, and as low as 52%. The second largest source of revenue (33%) in FY 2010-11 was taxes.
**Revenue per capita**

FY 2001-02 to FY 2010-11 (adjusted for inflation)

Per capita revenues show changes in revenues relative to changes in population. As the population increases, it might be expected that revenues and the need for services would increase in a similar way. From FY 2001-02, population increased by 11.6% and revenue per capita increased by 6.6%.

**Charges for services**

FY 2001-02 to FY 2010-11 (adjusted for inflation)

Several of Metro’s services charge a fee. Metro’s solid waste facilities and regional parks, as well as the Oregon Zoo, all charge for services. The Metro Exposition and Recreation Commission (MERC) includes the Oregon Convention Center, Portland Center for the Performing Arts and the Exposition Center. Each of these facilities also charges for services. The amount collected can reflect the state of the economy.

Service charges for Metro regional parks have decreased 10% and solid waste disposal decreased 9% for the 10-year period. All other services saw an increase.
Metro receives some revenues from property taxes. A portion of these taxes comes from an on-going rate used to fund general government services (General Fund). In addition, voters approved a tax increase to repay bonds used by Metro to purchase natural areas and make improvements at the Oregon Zoo. Property tax revenue for general government services increased 43%, while revenue to repay bonds doubled.

Excise taxes received from users of Metro facilities and services are governed by the Metro Charter and Code. Beginning in FY 2006-07, Metro imposed a tax on new construction within the region (Construction Excise Tax) that is intended to fund planning in new areas brought into the urban growth boundary. Originally scheduled to end June 30, 2009, this tax has been extended until September 30, 2014.

Both taxes were affected by the economy. Although total revenues from excise taxes increased overall (62%), they declined since FY 2007-08. Revenues from the CET declined 26% since inception.
Most grant revenues received by Metro are for projects in the Planning and Development Department. These revenues are restricted for a specific purpose and cannot be used outside of that purpose. Metro only receives grant funds after work is completed and billed. This causes the amounts received to fluctuate, however, the amount received has tended to increase over time.

Revenue shortfall measures how well expected revenues were estimated each year. Significant shortfalls could require mid-year cuts of services if these funds were relied upon.

In 9 out of 10 years, these shortfalls were primarily the result of over-estimation of grant receipts in the Planning and Development Department. The department only received these revenues after work on projects was billed. If a project was delayed, actual revenues would be less than estimated. Since FY 2008-009, revenues from excise taxes and fees were less than expected and account for some of this. More recently, General Fund revenue shortfalls have not been as large as in previous years, a positive improvement.
Expenditures are a rough measure of a government’s service output. Generally, the more a government spends in inflation-adjusted dollars, the more services it is providing. In this section, we show total spending and report on categories of spending, such as personnel costs, debt payment and department expenditure.

Total expenditure
FY 2001-02 to FY 2010-11
(adjusted for inflation)

Total expenditures include all departments and services operated by Metro and MERC, as well as non-departmental costs and debt service. Included are costs for employee salaries and benefits, materials and services. Total expenditure increased 17%.

Expenditure per capita
FY 2001-02 to FY 2010-11
(adjusted for inflation)

Changes in per capita expenditures reflect changes in expenditure relative to changes in population. Increases in per capita spending may mean that the cost of providing services is growing faster than the community’s ability to pay. This indicator has increased 5% in the last 10 years, a relatively small increase.
Risk management fund  
FY 2001-02 to FY 2010-11  
(adjusted for inflation)

The Risk Management Fund accounts for expenses related to employee insurance premiums, claims and studies related to insurance issues. Expenditures have increased 54% over the last 10 years. The spike in FY 2003-04 was due to accounting standards that required Metro to report as an expense probable future costs related to mitigating environmental conditions.

Employee costs  
FY 2001-02 to FY 2010-11  
(adjusted for inflation)

In the past 10 years, expenditure for employee salaries and benefits increased 22%. Benefits have consistently been around 26% of total employee compensation.
Fixed costs
FY 2001-02 to FY 2010-11
(adjusted for inflation)

Fixed costs include the principal and interest on long-term debt and operating leases. They are considered fixed because Metro cannot adjust these payments when there is a change in resources available. Metro’s long-term debt was primarily from the sale of general obligation bonds (75%), which are covered by a tax increase approved by voters. Metro uses these tax revenues to pay the debt.

Capital expenditure
FY 2001-02 to FY 2010-11
(adjusted for inflation)

Capital spending is used to acquire or add to any physical asset. More recent spending on capital was primarily for the purchases of land for the natural areas program and improvements at the Oregon Zoo. Voters approved a bond measure in 2006 to allow land purchases and a bond measure in 2008 to make improvements at the Oregon Zoo.
**Spending by program**

**Communications**
This department provides media relations, public involvement, writing, marketing, graphic and web design services to other Metro departments. In the last 10 years, expenditure for Communications has more than doubled. In FY 2010-11, 95% of the department’s expenditure was for personnel.

**Finance and Regulatory Services**
The Finance and Regulatory Services Department provides business services to other Metro departments and oversees regulations of the solid waste system. Expenditure increased 31% from FY 2001-02 to FY 2010-11. Three-quarters of its expenditure is for personnel.

**Human Resources**
The Human Resources Department is a support service for all Metro departments. It is responsible for employee recruitment, compensation and benefits. It also provides organizational development and training. Expenditure doubled in the last 10 years. In FY 2010-11, 83% of expenditure was for personnel.

**Information Services**
This department provides centralized services for the rest of Metro in the areas of hardware and software necessary for the agency to access information, make information available externally and to communicate. Expenditure for the department has increased 20% in the last 10 years. In the most recent fiscal year, 80% of its expenditure was for personnel.
The Metro Exposition and Recreation Commission oversees the operation and maintenance of the Oregon Convention Center, Portland Center for the Performing Arts (PCPA) and Expo Center. The Convention Center and Expo Center are owned by Metro. PCPA is owned by the City of Portland, which has assigned management responsibility to Metro.

Spending on these three facilities has increased 45% in the last 10 years.

The Metro Council is the governing body of Metro. It consists of seven elected officials: six elected geographically and one Council president elected regionally. The Office also includes the Chief Operating Officer, the government affairs and policy development program, and the community investment strategy program.

From FY 2001-02 to FY 2010-11, expenditure increased 57%. In FY 2010-11, 90% of expenditure was for personnel costs.

The Metro Attorney’s Office provides legal research, evaluation, analysis and advice to Metro departments. It also may initiate, defend or appeal litigation upon request. In the last ten years, expenditures increased 53%. In FY 2010-11, almost all (98%) expenditure was for personnel.

The Office of the Metro Auditor conducts performance audits of Metro’s services and programs, oversees the financial audit by an outside auditing firm and administers a hotline. Expenditures have declined 3% in the last 10 years. Like the Metro Attorney’s Office, nearly all (95%) of the expenditure in FY 2010-11 was for personnel.
Parks and Environmental Services has three programs. The department manages the regional waste disposal system, various parks and pioneer cemeteries and Metro owned properties.

Overall spending decreased by 12%, mostly due to decreased activity in the solid waste system. The system is funded entirely by fees, which declined during the economic recession.

Oregon Zoo

The 64-acre Oregon Zoo has five major exhibits, with 2,200 individual animals representing 260 species. The Zoo also contributes to wildlife conservation through education programs and cooperation with the Association of Zoos and Aquariums to house and breed endangered species.

Spending on Zoo operations increased 10% in the last 10 years.

Planning and Development

This department develops policies and programs that guide regional land use and transportation planning. It also provides technical assistance and distributes transportation project funding.

The major source of funding for the Planning and Development Department was grants. Spending fluctuated as the result of the variability of projects that received grants and were completed. Total expenditure decreased 19%.

Research Center

The Research Center provides data, mapping, forecasting and technical services that support policy analysis and regulatory activities at Metro. It also provides services to local governments, businesses and the public. Expenditure by the Center increased 54% in the last 10 years.
Sustainability Center

The Sustainability Center manages the Natural Areas bond measure program to purchase natural areas and works with local governments on waste prevention and recycling, and developing a regional system of natural areas, parks and trails. Expenditures by the Center have increased 85% in the last 10 years.
Financial Health

These indicators reflect Metro’s financial position. Local governments in a sound financial condition can afford to continue paying for services they currently provide. Sound financial condition also implies the ability to withstand local, regional and national economic disruption.

**Liquidity**
(as of June 30)

The liquidity indicator measures Metro’s ability to meet its short-term obligations. It is the ratio of cash to short-term liabilities. A ratio of less than one-to-one is considered a warning sign. Metro has consistently been well above that ratio, a positive trend.

**Total debt**
(as of June 30
adjusted for inflation)

The majority (75%) of Metro’s long term debt is from general obligation bonds. Repayment of general obligation bonds occurs through a separate property tax levy that is not subject to Measure 5 limitations. Most recently, debt was increased by the issuance of bonds for the acquisition of natural areas and for improvements at the Oregon Zoo. Metro repays the debt by levying additional property taxes. Total debt declined as debt was repaid, a positive trend.
**Net Assets**
(as of June 30 adjusted for inflation)

![Net Assets Graph]

Metro has assets that are monetary and assets that are physical, such as buildings and land. Net assets measure the difference between what Metro owns, both monetary and physical, and what it owes.

Metro's business activities include the solid waste system, Oregon Convention Center, Portland Center for the Performing Arts and Expo Center. All other Metro programs, such as regional planning, the Oregon Zoo and parks are included in governmental activities. In 2006, Metro's business activities made up 65% of all net assets, compared to 48% in 2011. As the result of declining revenues and increased expenses, net assets for business activities declined 17% in the last six years.

The increase of nets assets for government activities was the result of two bond measures allowing Metro to purchase natural areas and a bond measure to support improvements at the Oregon Zoo.

**Capital Assets**
(as of June 30 adjusted for inflation)

![Capital Assets Graph]

Capital assets are the physical assets that are not depreciable, such as land, easements and artwork, and depreciable, such as buildings, zoo exhibits, equipment, software and office furniture. The total value of depreciable assets declined. In contrast, the value of non-depreciable assets increased 28%. This is primarily driven by land assets and the result of the two voter-approved bond measures allowing Metro to purchase natural areas.
The General Fund pays for Metro’s primary government programs and support services, including Communications, Council Office, Finance and Regulatory Services, Human Resources, Information Services, Metro Auditor, Metro Attorney, Oregon Zoo, Parks and Environmental Services, Planning and Development, Research Center and Sustainability Center. It does not include the Oregon Convention Center, Portland Center for the Performing Arts, Expo Center and the solid waste management system.

The size of a local government’s fund balances can affect its ability to withstand financial emergencies. This measure is the ratio of unreserved fund balances to operating revenues. Due to changes in accounting standards, data prior to FY 2010-11 is not available in these categories.

In FY 2010-11, the ratio of unassigned fund balances to operating revenues was 44%. As this new measure is tracked over time, a declining trend will be considered a warning sign. It could indicate there are fewer reserves available to a government in the event of a financial emergency. Metro has a budgetary policy that a percentage of revenues in the general fund be carried forward each year to maintain financial stability.
Demographic and Economic Trends

Metro’s ability to raise revenue and deliver services is directly related to the economic and demographic trends of the region. The following indicators measure these trends.

**Population**

CY 2002 to CY 2011 (Tri-county)

A change in population can affect government finances by changing the revenue that is available or the demand for services. Total population grew 12% since 2002.

In the past 10 years, Washington County has grown at a faster rate than the other two counties. However, Multnomah County is the most populated county and, in 2011, represented 45% of the population in the tri-county area. Clackamas County actually experienced a decrease in population from 2009 to 2010 that was not yet regained in 2011.

**Per capita personal income**

CY 2001 to CY 2010 (MSA, adjusted for inflation)

Credit rating firms use per capita income to measure a local government’s ability to repay debt. A decline in per capita incomes causes a drop in consumer purchasing power and can provide advance notice that businesses will suffer a decline that can affect the rest of the local economy.

Per capita income has increased slightly (0.4%) since 2002. This was after increases in 2006 and 2007 that were reversed in 2008 and 2009.
Unemployment rate and number of jobs  
CY 2002 to CY 2011  
(MSA, Oregon portion)

These two indicators measure business activity. They are also related to personal income. Both an increasing unemployment rate and a decline in the number of jobs, such as occurred in 2008 and 2009, are a warning trend.

The unemployment rate was at its lowest in 2007 and has grown rapidly since then. The number of jobs in the region was at its highest in 2007 and has declined 5% from that peak.

Number of businesses  
CY 2002 to CY 2011  
(Tri-county)

The number of businesses directly affects Metro’s revenues that are the product of business activity. A decline in business activity can harm the employment base, income and property value.

In 2011, one-half of businesses were located in Multnomah County. The number of businesses in the tri-county area was growing until 2007, but has remained about the same since then.
New construction is important to Metro in several ways. Metro is responsible for planning for urban growth and transportation in the region. The rate of new construction could affect these plans. Also, some of Metro’s services are affected by construction activity.

The value of new construction declined from 2005 until 2009. From 2009-2011, values increased 22%, but were still down by 71% from the 2005 high.

Declining growth or a drop in market value are considered warning trends. The effect of a decline on a government’s revenue depends on its reliance on property taxes for revenue. Metro receives approximately one quarter of its revenues from property taxes. The negative trend since FY 2008-09 reflects the impact of the recession.
The purpose of this audit was to evaluate the financial condition of Metro. We used a methodology based upon the Financial Trend Monitoring System recommended by the International City/County Management Association (ICMA). We obtained information from Metro's budgetary and financial accounting systems and reports, combined it with economic and demographic data, and created a series of financial indicators that, when plotted over time, can be used to monitor changes in financial condition and provide information to assist decision-makers.

Our scope included both general government operations and business-type operations, such as those of the Metropolitan Exposition and Recreation Commission and the solid waste system. We did not include capital project funds, internal service funds or trust funds. The ICMA recommends focusing on “General Government” operations, excluding those operations that are run as a business-type activity where costs are recovered through user fees and charges. However, Metro has many business-type activities that are integral to its mission and these operations were included.

We obtained data from the independently audited Comprehensive Annual Financial Reports (CAFR) and more detailed information about revenue sources, personnel costs and budget shortfalls from Metro's financial accounting system, PeopleSoft. Economic and demographic data was acquired from outside published sources. All dollars were adjusted for inflation in current FY 2010-11, 2010 or 2011 dollars, whichever was appropriate.

Most of the data collected for demographic and economic measures was reported either for the three counties in the region, by metropolitan statistical area (MSA), which is larger and includes two counties in the State of Washington, Yamhill and Columbia Counties in Oregon, as well as the regional counties Clackamas, Multnomah and Washington, or in some cases, by the Oregon only portion of the MSA. Very little of the population in Clackamas, Multnomah and Washington (10%) is outside Metro's jurisdictional boundary.

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

The majority of the financial information in this report is from the CAFR and therefore, we relied on the work of Metro's external financial auditors. We reviewed other information for reasonableness and consistency. We did not audit the accuracy of source documents or reliability of data in computer-based information.
Management Response
We again appreciate the work of your office in producing this 10-year view of Metro's financial condition. We always find it useful to review the performance and consider the improvements and achievements over time.

As we near the adoption of the FY 2012-13 budget which is the financial plan for two years beyond the period of this review, we would like to point out how your review works together with our annual 5-year financial forecasting for budget planning purposes.

Diversity of Revenue Sources has helped during downturn

Because Metro consistently generates more than half of its annual revenues through its own activities, many of its expenses can be sized upward or downward based on business activity. In contrast to other jurisdictions, this has allowed Metro to operate and maintain more consistent services since the 2008 plunge. Our financial plan anticipates additional years of flat or slow growth revenues as the "tail" of the 2008 plunge continues to work its way through the economy.

Grants Remain Problematic

As you point out, Metro has over-budgeted grant revenues (see General Fund revenue over/under budget), and accompanying expenditures (not shown in the report), throughout the period. We've improved somewhat in the more recent years of the study. Like other metropolitan areas across the country, the Portland metro area is struggling with decreasing federal, state and local dollars to plan, build and maintain its transportation infrastructure. For Metro, this could represent a decline of several million transportation dollars in the years to come in addition to less capacity on the part of our partners to collaborate on planning and developing projects. The Planning and Development department has been streamlining its efforts over the past several years to respond to this new reality. This is reflected in both the reduced size of Planning and Development and its work program approach in FY 2012-13.

Employee Costs

Employee salaries and benefits have increased over the ten year period, not unexpectedly given our collective bargaining agreements. In your previous financial condition audit (FY 1999-2000 to FY 2008-09) wages had been moving even faster:
Prior Period: Total employee salaries and benefits have increased 27% over inflation. Benefits increased at a higher rate (37%) than salaries and wages (24%).

Current Report: In the past 10 years, expenditures for employee salaries and benefits increase 22%. Benefits have consistently been around 26% of total employee compensation.

Compensation is a sizeable expense in Metro’s General Fund, more so than in other funds. Given the constraints of flat or slow-growth general revenues, Metro and its labor organizations have worked cooperatively to constrain these costs. Some changes began with non-represented employees, but bargaining units are joining in. Some efforts will take several years to develop fully. Wage increases have been awarded as lump sum payments, rather than adjustments to base salaries, thereby curbing future costs. Throughout the organization new employees are paying the employee portion of their PERS benefits. This has implemented at different dates for different employee groups and will take time and employee turnover to build up. Metro has adopted a cost sharing approach to health benefits, with employees paying a fixed proportion of the cost of the benefits. While this does not guarantee a reduction in overall health benefit costs, we believe it will influence future plan design where both Metro and the employee will share in cost savings.

We hope that over the next financial condition report periods the 10-year view will show the results of these recent changes. Our 5-year financial plan is also starting to reflect these adjustments.

Changes in Accounting Requirements or Organizational Structure

We appreciate that you have made considerable efforts to adjust for changes in organizational structure (Sustainable Metro Initiative in 2008 being the largest). This is more difficult over a ten-year period than it is over a shorter time. Since your “Spending by program” is new in this report, it may take some additional cycles for the adjustments to work through.

We are pleased that you included a note in the Risk Management Fund explaining the accounting change in FY 2004. We expect that you will see both an accounting change and an organizational change in your next reporting cycle, related again to environmental impairment and a change in accounting for employee benefits.

Two Successful Bond Measures

In the period studied, Metro passed two major bond measures, the 2006 Natural Areas measure and the 2008 Zoo Infrastructure and Animal Welfare measure. In the objective financial terms of your report this is reflected as variability in tax receipts, capital spending and principal and interest payments on long-term debt. The financial condition is supported, of course, by Metro’s highest grade bond ratings, most recently confirmed in May 2012. In a broader context, however, these bond measures are a very important statement about the public trust Metro has earned by consistently delivering on the promises made to voters.

Again, we appreciate not only this report but also that the auditor provides the 10-year review every other year which allows us to look back and measure progress.

Sincerely

[Signature]
Martha Bennett
Chief Operating Officer

[Signature]
Margo Norton
Director, FRS