



# Financial Condition of Metro:

FY 2007-08 to FY 2016-17

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May 2018  
A Report by the Office of the Auditor

**Brian Evans**  
*Metro Auditor*



## Knighton Award for Auditing

### **Audit receives recognition**

The Office of the Metro Auditor was the recipient of the “Distinguished Award” for Small Shops by the Association of Local Government Auditors (ALGA). The winning audit is entitled “Community Planning and Development Grants: Performance measures and stronger controls needed to ensure results.” Auditors were presented with the award at the ALGA conference in Atlanta, Georgia in May 2017. Knighton Award winners are selected each year by a judging panel of peers and awards are presented at the annual conference.

### **Metro Accountability Hotline**

The Metro Accountability Hotline gives employees and citizens an avenue to report misconduct, waste or misuse of resources in any Metro or Metro Exposition Recreation Commission (MERC) facility or department.

The Hotline is administered by the Metro Auditor's Office. All reports are taken seriously and responded to in a timely manner. The auditor contracts with a hotline vendor, EthicsPoint, to provide and maintain the reporting system. Your report will serve the public interest and assist Metro in meeting high standards of public accountability.

*To make a report, choose either of the following methods:*

**Dial 888-299-5460 (toll free in the U.S. and Canada)**

**File an online report at [www.metroaccountability.org](http://www.metroaccountability.org)**



**Brian Evans**  
**Metro Auditor**

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## MEMORANDUM

May 16, 2018

To: Tom Hughes, Council President  
Shirley Craddick, Councilor, District 1  
Betty Dominguez, Councilor, District 2  
Craig Dirksen, Councilor, District 3  
Kathryn Harrington, Councilor, District 4  
Sam Chase, Councilor, District 5  
Bob Stacey, Councilor, District 6

From: Brian Evans, Metro Auditor

**Re: Audit of Metro's Financial Condition FY 2007-08 to FY 2016-17**

The following report is a review of Metro's financial condition over the last ten years. My office completes this audit every two years and this is the sixth report in the series. It provides a check-up of how well Metro is doing financially, based on indicators that are recommended by the International City/County Management Association.

Most of the information in this report is derived from the Comprehensive Annual Financial Report (CAFR) prepared each year by Finance and Regulatory Services and audited by the external auditor. It is intended to give a long term review for Metro's financial history. The report shows that most indicators remain positive, which indicates Metro is in good financial health.

The 10-year trends for grant revenue and employee costs were negative. Grant revenue was down, which could have an impact on planning and research projects that rely on this source of revenue. Employee costs increased faster than revenue over the same time period. Trends in the risk management fund also signaled caution. Although data was not available for a 10-year trend, over the last six-years, risk related expenditures increased by 52%.

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

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## Summary

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Metro's overall financial health is good. A government in good financial condition can afford to provide services on an on-going basis without disruption. It will be better positioned to respond to changes in economic conditions that affect the resources or costs associated with providing services.

Financial condition is assessed by reviewing long-term trends in the areas of revenues, expenditures, debt, assets, and the demographics and economics of the government's service area. This report provides the region's residents and public officials with an overview of Metro's financial condition. It includes 41 measures and covers the 10-year period from fiscal year (FY) 2007-08 through FY 2016-17.

The 10-year trends for most indicators were positive. For some indicators, the effect on overall financial health depends on the corresponding trend in revenue. For example, increases in total expenditure would not impact Metro's overall financial health negatively as long as total revenue increased at an equal or greater rate.

The 10-year trends for grant revenue and employee costs were negative. While grant revenue made up a relatively small amount (6%) of total revenue, the decline could have bigger impacts on projects in the Planning and Development department and Research Center that rely more heavily on grants.

Employee costs (salaries, wages, and benefits) increased faster than revenue in the last 10 years. Employee costs can be controlled by managing the total number of full-time equivalent employees (FTE), and monitoring growth in employee compensation and benefit costs. Some benefit costs are harder to control because they are based on the health insurance market and funding requirements for pensions.

Although data was not available to calculate a 10-year trend for the Risk Management Fund, over the last six years expenditures increased by 52%, which is a warning trend. The Risk Management Fund accounts for expenses related to insurance, liability claims, and studies related to insurance issues. Our recent follow-up audit on the risk management program showed Metro made progress analyzing trends in workers' compensation claims, but more work was needed on trends related to property and liability claims.

# Trends and conclusions

The table below includes all indicators in the report. It shows the:

- change from the previous year: increase (+) or decrease (-).
- change over a 10-year period: increase (↑) or decrease(↓).
- effect of the 10-year trend on Metro’s financial health.

“Positive/negative” is used to describe the effects of 10-year trends.

“Warning” is used to describe shorter-term trends that signal caution should be taken. The colors are used to help interpret the trends since not all decreases are negative and not all increases are positive.

	Indicator	Change from previous year	10-year trend	Effect on Overall Financial Health
Revenue	Total revenues	+	↑	Positive
	Revenue per capita	+	↑	Positive
	Charges for services	+	↑	Positive
	Property taxes	+	↑	Positive
	Excise taxes	+	↑	Positive
	Grants	+	↓	Negative
	General Fund revenue over/under budget	-	↑	Positive
Expenditure	Total expenditure	+	↑	Positive, increased slower than revenue
	Expenditure per capita	+	↓	Positive
	Risk Management Fund	-	↑*	Warning
	Employee costs	+	↑	Negative
	Fixed costs	+	↓	Positive
	Capital expenditure	+	↓	Mixed
Financial Health	Liquidity	+	↓	Positive, remains above the recommended level
	Total debt	-	↓	Positive
	Net assets	+	↑	Positive
	Capital assets	-	↑	Positive
	General Fund balances	+	↓^	Positive
Demographic and Economic Trends	Population	+	↑	Mixed
	Per capita personal income	+	↑	Positive
	Unemployment rate	-	↓	Positive
	Number of jobs	+	↑	Positive
	Number of businesses	+	↑	Positive
	Value of new construction	+	↑	Positive
	Real market property values	+	↑	Positive

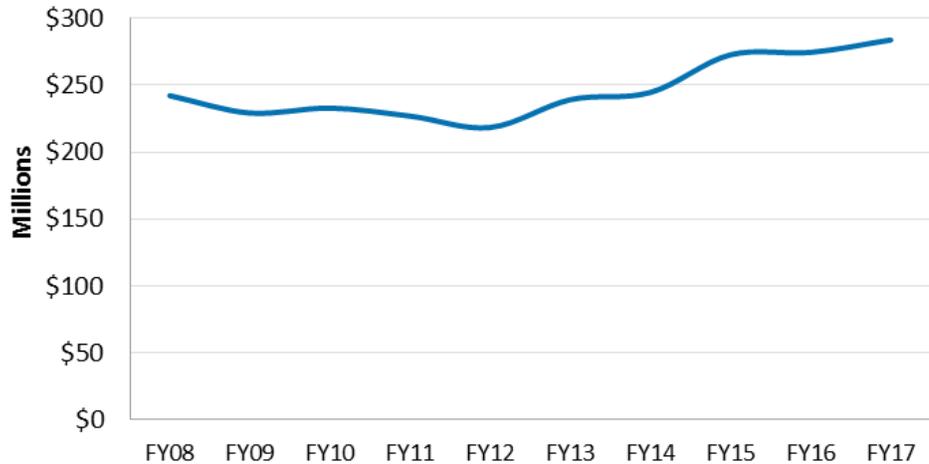
\* Data only available for a six-year trend    ^ Data only available for a seven-year trend

Sources: International City/County Management Association (ICMA) *Evaluating Financial Condition: A Handbook for Local Government for most criteria.* Office of the Auditor analysis of trends.

# Revenue

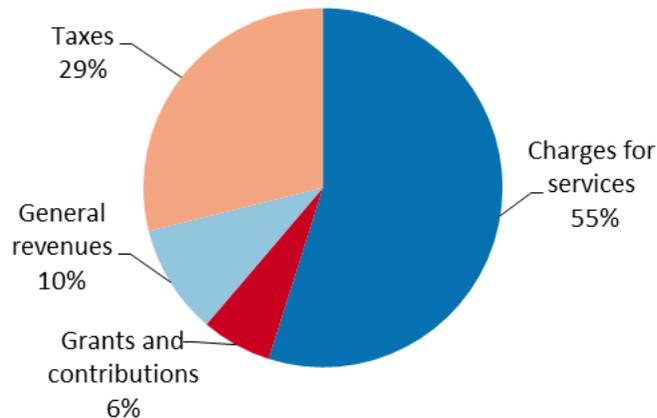
The amount of money Metro receives determines its capacity to deliver services. The sources of Metro’s revenue are diverse; some programs charge for their services, while others are funded by taxes. This section of the report shows trends in each type of revenue.

**Total revenues**  
FY 2007-08 to FY 2016-17  
(adjusted for inflation)



Total revenue increased by 17% in the last 10 years. During that time most revenue sources increased, but not at the same rate. For example, charges for services grew by 23%, while revenue from taxes grew by 8%. The increase beginning in FY 2012-13 was mostly the result of additional revenue from charges for services collected at the Oregon Convention Center, Portland Expo Center, Portland’s Centers for the Arts, solid waste facilities, and the Oregon Zoo. FY 2013-14 was the first year of the voter approved Parks and Natural Areas Local Option Levy, which increased revenue from property taxes in the last four fiscal years.

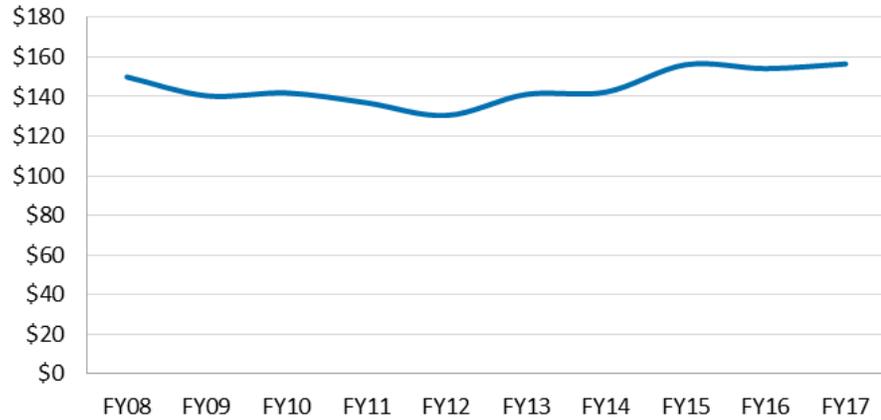
**Revenue sources**  
FY 2016-17



There are four primary sources of revenue at Metro. Some are restricted and can only be used for one purpose. Other sources have fewer restrictions and are used to support several purposes.

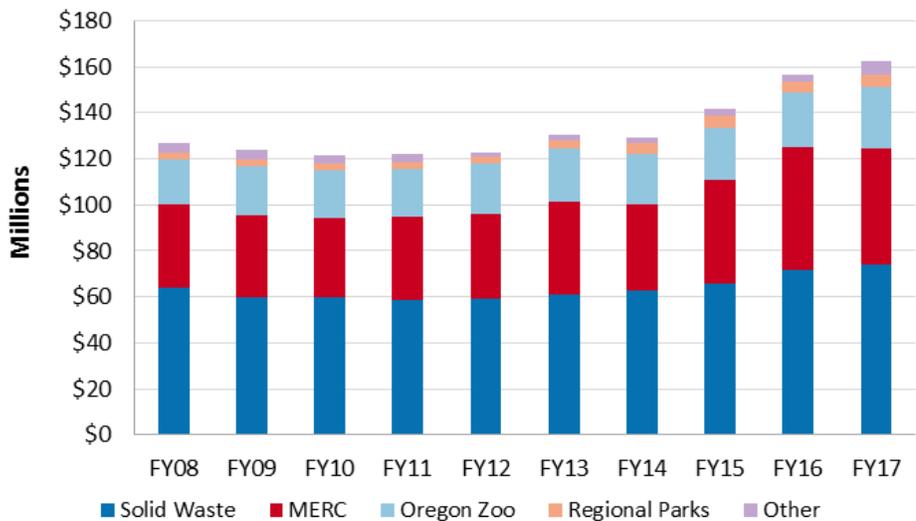
In FY 2016-17, the largest source of revenue was charges for services. This type of revenue has consistently been the largest source over the last 10 years. Similarly, tax revenue has consistently been the second largest source during that time.

**Revenue per capita**  
FY 2007-08 to FY 2016-17  
(adjusted for inflation)



This measures changes in revenue relative to changes in the population of the region. As the population increases, it might be expected that revenues and the need for services would increase at a similar pace. Since FY 2007-08, revenue per capita increased by 4%. This was caused by total revenue growing faster (17%) than the population (12%).

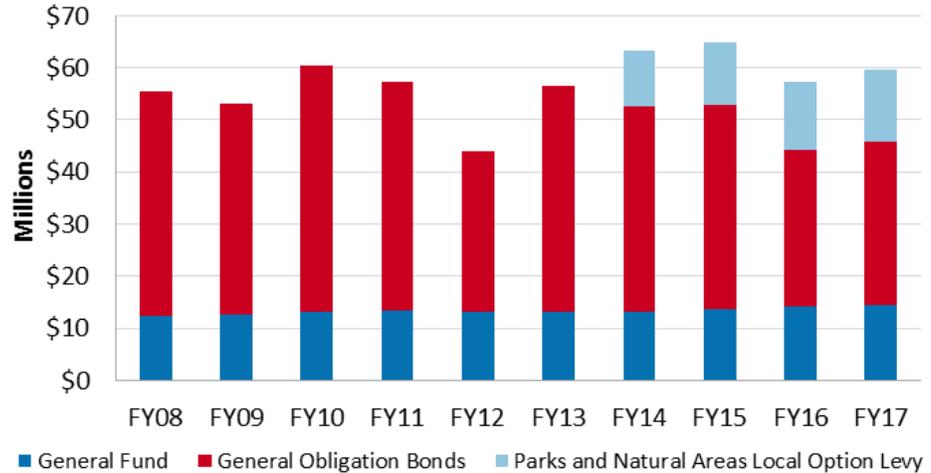
**Charges for services**  
FY 2007-08 to FY 2016-17  
(adjusted for inflation)



Service charges are collected for some Metro operations. Solid waste facilities, regional parks, and the Oregon Zoo all charge for providing services. In addition, each of the three venues that makes up the Metropolitan Exposition and Recreation Commission (MERC) charge for services. These include the Oregon Convention Center, Portland Expo Center, and Portland's Centers for the Arts.

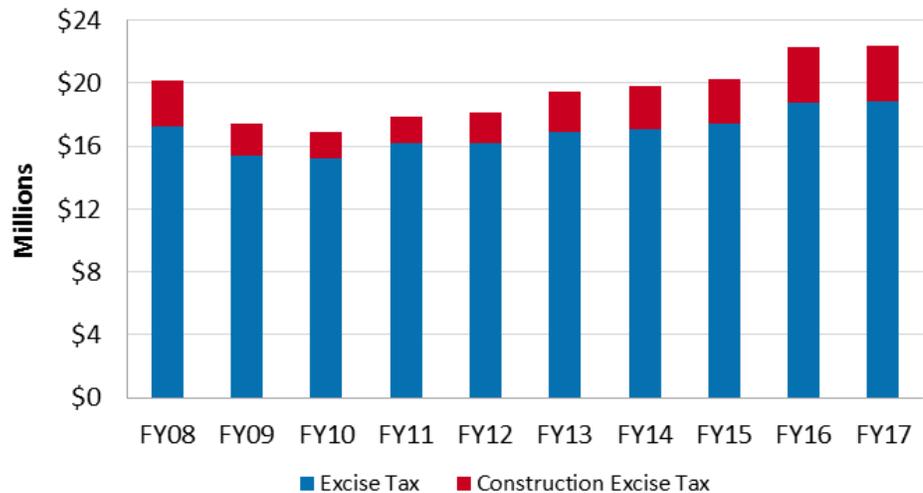
In the last 10 years, the amount of revenue collected from service charges increased by 22%. This was mostly driven by the venues that make up MERC as well as increases from solid waste and the Oregon Zoo. Service charges at regional parks actually grew the fastest, but from a relatively small base.

**Property taxes**  
FY 2007-08 to FY 2016-17  
(adjusted for inflation)



Some property taxes fund Metro’s general government services (General Fund). These revenues can be used for a variety of government operations. Other property taxes, general obligation bonds, are used for specific projects that were approved by voters, such as improvements at the Oregon Zoo and land purchases to protect natural areas. Property taxes increased beginning in FY 2013-14 as a result of the voter approved Parks and Natural Areas Local Option Levy. Property taxes for general government services increased by 16% over the last 10 years. Revenue to repay general obligation bonds decreased by 27% as bonds were repaid.

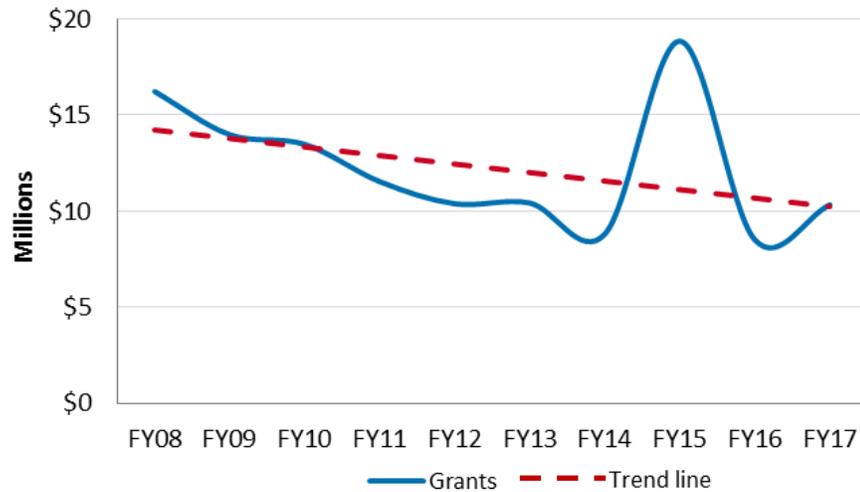
**Excise taxes**  
FY 2007-08 to FY 2016-17  
(adjusted for inflation)



Another source of revenue is excise tax. It is collected when people use Metro’s facilities and services, or when new construction permits are issued. The construction excise tax began in FY 2006-07 and is intended to fund the planning required to make land ready for development. This tax is scheduled to end in December 2020.

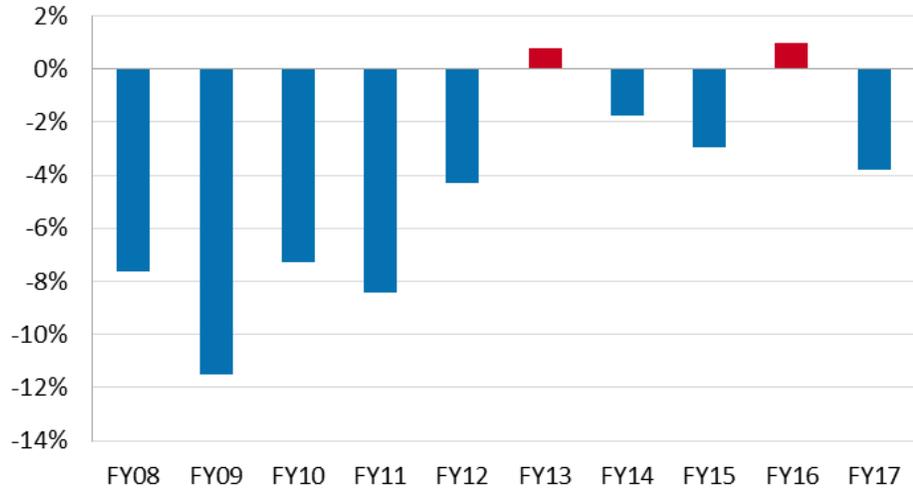
Total revenue from excise taxes increased by 11% over the last 10 years. In FY 2016-17 it reached the highest levels since the economic recession in FY 2007-08. Revenue from construction excise taxes grew 20% since FY 2007-08.

**Grants**  
FY 2007-08 to FY 2016-17  
(adjusted for inflation)



Most revenue from grants was for projects in the Planning and Development department and Research Center. Grants are provided for a specific purpose and there may be restrictions on using them outside that purpose. Grant revenue is project based, which can cause the amount received to fluctuate from year to year based on project activity. The general trend has been a decrease in grant revenue over the last 10 years. There was an increase of \$10 million in FY 2014-15 because of a grant from the State of Oregon for the Convention Center Hotel. Some of the decrease is also the result of reclassifying revenue as government contributions rather than grants.

**General Fund revenue  
over/under budget  
FY 2007-08 to FY 2016-17**



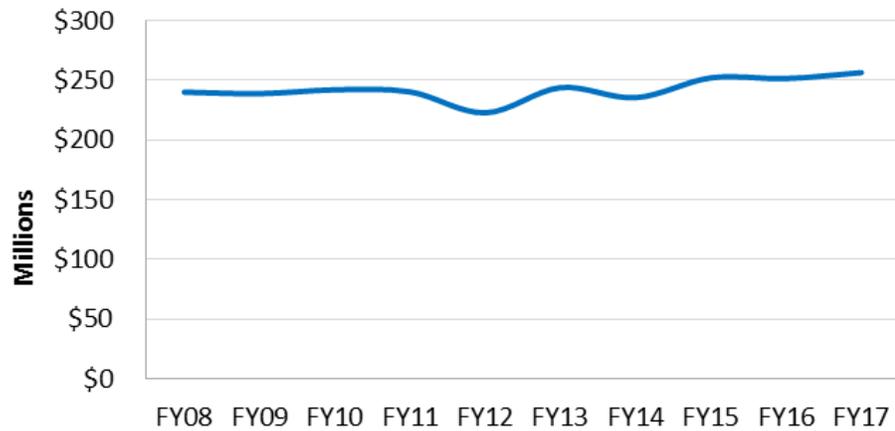
This indicator shows how the amount of General Fund revenue actually received compared to the amount of revenue estimated when the annual budget was created. If less revenue is collected than expected, and there are no reserves, it could lead to mid-year cuts in services. At the end of FY 2016-17 Metro’s unassigned general fund balance was about 37% of budgeted revenue, which reduced the risk that mid-year cuts would be necessary.

In eight of the last 10 years, Metro received less revenue than expected. This was primarily the result of over-estimation of grant revenue, which are mostly used for projects in the Planning and Development department and Research Center. As noted previously, grant revenue can vary widely from year to year, depending on when work is completed and payments are received.

# Expenditure

Expenditures show the cost of providing government services. There are several ways to analyze expenditures. This section shows total spending and trends in various categories of spending, such as personnel costs, debt payments, and department expenditures.

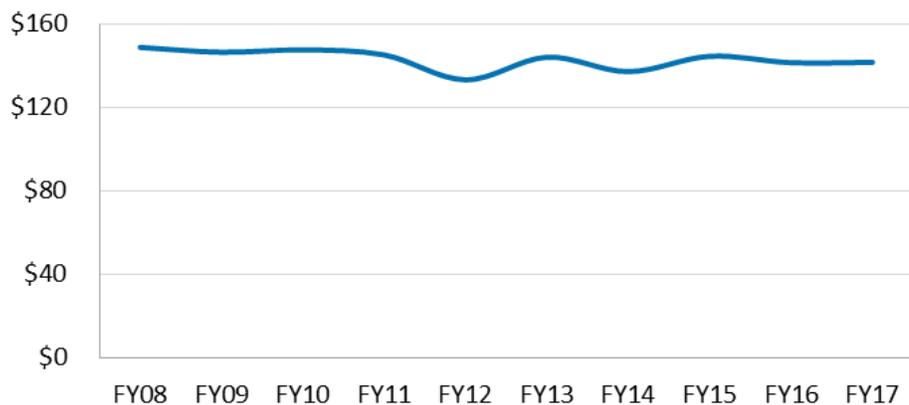
**Total expenditure**  
FY 2007-08 to FY 2016-17  
(adjusted for inflation)



Total expenditures include all departments and services operated by Metro and the three venues that make up the Metropolitan Exposition and Recreation Commission (MERC), as well as non-departmental costs and debt service. Included are costs for employee salaries and benefits, and materials and services. Total expenditures increased by 7% in the last 10 years.

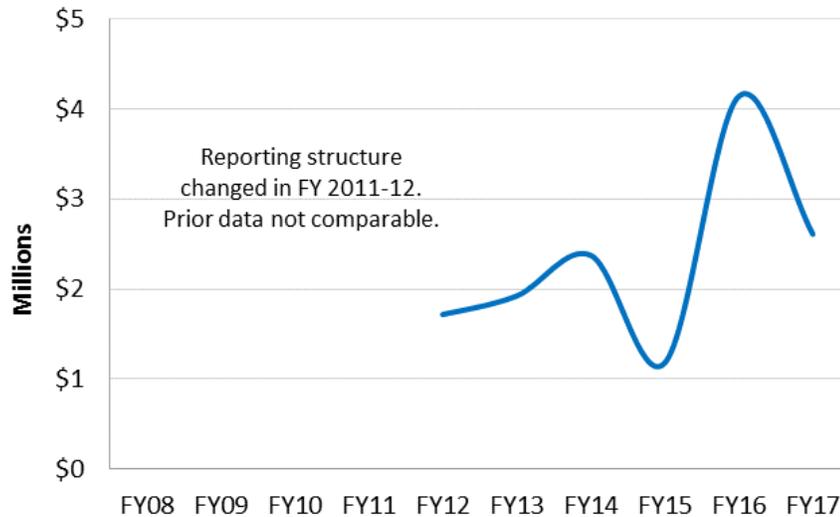
Metro’s Charter limits the amount expenditures from non-voter approved taxes can increase each year. The Consumer Price Index is used to gradually increase the expenditure limit each year. During the process to develop the annual budget, an analysis of expenditures in relation to the Charter limitation is done. For FY 2016-17, the analysis stated that Metro was under the limitation by 3%.

**Expenditure per capita**  
FY 2007-08 to FY 2016-17  
(adjusted for inflation)



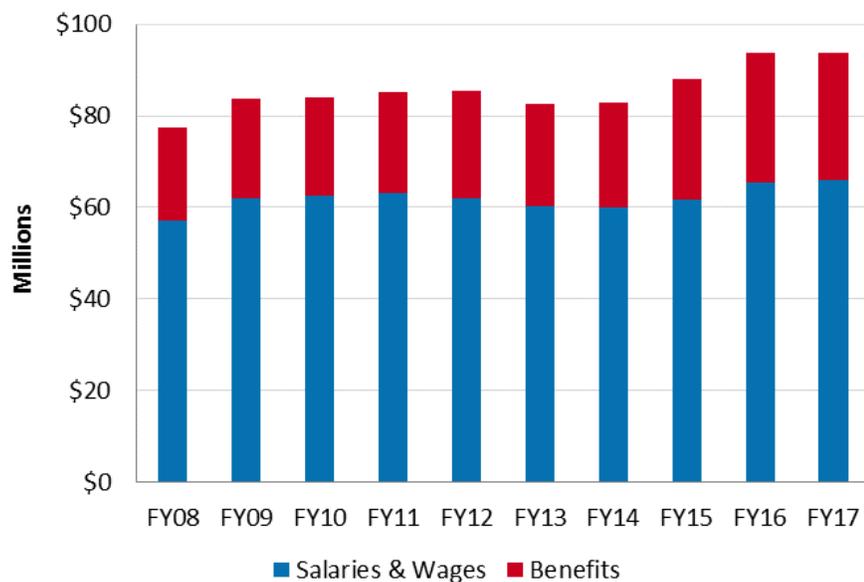
Expenditures per capita show the average amount of money spent to provide services to each person who lives in the region. Increases in spending per capita may indicate the cost of providing services is rising faster than the population. Expenditures per capita fell by 5% over the last 10 years as the population grew faster (12%) than expenditures (7%).

**Risk Management Fund**  
 FY 2007-08 to FY 2016-17  
 (adjusted for inflation)



The Risk Management Fund accounts for expenses related to insurance, liability claims, and studies related to insurance issues. In FY 2011-12 the reporting structure changed, which prevented comparisons with prior years. The large increase in FY 2015-16 was the result of increases in liability claims paid. There was also an increase in the amount of funds reserved for claims incurred, but not yet paid. Although data was unavailable to calculate a 10-year trend, over the last six years, expenditures increased by 52%, which is a warning trend.

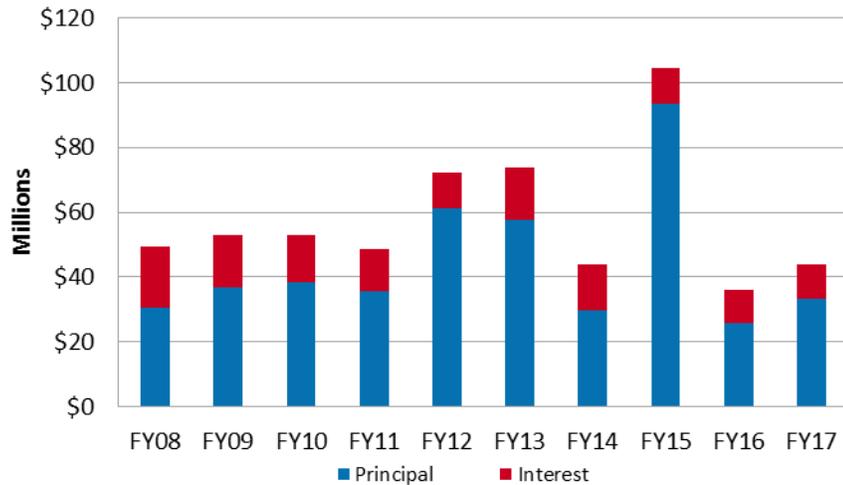
**Employee costs**  
 FY 2007-08 to FY 2016-17  
 (adjusted for inflation)



Over the last 10 years, expenditures for employee salaries and benefits increased by 21%, which is a negative trend since it exceeds revenue growth. This was caused by benefit costs for health care and retirement contributions increasing by 36% during that time. Salaries and wages grew more slowly (16%). Benefits accounted for about 30% of all employee costs in FY 2016-17, which was slightly more than the average (28%) over the last 10 years.

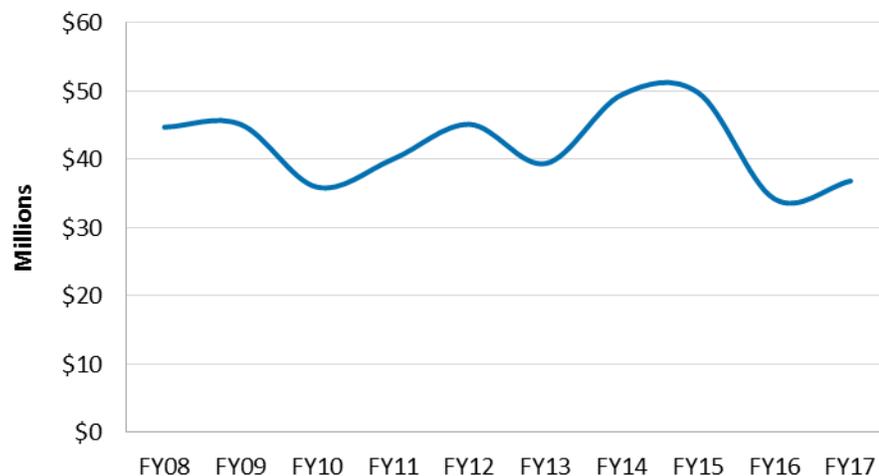
Employee costs can be controlled by managing the total number of full-time equivalent employees (FTE), and monitoring growth in employee compensation and benefit costs. Some benefit costs are harder to control because they are based on the health insurance market and funding requirements for pensions.

**Fixed costs**  
FY 2007-08 to FY 2016-17  
(adjusted for inflation)



Fixed costs include the principal and interest on long-term debt. They are considered fixed because Metro cannot adjust these payments when there are changes in resources available. Metro’s long-term debt was primarily from the sale of general obligation bonds (87%), which are paid by tax increases approved by voters. Metro uses these tax revenues to pay debt. The increase in principal in FY 2014-15 was the result of issuing new bonds to repay those issued in 2007 for the Natural Areas program.

**Capital expenditure**  
FY 2007-08 to FY 2016-17  
(adjusted for inflation)



Capital spending is used to acquire or add to any physical asset. Since FY 2007-08, capital spending was primarily for the purchases of land for the Natural Areas program and improvements at the Oregon Zoo. Voters approved a bond measure in 2006 for land purchases and a bond measure in 2008 for improvements at the Oregon Zoo. Over the last 10 years, capital expenditures declined by 18%. This was due to fewer land purchases in the Natural Areas program.

## Spending by department

Changes in department spending can vary based on the type of programs and services of each department as well as their sources of revenue. Trends in some departments/venues that depend on service charges, excise taxes, or bonds are closely tied to the economy. For example, the three MERC venues, Oregon Zoo, Parks and Nature, and the solid waste component of Property and Environmental Services had varied growth that partially reflected their ability to generate revenue.

Other departments provide support services to other parts of the organization and do not generate their own revenue. For example, the Council Office, Communications Human Resources, Information Services, Finance and Regulatory Services, Metro Attorney, and Metro Auditor are all funded through internal service charges and the general fund. Finally, two departments, Planning and Development and Research Center, rely on grant funds. Grants can vary by year depending on what projects are in process.

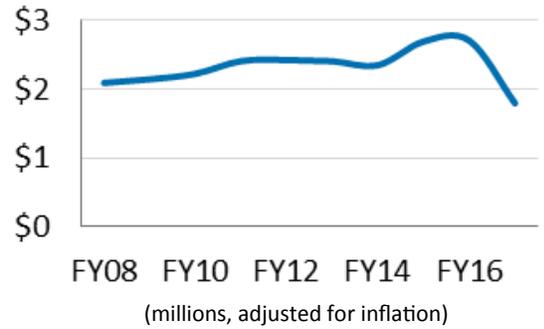
This table provides a summary of FY 2016-17 expenditures and 10-year trends for each of Metro's 16 departments or venues. The list is ranked by total expenditure in FY 2016-17.

Department/Venue	FY 2016-17 expenditure	10-year change*
Property and Environmental Services	\$61,180,896	5%
Oregon Zoo	\$37,016,256	17%
Oregon Convention Center	\$32,546,715	26%
Parks and Nature	\$25,059,518	61%
Portland's 5 Centers for the Arts	\$15,834,001	62%
Planning and Development	\$11,728,103	-25%
Portland Expo Center	\$6,326,584	28%
Finance and Regulatory Services	\$5,273,992	49%
Information Services	\$4,535,383	52%
Research Center	\$4,215,674	8%
Metro Council	\$4,155,300	102%
Human Resources	\$2,755,612	52%
Office of Metro Attorney	\$2,373,201	12%
Communications	\$1,796,491	-14%
MERC Administration	\$1,064,127	-59%
Metro Auditor	\$662,365	12%

\* adjusted for inflation

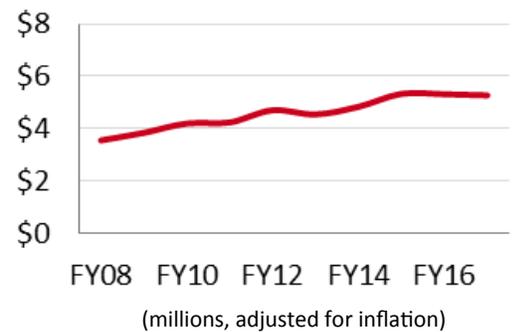
## Communications

Communications provides media relations, public involvement, writing, marketing, graphic, and web design services to Metro's other departments. In the last 10 years, expenditures declined by 14%. This was mostly due to shifting spending on personnel as communications staff who had been centralized into the department were shifted back to other departments like Planning and Development. In FY 2016-17, 93% of the expenditures were for personnel.



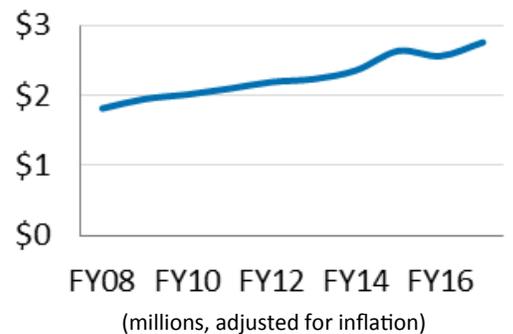
## Finance and Regulatory Services

This department provides business services, such as accounting, procurement, and budgeting to Metro's other departments. Expenditures increased by 49% between FY 2007-08 and FY 2016-17 mostly due to higher personnel costs as well as higher materials and services costs. Personnel services made up 76% of the department's expenditures in FY 2016-17.



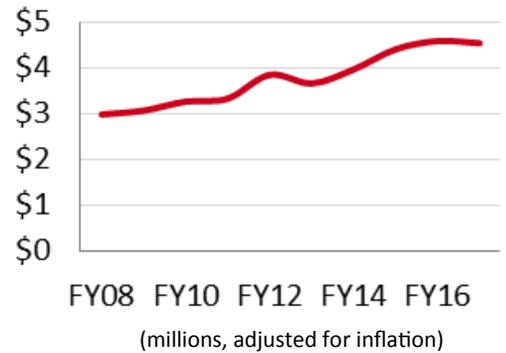
## Human Resources

The Human Resources department is responsible for employee recruitment, compensation and benefits, and organizational development for all Metro departments. Expenditures increased by 52% in the last 10 years. This was mostly caused by increases in personnel services costs. In FY 2016-17, 81% of expenditures were for personnel.



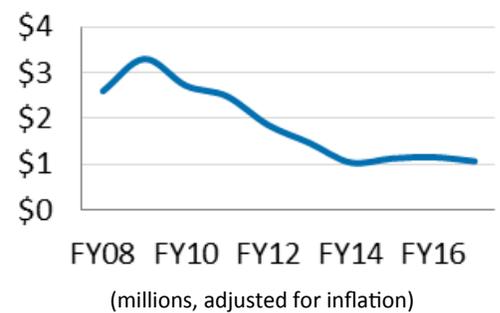
## Information Services

Metro's Information Services department develops and maintains hardware and software systems to support the entire agency. Expenditures for this department increased by 52% in the last 10 years. This was caused by increases in both personnel services, and materials and services. In FY 2016-17, 73% of its expenditures were for personnel.



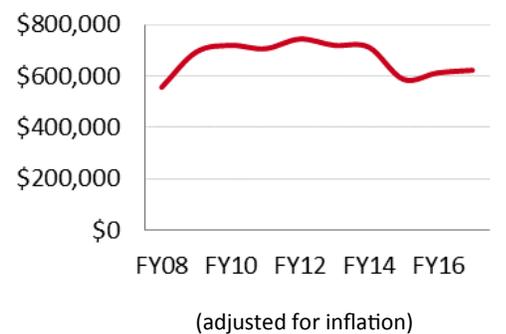
## MERC Administration

This department provides business services, such as accounting, information services, project management, and administration for the venues that make up MERC. In the last 10 years, expenditures decreased by 59%. This was mostly due to combining administrative costs for the venues into Metro's other internal services departments. In FY 2016-17, personnel made up 69% of expenditures.



## Metro Auditor

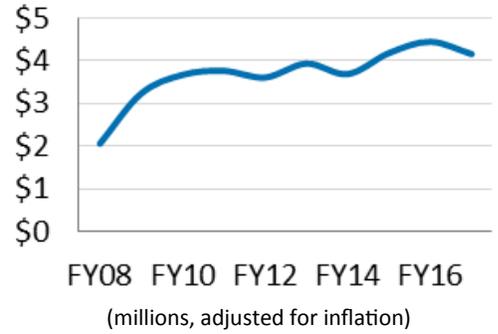
The Metro Auditor conducts performance audits of Metro's services and programs, oversees the financial audit by an outside accounting firm, and administers the Accountability Hotline. Expenditures increased by 12% in the last 10 years. This was mostly caused by an increase in personnel services when a new auditor position was approved in FY 2008-09. In the most recent year, personnel accounted for 95% of expenditures.



## Metro Council

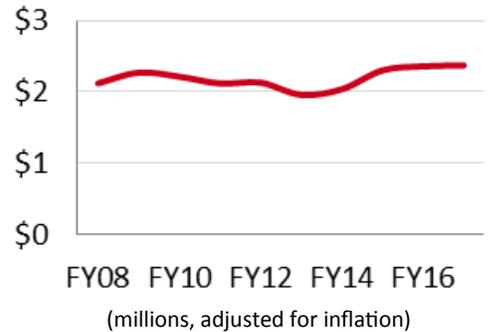
Council is the governing body of Metro. It consists of seven elected officials who represent the districts in the Metro region and one region-wide official, the Council President. The Office also includes the Chief Operating Officer's Office; the government affairs and policy development program; and the Diversity, Equity and Inclusion program.

In the last 10 years, expenditures increased by 102%. This was caused by increases in both personnel services, and materials and services. Some of the increase was the result of new programs. In FY 2016-17, 86% of expenditures were for personnel.



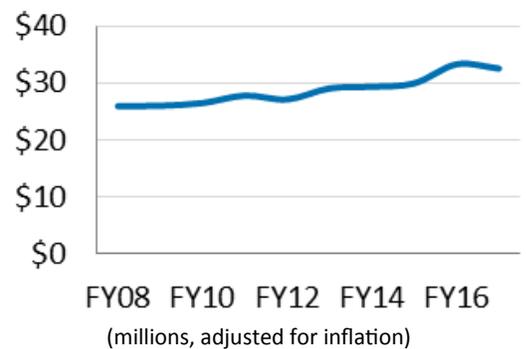
## Office of the Metro Attorney

The Office of Metro Attorney provides legal research, evaluation, analysis, and advice to Metro departments. In the last 10 years, expenditures increased by 12%. This was caused by increases in personnel services. In the most recent year, personnel accounted for 98% of expenditures.



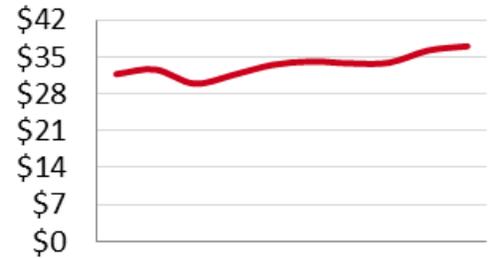
## Oregon Convention Center

The Oregon Convention Center hosts conventions and trade and consumer shows. Expenditures increased by 26% in the last 10 years. Increases were caused by additional spending on food and beverage contracts and marketing expenses. In FY 2016-17, materials and services accounted for 69% of expenditures.



## Oregon Zoo

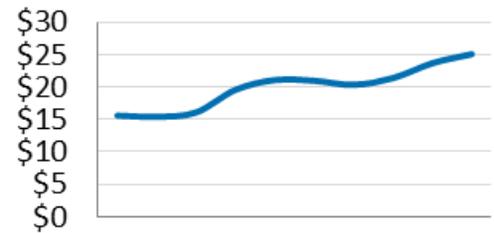
The Oregon Zoo houses animals and exhibits, and provides environmental education and conservation programs. Over the last 10 years, expenditures increased by 17%. This was caused mostly by increases in personnel costs.



FY08 FY10 FY12 FY14 FY16  
(millions, adjusted for inflation)

## Parks and Nature

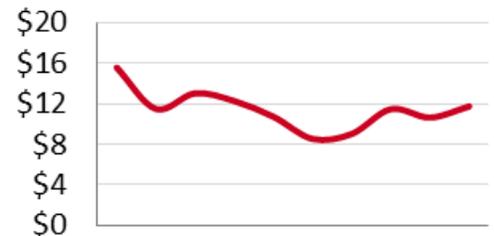
Parks and Nature manages Metro's parks, natural areas, and cemeteries. It also plans and develops a regional system of parks and trails. Over the last 10 years, expenditures increased by 61%. This was due to increased personnel costs associated with the operating levy that was approved by voters in 2013 and renewed in 2016, and contracted services.



FY08 FY10 FY12 FY14 FY16  
(millions, adjusted for inflation)

## Planning and Development

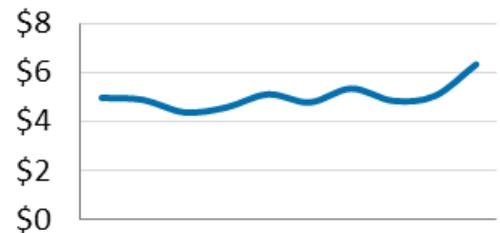
The Planning and Development department develops policies and programs that guide land use and transportation planning. It also provides funding to local governments and community based organizations to help implement regional plans. Over the last 10 years, expenditures decreased by 25%. This was caused by decreases in contracted professional services.



FY08 FY10 FY12 FY14 FY16  
(millions, adjusted for inflation)

## Portland Expo Center

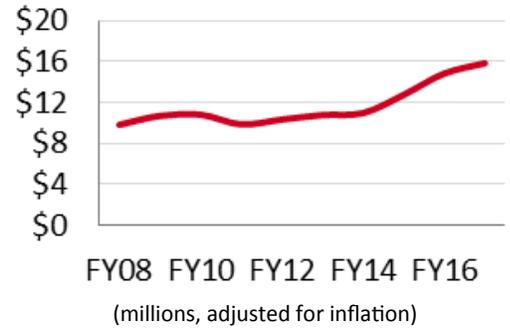
The Portland Expo Center is a multi-purpose exhibition facility including meeting rooms, exhibit halls, outdoor space, and a restaurant. Since FY 2007-08, expenditures increased by 28%. In FY 2016-17, materials and services accounted for 72% of expenditures mostly from contracted food and beverage services. The increase in FY 2016-17 was due to an increase in maintenance costs.



FY08 FY10 FY12 FY14 FY16  
(millions, adjusted for inflation)

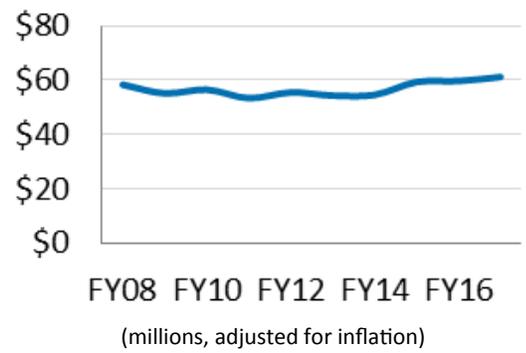
## Portland's 5 Centers for the Arts

The performing arts center includes five spaces for events such as concerts, dance performances, and plays. Expenditures increased by 62% over the last 10 years. Increases were caused by additional spending on materials and services mostly resulting from high expenditures for food and beverage contracts. In the most recent year, materials and services accounted for 55% of expenditures.



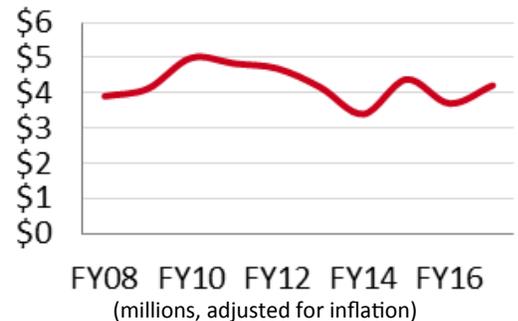
## Property and Environmental Services

This department manages the regional waste disposal system, the Metro Regional Center building, and resource conservation and recycling plans. Over the last 10 years, expenditures increased by 5%. This trend was caused by increases in personnel services for solid waste operations, as well as personnel unrelated to solid waste in this department.



## Research Center

This department provides data, mapping, forecasting, and technical services to Metro's other departments. Expenditures increased by 8% in the last 10 years. This was mostly due to increases in materials and services.



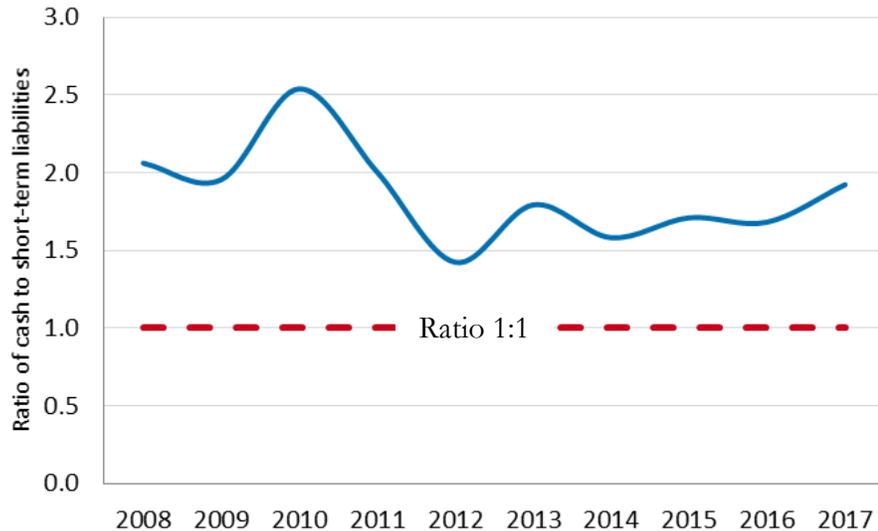
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# Financial health

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The indicators in this section reflect Metro’s financial position. Local governments with a strong financial position can afford to provide services with less risk of not being able to fund them. Sound financial position also implies the ability to withstand local, regional, or national economic changes. Some of these economic and demographic trends are summarized in the next section of the report.

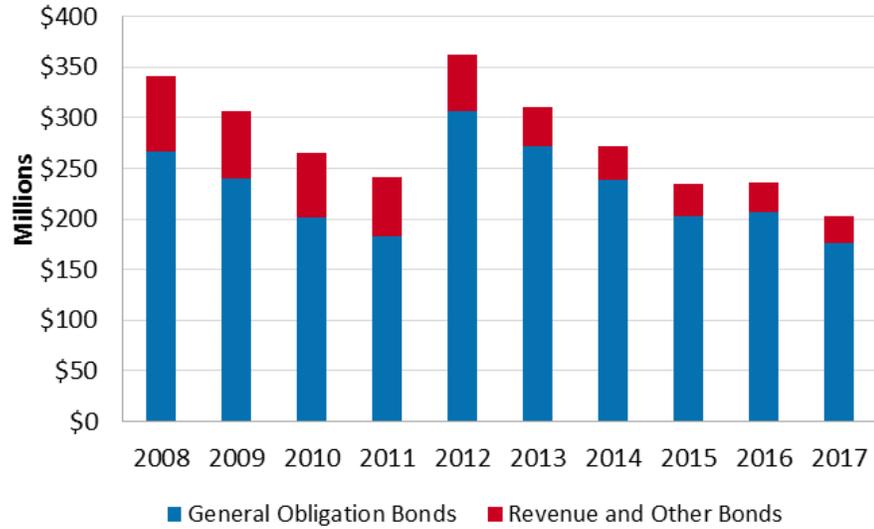
## Liquidity (as of June 30)



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

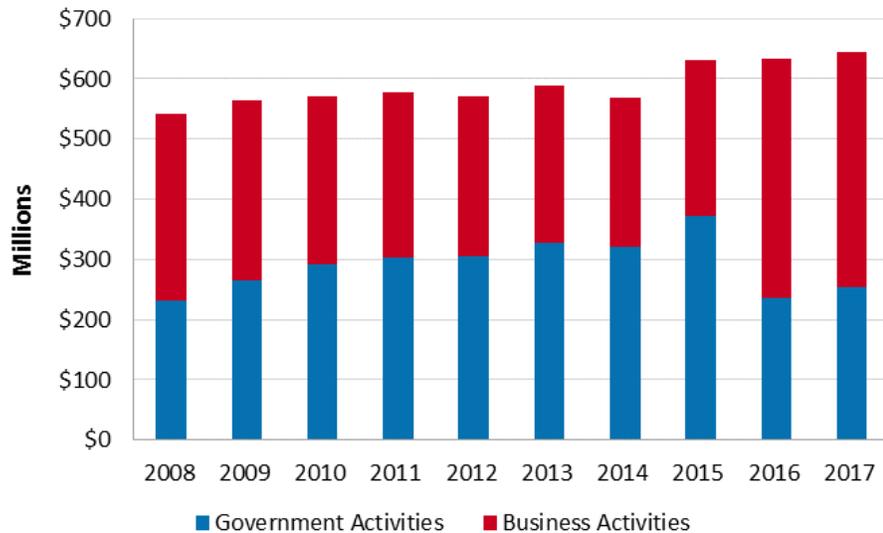
Decreases in liquidity in 2011 and 2012 had different causes. The decrease in 2011 was the result of a decline in cash on hand and a slight increase in liabilities for accounts payable and bonds payable. The decrease in 2012 was related to liabilities due to the timing of how revenue and cash were entered into the accounting system. Both of these changes were reversed in 2013 with an increase of cash on hand and a decrease in liabilities.

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



The majority (87%) of Metro’s long-term debt is from general obligation bonds. Repayment of general obligation bonds occurs through a separate property tax levy that is not subject to annual property tax revenue limitations. The spike in 2012 was from issuances of new bonds. After new bonds are issued, they are repaid from additional property taxes, which decrease total debt in the years that follow.

**Net assets**  
(as of June 30, adjusted for inflation)

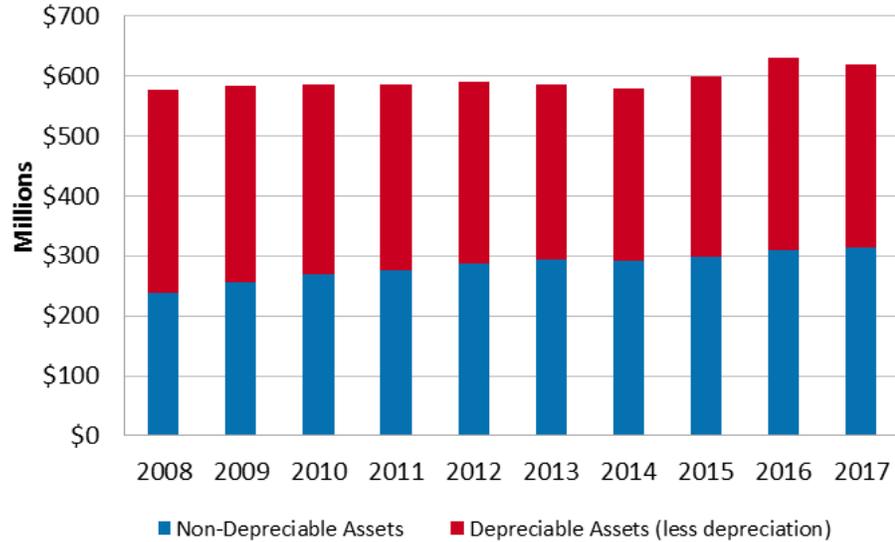


Net assets measure the difference between what Metro owns and what it owes. Some of Metro’s assets are monetary and some of them are physical things, such as buildings and land. Both types of assets are included in the indicator.

Metro’s business activities include the solid waste system, Oregon Convention Center, Portland’s Centers for the Arts, and Portland Expo Center. All other Metro programs, such as regional planning and parks, are included in governmental activities. In FY 2015-16, the Oregon Zoo was moved from government activities to business activities.

Net assets for business activities increased by 26% since 2008. Most of the increase was caused by moving Oregon Zoo assets into the business activities category. Net assets for government activities have increased by 10% since 2008. This increase was the result of the bond measure that supported land purchases for the Natural Areas Program.

**Capital assets**  
(as of June 30, adjusted for inflation)

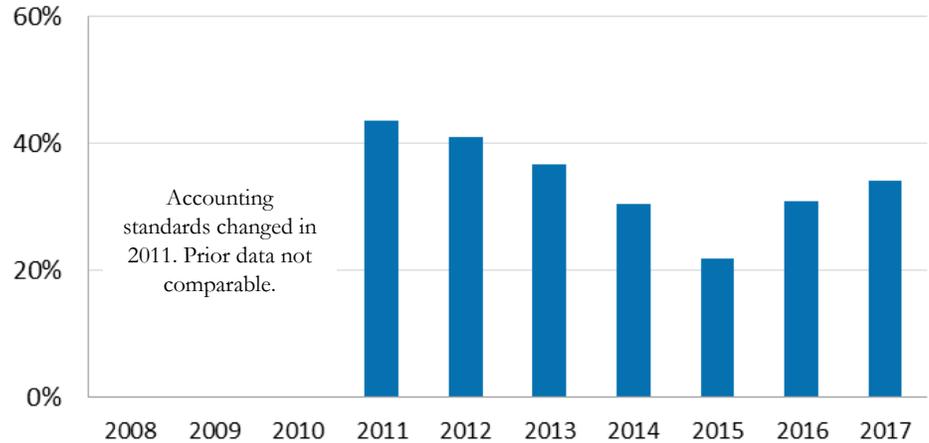


Capital assets include both depreciable and non-depreciable assets. Examples of depreciable assets are buildings, zoo exhibits, equipment, software, and office furniture. Examples of non-depreciable assets are land, easements, and artwork.

Overall, capital assets increased by 8% in the last 10 years, but trends varied by asset type. Depreciable assets declined by 9%, which should be monitored. As assets depreciate, governments should invest in new assets, or improvements to existing assets, to increase their useful life.

Non-depreciable assets increased by 31% during that time. The increase in non-depreciable assets was primarily driven by additional land purchases from the voter-approved bond measure for natural areas.

**General Fund balance**  
(as of June 30)



The size of the fund balance can affect a local government’s ability to withstand financial emergencies. This measure is the ratio of available funds (unassigned fund balances) to operating revenues in the General Fund. Due to changes in accounting standards, data prior to 2011 is not comparable.

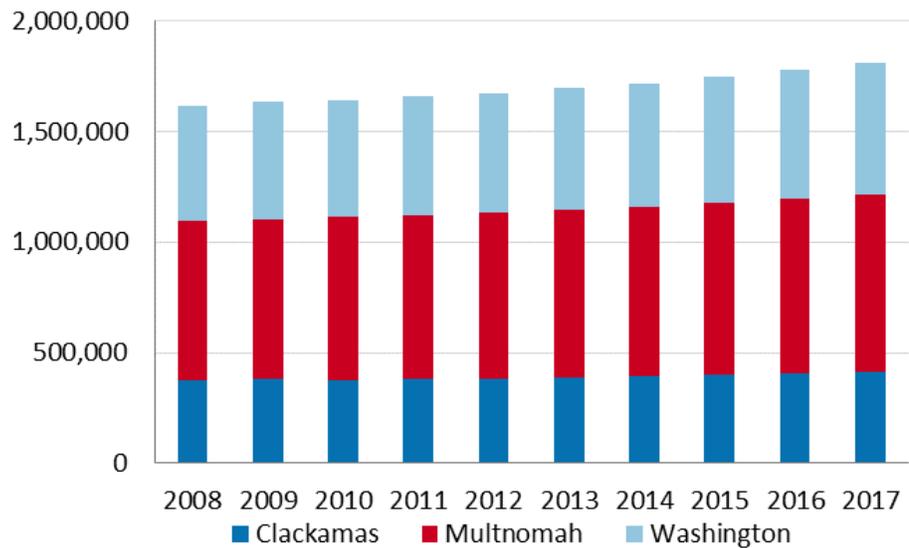
The General Fund pays for Metro’s primary government programs and support services, including Communications, Council Office, Finance and Regulatory Services, Human Resources, Information Services, Metro Auditor, Metro Attorney, Parks and Environmental Services, Planning and Development, Research Center, and Sustainability Center. It does not include the Oregon Convention Center, Portland’s Centers for the Arts, Portland Expo Center, Oregon Zoo, and the solid waste management system.

In 2017, the ratio of unassigned fund balances to operating revenues was 34%. The ratio declined each year between 2011 and 2015. In the last two years, the ratio increased to its highest level since 2013. This increase indicated there were more resources available in the event that revenue was less than expected.

# Demographic and economic trends

Metro’s ability to raise revenue and deliver services is directly related to the economic and demographic trends of the region. The following indicators measure those trends to provide context for changes seen in the other indicators contained in this report.

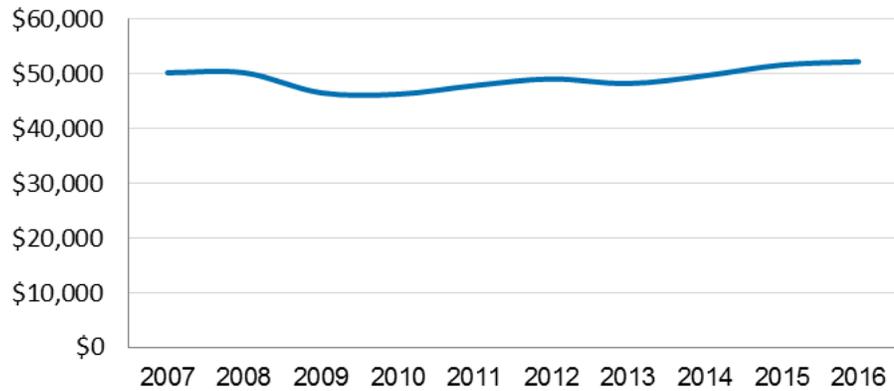
**Population**  
Calendar Year (CY) 2008 to  
CY 2017  
(Tri-county)



Changes in population can affect government finances in two ways. The amount of revenue received is partially related to the number of taxpayers in the region. Similarly, the demand for services can change based on the number of people in the region. The population of the tri-county region grew by 12% since 2008.

In the last 10 years, Washington County’s population grew the fastest (15%) compared to Multnomah (12%) and Clackamas (10%) counties. Multnomah County has the largest population of the three, and accounted for 44% of the total.

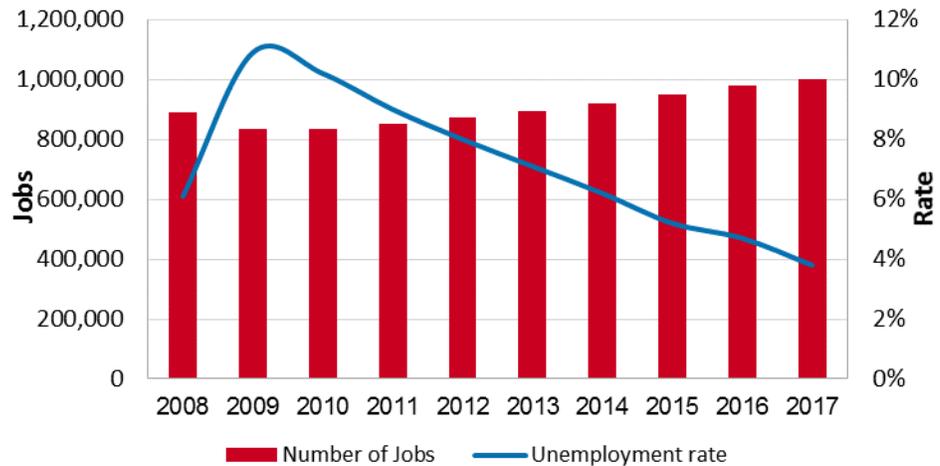
**Per capita personal income**  
CY 2007 to CY 2016  
(Metropolitan Statistical Area,  
adjusted for inflation)



This indicator is a measure of the average income per person. Credit rating firms use this measure to estimate a government’s ability to repay debt. A decline in per capita income can cause a drop in consumer spending, which could affect the local economy.

Per capita income has increased by 4% since 2007. After 2008, per capita income decreased for two consecutive years. Recent increases have exceeded the levels achieved prior to the economic recession.

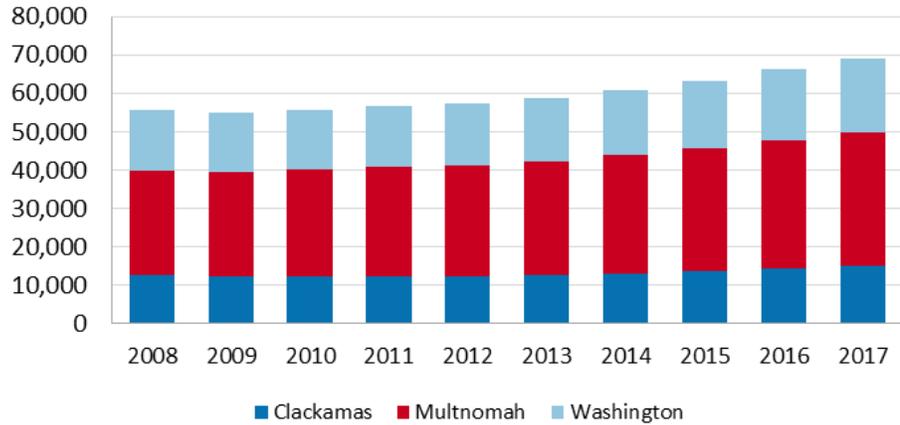
**Unemployment rate and  
number of jobs**  
CY 2008 to CY 2017  
(Metropolitan Statistical  
Area, Oregon portion)



The unemployment rate and number of jobs measure business activity. After the economic recession that began in 2008, lower unemployment and increased jobs are positive trends.

The unemployment rate has dropped steadily since the economic recession. The number of jobs increased steadily since 2010. In 2017, it reached the highest point in the last 10 years.

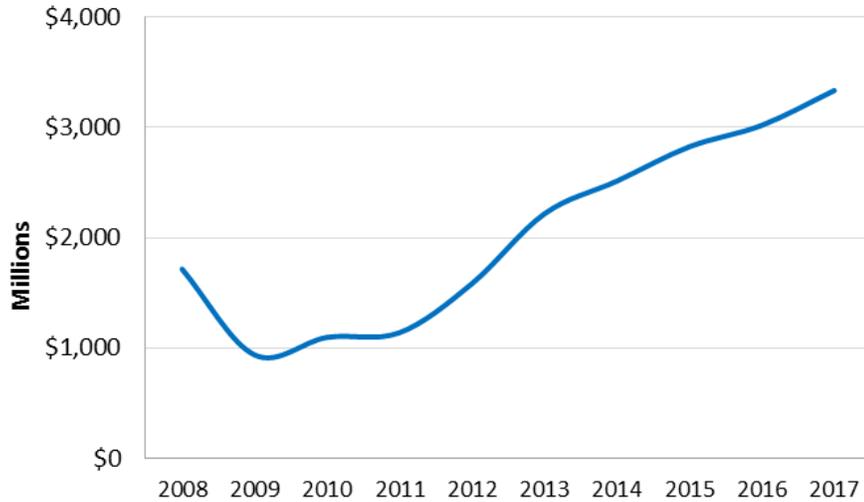
**Number of businesses**  
CY 2008 to CY 2017  
(Tri-county)



The number of businesses affects Metro’s revenues that rely on business activity. A decline in business activity can reduce employment, income, and property value.

The number of businesses increased since 2009 and the total number of businesses in 2017 was at its highest level over the last 10 years. During that time, the number of businesses grew fastest in Multnomah County (27%) followed by Washington County (22%) and Clackamas County (19%).

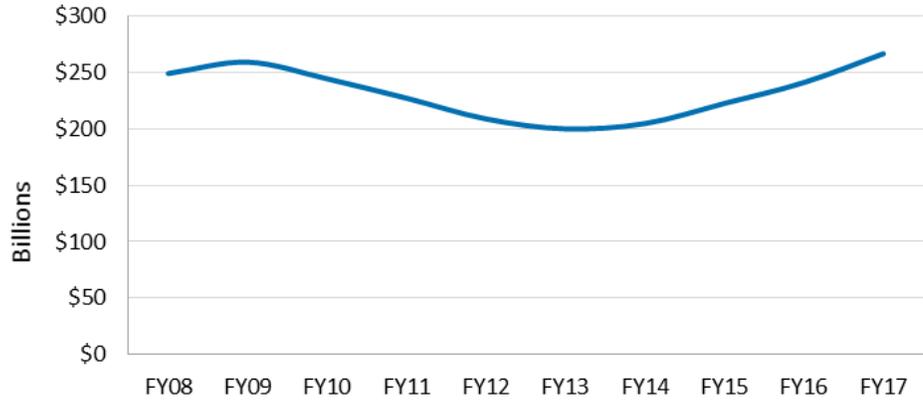
**Value of new construction**  
CY 2008 to CY 2017  
(Metropolitan Statistical  
Analysis, adjusted for  
inflation)



New construction is important to Metro in several ways. Metro is responsible for planning for urban growth and transportation in the region. The amount of new construction can affect these plans. In addition, some of Metro’s services are funded through taxes that are affected by construction activity.

The value of new construction has been increasing since 2009 after several years of decreases. In 2017, values were 94% higher than they were 10 years ago.

**Real market property values**  
FY 2007-08 to FY 2016-17  
(Metro taxing district, adjusted for inflation)



Increased market values are positive trends for governments because of the impact on revenue from property taxes. In FY 2016-17, 21% of Metro’s revenue came from property taxes. Real market property values declined between FY 2008-09 and FY 2012-13 because of the economic recession. Values have increased in the last four years, and in 2017, reached the highest levels in the last 10 years.

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## Scope and methodology

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The purpose of this audit was to evaluate the financial condition of Metro. We used a methodology based on the Financial Trend Monitoring System recommended by the International City/County Management Association. We obtained information from Metro's accounting systems and budget documents. We combined it with economic and demographic data, and created a series of financial indicators. When plotted over time, the indicators can be used to monitor changes in financial condition and provide information to assist decision-makers. For most indicators, data is presented for a 10-year trend, but in some cases, data was not available. For those indicators, we reported what was available.

Our scope included both general government operations and business-type operations, such as those of the Metropolitan Exposition and Recreation Commission and the solid waste system. We did not include capital project funds or trust funds.

We obtained data from the independently audited Comprehensive Annual Financial Reports (CAFR) and more detailed information about revenue sources, personnel costs, and other expenditures from both of Metro's financial accounting systems: PeopleSoft and USI. Economic and demographic data was acquired from the US Bureau of Economic Analysis, US Census Bureau, Oregon Employment Department, and Portland State Population Research Center. All figures were adjusted for inflation to FY 2016-17 dollars.

Most of the data collected for demographic and economic measures was reported either for the three counties in the region or by metropolitan statistical area (MSA). The MSA is larger than the Metro region and includes two counties in the State of Washington, Yamhill and Columbia Counties in Oregon, as well as the regional counties Clackamas, Multnomah, and Washington. Where available, only data from the Oregon only portion of the MSA was used. A small portion of the population in Clackamas, Multnomah, and Washington Counties (11%) is outside Metro's jurisdictional boundary.

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

The majority of the financial information in this report is from the CAFR and therefore, we relied on the work of Metro's external financial auditors. We reviewed other information for reasonableness and consistency. We did not audit the accuracy of source documents.

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# Management response

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600 NE Grand Ave.  
Portland, OR 97232-2736  
oregonmetro.gov

Date: May 11, 2018  
To: Brian Evans  
From: Martha Bennett, Chief Operating Officer  
Tim Collier, Director of Finance and Regulatory Services  
Subject: **Management Response to Metro Financial Condition**

First, thank you and your office for producing this 10-year view of Metro's financial condition. We always find it useful to review the trends in our financial performance and consider ways to improve that performance over time.

As your report points out, Metro's overall financial health is good and that the 10-year indicators showed a positive trend for Metro's financial condition. We are very proud of our fiscal performance and the healthy state of this agency. You did, however, note a few trends that warrant some caution.

## **Grants**

Your report points out a concern over the reduction of grant funds over the last ten years. The primary reason is reduced overall federal funding, which is a trend across multiple agencies and will have an impact on Metro over time. Our work programs are developed around both the current work plans and projected long-term projects. We will continue to monitor our grant programs and work to develop additional grant opportunities and funding strategies to continue our ability to improve the region.

## **Employee Costs**

Increased employee costs are another area of concern called out in your report. This is a national trend that governments must contend with due to rising pension costs and health benefits. Metro has a history of managing into these costs, through prudent financial decisions such as detailed review of any new position request and modifications to the employee health insurance plan. This is a continuing topic through our budget discussions and our long-term financial planning. We will continue to manage into the issue and monitor these expenses over time.

Again, we would like to thank you for producing this report and providing us and the public with a ten-year review of our financial condition. As your analysis shows, our current state is strong and it is critical for us to continue to diligently monitor our financial status to ensure Metro can deliver services to the residents of the region.

Sincerely,



Martha Bennett  
Chief Operating Officer



Tim Collier  
Director, Finance and Regulatory  
Services





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