

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Portland (the "City"), we offer readers of the City's Comprehensive Annual Financial Report (CAFR), this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2005. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found starting on page 1 of this report.

FINANCIAL HIGHLIGHTS

Following are the City's financial highlights for fiscal year ending June 30, 2005:

- The assets of the City exceeded its liabilities at the close of FY2004-05 by \$2,707,428,676 (*net assets*), while *unrestricted net assets* totaled (\$737,978,072) as shown on table 1-C on page 17. This negative balance is caused by governmental activities and is further discussed in the government-wide financial analysis section of this Management's Discussion and Analysis (MD&A) found on page 16.
- The City's total net assets decreased by \$67,781,606 from FY2003-04 as shown on table 2-C on page 20. This decrease results primarily from the increase in the pension trust obligation liability of \$67,767,544, and the impact of depreciation totaling \$154,936,675 on governmental activities, which was offset by increases from business-type activities.
- The City's governmental funds reported combined ending fund balances of \$218,427,109, an increase of \$48,851,954 in comparison to FY2003-04 as shown on page 35. This increase in fund balance was attributed to an increase of \$36,651,193 resulting from operations, an increase of \$21,511 resulting from a current year change in inventories, and a prior period adjustment of \$12,179,250. Of the combined ending governmental fund balances, \$184,699,982 is available for spending at the City's discretion subject to Council approved policies (*unreserved fund balance*).
- The unreserved fund balance for the General Fund was \$93,496,556 or 22.1 percent of total General Fund expenditures.
- The City's total bonded debt increased by \$107,289,654 or 5.2 percent over FY2003-04 as shown on page 28. The key factors in this change were increases of \$109,156,898 in revenue bonds, and \$22,570,000 in urban renewal bonds. General obligation bonds decreased by \$6,322,244, special assessment bonds decreased by \$4,415,000, and limited tax revenue bonds decreased by \$13,700,000.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

A. Government-wide financial statements

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

The *statement of net assets* presents information on all of the City's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *statement of activities* presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities include Public Safety, Parks/Recreation/Culture, Community Development, Transportation, Legislative/Administration/ Support Services, and Interest on long-term debt. The business-type activities of the City include Environmental Services, Water, Hydroelectric Power, Parking, Golf, Motor Sports, and Spectator Facilities.

The government-wide financial statements include not only the City itself (known as the *primary government*), but also the Portland Development Commission (PDC), a legally separate entity for which the City is financially accountable. Financial information for PDC is reported separately from the financial information presented for the primary government itself. Additionally, the Fire and Police Disability and Retirement Fund (FPD&R), also legally separate, functions for all practical purposes as a bureau of the City and, therefore, has been blended with the information of the primary government.

The government-wide financial statements can be found on pages 31-32 of this report.

B. Fund financial statements

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

- **Governmental funds.** *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term funding decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City maintains thirty-nine governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund and the Transportation Operating Fund, both of which are considered to be *major funds*. Data from the other thirty-six governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these *nonmajor* governmental funds is provided in the form of *combining statements* elsewhere in this report.

The City's major governmental funds, the General Fund and Transportation Operating Fund, are presented in their respective columns and the remaining funds are combined into a column titled "Other Governmental Funds." For each major fund, a budgetary comparison statement is presented. Information on nonmajor funds can be found in the combining schedules of nonmajor funds and/or the supplemental information-budgetary comparison schedules sections of this report. Completing this document is a series of other financial and statistical schedules as required by statute.

The basic governmental fund financial statements can be found on pages 33-36 of this report.

- **Proprietary funds.** The City maintains seventeen proprietary funds.

Enterprise funds are used to report the same functions presented as *business-type activities* in the government-wide financial statements. Of the eighteen proprietary funds, nine are *enterprise funds*.

Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses internal service funds to account for its health insurance, facilities, fleet, printing and distribution, communication, general liability and fleet self-insurance, workers' compensation self-insurance, and information technology services. These services predominantly benefit governmental rather than business-type functions, therefore they have been included within *governmental activities* in the government-wide financial statements. Of the eighteen proprietary funds, nine are *internal service funds*.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the water and sewer system operations, both of which are considered to be major funds. Conversely, the internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for the internal service funds is provided in the form of *combining statements* elsewhere in this report.

The basic proprietary fund financial statements can be found on pages 37-41 of this report.

- **Fiduciary funds.** *Fiduciary funds* are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statement because the resources of those funds are *not* available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statements can be found on pages 42-43 of this report.

C. Notes to the financial statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 45-89 of this report.

D. Other information.

In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning the City's progress in funding its obligations to the citizenry, as well as its employees. Required supplementary information can be found on page 91-98 of this report.

The combining statements referred to earlier in connection with nonmajor governmental funds and internal service funds are presented immediately following the required supplementary information. Combining and individual fund statements and schedules can be found on pages 99-148 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve as a useful indicator of a government's financial position. For the City, assets exceed liabilities by \$2,707,428,676 at the close of FY2004-05.

A. Analysis of net assets

The largest portion of the City's net assets reflects an investment of \$3,384,313,170 or 125 percent, in capital assets (i.e. land, buildings, and equipment), less any related outstanding debt used to acquire those assets as shown on table 1-C on page 17. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be liquidated to pay for these liabilities.

An additional portion of the City's net assets, \$61,093,578 or approximately 2.3 percent, represents resources that are subject to external restrictions on how they may be used. The remaining balance is a deficit in *unrestricted net assets* totaling \$737,978,072.

At the end of FY2004-05, the City is able to report positive balances in two categories of net assets for the government as a whole: (1) *invested in capital assets, net of related debt*, and (2) *restricted net assets*. *Unrestricted net assets*, the third category of net assets, had a negative balance due to governmental activities, which is comprised of outstanding debt with no offsetting asset. Business-type activities have a positive balance for all three categories of net assets.

**Table 1-A
City of Portland, Oregon
Summary of Net Assets
For Years as Stated**

	Governmental Activities		
	FY 2004-05	FY 2003-04 As Restated	Change
ASSETS			
Current and other assets	\$ 589,321,678	\$ 552,149,669	\$ 37,172,009
Capital assets	2,508,584,319	2,575,341,537	(66,757,218)
Total assets	<u>3,097,905,997</u>	<u>3,127,491,206</u>	<u>(29,585,209)</u>
LIABILITIES			
Long-term liabilities outstanding	1,521,427,446	1,405,153,923	116,273,523
Other liabilities	152,080,672	172,040,704	(19,960,032)
Total liabilities	<u>1,673,508,118</u>	<u>1,577,194,627</u>	<u>96,313,491</u>
NET ASSETS			
Invested in capital assets, net of related debt:			
Restricted	2,224,370,896	2,276,806,195	(52,435,299)
Unrestricted	49,610,773	49,785,785	(175,012)
	<u>(849,583,790)</u>	<u>(776,295,401)</u>	<u>(73,288,389)</u>
Total net assets	<u>\$ 1,424,397,879</u>	<u>\$ 1,550,296,579</u>	<u>\$ (125,898,700)</u>

**Table 1-B
City of Portland, Oregon
Summary of Net Assets
For Years as Stated**

	Business-type Activities		
	FY 2004-05	FY 2003-04	Change
ASSETS			
Current and other assets	\$ 338,308,732	\$ 301,755,656	\$ 36,553,076
Capital assets	2,384,087,050	2,224,639,018	159,448,032
Total assets	<u>2,722,395,782</u>	<u>2,526,394,674</u>	<u>196,001,108</u>
LIABILITIES			
Long-term liabilities outstanding	1,346,934,059	1,201,095,618	145,838,441
Other liabilities	92,430,926	88,206,103	4,224,823
Total liabilities	<u>1,439,364,985</u>	<u>1,289,301,721</u>	<u>150,063,264</u>
NET ASSETS			
Invested in capital assets, net of related debt:			
Restricted	1,159,942,274	1,129,632,905	30,309,369
Unrestricted	11,482,805	11,108,557	374,248
	<u>111,605,718</u>	<u>96,351,491</u>	<u>15,254,227</u>
Total net assets	<u>\$ 1,283,030,797</u>	<u>\$ 1,237,092,953</u>	<u>\$ 45,937,844</u>

**Table 1-C
City of Portland, Oregon
Summary of Net Assets
For Years as Stated**

	Total Net Assets		
	FY 2004-05	FY 2003-04 As Restated	Change
ASSETS			
Current and other assets	\$ 927,630,410	\$ 853,905,325	\$ 73,725,085
Capital assets	4,892,671,369	4,799,980,555	92,690,814
Total assets	<u>5,820,301,779</u>	<u>5,653,885,880</u>	<u>166,415,899</u>
LIABILITIES			
Long-term liabilities outstanding	2,868,361,505	2,606,249,541	262,111,964
Other liabilities	244,511,598	260,246,807	(15,735,209)
Total liabilities	<u>3,112,873,103</u>	<u>2,866,496,348</u>	<u>246,376,755</u>
NET ASSETS			
Invested in capital assets, net of related debt:			
Restricted	3,384,313,170	3,406,439,100	(22,125,930)
Unrestricted	61,093,578	60,894,342	199,236
	<u>(737,978,072)</u>	<u>(679,943,910)</u>	<u>(58,034,162)</u>
Total net assets	<u>\$ 2,707,428,676</u>	<u>\$ 2,787,389,532</u>	<u>\$ (79,960,856)</u>

B. Analysis of changes in net assets

As noted above, the City's overall net assets decreased by \$67,781,606 during FY2004-05. This decrease is explained in the government and business-type activities discussion beginning on page 20.

**Table 2-A
City of Portland, Oregon
Summary of Changes in Net Assets
For Years as Stated**

	Governmental Activities		
	FY 2004-05	FY 2003-04	Change
Revenues			
<i>Program revenues:</i>			
Charges for services	\$ 389,659,652	\$ 350,625,471	\$ 39,034,181
Operating grants and contributions	52,304,455	36,436,606	15,867,849
Capital grants and contributions	3,337,595	4,671,989	(1,334,394)
<i>General revenues:</i>			
Property taxes	320,933,919	314,666,579	6,267,340
Lodging taxes	14,170,141	13,324,822	845,319
Investment earnings	9,105,038	3,905,760	5,199,278
Gain (loss) on sale of capital assets	-	(5,220,885)	5,220,885
Loss - sale of property held for resale	-	2,404,881	(2,404,881)
Total revenues	789,510,800	720,815,223	68,695,577
Expenses			
Public safety	367,555,695	323,540,069	44,015,626
Parks, recreation and culture	53,128,816	52,785,697	343,119
Community development	114,225,541	82,717,602	31,507,939
Transportation	220,406,789	215,372,390	5,034,399
Legislative/Admin/Support services	122,993,533	103,897,971	19,095,562
Interest on long-term debt	39,790,431	46,218,942	(6,428,511)
Total expenses	918,100,805	824,532,671	(93,568,134)
Revenues over (under) expenses	(128,590,005)	(103,717,448)	(24,872,557)
Transfers	2,691,305	3,379,035	(687,730)
Change in net assets	(125,898,700)	(100,338,413)	(25,560,287)
Net assets -- beginning	1,550,296,579	1,638,455,742	(88,159,163)
Prior period adjustment		12,179,250	
Net assets -- beginning, as restated		1,650,634,992	
Net assets -- ending	\$ 1,424,397,879	\$ 1,550,296,579	\$ (25,560,287)

Table 2-B
City of Portland, Oregon
Summary of Changes in Net Assets
For Years as Stated

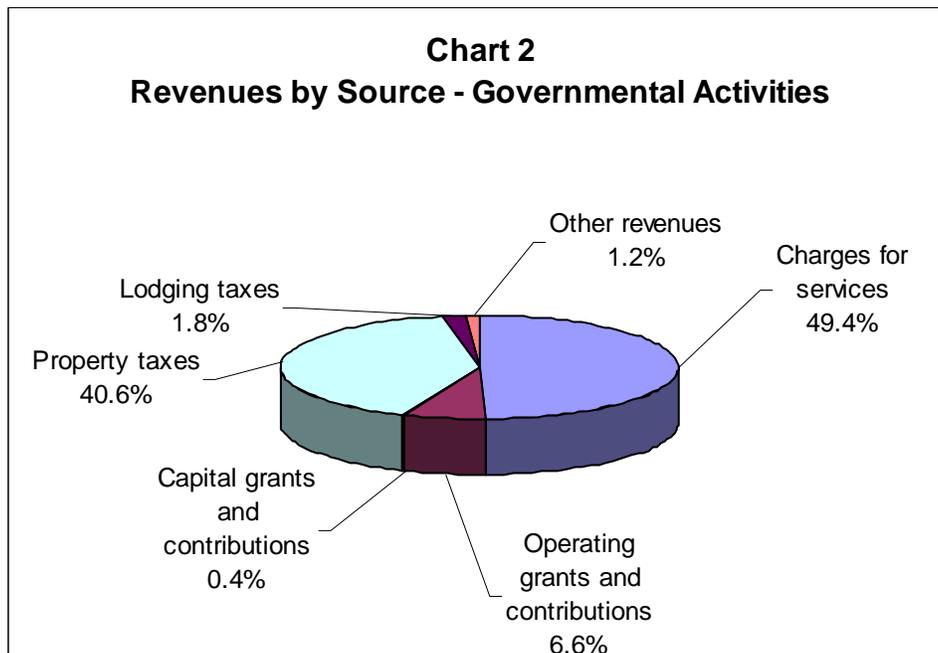
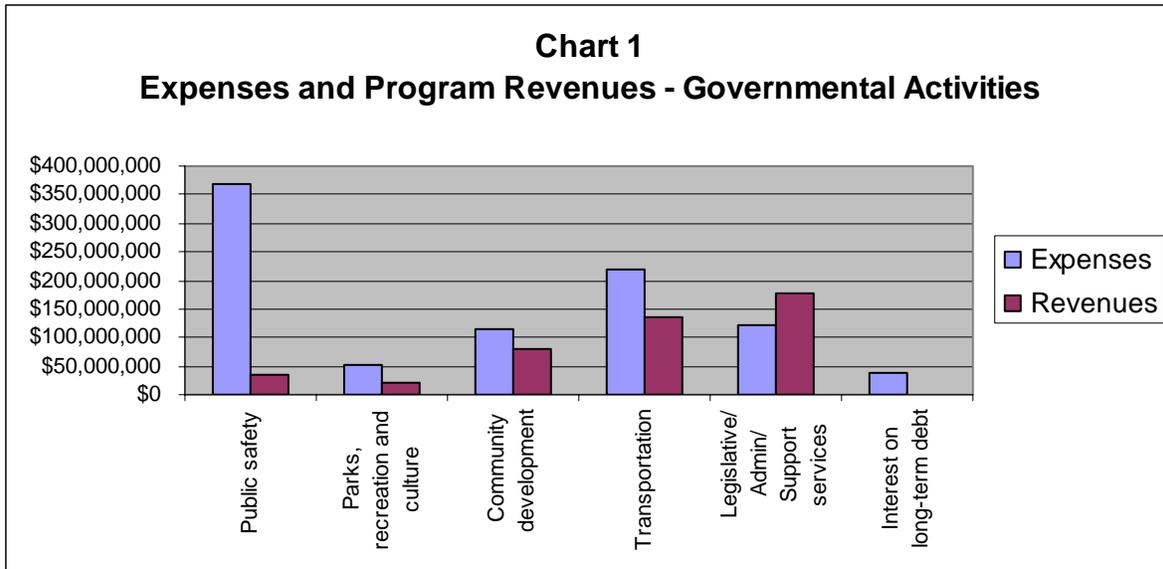
	Business-type Activities		
	FY 2004-05	FY 2003-04	Change
Revenues			
<i>Program revenues:</i>			
Charges for services	\$ 306,977,128	\$ 301,463,564	\$ 5,513,564
Operating grants and contributions	3,431,790	4,316,805	(885,015)
Capital grants and contributions	1,240,018	2,859,149	(1,619,131)
<i>General revenues:</i>			
Investment earnings	<u>5,364,366</u>	<u>1,508,643</u>	<u>3,855,723</u>
Total revenues	<u>317,013,302</u>	<u>310,148,161</u>	<u>6,865,141</u>
Expenses			
Environmental services	161,920,527	131,818,242	30,102,285
Water	78,010,156	77,212,445	797,711
Hydroelectric power	2,845,958	3,088,163	(242,205)
Parking	7,780,324	7,029,560	750,764
Golf	5,746,381	5,876,808	(130,427)
Motor sports	1,450,819	1,440,085	10,734
Spectator facilities	<u>9,391,042</u>	<u>7,461,866</u>	<u>1,929,176</u>
Total expenses	<u>267,145,207</u>	<u>233,927,169</u>	<u>33,218,038</u>
Revenues over (under) expenses	49,868,095	76,220,992	(26,352,897)
Transfers	<u>(3,930,251)</u>	<u>(3,379,035)</u>	<u>(551,216)</u>
Change in net assets	45,937,844	72,841,957	(26,904,113)
Net assets -- beginning	<u>1,237,092,953</u>	<u>1,164,250,996</u>	<u>72,841,957</u>
Net assets -- ending	<u>\$ 1,283,030,797</u>	<u>\$ 1,237,092,953</u>	<u>\$ 45,937,844</u>

Table 2-C
City of Portland, Oregon
Summary of Changes in Net Assets
For Years as Stated

	Total Net Assets		
	FY 2004-05	FY 2003-04	Change
Revenues			
<i>Program revenues:</i>			
Charges for services	\$ 696,636,780	\$ 652,089,035	\$ 44,547,745
Operating grants and contributions	55,736,245	40,753,411	14,982,834
Capital grants and contributions	4,577,613	7,531,138	(2,953,525)
<i>General revenues:</i>			
Property taxes	320,933,919	314,666,579	6,267,340
Lodging taxes	14,170,141	13,324,822	845,319
Investment earnings	14,469,404	5,414,403	9,055,001
Gain (loss) on sale of capital assets	-	(5,220,885)	5,220,885
Loss - sale of property held for resale	-	2,404,881	(2,404,881)
Total revenues	1,106,524,102	1,030,963,384	75,560,718
Expenses			
Public safety	367,555,695	323,540,069	44,015,626
Parks, recreation and culture	53,128,816	52,785,697	343,119
Community development	114,225,541	82,717,602	31,507,939
Transportation	220,406,789	215,372,390	5,034,399
Legislative/Admin/Support services	122,993,533	103,897,971	19,095,562
Interest on long-term debt	39,790,431	46,218,942	(6,428,511)
Environmental services	161,920,527	131,818,242	30,102,285
Water	78,010,156	77,212,445	797,711
Hydroelectric power	2,845,958	3,088,163	(242,205)
Parking	7,780,324	7,029,560	750,764
Golf	5,746,381	5,876,808	(130,427)
Motor sports	1,450,819	1,440,085	10,734
Spectator facilities	9,391,042	7,461,866	1,929,176
Total expenses	1,185,246,012	1,058,459,840	126,786,172
Revenues over (under) expenses	(78,721,910)	(27,496,456)	(51,225,454)
Transfers	(1,238,946)	-	(1,238,946)
Change in net assets	(79,960,856)	(27,496,456)	(52,464,400)
Net assets -- beginning	2,787,389,532	2,802,706,738	(15,317,206)
Prior period adjustment		12,179,250	
Net assets -- beginning, as restated		2,814,885,988	
Net assets -- ending	\$ 2,707,428,676	\$ 2,787,389,532	\$ (52,464,400)

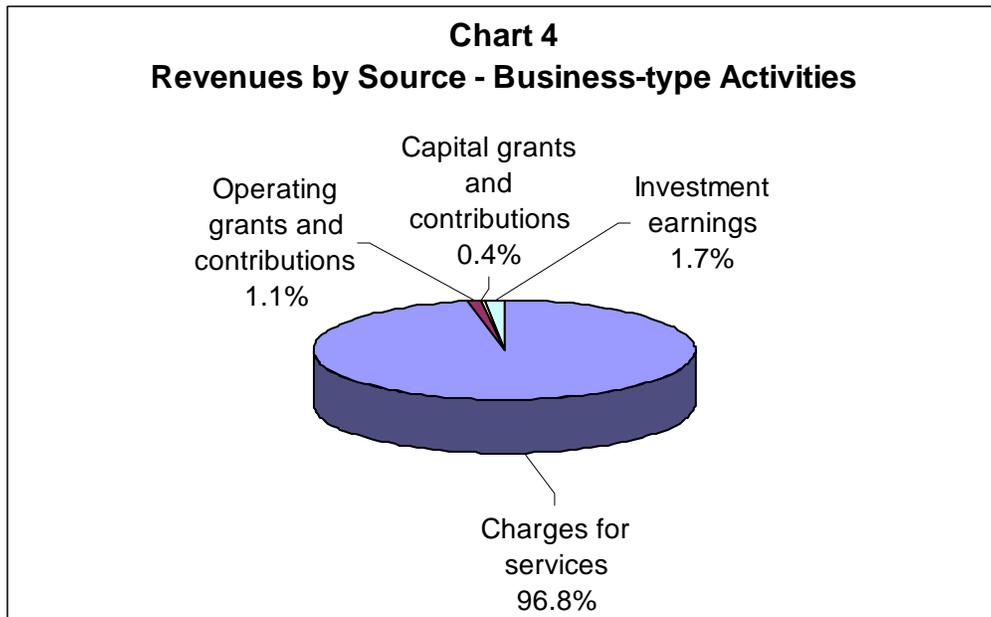
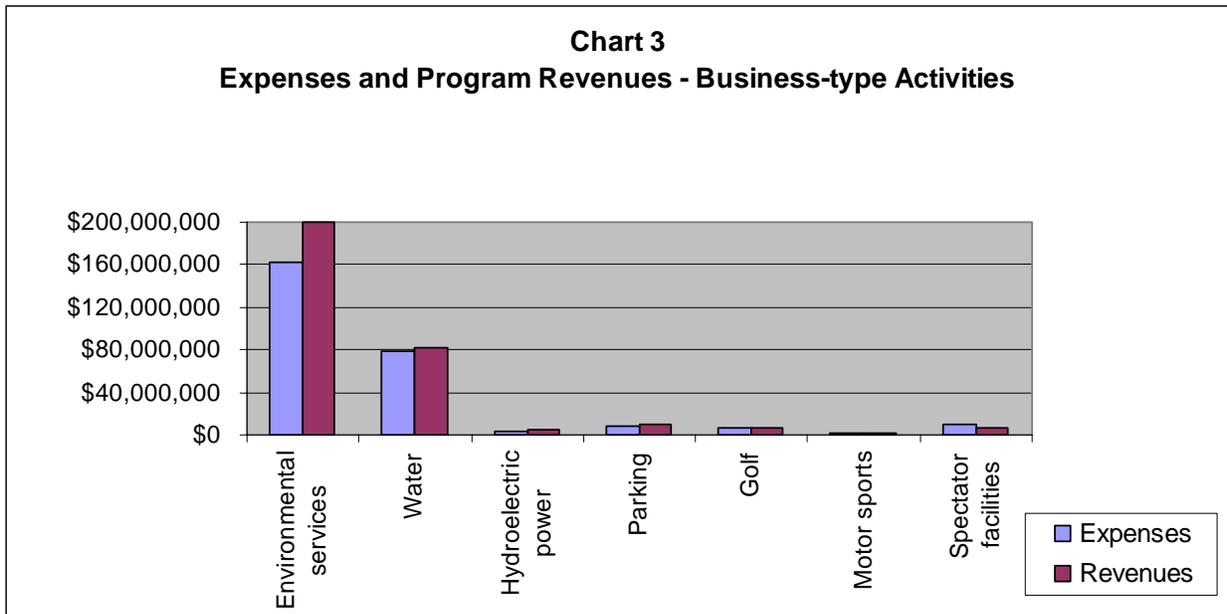
Governmental activities. Governmental activities reduced the City's net assets by \$113,719,450. The key factors giving rise to this decrease were the increase in the pension trust obligation liability of \$67,767,544, and depreciation expense which totaled \$154,936,675 but is not funded as incurred by the City. Transportation system infrastructure and equipment accounted for \$138,488,605 of the governmental depreciation expense.

The following charts provide a visual representation of the expenses and revenues for governmental activities for FY2004-05. For the most part, increases in expenses closely paralleled inflation and growth in the demand for services.



Business-type activities. Business-type activities increased the City's net assets by \$45,937,844. Key factors in this increase were revenue increases of \$14,800,266 from Sewer rate increases, increased Sewer expenses of \$30,102,385 primarily due to higher bond interest expense from new debt issued to support the Combined Sewer Overflow project and a decrease in Water revenues of \$10,244,550 due to reduced water and permit sales and the elimination of revenues related to the transfer of utility billing customer services staff from the Water Bureau to the Office of Management and Finance.

The following graphs provide a visual representation of the expenses and revenues for business-type activities for the current fiscal year.



FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

A. Governmental funds

The focus of the City's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the City's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$218,427,109, an increase of \$48,851,954 as shown on page 35. Of the combined ending fund balances, \$184,699,982 or 84.6 percent constitutes *unreserved fund balance*, which is available for spending at the government's discretion, subject to Council-approved policies, in the appropriate fund type as shown on page 33. The remainder of fund balance is *reserved* to indicate that it is not available for new spending because it has already been committed 1) as parks endowments \$161,843, 2) for petty cash purposes \$61,742, 3) as inventory used mainly for repair and maintenance of the City's transportation system \$2,057,083, 4) as property held for resale \$1,510,000, and 5) to pay for future debt service payments \$29,936,459.

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, *total fund balance* was \$93,942,572, of which \$93,496,556 was unreserved as shown on page 33. The primary difference between unreserved fund balance and total fund balance is a reserve for inventories. As a measure of the General Fund's liquidity, it may be useful to compare fund balance to total fund expenditures. Fund balance represents 22.1 percent of total General Fund expenditures.

The fund balance of the City's General Fund increased by \$25,906,422 during FY2004-05. \$13.7 million of the increase resulted from current year activity, and balance was the prior period adjustment of \$12.2 million. For details concerning the prior period adjustment, see note I.D.14 of the basic financial statements. The key factor in the growth from current year activity was business license revenues which increased \$8 million during FY2004-05.

The Transportation Operating Fund had a *total fund balance* of \$17,099,641, of which \$15,433,232 was unreserved as shown on page 33. The primary difference between the unreserved fund balance and the total fund balance is a reserve for inventories. Fund Balance represents 13 percent of total Transportation Operating Fund expenditures.

The fund balance of the Transportation Operating Fund decreased by \$5,939,540 during FY2004-05. Key factors in this decrease were delays in major construction projects including the Marquam Hill Tram and Phase II of the Streetcar.

See pages 99-122 for greater detail on Combining Statements for governmental funds.

B. Proprietary funds

The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail as shown on pages 37-41.

Unrestricted net assets of the Sewage Disposal Fund and the Water Fund at the end of the year amounted to \$54,083,723 and \$37,929,431, respectively. The total growth in net assets for the Sewage Disposal Fund and the Water Fund was \$37,603,508 and \$4,286,257, respectively.

The unrestricted net assets for other enterprise funds totaled \$19,592,564, while the change in net assets for other enterprise funds equaled \$4,048,079. Other factors concerning the finances of these funds have already been addressed in the discussion of the City's business-type activities.

GENERAL FUND BUDGETARY HIGHLIGHTS

Differences between the original budget and the final amended budget totaled approximately \$41,569,373 and can be briefly summarized as follows:

- \$7,502,053 increase in personal services. This budgetary increase resulted primarily from the City's Budget Monitoring Process (BMP) and included \$2 million for the Police Bureau for an interest arbitration settlement with the Portland Police Commanding Officers Association, \$1.1 million for various new Police Bureau grants and \$2.8 million to transfer utility billing customer services staff from the Water Bureau to the Office of Management and Finance along with other less significant increases in personal services in other bureaus.
- \$32,188,934 increase in materials and services. This budgetary increase resulted primarily from the City's BMP and included \$16.8 million in carryover of unused security related grants in the Police, Fire and Emergency Management Bureaus, \$11.9 million in carryover of unused housing related grants to the Bureau of Housing and Community Development, and \$2.1 million in carryover of levy funds for the Parks Bureau along with other less significant increases in materials and services in other bureaus.
- \$6,574,901 increase in capital outlay. This budgetary increase resulted primarily from the City's BMP and included \$445,589 related to the purchase of a new water and sewer billing system by the Office of Management and Finance, a \$5 million carryover of unused grants appropriations in the Police and Fire Bureaus, and \$1 million carryover for equipment ordered but not yet received by the Fire Bureau.
- \$5,055,669 decrease in general operating contingencies. This budgetary decrease resulted primarily from the transfer of budget capacity from contingency to General Fund bureaus for encumbrance carryovers from the prior year.
- \$359,154 increase in debt service. This budgetary increase resulted primarily from new debt for the Parks Bureau to support maintenance on the Willamette River Greenway Trail.

There were no significant variances between the final amended budget and actual revenues. Actual expenditures were approximately \$45,633,405 less than the final amended budget, primarily due to underexpenditures in materials and supplies totaling over \$31 million. These under-expenditures were primarily due to:

- \$17.7 million in multi-year grant expenditures in the Police Bureau, Fire Bureau, Bureau of Emergency Management, Office of Sustainable Development and Bureau of Housing and Community Development that were carried forward to FY2005-06.
- \$1.7 million underexpended in the Parks Bureau due to reduced spending during a major bureau reorganization.
- \$8.5 million underexpended in the compensation set aside due to cost of living increases below original estimates which resulted from lower than expected inflation rates.

Local budget law (ORS 294.100 and 294.435(4)) requires local governments to stay within the appropriations set for the fiscal year. During FY2004-05, General Fund revenues exceeded budgetary estimates and expenditures by \$22,156,730, thus eliminating the need to draw upon existing fund balance. Major factors attributing to this favorable net change are as follows:

- Total revenues of \$355,152,529 were \$8.7 million over budgeted revenues, primarily due to business license revenues which came in \$13.2 million over budget and more than compensated for other revenues that did not meet budget projections.

- Total expenditures of \$351,928,883 were \$45.6 million below budget as discussed above.
- Other financing sources and uses of \$6,753,834 were \$18.5 million below budget due to grant revenues which were outstanding at year end.

CAPITAL ASSETS AND DEBT ADMINISTRATION

A. Capital assets

The City's investment in capital assets for its governmental and business type activities as of June 30, 2005, amounts to \$4,892,671,369 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements to land, machinery and equipment, infrastructure, capitalized leases, and construction in progress. The total increase in the City's investment in capital assets for the current fiscal year was \$92,690,814 or 1.9 percent (a 2.6 percent decrease for governmental activities and a 7.2 percent increase for business-type activities).

Major capital asset events during the current fiscal year included the following:

- Governmental land increased \$12,690,944 but this and other increases were overshadowed by the decrease of \$95,694,136 in infrastructure. The increase in governmental land was primarily due to the purchase of the Washington Monroe High School Site by the Parks Bureau, purchase of land to expand the Sunderland Yard Recycling Center and transportation purchases related to the 82nd East End Connector project. . The decrease in governmental infrastructure was due to depreciation expenses in excess of new construction.
- Business activities construction in progress increased \$122,555,129 and infrastructure increased \$38,481,480. Sewer projects accounted for almost the entire increase in construction in progress primarily due to the Westside Combined Sewer Overflow project. The increase in infrastructure was due primarily to progress on the Combined Sewer Overflow project and to new water main and service installations and ground water improvements by the Water Bureau.

The following table provides comparative information on the City's capital assets for FY2004-05 and FY2003-04.

Table 3
City of Portland, Oregon
Capital Assets, Net of Depreciation
For Years as Stated

Governmental Activities			
Asset Category	FY 2004-05	FY 2003-04	Change (\$)
Land	\$ 80,259,784	\$ 67,568,840	\$ 12,690,944
Construction in progress	53,859,898	45,876,646	7,983,252
Buildings	194,122,622	189,261,477	4,861,145
Improvements to land	72,978,738	77,339,419	(4,360,681)
Equipment	61,402,144	53,659,272	7,742,872
Infrastructure	2,044,764,919	2,140,459,055	(95,694,136)
Capital leases	1,196,214	1,176,828	19,386
Total	\$ 2,508,584,319	\$ 2,575,341,537	\$ (66,757,218)

Business-type Activities			
Asset Category	FY 2004-05	FY 2003-04	Change (\$)
Land	\$ 72,653,393	71,257,639	1,395,754
Construction in progress	453,670,363	331,115,234	122,555,129
Buildings	121,726,462	125,158,670	(3,432,208)
Improvements to land	16,651,809	17,073,216	(421,407)
Equipment	22,789,304	21,909,669	879,635
Infrastructure	1,693,061,000	1,654,579,520	38,481,480
Capital leases	3,534,719	3,545,070	(10,351)
Total	\$ 2,384,087,050	\$ 2,224,639,018	\$ 159,448,032

Total Net Capital Assets			
Asset Category	FY 2004-05	FY 2003-04	Change (\$)
Land	\$ 152,913,177	\$ 138,826,479	\$ 14,086,698
Construction in progress	507,530,261	376,991,880	130,538,381
Buildings	315,849,084	314,420,147	1,428,937
Improvements to land	89,630,547	94,412,635	(4,782,088)
Equipment	84,191,448	75,568,941	8,622,507
Infrastructure	3,737,825,919	3,795,038,575	(57,212,656)
Capital leases	4,730,933	4,721,898	9,035
Total	\$ 4,892,671,369	\$ 4,799,980,555	\$ 92,690,814

Additional information on the City's capital assets can be found in note III.D on pages 60-62 of this report. See additional capital lease details in note III.F on pages 64-65.

B. Debt administration

As of June 30, 2005, the City had total bonded debt outstanding of \$2,165,905,387. Unamortized premiums and discounts for governmental activities net to \$7,667,023, while premiums, discounts and loss on refunding for business type activities net to \$39,331,164. Of the total bonded debt outstanding, \$78,762,155 is general obligation debt, which is backed by the full faith and credit and unlimited taxing power of the City, a decrease of \$6,322,244 from FY2003-04. This reduction was primarily due to scheduled principal payments on outstanding bonds. A significant portion of the general obligation debt for business type activities is funded by water revenues; the balance is funded by property taxes.

The City has \$582,761,232 of limited tax revenue bonds outstanding, a decrease of \$13,700,000 from FY2003-04. These bonds are secured by the full faith and credit of the City and have been issued for a variety of purposes ranging from funding pension liabilities to funding renovations to City Hall and the expansion of the Oregon Convention Center. This reduction was primarily due to a refunding of outstanding Oregon Arena bonds and to scheduled principal payments on other outstanding bonds which together total \$64.0 million. These decreases were offset by new issues totaling \$50.3 million. The new bonds issued during FY2004-05 were used to fund affordable housing projects and to issue new bonds at a lower rate to replace the Oregon Arena project refunded bonds. While these bonds are secured by the full faith and credit of the City, a significant portion of these bonds will be repaid from specific revenue sources.

An additional \$295,645,000 of the City's outstanding debt consists of urban renewal bonds that are repaid from tax increment revenues generated from the City's various urban renewal areas. This increase of \$22,570,000 from FY2003-04 resulted from \$32.3 million in new issues that were partially offset by scheduled principal payments on outstanding bonds. New bonds issued during FY2004-05 were used to fund transportation improvements to the Interstate Corridor and other improvements related to the Interstate Max.

The City had approximately \$19,355,000 of outstanding special assessment bonds as of June 30, 2005, a decrease of \$4,415,000 from FY2003-04. This reduction was due to scheduled principal payments and early bond calls on outstanding bonds due to collections on special assessments which exceeded debt service requirements.

The remainder of the City's debt are revenue bonds, totaling approximately \$1,189,382,000, an increase of \$109,156,898 over FY2003-04. Revenue bonds are secured solely by specified revenue sources such as water, sewer, parking, golf and gas tax revenues. Proceeds from new bonds issued during FY2004-05 will be used primarily to fund capital improvements related to the Combined Sewer Overflow project.

The following table provides comparative information on the City's outstanding debt, not including unamortized premium and discounts on bonds:

**Table 4
City of Portland, Oregon
Outstanding Bonded Debt
For Years as Stated**

Governmental Activities			
	FY 2004-05	FY 2003-04	Variance
General Obligation Bonds	\$ 71,220,000	\$ 75,460,000	\$ (4,240,000)
Limited Tax Improvement Bonds	19,355,000	23,770,000	(4,415,000)
Urban Renewal Bonds	295,645,000	273,075,000	22,570,000
Limited Tax Revenue Bonds	425,870,215	448,630,215	(22,760,000)
Revenue Bonds	6,935,000	7,120,000	(185,000)
Total	819,025,215	828,055,215	(9,030,000)
Business-type Activities			
General Obligation Bonds	7,542,155	9,624,399	(2,082,244)
Limited Tax Revenue Bonds	156,891,017	147,831,017	9,060,000
Revenue Bonds	1,182,447,000	1,073,105,102	109,341,898
Total	1,346,880,172	1,230,560,518	116,319,654
Total Outstanding Debt			
General Obligation Bonds	78,762,155	85,084,399	(6,322,244)
Special Assessment	19,355,000	23,770,000	(4,415,000)
Urban Renewal Bonds	295,645,000	273,075,000	22,570,000
Limited Tax Revenue Bonds	582,761,232	596,461,232	(13,700,000)
Revenue Bonds	1,189,382,000	1,080,225,102	109,156,898
Total	\$ 2,165,905,387	\$ 2,058,615,733	\$ 107,289,654

The City's total debt increased by \$107,289,654 (5.2 percent) during the FY2004-05. Debt for governmental activities decreased by \$9,030,000, while debt for business-type activities increased by \$116,319,654. The primary reason for the decrease in debt relating to governmental activities was scheduled principal payments on outstanding bonds while the primary reason for the increase in debt relating to business type activities was new revenue bond issues.

Other factors impacting the City's debt management program are as follows:

- **Debt limitation.** Oregon Revised Statutes provides a limit on non-self-supporting general obligation debt of 3 percent of the real market value of all taxable property within the City's boundaries. Based on the City's FY2004-05 real market value, this debt limitation is \$1,765,507,146. The amount of outstanding City debt subject to this limitation is \$71,220,000.
- **Debt ratings.** The City's unlimited tax general obligation debt is rated "Aaa" by Moody's Investors Service. This rating was confirmed in February 2005. The various credit ratings of City debt are listed below, which are unchanged from the prior year (rating shown is from Moody's Investors Service unless indicated otherwise):

Management's Discussion and Analysis, Continued

Type of Debt	Rating
Unlimited Tax G.O. Bonds	Aaa
Water Revenue Bonds	Aa1
Limited Tax Revenue Bonds	Aa2
Limited Tax Improvement Bonds	Aa2
Limited Tax Pension Obligation Revenue Bonds	Aa2
Limited Tax Housing Revenue Bonds	Aa2
Gas Tax Revenue Bonds	Aa3
Sewer Revenue Bonds	A1 / A+ (S&P)
Second Lien Sewer Revenue Bonds	A1 / A+ (S&P)
Parking Revenue Bonds	A1
Arena Gas Tax Revenue Bonds	A1
Airport Way Urban Renewal Bonds	A1
Convention Center Urban Renewal Bonds	A1
Downtown Waterfront Urban Renewal Bonds	A1
South Park Blocks Urban Renewal Bonds	A1
River District Urban Renewal Bonds	A3
Interstate Corridor Urban Renewal Bonds	A3
Hydroelectric Revenue Bonds (PGE)	Baa2 / BBB+ (S&P)

Debt Ratios. The City's debt ratios, as of June 30, 2005, are shown below:

	Amount	Per Capita	Real Market Valuation	Assessed Valuation
Population July 1, 2004	550,560	--	--	
2004-05 Real Market Value	\$58,850,238,187	\$106,892	--	
2004-05 Assessed Value	\$36,126,155,540	\$65,617		
Gross Bonded Debt (1)	\$731,731,904	\$1,329	1.24%	2.03%
Net Direct Debt (2)	\$71,220,000	\$129	0.12%	0.20%
Net Overlapping Debt	\$281,774,914	\$512	0.48%	0.78%
Net Direct and Overlapping Deb	\$352,994,914	\$641	0.60%	0.98%

(1) Includes City's outstanding general obligation bonds, full faith and credit obligations, limited tax revenue bonds, limited tax improvement bonds, and urban renewal bonds.

(2) Includes all general obligation bonds paid from a separate, unlimited ad valorem tax.

Additional information on the City of Portland's long-term debt can be found in note III.G. on pages 67-77 of this report.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City of Portland's Accounting Division, Bureau of Financial Services, 1120 SW Fifth Avenue, Suite 1250, Portland, Oregon 97204.