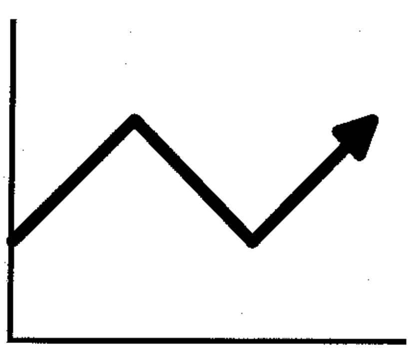
Financial Trends in the City of Portland 1985 - 1994



Office of the City Auditor
Portland, Oregon
April 1995

CITY OF
PORTLAND, OREGON
OFFICE OF CITY AUDITOR

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April 28, 1995

TO: Mayor Vera Katz
Commissioner Earl Blumenauer
Commissioner Charlie Hales
Commissioner Gretchen Kafoury
Commissioner Mike Lindberg
Stephen Bauer, Director, Office of Finance & Administration

SUBJECT: Financial Trends in the City of Portland, Report #187

Attached is our evaluation of City financial trends over the past 10 years. The review was conducted in accordance with our FY 1994-95 audit schedule. A summary of results is provided at the beginning of the report.

The Mayor's Office and the Office of Finance and Administration have reviewed the report and are in general agreement with information presented. No written response was received in time to be included in the report.

We hope this report will give City Council and the public a better understanding of the City's financial condition and actions needed to address problem areas.

In accordance with City Charter Section 2-505 (b), we ask for a written status report from the Office of Finance and Administration in six months, indicating what actions have been taken on our report recommendations. This status report should be circulated to the City Auditor, the Mayor and the City Commissioners.

We appreciate the cooperation and assistance received from the Mayor's Office and from the Office of Finance and Administration.

Barbara Clark
by RCTracy

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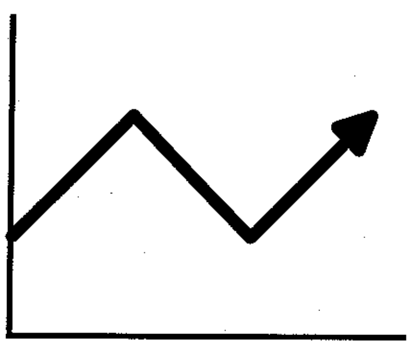
Portland City Auditor

Audit Team: Richard Tracy
Eric Hofeld

Financial Trends in the City of Portland 1985 - 1994

by the Audit Services Division
Report #187



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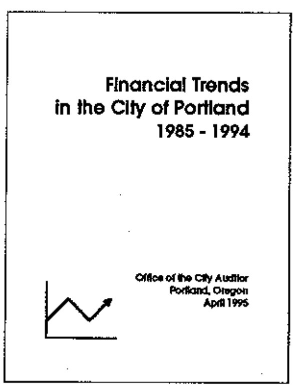
Financial Trends
in the City of Portland
1985 - 1994

Office of the City Auditor
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April 1995

Production/Design

This report was produced in-house using desktop publishing software on IBM and compatible personal computers, and a Postscript laser printer. Aldus Pagemaker 5.0 for Windows was used to produce the finished product. Quattro Pro 4.0 was used produce graphs/ figures.

Desktop Publishing: Robert Cowan

Contents

Summary

The purpose of this report is to help readers understand the financial condition of the City of Portland. It presents 36 trends in six areas, identifies favorable and unfavorable trends, and recommends actions to improve problem areas.

This is the City Auditor's fourth report on City financial trends. It covers financial operations over the past ten fiscal years – 1984-85 through 1993-94. The last report was issued in May 1992 and covered financial operations through fiscal 1991.

Favorable Financial Trends

The City of Portland is in strong financial condition. Despite a drop in property tax revenues due to Ballot Measure 5, the City collected sufficient revenues, controlled expenditures, and prepared for the future. We found favorable financial trends in 80 percent of the financial indicators we analyzed. The most significant positive trends include:

- Adjusted for inflation, operating revenues per capita are about the same in 1994 as they were in 1985 – \$665 vs. \$669.
- Precise revenue estimates have helped avoid budget shortfalls.
- Although population growth increased service demands and costs, spending per capita is lower in 1994 than ten years ago.
- Ten percent of annual general revenues, about \$21.5 million, has been set aside for emergencies and economic downturns.
- More is spent to improve physical assets than in prior years.
- The City still borrows very little; debt levels are well below legal maximum.

This performance is the result of effective financial management and a strong regional economy. Specifically, the City put in place comprehensive financial management policies in 1992 that have guided financial affairs and budget making. In addition, the City refined revenue and expenditure forecasting, initiated rigorous goal setting methods, and improved planning for capital asset improvement.

In addition, over the past seven years, the City has benefited from low unemployment, high job growth, and higher overall employment. Average annual income has increased while inflation has remained under control. New annexations and rising property values have also helped improve the City's revenue base.

Unfavorable Trends and Potential Threats

Although the City's financial performance is largely positive, there are several trends and threats that warrant attention from Council and financial managers. The most significant potential problem areas are:

- City utility rates are increasing much faster than median family income, utility fund net income and cash are down, yet significant capital spending looms ahead.
- The City is relying more on intergovernmental revenues at a time when state and federal revenue sources are threatened by budget reductions.
- The City lacks historical data on the condition and age of some important fixed assets.
- The cost of some employee benefits continues to grow faster than inflation.

Recommendations

To help the city respond to these problem areas, we make a number of recommendations on page 51. In general, we urge Council and the Office of Finance and Administration to review and revise current financial policies, search for efficiencies in utility operations, and improve fixed asset accounting and record systems.

Introduction

Audit Objectives

Elected officials and managers need good information on the financial condition of their organization in order to make informed decisions. A wealth of financial data is currently prepared, audited, and reported each year in the Comprehensive Annual Financial Report (CAFR) and in adopted budgets. However, the CAFR and budgets are not easily understood by most readers and lack sufficient historical data to see financial trends over time. We have prepared this report to:

- provide readable information on the financial condition of the City of Portland,
- identify existing or emerging financial problems, and
- recommend actions to correct financial problem areas.

What is Good Financial Condition?

A city in good financial condition can finance services to the public on a continuing basis. Such a city can maintain existing service levels, withstand economic disruptions, and respond to growth, decline, and change. Simply put, a healthy city collects sufficient revenues to pay short-term bills, finance major capital expenditures, and meet long-term obligations.

Sound financial condition incorporates four measures of solvency:

Cash solvency: ability to generate cash over 30 to 60 day period to pay bills.

Budget solvency: ability to generate sufficient revenue over a budget period to balance the budget and avoid deficits.

Long-term solvency: ability to pay obligations that come due in future years such as retirement benefits and payments on bonded debts.

Service level solvency: ability to provide services at the level and quality desired by citizens and required for the health, safety, and welfare of the community.

Monitoring Financial Condition

Financial condition can be monitored by analyzing trends in a variety of indicators. We have selected 36 indicators in six areas.

- revenues
- expenditures
- operating position and debt
- fixed assets
- enterprise operations
- economy and demographics

Tracking these indicators over time permits managers and officials to monitor financial strengths and weaknesses, and to identify problem areas that may need attention. The indicators can be used as early warning signs when certain trends are evident. Trends often require further analysis to assess their significance, and some trends are more critical than others. If problems are identified, officials can develop strategies for dealing with them.

This is the fourth report we have issued on City financial trends. The previous reports contained a variety of recommendations to address potential problem trends. The Office of Finance and Administration (OF&A) has taken a number of actions in response to those recommendations. Most significantly, OF&A developed and issued draft comprehensive financial management policies in 1989 to help guide financial decision making. City Council adopted these policies on June 17, 1992.

Previous Financial Trends reports issued by the Audit Services Division are:

- *Evaluation of the City's Financial Condition: 1978-87*
- *City Financial Trends: 1978-1989*
- *City Financial Trends: 1980-1991*

Scope and Methodology

This report covers ten years of financial trends from fiscal year 1985 through 1994. We obtained expenditure and revenue data from the Comprehensive Annual Financial Reports that have been audited by the accounting firm of Coopers and Lybrand. We used annual adopted budgets to obtain information on estimated revenues and authorized personnel. The Center for Population Research at Portland State University and the State Employment Division provided socio-demographic data.

We also interviewed personnel in the Office of Finance and Administration to explain the trends. We worked with OF&A to develop practical recommendations for improvement.

We have used a methodology first developed by the International City Managers Association (ICMA) in their publication, *Evaluating Financial Condition: A Handbook for Local Governments*, by Groves and

Valentine, 1986. The methodology identifies and organizes factors that affect financial condition so that they can be evaluated. It incorporates financial indicators that are used by national bond rating organizations to evaluate the city's credit-worthiness. We have modified the methodology slightly, adding different indicators and presenting data in new ways.

In accordance with ICMA's methodology, we developed a definition of general government operating expenditures and revenues that includes the following funds:

- General
- Transportation Operating and Construction
- Fire and Police Disability and Retirement
- Parking Meter
- State Tax Street
- Emergency Communications
- General Reserve
- Building Operating
- Short-term Debt Interest and Sinking
- Portland Autoport
- Federal and State Revenue

We have excluded enterprise and internal service funds from the definition of general government operating revenues and expenditures, as well as certain specific types of capital improvement.

Selected financial indicators for the City's two largest enterprise utilities, the water and sewer funds, are included in a separate chapter.

To show reductions in purchasing power caused by inflation, we have expressed the financial indicators in 1994 dollars. That is, we adjusted dollar amounts to express each previous year as a ratio of the purchasing power in FY 1993-94, based on the Portland-Vancouver Consumer Price Index for all urban consumers.

Revenues

Highlights

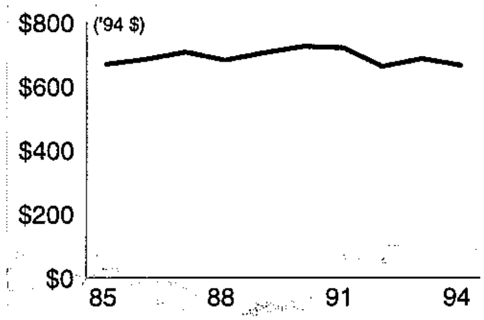
- *Despite drop in property tax revenues due to Measure 5, total operating revenues are keeping pace with population growth and inflation.*

- *Operating revenues are very stable due to strong local economy, new annexations to the City, and growth in property values.*

- *Better revenue forecasting methods have helped avoid revenue shortfalls.*

- *Increased reliance on intergovernmental revenues is a potential problem.*

1 Operating Revenues Per Capita



Operating Revenues Per Capita

Operating revenues are down but the trend is stable the past three years.

Indicator Explanation

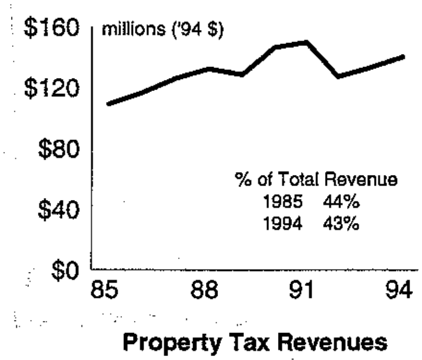
Operating revenues include property and business taxes, franchise fees, intergovernmental revenues, and other amounts that can be used for ongoing services such as police, fire, streets, parks, and central administration. Revenues from enterprise operations such as water and sewers are excluded.

Decreasing revenues per capita is a warning sign because it may signal the City's inability to maintain existing services.

Trend Analysis

- Adjusted for inflation, revenues per capita have declined by 8 percent from four years ago, and are slightly lower than in 1985.
- Dip in revenues per capita since 1992 shows the impact of Measure 5 on property taxes, declines in restricted and short-term revenues, and growth in the population (up 9 percent from 1992 levels).
- Operating revenues, however, have stabilized in the past three years.

2 Property Tax Revenues



Property tax revenues are on an upward trend following a big drop in 1992.

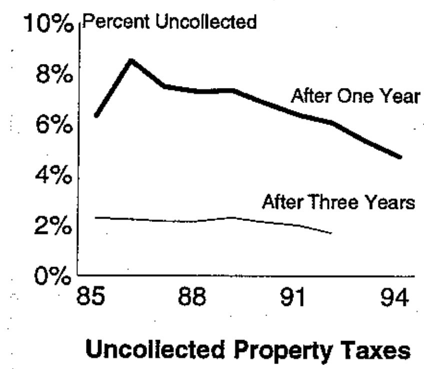
Indicator Explanation

Property taxes are paid on the assessed value of real, personal, and utility property. City property tax revenues are generated by several separate levies that support ongoing general government services, police and fire disability and retirement benefits, and capital improvements. Declining tax revenue is a warning trend.

Trend Analysis

- Property taxes have increased steadily the last two years following a major decline in 1992 due to passage of ballot measure 5.
- Recent increases are due primarily to rapid growth in assessed values of residential property and annexations in east Multnomah County.
- The expiration in 1992 of three three-year special serial levies for street lighting, public safety and parks capital improvement also contributed to reduced property tax revenues.

3 Uncollected Property Taxes



The trend is very favorable.

Indicator Explanation

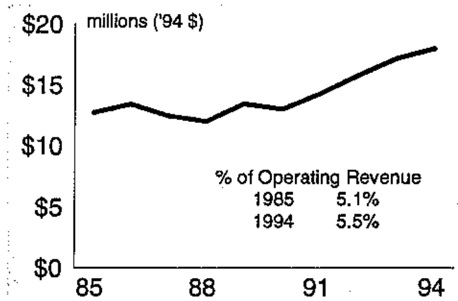
Property tax delinquencies are caused by changing economic conditions and citizens' inability to pay. Increases in delinquency rates over time may indicate a decline in local economic conditions. The credit industry considers delinquency rates of 2 to 3 percent normal, but delinquency rates above 5 percent are negative indicators.

Trend Analysis

- Strong economy, low interest rates, and substantial housing refinancing activity has kept property tax delinquency rates very low.
- Delinquency rate after three years is 1.7 percent – well below the credit industry benchmark of 2 to 3 percent.
- First year delinquency rate of 4.7 percent in 1993-94 is the lowest in over 15 years.

4 User Charges

The trend is positive: user charges are increasing to cover cost of services.



User Charges
(Excluding Water and Sewer)

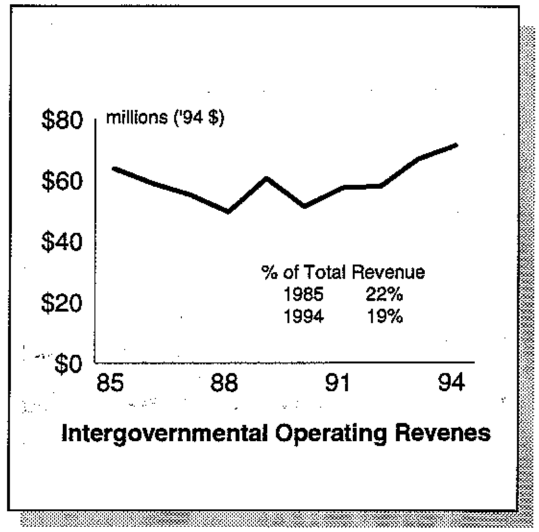
Indicator Explanation

User fees should cover the cost of providing services such as adult recreation programs and building permits. Unless fees are adjusted periodically, inflation can easily erode user charge coverage of costs. A decline in the total amount of fees and a reduction in fees relative to total operating revenues are both negative trends.

Trend Analysis

- Revenues from user charges and fees increased significantly from $12.7 million in 1985 to $18 million in 1994.
- Most growth occurred the past four years as the City increased fees to cover costs of services provided.
- User fee revenues comprised 5.5 percent of operating revenue in 1994 – slightly higher than 5.1 percent in 1985.

5 Intergovernmental Revenues



The trend is slightly negative, showing increased reliance on intergovernmental revenues.

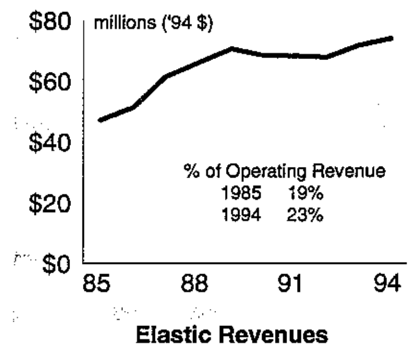
Indicator Explanation

Portland receives money from federal and state governments such as revenue sharing, housing and community development grants, and a share of cigarette and liquor taxes. Because this revenue is also subject to reduction by the federal and state governments, overreliance on them to provide critical services is considered unwise. Consequently, an increasing percent of total revenue comprised of intergovernmental revenues is a warning trend.

Trend Analysis

- After declining steadily for 10 years, intergovernmental revenues began increasing in 1991.
- Intergovernmental revenues in 1994 were the highest in over 10 years, due to spending of HCD grant funds carried over from prior years, a new HOME program, and a 62 percent increase in other federal and state grants.
- As a percent of operating revenue, intergovernmental sources provided 19 percent in 1994, compared to 22 percent in 1985.
- As a percent of total revenues, intergovernmental revenues comprise 19.2 percent of the total – up from 14.6 percent in 1990.

6 Elastic Revenues



The trend is favorable – although revenues are growing faster than inflation, and the City is not overly dependent on this revenue source.

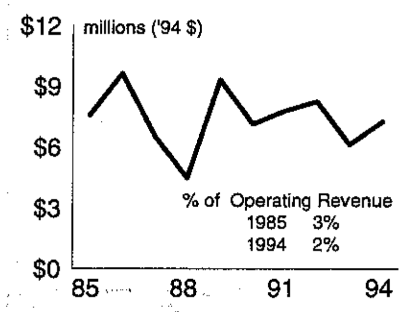
Indicator Explanation

Elastic revenues include business license taxes, utility franchise fees, hotel and motel taxes, and building permits. Elastic revenues are highly responsive to economic conditions, growing and declining as local economic conditions change. Overreliance on elastic revenues can put pressure on government finances during economic downturns.

Trend Analysis

- Adjusted for inflation, elastic revenues have grown steadily over the last three years due to a continuing strong local economy.
- The 3 percent increase over 1993 is due to increases in all revenue sources.
- Elastic revenues have comprised about 22 percent of net operating revenues over the past 10 years.

7 Short-Term Revenues



Short-Term Revenues

The City uses short-term revenues, but the trend is favorable.

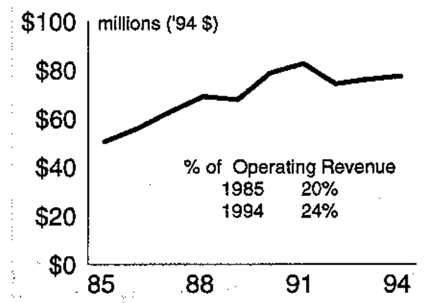
Indicator Explanation

Short-term revenues are resources that are not expected to continue beyond five years. They generally include interest on investments, inter-fund transfers, use of reserves, and onetime funds gained through sales of assets. Reliance on short-term revenues for ongoing needs may indicate insufficient revenue and is considered a warning trend.

Trend Analysis

- The City has used short-term revenues primarily for nonrecurring projects and to increase reserve funds.
- Short-term revenues have comprised only 2 to 3 percent of net operating revenue.

8 Restricted Operating Revenues



Restricted Operating Revenues

The trend is favorable, but the decline in street light revenue places financial strain on street programs.

Indicator Explanation

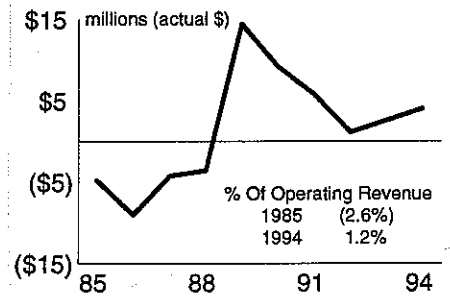
These revenues are legally reserved for specific purposes. For example, gas taxes are used only for roads and transportation projects. Similarly, special property tax levies for street lighting or pensions can be used only for those purposes. An increasing portion of revenues restricted to specific purposes is a warning trend because it means less revenue is available for other services or uses.

Trend Analysis

- Over the past three years the City has reversed an unfavorable trend in the increasing use of restricted revenues.
- The decline in the amount and percent of restricted revenues is due primarily to the end of the three-year street lighting levy in FY 1991-92.
- Funding for street lighting is now provided by general operating revenues.

9 Revenue Shortfalls

The trend is very favorable, particularly the past three years when actual revenues exceeded projections by less than 1.5 percent.



Revenue Shortfalls
Actual Over (Under) Estimated

Indicator Explanation

This indicator shows the differences between estimated and actual revenues. Overestimating revenues produces shortfalls which may require cuts in service levels to balance the budget. Underestimating produces surpluses which ideally should not exceed estimates by more than 1 or 2 percent.

Trend Analysis

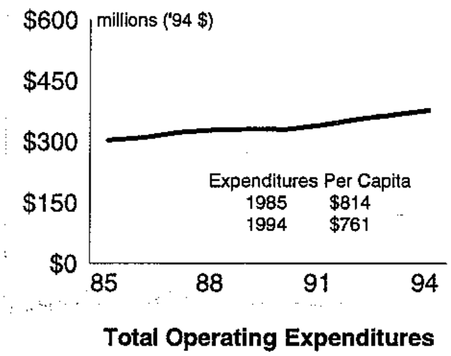
- Improved revenue estimating techniques and economic models implemented during the past six years have helped avoid revenue shortfalls.
- Revenue estimates the past three years have had a very low margin of error.
- Avoiding shortfalls has helped the City reduce short-term borrowing, maintain reserves, and stabilize service levels.

Expenditures

Highlights

- *City operating costs have increased in response to growth in City population and service area.*
- *There are fewer City employees per Portland resident than there were 10 years ago.*
- *Employee compensation continues to increase faster than inflation, primarily due to rapid growth in health, retirement, and disability costs.*

10 Operating Expenditures



Total spending has increased slightly faster than inflation but lower spending per capita is a favorable trend.

Indicator Explanation

Operating expenditures include personnel costs, materials and services, and capital costs for all ongoing services. It excludes enterprise activities such as water and sewer, and service contracts for fire and emergency services dispatch. Increasing expenditures per capita when adjusted for inflation is a warning trend because it may indicate declining productivity and increasing pressure on the community's ability to pay for services.

Trend Analysis

- Spending has increased faster than inflation over the past 10 years in all areas but administration.
- However, when adjusted for inflation, spending per capita in 1993-94 was the lowest in 10 years.
- Spending increases are due primarily to increased spending on public safety, transportation, and community development.

11 Total Operating Expenditures by Program

Operating Expenditures by Program
millions ('94 $)

	1985	1994	Change
Public Safety	$147.9	$181.6	+22.8%
Parks & Rec.	23.7	30.7	+29.5%
Commun. Devel.	36.1	43.3	+19.9%
Transport. & Parking	57.9	78.5	+35.6%
Legisl. & Admin.	36.7	36.5	-0.5%

Excludes serial levies for capital outlay.

Trend is positive: more spending on direct services but less on administration.

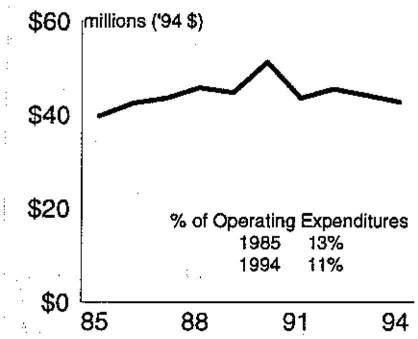
Indicator Explanation

Program expenditures reflect budget allocation decisions. Expenditure level is one indicator of service level solvency. A decline in program expenditures may indicate that if efficiencies don't also occur, the level of public service may decline.

Trend Analysis

- Total program spending has increased, but each area has retained a relatively constant share of total operating expenditures the last 10 years.
- Public safety expenditures averaged about 50 percent of total operating expenditures.
- Excluding the effects of a three-year serial levy, spending on parks and recreation services grew slightly from 7.8 percent to 8.1 percent.
- Spending on community development declined from 11.9 percent to 9 percent in the first four years, but grew to 11.5 percent of total operating expenditures by 1994.
- Transportation and parking spending has a slightly larger share of expenditures – 19.2 percent in 1985 to 20.8 percent in 1994.
- Administrative and Legislative spending declined from 12.1 percent to 9.7 percent in 1994.

12 Fixed Costs



Fixed Costs

The trend is very favorable over the past nine years.

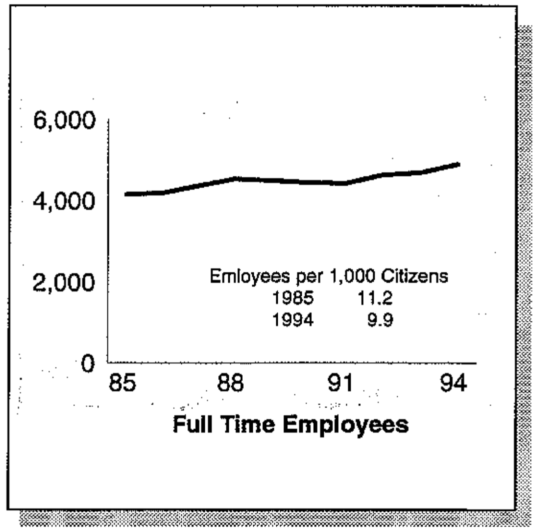
Indicator Explanation

Fixed costs are mandatory expenditures over which the City has little short-term control such as pension benefits, debt principal and interest, and master lease payments. An increasing percent of expenditures dedicated to fixed costs reduces a government's ability to respond to sudden changes and is considered a warning trend.

Trend Analysis

- Except for FY 1989-90, fixed costs as a percent of operating expenditures have trended down.
- Portland Building bonds were refinanced in FY 1989-90 resulting in a onetime cost of $5.8 million.
- Fixed costs represent only 11.3 percent of total operating expenditures, down from 15.5 percent in FY 1989-90 and 13.1 percent in FY 1984-85.
- Fixed costs have declined primarily because of lower interest rates on debt.

13 Total Full-Time Employees



Total City employment has increased over the past nine years, but fewer employees per capita is a favorable trend.

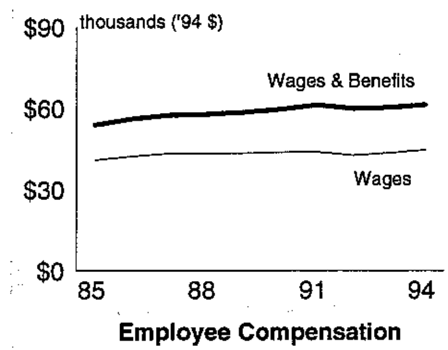
Indicator Explanation

An increasing number of employees could be viewed as a warning trend showing declining productivity or more labor intensive services. However, employment needs to be adjusted to reflect increasing service demands of a growing population.

Trend Analysis

- The number of full-time City employees grew by 739 since 1985, a 17.8 percent increase.
- However, the number of employees per 1,000 Portland residents declined from 11.2 in 1985 to 9.9 in 1994 due to a 33 percent increase in City population.
- The biggest growth in City employment occurred in Police, Environmental Services, Finance and Administration, Buildings, and Transportation.
- Fire and General Services have fewer employees than in 1985.
- The Mayor's and four Commissioners' offices also have fewer employees than 10 years ago.

14 Employee Compensation



The trend is slightly unfavorable due to growth in medical benefit costs and public safety pensions.

Indicator Explanation

Total employee compensation includes both wages and benefits. Compensation that increases faster than inflation is a warning trend because it can reduce resources available for other purposes and may affect service levels. Conversely, wages and benefits that lag too far behind inflation places the City at a competitive disadvantage, making it difficult to attract and retain quality personnel.

Trend Analysis

- Total employee compensation (wages and benefits) has increased slightly faster than inflation over the past 10 years.
- Average total compensation, adjusted for inflation, for general government employees was $61,238 in 1994, versus $53,831 in 1985.
- Wages have generally tracked with inflation but benefits have grown faster than inflation and now comprise a greater share of total compensation – 27.4 percent in 1994 versus 24.1 percent in 1985.
- Major benefit costs include health insurance, retirement programs, and disability and life insurance.

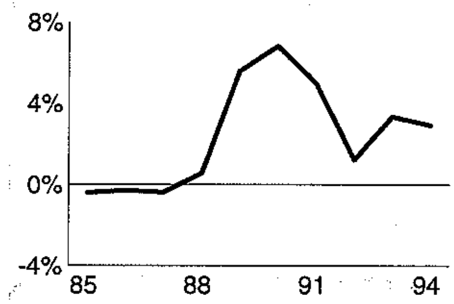
Operating Position and Debt

Highlights

- *The City has avoided operating deficits in each of the past seven years.*
- *Surpluses helped the City rebuild depleted General Fund emergency reserves to a desired level of 10 percent of operating revenues.*
- *The City continues to borrow very little.*
- *The liquidity ratio remains healthy despite growth of accounts payable.*
- *Other long-term liabilities have grown slightly.*

15 Operating Revenues Over (Under) Expenditures

Operating surpluses in each of the past seven years is a favorable trend.



Operating Revenues Over (Under) Expenditures

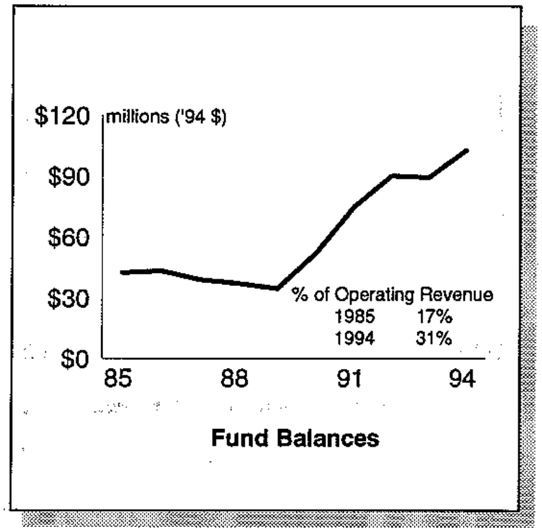
Indicator Explanation

Operating deficits occur as a result of lower revenues or higher expenditures than were budgeted. Operating deficits can also occur intentionally to spend down accumulated reserves. However, frequent deficits may indicate revenues are not supporting current expenditures.

Trend Analysis

- The City has had operating surpluses the past seven years.
- Reserves have not been used to cover deficits since 1987.
- Operating deficits have been avoided by improving revenue projections, controlling expenditures, and benefiting from a strong local economy.

16 Fund Balances



Unreserved fund balances show a favorable increase, following several years of decline.

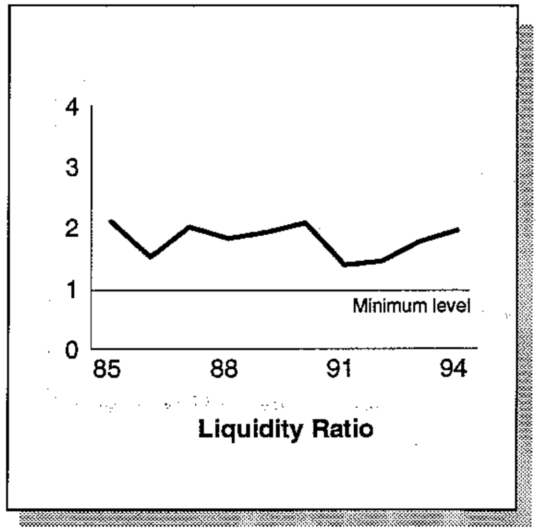
Indicator Explanation

Unreserved fund balances represent money available for capital purchases, financial emergencies, and future obligations. Maintaining reserves also helps governments avoid the interest costs on short-term borrowing. Declining or very low balances are a warning trend indicating that a government may not be able to meet service needs in a financial emergency or economic downturn.

Trend Analysis

- Unreserved fund balances have almost doubled since 1989.
- $30.1 million, or 29 percent of the total is earmarked for insurance claims, pension benefits, and equipment replacement.
- About 10 percent of General Fund operating revenues, or $21.5 million, is set aside for unforeseen needs and economic downturns.

17 Liquidity



Liquidity has varied, but stayed above the minimum level.

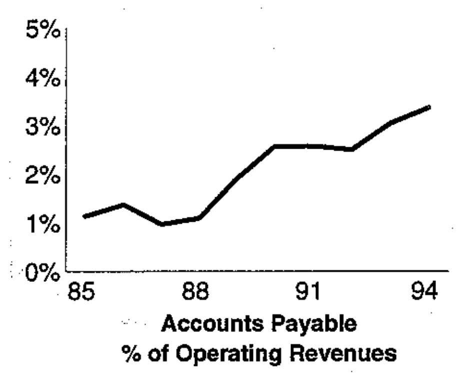
Indicator Explanation

Liquidity is a ratio of cash to liabilities and is an indicator of an organization's ability to pay for short-term obligations. A low ratio, below $1 to $1, is a warning trend and may indicate a cash flow problem and the need for increased short-term borrowing.

Trend Analysis

- The City's ratio of cash to liabilities has ranged from 2.10 to 1.38 over the past 10 years – an acceptable ratio for credit rating purposes.
- Net cash after paying current liabilities grew from $29.4 million in 1991 to $63.7 million in 1994 – a 117 percent increase.
- Liquidity ratio increased only 41 percent from 1991 to 1994 because of increasing liabilities.

18 Accounts Payable



The trend is negative over the past six years.

Indicator Explanation

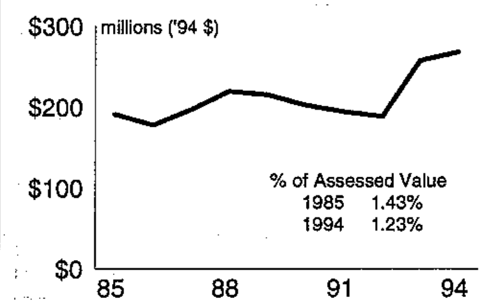
Increasing liabilities or amounts owed at year end is a warning trend because it can indicate that a government is short of cash to pay bills.

Trend Analysis

- Accounts payable as a percent of operating revenues tripled from 1 percent in 1987 to over 3 percent in 1994.
- However, increased year-end liabilities do not appear to be caused by cash shortages because the liquidity ratio has grown.
- Primary reason for growing accounts payable is increased General Fund, transportation, and building activity.

19 Combined Long-Term Debt

Combined long-term debt continues to be very positive.



Combined Long-Term Debt

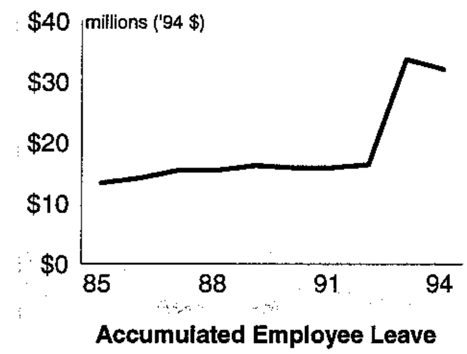
Indicator Explanation

High levels of combined governmental long-term debt can strain citizen resources available to pay for it. This can hinder a government's ability to borrow funds for capital asset repairs or improvements.

Trend Analysis

- Although combined debt for all jurisdictions, as a percent of assessed value, has increased 21 percent over the past two years, it still remains well below the warning threshold of 10 percent of assessed value.
- City debt has declined while borrowing by Portland Community College, Tri-Met and Multnomah County has increased during the last two years.
- Bond levies to improve parks will increase City debt beginning in FY 1995, but debt levels will still remain well below legal and prudent levels.

20 Accumulated Employee Leave



Unpaid employee leave is a growing liability.

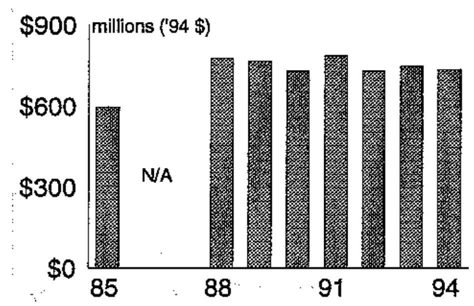
Indicator Explanation

Employees who retire or leave City employment are entitled to a cash payment for unused vacation pay they have accumulated. Fire and police employees are also entitled to a cash payment for unused sick leave when they retire. Accumulated leave represents an unfunded liability for governments. Increasing levels of unused leave is a warning trend.

Trend Analysis

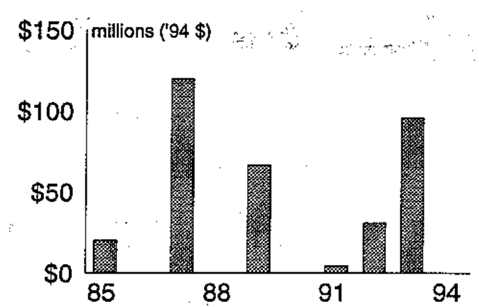
- Change in the method of accounting for unused leave caused the liability to jump from about $16.8 million to over $32 million – a 90 percent increase.
- However, the increase would have been much less if the old accounting rules applied.
- Unused vacation pay liability increases slowly as the number of employees increase and existing employees gain additional seniority and accumulated leave.

21 Pension Liabilities and Assets



Public Safety: Unfunded Pension Liability

The trend is more favorable than in prior years.



PERS Pension: Unfunded Liability

Unfunded liability fluctuates, but this indicator is generally favorable.

The City has two pension programs for its employees. The Fire and Police Disability and Retirement Plan provides benefits for most police officers and firefighters. All other City employees are covered by the Oregon Public Employment Retirement System (PERS).

The Fire and Police Disability and Retirement Plan is a pay-as-you-go plan that relies on a dedicated property tax levy, capped at $2.80 per $1,000 of assessed value, to pay benefits each year. Because it is not pre-funded, it does not benefit from investment earnings on accumulated reserves.

The PERS plan is state-mandated and pre-funded. As a result, contribution rates are set by PERS and pension benefits are paid from investment earnings and accumulated reserves.

Indicator Explanation

Unfunded pension liability is an estimate of the cost of future retirement payments for present employees for which funds have not been set aside. Inadequate funding of these obligations can cause large drains on operating resources in the future when these liabilities must be paid. Increasing unfunded liabilities or diminishing assets are both warning indicators.

Trend Analysis.

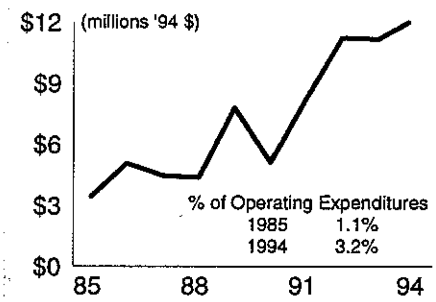
- When adjusted for inflation, the fire and police pension plan has an estimated unfunded liability of over $735 million, which is 6.5 percent less than in FY 1990-91.
- The plan's charter-authorized maximum levy of $2.80 per $1,000 of assessed value has been determined to be actuarially-adequate to provide continued funding. Only $1.88 per $1,000 of assessed value was levied in 1994.
- The plan's unfunded liability represents approximately 3.39 percent of the City's assessed property value, down from 4.42 percent in FY 1990-91.
- The City currently has a $49 million dollar unfunded liability in its PERS account in calendar year 1993.
- PERS automatically adjusts City contributions each year to assure assets are sufficient to cover obligations when due over a 30 year period.
- Changes in investment earnings, benefit enhancements, and wage increases can affect liability.

Fixed Assets

Highlights

- *The City has increased the share of revenues allocated to capital spending.*
- *The age and condition of some assets (e.g. streets, fire apparatus) are constantly monitored but data is needed for other important assets.*
- *Not all capital needs are funded in the budget, but the process selects priority projects.*
- *Additional spending to replace overaged traffic signals is needed.*

22 Capital Expenditures



Capital Expenditures

The trend has been favorable over the past nine years.

Indicator Explanation

Capital items include equipment, buildings, vehicles, and construction such as street repairs, and parks improvements. A decline in the amount or rate of capital spending may indicate that as items age, they are going unrepaired or becoming obsolete. Deferring needed capital spending can create future liabilities that cost more to correct. In addition, deteriorating infrastructure and physical assets may discourage business activity, reduce property values, and increase operating expenses.

Trend Analysis

- The City increased capital spending from $3.4 million in 1985 to $12.2 million in 1994, a 254 percent increase.
- As a percent of total operating expenditures, capital spending increased from 1.1 percent in 1985 to over 3.2 percent in 1994.
- Increased capital spending in 1991 through 1994 for public safety and parks facilities was made possible by three-year serial tax levies.
- An additional $58.8 million for parks improvement was approved by voters in 1994-95.

23 Asset Age and Condition

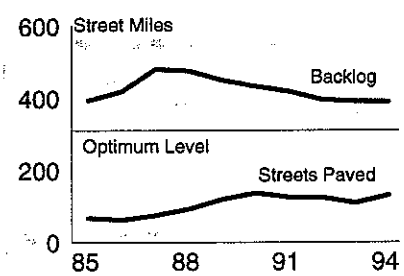
Indicator Explanation

Aging and deteriorating physical assets can affect the quality of service provided to citizens and contribute to higher operating costs in the form of increased maintenance and repair expenses. Deferring maintenance on an asset can also shorten its useful life and result in higher than needed capital expenditures for replacement. Moreover, failure to maintain, repair, and replace assets on time unfairly transfers the costs from one generation of citizens to the next.

The degree to which the City monitors and measures the condition and age of its assets varies considerably. Some services, including transportation, water, and fire, keep detailed records that track the age and condition of assets and capital financing needs. Trend indicators for transportation and fire are listed below. Other services such as sewers and parks lack adequate historical information on the condition and age of physical assets which prevents the development of trend indicators.

Street Paving Backlog: *Trend is positive, but improvement has slowed.*

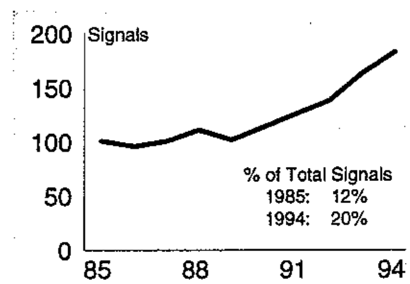
- After five years of decline in paving backlog, the backlog of needed street maintenance leveled off in 1993 and 1994.
- Miles of streets treated annually has increased by 94 percent since 1985.
- The miles of streets treated in 1993 declined due to poor weather conditions.
- The Bureau of Maintenance estimates it would cost approximately $11.2 million to reduce the maintenance backlog to an acceptable level.



Street Paving Backlog

Number of Overaged Traffic Signals: *Trend is negative.*

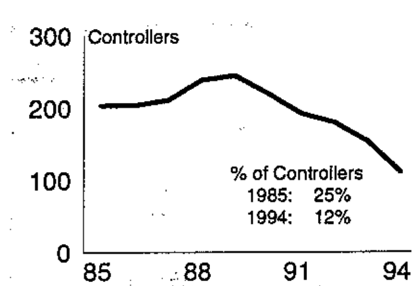
- The number of traffic signals that are overaged (over 25 years old) increased by 81 percent, from 101 in 1985 to 183 in 1994.
- Approximately 20 percent of all traffic signals are overaged, up from 12 percent in 1985.
- Signals are reaching the end of their useful life faster than they are being replaced.



Overaged Traffic Signals

Number of Overaged Traffic Signal Controllers: *Trend is positive.*

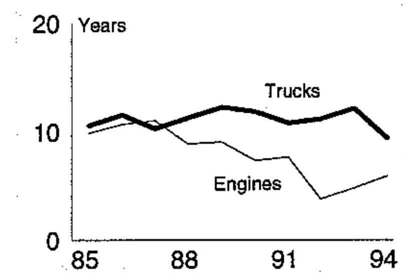
- The number of traffic signal controllers that are overaged has declined steadily from 245 in 1989 to 111 in 1994.
- Approximately 12 percent of traffic controllers are overaged compared to 25 percent in 1985.
- More controllers are new because the Bureau has replaced over 200 controllers over the past five years.



Overaged Traffic Signal Controllers

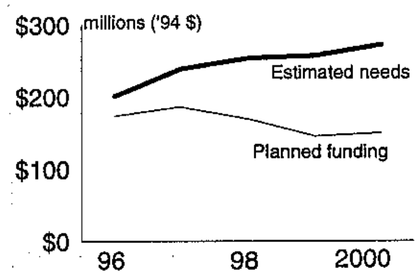
Fire Engines and Trucks: *Trend is positive.*

- The age of fire trucks (ladders) remained fairly constant for the first nine years, then dropped in 1994 to an average age of 9.4 years – the lowest level in this decade.
- The average age of fire engines (pumpers) in service declined from 10 years in 1985 to six years in 1994.
- The estimated useful life of fire engines and trucks is 15 years of first line service and an additional six to seven years in reserve status.



Average Ages of Fire Engines and Trucks

24 Unfunded Capital Needs



Unfunded Capital Needs

Future planned funding levels are not keeping pace with estimated capital needs.

Indicator Explanation

Unfunded capital needs are the difference between estimated capital needs and planned funding. An increasing level of unfunded need is a warning trend indicating that future capital costs are increasing faster than foreseeable resources.

Trend Analysis

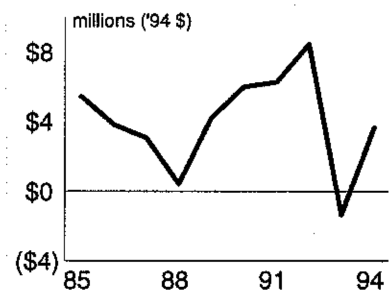
- The gap between estimated capital needs and planned funding is projected to increase over the next four years.
- While almost 87 percent of needs will be funded in 1995-96, only 55 percent of the need will be addressed in 1999-2000.

Enterprise Operations

Highlights

- *For the first time the City's two major businesses – water and sewer services – have experienced financial stress.*
- *Rates have grown rapidly, net income has declined, and cash flow is not as healthy as in years past.*
- *However, both businesses have a growing customer and revenue base and relatively low debt.*

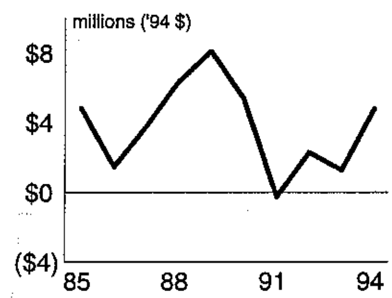
25 Net Operating Income (Loss)



Water Fund Net Income (Loss)

Reduced water sales produced lower net income.

Trend is generally negative; sewer services net income declined in two of the past four years.



Sewer Fund Net Income (Loss)

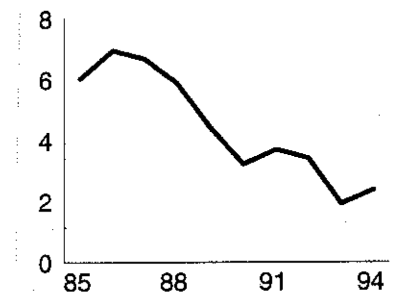
Indicator Explanation

Net losses or declining net income is a warning trend indicating insufficient revenue or uncontrolled costs. Net income is used to retire debt, maintain and construct facilities, and provide working capital. Net income is shown before deductions from bond refinancings.

Trend Analysis

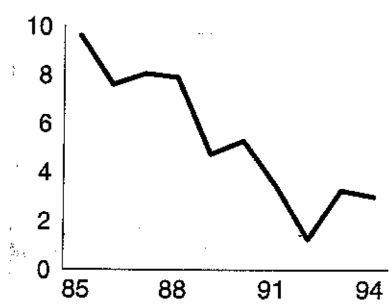
- The Water Fund had a net loss in FY 1992-93 due to lower water sales resulting from drought and water use restrictions.
- Water revenues rebounded in FY 1993-94 back to targeted net income levels.
- Sewer Fund had a net loss in FY 1991 caused by Mid-county sewer construction, additional maintenance and other mandated programs not anticipated in the last rate adjustments.
- Net income rebounded in 1994 due to increased revenue and reduced expenses.

26 Liquidity Ratio



Water Fund Liquidity Ratio

Water Fund liquidity ratio has been reduced as planned and remains above the minimum level.



Sewer Fund Liquidity Ratio

Sewer Fund liquidity ratio reached its lowest level in 1992, but improved significantly the next two years.

Indicator Explanation

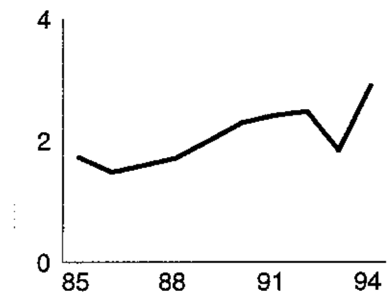
The liquidity ratio is an indicator of cash available to pay current bills when due. Ratios below $1 of cash to $1 of liability is a warning sign.

Trend Analysis

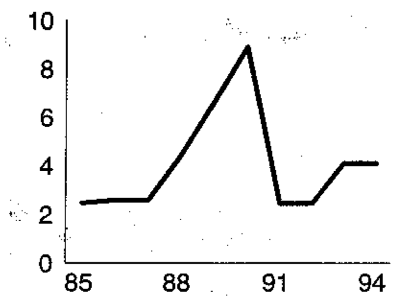
- Both Water and Sewer Funds have lower liquidity ratios than prior years, but ratios stayed above a minimum ratio of 1:1.
- Water Fund liquidity ratio dropped to a 10-year low of 1.92 in 1993 due to planned drawdowns of the fund balance and the drought.
- Sewer Fund also dropped to new low in 1992 because of a doubling of construction-related accounts payable.

27 Debt Coverage Ratios

The trend is favorable for both the Water and Sewer Funds.



Water Fund Debt Coverage Ratio



Sewer Fund Debt Coverage Ratio

Indicator Explanation

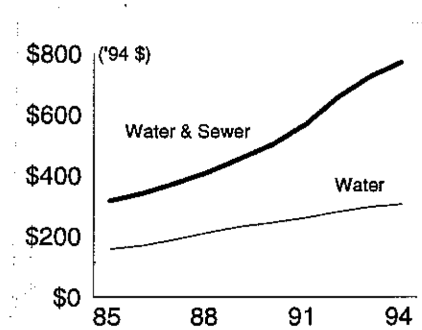
The debt coverage ratio is the ratio of net income to debt principal and interest requirements. The debt coverage ratio is an indicator of the ability to repay revenue bond investors. A ratio of approximately 1.2 to 1 is usually required.

Trend Analysis

- Both Water and Sewer Funds have maintained adequate debt coverage ratios over the past 10 years.
- The Water Fund ratio has steadily improved from 1.7 in 1985 to 2.9 in 1994 due to stronger financial policies and performance.
- The Sewer Fund's ratio grew in 1988, 1989, and 1990 as debt service obligations were paid down. It came down rapidly in 1991 and 1992 as debt service requirements from new revenue bonds came due. System development prepayments from east Multnomah County residents caused the spike in 1993.

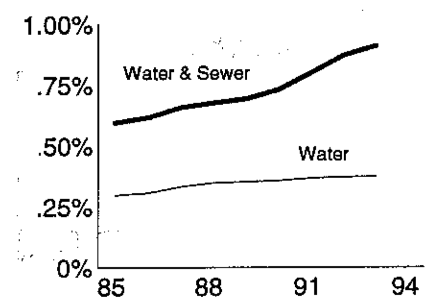
28 Annual Water & Sewer Charges

The trend in annual water and sewer bills has been unfavorable over the past nine years.



Typical Annual Bills

Water and sewer bills comprise an increasing share of median family income.



Water & Sewer Bills
Percent of Median Income

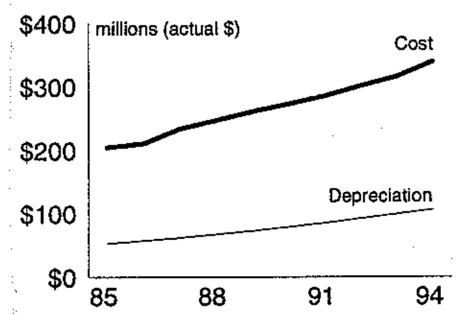
Indicator Explanation

Utility bills growing faster than inflation place a larger strain on household budgets and may affect customers' ability to pay. Consequently, continual increases above the rate of inflation are a warning sign.

Trend Analysis

- Typical annual charges have increased 6.5 percent faster than inflation.
- Adjusted for inflation, annual bills comprise about 1 percent of median family income in 1994 – up from .6 percent in 1985.
- Major growth in sewer rates and charges was caused by rising operating costs. Much higher sewer rate increases are projected for the future to repay bonds issued to fund mid-county sewer hookups and reduce the combined sewer overflow.

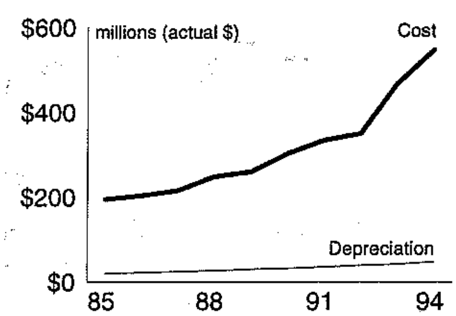
29 Asset Age/Condition



Water Fund Assets
Cost and Depreciation

Trend is positive: water assets are not aging as fast as they are improved.

Sewer asset improvement is positive as new assets are added at a much faster pace.



Sewer Fund Assets
Cost and Depreciation

Indicator Explanation

Depreciation is way of systematically recognizing the using up of assets. Asset age and condition can be estimated by using a ratio of asset cost to accumulated depreciation. An increasing percentage is generally a warning trend because it indicates assets are not being renewed or replaced as quickly as their decline in value due to age or obsolescence.

Trend Analysis

- The Water Fund is adding and improving depreciable assets at a rate slightly greater than their related depreciation.
- Sewer Fund is adding and improving depreciable assets at a rate much greater than their related depreciation due to age or obsolescence.

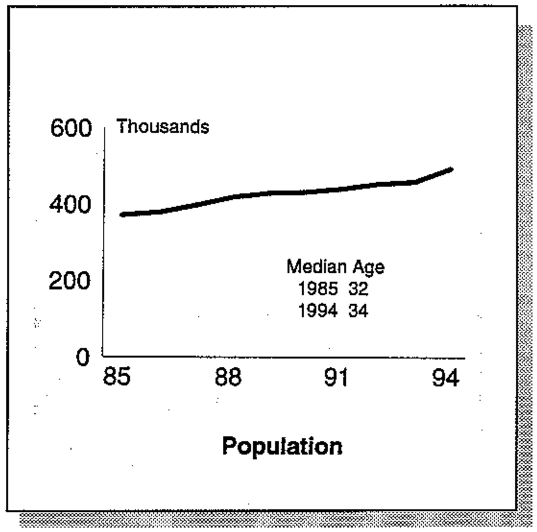
Economic & Demographic Characteristics

Highlights

- *A very strong economy is increasing job opportunities, raising average income, and driving unemployment down.*

- *Economic growth and new annexations are increasing City population resulting in more demand for government services.*

30 Population



Population trend is slightly negative because new residents usually add more service demand than new revenue.

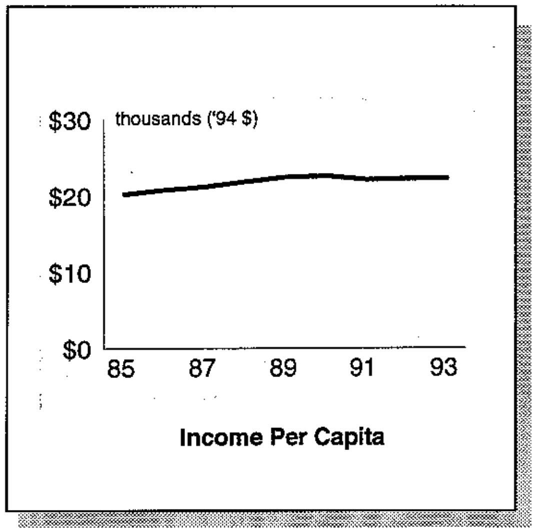
Indicator Explanation

Rapid increases in population can be a negative trend if service demands increase and revenues fail to keep pace with needs.

Trend Analysis

- City population has grown from 371,500 in 1985 to 495,090 in 1994 – a 33 percent increase.
- Over 80 percent of the increase occurred due to annexations.
- Youth population as a percentage of total is constant, while a smaller share of the population is comprised of individuals over 59.
- Median age has increased from 32 to 34 during the decade.

31 Income Per Capita



The trend has been favorable over the past nine years.

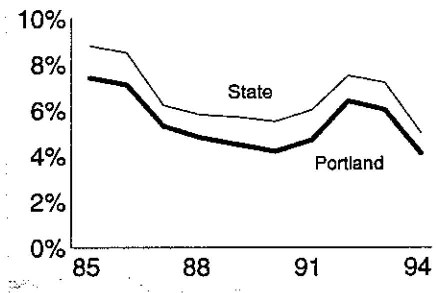
Indicator Explanation

Declining income per capita is a warning trend indicating general economic problems and reduced ability to provide tax resources.

Trend Analysis

- Income per capita has grown slightly faster than inflation, from $20,200 in 1985 to $22,224 in 1994.

32 Unemployment Rate



Unemployment Rate

Trend has been very positive over the past ten years.

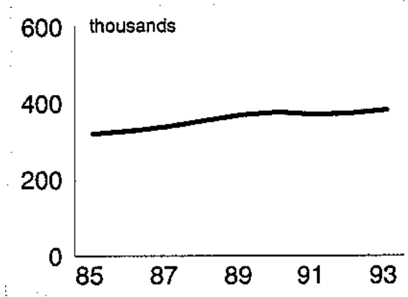
Indicator Explanation

An increasing unemployment rate is a warning indicator of a declining employment base, which can lead to lower revenues and higher social service costs.

Trend Analysis

- Unemployment rate in the Portland area declined from 7.4 percent in 1985 to 4.1 percent in 1994.
- Portland area unemployment has remained lower than the state average over the past ten years.
- Unemployment rate in 1994 is the lowest in 10 years.

33 Number of Jobs



Number of Jobs in Multnomah County

Very positive trend in jobs over the past nine years.

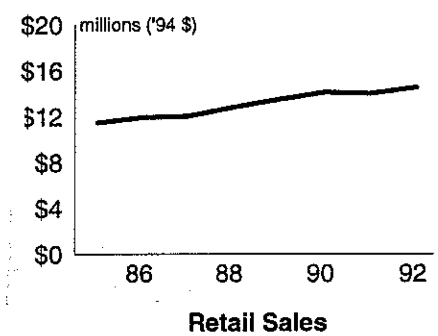
Indicator Explanation

Declines in the number of jobs in an area indicates potential problems in economic vitality and can contribute to higher unemployment rates with resulting impact on government services and revenue.

Trend Analysis

- Over 60,000 jobs were added in Multnomah County since 1985.
- There are more jobs in Multnomah County than at any time in history.
- Rate of job growth leveled off in 1991 and 1992, but increased again in 1993.

34 Retail Sales



Retail sales have showed a positive steady increase over the past ten years.

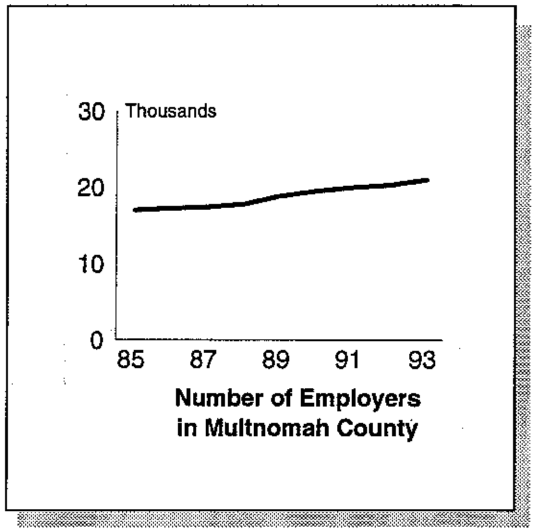
Indicator Explanation

A decline in retail sales is generally a warning signal indicating possible economic downturn.

Trend Analysis

- Retail sales increased by 37 percent from 1985 to 1993 – the last year of available data.
- 1994 retail sales statistics are not final, but initial data shows continuing upward trends.
- Retail sales increases can be attributed to increased population and a healthy economy.

35 Number of Employers



Positive trend: increasing number of employers in Multnomah County.

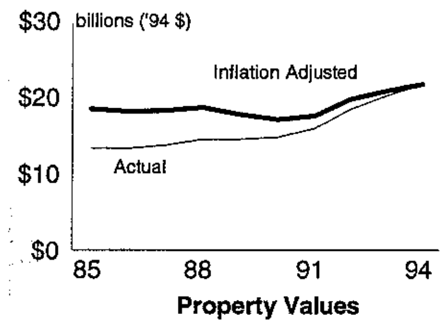
Indicator Explanation

An increase in the number of employers shows that the region is growing economically and there are more opportunities for employment. A decline in employers is a negative trend.

Trend Analysis

- The number of employers in Multnomah County increased by over 23 percent from 17,012 in 1985 to 20,999 in 1993, the last year of available data.
- This is the highest number of employers in nine years.
- The fastest growing employment sector is construction.

36 Property Values



Property assessed values have increased in the past four years, a positive trend.

Indicator Explanation

Assessed value is a measure of the market value of taxable real, personal and utility property in the City of Portland. Because tax rates are fixed by law, declines in assessed value currently decrease revenues from property taxes.

Trend Analysis

- After several years of decline, property assessed values increased by 27 percent from 1990 to 1994.
- The major factor contributing to assessed value increases was market demand due to the strong regional economy.
- Annexations also contributed to assessed value growth in Portland over this time period.
- Ballot Measure 5 (1992) provided additional incentives to ensure assessed values reflect real market value.

Recommendations

To build on the strong financial condition of the City of Portland, the Council and the Office of Finance and Administration should continue to closely monitor revenue collections and expenditure levels. In addition, we recommend that the Office of Finance and Administration take the following specific actions:

1. *Review current Comprehensive Financial Management Policy to update sections needing revision.*

Since the policy was adopted by Council in 1992, there have been several changes in financial management including the biennial budget process, budget monitoring procedures, and creation of new utility review methods. OF&A should revise the policy to reflect these changes and future changes resulting from the CORE process or the human resource policy.

OF&A may also wish to develop a revised document that incorporates all financial policies in a single document. Current policies for debt, reserves, investments, and revenue are separate documents.

Finally, we recommend that OF&A continue to provide a short summary of the City's financial policies in the annual budget. It is very useful to City managers and officials, and to communicate with the public and other interested parties.

2. *Continue to search for efficiencies and improved productivity in water and sewer utility operations.*

Recent efforts such as the Public Utility Review Board, Comprehensive Organizational Reviews, and the utility analyst review teams are good forums for exploring opportunities to reduce utility costs. These efforts should focus on a variety of methods to improve efficiency, including managed competition, capital spending reviews, and improved purchasing systems.

3. *Upgrade and improve fixed asset accounting and record keeping systems.*

The OF&A should implement a new fixed asset accounting system or the long-delayed fixed asset module of the Integrated Business Information System (IBIS) in order to develop a more complete and accurate asset inventory and valuation. This action is critical as the City initiates significant capital spending for parks and sewer systems over the next several years. In addition, OF&A should encourage each bureau to develop reliable information on the age and condition of their fixed assets so that Council receives accurate data for discussions on allocating limited resources for capital outlay.

4. *Increase current efforts to control the costs of employee benefits.*

OF&A should urge Council to take more aggressive action to get State legislation passed that would modify PERS benefits for future public employees and moderate other state controlled benefit costs. In addition, OF&A should continue to support and promote loss control and prevention programs, employee wellness, and health program cost-containment.

5. *Analyze the increased reliance on intergovernmental revenues.*

In light of potential budget reductions at the federal and state levels, OF&A should assess the need to develop contingency budgeting for services that rely on state and federal funding.

Trends in Brief

1	**Operating Revenues Per Capita**	Neutral
2	**Property Tax Revenues**	Favorable
3	**Uncollected Property Taxes**	Favorable
4	**User Charges**	Favorable
5	**Intergovernmental Revenues**	**Unfavorable**
6	**Elastic Revenues**	Favorable
7	**Short-Term Revenues**	Favorable
8	**Restricted Operating Revenues**	Favorable
9	**Revenue Shortfalls**	Favorable
10	**Total Operating Expenditures**	Favorable
11	**Operating Expenditures by Program**	Favorable
12	**Fixed Costs**	Favorable
13	**Full-time Employees Per 1,000 Citizens**	Favorable
14	**Employee Compensation**	**Unfavorable**
15	**Operating Revenues Over (Under) Expenditures**	Favorable
16	**Fund Balances**	Favorable
17	**Liquidity**	Favorable
18	**Accounts Payable**	**Unfavorable**
19	**Combined Long-Term Debt**	Favorable

20	**Accumulated Employee Leave**	**Unfavorable**
21	**Pension Liabilities and Assets**	Favorable
22	**Capital Expenditures**	Favorable
23	**Asset Age and Condition**	Neutral
24	**Unfunded Capital Needs**	**Unfavorable**
25	**Enterprise Operating Income (Loss)**	**Unfavorable**
26	**Enterprise Liquidity**	Neutral
27	**Enterprise Debt Coverage Ratios**	Favorable
28	**Annual Water & Sewer Charges**	**Unfavorable**
29	**Enterprise Asset Age/Condition**	Favorable
30	**Population**	Neutral
31	**Income Per Capita**	Favorable
32	**Unemployment Rate**	Favorable
33	**Number of Jobs**	Favorable
34	**Retail Sales**	Favorable
35	**Number of Employers**	Favorable
36	**Property Values**	Favorable