



**FINANCIAL CONDITION
IN THE CITY OF PORTLAND:**
1999-2008

A REPORT FROM THE CITY AUDITOR
April 2009



Office of the City Auditor
Portland, Oregon



CITY OF
PORTLAND, OREGON

OFFICE OF THE CITY AUDITOR
Audit Services Division

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April 8, 2009

TO: Sam Adams, Mayor
Nick Fish, Commissioner
Amanda Fritz, Commissioner
Randy Leonard, Commissioner
Dan Saltzman, Commissioner
Ken Rust, Chief Administrative Officer, Office of Management and Finance

SUBJECT: Financial Condition in the City of Portland: 1999-2008, Report #372

Attached is Report #372 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, and received comments from, 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
Kristine Adams-Wannberg
Kari Guy
Andrew Carlstrom

Attachment

Highlights

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

- Revenues and expenditures have largely paralleled each other
- The composition of City revenues is diversified between sources that are more stable, such as property taxes, and revenues that fluctuate with the economy, such as business licenses
- The number of City employees per resident has remained constant
- Property values have continued to increase, and population has grown at a modest rate

The most significant **challenges** over the past decade are:

- Portland's annual unemployment rate has been higher than the national unemployment rate every year since 1999
- Property taxes grew by 37%, while the amount of property taxes dedicated to supporting urban renewal bonds has almost doubled in the last decade
- Total outstanding bond principal increased 87% in the last decade
- The City's Fire and Police Disability and Retirement liability has increased significantly

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

Why we do a Financial Condition report

This report provides residents and public officials with information on the City of Portland's financial health. While useful information is presented in various City documents, such as the Comprehensive Annual Financial Report (CAFR) and the Adopted Budget document, this report is intended to provide financial and demographic information, presented by several measures and indicators, as a popular report.

This report presents 23 financial, demographic, and economic measures. We identify both favorable and unfavorable trends. The data covers a 10-year period from Fiscal Year (FY) 1998-99 through 2007-08. City fiscal years run from July 1 to the following June 30. As a result, much of the impacts of the recent economic downturn in late 2008 are not reflected. Background on our report's scope and methodology is included in 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 and long-term bills and to finance major infrastructure needs.

Financial condition is monitored by reviewing trends in several areas, such as:

- Revenues
- Expenditures
- Liabilities and Debt
- Demographics and Economy

Monitoring these areas over time enables public officials and residents 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). In previous Financial Condition reports, the reports focused largely on “General Government” operations. These were services that met the following criteria:

- 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 of activity, where costs are recovered through user fees and charges.

This Financial Condition Report moves away from just showing the “General Government” spending and focuses more on Citywide spending. This report includes Governmental Activities, Business Activities, and Fiduciary Activities (Fire and Police Disability and Retirement Fund), as defined in the annual CAFR.

We did not include the separate expenditures of the Portland Development Commission in the financial information, because a proxy of much of that activity is already included in the City of Portland’s spending. Urban renewal financing is reflected in several City funds that are used to record the property tax revenues as well as each separate urban renewal areas’ debt payments. We exclude the spending of the City’s internal service funds, because they represent a double count of costs.

Financial data came from the City’s independently audited Comprehensive Annual Financial Reports and Portland’s City Analysis and Reporting System (CARS). We also 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. 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 Oregon State Employment Department, and the Multnomah County Tax Supervising and Conservation Commission, and the City Auditor’s *Service Efforts and Accomplishments* report. Information in the “Did you know...” section largely came from the City of Portland’s website: www.portlandonline.com.

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 2007-08. 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. Unless otherwise stated, financial data are based on the City's fiscal year. In many cases, numbers are rounded for ease of use and reporting.

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.

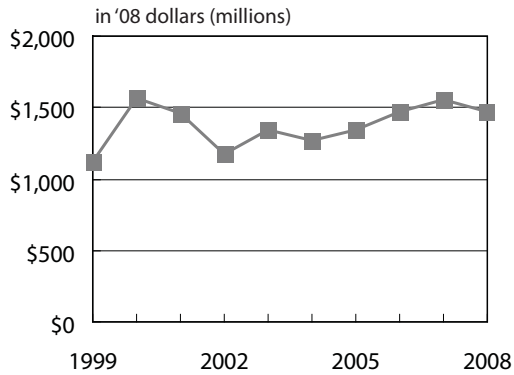
Our review of data was not intended to give absolute assurance that all information was free from error. Rather, our intent was to provide reasonable assurance that the reported information presented a fair picture of the City's financial condition. In addition, while the report offers financial highlights, it does not thoroughly determine the reasons for negative or positive performance. More analysis may be needed to provide such explanations.

We conducted this performance audit in accordance with generally accepted government auditing standards. These standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

FINANCIAL CONDITION INDICATORS

REVENUE AND RESOURCE INDICATORS

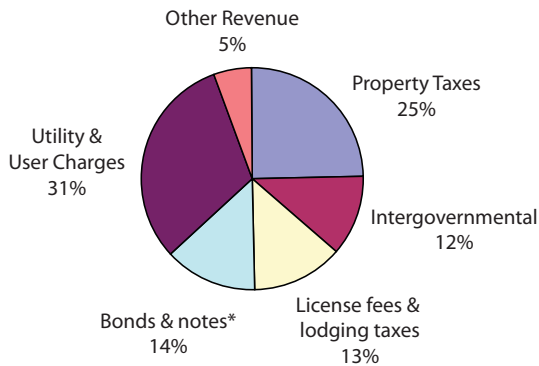
1 City Revenues



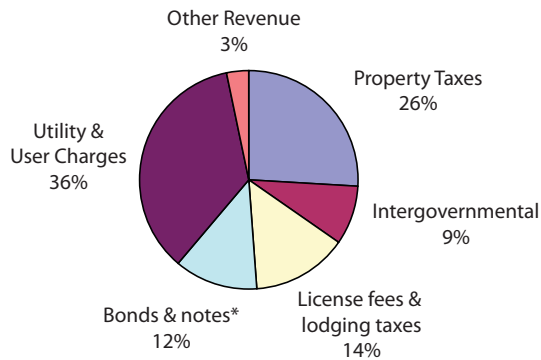
- Total City revenues increased 31% from 1999 to 2008, from approximately \$1.1 billion to \$1.5 billion.

2 Revenues by Type

1999 Revenues



2008 Revenues

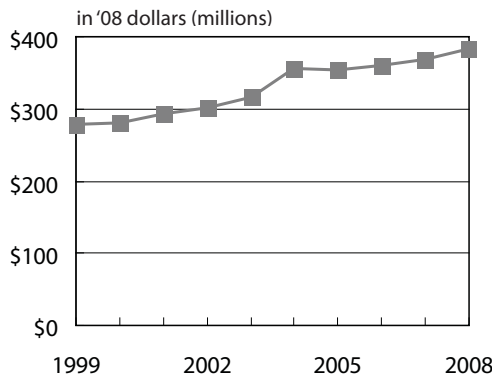


- The composition of City revenues stayed largely the same from 1999 to 2008. Revenues are diversified between sources that are more stable, such as property taxes, and revenues that fluctuate with the economy, such as business licenses.
- User charges include water and sewer billings, as well as fees for concessions, rentals, parking, and recreation programs.

* While bonds and notes are considered financial resources, the Office of Management and Finance typically considers loans a liability rather than a revenue.

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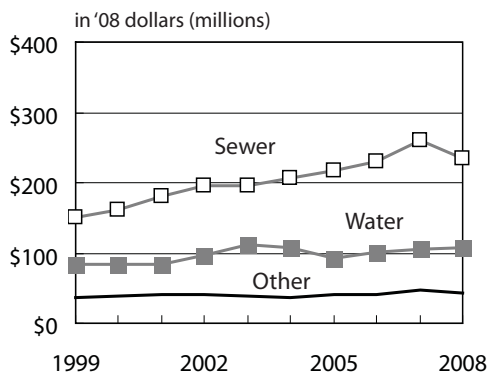
Property tax



- Total City property taxes grew by 37% from 1999 to 2008, from \$279 million to \$383 million.
- The greatest increase was in property taxes dedicated to urban renewal bond funds, which grew 91% from 1999 to 2008, from approximately \$44 million to \$83 million.

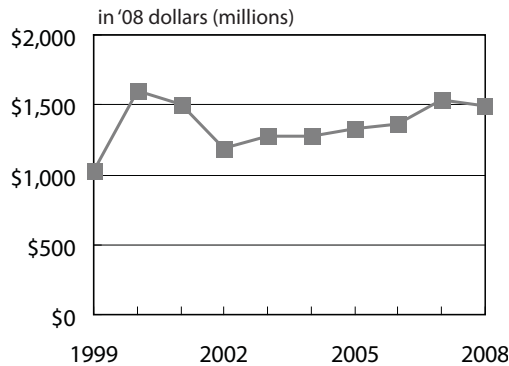
4

Business utility revenues



- Revenues to the sewer fund increased 55% from 1999 to 2008, from \$151 million to \$235 million. The Bureau of Environmental Services attributes this increase in sewer rates to cost recovery for the combined sewer overflow or "Big Pipe" program as well as other environmental programs.
- Water revenues increased 26% during the same time period, from \$85 million to \$107 million.
- Revenues to other City business-type activities, such as golf, the Portland International Raceway, and parking facilities increased 19% from 1999 to 2008, from \$37 million to \$44 million.

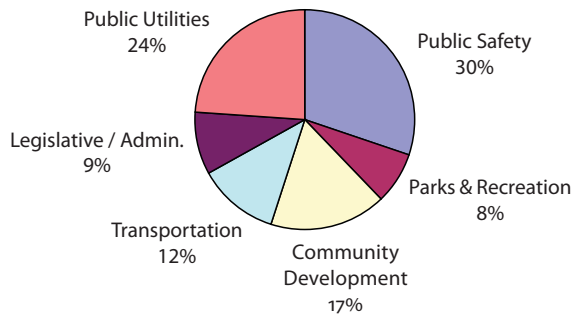
5 City Expenditures



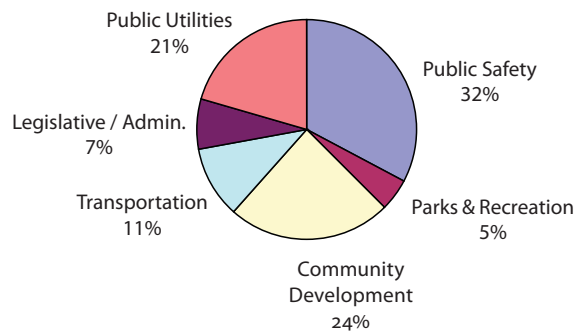
- City spending varied over the last 10 years. Spending increased 46%, from \$1 billion to \$1.5 billion when comparing 1999 to 2008.
- Over 10 years, spending per Portland resident increased 31%, from \$2,009 in 1999 to \$2,635 in 2008.

6 Expenditures by Service Area

1999 Expenditures



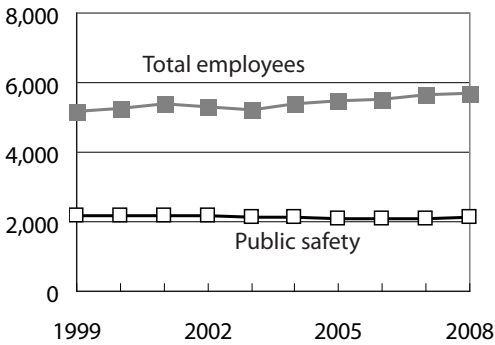
2008 Expenditures



- Community Development spending saw the largest increase, increasing 105% over the last 10 years from \$175 million to \$361 million. About 75% of the increase was due to urban renewal financing.
- Parks and Recreation was the only area that decreased over the last 10 years. Parks and Recreation spending decreased 10%, from \$78 million in 1999 to \$70 million in 2008.
- Public Safety costs continue to take the largest share of the City's expenses. In 1999 it represented 30% of City spending and in FY 2008 it was 32%. The second biggest spending category was public utilities, such as water and sewer services.

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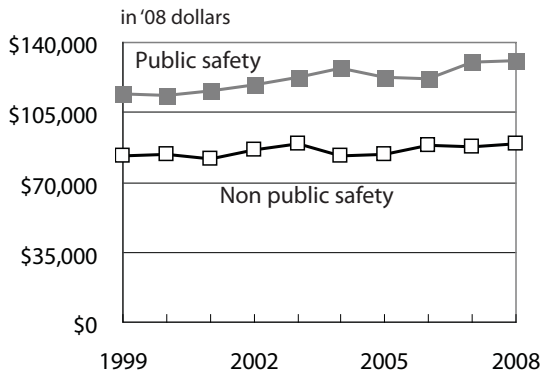
City employees



- The total number of City of Portland employees has grown from 5,183 in 1999 to 5,710 in 2008, a 10% increase.
- The number of employees per Portland resident remained at about 10 employees per 1,000 residents from 1999 to 2008.
- In 2008, the City had nearly 4 public safety employees per 1,000 residents.

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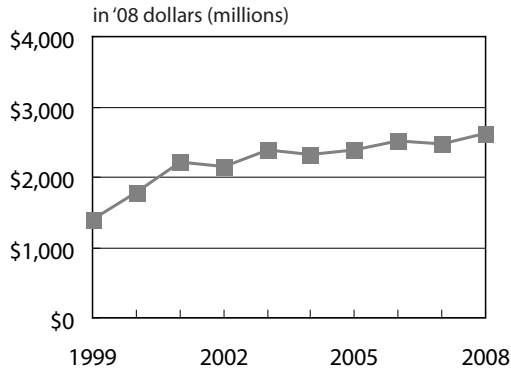
Employee compensation



- Average employee compensation (wages and benefits), rose by 9% from 1999 to 2008. This represents an increase in addition to inflation.
- Average wages and benefits for public safety employees grew by 15% over 10 years, whereas wages and benefits for other City employees grew by 7%.
- Employee compensation as a percentage of the City's total expenditures decreased from 44% of total spending in 1999 to 40% in 2008.

DEBT AND LIABILITIES INDICATORS

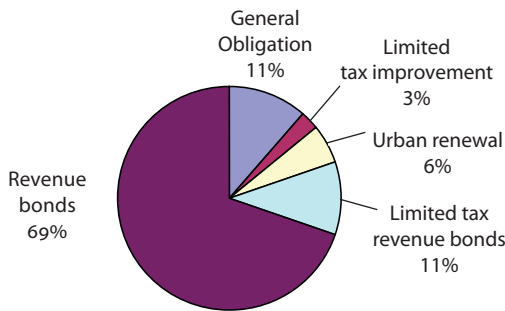
9 Long-term debt



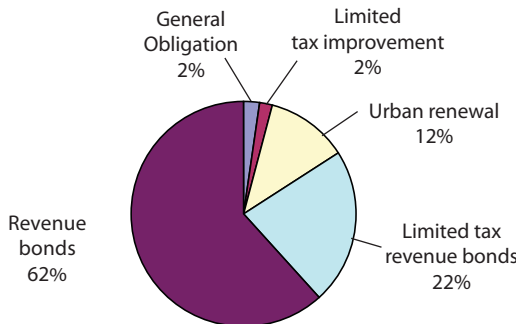
- Total outstanding bond principal increased 87% from 1999 to 2008, from \$1.4 billion to \$2.6 billion.
- In 2008, the total outstanding bond principal per resident was \$4,627, up from \$2,755 in 1999.

10 Long-term debt by type

1999 City debt

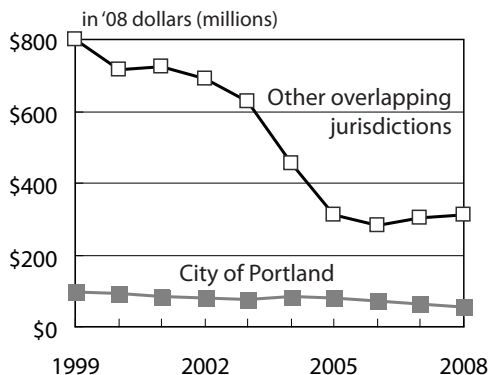


2008 City debt



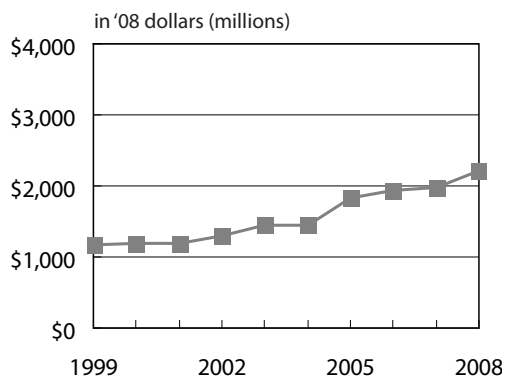
- The majority of the City's debt is through revenue bonds. These are typically for water and sewer improvements and are paid for through charges for services.
- General Obligation debt decreased 61% from 1999 to 2008. General Obligation bonds are voter approved.
- Urban Renewal debt increased 293% from 1999-2008, from \$78 million to \$308 million. These bonds are used to pay for improvements in urban renewal areas. As property values increase in the area, the rise in property tax revenues is used to pay off the bonds.
- Limited Tax Revenue bonds increased 295% from 1999 to 2008, from \$148 million to \$587 million. The bonds are repaid from specific revenue sources, and are issued for purposes ranging from the Portland Transit Mall to the City's new enterprise business software.

11 Combined General Obligation debt



- The combined long-term General Obligation debt from all governments that overlap in Portland decreased 59% from 1999 to 2008, from \$901 million to \$369 million.
- Credit rating agencies consider combined debt greater than 10% of total assessed value to be a warning trend. The City's General Obligation debt is less than 1% of assessed value.
- The largest overall dollar decrease for overlapping debt was for school districts and community colleges.

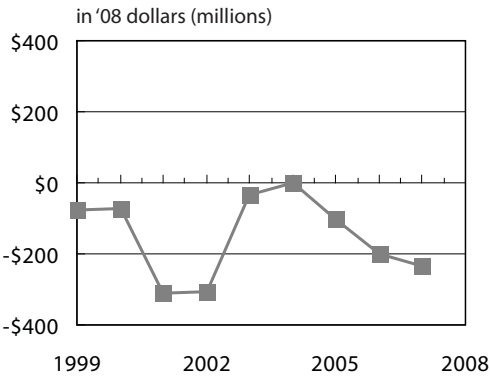
12 FPDR pension obligation



- The unfunded liability for the City's Fire and Police Disability and Retirement (FPDR) plan doubled from \$1.2 billion in 1999 to \$2.2 billion in 2008.
- According to the Office of Management and Finance, the rise in liability in 2005 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 \$1.15 at the end of FY 2008.

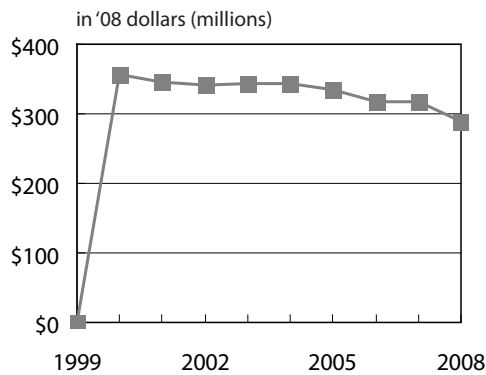
* According to the Office of Management and Finance, this rise was largely due to a change in the discount rate used to calculate the liability.

13 PERS pension liability*



- As of the end of 2007, the City had a \$232 million credit with the Public Employees Retirement System.
- According to the Office of Management and Finance, a full valuation of the City liability has not been done for 2008. Such a valuation would likely show the City with a liability rather than a credit.

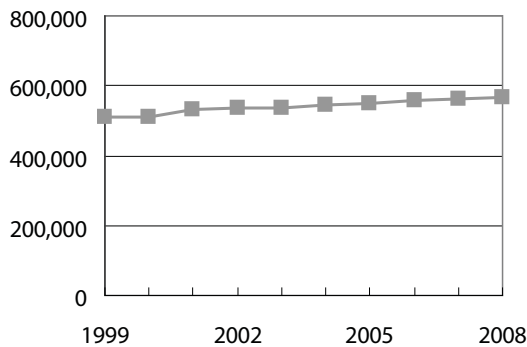
14 PERS pension bonds*



- 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. In 2007, the City started to pay on the principal for these bonds.
- In 2008, the City had about \$290 million in net pension debt.
- According to the Office of Management and Finance, the pension debt produces savings over the life of the obligation.

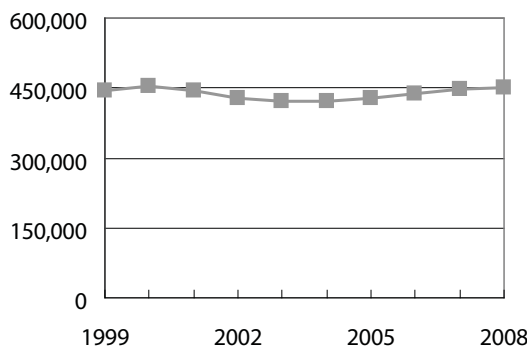
* Data based on a calendar year.

15 Population



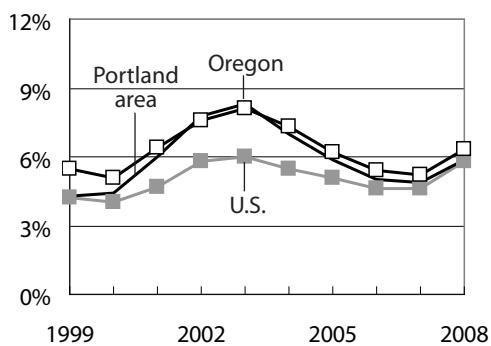
- Portland's population has increased about 12% over the past 10 years, from 509,610 people in 1999 to 568,380 people in 2008.
- As of July 1, 2007, Portland accounts for about 15% of Oregon's total population.

16 Jobs in Multnomah County*



- There were about 450,000 jobs in Multnomah County at the end of the 3rd quarter of 2008. Data for the 4th quarter of 2008 was not yet available for this report.
- The number of jobs declined from 2001 to 2003 and then rose annually every year from 2004 through September 2008.
- The finance sector has seen the most job losses from 2003 through September 2008.

17 Unemployment

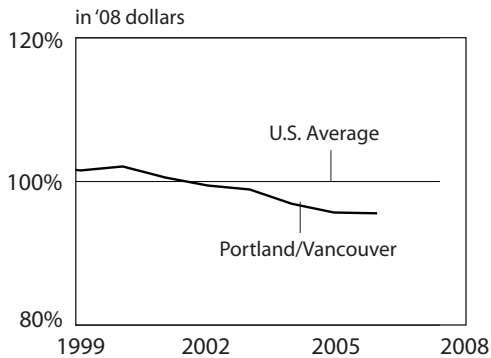


- Portland's annual unemployment rate has been higher than the national unemployment rate every year since 1999.
- Portland's unemployment rate was lower than the state average from 2004 to 2008.

* Data based on a calendar year.

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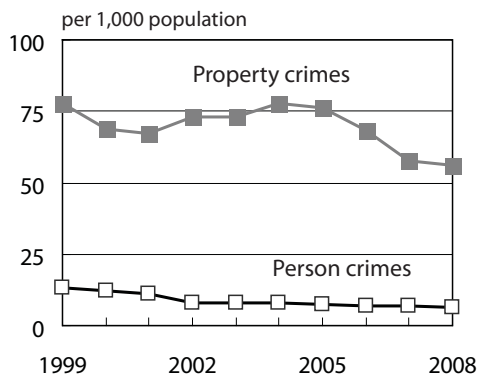
Income per capita*



- The Portland Area's per capita income has fallen compared to the national average since 2002.
- Per resident personal income in the Portland Metropolitan Statistical Area (PMSA) increased 2% from 1999 to 2006, from \$33,855 to \$34,524, respectively.

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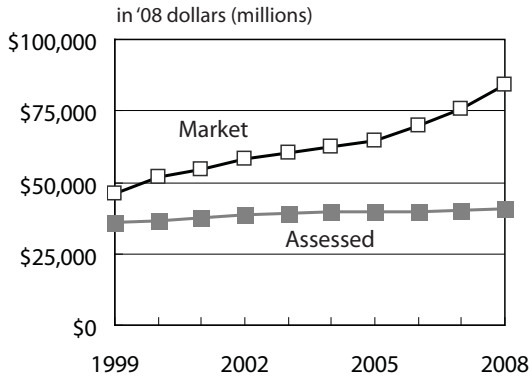
Crime rate*



- Portland's crime rate has dropped significantly in the last 10 years. Person crime per 1,000 residents decreased 51%, from 13 per 1,000 in 1998 to 6.5 per 1,000 in 2007.
- Property crimes dropped 28% in the same period, though the decrease was not steady during the 10 years.
- Portland's crime rate mirrored trends across the county.

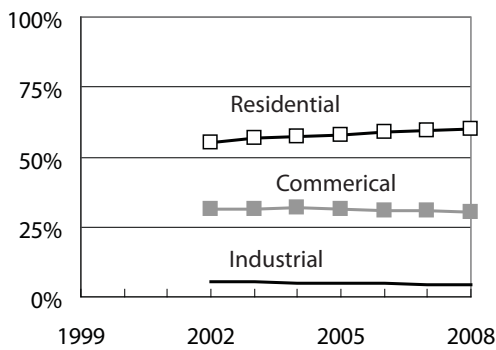
* Data based on a calendar year.

20 Property values



- Market values for Portland properties increased 83% over the last 10 years, while assessed values increased 13%.
- The gap between assessed and market values since 1997 is due to the limitation set by Measure 50. This 1997 statewide ballot measure limited assessed value growth to a maximum of 3% per year in most houses.
- The City of Portland's property tax revenues are based on assessed values.

21 Business and resident share of property taxes*

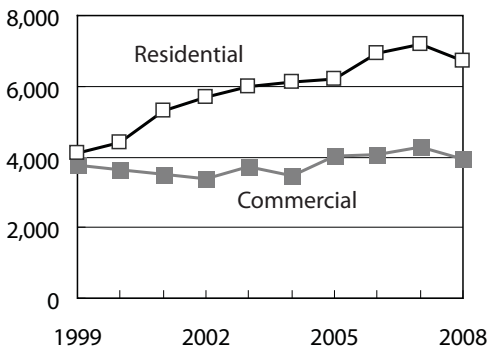


- For tax years 2001-2002 through 2007-2008, the City of Portland became more dependent on residential property tax revenues. Residential property taxes as a share of all property taxes increased by nearly 5%. According to the Office of Management and Finance, the increasing share of property taxes paid by residents reflects the impact of Ballot Measure 5.
- All other major types of property taxes, as a percent of the total, declined during that period. Commercial and Industrial taxes decreased 1% each, and property taxes from utilities declined almost 3%.

* Reports available starting tax year 2001-02

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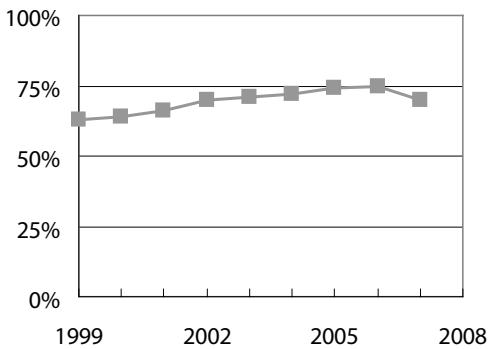
Building permits



- From 1999 to 2008, commercial building permits issued by the City grew almost 5%.
- Residential permits issued during the same time period increased 62%.
- FY 2006-07 was the peak year for both permits. During that year 4,266 commercial building permits were issued and 7,171 residential permits were issued.

23

Graduation rate



- The high school graduation rate for Multnomah County rose steadily for several years, from 63% in 1999 to 75% in 2006.
- In 2007, the rate dropped to 70%.



Lewis and Clark Memorial in Washington Park.
Photo by Audit Services Division.

Did you know....

- At the entrance to Washington Park is the Lewis and Clark Memorial. Each side of the memorial bears the replicas of the seals of the states of Oregon, Washington, Montana, and Idaho. These states once comprised the Northwest Territory.

Did you also know....

- Portland's tree canopy covers 26% of the city.
- Portland Parks and Recreation reports that 76% of residents lived within a half mile of a park in 2008.
- Portland was rated the most sustainable city in the United States in 2008 by SustainLane.
- When complete, the City's "Big Pipe" project is expected to reduce the volume of combined sewage and storm water overflow to the Willamette River by 94% when it rains.
- The Water Bureau maintains over 16,000 fire hydrants.
- Portland has 94 City-recognized neighborhood associations.
- Portland has the third-highest volunteer rate among the 50 largest cities in the United States.
- Approved in 1913, the City of Portland has the last remaining Commission form of government among large cities in the United States. City voters have rejected eight attempts to change the form of government, most recently in 2007.
- The City has a Aaa bond rating for General Obligation Bonds – which it has maintained since 1974, according to the Office of Management and Finance.

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Other recent audit reports:

*Transition Report: Key challenges for a new City Council
(#376, February 2009)*

*Five-Year Parks Levy: Facilities and services enhanced, but
ballot title misleading (#371, February 2009)*

*City of Portland Service Efforts and Accomplishments: 2007-
08 (#360, December 2008)*

*Portland Fire & Rescue: Controlled substances monitoring
falls short of requirements
(#364, October 2008)*

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