

MANAGEMENT'S DISCUSSION AND ANALYSIS

CITY OF BEAVERTON, OREGON
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2019

This discussion and analysis presents the highlights of financial activities and financial position for the City of Beaverton (City). The analysis focuses on the financial activities of the City for the fiscal year ended June 30, 2019 based on currently known facts, decisions, and conditions that existed as of the date of the independent auditor's report.

We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, starting on page iii of this report, and the City's financial statements beginning on page 14.

FINANCIAL HIGHLIGHTS

Following are the financial highlights of the City for the fiscal year ended June 30, 2019.

- At the close of the fiscal year, assets and deferred outflows of resources of the City exceeded its liabilities and deferred inflows of resources by \$448.2 million (net position). This amount reflects an increase of \$30.3 million from previous year, including the restatement. Most of the increase in net position is the result of capital contributions from other government agencies, infrastructure contributions made by private developers, and a strong return on investment activities.
- \$402.4 million of the net position is invested in capital assets, and \$40.2 million is restricted for construction, street maintenance, education, and other purposes. The remaining \$5.5 million net position is unrestricted and may be used to meet the City's ongoing obligations and operations. The negative balance of \$25.9 million unrestricted net position in the governmental activities is primarily due to the accrual of the City's unfunded pension obligations and other post-employment benefits (OPEB). The business type activities report \$31.4 million unrestricted net position that can be used for current needs without any restriction. The City reported \$5.4 million in interest revenue during the fiscal year as compared to \$879,000 last year.
- Governmental funds reported combined ending fund balances at year-end of \$73.2 million which reflects \$7 million decrease from the last year's ending fund balances. The main source of this decrease was \$11.4 million capital expenditure in the Capital Development Fund for a new Public Safety Center that is in the construction phase.
- The General Fund reported total fund balances of \$20.5 million. Of this, \$1 million is committed for equipment replacement. \$9.4 million assigned fund balances are comprised of \$5.1 million for the appropriated fund balance for next year's operation, \$3 million compensated absences, and \$1.2 million for uncompleted contract commitments. The remaining \$10.1 million unassigned fund balance can be used for ongoing operations, and this amount represents approximately 14% of the General Fund's total operating expenditures budgeted for the next fiscal year.

OVERVIEW OF THE FINANCIAL STATEMENTS

The following discussion and analysis serves as an introduction to the City's basic financial statements, required and other supplementary information. The City's basic financial statements are comprised of three components:

1. Government-wide financial statements
2. Fund financial statements
3. Notes to the basic financial statements

Government-wide financial statements - The government-wide financial statements provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

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The Statement of Net Position presents information on all of the City's (a) assets and deferred outflows and (b) liabilities and deferred inflows of resources. Net position is the difference between (a) and (b). Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities presents information showing how the City's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash inflows or outflows in a future fiscal period. Examples of such items include earned but uncollected property taxes (future inflow), and earned but unused compensated absences (future outflow), and the amounts related to pension and other postemployment benefits other than pensions.

Both of the government-wide financial statements distinguish the functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include the following:

- General administration (City Council, Mayor's Office, Records Management, Human Resources, Finance, City Attorney, Support Services)
- Police protection, municipal court operations and emergency management services
- Library services
- Planning, zoning and subdivision control regulations
- Building inspections and regulations and engineering services
- Traffic control and improvements
- Street construction and street maintenance

The business-type activities include water, sewer and storm drain utilities.

Fund financial statements - A fund is a grouping of related accounts used to maintain control over resources that have been segregated for specific activities or objectives. The City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City appear in two categories: governmental funds and proprietary funds.

Governmental funds - Governmental funds are used to account for activities where the emphasis is placed on available financial resources, rather than upon net position determination. Therefore, unlike the government-wide financial statements, governmental fund financial statements focus on the acquisition and use of current spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the City's near-term financial requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financial decisions. Both the governmental fund Balance Sheet and the governmental fund Statement of Revenues, Expenditures, and Changes in Fund Balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities. The governmental fund financial statements and reconciliations are on pages 16 - 19 in the basic financial statements.

The City maintains 18 individual governmental funds. Information for the funds considered significant (major) appears separately in the governmental fund Balance Sheet and in the governmental fund Statement of Revenues, Expenditures and Changes in Fund Balances. In Fiscal Year 2019, the City reports four major governmental funds: General Fund, Street Fund, Library Fund and Capital Development Fund. Data from the remaining governmental funds appear in a single, aggregated presentation. Summary fund data by fund-type for these non-major governmental funds is in the form

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of combining statements on pages 68 - 75 of this report. Individual fund data for each of these non-major governmental funds is provided as Other Supplementary Information.

The City adopts an annual appropriated budget for all of its operating funds. To demonstrate compliance with the budget, budgetary comparison statements for the General Fund and the major special revenue funds are presented as Required Supplementary Information on pages 59 – 61. Additional schedules that demonstrate the budgetary compliance for the General Fund and all other governmental funds are on pages 76 – 92.

Proprietary funds - Proprietary funds are used to account for activities where the emphasis is placed on net position determination. The City maintains two different types of proprietary funds - enterprise funds and internal service funds. Enterprise funds report the same functions presented as business-type activities in the government-wide financial statements.

Enterprise funds account for the City's water utility, sewer utility and storm drain utility. All of the City's enterprise funds are major funds of the City, and they are reported separately in the proprietary fund financial statements in the basic financial statements (pages 20 – 23).

Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses internal service funds to account for reprographics services, fleet services, information system services that includes geographic information services, public works administration services, and insurance, risk and benefits services. All internal service funds appear in a single, aggregated presentation in the proprietary fund financial statements on pages 20 – 23. Because internal service funds predominantly benefit governmental rather than business-type functions, their assets and liabilities have been included with governmental activities in the government-wide financial statements, except for the internal balances resulted from the profit and/or loss elimination entries.

Individual fund data for the internal service funds and budgetary comparison statements for all proprietary funds appear as Other Supplementary Information on pages 93 - 107.

Notes to the basic financial statements - The notes provide additional information that is essential for a full understanding of the data provided in the government-wide and fund financial statements. They are an integral part of the basic financial statements and should be read in conjunction with them (pages 24 – 58).

Required Supplementary Information (RSI) and Notes to RSI - In addition to the basic financial statements and accompanying notes, the RSI schedules include budgetary comparisons for the General Fund and major special revenue funds, and certain schedules relating to the City's pension liability (asset) and OPEB (pages 59 – 66). Notes to RSI provide the City's budgetary information and information about known factors that significantly affect trends in the amounts reported in the schedules relating to pensions and OPEB (page 67).

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GOVERNMENT-WIDE FINANCIAL ANALYSIS

Summary of Net Position

	Governmental Activities		Business Type Activities		Total	
	2019	2018	2019	2018	2019	2018
Cash and Investments	\$84,882,443	\$87,051,278	\$51,073,478	\$57,372,663	\$135,955,921	\$144,423,941
Other Assets	8,918,183	9,532,098	27,766,614	25,466,636	36,684,797	34,998,734
Capital Assets	200,447,245	180,701,201	229,473,310	203,783,670	429,920,555	384,484,871
Total Assets	<u>294,247,871</u>	<u>277,284,577</u>	<u>308,313,402</u>	<u>286,622,969</u>	<u>602,561,273</u>	<u>563,907,546</u>
Total deferred outflows of resources	22,591,404	20,327,988	2,293,823	1,887,890	24,885,227	22,215,878
Other Liabilities	12,932,346	8,667,195	10,672,323	10,049,494	23,604,669	18,716,689
Long-Term Liabilities	113,454,665	110,969,235	33,740,072	34,240,743	147,194,737	145,209,978
Total Liabilities	<u>126,387,011</u>	<u>119,636,430</u>	<u>44,412,395</u>	<u>44,290,237</u>	<u>170,799,406</u>	<u>163,926,667</u>
Total deferred inflows of resources	7,661,912	3,926,012	801,141	368,778	8,463,053	4,294,790
Net Position						
Invested in Capital Assets	184,269,254	173,734,741	218,174,485	200,424,568	402,443,739	374,159,309
Restricted	24,407,859	21,966,556	15,817,148	15,287,255	40,225,007	37,253,811
Unrestricted	(25,886,761)	(21,651,174)	31,402,056	28,140,021	5,515,295	6,488,847
Total Net Position	<u>\$182,790,352</u>	<u>\$174,050,123</u>	<u>\$265,393,689</u>	<u>\$243,851,844</u>	<u>\$448,184,041</u>	<u>\$417,901,967</u>

The City's total cash and investments decreased \$8.5 million as a result of the spending down of bond sale proceeds for the construction of the Public Safety Center Building and the City's utility infrastructure system. The increase of \$45.4 million in capital assets includes \$7.6 million utility infrastructure contributed by other utility service district; \$11 million private developers' contribution in street lighting, residential streets, utility infrastructures; \$20.9 million capital spending in the governmental activities, and \$15.4 million in business activities.

The increase in the deferred outflows of resources as well as the increase in the deferred inflows of resources are results of the accrual of pension and other postemployment benefits (OPEB) related amounts. More information on pension and OPEB accounting can be found in the Notes pages 45 – 56.

The \$4.3 million increase in other liabilities in the governmental activities is comprised of a \$1 million due to Washington County for the City's share of a transportation improvement project costs in the Cooper Mountain area, \$1.3 million increase in accrued salaries and payroll taxes due to the timing of payments, \$2.5 million contractor payables for the Public Safety Center.

The largest portion of the City's net position reflects its net investment of \$402.4 million or about 89.8% in capital assets (e.g., land, intangible assets, buildings, improvements, equipment, and infrastructure, net of accumulated depreciation and related debt). The City uses these capital assets to provide services to citizens. Consequently, these assets are not available for future spending. Although the City reports its investment in capital assets net of related debt, the resources needed to repay this debt are from other sources since the capital assets themselves cannot be used to liquidate these liabilities.

\$40.2 million of the City's net position represents resources that are subject to external restrictions on how they may be used. \$15.7 million of the restricted net position is dedicated for construction of business type improvements that will provide water, sanitary sewer, and surface water management infrastructures. In the governmental activities, \$18.1 million is restricted for highways and streets maintenance and improvements, and \$5.9 million is restricted for education (library), building activities and urban area economic development purposes.

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The negative balance in the unrestricted net position of the governmental activities increased by \$4.2 million from the last fiscal year, and it is mostly a result of the recording of pension expense and liability as prescribed by the Governmental Accounting Standards Board (GASB). This accrual of pension expense will not immediately have an effect on the City's operations, however, the City's required pension contribution rate is expected to increase further for the next biennium periods.

Summary of Changes in Net Position

	Governmental Activities		Business-type Activities		Total	
	2019	2018	2019	2018	2019	2018
Revenues						
<i>Program revenues:</i>						
Charges for services	\$ 14,122,183	\$ 12,985,216	\$ 26,703,701	\$ 24,068,211	\$ 40,825,884	\$ 37,053,427
Operating grants and contributions	16,897,884	14,277,489			16,897,884	14,277,489
Capital grants and contributions	7,882,905	18,421,857	16,716,301	8,297,873	24,599,206	26,719,730
<i>General revenues:</i>						
Taxes	49,229,367	45,563,230			49,229,367	45,563,230
Intergovernmental revenues	3,942,505	3,915,418			3,942,505	3,915,418
Right of way revenues	10,582,564	10,148,845			10,582,564	10,148,845
Interest	3,361,604	694,127	2,040,546	184,512	5,402,150	878,639
Other	744,295	827,079	102,876	134,511	847,171	961,590
Total revenues	106,763,307	106,833,261	45,563,424	32,685,107	152,326,731	139,518,368
Expenses						
General government	36,109,724	37,419,997			36,109,724	37,419,997
Public safety	34,097,993	32,616,115			34,097,993	32,616,115
Highways and streets	13,423,555	11,211,835			13,423,555	11,211,835
Education	10,256,681	10,164,411			10,256,681	10,164,411
Cultural and recreation	2,712,332	1,478,383			2,712,332	1,478,383
Interest on long-term debt	1,422,793	1,470,893			1,422,793	1,470,893
Water utility			13,619,747	10,670,276	13,619,747	10,670,276
Sewer utility			5,009,069	4,802,523	5,009,069	4,802,523
Storm drain utility			6,159,986	6,018,388	6,159,986	6,018,388
Total expenses	98,023,078	94,361,634	24,788,802	21,491,187	122,811,880	115,852,821
Increase in net position	8,740,229	12,471,627	20,774,622	11,193,920	29,514,851	23,665,547
Net position-as previously reported	174,050,123	161,948,492	243,851,844	232,696,784	417,901,967	394,645,276
Adjustment for OPEB		(369,996)		(38,860)	-	(408,856)
Adjustment for water rights			767,223		767,223	
Net position - as restated	174,050,123	161,578,496	244,619,067	232,657,924	418,669,190	394,236,420
Net position-ending	\$182,790,352	\$174,050,123	\$265,393,689	\$243,851,844	\$448,184,041	\$417,901,967

Governmental activities – Governmental activities increased the City's net position by \$8.7 million for the fiscal year, and the key elements of the net position changes are as follows:

- The City received \$1.6 million new County vehicle registrations fees revenue that are allocated on a per capital basis, \$2.7 million increase in investment income, and about \$3.6 million increase in property tax revenues mostly due to the increase in property values in the City.
- Charges for services revenues increased by \$1.1 million in the site development and building permit fee revenues, an indication of increased construction activities in good economy.

Business-type activities - Business-type activities increased the City's net position by \$20.8 million primarily due to the \$14.7 million in capital contributions from private developers and other utility service district. Outside the capital

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contributions, business type activities generated sufficient revenues to cover the cost of operations and debt service requirements.

- Water activities received \$7.6 million in capital contributions in water infrastructures from other government as a result of service boundary changes. The utility service boundary changes effected during the year added approximately 4,000 additional customer accounts to the City.
- Private developers contributed \$3.4 million of water infrastructure during the year. Business type activities collected \$2.0 million systems development charge (SDC) revenues, and earned \$2 million in interest income.
- With the additional utility customers after the service boundary changes, the operating revenues and expenses for the business type activities showed proportionate increase, and the operating income stayed stable from last fiscal year at \$3.6 million.

ANALYSIS OF SIGNIFICANT BALANCES AND TRANSACTIONS OF INDIVIDUAL FUNDS

Governmental Funds:

The General Fund is the main operating fund of the City and the total fund balance increased by \$1.3 million during the fiscal year primarily due to an increase in property taxes and site development fees reflecting rising assessed property valuations and building activity. Other significant increases include interest earnings due to rising interest rates as compared to last fiscal year and Right of Way fees. These revenue increases were partially offset by cost of living increases in personal services expenditures.

All of the \$4.7 million fund balance in the Street Fund is restricted for the maintenance of highways and streets infrastructure. The Street Fund's ending fund balance for this year increased approximately \$750,000 from last year mostly due to a new Washington County Vehicle Registration fee that went into effect beginning July 1, 2018. The City's share of revenue for the new fee was approximately \$1.6 million for FY 18-19. The revenue for this new fee is to support the City's ongoing road maintenance and safety needs. Other main sources of revenue are gas tax distributions from Oregon State and Washington County. Expenditures were \$1.3 million higher in FY 18-19 mostly due to ADA ramp retrofit expenditures of \$1 million and transfers to the Capital Projects Fund for sidewalk construction and repair.

The Library Fund's fund balance had a \$513,000 increase during the year due to higher revenue distributions from the Washington County Consolidated Library Services (WCCLS). The revenue distribution from the WCCLS provides 54% of the current operating revenues for the City's library. All of the Library Fund's fund balance of \$2.3 million is restricted for the operations of the Beaverton's main library and branch library.

The Capital Development Fund had a decrease of \$11.4 million and ending fund balance of \$23.6 million, of which \$22.7 million is restricted for the construction of the new Public Safety Center. The \$11.4 million decrease was mostly due to design and construction costs of the new Public Safety Center that is scheduled to be completed in the spring of 2020.

Business Type Funds:

The Water Fund's net position increased by \$15.9 million; Sewer Fund's net position increased by \$1.1 million; and Storm Drain Fund's net position increased \$3.7 million. In total, business type funds received \$14.7 million infrastructure contributions from private developers and other governmental agencies. This is an \$8.3 million increase over last fiscal year and reflects the large magnitude of development activity occurring in the City as well the City's effort to expand its water customer bases.

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The increase in the Water Fund's net position includes a \$1.7 million increase in charges for services reflecting a consumption rate increase of 10 cents per 100 cubic feet of water and base rate increase of \$1.00 and a \$7.6 million increase in system development charges and capital contributions.

The increase in net position for the Sewer Fund is mostly due to \$1.1 million in system development charges and capital contributions from private developers and other governmental agencies, and \$487,000 interest income from investments.

The increase in net position for the Storm Drain Fund is due to \$560,000 increase in revenues due to a \$1.06 increase in surface water management rate per ESU, and a \$350,000 increase on interests from investments.

GENERAL FUND BUDGETARY HIGHLIGHTS

The General Fund's final adopted budget was \$3.5 million (4.9%) more than the original budget amount, excluding the contingency (see pages 76 and 77 for more detailed information) and is comprised of:

- \$154,000 in personnel services reflects \$81,000 for one new position in Mayor's Office (Administrative Assistant), \$71,000 for the new position of Site Development Division manager due to the City's increase in development activity.
- \$1.7 million in materials and services expenditures which includes \$1.1 million for carrying forward encumbrances from last fiscal year and re-appropriating them in FY 2018-19, \$164,000 for Mayor's department activity including \$90,000 for 12 portable barricades, \$92,000 for the Human Resources department employee recruitment resources, and \$95,000 for Municipal Court department court appointed attorneys fees.
- \$83,000 in capital outlay expenditures of which \$19,000 is building maintenance projects, \$29,000 for police replacement vehicles and \$35,000 for Landscape program vehicle replacement.
- \$1.6 million increase in Transfers to Other Funds includes \$950,000 to the capital development fund primarily for property acquisition adjacent to the Public Safety Center, and \$550,000 transfer to Street Fund to close out residual amount in the Street Lighting Fund via the General Fund as prescribed in the Oregon Statute.

General Fund expenditures came in at \$7.6 million (10.02%) less than the final budget (excluding contingency), and significant differences between final adopted budget and actual expenditures include the following:

- The total personnel services expenditures came in at \$2.5 million less than budget due to various position vacancies during the fiscal year and actual fringe benefit costs \$1.3 million less than what was budgeted. The variance in fringe benefit costs is mainly due to position vacancies and the difference between budgeted rates such as medical and dental insurance premiums and actual rates in the retirement benefits contribution.
- Material and services was \$3.9 million less than budgeted which reflects \$2.6 million underspending in the Community Development Department for various programs including Economic Development, Department Administration, Development Division, Planning Division, Site Development Division, and Transportation planning; \$480,000 less for Mayor's Department programs, \$410,000 less for building expenses, \$230,000 less for Police Department, and \$164,000 less from other departments
- Transfers to Other Funds came in \$646,000 less than budgeted including \$313,000 transfer to Capital Projects Fund and \$113,000 to Capital Development Fund for various projects, \$173,000 less to Internal Service Funds for internally supported activities and services, and \$46,000 less to debt service.

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CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets - At June 30, 2019, the City had approximately \$430 million invested in a broad range of capital assets, including land and easements, water rights, buildings and improvements, equipment, roads, street lighting system, traffic light system, bridges, water, sewer and storm drain infrastructure.

The total increase in capital assets for the current fiscal year was \$45 million entity wide, and \$11.1 million of the increase was attributable to the contributions from other government and private entities in land and infrastructure. The \$11.5 increase in construction in progress for the governmental funds is mostly due to capitalized costs for the new Public Safety Center that is expected to be completed in 2020. The increase in the business type activities includes approximately \$7.6 million increase in infrastructure due to water district changes and \$15.4 million in additions to the existing utility infrastructure to support the expansion and growth in the City's utility customer base.

Summary of Capital Assets
June 30

	Governmental Activities		Business-type Activities		Total	
	2019	2018	2019	2018	2019	2018
Land, intangible assets	\$24,801,936	\$23,379,037	11,762,412	\$10,369,421	\$36,564,348	\$33,748,458
Construction in progress	19,184,106	7,665,288	15,385,578	10,327,759	34,569,684	17,993,047
Intangible assets being amortized	1,427,225	1,373,977	-	71,718	1,427,225	1,445,695
Buildings and improvements (net of depreciation)	34,704,314	34,520,479	65,851	69,440	34,770,165	34,589,919
Machinery and equipment (net of depreciation)	6,388,640	6,160,629	3,623,861	3,527,415	10,012,501	9,688,044
Infrastructure (net of depreciation)	113,941,024	107,601,791	198,635,608	179,417,917	312,576,632	287,019,708
Totals	\$200,447,245	\$180,701,201	\$229,473,310	\$203,783,670	\$429,920,555	\$384,484,871

More detailed information on the City's capital assets is presented in Note II.C on pages 34 and 35 of this report.

Debt - At year end, the City had \$68 million in total long-term debt compared to \$71.3 million last year, a decrease of \$3.3 million mostly due to annual principal payments.

Outstanding Debt at Year-End
June 30

	Governmental Activities		Business-type Activities		Total	
	2019	2018	2019	2018	2019	2018
General obligation bonds (backed by the City)	\$34,860,287	\$35,915,301			\$34,860,287	\$35,915,301
Special revenue bonds (backed by right of way fee rev.)	1,422,030	2,460,203			1,422,030	2,460,203
Non-revolving line of credit	2,921,900	2,921,900			2,921,900	2,921,900
Loans and contracts payable	2,559,650	2,250,033	\$1,572,586	\$1,596,851	4,132,236	3,846,884
Revenue bonds (backed by water revenues)			24,696,516	26,187,912	24,696,516	26,187,912
Totals	\$41,763,867	\$43,547,437	\$26,269,102	\$27,784,763	\$68,032,969	\$71,332,200

The governmental activities outstanding debt reflects \$34.9 million of general obligation (GO) bonds issued in 2017 to fund a new public safety center. The GO bonds are voter approved and paid by ad-valorem tax on all taxable property in the City. The special revenue bond was issued to fund tenant improvements at The Beaverton Building (City Hall), and the debt service payments for the special revenue bond will be made solely from right of way fees.

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In addition, the City's component unit, the Beaverton Urban Redevelopment Agency (BURA) issued the Letter of Credit in the form of an Urban Renewal Note Series 2017 and a City of Beaverton Revenue Bond Series 2017, commonly referred to as the Non-Revolving Multi-Draw Line of Credit for urban renewal projects. The Borrower is listed as the Beaverton Urban Redevelopment Agency. The intent is to pay the interest due from BURA property tax increment. The Revenue Bond was issued on a parity basis with the 2013 Special Revenue Bond of the City (South Office Building Project). That bond and this Letter of Credit are backed by non-property tax General Fund revenue of the City such as franchise fees, fines and forfeitures and state shared revenues. The Letter of Credit matures in 2022 and is likely to be paid from a BURA Special Revenue Bond solely based on future tax increment before maturity. No additional draw was made during the fiscal year.

The 2018 revenue bonds received AA+ by Standard and Poor's, the second highest rating possible, and all City's debt for business-type activities are paid from net revenues of the water system. The City covenants in the Master Water Bond Ordinance to charge rates and fees to generate adequate net revenues to meet the required level for debt service expenses, and the City continues to be in compliance with the requirement.

Moody's Investors Service, Inc. upgraded the water revenue bond rating from A1 to Aa2 in 2010. This corresponds to the rating upgrade from Standard and Poor's from AA to AA+, the second highest rating possible in 2008. Also in May 2010, Moody's upgraded the ratings of GO refunding bonds from Aa2 to Aa1, the second highest rating possible. The rating agencies recently confirmed these ratings.

State statutes limit the amount of general obligation debt a city may issue to three (3) percent of its total real market value of all taxable property within the City boundaries. The current debt limitation for the City is \$518.9 million, and the City's outstanding GO debt is \$34.9 million which is significantly below the debt limit.

Additional information on the City's debt is in the notes to the basic financial statements on pages 38 to 43 (II.G).

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

During the preparation of the budget for the ensuing fiscal year, the long-term impacts of the local economy were examined in conjunction with business decisions made by the City. Beaverton's revenue trends are generally up over past years reflecting economic growth. The assessed valuation is rising and the major sources of current revenue are the property taxes. Beaverton has a diverse revenue basis, and revenue increases should come from fees related to new construction activities, lodging taxes, right-of-way fees, water revenue, planning fees and other sources.

The City's adopted budget for FY 2019-20 reflects total estimated resources of \$361.3 million which includes \$97.7 million of beginning balances, and the projected ending fund balances at the end of FY 2019-20 operation is \$77.3 million. The decrease between the beginning and ending fund balances is mainly due to continued spending on construction of the Public Safety Center and also spending on final design phases and initial construction phases of several capital improvements in the water system. The operating expenditures for the next fiscal year are steady, and the total employee count increased by 12.55 FTE (full time equivalent) to 599.01 FTE. The following are the major assumptions factors used in developing the FY 2019-20 budget:

- The City's permanent property tax levy rate for operating purposes is \$4.62 per \$1,000 assessed value, and \$4.23 is the levied tax rate in the FY 2019-20 budget which is slight increase of about a half a cent from last year. The total property tax revenues for operations is estimated at \$41.2 million, and the increment between the current tax rate and the City's permanent rate would generate an additional \$4 million when applied to the assessed valuation of \$10.5 billion. This additional unused tax authority provides the City with sufficient resources to meet our future resource needs.

CITY OF BEAVERTON, OREGON
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Fiscal Year Ended June 30, 2019

- With the increase in private investment in both housing and commercial construction in the area, the City expects continued growth in local economy and FY 2019-20 budgeted includes \$10.2 million in permits and fees revenue category.
- During three years from FY 2017-18 to FY 2019-20, the list of water infrastructure projects grew substantially with the increasing development opportunities in the Cooper Mountain area, and the city also began a schedule of taking over water service responsibilities from Tualatin Valley Water District (TVWD) for customers already within the city limits. The budget for the water construction fund's capital outlay for FY 2019-20 is \$27.3 million more than the actual spending of this year, and \$30 million bond issuance is also included in the adopted budget.
- The Beaverton Urban Redevelopment Agency (BURA), a component unit of the City of Beaverton, should receive approximately \$4.2 million from the incremental growth of assessed valuation within the urban renewal district. Established in November 2011, the amount of tax increment is sufficient to provide the basis for a line-of-credit borrowing to finance property acquisition, public improvements and predevelopment assistance as necessary.

REQUESTS FOR INFORMATION

This financial report provides a general overview of the City's finances for those with an interest in the government's finances. Questions concerning any of the information provided in this report should be addressed to the Finance Director at 12725 S.W. Millikan Way, Beaverton, OR 97005.