

The Oregonian

Portland's 'net assets' continue to drop as city's road network declines in value, pension obligations rise

By Andrew Theen

There's a bar graph amid the family photos and traditional workplace décor in Drummond Kahn, Portland's Director of Audit Services, corner office in City Hall.

Perhaps it should come as no surprise that a city auditor feels so strongly about numbers, but for Kahn, the figures on the bar graph point to a growing concern: Portland is losing value.

A decade ago, the city's governmental net assets, the difference between what the city actually owns versus its liabilities, totaled \$1.5 billion. Today, that figure has fallen to around \$300 million. In a couple years, Kahn says, his office projects net assets could dip into the red.

One culprit: the continuing depreciation of the city's most valuable asset, its road network and facilities. The continuing rise of annual pension obligations for Portland Fire and Police Bureau retirees is a huge factor, too.

This isn't a new phenomenon. Annual financial reports from the auditors point to a decline for years.

But Kahn said he wants the city to further study the decline, provide annual reports to City Council and take the situation into consideration when making policy decisions. He said the precipitous decline in net assets puts a burden on future generations.

Fred Miller, the city's interim chief administrative officer, agrees that Portland needs to invest in its transportation network and address long-neglected facilities maintenance issues.

"There's no disagreement at all we need to put more money into assets," Miller said in an interview.

Mayor Charlie Hales and Commissioner Steve Novick hosted several transportation town halls earlier this year to discuss how to prioritize transportation spending. What to do with the city's transit system, and how to pay for necessary improvements, is a centerpiece of the City Mayor's agenda this year.

"Depreciation is a legitimate point," Miller said. "We need to do more with our assets."

But as the City Council proceeds through the perpetual budget cycle of municipal government, the auditor's office hopes the attention to infrastructure investment isn't lost in the shuffle.

Bureau requests for general fund cash, the discretionary pot of taxpayer money that funds key city services, totaled more than \$34 million. That's despite the fact Portland has just \$2.4 million in one-time cash to spend, and \$3.6 million in ongoing program dollars to play with, according to city budget forecasts.

Kahn says the city's elected officials should be cognizant of the overall financial position and future pension obligations when making requests.

"If they take new transportation money or discretionary transportation money and, instead of spending it on upkeep, they spend it on streetcar operations, that doesn't increase your assets," Kahn said. "It wouldn't help a bit."

Each year, more of the Fire & Police Disability & Retirement obligations show up on the city's liabilities, Kahn said. In 2006, voters amended the FPD&R system, transitioning new hires in public safety to the investor-funded Oregon Public Employees Retirement System. But now voters pay two generations of public safety personnel, according to an audit report. Just last year, those obligations increased \$128 million.

But in an email to City Council offices sent this month, Miller said the city's financial picture includes both good news and the aforementioned "not so good news."

The good: Miller said Portland is part of "approximately 7 percent of local governments nationwide with a AAA rating," the highest given, by Moody's.

Moody's rating, Kahn acknowledged, does take into account the net asset decline.

Also good: Miller said the city already has dedicated revenue sources for its police-fire pension and disability obligations, thanks to a voter-approved property tax levy. The pension and disability costs "are paid annually with current property tax revenues for benefits earned over previous years," he wrote to council offices.

In response to Kahn's concerns about generational equity, Miller said cities routinely put the costs of infrastructure on future generations. He used 20-year sewer bonds as an example. "The life of the asset will span 80-100 years. Therefore, future generations will benefit from infrastructure paid for by previous generations. It would require a complex analysis to fully understand the balance of intergenerational equity."

Miller said in reality, cities won't ever pay off their debt. "We'll pay off the bonds, but we'll issue new ones," he said. That's how a city invests in its infrastructure, he said.

The independent audit and the Comprehensive Annual Financial Report from the 2012-13 fiscal year will be presented to City Council on Wednesday morning.

Portland decides to buy emergency radios from Motorola after all

By Brad Schmidt

The city of Portland announced Tuesday that it will buy new public safety radios from Motorola Solutions, Inc., the same company that officials originally selected last year before after an appeal from a competitor.

And, in an interesting twist, city officials say they'll spend less money and get more services.

In September, city officials announced plans to spend \$11.7 million buying 2,700 radios and upgrading 3,400 radios under a 2007 contract with Motorola.

But a competitor, RELM Wireless Corp., challenged the award, saying the Florida-based company could offer better prices.

Six months later, after receiving five responses from vendors, the city determined that only Motorola met the city's "critical needs," according to a news release Tuesday.

The new deal: \$10.5 million for about 2,700 radios and upgrades for 4,500, said Abby Coppock, a spokeswoman for the Office of Management & Finance.

Coppock said that in this case, Portland's decision to receive inquiries from Motorola competitors "played into our favor" and Portland got an even better deal than originally proposed.

"I think we're definitely happy with the outcome," she said.

Money for the purchase will come from a \$72.4 million bond measure approved by voters in 2010. Motorola was among the major contributors to the political campaign in support of the bond measure.

"These radios are part of an upgrade to the whole regional public safety communication system," said Jeff Baer, who manages Portland's Public Safety Systems Revitalization Program. "We require a highly

reliable digital voice radio system that meets the current and emerging needs of the Portland region for the next 15-20 years."

Willamette Week

Hotseat: Nick Fish

The City Commissioner rails against what he calls a takeover of the city's water system.

By Nigel Jaquiss

City Commissioner Nick Fish is in hot water. And by the standards of this usually placid lawyer, he's boiling mad.

Fish, who's up for re-election, is fighting a second battle on the May ballot. He's the most public opponent of an initiative that would wrest control of Portland's water and sewer utilities away from City Hall.

The business supporters of a new public water district point to steep rate increases and City Hall spending of utility funds on projects with little relation to water and sewer improvements.

The water district's independent board would be elected by voters, but Fish—who since last June has overseen the city's Water and Environmental Services bureaus—says the district's structure would let corporate interests unload their share of Superfund and other environmental costs. Proponents, in turn, have made Fish a target of their campaign.

Fish visited WW offices this week to discuss the measure more frankly than he ever has before.

WW: You have said this ballot initiative is a conspiracy of corporate polluters. Who do you mean?

Nick Fish: I didn't use those exact words, but it is fair to pull back the curtain and say, "Who is leading this fight?" There are four people: John DiLorenzo, who is a corporate lobbyist. Ken Craford, who is a corporate lobbyist. Siltronic, which is a [silicon] wafer company that is on the verge of leaving Portland, and uses a lot of water in its production. And Portland Bottling Co. It is fair to ask: How do they gain if this thing goes forward?

What's your theory?

This is basically a Trojan horse bait-and-switch. Ride this anti-government wave, create a furor over some ill-advised decisions of the City Council, and change the game by switching back to taxpayers what would be the responsibility of ratepayers.

This initiative would be the single largest transfer of [financial] liabilities from the water and sewer bureaus to the general fund—and Portland taxpayers—in history.

What is the nature of your conversations with these companies?

If you look in the dictionary under the word "chutzpah," you'd find that Siltronic would be a good example. This city rolled out the red carpet to bring Siltronic to our community. The payoff for all of this public investment that totals in the millions? They are down to about 350 jobs, no new investments, and they all but told us that they expect to be in Tennessee in the next few years.

Portland Bottling told us the same story.

The mayor and I said, "We would love to keep you in Portland."

So did they take you up on that?

No. The first communication we got back was insults we read in the press.

Is there any element of their criticism that has any merit?

Absolutely. I call them self-inflicted wounds. In government, symbols matter and when you do dumb things, they become symbols. People assume that if you do that, you are likely to do other things. And where we have lost trust with ratepayers in this city is doing things that appear to be outside the scope of what our utilities and water should be focused on.

Why should we believe those are aberrations rather than deeper problems?

Let's look at what I've done since the mayor asked me to lead these utilities. For two years in a row, we will come in at proposed rate increases that are about 50 percent of forecast rates. We got there by making tough choices and pushing off capital spending.

Why can't you just keep water and sewer rates flat?

Charlie Hales the candidate talked about lowering rates. Charlie Hales the mayor, when he got the utilities and ran them for five months, learned that you can't do so without doing violence to the system.

It sounds good in the abstract to say, "Let's lower rates." But look at what rates pay for. We're faced with an aging system, and old pipes that break, [and] the need to comply with unfunded federal mandates.

You brought in rate increases half of what was forecast. Where did you find savings?

I had [the Water Bureau] take a 2.5 percent cut in the operating budget, which means layoffs of employees and cuts in programs. On the Bureau of Environmental Services side, we cut some programs that are near and dear to some of our friends in the environmental movement.

Your opponents have come into our offices and given you nasty nicknames, such as Nick "Jelly" Fish. Why are you their poster boy?

From their point of view, they have always had a villain and perhaps they think it helps their cause. But it is not about me. The people who are going to get screwed by this effort are ordinary people in Portland.

There is an old expression in the law, that if you have the facts on your side, you pound the facts; and if you have the law on your side, you pound the law; and if you don't have the facts or the law, you pound the table. These guys are great at pounding the table.