

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

**CITY OF BEAVERTON, OREGON**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**For the Fiscal Year Ended June 30, 2013**

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, 2013 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 13.

**FINANCIAL HIGHLIGHTS**

Following are the financial highlights of the City for the fiscal year ended June 30, 2013.

- The assets of the City exceeded its liabilities at the close of the fiscal year by \$391.6 million (net position). Of this amount, \$44.8 million is unrestricted and may be used to meet the City's ongoing obligations and pay for day to day operations.
- The total net position increased \$7.6 million from \$384 million to \$391.6 million during the fiscal year, and the majority of this increase is due to a gain related to construction and contributions of infrastructure systems and capital contribution in dedicated rights-of-way.
- Governmental funds reported combined ending fund balances at year-end of \$29.9 million, a decrease of \$1.0 million as compared to last year.
- The General Fund's unassigned fund balance at the end of the current year was \$9.4 million, or approximately 17.9% of total General Fund expenditures and transfers.

**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. These statements include all assets of the City (including infrastructure such as streets, traffic signals, street lights, buildings, bridges, water lines, sanitary sewer lines, storm drain facilities, etc.) as well as all liabilities (including general obligation long-term debt). Additionally, certain eliminations have occurred as prescribed by GASB Statement No. 34 regarding inter-fund activities.

The Statement of Net Position presents information on all of the City's assets and liabilities, with the difference between the two reported as net position. 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).

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**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**  
**For the Fiscal Year Ended June 30, 2013**

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Both of the government-wide financial statements distinguish 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)
- Municipal court operations
- Building and landscape maintenance
- Engineering services
- Police protection services
- Emergency management services
- Library services
- Planning, zoning and subdivision control regulations
- Building inspections and regulations
- Traffic control and improvements
- Street construction and street maintenance
- Economic development

The business-type activities of the City include the following:

- Water utility
- Sewer utility
- Storm drain utility

The government-wide financial statements are on pages 13 and 14 of this report.

**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. These reconciliations are on pages 16 and 18 in the basic financial statements.

The City maintains 15 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. The City reports four major governmental funds: General Fund,

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Street Fund, Library Fund and Capital Projects Fund. Data from the remaining governmental funds appear in a single, aggregated presentation. Summary fund data by fund-type for these nonmajor governmental funds is in the form of combining statements on pages 52 and 56 of this report. Individual fund data for each of these non-major governmental funds is provided as Other Supplementary Information in the form of combining statements, pages 53 -55 and also pages 57 -58.

The City adopts an annual appropriated budget for all governmental funds on a modified accrual basis. 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 47 through 49. Additional schedules that demonstrate the General Fund's budgetary compliance at the legal level are on pages 61 and 62. Budgetary comparisons for all other governmental funds appear as Other Supplementary Information (pages 63 - 74).

The governmental fund financial statements are on pages 15 and 17 in the basic financial statements.

**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.

The City uses enterprise funds to account for its water utility, sewer utility and storm drain utility. 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, geographic information systems services, public works administration services, and insurance, risk and benefits services.

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.

The enterprise funds, all of which are major funds of the City, appear separately as proprietary fund financial statements in the basic financial statements on pages 19 through 22. Conversely, all internal service funds appear in a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for the internal service funds appear as Other Supplementary Information in the form of combining statements, on pages 75 through 77 of this report.

The City also adopts an annual appropriated budget for all proprietary funds. To demonstrate compliance with the budget, budgetary comparison statements for all proprietary funds appear as Other Supplementary Information on pages 78 through 89.

**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 23 through 46).

**Required Supplementary Information (RSI)** - In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information. The RSI schedules include budgetary comparisons for the General Fund and major special revenue funds, and budget to GAAP reconciliation schedules for these funds.

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**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**  
**For the Fiscal Year Ended June 30, 2013**

**Other Supplementary Information** – This section includes the combining statements and schedules referred to earlier, on pages 52 through 92, including the schedules of property tax and bonded debt transactions following the required supplementary information in this report.

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

Net position serves over time as a useful indicator of a government's financial position. The City's assets exceeded liabilities by \$391.6 million at the close of FY 2012-13.

Summary of Net Position

	Governmental Activities		Business Type Activities		Total	
	2013	2012	2013	2012	2013	2012
Cash and Investments	\$38,192,151	\$39,202,405	\$25,643,937	\$24,705,341	\$63,836,088	\$63,907,746
Other Assets	5,292,772	4,202,000	30,306,529	31,132,111	35,599,301	35,334,111
Capital Assets	158,436,127	157,815,329	175,448,212	171,104,858	333,884,339	328,920,187
<b>Total Assets</b>	<b>201,921,050</b>	<b>201,219,734</b>	<b>231,398,678</b>	<b>226,942,310</b>	<b>433,319,728</b>	<b>428,162,044</b>
Other Liabilities	10,387,326	9,069,572	4,876,179	5,450,284	15,263,505	14,519,856
Long-Term Liabilities	12,438,656	13,468,889	14,050,320	16,180,812	26,488,976	29,649,701
<b>Total Liabilities</b>	<b>22,825,982</b>	<b>22,538,461</b>	<b>18,926,499</b>	<b>21,631,096</b>	<b>41,752,481</b>	<b>44,169,557</b>
<b>Net Position</b>						
Invested in Capital Assets	148,759,412	146,704,075	170,324,759	165,055,888	319,084,171	311,759,963
Restricted	13,608,028	14,175,203	14,082,455	13,780,084	27,690,483	27,955,287
Unrestricted	16,727,628	17,801,995	28,064,965	26,475,242	44,792,593	44,277,237
<b>Total Net Position</b>	<b>\$179,095,068</b>	<b>\$178,681,273</b>	<b>\$212,472,179</b>	<b>\$205,311,214</b>	<b>\$391,567,247</b>	<b>\$383,992,487</b>

The largest portion of the City's net position reflects its investment of \$319.1 million or about 81.5% 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.

An additional portion of the City's net position, \$27.7 million or approximately 7% represents resources that are subject to restrictions on how they may be used. The remaining balance of unrestricted net position totaling \$44.8 million or approximately 11.5% may be used to meet the City's ongoing obligations to citizens and creditors.

The value of cash and investments and unrestricted net position in the governmental activities are steady after the City spending \$8.8 million of its unrestricted cash to purchase a 108,000 square foot "class A" office building during the previous fiscal year. That building will house the general administrative services of the City and function as the City Hall in mid-2014.

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**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**  
**For the Fiscal Year Ended June 30, 2013**

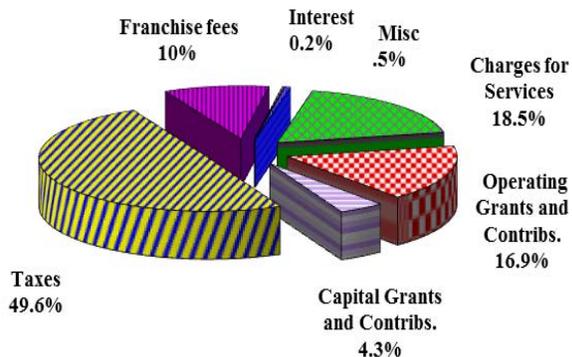
Summary of Changes in Net Position

	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
<b>Revenues</b>						
<i>Program revenues:</i>						
Charges for services	\$13,408,542	\$12,932,003	\$19,652,416	\$18,161,200	\$33,060,958	\$31,093,203
Operating grants and contributions	12,346,198	12,318,128			12,346,198	12,318,128
Capital grants and contributions	3,136,219	2,389,455	4,992,156	5,430,509	8,128,375	7,819,964
<i>General revenues:</i>						
Taxes	33,206,150	32,216,248			33,206,150	32,216,248
Intergovernmental revenues	2,749,021	2,597,065			2,749,021	2,597,065
Franchise revenues	7,237,621	7,182,278			7,237,621	7,182,278
Interest	121,775	289,823	126,731	121,134	248,506	410,957
Other	371,530	2,436,619	52,752	73,265	424,282	2,509,884
<b>Total revenues</b>	<b>72,577,056</b>	<b>72,361,619</b>	<b>24,824,055</b>	<b>23,786,108</b>	<b>97,401,111</b>	<b>96,147,727</b>
<b>Expenses</b>						
General government	25,391,011	24,212,769			25,391,011	24,212,769
Public safety	26,321,288	25,926,583			26,321,288	25,926,583
Highways and streets	10,322,769	9,136,898			10,322,769	9,136,898
Education	8,701,752	7,955,154			8,701,752	7,955,154
Cultural and recreation	893,450	453,006			893,450	453,006
Interest on long-term debt	532,991	677,890			532,991	677,890
Water utility			8,275,704	8,165,013	8,275,704	8,165,013
Sewer utility			4,919,026	4,935,165	4,919,026	4,935,165
Storm drain utility			4,468,360	4,126,448	4,468,360	4,126,448
<b>Total expenses</b>	<b>72,163,261</b>	<b>68,362,300</b>	<b>17,663,090</b>	<b>17,226,626</b>	<b>89,826,351</b>	<b>85,588,926</b>
Increase in net position	413,795	3,999,319	7,160,965	6,559,482	7,574,760	10,558,801
Beginning net position	178,681,273	174,681,954	205,311,214	198,751,732	383,992,487	373,433,686
Ending net position	\$179,095,068	\$178,681,273	\$212,472,179	\$205,311,214	\$391,567,247	\$383,992,487

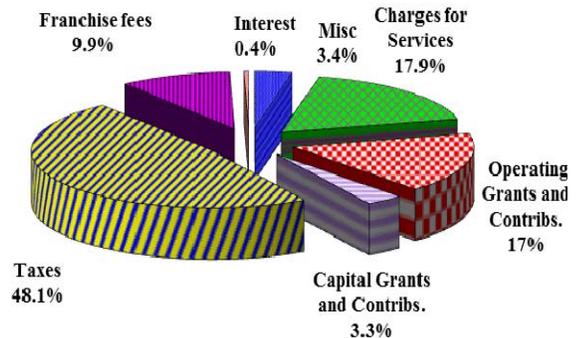
**Governmental activities** – Governmental activities increased the City’s net position by only \$0.4 million. The following pie chart provides a graphical presentation of the various revenues for governmental activities:

**Revenue by Source – Governmental Activities**

**FY 2012-13**

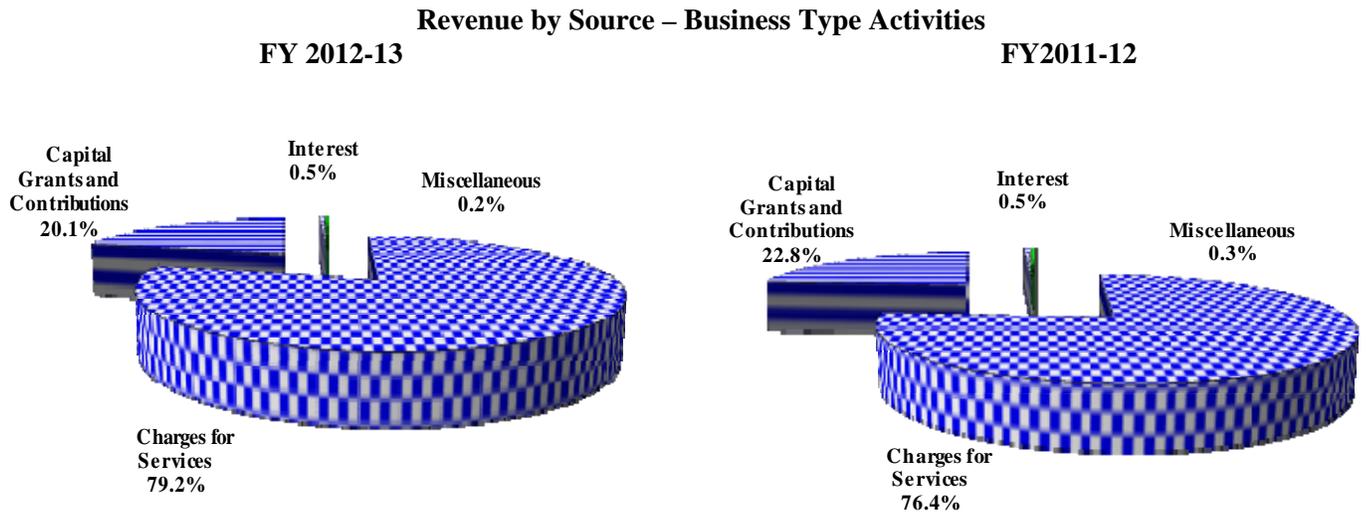


**FY 2011-12**



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**For the Fiscal Year Ended June 30, 2013**

**Business-type activities** - Business-type activities increased the City's net position by \$7 million accounting for 95% of the total growth in the City's net position. The City can use the net position only to finance the continuing operations of the water, sewer, and storm drain operations. Most of the net position increase is attributable to the construction of utility infrastructure and contributions from private developers and other government entities, and the systems development charge revenues that are restricted and set aside for capital projects in future years. In business-type activities, \$5.1 million of long-term debt is related to capital assets, and the remaining amount is related to an equity interest in joint ventures. The calculation of the net position invested in capital assets does not include the portion of the debt related to the joint venture. The following pie charts provide a graphical presentation of the various revenues for the business type activities:



**ANALYSIS OF SIGNIFICANT BALANCES AND TRANSACTIONS OF INDIVIDUAL FUNDS**

The fund balance of the City's General Fund decreased by \$270,000 (2% of the beginning balance) during the fiscal year primarily due to the actual Transfers Into the General Fund being \$210,000 less than budgeted.

The Street Fund's ending fund balance of \$3.7 million, all of which is restricted for the maintenance of highways and streets infrastructure, reflects a \$531,000 decrease and mainly due using a portion of the fund balance to conduct additional street overlays in FY 2012-13.

The fund balance of the Library Fund declined by \$768,000 due to three, one-time expenditures that totaled \$940,000. These were partly funded using fund balance reserves. The projects were re-roofing and upgrading the library building's roof structure, installing solar panels on the new roof structure, and implementing and installing a radio frequency identification and automated returned materials check in system for all the library's circulation materials (books, CD's DVD's etc.). The Capital Projects Fund did not experience any significant changes during the year.

In the business-type activities, the Water Fund's net position increased by \$3.2 million; Sewer Fund's net position increased by \$1.3 million; and Storm Drain Fund's net position increased by \$2.7 million.

The increase in the Water Fund's net position is mostly due to an additional \$1.1 million in charges for services from enacting the annual water rate increase, and \$0.9 million in capital contribution of utility infrastructure and system development charge revenues.

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**For the Fiscal Year Ended June 30, 2013**

The increase in net position of \$1.3 million in the Sewer Fund is attributable to \$777,000 of intergovernmental revenue from Clean Water Services of Washington County as reimbursement for sewer infrastructure projects and \$660,000 in capital contribution in infrastructure.

The increase in net position of \$2.7 million in the Storm Drain Fund is due to capital contributions of \$2.1 million and \$351,000 in system development charges.

**GENERAL FUND BUDGETARY HIGHLIGHTS**

The General Fund's final adopted budget was \$3.2 million (6%) more than the original budget amount, excluding the contingency (see pages 59 and 60 for more detailed information) and is comprised of:

- \$537,000 in Personal Services mainly due to establishing a new Cultural Inclusion Coordinator position \$81,000; a Project Coordinator position funded by a new federal grant program \$58,000; \$209,000 in Police Overtime funded by various state grants; and \$189,000 in various other personnel services expenditures enacted in the two supplemental budgets adopted during the year.
- \$2.4 Million in Materials and Services expenditures mainly due to carrying forward \$1 Million in materials and services encumbrances from last fiscal year and re-appropriating them in FY 2012-13; \$921,000 for various materials and services expenditures funded by \$729,300 in new Federal Grant Funds and \$191,700 in local grant funds that were awarded during the year along with the associated increase in various expenditure accounts to fulfill each grant's objectives; and \$479,000 in various other materials and services expenditures enacted in the two supplemental budgets adopted during the year.
- \$260,000 in Transfers To Other Funds of which \$60,000 was for the South Plaza Construction Project and \$200,000 was for the building improvement to the South Office Building.

General Fund expenditures came in at \$4.8 million (8.35%) less than the final budget (excluding contingency), and significant differences between final adopted budget and actual expenditures include the following:

- The total personal services expenditures came in at \$1.4 million less than the budget due to various position vacancies during the fiscal year representing \$513,000 in salaries and also due to the differences between the budgeted and actual payroll taxes and fringe benefit costs of \$917,554 due in part by the position vacancies and also due to the difference in budgeted rates such as medical and dental insurance premiums and retirement benefits rates compared to the rates actually charged.
- \$2.8 million in materials and services including various professional services in the community involvement, economic and downtown development programs, planning division, mayor's administration, policy development programs, and police department were unexpended during the year.
- \$518,000 in Transfers Out to the Other Funds, of which \$305,000 is the transfer to the Capital Development Fund for the South Plaza Construction Project, the South Office Building Improvement Project and the Broadway Festival Street Project

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets** - At June 30, 2013, the City had approximately \$334 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.

Major capital asset activities during the fiscal year included acquisition of variety of street construction projects and additions to the utility systems. The total increase in investment in capital assets for the current fiscal year was \$4.9 million or 1.5% growth entity wide. This increase includes utility infrastructure additions and easements constructed by private developers and deeded to the City which will be responsible for all future maintenance and replacement. The total governmental type capital assets increased \$0.6 million (0.4%), and the increase within business-type activities was \$4.3 million or 2.5%.

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**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**  
**For the Fiscal Year Ended June 30, 2013**

Summary of Capital Assets  
June 30

	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
Land, intangible assets	\$18,095,090	\$17,719,044	\$8,487,309	\$7,770,442	\$26,582,399	\$25,489,486
Construction in progress	1,461,688	226,448	1,014,583	1,060,237	2,476,271	1,286,685
Intangible assets being amortized	736,448	695,022	178,422	199,762	914,870	894,784
Buildings and improvements (net of depreciation)	32,053,621	32,716,296	100,374	107,289	32,153,995	32,823,585
Machinery and equipment (net of depreciation)	6,765,427	6,345,352	2,269,823	1,759,516	9,035,250	8,104,868
Infrastructure (net of depreciation)	99,323,853	100,113,167	163,397,701	160,207,612	262,721,554	260,320,779
Totals	<u>\$158,436,127</u>	<u>\$157,815,329</u>	<u>\$175,448,212</u>	<u>\$171,104,858</u>	<u>\$333,884,339</u>	<u>\$328,920,187</u>

Additional information on the City's capital assets appears in note III.C on pages 32 and 33 of this report.

**Bonded Debt** - At the end of the current fiscal year, the City had total bonded debt outstanding of \$21.3 million (net of discount of \$81,862). Of this amount, \$8.2 million represents outstanding bonded debt for the governmental funds. These bonds are voter approved general obligation bonds paid by ad-valorem tax on all taxable property in the City. The remainder of the City's bonded debt is for business-type activities and includes three (3) outstanding water revenue bond issues. The total amount of water bonds outstanding at June 30, 2013 is \$13.1 million (net of discount of \$65,531). The bonds are paid from net revenues of the water system.

Moody's Investors Service, Inc. upgraded the three water revenue bonds ratings from A1 to Aa2 in 2010. This corresponds to the rating upgrade from Standard and Poor's from AA to AA+ in 2008. Also in May 2010, Moody's upgraded the ratings of GO refunding bonds from Aa2 to Aa1. The rating agencies recently confirmed the 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 \$305.6 million which is significantly (\$297.4 million) more than the City's outstanding general obligation debt of \$8.2 million.

Outstanding Bonded Debt at Year-End  
June 30

	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
General obligation bonds, net of \$16,331 discount (backed by the City)	\$8,188,669	\$9,475,948			\$8,188,669	\$9,475,948
Revenue bonds, net of \$65,531 discount (backed by fee revenues)			\$13,129,469	\$15,287,163	13,129,469	15,287,163
Totals	<u>\$8,188,669</u>	<u>\$9,475,948</u>	<u>\$13,129,469</u>	<u>\$15,287,163</u>	<u>\$21,318,138</u>	<u>\$24,763,111</u>

Additional information on the City's bonded debt is in the notes to the basic financial statements on pages 37 and 38(II.H).

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**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**  
**For the Fiscal Year Ended June 30, 2013**

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**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. A recent article in the Portland Business Journal noted a comment about the real estate market, "Beaverton's location near the urban core and proximity to employment centers has created strong demand for housing in the area, while also driving retailer demand as potential tenants look to establish roots in the growing community."

The City's adopted budget for FY 2013-14 reflects total estimated resources of \$184.9 million which exceeds total appropriated expenditures by \$35.8 million.

The following are the major assumptions used in developing the FY 2013-14 budget:

- The City's tax rate for next fiscal year is \$4.02 which is 87% of the City's permanent levy rate of \$4.62. The increment between the current tax rate and the City's permanent rate is \$0.60 and would generate an additional \$5.1 million in property tax revenues when applied to the assessed valuation of \$8.6 billion. This additional unused tax authority provides the City with sufficient resources to meet our future resource needs.
- Assessed value, the basis of property tax revenues, was expected to grow by 5.0% based on Measure 50 provision that limits the maximum assessed value growth rate. The actual growth rate was only 2.9%. Due to smaller than expected growth in the assessed value, the effective levy rate became \$4.15 per \$1000 of assessed valuation for operating purposes.
- Water consumption rate is projected to be increased by 3.7% (10 cents per 100 cubic feet of water), and the proposed monthly water base charge rate increase is 10% (\$1.00 per month on a residential water account), both effective July, 2013.
- Personal service costs for FY 2013-14 include a net increase of 1.85 full time equivalent employees in various programs to meet the increasing service demand from the community. The budget also includes cost of living fiscal salary increase (COLA) for all bargaining groups and the management employee group (2.09 - 2.26%), 3% increase in the retirement plan contribution rates from FY 2012-13 which increased expenditures by about 17% and medical benefits costs increase to all eligible employees (a blended rate of 7.49%).

**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 4755 S.W. Griffith Dr., Beaverton, OR 97005.