ABOUT THE FACULTY FACILITATORS

Craig W. Shinn, Associate Professor, and *Bob Doppelt*, Executive Director, Center for Watershed and Community Health and Adjunct Associate Professor, have been engaged in a stream of research and policy initiative regarding sustainable development. Both have worked at all levels of government to explore successful strategies of sustainable development. Most recently, they have been involved in the Oregon State of the Environment Report Project which seeks to provide Oregon with the information base for managing toward sustainability. Individually or together, they have been involved in projects exploring new models of environmental management, evaluating local government initiative to link environmental health with local economic health and social well-being, researching civic capacity building and reviewing sustainable development initiatives world wide at all levels of government.

PROGRAM BENEFITS

This Executive Forum series is a part of the Sustainable Development Leadership Program.. The Hatfield School of Government, through the Center for Watershed and Community Health and the Executive Leadership Institute at Portland State University, offers public administrators, planners and decision makers exciting opportunities to learn skills, gain knowledge and develop competency in sustainable development. The program builds transferable governance skills in sustainable development that will enhance the ability of municipal leaders and through them, the ability of their sponsoring organization and communities to transform environmental problems into opportunities.

FOR MORE INFORMATION CONTACT:

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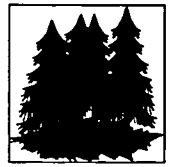
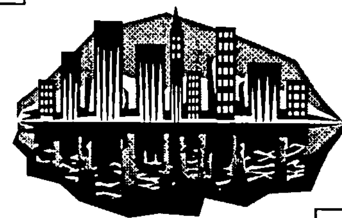
MARK O. HATFIELD SCHOOL OF GOVERNMENT
COLLEGE OF URBAN AND PUBLIC AFFAIRS
POST OFFICE BOX 751
PORTLAND, OREGON 97207-0751

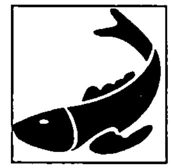
PORTLAND STATE UNIVERSITY

EXECUTIVE FORUM SERIES

Local Government Sustainable Development







As environmental pressures increase due to population and economic growth, the skills and knowledge learned in this program will be increasingly valuable

Begins February 8, 2000
with five subsequent Tuesday sessions
(dates negotiated by participants)
Smith Memorial Center, PSU

MARK O. HATFIELD SCHOOL OF GOVERNMENT
PORTLAND STATE UNIVERSITY

PURPOSE

About the Executive Forum Series

The Hatfield School of Government's Executive Leadership Institute has designed the Executive Forum Series for senior officials who wish to engage in a sustained discussion of an important public policy issue or set of questions with peers from a variety of organizational and jurisdictional settings. The gatherings are conducted in an informal setting and are facilitated by faculty who are currently engaged in research on the topic. Participation is limited to approximately 15 members. In order to facilitate discussion a concerted effort is made to achieve a balance of perspectives among those in attendance. This seminar series provides an opportunity for participants to:

- Test ideas and share the lessons of successful practice with peers from a variety of organizational and jurisdictional settings.
- Explore a topical issue in greater depth than is usually possible in a typical format.
- Take advantage of the knowledge and insight of those who have expended considerable effort to understand a public policy problem and to craft workable solutions.

PROGRAM

The Local Government Sustainable Development Forum

Communities in the Northwest are continually faced with environmental constraints to local economies, proximate watersheds, public health and safety. From endangered salmon and water quality to increased congestion and concerns over toxic substances, environmental problems seem to lead to crisis regularly. Yet, across the globe communities are finding new ways to turn environmental crisis into opportunities to create more efficient, productive and sustainable economies and enhance social welfare. In doing so, they have reduced public acrimony and generated more cohesive communities.

DISSCUSION TOPICS

What does sustainable development mean in local communities? Why has the concept gained so much favor with all sectors, public, private and not-for-profit and with administrators, academics and elected officials?

How can we recognize initiatives that promote sustainability? How can local governments initiate sustainability programs? What are the benefits of ADOPTING sustainable DEVELOPMENT GOALS, POLICIES AND PROGRAMS in local communities? WHAT IS THE ROLE OF local governments COMPARED TO other levels of government?

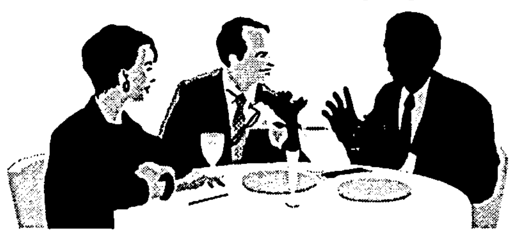
What are some successful examples, strategies AND BASIC PRINCIPLES OF sustainable development? What are the limits of application? What are the conditions of success? What differences can such strategies make in the life of communities?

SCHEDULE

The first session will be held on Tuesday, February 8, 2000 from 4-6:30 pm at Portland State University, Smith Memorial Center, Room 236. After the initial meeting, five subsequent sessions will be held on Tuesdays at 2-3 week intervals. Participants will have an opportunity to establish a schedule that meets their needs.

FORMAT

Participants will gather in an informal setting which will facilitate small group discussions. Light foods will be provided. A seminar-type format will be used with pre-reading material available for each session but not required for participation. The group will help design the content of each subsequent session with faculty serving as resources for the group.



REGISTRATION

Costs

The cost of registration for the series is $375, including duplication of course reading material, food and other such costs. An option to register for degree credit is available for an additional $333.50. Additional reading and writing will be required for those selecting the credit option. Enrollment is limited to 15.

Registration Deadline..February 1, 2000

Starting Date.................................February 8, 2000

Time..4:00-6:30 p.m.

Location.............................Portland State University
Smith Memorial Center, Room 236

Parking..........Parking Structure 1, SW 6th & Hall
$6.50 for all day permit (no half day rates)

NAME______________________________

EMPLOYER___________________________

ADDRESS____________________________

CITY________________ STATE____ ZIP______

PHONE________________ FAX_______________

EMAIL______________________________

TO REGISTER:

Please return this form (or copy) with your registration fee to the address below. **Make checks payable to Portland State University. We do accept VISA/MC.**

Mark O. Hatfield School of Government
Executive Leadership Institute -PA
Portland State University
PO BOX 751
Portland, Oregon 97207-0751

PHONE: (503) 725-5153; FAX: (503) 725-8250
EMAIL: chambersj@pdx.edu
www.upa.pdx.edu/PA/ELI/

PORTLAND STATE UNIVERSITY

Andy —

Here are copies of the overheads as you requested.

Also enclosed are brochures about educational and training programs we are offering on the subject. Please pass them out to council members and staff.

Sincerely

Bob Doppelt

CENTER FOR WATERSHED & COMMUNITY HEALTH
DIVISION OF PUBLIC ADMINISTRATION ▪ MARK O. HATFIELD SCHOOL OF GOVERNMENT
POST OFFICE BOX 751 ▪ PORTLAND, OREGON 97207-0751 ▪ (503) 725-8101 ▪ FAX (503) 725-8250

GOVERNANCE SYSTEMS TO FOSTER AN ENVIRONMENTALLY EFFICIENT ECONOMY

Bob Doppelt, Director
Center for Watershed and Community Health
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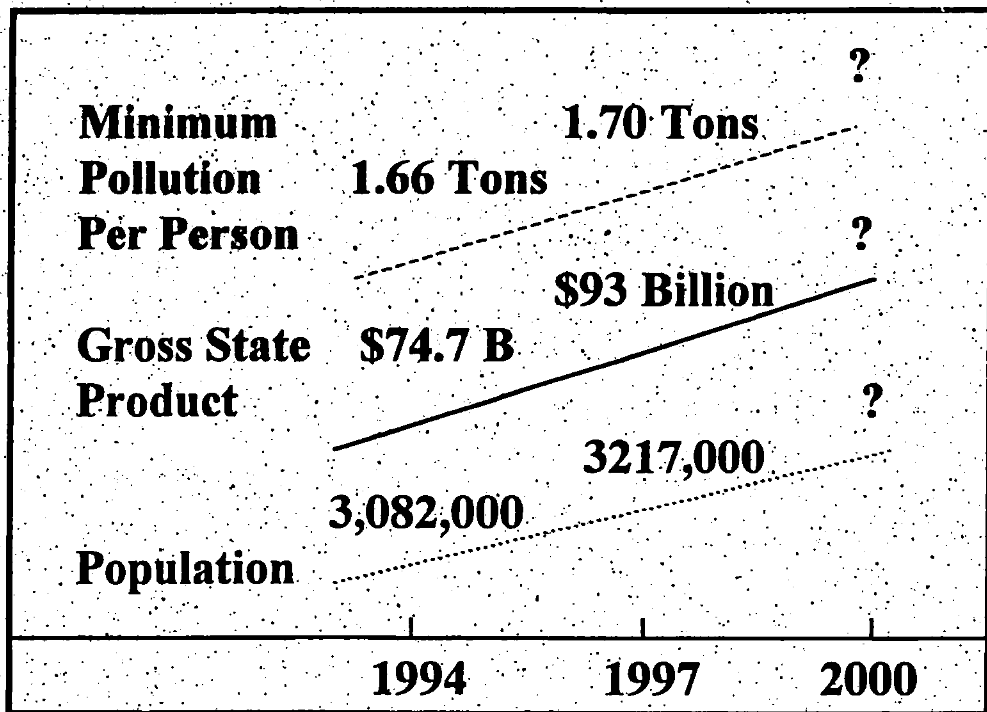
THE GROWTH OF ENVIRONMENTAL IMPACTS IN OREGON



Based on DEQ data for municipal and industrial non-recovered waste, air and water emissions.

THESE ARE BARE MINIMUMS GENERATED BY ALL OF US

AND THEY ARE GROWING *DESPITE* OUR EXISTING LAWS AND PROGRAMS

WHAT TO DO?

- **The Choice is <u>Not</u> Between Economic Growth or Contraction.**

A shrinking economy holds little hope for the poor, business or consumers. It is also impractical in today's global economy. Yet, economic growth as it has been typically achieved will lead to increased consumption of natural resources, pollution and waste.

- **<u>The Only Viable Choice Is To Explicitly *Decouple* Economic Growth from Environmental Impacts</u>**

- **Decoupling Requires The Creation of a More *<u>Environmentally Efficient Economy</u>*.**

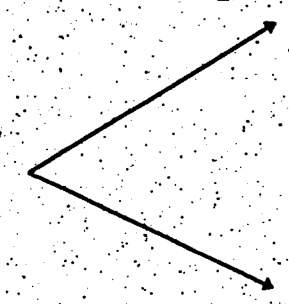
The only realistic approach to is to improve - possibly by a Factor of 10 - the efficiency by which we extract natural resources from the earth's surface, turn them into products and services, and then emit them as waste and pollution.

Only by creating a more "environmentally efficient economy" can we decouple economic development and population growth from environmental impacts.

THE NEXT GREAT CHALLENGE

DECOUPLING ECONOMIC DEVELOPMENT FROM ENVIRONMENTAL IMPACTS TO ACHIEVE SUSTAINABLE DEVELOPMENT

Increased Economic Competitiveness and Jobs



Decreased Environmental Impacts
Per Unit of Harvest, Product, Population and GSP

Is Decoupling Possible? Yes!

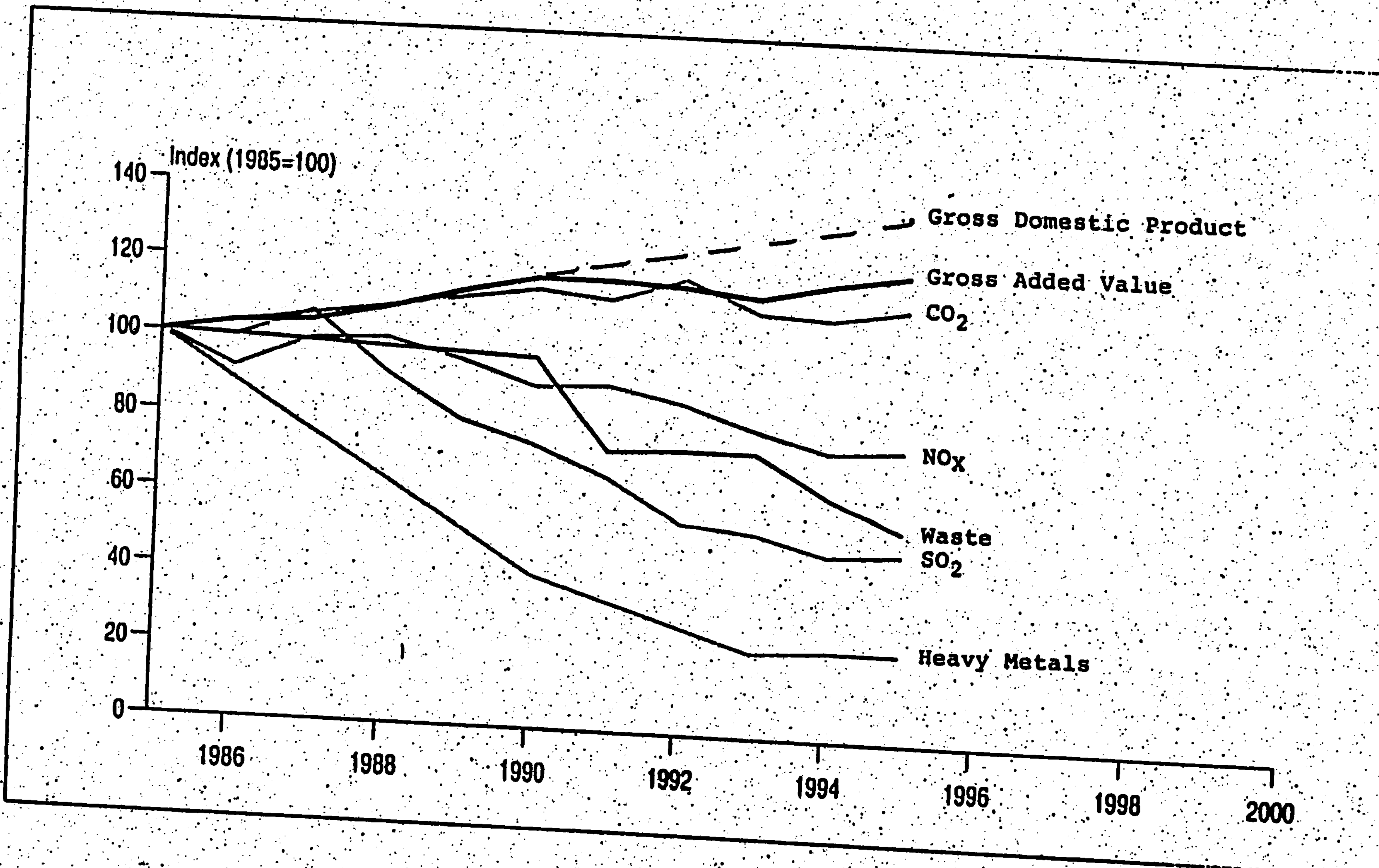
- **The Netherlands Is The First Nation On Earth To Have Successfully Decoupled Economic Development From Environmental Impacts.**

- **Sweden And Denmark And Others In The European Union Have Adopted Similar Goals.**

- **If The Dutch Can Do It, So Can The Citizens Of Oregon And The Northwest!**

- **Aiming Toward Sustainable Development Can Position Your Community Or State As A Center Of Excellence In Environmentally Efficient Business And Community Development.**

DUTCH NEPP
Environmental Performence Industry



HOW DO WE CREATE A MORE ENVIRONMENTALLY EFFICIENT ECONOMY?

- **Community Leadership Which Puts the Goal of *Decoupling To Achieve Sustainable Development* At The Top Of The Public Agenda;**

- **A Clear Framework to Mobilize, Guide and Integrate Public and Private Sector, Community and NGO Decoupling Actions;**

- **Partnerships and Collaboration Between All Sectors Driven More By A *Unified Purpose* and *Clarity on Desired Outcomes* Than By Statute;**

GOALS

To position Oregon as a center of excellence in business and job creation and community development consistent with sustaining the environment.

From a social and economic perspective long term goals are:

- **A diverse, competitive, environmentally efficient economy capable of making rapid adjustments to changing conditions;**

- **Ample, quality jobs for all Oregonians;**

- **Vibrant, safe, rural and urban communities providing high quality-of-life for all citizens;**

- **Access to quality education, health care and public services for all citizens.**

From an environmental perspective long-term goals are to link the socio-economic goals with:

- **Goods and services which meet the changing needs of consumers and for which environmental quality is a self-evident component;**
- **Environmentally sustainable commercial practices in all sectors;**
- **Environmentally efficient technologies in products, services and production processes and a continued increase in the use of knowledge as a factor of production;**
- **Environmentally efficient use of land, air and water and investments in physical infrastructure consistent with maintaining ecological processes and structure;**
- **Environmentally sustainable energy production and use.**

Guiding Principles

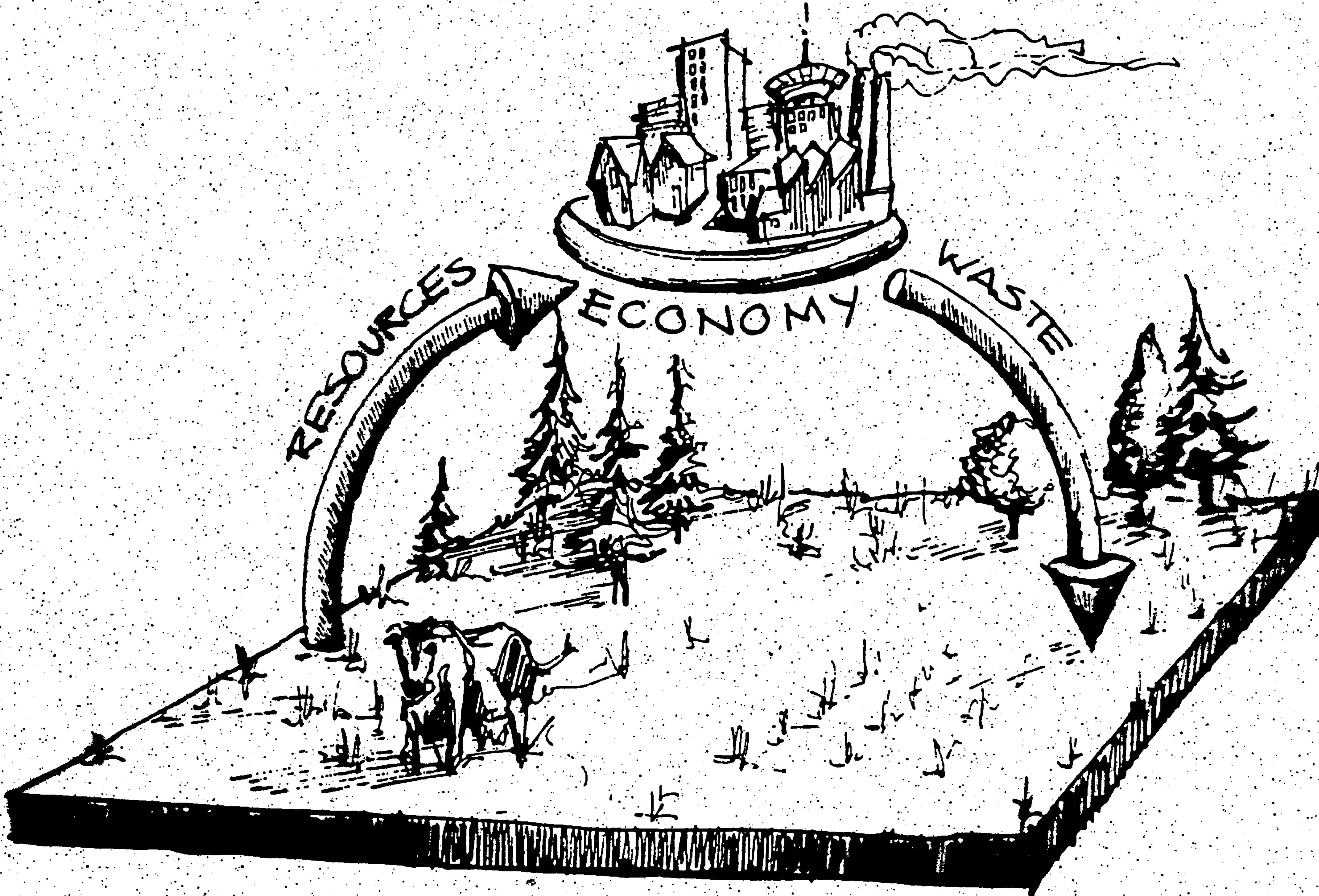
- Conserve, protect, and where needed, restore the diversity of nature (ecological processes and structure) to levels necessary to maintain ecological health.

- Reduce the use and emission into nature of toxic minerals, metals and fuels and human made persistent, bio-accumulating toxic materials and substances; and enhance the use of renewable energy and non-toxic materials and substances in processes, goods and services.

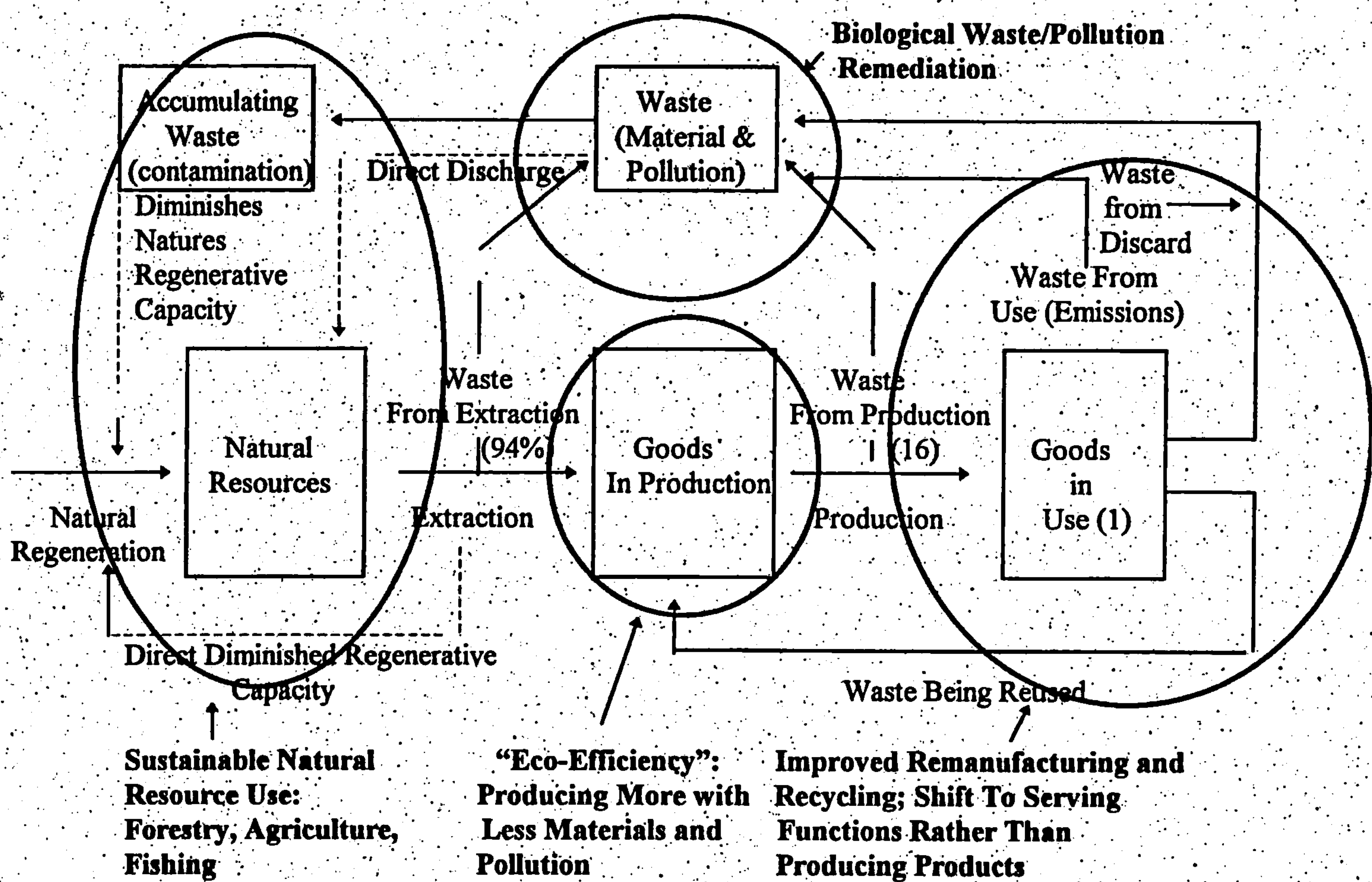
- Eliminate waste through reduction at the source and enhanced reuse, remanufacturing and recycling internally within and externally between companies and organizations.

- Increase the efficiency and productivity by which natural resources and energy are used.

- Enhance rural and urban business development, economic competitiveness, job creation, and public welfare consistent with the principles above.


RESOURCES
ECONOMY
WASTE

OPPORTUNITIES TO CREATE AN ENVIRONMENTALLY EFFICIENT ECONOMY



Strategies must be pursued within all four areas simultaneously. Any one in isolation could, and often does, create greater environmental risks.

AT THE COMMUNITY LEVEL

DECOUPLING REQUIRES THE DEVELOPMENT OF:

- **COMPLETE ENVIRONMENTAL MANAGEMENT SYSTEMS FOR YOUR COMMUNITY**

- **ACTION PLANS INVOLVING ALL KEY SECTORS IN ALL AREAS OF THE ECONOMIC VALUE-CHAIN**

SAMPLE PROCESS

- **Focus public attention by elevating the issues - in the form of desired results - to high on the public and hence decision makers agenda.**

- **Engage the diverse set of stakeholders, agencies and people needed to address the problems.**

- **Establish processes which lead to clarity of purpose (desired outcomes), goals and objectives.**

- **Initiate multiple action strategies and keep them focused on the ultimate goals and desired outcomes (not technicalities).**

- **Establish rapid information and feedback systems.**

- **Seek to effectively institutionalize the process as soon as feasible to foster sustained action.**

This is unexplored territory for most public agencies - and communities and the private sector.

THE ROLE OF STATE AND LOCAL GOVERNMENTS HAS CHANGED

1950's-mid-60's	1960's-1980's	1990's-2000
Authorities	Service Role	Catalyst and Change Manager
The Top-Down Era of Planning	Shifted to Providing Key Public Services	Catalyst and Change Manager
Resulting from Views After Depression and WW II.	Sewer, Water, Garbage, Schools, Police, Recreation, Recreation etc.	Mobilizing and Guiding Action by Private and Public Sector to Meet Key Needs. More Adaptive, Flexible and with Fewer Regulations

- **The catalyst role means government can't do it alone. They must develop partnerships and stimulate and guide action at all levels to create and steer toward a common vision.**

- **Catalyst role has no boundaries. It requires bringing business, NGOs, academia and others together when and where they offer benefits.**

TEN PRINCIPLES TO GUIDE LOCAL DECOUPLING INITIATIVES

1. Support State And Regional Frameworks To Decouple Growth From Impacts (You Can't Do It Alone).

2. Complement These Efforts With Local Decoupling Frameworks.

3. Clarify The Roles: Government Is Responsible For "Steering." The Private Sector, NGO's Etc. Are Responsible For "Rowing."

4. Adopt The Principle Of Decoupling As Central To Planning And Management Decisions At All Levels.

5. Complete Three-Part Analysis:

- ***Need Analysis*: Examine How Local Economy Works, Basic Needs Are Met, And What/Where Impacts Are.**

- ***Decoupling Analysis*: Identify The Easier Steps And Longer-Term Actions That Can Help Decouple.**

- ***Process Analysis*: Identify And Stimulate Active Involvement Of All Sectors/Groups And Encourage Learning.**

6. Spell Out Agreements To Guide Collaborations Across Organizational Boundaries And Sectors.

7. Ensure Decoupling Within Every Component Of The Economic Value-Chain:

- **Increased Efficiency Of Resource Use.**
- **Increase Green Planning And Infrastructure.**
- **Phase Out The Use And Discharge Of Virgin And Toxic Substances. (Minerals, Metals, Fossil Fuels, Synthetic Substances).**
- **Vastly Increase Reuse And Recycling.**

8. Multiplicity Is A Precondition To Success (Encourage Many Different Solutions Within All Sectors - All Aimed At Common Goals).

9. Promote Sustainable Local Industries And Jobs.

10. Seek To Capture Market Advantage Through All Of The Steps Above.

"Decoupling Is Not An Attitude. It Requires Action"

EXAMPLES

- "Competitions" to Foster New Sustainable Technologies and Designs (City Lighting, Home Heating, Stormwater Runoff);
- Creation Of Product-Service Combinations;
- New Financial Services To Underwrite Sustainable Products and Building Projects;
- Expanded Use Of EMSs Linked With Financial-Policy;
- Complete Value-Chain Programs To Improve Existing Product and Service Delivery;
- Assistance To Introduce Sustainable Products And Services Into The Marketplace;
- Development Of Zero Waste Programs And Product Take-Back Policies;
- New Approaches To Help Small And Mid-Sized Firms Improve Environmental Management;
- Sustainable Construction Initiatives and Construction Of Sustainable Industrial Estates;
- Development Of Local Bioproducts (for a "Carbohydrate-Based Economy");
- Marketing of Local Sustainable Agricultural And Forest Products As Best in Region;
- Fully Integrated Transportation.

THE BEST SOLUTION IS TO REDESIGN COMPANIES, COMMUNITIES AND INSTITUTIONS TO:

- **NOT EMIT OR DISCHAGE DANGEROUS SUBSTANCES**
- **NOT USE KEY VIRGIN RESOURCES OR TOXIC MINERALS OR METALS**
- **NOT IMPACT KEY HABITATS**

THOSE THAT REDESIGN THEIR PROCESSES AND SERVICES TO ACHIEVE THIS

<u>WILL NOT NEED REGULATIONS</u>

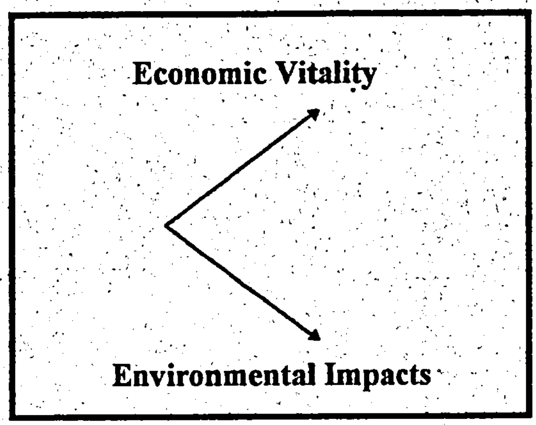
THUS CAN COMPETE FREELY WITH OTHERS

WILL POSITION YOU AS CENTER OF EXCELLENCE IN ENVIRONMENTALLY EFFICIENT BUSINESS & COMMUNITY DEVELOPMENT

- **Substantial Cost Savings**
- **Improved Productivity**
- **Enhanced Profitability**
- **More Sophisticated Management**
- **Reduced Risks to Shareholder Value**

<u>In Sum</u>: Potential to Capture Significant Competitive Advantage that Can Maintain and Increase Market Share and Draw New and Best Resources

CRISIS OR OPPORTUNITY? OREGON'S ENVIRONMENTAL PROGRAMS AT THE CROSSROADS:



A FRAMEWORK TO DECOUPLE ECONOMIC GROWTH FROM ENVIRONMENTAL IMPACTS TO ACHIEVE SUSTAINABLE DEVELOPMENT

October, 1999

Prepared By:
The Center for Watershed and Community Health
Hatfield School of Government
Portland State University

ACKNOWLEDGMENTS

This document was developed by Bob Doppelt and Dr. Craig Shinn from Portland State University with assistance from staff of the PSU Center for Watershed and Community Health (CWCH), graduate students in the School of Government at PSU, and others. Few of the ideas presented are original. They were generated from the nearly two and one half years of work by the informal stakeholder group called the Oregon Environmental Stewardship Plan Committee; from hands-on projects as well as the research done by the CWCH; the numerous sustainability initiatives underway within the private sector, communities, non-profits and government in Oregon and throughout the U.S.; and the sustainable development programs underway in the Netherlands, Sweden, Denmark, The European Union, New Zealand, Australia and elsewhere.

TABLE OF CONTENTS

EXECUTIVE SUMMARY

It is clear to many that Oregon's approach to environmental management is at a crossroads. The state can continue to manage the environment one crisis at a time or, it can establish an framework which leads to agreement over what is needed to manage the environment sustainably and mobilizes, guides and integrates efforts to achieve those ends. This would help resolve today's problems and respond to new ones before they become crisis. It would also position Oregon as a center of excellence in environmentally efficient business and community development.

This document outlines the potential components of a framework to achieve the later. This can be called *a framework to place Oregon on a path towards Sustainable Development.* The proposed framework has three overall components:

- The state would declare that achieving sustainable development is a top priority and establish clear goals and a mechanisms to mobilize, guide and integrate government, private sector and community efforts towards this end;

- Each state agency would adopt clear goals and outcome-based strategies to align internal rules, regulations and programs and to mobilize, guide and support constituent efforts to achieve the new state sustainability goal;

- Ongoing private sector and community sustainability efforts would be complemented by new initiatives aimed at the common state goal of achieving sustainable development.

As many Oregon firms and communities are already finding, there will be costs, but also significant economic, community and environmental benefits through the adoption of this framework.

A number of specific proposals and action items are discussed. The list is far from complete and is intended just as a starting point to stimulate further discussion. In addition, the ideas cannot be implemented all at once. A careful, phase-in approach is needed.

Some of the actions discussed are already underway within government, the private sector and communities. These must be complemented by new programs and initiatives by all parties. In order for these combined efforts to succeed in placing Oregon on a path towards sustainable development, however, the state must provide a common vision and clear goals toward which everyone can manage, just as a state framework was needed to guide the Oregon Salmon Plan. This means the state must be a prime mover. Our hope is that this document generates even better ideas and concrete action toward this end.

CRISIS OR OPPORTUNITY? OREGON'S ENVIRONMENTAL PROGRAMS AT THE CROSSROADS

A FRAMEWORK TO DECOUPLE ECONOMIC GROWTH FROM ENVIRONMENTAL IMPACTS TO ACHIEVE SUSTAINABLE DEVELOPMENT

I. INTRODUCTION

From endangered salmon and polluted streams to increasing tensions over urban congestion and toxic use, it is clear that Oregon's approach to environmental management is at a crossroads. The state can continue to set policy only when beset by crisis, an approach which will increase civic antagonism and lead to further environmental impacts as the economy and population grow. Or, it can establish an anticipatory framework which leads to agreement over what is needed to manage the environment sustainably and mobilizes, guides and integrates efforts to achieve those ends. This would help resolve today's problems and respond to new ones before they become crisis, while positioning Oregon as a center of excellence in environmentally efficient business and community development.

Throughout the globe successful frameworks are being developed to manage the environment sustainably. These initiatives avoid management by crisis, find numerous cost-effective ways to reduce environmental impacts, and have identified means to maintain and even substantially increase economic and community well-being. We believe this is possible in Oregon also. The Oregon Plan for Salmon and other state initiatives are positive steps in this direction. Just as a overarching framework was needed to guide salmon recovery, to help Oregon manage the environment sustainably the state must declare this a top priority, establish a common mission and clear goals, and create mechanisms to mobilize, guide and integrate government, private sector and community efforts towards those ends. ***This can be called a framework to place Oregon on a path towards Sustainable Development.***

PURPOSE OF THIS BRIEFING BOOK

This briefing book outlines some potential components of such a framework. A number of specific actions are discussed. The list is far from complete and is intended just as a starting point to stimulate further discussion. In addition, the ideas can not be implemented all at once. A careful, phase-in approach is needed.

Some of the actions discussed are already underway within government, the private sector and communities. Yet, for these efforts to ultimately succeed, the state must provide a common vision and clear goals toward which everyone can manage. This means that the state must be a prime mover. Our hope is that this document generates even better ideas and concrete action toward this end.

II. WHY THE NEED FOR A STATE FRAMEWORK TO ACHIEVE SUSTAINABLE DEVELOPMENT?

The Nature of Economic-Environmental Problems Has Changed Dramatically Since the 60's, but Our Approaches Have Remained Relatively Static. Our existing regulatory system was established 30 years ago to address the single source, easy to identify problems of that era, such as pollution from smokestacks and water pipes. The traditional regulatory approach emphasizes top-down strategy, standardization, following linear plans, predictability, and keeping things on track. These techniques have provided significant improvements in the environment such as reducing point-source pollution. However, they are increasingly less effective when applied to today's rapidly changing and complex ecological and economic challenges.

Our Current Systems Make Government Responsible for Telling Us How Bad We Can Be, Rather Than Helping All Of Us Become More Sustainable. The existing regulatory system puts government in the role of setting bottom-lines to protect the environment. While government involvement is vital to conserve "the commons," this approach alone will never successfully maintain or restore the environment. The private sector and communities must become responsible for adopting sustainable paths. To accomplish this we need systems that clarify what sustainable management entails and encourage and guide innovation and action to achieve those ends.

The State Has No Effective Means to Develop Common Understanding Over Basic Economic and Environmental Questions. Two issues have torn Oregon apart recently: disagreement over the condition and needs of the environment, and disagreement over the condition and needs of the economy. Either issue is sufficient to cause great rift. When they clash - for example, when there is disagreement over the status of forests or salmon and over the degree to which the state's economy is dependent on natural resource use - the fall out can be deafening. The state has no effective mechanism to organize data and involve the public in processes to develop common agreements over the status, trends and future risks to the economy or environment. Lacking this, policy debates often degenerate into parties "talking past each other" because there is no common basis for discussion.

Progress Has Been Made, But The State Still Manages the Environment Like An Emergency Room. The state has made many improvements, and Oregon's environmental systems consist of many effective individual programs. However, due to its historic roots, Oregon's existing approach to environmental management still lacks an overarching mission, cohesiveness and clarity on the direction towards which all parties should be managing. It therefore remains crisis driven, which leads to inefficient use of public and private resources. In does not encourage long-range technical innovation. Problems may be solved in one sphere but are inadvertently pushed into another (e.g. water quality may be improved by transferring emissions into the air). It often requires the private sector or communities to invest in activities that do not constitute the highest and most efficient use of fiscal or human resources. Strategies to maintain and enhance social and economic well-being are rarely coordinated with environmental policies.

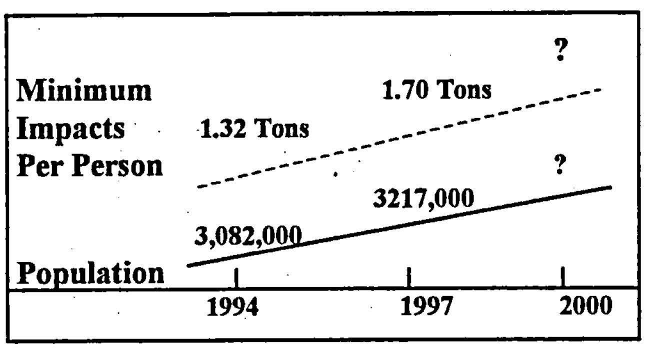
Many Initiatives Are Underway Yet They Lack Integration and A Common Mission. There are numerous growth management, livability, fish, watershed and nature restoration, and sustainability initiatives underway within government, the private sector, communities, non-profits and academia. Each is focused on specific issues or geographic areas. Because the state manages the environment through a fragmented set of agencies and programs, there is no unified framework to help integrate and guide them all toward the same common ends.

The Result Is That While Oregon Has Many Effective Individual Programs, They Do Not Add Up to a System Which Can Prevent the Continued Increase in Environmental Impacts as Oregon's Economy and Population Grows. DEQ data demonstrates this. In 1994, when Oregon's population was 3,082,000, Oregonians generated a minimum of 1.32 tons of pollution per person. By 1997, when our population grew to 3,217,000, we generated a minimum of 1.70 tons of pollution per person. The same pattern holds for economic growth. In 1994, Oregon's Gross State Product (GSP) was $74.7 billion and we created a minimum of one tenth of a pound of pollution for every dollar generated in the state. By 1997, our GSP had grown to $93 billion and we created .12 pounds of pollution for every dollar generated. ***This is the equivalent of generating a 1 lb. coffee can of pollution for every $10 produced statewide.***

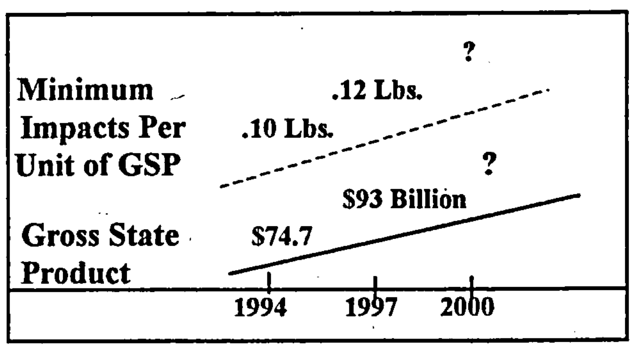
It is important to note that these are bare minimums impacts: Mobile air data is ten years old and effects on fragile habitats and other impacts are not included. Hence, Oregon's total impacts ***are undoubtedly much larger*** than this data shows, and still growing. And, ***these impacts are growing despite our existing laws and programs.***

The data also demonstrates that while some contribute more than others, ***every Oregon business, citizen and institution*** contributes to the growing environmental problems.

ENVIRONMENTAL IMPACTS PER PERSON IN OREGON*



ENVIRONMENTAL IMPACTS PER UNIT OF GROSS STATE RODUCT*



- Based on DEQ data for municipal and industrial non-recovered waste, air and water emissions.

<u>A State Framework Is Needed to Provide Clarity of Purpose and to Help Mobilize, Guide and Integrate Activities Towards the Common Goal of Placing Oregon on a Path Towards Sustainable Development.</u>

III. WHAT IS SUSTAINABLE DEVELOPMENT?

Broadly, Sustainable Development Means "Decoupling" Economic Development and Population Growth from Environmental Impacts. The term "sustainable development" was defined by the 1987 U.N. World Commission on Environment and Development as: "meeting the needs of the present generation without compromising the ability of future generations to meet their own needs." Key objectives included: "reviving economic growth, but in a new form (less material and energy intensive...); meeting essential needs for jobs, food, water, energy and sanitation; conserving and enhancing the natural resource base; and merging ecological and economic considerations in decision making."

Many believe that the term is too fuzzy to help guide policy debates. One way to make the idea more concrete is to think of it as ***fostering increased economic competitiveness and job creation*** for ***all*** Oregonians ***while simultaneously reducing environmental impacts*** to levels needed to maintain healthy ecosystems and resources. Economic well-being rises while environmental impacts decline: they are ***decoupled.***

OREGON'S NEXT GREAT CHALLENGE:
Decoupling Economic Growth from Environmental Impacts

Increased Economic Competitiveness and Job Creation

Decreased Environmental Impacts Per Unit of Harvest, Product, Service, and Gross State Product

The Choice is Not Between Economic Growth or Contraction. It often seems that Oregonians must choose between two contrasting views: contracting the economy to resolve environmental problems, or solving environmental problems through economic growth. Both of these models provide an invalid picture for the future. A shrinking economy holds little hope for the poor or unemployed, businesses and consumers. It is also impractical as Oregon's economy today is inextricably linked with global markets. Yet, economic growth as it has been typically achieved will lead to increased consumption of natural resources, pollution and waste. Therefore, neither approach is realistic.

To Decouple, The Only Viable Choice Is To Create a More <u>Environmentally Efficient Economy</u>. The only possible approach - and one experience shows is achievable - is to institute the policies, programs, practices and technologies needed to dramatically improve the efficiency by which we extract natural resources from the earth's surface, turn them into products and services, and then emit them as waste and pollution. Only by creating a more "environmentally efficient economy" (i.e. squeezing more from nature using dramatically fewer resources and less impact) can we decouple economic development and population growth from environmental impacts. This is the next great Oregon challenge.

From A Technical Perspective, This Requires The Adoption of Factor Ten Increases in Efficiency Throughout the Economy. The last century witnessed huge increases in labor productivity. As market pressures and environmental concerns increase, the new millennium is more likely to be characterized by substantial increases in environmental productivity and efficiency. This means we will increase economic growth and competitiveness through dramatic reductions in energy and raw material consumption, pollution, habitat impacts and waste generated per unit of product or service produced. Many believe that to achieve true sustainability, environmental efficiency must increase by a *factor of ten* in the future. As with labor productivity, the growth in environmental productivity will be largely based on technical and management advances which reshape the way business, government and communities function.

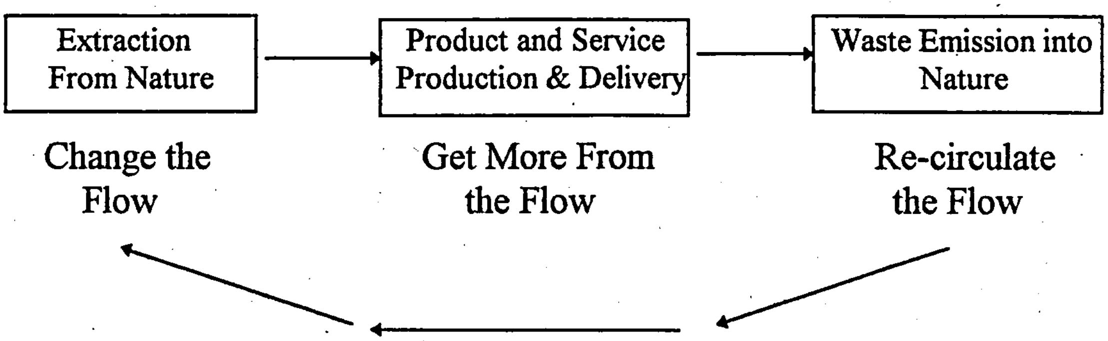
Is Decoupling Possible? Yes! The Netherlands is the first nation on earth to have successfully decoupled economic development from environmental impacts. Sweden and Denmark and others in the European Union have adopted similar goals. If the Dutch can do it, so can the citizens of Oregon. For over 30 years the Dutch used a command-and-control environmental regulatory approach similar to ours. However, in the late 80's they realized that, despite their system, they had become one of the most polluted nations on earth. This shocking news led to the creation of a new, more efficient and effective "goal and outcome-based" approach which stimulated innovation within the private sector and communities. While the Dutch still have many problems, they have successfully begun the process of decoupling. The need for a new approach also holds true here in Oregon.

<u>The State Must Be A Prime Mover</u>: Only Government Can Provide the Unified Mission and Overarching Framework Needed to Mobilize, Guide and Integrate Public, Private and Community Efforts To Decouple Growth from Impacts and Place Oregon On a Path Toward Sustainable Development. There is an old saying: "if you don't know where you are going, any path will get you there." If we don't have a unified vision of what we are tying to achieve, it is very hard to know if all the steps taken by agencies, companies, landowners or communities will add up to success. While the Oregon Salmon Plan, the Community Solutions Team and other efforts are significant steps forward, they are each focused on specific issues or geographic areas. To mobilize and guide efforts to achieve sustainable development, the state must provide a unified mission and overarching framework which brings these and many other public, private and efforts together to aim toward common integrated goals.

IV. WHAT DOES DECOUPLING TO ACHIEVE SUSTAINABLE DEVELOPMENT REQUIRE?

Decoupling Requires Action Within Every Aspect of the "Economic Value-Chain." The economic value-chain is a term used to describe the entire process by which our economy "adds value" to natural resources once they are extracted from the surface of the earth, turned into products and services, then emitted back into nature as pollution and waste. To decouple economic growth from environmental impacts, actions are needed within every component of the value chain: In the "upstream" resource extraction side examples may include environmentally compatible forestry, agriculture, fishing; In the "midstream" production and service delivery side examples may include improved energy and manufacturing efficiency, and shifts to the use of non-toxic materials in product and service design, manufacturing and delivery; In the "downstream" waste emissions side, examples include improved reuse, remanufacturing and recycling and bioremediation.

Decoupling Emphasis Within the Economic Value-Chain



Linked actions are needed within the entire economic value-chain if we are to successfully address today's pressing problems, such as endangered salmon, and prevent future ones.

There are Numerous Tools, Processes and Instruments Available to Help Guide Decoupling Efforts. For example, many new technologies are available to help the private sector and communities reduce environmental impacts while increasing efficiency and productivity. Local watershed programs, ISO 14000 and other Environmental Management Systems, The Natural Step, community livability and Smart Growth programs, sustainable forestry and agriculture, proposals for Green taxes and many other programs, tools and policy instruments may provide some of the basic building blocks for the initiative.

Decoupling Requires Integration and Collaboration. Sustainable development demands greatly improved coordination and integration across traditionally isolated environmental, economic and social programs. Crossing boundaries is necessary even if is difficult at first. In order to solve problems for the whole environment - and for a whole business or community - it is often necessary to find solutions for all parts of the economic value-chain simultaneously, not just for one part. In almost every arena, single focus solutions often unintentionally impact other parts. Crisis management is but one result.

V. AIMING TOWARD SUSTAINABLE DEVELOPMENT CAN POSITION OREGON AS A CENTER OF EXCELLENCE IN ENVIRONMENTALLY EFFICIENT BUSINESS AND COMMUNITY DEVELOPMENT.

Instituting a framework to decouple economic development from environmental impacts will have costs - but will also reap large benefits in increasing business, community and state *financial performance and productivity.*

It Pays to Reduce Pollution and Waste. The growing amount of pollution and waste generated in Oregon today indicates inefficiencies in product design, materials selection and manufacturing and service delivery systems. The inefficiencies equate to lost capital and revenue at the company, community and state levels. A tremendous investment of money and resources was required to extract raw materials, process them, turn them into manufactured products and then deliver them to the end user. These investments often are lost, in very short order, as the imbedded energy and product materials are used and then buried or incinerated. Extending the productive life of these materials (and the embedded energy required to make them) as far as possible, generates a much greater return on investment. Implementing the process and operational improvements needed to eliminate pollution and waste creates greater efficiency which in turn increases productivity. These steps also lead to more sophisticated business and community management capabilities.

Decoupling Efforts Lead to Greater Efficiency and Productivity. In his recent book *Cool Companies,* Joseph Romm describes the productivity benefits of reducing pollution and waste: "A stunning example of increasing productivity by decreasing waste comes from the authors of the book *Dynamic Manufacturing*. They found that 'reducing materials waste often improves productivity far beyond what one might expect from the material saving alone.' Their study looked at Total Factor Productivity (TFP), which is not merely the output per unit of labor but also a calculation of the product output as a function of all labor, capital, energy, and materials consumed in its production. TFP examines the overall efficiency of a process, as opposed to the efficiency with which it uses any single factor, such as labor. The 'waste rate' is the ratio of wasted material (scrap and rejects) to total cost. The table summarizes their finding in one plant:

Plant	*Average Waste Rate (Percentage)*	*Effect on TFP of a 10 Percent Reduction in Waste Rate*
C-1	11.2	+1.2
C-2	12.4	+1.8
C-3	12.7	+2.0
C-4	9.3	+3.1
C-5	8.2	+0.8

The authors note that 'reducing waste...by 10 percent from its mean value (which by itself would reduce total manufacturing costs by only half of 1 percent) appears to have been accompanied by a 3 percent improvement in total factor productivity.' This reveals the 'powerful impact that reducing wasted has on overall productivity.'"

Many Major Companies are Committing to Becoming Waste-Free and Dramatically Reducing their Full Range of Environmental Impacts. For example, Interface Inc., a leading global manufacturer of carpet and floor coverings, has decided to be a "zero waste company." This includes eliminating scrap (one type of waste) and misdirected shipments, incorrect invoices, and defective products. From 1994 through 1998 Interface cut its waste by 54 percent by weight and in doing so cut costs by $76 million. They used an integrated design approach with the goal of simultaneously minimizing costs and environmental impact. The company is "redesigning its processes and products into cyclical material flows where 'waste equals food.' " (J. Romm, 1999).

Xerox Corp. is another firm that has committed itself to produce "Waste-Free Products from Waste-Free Factories." In 1993 they initiated their Waste-Free Factory Program with the goals of decreasing municipal, hazardous, and chemical waste by 90 percent and decreasing water discharges by 90%. Each Xerox factory performs annual self-assessments against nine specific target areas to provide an overall Waste-Free Factory Score. Plants are designated "Waste-Free" when they have achieved an overall score of 450 out of a possible 500. Xerox seeks to meet its zero waste goals through source reduction, the use of post-consumer materials in at least 60 percent of material purchases, reuse, recycling, remanufacturing and energy efficiency initiatives (J. Romm).

If major companies like Interface and Xerox can become waste-free, so can Oregon firms. Indeed, Oregon companies such as Norm Thomspon, Collins Pine, Neil Kelly Co., Oki Semiconductor (before it left), Intel and many others are already taking significant steps to demonstrate that good environment management is good for business. Over 60 Oregon companies are listed on the DEQ Commercial Waste Reduction Clearinghouse data base list. Together they have found well over $1 million in savings from waste reduction alone.

Preventing Environmental Impacts Reduces Company and Shareholder Risk. From an individual firm's point of view, pollution and waste are a financial liability, incurring storage, processing, mitigation, transportation, liability and disposal costs. If pollution and waste can be significantly reduced or eliminated, the economic benefits as well as the reduced risk to shareholder value can be significant.

Decoupling Efforts will Reduce Environmental Clean-Up Costs. Aiming towards sustainable development will stimulate the design and production of more environmentally sustainable products and services. They will use naturally occurring (non toxic) materials and consequently, will be more easily disassembled, reused or recycled and naturally break down and be re-assimilated into nature when all useful value is lost. This will reduce the management and clean-up costs of waste facilities, landfills and incinerators, which are borne by taxpayers. The Short Mountain Landfill in Lane County exemplifies these issues. Not only does the county manage this site just south of Eugene, it (i.e. taxpayers) must continue to pay for to clean-up the leachtate that is seeping into the nearby Willamette River. Reducing pollution and waste will reduce these types of costs.

Creating a Move Environmentally Efficient Economy Will Stimulate New Businesses and Jobs. Whole new industries will be created by placing a major emphasis on achieving sustainable development. Entrepreneurs will find many new, creative business opportunities generating products from naturally occurring materials, providing services rather than products to consumers, and using reused and recycled materials for new ends. New, previously unheard of industries and new jobs will be some of the outcomes. The PSU Center for Watershed and Community Health's (CWCH) waste-based economic development project underscores this point. The CWCH identified more than 40 for-profit reuse and recycling businesses which could be created based on the waste material being collected in the Columbia Gorge, Illinois Valley and Southern Willamette Valley regions of Oregon. The CWCH also helped non-profit CDCs begin development of six waste-based businesses in Oregon and Northern California. These initiatives just scratched the surface. Many more opportunities exist for entrepreneurs to exploit.

Decoupling will Conserve Resources and Protect Essential Ecological Services. The process of continually extracting virgin materials and toxic minerals and metals to serve as feedstock for new products often damages fragile ecosystems and habitats. Air, water and soil pollution contaminates key resources. Landfilling - even when done to the highest standards - often causes toxic leaching into ground and surface water as well as soil contamination. Incineration generates harmful toxic emissions. All of these impacts can be reduced by efforts to achieve sustainable development.

Aiming Towards Sustainable Development Will Increase Social Equity. Efforts to achieve sustainable development must fully engage the poor and disenfranchised. This is a moral obligation. It is also important because the poor must do whatever is necessary to care for their families, which may include activities which harm the environment. With sufficient education and proper training, many of the job and business opportunities that may emerge as we grow an environmentally efficient economy can be captured by poor communities and neighborhoods. For example, businesses reusing and recycling material formerly headed for the waste stream can be established in economically distressed rural communities and urban neighborhoods. This will provide an economic benefit to these communities.

In Sum, Setting a Course Toward Sustainable Development Can Position Oregon as a Center of Excellence in Sustainable Resource Management and Business Development. This can be used as a promotional tool for Oregon goods and services nationally and across the globe. It can also help Oregon firms capture and expand market share. Finally, it will help ensure that Oregon's environment and quality-of-life are maintained.

VI. BRIEF HISTORY OF ONE EFFORT: THE ENVIRONMENTAL STEWARDSHIP PLAN PROJECT

The Environmental Stewardship Plan Committee was an informal multi-stakeholder policy dialogue group that met between February 1997 and December 1998 to develop more efficient and effective approaches to environmental management and regulation. Staff from the Hatfield School of Government at Portland State University facilitated the process. The work of this group may provide some of the basis for a state framework to achieve sustainable development.

The Stewardship Plan Committee's Vision and Principles: Through the work of two subcommittees in the summer of 1997, a vision and a set of common principles emerged to help guide new approaches to environmental management and regulation in Oregon:

There Was General Consensus For the Following Vision Statement: "The citizens of the State of Oregon are committed to being good stewards of the environment. This means we commit ourselves to ensuring that the next generation of Oregonians are advantaged and not encumbered by our actions today."

Values:

- We believe that good business practices should be fully compatible with a healthy environment and a strong economy to the benefit all Oregonians.
- We believe that every Oregonian has a right to a healthy environment and healthy economy and therefore has a right and responsibility to participate in decisions which affect both the environment and the economy.
- We believe that every Oregonian is therefore accountable to all other Oregonians for actions that may impact the environment.

Principles

The subcommittees identified a set of common principles which an expanded or new approach to environmental management and regulation needs to provide:

* Regulatory stability
* Continuous improvement
* Flexibility
* Adaptability to new science, technology and economics.
* Based on an understanding the dynamic nature of ecosystems.
* Means or ends can be modified but only on site-specific basis with proof that a new approach is better than old standard or practice.
* Share the responsibility for environmental protection, action and solutions.
* Focus on outcomes rather than the process or bean counting.
* Strive to exceed standards
* Use the most cost effective means possible
* Use EMSs that are cost effective
* Regulatory sufficiency
* Central gov't set standards through consultation with stakeholders, citizens governments.
* Synchronize intergovernmental actions

(Note: Each subcommittee also identified principles that were not identified by the other subcommittee. This did not mean the other committee did not support those principles).

***The State of the Environment Report*:** In the fall of 1997 the group felt that a goal and outcome-based system focused on sustainable development was needed in Oregon. To accomplish this, the group felt the state needed to establish environmental goals. For this reason the group proposed to the Oregon Progress Board the development of a State of the Environment Report. The purpose was to begin to organize and integrate environmental data to allow the state to set goals. The Progress Board agreed and the project officially started in early spring, 1998. Dr. Paul Risser, President of Oregon State University agreed to chair the science panel. The project is operated as a "civic science" process and The Progress Board nominated a group of stakeholders to work with the science panel through the process. A first draft of the report should be completed in late fall, 1999, or early winter 2000, and the final report should be published in early 2000.

***HB 3135, The Stewardship Plan Legislative Proposal*:** Again, based on the vision and principles, in the fall of 1998 some members of the committee decided to seek legislation that would establish an interim committee to flesh out a state plan to achieve sustainable development. Staff from the PSU Hatfield School of Government also felt that the informal dialogue process had served its purpose and should be sunseted. The committee had discussed alternative models of environmental management, worked through the above set of principles and reviewed the ideas with a broader set of individuals representing a variety of interests in the state: agency directors, local government officials and other stakeholders. The Stewardship Plan now needed to address the real-time political implications of plan implementation. To do so the process needed formal state authorization.

This led to the development of HB 3135, which was introduced by House Agriculture and Forestry Committee chair Larry Wells (R-Jefferson). However, the bill was not referred to Rep. Wells committee. Instead, Rep. Wells had to "borrow" the bill from the House Government Affairs Committee. Nevertheless, a hearing was held in the House Agriculture and Forestry Committee and more than 20 businesses, organizations, individuals and state agencies sent letters or stated support. No visible opposition was stated. HB 3135 was supported by a majority of the Environmental Stewardship Committee participants. However, as with most other environmental legislation, the bill did not move out of committee.

Given the growing list of supporters for the, the proposed Environmental Stewardship Plan could serve as a beginning point for the development of a state framework to achieve sustainable development.

VII. COMPONENTS OF A STATE FRAMEWORK TO MOBILIZE, GUIDE AND INTEGRATE EFFORTS TO ACHIEVE SUSTAINABLE DEVELOPMENT

Just as the Oregon Plan for Salmon provides a comprehensive framework to guide salmon recovery, the state must develop a framework to mobilize, guide and integrate efforts by government, the private sector and communities to achieve sustainable development. The framework should place state government in a first mover, "steering" role - serving as a catalyst and providing support and guidance. Most of the "rowing" functions - specific actions to achieve the goal - must be done by the private sector and communities.

Based on the work of the Oregon Environmental Stewardship Plan Committee, reviews of successful programs in the U.S. and across the globe, as well as local initiatives, there appear to be at least three components of a framework which can successfully mobilize, guide and integrate efforts to place Oregon on a path toward sustainable development.

- The state would declare that achieving sustainable development is a top priority and establish clear goals and a mechanisms to mobilize, guide and integrate government, private sector and community efforts towards this end;

- Each state agency would adopt clear goals and outcome-based strategies to align internal rules, regulations and programs and to mobilize, guide and support constituent efforts to achieve the new state sustainability goal;

- Ongoing private sector and community sustainability efforts would be complemented by new initiatives aimed at the common state goal of decoupling economic development and growth to achieve sustainable development.

A. State Goal and Framework To Achieve Sustainable Development

1. ***The State Must be A Prime Mover and Declare Sustainable Development a Top Priority:*** To place Oregon on the path toward sustainable development, state leaders must declare this a top priority. Few things mobilize government and the public more than government leaders declaring an issue a top priority. A public declaration is vital to mobilizing agency action and to provide a compelling reason for the private sector and communities to focus on the issue.

The Governor is perhaps the best person to initially lead the effort. His office could go so far as to declare, as many nations have done, that Oregon shall achieve sustainable development within one generation, or 20 years. Some state agencies (e.g. State Forestry, Economic and Community Development) and many programs initiated by the Governor (e.g. Salmon Plan, Community Solutions team) have already adopted similar goals or compatible ends. State agency commissions could follow the governor's lead. Eventually the legislature would need to adopt the goal of sustainable development.

2. The State Would Develop a Means to Mobilize, Guide and Integrate Sustainable Development Efforts. Some components could include:

a. Comprehensive Assessments of the Status, Trends and Risks to the Environment to Generate Agreements On Existing Conditions and Anticipate Future Problems. A fundamental building block of any sustainable development program must be credible information to determine what is needed to sustain the environment over the long run. This requires an assessment of current conditions, trends and future risks. Key stakeholders must be engaged in the process to generate common understanding of the way the environment functions and agreements on existing problems and future risks that should be addressed now. Comprehensive scientific baseline information is vital to provide a platform for anticipatory policy development. Only the state can establish systems needed to provide this type of information. Without it, advocacy science will be the norm.

About twenty states, a few federal agencies and numerous nations have developed some type of a "State of the Environment" or "Environmental Indicator" reports to provide this type of information. The most successful assessments are updated every 2-4 years using environmental data strategies adopted by all agencies. Information in these assessments is used to set sustainability goals and targets, and to assess current policies and programs against to determine is they can achieve the goals. If research shows existing policies can't achieve the goals, policy adjustments are made. The process has proven so important in some nations that a representative of the Danish government, when informed that neither Oregon nor many other U.S. states have this type of data, asked "how can you set environmental policy without this type of information?" The State of Oregon must institute this process.

An Oregon State of the Environment Report is now being completed under the auspices of the Oregon Progress Board. This report is the first attempt to provide some the scientific information needed to establish environmental goals and targets. It is being developed on a shoestring with volunteer scientists and staff and consequently there will be omissions and holes. With sufficient resources, the process will be refined and improved over time. The SOER process should be institutionalized and funded by the state to help improve it, guide long term sustainability policy development, and to keep the public informed about the condition of their environment.

b. Means to Link Data on Economic Drivers with the Environmental Data to Provide Common Understanding and Generate Socio-Economic Goals and Targets. Another key piece of information needed to establish an anticipatory management system is credible data describing today's real economy and it's linkages to environmental problems, and an analysis of the costs and benefits of alternative strategies to decouple economic development from environmental impacts. This information can lead to the development of integrated sustainable development goals and targets.

There is no mechanism in the state to provide this type of information. As a result, advocacy economics prevails. Discussions have been held by those involved with the Progress Board's State of the Environment Report to institute this process immediately, or soon after the report is completed. The state may want to support and fund this process, or initiate other mechanisms to generate this vital data.

b. Coordination Within the Executive Branch. The Governor's office has a number of programs which touch on or directly relate to sustainable development (Community Solutions Team, Governor's Natural Resources Office). A common set of sustainable development goals and principles may prove useful to help coordinate and integrate these programs around the common goal of sustainable development.

In addition, the Governor's office is the logical place within which to establish a mechanism to coordinate and integrate all of the sustainability programs and policy development underway within state agencies. Some type of coordinating process should be considered.

c. Guidance to State Agencies. State agencies need direction and authority from either the Governor and/or their commissions and the legislature to make sustainable development a priority. While many agencies have initiated pilot projects or discussions on their own or due to legislation (e.g DEQ Green Permits) they will be greatly enhanced by clear direction from state leadership to proceed forward. Guidance can take the form of an open invitation to any agency, requirements that all agencies participate, or the selection of pilot projects involving a few agencies. As sustainable development requires action within every aspect of the economic value-chain, the pilot project approach risks the transference of problems from one media to another (water effluent into air emissions or increased waste).

d. Statewide Coordinating Council. The state may also want to consider establishing some type of multi-stakeholder process to provide direct communication and coordination between the Governor, legislature, agencies, private sector and community sustainable development programs. While each agency will communicate with its constituents, it may also prove helpful to have a mechanism for ongoing direct communication between state leaders and the public.

B. State Agency Goal Setting and Action Plan Development

1. ***Each Agency Would Assess its Operations, Identify Needed Changes and Develop an Action Plan to Adopt a Path Toward Sustainable Development.*** While state agencies know some of the steps they must take to adopt paths towards sustainable development, a comprehensive assessment of each agency's operations is certain to prove very helpful.

The State of Minnesota Environmental Quality Board and the Minnesota Planning Department recently sent a survey on sustainable development to most state agencies. The results were published in the April 1998 document Taking Root. The responses provided an initial assessment of how agencies perceived their mission's and activities in light of sustainability. Minnesota agencies recognized the following shortcomings:

- A common understanding of what sustainable development means and how it might change the way agencies and programs function;
- An awareness of the need to consider the net environmental, economic and community impacts of each decision;
- A coherent, well-defined policy framework to guide state agencies in contributing their respective strengths to the state's overall sustainable development goals;
- Criteria for evaluating the degree to which a given policy or program promotes sustainable development.

These shortcomings reduced the ability of Minnesota state agencies to adequately assess their own actions for sustainable outcomes. This is certain to be true in Oregon as well. For this reason, an agency wide assessment would prove useful to identify specific actions and develop a long term action plan to achieve sustainable development.

This past summer, graduate students working with the Portland State University, Center for Watershed and Community Health completed preliminary assessments of three Oregon agencies: The Department of Economic and Community Development, Department of Environmental Quality, and Department of Fish and Wildlife. In crafting this assessment, the students incorporated questions to deal with the concerns found in the Minnesota survey. In addition, following HB 3135, they added three addition criteria which recognize that agencies would need to:

- Establish clear, long term measurable goals for environmental and natural resource stewardship along with measurable objectives and interim benchmarks to monitor progress towards the goals;
- Examine a performance based system in which long term measurable goals can be attained by carefully monitored and self-generated, incentive based strategies that improve the efficiency and effectiveness of environmental management and regulation for businesses, communities and government; and
- Integrate environmental and natural resource goals with economic and societal goals.

The results of these preliminary assessments reaffirmed that Oregon agencies need education and training, as well as clear guidance from the Governor and other state leaders to adopt effective sustainable development policies and programs. This underscores the need for a thorough assessment of agency operations.

Following the assessment, an action plan can be created which identifies immediate steps each agency can take such as changes in rules, regulations, procurement policies, and program operations. The plan should also identify legislative changes needed to place the agency on a more sustainable path. *A key component of each plan should be clear criteria for deciding what is and is not sustainable.*

2. Each Agency Would Adopt Clear Goals and Objectives for Achieving Sustainable Development. A key part of each agency's action plan should be the adoption of clear long-term goals, specific measurable 2-5 year objectives and interim benchmarks (progress indicators) for managing the environment. These should be linked with socio-economic goals as discussed previously. The information for goal setting should be obtained from processes such as the State of the Environment Reports.

a. Goal Setting Means Moving from Counting "Outputs" to Measuring "Outcomes": Traditionally, regulatory agencies focus on counting "outputs" (number of inspections, enforcement actions) and case-disposition statistics (convictions, financial penalties) to demonstrate enforcement. Enforcement is assumed to lead, through deterrence, to compliance. Compliance is assumed to lead, in turn, to achievement of regulatory goals (public health, safety, environmental quality etc.). This traditional "bean counting" approach is now being challenged on many fronts - including by many Oregon agencies - because focusing on "outputs" has not necessarily translate into ***"outcomes" (i.e. results).***

b. Lack of Clear Goals and Measurable Objectives Leads to Crisis Management: Without clear goals, society may unknowingly overshoot, government reacts with strong controls, and crisis management continues. If the state establishes clear goals and measurable objectives, it can focus more on outcomes than on the means to achieve them.

c. Clear Goals and Objectives Leads to Greater Equity. In lieu of clear goals, government often focuses on the businesses for which more information exists or which are easiest to regulate. Clear goals and objectives can lead to the involvement of those that have not shared the burden, thus easing the burden of those that have done their part for many years. All Oregonians should contribute.

d. Goal Setting Has Already Begun In Some Areas: The Governor signed an Executive Order requiring goals and objectives to be established in the salmon program. Oregon DEQ (Strategic Plan) and the Department of Forestry (Sustainability Indicators), among others, are also developing goals. These need to be integrated across all agencies and resources (e.g. waste management is not coordinated with watershed rehabilitation).

e. **How Are Goals and Performance Measures Set?** Private businesses have many qualitative and quantitative tools to determine whether programs and policies are leading to desired goals. In contrast, government has not often developed goals or performance measures. To do this means that we would first have to decide what is needed to sustain the environment. In other words, what results do we expect our environmental programs to achieve? This is the type of information a State of the Environment Report should provide. Agencies then need to establish ways to track how well and how timely their efforts are in progressing towards these goals. This will not be an easy task. It will require up front investments of time and energy. Stakeholders must be thoroughly involved and it is certain to test the patience of the public and government alike. Yet, if the agencies and stakeholders are willing to slog through the process, the improvement that results from actually knowing what is to be achieved and how we are doing will more than pay for itself in the long term, thereby reducing overall costs.

3. ***Each Agency Would Develop Outcome-Based Regulatory and Management Programs.*** Developing a unified state mission, framework and clear goals will not, alone, lead to a more sustainable paths. The *means* to achieve the goals must also improve. A key component of each agency's action plan should include the creation of outcome-based programs whereby companies, landowners and communities would be held accountable for achieving specific goals and objectives but be free to choose ***how*** to accomplish desired ends. Focusing on ***results*** places the responsibility for the environment where it rightfully belongs: on the private sector and communities. This will stimulate tremendous innovation to solve problems in the most cost effective and efficient way.

a. **Outcome-Based Programs Are Fundamentally Different Than the Traditional Regulatory Approach:** Most businesses do not mind investing in capital or management improvements to help the environment. They do dislike being required to invest in data gathering or activities that provide marginal benefits, especially when they know how to achieve greater benefits for the same or less cost. Rather than micromanaging entities on how compliance is achieved, government's primary role in outcome-based programs is to set clear goals, objectives and interim benchmarks. Government then provides technical assistance and incentives to help entities develop their own customized, least-cost path to achieve the objectives. An entity decides on its own how to allocate resources to achieve the needed outcomes. Once a customized plan is developed, government reviews and approves it through a variety of legally binding agreements. Government then monitors progress to verify that interim objectives and benchmarks are met to assures compliance.

b. **Outcome-Based Approaches Often Provide Some Type of "No Surprises" Assurance and Allow Business to Make Changes Within Normal Business Investment Cycles.** Change is not foreign to businesses. The nature of today's economy forces every firm to rapidly adjust processes, products or services to meet changing market demands. Yet, to ensure business viability, except where serious health, safety or environment risks exist, outcome-based programs often allow entities to phased-in major capital improvements within their normal business investment cycle. "No surprise" assurance is also provided for some set period so that customized plans have sufficient time to be implemented without changing the goals or requirements.

Examples of Legally Binding Agreements Providing "No Surprises" Assurances:

- Custom Waivers: Special permits for innovative approaches which substitute for existing legal requirements (DEQ Green Permits).
- Permits for Voluntary Environmental Management Systems: Waivers or binding agreements which declare that adoption of management systems such as ISO 14000, International Sustainable Forestry Criteria and others are sufficient to meet legal standards.
- Incidental Take Permits: Administrative sufficiency provided against prosecution for a suite of steps taken to protect endangered species or their habitat.
- Memorandums of Agreement: Almost every agency has authority to write cooperative agreements which specify what an agency will commit to in return for specific commitments by an entity. For example, an agency may agree to place entities low on the priority list for potential fines or prosecution of violations if it agrees to implement and abide by a self-generated Stewardship Plan.
- Performance Contracts: These are adaptive, vary in scope, and could apply to facilities, firms, supply chains, business sectors, products, substances and communities and even to larger issues such as climate change, land use, Brownfields redevelopment etc. They are similar to Cooperative Environmental Agreement laws.
- Covenants: Legally enforceable civil contracts between whole economic sectors, individual firms or communities and government specifying the commitments each will make to achieve specific goals and objectives (used extensively by the Dutch Government).

c. Outcome-Based Approaches Use Incentives to Create Flexibility and Encourage Innovation: In outcome-based systems, entities can use their best ideas, imagination and innovation to adjust inputs and processes as needed. In return, agency managers can be confident that participants are working toward the agreed goals. Feedback systems - based on consistent measurement and the achievement of benchmarks - help ensure that participants are working in the right direction and allow managers to dispense with constant micromanagement and oversight. Government provides public recognition, financial assistance, and other incentives to foster and support implementation.

Performance incentives can include:

- Public recognition;
- Streamlined facility or site permitting;

- Reduced reporting requirements;
- Flexibility in permit adjustments for modest changes;
- Priority for technical assistance;
- Priority for grants, low interest loans and other financial tools:
- Priority for government contracts; other.

d. This Would be An Alternative Path, Not a New Layer of Government: Outcome-based programs would provide an alternative path for entities that want to commit to the sustainable development goals. Those that choose not to participate can remain under the existing regulatory system. It is possible that as we learn more over time the traditional regulatory system will become less important. However, some form of regulation will probably always be needed, if for no other reason than to address "free riders."

e. The Existing Regulatory System is Maintained But Used Differently. Rather than using regulation as the sole or dominant tool, it would be used primarily as a back-up to set baseline conditions, regulate "free-riders" (those that choose to do little), to assure a level playing field for all, and to monitor and provide feedback. Thus, the *existing regulatory system is maintained* but used differently. Government therefore encourages innovation while providing assurance that "the commons" (air, water, biodiversity) are protected for all.

f. Voluntary, Bottom-Up Approaches Are Key Components of Outcome-Based Programs: This approach builds upon the Oregon Salmon Plan and other bottom-up voluntary programs. The development of specific goals and measurable objectives will allow participants to know if all their efforts add up to success.

g. A growing number of states and nations believe goal and outcome-based systems provide a better "Return on Governance" (ROG). Scarce resources and management attention require that returns on governance be maximized. This means that routine activities and continuous improvement must be able to occur without constant management oversight and resources must be conserved to focus on the most critical issues and opportunities. Many believe that goal and outcome-based systems promise to deliver ROG better than most other approaches to environmental governance.

4. This Approach is Consistent with Many State Programs. This approach is consistent with and builds upon exemplary programs such as:

- **The Oregon Progress Board Benchmark Program** and SB 1130, Section 8, ORS 291.200 (2) (Budget Development Policy). This requires state agencies to accomplish set goals when developing their budgets. However, there is little clarity on how agencies should accomplish this in the environmental arenas, and there is no umbrella state policy which can integrate all state agency goals. While the Progress Board has developed environmental benchmarks, this area lags behind the other benchmarks.

- **The Oregon Plan for Salmon and Watersheds, the SB 1010 plans** and other state programs focused on salmon and water quality. A state framework on sustainable development would add clarity and direction for integrated goal setting for these programs, thus supporting local citizen and landowner efforts. It could be viewed as a logical next step of expanding a goal and outcome-based approach to all environmental and natural resource issues, not just salmon.
- **The Governor's Community Solutions Teams,** which are in the process of establishing Quality Development Objectives for growth management issues and integrated agency responses to resolve problems.
- **The DEQ Green Permits Program,** which seeks to provide recognition and incentives for going beyond minimum compliance.
- **Department of State Forestry's First Approximation Report** which is using sustainable forestry indicators as part of their forests assessments work and **Stewardship Agreement Program** which authorized the Board of Forestry to develop rules to provide increased flexibility for going beyond minimum compliance.
- **The Enlibra Principles Adopted by the Western Governors' Association**. The Stewardship Plan proposes to establish a formal state framework (governance structure) to guide, monitor and assure performance of state programs which use these types of principles.
- **Executive Order No 99-13** on the Elimination of Persistent, Bioaccumulative, and Toxic Pollutants.

5. Can This Approach Address Federal Mandates? Reform has to start somewhere. Oregon needs to get its act together before the issues can be taken to the federal level. Once the state develops a refined strategy, it can petition the federal government for waivers, much as the Oregon Option created waivers for medical and welfare reform. It should be noted that many experts believe that in the coming years, environmental and sustainable development innovation will emerge primarily at the state level and the federal government will learn how to respond to and support the states. If true, as with welfare and health care reform, Oregon may once again lead the way.

C. Action Plans By the Private Sector, Communities and Non-Profits

The first mover position and framework developed by the state should be taken as an invitation and challenge to the private sector, communities, special government units and non-profits to develop action strategies to achieve sustainable development.

1. ***Individual Firms, Landowners, Communities and Non-Profits Should Develop Customized Action Strategies Within Every Component of the Economic Value-Chain.*** As the diagrams on the following pages show, our economy is a system in which materials (minerals, metals, biological) are extracted from nature, converted into products and services, and then discharged as waste (physical materials and dispersed pollutants) back to the same landscapes that provide our resources and key ecological services. Understanding the way in which the economic value-chain impacts the environment demonstrates that actions are needed within every component to place Oregon on more sustainable paths. Each company, landowner, community, special government district and non-profit should develop customized, least-cost strategies to achieve the sustainable development goals and objectives established through a State of the Environment Report process and/or agency goal setting.

2. ***Work Through Whole Economic Sectors When Feasible.*** It is often difficult for firms, landowners or communities to significantly improve environmental performance without commensurate changes throughout the entire economic sector in which they operate. It is for this reason that sector-based management programs are emerging as a viable means to address key problems.

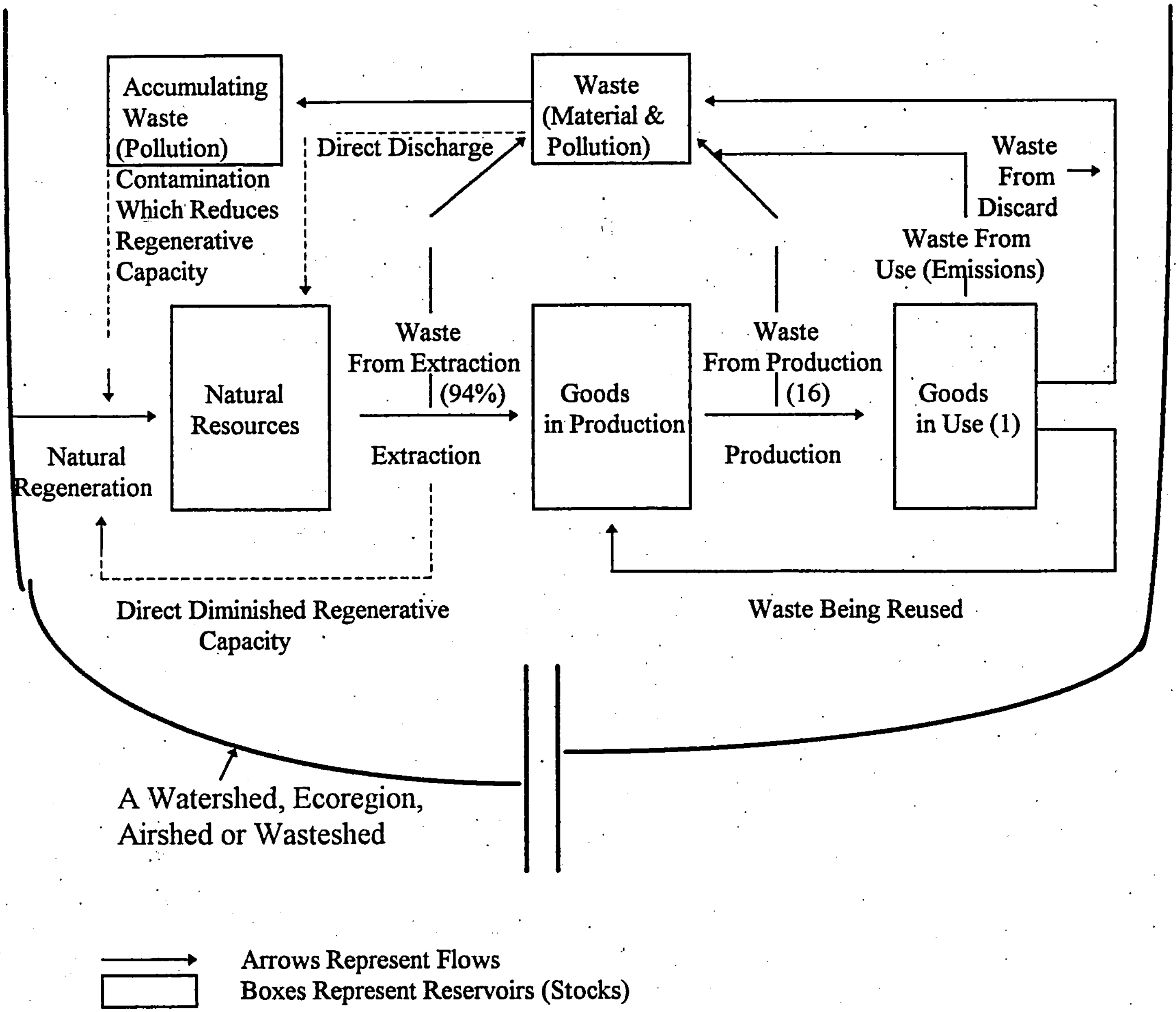
Many activities that effect the environment result from management decisions that are driven by real or anticipated economic forces within the sector in which an entity operates. For example, a business may hesitate to make investments to reduce effluent discharges due to cost pressures from upstream suppliers which control the type, cost or availability of key feedstocks or hesitate due to pressure from downstream distributors which demand reduced per unit costs to meet market demands. Individual firms often cannot obtain new technologies to reduce their environmental impacts until their equipment suppliers see sufficient demand in their customer base to make retooling cost-effective.

Small and mid-sized firms often do not have the expertise or resources required to implement sophisticated process improvements. They need help from larger pools of expertise. Further, many businesses will hesitate to make major investments unless their competitors are required to make similar investments (i.e. they fear the effects of free-riders and a non-level playing field). Just as firms may feel constrained by pressures within their economic sector, communities may feel constrained by the economic conditions and trends of the firms and sectors which are key economic engines within their tax base.

It is for these and other reasons that it can be helpful to initiate decoupling strategy development by working with whole economic sectors rather than by focusing just on individual firms, landowners or communities, one at a time.

Diagram A

ENVIRONMENTAL IMPACTS GENERATED BY THE ENTIRE ECONOMIC-VALUE CHAIN

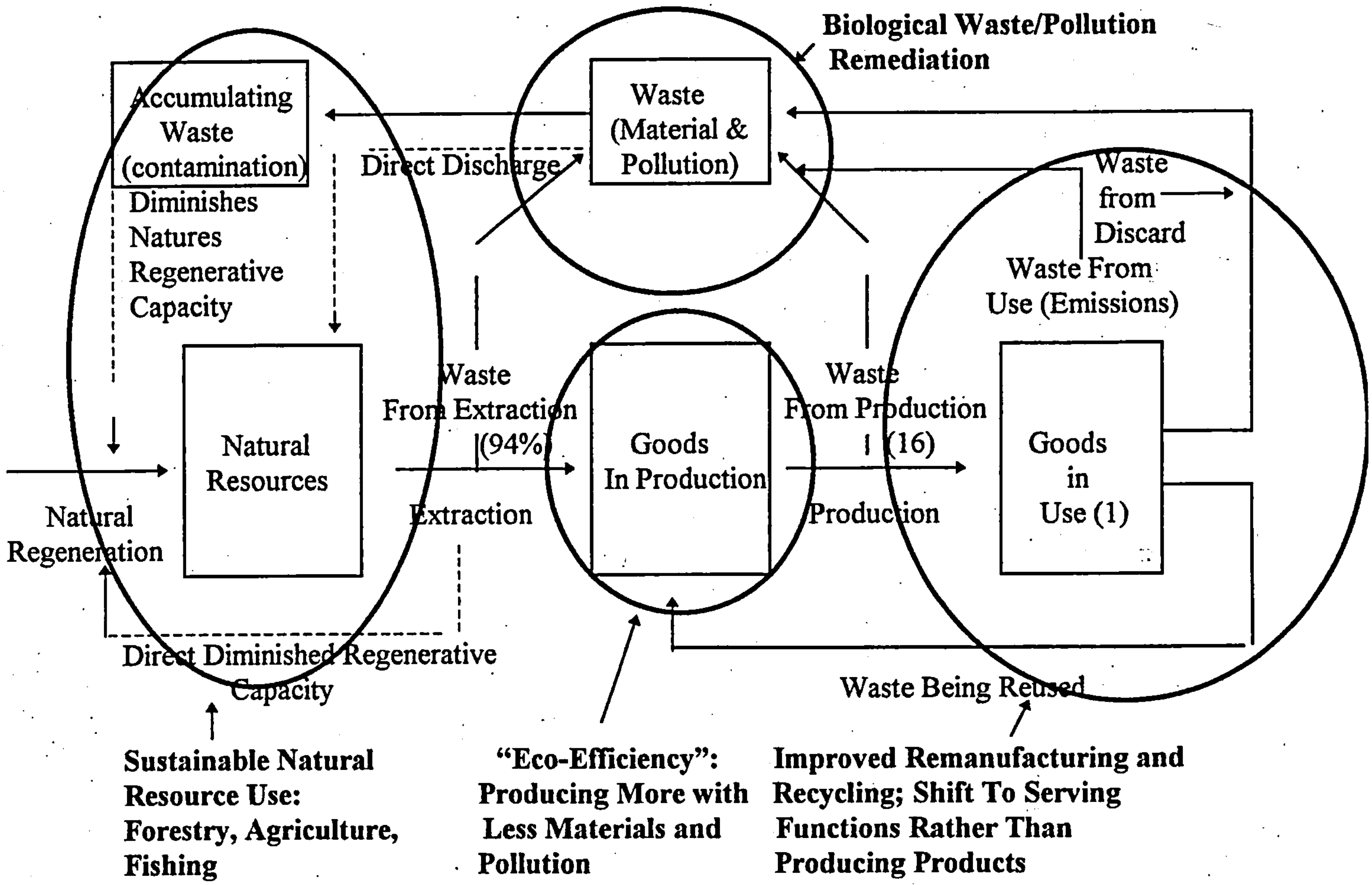


- 94% of the materials extracted from nature end up as waste and never enter production stage
- There is roughly a 16 to 1 ratio of waste from production to final products.

Diagram B

OPPORTUNITIES TO CREATE AN ENVIRONMENTALLY EFFICIENT ECONOMY

Opportunities exist in all components of the economic value-chain to establish sustainable practices and develop or grow profitable businesses which improve the environment.



Strategies within all four areas must be pursued simultaneously. Any one in isolation could, and often does, create even greater environmental risks. For example, eco-efficiency on its own may lead to reduced costs which generates increased sales and production of products and services which uses more raw materials and leads to more waste and pollution.

Sector-based solutions must be applied by each individual member of the sector through locally tailored strategies. However, if organized properly, sectors can aggregate expertise and resources, design templates for recovery, identify solutions to common technical problems, and develop policy proposals that benefit all members. These steps help ensure a level playing field for all sector members.

a. Sample Process

Organize Priority Sector Groups. Sectors can be organized based on their use, production or delivery of similar products, processes or services. Government or it's representatives must generally take the initial steps to contact and ask the sectors to participate and organize themselves. The sectors can organize themselves through trade associations, ad hoc groups or other strategies. It is best to work through sub-sectors rather than large sectors when possible. For example, "agriculture" is generally too large a sector to be useful from an planning perspective. Orchardists, grass seed, dairy and nursery are examples of sub-sectors that are better organizing units.

Once the sectors are organized, the following questions should be answered:

- What is the economic and social structure of each key sector group?
- What are the key economic and political forces and constraints that shape it's activities (pressure from upstream and downstream within the economic sector)?
- What role does government and public policy play in influencing activities within the sector?
- Which are the key organizations?
- What are the more progressive businesses and institutions and who are the leaders?
- What is the best way to ask the sector to organize itself to develop strategies (through trade associations, ad hoc groups?)

Begin Option Planning. Once the context and forces affecting each sector are understood, problem solving and the development of action plans can begin. The following questions can help guide the process:

- What are the known possible measures which could be taken by each key sector to reduce or eliminate their impacts?

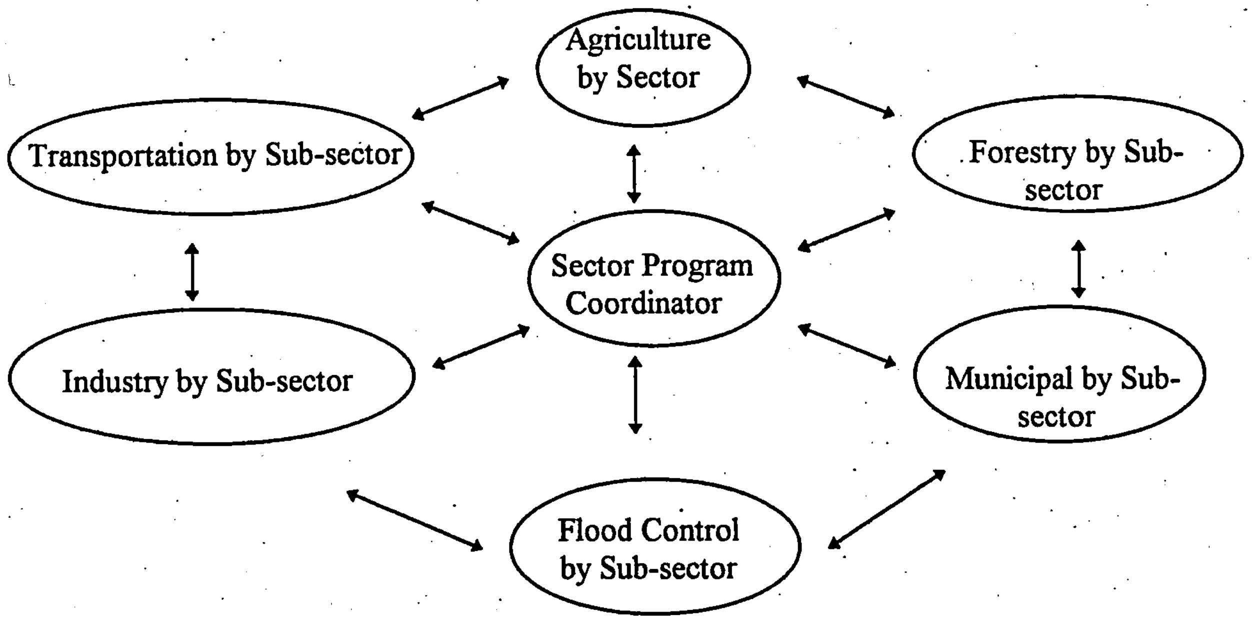
- Which measures are clearly necessary to achieve the environmental quality goals and targets?
- Which options can be implemented quickly with little cost ("low hanging fruit") and which may require more time to implement but which may generate significant benefits?
- What are the potential costs of each option?
- What are the economic benefits to the sector and society at large from each of the possible short and long term measures?
- What would the time frame be to introduce the measures?
- What government actions or public policies could be most effective to help the sector implement the measures?

These questions should be discussed with the key sectors as well as with public agencies that deal with the sectors and groups that are part of the sectors' economic value-chain (upstream suppliers, downstream distributors, power suppliers, waste management authorities, etc.). This enhances the discussions and can open up new ideas and options.

The level of uncertainty is always of great importance in these processes. A good rule of thumb is that if the confidence level about cause and effect is 75% or more, the step should be taken because this level certainty far exceeds the level of certainty in almost every type of business investment.

Establish Communication And Exchange Mechanisms. Better options will emerge if all of the sectors can communicate and possibly explore the potential for trades and exchanges between sectors. To accomplish this, a communication and exchange mechanism should be established. The key is to ensure that sectoral strategies are not developed in isolation. The sum total of the actions by each economic sector must eventually "add up" to reduce environmental impacts to the desired environmental goals established through a State of the Environment Report goal and target setting process.

SCHEMATIC OF EXAMPLE SECTOR-BASED SUSTAINABLE DEVELOPMENT PROGRAM



Seek Opportunities For Trades Between Sectors. For example, effluent trading (e.g. trading of credits between point sources and point and non-point sources) and financial trades between sectors (e.g. downstream urban areas agreeing to fund upstream improvements on farm or forest lands) can be effective means to find the most cost-effective way to reduce environmental impacts.

Develop Sectoral Action Plans. An understanding of the key decision making drivers that influence environmental performance within a sector can serve as a platform to design solutions to address environmental problems. A sector-wide strategy will often involve organizing coordinated programs upstream and downstream within the entire economic sector, and/or exchanges between sectors or key actors within different sectors Hence, suppliers and distributors may be asked to become involved, in order to develop complete value-chain solutions.

The recommendations that may result include the adoption of improved technologies and management practices, a phase in of non-toxic substances and feedstocks, new waste management procedures and other steps.

The sectors may also propose new policies, financial incentives, emissions and effluent trading programs, funding help for capitalization programs, land trades, buy outs, and other strategies that can help foster and support environmental improvements within the entire sector.

Implement The Sectoral Action Plans Through Locally Tailored Programs. The sector-based programs would then be implemented by each individual firm, landowner , community or agency within the sector through tailored strategies to fit the needs and conditions of local environments. Public agencies provide technical assistance and public recognition, when appropriate, to support these efforts. They would also seek to link each firm or landowner's improvement strategies with those of other economic interests within a management unit (watershed, ecoregion, airshed, wasteshed etc.) to develop a comprehensive and integrated program.

b. This Is Not a Totally New Approach. There are a number of examples of sector-based programs in this country and globally. Perhaps the most advanced is the comprehensive sectoral program initiated by the Dutch government as part of their National Environmental Policy Plan. All sectors that contribute to environmental problems nationally are involved with the Dutch program. The European Union has adopted the Dutch sectoral approach, which suggests that many other nations will eventually apply it. In the U.S., the Clinton Administration recently unveiled an initiative with the construction industry to reduce energy needs in response to global climate change issues. EPA has initiated a number of sector-based programs, such as the Sustainable Industries Project of the Office of Policy, Planning and Evaluation, and the Sector Notebooks project of the Office of Compliance. These programs are developed within a regulatory context. Many states and regions have used versions of sector-based programs to address numerous issues over the years.

Diagram C provides a schematic view of how integrated horizontal-vertical sector-based sustainable development initiatives can operate. **Diagram D** provides a schematic view of how the Metal Finishing industry, as an example, can apply the approach.

Diagram C

SAMPLE INTEGRATED HORIZONTAL AND VERTICAL SECTOR-BASED SUSTAINABLE DEVELOPMENT INITIATIVE

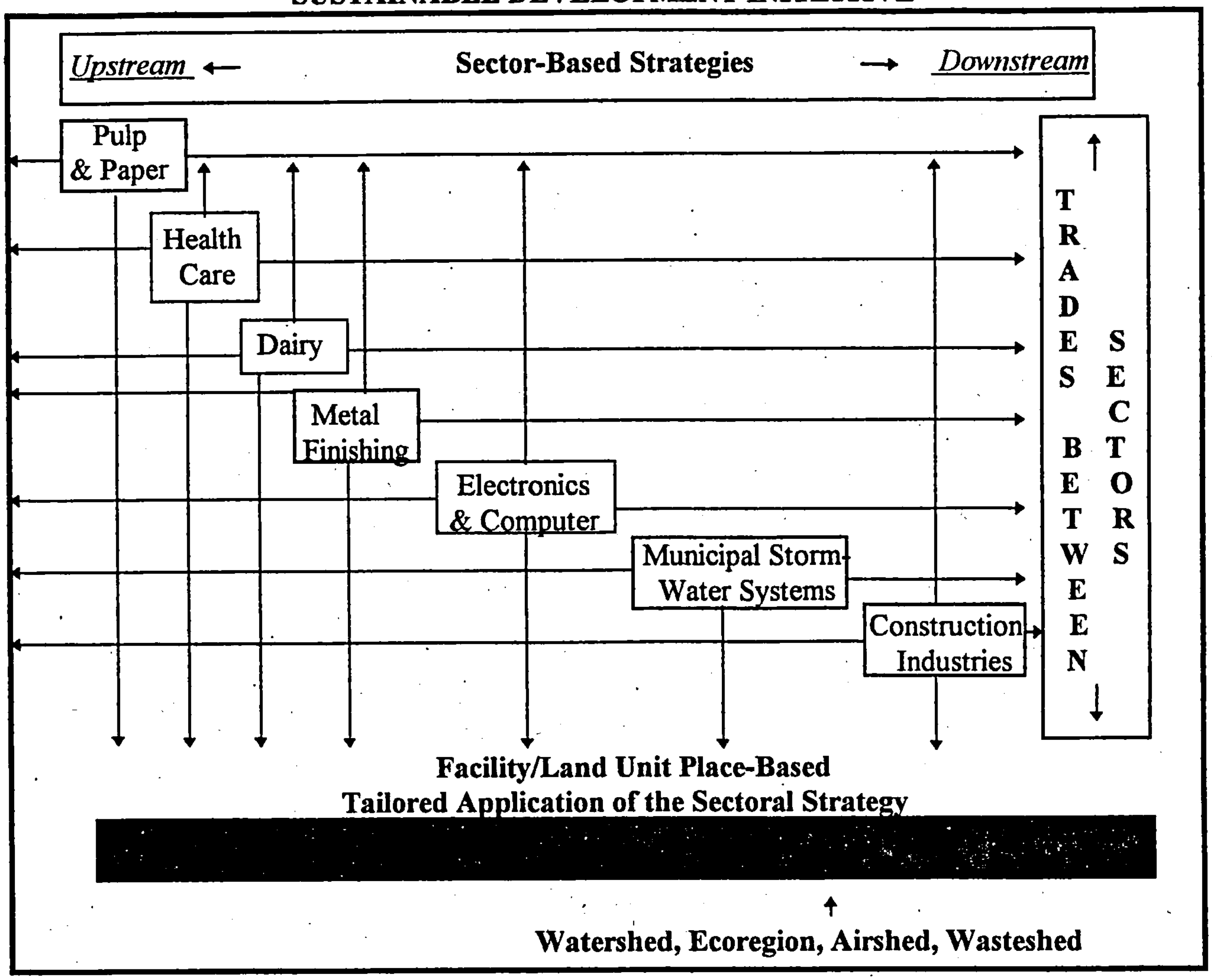
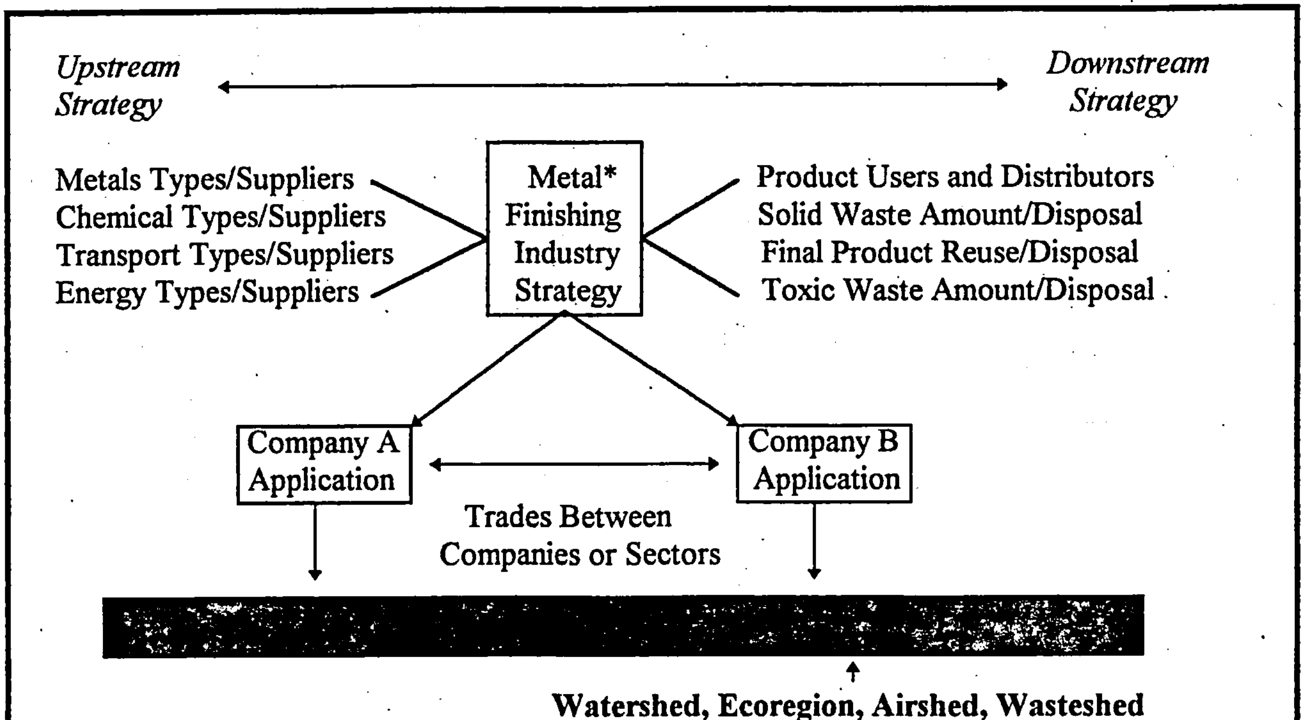


Diagram D

EXAMPLE OF INTEGRATED SECTOR-BASED, PLACE-BASED APPROACH WITHIN THE METAL FINISHING INDUSTRY



* includes electroplating, plating, polishing, anodizing and coloring processes.

VIII. EXAMPLES OF POLICIES, PROGRAMS AND PRACTICES THAT CAN HELP DECOUPLE ECONOMIC GROWTH AND IMPACTS AND PLACE OREGON ON A PATH TOWARDS SUSTAINABLE DEVELOPMENT

The following are examples of the actions that can be generated through an integrated state framework to place Oregon on a path towards sustainability. The ideas have been gathered from numerous, programs, states and nations. The list is NOT inclusive and should be used simply to stimulate discussion and further development.

1. New Technology and Industry

To achieve sustainable development in Oregon, technological advancement is needed which creates new products, processes and services to meet our basic food, mobility and housing needs with little or no environmental cost.

Barriers And Changes Required:

- Technological advancement is needed to get substantial cuts in environmental impacts;
- We still think too much in terms of individual products rather than in terms of the functions we need filled or overall systems or product chains;
- There is great uncertainty about the future, leading individual actors to wait;
- Key economic sectors must understand that thinking about the role of technology must have consequences for the education and in-service training of employees.

Potential Actions: The state could invite industry to join with it in thinking about the relevant themes for the future, and could facilitate the process of choosing sustainable products and processes to meet basic needs. It could arrange, for example, long-term studies and targeted conferences to reach a consensus about promising themes and the role of technology in these themes. Subjects which might come up include zero emissions industrial estates, fully integrated public transport, zero waste strategies etc.

State government - serving as catalyst - and industry are the key actors that must design the relevant principles of sustainable technology development.

Academic research institutes could play important role in an inter-linked research program aimed at developing new technologies to increase the environmental efficiency of processes, products and services..

2. Product-Service Combinations

Consumer can be satisfied in many ways. It is not always necessary for a consumer to actually purchase the product. Consumers can use a product without actually owning it. The company which best (in terms of quality, price, convenience, etc.) meets the consumer's need has an economic advantage. The supplier does not have to actually sell the product, but sell its use. On this basis, fewer products would need to be produced, with a consequent reduction in pollution, waste and raw material usage.

Changes Required To Promote Product-Service Combinations

Product suppliers (producers, importers, retailers, etc.) will need to think in terms of fulfilling functions and the shared use of products. Producers will need to develop completely new products, and design them so that they require associated services. The retail trade and other service-providers will need to devise ways they can add value to products. This will provide increasing opportunities for the provision of new types of services between companies and between companies and consumers.

This is consistent with the general trend in industry to make the desires and expectations of the customer paramount, and to adapt supply accordingly, often with the help of Total Quality Management.

Examples: Examples can be found in inter-company relationships (car fleet leasing, photocopiers, integrated paint assemblies) and on the consumer market (repair services, car-washing, car share, energy services, tool rental, etc.). These examples involve product-service combinations, with the use of a product being linked to the provision of services such as repair, maintenance, upgrading, expertise, etc.

Potential Actions

- State government could provide targeted financial and other incentives to promote product-service combinations.
- Government and academia could organize research into the critical determinants of success and failure (environmental, economic and commercial), based on existing examples. The results could be used to assess market acceptance for the development and introduction of service-product combinations, thus generating new economic activities. This would also indicate the environmental effects and the market potential.
- Based on the research results, 5 to 8 companies willing to participate in a pilot project could be identified. These could be launched to assist companies to develop a number of pilot product-service combinations.
- Based on the results, a systematic approach could be developed for creating product-service combinations. The pilot studies would provide indications as to whether and how the product-service approach could be adopted by or integrated into existing initiatives, so that the results could be used in practice.

3. Financial Services

Sustainable development is not the exclusive concern of government or those directly impacting the environment. Many other business partners and intermediates, such as the financial services sector, must play key roles.

The financial sector must acknowledge the consequences of, and economic opportunities offered by, environmental policy. Finance and financiers must play a larger role in integrating the environment into the economy and into company and landowner operations. Capital flows give new momentum to environmental policy but these will only be useful if those providing capital can take advantage of new, environmentally relevant developments in the financial services sector. The financial sector will then need to have mechanisms which channel capital in the desired direction.

Examples: Examples from the financial services sector include existing 'green' financing systems such as the green investment and green mortgage schemes which are emerging in Chicago and elsewhere. Another example is brownfield clean-up insurance which requires that insurance companies clean up a contaminated site rather than paying a benefit. Environmental risks such as contaminated land can have a severe impact on companies. In some cases the resources available for clean-up are insufficient and government has to pick up the tab. The introduction of environmental clean-up insurance can prevent many problems. The risk to government, creditors an the public is thereby reduced.

Barriers And Changes Required: Early evaluation of the potential of new environmental technologies allows a better ranking of projects by the banking sector. Banks can strengthen their position by providing more support for investment in environmental and energy technology. By extending successful green financing schemes (e.g. green mortgages), available capital can be diverted in a more sustainable direction.

Increasingly stringent environmental policy can also create problems (such as in the obligation to clean up contaminated land) for the creditworthiness, and therefore the continuity of companies. The financial services sector can create mechanisms (e.g. insurance) to mitigate these effect. It is important that the financial services sector seizes environmental market opportunities.

Potential Actions

- The state could expand its review of the tax system to assess the potential for extending the green investment financing idea to:
    - Technology development. An analysis can be made of how bank financing of technology development could be improved;
    - The introduction of clean technology and investment in water, effluent, emissions reduction and energy technology;
    - Expand the export of Oregon environmental and energy technologies;
- The introduction of environmental clean-up insurance can be explored. Discussions in this regard could be held with the banking and insurance sector. Problems could be identified and resolved and the possible role of environmental rehabilitation insurance in relation to permitting or financial guarantees could be assessed.
- The role of the banking sector as a possible participant with service-providing organizations could be analyzed and promoted. Possibilities include:
    - Governor's task forces to promote technological development;
    - Participation in services to promote energy, water and resource conservation;
    - Participation in a fund for the clean-up of contaminated land.
- Various options can be researched and discussions with the banking sector can be started so that an action plan can be drawn up and developed.

4. Business Environmental Management

To achieve sustainable development in Oregon, a strategic approach is needed in which a company or economic sector develops environmental management systems which are linked with their financial-economic policy. A stronger relationship would be established between a company's products, processes and services and its use of raw materials and energy, emissions, discharges and waste. This approach would involve moving from the common situation today in which environmental policy is considered in isolation to other company or sectoral objectives to one in which the whole product chain is considered.

Changes Required: For many companies, the environment is still largely an overhead cost, not part of their overall strategic management system. Companies will take a more strategic view if environmental management improves their market position or produces cost savings as a result of meeting environmental objectives and legal requirements more effectively. New concepts, methods and instruments are needed to achieve this.

Examples: A promising concept which can help management to implement a sustainability strategy of this kind is "eco-efficiency." This involves expressing environmental performance in various units of input, output or pollution, energy etc (e.g. energy use per unit of product or service, effluent discharges per unit of product). It is an instrument for setting new objectives within the framework of local (e.g. watershed) state and national sustainability goals and objectives. As companies think more in terms of product chains, environmental performance will increasingly become a factor in the relations between companies. In this context, use can also be made of new eco-efficiency indicators and related methodologies such as The Natural Step, Life Cycle Analysis etc..

Illustration: A number of leading Oregon companies are already developing strategic environmental policies and management systems including Wacker Siltronics, Hewlett Packard, Intel, Neil Kelly Co., Collins Pine, Norm Thompson and others. Many others are involved with some type of environmental management. However, (except for those involved with international trade) many Oregon firms see little connection to environmental or financial policy at present, so progress is slow.

Potential Actions

- The governors office could ask that OEDD and other economic development agencies work closely with DEQ and other environmental agencies to develop the concept of strategic environmental policy (or sustainable business practice) using the tools of eco-efficiency including ISO 14000, The Natural Step and other tools. Currently, DEQ is the only agency involved with this through their Green Permit program. This will have limited success if it remains an isolated single agency pilot project.
- In a first phase the concept could be explored further (for example by studying the economic and market benefits of strategic environmental management, identifying the barriers and by considering the possibilities for environmental benchmarking and cost-spreading.)

- The second phase could focus on eliminating regulatory barriers, organizing agreements within economic sectors and value-chains, organizing new forms of co-operation between sectors to implement eco-efficiency, developing the concept of eco-industrial estates and the development of instruments to stimulate these developments (see below).

5. Environmental Benchmarking

For sustainable development to be achieved in Oregon, the economic sectors and communities that are major contributors to environmental problems must assume increasing responsibility for implementing steps to reduce their impacts. Environmental benchmarking is a means to assist this process. Oregon could focus its first environmental benchmarking programs on water effluent reductions and CO_2 reductions. The possibility of extending it to other environmental issues could be examined later.

Changes Required: In order to make benchmarking work, it will have to be incorporated into state (and eventually national) regulatory frameworks. It will call for major changes in the way the various levels of government (state and local permitting agencies) and industry deal with one another. It is important that a protocol be established which can gain the confidence of the participants, since it will establish how they relate to one another on their performance.

Example: Water Effluent And Co2 Benchmarking: Oregon could adopt a policy that it will rank amongst the national leaders in water efficiency, effluent reductions and energy efficiency. This would be good for the environment and is also consistent with a desire to cut costs and improve competitiveness. The idea of benchmarking is to boost the water and energy conservation and effluent reduction efforts by allowing Oregon companies and communities to compare their performance with companies and communities in other states and nations

A number of economic sectors are developing benchmarking protocols in consultation with government (e.g. ISO 14000, EMAS). However, to make benchmarking effective, an agency would probably need to regularly analyzing how much water, effluent and energy Oregon companies use or generate per unit of product or service. The performance of companies and communities in a number of other states and nations could also analyzed. If Oregon companies and communities are not among the leaders, additional measures could be taken to ensure that they attain and maintain the top position within a reasonable time frame.

Potential Actions

- State agencies could develop agreements with industry and communities such that if they demonstrate that that are implementing actions to attain and maintain the top slot nationally, government would not to impose any further state or national water efficiency, effluent reduction or energy conservation regulations. Policy agreements and a framework on benchmarking would need to be established. The framework would facilitate groupings of companies and community sectors producing similar products (e.g. aluminum, pulp and paper). The mean energy efficiency of a group of companies would be compared with a group of similar size in another state. A feature of the this agreement would be that poor performers in the group would commit to making additional improvements.

6. Improved Product Development

Achieving sustainable development in Oregon will require ongoing product improvement so that the environmental impact of products are reduced and where possible prevented. The goal would be to help companies to continuously place sustainable products on the market. Sustainable products would be those that are produced with naturally occurring, non-toxic materials and which can be easily reused, remanufactured, recycled or which naturally decompose at the end of product life. To develop these types of products requires a product chain approach. Environmental effects must be evaluated using tools such as The Natural Step and Life Cycle Analysis (LCA). Environmental effects would be taken into account right from the design phase.

Changes Required: In view of the need to secure both economic and environmental gain, a goal and outcome-based approach along with some market-oriented approaches are needed. Government must establish an enabling policy and facilitate the process of continuously improving products with the help of various instruments.

Examples: There are various instruments already available or being developed to promote the continuous improvement of products (ISO 14000, LCA, Natural Step, EMAS). In order to approach issues systematically, it is essential that the concept of product stewardship be promoted by state government.

Potential Actions

- The state could adopt a position that Oregon will be a national leader in the production of sustainable products. The state and industry could then seek an agreement which clarifies that the production of sustainable products is the primary responsibility of industry but that government will establish a framework to support continuous and systematic product improvement.
- For example, government could encourage and facilitate the development of new policy instruments: a) Extended Producer Responsibility programs and instruments for all products that currently end up in landfills and incinerators and support their inclusion in industry environmental management systems; b) product stewardship through incentives, general guidelines or incorporation in ISO 14001 certification (e.g. DEQ Green Permits); c) the transfer of information along product chains (for example, by developing and promoting environmental indicators in the construction industry); d) ecolabelling (e.g. Salmon Safe, Sustainable Forestry);
- The state could (OEDD, DEQ, others), draw up environmental profiles for the main product groups and help them develop complete value-chain programs to improve products.

7. Facilitate The Introduction Of Sustainable Products And Services Into The Marketplace

Connected to the above, to foster the production of sustainable products, the state may consider establishing a framework and incentives to facilitate the introduction of new products into the market. Polls and the explosion of the organic food industry show that customers are increasingly willing to purchase sustainable products. This is a critical step since further market penetration occurs more rapidly when customers are ready. Yet, the risks associated with being first to market are high, and these risks are currently not spread to all stakeholders.

Barriers And Changes Required

- The more rapid commercialization of sustainable products and processes will lead, in the long run, to a reduction in air emissions, effluent and waste by a factor of 2 to 5;
- There are considerable financial risks associated with the commercialization of a new product or the introduction of a new process;
- Today, individual suppliers or customers cannot bear these risks on their own;
- Customers tend to be conservative; they prefer proven products;
- There are regulatory barriers which hamper the introduction of new products and processes onto the market.

Potential Actions

- The state could adopt a 'first mover" policy for investments that foster the development of sustainable products. The state could establish a revolving loan fund for this purpose.
- Regulatory barriers should be identified and ways of overcoming them examined.
- The state could take a prominent role as first mover in the purchase of environmental technology and sustainable products for all agencies.
- A task force composed of industry and research institutes and representatives of key consumer group could be established to identify needed investments in sustainable products.
- A "competition" could be established whereby the state and private sector agree to jointly issue RFP's for the best sustainable product or service designs with a guarantee that the fund will underwrite the development of the products for the winner. Purchasers could even be lined up ahead of time to assure a ready market once the product or service is ready for market.

8. Developing Zero Waste Programs and Policies

Achieving sustainable development in Oregon will require the generation of less waste. Zero Waste should be the goal. For Oregon to achieve this, it must move from an existing focus on waste management to a new focus on preventing waste as it is currently defined, redesigning the waste management infrastructure, and on generating income and jobs through waste-based economic development. These steps will be good for the economy and environment.

Achieving Zero Waste will require greatly increased "closed-loop" economic cycling. The process industries, construction industry and other energy-intensive industries in particular have large material flows which have a major environmental impact as waste.

Oregon could establish an explicit state goal to be in the national forefront of meeting Zero Waste goals and establishing closed-loop material cycles within companies and between companies along product chains. The expertise Oregon companies acquire in developing these systems will have good export potential. Closed-loop systems would be those in which virtually no waste would be generated because products, waste, raw materials and other consumables will be reused, remanufactured or recycled for use by other industries (one persons waste becomes anothers food). High-grade recycling would be just one outcome.

Examples: The metal recycling industry operates at the interface between economics and the environment. High-grade metal recycling not only provides for the optimum recycling of waste metals but can be an economically attractive activity in its own right. It saves energy and raw materials and helps to close material cycles. Research indicates that the refining, pre-separation and cleaning of aluminum scrap, high-grade processing of lead batteries, the de-zinking of galvanized steel and large-scale industrial dismantling of end-of-life cars are economically and environmentally promising areas.

Barriers And Changes Required: Today, recycled materials often cannot compete in terms of quality and price with virgin materials (subsidies for the production of virgin materials plays a major role in this). Technological breakthroughs are needed in the fields of plastics and metal recycling (including separation and refining technologies), materials (renewable raw materials), design for disassembly and recycling (so that materials are not comingled in production) industrial energy conservation, biotechnology and process technology, among others.

- In order to achieve technological advancements, the state should make or support substantial investment in R&D. There are a number of potential new technologies that can diminish environmental loading by a factor 2 to 5 when brought to market.
- Companies often never look beyond their boundary fence, and more cross-fertilization between companies and academic institutions is needed.

Strategy: An interconnected three-part strategy is needed: 1) develop "extended producer responsibility" goals and policies which require that manufacturers develop take-back strategies for all products that currently end up in landfills or incinerators. These policies are intended to force the emphasis "upstream" to stimulate new product designs and material selections which facilitate the reuse and recycling of products; 2) improve the "downstream" reuse and recycling of end-of-product-life materials through improved waste management infrastructure, waste exchange programs, recycled material market development and other steps; and 3) foster and support waste-based businesses as economic development and jobs creation opportunities, especially in low income rural communities or urban neighborhoods.

Potential Actions

- The state could begin discussions with key industries, NGOs and others about developing Product Take-back Policies (Extended Producer Responsibility) for all major products currently ending up in landfills or incinerators.
- A consortium composed of industry and academia, NGOs and others could be organized to prioritize the intensification, broadening and possible addition of programs aimed at ecodesign, waste reduction, renewable raw materials and renewable energy production and use, and the development of local and regional waste exchanges.
- The state (DEQ) could work local counties and municipalities to significantly improve reuse and recycling programs, techniques and especially the waste management infrastructure to establish better Waste Exchanges, Reuse and Recycling Estates and other.
- The state (OEDD) could foster and support waste-based enterprise development (reuse, remanufacturing and recycling businesses) as an economic development and jobs opportunity in Oregon.
- An Innovative Research Program could be established focused on establishing closed-loop systems. This would need to include a multidisciplinary field of science and technology.

For more information see *Establishing Environmentally Sustainable and Economically Efficient Economies: From Waste Management Towards Zero Waste. Report for Oregon and the Pacific Northwest.* PSU Center for Watershed and Community Health and The Institute for Local Self-Reliance Inc. July 1999.

9. Assisting Small And Mid-Sized Firms To Improve Environmental Management

Many small and medium-sized enterprises (SMEs) have little interest or time to focus on environmental issues. They are therefore not fully aware of profitable opportunities for environmental management. Efforts must be made to change the thinking in SMEs so that they understand that the environment can represent a business opportunity to improve market position

To accomplish this:

- Information must be made simpler and tailored to smaller businesses;
- There must be more co-operation with intermediary organizations such as trade associations;
- SME is a growth sector and the backbone of Oregon's economy. The state should establish an explicit goal to improve the environmental performance of SMEs hand-in-hand with improving their economic viability.

Examples: The city of Portland Pollution Prevention Program is an excellent example of a program working to help small businesses improve their environmental management. It has some economic focus. However, it is a very small program with a minimum reach. The Hood River Green Smart Program, operated by the Hood River Chamber of Commerce, is an other excellent example - this one in a small rural community.

Barriers And Changes Required: There are a number of programs which encourage companies to incorporate environmental care into their everyday operations. These include environmental management systems, ecodesign, waste prevention, environmental technology, energy conservation. However, research shows that these programs typically have much less impact on SMEs than on large companies. The SMEs do not relate to the issues raised and find the messages which come from then lacking coherency and lacking specifics.

The state should work with local communities and intermediary organizations to institute a clear strategy specifically for the needs of SME which provides a co-ordinated package of effective communications, incentives and technical support.

Potential Actions:

- The state could facilitate a process whereby an explicit policy and a framework is established to target and support sound environmental management by SMEs.
- The state could work with trade associations and other intermediary organizations (e.g. Chamber of Commerce)to develop a common communications strategy and information program, which might include:
    - the co-ordination of informational activities and materials form different sources;
    - less 'policy' and more concrete information which SMEs can identify with;
    - financial support to trade associations and Chambers of Commerce for specific initiatives in this area;
    - the development of a subsidy program for better environment management targeted to SMEs. This could allow SMEs to identify and respond to opportunities in the field of the environment and energy.

10. Sustainable Construction

The construction sector is a key to achieving sustainable development in Oregon. Environmental and economic interests can be merged in the construction sector through the sound and creative use of raw materials, fuels, labor, engineering, technology and land. Market demand can also drive the development of new building concepts.

Providing they are properly developed, sustainable construction can reduce building and demolition waste, optimize the use of materials and energy and extend the life of the structure as a whole (it can be modified rather than demolished) and sections of it (recycling), maximize natural light, energy, heat and coolness, minimize raw material use and maximize the use of naturally occurring, non-toxic materials. Since these concepts are innovative and involve high labor productivity (high-grade labor), they could increase the competitiveness and export potential of the Oregon construction industry.

Changes Required: The Oregon construction industry must be able to offer affordable total solutions to the housing and building markets, which caters to the needs of the customer and the environment and optimize the price/quality ration. The construction industry will need to make use of techniques from other sectors such as market research (into requirements of users and society), client-oriented and turnkey concepts (including design, production, assembly, management, maintenance, guarantee), variety of supply, prefabrication of independent modules (requiring agreements about interfaces and measurements), logistics (just in time), flexible, automated production methods, naturally occurring materials (Natural Step) etc.. These total solutions require early, non-project-related co-operation between the parties in the construction sector (client, architect, contractor, installation engineers, suppliers) and other sectors. They will also utilize existing and/or develop further expertise and technology

Potential Actions

- The state could establish an explicit policy and goal for Oregon to rank as the nation's leader in sustainable construction.
- The state could establish programs to monitor progress towards the goal above (e.g. materials and energy saved, demolition waste reduced).
- The state and private sectors can promote and market these attributes of Oregon's construction industry locally, regionally, nationally.
- The state, academia and the private sector could establish or support a research program on the market potential for sustainable construction.
- A "competition" could be established whereby the state and private sector agree to jointly issue RFP's for the best sustainable construction design and guarantee that the winning design will be provided funds to develop the design. Purchasers could even be lined up ahead of time to assure a ready market once the design is ready for market.
- The state and communities could investigate the desirability and feasibility of an innovation fund for sustainable construction: a revolving fund financed by government and industry to support the development and application of innovative sustainable construction.
- The state and communities could help organize sustainable construction demonstration building projects to stimulate the supply (construction industry) and demand (user) side.
- The state could negotiate the development of location-specific declarations of intent between housing authorities, financiers, investors, construction firms, academic institutions, public agencies and communities aimed at co-operating in the development of sustainable construction in a specific area.

11. Stimulating The Construction Of Sustainable Industrial Estates

An innovative initiative unfolding in globally is the establishment of sustainable industrial estates. These are locations where companies cooperate on a voluntary basis to create sustainable products and processes a the lowest possible costs. They share facilities and seek to close material cycles by reusing or recycling residues or by-products to each other. Research has found that the dedication of specific locations for these programs can make individual companies more competitive by reducing costs or even generating additional receipts. These are business incubators which may provide a more attractive business climate for many new or emerging industries.

Changes Required: When industrial estates are being revitalized, the state and local communities could encourage sustainability by, for example, encouraging companies to improve the physical configuration and ensure a more efficient use of space. The parties involved could be encouraged to work together with close attention to coordinating their activities. Examples are companies which act as supplier of their own residual or by-products or participated in a joint business venture. Efforts must be made to achieve an optimum 'clustering and segmentation' so that groupings of companies form which complement each other in economic and ecological terms. These may sometimes lead to shared facilities for transportation, the storage of goods, waste processing, transportation etc..

Barriers

- Some fear that co-operation produces dependency. Confidence between the parties concerned is crucial. Often a long period of mutual familiarization, co-operation and communication is needed before companies are willing to be open about their own operations and make themselves interdependent;
- The regulatory and permitting processes are geared towards individual companies. Permitting will have to be modified and made applicable to co-operating companies;
- Communities and the state will have to refuse to allow companies to locate on a site when they do not conform to the intended profile for that site. This may present legal and financial problems, and political support will be needed for such a measure.

Potential Actions

- The states economic development, natural resource, environmental, transportation and energy management agencies could all work together to support and foster the development of sustainable industrial estates by:
- establishing an explicit state goal of establishing sustainable industrial estates in a
- specific number of counties or communities within 5 years.
- organizing a symposium on sustainable industrial estates in each targeted community in which possibilities can be presented and discussed;
- identifying the most promising projects for sustainable industrial estates (e.g. brown or green field);
- identifying and implementing means to eliminate barriers to new projects (organizational, institutional, technological, financial);
- apprise local authorities, trade associations and others with the possibilities for sustainable industrial estates through information dissemination;

12. Developing Economic Value-Chain Programs

Sustainable development will require increased cooperation within entire economic value chains to improve efficiency (e.g. in relation to raw materials, energy and transportation) and reduce waste and pollution. Experience in other nations shows that economic value-chain programs can benefit the sectors involved and the environment. Some environmental problems which are difficult to solve within a particular link can be solved within the chain as a whole.

For example, agricultural products are used as feedstocks in a number of non-agricultural industries including construction, chemicals, textiles and pharmaceuticals. Timber grown in Oregon is used in high-value, durable applications, for example in the building industry. The environmental aspects of these products can make an important contribution to a company or sector's image. The development of competitively priced products in which the environment figures as a self-evident component of quality represents a significant opportunity. Environmentally-friendly products may generate a higher value-added/price or capture more market share as tie breakers.

Barriers And Changes Required

- Failure to spot opportunities presented by co-operation within product chains;
- Inadequately structured organization of product chains and weak communications within chains;
- Lack of knowledge of the nature and extent of environmental effects within chains;
- Inequitable distribution, between the links of the chain, of the costs and benefits of environmental measures;
- Competitiveness on domestic and foreign markets;
- Procedural constraints in closing cycles (waste as raw material).

Government policy must aim to better identify, and where possible, remove these barriers. The developments themselves are the primary responsibility of the industry, however, and depend on the co-operation of the most influential link(s) in the chain and on consumer behavior. The government will have an enabling role, and will support and encourage environmentally friendly behavior on the part of the consumer.

Examples

- The Salmon-Safe label is a sign of sound agricultural environmental standards regarding water quality, and makes it clear that environmental measures have been taken along the entire production chain (grower to supermarket). "Organic" certification provides the same.

Potential Actions

- The state could work with key sectors to analyze obstacles to the adoption of a product chain approach to the environment, and study how to overcome the obstacles;
- The state could expand and actively incorporate environmental considerations (certification) in export promotion policy;
- The state could provide funding to promote eco labeling;
- The state could promote use of sustainably harvested timber in its own construction processes and by consumers.
- The state could support and foster research into life cycle analysis (LCA) methods in the agriculture, forestry and other sectors, to serve as a model for industry;
- The state and key economic sectors could support the development of new technologies (information and communications technology, biotechnology) that support product chain programs.

- The state could continue to look at new financial instruments for a greening of the tax system which provides tax concessions for sustainably produced products.

13. Development Of Bioproducts (a "Carbohydrate-based Economy")

The use of naturally occurring materials (rather than toxic synthetic derivatives), will be a key element of a sustainable economy. One option to achieve this is to use agricultural products as feedstock for non-food industrial products. This has been called a "carbohydrate economy. The move to a carbohydrate economy can make an important contribution to providing renewable materials for industrial products and technological renewal while improving industrial competitiveness and reducing the environment effects over the entire production cycle.

Examples

- Production of bioplastics (the original polymers were made from plant material);
- Flax membranes as a composite material for the manufacture of lighter, recyclable components such as auto interiors (reintroduction of flax is now being considered in the Willamette Valley, and Detroit auto makers are now considering its use in auto interiors due to European Product Take-Back policies for autos);
- Bio-ethanol for the manufacture of high-grade petrol components (could be ideal in eastern and central Oregon);
- Derivatives of vegetable oils which can replace petrochemical solvents in paints, printing inks and resins (a growing segment of the market);
- Electricity from biomass (cultivated crops/waste).

Changes Required: Until recently the main focus of a carbohydrate economy was on research into possible industrial applications. The focus must now expand to support practical market-oriented projects:

- applications using natural materials in products with high added value (e.g. bioplastics from starch);
- application of biofuels in transport (bio-ethanol and biodiesel).

These possibilities may have wide implications than Oregon agriculture. The concept provides opportunities for a broader technological renewal and therefore for increased competitiveness of Oregon industry. A carbohydrate economy offers opportunities for new economic activity within and outside agriculture, and has implications for several important environmental issues, such as reducing effluent and CO2 emissions from production processes and transport and consumer trends towards more sustainable products.

Barriers: The use of agricultural materials has been dramatically curtailed during this century by synthetic fossil fuels. We now know that there are many obstacles to a return to natural products. For example, we have failed to support the necessary technological research, and the infrastructure to support relationships between producers of natural/agricultural materials and industrial producers does not exist. Careful attention must also be given to whether there might be an undesired impact on food production or ecosystems. The relatively high production costs in some areas of Oregon due to high land costs (e.g. the Willamette Valley) is a major impediment to widespread production.

Potential Actions

- The state could promote the development of a carbohydrate economy by establishing a state goal to produce a specific percentage of products using naturally occurring materials within a set time frame.
- The state could work with the private sector to institute a process to examine and address barriers within research, co-operation within product chains, the regulatory system, product policy, technology/innovation policy and fiscal policy.
- The state and private sector could benchmark the most advanced carbohydrate programs underway in the U.S. and around the globe.
- The state could provide funding to develop the carbohydrate economy.

For more information see *Creating Closed-Loop Economies: Transitioning to a "Carbohydrate Economy" By Turning Agricultural and Forestry Waste into Industrial Products - Report for Idaho, Oregon and Washington,* PSU Center for Watershed and Community Health and the Institute for Local Self-Reliance, January 1998).

14. Sustainable Agriculture

The adoption of sustainable agricultural practices must be a cornerstone of any sustainable development program in Oregon. Conserving on-site farm productivity (e.g. the soil base) and preventing off-site environmental impacts (e.g. sedimentation and nutrient run-off) must no longer seen as a burden, but as a central element of a farm's operations. Farm accounting systems must be amended to include an integrated management system which included not just financial results, but also environmental results. In doing so, Oregon could make its farms and agricultural businesses among the most environmentally sustainable in the nation.

Examples:

- the installation of combined heat and power equipment;
- formation of associations between similar businesses or businesses which use each other's products: grain for manure initiatives, the use of by-products (formerly waste) of the food industry by animal-breeders;
- recirculation of materials such as water and nutrients in closed systems on farms;
- use of integrated or organic methods of cultivation, with maximum use of natural methods of pest and disease control;
- use of the integrated environmental plans to improve operations (such as the SB 1010 plans were intended to do);
- cover cropping and no till practices;
- the combination of agriculture with functions such as recreation and conservation;
- the sale of local products for niche markets;

- converting growing trends such as precision farming, information and communications technology into firm environmental and financial results. The environment is one of the factors of which an entrepreneur will wish to take careful account in order to maintain and extend the market for his products.

Barriers And Changes Required

- Government (especially USDA) primarily promotes (e.g. research dollars etc.) large scale industrial farming and the extensive use of petro-additives (pesticides and fertilizers) and places much less emphasis on sustainable farming. Equal or greater emphasis must be placed on sustainable farming.
- awareness must be built of the inseparability of environment and economic performance in agriculture;
- discussions of environmental issues in agriculture often generate substantial controversy. One way to change this is for environmental quality to be more recognizable in products. The State could develop a program to verify and then promote and market Oregon products as the most environmentally sound in the nation (such as New Zealand has done which helped their depressed agricultural sector recapture market share in Europe);
- building awareness that there are other ways of producing crops and that other kinds of relationships can be made with organizations in the food product chain. Forming new alliances, (e.g. environmental co-operatives) could prove helpful;
- the development and application of science and technology. The new technologies which allow the needs of plants and animals to be met precisely, for example, can be applied more readily in large-scale agriculture.

Domestic and international markets (for those Oregon farms competing in international markets such as grass seed and wheat), require that costs be strictly controlled. New developments can require a high level of expertise and investment. Farms will have to have sufficient resources to make often risky investments. The financing needs of farms will increase, which can created a barrier to new businesses or new practices. An additional barrier is that the extra efforts are not directly visible in products, and often do not command a premium.

Challenges include:

- The recognition of the variety of objectives operating within a single farm. A farmer is required to comply with a range of requirements of different government agencies. This is demotivating and can be at odds with the goal of linking environmental and economic goals.
- Finding the right incentives and new instruments to promote further integrations of en environmental and economic objectives (SB 1010 has stalled for lack of an effective governance system and incentives).

Potential Actions

- The state could establish an explicit goal of making Oregon agriculture the most environmentally sound in the nation (world). It could then establish a framework to achieve this which may include:
  - Financing support for sustainable agriculture: The extent to which existing financing instruments can be used to benefit the environment should be examined. New instruments should be established.
  - Tax concessions: The possibility of giving tax concessions to farms with low nutrient losses and runoff and other 'sustainable' practices should be examined;
  - The state could look at the possibility of establishing a means to support experiments with farmers' environmental cooperatives;
  - The state, the industry and academic institutions could jointly promote the development of science and technology, for example by supporting demonstration projects. A large part of the effort would be directed towards innovation, dissemination and demonstration of technologies which improve the product or production process environmentally. Capital allowances for environmentally friendly equipment should be examined.
  - The state could establish a complete performance-based system for the implementation of SB 1010 water quality plans. This could include an agreement to certify farms which have environmentally sound plans and to provide regulatory incentives.
  - The state could institute a marketing program to promote Oregon farm products that have been certified under SB 1010 or other programs as environmentally sound and seek to establish or expand the market share of the products locally, nationally and even globally.

15. Rural Development

A healthy rural economy is critical for Oregon to achieve sustainable development. Individuals who are or believe they are disadvantaged will take whatever steps they believe are needed to maintain their economic well-being, and many of these activities could harm the environment.

Potential Actions

- Improved regional planning: environmental considerations - including local carrying capacity are rarely explicitly integrated into regional strategic plans.
- The state could support (via fiscal instruments etc.) growth in the rural "carbohydrate economy", sustainable agriculture and sustainable forestry and institute major marketing programs to help these sectors gain and expand market share.
- The state could promote research by the agricultural, forestry and economic development departments into a methodology for introducing new businesses and farm and agricultural business activities into rural areas that do not sacrifice environmental quality.
- The state could develop a framework for the development of sustainable technologies that provide multifunctional activities.

16. Combining Agriculture And Conservation

In keeping with the areas discussed above, for Oregon to achieve sustainable development the state must find a way to optimize sites where agricultural operations and conservation can occur simultaneously. This could improve economic well-being, enhance the fabric of rural communities and creates a more attractive environment for living, working and recreation. It could also maintain and restore biodiversity and ecosystem functions.

The allocation, use, development and management of multifunctional areas must be attuned as closely as possible to the natural characteristics of the land and aquatic systems. For example, the lands natural cleansing capacity, capacity to replenish groundwater and to conserve water would all be important. Efficient and effective management should reap economic benefits. The types of multi-faceted functions will be determined by the characteristics and constraints of a particular area.

There are a number of conservation activities which can provide an economic return on agricultural lands while providing conservation benefits. Examples include nature conservation, some forms of nature-based recreation, organic or other farming which provide value-added through their environmentally friendly methods of production. Even affordable housing, provided it is adapted to rural areas, can be combined with conservation of sensitive sites (as is achieved by the State of Vermont Housing and Conservation Program). Combining functions allows the land to be used more effectively, broadens the support for the management of the area and generates additional income.

Changes Required

- In order to facilitate the combination of functions and the development of area-specific programs, the state may need to develop policies and programs to address:
  - co-ordination between area specific and state (and federal) policy;
  - flexibility and the tailoring of policy to specific situations, and the consequent role of local government and industry;
  - the role of the state in coordinating the various parties in the areas;
  - improving the planning instruments for land-use, water use and the environment;
  - co-ordination in the oversight of functions between different government agencies.

NOTE: The items discussed above are examples of the types of activities a state framework on sustainable development could lead to. This is not an inclusive list. For example, Transportation, Land Use, Urban Planning And Development, Mining And Mineral Development, Sustainable Forestry, Sustainable Fishing, Energy, and many other issues should be included in any comprehensive sustainable development initiative.

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Deloitte & Touche LLP

METRO

Independent Auditors' Report and Schedule of Expenditures of Federal Awards for the Year Ended June 30, 1999 in Accordance with Office of Management and Budget Circular A-133

Deloitte Touche Tohmatsu International

METRO

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED UPON THE AUDIT PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Council, Executive Officer, and Auditor of
Metro
Portland, Oregon

We have audited the general purpose financial statements of Metro as of and for the year ended June 30, 1999, and have issued our report thereon dated November 19, 1999. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Metro's general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Metro's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Council, Executive Officer, Auditor, management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Deloitte + Touche LLP

November 19, 1999

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND INTERNAL CONTROL OVER COMPLIANCE APPLICABLE TO EACH MAJOR FEDERAL AWARD PROGRAM AND ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

To the Council, Executive Officer, and Auditor of
Metro
Portland, Oregon

Compliance

We have audited the compliance of Metro with the types of compliance requirements described in the U.S. Office of Management and Budget ("OMB") Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 1999. Metro's major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal programs is the responsibility of Metro's management. Our responsibility is to express an opinion on Metro's compliance based on our audit.

We conducted our audit of compliance in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Metro's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Metro's compliance with those requirements.

In our opinion, Metro complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 1999.

Internal Control Over Compliance

The management of Metro is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Metro's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the general purpose financial statements of Metro as of and for the year ended June 30, 1999, and have issued our report thereon dated November 19, 1999. Our audit was performed for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for the purpose of additional analysis as required by OMB Circular A-133 and is not a required part of the general purpose financial statements. This schedule is the responsibility of the management of Metro. Such information has been subjected to the auditing procedures applied in our audit of the general purpose financial statements and, in our opinion, is fairly stated, in all material respects, when considered in relation to the general purpose financial statements taken as a whole.

This report is intended solely for the information and use of the Council, Executive Officer, Auditor, management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Deloitte & Touche LLP

November 19, 1999

METRO

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 1999

Grantor and Program Title	Federal CFDA Number	Grant Number	Federal Expenditures
U.S. Department of Agriculture			
Natural Resources Conservation Service - Watershed Protection and Flood Prevention	10.904	50-0436-7-625	$ 12,938
U.S. Department of the Interior			
Bureau of Land Management:			
Federal Land Policy and Management Act (FLPMA)	-	1422H952-A97-3005	10,000
U.S. Geological Survey:			
Preparation of Earthquake Hazard Maps Guide	15.807	1434-HQ-97-GR-03110	4,992
U.S. Fish and Wildlife:			
Fish and Wildlife Management Assistance	15.608	13420-9-J114	7,400
Fish and Wildlife Enhancement	-	14-16-001-91551	205,810
Clean Vessel Act Program	15.616	N/A	8,250
Total U.S. Department of the Interior			236,452
U.S. Department of Transportation			
Federal Transit Administration:			
Direct programs:			
Federal Transportation Technical Studies Grant:			
South/North DEIS, FEIS, and PE	20.205	OR-29-9023	4,940,755
Transit Oriented Development	20.205	OR-90-X070	1,261,605
Passed Through Oregon Department of Transportation:			
Highway, Research, Planning and Construction:			
1999 Planning	20.205	SPR-HPR-PL-STP-9901(36)	651,142
1996 Federal Highway Administration Special Research Congestion Pricing Pilot Program	20.205	HPR-OR/CP-0041 (001)	233,679
1999 Federal Surface Transportation Program METRO Surface Transportation Program	20.205	SPR-HPR-PL-STP-9901(36)	769,703
Federal Transportation Technical Studies Grant:			
1998 Technical Studies (Sec 5303)	20.205	OR-80-X006	63,115
1999 Technical Studies (Sec 5303)	20.205	OR-80-X007	198,184
Transportation and Growth Management Program:			
1999 Pleasant Valley	20.205	STP-0000(7)	1,000
Forward			8,119,183

(Continued)

METRO

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 1999

Grantor and Program Title	Federal CFDA Number	Grant Number	Federal Expenditures
U.S. Department of Transportation (Continued)			
Forward			$ 8,119,183
Direct programs:			
Federal Transit Administration:			
South/North DEIS, FEIS, and PE	20.500	OR-03-0066	1,318,149
Transit Oriented Development	20.500	OR-90-X073	19,504
Travel Model Improvement Program:			
Direct program:			
TRANSIMS	20.514	OR-03-8001-01	336,256
Total U.S. Department of Transportation			9,793,092
U.S. Environmental Protection Agency			
Water Quality Assistance Program:			
Direct program:			
Willamette River Initiatives/Clackamas River Watershed	66.104	MM990511-01-0	14,604
U.S. Department of Education			
Institute of Museum and Library Services:			
General Operating Support	45.301	IG-70363-97	56,250
Conservation Program	45.301	IC-70257-97	16,417
Total Department of Education			72,667
Total Federal Grant Programs			$ 10,129,753

See note to the schedule of expenditures of federal awards.

(Concluded)

METRO

NOTE TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 1999

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes all federal awards received by Metro which had activity during the year ended June 30, 1999. This schedule has been prepared on the modified accrual basis of accounting.

* * * * * *

METRO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 1999

PART I

SUMMARY OF AUDITORS' RESULTS

The independent auditors' report on the financial statements expressed an unqualified opinion.

No instance of noncompliance considered material to the financial statements was disclosed by the audit.

The independent auditors' report on compliance with requirements applicable to the major federal award programs expressed an unqualified opinion.

The audit disclosed no finding required to be reported by OMB Circular A-133.

Metro's major programs were:

Name of Federal Program or Cluster	CFDA Number
Federal Transit Administration	20.205
Travel Model Improvement Program	20.514

A threshold of $303,893 was used to distinguish between Type A and Type B programs as those terms are defined in OMB Circular A-133.

Metro did qualify as a low-risk auditee as that term is defined in OMB Circular A-133.

PART II

FINANCIAL STATEMENT FINDINGS SECTION

No matters are reportable.

FEDERAL AWARD FINDINGS AND QUESTIONED COST SUMMARY

No matters are reportable.

PART III

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS SECTION

No matters are reportable.

PRIOR FINDINGS FOR THE YEAR ENDED JUNE 30, 1998

FINDING NO. 1 – REPORTING REQUIREMENTS

Condition: During testing for specific requirements in regard to reporting, it was noted that two of the four quarterly financial reports were not filed within the specified deadline. In addition, it was noted that one of the four quarterly progress reports had not yet been filed as of the date of the report.

Client Resolution: The Transportation Department has implemented procedures to comply with this requirement.

Current Status: No such finding was noted on the current year.

CHRIS BILLINGTON
PHOTOCOPY READY
COUNCIL OFFICE

Metro

Financial Statement Audit Management Recommendations

January 2000

A Report by the Office of the Auditor

METRO

2000-10523-AUD

Alexis Dow, CPA
Metro Auditor

Metro

Financial Statement Audit Management Recommendations

January 2000

A Report by the Office of the Auditor

METRO

2000-10523-AUD

Alexis Dow, CPA

Metro Auditor

600 NORTHEAST GRAND AVENUE | PORTLAND, OREGON 97232 2736
TEL 503 797 1891 | FAX 503 797 1799

METRO
OFFICE OF THE AUDITOR

January 11, 2000

To the Metro Council and Executive Officer:

As part of their audit of Metro's financial statements, Deloitte & Touche LLP studied Metro's internal control in order to determine appropriate auditing procedures and not to provide assurance on Metro's internal controls. They noted no matters involving Metro's internal control and its operation that they consider to be a material weakness. They did note other matters related to Metro's internal control and certain other accounting, administrative or operating matters. The accompanying report describes their observations and recommendations.

Deloitte and Touche LLP recommends changes in the following areas of internal control:

- Develop a strategic plan linking information systems to Metro's operating plan.
- Develop a business-wide continuity plan for computing operations including disaster recovery.
- Use the existing Information Systems Steering Committee for routine communications between IMS and DRC to further ensure use of common standards.
- Install performance monitoring tools for timely diagnosis of potential computing problems.
- Review administrative access to information systems and restrict unnecessary access to strengthen system security.
- Obtain an understanding of the recently issued GASB Statement No. 34 and create an action plan for implementation.
- Perform a complete physical inventory of all fixed assets biannually.
- Establish an allowance for potentially uncollectible accounts based on an aging analysis.
- Adjust for cash account reconciling items in a timely manner, including all MERC accounts.
- Update Metro's policies and procedures manuals to reflect implementation of PeopleSoft.
- Update the Transportation Planning Federal Regulation to address conflict of interest.

This report presents management's response following each recommendation.

We appreciate the cooperation and assistance provided to Deloitte & Touche LLP by staff in the Administrative Services Division.

Very truly yours,

Alexis Dow

Alexis Dow, CPA
Metro Auditor

Deloitte & Touche

Deloitte & Touche LLP
Suite 3900
111 S.W. Fifth Avenue
Portland, Oregon 97204-3642

Telephone: (503) 222-1341
Facsimile: (503) 224-2172

November 19, 1999

The Metro Council, Executive Officer,
and Metro Auditor
Metro
Portland, Oregon

Dear Sirs or Madams:

In planning and performing our audit of the general purpose financial statements of Metro for the year ended June 30, 1999 (on which we have issued our report dated November 19, 1999), we considered its internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on Metro's internal control. Such consideration would not necessarily disclose all matters in Metro's internal control that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving Metro's internal control and its operations that we consider to be material weaknesses as defined above.

We did note other matters related to Metro's internal control and certain other accounting, administrative or operating matters. Our comments are presented in Exhibit I.

This report is intended solely for the information and use of the Metro Council, Executive Officer, Metro Auditor, management, and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

We will be pleased to discuss these comments with you and, if desired, to assist you in implementing any of the suggestions.

Yours truly,

Deloitte + Touche LLP

INFORMATION SYSTEMS

Information Systems Strategies, Policies and Procedures

Observation: Metro has a formal information systems strategic plan that is not linked to the business strategic planning process due to the fact that Metro does not maintain a business strategic plan. Additionally, the information security policies and procedures handbook has not been updated since 1997.

Implications: A lack of effective strategies and long-range information system plans linked to a business strategic plan can result in (1) information systems operating independently of the business, (2) information systems not being supportive of the business, (3) top management lacking confidence in the ability of information systems to support and add value to the business, and (4) information systems not operating as effectively and efficiently as possible. Without updated policies and procedures, an organization is susceptible to security breaches and unauthorized access.

Recommendations: We recommend Metro develop an organization-wide business strategic plan which links its information systems strategic plan objectives and goals to the business strategic plan.

The effectiveness of information systems in an organization can be defined as the extent to which it supports and services the information systems needs of the organization's operations and accounting functions. These needs are defined within the information systems long-range and short term-range plans. As such, the long- and short-term plans need to be dynamic; accordingly, mechanisms for review and update of the plans should be in place. Monitoring of all services rendered and implementing changes as required by the plans are key control elements to ensure the effectiveness and efficiency of the information systems organization. All affected parties should ordinarily participate in the selection of service criteria that will be monitored, and the frequency and level of detail for reporting on the actual services rendered.

We recommend Metro review the current information security policies and procedures as documented in the Computer Users' Handbook, and update the information with current policies and procedures to include:

Policies

- Responsibility for protecting information
- Importance of information to the business
- Management support for controls
- Compliance and accountability

Control Procedures

- Acquisition and development of software
- Protection of information
- Environmental controls
- Network security
- Physical security
- Incident response

> *Management Response:* Metro's Information Services Division, Information Technology Steering Committee, and Executive Office are developing critical information technology ("IT") policies and success factors. Management is also reviewing budget oversight; enterprise architecture; and the appropriate IT organizational structure. Long-term strategic planning is a part of this ongoing effort. Policies and procedures development, including updating of the Computer User's Handbook, will continue as limited resources allow.

<u>**Business-Wide Planning for Computing Operations**</u>

Observation: Metro does not maintain an IT recovery plan or a detailed business-wide plan for recovering critical business functions in the event of an entity-wide disaster.

Implication: Absent entity-wide strategic plans to recover from a disaster and restore normal operations, restoration of business processes and information systems will likely be delayed, and the organization is likely to incur unnecessary financial losses in the event of an emergency or other unplanned interruptions. Such losses include lost resources and/or unnecessary expenses, due to the need to expedite restoration of services.

Recommendation: We recommend that management develop a business-wide continuity plan that includes in it a disaster recovery plan as an element or subset of that plan. Elements of a plan may contain these elements:

- Business strategy and mission
- Critical business functions and priority for restoration
- Key contacts with roles and responsibilities
- Procedures for restoring critical business functions
- Plans and documentation for testing the overall plan including all elements
- Other necessary information for overall business recovery

Metro should develop a business continuity awareness program that includes distributing the plan to employees, and outlining parameters for testing the plan.

> *Management Response:* Management recognizes this need and is revising existing disaster recovery plans to reflect recent changes in network infrastructure and the application environment. While this is a high priority, progress will be limited by the resources available.

Information Systems Communication Procedures

Observation: We observed two information technology groups at Metro: Data Resource Center (DRC) and Information Management Services (IMS). These groups do not adequately communicate with each other to ensure proper control over the use of hardware, software, and network connectivity. Although DRC supports specialized business applications (e.g. mapping and graphical information tools, transportation and growth statistical packages) and IMS provides full desktop support (e.g., word processing, email, Internet connectivity, and access to the essential financial systems) both groups share the same network and server hardware. As a result, the operations of one group directly affects the operations of the other.

Additionally, we observed no overall strategy exists to ensure that both groups together operate in a manner consistent with Metro's overall business goals and objectives. For example, each group may purchase substantial computer equipment for a specific need, and not communicate these purchases in a timely fashion to the other group. As well, no formal standards or strategy guide either group.

Implications: Without proper communication between these groups about operations, infrastructure changes, strategy and acquisitions, the overall ability to monitor and control the network, administer access, ensure authorized access, and restore systems in the event of an emergency can be jeopardized. Considerations include:

- Lack of common hardware and software standards
- Unknown physical access to computer hardware
- Undefined administration procedures over access to application systems
- Lack of a common information systems strategies and plans

Additionally, when DRC and IMS do not communicate, efficiencies and economies achieved by sharing resources are lost. For example, while both IMS and DRC share the same network and computer room, they share almost none of the hardware or software components. When one department may need more server capacity, they simply have to buy a new server instead of sharing unused space on an already purchased server owned by the other department.

Recommendation: We recommend Metro leverage the existing Information Systems Steering Committee to facilitate the routine communications between IMS and DRC thereby ensuring common standards are used. The Committee should monitor that new purchases, infrastructure changes, and operations procedures are adequately communicated between the two groups to ensure proper use of organizational resources.

> ***Management Response:*** This recommendation is in the process of implementation and will be monitored by the Information Technology Steering Committee and management.

Hardware Support

Observation: Metro has no formal monitoring tools for identifying and resolving system performance, integrity, costs, and availability of the system. Currently, IMS staff monitors system performance through observations that occur during every-day operations and through the volume of help desk calls that occur.

Implication: Hardware upgrades, modifications, and additions that are necessary to sustain required performance levels should be identified and implemented. If necessary upgrades or changes are not made or are not made timely, the computer processing environment may experience outages or performance degradation that could have otherwise been avoided.

Recommendation: The implementation of performance monitoring tools will ensure timely diagnosis of potential problems affecting service levels. When such indicators are appropriately identified and proactively monitored, management can be more responsive to system performance.

> *Management Response:* Over the past six months Metro has implemented a formal performance monitoring process on two fronts, one on Unix and one on Informix. Specific tools include Onperf for Informix and Perfview for Unix. Additional diagnostic tools are being implemented within Metro's internal network using Managewise. More sophisticated network analyzer hardware will be added subject to resources being available. Finally, Metro has built more fault tolerance into our network servers through a recent upgrade.

Logical Security-Unix and Novell

Observation: We observed several opportunities to modify Metro's system security parameters to strengthen security over unauthorized access.

For example, in the Unix (PeopleSoft) system, we observed the following:

- Ten accounts are disabled. Most of these accounts are system/pseudo-ids;
- Five accounts have trivial or no passwords assigned to them;
- Passwords for all accounts have never been changed. Password aging features are not used on the machine so the system does not store the last password change date;
- Several sensitive files with world-writeable permissions on them. These accounts should be examined, and the associated permissions reviewed; and
- The powerful accounts (e.g. those with a UID = 0) can access the system via *ftp*.

We also observed these Novell (user log-ins) system security parameters:

- Eleven user accounts with one or more Supervisory rights;
- Eight users with *direct* security equivalence privileges to *Admin*, seven users who are members of Administrators Group, which has supervisory rights over [Root], and five users are members of Admin Wannabees Group, which has supervisory rights over [Root];

- Passwords for 35 accounts can only be changed by a security administrator;
- Although the minimum password length required is 5 characters, 154 accounts are allowed to select a zero-length (null) password;
- Password changes are not enforced for 219 users. This includes users with security administration privileges;
- Old or previous passwords can be reused for 258 of accounts;
- Users are allowed to sign-on to the system via multiple devices at the same time; and
- 248 accounts have not been used in the last 3 months.

Implications: Without consistent and robust user account privilege controls, unauthorized users can enter the system thereby accessing confidential data, and other proprietary systems.

Recommendation: We recommend Metro review those accounts with [Root] and administrative access and determine if these privileges are appropriate. Metro should ensure all accounts are uniquely identified with user names and passwords. Those accounts lacking password expiration parameters should be modified and password aging features enabled. Routine password aging, password expiration, and denial of account access should be enforced for all users. Inactive accounts should be removed.

> ***Management Response:*** Management recognizes that maintaining a secure IT environment is critical. Significant efforts have already been focused on system security in both the Unix and Novell environments. Additional resources and practices, such as password aging and limiting account access, will continue to be implemented to maintain a secure environment. IMS will be better positioned to address the remaining security issues with an upgrade to the latest version of Directory Services, the consolidation of all network infrastructure responsibilities under IMS, enhanced training for IMS' Unix administrator, and the consolidation of IT security tasks under 1 FTE.

ACCOUNTING AND ADMINISTRATIVE

New Reporting Model

Observation: In June 1999, the Governmental Accounting Standards Board ("GASB") issued its Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. This statement will require dramatic changes to the way that Metro collects information about transactions, records certain transactions in its ledgers, and reports its financial information in accordance with generally accepted accounting principles. Such changes will be effective for Metro's fiscal year ended June 30, 2002.

Statement No. 34 changes the framework of financial reporting for state and local governments and represents an important change in the history of accounting and financial reporting for state and local governments. A partial list of the requirements of this new standard follows:

- Reporting of Management's Discussion and Analysis ("MD&A") as required supplementary information – similar to what is required for public companies when reporting to the Securities and Exchange Commission
- Reporting of government-wide financial statements on a full accrual basis
- Presentation of statement of activities on a "cost of service" basis
- Reporting fund financial statements on a modified accrual basis with separate reporting of major funds
- Redefinitions of certain fund types
- Preparation of cash flow statements using the direct method
- Reporting of all capital assets and recording depreciation in the government-wide financial statements
- Elimination of interfund loans, services and uses, and transfers in the government-wide financial statements

Several of these changes may require significant research and preparation on the part of Metro prior to the year of implementation.

Recommendation: Management should obtain an understanding of the provisions of GASB Statement No. 34 and determine a plan of action with regard to implementation. The plan might include such things as: redefining the funds used by Metro, the availability of data (for example, the cost of fixed assets), the ability of Metro to collect and summarize the necessary data (for example, direct and indirect costs of activities for reporting on the statement of activities), and the expected timeline for gathering this information and the resources available or to be procured to achieve that timeline. Should additional resources be determined to be necessary, appropriate funding and budget adjustments should be pursued.

> ***Management Response:*** Metro recognizes the significant work effort to implement this required standard. Given current and proposed budget scenarios for Administrative Services that do not provide funding for outside assistance, or for training opportunities for staff, implementation of this standard will be difficult, unless additional budget resources become available or other currently assigned work is deferred.
>
> Metro has asked Deloitte & Touche to present a series of briefings regarding this complete change in Metro's financial reporting framework, the efforts required, and the policy choices to be made. Metro intends to implement a plan of action and to determine the key decision points and the level of funding necessary to carry out implementation of the standard.

Fixed Assets

Observation: Metro has not performed a complete inventory of its fixed assets in more than nine years. Furthermore, Metro has not tagged fixed asset additions, except for Metro Regional Center assets, in the last six years. This increases the risk of unrecorded disposals and lends to a weakened property management.

Recommendation: We recommend that Metro perform a complete physical inventory of all fixed assets at least biannually. Furthermore, all assets should be tagged with an identification number. This will allow Metro to properly manage its assets.

> ***Management Response:*** Management's plan was to address this need by assigning staff a project to develop written procedures for recording, tagging, inventorying, and reporting fixed assets. This effort was not possible in fiscal year 1999 due to the assignment of other priorities to the Accounting Services Division, including participation in a benchmarking project undertaken by the Metro Auditor's office, and financial and payroll system upgrades, training and report design.
>
> The effort can only be accomplished by assigning dedicated resources to the project, which has not been possible in the current budget environment. Additional progress will be dependent upon budget resources being made available in future years.

Accounts Receivable

Observation: Several departments do not maintain an allowance for doubtful accounts receivable. We specifically noted that the Solid Waste Fund was the only fund to establish an allowance for doubtful accounts. Based on our analysis of receivables as of June 30, 1999, MERC and the Solid Waste Fund had amounts of $175,307 and $62,307, respectively, which were more than 90 days past due.

Recommendation: We recommend all departments review an aging analysis of their accounts receivable and establish an allowance for those receivables that are potentially uncollectible. Accounting Services should be given the authority to record the allowance for doubtful accounts for financial reporting purposes.

> ***Management Response:*** As part of the current implementation of modules for Accounts Receivable and Billing in PeopleSoft, Accounting Services will examine opportunities for utilizing standard aging reports and other analysis tools. Accounting Services will work with departments as resources permit to establish and maintain reasonable allowances for doubtful accounts in each affected fund. MERC monitors its own accounts receivable balances and makes the collection efforts for those accounts; therefore any allowances or write-offs will be determined by MERC.

Bank Reconciliations – Reconciling Items

Observation: The bank reconciliations contained several reconciling items. Many of the reconciling items had been outstanding for several months and were under investigation.

Recommendation: We recommend that Metro investigate and adjust for reconciling items in a timely manner once the details of the difference have been identified. Adjustment of these reconciling items will simplify subsequent bank reconciliations.

> ***Management Response:*** Many of the items in question require research by other departments or entities which sometimes hampers timely adjustment of the items. Accounting Services will work with these other areas to address and adjust the items in a more timely manner.

MERC Reconciliations

Observation: A restricted cash balance of $50,000 remained on the books although the funds were no longer held at the bank. The funds represented a deposit paid by City Center to MERC for the City Center Parking lot. Per the contract, City Center was to deposit $50,000 in a savings certificate in MERC's name. Although the contract was renewed, the funds were withdrawn from the account by City Center.

Recommendation: We recommend that MERC review all cash accounts, including restricted cash balance accounts. This will allow for more timely recognition of discrepancies between the general ledger and the bank records. In addition, MERC should communicate any changes in restricted cash balances to Metro Financial Accounting Division.

> ***Management Response:*** MERC will review their balance sheet on monthly basis to identify accounts that require adjustment.

Policies and Procedures Manuals

Observation: Metro has accounting policies and procedures manuals, however, certain parts of the manuals are no longer applicable due to the recent upgrade of PeopleSoft.

Recommendation: We recommend that Metro update its policies and procedures manuals to reflect current policies and procedures in place within the PeopleSoft system.

> ***Management Response:*** Management has recognized this need for the past three years, and the rewrite of the manuals is included as part of the overall software implementation plan. However, limited resources have delayed the completion of this piece of the implementation and upgrade projects and it is doubtful that resources can be allocated to this project in the coming fiscal year.

COMPLIANCE

<u>Request for Proposals</u>

Observation: In conjunction with testing compliance with OMB Circular A-133, we noted that the Federal Regulations that are attached to each request for proposal ("RFP"), did not include a conflict of interest statement. An RFP is sent out for each personal service contract greater than $2,500. If the RFP relates to a Federal grant, Metro's in-house procurement policy as well as a listing of Federal Regulations are attached to the RFP form. While Metro's in-house policy includes the required clause regarding the conflict of interest, the Federal Regulation listing does not. As noted in Paragraph 7.c of the Federal Transit Administration Circular 4220.1D, this is required.

Recommendation: We recommend that the Transportation Planning Federal Regulation listing be updated to include the above referenced clause which addresses the conflict of interest.

> ***Management Response:*** Metro's standard boilerplate for bids and proposals includes conflict of interest language in accordance with Metro Code. Staff has added the A-133 required conflict of interest clause to the federal boilerplate for bid/proposals as recommended.

MetroCAFR

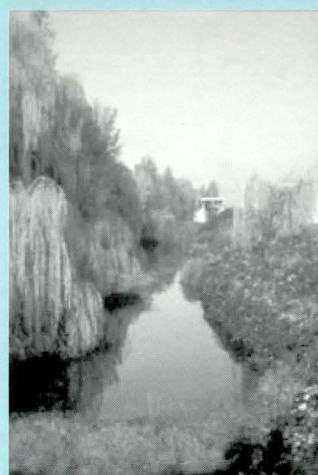
Comprehensive Annual Financial Report

for the year ended June 30, 1999

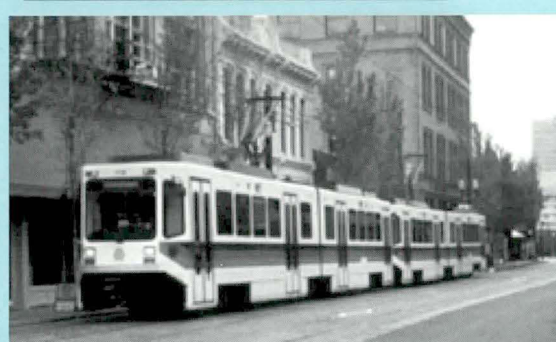
Strong regional economy

Access to nature

Preserving resources for future generations



Clean air and water



The ability to get around the region

Safe, stable neighborhoods

METRO
Regional Services
Creating livable communities

Oregon

Metro
Protecting the nature of our region

"It's better to plan for growth than ignore it."

Planning is Metro's top job. Metro provides a regional forum where cities, counties and citizens can resolve issues related to growth – things such as protecting streams and open spaces, transportation and land-use choices and increasing the region's recycling efforts. Open spaces, salmon runs and forests don't stop at city limits or county lines. Planning ahead for a healthy environment and stable economy supports livable communities now and protects the nature of our region for the future.

Metro serves 1.3 million people who live in Clackamas, Multnomah and Washington counties and the 24 cities in the Portland metropolitan area. Metro provides transportation and land-use planning services and oversees regional garbage disposal and recycling and waste reduction programs.

Metro manages regional parks and greenspaces and the Oregon Zoo. It also oversees operation of the Oregon Convention Center, Civic Stadium, the Portland Center for the Performing Arts and the Portland Metropolitan Exposition (Expo) Center, all managed by the Metropolitan Exposition-Recreation Commission.

For more information about Metro or to schedule a speaker for a community group, call (503) 797-1510 (public affairs) or (503) 797-1540 (council).

Metro's web site: www.metro-region.org

Metro is governed by an executive officer, elected regionwide, and a seven-member council elected by districts. An auditor, also elected regionwide, reviews Metro's operations.

Executive Officer
Mike Burton

Auditor
Alexis Dow, CPA

Council

Presiding Officer
District 6
Rod Monroe

Deputy Presiding Officer
District 4
Susan McLain

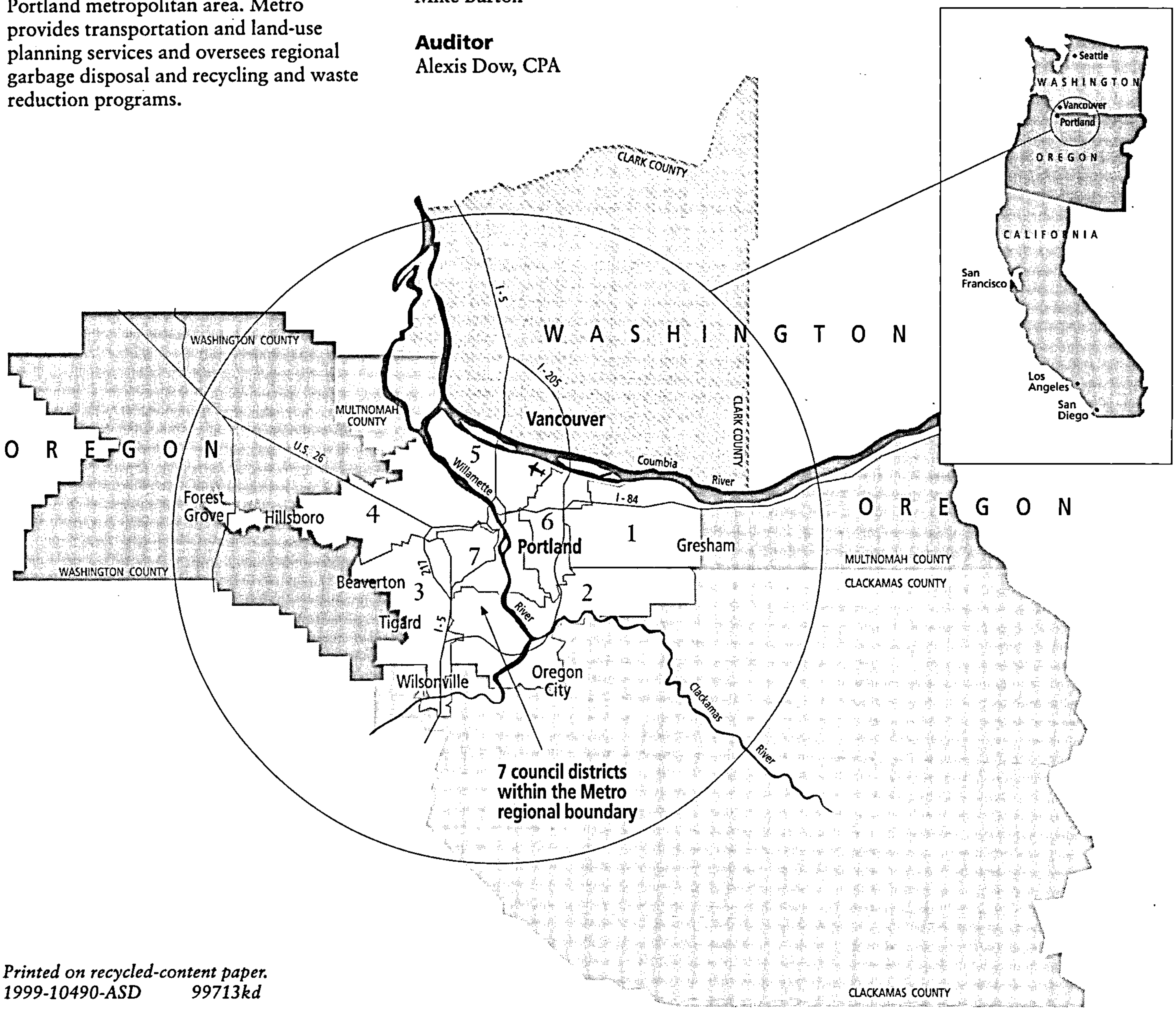
District 1
Rod Park

District 2
Bill Atherton

District 3
Jon Kvistad

District 5
Ed Washington

District 7
David Bragdon



Printed on recycled-content paper.
1999-10490-ASD 99713kd

MetroCAFR

Comprehensive Annual Financial Report

for the year ended
June 30, 1999

Administrative Services Department

Director/Chief Financial Officer
Jennifer Sims

Prepared by
Accounting Services Division

Accounting Manager
Donald R. Cox Jr., CPA

Financial Reporting Supervisor
Karla J. Lenox, CPA

METRO
Regional Services
Creating livable communities

Oregon

METRO

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For the Year Ended June 30, 1999

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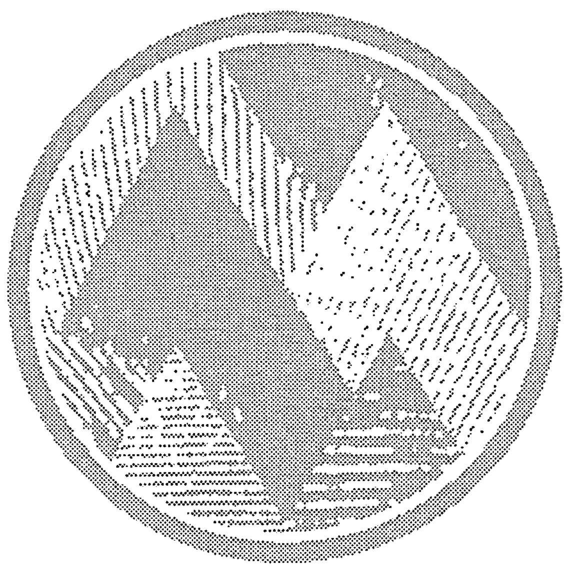


Introductory Section

600 NORTHEAST GRAND AVENUE | PORTLAND, OREGON 97232 2736
TEL 503 797 1700 | FAX 503 797 1797

METRO

November 19, 1999

To the Councilors and Citizens of the Metro Region:

I hereby transmit the Comprehensive Annual Financial Report (CAFR) of Metro as of June 30, 1999, and for the year then ended. Management is responsible for the information and representations contained in this report, and I believe that the information presented is accurate in all material respects and fairly sets forth the financial position and results of operations of Metro.

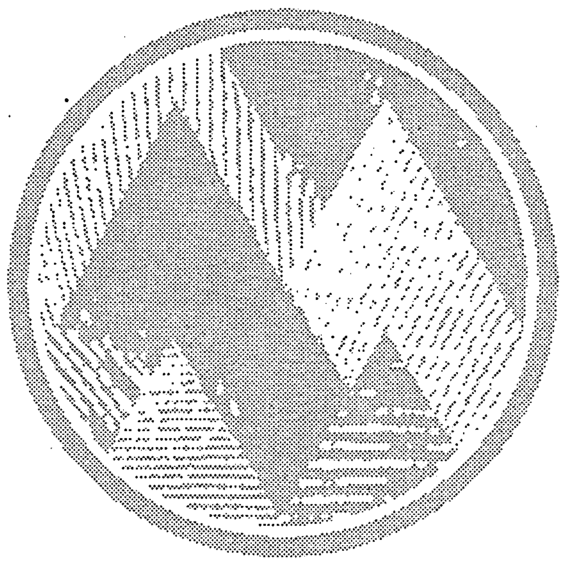
This CAFR provides information on Metro's use of resources to accomplish Metro's mission of providing regional services that guide growth and create livable communities, focusing resources to functions that help to ensure that people in the region have: *access to nature, clean air and water, the ability to get around the region, safe and stable neighborhoods, resources for future generations, and a strong regional economy.* Metro's Charter directs that its most important service is "planning and policy making to preserve and enhance the quality of life and the environment for ourselves and future generations." Metro complied with its Charter mandate, having completed the Regional Framework Plan. Over the past year, Metro also improved and expanded partnerships with local government partners and acquired an additional 1,248 acres of new open spaces throughout the region. Metro continues to provide the broad range of services to the citizens of the region to manage growth and concentrate on keeping our region an excellent place to live, raise families, and earn a living. Metro continues to be an innovator and a model for other urban regions - both in this country and abroad - in the ways the agency is working to preserve livability while accommodating growth.

Metro and its staff strive to continually improve its financial operations, systems and reporting to provide full accountability to citizens of the region. This effort has resulted in the receipt, by Metro, of the Certificate of Achievement for Excellence in Financial Reporting for the past seven consecutive fiscal years. I extend my appreciation to Jennifer Sims, Chief Financial Officer, and to the staff of the Accounting Services Division in the Administrative Services Department for this accomplishment and for their efforts in preparing this CAFR.

I encourage you to read the information contained in this CAFR and see how Metro used the resources provided to serve the citizens of the Metro region during the fiscal year ended June 30, 1999.

Sincerely,

Mike Burton
Executive Officer



600 NORTHEAST GRAND AVENUE | PORTLAND, OREGON 97232 2736
TEL 503 797 1700 | FAX 503 797 1797

METRO

November 19, 1999

To the Executive Officer, Council and Citizens of the
Metro Region:

In accordance with ORS 297.425, we are pleased to submit the Comprehensive Annual Financial Report of Metro, for the fiscal year ended June 30, 1999, together with the report thereon of our independent auditors, Deloitte & Touche LLP. Metro management is responsible for the accuracy of the data, and the completeness and fairness of the presentation, including all disclosures. To the best of our knowledge and belief, the data contained in this report is accurate in all material respects and is organized in a manner designed to present fairly the financial position and results of operations of the various funds and account groups of Metro. All disclosures necessary to enable the reader to gain an understanding of Metro's financial activities have been included.

The Comprehensive Annual Financial Report is presented in three sections: Introductory, Financial and Statistical. The Introductory section includes this transmittal letter, Metro's organizational charts and a list of principal officials. The Financial section includes the general purpose financial statements and the combining and individual fund, account group and component unit financial statements and schedules, as well as the independent auditors' report on the financial statements and schedules as identified in their report. The Statistical section includes selected financial and demographic information, generally presented on a multi-year basis for analysis purposes. The Comprehensive Annual Financial Report also includes Audit Comments and Disclosures, including comments required under the Minimum Standards for Audits of Oregon Municipal Corporations Section of the Oregon Administrative Rules.

The Comprehensive Annual Financial Report includes all funds and account groups of Metro, including information for the Metropolitan Exposition-Recreation Commission (MERC) component unit as required by Governmental Accounting Standards Board Statement No. 14. Metro is responsible for the operation and management of MERC and appoints each of the seven members of the MERC Commission. Metro is financially accountable for the operations of MERC and is able to impose its will in MERC's operations through review of resolutions, budget approval and fiscal management.

In addition to the above report, Metro is required to have an audit of its expenditures of federal awards in accordance with the U. S. Office of Management and Budget Circular A-133 and the provisions of *Government Auditing Standards* issued by the Comptroller General of the United States. Reports on Metro's internal control, compliance with applicable laws, regulations, grants and contracts, and the Schedule of Expenditures of Federal Awards for the year ended June 30, 1999, have been issued under separate cover.

Recycled Paper
www.metro-region.org
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ECONOMY

Metro is located in the urbanized portion of Oregon's Clackamas, Multnomah and Washington counties. Twenty-four cities are within Metro's boundaries which comprise the Portland metropolitan area, the largest of these being Portland, Gresham, Beaverton, Hillsboro, Tigard, Lake Oswego, Oregon City, West Linn, Tualatin and Milwaukie.

The Portland metropolitan area is the financial, trade, transportation and service center for Oregon, southwest Washington State and the Columbia River basin. After years of above-average growth, most of the metropolitan area's important economic drivers have ceased to be substantial job creators. Much of this reversal of fortune has come as a result of the economic instability of many of the area's important foreign trading partners. By far the most important change in the area's economy is a weaker semi-conductor industry. The area will rebound along with the Asian economies, however it will not recapture the fast pace of expansion enjoyed earlier in the decade.

It is important, however, to keep these comments in perspective. The economic slowdown was caused largely by the shock of the Asian economic crisis, and its passing will restore at least some of the lost momentum. The Portland metropolitan area still possesses all of the advantages that it possessed before the crisis, such as low energy costs, a per capita income above the U. S. average, a highly diversified economy, a large computer-related manufacturing industry, high quality of life, and an aggregation of high-tech employers. Its challenges are its vulnerability to a permanent decline in the logging industry and a struggling semi-conductor industry.

According to U. S. Bank's Regional Economic Review and Forecast, the Portland metropolitan area experienced employment growth of 4.5 percent in 1997, 2.4 percent in 1998, and is predicted to slow to 1.5 percent in 1999. Statewide, the unemployment rate has averaged 5.5 percent over this three-year period, however, unemployment in the Portland metropolitan area continues at 4.3 percent.

The median sales price for single-family homes increased from $152,400 in 1997 to $160,600 in the third quarter of 1998. Metropolitan office vacancy rates averaged 5.95 percent in 1997 and 5.25 percent in the first one-half of 1998.

Weakened sales and earnings negatively affected major employers such as Nike, Intel, Mitsubishi Silicon, Hewlett Packard, Tektronix and Sequent, resulting in temporary shutdowns and reduced employment.

Statewide, Oregon will continue to grow, but as has been the case since 1996 the increments will diminish. The ongoing easing in the technology sector and an end of construction increases amidst slower population growth and the completion of some large projects will be contributors to the slowdown.

These economic factors will challenge Metro in examining options for funding critical agency functions such as regional growth management and transportation, local planning assistance, 2040 Functional Plan implementation, regional parks and open spaces operations and maintenance, and recycling promotion.

ORGANIZATIONAL STRUCTURE AND SERVICES PROVIDED

Metro, the nation's only *directly elected* regional government, operates under the authority of a home rule Charter. Metro is governed by the seven-member Metro Council. An Executive Officer and Auditor are elected region-wide. The Executive Officer's role is to carry out the policies of the Council and administer the functions of Metro. The Metro Council conducts all legislative business in weekly meetings, supplemented by various Council committee meetings held throughout the month. The Auditor is responsible for financial and performance audits of Metro's programs and activities. Metro's current primary Charter mandated responsibilities include regional planning (transportation, urban growth boundary management and other planning activities), solid waste disposal and waste reduction programs, operation of a first class zoo, and operation of the metropolitan region's spectator facilities through MERC.

DEPARTMENTAL ACTIVITY

Transportation Department

During fiscal year 1999, Metro's Transportation Department continued to perform its designated functions as the region's Metropolitan Planning Organization to secure and allocate federal highway and transit funds. Planning and decision making for assigning project priorities and funding for the region's transportation program are performed in close cooperation with local governments, state and other regional agencies. The Joint Policy Advisory Committee on Transportation and the Transportation Policy Alternatives Committee provide forums for coordination and decision making with state, regional and local government staff, elected representatives and citizens.

The Transportation Department contains four major sections – *Transportation Planning, High Capacity Transit Planning, Travel Forecasting and Transit Oriented Development.*

The Federal Highway Administration and the Federal Transit Administration conducted its triennial certification review of the Southwest Washington Regional Transportation Council's and Metro's transportation planning processes and Metro received a transmittal of Draft Certification Review Report for Portland and Vancouver, covering the transportation management area.

During fiscal year 1999, the Department's *Transportation Planning* section completed or continued work on a number of activities related to its main mission. That mission includes updating and maintaining the Regional Transportation Plan (RTP) and Metropolitan Transportation Improvement Program (MTIP), conducting corridor or sub-area and special studies, coordinating with local planning efforts, and working with DEQ on Clean Air Act requirements.

Draft materials for the completion of a final RTP were adopted by resolution and the MTIP allocation process was completed, both late in fiscal year 1999. Transportation staff worked with Growth Management staff to review Urban Growth Management Compliance plans; to evaluate urban reserve RTP compliance reports; and on urban reserve planning. Staff also reviewed a number of local transportation and land use plans and studies conducted by other agencies for consistency with regional policy. The South Willamette River Crossing Study and Traffic Relief Option Task Force effort were both completed with recommendations being forwarded for incorporation into the RTP.

The *High Capacity Transit (HCT) Planning* section substantially completed the *South/North Corridor Light Rail Project Final Environmental Impact Statement*. However, in November 1998, voters did not approve the local funding for the project and the light rail project entered a period of re-definition. HCT and public involvement staff held a series of "listening post" public meetings to assess public opinion regarding transit options in the South/North Corridor. As a result of these hearings and a community initiative to advance a North Corridor Light Rail project, the HCT section moved forward on two regional transit projects, the South Corridor Transit Alternatives Study and the Interstate MAX light rail project.

In April 1999, the HCT section published the *North Corridor Supplemental Draft Environmental Impact Statement*, which detailed the environmental impacts of the new Interstate MAX project. Other activities in support of the Interstate MAX project included support of a citizen's advisory committee and coordinating the Metro Council's adoption of the amended Locally Preferred Strategy that selected Interstate MAX as the region's first light rail construction segment in the South/North Corridor. HCT staff then began work on the *North Corridor Final Environmental Impact Statement.*

HCT staff developed a work program to analyze non-light rail transit options in the South Corridor. This work program was endorsed by the Metro Council in June 1999, and will be a major focus of work for the HCT section in fiscal year 2000.

The *Travel Forecasting* section has been active in multiple model development and application projects during fiscal year 1999, including a United States Department of Transportation sponsored transportation model improvement program (TMIP). One element of that program focuses on the improvement of person travel demand models. The Portland metropolitan area has been chosen as the test site to develop the new travel simulation tools. As such, staff has been working closely with the Los Alamos National Laboratory in this effort. In addition, staff has completed development of a new tool for simulating truck movement. Based upon commodity attributes and flow patterns, the model estimates transport vehicle requirements, accounts for reload activity, and predicts truck volumes on roads. The tool is being used extensively in the I-5 Trade Corridor Study.

Modeling services are continually provided for projects within Metro, such as: the Interstate Max study, the RTP, the MTIP, and the Congestion Pricing analysis. Assistance was also provided to external entities such as the Oregon Department of Transportation, Tri-Met, the Port of Portland, and the cities and counties of the region.

During fiscal year 1999, the *Transit-oriented Development Implementation Program (TOD Program)* worked on approximately a dozen projects in MAX station areas of Gresham, Portland, Beaverton and Hillsboro. Particularly noteworthy are the Center Commons and Hillsboro Central projects.

For the Center Commons project, the TOD Program bought a 4.88 acre site from the Portland Development Commission, subdivided it into 29 lots and four open space tracts, then sold the parcels with transit-oriented development construction requirements to three developers. Construction began in June 1999. When complete, Center Commons will include a child-care center, new pedestrian connections to the light rail station, 314 units of senior housing, market-rate apartments, row-houses and family affordable apartments.

Working with the City of Hillsboro, the TOD Program purchased a prime one-acre site located between the new Hillsboro Central MAX station and Main Street. The purchase represents the first time Federal transportation funds were used specifically to purchase a site for transit-oriented development. The site, a former Well Fargo Bank branch with drive-through teller lanes and a huge parking lot, will be redeveloped into a three or four story mixed-use building to create a "land use bridge" that connects the new rail station to the eastern end of Hillsboro's historic main street.

Other projects on which the program worked during the year include the mixed-use Russellville project at 102nd Avenue and East Burnside, Buckman Heights at NE 16th and Sandy Blvd., The Madison Condominiums in Goose Hollow, The Round at the Beaverton Central MAX station, and Gresham Civic Neighborhood.

Growth Management Services Department

The Growth Management Services Department facilitates decisions to maintain a regional consensus on growth management that preserves and enhances the livability of the region and promotes livable communities. The Metro Charter directs regional planning to be Metro's primary function and requires Metro to coordinate land-use planning within the region. The Growth Management Services Department consists of four divisions -- *Long Range Planning, Community Development, Data Resource Center and Administration.*

The *Long Range Planning Division* is responsible for the technical analysis and assessment of public policy proposals related to regional growth management. During fiscal year 1999, this division: analyzed the need for possible urban growth boundary expansion, completed a series of Urban Growth Report updates, evaluated performance measures to better understand whether the region is meeting its goals of building better communities and provided technical analysis of areas proposed to be brought into the urban growth boundary legislatively. Staff also began analyzing regionally significant natural resources, provided technical assistance to local jurisdictions and citizens on stream and floodplain protection and continued to work with our regional partners on watershed and water conservation management issues. Work on affordable housing issues began with the creation of an Affordable Housing Technical Advisory Committee which will address region-wide affordable housing issues.

The *Community Development Division* is responsible for general administration of the urban growth boundary, technical assistance in implementation of the Regional Framework Plan and Urban Growth Management Functional Plan, and the review of local government compliance plans, comprehensive plans and ordinances for consistency with the Functional Plan. This division also offered training programs to local planners, elected and appointed officials and citizen groups on how to successfully implement regional policies in their community.

The *Data Resource Center (DRC)* maintains an extensive network of information about the Portland metropolitan region's land, population and economy. The DRC maintains the Regional Land Information System (RLIS), a computer mapping system which provides land records, urban development patterns and environmental data for businesses, local jurisdictions and other Metro departments. During fiscal year 1999, DRC completed development of an electronic storefront on the Internet to serve clients. This division also took over mapping and coordination services for local boundary changes within the region.

The *Administration Division* provides support services to the Department including contract administration, grants management, personnel administration and budget preparation and monitoring. The Department's public involvement staff is also housed in this division. In fiscal year 1999, public involvement staff coordinated public outreach efforts for the Department's natural resources efforts and initiated a series of local training workshops for citizens in conjunction with several local jurisdictions.

Oregon Zoo

The Metro Washington Park Zoo changed its name to the Oregon Zoo, effective in September 1999.

The Oregon Zoo (the Zoo) is Oregon's largest paid tourist attraction. The Zoo has averaged in excess of one million annual visitors for over a decade. Attendance was 1,047,000 in fiscal year 1999, which represents a 4% increase over the prior fiscal year.

In September, the Zoo opened the second phase of the Great Northwest project, which included a new entrance adjacent to the light rail station. The project features a mountain goat exhibit, new restaurant and banquet facility, and retail facility. The project will make the Zoo easier to use, eliminates antiquated facilities, and will help the Zoo become increasingly self-sufficient. The project is financed by $28.8 million in general obligation bonds approved by voters in September 1996.

Construction continues on the third phase of the Great Northwest project, which includes Steller sea lion, sea otter, tide pool, kelp tank, and blow hole exhibits. This phase will open in July 2000. A new meerkat exhibit and lorikeet exhibit opened in summer 1999, which also helped increase the animal collection and bolster attendance.

Total enterprise revenues totaled $8.5 million in fiscal year 1999, a 12% increase over the prior year. Property taxes represent 41% of the Zoo's revenue, well below the Council mandated 50% limit. This is a result of both growth in enterprise revenues and impacts of ballot measures that have limited the growth of property taxes. In fiscal year 1999, these ballot measures (47/50) resulted in a decrease in property tax revenue of $1.7 million from previously anticipated amounts.

The Zoo's entrepreneurial efforts enable the Zoo to meet its goals of providing visitors unique educational and recreational opportunities to experience wildlife in a naturalistic setting and to learn to "*care now for the future of life*," the Zoo's stated vision.

Regional Environmental Management Department

Metro's Regional Environmental Management Department (REM) is responsible for regional solid waste management. The Department aims, at all times, to contribute to the livability of the Metro region by taking actions that reduce and manage the region's solid waste in an effective, economical, and environmentally sound manner.

The Department owns and contracts for the operation of Metro's two solid waste transfer stations, owns and operates two hazardous waste facilities including a latex paint processing facility, and arranges for disposal at landfills and other facilities. REM develops and administers a solid waste management plan for the region as part of Metro's planning responsibilities.

During fiscal year 1999, Metro successfully renegotiated new contract terms with its transportation contractor and with its disposal contractor. The renegotiated contracts would reduce costs to the region by approximately $60 million during the next 10 years. The new disposal contract will bring down disposal rates Metro pays from an average of $23.94 to $17.37 per ton.

In fiscal year 1999, the Regional System Fee Credit Program was instituted to restore the loss in operating margin for mixed waste processing facilities when the region's tipping fee was reduced. The program was instituted on a one-year basis, with evaluation scheduled at the end of that period. Metro disbursed almost $800,000 to participating facilities, with higher payment levels correlated to higher recovery levels.

The initial review indicated that those facilities with recovery in the range of 30% or higher saw their operating margin restored by Metro's payments under this program. However, recovery levels at some facilities have declined despite the program. Metro has recommended that the Regional System Fee Credit Program continue for one more year. Additional analysis will be undertaken to identify ways the Program might be restructured to encourage higher levels of recovery from all facilities.

Regional disposal tonnage increased during fiscal year 1999 to 1,252,000 tons, compared to 1,234,000 tons in the previous year. Tonnage delivered to Metro transfer stations in fiscal year 1999 dropped 37,800 tons, or 5%, from that delivered in fiscal year 1998.

During fiscal year 1998, Browning Ferris, Inc. (BFI) was awarded a five-year contract for operation of both of Metro's transfer stations. The total number of transactions, including commercial and public customers, reached 335,967, which was a 7.3% increase from the prior year. Re-negotiation of the waste transport contract has allowed for further expansion at the Metro South facility. BFI also has achieved record numbers for recovery while handling increased numbers of customers at Metro South. In addition, there has been continued progress on the reduction of incidents requiring facility shutdown.

The total number of household customers served at the permanent hazardous waste facilities increased to 23,709, a 16% increase over fiscal year 1998. The number of customers served by Metro's mobile household hazardous waste collection events was 7,418, the second highest total since Metro began providing collection events to supplement the permanent facilities. Collection events included six full-scale events and nine neighborhood-scale events. The Conditionally Exempt Generator program, which provides incentive for programs throughout the region to properly dispose of hazardous wastes, served 275 customers in fiscal year 1999.

St. Johns Landfill methane gas continues to flow from the landfill through a 9,400-foot underground pipeline to Ash Grove Cement Company. Metro expects to receive revenue totaling approximately $1.4 million, if gas production follows the predicted rate of decline. This revenue will help offset the cost of maintaining the landfill's gas recovery system. From the beginning of gas sales in 1998 to June 30, 1999, Metro has received $142,984 in revenue from the sale of gas.

During fiscal year 1999, REM investigated erosion and other problems at the perimeter dike that separates the buried solid waste from surrounding surface water at the closed St. Johns Landfill. Preliminary designs were developed for bank stabilization repairs in three critical sections of the dike and also for a cut-off wall in one of these sections. As the fiscal year ended, REM prepared to apply for construction permits from several regulatory agencies. REM plans to carry out construction in 2000 and 2001.

In fiscal year 1999, REM managed more than $540,000 in grants through its Enhancement Program, which promotes enhancement of the communities surrounding the Metro transfer stations, the closed St. Johns Landfill, and Forest Grove Transfer Station. In addition, more than $97,800 in Disposal Vouchers was awarded, allowing neighborhood organizations and other non-profits throughout the region to conduct clean-up events without incurring large disposal costs.

Through REM's Waste Reduction, Planning and Outreach Division, approximately $1,050,000 in waste reduction grants were awarded to provide financial assistance to local governments for recycling and other waste reduction programs, and to businesses for commercial organic waste diversion programs.

The region's recycling rate continues to set standards for jurisdictions around the country, due in large part to the efforts of REM. The recycling rate for the Metro region for calendar year 1998 (most current data available) was 43%. Households in the region have already achieved a 50% recycling rate, including diversion from backyard composting. Metro and local governments conducted a study of commingled recycling collection, which would require fewer sorts by residents. A five-year review of the home composting bin distribution program was completed, with Council approval for continuation of the program.

Nearly 22,300 students participated in 484 presentations through REM-sponsored waste reduction education programs. The education program also reached 107 teachers through 12 workshops. The Metro Recycling Information Center (RIC), the clearinghouse for waste reduction, recycling and solid waste disposal information for the Metro region, answered 96,565 inquiries. In May 1999, the RIC answered its one-millionth phone call. In the annual survey of callers, respondents rated the information provided by RIC 4.75 (on average) on a five-point scale, with "5" being the highest rating of satisfaction.

Metro staff is focusing their planning and outreach efforts on businesses and construction and demolition sites, where increased recovery efforts are needed. Metro is developing a processing and collection infrastructure for organics generated by businesses, which is the single largest item in their waste stream.

Regional Parks and Greenspaces Department

Metro offers a variety of park facilities and recreation opportunities for citizens and visitors in the metropolitan region. Over a million visitors each year enjoy picnicking, hiking, camping, swimming, boating, fishing, canoeing, field sports and wildlife watching. Metro manages and operates 15 park, greenspace and marine facilities including Blue Lake Regional Park, Oxbow Regional Park, Howell Territorial Park, Beggars-Tick Wildlife Refuge, Smith and Bybee Lakes Wildlife Refuge, Chinook Landing Marine Park and Glendoveer Golf Course.

With the 1992 Metropolitan Greenspaces Master Plan serving as a foundation, work began to update the goal to establish a cooperative, regional system of parks, natural areas, trails and greenways for fish, wildlife and people. An inventory of parks and natural areas, along with a compendium of policies and protective measures will provide a current basis for identifying a regional parks and natural areas system.

Land acquisition, planning and citizen involvement are the primary tools used to establish and manage the regional system. Voters of the region approved a $135.6 million general obligation bond issue in fiscal year 1995. Funds from the bond measure are being used to acquire about 6,000 acres of open space in 14 regional target areas, acquire six regional trail and greenway corridors and fund about 100 local government greenspace projects. Through June 30, 1999, Metro had acquired a total of 4,664 acres of open space (including 1,248 acres in fiscal year 1999), representing 78% of the acquisition goal. In addition, Metro funded 65 local parks projects in the amount of $14,894,981 out of the $25 million "local share" component of the bond measure which was reserved for the 26 jurisdictions and local parks providers.

Newly acquired parks and open spaces property will be managed as landbanked property. These acquisitions, as well as existing park facilities, require a comprehensive assessment and planning process to assure protection of the natural resources and to identify appropriate recreational uses of the land. Master planning efforts for Blue Lake Regional Park began in fiscal year 1999.

A new volunteer services program significantly increased the capacity for people to be involved in the protection and management of Metro's regional parks and natural areas. Volunteers serve in a variety of ways including environmental education, habitat restoration, biological monitoring, research, database management, events and advisory committees.

Funds from the U.S. Fish and Wildlife Service supported eight habitat restoration grants, eleven environmental education grants and nine salmonid education and enhancement grants. The salmonid grants are a new way for Metro to support the recovery of salmon and native trout in the region. Grant funding leveraged an additional $385,871 in local community cash and in-kind support.

Metro GreenScene, a calendar of nature hikes, tours, classes and events is published quarterly and offers over 300 opportunities for citizens to learn and experience their urban natural areas. Metro naturalists, volunteers and other cooperators provided quality programs and activities to over 10,000 people in fiscal year 1999.

Metro Regional Parks and Greenspaces Department will continue to provide a variety of ways for people to enjoy and support their parks and greenspaces. Offering recreational, educational, planning and volunteer opportunities will help build public awareness and citizen involvement to establish and maintain a quality system of parks, natural areas, trails and greenways.

Metropolitan Exposition-Recreation Commission (MERC)

MERC manages the regional convention, trade and performing arts facilities. These facilities include the Civic Stadium, the Portland Center for the Performing Arts (PCPA), the Oregon Convention Center (OCC) and the Portland Metropolitan Exposition Center (Expo Center). MERC continued to experience some flattening of revenues in fiscal year 1999 due in part to reaching near maximum event capacity in OCC and PCPA, and lower attendance figures at PCPA. Additionally, growth in hotel/motel tax revenues was not as strong as in prior years.

This past fiscal year was a transition year for the performing arts complex. A gift of $350,000, added to the $650,000 gift received in the fiscal year 1998, makes possible the completion of the fourth floor of the Newmark Theatre into a functioning rehearsal hall. While activity remained high at PCPA, attendance and revenues were flat for much of the year. This is attributed to the lack of a long run block-buster Broadway show (fiscal year 1998 included a six-week return engagement/48 performances for the Phantom of the Opera), lackluster ticket sales for many of the resident companies, and more competition for the discretionary regional entertainment spending of the consumer.

There were 940 events at PCPA during fiscal year 1999 (compared with 971 in the prior year). Overall attendance was 969,081, down 14% from a near record year in fiscal year 1998. Major reinvestment in theatre buildings and equipment continued through the Capital Improvement Program. This included installation of a new cooling tower and major plumbing replacement in the backstage areas, and replacement of the lighting dimmer system and mezzanine curtains at Civic Auditorium; replacement of lighting control systems and cleaning, restoration and painting of the Arlene Schnitzer Concert Hall; and construction of Americans with Disabilities Act (ADA) compliant restrooms at the New Theatre Building.

The OCC had another near-capacity year. Forty-nine conventions, tradeshows or a combination of the two occurred in fiscal year 1999; four of them were international events. The largest two conventions had between 11,000 and 13,000 attendees each, and the top two trade shows attracted 40,000 and 55,000. Overall there were 401 total events with an attendance of 580,112.

Use of the facility at this level results in a gradual leveling of attendance and operating revenues, as it is not possible to schedule any more large events. Efforts on the part of the hotel/motel industry succeeded in developing a proposal to fund the expansion of the OCC through an increase in the hotel/motel tax and car rental tax. The prospects are good for the expansion to begin in the next twelve months.

The year saw continuing increases in business at the Expo Center. The Expo Center has enjoyed ever increasing numbers and sizes of events due in large part to the marketability and success of its newest hall. The annual number of events continued to climb in fiscal year 1999. The past year saw 95 events (74 consumer, 7 tradeshow, 14 miscellaneous) over 260 event days with an estimated attendance of 677,716.

Civic Stadium hosted another successful Rockies baseball season averaging in excess of 5,000 fans per game. The United States Women's Soccer Team ended their exhibition season at Civic in preparation for the *Women's World Cup '99* competition with over 20,000 fans in attendance. Subsequent to that, Civic Stadium hosted two opening round doubleheaders of the *Women's World Cup '99* attracting in excess of 37,000 fans. All three were on national television giving Portland excellent exposure. With these and other events, fiscal year 1999 was another financially successful year for the facility.

FUTURE PLANS

During fiscal year 2000, Metro will continue to focus on the future and work to preserve and enhance the region's livability, enhance Metro's ability to serve the public, increase Metro's efficiency and continue building relationships with local governments.

Metro's home rule charter stipulates that the agency's primary function is "planning and policy making to preserve and enhance the quality of life and the environment for ourselves and future generations." The primary revenue source for planning activities is Metro's excise tax – a tax on its own services. The tax is projected to remain flat primarily due to revenues received from solid waste activities leveling off. This revenue projection will create challenges to find the resources required to fund on-going programs. Metro will examine options for long-range funding of critical agency functions such as regional growth management and transportation, local planning assistance, 2040 Functional Plan implementation, regional parks and open spaces operations and maintenance, and recycling promotion.

In fiscal year 2000, Metro also looks forward to many exciting and interesting programs, including acquisition of additional open spaces, opening of additional exhibits of the Oregon Zoo's Great Northwest project, construction of a new Exhibit Hall D at the Expo Center and an expansion of the OCC.

The *Growth Management Services Department* work program for fiscal year 2000 will include: assistance in urban reserve planning; completion of final determination of need and process legislative Urban Growth Boundary (UGB) amendments to comply with state legislative mandate for UGB expansion; assist in development of and reporting on performance measures for the Regional Framework Plan; complete regionally significant Goal 5 fish and wildlife habitat plan; coordinate a consensus on affordable housing policies for the Urban Growth Management Functional Plan; and assist local jurisdictions in complying with the Urban Growth Management Functional Plan. The Department's staff will be providing technical assistance to local governments, developing education materials and coordinating public outreach efforts for Growth Management's various programs.

In the coming year, the *Transportation Department* will begin the 21-month Transportation Improvement Plan update process in January 2000; continue toward adoption of the RTP; develop and evaluate transportation alternatives within the South/North corridor and elsewhere in the region; and prepare a final report on the Congestion Pricing/Traffic Relief Options Study. The Department will continue to encourage transit oriented construction by the private sector of high-density housing and mixed-use projects that encourage increased transit use.

The *Regional Environmental Management Department* will be developing proposed fee structures to reflect amendments to the disposal and long-haul transportation contracts achieved in fiscal year 1999. The Department will continue the Regional System Fee Credit Program until its impact on recovery rates can be fully assessed. In addition, the Department will be implementing hazardous waste and regional transfer station service plans and providing seed money for business assistance grants and loans. Finally, the Department has capital improvement plans to expand the hazardous waste facility and repair the concrete floor at Metro Central transfer station, construct a public unloading area and replace the pit wall at Metro South transfer station and repair the perimeter dike at St. Johns Landfill, while also planting native vegetation.

The *Oregon Zoo* will open the Lory Exhibit (small birds, similar to parakeets) in order to maintain interest and increase attendance during the Steller Cove construction. The Zoo will also open a tortoise exhibit and complete construction of the Steller Cove – part of the Great Northwest project. These projects will be accomplished while continuing programs to attract over one million visitors in fiscal year 2000.

The *Regional Parks and Greenspaces Department* will, in support of the Regional Framework Plan, continue development of a functional plan for Chapter 3 of the plan including system identification and development of protection strategies for regionally significant natural resources. The Department will continue to assist Growth Management Services with the development of Regional Goal 5 inventory and policies for protection of Goal 5 regional resources. The Department will continue land acquisition and capital improvements pursuant to Metro's Open Spaces Program, including construction of the second segment of the Peninsula Crossing Trail, and completing construction projects at Howell Territorial Park, Oxbow Regional Park and the M. James Gleason Boat Ramp.

MERC will begin the expansion project of the OCC in fiscal year 2000. In addition, Hall D at the Expo Center will be replaced with a new facility. MERC will perform an analysis and study of comparative service levels provided by other performing arts centers to establish a proper balance of services and identify the amount of subsidy to meet this desired level of service. MERC will also develop a Master Renewal and Replacement plan of all MERC's facilities fixed assets.

The *Administrative Services Department (ASD)* will work to complete a successful transition into the year 2000 without encountering any significant Y2K problems. ASD will conduct an assessment of the *PeopleSoft* application software project to develop a strategy for the next steps required to bring added functionality and efficiency to users given the resources available.

The above efforts will be accomplished with a $26.9 million reduction in Metro's overall budget. As noted earlier, Metro faces several pressing issues in fiscal year 2000, including the long-range funding needs of the agency. The fiscal year 1999-2000 budget adopted by the Metro Council and available from Metro's Financial Planning Division of ASD describes in more detail plans for the coming year.

FINANCIAL AND ACCOUNTING POLICIES

This report is prepared in conformance with the guidelines for financial reporting developed by the Government Finance Officers Association of the United States and Canada and the principles established by the Governmental Accounting Standards Board (GASB), including all effective GASB pronouncements. Metro has implemented the provisions of GASB Statement 14 concerning the Reporting Entity. The operations of the MERC Component Unit are reported in a discrete column in the report in accordance with the provisions of this Statement. This report presents fairly the financial position of the various funds and account groups of Metro at June 30, 1999, and the results of operations and cash flows of such funds for the year then ended in conformity with generally accepted accounting principles (GAAP).

Metro budgets a total of 19 funds of which eight are governmental fund types, eight are reported in proprietary fund types and three are fiduciary fund types. One budgetary fund, the General Revenue Bond Fund, is comprised of two components that are separated and combined with a governmental fund (Zoo Operating Fund) and a proprietary fund (Building Management Fund) to present the activities applicable to each facility in accordance with GAAP. The following bases of accounting are used for the respective funds:

Fund to which applied	Accounting Basis
* Governmental Fund Types:	Modified Accrual Basis
General Fund	
Special Revenue Funds	
Debt Service Fund	
Capital Projects Funds	
* Proprietary Fund Types:	Accrual Basis
Enterprise Funds	
Internal Service Funds	
* Fiduciary Fund Types:	
Expendable Trust Funds	Modified Accrual Basis

INTERNAL ACCOUNTING CONTROLS AND BUDGETARY PROCESS

Metro maintains, and management relies upon, a system of internal accounting and administrative controls designed to provide reasonable assurance that assets are safeguarded against loss from unauthorized use or disposition and that accounting transactions are executed in accordance with management's authorization and properly recorded so that financial statements can be prepared in accordance with GAAP and Metro's budgetary requirements. The design and operation of internal controls also ensures that federal and state financial assistance funds are expended in compliance with applicable laws and regulations related to those programs. In establishing internal controls, management considers the inherent limitations of various control procedures and weighs their cost against the benefit derived. Metro constantly monitors and revises, where necessary, the accounting policies, procedures and systems, together with the related internal controls when required, to assure that reliable and timely information is prepared in the most efficient manner possible.

Metro's budget is prepared on the modified accrual basis of accounting. In accordance with applicable state statutes, Metro budgets all funds except the Deferred Compensation Fund. The Metro Council adopts the budget by ordinance prior to the beginning of Metro's fiscal year (July 1 through June 30). The ordinance authorizing appropriations for each fund sets the level by which expenditures cannot legally exceed appropriations. Total personal services, materials and services, operating expenditures, capital outlay, and other expenditures by department in certain funds and by fund as a whole in certain other funds, as disclosed in the Notes to the Financial Statements (Note 2C), are the levels of control established by the budget ordinance. The expenditure appropriations lapse at the end of the fiscal year. Unexpected additional resources and budget revisions may be added to the budget through the use of a supplemental budget or by an ordinance passed by the Metro Council amending the budget. A supplemental budget requires hearings before the public, publication in newspapers and approval by the Council. Original, amended and supplemental budgets may be modified by the use of appropriations transfers between the levels of control when approved by Council. Metro adopted five budget amendments during the fiscal year.

FINANCIAL SUMMARY OF GENERAL GOVERNMENT FUNCTIONS

The following financial data is summarized from the more detailed information included in this financial report.

Metro's general revenues include revenues of the General Fund, Special Revenue Funds, Debt Service Fund and the Capital Projects Funds, which may be classified and summarized from the financial data as follows:

Taxes – Property taxes levied on property in the region and excise taxes charged on Metro provided services.

Intergovernmental Revenue – Federal, state and local grants, and shared revenues.

Charges for Services – Admission, rental fees, vending and concessions/catering revenue, professional and contract service fees and other charges for services provided at Metro operated facilities.

Contributions and Donations – Amounts received from donors.

Investment Income – Interest earned on investments and realized and unrealized gains and losses on the changes in fair value of investments.

Miscellaneous – Revenue from other sources not otherwise provided for in the categories noted above.

The revenues accounted for in the Governmental Fund Types and percentage of total revenue by source and changes from 1998 are:

Revenue Source	Amount	Percent of Total	Change From FY 1998
Taxes	$32,938,239	49.6%	$ (355,577)
Intergovernmental	12,524,973	18.9%	2,012,529
Charges for Services	12,571,986	18.9%	1,572,478
Contributions and Donations	1,337,092	2.0%	530,815
Investment Income	6,289,063	9.5%	(3,039,722)
Miscellaneous	725,536	1.1%	662,331
Total	$66,386,889	100.0%	$1,382,854

Overall revenues in this category increased 2.1% from the previous year. The major increases and decreases are:

- The decrease in taxes consists primarily of a decrease in property tax revenues of $139,341. Property taxes collected for debt service in the General Obligation Bond Debt Service Fund declined $472,789 reflecting lower debt service payment requirements. Property tax revenues for Zoo operations increased $333,448 from the prior year. In addition, excise taxes on Metro's own services decreased $216,236 or 2.8% from the prior year, primarily due to lower revenues in the solid waste enterprise.
- The 19.1% increase in intergovernmental revenue is composed of an increase in federal, state and local grant funds of $2,066,991 (20.6%), primarily programs of the Transportation Department and includes amounts provided to other agencies. The fiscal year also reflected a slight decrease in local government shared revenues of $48,462 in the Regional Parks Fund.
- Charges for services revenues increased 14.3% from fiscal year 1998. UGB fees increased $85,772 in the Planning Fund due primarily to a growth in the number of boundary adjustment hearings undertaken during the year. Attendance at the Oregon Zoo increased 4.2% from fiscal year 1998, resulting in enterprise related revenues increasing 12.5% or $938,243 over the prior year. The largest gains were shown in food services revenue ($627,588 or 25.4%) and retail sales ($124,778 or 13.8%). Enterprise revenues at Metro's Regional Parks increased $180,795, with gains in rental revenue (up $55,517), grave sales (up $18,604), and contract revenue (up $79,627). Contract revenue included a one-time payment from the Glendoveer Golf Course contractor of $115,000.
- Donations received for the Zoo Operating Fund decreased $133,960, or 18.3%, from fiscal year 1998, whereas donations to the Zoo Capital Projects Fund increased $495,546. This change is primarily related to amounts received from the Oregon Zoo Foundation (OZF), which they designate periodically for specified purposes. For fiscal year 1999, OZF designated the funds towards the Great Northwest project. Donations received in the Regional Parks Fund decreased $21,664 from the prior year. The Planning Fund received a donation of $195,000 for property in the Transit-Oriented Development program.

- Investment income decreased $3,039,722 (32.6%) from fiscal year 1998, primarily due to lower investment balances as the various bonded capital projects continued to be completed. Interest income in the Open Spaces Fund and Zoo Capital Fund decreased $1,501,065 and $690,721, respectively.

Expenditures accounted for in the Governmental Fund Types are shown below by function, percentage of total by function and changes from the previous year:

Function	Amount	Percent of Total	Change From FY 1998
General government	$ 2,695,154	2.7%	$ 170,432
Zoo operations/development	16,036,401	16.1%	2,169,518
Regional planning/ development	16,979,166	17.0%	2,288,225
Recreation and development	8,221,900	8.2%	(397,879)
Capital outlay	35,949,786	36.0%	523,296
Debt service	19,915,021	20.0%	445,725
Total	$ 99,797,428	100.0%	$ 5,199,317

Expenditures increased 5.5% in fiscal year 1999 over the previous year. Some of the significant changes include:

- General government expenditures increased 6.8%. Expenditures for the Council and Office of the Executive Officer increased $114,327 and $311,713, respectively. Included in these increases were expenditures in each office formerly accounted for in the Support Services Fund and transferred to the General Fund in fiscal year 1999. The Council's Office of Public Outreach had expenditures of $145,392 for the year. The Office of Public and Government Relations, part of the Office of the Executive Officer, had expenditures of $278,283 in fiscal year 1999, accounting for 89.3% of the increase in the Office of the Executive Officer. Special Appropriation expenditures were down $321,919 from the prior year, reflecting no expenditures for election costs in fiscal year 1999. Expenditures in this category included contributions to the Regional Arts and Culture Council and a contribution made for a statue of Martin Luther King, Jr. at the OCC.

- Zoo operations expenditures increased 15.6% during the year. This increase is primarily due to the opening of new food service and retail areas, the first completed phases of the Great Northwest Exhibit and Zoo entrance, and the related cost of personnel and goods sold. Personal services costs across all Zoo divisions increased by $1,183,722 (15.0%), and materials and services expenditures were up 16.7% ($792,898) overall. Expenditures in the Marketing and Design Services divisions reflected decreases of $203,182 and $104,627, respectively. All other Zoo divisions reflected expenditure increases, led by Visitor Services (up $694,292 or 38.0% in personal services and up $501,290 or 37.8% in materials and services), and Facilities Management (up $232,585 or 12.4% in personal services and up $280,298 or 17.7% in materials and services.)

- Regional planning and development expenditures increased 15.6% during fiscal year 1999. Materials and services expenditures grew in the Transportation Department, reflecting a $1,839,291 (32.1%) increase from the prior year. The majority of this increase ($1,798,825) was attributable to payments to other agencies under grant agreements. Growth Management materials and services expenditures increased 14.4% ($136,686). Personal services costs decreased in the Transportation Department 0.8% ($30,720), while Growth Management Services' personal services expenditures increased 5.3% ($125,977). Costs for central support services were up $155,551 (7.4%) from the prior year.

- Overall, recreation and development expenditures decreased by 4.6% from the prior year. Expenditures, primarily those for contributions made to other governments for approved local share projects funded by the Open Spaces program, accounted for most of this decrease or $717,490. Recreation and development expenditures for the Regional Parks Fund were up $319,611 or 8.7%. Regional Parks payroll costs were up only 2.8% ($53,235), whereas materials and services expenditures rose 5.2% ($57,944).

- Capital outlay reflects a slight increase of 1.5% as major acquisitions of open spaces continued during fiscal year 1999, accounting for $890,481 of the increase. Construction of the Great Northwest Exhibit at the Oregon Zoo resulted in expenditure increases of $1,867,383 over the prior year in the Zoo Capital Fund. Capital outlay in the Regional Parks Fund increased by $200,552 over the prior year. Planning Fund capital outlay decreased $445,985 from fiscal year 1998, as in the prior year the Fund acquired a significant amount of capital leased computer equipment.

PROPRIETARY OPERATIONS

Proprietary Fund operating revenues, exclusive of the MERC Component Unit, decreased 3.9% from fiscal year 1998 to a total of $66,521,787 for the fiscal year ended June 30, 1999. Operating expenses in the proprietary funds, exclusive of MERC, totaled $65,001,074, or an increase of 2.2% from the prior year. The net income for the fiscal year ended June 30, 1999, was $1,387,070 compared to $6,067,676 in fiscal year 1998. Specific results by proprietary activity are discussed in further detail below.

Solid Waste Enterprise Fund

The solid waste enterprise operations accounted for 78.9% of proprietary revenues or approximately $52.5 million, which was down 5.5% from the prior year. Tonnage processed at Metro facilities decreased 5% (37,800 tons) from fiscal year 1998. Charges for services revenues decreased $3,134,372 or 5.7%, primarily due to the lower tonnage processed. Operating expenses increased 3.1% to a total of $51,839,324 for the fiscal year ended June 30, 1999. Payroll and fringe benefits increased 7.0% ($405,730) from fiscal year 1998. Expenses of operating the Metro South Transfer Station increased $84,468 (3.2%), whereas Metro Central Transfer Station operating costs decreased $141,393 (3.6%). Costs to transport waste to designated facilities increased 3.0% ($297,782), and disposal costs decreased 0.3% ($58,260). The resulting net income for the Solid Waste enterprise was $1,392,707 compared to net income of $6,086,898 in fiscal year 1998. Unreserved retained earnings, at June 30, 1999, was reduced to $35,184,090.

Internal Service Funds

The *Building Management, Support Services* and *Risk Management Funds* comprise Metro's internal service funds. The combined internal service funds reflected operating revenues of $14,062,727 for the fiscal year ended June 30, 1999, which was an increase of 2.7% from fiscal year 1998. Operating expenses decreased $170,822 or 1.3% from the prior year. The funds had a net loss of $5,637 for the fiscal year ended June 30, 1999, compared to a net loss of $19,222 in fiscal year 1998.

Building Management Fund. Revenues, composed primarily of receipts in lieu of rent from Metro departments, were down $7,028 from 1998. Operating expenses increased 0.4% ($5,172). The *Building Management Fund* ended the fiscal year with a net income of $45,777, decreasing the deficit in retained earnings to $1,112,284. This deficit will be reduced over the long-term operations of the fund as interest payments on debt are reduced and payments on principal increase.

Support Services Fund. Charges for services revenues increased 4.8% ($356,565) from the prior year, while operating expenses increased 5.0% ($378,302). Operating expenses of the fund include accounting, financial planning, budget, information systems, legal, human resources, Office of the Auditor, and other administrative services costs. During fiscal year 1999, the increased operating expenses were attributable to increased costs in the Office of General Counsel ($88,499, up 13.4%), Office of the Auditor ($92,975,up 18.8%), and higher depreciation expenses ($95,721). Other Administrative Service Department costs were up 8.9% or $444,950 from the prior year. Support Services Fund operating expenses were 6.8% of total expenses and expenditures for Metro in fiscal year 1999, compared to 4.12% in fiscal year 1998.

Risk Management Fund. During fiscal year 1999, charges for services revenue increased 1.1% ($41,373) over the prior year. Operating expenses decreased $554,296 (12.7%) due, primarily, to a decrease in claims expense, which was down $957,231 resulting from revised estimates of incurred but not reported claims as determined by Metro's actuary. Net income for the year was $51,216, compared to a net loss of $464,506 in the prior year.

Component Unit - MERC Enterprise Fund

The MERC managed *MERC Enterprise Fund* had a decrease in operating revenue of $158,111 or 0.6%. Local government shared revenue, consisting of hotel/motel taxes within Multnomah County, increased 6.2% ($341,404) during fiscal year 1999. Charges for services decreased $1,056,885, which was a drop of 5.3% from the prior year (see below). Operating expenses increased $1,839,014 (7.1%) over fiscal year 1998. Payroll and fringe benefit expenses increased $916,442 (9.4%) over the prior year. Marketing expenses were up $527,041 (29.5%), and MERC operating expenses climbed $314,100 (6.2%) over the prior year. The net loss for fiscal year 1999 was $2,031,986, compared to a net loss of $173,070 in the prior year (including non-operating expenses for assets contributed to the City of Portland of $872,908 and $915,888 in each year, respectively).

Oregon Convention Center charges for services increased 2.3% ($199,675), as OCC continued to experience near-capacity business. *Expo Center* charges for services were up $158,016 (4.1%) as business at the new Hall D continued to grow. *Civic Stadium* charges for services were down $515,256 (20.22%), as the mix of events decreased concession sales, the Lillith Faire was held in the following fiscal year and spring baseball (Portland Rockies) attendance was down due to weather. *PCPA* revenues were off $498,847 (10.7%) from fiscal year 1998, primarily due to 31 fewer events, including the lack of an extended Broadway series show and a resulting 14% drop in attendance.

FIDUCIARY OPERATIONS

Metro manages and accounts for moneys received from various sources in a fiduciary capacity. Such moneys are reported in the Trust Funds within the Fiduciary Fund Type. Disbursements are made in accordance with the agreement or applicable legislative enactment for each fund.

RISK MANAGEMENT

Metro has established the Risk Management Fund (an internal service fund) to account for risk management activities, including the payment of insurance policy premiums, payment of claims, and to finance uninsured risks of loss. Metro is self-insured in certain areas. The Risk Management Fund provides coverage for bodily injury, personal injury or property damage of third parties resulting from the negligence of Metro or its employees. These risks are self-insured by the Risk Management Fund. Property damage to Metro-owned facilities, subject to a $100,000 deductible, is covered through a commercial primary all risk, property insurance policy. Metro is fully insured through SAIF Corporation for workers' compensation coverage. Health and Welfare benefits are provided by third party benefit providers under contracts managed by Risk Management. The fund also covers self-insured unemployment claims. An actuarial valuation, as of June 30, 1999, was performed in November 1999 to determine estimates of liabilities for unpaid claims.

The *Risk and Contracts Management Division* of the Administrative Services Department has responsibility in five areas: *insurance administration, benefits administration, risk assessment, emergency management* and *safety*. All activities under health and welfare contracts, workers compensation, liability and property insurance are accounted for in the Risk Management Fund, which receives payments from operating departments for the services provided to them by the Fund. Risk Management takes an active role in identifying, evaluating and reducing risks to Metro. The division provides instruction to employees to promote safe behavior and helps make Metro a safe place to visit and work. As part of the safety program, the employees of Metro are recognized for their achievement of reducing the cost of claims.

GENERAL FIXED ASSETS

The general fixed assets of Metro are those fixed assets used in the performance of general governmental functions, including the Oregon Zoo, and exclude the fixed assets of the Enterprise and Internal Service Funds. Also excluded are fixed assets of the MERC Enterprise Fund. As of June 30, 1999, the general fixed assets of Metro amount to $158,256,777. This amount represents the original or estimated cost of the assets and is considerably less than the estimated replacement value.

CASH AND INVESTMENT MANAGEMENT

Metro pools most funds for investment purposes to obtain maximum return on investments while minimizing the risk of loss of principal due to credit and market risk. Metro's investment manager uses automated information from the bank and detailed internal data to manage the investment program.

Metro's investment transactions are governed by a written Investment Policy adopted by the Metro Council. The Investment Policy regulates Metro's investment objectives, diversification, limitations and reporting requirements. Metro utilizes an independent Investment Advisory Board to review and advise Metro on its investment plan and investment performance. Quarterly investment reports are presented to the Investment Advisory Board and forwarded to the Metro Council.

Investment income on all funds under Metro's management, exclusive of the Deferred Compensation Fund, was $10,547,041 for the fiscal year ended June 30, 1999, inclusive of the effects of realized and unrealized gains and losses resulting from valuing investments at fair value as required by GASB Statement 31. This compares to $13,862,674 for fiscal year 1998, with the decrease resulting primarily from lower cash and investment balances related to Open Spaces and Zoo Great Northwest project bond proceeds, which are being spent down as the projects continue. The average yield earned on Metro's pooled cash investments varied with the market in fiscal year 1999, from a high of 5.626% in July 1998 to a low of 5.101% in April 1999. The average yield for the year was 5.311%. The pooled cash portfolio does not include bond related investments, which are restricted in terms of maturity and yield. At June 30, 1999, the yield on the pooled cash portfolio was 5.116% compared to 4.790% for three-month treasury bills and 4.930% for the State of Oregon's Local Government Investment Pool.

The investments are displayed in Note 5 to the financial statements disclosing the carrying amounts and fair values both by investment type and in total. The Note discloses the level of custodial credit risk associated with the investment types.

DEBT ADMINISTRATION

As of June 30, 1999, Metro had a total of eight bond issues outstanding for a total of $261,419,950. These issues included $203,377,953 of general obligation bonds and $58,041,997 of revenue bonds. The general obligation bonds are accounted for in the General Long-Term Debt Account Group.

Metro did not issue additional bonds during fiscal year 1999.

At June 30, 1999, Metro had general government loans payable of $4,772,936. Metro received additional loan proceeds during the year ($365,509) from the Oregon Economic Development Department for construction of parking lot improvements and related equipment at the Washington Park(Oregon Zoo) parking lot. The loan was made in two installments and is drawn as Metro requires funds The first loan bears a true interest cost of 5.49%; $2,723,000 was borrowed against this loan in prior years. A second loan bears a true interest cost of 5.44%; $2,217,000 was borrowed against this loan.

The total outstanding net general bonded debt at June 30, 1999, was $190,321,671, as compared with $198,196,159 at June 30, 1998. The ratio of net bonded debt to assessed valuation decreased from the prior year by 0.04% to 0.26% at June 30, 1999. Under ORS 268.520, Metro's general obligation bond issuances are subject to a legal limitation based on 10% of the true cash value of all taxable property within the Metro district. As of June 30, 1999, Metro's general obligation debt of $203,377,953 was well below the legal limit of $9,415,774,489.

In accordance with IRS regulations, Metro is required to periodically pay a rebate on arbitrage earnings for certain bond issues. As of June 30, 1999, Metro has calculated arbitrage payable to the federal government of $15,457. Metro has set aside investments with the trustee in a rebate account which has accumulated an amount to be used for payment.

Metro may finance additional projects in the future. Metro is considering debt financing for an additional exhibit space at the Expo Center. A memorandum of understanding provides that a planned expansion of the OCC will be financed by bonds issued by the City of Portland and repaid by lodging and car rental taxes collected by Multnomah County. Therefore, this debt will not be an obligation of Metro when issued. The assets will be owned by Metro.

In 1999, Metro's bond ratings on general obligation debt were Aa and AA+ from Moody's and Standard and Poor's, respectively. Metro revenue bonds were rated A, A, and A+ by Moody's, Standard and Poor's and Fitch, respectively. These ratings tell investors that Metro is a good risk when it sells bonds and reduces the interest rate required to be paid by Metro and its citizens.

YEAR 2000 MATTERS

Metro recognizes that the arrival of the year 2000 poses a unique worldwide challenge to the ability of all systems to recognize the date change from December 31, 1999 to January 1, 2000 and, like other entities, has assessed and is taking steps to resolve any problems with computer applications and business processes in order to provide for their continued functionality. The Year 2000 issue is the result of computer programs being written using two digit data fields rather than four to define the applicable year. Certain of Metro's (or third parties) computer systems and other equipment could recognize a date using "00" as the year 1900 rather than the year 2000. This could result in a system failure or miscalculations causing disruptions of operations, including, a temporary inability to process transactions, send invoices, or engage in similar normal business activities. As of June 30, 1999, Metro had made progress in its Year 2000 Project as noted below:

Awareness Stage - Metro has completed a project plan, *"Metro Year 2000 Readiness Disclosure Plan,"* for dealing with the Year 2000 issue and has communicated the plan and required tasks to key staff.. Applications and vendor software, computer hardware and other equipment will be considered Year 2000 compliant when certified for compliance, in writing, by the vendor or when tested.

Assessment Stage - Metro, and its component unit MERC, have completed inventories of all of their hardware and software systems. As part of this inventory of systems, Metro has determined which systems are deemed mission critical and require priority compliance efforts. Metro has determined which software was not compliant and would need to be brought into compliance with a simple fix or patch. Embedded systems, such as copiers, faxes and elevators, were found to be compliant in the majority of cases. Systems that were found to be non-compliant have been upgraded, replaced or procedures have been developed to avoid operational problems.

Metro has initiated formal communication with others with whom it does significant business to determine and document the extent to which Metro is vulnerable to those third parties' failure to obtain Year 2000 compliance. Written documentation from these third parties is being placed in Metro's "Year 2000 Project Notebook" to document the third parties' Year 2000 readiness.

Remediation Stage - Systems that Metro found to be non-compliant have been upgraded, replaced or procedures have been developed to avoid operational problems. Metro has replaced all of its central financial software and hardware systems with an Enterprise Resource Planning (ERP) system from *PeopleSoft*. The general ledger, accounts payable, accounts receivable, billing, purchasing, human resources and payroll systems have been replaced (the Accounts Receivable and Billing applications were put into production on October 10, 1999). Metro completed an upgrade to version 6.0 for all its installed *PeopleSoft* financial applications. Metro was also on schedule for completing an upgrade to version 7.51 of the *PeopleSoft* Human Resources Management System by November 30, 1999. In addition, Metro continues to work with *PeopleSoft* to apply any additional corrections identified during their on-going testing to assure Year 2000 compliance in these systems. Over the past three years, Metro has capitalized approximately $2.1 million on this project and has contract commitments for completion of this work, as well as additional work in implementing new financial applications of $40,000.

Other mission critical applications include, but may not be limited to, the geographic information system, transportation forecast modeling system, weighing systems at Metro's solid waste transfer stations, records management systems, time clock systems, facility maintenance systems, telephone systems, cash register/point-of-sale systems and event tracking systems. These systems are in various stages of remediation, including vendor identification of any remaining compliance issues, application of corrections from vendors, and solicitation of replacement costs. Commitments of approximately $160,000 exist for this work as of June 30, 1999.

Validation/Testing Stage – Metro's Information Services Division and MERC Administration, working closely with their departmental customers, are validating that the required patches have been applied to those software packages requiring simple fixes. Metro is also applying patches as released by its primary hardware and software vendors. Metro has completed desktop testing of all IBM PC-compatible machines through a roll-over and leap year test. Those machines that failed, have been or will soon be replaced. For certain systems, Metro is relying on the vendor's written certification statement.

Metro has reached 99% completion of its *"Metro Year 2000 Readiness Disclosure Plan."* To account for any remaining Year 2000 anomalies that may occur in spite of Metro's best efforts, Metro has established an action team that will be testing all of its critical systems on Saturday, January 1, 2000.

In addition to those *internal* steps Metro may undertake to achieve Year 2000 readiness, *external* Year 2000 issues may arise that could impact Metro's operations, credit worthiness and ability to make timely payment of its obligations. For example, property tax collections in support of general obligation debt payments are dependent, in part, upon the systems maintained by the three counties in Metro's district. In addition, revenue bond debt payments are dependent upon the operations of various contractors and customers. Metro is relying on these third party entities' Year 2000 disclosures to assess their Year 2000 readiness and identify any adverse impacts on Metro's ability to meet its obligations.

The commitments and costs of the project and the date on which Metro believes it will complete the Year 2000 Project modifications are based on management's best estimates, which were derived utilizing numerous assumptions of future events, including the continued availability of certain resources, third party modification plans and other factors. However, there can be no guarantee that these estimates will be achieved and actual results could differ materially from those anticipated. Specific factors that might cause such material differences include, but are not limited to, the availability and cost of personnel trained in this area, the ability to locate and correct all relevant computer codes, and similar uncertainties.

INDEPENDENT AUDIT

Oregon state law requires an annual audit of the financial records and transactions of Metro by independent certified public accountants. This requirement has been complied with and the general purpose financial statements have been audited and have received an unqualified report from Deloitte & Touche LLP, our independent auditors. Please refer to the Financial Section for the full text of our auditors' report.

AWARDS

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to Metro for its comprehensive annual financial report for the fiscal year ended June 30, 1998. This was the seventh consecutive year that the government has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements, and we are submitting it to GFOA to determine its eligibility for another certificate.

ACKNOWLEDGMENTS

As a final note, we wish to acknowledge the hard work of the employees in the Accounting Services Division of the Administrative Services Department who assisted in the preparation of this report and completed this effort in a very efficient and timely manner. We especially acknowledge the efforts of Karla J. Lenox, CPA, Financial Reporting and Control Supervisor, for her efforts and dedication in the preparation of this report. We wish to acknowledge the professional and technical assistance of the audit staff of Deloitte & Touche LLP. Finally, we acknowledge the cooperation received from other Metro staff in providing information required to fairly present Metro's financial information. Appreciation is also extended to the Executive Officer, Metro Auditor and Metro Council for their support.

Respectfully submitted,

Donald R. Cox, Jr.

Donald R. Cox, Jr., MBA, CPA, CGFM
Accounting Manager

Jennifer Sims

Jennifer Sims
Chief Financial Officer

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Metro, Oregon

For its Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 1998

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

GOVERNMENT FINANCE OFFICERS ASSOCIATION OF THE UNITED STATES AND CANADA CORPORATION SEAL CHICAGO

President

Executive Director

GFOA award

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June 30, 1999

Elected Officials

Executive Officer

Mike Burton
Term expires Dec. 31, 2002

Auditor

Alexis Dow, CPA
Term expires Dec. 31, 2002

Councilors

Presiding Officer
Rod Monroe
Council District 6
Term expires Dec. 31, 2000

Deputy Presiding Officer
Susan McLain
Council District 4
Term expires Dec. 31, 2002

Rod Park
Council District 1
Term expires Dec. 31, 2002

Bill Atherton
Council District 2
Term expires Dec. 31, 2002

Jon Kvistad
Council District 3
Term expires Dec. 31, 2000

Ed Washington
Council District 5
Term expires Dec. 31, 2000

David Bragdon
Council District 7
Term expires Dec. 31, 2002

Appointed Officials

Bruce Warner
Chief Operating Officer

Jennifer Sims
Director of Administrative Services/
Chief Financial Officer

Daniel B. Cooper
General Counsel

Andrew Cotugno
Director of Transportation

Elaine Wilkerson
Director of Growth Management
Services

Tony Vecchio
Director of the Oregon Zoo

Terry Petersen
Interim Director of Regional
Environmental Management

Charles S. Ciecko
Director of Regional Parks and
Greenspaces

Mark Williams
General Manager, Metropolitan
Exposition-Recreation Commission

Judy Gregory
Director of Human Resources

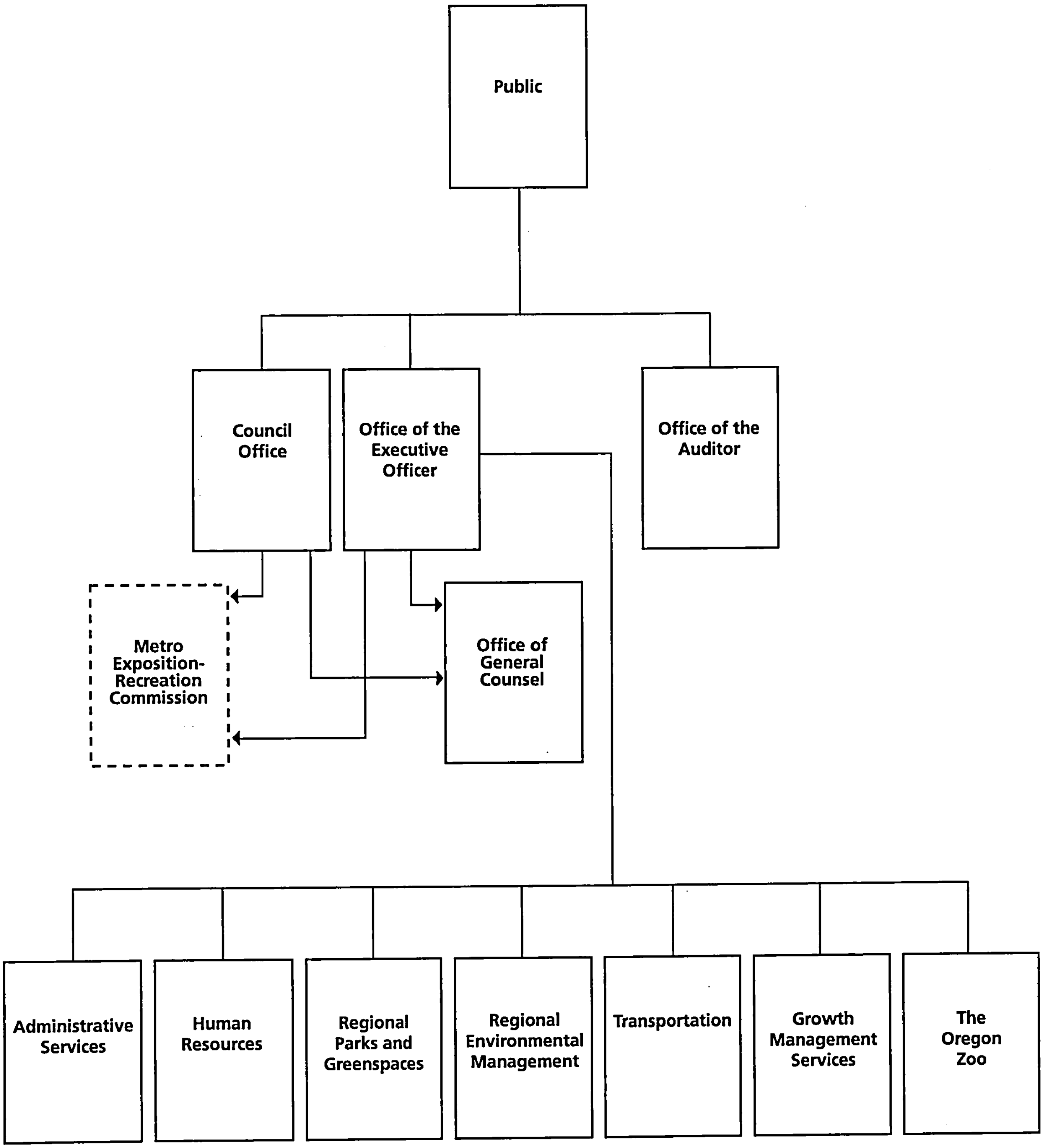
Registered Agent

Jeff Stone

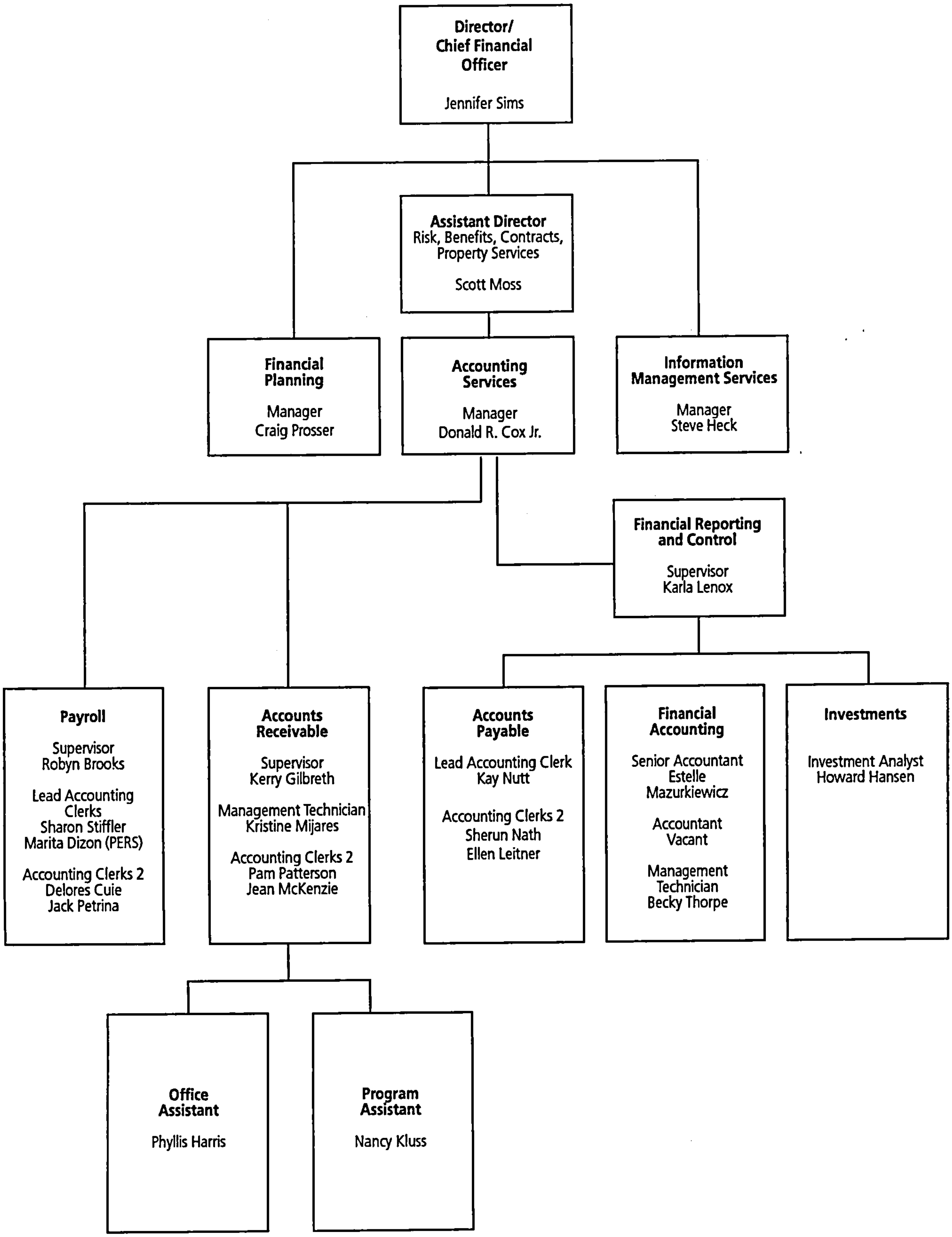
Address of Registered and Administrative Office

600 NE Grand Ave.
Portland, OR 97232-2736

Metro Organization Structure



Administrative Services Department and Accounting Services Division



Financial Section

600 NORTHEAST GRAND AVENUE | PORTLAND, OREGON 97232 2736
TEL 503 797 1891 | FAX 503 797 1799

METRO

OFFICE OF THE AUDITOR

November 19, 1999

To the Metro Council, Executive Officer and Citizens of the Metro Region:

Oregon state law requires an annual audit of Metro's financial records and transactions by independent certified public accountants. In accordance with Metro Charter Section 18(3) and Metro Code Section 2.15.080, I have appointed Deloitte & Touche LLP, Certified Public Accountants, to conduct an independent audit of Metro's general-purpose financial statements. My office coordinated and monitored this audit.

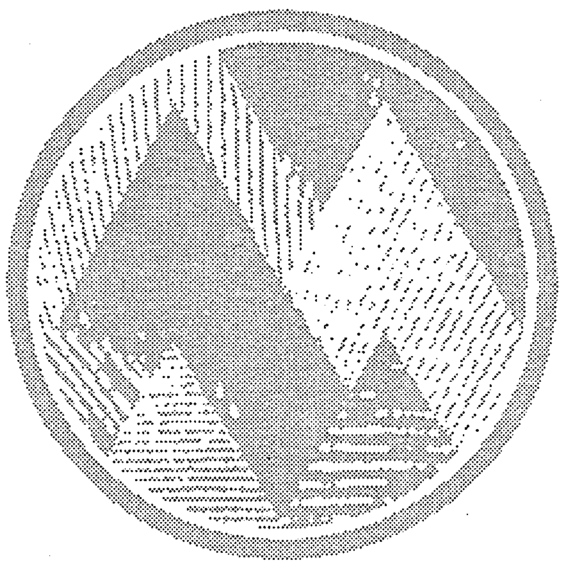
Presented at page 2 is the unqualified report of Deloitte & Touche LLP on Metro's general-purpose financial statements as of and for the year ended June 30, 1999.

In addition to the above report, Metro is required to have an audit of its expenditures of federal awards in accordance with the U.S. Office of Management and Budget Circular A-133, and the provisions of *Government Auditing Standards* issued by the Comptroller General of the United States. The necessary reports pertaining to Metro's internal control, compliance with applicable laws, regulations, grants and contracts, and the Schedule of Expenditures of Federal Awards for the year ended June 30, 1999, have been issued under separate cover.

Respectfully submitted,

Alexis Dow

Alexis Dow, CPA
Metro Auditor



Deloitte & Touche

Deloitte & Touche LLP
Suite 3900
111 S.W. Fifth Avenue
Portland, Oregon 97204-3642

Telephone: (503) 222-1341
Facsimile: (503) 224-2172

INDEPENDENT AUDITORS' REPORT

To the Council, Executive Officer, and Auditor of
Metro
Portland, Oregon

We have audited the accompanying general purpose financial statements of Metro as of June 30, 1999, and for the year then ended, listed in the foregoing table of contents. These general purpose financial statements are the responsibility of the management of Metro. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, such general purpose financial statements present fairly, in all material respects, the financial position of Metro at June 30, 1999, the results of its operations and the cash flows of its proprietary fund types for the year then ended in conformity with generally accepted accounting principles.

Our audit was conducted for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The combining and individual fund and account group financial statements and schedules listed in the foregoing table of contents are presented for the purpose of additional analysis and are not a required part of the general purpose financial statements of Metro. These financial statements and schedules are also the responsibility of the management of Metro. Such additional information has been subjected to the auditing procedures applied in our audit of the general purpose financial statements and, in our opinion, is fairly stated in all material respects when considered in relation to the general purpose financial statements taken as a whole.

The year 2000 supplementary information on pages 99-100 is not a required part of the general purpose financial statements, but is supplementary information required by the Governmental Accounting Standards Board, and we did not audit and do not express an opinion on such information. Further, we were unable to apply to the information certain procedures prescribed by professional standards because of the unprecedented nature of the year 2000 issue and its effects, and the fact that authoritative measurement criteria regarding the status of remediation efforts have not been established. In addition, we do not provide assurance that Metro is or will become year 2000 complaint, that Metro's year 2000 remediation efforts will be successful in whole or in part, or that parties with which Metro does business are or will become year 2000 compliant.

The statistical data on pages 101-117 is presented for the purpose of additional analysis and is not a required part of the general purpose financial statements of Metro. Such additional information has not been subjected to the auditing procedures applied in our audit of the general purpose financial statements and, accordingly, we express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 19, 1999 on our consideration of Metro's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

DELOITTE & TOUCHE LLP

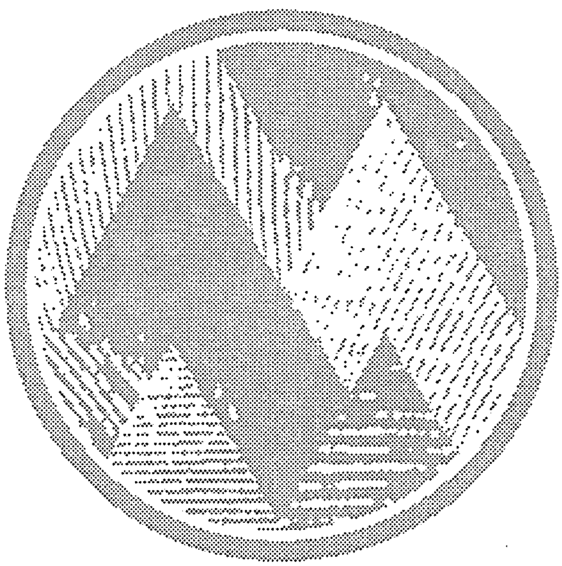
By Donald P. Riggs

Donald P. Riggs, Partner

November 19, 1999

General Purpose Financial Statements

"Liftable" combined financial statements



METRO

Combined Balance Sheet - All Fund Types, Account Groups and Discretely Presented Component Unit

June 30, 1999

		Governmental Fund Types				Proprietary Fund Types	
		General	Special Revenue	Debt Service	Capital Projects	Solid Waste Enterprise	Internal Service
Assets and Other Debits:							
Assets:							
Equity in internal cash and investment pool	$	397,235	15,637,440	5,958,578	6,110,490	23,393,061	10,986,607
Investments		-	-	6,930,279	74,913,136	6,834,324	-
Investments: deferred compensation		-	-	-	-	-	-
Receivables (net of allowance for uncollectibles):							
Property taxes		-	374,936	1,028,485	-	-	-
User and disposal fees		-	-	-	-	4,571,041	-
Trade		20,122	534,861	-	-	-	6,497
Other		106,403	3,399	-	-	958,367	2,117
Interest		52,036	152,016	53,666	212,516	394,423	110,759
Federal grants		-	3,316,413	-	-	-	-
State and local grants/contracts		-	689,320	-	-	-	-
Inventory of materials and supplies		-	273,226	-	-	-	-
Prepaid items		-	-	-	-	6,417,486	-
Other assets		-	91,074	-	-	27,282	4,119
Restricted assets:							
Equity in internal cash and investment pool		-	22,046	-	-	7,939,483	-
Investments		-	-	-	-	-	2,354,753
Loans receivable		-	-	-	-	5,000,000	-
Fixed assets, net		-	-	-	-	32,289,583	20,144,837
Other debits:							
Amount available for debt service		-	-	-	-	-	-
Amount to be provided for retirement of general long-term debt		-	-	-	-	-	-
Total assets and other debits	$	575,796	21,094,731	13,971,008	81,236,142	87,825,050	33,609,689

Fiduciary Fund Types	Account Groups		Total (memorandum only) -	Component Unit Proprietary Fund Type	Total (memorandum only) -
Expendable Trust	General Fixed Assets	General Long-term Debt	Primary Government	MERC Enterprise	Reporting Entity
6,294,946	-	-	68,778,357	12,613,834	81,392,191
-	-	-	88,677,739	50,000	88,727,739
22,990,980	-	-	22,990,980	-	22,990,980
-	-	-	1,403,421	-	1,403,421
-	-	-	4,571,041	-	4,571,041
-	-	-	561,480	716,116	1,277,596
513,179	-	-	1,583,465	1,011,524	2,594,989
61,637	-	-	1,037,053	118,885	1,155,938
-	-	-	3,316,413	-	3,316,413
-	-	-	689,320	-	689,320
-	-	-	273,226	177,328	450,554
-	-	-	6,417,486	-	6,417,486
91,075	-	-	213,550	66,950	280,500
-	-	-	7,961,529	4,526,337	12,487,866
-	-	-	2,354,753	-	2,354,753
-	-	-	5,000,000	-	5,000,000
-	158,256,777	-	210,691,197	96,664,091	307,355,288
-	-	13,056,282	13,056,282	-	13,056,282
-	-	196,348,012	196,348,012	-	196,348,012
29,951,817	158,256,777	209,404,294	635,925,304	115,945,065	751,870,369

(Continued)

METRO

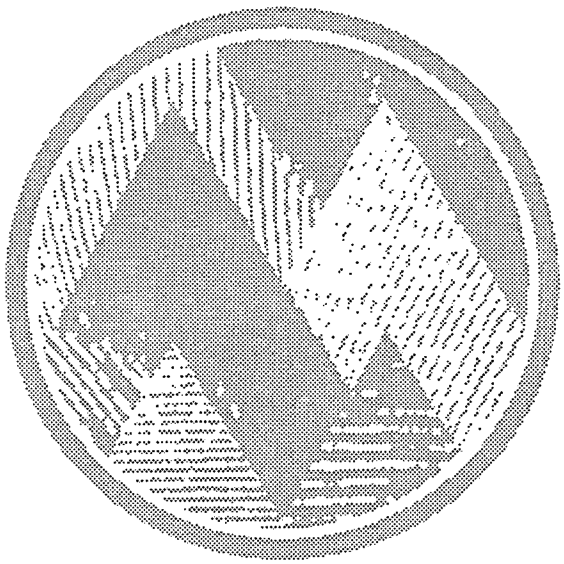
Combined Balance Sheet -
All Fund Types, Account Groups and Discretely Presented Component Unit, Continued

June 30, 1999

		Governmental Fund Types				Proprietary Fund Types	
Liabilities, Fund Equity and Other Credits:		General	Special Revenue	Debt Service	Capital Projects	Solid Waste Enterprise	Internal Service
Liabilities:							
Accounts payable	$	58,749	3,584,420	-	1,552,193	2,606,141	301,211
Salaries, withholdings and payroll taxes payable		72,250	1,003,642	-	62,752	318,833	311,275
Accrued self-insurance claims		-	-	-	-	-	669,181
Contracts payable		-	45,651	-	9,615	-	-
Accrued interest payable		-	-	-	-	376,849	514,877
Deferred revenue		-	380,353	914,726	-	-	-
Unearned grant/contract revenue		-	413,095	-	-	-	-
Deposits payable		-	123,076	-	-	-	-
Other liabilities		443	1,497	-	-	288	24,257
Payable from restricted assets:							
Contracts payable		-	-	-	-	143,827	-
Arbitrage payable		-	-	-	-	15,457	-
Post-closure costs payable		-	-	-	-	6,723,601	-
Bonds payable (net of unamortized discount and deferred amount on refunding)		-	-	-	-	26,835,674	21,939,033
Loans payable		-	-	-	-	-	207,765
Obligations under capital leases		-	-	-	-	-	183,658
Liability for compensated absences		-	-	-	-	315,182	367,774
Total liabilities		131,442	5,551,734	914,726	1,624,560	37,335,852	24,519,031
Fund equity and other credits:							
Contributed capital, net		-	-	-	-	863,396	-
Retained earnings:							
Reserved for prepaid items		-	-	-	-	6,417,486	-
Reserved for debt service		-	-	-	-	1,440,235	-
Reserved for renewal and replacement		-	-	-	-	6,583,991	-
Unreserved		-	-	-	-	35,184,090	9,090,658
Fund balances:							
Reserved for debt service		-	-	13,056,282	-	-	-
Reserved for deferred compensation benefits		-	-	-	-	-	-
Unreserved		444,354	15,542,997	-	79,611,582	-	-
Other credits-							
Investment in general fixed assets		-	-	-	-	-	-
Total fund equity and other credits		444,354	15,542,997	13,056,282	79,611,582	50,489,198	9,090,658
Total liabilities, fund equity and other credits	$	575,796	21,094,731	13,971,008	81,236,142	87,825,050	33,609,689

See accompanying notes to general purpose financial statements.

Fiduciary Fund Types	Account Groups		Total (memorandum only) -	Component Unit Proprietary Fund Type	Total (memorandum only) -
Expendable Trust	General Fixed Assets	General Long-term Debt	Primary Government	MERC Enterprise	Reporting Entity
120,390	-	-	8,223,104	1,083,109	9,306,213
4,936	-	-	1,773,688	540,897	2,314,585
-	-	-	669,181	-	669,181
-	-	-	55,266	54,800	110,066
-	-	-	891,726	15,454	907,180
80,000	-	-	1,375,079	-	1,375,079
-	-	-	413,095	1,213,211	1,626,306
-	-	-	123,076	847,638	970,714
-	-	-	26,485	1,345	27,830
-	-	-	143,827	-	143,827
-	-	-	15,457	-	15,457
-	-	-	6,723,601	-	6,723,601
-	-	203,377,953	252,152,660	1,685,877	253,838,537
-	-	4,772,936	4,980,701	-	4,980,701
-	-	325,000	508,658	383,823	892,481
-	-	928,405	1,611,361	344,300	1,955,661
205,326	-	209,404,294	279,686,965	6,170,454	285,857,419
-	-	-	863,396	83,765,798	84,629,194
-	-	-	6,417,486	-	6,417,486
-	-	-	1,440,235	-	1,440,235
-	-	-	6,583,991	4,055,987	10,639,978
-	-	-	44,274,748	21,952,826	66,227,574
-	-	-	13,056,282	-	13,056,282
23,515,178	-	-	23,515,178	-	23,515,178
6,231,313	-	-	101,830,246	-	101,830,246
-	158,256,777	-	158,256,777	-	158,256,777
29,746,491	158,256,777	-	356,238,339	109,774,611	466,012,950
29,951,817	158,256,777	209,404,294	635,925,304	115,945,065	751,870,369



METRO

Combined Statement of Revenues, Expenditures and Changes in Fund Balances - All Governmental Fund Types and Expendable Trust Funds

For the year ended June 30, 1999

	Governmental Fund Types				Fiduciary Fund Type	
	General	Special Revenue	Debt Service	Capital Projects	Expendable Trust	Total (memorandum only)
Revenues:						
Property taxes	$ -	6,737,288	18,795,488	-	-	25,532,776
Excise taxes	7,405,463	-	-	-	-	7,405,463
Grants:						
Federal	-	10,121,506	-	-	-	10,121,506
State and local	-	1,982,836	-	-	-	1,982,836
Local government shared revenues	-	410,331	-	-	-	410,331
Government contributions	-	10,300	-	-	10,000	20,300
Charges for services	18,561	12,553,425	-	-	48,936	12,620,922
Rehabilitation, enhancement and end use fees	-	-	-	-	421,750	421,750
Investment income	39,163	869,001	537,222	4,843,677	4,077,153	10,366,216
Contributions and donations	-	797,059	-	540,033	5,080	1,342,172
Employee contributions	-	-	-	-	1,506,507	1,506,507
Miscellaneous	2,428	703,796	-	19,312	37	725,573
Total revenues	7,465,615	34,185,542	19,332,710	5,403,022	6,069,463	72,456,352
Expenditures:						
Current:						
General government operations	2,695,154	-	-	-	-	2,695,154
Zoo operations and development	-	16,036,401	-	-	-	16,036,401
Regional planning and development	-	16,979,166	-	-	-	16,979,166
Recreation and development	-	3,988,550	-	4,233,350	4,000	8,225,900
Rehabilitation and enhancement	-	-	-	-	779,780	779,780
Deferred compensation	-	-	-	-	1,352,176	1,352,176
Capital outlay	14,428	1,410,233	-	34,525,125	1,200	35,950,986
Debt service	-	832,749	19,082,272	-	-	19,915,021
Total expenditures	2,709,582	39,247,099	19,082,272	38,758,475	2,137,156	101,934,584
Revenues over (under) expenditures	4,756,033	(5,061,557)	250,438	(33,355,453)	3,932,307	(29,478,232)
Other financing sources (uses):						
Loan proceeds	-	590,351	-	-	-	590,351
Operating transfers in	429,218	6,185,358	-	2,000,000	-	8,614,576
Operating transfers out	(6,385,358)	(2,000,000)	-	-	-	(8,385,358)
Total other financing sources (uses)	(5,956,140)	4,775,709	-	2,000,000	-	819,569
Revenues and other sources over (under) expenditures and other uses	(1,200,107)	(285,848)	250,438	(31,355,453)	3,932,307	(28,658,663)
Fund balances - July 1, 1998	1,644,461	15,828,845	12,805,844	110,967,035	25,814,184	167,060,369
Fund balances - June 30, 1999	$ 444,354	15,542,997	13,056,282	79,611,582	29,746,491	138,401,706

See accompanying notes to general purpose financial statements.

METRO

Combined Statement of Revenues, Expenditures and Changes in Fund Balances - Budget (Non-GAAP Budgetary Basis) and Actual - All Governmental Fund Types and Expendable Trust Funds

For the year ended June 30, 1999

	General Fund			Special Revenue Funds		
	Budget	Actual	Variance favorable (unfavorable)	Budget	Actual	Variance favorable (unfavorable)
Revenues:						
Property taxes	$ -	-	-	6,546,165	6,737,288	191,123
Excise taxes	7,877,226	7,405,463	(471,763)	-	-	-
Grants:						
Federal	-	-	-	14,026,435	10,121,506	(3,904,929)
State and local	-	-	-	3,023,766	1,982,836	(1,040,930)
Local government shared revenues	-	-	-	416,000	410,331	(5,669)
Government contributions	-	-	-	30,300	10,300	(20,000)
Charges for services	-	18,561	18,561	11,012,402	11,856,898	844,496
Investment income	60,000	39,638	(20,362)	728,257	887,789	159,532
Contributions and donations	-	-	-	1,086,825	797,059	(289,766)
Miscellaneous	500	2,428	1,928	2,340,201	703,796	(1,636,405)
Total revenues	7,937,726	7,466,090	(471,636)	39,210,351	33,507,803	(5,702,548)
Expenditures:						
Current:						
General government operations	2,043,490	1,782,106	261,384	-	-	-
Zoo operations and development	-	-	-	14,688,420	14,639,697	48,723
Regional planning and development	-	-	-	21,554,108	14,746,576	6,807,532
Recreation and development	-	-	-	4,103,878	3,327,871	776,007
Contingency	470,901	-	470,901	1,202,039	-	1,202,039
Capital outlay	15,200	14,428	772	4,843,211	1,410,233	3,432,978
Debt service	-	-	-	2,877,497	832,749	2,044,748
Total expenditures	2,529,591	1,796,534	733,057	49,269,153	34,957,126	14,312,027
Revenues over (under) expenditures	5,408,135	5,669,556	261,421	(10,058,802)	(1,449,323)	8,609,479
Other financing sources (uses):						
Loan proceeds	-	-	-	2,094,800	590,351	(1,504,449)
Operating transfers in	438,794	429,218	(9,576)	10,305,842	7,087,678	(3,218,164)
Operating transfers out	(7,343,929)	(7,298,406)	45,523	(7,242,911)	(6,495,766)	747,145
Total other financing sources (uses)	(6,905,135)	(6,869,188)	35,947	5,157,731	1,182,263	(3,975,468)
Revenues and other sources over (under) expenditures and other uses	(1,497,000)	(1,199,632)	297,368	(4,901,071)	(267,060)	4,634,011
Fund balances, budgetary basis - July 1, 1998	1,697,000	1,634,668	(62,332)	14,785,183	15,751,375	966,192
Fund balances, budgetary basis - June 30, 1999	$ 200,000	435,036	235,036	9,884,112	15,484,315	5,600,203
Adjustments to GAAP basis:						
Cumulative effect of the change in accounting for investments - prior years		9,793			77,470	
Change in the fair value of investments		(475)			(18,788)	
Fund balances, GAAP basis - June 30, 1999		$ 444,354			15,542,997	

See accompanying notes to general purpose financial statements.

	Debt Service Fund			Capital Projects Funds			Expendable Trust Funds			Total (memorandum only)		
	Budget	Actual	Variance favorable (unfavorable)	Budget	Actual	Variance favorable (unfavorable)	Budget	Actual	Variance favorable (unfavorable)	Budget	Actual	Variance favorable (unfavorable)
	18,461,286	18,795,488	334,202	-	-	-	-	-	-	25,007,451	25,532,776	525,325
	-	-	-	-	-	-	-	-	-	7,877,226	7,405,463	(471,763)
	-	-	-	-	-	-	100,000	-	(100,000)	14,126,435	10,121,506	(4,004,929)
	-	-	-	-	-	-	-	-	-	3,023,766	1,982,836	(1,040,930)
	-	-	-	-	-	-	-	-	-	416,000	410,331	(5,669)
	-	-	-	494,000	-	(494,000)	-	10,000	10,000	524,300	20,300	(504,000)
	-	-	-	-	-	-	50,350	48,936	(1,414)	11,062,752	11,924,395	861,643
	275,000	544,390	269,390	5,195,592	4,809,640	(385,952)	331,993	340,289	8,296	6,590,842	6,621,746	30,904
	-	-	-	2,300,000	540,033	(1,759,967)	-	5,080	5,080	3,386,825	1,342,172	(2,044,653)
	-	-	-	-	19,312	19,312	-	37	37	2,340,701	725,573	(1,615,128)
	18,736,286	19,339,878	603,592	7,989,592	5,368,985	(2,620,607)	482,343	404,342	(78,001)	74,356,298	66,087,098	(8,269,200)
	-	-	-	-	-	-	-	-	-	2,043,490	1,782,106	261,384
	-	-	-	-	-	-	-	-	-	14,688,420	14,639,697	48,723
	-	-	-	-	-	-	953,990	704,777	249,213	22,508,098	15,451,353	7,056,745
	-	-	-	17,671,742	5,936,788	11,734,954	30,000	-	30,000	21,805,620	9,264,659	12,540,961
	-	-	-	41,000,000	-	41,000,000	335,265	-	335,265	43,008,205	-	43,008,205
	-	-	-	36,206,956	32,051,564	4,155,392	20,000	1,200	18,800	41,085,367	33,477,425	7,607,942
	19,082,272	19,082,272	-	-	-	-	-	-	-	21,959,769	19,915,021	2,044,748
	19,082,272	19,082,272	-	94,878,698	37,988,352	56,890,346	1,339,255	705,977	633,278	167,098,969	94,530,261	72,568,708
	(345,986)	257,606	603,592	(86,889,106)	(32,619,367)	54,269,739	(856,912)	(301,635)	555,277	(92,742,671)	(28,443,163)	64,299,508
	-	-	-	-	-	-	-	-	-	2,094,800	590,351	(1,504,449)
	-	-	-	2,000,000	2,000,000	-	525,879	421,750	(104,129)	13,270,515	9,938,646	(3,331,869)
	-	-	-	(3,254,683)	(770,123)	2,484,560	(79,003)	(79,003)	-	(17,920,526)	(14,643,298)	3,277,228
	-	-	-	(1,254,683)	1,229,877	2,484,560	446,876	342,747	(104,129)	(2,555,211)	(4,114,301)	(1,559,090)
	(345,986)	257,606	603,592	(88,143,789)	(31,389,490)	56,754,299	(410,036)	41,112	451,148	(95,297,882)	(32,557,464)	62,740,418
	11,891,000	12,788,637	897,637	103,863,333	110,985,541	7,122,208	6,089,972	6,168,461	78,489	138,326,488	147,328,682	9,002,194
	11,545,014	13,046,243	1,501,229	15,719,544	79,596,051	63,876,507	5,679,936	6,209,573	529,637	43,028,606	114,771,218	71,742,612
		17,207			(18,506)			29,422			115,386	
		(7,168)			34,037			(7,682)			(76)	
		13,056,282			79,611,582			6,231,313			114,886,528	

METRO

Combined Statement of Revenues, Expenses and Changes in Retained Earnings - All Proprietary Fund Types and Discretely Presented Component Unit

For the year ended June 30, 1999

	Proprietary Fund Types		Total (memorandum only) -	Component Unit	Total (memorandum only) -
	Solid Waste Enterprise	Internal Service	Primary Government	MERC Enterprise	Reporting Entity
Operating revenues:					
State and local grants	$ 20,655	-	20,655	-	20,655
Local government shared revenue	-	-	-	5,818,897	5,818,897
Government contributions	-	-	-	600,000	600,000
Charges for services	52,310,595	14,019,763	66,330,358	18,729,271	85,059,629
Contributions and donations	5,000	-	5,000	605,000	610,000
Miscellaneous	122,810	42,964	165,774	(30,583)	135,191
Total operating revenues	52,459,060	14,062,727	66,521,787	25,722,585	92,244,372
Operating expenses:					
Payroll and fringe benefits	6,194,785	5,855,097	12,049,882	10,666,933	22,716,815
St. Johns Landfill operating expenses	14,840	-	14,840	-	14,840
Metro South Station operating expenses	2,725,171	-	2,725,171	-	2,725,171
Metro Central Station operating expenses	3,790,099	-	3,790,099	-	3,790,099
Waste transport costs	9,686,411	-	9,686,411	-	9,686,411
End use fees	517	-	517	-	517
Disposal fees	18,775,786	-	18,775,786	-	18,775,786
MERC operating expense	-	-	-	5,375,141	5,375,141
Marketing expense	-	-	-	2,313,429	2,313,429
Concessions expense	-	-	-	5,763,163	5,763,163
Depreciation and amortization	1,267,161	1,070,175	2,337,336	3,479,126	5,816,462
Rent and payments in lieu of rent	385,267	593,511	978,778	-	978,778
Administrative expenses paid to Support Services Fund	2,316,619	-	2,316,619	-	2,316,619
Payments to Planning Fund for services	360,349	-	360,349	-	360,349
Insurance expense	106,030	3,645,594	3,751,624	-	3,751,624
Claims expense	-	(89,036)	(89,036)	-	(89,036)
Purchased professional/technical services	-	70,739	70,739	-	70,739
Payment of rehabilitation fees	421,233	-	421,233	-	421,233
Consulting services	1,597,849	-	1,597,849	-	1,597,849
Waste reduction grants	690,505	-	690,505	-	690,505
Payments to other governments	667,707	242,802	910,509	-	910,509
Other materials and services	2,838,995	1,772,868	4,611,863	-	4,611,863
Total operating expenses	51,839,324	13,161,750	65,001,074	27,597,792	92,598,866

(Continued)

METRO

Combined Statement of Revenues, Expenses and Changes in Retained Earnings - All Proprietary Fund Types and Discretely Presented Component Unit, Continued

For the year ended June 30, 1999

	Proprietary Fund Types		Total (memorandum only) -	Component Unit	Total (memorandum only) -
	Solid Waste Enterprise	Internal Service	Primary Government	MERC Enterprise	Reporting Entity
Operating income (loss)	$ 619,736	900,977	1,520,713	(1,875,207)	(354,494)
Non-operating revenues (expenses):					
Investment income	2,370,951	697,096	3,068,047	857,324	3,925,371
Contributions to other governments	-	-	-	(872,908)	(872,908)
Interest expense	(1,597,980)	(1,374,492)	(2,972,472)	(141,195)	(3,113,667)
Total non-operating revenues (expenses)	772,971	(677,396)	95,575	(156,779)	(61,204)
Income (loss) before operating transfers	1,392,707	223,581	1,616,288	(2,031,986)	(415,698)
Operating transfers in-primary government	-	580,000	580,000	-	580,000
Operating transfers out-primary government	-	(809,218)	(809,218)	-	(809,218)
Net income (loss)	1,392,707	(5,637)	1,387,070	(2,031,986)	(644,916)
Depreciation on fixed assets that reduces contributed capital	31,623	-	31,623	3,440,832	3,472,455
Increase (decrease) in retained earnings	1,424,330	(5,637)	1,418,693	1,408,846	2,827,539
Retained earnings - July 1, 1998	48,201,472	9,096,295	57,297,767	24,599,967	81,897,734
Retained earnings - June 30, 1999	$ 49,625,802	9,090,658	58,716,460	26,008,813	84,725,273

See accompanying notes to general purpose financial statements.

METRO

Combined Statement of Cash Flows -
All Proprietary Fund Types and Discretely Presented Component Unit

For the year ended June 30, 1999

	Proprietary Fund Types		Total (memorandum only) -	Component Unit	Total (memorandum only) -
	Solid Waste Enterprise	Internal Service	Primary Government	MERC Enterprise	Reporting Entity
Cash flows from operating activities:					
Cash receipts from customers	$ 52,781,751	454,753	53,236,504	21,391,875	74,628,379
Cash receipts from other governments	20,655	-	20,655	5,532,981	5,553,636
Cash receipts from quasi-external transactions	-	13,303,765	13,303,765	-	13,303,765
Other operating cash receipts	180,306	356,230	536,536	-	536,536
Cash payments to suppliers for goods and services	(49,103,191)	(5,814,193)	(54,917,384)	(13,669,247)	(68,586,631)
Cash payments for claims	-	(385,031)	(385,031)	-	(385,031)
Cash payments to other governments	(1,358,211)	(242,802)	(1,601,013)	-	(1,601,013)
Cash payments to employees for services	(6,120,971)	(5,606,512)	(11,727,483)	(10,613,641)	(22,341,124)
Cash payments for quasi-external transactions	(3,589,497)	(620,604)	(4,210,101)	-	(4,210,101)
Net cash provided by (used in) operating activities	(7,189,158)	1,445,606	(5,743,552)	2,641,968	(3,101,584)
Cash flows from noncapital financing activities:					
Transfers from other funds	-	580,000	580,000	-	580,000
Transfers to other funds	-	(809,218)	(809,218)	-	(809,218)
Net cash used in noncapital financing activities	-	(229,218)	(229,218)	-	(229,218)
Cash flows from capital and related financing activities:					
Principal payment on revenue bonds	(1,855,000)	(545,000)	(2,400,000)	(400,512)	(2,800,512)
Interest payments	(817,359)	(1,257,363)	(2,074,722)	(144,867)	(2,219,589)
Acquisition and construction of capital assets	(2,807,314)	(210,352)	(3,017,666)	(1,406,933)	(4,424,599)
Retainage increases	-	-	-	4,800	4,800
Principal payments on loans	-	(12,356)	(12,356)	-	(12,356)
Principal payments on capital leases	-	(82,942)	(82,942)	(177,698)	(260,640)
Net cash used in capital and related financing activities	(5,479,673)	(2,108,013)	(7,587,686)	(2,125,210)	(9,712,896)

(Continued)

METRO

Combined Statement of Cash Flows -
All Proprietary Fund Types and Discretely Presented Component Unit, Continued

For the year ended June 30, 1999

	Proprietary Fund Types		Total (memorandum only) -	Component Unit	Total (memorandum only) -
	Solid Waste Enterprise	Internal Service	Primary Government	MERC Enterprise	Reporting Entity
Cash flows from investing activities:					
Investment income	$ 2,485,511	730,766	3,216,277	960,596	4,176,873
Proceeds from sale of investments	8,091,726	2,639,445	10,731,171	-	10,731,171
Purchase of investments	(10,622,444)	(2,635,700)	(13,258,144)	-	(13,258,144)
Net cash provided by (used in) investing activities	(45,207)	734,511	689,304	960,596	1,649,900
Net increase (decrease) in cash and cash equivalents including restricted amounts	(12,714,038)	(157,114)	(12,871,152)	1,477,354	(11,393,798)
Cash and cash equivalents at beginning of year including restricted amounts	44,046,582	11,143,721	55,190,303	15,662,817	70,853,120
Cash and cash equivalents at end of year including restricted amounts	$ 31,332,544	10,986,607	42,319,151	17,140,171	59,459,322

(Continued)

METRO

Combined Statement of Cash Flows -
All Proprietary Fund Types and Discretely Presented Component Unit, Continued

For the year ended June 30, 1999

	Proprietary Fund Types		Total (memorandum only) -	Component Unit	Total (memorandum only) -
	Solid Waste Enterprise	Internal Service	Primary Government	MERC Enterprise	Reporting Entity
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:					
Operating income (loss)	$ 619,736	900,977	1,520,713	(1,875,207)	(354,494)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:					
Depreciation and amortization	1,267,161	1,070,175	2,337,336	3,479,126	5,816,462
Change in assets and liabilities:					
Trade/other accounts receivable	523,651	49,637	573,288	1,360,630	1,933,918
Other assets	(6,444,768)	44,018	(6,400,750)	(762,776)	(7,163,526)
Accounts payable	(614,719)	(405,740)	(1,020,459)	(228,253)	(1,248,712)
Salaries, withholdings and payroll taxes payable/compensated absences	73,815	251,159	324,974	53,291	378,265
Accrued self-insurance claims	-	(474,067)	(474,067)	(4,890)	(478,957)
Contracts payable	(2,487,684)	-	(2,487,684)	-	(2,487,684)
Unearned revenue	-	-	-	1,013,047	1,013,047
Deposits payable	-	-	-	(327,374)	(327,374)
Other liabilities	(146)	9,447	9,301	(65,626)	(56,325)
Post-closure costs payable	(126,204)	-	(126,204)	-	(126,204)
Total adjustments	(7,808,894)	544,629	(7,264,265)	4,517,175	(2,747,090)
Net cash provided by (used in) operating activities	$ (7,189,158)	1,445,606	(5,743,552)	2,641,968	(3,101,584)
Non-cash investing, capital, and financing activities:					
Borrowing under capital lease	$ -	105,850	105,850	-	105,850

Acquisition/construction of capital assets in the component unit includes $872,908 that becomes fixed assets of the City of Portland under terms of an intergovernmental agreement.

See accompanying notes to general purpose financial statements.

METRO

Notes to General Purpose Financial Statements

For the Year Ended June 30, 1999

NOTE 1 - HISTORICAL INTRODUCTION

Metro, the nation's only directly elected regional government, was organized under the provisions of Oregon Revised Statutes (ORS) Chapter 268 to make available, in the Portland, Oregon metropolitan area, public services not adequately available through previously authorized governmental agencies. Under the 1992 Metro Charter, Metro's primary function is regional planning services. Metro is also authorized to exercise the following functions and is permitted by Charter to assume additional functions if approved by ordinance:

- Acquisition, development, maintenance and operation of:
  - a metropolitan zoo,
  - public cultural, trade, convention, exhibition, sports, entertainment, and spectator facilities,
  - facilities for disposal of solid and liquid wastes, and
  - a system of parks, open spaces and recreational facilities of metropolitan concern
- Metropolitan aspects of natural disaster planning and response coordination
- Development and marketing of data
- Performance of any other function required by state law or assigned to Metro by the voters.

The Metro Council is the governing body and consists of seven part-time councilors, each elected on a nonpartisan basis from a single district within the Metro area. The office of Metro Executive Officer, whose primary duty is to enforce Metro ordinances and otherwise execute the policies of the Council, is elected from the Metro area at large. The office of Metro Auditor is elected at large to perform financial and performance audit functions and make reports to the Council and Executive Officer.

The Metropolitan Exposition-Recreation Commission (MERC) was established by Metro ordinance to operate, maintain and renovate metropolitan convention, trade and spectator facilities pursuant to appropriate state statutes. The Commission consists of seven members appointed by the Executive Officer and confirmed by the Council.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The general purpose financial statements of Metro have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The following summary of Metro's significant accounting policies is presented to assist the reader in interpreting the general purpose financial statements and other data in this report. These policies, as presented, should be viewed as an integral part of the accompanying general purpose financial statements.

A. The Reporting Entity

Metro is a municipal corporation governed as described in Note 1. As required by GAAP, these general purpose financial statements present Metro (the primary government) and its sole component unit - MERC. The component unit discussed below is included in Metro's reporting entity because of the significance of its operational and financial relationship with Metro.

Metropolitan Exposition-Recreation Commission (MERC) - Based upon criteria established by the GASB, the assets, liabilities, revenues and expenses related to the facilities operated by MERC are discretely presented in the component unit column of Metro's general purpose financial statements except as discussed below. Unless noted otherwise in this report, the accounting policies of the component unit are consistent with those described for the primary government. MERC does not prepare a separate comprehensive annual financial report. Metro is responsible for the operation and management of MERC and appoints each of the seven members of the MERC Commission. Metro is financially accountable for the operations of MERC and is able to impose its will in MERC's operations through review of resolutions, budget approval and fiscal management.

MERC operates the Metro-owned Oregon Convention Center (OCC) and Expo Center. In addition, under the provisions of an intergovernmental agreement with the City of Portland (the City), MERC is responsible for operation and management of the City-owned Civic Stadium and Portland Center for the Performing Arts (PCPA). Because the City retains title to these facilities and all fixed assets purchased, and because the City remains obligated to pay certain bonded debt remaining on these facilities, the fixed assets, bonded debt and related interest and depreciation expenses are not included in the accompanying general purpose financial statements.

B. Fund Accounting, Measurement Focus and Basis of Accounting

The accounts of Metro are organized on the basis of funds and account groups, each of which is considered a separate fiscal and accounting entity. Each fund is a separate accounting entity with self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. The segregation by fund is for the purpose of carrying on specific activities or attaining certain objectives in accordance with ordinances, special regulations, restrictions or limitations. An account group is a self-balancing set of accounts used for financial reporting purposes to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources.

The various funds are grouped by fund type and classified into three broad fund categories: governmental, proprietary and fiduciary. There are two account groups. Metro's funds and account groups are:

Governmental Funds - The governmental funds are accounted for on a current financial resources measurement focus and the modified accrual basis of accounting. Only current assets and current liabilities are generally reported on their balance sheets. The reported fund balance (net current assets) is a measure of "available spendable resources." Governmental funds' operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) of net current assets during a period.

Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they are both "measurable and available"). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to pay liabilities of the current period. Metro considers all revenues available if they are collected within 60 days after year-end. Expenditures are recorded when the related fund liability is incurred, except for unmatured principal and interest on general long-term debt that is recorded when due and certain compensated absences which are recognized when the obligations are expected to be liquidated with expendable available financial resources.

Property taxes, excise taxes, grants, local government shared revenues, government contributions, charges for services, rehabilitation, enhancement and end use fees and investment income are susceptible to accrual. Contributions and donations and other receipts become measurable and available when cash is received by Metro and are recognized as revenue at that time.

Fund types included in this fund category are:

General Fund - This fund accounts for all activities not required to be accounted for in another fund, primarily Metro's general government activities.

Special Revenue Funds - Special revenue funds account for revenues (other than fiduciary resources or major capital projects) that are legally restricted to expenditures for specific purposes.

Debt Service Fund - This fund accounts for payments of general obligation bond principal and interest to bond holders.

Capital Projects Funds - These funds are used to account for resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds and trust funds).

Proprietary Funds - Proprietary funds are accounted for on a flow of "economic resources" measurement focus and use the accrual basis of accounting. All assets and all liabilities associated with the operation of these funds are reported on the balance sheet. Their reported fund equity (net total assets) is segregated into contributed capital and retained earnings components. Proprietary fund type operating statements present increases (revenues) and decreases (expenses) in net total assets.

Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. The proprietary funds have applied all applicable Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedure issued on or before November 30, 1989 unless those pronouncements conflict with or contradict GASB pronouncements.

Fund types included in this fund category are:

Enterprise Funds - These funds account for the financing of predominantly self-supporting activities that are funded through service charges and user fees to customers.

Internal Service Funds - Internal service funds are used to account for activities or services furnished by designated departments to other organizational units within Metro. Charges are made to the various user departments to support these activities.

Fiduciary Funds - Metro's fiduciary funds account for resources received and held in a trustee capacity. Disbursements from these funds are made in accordance with the trust agreement or applicable legislative enactment for each particular fund. The fund type included in this fund category is:

Expendable Trust Funds - Expendable trust funds are accounted for in essentially the same manner as the governmental fund types, using the same measurement focus and basis of accounting. Both principal and interest may be spent in expendable trust funds.

Account Groups - Metro's account groups are:

General Fixed Assets Account Group - This group accounts for Metro's investment in fixed assets not recorded in proprietary fund types.

General Long-term Debt Account Group - This group accounts for Metro's obligations not recorded in the proprietary or fiduciary fund types.

C. Budgets

A budget is prepared for each fund, except the Deferred Compensation Fund, in accordance with the modified accrual basis of accounting and legal requirements set forth in the Oregon Local Budget Law. This basis differs from GAAP. The Council adopts the original budget for all funds, except the Deferred Compensation Fund, by ordinance prior to the beginning of Metro's fiscal year. The ordinance authorizing appropriations for each fund sets the level by which expenditures cannot legally exceed appropriations. The legal level of control is set by department in the functional categories of personal services, materials and services, operating expenses (personal services and materials and services combined), capital outlay, and other expenditures in these funds:

General Fund
Planning Fund
Solid Waste Revenue Fund
General Revenue Bond Fund
Support Services Fund

The functional categories of personal services, materials and services, operating expenses, capital outlay and other expenditures are the established legal level of control in these funds:

Regional Parks Fund
Zoo Operating Fund
Washington Park Parking Lot Fund

General Obligation Bond Debt Service Fund
Zoo Capital Fund
Open Spaces Fund
Building Management Fund
Risk Management Fund
Rehabilitation and Enhancement Fund
Smith and Bybee Lakes Trust Fund
Regional Parks Trust Fund
MERC Operating Fund
Convention Center Project Capital Fund
MERC Pooled Capital Fund

The General Revenue Bond Fund is a budgetary fund comprised of two components that are separated and combined with other budgetary funds for reporting under GAAP.

The detail budget document is required to contain more specific, detailed information about the aforementioned expenditure categories. Appropriations that have not been expended at year end lapse and subsequent actual expenditures are charged against ensuing year appropriations. Encumbrances are recorded in Metro's internal accounting records for management reporting and control. Encumbrances are closed at June 30 and re-established in the ensuing fiscal year against appropriations for that year.

Unexpected additional resources and budget revisions may be added to the budget through the use of a supplemental budget or by an ordinance passed by the Council amending the budget. A supplemental budget requires hearings before the public, publication in newspapers and approval by the Council. Original, amended and supplemental budgets may be modified by the use of appropriation transfers between the levels of control. Such transfers require the approval of the Council. Management may amend the budget within the appropriated levels of control without the approval of the Council.

Budget amounts shown in the general purpose financial statements include the original budget amounts and all appropriation transfer and amendment amounts approved by the Council. Metro adopted five budget amendments during the year ended June 30, 1999. The amount of such amendments was not significant, except for a change in the Solid Waste Revenue Fund moving approximately $6.6 million in appropriations from contingency to materials and services to allow a prepayment on the waste transport contract.

D. Cash and Investments

Cash and investments consist of each fund's portion of pooled cash balances, time certificates of deposit, money market investments, U.S. Government securities, banker's acceptances, commercial paper and investments in the State Treasurer's investment pool. Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with a maturity date within three months of the date acquired. Interest earned on pooled investments is allocated monthly based upon each fund's average monthly cash balance. Investments are generally carried at fair value. However, money market investments (such as short-term, highly liquid debt instruments including commercial paper, bankers' acceptances, and U.S. Treasury and agency obligations) that have a remaining maturity at the time of purchase of one year or less, are carried at amortized cost, which approximates fair value. The fair value of investments is determined annually and is based on current market prices. The fair value of Deferred Compensation investments, which consist of mutual funds that are self-directed by participants, is based on the fund's current share (market) price.

E. Receivables

Uncollected property taxes are shown on the combined balance sheet as a receivable. Property taxes collected and remitted to Metro by county treasurers within approximately 60 days of fiscal year end are recognized as revenue. The remaining balance is recorded as deferred revenue because it is not deemed available to finance operations of the current period.

Under state law, county governments are responsible for extending authorized property tax levies, computing tax rates, billing and collecting all property taxes, and making periodic remittances of collections to entities levying taxes. Property taxes are assessed and become a lien against the property as of July 1 each year. Property taxes are levied on November 15 and are payable in three installments that are due on November 15, February 15 and May 15. Taxes unpaid and outstanding after May 16 are considered delinquent.

F. Grants

Unreimbursed expenditures in the Governmental Fund types for all grants due from grantor agencies are reflected in the general purpose financial statements as receivables and revenues. Cash received from grantor agencies in excess of related grant expenditures is recorded as a liability in the combined balance sheet. In Enterprise Funds, capital grants restricted by the grantor for capital outlay projects are credited directly to contributed capital as received and the related project costs are capitalized as fixed assets.

Metro allocates indirect costs, primarily of an administrative nature, to grants in compliance with cost allocation plans that are subject to the approval of Metro's cognizant agency. The plan in effect for fiscal 1999 allocated indirect costs to grants at a rate of approximately 34% of the related direct personnel costs.

G. Inventory of Materials and Supplies

Inventories for the Zoo Fund and the MERC Fund, consisting of consumable food and gift shop items held for resale, are valued at cost (first-in, first-out method). Inventories are charged as expenditures upon sale.

H. Prepaid Items

Payments made to vendors for services that will benefit future periods are recorded as prepaid items. A portion of fund balance equal to the prepaid items is reserved since it is not available for appropriation.

I. Restricted Assets and Liabilities

A portion of the equity in the internal cash and investment pool has been restricted for future payment of certain long-term contracts, certain long-term liabilities and for operating contracts requiring segregated customer deposits. Such restrictions in the Solid Waste Enterprise Fund include amounts for the payment of the post-closure liability at the St. Johns Landfill.

J. Fixed Assets

General Fixed Assets Account Group - Fixed assets are stated at cost. Donated fixed assets are stated at estimated fair market value when received. Purchases of fixed assets are recorded as capital outlay expenditures in the governmental funds and capitalized in the General Fixed Assets Account Group. The capitalization threshold is $1,000. No depreciation is recorded on general fixed assets, and maintenance and repairs are charged to expenditures in various governmental funds as incurred and not capitalized. Interest expense incurred during construction is not capitalized on general fixed assets. Upon disposal, the General Fixed Assets Account Group is relieved of the asset's original cost or other basis; any moneys received from such disposal are accounted for as revenue in the governmental funds as appropriate.

Proprietary Fund Type Fixed Assets - Fixed assets in the enterprise and internal service funds are stated at cost. Normal maintenance and repairs are charged to operations as incurred. Replacements exceeding $1,000 that improve or extend the lives of property are capitalized. Interest expense incurred during construction of proprietary fund fixed assets is capitalized, net of interest earned on the invested proceeds over the period of construction. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets as follows:

- Buildings and improvements 15-40 years
- Equipment 5-10 years
- Office furniture 5-7 years

Depreciation provided on certain assets acquired through contributions is recorded as a reduction of contributed capital. Gains or losses realized from sales or retirements are credited or charged to operations.

Pursuant to an intergovernmental agreement with the City, Metro (through MERC) operates and manages activities for the Civic Stadium and PCPA, but fixed assets purchased from funds derived from these operations become property of the City. As such, these expenses are reflected as contributions to other governments and are not capitalized.

K. Leases

Leases that meet certain criteria established by the FASB and adopted by the GASB are classified as capital leases. The assets and related liabilities are recorded at amounts equal to the lesser of the present value of future minimum lease payments or the fair value of the leased property at the beginning of the lease term.

Capital leases of general fixed assets are recorded at the inception of the leases as expenditures and other financing sources in governmental fund types and as assets and obligations in the General Fixed Assets and General Long-term Debt Account Groups, respectively. Lease payments are recorded as expenditures on the due date; the portion of the payments applicable to principal, determined by using interest rates implicit in the leases, is reported as a reduction of the capitalized lease obligation in the General Long-term Debt Account Group.

Leases that do not meet the criteria of capital leases are classified as operating leases and related rentals are charged to expenditures or expenses as appropriate.

L. Long-term Obligations

Long-term debt expected to be paid with the resources of the proprietary funds is reported in those funds. Long-term debt of governmental funds is reported in the General Long-term Debt Account Group and is paid as follows: bonds payable are paid from the Debt Service Fund; loans payable are paid from the General Revenue Bond Fund – Zoo; obligations under capital leases are paid from the Planning Fund; and compensated absences are paid from the fund in which the employee is paid.

Bond premiums, discounts, issuance costs and deferred amounts on refunding in the proprietary fund types are amortized over the life of the bonds using the effective interest method. Bonds payable are reported on the balance sheet net of the unamortized portion of those costs. For governmental fund types, bond premiums, discounts and issuance costs are recognized during the current period.

M. Reserved Retained Earnings

A portion of retained earnings of the Solid Waste Enterprise Fund has been segregated from unreserved retained earnings for amounts legally required to be set aside to pay debt service and to fund renewal and replacement costs in accordance with the revenue bond ordinance authorizing the Metro Central Station Project, Waste Disposal System Revenue Bonds. A portion of retained earnings of the MERC Enterprise Fund has been segregated from unreserved retained earnings for amounts required to be set aside to fund renewal and replacement.

N. Liability for Compensated Absences

Accumulated unpaid vacation benefits in the governmental fund types are recorded as expenditures to the extent they are expected to be liquidated with expendable available resources. The amount payable from future resources is recorded in the General Long-term Debt Account Group. Accumulated unpaid vacation benefits in the proprietary fund types are accrued as earned. Calculated amounts of vacation leave payable include salary related payments associated with the leave, such as Metro's share of Social Security and Medicare taxes. Accumulated sick leave does not vest and is, therefore, recorded in all funds when leave is taken.

O. Interfund Transactions

Metro's policy is to record certain administrative, maintenance and insurance expenditures for other funds in the Support Services, Building Management and Risk Management Funds, respectively. These costs are charged to other funds as expenditures or expenses and reflected as charges for services revenue in the Support Services, Building Management and Risk Management Funds. The amounts of such interfund charges are based upon management's estimates of total costs and are identified in the cost allocation plan as reflected in the operating budgets. The cost allocation plan adjusts such interfund charges to reflect actual costs at year end.

Certain operating revenues and expenditures and capital costs under GAAP have been presented as transfers between funds for budgetary purposes in the Combined Statement of Revenues, Expenditures and Changes in Fund Balances - Budget (Non-GAAP Budgetary Basis) and Actual - All Governmental Fund Types and Expendable Trust Funds.

P. Total (Memorandum Only) Columns

The total (memorandum only) columns in the general purpose financial statements do not represent consolidated financial information and are presented solely to facilitate financial analysis. The columns do not present financial position, results of operations or cash flows in conformity with GAAP. Interfund eliminations have not been made in the aggregation of this data.

NOTE 3 - EXCESS OF EXPENDITURES OVER APPROPRIATIONS

For the year ended June 30, 1999, materials and services expenditures exceeded appropriations by $259,274 in the Zoo Operating Fund.

The overexpenditure was funded by available fund balance.

NOTE 4 - RECONCILIATION OF REVENUES AND EXPENDITURES - BUDGETARY BASIS TO GAAP BASIS

Oregon Budget Law, as adopted by Metro, requires accounting for certain transactions to be on a basis other than GAAP. The Combined Statement of Revenues, Expenditures and Changes in Fund Balances - Budget (Non-GAAP Budgetary Basis) and Actual - All Governmental Fund Types and Expendable Trust Funds is presented on the budgetary basis and is adjusted to the GAAP basis in the presentation in the Combined Statement of Revenues, Expenditures and Changes in Fund Balances - All Governmental Fund Types and Expendable Trust Funds. The accounting for capital lease proceeds and expenditures and the reclassification of interfund transfers as quasi-external transactions cause no difference between the excess of revenues and other sources over expenditures and other uses on a budget basis and such amounts on a GAAP basis. A reconciliation of the differences between budgetary basis and GAAP basis due to the application of GASB Statement No. 31 on valuation of investments is presented on the Combined Statement of Revenues, Expenditures and Changes in Fund Balances - Budget (Non-GAAP Budgetary Basis) and Actual - All Governmental Fund Types and Expendable Trust Funds.

NOTE 5 - CASH AND INVESTMENTS

Deposits

At June 30, 1999, the carrying amounts of the primary government and component unit cash deposits with the county treasurers and various financial institutions presented in the accompanying general purpose financial statements were $2,788,031 and $191,871, respectively. The corresponding bank balances associated with the carrying amounts disclosed above total $3,320,979 and $390,588, respectively. The entire amount of the bank balances is covered by federal depository insurance or is collateralized with securities held by financial institutions acting as agents for Metro in Metro's name. Cash on hand totals $51,000 for the primary government and $20,573 for the component unit. Oregon statutes require each depository throughout the period of its possession of public funds to maintain on deposit securities having a value of not less than 25% of the certificates of participation issued by its pool manager.

Investments

Policies officially adopted by Metro's Investment Advisory Board and the Metro Council authorize Metro to invest in obligations of the U.S. Treasury and agencies, time certificates of deposit, repurchase agreements, money market investments, banker's acceptances, commercial paper, State of Oregon and local government securities, and the State Treasurer's investment pool. The Deferred Compensation Fund is also authorized to invest in, but is not limited to, stocks, mortgages, insurance contracts, bonds and other evidence of indebtedness or ownership through mutual funds that are self-directed by participants.

During the fiscal year, there were no known violations of legal or contractual provisions for deposits and investments.

Metro's investments at year end are categorized below to give an indication of the level of risk assumed. Category 1 includes investments that are insured or registered or for which the securities are held by Metro or its agent in Metro's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in Metro's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department or agent but not in Metro's name. The risk level indicated below is generally reflective of the risk assumed by Metro during the year ended June 30, 1999.

	Category 1	Category 2	Category 3	Reported amount	Fair value
Primary Government:					
Commercial paper	$ 16,897,113	-	-	16,897,113	16,833,450
U.S. Govt. securities - treasury	31,288,348	-	-	31,288,348	30,846,726
U.S. Govt. securities - agencies	92,591,227	-	-	92,591,227	91,303,439
Total	$140,776,688	-	-	140,776,688	138,983,615
Investments not subject to categorization:					
Pension trust investments in mutual funds				22,990,980	22,990,980
State Treasurer's investment pool				24,156,659	24,053,149
Total investments- Primary Government				$187,924,327	186,027,744
Component Unit - MERC:					
Commercial paper	$ -	-	-	-	-
U.S. Govt. securities - treasury	2,438,869	-	-	2,438,869	2,374,626
U.S. Govt. securities - agencies	6,182,976	-	-	6,182,976	6,172,059
Repurchase agreements	4,552,680	-	-	4,552,680	4,552,680
Total	$ 13,174,525	-	-	13,174,525	13,099,365
Investments not subject to categorization:					
State Treasurer's investment pool				3,803,202	3,787,743
Total investments- Component Unit				$16,977,727	16,887,108

Metro's cash and investments are reflected on the combined balance sheet as follows:

	Primary Government	Component Unit	Total
Unrestricted	$180,447,076	12,663,834	193,110,910
Restricted	10,316,282	4,526,337	14,842,619
	$190,763,358	17,190,171	207,953,529

Equity in internal cash and investment pool in the General Fund includes pooled investments reported above of $90,828,582.

NOTE 6 - FIXED ASSETS

Fixed assets by major class for the General Fixed Assets Account Group and the Proprietary Funds are as follows:

	Balance July 1, 1998	Additions	Disposals	Balance June 30, 1999
General Fixed Assets Account Group				
Land	$ 59,084,750	22,934,966	-	82,019,716
Buildings and exhibits	49,886,476	11,296,071	(251,390)	60,931,157
Improvements	4,887,435	1,102,945	(84,865)	5,905,515
Equipment	3,475,848	909,046	-	4,384,894
Office furniture/equipment	2,793,107	206,846	-	2,999,953
Railroad equipment/facilities	1,860,916	154,626	-	2,015,542
	$121,988,532	36,604,500	(336,255)	158,256,777
Proprietary Funds				
Primary Government - Metro				
Land	$ 4,638,560	-	-	4,638,560
Buildings	49,637,336	2,507,630	-	52,144;966
Improvements	3,291,156	7,848	-	3,299,004
Equipment	3,119,577	286,533	-	3,406,110
Office furniture/equipment	4,856,765	305,987	-	5,162,752
Leasehold improvements	9,089,857	-	-	9,089,857
	74,633,251	3,107,998	-	77,741,249
Less accumulated depreciation and amortization	22,969,493	2,337,336	-	25,306,829
	$51,663,758	770,662	-	52,434,420

Notes to General Purpose Financial Statements, Continued

	Balance July 1, 1998	Additions	Disposals	Balance June 30, 1999
Proprietary Funds				
Component Unit - MERC				
Land	$ 15,279,942	-	-	15,279,942
Buildings	100,562,235	314,379	-	100,876,614
Improvements	789,878	63,843	-	853,721
Equipment	2,175,829	126,078	-	2,301,907
Office furniture/equipment	3,966,533	29,725	-	3,996,258
	122,774,417	534,025	-	123,308,442
Less accumulated depreciation and amortization	23,165,225	3,479,126	-	26,644,351
	$ 99,609,192	(2,945,101)	-	96,664,091

An agreement between the City and Metro regarding the real property at the Zoo provides that the property must be used for zoo or zoo-related purposes and, if such property ceases to be used for such purposes or is used for other purposes, title reverts to the City. Metro was in compliance with this agreement for the year ended June 30, 1999.

Proprietary fund fixed assets for the component unit (MERC) are those of Metro owned facilities. Fixed assets used in operating the Civic Stadium and PCPA are not included in the General Fixed Assets Account Group or Proprietary funds of Metro or MERC as title to the assets remains with the City in accordance with an intergovernmental consolidation agreement. These fixed assets will be included in the Comprehensive Annual Financial Report of the City.

NOTE 7 - DEFERRED COMPENSATION PLAN

Metro offers its employees a 401(k) deferred compensation plan in accordance with Internal Revenue Code provisions. The Metro Employee Salary Savings Plan is available to all Metro employees and permits employees to contribute a portion of their salary to the plan to obtain favorable tax treatment for amounts contributed. Moneys accumulated under the plan are deposited with a trustee for the exclusive benefit of the participants and are invested in mutual funds that are self-directed by participants. The deferred compensation is not available to participants until termination, retirement, death, or hardship conditions. Metro's Executive Officer is the plan administrator and has appointed a five-member Advisory Committee which has the authority to define, monitor, manage and interpret the provisions of the plan, contained in the Plan Document.

In past years, Metro contributed amounts to this plan for a certain number of its full-time employees who had elected not to participate in the State of Oregon Public Employees Retirement System (PERS). Currently, all eligible employees are members of PERS and Metro makes no further contributions to the plan. Benefits depend solely on amounts contributed plus investment earnings. Employees' contributions to the plan amounted to $1,506,507 during the fiscal year 1999.

NOTE 8 - PENSION PLAN

Defined Benefit Plan Description

Substantially all full-time employees, and other employees who meet certain eligibility requirements, are participants in PERS, an agent multiple-employer public employee retirement system that acts as a common investment and administrative agent for political subdivisions in the State of Oregon.

PERS issues a publicly available financial report that includes financial statements and supplementary information. That report may be obtained by writing to Oregon Public Employees Retirement System, P.O. Box 73, Portland, Oregon 97207-0073 or by calling 1-503-229-5824.

Benefits vest after five years of continuous service. Retirement with unreduced benefits is allowed for employees at age 58, but retirement with reduced benefits is generally available after age 55. Retirement benefits are based on salary and length of service, are calculated using a formula and are payable in a lump sum or monthly using several payment options. PERS also provides death and disability benefits. These benefit provisions and other requirements are established by state statutes.

Funding Policy

The rate of employer contributions to PERS is determined periodically by PERS based on actuarial valuations performed at least every two years. Metro's required employer contribution rate is 8.09% of covered employees' salaries. Under the provisions of state statutes, all covered employees, except elected officials, are required to contribute 6% of their gross earnings to PERS. The required employee contribution is paid by Metro for certain employees in conformance with its personnel policies. Some Metro and MERC employees are required to pay the 6% contribution. It is Metro's policy to recognize pension expenditures or expenses as currently funded.

Annual Pension Cost

For fiscal 1999, Metro's annual pension cost of $2,479,525 was equal to Metro's required and actual contribution. The required contribution was determined as part of an actuarial valuation at December 31, 1997 using the entry age actuarial cost method. Significant actuarial assumptions used in the valuation include:

- Consumer price inflation of 3.5% per year,
- A rate of return on the investment of present and future assets of 8.0% per year,
- Projected salary increases of 4.0% per year attributable to general wage adjustments, with additional increases for promotion and longevity that may vary by age and service, and
- Projected automatic cost-of-living benefit increases of 2.0% per year.

Metro does not maintain a separate PERS account for MERC employees. Accordingly, trend information for employees of MERC is not separable from Metro's statistics.

Three year historical trend information:

Fiscal year ended June 30:	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
1997	$2,292,466	100%	0
1998	$2,286,827	100%	0
1999	$2,479,525	100%	0

Schedule of funding progress:

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) Entry Age	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
12/31/93	$14,022,434	24,156,434	10,134,000	58%	22,332,313	45%
12/31/95	24,603,201	34,666,467	10,063,266	71	24,469,431	41
12/31/97	50,010,247	51,512,838	1,502,591	97	29,175,599	05

Amortization of the UAAL is over an open 30 year period as a level percentage of projected annual payroll.

NOTE 9 - COMMITMENTS

Columbia Ridge Landfill

Metro has a waste disposal services contract expiring December 31, 2009 with the owner and operator of the Columbia Ridge Landfill for disposal of solid waste from the Metro region. Effective July 1, 1999, the contract was modified to extend the contract term until December 31, 2014 and to modify the disposal price as described below.

The current contract requires a per ton unit price of $27.25 for the first 550,000 tons and a declining incremental price scale for each ton of waste in excess of 550,000 tons. Effective January 1, 2000, the per ton unit price for the first 550,000 tons is reduced to $22.31 and the incremental price scale is also adjusted. The per ton rate is adjusted annually on July 1 to reflect changes in the Consumer Price Index (CPI).

Waste Transport

Solid waste transport from Metro facilities to the Columbia Ridge Landfill and other disposal sites is privately contracted through December 31, 2009. Effective June 1, 1999, the contract was amended to reduce the per load unit price to an approximate per ton rate of $12. The unit price is adjusted annually on January 1 in an amount equivalent to 75% of the CPI. In addition, Metro prepaid future fixed costs (due under the current contract) in the amount of approximately $6.6 million. $6,417,486 of this payment is unamortized at June 30, 1999 and is recorded on the Combined Balance Sheet as a prepaid item.

Metro South Station and Metro Central Station

Operations of the Metro South Station, a solid waste transfer facility, and Metro Central Station, a solid waste materials recovery and transfer station that emphasizes recovery of waste materials, are contracted through September 30, 2002. The agreement sets a lump sum price for the first 21,000 tons of waste received each month: $93,000 at Metro South and $144,000 at Metro Central. Above 21,000 tons, payment is calculated by reference to sliding tonnage ranges that begin at $4.20 per ton for Metro South and $6.55 per ton for Metro Central. The contractor also receives incentives for materials recovered from the waste stream and not sent to the Columbia Ridge Landfill. The unit price is adjusted annually on July 1 in accordance with the CPI.

The following table presents the approximate annual commitment based on forecasted refuse tons and a 2.6% annual inflation factor for all of the previously described contracts:

Fiscal year ended June 30:	Columbia Ridge Landfill Variable payment based on tons	Waste Transport Variable payment based on loads	Metro South Variable payment based on tons	Metro Central Variable payment based on tons
2000	$ 15,133,557	8,117,708	2,235,014	3,293,797
2001	13,292,391	8,323,221	2,308,730	3,303,557
2002	13,630,761	8,700,788	2,425,014	3,471,039
2003	14,005,439	9,128,060	680,645	950,529
2004	14,393,478	9,576,470	-	-
Thereafter	179,020,049	61,834,944	-	-
Total	$249,475,675	105,681,191	7,649,403	11,018,922

NOTE 10 - LEASE OBLIGATIONS

Operating Leases

The Portland Center for the Performing Arts Theater Complex leases the grounds for the Complex under an operating lease expiring in 2083. The term of the original agreement may be extended in ten year increments for a total of 50 additional years. Rent adjustments may be negotiated every five years commencing on November 1, 1994. The scheduled lease payments are $8,384 monthly through October 31, 1999, and increase to $10,927 per month beginning November 1, 1999.

Metro owns the St. Johns Landfill and certain adjacent property but continues to lease from the City a smaller parcel of property at the entry to the St. Johns Landfill. Addendums to the original lease extend the term through October 31, 2000 and set the yearly payments at $7,620. The payments were $7,380 annually through October 31, 1999.

The future minimum rental payments for these leases are as follows:

Fiscal year ended June 30:	Ground Lease	Landfill Lease
2000	$ 120,952	7,540
2001	131,124	2,540
2002	131,124	-
2003	131,124	-
2004	131,124	-
Thereafter	9,615,760	-
Total	$10,261,208	10,080

Capital Leases

Metro has capital lease agreements for computers, printers, copiers and other equipment. These agreements provide Metro the right to purchase the asset at a nominal price at the end of the lease term. The agreements are for varying periods through 2002. Interest rates range from 4.1% to 5.0%. Amortization charges applicable to capital lease assets in the proprietary fund types are included in depreciation and amortization expense.

The future minimum lease payments are:

Fiscal year ended June 30:	Primary Government	Component Unit
2000	$ 263,204	202,488
2001	252,717	200,693
2002	18,814	-
Total minimum lease payments	534,735	403,181
Less amount representing interest	(26,077)	(19,358)
Net present value of future minimum lease payments	$ 508,658	383,823

NOTE 11 - BONDS PAYABLE

A. Open Spaces Program 1995 Series A, B, and C General Obligation Bonds

In prior years, Metro issued the following Open Spaces Program General Obligation Bonds: $74,170,000 of 1995 Series A, $5,219,923 of 1995 Series B (Capital Appreciation), and $56,210,000 of 1995 Series C. The Open Spaces Bonds were issued by Metro under authority granted by voters for $135.6 million in general obligation bonds to finance land acquisition and capital improvements pursuant to Metro's Open Spaces Program. The program will establish a cooperative regional system of parks, natural areas, open spaces, trails and greenways for wildlife and people.

The bonds are to be repaid with proceeds of Metro's ad valorem property tax levied each year. Interest rates range from 4.3% to 6.0%.

Bond principal and interest outstanding at June 30 and the corresponding maturities are as follows:

Fiscal year ended June 30:	1995 Series A Principal	1995 Series A Interest	1995 Series B Principal	1995 Series B Interest	1995 Series C Principal	1995 Series C Interest
2000	$ 2,520,000	3,583,616	423,755	76,245	1,790,000	2,656,512
2001	2,655,000	3,447,773	403,200	96,800	1,905,000	2,545,663
2002	2,795,000	3,304,710	383,625	116,375	2,020,000	2,427,912
2003	2,945,000	3,157,716	363,060	136,940	2,145,000	2,302,963
2004	3,105,000	2,998,704	343,920	156,080	2,275,000	2,170,362
2005-16	53,430000	19,782,932	1,910,393	1,592,607	41,300,000	14,596,279
	$67,450,000	36,275,451	3,827,953	2,175,047	51,435,000	26,699,691

B. Convention Center 1992 Series A General Obligation Refunding Bonds

In prior years, Metro issued $65,760,000 in Convention Center 1992 Series A General Obligation Refunding Bonds to advance refund the 1987 Series bonds.

The 1992 bonds are to be repaid with proceeds of Metro's ad valorem property tax levied each year. The bonds have interest rates ranging from 5.65% to 6.25%.

Bond principal and interest outstanding at June 30 and the corresponding maturities on 1992 Series A are as follows:

Fiscal year ended June 30:	Principal	Interest
2000	$ 2,375,000	3,252,235
2001	2,530,000	3,113,958
2002	2,700,000	2,964,237
2003	2,890,000	2,800,385
2004	3,085,000	2,624,135
2005-13	39,770,000	12,947,980
	$53,350,000	27,702,930

C. Metro Washington Park Zoo Oregon Project 1996 Series A General Obligation Bonds

In prior years, Metro issued $28.8 million in general obligation bonds to finance capital improvements at the Oregon Zoo (formerly the Metro Washington Park Zoo) including new exhibits, a new entry, and other improvements. The bonds are to be repaid with proceeds of Metro's ad valorem property tax levied each year. Interest rates range from 5.0% to 6.0% on various maturities, with an average interest cost for the entire issue of 5.3119%.

Bond principal and interest outstanding at June 30 and the corresponding maturities are as follows:

Fiscal year ended June 30:	Principal	Interest
2000	$ 940,000	1,484,760
2001	990,000	1,437,760
2002	1,040,000	1,388,260
2003	1,095,000	1,336,260
2004	1,150,000	1,281,510
2005-17	22,100,000	9,313,930
	$27,315,000	16,242,480

D. Solid Waste Disposal System Revenue and Refunding Revenue Bonds

These bonds are subject to covenants which specify the order of application of gross revenues to requirements and which require Metro to: maintain its existing solid waste disposal system; establish rates to produce net revenues each year which at least equal 110% of annual debt service; maintain and enforce regulations governing the disposal of solid waste in the service area; and comply with the Internal Revenue Code to maintain the tax exempt status of the bonds. Other covenants also apply. Metro is in compliance with all covenants as of and for the year ended June 30, 1999.

Metro Central Transfer Station Project, Waste Disposal System Revenue and Refunding Revenue Bonds

In prior years, Metro issued $12,895,000 in Waste Disposal System Refunding Revenue Bonds 1993 Series A to advance refund certain maturities of outstanding Waste Disposal System Revenue Bonds 1990 Series A. The net proceeds plus additional moneys were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for future debt service payments on the refunded portion of the 1990 Series bonds. Accordingly, the trust account assets and the liability for the maturities of the 1990 Series bonds that were defeased are not included in Metro's general purpose financial statements. At June 30, 1999, $16,100,000 of defeased bonds are outstanding.

Both the remaining maturities of the Waste Disposal System Revenue Bonds 1990 Series A which were not defeased and the 1993 Series A Refunding Bonds mature serially each January 1 and July 1 (through 2008 and 2012 respectively). Interest is payable semiannually on July 1 and January 1. Interest rates range from 6.85% to 7.10% on the remaining 1990 Series A bonds and from 4.3% to 5.125% (initial average rate of 4.99%) on the 1993 Series A Refunding bonds.

Bond principal and interest outstanding at June 30 and the corresponding maturities are:

	1990 Series A		1993 Series A Refunding	
Fiscal year ended June 30:	Principal	Interest	Principal	Interest
2000	$ 1,840,000	95,979	140,000	594,916
2001	-	-	1,110,000	568,041
2002	1,066,120	-	2,125,000	497,427
2003	2,140,000	-	75,000	448,951
2004	2,140,000	-	80,000	445,347
2005-12	7,490,000	-	8,665,000	2,515,952
	$14,676,120	95,979	12,195,000	5,070,634

The above principal amounts are reported on the balance sheet net of $250,204 in unamortized costs and discount, $1,056,187 in deferred amount on refunding, and $3,729,055 in unamortized accretion.

Metro/Riedel Oregon Compost Co. Project, Waste Disposal System Project Revenue Bonds

On June 20, 1990, Metro sold $5,000,000 of Waste Disposal Project Revenue Bonds 1990 Series 1 that mature on July 1, 2011. US National Bank secures the bonds through an irrevocable direct-pay letter of credit. Metro is not legally obligated to make payments for debt service on the bonds that were issued as they were issued as non-recourse to Metro; however, Metro acts as a conduit for payments. Accordingly, the balance sheet reflects the bonds payable and a loan receivable of $5,000,000 for amounts due from USNB. As interest rates are variable, interest payments over the life of the bonds are not determinable.

E. Metro Regional Center Project 1993 Series A General Revenue Refunding Bonds

These bonds are subject to covenants which specify the order of application of total assessments to requirements and which require Metro to: establish and collect fees and charges sufficient to fund the total assessments necessary to pay all debt service due; budget and collect total assessments necessary to pay debt service plus 10%; make assessments against departments based on use or benefit; and comply with the Internal Revenue Code to maintain the tax exempt status of the bonds. Other covenants also apply. Metro is in compliance with all covenants as of and for the year ended June 30, 1999.

In prior years, Metro issued $26,160,000 in General Revenue Refunding Bonds 1993 Series A to advance refund General Revenue Bonds 1991 Series A. The net proceeds were used to purchase

U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 1991 Series bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in Metro's general purpose financial statements. At June 30, 1999, $21,280,000 of defeased bonds are outstanding (see Note 22).

Interest rates range from 4.1% to 5.25%, with an initial average interest cost for the entire issue of 5.122%.

Bond principal and interest outstanding at June 30 and the corresponding maturities are as follows:

Fiscal year ended June 30:	Principal	Interest
2000	$ 570,000	1,224,020
2001	590,000	1,199,650
2002	615,000	1,173,435
2003	640,000	1,145,505
2004	670,000	1,115,695
2005-23	21,400,000	12,217,715
	$24,485,000	18,076,020

The above principal amounts are reported on the balance sheet net of $525,295 in unamortized costs and discount, and $2,020,672 in deferred amount on refunding.

F. Expo Center 1996 Series A Revenue Bond

In prior years, Metro sold a $2,500,000 privately placed, unrated revenue bond to complete financing of construction of a new building at the Expo Center. The bond bears an interest rate of 5.5% and matures serially each November 1 with final maturity on May 1, 2006. Interest is payable semiannually on May 1 and November 1. The bonds are secured by and payable from the operating revenues of the Expo Center.

Bond principal and interest outstanding at June 30 and the corresponding maturities are:

Fiscal year ended June 30:	Principal	Interest
2000	$ 80,000	127,325
2001	85,000	122,787
2002	90,000	117,975
2003	95,000	112,888
2004	100,000	107,525
2005-06	1,235,877	197,862
	$1,685,877	786,362

NOTE 12 - OTHER LONG-TERM DEBT

Energy Loan

The Building Management Fund entered into an energy services agreement with Pacific Power and Light Company in fiscal year 1993 in which $293,672 was provided to Metro to finance various conservation measures in the new headquarters building. The loan agreement calls for monthly payments of $2,515 at 6.23% interest for 15 years.

Sewer System Development Loan

Sewer system development charges were being paid over a 20 year period through 2014 under a loan agreement with the City. The entire remaining loan balance was paid off during the fiscal year 1999.

Oregon Economic Development Department Loan

In prior years, Metro borrowed funds through the Oregon Economic Development Department's (OEDD) Special Public Works Fund loan program. The first phase of the loan totaled $2,723,000 and was obtained to retire a $2,000,000 Bond Anticipation Note due to Tri-Met and to finance certain costs of the Zoo parking lot project. This loan is payable in yearly installments through December 1, 2015 and bears a true interest cost of 5.49%.

Metro later borrowed an additional $2,217,000 through the OEDD loan program. The second phase of the loan was obtained to finance the construction of the parking lot improvements and necessary equipment for the operation of a parking facility. This loan bears a true interest cost of 5.44% and will be repaid in annual installments through December 1, 2016.

Amounts are drawn as Metro requires funds. The total amount available under the loans has been borrowed through fiscal year 1999.

Debt service requirements to maturity for other long-term debt are as follows:

Fiscal year ended	Primary Government					
	Energy Loan Payable		OEDD 1995 Loan Payable		OEDD 1996 Loan Payable	
June 30:	Principal	Interest	Principal	Interest	Principal	Interest
2000	$ 17,759	12,424	102,914	141,917	74,874	112,353
2001	18,873	11,310	108,262	137,389	80,310	109,059
2002	20,084	10,099	108,642	132,409	85,778	105,404
2003	21,372	8,811	114,052	127,249	86,285	101,373
2004	22,742	7,440	124,486	121,775	91,827	97,231
2005-17	106,935	14,165	2,072,052	841,025	1,723,454	726,281
	$207,765	64,249	2,630,408	1,501,764	2,142,528	1,251,701

NOTE 13 - CHANGES IN GENERAL LONG-TERM LIABILITIES

The following changes occurred during fiscal year 1999 in liabilities reported in the General Long-term Debt Account Group:

GENERAL LONG-TERM DEBT ACCOUNT GROUP	Balance July 1, 1998	Increase	Decrease	Balance June 30, 1999
Bonds payable	$211,002,003	-	(7,624,050)	203,377,953
Loans payable	4,669,840	365,509	(262,413)	4,772,936
Obligations under capital leases	481,000	-	(156,000)	325,000
Liability for compensated absences	671,723	928,405	(671,723)	928,405
	$216,824,566	1,293,914	(8,714,186)	209,404,294

NOTE 14 - DEFERRED REVENUE

Deferred revenue at June 30, 1999 consists of taxes receivable not collected within 60 days after year end and other receivables not susceptible to accrual under the modified accrual basis of accounting:

Special Revenue Funds	$ 380,353
Debt Service Fund	914,726
Trust Funds	80,000
	$1,375,079

NOTE 15 - ARBITRAGE PAYABLE

Under certain conditions, the Tax Reform Act of 1986 requires governmental units to remit excess arbitrage earnings arising from invested bond proceeds to the Internal Revenue Service. At June 30, 1999, Metro recorded a liability of $15,457 for the primary government in the accompanying general purpose financial statements for such estimated excess arbitrage earnings.

NOTE 16 - POST-CLOSURE COST PAYABLE

The St. Johns Landfill was closed for operations in a prior year. Closure and post-closure care costs were recognized while the St. Johns Landfill was still in operation based on the then current estimate of total costs to complete such efforts, regardless of when cash disbursements were to be made. Such costs include methane gas and leachate collection systems, final cover, seeding, roads, drainage, ground water monitoring wells, liner systems, storm water management and operations and maintenance costs.

The post-closure cost of the St. Johns Landfill is estimated to be $41,393,901 under current Federal and state regulations. Actual cost may vary due to inflation or deflation, changes in technology, or changes in regulations. During the fiscal year, Metro paid $126,204 in closure costs as the closure process continued ($34,670,300 cumulative to date), reducing the remaining estimated liability to $6,723,601 at June 30, 1999. Metro has accumulated $7,839,483 in restricted cash for future payment of post-closure liabilities and will establish disposal charges at other Metro facilities to accumulate additional resources if necessary. This closure plan is in compliance with the plan filed with the Oregon Department of Environmental Quality.

NOTE 17 - CONTRIBUTED CAPITAL

Changes in contributed capital in the Proprietary Funds for the year ended June 30, 1999 are as follows:

	Enterprise Solid Waste Fund	Component Unit MERC Enterprise Fund
Balance, July 1, 1998	$895,019	87,206,630
Reductions-Depreciation on fixed assets ($26,421,088 accumulated depreciation at June 30, 1999)	(31,623)	(3,440,832)
Balance, June 30, 1999	$863,396	83,765,798

NOTE 18 - INSURED RISKS

Metro is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Metro has established a Risk Management Fund (an internal service fund) to account for risk management activities, including payment of insurance policy premiums, payment of claims, and to finance its uninsured risks of loss. Under this program, the Risk Management Fund provides risk of loss coverage for the primary government and the component unit as follows:

- General liability, bodily injury to or property damage of third parties resulting from the negligence of Metro or its employees and errors and omissions risks: these risks are fully covered by the Risk Management Fund. Metro is protected by ORS Chapter 30, the Oregon Tort Claims Act, which limits public entities' liability to $100,000 per person and $500,000 per occurrence for the acts of Metro, its employees and agents. Possible liability outside the Oregon Tort Claims Act is covered by an excess liability policy with a $500,000 deductible.

- Property damage to Metro-owned facilities: this risk is covered with a commercial primary, all risk property insurance policy. The property coverage is in the amount of $285,615,000 with a $100,000 deductible.

- Workers' compensation, bodily injury or illness to an employee while in the course of employment: this risk is covered through a purchased guaranteed cost program from SAIF Corporation, a commercial carrier, in amounts that meet statutory requirements.

Metro has not experienced settlements in excess of insurance coverage in any of the last three fiscal years. An independent actuary prepared an actuarial valuation and estimates of liabilities for unpaid claims in November 1999. Claims liabilities are calculated considering the effects of inflation, recent claim settlement trends including frequency and amount of payouts, and other economic and social factors. Metro also monitors risk activity to ensure that proper reserves are maintained. All operating funds of Metro participate in the program and make payments to the Risk Management Fund based upon actuarial estimates of the amounts needed to pay prior and current year claims and to establish sufficient reserves.

The estimated claims liability of $669,181 reported as accrued self-insurance claims in the Risk Management Fund at June 30, 1999 was established in accordance with the requirements of GASB Statement No. 30, *Risk Financing Omnibus,* which requires that a liability for total estimated claims be reported if information prior to the issuance of the general purpose financial statements indicates that it is probable that a liability has been incurred at the date of the general purpose financial statements and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. A portion of the loss reserves have been discounted, with the actuary using a discount factor of .932 for liability and .956 for workers' compensation and an assumed investment rate of 5.2% in preparing the estimates. Metro does not purchase annuity contracts from commercial insurers to pay any aggregate amount of outstanding claims liabilities.

Changes in Risk Management Fund claims liability for the previous fiscal year and current fiscal year were:

	Beginning of Fiscal Year Liability	Current Year Claims and Changes in Estimates	Claim Payments	End of Fiscal Year Liability
1997-1998	$ 927,332	868,195	652,279	1,143,248
1998-1999	$1,143,248	(89,036)	385,031	669,181

The reduction in the estimated claims liability resulted in negative claims expense for fiscal year 1999.

NOTE 19 - SEGMENT INFORMATION FOR ENTERPRISE FUNDS

Metro and its component unit maintain two Enterprise Funds. The Solid Waste Fund accounts for self-supporting activities which are rendered to the general public on a user charge basis. The MERC Fund accounts for marketing and operations of MERC operated facilities that are operated on a user charge basis, supplemented by intergovernmental revenues. Segment information for the Enterprise Funds is presented in the following schedule:

	Solid Waste Fund	Component Unit MERC Fund
Operating revenues	$52,459,060	25,722,585
Depreciation and amortization expense	1,267,161	3,479,126
Operating income (loss)	619,736	(1,875,207)
Net income (loss)	1,392,707	(2,031,986)
Fixed asset additions	2,807,314	1,406,933
Net working capital	32,876,387	10,998,183
Total assets	87,825,050	115,945,065
Bonds and other long-term liabilities:		
Payable from operating revenues	27,294,683	2,414,000
Payable from other sources	6,739,058	-
Contributed capital, net	863,396	83,765,798
Total equity	50,489,198	109,774,611

NOTE 20 - RELATED PARTY TRANSACTION

The Oregon Zoo Foundation is an organization that exists exclusively for the support and benefit of the Oregon Zoo. It is a public benefit corporation organized and operated exclusively for charitable, scientific, and educational purposes under Section 501(c)(3) of the Internal Revenue Code of 1986. The Foundation conducts fundraising efforts on behalf of the Zoo, receiving donations from both individuals and corporations that are provided as financial support to the Zoo. During fiscal year 1999, the Foundation provided support to the Zoo totaling $1,084,048.

NOTE 21 - CONTINGENT LIABILITIES

Reviews by Grantor Agencies

Grant costs are subject to review by the grantor agencies. Any costs disallowed as the result of the review would be borne by Metro and may require the return of such amount to the grantor agency. However, should costs be disallowed on a grant for which Metro acts in a pass-through capacity, Metro should be able to require repayment of amounts disallowed from the subgrantees.

Legal Matters

Metro is involved as a defendant in several claims and disputes that are normal to Metro's activities. Management intends to vigorously contest these matters and does not believe their ultimate resolution will have a material effect upon its financial position or operations.

NOTE 22 – SUBSEQUENT EVENTS

Defeased Bonds

The remaining $21,280,000 of outstanding defeased General Revenue Bonds 1991 Series A were called and paid on July 1, 1999 and the escrow account was closed.

Oregon Convention Center Expansion

On September 14, 1999, Metro, Tri-Met, the City, Multnomah County and various visitor industry groups signed a Memorandum of Understanding regarding the proposed expansion of the OCC, improvements to PCPA and Civic Stadium, and other enhancements to the visitor industry in Portland and Multnomah County. The understandings contained in the agreement will be implemented through further agreements yet to be formulated.

Metro will continue to operate the OCC, will manage the construction of the capital improvements made to the OCC and PCPA facilities and will contribute from Convention Center reserves an amount not less than $5,000,000 to the OCC Completion Project.

Increased taxes on transient lodging and vehicle rental activities within Multnomah County, and the issuance of bonds by the City will finance the proposed expansion and improvement activities.

Supplementary Data

General Fund

The *General Fund* accounts for all activities not required to be accounted for in another fund. This fund accounts primarily for Metro's general government activities, including Council and Office of the Executive Officer functions. The principal resources of the fund are investment income and excise taxes on Metro's facilities and services levied in accordance with the Metro Code.

METRO

General Fund

Schedule of Revenues and Expenditures - Budget (Non-GAAP Budgetary Basis) and Actual

For the year ended June 30, 1999

	Budget	Actual	Variance favorable (unfavorable)
Revenues:			
Excise taxes	$ 7,877,226	7,405,463	(471,763)
Charges for services	-	18,561	18,561
Investment income	60,000	39,638	(20,362)
Miscellaneous	500	2,428	1,928
Total revenues	7,937,726	7,466,090	(471,636)
Expenditures:			
Council:			
Operating expenses	1,093,924	969,326	124,598
Capital outlay	10,000	9,497	503
Total council	1,103,924	978,823	125,101
Office of the executive officer:			
Operating expenses	694,566	666,012	28,554
Capital outlay	5,200	4,931	269
Total office of the executive officer	699,766	670,943	28,823
Special appropriations:			
Materials and services	255,000	146,768	108,232
Contingency	470,901	-	470,901
Total expenditures	2,529,591	1,796,534	733,057
Revenues over expenditures	5,408,135	5,669,556	261,421
Other financing sources (uses):			
Operating transfers in:			
Support Services Fund	438,794	429,218	(9,576)
Operating transfers out	(7,343,929)	(7,298,406)	45,523
Total other financing sources (uses)	(6,905,135)	(6,869,188)	35,947
Revenues and other sources under expenditures and other uses	(1,497,000)	(1,199,632)	297,368
Beginning fund balance available for appropriation - July 1, 1998	1,697,000	1,634,668	(62,332)
Unappropriated ending fund balance - June 30, 1999	$ 200,000	435,036	235,036

Special Revenue Funds

Planning Fund

This fund accounts for funding and operation of Metro's regional planning functions, including land use, urban growth management, and environmental and transportation planning. Principal sources of revenues are federal, state and local grants, charges for services, and a share of the excise tax transferred from the General Fund.

Regional Parks Fund

This fund accounts for funding and operation of Metro's greenspaces program and recreation activities, including parks, marine facilities, pioneer cemeteries, and a golf course. Principal sources of revenue are grants, shared revenue, and charges for services.

Zoo Fund

This fund accounts for funding and operation of the Oregon Zoo. Principal sources of revenues are charges for services and property taxes derived from a property tax base. This fund consists of three budgetary funds (Zoo Operating Fund, General Revenue Bond Fund – Zoo and Washington Park Parking Lot Fund) that are combined as one Special Revenue Fund to be in accordance with generally accepted accounting principles.

METRO

Special Revenue Funds

Combining Balance Sheet

June 30, 1999

Assets	Planning Fund	Regional Parks Fund	Zoo Fund	Total
Assets:				
Equity in internal cash and investment pool	$ 1,358,242	3,530,488	10,748,710	15,637,440
Receivables (net of allowance for uncollectibles):				
Property taxes	-	-	374,936	374,936
Trade	128,250	211,934	194,677	534,861
Other	1,731	113	1,555	3,399
Interest	12,359	29,557	110,100	152,016
Federal grants	3,193,919	106,077	16,417	3,316,413
State and local grants/contracts	689,320	-	-	689,320
Inventory of materials and supplies	-	-	273,226	273,226
Other assets	-	200	90,874	91,074
Restricted assets:				
Equity in internal cash and investment pool	-	-	22,046	22,046
Total assets	$ 5,383,821	3,878,369	11,832,541	21,094,731
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	$ 2,523,042	355,161	706,217	3,584,420
Salaries, withholdings and payroll taxes payable	313,817	119,411	570,414	1,003,642
Contracts payable	33,922	-	11,729	45,651
Deferred revenue	-	-	380,353	380,353
Unearned grant/contract revenue	410,733	2,362	-	413,095
Deposits payable	13,821	9,025	100,230	123,076
Other liabilities	166	77	1,254	1,497
Total liabilities	3,295,501	486,036	1,770,197	5,551,734
Fund balances:				
Unreserved	2,088,320	3,392,333	10,062,344	15,542,997
Total fund balances	2,088,320	3,392,333	10,062,344	15,542,997
Total liabilities and fund balances	$ 5,383,821	3,878,369	11,832,541	21,094,731

METRO

Special Revenue Funds

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

For the year ended June 30, 1999

	Planning Fund	Regional Parks Fund	Zoo Fund	Total
Revenues:				
Property taxes	$ -	-	6,737,288	6,737,288
Federal grants	9,812,691	218,748	90,067	10,121,506
State and local grants	1,773,031	209,805	-	1,982,836
Local government shared revenues	-	410,331	-	410,331
Government contributions	-	10,300	-	10,300
Charges for services	1,803,861	2,296,874	8,452,690	12,553,425
Investment income	37,745	173,908	657,348	869,001
Contributions and donations	195,000	5,336	596,723	797,059
Miscellaneous	606,940	3,360	93,496	703,796
Total revenues	14,229,268	3,328,662	16,627,612	34,185,542
Expenditures:				
Current:				
Zoo operations and development	-	-	16,036,401	16,036,401
Regional planning and development	16,979,166	-	-	16,979,166
Recreation and development	-	3,988,550	-	3,988,550
Capital outlay	82,006	588,818	739,409	1,410,233
Debt service	174,790	98,841	559,118	832,749
Total expenditures	17,235,962	4,676,209	17,334,928	39,247,099
Revenues under expenditures	(3,006,694)	(1,347,547)	(707,316)	(5,061,557)
Other financing sources (uses):				
Loan proceeds	-	-	590,351	590,351
Operating transfers in	4,454,820	1,730,538	-	6,185,358
Operating transfers out	-	-	(2,000,000)	(2,000,000)
Total other financing sources (uses)	4,454,820	1,730,538	(1,409,649)	4,775,709
Revenues and other sources over (under) expenditures and other uses	1,448,126	382,991	(2,116,965)	(285,848)
Fund balances - July 1, 1998	640,194	3,009,342	12,179,309	15,828,845
Fund balances - June 30, 1999	$ 2,088,320	3,392,333	10,062,344	15,542,997

METRO

Planning Fund

Schedule of Revenues and Expenditures -
Budget (Non-GAAP Budgetary Basis) and Actual

For the year ended June 30, 1999

	Budget	Actual	Variance favorable (unfavorable)
Revenues:			
Federal grants	$ 13,416,801	9,812,691	(3,604,110)
State grants	225,000	538,056	313,056
Local grants	2,225,026	1,234,975	(990,051)
Charges for services	530,933	1,402,062	871,129
Investment income	-	39,400	39,400
Contributions and donations	396,525	195,000	(201,525)
Miscellaneous	2,314,445	606,940	(1,707,505)
Total revenues	19,108,730	13,829,124	(5,279,606)
Expenditures:			
Transportation planning:			
Personal services	3,914,573	3,610,304	304,269
Materials and services	13,311,140	7,573,778	5,737,362
Capital outlay	69,775	28,818	40,957
Debt service	2,123,500	83,823	2,039,677
Total transportation planning	19,418,988	11,296,723	8,122,265
Growth management services:			
Personal services	2,558,296	2,477,975	80,321
Materials and services	1,770,099	1,084,519	685,580
Capital outlay	54,164	53,188	976
Debt service	96,007	90,967	5,040
Total growth management services	4,478,566	3,706,649	771,917
Contingency	325,772	-	325,772
Total expenditures	24,223,326	15,003,372	9,219,954
Revenues under expenditures	(5,114,596)	(1,174,248)	3,940,348

(Continued)

METRO

Planning Fund

Schedule of Revenues and Expenditures - Budget (Non-GAAP Budgetary Basis) and Actual, Continued

For the year ended June 30, 1999

	Budget	Actual	Variance favorable (unfavorable)
Other financing sources (uses):			
State bond bank loan proceeds	$ 1,794,600	-	(1,794,600)
Operating transfers in:			
General Fund	4,454,820	4,454,820	-
Regional Parks Fund	32,000	31,506	(494)
Open Spaces Fund	10,000	8,944	(1,056)
Solid Waste Revenue Fund	392,565	360,349	(32,216)
Smith and Bybee Lakes Trust Fund	1,000	1,000	-
Operating transfers out	(2,282,136)	(2,232,590)	49,546
Total other financing sources (uses)	4,402,849	2,624,029	(1,778,820)
Revenues and other sources over (under) expenditures and other uses	(711,747)	1,449,781	2,161,528
Beginning fund balance available for appropriation - July 1, 1998	711,747	631,257	(80,490)
Unappropriated ending fund balance - June 30, 1999	$ -	2,081,038	2,081,038

METRO

Regional Parks Fund

Schedule of Revenues and Expenditures -
Budget (Non-GAAP Budgetary Basis) and Actual

For the year ended June 30, 1999

	Budget	Actual	Variance favorable (unfavorable)
Revenues:			
Federal grants	$ 488,384	218,748	(269,636)
State grants	508,740	150,305	(358,435)
Local grants	65,000	59,500	(5,500)
Local government shared revenues	416,000	410,331	(5,669)
Government contributions	30,300	10,300	(20,000)
Charges for services	1,889,148	2,002,146	112,998
Investment income	122,605	178,222	55,617
Contributions and donations	20,300	5,336	(14,964)
Miscellaneous	-	3,360	3,360
Total revenues	3,540,477	3,038,248	(502,229)
Expenditures:			
Personal services	2,367,588	2,152,775	214,813
Materials and services	1,736,290	1,175,096	561,194
Capital outlay	3,539,336	588,818	2,950,518
Debt service	98,872	98,841	31
Contingency	157,887	-	157,887
Total expenditures	7,899,973	4,015,530	3,884,443
Revenues under expenditures	(4,359,496)	(977,282)	3,382,214

(Continued)

METRO

Regional Parks Fund

Schedule of Revenues and Expenditures -
Budget (Non-GAAP Budgetary Basis) and Actual, Continued

For the year ended June 30, 1999

	Budget	Actual	Variance favorable (unfavorable)
Other financing sources (uses):			
Operating transfers in:			
General Fund	$ 1,776,061	1,730,538	(45,523)
Open Spaces Fund	2,766,278	280,728	(2,485,550)
Smith and Bybee Lakes Trust Fund	10,000	10,000	-
Regional Parks Trust Fund	4,000	4,000	-
Operating transfers out	(694,099)	(660,679)	33,420
Total other financing sources (uses)	3,862,240	1,364,587	(2,497,653)
Revenues and other sources over (under) expenditures and other uses	(497,256)	387,305	884,561
Beginning fund balance available for appropriation - July 1, 1998	2,791,585	2,997,282	205,697
Unappropriated ending fund balance - June 30, 1999	$ 2,294,329	3,384,587	1,090,258

METRO

Zoo Operating Fund

Schedule of Revenues and Expenditures -
Budget (Non-GAAP Budgetary Basis) and Actual

For the year ended June 30, 1999

	Budget	Actual	Variance favorable (unfavorable)
Revenues:			
Property taxes	$ 6,546,165	6,737,288	191,123
Federal grants	121,250	90,067	(31,183)
Charges for services:			
Admission fees	2,794,764	3,174,710	379,946
Rentals	64,604	167,297	102,693
Food service revenue	3,068,372	3,097,257	28,885
Retail sales	997,675	1,028,503	30,828
Tuition and lectures	476,335	528,341	52,006
Exhibit shows	13,953	12,041	(1,912)
Railroad rides	471,628	421,474	(50,154)
Miscellaneous charges for services	67,111	23,067	(44,044)
Investment income	605,652	670,167	64,515
Contributions and donations	670,000	596,723	(73,277)
Miscellaneous	25,756	7,226	(18,530)
Total revenues	15,923,265	16,554,161	630,896
Expenditures:			
Personal services:			
Administration	786,351	819,282	(32,931)
Animal management	2,526,056	2,308,266	217,790
Facilities management	2,079,421	2,110,677	(31,256)
Educational services	714,837	699,296	15,541
Marketing	399,681	388,531	11,150
Visitor services	2,314,440	2,522,274	(207,834)
Design services	314,862	241,362	73,500
Total personal services	9,135,648	9,089,688	45,960
Materials and services:			
Administration	135,315	157,816	(22,501)
Animal management	527,057	602,057	(75,000)
Facilities management	1,693,567	1,860,485	(166,918)
Educational services	174,135	187,591	(13,456)
Marketing	828,122	773,633	54,489
Visitor services	1,758,069	1,828,258	(70,189)
Design services	174,470	140,169	34,301
Total materials and services	5,290,735	5,550,009	(259,274)

(Continued)

METRO

Zoo Operating Fund

Schedule of Revenues and Expenditures - Budget (Non-GAAP Budgetary Basis) and Actual, Continued

For the year ended June 30, 1999

	Budget	Actual	Variance favorable (unfavorable)
Expenditures, continued:			
Capital outlay:			
Administration	$ 53,708	45,268	8,440
Animal management	27,508	30,972	(3,464)
Facilities management	531,976	243,757	288,219
Educational services	26,757	5,419	21,338
Marketing	6,470	6,135	335
Visitor services	72,317	75,545	(3,228)
Design services	161,000	134,017	26,983
Total capital outlay	879,736	541,113	338,623
Contingency	612,510	-	612,510
Total expenditures	15,918,629	15,180,810	737,819
Revenues over expenditures	4,636	1,373,351	1,368,715
Other financing uses:			
Operating transfers out	(3,696,704)	(3,602,497)	94,207
Revenues under expenditures and other uses	(3,692,068)	(2,229,146)	1,462,922
Beginning fund balance available for appropriation - July 1, 1998	11,281,851	12,122,836	840,985
Unappropriated ending fund balance - June 30, 1999	$ 7,589,783	9,893,690	2,303,907

METRO

General Revenue Bond Fund - Zoo

Schedule of Revenues and Expenditures - Budget (Non-GAAP Budgetary Basis) and Actual

For the year ended June 30, 1999

	Budget	Actual	Variance favorable (unfavorable)
Revenues:			
Sale of fixed assets	$ -	86,270	86,270
Total revenues	-	86,270	86,270
Expenditures:			
Debt service account:			
Debt service	559,118	559,118	-
Project account:			
Capital outlay	300,200	198,296	101,904
Total expenditures	859,318	757,414	101,904
Revenues under expenditures	(859,318)	(671,144)	188,174
Other financing sources:			
State bond bank loan proceeds	300,200	590,351	290,151
Operating transfers in:			
Zoo Operating Fund	-	205,793	205,793
Washington Park Parking Lot Fund	559,118	-	(559,118)
Total other financing sources	859,318	796,144	(63,174)
Revenues and other sources over expenditures	-	125,000	125,000
Beginning fund balance available for appropriation - July 1, 1998	-	-	-
Unappropriated ending fund balance - June 30, 1999	$ -	125,000	125,000

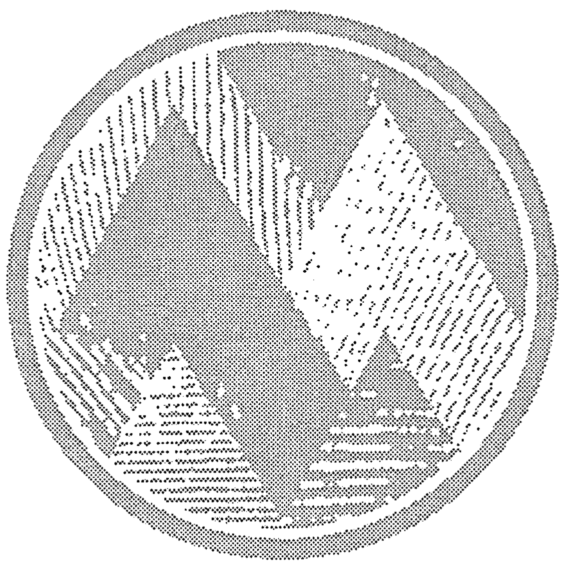
METRO

Washington Park Parking Lot Fund

Schedule of Revenues and Expenditures - Budget (Non-GAAP Budgetary Basis) and Actual

For the year ended June 30, 1999

	Budget	Actual	Variance favorable (unfavorable)
Revenues:			
Charges for services	$ 637,879	-	(637,879)
Total revenues	637,879	-	(637,879)
Expenditures:			
Materials and services	262,037	-	262,037
Contingency	105,870	-	105,870
Total expenditures	367,907	-	367,907
Revenues over expenditures	269,972	-	(269,972)
Other financing sources (uses):			
Operating transfers in:			
Zoo Operating Fund	300,000	-	(300,000)
Operating transfers out	(569,972)	-	569,972
Total other financing sources (uses)	(269,972)	-	269,972
Revenues and other sources over expenditures and other uses	-	-	-
Beginning fund balance available for appropriation - July 1, 1998	-	-	-
Unappropriated ending fund balance - June 30, 1999	$ -	-	-



Debt Service Fund

The *General Obligation Bond Debt Service Fund* accounts for payments of general obligation bond principal and interest to bond holders. The principal source of revenue is property taxes.

METRO

General Obligation Bond Debt Service Fund

Schedule of Revenues and Expenditures -
Budget (Non-GAAP Budgetary Basis) and Actual

For the year ended June 30, 1999

	Budget	Actual	Variance favorable (unfavorable)
Revenues:			
Property taxes	$ 18,461,286	18,795,488	334,202
Investment income	275,000	544,390	269,390
Total revenues	18,736,286	19,339,878	603,592
Expenditures:			
Debt service:			
Principal	7,624,050	7,624,050	-
Interest	11,458,222	11,458,222	-
Total expenditures	19,082,272	19,082,272	-
Revenues over (under) expenditures	(345,986)	257,606	603,592
Beginning fund balance available for appropriation - July 1, 1998	11,891,000	12,788,637	897,637
Unappropriated ending fund balance - June 30, 1999	$ 11,545,014	13,046,243	1,501,229

Capital Projects Funds

Zoo Capital Fund

This fund accounts for major improvement projects at the Oregon Zoo. Principal resources are investment income and contributions and donations.

Open Spaces Fund

This fund accounts for the activities to acquire and protect regional open spaces, parks, trails, and streams. The principal resource is investment income.

METRO

Capital Projects Funds

Combining Balance Sheet

June 30, 1999

Assets	Zoo Capital Fund	Open Spaces Fund	Total
Equity in internal cash and investment pool	$ 1,734,736	4,375,754	6,110,490
Investments	11,121,956	63,791,180	74,913,136
Interest receivable	14,971	197,545	212,516
Total assets	$ 12,871,663	68,364,479	81,236,142
Liabilities and Fund Balances			
Liabilities:			
Accounts payable	$ 1,057,398	494,795	1,552,193
Salaries, withholdings and payroll taxes payable	6,003	56,749	62,752
Contracts payable	9,615	-	9,615
Total liabilities	1,073,016	551,544	1,624,560
Fund balances:			
Unreserved	11,798,647	67,812,935	79,611,582
Total fund balances	11,798,647	67,812,935	79,611,582
Total liabilities and fund balances	$ 12,871,663	68,364,479	81,236,142

METRO

Capital Projects Funds

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

For the year ended June 30, 1999

		Zoo Capital Fund	Open Spaces Fund	Totals
Revenues:				
Investment income	$	810,581	4,033,096	4,843,677
Contributions and donations		540,033	-	540,033
Miscellaneous		19,291	21	19,312
Total revenues		1,369,905	4,033,117	5,403,022
Expenditures:				
Recreation and development		-	4,233,350	4,233,350
Capital outlay		11,904,131	22,620,994	34,525,125
Total expenditures		11,904,131	26,854,344	38,758,475
Revenues under expenditures		(10,534,226)	(22,821,227)	(33,355,453)
Other financing sources:				
Operating transfers in		2,000,000	-	2,000,000
Revenues and other sources under expenditures		(8,534,226)	(22,821,227)	(31,355,453)
Fund balances - July 1, 1998		20,332,873	90,634,162	110,967,035
Fund balances - June 30, 1999	$	11,798,647	67,812,935	79,611,582

METRO

Zoo Capital Fund

Schedule of Revenues and Expenditures -
Budget (Non-GAAP Budgetary Basis) and Actual

For the year ended June 30, 1999

	Budget	Actual	Variance favorable (unfavorable)
Revenues:			
Investment income	$ 798,436	813,038	14,602
Contributions and donations	2,000,000	540,033	(1,459,967)
Miscellaneous	-	19,291	19,291
Total revenues	2,798,436	1,372,362	(1,426,074)
Expenditures:			
Personal services	99,354	88,207	11,147
Capital outlay	13,570,700	11,815,924	1,754,776
Contingency	5,000,000	-	5,000,000
Total expenditures	18,670,054	11,904,131	6,765,923
Revenues under expenditures	(15,871,618)	(10,531,769)	5,339,849
Other financing sources:			
Operating transfers in:			
Zoo Operating Fund	2,000,000	2,000,000	-
Revenues under expenditures and other sources	(13,871,618)	(8,531,769)	5,339,849
Beginning fund balance available for appropriation - July 1, 1998	14,727,013	20,316,747	5,589,734
Unappropriated ending fund balance - June 30, 1999	$ 855,395	11,784,978	10,929,583

METRO

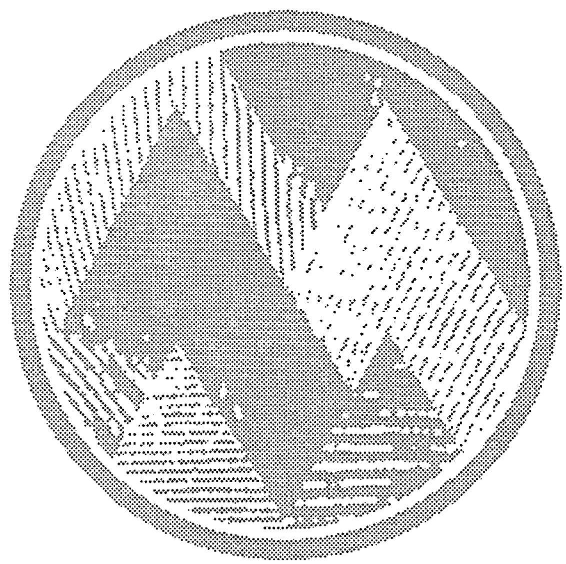
Open Spaces Fund

Schedule of Revenues and Expenditures - Budget (Non-GAAP Budgetary Basis) and Actual

For the year ended June 30, 1999

	Budget	Actual	Variance favorable (unfavorable)
Revenues:			
Government contributions	$ 494,000	-	(494,000)
Investment income	4,397,156	3,996,602	(400,554)
Contributions and donations	300,000	-	(300,000)
Miscellaneous	-	21	21
Total revenues	5,191,156	3,996,623	(1,194,533)
Expenditures:			
Personal services	1,259,956	1,146,607	113,349
Materials and services	16,312,432	4,701,974	11,610,458
Capital outlay	22,636,256	20,235,640	2,400,616
Contingency	36,000,000	-	36,000,000
Total expenditures	76,208,644	26,084,221	50,124,423
Revenues under expenditures	(71,017,488)	(22,087,598)	48,929,890
Other financing uses:			
Operating transfers out	(3,254,683)	(770,123)	2,484,560
Revenues under expenditures and other uses	(74,272,171)	(22,857,721)	51,414,450
Beginning fund balance available for appropriation - July 1, 1998	89,136,320	90,668,794	1,532,474
Unappropriated ending fund balance - June 30, 1999	$ 14,864,149	67,811,073	52,946,924

Note: Certain expenditures of the fund are attributable to the local share portion of the bond measure and are therefore not capitalized. They are recorded under "recreation and development" expenditures on a GAAP basis.



Enterprise Fund

Solid Waste Fund

This fund accounts for revenues, primarily from charges for services for the disposal of solid waste, and expenses for the implementation, administration and enforcement of Metro's Solid Waste Management Plan. This fund also accounts for Metro South Station and Metro Central Station solid waste transfer and recycling facilities, and the closed St. Johns Landfill.

METRO

Solid Waste Revenue Fund

Schedule of Revenues and Expenditures -
Budget (Non-GAAP Budgetary Basis) and Actual

For the year ended June 30, 1999

	Budget	Actual	Variance favorable (unfavorable)
Revenues:			
State and local grants	$ -	20,655	20,655
Charges for services:			
Disposal fees	28,911,846	27,194,939	(1,716,907)
Regional system fee	18,191,901	16,066,597	(2,125,304)
Metro facility fee	-	749,082	749,082
Regional transfer charge	5,189,490	4,730,760	(458,730)
Rehabilitation and enhancement fees	207,981	188,550	(19,431)
Transaction fee	1,533,912	1,597,494	63,582
Host fees	292,353	230,756	(61,597)
Tire/yard debris disposal fees	310,420	304,320	(6,100)
Orphan site/DEQ fees	997,421	952,181	(45,240)
Refrigeration unit/household hazardous waste disposal fees	174,286	65,429	(108,857)
Natural gas recovery revenue	133,641	96,706	(36,935)
Miscellaneous charges for services	76,316	95,439	19,123
Investment income	2,125,000	2,404,260	279,260
Pass-through debt service receipts	350,000	173,685	(176,315)
Miscellaneous	43,820	127,810	83,990
Total revenues	58,538,387	54,998,663	(3,539,724)
Expenditures:			
Operating Account:			
Personal services:			
Business and regulatory affairs	1,077,071	1,005,713	71,358
Environmental services	2,627,239	2,508,763	118,476
Waste reduction and outreach	1,255,063	1,148,810	106,253
Engineering and analysis	1,124,059	1,115,227	8,832
Office of the director	316,577	325,177	(8,600)
Total personal services	6,400,009	6,103,690	296,319

(Continued)

METRO

Solid Waste Revenue Fund

Schedule of Revenues and Expenditures -
Budget (Non-GAAP Budgetary Basis) and Actual, Continued

For the year ended June 30, 1999

	Budget	Actual	Variance favorable (unfavorable)
Expenditures, continued:			
Materials and services:			
Business and regulatory affairs	$ 2,485,243	2,220,085	265,158
Environmental services	45,128,208	42,528,111	2,600,097
Waste reduction and outreach	2,402,998	1,909,350	493,648
Engineering and analysis	1,086,067	467,432	618,635
Office of the director	102,448	79,871	22,577
Total materials and services	51,204,964	47,204,849	4,000,115
Landfill Closure Account:			
Materials and services	268,200	11,688	256,512
Capital outlay	1,076,500	114,516	961,984
Total Landfill Closure Account	1,344,700	126,204	1,218,496
Renewal and Replacement Account:			
Capital outlay	1,997,000	1,466,800	530,200
General Account:			
Capital outlay	2,859,836	1,340,514	1,519,322
Master Project Account:			
Debt service	350,000	173,685	176,315
Debt Service Account:			
Debt service	2,671,058	2,671,058	-
Contingency	7,855,729	-	7,855,729
Total expenditures	74,683,296	59,086,800	15,596,496

(Continued)

METRO

Solid Waste Revenue Fund

Schedule of Revenues and Expenditures - Budget (Non-GAAP Budgetary Basis) and Actual, Continued

For the year ended June 30, 1999

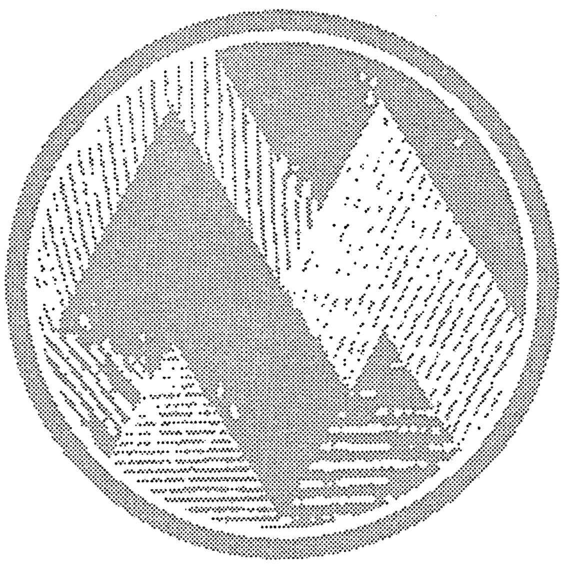
	Budget	Actual	Variance favorable (unfavorable)
Revenues under expenditures	$ (16,144,909)	(4,088,137)	12,056,772
Other financing sources (uses):			
Operating transfers in:			
Rehabilitation and Enhancement Fund	38,342	38,342	-
Operating transfers out	(3,725,845)	(3,590,015)	135,830
Total other financing sources (uses)	(3,687,503)	(3,551,673)	135,830
Revenues and other sources under expenditures and other uses	(19,832,412)	(7,639,810)	12,192,602
Beginning fund balance available for appropriation - July 1, 1998	48,441,013	48,459,407	18,394
Unappropriated ending fund balance - June 30, 1999	$ 28,608,601	40,819,597	12,210,996

METRO

Reconciliation of Solid Waste Enterprise Fund Revenues
and Expenditures (Budgetary Basis) to Combined
Statement of Revenues, Expenses and Changes
in Retained Earnings (GAAP Basis)

For the year ended June 30, 1999

Excess of revenues and other financing sources under expenditures and other financing uses on a budgetary basis	$ (7,639,810)
Budget requirements not qualifying as expenses under GAAP:	
Prepaid items	6,417,486
Payment of post-closure liability	126,204
Fixed assets additions	2,807,314
Principal and interest payments on bonds	2,293,036
Additional revenues (expenses) required by GAAP:	
Change in the fair value of investments	(33,309)
Depreciation and amortization	(1,267,161)
Amortization of bond accretion, discount and costs	(843,110)
Vacation benefits	(91,094)
Accrued interest on bonds	(376,849)
Net income presented in combined statement of revenues, expenses and changes in retained earnings	$ 1,392,707



Internal Service Funds

Building Management Fund

This fund accounts for revenues and expenses related to the management of Metro's headquarters facility and parking structure. Principal sources of revenue are investment income and charges for services to user funds. Expenses primarily consist of maintenance, utilities and professional services costs. This fund consists of two budgetary funds (Building Management Fund and General Revenue Bond Fund - Building Management) that are combined as one Internal Service Fund to be in accordance with generally accepted accounting principles.

Support Services Fund

This fund accounts for central services provided to other Metro operating units. These central services consist of Administrative Services, Office of General Counsel, Office of Citizen Involvement, and Office of the Auditor. Primary sources of revenue are investment income and charges for services to user funds, established through a cost allocation plan that distributes the central services costs based upon the benefit received.

Risk Management Fund

This fund accounts for risk management and self-insurance programs performed for other organizational units within Metro. Primary revenues are charges for services to user funds and investment income. Primary expenses are insurance premiums, claims costs and studies related to insurance issues.

METRO

Internal Service Funds

Combining Balance Sheet

June 30, 1999

Assets	Building Management Fund	Support Services Fund	Risk Management Fund	Total
Current assets:				
Equity in internal cash and investment pool	$ 1,293,030	2,038,540	7,655,037	10,986,607
Receivables (net of allowance for uncollectibles):				
Trade	6,497	-	-	6,497
Other	-	2,117	-	2,117
Interest	12,999	22,543	75,217	110,759
Other assets	-	1,619	2,500	4,119
Total current assets	1,312,526	2,064,819	7,732,754	11,110,099
Restricted assets:				
Investments	2,354,753	-	-	2,354,753
Fixed assets, net	17,943,104	2,184,634	17,099	20,144,837
Total assets	$ 21,610,383	4,249,453	7,749,853	33,609,689
Liabilities and Fund Equity (Deficit)				
Current liabilities:				
Accounts payable	$ 49,877	196,017	55,317	301,211
Salaries, withholdings and payroll taxes payable	11,115	289,101	11,059	311,275
Accrued self-insurance claims	-	-	669,181	669,181
Bonds payable within one year	570,000	-	-	570,000
Accrued interest payable	514,877	-	-	514,877
Other liabilities	-	22,569	1,688	24,257
Total current liabilities	1,145,869	507,687	737,245	2,390,801
Noncurrent liabilities:				
Revenue bonds payable (net of unamortized discount and deferred amount on refunding)	21,369,033	-	-	21,369,033
Loans payable	207,765	-	-	207,765
Obligations under capital leases	-	183,658	-	183,658
Liability for compensated absences	-	367,774	-	367,774
Total liabilities	22,722,667	1,059,119	737,245	24,519,031
Fund equity (deficit):				
Retained earnings (deficit)	(1,112,284)	3,190,334	7,012,608	9,090,658
Total fund equity (deficit)	(1,112,284)	3,190,334	7,012,608	9,090,658
Total liabilities and fund equity (deficit)	$ 21,610,383	4,249,453	7,749,853	33,609,689

METRO

Internal Service Funds

Combining Statement of Revenues, Expenses and Changes in Retained Earnings

For the year ended June 30, 1999

	Building Management Fund	Support Services Fund	Risk Management Fund	Total
Operating revenues:				
Charges for services	$ 2,514,124	7,712,341	3,793,298	14,019,763
Miscellaneous	31,016	7,564	4,384	42,964
Total operating revenues	2,545,140	7,719,905	3,797,682	14,062,727
Operating expenses:				
Payroll and fringe benefits	207,965	5,404,546	242,586	5,855,097
Depreciation and amortization	651,354	412,010	6,811	1,070,175
Payments in lieu of rent	-	593,511	-	593,511
Insurance expense	-	27,093	3,618,501	3,645,594
Claims expense	-	-	(89,036)	(89,036)
Purchased professional/technical services	70,739	-	-	70,739
Payments to other governments	-	242,802	-	242,802
Other materials and services	427,869	1,299,375	45,624	1,772,868
Total operating expenses	1,357,927	7,979,337	3,824,486	13,161,750
Operating income (loss)	1,187,213	(259,432)	(26,804)	900,977
Non-operating revenues (expenses):				
Investment income	184,606	94,470	418,020	697,096
Interest expense	(1,366,042)	(8,450)	-	(1,374,492)
Total non-operating revenues (expenses)	(1,181,436)	86,020	418,020	(677,396)
Income (loss) before operating transfers	5,777	(173,412)	391,216	223,581
Operating transfers in	40,000	540,000	-	580,000
Operating transfers out	-	(469,218)	(340,000)	(809,218)
Net income (loss)	45,777	(102,630)	51,216	(5,637)
Retained earnings (deficit) - July 1, 1998	(1,158,061)	3,292,964	6,961,392	9,096,295
Retained earnings (deficit) - June 30, 1999	$ (1,112,284)	3,190,334	7,012,608	9,090,658

METRO

Internal Service Funds

Combining Statement of Cash Flows

For the year ended June 30, 1999

	Building Management Fund	Support Services Fund	Risk Management Fund	Total
Cash flows from operating activities:				
Cash receipts from customers	$ 454,753	-	-	454,753
Cash receipts from quasi-external transactions	2,097,511	7,412,956	3,793,298	13,303,765
Other operating cash receipts	31,016	320,830	4,384	356,230
Cash payments to suppliers for goods and services	(493,400)	(1,707,692)	(3,613,101)	(5,814,193)
Cash payments for claims	-	-	(385,031)	(385,031)
Cash payments to other governments	-	(242,802)	-	(242,802)
Cash payments to employees for services	(210,313)	(5,145,779)	(250,420)	(5,606,512)
Cash payments for quasi-external transactions	-	(620,604)	-	(620,604)
Net cash provided by (used in) operating activities	1,879,567	16,909	(450,870)	1,445,606
Cash flows from noncapital financing activities:				
Transfer from other funds	40,000	540,000	-	580,000
Transfer to other funds	-	(469,218)	(340,000)	(809,218)
Net cash provided by (used in) noncapital financing activities	40,000	70,782	(340,000)	(229,218)
Cash flows from capital and related financing activities:				
Principal payment on revenue bonds	(545,000)	-	-	(545,000)
Interest payments	(1,264,432)	7,069	-	(1,257,363)
Acquisition and construction of capital assets	(16,739)	(188,668)	(4,945)	(210,352)
Principal payments on loans	(12,356)	-	-	(12,356)
Principal payments on capital leases	-	(82,942)	-	(82,942)
Net cash used in capital and related financing activities	(1,838,527)	(264,541)	(4,945)	(2,108,013)
Cash flows from investing activities:				
Investment income	184,966	94,514	451,286	730,766
Proceeds from sale of investments	2,639,445	-	-	2,639,445
Purchase of investments	(2,635,700)	-	-	(2,635,700)
Net cash provided by investing activities	188,711	94,514	451,286	734,511
Net increase (decrease) in cash and cash equivalents	269,751	(82,336)	(344,529)	(157,114)
Cash and cash equivalents at beginning of year	1,023,279	2,120,876	7,999,566	11,143,721
Cash and cash equivalents at end of year	$ 1,293,030	2,038,540	7,655,037	10,986,607

(Continued)

METRO

Internal Service Funds

Combining Statement of Cash Flows, Continued

For the year ended June 30, 1999

	Building Management Fund	Support Services Fund	Risk Management Fund	Total
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:				
Operating income (loss)	$ 1,187,213	(259,432)	(26,804)	900,977
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:				
Depreciation and amortization	651,354	412,010	6,811	1,070,175
Change in assets and liabilities:				
Trade/other accounts receivable	38,140	11,497	-	49,637
Other assets	-	44,018	-	44,018
Accounts payable	5,207	(460,283)	49,336	(405,740)
Salaries, withholdings and payroll taxes payable/compensated absences	(2,347)	261,340	(7,834)	251,159
Accrued self-insurance claims	-	-	(474,067)	(474,067)
Other liabilities	-	7,759	1,688	9,447
Total adjustments	692,354	276,341	(424,066)	544,629
Net cash provided by (used in) operating activities	$ 1,879,567	16,909	(450,870)	1,445,606
Non-cash investing, capital, and financing activities:				
Borrowing under capital lease	-	105,850	-	105,850

METRO

Building Management Fund

Schedule of Revenues and Expenditures - Budget (Non-GAAP Budgetary Basis) and Actual

For the year ended June 30, 1999

	Budget	Actual	Variance favorable (unfavorable)
Revenues:			
Charges for services:			
Rentals	$ 54,215	28,151	(26,064)
Parking fees	460,577	388,226	(72,351)
Investment income	62,473	50,970	(11,503)
Miscellaneous	-	31,253	31,253
Total revenues	577,265	498,600	(78,665)
Expenditures:			
Personal services	223,115	207,965	15,150
Materials and services	573,280	528,791	44,489
Capital outlay	22,500	16,739	5,761
Contingency	72,755	-	72,755
Total expenditures	891,650	753,495	138,155
Revenues under expenditures	(314,385)	(254,895)	59,490
Other financing sources (uses):			
Operating transfers in:			
General Fund	313,955	313,955	-
Planning Fund	606,560	590,183	(16,377)
Regional Parks Fund	139,997	139,997	-
Open Spaces Fund	68,765	68,765	-
Solid Waste Revenue Fund	385,267	385,267	-
Support Services Fund	633,511	633,511	-
Smith and Bybee Lakes Trust Fund	5,833	5,833	-
Operating transfers out	(1,715,368)	(1,686,605)	28,763
Total other financing sources (uses)	438,520	450,906	12,386
Revenues and other sources over expenditures and other uses	124,135	196,011	71,876
Beginning fund balance available for appropriation - July 1, 1998	955,964	988,496	32,532
Unappropriated ending fund balance - June 30, 1999	$ 1,080,099	1,184,507	104,408

METRO

General Revenue Bond Fund - Building Management

Schedule of Revenues and Expenditures - Budget (Non-GAAP Budgetary Basis) and Actual

For the year ended June 30, 1999

	Budget	Actual	Variance favorable (unfavorable)
Revenues:			
Investment income	$ 121,640	129,633	7,993
Total revenues	121,640	129,633	7,993
Expenditures:			
Construction account:			
Capital outlay	26,375	-	26,375
Debt service account:			
Debt service	1,791,605	1,791,605	-
Contingency	584,565	-	584,565
Total expenditures	2,402,545	1,791,605	610,940
Revenues under expenditures	(2,280,905)	(1,661,972)	618,933
Other financing sources:			
Operating transfers in:			
Building Management Fund	1,715,368	1,686,605	(28,763)
Risk Management Fund	100,000	-	(100,000)
Total other financing sources	1,815,368	1,686,605	(128,763)
Revenues and other sources over (under) expenditures	(465,537)	24,633	490,170
Beginning fund balance available for appropriation - July 1, 1998	2,354,557	2,388,331	33,774
Unappropriated ending fund balance - June 30, 1999	$ 1,889,020	2,412,964	523,944

METRO

Support Services Fund

Schedule of Revenues and Expenditures - Budget (Non-GAAP Budgetary Basis) and Actual

For the year ended June 30, 1999

	Budget	Actual	Variance favorable (unfavorable)
Revenues:			
Charges for services	$ 1,211,743	1,059,438	(152,305)
Investment income	59,336	96,958	37,622
Miscellaneous	10,000	7,564	(2,436)
Total revenues	1,281,079	1,163,960	(117,119)
Expenditures:			
Administrative services:			
Personal services	4,395,358	4,158,102	237,256
Materials and services	1,547,406	1,297,319	250,087
Capital outlay	424,779	188,668	236,111
Debt service	128,979	91,392	37,587
Total administrative services	6,496,522	5,735,481	761,041
Office of general counsel:			
Operating expenses	755,526	749,444	6,082
Total office of general counsel	755,526	749,444	6,082
Office of citizen involvement:			
Operating expenses	67,320	60,081	7,239
Total office of citizen involvement	67,320	60,081	7,239
Office of the auditor:			
Operating expenses	617,578	588,489	29,089
Total office of the auditor	617,578	588,489	29,089
Contingency	87,448	-	87,448
Total expenditures	8,024,394	7,133,495	890,899

(Continued)

METRO

Support Services Fund

Schedule of Revenues and Expenditures - Budget (Non-GAAP Budgetary Basis) and Actual, Continued

For the year ended June 30, 1999

	Budget	Actual	Variance favorable (unfavorable)
Revenues under expenditures	$ (6,743,315)	(5,969,535)	773,780
Other financing sources (uses):			
Operating transfers in:			
General Fund	790,809	790,809	-
Zoo Operating Fund	1,235,935	1,235,935	-
Washington Park Parking Lot Fund	10,854	-	(10,854)
Planning Fund	1,644,529	1,611,360	(33,169)
Regional Parks Fund	504,135	471,209	(32,926)
Open Spaces Fund	405,846	407,892	2,046
Solid Waste Revenue Fund	2,316,104	2,316,619	515
Risk Management Fund	340,000	340,000	-
Smith and Bybee Lakes Trust Fund	19,079	19,079	-
Operating transfers out	(1,099,398)	(1,089,822)	9,576
Total other financing sources (uses)	6,167,893	6,103,081	(64,812)
Revenues and other sources over (under) expenditures and other uses	(575,422)	133,546	708,968
Beginning fund balance available for appropriation - July 1, 1998	933,425	1,401,518	468,093
Unappropriated ending fund balance - June 30, 1999	$ 358,003	1,535,064	1,177,061

METRO

Risk Management Fund

Schedule of Revenues and Expenditures - Budget (Non-GAAP Budgetary Basis) and Actual

For the year ended June 30, 1999

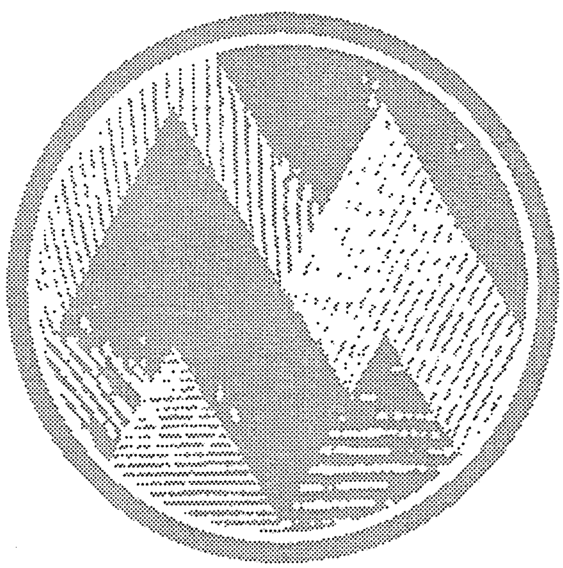
	Budget	Actual	Variance favorable (unfavorable)
Revenues:			
State grants	$ 10,000	-	(10,000)
Charges for services	4,157,505	3,437,565	(719,940)
Investment income	460,000	427,358	(32,642)
Miscellaneous	-	4,384	4,384
Total revenues	4,627,505	3,869,307	(758,198)
Expenditures:			
Personal services	251,383	242,586	8,797
Materials and services	5,098,560	3,575,089	1,523,471
Capital outlay	15,099	4,945	10,154
Contingency	200,000	-	200,000
Total expenditures	5,565,042	3,822,620	1,742,422
Revenues over (under) expenditures	(937,537)	46,687	984,224
Other financing sources (uses):			
Operating transfers in:			
General Fund	8,284	8,284	-
Zoo Operating Fund	160,769	160,769	-
Planning Fund	31,047	31,047	-
Regional Parks Fund	17,967	17,967	-
Open Spaces Fund	3,794	3,794	-
Solid Waste Revenue Fund	106,030	106,030	-
Support Services Fund	27,093	27,093	-
Smith and Bybee Lakes Trust Fund	749	749	-
Operating transfers out	(440,000)	(340,000)	100,000
Total other financing sources (uses)	(84,267)	15,733	100,000
Revenues and other sources over (under) expenditures and other uses	(1,021,804)	62,420	1,084,224
Beginning fund balance available for appropriation - July 1, 1998	7,185,772	6,903,469	(282,303)
Unappropriated ending fund balance - June 30, 1999	$ 6,163,968	6,965,889	801,921

METRO

Reconciliation of Internal Service Funds Revenues and Expenditures (Budgetary Basis) to Combining Statement of Revenues, Expenses and Changes in Retained Earnings (GAAP Basis)

For the year ended June 30, 1999

	Building Management Fund	Support Services Fund	Risk Management Fund	Total
Excess of revenues and other financing sources over expenditures and other financing uses on a budgetary basis:				
Building Management Fund	$ 196,011	-	-	196,011
General Revenue Bond Fund - Building Management	24,633	-	-	24,633
Support Services Fund	-	133,546	-	133,546
Risk Management Fund	-	-	62,420	62,420
Budget requirements not qualifying as expenses under GAAP:				
Fixed assets additions	16,739	188,668	4,945	210,352
Loan payments	12,356	-	-	12,356
Principal payments on capital leases	-	82,942	-	82,942
Principal and interest payments on bonds	1,068,961	-	-	1,068,961
Additional revenues (expenses) required by GAAP:				
Change in the fair value of investments	4,002	(2,488)	(9,338)	(7,824)
Depreciation and amortization	(651,354)	(412,010)	(6,811)	(1,070,175)
Amortization of bond discount and costs	(110,694)	-	-	(110,694)
Vacation benefits	-	(93,288)	-	(93,288)
Accrued interest on bonds	(514,877)	-	-	(514,877)
Net income (loss) presented in combining statement of revenues, expenses and changes in retained earnings	$ 45,777	(102,630)	51,216	(5,637)



Fiduciary Funds

Expendable Trust Funds

Rehabilitation and Enhancement Fund

This fund accounts for funds received and expenditures for rehabilitation and enhancement of the area in and around various solid waste disposal facilities. Primary resources are rehabilitation and enhancement fees and investment income. Expenditures are for planning and implementation of rehabilitation and enhancement programs in the area.

Smith and Bybee Lakes Trust Fund

This fund accounts for the implementation of the Smith and Bybee Lakes Management Plan, managed by Metro's Regional Parks and Greenspaces Department. The City and Metro adopted a Natural Resources Plan for Smith and Bybee Lakes in prior years. The primary resource is investment income.

Regional Parks Trust Fund

This fund accounts for four activities dedicated to: construction of a nature center, construction of a concert stage, funding the care and maintenance of a family plot and the purchase of flowers for the pioneer cemeteries. The primary resources are investment income and charges for services.

Deferred Compensation Fund

This fund accounts for assets held for employees in accordance with the provisions of an Internal Revenue Code Section 401(k) deferred compensation plan. Additions are employee contributions, based upon a percentage of participants' wages, and investment income. No budget is adopted for this fund.

METRO

Expendable Trust Funds

Combining Balance Sheet

June 30, 1999

Assets	Rehabilitation and Enhancement Fund	Smith and Bybee Lakes Trust Fund	Regional Parks Trust Fund	Deferred Compensation Fund	Total
Equity in internal cash and investment pool	$ 2,298,478	3,577,815	418,653	-	6,294,946
Investments				22,990,980	22,990,980
Other receivables	80,000	56	-	433,123	513,179
Interest receivable	22,374	35,162	4,101	-	61,637
Other assets	-	-	-	91,075	91,075
Total assets	$ 2,400,852	3,613,033	422,754	23,515,178	29,951,817
Liabilities and Fund Balances					
Liabilities:					
Accounts payable	$ 106,283	14,107	-	-	120,390
Salaries, withholdings and payroll taxes payable	-	4,936	-	-	4,936
Deferred revenue	80,000	-	-	-	80,000
Total liabilities	186,283	19,043	-	-	205,326
Fund balances:					
Reserved for deferred compensation benefits	-	-	-	23,515,178	23,515,178
Unreserved	2,214,569	3,593,990	422,754	-	6,231,313
Total fund balances	2,214,569	3,593,990	422,754	23,515,178	29,746,491
Total liabilities and fund balances	$ 2,400,852	3,613,033	422,754	23,515,178	29,951,817

METRO

Expendable Trust Funds

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

For the year ended June 30, 1999

	Rehabilitation and Enhancement Fund	Smith and Bybee Lakes Trust Fund	Regional Parks Trust Fund	Deferred Compensation Fund	Totals
Revenues:					
Government contributions	$ -	10,000	-	-	10,000
Charges for services	40,000	989	7,947	-	48,936
Rehabilitation, enhancement and end use fees	421,233	517	-	-	421,750
Investment income	118,984	191,978	21,645	3,744,546	4,077,153
Contributions and donations	-	-	5,080	-	5,080
Employee contributions	-	-	-	1,506,507	1,506,507
Miscellaneous	-	37	-	-	37
Total revenues	580,217	203,521	34,672	5,251,053	6,069,463
Expenditures:					
Recreation and development	-	-	4,000	-	4,000
Rehabilitation and enhancement	584,939	194,841	-	-	779,780
Deferred compensation	-	-	-	1,352,176	1,352,176
Capital outlay	-	1,200	-	-	1,200
Total expenditures	584,939	196,041	4,000	1,352,176	2,137,156
Revenues over (under) expenditures	(4,722)	7,480	30,672	3,898,877	3,932,307
Fund balances - July 1, 1998	2,219,291	3,586,510	392,082	19,616,301	25,814,184
Fund balances - June 30, 1999	$ 2,214,569	3,593,990	422,754	23,515,178	29,746,491

METRO

Rehabilitation and Enhancement Fund

Schedule of Revenues and Expenditures -
Budget (Non-GAAP Budgetary Basis) and Actual

For the year ended June 30, 1999

	Budget	Actual	Variance favorable (unfavorable)
Revenues:			
Charges for services	$ 40,000	40,000	-
Investment income	116,335	121,789	5,454
Total revenues	156,335	161,789	5,454
Expenditures:			
North Portland Enhancement Account:			
Materials and services	91,950	126,086	(34,136)
Oregon City Enhancement Account:			
Materials and services	194,205	181,542	12,663
Metro Central Enhancement Account:			
Materials and services	351,587	190,525	161,062
Forest Grove Enhancement Account:			
Materials and services	48,148	48,444	(296)
Total materials and services	685,890	546,597	139,293
Contingency	300,000	-	300,000
Total expenditures	985,890	546,597	439,293
Revenues under expenditures	(829,555)	(384,808)	444,747
Other financing sources (uses):			
Operating transfers in:			
Solid Waste Revenue Fund	500,334	421,233	(79,101)
Operating transfers out	(38,342)	(38,342)	-
Total other financing sources (uses)	461,992	382,891	(79,101)
Revenues and other sources under expenditures and other uses	(367,563)	(1,917)	365,646
Beginning fund balance available for appropriation - July 1, 1998	2,115,197	2,208,575	93,378
Unappropriated ending fund balance - June 30, 1999	$ 1,747,634	2,206,658	459,024

METRO

Smith and Bybee Lakes Trust Fund

Schedule of Revenues and Expenditures - Budget (Non-GAAP Budgetary Basis) and Actual

For the year ended June 30, 1999

	Budget	Actual	Variance favorable (unfavorable)
Revenues:			
Federal grants	$ 100,000	-	(100,000)
Government contributions	-	10,000	10,000
Charges for services	350	989	639
Investment income	194,592	196,344	1,752
Miscellaneous	-	37	37
Total revenues	294,942	207,370	(87,572)
Expenditures:			
Personal services	91,454	87,987	3,467
Materials and services	176,646	70,193	106,453
Capital outlay	20,000	1,200	18,800
Contingency	35,265	-	35,265
Total expenditures	323,365	159,380	163,985
Revenues over (under) expenditures	(28,423)	47,990	76,413
Other financing sources (uses):			
Operating transfers in:			
Solid Waste Revenue Fund	25,545	517	(25,028)
Operating transfers out	(36,661)	(36,661)	-
Total other financing sources (uses)	(11,116)	(36,144)	(25,028)
Revenues and other sources over (under) expenditures and other uses	(39,539)	11,846	51,385
Beginning fund balance available for appropriation - July 1, 1998	3,591,716	3,569,551	(22,165)
Unappropriated ending fund balance - June 30, 1999	$ 3,552,177	3,581,397	29,220

METRO

Regional Parks Trust Fund

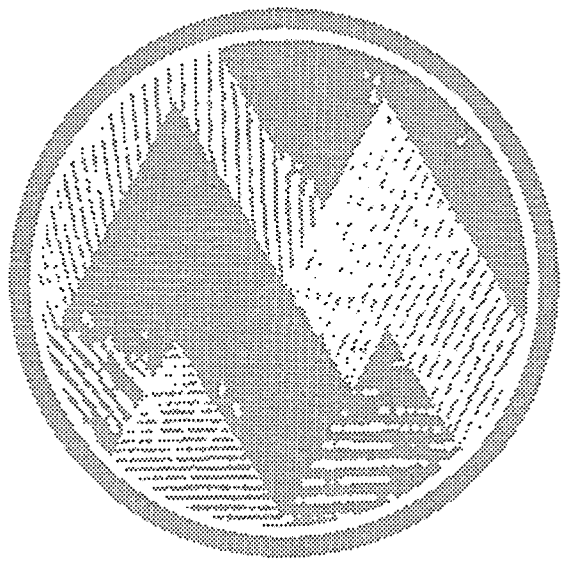
Schedule of Revenues and Expenditures - Budget (Non-GAAP Budgetary Basis) and Actual

For the year ended June 30, 1999

	Budget	Actual	Variance favorable (unfavorable)
Revenues:			
Tibbets Flowers:			
Investment income	$ 52	58	6
Blue Lake Concert Stage:			
Investment income	4,979	5,304	325
Oxbow Park Nature Center:			
Charges for services	10,000	7,947	(2,053)
Investment income	11,529	12,069	540
Contributions and donations	-	5,080	5,080
Willamina Farmer Family Plot:			
Investment income	4,506	4,725	219
Total revenues	31,066	35,183	4,117
Expenditures:			
Materials and services	30,000	-	30,000
Total expenditures	30,000	-	30,000
Revenues over expenditures	1,066	35,183	34,117
Other financing uses:			
Operating transfers out	(4,000)	(4,000)	-
Revenues over (under) expenditures and other uses	(2,934)	31,183	34,117
Beginning fund balance available for appropriation - July 1, 1998	383,059	390,335	7,276
Unappropriated ending fund balance - June 30, 1999	$ 380,125	421,518	41,393

General Fixed Assets Account Group

This account group accounts for Metro's investment in fixed assets not recorded in Proprietary Fund types.



METRO

Schedule of General Fixed Assets by Source

June 30, 1999

General fixed assets:	
Land	$ 82,019,716
Buildings and exhibits	60,931,157
Improvements	5,905,515
Equipment	4,384,894
Office furniture/equipment	2,999,953
Railroad equipment and facilities	2,015,542
Total general fixed assets	$ 158,256,777
Investment in general fixed assets from:	
General Fund	$ 241,225
Special Revenue Funds:	
Planning Fund	2,900,197
Regional Parks Fund	8,612,504
Zoo Fund	37,985,749
Capital Projects Funds:	
Zoo Capital Fund	33,050,414
Open Spaces Fund	75,095,401
Smith and Bybee Lakes Trust Fund	371,287
Total investment in general fixed assets	$ 158,256,777

METRO

Schedule of General Fixed Assets by Function and Activity

June 30, 1999

	Land	Buildings and exhibits
General Fund	$ -	1,180
Special Revenue Funds:		
Planning Fund	-	1,350
Regional Parks Fund	4,898,075	2,977,326
Zoo Fund	2,573,450	26,418,886
Capital Projects Funds:		
Zoo Capital Fund	-	31,526,319
Open Spaces Fund	74,231,622	651
Smith and Bybee Lakes Trust Fund	316,569	5,445
Total	$ 82,019,716	60,931,157

Note: Due to the dynamic nature of Metro's operations and organization, further detail as provided on the schedule of changes in general fixed assets by function and activity would not be meaningful. Therefore, general fixed assets have been summarized by function and activity as shown above.

Improvements	Equipment	Office furniture/ equipment	Railroad equipment and facilities	Total
1,695	13,262	225,088	-	241,225
-	1,380,229	1,518,618	-	2,900,197
622,288	57,104	57,711	-	8,612,504
4,083,552	1,931,080	1,114,651	1,864,130	37,985,749
365,124	989,922	17,637	151,412	33,050,414
796,004	6,304	60,820	-	75,095,401
36,852	6,993	5,428	-	371,287
5,905,515	4,384,894	2,999,953	2,015,542	158,256,777

METRO

Schedule of Changes in General Fixed Assets by Function and Activity

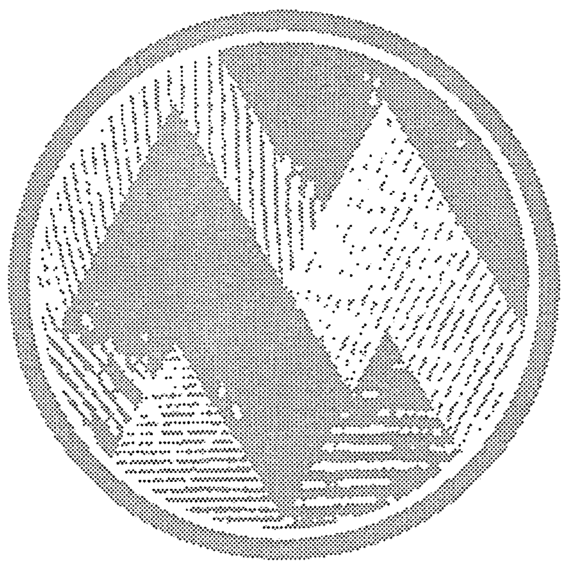
For the year ended June 30, 1999

	Land	Buildings and exhibits
Balances, July 1, 1998	$ 59,084,750	49,886,476
Add expenditures from:		
General government	-	-
Regional planning and development	-	-
Recreation and development (1)	22,934,966	19,003
Zoo operations and development:		
Administration	-	-
Animal management	-	-
Facilities management	-	142,463
Educational services	-	-
Marketing	-	-
Visitor services	-	-
Design services	-	119,792
General Revenue Bond Fund - Zoo	-	-
Total zoo operations and development	-	262,255
Zoo Capital Projects Fund	-	11,014,813
Trust operations	-	-
Total additions	22,934,966	11,296,071
Subtract adjustments:		
Disposals	-	(251,390)
Total adjustments	-	(251,390)
Balances, June 30, 1999	$ 82,019,716	60,931,157

(1) Certain expenditures of the fund are attributable to the local share portion of the bond measure and are therefore not capitalized.

(2) Includes $653,514 in donated capital assets.

Improvements	Equipment	Office furniture/ equipment	Railroad equipment and facilities	Total
4,887,435	3,475,848	2,793,107	1,860,916	121,988,532
-	707	13,721	-	14,428
-	-	82,006	-	82,006
880,322	18,708	10,327	-	23,863,326 (2)
-	-	45,268	-	45,268
-	30,972	-	-	30,972
16,638	78,208	2,744	3,704	243,757
-	-	5,419	-	5,419
-	-	6,135	-	6,135
6,489	42,276	26,780	-	75,545
-	-	14,225	-	134,017
198,296	-	-	-	198,296
221,423	151,456	100,571	3,704	739,409
-	738,175	221	150,922	11,904,131
1,200	-	-	-	1,200
1,102,945	909,046	206,846	154,626	36,604,500
(84,865)	-	-	-	(336,255)
(84,865)	-	-	-	(336,255)
5,905,515	4,384,894	2,999,953	2,015,542	158,256,777



Component Unit Financial Schedules

Enterprise Fund

MERC Fund

This fund accounts for revenues and expenses related to the management and operation of facilities managed by MERC, including the OCC, Expo Center, PCPA, and Civic Stadium. The principal sources of revenue are local government shared revenue and charges for services. Expenses consist primarily of management, marketing and operation costs. This fund consists of three budgetary funds (MERC Operating Fund, Convention Center Project Capital Fund, and MERC Pooled Capital Fund) that are combined as one Enterprise Fund to be in accordance with generally accepted accounting principles.

METRO

MERC Operating Fund

Schedule of Revenues and Expenditures -
Budget (Non-GAAP Budgetary Basis) and Actual

For the year ended June 30, 1999

	Budget	Actual	Variance favorable (unfavorable)
Revenues:			
Local government shared revenues	$ 5,314,000	5,314,000	-
Government contributions	600,000	600,000	-
Charges for services:			
Admission fees	1,300,800	937,229	(363,571)
Rentals	4,422,929	4,226,829	(196,100)
Food service revenue	8,772,635	7,739,674	(1,032,961)
Utility services	1,254,619	1,388,525	133,906
Parking fees	1,796,648	1,734,057	(62,591)
Reimbursed services	2,227,408	1,901,440	(325,968)
Miscellaneous charges for services	1,099,347	801,517	(297,830)
Investment income	567,540	682,088	114,548
Contributions and donations	25,000	605,000	580,000
Miscellaneous	-	(30,583)	(30,583)
Total revenues	27,380,926	25,899,776	(1,481,150)
Expenditures:			
Operating expenses	26,392,664	24,032,924	2,359,740
Capital outlay	2,311,992	1,406,933	905,059
Debt service	732,114	723,077	9,037
Contingency	1,010,709	-	1,010,709
Total expenditures	30,447,479	26,162,934	4,284,545
Revenues under expenditures	(3,066,553)	(263,158)	2,803,395
Other financing sources:			
Operating transfers in:			
MERC Pooled Capital Fund	512,000	125,000	(387,000)
Revenues and other sources under expenditures	(2,554,553)	(138,158)	2,416,395
Beginning fund balance available for appropriation - July 1, 1998	10,536,789	11,585,873	1,049,084
Unappropriated ending fund balance - June 30, 1999	$ 7,982,236	11,447,715	3,465,479

Note: Certain capital outlay expenditures become fixed assets of the City under terms of an intergovernmental agreement, and therefore are recorded as "contributions to other governments" expense on a GAAP basis.

METRO

Convention Center Project Capital Fund

Schedule of Revenues and Expenditures - Budget (Non-GAAP Budgetary Basis) and Actual

For the year ended June 30, 1999

	Budget	Actual	Variance favorable (unfavorable)
Revenues:			
Government contributions	$ 2,000,000	-	(2,000,000)
Total revenues	2,000,000	-	(2,000,000)
Expenditures:			
Capital outlay	2,000,000	-	2,000,000
Total expenditures	2,000,000	-	2,000,000
Revenues over expenditures	-	-	-
Beginning fund balance available for appropriation - July 1, 1998	-	-	-
Unappropriated ending fund balance - June 30, 1999	$ -	-	-

METRO

MERC Pooled Capital Fund

Schedule of Revenues and Expenditures - Budget (Non-GAAP Budgetary Basis) and Actual

For the year ended June 30, 1999

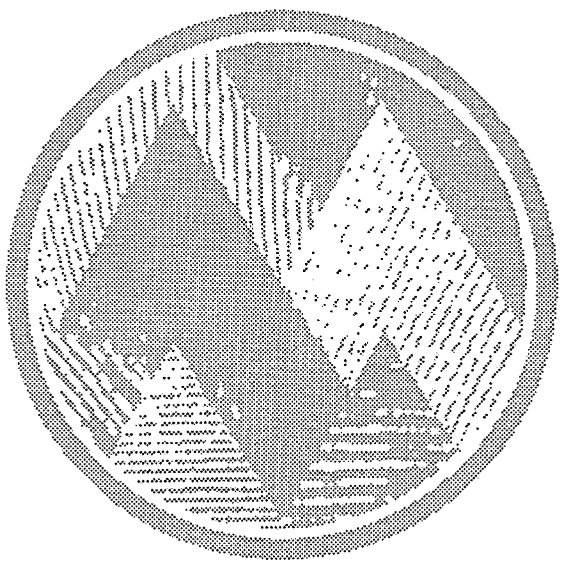
	Budget	Actual	Variance favorable (unfavorable)
Revenues:			
Local government shared revenues	$ 1,462,211	504,897	(957,314)
Investment income	245,447	190,393	(55,054)
Total revenues	1,707,658	695,290	(1,012,368)
Expenditures:			
Capital outlay	-	-	-
Total expenditures	-	-	-
Revenues over expenditures	1,707,658	695,290	(1,012,368)
Other financing uses:			
Operating transfers out	(512,000)	(125,000)	387,000
Revenues over expenditures and other uses	1,195,658	570,290	(625,368)
Beginning fund balance available for appropriation - July 1, 1998	4,462,678	3,485,697	(976,981)
Unappropriated ending fund balance - June 30, 1999	$ 5,658,336	4,055,987	(1,602,349)

METRO

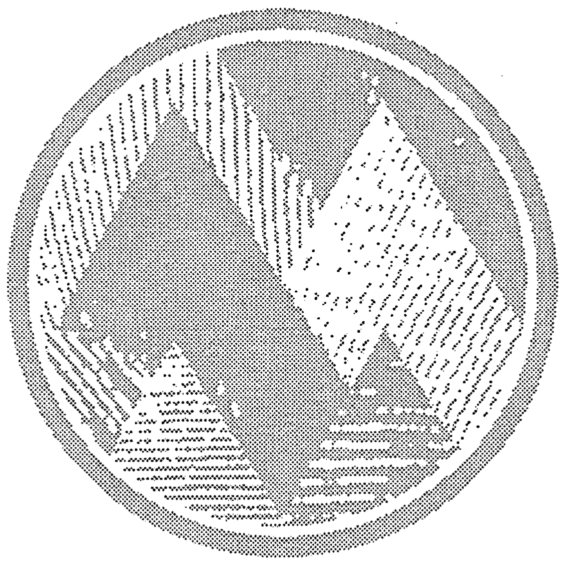
Reconciliation of MERC Enterprise Fund Revenues and Expenditures (Budgetary Basis) to Combined Statement of Revenues, Expenses and Changes in Retained Earnings (GAAP Basis)

For the year ended June 30, 1999

Excess of revenues and other financing sources over (under) expenditures and other financing uses on a budgetary basis:	
MERC Operating Fund	$ (138,158)
Convention Center Project Capital Fund	-
MERC Pooled Capital Fund	570,290
Budget requirements not qualifying as expenses under GAAP:	
Fixed assets additions	534,025
Principal payments on capital leases	177,698
Principal and interest payments on bonds	419,637
Additional revenues (expenses) required by GAAP:	
Change in the fair value of investments	(15,156)
Depreciation and amortization	(3,479,126)
Vacation benefits	(85,742)
Accrued interest on bonds	(15,454)
Net loss presented in combined statement of revenues, expenses and changes in retained earnings	$ (2,031,986)



Other Financial Schedules



Schedule of Property Tax Transactions and Outstanding Receivable

For the year ended June 30, 1999

Fiscal Year	Original levy or balance of receivable July 1, 1998	Add (deduct) Discounts	Adjustments	Interest	Collections	Property taxes receivable June 30, 1999
1998-99	$ 26,225,874	(628,672)	(23,538)	10,654	(24,710,874)	873,444
1997-98	828,686	-	4,060	21,871	(518,506)	336,111
1996-97	267,786	-	(12,458)	12,830	(133,520)	134,638
1995-96	152,087	-	(5,902)	18,838	(120,461)	44,562
1994-95	21,057	-	(571)	3,365	(19,126)	4,725
1993-94 & prior	16,530	-	(1,344)	1,930	(7,175)	9,941
	$ 27,512,020	(628,672)	(39,753)	69,488	(25,509,662)	1,403,421

Reconciliation to property tax revenue presented in combined financial statements:	Zoo Operating Fund	Debt Service Fund	Total
Cash collections July 1, 1998 to June 30, 1999	$ 6,732,759	18,776,903	25,509,662
Accrual of receivables:			
July 1, 1998 to August 31, 1998	(53,059)	(136,630)	(189,689)
July 1, 1999 to August 31, 1999	41,556	113,759	155,315
Timing difference between county tax collector and county treasurer	(1,176)	(6,528)	(7,704)
Payments in lieu of property taxes	17,208	47,984	65,192
Property tax revenue per combined statement of revenues, expenditures and changes in fund balances	$ 6,737,288	18,795,488	25,532,776
Property taxes receivable June 30, 1999	$ 374,936	1,028,485	1,403,421
Deferred tax revenues June 30, 1999	$ 333,380	914,726	1,248,106

METRO

Schedule of Future Debt Service Requirements
General Long-Term Debt Account Group

June 30, 1999

	Open Spaces Program General Obligation Bonds					
	1995 Series A		1995 Series B		1995 Series C	
Year of maturity	Principal	Interest	Principal	Interest	Principal	Interest
1999-00	$ 2,520,000	3,583,616	423,755	76,245	1,790,000	2,656,512
2000-01	2,655,000	3,447,773	403,200	96,800	1,905,000	2,545,663
2001-02	2,795,000	3,304,710	383,625	116,375	2,020,000	2,427,912
2002-03	2,945,000	3,157,716	363,060	136,940	2,145,000	2,302,963
2003-04	3,105,000	2,998,704	343,920	156,080	2,275,000	2,170,362
2004-05	3,270,000	2,831,566	325,155	174,845	2,405,000	2,046,798
2005-06	3,435,000	2,663,941	308,037	193,963	2,515,000	1,932,380
2006-07	3,615,000	2,485,884	288,945	211,055	2,640,000	1,809,917
2007-08	3,805,000	2,293,820	271,585	228,415	2,770,000	1,678,693
2008-09	4,015,000	2,086,538	254,775	245,225	2,910,000	1,538,077
2009-10	4,235,000	1,864,791	238,540	261,460	3,065,000	1,387,170
2010-11	4,475,000	1,627,384	223,356	277,644	3,225,000	1,225,969
2011-12	4,730,000	1,371,881	-	-	3,910,000	1,040,288
2012-13	5,005,000	1,096,799	-	-	4,120,000	829,500
2013-14	5,300,000	801,781	-	-	4,340,000	607,425
2014-15	5,610,000	491,625	-	-	4,575,000	373,406
2015-16	5,935,000	166,922	-	-	4,825,000	126,656
2016-17	-	-	-	-	-	-
Total	$ 67,450,000	36,275,451	3,827,953	2,175,047	51,435,000	26,699,691

Convention Center 1992 Series A General Obligation Refunding Bonds		Metro Washington Park Zoo Oregon Project 1996 Series A General Obligation Bonds		Total	
Principal	Interest	Principal	Interest	Principal	Interest
2,375,000	3,252,235	940,000	1,484,760	8,048,755	11,053,368
2,530,000	3,113,958	990,000	1,437,760	8,483,200	10,641,954
2,700,000	2,964,237	1,040,000	1,388,260	8,938,625	10,201,494
2,890,000	2,800,385	1,095,000	1,336,260	9,438,060	9,734,264
3,085,000	2,624,135	1,150,000	1,281,510	9,958,920	9,230,791
3,305,000	2,432,165	1,215,000	1,212,510	10,520,155	8,697,884
3,535,000	2,224,252	1,275,000	1,139,610	11,068,037	8,154,146
3,790,000	1,999,844	1,345,000	1,063,110	11,678,945	7,569,810
4,060,000	1,758,750	1,415,000	982,410	12,321,585	6,942,088
4,345,000	1,500,625	1,490,000	908,830	13,014,775	6,279,295
4,660,000	1,224,219	1,570,000	830,605	13,768,540	5,568,245
4,990,000	927,812	1,660,000	748,180	14,573,356	4,806,989
5,355,000	610,313	1,755,000	660,200	15,750,000	3,682,682
5,730,000	270,000	1,850,000	565,869	16,705,000	2,762,168
-	-	1,955,000	466,431	11,595,000	1,875,637
-	-	2,070,000	361,350	12,255,000	1,226,381
-	-	2,185,000	247,500	12,945,000	541,078
-	-	2,315,000	127,325	2,315,000	127,325
53,350,000	27,702,930	27,315,000	16,242,480	203,377,953	109,095,599

METRO

Schedule of Future Debt Service Requirements
Proprietary Funds

June 30, 1999

	Solid Waste Enterprise Fund Revenue Bonds				
	Metro Central Transfer Station 1990 Series A		Metro Central Transfer Station 1993 Series A Refunding		Metro\Riedel Compost Facility 1990 Series 1 (1)
Year of maturity	Principal	Interest	Principal	Interest	Principal
1999-00	$ 1,840,000	95,979	140,000	594,916	-
2000-01	-	-	1,110,000	568,041	-
2001-02	1,066,120	-	2,125,000	497,427	-
2002-03	2,140,000	-	75,000	448,951	-
2003-04	2,140,000	-	80,000	445,347	-
2004-05	2,140,000	-	85,000	441,426	-
2005-06	2,140,000	-	90,000	437,181	-
2006-07	2,140,000	-	90,000	432,726	-
2007-08	1,070,000	-	95,000	428,054	-
2008-09	-	-	2,240,000	368,231	-
2009-10	-	-	2,360,000	250,356	-
2010-11	-	-	2,475,000	126,459	-
2011-12	-	-	1,230,000	31,519	5,000,000
2012-13	-	-	-	-	-
2013-14	-	-	-	-	-
2014-15	-	-	-	-	-
2015-16	-	-	-	-	-
2016-17	-	-	-	-	-
2017-18	-	-	-	-	-
2018-19	-	-	-	-	-
2019-20	-	-	-	-	-
2020-21	-	-	-	-	-
2021-22	-	-	-	-	-
2022-23	-	-	-	-	-
Total	$ 14,676,120	95,979	12,195,000	5,070,634	5,000,000

(1) As interest rates on this issue are variable, interest payments over the life of the bonds are not determinable. Interest payments for 1999-00 are estimated to total $350,000 at 7.0%.

(2) Principal amount of the bonds is reported on the balance sheet net of unamortized issuance costs, discounts, accretion and deferred amounts on refunding.

(3) Principal amount of the bonds is reported on the balance sheet net of unamortized issuance costs, discounts and deferred amounts on refunding.

(4) The terms of the bond allow Metro to repay debt service on any principal or interest payment date. The balloon payment shown on this schedule is adjusted each year for such prepayments.

Total Enterprise Fund		Internal Service Funds General Revenue Refunding Bonds Metro Regional Center Project 1993 Series A		Component Unit Expo Center 1996 Series A Revenue Bond (4)	
Principal (2)	Interest	Principal (3)	Interest	Principal	Interest
1,980,000	690,895	570,000	1,224,020	80,000	127,325
1,110,000	568,041	590,000	1,199,650	85,000	122,787
3,191,120	497,427	615,000	1,173,435	90,000	117,975
2,215,000	448,951	640,000	1,145,505	95,000	112,888
2,220,000	445,347	670,000	1,115,695	100,000	107,525
2,225,000	441,426	705,000	1,083,718	105,000	101,887
2,230,000	437,181	735,000	1,049,510	1,130,877	95,975
2,230,000	432,726	770,000	1,013,005		-
1,165,000	428,054	810,000	973,890	-	-
2,240,000	368,231	845,000	932,515	-	-
2,360,000	250,356	890,000	889,140	-	-
2,475,000	126,459	935,000	843,515	-	-
6,230,000	31,519	980,000	795,150	-	-
-	-	1,030,000	743,895	-	-
-	-	1,080,000	690,090	-	-
-	-	1,140,000	632,625	-	-
-	-	1,195,000	571,331	-	-
-	-	1,255,000	507,019	-	-
-	-	1,320,000	439,425	-	-
-	-	1,390,000	368,287	-	-
-	-	1,460,000	293,475	-	-
-	-	1,540,000	214,725	-	-
-	-	1,620,000	131,775	-	-
-	-	1,700,000	44,625	-	-
31,871,120	5,166,613	24,485,000	18,076,020	1,685,877	786,362

METRO

Schedule of Long-Term Bonded Debt Transactions
General Long-Term Debt Account Group

For the year ended June 30, 1999

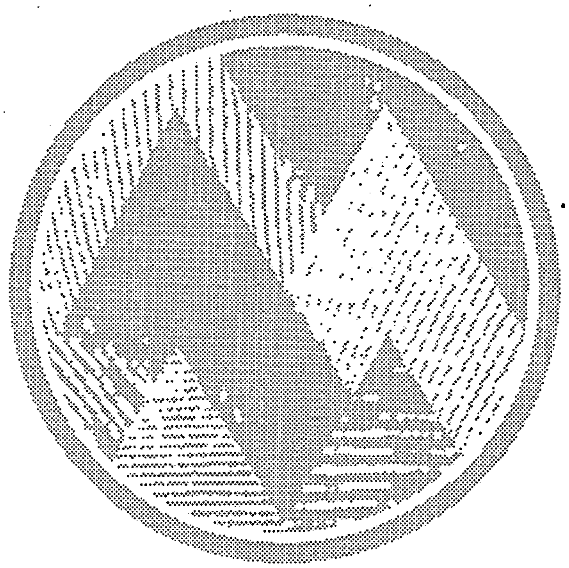
	Principal				
	Outstanding July 1, 1998	Issued During Year	Matured and Paid During Year	Outstanding June 30, 1999	Interest Expense
Open Spaces Program 1995 Series A General Obligation Bonds with interest rates from 5.0 to 5.75%, final maturity 9/1/15	$ 69,820,000	-	2,370,000	67,450,000	3,732,716
Open Spaces Program 1995 Series B General Obligation Bonds with interest rates from 4.3 to 5.5%, final maturity 9/1/10	4,272,003	-	444,050	3,827,953	55,950
Open Spaces Program 1995 Series C General Obligation Bonds with interest rates from 4.6 to 6.0%, final maturity 9/1/15	53,125,000	-	1,690,000	51,435,000	2,760,913
Convention Center 1992 Series A General Obligation Refunding Bonds with interest rates from 5.65 to 6.25%, final maturity 1/1/13	55,580,000	-	2,230,000	53,350,000	3,379,383
Metro Washington Park Zoo Oregon Project 1996 Series A General Obligation Bonds with interest rates from 5.0 to 6.0%, final maturity 1/15/17	28,205,000	-	890,000	27,315,000	1,529,260
Total General Long-Term Debt Account Group	$ 211,002,003	-	7,624,050	203,377,953	11,458,222

METRO

Schedule of Long-Term Bonded Debt Transactions
Proprietary Funds

For the year ended June 30, 1999

		Principal				
		Outstanding July 1, 1998	Issued During Year	Matured and Paid During Year	Outstanding June 30, 1999	Interest Expense
ENTERPRISE FUNDS:						
SOLID WASTE FUND:						
Metro Central Transfer Station 1990 Series A Solid Waste Disposal Project Revenue Bonds with interest rates from 6.85 to 7.1%, final maturity 7/1/07	$	16,396,120	-	1,720,000	14,676,120	215,431
Metro Central Transfer Station 1993 Series A Solid Waste Disposal Refunding Revenue Bonds with interest rates from 4.3 to 5.125%, final maturity 7/1/11		12,330,000	-	135,000	12,195,000	600,627
Metro\Riedel Compost Facility 1990 Series 1 Solid Waste Disposal Project Revenue Bonds with variable interest rates, final maturity 7/1/11		5,000,000	-	-	5,000,000	173,685
Total Enterprise Funds		33,726,120	-	1,855,000	31,871,120	989,743
INTERNAL SERVICE FUNDS:						
BUILDING MANAGEMENT FUND: Metro Regional Center Project 1993 Series A General Revenue Refunding Bonds with interest rates from 4.1% to 5.25%, final maturity 8/1/22		25,030,000	-	545,000	24,485,000	1,246,605
Total Internal Service Funds		25,030,000	-	545,000	24,485,000	1,246,605
COMPONENT UNIT:						
MERC FUND: Expo Center Project Expo Center 1996 Series A Revenue Bond with an interest rate of 5.5%, final maturity 5/1/06		2,086,389	-	400,512	1,685,877	121,612
Total Component Unit	$	2,086,389	-	400,512	1,685,877	121,612



Required Supplementary Information

Year 2000 Matters (Unaudited)

The Year 2000 issue is the result of computer programs being written using two digit data fields rather than four to define the applicable year. Certain of Metro's (or third party resource providers' and customers') computer systems and other equipment could recognize a date using "00" as the year 1900 rather than the year 2000. This could result in a system failure or miscalculations causing disruptions of operations, including, but not limited to, a temporary inability to process transactions, send invoices or engage in similar normal business activities. As of June 30, 1999, Metro had made progress in its Year 2000 Project as follows:

Awareness Stage - Metro has completed a project plan for dealing with the Year 2000 issue and communicated the plan, *"Metro Year 2000 Readiness Disclosure Plan"* and the required tasks to key staff. Applications and vendor software, computer hardware and other equipment will be considered Year 2000 compliant when certified for compliance, in writing, by the vendor or when tested.

Assessment Stage - In June 1998, Metro began an intensive assessment of all hardware and software at both Metro headquarters and its remote sites, such as the Oregon Zoo and its solid waste transfer stations. Metro has completed an inventory of all of its hardware systems. Embedded systems, such as copiers and elevators, were found to be compliant in the majority of cases. Systems that were found to be non-compliant have been upgraded, replaced or procedures have been developed to avoid operational problems. Metro also completed inventories of all existing software, both for enterprise systems and desktop applications. Metro determined which software was not compliant and would need to be replaced and software that was not compliant that could be brought into compliance with a simple fix or patch. As part of this inventory of systems, Metro has also determined which systems are deemed mission critical and require priority compliance efforts. Metro continues to monitor communications from hardware and software vendors to identify any additional areas that may need to be addressed.

Metro initiated formal communication with others with whom it does significant business to determine and document the extent to which Metro is vulnerable to those third parties' failure to resolve their own Year 2000 issue. Written documentation from these third parties is being placed on file to document their Year 2000 readiness.

Remediation Stage - At June 30, 1999 Metro had completed the process of replacing all of its central financial software and hardware systems to *PeopleSoft* version 6.0 systems, except for the Accounts Receivable and Billing systems. These remaining two related systems were replaced with *PeopleSoft* version 6.0 applications on October 10, 1999. Metro has capitalized approximately $2.1 million on this project and has contract commitments of approximately $40,000 for completion of this work, and additional work in new financial applications.

Other mission critical systems are in various stages of remediation, including vendor identification of compliance issues, application of corrections from vendors, and solicitation of replacement costs. Commitments of approximately $160,000 exist for this work as of June 30, 1999.

Validation/Testing Stage – Metro's *Information Management Services Division* and MERC Administration, working closely with their departmental customers, are validating that the patches have been applied to those software packages requiring simple fixes. Metro is also applying patches that continue to be released by some of its primary hardware and software vendors on a weekly basis. Metro has completed desktop testing of all IBM PC-compatible machines through a rollover and leap year test. Those machines that failed, whether personal computers or servers, have been or will soon be replaced. For certain systems, Metro is relying on the vendor's written certification statement. Metro has reached 99% completion of its *"Metro Year 2000 Readiness Disclosure Plan."* Finally, to account for any Year 2000 anomalies that may occur in spite of Metro's best efforts, Metro has established an action team that will be testing all of its critical systems on Saturday, January 1, 2000.

The commitments and costs of the project and the date on which Metro believes it will complete the Year 2000 Project modifications are based on management's best estimates, which were derived utilizing numerous assumptions of future events, including the continued availability of certain resources, third party modification plans and other factors. However, there can be no guarantee that these estimates will be achieved and actual results could differ materially from those anticipated. Specific factors that might cause such material differences include, but are not limited to, the availability and cost of personnel trained in this area, the ability to locate and correct all relevant computer codes, and similar uncertainties.

Statistical Section

METRO

General Governmental Expenditures by Function (1)

for the last ten fiscal years
Unaudited

Fiscal year ended June 30,	General government operations	Zoo operations and development	Regional planning and development	Recreation and development	Capital outlay	Debt service	Total (memorandum only) - Primary Government	Component Unit MERC (2) Spectator facility operations	Total (memorandum only) - Reporting Entity
1990	$ 3,899,527	$ 8,169,670	$ 3,543,630	$ -	$ 2,158,811	$ 5,719,253	$ 23,490,891	$ -	$ 23,490,891
1991	1,872,627	9,218,973	3,879,619	-	4,470,591	5,687,278	25,129,088	15,452,425	40,581,513
1992	2,142,607	10,266,942	5,796,234	-	1,159,207	3,438,664	22,803,654	17,111,836	39,915,490
1993	2,367,244	11,104,303	6,402,875	-	1,699,506	3,924,401	25,498,329	17,099,020	42,597,349
1994	2,591,901	12,826,339	9,518,156	2,213,582	3,555,543	5,530,803	36,236,324	6,809,282	43,045,606
1995	2,395,330	12,895,793	11,069,401	4,396,155	813,877	5,542,640	37,113,196	6,403,481	43,516,677
1996	1,962,173	13,038,699	11,100,770	9,474,072	14,137,150	10,910,449	60,623,313	8,585,781	69,209,094
1997	2,005,267	13,343,436	14,816,259	8,329,607	34,364,694	17,348,950	90,208,213	9,292,517	99,500,730
1998	2,524,722	13,866,883	14,690,941	8,918,822	35,126,447	19,469,296	94,597,111	-	94,597,111
1999	2,695,154	16,036,401	16,979,166	8,221,900	35,949,786	19,915,021	99,797,428	-	99,797,428

(1) Includes general, special revenue, debt service and capital projects funds.

(2) In fiscal year 1991, through an agreement with the City, the component unit began accounting for the operations of spectator facilities. In fiscal year 1994, the operations of the Coliseum were returned to the City. In fiscal year 1998, component unit operations became proprietary activities.

Source: Metro Administrative Services Department, Accounting Services Division.

METRO

General Governmental Revenues by Source (1)

for the last ten fiscal years
Unaudited

Fiscal year ended June 30,		Property taxes (2)		Excise taxes		Charges for services		Grants		Contributions and donations		Miscellaneous and investment income		Total (memorandum only) - Primary Government	Component Unit - MERC (3)				Total (memorandum only) - Reporting Entity
																Charges for services		Miscellaneous and investment income	
1990	$	11,413,372	$	-	$	5,833,732	$	1,236,704	$	387,780	$	2,106,464	$	20,978,052	$	-	$	-	$ 20,978,052
1991		10,420,978		2,867,095		5,909,120		1,415,251		1,164,588		1,717,549		23,494,581		15,896,998		810,312	40,201,891
1992		10,546,738		3,727,826		7,354,496		2,329,330		605,404		1,947,506		26,511,300		17,024,129		581,706	44,117,135
1993		11,115,246		4,527,103		6,034,700		3,177,735		422,536		2,052,533		27,329,853		16,578,875		697,884	44,606,612
1994		10,947,908		5,451,649		8,246,568		5,456,814		801,254		3,664,621		34,568,814		4,881,002		270,214	39,720,030
1995		11,831,729		5,999,125		10,505,971		7,903,594		739,756		2,823,237		39,803,412		3,078,589		3,276,470	46,158,471
1996		24,666,369		6,996,251		11,149,521		7,758,523		786,188		9,391,255		60,748,107		4,890,258		3,767,790	69,406,155
1997		22,244,865		7,228,573		12,041,342		10,257,407		797,206		13,138,730		65,708,123		4,696,575		3,983,440	74,388,138
1998		25,672,117		7,621,699		10,999,508		10,037,351		806,277		9,867,083		65,004,035		-		-	65,004,035
1999		25,532,776		7,405,463		12,571,986		12,104,342		1,337,092		7,435,230		66,386,889		-		-	66,386,889

(1) Includes general, special revenue, debt service, and capital projects funds.

(2) Property taxes for the fiscal years 1990-1991 include proceeds of a serial tax levy for Zoo capital projects. This levy was replaced in 1992 by a zoo operations tax base approved by voters. Property tax revenues include the following tax levies and the year they began: Convention Center General Obligation Bonds, 1989; Open Spaces General Obligation Bonds, 1996; Zoo Oregon Project General Obligation Bonds, 1997.

(3) In fiscal year 1991, through an agreement with the City, the component unit began accounting for the operations of spectator facilities. In fiscal year 1994, the operations of the Coliseum were returned to the City. In fiscal year 1998, component unit operations became proprietary activities.

Source: Metro Administrative Services Department, Accounting Services Division.

METRO

Property Tax Levies and Collections (1)

for the last ten fiscal years
Unaudited

Fiscal year ended June 30,	Taxes levied by assessor	Current tax collections	Current tax collections as percent of current levy	Delinquent tax collections	Total tax collections	Total collections as percent of current levy	Uncollected taxes	Uncollected taxes as percent of current levy
1990	$ 11,530,322	$ 10,613,062	92.0 %	$ 727,701	$ 11,340,763	98.4 %	$ 1,307,930	11.3 %
1991	10,487,897	9,638,561	91.9	702,537	10,341,098	98.6	1,271,539	12.1
1992	10,708,959	9,800,374	91.5	724,454	10,524,828	98.3	1,192,753	11.1
1993	11,175,896	10,410,370	93.2	687,374	11,097,744	99.3	1,081,433	9.7
1994	10,948,828	10,297,297	94.0	635,431	10,932,728	99.9	934,970	8.5
1995	11,918,746	11,203,099	94.0	616,290	11,819,389	99.2	765,012	6.4
1996	25,499,278	24,061,489	94.4	462,400	24,523,889	96.2	1,098,856	4.3
1997	22,796,884	21,521,746	94.4	675,849	22,197,595	97.4	1,151,230	5.0
1998	26,103,411	24,848,112	95.2	720,013	25,568,125	97.9	1,286,146	4.9
1999	26,225,874	24,710,874	94.2	798,788	25,509,662	97.3	1,403,421	5.4

(1) Property tax levies provide additional operating revenue for the Oregon Zoo and debt service for Metro's general obligation bonds. Property taxes for the fiscal years 1990-1991 include proceeds of a serial tax levy for Zoo capital projects. This levy was replaced in 1992 by a zoo operations tax base approved by voters. Property tax revenues include the following tax levies and the year they began: Convention Center General Obligation Bonds, 1989; Open Spaces General Obligation Bonds, 1996; Zoo Oregon Project General Obligation Bonds, 1997.

Source: Metro Administrative Services Department, Accounting Services Division.

METRO

Assessed and Real Market Value of Taxable Property

for the last ten fiscal years (1)
Unaudited

Fiscal year ended June 30,	Real property		Personal property		Public utility property		Total		Ratio of total assessed to total real market value
	Assessed value	Real market value	Assessed value	Real market value	Assessed value	Real market value	Assessed value	Real market value	
1990	$ 31,600,773,885	$ 31,600,773,885	$ 2,085,976,029	$ 2,085,976,029	$ 1,922,140,042	$ 1,922,140,042	$ 35,608,889,956	$ 35,608,889,956	100.0 %
1991	34,579,722,545	34,579,722,545	2,323,901,306	2,323,901,306	2,033,712,947	2,033,712,947	38,937,336,798	38,937,336,798	100.0
1992	42,210,510,690	42,210,510,690	2,284,113,649	2,284,113,649	1,957,428,693	1,957,428,693	46,452,053,032	46,452,053,032	100.0
1993	45,423,405,654	45,423,405,654	2,595,268,658	2,595,268,658	2,043,094,320	2,043,094,320	50,061,768,632	50,061,768,632	100.0
1994	49,677,571,088	49,677,571,088	2,514,868,176	2,514,868,176	2,184,301,817	2,184,301,817	54,376,741,081	54,376,741,081	100.0
1995	56,193,560,012	56,193,560,012	2,612,727,562	2,612,727,562	2,173,333,580	2,173,333,580	60,979,621,154	60,979,621,154	100.0
1996	63,459,767,323	63,459,767,323	2,904,185,194	2,904,185,194	2,382,468,737	2,382,468,737	68,746,421,254	68,746,421,254	100.0
1997	72,014,495,367	72,014,495,367	3,104,873,132	3,104,873,132	2,602,116,760	2,602,116,760	77,721,485,259	77,721,485,259	100.0
1998	60,387,931,053	80,283,641,966	3,675,943,675	3,974,916,593	2,647,959,728	3,061,987,922	66,711,834,456	87,320,546,481	76.4
1999	64,954,925,132	86,686,731,219	4,015,295,303	4,218,503,324	2,965,312,065	3,252,510,350	71,935,532,500	94,157,744,893	76.4

(1) In fiscal year 1997-98, the State of Oregon was converted from a levy based to a rate based property tax system with reductions in assessed values.

Source: The Departments of Assessment and Taxation for Multnomah, Clackamas and Washington Counties.

METRO

Property Tax Rates - Direct and Overlapping Governments (1)
for the last ten fiscal years
Unaudited

		Dollars per $1,000 Assessed Value									
		1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
Direct Government											
Metro	$	0.33	0.27	0.24	0.23	0.21	0.20	0.37	0.29	0.39	0.36
Overlapping Government											
Multnomah County											
Portland School District #1J	$	16.93	16.77	15.35	14.91	14.81	14.10	13.25	13.37	6.67	6.32
City of Portland		8.70	8.80	7.96	7.34	7.22	6.61	6.36	6.07	6.78	6.83
Multnomah County		4.52	4.97	4.49	4.29	4.30	4.08	3.88	4.23	4.89	5.39
Reynolds School District #7		15.03	14.14	14.15	12.81	11.89	10.94	10.20	10.40	5.88	5.49
Multnomah County ESD		1.50	1.47	1.35	1.31	1.28	1.22	1.14	1.08	0.46	0.46
Parkrose School District #3		11.83	11.50	11.54	11.54	11.50	11.72	12.37	11.53	6.68	6.49
David Douglas School District #40		17.55	17.43	15.93	15.86	16.12	14.98	13.82	13.12	5.66	5.53
Portland Community College		0.94	0.91	0.81	0.90	0.87	0.82	0.79	0.73	0.37	0.35
City of Gresham		5.55	4.99	4.62	4.44	4.96	4.68	4.50	3.71	4.04	3.95
Gresham-Barlow School District #10JT		10.05	9.46	8.82	9.67	9.02	14.17	13.01	13.15	7.29	7.31
Washington County											
Beaverton School District #48J	$	16.67	15.82	13.44	14.16	13.39	12.41	12.07	11.41	6.16	6.17
Tigard-Tualatin School District #23J		14.54	14.60	16.73	15.95	15.58	13.88	14.01	12.85	6.60	6.65
Washington County		2.02	2.95	2.88	2.84	2.60	2.48	2.34	2.51	3.48	3.85
Hillsboro School District #1J (2)		10.57	10.28	8.58	8.43	7.49	7.79	7.02	13.11	7.09	7.00
Tualatin Valley Fire and Rescue		2.52	2.41	1.99	1.98	1.88	1.76	1.66	1.52	1.54	1.53
City of Beaverton		4.56	4.67	4.05	4.06	4.03	4.16	4.01	2.58	3.38	3.66
Forest Grove School District #15		19.93	18.76	18.83	19.06	18.05	17.01	16.71	15.02	8.27	8.08
Hillsboro Elem. School District #7 (2)		9.05	9.11	9.59	9.64	9.00	8.59	7.81	-	-	-
Tualatin Hills Park & Rec. District		1.32	1.27	1.39	1.29	1.27	1.30	1.41	1.37	1.53	1.53
Sherwood School District #88J		17.48	16.34	13.90	12.82	11.90	12.30	11.10	10.87	7.47	7.32
Clackamas County											
North Clackamas School Dist. #12	$	14.95	16.14	13.26	12.74	11.93	10.59	9.55	8.47	5.23	5.36
Lake Oswego School District #7J		13.92	14.37	13.34	12.90	13.36	13.37	11.57	11.25	6.83	6.23
Clackamas County		2.20	2.44	2.39	2.40	3.72	3.28	3.94	4.31	6.09	6.10
West Linn-Wilsonville School District #3J		16.40	15.35	15.73	15.05	13.49	13.15	11.78	11.17	6.76	8.23
Oregon City School District #62		18.33	18.47	16.89	16.04	15.57	14.03	12.75	11.49	4.97	4.96
Clackamas Community College		1.31	1.39	1.39	1.39	1.34	1.25	1.17	1.09	0.63	0.62
City of Lake Oswego		5.30	5.03	5.05	4.89	4.49	4.40	4.29	4.23	5.75	5.82
Clackamas County ESD		1.07	1.04	1.31	0.87	0.85	0.79	0.76	0.71	0.37	0.37
Clackamas Rural Fire Protect. Dist. #1		3.38	3.67	2.55	2.45	2.90	2.67	2.52	2.30	2.44	2.48
Canby School District #86		9.16	8.33	8.87	7.76	7.49	12.69	11.56	10.77	6.93	6.80

(1) Metro is a regional government that covers a three county area and has 222 overlapping governments. Listed above are the 10 governments with the largest tax levies from each county. In fiscal year 1997-98, the State of Oregon was converted from a levy based to a rate based property tax system with reductions in assessed values.

(2) In 1997, the Hillsboro High School District merged with the Hillsboro Elementary School District and several other smaller districts to become Hillsboro School District #1J.

Sources: Municipal Debt Advisory Commission, State of Oregon; and the Departments of Assessment and Taxation for Multnomah, Clackamas and Washington Counties.

METRO

Computation of Legal Debt Margin

June 30, 1999
Unaudited

True cash value		$ 94,157,744,893
Debt limit (1)		10.0%
		9,415,774,489
Gross bonded debt principal	$ 261,419,950	
Less legal deductions from debt limit:		
Metro Central Transfer Station Project, Solid Waste Disposal System Revenue Bonds	(14,676,120)	
Metro Central Transfer Station Project, Solid Waste Disposal System Refunding Revenue Bonds	(12,195,000)	
Metro/Reidel Oregon Compost Company, Inc. Project, Waste Disposal Project Revenue Bonds	(5,000,000)	
Metro Regional Center Project 1993 Series A General Revenue Refunding Bonds	(24,485,000)	
Metro Expo Center Series 1996 Revenue Bonds	(1,685,877)	
Net debt subject to 10% limitation		203,377,953
Legal debt margin		$ 9,212,396,536

(1) ORS 268.520 sets a debt limit of 10% of the true cash value of all taxable property within the district.

Sources: The Departments of Assessment and Taxation for Multnomah, Clackamas and Washington Counties.
The Treasury Department, State of Oregon.
Metro Administrative Services Department, Accounting Services Division.

METRO

Ratio of Net General Bonded Debt to Assessed Value and Net Bonded Debt Per Capita

for the last ten fiscal years
Unaudited

Fiscal year ended June 30.	Population	Assessed valuation	Net bonded debt	Ratio of net bonded debt to assessed valuation	Net bonded debt per capita
1990	1,174,291	$ 35,608,889,956	$ 62,464,705	0.18 %	$ 53.19
1991	1,217,200	38,937,336,798	61,690,143	0.16	50.68
1992	1,239,500	46,452,053,032	64,165,753	0.14	51.77
1993	1,268,000	50,061,768,632	61,525,261	0.12	48.52
1994	1,285,000	54,376,741,081	60,218,305	0.11	46.86
1995	1,305,100	60,979,621,154	58,386,119	0.10	44.74
1996	1,325,700	68,746,421,254	182,165,720	0.26	137.41
1997	1,341,700	77,721,485,259	205,846,342	0.26	153.42
1998	1,363,100	66,711,834,456	198,196,159	0.30	145.40
1999	N/A *	71,935,532,500	190,321,671	0.26	N/A *

* Not available

Sources: The Departments of Assessment and Taxation for Multnomah, Clackamas and Washington Counties.
Data Resource Center, Metro Planning Department

METRO

Ratio of Annual Debt Service Expenditures for General Bonded Debt to Total General Governmental Expenditures

for the last ten fiscal years
Unaudited

Fiscal year ended June 30.	Principal	Interest	Total debt service (3)	General Governmental Expenditures: Primary government(1)(3)	General Governmental Expenditures: Component unit (2)	General Governmental Expenditures: Total	Ratio of debt service to total general governmental expenditures
1990	$ 1,045,000	$ 4,674,253	$ 5,719,253	$ 23,490,891	$ -	$ 23,490,891	24.35 %
1991	1,110,000	4,577,278	5,687,278	25,129,088	15,452,425	40,581,513	14.01
1992	1,175,000	2,263,664	3,438,664	22,803,654	17,111,836	39,915,490	8.61
1993	820,000	3,104,401	3,924,401	25,498,329	17,099,020	42,597,349	9.21
1994	1,670,000	3,860,803	5,530,803	36,236,324	6,809,282	43,045,606	12.85
1995	1,755,000	3,787,640	5,542,640	37,113,196	6,403,481	43,516,677	12.74
1996	1,860,000	6,853,588	8,713,588	60,623,313	8,585,781	69,209,094	12.59
1997	6,073,965	10,557,118	16,631,083	90,208,213	9,292,517	99,500,730	16.71
1998	6,978,955	12,142,400	19,121,355	94,597,111	-	94,597,111	20.21
1999	7,624,050	11,458,222	19,082,272	99,797,428	-	99,797,428	19.12

(1) Includes General, Special Revenue, Debt Service, and Capital Projects Funds.

(2) In fiscal year 1991, through an agreement with the City, the component unit began accounting for the operations of spectator facilities. In fiscal year 1994, the operations of the Coliseum were returned to the City. In fiscal year 1998, component unit operations became proprietary activities.

(3) Beginning fiscal year 1997, the Open Spaces program and its related debt service is included.

Source: Metro Administrative Services Department, Accounting Services Division.

METRO

Schedule of Overlapping Bonded Debt - All Overlapping Governments

June 30, 1999
Unaudited

Overlapping government	Percent within District	Overlapping Gross bonded debt	Overlapping Net direct debt
Clackamas County	73.23 %	$ 428,376	$ 428,376
Mt. Scott Water District 3J	100.00	2,045,000	2,045,000
Oak Lodge Water District 4	100.00	3,150,000	3,150,000
Tri-City Service District	100.00	8,075,000	8,075,000
Oak Lodge RFPD 51	100.00	2,185,000	2,185,000
Oak Lodge RFPD 51 (Res Bond)	100.00	10,000	10,000
Clackamas County SD 3J (West Linn-Wilsonville)	95.37	95,818,239	95,818,239
Clackamas County SD 7J (Lake Oswego)	100.00	15,430,000	15,430,000
Clackamas County SD 12 (N Clackamas)	98.24	109,968,750	109,968,750
Clackamas County SD 115 (Gladstone)	100.00	12,440,000	12,440,000
Clackamas County SD 86 (Canby)	18.02	3,568,217	3,568,217
Multnomah County SD 10J (Damascus-Union Bond)	91.35	2,968,804	2,968,804
Clackamas Community College	72.41	5,637,477	5,637,477
City of Gladstone	100.00	870,000	870,000
City of Lake Oswego	100.00	18,875,000	18,875,000
City of Milwaukie	100.00	4,130,000	4,130,000
City of Oregon City	100.00	4,700,000	4,700,000
City of West Linn	100.00	5,075,000	5,075,000
City of Wilsonville	100.00	5,220,000	4,780,000
Multnomah County	98.66	113,665,934	113,665,934
Port of Portland	90.15	18,033,849	18,033,849
Tri-Metropolitan Transport District	96.39	156,956,559	156,956,559
Multnomah County SD 1J (Portland)	99.44	319,512,761	319,512,761
Multnomah County SD 3 (Parkrose)	100.00	31,570,000	31,570,000
Multnomah County SD 7 (Reynolds)	100.00	27,710,000	27,710,000
Multnomah County SD 28J (Centennial)	100.00	9,974,566	9,974,566
Multnomah County SD 40 (David Douglas)	100.00	16,890,000	16,890,000
Multnomah County SD 51J (Riverdale)	100.00	11,180,000	11,180,000
Multnomah County SD 10JT (Gresham-Barlow)	96.06	31,776,119	31,776,119
Multnomah County SD 10J (Orient 6 Bond)	68.37	1,451,590	1,451,590
Multnomah County SD 10J (Gresham 4 Bond)	99.94	20,018,923	20,018,923
Mount Hood Community College	86.86	1,841,447	1,841,447
Portland Community College	90.85	44,448,447	44,448,447
City of Fairview	100.00	2,665,000	2,650,000
City of Gresham	100.00	9,775,000	9,595,000
City of Portland	100.00	185,286,520	83,264,917
City of Troutdale	100.00	17,522,074	16,982,074

(Continued)

METRO

Schedule of Overlapping Bonded Debt - All Overlapping Governments, Continued

June 30, 1999
Unaudited

Overlapping government	Percent within District	Overlapping Gross bonded debt	Overlapping Net direct debt
City of Wood Village	100.00 %	$ 435,000	$ 435,000
Washington County	92.32	76,456,605	74,067,250
Tualatin Hills Park & Rec. District	99.96	23,015,606	23,015,606
Unified Sewerage Agency	99.42	1,138,351	1,004,135
Tualatin Valley Water District (Metzger Bond)	100.00	2,545,000	2,545,000
Tualatin Valley Water District (Wolf Creek Bond)	99.96	8,216,991	8,216,991
Cornelius RFPD	9.13	21,915	21,915
Forest Grove RFPD	12.48	56,147	56,147
Tualatin Valley Fire & Rescue District	96.66	4,833,175	4,833,175
Washington County RFPD 2	22.70	78,315	78,315
Washington County SD 15 (Forest Grove)	74.56	20,474,698	20,474,698
Washington County SD 23J (Tigard)	99.30	65,053,381	65,053,381
Washington County SD 1J (Hillsboro 7 Bond)	93.01	3,227,332	3,227,332
Washington County SD 48J (Beaverton)	99.80	187,191,820	187,191,820
Washington County SD 88J (Sherwood)	74.29	38,781,424	38,781,424
Washington County SD 1J (Hillsboro)	82.99	58,261,796	58,261,796
Washington County SD 1J (Reedville Bond)	98.06	4,397,978	4,397,978
Washington County SD 1J (Farmington Bond)	0.01	74	74
City of Beaverton	100.00	32,724,000	31,399,000
City of Cornelius	90.94	1,585,300	1,585,300
City of Durham	100.00	980,000	980,000
City of Forest Grove	99.75	5,940,202	5,790,575
City of Hillsboro	99.43	213,774	213,774
City of Sherwood	100.00	8,005,000	7,680,000
City of Tigard	100.00	3,060,000	2,475,000
City of Tualatin	100.00	7,460,000	7,310,000
Clairmont Water District 18	30.30	99,998	-
Clackamas County Service District 1	100.00	1,800,424	-
Totals		$ 1,876,927,958	$ 1,766,772,735

Note: "Gross Bonded Debt" includes all unlimited-tax general obligation bonds and limited-tax general obligation bonds.
"Net Direct Debt" is gross bonded debt less self-supporting unlimited-tax general obligation and self-supporting limited-tax general obligation debt.

Source: The Municipal Debt Advisory Commission, State of Oregon.

METRO

Schedule of Revenue Bond Coverage

for the last ten fiscal years
Unaudited

Fiscal year ended June 30.	Operating revenue (1)	Operating expenses (1)	Non-operating revenue	Net revenue available for debt service	Debt service requirements (2) Principal	Interest	Total	Debt service coverage
1990	$ -	$ -	$ -	$ -	$ -	$ -	$ -	-
1991	40,436,412	36,350,167	3,149,826	7,236,071	-	1,359,423	1,359,423	5.32
1992	50,374,548	47,397,126	1,942,424	4,919,846	560,000	1,631,308	2,191,308	2.25
1993	57,879,969	47,946,220	1,406,271	11,340,020	1,175,000	3,198,317	4,373,317	2.59
1994	60,689,002	51,947,313	1,161,933	9,903,622	1,250,000	2,459,135	3,709,135	2.67
1995	60,834,545	51,189,868	1,787,195	11,431,872	1,720,000	2,517,827	4,237,827	2.70
1996	62,745,659	52,652,667	2,012,027	12,105,019	1,780,000	2,420,528	4,200,528	2.88
1997	65,368,662	51,465,923	2,444,769	16,347,508	1,940,000	2,313,867	4,253,867	3.84
1998	57,975,641	49,869,875	2,776,020	10,881,786	2,110,000	2,195,562	4,305,562	2.53
1999	54,983,545	51,278,736	2,555,557	6,260,366	2,400,000	2,062,663	4,462,663	1.40

(1) Revenue and expense amounts are based upon the full accrual basis of accounting excluding depreciation expense, post-closure costs and dedicated grant money.

(2) Debt service expenditures paid as pass-through debt service activities and payments to escrow agents on advance refundings are not included as a debt service requirement for purposes of this schedule.

Source: Metro Administrative Services Department, Accounting Services Division.

METRO

Demographic Statistics

for the last ten fiscal years
Unaudited

Fiscal year ended June 30,	Population (1)	Per capita income (2)	Portland metropolitan unemployment rate
1990	1,174,291	$ 20,045	4.2 %
1991	1,217,200	20,377	4.8
1992	1,239,500	21,384	6.1
1993	1,268,000	22,378	6.2
1994	1,285,000	23,616	4.3
1995	1,305,100	25,221	3.8
1996	1,325,700	26,728	4.2
1997	1,341,700	N/A *	4.0
1998	1,363,100	N/A *	4.2
1999	N/A *	N/A *	4.5

* Not available

(1) Based upon Portland MSA, consisting of Clackamas, Multnomah and Washington counties.

(2) Region per capita figures consisting of Clackamas, Multnomah and Washington counties in Oregon, and Clark County, Washington.

Sources: Employment Division, State of Oregon.
Data Resource Center, Metro Planning Department

METRO

Construction Permits and Bank Deposits

for the last ten fiscal years
Unaudited

Fiscal year ended June 30,	Construction Permits (1)				Bank deposits (amounts in thousands)
	Non-residential		Residential		
	Buildings	Value	Units	Value	
1990	5,358	$ 540,821,464	17,335	$ 851,994,254	$ 8,653,681
1991	4,521	580,119,349	15,535	888,096,366	11,927,955 (2)
1992	4,811	515,923,478	12,821	748,019,974	13,247,233
1993	5,051	538,864,348	13,750	810,588,925	15,111,868
1994	4,703	503,726,027	15,350	1,036,768,571	13,745,622 (2)
1995	5,154	852,666,707	18,131	1,240,801,818	15,874,867
1996	4,301	892,518,422	17,356	1,302,113,799	16,149,419
1997	N/A	N/A	14,562	1,460,550,509	19,162,656
1998	N/A	N/A	14,907	1,531,962,906	18,032,911
1999	N/A	N/A	13,618	1,447,052,517	19,439,824

(1) Information is for the tri-county area, and is based upon the calendar year end that ended during the fiscal year shown. Non-residential includes commercial, institutional, garages, etc. for both new construction and alteration permits. Beginning in 1997, non-residential figures are not collected by the census, and residential figures do not include alterations/additions.

(2) Information is not available for a large interstate bank with branches in Clackamas, Washington, and Multnomah counties.

Sources: Center for Population Research and Census, Portland State University
State of Oregon Banking Commission.

METRO

Principal Taxpayers Within the District by County
(amounts expressed in thousands)

June 30, 1999
Unaudited

Taxpayer account	Type of business	Assessed valuation	Percent of total valuation
Multnomah County:			
Fujitsu Microelectronics	Electronics	$ 499,924	1.42 %
U. S. West Communications	Telephone utility	407,768	1.15
Portland General Electric Co.	Electric utility	216,420	0.61
Boeing Company	Aircraft manufacturing	181,502	0.51
Pacificorp (PP&L)	Electric utility	179,072	0.51
Alaska Airlines, Inc.	Air travel	127,188	0.36
United Airlines, Inc.	Air travel	114,845	0.33
Delta Airlines, Inc.	Air travel	91,756	0.26
SI-Lloyd Associates	Shopping mall	91,606	0.26
LSI Logic Corp.	Computer Electronics	87,605	0.25
All other taxpayers	-	33,321,331	94.34
	Total	$ 35,319,017	100.00 %
Washington County:			
Intel Corporation	Computer Electronics	$ 382,380	1.68 %
GTE Northwest Incorporated	Telephone utility	277,321	1.22
Portland General Electric Co.	Electric utility	199,342	0.88
Komatsu Silicon America, Inc.	Computer Electronics	197,045	0.87
Northwest Natural Gas Co.	Natural gas utility	136,619	0.60
Nike, Inc.	Athletic apparel	128,584	0.56
Intel Corporation	Computer Electronics	109,273	0.48
Intel Corporation	Computer Electronics	109,273	0.48
Tektronix, Inc.	Computer Electronics	92,545	0.41
Pacific Realty Associates	Real estate	86,224	0.38
All other taxpayers	-	21,035,412	92.44
	Total	$ 22,754,018	100.00 %
Clackamas County:			
Portland General Electric Co.	Electric utility	$ 120,904	0.87 %
Clackamas Association Ltd Partnership	Shopping mall	107,461	0.78
Spieker Properties LP	Real estate	88,835	0.64
Tektronix, Inc.	Computer Electronics	82,890	0.60
U. S. West Communications	Telephone utility	74,605	0.54
Wilmington Trust Co.	Trust Co.	69,996	0.50
Northwest Natural Gas Co.	Natural gas utility	69,387	0.50
Precision Castparts Corp.	Manufacturing	58,274	0.42
Mentor Graphics Corp.	Electronics	55,258	0.40
Smurfit Newsprint Corp.	Paper producer	40,326	0.29
All other taxpayers	-	13,094,562	94.46
	Total	$ 13,862,498	100.00 %

Source: The Departments of Assessment and Taxation for Multnomah, Clackamas and Washington counties.

METRO

Insurance in Force

June 30, 1999
Unaudited

Insurance company	Amount of policy	Type of coverage	Expiration date (1)	Premium
Allendale Insurance Company	$ 285,615,000	"All Risk" property coverage includes a wide range of related coverages including earthquake, flood, and boiler and machinery	June 30, 1999	$ 153,708
Acceptance Insurance Company	1,000,000	Liquor liability coverage	June 30, 1999	3,102
Hartford Insurance Co.	500,000	Crime coverage/employee faithful performance	June 30, 1999	8,144
SAIF Corporation	Statutory	Workers' compensation	June 30, 1999	250,000
Lexington	3,000,000	Excess liability	June 30, 1999	32,725
National Flood Insurance Program	500,000	Flood coverage for Expo	June 30, 1999	1,011
North Pacific Insurance Company	varies	Property, liability coverage for homes owned by Open Spaces Program	June 30, 1999	4,803
Western World Insurance Company	1,000,000	Special use permit for Oxbow Park	June 30, 1999	1,454

(1) Coverage renewed through June 30, 2000

Source: Metro Administrative Services Department, Risk Management Division.

METRO

Summary of Solid Waste Direct Haul Delivery Tonnage

for the last ten calendar years (1)
Unaudited

Calendar year	Metro Owned Facilities	Non-Metro Facilities	Total Direct Haul Tonnage	Revenue Tonnage (2)	Revenue Tons as a percent of Direct Haul Tonnage
1990	842,120	379,121	1,221,241	1,135,273	92.96 %
1991	723,470	399,212	1,122,682	1,071,885	95.48
1992	697,409	399,635	1,097,044	1,035,581	94.40
1993	732,550	410,205	1,142,755	1,060,257	92.78
1994	750,464	434,433	1,184,897	1,062,936	89.71
1995	752,297	512,766	1,265,063	1,113,671	88.03
1996	762,342	589,393	1,351,735	1,186,624	87.79
1997	769,358	665,045	1,434,403	1,256,909	87.63
1998	750,340	693,671	1,444,011	1,240,728	85.92
1999	706,409	739,395	1,445,804	1,260,232	87.16

(1) Information provided is based upon a calendar year. October through December of 1999 have been estimated.

(2) Revenue tonnage is the portion of mixed solid waste on which Metro user fees are levied.

Source: Metro Regional Environmental Management Department.

METRO

Miscellaneous Statistical Data

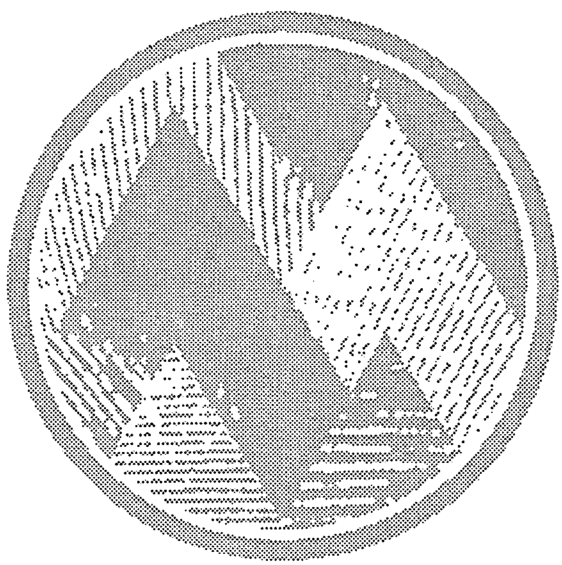
June 30, 1999
Unaudited

Created by Oregon Legislature	1977
Metro Charter passed by voters	November 3, 1992
Metro Charter effective date	January 1, 1993
Form of government:	
Primary Government - Metro	Elected Executive Officer, elected seven member District Council, and elected Auditor
Component Unit - MERC	Seven member appointed Commission
Metro Area - Square miles	461.80
Number of full-time equivalent employees budgeted for fiscal year 1998-99	675.51

Oregon Zoo Attendance for last ten fiscal years ended June 30,	Total Attendance
1990	1,080,342
1991	952,925
1992	1,162,078
1993	977,522
1994	1,104,369
1995	1,151,444
1996	1,052,810
1997	945,013
1998	1,004,795
1999	1,047,279

Ten largest cities in the Metro District at July 1, 1998	Population
Portland	509,610
Gresham	83,595
Beaverton	68,050
Hillsboro	65,110
Tigard	37,200
Lake Oswego	34,280
Oregon City	22,560
West Linn	21,405
Tualatin	21,405
Milwaukie	20,220

Source: Metro Administrative Services Department, Accounting Services Division.
Oregon Zoo.
Data Resource Center, Metro Planning Department.



Audit Comments and Disclosures

AUDIT COMMENTS AND DISCLOSURES REQUIRED BY STATE REGULATIONS

Oregon Administrative Rules 162-10-050 through 162-10-320 incorporated in the Minimum Standards for Audits of Oregon Municipal Corporations, as prescribed by the Secretary of State in cooperation with the Oregon State Board of Accountancy, enumerate the financial statements, schedules, comments and disclosures required in audit reports. The required financial statements and schedules are set forth in the preceding sections of this report. Required comments and disclosures related to our audit of such statements and schedules are set forth on the following pages.

AUDIT COMMENTS AND DISCLOSURES
YEAR ENDED JUNE 30, 1999

I. INTERNAL CONTROL

We have audited the general purpose financial statements of Metro for the year ended June 30, 1999, and have issued our report thereon dated November 19, 1999, which expresses an unqualified opinion on the financial statements.

We conducted our audit in accordance with generally accepted auditing standards, the *Minimum Standards for Audits of Oregon Municipal Corporations*, and *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

In planning and performing our audit of the general purpose financial statements of Metro for the year ended June 30, 1999, we considered its internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the general purpose financial statements and not to provide assurance on Metro's internal control. Our consideration of Metro's internal control would not necessarily disclose all matters in Metro's internal control that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A description of the responsibility of management for establishing and maintaining internal control, and of the objectives and inherent limitations of internal control, is set forth in the attached Appendix, and should be read in conjunction with this report. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving Metro's internal control and its operations that we consider to be material weaknesses as defined above.

II. OTHER COMMENTS AND DISCLOSURES

As part of obtaining reasonable assurance about whether Metro's general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, including provisions of Oregon Revised Statutes, as set forth below, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. Nothing came to our attention that caused us to believe Metro was not in compliance with:

Collateral – The amount and adequacy of collateral pledged by depositories to secure the deposit of public funds.

Indebtedness – The legal requirements related to debt.

Budget – The legal requirements relating to the preparation, adoption, and execution of the annual budget except that materials and services expenditures exceeded appropriations by $259,274 in the Zoo Operating Fund for the year ended June 30, 1999.

Insurance and Fidelity Bonds – The legal requirements relating to insurance and fidelity bond coverage. We are not competent by training to state whether the insurance policies covering Metro-owned property in force at June 30, 1999 are adequate.

Investments – The legal requirements relating to investment of public funds.

Public Contracting – The legal requirements relating to the awarding of public contracts and the construction of public improvements.

Programs Funded by Outside Sources – Compliance with appropriate laws, rules, and regulations pertaining to programs funded wholly or partially by other governmental agencies. We have issued separate reports regarding Metro's compliance related to expenditures of federal awards as required by U.S. Office of Management and Budget Circular A-133.

However, it should be noted that our audit was not directed primarily toward obtaining knowledge of noncompliance with such requirements.

This report is intended solely for the information and use of the Council, Executive Officer, Auditor, management, federal awarding agencies, pass-through entities, and the State of Oregon, Secretary of State, Division of Audits and is not intended to be and should not be used by anyone other than these specified parties.

DELOITTE & TOUCHE LLP

By: Donald P. Riggs

Donald P. Riggs, Partner

Portland, Oregon
November 19, 1999

MANAGEMENT'S RESPONSIBILITY FOR, AND THE OBJECTIVES AND LIMITATIONS OF, INTERNAL CONTROL

The following comments concerning management's responsibility for internal control and the objectives and inherent limitations of internal control are adapted from the Statements on Auditing Standards of the American Institute of Certified Public Accountants.

Management's Responsibility

Management is responsible for establishing and maintaining internal control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of controls.

Objectives

The objectives of internal control are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles.

Limitations

Because of inherent limitations in any internal control, misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of internal control to future periods are subject to the risk that the internal control may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.