



Financial Condition of Metro: FY 2013-14 to FY 2022-23

June 2024
A Report by the Office of the Auditor

Brian Evans
Metro Auditor

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Brian Evans
Metro Auditor

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MEMORANDUM

June 18, 2024

To: Lynn Peterson, Council President
Ashton Simpson, Councilor, District 1
Christine Lewis, Councilor, District 2
Gerritt Rosenthal, Councilor, District 3
Juan Carlos González, Councilor, District 4
Mary Nolan, Councilor, District 5
Duncan Hwang, Councilor, District 6

From: Brian Evans, Metro Auditor *BE*

Re: Audit of Metro's Financial Condition FY 2013-14 to FY 2022-23

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

Most of the information in this report is derived from the Annual Comprehensive Financial Report (ACFR) prepared each year by Finance and Regulatory Services and audited by the external financial auditor. It is intended to give a long-term review for Metro's financial history.

The report shows most indicators remained favorable leading to stable financial health as of June 30, 2023. However, seven indicators showed unfavorable trends that should be monitored. Trends in expenditures showed the most warning signs.

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

Summary

This report provides an overview of Metro's financial condition. 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 programs and services. Financial condition is assessed by reviewing long-term trends in revenues, expenditures, debt, and assets. The report also includes long-term demographic and economic trends of Metro's service area. This report covers the 10-year period from fiscal year (FY) 2013-14 through FY 2022-23.

Metro's revenue grew (141%) faster than expenditures (117%) over the last 10 years. The overall trends mask significant variations within Metro. New voter-approved property, business, and personal income taxes significantly boosted revenue for housing, housing services, and natural areas and parks. At the same time, the global pandemic reduced spending and revenue dramatically for visitor venues including the Oregon Convention Center, P'5 Centers for the Arts, and Portland Expo Center.

At the end of FY 2022-23 (June 30, 2023), seven of the 25 indicators tracked in this report showed unfavorable 10-year trends. Trends in expenditures showed the most warning signs. Spending for the risk management fund, employee costs, and fixed costs were higher than 10 years ago after adjusting for inflation. Other unfavorable trends were increased debt, decreased spending on capital assets, and lower capital asset values. Capital asset trends have the potential to reduce the public benefits of Metro's buildings and land holdings, while increasing the need to spend on deferred maintenance or purchasing new assets in the future.

Decreased revenue from excise taxes was the other unfavorable trend. Lower excise taxes were the result of exempting Metro's visitor venues from paying the tax beginning in FY 2018-19. Since then, general excise tax revenue has been based entirely on solid waste operations in the region. While the region's economic and demographic indicators continue to show strong recovery, the venues have yet to regain pre-pandemic levels. This may indicate a fundamentally different operating environment for the venues moving forward. Each of the four venues were involved in significant discussions about their future.

- Voters approved a ballot measure in May 2024 to invest in improvements at the Oregon Zoo.
- Oregon Convention Center has had a slow rebound from the pandemic.
- Portland Expo Center is undergoing a long-term planning process to reimagine its buildings and operations for the future.
- Portland's Centers for the Arts is in a process to determine how to upgrade or replace the Keller Auditorium in partnership with city of Portland.

Trends and conclusions

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

- the change from the previous year: increase (+), decrease (-), no change(↔).
- the change over a 10-year period: increase (↑), decrease(↓), no change(↔).
- the effect of the 10-year trend on Metro’s financial health.

“Favorable/unfavorable” 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.

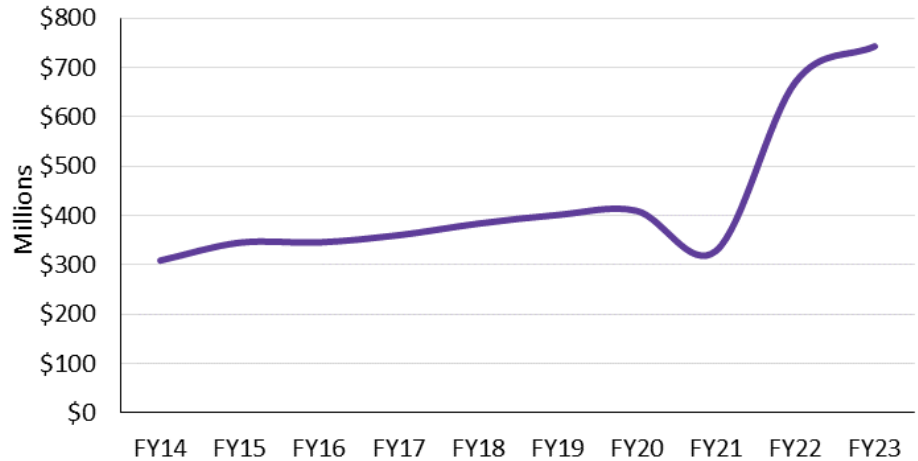
	Indicator	Change from previous year	10-year trend	Effect on overall financial health
Revenue	Total revenues	+	↑	Favorable
	Revenue per capita	+	↑	Favorable
	Personal income & business taxes	+	N/A	Favorable
	Property taxes	-	↑	Favorable
	Excise taxes	-	↓	Unfavorable
	Charges for services	+	↑	Favorable
	Grants	+	↑	Favorable
	General Fund revenue over/under budget	-	↓	Favorable
Expenditure	Total expenditures	+	↑	Favorable, increased slower than revenue
	Expenditure per capita	+	↑	Favorable
	Risk Management Fund	-	↑	Unfavorable
	Employee costs	+	↑	Unfavorable
	Fixed costs	+	↑	Unfavorable
	Capital expenditure	-	↓	Unfavorable
Financial Health	Total debt	-	↑	Unfavorable
	Net assets	+	↑	Favorable
	Capital assets	-	↓	Unfavorable
	General Fund balances	+	↑	Favorable
Demographic and Economic Trends	Population	-	↑	Variable
	Per capita personal income	-	↑	Favorable
	Unemployment rate	-	↓	Favorable
	Number of jobs	+	↑	Favorable
	Number of businesses	+	↑	Favorable
	Value of new construction	-	↑	Favorable
	Real market property values	+	↑	Favorable

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.

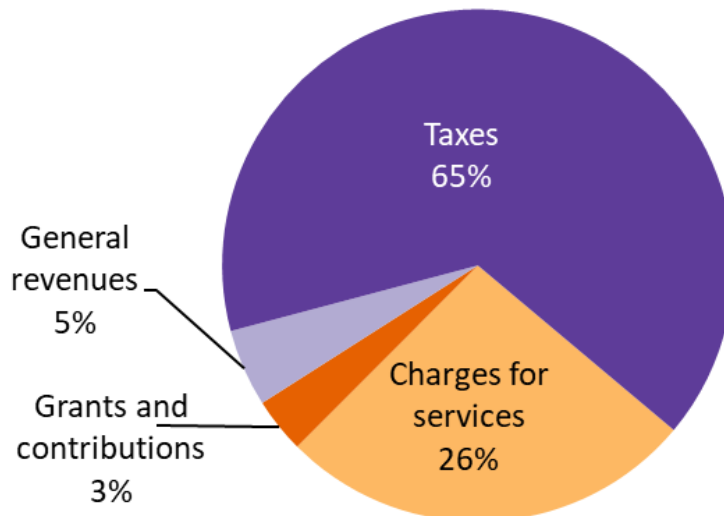
Total revenues
FY 2013-14 to FY 2022-23
(adjusted for inflation)



Despite a decline due to the global pandemic, total revenue increased by 141% since FY 2013-14. The increase in the last two fiscal years resulted from new personal income and business taxes approved by voters for Supportive Housing Services (SHS). Metro distributes SHS tax revenue to Clackamas, Multnomah, and Washington counties to provide services.

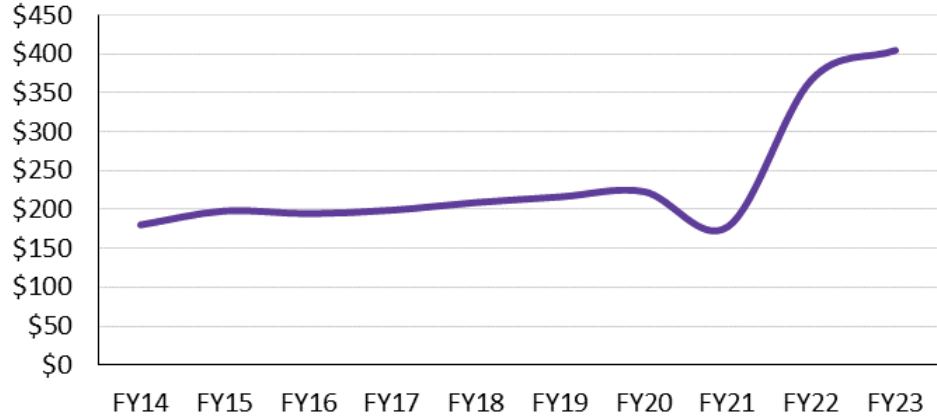
There are four primary sources of revenue at Metro: taxes; charges for services; grants and contributions; and general revenues. In the last 10 years, revenue from taxes increased 362%. General revenues and grants and contributions increased by 57% and 54% respectively. Revenue from charges for services also increased by 20%.

Revenue sources
FY 2022-23



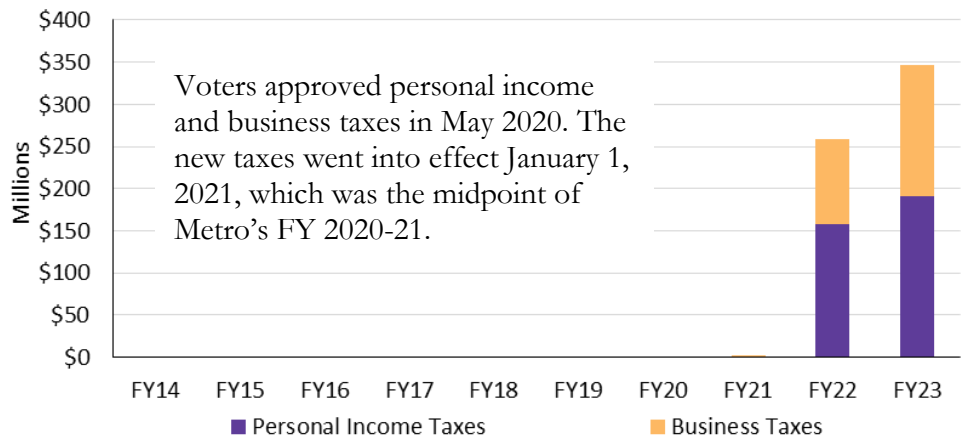
In FY 2022-23, the largest source of revenue was taxes. This was driven by increased personal and business income tax revenue from the 2020 voter-approved SHS ballot measure.

Revenue per capita
FY 2013-14 to FY 2022-23
(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. In Metro’s case, since FY 2013-14, revenue per capita increased by 125%. This was caused by total revenue growing faster (141%) than the population (7%). This was the result of new voter approved programs and services related to housing, and parks and nature.

Personal income & business taxes
FY 2013-14 to FY 2022-23
(adjusted for inflation)

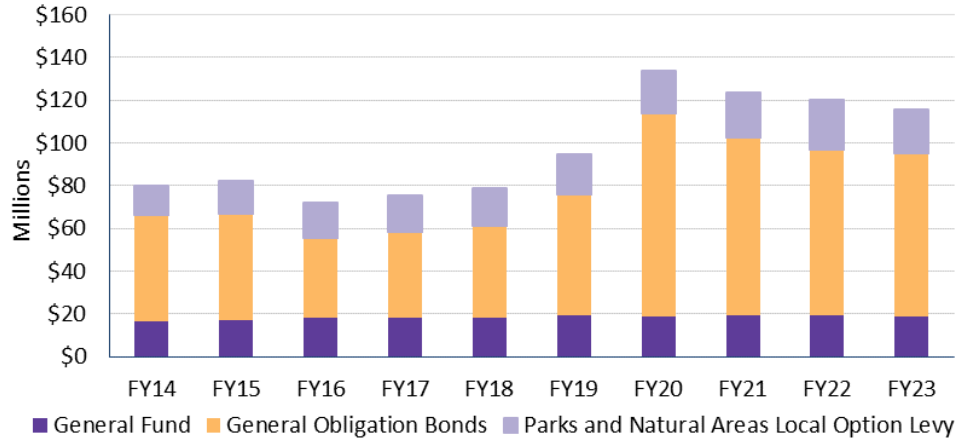


Voters approved new personal income and business taxes in May 2020 to fund Supportive Housing Services. The taxes went into effect on January 1, 2021, which was the midpoint of Metro’s FY 2020-21. As a result, only two full years of tax collection are reflected in the trend.

Metro estimated that \$250 million would be raised annually when the measure was approved by voters. Significantly more revenue has been generated in the first two years. In addition, tax revenue increased by 35%

between the first and second fiscal years. Business taxes grew by 55% in the first two fiscal years. Personal income taxes grew more slowly (21%) but accounted for about 57% of the total.

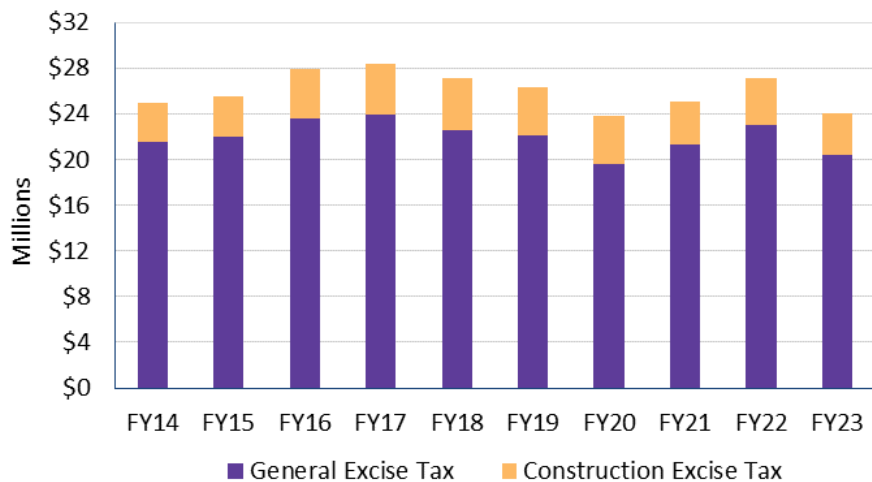
Property taxes
FY 2013-14 to FY 2022-23
(adjusted for inflation)



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. The Parks and Natural Areas Local Option Levy is also a voter approved measure funded by property taxes. Its purpose is to pay for operating costs associated with Metro’s parks and nature department.

The amount of revenue collected to repay general obligation bonds increased by 54% over the last 10 years. This was due to two voter-approved ballot measures to pay for natural area land purchases (2019) and affordable housing (2018). Revenue for the operating levy increased at a similar pace (34%). Property taxes for general government services grew more slowly (13%) over the last 10 years.

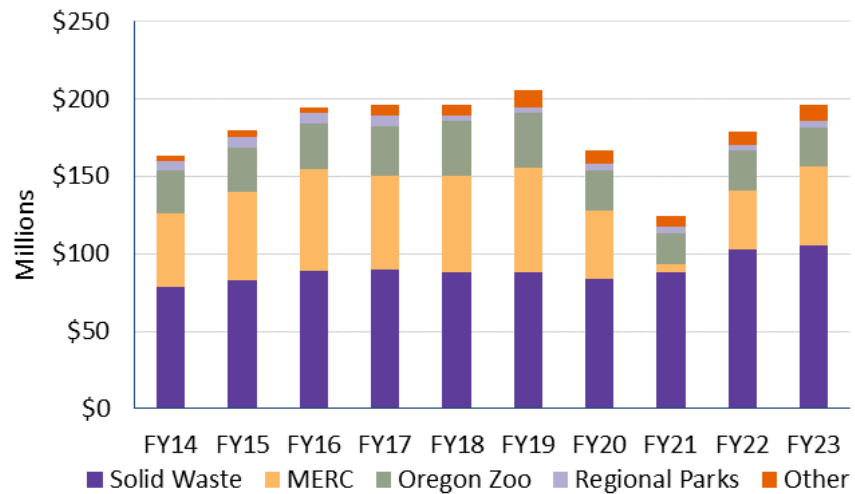
Excise taxes
FY 2013-14 to FY 2022-23
(adjusted for inflation)



Another source of revenue is excise tax. General excise tax is collected when people use solid waste services. Construction excise tax is collected when new construction permits are issued. The construction excise tax is intended to fund the planning required to make land ready for development. This tax was scheduled to end in 2020 but was extended permanently by Metro Council in 2018.

Total revenue from excise taxes decreased by 4% over the last 10 years. This was caused by a 5% decrease in general excise tax revenue. In contrast, construction excise taxes increased by 5% but they are relatively small compared to general excise taxes. General excise taxes decreased in recent years for two reasons. In FY 2018-19, Metro exempted the visitor venues from the tax. General excise tax since then has been based entirely on solid waste operations in the region which decreased in FY 2022-23 after three years of growth.

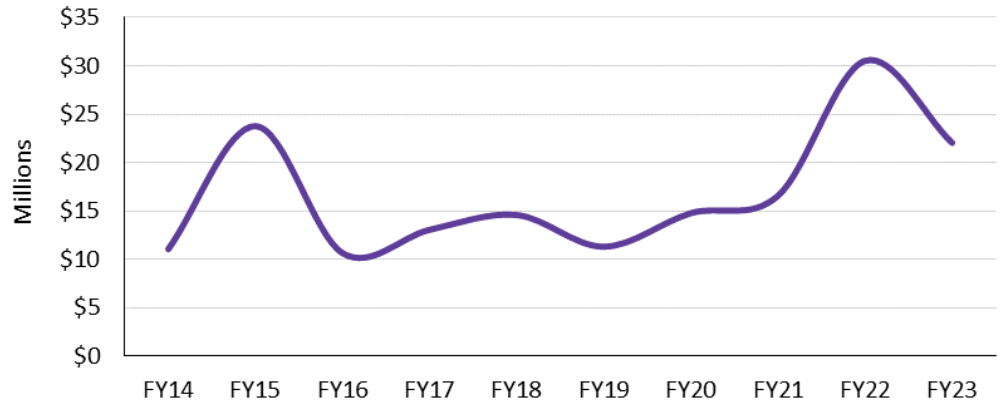
Charges for services
 FY 2013-14 to FY 2022-23
 (adjusted for inflation)



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’s Centers for the Arts.

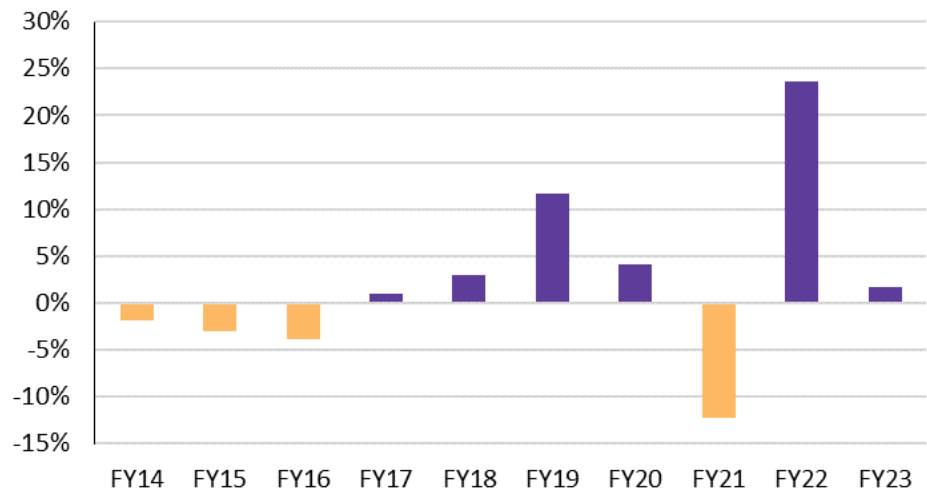
In the last 10 years the amount of revenue collected from service charges increased by 20%. This was driven by solid waste, but MERC venues also increased. Conversely, charges for services related to Oregon Zoo and regional parks decreased compared to FY 2013-14 levels.

Grants
 FY 2013-14 to FY 2022-23
 (adjusted for inflation)



Grants to Metro are typically made for specific projects, which can cause the amount received to fluctuate from year to year. Grant revenue was 99% higher in FY 2022-23 compared to 10 years ago. The spike in FY 2014-15 was caused by a \$10 million grant from the State of Oregon for the Convention Center Hotel that was completed in 2019. Increases in FY 2021-22 were from pandemic-related grants to MERC venues and Oregon Zoo. Those grants ended the next fiscal year, but the decline was partially offset by additional grants for solid waste services.

General Fund revenue over/under budget
 FY 2013-14 to FY 2022-23

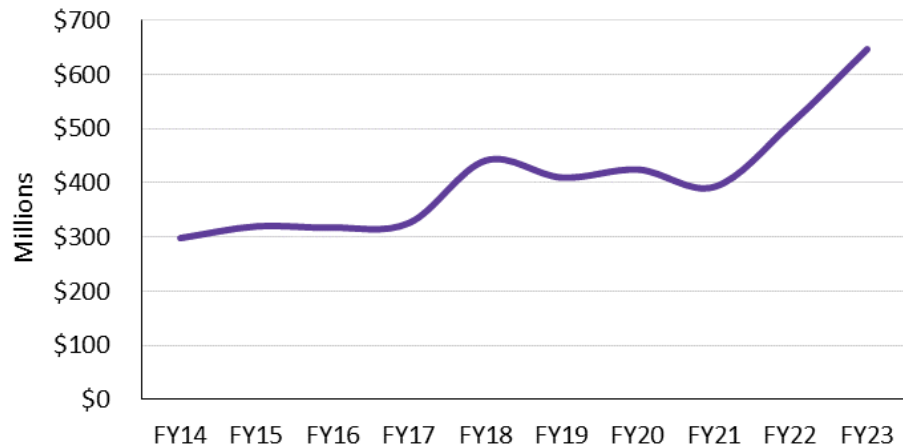


This indicator shows how the amount of General Fund revenue received compared to the amount of revenue estimated when the annual budget was created. From FY 2013-14 to FY 2015-16, General Fund revenue was below the budget estimates, which was an unfavorable trend. When less revenue is collected and there are insufficient reserves, it can lead to mid-year cuts in services. The trend improved the next four years until the global pandemic FY 2020-21. Since then, general fund revenue has exceeded the budget estimate.

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 2013-14 to FY 2022-23
(adjusted for inflation)

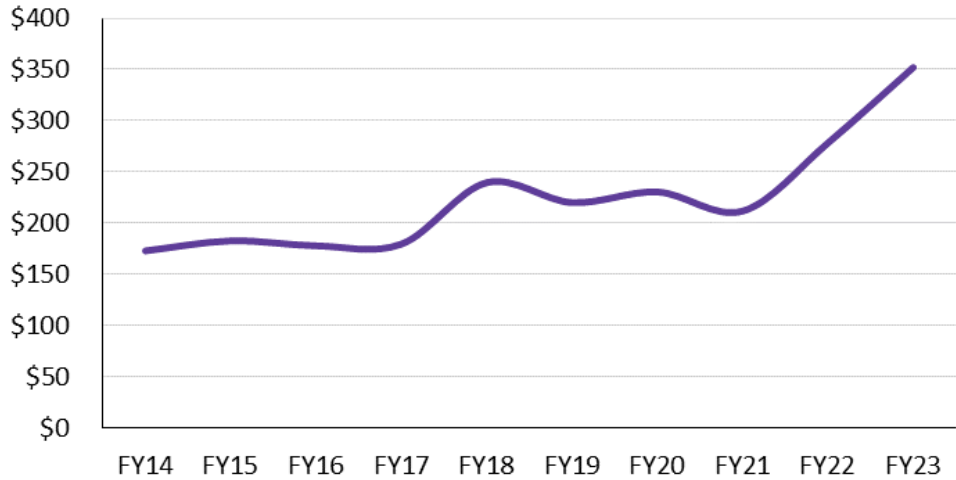


Total expenditures include all departments and services operated by Metro and the three venues that make up MERC, as well as non-departmental costs and debt service. Included are costs for employee salaries and benefits, and materials and services. Total expenditures increased by 117% in the last 10 years which was less than the increase in revenue during that time (141%).

Higher expenditures beginning in FY 2017-18 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 four years. In the last two years, higher expenditures were primarily the result of voter-approved ballot measure for affordable housing and supportive housing services, and increased expenditures for solid waste operations.

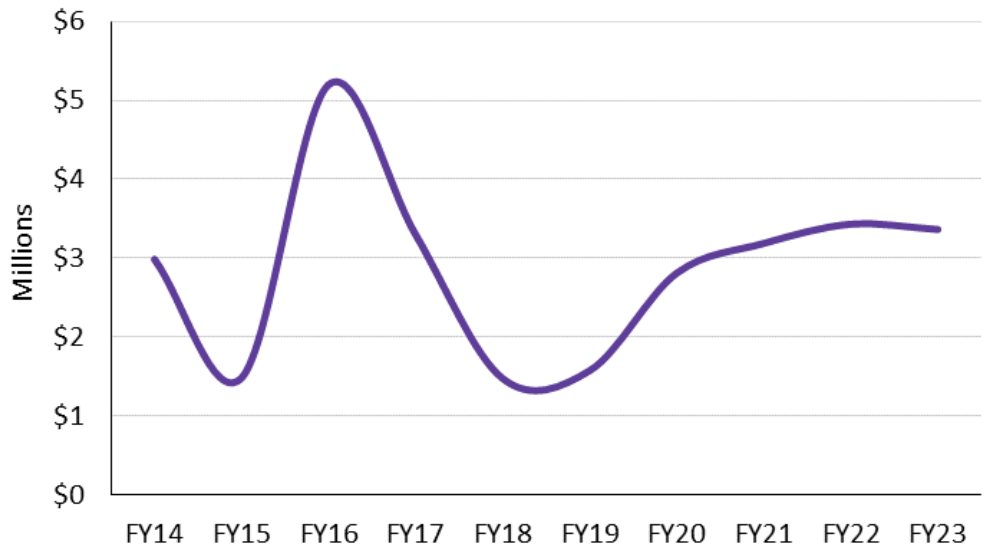
Metro's Charter includes a provision that limits expenditures from non-voter approved sources. The Consumer Price Index is used to gradually increase the expenditure limit each year. The annual budget includes analysis of proposed expenditures in relation to the Charter limitation. For FY 2022-23, the analysis stated that Metro's budget would use about 76% of the limit.

Expenditure per capita
 FY 2013-14 to FY 2022-23
 (adjusted for inflation)



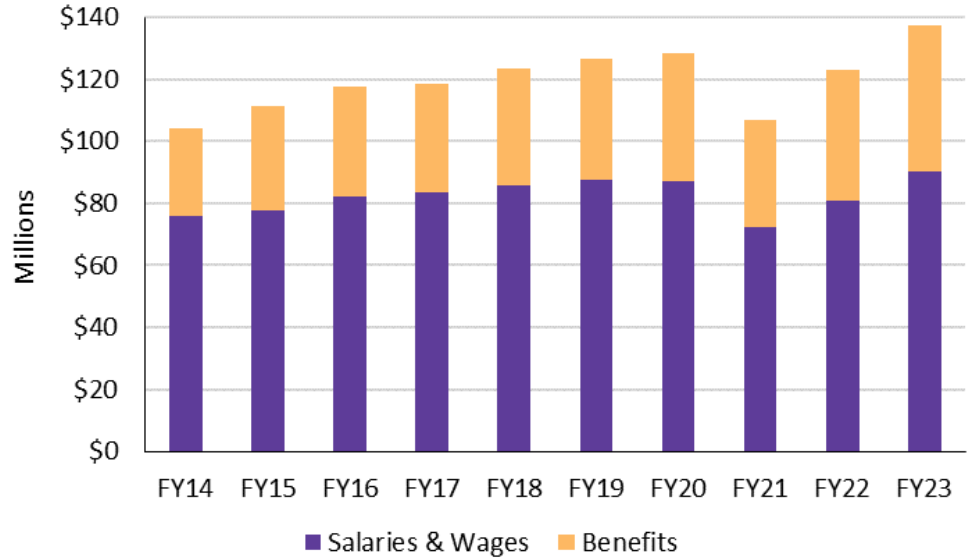
Expenditures per capita show the average amount of money spent to provide services to each person who lives in the region. Expenditures per capita increased by 103% over the last 10 years as expenditures grew faster (117%) than the population (7%). Increased spending per capita was caused by a large project at the Oregon Convention Center in FY 2017-18, increased expenditures for solid waste operations, and new services and programs that were approved by voters beginning in FY 2018-19.

Risk Management Fund
 FY 2013-14 to FY 2022-23
 (adjusted for inflation)



The Risk Management Fund accounts for expenses related to insurance premiums, claims, and studies related to insurance needs. The large increase in FY 2015-16 was the result of increased 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, but have increased recently, resulting in a gradual increase in the 10 year trend. Increases since FY 2018-19 resulted from higher personal costs, claims paid and insurance costs.

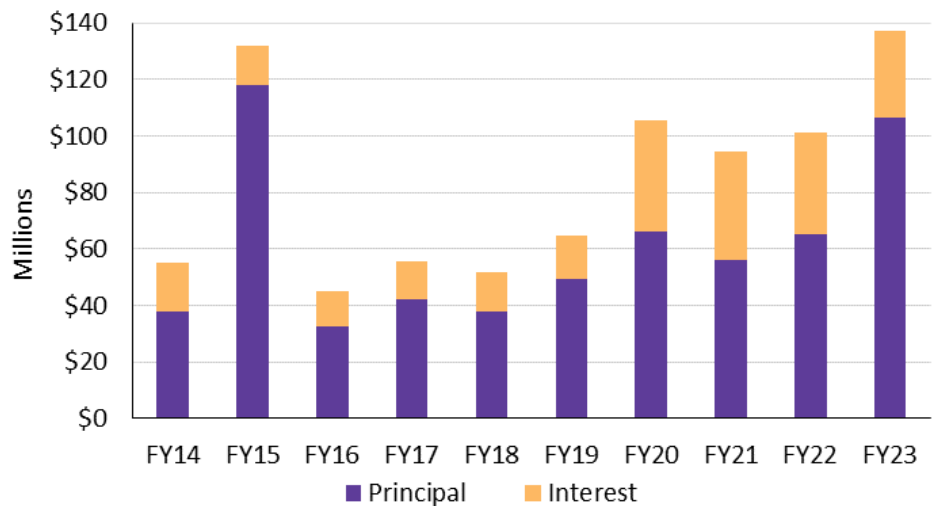
Employee costs
FY 2013-14 to FY 2022-23
(adjusted for inflation)



Over the last 10 years, expenditures for employee salaries and benefits increased by 32%. Increased employee costs were caused by benefits for health care and retirement contributions increasing by 64%. Total salaries and wages increased 19%. Benefits accounted for about 34% of all employee costs in FY 2022-23, which was higher than the average (31%) over the last 10 years.

Metro typically has less control over the costs of benefits compared to salaries and wages. This is because benefit costs are impacted by changes in the health insurance market and funding requirements to provide a fixed investment return to some public sector retirees. Nevertheless, managing employee costs continues to be an important part of maintaining Metro’s long-term financial stability.

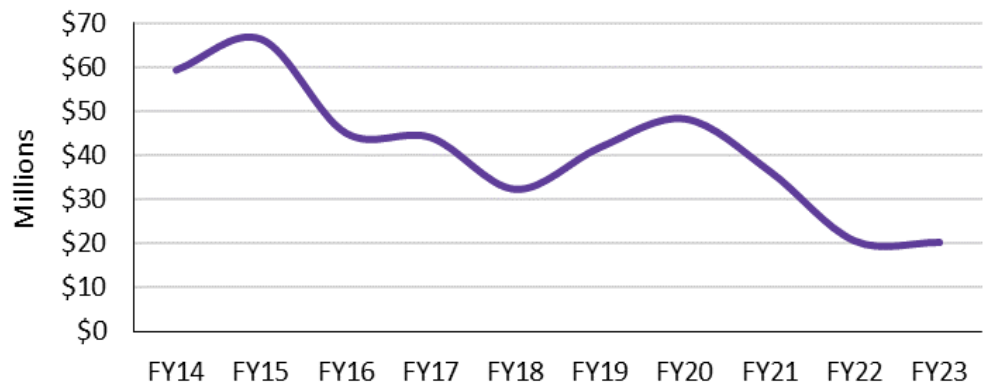
Fixed costs
FY 2013-14 to FY 2022-23
(adjusted for inflation)



Fixed costs include the principal and interest on long-term debt. They are considered fixed because Metro cannot adjust these payments when there is a change in resources available. Metro’s long-term debt was primarily from the sale of bonds, most of which are paid by tax increases approved by voters. Metro uses these tax revenues to pay debt. Fixed costs in FY 2022-23 were 148% higher compared to ten years ago.

The increase in principal payments in FY 2014-15 was the result of issuing new bonds to repay those issued in 2007 for the Natural Areas Program. This is typically done to take advantage of lower borrowing costs, which can decrease overall debt service costs. Higher fixed costs in the last four years had different causes. Increased interest payments beginning in FY 2019-20 were for the \$652.8 million Affordable Housing Bond that was approved by voters in November 2018. The increase in principal payments in FY 2022-23 was from new bonds to repay bonds issued in 2012 for the Oregon Zoo and parks and natural areas program.

Capital expenditure
FY 2013-14 to FY 2022-23
(adjusted for inflation)



Capital spending is used to acquire or add to any physical asset. Spending on new capital projects often results in increased spending over a couple of years that shows up as spikes in the trend line. In contrast, capital spending to maintain existing assets should be more consistent from year-to-year to ensure adequate stewardship of public assets. Deferring maintenance can result in safety hazards and liability risks, as well as shorter useful lives, decreased efficiency, and increased costs to bring assets up to standard.

Since FY 2013-14, most capital spending was for new projects in the Natural Areas program and improvements at the Oregon Zoo. Over the last 10 years capital expenditures declined by 66%. This was due to fewer land purchases and completion of projects at the zoo.

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 trends for the three MERC venues, Oregon Zoo, and Waste Prevention and Environmental Services partially reflected their ability to generate revenue. This is especially evident during the global pandemic when many of Metro’s visitor venues operations were restricted, but solid waste operations were not.

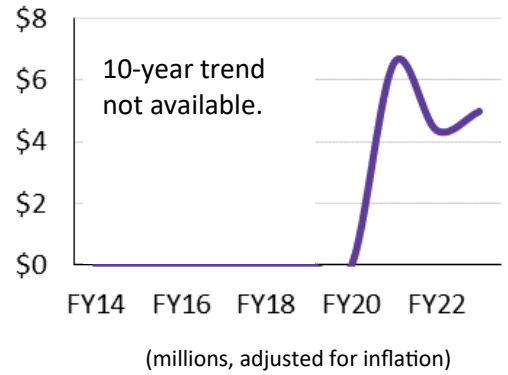
Other departments provide support services to other parts of the organization and do not generate their own revenue. For example, the Council Office, Communications, Human Resources, Information Technology and Records Management, Finance and Regulatory Services, Metro Attorney, and Metro Auditor are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

This table provides a summary of FY 2022-23 expenditures and 10 year trends for each of Metro’s departments or venues. The list is ranked by total expenditure in FY 2022-23. The accompanying charts for each department/venue are in alphabetical order.

Department/Venue	FY 2022-23 expenditure	10-year change
Housing	\$256,406,919	N/A
Waste Prevention and Environmental Services	\$92,781,203	35%
Oregon Convention Center	\$38,342,839	4%
Oregon Zoo	\$35,428,393	-17%
Parks and Nature	\$34,564,557	35%
Planning, Development, & Research	\$22,426,371	43%
Portland’s Centers for the Arts	\$18,140,572	31%
Finance and Regulatory Services	\$9,916,527	63%
Information Technology & Records Mgt.	\$7,589,410	52%
Metro Council and Chief Operating Officer	\$5,986,093	29%
Human Resources	\$5,499,888	85%
Capital Asset Management	\$4,989,202	N/A
Communications	\$4,713,922	59%
Portland Expo Center	\$4,076,118	-39%
Office of Metro Attorney	\$3,501,787	36%
Diversity, Equity, & Inclusion	\$1,992,850	N/A
Office of the Metro Auditor	\$957,206	7%

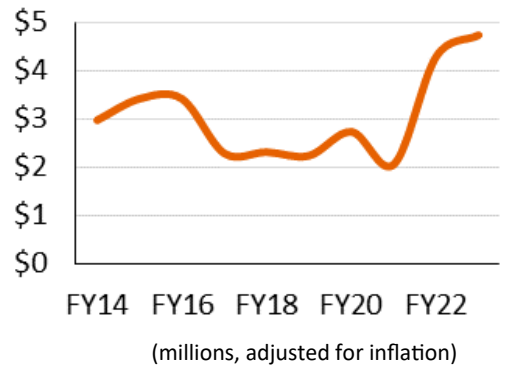
Capital Asset Management
(FY 2013-14 to FY 2022-23)

Capital Asset Management was created in FY 2020-21. Most of its operations were part of Waste Prevention and Environmental Services prior to that. It supports planning and management of Metro’s capital assets, including agency sustainability, emergency planning, asset management, construction project management and Metro Regional Center (MRC) operations. Since its founding, expenditures declined by 24% due to less spending on materials and services. About 70% of FY 2022-23 expenditures were for personnel.



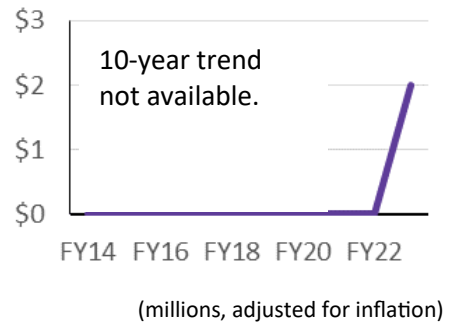
Communications
(FY 2013-14 to FY 2022-23)

Communications provides media relations, public involvement, writing, marketing, graphic and web design services to Metro’s other departments. In the last 10 years, expenditures increased by 59%. Fluctuations in the last 10-years were caused by changes in how communication employees were organized. Lower spending in the department was when communication employees were embedded in other departments. In FY 2022-23, 93% of the expenditures were for personnel.



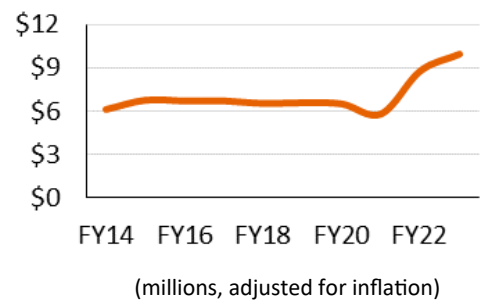
Diversity, Equity, & Inclusion
(FY 2013-14 to FY 2022-23)

This department was created in FY 2022-23 after previously being part of the Council and COO Office. It leads Metro’s work to achieve racial equity outcomes within the agency and across the region. With a focus on shifting culture and systems, DEI works in partnership with agency leadership, department staff, and community partners to develop, implement, and evaluate strategies to advance racial equity and inclusion. About 68% of its expenditures were for personnel in its first year as a stand alone department.



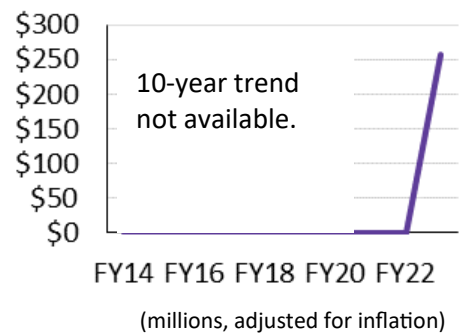
Finance and Regulatory Services
(FY 2013-14 to FY 2022-23)

This department provides business services, such as accounting, procurement, and budgeting for Metro’s other departments. Expenditures increased by 63% between FY 2013-14 and FY 2022-23. The increase in FY 2021-22 was the result of centralizing some employees who had previously been embedded in other departments. Personnel services made up 95% of the department’s expenditures in FY 2022-23.



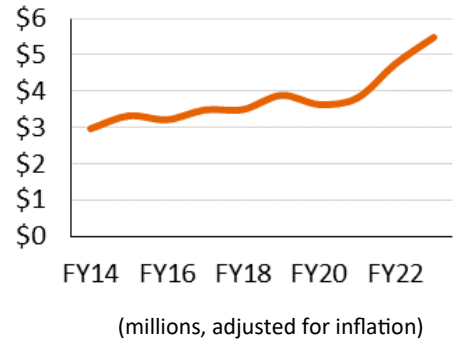
Housing
(FY 2013-14 to FY 2022-23)

Housing is a new department created in FY 2022-23 to implement two voter-approved housing ballot measures; the 2018 Affordable Housing Bond and 2020 Supportive Housing Services Measure. This work was done by the Planning, Development, and Research Center before the new department was created. Nearly all the department’s expenditures are for services provided by the three counties in the Metro region. Personnel Services accounted for less than 1% of the total in FY 2022-23.



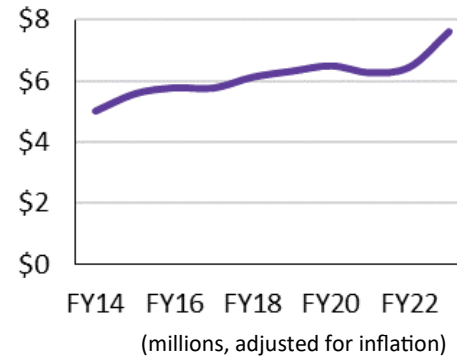
Human Resources
(FY 2013-14 to FY 2022-23)

The Human Resources Department is responsible for employee recruitment, compensation and benefits, and organizational development for all Metro departments. Expenditures increased by 85% in the last 10 years. This was mostly caused by increases in personnel services costs which doubled during that time. In FY 2022-23, 90% of expenditures were for personnel.



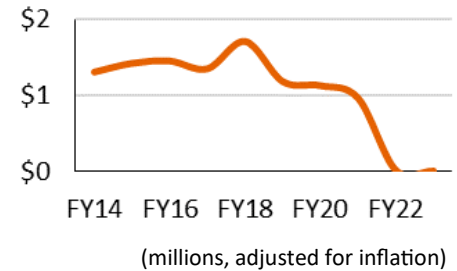
Information Technology & Records Management
(FY 2013-14 to FY 2022-23)

Information Technology and Records Management develops and maintains hardware and software systems to support the entire agency. Expenditures for this department increased by 52% in the last 10 years. This was caused by increases in both personnel services and materials and services. In FY 2022-23, 63% of expenditures were for personnel.



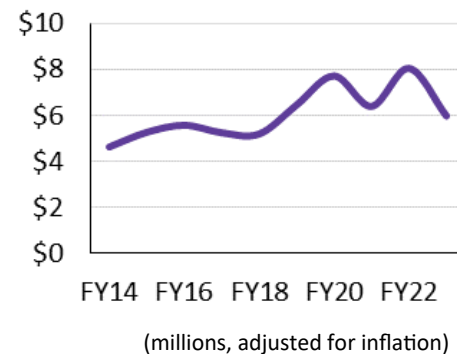
MERC Administration
(FY 2013-14 to FY 2022-23)

This department was discontinued in FY 2020-21 with its operations combined with other departments. Previously it provided business services, such as accounting, information services, project management and administration for the venues that make up MERC.



Metro Council & Chief Operating Officer Offices
(FY 2013-14 to FY 2022-23)

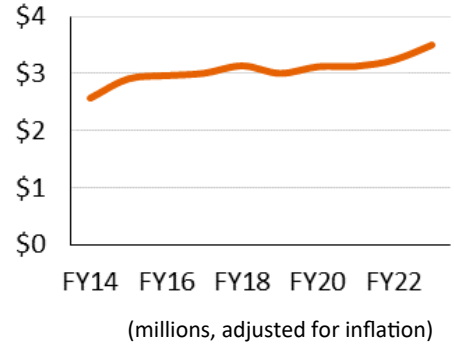
Council is the governing body of Metro. It consists of six elected officials who represent districts in the Metro region and one region-wide elected official, the Council President. The Office also includes the Chief Operating Officer's Office and the Government Affairs and Policy Development program.



In the last 10 years expenditures increased by 29%. In FY 2022-23, 85% of expenditures were for personnel.

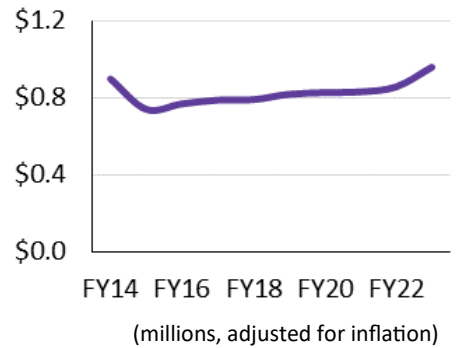
Office of Metro Attorney
(FY 2013-14 to FY 2022-23)

The Office of Metro Attorney provides legal research, evaluation, analysis and advice to Metro departments. In the last 10 years, expenditures increased by 36%. This was caused by increases in personnel services. In the most recent year, personnel accounted for 99% of expenditures.



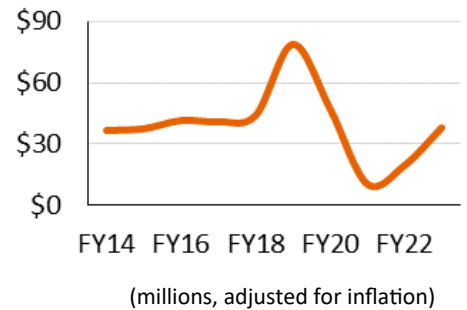
Office of the Metro Auditor
(FY 2013-14 to FY 2022-23)

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 agency’s Accountability Hotline. Expenditures increased by 7% in the last 10 years. This was caused by higher personnel costs. Personnel accounted for 97% of expenditures in FY 2022-23.



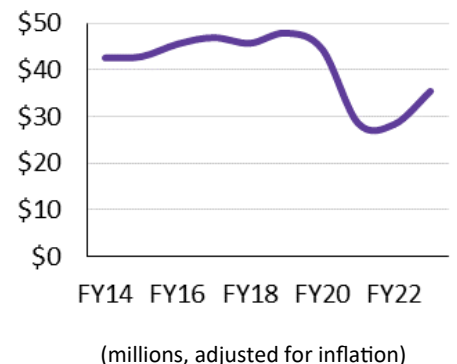
Oregon Convention Center
(FY 2013-14 to FY 2022-23)

The Oregon Convention Center hosts conventions, trade, and consumer shows. Expenditures increased by 4% in the last 10 years. The decrease beginning in FY 2019-20 was caused by operating restrictions related to COVID-19. The large spike in FY 2018-19 was mostly from a \$30 million renovation of the main entrance and interior finishes, which was paid from operating revenues. In FY 2022-23, spending on materials and services accounted for 71% of the total.



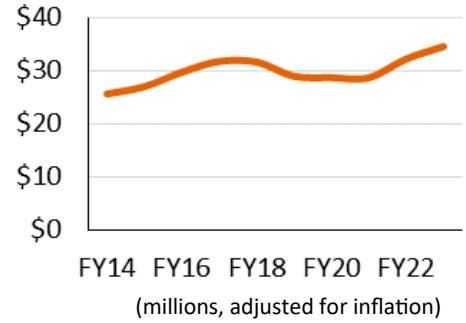
Oregon Zoo
(FY 2013-14 to FY 2022-23)

The Oregon Zoo houses animals and exhibits, and provides wildlife education and conservation programs. Over the last 10 years, expenditures decreased by 17%. This was caused by lower spending when operations were restricted by COVID-19. Personnel costs accounted for 62% of the total in the most recent year.



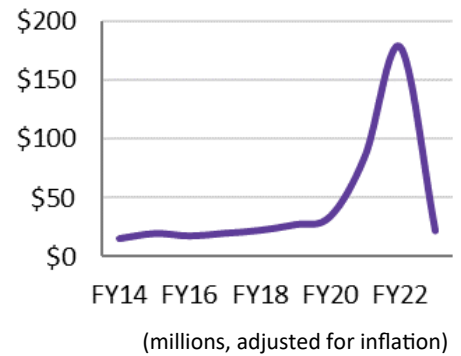
Parks and Nature
(FY 2013-14 to FY 2022-23)

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 35%. This was due to increased personnel, and materials and services costs. In FY 2022-23, 53% of operating expenditures were for materials and services.



Planning, Development, and Research
(FY 2013-14 to FY 2022-23)

The Planning, Development, and Research department develops policies and programs that guide land use and transportation planning. It also provides data, mapping, forecasting, and technical services.

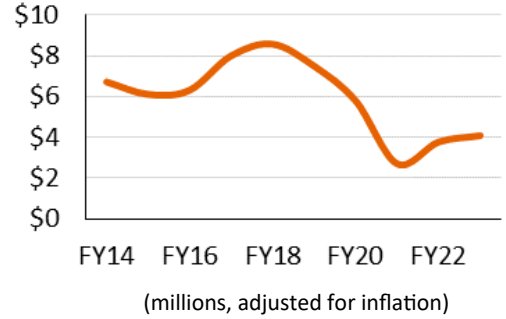


The department experienced several significant changes in recent years. The large spike was the results of two voter-approved housing measures that were initially managed in this department. That work is now part of a separate department as of FY 2022-23. Metro’s Research Center joined the planning department in FY 2020-21. It was previously a separate department.

Over the last 10 years, expenditures increased by 43%. This was caused by increased spending on materials and services. In FY 2022-23, 51% of the department’s budget was spent on materials and services.

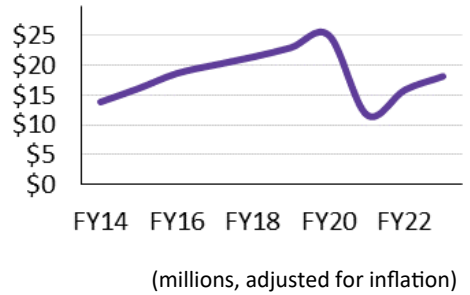
Portland Expo Center
(FY 2013-14 to FY 2022-23)

Portland Expo Center is a multi-purpose exhibition facility including meeting rooms, exhibit halls, outdoor space and a restaurant. Since FY 2013-14, expenditures decreased by 39%. This was caused by COVID-19 restricting operations beginning in FY 2019-20. In FY 2022-23, materials and services accounted for 52% of expenditures.



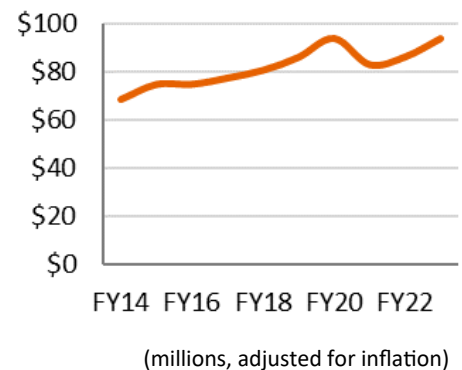
Portland's Centers for the Arts
(FY 2013-14 to FY 2022-23)

The performing arts center includes five spaces for events such as concerts, dance performances, and plays. Expenditures increased by 31% over the last 10 years. The decline beginning in FY 2019-20 was caused by operating restrictions during COVID-19. In the most recent year, personnel services accounted for 52% of expenditures.



Waste Prevention and Environmental Services
(FY 2013-14 to FY 2022-23)

This department manages the regional waste disposal system and works with local governments on waste reduction and recycling strategies. In FY 2020-21, some parts were split off to form a new department (Capital Asset Management).

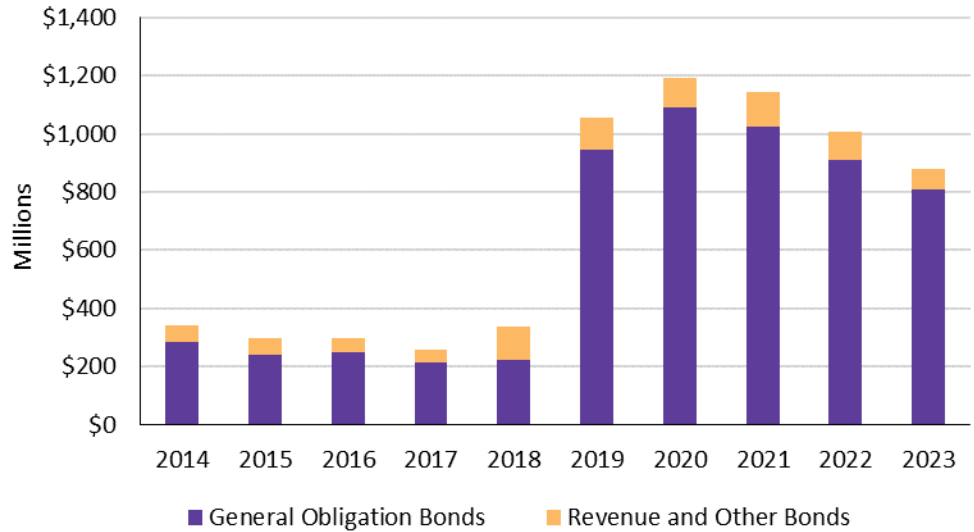


Over the last 10 years, expenditures increased by 35%. This was caused by increases for contracted professional services, as well as personnel costs.

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.

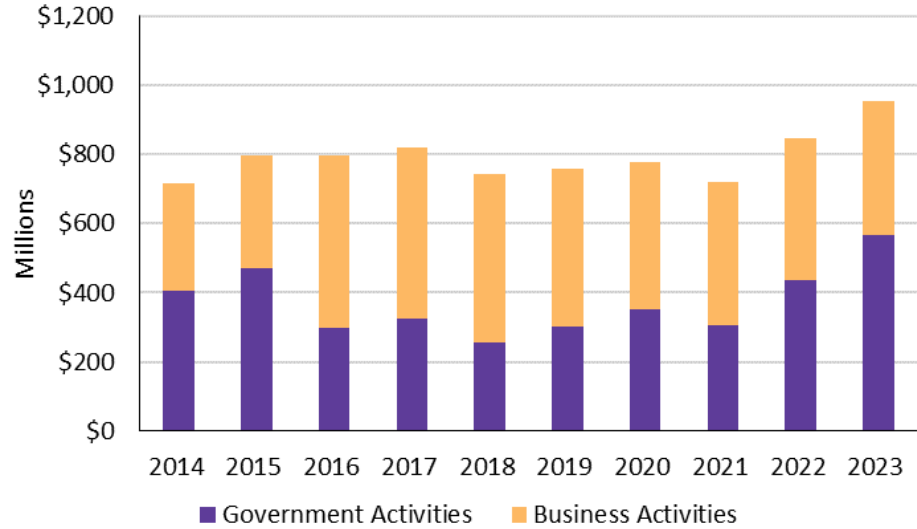
Total debt
(as of June 30,
adjusted for inflation)



Total debt increased by 156% in the last 10 years. Revenue and other bonds are issued when Metro identifies a specific source to repay debt or pledges other collateral to borrow against. For example, the Metro paid portion of the Oregon Convention Center Hotel used revenue from local tourism taxes to repay the bonds for that project. Repayment of general obligation bonds occurs through separate property tax levies that are commonly associated with voter-approved ballot measures. These bonds are not subject to the annual property tax revenue limitations in Metro’s Charter.

The majority (92%) of Metro’s long-term debt is from general obligation bonds. The spike in 2019 was from new bonds issued to pay for the voter-approved Affordable Housing Bond. In 2020, additional bonds were issued to pay for the voter-approved Parks and Natural Areas ballot measure which further increased debt. General obligation bond debt decreased in 2021, but new revenue bonds were issued that year to begin implementation of the voter-approved Supportive Housing Services ballot measure.

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

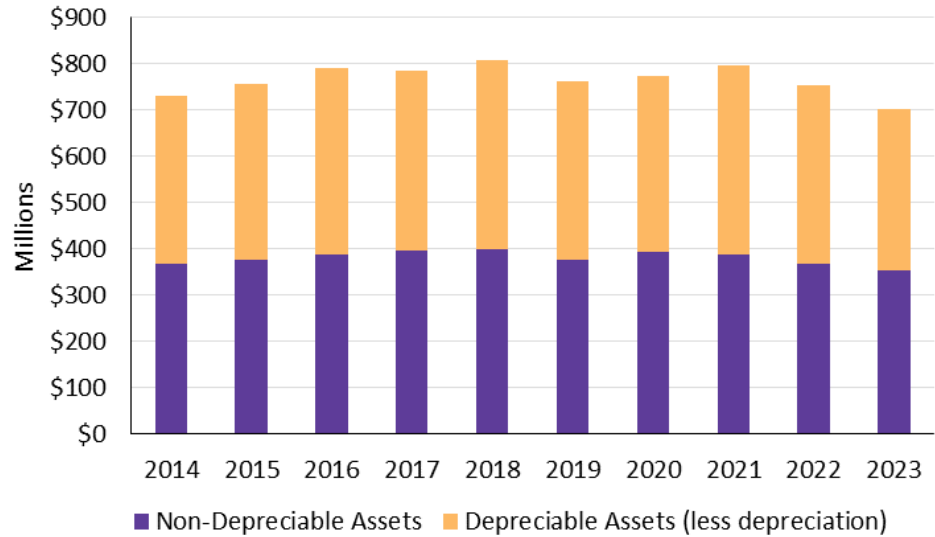


Net assets measure the difference between what Metro owns and what it owes. Some of Metro’s assets are monetary and some are physical things, such as buildings and land. Both types of assets are included in the indicator.

Metro’s business activities include solid waste operations, Oregon Convention Center, Portland’s Center for the Arts, and Portland Expo Center. In 2015 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.

Metro’s total net assets increased by 33% between 2014 and 2023. Net assets for business activities increased by 24% since 2014. Net assets for government activities increased by 40% since 2014.

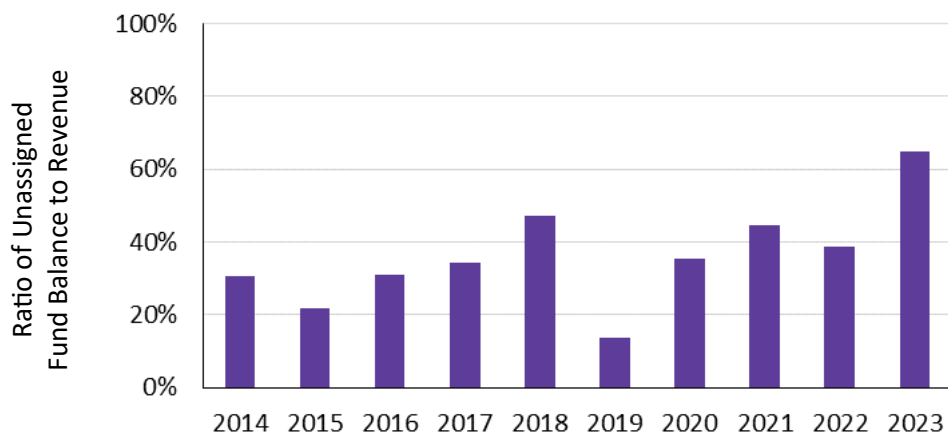
Capital assets
(as of June 30,
adjusted for inflation)



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 decreased by 4% in the last 10 years. Trends for depreciable and non-depreciable assets were almost identical. As assets depreciate governments should invest in new assets, or improvements to existing assets, to increase their value.

General Fund balance
(as of June 30)



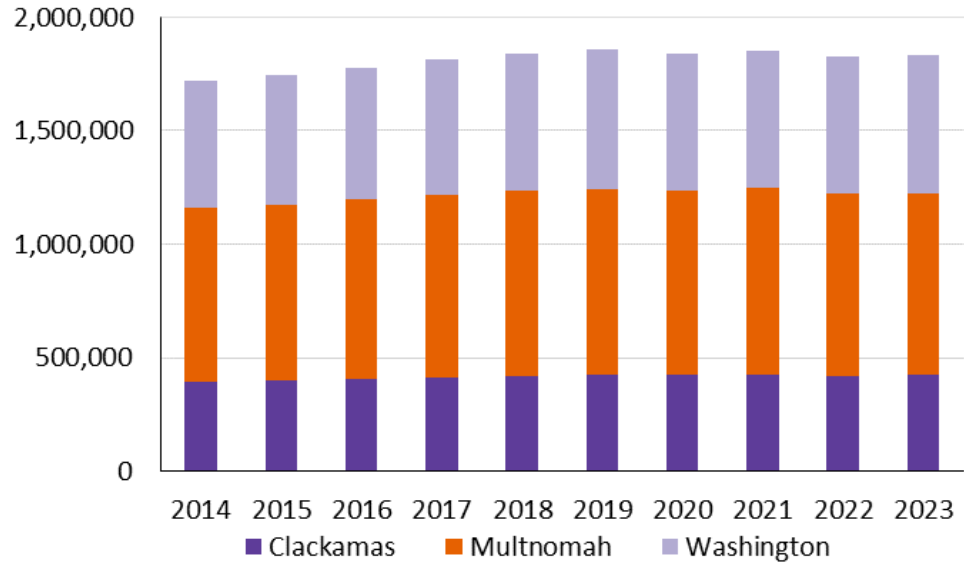
The size of the unassigned fund balance can affect a local government’s ability to withstand financial emergencies like those arising from the global pandemic in 2020. This measure is the ratio of unassigned fund balances to operating revenues in the General Fund. If revenue drops suddenly during the year, the general fund balance can serve as a backup to prevent mid-year cuts to services. The General Fund pays for Metro’s primary government programs and support services. It does not include the Oregon Convention Center, Oregon Zoo, Portland’s Centers for the Arts, Portland Expo Center, and solid waste operations.

The ratio reached 65% in 2023 which was the highest level in the last 10 years. In 2019, \$15 million of the fund balance was appropriated in the budget, resulting in a low ratio. That ensured Metro's budget included reserves for specific purposes but left the unassigned amount significantly smaller than it had been in previous years.

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.

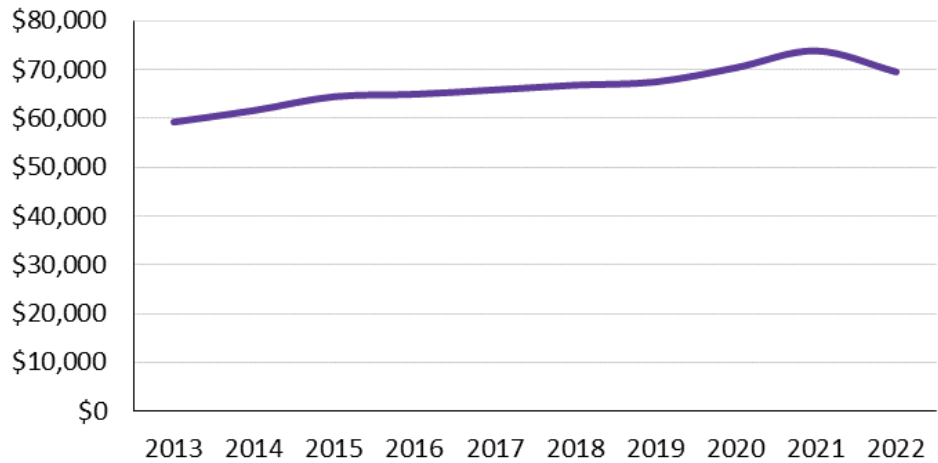
Population
2014 to 2023



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 7% since 2014.

In the last 10 years, Clackamas and Washington counties both grew at similar rates, 9% and 8% respectively. Growth in Multnomah county was slower at about 5%. Multnomah accounted for the largest share of the tri-county population (44%) followed by Washington (33%) and Clackamas (23%).

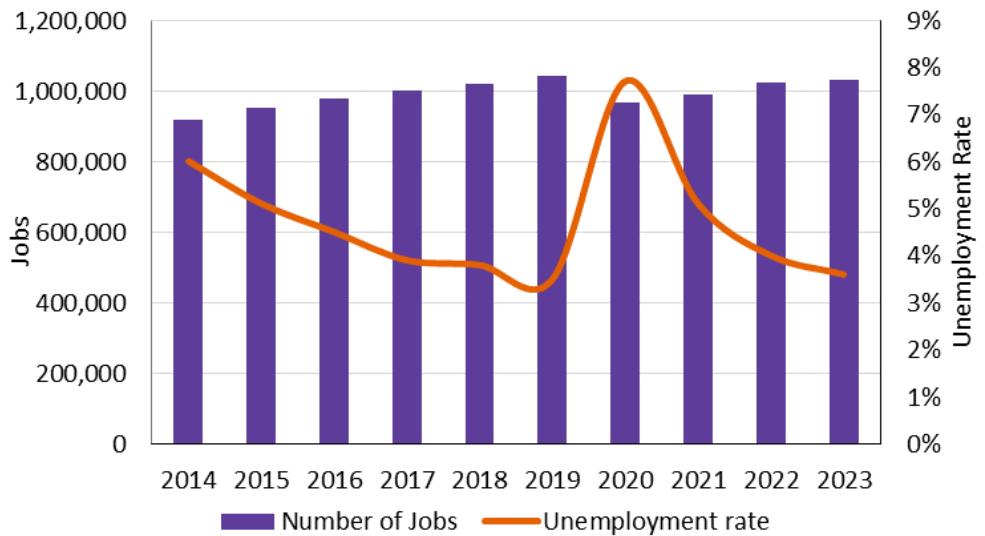
Per capita personal income
2013 to 2022
(Metropolitan Statistical Area,
adjusted for inflation)



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.

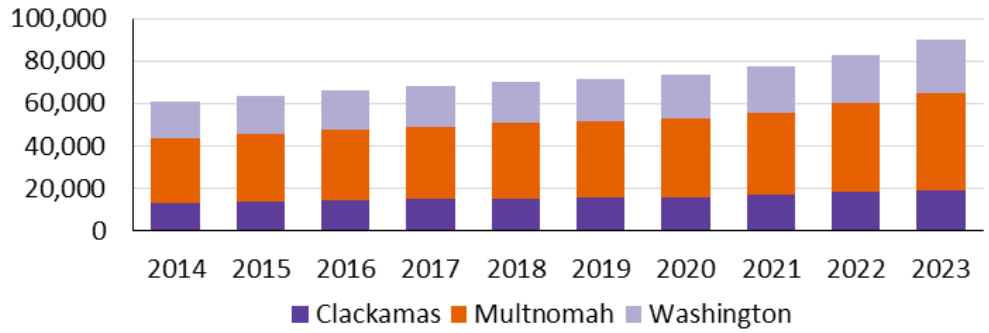
Per capita income has increased by 17% since 2013. Other than the last year, per capita income increased each year since 2013. The decline in 2022 may be related to a reduction in temporary payments associated with the global pandemic.

Unemployment rate and number of jobs
2014 to 2023
(Metropolitan Statistical Area,
Oregon portion)



The unemployment rate and number of jobs measure business activity. After six years of steady increases in the number of jobs and decreasing unemployment, COVID-19 reversed both trends in 2020. Both trends have improved since then but are not back to 2019 levels yet.

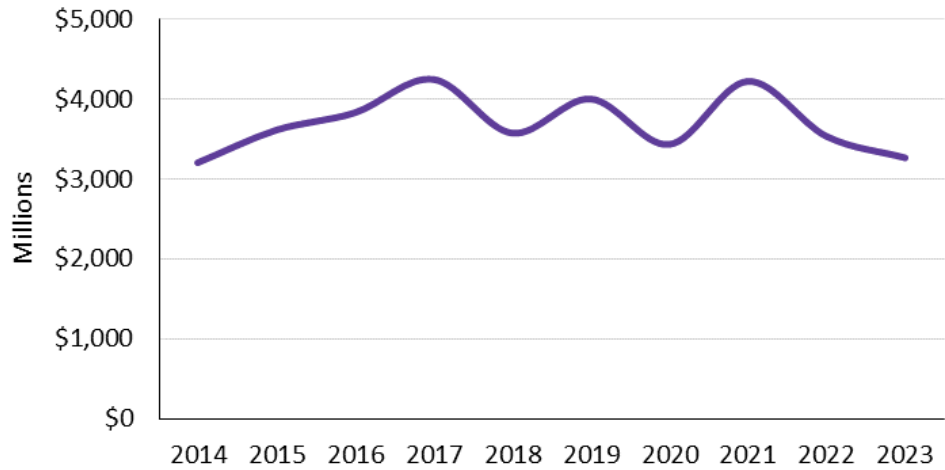
Number of businesses
2014 to 2023



The number of businesses affects Metro’s revenues that rely on business activity like meetings and events at visitor venues and construction debris processed at solid waste facilities. A decline in business activity can reduce employment, income, and property value.

Over the last 10 years, business growth was similar in all three counties at about 48%. The number of businesses increased each year and the total in 2023 was at its highest level over the last 10 years.

Value of new construction
2014 to 2023
(Metropolitan Statistical Area, adjusted for inflation)

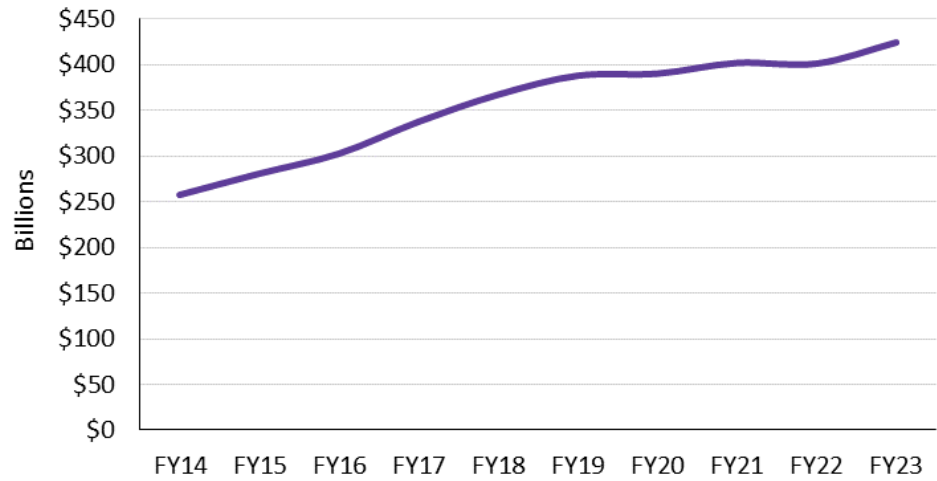


New construction is important to Metro in several ways. Metro is responsible for planning for urban growth and transportation. The rate of new construction can affect these plans. In addition, some of Metro’s services are funded through taxes that are affected by construction activity.

The value of new construction increased steadily from 2014 to 2017. Since then, the pattern has been up and down between years. Despite the uneven trend, values were about 3% larger compared to 10 years ago.

Real market property values

FY 2013-14 to FY 2022-23
(Metro taxing district, adjusted for inflation)



Growing market values are positive trends for the regional economy. Property values also impact Metro’s ability to generate revenue from property taxes which are based on assessed market values. In FY 2022-23, 18% of Metro’s revenue came from property taxes. Real market property values increased in each of 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 on 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 to create 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 obtained data from the independently audited Annual Comprehensive Financial Report (ACFR) and more detailed information about revenue sources, personnel costs, and other expenditures from Metro's financial accounting and budgeting systems, PeopleSoft, TeamBudget, 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 dollars 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.

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

This audit was included in the FY 2023-24 audit schedule. 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.

Management response



Memo

Date: June 12, 2024
To: Brian Evans, Metro Auditor
From: Marissa Madrigal, Chief Operating Officer
Brian Kennedy, Chief Financial Officer
Subject: Financial Condition of Metro – Management Response

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. We believe the data continues to show that Metro has not only weathered that fiscal storm created by the COVID-19 pandemic, but in many areas has emerged stronger and more financially resilient, demonstrated by the substantial number of favorable indicators. We would also like to comment on the trends you noted that warrant caution.

The increased spending on risk management and employee costs is a trend that staff are carefully monitoring and proactively mitigating. There is some inherent variability in risk costs, related to claims that are unpredictable and unknown in magnitude. Also, the inflationary environment that the entire country experienced coming out of the pandemic has put significant cost pressure on everyone – individuals and organizations. We continue to see costs increasing at rates over the general inflationary trend in property and liability insurance and employee health care costs. Metro is unlikely to be able to address this nationwide trend on its own, but we continue to employ a variety of strategies to manage those costs across the agency.

The report also noted an increase in fixed costs that are primarily principal and interest payments on Metro debt. Additionally, Metro’s overall debt increased significantly over the last ten years. In both cases, the indicators can be attributed to debt from voter-approved general obligation bonds with their own dedicated revenue sources. As such, that debt carries little risk to Metro’s General Fund or other funding sources. Rather, we view the increase in general obligation debt as a positive trend reflecting the confidence of the region’s voters in Metro’s ability to leverage the large regional property tax base to make investments that address the most important issues in the region.

Finally, the report notes a negative trend related to Metro’s capital expenditure. The decrease in capital spending and lower capital asset values reflect the planned spend down of bond proceeds and the lack of other funding sources for capital investment to offset normal asset depreciation. Staff would also like to note that some of this trend is related to a change in Metro’s accounting policies. Prior to 2022, Metro’s capitalization threshold was \$10,000. In 2022, the threshold was moved to \$50,000. This means some expenditures previously classified as capital investments would now be considered materials and services. It is clear that additional capital investment is needed in many areas across Metro and this continues to be an issue that we monitor and attend to through various means, such as the recent zoo bond measure.

Thank you for the opportunity to respond and for the work of your office producing this report.



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