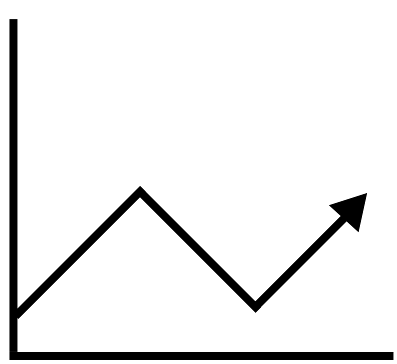
Financial Trends
in the City of Portland
1992 - 2001



Office of the City Auditor
Portland, Oregon
March, 2002

INTRODUCTION

This report provides City officials and citizens with information to help them understand the financial condition of the City of Portland. While a wealth of information is produced each year in the *Adopted Budget* and the *Comprehensive Annual Financial Report* (CAFR), readers may find these documents difficult to read and understand. This *Financial Trends* report presents summarized financial information in a format that we believe is easier to comprehend.

This report presents 27 financial and demographic trends covering a ten-year period from fiscal year 1991-92 through fiscal year 2000-01. We have identified both favorable and unfavorable trends and offer some general recommendations for Council consideration.

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. Put simply, a financially stable city collects sufficient revenue to pay short-term bills, finance major capital expenditures, and meet long-term obligations.

Financial conditions can be monitored by analyzing trends in several broad areas:

- revenues
- expenditures
- operating position and debt
- capital assets
- enterprises
- economy and demographics

Tracking trends in these areas over time permits City managers and officials to monitor finances and identify problem areas that may need attention.

Highlights: Significant financial trends

The City of Portland remains in sound financial condition. Despite property tax limitation measures and flat intergovernmental revenues, operating revenues have remained strong. Over the 10-year period ending in June 2001, the City paid the bills, balanced the budget, and significantly increased investments in long-term capital assets.

However, this report does not reflect the current financial stresses of the City resulting from the economic recession that began in FY 2001-2002. Significant spending increases in the decade may not be sustainable during the current period of economic decline. Also, the City may have less capacity to address future service needs due to increases in fixed costs and limits in the growth of assessed property values.

The most **favorable** trends are:

- ✚ steady growth in all general revenue categories
- ✚ large fund balances to meet emergencies and to pay for equipment replacement and health insurance claims
- ✚ employee wage and benefit increases that track closely with inflation
- ✚ healthy liquidity ratios indicating ability to pay short-term obligations
- ✚ a decade of increasing incomes, low unemployment, more jobs, and growing property values – interrupted by economic slowdown in 2001-2002.

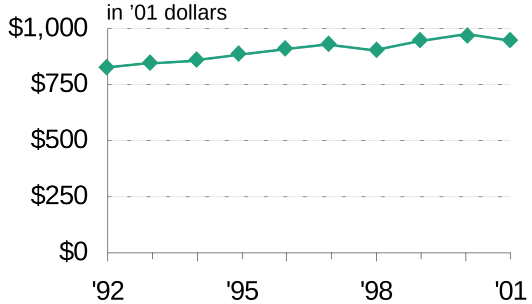
The most significant **unfavorable** trends that warrant attention:

- ▬ spending for on-going operations is increasing faster than inflation and population growth
- ▬ large increases in fixed costs associated with pension and other bonded debt reduce flexibility to respond to new expenditure requirements
- ▬ while still below warning thresholds, combined general obligation debt for all governments in the region grew by over 175% the past ten years
- ▬ increased reliance on elastic revenues could cause service disruptions if the current economic slump does not reverse in the next few years
- ▬ steady increases in the replacement/ maintenance backlog of critical fixed assets such as traffic signals and streets, could decrease public safety and increases costs.

General recommendations

1. Take action to moderate growth in operating expenditures for ongoing City programs in order to match available revenues.
2. Develop plans to reduce and/or eliminate the replacement/maintenance backlogs for aging streets and traffic signals in order to control maintenance costs, extend useful lives, and maintain traffic safety.
3. Amend the City's Reserve Fund policy to recognize the City's increased reliance on elastic revenues and the need for additional reserves for slow economic periods.
4. Review current long-term debt commitments and coordinate with regional governments to develop a sustainable level of debt.
5. Evaluate the impact of increasing fixed costs on future expenditure capacity.

1 OPERATING REVENUES PER CAPITA



Operating revenues per capita decreased slightly in 1998 but increased steadily over the past 10 years.

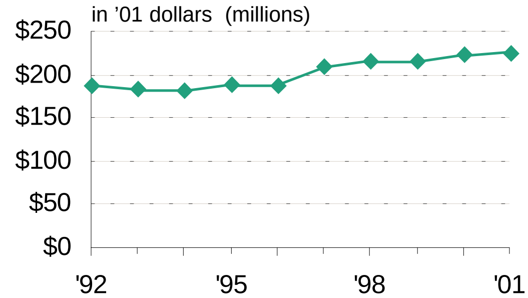
Analysis

- Adjusted for inflation, operating revenues per capita were $947 in 2001, a 14% increase from 1992, but declined from a high of $977 in 2000 due to a large increase in population.
- Passage of property tax limitation Measure 50 was largely responsible for the revenue decline in 1998.
- Property tax decreases were moderated by steady growth in business licenses, utility franchise fees, and miscellaneous user charges.
- Revenue growth has slowed in 2001-2002 due to national and regional economic recession.

Indicator Explanation. Operating revenues include property and gas taxes, business licenses, franchise and user fees, intergovernmental revenues, and other general revenues that are used for services such as police, fire, parks, streets, and central administration. Revenues from business activities such as water and sewer services are excluded.

Declining revenues per capita may be a warning sign because it may signal the City's inability to provide existing services as the population grows.

2 PROPERTY TAX REVENUES



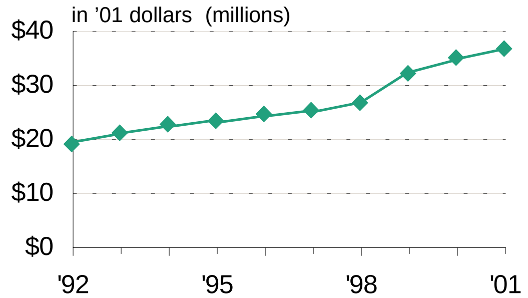
Property tax limitation Measure 50 moderated the annual growth in property tax revenues after 1997.

Analysis

- Property tax limitations that passed in fiscal years 1991 and 1997 limited tax rates, changed the way property was assessed, and limited growth in assessed values and property taxes.
- Special tax levies for parks improvements, public safety, and street lighting ended in the mid-1990's.
- Property taxes now represent about 40% of operating revenues, down from a high of 43% in 1996.
- Adjusted for inflation, general property tax revenues grew 32% over the past 10 years, while property taxes for the Fire and Police Disability and Retirement Fund increased 46%.

Indicator Explanation. Property taxes are paid on the assessed value of real, personal, and utility property. City property taxes are also generated by several separate levies that support police and fire pension and disability benefits, and various capital improvements. Because of their significance to general government operations, declining tax revenue is a warning trend.

3 USER CHARGES AND FEES



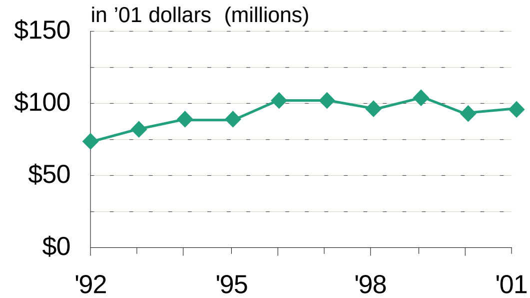
User fees increased significantly, and now comprise over 7% of operating revenues.

Analysis

- Adjusted for inflation, user charges and fees have increased about 90% - from $19 million in 1992 to $37 million in 2001.
- Per capita, residents paid an average of $43 in fees in 1992 and $69 in 2001.
- Fees and charges for park and recreation use, rents and reimbursements, and building and development fees have grown the fastest.
- User charges and fees comprised about 7% of general operating revenues in 2001, up from only 5% in 1992.
- Significant increases from 1999 through 2001 were primarily due to higher parking fees and fines collected by the Office of Transportation, and additional parks fees and concessions revenue.

Indicator Explanation. User fees should cover all or part of the costs of providing services such as recreation programs, building permits, and parking control. Prices should keep pace with inflation and other cost increases. A decline in collections or a reduced percentage of user fees relative to total revenues are both negative signs. Water and sewer and other business activities are excluded from this indicator.

4 INTERGOVERNMENTAL REVENUE



Less reliance on federal revenues is a positive trend, but declining state gas taxes is unfavorable.

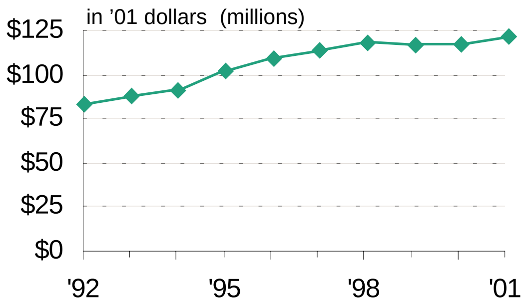
Analysis

- Adjusted for inflation, total intergovernmental revenues were 34% higher in 2001 than in 1992. However, intergovernmental revenue has declined 7% since 1999, caused primarily by declining gas and cigarette tax revenues and federal and state grants.
- General revenue sharing, such as state liquor and cigarette taxes, grew 27%.
- Intergovernmental revenues represent 17% of total gross operating revenues.

Indicator Explanation. The City receives money from federal, state, and other local governments from sources such as federal housing grants, state gas tax revenues, and cigarette and liquor taxes.

Because federal and state governments can change polices that may affect the amount of funding given to local governments, it is generally considered unwise to depend on this revenue source to fund general government services.

5 ELASTIC REVENUES



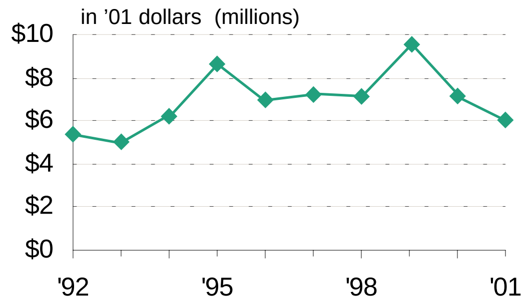
Elastic revenues remain a large component of Portland's operating revenues, an unfavorable trend.

Analysis

- Adjusting for inflation, elastic revenues have grown steadily over the past 10 years, increasing by 46% since 1992.
- Business license fees are the largest of the fast-growing elastic revenues, increasing from $32 million in 1992 to $52 million in 2001.
- Since 1996, elastic revenues have averaged about 24% of net operating revenues, up from 22% in 1992.

Indicator Explanation. Elastic revenues are highly responsive to economic conditions, growing and declining as local economic conditions change. Elastic revenues include business licenses, utility franchise fees, hotel and motel taxes, and building permits. Overreliance on elastic revenues can crimp programs and services during periods of economic downturn.

6 SHORT-TERM REVENUES



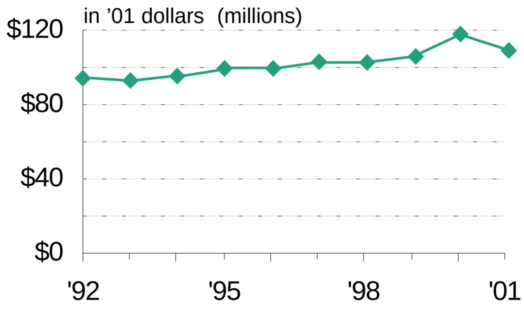
Short-term revenues, normally used to pay for one-time needs, have declined in recent years.

Analysis

- Adjusted for inflation, short-term revenues have grown by only 11% over the past 10 years.
- Short-term revenues comprise a small percent of net operating revenues, about 1.2% in 2001.
- Short-term revenues have generally been used to pay for one-time needs.
- The large increase in 1999 included a $2.4 million FEMA reimbursement for costs incurred by the City during the 1996 flood.

Indicator Explanation. Short-term revenues are resources that are not expected to continue beyond five years. They generally include inter-fund transfers, use of various reserves or contingencies, and funds gained from sales of assets. Reliance on short-term revenues to fund ongoing programs is considered a warning trend.

7 RESTRICTED OPERATING REVENUES



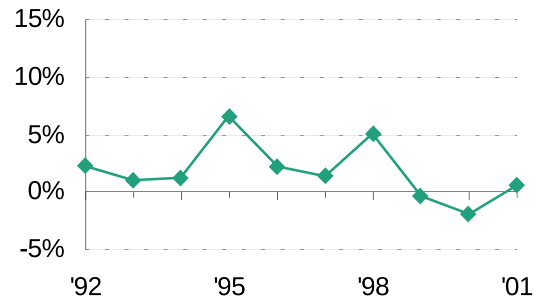
The trend is favorable, as restricted revenues have remained relatively stable.

Analysis

- Over the past 10 years, restricted revenues have grown about 16%.
- Gas taxes and the fire and police pension levy comprise 97% of restricted revenues.
- Adjusted for inflation, gas tax revenues have declined by over 10% since 1996.
- The large increase in 2000 was due to contributions to the Pension Debt Redemption Fund.
- In 2001, restricted revenues represent 22% of net operating revenues, down from 25% in 1992.

Indicator Explanation. These revenues are legally restricted for specific purposes. For example, gas taxes can be use only for roads and transportation related purposes. Similarly, tax levies for fire and police pensions can only be used for that purpose. An increasing portion of revenues restricted for specific purposes is a warning trend because it may mean that less revenue is available for general uses and services.

8 REVENUES OVER/UNDER ESTIMATES



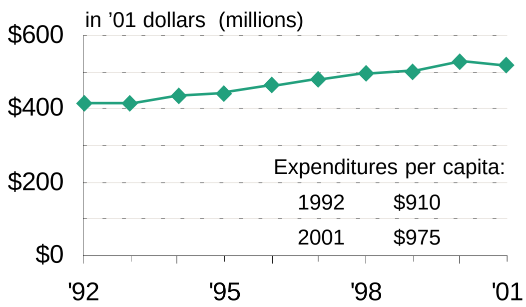
Actual revenue received has generally exceeded projected amounts due to a strong economy and conservative budget estimates.

Analysis

- Revenue estimates early in the decade were conservative, resulting in more revenue than budgeted.
- Revenue surpluses helped fund new services and increase fund balances and reserves.
- The revenue under-estimate in 1999 was less than 1%; however, this was more than covered by large beginning fund balances.
- The large under-estimation in 2000 was due primarily to underbudgeting contributions to the Pension Debt Redemption Fund.

Indicator Explanation. This indicator shows the difference between estimated/budgeted revenues and actual revenues received. Overestimating revenues produces shortfalls which may require use of reserves or mid-year cuts in service levels to ensure budget balance. Underestimating revenues can result in large fund balances.

9 OPERATING EXPENDITURES



The trend is negative with both operating expenditures and expenditures per capita increasing faster than inflation.

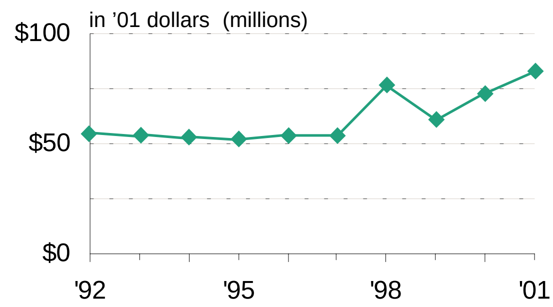
Analysis

- Total spending has increased 25% over the past 10 years, while per capita capital spending increased 7%.
- Large increases in 2000 were in parks and recreation, transportation, building construction and development, and local school support, and pension bonded debt.
- Community development programs had the largest increase (106%) due to affordable housing commitments, development, planning and building activities, and local neighborhood school support.
- Administrative and legislative services increased by over 44% primarily due to growth in business license refunds, internal services, and debt redemption.

Indicator Explanation. Operating expenditures include personnel, materials and services, and capital costs for public safety, parks and cultural activities, community development, transportation and parking, and legislative and administrative services. They exclude enterprises such as water and sewer, and major capital improvements such as public safety and park improvements funded by special levies or bonds.

Increasing expenditures per capita is a warning trend. It may signal declining productivity or greater burden on taxpayers. Declining expenditures may indicate increased productivity or a reduction of services.

10 FIXED COSTS



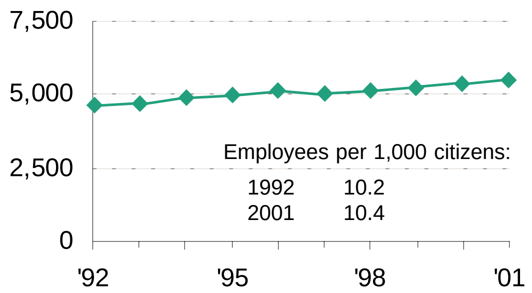
The trend in fixed costs is unfavorable over the past four years.

Analysis

- While fixed costs were fairly stable over the first six years, they increased significantly the past four years.
- Large increase in 1998 was due to a one-time payment to certain fire and police retirees and payments on street improvement bonds.
- Increases in 2000 and 2001 were due to start of repayment of 30-year pension obligation bonds.
- Fixed costs represent 16% of total operating expenditures, up from 14% in 1992.

Indicator Explanation. Fixed costs are mandatory expenditures over which the City has little short-term control. Two examples of fixed costs are required pension benefits and repayments of bond principal and interest. An increasing percentage of expenditures dedicated to fixed expenditures is a negative trend because it reduces the flexibility of the government to respond to sudden changes in revenues or expenditure requirements.

11 TOTAL FULL-TIME EMPLOYEES



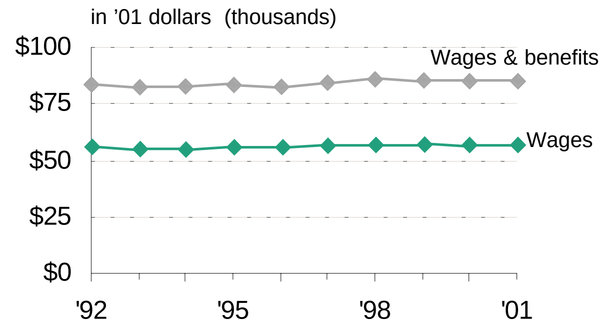
Total City employment grew over the past ten years but the number of employees per 1,000 citizens remained relatively constant, a positive trend.

Analysis

- The number of city employees grew from 4,630 in 1992 to 5,514 in 2001, a 19% increase.
- However, the number of employees per 1,000 Portland residents has remained relatively constant over the past 10 years.
- Employee increases have been highest in Police, OPDR, and Environmental Services.
- Fire, Emergency Communications, and some Commissioners offices have experienced declines.

Indicator Explanation. An increasing number of employees could be viewed as a negative trend because it may indicate more labor intensive services or declining productivity. However, employment growth may also reflect growing demands for services or an increasing population.

12 EMPLOYEE COMPENSATION



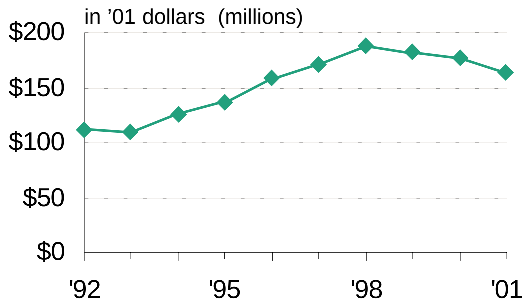
Total compensation has increased only slightly more than inflation, a positive trend.

Analysis

- Total average employee compensation (including benefits) has increased 2% over the past 10 years. City policy is aimed at keeping increases in line with inflation and market requirements.
- Adjusted for inflation, total average compensation for general employees was $83,000 in 1992 and $85,100 in 2001. For public safety employees, the average was $92,600 in 1992 and $98,000 in 2001.
- Benefits costs alone have increased slightly faster than inflation, due to health and pension increases. Wages have tracked closely with cost of living.
- Total employee compensation as a percent of total operating expenditures declined from 71% in 1992 to 66% in 2001.

Indicator Explanation. Total employee compensation includes both wages and benefits. Benefits include employer-paid taxes, pensions, health, and other. Compensation that increases significantly faster than inflation is a warning trend because it can reduce resources available for other services and can affect service levels. Conversely, compensation that lags behind inflation places the City at a competitive disadvantage, making it difficult to attract and retain quality personnel.

13 FUND BALANCES



After several years of significant increases, fund balances have started to decline, generally a positive trend at this point.

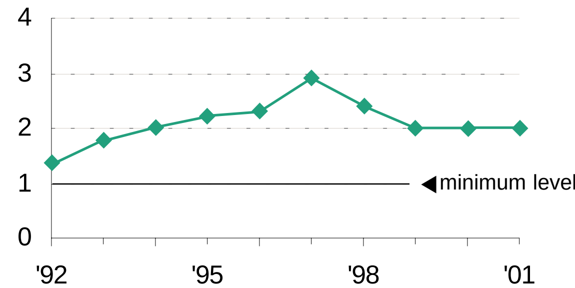
Analysis

- Adjusted for inflation, unreserved fund balances increased from $111 million in 1992 to $164 million in 2001, a 48% increase.
- At the end of 2001, over half of the balance is reserved to pay health, liability, and workers compensation claims, and to replace vehicles, computer systems, and communication and other equipment.
- General fund balances totaled $52 million, 10% of net operating revenues. About $35 million of this total is in the General Reserve Fund, available to meet financial emergencies or other conditions as described in governing policy.
- Total fund balances represent 33% of net operating revenues, up from 29% in 1992.

Indicator Explanation. Unreserved fund balances represent money available for capital purchases, emergencies, and future obligations. Maintaining reserves also helps the government avoid short-term borrowing and respond to emergencies.

Declining or low balances are a warning trend. This may indicate that a government may not be able to meet service needs in an economic downturn or financial emergency. Very high fund balances may indicate that the City is collecting more revenues than it needs or is deferring expenditures.

14 LIQUIDITY



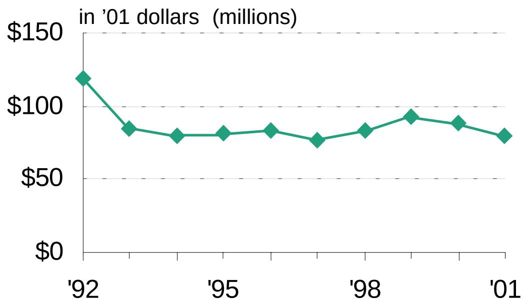
The liquidity ratio has varied, but has been positive over the past 10 years.

Analysis

- Over the past 10 years, the City's liquidity ratio has ranged from a low of 1.4 in 1992 to a high of 2.9 in 1997 – an acceptable range.
- Adjusted for inflation, net cash after paying current liabilities grew from $27 million in 1992 to $106 million in 2001, a 293% increase.
- Total cash and short-term investments grew by 27% while total current liabilities declined by 33%.

Indicator Explanation. Liquidity is the ratio of cash and short-term investments to current liabilities including total accrued compensated absences, and is an indicator of the City's ability to pay its short-term obligations. A low ratio, below one, is a warning trend and may indicate a cash flow problem and increase the need for short-term borrowing.

15 CURRENT LIABILITIES



The trend is favorable over the past ten years.

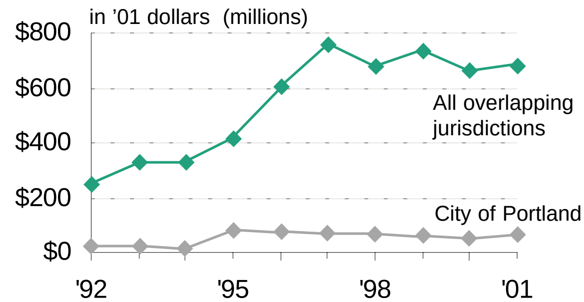
Analysis

- Current liabilities as a percent of net operating revenues have declined from a high of 32% in 1992 to a low of 16% in 2001.
- Accounts payable as a percent of operating expenditures has remained very steady, averaging about 3%.
- Over half of the current liabilities in 2001 consisted of accrued compensated absences – up from 34% in 1992.

Indicator Explanation. Current liabilities include accounts payable, which are amounts owed at year end that are expected to be paid within the following fiscal year, and accrued compensated absences, which may be paid in later fiscal years.

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

16 COMBINED LONG-TERM DEBT



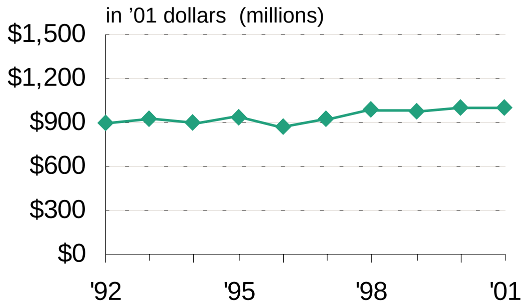
Combined long-term debt is below industry warning levels and legal debt limits.

Analysis

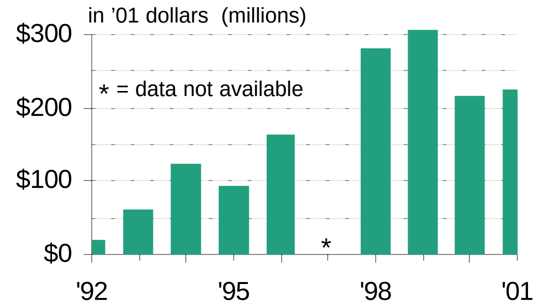
- Adjusted for inflation, combined long-term debt in the region has increased by 175%, from $248 million to $681 million.
- Combined debt per citizen has more than doubled – from $545 in 1992 to over $1,280 by 2001.
- City debt increased by 175% over ten years, community college and school debt jumped 169%, and Metro debt increased by 114%.
- Combined long-term debt represents 2.0 % of total assessed value, well below the warning threshold of 10% established by credit raters.

Indicator Explanation. Combined long-term debt includes the total general bonded debt incurred by all governments in the region including the City, Port, Metro, TriMet, Multnomah County, schools and community colleges, and others. It excludes revenue bonds. High and increasing levels of debt can eventually strain citizen resources to repay. This can hinder governments' ability to borrow funds for capital repairs and improvements.

17 PENSION LIABILITIES



FIRE AND POLICE: The trend is slightly unfavorable, slow increase in unfunded liability over ten years.



PERS: The recent decrease in PERS liability is a favorable trend.

Analysis

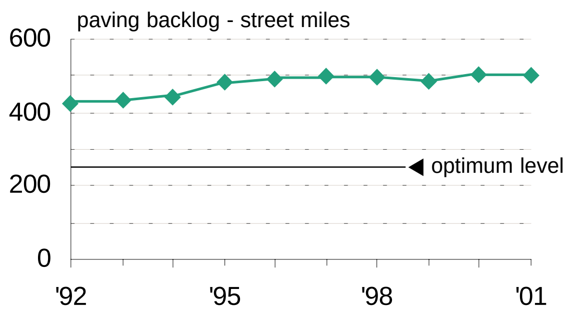
- Adjusted for inflation, the unfunded pension liability for the fire and police pension plan has increased 13% over the past 10 years, from $897 million to over $1 billion.
- The fire and police plan is a pay-as-you-go plan that relies on a dedicated property tax levy, capped at $2.80 per $1,000 real market value to fund benefits.
- For 2001, the fund needed a property tax levy equal to $1.42 per $1,000 of real market value.
- Adjusted for inflation, the PERS plan unfunded liability grew to over $300 million by 1999 due to legislated benefit increases and the method used by PERS to credit investment earnings to employer accounts.
- In 1999 the City issued over $300 million in Limited Tax Pension Obligation Bonds and paid the liability to PERS in full.
- At the end of 2000 and 2001 the City's net Pension Bond Liability outstanding was $213 million and $224 million respectively.

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 the obligations must be paid. Increasing unfunded liabilities or diminishing assets are both warning indicators.

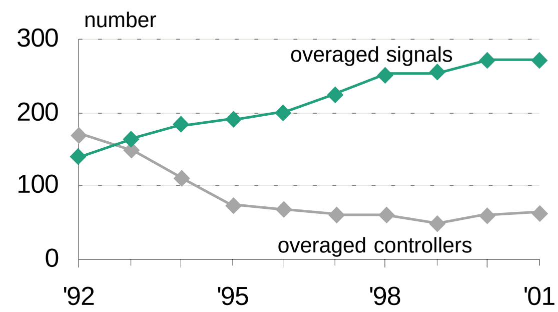
The City has two pension programs. The Fire and Police Disability and Retirement Plan provides benefits for most police officers and firefighters.

All other employees are covered by the state-mandated and prefunded Oregon Public Employees Retirement System (PERS). Contribution rates are set by PERS and pension benefits are paid from employer contributions, accumulated reserves, and investment earnings.

CAPITAL ASSET AGE AND CONDITION



Paving backlog is increasing - a negative trend.

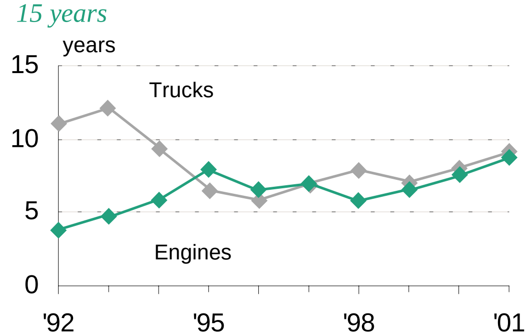


Number of overaged traffic signals is increasing - a negative trend. A decrease in overaged signal controllers is a positive trend.

Analysis

- The paving backlog declined slightly in 1999 as a result of additional repair and maintenance work, but generally grew over the past decade and is now 18% more than in 1992.
- The Bureau of Maintenance estimates that it would require approximately $28 million to reduce the paving backlog to an acceptable level – up from $19 million only two years ago.
- As of 2001, over 24% of the City's streets are in need of maintenance.

Average age of front line fire engines & trucks is increasing but is still below the bureau standard of 15 years



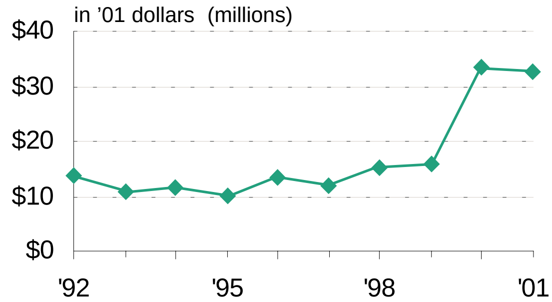
- The average age of front line fire trucks declined from 11 years in 1992 to 9 years in 2001, an 18% improvement.
- The average age of front-line fire engines remained fairly stable at 6 years.
- Reserve trucks are also newer than in prior years, but reserve engines now average 20 years in age.

- The number of overaged traffic signals (over 25 years old) has increased by over 96% since 1992.
- Approximately 28% of all signals are judged to be overaged, up from 15% in 1992.
- The Bureau estimates it would need over $25.3 million to eliminate the backlog of old signals.
- Conversely, the number of overaged traffic controllers was reduced 71% from 170 in 1992 to 50 in 1999, but grew again in 2000 and 2001.
- Approximately 19% of controllers were overaged in 1992 compared to 7% in 2001.
- The Bureau estimates it would need approximately $300,000 to eliminate the backlog of overaged controllers.

Indicator Explanation. Aging and deteriorating physical assets can affect the quality of service and public safety. Deferring maintenance can also contribute to higher maintenance and repair costs, shorten an asset's useful life, and require replacement sooner than expected.

The degree to which the City monitors the condition and age of assets varies considerably. Some services including transportation, water, and fire keep detailed records on the age, historical cost, and condition of assets. A sample of these indicators is presented above. Others, like parks, lack adequate data on the age and condition of assets, preventing the development of trends indicators.

19 CAPITAL OUTLAY EXPENDITURES



The trend is somewhat favorable over past three years.

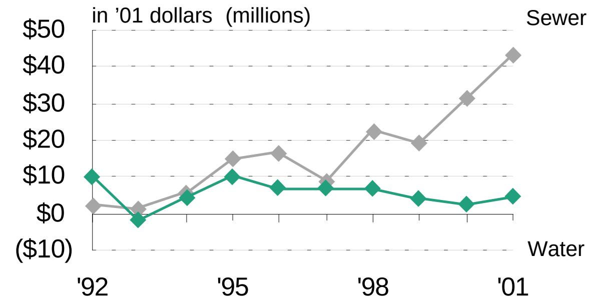
Analysis

- Adjusted for inflation, capital outlay increased 87% over the past ten years, from $23 million in 1992 to almost $44 million in 2001.
- As a percent of net operating expenditures, capital spending increased from 5.6% in 1992 to 8.4% in 2001.
- In 2001 street maintenance and repair comprised the largest share of capital outlay expenditures – 92% of the total capital spending – up from 54% in 1992 and 71% in 1997.
- Fire equipment and parks maintenance comprise a minor share of total capital spending.

Indicator Explanation. Capital outlay means expenditures to repair, maintain, and improve long-lived items such as equipment, buildings, vehicles, and for construction, such as street repairs and park improvements. This indicator does not include expenditures resulting from serial levies, bond sales or enterprise activities.

Deteriorating infrastructure and physical assets may discourage business activity, reduce property values, and increase operating expenses. Moreover, deferring capital maintenance and repairs transfers these costs from one generation of taxpayers to the next.

20 ENTERPRISE NET INCOME



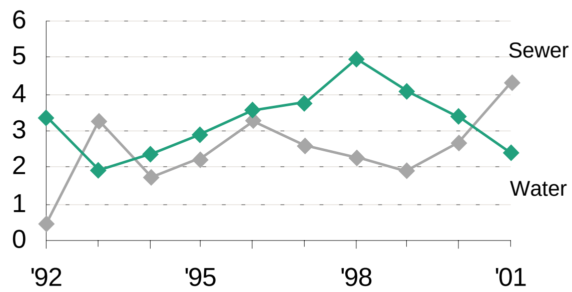
Water net income has been relatively stable over the past eight years. Sewer fund net income has grown significantly.

Analysis

- Water Fund revenues have exceeded expenses in every year but 1993 when a drought reduced water sales.
- Despite water billing system problems, net income in 2001 increased 80% over 2000.
- Sewer income has increased significantly primarily due to strong growth in revenues and moderate increases in expenses.
- Large increases in net income will help repay significant levels of debt associated with CSO mitigation projects.

Indicator Explanation. Recurring net losses or declining net income is a warning trend because it may indicate that there is insufficient income to cover costs of operation. Net income is used to retire debt, maintain and construct facilities, and provide working capital.

21 ENTERPRISE LIQUIDITY RATIOS



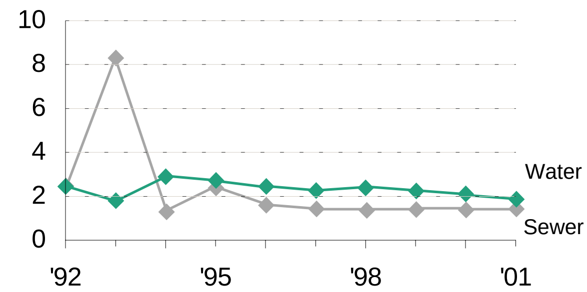
Water fund liquidity has declined while Sewer fund liquidity has improved, but both remain strong.

Analysis

- Both Water & Sewer Funds retain sufficient cash assets to pay current liabilities.
- Water Fund liquidity has declined significantly over the past three years due to draw downs of cash and investment balances.
- Sewer Fund liquidity has improved significantly due to higher cash and investment balances and stable liability levels.

Indicator Explanation. Liquidity ratios indicate how much cash assets are available to pay current bills when due. The quick ratio is a comparison of cash and accounts receivable to current liabilities. Ratios below $1 of cash and receivables to $1 of liabilities are a warning sign.

22 ENTERPRISE DEBT COVERAGE RATIOS



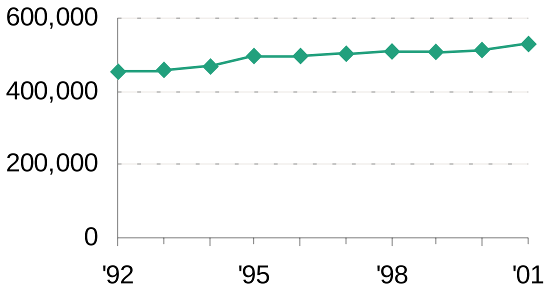
Both the Water and Sewer Fund trends are favorable.

Analysis

- The Water Fund has maintained a very stable debt coverage ratio over the past ten years, averaging about 2.3.
- Water's debt coverage ratio indicates strong ability to generate income to pay debt.
- After a large increase in 1993, the Sewer Fund's debt coverage ratio has averaged about 1.6 over the last eight, and 1.45 over the last three years.
- Sewer Fund debt ratio is lower due to increased debt service requirements generated by bonds issued to finance the CSO and other large capital projects combined with the need to limit the size of annual rate increases.

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 bonds. A ratio of approximately 1.2 to 1 is usually required.

23 POPULATION



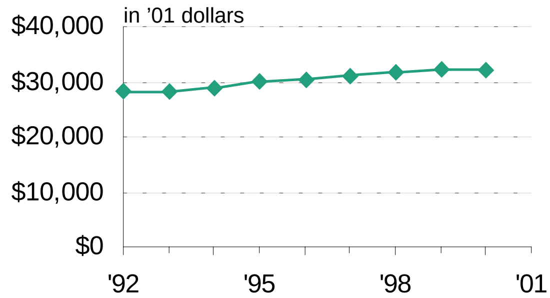
Population has been steadily increasing since 1992, generally a favorable trend.

Analysis

- Total City population has increased about 17% over the past ten years – from 454,150 to 531,600.
- Population increased by over 19,000 people in 2001, due to a strong economy and in-migration.
- Annexations have added over 100,000 new citizens to Portland's geographic boundary over the past 18 years.
- Most new growth since 1995 has been within current boundaries, over 36,000 people.

Indicator Explanation. Rapid increases in population can be a negative trend if service demands increase faster that revenue growth. Similarly, declines in population can reduce demand and revenue requiring cuts in expenditures.

24 INCOME PER CAPITA



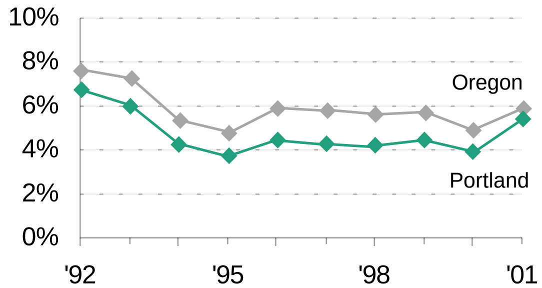
The trend has been very favorable over the past eight years.

Analysis

- After relatively little growth in income in the early 1990's, income per capita increased yearly since 1993.
- Income per capita has increased 15% over the past 10 years to an estimated $32,496 in 2000.
- 2001's figures are not yet available but State analysts indicate another year of increase.

Indicator Explanation. Declining income per capita is a warning trend indicating general economic problems and potential declining ability to provide tax resources for government services.

25 UNEMPLOYMENT RATE



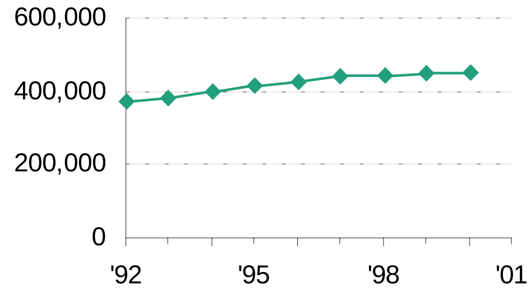
The unemployment trend has been positive most of the decade, but increased sharply in 2001, a warning trend.

Analysis

- Portland area unemployment declined from a high of 6.7% in 1992 to 3.9% in 2000, but increased sharply to 5.4% in 2001.
- Portland area average unemployment remained lower than the state average over the past ten years – 4.8% compared with 5.9%.
- Unemployment trends generally mirrored the national trend, but remained below the U.S. average rate until 1999.

Indicator Explanation. An increasing unemployment rate is a warning indicator of a declining employment base, which can lead to lower revenues, reduced services, and more demand for social services.

26 NUMBER OF JOBS



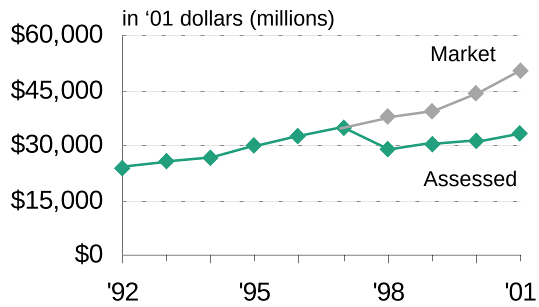
The trend in job growth has been very positive over the past years, but job numbers have started to decline in 2001.

Analysis

- Over 80,000 jobs were added in Multnomah County from 1992 to 2000.
- There were over 453,000 private and public sector jobs in Multnomah County in 2000, more than any other time in history.
- Job growth has been most significant in services, retail trade, construction, transportation, and local government.

Indicator Explanation. Declines in the number of jobs indicates potential problems with economic vitality and can contribute to higher unemployment rates with resulting impacts on government revenues and services.

27 PROPERTY VALUES



Portland's property values have increased significantly over the past ten years, reflecting strong economic conditions.

Analysis

- Market values reflect the strong regional economy, increasing 107% over the past ten years, adjusting for inflation.
- Assessed values mirrored market values and increased steadily from 1990 through 1997. In 1998, assessed values dropped 18% as property tax limitation Measure 50 rolled assessed values back to 90% of 1996 values and limited future growth to 3% a year plus the value of new construction.

Indicator Explanation. Assessed property value is a measure of the taxable value of real, personal, and utility property in the City. Declines in assessed value will typically decrease property tax revenues which can adversely impact ongoing government services and bonded debt repayment.

Market values are an indicator of sales value and can be an indicator of economic vitality.

REPORT SCOPE AND METHODOLOGY

The methodology used in this report was first developed by the International City/County Management Association (ICMA) in their publication, *Evaluating Financial Condition: A Handbook for Local Government*. In accordance with the ICMA methodology, we developed a definition of general government operating expenditures that includes the following funds:

General Fund

General Reserve

Transportation Operating and Construction

Transportation Reserve

Emergency Communications

Building Operating

Short-term Debt Interest and Sinking (formerly Governmental Bond Redemption)

Pension Debt Redemption

Gas Tax Bond Redemption

Portland Autoport (portion of parking facilities)

Parks Memorial

Fire and Police Disability and Retirement

Excluded from the definition of general government operations are enterprise and internal service funds, as well as those funds whose revenues are restricted to specific purposes (i.e., not available for general government operations). However, we have included selected indicators (20 to 22) for the water and sewer funds which represent the City's two largest enterprise operations.

We obtained expenditure and revenue data, as well as salary and benefit data, from the City's computerized accounting system. Expenditure, fund balance, and certain debt information came from audited Comprehensive Annual Financial Reports. The City's Bureau of Human Resources provided numbers on full-time personnel. The Office of Transportation and Bureau of Fire provided selected asset maintenance data. The Center for Population Research at Portland State University and the State Employment Division provided socio-economic data.

To eliminate the effects of inflation from year-to-year comparisons, we adjusted dollar amounts for each prior year to equal purchasing power in FY 2000-01, using the Portland-Salem/Vancouver Consumer Price Index for All Urban Consumers, as reported by the Bureau of Labor Statistics, U.S. Department of Labor.

Unless otherwise indicated, data are presented on a fiscal year basis (e.g. 2000 represents FY 1999-00, 2001 represents FY 2000-01, etc.).

We followed the General Standards set forth in *Government Auditing Standards* to compile data and to develop, analyze, and comment on the indicators included in this report.

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