April 27, 2007

TO:    Tom Potter, Mayor  
       Sam Adams, Commissioner  
       Randy Leonard, Commissioner  
       Dan Saltzman, Commissioner  
       Erik Sten, Commissioner  
       Ken Rust, Chief Administrative Officer, Office of Management and Finance

SUBJECT:    Financial Condition in the City of Portland: 1997-2006, Report #326

Attached is Report #326 containing our audit of the financial condition in the City of Portland over the past 10 years. This is the latest in a series of Financial Condition/Trends reports produced by the City Auditor’s Office, as a check-up on how well the City is doing financially. This work was included in our annual audit schedule and was conducted in accordance with generally accepted government auditing standards.

We provided a draft to the Office of Management and Finance. We appreciate the cooperation and assistance we received from their staff in conducting this audit.

GARY BLACKMER  
City Auditor  

Audit Team:  
Drummond Kahn  
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Attachment
Why we do a Financial Condition report

This report provides residents and public officials with information on the City of Portland’s financial health. Useful information is provided each year in the City's Adopted Budget and the Comprehensive Annual Financial Report (CAFR). This Financial Condition report, however, provides a different view. It focuses on general government operations and adjusts the financial information for the effects of inflation. The report excludes business activities of the City, such as water and sewer services.

The report presents 18 financial and demographic measures, and covers a 10-year period from Fiscal Year (FY) 1996-97 through 2005-06. We identify both favorable and unfavorable trends. Background on our report’s scope and methodology is included on the next page.

What is good financial condition?
A city in good financial condition can support public services on an on-going basis. It can maintain existing service levels, withstand economic disruptions, and respond to changes. A financially stable city collects enough revenue to pay its short-term and long-term bills and to finance major infrastructure needs.

Financial condition can be monitored by reviewing trends in several areas, such as:
- Revenues
- Expenditures
- Liabilities and Debt
- Economy and Demographics

Monitoring these areas over time enables public officials to assess the City’s financial condition and to identify problem areas that may need attention.
Report Scope and Methodology

The methodology used in this report is based on *Evaluating Financial Condition: A Handbook for Local Government* by the International City/County Management Association (ICMA). We developed a definition of general government operations based on that handbook. General government operations are City services that:

- are a basic public good or benefit,
- are supported by revenues, such as taxes and fees, which largely are not restricted to specific purposes, and
- are not run as a business-type activity, where costs are recovered through user fees and charges.

Based on this definition, we included the following City funds as supporting general government operations:

- General Fund
- General Reserve
- Transportation Operating
- Transportation Reserve
- Emergency Communications
- Public Safety
- Development Services
- Governmental Bond Redemption
- Pension Debt Redemption
- Gas Tax Bond Redemption
- Portland Autoport (portion of Parking Facilities)
- Campaign Finance
- Parks Memorial
- Fire and Police Disability and Retirement

The financial indicators reported here are based on general government operations. They are not Citywide measures, unless noted. In addition, enterprise funds, such as water and sewer services, and internal service funds, are not included. Funds whose revenues are restricted to specific purposes (i.e. not available for general government operations) are also excluded.
Financial data came from independently audited Comprehensive Annual Financial Reports and Portland’s City Analysis and Reporting System. We used the City’s Adopted Budget document for background information. Employee numbers and position information came from the Bureau of Human Resources’ position management system and the Portland Development Commission’s Adopted Budget. Socio-economic data came from the Center for Population Research at Portland State University, the U.S. Bureau of Economic Analysis and the U.S. Department of Labor, the State Employment Division, and the Multnomah County Tax Supervising and Conservation Commission.

In order to account for inflation, we expressed financial data in constant dollars. We adjusted dollar amounts for each prior year to equal the purchasing power in FY 2005-06. We used the Portland-Salem Consumer Price Index for All Urban Consumers, as reported by the Bureau of Labor Statistics, U.S. Department of Labor.

The data in the report covers a 10-year period from FY 1996-97 through FY 2005-06. Unless otherwise indicated, data are presented on a fiscal year basis. (e.g. 2006, represents FY 2005-06, 2005 represents FY 2004-05.)

We reviewed information for reasonableness and consistency. We questioned or researched data that was not reasonable or needed additional explanation. We did not, however, audit the accuracy of source documents or the reliability of the data in computer-based systems. As nearly all financial information presented is from the City’s Comprehensive Annual Financial reports, we relied on work performed by the City’s external financial auditors. Our review of data was not intended to give absolute assurance that all information was free from error. Rather, our intent was to provide reasonable assurance that the reported information presented a fair picture of the City’s financial condition. In addition, while the report offers financial highlights, it does not thoroughly determine the reasons for negative or positive performance. More analysis may be needed to provide such explanations.

We conducted our work in accordance with generally accepted government auditing standards.
Highlights

The most **favorable** trends over the past decade are:

+ Operating revenues continue to exceed expenditures, and to grow faster than expenditures
+ General obligation debt per resident has decreased, and the City has maintained a good bond rating on its general obligation bonds
+ Property values have continued to increase, and population has grown at a modest rate
+ The number of City employees per resident has remained constant

The most significant **unfavorable** trends over the past decade are:

- Job growth has been mostly flat, and the unemployment rate continues to be higher than the national rate
- The City’s Fire and Police Disability and Retirement liability has increased significantly
- The portion of property tax revenue restricted to use for the Fire and Police Disability and Retirement Fund continues to increase
- Benefit costs for City employees are growing at twice the rate of salaries

For more information on the City of Portland’s budget and annual financial statements, please visit the Office of Management and Finance website:

www.portlandonline.com/omf
Operating Revenues Per Capita

- General government operating revenues per Portland resident increased 20% from 1997 to 2006.
- Total operating revenues increased from $511 million in 1997 to $676 million in 2006.

Revenues by Type

- Over 10 years, the largest relative increase was in short-term revenue. This increase was driven by loans and transfers for construction of the South Waterfront tram. *
- Revenues from licenses and permits increased 20% over 10 years. A significant factor was improved business license collections.
- General property taxes remained the largest single source of operating revenue in 2006, but as a percent of total revenues, property taxes decreased from 31% in 1997 to 24% in 2006.

* While loans are considered financial resources, the Office of Management and Finance typically considers loans a liability rather than a revenue.
Over 10 years, total property tax revenue grew by 10%.

Property taxes dedicated to the Fire and Police Disability and Retirement Fund (FPD&R) grew by 38%, while property taxes for the General Fund grew by less than 1%.

The Office of Management and Finance attributes the decline in property tax revenue in 1998 to the passage of Measures 47 and 50.

On average, in 2006 each Portland resident paid $95 in City fees and charges, up from $55 in 1997.

Total user charges grew 91% from 1997 to 2006.

Parking fees and fines are the largest part of user charges, followed by development services inspection fees and parks fees and concessions.

Restricted revenues grew about 29% from 1997 to 2006.

Over the past 10 years about 57% of total restricted revenue was from property taxes for the Fire and Police Disability and Retirement Fund, while 43% was from gas taxes restricted to transportation uses.

* The Parks Local Option Levy and Children’s Investment Fund Levy, passed in 2002, are not included in the Property Taxes graph.
Total general government spending increased 27% from 1997 to 2006.

Over 10 years, spending per Portland resident increased 14%, from $1,044 in 1997 to $1,195 in 2006.

Transportation saw the largest increase in spending -- increasing 60% from 1997 to 2006. According to the Office of Transportation, this was due to capital expenses, primarily for the Portland Streetcar and the South Waterfront Tram.

Parks and Recreation services had the smallest increase over 10 years. Spending increased 5% from 1997 to 2006, but spending per capita actually decreased 5%.
The number of total City employees, including staff at the Portland Development Commission and utility bureaus, has grown from 5,077 in 1997 to 5,711 in 2006 – a 12% increase.

The number of total employees per resident remained steady at 10 City employees per 1,000 residents since 1997.

The number of general government employees has grown at a slower rate of 9%.

Average employee compensation rose by 6% over 10 years.

Wages and benefits for public safety employees grew at 12%; wages and benefits for other City employees grew at 1%.

Employee compensation as a percentage of the City’s total general government expenses decreased from 68% in 1997 to 62% in 2006.


**Pension obligations to FPD&R employees and retirees**

- The unfunded liability for the City’s Fire and Police Disability and Retirement (FPD&R) plan increased from $1 billion in 1997 to $1.8 billion in 2006.
- According to the Office of Management and Finance, the increase in the last two years was largely due to a change in how the liability was calculated.
- The plan is supported by a property tax levy capped at $2.80 per $1,000 real market value. The levy rate was $1.29 at the end of FY 2006.
- Voters approved Measure 26-86 in November 2006, which authorizes significant changes to the plan. The changes are expected to increase the property tax levy in the short-term but decrease the rate in the long term.

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**Pension obligations to PERS employees and retirees**

- In FY 2000, the City issued over $300 million in bonds to pay the City’s unfunded pension obligation (as of December 31, 1997) in full.
- According to the Office of Management and Finance, the debt produces savings over the life of the obligation.
- The City’s liability dipped in 2002 and 2003. This was due to the Public Employee Retirement System (PERS) crediting employer accounts.

* Data based on a calendar year.
Portland’s General Obligation debt has decreased 10% from 1997 to 2006.

Total debt per resident for all governments that overlap in Portland (including schools), decreased from $1,654 in 1997 to $593 in 2006.

Since 1973, the City’s general obligation debt has been rated “Aaa” by Moody’s Investor Service.

This good bond rating benefits taxpayers by reducing the cost of borrowing.
**City population**

- Portland’s population increased about 11% over the last 10 years.
- As of July 1, 2005, Portland made up about 15% of Oregon’s total population.

**Number of jobs in Multnomah County**

- There were about 439,000 jobs in Multnomah County in 2006 – about the same as 10 years ago.
- The leisure and hospitality sector jobs increased the most over the last five years.
- The finance sector jobs decreased the most over the last five years.

**Unemployment rate**

- In 2006, the Portland area’s unemployment rate was approximately 5.2%.
- After reaching a peak in 2003, the Portland area’s unemployment rate has been decreasing.

* Data based on a calendar year.
Personal income per capita in Multnomah County increased from $32,970 in 1997 to $37,043 in 2004, slightly exceeding the income for Portland-area residents.

Market values for Portland properties increased 69% over the last 10 years.

Assessed values decreased 4% over the last 10 years.

The gap between assessed and market values since is due to Measure 50. This 1997 measure limited assessed value growth to 3% per year in most houses.

* Data based on a calendar year.
Did you know....

- The City’s “Benson Bubblers” were first commissioned with a gift by lumberman and civic leader Simon Benson in 1912, to provide loggers something cold to quench their thirst. Benson once said that after the fountains were installed, saloon sales dropped 40 percent.

Did you also know....

- The City of Portland provides water to nearly one quarter of the residents of Oregon.
- Portland has been named the best city in America by various sources for biking and walking, and number two for overall health.
- Portland’s name was decided by a coin toss. How does Boston, Oregon sound?
- The City of Portland owns more than 174 bridges.
- Portland’s City Council approved the first hiring of a woman as police detective in 1908.
- Portland’s official City Bird is the great blue heron.
- The 36-foot tall Portlandia statue on The Portland Building is the second-largest hammered copper statue in the country, behind the Statue of Liberty.
- Portland was chartered as a city in 1851. This was eight years before Oregon became a state.
- The Oregon Zoo is recognized internationally for having the most successful breeding herd of asian elephants of any zoo.
This report is intended to promote the best possible management of public resources.

This and other audit reports produced by the Audit Services Division are available for viewing on the web at: www.portlandonline.com/auditor/auditservices. Printed copies can be obtained by contacting the Audit Services Division.

Gary Blackmer, City Auditor
Drummond Kahn, Director of Audit Services

Other recent audit reports:
- Pandemic Flu Planning: City bureaus aware of national plans (#345, March 2007)
- City of Portland Service Efforts and Accomplishments: 2005-06 (#330, December 2006)
- Revenue Bureau License and Tax Division: Program makes significant progress since last audit (#337, November 2006)
- Public Works Supervisor Overtime: City rules allowing overtime need clarification (#335, October 2006)