

# Office of Management & Finance

## Current 5-Year Financial Forecast

### General Fund-City Of Portland

As Of... **28-Nov-2003** Previous Forecast..... **17-Jun-2003**

Resource Outlook

#### Financial Forecast For Council's Adopted Budget Closes GAP Between Resources And Requirements

Item	June 17th Forecast	December Forecast	Difference vs. Previous
<b>Council Discretionary Available FY2004-05.....</b>	\$295,097,235	\$285,101,571	(\$9,995,663)
<b>Requirements:</b>			
Capital Set-Aside.....	\$2,833,620	\$1,813,044	(\$1,020,576)
Council Set-Asides.....	\$35,180,330	\$28,891,298	(\$6,289,032)
One-Time Bureaus	\$352,778	\$458,308	\$105,530
<b>Bureaus &amp; Programs....</b>	<b>\$256,011,376</b>	<b>\$256,225,717</b>	<b>\$214,341</b>
<b>CAL Requirements..</b>	<b>\$294,378,104</b>	<b>\$287,388,367</b>	<b>(\$6,989,738)</b>
<b>Resources Less CAL</b>	<b>\$719,131</b>	<b>(\$2,286,796)</b>	<b>(\$3,005,927)</b>
Programs FY04-05.....	\$0	(\$2,818,483)	(\$2,818,483)
Available One-Time...	<b>\$719,131</b>	\$531,687	(\$187,444)
Programs FY05-06.....	\$0	\$0	\$0
Available One-Time.....	<b>\$927,077</b>	<b>(\$0)</b>	<b>(\$927,077)</b>

#### Regional Economy Continues To Stagnate

The Portland metro-area economy continues to register near the top country-wide with one of the highest unemployment rates among metropolitan areas. Over the last three quarters the local area unemployment rate has averaged around 8 percent. Job growth has been for the most part non-existent. The General Fund's discretionary revenue stream continues to reflect poor economic times. Resources are again revised downward compared to last June's FY2004-05. CAL reductions are required.

#### Resources Again Insufficient To Fund Current CAL Levels

- ◆ *The resource forecast for FY2004-05 is down \$10.0 million compared to the previous forecast done last June in conjunction with Council's Adopted Budget and five-year financial plan. Net of the change to a net business license revenue estimate, the principally reason for this difference is a decline in the property tax revenue forecast. Lower assessed value growth and a 1 percentage point increase in compression have combined to wipe out \$3.4 million of revenues compared to the previous forecast.*
- ◆ *Bureau current allocation levels (CAL) are \$214,341 higher in this forecast due to inclusion in Fire's target of their equipment allocation. Otherwise CAL costs would be down net, about \$775,000. Set-asides are down \$6.5 million but \$5.5 million is due to no longer budgeting refunds.*
- ◆ *Reducing current allocation levels by \$2.818 million or by about 1.1% balances the General Fund over the life of the five-year forecast. There is an estimated \$531,687 available in one-time resources in addition to financial planned one-time expenditures of about \$458,300.*

#### Police Contract Remains Unresolved

The financial forecast assumes CPI cost-of-living (COLA) adjustments for Police and medical care inflation on health benefits. If a Police settlement exceeds this framework, the General Fund's current allocation level (CAL) increases. Council then has to further reduce CAL in order to re-balance the General Fund over the five-year forecast horizon.

Some Key Forecast Assumptions	M50 Assess. Value \$1000....	\$35,913,417	<b>State Cigarette &amp; Liquor Tax Revenues To City.....</b>	\$9,816,537
	FY2003-04 M50 Tax Base....	\$164,375,708	<b>CPI-W Increase (2nd Half '02 To 2nd Half '03).....</b>	<b>2.4%</b>
	M50 Compression Loss.....	(\$6,876,120)	<b>Measure 50 FPD&amp;R Levy.....</b>	\$99,456,070
	Est. Tax Base Imposed.....	\$157,499,588	<b>Beginning General Fund FY2004-05 Balance.....</b>	\$9,984,536
	Delinquency/Discount(%)....	-5.7%	<b>Estimated Urban Renewal Divide-The-Taxes (10 Districts)..</b>	<b>\$52,062,230</b>
	Delinquency/Discount (\$)....	(\$8,977,477)	<b>Current Forecast: FY2004-05 to FY2008-09</b>	
	FY04 Tax Base Revenues....	\$148,522,111		
County M50 Levy.....	\$186,281,401			
Library-Local Option.....	\$32,380,729			
Total-County Levies.....	\$218,662,130			

**Forecast FY2004-05 resources are revised down by about \$9.99 million compared to the previous June forecast.** About \$6.3 million of this amount is a technical adjustment that changes the business license revenue estimate to a net revenue concept. This accounts for \$6.3 million of the \$9.4 million difference in revenues compared to the previous forecast. Discretionary revenues are otherwise reduced in this forecast by \$3.1 million compared to last June's FY2004-05 revenue forecast. Property taxes are down net in this forecast by \$3.4 million. This is in turn the result of lower assessed value growth accompanied by a 1 percentage point increase levy compression.

Utility license, franchise fees are down \$983,000 in this forecast. Qwest franchise fees dropped sharply early this year and OPUC data through the end of calendar 2002 show a large drop in system subscriber lines. The Qwest revenue estimate is almost \$1 million lower than previously.

<b>Revenue Forecast RECAP-First Year Budget, FY2004-05</b>			
<b>General Fund Revenue Category</b>	<b>FY2004-05</b>		
	<b>Previous</b>	<b>Current</b>	<b>Difference</b>
<b>Property Taxes.....</b>	<b>\$156,506,624</b>	<b>\$153,107,375</b>	<b>(\$3,399,249)</b>
<b>Transient Lodgings.....</b>	<b>\$11,236,749</b>	<b>\$10,843,695</b>	<b>(\$393,054)</b>
<b>Business Licenses.....</b>	<b>\$41,063,194</b>	<b>\$37,046,619</b>	<b>(\$4,016,575)</b>
<b>Utility License/Franchise....</b>	<b>\$59,431,209</b>	<b>\$58,448,202</b>	<b>(\$983,007)</b>
<b>State Revenues.....</b>	<b>\$9,699,413</b>	<b>\$9,816,537</b>	<b>\$117,124</b>
<b>Interest Income.....</b>	<b>\$1,284,581</b>	<b>\$755,533</b>	<b>(\$529,049)</b>
<b>Transfers IN.....</b>	<b>\$603,006</b>	<b>\$603,006</b>	<b>(\$0)</b>
<b>Miscellaneous.....</b>	<b>\$4,631,756</b>	<b>\$4,496,069</b>	<b>(\$135,687)</b>
<b>Revenue Forecast.....</b>	<b>\$284,456,532</b>	<b>\$275,117,035</b>	<b>(\$9,339,497)</b>
<b>Beginning FUND Balance....</b>	<b>\$10,640,703</b>	<b>\$9,984,536</b>	<b>(\$656,166)</b>
<b>Forecast Resources.....</b>	<b>\$295,097,235</b>	<b>\$285,101,571</b>	<b>(\$9,995,663)</b>
<b>% Change In Revenues.....</b>		<b>-3.28%</b>	
<b>% Change In Resources.....</b>		<b>-3.39%</b>	

Most other revenue categories are not much different than last June, although interest income is down another \$530,000 in this forecast. Interest rates continue at all time lows and are likely to stay low for some considerable period of time.

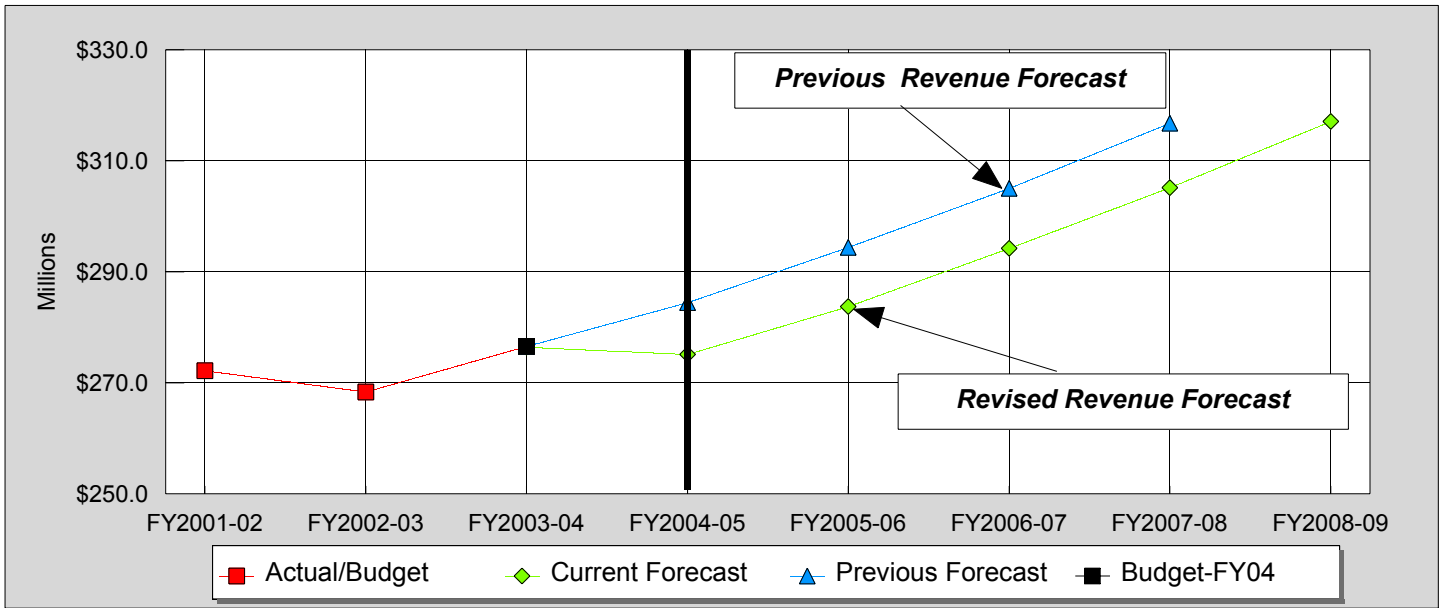
**A key revenue forecast assumption is a "Measure 50" General Fund tax base levy of \$164.38 million which is well below last June's forecast.** This forecast calls for 2.5% assessed value growth, under the so-called 3% minimum. This assumes that slower growth the last two years was due to systemic factors that are likely to be repeated. It is now apparent that the recession has negatively impacted commercial and industrial assessed and real market values. New construction outside of urban renewal districts is slow. During recessions, under this system, property tax revenue growth slows down. In addition, large increases in both urban renewal collections and the FPD&R Levy appear to have increased compression by at least two full percentage points. Large increases scheduled over the forecast period may result in further increases in compression and could reduce actual revenues below current forecasts. The forecast assumes that property tax revenues continue to be generated under DOR's new Shilo-Inn tax rules for urban renewal collections.

<b>Revenue Forecast ASSUMPTIONS</b>	
<b>Revenue Category</b>	<b>FY2004-05</b>
<b>CITY Property Tax Levies.....</b>	
<b>Measure 50 Taxbase Levy.....</b>	\$164,375,708
<b>Local Option &amp; UR Collections</b>	\$96,364,729
<b>Measure 50 F&amp;PD&amp;R Levy(*)....</b>	\$99,456,070
<b>FPD&amp;R, General Fund Total.</b>	<b>\$360,196,507</b>
<b>MULTNOMAH County Levies</b>	
<b>Measure 50 Levy Authority.....</b>	\$186,281,401
<b>Local Option Levy (Library).....</b>	\$32,380,729
<b>Mult. County Levy Total.....</b>	<b>\$218,662,130</b>
<b>M50 Assessed Value Growth....</b>	2.8%
<b>Percent of FY2003-04 Levies</b>	
<b>Not Received First Year.....</b>	<b>-5.7%</b>
<b>Measure 50 Compression.....</b>	<b>-4.2%</b>
<b>Est. Portland Population.....</b>	548,662
<b>GDP Growth (Economy.Com)....</b>	1.1%
<b>Revenue Sharing (State).....</b>	\$9,816,537

(\*) Preliminary forecast

**THE BOTTOM LINE: The forecast shows General Fund resources are down compared to last June and are about \$3.4 million lower, net, than the June financial forecast resource estimate. Council's upcoming budget process will have to close the \$2.8 million gap identified in this forecast, most likely through CAL reductions. Reducing bureau current allocation levels by about 1.1% closes the identified "CAL gap" and balances the General Fund over the the life of the five-year forecast.**

**Current Mayor's Proposed 5-Year REVENUE Forecast  
General Fund Financial Model**



**Figure 1-Current General Fund 5-Year Revenue Forecast**

A key forecast assumption is a national economy that continues to recover from recession, eventually reviving the local economy. The Pacific Northwest however remains mired in recession and the national economy continues to struggle through a very weak recovery. The local economy remains in recession.

**Figure 1 summarizes the 5 year revenue forecast** off of the FY2003-04 base. Revenue growth remains critically dependent on assessed value growth. Revenue growth is forecast to average 3 percent over the next five years. The recession translates into a dip in revenues because of a sharp downturn in "cyclical" revenues such as business licenses and transient lodging taxes. Property taxes, under new Shilo Inn calculations rules remain a question mark.

**Estimated FY2004-05 General Fund current allocation level (CAL) costs** are \$256.225 million, versus last June's estimate of \$256.011 million for FY2004-05 bureau CAL costs. Bureaus' CAL targets are down about \$775,000 in this forecast, net. Fire's target now includes \$1 million for equipment within target so this makes targets look higher. About \$1.8 million in PERS savings was taken out of targets. The PERS employer contribution rate is at 10.3% for FY2004-05.

<b>Estimated Current Allocation Level Forecast Assumptions</b>		<b>FY2004-05</b>
<b>FY2004-05 CAL Cost</b>		
Previous CAL Forecast.....		\$256,011,376
Current CAL Forecast.....		\$256,225,717
<b>Difference In CAL Estimates.....</b>		<b>\$214,341</b>
<b>General Inflation Rates.....</b>		
GDP Price Deflator.....		1.4%
CPI-W% (Dec.'02-Dec.'03).....		<b>2.4%</b>
Benefits CAP Escalation.....		<b>5.7%</b>
Producer Price Index.....		4.6%
CPI-Energy.....		1.5%
<b>External M&amp;S.....</b>		
General-Overall.....		2.7%
Energy-Electricity.....		6.0%
Energy-Gas.....		6.0%
Sewer.....		8.9%
Water.....		4.0%
Utilities-Overall.....		6.3%
<b>Internal M&amp;S.....</b>		
General-Overall.....		2.7%
Risk/Workers' Comp.....		2.3%
<b>Wage &amp; Salary % Increase.....</b>		
Public Safety.....		<b>2.4%</b>
All Other.....		<b>2.4%</b>

This financial forecast continues to benefit, like previous forecasts from slower CAL growth. This results from lower inflation in the Portland area overall as measured by the local CPI-W price index over the last couple of years. The actual December 2002 to December 2003 CPI-W increase will be published by the Bureau of Labor Statistics in late February. This forecast assumes a 2.4%, CPI-W increase.

**COUNCIL set-asides, FY2004-05, as currently estimated are shown in the table at the right as follows:**

- The business license refund set-aside is zeroed out consistent with the new accounting method employed for business license revenues.

- The General Fund's cash position continues to be stable and the forecast continues to assume the fund will not have to issue tax anticipation notes (TANS).

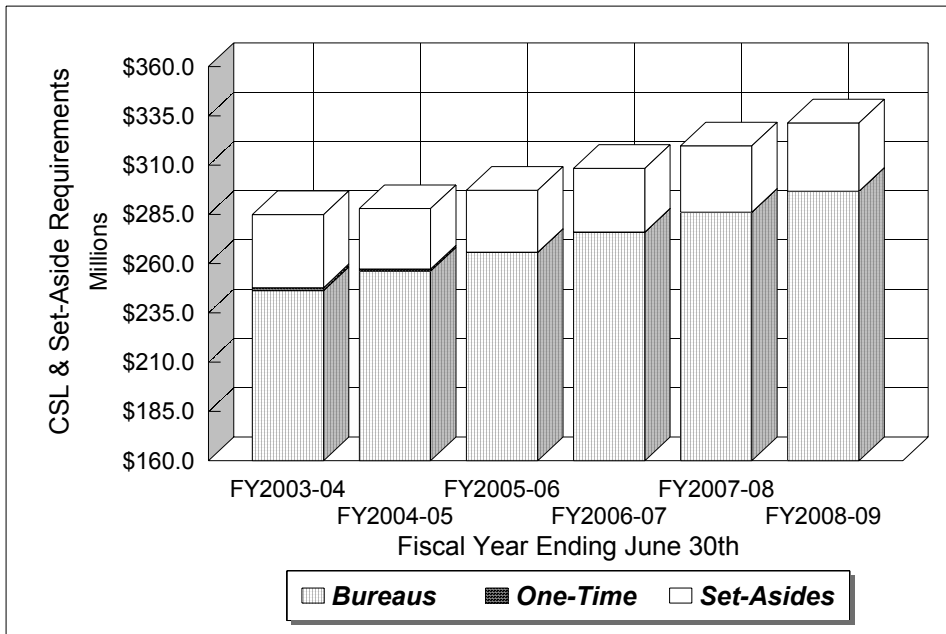
- The capital set-aside (net of related debt service requirements) is set at \$1.8 million net of \$1 million now included in Fire's target. Capital related "Other Debt Service" totals about \$2.1 million for FY2004-05.

- The compensation set-aside is revised to \$6.4 million. This assumes a 2.4% COLA, plus medical benefits inflation of 5.7%. This is not much different than last June's forecast. The Police contract however, remains unresolved. This set-aside estimate reflects last year's Fire contract and assumes that Police contract is resolved with a CPI-W COLA and health benefits increases tied to local medical care inflation.

Forecast Council Set-Asides		
Set-Aside Item	Forecast FY2004-05	
	Last June	Current
Compensation Set-Aside.....	\$6,333,763	\$6,419,927
ESA(*) Set-Aside.....	\$929,829	\$934,295
Street Light O&M.....	\$4,948,899	\$5,033,215
General Fund Contingency.....	\$1,400,000	\$1,400,000
Unforeseen & Inventory.....	\$2,000,000	\$2,000,000
<b>Subtotal-Contingency</b>	<b>\$3,400,000</b>	<b>\$3,400,000</b>
<b>Capital Set-Aside (**)</b> .....	<b>\$2,833,620</b>	<b>\$1,813,044</b>
PDOT CAL Support.....	\$86,354	\$86,546
Unused Line.....	\$0	\$0
Unused Line.....	\$0	\$0
City Hall Debt Service.....	\$2,479,350	\$2,479,350
POBS Debt Service.....	\$5,077,442	\$4,177,232
Other Debt Service.....	\$2,140,873	\$2,140,873
Business License Refunds.....	<b>\$5,553,531</b>	<b>\$0</b>
City Hall Maintenance Reserve.....	\$309,713	\$309,800
Housing Trust Fund.....	\$505,350	\$505,350
TANS Borrowing-Interest	\$0	\$0
Transfer to Reserves.....	\$2,132,749	\$1,859,817
CIPs O&M Set-Aside.....	\$790,449	\$672,649
Econ. Develop. Fund.....	\$0	\$380,000
BIT Transfers.....	\$492,029	\$492,244
Miscellaneous Transfers.....	\$0	\$0
<b>Total Budgeted/Council</b>		
<b>Estimated Council Set-Asides</b>	<b>\$38,013,950</b>	<b>\$30,704,342</b>
<b>Difference versus Previous Forecast.....</b>		<b>(\$7,309,608)</b>

(\*) Endangered Species Act (ESA) (\*\*) Net of capital related debt service.

**Adopted Budget Current Allocation Level (CAL) Requirements  
General Fund Financial Model**



**Figure 2-Current Service Level (CAL) Requirements**

**Other set-asides in Council's current financial plan include Pension Obligation Bond debt service costs of about \$4.177 million as estimated by Debt Management.**

**With the exception of the elimination of the business license refund and Fire equipment, set-asides are not much different than assumed last June. Without the refunds and fire change, set-asides are down about \$481,000 from the previous June forecast.**

**Set-asides are down about \$7.310 million compared to the previous forecast.**

The table at the right combines the FY2004-05 resource forecast with fund CAL forecast estimates for FY2004-05. Resources total an estimated \$285.101 million. Deducting set-asides of \$30.704 million leaves about \$254.397 million for on-going CAL program plus one-time budgets.

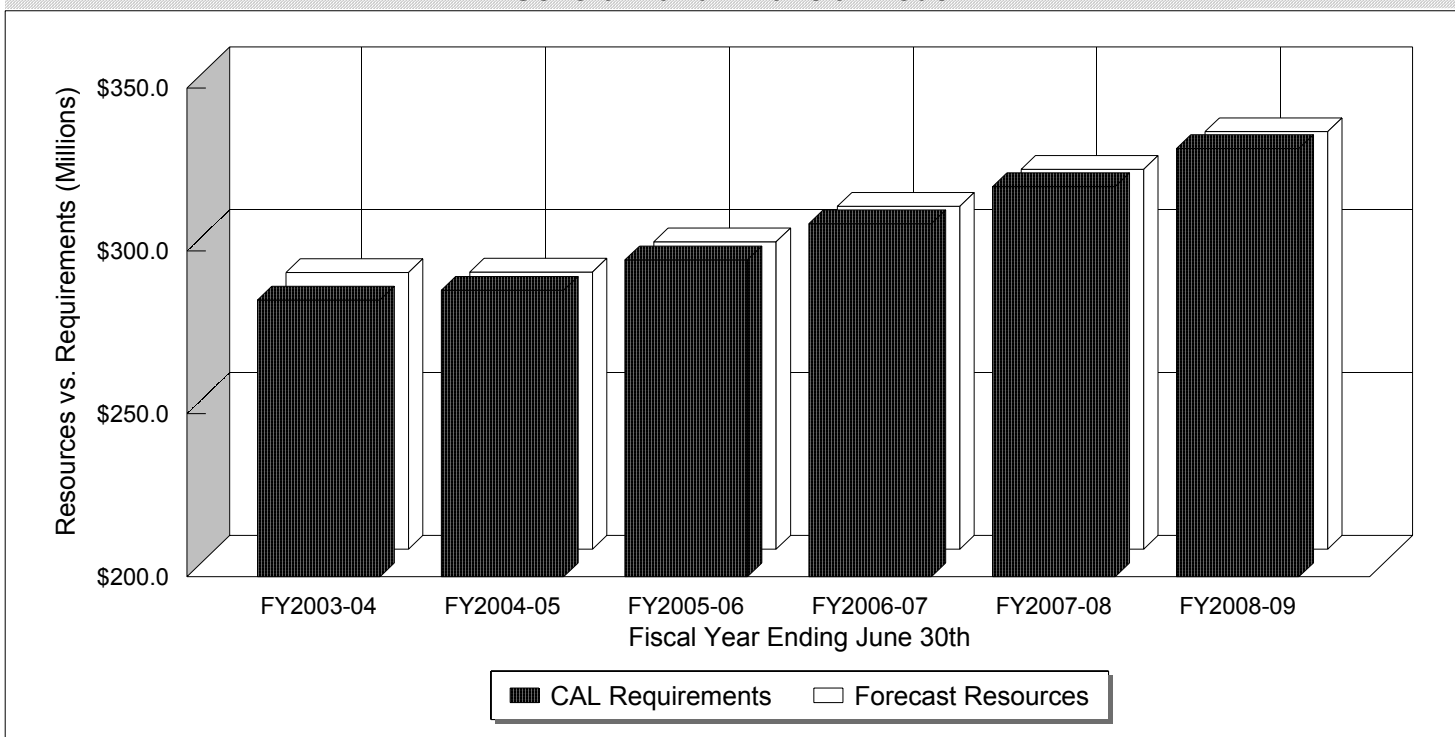
There is a gap between resources available for bureau current allocation level programs and requirements. Balancing the General Fund over the course of the five-year forecast requires an overall reduction in General Fund current allocation levels of \$2.818 million (1.1%). About \$530,000 of new one-time budget is available.

<b>Sources &amp; Uses of Funds: Financial Forecast FY2004-05</b>		
Item	<i>Budget</i>	FY2004-05
	FY2003-04	<i>Forecast</i>
Forecast FUND Revenues.....	\$276,551,887	\$275,117,035
Beginning FUND Balance.....	\$8,349,115	\$9,984,536
<b>Total FUND RESOURCES</b>	<b>\$284,901,002</b>	<b>\$285,101,571</b>
Less: Council Set-Asides.....	(\$34,267,781)	(\$28,891,298)
Less: Capital Set-Aside.....	(\$2,833,619)	(\$1,813,044)
<b>EQUALS: AVAILABLE TO BUREAUS-PROGRAMS.....</b>	<b>\$247,799,603</b>	<b>\$254,397,230</b>
Bureaus CAL Requirement.....	\$247,799,604	\$256,684,025
<b>EST. GAP, DIFFERENCE.....</b>	<b>(\$1)</b>	<b>(\$2,286,795)</b>
<b>AVAILABLE ON-GOING FY2004-05.....</b>		<b>(\$2,818,483)</b>
New One-Time...FY2004-05.....		<b>\$531,687</b>

The "Forecast" column, shows that forecast FY2004-05 resources, and more importantly out-year resources are insufficient to fund lowered General Fund current allocation level (CAL) costs as embodied in the Council's previous FY2003-04 Adopted Budget and financial plan:

- Resources estimates continue to be impacted by the length and severity of this recession. The continuing decline in resources relative to requirements means that this year's budget process for the FY2004-05 budget will have to again focus on reducing General Fund current allocation levels.
- Last year Council reduced bureau current allocation levels by \$8 million on top of cuts of about \$9.7 million the previous year. This brings expected total CAL reductions to about \$21 million over the last three years.

**Forecast Difference Between Resources And Current Allocation Level (CAL) Requirements  
General Fund Financial Model**



**Figure 3-Financial Forecast Resources Compared To Requirements**

## 2-YEAR FINANCIAL FORECAST RESOURCES & REQUIREMENTS DETAIL

The table below summarizes the full two-year financial forecast General Fund resources and requirements:

- Resources total \$579.440 million for two years ending FY2005-06.
- Estimated requirements total \$581.726 million over two years.
- The General Fund can only be balanced at a lowered CAL level and or reduced Council Set-Asides. There appears to be about \$2.8 million CAL gap for FY2004-05.

		<i>Resources &amp; Requirements Summary Next Two Years</i>			
		Budget	Current 2 Year Forecast		
		FY2003-04	FY2004-05	FY2005-06	Total
Item-Category ▼	Resources ►	\$284,901,002	\$285,101,571	\$294,338,120	<b>\$579,439,692</b>
<b>Less: Assumed Set-Asides</b>					
TANS Interest Expense.....		\$0	\$0	\$0	\$0
Compensation Set-Aside.....		\$7,536,302	\$6,419,927	\$6,148,148	\$12,568,076
<b>Other Set-Asides</b>					
Contingency.....		\$1,502,743	\$1,400,000	\$1,400,000	\$2,800,000
Unforeseen Reimbursable.....		\$2,000,000	\$2,000,000	\$2,000,000	\$4,000,000
Subtotal-Contingency.....		\$3,502,743	\$3,400,000	\$3,400,000	\$6,800,000
Capital Set-Aside.....		\$2,833,619	\$1,813,044	\$1,789,539	\$3,602,583
PERS Debt Service.....		\$3,320,937	\$4,177,232	\$5,808,937	\$9,986,169
Other General Fund Debt Service.....		\$2,320,483	\$2,140,873	\$1,205,493	\$3,346,365
City Hall/Precincts-Debt Service.....		\$2,479,350	\$2,479,350	\$2,479,350	\$4,958,700
Street Light O&M Transfer.....		\$4,800,841	\$5,033,215	\$5,194,720	\$10,227,935
Transfer To General Reserve.....		\$625,384	\$1,859,817	\$1,843,486	\$3,703,303
PDOT CAL Support.....		\$84,439	\$86,546	\$88,694	\$175,240
Unemployment Insurance.....		\$0	\$0	\$0	\$0
Business License Refunds.....		\$6,382,525	\$0	\$0	\$0
City Hall Maintenance Reserve.....		\$309,852	\$309,800	\$309,800	\$619,600
ESA Set-Aside.....		\$933,183	\$934,295	\$955,946	\$1,890,241
Economic Development Fund.....		\$0	\$380,000	\$380,000	\$760,000
CIPs Related O&M Costs.....		\$567,566	\$672,649	\$900,880	\$1,573,529
Housing Trust Fund.....		\$495,757	\$505,350	\$516,568	\$1,021,918
Miscellaneous Transfers.....		\$90,000	\$0	\$0	\$0
BIT Transfer.....		\$818,419	\$492,244	\$496,068	\$988,312
Subtotal, Assumed Set-Asides.....		\$37,101,400	\$30,704,342	\$31,517,629	\$62,221,971
Bureau Requirements + One-Time.....		\$247,799,602	\$256,684,025	\$262,820,491	\$519,504,516
<b>Total Requirements.....</b>		<b>\$284,901,002</b>	<b>\$287,388,367</b>	<b>\$294,338,120</b>	<b>\$581,726,487</b>
<b>Resources less Requirements</b>					
<b>Equals Excess(+)/CAL Gap(-).....</b>		\$0	<b>(\$2,286,795)</b>	<b>(\$0)</b>	
<b>On-Going Program Reductions.....</b>		\$0	<b>(\$2,818,483)</b>	<b>\$0</b>	<b>(\$2,818,483)</b>
<b>Available One-Time.....</b>		\$0	<b>\$531,687</b>	<b>\$0</b>	<b>\$531,687</b>

### FY2004-05 Through FY2008-09 Financial Forecast Summary

- This financial forecast shows that General Fund current allocation levels again need adjustment to a local economy that is still in the grips of recession. This resource forecast shows that resources are insufficient to fund current allocation levels as embodied in Council's Adopted FY2003-04 Budget. Council's budget process for FY2004-05 must concern itself with the primary task of "paring" current allocation levels in order to close the budget gap and realign CAL requirements with resources over the life of the five-year forecast horizon. The Police contract however, remains an unknown financial requirement.
- This financial forecast makes the assumption that \$4.4 million of excess reserves are used over the life of the five-year forecast with the bulk of this use occurring in the last three years of the forecast. The General Reserve Fund is expected to remain fully funded at the 10% level.
- The scenario used for the 5-year forecast is realistic. Legislative or voter actions that reduce property tax revenues, state shared cigarette and liquor revenues, or franchise fees upset the forecast. The possibility of a deeper or longer lasting recession continues to represent more of a risk to the five-year forecast than at any time during the recent past.

### Out-Year Detail Of 5-Year Financial Forecast

The financial forecast shows a five-year forecast that is balanced with the General Reserve Fund remaining at the required 10% level throughout the five-year forecast horizon. The General Fund is balanced at a lower CAL level as required by the financial forecast. The table (below) summarizes the five-year financial forecast as it currently stands given Council's previous five-year financial plan and budget outcomes. The business license revenue forecast should be viewed as problematic in that it recognizes the new net revenue accounting recognition framework, but there is no historical data to rely on in generating this forecast which must be viewed as subject to more variability and error.

Item	Two-Year Budget Window		Following Two-Year Budget		Out-Year
	2005	2006	2007	2008	2009
<b>Total Resources.....</b>	\$285,101,571	\$294,338,120	\$304,596,234	\$315,116,135	\$326,047,898
<b>Transfer In From General Reserve.....</b>	\$0	\$0	\$684,607	\$1,492,049	\$2,127,021
Bureaus & Programs.....	\$256,225,718	\$262,820,491	\$272,962,870	\$282,895,655	\$293,394,005
Capital Set-Aside.....	\$1,813,044	\$1,789,539	\$1,764,448	\$1,836,997	\$1,708,057
<i>Est. CAL Reduction.....</i>	<b>(\$2,818,483)</b>				
Planned One-Time.....	\$458,308	\$0	\$0	\$0	\$0
New One-Time.....	\$531,687	\$0	\$0	\$0	\$0
Pension Bonds P&I.....	<b>\$4,177,232</b>	<b>\$5,808,937</b>	<b>\$7,787,709</b>	<b>\$8,544,873</b>	<b>\$8,955,396</b>
Council Set-Asides.....	\$24,714,062	\$23,919,153	\$22,765,814	\$23,330,660	\$24,117,462
<b>Total Requirements</b>	\$285,101,568	\$294,338,120	\$305,280,841	\$316,608,185	\$328,174,919
<b>Difference</b>	<b>\$3</b>	<b>(\$0)</b>	<b>(\$0)</b>	<b>(\$0)</b>	<b>\$0</b>
Reserve Fund As A Percent Net Revenues	11.0%	11.5%	11.2%	10.7%	10.2%

### Risks To The Financial Forecast

This forecast assumes that the recession lasts well into calendar 2004 with a local recovery starting the second half of 2004. There are several uncertainties that could adversely affect this forecast:

- A regional economy that has been unable to climb out of recession.
- The long term effect of the Shilo-Inn rule on property tax collections is not known.
- PERS legislative changes are winding their way through the Oregon Supreme Court.
- The Police contract remains unresolved and in arbitration. An award of PPA's "last best offer" would result in a multi-million dollar widening of the CAL gap identified in this forecast.
- Business License accounting changes may further reduce forecast revenue.

<b>Two-Year Forecast Resources-By Budget Category Detail</b>			
<i>Category</i>	<i>FY2003-04</i>	<i>FY2004-05</i>	<i>FY2005-06</i>
<b>RESOURCES</b>	<b>Budget</b>	<b>Forecast</b>	<b>2nd Year</b>
<b>Property Taxes</b>			
<b>Current Year Taxes</b>	\$147,427,197	\$148,522,112	\$154,057,616
<b>Prior Year Taxes</b>	\$3,461,175	\$3,780,042	\$3,974,901
<b>Payment in Lieu of Taxes</b>	\$706,515	\$805,221	\$805,221
<b>Total Property Taxes</b>	<b>\$151,594,887</b>	<b>\$153,107,375</b>	<b>\$158,837,738</b>
<b>Other Taxes</b>			
<b>Lodging Tax</b>	\$10,978,701	\$10,843,695	\$10,997,931
<b>Licenses &amp; Permits</b>			
<b>Business Licenses</b>	\$40,664,039	\$37,046,619	\$38,906,669
<b>Utility License-External State Sources(*)</b>	\$41,452,252	\$41,266,943	\$41,219,563
<b>State Shared Revenue</b>	\$9,480,137	\$9,816,537	\$9,474,385
<b>Local Government</b>			
<b>Local Shared Revenue</b>	\$2,302,887	\$2,446,069	\$2,453,249
<b>Miscellaneous Revenues</b>			
<b>Refunds</b>	\$30,000	\$30,000	\$30,000
<b>Interest on Investments</b>	\$1,050,674	\$755,533	\$1,001,287
<b>Other Misc. Revenues</b>			
<b>Other Misc. Revenues</b>	\$20,000	\$20,000	\$20,000
<b>Unforeseen Reimbursable Transfers, Other Funds</b>	\$2,000,000	\$2,000,000	\$2,000,000
<b>Utility License-Internal</b>			
<b>Water Operating</b>	\$4,016,308	\$4,335,314	\$4,676,264
<b>Sewer Operating</b>	\$11,767,433	\$12,845,945	\$13,516,788
<b>Miscellaneous</b>			
<b>Parking Facility-Tax Offset</b>	\$208,074	\$214,316	\$220,745
<b>Hyro-Fund Transfer</b>	\$200,000	\$200,000	\$200,000
<b>Fleet Transfer</b>	\$500,000	\$0	\$0
<b>Refuse Disposal</b>	\$55,000	\$55,000	\$55,000
<b>HCD-Indirect</b>	\$231,495	\$133,690	\$133,690
<b>Federal Grants-Indirect</b>	\$0	\$0	\$0
<b>Transfer-General Reserve</b>	\$0	\$0	\$0
<b>Other Transfers.....</b>	\$0	\$0	\$0
<b>Subtotal-Transfers, Misc.</b>	<b>\$1,194,569</b>	<b>\$603,006</b>	<b>\$609,435</b>
<b>Beginning Fund Balance Unencumbered</b>	<b>\$8,349,115</b>	<b>\$9,984,536</b>	<b>\$10,594,810</b>
<b>TOTAL DISCRETIONARY</b>	<b>\$284,901,002</b>	<b>\$285,101,571</b>	<b>\$294,338,120</b>
<b>Checksum Total-Page 2</b>	<b>\$284,901,002</b>	<b>\$285,101,571</b>	<b>\$294,338,120</b>
<b>Checksum Difference</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

(\*) Cigarette & liquor tax distributions to General Fund from State of Oregon

This table shows the resource forecast by budget categories as they appear in City's budget document. The italicized categories are identical to line items on the summary on page 2. Local Shared Revenues and Miscellaneous Revenues are collapsed into one simplified category on page 2 (Misc.& Local Shared) but are shown here in budget detail.

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***Discussion of PERS Pension Obligation Bonds (POBS) Debt Service Schedule***

In November of 1999, the City sold \$300 million of Pension Obligation Bonds (POBS). The bond proceeds were used to eliminate the City's unfunded PERS pension liability. This reduced the City's employer's PERS contribution rate from 10.48% to 8.56% during FY2000-01. In selling the POBS, the City avoided an immediate PERS employer contribution rate increase to 17.4%. The debt service costs were structured so as to phase in higher pension costs over a ten-year period allowing revenue growth to help absorb the impact of higher employer PERS costs.

Pension bond debt service is allocated to bureaus using a bureau's actual PERS contributions for the fiscal year in which the sale of the pension obligation bonds occurred.

FUND	Bureau PERS Liability	Percentage Allocation	Annual POB Debt Service	
			FY2004-05 <b>\$11,121,822</b>	FY2005-06 <b>\$15,329,842</b>
General Fund Bureaus..	\$112,995,285	37.55889%	\$4,177,232	\$5,757,718
Unused Line	\$0	0.00000%	\$0	\$0
Unused Line	\$0	0.00000%	\$0	\$0
Unused Line	\$0	0.00000%	\$0	\$0
Unused Line	\$0	0.00000%	\$0	\$0
<b>Subtotal.....</b>	<b>\$112,995,285</b>	<b>37.55889%</b>	<b>\$4,177,232</b>	<b>\$5,757,718</b>
PDOT (net).....	\$55,353,650	18.39919%	\$2,046,325	\$2,820,566
BOEC (net).....	\$2,863,692	0.95187%	\$105,866	\$145,921
Buildings (OPDR)	\$14,372,047	4.77717%	\$531,309	\$732,333
BES	\$39,339,045	13.07604%	\$1,454,294	\$2,004,536
Hydroelectric	\$301,519	0.10022%	\$11,147	\$15,364
WATER	\$40,857,865	13.58088%	\$1,510,442	\$2,081,928
Golf Operating	\$2,463,623	0.81889%	\$91,076	\$125,535
PIR	\$474,262	0.15764%	\$17,533	\$24,166
Refuse Disposal	\$765,029	0.25429%	\$28,282	\$38,982
Environ. Remediation	\$17,662	0.00587%	\$653	\$900
Parks Bond Const.	\$1,364,843	0.45366%	\$50,456	\$69,546
Parks Construction	\$22,806	0.00758%	\$843	\$1,162
Facilities Services	\$2,448,975	0.81402%	\$90,534	\$124,788
Fleet Operating	\$5,754,908	1.91289%	\$212,749	\$293,244
Print & Distribution	\$1,950,219	0.64824%	\$72,096	\$99,374
BIT	\$4,415,663	1.46774%	\$163,239	\$225,002
Insurance & Claims	\$1,074,630	0.35720%	\$39,727	\$54,758
Health Insurance	\$454,732	0.15115%	\$16,811	\$23,171
LID	\$1,025,120	0.34074%	\$37,897	\$52,235
FPD&R	\$613,557	0.20394%	\$22,682	\$31,264
Unused Line	\$0	0.00000%	\$0	\$0
Comm. Services	\$2,424,160	0.80577%	\$89,617	\$123,524
Arena/Facilities	\$225,242	0.07487%	\$8,327	\$11,477
Worker Comp. Oper.	\$1,005,184	0.33412%	\$37,160	\$51,220
PDC	\$8,264,628	2.74711%	\$305,528	\$421,127
<b>TOTAL All Funds.....</b>	<b>\$300,848,346</b>	<b>100.00000%</b>	<b>\$11,121,822</b>	<b>\$15,329,842</b>

The table below details POB debt service for the three out-years of the financial forecast. About half of

	2007	2008	2009
Out-Year Debt Service.....	\$20,551,842	\$22,550,003	\$23,633,377

the debt issued is variable interest rate debt. Actual annual debt service numbers will fluctuate year-to-year in response to short term interest rates. The out-year numbers must be viewed as approximate. Higher interest rates represent a risk to this and subsequent forecasts.