Metro

Financial Condition of Metro:

FY 2005-06 to FY 2014-15

June 2016

A Report by the Office of the Auditor

Brian Evans

Metro Auditor

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File an online report at www.metroaccountability.org

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June 22, 2016

To: Tom Hughes, Council President
Shirley Craddick, Councilor, District 1
Carlotta Collette, 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 BE

Re: Financial Condition of Metro, FY 2005-06 to FY 2014-15

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 fifth report in the series. It provides a check-up of how well Metro is doing financially, based upon 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 the Finance and Regulatory Services and audited by the external auditor. It is intended to give a long term review for Metro's financial history. The report shows that most indicators remain positive, which indicates Metro is in good financial health.

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

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Summary

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 in a better position 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 public and government officials with an overview of Metro's financial condition. It includes 41 measures and covers the 10-year period from fiscal year (FY) 2005-06 through FY 2014-15.

The 10-year trends for most indicators had a positive effect on Metro's financial health. For some indicators, the trend's effect 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.

Trends in a few indicators had a negative effect, which suggests caution should be taken. Lower than expected general fund revenue is an area Metro should focus on to maintain its financial health. Increases in fixed costs and capital expenditures also suggest some caution, although those increases are mostly the result of voter-approved ballot measures that provided dedicated revenue to cover costs. The gradual recovery from the economic recession also impacted Metro's financial health as measured by some demographic and economic indicators (unemployment and the value of new construction). Those trends should be monitored, but are not directly in Metro's control.

Trends and conclusions

The table below and on the opposite page include all indicators in the report except expenditures for each Metro department or venue. See page 11 for a summary table of that information. For each indicator, the table shows:

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

In the tables, "positive/negative" is used to describe 10-year trends. In the rest of the report "warning" is used to describe short-term changes that could have a negative effect if not addressed. The colors are used to help interpret the trends since not all decreases are bad and not all increases are good. For example, a decrease in the unemployment rate is a positive trend (green) while a decrease in the value of new construction is a negative trend (red).

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	+	↑	Positive
General Fund revenue over/under budget	-	↓	Negative
Expenditure			
Total expenditure	+	↑	Positive, increased slower than revenue
Expenditure per capita	+	↑	Positive, increased slower than revenue per capita
Risk Management Fund	-	Data not available	Not available
Employee costs	+	↑	Positive, increased slower than revenue
Fixed costs	+	↑	Negative, increased faster than revenue
Capital expenditure	+	↑	Mixed, acquiring new assets can increase future costs, while spending on maintenance can decrease future costs.

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.

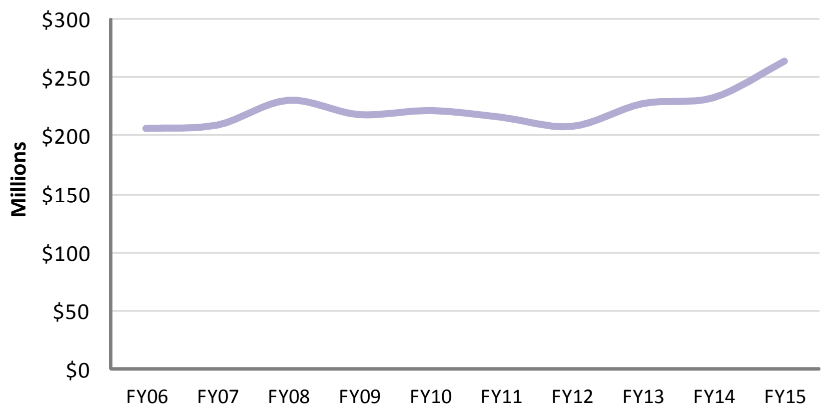
Indicator	Change from previous year	10-year trend	Effect on Overall Financial Health
Financial Health			
Liquidity	+	↓	Positive
Total debt	-	↓	Positive
Net assets	+	↑	Positive
Capital assets	+	↑	Positive
General Fund balances	-	Data not available	Not available
Demographic and Economic Trends			
Population	+	↑	Mixed, can impact revenues and expenditures unequally
Per capita personal income	+	↑	Positive
Unemployment rate	-	↑	Negative
Number of jobs	+	↑	Positive
Number of businesses	+	↑	Positive
Value of new construction	+	↓	Negative
Real market property values	+	↑	Positive

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

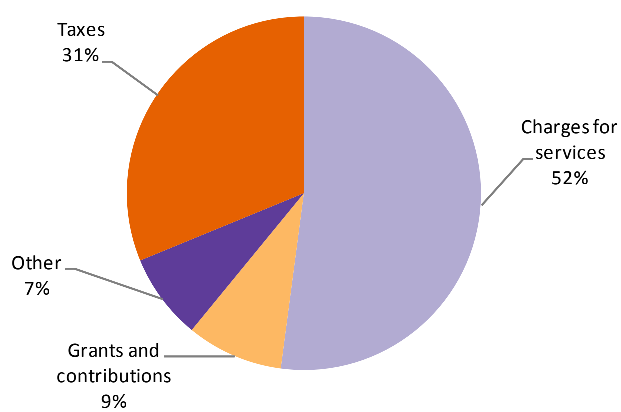
The amount of money Metro receives determines its capacity to deliver services. The sources of Metro's revenue are diverse; some programs charge for their services, while others are funded by taxes. This section of the report shows trends in each type of revenue.

Total revenues
FY 2005-06 to FY 2014-15
(adjusted for inflation)



Total revenue increased by 28% in the last 10 years. About half of the increase was from voter-approved measures to invest in the Oregon Zoo, and purchase and operate a regional system of parks and natural areas. During that time all revenue sources increased, but not at the same rate. For example, charges for services grew by 12%, while revenue from taxes grew by 60%. The increase beginning in FY 2012-13 was the result of additional revenue from taxes for voter-approved general obligation bonds and charges for services collected at the Oregon Convention Center, Exposition Center, 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 further increased revenue in the last two fiscal years.

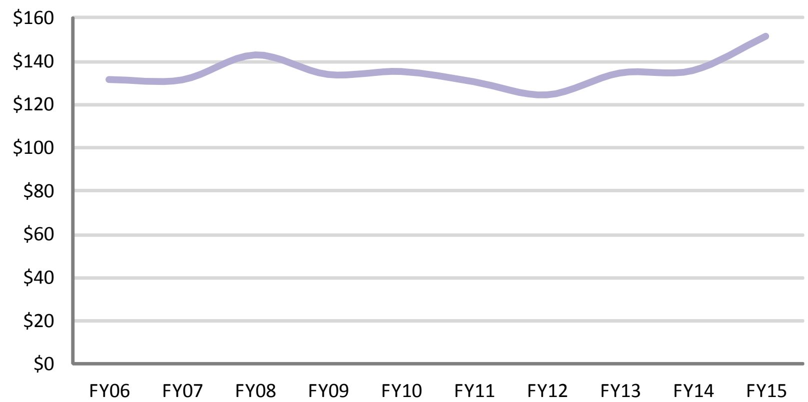
Revenue sources
FY 2014-15



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.

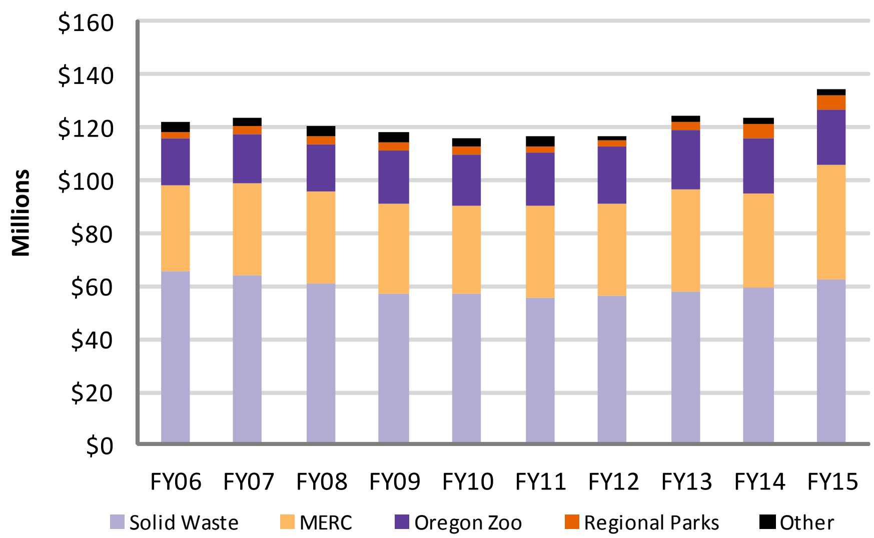
In FY 2014-15, the largest source of revenue was charges for services. This type of revenue has consistently been the largest source over the last 10 years. Similarly, tax revenue has consistently been the second largest source during that time.

Revenue per capita
FY 2005-06 to FY 2014-15
(adjusted for inflation)



Revenue per capita measures changes in revenue relative to changes in the population of the region. As the population increases, it might be expected that revenue and the need for services would increase at a similar pace. Since FY 2005-06, revenue per capita increased by 15%. This was caused by total revenue growing faster (28%) than the region's population (11%).

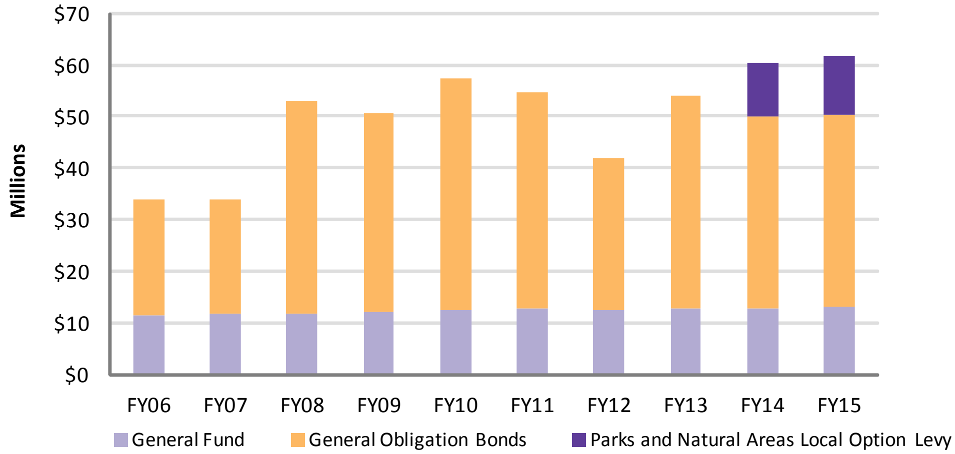
Charges for services
FY 2005-06 to FY 2014-15
(adjusted for inflation)



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, Exposition Center and Portland'5 Centers for the Arts.

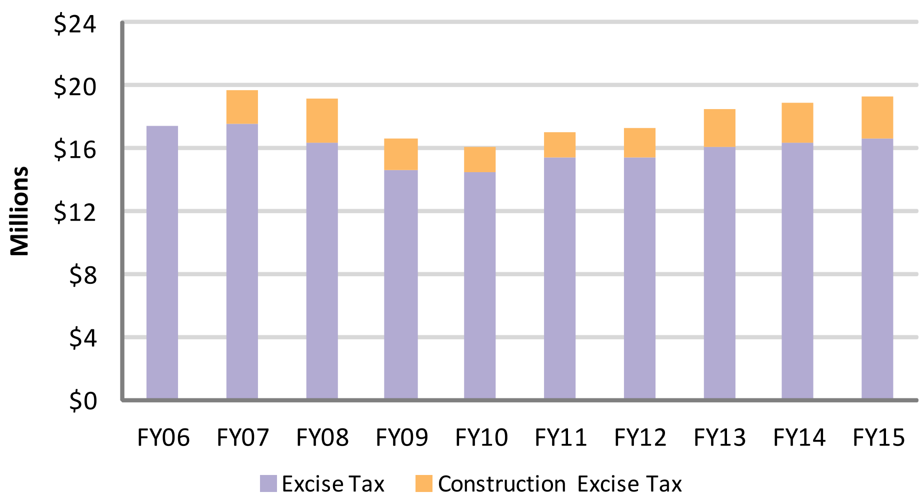
In the last 10 years the amount of revenue collected from service charges increased by 10%. This was the result of increases at MERC, the Oregon Zoo and Regional Parks. Conversely, charges for services from Solid Waste decreased by 5% likely because less waste was generated during the economic recession.

Property taxes
FY 2005-06 to FY 2014-15
(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. The other property taxes 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 14% over the last 10 years. Revenue to repay general obligation bonds increased by 65% during that time.

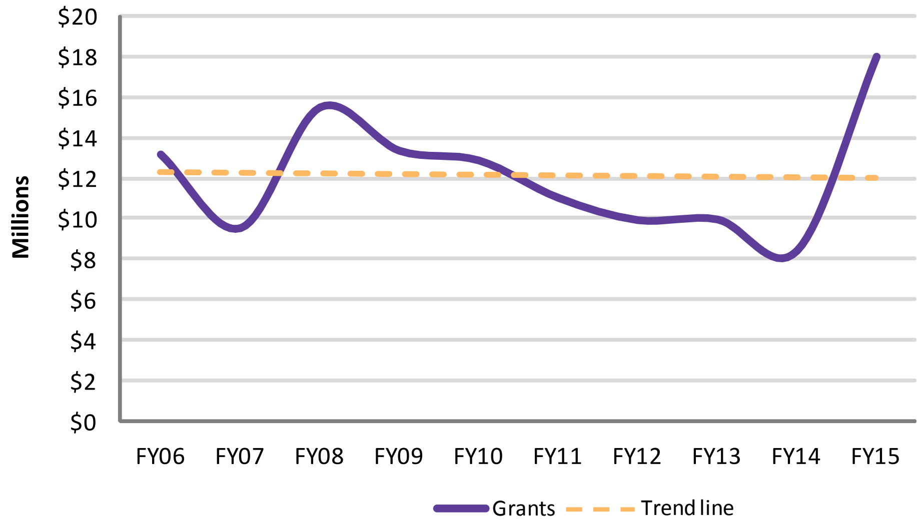
Excise taxes
FY 2005-06 to FY 2014-15
(adjusted for inflation)



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 on September 30, 2020.

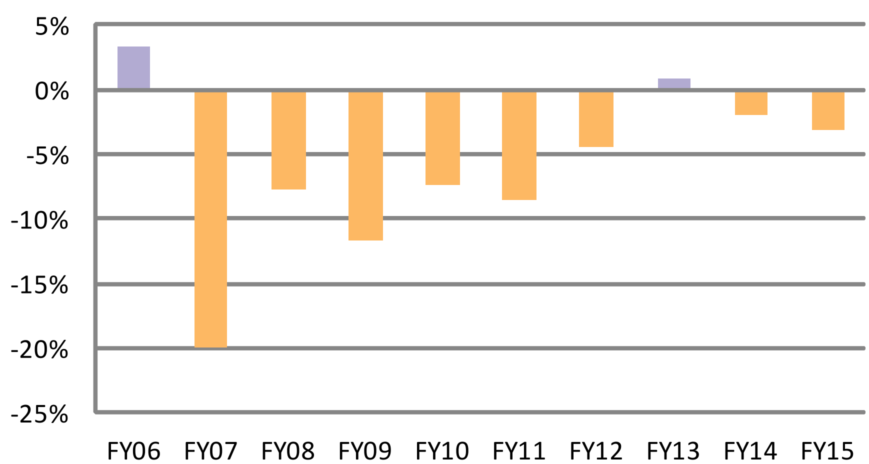
Total revenue from excise taxes increased by 11% over the last 10 years. In FY 2014-15 it almost reached the same levels experienced before the economic recession in FY 2006-07. Revenue from construction excise taxes grew 25% since inception.

Grants
FY 2005-06 to FY 2014-15
(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 cannot be used outside that purpose. Grant funds are typically received after work is completed and billed, which can cause the amount received to fluctuate from year to year. The general trend has been a decrease in grant revenue over the last 10 years. The large increase in FY2014-15 was due to a $10 million grant from the State of Oregon for the Convention Center Hotel project.

General Fund revenue over/under budget
FY 2005-06 to FY 2014-15
(adjusted for inflation)



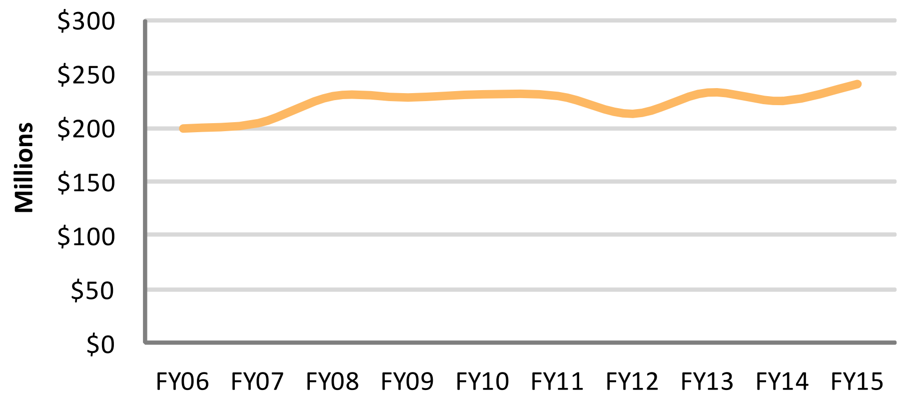
This indicator shows how the amount of General Fund revenue actually received compared to the amount of revenue estimated when the annual budget was created. If less revenue is collected than expected, it could lead to mid-year cuts in services. Metro maintains reserves that may reduce this risk.

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

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.

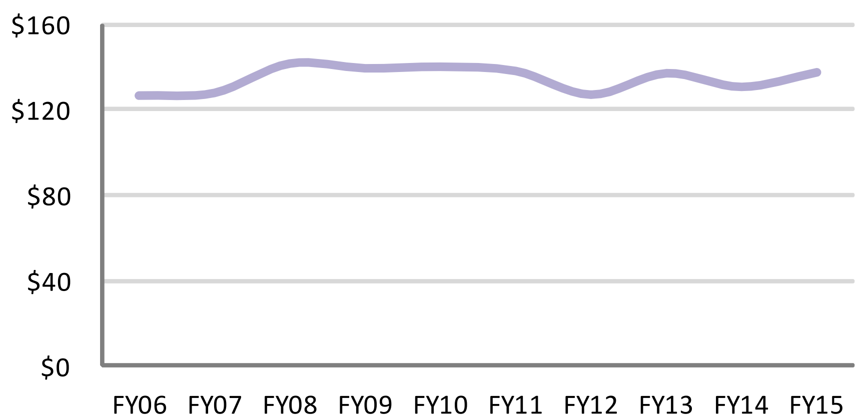
Total expenditure
FY 2005-06 to FY 2014-15
(adjusted for inflation)



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 27% in the last 10 years.

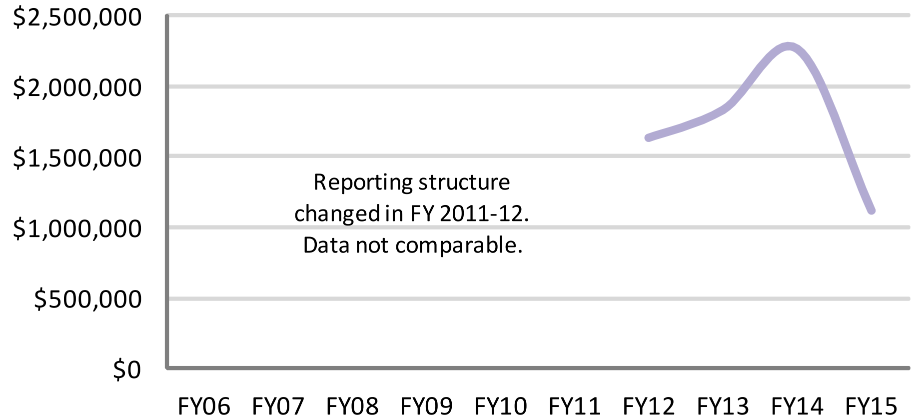
Metro's Charter includes a provision that limits the amount certain expenditures from non-voter approved sources can increase each year. The Consumer Price Index is used to gradually increase the expenditure limit each year. During the process to develop the annual budget expenditures are analyzed. For FY 2014-15, expenditures were under the limitation by about $500,000.

Expenditure per capita
FY 2005-06 to FY 2014-15
(adjusted for inflation)



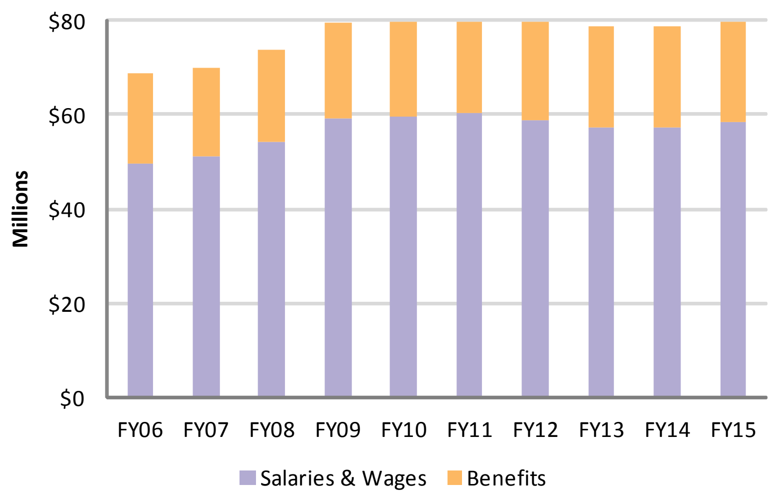
Expenditures per capita show the average amount of money spent to provide services to each person who lives in the region. Increases in spending per capita may indicate the cost of providing services is rising faster than the population. Expenditures per capita rose by 14% over the last 10 years. This was slightly lower than the 15% increase in revenue per capita (page 6).

Risk management fund
FY 2005-06 to FY 2014-15
(adjusted for inflation)



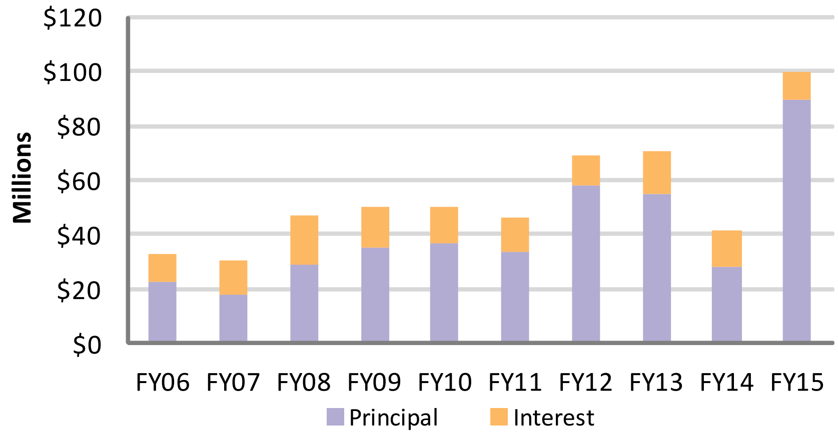
The Risk Management Fund accounts for expenses related to insurance premiums, claims and studies related to insurance issues. In FY 2011-12 the reporting structure changed, which prevented comparisons with prior years. In FY 2014-15, Metro spent about $1.1 million. This was the lowest amount in the last four years, continuing a positive trend.

Employee costs
FY 2005-06 to FY 2014-15
(adjusted for inflation)



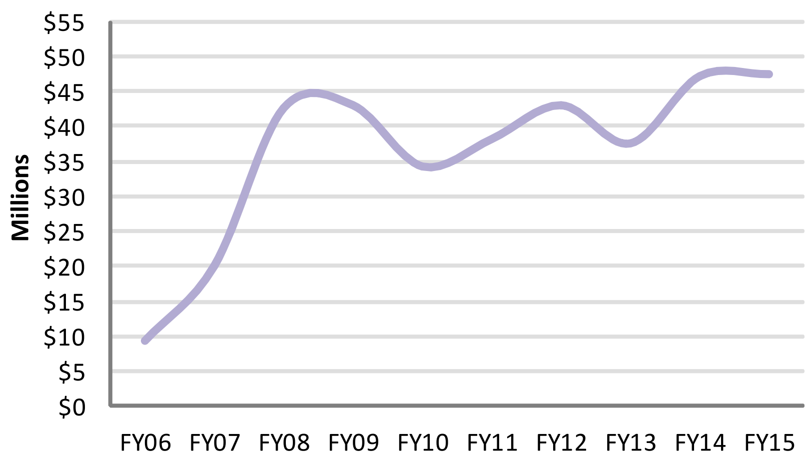
Over the last 10 years, expenditures for employee salaries and benefits increased by 22%. Benefits accounted for about 30% of all employee costs in FY 2014-15, which was slightly more than the average (27%) over the last 10 years.

Fixed costs
FY 2005-06 to FY 2014-15
(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 is a change in resources available. Metro's long-term debt was primarily from the sale of general obligation bonds (86%), 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 repaying bonds issued in 2007 for the Natural Areas program.

Capital expenditure
FY 2005-06 to FY 2014-15
(adjusted for inflation)



Capital spending is used to acquire or add to any physical asset. Since FY 2005-06 increased 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 the Oregon Zoo. Metro also increased spending on maintaining capital assets in recent years. Maintenance efforts can preserve the life of an asset and decrease future costs.

Spending by department

Growth rates 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 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, a couple of departments (Planning and Development and Research Center) rely on grant funds, which can vary by year depending on what projects are in process.

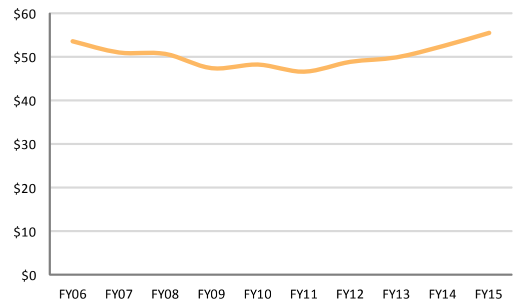
This table provides a summary of FY 2014-15 expenditures and 10-year trends for each of Metro's 16 departments and venues. The list is ranked by total expenditure in FY 2014-15.

Department/Venue	FY 2014-15 expenditure	10-year change
Property and Environmental Services*	$55,595,967	4%
Oregon Convention Center	$33,377,542	30%
Oregon Zoo	$32,303,625	24%
Parks and Nature^	$19,679,565	107%
Portland'5 Centers for the Arts	$14,893,284	38%
Planning and Development	$10,499,206	-9%
Exposition Center	$6,705,970	0.4%
Finance and Regulatory Services	$6,697,579	58%
Information Services	$4,193,171	54%
Research Center	$4,178,091	25%
Council Office	$3,983,295	127%
Communications	$2,983,773	77%
Human Resources	$2,508,627	84%
Office of the Metro Attorney	$2,194,412	44%
MERC Administration	$1,137,051	-31%
Office of the Metro Auditor	$559,331	-16%

*Previously known as Parks and Environmental Services.
^Previously known as the Sustainability Center.

Property and Environmental Services
FY 2005-06 to FY 2014-15

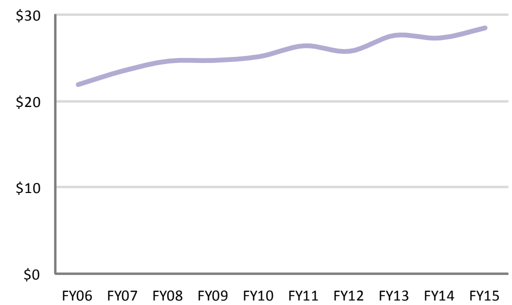
This department manages the regional waste disposal system, the Metro Regional Center building, and works with local governments on waste reduction and recycling strategies. Over the last 10 years, expenditures increased by 4%. This trend was caused by decreases in solid waste operations (-8%) and increases in expenditures unrelated to solid waste.



(in millions, adjusted for inflation)

Oregon Convention Center
FY 2005-06 to FY 2014-15

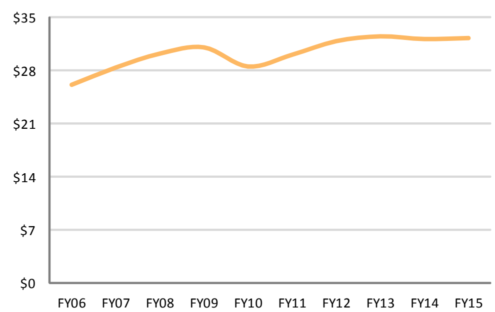
The Oregon Convention Center hosts conventions, trade, and consumer shows. Expenditures increased by 30% in the last 10 years. Increases were caused by additional spending on food and beverage contracts and marketing expenses. In FY 2014-15, materials and services accounted for 67% of expenditures.



(in millions, adjusted for inflation)

Oregon Zoo
FY 2005-06 to FY 2014-15

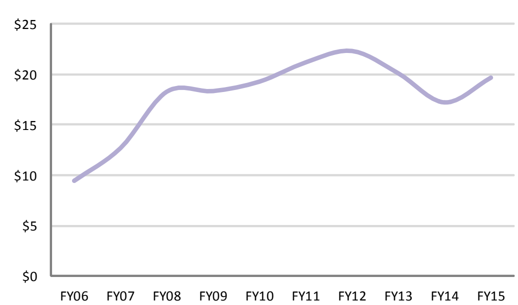
The Oregon Zoo houses animals and exhibits, and provides wildlife education and conservation programs. Over the last 10 years, expenditures increased by 24%. This was caused by increases in both personnel and materials and services.



(in millions, adjusted for inflation)

Parks and Nature
FY 2005-06 to FY 2014-15

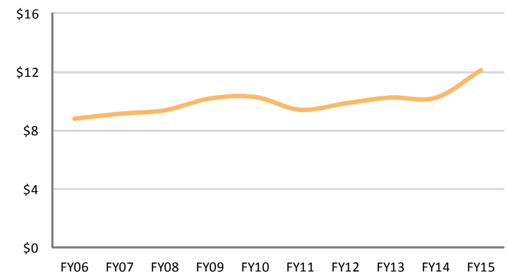
Parks and Nature manages Metro's various parks, natural areas and cemeteries. It also plans and develops a regional system of parks and trails. Over the last 10 years, expenditures increased by 107%. This was due to increased personnel costs associated with the operating levy that was approved by voters in 2012, and materials and services expenditures related to the natural areas bond measure that was approved by voters in 2006.



(in millions, adjusted for inflation)

Portland'5 Centers for the Arts
FY 2005-06 to FY 2014-15

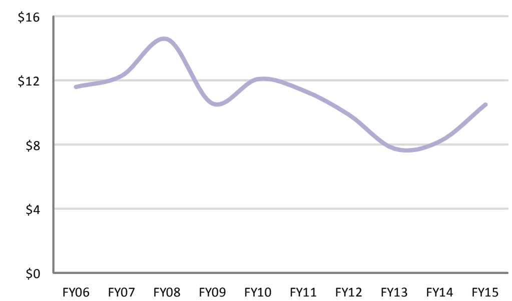
The performing arts center includes five spaces for events such as concerts, dance performances, and plays. Expenditures increased by 38% over the last ten years. In the most recent year, personnel accounted for 49% of expenditures.



(in millions, adjusted for inflation)

Planning and Development
FY 2005-06 to FY 2014-15

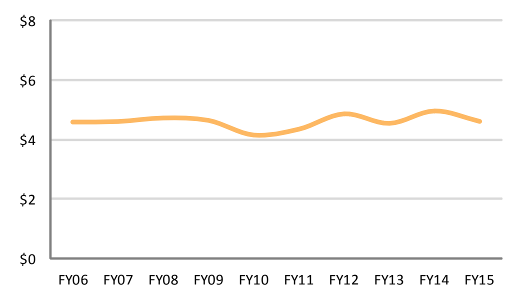
The Planning and Development Department develops policies and programs that guide land use and transportation planning. It also provides technical assistance and distributes federal funding to local governments. Over the last 10 years, expenditures decreased by 9%. This was caused by decreases in personnel services related to fluctuation in federal grant funding.



(in millions, adjusted for inflation)

Exposition Center
FY 2005-06 to FY 2014-15

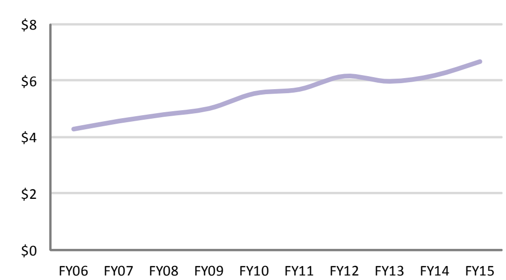
The Exposition Center is a multi-purpose exhibition facility including meeting rooms, exhibit halls, outdoor space and a restaurant. Since FY 2005-06, expenditures increased by less than 1%. In FY 2014-15, materials and services accounted for 64% of expenditures. This was mostly the result of contracted food and beverage services.



(in millions, adjusted for inflation)

Finance and Regulatory Services
FY 2005-06 to FY 2014-15

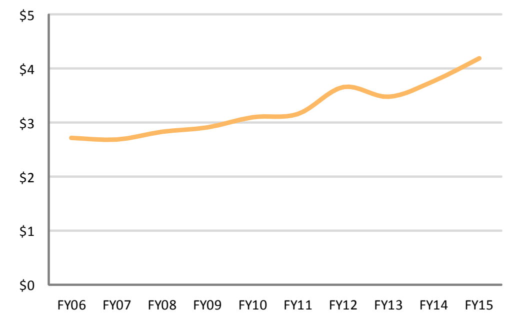
This department provides business services, such as accounting, procurement and budgeting to Metro's other departments. Expenditures increased by 58% between FY 2005-06 and FY 2014-15. This was partially due to employees moving into the department from the MERC Administration Office. Personnel services made up 77% of the department's expenditures in FY 2014-15.



(in millions, adjusted for inflation)

Information Services
FY 2005-06 to FY 2014-15

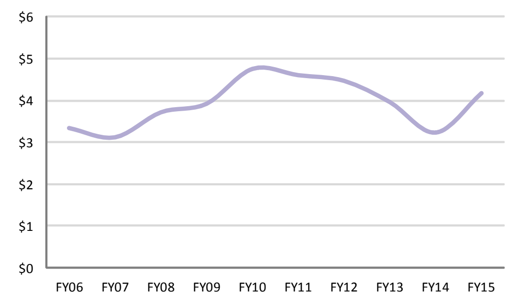
Metro's Information Services Department develops and maintains hardware and software systems to support the entire agency. Expenditures for this department increased by 54% in the last 10 years. This was caused by increases in both personnel services and materials and services. Some increase resulted from moving employees from MERC Administration. In FY 2014-15, 74% of its expenditures were for personnel.



(in millions, adjusted for inflation)

Research Center
FY 2005-06 to FY 2014-15

This department provides data, mapping, forecasting and technical services to Metro's other departments. It also provides similar services to local governments, businesses and the public. Expenditures increased by 25% in the last 10 years. This was mostly due to increases in materials and services.

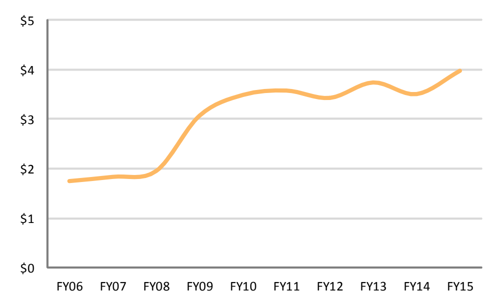


(in millions, adjusted for inflation)

Metro Council
FY 2005-06 to FY 2014-15

The Metro 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, and government affairs and policy development programs.

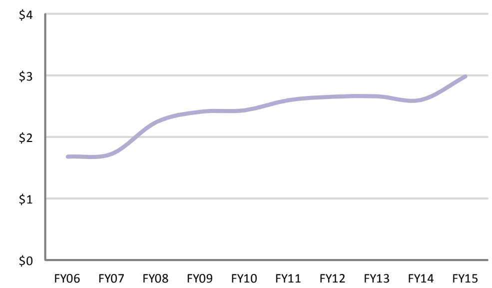
In the last 10 years expenditures increased by 127%. This was caused by the creation of policy advisor positions in FY 2008-09. Recent increases were due to new programs. In FY 2014-15, 83% of expenditures were for personnel.



(in millions, adjusted for inflation)

Communications
FY 2005-06 to FY 2014-15

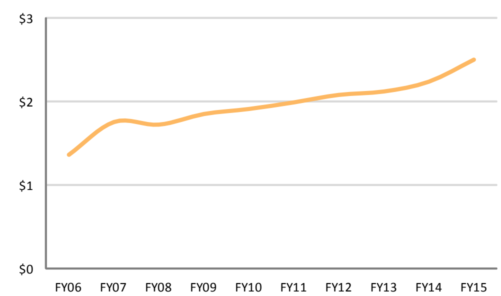
Communications provides media relations, public involvement, writing, marketing, graphic and web design services to Metro's other departments. In the last 10 years, expenditures grew by 77%. This was mostly due to an increase in the amount spent on personnel as communications staff in various departments were consolidated. In FY 2014-15, 90% of the expenditures were for personnel.



(in millions, adjusted for inflation)

Human Resources
FY 2005-06 to FY 2014-15

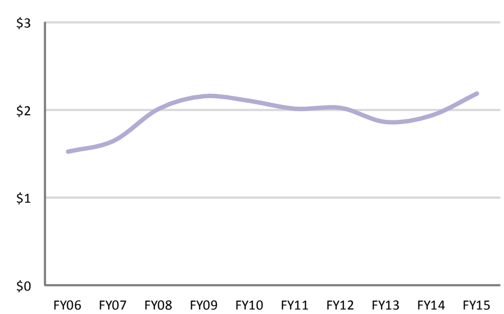
The Human Resources Department is responsible for employee recruitment, compensation and benefits, and organizational development for all Metro departments. Expenditures increased by 84% in the last 10 years. This was caused by increases in both personnel services, and materials and services. Some of the increase resulted from moving employees from MERC Administration. In FY 2014-15, 83% of expenditures were for personnel.



(in millions, adjusted for inflation)

Office of the Metro Attorney
FY 2005-06 to FY 2014-15

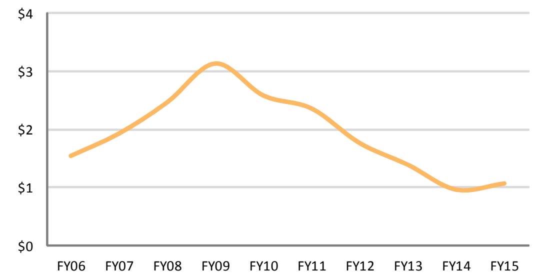
The Office of the Metro Attorney provides legal research, evaluation, analysis and advice to Metro departments. In the last 10 years, expenditures increased by 44%. This was caused by increases in personnel. In the most recent year, personnel accounted for 97% of expenditures.



(in millions, adjusted for inflation)

MERC Administration
FY 2005-06 to FY 2014-15

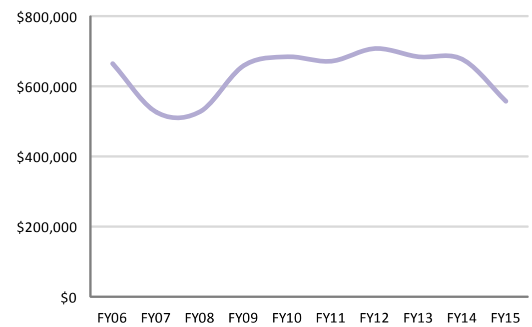
This department provides business services, such as accounting, information services, project management and administration for the venues that make up MERC. In the last 10 years expenditures decreased by 31%. This was mostly due to lower administrative costs as a result of moving some business services to other departments. In FY 2014-15, personnel made up 72% of expenditures.



(in millions, adjusted for inflation)

Office of the Metro Auditor
FY 2005-06 to FY 2014-15

The Office of 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 declined by 16% in the last 10 years. This was mostly caused by a decrease in the amount spent on contracted professional services during that time. In the most recent year, 95% of expenditures were for personnel.

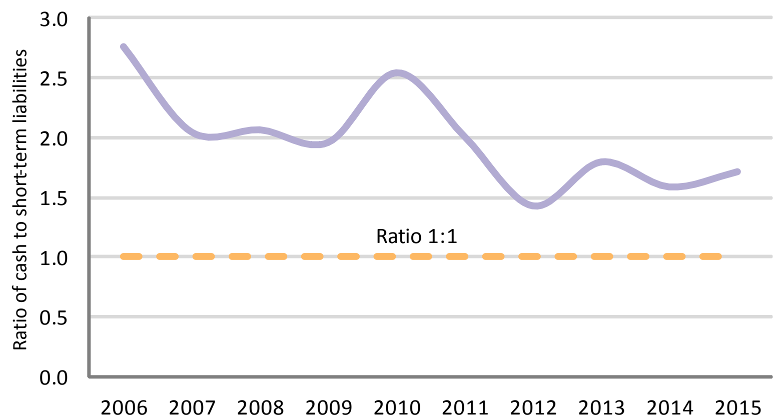


(ajusted for inflation)

Financial health

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

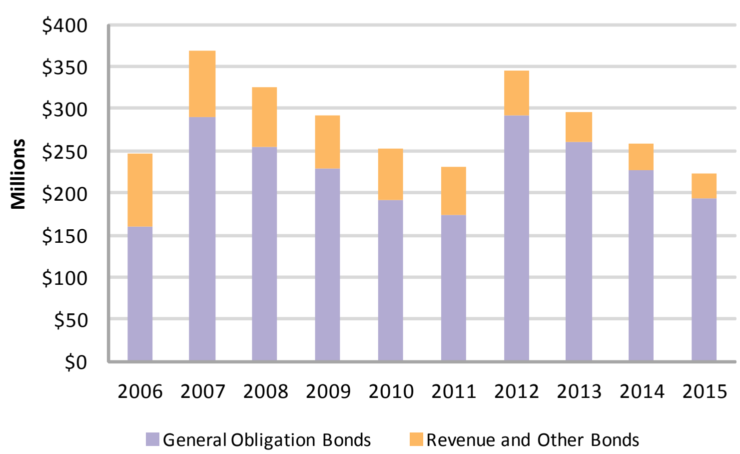
Liquidity
(as of June 30)



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.

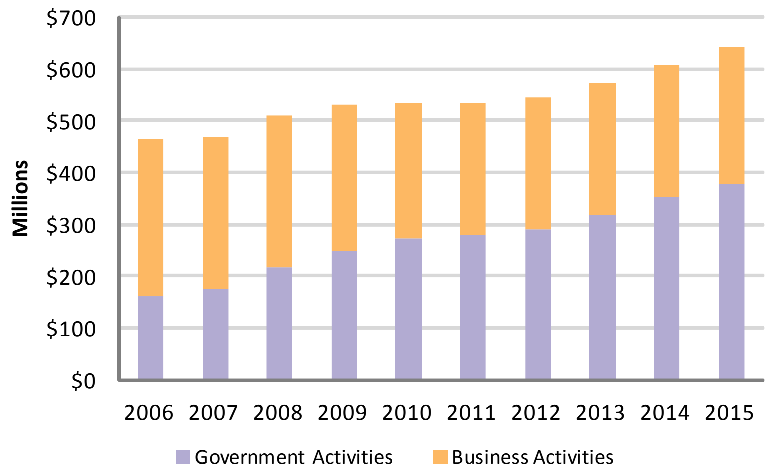
Decreases in liquidity in 2011 and 2012 had different causes. The decrease in 2011 was the result of a decline in cash on hand and a slight increase in liabilities for accounts payable and bonds payable. The decrease in 2012 was primarily from higher bond liabilities. Both of these changes were reversed 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 (86%) of Metro's long-term debt is from general obligation bonds. Repayment of general obligation bonds occurs through a property tax levy that is not subject to annual property tax revenue limitations. The spikes in 2007 and 2012 were 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)

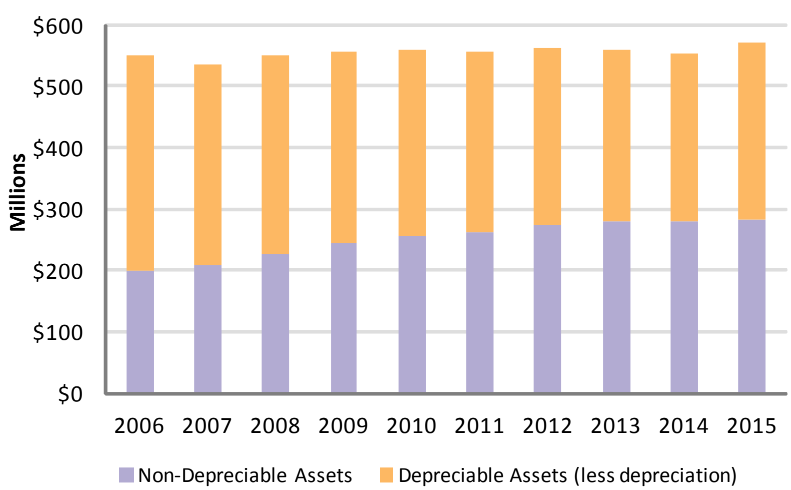


Net assets measure the difference between what Metro owns and what it owes. Some of Metro's assets are monetary and some of them are physical things, such as buildings and land. Both types of assets are included in the indicator.

Metro's business activities include the solid waste system, Oregon Convention Center, Portland Center for the Performing Arts, and Exposition Center. All other Metro programs, such as regional planning, the Oregon Zoo and parks are included in governmental activities. In 2006, Metro's business activities made up 65% of all net assets, compared to 41% in 2015. Net assets for business activities declined by 14% since 2006.

Conversely, net assets for government activities have increased by 136% since 2006. This increase was the result of two bond measures allowing Metro to purchase natural areas and make improvements at the Oregon Zoo.

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

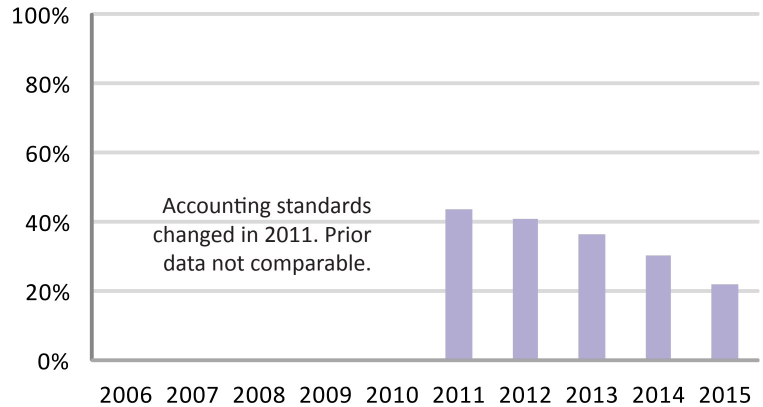


Capital assets include both depreciable and non-depreciable assets. Examples of depreciable assets are buildings, zoo exhibits, equipment, software, and office furniture. Examples of non-depreciable assets are land, property easements and artwork.

Overall, capital assets increased by 4% in the last 10 years, but trends varied by asset type. Depreciable assets declined by 18%.

Non-depreciable assets increased by 42% during that time. The increase in non-depreciable assets was primarily driven by additional land assets from two voter-approved bond measures allowing Metro to purchase natural areas.

Ratio of unassigned General Fund balance to operating revenue
(as of June 30)



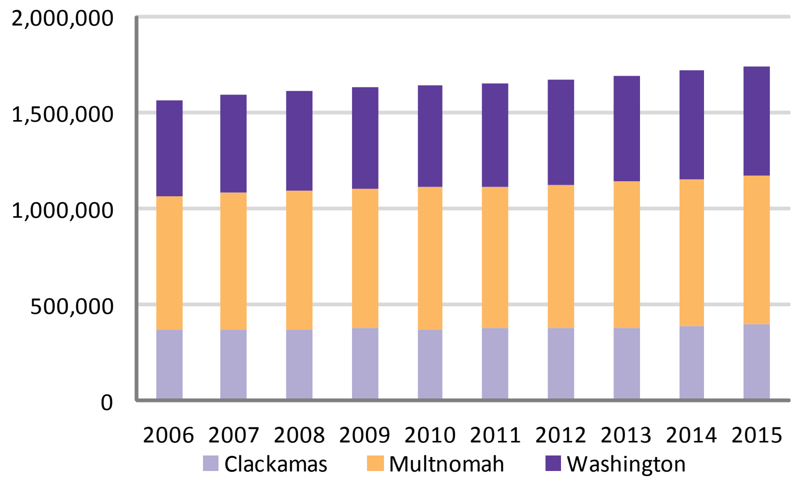
The size of the fund balance (the amount remaining at the end of the year) can affect a local government's ability to withstand financial emergencies. The General Fund pays for Metro's primary government programs and support services. It does not include the Oregon Convention Center, Portland'5 Center for the Arts, Exposition Center and the solid waste management system.

This measure is the ratio of unassigned fund balances to operating revenues in the General Fund. Due to changes in accounting standards, data prior to 2011 is not comparable. In 2015, the ratio of unassigned fund balances to operating revenues was 22%. The fund balance has declined each year since 2011, which is a warning trend. A declining balance indicates that there are fewer resources available in the event that revenue is 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.

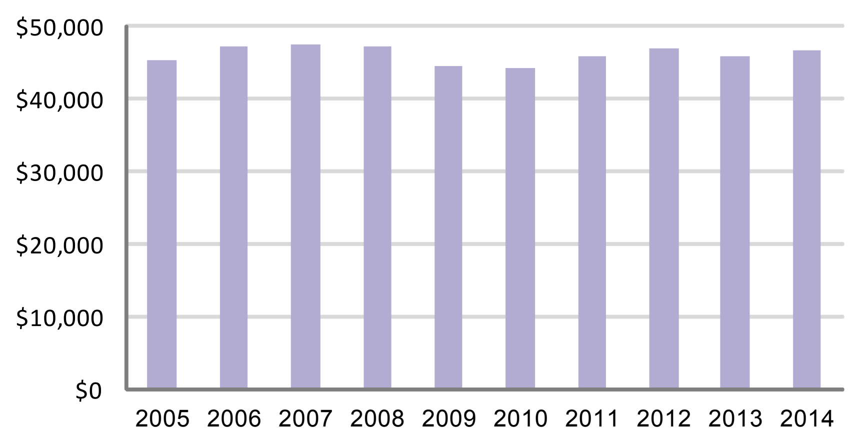
Population
Calendar Year (CY) 2006 to CY 2015 (Tri-county)



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 11% since 2006. Very little of the population in Clackamas, Multnomah and Washington Counties (11%) is outside Metro's jurisdictional boundary.

In the last 10 years, Washington County's population grew the fastest (14%) compared to Multnomah (11%) and Clackamas (8%) counties. Multnomah County has the largest population of the three and accounted for 45% of the total.

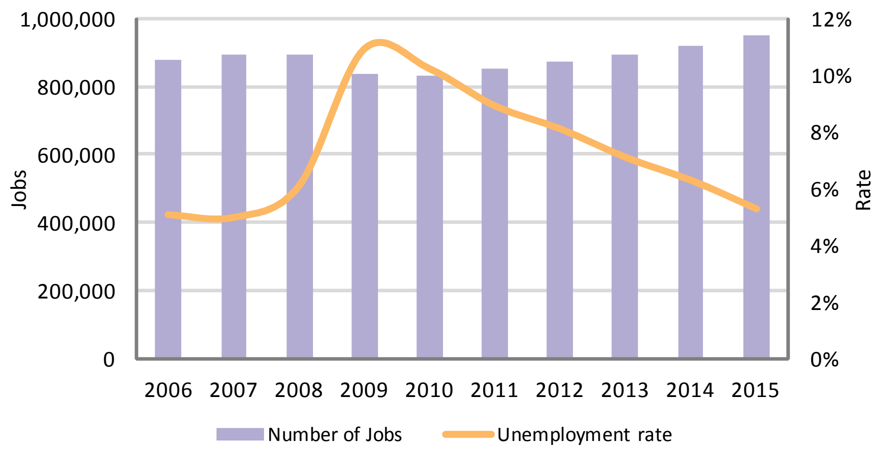
Per capita personal income
CY 2005 to CY 2014 (Metropolitan Statistical Area, adjusted for inflation)



Per capita income is a measure of 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 3% since 2005. After 2007, per capita income decreased for three consecutive years. Recent increases have yet to regain the levels achieved prior to the economic recession.

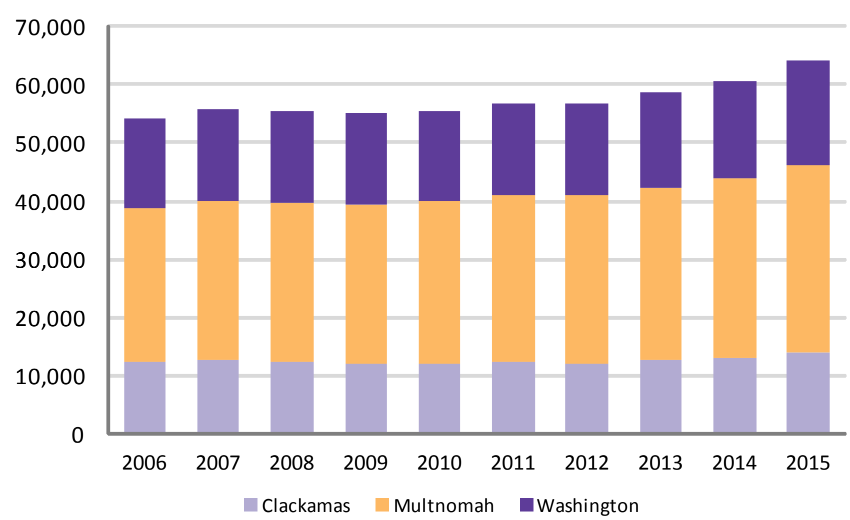
Unemployment rate and number of jobs
CY 2006 to CY 2015
(Metropolitan Statistical Area, Oregon portion)



The unemployment rate and number of jobs measure business activity. After several years of declines, lower unemployment and increased jobs are positive trends.

In 2015, the unemployment rate reached its lowest point since 2008, a sign that economic conditions are improving. The number of jobs also increased steadily since 2011. In 2015, it reached the highest point in the last 10 years.

Number of businesses
CY 2006 to CY 2015
(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.

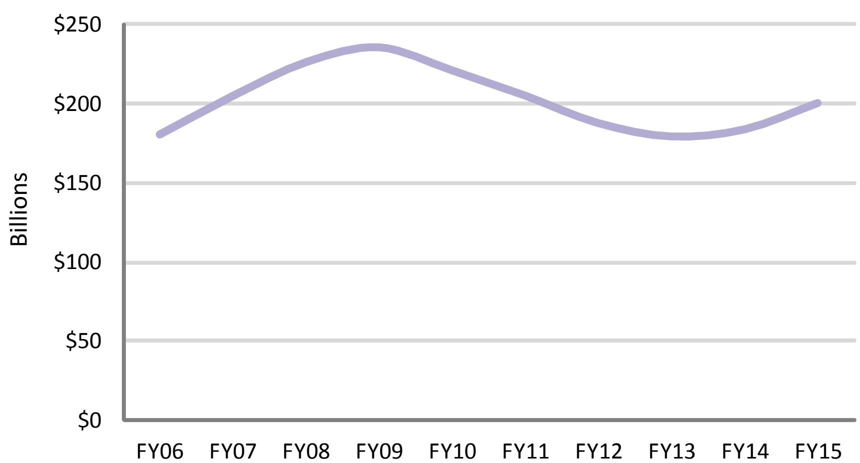
The number of businesses increased since 2009 and the total number of businesses in 2015 was at its highest level over the last 10 years. During that time, business growth was fastest in Multnomah County (21%) followed by Washington County (16%) and Clackamas County (13%).

Value of new construction
CY 2006 to CY 2015
(Metropolitan Statistical Area,
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 rate of new construction can affect these plans. In addition, some of Metro's services are funded through taxes that are affected by construction activity.

After several years of decreases beginning in 2006, the value of new construction has been increasing since 2009. However, in 2015 the values were still 18% lower than 10 years ago.

Real market property values
(Metro taxing district,
adjusted for inflation)



Slow growth or declining market values are negative trends for governments because of the impact on revenue from property taxes. In FY 2014-15, 23% of Metro's revenue came from property taxes. Real market property values declined four years in a row after FY 2008-09 because of the economic recession. Values have increased in the last two years, but are still below FY 2008-09 values.

Scope and methodology

The purpose of this audit was to evaluate the financial condition of Metro. We used a methodology recommended by the International City/County Management Association (ICMA). 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 the trend for as many years as possible.

Our scope included both general government operations and business 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. The ICMA recommends focusing on "General Government" operations, excluding those operations that are run as a business-type activity where costs are recovered through user fees and charges. However, Metro has many business-type activities that are integral to its mission, and these operations were included.

We obtained data from the independently audited Comprehensive Annual Financial Reports (CAFR) and more detailed information about revenue sources, personnel costs and other expenditures from 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 2014-15 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. It includes Clackamas, Multnomah, Washington, Yamhill and Columbia Counties, as well as two counties in the State of Washington. Where available, only data from the Oregon portion of the MSA was used.

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

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

Management response

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Portland, OR 97232-2736

www.oregon**metro.gov**

Metro | *Memo*

Date: June 17, 2016
To: Brian Evans
From: Martha Bennett, Chief Operating Officer
Tim Collier, Director of Finance and Regulatory Services
Subject: Management Response to Metro Financial Condition Review

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 trends for most indicators had a positive effect on 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 indicators that you considered to have a negative effect that might warrant some caution.

General Fund revenue under budget

Your report points out a concern over the variance between the general funds actually received and the amount of budgeted revenues. Specifically the report points out a possible concern if general fund revenues collected are consistently less than budgeted, that a mid-year expenditure cut may be necessary. One of the largest contributors to this phenomenon results from budgeting for all revenue from grants, anticipating that all of the work can be billed in a fiscal year to a grant when the work is completed. However, it is important to note that we can only bill for the revenue if we spend the dollars related to the grant. If we do not do the work and therefore expend the money, we are unable to bill the grant for that work. We build the budget anticipating that we will complete all of the work associated with the grant to ensure that we will have enough appropriation to complete the grant during that year. However, due to timing delays this can often lead to a difference in the revenue collected, but also means that there is a commensurate underspend in associated general fund expenditures in that given fiscal year. You also stated that revenues below budget could cause a mid-year correction, due to our reserves policy and the adequacy of those reserves that would be very unlikely to happen in practice, but it could lead to reductions in the next budget cycle. It is also worth pointing out that your report also shows that the gap between budgeted and actual general fund revenues has been shrinking over the last ten years.

Fixed Costs

Your report also notes a point of caution regarding our increased fixed costs and capital expenditures. As your report also correctly points out, these increases are largely due to voter approved ballot measures that provided a dedicated revenue to cover the costs. While we cannot adjust these costs in a downturn, the costs are covered by dedicated property tax revenue. While still important to note, your caution would warrant more concern if we were to increase Metro's debt load by issuing additional full faith and credit or revenue bonds that are far more susceptible to economic forces. We will however continue to monitor this metric as we look at other potential future debt issues.

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 and how we can always improve.

Sincerely,

Martha Bennett	Tim Collier
Chief Operating Officer	Director of FRS

Metro

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