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METROPOLITAN SERVICE DISTRICT

Review of Future Financial Needs

~~Metro Charter Committee~~

Public Financial Management, Inc.

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Introduction

The Metropolitan Service District Charter Committee is currently involved in a process that will determine, to a significant degree, the governmental structure, functions and financial operations of Metro for years to come. The purpose of this report is to review the means by which Metro has funded its functions to date, identify the strengths and weaknesses of the current funding mechanisms, and identify financing needs facing Metro in the near-term.

Overview of Metro's Historical Funding

Metro has been historically, and continues to be, an enterprise fund based organization. This has emerged largely as a result of Metro's policy to adopt governmental functions that possess a dedicated source of funding. The vast majority of Metro's revenues are derived from enterprise operations, principally solid waste and the zoo. To the extent that Metro collects any taxes, those are dedicated to specific purposes. Property taxes are dedicated to repaying the convention center bonds and to ongoing operations of the zoo. Hotel/motel taxes, which are actually collected by Multnomah County, are dedicated to funding operations of the convention center. The primary source of general revenues (those used to support the Metro Council, Executive Management Department, Office of Government Relations and Facilities Planning Program) are charges on the users of Metro's enterprise activities and facilities that produce most of Metro's revenues. Moreover, Metro's enterprise operations are charged for support services, such as payroll, accounting, General Counsel, and personnel. Information on current funding sources and uses is presented in detail in a staff report titled Metropolitan Service District Financial History

Metro's traditional enterprise revenue basis of funding general operations of the organization has led to an obvious result: Metro's functional areas of operation in the public realm have been limited to areas that can either be supported directly by revenues produced by that function, or to areas that can be supported by revenues generated

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elsewhere in Metro's operations. The consequence of Metro's focus on enterprise related activities has been a General Fund that is, by comparison to other local governments, modestly funded. For example, the City of Portland's fiscal year 1991 expenditures were budgeted at $223.2 million.

This approach to Metro's general funding has been sufficient to serve Metro's needs to date. PFM questions, however, whether this approach will provide Metro with the funding and financial flexibility the District will require as its regional roles are more clearly defined, and likely expanded, in the coming years.

Near-Term Regional Project Financing Needs

As Metro's role in regional governance expands, it faces an inability to pay for the functions which it is being asked to perform. The following section of this Report specifies the numerous financing needs facing the Metro region in the next several years. Some of these (such as the Convention Center expansion and improvements to the Metro Washington Park Zoo) involve facilities under Metro management. Other projects lend themselves to a regional solution (such as housing and water supply). The following is a listing of anticipated financing needs within the listed regional needs categories.

Regional Planning and Urban Growth Management

An example of this is in the area of regional growth planning and management. Metro is responsible for enforcing the urban growth boundary and for implementing the 2040 Plan. Additionally, Metro is authorized by existing state statutes to perform a regional role in a wide variety of enterprise and utility operations, including the management and provision of services such as water and wastewater. While there are no current plans for acquiring the operation of these kinds of services on a regional basis, it is likely that Metro will expand its role as regional planner for the provision of those, and other, public services.

For example, the Regional Urban Growth Goals and Objectives (RUGGO) adopted by Metro sets forth a blueprint for the Portland region's land use planning. RUGGO calls for Metro to take a central role in areas such as affordable housing, open space, air quality and water services. Without a general funding source unrelated to enterprise operations (since those will by and large continue to be provided by municipalities and special districts) it is questionable whether Metro can perform an expanded role in regional planning.

The planning efforts that Metro is currently involved in (principally regional transportation and land use issues) have been funded through a combination of federal and state grants, local grants and dues, and transfers from Metro enterprise funds. Expanding planning efforts, as well as acquiring management responsibilities for certain non-revenue producing public services will be limited to the extent that an identified

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funding source is not provided for those purposes. In essence, the nature of Metro's current funding prohibits the District from doing for itself that which it has been established to do for the region: plan for the future.

Regional Spectator and Arts Facilities / Arts Plan 2000

Facilities within this category of potential funding needs include the Portland Centers for the Performing Arts (PCPA) and Civic Stadium. The Memorial Coliseum, which has been operated by Metro since the transfer of management responsibilities from the City of Portland in 1990, will be operated by the Portland Trailblazers under an arrangement that is currently being evaluated by Metro and the City of Portland. Based on current estimates, capital needs at the PCPA amount to approximately $6 million and capital needs at Civic Stadium amount to approximately $4.1 million. The funding sources for these needs have not been identified to date. The Metro Public Policy Committee on Regional Facilities recognized in its report to the Metro Council that Metro currently lacks statutory authority to raise revenues necessary to meet operating and capital needs of these facilities.

The elimination of the Memorial Coliseum from the mix of regional arts and entertainment facilities operated by the Metro Exposition-Recreation Commission will likely require identifying alternative funding sources for PCPA and Civic Stadium operating deficits that have historically been produced by Memorial Coliseum operations. The anticipated operating shortfall of those two facilities is currently estimated approximately $500,000 annually.

Zoo

The Metro Washington Park Zoo funds approximately half of its operations through ticket sales and concessions, and the other half through a property tax operating levy. Metro's fiscal year 1992 budget identifies a Zoo Capital Fund of approximately $3.2 million, of which $1.1 million is budgeted for capital outlay. The remainder has been budgeted as contingencies and unappropriated fund balances.

The primary funding requirements facing the Zoo in coming years fall into the category of capital needs. Among these are a proposed $2 million zoo station on the Westside Light Rail line. More significant, if longer range, are the capital needs specified in the Zoo's Master Plan. The bulk of funding for projects on the long-range capital plan is, at this point, unidentified.

With respect to ongoing operations, the Zoo receives the only property taxes levied by Metro, with the exception of those for the convention center debt. As a result of the passage of Measure 5, Metro faced a reduction of approximately $400 thousand in operating revenues. This reduction in operating revenues has demonstrated Metro's needs for additional funds for Zoo operations outside of those that it currently collects.

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The dilemma facing the Zoo is that in order to make up revenue losses from reduced taxes, its has had to raise its admissions. Since Zoo attendance competes with other entertainment for discretionary dollars, raising attendance fees is a risky means of meeting revenue requirements.

Greenspaces/Open Space

Metro's Planning and Development Department has taken a leading role in managing a cooperative regional open spaces program. This effort, which involves state and local parks officials, planners, parks organizations, and local citizens has received funding in the form of a federal grant and Metro excise taxes. During fiscal year 1992 Metro will assist in the formulation of strategies to preserve natural areas, establish an interconnected system of regional open space corridors, and evaluate financing options for such a program, including the evaluation of general obligation bond financing.

Metro is likely to take on a significant role in the financing that will move the regional greenspaces program from planning to implementation. Current estimates of the magnitude of funding required for implementing the program range as high as $200 million. Funding of this size will most likely require some form of broad-based regional bond issue financing, either through general obligation bonds or some special tax bonds.

After the greenspaces program has been implemented, there will be costs related to operating the newly acquired greenspaces. While the magnitude of those costs have not yet been projected (Metro is currently in the process of evaluating all costs associated with the greenspaces program), Metro does not currently collect or receive revenues that will be available to offset those costs.

End of the Oregon Trail

There are plans in process for the development of an interpretative center in Oregon City that will be known as the End of the Oregon National Historic Trail. Although this effort is still in the preliminary planning stages, Metro has been asked to play a lead role in the financing of the facility when and if plans for development proceed.

The total capital cost of the facility are preliminarily estimated at approximately $42 million, and informal discussions have revolved around meeting the bulk of the capital costs through the issuance of a $35 million general obligation bond. In addition, although planning documents anticipate that the facility will produce positive net revenues, it would not be unusual for such a project to operate at a deficit, at least initially. Consequently, there may be needs not only for the initial costs of capital construction, but for an ongoing operating subsidy as well. Some preliminary funding discussions for the facility have examined providing financial support within the context of other regional arts and entertainment facilities, with the possibility that Metro could end up in the role of operating the center.

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Other Potential Roles for Metro in Region

As mentioned earlier, state statutes authorize Metro to provide a wide array of public services to the region. Specifically, ORS Chapter 268.310 and 268.312 identifies the public services over which Metro is authorized by the State, under certain circumstances, to control and deliver. These services include:

Wastewater & Sewer
Stormwater
Public Transportation
Criminal and Juvenile Justice
Water Supply
Human Services
Parks and Open Space
Library Services

While some of these services are enterprise operations, participation by Metro in any of these functional areas (whether that participation is in the context of regional planning and resource management or in a more direct operational role) will require future funding sources. At present, the limited nature of Metro's general funding sources make significant contributions to addressing these regional issues is difficult.

Need for an Enhanced General Fund?

Although enterprise operations are the primary source of funding for Metro's general operations, the use of revenues generated by Metro's enterprise operations are limited. For example, the bond ordinance under which solid waste system bonds are issued requires that solid waste revenues only be used for general governmental purposes to the extent that the solid waste system derives benefits from those services. Consequently, the use of enterprise revenues for general governmental functions is, as sound enterprise financial practices dictate, necessarily limited.

Metro has traditionally taken the approach that it will provide government services that come with funding. This approach has been codified in Resolution No. 84-444, which was adopted in 1988. Among the principles adopted in the Resolution were: "each functional area shall have identified sources of revenue"; and "any new functions assumed by Metro shall have a source of funding." As Metro increases its involvement in operating services that do not have funding sources to offset operating costs (such as greenspaces and non-revenue producing facilities), adhering to the principals set forth in Resolution No. 84-444 will be increasingly difficult. Consequently, if such services are provided by Metro, funding sources unrelated to the nature of the service will need to be identified and implemented.

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The source of funding for general administration of Metro is now the excise tax. Funding for support service functions, however, are paid as an operating cost by each department. This has been a source of scrutiny by many Metro department recently that have questioned the basis for the cost and the nature of the services rendered. Enhanced general funding could be directed toward at least a portion of support services costs. This would address the concerns of many departments in paying for services that are, as a result of their basic nature, difficult to quantify.

Funding Options Through Charter

The Appendix includes a list of several funding options that have been evaluated based on a variety of criteria. The following table is presented as a summary of the information presented in the Appendix. The table lists each of the potential revenue sources examined by Sonny Conder in Phase I of the Charter Committee Study and the prospective revenues produced at a given rate. Some of the revenue sources would provide potential funding for Metro's planning functions, while other sources would be most appropriately used for specific Metro functions (for example using a gas tax for regional transportation planning and capital).

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Revenue Source	Metro Rate	Estimated Annual Revenue Production
Property Tax	$10/1,000 Regional Govt. Rate	$60.5 million in FY '91
Hotel/Motel Tax	1% on all region hotels	$1,500,000
Meal Excise Tax	5%	$34.5 to $51.8 million
Vehicle Rental Tax	5%	$5.2 to $8.0 million
Gas Tax	$.02 per gallon	$6.2 to $8.3 million
Admissions/Membership/Rental Tax	5%	$5.0 to $7.3 million
General Sales & Service Tax	1.50%	$103.3 to $188.9 million
Real Estate Transfer Tax	0.50%	$9.5 to $19.0 million
New Construction Fee	2.50%	$27.9 million
Personal/Corporate Income Tax	1%	$99.8 and $125.4 million
Business Income Tax	1%	$19 to $37 million
Nonresidential Parking Surcharge	$12/space per year	$4.2 to $7.8 million
Fuel Oil Tax	10%	$4.0 to $5.1 million

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Examples of Other Charter-Granted Funding Powers

Since Metro does not have Home Rule authority, its abilities to collect revenues are limited by ORS Chapter 268. To levy a tax or collect a revenue not currently authorized, first the state statutes must be amended to provide the enabling authority, then a district-wide vote is required.

General Grant Versus Enumerated Powers

City governments in Oregon have had home rule charter authority since 1906. The constitutional amendment which provides for county home rule charters was enacted in 1958. At present, 8 of Oregon's 36 counties possess home rule charter authority. The remainder continue to derive their authority from state statutes.

During the years that cities and counties in Oregon have been preparing home rule charters there have been two general approaches to charter development. One approach, which was largely pursued in the years following constitutional home rule authorization for cities and counties, was to specifically enumerate powers and functions that local governments were authorized to exercise or perform. The practice listing specific listing specific powers and functions made it difficult for municipalities to respond to changing circumstances and needs since questions frequently arose as to whether a municipality had the legal authority to adopt a given policy or to initiate new programs.

In general, home rule charters now tend to provide the local government a "general grant of powers" that briefly specifies that the local government possesses all the powers available under the state constitution, subject to any limitations imposed by the charter.

City of Portland

Portland has specified certain revenue raising abilities in its charter. These powers include the ability to levy property taxes and a transient lodgings tax, the power to grant annual licenses to raise revenues or to regulate, and the ability to charge fees for a variety of services provided by the City.

Multnomah County

Multnomah County, like Portland, has charter authority to impose a tax subject to referral by the voters of the County.

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Washington County

Washington County also has a Home Rule Charter. As such, the County has the authority to impose a tax subject to referral by the voters of the County. The Washington County Charter (presented in Appendix X) allows the County to impose any new tax or raise existing taxes, but only after such proposal has been referred to the voters of the County at a general election. Additionally, no tax can be repealed without voter approval. In general, the County's ability to impose and collect revenues is broad. While any tax or fee *can* be imposed, nothing is imposed without the approval of County voters. This contrasts with, for example, Multnomah County which allows imposition of certain taxes based solely upon authorization of the County Commissioners.

REVIEW OF POTENTIAL REVENUE SOURCES

Introduction

Identifying and implementing funding strategies is a problem shared by most communities around the country. It is common that certain of the facilities operated by Metro, particularly the Performing Arts Centers and Civic Stadium, do not cover their own operating costs, let alone capital costs. Consequently, it generally falls upon the public sector to provide funding to bridge the gap between what the facilities are able to earn on their own and the actual cost of maintaining operations and the capital integrity of the facilities.

The following is a brief overview of revenue sources that may offer a solution to funding certain services provided by Metro. Each of the funding options are evaluated based on several criteria. These criteria are:

* Legality
* Revenue Adequacy
* Equity
* Public Acceptance
* Ease of Administration

The set of criteria have been developed to assist in evaluating the funding options presented below. Ideally, a particular funding source should be highly ranked across each criterion. In practice, however, this is not the case. Some funding options meet some of the criteria better than others. For each of the criteria, the potential funding sources have been assigned a number of 1 (poor), 3 (moderate), or 5 (good). Thus, ranking of 1 for legality indicates that a revenue source would require voter approval or similarly extensive efforts for implementation. A ranking of 5, on the other hand, would indicate that the revenue source is authorized and requires only an action by the Metro Council for imposition.

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Legality

The viability of a particular funding option depends on the legal authority of Metro to implement the option. Those funding options that are currently available and/or implemented score highly in this category. Those that require extensive statutory revision and/or voter approval score low.

Any consideration of the legality of a funding option has to be considered in the context of Metro's authority to implement that option. Since Metro does not currently have home rule authority, its ability to collect revenues is relatively limited. The voters of the State approved a change in the State Constitution that would allow that authority in November 1990. Metro is now in the process of developing a charter. If the charter that is ultimately developed grants broad revenue collecting authority, Metro will be in a position to levy taxes, fees or charges authorized by the charter without further voter approval. The voters within Metro, however, must approve the charter at a general election. Thus, the earliest that Metro will have broad powers granted by a charter will be in 1992.

Revenue Adequacy

In order to be of use to Metro, a funding option must be capable of generating funds in a quantity sufficient to meet the operating deficits and capital needs that cannot be met by the facilities' operating revenues. Revenues from a potential funding source should be predictable and stable. Those funding options that produce large revenues relative to the needs of the facilities, and which have shown stability and predictability over time are ranked highly.

Equity

The concept of equity is important in the evaluation of alternative funding options. Funding mechanisms that impose costs on users in proportion to their demands or benefit are generally perceived to be relatively fair and equitable, and are, therefore, ranked highly on this criterion. Taxes, fees or charges that are based on factors having little or no relationship to usage or demand are viewed as less fair, and thus rank low.

Public Acceptance

Acceptance by the public of a particular funding option is an important consideration in the development of an overall funding strategy. This is particularly true for potential funding sources requiring some kind of public approval prior to implementation. Funding sources that have received favorable public response in the past rank highly, and those that have been consistently rejected by the public score low. While no tax or charge is going to be popular with the public, those that appear reasonably related to the use of the tax revenues will encounter less opposition than those that do not.

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Ease of Administration

This criterion evaluates the administrative requirements that a particular option would impose on Metro. Some funding options require considerable staff time to establish and administer, and are, as a result, ranked low. Those options that are already in place and require less extensive administration rank more highly.

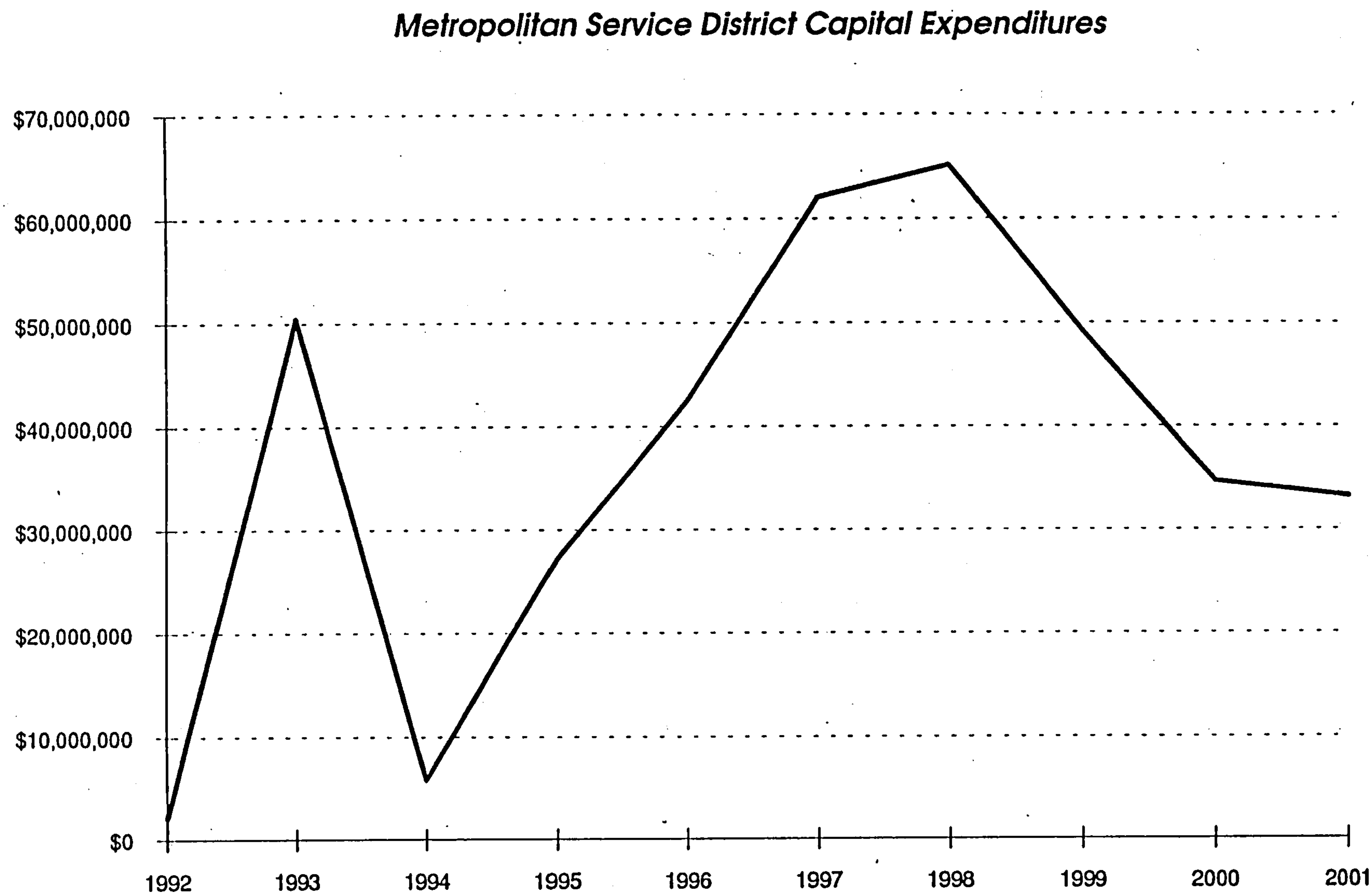
Summary

The following table provides a summary of the revenue sources presented earlier in this report and PFM's preliminary analysis of how each potential source scores based on the five criteria described above.

After the revenue source rating matrix, PFM has provided the results of a cash flow model that has been designed to project anticipated capital costs in today's dollars into the future based on construction schedules and assumptions related to inflation.

PROSPECTIVE REVENUE SOURCE RATING MATRIX

	Legality	Revenue Adequacy	Equity	Public Acceptance	Ease of Administration	Estimated Revenue	Gross Totals	Weighted Totals
ᵓroperty Tax	1	5	3	1	5	$60.5 million in FY '91	15	2.7
lotel/Motel Tax	3	1	3	3	3	$1,500,000	13	2.5
/leal Excise Tax	1	5	3	1	1	$34.5 to $51.8 million	11	2.3
/ehicle Rental Tax	1	1	3	3	3	$5.2 to $8.0 million	11	1.9
;as Tax	1	1	1	1	3	$6.2 to $8.3 million	7	1.2
ıdmissions/Membership/Rental Tax	3	1	3	3	3	$5.0 to $7.3 million	13	2.5
;eneral Sales & Service Tax	1	5	3	1	1	$103.3 to $188.9 million	11	2.3
leal Estate Transfer Tax	1	3	3	1	3	$9.5 to $19.0 million	11	2.0
lew Construction Fee	1	3	3	1	5	$27.9 million	13	2.2
ᵓersonal/Corporate Income Tax	3	5	3	1	3	$99.8 and $125.4 million	15	3.1
lusiness Income Tax	1	3	3	1	3	$19 to $37 million	11	2.0
lonresidential Parking Surcharge	1	1	3	3	1	$4.2 to $7.8 million	9	1.7
uel Oil Tax	1	1	1	1	3	$4.0 to $5.1 million	7	1.2
Weighting Factors	30.00%	25.00%	15.00%	20.00%	10.00%			



Metropolitan Service District Capital Expenditures
$70,000,000
$60,000,000
$50,000,000
$40,000,000
$30,000,000
$20,000,000
$10,000,000
$0
1992
1993
1994
1995
1996
1997
1998
1999
2000
2001

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Metropolitan Service District
Construction Project Schedules

Code	Name	Start Year	Project Length	End Year	ROW, A/E & Const.	Continuing Capital
Misc.	PCPA Improvements	1992	3	1994	6,000,000	
Misc.	Civic Stadium Improvements	1992	3	1994	4,100,000	
Misc.	Ongoing Operating Shortfall	1992	1	1992	0	500,000
Misc.	Zoo Light Rail Station	1995	1	1995	2,000,000	
Misc.	Zoo Master Plan	1996	5	2000	20,000,000	
Misc.	Greenspaces	1994	8	2001	200,000,000	
Misc.	Oregon Trail Center	1993	1	1993	42,000,000	
TOTALS					274,100,000	500,000

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Metropolitan Service District
Capital Cash Flow Estimate

Code	Name	Year................... 1992	1993	1994	1995	1996	1997
Misc.	PCPA Improvements	1,200,000	2,100,000	2,700,000	0	0	0
Misc.	Civic Stadium Improvements	820,000	1,435,000	1,845,000	0	0	0
Misc.	Ongoing Operating Shortfall	0	0	0	0	0	0
Misc.	Zoo Light Rail Station	0	0	0	2,000,000	0	0
Misc.	Zoo Master Plan	0	0	0	0	3,000,000	6,000,000
Misc.	Greenspaces	0	0	0	20,000,000	30,000,000	40,000,000
Misc.	Oregon Trail Center	0	42,000,000	0	0	0	0
TOTALS ($ '92)		2,020,000	45,535,000	4,545,000	22,000,000	33,000,000	46,000,000
Inflation		4.50%	5.00%	5.00%	5.00%	5.00%	5.00%
Inflator		1.05	1.10	1.15	1.21	1.27	1.33
INFLATED TOTALS		2,110,900	49,963,279	5,236,351	26,613,799	41,916,733	61,350,855

Metropolitan Service District
Capital Cash Flow Estimate

Code	Name	1998	1999	2000	2001
Misc.	PCPA Improvements	0	0	0	0
Misc.	Civic Stadium Improvements	0	0	0	0
Misc.	Ongoing Operating Shortfall	0	0	0	0
Misc.	Zoo Light Rail Station	0	0	0	0
Misc.	Zoo Master Plan	6,000,000	3,000,000	2,000,000	0
Misc.	Greenspaces	40,000,000	30,000,000	20,000,000	20,000,000
Misc.	Oregon Trail Center	0	0	0	0
TOTALS ($ '92)		46,000,000	33,000,000	22,000,000	20,000,000
Inflation		5.00%	5.00%	5.00%	5.00%
Inflator		1.40	1.47	1.54	1.62
INFLATED TOTALS		64,418,397	48,523,858	33,966,701	32,422,760

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SUMMARY TOTALS (Including Inflation)
Metropolitan Service District

Code	Name	1992	1993	1994	1995	1996	1997
Misc.	PCPA Improvements	1,254,000	2,304,225	3,110,704	0	0	0
Misc.	Civic Stadium Improvements	856,900	1,574,554	2,125,648	0	0	0
Misc.	Ongoing Operating Shortfall	0	525,000	551,250	578,813	607,753	638,141
Misc.	Zoo Light Rail Station	0	0	0	2,419,436	0	0
Misc.	Zoo Master Plan	0	0	0	0	3,810,612	8,002,285
Misc.	Greenspaces	0	0	0	24,194,363	38,106,121	53,348,569
Misc.	Oregon Trail Center	0	46,084,500	0	0	0	0
	Totals	2,110,900	50,488,279	5,787,601	27,192,611	42,524,486	61,988,995

SUMMARY TOTALS (Including Inflation)

Metropolitan Service District

Code	Name	1998	1999	2000	2001
Misc.	PCPA Improvements	0	0	0	0
Misc.	Civic Stadium Improvements	0	0	0	0
Misc.	Ongoing Operating Shortfall	670,048	703,550	738,728	775,664
Misc.	Zoo Light Rail Station	0	0	0	0
Misc.	Zoo Master Plan	8,402,400	4,411,260	3,087,882	0
Misc.	Greenspaces	56,015,998	44,112,598	30,878,819	32,422,760
Misc.	Oregon Trail Center	0	0	0	0
	Totals	65,088,445	49,227,408	34,705,428	33,198,424