Metro

Financial Condition of Metro:
FY 2009-10 to FY 2018-19

June 2020

A Report by the Office of the Auditor

Brian Evans

Metro Auditor

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

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MEMORANDUM

Date: June 24, 2020

To: Lynn Peterson, Council President
Shirley Craddick, Councilor, District 1
Christine Lewis, Councilor, District 2
Craig Dirksen, Councilor, District 3
Juan Carlos Gonzalez, Councilor, District 4
Sam Chase, Councilor, District 5
Bob Stacey, Councilor, District 6

From: Brian Evans, Metro Auditor BE

Re: Audit of Metro's Financial Condition FY 2009-10 to FY 2018-19

The following report is a review of Metro's financial condition over the last 10 years. My office completes this audit every two years and this is the seventh 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 financial auditor. It is intended to give a long term review of Metro's financial history.

The data predates Covid-19, so the financial impacts of the pandemic are not reflected in the report. Metro has already been impacted by the pandemic, so it's reasonable to conclude that the current financial environment requires additional caution.

The report shows that most indicators remain positive, which indicates good financial health as of June 30, 2019. However, lower general fund balances compared to general fund revenue, and declining grant revenue signal the need for caution. Increased total debt is another warning trend. Most of Metro's debt is from general obligation bonds, which are repaid from voter-approved property taxes. However, debt from revenue and other bonds also increased in the last 10 years.

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

Summary

A government in good financial condition is 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 covers the 10-year period from fiscal year (FY) 2009-10 through FY 2018-19.

The indicators in this report are based on data from June 30, 2019 or earlier. As such, the financial and economic impacts of COVID-19, which started to become apparent in March 2020 are not reflected in the report. The unprecedented stay-at-home order had an immediate and significant effect on Metro's operations, especially those focused on venues for public gatherings like the Oregon Convention Center, Portland'5 Centers for the Arts, Portland Expo Center, and Oregon Zoo.

Metro has experienced strong revenue growth (39%) over the last 10 years, but expenditures also grew at a similar rate (37%). During that time, economic conditions in the region also experienced strong growth after the Great Recession that began in 2008. These factors helped Metro maintain a stable financial condition, but trends in several of the indicators of financial health pointed to potential vulnerabilities that are being exposed by COVID-19.

At the end of FY 2018-19, three of the indicators showed negative trends. Declining General Fund balance and grant revenue, as well as increased total debt reduced Metro's financial health. These trends, combined with the unstable economic conditions resulting from COVID-19, may have a long-term effect on Metro's financial condition unless they are addressed by reducing costs, increasing revenue, or a combination of both.

Trends and conclusions

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

"Positive/negative" is used to describe 10-year trends. Colors are used to help interpret the trends since not all decreases are negative and not all increases are positive.

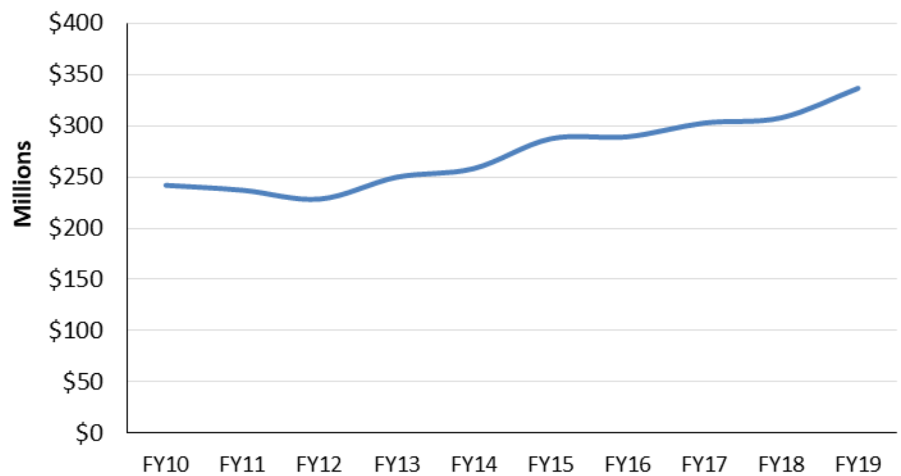
	Indicator	Change from previous year	10-year trend	Effect on overall financial health
Revenue	Total revenues	+	↑	Positive
	Revenue per capita	+	↑	Positive
	Charges for services	+	↑	Positive
	Property taxes	+	↑	Positive
	Excise taxes	-	↑	Positive
	Grants	-	↓	Negative
	General Fund revenue over/ under budget	+	↑	Positive
Expenditure	Total expenditures	-	↑	Neutral, grew at same rate as revenue
	Expenditure per capita	-	↑	Positive
	Risk Management Fund	-	↓	Positive
	Employee costs	+	↑	Positive, increased slower than revenue
	Fixed costs	+	↓	Positive
	Capital expenditure	+	↓	Positive
Financial Health	Liquidity	-	↓	Positive
	Total debt	+	↑	Negative
	Net position	+	↑	Positive
	Capital assets	-	↑	Positive
	General Fund balances	-	↓	Negative
Demographic and Economic Trends	Population	+	↑	Positive
	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

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.

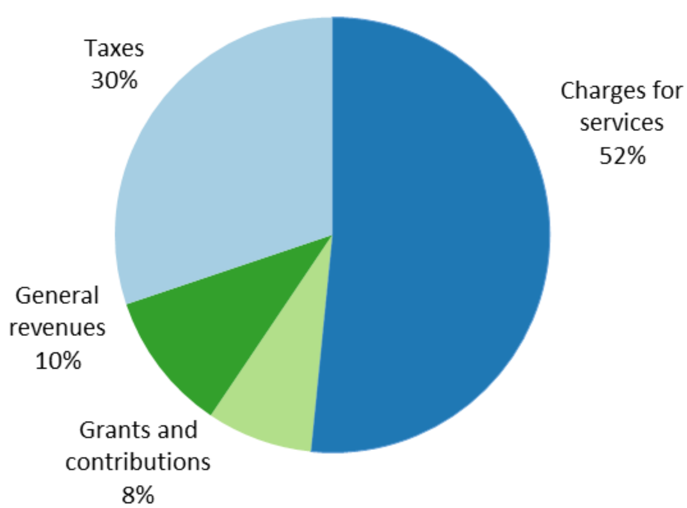
Total revenues
FY 2009-10 to FY 2018-19
(adjusted for inflation)



Total revenue increased by 39% in the last 10 years. During that time all revenue sources increased, but not at the same rate. For example, shared revenue from local governments and investment income more than doubled (110%), while revenue from taxes grew by 27%. The increase beginning in FY 2012-13 was mostly the result of additional revenue from charges for services collected at the Oregon Convention Center, Exposition Center, Portland'5 Centers for the Arts, solid waste facilities, and 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.

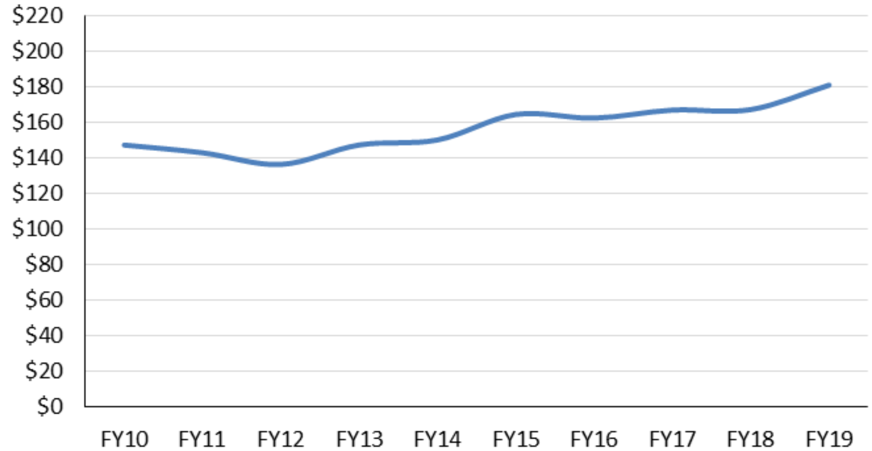
There are four primary sources of revenue at Metro. Some are restricted and can only be used for one purpose. Other sources have fewer restrictions and are used to support several purposes.

Revenue sources
FY 2018-19



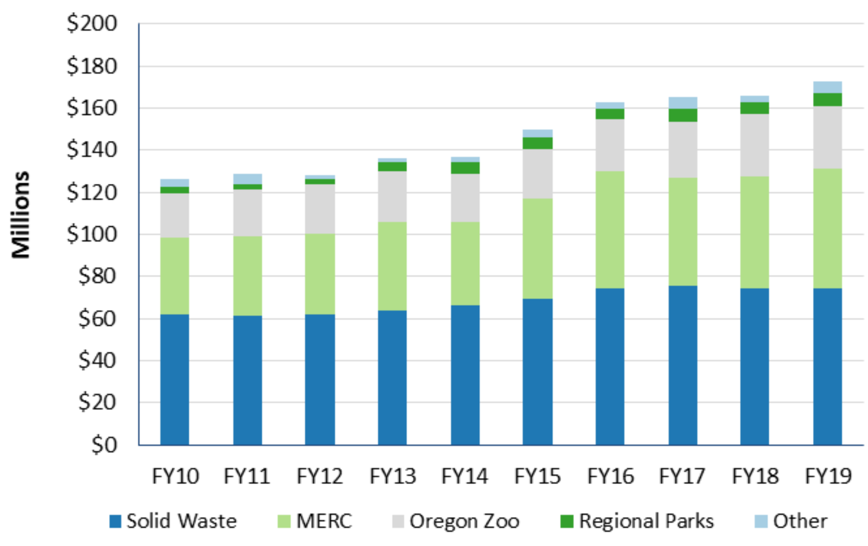
In FY 2018-19, the largest source of revenue was charges for services. This type of revenue has consistently been the largest source over the last 10 years. Similarly, tax revenue has consistently been the second largest source during that time.

Revenue per capita
FY 2009-10 to FY 2018-19
(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 revenues and the need for services would increase at a similar pace. Since FY 2009-10, revenue per capita increased by 23%. This was caused by total revenue growing faster (39%) than the population (13%).

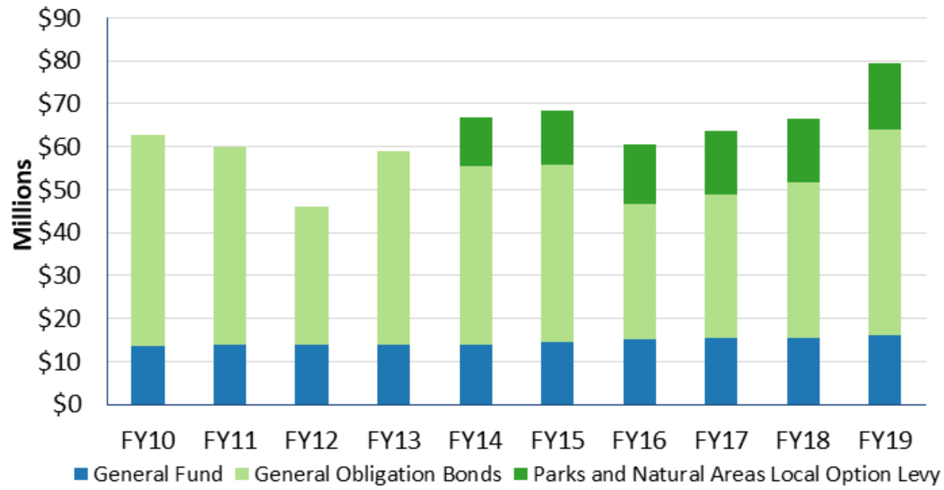
Charges for services
FY 2009-10 to FY 2018-19
(adjusted for inflation)



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 make up the Metropolitan Exposition and Recreation Commission (MERC) charge for services. These include the Oregon Convention Center, Portland Expo Center, and Portland'5 Centers for the Arts.

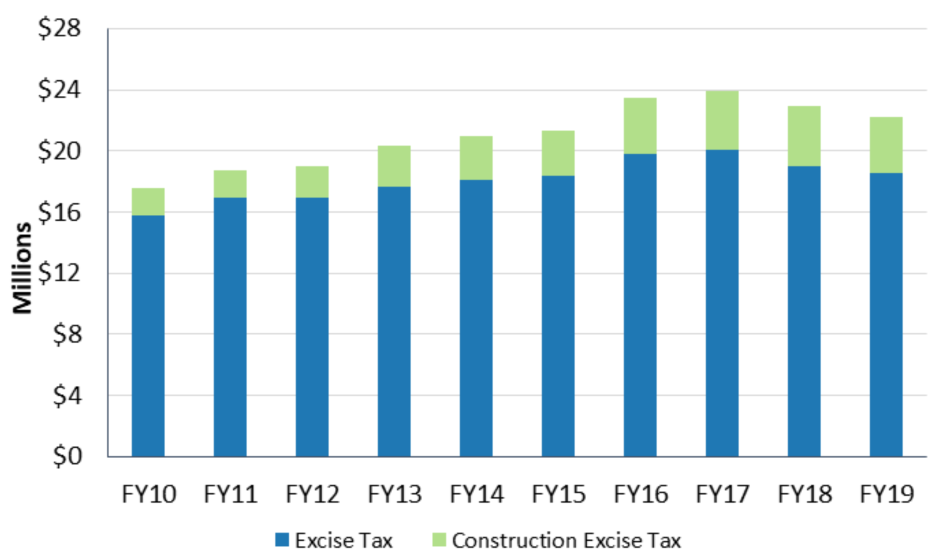
In the last 10 years, the amount of revenue collected from service charges increased by 37%. This was mostly driven by the venues that make up MERC as well as increases from solid waste and the Oregon Zoo.

Property taxes
FY 2009-10 to FY 2018-19
(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 tax revenue is used to repay general obligation bonds. General obligation bonds are used for specific projects that were approved by voters such as improvements at the Oregon Zoo, land purchases to protect natural areas, and affordable housing. 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 17% over the last 10 years. The amount of revenue collected to repay general obligation bonds decreased by 2% during that time as previous bonds were repaid.

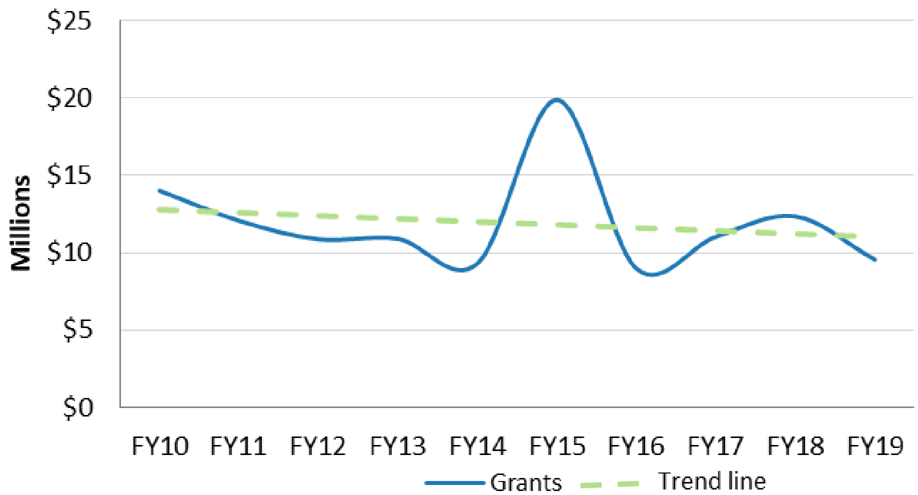
Excise taxes
FY 2009-10 to FY 2018-19
(adjusted for inflation)



Another source of revenue is excise taxes. 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 was scheduled to end in 2020, but was permanently extended by Metro Council in 2018.

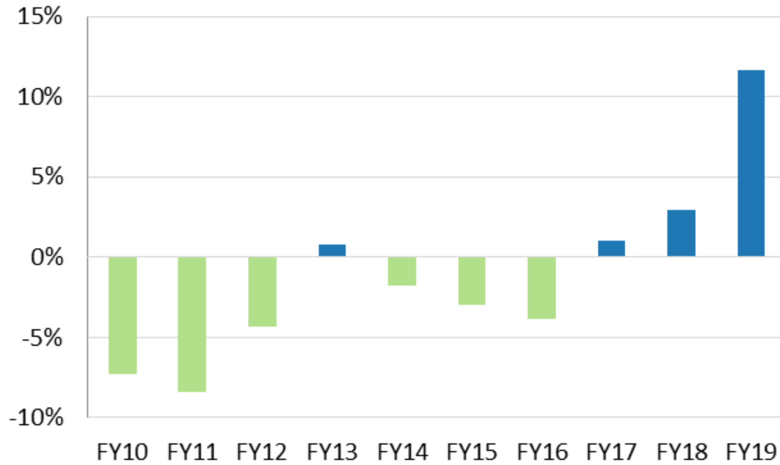
Total revenue from excise taxes increased by 26% over the last 10 years. In FY 2016-17, it reached the highest level ever recorded. Revenue from construction excise taxes doubled in the last 10 years as construction increased following the economic recession that began in 2008.

Grants
FY 2009-10 to FY 2018-19
(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. 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 that was completed in 2019.

General Fund revenue over/under budget
FY 2009-10 to FY 2018-19

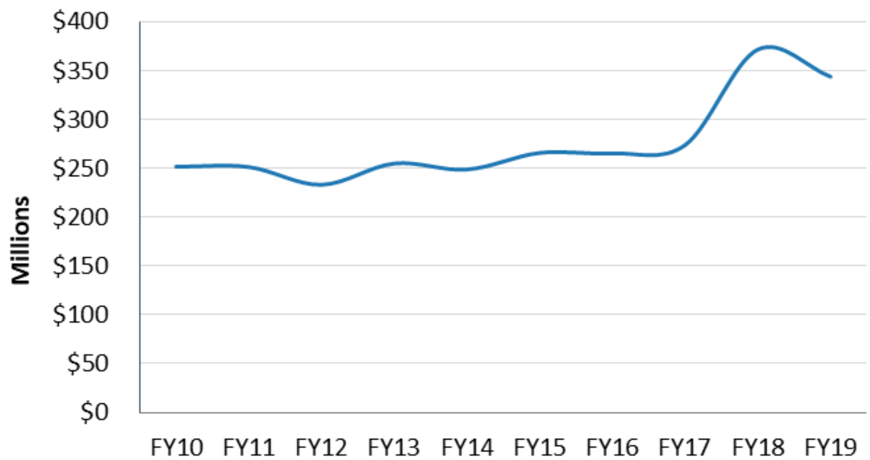


This indicator shows how the amount of General Fund revenue actually received compared to the amount of revenue estimated when the annual budget was created. In recent years, Metro has received more General Fund revenue than it expected when the annual budget was adopted. This is a positive trend. If less revenue is collected than expected and there are insufficient reserves, it could lead to mid-year cuts in services.

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 expenditures
FY 2009-10 to FY 2018-19
(adjusted for inflation)

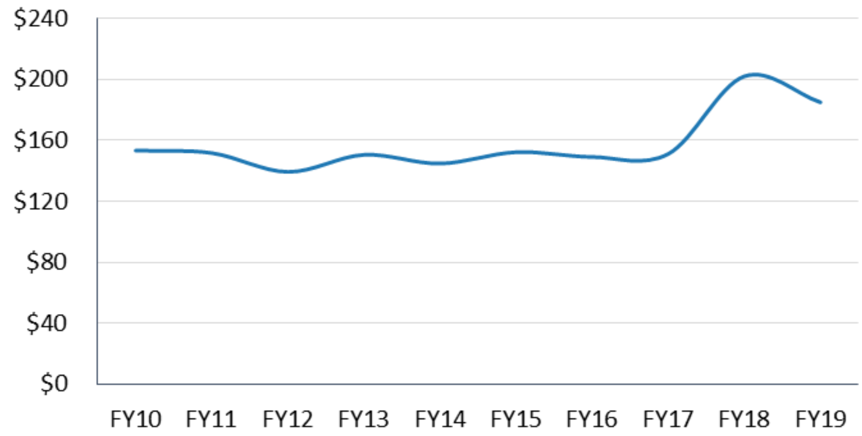


Total expenditures include all departments and services operated by Metro and the three venues that make up the Metropolitan Exposition and Recreation Commission (MERC), as well as non-departmental costs and debt service. Included are costs for employee salaries and benefits, and materials and services. Total expenditures increased by 37% in the last 10 years.

Higher expenditures in FY 2017-18 and FY 2018-19 had different causes. The large increase in FY 2017-18 was the result of construction expenditures for Metro's part of the Convention Center Hotel project. Expenditures decreased the following year, but remained significantly higher than the trend during the first eight years. This was because of renovations to the Oregon Convention Center entrance and interior spaces to align with the opening of the hotel.

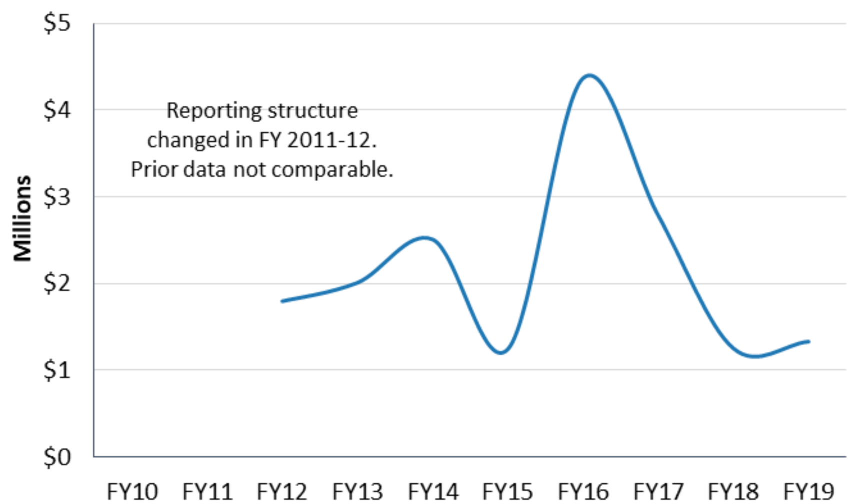
Metro's Charter includes a provision that limits the amount expenditures from non-voter approved sources can increase each year. The Consumer Price Index is used to gradually increase the expenditure limit each year. The annual budget includes analysis of proposed expenditures in relation to the Charter limitation. For FY 2018-19, the analysis stated that Metro's budget used 79% of the limit.

Expenditure per capita
FY 2009-10 to FY 2018-19
(adjusted for inflation)



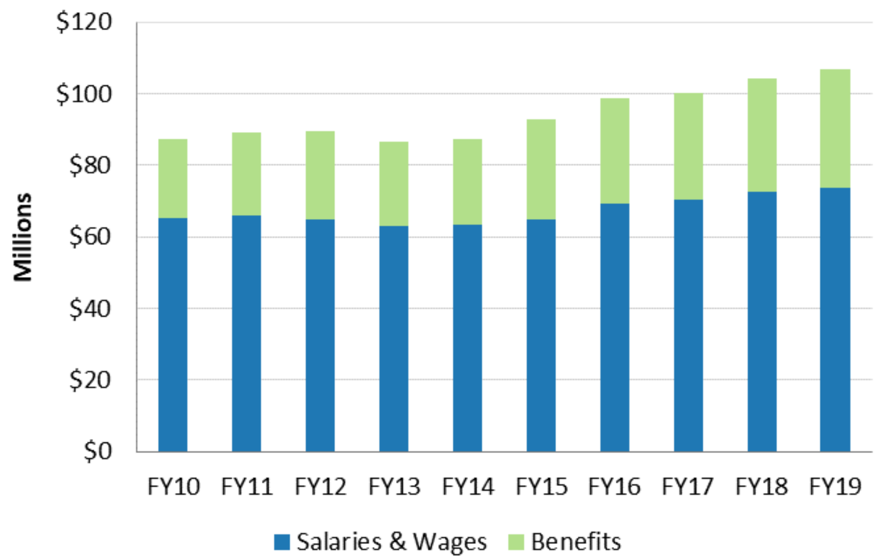
Expenditure per capita shows the average amount of money spent to provide services to each person who lives in the region. Increases in spending per capita may indicate the cost of providing services is rising faster than the population. Expenditures per capita increased by 21% over the last 10 years as expenditures grew faster (37%) than the population (13%).

Risk Management Fund
FY 2009-10 to FY 2018-19
(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. 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. Risk Management expenditures declined the following two years, with a slight increase in the most recent fiscal year.

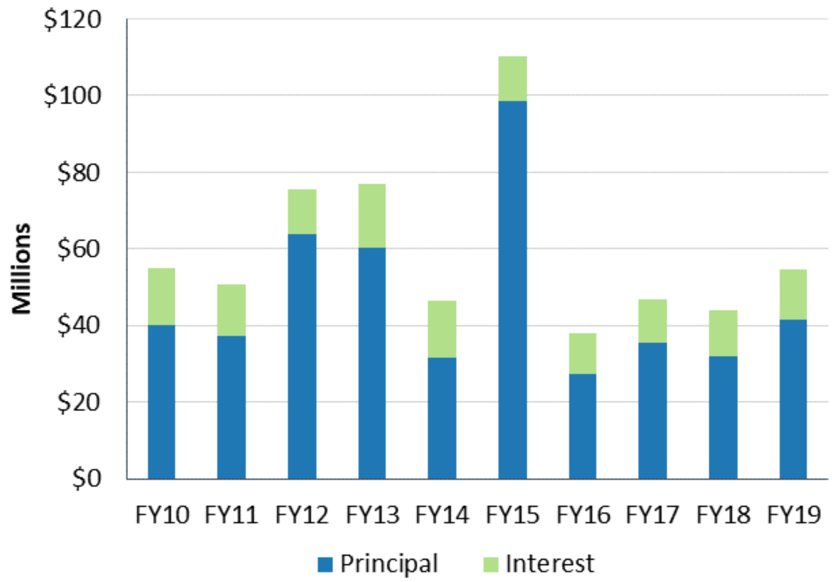
Employee costs
FY 2009-10 to FY 2018-19
(adjusted for inflation)



Over the last 10 years, expenditures for employee salaries and wages, and benefits increased by 22%. This was caused by benefit costs for health care and retirement contributions increasing by 48% during that time. Salaries and wages grew more slowly (13%). Benefits accounted for about 31% of all employee costs in FY 2018-19, which is slightly more than the average (29%) over the last 10 years.

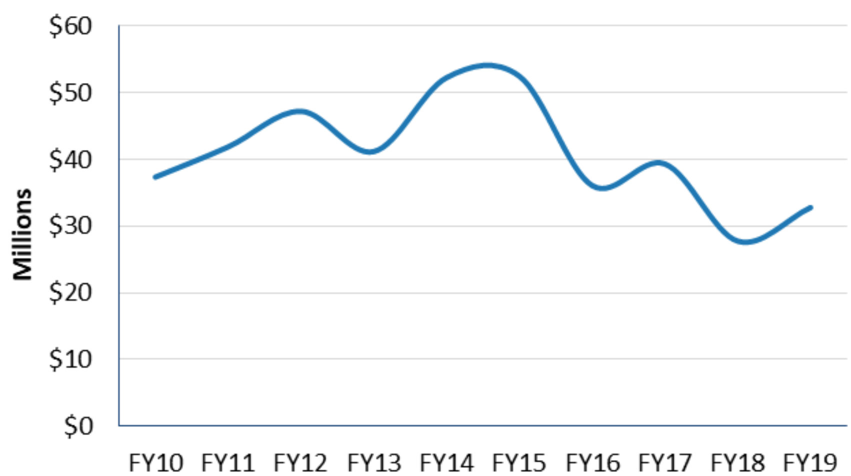
Metro's ability to control benefit costs is less than its ability to control salaries and wages. This is because benefit costs are impacted by changes in the health insurance market and funding requirements to cover pension costs. Nevertheless, managing employee costs will continue to be an important part of maintaining Metro's financial stability.

Fixed costs
FY 2009-10 to FY 2018-19
(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. In FY 2018-19 Metro's long-term debt was primarily from the sale of general obligation bonds (90%). 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 2009-10 to FY 2018-19
(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. Capital expenditures declined by 12% in the last 10 years due to fewer land purchases as the 2006 bond funds were spent down. In contrast, capital spending to renew or replace existing assets and invest in new assets for Metro's enterprise services increased, which was a positive trend.

Spending by department

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, and Property and Environmental Services had varied growth that partially reflected their ability to generate revenue.

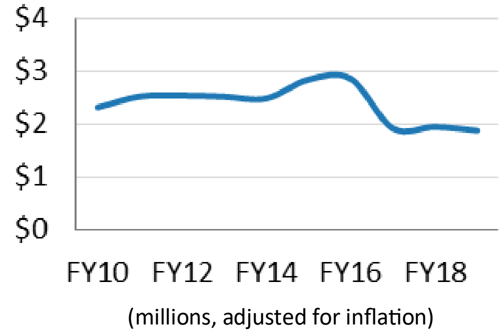
Other departments provide support services to other parts of the organization and do not generate their own revenue. For example, the Council Office, Communications, Human Resources, Information Services, Finance and Regulatory Services, Metro Attorney, and Metro Auditor are all funded through internal 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 2018-19 expenditures and 10 year trends for each of Metro's 16 departments or venues. The list is ranked by total expenditure in FY 2018-19.

Department/Venue	FY 2018-19 expenditure	10-year change
Property and Environmental Services	$72,348,798	23%
Oregon Convention Center	$66,464,133	142%
Oregon Zoo	$40,292,635	30%
Parks and Nature	$24,380,135	46%
Portland'5 Centers for the Arts	$19,338,347	72%
Planning and Development	$18,420,553	36%
Portland Expo Center	$6,314,972	39%
Finance and Regulatory Services	$5,511,773	26%
Metro Council & Chief Operating Officer	$5,436,042	43%
Information Services	$5,299,084	56%
Research Center	$4,682,928	-10%
Human Resources	$3,277,421	57%
Office of Metro Attorney	$2,528,845	10%
Communications	$1,875,254	-19%
MERC Administration	$992,200	-65%
Office of the Metro Auditor	$688,974	-8%

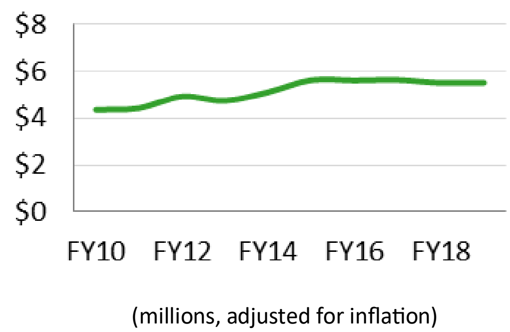
Communications
(FY 2009-10 to FY 2018-19)

Communications provides media relations, public involvement, writing, marketing, and graphic and web design services to Metro's other departments. In the last 10 years, expenditures declined by 19%. This was mostly due to decreased spending on personnel as staff who had been centralized into the department were shifted back to other departments like Planning and Development. In FY 2018-19, 82% of the expenditures were for personnel.



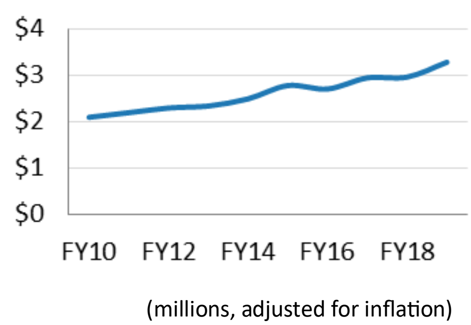
Finance and Regulatory Services
(FY 2009-10 to FY 2018-19)

This department provides business services, such as accounting, procurement, and budgeting to Metro's other departments. Expenditures increased by 26% between FY 2009-10 and FY 2018 -19 mostly due to higher personnel costs. Personnel costs made up 81% of the department's expenditures in FY 2018-19.



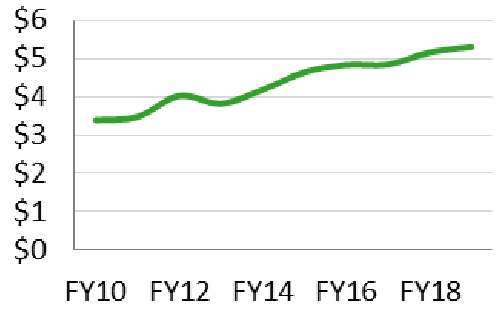
Human Resources
(FY 2009-10 to FY 2018-19)

The Human Resources department is responsible for employee recruitment, compensation and benefits, and organizational development for all Metro departments. Expenditures increased by 57% in the last 10 years. This was mostly caused by increases in personnel costs. In FY 2018-19, 86% of expenditures were for personnel.



Information Services
(FY 2009-10 to FY 2018-19)

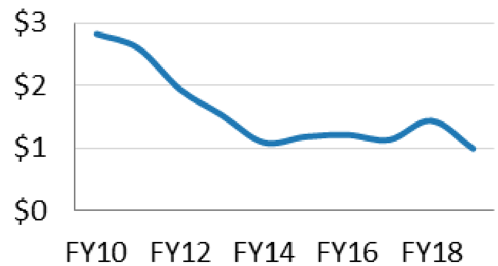
Metro's Information Services department develops and maintains hardware and software systems to support the entire agency. Expenditures for this department increased by 56% in the last 10 years. This was caused by increases in both personnel and materials and services. In FY 2018-19, 69% of its expenditures were for personnel.



(millions, adjusted for inflation)

MERC Administration
(FY 2009-10 to FY 2018-19)

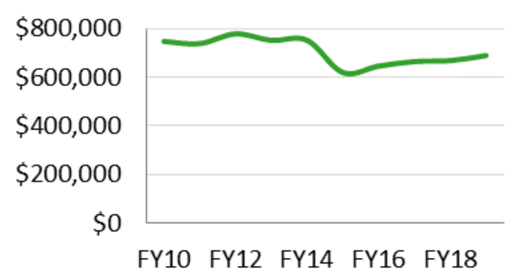
This department supports the success of the MERC Venues and the Zoo, including facilitating contractual services, goal setting, strategic planning, and special project management. In the last 10 years, expenditures decreased by 65%. This was mostly due to combining administrative costs for the venues into Metro's other internal services departments. In FY 2018-19, personnel made up 71% of expenditures.



(millions, adjusted for inflation)

Metro Auditor
(FY 2009-10 to FY 2018-19)

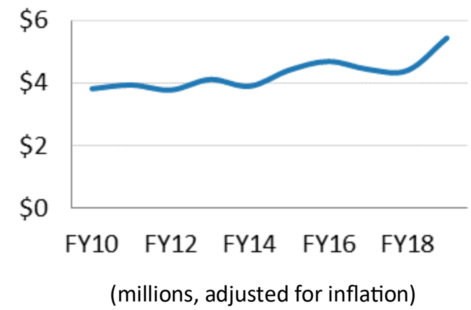
The Office of the Metro Auditor conducts performance audits of Metro's services and programs, oversees the financial audit by an outside accounting firm, and administers the Accountability Hotline. Expenditures decreased by 8% in the last 10 years. This was mostly caused by lower personnel costs. Personnel accounted for 97% of expenditures in FY 2018-19.



Metro Council and Chief Operating Officer
(FY 2009-10 to FY 2018-19)

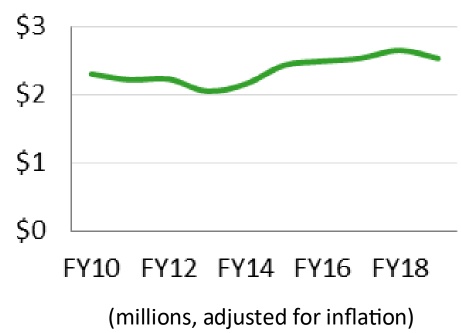
Council is the governing body of Metro. It consists of seven elected officials who represent the districts in the Metro region and one region-wide official, the Council President. The Office also includes the Chief Operating Officer's office; the government affairs and policy development program; and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

In the last 10 years expenditures increased by 43%. This was caused by increases in both personnel, and materials and services. In FY 2018-19, 83% of expenditures were for personnel.



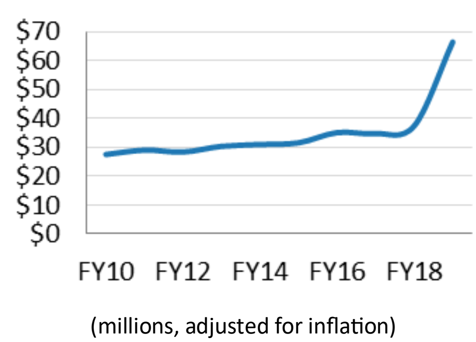
Office of Metro Attorney
(FY 2009-10 to FY 2018-19)

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



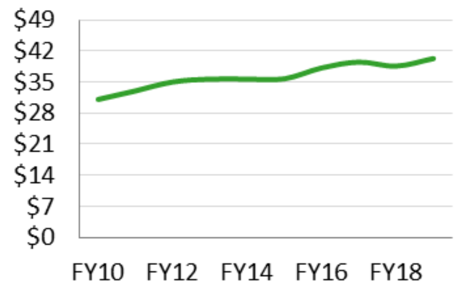
Oregon Convention Center
(FY 2009-10 to FY 2018-19)

The Oregon Convention Center hosts conventions, trade, and consumer shows. Expenditures increased by 142% in the last 10 years. The large increase in FY 2018 -19 was mostly from about $28 million in spending for renovation of the Convention Center's main entrance and interior finishes, which was paid from operating revenues. In FY 2018-19, materials and services accounted for 82% of expenditures.



Oregon Zoo
(FY 2009-10 to FY 2018-19)

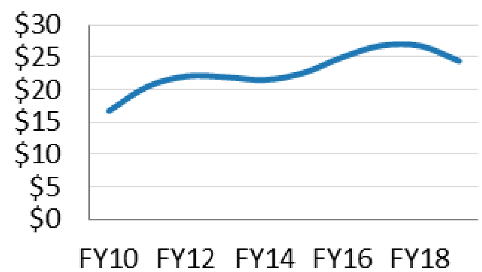
The Oregon Zoo houses animals and exhibits, and provides wildlife education and conservation programs. Over the last 10 years, expenditures increased by 30%. This was caused mostly by increased costs for materials and services.



(millions, adjusted for inflation)

Parks and Nature
(FY 2009-10 to FY 2018-19)

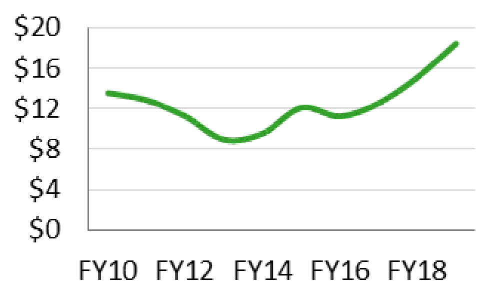
Parks and Nature manages Metro's parks, natural areas, and cemeteries. It also plans and develops a regional system of parks and trails. Over the last 10 years, expenditures increased by 46%. This was due to increased personnel costs associated with the operating levy that was approved by voters in 2012 and renewed in 2016.



(millions, adjusted for inflation)

Planning and Development
(FY 2009-10 to FY 2018-19)

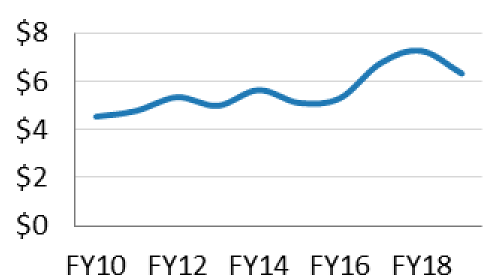
The Planning and Development department develops policies and programs that guide land use and transportation planning. It also provides technical assistance and distributes federal funding to local governments. Over the last 10 years, expenditures increased by 36%. This was caused by higher spending on materials and services.



(millions, adjusted for inflation)

Portland Expo Center
(FY 2009-10 to FY 2018-19)

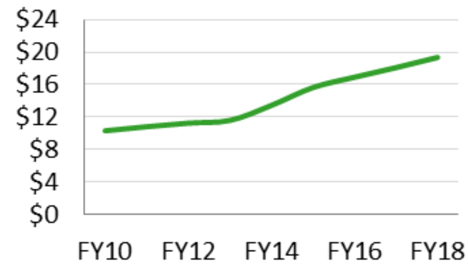
The Portland Expo Center is a multi-purpose exhibition facility including meeting rooms, exhibit halls, outdoor space, and a restaurant. Since FY 2009-10, expenditures increased by 39%. This was mostly the result of increased materials and services expenditures. In FY 2018-19, materials and services accounted for 69% of expenditures.



(millions, adjusted for inflation)

Portland'5 Centers for the Arts
(FY 2009-10 to FY 2018-19)

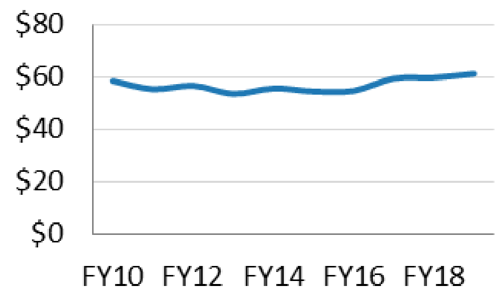
Portland'5 includes five spaces for events such as concerts, dance performances, and plays. Expenditures increased by 72% over the last 10 years. Increases were caused by additional spending on materials and services. In the most recent year, materials and services accounted for 58% of expenditures.



(millions, adjusted for inflation)

Property and Environmental Services
(FY 2009-10 to FY 2018-19)

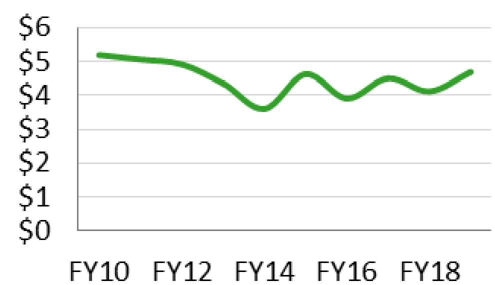
This department manages the regional waste disposal system, the Metro Regional Center building, and works with local governments on waste reduction and recycling strategies. Over the last 10 years, expenditures increased by 23%. This was caused by increases for materials and services, as well as personnel costs.



(millions, adjusted for inflation)

Research Center
(FY 2009-10 to FY 2018-19)

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 decreased by 10% in the last 10 years. This was due to decreases in both personnel, and materials and services expenditures.

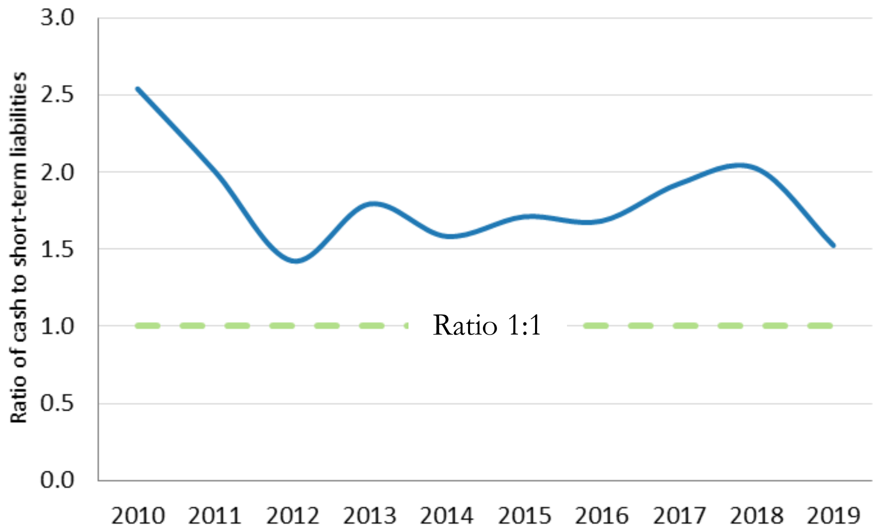


(millions, adjusted for inflation)

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. Some of these economic and demographic trends are summarized in the next section of the report.

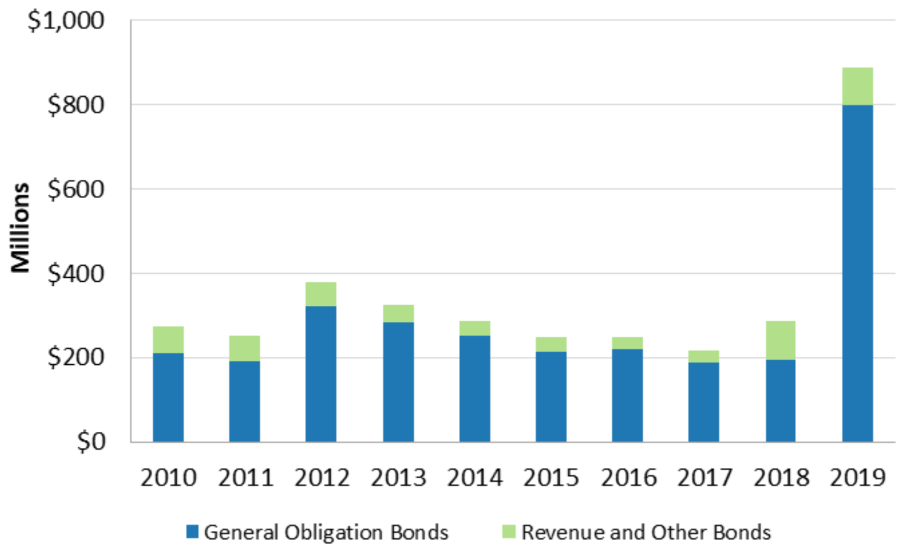
Liquidity
(as of June 30)



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, which is a positive trend.

Decreases in liquidity in 2011, 2012, and 2019 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. The 2019 decrease was from increased bonds payable liabilities and less cash available.

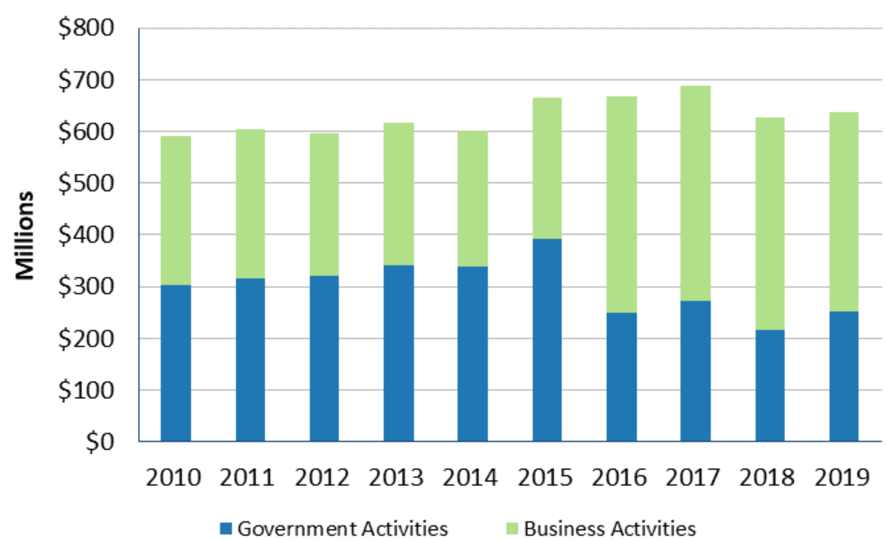
Total debt
(as of June 30,
adjusted for inflation)



The majority (90%) of Metro's long-term debt is from general obligation bonds. Repayment of general obligation bonds occurs through separate property tax levies that reduce some of the risks involved with taking on debt. General obligation bonds are not subject to the annual property tax revenue limitations in Metro's Charter.

The spike in 2019 was from new bonds that were issued to pay for the voter -approved affordable housing program. After new bonds are issued, they are repaid from additional property taxes, which decrease total debt in the years that follow. Debt from revenue and other bonds also increased in the last 10 years.

Net position
(as of June 30,
adjusted for inflation)

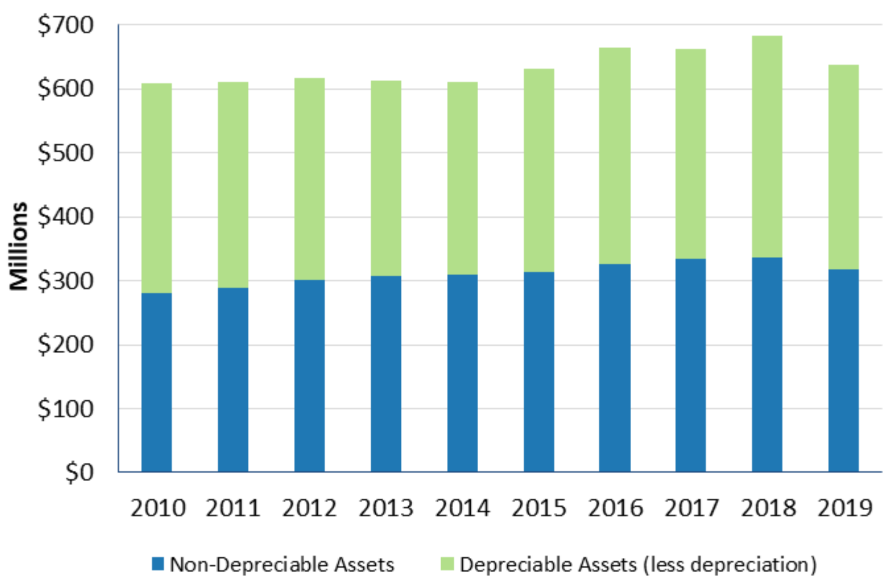


Net position measures the difference between what Metro owns (assets) and what it is owes (liabilities). Some of Metro's assets are monetary and some of them are physical things, such as buildings and land. Both types of assets are included in the indicator.

Metro’s business activities include the solid waste system, Oregon Convention Center, Portland’5, and Portland Expo Center. In FY 2015-16 the Oregon Zoo was moved from government activities to business activities. All other Metro programs, such as regional planning and parks are included in governmental activities.

Net position for business activities increased by 33% since 2010. Most of the increase was caused by moving Oregon Zoo assets into the business activities category. Net position for government activities decreased by 17% since 2010. This decrease was primarily from moving the Zoo out of the government activities category.

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

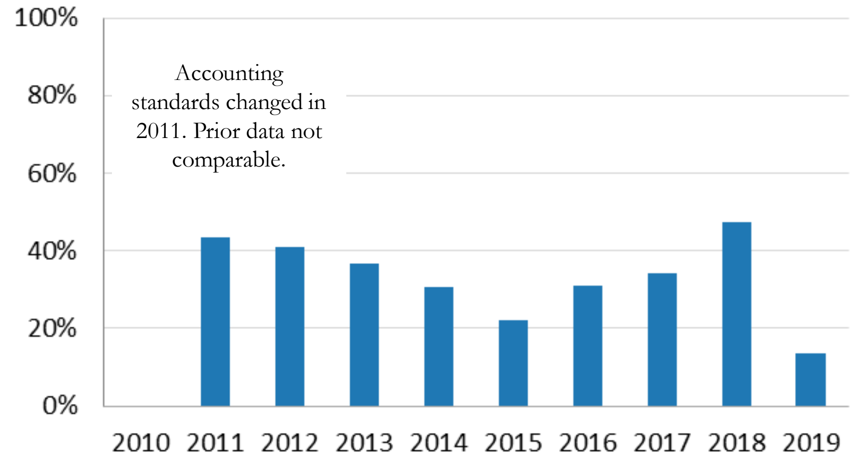


Capital assets include both depreciable and non-depreciable assets. Examples of depreciable assets are buildings, zoo exhibits, equipment, software, and office furniture. Examples of non-depreciable assets are land, easements, and artwork.

Overall, capital assets increased by 8% in the last 10 years, but trends varied by asset type. Depreciable assets declined by 2%, which is a warning trend. As assets depreciate governments should invest in new assets or improvements to existing assets to increase their value.

Non-depreciable assets increased by 20% during that time. The increase in non-depreciable assets was primarily driven by additional land assets from a 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 like those arising from Covid-19. 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.

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 Nature, Property Environmental Services, Planning and Development, and Research Center. It does not include the Oregon Convention Center, Oregon Zoo, Portland'5 Centers for the Arts, Portland Expo Center, and the solid waste management system.

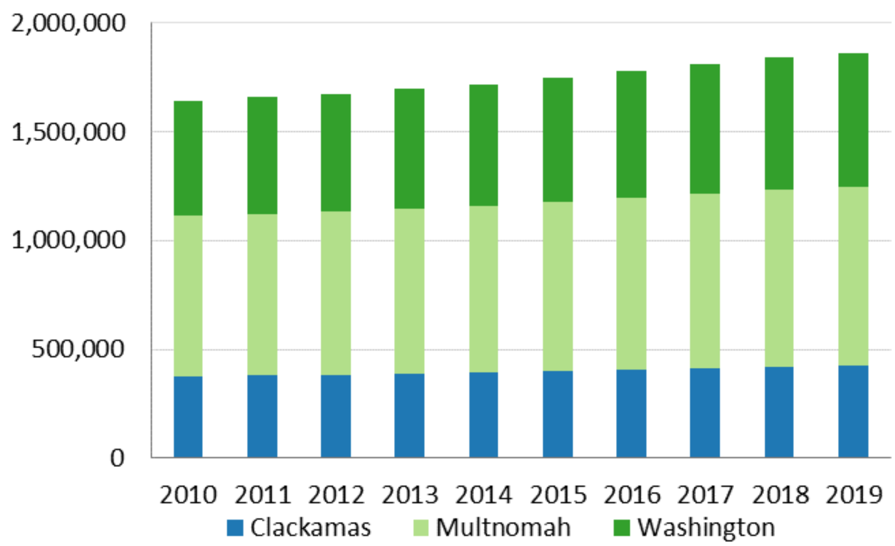
In 2019, the ratio of unassigned fund balances to operating revenues was 14%. The largest decrease in FY 2018-19 resulted from assigning about $15 million of the fund balance to be appropriated in the budget. That ensured Metro's budget included reserves for specific purposes, but left the unassigned amount smaller than it had been in previous years. Had the $15 million been left as unassigned, the ratio would have been 35%. That ratio is closer to the levels over the last 10 years, but was still below the 2011 ratio.

The General Fund was experiencing pressure to keep up with planned spending even before the uncertainty associated with the Covid-19 virus. At the end of FY 2018-19 there was relatively little unassigned General Fund revenue available to respond to revenue decreases.

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.

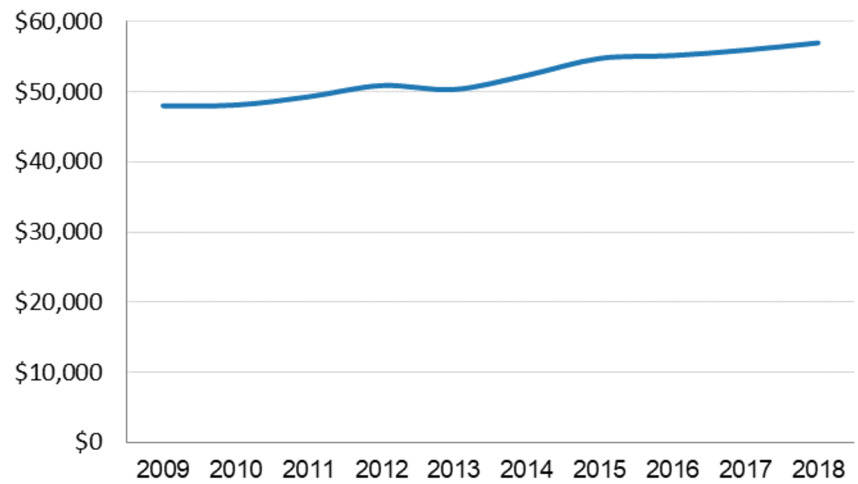
Population
Calendar Year (CY) 2010 to CY 2019 (Tri-county)



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 13% since 2010.

In the last 10 years, Washington County's population grew the fastest (16%) compared to Multnomah (12%) and Clackamas (13%) counties. Multnomah County has the largest population of the three and accounted for 44% of the total.

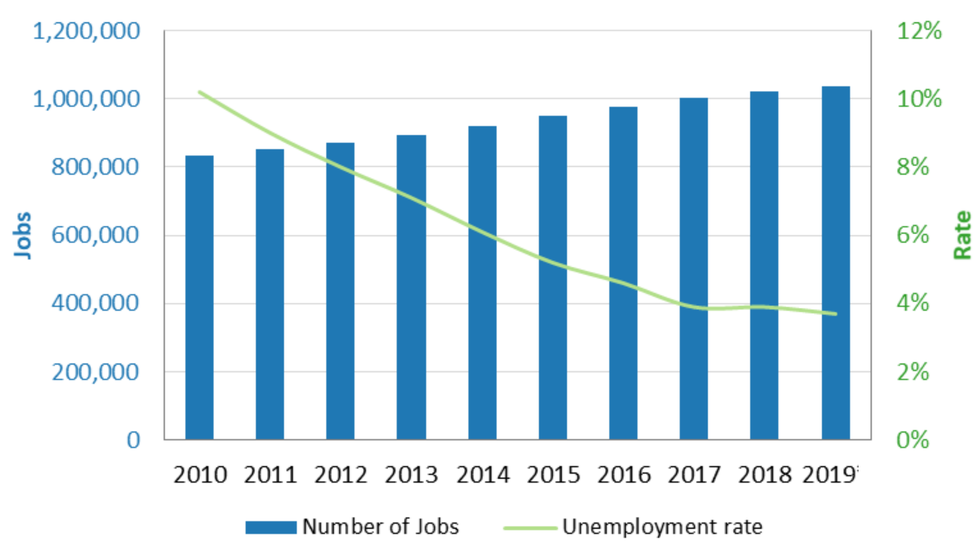
Per capita personal income
CY 2009 to CY 2018
(Metropolitan Statistical Area, adjusted for inflation)



Per capita income 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.

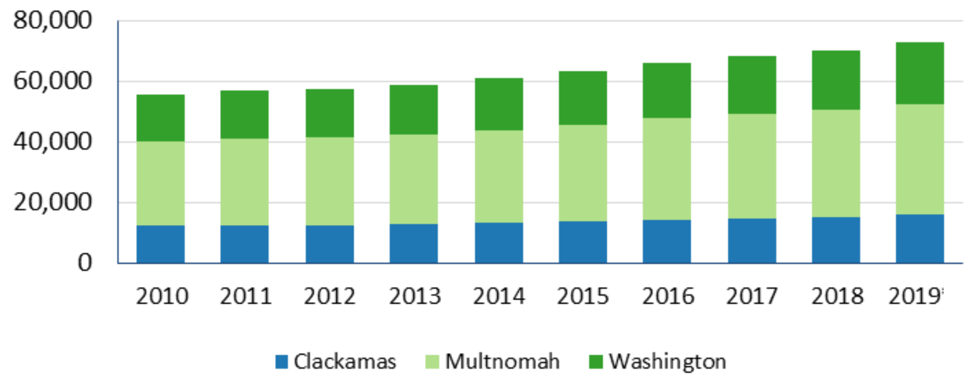
Per capita income has increased by 19% since 2009. Other than a small decrease in 2013, per capita income increased each year since 2009. Current income levels have met or exceeded the levels achieved prior to the economic recession.

Unemployment rate and number of jobs
CY 2010 to CY 2019
(Metropolitan Statistical Area, Oregon portion)



The unemployment rate and number of jobs measure business activity. Since the economic recession, unemployment has decreased steadily. At the same time, the number of jobs has increased. Both are positive trends.

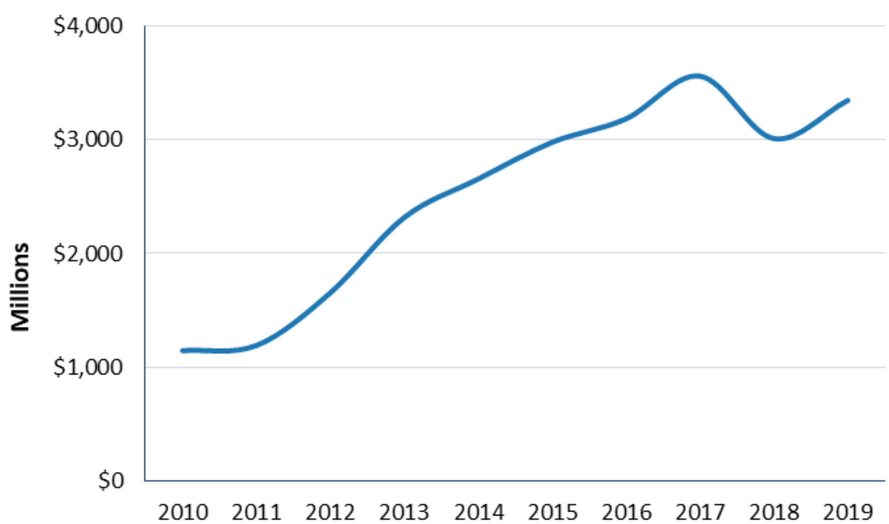
Number of businesses
CY 2010 to CY 2019
(Tri-county)



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 2010 and the total number of businesses in 2019 was at its highest level over the last 10 years. During that time, business growth was fastest in Multnomah County (32%) followed by Washington County (31%) and Clackamas County (30%).

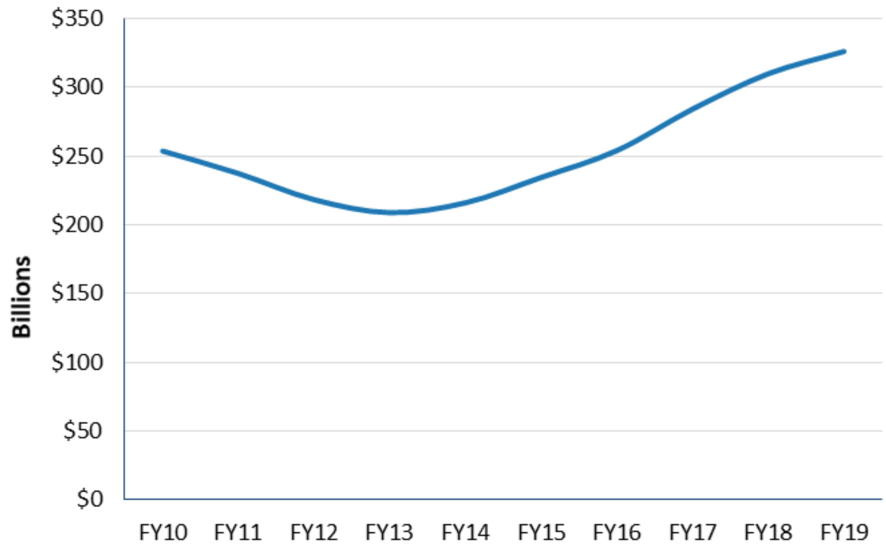
Value of new construction
CY 2010 to CY 2019
(Metropolitan Statistical Area, adjusted for inflation)



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.

The value of new construction increased steadily from 2010 to 2017. Despite the decrease in 2018, values were almost three times higher in 2019 as they were 10 years ago.

Real market property values
FY 2009-10 to FY 2018-19
(Metro taxing district, adjusted for inflation)



Growing market values are positive trends for governments because of the impact on revenue from property taxes. In FY 2018-19, 30% of Metro's revenue came from property taxes. Real market property values declined between FY 2009-10 and FY 2012-13 because of the economic recession. Values have increased in the last six years, and in 2019, reached the highest levels in the last 10 years.

Scope and methodology

The purpose of this audit was to evaluate the financial condition of Metro. We used a methodology based upon the Financial Trend Monitoring System 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 what was available.

Our scope included both general government operations and business-type operations, such as those of the Metropolitan Exposition and Recreation Commission, Oregon Zoo, and 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 Metro's financial accounting systems, PeopleSoft and Ungerboeck (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.

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 portion of the MSA was used. Very little of the population in Clackamas, Multnomah, and Washington Counties (10%) 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 or reliability of data in accounting systems.

Management response

Metro

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

Date: Thursday, June 18, 2020
To: Brian Evans, Metro Auditor
From: Marissa Madrigal, Chief Operating Officer and Brian Kennedy, Chief Financial Officer
Subject: Financial Condition Audit Response

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 an overall positive trend for Metro's financial condition. We are very proud of our fiscal performance as demonstrated in the report, but we recognize that the COVID-19 pandemic and ensuing economic crisis are presenting Metro and the region with an unprecedented test. We believe that our tradition of strong financial management has prepared us well to manage through this crisis. We would also like to comment on the trends you noted that warrant 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.

Total Debt

As your report notes, there was a significant increase in Metro's total debt in 2019 as a result of issuance of voter-approved bonds for affordable housing. Management disagrees that this represents a negative trend. Our assessment is based on several factors:

- Oregon's constitutional protections for voter-approved general obligation debt mean that dedicated revenue streams for bond repayment are very secure and those debt service requirements do not threaten Metro's operating revenues.
- The affordable housing bonds received the highest possible ratings from both Moody's Investors Service (Aaa) and S&P Global Ratings (AAA) and demonstrate that the investor community regards this debt as among the safest in the United States. Metro's recent issuance of additional general obligation debt authorized by voters for the Parks and Nature program also received the highest possible ratings in March 2020.
- Bonds are an important mechanism for ensuring intergenerational equity in major capital investments.

While Metro's debt obligations have clearly increased, we view that as a positive trend reflecting the confidence of voters in Metro's ability to leverage the large regional property tax base to make investments to address the most important issues facing the region.

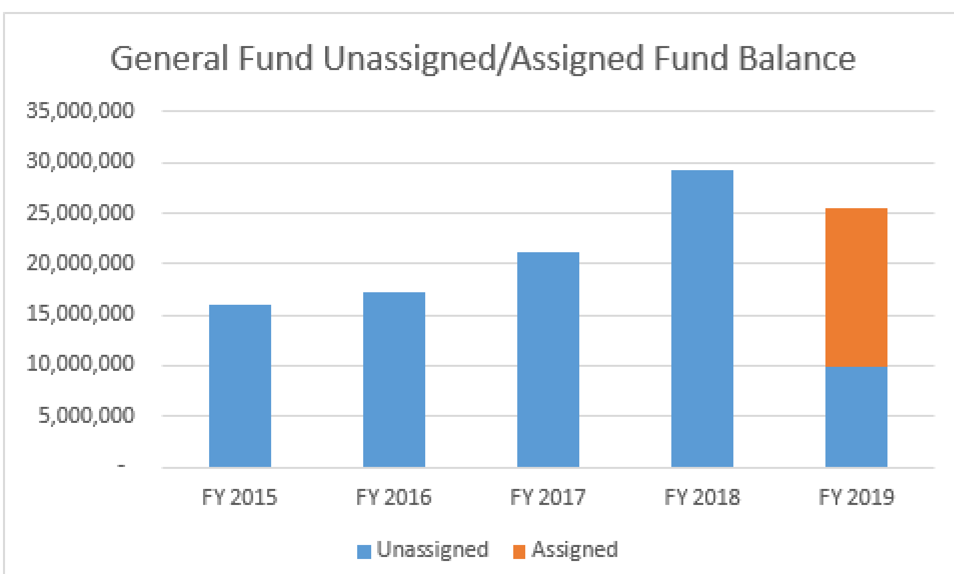
General Fund Balances

The report indicates that unassigned fund balances were significant lower in 2019 because approximately $15 million of General Fund balances were designated as assigned. We agree that maintaining healthy reserves are an important part of Metro's financial resilience. The economic crisis precipitated by the COVID-19 pandemic also certainly highlights the need for Metro to be able to weather revenue decreases and other economic uncertainty. However, we disagree that this metric is a negative trend.

In 2019, staff applied a more conservative interpretation of our existing accounting policies. In compliance with governmental accounting standards, Metro tracks fund balances according to a hierarchy of most restricted to least restricted: Nonspendable, restricted, committed, assigned and unassigned. The primary distinction between assigned and unassigned fund balances is that assigned balances have an "intended" use in the subsequent year's budget. That intended use can be delegated to the Chief Operating Officer or indicated in the Adopted Budget by the Metro Council. Prior to 2019, staff tracked fund balances in the General Fund that were not categorized as nonspendable, restricted or committed as unassigned.

The result of that more conservative interpretation is that a significant portion of fund balance that would have been previously reported as unassigned was now reported as assigned because those balances had intended uses in the subsequent year's budget. However, it is important to note that one of those intended uses was fully funding General Fund reserves as required by Metro's financial policies. This designation increases the transparency of Metro's financial statements.

It is also important to point out that the total assigned and unassigned fund balances, while less than in 2018, are higher than the balances in 2015-2017.



We agree that it is important to be able to respond to revenue decreases. Active financial management is a significant part of an effective financial resilience strategy. While the assigned fund balance designation reflects intended use, the Metro Council and COO can revise those intended uses to respond to changing economic conditions. This is exactly the action that we took in the last quarter of this year in response to revenue decreases caused by the COVID-19 pandemic.

In summary, we do not believe that this change in interpretation of accounting policies reflects a material change in General Fund balances or reflects a negative trend. However, we are carefully monitoring fund balances in light of the pandemic and will be revisiting our financial policies to ensure that they continue to meet the agency's needs.

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 financial condition is strong and that it is critical for us to continue to diligently monitor that condition to ensure that Metro can deliver essential services to the residents of the region.

Sincerely,

Marissa Madrigal
Chief Operating Officer

Brian Kennedy
Chief Financial Officer

Metro

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