

MINUTES OF THE COUNCIL FINANCE COMMITTEE
OF THE METROPOLITAN SERVICE DISTRICT

February 6, 1992

Council Chamber

Committee Members Present: George Van Bergen (Chair), Sandi Hansen
(Vice Chair), Judy Wyers, Jim Gardner

Committee Members Absent: Richard Devlin

Chair Van Bergen called the regular meeting to order at 6:04 p.m.

1. Consideration of November 7, 1991 Finance Committee Minutes

Motion: Councilor Gardner moved to approve the November 7, 1991 Finance Committee Minutes.

Vote: Councilors Gardner, Hansen, Wyers and Van Bergen voted aye.

The vote was unanimous and the motion passed.

2. Resolution No. 92-1535, For the Purpose of Authorizing the Execution of an Option Agreement with Intel Corporation

Neil Saling, Regional Facilities Director, presented the staff report, and said the resolution before the Committee was originally heard before the Solid Waste Committee and after review was sent to the Finance Committee. He said the department was in the process of acting on recommendations made by the Solid Waste Committee, and said the department was not prepared to act upon the option agreement at this time. Mr. Saling requested the Committee table action on the resolution until a later date.

Councilor Gardner noted Metro had taken a change in direction regarding procurement of a new transfer station for western Washington County, and said Metro should keep options open. He felt Metro should not dispose of a piece of Metro owned property.

Motion: Councilor Gardner moved to table Resolution No. 92-1535.

Vote: Councilors Gardner, Hansen, Wyers and Van Bergen voted aye.

The vote was unanimous and the motion passed.

3. Report on FY 1991-92 Revenue and Expenditures

Jennifer Sims, Finance and Management Information Director, referenced a memorandum dated February 6, 1992 from Bob Ricks summarizing excise tax collections impact on the General Fund, and said it was anticipated Metro would have an estimated shortfall in excise tax collections of \$492,000. She said balancing the shortfall on the expenditure side, it was believed

(Continued)

approximately \$685,000 in expenses would not occur, leaving approximately \$192,000 projected carry over for the next fiscal year. She said the monies would come from the General Fund beginning fund balance, planned potential underexpenditure in the Office of Government Relations, and from contingencies funded from excise tax and not used in Planning and Development/Transportation. She felt reduced expenditures would help make up for the shortfall in revenues, and said no corrections or changes to the spending plan were contemplated.

Donald E. Carlson, Council Administrator, asked Ms. Sims when projected revenues for the excise tax for the next fiscal year would be known. Ms. Sims said the department was currently working on the FY 1992-93 Proposed Budget, and said the tonnage rate/disposal fee was not yet set. She said the rate must be set within two weeks in order to print the budget, and said calculations would be completed by the end of the coming week. Mr. Carlson requested a copy of the gross projections regarding the excise tax when the calculations were completed in order for the Council staff to begin discussion. Ms. Sims said she would provide the information as soon as the Executive Officer proposed the figures. Mr. Carlson expressed concern regarding depletion of the carry over funds. Ms. Sims said, although the shortfall projected exceeded the amount originally anticipated, it should be noted provision had been made in the General Fund contingency, which had been structured to allow for depletion of carry over funds for FY 1992-93.

Councilor Wyers asked Ms. Sims what was the basis for the projection of deviation and depletion of funds. Ms. Sims said the impact of the increase in solid waste rates on tonnage flows and tonnage projections was discussed with the Budget Committee. She said Metro had a two year history regarding collection of this revenue source, and noted the contingency was larger than normal for this size of fund, and said the rate was established higher than necessary to cover planned expenses. She said this was done to provide a cushion and was based on historical revenue flows as well as knowledge of expenditure patterns. She added, although the current major change in tonnage was not anticipated, she felt no change was necessary in expenditure plans.

Chair Van Bergen asked was it good budget practice to reduce contingency for a beginning fund balance and reduce spending severally in departments, or was it good budget practice to reduce expenditures in a major spending department; e.g. Solid Waste. He said he did not know what contracts the Solid Waste Department let out on an ongoing basis.

Ms. Sims said excise tax revenue was not a revenue in Solid Waste Funds, and said reductions were made where the excise tax was budgeted to be expended; e.g. the General Fund, Planning and Development, Transportation, and MERC. She said, based on the combination of the projected revenue and review of contingencies available plus potential spending patterns along with the \$192,000 cushion as determined by Finance and Management

Information, her recommendation was that the spending plan not be altered at this time.

Chair Van Bergen said he did not agree. He said he felt there were programs experiencing overruns on contracts, and said he felt there were contracts that should not be issued. He said he felt it was critical for Metro to maintain a contingency fund at a what he termed a healthy level. He said he viewed the concepts presented as protecting the Solid Waste Department and large spenders to the detriment of other departments.

Ms. Sims said the discussion concerned the excise tax revenue source only, and said any savings accrued due to reductions in Solid Waste Department spending would not benefit the General Fund or the excise tax. Chair Van Bergen suggested a budget amendment could be made to benefit the General Fund. Ms. Sims said no savings to the General Fund would be gained by reductions in Solid Waste Department spending.

Chair Van Bergen requested Mr. Carlson begin a process to conduct a general review of contracts spending.

Councilor Gardner said he agreed with Chair Van Bergen, and questioned regarding the \$192,000 as a cushion. He asked, should revenue projections and projections of available funds in contingency plus the beginning fund balance prove accurate, did that mean the beginning fund balance in the General Fund would be \$192,000 in next fiscal year's budget. Ms. Sims answered yes. Councilor Gardner asked what was the beginning fund balance in this year's fiscal year budget. Mr. Carlson and Ms. Sims noted it was over \$650,000. Councilor Gardner noted the difference, and said it appeared to be a negative effect on the General Fund.

Ms. Sims said a \$400,000 contingency had been established, and said that figure had been reduced to \$366,000. She said rather than a \$200,000 fund balance, it had been planned to have a \$400,000 fund balance. Councilor Gardner noted the following year the contingency would be lessened. Ms. Sims agreed and said if the contingency were to be increased the next year, the rate would have been affected. Mr. Carlson emphasized that asking for revenue and excise tax projections would facilitate decision making regarding saving a contingency for the beginning of the next fiscal year. He said an analysis of the projected volumes and projected rates was essential, and noted the previous year approximately \$1 million in excise tax revenue was realized due to the rate increase.

Councilor Gardner commented it would be prudent to review projected expenditures in the General Fund for the current fiscal year which could be deferred or reduced in size.

In response to Councilor Hansen, Ms. Sims said the contingency was normally a percentage of the budget, and noted the General Fund contingency had been increased. Councilor Hansen inquired regarding the proposed budget, and

Ms. Sims said expenses in the General Fund would be greater than the current fiscal year, and noted the percentage of contingency was normally set at approximately 3% to 5%. Mr. Carlson said the fund was at \$5 million and the contingency was close to 10% at approximately \$400,000.

Councilor Wyers asked when changes in the Solid Waste programs would reflect revenue reductions. Mr. Carlson said a corresponding reduction in expenditures would be perceived in the Solid Waste fund. He said this was attributed to the fact that volume was linked to contracts for disposal and transport. He felt with reductions in volume and fixed costs remaining the same or increasing, higher rates would ensue.

Councilor Wyers asked regarding the relationship between the increases in tipping fees for solid waste tonnage and the decreases in revenue due to less tonnage. Mr. Carlson indicated the Portland State study contracted by the Solid Waste Department was intended to track causes for reductions in volume. He said he understood the conclusion was that higher fees were causing reduction in volume, and it was hoped that recycling and reusing were contributing factors.

Ms. Sims said the Solid Waste Department was building the impact of higher rates/reduced volume into their projection model, and said she felt an understanding of the relationships would develop during the Budget Committee process and as the Solid Waste Committee reviewed the monthly reports from the department.

Chair Van Bergen commented regarding the current rate of \$68 per ton and the potential of an increased rate the next fiscal year, and said he did not favor increasing the excise tax beyond 6%.

Mr. Carlson requested a similar report from the Finance and Management Information Department summarizing excise tax collections projections on a monthly basis. Ms. Sims agreed.

4. Second Quarter Report: Finance and Management Information Department

Ms. Sims presented the second quarter report from Finance and Management Information Department, and noted highlights in each division:

- o Accounting
 - The financial audit had been completed and presented to the full Council;
 - Approval obtained for an added PERS administration position, recruiting had begun;
- o Office Services
 - Maintenance program for office machines in place;
 - Sorting out with Regional Facilities functions such as archives, microfilming and furniture purchasing in process;

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- o Financial Planning
 - Phase I work of proposed budget completed;
 - Headquarters financing obtained;
 - Consulting services given for Greenspaces, End of the Oregon Trail, Arena project, and the Regional Facilities committee under the chair of Cliff Carlson;
 - Task force report on financial reporting in response to a budget note completed;
- o Data Processing
 - Performance analysis for upgrade of financial system computer in process;
 - Departmental evaluations of information systems support needs in process;
- o Risk Management
 - Three staff in a new separate work group;
 - Development of an accident prevention/loss control program in process;
 - Ongoing claims handling.

In response to Councilor Hansen, Ms. Sims said meetings concerning the End of the Oregon Trail had been conducted with the Clackamas County staff to discuss roles, funding requirements and strategies for timing. Councilor Gardner noted Representative Kopetski had not been encouraging regarding federal funding based on his personal experience.

Mr. Carlson noted the report stated 2 million copies had been produced in the Print Shop in the second quarter. Ms. Sims noted the Print Shop produced 2 million copies a year in the past.

Chair Van Bergen inquired concerning the progress in recent studies and performance audits. Mr. Carlson said as a result of the Council's performance audit of it was decided to budget Personnel staff in the central office. He said recommendations from the Solid Waste performance audit were incorporated into the current fiscal year budget, and said the Council Analyst for Solid Waste Department was reviewing the audit for the coming fiscal year budget. Ms. Sims noted a Rate Review Task Force was recommended. In response to Councilor Wyers, Mr. Carlson said he would request John Houser, Council Analyst, arrange for Councilor Wyers to attend a Rate Review Task Force meeting.

Ms. Sims indicated a work group with two Metro ER Commissioners, MERC staff, Council staff, Finance staff and a representative from Metro's finance auditors, KPMG Peat Marwick had met to review issues, identify action to be taken and by whom, and set a date to reconvene to examine progress. She said the group's primary aim was to develop a process to put the MERC accounting system on the Metro accounting system for the purpose of maintaining one automated general ledger. Mr. Carlson indicated the Council Office had given a message of support for this matter to MERC.

5. Discussion of Convention Center Bond Refunding

Ms. Sims presented the staff report, and said Metro municipal bond rates were at their lowest in twenty years. Ms. Sims referenced her memorandum of February 6, 1992, which has been made a part of the permanent meeting record, and said the department recommended using this opportunity to refund Metro's Convention Center bonds. She said the rate under which the bonds had been issued in 1987 was 7.28%, and said a rate of 6% could be obtained at this time for a gross savings of \$5.8 million translated into a present value savings of \$3.4 million. She outlined a proposed financing schedule for the refunding plan as attached in the memorandum. Ms. Sims noted the matter would be back before the Committee at the end of March for action to authorize the sale.

In response to Chair Van Bergen, Dan Cooper, Legal Counsel, said when the bonds were sold, mandatory call dates had been accepted by the bondholders. He said these permitted Metro to cash the bonds in early. He said, however, some of the call dates on some of the bonds were in the future, and said to be consistent with federal tax regulations Metro could sell bonds at this time sufficient to invest certain treasury securities which would be held in escrow to pay off the bonds as soon as they could be called in. He said the matter was more complicated than refinancing an existing loan that had no penalty provision for paying it off at any time. In response to Chair Van Bergen, Mr. Cooper said the current bonds outstanding for the Convention Center would be backed by the property tax and were authorized by the statutes consistent with the original vote of the people. In response to Chair Van Bergen, Mr. Cooper said the bonds would maintain the same priority.

In response to Councilor Gardner, Ms. Sims said the code "POS" referenced in the schedule meant Preliminary Official Statement, which she defined as investments managed to match the rate at which the bonds were sold to the interest earnings on the bonds as invested. She said in this manner no money was lost and no arbitrage experienced.

In response to Councilor Gardner, Ms. Sims said it was not required that the new bonds be re-rated, but said Metro was asking for a re-rating to occur since it was felt the bonds were originally underrated by Moody's. She said the request was well received and in process.

Councilor Hansen inquired regarding paying the bonds sooner, and Mr. Cooper cautioned for consistency with original voter approval. He said refunding would lower property taxes. Mr. Cooper said a new contract for bond counsel services would be necessary, and said an RFP document had been filed with the Council noting timeliness as a factor. Mr. Carlson referenced a memorandum dated February 4, 1992 from the Clerk of the Council indicating the RFP for Bond Counsel Services for Refinancing Oregon Convention Center Bonds had been filed with the Council Department. The RFP was distributed to the Committee and has been made a part of the

permanent meeting record. In response to Councilor Hansen, Mr. Cooper said the \$20,000 cost would pay for legal opinions to assure the transaction was consistent with IRS regulations and Oregon laws and guaranteed tax exempt. Councilor Hansen requested documentation indicating past costs compared to the new program similar to the study that Council received at the time of the decision for an in-house Legal Counsel. Councilor Gardner referenced the schedule on page 3 of the February 6 memorandum from Ms. Sims, and said he wanted to review an analysis of total cost including Metro staff and contract costs compared to the savings achieved by the refunding. Mr. Carlson and Ms. Sims referenced the expected total savings at current rates noted on page 1 of the memorandum. Mr. Cooper noted the state required Metro be able to demonstrate a 3% present value savings on refunded bonds after expenses. He noted these regulations prevented financial advisors and underwriters generating fees for themselves without real savings being passed on to the taxpayers. He said the 5.69% represented a present value savings percentage after expenses.

In response to Councilor Wyers, Mr. Cooper said financial markets dictated that bond counsel opinions be written by independent attorneys and not by in-house legal counsel. He said he would provide detailed cost comparisons for the Committee in a report.

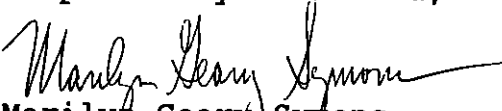
6. Discussion of Budget Deliberations for FY 1992-93 Proposed Budget

Mr. Carlson referenced his memorandum dated February 6, 1992 concerning FY 1992-93 Budget Review Schedule, which has been made a part of the permanent meeting record. He outlined the proposed schedule beginning with the submittal of the FY 92-93 Proposed Budget on March 5, 1992, and proceeding through the May 7, 1992 Special Council meeting to consider Budget Committee recommendations and approve FY 92-93 Budget for submittal to the TSCC by May 15, 1992.

The Committee and staff discussed the schedule and the phases of the process. Mr. Carlson agreed to meet with Ms. Sims and the Council Analysts to develop specifications regarding the focus of the presentations. The Committee agreed to reschedule certain dates as discussed. Mr. Carlson indicated the draft memo before the Committee would be revised according to the Committee and sent to the full Council. Councilor Hansen expressed interest in receiving the quarter reports from the other departments before the budget process began.

There being no further business, the meeting adjourned at 7:30 p.m.

Respectfully submitted,



Marilyn Geary Symons
Committee Clerk