The City of Portland’s Comprehensive Annual Financial Report for FY 2014-15

Presented to the Portland City Council • January 27, 2016

Presented by the Bureau of Revenue & Financial Services
Presentation Agenda

- Present the City’s Comprehensive Annual Financial Report (CAFR) for FY 2014-15
- Discuss Key Findings from the FY 2014-15 CAFR
- Provide Council with an Assessment of the City’s Long-Term Financial Health
CAFR Development and Goals

- Production of the CAFR is a significant undertaking and involves many individuals:
  - City bureaus
  - City Auditor’s Office
  - Our independent auditor, Moss Adams
  - Accounting Division staff within BRFS

- The most recent CAFR production reflects progress in our goal of publishing the CAFR by November 1 of each year (CAFR 120)
  - This year’s CAFR: December 1, 2015
  - Next year’s CAFR: November 15
  - Following years: November 1
Comprehensive Annual Financial Report (CAFR)

- Tells the Council and Citizens where we have been financially

- Financial Statements are prepared based on Generally Accepted Accounting Principles (GAAP) as issued by the Governmental Accounting Standards Board (GASB)

- Financial Statements and CAFR subject to external audit

- External Auditor’s Opinion offered on the accuracy of the CAFR’s financial information and its compliance with accounting standards
Highlights of the FY 2014-15 CAFR

- First, the Good News:
  - External Auditors (Moss Adams) gave the City an “Unmodified Opinion” on its financial statements
  - No weaknesses and/or deficiencies with the City’s accounting processes
  - CAFR complies with State Law
  - Fund Balances continue to grow
  - City received the GFOA Award for Excellence in Financial Reporting for the 35th consecutive year

- Now, the Not so Good News:
  - Continued decline in City Net Position (Assets minus Liabilities) for Governmental Activities:
    - FY 2014-15 Net Position declined by almost $1.4 billion
    - Net Position for Governmental Activities now stands at about negative $1.2 billion
    - Negative Net Position for Governmental Activities reflects impact of GASB 68
What Affects Net Position?

Factors Decreasing Net Position (Expenses > Revenues---GAAP Basis)

- Increases in pensions and other similar liabilities
- Increases in bonds payable with no off-setting assets
- Non-cash expenses (depreciation) that contribute to expenses exceeding revenues

Factors Increasing Net Position (Revenues > Expenses---GAAP Basis)

- Grant funding of capital improvements
- Funding capital improvements from current cash flow
- Surplus revenues that are unspent (i.e., held in reserve) or used to pay down liabilities
10-Year History of Net Position Reported in CAFR

- Governmental Activities
- Business Activities
- Total Activities
Causes of Declining Net Position (Governmental Activities)

- Pension Liabilities:
  - FPD&R: Includes the full $2.875 billion as a liability
  - Under GASB 68, the full liability has been recorded

- Bonds Payable not offset with City-Owned Assets:
  - Urban Renewal Short and Long-Term Debt
  - Visitor Development Fund Bonds (Convention Center Expansion)
  - Sellwood Bridge Gas Tax Bonds

- Depreciation in Excess of New Capital Investment:
  - FYE 2015 Capital Expenditures = $133.8 million
  - FYE 2015 Depreciation = $186.9 million
    - PBOT depreciation = $161.3 million
    - Disconnect between “maintenance” vs “replacement/investment”
10-Year History of Adjusted (Non-GAAP) Net Position
(FPD&R and Bonds Payable Liabilities Adjusted for Unrecognized Revenues/Receivables)
What Does This Mean and What Should We Do?

- GAAP accounting provides a partial view of financial condition:
  - Overemphasizes the treatment of liabilities
  - Underemphasizes future revenues that act as “assets”

- GAAP accounting can mask underlying trends and the appropriate policies and actions that should be taken to address those trends

- Focus should be on preventing or limiting “Financial Impairment”:
  - Ability to maintain services
  - Cost shifting
  - Fairness and equity
  - Cost-effective government in both the short and long-term

- BRFS has been developing measurements and metrics to help Council identify and address potential Financial Impairment issues
Long-Term Fiscal Health Snapshot: Looking Beyond the CAFR

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<thead>
<tr>
<th>ITEM</th>
<th>CURRENT STATUS</th>
<th>FUTURE OUTLOOK</th>
<th>TREND</th>
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<tbody>
<tr>
<td>Long-Term Liabilities</td>
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<td>PERS</td>
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<td>Negative, unfunded liability is growing</td>
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<td>FPD&amp;R</td>
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<td>Improving capacity, continue to monitor</td>
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<td>Other Post-Employment Benefits</td>
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<td>Stable, continue to monitor</td>
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<td>Infrastructure</td>
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<td>Utilities (Water &amp; BES)</td>
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<td>Stable, continue to monitor</td>
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<td>Transportation</td>
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<td>⬤</td>
<td>Negative, needs significant additional resources</td>
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<td>All Other (Parks, Public Safety, Civic)</td>
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<td>Negative, needs increased investment</td>
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<td>Legacy Liabilities</td>
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<td>Negative, costs still unknown for Portland Harbor and Columbia River Levee projects</td>
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<td>Employee Costs</td>
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<td>Negative, costs are growing faster than revenues</td>
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General Fund Revenue Picture

- Revenue growth strong, but not sustainable:
  - Potential for some further unwinding of compression
  - Business License Tax and Transient Lodging Tax revenues are at all-time record highs
  - Utility License Fee (ULF) revenues are flat to down, reflective of industry changes
  - Closing of urban renewal districts will produce new revenues for the City, but not for 10 years or longer

- Outlook for new revenues:
  - Periodic voter approved G.O. Bonds for Parks/Public Safety (probably doable)
  - New revenue sources for transportation (questionable)
  - Consideration of other revenue ideas (i.e., cell phone tax to stabilize ULF revenues)

- Easiest source of additional revenue, collect what is already owed to the City:
  - Business license taxes
  - Lien foreclosures
  - Uncollected parking citations
It’s a Math Problem: City Expenses (Operating + Capital) are Growing Faster Than Revenues

- Systemic Problems Require Systemic Solutions:
  - Cut expenses
  - Cut programs/services
  - Increase revenues
  - Some combination of the above

- Consequences of not taking action:
  - Chronic budget shortfalls and reductions
  - Reductions in services, and/or the quality of those services
  - Long-term fiscal impairment
Summary

- The City’s CAFR for FY 2014-15 shows that the City is in full compliance with all required accounting procedures and standards.
- The City’s current financial position is strong.
- Non-GAAP adjustments to Net Position help to better understand factors affecting City financial health.
- The City is facing a growing set of financial issues that will impact its long-term fiscal health.
- Development and implementation of policies/practices to bolster financial health will help to avoid financial impairments in the future.