METRO

Financial Condition of Metro:
FY 2003-04 to FY 2012-13

June 2014
A Report by the Office of the Auditor

Suzanne Flynn
Metro Auditor

Brian Evans
Principal Management Auditor

Knighton Award
for Auditing

Audit receives recognition

The Auditor's Office was the recipient of the Bronze Award for Small Shops by ALGA (Association of Local Government Auditors). The winning audit is entitled *"Tracking Transportation Project Outcomes: Light rail case studies suggest path to improved planning.* Auditors were presented with the award at the ALGA conference in Tampa Bay, FL, in May 2014. Knighton Award winners are selected each year by a judging panel and awards presented at the annual conference.

Metro Ethics Line

The Metro Ethics Line 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 ethics line 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.metroethicsline.org

SUZANNE FLYNN
Metro Auditor
600 NE Grand Avenue
Portland, OR 97232-2736
Phone: (503)797-1892 Fax: (503)797-1831

MEMORANDUM

June 4, 2014

To: Tom Hughes, Council President
Shirley Craddick, Councilor, District 1
Carlotta Collette, Councilor, District 2
Craig Dirksen, Councilor, District 3
Kathryn Harrington, Councilor, District 4
Sam Chase, Councilor, District 5
Bob Stacey, Councilor, District 6

From: Suzanne Flynn, Metro Auditor

Re: Financial Condition of Metro, FY 2003-04 to FY 2012-13

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

Most of the information in this report is derived from the Comprehensive Annual Financial Report (CAFR) prepared each year by the Finance and Regulatory Services Department and audited by the external auditor. It is intended to give a long term review for Metro's financial history. Each time we have completed this audit, we have tried to add improvements to the quality and presentation of the information. This year we added separate expenditure information for each MERC venue and developed a table that quickly summarizes trends for each indicator.

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

Table of Contents

Summary

A government in good financial condition can afford to provide services on an on-going basis without disruption. It will be in a better position to respond to changes in economic conditions that effect the resources or costs associated with providing services. We found Metro's overall financial health is good.

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 citizens and public officials with an overview of Metro's financial condition. It includes 41 measures and covers the 10-year period from fiscal year (FY) 2003-04 through FY 2012-13.

The 10-year trends for most indicators had a positive impact on Metro's financial health. For some indicators, the trend's effect on overall financial health depends on the corresponding trends of the revenue indicators. For example, increases in total expenditure would not impact Metro's overall financial health negatively as long as total revenue increased at an equal or greater rate.

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

Indicator trends and conclusions

The tables below show:

- the change from 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 or negative).

The tables include all indicators in the report except total revenue sources for FY 2012-13 and expenditures for each Metro department. See page 12 for more information on department trends. In this chart, "positive/negative" is used to describe 10 year trends. In the rest of the report "warning" is used to describe short-term changes that signal caution should be taken. The colors are used to help interpret the trends since not all decreases are bad and not all increases are good. For example, a decrease in the unemployment rate is a positive trend (green) while a decrease in the value of new construction is a negative trend (red).

Indicator	Change from previous year	10 year trend	Effect on Overall Financial Health*
Revenue			
Total revenues	+	↑	Positive
Revenue per capita	+	↑	Positive
Charges for services	+	↑	Positive
Property taxes	+	↑	Positive
Excise taxes	+	↑	Positive
Grants	=	↑	Positive
General Fund revenue over/under budget	+	↑	Positive
Expenditure			
Total expenditure	+	↑	Positive, increased slower than revenue
Expenditure per capita	+	↑	Positive, increased slower than revenue
Risk Management Fund	+	Data not available	Not available
Employee costs	-	↑	Positive, increased slower than revenue
Fixed costs	-	↑	Negative, increased faster than revenue
Capital expenditure	-	↑	Negative, increased faster than revenue

Sources: International City/County Management Association (ICMA) *Evaluating Financial Condition: A Handbook for Local Government* for most criteria. Office of the Metro Auditor analysis for trends and conclusions.

Legend:
- Colors: Green = positive; red = negative
- One Year Trend: + (increase); - (decrease); = (no change)
- 10 Year Trend: ↑ (increase); ↓ (decrease); ↔ (unchanged)

* Based on 10-year trend

Indicator	Change from previous year	10 year trend	Effect on Overall Financial Health*
Financial Health			
Liquidity	+	↓	Negative
Total debt	-	↑	Negative, increased faster than revenue
Net assets	+	Data not available	Not available
Capital assets	=	↓	Negative
General Fund balances	-	Data not available	Not available
Demographic and Economic Trends			
Population	+	↑	Mixed, can impact revenues and/or expenditures unequally
Per capita personal income	+	↑	Positive
Unemployment rate	-	↔	No change
Number of jobs	+	↑	Positive
Number of businesses	+	↑	Positive
Value of new construction	+	↓	Negative
Real market property values	-	↑	Positive

Sources: International City/County Management Association (ICMA) *Evaluating Financial Condition: A Handbook for Local Government* for most criteria. Office of the Metro Auditor analysis for trends and conclusions.

Legend:

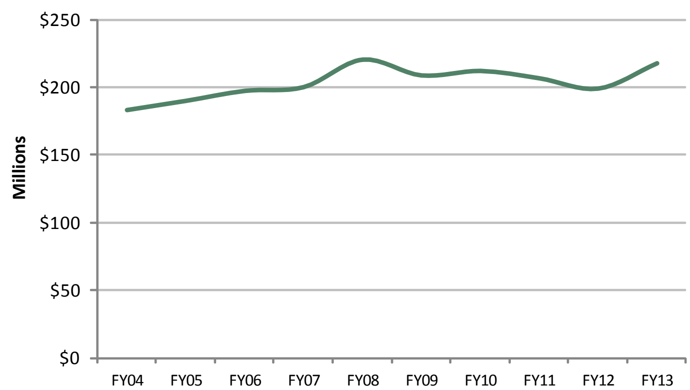
- Colors: Green = positive; red = negative
- One Year Trend: + (increase); - (decrease); = (no change)
- 10 Year Trend: ↑ (increase); ↓ (decrease); ↔ (unchanged)

* Based on 10-year trend

Revenue

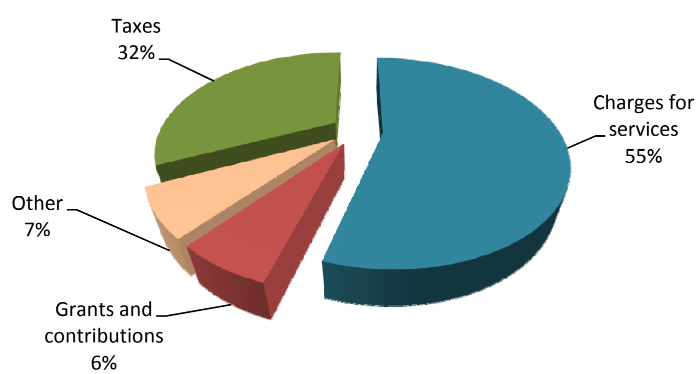
The amount of money Metro receives determines its capacity to deliver services. The sources of Metro's revenue are diverse; some programs charge for their services, while others are funded by taxes. This section of the report shows trends in each type of revenue.

Total revenues
FY 2003-04 to FY 2012-13
(adjusted for inflation)



Total revenue increased by 22% in the last 10 years. The increase was mostly from voter-approved measures to invest in the Oregon Zoo and purchase natural areas. During that time, all revenue sources increased but not at the same rate. For example, charges for services grew by 4%, while revenue from taxes grew by 53%. The increase in FY 2012-13 was the result of additional revenue from taxes for voter-approved general obligation bonds and charges for services collected at the Oregon Convention Center, Expo, solid waste facilities and the Oregon Zoo.

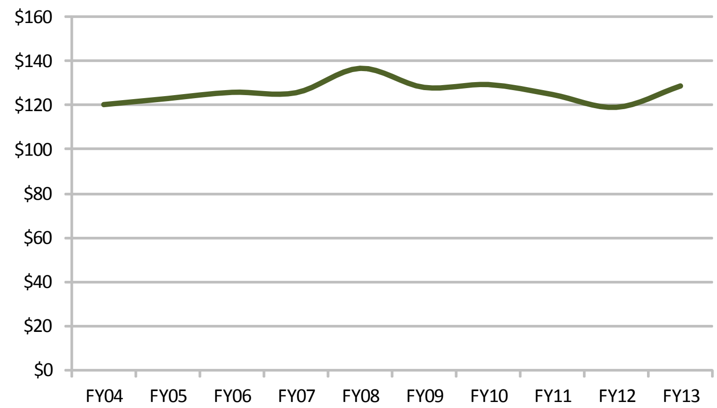
Revenue sources
FY 2012-13



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 can be used to support several purposes.

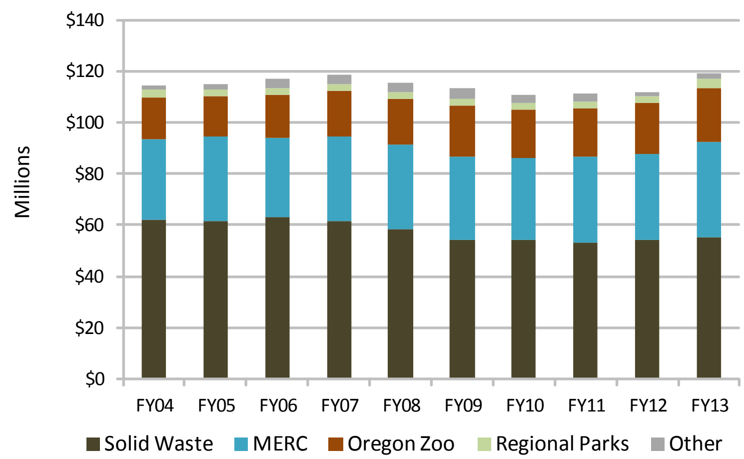
In FY 2012-13, the largest source of revenue was charges for services. This type of revenue has consistently been the largest source over the last 10 years. Similarly, tax revenue has consistently been the second largest source during that time.

Revenue per capita
FY 2003-04 to FY 2012-13
(adjusted for inflation)



Revenue per capita measures changes in revenue relative to changes in the population of the Metro region. As the population increases, it might be expected that revenues and the need for services would increase at a similar pace. Since FY 2003-04, revenue per capita increased by 7%. This was caused by total revenue growing faster (22%) than the population (11%).

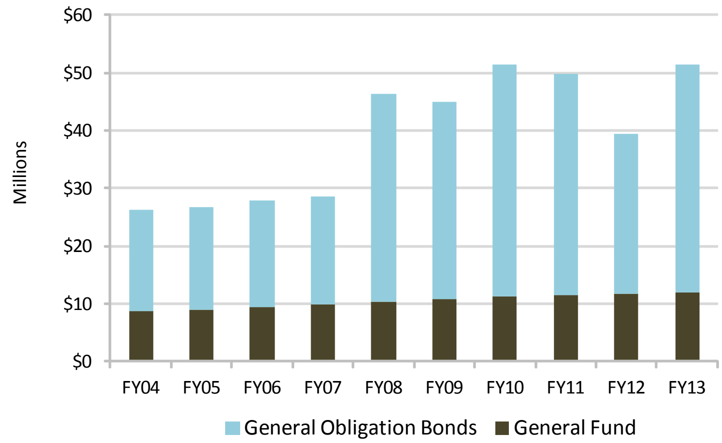
Charges for services
FY 2003-04 to FY 2012-13
(adjusted for inflation)



Service charges are collected for some Metro operations. Solid waste facilities, regional parks and the Oregon Zoo all charge for providing services. In addition, each of the three venues that makes up the Metropolitan Exposition and Recreation Commission (MERC) charge for services. These include the Oregon Convention Center, Exposition Center and Portland Center for the Performing Arts (recently renamed as Portland'5).

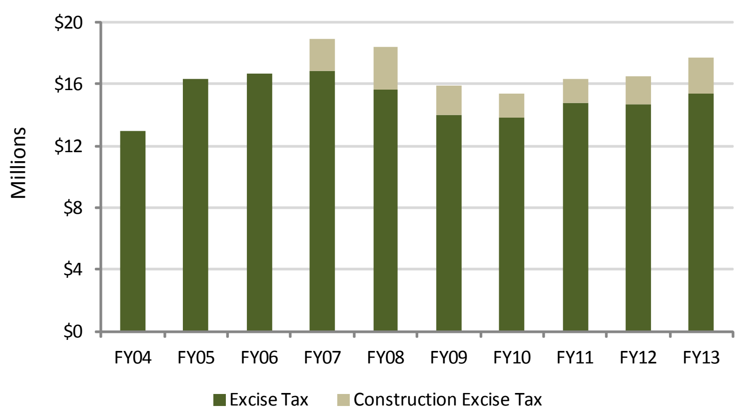
In the last 10 years, the amount of revenue collected from service charges increased by 4%. Although the total increase was small, some charges for services increased at a faster rate. For example, the Oregon Zoo increased by 35%, followed by MERC at 17% and Regional Parks at 7%. Conversely, Solid Waste decreased by 11%, likely because less waste was generated during the economic recession.

Property taxes
FY 2003-04 to FY 2012-13
(adjusted for inflation)



Metro also receives revenue from property taxes. Some property taxes fund general government services (General Fund). These revenues can be used for a variety of government operations. Other property taxes, General Obligation Bonds, are used for specific projects that were approved by voters such as improvements at the Oregon Zoo and land purchases to protect natural areas. Property taxes for general government services increased by 40% over the last 10 years. Revenue to repay general obligation bonds more than doubled during that time.

Excise taxes
FY 2003-04 to FY 2012-13
(adjusted for inflation)

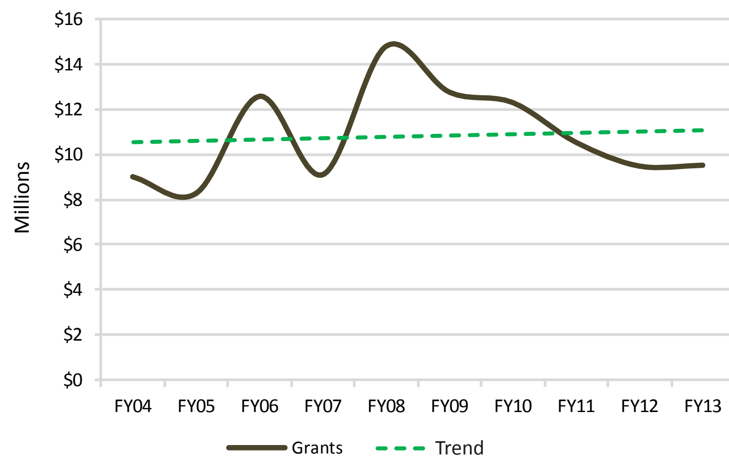


Another source of revenue is excise taxes. It is collected when people use Metro's facilities and services, or when new construction permits are issued. The construction excise tax began in FY 2006-07 and is intended to fund planning for the new areas brought into the urban growth boundary. This tax is scheduled to end on September 30, 2014, but may be extended to 2020.

Total revenue from excise taxes increased by 37% over the last 10 years, but it has not reached the same levels experienced prior to the economic recession in FY 2006-07. Revenue from construction excise taxes grew 15% since inception.

Grants

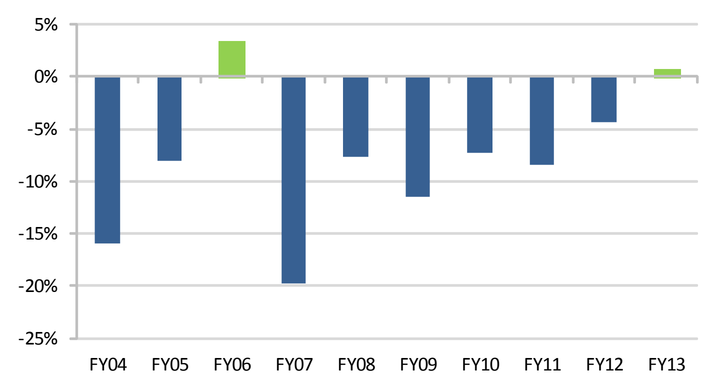
FY 2003-04 to FY 2012-13
(adjusted for inflation)



Most revenue from grants was for projects in the Planning and Development Department and Research Center. Grants are provided for a specific purpose and cannot be used outside that purpose. Grant funds are typically received after work is completed and billed, which can cause the amount received to fluctuate from year to year. The general trend has been a slight increase in grant revenue over the last 10 years, although grant revenue has steadily declined since FY 2007-08.

General Fund revenue over/under budget

FY 2003-04 to FY 2012-13
(adjusted for inflation)



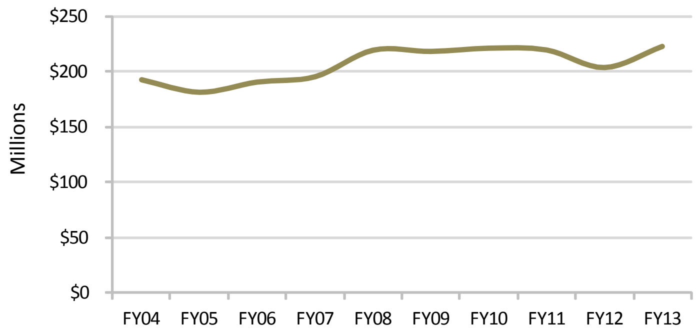
This measure is used to show how the amount of general fund revenue actually received compared to the amount of revenue estimated when the annual budget was created. If less revenue was collected than expected, it could lead to mid-year cuts in services.

In eight of the last 10 years, less revenue was collected than expected. This was primarily the result of over-estimation of grant revenue in the Planning and Development Department. As noted previously, grant revenue can vary widely from year to year, depending on when work is completed and payments are received. Since FY 2011-12, there have been smaller shortfalls, which is a positive trend.

Expenditure

Expenditures show the cost of providing government services. There are several ways to analyze expenditures. This section shows total spending and trends in various categories of spending, such as personnel costs, debt payments and department expenditures.

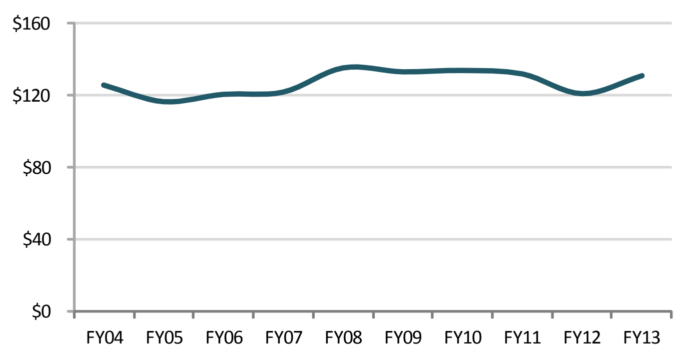
Total expenditure
FY 2003-04 to FY 2012-13
(adjusted for inflation)



Total expenditure includes 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 16% in the last 10 years.

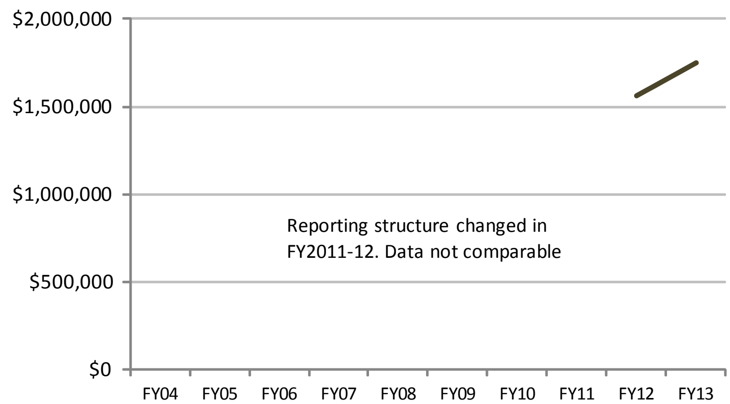
Metro's charter includes a provision that limits the amount expenditures can increase each year from non voter-approved sources. The Consumer Price Index is used to gradually increase the expenditure limit each year. As such, any expenditure growth above the inflation rate should be a direct result of voter-approved programs. During the process to develop the annual budget, an analysis of expenditures in relation to the charter limitation is done. For FY 2012-13, the analysis stated that Metro was under the limitation by about $4 million.

Expenditure per capita
FY 2003-04 to FY 2012-13
(adjusted for inflation)



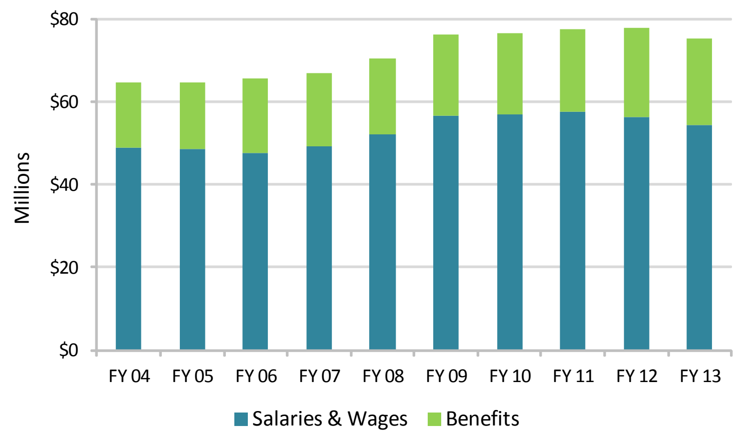
Expenditure per capita shows the average amount of money spent to provide services to each resident of the region. Increases in spending per capita may indicate the cost of providing services is rising faster than the population. Expenditure per capita rose by 4% over the last 10 years. This is a relatively small increase compared to the 7% increase in revenue per capita (page 6).

Risk management fund
FY 2003-04 to FY 2012-13
(adjusted for inflation)



The Risk Management Fund accounts for expenses related to insurance premiums, claims and studies related to insurance issues. In FY 2011-12, the reporting structure changed, which prevented comparisons with prior years. In FY 2012-13, about $1.75 million was spent.

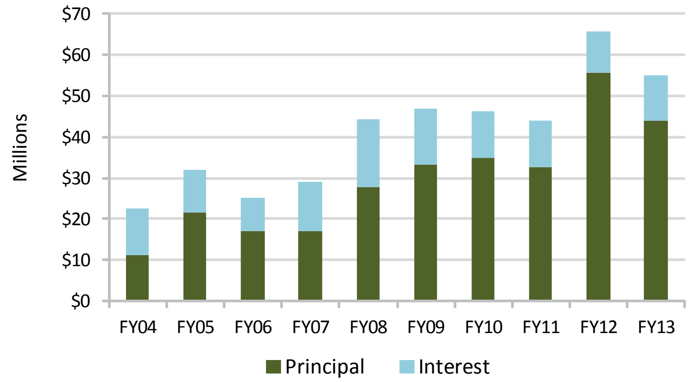
Employee costs
FY 2003-04 to FY 2012-13
(adjusted for inflation)



Over the last 10 years, expenditures for employee salaries and benefits increased by 16%. Benefits accounted for about 28% of all employee costs in FY 2012-13, which is slightly more than the average (26%) over the last 10 years.

Fixed costs

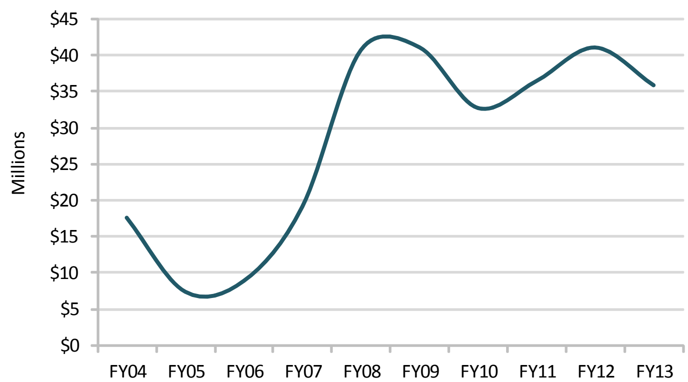
FY 2003-04 to FY 2012-13
(adjusted for inflation)



Fixed costs include the principal and interest on long-term debt. They are considered fixed because Metro cannot adjust these payments when there is a change in resources available. Metro's long-term debt was primarily from the sale of general obligation bonds (85%), which are paid by tax increases approved by voters. Metro used these tax revenues to pay debt.

Capital expenditure

FY 2003-04 to FY 2012-13
(adjusted for inflation)



Capital spending is used to acquire or add to any physical asset. More recent spending on capital 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.

Spending by department

Growth rates can vary based on the type of programs and services of each department as well as their sources of revenue. Trends in some departments that depend on service charges, excise taxes or bonds are closely tied to the economy. For example, the Expo Center, Oregon Convention Center, the Portland Center for the Performing Arts, Oregon Zoo, Sustainability Center and solid waste component of Parks and Environmental Services had varied growth that was partially a reflection of 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, Communication, 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, two departments (Planning and Development and Research Center) rely on grant funds, which can vary by year depending on what projects are in process.

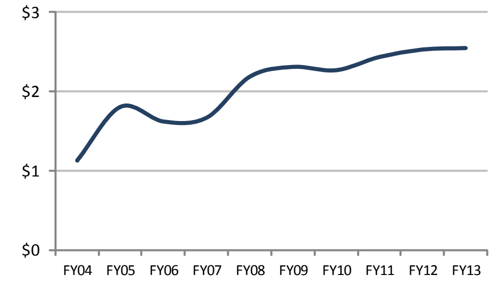
The table below provides a summary of FY 2012-13 expenditures and 10-year trends for each of Metro's 16 departments or venues. The list is ranked by total expenditure in FY 2012-13.

Department/Venue	FY 2012-13 expenditure	10-year change
Parks and Environmental Services	$47,828,867	-2%
Oregon Zoo	$31,111,936	31%
Oregon Convention Center	$28,295,976	24%*
Sustainability Center	$19,232,110	100%
Portland Center for the Performing Arts	$10,931,150	19%*
Planning and Development	$7,419,602	-3%
Exposition Center	$5,845,547	-8%*
Finance and Regulatory Services	$5,704,259	36%
Research Center	$3,792,545	52%
Council Office	$3,585,722	154%
Information Services	$3,332,704	37%
Communications	$2,547,339	126%
Human Resources	$2,034,937	103%
Office of the Metro Attorney	$1,786,305	50%
MERC Administration	$1,334,004	-15%*
Office of the Metro Auditor	$655,508	-5%

* Based on 8-year trend

Communications
FY 2003-04 to FY 2012-13

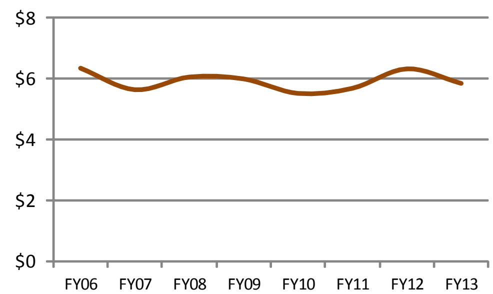
Communications provides media relations, public involvement, writing, marketing, graphic and web design services to Metro's other departments. In the last 10 years, expenditures grew by 126%. This was mostly due to an increase in the amount spent on personnel as communications staff in various departments were absorbed into a centralized communications department. In FY 2012-13, 92% of the expenditures were for personnel.



(in millions, adjusted for inflation)

Exposition Center
FY 2005-06 to FY 2012-13

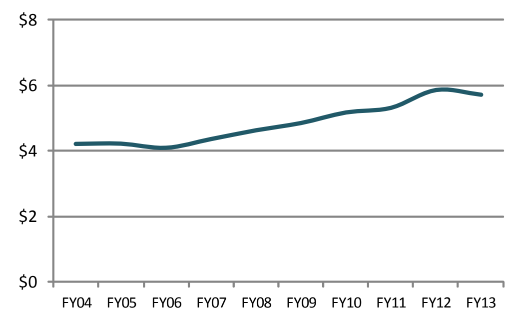
The Exposition Center is a multi-purpose exhibition facility including meeting rooms, exhibit halls, outdoor space and a restaurant. Since FY 2005-06, expenditures decreased by 8%. In FY 2012-13, materials and services accounted for 49% of expenditures. This was mostly the result of contracted food and beverage services.



(in millions, adjusted for inflation)

Finance and Regulatory Services
FY 2003-04 to FY 2012-13

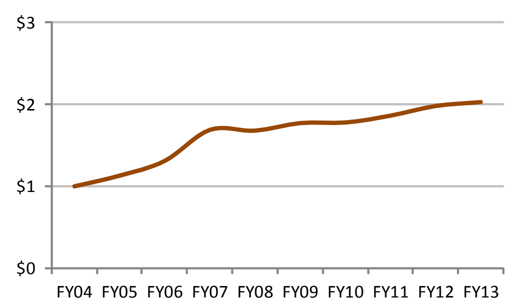
This department provides business services, such as accounting, procurement and budgeting to Metro's other departments. Expenditures increased by 36% between FY 2003-04 and FY 2012-13. This was partially due to employees moving into the department from the MERC Administration Office. Personnel services made up 78% of the department's expenditures in FY 2012-13.



(in millions, adjusted for inflation)

Human Resources
FY 2003-04 to FY 2012-13

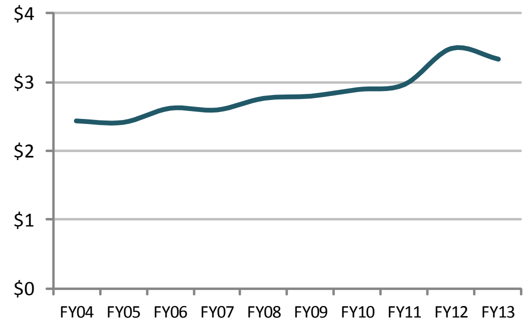
The Human Resources Department is responsible for employee recruitment, compensation and benefits, and organizational development for all Metro departments. Expenditures doubled in the last 10 years. This was caused by increases in both personnel services, and materials and services. In FY 2012-13, 82% of expenditures were for personnel.



(in millions, adjusted for inflation)

Information Services
FY 2003-04 to FY 2012-13

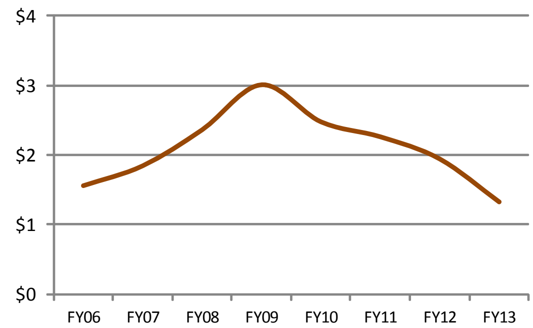
Metro's Information Services Department develops and maintains hardware and software systems to support the entire agency. Expenditures for this department increased by 37% in the last 10 years. This was caused by increases in both personnel services and materials and services. In FY 2012-13, 68% of its expenditures were for personnel.



(in millions, adjusted for inflation)

MERC Administration
FY 2005-06 to FY 2012-13

This department provides business services, such as accounting, information services, project management and administration for the venues that make up MERC. In the last eight years, expenditures decreased by 15%. This was mostly due to lower administrative costs as a result of centralizing some business services. In FY 2012-13, personnel made up 83% of expenditures.

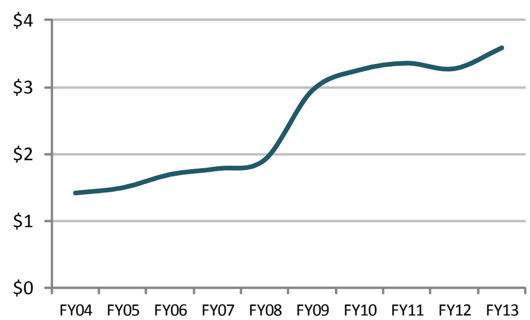


(in millions, adjusted for inflation)

Metro Council
FY 2003-04 to FY 2012-13

The Metro Council is the governing body of Metro. It consists of seven elected officials who represent the districts in the Metro region and one region-wide official, the Council President. The Office also includes the Chief Operating Officer, the government affairs and policy development programs, and the community investment strategy.

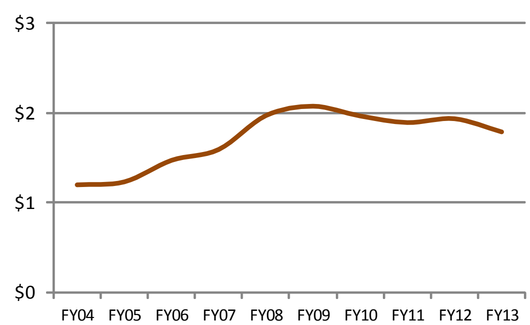
In the last 10 years expenditures increased by 154%. This was mostly caused by increases in personnel services through the creation of several policy advisor positions in FY 2008-09. In FY 2012-13, 89% of expenditures were for personnel.



(in millions, adjusted for inflation)

Office of the Metro Attorney
FY 2003-04 to FY 2012-13

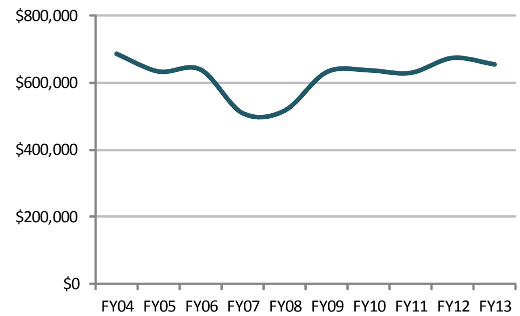
The Office of the Metro Attorney provides legal research, evaluation, analysis and advice to Metro departments. In the last 10 years, expenditures increased by 50%. This was caused by increases in personnel services. In the most recent year, personnel accounted for 97% of expenditures.



(in millions, adjusted for inflation)

Office of the Metro Auditor
FY 2003-04 to FY 2012-13

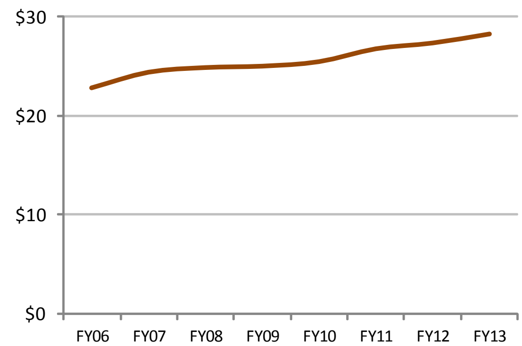
The Office of the Metro Auditor conducts performance audits of Metro's services and programs, oversees the financial audit by an outside accounting firm and administers the ethics hotline. Expenditures declined by 5% in the last 10 years. This was mostly caused by a decrease in the amount spent on contracted professional services during that time. In the most recent year, 95% of expenditures were for personnel.



(ajusted for inflation)

Oregon Convention Center
FY 2005-06 to FY 2012-13

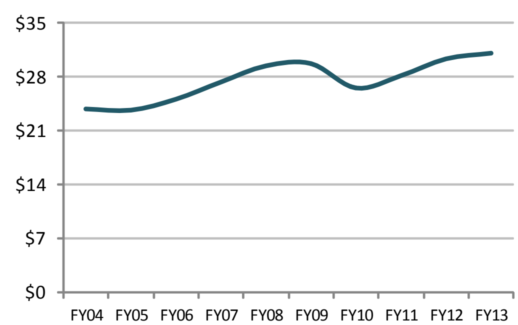
The Oregon Convention Center hosts conventions, trade, and consumer shows. Expenditures increased by 24% in the last eight years. Increases were caused by additional spending on food and beverage contracts and marketing expenses. In FY 2012-13, materials and services accounted for 63% of expenditures.



(in millions, adjusted for inflation)

Oregon Zoo
FY 2003-04 to FY 2012-13

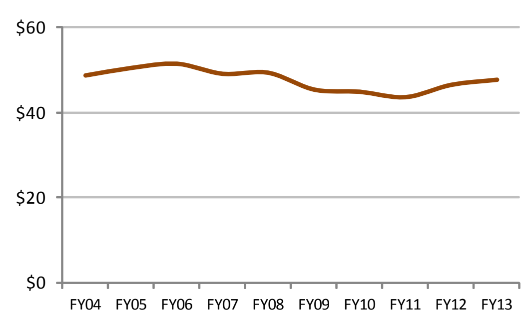
The Oregon Zoo houses animals and exhibits, and provides wildlife education and conservation programs. Over the last 10 years, expenditures increased by 31%. This was caused by increases in both personnel and materials and services.



(in millions, adjusted for inflation)

Parks and Environmental Services
FY 2003-04 to FY 2012-13

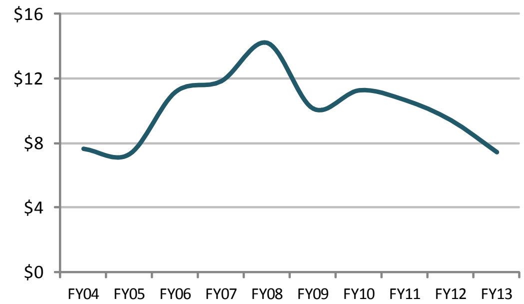
This department manages the regional waste disposal system, various parks and cemeteries, and the Metro Regional Center building. Over the last 10 years, expenditures decreased by 2%. This trend was caused by decreases in solid waste operations (-8%) over the last 10 years. Non-solid waste expenditures in this department increased by 44% during that time.



(in millions, adjusted for inflation)

Planning and Development
FY 2003-04 to FY 2012-13

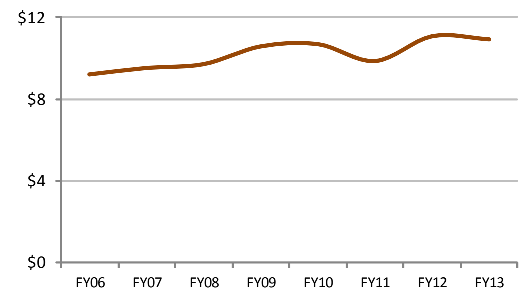
The Planning and Development Department works on policies and programs that guide land use and transportation planning. It also provides technical assistance and distributes federal funding to local governments. Over the last 10 years, expenditures declined by 3%. This was caused by decreases in personnel services related to fluctuation in federal grant funding.



(in millions, adjusted for inflation)

Portland Center for the Performing Arts
FY 2005-06 to FY 2012-13

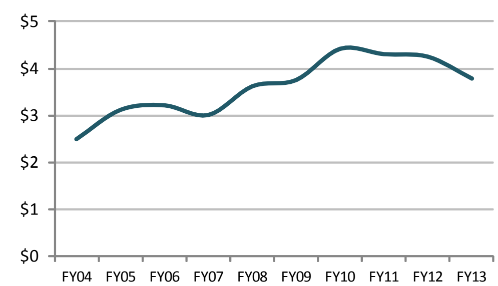
The Portland Center for the Performing Arts (recently renamed as Portland'5) includes five spaces for events such as concerts, dance performances, and plays. Expenditures increased by 19% over the last eight years. In the most recent year, personnel accounted for 50% of expenditures.



(in millions, adjusted for inflation)

Research Center
FY 2003-04 to FY 2012-13

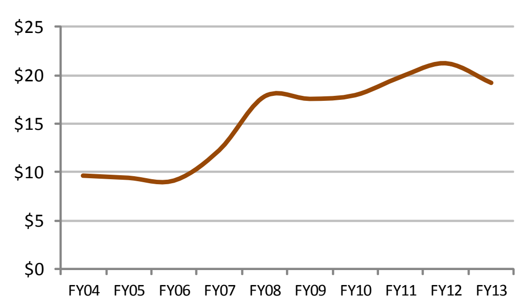
This department provides data, mapping, forecasting and technical services to Metro's other departments. It also provides similar services to local governments, businesses and the public. Expenditures increased by 52% in the last 10 years. This was mostly due to increases in personnel services.



(in millions, adjusted for inflation)

Sustainability Center
FY 2003-04 to FY 2012-13

The Sustainability Center manages the Natural Areas program and works with local governments on waste reduction and recycling strategies. It also plans and develops a regional system of parks and trails. Over the last 10 years, expenditures doubled. This was mostly due to increased materials and services expenditures related to the natural areas bond measure that was approved by voters in 2006.

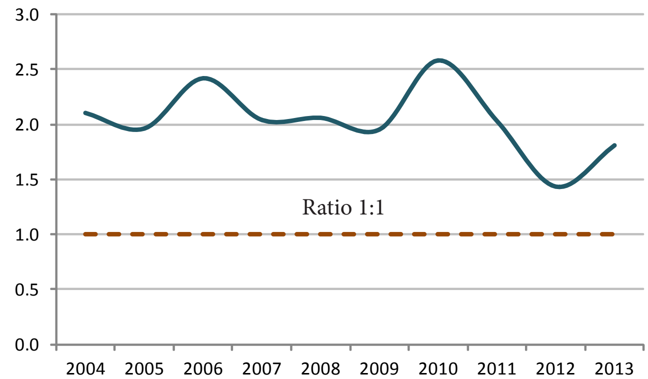


(in millions, adjusted for inflation)

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 without the risk of not being able to fund them. Sound financial health also implies the ability to withstand local, regional or national economic disruption.

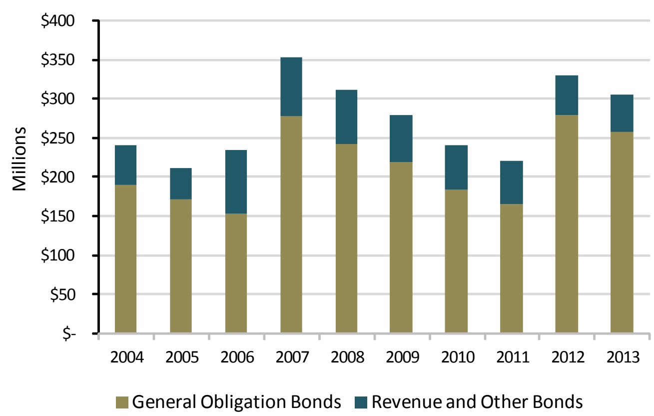
Liquidity
(as of June 30)



Liquidity measures Metro's ability to meet its short-term obligations. It is the ratio of cash to short-term liabilities. A ratio of less than one-to-one is considered a warning sign. Metro has consistently been above that ratio, a positive trend.

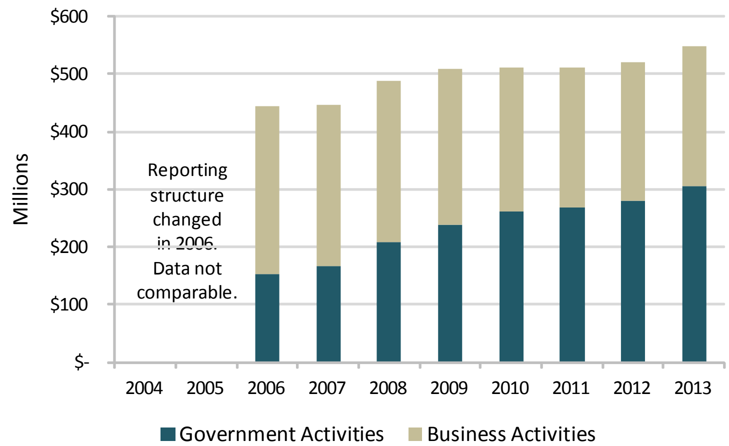
Decreases in liquidity in 2011 and 2012 had different causes. The decrease in 2011 was the result of a decline in cash on hand and a slight increase in liabilities for accounts payable and bonds payable. The decrease in 2012 was due to the timing of how revenue and cash were entered into the accounting system. Both of these changes were reversed in 2013 with an increase of cash on hand and a decrease in liabilities.

Total debt
(as of June 30
adjusted for inflation)



The majority (85%) of Metro's long-term debt is from general obligation bonds. Repayment of general obligation bonds occurs through a separate property tax levy that is not subject to annual property tax revenue limitations. The spikes in 2007 and 2012 were from issuances of new bonds. After new bonds are issued, they are repaid from additional property taxes, which decrease total debt in the years that follow.

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

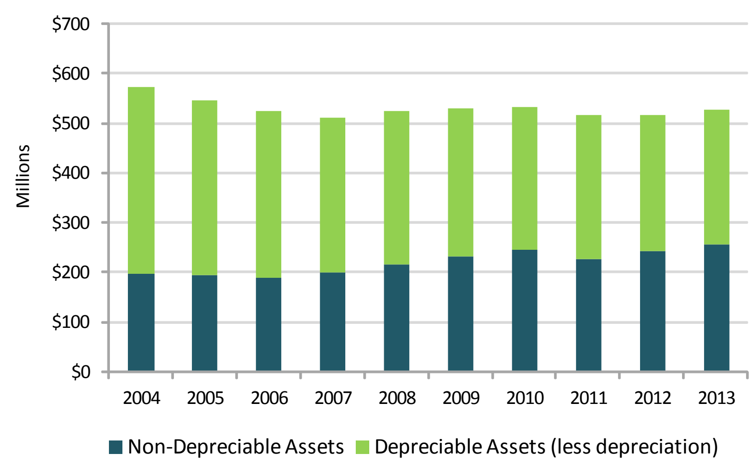


Net assets measure the difference between what Metro owns and what it owes. Some of Metro's assets are monetary and some of them are physical things, such as buildings and land. Both types of assets are included in the indicator.

Metro's business activities include the solid waste system, Oregon Convention Center, Portland Center for the Performing Arts, and Exposition Center. All other Metro programs, such as regional planning, the Oregon Zoo and parks are included in governmental activities. In 2006, Metro's business activities made up 65% of all net assets, compared to 44% in 2013. Net assets for business activities declined by 16% since 2006.

Conversely, net assets for government activities have increased by 98% since 2006. This increase was the result of two bond measures allowing Metro to purchase natural areas and make improvements at the Oregon Zoo.

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

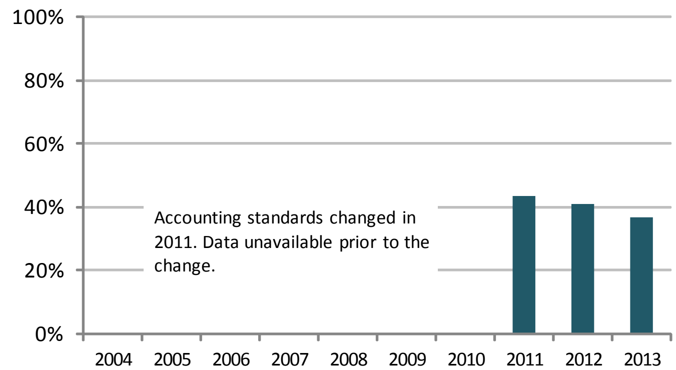


Capital assets include both depreciable and non-depreciable assets. Examples of depreciable assets are buildings, zoo exhibits, equipment, software and office furniture. Examples of non-depreciable assets are land, easements and artwork.

Overall, capital assets declined by 8% in the last 10 years, but trends varied by asset type. The decline was due to a 28% decline in depreciable assets, which is a warning trend. As assets depreciate governments should invest in renewing or replacing them to maintain their values.

Non-depreciable assets increased by 30% during that time. The increase in non-depreciable assets was primarily driven by additional land assets from two voter-approved bond measures, allowing Metro to purchase natural areas.

General Fund fund balances
(as of June 30)



The size of the fund balance can affect a local government's ability to withstand financial emergencies. 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 available.

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, Oregon Zoo, Parks and Environmental Services, Planning and Development, Research Center and Sustainability Center. It does not include the Oregon Convention Center, Portland Center for the Performing Arts (Portland'5), Exposition Center and the solid waste management system.

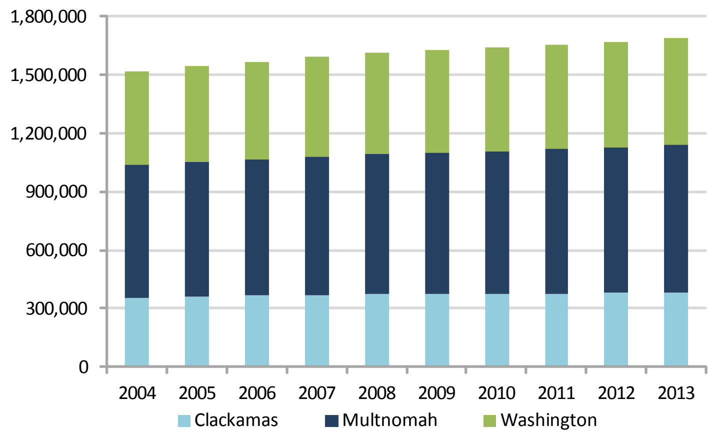
In 2013, the ratio of unassigned fund balances to operating revenues was 36%. This was lower than the previous two years, which is a warning trend. A declining balance indicates that there are fewer resources available in the event that revenue is less than expected.

Demographic and EconomicTrends

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) 2004 to CY 2013 (Tri-county)

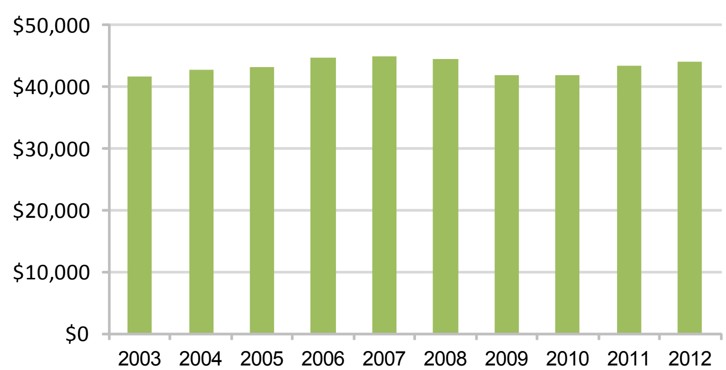


Changes in population can affect government finances in two ways. The amount of revenue received is partially related to the number of taxpayers in the region. Similarly, the demand for services can change based on the number of people in the region. The population of the tri-county region grew by 11% since 2004.

In the last 10 years, Washington County's population grew the fastest (15%) compared to Multnomah (10%) and Clackamas (8%) counties. Multnomah County has the largest population of the three and accounted for 45% of the total in 2013.

Per capita personal income

CY 2003 to CY 2012 (Metropolitan Statistical Area MSA, 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 5% since 2003. After 2007, per capita income decreased for three consecutive years. Recent increases have yet to regain the levels achieved prior to the economic recession.

Unemployment rate and number of jobs

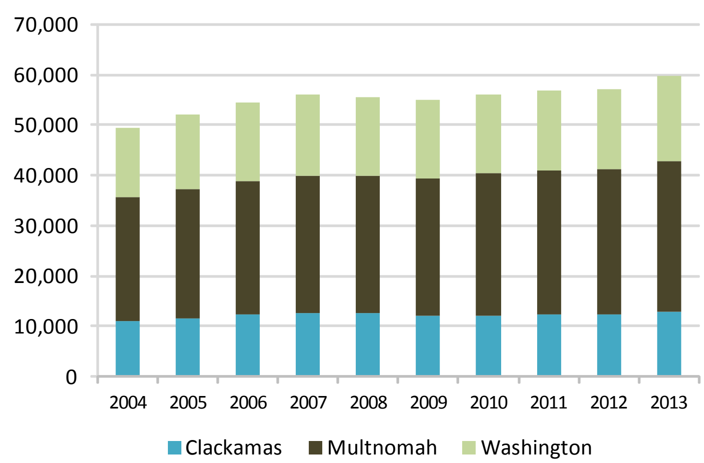
CY 2004 to CY 2013
(MSA, Oregon portion)

The unemployment rate and number of jobs measure business activity. These indicators also have an effect on personal income. After several years of declines, lower unemployment and increased jobs are positive trends.

In 2013, the unemployment rate reached its lowest point since 2008, a sign that economic conditions are improving. The number of jobs also increased steadily since 2011. In 2013, it reached the highest point in the last 10 years.

Number of businesses

CY 2004 to CY 2013
(Tri-county)

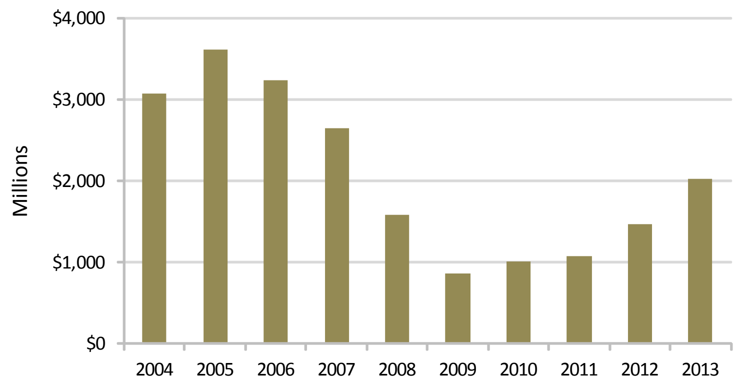


The number of businesses affects Metro's revenues that rely on business activity. A decline in business activity can reduce employment, income and property value.

The number of businesses increased since 2009 and the total number of businesses in 2013 was at its highest level over the last 10 years. During that time, business growth was fastest in Multnomah County (22%) followed by Washington County (20%) and Clackamas County (17%).

Value of new construction

CY 2004 to CY 2013
(MSA, adjusted for inflation)

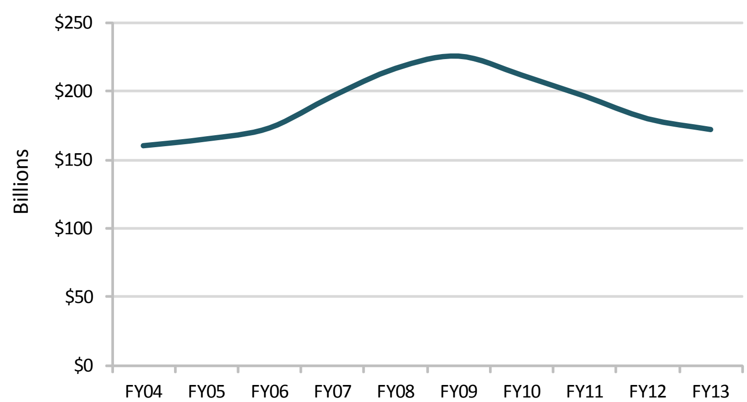


New construction is important to Metro in several ways. Metro is responsible for planning for urban growth and transportation in the region. The rate of new construction can affect these plans. In addition, some of Metro's services are funded through property taxes that are affected by construction activity.

The value of new construction has been increasing since 2009 after several years of decreases beginning in 2006. Nevertheless, over the last 10 years values decreased by 34%.

Real market property values

(Metro taxing district
adjusted for inflation)



Slow growth or declining market values are warning trends for governments because of the impact on revenue from property taxes. In FY 2012-13, 23% of Metro's revenue came from property taxes. Declining real market property values since FY 2008-09 were the result of the economic recession. These values have not regained the levels they were at in FY 2008-09.

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 that, when plotted over time, can be used to monitor changes in financial condition and provide information to assist decision-makers. For most indicators, data is presented for a 10-year trend, but in some cases, data was not available. For those indicators, we reported the trend for as many years as possible.

Our scope included both general government operations and business-type operations, such as those of the Metropolitan Exposition and Recreation Commission and the solid waste system. We did not include capital project funds or trust funds. The ICMA recommends focusing on "General Government" operations, excluding those operations that are run as a business-type activity where costs are recovered through user fees and charges. However, Metro has many business-type activities that are integral to its mission, and these operations were included.

We obtained data from the independently audited Comprehensive Annual Financial Reports (CAFR) and more detailed information about revenue sources, personnel costs and other expenditures from Metro's financial accounting systems, PeopleSoft and EBMS. Economic and demographic data was acquired from outside published sources. All figures were adjusted for inflation to FY 2012-13 dollars.

Most of the data collected for demographic and economic measures was reported either for the three counties in the region or by metropolitan statistical area (MSA). The MSA is larger than the Metro region 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 only portion of the MSA was used. Very little of the population in Clackamas, Multnomah and Washington Counties (9%) 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.

Metro

Office of the Metro Auditor
600 NE Grand Avenue
Portland, Oregon 97232
503-797-1892
www.oregonmetro.gov