



# The City of Portland's Comprehensive Annual Financial Report for FY 2016-17

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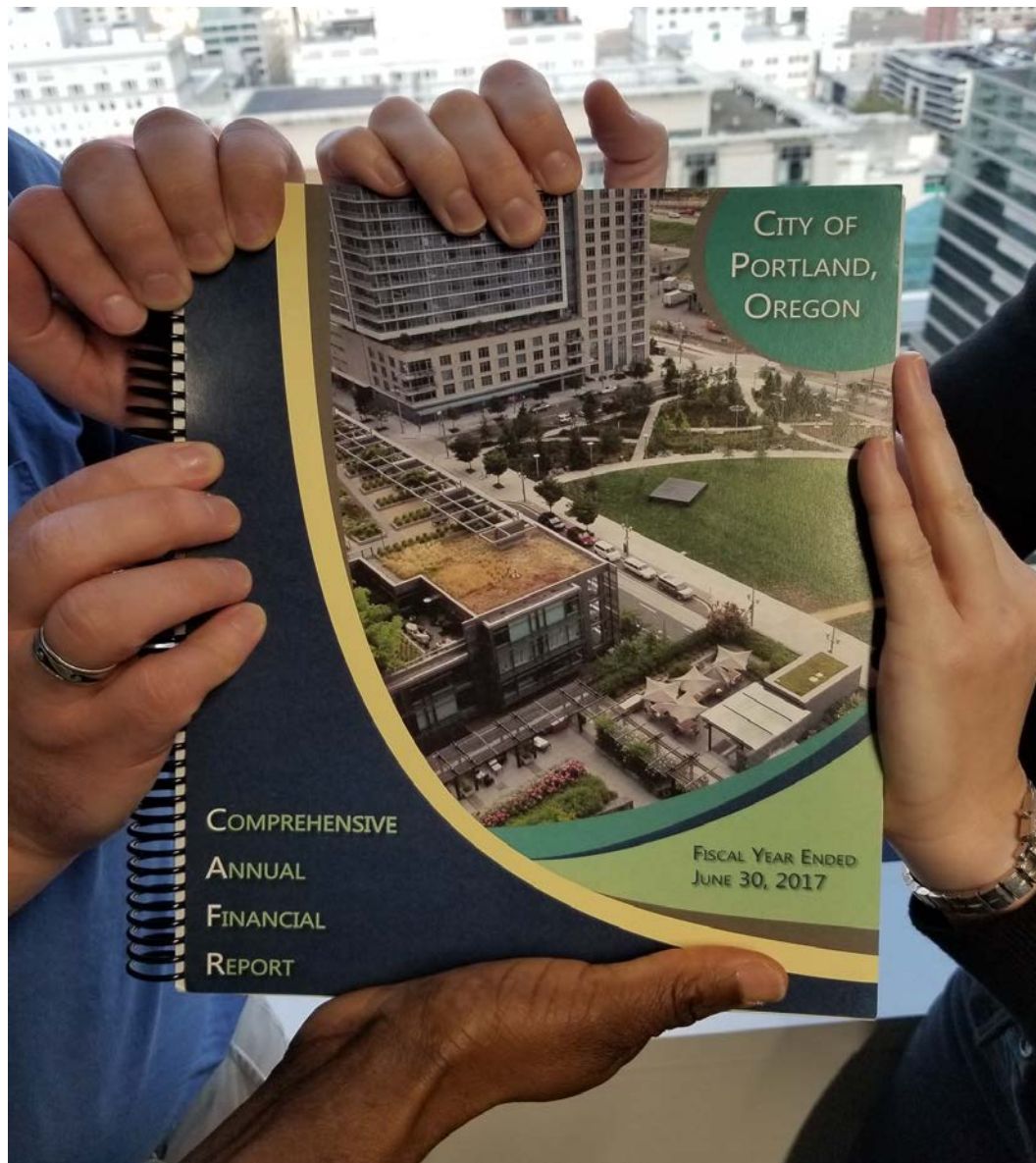
Presented to the Portland City Council • December 13, 2017

Presented by the Bureau of Revenue & Financial Services

# Presentation Agenda

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- Present the City's Comprehensive Annual Financial Report (CAFR) for FY 2016-17
- Discuss Highlights from the FY 2016-17 CAFR
- Provide Council with an Assessment of the City's Long-Term Fiscal Health



# Timing of the CAFR

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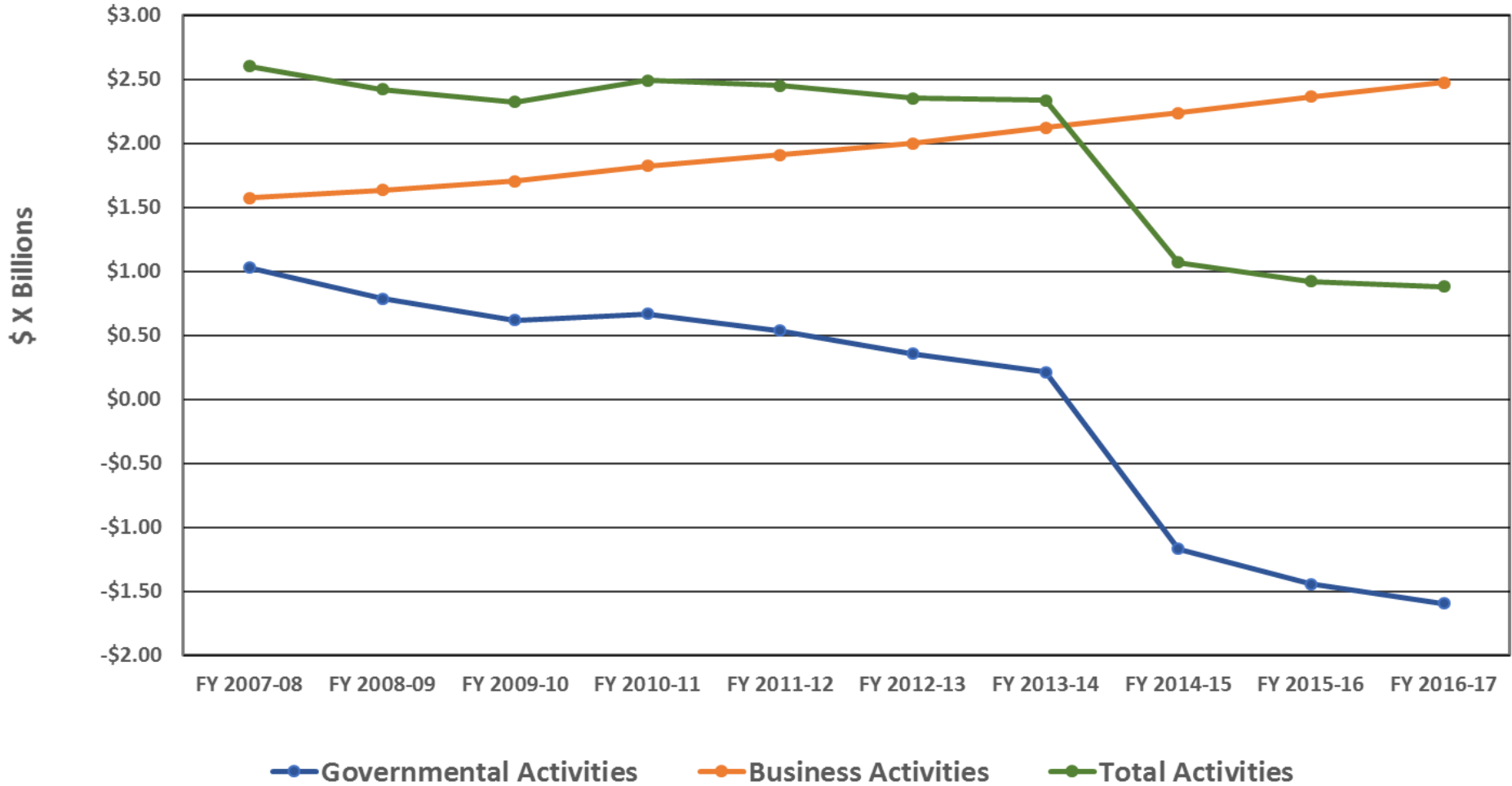
- The FY 2016-17 CAFR was published on November 1<sup>st</sup>.
  - Earliest publication date in the City's modern history
  - Reduced the preparation time by 49 days over the past 3 years
- Benefits of timely reporting:
  - Places the City in top 10% of local governments in terms of financial reporting
  - Provides more timely financial information to investors, city management and community
  - Accounting Division has time to focus on other projects, such as the Popular Annual Financial Report (PAFR)

# Highlights of the FY 2016-17 CAFR

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- First, the Good News:
  - External Auditors (Moss Adams) gave the City an “Unmodified Opinion” on its financial statements, and found no weaknesses and/or deficiencies with the City’s accounting processes
  - CAFR complies with State Law, and generally accepted accounting principles (GAAP)
  - City received the GFOA Award for Excellence in Financial Reporting for the 36<sup>th</sup> consecutive year
  - Fund Balances continue to grow
- Now, the Not so Good News:
  - Continued decline in City Net Position (Assets minus Liabilities ) for Governmental Activities:
    - FY 2016-17 Net Position for Governmental Activities declined by about \$151 million, and now stands at almost *negative* \$1. 6 billion

# 10-Year History of Net Position Reported in CAFR



# What Affects Net Position?

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

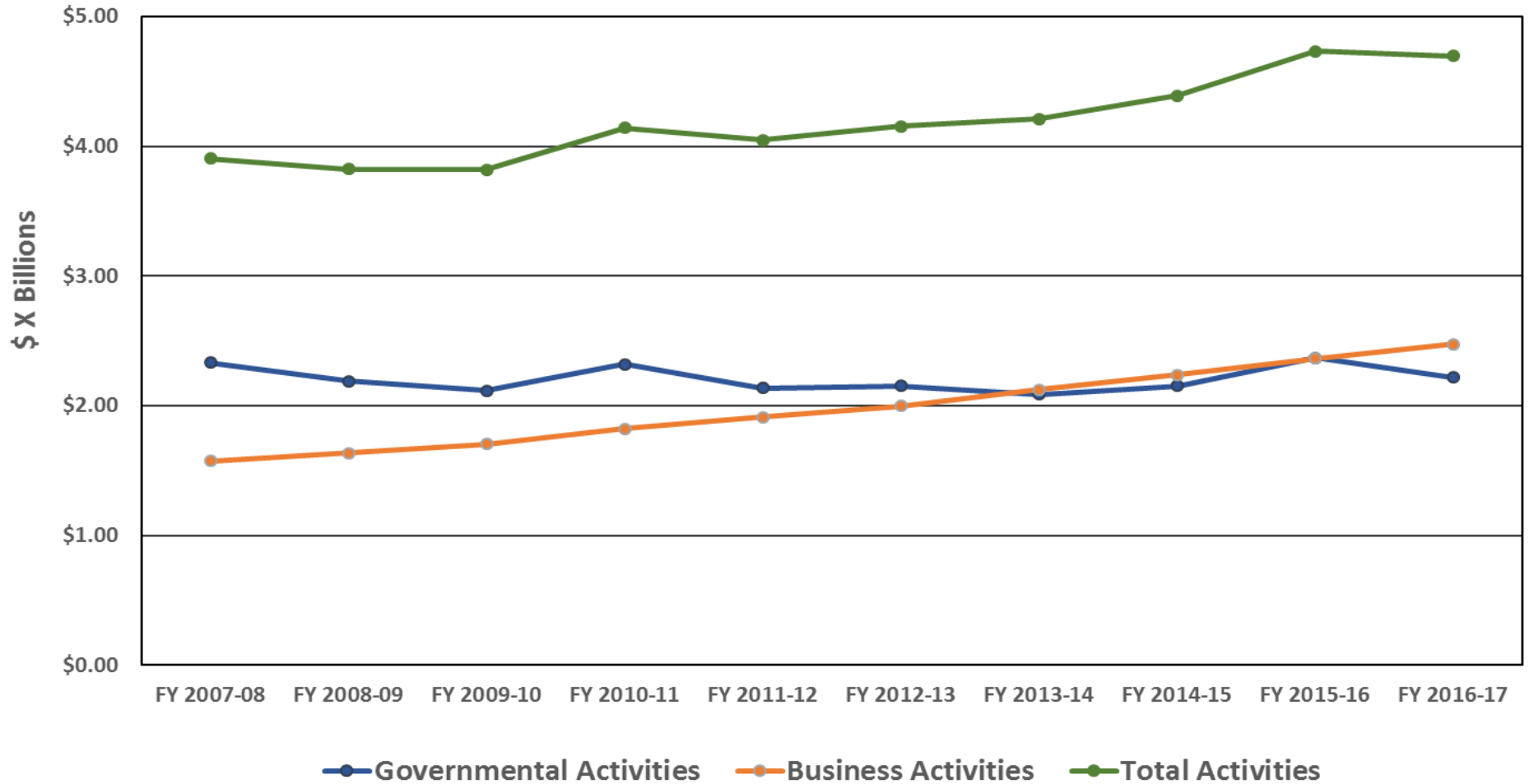
- Increases in pensions and other similar liabilities
- Increases in bonds payable with no off-setting assets
- Non-cash expenses (depreciation) that contribute to expenses exceeding revenues

## **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?

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- 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
<b>Long-Term Liabilities</b>			
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
<b>Infrastructure</b>			
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
<b>Employee Costs</b>			Negative, costs are growing faster than revenues

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

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- 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

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- The City's CAFR for FY 2016-17 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