



The City of Portland's Comprehensive Annual Financial Report for FY 2015-16

Presented to the Portland City Council • February 1, 2017

Presented by the Bureau of Revenue & Financial Services

Presentation Agenda

- Present the City's Comprehensive Annual Financial Report (CAFR) for FY 2015-16
- Present the City's FY 2015-16 Popular Annual Financial Report (PAFR)
- Discuss Highlights from the FY 2015-16 CAFR
- Provide Council with an Assessment of the City's Long-Term Fiscal Health

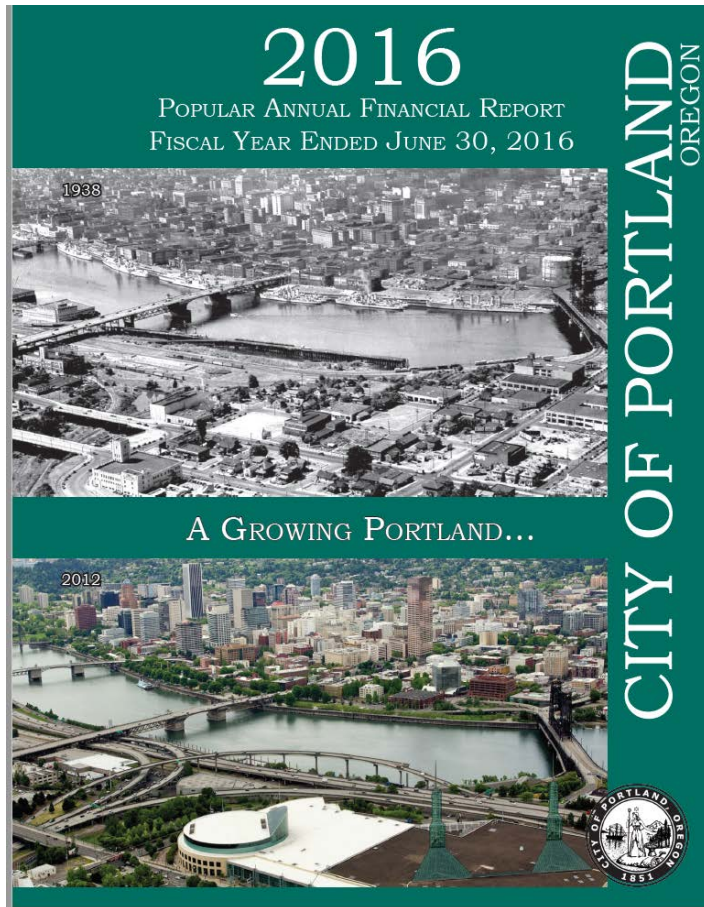
CAFR Development

- Production of the CAFR is a significant undertaking and involves many individuals:
 - City bureaus
 - City Auditor's Office
 - Our independent auditor, Moss Adams
 - Accounting Division staff within BRFS
- The FY 2015-16 CAFR was published within 135 days after fiscal year-end (earliest in over 10 years)

Comprehensive Annual Financial Report (CAFR)

- Purpose: tells the Council, community and other interested parties where we have been financially
- Financial Statements are prepared based on Generally Accepted Accounting Principles (GAAP) as issued by the Governmental Accounting Standards Board (GASB)
- External Auditor's Opinion offered on the accuracy of the CAFR's financial information and its compliance with accounting standards
- This required format makes the CAFR highly detailed and technically complex, which can be difficult to understand

Popular Annual Financial Report (PAFR)

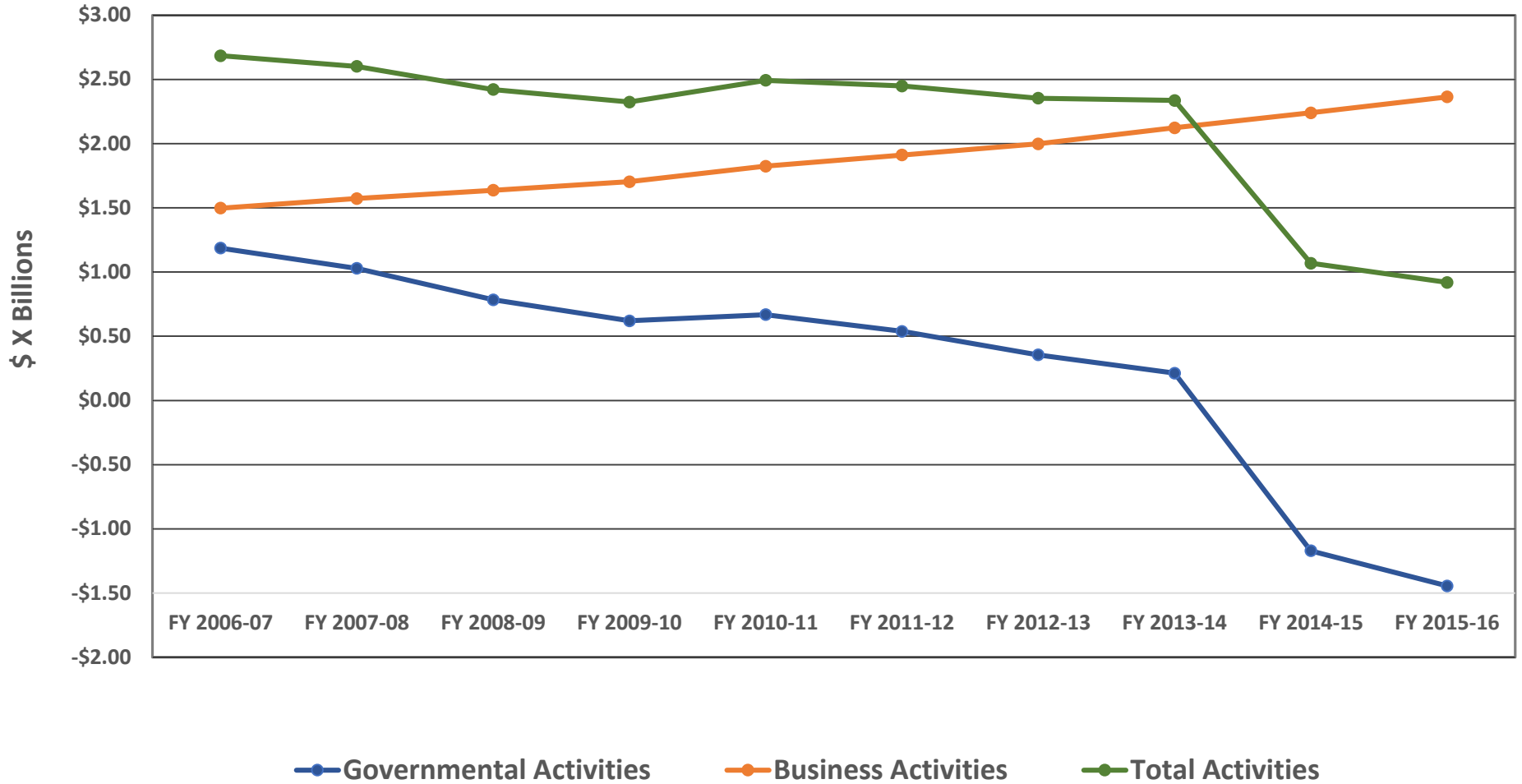


- “Popular” reports are designed to provide a less detailed financial overview, and are recommended by the Government Finance Officers Association (GFOA)
- This is the City of Portland’s first PAFR, and we welcome your feedback
- It was designed to tell our financial story in a concise and easily understood manner (19 pages vs 332 pages)
- The PAFR and other financial reports can be found on our website:
<https://www.portlandoregon.gov/omf/?c=26053>

Highlights of the FY 2015-16 CAFR

- First, the Good News:
 - External Auditors (Moss Adams) gave the City an “Unmodified Opinion” on its financial statements
 - No weaknesses and/or deficiencies with the City’s accounting processes
 - CAFR complies with State Law
 - Fund Balances continue to grow
 - City received the GFOA Award for Excellence in Financial Reporting for the 35th consecutive year
- Now, the Not so Good News:
 - Continued decline in City Net Position (Assets minus Liabilities) for Governmental Activities:
 - FY 2015-16 Net Position declined by about \$273 million
 - Net Position for Governmental Activities now stands at *negative* \$1.44 billion
 - Negative Net Position for Governmental Activities reflects impact of GASB 68 pension accounting rules

10-Year History of Net Position Reported in CAFR



What Affects Net Position?

Factors Decreasing Net Position (Expenses > Revenues---GAAP Basis)

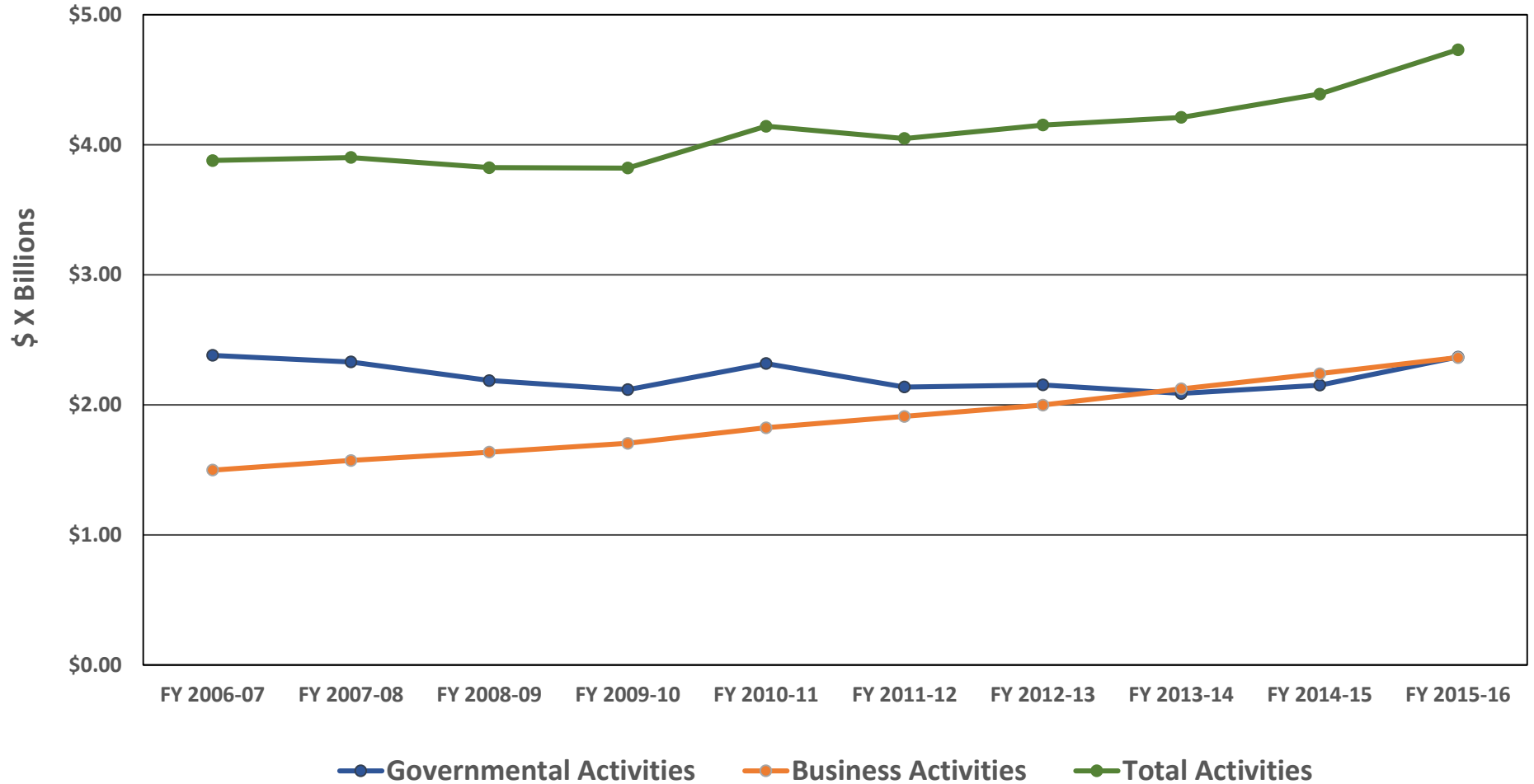
- Increases in pensions and other similar liabilities
- Increases in bonds payable with no off-setting assets
- Non-cash expenses (depreciation) that contribute to expenses exceeding revenues

Factors Increasing Net Position (Revenues > Expenses---GAAP Basis)

- External grant funding of capital improvements
- Funding capital improvements from current cash flow
- Surplus revenues that are unspent (i.e., held in reserve) or used to pay down liabilities

10-Year History of Adjusted (Non-GAAP) Net Position

















(FPD&R and Bonds Payable Liabilities Adjusted for Unrecognized Revenues/Receivables)



What Does This Mean and What Should We Do?

- GAAP accounting provides a partial view of financial condition:
 - Overemphasizes the treatment of liabilities
 - Underemphasizes future revenues that act as “assets”
- GAAP accounting can mask underlying trends and the appropriate policies and actions that should be taken to address those trends
- Focus should be on preventing or limiting “Financial Impairment”:
 - Ability to maintain services
 - Cost shifting
 - Fairness and equity
 - Cost-effective government in both the short and long-term
- BRFS continues to develop measurements and metrics to help Council identify and address potential Financial Impairment issues

Long-Term Fiscal Health Snapshot: Looking Beyond the CAFR

ITEM	CURRENT STATUS	FUTURE OUTLOOK	TREND
Long-Term Liabilities			
PERS			Negative, unfunded liability is growing
FPD&R			Recent labor contracts increase pension costs, continue to monitor
Other Post-Employment Benefits			Improving, continue to monitor
Infrastructure			
Utilities (Water & BES)			Stable, continue to monitor
Transportation			Negative, needs significant additional resources
All Other (Parks, Public Safety, Civic, Housing)			Negative, needs increased investment
Legacy Liabilities			Negative, costs still unknown for Portland Harbor and Columbia River Levee projects
Employee Costs			Negative, costs are growing faster than revenues

It's a Math Problem: City Expenses (Operating + Capital) are Growing Faster Than Revenues

- Systemic Problems Require Systemic Solutions:
 - Cut expenses
 - Cut programs/services
 - Increase revenues
 - Some combination of the above
- Consequences of not taking action:
 - Chronic budget shortfalls and reductions
 - Reductions in services, and/or the quality of those services
 - Long-term fiscal impairment

Summary

- The City's CAFR for FY 2015-16 shows that the City is in full compliance with all required accounting procedures and standards
- The City's current financial position is strong
- Non-GAAP adjustments to Net Position help to better to understand factors affecting City fiscal health
- The City is facing a growing set of financial issues that will impact its long-term fiscal health
- Development and implementation of policies/practices to bolster financial health will help to avoid financial impairments in the future