

A G E N D A

600 NORTHEAST GRAND AVENUE | PORTLAND, OREGON 97232 2736
TEL 503 797 1542 | FAX 503 797 1793



METRO

Agenda

MEETING: METRO COUNCIL REGULAR MEETING
DATE: February 10, 2000
DAY: Thursday
TIME: 2:00 PM
PLACE: Metro Council Chamber

CALL TO ORDER AND ROLL CALL

1. INTRODUCTIONS

2. CITIZEN COMMUNICATIONS

3. EXECUTIVE OFFICER COMMUNICATIONS

- Proposed FY 00-01 Budget Presentation

4. AUDITOR COMMUNICATIONS

- Check Fraud Protection
- Accounting and Financial Benchmarks and Opportunities

5. BUDGET/FINANCE COMMUNICATIONS

6. MPAC COMMUNICATIONS

7. CONSENT AGENDA

- 7.1 Consideration of Minutes for the February 3, 2000 Metro Council Regular Meetings.

8. ORDINANCES - FIRST READING

- 8.1 **Ordinance No. 00-847**, For the Purpose of Adopting the Annual Budget for Fiscal Year 2000-01, making appropriations, and levying ad valorem taxes, and declaring an emergency.

9. **EXECUTIVE SESSION, HELD PURSUANT TO ORS 192.660(1)(h), TO CONSULT WITH LEGAL COUNSEL CONCERNING THE LEGAL RIGHTS AND DUTIES OF A PUBLIC BODY WITH REGARD TO CURRENT LITIGATION.**

Cooper

10. COUNCILOR COMMUNICATION

ADJOURN

Cable Schedule for February 10, 2000 Metro Council Meeting

	Sunday (2/13)	Monday (2/14)	Tuesday (2/15)	Wednesday (2/16)	Thursday (2/10)	Friday (2/11)	Saturday (2/12)
CHANNEL 11 (Community Access Network) (most of Portland area)		4:00 P.M.					
CHANNEL 21 (TVCA) (Washington Co., Lake Oswego, Wilsonville)							
CHANNEL 30 (TVCA) (NE Washington Co. - people in Wash. Co. who get Portland TCI)							
CHANNEL 30 (CityNet 30) (most of City of Portland)	8:30 P.M.						
CHANNEL 30 (West Linn Cable Access) (West Linn, Rivergrove, Lake Oswego)		10:00 A.M. (previous meeting)	7:00 P.M. (previous meeting)			8:00 P.M. (previous meeting)	
CHANNEL 33 (ATT Consumer Svcs.) (Milwaukie)	4:00 P.M. (previous meeting)					10:00 P.M. (previous meeting)	9:00 A.M. (previous meeting)

PLEASE NOTE THAT ALL SHOWING TIMES ARE TENTATIVE BASED ON THE INDIVIDUAL CABLE COMPANIES' SCHEDULES.

Agenda items may not be considered in the exact order. For questions about the agenda, call Clerk of the Council, Chris Billington, 797-1542. Public Hearings are held on all ordinances second read and on resolutions upon request of the public. Documents for the record must be submitted to the Clerk of the Council to be considered included in the decision record. Documents can be submitted by email, fax or mail or in person to the Clerk of the Council. For assistance per the American Disabilities Act (ADA), dial TDD 797-1804 or 797-1540 (Council Office).

Agenda Item Number 7.1

Consideration of the February 3, 2000 Regular Metro Council Meeting minutes.

**Metro Council Meeting
Thursday, February 10, 2000
Council Chamber**

Agenda Item Number 4.0

**Check Fraud Protection
Accounting and Financial Benchmarks and Opportunities**

Auditor's Reports

**Metro Council Meeting
Thursday, February 10, 2000
Council Chamber**

Metro
Administrative Services
Department

Check Fraud Protection

January 2000

A Report by the Office of the Auditor



METRO

2000-10518-AUD

Alexis Dow, CPA
Metro Auditor



METRO
OFFICE OF THE AUDITOR

January 13, 2000

To the Metro Council and Executive Officer:

We reviewed Metro's procedures for dealing with counterfeit or altered Metro checks. Our review also included insufficient funds checks written to Metro and altered checks cashed at Metro facilities.

In June and July 1999, Metro experienced 12 counterfeit or altered Metro checks. Metro lost no money as a result of these frauds. However, Metro assumes increased risk of loss if it does not take additional steps to guard against fraud. The recent availability of low-cost, professional-quality technology makes it possible to easily commit check fraud, and more frequent and widespread check fraud is occurring nationally and in the metropolitan area.

We recommend that Metro's Accounting Services Division adopt a Positive Pay system to provide better protection against potential check fraud related to counterfeit and altered Metro checks. Positive pay shifts most fraud detection responsibilities to the bank, it is inexpensive, and it is quickly becoming an industry standard.

Insufficient funds checks are a relatively small problem due to low dollar volume. The risk of loss resulting from altered checks cashed at Metro facilities is mitigated by existing check cashing procedures which employees have been directed to follow.

We reviewed a draft of this report with the Executive Officer. The last section of this report presents his written response.

We appreciate the cooperation and assistance provided by Metro staff as we conducted this review, particularly the staff from the Administrative Services Department.

Very truly yours,

A handwritten signature in black ink, appearing to read "Alexis Dow". The signature is fluid and cursive, written over a light background.

Alexis Dow, CPA
Metro Auditor

Auditor: Leo Kenyon, CPA

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Executive Summary

In June and July 1999, Metro experienced a rash of 12 counterfeit or altered Metro checks—six times the number reported in the previous 17 years. This is of particular concern because today's technology makes it possible for almost anyone to create such checks. While Metro lost no money as a result of these frauds, losses could occur in the future if Metro's procedures for guarding against fraud are deficient. We therefore conducted a review of Metro's procedures for dealing with check frauds. In addition to the counterfeit or altered Metro checks, our review also included two other groups of checks: insufficient funds (or "bounced") checks written to Metro, and stolen personal checks that had been altered and cashed at Metro facilities.

Insufficient funds checks are a relatively small problem. For the 7 months we reviewed, Metro had 96 such checks out of more than 4,400 checks it received. The 96 checks were for about \$4,500, compared with more than \$57 million for the group as a whole. Metro's Accounting Services Division aggressively attempts to collect on such checks. Similarly, the passing of four stolen and altered personal checks is an isolated incident that has since been addressed.

The more significant issue is the adequacy of measures to protect against counterfeit and altered Metro checks. While two of the 12 forgeries were so poorly done that the bank should not have accepted them, nine of the others skillfully used technology to print authentic-looking checks, and the tenth was a skillful alteration of the name and address on an existing check. The bank did not charge Metro's account in these instances. Metro may not be so fortunate in the future.

We think the best answer is a system called Positive Pay, a bank-supplied service that matches incoming checks against up-to-date electronic records of checks actually issued by the organization. This service identifies fraudulent checks which may otherwise appear legitimate, right down to the authorizing official's signature. Other area jurisdictions, including the City of Portland and Multnomah and Clackamas Counties, use Positive Pay and recommend it.

Metro's Accounting Services Division maintains that existing safeguards are adequate and that Positive Pay is an unnecessary expense and time-consuming. We think the costs are likely to be negligible and the procedures no more burdensome than current ones. In our view, the increased threat of fraud and the potential liability Metro faces make Positive Pay a good idea.

Introduction and Background

Check Fraud Is an Increasing Problem

In June and July 1999, 12 counterfeit or fraudulent Metro checks totaling over \$8,800 were cashed. None of these frauds resulted from breakdowns in Metro's internal controls. Instead they were the result of new technology readily available to people who want to create fraudulent checks. According to Metro's Accounting Systems Manager prior to these frauds Metro had experienced only 2 others in 17 years - all perpetrated by someone stealing Metro checks that had been paid to vendors, then altering and cashing them.

Check fraud is a growing nationwide problem. Check fraud losses already are more than 15 times greater than combined losses from credit card fraud, ATM card fraud, and bank robberies. It is expected to grow at an annual rate of 12 to 15 percent over the next decade. Less than 15 percent of all check fraud loss is recovered.

Check fraud has increased substantially since 1988, when new banking regulations were introduced to accelerate the availability of check deposits. These new regulations, combined with competitive pressures to accelerate fund availability, have resulted in banks increasingly making funds available for checks before those checks have actually cleared. These conditions, together with inexpensive professional-quality electronic publishing and copying technology, make it easier for criminals to successfully negotiate fraudulent checks.

Banks No Longer Shoulder Sole Responsibility for Losses

Revisions to the Uniform Commercial Code in 1992 changed the long-held assumption that banks were solely responsible for losses resulting from fraudulent checks. Check issuers must now follow "reasonable commercial standards" prevailing in their area and for their industry or business. If negligent in following such standards, the customer may be liable for all or part of the loss. Oregon statutes (ORS 73.0406) likewise provide for the allocation of the loss between the maker and the bank based on the fault of each.

The Uniform Consumer Code also requires that customers exercise timeliness in reconciling bank statements and promptly notifying

the bank if payment has been made on a counterfeit or forged check. As a result of these changes, banks and their customers must establish, follow and closely monitor reasonable measures to prevent or minimize damage from check fraud.

**New Technology
Aids Counterfeiters
and Forgers.**

Not long ago, the majority of corporate check fraud cases involved "insiders" using checks stock stolen from the company. Now, however, the availability of low-cost, professional-quality electronic publishing and copying technology has made it possible for anyone to easily produce excellent copies of almost any check. For example, a person who obtains a genuine check can use this technology to reproduce high quality images and manipulate everything on the check, changing the payee and dollar amounts. A high-resolution printer or color copier, together with check-quality paper readily available in stores, can be used to create high quality checks.

In the metropolitan Portland area, Metro is not alone in experiencing these increasingly sophisticated attempts at check fraud. All four jurisdictions we contacted—the City of Portland, Multnomah County, Clackamas County and Washington County—reported recent incidents of attempted or successful check fraud.

**New Technology
Can Also Help
Minimize Losses
from Check Fraud**

Technology has also helped banks and their customers develop countermeasures that can be very effective against fraud. No system, feature or program can completely eliminate check fraud. However, specific measures can reduce exposure to check fraud by complicating the criminal's tasks. And even if criminals are successful in cashing fraudulent checks, the measures are evidence that the customer took care to protect the checks and prevent fraud—a key to reducing the customer's liability. Several kinds of countermeasures that are relevant to this analysis are described in the following paragraphs.

Positive Pay

Positive Pay is an automated check matching service offered by the bank. Customers send electronic files of issued-check information to the bank each day checks are issued. The bank then compares in-clearing checks to the files it receives from the customer. If the bank has no in-file match for a presented check, it

will ask the customer if the check is authentic. If the customer indicates the check is not authentic, the bank will return the check unpaid.

To encourage customers to utilize special check security measures such as Positive Pay, banks have begun to insert statements into deposit agreements that absolve the bank from liability when these measures are offered to their customers but are not utilized. A check fraud expert we consulted said that in the near future, if bank customers are not using Positive Pay, they could be liable for losses that occur.

Safeguards for Laser Printers

Many organizations print their checks on laser printers. Safeguards for minimizing the potential for duplication or alteration of such checks include using "secure" type fonts that make it difficult to alter or remove the dollar amounts on the check without detection and using a chemical coating that makes it difficult to remove the original names and amounts printed on the check.

Check Stock Security Features

Check stock refers to the paper on which the check is printed. Safeguards include using controlled check stock that is securely distributed and monitored at the printing site, as well as features such as watermarks that make scanning and copying impossible, background designs that show "void" or "copy" on copied or scanned checks, and other features that identify erasures and eradication chemicals.

Objectives, Scope and Methodology

The objectives of our review were as follows:

- evaluate Metro's vulnerability to check fraud using Metro and MERC (Metropolitan Exposition and Recreation Commission) checks
- study how other local governments protect against check fraud
- determine the best practices of governments and industry to protect against check fraud
- recommend measures to protect against check frauds.

We initially planned for our audit work to address only duplicated or altered Metro checks – the kinds of check fraud that occurred

suddenly in July. However, we added two other types of check problems to our review:

- Insufficient funds ("bounced") checks. These are checks that Metro receives from others in payment for goods or services such as entrance fees or restaurant charges at the Oregon Zoo. We reviewed such checks received by all Metro departments during a 7-month period ending July 1999. We looked at Metro's measures to collect on them and its success in doing so.
- Stolen personal checks. We also reviewed frauds using four stolen personal checks that were altered and used to buy goods and services at the Oregon Zoo. We looked into how the payments occurred and the measures taken to keep such incidents from recurring.

To address these audit objectives we:

- read and analyzed check fraud authority Frank W. Abagnale's 1999 Check Fraud Bulletin, which we used extensively in developing our audit program and writing the first section of this chapter
- determined the instances of check frauds against Metro
- discussed how the check frauds were perpetrated, by whom and their final resolution with MERC personnel, and Metro personnel in the Administrative Services Department, the Oregon Zoo, and the General Counsel's Office
- determined the instances of check fraud against other local governments and their measures to protect against it
- conducted an extensive search of the Internet regarding check fraud—its causes, its significance, and the controls and countermeasures available to protect against it.

This review was performed in accordance with generally accepted government auditing standards. Fieldwork was conducted between July and November 1999.

Recent Check Frauds Indicate a Need for More Effective Countermeasures

Although Metro appears to have only a relatively minor problem with checks returned for lack of sufficient funds, it has recently had more serious problems with stolen personal checks and with duplicated or altered Metro checks. In several instances, these frauds were so amateurish that the checks should never have been accepted. Metro has since improved its procedures to minimize the chance that these less sophisticated frauds will recur, but it may not be adequately prepared to deal with more skillful attempts. In particular, Metro Accounting Services Division has decided not to adopt Positive Pay, a security system in which its bank would be responsible for screening checks to make sure Metro has written them. The Division believes its controls are sufficient and that Positive Pay would be an unnecessary expense and time-consuming. However, the City of Portland, Multnomah County and Clackamas County have all adopted Positive Pay. We think the threat from increasingly sophisticated frauds is sufficient to justify adopting Positive Pay.

“Bounced” Checks Are Relatively Few and Are Handled Aggressively

Metro receives a very small number of “bounced” checks. Most are for small amounts for such things as garbage and hazardous waste disposal at the solid waste transfer stations or purchases of admissions, food and beverages, souvenirs and other items at the Zoo, MERC facilities and parks. From January through July 1999, Metro received 121 checks that initially bounced. In total, they were written for \$23,851. Twenty-five of these checks, totaling \$19,347, were subsequently replaced or otherwise made good by the makers, leaving a total of 96 checks totaling \$4,504, or about \$650 per month. This was out of a total of 4,406 deposits, mostly checks, received from customers during the period. These deposits totaled about \$57 million, or about \$8.2 million per month.

Metro’s Accounting Services Division staff said they aggressively attempt to collect on such checks. Checks for less than \$25 are sent directly to a collection agency for collection. Checks above that amount are turned over to a collection agency if, within 10 days, the check writer does not respond to a Metro letter requesting

reimbursement. Accounting Services Division staff told us they are able to collect at least part of the amount in about 25 percent of the referrals.¹

Some Frauds Succeeded Because of Poor Adherence to Procedures

We identified four instances of fraud that succeeded because procedures were not followed.

Four stolen and altered personal checks were passed at the Oregon Zoo in April 1999. These checks had initially been written by customers of a floral and gift store and made payable to the store. The checks had subsequently been stolen and altered to increase the amount and make it payable to the Zoo. Each check was used to pay for admissions or food, but each was also altered to an amount that was substantially more than the amount owed, so that the two individuals who passed the checks received amounts ranging from about \$100 to \$267 in change. In all, the checks totaled \$869.90. The perpetrators have not been identified.

None of these checks should have been accepted by Zoo cashiers. They were clearly altered by having the original payees' names erased or crossed out and the amounts noticeably changed. They were also written for amounts far above the guidelines contained in the Cashier Operating Procedures Handbook. The handbook states that checks accepted at Zoo locations other than the main gate should be for the amount of purchase only, and for checks at the main gate, the maximum amount above the admission fee is \$20.

The Zoo Security Manager said these problems resulted when young, inexperienced cashiers were overwhelmed by a crowd of customers. Two cashiers and one supervisor were reprimanded. One cashier refunded the amount of the check he had accepted - \$114.95. Zoo management provided additional training for

¹ At solid waste facilities, procedures are somewhat different: waste disposers who do not pay on time are charged 1.5 percent per month on the past due amount. Disposers with accounts 15 or more days past due may also be placed on a cash-only basis, and those with accounts 30 or more days past due can lose access to the facility.

cashiers and placed a reminder notice in the area where cashiers pick up money for their shifts.

**Banks Accepted
Fraudulent
"Metro" Checks**

Two checks that should have raised suspicion were accepted by banks without question. These checks, written on non-Metro paper stock with Metro's address and the Executive Officer's forged signature, were passed on July 16 and 19, 1999. Both checks were handwritten (dates, amounts and signature) and did not have the Metro logo. The first, for \$1,356.80, was payable to an individual and was cashed at a Tacoma bank. The second, for \$1,582.32, was payable to a company and was cashed at a north Portland bank.

Metro's Building Services Supervisor told us that the two checks were so amateurish that, in her opinion, the banks should not have accepted them. We reviewed copies of the checks and concur. The bank did not charge these checks against Metro's account.

**Other Fraudulent
Checks Reflect
Greater
Sophistication**

In ten instances, the fraudulent checks reflected much greater sophistication. Nine were duplicated payroll checks, while the tenth was a stolen check written to a Metro vendor.

*Duplicated Metro
Payroll Checks*

On July 22, six fraudulent Metro payroll checks were cashed at various Bank of America branches throughout the Metro area. The next day, three more fraudulent checks were cashed. Eight of the nine checks were payable to one name; the ninth was payable to another name. The person who cashed the eight checks attempted to cash a ninth, but an observant teller asked several questions and the person fled the bank. That person has been identified and police are investigating the case.

Several persons appear to have been involved in creating these checks. They had apparently used a scanner to reproduce an image of a real Metro payroll check. Both the Metro logo and the Executive Officer's signature appear authentic. Once the original check was apparently scanned into a personal computer, they were able to change the payee information and dollar amounts. The bank quickly identified these checks and absorbed the entire

loss, which totaled \$5,200. None of the other involved persons have been identified.

*Metro Check Stolen
from a Metro Vendor*

A check written by Metro to one of its vendors in May 1999 was stolen from the vendor's office. The thief altered the payee's name and address and cashed the check, which totaled \$699.61. Metro's bank did not detect the alteration and cashed the check. Neither the bank nor Metro knew anything was amiss until the vendor called asking for payment. The person involved has not been identified.

Metro's Building Services Supervisor said that the alteration was very good. The perpetrator apparently removed the name and address of the original payee with a chemical. Because only the name and address were altered, this fraud would not have been detected even with Positive Pay, the strongest of the controls available. Metro's bank absorbed the loss.

**Metro's
Countermeasures
Do Not Include
Positive Pay**

We focused our analysis of Metro's countermeasures on the steps taken to prevent duplication of Metro's own checks. Metro's Accounting Services Division writes vendor and payroll checks for both Metro and MERC. On average, Metro writes about 300 vendor checks each week and about 500 paychecks twice a month.²

Metro's Accounting Services Division promptly responded to the recent check frauds. Metro already had many recommended check protection measures in use, such as check stock that contains many security features intended to identify and foil alterations or duplication. After the vendor check alteration, Metro consulted with a representative of the manufacturer of the laser printer used in printing the checks. The representative recommended several additional measures to make future alterations more difficult.

² MERC also has two special deposit accounts that are used to settle events for which tickets are sold. A MERC official told us that about 10 checks a month are written on one account and 50 to 100 are written on the other.

Accounting Services Division personnel also met with representatives of Metro's bank, who recommended that Metro adopt Positive Pay. For Metro, Positive Pay would work as follows:

- Metro would provide the bank with check issue information within 24 hours of check issuance.
- The bank would match the check serial numbers and amounts on the checks it received to the check issuance information provided by Metro.
- The bank would report any check posting that did not match the corresponding issue information to Metro by fax, asking Metro to advise them whether to return or pay the check.
- The bank would also send detailed reconciliation reports to Metro at agreed-upon schedules providing information on all checks issued by check number, check amount and date issued and identify those that had been paid and those that were still outstanding.

While Accounting Services Division staff acknowledged the value of Positive Pay, they said they do not intend to adopt it. They stated that they believed their current procedure, called Reverse Positive Pay, is adequate and provides acceptable safety at probably less cost. Under Reverse Positive Pay, the customer—and not the bank—is responsible for verifying that checks are valid. Accounting Services Division staff also said they did not have the staff resources to install and administer the program. They said additional staff resources would be needed to obtain issued check data from the mainframe and transmit that data to the bank, and also to watch for daily faxes and respond to them.

Points in Favor of Adopting Positive Pay Appear Strong

For several reasons, we do not agree with the position taken by Accounting Services staff. We think Reverse Positive Pay is not a strong enough protection, the cost of Positive Pay does not appear to be substantial, and the burden on staff could be minimized.

Reverse Positive Pay Not a Sufficient Deterrent Against Loss

Reverse Positive Pay requires Metro to review copies of paid-check electronic files to ensure that the checks are genuine. Although checks larger than \$2,000 are currently traced to Metro's files on a daily basis, checks smaller than \$2,000 are not. Because of heavy workload, information is uploaded to Metro's paid check files only

about every 3 days. Thus, fraudulent checks for less than \$2,000 may not be identified for several days. This delay increases Metro's risk of loss.

All of the fraudulent checks experienced in July were under \$2,000. Metro's bank, not Metro staff, promptly identified those checks as fraudulent. Current Metro procedures offer no assurance that check verification will be so timely absent bank detection.

Currently, according to Metro's General Counsel, there are no provisions in Metro's agreement with its bank that would absolve the bank of liability if Metro fails to utilize bank-offered security measures such as Positive Pay. However, an indemnity agreement does exist in favor of Metro's bank which entitles the bank to honor all checks if the facsimile signature resembles the specimen provided to the bank. Under this agreement, Metro agrees to indemnify and hold the bank harmless for the payment of any item containing such a signature. Had the duplicated payroll checks described above not been promptly identified by the bank and had Metro taken 2 or 3 days to identify them and advise the bank, Metro's bank could have been held harmless and Metro forced to absorb losses of more than \$5,000.

The authority on check fraud whose work we consulted has concluded that Reverse Positive Pay is not a substitute for Positive Pay in fraud prevention. He stated that Positive Pay is better because the bank is responsible for verifying the check information, and the bank is liable for the losses if it does not detect a bad check and request customer verification. Under Reverse Positive Pay, the customer is responsible for verifying the information and if the customer does not detect a bad check in time, the bank may claim the customer is liable for the losses.

***Cost Does Not Appear
to Be Substantial***

Accounting Services Division staff reported that additional out-of-pocket costs paid to Metro's bank if Positive Pay were adopted could range from nothing to \$60 a month, or a maximum of \$720 per year. In July 1999, based on the volume of checks written by Metro, the costs would have been about \$34. The cost of the service, therefore, is negligible.

**Computer Program
Changes Could
Minimize Burden
on Staff**

Based on our discussions with other local jurisdictions, we believe that most of the staff costs associated with obtaining and transmitting data to the bank could be avoided with a one-time computer programming change to Metro's check-writing function. This change would allow electronic copies of the check data to be automatically sent to Metro's bank when the checks were being printed. We attempted to determine how much programming would be involved at Metro but were unable to do so. While Positive Pay would require staff to watch for and respond to a time-certain daily fax from the bank identifying aberrant checks, it would also eliminate much of the need to conduct verification activities being done under Reverse Positive Pay.

**Several Other
Local Jurisdictions
Have Adopted
Positive Pay**

We interviewed officials responsible for check writing operations and controls at the City of Portland and at Multnomah, Clackamas and Washington Counties to learn what measures they use to counter check fraud. The first three all use Positive Pay and Washington County officials said they would also like to do so. The three jurisdictions with Positive Pay all recommended that Metro adopt it.

City of Portland

The City issues about 9,500 to 10,000 vendor and payroll checks per month, according to the City Treasurer. About 98 percent are written using Positive Pay. This system was effective in detecting recent frauds involving apparently stolen and altered payroll checks. Detection potentially saved the City about \$10,000 in losses. The Treasurer said that the service costs the City about \$3,000 per month for the City's volume of checks, and the service set-up costs were very minor. The cost includes a module that allows daily bank statement reconciliations. The entire conversion to the service was done in a few months, principally by the City's technical services department.

Multnomah County

Multnomah County, which writes about 7,000 checks per month, also has Positive Pay. A Treasury Management Specialist said that Positive Pay had helped the County avoid losses in several check frauds during the last year. The County's bank charges \$105 per month for each of the County's three accounts and one cent per check (about \$70, given the County's check volume). The bank also charges \$20 for each tape of check runs that is sent to the bank

(currently about 15 per month), but the County will soon transmit this information on-line, eliminating the need for the tapes.

Clackamas County Clackamas County pays 500 to 1,000 checks to vendors each week and about 500 payroll checks every two weeks, according to the County Treasurer. After experiencing a sudden rash of fraudulent checks in July 1999, the County initially had its bank go to an enhanced Reverse Positive Pay system. However, the County has since contracted with its bank to adopt Positive Pay. Positive Pay for accounts payable went on-line in mid-October 1999, and Positive Pay for the payroll account will soon be added.

Washington County Washington County pays about 680 vendor checks each week and 370 payroll checks every two weeks—about 3,700 checks a month in all. Because of recent check frauds at the county jail, the County had instituted a Reverse Positive Pay system. The County Treasurer said she would like to institute Positive Pay immediately but cannot do so because the County lacks the necessary information system personnel and backup.

Conclusions and Recommendations

Check fraud is rampant in the Metro area, and has begun to strike both Metro and city and county governments. The best defense appears to be Positive Pay, a highly regarded and relatively low-cost process that allows banks to screen incoming checks to determine if they are legitimate. This approach is already in place in the City of Portland and in Multnomah and Clackamas Counties.

While Metro's Accounting Services Division staff acknowledge the value of the service, they do not intend to adopt it at this time. They believe the procedures they currently use, while not optimal, are adequate and less costly to staff. We acknowledge that the Division is operating under very strict cost limitations. However, we believe that after one-time computer programming costs, staffing costs would be similar to, or possibly less than, Metro's current costs. What is more important, however, is that Metro's current system is not adequate in today's environment and is still vulnerable to losses because it depends on Metro staff identifying bad checks on a timely basis instead of delegating this function to its bank.

While Metro has not yet lost money on check frauds using alleged Metro checks, we believe the increased sophistication of counterfeiters makes it inevitable that it will happen. Positive Pay is a highly effective deterrent against check fraud that is available to Metro at low cost and would be valuable insurance against losses. We recommend that Metro adopt it.

Response to the Report

M E M O R A N D U M

600 NORTHEAST GRAND AVENUE | PORTLAND, OREGON 97232 2736
TEL 503 797 1700 | FAX 503 797 1794



METRO

Date: January 13, 2000
To: Alexis Dow, Metro Auditor
From: Mike Burton, Executive Officer *Mike Burton*
Re: Response to Check Fraud Protection Review

Thank you for the opportunity to review and comment on your Check Fraud Protection Report. I acknowledge the significant time spent by the Auditor's Office in researching this subject.

Check Fraud Protection Report Recommendations: *"That Metro adopt the Positive Pay banking service."*

Agreement with Recommendation: While I agree in principle with the concern about check fraud, I believe that the existing procedures provide adequate protection under existing budgetary constraints. Our existing procedure is called Reverse Positive Pay. Both procedures compare the serial number and dollar amount of checks presented for payment with issued check information. Both provide an opportunity to refuse payment of checks, which do not match the issued check data. Both require Metro staff to actively take part in the review process. Our banker advises that our use of Reverse Positive Pay will identify check fraud suspect items just as effectively as their Positive Pay program.

They differ in that Positive Pay will require additional hard dollar and soft dollar expenditures. While the hard dollar expenditure is not great (estimated to be no more than \$60 per month) it faces current budget challenges, which mandate reductions, not increases, in costs of materials and services. The soft dollar cost is in terms of additional staffing time from Information Management Services Division to write and maintain programs creating and converting data to transmittable files. The same budget challenges described earlier mandate reductions, not increases, in costs of personal services.

The report also refers to the elimination of verification activities being done under Reverse Positive Pay, however, these same activities must be continued in any event, since they are an integral part of the Cash Management process.

The report indicates that other jurisdictions have adopted Positive Pay. Each one uses the same dial-up procedure for transmitting data that Metro would employ. Metro, Multnomah County and Clark County use Bank of America as their depository bank. This bank is not yet able to receive the File Transfer Protocol (FTP) which is necessary to allow an automated transmission of data whenever a check is issued. Clark County uses Reverse Positive Pay for its warrant account and Positive Pay for its Sheriff's account.

Proposed Action Plan: I have instructed the accounting staff to upload the paid check file daily. This will allow matching of checks under \$2,000 which enables reverse positive pay for all checks. Positive Pay will be implemented as soon as funding for additional out-of-pocket costs and Information Management Services and Accounting Services staffing resources are available.

Proposed Timetable: Immediately.



METRO

Metro Auditor Report Evaluation Form

**Fax... Write... Call...
Help Us Serve Metro Better**

Our mission at the Office of the Metro Auditor is to assist and advise Metro in achieving honest, efficient management and full accountability to the public. We strive to provide Metro with accurate information, unbiased analysis and objective recommendations on how best to use public resources in support of the region's well-being.

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



Name of Audit Report: _____

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

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

Suggestions for our report format: _____

Suggestions for future studies: _____

Other comments, ideas, thoughts: _____

Name (optional): _____

Thanks for taking the time to help us.

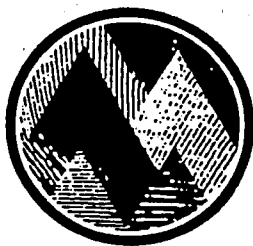
Fax: 503.797.1831
Mail: Metro Auditor, 600 NE Grand Avenue, Portland, OR 97232-2736
Call: Alexis Dow, CPA, Metro Auditor, 503.797.1891
Email: dowa@metro.dst.or.us

Metro
Administrative Services
Department

Accounting and Finance
Benchmarks and Opportunities

January 2000

A Report by the Office of the Auditor



METRO

2000-10517-AUD

Alexis Dow, CPA
Metro Auditor



METRO

OFFICE OF THE AUDITOR

January 13, 2000

To the Metro Council and Executive Officer:

This report discusses the results of benchmarking Metro's finance and accounting activities against more than 800 other organizations.

Benchmarking shows that Metro's accounting and finance division excels in certain areas, such as investment in technology. However, investment in overall accounting and finance activities—about \$3.1 million in fiscal 1998—is low, hence important work is not being done and known inefficiencies are going uncorrected. For example, Metro's accounting staff cannot adequately implement new reporting requirements that may affect Metro's credit standing.

Because Metro has limited resources for making improvements, Metro needs to clearly define the level of accounting and financial services it will support and assure that this level adequately protects its financial standing. To this end, Metro should:

- establish materiality levels for making accounting adjustments
- streamline purchasing card processing to reduce coding, auditing, and accounting
- receive all invoices centrally to eliminate unnecessary duplication of effort
- document financial and accounting policies and procedures
- continually investigate electronic methods for increasing efficiency, such as collecting time charges automatically.

The last section of this report presents the written response of Metro's Executive Officer.

We appreciate the cooperation and assistance provided by Metro staff as we conducted this review, particularly the staff from the Administrative Services Department.

Very truly yours,

A handwritten signature in black ink, appearing to read 'Alexis Dow', with a long, sweeping flourish extending to the right.

Alexis Dow, CPA
Metro Auditor

Auditor: Jim McMullin

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Executive Summary

This report discusses the results of benchmarking Metro's finance and accounting activities against more than 800 other organizations. Benchmarking shows that Metro's investment in accounting and finance activities—about \$3.1 million in fiscal 1998—is low in relation to other small service-type organizations. Low costs are not necessarily good, because important work is not being done and known inefficiencies are going uncorrected. For example, Metro's accounting staff cannot adequately:

- reconcile all accounts on time to ensure sound internal control and accurate reporting
- implement new reporting requirements that may affect Metro's creditworthiness
- inventory and account for fixed assets
- take advantage of its information technology system to improve efficiency
- provide effective customer service to head off problems.

Benchmarking also indicates that Metro's investment in financial and accounting system technology is exemplary. But closer study shows that the technology is not being used to full advantage. For example, there is still a need to:

- simplify accounting systems and integrate them with core accounting processes
- streamline systems to eliminate duplication
- train more staff in how to use the potential offered by these systems.

Metro has limited resources for making these improvements. Accordingly, Metro needs to clearly define the level of accounting and financial services it is willing to support and assure that this level adequately protects its financial standing and creditworthiness. To live with lean support, Metro must also make transaction processing more efficient. To this end, Metro should:

- document financial and accounting policies and procedures
- establish materiality levels for making accounting adjustments
- streamline purchasing card processing to reduce coding, auditing, and accounting
- receive all invoices centrally to eliminate unnecessary duplication of effort
- continually investigate electronic methods for increasing efficiency, such as collecting time charges automatically.

Our more detailed recommendations are in the following section. This report also includes many best practices that may improve Metro's accounting and finance activities.

Recommendations

1. **Metro should evaluate its level of accounting and financial services to assure it adequately supports management needs and protects Metro's financial standing.**

Benchmarking and prior reviews¹ show that Metro is providing relatively low support for its accounting and financial services. Staffing levels have not kept pace with increased workloads and important activities are not being done adequately. We recommend that Metro define and support a level of accounting services that protects Metro's financial standing and provides acceptable (1) information for decision making, (2) efficiency and effectiveness of transaction processing, and (3) internal control procedures for ensuring that information is reliable and assets are safeguarded. Metro should develop a plan that:

- defines essential information, reports, outputs, and acceptable levels of performance
- identifies matters that will not be accomplished and the associated risks
- defines how Metro's accounting and financial technology (PeopleSoft) will be used and what resources will be needed to support it
- provides for documenting essential accounting and financial policies and procedures
- specifies what training is needed to assure the plan is accomplished and policies and procedures are followed
- determines the resources needed to provide an acceptable level of service
- provides for identifying and evaluating technological and innovative approaches that may improve Metro's operations.

2. **Metro should document its accounting and financial policies and procedures.**

Metro does not have its accounting and financial policies and procedures documented and available for use by departmental and accounting and finance staff. This is basic to any sound financial and accounting system, as clear direction is needed to assure that processes have sound financial controls, are consistently and efficiently applied and can be relied upon to provide accurate financial reports.

¹ InfoLink Project Review, December 1998, issued by the Office of the Auditor; Metro Budget Advisory Group review of 1998-1999 budget request for Metro's Support Services.

Policy manuals would also clarify the roles and relationships of Metro departments regarding accounting and finance policy and procedures. For example, even though the Accounting Services Division provides customer support to departments, it should have authority over the departments on establishing and interpreting accounting policies, procedures and practices. Establishing policies and procedures more clearly would help correct inefficiencies that can result when individual units establish their own separate practices.

3. Metro should establish materiality levels for journal entries and allocations.

Making small dollar adjustments to accounting records is costly, time consuming and usually not materially significant for management or financial reports. Many of the corrections that departments are asking the Accounting Services Division to make in journal entries involve transferring small amounts between departmental accounts. Metro should establish materiality levels below which adjustments to accounts and journal entries will not be made. Scarce staff resources should be used for better purposes.

4. Metro should simplify its accounting for transactions that use purchasing cards.

Purchasing cards are designed to reduce the labor and paperwork involved in making small purchases. Within Metro departments, purchasing cards are not having this effect.² Some department staffs are manually coding and posting each purchase. Accounts payable staff are manually preparing journal entries for most items. Other staff is also auditing every item purchased in this manner to assure that each purchase is appropriate and adequately documented.

The dollar value of such purchases does not justify this level of effort. Purchase cards account for 41 percent of the number of purchases but only 2% of the dollar value. If Metro were to individually code only those purchases over \$500, the number of journal entries would be cut from 14,000 to 7,000 annually.

² Purchasing Benchmarks and Opportunities, May 1999, issued by the Office of the Auditor, recommends that Metro explore ways to simplify and streamline purchasing card processes. Metro management agreed but has not yet improved this process.

We recommend that Metro reduce the level of resources involved in coding, auditing and accounting for purchasing card purchases. Specifically, Metro should:

- audit the support for purchasing card purchases on a sample basis and hold department managers accountable for approving such purchases.
- establish new procedures for coding and accounting for purchasing card purchases, such as (1) directing departments to individually code only purchases over a set dollar amount, such as \$500, and use a single account for all purchases under the set amount; or (2) designating a particular account that each card will be coded to.
- require departments to summarize purchases by code number, so that accounts payable staff has to enter only summary data into the general journal.
- investigate the feasibility of coding and accounting for purchasing card purchases on-line.

5. Metro should require all vendor invoices to be sent directly to the Accounting Services Division.

Several Metro departments are maintaining their own accounting systems for controlling purchases when they should be relying more on the information contained in Metro's formal accounting system. To maintain these systems, the departments require all vendor invoices be sent to them, resulting in duplication of effort, unnecessary review, and occasionally, late payments.

We recommend a different approach—directing all Metro vendors to send their invoices to the Accounting Services Division. Staff in this division can use information already in the PeopleSoft system to process invoices for purchased goods. Invoices that need coding and payment authorizations, such as those for purchased services, can be forwarded to responsible departmental staff.

To ensure that departments have the information they need to control their budgets, we recommend that department personnel be trained on how to access the information from the PeopleSoft system. If a department needs more detailed information than is available through this system, arrangements can be made to obtain it from Accounting Services.

6. Metro should make full use of e-business applications for improving financial processes.

Many best practices involve using electronic methods to improve operations. These practices are possible because of various technological innovations, such as the Automated Clearing House (ACH) system, Electronic Data Interchange (EDI), Extensible Markup Language (XML) and the Internet. We recommend that Metro continually investigate electronic methods that may improve its accounting activities, such as the following:

- using electronic methods to settle payments from customers. Examples include (1) encouraging customers such as solid waste haulers to allow automatic debits to their bank accounts, (2) allowing customers to send payments directly to the bank, where they could be deposited into Metro's account, or (3) accepting customer payments, such as for contractor business licenses, via the Internet.
- using an automated system to collect time charges. Outside of the Kronos time clock system, which covers about 60% of Metro employees, Metro's time collection involves employees preparing paper time sheets and hand coding time charges to various codes. The effort going into the paper system warrants investigating alternative automated approaches.³
- encouraging employees to have their paychecks deposited directly to their bank accounts. About 65% of Metro employee paychecks are directly deposited, whereas best of class organizations are at 80%.

³ Metro has purchased a PeopleSoft Time and Labor module for this purpose, but a consultant found that it may not meet Metro's needs. See InfoLink Project Review, Metro Administrative Services Department, A Report by Pacific Consulting Group Issued by the Office of the Auditor, December 1998.

Analysis of Key Benchmarking Indicators

The Hackett Group's (THG) report on Metro's accounting and finance functions presents 37 tables of comparison between Metro and more than 800 organizations in the benchmarking universe. Their report appears as Appendix A. Information on The Hackett Group and benchmarking processes are described in the Background section of this report. With the assistance of the Accounting and Finance staff, we selected the following benchmarks as the most significant processes for presentation in this chapter.

General

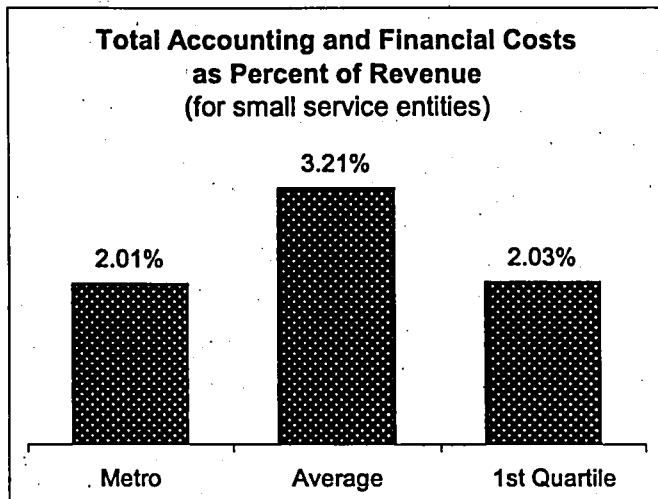
Metro's Accounting and Finance Costs	Benchmark 1
Finance Systems Costs	Benchmark 2
Average Accounting and Finance Systems Age	Benchmark 3

Transaction Processing

Accounts Payable	Benchmark 4
Accounts Receivable	Benchmark 5
Fixed Assets	Benchmark 6
Time Collection	Benchmark 7
Payroll	Benchmark 8
General Accounting	Benchmark 9

Many of the comparisons summarized in this chapter show that Metro has opportunities to improve its financial and accounting processes, procedures and functions by using selected best practices.

1 Metro's Accounting and Finance Costs Are Relatively Low



Metro's total accounting and financial costs are very low in relation to revenue.

Explanation

- Metro's total accounting and finance cost for fiscal 1998 was \$3,131,000.
- Metro's total revenue for fiscal 1998 was \$156 million.
- The data in the above graph was adjusted to reflect Metro's service nature, as discussed under Objectives, Scope and Methodology.

Benchmark Observations

- Metro's total accounting and finance costs are only 2/3 of those of the average small organization. Even though Metro's costs are aligned with 1st quartile organizations, this is not necessarily good.
- Even though Metro's accounting and finance activities appear to be staffed at a relatively low level, the benchmarking data for particular transaction processes indicates that Metro can streamline some processes and better use its staff by adopting specific best practices. Benchmarks 4 through 9 and our recommendations show where these opportunities exist.

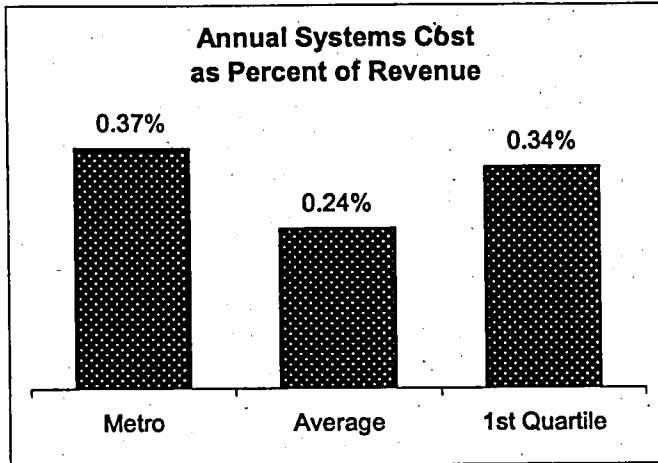
Further Observations

- Metro's Accounting Services Division budget, as a percent of total expenditures, is less than half of what it was in fiscal 1985, declining from 1.33% in fiscal 1984 to 0.58% in fiscal 1999.
- Metro's Accounting Services Division has had the same staffing level since fiscal 1993, though its workload has increased because:

- Metro assumed operations of the Expo Center, Open Spaces Program, Multnomah County Parks, cemeteries, marine facilities and a golf course
- The Contractor's License Program was added to the Division's duties
- Metro purchased and implemented PeopleSoft systems which require continuous upgrading and support
- The Governmental Accounting Standards Board (GASB) issued several standards, requiring Metro to develop new procedures for compliance.
- Metro's Budget Advisory Group, which reviewed Support Services for the 1998-1999 budget found that Accounting is staffed and funded at only 80% of the level required for timely, proactive management of data and systems.
- A December 1998 report on the InfoLink Project concluded that Metro does not have adequate staff to support the PeopleSoft system.⁴
- The Accounting Services Division recently developed a list of 18 areas where they believe accounting activities are not being adequately accomplished (Appendix B).

⁴ InfoLink Project Review, December 1998, A Report by Pacific Consulting Group issued by the Office of the Auditor.

2 Finance Systems Costs



Metro's accounting and finance systems cost reflects Metro's investment in up-to-date computer systems.

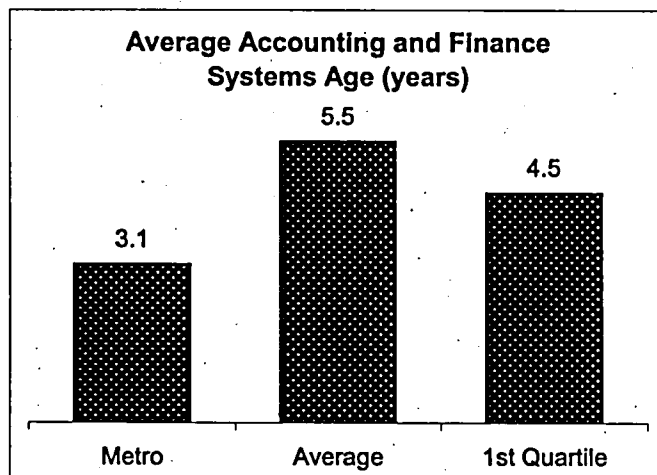
Explanation

- This benchmark compares the systems costs associated with supporting accounting and financial processes.
- In fiscal 1998 Metro spent about \$569,000 for systems to support its accounting and financial processes.
- The systems costs include computer processing, software and hardware, and Management Information Services support. The costs exclude one-time capital investments for hardware and purchased software.

Benchmark Observations

- Metro's accounting and finance system costs are 50% higher than those of the average organization, but are in line with best of class organizations that keep pace with the rapidly changing world of computer technology.
- Higher systems costs in relation to revenue can mean an organization is putting too much money into outdated systems or is regularly updating its systems to keep them current. The latter is the case with Metro.

3 Average Accounting and Finance Systems Age



Metro's accounting and finance systems are newer than even first quartile organizations.

Explanation

- In 1998 Metro had five of eleven PeopleSoft modules operational.
- The operational modules were General Ledger, Accounts Payable, Purchasing, Human Resources and Payroll.
- The Accounts Receivable and Billing modules became operational in November 1999.

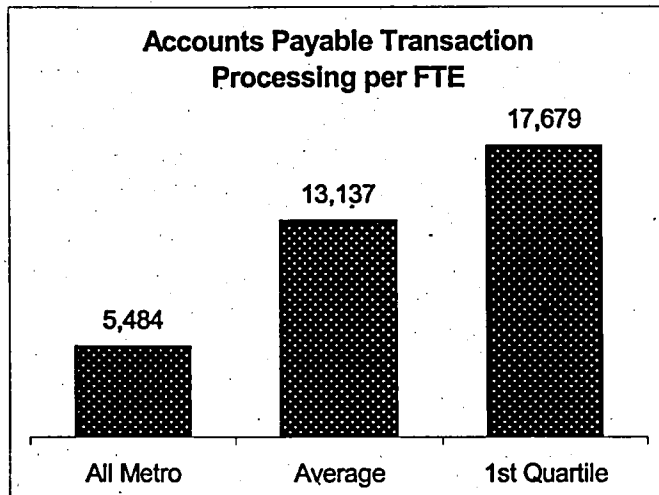
Benchmark Observations

- Metro has invested heavily in accounting and financial system hardware and software.
- This investment is in line with best of class organizations and Metro's systems are even newer than best of class.

Further Observations

- Metro is not yet obtaining the full benefits of these systems. Many end users still need training, limiting their ability to obtain information from PeopleSoft applications that would help them do their jobs. In addition, some processes need to be redesigned to simplify and streamline operations. See recommendations 4 and 5.

4 Accounts Payable



Metro's accounts payable process contains some unnecessary departmental activities.

Explanation

- Accounts payable involves processing and paying vendor invoices and other expenditures, including purchasing cards.
- This benchmark compares Metro against the aggregate of more than 800 companies in THG's database.

Benchmark Observations

- Metro's lower processing rate can be explained as follows.
 - 1) Metro manually handles vendor invoices for small quantities of non-repetitive purchases, whereas many organizations in the database are goods producers that use online purchasing and invoicing systems to purchase and pay for large quantities of items from the same vendors.
 - 2) Metro's payments often take longer to process than in private organizations because they are distributed to many sub-accounts (called chart-fields in the PeopleSoft system).
 - 3) Some Metro departments are unnecessarily receiving, copying and processing invoices.
- Metro processes about 13,000 payments annually, involving 20,000 vendor invoices and 14,000 purchasing card purchases.
- Metro has a total of 6.2 full-time equivalent employees (FTEs) processing accounts payable. Of these, 3.1 FTEs are in departments outside the Accounting Services Division, such as the Zoo, Growth Management, and Regional Parks and Greenspaces.

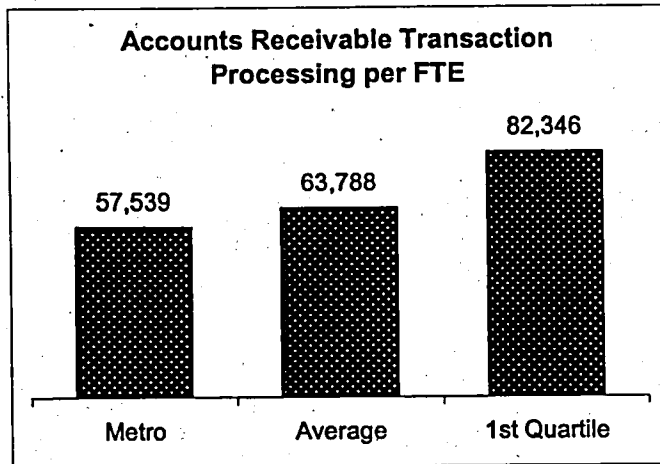
Metro uses many of the best practices suggested by THG

- Purchasing card usage is increasing each month.
- Checks do not require duplicate signatures.
- Metro uses a check-signing machine.
- Metro discourages manual checks.

Best practices that can help Metro save time on accounts payable

- Simplify accounting for purchasing card transactions (see recommendation 4).
- Receive invoices centrally (see recommendation 5).
- Automate recurring payments.
- Eliminate multiple copies and files maintained by departments (see recommendation 5).
- Use electronic methods to settle payment, including electronic funds transfers and Web-based payments (see recommendation 6).

5 Accounts Receivable



Metro processed fewer accounts receivable transactions per employee than most other organizations.

Explanation

- Accounts receivable involves recording and tracking ordinary trade receivables from customers extended credit privileges.

Benchmark Observations

- This study measured time spent using the old computer system which was difficult to work with and only minimally met user needs. A new accounts receivable PeopleSoft computer module is now installed, and promises to reduce processing time.
- Metro has 2.9 FTEs processing accounts receivable (1.9 in ASD, 1.0 in departments).
- Accounts Receivable personnel process about 162,000 invoices annually for REM.
- About 5,200 invoices are processed annually for the Zoo, Parks, MERC, Data Resource Center (DRC) and contractor licenses combined.

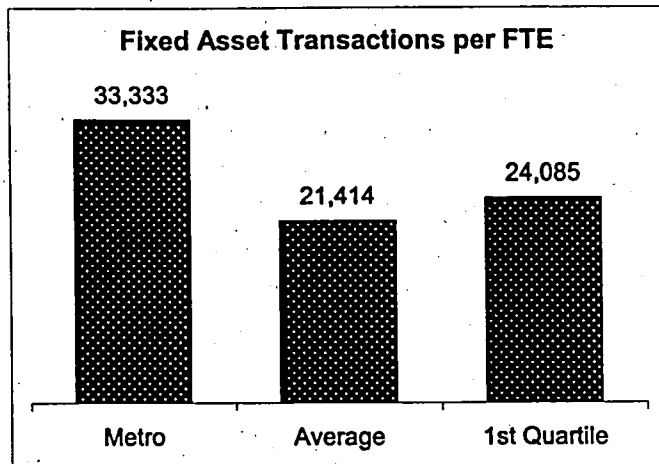
Metro uses many of the best practices suggested by THG

- Metro accepts credit cards for payment from solid waste haulers and DRC customers.
- A single customer master file is used Metro-wide and throughout the revenue-to-collection cycle (except for MERC, which maintains its own customer files).
- Accounts receivable processing is consolidated; except MERC's event billing.
- Invoices are posted automatically to the accounts receivable system from the billing system.

Other best practices that can help save time on accounts receivable

- Establish cost-effective short-pay tolerances to write off small dollar balances.
- Encourage customers, such as solid waste haulers, to permit automated clearing house direct debits.
- Completely consolidate accounts receivable processing, including MERC activities.
- Accept customer payments via the Internet (contractor business licenses).

6 Fixed Assets



Metro's assets are not adequately inventoried.

Explanation

- This benchmark addresses the process of recording, tagging and inventorying an organization's fixed assets.

Benchmark Observations

- In fiscal 1998 Metro had 10,000 assets in its fixed asset system, but devoted only 0.3 FTE to this activity.
- The benchmark data suggests that Metro is more efficient than 1st quartile organizations, but the low FTE devoted to this area means that fixed assets are not adequately tracked and accounted for.
- The level of staffing devoted to this area is not adequate to monitor and control Metro's assets. A physical inventory has not been made in nine years and in fiscal 1998 only 10% of Metro's assets were tagged with identifying labels.

Deloitte & Touche, the CPA firm that performs Metro's annual financial audit, noted these weak procedures and recommended that Metro tag its assets and inventory them at least biannually.⁵ Metro management stated that budget resources had not been available to do this in prior years.

⁵ Financial Statement Audit, Management Recommendations, March 1999, issued by the Office of the Auditor.

Some needed improvements are in process

- Beginning July 1, 1999, Metro increased the level at which assets are capitalized from \$1,000 to \$5,000. This is considered a best practice.
- The change will result in up to 80% of the number of capitalized assets being dropped from the inventory list. These dropped assets account for less than one percent of Metro's total asset value. Because there will be fewer assets to track, the remaining assets (about 2,400) and any new fixed assets acquired will be easier to inventory and account for.
- The Accounting Services Division plans to review its inventory lists, tag assets and conduct a physical inventory by June 2000. This is a high priority in view of new financial reporting requirements that require disclosing depreciation on assets. Metro must apply the new requirements starting in fiscal 2002, or face the risk of qualified or adverse audit opinions on its financial statements. Such opinions can adversely affect Metro's bond ratings and trigger inquiries by the Oregon Division of Audits.
- The PeopleSoft module Metro has already purchased to track fixed assets is still being evaluated as recommended in the December 1998 report on the InfoLink Project⁶. However, regardless of this evaluation's outcome, Metro will need an automated system to benefit from the best practices mentioned below.

Metro uses some best practices suggested by THG

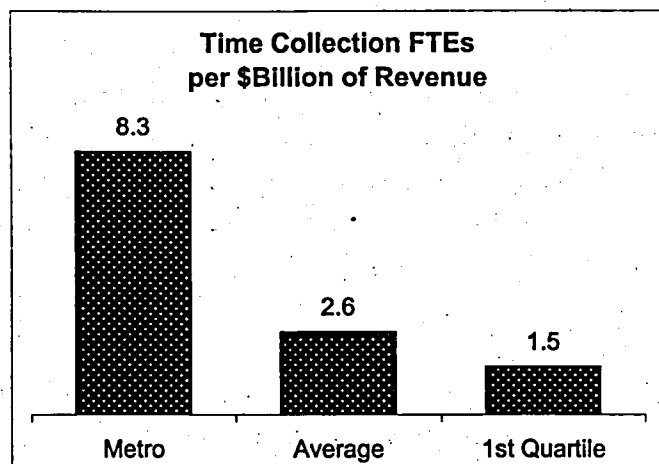
- Metro has a single fixed asset system established with standard capitalization policies.
- Metro raised its asset capitalization limit to the highest level possible to still meet the reporting requirements under federal grant rules.

Best practices that may improve Metro fixed asset management and accounting

- Establish a capital project tracking system, such as the PeopleSoft Fixed Asset module, linked directly to purchasing, accounts payable and labor systems for tracking purchased and constructed assets.
- Set up fixed assets automatically based on data accumulated in the capital project tracking system.
- Capture asset classification codes from purchase orders and requisitions.
- Establish an online system to transfer and dispose of fixed assets.
- Inventory fixed assets routinely using bar-code scanners.

⁶ InfoLink Project Review, December 1998, A Report by Pacific Consulting Group issued by the Office of the Auditor.

7 Time Collection



Metro spends more time than most organizations collecting employee attendance and time worked.

Explanation

- Time collection involves collecting information on employee attendance and time worked and allocating that information to specified reporting categories.

Benchmark Observations

- Metro collects time on about 1,300 employees.
- Forty percent of Metro employees manually prepare paper time sheets, which often involve charging time to multiple organization, program and project codes. Payroll personnel must then manually enter time charges into Metro's computer systems for payroll and project accounting purposes.
- Most union and part-time employees at MERC, REM and the Zoo use Metro's only relatively automated time collection system (Kronos). This is basically a time clock system whereby employee time charges are reported to payroll on disks which are uploaded into the payroll system.

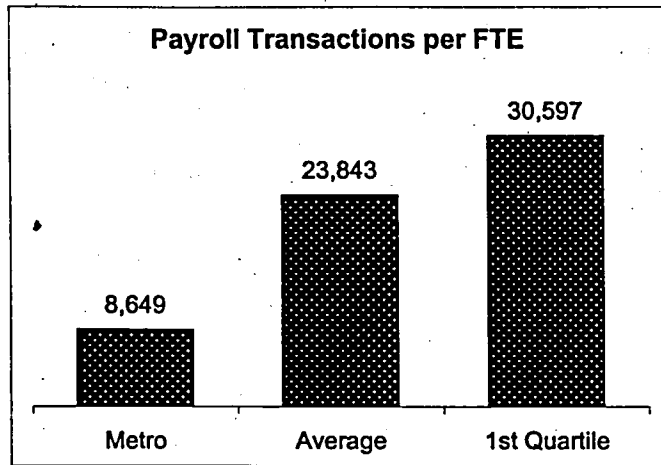
Metro uses some of the best practices suggested by THG

- Time-keeping cycles are standardized throughout Metro.
- Sixty percent of Metro's time collection is automated via the Kronos time clock system.
- Organization, program and project code charges are captured in the time collection tool (time sheet).

Best practices that can help accounting and other departments reduce time collection effort

- Use automated time collection tools to record, calculate and validate time worked. Metro has purchased a PeopleSoft Time and Labor module, but is still evaluating its feasibility. See recommendation 6.
- Use the automated time collection tool to automatically record verified time in the payroll and project accounting systems.

8 Payroll



Metro processed fewer payroll transactions per FTE than most organizations.

Explanation

- Payroll involves paying salaries and wages in accordance with organizational policies and government regulations.

Benchmark Observations

- Metro's transactions per FTE is based on processing about 32,000 paychecks annually using 3.7 FTEs.
- Metro's payroll process is complicated and time consuming. Payroll personnel manually key data from time sheets into the payroll system. Most time sheets contain charges that require keying in multiple organization, program and project codes.

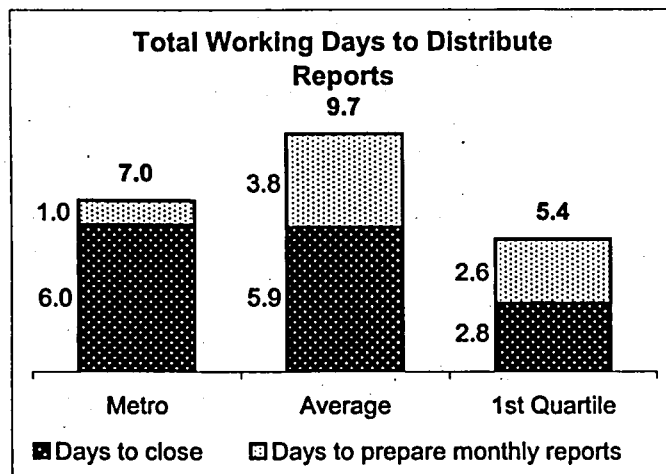
Metro uses many of the best practices suggested by THG

- Pay cycles are standardized with an established calendar.
- Vacation advances are eliminated.
- Employee identification is standardized and employee information is maintained in a single common database shared between human resources and payroll.
- Wages and salaries are calculated automatically.
- Deductions are calculated automatically based on established rules.
- Many employees (65%) use direct deposit of paychecks.

Best practices that may help accounting and other departments save time on payroll

- Increase employee participation in direct deposit of paychecks. Metro's participation is at 65%; the benchmark average is 80%.
- Install the PeopleSoft Time and Labor module or an alternative automated time and charges program to capture time charges and integrate them into the payroll system (see recommendation 6).

9 General Accounting



Metro reports are distributed timely, but are not reviewed for accuracy.

Explanation

- General accounting involves recording journal entries, maintaining the general ledger and preparing financial statements in accordance with organizational reporting requirements.

Observations

- Monthly reports are distributed 2.7 days faster than the average organization.
- Accounting Services' ability to close sooner is constrained because it takes 5 to 7 days to complete payroll and REM monthly billing. By installing an automatic time collection system, payroll processing could be reduced by about two days.
- Even though accounting and financial reports are produced in a timely manner, they are not reviewed for accuracy or analyzed for trends due to insufficient staff. See Appendix B.

Best practices that can help save time and get reports distributed faster

- Reconcile and analyze balance sheet accounts quarterly instead of monthly. This is happening now due to insufficient staff, rather than by policy.
- Raise materiality levels of journal entries and allocations (see recommendation 3).
- Install the PeopleSoft Time and Labor module or an alternative automated time and charges program to capture time charges and integrate them into the payroll system (see recommendation 6).

Background

This report presents benchmarking comparisons of Metro's accounting and financial processes against those of more than 800 private and public organizations. Although some of Metro's accounting and financial processes compare favorably, others suggest that Metro has opportunities to adapt and apply best practices from other organizations. Our analysis is based primarily on benchmarking research that our contractor, The Hackett Group (THG), has conducted since 1991.

Benchmarking – A Diagnostic Tool

Benchmarking is the process of comparing data between organizations leading to insights that promote positive change. The process attempts to discover specific practices responsible for high performance and to understand how these practices work in various organizational environments. Benchmarking is a simple, straightforward management tool that has been shown to improve operational efficiency and effectiveness.

Benchmarking began in the private sector when businesses learned that they could adapt and adopt practices found to be effective in other organizations, thereby avoiding the creation of new, untried approaches for changing their operations.

Benchmarking in the Public Sector

In recent years, the public sector has found that benchmarking is an effective tool for operating in environments that are becoming more results-oriented. For example, federal agencies have made significant operational improvements by using benchmarking in implementing the Government Performance and Results Act. At the state level, the Oregon Legislature passed a government efficiency bill that set expectations for benchmarks and performance measures. Agencies have reported significant operational improvements as a result of such measurements. Benchmarking in the public sector has led to (1) working smarter toward effective results; (2) building on the work, experience, failures and successes of others; and (3) enhancing agency accountability and public trust.

The Hackett Group (THG)

We performed our benchmarking survey through a contract with consultants at The Hackett Group, a widely recognized management consulting firm that has been conducting benchmarking research since 1991. THG's benchmarking

studies have helped more than 1,300 organizations evaluate their operational efficiency and effectiveness, identify and adapt better approaches and implement positive changes.

According to THG, it has the world's most comprehensive benchmarking database of organizations' key processes. THG's database represents a variety of organizations and is about equally split between goods producers and service providers. The size of these organizations ranges from \$21 million in annual sales to nearly \$57 billion, with finance staffs as small as 7 and as large as 6,000.

THG's summary benchmarking report on Metro's accounting and financial processes is presented in Appendix A.

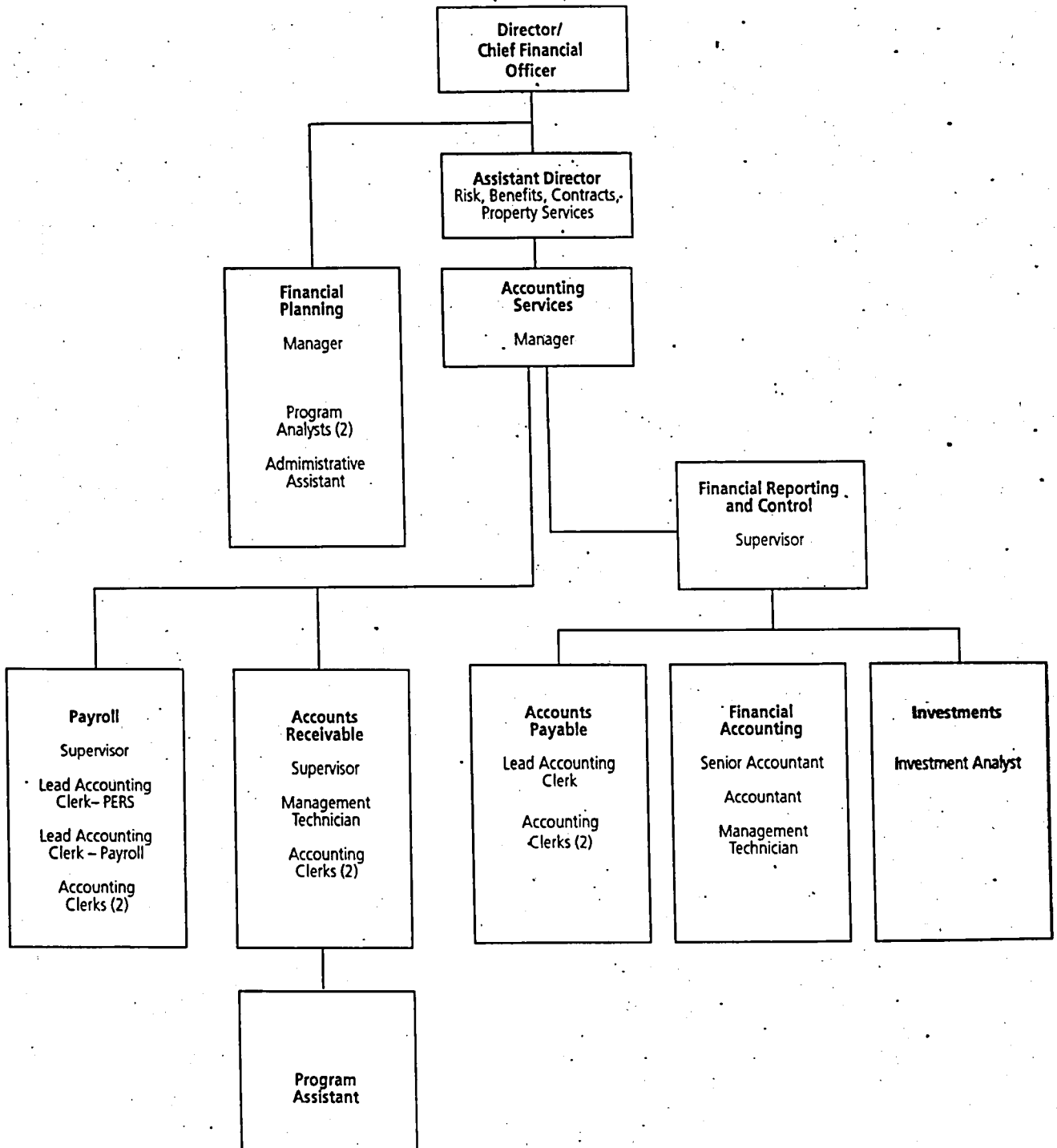
Metro Units Involved in the Benchmarking Study

Metro's Accounting Services and Financial Planning Divisions support the financial activities of other Metro Departments and most MERC activities. These Divisions are part of the Administrative Services Department and have 28 persons involved in financial management, financial reporting and control, accounts payable, accounts receivable, payroll and budgeting. Exhibit A shows how the two Divisions are organized.

This benchmarking study also included financial and accounting activities, such as time collection, accounts payable and accounts receivable, of other Metro departments. Personnel from each of the departments completed the accounting and finance benchmarking questionnaire that forms the basis of this study.

Exhibit A

Administrative Services Department: Accounting Services Division and Financial Planning



Objectives, Scope and Methodology

We conducted this study to determine how Metro's financial processes compare with those of more than 800 public and private organizations included in THG's database. Our objectives were to:

- determine the relative efficiency and effectiveness of Metro's accounting and financial processes
- identify opportunities where Metro's accounting and financial processes can be improved.

We worked closely with Metro accounting and finance staff and THG throughout the study. Our work included:

- attending THG's orientation and training meeting where THG consultants defined the financial processes included in the study and discussed how data would be collected and reported
- working with Metro Accounting Services Division staff to collect FTE and cost data and distribute the questionnaire containing 485 questions to the various departments
- reviewing the completed questionnaire and verifying the accuracy and consistency of the data reported
- analyzing the data contained in THG's benchmarking report
- conferring with THG consultants to clarify aspects of their report
- obtaining THG's list of best practices and discussing them with relevant Metro personnel to determine which ones apply to Metro
- obtaining the views of Metro personnel affected by the study results
- reviewing several audit and consultant reports relating to Metro's financial systems
- developing suggestions and recommendations for improving Metro's financial processes.

We collected data across the following 3 accounting and financial categories and 24 processes for the year ended June 30, 1998. The study required a full year's data. The most recent data available when we started the study was for fiscal 1998.

Transaction Processing

- Accounts Payable
- Accounts Receivable
- Time Collection
- Payroll
- Fixed Assets
- Travel and Expense
- Credit
- Collections
- Customer Billing
- General Accounting
- Benefits Administration
- External Reporting
- Cost Accounting

Control and Risk Management

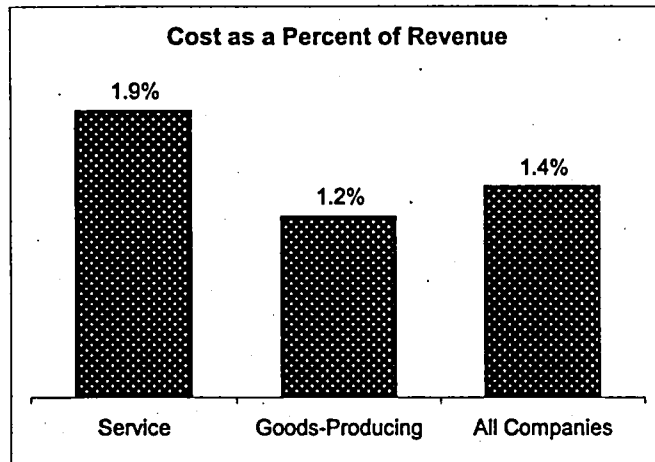
- Budgeting
- Outlook/Interim Forecast
- Business Performance Reporting
- Cash Management
- Treasury Management
- Risk Management

Decision Support

- Cost Analysis
- Business Performance Analysis
- New business/Pricing Analysis
- Strategic Planning Support
- Finance Function Management

We recognize that Metro is not “typical” of the accounting and finance departments benchmarked by THG, especially considering its small size and government environment. However, THG’s precise definitions and data gathering processes helped create comparability in spite of organizational differences within the database. The consistent use of THG’s methodologies enables comparisons to be made between Metro’s financial and accounting processes and similar processes of other organizations, regardless of size or type of industry.

We were able to further refine these comparisons by adjusting THG’s benchmark data in some instances to better reflect the service nature of Metro’s activities and its small size. These adjustments were possible because THG developed a ratio comparing service company finance and accounting costs to those of goods-producing companies. The following graph shows this relationship.



One reason that service company accounting and finance costs are higher than those of goods-producers is that even though each take about the same time to process a transaction, service companies have more transactions for a given amount of revenue. As the graph shows, the average service company incurs 1.36 (1.9/1.4) times more accounting and finance costs than all companies at the same level of revenue. This is the ratio we used to adjust THG data.

In addition, THG provided some data that enabled us to benchmark Metro directly with other small organizations. This data compares certain accounting and financial processes on a per \$10 million of revenue basis.

The report discusses Metro financial processes that we consider significant based on the study results. The best practices relating to these processes were discussed with Metro personnel to determine:

- which best practices Metro is now using
- whether Metro can adopt any of the practices not currently being used.

The recommendations and suggestions we make are based on these discussions and other information that became known during the study.

We performed our work between April 1999 and November 1999 in accordance with generally accepted auditing standards.

Appendix A

THG Benchmark Report on Metro's Accounting and Finance Functions

**Financial
Executives Institute**

Metro
Reported in US Dollars

Baseline

Item 1 Annual Total Finance Cost

	<u>Cost</u>	<u>Percentage</u>
Labor Cost	\$2,089,000	67%
Outsourcing Cost	\$45,000	1%
Systems Cost	\$569,000	18%
Other Cost	\$428,000	14%
Annual Total Finance Cost	\$3,131,000	100%

Item 2 Overall Cost As A Percent Of Revenue

Annual Total Finance Cost	\$3,131,000
Revenue	\$155,900,000
Cost As A Percent Of Revenue	2.01%

Item 3 Staffing By Job Category

	<u>FTEs</u>	<u>Percentage</u>
Manager	6	16%
Professional	11	29%
Clerical	21	55%
Total Staffing By Job Category	38	100%



Item 4 Finance FTEs Per \$10 Million of Revenue


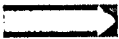

	<u>FTEs</u>	<u>FTEs / \$10 Million</u>
Transaction Processing	25.7	1.6
Control & Risk Management	7.7	0.5
Decision Support	4.4	0.3
Total FTEs Per \$10 Million of Revenue	37.8	2.4

Item 5 Finance Staff Time Allocation

	<u>Metro</u>
Transaction Processing	68%
Control & Risk Management	20%
Decision Support	9%
Finance Function Management	2%
Total Finance Staff Time Allocation	100%

Item 6

Education, Experience, Turnover

	<u>Metro</u>	<u>Average</u>	<u>1st Quartile</u>
MBA/CPA -- Manager 	83%	51%	98%
MBA/CPA -- Professional	42%	32%	60%
Turnover 	18%	12%	3%
Experience (Years) 	29	16	11

External Cost Comparisons

Item 7

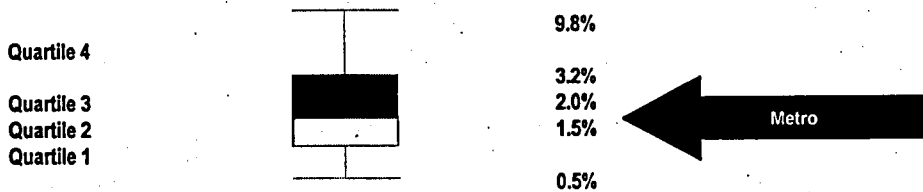
Finance Cost As A Percent Of Revenue

(small company)

	<u>Metro</u>	<u>Average</u>	<u>1st Quartile</u>
Labor	1.34%	1.44%	0.89%
Outsourcing	0.03%	0.14%	0.06%
Systems	0.36%	0.35%	0.27%
Other	0.27%	0.43%	0.27%
Total Cost As A Percent Of Revenue	2.01%	2.36%	1.49%

Finance Cost As A Percent Of Revenue By Quartile

Small Company Database



Item 8

Finance Cost Components

(small company)

	<u>Metro</u>	<u>Average</u>	<u>1st Quartile</u>
Labor	67%	61%	60%
Outsourcing	1%	6%	4%
Systems	18%	15%	18%
Other	14%	18%	18%
Total	100%	100%	100%

Item 9

Finance FTEs Per \$10 Million Of Revenue

(small company)

	<u>Metro</u>	<u>Average</u>	<u>1st Quartile</u>
Transaction Processing	1.65	1.53	0.87
Control & Risk Management	0.49	0.37	0.26
Decision Support*	0.28	0.24	0.25
Total FTEs Per \$10 Million of Revenue	2.42	2.14	1.38

*Decision Support Includes Function Mgt.

Item 10 **Wage Rates**

	<u>Metro</u>	<u>Average</u>	<u>1st Quartile</u>
Management	\$88,463	\$94,693	\$84,000
Professional	\$65,370	\$61,683	\$52,830
Clerical	\$39,983	\$33,707	\$31,741
Overall	\$55,261	\$54,064	\$48,715

Item 11 **Staff Mix**

	<u>Metro</u>	<u>Average</u>	<u>1st Quartile</u>
Management	16%	15%	10%
Professional	29%	39%	43%
Clerical	54%	46%	48%
Total Staff Mix	<u>100%</u>	<u>100%</u>	<u>100%</u>

Item 12 **Spans Of Control By Process Categories**

	<u>Metro</u>	<u>Average</u>	<u>1st Quartile</u>
Transaction Processing	1:10	1:9	1:24
Control & Risk	1:4	1:3	1:6
Decision Support	1:2	1:3	1:5

Item 13 **Productivity of Core Processes**
(Transactions Per FTE)

	<u>Metro</u>	<u>Average</u>	<u>1st Quartile</u>
Accounts Payable	5,484	13,137	17,679
Freight Payments	0	40,040	62,636
Travel & Expense	1,500	7,667	10,104
Fixed Assets	33,333	21,414	24,085
Payroll	8,649	23,843	30,597
Credit	667	14,449	15,909
Customer Billing	254,769	144,863	223,320
Accounts Receivable	57,539	63,788	82,346
Collections	120	3,981	4,466

Item 14

Best Practices Utilization Varies Among Core Processes

Accounts Payable	Metro	Average
Pay Vendors On Receipt	None	Low
Procurement Card Usage	Medium	Low
Purchase Orders Via EDI	None	Medium
Travel & Expense	Metro	Average
Electronic Filing of T&E	None	Medium
Exception-Based Control Reporting	Medium	Medium
Elimination of Mgmt Approval for Payment	None	High
Payroll	Metro	Average
Single Shared Database with H.R.	High	Medium
Direct Deposit of Payroll	Medium	Medium
Customer Billing	Metro	Average
Seamless Interface w/Billing, Credit...	None	Medium
Single Billing System for Different Products...	High	High
Accounts Receivable	Metro	Average
Company-Wide View of Customer A/R Status	High	Medium
Single, Common, Integrated Customer Files...	High	High
Small-Dollar Balances Written Off	Low	Medium
Credit & Collections	Metro	Average
On-Line View of Customer Account...	None	Medium
Proactively Contact for Correct Billing Info	None	Medium

Transaction Processing

Item 15 Supplier Processes - Staffing (FTEs Per \$Billion Of Revenue)

	Metro	Average	1st Quartile
Accounts Payable	39.8	14.3	11.8

Item 16 People Processes - Staffing (FTEs Per \$Billion Of Revenue)

	Metro	Average	1st Quartile
Travel & Expense	1.3	2.5	1.3
Time Collection	8.3	2.6	1.5
Payroll	23.7	6.5	4.5
Benefits Administration	22.4	3.7	2.6

Item 17 Accounting Processes - Staffing (FTEs Per \$Billion Of Revenue)

	Metro	Average	1st Quartile
Fixed Assets	1.9	3.3	1.8
General Accounting/Consolidations	27.6	11.7	8.6
External Reporting	2.6	1.7	1.2
Cost Accounting	1.3	6.2	2.8

Best Practices

General Accounting	Metro	Average
Centrally Maintained Single Chart of Accts.	High	High
General Ledger Performs Auto Consolidation	High	Medium
Soft Closes Utilized in Non-Reporting Months	High	Low

Item 18 **Customer Processes - Staffing**
(FTEs Per \$Billion Of Revenue)

	<u>Metro</u>	<u>Average</u>	<u>1st Quartile</u>
Accounts Receivable	18.6	6.8	3.4
Credit	5.8	2.9	1.1
Collections	3.2	9.0	2.4
Customer Billing	8.3	13.0	4.1

Control & Risk Management

Item 19 **Planning & Reporting - Staffing**
(FTEs Per \$Billion Of Revenue)

	<u>Metro</u>	<u>Average</u>	<u>1st Quartile</u>
Budgeting	16.7	4.7	2.7
Outlook/Interim Forecast	4.5	3.0	1.4
Business Performance Reporting	5.8	5.6	3.2

Budgeting	<u>Metro</u>	<u>Average</u>
Sophisticated Tools Create Pro Forma Budgets	None	Medium
Iterate To Meet Operational Targets...	High	Medium
Agreement on Summary Budget...	High	High

Outlook/Interim Forecasting	<u>Metro</u>	<u>Average</u>
Revised Forecasts Only On Exception Basis...	High	Medium
Forecast System Linked to Budgeting...	None	Medium

Business Performance Reporting	<u>Metro</u>	<u>Average</u>
Trends and Exceptions Auto-Identified	High	Medium
Reports address future actions	Low	Medium

Item 20 **Risk Management - Staffing**
(FTEs Per \$Billion Of Revenue)

	<u>Metro</u>	<u>Average</u>	<u>1st Quartile</u>
Cash Management	3.2	2.0	1.2
Treasury Management	3.2	1.4	0.8
Tax Planning	0.0	1.1	0.5
Internal Auditing	0.0	4.0	2.0
Risk Management	14.1	1.1	0.7

Item 21 **Regulatory - Staffing**
(FTEs Per \$Billion Of Revenue)

	<u>Metro</u>	<u>Average</u>	<u>1st Quartile</u>
Government Compliance	0.6	2.4	0.4
Tax Regulatory	1.3	0.7	0.1

Decision Support

Item 22 **Decision Support Analysis - Staffing**
(FTEs Per \$Billion Of Revenue)

	<u>Metro</u>	<u>Average</u>	<u>1st Quartile</u>
Cost Analysis	1.9	3.0	1.5
Business Performance Analysis	2.6	4.5	2.3
Pricing Analysis	1.3	3.6	1.1
Strategic Planning Support	16.7	2.1	1.0
Finance Function Management	5.8	4.0	2.9

Item 23 **Days To Close**

Metro	6.0
Average	5.9
1st Quartile	2.8

Item 24 **Days To Monthly Report Distribution**

Metro	1.0
Average	3.8
1st Quartile	2.6

Item 25 **Days To Complete The Budget**

Metro	400
Average	91
1st Quartile	67

Item 26 **Outsourcing Cost As A Percent Of Revenue**

	<u>Metro</u>		
Annual Revenue	\$155,900,000		
Annual Outsourcing Cost	\$45,385		
	<u>Metro</u>	<u>Average</u>	<u>1st Quartile</u>
Outsourcing Cost As A % Of Revenue	0.029%	0.055%	0.042%

Item 27 **Finance Systems Cost As A Percent Of Revenue**

	<u>Metro</u>		
Annual Revenue	\$155,900,000		
Computer Processing Cost	\$296,500	52%	
MIS Support Services Cost	\$32,100	6%	
Computer Hardware Cost	\$240,000	42%	
Annual Systems Cost	<u>\$568,600</u>	<u>100%</u>	
	<u>Metro</u>	<u>Average</u>	<u>1st Quartile</u>
Systems Cost As A % Of Revenue	0.365%	0.243%	0.336%

Item 28 **Average Finance Systems Age (Years)**

Metro	3.1
Average	5.5
First Quartile	4.5

Item 29

Number of Systems Per \$Billion Of Revenue

	<u>Metro</u>	<u>Average</u>	<u>1st Quartile</u>
General Accounting	1.0	2.0	1.1
Accounts Payable	1.0	1.9	1.2
Accounts Receivable	2.0	1.8	1.2
Payroll & Time Collection	3.0	3.5	1.7
Fixed Assets	1.0	1.5	1.0
Travel & Expense	0.0	1.0	0.1
Cost Accounting	5.0	2.5	1.2
Freight Payment	0.0	0.8	0.3
Credit & Collections	1.0	2.9	1.0
Customer Billing	2.0	2.7	1.5
Budgeting	2.0	3.2	1.6
Business Performance Reporting	1.0	3.7	1.9
Total Systems *	19.0	27.4	13.6

* Selected Processes

Item 30

Technology Use By Hardware Type

	<u>Metro</u>
Mainframe	0.06
Networked PC	0.38
Client-Server	0.26
Stand Alone PC	0
Midrange	0.26
Manual	0.04

Item 31

Other Finance Cost As A Percent Of Revenue

	<u>Metro</u>		
Annual Revenue	\$155,900,000		
Facilities Cost	\$303,900	71%	
Travel and Expense Cost	\$8,100	2%	
Training Cost	\$10,900	3%	
Postage Cost	\$6,000	1%	
Other (Miscellaneous) Cost	\$99,100	23%	
Total Annual Other Cost	\$428,000	100%	
	<u>Metro</u>	<u>Average</u>	<u>1st Quartile</u>
Other Cost As A Percent Of Revenue	0.274%	0.209%	0.105%

Item 32

So What Will A World-Class \$ Billion Company Look Like?

	<u>1st Quartile</u>	<u>Average</u>
Cost as a Percent of Revenue	1.05%	1.20%
FTEs	81	86
A/P productivity per FTE	17,679	13,137
Processing Locations	1	>3
Systems per Process	1	2-3
Budget Cycle	67 Days	91 Days
Closing Cycle	<3 Days	5-8 Days

Potential Opportunities

Item 33 Transaction Processing Opportunities

	Productivity Opportunity (\$000)	
	<i>* Savings capped at 50%</i>	
	<u>At Average</u>	<u>At 1st Quartile</u>
<u>Supplier Process:</u>		
Accts Payable	125 *	125 *
Freight Payments		
Travel & Expense	5 *	5 *
<u>Customer Process:</u>		
Accts Receivable	62 *	62 *
Credit	16 *	16 *
Collections	11 *	11 *
Customer Billing		
<u>Accounting Process:</u>		
Fixed Assets		
General Accounting	122 *	122 *
External Reporting	9	14 *
Cost Accounting		
Tax Accounting		
Tax Filing & Reporting		
<u>People Process:</u>		
Time Collection	24 *	24 *
Payroll	92 *	92 *
Benefits Administration	92 *	92 *
Total Transaction Processing Opportunities	558	563

Item 34 Control & Risk Process Opportunities

	Productivity Opportunity (\$000)	
	<i>* Savings capped at 50%</i>	
	<u>At Average</u>	<u>At 1st Quartile</u>
Budgeting	89 *	89 *
Outlook/Interim Forecast	16	24 *
Business Performance Reporting	1	27
<u>Operational Support & Control:</u>		
Cash Management	12	16 *
Treasury Management	18 *	18 *
Tax Planning		
Internal Audit		
Risk Management	65 *	65 *
Total Control & Risk Opportunities	202	240

Item 35 **Decision Support Opportunities**

	Productivity Opportunity (\$000)	
	<i>* Savings capped at 50%</i>	
	<u>At Average</u>	<u>At 1st Quartile</u>
Cost Analysis		5
Business Performance Analysis		3
New Business/Pricing Analysis		2
Strategic Planning Support	99 *	99
Total Decision Support Opportunities	99	109

Item 36 **Total Potential Productivity Opportunity**

	Productivity Opportunity (\$000)	
	<u>At Average</u>	<u>At 1st Quartile</u>
Transaction Processing	558	563
Control & Risk Management	202	240
Decision Support	99	109
Total Productivity Opportunity	859	912

Item 37 **Benchmark Results Summary**

	<u>Metro Comparison to Average</u>	<u>Metro Comparison to 1st Quartile</u>
Total Finance Cost as a % of Revenue	-15%	35%
FTEs per \$10 Million of Revenue	13%	76%
Systems Cost	50%	9%
Other Costs	31%	161%

Appendix B

Accounting Services Division Priorities Not Being Addressed

The Manager of the Accounting Services Division created this document.

Accounting Services Division Priorities Not Being Addressed Due to Resource Limitations/New Assignments

Accounting Services Division staff continually work to maintain sound internal control systems, business processes, services and financial reporting. In recent years, due to continuing budget pressures, added demands and other external forces, resources available to provide those controls and services have been deteriorating. Accordingly, we have a higher probability of compromised and ineffective internal controls resulting in greater risk for fraud and financial losses, waste and abuse, non-compliance with laws and regulations, qualified or adverse audit opinions, downgraded credit ratings, and possible public embarrassment. In addition, we have a lessened ability to improve inefficient processes and provide reliable and timely financial reports and data.

We are currently a "fire department" – putting efforts towards the tasks that are flaming up each day, rather than putting in efforts to prevent the fires before they start. Metro is "burning out" the employees in the Division, especially at the supervisor level and running a greater risk of turnover in key positions.

While basic Metro business transaction processing remains the highest priority, the major categories of areas not receiving adequate attention over the past few years are noted below (supported by a detailed list of more than 120 separate tasks or projects).

Summary of Major Categories:

Accounting Services Division is not accomplishing, to our professional standards, the following (Accounting Services view on priority based upon risk to Metro – High Priority = (H), Medium Priority = (M)):

Account reconciliations (H) – not completed as timely or as complete as needed for sound internal control and financial reporting. Metro has a total of 759 balance sheet accounts to reconcile on a periodic basis (some monthly, some quarterly). Priority is currently given to the most sensitive accounts (such as our primary bank account and payroll account – which includes 64 balance sheet accounts reconciled at once for efficiency). By MERC contract provisions, MERC related accounts are next in priority. Untimely or uncompleted account reconciliations can lead to inaccurate financial information and potential

financial losses (overpayments, lack of collection, etc). This circumstance can also trigger the \$5,000 (per month) MERC contract penalty clause, adding costs to other Metro departments. Ultimately, this can also lead to audit problems and other issues noted above.

Financial report review (H) – the review of monthly financial reports prior to or upon issuance to spot errors, reporting issues, or trends. Combined with timely account reconciliations noted above, review of financial reports prior to issuance can identify errors needing correction prior to issuance, resulting in more reliable financial information. Customer service is affected by not assuring an accurate, quality product each month when financial reports are issued. This also causes inefficiency and additional work at fiscal year end, for CAFR preparation and audit purposes, as all the issues are identified at that time and resolutions developed.

GASB Statement implementations (H) (especially Statement 34) on a pro-active, well thought out basis (as opposed to “crisis” mode at year end). The Governmental Accounting Standards Board (GASB) establishes financial reporting and accounting standards for all governmental units (other than the Federal Government) in the United States. Metro must implement each standard as issued. Such implementation requires data gathering, analysis, documentation and implementation. The recent GASB Statement 31, for example, on accounting for investments continues to consume resources at year-end to make the appropriate disclosures and financial reporting. GASB Statement 34 is the most significant standard issued in the history of financial (commercial) and governmental accounting and significantly alters accounting procedures and financial reports. Metro must implement this standard by the end of fiscal 2002, which will be a significant effort over many months involving various financial policy considerations. For “smaller” impact standards, the result is inefficiency and potential higher audit costs at year-end. For major impact standards, such as GASB 34, the potential result is the lack of compliance with the standard and adverse audit opinions which would result in damage to Metro’s credit ratings (bonds), increased financing costs, significantly increased audit fees, and public embarrassment.

Fixed assets (H) – no progress on procedure development, improvements in record keeping or tagging and inventorying of assets. Attempts to include resources in the budget to complete inventories in the past have met with the items being cut prior to budget adoption. Efforts to develop internal written procedures and the resulting implementation efforts have been superceded by

other priorities assigned to the division. Metro accepts a greater risk of loss of assets by not conducting formal period fixed asset inventories, and therefore also risks overstating fixed asset amounts in financial reports. This later item becomes more important with the pending implementation of GASB Statement 34, and the depreciation charges impact on each fund.

Cross-training (H) - to reduce risk of loss (and create backup) of functional lead PeopleSoft knowledge. Each Accounting supervisor has gained extensive knowledge in the set up and operation of complex accounting applications. Metro is at risk should one of the functional leads leave Metro, without detailed cross training. This would result in inefficiency, potential inability to process business transactions and higher expenditures for outside consultant assistance.

Effective supervision (H) - Supervisors continue to be assigned extensive daily and project work tasks, which cannot be delegated due to lack of resources - which limits our ability to effectively coach, mentor, manage and supervise staff. The result is more "surprises," less cross-training (see previous paragraph), lower staff morale, less information sharing, lack of professional growth, and greater inefficiency in achieving objectives.

PeopleSoft upgrades (H) (approx. 12 months behind the curve) - To continue to be on vendor supported software, Metro must upgrade to the latest released version within 18 months of release. Currently, Metro is implementing each upgrade, on average, approximately two to three months after support has expired. Metro desires to be on a current version within 6 months of its release to take advantage of system improvements and efficiencies. Upgrades require functional participation in testing and implementation, which has been added to existing on-going daily assignments, resulting in longer implementation timelines and reduced progress on other division priorities. In addition, Metro risks running business transaction processing on unsupported software which can result in system down time, non-payment of vendors and employees, billing problems with customers, higher consultant costs and difficulties in achieving legal compliance in reporting obligations (e.g., W-2, 1099 issues).

Records management (H) - Accounting Services produces a considerable number of records that must be maintained in accordance with State of Oregon archivist requirements. Performing this function inadequately can result in violations of records retention laws and regulations, inefficiency in accessing information, reduced internal control and increased audit costs.

Policy/procedure documentation – internal (H) for Accounting Services staff use. Due to the recent implementation of PeopleSoft applications and the associated business process redesign that has been implemented as part of this project, written procedure manuals (preferably web-based), have yet to be completed for each of the functional areas (payroll, accounts payable, accounts receivable, general ledger, financial reporting, etc.). The updated procedures would replace those developed under contract in 1991. The impacts of not addressing this area are on-going training issues, greater risk of the lack of adherence to policy and procedure, greater inefficiency in transaction processing, and increased likelihood of audit issues.

PeopleSoft and policy/procedure training (H) for Metro departments. A formal training program should be implemented that provides periodic training in financial, accounting and PeopleSoft topics in order for Metro departments to efficiently carry out their duties in accordance with Metro policy. This training would aid in consistent treatment of transactions and compliance with Metro standards. The impacts here are similar to those noted in the previous paragraph.

PeopleSoft implementation (M) of additional functionality for efficiency gains (allocations, detail budget ledger, drilldowns, workflow). Resources are required to take advantage of additional tools in the software that are available to us, but need dedicated efforts to test and implement. Consequences of not having resources to address these issues are not meeting our customers expectations, and not getting the full return on the investment in technology that is possible. This includes efficiency gains that could help free up resources to address our other needs.

Policy/procedure documentation – external (M) for Metro departmental staff use. Written (preferably web-based) policies and procedures will assist greatly in improving efficiency and consistency of processes and improve overall financial controls and reports. Recent implementation of PeopleSoft applications and business process redesign, as well as recent major GASB pronouncements, make the need even greater. This task, when proposed previously, has been eliminated from budget proposals and is superseded by other assigned priorities. The lack of such procedure manuals results in inconsistency in transaction handling by Metro departments, insufficient and incorrect training of new staff, inefficiency, lower levels of compliance with Metro policy and procedure, and potential violations of Metro Code, Executive Orders and other laws and regulations.

Surprise cash counts/audits (M) of Zoo, REM and Parks. While a goal of quarterly audits is desired and recommended by external auditors as a sound internal control, other priorities have significantly reduced our recent capabilities to reach this level of review and assist Metro departments in maintaining and improving controls over cash receipts. Metro assumes greater risk of cash losses at these facilities and non-compliance with policy and procedure.

Various customer service initiatives (M) – including outreach, problem investigation and resolution, technical assistance, *proactive* problem solving, consulting services. Each year the division has found itself performing less of these services in order to maintain basic transaction level and financial reporting timelines. The result is lower customer satisfaction, lack of compliance with policies and procedures, inefficiency and added work for audit purposes at fiscal year-end.

Change management (M) (procedure, electronic commerce, financial reporting, data access) – Assist Metro departments in implementing change in business process redesign. The impact is lower customer service and increasing inefficiency (and cost).

Benchmarking performance and monitoring (M). PeopleSoft provides the data access tools that have previously not been available to monitor or service levels and develop benchmarks. Development of a benchmarking program for the division has fallen below other assigned priorities and daily transaction processing and reporting. Not performing this function will result in less information available to use as tools to implement efficiencies and monitor performance, and potentially higher costs in transaction processing.

Other PeopleSoft applications (M) (Asset Management, Project/Costing, Time and Labor, Budget) – While efficiencies for Metro as a whole might be gained by implementing one or more of the above applications, resources currently do not exist to make this possible. This topic is to be investigated later this fiscal year.

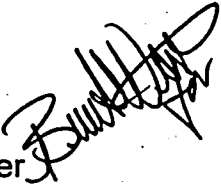
Response to the Report

M E M O R A N D U M

600 NORTHEAST GRAND AVENUE | PORTLAND, OREGON 97232 2736
TEL 503 797 1700 | FAX 503 797 1794



METRO

Date: January 13, 2000
To: Alexis Dow, Metro Auditor
From: Mike Burton, Executive Officer 
Re: Response to Report on Accounting and Finance Benchmarks and Opportunities

Thank you for the opportunity to review and comment on the benchmarking report prepared by your office. I appreciate the observations made in the report and the opportunity to respond. I also want to acknowledge the efforts of my staff in working with you and the Hackett Group in collecting and discussing the data that forms the basis of your report.

Your report focuses primarily on Accounting operations. I with you, am concerned about the lack of resources in Accounting and Finance as evidenced by the observation that "Metro's total accounting and finance costs are very low in relation to revenue." I agree with the recommendation in your report, but would point out that ASD's central service functions will require additional resources to accomplish many of the recommendations.

1. **Accounting and Finance Benchmark Recommendation:** *"Metro should evaluate its level of accounting and finance services to assure it adequately supports management needs and protects Metro's financial standing."*
- **Agreement with Findings and Recommendations:** Agreed.
- **Proposed Action Plan:** I have directed the Chief Financial Officer to prepare the following:
 - Define mission critical financial programs.

- Define essential information, reports, outputs and acceptable levels of performance (distinguishing between true requirements and those services that are "nice to have.")
 - Identify matters that will not be accomplished and the associated risks.
 - Specify the on-going training requirements to assure the plan is accomplished and policies and procedures are followed.
 - Identify and evaluate technological and innovative approaches that may improve Metro's operations.
 - Once this evaluation is completed, I will determine the resources needed to provide an acceptable level of service based upon the above, and recommend necessary resources to Council.
- **Proposed Timetable:** While certain of the plan elements above have already begun, this process will be completed by October 30, 2000. Any additional resources required will have to be approved by Council.
2. **Recommendation:** *"Metro should document its accounting and financial policies and procedures."*
- **Agreement with Findings and Recommendations:** Agreed.
 - **Proposed Action Plan:** Resources have not been available or provided to complete this task, given all other assigned priorities. Development of such a policy and procedure document would permit both more effective customer service and better compliance.

Accounting procedures have undergone significant modification and re-engineering with the implementation of *PeopleSoft* software applications. Written procedure development should be a part of a system implementation work plan. However, resources are not currently available to accomplish all of the needed work. This work includes implementation of upgrades, documentation of the resulting procedures (and keeping this documentation updated with each upgrade and procedure redesign), implementation of major accounting policy changes resulting from GASB pronouncements, performing the work required for added Metro programs and facilities, and continuing the daily business functions of Metro.

As to financial policies, staff reductions in the Financial Planning Division have reduced the ability to formulate and document financial policies other than those contained in the adopted budget. This work effort would include pulling together in one policy and procedure document the existing financial policies.

Finance, Contracts, and Accounting Services staff will work on development of such written policies and procedures *as priorities and budget resources permit*.

- Proposed Timetable: Ongoing and dependent upon priorities and available budget as noted in the financial audit management letter response. Complete by June 30, 2002 or earlier if possible.
- 3. Recommendation: *"Metro should establish materiality levels for journal entries and allocations"*.
- Agreement with Findings and Recommendations: Agreed.
- Proposed Action Plan: I have directed staff to develop a formal recommendation establishing materiality levels for journal entries and allocations.
- Proposed Timetable: Recommendation developed by April 1, 2000.
- 4. Recommendation: *"Metro should simplify its accounting for transactions that use purchasing cards"*.
- Agreement with Findings and Recommendations: Agreed.
- Proposed Action Plan: Metro's Contract Services section is currently involved in a project with the purchasing card service provider (Bank of America) and Metro departments to automate and streamline certain of the functions currently performed. I have directed staff to return to me a recommendation on single accounts for purchasing cards at the completion of the automation process.

In addition, the *PeopleSoft v7.5* Purchasing application has an automated purchasing card application which I have directed staff to evaluate. The upgrade to *PeopleSoft v7.5* is currently being scheduled.

Finally, Metro will:

- Audit the support for purchasing card purchases on a sample basis. This is a current practice.
- Require departments to summarize purchases by chartfield combination (coding). This will be implemented immediately.
- Develop procedures for coding based upon certain dollar limits. This will be implemented immediately.

- Proposed Timetable: I have directed staff to express Metro's urgency to Bank of America on the automation project. Completion is expected by April 30, 2000.
- 5. Recommendation: *"Metro should require all vendor-invoices to be sent directly to the Accounting Services Division."*
- Agreement with Findings and Recommendations: Agreed, with the exception of invoices for MERC, which has a Council-authorized exception to Metro policy and procedure.
- Proposed Action Plan: Accounting Services Division and Purchasing have previously worked together to place this requirement in Metro's standard contract form and implemented this procedure. I will direct operating Departments to comply with this procedure.
- Proposed Timetable: Immediately.
- 6. Recommendation: *"Metro should make full use of e-business applications for improving financial processes."*
- Agreement with Findings and Recommendations: Agreed.
- Proposed Action Plan: This effort is on-going and is one of the fundamental purposes for implementing *PeopleSoft* application software and integrating various technological solutions to business processes. This will require on-going budget resources to accomplish upgrades to the latest versions of the application software.

I am making significant changes in Metro's information technology area in order to emphasis e-government. I am reorganizing the division into a department reporting directly to the Chief Operations Officer with the IT Director a member of cabinet. I am establishing a division within the IT Department dedicated to e-government, web development, and strategic planning. They will work in conjunction with the PeopleSoft Applications Team and functional leads to utilize the e-business capabilities of PeopleSoft.

- Proposed Timetable: Ongoing. Efforts will include internal and external web development, encourage direct deposit, using automated time cards, using electronic payments, etc. These are subject to appropriate budget resources.

General Observation

I understand, as to data interpretation, one of the challenges presented is the definition of a "transaction" for purposes of comparison to the THG database. THG is apparently unwilling to disclose these details without additional

compensation beyond the terms of the current contract. I believe that any discrepancy between definitions would actually strengthen, even more, the recommendations you have made.



Metro Auditor Report Evaluation Form

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Our mission at the Office of the Metro Auditor is to assist and advise Metro in achieving honest, efficient management and full accountability to the public. We strive to provide Metro with accurate information, unbiased analysis and objective recommendations on how best to use public resources in support of the region's well-being.

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



Name of Audit Report: _____

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

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

Suggestions for our report format: _____

Suggestions for future studies: _____

Other comments, ideas, thoughts: _____

Name (optional): _____

Thanks for taking the time to help us.

Fax: 503.797.1831
Mail: Metro Auditor, 600 NE Grand Avenue, Portland, OR 97232-2736
Call: Alexis Dow, CPA, Metro Auditor, 503.797.1891
Email: dowa@metro.dst.or.us

Agenda Item Number 8.1

**Ordinance No. 00-847, For the Purpose of Adopting the Annual Budget for Fiscal Year 2000-01,
making appropriations, and levying ad valorem taxes, and declaring an emergency.**

First Reading

**Metro Council Meeting
Thursday, February 10, 2000
Council Chamber**

BEFORE THE METRO COUNCIL

FOR THE PURPOSE OF ADOPTING THE)
ANNUAL BUDGET FOR FISCAL YEAR)
2000-01, MAKING APPROPRIATIONS,)
AND LEVYING AD VALOREM TAXES, AND)
DECLARING AN EMERGENCY)

ORDINANCE NO. 00-847

Introduced by
Mike Burton, Executive Officer

WHEREAS, the Multnomah County Tax Supervising and Conservation Commission held its public hearing on the annual Metro budget for the fiscal year beginning July 1, 2000, and ending June 30, 2001; and

WHEREAS, recommendations from the Multnomah County Tax Supervising and Conservation Commission have been received by Metro (attached as Exhibit A and made a part of the Ordinance) and considered; now, therefore,

THE METRO COUNCIL ORDAINS AS FOLLOWS:

1. The "Fiscal Year 2000-01 Metro Budget," in the total amount of THREE HUNDRED SEVENTY-SEVEN MILLION NINE HUNDRED EIGHTY-NINE THOUSAND NINE HUNDRED SIXTY (\$377,989,960) DOLLARS, attached hereto as Exhibit B, and the Schedule of Appropriations, attached hereto as Exhibit C, are hereby adopted.

2. The Metro Council does hereby levy ad valorem taxes, as provided in the budget adopted by Section 1 of this Ordinance, at the rate of \$0.0966 per thousand dollars of assessed value for Zoo operations and in the amount of NINETEEN MILLION, NINE HUNDRED FORTY-FIVE THOUSAND, NINE HUNDRED FOUR (\$19,945,904) DOLLARS for general obligation bond debt, said taxes to be levied upon taxable properties within the Metro District for the fiscal year 2000-01. The following allocation and categorization subject to the limits of Section 11b, Article XI of the Oregon Constitution constitute the above aggregate levy.

ADOPTED by the Metro Council on this _____ day of June, 2000.

David Bragdon, Presiding Officer

ATTEST:

Approved as to Form:

Recording Secretary

Daniel B. Cooper, General Counsel

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STAFF REPORT

CONSIDERATION OF ORDINANCE NO. 00-847 ADOPTING THE ANNUAL BUDGET FOR FISCAL YEAR 2000-01, MAKING APPROPRIATIONS AND LEVYING AD VALOREM TAXES, AND DECLARING AN EMERGENCY

Date: January 28, 2000

Presented by: Mike Burton
Executive Officer

FACTUAL BACKGROUND AND ANALYSIS

I am forwarding to the Council for consideration and approval my proposed budget for Fiscal Year 2000-01.

Council action, through Ordinance No. 00-847, is the final step in the process for the adoption of Metro's operating financial plan for the forthcoming fiscal year. Final action by the Council to adopt this plan must be completed by June 30, 2000.

Oregon Revised Statutes 294.635, Oregon Budget Law, requires that Metro prepare and submit Metro's approved budget to the Tax Supervising and Conservation Commission by May 15, 2000. The Commission will conduct a hearing during June 2000 for the purpose of receiving information from the public regarding the Council's approved budget. Following the hearing, the Commission will certify the budget to the Council for adoption and may provide recommendations to the Council regarding any aspect of the budget.

Once the budget plan for Fiscal Year 2000-01 is adopted by the Council, the number of funds and their total dollar amount and the maximum tax levy cannot be amended without review and certification by the Tax Supervising and Conservation Commission. Adjustments, if any, by the Council to increase the level of expenditures in a fund are limited to no more than 10 percent of the total value of any fund's appropriations in the period between Council approval and adoption.

Exhibits B and C of the Ordinance will be available at the public hearing on February 10, 2000.

EXECUTIVE OFFICER'S RECOMMENDATION

The Executive Officer recommends adoption of Ordinance No. 00-847.

MINUTES OF THE METRO COUNCIL MEETING

February 3, 2000

Metro Council Chamber

Councilors Present: David Bragdon (Presiding Officer), Susan McLain, Ed Washington, Rod Park, Bill Atherton, Jon Kvistad

Councilors Absent: Rod Monroe (due to illness)

Presiding Officer Bragdon convened the Regular Council Meeting at 2:00 pm and then turned the meeting over to Deputy Presiding Officer Washington.

1. INTRODUCTIONS

None.

2. CITIZEN COMMUNICATIONS

Mary Manseau, 5230 NW 137th Avenue, Portland, Oregon resides in the Bethany area. She said she was a long-standing citizen of the region and expressed her concerns about information Metro had provided regarding quasi-judicial proceedings, such as the one being held today. She requested that a more predictable pattern for hearings be established and that staff provided clearer written guidelines for giving oral/written testimony. Her written testimony is attached in its entirety to the permanent record of these proceedings.

Councilor Park asked her if she was referencing the Jenkins/Kim quasi-judicial hearing because it had been on-going for several months.

Ms. Manseau said she had originally testified before the hearings officer, and recently received a notice in the mail about today's hearing.

Councilor Park asked Larry Shaw, Senior Assistant Counsel, about the current status of this procedure.

Mr. Shaw responded that this was an unusual procedure because it was a locational adjustment and they are infrequent. They are heard by a hearings officer who takes evidence and summarizes the information for the Council. Evidence to the record occurs at the hearings officer level. There has been a hearings officer report, exceptions to that report from parties who participated in that hearing, and this is the third opportunity for the parties to argue on the existing record, and argue the new ordinance being proposed with its findings. The time for testimony has passed. There is an opportunity for comment at the first reading of the ordinance, prior to Council vote at the second reading. Today is the first reading, a comment opportunity primarily for the parties to discuss evidence already in the record. It would not be proper for the parties or new individuals to present new evidence, only argue the issues in the record.

Deputy Presiding Officer Washington asked that Michael Morrissey speak with Ms. Manseau to make sure her concerns have been addressed.

Councilor Atherton asked if Ms. Manseau had participated in the Bethany, Urban Reserve 65 discussion.

Ms. Manseau said only on the fringes of it.

Councilor Atherton asked if being on the fringes was her decision, or if Metro did not provide her opportunity.

Ms. Manseau responded that it was probably by her choice, but she had an interest in this issue.

Councilor Atherton asked that when issues of this sort, urban growth boundary or locational adjustments, that Metro at least offer to have a meeting in that immediate area.

Deputy Presiding Officer Washington repeated that issues such as this were infrequent. He apologized to Ms. Manseau and thanked her for coming.

Councilor McLain acknowledged Ms. Manseau's concern and noted that changes to the locational adjustment process have been considered, and some changes already made. There are specific rules governing public hearings at the hearings officer level, as well as the Council level. The rules appear to be unfriendly, as verified by Ms. Manseau's comments. Either clarity, or more friendly guidelines need to be addressed. She thanked Ms. Manseau.

Presiding Officer Bragdon explained that this meeting today was being held under strict guidelines mandated by the procedure itself.

Deputy Presiding Officer Washington, again, thanked Ms. Manseau.

3. EXECUTIVE OFFICER COMMUNICATIONS

None.

4. AUDITOR COMMUNICATIONS

Alexis Dow, Metro Auditor, presented two recently issued reports: InfoLink Review Update, and Benchmarks and Opportunities for Information Technology Update.

Ms. Dow said she was concurrently presenting two work-related reports. The InfoLink Review Update is an update of the independent review of Metro's InfoLink project implementation and its internal controls done by Pacific Consulting Group, a little more than a year ago. She said that the Council had provided additional funding for this review. She reviewed Pacific Consulting Group's findings and recommendations and a copy of Ms. Dow's remarks may be found in the permanent record of this meeting.

Councilor Atherton asked Ms. Dow what the new recommendations to conduct a strategic planning session and develop a detailed project plan meant?

Ms. Dow said that it had to do with the four modules that had not been implemented. There were originally eleven modules, seven of which had been implemented. It was originally suggested that there be a session to look at the approach and implementation of the remaining four modules. The Executive Officer said there is no immediate plan to implement those modules. She was

suggesting that a group review what was to be accomplished by implementing those four modules and make sure that it is being addressed by some other means.

Councilor Atherton said that we purchased the four modules but are not going to fully use them, was that correct?

Ms. Dow responded yes, that was correct, and for a variety of reasons, such as availability of manpower, difficulty of installation, and possible redetermination that they may not meet our needs. Nonetheless, these areas need to be addressed either through InfoLink or some other means.

Ms. Dow then reviewed the Information Technology Benchmarks and Opportunities audit, a copy of which may be found in the permanent record of this meeting.

Councilor Kvistad asked about the recommendations concerning staff increases. Did she see the possibility of shifting existing staff or was there a need to increase FTE's.

Ms. Dow responded that Pacific Consulting Group's sense is that the staff is pretty thin right now, without specifically mentioning staff numbers, they recommended an internal study. Then to staff at that level once it has been defined.

Councilor Kvistad asked about hardware. Have recommendations or changes in our existing hardware been made, or did they say that it would be part of the evaluation?

Ms. Dow said they made no recommendations specifically toward hardware. She thought they recognized, specifically with InfoLink, a significant investment was recently made in new hardware and software. That is part of the direction for the on-going evaluation of new technology.

Councilor McLain said that **Ms. Dow** commented on how important it was for Metro to make decisions on whether or not it was economically sound to continue with the four models, and to actually go forward with the current approach. Did they do any analysis on whether the modules would be outdated before the staff was trained on using them? That type of analysis is valuable.

Ms. Dow responded that actually the InfoLink is software, with hardware purchases relative to that. Their primary emphasis was on the software implementation. A year ago, they made specific recommendations regarding the four remaining modules. The purpose of their update was to come in and look at their recommendations and report on the status of them. They did not go back into evaluating the four modules. They were not encouraging the modules be implemented, but that they be looked at by current staff.

Councilor McLain indicated that her understanding was that this was what staff was currently doing. She did not see the difference.

Ms. Dow said that staff had made the decision at some point that it was not practical to implement at this time. She did not know whether or not staff had gone back and looked at it again. What is recommended is that staff review it with respect to implementation or not, and how to address those issues. There were problems with the time accumulation module, but if its not to be implemented, it needs to be looked at. Also, we probably don't need as sophisticated a module as the fixed asset module. Each item needs to be addressed and a firm decision made in each case.

Councilor Park said the essence of the report suggests that Metro was understaffed. Did they find anyone adequately staffed?

Ms. Dow said she did not think they were looking at staffing at maximum levels, but maintenance at a satisfactory level for operations to continue.

Ms. Dow said that in benchmarking, they were looking at the average. The benchmarking, as well as Pacific Consulting, and in a future report to be released by Deloitte Touche all indicated that Metro's staffing was low.

Councilor Park commented on the use of "average."

Ms. Dow said when she was talking about average she meant the middle of what people are doing. We are down at the bottom according to outside consultants.

Councilor Atherton asked about the systems cost per end user. The report shows Metro below the average. What is the explanation for that?

Ms. Dow felt one cause of the higher amount was the significant investment made in InfoLink. This report shows the cost of one fiscal year.

Councilor Atherton said that the report showed that we do almost three times as much equipment, and twice as much software maintenance as average.

Ms. Dow responded that those figures were not in absolute terms, but in percentages relative. We're staffed to the point of keeping things going, not assessing if there is a better way of doing it.

Councilor Atherton asked if the system was adequate, was it serving our needs?

Ms. Dow said she did not believe that our needs were being served adequately.

Councilor McLain asked about resources for review, technology and studies. She asked what were the benchmark assumptions? What are our needs that are not being met?

Ms. Dow said that until recently, members of our staff were not trained. There have been and continue to be aspects of InfoLink that are not being used. They are aspects of things that are being duplicated. When approved, InfoLink was supposed to eliminate duplicate recordkeeping. Departments still keep duplicate records because they have not been trained to use InfoLink. PeopleSoft has constant upgrades. They need to be done timely. The IT Department needs sufficient staff to implement the upgrades in a timely manner or the system will lose its value.

Councilor McLain said there are elements of Ms. Dow's assumptions, and what we need to do to maintain trained staff:

Ms. Dow said in duplication she was not referring to a "hard copy" or an electronic copy, but an electronic copy on PeopleSoft as well as Excel or a like system.

Deputy Presiding Officer Washington suggested that this issue be placed on one of the Informal agendas for further discussion.

5. MPAC COMMUNICATIONS

None.

6. MAKING CLIMATIC CHANGES A LOCAL ISSUE VIDEO

Kurt Nichols, City of Portland and Sam Sadler, the Oregon Office of Energy presented a video on Greenhouse Gases and CO₂ emissions.

Mr. Sadler summarized by saying they agreed Greenhouse Gases were a serious issue, but that there were also opportunities to save energy and save money to help make our communities more livable. The transportation and land use decisions made by Metro will have a great effect on the region's CO₂ emissions. Driving cars and trucks was one of the major sources of carbon dioxide emission in the region. For every mile driven one pound of carbon dioxide is emitted. As Metro has shown one of the most effective tools was compact, integrated transportation and land use systems that give people options on how to get around. The RTP and various documents associated with the 2040 Plan, Framework and guidance documents all demonstrate the kinds of policies needed to address the threat of planet change. Metro also helped when computing capabilities were added to its Traffic Relief Options Study on CO₂ emissions per vehicle mile traveled. In addition its promotion of recycling was important; City of Portland had produced a calculation in 1997 that regional recycling efforts had reduced CO₂ by about .5 million tons.

Mr. Nichols added that energy and CO₂ emissions might also be reduced in Metro-owned buildings and facilities operations. City of Portland adopted a community-wide effort to look at reducing CO₂ emissions in 1993. A 1997 update found that a per capita reduction of 3% had been realized in the Metro area. At the same time there was a 15% population growth that added to an increase in CO₂ emissions. Details were provided in their handouts, which are included in the public record. The second document showed the bottom-line benefits to doing this effort. The City of Portland's energy bills were \$1.7 million/year lower than they would otherwise be. He thought that Metro could enjoy the same sort of savings.

He said that the Convention Center expansion provided an opportunity to both build a model facility and reduce operating costs for that facility. He understood that Pittsburgh was building a "green" center and that issue might be the tiebreaker for an organization like the Sierra Club as to which facility they would bring a convention to. He offered the help of his office to work with the design team on efficient and cost-effective measures that would make the regions citizens proud. Senate Bill 11-49, the electric utility deregulation legislation, would create a sizable fund for public-purpose investment in energy efficiency. He invited Metro to join in a collaborative effort to work on community directed funding with this money.

Mr. Sadler offered the expertise of the Oregon Office of Energy to help continue the leadership Metro had provided to date on recycling and reduction of vehicle emissions.

Councilor Atherton asked about the 15% regional population growth - how were we going to connect the dots so that people understood that their personal behavior related to these problems.

Mr. Nichols responded that it was a process of education as to what individual contributions meant to the global as well as regional problem. They have talked about producing buttons and road signs that would say, "I lost 6,000 pounds, ask me how". A typical family could reduce their CO₂ emissions by 6,000 pounds through some really easy and cost effective actions.

Councilor Atherton asked if the State had thought about changing the pro-growth policy to more growth-neutral. He had prepared a number of documents for Metro on the concept of carrying capacity that is clearly in Metro's charter. It relies on the cost of this type of activity.

Mr. Sadler responded that they had not considered the population growth directly, but in relation to what could be done individually. He did not think that the State had a policy on dealing with population growth directly.

Councilor Park mentioned the craving of emerging third-world countries for the American life-style and the energy costs that this life-style entails. Councilor Atherton brought up immigrations polices - have you considered how these might be integrated into your studies.

Mr. Sadler responded that Federal immigration policies are beyond the purview of the State. International discussions under the United Nations Climate Change Convention the Kyoto Protocol called for developed countries to significantly reduce their emissions, but did not address the developing countries. China, for instance, which in effect subsidized its energy costs, had reduced its growth rate in CO₂ emissions. On the incentive side, a new Portland-based organization will help developing countries acquire more renewable, more energy efficient technologies. He said that often American companies sold older, less efficient systems to these developing countries. This organization would promote the most advanced technologies to them instead.

Deputy Presiding Officer Washington provided the names of Miss Berit Stevenson at Metro, or Mr. Jeff Blosser, at the Convention Center, as contact people for energy efficiency discussions of the new construction.

7. CONSENT AGENDA

7.1 Consideration of minutes of the January 27, 2000 Regular Council Meeting.

Motion: Councilor Bragdon moved to adopt the meeting minutes of January 27, 2000 Regular Council meeting.

Seconded: Councilor Kvistad seconded the motion.

Vote: The vote was 6 aye/ 0 nay/ 0 abstain. The motion passed with Councilor Monroe absent from the vote.

Presiding Officer Bragdon indicated that on page 5 the St. Anthony's Village location was on SE Rhone.

8. ORDINANCES – FIRST READING-QUASI-JUDICIAL PROCEEDINGS

Larry Shaw, Senior Assistant Counsel, reviewed the rules of the quasi-judicial proceedings.

Deputy Presiding Officer Washington called Mr. Cox, attorney for the applicant and Ms. Cook, attorney for Malinowski Farms, to the testimony tables. Mr. Greg Malinowski of Malinowski farms had also asked to testify. He asked Mr. Malinowski if his testimony was applicable to the rules as stated by Mr. Shaw about new testimony.

(Mr. Malinowski's was not at a microphone and his words were not understandable on the tape.)

Mr. Shaw said testimony meant evidence; Mr. Malinowski could be allowed to comment on the evidence.

Deputy Presiding Officer Washington said Mr. Malinowski could comment after both attorneys had testified if he still wished to do so. He called a brief recess to before continuing the testimony.

8.1 **Ordinance No. 00-843, For the Purpose of Approving Urban Growth Boundary Locational Adjustment 98-7; and adopting the findings, conclusions and final order.**

Christine Cook, 1207 SW 6th Ave., Portland OR read her comments into the record (a copy of which may be found in the permanent record of this meeting).

Councilor McLain asked about Mr. Malinowski - she understood that he had given Ms. Cook two of his 3-minute time for comments.

Ms. Cook indicated that she would like to use that time for rebuttal.

William C. Cox, 0244 SW California St., Portland, OR objected to the opportunity to allow Mr. Malinowski to speak as Ms. Cook was representing the Malinowski Farms and it was inappropriate for their group to get extra time. He indicated that he was the urban environmental nightmare as the third child of a family who moved here looking for a job. He said that Ms. Cook had presented nothing new that had not been previously presented. The first half of her memorandum was irrelevant as it was an "or" test. His client proceeded with the alternative test of retention of agricultural land: that it would make the provision of urban services impractical. Several hearings have been held on this and Mr. Malinowski has appeared on numerous occasions.

He stated that the decision that this Board made after hearing all that was that indeed this was the most practicable solution as to hold otherwise would make the development of the adjacent area inside the Urban Growth Boundary (UGB) impractical. There was testimony that the Unified Sewer Agency (USA) would not accept pump stations and that the availability of Sewer was impractical. As to the issue of timeliness, the question is not relevant because of the previous determination of need for additional urban property in the metropolitan area. He believed that the other issues Ms. Cook raised are inappropriate at this point. Mr. Eric Eiseman, who worked with the planning group on assembling the evidence, was also available to answer any questions from the Council.

Deputy Presiding Officer Washington asked Mr. Shaw for clarification regarding Mr. Cox's objection to the sharing of information of the two attorneys and the witness, Mr. Malinowski.

Mr. Shaw responded that the word in the ruling was "parties" and it was the Chair's option as to how he interpreted that. It would expand the scope of the hearing and could be done, but it would be done at the Chair's discretion.

Deputy Presiding Officer Washington said that the testimony was to be 5-minutes from each side and he would hold to that understanding. He gave Ms. Cook the previously mentioned 2-minutes to respond at this time.

Ms. Cook responded that she represented Malinowski Farm, not the individual Malinowskis. They are different entities. The findings before Council stated that development of the Malinowski property was precluded. She disagreed with Mr. Cox as to what was before Council. She said that it would be impractical to develop the Malinowski property due to the sewer, but the findings do not respond to Mr. Malinowski's presentation of an alternative, flat, treeless sewer route. She did not believe that the evidence supported the notion that his route was less practicable than going through the Malinowski property. She agreed that the matter of pump stations were irrelevant.

Deputy Presiding Officer Washington called for questions.

Councilor Park asked Mr. Shaw about the alternate route - was it in the original testimony.

Mr. Shaw responded that he was not present at the original testimony and could not remember.

Councilor McLain said it was verbalized in previous testimony.

Councilor Atherton asked if there was anything in the record about USA using pump stations in any of their service areas.

Ms. Cook could not respond to that question, but it was not contested.

Councilor Atherton asked if there was anything in the record regarding the change in State law providing for agricultural use inside a UGB for removal from the UGB. He believed that a statute had passed and signed into law that agricultural uses inside the UGB could demand to be removed from the UGB - the Malinowski property might fit this category.

Councilor Park said SB 586 was passed after the beginning of this particular process and that precluded it from application to this matter at this point.

Mr. Shaw said he thought Councilor Park was correct, based on the effective date of the statute.

Deputy Presiding Officer Washington asked if the council was going beyond the record.

Mr. Shaw responded yes.

Deputy Presiding Officer Washington asked Mr. Shaw to notify the Council if it happened in the future.

Mr. Cox agreed.

Councilor Atherton (tape unintelligible) said he had asked to see if the Council could vote to open the hearing record to add that information to the record.

Mr. Shaw said the Council always has the option on locational adjustments to send it back to the hearings officer or reopen the record.

Councilor Park said he did not think any discussion of 586 would be relevant until the actual application is made to remove the property from the UGB and until the Council decides to send it back. On the other hand, the question of agricultural activity is relevant. He said he understood why the location of the UGB is so important. Once an area is brought inside, all the laws and

regulations that apply to area inside the UGB come into play. Obviously, agricultural activity occurs inside the UGB, but you are farming inside the UGB. That battle is over. If 586 and other things come to bear, those factors might be different. He said the current Metro Code is ambiguous, which is the reason Metro staff is rewriting it. But State law is specific in this.

Councilor McLain said she had voted against this ordinance originally because it did not meet the criteria for agricultural use and similarly situated land. She was not convinced that a county or city boundary constituted a significant difference in geography, soil quality, or landscape. As to the Metro Code, she knew of no place in the Code that allows decisions to be made "on balance." She said she felt obligated to vote according to how the Code reads now, not how it might read after some ambiguities have been cleared up. She said that even if one were evaluating the situation "on balance," it would not apply to either agricultural uses or similarly situated land. She said in her view locational adjustments should be unusual circumstances, when it would provide an opportunity for providing services that would allow urbanization of land already inside the UGB. The case for that has not been made here.

Deputy Presiding Officer Washington reminded the Council that the ordinance was only being first-read today; no action would be taken.

Councilor Atherton said he thought the question of "balancing" versus strict criteria had been settled in the legal precedent of League of Women Voters of West Clackamas County vs. Metropolitan Service District, 1989. The key point was that UGB adjustments do not relate to need, but rather to meeting strict criteria. In his view, Ms. Cook's letter confirms that. He asked if there were arguments against that critical point.

Mr. Cox said he thought Ms. Cook's letter had confused the issues. The standards are as announced in the Code. The Code uses words in many places that require balance. For example, the word "net" requires balancing. He said in his view Ms. Cook had combined standards in ways they were not intended to be combined, and they did not represent an appropriate reading of the law.

Mr. Shaw said Mr. Cox, Ms. Cook, and Councilor Atherton were all correct. The whole process of locational adjustment is one that is unusual and it has been upheld by the courts with the understanding that the standards in the Code would be followed. Those standards do not include the question of need, because the size of the parcels are so small as to be within the "thickness of the line" of the UGB. To that extent, all the parties agree. The disagreement lies in whether the provisions in the Code have been followed. Inside that disagreement some of the criteria are balancing and others are not.

Councilor Atherton asked which criteria do not require balance.

Mr. Shaw said the ones that do not have words like "net" in them.

Mr. Cox gave examples of terms that imply balancing. On page 18 of the findings there is the term "clearly outweighs." That is a balancing test. There is the term "superiority" on page 20, and on page 17, the word "positive." They all require balancing. As counsel has emphasized, locational adjustments are unusual.

Deputy Presiding Officer Washington opened a public hearing on Ordinance No. 00-843.

Councilor Kvistad questioned the propriety of opening a public hearing to allow the Malinowskis to testify. He thought their counsel had already used up the time allotted for quasi-judicial proceedings.

Mr. Shaw said the Council could hear comments as long as no new evidence was presented.

Councilor Kvistad asked whether the Malinowski's comments would be in addition to those made by their legal counsel.

Mr. Shaw said counsel had represented the Malinowskis as a corporation rather than the Malinowskis as individuals. The comments would come from the Malinowskis as individuals.

Mr. Cox said he understood Ms. Cook to say she represented Malinowski Farms without indicating whether that referred to the farm as a separate public entity or private entity. If the brothers were each allowed three additional minutes, then his client should also be given an opportunity to respond. That said, he said he thought that allowing more testimony would be violating due process.

Mr. Shaw said the Council had the discretion to allow comment beyond that allowed for each party and to decide whether Ms. Cook represented corporate counsel or individual counsel. The Council also had the discretion to allow the opposing interests to comment as private citizens as well.

Presiding Officer Bragdon disclosed an ex parte contact. He said he had received a telephone call from Greg Malinowski. He had asked Mr. Malinowski to stop speaking at that point and hung up. He had asked Mr. Cooper if would be permissible to listen. Mr. Cooper advised him not to. He asked why he had been advised against taking that phone call but was allowed to hear his comments today.

Mr. Shaw responded that the concept of ex-parte contact applies only to quasi-judicial hearings, where all the information presented must be while you are sitting quasi-judicially. In legislative situations you may receive information and be lobbied outside this room. The purpose of the ex-parte rule is to ensure that the substance of what you heard gets heard by everyone else making the decision. If you had heard something of substance before you stopped the conversation, you would need to repeat the substance of that so the rest of the decision-makers could hear it.

Ms. Cook said she had not claimed to represent a corporation, rather the Malinowski Farm. The farm is not equivalent to Greg and Richard Malinowski. Second, Greg and Richard Malinowski have said they would waive any comments today.

Councilor Kvistad said that if general testimony were to be allowed, then all parties should be allowed to participate. The other option would be to not allow any further public testimony.

Councilor Park asked if there would be a public hearing at the second reading.

Mr. Shaw said a public hearing could be offered, but it must not present new evidence.

Councilor Kvistad said that in the past when the Council had been in quasi-judicial hearings, comments had not been allowed beyond the five minutes allotted to each party.

Deputy Presiding Officer Washington elected not to hold the public hearing.

Mr. Cox said both attorneys agreed not to request the opportunity for more testimony. He said he was surprised the Metro Code allowed for it in quasi-judicial proceedings.

9. COUNCILOR COMMUNICATIONS

Councilor McLain thanked Charlie Ciecko and Jim Desmond and the park staff for their work to correct the misconceptions presented by a story that had recently been published by the *Willamette Week*. She praised the open space bond-measure acquisition program for preserving open space for the future. She praised the structure of the program, which includes willing seller requirements with appropriate assessments and appraisals. She noted that the staff had always asked for Council consideration of special circumstances. She congratulated staff on the way it had handled this controversy. She noted that Metro had bought from willing sellers, paid fair-market value, and added to the public inventory of open space throughout the region. She thanked the staff for spending public money wisely.

Presiding Officer Bragdon expressed his high level of confidence in the information that the Parks and Greenspaces had provided to the Council. He said the department's service to the public had been first-class. He thought the article in the *Willamette Week* was completely irresponsible, clearly guided by some type of vendetta.

Councilor Park spoke about a Multnomah County meeting regarding the new transit lodging tax. He said 15 people testified in favor of certain portions of it and no one testified in opposition. He had testified on behalf of those who had negotiated an east county solution. He thanked the mayors and city councils of Gresham, Fairview, and Wood Village and Mayor Paul Thalhoffer and Councilor Daust of Troutdale for working with him to devise a win-win situation. He said he hope it would be expanded in terms of the transit lodging tax to other parts of the Metro region. He applauded members of the hotel/motel industry for being willing to tax themselves to expand the Convention Center, the Center for the Performing Arts, certain areas served by transit, and—what has been most controversial—fixing civic stadium.

Councilor Park also addressed the openspaces controversy. He said he had voted for the bond measure as a citizen. He said after having served on the Council and seen it work from behind the scenes, he was an even greater supporter. He said he understood how confusing it might be to an outsider to see a dollar figure offered to Metro that was less than what a private party might have offered. He said he knew individuals who did that on purpose, as a public gesture and to see good land preserved. He read into the record a letter the editor of *Willamette Week* from Gussie McRobert (attached to the public record) explaining one situation that had been misinterpreted in the article.

Councilor Park said he understood a second article would be coming out on this issue. He said he hoped the reporter would contact former mayor McRobert and obtain all the facts in a coherent fashion. He expressed his confidence in the staff.

Councilor Kvistad said that the Executive Officer would be announcing some good news regarding transportation to the staff on Monday. Councilor Kvistad said he would make that announcement public after that.

Regarding the article on greenspaces, he said in the beginning of the program there were some rough spots. But he did not believe those early rough spots deserved the article the *Willamette*

Week just published. He expressed his support for the greenspaces program and the staff that has implemented it.

Presiding Officer Bragdon addressed what some people have perceived to be differences between the Council and Executive's policies regarding the Marine Fisheries Service for D Rule. He said that was a misstatement and that Metro would have a unified policy. He said that the Marine Fisheries would be coming before the Growth Management Committee next Tuesday at 3:30 to talk about the rule, and any policy statements on it would come from the Council.

Deputy Presiding Officer Washington closed by adding his confidence in and support for the greenspaces department.

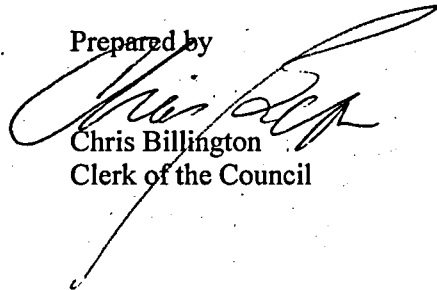
He announced that final action on Ordinance No. 00-843 would take place at the Council meeting on February 24, 2000.

Councilor McLain announced that Goal 5 workshops would be taking place at different locations throughout the region in the next two weeks, beginning February 8.

10. ADJOURN

There being no further business to come before the Metro Council, Presiding Officer Bragdon adjourned the meeting at 4:22 PM.

Prepared by



Chris Billington
Clerk of the Council

BEFORE THE METRO COUNCIL

FOR THE PURPOSE OF ADOPTING THE)
ANNUAL BUDGET FOR FISCAL YEAR)
2000-01, MAKING APPROPRIATIONS,)
AND LEVYING AD VALOREM TAXES, AND)
DECLARING AN EMERGENCY)

ORDINANCE NO. 00-847

Introduced by
Mike Burton, Executive Officer

WHEREAS, the Multnomah County Tax Supervising and Conservation Commission held its public hearing on the annual Metro budget for the fiscal year beginning July 1, 2000, and ending June 30, 2001; and

WHEREAS, recommendations from the Multnomah County Tax Supervising and Conservation Commission have been received by Metro (attached as Exhibit A and made a part of the Ordinance) and considered; now, therefore,

THE METRO COUNCIL ORDAINS AS FOLLOWS:

1. The "Fiscal Year 2000-01 Metro Budget," in the total amount of THREE HUNDRED SEVENTY-SEVEN MILLION NINE HUNDRED EIGHTY-NINE THOUSAND NINE HUNDRED SIXTY (\$377,989,960) DOLLARS, attached hereto as Exhibit B, and the Schedule of Appropriations, attached hereto as Exhibit C, are hereby adopted.

2. The Metro Council does hereby levy ad valorem taxes, as provided in the budget adopted by Section 1 of this Ordinance, at the rate of \$0.0966 per thousand dollars of assessed value for Zoo operations and in the amount of NINETEEN MILLION, NINE HUNDRED FORTY-FIVE THOUSAND, NINE HUNDRED FOUR (\$19,945,904) DOLLARS for general obligation bond debt, said taxes to be levied upon taxable properties within the Metro District for the fiscal year 2000-01. The following allocation and categorization subject to the limits of Section 11b, Article XI of the Oregon Constitution constitute the above aggregate levy.

SUMMARY OF AD VALOREM TAX LEVY

	<u>Subject to the General Government Limitation</u>	<u>Excluded from the Limitation</u>
Zoo Tax Base	\$0.0966/\$1,000	
General Obligation Bond Levy		\$19,945,904

3. An interfund loan not to exceed TWO HUNDRED THOUSAND DOLLARS (\$200,000) is hereby authorized from the Risk Management Fund to the General Obligation Bond Debt Service Fund. The loan is anticipated to provide cash flow for debt service payments on the outstanding general obligation bonds in the possible event that fund balance carry-over is insufficient to fund the first quarter FY 2000-01 debt service. The loan will be re-paid in FY 2000-01 from general obligation debt property tax levy. Interest shall be paid on the loan amount from the date of draw based on Metro's monthly pooled investment yield as calculated by the Department of Administrative Services.

4. In accordance with Section 2.02.125 of the Metro Code, the Metro Council hereby authorizes positions and expenditures in accordance with the Annual Budget adopted by Section 1 of this Ordinance, and hereby appropriates funds for the fiscal year beginning July 1, 2000, from the funds and for the purposes listed in the Schedule of Appropriations, Exhibit C.

5. Pursuant to Metro Code 2.04.026(b) the Council designated the contracts which have significant impact on Metro for FY 2000-01 and their designations as shown in Exhibit D, attached hereto.

6. The Executive Officer shall make the filings as required by ORS 294.555 and ORS 310.060, or as requested by the Assessor's Office of Clackamas, Multnomah, and Washington Counties.

7. This Ordinance being necessary for the health, safety, or welfare of the Metro area, for the reason that the new fiscal year begins July 1, 2000, and Oregon Budget Law requires the adoption of a budget prior to the beginning of the fiscal year, an emergency is declared to exist and the Ordinance takes effect upon passage.

ADOPTED by the Metro Council on this _____ day of June, 2000.

David Bragdon, Presiding Officer

ATTEST:

Approved as to Form:

Recording Secretary

Daniel B. Cooper, General Counsel

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STAFF REPORT

CONSIDERATION OF ORDINANCE NO. 00-847 ADOPTING THE ANNUAL BUDGET FOR FISCAL YEAR 2000-01, MAKING APPROPRIATIONS AND LEVYING AD VALOREM TAXES, AND DECLARING AN EMERGENCY

Date: January 28, 2000

Presented by: Mike Burton
Executive Officer

FACTUAL BACKGROUND AND ANALYSIS

I am forwarding to the Council for consideration and approval my proposed budget for Fiscal Year 2000-01.

Council action, through Ordinance No. 00-847, is the final step in the process for the adoption of Metro's operating financial plan for the forthcoming fiscal year. Final action by the Council to adopt this plan must be completed by June 30, 2000.

Oregon Revised Statutes 294.635, Oregon Budget Law, requires that Metro prepare and submit Metro's approved budget to the Tax Supervising and Conservation Commission by May 15, 2000. The Commission will conduct a hearing during June 2000 for the purpose of receiving information from the public regarding the Council's approved budget. Following the hearing, the Commission will certify the budget to the Council for adoption and may provide recommendations to the Council regarding any aspect of the budget.

Once the budget plan for Fiscal Year 2000-01 is adopted by the Council, the number of funds and their total dollar amount and the maximum tax levy cannot be amended without review and certification by the Tax Supervising and Conservation Commission. Adjustments, if any, by the Council to increase the level of expenditures in a fund are limited to no more than 10 percent of the total value of any fund's appropriations in the period between Council approval and adoption.

Exhibits B and C of the Ordinance will be available at the public hearing on February 10, 2000.

EXECUTIVE OFFICER'S RECOMMENDATION

The Executive Officer recommends adoption of Ordinance No. 00-847.

**METRO**

DATE: February 8, 2000

TO: Executive Officer Mike Burton
Presiding Officer David Bragdon and Metro Council
ASD Director and Chief Financial Officer Jennifer Sims
Metro Department Heads

FROM: Susan McLain, Chair Budget & Finance Committee *Susan*

RE: FY 2000-01 Budget Schedule and Process

Following the presentation of the proposed FY 2000-01 budget by Executive Officer Burton on February 10, the Council will initiate its budget review process at the February 16 meeting of the Budget and Finance Committee. I have attached a proposed committee meeting schedule that will be finalized at that meeting. A total of seven meetings have been scheduled with two additional dates (April 3 and April 17) set aside if additional work is needed. The full Council has scheduled four public hearings on the budget, prior to submitting the approved budget to TSCC and one will be held on June 22, after the TSCC Hearing.

Individual department and fund budgets will be considered in three large groupings. These include:

- General Fund-Related Departments (Growth Management, Transportation, Parks, and the Executive Office and Council)
- Support Service Fund-Related Departments (ASD, Human Resources, Information Technology, the Auditor, Office of General Council and Office of Citizen Involvement)
- Enterprise Departments/Funds (Zoo, REM and MERC)

The review of each department's budget will be a three-step process. First, department representatives will make a 15 minute presentation to the committee. This presentation should focus on the following areas:

- Describe the basic departmental programs, costs and FTE
- Budget policy issues that should be addressed by the committee
- Programmatic changes in the budget, including related staffing changes
- New programs initiated in this budget
- Impact on the department's ability to perform charter-related mandates
- Long-term financial needs of the department, particularly those not addressed in the budget
- Current Council Policy as Reflected in the Proposed Budget
- Coordination with Council Committee work plans

Councilors will ask questions and identify policy or other budgetary issues that they wish to have further considered during the review process.

February 8, 2000

Page 2

During the second step of the review process, the Council analysts will review the proposed departmental budgets and identify issues and questions based on this review and the committee discussion. These issues and questions will be submitted to the departments for a response. The analysts will then meet with department representatives to consider their response.

The final step of the process will be one or more Committee worksessions on the department's budget. At these sessions, the Council analysts and individuals may present amendments to the proposed budget. It is anticipated that all proposed amendments will first be heard in committee prior to full Council consideration of the budget.

A form is being developed for use by staff and Councilors in proposing amendments. The form will include space for identifying the purpose and amount of the amendment, the affected line item, programmatic impact, and arguments in support of the amendment.

Committee work on the budget will be completed by April 17.

Attach

**FY 2000-01 Budget Hearings
Committee and Council Schedule**

DATE	MEETING	AGENDA ITEM	PRESENTER	FUNDING SOURCE	ANALYST
Thursday Feb 10 2:00 PM	Council	<ul style="list-style-type: none"> • Executive Officer Budget Presentation • PUBLIC HEARING 	Burton	Entire Budget	Houser/ Morrissey
Wednesday Feb 16 1:30 PM	Committee <i>Presentations</i>	<ul style="list-style-type: none"> • Finalize Committee Meeting Schedule • General Fund Department Presentations: Growth Management Transportation Parks and Greenspaces Executive Office Council • Background on Alternative Funding Sources 	McLain/Houser Wilkerson Cotugno Ciecko Burton Bragdon ASD staff	Planning Fund Planning Fund Open Space, Reg. Parks Fund, Reg. Parks & Smith & Bybee Lakes Trust Funds General Fund General Fund	Morrissey Houser Morrissey Houser
Thursday Feb 17 2:00 PM	Council Fairview Village	<ul style="list-style-type: none"> ▪ PUBLIC HEARING 	N/A	Entire Budget	Houser/ Morrissey
Wednesday Mar 1 1:30 PM	Committee <i>Presentations/ Analysis</i>	<ul style="list-style-type: none"> ▪ Enterprise Fund Presentations: REM (Regional Environmental Management) Zoo MERC (Metropolitan Exposition-Recreation Commission) ▪ Report on Status of Agency Capital Reserves ▪ Distribution of Council Analyst Questions/Issues Related to General Fund Departments 	Petersen Vecchio Williams ASD Staff Houser/Morrissey	Solid Waste Revenue Fund Zoo Operating/Capital Funds MERC Operating/Capital Funds General Fund	Houser Morrissey Morrissey
Monday Mar 6 1:30 PM	Committee <i>Presentations/ Analysis</i>	<ul style="list-style-type: none"> • Support Service Fund/Miscellaneous Fund Presentations: Administrative Services Department Human Resources Department Information Technology Department Auditors Office Office of General Counsel Office of Citizen Involvement Executive Office/Council (Support Services) Building Management/Risk Management Funds ▪ Distribution of Council Analyst/Issues Related to General Fund Departments 	Sims Scott Scott Dow Cooper Exec Ofc/Council Exec Ofc/Council ASD Staff Houser/ Morrissey	Support Services Fund	Houser
Thursday Mar 9 7:00 PM	Council	<ul style="list-style-type: none"> • PUBLIC HEARING 	N/A	Entire Budget	Houser/ Morrissey

DATE	MEETING	AGENDA ITEM	PRESENTER	FUNDING SOURCE	ANALYST
Wednesday Mar 15 1:30 PM	Committee <i>Action & Analysis</i>	<ul style="list-style-type: none"> ▪ Work Session Related to General Fund Departments (Consideration of Analyst Recommendations) ▪ Distribution of Council Analyst Questions/Issues Related to Support Services/Miscellaneous Funds 	ASD Staff Department Staff Council Staff	Support Services Fund	Houser/ Morrissey
Wednesday Mar 29 1:30 PM	Committee <i>Action & Analysis</i>	<ul style="list-style-type: none"> • Work Session Related to Support Services/ Miscellaneous Funds (Consideration of Analyst Recommendations) • Distribution of Council Analyst Questions/Issues Related to Enterprise Fund Departments 	ASD Staff Department Staff Council Staff	Support Services Fund	Houser/ Morrissey
Monday April 3 1:30 PM	Committee (IF NEEDED) <i>Action & Analysis</i>	<ul style="list-style-type: none"> • Work Session Related to Support Services/ Miscellaneous Funds (Consideration of Analyst Recommendations) 	ASD Staff Department Staff Council Staff	Entire Budget	Houser/ Morrissey
Wednesday April 12 1:30 PM	Committee <i>Analysis & Amendment</i>	<ul style="list-style-type: none"> • Work Session Related to Enterprise Fund Departments (Consideration of Analyst Recommendations) • Consideration of Technical Budget Amendments • Consideration of Department-Generated Substantive Amendments • Final Committee Action on the Budget 	ASD Staff Department Staff Council Staff	Entire Budget	Houser/ Morrissey
Monday April 17 1:30 PM	Committee (IF NEEDED) <i>Analysis, Amendment & Action</i>	<ul style="list-style-type: none"> • Work Session Related to Enterprise Fund Departments (Consideration of Analyst Recommendations) • Consideration of Technical Budget Amendments • Consideration of Department-Generated Substantive Amendments • Final Committee Action on the Budget 	ASD Staff Department Staff Council Staff	Entire Budget	Houser/ Morrissey
Thursday April 27 2:00 PM	Council	<ul style="list-style-type: none"> • ADOPTION OF APPROVED BUDGET BY ORDINANCE FOR THE PURPOSE OF FORWARDING THE BUDGET TO THE TSCC • PUBLIC HEARING 	ASD Staff Department Staff Council Staff	Entire Budget	Houser/ Morrissey
TBD		<ul style="list-style-type: none"> • TSCC Hearing 			
Thursday June 22 7:00 PM	Council <i>Final Amendment & Action</i>	<ul style="list-style-type: none"> • PUBLIC HEARING ON FINAL BUDGET 			

Revised 2/9/00

NOTES:

1. All meetings are in the Council Chamber unless otherwise noted
2. Public Hearings on the budget are scheduled at regular Council meetings rather than at budget committee meetings
3. If you have questions regarding the budget process, please contact Pat Weathers at 797-1560



METRO

To: All Councilors

From: Councilor Susan McLain, Budget and Finance Committee Chair

Re: Committee Work Plan

Date: February 10, 2000

During calendar year 2000, the Budget and Finance Committee will be focusing its attention in three principal areas. These include: 1) review and adoption of the FY 2000-01 agency budget, 2) identifying current and future funding sources for long-term agency capital and renewal and replacement needs, and 3) identifying one or more primary long-term fund sources for the agency's non-enterprise funded programs.

FY 2000-01 Budget. The short-term element of the committee's work plan will focus on the FY 2000-01 budget. A committee and Council meeting and worksessions schedule has been developed for consideration of the budget which include four opportunities for public comment. The committee's work will, of necessity, consider the effect of our limited general fund resources on charter-mandated functions, the ability to continue non-mandated programs and organizational changes that could reduce costs and make the agency more effective in meeting its goals and missions.

During the debate on the budget, the committee also will receive reports related to long-term capital needs and potential funding sources. These reports and the related committee discussion will help in addressing these issues in the proposed budget and serve as a starting point for the remainder of the committee's work plan.

Long-Term Capital and Renewal and Replacement Needs. Following completion of the committee's work on the proposed budget in April, it will initiate a review of the policy and funding issues related to the agency's long-term capital and renewal and replacement needs. Each of Metro's major enterprise activities (Zoo, MERC, and Solid Waste) include significant facilities that must be maintained and upgraded on both a short and long-term basis. In addition, the agency must maintain Metro Center and provide an efficient and up-to-date information management system.

The annual Capital Improvement Plan (CIP) has clearly shown that the long-term capital and renewal and replacement needs of the agency exceed our current ability to fund them. Much of the agency has no source of funds that is dedicated for this purpose. The committee's work will focus on updating current needs and resources, reviewing how individual departments address capital and renewal and replacement needs and the development of new policy/funding mechanisms for addressing these needs. It is

anticipated that the committee's work and related full Council action would be completed by October, in time to be implemented in the next CIP and the FY 01-02 budget.

Examination of Agency Funding Sources. At the same time that the committee begins its discussion of capital needs, it also will begin an in-depth review of the need for a funding source for Metro's functions that are not financed by enterprise revenues. Many of these functions, such as growth management and related transportation planning are charter-mandated. The region's voters have approved other activities, such as the purchase and preservation of open spaces.

As the growth rate in gross revenue from the excise tax has flattened out in recent years, the ability to adequately finance Metro's non-revenue producing programs now exceeds the projected tax revenues. In the past, Metro has examined a wide range of potential funding sources. The need to continue to adequately fund our charter and voter-approved functions now requires that we revisit the need for a primary non-enterprise funding source for the agency.

The committee will be reviewing past efforts to examine various revenue sources and current charter and legislative limitations on revenue sources. Committee recommendations related to potential funding sources will be finalized prior to the end of the calendar year.

PROPOSED FY 2000-01 BUDGET AMENDMENT

PRESENTER: _____
DRAFTER: _____
DATE FILED: _____
BUDGET COMMITTEE REVIEW DATE: _____

PROPOSED AMENDMENT:

AFFECTED DEPARTMENT/FUND(S):

AFFECTED LINE ITEM(S):

PROGRAM/STAFFING IMPACTS:

ARGUMENTS IN FAVOR OF PROPOSED AMENDMENT:

**Executive Officer's
Proposed Budget**

Fiscal Year 2000-2001

**"...We're challenged, as mankind
has never been challenged before,
to prove maturity and mastery, not
of nature, but of ourselves."**

- Rachel Carson

Metro Milestones

- ◆ **2040 Concept**
- ◆ **Functional Plan**
- ◆ **Open Spaces**

Enterprise Accomplishments

- ◆ **Oregon Zoo**
- ◆ **Convention and Expo centers**
- ◆ **Solid waste enhancements**

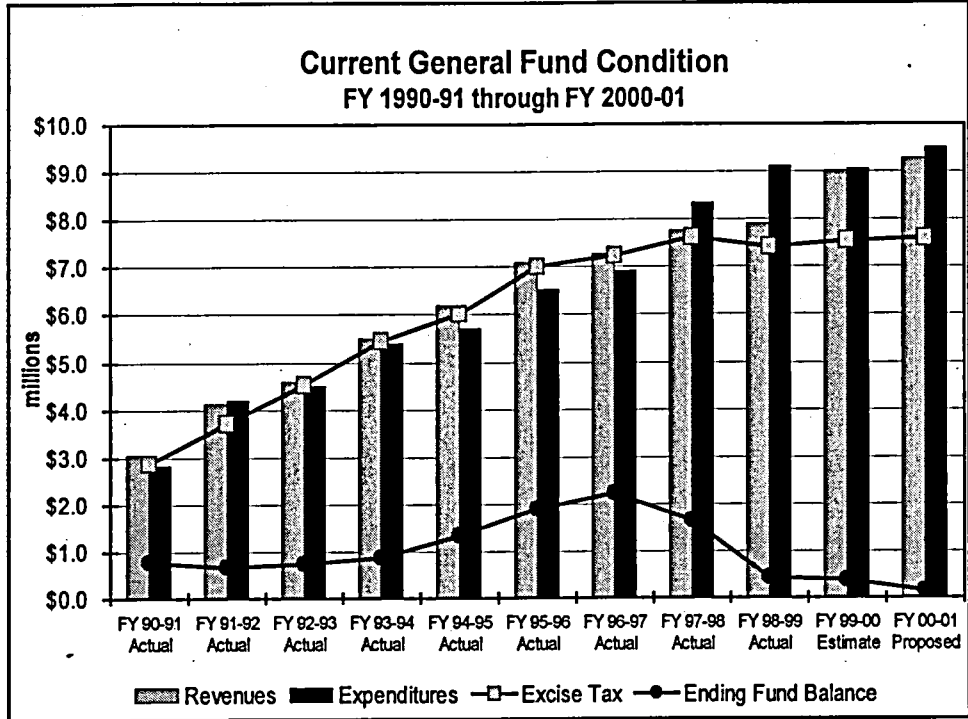
What's Next?

Metro Responsibilities

- ◆ **Protect fish and Wildlife**
 - Habitat, stormwater, watershed management (State Goal 5, ESA 4d)
- ◆ **Protect farmland**
 - UGB expansion into exception lands
- ◆ **Preserve natural areas**
 - Open space acquisition & accessibility

Financial Resources

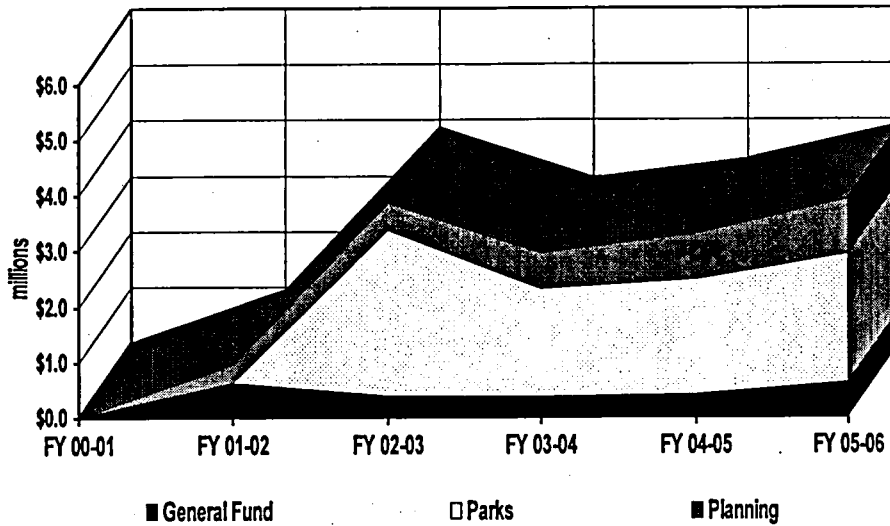
- ◆ **Excise tax revenue is flat**
- ◆ **Costs are rising**
- ◆ **Reserves are nearly depleted**



- ## Actions Taken in FY 1999-00
-
- ◆ **FY 1999-2000 adopted budget**
 - Eliminated local planning grants
 - Cut material & services expenditures

 - ◆ **Mid-year reductions**
 - \$700,000 expense reductions
 - \$400,000 ending fund balance for General Fund

Projected General Revenue Gap



3 Strategies

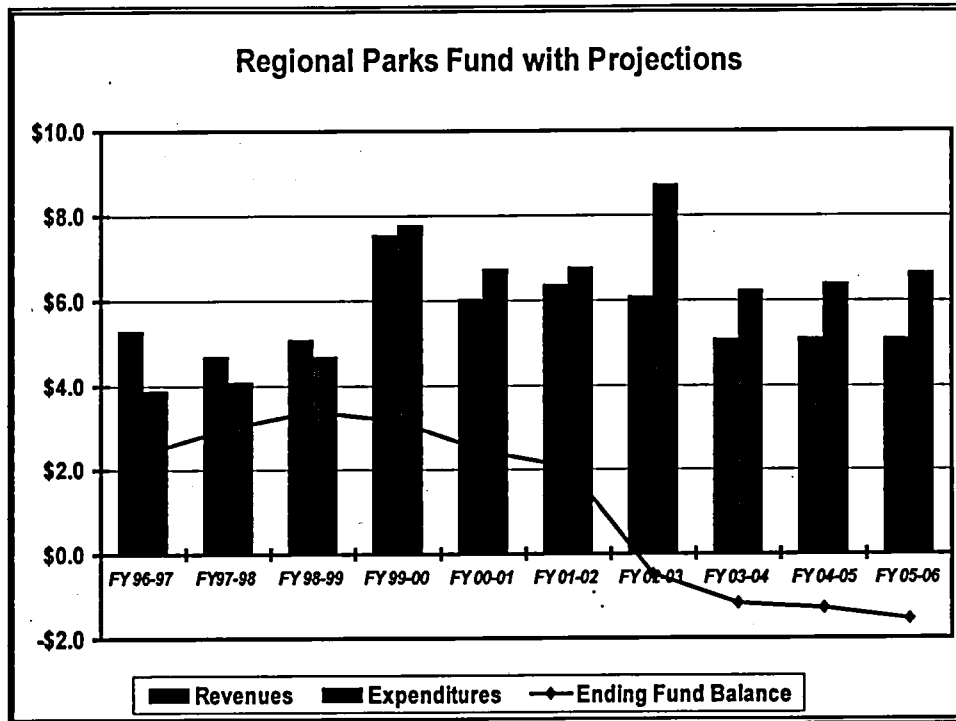
- ◆ **Focus now on highest priorities**
 - Immediate action
 - Reallocate resources, reorganize effort
- ◆ **Reduce expenses in FY 2000-01 budget**
 - Cut programs and staff
- ◆ **Seek new voter-approved revenue**

Focus on Priorities

- **Priority Tasks**
 - Habitat protection (G5)
 - UGB expansion
 - Stormwater (ESA 4d)
- **Information Technology**
- **Replace MERC**
- **Committee staffing**
- **Allocate administrative Costs**

Reduce Expenses

- **Cut FTE due to reduced funding**
 - ASD (2.5 FTE)
 - Council (1.0 FTE)
 - Exec. Mgmt. (2.4 FTE)
 - Growth Mgmt. (3.0 FTE)
 - Transportation (4.0 FTE)
- **Program reductions**
 - Grants to non-profits
 - New master planning in Parks
 - New Financial system modules
 - Committee staffing
 - Functional plan compliance monitoring
- **Use of unrestricted reserves**



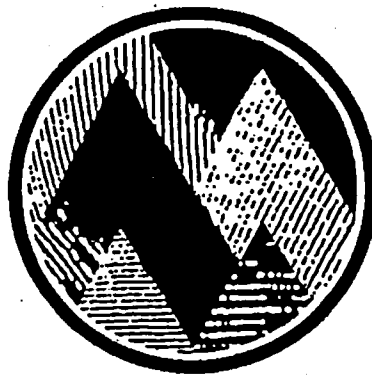
New Revenue

- ◆ **New revenue source**
 - Voter approved
 - November 2000
- ◆ **2nd generation 2040 goals and tasks**
- ◆ **Consider multiple options**

"...Clean air, clean water, open spaces--these once again should be the birthright of every American. If we act now, they can be."

- Richard Nixon

State of the Union, 1970



METRO

Metro Auditor January 2000 Reports

Alexis Dow, CPA

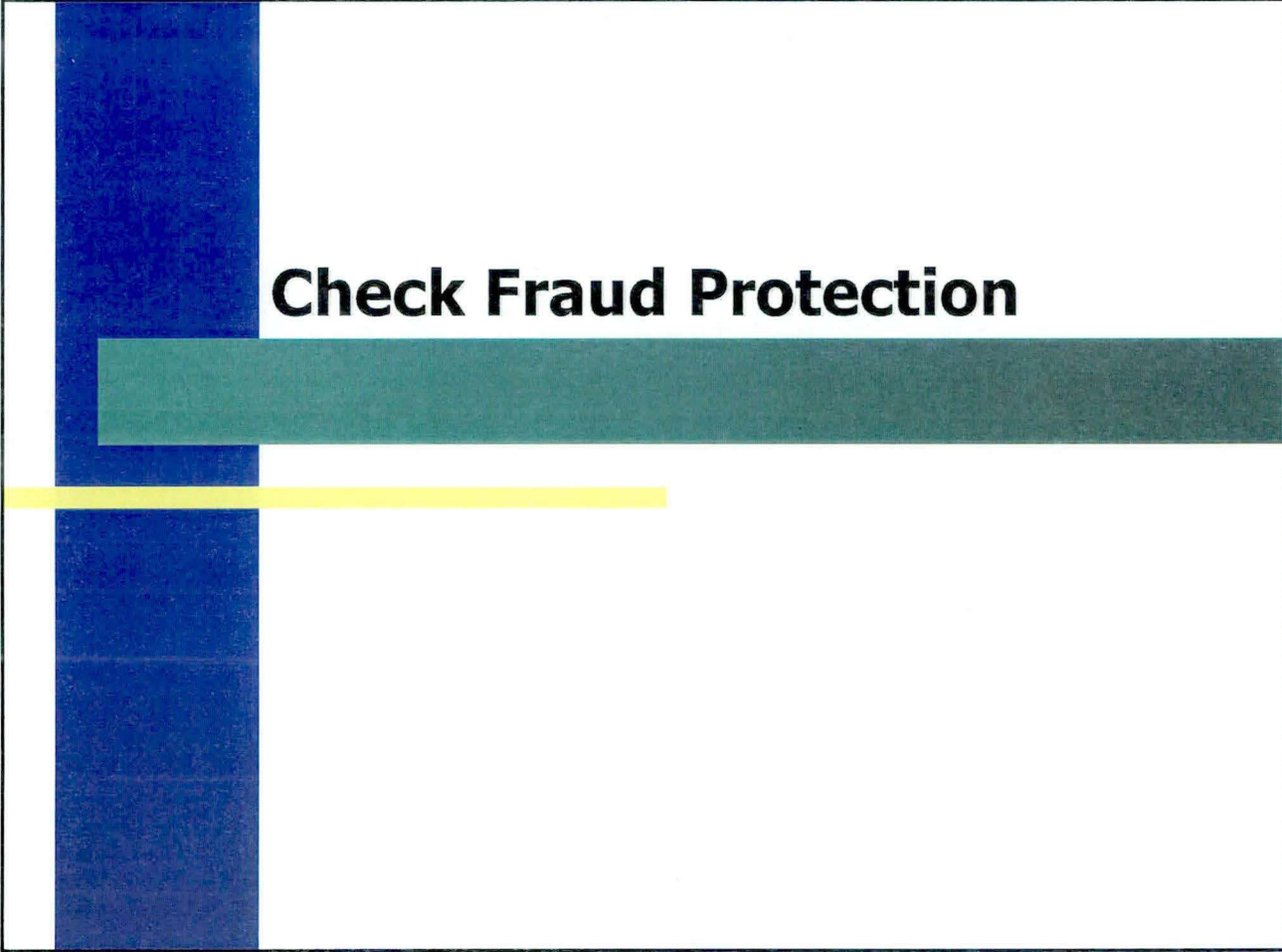
Accounting Services Division

Check Fraud

**Accounting and Finance
Benchmarks and Opportunities**

Deloitte & Touche Management Letter

021000-06



Check Fraud Protection

Increasing Problem Nationally

- Check fraud - nationally and locally - has increased substantially since 1988
- Inexpensive professional-quality electronic publishing and copying technology is readily available

Objectives

- Evaluate Metro's vulnerability to check fraud
- Determine the best practices to protect against check fraud
- Recommend protective measures

Good News

- NSF checks are a relatively small problem due to low dollar volume
- Risk of loss from fraudulent checks cashed at Metro facilities is mitigated by existing check cashing procedures

Check Fraud at Metro

- In June and July 1999, 12 counterfeit or altered Metro checks were circulated
- Only 2 in previous 17 years
- Metro has not yet lost money due to check fraud

Recommendation

- Adopt a Positive Pay system for better protection against potential check fraud related to counterfeit and altered Metro checks
 - Shifts risk of loss to bank
 - Cost is negligible - less than \$1000/year
 - Procedures no more burdensome than current ones
 - City of Portland, Multnomah County and Clackamas County already use Positive Pay



**Accounting and Finance
Benchmarks and Opportunities**

What Is Benchmarking?

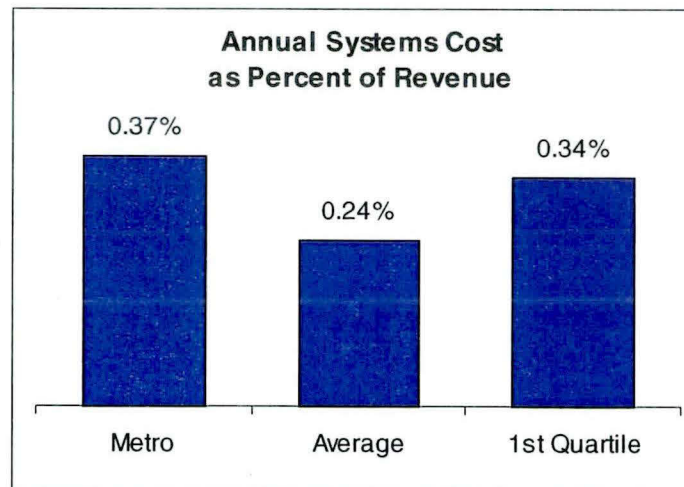
- Diagnostic management tool
- Looked at “best practices” of more than 100 organizations and compared with Metro’s current processes
- Not an absolute measure
- Benchmarking consultant -
The Hackett Group

Benchmarking Helps Achieve:

- Building on others' work, experience and successes
- Working smarter toward effective results
- Enhancing agency accountability and public trust

Metro Excels in Some Areas

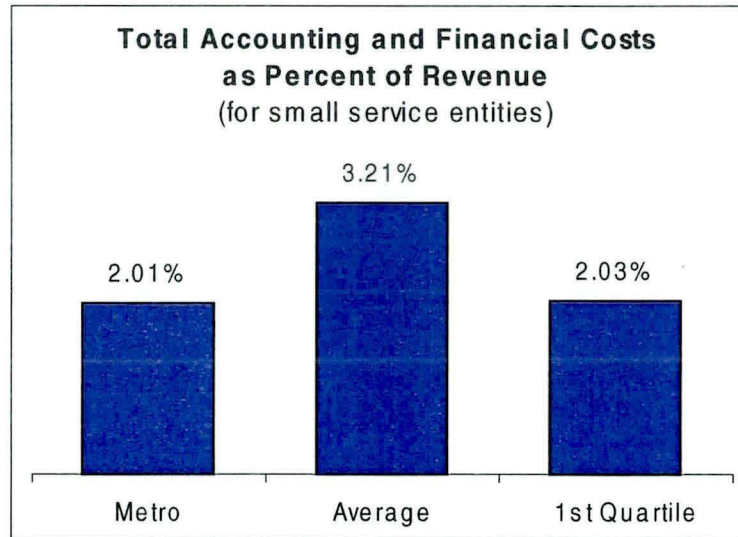
- Investment in technology



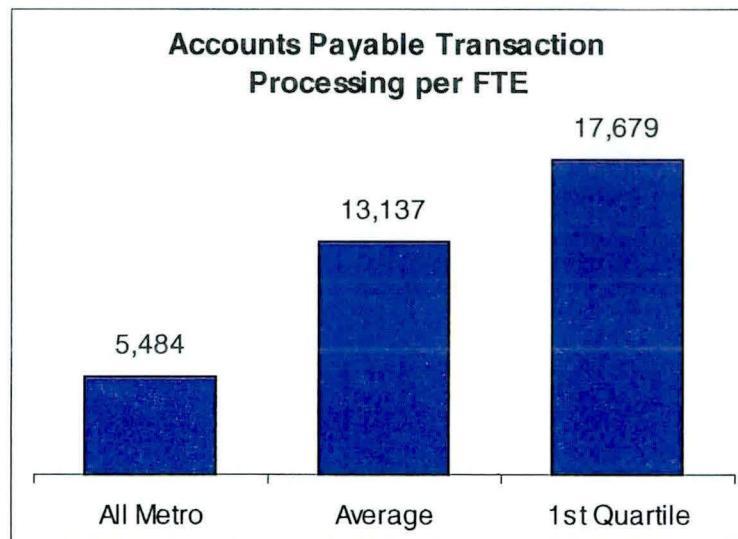
Areas for Improvement

- Investment in overall accounting and finance activities is low
- Some important work is not being done
- Known inefficiencies are going uncorrected
- Technology can be better utilized
 - Simplify accounting systems and integrate with core accounting processes
 - Streamline systems to eliminate duplication
 - Train more staff how to use potential offered by IT systems

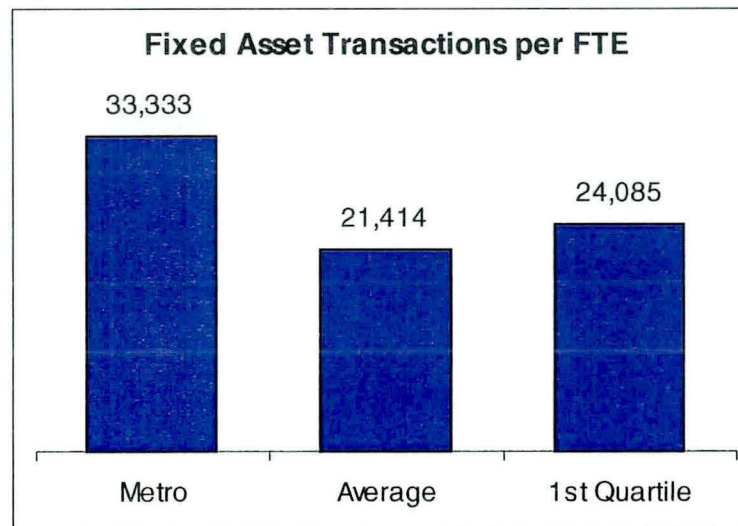
Accounting and Finance Costs



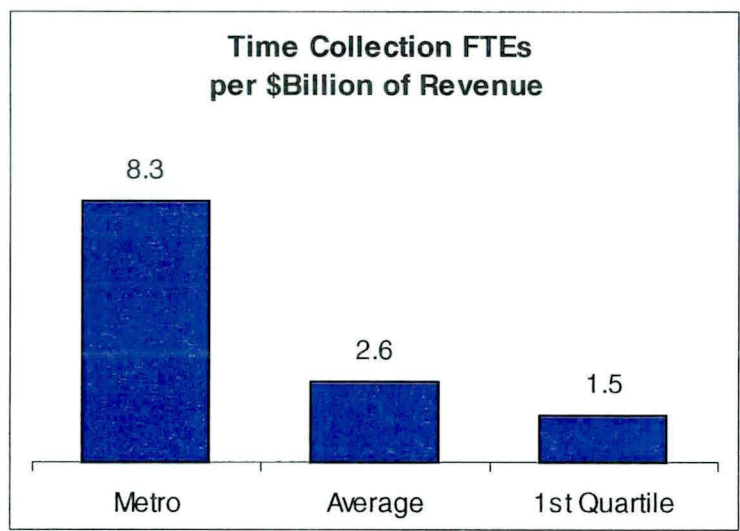
Accounts Payable



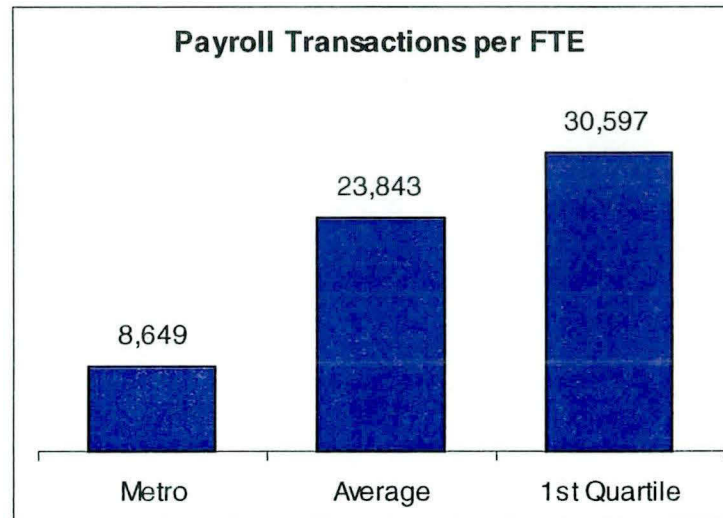
Fixed Assets



Time Collection



Payroll Transactions



Best Way to Address Situation

- Realize \$ are limited
- Define level of accounting Metro needs and provide necessary resources
 - Information necessary for decision making
 - Efficient and effective transaction processing
 - Internal controls to ensure information is accurate and assets are safeguarded
- Develop a plan to identify what is necessary, what won't get done and associated risks
- Keep looking for ways to be more efficient

Recommendations

- Establish materiality levels for making accounting adjustments
- Streamline purchasing card processing to reduce coding, auditing, and accounting
- Receive all invoices centrally to eliminate unnecessary duplication of effort
- Document financial and accounting policies and procedures
- Continually investigate electronic methods for increasing efficiency



**Deloitte & Touche
Management Recommendations**

Background

- As part of its audit of Metro's financial statements, Deloitte & Touche LLP studied Metro's internal control
- Noted no material weaknesses
- Observed other matters related to Metro's internal control and some operating matters

Areas for Improvement

- Information systems
- Accounting and administrative
- Compliance

Recommendations - Information Systems

- Will be covered in Council work session addressing IT

Recommendations - Accounting/Administrative

- Study newly issued GASB Statement No. 34 and plan for implementation
- Stay current with accounting duties
 - Physically inventory all fixed assets biannually
 - Establish an allowance for potential bad debts based on an aging analysis
 - Adjust cash account reconciling items in a timely manner, including MERC accounts
- Update policies and procedures manual to reflect implementation of PeopleSoft

Recommendations - Compliance

- Update the Transportation Planning Federal Regulation contract attachment to address conflict of interest

Summary

- Consider using Positive Pay to better protect against check fraud
- Strive to improve accounting productivity
 - simplify systems
 - make better use of technology
- Complete important accounting work in a timely manner
- Prepare for GASB #34 requirements
- Update policies and procedures manual

Metro Budget

Proposed Budget FY 2000-01

Volume 1

- Budget Message from the Executive Officer
- Budget Overview
- Budget Summary
- Department Summaries
- Fund Summaries
- Debt Summary
- Appendices
- Addendum - Executive Officer
Recommendation on MERC

Volume 2

- Line Item Detail
- Appendices



METRO

021000-08

Oregonian
Feb 4, 2000

Metro Environment

CLOSE-UP

Study evaluates 7 options for salmon

Scientists' findings show that breaching dams could be cheaper than leaving them in place

By JONATHAN BRINCKMAN
THE OREGONIAN

Breaching four federal dams on the lower Snake River would be a cheaper and more effective way to save endangered salmon than concentrating only on restoring habitat, according to a study released this week.

The study, conducted for the Northwest Power Planning Council, is the first to calculate the economic costs and biological effects of a range of alternatives for restoring threatened and endangered fish and wildlife in the Columbia River Basin.

The National Marine Fisheries Service, which must recommend by May whether to breach the dams, has said it might make more sense to leave dams in place, at least for now. The U.S. Army Corps of Engineers also is evaluating the effects of breaching the dams. The power council, made up of representatives from the four Northwest states, has no authority over federal dams.

The most expensive of the seven options the power council study evaluated calls for the region to undertake the maximum effort to restore the Columbia River Basin ecosystem. That would involve breaching six big federal dams and would increase the number of wild chinook salmon by 306 percent, the study says.

The least expensive option, which calls for maximizing the economic benefits of the federal hydropower system, including power production and irrigation, would increase the number of wild salmon by less than 50 percent, the study says.

Breaching four lower dams on the lower Snake River would cost less and bring back more fish than a recovery strategy that would leave dams in place while making an all-out effort to protect and restore the rivers and streams where salmon spawn, the study concluded.

"This is the first study by an authoritative agency that debunks the notion that you can get more fish back by not breaching dams," said Eric Bloch, one of Gov. John Kitzhaber's two appointees to the power planning council.

Although Kitzhaber has not endorsed breaching the dams, Bloch said, "this is an important piece of information that the citizens of the region and the (four Northwest) governors will be considering."

In the 1800s as many as 16 million salmon and steelhead trout returned each year to the Columbia River Basin to spawn. Today only about 1 million adult fish make it back, and most are hatchery bred. Biologists cite a combination of causes, including poor ocean conditions, overfishing, bad hatchery practices and loss of fish habitat because of dams, overgrazing, logging and urban development.

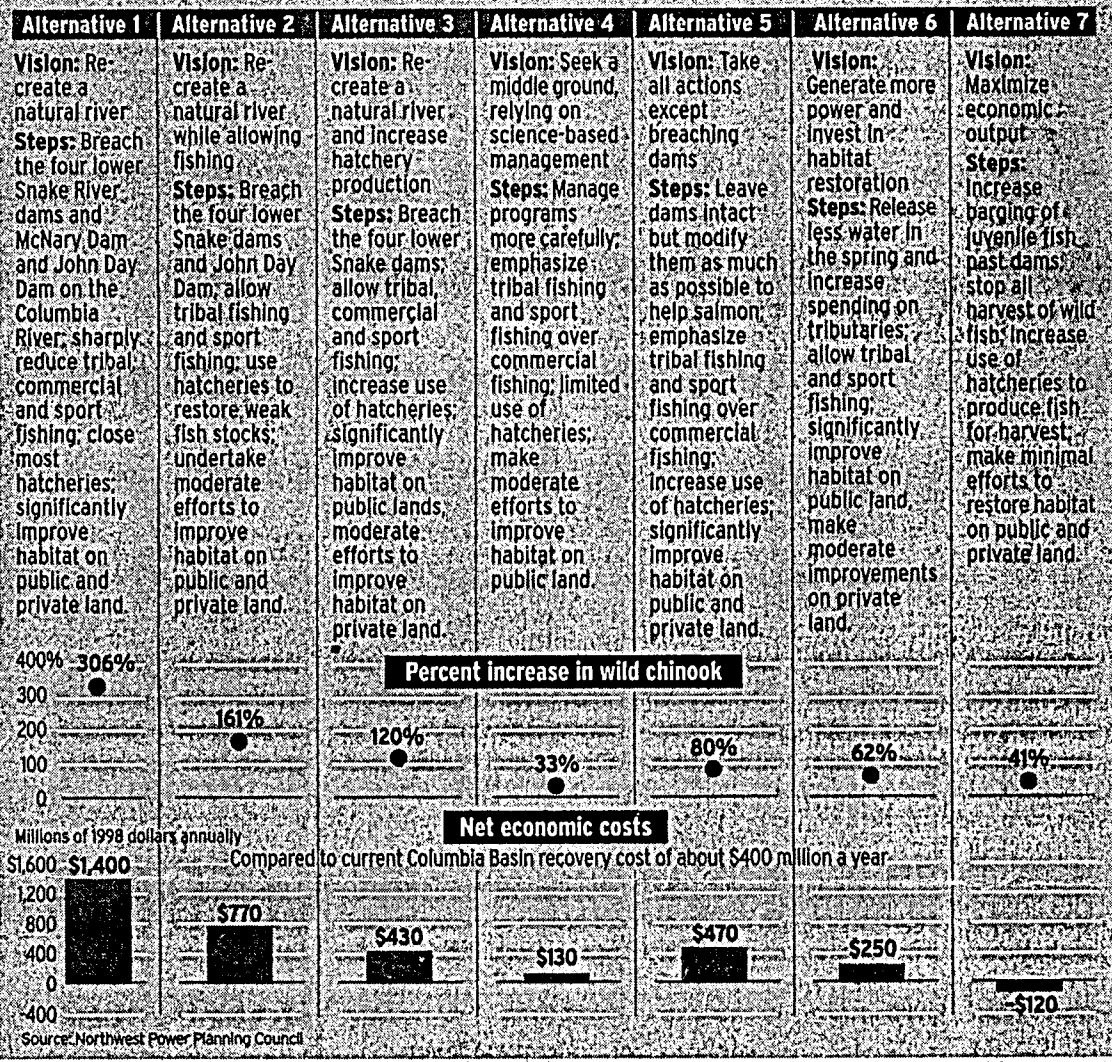
The scientists didn't pick a preferred alternative among the seven options. Choosing a strategy for restoring Columbia Basin fish and wildlife will require deciding how much the region should spend, who will pay and how much risk of losing species is acceptable, they said.

VISIONS FOR A RIVER

The four Northwest states, the federal government and the tribes have spent more than a year developing seven alternative visions for the Columbia River Basin. This week, scientists released preliminary calculations of how many more chinook salmon each alternative would restore to the basin and what each alternative would cost.



U.S. ARMY CORPS OF ENGINEERS



DAN AGUIAYO, TEXT BY JONATHAN BRINCKMAN/THE OREGONIAN

ferred alternative among the seven options. Choosing a strategy for restoring Columbia Basin fish and wildlife will require deciding how much the region should spend, who will pay and how much risk of losing species is acceptable, they said.

"This analysis puts decision-makers on the hot seat," said Larry Cassidy, chairman of the power council and one of two Washington state appointees. "The science makes it clear that there are different ways to protect and restore our fish and wildlife. The science makes it equally clear that policymakers must choose the level of risk they are willing to accept, both economically and environmentally."

The study released this week, called the Multi-Species Framework Project, was begun 18 months ago after a panel of independent scientists said in 1996 that the council's efforts were failing because they lacked an underlying scientific foundation and conceptual framework. The council is amending its wildlife program, which guides its funding recommendations.

Chip McConaha, a power council biologist, said the analysis makes some tentative conclusions, among them that:

◆ Taking no additional action will mean the continued loss of fish and wildlife in the Columbia River Basin.

◆ Stopping the loss of species will require significant changes in the hydroelectric system, in agriculture, in logging, in urban development and in sport and commercial fishing. The "easy" things have been done, McConaha said.

John Saven, executive director of Northwest Irrigation Utilities, a trade association of 22 electric utilities, praised the study for evaluating all the possible ways of helping fish and wildlife. "This is the one forum where the policymakers have said, 'Let's look at all the alternatives,'" Saven said. "We need to look at things which seem like they have a good opportunity of working without wrecking the economy."

Rob Lothrop, a policy analyst with the Columbia River Inter-Tribal Fish Commission, which represents four tribes with treaty rights to Columbia salmon, said the analysis shows that breaching the four Snake River dams makes sense. "Breaching dams is an option that needs to be on the table. It's an option that clearly has economic and biologic viability."

Ecological modeling for the framework study, which cost \$2.35 million, is being done by Mobrond Biometrics of Vashon Island, Wash., with computer analysis by Batelle Pacific Northwest in Seattle.

The scientists have completed a preliminary analysis of the effects of each alternative on levels of chinook salmon.

They will examine five other indicator species: steelhead, bull trout, black bear, beaver and bald eagles. The results are available on the project's Web site at www.nwframework.org.

You can reach Jonathan Brinckman at 503-221-8190 or by e-mail at jbrinckman@news.oregonian.com.



WASHINGTON COUNTY OREGON

TO: RURAL RR-5, AF-5 AND AF-10 PROPERTY OWNERS IN WASHINGTON COUNTY

FROM: THE WASHINGTON COUNTY BOARD OF COMMISSIONERS, TOM BRIAN, CHAIRMAN

SUBJECT: PROPOSED NEW ADMINISTRATIVE RULES FROM THE STATE DEPARTMENT OF LAND CONSERVATION AND DEVELOPMENT

Tom Brian

DATE: 02/04/00

As your elected County Commission, we thought it would be helpful to alert you to a proposed change in state land use regulations that may affect the use of your rural property, in particular the ability to create new parcels and the right to build on existing vacant parcels. The State Department of Land Conservation and Development (DLCD) is developing new administrative rules related to State Land Use Goal 14, *Urbanization*. The rules are intended to protect rural residential areas from being used for urban types and levels of development.

In regard to the ability to create new parcels, the proposed rules would require the creation of parcels of at least ten acres if the proposed parcel is within two miles of the Portland Metro Urban Growth Boundary (UGB). A map of the proposed two-mile UGB buffer is enclosed.

Concerning the ability to build one house on an existing vacant parcel, the proposed rule could require additional analysis, coordination and regulatory scrutiny primarily associated with providing appropriate rural services. This may or may not lead to a conclusion a vacant parcel is buildable.

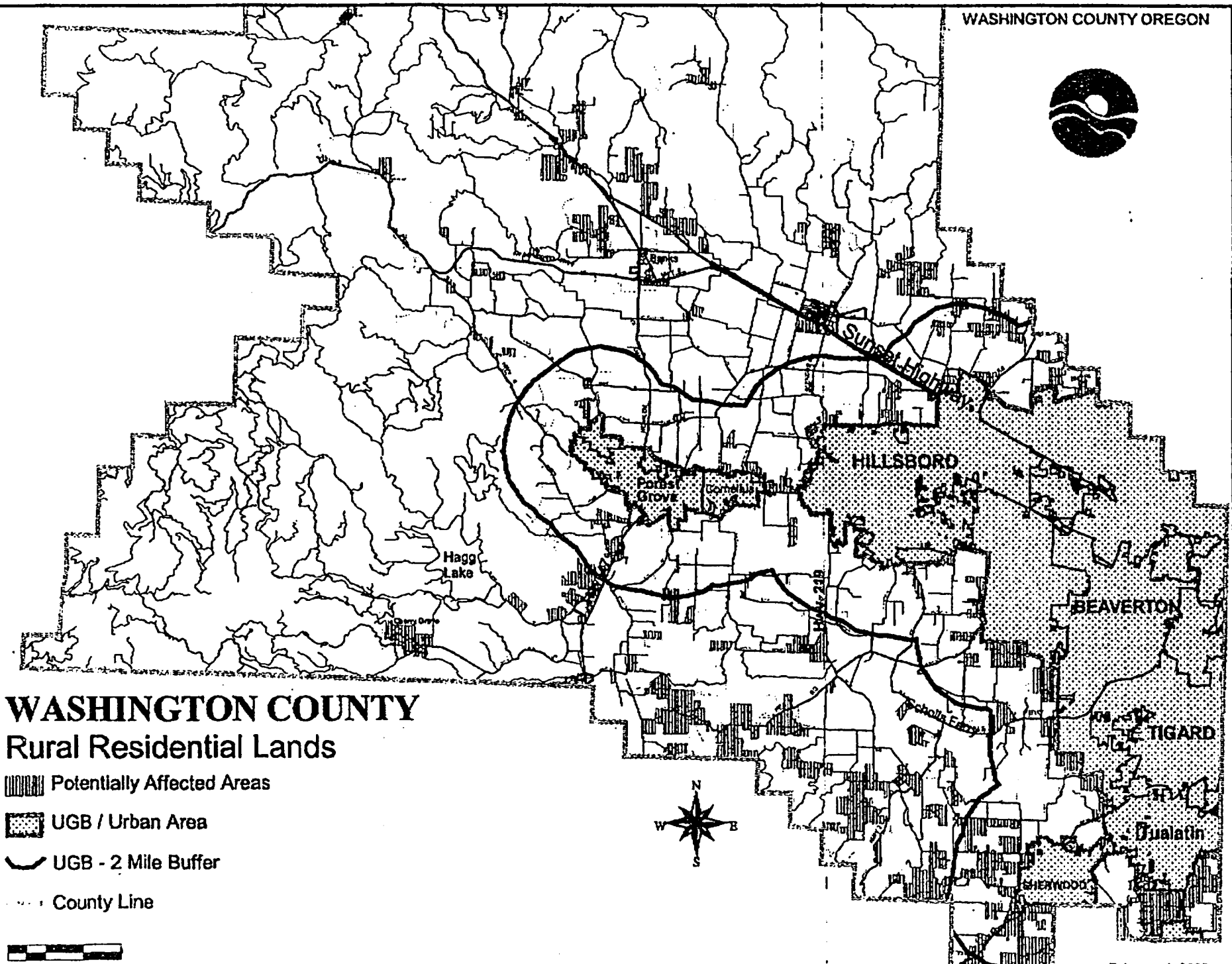
Our intention is to make you aware of the public review and rule adoption process, should you care to participate. A public hearing was held December 17, 1999. The second public hearing is scheduled for March 9 and 10, 2000 in Salem. The commission and staff will accept written comments until the March hearing is closed. For more information, contact Oregon's Department of Land Conservation and Development. Their address is:

Department of Land Conservation and Development, 635 Capital Street NE, Suite 200,
Salem, Oregon 97301-2540

Phone 503.373.0050





Fax 503.378.5518

Web www.lcd.state.or.us



WASHINGTON COUNTY

Rural Residential Lands

-  Potentially Affected Areas
-  UGB / Urban Area
-  UGB - 2 Mile Buffer
-  County Line

