



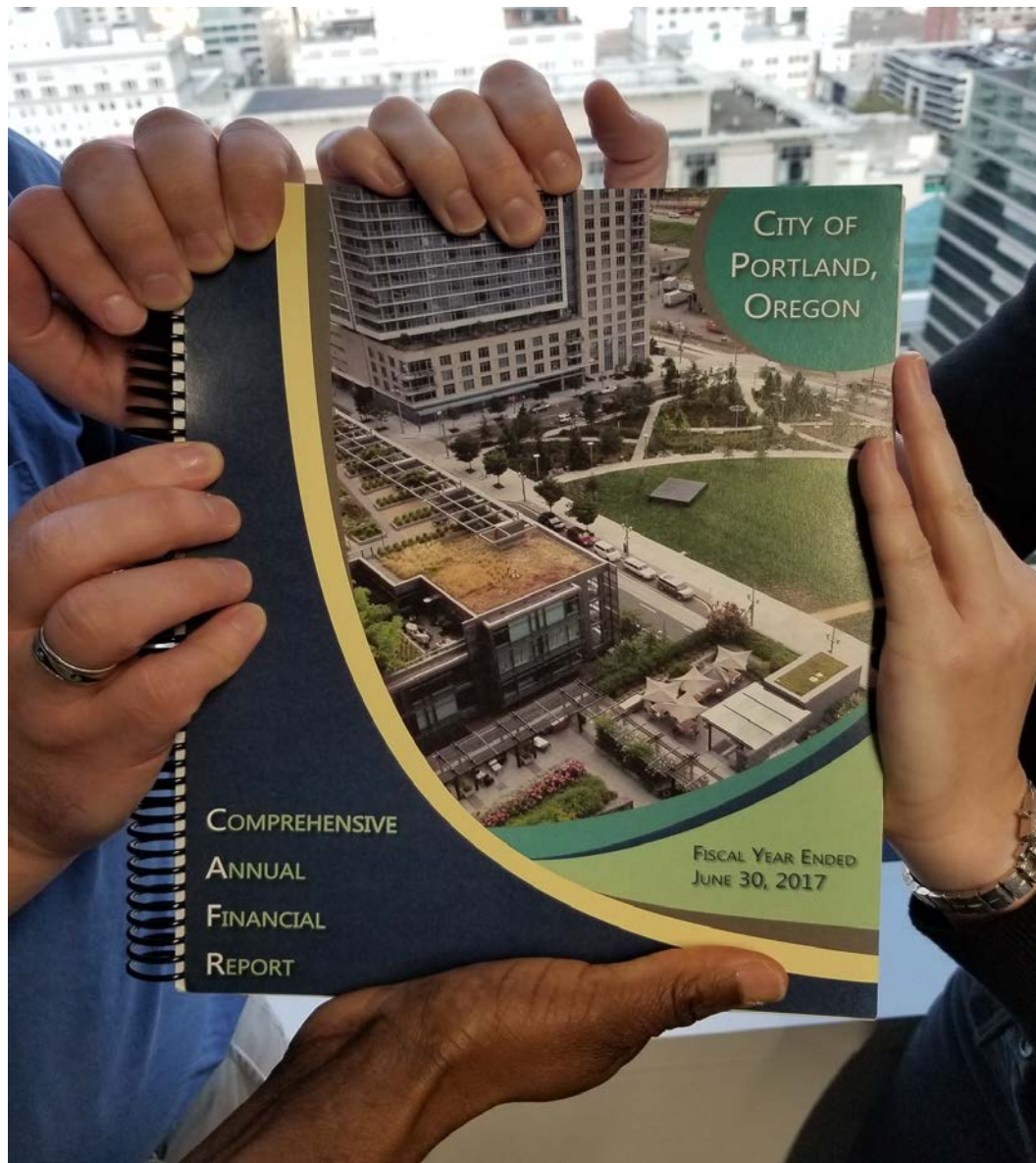
The City of Portland's Comprehensive Annual Financial Report for FY 2016-17

Presented to the Portland City Council • December 13, 2017

Presented by the Bureau of Revenue & Financial Services

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



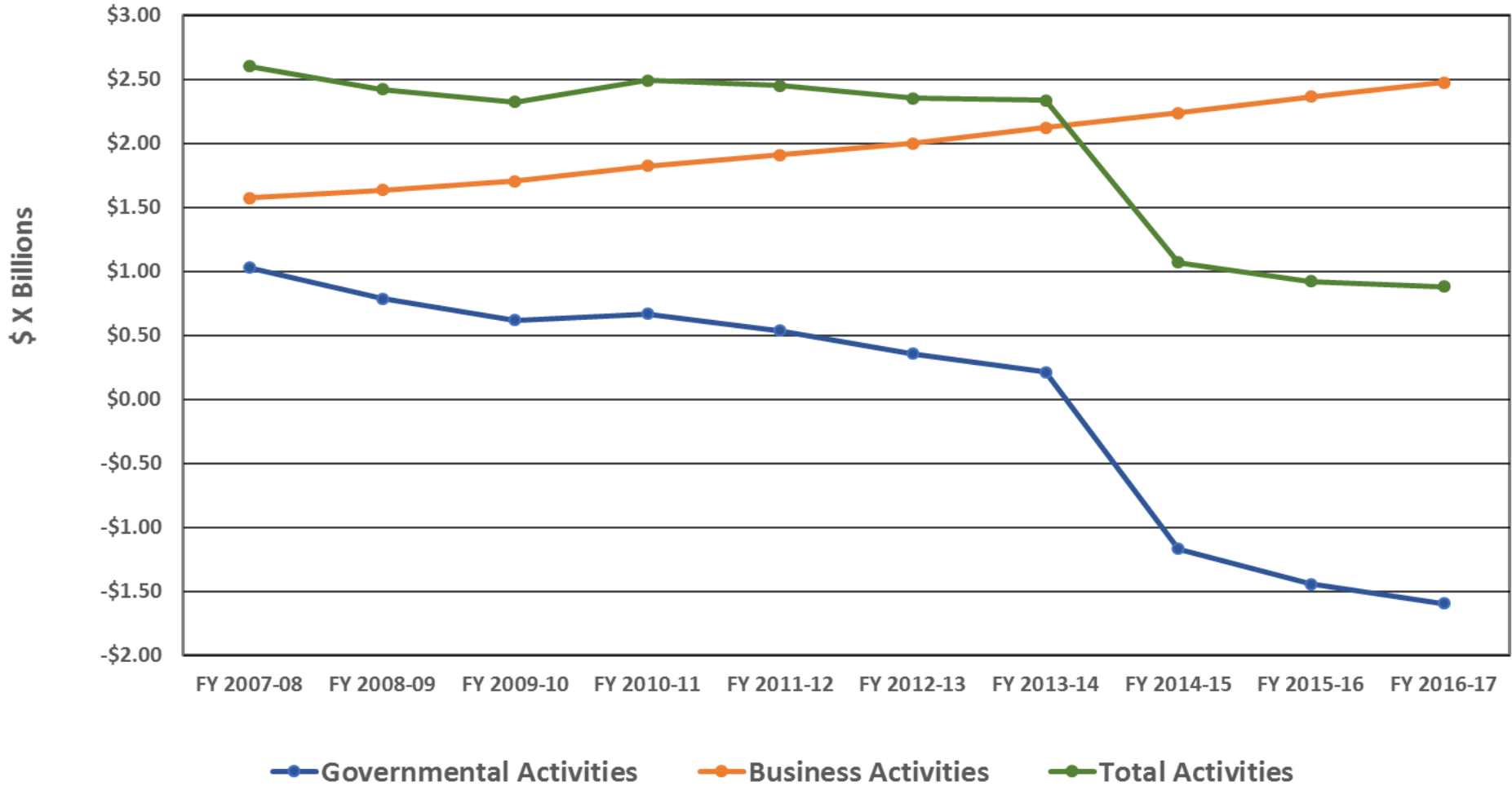
Timing of the CAFR

- 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



What Affects Net Position?

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

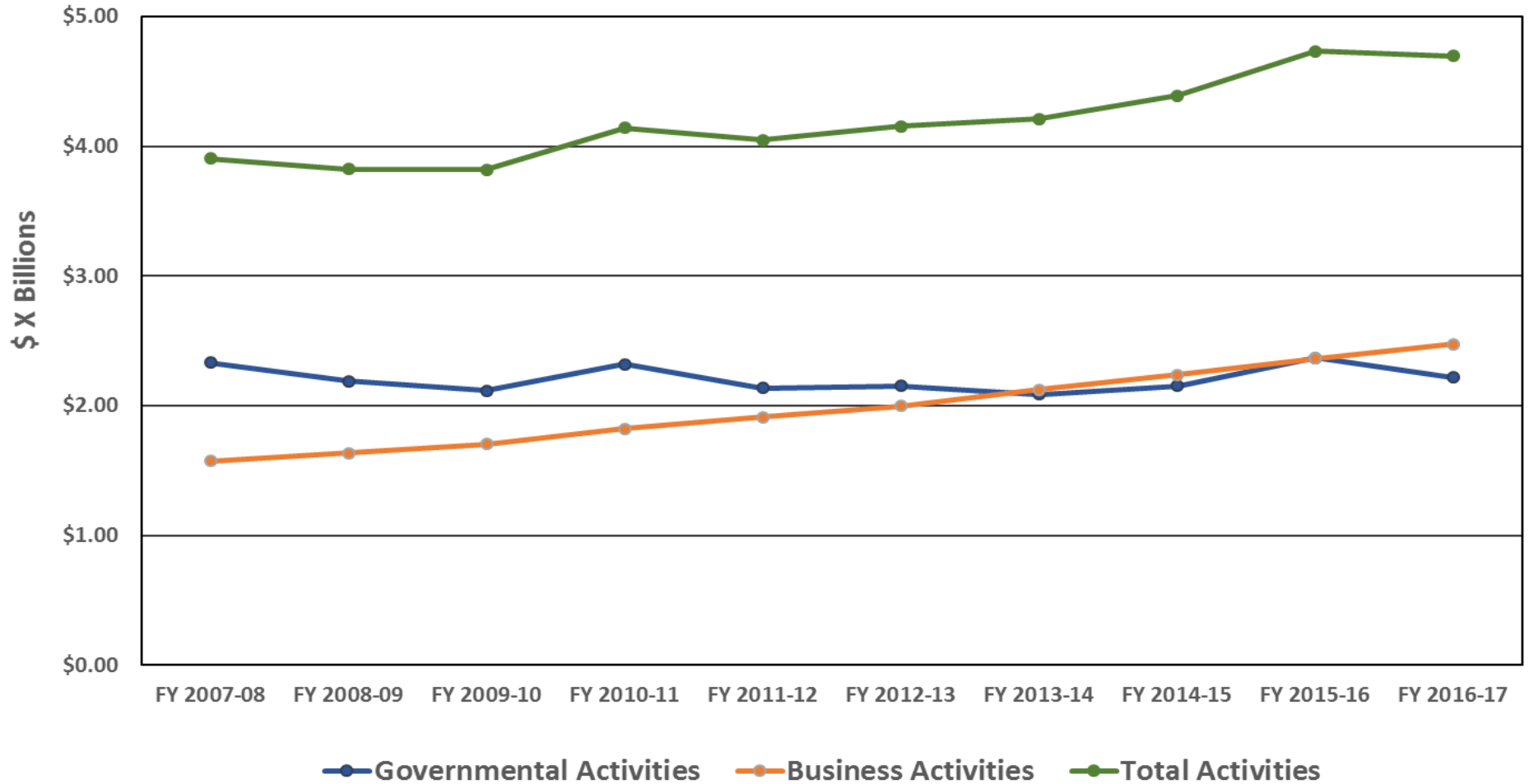
- Increases in pensions and other similar liabilities
- Increases in bonds payable with no off-setting assets
- Non-cash expenses (depreciation) that contribute to expenses exceeding revenues

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

| ITEM | CURRENT STATUS | FUTURE OUTLOOK | TREND |
|--|---|--|---|
| Long-Term Liabilities | | | |
| PERS |  |  | Negative, unfunded liability is growing |
| FPD&R |  |  | Recent labor contracts increase pension costs, continue to monitor |
| Other Post-Employment Benefits |  |  | Improving, continue to monitor |
| Infrastructure | | | |
| Utilities (Water & BES) |  |  | Stable, continue to monitor |
| Transportation |  |  | Negative, needs significant additional resources |
| All Other (Parks, Public Safety, Civic, Housing) |  |  | 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 |

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 to 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