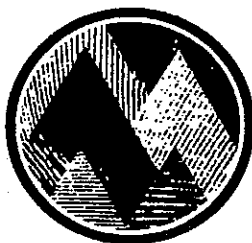


Metro

***Metro's Financial
Trends 1993 - 1997***

September 1998

A Report by the Office of the Auditor



METRO

1998-10133-AUD

**Alexis Dow, CPA
Metro Auditor**



METRO

OFFICE OF THE AUDITOR

September 28, 1998

Councilor Jon Kvistad, Presiding Officer
Councilor Patricia McCaig
Councilor Ruth McFarland
Councilor Susan McLain
Councilor Rod Monroe
Councilor Don Morissette
Councilor Ed Washington
Mike Burton, Executive Officer

Re: Metro's Financial Trends, 1993 - 1997

We evaluated Metro's financial condition by tracking 31 financial indicators for a five-year period, 1993 to 1997. Financial condition is the measure of an organization's ability to finance services on a continuing basis. We undertook this study as part of our annual audit plan and expect to update these indicators biannually.

Metro is in strong financial condition. Some of the key indicators include:

- More than 60 percent of Metro's revenue comes from user and service fees, with no dependence on property taxes for operations other than at the zoo.
- Metro's bonded debt remains relatively low, despite tripling during the five-year period.
- There is an appropriate level of reserves.
- 80 percent of Metro's capital assets are in good or excellent condition.

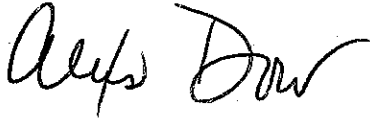
While the overall evaluation is strong, some indicators warrant attention. Metro appears to be growing more reliant on grants and shared government funds, and some departments regularly budget more grant revenue than is actually received. Also, unused vacation time is a growing unfunded liability.

Executive Officer Mike Burton reviewed a draft of this report, and his written response is attached.

It is our hope that this report will provide you with valuable information and give the public a better understanding of Metro's financial condition.

We appreciate the cooperation and assistance provided by staff throughout Metro who worked with us as we collected and interpreted data, notably staff from the Accounting and Financial Planning Divisions.

Very truly yours,

A handwritten signature in black ink that reads "Alexis Dow". The signature is written in a cursive, flowing style.

Alexis Dow, CPA
Metro Auditor

AD:ems

Auditor: Leo Kenyon

Contents

Summary	1
Favorable Financial Trends	1
Unfavorable Trends and Possible Threats	2
Recommendation	2
Summary of Indicators	3
Introduction	5
What is Good Financial Condition?	6
Analysis of Financial Condition	6
Objectives, Scope and Methodology	6
Revenue	9
1 Sources of Metro's Revenue	11
2 Operating Revenue per Capita	13
3 Property Tax Revenue	14
4 Uncollected Property taxes	15
5 Intergovernmental Revenue	16
6 Elastic Revenue	17
7 Restricted Operating Revenue	18
8 Revenue Shortfalls	19
Expenditures	21
9 Operating Expenditures per Capita	23
10 User Charge Coverage	24
11 Fixed Costs	25
12 Metro Employees per 1,000 Residents	26
13 Employee Fringe Benefits	27
Operating Position and Debt	29
14 Operating Revenue Over (Under) Expenditures	31
15 Unreserved Fund Balances	32
16 Liquidity	33
17 Current Liabilities	34
18 Net Direct Bonded Long-term Debt	35
19 Accumulated Employee Leave	36
Fixed Assets	37
20 Capital Outlay	39
21 Physical Condition of Metro's Major Capital Assets	40
22 Depreciation Expense and Accumulated Depreciation	41
23 Planned Capital Improvements 1999-2003	42

Enterprise Operations	43
24 Net Income (Loss)	
A Solid Waste Revenue Fund	45
B Convention Center Fund	46
25 User Charge Coverage	47
26 Liquidity Ratio	48
27 Debt Coverage Ratio for Solid Waste Revenue Fund	49
Economic and Demographic Indicators	51
28 Tri-county Population	53
29 Personal Income per Capita	54
30 Property Value	55
31 New Construction	56
Recommendations	57
References	59
Response to the Report	
Executive Officer Mike Burton	

Summary

This report is intended to help readers understand Metro's financial condition. It presents 31 trends in six areas, identifies favorable and unfavorable trends and recommends actions to improve problem areas. This is the first report on Metro's financial trends and covers financial operations over five fiscal years - 1993 through 1997.

Favorable Financial Trends

Metro is unlike most local governments in that the revenue to pay for most of its operating costs comes from sources other than property tax levies. Only the Oregon Zoo receives operating revenue from property taxes, and these are capped at no more than 50 percent of the zoo's operating costs. Over the past five years, inflation-adjusted operating revenue from property taxes ranged from \$5.5 to \$6.3 million. Metro's total inflation-adjusted revenue for that same period ranged from \$112.2 million to \$141.5 million.

Metro is in strong financial condition. Except for the zoo, Metro has not been adversely affected by recent property tax limitation measures. More than 60 percent of Metro's revenue comes from service charges and fees and Metro's excise tax assessed on those charges and fees. Most of the remainder is composed of (1) property tax proceeds dedicated to paying debt service on general obligation bonds, (2) grants, and (3) interest income on invested funds.

We found favorable financial trends in most of the indicators that we analyzed. The most significant positive trends included:

- Adjusted for inflation, operating revenue per capita in 1997 was about 50 percent higher than in 1994.
- Per-capita operating expenditures, exclusive of debt service and construction, changed little over the five years.
- Unreserved fund balances, which can be used for emergencies and economic downturns, increased nearly 70 percent since 1994 and averaged about 30 percent of operating revenue for all five years.
- Metro employees per 1,000 area residents remained fairly constant as the area population grew. The number of employees increased because Metro assumed more responsibilities and provided additional services.
- Metro's net direct bonded debt more than tripled since 1995 but still represents about one-quarter of one percent of the assessed valuation of property in the Metro region, well below the limit set by Oregon law.

- Eighty percent of Metro's major capital assets are judged to be in good or excellent condition.
- Metro was able to reduce rates charged to solid waste disposers in 1997 and 1998.

Over the past five years, the Metro area has benefited from low unemployment, increased average per-capita annual income and controlled inflation. Voters in 1995 and again in 1997 overwhelmingly approved two general obligation bond measures totaling over \$160 million to buy land for open spaces and to improve the zoo.

Unfavorable Trends and Possible Threats

Although Metro's financial condition is strong, there are several trends that warrant attention from the Metro Council and the Executive Officer. The most significant potential problems are:

- Metro is becoming more reliant on grants and shared local government funds. Revenue from these sources increased by more than 300 percent in the past five years, at a time when state and federal sources are threatened by budget restrictions and funds are less certain.
- Budgeted operating revenue in the Transportation Planning, Growth Management Services and Regional Parks and Greenspaces Departments significantly exceeded actual revenue. Grant revenue to the Planning Fund was overestimated by more than 100 percent in two years. This budgeting practice could produce shortfalls requiring mid-year cuts in services, spending reserve funds and using short-term borrowing.
- Average unused vacation time increased by more than two days during the five years – a growing unfunded liability.

Recommendation

We recommend that council and department budget staff prepare more accurate estimates of revenue available through grants – especially in the two planning departments and the parks department.

Summary of Indicators

Revenue

- + 1 Sources of Metro's revenue
- + 2 Operating revenue per capita
- + 3 Property tax revenue
- + 4 Uncollected property taxes
- 5 Intergovernmental revenue
- + 6 Elastic revenue
- 7 Restricted operating revenue
- 8 Revenue shortfalls

Legend	
+	Favorable
-	Unfavorable
↔	Neutral

Expenditures

- ↔ 9 Operating expenditures per capita
- + 10 User charge coverage
- + 11 Fixed costs
- ↔ 12 Metro employees per 1,000 residents
- ↔ 13 Employee fringe benefits

Operating Position and Debt

- ↔ 14 Operating revenue over (under) expenditures
- + 15 Unreserved fund balances
- + 16 Liquidity
- ↔ 17 Current liabilities
- + 18 Net direct bonded long-term debt
- 19 Accumulated employee leave

Fixed Assets

- + 20 Capital outlay
- + 21 Physical condition of Metro's major capital assets
- + 22 Depreciation expense and accumulated depreciation
- + 23 Planned capital improvements 1999-2003

Enterprise Operations

- 24 Net income (loss)
 - + Solid Waste Revenue Fund
 - + Convention Center Fund
- + 25 User charge coverage
- + 26 Liquidity ratio
- + 27 Debt coverage ratio for Solid Waste Revenue Fund

Economic and Demographic Indicators

- + 28 Tri-county population
- + 29 Personal income per capita
- + 30 Property value
- + 31 New construction

Introduction

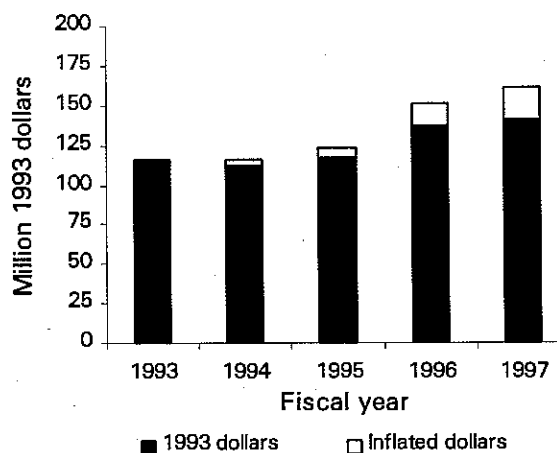
Metro is the nation's only directly elected regional government. It is responsible for transportation and land-use planning, solid waste management, the Oregon Zoo, regional parks and the open spaces acquisition program. Through the Metropolitan Exposition-Recreation Commission (MERC), Metro manages the Oregon Convention Center, Civic Stadium, the Portland Center for the Performing Arts and the Expo Center.

The Metro Council is responsible for governing Metro. Councilors are elected from each of seven districts within the Metro region. The Executive Officer, elected regionwide, carries out the policies of the Metro Council and administers the functions of Metro. The Metro Auditor, also elected regionwide, is responsible for performance and financial audits of Metro's operations.

The Metropolitan Service District was authorized as a municipal corporation in January 1979 under authority of Oregon Revised Statutes. Passage of a home rule charter for Metro became effective in January 1993.

Metro's total revenue over the past five years, adjusted for inflation, ranged from \$112.2 million to \$141.5 million. Proceeds from bond sales are not considered revenue and are not included here. They are deposited in Metro's cash and short-term investment accounts and earn interest income.

Metro Revenue from all Sources



Throughout this report, we express financial information in 1993 dollars to reflect reductions in purchasing power caused by inflation. We used the Portland-Vancouver Consumer Price Index for all urban consumers in our adjustment.

What is Good Financial Condition?

Financial condition is a local government's ability to finance services on a continuing basis. A government in good financial condition is able to collect sufficient revenue to pay short-term bills, finance major capital expenditures and meet long-term obligations.

Key indicators that affect financial condition are:

- Revenue.
- Expenditures.
- Operating position.
- Debt and liabilities.
- Infrastructure.
- Revenue base.
- Enterprise operations.
- Area economy and demographics.

Financial condition can be evaluated by observing changes in these indicators over time. Tracking these indicators allows managers and officials to identify problems that may need attention. The indicators serve as early warning signs when certain trends are evident, allowing further analysis to assess their significance. If problems are identified, strategies for dealing with them can be developed.

Analysis of Financial Condition

Our report presents time series analyses of financial and demographic variables to show trends and evaluate Metro's financial condition. The Comprehensive Annual Financial Report (CAFR) and adopted budget prepared each year contain a wealth of financial information about Metro. However, the CAFR and budget are difficult for many readers to understand, and they do not include sufficient historical information to identify trends needed to evaluate Metro's financial situation. The Government Finance Officers Association, the International City/County Management Association (ICMA) and the Government Accounting Standards Board have promoted less technical reports to enable readers to judge a government's financial condition.

Objectives, Scope and Methodology

We undertook this audit and prepared this report to:

- Provide easily understood information on Metro's financial condition.
- Identify financial trends that may indicate existing or emerging problems.
- Suggest actions to correct any problems disclosed.

This report covers five years of financial information spanning fiscal years 1993 through 1997. Fiscal years are identified by their ending dates. For example, fiscal year 1996 includes the period from July 1, 1995, through June 30, 1996.

We relied on the CAFR, Metro's adopted budget and other management reports for financial data. We also used other published sources for socio-economic data. In developing and analyzing the financial indicators, we interviewed appropriate personnel in Metro's Administrative Services Department.

We used a methodology patterned after the ICMA publication *Evaluating Financial Condition: A Handbook for Local Governments*, by Groves and Valente. We also used three other publications in developing criteria (see References).

The methodology that we used identifies and organizes factors that affect financial condition. It incorporates financial indicators that are used by national bond rating organizations to evaluate an entity's credit-worthiness. In accordance with ICMA's methodology, we developed a definition of general government operating expenditures and revenue that includes the following funds:

1. General Fund: accounts for all activities not included in other funds. It accounts primarily for Metro's general government activities, including Metro Council and Executive Office activities; it also usually subsidizes regional planning activities. General Fund principal resources are interest income and excise taxes levied on Metro's facilities and services.
2. Special revenue funds
 - a. Planning Fund: is used for operations of Metro's planning activities performed by the Transportation Planning and Growth Management Services Departments. Its principal sources of revenue are federal, state and local grants and contracts, contract and professional services and a share of excise taxes transferred from the General Fund.
 - b. Regional Parks and Expo Fund: is used for operations of pioneer cemeteries, Metro's recreational facilities such as parks and boat ramps and the Expo Center. Its principal revenue sources are charges for services, contract and professional services, federal grants and contracts, shared revenue and parking fees.
 - c. Zoo Fund: is used by the Oregon Zoo. Its principal sources of revenue are charges for services and property taxes derived from Metro's property tax levy.

3. Debt Service Fund: accounts for payments of general obligation bond principal and interest to bond holders. The principal source of revenue is property taxes.
4. Special Revenue -- MERC Component Unit: includes Civic Stadium, the Portland Center for the Performing Arts, the Oregon Convention Center and the Expo Center, all of which are managed by MERC. Although MERC is legally separate from Metro, Metro is financially accountable for MERC.

We excluded enterprise, internal service, capital projects and fiduciary funds from the definition of general government operating revenue and expenditures. Selected financial indicators are included for Metro's enterprise funds: the Solid Waste Revenue Fund and the Convention Center Fund.

This work was conducted in accordance with generally accepted government auditing standards.

Revenue

Key Indicators

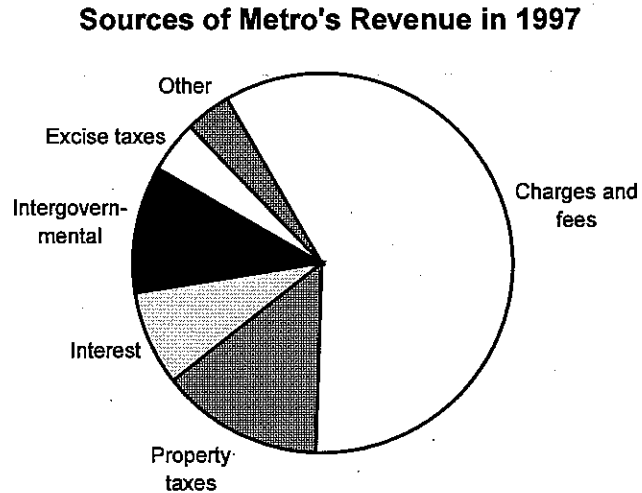
- 1 Sources of Metro's revenue
- 2 Operating revenue per capita
- 3 Property tax revenue
- 4 Uncollected property taxes
- 5 Intergovernmental revenue
- 6 Elastic revenue
- 7 Restricted operating revenue
- 8 Revenue shortfalls

Highlights

- In 1997, more than 63 percent of Metro's operating revenue came from service fees and charges that were received from direct beneficiaries of Metro's operations. This figure includes the excise tax added to service fees and charges.
- Metro is less dependent on property taxes for operating needs than most local governments. Only the zoo has a property tax operating levy that is subject to tax limitation measures 47 and 50. Adjusted for inflation, Metro's 1997 revenue totaled \$141.5 million, only \$19.6 million of which came from property taxes - \$6.3 million for the zoo and \$13.4 million to pay debt service on general obligation bonds approved earlier by voters. Property tax revenue to pay debt service is not subject to the tax limitation measures.
- Property tax delinquency rates after two years during 1994-1997 were well under two percent - far below the credit industry's warning level.
- Increasing reliance on intergovernmental revenue (especially grants) and inaccurate budget forecasting pose potential problems for funding Metro's planning work.

1 Sources of Metro's Revenue

Metro receives most of its revenue from charges for fees and services, but measures 47 and 50 will significantly reduce property tax revenue that is needed to operate the zoo.



Indicator Explanation

Most state and local governments rely on property taxes to pay for many of their ongoing operating costs for public services. This is not the case with Metro. In 1997, only 14 percent of Metro's revenue came from property taxes. Most of Metro's revenue came from user charges and fees and related excise taxes, grants and interest income.

METRO REVENUE BY FISCAL YEAR
(million 1993 dollars)

	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>
Charges and fees for services	86.7	81.5	79.4	82.5	83.4
Taxes					
Property tax	11.1	10.6	11.2	22.5	19.6
Excise tax	4.5	5.3	5.7	6.4	6.4
Interest income	3.0	2.4	4.0	9.8	11.6
Grants and government-shared revenue	7.7	9.4	12.6	11.9	15.1
Other	3.1	3.0	3.7	4.4	5.5
Total	116.1	112.2	116.6	137.5	141.6

Trend Analysis

Charges and fees for services, principally solid waste management, accounted for the largest share of Metro's revenue in each of the five years. Solid waste management fees totaled more than \$55 million in 1997. During that period, property taxes never exceeded 17 percent of Metro's total revenue.

Revenue from property taxes increased more than 100 percent between 1993 and 1996, mainly to pay debt service on the open spaces bonds.

Metro's only general government tax source — the excise tax — is assessed against charges and fees for Metro-provided services such as solid waste disposal and some MERC facility operations.

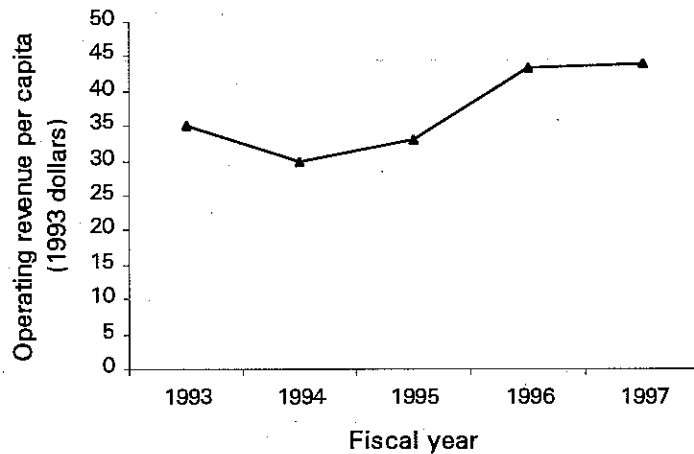
Interest income increased in 1996 and 1997 as the result of investing the unused amounts from the general obligation bonds issued to fund open spaces acquisitions. Interest income will decrease as Metro spends the bond proceeds to buy properties.

Metro's Transportation Planning and Growth Management Services departments received most of the grant funds. The Oregon Convention Center received most of the government-shared revenue from the Multnomah County hotel/motel occupancy tax.

Measures 47 and 50 will significantly reduce the zoo's operating tax levy revenue from \$7.1 million in fiscal 1997 to an estimated \$5.8 million and \$6.5 million in 1998 and 1999, respectively (actual dollars). The tax limitation measures do not affect property tax revenue used for debt service.

2 Operating Revenue Per Capita

Operating revenue per capita increased in the past three years, a favorable trend.



Indicator Explanation

Operating revenue includes user fees and charges, property taxes, intergovernmental revenue (state and federal grants), excise taxes and other miscellaneous sources. Excluded are: bond proceeds and associated interest income, and revenue from Metro's enterprise operations – solid waste and the convention center.

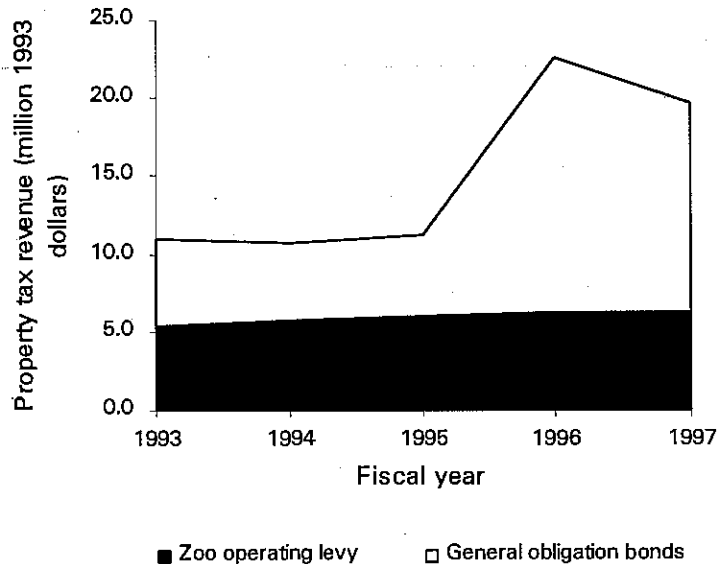
Decreasing operating revenue per capita is a warning sign because it may signal a government's inability to maintain existing services.

Trend analysis

- Adjusted for inflation, operating revenue per capita increased by about 48 percent since 1994.
- A significant dip in operating revenue per capita occurred in 1994 when Metro returned the Memorial Coliseum to the City of Portland. This loss was partially offset by revenue from the Regional Parks and Greenspaces Department, the Expo Center (acquired in January 1994) and by increased grants.
- In 1997, the principal sources of operating revenue were charges and fees for services (\$20 million), property taxes used to pay debt service on bonds and part of the zoo's operating costs (\$19.6 million), and grants and shared revenue (\$9.9 million).

3 Property Tax Revenue

Property tax revenue rose sharply after 1995 to pay for the open spaces bond measure.



Indicator Explanation

Property taxes are paid on the assessed value of real, personal and utility property. In 1997, Metro's tax revenue was generated by a permanent zoo operating levy approved by voters in 1990 and two general obligation bond measures – one to advance refund the original convention center bond and another to pay for open space acquisition. Declining tax revenue is a warning trend.

Trend analysis

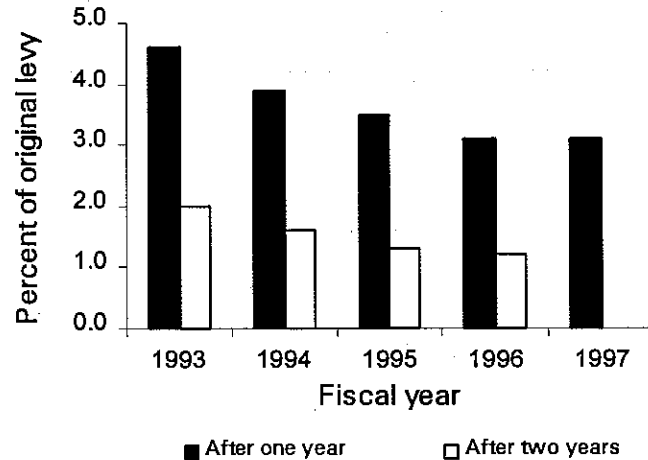
Property tax revenue remained fairly constant from 1993 through 1995. In 1996, however, property taxes more than doubled and remained near that level in 1997 because of the open spaces bond levy. Revenue will increase again in 1998 as property taxes are collected to repay bonds issued for the zoo's Oregon exhibit project. Measures 47 and 50 have no effect on property taxes for general obligation bonds.

The zoo is the only Metro department that receives property taxes for operating purposes. In 1997, property taxes comprised about 46 percent of the zoo's operating revenue.

In 1998 and 1999, property taxes are expected to provide only 40 and 41 percent, respectively, of the zoo's operating revenue as the result of passage of measure 47 and its successor measure 50. Metro hopes to make up the projected losses, primarily with increased revenue from higher attendance and enterprise activities.

4 Uncollected Property Taxes

A decreasing trend in first- and second-year uncollected property taxes is favorable.



Indicator Explanation

Property tax delinquencies are usually caused by economic conditions that result in citizens' inability to pay. Increasing delinquencies over time may show a decline in local economic health. The credit industry considers delinquency rates between two and three percent normal. Rates above five percent or two consecutive years of increasing rates would be a warning sign.

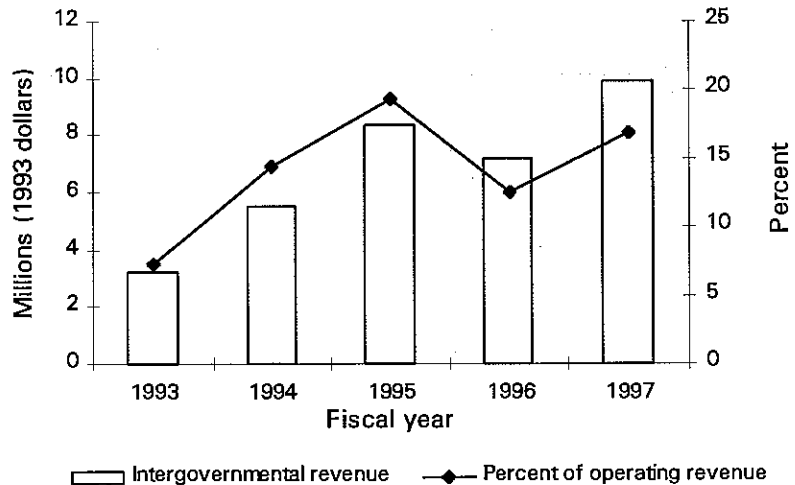
Trend Analysis

A strong economy, low interest rates and substantial housing refinancing activity have kept tax delinquency rates low.

Delinquency rates after two years were at or below two percent during the past four years – well below the credit-industry benchmark.

5 Intergovernmental Revenue

Reliance on intergovernmental revenue has increased significantly since 1993, an unfavorable trend.



Indicator Explanation

Metro receives federal, state and local grants to pay for transportation and growth management planning activities. It also receives shared revenue from other local governments. Increasing intergovernmental revenue to support Metro services may indicate an over-dependence and is viewed as a warning trend. If this revenue were withdrawn, Metro could be forced to find additional revenue or cut services to reduce costs. (Note: intergovernmental revenue overlaps restricted operating revenue – indicator 7.)

Trend Analysis

Intergovernmental revenue more than tripled in the past five years.

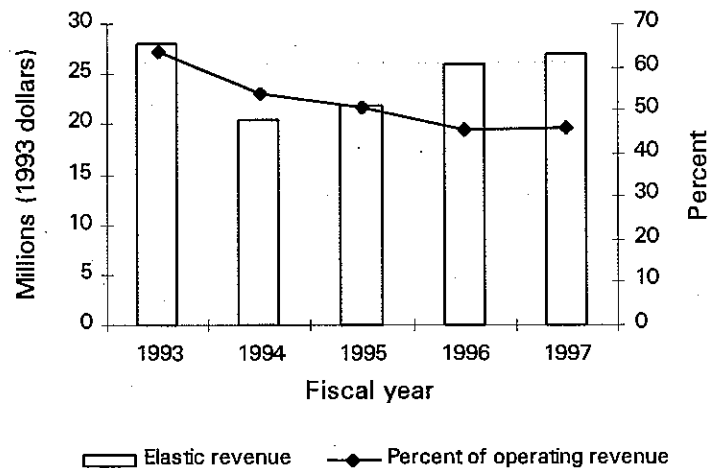
Intergovernmental revenue now makes up about 17 percent of Metro's operating revenue – more than double the percentage of five years ago.

Metro's planning fund received 83 to 99 percent of annual intergovernmental revenue during the last five years.

The Planning Fund is supplemented with transfers from other funds. During the five-year period, the General Fund provided \$1.8 million to \$3.2 million (adjusted for inflation) annually to the Planning Fund, which represents 86 percent to nearly 92 percent of these transfers.

6 Elastic Revenue

Elastic revenue increased each of the last three years but decreased as a percentage of total operating revenue.



Indicator Explanation

Elastic revenue is highly responsive to economic conditions, growing and declining as local economic conditions change. For this reason, our analysis considers excise taxes, charges for services, contract and professional services, reimbursed labor, parking fees, contributions and donations to be elastic revenue. Over-reliance on elastic revenue can put pressure on government finances during economic downturns.

Trend Analysis

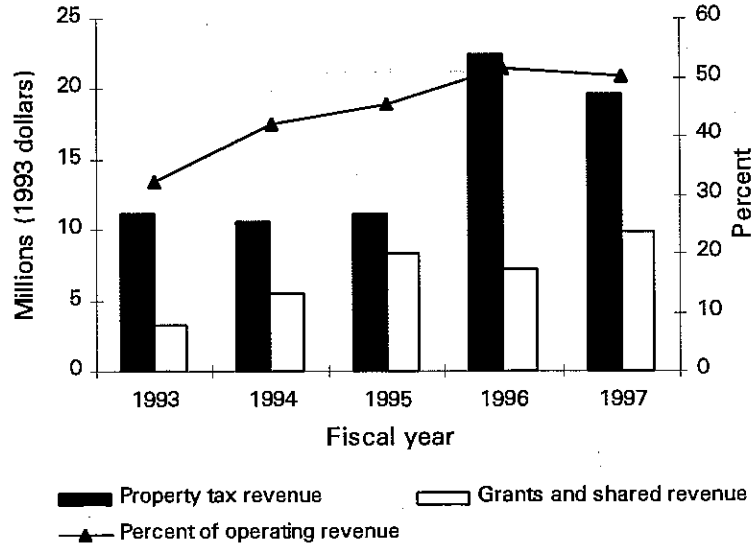
Elastic revenue dropped significantly between 1993 and 1994, when Metro turned the Memorial Coliseum back to the City of Portland and lost about \$10.8 million in charges for services and parking fees.

Elastic revenue has grown steadily since that drop but is still less than the 1993 level.

Elastic revenue dropped as a percentage of net operating revenue because non-elastic revenue, principally property tax proceeds to pay debt service for the open spaces bonds, was added to net operating revenue in 1996 and 1997.

7 Restricted Operating Revenue

An increasing share of Metro's operating revenue is restricted-use. Growing dependence on restricted revenue is usually considered a warning trend.



Indicator Explanation

A restricted revenue is legally earmarked for a specific use as required by state law, bond covenants or grant requirements. Metro's restricted revenue sources include property taxes for debt service and the zoo operating levy, and intergovernmental funds such as grants and locally shared revenue. As the percentage of restricted revenue increases, a local government can lose its ability to respond to changing conditions. It may also indicate over-dependence on external revenue and may signal future inability to maintain some services.

Trend Analysis

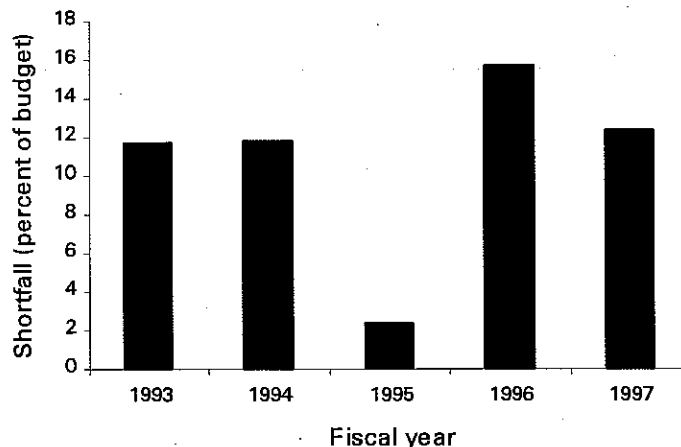
Restricted revenue increased substantially in the past five years and now constitutes more than 50 percent of Metro's total operating revenue.

Revenue from property taxes doubled since 1993, mainly to pay debt service on the open spaces bonds.

Grants and shared local government revenue increased 300 percent in the past five years mainly to pay for Metro's transportation and land use planning work. In each of the past three years, federal, state and local grants accounted for 83 percent or more of the planning fund's revenue.

8 Revenue Shortfalls

The trend is not favorable because budgeted revenue exceeded actual revenue in all years and by more than 11 percent in four years.



Indicator Explanation

This indicator shows the differences between estimated and actual operating revenue. Overestimating revenue can produce shortfalls that may require mid-year cuts of services, spending of reserve funds or use of short-term borrowing. Large or frequent shortfalls constitute a warning trend.

Trend Analysis

The largest contributors to the budget shortfalls were the departments included in the special revenue fund: Transportation Planning, Growth Management Services, Regional Parks and Greenspaces and the Oregon Zoo.

Departments funded by the special revenue fund overestimated their revenue in four of the five years by 20 to 40 percent.

Revenue for planning activities was overestimated in two of the years by more than 100 percent.

In all years, money was transferred from other Metro funds into the special revenue fund to offset shortfalls.

In 1996 and 1997, loan and bond proceeds were used to supplement the special revenue fund. In 1996, a \$2.5 million revenue bond assisted in financing the Expo Center expansion, and a \$2.7 million loan retired a note and financed some costs of the parking lot work at the zoo. In 1997, Metro borrowed an additional \$1.9 million for zoo parking lot construction.

Expenditures

Key Indicators

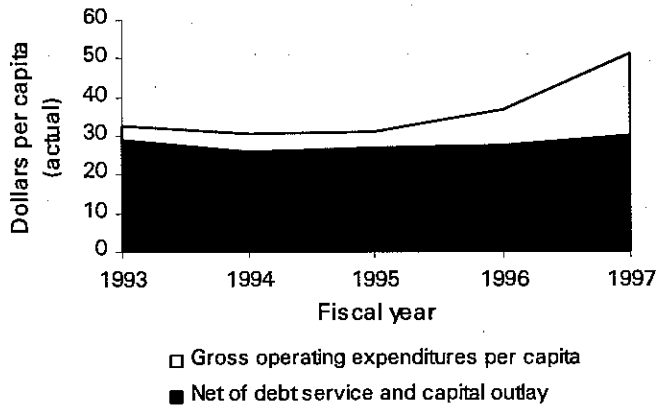
- 9 Operating expenditures per capita
- 10 User charge coverage
- 11 Fixed costs
- 12 Metro employees per 1,000 residents
- 13 Employee fringe benefits

Highlights

- Total operating costs increased much faster than inflation – principally because of spending for capital improvements and for debt service on the general obligation bonds.
- The number of Metro employees increased during the past three years, but employees per 1,000 tri-county residents remained fairly constant.
- Debt service increased substantially during the past two years, but other fixed costs (adjusted for inflation) decreased below 1993 levels.

9 Operating Expenditures Per Capita

Total spending increased much faster than inflation — principally because of spending for capital improvement and debt service.



Indicator Explanation

Operating expenditures generally include personnel costs, materials and services and capital outlay for ongoing services but exclude capital construction. To highlight costs of personnel, materials and services, we calculated per-capita expenditures with and without costs of capital outlay and debt service.

Trend Analysis

Operating expenditures per capita, net of debt service and major capital items, ranged between \$26 million and \$30 million during the period.

Per-capita spending dropped in 1994 when the Memorial Coliseum was returned to the City of Portland. This drop was partly offset when Multnomah County transferred its parks, cemeteries and the Expo Center to Metro midway through the year.

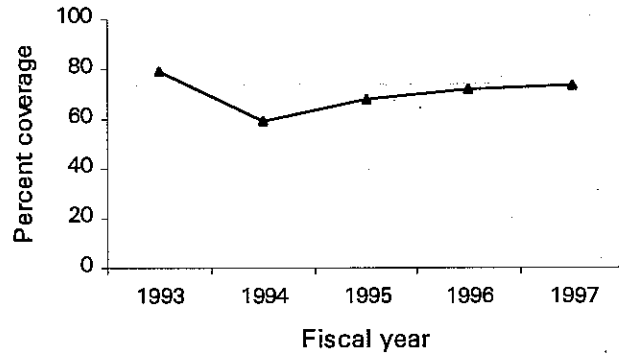
Spending rose in 1995 due to higher planning costs and operating parks and Expo Center for a full year.

Spending in 1996 increased due to: debt service payments, contributions to local governments for their share of projects funded by the open spaces program, repayment of a zoo tax anticipation note, and added events and attendance at the Civic Stadium and the PCPA.

Spending increased in 1997, principally due to completion of the Expo Center addition and debt service on the open spaces program general obligation bonds.

10 User Charge Coverage

User charges and fees are recovering an increasing amount of costs after a sharp drop in 1994. The trend is positive.



Indicator Explanation

User charge coverage refers to whether fees and charges cover the entire cost (or an agreed-upon percentage) of providing a service. This indicator measures costs of providing services and service fees and charges in inflation-adjusted dollars. A decline in user charge coverage is a warning trend.

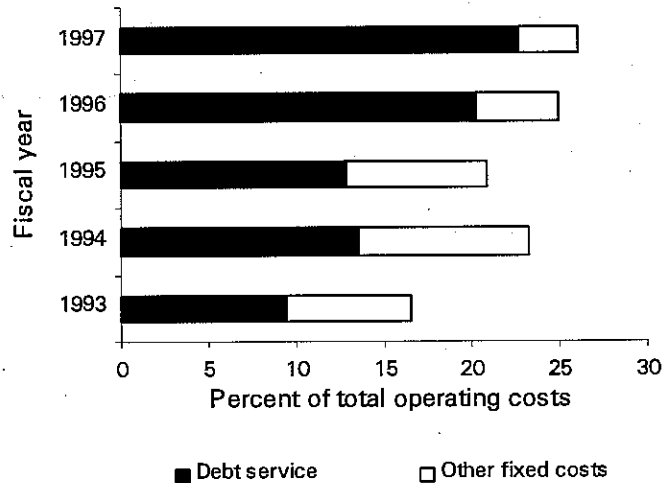
Trend Analysis

Revenue from user fees and charges decreased dramatically in 1994 when Metro returned the Memorial Coliseum to the City of Portland.

Since 1994, user fees have increased steadily, as has coverage of related costs.

11 Fixed Costs

Debt service increased substantially during the last two years, but other fixed costs decreased during that period below 1993 levels.



Indicator Explanation

Fixed costs are mandatory expenditures over which a government has little short-term control such as pension costs, annual lease payments, and long-term debt principal and interest. An increasing percentage of expenditures dedicated to fixed costs may reduce a government's ability to respond to sudden changes and should be considered a warning trend.

Trend Analysis

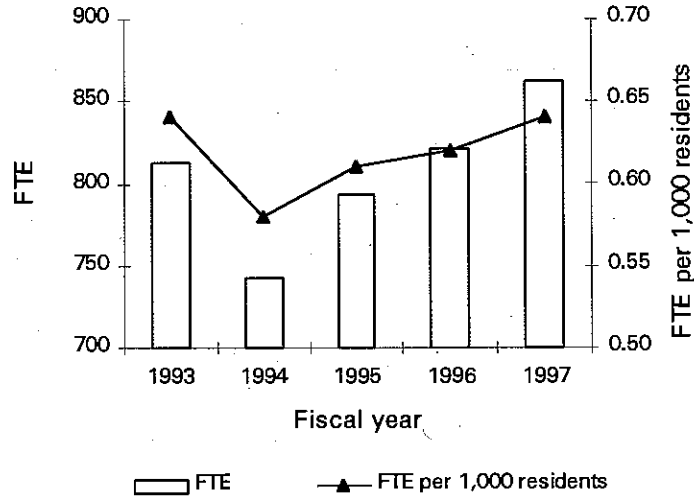
Fixed costs as a percentage of operating expenditures have increased.

The principal components of fixed costs have been debt principal and interest which rose, adjusted for inflation, from \$3.9 million in 1993 to \$15.6 million in 1997 – nearly all of which is being repaid from property tax revenue. Most of this debt results from bond measures for open space acquisition and convention center construction.

Total 1996 and 1997 fixed costs, other than debt service, were \$2.3 million and \$2.4 million, respectively – well below the 1993 level of \$2.9 million (all amounts in 1993 dollars).

12 Metro Employees per 1,000 Residents

After a drop in 1994, Metro employment increased over the past three years, but employees per 1,000 metro-area residents remained fairly constant.



Indicator Explanation

Full-time equivalent (FTE) is the ratio of time expended in any position to that of a full-time position. For example, one person working full-time and two people working half-time both equal one FTE. An increasing number of FTE could be considered a warning trend, indicating declining productivity or more labor-intensive services. It may also indicate increasing service demands of a growing population. This is the case with Metro, which has assumed many new responsibilities in the past five years. The number of FTE includes full-time employees as well as temporary and seasonal employees.

Trend Analysis

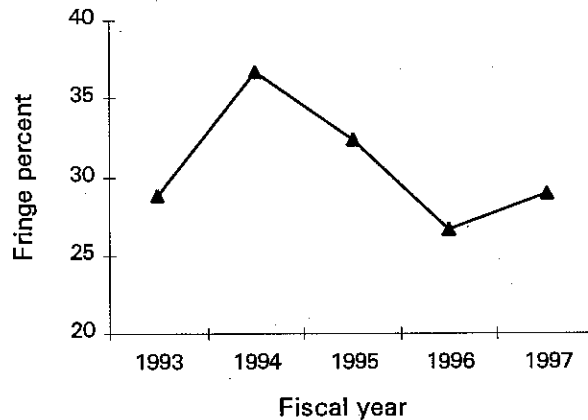
Returning the Memorial Coliseum to the City of Portland in July 1993 reduced Metro's FTE in fiscal 1994 by about 100. This decrease was partially offset when Metro assumed responsibility from Multnomah County in January 1994 for operating parks and the Expo Center. This added nearly 30 FTE, or the equivalent of about 60 people for a half year.

The number of employees has increased by about 120 FTE since 1994 as Metro assumed additional duties and responsibilities. These increases included:

- The remaining 30 FTE for a full year's operation of parks and the Expo Center.
- Increasing public use of MERC facilities (38 FTE).
- Expanded planning activities including urban growth boundary expansion and light rail studies (21 FTE).
- Initiating the open space acquisition program (16 FTE).

13 Employee Fringe Benefits

Fringe benefit costs varied because of a constitutional amendment that was later revoked by the Oregon Supreme Court.



Indicator Explanation

Employee benefits, expressed as a percentage of wages and salaries, include the cost of health and dental insurance, worker's compensation, employer-paid portions of the Public Employees Retirement System (PERS), social security and Tri-Met taxes. Total rates varied each year because different bargaining units negotiated different health and benefit packages (principally because of changes in the PERS pension costs). Substantially all full-time employees, and other employees who meet certain eligibility requirements, are participants in PERS.

Trend Analysis

During 1993 through January 1, 1995, Metro paid both the employer's and employees' shares of PERS. Metro resumed this practice in July 1996.

During 1993 through 1996, Metro also made additional contributions to PERS to help reduce unfunded pension liability.

Effective January 1, 1995, measure 8 changed the state constitution, requiring all PERS-eligible employees to contribute the six-percent employee portion of PERS. Effective that same date, Metro increased eligible employees' salaries and wages by 5.75 percent to compensate for the above change.

The Oregon Supreme Court found measure 8 unconstitutional. Metro resumed paying the employees' share in July 1996 and concurrently reduced employees' salaries by 5.5 percent to zero out the change.

Operating Position and Debt

Key Indicators

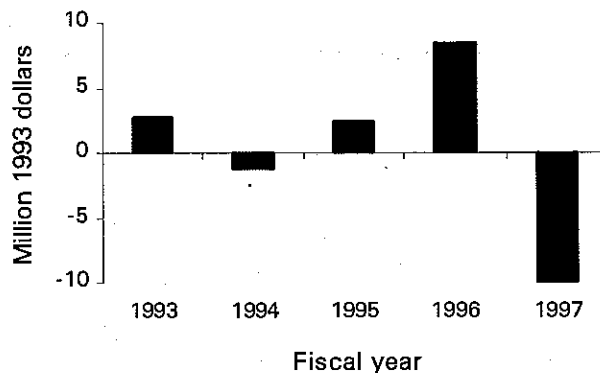
- 14 Operating revenue over (under) expenditures
- 15 Unreserved fund balance
- 16 Liquidity
- 17 Current liabilities
- 18 Net direct bonded long-term debt
- 19 Accumulated employee leave

Highlights

- Operating expenditures exceeded operating revenue in two of the five years, but the deficits were made up principally by transfers from other Metro funds, primarily the General Fund.
- During the five-year period, Metro held unreserved fund balances equal to about 30 percent of its net operating revenue.
- Although net direct bonded debt more than tripled during the period, it amounts to less than one quarter of one percent of the assessed value of property in the region.
- The liquidity ratio is healthy, despite current liabilities more than tripling in five years.

14 Operating Revenue Over (Under) Expenditures

The differences between spending and revenue varied, but Metro always had sufficient money in its various funds to cover individual fund deficits.



Indicator Explanation

This indicator shows the differences between the combined revenue and expenditures of Metro's general, special revenue and debt service funds and the MERC special revenue fund. Oregon budget law prohibits governments from spending more money than they have. However, if governments spend more on operations than they collect in a year, the deficit can be covered by cash reserves (fund balances), transfers from other funds or other sources. Metro purposely and routinely "spends down" fund balances or transfers money between funds -- an accepted government practice.

Trend Analysis

During each of the five years, Metro's planning fund deficits ranged from \$1.9 to \$3.3 million (adjusted for inflation). These deficits were, for the most part, covered by transfers of excise tax surpluses from the General Fund. Since growth management and land-use planning are Metro's primary responsibilities, General Fund subsidies for planning are expected to continue.

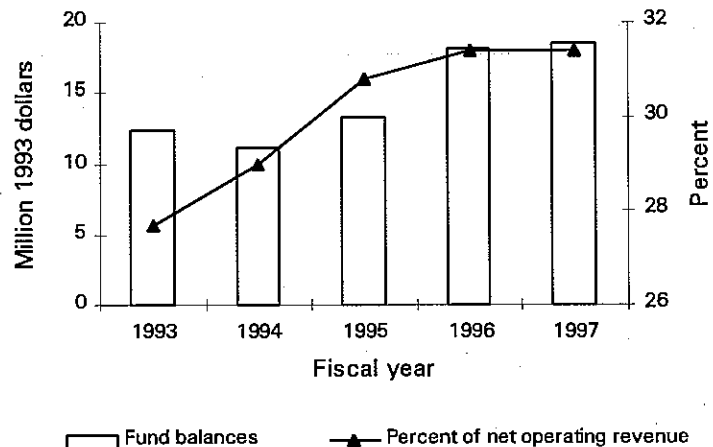
In 1994, the MERC special revenue fund experienced a \$1.6 million deficit (adjusted for inflation) when it lost the revenue from the Memorial Coliseum after it was returned to the City of Portland. This deficit was made up with money already in the fund's balance.

In 1996, the large surplus was primarily the result of an increase in property tax revenue to pay debt service on the open spaces bonds before debt service payments for those bonds were due.

In 1997, the Regional Parks and Expo Fund deficit was \$10 million (adjusted for inflation), resulting from construction of the \$13.5 million Expo Center expansion. Bond proceeds from 1996 and a transfer of money from the convention center enterprise fund in 1997 were used to offset this deficit.

15 Unreserved Fund Balances

The unreserved fund balances as a percentage of net operating revenue increased during the past five years. The trend is positive.



Indicator Explanation

Unreserved fund balances represent money available for capital purchases, financial emergencies and future obligations. The size of a government's unreserved fund balances can affect its ability to withstand short-term financial emergencies and avoid the need for short-term borrowing. There are no set rules for determining the appropriate level of reserves. A declining or very low balance is a warning trend, indicating that a government may not be able to meet service needs in a financial emergency or economic downturn.

Trend Analysis

Unreserved fund balances increased by about 50 percent since 1993, despite a brief drop in 1994 when the Memorial Coliseum was returned to the City of Portland.

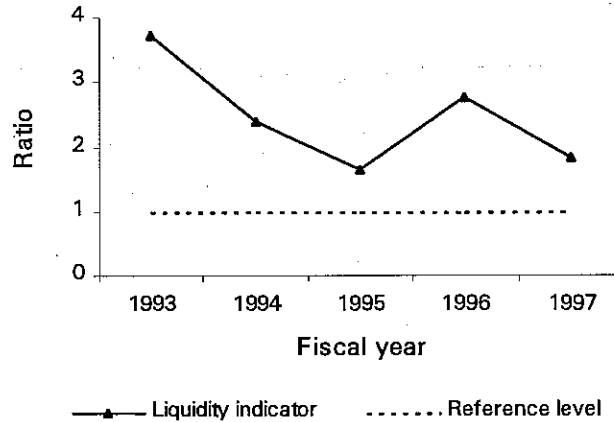
Unreserved fund balances averaged about 30 percent of net operating revenue during the five years.

Metro routinely uses unreserved fund balances to offset deficits in individual funds by either using up their fund balances or by transferring money from another fund with a surplus fund balance.

In 1997, Metro transferred \$9 million from the Convention Center Fund to the Regional Parks and Expo Fund to help pay for the addition to the Expo Center.

16 Liquidity

Liquidity varied but remained adequate.



Indicator Explanation

Liquidity is an indicator of a government's ability to pay its short-term obligations. It is the ratio of cash and short-term investments to current liabilities. A low ratio, below 1:1, is a warning trend suggesting that cash-flow problems may occur, requiring short-term borrowing to cover expenses. The credit-rating industry considers a ratio of less than \$1 of cash and short-term investments to \$1 of current liabilities a negative indicator. The current liabilities used in this analysis do not include liabilities owed to other Metro funds.

Trend Analysis

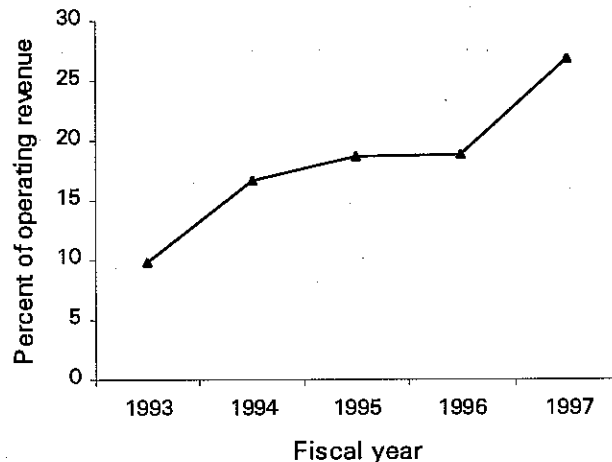
Metro's ratio of cash and short-term investments to liabilities has ranged from 1.64 to 3.73 over the past five years.

Net cash and short-term investments in excess of current liabilities, adjusted for inflation, grew from \$5.1 million in 1995 to \$19.3 million in 1996, then dropped to \$13.2 million in 1997. The large balances in 1996 and 1997 principally represent receipts from property taxes needed to pay debt service on the open spaces bond. Cash from this tax revenue will be received and paid out over the period of the bond measure – about 20 years.

The ratios of cash and short-term investments to current liabilities indicate an adequate level of cash solvency and are considered acceptable by the credit-rating industry.

17 Current Liabilities

Current liabilities increased from 10 percent to 27 percent of operating revenue from 1993 to 1997.



Indicator Explanation

This indicator shows payments due by Metro at fiscal year-end as a percentage of operating revenue. This analysis does not include liabilities owed to other Metro funds. Increasing current liabilities or amounts owed at year-end may indicate cash shortages and can be considered a warning trend.

Trend Analysis

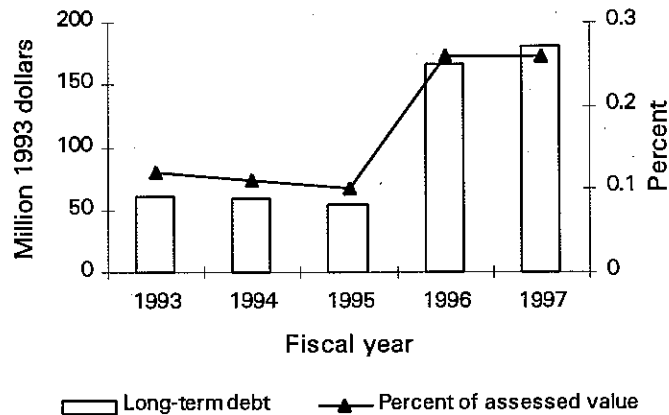
Current liabilities (net of interfund liabilities) as a percent of operating revenue tripled since 1993 from about 10 percent to about 27 percent in 1997.

Many of these liabilities are in fact unrealized income to Metro – deferred and unearned revenue and deposits given to Metro for future services. As a percentage of current liabilities, they increased from 38 percent in 1993 to 61 percent in 1997. Accounts payable increased from four percent to nine percent of operating revenue during the five-year period.

The increased year-end liabilities do not appear to be a threat, because: (1) the liquidity ratio is well within the credit-rating industry's standards, and (2) cash and short-term investments increased substantially.

18 Net Direct Bonded Long-term Debt

Net direct bonded long-term debt remains far below the warning threshold.



Indicator Explanation

Net direct debt is bonded debt that a local government has pledged to repay with its general tax revenue. It does not include self-supporting debt which, while bonded, will be repaid from sources separate from its general tax revenue such as the revenue from enterprise activities. Net direct bonded debt is direct debt minus self-supporting debt. An increase in net direct bonded long-term debt can be a warning that a government's ability to repay is diminishing. Oregon law limits debt to 10 percent of true cash value (or assessed value) of all taxable property within the Metro region – a credit-industry benchmark.

Trend Analysis

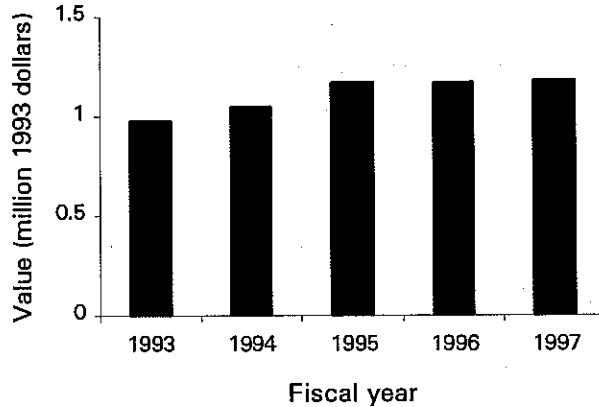
Net direct bonded debt has more than tripled since 1995, but it still represents about one-quarter of one percent of the assessed value of property in the Metro region.

This increase in debt consists of two bond issues, one for the open spaces program approved by voters in May 1995 and the second for the zoo's Oregon project approved by voters in September 1996. The remainder of the debt is for refunding the original convention center bonds.

The net direct bonded debt of other jurisdictions that is issued against a tax base within part or all of Metro's boundaries is called overlapping debt. In 1997, this totaled \$1.5 billion – about two percent of the area's assessed value. The net direct bonded debt of Metro, as well as the overlapping communities, is only about two percent – well below the credit industry's warning threshold of 10 percent of assessed value and the legal limit prescribed by the State of Oregon.

19 Accumulated Employee Leave

Unpaid employee vacation leave is a growing liability.



Indicator Explanation

Employees who retire or leave Metro employment are entitled to a cash payment for unused vacation pay they have accumulated. They are not compensated for unused sick leave because it never vests. Accumulated leave represents an unfunded liability for governments. Increasing levels of unused vacation leave are a warning trend.

Trend Analysis

The average number of employees eligible for vacation leave during 1995 through 1997 was less than in 1993 and 1994, yet the total value of unused vacation leave increased significantly.

The average amount of unused vacation leave increased by more than two days during the five-year period.

Unused vacation pay liability increases slowly as existing employees gain additional seniority and accumulated leave.

Fixed Assets

Key Indicators

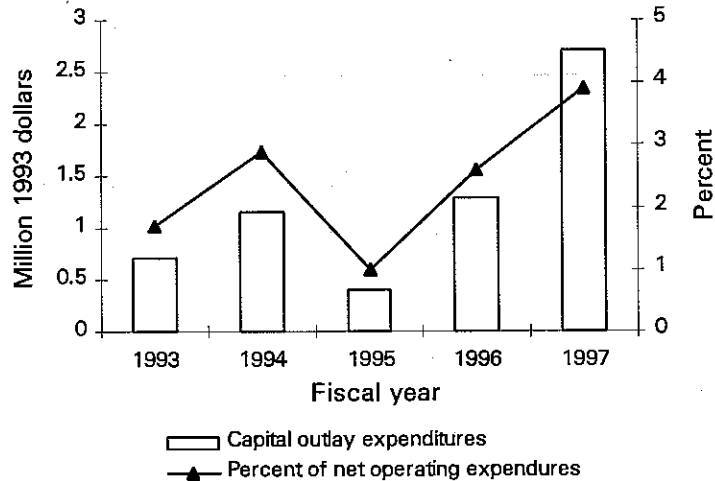
- 20 Capital outlay
- 21 Physical condition of Metro's major capital assets
- 22 Depreciation expense and accumulated depreciation
- 23 Planned capital improvements 1999-2003

Highlights

- Eighty percent of Metro's major capital assets are judged by Metro to be in good to excellent condition. Over half of those in poor condition were old houses and barns acquired in the open spaces program and will probably be destroyed.
- Metro's capital improvement plan for 1999 through 2003 is to spend more than \$240 million on 96 projects. Three projects – completion of open space acquisitions, expansion of the convention center, and completion of the zoo's Oregon exhibit – account for 80 percent of these costs.
- Identified but unfunded projects were estimated at \$41 million.

20 Capital Outlay

Capital outlay expenditures rose but never exceeded four percent of operating expenditures.



Indicator Explanation

Expenditures for office remodels and operating equipment such as personal computers drawn from operating budgets are usually referred to as capital outlay. Capital outlay does not include capital budget expenditures for construction of infrastructure such as buildings and major facilities. A decline persisting over three or more years can indicate that capital outlay needs are being deferred, which can result in use of inefficient or obsolete equipment.

Trend Analysis

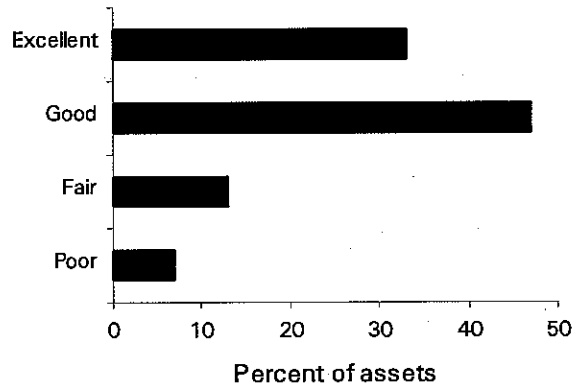
Capital spending rose in 1994 when Metro's planning departments purchased nearly \$500,000 in equipment and the zoo spent nearly \$300,000 for building and exhibit designs.

After a drop in 1995, capital spending rose again in 1996. The 1996 increase was principally due to purchases of office furniture for the Transportation Planning and Growth Management Services Departments and equipment and improvements for the zoo. In 1997, improvements to the zoo parking lot accounted for about \$1.6 million of capital outlay expenditures.

This pattern indicates a favorable trend.

21 Physical Condition of Metro's Major Capital Assets

Eighty percent of Metro's major capital assets are judged by Metro to be in good or excellent condition.



Indicator Explanation

Aging and deteriorating physical assets can affect the quality of service provided to citizens and contribute to higher operating costs in the form of increased maintenance and repair expenses. Failure to maintain, repair and replace assets on time unfairly transfers the costs from one generation to the next.

Trend Analysis

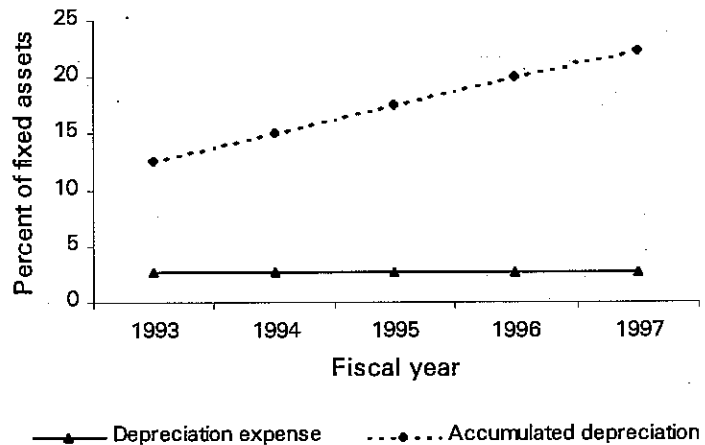
Metro's capital improvement plan, adopted in December 1997, reported the physical condition of its major capital assets.

Replacement costs for six of the assets judged to be in poor condition are about \$5.1 million. The remaining nine assets are old barns, houses and garages acquired under the open spaces program that will be demolished and not replaced.

Metro's plan for capital improvement states that projects related to those assets in poor condition need to be completed within one year. The most expensive asset in this category is Metro's financial and human resources information system that is currently being replaced with the new InfoLink system. Replacement should be complete by the end of fiscal year 1999.

22 Depreciation Expense and Accumulated Depreciation

Depreciation as a percentage of Metro's fixed assets remained constant in the past five years, a favorable trend.



Indicator Explanation

Depreciation allocates the cost of enterprise and internal service assets over their useful life. The fixed assets depreciated and reported by Metro in its financial statements are principally the solid waste transfer stations, the convention center complex and Metro Regional Center. If depreciation costs are declining as a proportion of fixed asset costs, this should be considered a warning sign, because the assets are probably being used beyond their estimated useful life.

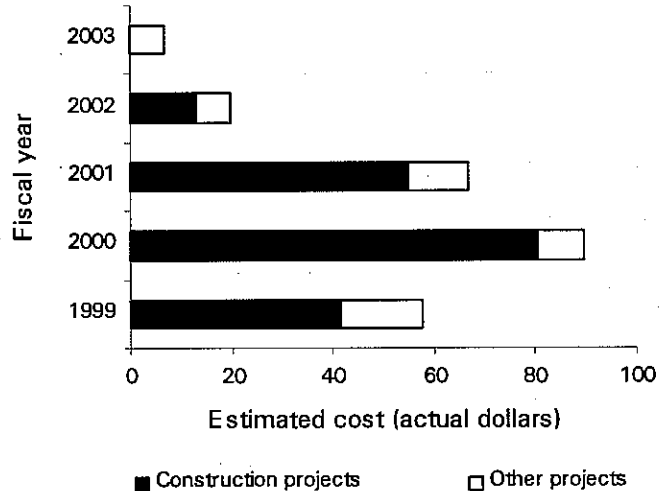
Trend Analysis

Depreciation expense has been level for the five-year period.

Allowance for depreciation (the measure of the accumulated depreciation experienced since the assets were acquired), as a percent of total fixed-asset costs, indicates that the assets in total are relatively young and in good condition.

23 Planned Capital Improvements 1999-2003

Metro plans to spend more than \$240 million for capital projects in the next five years, mainly for three projects, and estimates \$41 million is needed for other identified but unfunded projects.



Indicator Explanation

Capital projects are defined as any physical assets acquired, constructed or financed by Metro with a total capital cost of \$50,000 or more and a useful life of at least five years. Unfunded projects are those which are deemed worthy of future consideration but are not included in Metro's capital improvement plan because sufficient funds are not available, projects' scopes need further definition or alternatives need to be explored.

Trend Analysis

A total of 96 capital projects are proposed for the five-year period. Of these projects, 31 are new construction or acquisitions, 32 are expansion or remodeling and 33 are replacement of existing facilities.

Three projects account for about 80 percent of the total: open space acquisitions (\$85.3 million), Oregon exhibit at the zoo (\$15 million) and Oregon Convention Center expansion (\$90 million).

Bond measures have already been passed for the open space acquisitions and for the zoo's Oregon exhibit, and work on these projects is under way. Metro intends to ask the voters in November 1998 to approve a bond measure funding expansion of the Oregon Convention Center.

The estimated unfunded projects include about \$41 million for replacement and construction of a number of identified facilities.

Enterprise Operations

Key Indicators

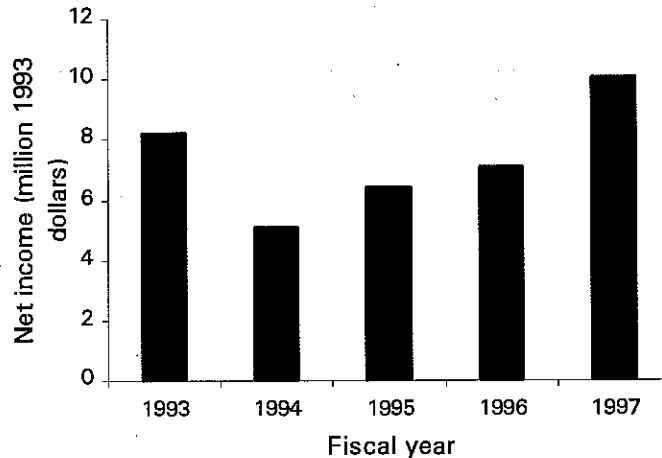
- 24 Net income (loss)
 - A Solid Waste Revenue Fund
 - B Convention Center Fund
- 25 User charge coverage
- 26 Liquidity ratio
- 27 Debt coverage ratio for Solid Waste Revenue Fund

Highlights

- The Solid Waste Revenue Fund has been very profitable over the last five years.
- The Oregon Convention Center began showing a profit in 1996.
- Metro reduced waste disposal charges paid by garbage disposers in 1997 and again in 1998.
- Solid Waste Revenue Fund user charges easily covered related expenses, but the Convention Center Fund did not cover them in any of the five years.
- Metro reports that the Oregon Convention Center is too small to attract major conventions and is planning to ask the voters in November 1998 to provide about \$82 million in general obligation bonds to expand it.

24A Net Income (Loss) – Solid Waste Revenue Fund

The trend is very positive in the Solid Waste Revenue Fund, so much so that Metro was able to reduce disposal rates and take other measures to reduce the fund's large balance.



Indicator Explanation

Net income is usually used to retire debt, maintain and construct facilities and provide working capital. Net losses or declining net income may be a warning trend indicating insufficient revenue or uncontrolled costs.

Trend Analysis

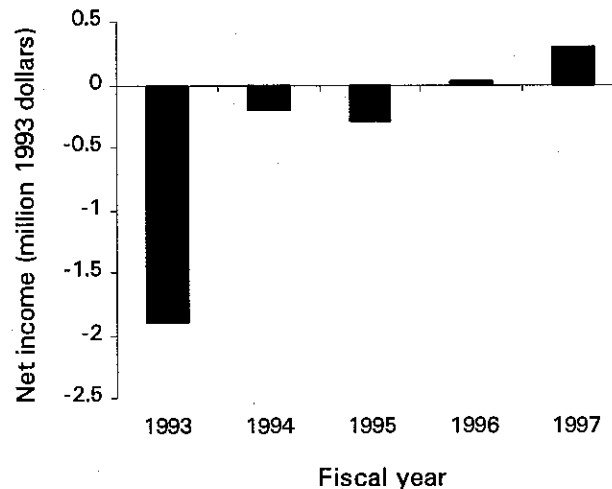
Metro charges fees to garbage disposers to recover disposal costs and encourage recycling. These fees resulted in substantial annual profits and cumulative retained earnings or fund balance of nearly \$42 million (actual dollars) in 1997.

The significant increase in the Solid Waste Revenue Fund's net income between 1996 and 1997 mainly resulted from a decrease in disposal fees paid by Metro to Oregon Waste Systems after re-negotiation of the landfill contract.

Metro reduced its solid waste disposal rates (charges to dump garbage at landfills) by \$5 per ton in June 1997. After a study, Metro concluded that the Solid Waste Revenue Fund balance was excessive. In June 1998, Metro reduced rates another \$7.50 per ton (partly offset by a new transaction charge) and provided performance-based incentives to recycling companies to increase recycling. These measures are intended to decrease the fund balance by about \$13 million (actual dollars) between 1999 and 2003.

24B Net Income (Loss) – Convention Center Fund

The Oregon Convention Center has shown a profit in the last two years.



Indicator Explanation

The net income for the Oregon Convention Center does not include property tax revenue or debt service expense. The convention center was built with proceeds from general obligation bonds to be repaid by property taxes, not enterprise revenue. As a result, revenue is used principally to cover operating expenses but not debt service. Net losses or declining net income would be a warning trend.

Trend Analysis

During the past five years, Metro paid a total of about \$17.0 million (adjusted for inflation) in interest expense on the refunding bonds. The interest expense is paid from property tax revenue.

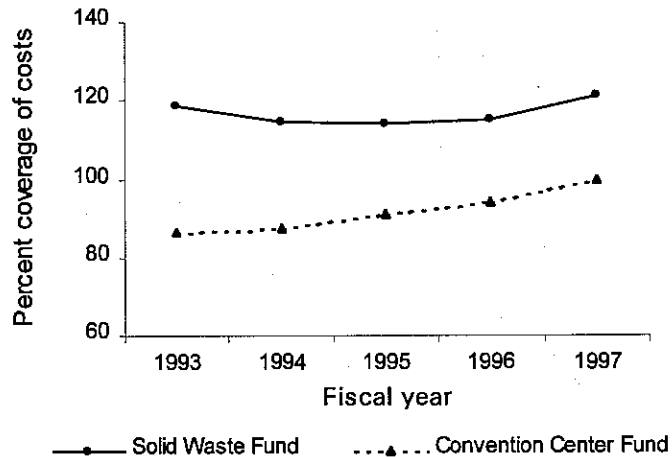
The convention center showed a \$1.9 million net loss in 1993, but improved performance since then allowed it to realize net profits in 1996 and 1997 of \$16,000 and \$333,000, respectively.

Multnomah County hotel/motel tax revenue provided annually to the convention center ranged from \$ 3.4 million to \$ 5.0 million (adjusted for inflation) during the five years.

About 4.3 million people attended events at the facility between 1990 and 1996 and generated an estimated \$2.2 billion in total economic activity in the Metro region.

25 User Charge Coverage

Revenue from user fees is increasingly recovering expenditures for services in Metro's two enterprise funds.



Indicator Explanation

User fees should recover all or most of the costs of providing services offered by a government's enterprise activity. Non-operating revenue and expenses, including interest expense, are omitted from this analysis so that revenue can be compared directly with associated costs. Inflation can easily erode user charge coverage if service costs increase faster than fees. A decline in coverage from user fees is a warning trend.

Trend Analysis

Over the years, Metro's solid waste management activities have generated profits that resulted in a retained earnings/fund balance of nearly \$42 million (actual dollars) in 1997. Metro reduced its service fees in June 1997 and again in June 1998 to attempt to reduce this fund balance.

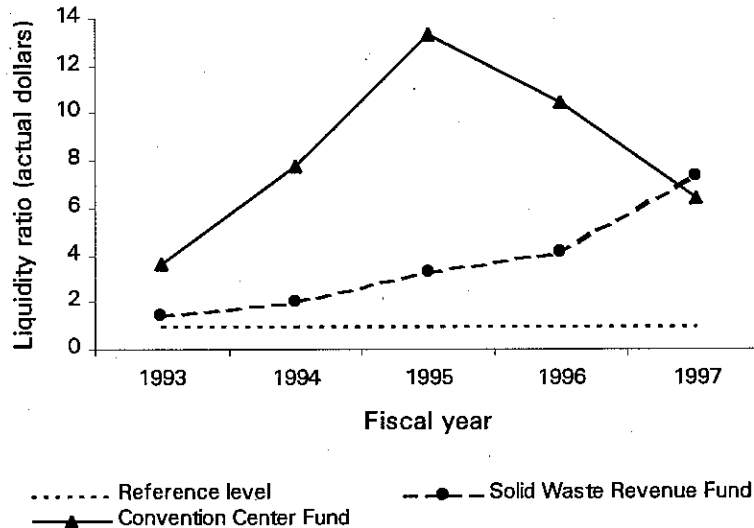
Revenue from service fees covered solid waste management costs at a consistent ratio for the first 4 years. In 1997, the ratio of coverage increased significantly as the result of an unexpected increase in disposal tonnage and Metro's re-negotiation of lower landfill costs with its contractor.

During the past five years, convention center annual revenue increased about \$2.3 million while related annual costs increased about \$800,000 – a net improvement of about \$1.5 million annually (all amounts adjusted for inflation). In 1997, the convention center nearly broke even with an operating loss of about \$26,000 (inflation-adjusted dollars), disregarding interest expense on bonds.

The Metro Council approved an expansion of the facility, which has been near capacity for the last three years, and authorized placing a \$82 million measure on the November 1998 ballot.

26 Liquidity Ratio

Both funds have liquidity ratios that far exceed the 1:1 benchmark.



Indicator Explanation

The liquidity ratio is an indicator of cash and short-term investments available to pay current bills when due. A ratio below \$1 of cash and short-term investments to \$1 of liabilities is considered a warning sign.

Trend Analysis

The Solid Waste Revenue Fund's liquidity ratio increased during the five-year period as the result of increasing profits that nearly tripled its cash and short-term investments and allowed a paydown of current liabilities by more than 40 percent.

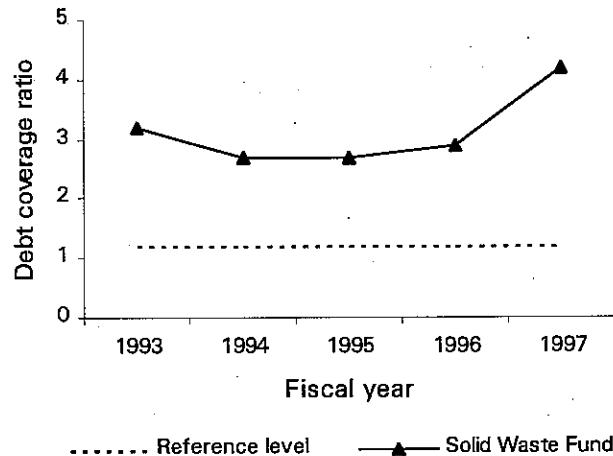
Metro intends to draw down the Solid Waste Revenue Fund's unrestricted fund balance, beginning in fiscal year 1999, with additional disposal rate reductions and recycling incentives. This should reduce the amount of cash received, and the liquidity ratio should decrease from its present value.

Although the Oregon Convention Center reported operating losses each year, cash and fund balances grew. Operations generated a positive cash flow because the \$2.5 million depreciation expense is not a cash expenditure.

In 1997, the Convention Center Fund liquidity ratio dropped substantially below that of the previous year due to a planned drawdown of cash and short-term investments and fund balance to help pay for the Expo Center construction.

27 Debt Coverage Ratio for Solid Waste Revenue Fund

The trend is favorable in the Solid Waste Revenue Fund.



Indicator Explanation

Revenue bonds are repaid from revenue generated by a government's enterprise operations, unlike general obligation bonds that are repaid with property taxes. The debt coverage ratio is the ratio of annual net income from operations to annual revenue bond principal and interest requirements. The debt coverage ratio is an indicator of the ability to repay revenue bond investors. A ratio of approximately 1.2:1 is the usual minimum requirement.

Trend Analysis

The Solid Waste Revenue Fund has maintained a very good debt coverage ratio for the past five years.

The ratio has steadily improved since 1994 as debt service obligations were paid down and as net income from operations remained fairly constant or rose.

The ratio increased sharply in 1997 due to the substantial increase in net income from operations because of increased tonnage revenue and reduced disposal costs.

Economic and Demographic Indicators

Key Indicators

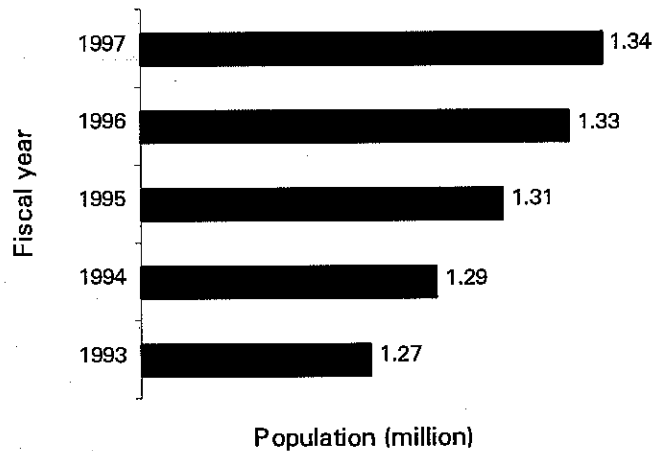
- 28 Tri-county population
- 29 Personal income per capita
- 30 Property value
- 31 New construction

Highlights

- The tri-county area including the Metro region has seen slow but steady growth in population – nearly six percent from 1993 to 1997.
- A very strong economy is increasing job opportunities, raising average personal income and reducing unemployment.

28 Tri-county Population

Population has grown slowly and steadily, a favorable trend.



Indicator Explanation

Large and rapid increases in population can be a negative trend if service demands increase and revenue fails to keep pace with needs.

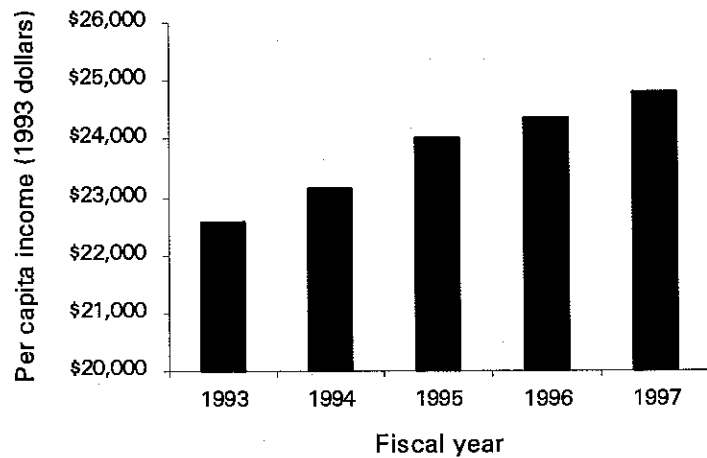
Trend Analysis

The tri-county population has grown slightly more than one percent a year – a total of 5.8 percent in four years.

All of the increase is the result of in-migration and births; county lines have not changed.

29 Personal Income Per Capita

Income per capita grew moderately, a favorable trend.



Indicator Explanation

Declining income per capita, adjusted for inflation, is a warning trend indicating general economic problems and reduced ability to provide revenue to the government.

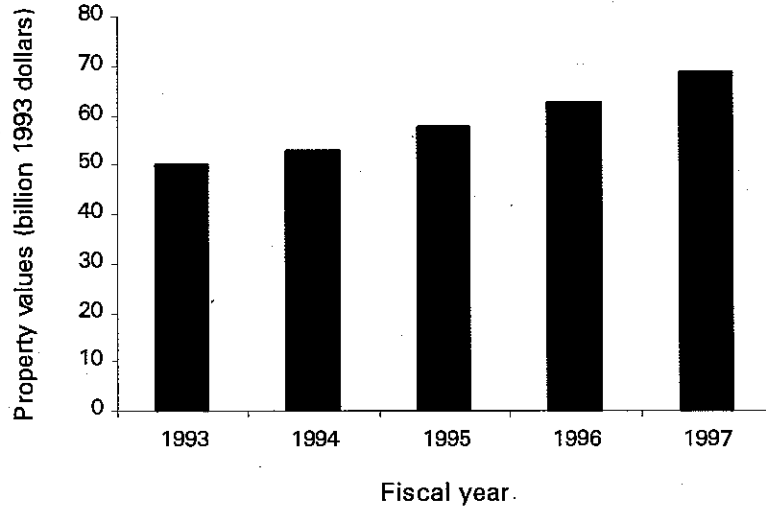
Trend Analysis

Expressed in 1993 dollars, average income per capita grew from \$22,580 in 1993 to \$24,793 in 1997.

The unemployment rate exceeded six percent in 1993; since then it has hovered around four percent.

30 Property Value

Assessed property value increased more than ten percent in each of the last three years, a positive trend.



Indicator Explanation

Assessed property value is a measure of the market value of taxable real, personal and utility property in the tri-county area. Because tax rates are fixed by law, declines in assessed value decrease revenue from property taxes.

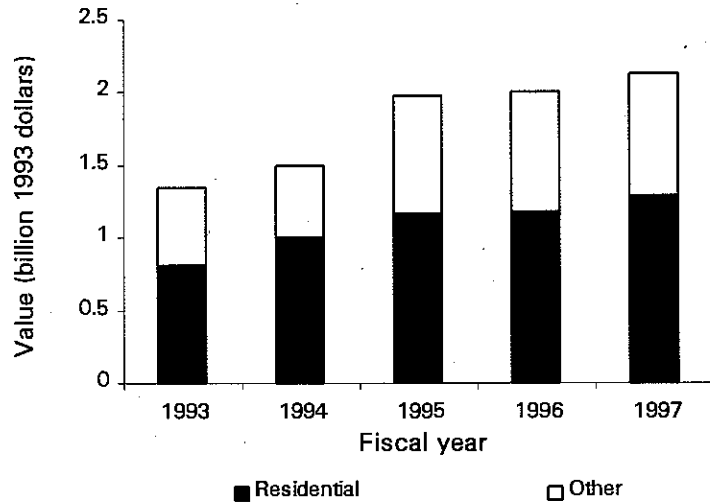
Trend Analysis

Assessed property value increased significantly in each of the last four years for a cumulative total of 37 percent.

The major factors contributing to the increase in assessed value were increases in the value of existing properties because of market demand and a very strong market for new construction due to the strong regional economy.

31 New Construction

The ratio of residential to commercial construction has been relatively steady at about 60 percent, a favorable trend.



Indicator Explanation

The net cost of serving residential development is generally higher than the net cost of serving commercial and industrial development, because residential development usually creates more expenditure demands than revenue receipts. An old planning adage states that residential development creates expenditure drains, industrial development creates revenue surpluses and commercial development pays for itself. The ideal condition would be to have sufficient industrial development to more than offset the cost of residential development.

Trend Analysis

Except for 1994, residential construction has consistently been about 60 percent of total construction per year.

Increased new construction is an indicator that the economy is good; during the past five years, total construction has increased about 60 percent.

Recommendations

Metro's elected and finance officials have successfully developed and maintained a strong financial condition for Metro. This has been facilitated by Metro's ability to fund most operating costs (general government and enterprise activities) with user fees, interest income and grants. To maintain Metro's financial condition, elected officials and budget and finance managers should continue closely monitoring revenue and expenditures.

Metro's revenue from federal, state and local grants more than tripled in the last five years and made up about 17 percent of Metro's general governmental funds' operating revenue in 1997. This could be a potential problem, because grants can be reduced or eliminated essentially without warning. In that event, Metro could be forced to find additional revenue or cut services to reduce costs.

When preparing their budgets, the Transportation Planning, Growth Management Services and Regional Parks and Greenspaces Departments should more realistically estimate their expected grant revenue. These departments were often too optimistic in their budget estimates of grants they expected to receive. All three departments significantly overestimated grant revenue in their budgets – the two planning departments did so by more than 100 percent in two years. Overestimating such revenue aggravates the situation when grant revenue is already uncertain.

Metro's financial planning staff stated that they had made some suggestions to help departments be more precise when budgeting for revenue. One suggestion was to limit revenue estimates from multi-year grants to the amount expected for that budget year. A second suggestion was to estimate revenue from grants for which written agreements were in place and not to include potential grants. Financial planning staff said they hoped these reforms would be in place in 1999.

References

Adopted Budget, 1993 – 1997, Metro, Portland, Oregon.

Berne, Robert, *The Relationships Between Financial Reporting and the Measurement of Financial Condition*, Governmental Accounting Standards Board, Norwalk, Connecticut, 1992.

Capital Improvement Plan, FY 1998-99 through FY 2002-03, Metro, Portland, Oregon.

Carpenter, Frances H. and Florence C. Sharp, *Popular Reporting: Local Government Financial Reports to the Citizenry*, Governmental Accounting Standards Board, Norwalk, Connecticut, 1992.

Comprehensive Annual Financial Report, 1993 – 1997, Metro, Portland, Oregon.

Glick, Paul E., *Illustrations of Popular Reports of State and Local Governments*, Government Finance Officers Association, Chicago, 1988.

Governmental Accounting, Auditing and Financial Reporting, Government Finance Officers Association, Chicago, 1994.

Groves, Sanford M., and Maureen Godsey Valente, *Evaluating Financial Condition: A Handbook for Local Government*, International City/County Management Association, Washington, DC, 1994.

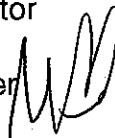
Regional Data Book, Metro, Portland, Oregon, 1997.

Response to the Report

**METRO**

Date: September 25, 1998

To: Alexis Dow, CPA, Metro Auditor

From: Mike Burton, Executive Officer 

Re: Response to Metro's Financial Trends 1993-97 Report

I received the financial trend report dated September 1998. Thank you for the opportunity to comment on this document. The financial trends report provides valuable information on Metro's financial health. I am pleased that the information provided shows that we are in good condition and we have a positive report card. While most of the trends are favorable and there are clear indicators of Metro's sound financial management, we need to continue to be cognizant that the period of review is one of a strong economy. I am still concerned with the overall financial structure of Metro which relies on excise tax from Metro's goods and services to provide the only discretionary general fund resources. Metro's charter mission of growth management planning continues to be put in jeopardy due to a lack of a secure funding base.

You have identified four points that indicate unfavorable trends and possible threats. One area is in the reliance on grants and shared local government funds. Increases in grants are in part due to our own success. These funds are primarily for work on the proposed south/north light rail project, congestion pricing, and parks-related restoration, education, and habitat enhancement. Metro is effective at securing these funding sources because it has a strong reputation as an effective organization and because it has a clear role in addressing environmental issues.

I share your concern about the perception of over-budgeting grant revenues, but I believe we have properly addressed this through our management approach. We often apply for grants or anticipate federal funding that ultimately is not received. Expenses are not incurred if funds are not received. Also, staffing levels and patterns are adjusted to match known, as opposed to uncertain revenues. To date we have never had to make cuts, spend reserves or borrow to cover budgeted funds that were not realized due to unrealized grant revenues.

Another area of concern that you have noted is an increase in the average unused vacation time. These increased vacation accruals reflect both bargaining contract changes and the stable nature of the Metro work force. Typically, the vacation

Memorandum
September 25, 1998
Page 2

cashout cost is paid from budgeted funds "saved" during the replacement hiring period.

In conclusion, I commend you for your effort in compiling this information and urge you to incorporate it as a regular part of your audit work plan. The timing of your report makes it especially relevant as we are initiating work on the FY 1999-2000 budget. This information will provide a valuable reference as we look forward in our financial planning.



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"/>
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: 797-1831
Mail: Metro Auditor, 600 NE Grand Avenue, Portland, OR 97232-2736
Call: Alexis Dow, CPA, Metro Auditor, 797-1891
Email: dowa@metro.dst.or.us

