The background of the cover is a photograph of a woman walking away from the camera through a lush rose garden. She is holding three balloons: one pink, one white, and one yellow. In the distance, a city skyline with several tall buildings is visible through the trees. The text is overlaid on the image in white, bold, sans-serif font.

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**ADOPTED BUDGET
CITY OF PORTLAND, OREGON
FISCAL YEAR 2005-2006**

BUDGET IN BRIEF

Adopted Budget

In Brief

City of Portland, Oregon

Fiscal Year 2005-06

Mayor Tom Potter

Commissioner Sam Adams

Commissioner Randy Leonard

Commissioner Dan Saltzman

Commissioner Erik Sten

Auditor Gary Blackmer

Washington Park's International Rose Test Garden and Portland's Skyline

Portland's skyline provides an urban backdrop for this photograph of a young woman enjoying the International Rose Test Garden in Washington Park. The blending of the natural with the urban environment is a striking feature of Portland, contributing to its reputation and its attractiveness as a city. The presence of a young person represents the emphasis on youth that is a theme of the City's 2005-06 budget.

The International Rose Test Garden is a prominent feature of Washington Park, located in the west hills overlooking downtown Portland and with postcard views of the city and Mt. Hood. The City purchased Washington Park's original 40.78 acres in 1871, and the first rose test garden was established there in 1915 as a "safe haven" for hybrid roses from Europe feared to be in danger from World War I bombing. By this time, Portland had over 200 miles of streets bordered by roses and had already earned the moniker "City of Roses."

Today, Portland's International Rose Test Garden is considered the oldest official, continuously-operated public rose test garden in the United States, receiving roses from around the world to be tested in the mild climate conducive to their growth. The status and international recognition of the garden make Portland the only city in North America that can issue its awards to roses of merit throughout the world.

The picture was submitted as an entry in the City's "Five Gardens" photo contest in 2000, and is part of the Parks Bureau's photo collection. The photographer is Linda N. Todd, a resident of Northeast Portland.

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Budget Award

The Government Finance Officers Association of the United States and Canada (GFOA) presented an award of Distinguished Budget Presentation to the City of Portland, Oregon for its annual budget for the fiscal year beginning July 1, 2004.

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.

Mayor's Message

INTRODUCTION

This Adopted Budget reflects both our city's ambitions and its economic limitations. This marks the sixth straight year that the City Council has adopted a budget in which cuts to services were necessary due to a recession. But I believe that, working with our citizens, we have delivered a budget that makes our community stronger, our children's futures brighter, and our most vulnerable residents more secure. I share with city residents the core beliefs that good government is possible at a reasonable cost, that every elected official must act on what is best for all citizens, and that we must nurture and grow those programs and services that make Portland a unique and wonderful place to live, work, and raise our children.

This Adopted Budget also reflects a new spirit among those of us who work for Portland's citizens. When I took office in January, I formed two work teams made up of Commissioners and citizens to look at the City budget as a whole and make recommendations. While each bureau was asked to present 5% cut packages, the work teams were charged with thinking more strategically - funding those programs that most closely match our community's needs and priorities, and reducing or ending those that are of lower priority.

Several key questions shaped our decisions in developing the Adopted Budget:

- ◆ Will this decision maintain and improve our city's infrastructure, and support programs we know work? We cannot fund new programs with money that is needed elsewhere to keep our city safe and our facilities sound. We can't keep "thinning the soup" by trying to do everything, or starting new programs we know may be on the chopping block next year.
- ◆ Will this make Portland's families safer and more secure? For instance, the Council decided to continue funding for key community policing programs in our neighborhoods and schools, and to keep the same number of police officers on the street.
- ◆ Are we looking at the unintended consequences of cuts? For instance, does taking a small amount of City money from a program in the Office of Sustainable Development affect the office's ability to compete for significant federal grant dollars?
- ◆ Are we being as smart as we can be? This Adopted Budget calls for us to reexamine both our internal organization and our regional partnerships to ensure we are managing our City in the most efficient manner possible. We have also added staff to enhance our Managing for Results program.

The collaborative efforts of the Council work teams provided the foundation for this Adopted Budget. The City of Portland net budget for FY 2005-06 totals \$1.98 billion. This represents all City expenditures, including those made from dedicated sources such as water and sewer rates, as well as transportation programs funded, in part, by the state gas tax. It also includes the City's capital program, which is primarily funded with long-term debt that will be repaid from dedicated sources.



Within this total budget, the City has a General Fund of \$439 million. About \$311 million of this represents discretionary spending; the rest is earmarked for specific programs. When the Council work teams were formed, the City's financial forecast showed a General Fund deficit of \$16.8 million over the next five years. To meet this challenge, the City Commissioners and I - in consultation with the community - began the budget process by looking for General Fund savings to prepare for the future shortfall. While our goal was to cut \$8 million in discretionary General Fund monies, the Adopted Budget achieves only \$5.7 million in cuts to ongoing requirements. While that is still a substantial number, I believe this budget honors my pledge to Portland's citizens that frontline services will be protected, that innovation and efficiency will enhance customer service, and that citizens' concerns will be heard. Reductions in management, increased work efficiencies, and a new emphasis on developing strategic community partnerships were the primary means used to balance the budget.

While this budget addresses the needs of the coming fiscal year, the City's infrastructure - its streets and parks, water and sewer facilities - face extraordinary demands in the years ahead that will require new revenue. Estimates indicate the City needs an additional \$40 million annually to keep its existing capital investments in good repair and to plan for future capital needs. This budget calls for an increase in City water rates of 0.6% and sewer rates of 5.9% to address the operating and capital needs of those utilities.

The current five-year forecast for the General Fund shows the need to continue our work in realigning City spending to match anticipated future resources. Balancing the General Fund over the life of the five-year forecast is estimated to require further ongoing reductions of just under \$10 million, split equally between FY 2006-07 and FY 2007-08. The future of some programs is better left until after the results of our Community Visioning process are available. That process will involve the entire community in charting a road map for our city over the next 30 years, and will reveal which programs best serve our future needs.

At the same time ongoing General Fund needs are becoming increasingly difficult to pay for, the City has had the benefit of substantial one-time discretionary funds. The Council allocated over \$15 million in one-time resources for critical needs, including Parks maintenance, jail beds, and strategic planning. In addition, \$5.5 million in discretionary one-time funds was set aside as a "rainy day" reserve. The City is facing many unknowns - contract negotiations with employees, rising health care costs, potential litigation - and we must be prepared.

MAINTAIN EMERGENCY SERVICE LEVELS

Preserving frontline public safety services was one of the core principles guiding the budget process. The Council also agreed to support efforts to better coordinate service delivery. In this budget there is no change in the number of firefighters and police officers responding to emergencies. The number of police officers and firefighters in the field remains the same, as will emergency response times. We have looked not only at the total number of officers and firefighters, but also at how those officers and firefighters are deployed on our streets. We have also prioritized 9-1-1 emergency response, which is provided by the Bureau of Emergency Communications. One-time funding is included in this budget for nine emergency operator trainees until they can be moved into permanent positions.

The Council chose not to close existing fire stations. Instead, we will defer construction of a new station on SW Beaverton-Hillsdale Highway while a study is undertaken to evaluate the best locations for stations and how Fire services can best meet residents' and businesses' needs.

Community policing programs have been retained - including School Police, Neighborhood Response Teams, and the Auto Theft Task Force - and \$1.0 million in one-time funds is provided for problem-oriented policing strategies. A one-time appropriation will support an initiative to more closely coordinate public safety services among all Multnomah County service providers. The Council is concerned that more jail beds be made available, so we have budgeted \$1.8 million to open up 56 more beds in Multnomah County facilities. Resources have also been added to Independent Police Review to improve service to citizens.

Finally, following years of budget reductions, the Police Bureau has been carrying unfunded "frozen" positions in its budget in the hope that they might be restored someday. These positions have been vacant for years and present an unrealistic picture of the number of officers on the street. Therefore, these vacant and unfunded positions have been eliminated in this budget.

PRESERVE COMMUNITY CENTERS

All of our community centers will remain open, with a new commitment to provide the Linnton Community Center with \$50,000. Linnton is a good example of how citizens and the City can work together to continue services through community partnerships.

Ongoing funding for some community centers is reduced to 80% while they begin the process of identifying new community sources of financial support and business partnerships. Residents cannot continue to assume that government is the only solution for community needs. One-time funding makes up the remaining 20% in the FY 2005-06 budget.

One-time funding will also go to Camp Ky-O-Wa for the camp's final year. Camp Ky-O-Wa serves children with and without disabilities. PGE is closing the site in 2006; whether the camp will continue elsewhere has not yet been determined.

SUPPORT BUSINESS AND ECONOMIC DEVELOPMENT

The Council has directed \$874,000 in funds currently earmarked for use by the Portland Development Commission to an account focused primarily on small business economic development. Downtown marketing and services are continued with \$300,000 from the General Fund and \$100,000 from the Parking Facilities Fund. A new micro-business loan program will be administered through the Portland Development Commission, and will support small businesses with technical training and other tools.

The Council heard from businesses that utility costs need to be contained. We are continuing the "Big Pipe" project to segregate sewer and storm water overflows. We will keep this project on track and maintain watershed protection programs while holding the sewer/stormwater rate increase to 5.9%. The water rate increase is held below inflation, at 0.6%, by cutting vacant positions and capitalizing on other efficiencies.

ADDRESS MAINTENANCE NEEDS AND REDUCE BACKLOG

The Council made it a priority to redirect funds to address growing maintenance backlogs. The modest water rate increase will provide an additional \$1.6 million for water system maintenance. Administrative costs in the Office of Transportation were reduced by \$1.7 million, of which \$1.2 million was redirected to street preservation.

A golf fee surcharge is planned to begin addressing Parks' maintenance backlog. This will be matched with \$436,000 in ongoing resources and \$1.0 million in one-time resources from the General Fund. We also added \$572,700 for operations and maintenance costs associated with new or rehabilitated Parks assets.

REDIRECT FUNDS TO FRONTLINE SERVICES

We will invest our resources more efficiently by trimming the Office of Neighborhood Involvement's central administration to create a \$500,000 Community Investment and Empowerment account, designed to provide more direct funding and services to neighborhoods. Elders in Action and neighborhood mediation services are also funded.

City resources will support community gardens because citizens told us they are an important part of our neighborhoods. Toilets will continue to serve the homeless population at St. Francis Park, and \$22,000 is budgeted for the Outside In Needle Exchange program. These programs provide critical services to a growing homeless population at little cost.

Efficiencies will be implemented in the Office of Management and Finance (OMF), which will generate savings in other bureaus that can be applied to direct services.

INITIATE COMMUNITY VISIONING AND CHARTER REVIEW PROCESSES

The Council has initiated an 18-month process to develop a shared community vision and strategic plan. Outcomes from this work will guide future budget decisions to reflect community priorities. As the City continues to face budget challenges, the Council has chosen to put off most major programmatic changes until the public is consulted on long-term priorities. To enhance that effort, funds are provided in this budget for a survey of all city neighborhoods to identify key issues that will inform the Community Visioning project.

In addition, a City Charter Review Commission will be appointed in the coming months. This commission will be charged with assessing alternative governing structures or changes to the current structure that will improve customer service, streamline government operations, offer greater flexibility in hiring, and encourage better collaboration across City bureaus and with the Portland Development Commission.

CREATE PARTNERSHIPS THAT IMPROVE CUSTOMER SERVICE

The Council budget process included scrutiny of the manner in which we do business. Partnerships can be a powerful and effective way to deliver services while engaging citizens and improving accountability. Partnerships among governments can also be successful in realizing efficiencies and improving services. We have identified several such opportunities in this budget and look forward to collaborating with other local governments. \$200,000 is budgeted to coordinate public safety functions with Multnomah County offices, including the Sheriff and the District Attorney. These efforts will allow the City and the County to more effectively and efficiently address crime, and increase access to the services that reduce crime. We aim to achieve efficiencies and improve customer service at a time when both the City and County are facing budget shortfalls. We will also explore the coordination of maintenance functions within the City and with Portland Public Schools and Multnomah County.

The Council is working to improve internal partnerships through the Bureau Innovation Project. Internal staff teams are working to implement project recommendations that will break down silos among bureaus, increase diversity, improve management, and enhance customer service. Several of the recommendations have been previously mentioned. Others include:

- ◆ Exploring the reorganization of long-term planning functions;
- ◆ Studying the possibility of combining finance and administrative functions in the Water and Environmental Services Bureaus to create savings; and
- ◆ Funding a Fire & Police Disability & Retirement study to determine how to best manage future costs.

We are also working to create a new Revenue Bureau that will bring greater efficiency to City government and better customer service to businesses and residents. Citizens will be able to pay all their City bills in one place, and have all their questions answered with one phone call. We listened to the concerns of our regional partners, and won't include the Cable Office in the consolidation at this time.

STRENGTHEN MANAGEMENT

A portion of one-time discretionary funds available in FY 2005-06 has been allocated to strengthening our management capability. For example, we will conduct a span of control study to help determine the number of managers appropriate for the number of employees supervised. Police leave of service vacancy savings have been placed in contingency for compensation time payouts, on-call pay, and additional overtime needs. This will increase management oversight of the use of these resources.

Council and the Auditor's office will also continue implementation of Managing for Results, which will increase management efficiency and City government's accountability for delivering results.

INCREASE WORKFORCE DIVERSITY AND CULTURAL AWARENESS

The Council is firmly committed to increasing workforce diversity and cultural awareness. Toward this end, \$575,000 is provided in the budget for a new Citywide training initiative. This will serve as an investment, allowing trained employees to share their training and knowledge with co-workers. The Bureau of Human Resources will work with every bureau to maintain aggressive recruitment efforts to bring qualified minorities and underrepresented classes into the City workforce. To assist those with physical and mental challenges, Council retained a half-time disability coordinator position. New work and training opportunities will be provided through a new apprenticeship program in the Bureau of Development Services. Finally, OMF will retain funding for the Mentor/Protege program, which helps minority-owned, women-owned, and emerging small businesses develop effective working relationships with well-established companies.

CONCLUSION

I hope that Portlanders will remember that budget reductions have a human cost. While we have made every effort to cut currently vacant positions, approximately 94 employees will be laid off. However, some new positions will be created, including 32 with temporary assignments ranging from a few months to two years. These are not the faceless bureaucrats described by some critics of government. These are hard-working people with families, mortgages, and worries. Their service has been important to our city, and their loss, in some cases, may affect customer service. But this budget demanded hard choices to ensure the maintenance of core services and essential programs for our community.

This is my first Adopted Budget. As with any new endeavor, there have been lessons learned. First, none of this would have been possible without the collaboration of my colleagues on the Council. They have done remarkable work, and I thank them. Second, this document shows that we agree much more than we disagree about how best to shape our city. And third, this process only becomes stronger the more we are able to involve Portland's citizens. Next year, I promise we will hear their voices earlier and even more often.



Tom Potter
Mayor

City Overview

INTRODUCTION

This section of the FY 2005-06 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.

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 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 and Commissioners act as legislators and administrators.

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 agencies 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 both enacting and enforcing City laws, and administering bureaus under their supervision.

A study of Portland's commission form of government will be completed in FY 2005-06.

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.

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.

Figure 1



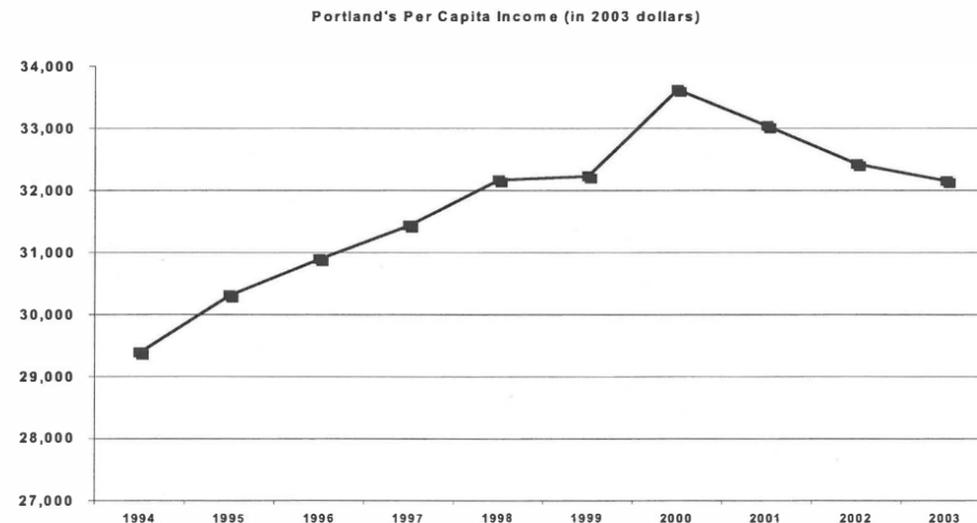
Total city population has increased about 10% over the past ten years - from 498,396 to 550,560; the compounded annual rate of growth was 1.12%.

Per Capita Income

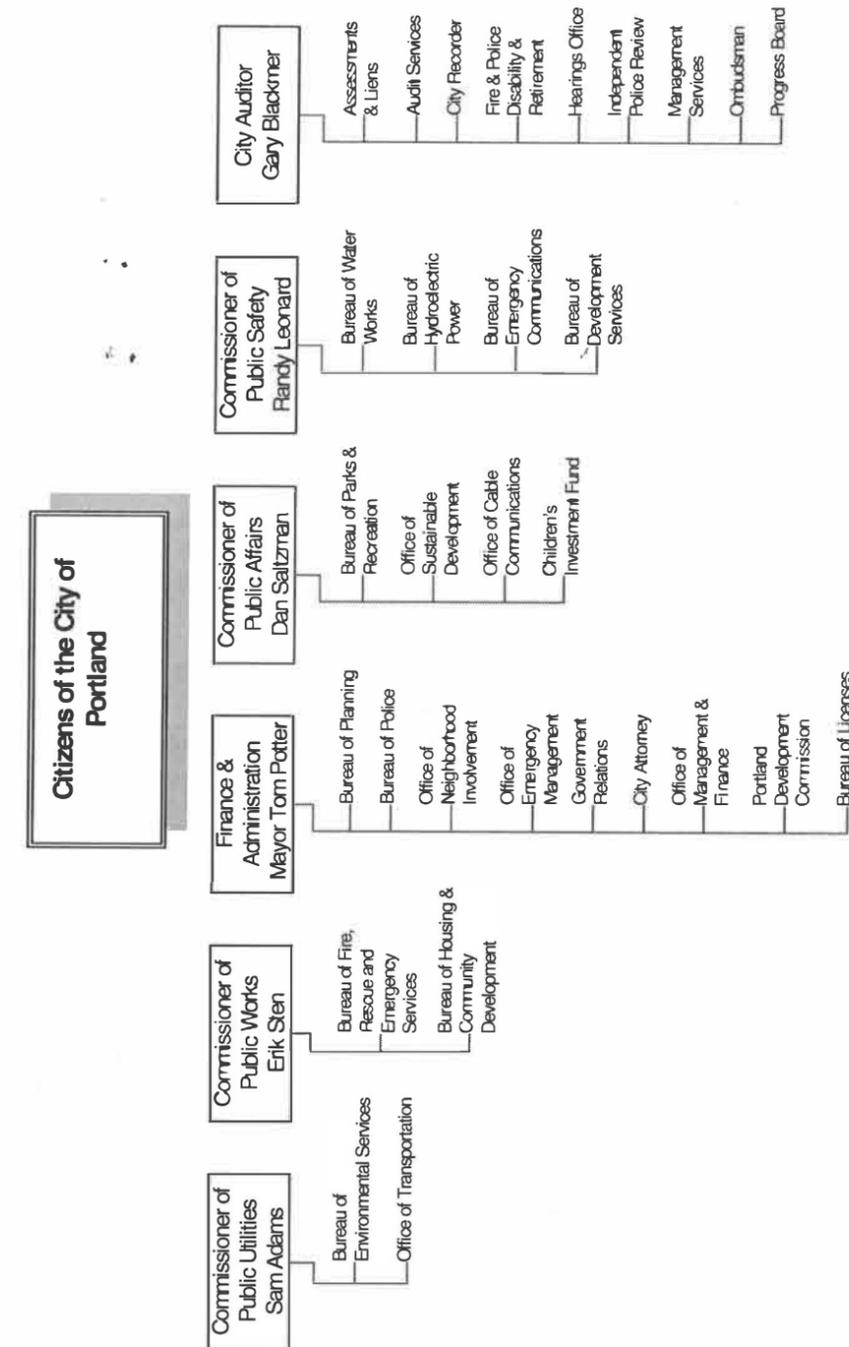
Portland's 2003 per capita income of \$32,152 is 10% higher than the state average.

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.

Figure 2



Income per capita increased yearly until 2001 and the recession. The total increase is approximately 9.4% over the past ten years, to an estimated \$32,152 in 2003



A Profile of Portland's Citizens

| General Characteristics | 2000 | Percent of Total | 2003 | Percent of Total | Percent Change |
|---|-----------|------------------|-----------|------------------|----------------|
| City Population 1 | 529,121 | | 545,140 | | 3.0% |
| Female | 257,965 | 50.5% | 264,672 | 50.3% | 2.6% |
| Male | 253,329 | 49.5% | 261,937 | 49.7% | 3.4% |
| Age | | | | | |
| Below 5 years | 31,557 | 6.2% | 35,606 | 6.8% | 12.8% |
| 6 to 24 years | 127,754 | 25.0% | 121,568 | 23.1% | -4.8% |
| 25 to 44 years | 178,760 | 35.0% | 186,431 | 35.4% | 4.3% |
| 45 to 64 years | 116,522 | 22.8% | 127,408 | 24.2% | 9.3% |
| 65 years and older | 56,701 | 11.1% | 55,596 | 10.6% | -1.9% |
| Race/Ethnic Distribution | | | | | |
| African American | 31,983 | 6.3% | 35,351 | 6.7% | 10.5% |
| Asian | 32,741 | 6.4% | 36,036 | 6.8% | 10.1% |
| Hispanic | 33,018 | 6.5% | 40,785 | 7.7% | 23.5% |
| White | 390,650 | 76.4% | 391,926 | 74.4% | 0.3% |
| American Indian | 3,105 | 0.6% | 3,836 | 0.7% | 23.5% |
| Other | 19,797 | 3.9% | 18,675 | 3.5% | -5.7% |
| Education (Age 25 or greater) | | | | | |
| High school or less | 126,401 | 35.9% | 128,266 | 34.7% | 1.5% |
| Some college through Associate degree | 109,682 | 31.2% | 105,117 | 28.5% | -4.2% |
| Bachelor's degree | 75,632 | 21.5% | 85,083 | 23.0% | 12.5% |
| Graduate degree | 40,268 | 11.4% | 50,969 | 13.8% | 26.6% |
| Portland At Work | | | | | |
| Occupation | | | | | |
| Managerial and Professional Specialty Occupations | 99,515 | 36.5% | 103,926 | 39.1% | 4.4% |
| Sales and Office Support Service | 71,816 | 26.3% | 66,696 | 25.1% | -7.1% |
| Service | 43,723 | 16.0% | 44,196 | 16.6% | 1.1% |
| Farming, Forestry, and Fishing | 443 | 0.2% | 562 | 0.2% | 26.9% |
| Construction, Extraction, and Maintenance Occupations | 18,671 | 6.8% | 18,902 | 7.1% | 1.2% |
| Production, Transportation, and Material Moving Occupations | 38,522 | 14.1% | 31,760 | 11.9% | -17.6% |
| Median Household Income (dollars) | \$38,835 | | \$40,885 | | 5.3% |
| Housing in Portland | | | | | |
| Housing Units | | | | | |
| Total Housing Units | 237,298 | | 242,629 | | 2.2% |
| Specified Renter Occupied Units | 102,781 | 43.3% | 99,454 | 41.0% | -3.2% |
| Median home price 2 | \$163,400 | | \$223,000 | | 36.5% |
| Housing unit building permits issued | 1,798 | | 2,882 | | 60.3% |

1 City population numbers are from PSU's population research center. All other data is from the US Census Bureau's American Community Survey unless noted.

2 Data is from local RMLS

Budget Overview

BUDGET SUMMARY

The Adopted Budget is the culmination of months of discussions, hearings, and meetings among Council members, bureau directors and staff, and citizens.

Total City Budget

The total City budget is up by \$133 million from the FY 2004-05 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 2005-06 is \$2.69 billion, which reflects a \$133 million increase from the FY 2004-05 Revised Budget.

Total Net Budget

The calculation for total City budget overstates actual expenditures for programs, because it double counts internal transactions. 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 \$116 million more than the FY 2004-05 Revised Budget.

Eliminating the double count for the internal transfers, the City's net budget for operating and capital requirements in FY 2005-06 is \$1.98 billion. Table 1 of the Financial Summaries provides greater detail of the total and net City budget figures. A summary is shown below.

Figure 1: Expenditures by Major Object Category

| Major Object Category | Revised FY 2004-05 | Adopted FY 2005-06 | Dollar Change | Percent Change |
|--|-------------------------|-------------------------|----------------------|----------------|
| Personal Services | \$ 440,998,314 | \$ 445,197,791 | \$4,199,477 | 1.0% |
| External Materials & Services | 557,078,298 | 551,337,367 | (5,740,931) | -1.0% |
| Internal Materials & Services | 182,350,538 | 195,932,994 | 13,582,456 | 7.4% |
| Capital Outlay | 230,463,523 | 224,405,299 | (6,058,224) | -2.6% |
| Equipment Cash Transfers | 3,060,834 | 25,000 | (3,035,834) | -99.2% |
| Total City Bureau Expenses | 1,413,951,507 | 1,416,898,451 | 2,946,944 | 0.2% |
| Inventory Increases | - | 140,000 | 140,000 | NA |
| Contingency | 345,235,482 | 222,675,055 | (122,560,427) | -35.5% |
| Ending Fund Balance | 68,601,612 | 311,018,077 | 242,416,465 | 353.4% |
| Debt Service | 246,808,916 | 250,100,099 | 3,291,183 | 1.3% |
| Fund Level Cash Transfers | 480,489,228 | 487,664,881 | 7,175,653 | 1.5% |
| Total City Budget | 2,555,086,745 | 2,688,496,563 | 133,409,818 | 5.2% |
| Less Internal Transfers & Tax Anticipation Notes | (685,900,600) | (703,622,875) | (17,722,275) | 2.6% |
| Total Net City Expenses | \$ 1,869,186,145 | \$ 1,984,873,688 | \$115,687,543 | 6.2% |

Total City Budget Charts

The following charts graphically summarize the total City budget. For a numerical summary, refer to Table 2 - Operating and Capital Budget by Service Area, which is in the Financial Summaries section of this document.

Figure 2: City Net Budget - Resources by Major Category

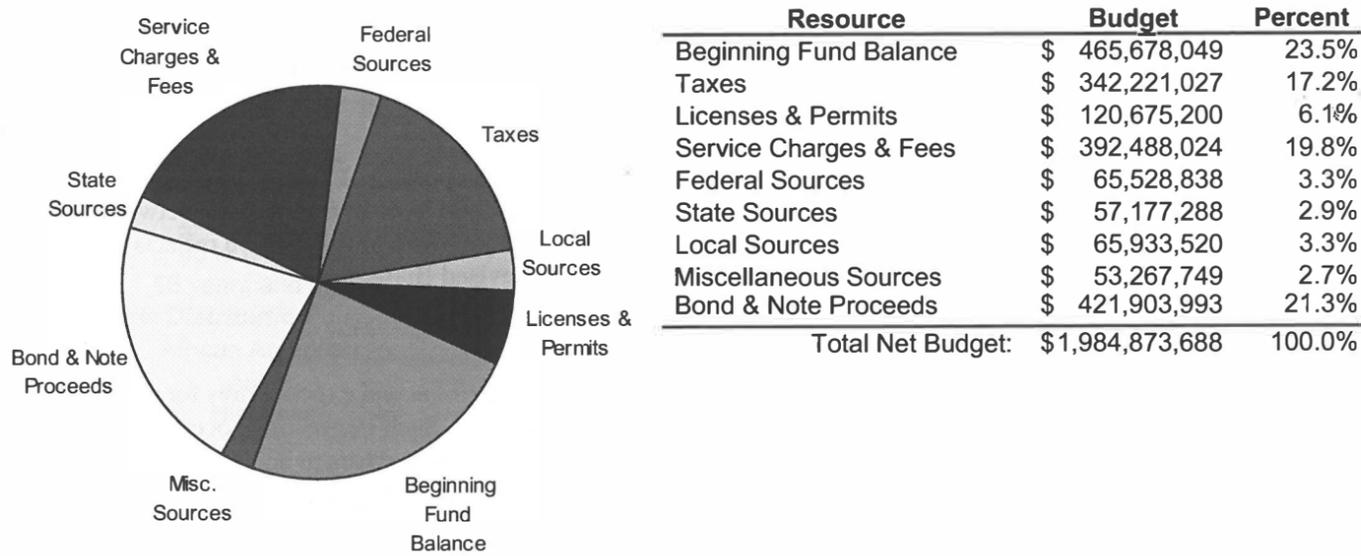
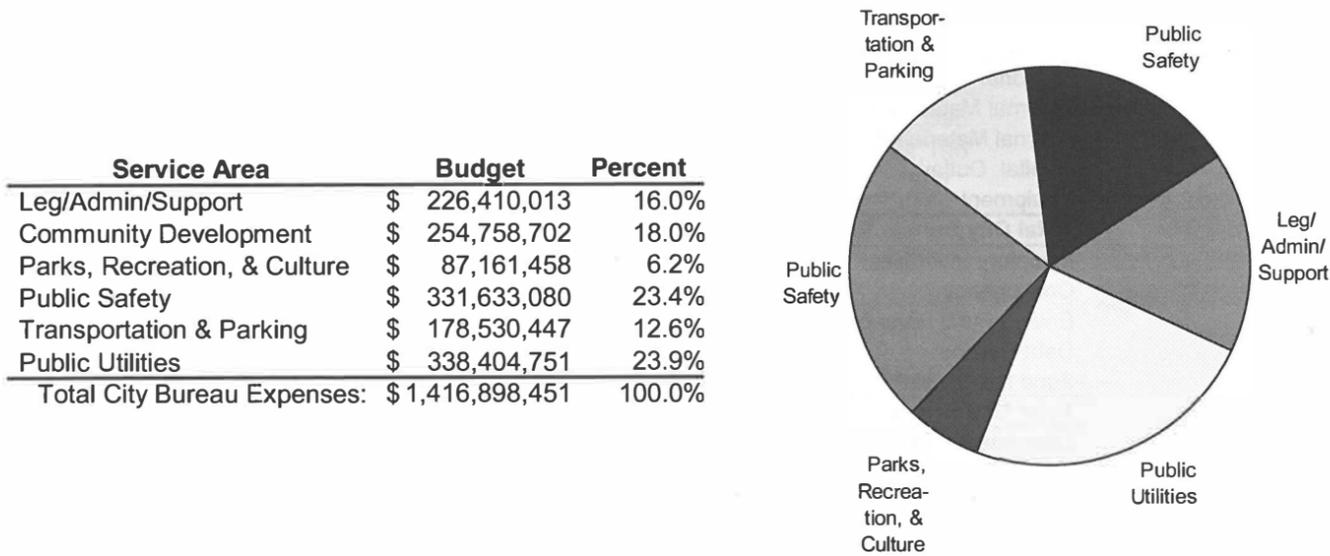


Figure 3: Total City Bureau Budget - Requirements by Service Area



General Fund Budget

General Fund resources are categorized as either discretionary or non-discretionary. Discretionary resources are those that the Mayor and Commissioners 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 \$309 million, 70% of the General Fund.

Discretionary resources include property taxes, utility license fees, business license fees, transient lodging taxes, state shared revenues (from cigarette and liquor taxes), interest income, and miscellaneous revenues and cash transfers into the General Fund. Non-discretionary 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.

Net General Fund Budget

The following charts summarize the City's General Fund Budget, which totals \$439.0 million for FY 2005-06. For the numerical summary, refer to Table 3 - General Fund Revenues and Expenses, in the Financial Summaries section.

Figure 4: General Fund - Resources by Major Category

| Resource | Budget | Percent |
|-----------------------------------|-----------------------|---------------|
| Beginning Fund Balance | \$ 33,505,245 | 7.6% |
| Property Taxes | \$ 158,678,968 | 36.1% |
| Lodging Taxes | \$ 12,092,518 | 2.8% |
| Business Licenses | \$ 44,418,253 | 10.1% |
| Utility License Fees | \$ 57,612,597 | 13.1% |
| Service Charges & Other | \$ 24,652,298 | 5.6% |
| Intergovernmental | \$ 41,062,065 | 9.4% |
| Transfers from Other Funds | \$ 67,015,399 | 15.3% |
| Total General Fund Budget: | \$ 439,037,343 | 100.0% |

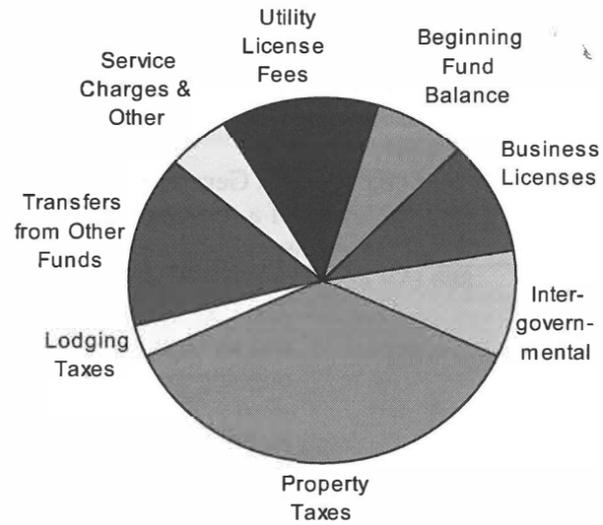
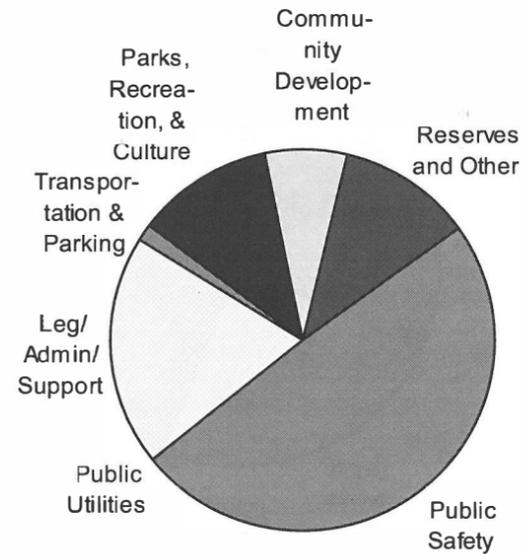


Figure 5: General Fund - Requirements by Service Area

| Service Area | Budget | Percent |
|-----------------------------------|-----------------------|---------------|
| Community Development | \$ 30,472,419 | 6.9% |
| Leg/Admin/Support | \$ 86,325,423 | 19.7% |
| Parks, Recreation, & Culture | \$ 51,092,137 | 11.6% |
| Public Safety | \$ 214,450,483 | 48.8% |
| Public Utilities | \$ 352,056 | 0.1% |
| Transportation & Parking | \$ 6,118,247 | 1.4% |
| Reserves and Other | \$ 50,226,578 | 11.4% |
| Total General Fund Budget: | \$ 439,037,343 | 100.0% |



CAPITAL IMPROVEMENT PLAN

Overview

The FY 2005-06 Adopted Citywide Capital Improvement Plan (CIP) budget totals \$308.9 million, not including the Portland Development Commission (PDC). The Citywide CIP for FY 2005-06 through FY 2009-10 is projected to be \$1.3 billion.

The General Fund Capital Set-Aside is \$1.8 million, net of debt service.

Highlights

Public Safety

- ◆ Fire Apparatus Replacement \$1,515,700

Parks, Recreation, and Culture

- ◆ University Park Community Center \$5,513,000
- ◆ Maintenance Facility Replacement \$1,090,000
- ◆ Skateboard Parks \$508,000
- ◆ Mt. Scott & East Portland Pool Maintenance \$463,000

Public Utilities

- ◆ Combined Sewer Overflow Program \$92,989,851
- ◆ Water Distribution Mains \$6,070,000

Transportation

- ◆ South Waterfront \$20,836,863
- ◆ Street Preservation and Rehabilitation \$13,801,236
- ◆ Freight & Industrial Area Improvements \$8,082,116

Legislative, Administrative, and Support Services

- ◆ Enterprise Business System \$4,330,430
- ◆ Fire & Rescue Facilities GO Bond Program \$7,212,136
- ◆ Parking Facilities Maintenance \$1,377,500
- ◆ Police Facilities \$997,250
- ◆ Union Station \$1,076,450

Financial Overview

CITY FINANCIAL PLANNING PROCESS

The first step in the budget process involves preparation of an updated financial plan for each major fund. In addition to the General Fund, plans are prepared for the Transportation, Environmental Services, Development Services, and Water funds.

These plans forecast revenues and expenditure requirements by fund over a minimum of five years, and 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 years of the five-year financial forecast period. Council reviews these plans during work sessions early in the budget process. At that time, bureau managers are given direction for preparing and finalizing budgets.

Some of these financial plans are briefly summarized below; all five-year financial plans are found in Volume Two. Due to its significance to the City's annual budget, the General Fund five-year financial plan is described in greater detail than the plans of the other funds.

GENERAL FUND FINANCIAL FORECAST

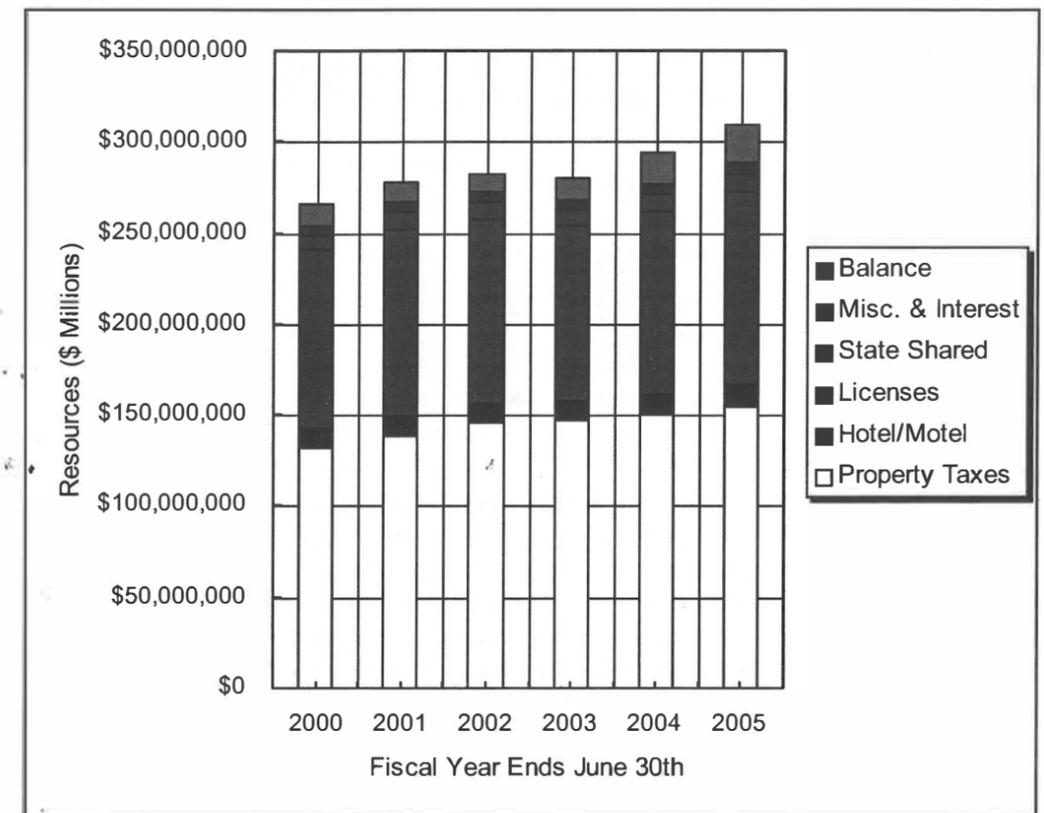
Overview

The Office of Management and Finance (OMF) regularly generates five-year estimates of General Fund discretionary resources and requirements for Council. Discretionary resources are those 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 licenses, lodging tax revenues, state shared (cigarette and liquor) tax 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, contracts, service reimbursements, fees, and other revenues dedicated for a specific purpose.

The Council's financial planning process starts in the fall with the preparation of a five-year revenue forecast. The next step is preparation of a five-year expenditure forecast, which estimates the cost of maintaining existing programs at their current levels. These two documents are then combined, adding an estimated fund balance, to create a five-year financial forecast that assesses the City's capacity to continue to provide General Fund services. This financial forecast is reviewed by Council in late fall. The forecasts are monitored regularly during the budget process, and formally updated three times prior to adoption. The original December financial forecast is updated in March, prior to the Mayor's Proposed Budget; again in April, just before the Council's final decisions on an Approved Budget; and finally in June, in conjunction with Council action on an Adopted Budget.

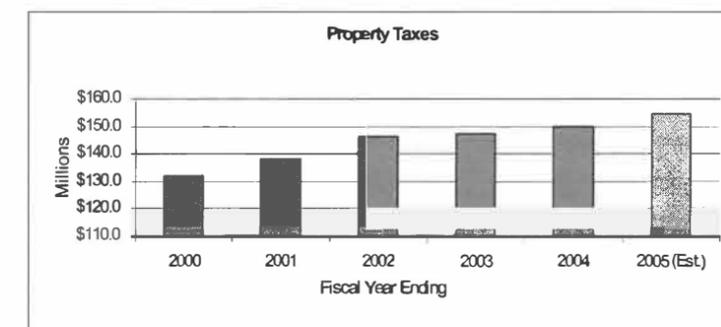
The discretionary beginning balance estimate, a key resource of the General Fund, is updated at the conclusion of each accounting period and published in the Financial Outlook. This report is electronically distributed within the City and to numerous outside recipients. The Outlook provides current information on the General Fund's financial condition, and includes the updated ending fund balance estimate in the financial forecast of General Fund resources. The Outlook is available on the City's web site at www.portlandonline.com/omf/index.cfm?c=26784&.

Figure 1: General Fund Discretionary Resources



The figure above summarizes General Fund revenue growth over the past six years. Revenue growth has averaged about 2.3% per year. The General Fund's beginning fund balance has averaged about \$13.8 million. Beginning balance has been higher than normal over the last two years due to lower than normal expenditures. This is principally due to the almost continuous need to reduce expenditures over the past four years because of weak revenue growth relative to expense growth. Overall resource growth (revenues plus beginning fund balance) has averaged about 2.9% per year. The graph clearly shows a regional economy that was hit hard by the events of September 11th and the ensuing national recession. General Fund discretionary revenue growth for the three-year period ending FY 2002-03 was flat at best. This environment has made it difficult for the General Fund to maintain current service levels and programs, even though inflation was well below historic levels.

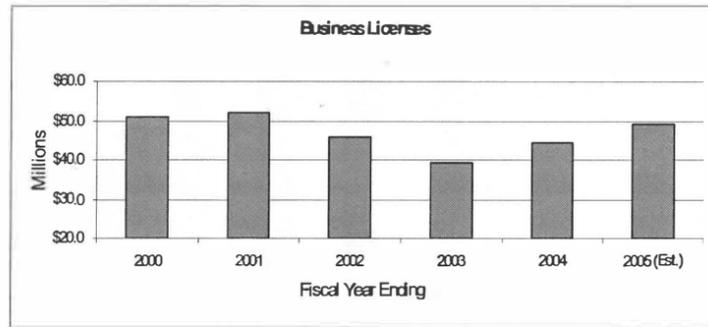
Historical Resources



Revenue growth slowed with the passage of the Measure 50 property tax limitation in 1997. Prior to 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.

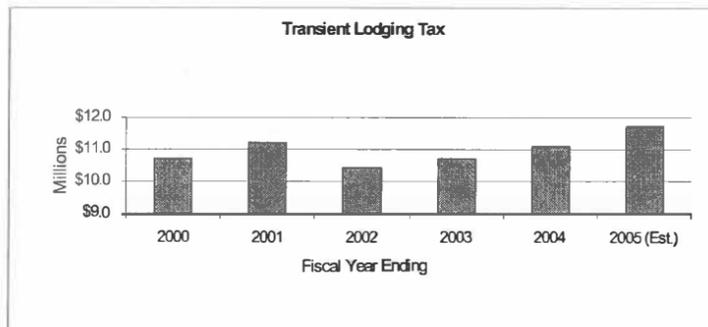
The General Fund property tax rate is fixed.

The General Fund's tax rate is permanently fixed at \$4.5770 per \$1,000 of Measure 50 assessed value. The onset of recession reduced FY 2002-03 assessed value growth to 2.4%. FY 2003-04 assessed value growth was only marginally better at 2.5%. This is down from 4.5% during FY 2001-02 and 5.6% during FY 2000-01. Overall, property tax revenues have grown at just about a 3% rate, with FY 2004-05 growth expected to be about 2.8%.



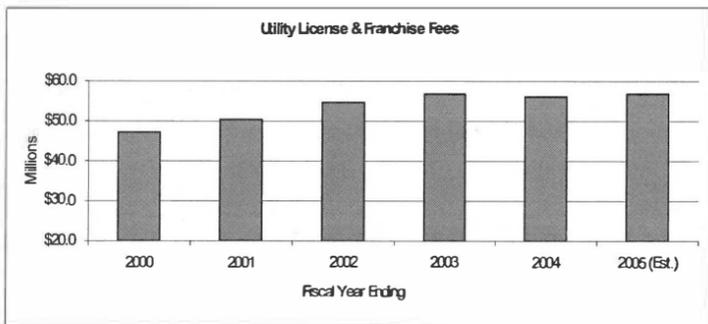
General Fund license revenues have grown at an anemic 1% rate over the past five years. Business license revenues declined during the recession and have only recently started to show signs of recovery. Utility license and franchise fees have been similarly weak. This is due in part to

a continuing decline in Qwest's franchise fee revenues and to Council's action to cap Water and 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 telecommunications technologies displace traditional landline telecom technology. Traditional investor-owned, electric-related franchise fees have also been stagnant. The recession and 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 is expected to persist in subsequent revenue forecasts.



Like business license revenues, transient lodging tax revenues follow the business cycle. Transient lodging tax revenues peaked at \$11.2 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 in FY 2002-03. Revenues began to recover during FY 2003-04 and will surpass the previous cycle's peak in FY 2004-05 and enter an expansion phase.



Utility license and franchise fee revenue growth presents a mixed picture over the past several years. Qwest franchise fee revenues were \$6.7 million in FY 1999-00 but declined steadily to an estimated \$4.1 million for FY2004-05 (unaudited). This is due in part to substitution of wireless

telephony for older landline technology.

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

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

Electric energy franchise fees have also stagnated over the past three years. PGE-related franchise fees have steadily declined from about \$16.9 million in FY 2002-03 to an estimated \$15.7 million in FY 2004-05. Large rate increases coupled with recession apparently combined to significantly reduce consumption. The only consistent growth in this area has come from natural gas related franchise fees, which have risen from about \$5.8 million in FY 1999-00 to an estimated \$8.6 million in FY 2004-05.

Overall utility license and franchise fee revenues have been flat for the past couple of years. FY 2003-04 revenues totaled about \$56.2 million. Expected year-end FY 2004-05 revenues are currently estimated at \$56.8 million. Revenue growth is also likely to be slower over the next several years. During the summer of 2004, Council capped water- and sewer-related utility license fees at about \$19 million per year, until such time as the effective tax rate drops to 5%.

At the end of FY 2004-05, consistent with Council policy and Council's previous five-year financial plans, the General Reserve Fund is expected to total about \$37 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 2005-06 with the General Reserve at or slightly above the required 10% level.

Forecast Assumptions

Economic Recovery

The regional economy is beginning to show signs of recovery from the recession.

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 declining business license and transient lodging revenues.

The regional economy started to recover from recession during FY 2003-04 and registered employment growth for all of calendar year 2004. This trend appeared to be continuing in the last half of FY 2004-05. Although more recent monthly data show the emergence of stronger employment growth, the Portland area still remains below the peak employment levels registered during the previous cycle. The Oregon Employment Department recently noted that, as of January 2005, the Portland region still was about 21,600 jobs below January 2001. Oregon has fared better than the metro area, with statewide employment in January 2005 surpassing the previous cycle's peak. The state has entered an expansion phase for this cycle, while the metro area regional economy is still in recovery. Nevertheless, the regional economy appears to be emerging from recession. In addition, the low interest rate environment created by the Federal Reserve buttressed the real estate market and kept assessed values and property tax revenues growing, albeit more slowly. The revenue forecast assumes that the regional and national economies grow modestly, so 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 Adopted Budget.

Transient Lodging Taxes

The transient lodging revenue forecast calls for FY 2005-06 revenues of about \$12.1 million versus an expected FY 2004-05 total of about \$11.8 million. These revenues are now above the previous cyclical peak of \$11.2 million in FY 2000-01, and into an expansion phase. Transient lodging taxes are forecast to grow about 5.3% per year, with most of this growth occurring in the first three years of the forecast. Revenues may do better than forecast if some special events occur. During the past couple of years, and unlike previous years, there have been few, if any, special events. The only exception appears to be the 2005 national ice-skating championships.

Utility License and Franchise Fees

Utility license fees are forecast at \$57.6 million for FY 2005-06 versus an expected FY 2004-05 year-end of about \$56.1 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 \$9.0 million for FY 2005-06 versus a budget of \$7.8 million for FY 2004-05. Actual revenues for FY 2004-05 are about \$830,000 above budget because of a large fall 2004 rate increase averaging almost 20%. The forecast assumes that the Oregon Public Utility Commission (OPUC) will authorize a more modest rate increase during the fall of 2005. NW Natural is expected to marginally raise rates and revenues next fall to pass higher natural gas costs through to customers. Expected rate increases and normal winter heating conditions should combine to produce the FY 2005-06 budgeted revenue estimate of about \$9 million.
- ◆ PGE franchise fees are currently forecast at \$15.4 million for year-end FY 2004-05 versus a budgeted revenue estimate of just over \$17 million. The FY 2005-06 forecast calls for revenues of about \$16.3 million and assumes an expected fall rate increase and normal winter weather conditions. At present this forecast still may 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. OMF will be closely monitoring PGE's fourth quarter franchise fee payment for consistency with the current revenue forecast.
- ◆ Water and sewer franchise fees are capped at FY 2004-05 levels, by Council action. 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 anywhere from one to three years beyond the final year of the current financial forecast (FY 2009-10). In the fifth year of the 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, several high profile bankruptcies, and the continuing loss of Qwest landlines to wireless telephony. Qwest franchise fees are currently forecast at \$3.7 million for FY 2005-06 with no out-year growth. Rather, Qwest franchise fees are expected to decline to about \$3.3 million by FY 2009-10. The City's utility license fee code continues to be out of synch with current telecom technologies, principally wireless.

Energy-related franchise fee forecasts at this point are consistent with the expected effects of Oregon's energy deregulation scheme. Deregulation, however, remains a question mark. Early returns seem to indicate that deregulation is having little if any impact on these fees.

Overall, franchise and utility license fee revenues are forecast to grow by about 1.5% annually over the life of the forecast. This lower growth rate is due in large part to the Water/BES revenue cap.

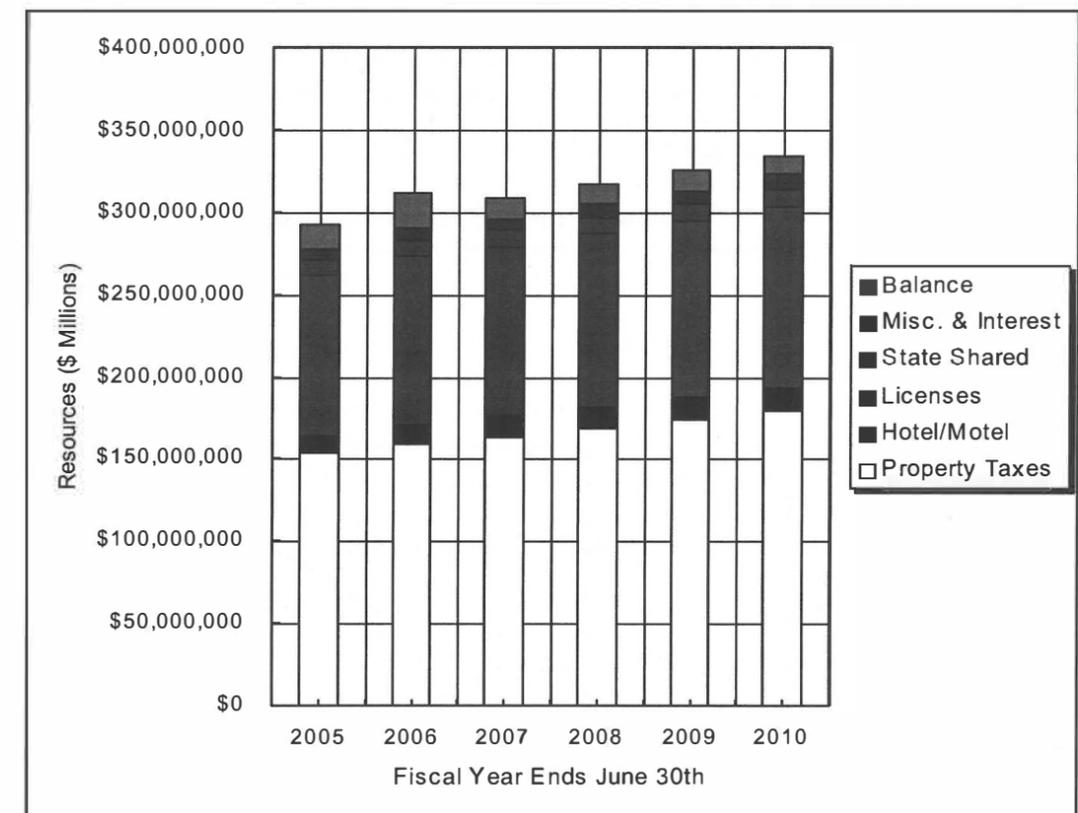
Property Taxes

Property taxes are expected to grow by about 3.2% annually over the life of the forecast. This compares to an annual growth rate averaging about 3% over the past five years. Revenue growth is a little better in this forecast, because new construction is expected to bolster revenue growth to somewhat higher levels than in the recent past. This forecast assumes that the revenue losses from compression stabilize at 3.7% for the life of the forecast. The delinquency and discount rate is expected to hover around 5.6% for the life of the forecast.

Financial Forecast Results

The figure below summarizes the current five-year revenue forecast (as of early April). Average annual growth is projected at about 2.7%. Budget-to-budget revenue growth is currently forecast to be about 5.7%. 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 2005-06.

Figure 2: Forecast Discretionary Resources



The regional economy has only recently started to shake off the lingering effects of recession. 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 declined to 6.6% this January, with preliminary figures for May down to 5.9%. The national economy continues to expand, generating good month-to-month employment increases. Recent employment numbers for the local area are starting to show solid continuing employment gains.

This environment translated initially into a December resource forecast for FY 2005-06 of about \$303.3 million. The December financial forecast showed that:

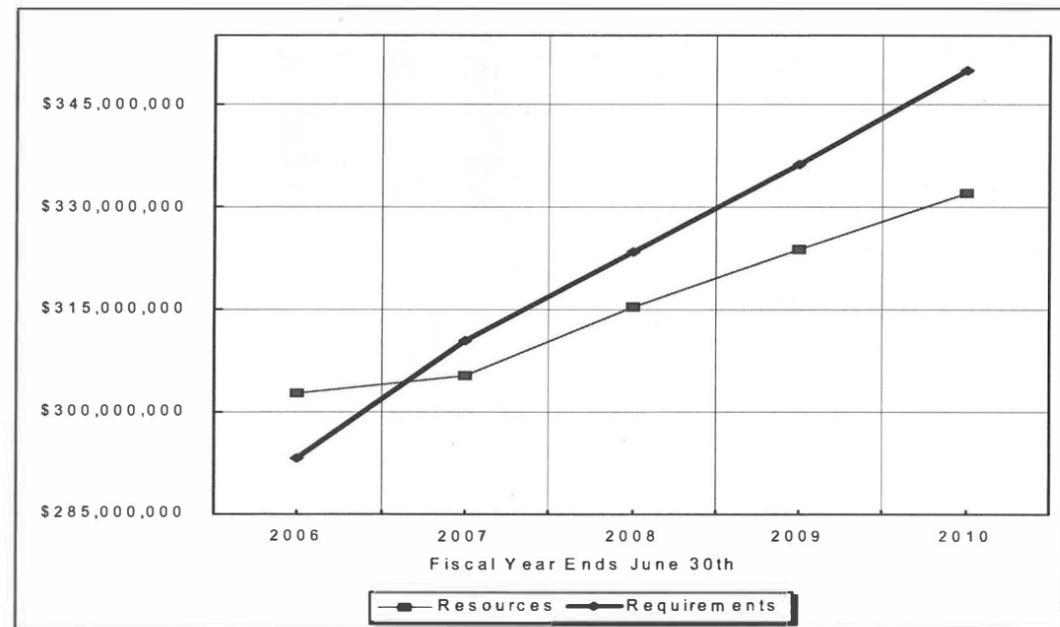
- ◆ Sufficient resources would be available in FY 2005-06 and possibly FY 2006-07 to fund estimated General Fund Current Appropriation Level (CAL) requirements with an excess estimated at \$10.1 million.
- ◆ By FY 2006-07, estimated requirements exceeded forecast discretionary resources by \$7.5 million, increasing to an estimated \$16.8 million in FY 2009-10, the last year of the forecast.

The three principal reasons for this development are:

- ◆ The BES/Water utility license fee cap (discussed earlier).
- ◆ The inclusion in the December forecast of a new General Fund set-aside requirement for expected health care cost increases estimated at \$3.7 million beginning in FY 2006-07 and rising to \$5.9 million by FY 2009-10.
- ◆ The continuing problem of the General Fund's structural imbalance between revenue growth rates that cannot keep up with requirements growth, fueled in part by labor contract increases in excess of inflation and rising health care costs.

Figure 3 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 \$16.8 million. In Figure 3 it is easy to see that requirements are growing faster than resources.

Figure 3: Resources less Requirements = Gap



The December financial forecast estimated that the out-year gaps between resources and requirements could be closed with incorporation of \$14.3 million of ongoing CAL reductions in the FY 2005-06 budget.

In the successive forecast updates:

- ◆ Ongoing revenues have increased by about \$1.6 million. Business license and transient lodging revenues have increased by about \$2.1 million over the original December forecast, reflecting better regional economic conditions. State shared (cigarette and liquor) tax revenues revenue estimates increased by \$411,980 since last December. Franchise fees are weaker, with Qwest and PGE revenues below December forecast levels.
- ◆ The beginning balance estimate is up \$6.1 million over December as stronger FY 2004-05 revenue growth has outpaced expenditures.

The December financial forecast estimated ongoing bureau CAL requirements totaling \$262.5 million. The Adopted Budget amounts to \$255.0 million with \$1.8 million in contingency for possible use by the Police Bureau if required. This means that Council's Adopted Budget has made a significant reduction in the financial forecast's identified gap between forecast resources and estimated requirements. Current financial forecast estimates show that balancing the General Fund over the life of the financial forecast (as of June) is estimated to require further ongoing CAL reductions of just under \$10 million, split equally between FY 2006-07 and FY 2007-08.

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 the April financial forecast continues to identify the development of a large gap between resources and requirements in the third, fourth, and fifth years of the forecast.

The December financial forecast indicated that Council was faced with a projected resource stream that could not fund General Fund current appropriation levels. Forecast updates confirmed this general finding, even though the near-term forecast improved somewhat with about \$6 million of additional FY 2005-06 beginning fund balance.

Council's Approach to Balancing the General Fund

The Council's Adopted Budget begins the process of reducing ongoing CAL levels by \$17.2 million to bring requirements in line with resources for the duration of this five-year financial forecast. Reducing CAL by such a large amount now raises the risk of overshooting the mark in terms of the actual reductions that may be necessary to balance the fund over the next five to seven years. The further out a forecast goes, the less accurate it becomes.

Given this basic fact, the Council's approach to balancing is to stage the CAL reductions over three fiscal years, beginning with the FY 2005-06 budget. This approach will allow subsequent forecasts to better inform the Council about the true size of CAL reductions that will ultimately be required. This will reduce the likelihood of over-cutting ongoing bureau CAL levels.

This approach also recommends itself because the City is in the process of embarking on a strategic planning process over the course of the next 12 to 18 months. This process is expected to help the Council make CAL reductions that better reflect community priorities as they come out of the strategic planning and visioning process.

Council's proposed financial plan incorporates \$5.7 million of ongoing CAL reductions into the Adopted Budget. Bureau discretionary budgets have been reduced from about \$268.0 million to about \$262.3 million in the Council's Adopted Budget. Further ongoing CAL reductions will be made each of the next two years, during the budget processes for FY 2006-07 and FY 2007-08. The current financial plan indicates that CAL reductions of \$4.9 million per year for two years will close the overall gap identified in the five-year financial forecast.

Figure 4: More Reductions Needed in Coming Years

| ITEM | Adopted | Out-Years of Adopted Financial Plan | | | |
|--|----------------------|-------------------------------------|----------------------|----------------------|----------------------|
| | 2006 | 2007 | 2008 | 2009 | 2010 |
| General Fund Resources | \$310,935,538 | \$307,792,530 | \$316,507,853 | \$324,909,031 | \$333,029,006 |
| Transfer In From General Reserve Fund | \$0 | \$0 | \$0 | \$0 | \$1,120,425 |
| Requirements | | | | | |
| Bureaus & Programs, CAL | \$255,045,977 | \$265,639,155 | \$271,680,201 | \$277,745,168 | \$289,120,142 |
| Required CAL Reductions | \$0 | (\$4,928,200) | (\$4,928,200) | | |
| Capital Set-Aside | \$1,789,327 | \$1,915,000 | \$1,915,000 | \$2,225,000 | \$1,961,082 |
| One-Time Projects | \$11,924,654 | \$7,419,550 | \$8,443,150 | \$3,615,567 | \$71 |
| Pension Bonds | \$6,033,880 | \$7,707,143 | \$8,951,105 | \$9,303,170 | \$9,669,762 |
| Council Set-Asides | \$36,141,699 | \$30,039,883 | \$30,446,597 | \$32,020,125 | \$33,398,375 |
| Total Requirements | \$310,935,538 | \$307,792,530 | \$316,507,854 | \$324,909,031 | \$334,149,431 |
| Difference-GAP | (\$0) | \$0 | (\$0) | \$0 | (\$0) |
| Reserve Fund, Percent | 11.3% | 12.3% | 12.4% | 12.6% | 12.5% |

Uncertainties

Council's Adopted Budget and financial plan balances the General Fund for the life of the five-year forecast. The basic approach of staging CAL reductions over three budgets will provide the Mayor and Council with more flexibility in meeting future financial uncertainties, including the following:

- The City will have to negotiate several new labor contracts during this five-year window, most notably a new contract with the Portland Police Association (PPA). In addition, a new labor contract with the Portland Fire Fighters Association (PFFA) remains unresolved. Large contract awards in excess of CPI-W guidelines will upset the forecast and further contribute to structural imbalance between requirements growth and resources. Depending on the specifics of these contracts, the Council and the Mayor may possibly be faced with a larger out-year gap between resources and requirements than shown in the current financial forecast.
- The current financial forecast and five-year plan assume that projected increases in health care funding are resolved through implementation of the Option #2 funding solution. Briefly, this plan commits the City to paying 95% of expected FY 2006-07 health benefits premiums. In subsequent years the City's 95% share would be indexed to Portland-Salem CPI-W/Healthcare, with the remainder of the annual premium cost picked up by employees. There are two uncertainties. First, the health care funding and premium cost projections are current best estimate forecasts: by FY 2006-07 there could easily be a large, unfavorable shift in the numbers. Second, the City can only secure the Option #2 funding solution through labor contract negotiations. A higher cost alternative could easily come out of contract negotiations.
- National economic recovery from recession is well under way, although job growth continues to be somewhat weak. It is only over the last six to 12 months that the state and regional economies have begun to show some evidence of recovery and renewed expansion. This forecast, like the previous forecast, is critically dependent on a local economy that continues to recover from recession.

- Legislative changes to the Public Employees Retirement System (initiated by the last Oregon Legislature) remain under legal challenge, and litigation is now at the Oregon Supreme Court. An adverse decision on remaining litigation would substantially increase out-year General Fund employer pension costs and upset the five-year financial 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 (the third year of this forecast cycle). If the Parks levy is not reauthorized, it is likely that increased requirements pressure would be put on the General Fund, upsetting the forecast and increasing the out-year gaps between resources and requirements.

Forecast Risk

The principal risk to the 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 well over the \$60 per barrel mark. In addition, the Federal Reserve is on a path to increase interest rates, making monetary policy more restrictive than it has been over the past several 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 the funding of even the reduced current service levels in the Council's Adopted Budget more difficult.

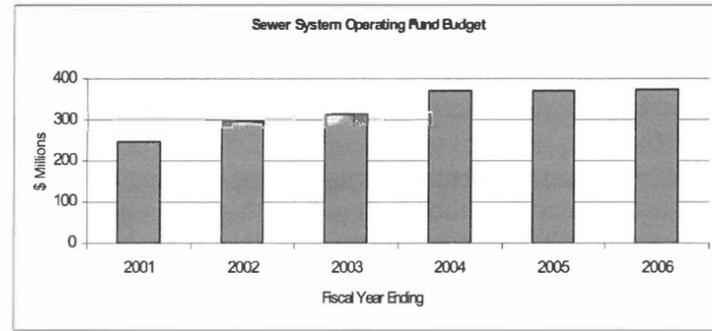
In addition, the Oregon Legislature is currently grappling with another budget gap between statewide revenues and current service level costs during the next biennium. The General Fund's state shared cigarette and liquor tax revenues, about \$10.1 million annually in this forecast, may be at risk. The Legislature already conditionally withheld year-end FY 2002-03 cigarette tax revenues from Oregon cities. Fortunately, in this case, a \$500,000 loss in Portland's FY 2002-03 cigarette tax revenues did not occur.

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 2004. 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 BES operating budget contains expenditure reductions of approximately \$4.6 million, or 4.9% lower than the FY 2004-05

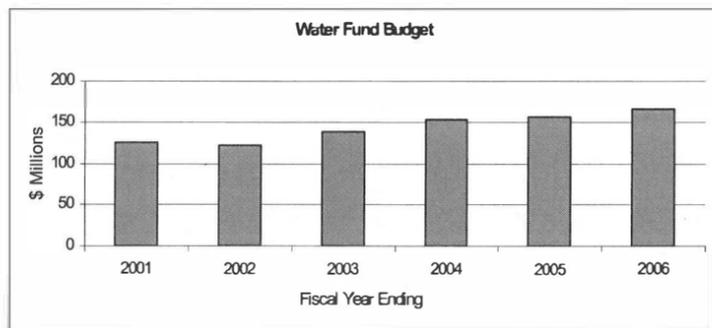
Revised Budget. The capital budget decreases \$13.8 million or 9.1% from the FY 2004-05 Revised Budget. The differences include the following:

Operating Budget: Reductions were reflected in 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 held 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 regarding 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 Water projected an average retail rate increase of 2.8% in FY 2005-06. Modifications during the budget process resulted in an average retail rate increase of 0.6%. Major reasons for the lower rate include elimination of vacant positions and consolidation of bureau reception functions.



The operating budget of \$52.8 million is a decrease of \$7.1 million from the FY 2004-05 Revised Budget of \$59.9 million. Total positions have increased by 18 from 434 to 452.

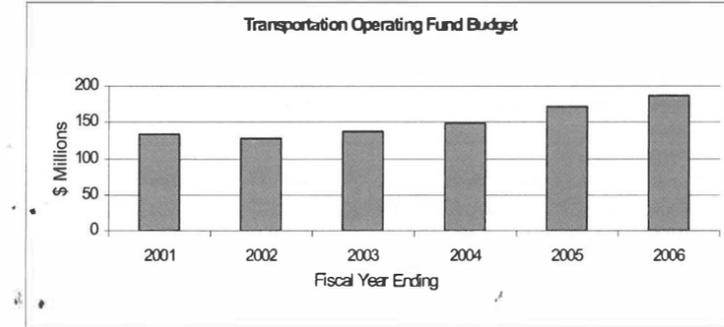
The FY 2005-06 budget results in an increase of 5.9% for the average single-family customer.

Bureau of Water Works

The average water bill for single family residential retail customers will increase 0.6%.

Office of Transportation (PDOT)

The CIP budget of \$52.3 million reflects an increase of \$9.5 million from the FY 2004-05 Revised Budget. The increase includes 14 new positions to support an increased level of maintenance. Major elements of the CIP include the Maintenance and Replacement program (\$23.8 million), the Response to City Development program (\$12.4 million), and the Vulnerability Reduction program (\$11.9 million).



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 reallocating

revenues and raising parking fees. PDOT reallocated its discretionary resources to provide more funds for maintenance activities and made administrative cuts to provide an additional \$1.2 million to address the growing paving backlog. The new parking revenues are dedicated to financing the Transit Mall project. PDOT projects a funding gap of \$18.9 million in FY 2009-10.

The FY 2005-06 Adopted Budget for Transportation is \$187 million. This budget is 8.8% more than the FY 2004-05 Revised Budget, primarily due to capital projects. In terms of PDOT operating requirements, year-over-year change between the Revised Budget and the FY 2005-06 Adopted Budget is partially due to carryovers and program reductions in non-discretionary funding. The budget contains 753 FTE, 15 less than the FY 2004-05 Revised Budget.

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 and 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 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.

Figure 5: Rating Agency Rating Symbols for Long-Term Debt

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

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; and
- ◆ 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, 2005.

General Obligation (GO) Debt

GO debt is backed by the full faith and credit and unlimited 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:

- ◆ \$71.2 million in voter-approved general obligation bonds for park system improvements and for 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:

- ◆ \$1.0 billion in sewer system revenue bonds
- ◆ \$295.6 million in urban renewal bonds
- ◆ \$145.1 million in water revenue bonds
- ◆ \$23.9 million in hydropower revenue bonds
- ◆ \$6.9 million in gas tax revenue bonds
- ◆ \$5.9 million in parking revenue bonds
- ◆ \$5.2 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.
- ◆ \$132.4 million in limited tax revenue bonds for the Convention Center Expansion project (\$98.9 million), Civic Stadium (PGE Park) Improvement project (\$31.7 million), and Portland Center for Performing Arts improvements (\$1.8 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.
- ◆ \$75.2 million in limited tax revenue bonds for building improvements and equipment acquisition.
- ◆ \$27.2 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.
- ◆ \$25.8 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.
- ◆ \$25.0 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.
- ◆ \$21.9 million in limited tax housing revenue bonds.
- ◆ \$19.4 million in limited tax improvement bonds.

- ◆ \$18.5 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.
- ◆ \$8.6 million in Housing and Urban Development loans for the New Columbia project.

Debt Limitation

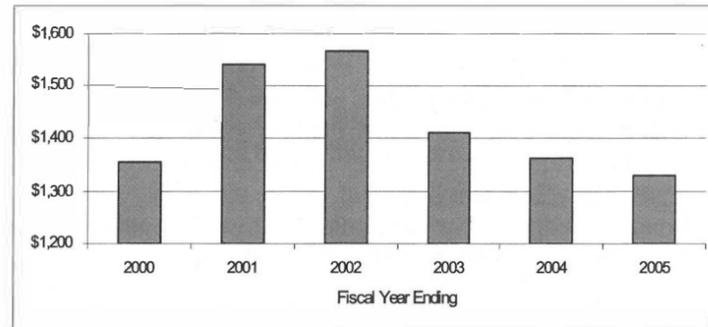
Under Oregon law (ORS 287.004), the City’s general obligation debt limit is equal to 3% of the City’s Real Market Valuation (\$58.9 billion), or about \$1.8 billion. Certain self-supporting bonds are exempted from this limitation. Currently the City has \$71.2 million outstanding in general obligation debt that is subject to the debt limitation.

Figure 6: Debt Limitation Criteria

| Criteria | Limit |
|--|------------------|
| 2004-05 REAL MARKET VALUE | \$58,850,238,187 |
| 3% OF REAL MARKET VALUE | \$ 1,765,507,146 |
| CITY OUTSTANDING DEBT SUBJECT TO LIMIT | \$ 71,220,000 |
| PERCENT OF LIMITATION OUTSTANDING | 4.03% |
| DEBT MARGIN | \$ 1,694,287,146 |

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 7: Gross Bonded Debt per Capita



In FY 2004-05 the City issued a variety of refunding bonds to take advantage of the low interest rate environment and reduce the cost of the City’s outstanding debt. The City issued First Lien Sewer System Revenue Refunding Bonds to refund the outstanding Sewer System Revenue Bonds 1996 Series A and 2000 Series A. The City issued Gas Tax Revenue Refunding Bonds to refund the outstanding Gas Tax Revenue Bonds, 1996 Series A. The City also issued the Interstate Corridor Urban Renewal and Redevelopment Bonds, 2004 Series A to refund the Limited Tax Revenue Bonds, 2002 Series B issued to provide interim financing of the City’s share of the Interstate MAX project. Finally, the City issued Arena Limited Tax Revenue Refunding Bonds to refund the Limited Tax Revenue Bonds, 1996 Series A and B; Arena Limited Tax Bonds, Series 1996; and Arena Gas Tax Revenue Bonds, 1996 Series A.

In addition to the refunding bonds, the City issued about \$163.5 million in First Lien Sewer System Revenue Bonds to finance capital needs of the Bureau of Environmental Services. The City also issued Limited Tax Housing Revenue Bonds of about \$11.7 million to finance the construction of the Headwaters Apartment Project and about \$10.1 million to finance the Housing Opportunity Bond Program.

In FY 2004-05, the City borrowed approximately \$16.9 million on various lines of credit and state loans to fund capital projects including clean water environmental projects, streetcar extension, urban renewal, transportation, and parks land acquisition.

Anticipated Debt Issuance in FY 2005-06

The City anticipates issuing the following debt obligations during FY 2005-06:

- ◆ \$200 million in sewer system revenue bonds to fund system improvements.
- ◆ \$38 million in urban renewal bonds for the River District urban renewal area.
- ◆ \$27 million in urban renewal bonds for the Central Eastside urban renewal area.
- ◆ \$47 million in water revenue bonds to fund system improvements.
- ◆ \$6 million in limited tax improvement bonds to finance assessments.

The City will likely incur additional indebtedness during FY 2005-06 for other capital needs. Other 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 2004-05 | Adopted FY 2005-06 |
|--|-------------------------|-------------------------|
| RESOURCES | | |
| External Revenues | | |
| Property Taxes | 317,384,853 | 327,874,903 |
| Other Taxes | 13,277,182 | 14,346,124 |
| Licenses and Permits | 122,352,505 | 120,675,200 |
| Service Charges | 370,080,315 | 392,488,024 |
| Intergovernmental | 211,314,360 | 188,639,646 |
| Miscellaneous | 58,737,479 | 53,267,749 |
| Debt Proceeds | 327,327,161 | 441,903,993 |
| Total External Revenues | 1,420,473,855 | 1,539,195,639 |
| Transfer from Other Funds | | |
| Service Reimbursements | 185,677,332 | 195,957,994 |
| Cash Transfers | 480,489,229 | 487,664,881 |
| Total Transfers from Other Funds | 666,166,561 | 683,622,875 |
| Beginning Fund Balances | 468,446,327 | 465,678,049 |
| Total Budget | 2,555,086,743 | 2,688,496,563 |
| Less Interfund Transfers and Tax Anticipation Notes | (685,900,600) | (703,622,875) |
| TOTAL NET BUDGET | \$ 1,869,186,145 | \$ 1,984,873,688 |
| REQUIREMENTS | | |
| Bureau Expenses | | |
| Personal Services | 440,998,314 | 445,197,791 |
| External Materials & Services | 557,078,298 | 551,337,367 |
| Internal Materials & Services | 182,350,538 | 195,932,994 |
| Capital Outlay | 230,463,523 | 224,405,299 |
| Equipment Cash Transfers | 3,060,834 | 25,000 |
| Total Bureau Expenses | 1,413,951,507 | 1,416,898,451 |
| Fund Level Expenses | | |
| Debt Service | 246,808,916 | 250,100,099 |
| Fund Level Cash Transfers | 480,489,228 | 487,664,881 |
| Inventory Increases | 0 | 140,000 |
| Contingency | 345,235,482 | 222,675,055 |
| Total Fund Level Expenses | 1,072,533,626 | 960,580,035 |
| Total Appropriated Budget | 2,486,485,133 | 2,377,478,486 |
| Unappropriated Ending Balance | 68,601,612 | 311,018,077 |
| Total Budget | 2,555,086,745 | 2,688,496,563 |
| Less Interfund Transfers and Tax Anticipation Notes | (685,900,600) | (703,622,875) |
| TOTAL NET BUDGET | \$ 1,869,186,145 | \$ 1,984,873,688 |

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 principal, or interfund transfers.

| | Revised FY 2004-05 | | | Adopted FY 2005-06 | | |
|---|-----------------------|-------------------------|-----------------------|-----------------------|-------------------------|-----------------------|
| | Operating Budget | Capital Improvements | Total Expenditures | Operating Budget | Capital Improvements | Total Expenditures |
| Public Safety | | | | | | |
| Police | 140,769,025 | 0 | 140,769,025 | 132,362,671 | 0 | 132,362,671 |
| Emergency Management | 11,360,770 | 0 | 11,360,770 | 6,721,366 | 0 | 6,721,366 |
| Fire | 74,839,278 | 2,154,960 | 76,994,238 | 71,670,059 | 1,550,700 | 73,220,759 |
| Fire & Police Disability & Retirement | 84,563,417 | 0 | 84,563,417 | 87,502,596 | 0 | 87,502,596 |
| Bureau of Emergency Communications | 13,050,473 | 0 | 13,050,473 | 13,448,087 | 0 | 13,448,087 |
| Public Safety Fund | 679,550 | 544,155 | 1,223,705 | 454,000 | 307,934 | 761,934 |
| Other Public Safety | 7,859,261 | 8,914,855 | 16,774,116 | 10,430,289 | 7,185,378 | 17,615,667 |
| Total Public Safety | 333,121,774 | 11,613,970 | 344,735,744 | 322,589,068 | 9,044,012 | 331,633,080 |
| Parks, Recreation and Culture | | | | | | |
| Parks and Recreation | 48,803,708 | 0 | 48,803,708 | 47,830,404 | 0 | 47,830,404 |
| Parks Construction Fund | 2,446,778 | 18,883,316 | 21,330,094 | 1,786,059 | 13,124,643 | 14,910,702 |
| Parks Local Option Levy | 8,623,250 | 0 | 8,623,250 | 11,426,828 | 0 | 11,426,828 |
| Golf | 4,740,828 | 608,502 | 5,349,330 | 4,870,767 | 200,000 | 5,070,767 |
| Portland International Raceway | 1,431,006 | 40,000 | 1,471,006 | 1,304,317 | 0 | 1,304,317 |
| Spectator Facilities | 2,024,151 | 340,000 | 2,364,151 | 1,237,168 | 200,000 | 1,437,168 |
| Other Parks, Recreation and Culture | 5,286,186 | 0 | 5,286,186 | 5,181,272 | 0 | 5,181,272 |
| Total Parks, Recreation and Culture | 73,355,907 | 19,871,818 | 93,227,725 | 73,636,815 | 13,524,643 | 87,161,458 |
| Public Utilities | | | | | | |
| Environmental Services - Sewer | 93,379,541 | 150,927,042 | 244,306,583 | 84,554,133 | 137,131,249 | 221,685,382 |
| Hydroelectric Power | 675,011 | 0 | 675,011 | 566,204 | 0 | 566,204 |
| Water | 59,892,610 | 42,565,382 | 102,457,992 | 52,801,118 | 52,342,000 | 105,143,118 |
| OSD - Solid Waste Management | 2,883,731 | 0 | 2,883,731 | 2,492,469 | 0 | 2,492,469 |
| | 3,200,000 | 0 | 3,200,000 | 0 | 0 | 0 |
| Other Public Utilities | 5,756,833 | 325,000 | 6,081,833 | 8,192,578 | 325,000 | 8,517,578 |
| Total Public Utilities | 162,587,726 | 193,817,424 | 356,405,150 | 148,606,502 | 189,798,249 | 338,404,751 |
| Community Development | | | | | | |
| Cable and Franchise Management | 1,825,776 | 0 | 1,825,776 | 1,791,628 | 0 | 1,791,628 |
| Cable Fund | 3,226,521 | 0 | 3,226,521 | 3,140,942 | 0 | 3,140,942 |
| Housing & Community Dev. Op | 20,281,851 | 0 | 20,281,851 | 9,748,700 | 0 | 9,748,700 |
| Children's Investment Fund | 14,680,617 | 0 | 14,680,617 | 8,479,559 | 0 | 8,479,559 |
| Housing & Community Dev. Fund | 22,072,498 | 0 | 22,072,498 | 15,177,023 | 0 | 15,177,023 |
| LID Construction | 10,091,291 | 43,822 | 10,135,113 | 15,163,646 | 0 | 15,163,646 |
| Office of Neighborhood Involvement | 7,140,752 | 0 | 7,140,752 | 7,112,244 | 0 | 7,112,244 |
| Development Services Fund | 29,601,847 | 0 | 29,601,847 | 31,271,639 | 0 | 31,271,639 |
| Planning | 6,831,707 | 0 | 6,831,707 | 6,083,800 | 0 | 6,083,800 |
| Office of Sustainable Development | 4,056,856 | 0 | 4,056,856 | 2,592,932 | 0 | 2,592,932 |
| Special Finance & Resource | 76,464,828 | 0 | 76,464,828 | 114,159,261 | 0 | 114,159,261 |
| Other Community Development | 38,984,499 | 0 | 38,984,499 | 40,037,328 | 0 | 40,037,328 |
| Total Community Development | 235,259,043 | 43,822 | 235,302,865 | 254,758,702 | 0 | 254,758,702 |
| Transportation and Parking | | | | | | |
| Parking Facilities | 4,340,080 | 1,276,900 | 5,616,980 | 4,307,007 | 1,377,497 | 5,684,504 |
| Private for Hire Trans Safety | 276,563 | 0 | 276,563 | 22,000 | 0 | 22,000 |
| Transportation and Street Lighting | 98,131,622 | 60,734,155 | 158,865,777 | 93,580,369 | 79,114,879 | 172,695,248 |
| Other Transportation and Parking | 132,572 | 0 | 132,572 | 128,695 | 0 | 128,695 |
| Total Transportation and Parking | 102,880,837 | 62,011,055 | 164,891,892 | 98,038,071 | 80,492,376 | 178,530,447 |
| Legislative, Administrative & Support Services | | | | | | |
| City Attorney | 5,571,515 | 0 | 5,571,515 | 6,026,174 | 0 | 6,026,174 |

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 principal, or interfund transfers.

| | Revised FY 2004-05 | | | Adopted FY 2005-06 | | |
|---|------------------------|-------------------------|------------------------|------------------------|-------------------------|------------------------|
| | Operating Budget | Capital Improvements | Total Expenditures | Operating Budget | Capital Improvements | Total Expenditures |
| City Auditor | 7,139,335 | 0 | 7,139,335 | 7,695,656 | 0 | 7,695,656 |
| Business License Surcharge | 7,019,752 | 0 | 7,019,752 | 6,312,813 | 0 | 6,312,813 |
| OMF - ComNet | 13,938,700 | 2,743,856 | 16,682,556 | 0 | 0 | 0 |
| OMF - Facilities Services | 12,896,982 | 12,992,272 | 25,889,254 | 17,810,591 | 3,584,767 | 21,395,358 |
| OMF - CityFleet | 25,462,712 | 0 | 25,462,712 | 18,773,656 | 0 | 18,773,656 |
| OMF - Printing and Dist. | 6,634,010 | 0 | 6,634,010 | 6,233,280 | 0 | 6,233,280 |
| Government Relations | 815,627 | 0 | 815,627 | 750,347 | 0 | 750,347 |
| OMF - Technical Services | 23,571,430 | 0 | 23,571,430 | 36,729,982 | 2,759,450 | 39,489,432 |
| OMF - Insurance and Claims | 7,336,185 | 0 | 7,336,185 | 6,569,642 | 0 | 6,569,642 |
| Licenses | 7,183,957 | 0 | 7,183,957 | 7,955,231 | 0 | 7,955,231 |
| Management and Finance | 25,820,361 | 0 | 25,820,361 | 24,841,835 | 0 | 24,841,835 |
| Mayor and Commissioners' Offices | 4,283,307 | 0 | 4,283,307 | 4,315,298 | 0 | 4,315,298 |
| Utility Customer Services | 5,153,000 | 0 | 5,153,000 | 13,507,177 | 0 | 13,507,177 |
| OMF - Citywide Projects | 5,589,466 | 0 | 5,589,466 | 9,253,587 | 0 | 9,253,587 |
| Campaign Finance | 0 | 0 | 0 | 1,296,000 | 0 | 1,296,000 |
| Worker's Compensation | 5,342,371 | 0 | 5,342,371 | 4,401,816 | 0 | 4,401,816 |
| Other Leg, Admin & Support Services | 39,893,293 | 0 | 39,893,293 | 47,592,711 | 0 | 47,592,711 |
| Total Legislative, Administrative & Support Services | 203,652,003 | 15,736,128 | 219,388,131 | 220,065,796 | 6,344,217 | 226,410,013 |
| TOTAL EXPENDITURES | \$1,110,857,290 | \$ 303,094,217 | \$1,413,951,507 | \$1,117,694,954 | \$ 299,203,497 | \$1,416,898,451 |
| FUND REQUIREMENTS | | | | | | |
| Ending Fund Balance | | | 68,601,612 | | | 311,018,077 |
| Contingency | | | 345,235,480 | | | 222,675,055 |
| GF Overhead Transfers | | | 12,486,213 | | | 13,194,088 |
| Grants Transfers | | | 58,216,304 | | | 44,253,740 |
| Other Cash Transfers | | | 409,786,711 | | | 430,217,053 |
| Inventory Increases | | | 0 | | | 140,000 |
| Debt Retirement | | | 246,808,916 | | | 250,100,099 |
| TOTAL CITY BUDGET | \$ | \$ | \$2,555,086,745 | \$ | \$ | \$2,688,496,563 |
| TOTAL NET CITY BUDGET | \$ | \$ | \$1,869,186,145 | \$ | \$ | \$1,984,873,688 |

Tax Levy Computation

This table shows the calculation of the City's property tax levies in the format prescribed by State Law.

TABLE 3

| | Total | General Fund Tax Base | General Obligation Debt | Fire & Police Disability & Retirement | Parks Local Option Levy | Childrens Local Option Levy |
|---|-----------------------|--------------------------|----------------------------|---|----------------------------|--------------------------------|
| FISCAL YEAR 2005-06 | | | | | | |
| Total Budget Requirements | 583,890,396 | 439,037,343 | 7,794,485 | 111,506,541 | 15,616,954 | 9,935,073 |
| Less: Budgeted Resources, Except Taxes to be Levied | (324,292,025) | (284,855,939) | (100,000) | (32,905,381) | (6,067,967) | (362,738) |
| Total Equals: Taxes Necessary To Balance | 259,598,371 | 154,181,404 | 7,694,485 | 78,601,160 | 9,548,987 | 9,572,335 |
| Add: Taxes Estimated not to be Received due to Delinquency & Discount | 15,363,436 | 9,109,887 | 456,453 | 4,662,781 | 566,465 | 567,850 |
| Total Equals: Estimated (Measure 50) Levy Receivable | 274,961,807 | 163,291,291 | 8,150,938 | 83,263,941 | 10,115,452 | 10,140,185 |
| Add: Estimated Measure 50 Levy Compression | 18,594,982 | 6,538,445 | 0 | 3,334,022 | 4,355,932 | 4,366,583 |
| Total Taxes to be Levied | 293,556,789 | 169,829,736 | 8,150,938 | 86,597,962 | 14,471,385 | 14,506,768 |
| Legal Basis of Taxes to be Levied | | | | | | |
| Permanent Rate Limit Levy-Subject to \$10 Limit | 98,807,889 | 69,829,736 | 0 | 0 | 14,471,385 | 14,506,768 |
| Local Option Operating Tax | 0 | 0 | 0 | 0 | 0 | 0 |
| Local Option Capital Construction Tax | 0 | 0 | 0 | 0 | 0 | 0 |
| Levy for Gap Bonds | 0 | 0 | 0 | 0 | 0 | 0 |
| Levy for Pension & Disability Obligations | 86,597,962 | 0 | 0 | 86,597,962 | 0 | 0 |
| Levy For Bonded Indebtedness | 8,150,938 | 0 | 8,150,938 | 0 | 0 | 0 |
| TOTAL TAXES TO BE LEVIED | \$ 293,556,789 | \$ 169,829,736 | \$ 8,150,938 | \$ 86,597,962 | \$ 14,471,385 | \$ 14,506,768 |
| FISCAL YEAR 2004-05 | | | | | | |
| Total Budget Requirements | \$525,346,034 | \$387,356,348 | \$7,817,992 | \$108,477,365 | \$2,606,256 | \$9,088,073 |
| Less: Budgeted Resources, Except Taxes to be Levied | (\$274,052,932) | (\$238,768,529) | (\$510,369) | (\$30,258,081) | (4,153,215) | (362,738) |
| Total Equals: Taxes Necessary to Balance | \$251,293,102 | \$148,587,819 | \$7,307,623 | \$78,219,284 | 8,453,041 | 8,725,335 |
| Add: Taxes Estimated not to be Received due to Delinquency & Discount | \$15,189,508 | \$8,981,448 | \$441,712 | \$4,727,995 | 510,947 | 527,406 |
| Total Equals: Estimated (Measure 50) Levy Receivable | 266,482,610 | 157,569,267 | 7,749,335 | 82,947,279 | 8,963,988 | 9,252,741 |
| Add: Estimated Measure 5/50 Levy Compression | \$20,611,133 | \$6,791,274 | \$0 | \$3,575,048 | 5,041,210 | 5,203,600 |
| Total Taxes to be Levied | 287,093,743 | 164,360,541 | 7,749,335 | 86,522,327 | 14,005,199 | 14,456,342 |
| Legal Basis of Taxes to be Levied | | | | | | |
| Permanent Rate Limit Levy-Subject to \$10 Limit | 192,822,081 | 64,360,541 | 0 | 0 | 14,005,199 | 14,456,342 |
| Local Option Operating Tax | 0 | 0 | 0 | 0 | 0 | 0 |
| Local Option Capital Construction Tax | 0 | 0 | 0 | 0 | 0 | 0 |
| Levy for Gap Bonds | 0 | 0 | 0 | 0 | 0 | 0 |
| Levy for Pension & Disability Obligations | 86,522,327 | 0 | 0 | 86,522,327 | 0 | 0 |
| Levy For Bonded Indebtedness | 7,749,335 | 0 | 7,749,335 | 0 | 0 | 0 |
| TOTAL TAXES TO BE LEVIED | \$ 287,093,743 | \$ 164,360,541 | \$ 7,749,335 | \$ 86,522,327 | \$ 14,005,199 | \$ 14,456,342 |

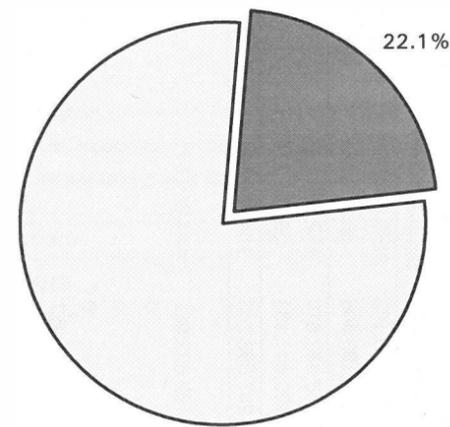
Public Safety

Bureau of Emergency Communications
 Bureau of Fire, Rescue, and Emergency Services
 Bureau of Police

Fire & Police Disability & Retirement
 Portland Office of Emergency Management

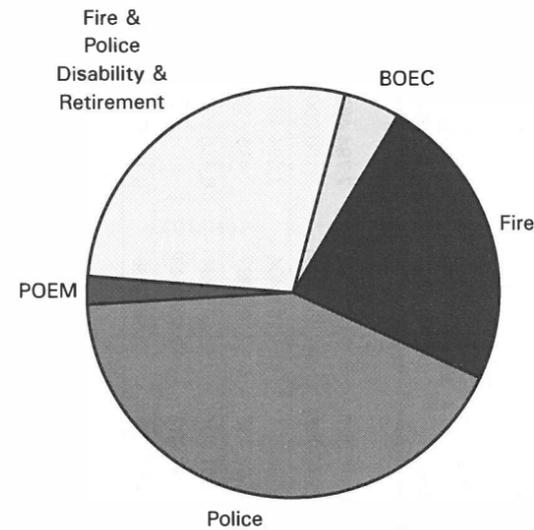
Percent of City Budget

Public Safety = \$313.3 Million



City Budget = \$1.42 Billion

Bureau Pie Chart



Service Area Overview

| Expenditures | Revised FY 2004-05 | Adopted FY 2005-06 | Change from Prior Year | Percent Change |
|---------------------------|-----------------------|-----------------------|---------------------------|-------------------|
| Operating | 324,582,963 | 311,704,779 | -12,878,184 | -4.0% |
| Capital | 2,154,960 | 1,550,700 | -604,260 | -28.0% |
| Total Expenditures | \$ 326,737,923 | \$ 313,255,479 | \$ -13,482,444 | \$ -4.1% |
| Authorized Positions | 2,136.45 | 2,065.97 | -70.48 | -3.3% |

Note: Authorized positions shown in FY 2005-06 include limited term and part-time positions, but prior year data do not for all bureaus.

Service Area Highlights

DESCRIPTION

The Public Safety service area includes the Bureau of Police; the Bureau of Fire, Rescue, and Emergency Services; the Bureau of Emergency Communications; 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 2005-06 Adopted Budget prioritizes frontline public safety services. In lieu of cuts to direct services, the Adopted Budget reduces some administrative and support services for the public safety bureaus.

Police Bureau

The Police Bureau's Adopted Budget for FY 2005-06 reflects a decrease of 1.6% from the current appropriation level. Major highlights include:

- ◆ Elimination of funding for 6.75 FTE in the Chief's Office, Internal Affairs, Tactical Operations, Sunshine Division, Family Services Division, Police Corps, and the Planning and Support Division;
- ◆ Reduction of the bureau's external materials and services budget by \$790,600;
- ◆ Transfer of \$1.8 million in anticipated leave of service vacancy savings to General Fund contingency, to be used by the bureau if needed upon approval by the City Council;
- ◆ Elimination of position authorization for 44 positions that are currently unfunded and vacant (no budgetary impact);
- ◆ Increase in program revenue from event-related cost recovery and increased false alarm fines;
- ◆ A \$1.1 million reduction due to over-budgeted internal service costs;
- ◆ \$309,538 in internal service cost reductions passed on by the City's central service bureaus; and
- ◆ The addition of \$1.0 million in one-time General Fund resources to implement several problem-oriented policing initiatives.

Fire Bureau

The FY 2005-06 Adopted Budget for the Bureau of Fire, Rescue, and Emergency Services is approximately 2.5% less than its allocated current appropriation level in terms of ongoing funding. Significant reductions are:

- ◆ Elimination of 3.2 FTE support positions, primarily in Management Services;
- ◆ Deferral of construction of a new station in southwest Portland.

Bureau of Emergency Communications

No reductions from the current appropriation level were made for the Bureau of Emergency Communications (BOEC). Highlights of the bureau's FY 2005-06 Adopted Budget are:

- ◆ Extension of nine limited term emergency communications operator trainee positions;
- ◆ Rising technology expenditures, which required BOEC to reduce other budget areas to absorb the increased costs.

Office of Emergency Management

The General Fund discretionary and overhead appropriation for the Portland Office of Emergency Management (POEM) is 4.7% less than the current appropriation level. Notable POEM budget decisions for FY 2005-06 are listed below.

- ◆ One limited term assistant financial analyst position was extended and two new limited term positions, an outreach coordinator and a program coordinator, were added. The two new positions are entirely funded with grants, while the assistant financial analyst position is primarily grant-funded.
- ◆ Reductions totaling \$39,242 were made to the materials and services budget. The largest single item is a \$15,000 cut in education and outreach.

Fire and Police Disability and Retirement Fund

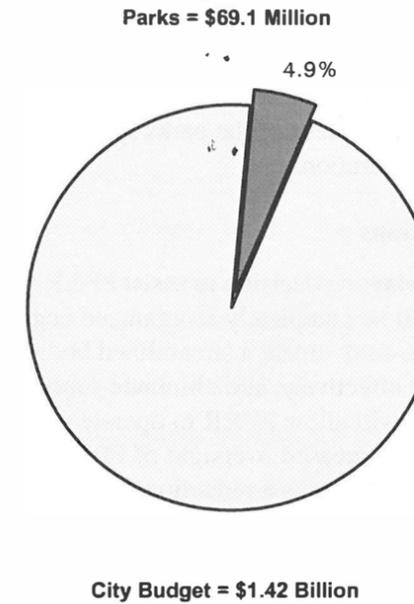
The FY 2005-06 Adopted Budget supports ongoing activities and services provided for sworn members of the Fire and Police Bureaus, as well as their spouses and dependent minor children. Additions to the budget for FY 2005-06 include:

- ◆ Funds for two new disability claims coordinator positions;
- ◆ Funds to conduct a Council-requested comprehensive review of the Fire and Police Disability and Retirement Fund.

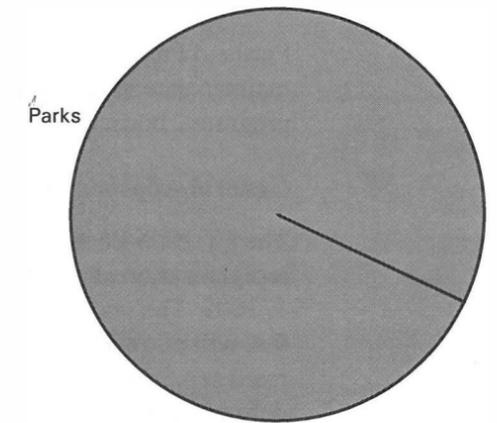
Parks, Recreation, and Culture

Portland Parks and Recreation

Percent of City Budget



Bureau Pie Chart



Service Area Overview

| Expenditures | Revised FY 2004-05 | Adopted FY 2005-06 | Change from Prior Year | Percent Change |
|---------------------------|----------------------|----------------------|------------------------|------------------|
| Operating | 56,874,334 | 55,816,547 | -1,057,787 | -1.9% |
| Capital | 20,104,684 | 13,324,643 | -6,780,041 | -33.7% |
| Total Expenditures | \$ 76,979,018 | \$ 69,141,190 | \$ -7,837,828 | \$ -10.2% |
| Authorized Positions | 425.10 | 410.41 | -14.69 | -3.5% |

Note: Authorized positions shown in FY 2005-06 include limited term and part-time positions, but prior year data do not for all bureaus.

Service Area Highlights

DESCRIPTION

The Parks, Recreation, and Culture service area includes services for Parks, Golf, Portland International Raceway, the Regional Arts and Culture Council, the Spectator Facilities Fund, and the Parks Construction Fund.

MAJOR THEMES

Parks and Recreation **General Fund Reductions**

Portland Parks and Recreation (PP&R) made approximately \$715,000 in program and maintenance reductions. These reductions affect all areas of the parks system: recreation programs, horticulture and urban forestry, and operations.

General Approach to PP&R Budget Reductions

The FY 2005-06 Adopted Budget reflects the Mayor's decision to assist PP&R with a major reorganization and transition period. PP&R will be completely reorganized beginning July 1, 2005. The purpose of the organization is two-fold: create a streamlined budget strategy that will allow PP&R to provide services more effectively, and eliminate supervision and management redundancies. The reorganization will allow PP&R to operate under a clearly defined business strategy, and will also result in increased oversight of PP&R's financial condition. The net staffing impact of the reorganization is a reduction of eight FTEs.

A major element of PP&R's reorganization is to transition various facilities and programs to a new business model that will reduce their dependency on General Fund discretionary resources. Therefore, there are several ongoing reductions that are offset by one-time funding in the FY 2005-06 Proposed Budget to provide these facilities 12-24 months of transition time.

Capital Improvement Plan

The Portland Parks and Recreation budget capital improvement plan (CIP) budget totals approximately \$18 million. Of this amount, \$784,000 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 supported by the General Fund include:

- ◆ Hillside Community Center Fire Repair - \$200,000
- ◆ Mt. Scott Pool Replastering - \$136,000
- ◆ Holly Farm Development - \$200,000
- ◆ Skateparks - \$248,000

Projects funded by the levy include the following:

- ◆ East Portland Community Center Pool \$300,000
- ◆ University Park Community Center \$4,863,000
- ◆ Play Structures \$208,000
- ◆ Skateparks \$260,000

- ◆ Maintenance Facility Replacement \$1,090,000
- ◆ Irving Park Sports Field Replacement \$72,500

Regional Arts and Culture Council

In FY 2005-06 the City reduced its support for the Regional Arts and Culture Council (RACC) by 2.1% from its current appropriation level.

One-time funding of \$50,000 was approved to support the Murals program again in FY 2005-06. The total RACC FY 2005-06 appropriation is approximately \$2 million.

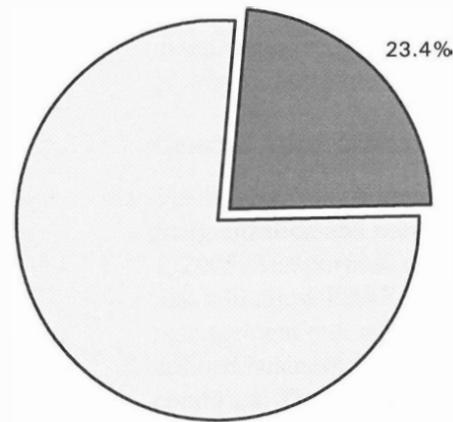
Public Utilities

Bureau of Environmental Services

Bureau of Water Works

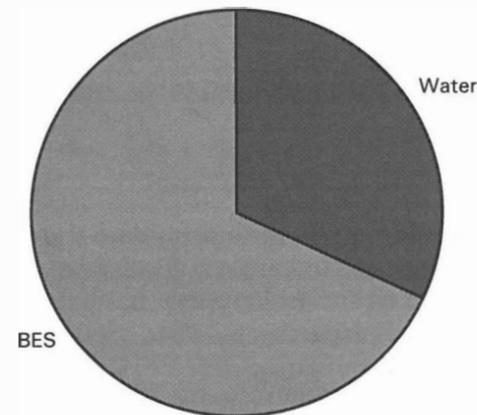
Percent of City Budget

Public Utility = \$332.2 Million



City Budget = \$1.42 Billion

Bureau Pie Chart



Service Area Overview

| Expenditures | Revised FY 2004-05 | Adopted FY 2005-06 | Change from Prior Year | Percent Change |
|---------------------------|-----------------------|-----------------------|---------------------------|-------------------|
| Operating | 154,146,095 | 142,360,533 | -11,785,562 | -7.6% |
| Capital | 193,817,424 | 189,798,249 | -4,019,175 | -2.1% |
| Total Expenditures | \$ 347,963,519 | \$ 332,158,782 | \$ -15,804,737 | \$ -4.5% |
| Authorized Positions | 922.84 | 936.90 | 14.06 | 1.5% |

Note: Authorized positions shown in FY 2005-06 include limited term and part-time positions, but prior year data do not for all bureaus.

Service Area Highlights

DESCRIPTION

The Public Utilities service area includes utility services provided by the City. These services include water and sewer service, and stormwater management functions. This service area also includes administration of the Solid Waste and Recycling program, which is operated by private companies under franchise and permit systems for residential and commercial service, respectively. Solid Waste program administration is housed within the Office of Sustainable Development.

MAJOR THEMES

Utility Rate Increases

The Adopted Budget for FY 2005-06 includes an average effective retail rate increase for water service of 0.6%. The average single family sewer bill increase is 5.9%. The rate increase for water service is less than planned because of budget reductions. The sewer rate increase is consistent with the planned increase. Rates for residential solid waste and recycling service increase by 5.9%.

Bureau of Water Works

Adopted Budget

The FY 2005-06 Adopted Budget for the Bureau of Water Works (the Water Bureau) is \$105.7 million. The Water Bureau's budget consists of an operating budget of \$53.4 million (including \$566,204 for the Hydropower Division) and a capital budget of \$52.3 million. The operating budget decreased about \$7 million from the FY 2004-05 Revised Budget and the capital budget increased approximately \$9.7 million.

Merger with Powell Valley Road Water District

Pursuant to an intergovernmental agreement, the Powell Valley Road Water District merged with the Water Bureau on July 1, 2005. The City assumed responsibility for serving the approximately 11,000 customers in the former district.

Utility Customer Service

In FY 2004-05, the customer service functions of the Water Bureau were transferred to the Office of Management and Finance (OMF). OMF manages this service for the Water Bureau and Bureau of Environmental Services (BES), who reimburse OMF for the costs.

Customer Information System (CIS)

The City decided in FY 2004-05 to replace the current water and sewer CIS billing system. The Water Bureau is working with the Office of Management and Finance, the Bureau of Environmental Services, and the City Auditor's Office to complete the installation of the new system, which is scheduled for March 2006.

Bond Credit Rating

The Water Bureau continues to be assigned an Aa1 revenue bond credit rating from Moody's Investor's Service. This rating is one of the highest ratings held by a water utility nationally.

Bureau of Environmental Services

Adopted Budget

The FY 2005-06 Adopted Budget for the Bureau of Environmental Services is \$226.4 million. The total consists of an operating budget of \$88.9 million and a capital budget of \$137.5 million. The operating budget decreased about \$4.6 million compared to the FY 2004-05 Revised Budget, and the capital budget decreased approximately \$13.8 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 Westside Tunnel and Pump Station is in progress, and planning and design are underway for Eastside CSO projects.

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 \$4.1 million in FY 2005-06, a slight decrease from the FY 2004-05 Revised Budget.

Office of Sustainable Development

Adopted Budget

The FY 2005-06 Adopted Budget for the Solid Waste and Recycling program is \$1.9 million, compared to the FY 2004-05 Revised Budget of \$2.1 million. Funding primarily supports the residential and commercial solid waste and recycling programs. Of the total, \$120,000 is budgeted for implementation of a food waste recycling program for large producers of food waste.

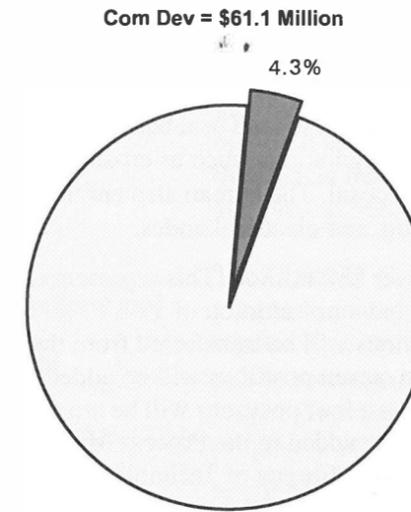
Solid Waste and Recycling is one program in the Office of Sustainable Development. See the Community Development section for discussion of this office.

Community Development

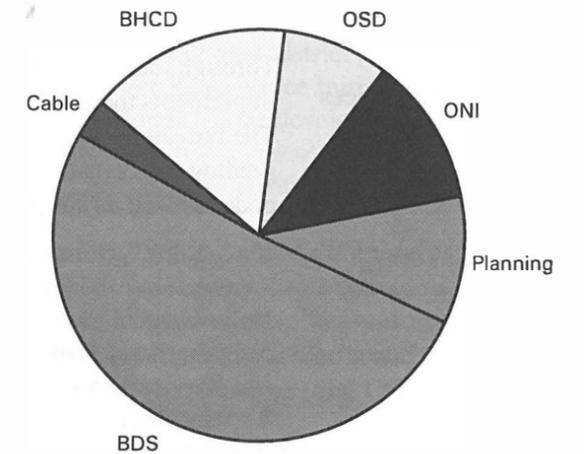
Bureau of Development Services
Bureau of Housing and Community Development
Bureau of Planning

Cable Communications and Franchise Management
Office of Neighborhood Involvement
Office of Sustainable Development

Percent of City Budget



Bureau Pie Chart



Service Area Overview

| Expenditures | Revised FY 2004-05 | Adopted FY 2005-06 | Change from Prior Year | Percent Change |
|---------------------------|----------------------|----------------------|------------------------|------------------|
| Operating | 72,622,520 | 61,093,412 | -11,529,108 | -15.9% |
| Capital | 0 | 0 | 0 | 0.0% |
| Total Expenditures | \$ 72,622,520 | \$ 61,093,412 | \$ -11,529,108 | \$ -15.9% |
| Authorized Positions | 461.38 | 464.98 | 3.60 | 0.8% |

Note: Authorized positions shown in FY 2005-06 include limited term and part-time positions, but prior year data do not for all bureaus.

Service Area Highlights

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, and Office of Sustainable Development. There are several new initiatives for FY 2005-06 in this service area, including the allocation of \$2.0 million in one-time funds to homelessness and housing assistance programs, and the creation of a \$0.5 million community visioning and empowerment account.

MAJOR THEMES

Bureau of Development Services

Through the review of proposed development, 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. The bureau also enforces the zoning code, as well as structural, mechanical, plumbing, and electrical codes.

The FY 2005-06 Adopted Budget for BDS is over \$32 million. This represents a 5.2% increase over the FY 2004-05 Revised Budget and a net addition of 11.6 FTE. The City's Noise Control program and its three filled positions will be transferred from the Office of Neighborhood Involvement to BDS. In addition, seven positions will be added to the Land Use Services program to expedite land use reviews, four positions will be created in the new Apprenticeship program, and two positions will be added to the Process Management program. BDS will also transfer four positions to the Bureau of Technology Services as part of the information technology services consolidation and will reclassify a part-time position to a lower level.

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.

BHCD also receives General Fund discretionary resources. The Adopted Budget includes a 4%, or \$111,093, reduction in ongoing General Fund discretionary revenues. These funds are partially restored for FY 2005-06 through the addition of \$73,109 in one-time funds. The bureau is also responsible for allocating the General Fund resources transferred annually into the Housing Investment Fund (HIF). An ongoing amount of \$482,122 is added in the FY 2005-06 Adopted Budget; these funds will be used to support homeless programs. The HIF's FY 2005-06 Adopted Budget also includes:

- ◆ \$1 million in one-time General Fund resources for the Chronic Homelessness program;
- ◆ \$1 million in one-time General Fund resources for the Housing Assistance program;
- ◆ \$800,000 in one-time funds carried over from FY 2004-05 for the Homeless Housing Risk Mitigation Pool program;

- ◆ The second of two \$500,000 one-time installments for the Transitions to Housing program; and
- ◆ \$67,400 in one-time funding for the homeless management information system.

At the end of the budget process, \$269,834 in one-time General Fund discretionary resources was also added to restore detoxification services provided by Central City Concern.

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 2005-06 Adopted Budget includes a reduction in the services and supplies budget, the elimination of an office support position (1.0 FTE) and vacant planner positions (1.5 FTE), reclassification of a management position to a lower level, and consolidation of two management positions into one management position. In addition, the Adopted Budget moves the Regulatory Improvement function and an additional district planning position into the bureau's ongoing budget, and funds the River Renaissance Initiative staff with a one-time appropriation. The Adopted Budget also funds a code development position through an interagency agreement with the Bureau of Development Services, a position assigned to Measure 37 claims, 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.

In FY 2005-06, the bureau will continue work on the update of the Utility Licence Fee Code and will oversee audits of several utilities, including point-to-point telecommunication companies. The bureau will continue its aggressive compliance program, which performs lower-level audits, financial reviews, and a variety of other compliance activities. The program continues to identify additional outstanding franchise fees that are owed to the City.

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 2005-06 Adopted Budget is essentially equivalent to its current appropriation level. Notable changes for FY 2005-06 include:

- ◆ Creation of a \$500,000 Community Visioning and Empowerment account. These funds will be used for a variety of purposes, including visioning and strategic planning processes.
- ◆ Return of the Noise Control program to the Bureau of Development Services. This transfer will reduce ONI's budget by \$302,146 and ONI's staff by four positions.
- ◆ Elimination of three positions: an assistant bureau director, a management analyst, and a Neighborhood Resource Center program coordinator.
- ◆ Adoption of a new graffiti abatement model that will save \$60,000 per year. The City will also pursue additional savings in this program by soliciting private funds for abatement on large commercial properties. The FY 2005-06 budget makes \$80,000 available to match these private donations on a dollar-for-dollar basis.

- ◆ Conversion of a neighborhood inspections position from limited term to permanent. The position will be funded with a combination of General Fund resources and new fee revenue generated by changes to the housing fee schedule.

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. Funding for OSD originates primarily from residential and commercial solid waste fees, grants, and charges to other bureaus. General Fund discretionary support, about \$420,000 in FY 2005-06, represents 8.2% of OSD's total budget of \$5 million. More than \$800,000 of OSD's budget is from grants, contracts, and agreements, as OSD continues to leverage City funding with non-City sources.

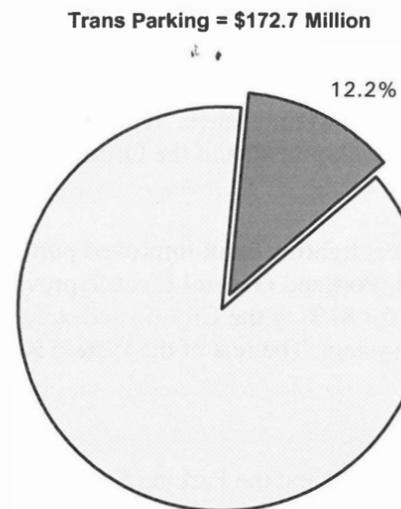
The only reduction to OSD's FY 2005-06 budget is a \$10,660 decrease in internal service fund charges. The FY 2005-06 Adopted Budget also includes one-time Special Appropriations for the Block by Block Fix-it Fair events and the newly created Sustainable Food Initiative.

In FY 2005-06, OSD will seek to enhance two of Portland's nationally recognized programs: recycling and green building. To reach a City goal to recycle 60% of waste, OSD will implement a planned food waste recycling program and will intensify efforts to increase recycling of construction and demolition materials.

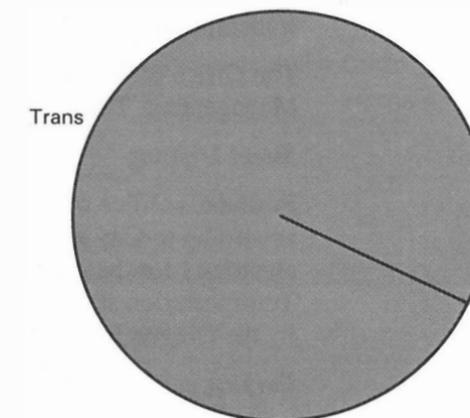
Transportation and Parking

Office of Transportation

Percent of City Budget



Bureau Pie Chart



Service Area Overview

| Expenditures | Revised FY 2004-05 | Adopted FY 2005-06 | Change from Prior Year | Percent Change |
|---------------------------|-----------------------|-----------------------|------------------------|----------------|
| Operating | 97,931,622 | 93,580,369 | -4,351,253 | -4.4% |
| Capital | 60,734,155 | 79,114,879 | 18,380,724 | 30.3% |
| Total Expenditures | \$ 158,665,777 | \$ 172,695,248 | \$ 14,029,471 | 8.8% |
| Authorized Positions | 768.78 | 753.25 | -15.53 | -2.0% |

Note: Authorized positions shown in FY 2005-06 include limited term and part-time positions, but prior year data do not for all bureaus.

Service Area Highlights

DESCRIPTION

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

Street Lighting

Portland's Office of Transportation provides street lighting 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 street lights. Transportation staff maintain about 16% of the system. The rest of the system is maintained by the Oregon Department of Transportation.

Parking

This service area includes the Parking Facilities Fund and the Parking Facilities Debt Redemption Fund, both managed by the Bureau of General Services (BGS) with oversight from Debt Management.

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

Increase funding for Maintenance

The FY 2005-06 Adopted Budget includes decisions to redirect \$1.2 million from indirect services to the Street Preservation program. According to Transportation's five-year financial forecast, a funding gap will reemerge in FY 2006-07 and continue through FY 2009-10.

General Fund Support

In FY 2005-06, the General Fund transfer to the Office of Transportation for the Streetlight Program will be reduced by \$500,000. PDOT will use General Transportation Revenue to backfill the above reduction. The total General Fund transfer to Transportation is \$5,989,552.

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

The Parking Facilities Fund's FY 2005-06 Adopted Budget includes projected costs and reimbursements associated with the operation of the new Station Place Garage near Union Station in the Pearl District. In December 2004, BGS entered into an intergovernmental agreement with the Portland Development Commission, for the Parking Facilities Fund to manage the operation of the facility.

Legislative, Administrative, and Support

Office of the City Attorney
 Office of the City Auditor
 Office of Government Relations
 Bureau of Licenses
 Office of Management and Finance
 Office of the Mayor

Commissioner of Public Affairs
 Commissioner of Public Safety
 Commissioner of Public Utilities
 Commissioner of Public Works
 Special Appropriations

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, the Bureau of Licenses, 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 Adopted FY 2005-06 Budget for the City Attorney's Office is \$6,026,174. Major additions include an \$180,579 interagency agreement with the Bureau of Licenses to enhance the collection of delinquent business license accounts and \$162,240 to fund a deputy attorney and half-time legal assistant to work on backlogged labor grievances. The Adopted Budget for the City Attorney also includes a reduction of \$35,871 in external materials and services.

Auditor

The Adopted Budget for the Auditor's Office in FY 2005-06 totals \$7,695,656, an increase of 2.3% over the FY 2004-05 Revised Budget. Additional funding is allocated to continue the intake investigation program and to fund the Officer-Involved Shooting Review study and the neighborhood survey. One new position is added to support the Managing For Results initiative.

Licenses Bureau

In the Mayor's Proposed Budget for FY 2005-06, the Bureau of Licenses became part of the new Revenue Bureau, and was moved organizationally to the Office of Management and Finance. For the Adopted Budget, Council reversed this action, and restored the Bureau of Licenses until further analysis and discussions regarding a revenue bureau could be completed. The Adopted Budget for the Bureau of Licenses includes the addition of four limited term positions and an interagency with the City Attorney's Office to enhance collection of delinquent revenues, as well as reductions of approximately \$180,000 in external materials and services.

Office of Management and Finance

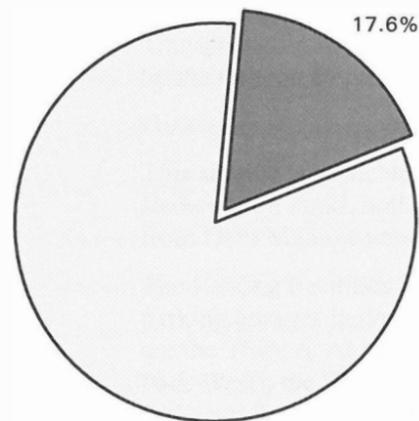
The FY 2005-06 Adopted Budget for the Office of Management and Finance (OMF) totals \$202.1 million. The General Fund portion of OMF's budget equals 23.6% of the bureau's total budget. OMF internal service funds provided rate reductions that resulted in savings to General Fund and non-General Fund bureaus.

Special Appropriations

The FY 2005-06 Adopted Budget reduces all flexible discretionary special appropriations by 5%. All previous Portland Development Commission Special Appropriations are unfunded for FY 2005-06 and appropriation authority is transferred to a General Fund Set-Aside for general city economic development. Twelve new special appropriations were funded with one-time discretionary funding totaling \$5,057,220.

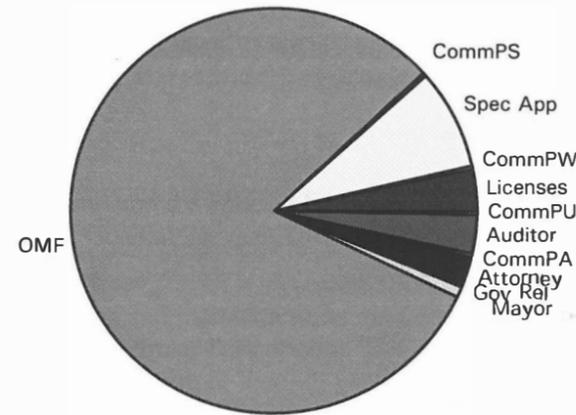
Percent of City Budget

Leg Adm = \$249.5 Million



City Budget = \$1.42 Billion

Bureau Pie Chart



Service Area Overview

| Expenditures | Revised FY 2004-05 | Adopted FY 2005-06 | Change from Prior Year | Percent Change |
|---------------------------|-----------------------|-----------------------|------------------------|----------------|
| Operating | 214,135,050 | 233,163,610 | 19,028,560 | 8.9% |
| Capital | 28,297,034 | 16,344,260 | -11,952,774 | -42.2% |
| Total Expenditures | \$ 242,432,084 | \$ 249,507,870 | \$ 7,075,786 | \$ 2.9% |
| Authorized Positions | 915.85 | 897.93 | -17.92 | -2.0% |

Note: Authorized positions shown in FY 2005-06 include limited term and part-time positions, but prior year data do not for all bureaus.

**Mayor and
Commissioner Offices**

The Mayor and four City Commissioner Offices were not exempt from reductions and each took a 2.5% cut from the current appropriation level. Because the largest expense for these offices is personnel, and many materials and services costs are fixed, all offices took a majority of their reduction in personal services.





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
Drew Barden, City Economist
Sheila Black-Craig
Don Carlson
Susan Crabtree
Kourosh Ghaemmaghani
Nancy Hartline
Stacy Jones
Mike Johnson
Doug Le
Courtney Lords
Nancy McKinnon
Jeremy Patton
Casey Short
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