

**Adopted Budget
City of Portland, Oregon
Fiscal Year 2006-07
Budget in Brief**

Adopted Budget

In Brief

City of Portland, Oregon
Fiscal Year 2006-07

How are the children?

Mayor Tom Potter begins each Wednesday morning City Council session by asking, "How are the children?" The health and wellbeing of its children is a measure of the health and wellbeing of a society. In keeping with the City Council's focus on children, the cover of the FY 2006-07 City of Portland budget shows children playing in Terry Schrunk Plaza, with Portland's historic City Hall in the background.

Terry Schrunk Plaza is named in honor of Portland's only four-term Mayor, who served from 1956 to 1972. The plaza and the Edith Green-Wendell Wyatt Federal Building, across SW Third Avenue to the east, are owned and maintained by the United States General Services Administration. Terry Schrunk Plaza joins Chapman and Lownsdale Squares to create three blocks of open space in the heart of the city—the Plaza Blocks.

Portland City Hall has been the seat of Portland's city government since it opened in 1895. A remodeling and historic renovation that was completed in 1998 restored the building to its original design.

The spirit of Portland's children is the focus of the FY 2006-07 Adopted Budget.

(Photo credit: Lois Summers and Donna Shalkowsky, in the City of Portland Office of Management and Finance, Accounting Division and Sandy Pokorny, State of Oregon)

Mayor Tom Potter
Commissioner Sam Adams
Commissioner Randy Leonard
Commissioner Dan Saltzman
Commissioner Erik Sten
Auditor Gary Blackmer

Table of Contents

Mayor's Message	1
Letter from the Mayor's Citizen Budget Advisory Team	7
City Overview	8
Budget Overview	13
Financial Overview	18
Total City Budget – Revenues and Expenses	34
Operating and Capital Budget by Service Area	35
General Fund Revenues and Expenses	37
Summary of Authorized Positions	38
Public Safety	39
Parks, Recreation, and Culture	43
Public Utilities	45
Community Development	48
Transportation and Parking	52
Legislative, Administrative, and Support	55

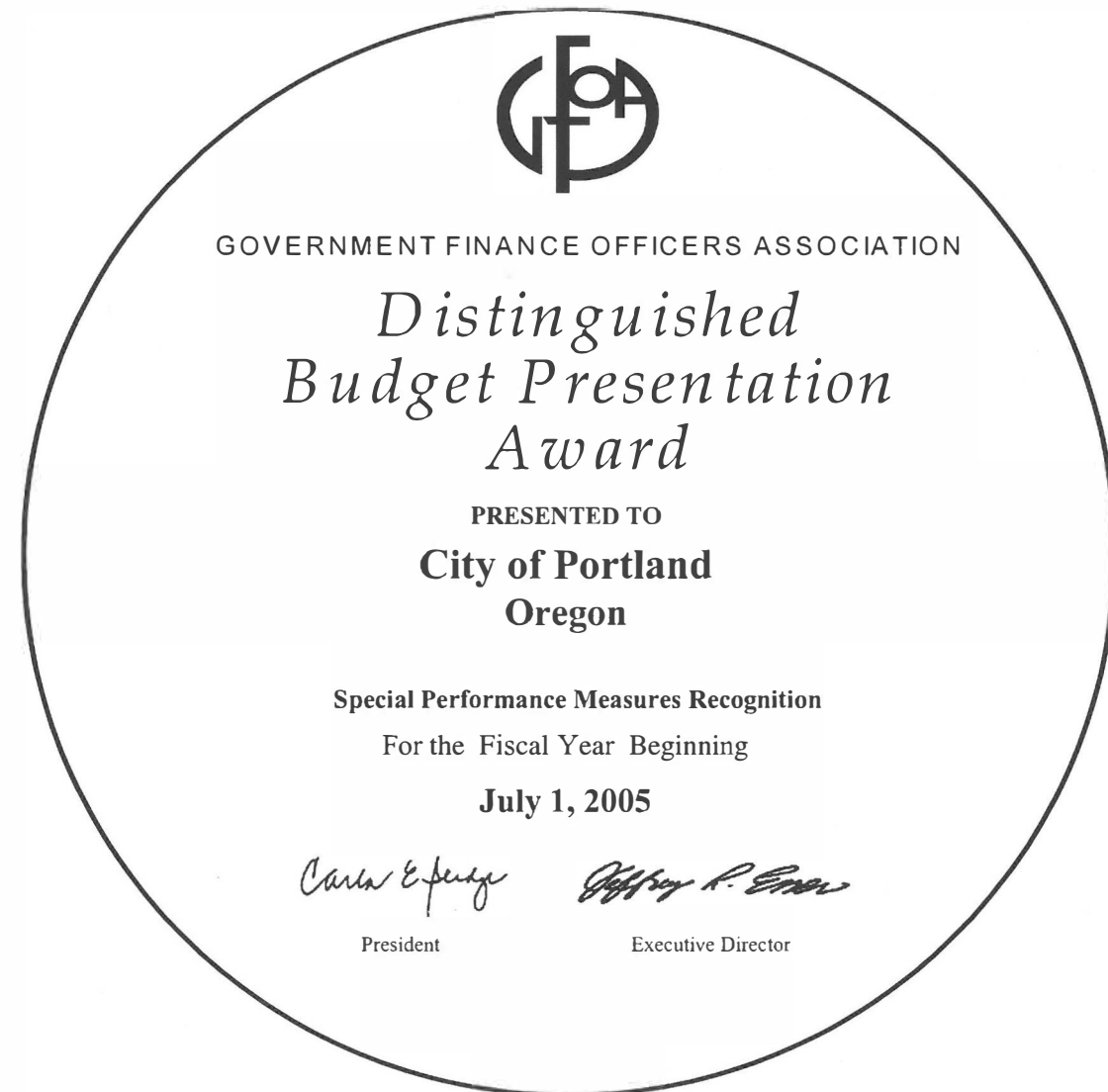
This document is printed on 100% post-consumer waste recycled paper.

Budget Award

The Government Finance Officers Association of the United States and Canada (GFOA) presented an award for Distinguished Budget Presentation to the City of Portland, Oregon for its annual budget for the fiscal year beginning July 1, 2005.

In order to receive this award, a governmental unit must publish a budget document that meets program criteria as a policy document, as an operations guide, as a financial plan, and as a communication device.

The award is valid for a period of one year only. We believe our current budget document continues to conform to program requirements, and we are submitting it to GFOA to determine its eligibility for another award.



Office of Mayor Tom Potter
City of Portland

Mayor's Message

INTRODUCTION

This Adopted Budget balances the budget with city priorities and community expectations. The Council met in the fall of 2005 and identified five focus areas for the FY 2006-07 budget:

- ◆ Building a Family-friendly City
- ◆ Creating Sustainable Economic Development
- ◆ Enhancing Public Safety & Emergency Preparedness
- ◆ Finding Energy Alternatives
- ◆ Rebuilding the City's Infrastructure

This Budget is the thoughtful product of many people within and outside Portland government. I want to thank the City Commissioners, our citizen budget advisors, community budget forum participants, City bureau staffs, the Office of Management and Finance, and the Mayor's Office staff.

Good things are happening in Portland!

After several years of economic challenges, the City of Portland is looking at a stronger financial future. Portland just completed contract negotiations with four employee unions, thereby assuring stability of service delivery. The 20 Bureau Innovation Projects launched last year are making our City more diverse, creating greater transparency and accountability, requiring collaboration between City bureaus and Portlanders, and providing effective use of taxpayer dollars. The Charter Review Commission is examining our form of government, civil service, and the Portland Development Commission (PDC), and will make recommendations to improve the governance process. The revised Fire Police Disability and Retirement system will be going to the voters for approval. The Visioning Project is now engaging our community in a discussion about its aspirations for Portland's future. From this vision, we will shape our future through a strategic plan with the incremental steps necessary to achieve a better Portland for everyone.

Last year, I worked with City Commissioners in creating a new budget process that would involve citizens and employees more directly in determining how tax dollars are spent, and bring greater transparency and accountability to all our actions. This year, we have taken that dynamic and improved on it.

Two work teams made up of Commissioners and citizens have collaborated in a transparent process, thinking strategically not just about the needs of individual bureaus, but about our City as a whole. They have made recommendations about which programs most closely match our community's needs and priorities.

This year, we increased the number of citizen advisors on these teams, and they have been tireless, creative, and critical. On behalf of my fellow citizens, I want to thank Mary Edmeades, Jon Kruse, Martin Medeiros, Ayoob Ramjan, and Luanne Zoller for all they have done to make our city better.

Last year, I placed the policy direction and strategic financial planning for the City's infrastructure bureaus-Water, Transportation, Parks, Environmental Services, and Management and Finance-in the care of the entire Council rather than individual Commissioners. This represented an important first step in creating a unified vision for the long-term direction of our City.

To help move this effort forward, I added a third work team this year to evaluate the long- and short-term fiscal needs of these bureaus. This team was comprised of the City Council and the Citizen Budget Advisors, working together on a unified approach to the City's aging infrastructure needs. The work of all these teams is at the heart of this Proposed Budget.

Finally, I want to thank Commissioners Adams, Leonard, Saltzman, and Sten for their hard work and partnership. I believe that with their help and the involvement of our citizens, the Adopted Budget charts a future for our city that keeps our neighborhoods strong, protects our children, and strengthens our economy.

APPROACH TO PREPARING THE BUDGET

While the City's financial outlook is brighter than it has been in years, we must continue to be prudent managers of the people's money. Central to the approach in building this budget were the twin goals of, first, protecting the City's core services and priorities and, second, promoting innovations that allow bureaus to deliver these core services in ways that are more efficient and effective.

When we started the budget process, the economy was improving, but it appeared it might be necessary for bureaus to reduce spending below their current budget, plus inflation. The new economic climate allows us to continue to make strategic cuts, but now reinvest those dollars in core needs rather than cutting them as we have done in years past. In many cases, we have reinvested these funds in our infrastructure.

For example, while we have identified Fire Bureau cuts of \$490,000, we redirected a large portion of that money to update fire equipment our community will rely on for years to come. Parks' cuts will go to additional maintenance efforts in that bureau.

We will make investments today with an eye toward their long-term impact on our community. For instance, we will invest in hybrid cars and biodiesel trucks. Some of our nonsworn police staff will be driving hybrids now instead of large, inefficient sedans.

I have identified several program areas that we have been funding with one-time funds that deserve the support and stability of ongoing money. These include programs in Planning and the Bureau of Housing and Community Development, arts requests, and a majority of our downtown marketing efforts.

This budget first protects Portland's core services:

- ◆ 32 permanent positions will be added to the Police Bureau to increase the safety of our neighborhoods and improve officer accountability, including 18 positions reserved for officers with light-duty restrictions.

- ◆ We will open Fire Station 27 on Skyline Boulevard in July, which will provide greater protection to residents living in our West Hills.
- ◆ 12 additional emergency communications operator trainees will be hired, protecting our citizens by decreasing emergency call times.
- ◆ We will expand our customer service response in the Bureau of Development Services to meet our goal of issuing 90% of approved permits within two working days. The current performance is 75%.
- ◆ Ongoing funding is provided for Pier Pool in North Portland.
- ◆ After negotiating with Multnomah County, the City will allocate up to \$1.3 million for jail beds to continue removing habitual offenders from our streets. An additional \$500,000 is included for treatment to keep those same individuals from re-offending.

This budget also rewards efficiencies that save time and money, create sustainability, and foster private/public partnerships:

- ◆ Efficiencies can be small ideas-Parks will save \$50,000 by conserving water and another \$19,000 by turning off lights when parks aren't in use-or large ideas-we were able to gain \$600,000 and cut six full-time positions through the consolidation of several separate functions into a new Revenue Bureau.
- ◆ Based on a new Citywide space study and Council policy, we will be able to save money by moving bureaus that currently rent space elsewhere into City-owned space, creating long-term savings and maximizing the City's facilities investment.
- ◆ Implementing watershed management projects will create a more sustainable long-term solution to improving water quality. We have set aside \$500,000 in one-time funds to implement priority projects from our Watershed Management Plan.
- ◆ The City has received a generous private sector donation of cell phones that will enhance citizens' accessibility to police officers. We have directed that those phones be managed and distributed through the precinct offices to maximize use for each shift. Also, Columbia Sportswear will be donating \$100,000 annually for the next ten years to maintain Sellwood Park.
- ◆ We can streamline and better organize how we finance arts organizations that improve the cultural life of Portlanders. \$300,000 in new funding is provided for the Regional Arts & Culture Council (RACC), with a budget note that individual requests for arts be directed only through the RACC process. This will avoid duplication of effort and funding that currently exists, and create a more fair process for competing for these dollars.

Last fall, the Council agreed that we would build a budget based on five priority areas:

First, build a family-friendly city, where families can afford to live and children can be reared and educated in a supportive community:

- ◆ The Bureau of Housing and Community Development will receive one-time funding of \$5.7 million to continue essential services such as reducing homelessness (Key not a Card and Transitions to Housing), strengthening the operations of Hooper Detox Center, providing more affordable housing for low-income families, and enhancing economic opportunities that lead to family-wage jobs. Due to federal program cuts, the City must step up its efforts to meet the needs of our most vulnerable citizens. While we are fortunate to have one-time funds this year, it is important to move these programs to ongoing funding. Toward that end, we have budgeted \$422,500 to begin to convert some of these programs to ongoing funds.
- ◆ One-time funding of \$120,000 to develop a small-scale courtyard housing prototype that provides a quality, affordable living environment for families.

- ◆ \$3.8 million in additional funding over two years to complete the East Portland Aquatic Center. This facility will address a need in an underserved part of the city. Funds will be reserved in a set-aside account for use as design and construction move forward.
- ◆ \$1.4 million to develop the new Ball Elementary School in North Portland and give the City of Portland the old Ball School site for future needs.
- ◆ To keep our schools strong, the Council has agreed to allocate \$10 million to keep our schools open throughout the 2006-07 school year. This is in addition to the \$10-12 million the City already contributes to school programs annually.

Second, create a stronger economy, planning for both the success of our business community and individual and family prosperity:

- ◆ \$250,000 in one-time funding to continue the Lower East Broadway Plan.
- ◆ The Portland Development Commission (PDC) will house, and the City will help fund, the Lewis and Clark Law School Legal Clinic, providing assistance to small businesses.
- ◆ Enhance graffiti abatement with an additional \$80,000 for a year-round crew concentrating on right-of-way graffiti, targeted collaborative neighborhood cleanups, and the procurement of graffiti-tracking software.
- ◆ \$100,000 for the Office of Neighborhood Involvement to work with the small business community.
- ◆ \$546,000 to the Keep Portland Moving program to provide overall coordination of activities affecting the central city street system during upcoming downtown construction projects.
- ◆ This year the Council will look at beginning to reduce Business License Fees over the next several years. This will reduce General Fund revenues but may give our small-business community the opportunity to be more competitive in the region.
- ◆ Support downtown business activities by providing \$400,000 to promote marketing of downtown, primarily during the holiday season, and \$854,000 to continue downtown bike patrols, clean restrooms, and maintain aesthetics.

Third, enhance public safety and emergency preparedness by reviewing service delivery in the city, and with our regional partners, ensure a safe and peaceful community:

- ◆ Strengthen community policing by allocating \$509,000 to open precincts around the clock and on weekends. Police officers now on disability will staff precincts on the afternoon and night shifts. The Fire Bureau has traditionally had positions that can be held by firefighters who have permanent restrictions, and now the Police Bureau will also have dedicated positions for sworn employees with permanent restrictions.
- ◆ \$150,000 to retain three community advocates to help domestic violence victims access the legal system.
- ◆ \$590,700 to improve accountability at the Police Bureau, including creation of a new internal audit unit and a program which will track officer behavior to promote early intervention when necessary.
- ◆ \$475,000 to continue funding for problem-oriented policing strategies, such as initiatives to combat meth and reduce burglaries and street crime.
- ◆ Bureau of Technology Services Disaster Recovery Plan—\$250,000 in one-time funding to plan for continued access to critical City technology in the event of a disaster.
- ◆ Improve public safety communication system planning with an \$85,000 study for replacing the City's public safety radio system and a \$150,000 study for replacement of the Portland Police Data System. This is in addition to the current planning efforts to update the City's computer-aided dispatch system.

- ◆ \$150,000 to develop joint public safety strategies with Multnomah County, providing greater safety and more efficiencies.
- ◆ \$160,000 for staff dedicated to gang reduction in the Mayor's Office.
- ◆ Create a new vehicle impound program that will be more fiscally sound and improve customer service. It will bring most vehicles impounded by Police to one central location that is accessible by mass transit.

Fourth, meet the energy challenges of today and the future in an environmentally responsible manner:

- ◆ \$265,000 to fund economic development efforts related to renewable energy, which includes a special emphasis on promoting local biofuel utilization and development.
- ◆ \$45,000 to support a position in the Office of Sustainable Development (OSD) to implement the Sustainable City Government Partnership.
- ◆ \$88,000 to support the local agricultural economy through the Sustainable Food Initiative.
- ◆ \$84,000 of ongoing support to leverage private funds for the Block By Block Fix-it Fairs, which provide energy conservation assistance to low- and middle-income residents.
- ◆ Fund Phase 1 of a modern fuel management system for the City vehicle fleet.
- ◆ OSD and PDC will work together to develop a proposal for initiating regional economic development with an emphasis on renewable energy. \$735,000 is earmarked in reserves for this effort, to be made available when a collaborative plan is brought forward and approved by Council.

Fifth, continue the daunting task of rebuilding the City's infrastructure:

- ◆ Increase the capital maintenance budget in the Bureau of Environmental Services by \$1.5 million annually.
- ◆ An additional \$170,000 annually for Citywide computer equipment replacement.
- ◆ Redirect \$412,000 of Parks' budget to support major ongoing maintenance needs.
- ◆ \$650,000 as a down payment toward a much needed, new Parks maintenance facility.
- ◆ \$127,000 to support new operations and maintenance obligations at McCoy Park, the Springwater Trail, Kelly Point Park, and the University Park Community Center.
- ◆ \$1 million for the Office of Transportation's (PDOT) Signals Intersection Hardware program, upgrading signals at 15 to 20 key intersections in the city.
- ◆ \$275,000 to PDOT to study the feasibility of rebuilding NE Cully Boulevard between NE Prescott Street and NE Killingsworth Street. The project will showcase "green street" design practices that will result in the city's first neighborhood collector-level green street.
- ◆ Transportation funding is a major challenge. Revenue sources, particularly state sources and the gas tax, continue to leave a very large funding gap for needed street improvements. To address this, Council has approved deep operational cuts, including \$8.3 million and 18 full-time equivalent positions.
- ◆ To begin to address the transportation funding challenge, \$1.9 million in increased fee revenue for PDOT will be directed to priority program areas to help buffer the impact of other funding reductions.

- ◆ Change the fee increase policy at our City-owned golf courses, so the fee increase will be reinvested in maintaining these facilities.
- ◆ Increase maintenance of the Water Bureau's system infrastructure, adding 34 positions and \$2.8 million while increasing rates only 2.5%—an increase below the rate of inflation and below the initially projected increase of 2.8%.

ONE-TIME MONIES

We are fortunate to have significant discretionary one-time resources available for FY 2006-07. The Council has programmed \$26.1 million of those funds for priority programs and projects. Another \$5.8 million has been set aside. There is a dual purpose in setting aside these monies. First, several ideas and priority needs were brought forward through the budget process that merit funding, but need more time to craft a spending plan. For example, it is recommended that \$735,000 be allocated for sustainable economic initiatives. The Council supports this in concept and looks forward to a thoughtful plan from OSD and PDC for the use of these funds. Second, reserving one-time funds provides the ability to respond to emerging serious, unanticipated issues.

CONCLUSION

I am pleased with the FY 2006-07 Adopted Budget because of the hard work and involvement of so many people. This year, we held more public workshops and held them earlier. Our five citizen advisors brought the critical eye of the private sector and important community questions to our process, often challenging how we were approaching decisions and helping to make them better. Our citizens' voices are clearly represented in this document.

One of our key goals last year was to begin building more effective partnerships between the City and its citizens, between the private sector and the public. We have made a good start. For example, the Parks Bureau has been successful in achieving 20% partnership funding for several facilities by working with users and supportive nonprofit organizations. Now, in the coming year, we plan to build more of these creative alternative-funding partnerships.

I look forward to working with my Council colleagues, Portlanders, and our business community to carry out this budget for the coming fiscal year that lives within our means, attains greater efficiencies and effectiveness, and achieves a greater good for our community.

Thank you,



Tom Potter

Mayor

Letter from the Mayor's Citizen Budget Advisory Team

April 16, 2006

Dear Mayor, Commissioners, and all Budget Committee Staff,

Your citizen contingent would like to express its gratitude for being included in the process of preparing the City of Portland's FY 2006-07 budget. In a bold demonstration of leadership, you have given citizens a seat at the fiscal table which allowed us to contribute, challenge, and contemplate the daily functions of the City. No information was withheld; no question was deemed an inconvenience. By being allowed the free rein to ask questions and seek answers, we gained a much greater understanding of our commission form of government and certainly the complexity of the city.

The level of professionalism and commitment to our city was consistently demonstrated by each bureau as they poured through piles of paperwork, addressed revisions, researched alternatives, and still preserved the core missions of their departments. We have all gained new language by referring to spreadsheets as the 'Kruse Way Decision Document' and understanding that 'three votes' is a powerful statement.

When the Mayor and Council talk about the City's core values—building a family-friendly city, creating sustainable economic development, enhancing public safety, finding energy alternatives, and rebuilding the City's infrastructure—we feel very confident that we now know what is meant by these phrases and how the City is working to craft tactical and strategic methods to achieve these goals.

Outreach to the community continues, and we are hoping that we can demonstrate that having citizen input is a valuable and necessary part to the success of the city and the many processes that it takes to run the government day to day.

Change is in the works; strategic and tactical assessments are underway. Visioning, planning, and identifying priorities continue to thread through the conversations to balance with livability, public safety, and a strong economic city to live and work in.

We would like to acknowledge all the efforts of the budget team in keeping us informed, organized, and provided with details when our historical knowledge wasn't up to par with our teammates. As a city, we recognize that these walls of our government should be the drivers, and we look to you to provide leaders to guide us through the process. Managers, while competent, tend to manage events, and usually this is a short-term process. Leaders manage change and create the vision for our future. We are confident in the leadership of the City of Portland.

Thank you again, Mayor and all, for the opportunity to help craft the FY 2006-07 Proposed Budget for the City of Portland. The citizens stand in support of your decisions and look forward to the implementation and continued great work that you and all your staff provide for the city.

Respectfully submitted,

The Mayor's Citizen Budget Advisory Team

Luanne Zoller
John Kruse
Martin Medeiros
Ayoob Ramjan
Mary Edmeades

City Overview

INTRODUCTION

This section of the FY 2006-07 budget document provides general information on the city of Portland, its demographics, and its government management systems. The information will help the reader understand the environment in which decisions are reached during the budget process. This section will also make it easier to examine and understand other sections of this budget document.

Portland's annual budget implements long-range strategic plans to achieve Council goals.

Portland's budget document reflects City policies, goals, and priorities. In reviewing how revenues are collected and spent, readers of the budget are actually watching policy at work. The budget implements the City's long-range strategic and financial plans and serves as an operations guide for the government and its activities. It is also a communications tool, informing residents of the short- and long-term issues and challenges confronting the City. The budget document reflects the goals of citizens and leaders alike.

CITY OF PORTLAND CHARACTERISTICS

Basic Statistics

The city of Portland, with a population of 555,560, comprises an area of approximately 145 square miles in northwestern Oregon. Located astride the Willamette River at its confluence with the Columbia River, Portland is the center of commerce, industry, transportation, finance, and services for a metropolitan area of more than 2 million people. (The Portland/Vancouver Primary Metropolitan Statistical Area includes the Oregon counties of Clackamas, Columbia, Multnomah, Washington, and Yamhill, as well as Clark County in Washington). Portland is the largest city in Oregon, the seat of Multnomah County, and the second largest city in the Pacific Northwest.

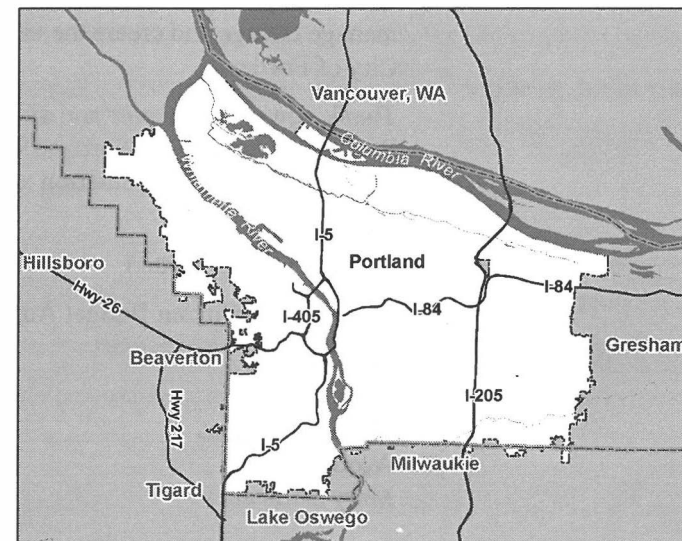


Figure 1: A Profile of Portland's Citizens

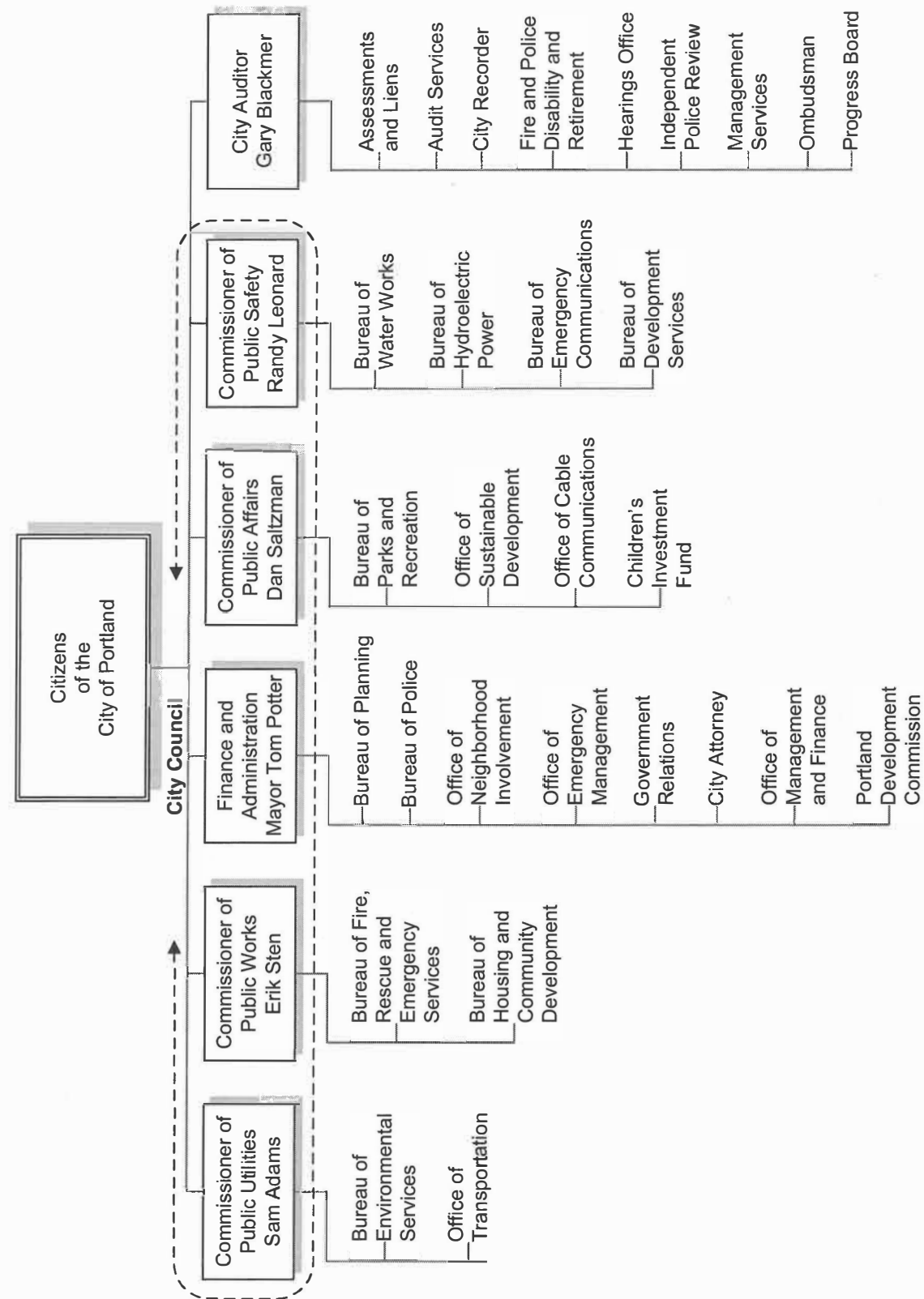
General Characteristics	2000	Percent of Total	2004/2005	Percent of Total	Percent Change
City Population ¹	529,121 ¹	---	555,560 ¹	---	5.0%
Male	261,565	49.4%	261,611	49.8%	0.0%
Female	267,556	50.6%	263,333	50.2%	-1.6%
Age					
Median age (years)	35.2	---	36.2	---	2.8%
Under 5 years	32,300	6.1%	34,855	6.6%	7.9%
5 to 24 years	133,715	25.3%	120,319	22.9%	-10.0%
25 to 44 years	183,604	34.7%	183,028	34.9%	-0.3%
45 to 64 years	118,339	22.4%	130,601	24.9%	10.4%
65 years and older	61,163	11.6%	56,141	10.7%	-8.2%
Race/Ethnic Distribution					
One Race	507,166	95.9%	508,019	96.8%	0.2%
White	412,241	77.9%	416,617	82.0%	1.1%
Black or African American	35,115	6.6%	35,807	7.0%	2.0%
American Indian & Alaska Native	5,587	1.1%	6,326	1.2%	13.2%
Asian	33,470	6.3%	37,212	7.3%	11.2%
Native Hawaiian & other Pac. Is.	1,993	0.4%	2,724	0.5%	36.7%
Some other race	18,760	3.5%	9,333	1.8%	-50.3%
Two or more races	21,955	4.1%	16,925	3.2%	-22.9%
Hispanic or Latino (of any race)	36,058	6.8%	47,440	9.0%	31.6%
Household Population	514,129	---	524,944	---	2.1%
Average household size	2.30	---	2.31	---	0.4%
Average family size	3.00	---	3.14	---	4.7%
Social Characteristics					
Population 25 years and over	363,851	---	369,770	---	1.6%
High school graduate or higher	311,725	85.7%	324,658	87.8%	4.1%
Bachelor's degree or higher	118,698	32.6%	139,773	37.8%	17.8%
Civilian veterans (18 years and over)	49,757	11.9%	40,643	7.7%	-18.3%
Speak language other than English at home (population 5 years and over)	84,128	16.9%	92,089	17.5%	9.5%
Portland at Work					
Management, professional, and related occupations	102,760	37.2%	110,047	41.5%	7.1%
Service occupations	41,444	15.0%	44,438	16.8%	7.2%
Sales and office occupations	73,250	26.5%	62,626	23.6%	-14.5%
Farming, fishing, and forestry	679	0.2%	469	0.2%	-30.9%
Construction, extraction, and maintenance occupations	19,405	7.0%	19,770	7.5%	1.9%
Production, transportation, and material moving occupations	38,546	14.0%	27,842	10.5%	-27.8%
Median Household Income (dollars) ²	\$40,146	---	\$41,128	---	2.4%
Median Family Income (dollars) ²	\$50,271	---	\$53,073	---	5.6%
Housing in Portland					
Total Housing Units	237,307	---	246,491	---	3.9%
Owner-occupied housing units	124,767	55.8%	131,013	57.7%	5.0%
Renter-occupied housing units	98,970	44.2%	96,220	42.3%	-2.8%
Vacant housing units	13,570	5.7%	19,258	7.8%	41.9%
Median home price ³	\$163,400	---	\$269,500	---	64.9%
Housing unit building permits issued	1,798	---	3,736	---	107.8%

¹ City total pop. nos. are from PSU's Population Research Center, 2005. All other data is from the US Census Bureau's 2004 American Community Survey, unless noted.

² Source: US Census Bureau, adjusted for inflation.

³ Source: local RMLS, April 2006

Figure 2: City of Portland Organization Chart



FORM OF CITY GOVERNMENT

The City of Portland, incorporated in 1851, is a home rule charter city. The City Charter is the basic law under which the City operates and can be amended only by a vote of the people. In 1913, a modified commission form of government was created, which is rare in cities as large as Portland. The City operates under the provisions of the City Charter and City Code, which are consistent with the Oregon Constitution and state law (the Oregon Revised Statutes). Non-emergency ordinances are passed by a simple majority vote of three of the five Council members.

The Charter provides for five nonpartisan Council members, called Commissioners, including the Mayor. They are elected at-large to four-year terms. The positions are full-time and salaried. The City Auditor is also elected and required by Charter to be a Certified Public Accountant. The Auditor is not part of the Council and has no formal voting authority.

The Mayor is the formal representative of the City and is responsible for assigning each of the Commissioners responsibility for one of five departments: Finance and Administration, Public Affairs, Public Safety, Public Utilities, and Public Works. The Mayor also decides which bureaus the Commissioners will manage. The Mayor can change these assignments at any time. Traditionally, the Mayor has been the Commissioner of Finance and Administration.

The Mayor and Commissioners act as legislators and administrators. Thus, Council members are responsible for both enacting and enforcing City laws, as well as administering bureaus under their supervision.

The Auditor receives and maintains all documents relating to the accounts and contracts of the City, including its debts, revenues, and financial affairs. The position is responsible for conducting financial and performance audits of City bureaus and their functions. In addition, the Auditor's Office serves as the Council Clerk, responsible for the processing and filing of all official Council actions.

Portland's new Mayor, Tom Potter, took office in January 2005, and quickly began processes to evaluate the efficiency and effectiveness of City government.

Portland is the last major city in the country with a commission style of government. Mayor Potter formed the city's first Charter Review Commission since 1922, composed of 25 community members, charged with reviewing Portland's current style of government and recommending possible changes. The Commission will present its findings to Council for a possible ballot measure in the November 2006 election.

In 2005, Mayor Potter also initiated his Bureau Innovation Project (BIP), which evolved into 20 projects, with a goal of creating a more responsive, citizen-focused City. BIP #1, Community Visioning, is one of the Mayor's key initiatives. Members on this project team began their work in fall 2005 and have been engaging citizens in discussions about the future of Portland. The team will ultimately craft a 30-year vision, due in spring 2007, that will serve as a roadmap, setting priorities for City planning and budgets.

The Mayor and Commissioners act as legislators and administrators.

Portland welcomed its new Mayor, Tom Potter, in January 2005.

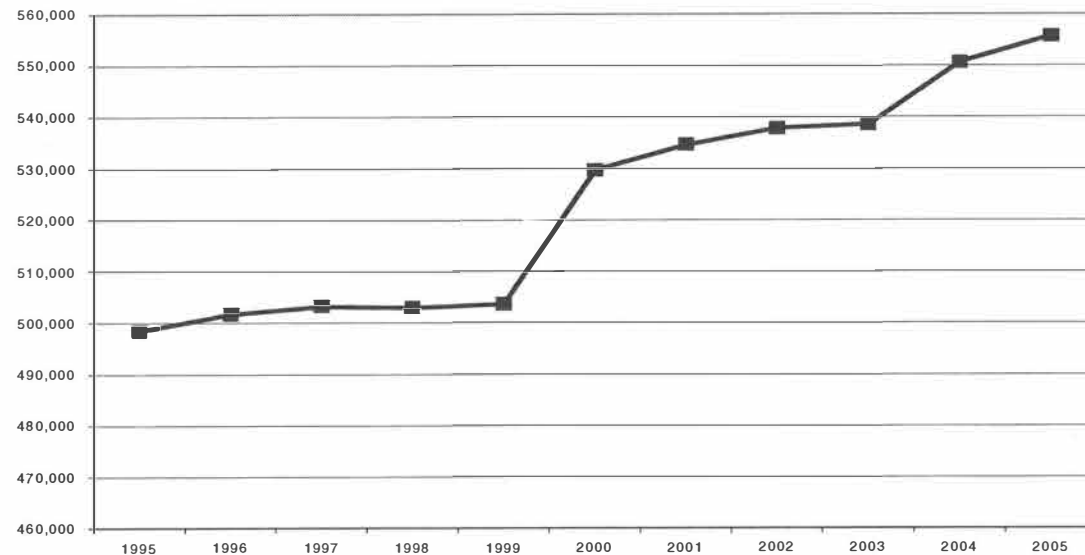
DEMOGRAPHIC DATA

Population

As the regional economy slowly recovers, population growth is increasing.

Rapid increases can be a negative trend if service demands increase faster than revenue growth. Similarly, declines in population can reduce demand and revenue requiring cuts in expenditures. Total city population has increased about 11% over the past ten years—from 498,396 to 555,650; the compounded annual rate of growth was 1.1%.

Figure 3: Portland's Population Growth

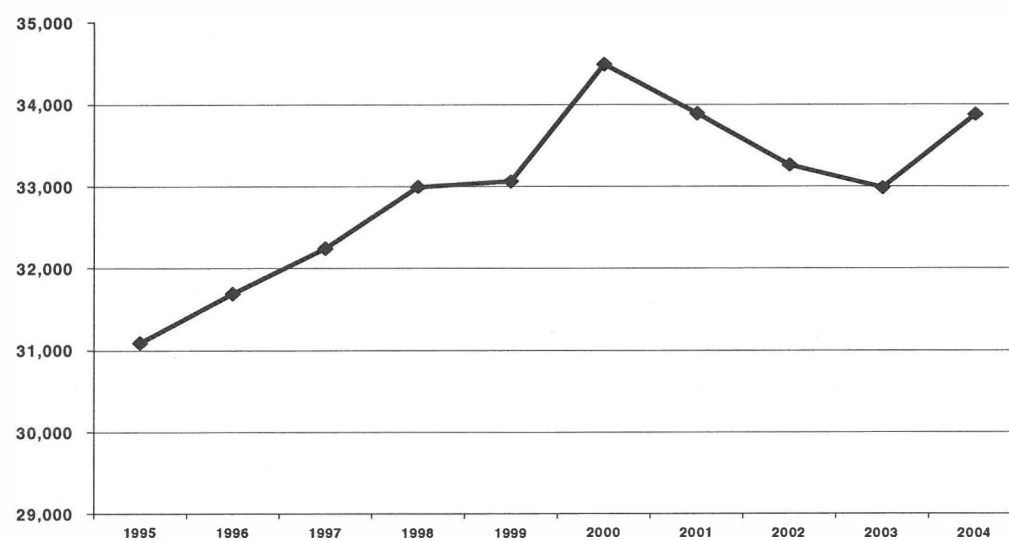


Per Capita Income

Portland's 2004 per capita income of \$33,875 is 7.2% higher than the state average.

Declining income per capita is a warning trend indicating general economic problems and a potential decline in the ability of citizens to provide tax resources for government services. Income per capita increased yearly until 2001 and the recession. As of 2004 per capita income is beginning to increase as the local economy improves. The total increase is approximately 9.0% over the past ten years, to an estimated \$33,875 in 2004.

Figure 4: Portland's Per Capita Income (in 2004 dollars)



Budget Overview

BUDGET SUMMARY

The Adopted Budget is the culmination of months of discussions, hearings, and Building a Budget to Meet City Goals

Total City Budget

The total City budget is up by \$146.1 million from the FY 2005-06 Revised Budget.

Total Legal Budget

State of Oregon Local Budget Law requires reporting of the City's total budget. This is defined to include total operating costs and the internal transactions between funds. The total Adopted Budget for FY 2006-07 is \$2.93 billion, which reflects a \$146.1 million increase from the FY 2005-06 Revised Budget.

Total Net Budget

The calculation for the total City budget overstates actual expenditures for programs, because it double counts internal transactions (internal materials and services and fund-level cash transfers). Such transactions occur between City funds, typically when one City agency provides services to another. Because this technically inflates the budget, the City usually references a net budget.

The net Adopted Budget is \$69.4 million more than the FY 2005-06 Revised Budget.

After eliminating the double count for the internal transfers and removing the \$20 million in Tax Anticipation Notes, the City's net budget for operating and capital requirements in FY 2006-07 is \$2.13 billion. Table 1 (see page 34) in the Financial Overview of the Budget in Brief provides greater detail of the total and net City budget figures. A summary is shown below.

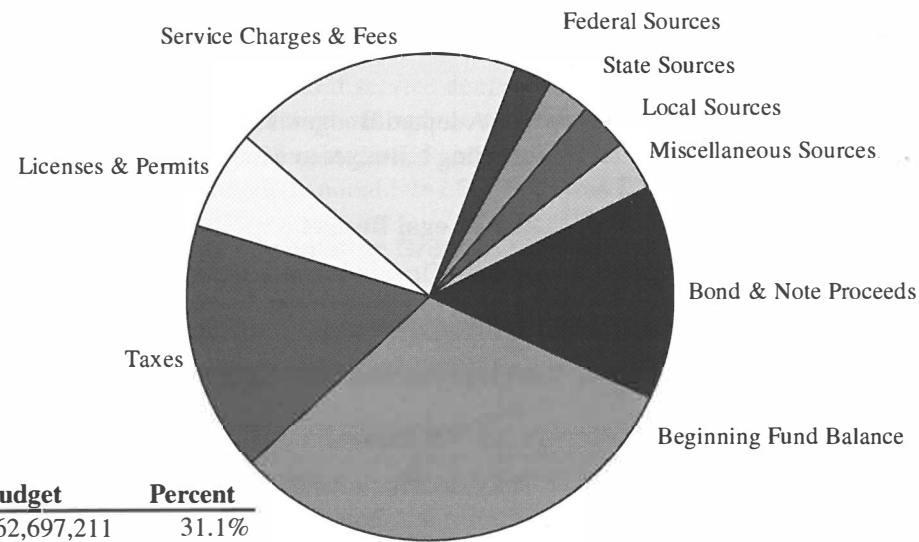
Figure 5: Expenditures by Major Object Category

Major Object Category	Revised FY 2005-06	Adopted FY 2006-07	Dollar Change	Percent Change
Personal Services	\$ 450,804,508	\$ 491,011,625	\$40,207,117	8.9%
External Materials & Services	603,272,855	597,487,505	(5,785,350)	-1.0%
Internal Materials & Services	204,841,716	207,564,098	2,722,382	1.3%
Capital Outlay	241,401,072	286,181,099	44,780,027	18.6%
Total City Bureau Expenses	1,500,320,151	1,582,244,327	81,924,176	5.5%
Contingency	212,271,210	365,050,984	152,779,774	72.0%
Ending Fund Balance	311,080,199	88,013,160	(223,067,039)	-71.7%
Debt Service	263,524,871	324,043,657	60,518,786	23.0%
Fund Level Cash Transfers	500,250,845	574,207,910	73,957,065	14.8%
Total City Budget	2,787,447,276	2,933,560,038	146,112,762	5.2%
Less Internal Transfers & Tax Anticipation Notes	(725,092,561)	(801,772,008)	(76,679,447)	10.6%
Total Net City Expenses	\$ 2,062,354,715	\$ 2,131,788,030	\$69,433,315	3.4%

Total City Budget Charts

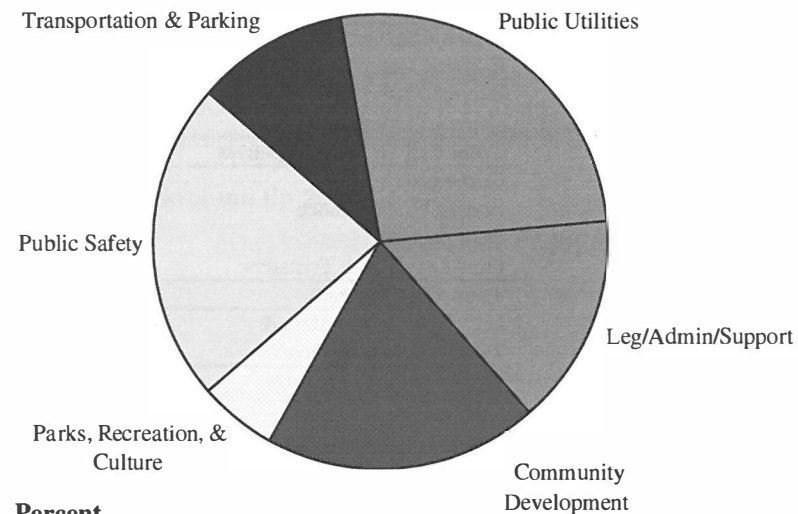
The following charts graphically summarize the total net City budget. For a numerical summary, refer to Table 2—Operating and Capital Budget by Service Area, which is in the Financial Overview section of this document (see page 35).

Figure 6: City Net Budget—Resources by Major Category



Resource	Budget	Percent
Beginning Fund Balance	\$ 662,697,211	31.1%
Taxes	\$ 357,595,383	16.8%
Licenses & Permits	\$ 137,784,608	6.5%
Service Charges & Fees	\$ 416,567,037	19.5%
Federal Sources	\$ 54,950,819	2.6%
State Sources	\$ 55,842,243	2.6%
Local Sources	\$ 75,593,495	3.5%
Miscellaneous Sources	\$ 71,236,399	3.3%
Bond & Note Proceeds	\$ 299,520,835	14.1%
Total Net Budget:	\$ 2,131,788,030	100.0%

Figure 7: Total City Bureau Expenses—Requirements by Service Area



Service Area	Budget	Percent
Leg/Admin/Support	\$ 238,605,576	15.1%
Community Development	\$ 304,503,031	19.2%
Parks, Recreation, & Culture	\$ 90,897,901	5.7%
Public Safety	\$ 357,347,266	22.6%
Transportation & Parking	\$ 175,020,980	11.1%
Public Utilities	\$ 415,869,573	26.3%
Total City Bureau Expenses:	\$ 1,582,244,327	100.0%

General Fund Budget

General Fund resources are categorized as either discretionary or nondiscretionary. Discretionary resources are those that the City Council can allocate to fund programs and services in any area. In other words, these resources have few restrictions on how they can be allocated. General Fund discretionary resources are typically used to support such basic City services as police, fire, and parks.

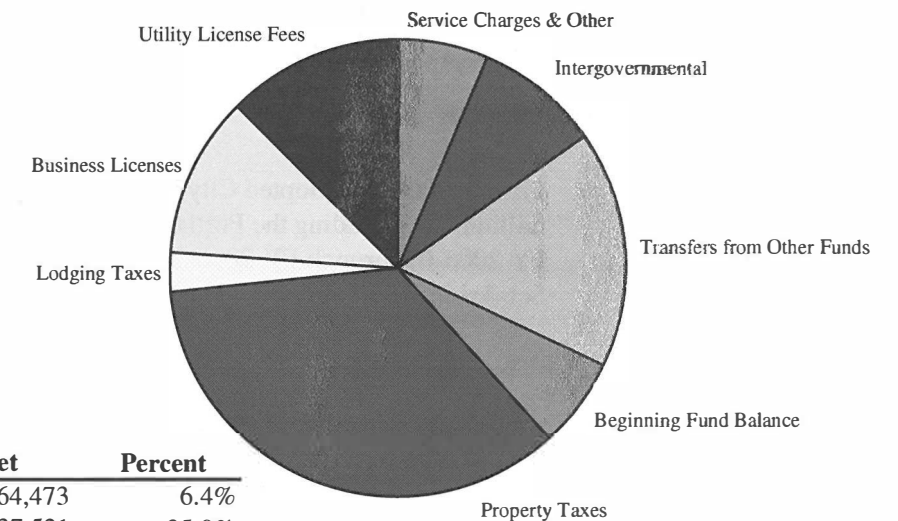
Discretionary resources total \$341.2 million, 72.7% of the General Fund.

Discretionary resources include property taxes, utility license fees, business license fees, transient lodging taxes, state shared revenues (from cigarette taxes and liquor sales), interest income, and miscellaneous revenues and cash transfers into the General Fund. Nondiscretionary resources include grants, contract revenues, service reimbursements, and other revenues specifically dedicated for a particular purpose.

All General Fund resources are also categorized as either one-time or ongoing. An example of a one-time resource is an increase in beginning fund balance. While available in the specific year, it is not a resource that can be relied upon in future years. An example of an ongoing resource is an increase in property tax revenues that would be sustained over time. The City budget uses a combination of one-time and ongoing resources to fund programs and services. City financial policies state that one-time resources may not be used to fund ongoing expenses.

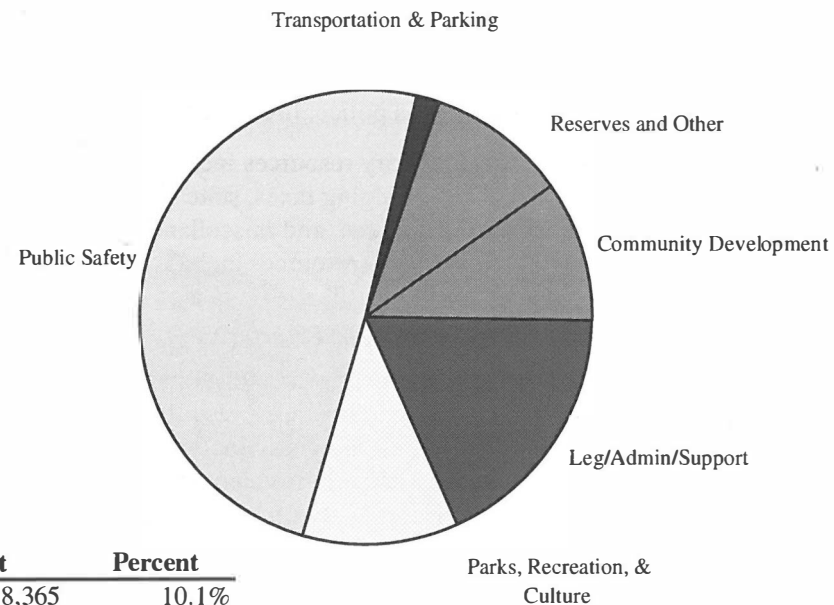
The following charts summarize the City's General Fund budget. For the numerical summary, refer to Table 3—General Fund Revenues and Expenses, in the Financial Overview section of this document (see page 37).

Figure 8: General Fund—Resources by Major Category



Resource	Budget	Percent
Beginning Fund Balance	\$ 30,064,473	6.4%
Property Taxes	\$ 164,437,521	35.0%
Lodging Taxes	\$ 13,502,206	2.9%
Business Licenses	\$ 52,830,754	11.2%
Utility License Fees	\$ 59,055,137	12.6%
Service Charges & Other	\$ 29,553,000	6.3%
Intergovernmental	\$ 41,406,387	8.8%
Transfers from Other Funds	\$ 78,825,482	16.8%
Total General Fund Budget:	\$ 469,674,960	100.0%

Figure 9: General Fund—Requirements by Service Area



Service Area	Budget	Percent
Community Development	\$ 47,388,365	10.1%
Leg/Admin/Support	\$ 84,451,129	18.0%
Parks, Recreation, & Culture	\$ 51,773,983	11.0%
Public Safety	\$ 231,207,396	49.2%
Transportation & Parking	\$ 7,647,154	1.6%
Reserves and Other	\$ 47,206,933	10.1%
Total General Fund Budget:	\$ 469,674,960	100.0%

CAPITAL IMPROVEMENT PLAN

Overview

The FY 2006-07 Adopted Citywide Capital Improvement Plan (CIP) budget totals \$388.4 million, not including the Portland Development Commission (PDC). The Citywide CIP for FY 2006-07 through FY 2010-11 is projected to be \$1.3 billion. The General Fund Capital Set-Aside is \$1.8 million, net of debt service.

Highlights

FY 2006-07

Public Safety

- ◆ Fire Apparatus Replacement \$1,560,073

Parks, Recreation, and Culture

- ◆ University Park Community Center \$2,648,709
- ◆ Maintenance Facility Replacement \$774,025
- ◆ East Portland Pool \$10,000,000

Public Utilities

- ◆ Combined Sewer Overflow Program \$164,620,779
- ◆ Water Distribution Mains \$4,792,000
- ◆ Open Reservoir Maintenance/Security \$5,158,000

Transportation

- ◆ South Waterfront: Tram \$3,435,983
- ◆ Sandy Boulevard: 13th-47th \$4,369,877
- ◆ Columbia/Killingsworth \$8,058,509
- ◆ Naito Parkway \$5,559,501

Legislative, Administrative, and Support

- ◆ Enterprise Business System \$9,017,205
- ◆ Fire & Rescue Facilities GO Bond Program \$11,565,000
- ◆ Parking Facilities Maintenance \$2,328,000
- ◆ Police Facilities \$2,883,662
- ◆ Union Station \$680,406

Financial Overview

CITY FINANCIAL PLANNING PROCESS

Background

The first step in the budget process involves preparing updated five-year financial forecasts for each major fund. In addition to the General Fund, specific forecasts are prepared for other major City funds, including Transportation, Environment Services, and Water.

These plans, which forecast resources and expenditure requirements by fund over a five-year period, identify long-term service and financial issues requiring attention during the budget process. The plans aid Council by placing decisions in a long-range financial context for purposes of developing budgets that are balanced for the coming year and subsequent out-years of the five-year financial forecast horizon. Council reviews these plans during work sessions early in the budget process. At that time, bureau managers are given direction on identified issues that provides guidance for preparing and finalizing budgets.

A summary of these financial plans is included in this section. Due to its significance to the City's annual budget, the General Fund five-year financial forecast and financial plan is described in greater detail.

GENERAL FUND FINANCIAL FORECAST

Overview

Financial Planning regularly generates five-year estimates of General Fund discretionary resources and requirements for Council. Discretionary resources include revenues plus beginning balance that are budgeted by Council without restriction, in accordance with Council priorities. Discretionary resources include property taxes, utility license fees, business license, lodging tax revenues, state shared (cigarette and liquor) revenues, some interest income, some court fines, some cash transfers into the General Fund, and small amounts of other miscellaneous revenues. Discretionary resources exclude grants, bureau contract and service reimbursement revenues, bureau fee revenue, and other revenues dedicated for a specific purpose.

The Council's financial planning process starts with the preparation of a five-year revenue forecast. The Office of Management and Finance issues a five-year revenue forecast document at the conclusion of this process, usually sometime in early November.

The five-year revenue forecast is used to develop the five-year financial forecast. The financial forecast compares estimated annual resources (revenue plus beginning fund balance) with projected costs of maintaining General Fund current appropriation levels (CAL). Initial revenue and financial forecasts were published in December 2005 and formally reviewed with Council. Both of these forecasts are typically updated prior to the Mayor's Proposed Budget decision-making. The original December financial forecast has since been updated twice:

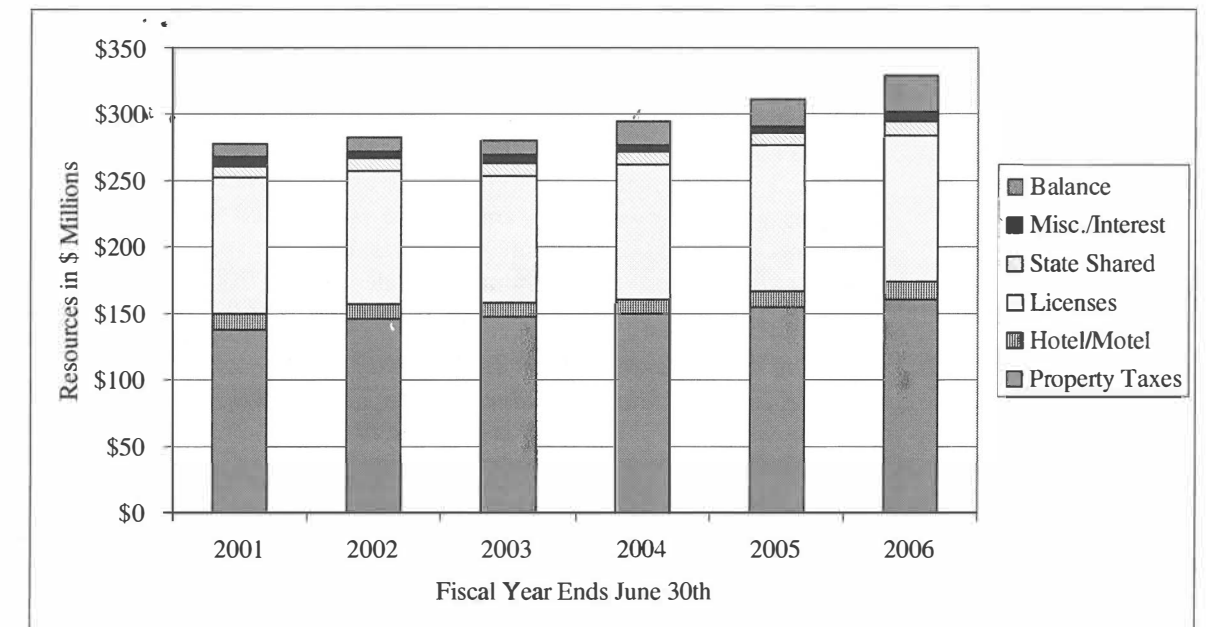
- ◆ Both the revenue and financial forecasts were updated in early March. The revenue forecast was updated using the most recent financial and economic data. Estimated CAL requirements were updated on the cost side.
- ◆ In late March, estimated CAL requirements were again updated for revised health benefits cost estimates as provided by the City's consultant to Human Resources.

The discretionary beginning balance estimate, a key resource of the General Fund, is updated at the conclusion of each accounting period and published in the *Financial Outlook*. This report is electronically distributed within the City and to numerous outside recipients. The *Outlook* provides current information on the General Fund's financial condition with the updated ending fund balance estimate fed into the financial forecast General Fund resources.

Historical Resources

General Fund: Figure 10 (below) summarizes recent General fund revenue growth over the past five years.

Figure 10: General Fund Discretionary Resources

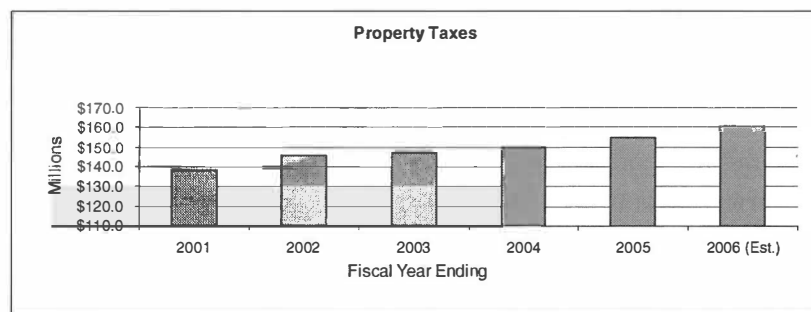


Revenue growth over the past five years has averaged about 2.5% per year. The General Fund's beginning fund balance has averaged about \$16.4 million. Beginning balances have been higher than normal over the last several years due to above average under-expenditure of budgets. This, in turn, is due principally to the almost continuous need to reduce bureau overall CAL budgets over the past four years because of weak revenue growth relative to stronger expense growth. Overall resource growth (revenues plus beginning fund balance) has averaged about 3.4% per year. The graph clearly shows a regional economy that was hit hard by the events of September 11th and ensuing national recession. General Fund discretionary revenue growth for the three-year period ending FY 2002-03 was flat at best. Actual FY 2002-03 discretionary revenues were below the previous year. This financial environment made it difficult for the General Fund to maintain current service levels and programs even with inflation well below historic levels.

The General Fund property tax rate is fixed.

Property Taxes:

Revenue growth has also slowed because of the passage of Measure 50 property tax limitation. For the first two years of Measure 50, property taxes grew 4% to 5% annually. Under



Measure 50, assessed value growth on existing properties is limited to 3% per year plus new construction. The General Fund's tax rate is permanently fixed at \$4.5770 per \$1,000 of Measure 50 taxable assessed value. Property tax revenues still constitute just over 50% of General Fund revenues, and growth has averaged just 3.1% over the last five-years. Assessed value growth on existing taxable assessed value has grown at somewhat less than the Measure 50 allowable 3%, and taxable value added to the tax rolls through new construction, outside of urban renewal districts, has been very weak. Overall, property tax revenues have grown at just about a 3% rate with FY 2005-06 growth expected to be a little over 3%.

Housing and Enterprise Zone Tax Abatements:

(See FY 2006-07, Adopted Budget Volume 2, Financial Plans for the complete Tax Abatements text; the summary is included here.)

The City of Portland currently uses tax exemptions as a tool to incent certain types of housing development spanning housing and enterprise zone programs. Another program involves incenting economic and job development in specific areas of the City in an enterprise zone. At present, very little in the way of exemptions exist under this program.

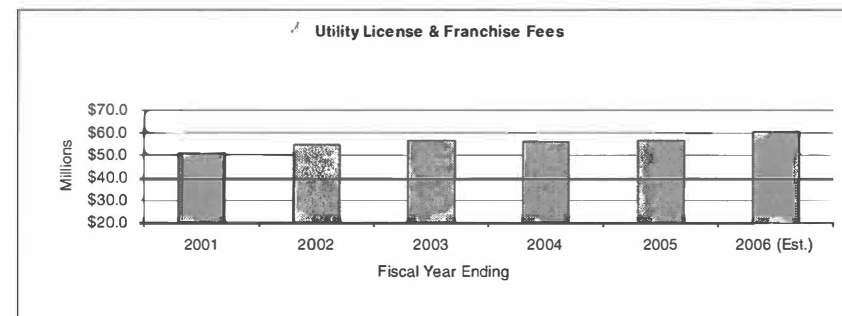
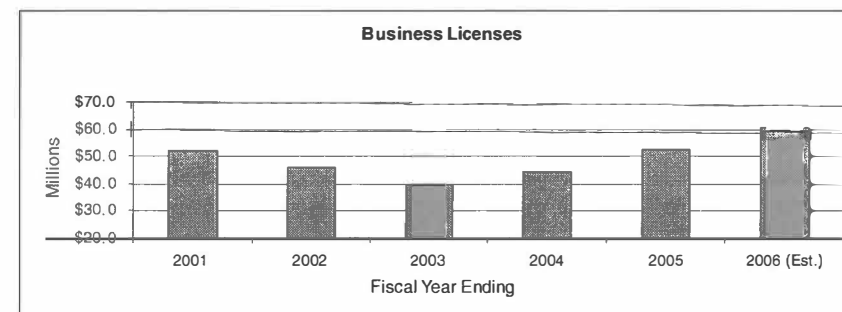
Estimates from 3,035 tax records show that:

- About \$1.1 billion of real market values are currently exempted from property taxation. About \$950 million of this is concentrated in core area multi-family exemptions, low-income rental housing, and new housing exemptions in distressed neighborhoods.
- \$1.1 billion of exempted real market value translates into about \$640 million of M50 taxable assessed value and is currently exempted from property taxation.
- Local government levy losses are estimated at somewhere between \$8.2 million and \$8.9 million annually. Property tax exemptions are estimated to lower the General Fund's fixed rate operating levy by about \$2.1 million annually.
- Local government revenue losses have been estimated by adjusting levy losses for a delinquency and discount factor. City revenue losses work out to somewhere between \$5.5 to \$6 million annually. Over half of the estimated revenue loss takes the form of lower PDC divide-the-taxes revenues. General Fund revenue losses are estimated at just under \$2 million annually. Total local government revenue losses are estimated in a range from \$7.7 million to about \$8.4 million.
- Schools nominally experience levy losses of about \$2.4 to \$2.5 million annually. Because of the complexity involved in school funding through a statewide equalization formula, it is difficult to assess whether the levy losses accrue locally, are shared statewide, or accrue to the State's General Fund.

Exemptions appear to cost a homeowner with \$200,000 of taxable assessed value between \$11 to \$16 annually depending on in which of the five schools districts a property is located.

License Revenues:

General Fund license revenues have grown at an anemic 1.3% rate over the past five years. Business license revenues declined steeply during the recession with a rebound in revenues starting only during FY 2004-05. Utility license and franchise fees have been similarly weak.



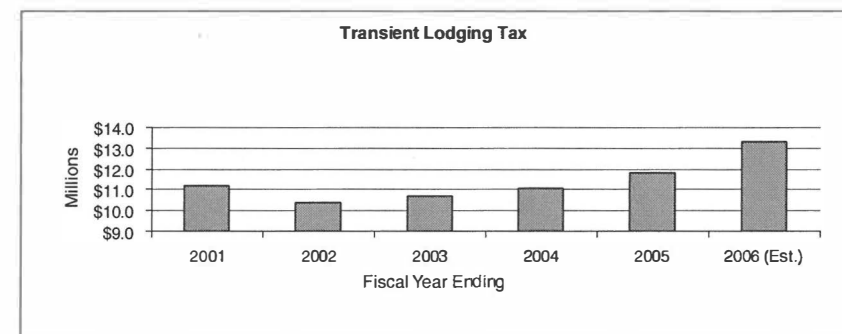
This is due in part to a continuing decline in Qwest's franchise fee revenues and Council's action capping Water and Bureau of Environmental Services (BES) utility license fee revenues at FY 2004-05 levels. Qwest's franchise fee revenues are in a long, slow decline as wireless and other telecom technologies displace traditional landline telecom technology. Traditional investor-owned electric related franchise fees have also been stagnant. The recession, along with steep electric rate increases in previous years, have combined to depress energy consumption and revenue growth. With the exception of natural gas related franchise fee revenues, this situation may persist in subsequent revenue forecasts.

Utility and franchise fee revenues present a mixed picture over the past several years.

Business Licenses and Transient Lodging Taxes clearly exhibit the effects of the recession and September 11th.

Transient Lodging Tax:

Transient lodging tax revenues are cyclical like business license revenues and follow the business cycle. Transient lodging tax revenues peaked



at \$11.15 million during FY 2000-01. In the aftermath of September 11th, revenues declined to \$10.4 million in FY 2001-02, with about \$10.7 million in revenues realized by year-end FY 2002-03. Revenues began to recover during FY 2003-04 and surpassed the previous cycle's peak at the end of FY 2004-05. Revenue growth through the first nine months of FY 2005-06 continued at a healthy pace.

State-Shared Tax and Miscellaneous Revenues: State-shared cigarette and liquor tax revenues grew at a 2.6% rate over the last five years, with most of this growth occurring over the last couple of years. Miscellaneous revenues and interest income stagnated for most of the last five years due, in large part, to a low interest rate environment. Interest income has begun to recover in response to a string of Federal Reserve interest rate increases.

General Reserve Fund remains fully funded.

At the end of FY 2005-06, consistent with Council policy and Council's previous five-year financial plans, the General Reserve Fund is expected to total about \$41 million and remains fully funded at the required 10% of revenues (net of borrowing proceeds and grant revenues). Thus, the General Fund will go into FY 2006-07 with the General Reserve at or slightly above the required 10% level.

Forecast Assumptions

Continued Economic Expansion

The onset of recession during 2001, along with the shock of September 11th, put Oregon's economy into a tailspin. Both the state and regional economy experienced rapid declines in employment and rising unemployment rates. A faltering regional economy and recession quickly translated into sharp declines in business license and transient lodging revenues.

The regional economy is recovering from the recession and is in the expansion phase.

For the regional economy, employment (by place of residence) peaked in the middle of FY 2001-02, falling to the lowest point for this cycle during the first quarter of FY 2003-04. The regional economy started to claw back from its recession during FY 2003-04 and registered employment growth for all of calendar 2004. Employment appears to have regained pre-recession peak employment levels only during the second quarter of FY 2005-06, and it now seems clear that the regional economy has entered the expansion phase for this economic cycle. This trend appears to be continuing on into the second half of FY 2005-06.

Oregon's economy fared better than the metro area, with statewide employment surpassing the previous cycle's peak during FY 2004-05. The state entered what is usually termed as an expansion phase for this cycle, while the regional economy was still in recovery.

Both the fall and updated March revenue forecasts assume that the national, state, and regional economies grow modestly. Thus, cyclical revenues such as business license and transient lodging tax revenues are expected to grow modestly in the five-year revenue forecast that underpins the Council's Adopted Budget.

Transient Lodging Taxes

The transient lodging revenue forecast calls for FY 2006-07 revenues of about \$13.5 million versus an expected FY 2005-06 year-end of about \$13.1 million. Revenues are now well above the previous cyclical peak and expanding. Revenues are forecast to grow about 5.6% per year, rising to about \$15.9 million by FY 2010-11. Revenues may do better than forecast to the extent that special events or large conventions come to town. During the past couple of years, and unlike previous years, there have been few, if any, special events. The only recent exception appears to be the national ice-skating championships now held over a year ago.

Utility License and Franchise Fee

Utility license fees are forecast at \$59.1 million for FY 2006-07 versus an expected FY 2005-06 year-end of about \$57.9 million and budgeted revenue estimates totaling \$57.6 million. This revenue category is composed of energy franchise and license fees, telecom and cable franchise and license fees, and license fees received from the City's water and sewer utilities. The specifics of these forecasts are as follows:

- ◆ NW Natural franchise fees are forecast at just under \$10 million FY 2006-07 versus a budget of \$9 million for FY 2005-06. Revenues have grown sharply due to large natural gas related cost increases "passed through" to NW Natural customers. The forecast assumes that the Oregon Public Utility Commission will authorize a more modest rate increase during the fall of 2006. NW Natural is expected to continue to raise rates and revenues next fall so as to pass higher natural gas costs through to customers. Expected rate increases and normal winter heating conditions should combine to produce the FY 2006-07 budgeted revenue estimate of about \$10 million.
- ◆ PGE franchise fees are currently forecast at \$15.8 million year-end FY 2005-06 versus a budgeted revenue estimate of just over \$16.3 million. The FY 2006-07 forecast calls for revenues of about \$17 million and assumes an expected late fall rate increase and normal winter weather conditions. This forecast may still be too optimistic. PGE franchise fees have faltered over the last 18 months due in part to response by consumers to large rate increases that occurred three years ago. In addition the recession significantly reduced industrial and commercial energy usage. The Office of Management and Finance (OMF) will be closely monitoring PGE's third and fourth quarter franchise fee payments for consistency with the current revenue forecast.
- ◆ Water and sewer franchise fees are capped at FY 2004-05 levels reflecting Council's decision to cap these two utility license fees. Revenues are capped at about \$17 million for the life of the forecast and until such time as the effective tax rate drops to 5%. This is expected to occur possibly in FY 2010-11 (the last year of the current five-year forecast horizon) or FY 2011-12. By the last year of this revenue forecast the cap translates into revenues that are about \$6 million lower than otherwise would have been the case.
- ◆ Telecom and cable franchise and license fees, including Qwest license fees, are expected to be flat to declining reflecting the steep downturn in this sector as well as the continuing loss of Qwest landlines to wireless telephony. Qwest franchise fees are currently forecast at \$3.6 million for FY 2006-07 with revenues declining to about \$2.6 million in FY 2010-11. This forecast matches recent trends in Qwest franchise fees, which have steadily declined from a peak of about \$6.8 million in FY 1999-00. The City's utility license fee code continues to be out of "synch" with current telecom, principally wireless technologies.

The energy related franchise fee forecasts at this point are consistent with the expected effects of Oregon's energy deregulation scheme. Deregulation continues to be a question mark. Experience to date seems to indicate that deregulation is having little if any impact on energy related franchise fees.

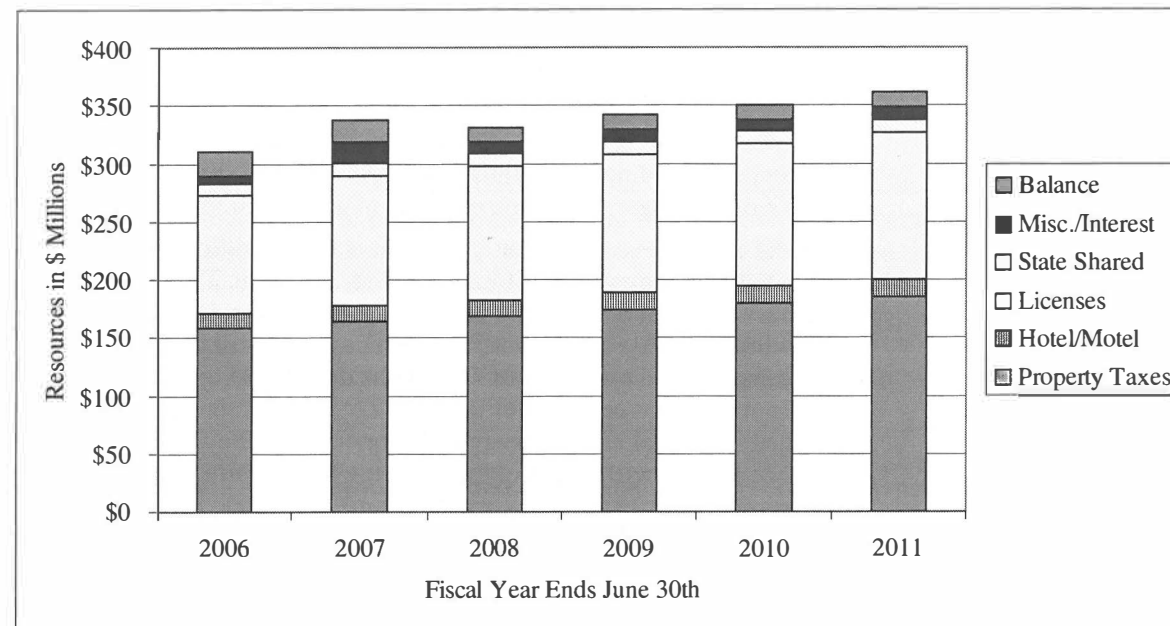
Overall, franchise and utility license fee revenues are forecast to grow by about 1.6% annually over the life of the forecast. This lower growth rate is due in large part to the water/sewer revenue cap as well as an expected steady decline in Qwest franchise fees.

Property Taxes

Property taxes are expected to grow by about 3.1% annually over the life of the forecast. This is identical to the average annual growth rate of the past five years. Revenue growth is constrained by Measure 50 constitutional mechanics. This forecast assumes that the levy and revenue losses from compression stabilize at 3.2% for the life of the forecast. The delinquency and discount rate is expected to hover around 6.5% for the life of the forecast.

Figure 11 summarizes the current five-year revenue forecast (as of early April). Average annual revenue growth is projected at about 3.8%. Budget-to-budget revenue growth is currently forecast to be about 5.4%. The critical resource forecast assumption is a national economy that continues to expand above pre-recession peaks along with the continued reemergence of moderate local area economic growth in FY 2006-07.

Figure 11: Forecast Discretionary Resources



Financial Forecast Results

The regional economy has only recently recovered from the lingering effects of recession and started to expand. When viewed in terms of cyclical revenue impacts (business license and transient lodging tax revenues), this last recession was deeper than the recession of the early 1980s. The Portland area's unemployment rate was among the highest of all metropolitan areas for many months during calendar year 2004. The area's unemployment rate has steadily declined to 5.0% as of May. The national economy continues to expand, generating good month-to-month employment increases. Recent employment numbers for the local area have been showing solid continuing employment gains.

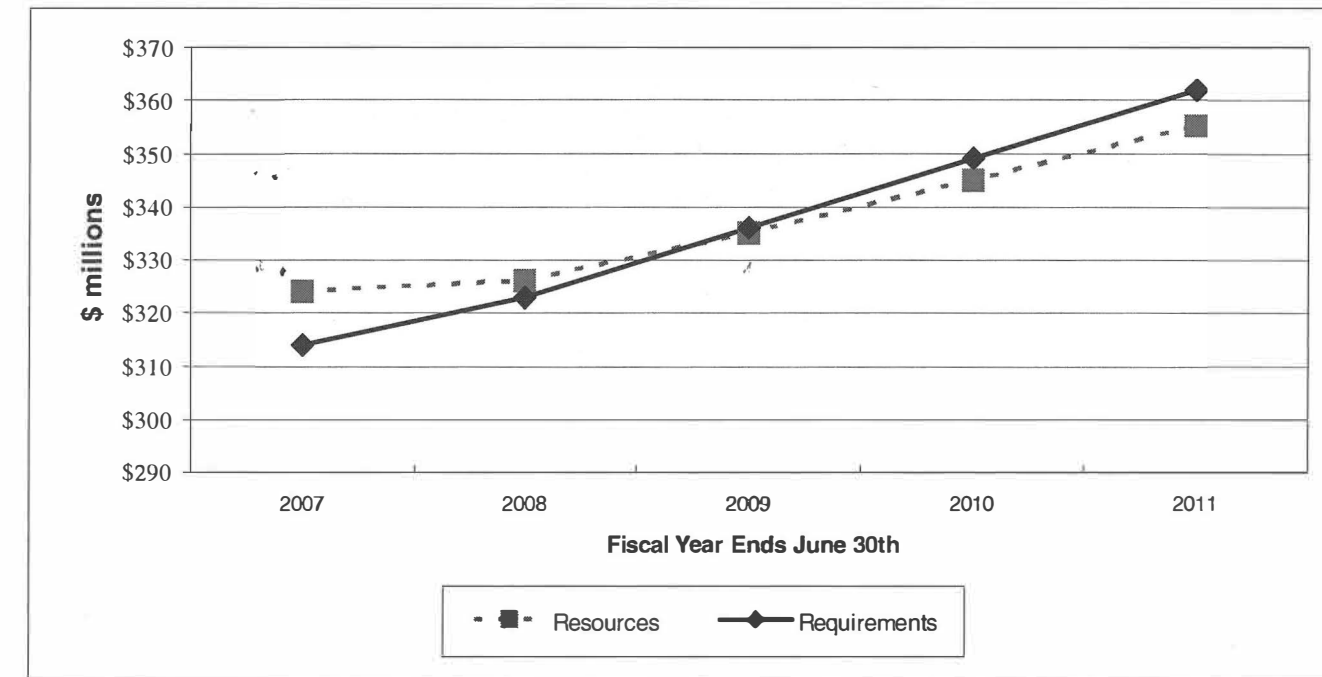
This environment translated initially into a December resource forecast for FY 2006-07 of about \$324 million. The December financial forecast showed that:

- ◆ Sufficient resources would be available in FY 2006-07 and FY 2007-08 to fund estimated General Fund CAL requirements with an excess estimated at \$14.1 million for one-time over those two budget cycles.
- ◆ By FY 2009-10 estimated requirements exceed forecast discretionary resources by \$2.5 million increase to an estimated \$6.1 million in FY 2010-11, the last year of the forecast.

The principal reason for this development was inclusion in this forecast of expected health-care cost increases averaging well over \$3 million per year. The December financial forecast assumed 95%/5% employer/employee health benefits cost sharing for FY 2006-07, with forecast out-years assuming cost sharing as outlined in Council Adopted Resolution 36274. The forecast health benefits costs increases exacerbated the General Fund's continuing problem of a structural imbalance between a revenue growth rate that cannot keep up with the requirements growth, fueled in part by labor contract increases in excess of inflation and rising healthcare costs.

Figure 12 (below) depicts the relationship between December financial forecast requirements and resources. As stated earlier, the negative gap in the last year of the forecast was estimated at \$6.1 million. In Figure 12 it is easy to see that requirements are growing faster than resources.

Figure 12: Resources less Requirements = GAP



The December financial forecast estimated that the out-year gaps between resources and requirements could be closed with the incorporation of \$2.7 million of ongoing CAL reductions in each of the next two budget cycles.

The November resource forecast was updated in late February/early March and showed improvement in forecast revenues:

- ◆ Ongoing revenues were increased by about \$3.1 million. Business license and transient lodging revenues were increased by about \$2.3 million over the original December forecast reflecting better regional economic conditions. Property taxes and fund interest income were also better in the early March forecast.
- ◆ The beginning balance estimate was up about \$729,060 over the December forecast based on current year financial information through early February.

Estimated General Fund FY 2006-07 CAL requirements were down about \$6.7 million compared to December financial forecast estimates. A lower than expected consumer price index increase reduced the compensation set-aside by about \$1.6 million. In addition, an expected \$5 million transfer to reserves was dropped from the forecast because it was no longer required. In the early March financial forecast out-year health benefits cost estimates were also revised upward to reflect new labor contract provisions that extended 95%/5% employer/employee health benefits cost sharing to the four out-years of the forecast. This substantially increased estimated CAL requirements, but forecast revenue increases as well as other CAL reductions more than offset the health benefits increase. The last year financial forecast gap between resources and requirements declined to \$2.8 million. The early March forecast substantially improved the five-year General Fund financial outlook.

In late March, the City's health benefits consultant revised their health benefits cost forecast, substantially lowering the expected cost increases. General Fund bureau CAL requirements came out net about \$1.1 million lower. The financial forecast was rerun with inclusion of the new cost estimates. This late March forecast eliminated the fifth-year gap between resources and requirements and showed a small negative fifth-year deficit of \$768,745. This gap is well within the accuracy of the forecast and amounts to a scant 0.2% of forecast FY 2010-11 resources.

The forecast has been rerun using Council's Adopted FY 2006-07 Budget. Like the late March forecast, the current financial forecast shows that:

- ◆ The General Fund is balanced on estimated current appropriation levels, that is, without significant reductions to bureau current appropriation levels in order to balance the fund over the life of the five-year forecast period.
- ◆ The Adopted Budget Forecast continues to show a small gap of less than 1% in the last year of the forecast (FY 2010-11). OMF believes that Council's Adopted Budget balances the discretionary General Fund for the life of this five-year forecast.

The General Fund's outlook has improved markedly since last fall's December forecast. Over the life of this five-year forecast, resources are projected to be sufficient to fund current appropriation levels with what is estimated to be significant amounts of one-time money available over the next two budget cycles. However, the basic problem shown in Figure 12 remains for the long run. Revenue growth remains heavily constrained relative to expenditure growth. Half of General Fund revenues still come from property tax revenues that can grow, at most, by about 3% annually. In an upswing in the business cycle, like the General Fund is now experiencing, overall revenue growth is only temporarily able to keep up with anticipated expenditure requirements. For the long haul it is likely that the basic structural problem remains.

FIVE-YEAR GENERAL FUND FINANCIAL PLAN

The Council takes a five-year approach to devising its budget so that the budget itself is the first year of Council's five-year financial plan. This ensures that the long-range impact of major decisions is considered in developing the budget. This is even more important under current conditions because Council's Adopted Budget balances the General Fund on estimated current service level requirements.

The December financial forecast indicated that Council was faced with a projected resource stream that could not fund General Fund current appropriation levels. Two successive forecast updates improved this worrisome financial outlook but any increases above current appropriation levels are not sustainable given current financial forecast estimates.

Council's Approach to Balancing the General Fund

As the financial forecast presently stands, Council's Adopted Budget balances the General Fund at on-going CAL levels so as to ensure that requirements are in line with resources for the duration of the five-year financial forecast. Council's Adopted Budget and five-year financial plan funds bureau budgets at CAL levels, although this is the outcome of plusses in some bureau discretionary budgets as offset by reductions in other bureaus. Bureau discretionary budgets have been stabilized at \$275.4 million for FY 2006-07. The current financial plan indicates no CAL reductions or additions in the out-years of the forecast.

Figure 13: Forecast for Coming Years

ITEM	Proposed 2007	Out-Years of Proposed Financial Plan			
		2008	2008	2009	2010
General Fund Resources	\$332,855,923	\$330,053,466	\$339,862,596	\$350,426,779	\$359,868,530
Transfer In General Reserves	\$844,567	\$0	\$0	\$0	\$2,940,170
Requirements					
Bureaus & Programs, CAL	\$275,425,612	\$285,613,467	\$297,443,692	\$309,638,804	\$320,637,809
Required CAL Reductions	\$0	\$0	\$0		
Capital Set-Aside	\$1,260,000	\$1,915,000	\$1,915,000	\$1,915,000	\$1,915,000
One-Time Projects	\$22,184,663	\$8,248,775	\$5,416,100	\$2,041,192	\$0
Pension Bonds	\$7,307,031	\$8,486,412	\$8,820,200	\$9,167,761	\$9,514,697
Council Set-Asides	\$27,523,184	\$25,789,812	\$26,267,604	\$27,664,023	\$30,741,194
Total Requirements	\$333,700,490	\$330,053,466	\$339,862,596	\$350,426,779	\$362,808,701
Difference-GAP	\$0	\$0	\$0	\$0	(\$0)
Reserve Fund, Percent	10.7%	12.0%	12.2%	12.4%	11.9%

Figure 13 details the five-year financial plan. One outcome of "making room" for the larger increases in health benefits costs is that the forecast contemplates the availability of relative large amounts of one-time resources in subsequent budget cycles. FY 2007-08 one-time resources are currently estimated at \$8.5 million, declining to about \$2.0 million in FY 2009-10.

Uncertainties

Council's Adopted Budget and financial plan balances the General Fund for the life of the five-year forecast. There is likely to be substantial amounts of one-time money available over the next two budget cycles. This will provide the Mayor and Council with more flexibility in meeting future financial uncertainties that include:

- ◆ The current financial forecast and proposed five-year plan assumes that projected increases in healthcare funding are resolved through implementation of the 95%/5% employer/employee cost sharing solution. Briefly, this plan commits the City to paying 95% of expected health benefits premiums. Here there are two uncertainties. First, the healthcare funding and premium cost projections are current best estimate forecasts, and there could easily be a large unfavorable shift in the numbers. Second, the City has secured this solution through labor contract negotiations. Current labor contracts do not run for the life of the forecast. A higher cost alternative could easily come out of out-year labor contract negotiations.
- ◆ Local economic recovery from recession is well underway and recent job growth numbers are very encouraging. It is only over the last 6 to 12 months that the regional economy has begun to show consistent evidence (in the form of job growth) of recovery and renewed expansion. This forecast, like the previous forecast, is critically dependent on a local economy that continues this expansion.
- ◆ Legislative changes to the Public Employees Retirement System (initiated by the last Oregon Legislature) have now survived several legal challenges, and the retirement system seems to have stabilized. The forecast is built on best-guess estimates of what out-year increases in employer pension costs will look like. The PERS board is in the process of making a series of decisions that will affect employer contribution rates beginning July 1, 2007 (FY 2007-08). Increases in contribution rates beyond what is currently forecast upset the five-year plan.
- ◆ Business license revenues are now being collected and "booked" net of refunds and after adjustment for the buildup of credits. This revenue stream will tend to be more volatile. Forecasts will tend to be less accurate than in the recent past because there is little or no historical data available to generate forecasts on a net revenue concept.

- ◆ Both the Parks and Children local option levies expire during the course of this forecast. Both levies expire at the end of FY 2007-08, or at the end of the second year of this five-year forecast cycle. It is unclear if the expiration of the Parks levy will lead to increased General Fund CAL requirements not presently in the five-year forecast.

Forecast Risks

The principal risk to the Council's Adopted Budget and five-year financial plan is a slow regional economy and sub-par growth or the reemergence of recession-like conditions. As this is being written, oil prices are hovering at around the \$70-per-barrel mark. In addition, the Federal Reserve (the Fed) is on a path to increase interest rates, making monetary policy more restrictive than in past years. The persistence of much higher energy costs is likely to slow the economy down and may possibly reignite inflation. These kinds of conditions could easily spark the reemergence of recession. Subsequent revenue forecasts would show lower revenues, making it difficult for Council to fund even the current service levels in the Council's Adopted Budget.

In addition, the Oregon Legislature is currently studying the distribution of cigarette and liquor taxes shared out with Oregon cities and counties. The General Fund's state-shared cigarette and liquor tax revenues, about \$10 million annually in this forecast, may be at risk. The Legislature already conditionally withheld year-end FY 2002-03 cigarette tax revenues from Oregon cities. Fortunately, a \$500,000 revenue loss in Portland's FY 2002-03 cigarette tax revenues did not occur. Loss of these critical revenues to the General Fund would represent a major change to the General Fund's financial condition and outlook.

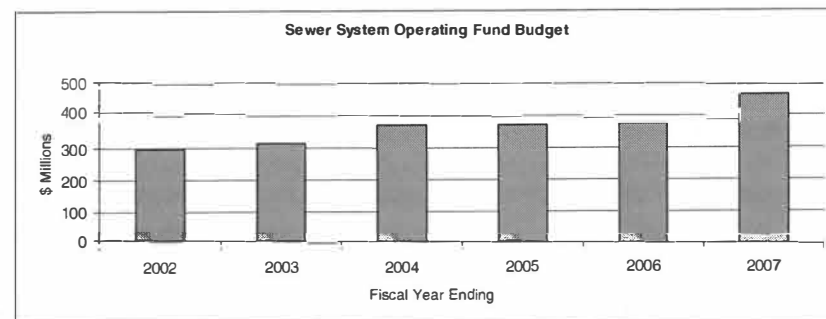
FINANCIAL OUTLOOK—OTHER FUNDS

Like the General Fund, five-year financial plans are prepared for each of the City's major non-General Fund service bureaus. These financial plans provide a multi-year framework within which revenues, expenditures, and capital financing options are presented. This multi-year perspective allows the City to test the potential impact of policy, operational, and system changes, and to avoid subjecting customers to wide or irregular swings in rates and fees.

This budget is based upon bureaus' financial plans, which were developed using information available through December 2005. The plans were reviewed, and adjustments were incorporated into the budget. The following is a brief overview of the updated financial outlook for three of the City's major non-General Fund bureaus. Additional detail on these plans and those of other bureaus is in the Financial Plans section of Volume Two of this budget document. For each bureau or fund, the chart shows total fund expenditures.

Bureau of Environmental Services

The BES five-year financial plan forecast an increase of 5.9% in the average single-family sewer-stormwater bill for each year of the five-year planning period.



The FY 2006-07 budget results in an increase of 5.6% for the average single-family customer.

Bureau of Water Works

The average water bill for single family residential retail customers will increase 2.5%.

The BES operating budget contains expenditure reductions of approximately \$4.6 million, or 4.9% lower than the FY 2004-05 Revised Budget. The capital budget decreases \$13.8 million, or 9.1% from the FY 2004-05 Revised Budget. The differences include the following:

Operating Budget: Reductions are related to watershed monitoring, completion of the Fanno Basin Infiltration and Inflow study, one-time equipment expenditures related to EPA-required monitoring, building improvements at the Water Pollution Control Lab, and the elimination of 9.5 FTE. Additionally, BES funded its sewer maintenance interagency agreement with the Bureau of Maintenance at current levels, a real decrease of about \$450,000 when inflation and personnel increases are applied. These reductions were offset by increases in the Portland Harbor Sediment Program to reduce contamination in sections of the Willamette River.

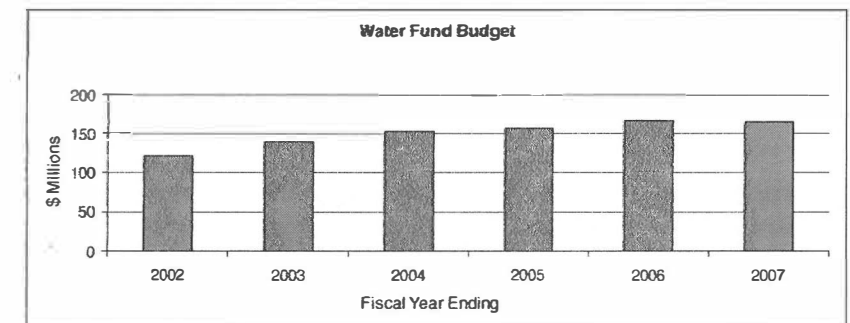
Capital Budget: The significant reductions in the FY 2005-06 CIP are due to changes in project requirements from the large expenditures related to the Westside Combined Sewer Overflow (CSO) project to a lower level of expenditures as the Eastside CSO project completes design and moves into construction.

The operating programs continue to emphasize water quality through efforts at pollution prevention, analytical services, drainage system maintenance, and watershed improvement programs. Capital costs continue to be the prime driver behind forecast rate increases. The largest category of capital improvement costs will be the CSO program, followed by maintenance and reliability projects, and sewage treatment systems.

The preliminary financial plan for the Water Bureau projected an average retail rate increase of 2.5% in FY 2006-07, which is increase approved by City Council. The modest rate increase was made possible primarily by restructuring of future debt issues and implementation of full cost recovery for work associated with new development. The average water bill for single family residential retail customers will increase 2.5%.

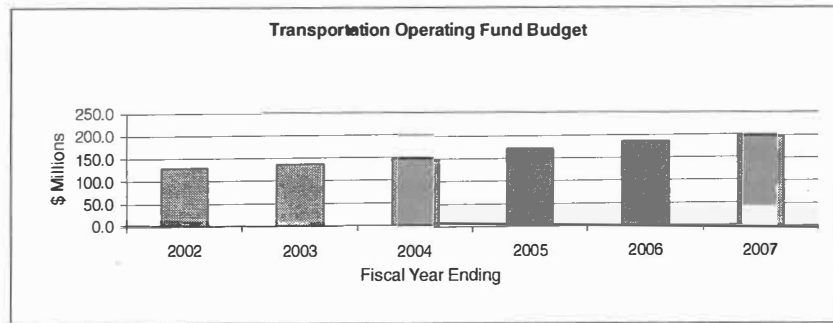
The operating budget of \$59.1 million is an increase of \$6.1 million from the FY 2005-06 Revised Budget of \$53.0 million. Total positions have increased by 57 from 485 to 542. Thirty of the new positions are dedicated to increased system maintenance, and 15 are to replace contracted services with bureau staff; the additional staff to replace contracted services has no fiscal impact, as the budget for professional services was reduced to correspond with the additional staff costs.

The CIP budget of \$42.4 million reflects a decrease of \$10.0 million from the FY 2005-06 Revised Budget. The decrease is largely the result of structuring the CIP to more realistically reflect the level of work that gets done—some major projects were deferred, but none were eliminated. Major elements of the CIP include the Distribution program (\$27.0 million) and the Transmission and Terminal Storage program (\$8.3 million).



Office of Transportation (PDOT)

Transportation's five-year financial plan continues to exhibit imbalance between costs to maintain current service levels and anticipated general transportation



revenues (GTR). In weathering significant financial challenges, the bureau responded by cutting ongoing discretionary spending by \$4 million and by appropriating \$4.3 million a year in labor turnover savings to balance the budget. Still, the funding gap is projected to re-emerge in FY 2009-10. PDOT also has several new revenue initiatives that are expected to generate approximately \$1.9 million in GTR.

The FY 2006-07 Adopted Budget for Transportation is \$168 million. This budget is 7.2% less than the FY 2005-06 Revised Budget, primarily due to the reduction measures mentioned above. The budget contains 768 FTE, 12 more than the FY 2005-06 Revised Budget. The additional positions are due to increases in interagency agreements with the Bureaus of Water and Environmental Services for work performed for these bureaus.

CITY DEBT MANAGEMENT

The City of Portland issues a variety of debt to raise capital for construction projects, for the acquisition of equipment and facilities, and to refinance existing debt. Most of the City's debt is rated by one or more national rating agencies, including Moody's Investors Service and Standard & Poor's Corporation. Bond ratings are based upon an independent analysis by financial market professionals and indicate the confidence that an investor can have in the security of their investment in the City's bonds and other debt obligations. "Aaa" is the

Definition	Moody's	Standard & Poor's	Fitch
<i>Prime, Maximum Safety</i> Highest rating assigned Very strong	Aaa	AAA	AAA
<i>High Grade, High Quality</i> Very strong security. Only slightly below best rating.	Aa1 Aa2 Aa3	AA+ AA AA-	AA+ AA AA-
<i>Upper Medium Grade</i> Average security but more subject to adverse financial and economic developments	A1 A2 A3	A+ A A-	A+ A A-
<i>Lower Medium Grade</i> Adequate capacity to secure debt. Adverse developments may affect ability to meet debt service requirements.	Baa1 Baa2 Baa3	BBB+ BBB BBB-	BBB+ BBB BBB-
<i>Non-Investment Grade - Speculative</i>	Ba1 Ba2 Ba3	BB+ BB BB-	BB+ BB BB-
<i>Highly Speculative</i>	B1 B2 B3	B+ B B-	B+ B B-
<i>Substantial Risk - In Poor Standing</i>	Caa1 Caa2 Caa3	CCC+ CCC CCC-	CCC+ CCC CCC-
<i>Extremely Speculative</i> May be in default	Ca C	-- --	-- --
<i>Default</i>	-- -- --	-- -- D	DDD DDD D

highest possible rating, and is based on a thorough analysis of four basic factors: economic condition, debt load, financial condition, and overall management of the City. Since 1973, the City's unlimited tax general obligation debt has been rated "Aaa" by Moody's. The City's various revenue bonds are rated between "A1" and "Aa1" by Moody's and "A+" by Standard & Poor's.

Detailed information regarding the City's debt management policies is contained in the Financial Policies section in Volume Two of this budget document. The policies prescribe the circumstances under which the City may refinance outstanding debt:

- ◆ Advance refundings, where the refunding bonds are issued more than 90 days before the redemption date of the refunded bonds
- ◆ Current refundings, where the refunding bonds are issued less than 90 days before the redemption date of the refunded bonds
- ◆ Debt restructurings

Advance Refundings: In order to reissue advance refunding bonds, the City must determine that the refunding is advantageous, legally permissible and prudent, and that net present value savings equal at least 5% of the principal amount of the refunding bonds. Exceptions to this policy can be made with the approval of the Debt Manager and the Chief Administrative Officer. Oregon law requires advance refunding bonds to realize present value debt service savings of at least 3% of the proceeds of the refunding bonds.

Current Refundings: The City may issue current refunding bonds, as defined for federal tax law purposes, when advantageous, legally permissible and prudent, and when net present value savings equal or exceed \$100,000.

Debt Restructuring: The City may choose to refund outstanding indebtedness when existing bond covenants or other financial structures impinge on prudent and sound financial management. Savings requirements for current or advance refundings undertaken to restructure debt may be waived by the Debt Manager and the Chief Administrative Officer upon a finding that such a restructuring is in the City's overall best financial interests.

The following is a brief summary of the City's existing debt and debt instruments, projected as of June 30, 2006.

General Obligation (GO) Debt

GO debt is backed by the full faith and credit and taxing power of the City. Under current Oregon law, all general obligation debt (except for refunding bonds) must be approved by the voters. The City's outstanding GO debt includes:

- ◆ \$66.6 million in voter-approved general obligation bonds for park system improvements and emergency facilities improvements
- ◆ \$7.5 million in general obligation water bonds—these bonds are repaid from water user charges, but are secondarily backed by the City's general obligation pledge

Revenue Bonds

Revenue bonds are secured by, and payable from, specific pledged revenue sources such as water or sewer user fees. The City's outstanding revenue bonds include:

- ◆ \$1.24 billion in sewer system revenue bonds
- ◆ \$284.6 million in urban renewal bonds
- ◆ \$139.6 million in water revenue bonds
- ◆ \$21.4 million in hydropower revenue bonds
- ◆ \$6.5 million in gas tax revenue bonds

- ◆ \$5.2 million in parking revenue bonds
- ◆ \$4.7 million in golf revenue bonds

General Fund-Backed Debt

General Fund-backed debt is either paid from, or secured by, the General Fund and includes:

- ◆ \$300.8 million in limited tax pension obligation bonds, of which approximately \$111.7 million is attributed to General Fund bureaus and approximately \$189.1 to non-General Fund bureaus.
- ◆ \$130.3 million in limited tax revenue bonds for the Convention Center Expansion project (\$97.9 million), Civic Stadium (PGE Park) Improvement project (\$30.7 million), and Portland Center for Performing Arts improvements (\$1.7 million). The City has issued these bonds as part of an intergovernmental agreement known as the Visitor Development Initiative. While ultimately secured by the General Fund, these bonds are expected to be repaid with revenues generated from surcharges on the transient lodging tax and the motor vehicle rental tax levied by Multnomah County.
- ◆ \$67.1 million in limited tax revenue bonds for building improvements and equipment acquisition.
- ◆ \$26.0 million in arena limited tax revenue bonds. Proceeds of these bonds were used to refund bonds originally issued to finance certain public improvements relating to the Oregon Arena Project. These arena limited tax revenue refunding bonds are ultimately secured by the City's General Fund. However, the City expects to pay the debt service on these bonds from revenues received from the Oregon Arena Project.
- ◆ \$24.9 million in limited tax revenue bonds issued to fund the Portland Streetcar project. These bonds are expected to be repaid from parking revenues, but are additionally secured by the General Fund.
- ◆ \$57.2 million in urban renewal lines of credit. It is expected these interim financing obligations will be retired with the proceeds of long-term tax increment bonds.
- ◆ \$21.5 million in limited tax housing revenue bonds.
- ◆ \$15.8 million in limited tax improvement bonds.
- ◆ \$43.7 million in lines of credit used to provide short-term and interim financing for local improvement district projects, the Children's Receiving Center, Parks land acquisition, and Transportation projects.
- ◆ \$10.1 million in Housing and Urban Development loans for the New Columbia project.

Debt Limitation

Under Oregon law (ORS 287.004), the City's general obligation debt limit is equal to 3% of the City's real market valuation (\$65.3 billion), or about \$2 billion. Certain self-supporting bonds are exempted from this limitation. Currently the City has \$66.6 million outstanding in general obligation debt that is subject to the debt limitation.

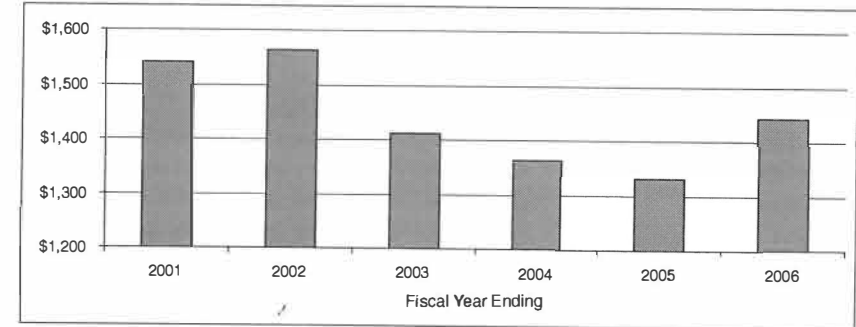
Figure 14: Debt Limitation Criteria

<i>Criteria</i>	<i>Limit</i>
FY 2005-06 Real Market Value	\$65,309,180,486
3% of Real Market Value	\$1,959,275,415
City outstanding debt subject to limit	\$66,610,000
Percent of limitation outstanding	3.40%
Debt margin	\$1,892,665,415

The figure below displays gross bonded debt per capita. Included in these figures are the City's outstanding general obligation bonds, limited tax improvement bonds, limited tax revenue bonds, and General Fund-backed lines of credit.

Figure 15: Gross Bonded Debt per Capita

In FY 2005-06 the City issued two series of refunding bonds to take advantage of lower interest rates and reduce the cost of the City's outstanding



debt. The City issued the Airport Way Urban Renewal and Redevelopment Refunding Bonds, Series 2005 A to refund most of the outstanding Airport Way Urban Renewal and Redevelopment Bonds, 2000 Series A. The City also issued the Hydroelectric Power Revenue Refunding Bonds, Series 2006 to refund the Hydroelectric Power Revenue Bonds, 1979 and the Hydroelectric Power Revenue Refunding Bonds, Series 1993.

In addition to the refunding bonds, the City issued about \$177.8 million in First Lien Sewer System Revenue Bonds and about \$87.1 million in Second Lien Sewer System Revenue Bonds to finance capital needs of the Bureau of Environmental Services.

In FY 2005-06, the City borrowed approximately \$66.2 million on various lines of credit and state loans to fund capital projects including clean water, local improvement, urban renewal, and transportation projects.

Anticipated Debt Issuance in FY 2006-07

The City anticipates issuing the following debt obligations during FY 2006-07:

- ◆ \$70 million in Water system revenue bonds to fund system improvements
- ◆ \$28 million in urban renewal bonds for the Central Eastside urban renewal area
- ◆ \$13 million in General Obligation Fire bonds for upgrades and improvements to emergency facilities
- ◆ \$50 million in limited tax improvement bonds to finance assessments

The City will likely incur additional indebtedness during FY 2006-07 for other capital needs. The amounts and specific types of debt instruments to be issued will be determined throughout the fiscal year.

Total City Budget – Revenues and Expenses

TABLE 1

This table summarizes the City budget as a whole according to the major categories of expenses and revenues. The figures on this page combine all of the City's funds except those of the Portland Development Commission, a semi-autonomous agency that operates under City charter but is budgeted separately. All subsequent budget tables follow this format.

	Revised FY 2005-06	Adopted FY 2006-07
RESOURCES		
External Revenues		
Taxes	345,238,547	357,595,383
Licenses and Permits	120,940,528	137,784,608
Service Charges	391,877,533	416,567,037
Federal Sources	87,264,418	54,950,819
State Sources	62,548,031	55,842,243
Local Sources	70,238,226	75,593,495
Miscellaneous	54,790,926	71,236,399
Debt Proceeds	437,440,086	319,520,835
Total External Revenues	1,570,338,295	1,489,090,819
Transfer from Other Funds		
Service Reimbursements	204,832,716	207,564,098
Cash Transfers	500,250,845	574,207,910
Total Transfers from Other Funds	705,083,561	781,772,008
Beginning Fund Balances	512,025,420	662,697,211
Total Budget	2,787,447,276	2,933,560,038
Less Interfund Transfers and Tax Anticipation Notes	(725,092,561)	(801,772,008)
TOTAL NET BUDGET	\$ 2,062,354,715	\$ 2,131,788,030
REQUIREMENTS		
Bureau Expenses		
Personal Services	450,804,508	491,011,625
External Materials & Services	603,272,855	597,487,505
Internal Materials & Services	204,841,716	207,564,098
Capital Outlay	241,401,072	286,181,099
Total Bureau Expenses	1,500,320,151	1,582,244,327
Fund-Level Expenses		
Debt Service	263,524,871	324,043,657
Fund-Level Cash Transfers	500,250,845	574,207,910
Contingency	212,271,210	365,050,984
Total Fund-Level Expenses	976,046,926	1,263,302,551
Total Appropriated Budget	2,476,367,077	2,845,546,878
Unappropriated Ending Balance	311,080,199	88,013,160
Total Budget	2,787,447,276	2,933,560,038
Less Interfund Transfers and Tax Anticipation Notes	(725,092,561)	(801,772,008)
TOTAL NET BUDGET	\$ 2,062,354,715	\$ 2,131,788,030

Operating and Capital Budget by Service Area

TABLE 2

This table summarizes the operating and capital expenditures included in bureau budgets for each fiscal year, by service area, and by bureau. It does not include fund requirements such as contingencies, reserves, debt service, or interfund transfers.

	Revised FY 2005-06			Adopted FY 2006-07		
	Operating Budget	Capital Improvements	Total Expenditures	Operating Budget	Capital Improvements	Total Expenditures
Public Safety						
Bureau of Emergency Communications	13,559,359	0	13,559,359	14,342,698	0	14,342,698
Emergency Management	10,447,406	0	10,447,406	10,509,883	0	10,509,883
Fire	76,268,770	3,078,875	79,347,645	76,786,881	1,560,073	78,346,954
Fire & Police Disability & Retirement	87,512,296	0	87,512,296	89,733,722	0	89,733,722
Police	138,280,371	80,000	138,360,371	140,955,559	150,000	141,105,559
Public Safety Fund	681,417	775,434	1,456,851	0	871,786	871,786
Other Public Safety	10,549,949	7,811,378	18,361,327	10,994,194	11,442,470	22,436,664
Total Public Safety	337,299,568	11,745,687	349,045,255	343,322,937	14,024,329	357,347,266
Parks, Recreation, and Culture						
Golf	4,902,867	200,000	5,102,867	4,908,632	200,000	5,108,632
Parks and Recreation	49,222,864	0	49,222,864	48,144,491	0	48,144,491
Parks Construction Fund	0	18,596,477	18,596,477	0	17,318,733	17,318,733
Parks Local Option Levy	11,854,264	0	11,854,264	11,896,352	0	11,896,352
Portland International Raceway	1,385,293	0	1,385,293	1,442,508	50,000	1,492,508
Spectator Facilities	1,277,168	200,000	1,477,168	1,069,011	580,000	1,649,011
Other Parks, Recreation, and Culture	5,523,666	0	5,523,666	5,288,174	0	5,288,174
Total Parks, Recreation, and Culture	74,166,122	18,996,477	93,162,599	72,749,168	18,148,733	90,897,901
Public Utilities						
Bureau of Environmental Services	86,702,750	137,432,496	224,135,246	93,865,038	211,875,242	305,740,280
Bureau of Water Works	53,018,548	52,374,384	105,392,932	59,184,880	42,411,500	101,596,380
Hydroelectric Power	1,321,204	0	1,321,204	625,653	0	625,653
OSD - Solid Waste Management	2,725,621	0	2,725,621	2,788,047	0	2,788,047
Other Public Utilities	4,792,578	325,000	5,117,578	5,119,213	0	5,119,213
Total Public Utilities	148,560,701	190,131,880	338,692,581	161,582,831	254,286,742	415,869,573
Community Development						
Cable and Franchise Management	1,865,436	0	1,865,436	1,880,366	0	1,880,366
Cable Fund	3,140,942	0	3,140,942	3,218,246	0	3,218,246
Children's Investment Fund	17,580,728	0	17,580,728	21,513,364	0	21,513,364
Development Services Fund	31,704,513	0	31,704,513	36,807,155	0	36,807,155
Housing & Community Development	15,337,368	0	15,337,368	15,509,623	0	15,509,623
Housing & Community Dev. Fund	19,414,147	0	19,414,147	0	0	0
LID Construction	15,701,317	0	15,701,317	12,251,170	0	12,251,170
Office of Neighborhood Involvement	7,188,466	0	7,188,466	5,752,218	0	5,752,218
Office of Sustainable Development	3,257,666	0	3,257,666	2,873,942	0	2,873,942
Planning	6,503,678	0	6,503,678	7,577,053	0	7,577,053
Special Finance & Resource	112,742,731	0	112,742,731	147,116,500	0	147,116,500
Other Community Development	50,785,393	0	50,785,393	50,003,394	0	50,003,394
Total Community Development	285,222,385	0	285,222,385	304,503,031	0	304,503,031
Transportation and Parking						
Office of Transportation	95,885,020	85,243,763	181,128,783	96,992,159	71,075,215	168,067,374
Parking Facilities	4,307,118	2,648,405	6,955,523	4,546,757	2,328,000	6,874,757
Private for Hire Trans Safety	22,000	0	22,000	78,849	0	78,849
Total Transportation and Parking	100,214,138	87,892,168	188,106,306	101,617,765	73,403,215	175,020,980
Legislative, Administrative & Support Services						

Operating and Capital Budget by Service Area

TABLE 2

This table summarizes the operating and capital expenditures included in bureau budgets for each fiscal year, by service area, and by bureau. It does not include fund requirements such as contingencies, reserves, debt service, or interfund transfers.

	Revised FY 2005-06			Adopted FY 2006-07		
	Operating Budget	Capital Improvements	Total Expenditures	Operating Budget	Capital Improvements	Total Expenditures
Business License Surcharge	6,312,813	0	6,312,813	6,258,235	0	6,258,235
Campaign Finance	1,296,000	0	1,296,000	103,551	0	103,551
City Attorney	6,060,567	0	6,060,567	6,704,170	0	6,704,170
City Auditor	7,803,356	0	7,803,356	7,577,407	247,504	7,824,911
Government Relations	750,597	0	750,597	789,368	0	789,368
Licenses	7,923,205	0	7,923,205	0	0	0
Management and Finance	25,220,933	0	25,220,933	23,777,544	0	23,777,544
Mayor and Commissioners' Offices	4,770,312	0	4,770,312	5,324,513	0	5,324,513
OMF - CityFleet	22,132,673	0	22,132,673	21,003,050	0	21,003,050
OMF - Citywide Projects	4,857,739	4,395,848	9,253,587	0	9,017,205	9,017,205
OMF - Facilities Services	17,810,769	12,154,894	29,965,663	17,343,413	7,627,958	24,971,371
OMF - Insurance and Claims	6,589,437	0	6,589,437	7,896,561	0	7,896,561
OMF - Printing & Distribution	6,297,135	0	6,297,135	6,832,733	0	6,832,733
OMF - Revenue Bureau	14,388,942	0	14,388,942	25,587,668	0	25,587,668
OMF - Technical Services	40,441,337	5,205,956	45,647,293	45,891,967	2,310,500	48,202,467
OMF - Workers' Compensation	4,401,816	0	4,401,816	4,184,210	0	4,184,210
Other Leg. Admin & Support Services	47,276,696	0	47,276,696	40,128,019	0	40,128,019
Total Legislative, Administrative & Support Services	224,334,327	21,756,698	246,091,025	219,402,409	19,203,167	238,605,576
TOTAL EXPENDITURES	\$1,169,797,241	\$ 330,522,910	\$1,500,320,151	\$1,203,178,141	\$ 379,066,186	\$1,582,244,327
FUND REQUIREMENTS						
Contingency			212,271,210			365,050,984
Debt Retirement			263,524,871			324,043,657
Ending Fund Balance			311,080,199			88,013,160
GF Overhead Transfers			13,194,088			16,508,882
Other Cash Transfers			487,056,757			557,699,028
TOTAL CITY BUDGET	\$	\$	\$2,787,447,276	\$	\$	\$2,933,560,038
TOTAL NET CITY BUDGET	\$	\$	\$2,062,354,715	\$	\$	\$2,131,788,030

General Fund Revenues and Expenses

TABLE 3

This table summarizes the type of revenues into the General Fund, as well as the bureau expense budgets, with a comparison between fiscal years.

	Discretionary Budget		Total Budget	
	Revised FY 2005-06	Adopted FY 2006-07	Revised FY 2005-06	Adopted FY 2006-07
RESOURCES				
Beginning Fund Balance	33,505,245	19,314,473	33,505,245	30,064,473
Business Licenses	44,418,253	52,830,754	44,418,253	52,830,754
Intergovernmental	12,976,210	12,940,244	55,802,183	41,205,730
Lodging Taxes	12,092,518	13,502,206	12,092,518	13,502,206
Property Taxes	158,678,968	164,437,521	158,678,968	164,437,521
Service Charges and Other	1,625,510	4,864,196	25,320,179	29,495,001
Transfers from Other Funds/Agencies	1,532,203	6,867,960	70,266,721	78,996,138
Utility License Fees	57,612,597	59,143,137	57,612,597	59,143,137
TOTAL GENERAL FUND RESOURCES	\$ 322,441,504	\$ 333,900,491	\$ 457,696,664	\$ 469,674,960
EXPENSES				
City Attorney	1,789,043	1,758,817	6,060,567	6,704,170
City Auditor	3,064,573	3,300,047	7,803,356	7,824,911
Cable & Franchise Management	1,522,224	1,510,728	1,865,436	1,880,366
Commissioner of Public Affairs	296,194	317,844	674,617	690,870
Commissioner of Public Safety	287,587	307,573	638,140	670,426
Commissioner of Public Utilities	291,181	312,345	752,133	762,620
Commissioner of Public Works	290,444	313,221	643,487	679,521
Fire	72,714,148	72,688,020	79,457,482	78,346,954
Government Relations	305,189	334,640	\$750,597	789,368
Housing & Community Development	4,202,674	6,676,103	15,337,368	15,509,623
Licenses	2,804,397	0	7,923,205	0
Mayor	915,107	1,211,739	2,061,935	2,521,076
Office of Sustainable Development	863,546	936,236	3,257,666	2,873,942
Office of Emergency Management	386,688	865,380	10,447,406	10,509,883
Office of Management & Finance	5,100,174	9,372,294	25,220,933	23,777,543
OMF - Citywide Projects	1,236,500	0	9,253,587	9,017,205
OMF - Revenue Bureau	0	2,574,150	14,388,942	26,149,442
Office of Neighborhood Involvement	4,482,439	4,646,981	7,188,466	5,752,218
Parks & Recreation	31,217,721	30,722,262	49,222,864	48,144,491
Parks Stores	25,000	0	25,000	0
Planning	5,992,302	6,546,878	6,503,678	7,577,053
Police	121,945,167	123,284,718	138,360,371	141,105,559
Special Appropriations	19,904,939	23,739,074	\$20,354,535	\$24,095,409
Total Bureau Expenses	\$279,637,237	\$291,419,050	\$408,191,771	\$415,382,650
Contingency-Encumbrance Carryover	0	0	5,860,624	10,750,000
Contingency-Operating & Unforeseen	4,475,409	6,804,805	4,475,409	6,804,805
Transfers to Other Funds	38,328,858	35,676,635	39,168,860	36,737,505
TOTAL GENERAL FUND EXPENSES	\$ 322,441,504	\$ 333,900,490	\$ 457,696,664	\$ 469,674,960

Certain minor cash transfers from General Fund bureaus are reflected in the bureau line and are excluded from Discretionary Transfers to Other Funds. These are the Parks transfer and Licenses transfer to the Governmental Bond Redemption Fund.

Service Area Highlights

DESCRIPTION

The Public Safety service area includes the Bureau of Emergency Communications; the Bureau of Fire, Rescue, and Emergency Services; the Bureau of Police; and the Office of Emergency Management. These bureaus provide critical public safety services, such as police protection, fire and emergency medical response, 9-1-1 call-taking, emergency dispatch, and disaster planning and mitigation. The Fire and Police Disability and Retirement Fund is also included in the Public Safety service area.

MAJOR THEMES

The FY 2006-07 Adopted Budget invests significant new resources in frontline public safety services and adds 60 new permanent positions to the public safety bureaus. Among other things, the new positions will be used to open all police precinct offices 24 hours a day, seven days a week; to open Fire Station 27; and to nearly double staffing at the Office of Emergency Management.

Police Bureau

The Police Bureau's Adopted Budget for FY 2006-07 reflects a decrease of approximately 1% in General Fund discretionary resources from the current appropriation level. However, significant increases in projected program revenues caused the bureau's total budget to grow by more than 2% from the current appropriation level. Major highlights of the bureau's FY 2006-07 budget are discussed below.

- ◆ All precincts will be opened 24 hours a day, seven days a week. Afternoon and night staffing for the offices is provided with 18 new limited-duty officer positions. These positions will be partially subsidized by the Fire and Police Disability and Retirement Fund for up to two years.
- ◆ A new policy to impound more vehicles directly, rather than releasing them to private tow, will be implemented. The policy is expected to improve customer service and generate \$3 million in new revenue. Five support positions are added to process the extra impounds.
- ◆ The bureau's Drugs and Vice Division will be moved to a more secure facility.
- ◆ An employee early intervention unit and an internal audit unit will be created with \$590,700 in additional General Fund resources and six new FTE.
- ◆ One permanent position and \$146,876 are added to the bureau's budget to support the electronic field reporting project.
- ◆ Funds of \$150,000 from the General Fund Capital Set-Aside are allocated for a replacement study of the aging Portland Police Data System.
- ◆ New funds of \$475,000 are made available to continue the problem-oriented policing strategies (POPS) begun in FY 2005-06. Approximately \$525,000 of the FY 2005-06 POPS appropriation will be carried forward to FY 2006-07 as well.
- ◆ To fill a gap left by an expiring federal grant, the bureau is receiving \$150,000 to pass through to community organizations that provide domestic violence advocates.
- ◆ A \$343,862 trust fund containing interest earned on forfeited assets will be dissolved and its assets transferred to the Police Bureau's operating budget.

- ◆ Six new red light cameras will be installed and photo radar vans will be placed more efficiently around the city. These actions are expected to generate \$150,000 in additional revenue.

Fire Bureau

The \$78.3 million FY 2006-07 Adopted Budget for the Bureau of Fire, Rescue, and Emergency Services is 1% less than its FY 2005-06 Revised Budget because budgeted grant revenue is declining from \$5.1 million to \$1.2 million. However, General Fund discretionary funding is increasing by 3% to \$72.7 million. Significant changes are:

- ◆ Addition of 12 FTE to staff the new Station 27 in northwest Portland while continuing to staff Station 45, which the City shares with the City of Gresham
- ◆ Addition of four positions for firefighters with permanent restrictions, thereby returning to work people now on long-term disability
- ◆ Increased ongoing discretionary funding to fully fund apparatus replacement, a \$1.6 million annual requirement

Bureau of Emergency Communications

The Bureau of Emergency Communications' General Fund allocation is reduced by a very small amount (approximately 0.1%) in the FY 2006-07 Adopted Budget from the current appropriation level. The following new positions are added for FY 2006-07:

- ◆ Three permanent operator positions, to be funded with additional General Fund resources and payments from other user jurisdictions
- ◆ Three limited term operator positions, to be funded with Public Safety Fund resources and payments from other user jurisdictions
- ◆ Six permanent operator trainee positions, to be funded with anticipated salary savings

Office of Emergency Management

The FY 2006-07 Adopted Budget for the Portland Office of Emergency Management (POEM) includes a 49% increase in General Fund discretionary and overhead resources from the current appropriation level. Full time permanent staff also increases from nine to 15 FTE. Notable POEM budget decisions are listed below.

- ◆ Six permanent, General Fund-supported positions are added to POEM. The positions are an operations manager; a grants assistant; an assistant program specialist for community outreach and training; and three program specialists for exercises, planning, and training. In addition, a limited term financial analyst position is converted to permanent.
- ◆ One-time funds of \$276,856 are added to POEM's budget to partially fund the potential relocation of POEM's administrative offices.
- ◆ The vacant assistant director position is eliminated and the funds associated with the position redirected to technology costs. POEM is also receiving an additional \$49,798 in new funds for technology costs.

Fire and Police Disability and Retirement Fund

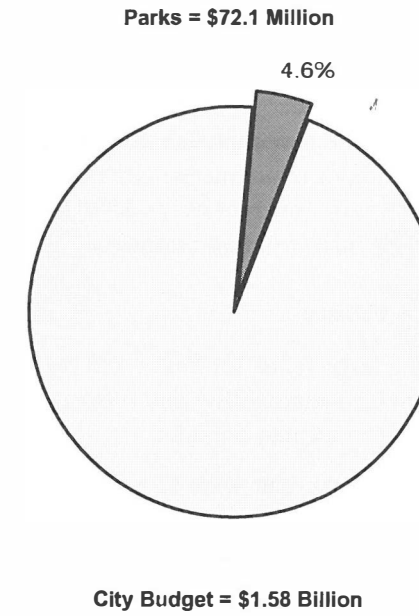
The FY 2006-07 Adopted Budget supports ongoing activities and services provided for sworn members of the Fire and Police Bureaus, as well as their spouses and dependent minor children. The FY 2006-07 Adopted Budget is 3% higher than the FY 2005-06 Revised Budget. The increase is due to anticipated retirements; the Retirement program's budget is up 7%. By contrast, the Disability & Death Benefits program's budget is decreasing by 16% because of fewer claims and improved return-to-work efforts. The Administration program's costs are level.

In June 2006, Council directed the City Attorney to draft changes to the City Charter that would place new sworn hires in the Police and Fire Bureaus into the Oregon Public Service Retirement Plan. The charter amendments would also change the structure and responsibilities of the fund's Board of Trustees, removing the board from the disability decision-making process. The charter changes are expected to be included on the ballot for the November 2006 General Election.

Parks, Recreation, and Culture

Portland Parks & Recreation

Percent of City Budget



Service Area Overview

Expenditures	Revised FY 2005-06	Adopted FY 2006-07	Change from Prior Year	Percent Change
Operating	55,536,024	54,495,631	-1,040,393	-1.9%
Capital	18,796,477	17,568,733	-1,227,744	-6.5%
Total Expenditures	\$ 74,332,501	\$ 72,064,364	\$ -2,268,137	\$ -3.1%
Authorized Positions	411.97	400.59	-11.38	-2.8%

Service Area Highlights

DESCRIPTION

The Parks, Recreation, and Culture service area includes services for Parks, Golf, Portland International Raceway, and the Parks Construction Fund.

MAJOR THEMES

Portland Parks and Recreation

Budget Changes

The FY 2006-07 Adopted Budget reflects the Council's decision to minimize service level reductions while adding resources to support infrastructure improvements within the Parks system. These goals are accomplished by reprogramming \$346,582 of ongoing General Fund resources to major maintenance capital projects. In combination with last year's contribution, Parks will now receive an \$800,000 annual allocation from the City's General Fund to be used for infrastructure maintenance.

Planning for the Future

For FY 2006-07 a large focus for Parks will be on initiatives relating to two future challenges: financial sustainability and infrastructure renewal and development. Major components of this workplan include:

- ◆ Development of a bureau-wide five-year financial plan
- ◆ Development of a service strategy to guide decisions related to service mix, service delivery approach, and service standard
- ◆ Nurturing and expanding partnerships with non profit and private organizations
- ◆ Continued development of a total asset management strategy

Capital Improvement Plan

The Portland Parks and Recreation capital improvement plan (CIP) budget totals approximately \$20 million. Of this amount, \$995,000 is supported by the City's General Fund with remaining funds coming from grants, Parks Local Option Levy, and various external and internal sources. Significant projects for FY 2006-07 include:

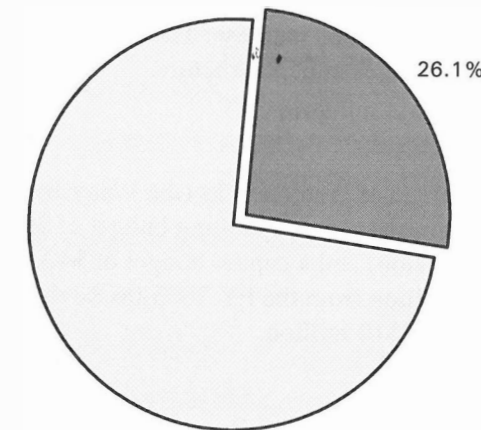
- ◆ East Portland Community Center Pool
- ◆ Installation of ultraviolet pool disinfection at four indoor pools
- ◆ Duniway running track replacement
- ◆ Riverplace dock repair
- ◆ University Park Community Center phase 3
- ◆ Springwater Corridor - Sellwood Gap
- ◆ Development of Holly Farm Park
- ◆ Improvements to Lents Park restrooms and Walker Stadium

Public Utilities

Bureau of Environmental Services
Bureau of Water Works

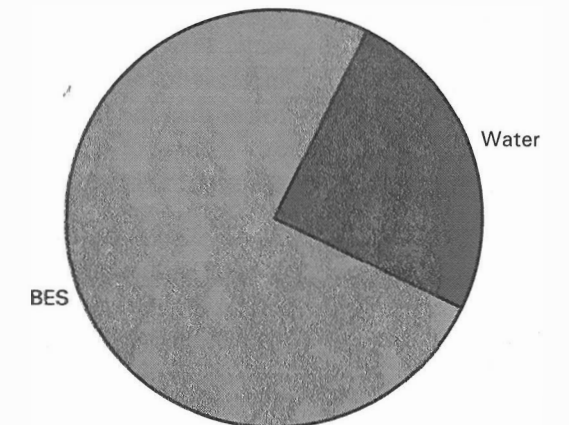
Percent of City Budget

Public Utility = \$412.8 Million



City Budget = \$1.58 Billion

Bureau Pie Chart



Service Area Overview

Expenditures	Revised FY 2005-06	Adopted FY 2006-07	Change from Prior Year	Percent Change
Operating	145,441,580	158,553,284	13,111,704	9.0%
Capital	190,131,880	254,286,742	64,154,862	33.7%
Total Expenditures	\$ 335,573,460	\$ 412,840,026	\$ 77,266,566	\$ 23.0%
Authorized Positions	966.55	1,026.86	60.31	6.2%

Service Area Highlights

DESCRIPTION

The Public Utilities service area includes utility services provided by the City. These include water service provided by the Bureau of Water Works (Water Bureau), and sewer and stormwater management services provided by the Bureau of Environmental Services.

MAJOR THEMES

Utility Rate Increases

The Adopted Budget for FY 2006-07 includes an average effective retail rate increase for water service of 2.5%. The average single family sewer bill increase is 5.6%. The rate increase for water service is consistent with the planned increase. The sewer rate increase is lower than the financial plan, largely due to changes in debt structure.

Bureau of Water Works

Adopted Budget

The FY 2006-07 Adopted Budget for the Bureau of Water Works (the Water Bureau) is \$102.2 million. The Water Bureau's budget consists of an operating budget of \$59.8 million (including \$625,563 for the Hydropower Division) and a capital budget of \$42.4 million. The operating budget increased about \$5.5 million from the FY 2005-06 Revised Budget and the capital budget increased approximately \$10 million.

Focus on Water System Maintenance

The Water Bureau is increasing staffing by 107 positions in the three years 2005-06 through 2007-08, largely to focus on maintenance of water system infrastructure. In FY 2006-07, there are 56.5 new positions, of which 33.5 are dedicated to increased maintenance.

Reduce Reliance on Outside Consultants

The Adopted Budget includes 15 new positions to bring on-going functions in-house and broaden expertise among bureau staff. These positions are budgeted to produce no net increase in costs, as there are commensurate reductions in the budget for outside consultant contracts.

Water System Security

The budget includes an additional six security positions, to conform with the Council's directive to increase security at the in-city reservoirs, and to bring the security function in-house rather than be provided through a contract.

Capital Improvement Plan Reductions

The Capital Improvement Plan (CIP) is reduced nearly \$10 million from the FY 2005-06 Revised CIP. This does not represent reductions in capital projects, as all projects planned for the five-year CIP are still included, but the reduction better reflects the actual spending in the past few years. CIP spending has been between 50-60% of budget, and the reduction in the capital budget for FY 2006-07 should produce a CIP that is more realistic and achievable.

Bureau of Environmental Services

Adopted Budget

The FY 2006-07 Adopted Budget for the Bureau of Environmental Services is \$310.7 million. The total consists of an operating budget of \$98.8 million and a capital budget of \$211.9 million. The operating budget increased about \$7.7 million compared to the FY 2005-06 Revised Budget, and the capital budget increased approximately \$74.1 million.

Combined Sewer Overflow Program

The Combined Sewer Overflow (CSO) program continues to be the bureau's largest capital program, with surface water management, treatment, and maintenance being other significant areas of capital spending. The construction of the Eastside CSO projects have started and the Westside Tunnel and Swain Island Pump Station will be operational by December 2006.

Portland Harbor Sediments

This program manages the City's response to the federal Environmental Protection Agency's listing of the Willamette River Portland Harbor as a Superfund site. Funding for this program is budgeted at approximately \$4.2 million in FY 2006-07, a slight decrease from the FY 2005-06 Revised Budget.

Community Development

Service Area Highlights

Bureau of Housing and Community Development
 Bureau of Development Services
 Children's Investment Fund
 Cable Communications and Franchise Management

Office of Sustainable Development
 Office of Neighborhood Involvement
 Bureau of Planning

DESCRIPTION

The Community Development service area includes programs in the Bureau of Development Services, Bureau of Housing and Community Development, Bureau of Planning, Office of Cable Communications and Franchise Management, Office of Neighborhood Involvement, Office of Sustainable Development, and the Children's Investment Fund. There are several new initiatives for FY 2006-07 in this service area.

MAJOR THEMES

Bureau of Development Services

The Bureau of Development Services (BDS) implements the City's policies, plans, and codes related to land use, building, and plumbing. The bureau ensures compliance with site-related regulations, such as erosion control, grading, and onsite stormwater treatment and disposal. BDS also enforces the zoning code, as well as structural, mechanical, plumbing, and electrical codes.

The FY 2006-07 Adopted Budget for BDS is over \$36.8 million. This represents a 9.9% increase over the FY 2005-06 Revised Budget and a net addition of 28.92 FTE. The Neighborhood Inspection Team and its 18.80 filled positions will be transferred from the Office of Neighborhood Involvement to BDS. In addition, four positions will be added to expand services for permit customers, and one position will be created to improve the integrity of the permit data base system. BDS will add two positions to support the Clean River Rewards program and one limited-term position to continue the A-Board program.

Bureau of Housing and Community Development

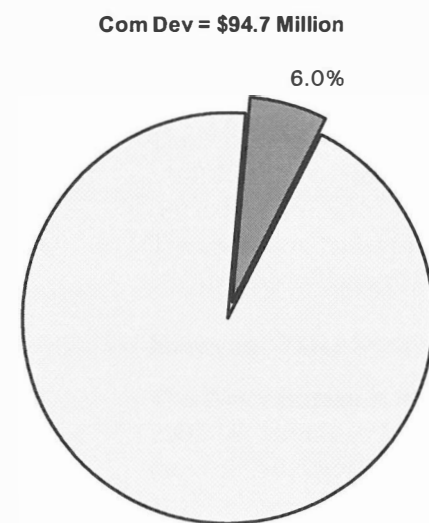
The Bureau of Housing and Community Development (BHCD) manages federal funds channeled to the City by the U.S. Department of Housing and Urban Development. Entitlement grants include the Community Development Block Grant (CDBG), HOME, Housing for People with AIDS, and the Emergency Shelter grant. The bureau is meeting the challenge of declining federal entitlement funds (CDBG and HOME) by analyzing each program in light of its strategic goals to make the most effective use of these diminishing resources.

The FY 2006-07 Adopted Budget responds to decreasing and limited resources, the use of one-time only funding, the bureau's new strategic direction, and changing needs in programs and grant regulations.

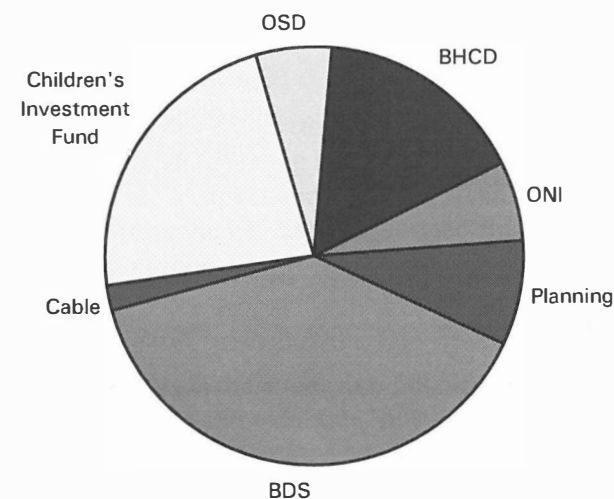
The Adopted Budget addresses the reduction in federal funding and the expiration of one-time funds with approximately \$3.5 million in one-time General Fund discretionary directed to BHCD:

- The bureau is receiving approximately \$1.7 million in one-time General Fund discretionary funds to offset the loss of CDBG and HOME entitlement funds for housing and homeless services programs.
- An additional \$600,000 in one-time General Fund discretionary funding to offset (the \$600,000 also replaces \$309,000 of FY 2005-06 one-time General Fund discretionary from the HIF) and supplement the loss of the HOME American Dream Downpayment Initiative (ADDI) money.

Percent of City Budget



Bureau Pie Chart



Service Area Overview

Expenditures	Revised FY 2005-06	Adopted FY 2006-07	Change from Prior Year	Percent Change
Operating	86,163,476	94,701,768	8,538,292	9.9%
Capital	0	0	0	0.0%
Total Expenditures	\$ 86,163,476	\$ 94,701,768	\$ 8,538,292	\$ 9.9%
Authorized Positions	474.41	482.12	7.71	1.6%

- ◆ Economic Opportunity Initiative (funded in the current year from one-time grant and ongoing General Fund resources) funding is restored with \$500,000 in one-time General Fund discretionary.
- ◆ Approximately \$500,000 in one-time General Fund discretionary is used to restore a number of homeless services programs funded in a similar manner in the current year.
- ◆ The Healthy Homes initiative receives \$200,000 in one-time General Fund discretionary for methamphetamine house clean up.
- ◆ A portion (\$380,000) of the special appropriation for the Jail Bed Initiative is being moved to BHCD. The one-time General Fund discretionary money will provide wrap around services for people receiving housing through BHCD programs.

The Adopted Budget also adds General Fund discretionary resources (\$2.4 million one-time and \$432,500 ongoing) to the HIF for transfer to BHCD:

- ◆ The Transitions to Housing program is switched from one-time to ongoing funding in the amount of \$422,500.
- ◆ The Northwest Pilot Project program for homeless receives an additional \$10,000 in ongoing resources.
- ◆ Key Not a Card receives \$1.1 million in one-time resources.
- ◆ Affordable rental housing development and preservation programs receive \$1.3 million in one-time resources.

Bureau of Planning

The Bureau of Planning helps to set goals and to create long-range plans and strategies to guide Portland's future. The bureau's efforts are focused on managing growth, promoting livability and economic health, and preserving the city's heritage and environment.

The FY 2006-07 Adopted Budget includes funding from the Portland Development Commission in support of the Central City Planning program; one-time funding for a family housing prototype, technology upgrades, moving costs, and the Lower East Broadway Plan; and ongoing funding for the River Renaissance Initiative staff. The Adopted Budget also funds a code development position through an interagency agreement with the Bureau of Development Services, two positions assigned to the Community Visioning Project, and a housing demographer position.

Cable Communications and Franchise Management

The Office of Cable Communications and Franchise Management administers utility and telecommunications franchises, protects the public's interest in cable communications, and regulates private use of telecommunications public rights-of-way. To avoid further loss of public access to cable services provided by Portland Community Media and to prevent any loss of General Fund revenues, the bureau's Cable Communication and Utility Franchises programs were held harmless from General Fund reductions.

Office of Neighborhood Involvement

The Office of Neighborhood Involvement (ONI) continues to coordinate efforts to make the city's neighborhoods more livable and to promote meaningful and diverse civic participation. ONI's FY 2006-07 Adopted Budget decreased primarily due to the move of the Neighborhood Inspections Team program back to the Bureau of Development Services (BDS). Notable changes for FY 2006-07 include:

- ◆ Moving the Neighborhood Inspections Team program back to BDS - the move includes 19 positions and over \$2.0 million of expenditures and their offsetting revenues.
- ◆ A redirection of funds from the Elders in Action contract to support senior services through the Bureau of Housing and Community Development.

- ◆ Conversion of the Neighborhood Resource Center program manager position to a neighborhood programs coordinator position to provide more direct services to the community.
- ◆ Restoration of a \$500,000 Community Visioning and Empowerment Account - these funds will be used for a variety of purposes, including neighborhood grants and a Civic Leadership Academy for communities of color.
- ◆ Small Business funding to put resources directly into small business districts and associations.
- ◆ An additional \$80,000 for graffiti abatement to help hire more abatement work crews, coordinate targeted neighborhood cleanups, and invest in a graffiti intelligence tracking system.

Office of Sustainable Development

The Office of Sustainable Development (OSD) continues to pursue options to protect the City's economic, environmental, and public interest goals. OSD also oversees and regulates solid waste and recycling programs that operate within the city limits. Funding for OSD originates primarily from residential and commercial solid waste fees, grants, and charges to other bureaus. General Fund discretionary support, about \$936,000 in FY 2006-07, represents 17% of OSD's total budget of \$5.6 million. More than \$500,000 of OSD's budget is from grants, contracts, and agreements, as OSD continues to leverage City funding with non-City sources.

The FY 2006-07 Adopted Budget includes one-time funds to focus on economic development activities related to renewable energy. In addition, one-time funds are provided to continue the Sustainable Food Initiative as well as an enhanced effort to focus on improving the sustainability of City operations through the Mayor's Bureau Innovation Project #18.

\$83,000 of ongoing general fund resources are provided to continue the Block by Block Fix-it Fairs.

Children's Investment Fund

The Children's Investment Fund provides services to Portland's children with funds approved by the voters in a 2002 property tax levy. Under the terms of the ballot measure, these services are provided in three areas: early childhood, child abuse prevention and intervention, and after-school and mentoring. The ballot measure also limited the costs of administering the program to no more than 5% of expenditures.

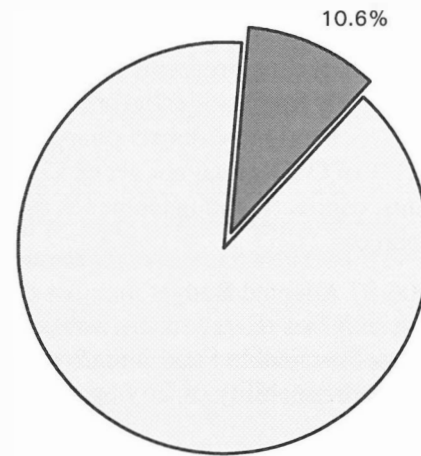
The Children's Investment Fund contracts with other local governments and non-profit agencies to provide these services. Over 9,000 children receive assistance, through programs including Head Start, health education and outreach, parent education, child care, and after-school programs that combine academic support with recreation and parent involvement. There is also a leverage fund that encourages private donations and provides matching funds to supplement these donations.

Transportation and Parking

Office of Transportation

Percent of City Budget

Trans & Parking = \$168.1 Million



City Budget = \$1.58 Billion

Service Area Overview

Expenditures	Revised FY 2005-06	Adopted FY 2006-07	Change from Prior Year	Percent Change
Operating	95,885,020	96,992,159	1,107,139	1.2%
Capital	85,243,763	71,075,215	-14,168,548	-16.6%
Total Expenditures	\$ 181,128,783	\$ 168,067,374	\$ -13,061,409	\$ -7.2%
Authorized Positions	756.97	768.81	11.84	1.6%

Service Area Highlights

DESCRIPTION

This service area includes the Office of Transportation (PDOT) and its related funds: Transportation Operating Fund, Transportation Reserve Fund, and Gas Tax Bond Redemption Fund. The service area also includes the Parking Facilities Fund and the Parking Facilities Debt Redemption Fund, both managed by the Office of Management and Finance.

Transportation

The Transportation and Parking service area includes those funds and bureaus that plan, build, manage, maintain, and facilitate an effective and safe transportation system and provide access and mobility throughout the city.

The Office of Transportation includes the bureaus of Maintenance, Transportation Systems Management, Transportation Engineering and Development, and the Office of the Director.

Streetlight

Portland's Office of Transportation provides streetlighting to all improved public streets according to City standards. Through a contract, Portland General Electric provides electricity for the street lights and maintenance for 81% of the City-owned streetlights. Transportation staff maintain about 16% of the system. The rest of the system is maintained by the Oregon Department of Transportation.

Parking

The Parking Facilities Fund accounts for the operation and maintenance of six City-owned parking garages in downtown Portland, comprising the Smart Park system. The six garages are the Third & Alder garage (Morrison Park East), the Tenth & Yamhill garage (Morrison Park West), the Fourth & Yamhill garage, the Naito & Davis (Old Town) garage, the O'Bryant Square garage, and the First & Jefferson garage.

The Parking Facilities Debt Redemption Fund serves to achieve a proper matching of revenues with debt service expenditures of the Parking System Revenue Refunding Bonds, 2001 Series A, and the Limited Tax Revenue Bonds (Central City Streetcar Project), 1999 Series A.

MAJOR THEMES

Portland Office of Transportation

Cut Discretionary Spending To Balance The Budget

Starting in FY 2006-07, PDOT will use a combination of cuts and targeted savings to reduce discretionary spending by \$8.3 million per year. This will bring PDOT in balance for the next four years. The funding gap is projected to re-emerge in FY 2010-11.

General Fund Support

In FY 2006-07, PDOT will receive additional General Fund one-time for the following projects: \$1,000,000 for the Signal Intersection Hardware and \$275,000 for the Cully Boulevard Green Street. The total General Fund transfer to PDOT is \$7,647,154.

Parking Facilities

The Parking Operations program supports the operations and maintenance of the City-owned Smart Park Garages, a parking system of currently 3,825 parking spaces established to provide convenient and economical short-term parking in the downtown area. In addition, the Parking Facilities Fund provides funding for:

- ◆ The Special Appropriation for Downtown Marketing
- ◆ The Office of Transportation for Downtown Streetcar debt

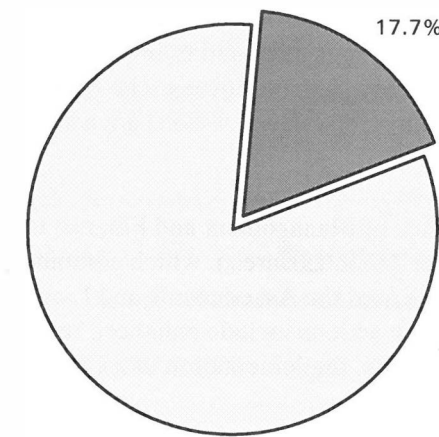
Legislative, Administrative, and Support

Office of the City Attorney
 Office of the City Auditor
 Commissioner of Public Affairs
 Commissioner of Public Safety
 Commissioner of Public Utilities
 Commissioner of Public Works

Office of Government Relations
 Bureau of Licenses
 Office of the Mayor
 Office of Management and Finance
 Special Appropriations

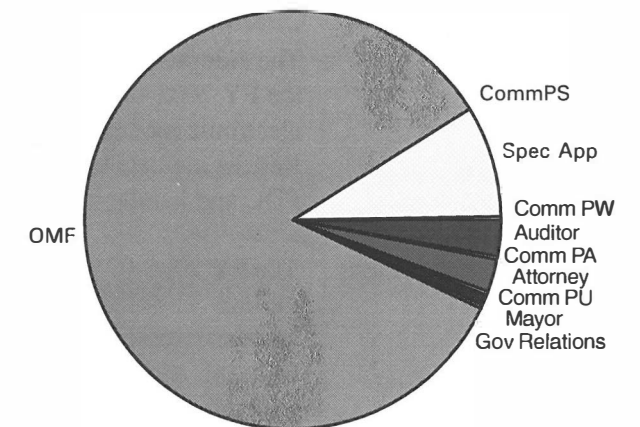
Percent of City Budget

Leg Adm = \$280.5 Million



City Budget = \$1.58 Billion

Bureau Pie Chart



Service Area Overview

Expenditures	Revised FY 2005-06	Adopted FY 2006-07	Change from Prior Year	Percent Change
Operating	238,892,422	246,952,228	8,059,806	3.4%
Capital	32,416,481	33,553,637	1,137,156	3.5%
Total Expenditures	\$ 271,308,903	\$ 280,505,865	\$ 9,196,962	\$ 3.4%
Authorized Positions	934.11	933.83	-0.28	0.0%

Service Area Highlights

DESCRIPTION

The Legislative, Administrative, and Support Services service area includes the City's internal support bureaus, the offices of the Mayor, City Auditor, and Commissioners, and all Special Appropriations. The internal support bureaus are the Office of the City Attorney, the Office of Government Relations, and the Office of Management and Finance.

MAJOR THEMES

Attorney

The FY 2006-07 Adopted Budget for the City Attorney's Office is \$6.7 million. Major additions include a \$276,631 interagency agreement with the Revenue Bureau to maintain the collection of delinquent business license accounts and a \$113,880 interagency agreement with the Bureau of Environmental Services to continue work on the Portland Harbor Superfund site. The budget also includes a reduction of \$33,716 in external materials and services.

Auditor

The Adopted Budget for the Auditor's Office in FY 2006-07 totals \$7.8 million, level with the FY 2005-06 Revised Budget. Additional funding is allocated to implement Efiles, an electronic records management system, for all City Hall employees. The Managing for Results management auditor position is continued, and new positions are added to audit PDC and handle more hearings cases.

Office of Management and Finance

The FY 2006-07 Adopted Budget for the Office of Management and Finance totals \$236.3 million. The budget reflects the creation of the Revenue Bureau, which combined the utility customer services division, Bureau of Licenses, and the Assessments and Liens program from the Auditor's Office. Significant budgetary actions include enhanced revenue collections, increased outreach and training efforts, implementation of a City space plan, and investments in technology.

Special Appropriations

Special appropriations included in the FY 2006-07 Adopted Budget total \$23.9 million. Major items include \$10 million to Portland area schools, \$1.4 million for supporting the redevelopment of Ball elementary school in North Portland, \$2.6 million to the Regional Arts and Culture Council, and \$1.5 million for continuing support for Multnomah County jail beds.

Mayor and Commissioner Offices

The Mayor and four City Commissioner Offices were held harmless from budget reductions. The Mayor's Office extended limited term positions for the Community Visioning Project (3.50 FTE) and Bureau Innovation Project (2.00 FTE), and added limited term positions for a Gang Reduction Project (2.00 FTE) and school funding coordination (1.25 FTE).

Office of Management and Finance

Tim Grewe, Chief Administrative Officer

Bureau of Financial Services

Ken Rust, Chief Financial Officer

Financial Planning Division

Jennifer Sims, Manager	Doug Le
Drew Barden, City Economist	Jeremy Patton
Koufosh (Ghaem) Maghami	Eileen Roe
Nancy Hartline	Casey Short
Stacy Jones	Jason Smith
Mike Johnson	Bob Tomlinson

Support Staff

Linda Rains
Sharon Wolf

Printing and Distribution Division

Collaborative team effort by staff in Printing and Distribution

Financial Planning Division
1120 SW Fifth Avenue, Room 1250
Portland, Oregon 97204
(503) 823-5288

Website: <http://www.portlandonline.com/omf/index.cfm?c=26608>