



Financial Condition of Metro: FY 2011-12 to FY 2020-21

June 2022
A Report by the Office of the Auditor

Brian Evans
Metro Auditor



Knighton Award for Auditing

Audit receives recognition

The Office of the Metro Auditor was the recipient of the “Distinguished Award” for Small Shops by Association of Local Government Auditors (ALGA). The winning audit is entitled “Affordable Housing Bond Preparedness: Develop Clear and Consistent Guidance to Improve Bond Operations.” Auditors were presented with the award at the ALGA conference in Dallas, Texas in May 2022. Knighton Award winners are selected each year by a judging panel of peers and awards are presented at the annual conference.

Metro Accountability Hotline

The Metro Accountability Hotline gives employees and citizens an avenue to report misconduct, waste or misuse of resources in any Metro or Metro Exposition Recreation Commission (MERC) facility or department.

The Hotline is administered by the Metro Auditor's Office. All reports are taken seriously and responded to in a timely manner. The auditor contracts with a hotline vendor, EthicsPoint, to provide and maintain the reporting system. Your report will serve the public interest and assist Metro in meeting high standards of public accountability.

To make a report, choose either of the following methods:

Dial 888-299-5460 (toll free in the U.S. and Canada)

File an online report at www.metroaccountability.org



Brian Evans
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MEMORANDUM

Date: June 8, 2022

To: Lynn Peterson, Council President
Shirley Craddick, 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 2011-12 to FY 2020-21

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 eighth report in the series. It provides a check-up of how well Metro is doing financially, based on indicators that are recommended by the International City/County Management Association.

Most of the information in this report is derived from the 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 positive leading to stable financial health as of June 30, 2021. However, seven indicators showed negative trends that should be monitored. Three of the seven were directly impacted by Covid-19. As the region recovers, trends in these indicators may improve more quickly than others. The other four indicators that showed negative trends were not directly related to Covid-19. Trends in these indicators require additional attention to ensure long-term financial health.

We have discussed our findings and recommendations 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 the areas of revenues, expenditures, debt, and assets. It also includes long-term demographic and economic trends of the government’s service area. This report covers the 10-year period from fiscal year (FY) 2011-12 through FY 2020-21.

COVID-19 had an immediate and significant effect on economic conditions in the region beginning in March 2020. Metro’s venues that host events like the Oregon Convention Center, P’5 Centers for the Arts, Portland Expo Center, and Oregon Zoo were particularly hard hit by restrictions on in-person gatherings. The indicators in this report are based on data from June 30, 2021 or earlier which provide an opportunity to understand how the global pandemic has impacted Metro’s financial health.

Metro experienced strong revenue growth (20%) over the last 10 years, but expenditures grew faster (41%). The overall trends reflect variations within Metro. New voter-approved property, business, and personal income taxes significantly boosted revenue for affordable housing, supportive housing services, and parks and natural areas. At the same time, COVID-19 reduced spending and revenue dramatically for Metro’s visitor venues whose operations were restricted to prioritize public health and safety.

Similar variability was also evident in economic and demographic trends in the region which experienced strong overall growth despite dramatic changes in the most recent years. This uneven performance was also evident in many of the indicators of financial health.

At the end of FY 2020-21, seven of the indicators showed negative 10 year trends. For some measures, COVID-19’s impact on Metro’s financial condition may be temporary. For others, more caution is warranted to ensure long-term financial stability.

Directly Related to COVID-19

- Charges for services revenue
- General fund revenue
- General fund balance

Not Directly Related to COVID-19

- Total expenditure
- Risk management spending
- Capital spending
- Total debt

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.

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

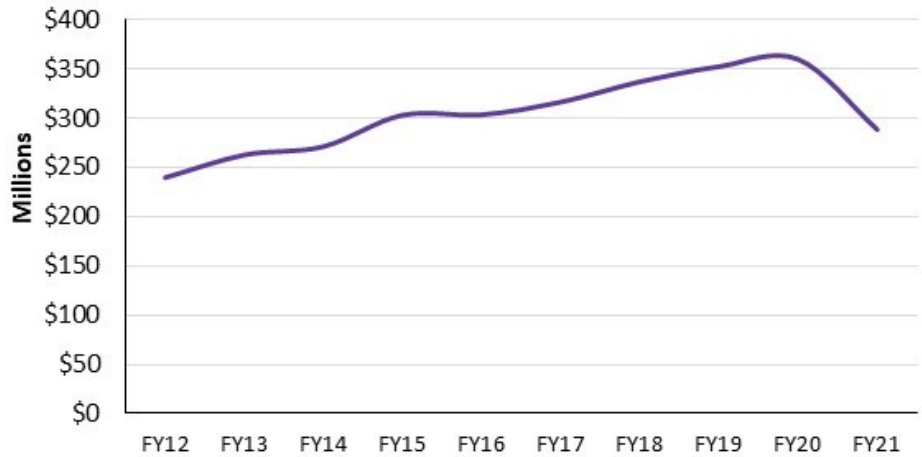
	Indicator	Change from previous year	10-year trend	Effect on overall financial health
Revenue	Total revenues	-	↑	Positive
	Revenue per capita	-	↑	Mixed
	Charges for services	-	↓	Negative
	Property taxes	-	↑	Positive
	Excise taxes	+	↑	Positive
	Grants	+	↑	Positive
	General Fund revenue over/under budget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

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

Revenue

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

Total revenues
FY 2011-12 to FY 2020-21
(adjusted for inflation)

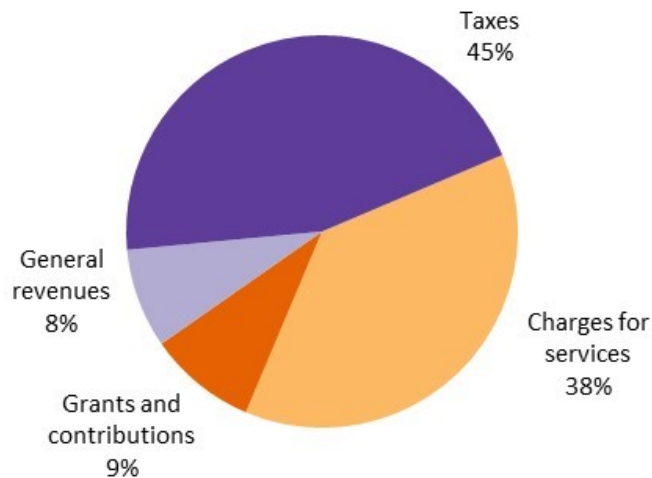


Despite a decline last year, total revenue has increased by 20% since FY2011-12. There are four primary sources of revenue at Metro: taxes; charges for services; grants and contributions; and general revenues.

In the last 10 years, revenue from taxes, general revenue, and grants and contributions increased. Tax revenue increased by 91%. General revenue and grants and contributions also increased. Increased tax revenue resulted from voter-approved ballot measures for parks and nature (operating levy and new bonds), affordable housing, and supportive housing services.

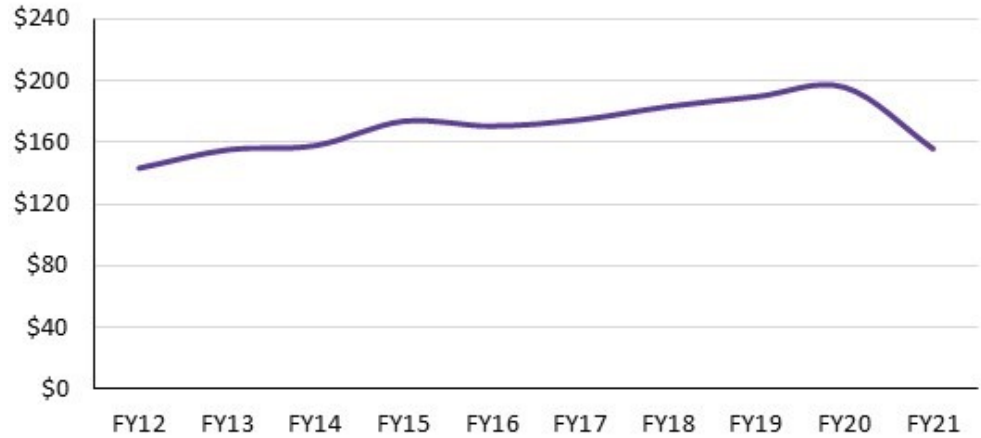
In contrast, revenue from charges for services declined by 19% compared to FY2011-12 levels. Less activity at Metro’s visitor venues (Oregon Convention Center, Oregon Zoo, P’5 Centers for the Arts, Portland Expo Center) and parks starting in March 2020 caused the decline in charges for service revenue.

Revenue sources
FY 2020-21



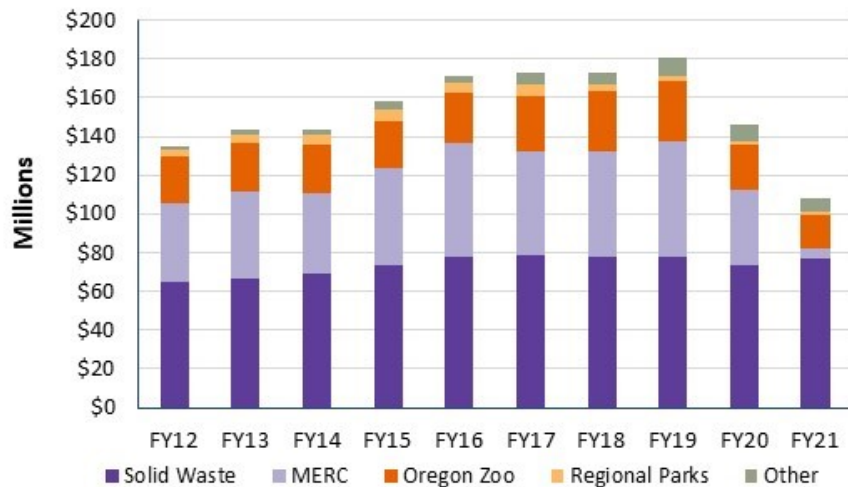
In FY 2020-21, the largest source of revenue was taxes. This was driven by increased property tax revenue from voter-approved ballot measures and decreased charges for services resulting from COVID-19.

Revenue per capita
FY 2011-12 to FY 2020-21
(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, all else being equal. In Metro’s case, services have changed with voters approving new programs and services related to housing. Since FY 2011-12, revenue per capita increased by 9%. This was caused by total revenue growing faster (20%) than the population (11%).

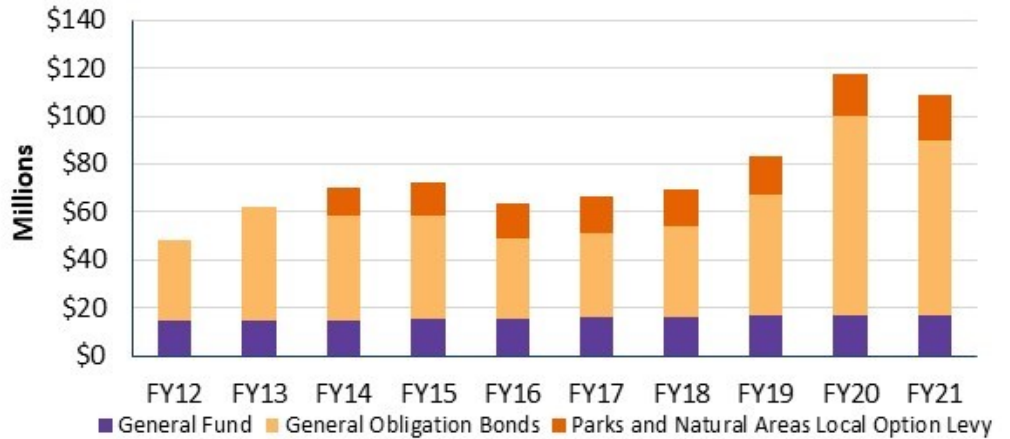
Charges for services
FY 2011-12 to FY 2020-21
(adjusted for inflation)



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, Portland Expo Center, and Portland’s Centers for the Arts.

In the last 10 years the amount of revenue collected from service charges declined by 20%. This was mostly driven by the closure of the MERC venues and reduced operations at the Oregon Zoo beginning in March 2020. Conversely, charges for services related to solid waste were up by 19% compared to FY 2011-12 levels.

Property taxes
 FY 2011-12 to FY 2020-21
 (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 programs projects that were approved by voters for investments in the Oregon Zoo, parks and natural areas, and affordable housing.

The amount of revenue collected to repay general obligation bonds doubled over the last 10 years. This was due to two voter-approved ballot measures to increase property taxes for natural areas (2018) and affordable housing (2019). Property taxes increased beginning in FY 2013-14 as a result of the voter approved Parks and Natural Areas Local Operating Levy. Revenue from that tax increased by 57% over the last eight years. Property taxes for general government services increased by 19% over the last 10 years.

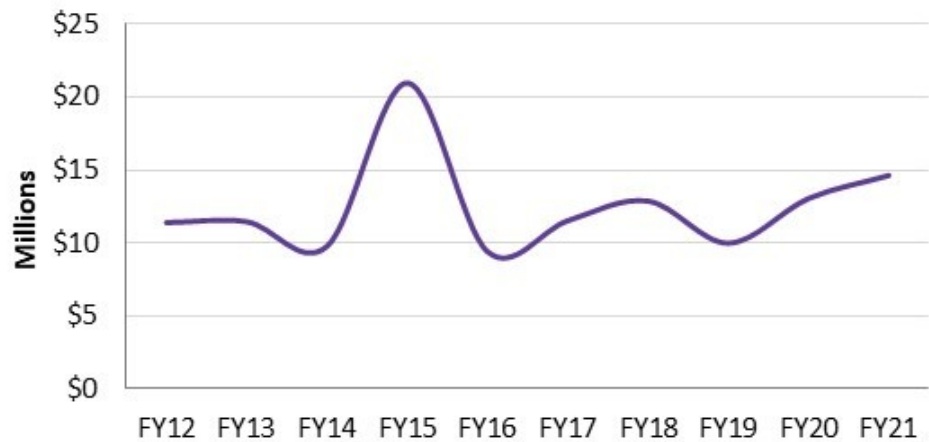
Excise taxes
 FY 2011-12 to FY 2020-21
 (adjusted for inflation)



Another source of revenue is excise tax. Historically it was collected when people used Metro’s facilities and services. Starting in FY 2018-19, it only applies to Metro’s solid waste facilities and other solid waste facilities not operated by Metro. It is also assessed 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 increased by 11% over the last 10 years. Revenue from construction excise taxes increased by 53% in the last 10 years. General excise taxes decreased from FY 2016-17 to FY 2019-20. Beginning in FY 2018-19, Metro exempted users of the Oregon Convention Center and Portland Expo Center from paying excise tax. However, general excise taxes still increased by 5% compared to FY 2011-12 levels.

Grants
 FY 2011-12 to FY 2020-21
 (adjusted for inflation)



Most revenue from grants was for work conducted by Planning and Development Department and Research Center. Grants are provided for a specific purpose and cannot be used outside that purpose. Grant revenue was 28% higher in FY 2020-21 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.

**General Fund revenue
over/under budget
FY 2011-12 to FY 2020-21**

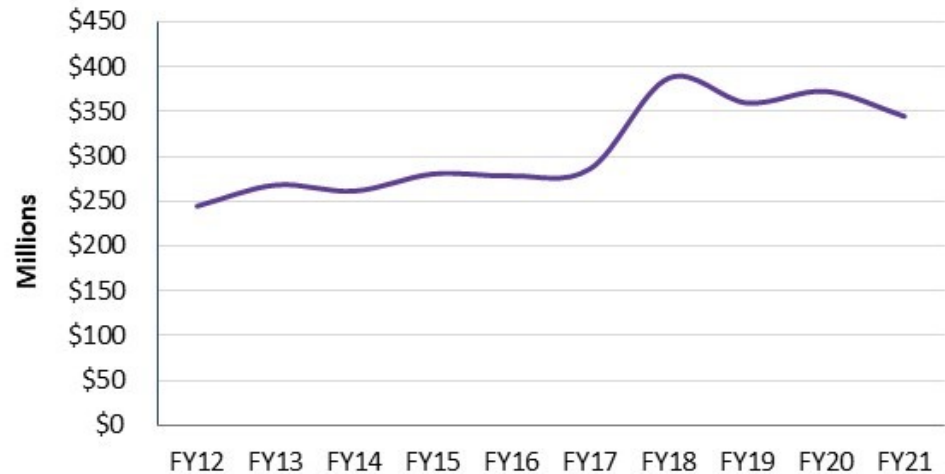


This indicator shows how the amount of General Fund revenue received compared to the amount of revenue estimated when the annual budget was created. From FY 2016-17 to FY 2019-20, General Fund revenue exceeded budget estimates. That was a positive trend. Unfortunately, the impact of the global pandemic is evident in the most recent year, when General Fund revenue was 12% below what was expected and about three times as large as the previous low point in FY 2011-12. When less revenue is collected and there are insufficient reserves, it can lead to mid-year cuts in services.

Expenditure

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

Total expenditures
FY 2011-12 to FY 2020-21
(adjusted for inflation)

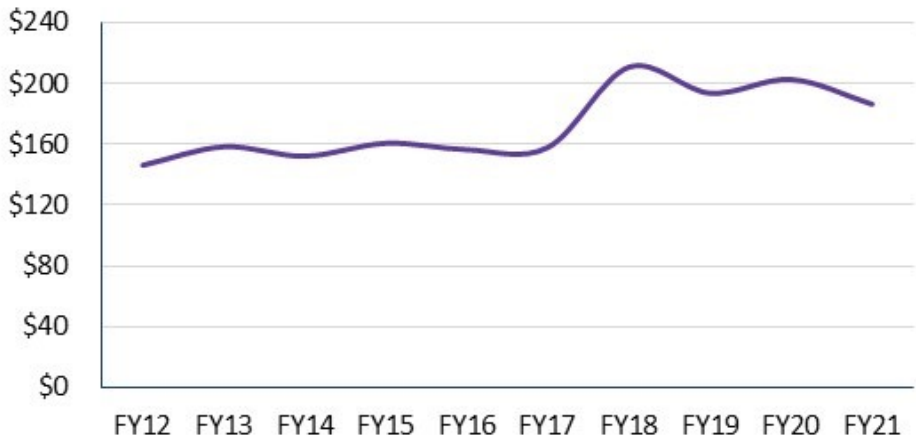


Total expenditures include all departments and services operated by Metro and the three venues that make up the Metropolitan Exposition and Recreation Commission (MERC), as well as non-departmental costs and debt service. Included are costs for employee salaries and benefits, and materials and services. Total expenditures increased by 41% in the last 10 years which was larger than the increase in revenue during that time (20%).

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 previous six years. This was due to renovations to the Oregon Convention Center's outdoor plaza and interior spaces to align with the opening of the Hotel. In the last two years, higher expenditures was the voter-approved ballot measure for affordable housing.

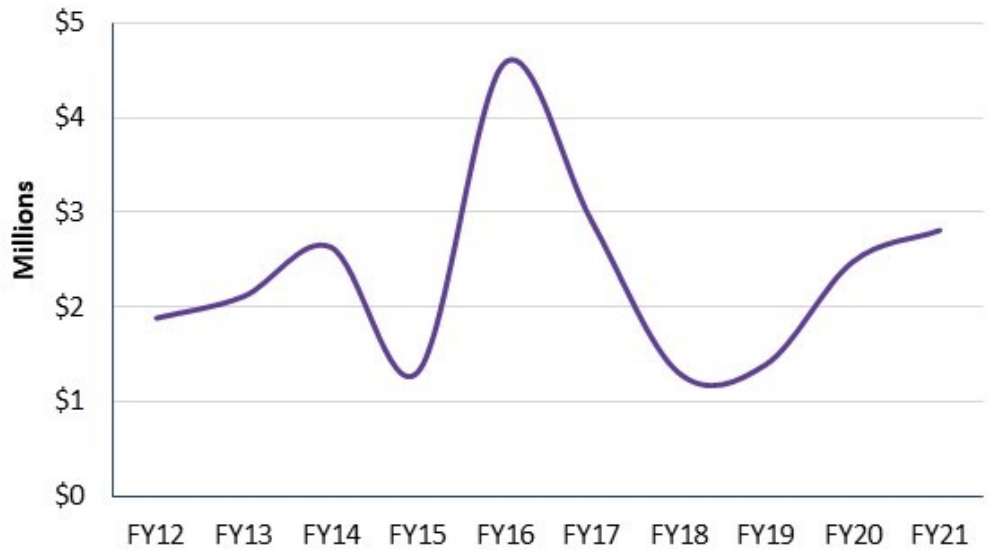
Metro's Charter includes a provision that limits expenditures from non-voter approved sources. The Consumer Price Index is used to gradually increase the expenditure limit each year. The annual budget includes analysis of proposed expenditures in relation to the Charter limitation. For FY 2020-21, the analysis stated that Metro's budget would use 79% of the limit.

Expenditure per capita
 FY 2011-12 to FY 2020-21
 (adjusted for inflation)



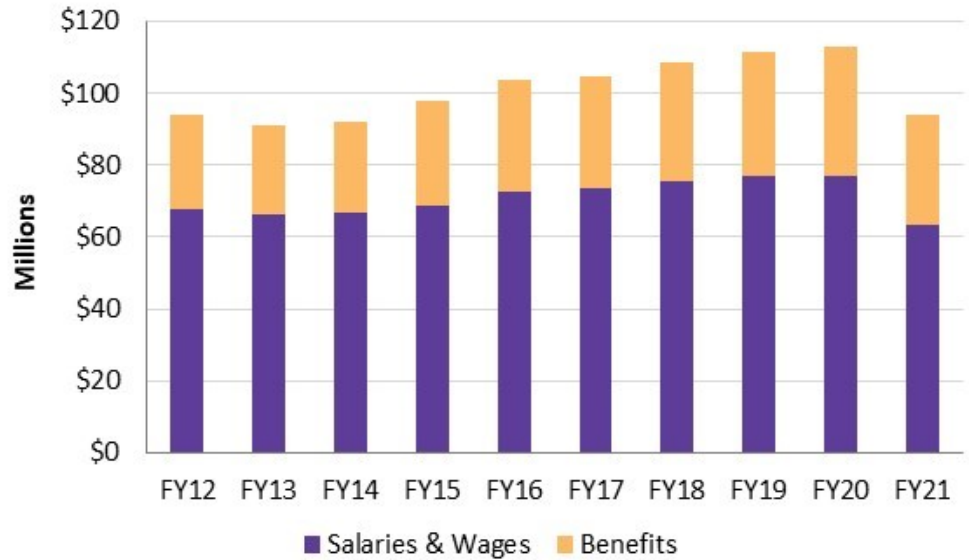
Expenditures per capita show the average amount of money spent to provide services to each person who lives in the region. Expenditures per capita increased by 27% over the last 10 years as expenditures grew faster (41%) than the population (11%). Increased spending per capita was caused by higher expenditures in existing operations, as well as new programs and services that were approved by voters beginning in FY 2018-19.

Risk Management Fund
 FY 2011-12 to FY 2020-21
 (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 49% increase compared to 10 years ago. Increases during the last two years resulted from higher claims paid and insurance costs. Some personnel costs were also moved into the Risk Management Fund in FY 2020-21 that had previously been included in the General Fund.

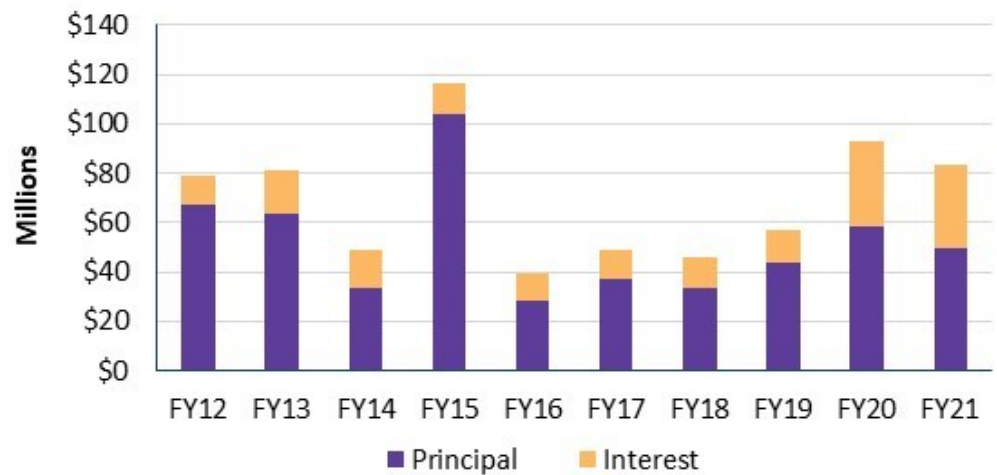
Employee costs
 FY 2011-12 to FY 2020-21
 (adjusted for inflation)



Over the last 10 years, expenditures for employee salaries and benefits were unchanged. This was caused by benefit costs for health care and retirement contributions increasing by 18% during that time. Salaries and wages declined by 7% due to budget cuts associated with COVID-19. Benefits accounted for about 33% of all employee costs in FY 2020-21, which was higher than the average (30%) over the last 10 years.

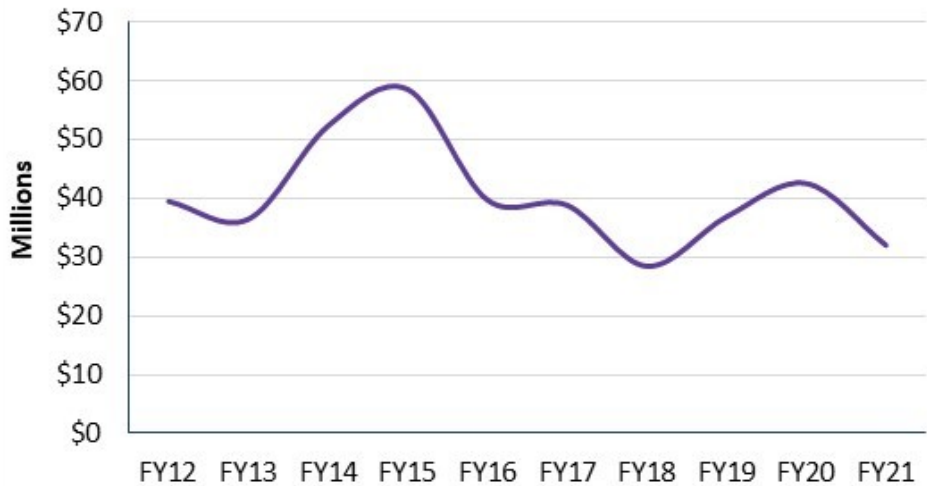
Metro typically has less control over the costs of benefits compared to salaries and wages. This is because benefit costs are impacted by changes in the health insurance market and funding requirements to provide a fixed investment return to some public sector retirees. Nevertheless, managing employee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

Fixed costs
 FY 2011-12 to FY 2020-21
 (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, which are paid by property tax increases approved by voters. Metro uses these tax revenues to pay debt. Fixed costs in FY 2020-21 were 5% higher compared to ten years ago, which was lower than revenue growth. 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. Higher fixed costs in FY 2019-20 and FY 2020-21 were from principle payments to pay off bonds issued in 2014 and 2016, and new payments for bonds issued in 2019 and 2020. It was also caused by increased interest payments associated with the Affordable Housing and Parks and Natural Areas bonds.

Capital expenditure
 FY 2011-12 to FY 2020-21
 (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 a spike 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.

Over the last 10 years capital expenditures declined by 19%. This was due to fewer land purchases in the Natural Areas program and completion of improvements at the Oregon Zoo. Spending on renewal and replacement projects increased by 47% in the last 10 years, but from a relatively low starting point.

Spending by department

Department growth rates can vary based on the type of programs and services of each department as well as their sources of revenue. Trends in some departments/venues that depend on service charges, excise taxes, or bonds are closely tied to the economy. For example, the three MERC venues, Oregon Zoo, and Waste Prevention and Environmental Services had differing trends that partially reflected their ability to generate revenue. This is especially pronounced during COVID-19 when many of Metro’s visitor venues operations were restricted, but solid waste operations were not.

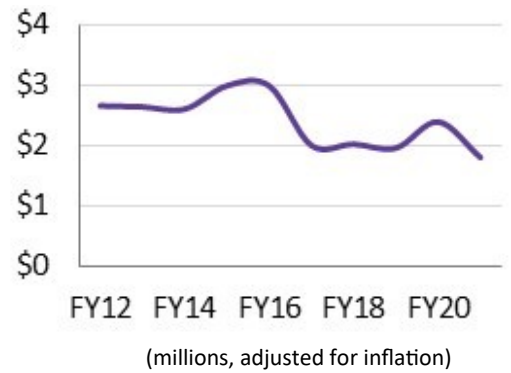
Other departments provide support services to other parts of the organization and do not generate their own revenue. For example, the Council Office, Communications, Human Resources, Information Services, Finance and Regulatory Services, Metro Attorney, and Metro Auditor are all funded through internal service charges and the general fund. Historically, a couple of departments (Planning and Development and Research Center) relied on grant funds, which can vary by year depending on what projects are in process. This changed in the most recent years because of voter-approved ballot measures that significantly increased spending in Planning and Development.

This table provides a summary of FY 2020-21 expenditures and 10 year trends for each of Metro’s 16 departments or venues. The list is ranked by total expenditure in FY 2020-21. The accompanying charts for each department/venue are in alphabetical order.

Department/Venue	FY 2020-21 expenditure	10-year change
Waste Prevention and Environmental Services	\$92,329,357	52%
Planning and Development	\$71,911,673	511%
Parks and Nature	\$25,261,027	9%
Oregon Zoo	\$25,162,178	-32%
Portland’s Centers for the Arts	\$10,222,770	-10%
Oregon Convention Center	\$9,501,784	-68%
Metro Council and Chief Operating Officer	\$5,636,977	42%
Information Services	\$5,501,607	30%
Finance and Regulatory Services	\$5,085,744	-2%
Research Center	\$3,964,813	-23%
Human Resources	\$3,368,680	40%
Office of Metro Attorney	\$2,754,246	18%
Portland Expo Center	\$2,370,245	-58%
Communications	\$1,806,259	-32%
MERC Administration	\$845,379	-58%
Metro Auditor	\$732,013	-10%

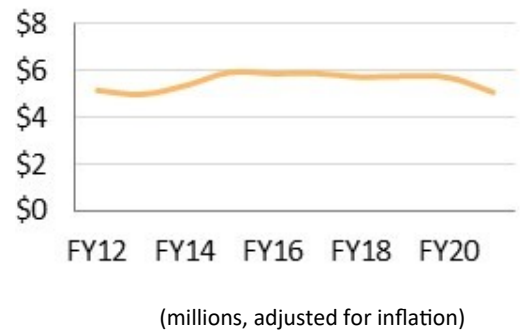
Communications
(FY 2011-12 to FY 2020-21)

Communications provides media relations, public involvement, writing, marketing, graphic and web design services to Metro’s other departments. In the last 10 years, expenditures declined by 32%. This was mostly due to decreased spending on personnel (salaries and benefits). In FY 2020-21, 97% of the expenditures were for personnel.



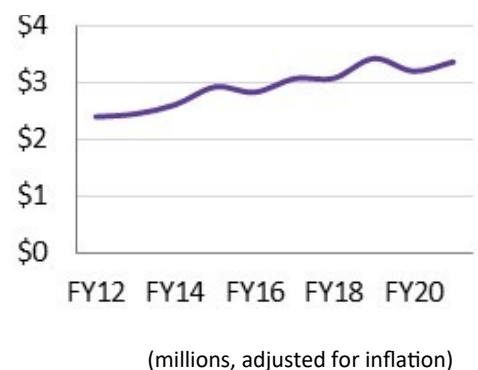
Finance and Regulatory Services
(FY 2011-12 to FY 2020-21)

This department provides business services, such as accounting, procurement and budgeting for Metro’s other departments. Expenditures decreased by 2% between FY 2011-12 and FY 2020-21 mostly due to lower personnel costs. Personnel services made up 82% of the department’s expenditures in FY 2020-21.



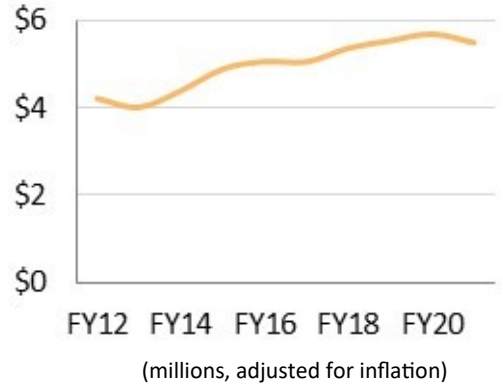
Human Resources
(FY 2011-12 to FY 2020-21)

The Human Resources Department is responsible for employee recruitment, compensation and benefits, and organizational development for all Metro departments. Expenditures increased by 40% in the last 10 years. This was mostly caused by increases in personnel services costs. In FY 2020-21, 88% of expenditures were for personnel.



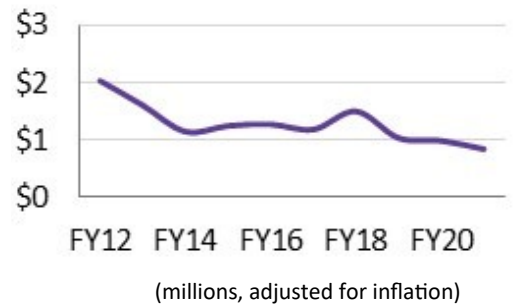
Information Services
(FY 2011-12 to FY 2020-21)

Metro’s Information Services Department develops and maintains hardware and software systems to support the entire agency. Expenditures for this department increased by 30% in the last 10 years. This was caused by increases in both personnel services and materials and services. In FY 2020-21, 70% of its expenditures were for personnel.



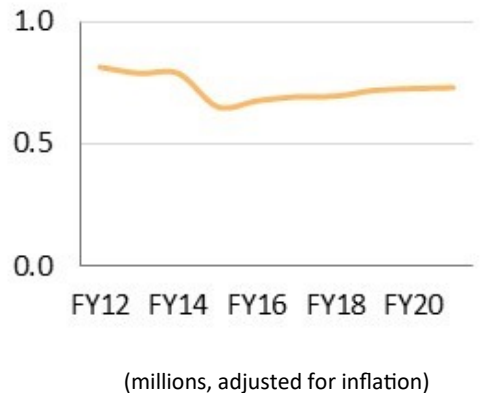
MERC Administration
(FY 2011-12 to FY 2020-21)

This department provides additional business services, such as accounting, information services, project management and administration for the venues that make up MERC. In the last 10 years expenditures decreased by 589%. In FY 2020-21, personnel made up 61% of expenditures.



Metro Auditor
(FY 2011-12 to FY 2020-21)

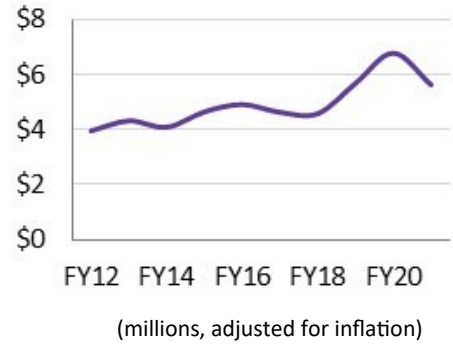
The Office of the Metro Auditor conducts performance audits of Metro’s services and programs, oversees the financial audit by an outside accounting firm and administers the agency’s Accountability Hotline. Expenditures decreased by 10% in the last 10 years. This was mostly caused by lower personnel costs. Personnel accounted for 97% of expenditures in FY 2020-21.



Metro Council and Chief Operating Officer
(FY 2011-12 to FY 2020-21)

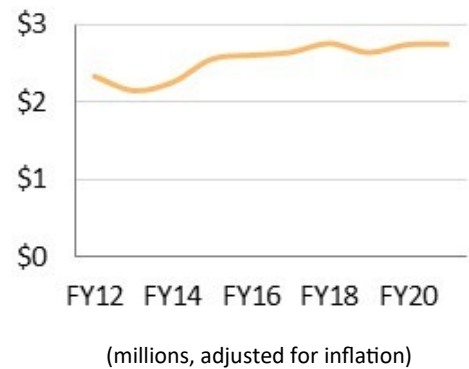
Council is the governing body of Metro. It consists of six elected officials who represent districts in the Metro region and one region-wide elected official, the Council President. The Office also includes the Chief Operating Officer’s Office; the Government Affairs and Policy Development program; and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

In the last 10 years expenditures increased by 42%. This was caused by increases in personnel services. In FY 2020-21, 93% of expenditures were for personnel.



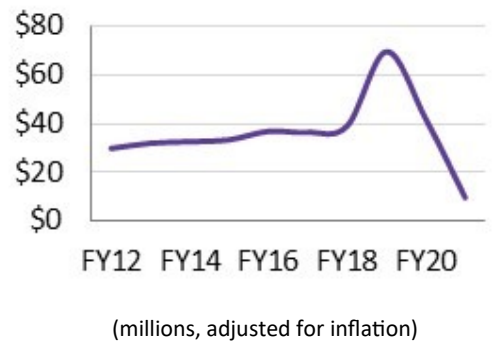
Office of Metro Attorney
(FY 2011-12 to FY 2020-21)

The Office of Metro Attorney provides legal research, evaluation, analysis and advice to Metro departments. In the last 10 years, expenditures increased by 18%. This was caused by increases in personnel services. In the most recent year, personnel accounted for 98% of expenditures.



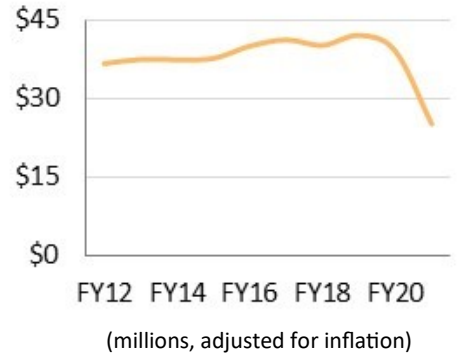
Oregon Convention Center
(FY 2011-12 to FY 2020-21)

The Oregon Convention Center hosts conventions, trade, and consumer shows. Expenditures decreased by 68% in the last 10 years. The decrease 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 outdoor plaza and interior finishes, which was paid from operating revenues. In FY 2020-21, spending was evenly divided between personnel, and materials and services.



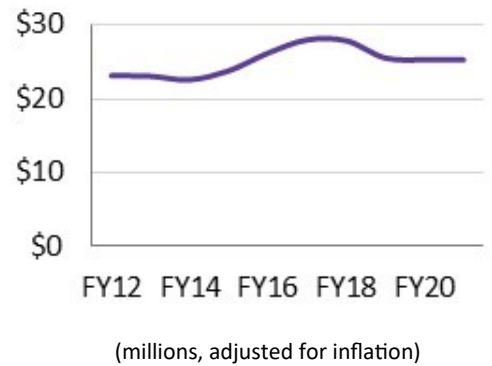
Oregon Zoo
(FY 2011-12 to FY 2020-21)

The Oregon Zoo houses animals and exhibits, and provides wildlife education and conservation programs. Over the last 10 years, expenditures decreased by 32%. This was caused by lower spending when operations were restricted by COVID-19. Personnel costs accounted for 63% of the total in the most recent year.



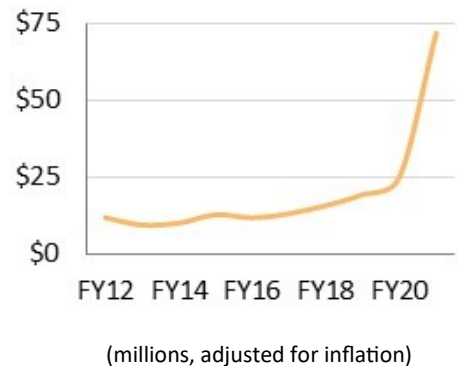
Parks and Nature
(FY 2011-12 to FY 2020-21)

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 9%. This was due to increased personnel costs. In FY 2020-21, 56% of operating expenditures were for personnel.



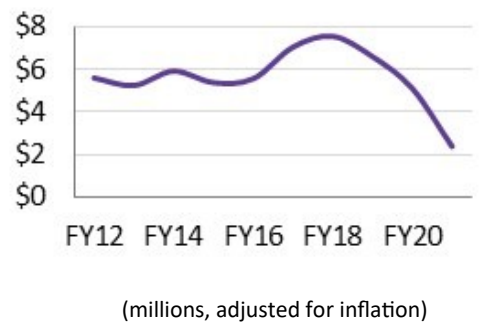
Planning and Development
(FY 2011-12 to FY 2020-21)

The Planning and Development Department develops policies and programs that guide land use and transportation planning. Over the last 10 years, expenditures increased by 511%. This was caused by two voter-approved ballot measures related to housing. In FY 2020-21, 89% of the department’s budget was spent on materials and services. Most that funding was to build affordable housing or provide housing services.



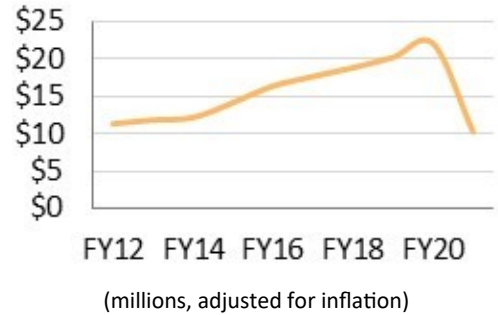
Portland Expo Center
(FY 2011-12 to FY 2020-21)

The Portland Expo Center is a multi-purpose exhibition facility including meeting rooms, exhibit halls, outdoor space, and a restaurant. Since FY 2011-12, expenditures decreased by 58%. This was caused by COVID-19 restricting operations in the most recent two years. In FY 2020-21, materials and services (goods and services supplied by external providers) accounted for 70% of expenditures.



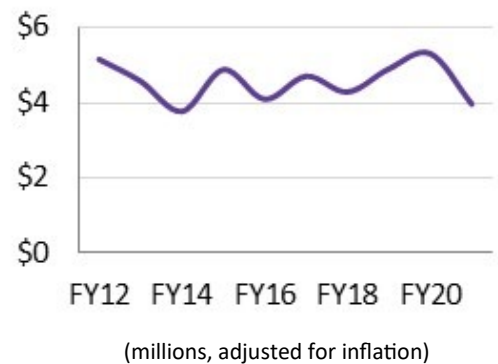
Portland's Centers for the Arts
(FY 2011-12 to FY 2020-21)

The performing arts center includes five spaces for events such as concerts, dance performances, and plays. Expenditures decreased by 10% over the last 10 years. Decreases were caused by operating restrictions during COVID-19. In the most recent year, materials and services accounted for 75% of expenditures.



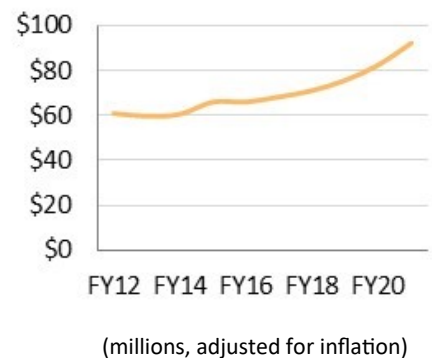
Research Center
(FY 2011-12 to FY 2020-21)

This department provides data, mapping, forecasting and technical services to Metro's other departments. Expenditures decreased by 23% in the last 10 years. This was due to decreases in both personnel, and materials and services expenditures. The department was merged with Planning and Development on July 1, 2021, so that change was not reflected in this data.



Waste Prevention and Environmental Services
(FY 2011-12 to FY 2020-21)

This department is responsible for ensuring that all solid waste generated in the region is managed in a manner that protects public health and safeguards the environment. In FY 2020-21, some parts were split off to form a new department (Capital Asset Management). The new department manages capital projects and the Metro Regional Center building. The new department will be reported separately from WPES in the next version of the financial condition report.

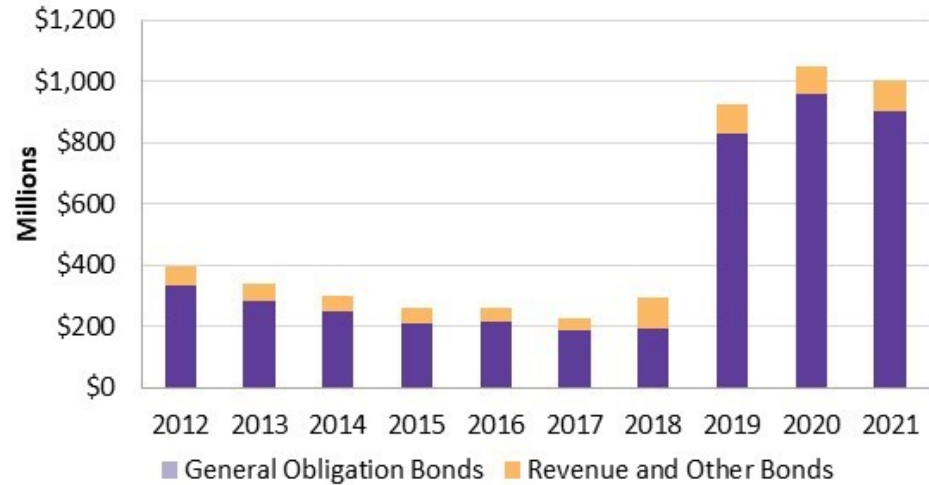


Over the last 10 years, expenditures increased by 52%. This was caused by increases for contracted professional services, as well as personnel costs.

Financial health

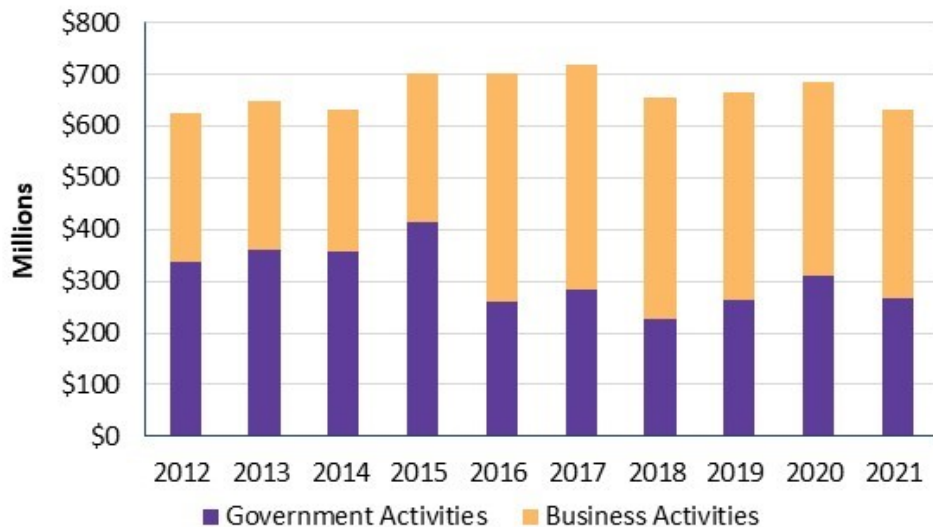
The indicators in this section reflect Metro’s overall financial position. Local governments in a sound financial condition can afford to provide services with less risk of not being able to fund them. Sound financial condition also implies the ability to withstand local, regional or national economic 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 154% in the last 10 years. The majority (89%) of Metro’s long-term debt in FY2020-21 was from general obligation bonds. Repayment of general obligation bonds occurs through separate property tax levies. General obligation bonds issued in response to voter-approved ballot measures are not subject to the annual property tax revenue limitations in Metro’s Charter. The increase in 2019 was from new bonds issued to pay for the Affordable Housing ballot measure. Additional bonds were issued in 2020 for the Parks and Natural Areas ballot measure. General obligation bond debt decreased in 2021, but new revenue bonds were issued that year to begin implementation of the Supportive Housing Services ballot measure.

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

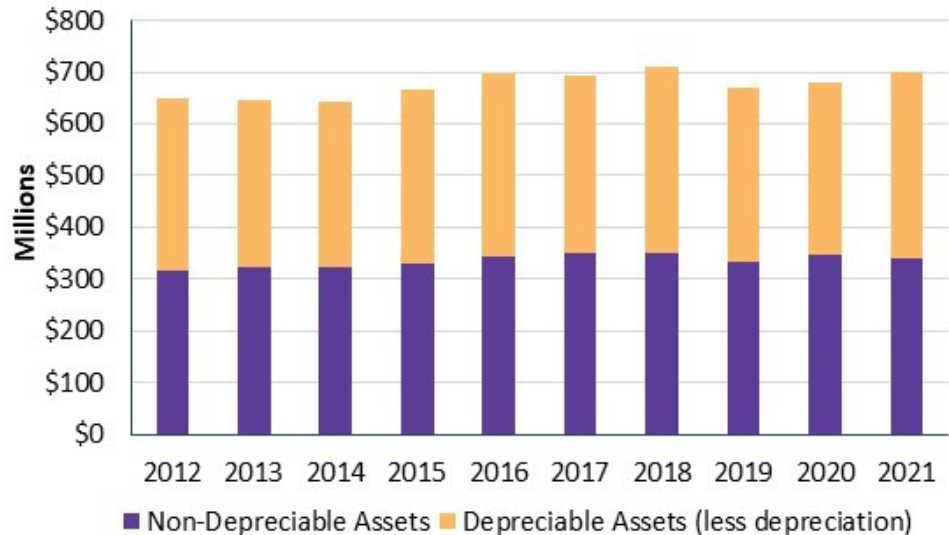


Net assets measure the difference between what Metro owns and what it owes. Some of Metro’s assets are monetary and some of them are physical things, such as buildings and land. Both types of assets are included in the indicator.

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

Metro’s total net assets increased by 1% between 2012 and 2021. Net assets for business activities increased by 25% since 2012. Most of the increase was caused by moving Oregon Zoo assets into the business activities category. Net assets for government activities decreased by 20% since 2012 for the same reason.

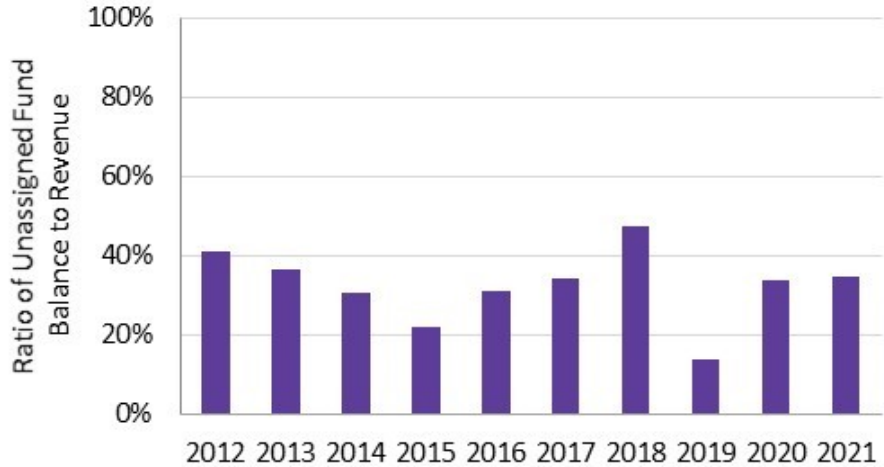
Capital assets
(as of June 30,
adjusted for inflation)



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

Overall, capital assets increased by 8% in the last 10 years. Trends for depreciable and non-depreciable assets were 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)

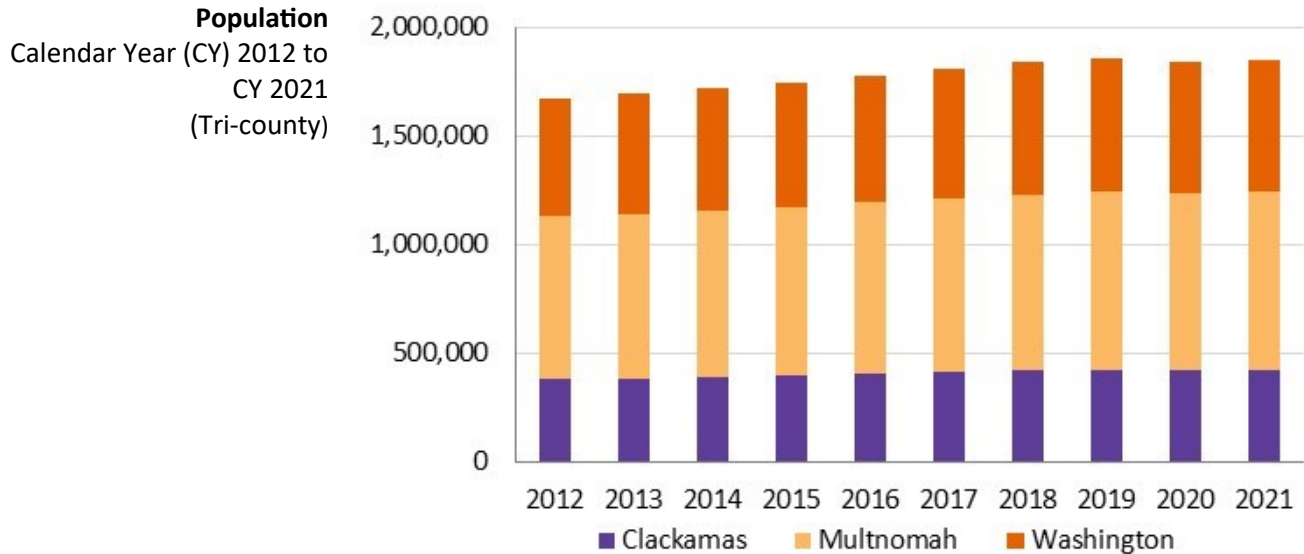


The size of the unassigned fund balance can affect a local government’s ability to withstand financial emergencies like those arising from COVID-19. This measure is the ratio of unassigned fund balances to operating revenues in the General Fund. The General Fund pays for Metro’s primary government programs 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.

In 2021, the ratio of unassigned fund balances to operating revenues was 34%. Although lower than some previous years, it remained above the 10 year average despite the financial effects of COVID-19, which was a positive outcome. The large decrease in FY 2018-19 resulted from assigning about \$15 million of the fund balance to be appropriated in the budget. That ensured Metro’s budget included reserves for specific purposes, but left the unassigned amount significantly smaller than in previous years. Metro’s financial policies require it to replenish general fund balances the following budget year before committing to new spending.

Demographic and economic trends

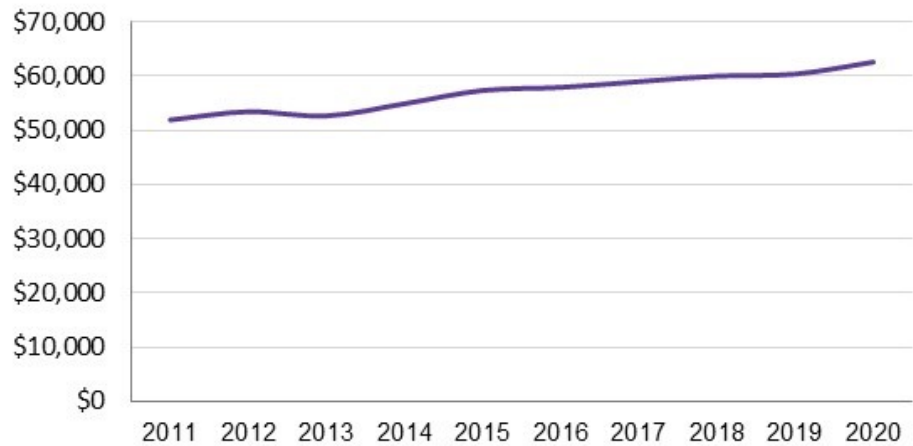
Metro’s ability to raise revenue and deliver services is directly related to the economic and demographic trends of the region. The following indicators measure those trends to provide context for changes seen in the other indicators contained in this report.



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 2012.

In the last 10 years, Washington and Clackamas counties both grew at similar rates (11.5%). Growth in Multnomah county was slightly slower (10%). Multnomah accounted for the largest share of the tri-county population (44%) followed by Washington (33%) and Clackamas (23%).

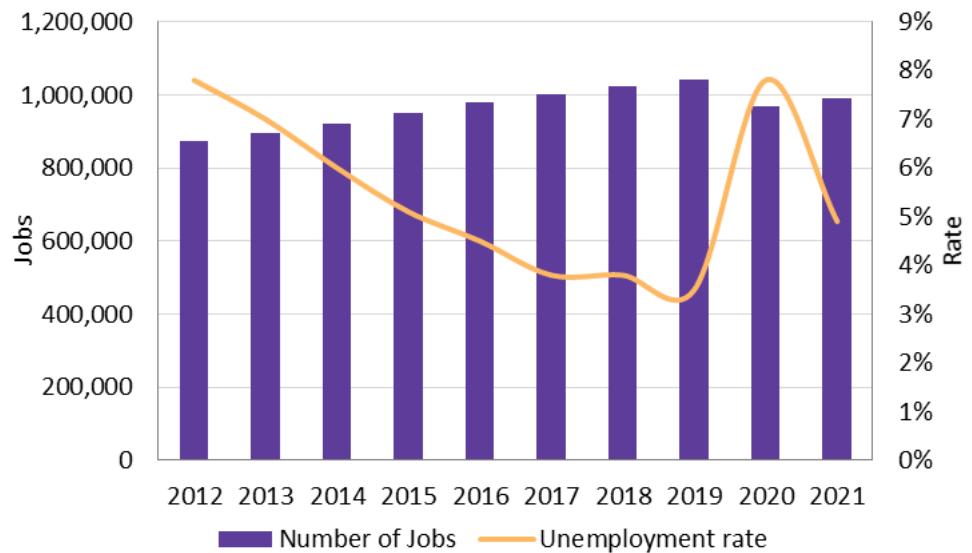
Per capita personal income
 CY 2011 to CY 2020
 (Metropolitan Statistical Area,
 adjusted for inflation)



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.

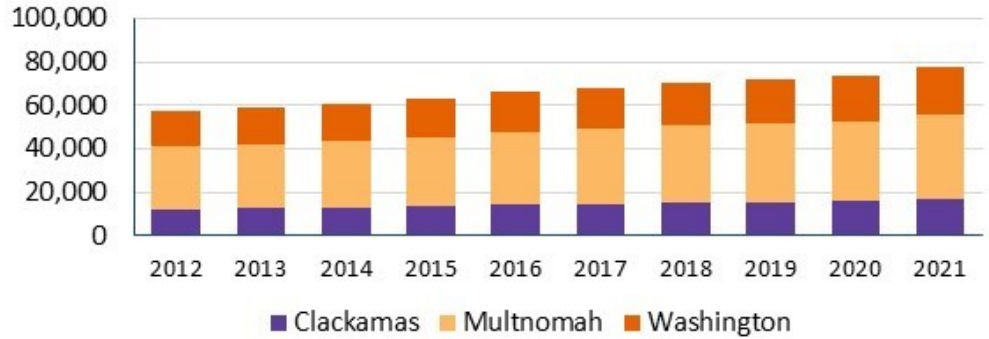
Per capita income has increased by 21% since 2011. Other than a small decrease in 2013, per capita income increased each year since 2011. However this data does not include potential decreases resulting from COVID-19.

Unemployment rate and number of jobs
 CY 2012 to CY 2021
 (Metropolitan Statistical Area,
 Oregon portion)



The unemployment rate and number of jobs measure business activity. After eight years of steady increases in the number of jobs and decreasing unemployment, COVID-19 reversed both trends in FY 2019-20. Both trends showed some improvement in FY 2020-21.

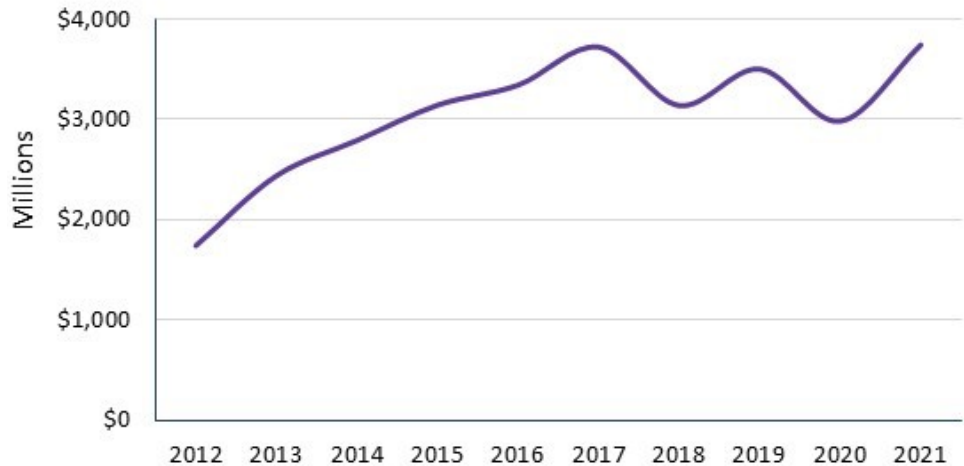
Number of businesses
CY 2012 to CY 2021
(Tri-county)



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.

The number of businesses increased since 2012 and the total number of businesses in 2021 was at its highest level over the last 10 years which is surprising given the economic uncertainty caused by COVID-19. Over the last 10 years, business growth was similar in all three counties at about 35%.

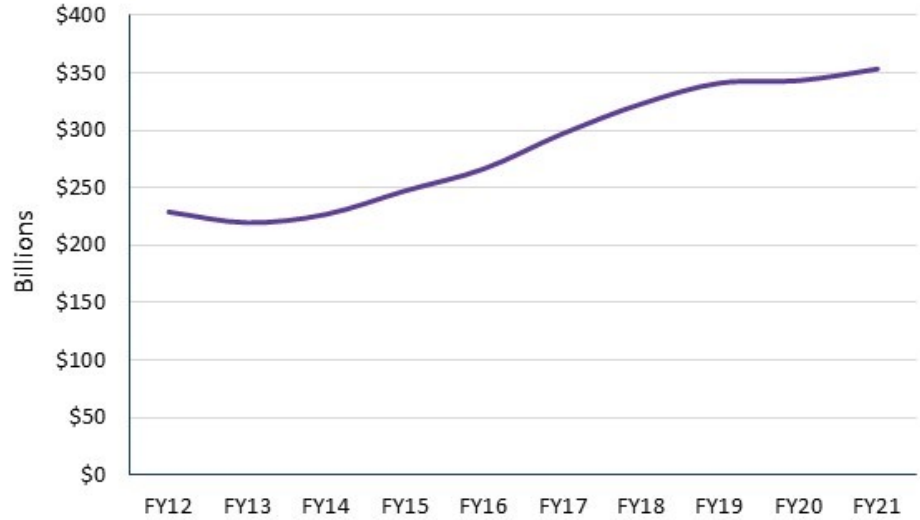
Value of new construction
CY 2012 to CY 2021
(Metropolitan Statistical Area, adjusted for inflation)



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

The value of new construction increased steadily from 2012 to 2017. Since then the pattern has been up and down between years. Despite the uneven trend, values were about twice as large in 2021 compared to 10 years ago.

Real market property values
FY 2011-12 to FY 2020-21
(Metro taxing district, adjusted for inflation)



Growing market values are positive trends for governments because of the impact on revenue from property taxes. In FY 2020-21, 45% of Metro’s revenue came from property taxes. Real market property values increased by 28% in the last 10 years, which was a key driver of Metro’s financial health. Values in 2021, reached the highest levels in the last 10 years.

Scope and methodology

The purpose of this audit was to evaluate the financial condition of Metro. We used a methodology based upon the Financial Trend Monitoring System recommended by the International City/County Management Association (ICMA). We obtained information from Metro's accounting systems and budget documents. We combined it with economic and demographic data, and created a series of financial indicators. When plotted over time, the indicators can be used to monitor changes in financial condition and provide information to assist decision-makers.

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 Annual Comprehensive Financial Reports (ACFR) and more detailed information about revenue sources, personnel costs, and other expenditures from Metro's financial accounting and budgeting systems, PeopleSoft, and Team Budget. Economic and demographic data was acquired from the US Bureau of Economic Analysis, US Census Bureau, Oregon Employment Department, and Portland State Population Research Center. All figures were adjusted for inflation where appropriate.

Most of the data collected for demographic and economic measures was reported either for the three counties in the region or by Metropolitan Statistical Area (MSA). The MSA is larger than the Metro region and includes two counties in the State of Washington, Yamhill and Columbia counties in Oregon, as well as the regional counties Clackamas, Multnomah, and Washington. Where available, only data from the Oregon portion of the MSA was used. Very little of the population in Clackamas, Multnomah, and Washington Counties (10%) is outside Metro's jurisdictional boundary.

We conducted this performance audit in accordance with generally accepted government auditing standards. These standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The majority of the financial information in this report is from the 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.

Management response



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oregonmetro.gov

Date: June 6, 2022
To: Brian Evans, Metro Auditor
From: Marissa Madrigal, Chief Operating Officer
Brian Kennedy, Chief Financial Officer
Subject: Financial Condition of Metro – Management Response

First, thank you and your office for producing this 10-year view of Metro’s financial condition. We always find it useful to review the trends in our financial performance and consider ways to improve that performance over time. As your report notes, the COVID-19 pandemic has had a significant impact on Metro’s financial condition. While this report only covers through fiscal year 2021, we believe the data will show in future years that Metro has not only weathered that fiscal storm, but in many areas will have emerged stronger and more financially resilient. We would also like to comment on the trends you noted that warrant caution.

Revenues Your report points out a concern over both revenue trends at the agency level and General Fund revenues as compared to the budget. In both cases, the pandemic was the primary factor leading to the revenue declines. We continue to closely monitor revenues across the agency, but expect that those trends will rebound as venue activity improves.

Expenditures Over the last ten years expenditures have increased as a faster rate than revenues. While this is clearly a trend to continue to monitor, we believe it is more reflective of the timing of expenditures in the last 10 years. As the report notes, there was a large increase in expenditures in FY 2017-18 for construction at the Oregon Convention Center. That project was entirely self-financed through accumulated fund balance. Metro’s budget also includes significant expenditures for projects funded by bond proceeds.

The report also notes an increase in risk management expenditures over the last ten years. We agree that this is a trend to closely monitor. It is also important to recognize that the last ten years also included major expansions to Metro’s work, including the Affordable Housing Bond, the Parks and Nature Local Option Levy and significant growth in Waste Prevention and Environmental Services. All of those changes also influenced Metro’s risk profile and will be continue to be monitored.

This section closes with a negative trend related to Metro’s capital expenditure. We do not disagree with this finding, as it is clear that in many areas across Metro additional investment in capital assets is needed.

Total Debt

As your report notes, there was a significant increase in Metro's total debt in 2019 and 2020 as a result of issuance of voter-approved bonds for affordable housing and parks and nature investments. Management disagrees that this represents a negative trend. Our assessment is based on several factors:

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

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

General Fund Balances

The report indicates that unassigned fund balances have been trending down over the last ten years. We continue to monitor these balances and have set a new target for General Fund balances of 16.5%, consistent with recommendations from the Government Finance Officers Association. We believe this report will show improved, positive trends in the future.

Again, we would like to thank you for producing this report and providing us and the public with a ten-year review of our financial condition. As your analysis shows, our financial condition is strong and that it is critical for us to continue to diligently monitor that condition to ensure that Metro can deliver essential services to the residents of the region.



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