The City of Portland’s Comprehensive Annual Financial Report for FY 2016-17

Presented to the Portland City Council • December 13, 2017

Presented by the Bureau of Revenue & Financial Services

“BRFS—TRUSTED MANAGER OF THE CITY’S FINANCES, ADVANCING SUSTAINABLE LONG-TERM FINANCIAL HEALTH”
Presentation Agenda

- Present the City’s Comprehensive Annual Financial Report (CAFR) for FY 2016-17
- Discuss Highlights from the FY 2016-17 CAFR
- Provide Council with an Assessment of the City’s Long-Term Fiscal Health
Timing of the CAFR

- The FY 2016-17 CAFR was published on November 1st.
  - Earliest publication date in the City’s modern history
  - Reduced the preparation time by 49 days over the past 3 years

- Benefits of timely reporting:
  - Places the City in top 10% of local governments in terms of financial reporting
  - Provides more timely financial information to investors, city management and community
  - Accounting Division has time to focus on other projects, such as the Popular Annual Financial Report (PAFR)
Highlights of the FY 2016-17 CAFR

- First, the Good News:
  - External Auditors (Moss Adams) gave the City an “Unmodified Opinion” on its financial statements, and found no weaknesses and/or deficiencies with the City’s accounting processes
  - CAFR complies with State Law, and generally accepted accounting principles (GAAP)
  - City received the GFOA Award for Excellence in Financial Reporting for the 36th consecutive year
  - Fund Balances continue to grow

- Now, the Not so Good News:
  - Continued decline in City Net Position (Assets minus Liabilities) for Governmental Activities:
    - FY 2016-17 Net Position for Governmental Activities declined by about $151 million, and now stands at almost negative $1.6 billion
10-Year History of Net Position Reported in CAFR

- Governmental Activities
- Business Activities
- Total Activities

"BRFS—TRUSTED MANAGER OF THE CITY’S FINANCES, ADVANCING SUSTAINABLE LONG-TERM FINANCIAL HEALTH"
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)

- External 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 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 continues to develop measurements and metrics to help Council identify and address potential Financial Impairment issues
Long-Term Fiscal Health Snapshot: Looking Beyond the CAFR

<table>
<thead>
<tr>
<th>ITEM</th>
<th>CURRENT STATUS</th>
<th>FUTURE OUTLOOK</th>
<th>TREND</th>
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<tbody>
<tr>
<td><strong>Long-Term Liabilities</strong></td>
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<tr>
<td>PERS</td>
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<td>Negative, unfunded liability is growing</td>
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<tr>
<td>FPD&amp;R</td>
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<td>Recent labor contracts increase pension costs, continue to monitor</td>
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<td>Other Post-Employment Benefits</td>
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<td>🟠</td>
<td>Improving, continue to monitor</td>
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<td><strong>Infrastructure</strong></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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<tr>
<td>Transportation</td>
<td>🟠</td>
<td>🟠</td>
<td>Negative, needs significant additional resources</td>
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<td>All Other (Parks, Public Safety, Civic, Housing)</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><strong>Employee Costs</strong></td>
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<td>Negative, costs are growing faster than revenues</td>
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“BRFS—TRUSTED MANAGER OF THE CITY’S FINANCES, ADVANCING SUSTAINABLE LONG-TERM FINANCIAL HEALTH”
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 2016-17 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 fiscal 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.