



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?

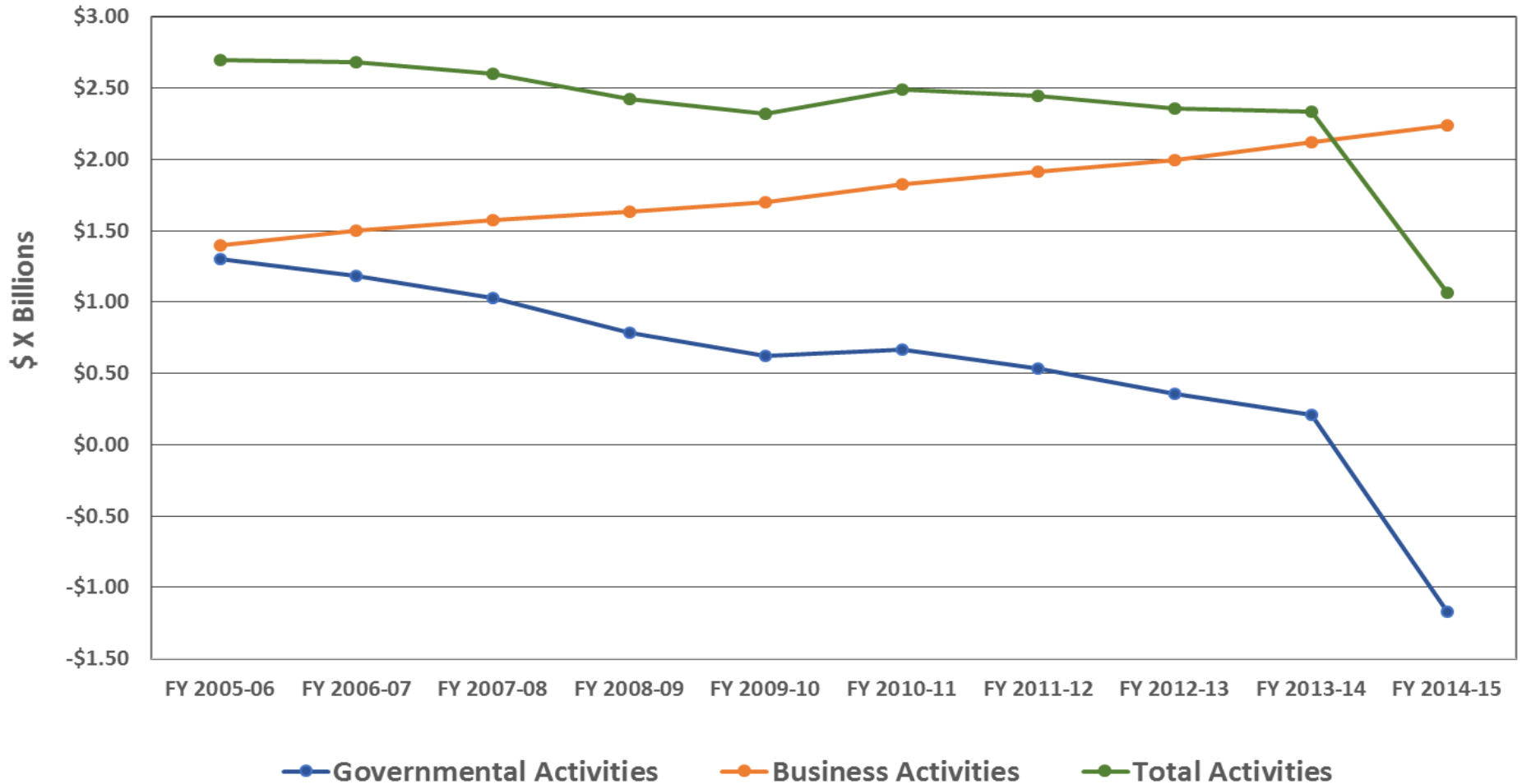
Factors Decreasing Net Position (Expenses > Revenues---GAAP Basis)

- 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

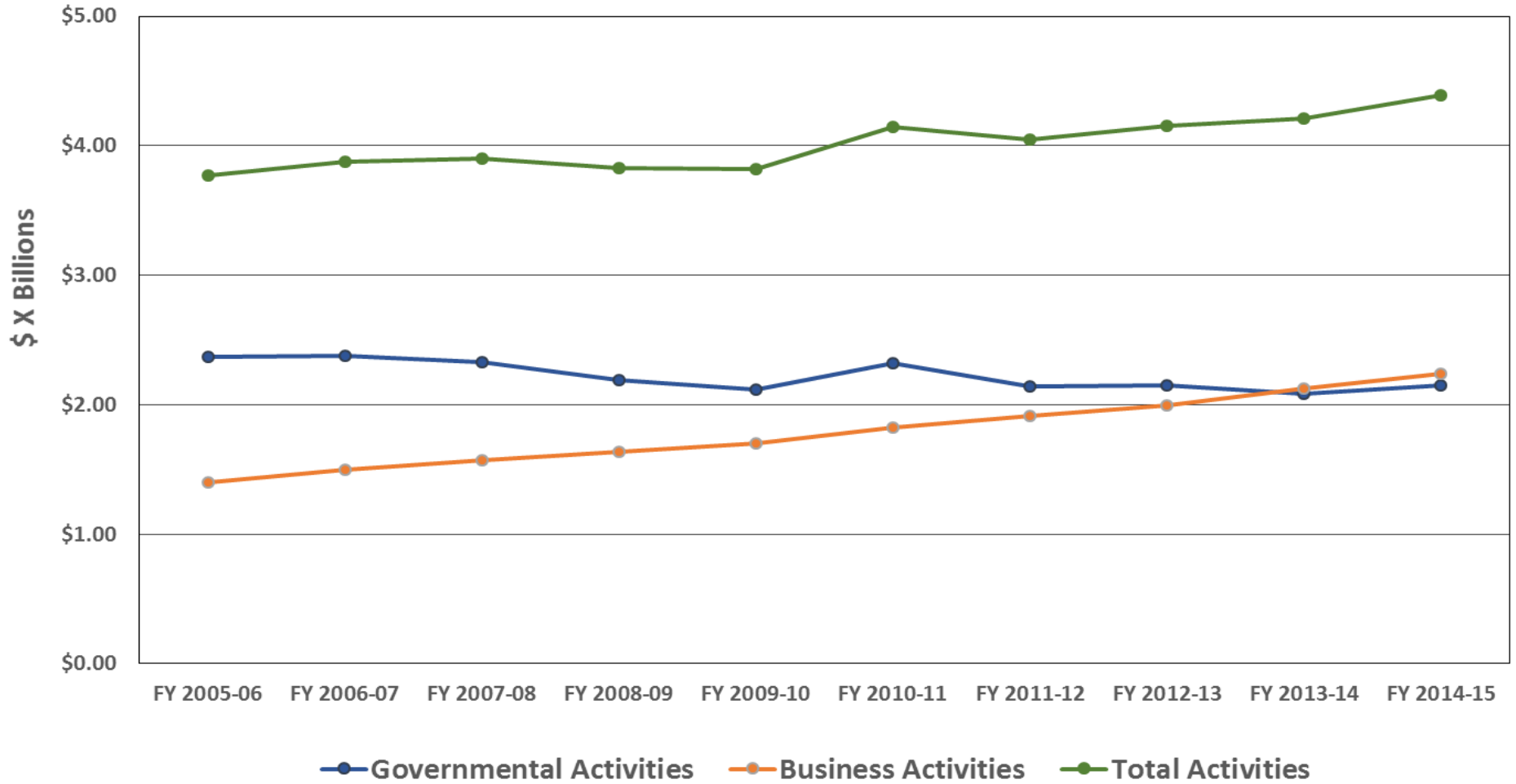


Causes of Declining Net Position (Governmental Activities)

- 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

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

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 to 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