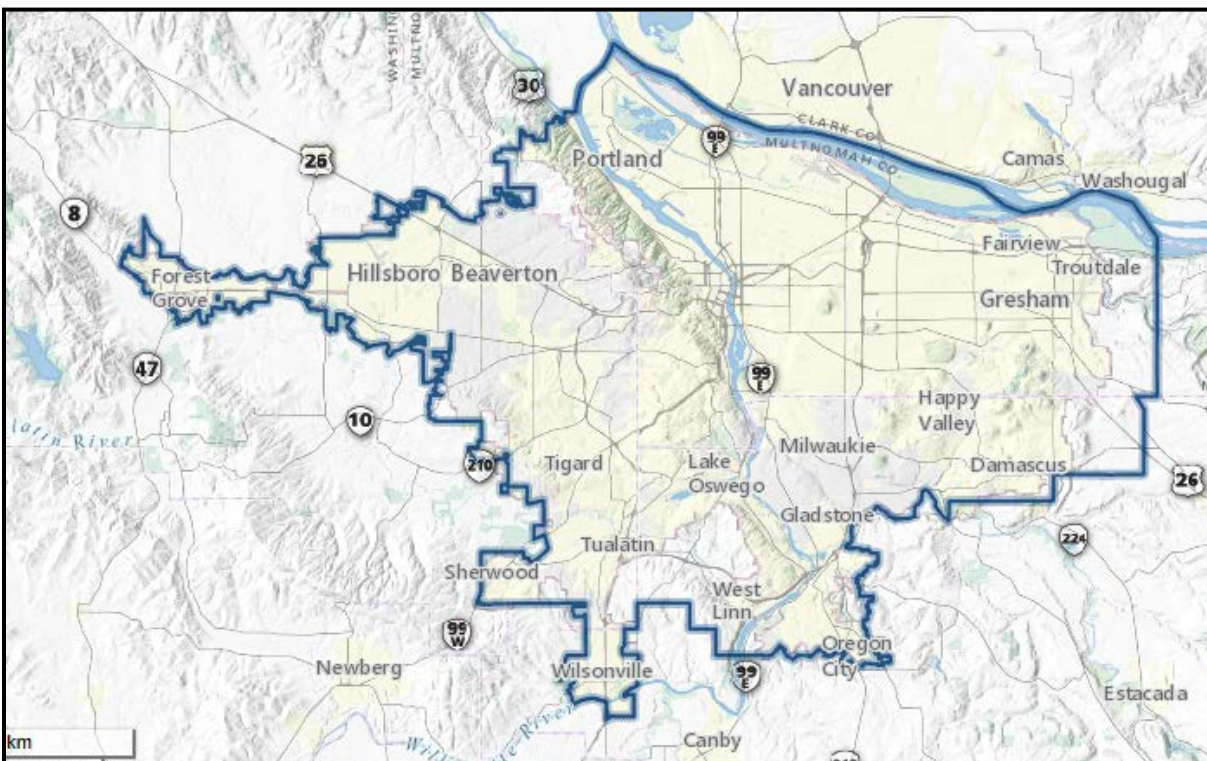


TSCC Budget Review 2017-18

Metro

1. Introduction to the District

Metro's boundaries encompass the urban areas of Multnomah, Clackamas and Washington counties covering 461 square miles, 24 cities, and a population of approximately 1.8 million.



2. History

Metro is a regional government with a home rule charter and directly elected officials. Its Charter was approved by voters state-wide in the November 1992 election. Prior to that, the entity operated as the Metropolitan Service District under a structure defined by the Oregon Legislature. The charter permitted Metro to assume additional functions, if approved by ordinance, and to impose certain limited type taxes without voter approval.

There are many regional governments in the US with varying levels of authority and issues over which they have jurisdiction. Most are comprised of local elected officials who serve based on their local office. *Metro is the only elected regional government in the United States.*

Metro has six Council members elected by district and a Council President position elected region-wide. All council positions are paid. The Council President is a full time position; the other councilors serve part time. An independent Metro Auditor is elected region wide. The Metro Council created a subordinate appointed board, the seven member Metropolitan Exposition-Recreation Commission (MERC) to oversee operations of the entertainment and convention venues.

Metro's functions, as authorized by its charter, are:

- Growth management and transportation planning
- Management of regional parks and green spaces
- Administration of solid waste disposal and waste reduction programs
- Management of the Oregon Zoo

The district also operates local publicly-owned entertainment and convention venues: the Oregon Convention Center; Portland Exposition Center; and, through an agreement with the City of Portland, the Portland's Centers for the Performing Arts.

3. Strategic Plan / Performance Objectives

Following are the Metro Council's strategic goals.

Goal 1: Vibrant Communities

People live, work and play in vibrant communities where their everyday needs are easily accessible.

Goal 2: Climate Change Leadership

The region is a leader in minimizing contributions to global warming.

Goal 3: Transportation Choices

People have safe and reliable transportation choices that enhance their quality of life.

Goal 4: Economic Prosperity

Current and future residents benefit from the region's sustained economic competitiveness and prosperity.

Goal 5: Clean Air and Water

Current and future generations enjoy clean air, clean water and healthy ecosystems.

Goal 6: Equity

The benefits and burdens of growth and change are distributed equitably.

In addition, the Council identified several programs and projects as high priority items for funding. In 2017-18 these initiatives include:

- 2018 Regional Transportation Plan and Long Term Transportation Funding
- Implementation of the Strategic Plan to Advance Racial Equity, Diversity and Inclusion, and Diversity Action Plan
- Solid Waste Roadmap and development of new Regional Solid Waste Plan
- Equitable Housing Strategy
- 2018 Urban Growth Report and Urban Growth Management Decision
- Construction Careers Pathways Project

- Willamette Falls Legacy Project
- Oregon Zoo Bond Projects
 - Polar Passage
 - Primates
 - Rhino Habitat
- Parks and Nature System Plan and renewed Local Option Levy implementation

4. The Budget in Total

Metro’s Chief Operating Officer (COO) developed this budget using three themes.

Invest in strategies for equity, diversity and inclusion

- Funds programs and activities to support equity, diversity and inclusion in every department at Metro

Prepare for “Financial Headwinds”

- Anticipates structural deficit in General and Oregon Zoo funds as expenditures increase beyond revenue expectations
- Develops three-to-five-year strategy for these funds for use in 2018-19 budget development
- New programs and activities added to the General Fund are minimal

Invest in Infrastructure

- Includes technical and physical infrastructure
- Makes repairs to physical assets, specifically at visitor venues
- Allows for significant updates to outdated technology systems

Specifically, the COO instructed staff to prepare budget requests that emphasized the Metro Council goals and initiatives and maintained existing services. Budget requests were allowed to increase materials and services by 2.4% for inflation.

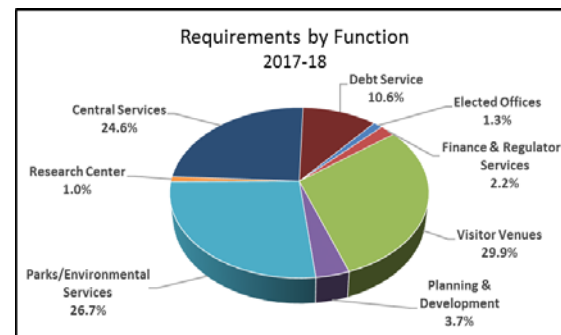
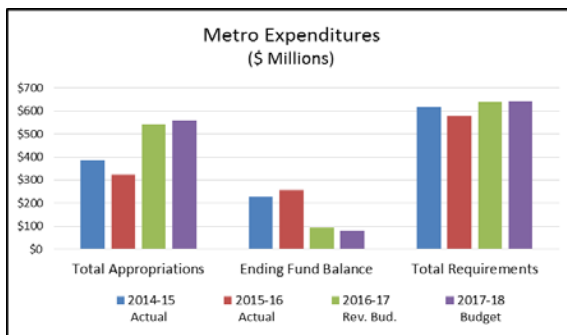
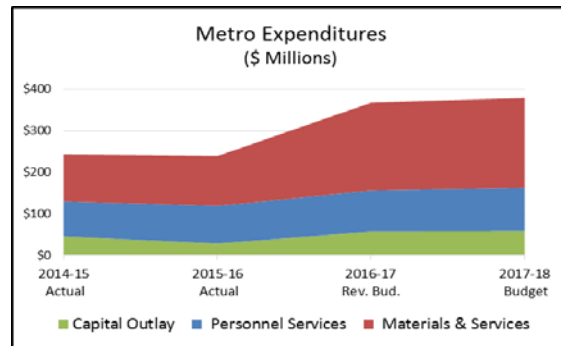
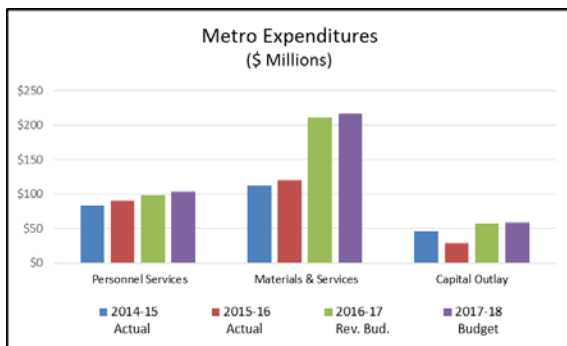
Metro	2014-15 Actual	2015-16 Actual	2016-17 Budget	2017-18 Budget
Total Budget All Funds	\$ 616.1	\$ 579.8	\$ 639.3	\$ 642.2
Percent of Change from Prior Year	+13.6%	-5.9%	+10.3%	+0.5%
Total Beginning Fund Balance All Funds	\$ 244.4	\$ 227.7	\$ 247.1	\$ 244.9
Percent of Change from Prior Year	-9.7%	-6.9%	+8.5%	-0.9%
Total Ending Fund Balance All Funds	\$ 227.7	\$ 255.8	\$ 95.7	\$ 83.1
Percent of Change from Prior Year	-6.9%	+12.4%	-62.6%	-13.2%

The 2017-18 Budget is \$642.2 million, a \$2.9 million (0.5%) increase from the current year budget. This increase reflects spending of natural area levy and bond proceeds, spending of Zoo Bond proceeds, and increased business activity driven by the improving economy.

Total Requirements by Category

Metro's 2017-18 budget is \$642.2 million, a \$2.9 million increase (less than 1%).

Metro				
Total Requirements - All Funds Combined (\$ Millions)				
	2014-15 Actual	2015-16 Actual	2016-17 Rev. Bud.	2017-18 Budget
Personnel Services	\$ 83.9	\$ 90.6	\$ 98.5	\$ 103.8
Materials & Services	113.0	119.9	211.3	216.4
Capital Outlay	46.5	28.8	58.0	59.0
Debt Service	106.5	34.7	36.0	44.9
Fund Transfers	38.5	50.0	52.8	42.6
Contingencies	-	-	87.0	92.3
Ending Fund Balance	227.7	255.8	95.7	83.1
TOTAL REQUIREMENTS	\$ 616.1	\$ 579.8	\$ 639.3	\$ 642.2



Personnel Services:

The budget for personnel services (\$103.8 million) reflects a net increase of 5.05 FTE over the 2016-17 Revised Budget. Personnel services cost per FTE is increasing by 5% to \$119,943.

Metro				
	2014-15 Actual	2015-16 Actual	2016-17 Rev. Bud.	2017-18 Budget
Personnel Services	\$ 83,944,515	\$ 90,552,133	\$ 98,473,394	\$ 103,835,760
FTE	812	844	860.66	866
Personnel Servs Cost per FTE	\$ 103,405	\$ 107,283	\$ 114,416	\$ 119,943
		4%	7%	5%

Metro Full Time Equivalent (FTE) Positions					
	2014-15 Actual	2015-16 Actual	2016-17 Rev. Bud.	2017-18 Budget	Increase / (Decrease) from 2016-17
Communications	25.00	25.00	13.00	12.00	(1.00)
Council	30.00	31.50	30.00	31.00	1.00
Finance and Regulatory Services	42.00	40.30	37.50	37.50	0.00
Human Resources	19.00	19.80	21.80	21.80	0.00
Information Services	27.50	27.50	28.50	28.50	0.00
Office of Metro Attorney	15.50	16.00	16.00	16.00	0.00
Office of the Auditor	6.00	6.00	6.00	6.00	0.00
Parks and Nature	86.85	92.10	99.80	103.95	4.15
Planning and Development	47.15	48.30	57.30	56.80	(0.50)
Property and Environmental Services	114.80	124.55	132.21	134.66	2.45
Research Center	28.50	28.00	28.00	28.00	0.00
Visitor Venues					
Expo Center	14.80	15.80	15.30	15.80	0.50
MERC Administration	6.00	6.50	6.60	6.65	0.05
Oregon Convention Center	114.65	114.65	115.65	115.65	0.00
Oregon Zoo	187.15	198.65	200.60	195.00	(5.60)
Portland's 5 Centers for the Arts	46.90	49.40	52.40	56.40	4.00
TOTAL FTE	811.80	844.05	860.66	865.71	5.05

The increased personnel services costs are driven by two factors:

- Increased PERS rates
 - Rates will be 12.6% of payroll in 2017-18, compared to 8.8% of payroll in the current year
- Cost of Living (COLA) increases
 - COLA increases are generally tied to the region's consumer price index (CPI)
 - Inflation drives up the cost of living increases

The following shows the rate assumptions applied for budget development:

- COLA: 1.5% to 2.5% (depending on bargaining unit)
- Merit Step: 2.6% or as determined by collective bargaining agreement
- Medical/Dental: 10.0% premium increase
- PERS: 12.6%

Metro pays 92% of the medical insurance premiums for all employees. Employees pay 8%.

For years, Metro paid the 6% employee contribution to the Public Employees Retirement System (PERS) on behalf of the employee. Starting July 1, 2011 newly hired, non-represented employees began paying the 6% employee portion into their PERS account; the following year newly hired AFSCME employees began paying their own PERS contribution. As of July 1, 2014, almost all newly hired employees pay the employee contribution to PERS.

To mitigate future PERS rate increases, Metro established a PERS reserve funded from prior savings to help reduce pension bond debt service payments. The reserve has helped mitigate the large increases for 2017 and 2018. The district anticipates PERS rates to increase again in 2019 and is factoring increased rates into the district's financial forecasts.

Materials and Services:

Overall Materials and Services increase in this budget by 2.4%.

- \$49 million for solid waste transfer operations, disposal fees and transport of solid waste
- Both 2016-17 and 2017-18 budgets reflect expense for the Oregon Convention Center Hotel in materials and services
 - If this amount were removed, budgeted materials and services would be about \$76 million less

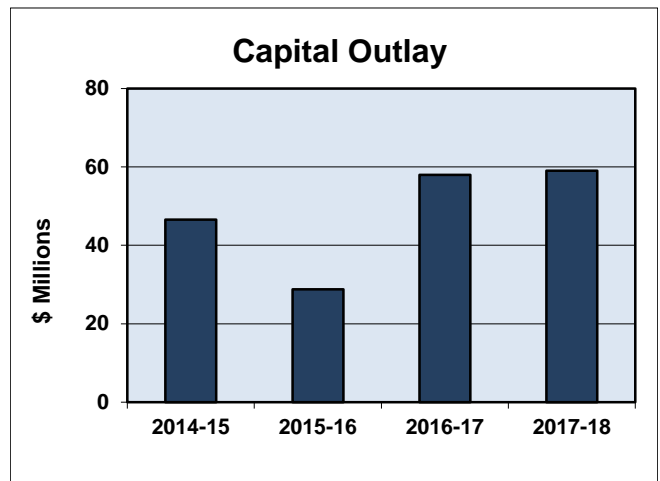
Capital Outlay:

Metro	2014-15 Actual	2015-16 Actual	2016-17 Budget	2017-18 Budget
Capital Outlay	\$ 46.5	\$ 28.8	\$ 58.0	\$ 59.0

Metro defines a capital project as “any physical asset acquired or constructed...with a total capital cost of \$100,000 or more and a useful life of at least five years.” Capital projects are included in the district’s capital improvement plan, which is updated and adopted annually.

Metro’s capital outlay budget increases in this budget as the number of capital improvement projects remains high. The largest expenditures next year will be:

- \$12.5 million total for projects at the Oregon Zoo
 - Polar Bear Habitat (\$10.9 million)
 - Primate and Rhino Habitat (\$1.2 million)
- \$7.5 million for Natural Areas land acquisition
- \$3.1 million for Willamette Falls Legacy Project
- \$1.5 million for Columbia Boulevard Bridge crossing
- \$1.2 million for Marine Drive Trail
- \$1.9 million for roof repair and/or replacement at Expo Center - Hall D
- \$2.5 million for technology projects
- \$6.0 million for Oregon Convention Center Master Plan Renovation
- \$2.8 million for Solid Waster compactors
- \$1.4 million for Metro Regional Center rooftop air handler

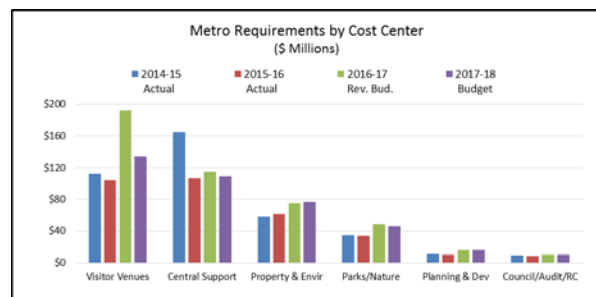


Expenditures By Operating Units

Metro is organized into 13 operational cost centers.

- Metro Council
- Metro Auditor
- Parks and Nature
- Planning and Development
- Property and Environmental Services
- Research Center
- Visitor Venues
 - Oregon Convention Center
 - Portland’s Centers for the Arts
 - Portland Expo Center
 - Oregon Zoo
- Central Support
 - Communications
 - Finance and Regulatory Services
 - Human Resources
 - Information Services
 - Office of Metro Attorney (OMA)
 - Non-departmental

Metro Operations Cost Centers (\$ Millions)				
	2014-15 Actual	2015-16 Actual	2016-17 Rev. Bud.	2017-18 Budget
Visitor Venues	\$ 112.8	\$ 104.7	\$ 192.1	\$ 133.5
Central Support	164.5	106.8	115.2	109.1
Property & Envir	57.9	61.0	74.8	76.6
Parks/Nature	34.1	33.2	48.5	46.1
Planning & Dev	10.5	9.8	15.8	15.7
Council/Audit/RC	8.8	8.5	10.1	9.8
Total Operations	\$ 388.6	\$ 324.0	\$ 456.5	\$ 390.8



[RC is short for Metro’s Research Center]

Visitor Venues expenditures are \$133.5 million in 2017-18, down from \$192.1 million in the current year. A budget adjustment subsequent to the approved budget recognized additional capital outlay at the Oregon Zoo and Oregon Convention Center, increasing expenditures to \$210 million.

The Metropolitan Exposition Recreation Commission (MERC) is a major part of this organizational unit. MERC owns and operates the Oregon Convention Center (OCC), Portland Expo Center, and Oregon Zoo. MERC also manages the City of Portland’s Portland’s Centers

for the Arts, including Keller Auditorium, the Arlene Schnitzer Concert Hall and the Antoinette Hatfield Hall.

Significant budget issues are as follows.

- Includes funding for design of capital improvements at the Oregon Convention Center in anticipation of the opening of the Oregon Convention Center Hotel in 2019-20, including the renovation of:
 - The Oregon Ballroom
 - Holladay and Martin Luther King, Jr. Boulevard entryways
- Adds 4.0 FTE for performing arts venues
- Includes Metropolitan Tourism Opportunity and Competitiveness Account (MTOCA) transfer of \$400,000 to the Expo Center to support marketing and campus enhancement initiatives; the transfer to the Oregon Convention Center has been eliminated as a cost saving measure
- The Zoo budget is based on 1.65 million visitors with no change to admission fee structure
 - New bond-funded education facility, camps and classes anticipate increased revenue of 8.0%
 - Reduces FTE by 5.6, primarily due to transfer of Nature Education team positions to Parks and Nature
- Capital spending under the Oregon Zoo Infrastructure and Animal Welfare General Obligation Bond program will continue in 2017-18, with just under \$12.7 million of capital outlay expenditures budgeted
 - Begins construction on final three projects of the 2008 bond: Polar Passage, Primates, and Rhino Habitat
- 389.50 FTE

Property and Environmental Services' 2017-18 budget is \$76.6 million – an increase of 2.4% over the current year. This cost center includes: Solid Waste Operations, Construction Project Management, Solid Waste Compliance and Cleanup, Resource Conservation and Recycling, and Metro Regional Center Campus Operations.

- Includes estimated 6.0% increase in tonnage-related materials and services budget for continued growth in solid waste tonnage and corresponding transfer, transport and disposal services
 - \$10.1 million for solid waste transport
 - \$10.6 million for disposal fees
- Adds funding for maintenance of the new Storm Water Treatment System (\$100,000), development of business continuity plan for the district's solid waste facilities (\$150,000), and capital improvements at MetroPaint facility (\$90,000)
- Increases staff for illegal dumpsite clean-up outreach, program support for Solid Waste operations, and natural gardening education programs
- 134.66 FTE

The **Parks and Nature** unit protects water quality, fish and wildlife habitat, and connects peoples to nature through a connected system of parks, trails, and natural areas. Expenditures total \$46.1 million in 2017-18, a 4.9% decrease from 2016-17, primarily due to decreased capital outlay.

- Year five of the Parks and Natural Areas Local Option Levy
- Implementation of 2006 Natural Areas Bond
 - Anticipate issue of balance of bond authorization in 2019
- Nature Education staff (4.6 FTE) transferred from Oregon Zoo to Parks and Nature
 - Increases General Fund FTE by 1.00 and Parks and Natural Areas Local Option Levy Fund FTE by 3.6
- 103.95 FTE

Planning and Development works and engages with the public on the challenges and opportunities of community livability development, growth, and change over the long term. Expenditures in 2017-18 total \$15.7 million, a decrease of 0.4%.

- Eliminated one-time funding from 2016-17
 - My Place in the Region (\$200,000)
 - Equitable Housing (\$143,000)
 - Enterprising Places (\$105,000)
- Defunds or eliminates vacant FTE to balance budget
 - Defunds Senior Transportation Planner (1.00 FTE) to balance Metropolitan Planning Organization federal funds budget
 - Defunds Senior Regional Planner (0.50 FTE) to balance General Fund
 - Eliminates Principal Regional Planner (0.50 FTE) to balance General Fund
- 56.80 FTE

The **Research Center** supports Metro's policy making and program operations through the development and maintenance of objective and reliable data, analytical tools, and analysis products. The budget for 2017-18 is \$4.2 million, a 6.8% decrease from the current year's budget.

- Focuses on enterprise and client services function
 - Providing data viewing applications for web and mobile users and toward mobile-device business applications
 - Reporting on performance monitoring and management
- Defunds a vacant Senior GIS Specialist (1.00 FTE) to balance General Fund
- 28.00 FTE

Metro Council includes the Council Office, Office of the Chief Operating Officer, Government Affairs and Policy Development, and the Diversity, Equity and Inclusion units. The budget for 2017-18 is \$4.8 million, a 0.8% decrease from 2016-17.

- Receives 1.0 LTE Policy Analyst from Metropolitan Exposition Recreation Commission
- 31.00 FTE

The **Metro Auditor** includes funding for Performance Audits, Accountability Line, and Statutory Financial Audits. The 2017-18 Budget is \$0.8 million, a 7.2% increase from the current year's budget.

- No significant changes in 2017-18
- 6.00 FTE

Central Services includes Communication, Finance and Regulatory Services, Human Resources, Information Services, Office of Metro Attorney, and Non-Departmental. Total department expenditures are \$109.1 million in 2017-18.

- No significant changes to Communications, Finance and Regulatory Services, Human Resources, Information Services operations, and Office of Metro Attorney.
 - A 1.0 FTE limited duration Video and Photography Technician position removed from ongoing expenses
 - Eliminated one-time expenses (\$160,000)
- Capital projects include server upgrades, a new learning management system and improvements to the district's payment card system, and continued migration to Voice-over Internet Protocol phone system
- Non-Departmental special appropriations include:
 - \$2.5 million Construction Excise Tax grants to local governments for concept planning
 - \$300,000 for Community Partnerships, implementation of the Strategic Plan to Advance Racial Equity, Diversity and Inclusion
 - \$250,000 for the Regional Transportation Funding Strategy
- 115.80 FTE

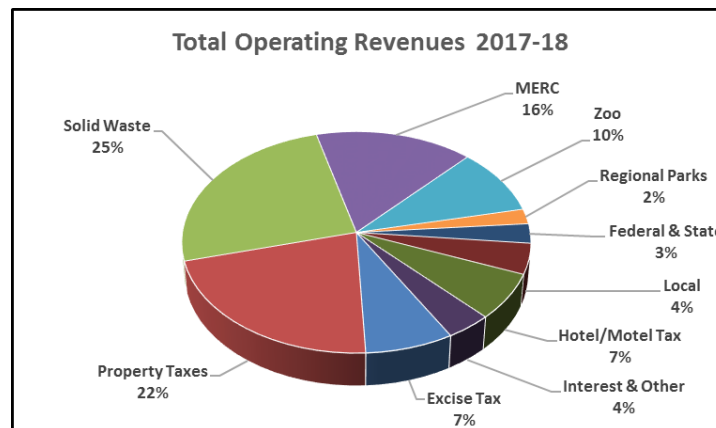
Overall Revenues

Total operating revenues (resources minus beginning fund balance, fund transfers, and debt proceeds) in the 2017-18 Budget are \$292.7 million, an increase of \$21.3 million (7.8%).

Revenues have increased incrementally in most categories, with a large increase in transient lodging revenue reflecting an improved economy. The amount budgeted is \$7.8 higher than 2016-17 but is more in line with the amount actually received in 2015-16.

Property taxes and solid waste fees are the largest revenue categories, together accounting for close to 47% of Metro's operating revenue. The zoo and other visitor venues (MERC) account for 26% of the revenue; the remaining 27% is made up of the smaller categories.

Metro				
Total Resources - All Funds Combined (\$ Millions)				
	2014-15	2015-16	2016-17	2017-18
	Actual	Actual	Rev. Bud.	Budget
Property Taxes	\$ 61.8	\$ 55.4	\$ 59.1	\$ 63.4
Excise Tax	19.3	21.5	20.8	22.1
Solid Waste	62.6	68.0	69.4	73.5
MERC	42.8	50.5	42.5	46.6
Zoo Revenues	21.7	23.4	27.4	28.2
Regional Parks Revenues	6.1	5.9	6.6	6.4
Licenses & Permits	0.4	0.5	0.5	0.6
Other Service Charges	1.6	1.6	2.0	1.6
Federal	5.8	7.3	7.9	7.9
State	11.4	0.7	0.6	0.4
Local	5.9	6.4	11.3	13.1
County Transient Lodging	16.1	18.3	12.0	19.8
Rental Car Tax	2.8	3.1	7.0	5.0
Donations & Gifts	7.3	0.7	1.2	1.5
Other	3.0	5.2	3.2	2.7
Total Operating Revenue	\$ 268.5	\$ 268.6	\$ 271.4	\$ 292.7
Debt Proceeds	64.7	33.5	68.0	62.0
Fund Transfers	38.5	50.0	52.8	42.6
Beginning Fund Balance	244.4	227.7	247.1	244.9
TOTAL RESOURCES	\$ 616.1	\$ 579.8	\$ 639.3	\$ 642.2



This budget includes \$62.0 million in debt proceeds:

- \$62.0 million in the General Revenue Bond Fund towards construction of the Oregon Convention Center Hotel project¹
 - Needs to net \$60 million in proceeds after financing cost
- The 2016-17 Budget included \$68.0 million in debt proceeds for this same purpose
 - The issue may not occur until July 2017 so it needs to be appropriated in 2017-18 as well

Beginning fund balances total \$244.9 million, down \$2.2 million (0.9%) from this year.

¹ See the addendum to this review for a status report on the Convention Center Hotel.

Property Taxes

The 2017-18 Budget includes \$63.4 million in Property Tax revenue, up \$4.3 million (7.2%) over the current year primarily due to increased GO debt obligations.

- \$14.9 million from Metro's permanent tax rate limit for general Metro operations
 - Rate limit is \$0.0966 per \$1,000 of assessed value
- \$14.0 million from the fifth year of the Parks and Natural Areas Local Option Levy
 - Rate limit is \$0.0960 per \$1,000 of assessed value
 - Five-year levy expires in 2018, but renewal levy at same rate approved by voters in December 2016.
 - Funds restoration and maintenance of parks and natural areas
- \$34.4 million for debt service on general obligation bonds
 - Natural Areas Acquisition in 2006
 - Oregon Zoo Infrastructure and Animal Welfare improvements in 2008

Solid Waste

This budget includes \$73.5 million in Solid Waste fee revenue, \$4.1 million (5.9%) over the current year.

- Per ton solid waste fee to decrease (1.3%) from \$96.25 per ton to \$94.95 per ton
- Tonnage at transfer stations and at the regional level is expected to grow by 6.0% in 2017-18.

Visitor Venues

The 2017-18 Budget includes about \$74 million in Visitor Venue fee revenue, \$5 million, or 7.0%, higher than this year. Visitor Venues include MERC venues –Oregon Convention Center, Expo Center and Portland's Centers for the Arts – and the Oregon Zoo. MERC oversees the MERC Venues and recommends the budget for the MERC Fund.

In addition to venue attendance revenue, transient lodging taxes and a portion of car rental tax income are dedicated to the Oregon Convention Center and Portland's Centers for the Arts. In 2017-18, a total of \$24.8 million is budgeted to be received from these sources, which is up 31.2% from the current year. Most of this increase is attributed to transient lodging revenue.

This budget projects positive trends in MERC enterprise revenues with bookings across all venues.

- 10 weeks of Broadway performances at Portland's Centers for the Arts – including 3 weeks of Hamilton!
- 47 conventions booked at the Oregon Convention Center

The Oregon Zoo is budgeted to bring in \$28.2 million in 2017-18, a 2.9% increase.

- Attendance levels expected to drop slightly next year to 1.65 million due to construction activities: the gate revenue decrease be offset by concessions and class and camp revenue from the new education center.

Excise Taxes

The 2017-18 Budget includes \$22.1 million in Excise Tax revenue, almost \$1.3 million (6.1%) over the current year's budgeted amount.

Excise taxes are charged on most uses of Metro facilities and services. The revenue is used to fund Metro's general operations.

The Metro excise tax is levied as a flat rate per ton on solid waste activities and increases annually based on the change in the Consumer Price Index (CPI).

- The consolidated rate for 2017-18 is \$10.81 per ton, a decrease of \$0.95, effective July 1, 2017
- Expected to bring in \$18.1 million in the upcoming year

The excise tax on all other activities is based on a percentage, 7.5%, and does not change unless amended by action of the Metro Council. There are three exemptions to the excise tax.

- City of Portland owns Portland's and its activity is exempt from the tax through an intergovernmental agreement between Metro and Portland
- Revenue generated at the Oregon Zoo
- Revenue generated within the General Fund (Regional Parks, Regional Center, and Research Center)

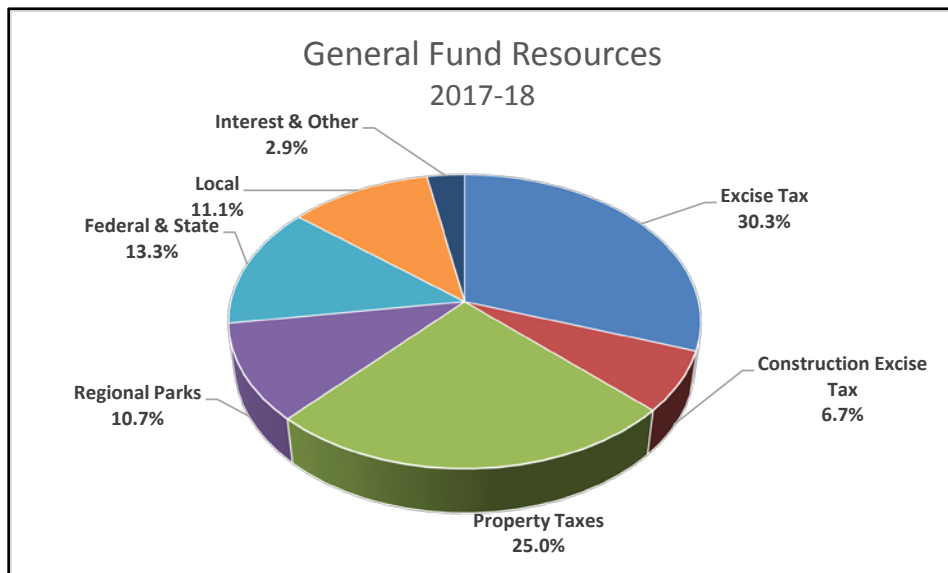
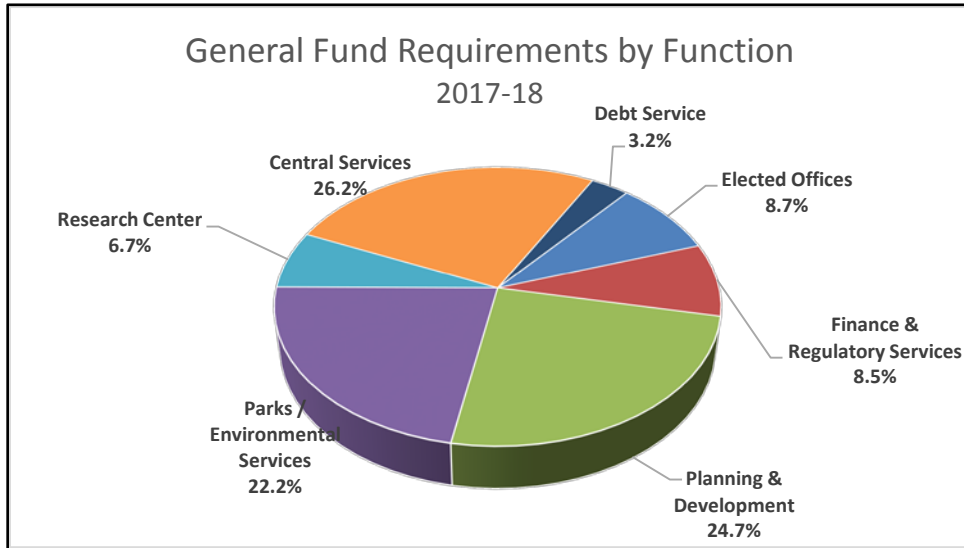
Metro also has a Construction Excise Tax. The proceeds from this tax on construction are used to fund concept planning for new development upon inclusion in the Urban Growth Boundary. The tax is levied on new construction at the rate of 0.12% of the value of building permits. The Council reauthorized the excise tax in June 2014, extending the tax through December 2020.

- Expected to generate \$4.0 million in 2017-18

5. Analysis of the General Fund

General Fund Expenditures (requirements less ending fund balance, contingencies, and fund transfers) are increasing by 0.04% to \$63.6 million in 2017-18.

Metro	2014-15 Actual	2015-16 Actual	2016-17 Budget	2017-18 Budget
General Fund Budget	\$ 99.9	\$ 103.6	\$ 110.0	\$ 112.0
Percent of Change from Prior Year	+3.3%	+3.8%	+6.1%	+1.8%
General Fund Beginning Fund Balance	\$ 32.6	\$ 29.1	\$ 27.9	\$ 32.5
Percent of Change from Prior Year	-3.0%	-10.8%	-4.0%	+16.3%
General Fund Ending Fund Balance	\$ 29.1	\$ 32.3	\$ 20.6	\$ 28.7
Percent of Change from Prior Year	-10.8%	+11.1%	-36.2%	+39.0%



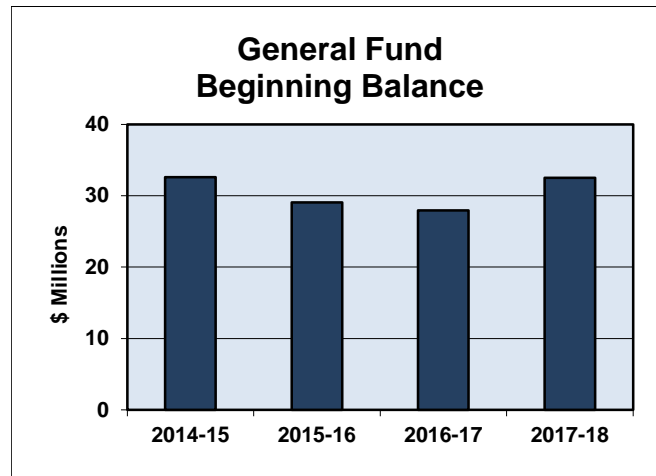
The 2017-18 General Fund Budget is just over \$112.0 million, an increase of \$2.0 million (1.8%). Revenue (resources less transfers in and beginning fund balance) from taxes and operations is decreasing by 2.6% to \$59.8 million. With the exception of prior year taxes, excise taxes, regional parks revenue, local, other resources and interest, all General Fund revenues increase in this budget.

Regional parks revenue decreases 3.5%. The district believes that the budget for 2017-18, although lower than the current year, is more realistic of expected revenues.

The beginning fund balance is increasing by 16.3% to \$32.5 million which is over 51.1% of the operating expenditures in the fund.

A significant change to the General Fund in 2015-16 was the removal of the Oregon Zoo revenue and expense to its own enterprise fund. The General Fund will continue to support the Zoo through a transfer of revenues. In 2017-18, \$12.7 million will be transferred:

In addition to the Zoo Operating Fund, capital expenses associated with the Oregon Zoo were moved from the General Asset Management Fund to the Oregon Zoo Capital Management Fund. For historical purposes, Zoo revenue and expenses for both operations and capital have been moved to the new funds.



6. Analysis of Other Funds

MERC Fund

The MERC Fund includes the operating, capital, and fund balance resources and requirements for the Visitor Venues, excluding the Oregon Zoo. The total budget is \$133.7 million, a 20.6% increase from 2016-17.

- Includes one-time \$2.0 million grant for incentives for large scale events to choose Portland
- This budget projects positive trends in MERC enterprise revenues with bookings across all venues, just below the 2015-16 record-setting bookings pace
 - 10 weeks of Broadway performances at Portland's 5 Centers for the Arts
 - 47 conventions booked at the Oregon Convention Center
- Capital outlay for Oregon Convention Center improvements in preparation for opening of the Oregon Convention Center Hotel
- Fund balance has been budgeted in contingency for flexibility
 - Contingency increases by \$20.5 million in this budget

Solid Waste Revenue Fund

The Solid Waste Revenue Fund accounts for revenue and expenses related to operation and management of the region's solid waste system. The 2017-18 Budget is \$120.2 million, up from \$118.6 million in the current year.

7. Debt Status

Metro has a history of successfully passing General Obligation Bond Measures. The district is currently making principal and interest payments on the following measures.

Metro Debt Outstanding	6-30-2014	6-30-2015	6-30-2016	6-30-2017 est.
GO Bonds	210,460,000	182,305,000	190,565,000	168,425,000
Full Faith & Credit	22,675,000	20,345,000	17,970,000	15,085,000
PERS Bonds	21,685,000	20,975,000	20,155,000	19,225,000
Total Outstanding Debt	254,820,000	223,625,000	228,690,000	202,735,000

General Obligation Bonds

Natural Areas Acquisition, approved November 2006

- \$227.4 million authorized:
 - To acquire natural areas, parks and streams
 - To protect open spaces and water quality
 - To enhance the region's network of trails
 - Provide greater access to nature
- First series of bonds for \$127.3 million was issued in April, 2007
 - In November 2014, the district refunded the callable portion of these bonds, shortening maturity date and resulting in net savings of \$9.7 million
 - Remaining balance of original 2007 issue has been paid off
- Second series of bonds for \$75.0 million issued in May 2012
- Balance of authorization anticipated to be issued between Spring 2018 and Spring 2019

Oregon Zoo Infrastructure and Animal Welfare Bonds, approved November 2008

- \$125.0 million authorized to fund Oregon Zoo capital projects:
 - To protect animal health and safety
 - To conserve and recycle water
 - To improve access to conservation education
- \$115.0 million in bonds have been issued
 - Balance of \$10.0 million remains to be sold

Full Faith and Credit Bonds

- Issued to repay loans previously obtained for projects at the Oregon Zoo, Washington Park, Expo Center and the Metro Regional Center

Pension Bonds

- Issued \$24.3 million to pre-pay its unfunded actuarial liability under Oregon's Public Employee Retirement System (PERS) in 2005.

	Amount Issued	Date of Issue	Principal Outstanding	Final Maturity
GENERAL OBLIGATION BONDS				
General Obligation Refunding Bonds				
Natural Areas 2014 Series	57,955,000	11/5/2014	42,390,000	6/1/2020
General Obligation Bonds				
Natural Areas 2012A Series*	75,000,000	5/23/2012	55,940,000	6/1/2026
Oregon Zoo Infrastructure 2012A Series**	65,000,000	5/23/2012	45,070,000	6/1/2028
Oregon Zoo Infrastructure and Animal Welfare 2016 Series**	30,000,000	3/24/2016	25,025,000	6/1/2020
TOTAL GENERAL OBLIGATION BONDS OUTSTANDING	227,955,000		168,425,000	
FULL FAITH AND CREDIT BONDS				
Full Faith and Credit Refunding Bonds				
2013 Refunding Series	12,600,000	2/26/2013	7,880,000	8/1/2022
2016 Refunding Series	7,385,000	9/7/2016	7,205,000	12/1/2024
TOTAL FULL FAITH AND CREDIT BONDS OUTSTANDING	19,985,000		15,085,000	
PENSION OBLIGATION BONDS				
Limited Tax Pension Obligation Bonds				
2005 Series	24,290,000	9/23/2005	19,225,000	6/1/2028
TOTAL PENSION OBLIGATION BONDS OUTSTANDING	24,290,000		19,225,000	
GRAND TOTAL OUTSTANDING DEBT	272,230,000		202,735,000	
* Natural Areas GO Bonds were authorized by voters up to \$227.4 million; a balance of \$28.1 million has not been issued				
** Oregon Zoo GO Bonds were authorized by voters up to \$125.0 million; a balance of \$10.0 million remains after the 2016 Series issue				

The district budgeted an estimated \$68.0 million in revenue bonds in 2016-17 to fund construction of the OCC Hotel Project; this issue may actually occur in July 2017. The district has adjusted its 2017-18 Budget to reflect the possible debt proceeds and corresponding expenses for the Hotel project. Debt service of \$7.9 million is included in this budget and will occur regardless of whether the issue occurs in 2016-17 or 2017-18.

8. Is the Budget in Sync with Strategic Plan / Performance Objectives

Metro’s budget aligns with its six stated goals through numerous programs. Specific attention was dedicated to the initiatives approved by Council with additional funding seen throughout the budget document.

9. Budget Process & Budget Compliance

Yes	No	Compliance Issue (If not in compliance, explain below)
X		1. Did the district meet publication requirements?
X		2. Do resources equal requirements in every fund?
X		3. Does the G.O. Debt Service Fund show only principal and interest payments?
X		4. Are contingencies shown only in operating funds?
X		5. Did the budget committee approve the budget?
X		6. Did the budget committee set the levy?
	X	7. Does the audit show the district was in compliance with budget law? 2015-16 Expenditures exceeded appropriations in the Risk Management Fund for liability associated with an ongoing tort claim and a property claim.

10. Highlights of the 2017-18 Budget to be published in TSCC Annual Report:

- The total budget increases by \$2.9 million, or 0.5%.
- The General Fund is increasing, from \$110.0 million to \$112.0 million.
- This is the fifth and final year for the original Parks and Natural Areas Local Option Levy, approved by voters in May 2013. The levy was renewed by voters in November 2016.
- Remaining authority to issue voter approved general obligation bonds include \$28 million for the Natural Areas Acquisition program and \$10 million under the Oregon Zoo Infrastructure and Animal Welfare program.
- Metro planned to issue an estimated \$68.0 million in revenue bonds to fund construction of the OCC Hotel Project in 2016-17; this issue may actually occur in July 2017 and so it has also been budgeted in 2017-18. Debt service of \$7.9 million is included in this budget and will occur regardless of whether the issue occurs in 2016-17 or 2017-18.
- Major capital projects include: 1) \$12.5 million for improvements at the Oregon Zoo, \$7.5 million for Natural Areas land acquisition, \$3.1 million for the Willamette Falls Legacy Project, and \$2.5 million for technology projects.
- Full Time Equivalent Positions (FTE) increase by 5.05 FTE to 865.71 FTE.

Local Budget Law Compliance:

The 2017-18 Budget is in substantial compliance with local budget law. Estimates were judged to be reasonable for the purpose shown.

The audit report for fiscal year 2015-16 notes expenditures in excess of budget in the Risk Management Fund: Metro incurred a \$1.452 million over-expenditure due to increased liability in an ongoing tort claim and a property claim.

Certification Letter Recommendations and Objections:

TSCC staff notes no deficiencies in the district's FY 2017-18 budget process.

Oregon Convention Center Hotel Project

Background Information and Status Report

Extract from Metro Auditor Brian Evans to Metro COO Martha Bennett (March 30, 2017)

Background

Metro, City of Portland, and Portland Development Commission (PDC) have discussed interest in a hotel adjacent to the OCC since 1990. In 2012, Metro and its public partners, including Multnomah County, signed a commitment to pursue a hotel. The commitment contained the following public benefits:

- A hotel large enough to commit a minimum of a 500-room block;
- Amenities to support national conventions attending OCC, such as meeting rooms, ballrooms, and restaurants;
- Revitalization and activation of the area surrounding the OCC;
- Commitment to a level of Minority/Women/Emerging Small Business (MWESB) goals;
- Commitment to a level of First Opportunity Target Area (FOTA) employment goals;
- Green building standards such as LEED or Energy Star certification;
- Utilization of union building trades for construction.

Most of these benefits were later incorporated into the Request for Proposal to build the hotel Metro issued in May 2012. A team that included Mortenson Development (Developer) and Hyatt Hotel Corporation (Operator) was selected to begin negotiations to build and operate the hotel. Metro then entered into a Development and Finance Agreement (DFA) with the Developer and Operator in July 2014. The DFA outlined terms for each phase of the project and priorities such as a Room Block Agreement and other public benefits.

As of February 1st, 2017 the DFA has been amended five times. Four times it was amended for minor changes, such as extending the closing date. One amendment included more substantive changes, in addition to extending the closing date. For example, parts of the room block agreement were renegotiated, the project budget was updated and new FOTA requirements were incorporated.

Metro reported the hotel is estimated to cost \$224 million in February 2017. About \$150 million is expected to come from the Developer. The remaining project costs come from public funds, expected to be capped at \$74 million. Public funds include \$60 million from Metro revenue bonds (to be repaid with the taxes from hotel guests), \$10 million from state lottery funds, and a \$4 million grant from the OCC's reserves. The initial project included a \$4 million loan from PDC that was later removed in 2016.

The 600-room hotel will be located just north of the OCC. The Developer is also building a parking garage for the hotel through a separate agreement with PDC. Groundbreaking is expected to occur in July 2017 and the hotel will open in late 2019.

Metro's role in the hotel project has been largely aimed at negotiating the DFA, reviewing design plans, and preparing for the bond sale. Its project team has included staff from the OCC, Chief Operating Officer's Office, Office of Metro Attorney, Metro Council Office, and Finance and Regulatory Services.

Metro’s role during construction will largely focus on monitoring construction and reviewing payments to the Developer.

The DFA contains a project funding agreement that specifies Metro, along with the Developer’s lender and a project engineer, will review and evaluate payment requests from the Developer during construction. A dispersing agent will hold project funds and make the payments to the Developer. Metro retained a consultant to assist in this review process. This consultant has already assisted Metro on the project during the predevelopment phase. That work included reviewing the DFA and hotel designs. The consultant also advised Metro about hotel construction costs.

Through June 30, 2016 Metro spent at least \$2.2 million on the hotel project. Costs associated with the consultant are included in the table below. The amounts also include legal costs associated with two lawsuits challenging the project and \$600,000 worth of reimbursements to the Developer for predevelopment costs. The Personal Services expenditures are based on transfers in the Metropolitan Exposition and Recreation Commission’s (MERC) accounting system that included costs for some of the employees who worked on the project. It is possible that there were other expenditures for the hotel project that are not included below.

Five-year trend of hotel development costs (adjusted for inflation)

Expenditure Type	FY2012	FY2013	FY2014	FY2015	FY2016	Total
Personal Services	\$0	\$126,173	\$160,422	\$98,989	\$63,654	\$449,239
Material and Services	\$0	\$281,894	\$409,115	\$816,768	\$271,044	\$1,778,822
Total	\$0	\$408,068	\$569,537	\$915,757	\$334,698	\$2,228,060