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Office of Management & Finance Current 5-Year Financial Forecast General Fund-City Of Portland

As Of.... 26-Jun-2006 Previous Forecast....... 13-Mar-2006

Adopted Budget Forecast Shows Very Small Year 5th

GAP -- Adopted Budget Balanced Without Cuts

ltem	March 13th Forecast	Adopted Budget	Difference vs. March 13th			
	1 Olccast	Baaget	vs. march four			
Council Discretionary						
Available FY2006-07	\$327,800,992	\$333,900,490	\$6,099,498			
Requirements:						
Capital Set-Aside	\$1,915,000	\$1,260,000	(\$655,000)			
Council Set-Asides	\$28,837,308	\$34,830,217	\$5,992,909			
One-Time Budgets	\$260,639	\$22,384,664	\$22,124,025			
Bureaus & Programs	\$276,364,171	\$275,425,609	(\$938,562)			
CAL Requirements	\$307,377,118	\$333,900,490	\$26,523,373			
Resources Less CAL	\$20,423,874	\$0	(\$20,423,874)			
Programs FY06-07	(\$2,500,000)	\$0	\$2,500,000			
Available One-Time	\$22,923,874	\$0	(\$22,923,874)			
Programs FY07-08	(\$2,500,000)	\$0	\$2,500,000			
Available One-Time	\$11,192,673	\$8,253,738	(\$2,938,935)			

Adopted Budget Balanced On Bureau CAL Requirements

- ◆ Council's Adopted Budget balances the General Fund at bureau current appropriation levels of \$275.4 million. This was made possible by a revised health benefits cost forecast that unexpectedly reduced the the FY2006-07 increase in health benefits costs. Expected out-year health benefits costs increases are also lower. This allows the General Fund to balance on current service levels and ends five consecutive years of budget cutting. Council's Adopted Budget allocates about \$22.2 million of one-time funds with about \$10 million earmarked for Portland's K-12 schools.
- ◆ This forecast now shows that the out-year gaps between resources and requirements have faded away because of better revenue growth due to local area economic expansion and lower health benefits cost increases. There remains a small fifth year gap of about \$2.9 million (0.8% of forecast CAL). Given this small difference, OMF believes that the General Fund is balanced for the life of the five-year forecast.

Current Outlook Regional, State Economies Continue To Expand

Both the state and region grew briskly throughout calendar 2005 and into the first quarter of calendar 2006. The U.S. economy, although slowed by rising energy prices and two devastating hurricanes, continues on a growth path that creates jobs at a pretty fair clip, lowering unemployment rates. Both Oregon and the regional economy have surpassed the previous cycle's employment peaks and entered and expansion phase. Cyclical revenues will continue to follow suit.

Health Benefits Costs

This five-year financial forecast is predicated on a revised health-care cost sharing assumption in which the City's share of health-care premium's is set at 95% for the life of the forecast. The City's health benefits consultant also revised projected healthcare cost increases downward significantly when compared to previous forecasts. These lower increase estimates helped to significantly improve financial forecast out-year CAL requirements.

	M50 Assess. Value \$1000 \$38,175,070	State Cigarette & Liquor	
	FY2006-07 M50 Tax Base\$174,727,297	Tax Revenues To City\$	310,199,408
	M50 Compression Loss (\$5,591,274)	CPI-W Increase (2nd Half '04	
Some	Est. Tax Base Imposed\$169,136,024	To 2nd Half '05, for COLAs)	2.8%
Key	Delinquency/Discount(%)5.5%	Measure 50 FPD&R Levy\$	86,550,496
Forecast	Delinquency/Discount (\$) (\$9,217,913)	Beginning General Fund	
Assump-	FY07 Tax Base Revenues \$159,918,111	FY2006-07 Balance\$	319,314,473
tions	County M50 Levy\$199,662,829	Estimated Urban Renewal Di-	
	Library-Local Option \$34,706,782	vide-The-Taxes (11 Districts) \$	61,863,490
	Total-County Levies\$234,369,611	Current Forecast: FY2006-07 to F	Y2010-11

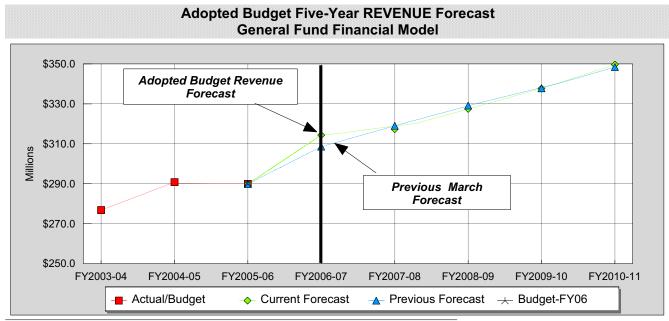


Figure 1-Current General Fund 5-Year Revenue Forecast

A key forecast assumption is a national economy that continues to expand at moderate rates, as well as a growing regional economy. The metro area's economy is finally surpassing previous peak employment levels and appears to have entered the expansion phase of this cycle for the coming months.

Figure 1 summarizes the 5-year revenue forecast off of the FY2005-06 base. Revenue growth remains critically dependent on assessed value growth. Revenue growth is forecast to average 3.4 percent over the next five years reflecting improved regional economic performance over the next couple of years. This means that cyclical revenues, transient lodging taxes and business license revenues, will grow at higher rates consistent with an expanding economy.

Adopted Budget FY2006-07 General Fund current allocation level (CAL) costs are \$275.4 million, versus March's \$276.4 million forecast. Budgeted CAL targets are essentially unchanged compared to last March. CAL targets incorporate about \$5.2 million of expected FY2006-07 "95/5" health benefits cost increases directly into bureau CAL targets. Similarly, about \$1.2 million of PERS cost increases are included in bureau targets. Increased labor contract costs for (*) Not applicable to sworn Police personnel. both for Police and Fire added another \$4.5 million

Estimated Current Allocation L	evel Forecast
Assumptions	FY2006-07
FY2006-07 Bureau CAL Targets	
Spring CAL Targets Forecast	\$276,364,171
Adopted Budget CAL Targets	\$275,425,609
Difference In CAL Forecasts	(\$938,562)
General Inflation Rates	
GDP Price Deflator	2.8%
CPI-W% (Dec.'04-Dec.'05)	2.8%
Benefits CAP Escalation.(*)	5.8%
Producer Price Index	2.3%
CPI-Energy	2.5%
External M&S	
General-Overall	2.7%
Energy-Electricity	4.0%
Energy-Gas	18.0%
Sewer	8.9%
Water	4.0%
Utilities-Overall	8.3%
Internal M&S	
General-Overall	2.7%
Risk/Workers' Comp	3.2%
Wage & Salary % Increase	•
Public Safety	2.8%
All Other	2.8%

to CAL targets last December with about \$2.2 million of this increase resulting from a "true-up" of actual experience with Police (sworn personnel) "95/5" health benefits cost sharing. Actual experience for this labor unit has come in well above initial cost estimates. Otherwise, the forecast is based on an expected 2.8 percent COLA that reflects Bureau of Labor Statistics published Portland CPI-W data.

Forecast Council Set-Asides					
Forecast FY2006-07					
Set-Aside Item	March	Budget			
Compensation	\$4,559,943	\$4,559,943			
ESA Planning(*)	\$369,342	\$0			
Street Light O&M	\$4,867,727	\$4,876,282			
Gen. Fund Contingency	\$3,200,000	\$4,804,805			
Unforeseen & Inventory	\$2,000,000	\$2,000,000			
Subtotal-Contingency	\$5,200,000	\$6,804,805			
Capital Set-Aside	\$1,915,000	\$1,260,000			
Transfer To PDOT	\$0	\$715,000			
ESA Set-Aside/BES	\$341,900	\$345,488			
Voter Owned Elections.	\$447,526	\$280,368			
City Hall Debt Service	\$2,420,700	\$2,420,700			
POBS Debt Service	\$7,307,031	\$7,307,031			
Other Debt Service	\$1,665,000	\$1,665,000			
Healthcare to "95/5"(*).	\$0	\$0			
City Hall Maint. Reserve	\$294,310	\$294,310			
Housing Trust Fund	\$495,622	\$928,122			
Park-CAL/Maint	\$448,622	\$795,204			
Environ. Remediation	\$0	\$500,000			
Trans. General Reserve	\$0	\$0			
Unused Line	\$0	\$0			
Transfer Hous. Invest	\$0	\$2,400,000			
Miscellaneous Transfer	\$419,586	\$937,961			
Adopted Budget					
Council Set-Asides	\$30,752,308	\$36,090,214			
Difference versus Prev	ious Forecast	\$5,337,906			

^(*) Moved into bureau CAL targets.

COUNCIL set-asides, FY2006-07, as found in Council's Adopted Budget are as summarized in in the table to the right:

- The compensation set-aside remains at \$4.6 million, down \$1.6 million compared with the original December estimate. It includes wage and salary increases. Estimated FY2006-07 healthcare cost increases are included in bureau CAL targets. The "comp" set-aside was estimated using the actual December to December CPI-W (Portland-Salem) 2.8 percent increase.
- The capital set-aside (net of related debt service requirements) is set at \$1.3 million net of \$1 million for equipment included in Fire's CAL target. Capital related "Other Debt Service" totals about \$1.67 million for FY2006-07 and now includes \$757,000 of debt service on new affordable housing projects.
- Council's Adopted Budget includes \$500,000 of "seed money" for environmental remediation efforts.
- The transfer to the Housing Trust Fund is increased from \$495,622 (last March) to an Adopted Budget amount of \$928,122. In addition, Council's Adopted Budget includes a new \$2.4 million one-time housing related set-aside.

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

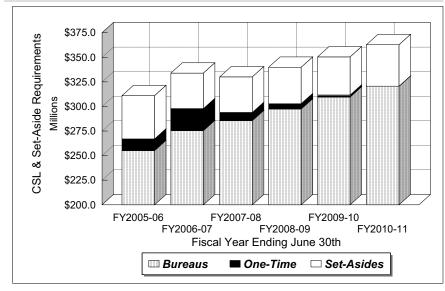


Figure 2-Current Service Level (CAL) Requirements

Other set-asides in Council's current financial plan are Pension Obligation Bond debt service costs of about \$7.31 million as estimated by Debt Management.

This financial forecast includes a contingency totaling \$4.8 mil-

lion. This amount is composed of a general contingency of \$1.4 million with \$1.6 million earmarkfor Police. The rest of the contingency is earmarked for various other projects.

Set-asides are up net by about \$5.4 million in this forecast. This results, for the most part, from a \$2.4 million one-time housing related transfer and the \$1.6 million increase in contingency.

The table below combines the FY2006-07 resource forecast with Adopted Budget CAL targets

Sources & Uses of Funds: FY2006-07					
	Budget	FY2006-07			
Item	FY2005-06	Budget			
FUND Revenues	\$289,930,293	\$314,586,017			
Beginning Balance	\$21,005,245	\$19,314,473			
FUND RESOURCES	\$310,935,538	\$333,900,490			
Less: Council Set-Aside	(\$42,171,887)	(\$34,830,217)			
Less: Capital Set-Aside.		(\$1,260,000)			
EQUALS: AVAILABLE 1	О				
BUREAUS-PROGRAM	\$266,974,329	\$297,810,273			
Reauired Bureaus CAL.	\$266,974,329	\$297,810,273			
GAP/DIFFERENCE	\$0	\$0			
AVAILABLE On-Going FY2006-07\$					
New One-TimeFY2006-07 \$0					

for FY2006-07. Adopted Budget discretionary resources total \$333.9 million. Deducting set-asides of \$36.1 million leaves \$297.8 million against Adopted Budget bureau CAL targets and one-time budgets of about \$297.8 million. Council's Adopted Budget is balanced without the need for further on-going reductions. In addition, OMF now estimates that the discretionary side of the General Fund is balanced for this five-year financial planning period, given crucial cost escalation assumptions for healthcare costs. The forecast anticipates no CAL reductions will be required for the FY2007-08 budget process and projects about \$8.5 million one-time available, FY2007-08.

The out-years of the financial forecast continue to improve so that large out-year deficits are gone, and replaced with a relatively small (less than 1 percent) deficit forecast for only FY2010-11. Increased resources and lower personal services costs have combined to improve the financial outlook:

- The previous March forecast showed that balancing the General Fund required \$2.5 million in CAL reductions in each of the next two budget cycles. The current forecast shows that out-year gaps are mostly gone, with only an estimated year five gap of \$2.9 million (see page 7).
- OMF believes that Council's Adopted Budget decisions balance the General Fund for the life of this five-year forecast. No CAL reductions are anticipated at this time for the FY2007-08 budget cycle.

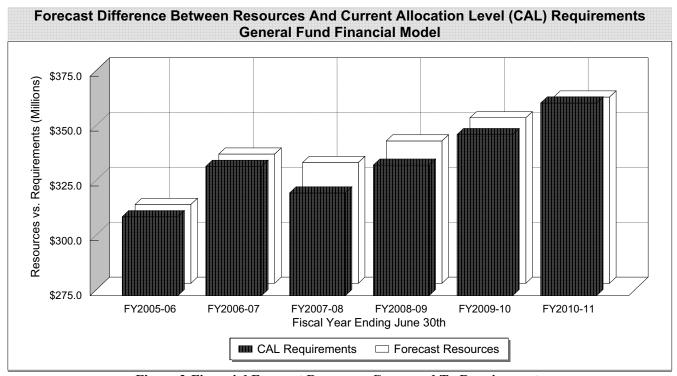


Figure 3-Financial Forecast Resources Compared To Requirements

2-YEAR FINANCIAL FORECAST RESOURCES & REQUIREMENTS DETAIL

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

- Resources total \$663.958 million for two-years ending FY2007-08.
- Requirements are currently estimated at \$655.705 million over twoyears with one-time available to Council for FY2007-08.
- The General Fund is balanced for the life of the forecast with an estimated \$8.3 million available one-time FY2007-08.

	Resources & Requirements Summary Next Two Years				
	Budget	Budget	Forecast	Two-Year Total	
	FY2005-06	FY2006-07	FY2007-08	Total	
Item-Category ▼Resources →	\$310,935,538	\$333,900,490	\$330,058,428	\$663,958,918	
Less: Assumed Set-Asides					
TANS Interest Expense		\$0	\$0	\$0	
Compensation Set-Aside	\$6,670,526	\$4,559,943	\$7,933,628	\$12,493,571	
Other Set-Asides					
Contingency	. \$3,759,326	\$4,804,805	\$3,200,000	\$8,004,805	
Unforeseen Reimbursable		\$2,000,000	\$2,000,000	\$4,000,000	
Subtotal-Contingency	\$5,759,326	\$6,804,805	\$5,200,000	\$12,004,805	
Capital Set-Aside		\$1,260,000	\$1,915,000	\$3,175,000	
PERS Debt Service	' ' '	\$7,307,031	\$8,486,412	\$15,793,443	
Other General Fund Debt Service	. , ,	\$1,665,000	\$1,664,625	\$3,329,625	
City Hall/Precincts-Debt Service		\$2,420,700	\$2,419,250	\$4,839,950	
Street Light O&M Transfer		\$4,876,282	\$5,103,456	\$9,979,738	
Transfer To General Reserve	' ' '	\$0	\$589,936	\$589,936	
ESA Set-Aside (BES)		\$345,488	\$355,205	\$700,693	
1900 Building Offset	. \$475,000	\$0	\$0	\$0	
PERS Increase		\$0	\$0	\$0	
City Hall Maintenance Reserve	1	\$294,310	\$294,310	\$588,620	
ESA ('06)/ PDOT Transfer ('07)		\$715,000	\$0	\$715,000	
Voter Elections	•	\$280,368	\$280,368	\$560,736	
City PFFA Contract Set-Aside	\$1,868,638	\$0	\$0	\$0	
Housing Transfer		\$2,400,000	\$0	\$2,400,000	
Housing Trust Fund		\$928,122	\$954,226	\$1,882,348	
Parks On-Going Maintenance	1	\$795,204	\$461,240	\$1,256,443	
Public Safety Fund		\$0	\$0	\$0	
Parks ('06)/Env. Remediation ('07)		\$500,000	\$0	\$500,000	
BIT & Miscellaneous Transfers	\$516,957	\$937,961	\$533,569	\$1,471,530	
Subtotal, Assumed Set-Asides		\$36,090,214	\$36,191,224	\$72,281,438	
Bureau Requirements & One-Time		\$297,810,281	\$285,613,467	\$583,423,748	
Total Requirements	\$310,935,538	\$333,900,490	\$321,804,691	\$655,705,186	
Resources less Requirements					
Equals Excess(+)/CAL Gap(-)		\$0	\$8,253,737	* -	
on going Program Reductions		\$0	\$0	\$0	
Available One-Time	. \$0	\$0	\$8,253,738	\$8,253,738	

FY2006-07 Through FY2010-11 Financial Plan Summary

The five-year financial forecast shows that the General Fund faces a small resources-requirements gap of about \$2.9 million in the last year of the forecast, FY2010-11. Resources are sufficient to fund existing service levels through to FY2009-10. In FY2009-10 a small positive gap exists and is currently estimated at \$2.1 million. This works out to minuscule percentage of FY2009-10 resources and/or bureau requirements. The deficit in the fifth year of this forecast is estimated at only \$2.9 million which is less than 1 percent of FY2010-11 resources and well within the expected accuracy of out-year forecasts. A growing economy and lower than personal services related cost increases have significantly reduced the gap.

	Budget	Forecast	Financial Forecast Out-Years			
Item	2007	2008	2009	2010	2011	
Resources	\$333,900,490	\$330,058,428	\$339,862,782	\$350,426,786	\$359,868,531	
Requirements	ļ					
Bureau Requirements.	\$275,425,612	\$285,613,467	\$297,443,692	\$309,638,804	\$320,637,809	
One-Time Budgets			\$0	\$0	\$0	
Council Set-Asides	\$36,090,214	\$36,191,224	\$37,002,804	\$38,746,783	\$42,170,891	
GAP-Surplus(Deficit)	\$0	\$8,253,737	\$5,416,286	\$2,041,199	(\$2,940,170)	

Out-Year Detail Of Adopted Budget & 5-Year Financial Plan

The financial forecast shows that the General Fund's Adopted Budget is balanced in the current budget cycle without significant CAL reductions for FY2006-07. Council's Adopted Budget and five-year financial plan stabilizes the General Fund at bureau current appropriation levels (CAL) over the life of this five-year forecast horizon: Council's Adopted Budget balances the General Fund for the life of the forecast. Resource estimates, particularly business licenses, will show further improvement next fall. In the next cycle, and next budget process Council will likely have both on-going and one-time money available for allocation in fashioning a budget for FY2007-08 and a financial plan for the five-year period ending FY2011-12.

	Budget	Forecast	Financial Plan Out-Years			
Item	2007	2008	2009	2010	2011	
Total Resources	\$332,855,923	\$330,058,428	\$339,862,782	\$350,426,786	\$359,868,531	
Transfer In From						
General Reserve	\$1,044,567	\$0	\$0	\$0	\$2,940,170	
Bureaus & Programs	\$275,425,612	\$285,613,467	\$297,443,692	\$309,638,804	\$320,637,809	
Capital Set-Aside	\$1,260,000	\$1,915,000	\$1,915,000	\$1,915,000	\$1,915,000	
Est. CAL Reduction	\$0	\$0	\$0	\$0	\$0	
Planned One-Time	\$22,384,664	\$0	\$0	\$0	\$0	
New One-Time	\$0	\$8,253,738	\$5,416,286	\$2,041,199	\$0	
Pension Bonds P&I	\$7,307,031	\$8,486,412	\$8,820,200	\$9,167,761	\$9,514,697	
Council Set-Asides	\$27,523,183	\$25,789,812	\$26,267,604	\$27,664,023	\$30,741,194	
Total Requirements	\$333,900,490	\$330,058,429	\$339,862,782	\$350,426,786	\$362,808,701	
Difference	\$0	(\$1)	\$0	\$0	(\$0)	
Reserve Fund As A						
Percent Net Revenues	10.6%	11.9%	12.1%	12.4%	11.9%	

Risks To The Financial Forecast

This forecast assumes continued national economic expansion as well as continued local recovery. There are several uncertainties that could adversely affect this forecast:

- The long term effect of the Shilo-Inn rule on property tax compression is not known.
- Hurricanes Katrina and Rita and the related problem of steep energy cost increases could easily pitch the national economy back into recession if higher oil prices persist.
- Failure of voters to reauthorize the Parks local option levy would probably pressure Council to "backfill" Parks' revenues loss, upsetting the forecast beginning FY2008-09.
- Geopolitical uncertainties and problems could easily start the next recession.

Forecast FY2006-07 resources are up net \$9.9 million compared to the March forecast done prior to the Mayor's Proposed Budget. Revenues are up 3.0% (\$9.0 million). This is due in large part to a \$5 million one-time transfer from the LID Fund. In addition, a small \$1,047,000 transfer of General Fund reserves has been budgeted for FY2006-07. Adjustments to the revenue forecast since last March total about \$2.9 million net. Transient lodging tax revenues are now well above their pre-911 or recession peak level of about \$11.1 million and the FY2006-07 revenue estimate is increased \$0.67 million to \$13.5 million. The business

license revenue estimate is up about \$1.7 million. Both of these increases result from a regional economy that continues to expand and has entered the expansion phase of the business cycle.

Interest income estimates continue to benefit from the continuing rise in interest rates engineered by "The Fed."

General Fund	March	Adopted	
Revenue Category	Forecast	Budget	Difference
Property Taxes	\$163,948,095	\$164,437,521	\$489,427
Transient Lodgings	\$12,833,539	\$13,502,206	\$668,666
Business Licenses	\$51,104,490	\$52,830,754	\$1,726,264
Utility License/Franchise	\$59,162,137	\$59,143,137	(\$19,000)
State Revenues	\$10,323,038	\$10,199,408	(\$123,630)
Interest Income	\$2,598,141	\$2,784,196	\$186,055
Transfers IN	\$756,252	\$6,867,960	\$6,111,708
Miscellaneous	\$4,820,836	\$4,820,836	\$0
Revenue Forecast	\$305,546,528	\$314,586,017	\$9,039,489
Beginning FUND Balance	\$18,451,146	\$19,314,473	\$863,326
Forecast Resources	\$323,997,674	\$333,900,490	\$9,902,816
% Change In Revenues % Change In Resources		2.96% 3.06%	

Utility license and fran-

chise fees are unchanged. The only new data is Pacific's recent rate filing with the Oregon PUC for a large 12% to 13% revenue increase. The outcome of this rate case will probably be resolved next fiscal year.

A key revenue forecast assumption is a "Measure 50" General Fund tax base levy of \$174.7 million. This is not different from December or March. The forecast calls for 2.95% assessed value growth on taxable assessed values. About 0.25% of this growth is the result of expected new construction. Assessed value growth under Measure 50 continues to fall below the "advertised" 3 percent minimum. Taxable assessed value growth has averaged about 2.4% over the past four years. This puts property tax revenue growth well below the region's average inflation rate and lowers the General Fund's overall potential revenue growth rate making it more difficult to fund current service levels.

The FPD&R levy is now set at \$86.6 million. This is down \$2.6 million compared to December and unchanged from FPD&R's FY2005-06 certified levy. The lower compression assumption used in this forecast of 3.2% reflects the expected impact of a "flat" FPD&R

Revenue Forecast ASSUMPTIONS					
Revenue Category	FY2006-07				
CITY Property Tax Levies					
Measure 50 Taxbase Levy	\$174,727,297				
Local Option & UR Collections	\$107,106,034				
Measure 50 FPD&R Levy	\$86,550,496				
City Local Government Total	\$368,383,827				
MULTNOMAH County Levies					
Measure 50 Levy Authority	\$199,662,829				
Local Option Levy (Library)	\$34,706,782				
Mult. County Levy Total	\$234,369,611				
M50 Assessed Value Growth	2.95%				
Percent of FY2004-05 Levies					
Not Received First Year	-5.45%				
Measure 50 Compression	-3.20%				
Est. Portland Population	561,307				
GDP Growth (Economy.Com)	0.9%				
Revenue Sharing (State)	\$10,199,408				

levy that is well below historical norms and continued strong real market values growth.

THE BOTTOM LINE: The forecast shows that General Fund resources are improved over March. Increased resources along with a lower CPI-W/Cola increase that is a full 1 percentage point lower than assumed last December combine to improve the General Fund's financial outlook in this forecast. This forecast shows only a relatively small deficit in the last year of the forecast. OMF believes Council's Adopted Budget balances the General Fund for the life of this forecast.

BUREAU OF DEVELOPMENT SERVICES

Five-Year Financial Plan: Executive Summary

This five-year financial plan is for fiscal years 2006-07 through 2010-11.

FINANCIAL FORECAST

- Construction is one of the most volatile sectors of the economy, and it is difficult to project revenue.
- The Oregon Office of Economic Analysis predicts that the state economy will be stable, but there will be a slowdown in residential construction.
- Portland's Office of Management and Finance projects inflationary rates will vary between 2.1% and 3.8% through FY 2010-11.
- Large projects, such as the South Waterfront project, will continue to bring in more work and higher revenues in the next several years.
- Costs will grow at a slightly faster rate than revenues (without accounting for fee increases), at about 3% per year.

FINANCIAL ISSUES

- Reserves in the Building/Mechanical program will be transferred to Electrical and Facilities Permit programs to bring their cumulative deficits to zero.
- A new development services fee, implemented in FY 2005-06, has stabilized the funding for the Land Use Services program.
- Health care costs are unknown at this time, but recommended estimates are negatively impacting cost recovery in all programs.

PROGRAM SUMMARY

Construction Programs (Building/Mechanical, Electrical, Plumbing, Facilities Permit)

- Revenues from commercial construction are expected to decrease only slightly in FY 2006-07.
- Revenues from residential construction are expected to decrease by 5% in FY 2006-07.
- Reserves in the Building/Mechanical program are adequate.
- Annual fee increases are recommended in the Electrical and Facilities Permit programs to cover inflationary cost increases and meet reserve goals.

Land Use Services (LUS)

- Costs are artificially low in FY 2005-06, due to positions being vacant.
- A new development services fee and increased construction activity have resolved the program's financial crisis.

Other Local Programs (Site Development, Environmental Soils, Signs, Zoning, and Noise Control)

- These programs are dependent upon fees and have no General Fund support, except for Noise Control.
- General Fund resources from the Land Use Services program are being transferred to the Noise Control program to cover administrative overhead costs.
- The Sign code and A-board program need review in 2006.
- The Environmental Soils program continues to carry a negative reserve.

BUREAU OF ENVIRONMENTAL SERVICES

Five-Year Financial Plan: Executive Summary

The bureau's five-year financial plan for FY 2006-07 through FY 2010-11 indicates revenue requirements over the forecast interval are dominated by the need to fund the ongoing capital program to control combined sewer overflows, to meet applicable regulatory requirements, and to operate and maintain the existing sanitary sewer and stormwater drainage system.

The table at the end of this summary shows forecast expenses, interfund cash transfers, system resources, and revenue requirements from rates over the forecast period.

SYSTEM COSTS

The five-year total increase in system costs (net of bond-reimbursed CIP expenditures) is \$73.4 million. Debt service on outstanding and planned revenue bonds accounts for approximately 55% of this growth.

- Annual system costs decline by \$57.6 million over the five-year forecast interval. This reflects lower CIP expenditures in FY 2010-11, as Combined Sewer Overflow (CSO) control facilities near completion.
- CIP expenditures increase by \$131.9 million over the forecast interval. Cash transfers from the Operating Fund to the Construction Fund increase by \$28.1 million over the forecast interval.
- Costs other than CIP and cash transfers to the Construction Fund increase by \$46.1 million over the forecast interval. \$40.6 million, or 88% of the increase, is new debt service on proposed revenue bonds to be sold to finance capital construction activity. The financial forecast includes \$443.8 million in additional bonded indebtedness over the five-year forecast interval. Bond sales are planned in FY 2007-08 and FY 2009-10.
- Total operations and maintenance expenditures increase by \$13.5 million over the interval, an average annual increase of 3.7%.
- Utility license fees, which are capped until they reach 5% of revenues, remain constant at \$12.8 million over the forecast interval.
- CIP expenditures total \$769.9 million over the forecast interval (including inflation). The pattern of expenditures is influenced primarily by the timing of CSO projects. These expenditures are funded by sewer system revenue bonds, but also include substantial cash contributions (\$63.8 million over the five-year forecast interval) made necessary by coverage requirements on sewer system revenue bonds.

CIP expenditures occur in five programmatic areas:

- CSO projects account for the largest portion, at \$626.0 million over the interval. Major projects include the westside tunnel and pump station (to be completed in FY 2006-07), CSO-related improvements at the Columbia Boulevard Treatment Plant, the eastside tunnel, and the Portsmouth force main.
- Maintenance and Reliability expenditures are forecast at \$78.4 million over the interval. Sewer relief, reconstruction, and sewer separation are the primary programs. In addition, many CSO-related projects (treatment plant upgrades and pipeline replacements, for example) have maintenance-related benefits for the system.
- Systems Development program expenditures are forecast at \$16.8 million, primarily for the South Airport sanitary trunk sewer and residential and commercial sewer extensions. Funding for these projects comes largely from non-rate sources.
- Forecast expenditures for Sewage Treatment Systems are \$32.7 million over the interval. Major projects during that time include outfall line repair, pump station improvements, and construction of cogeneration facilities.
- Surface Water Management expenditures are forecast at \$15.8 million over the interval. Major projects include flood mitigation, sump restoration, and construction of water quality facilities.

SYSTEM RESOURCES

Annual revenue requirements from rates increase by \$56.5 million over the five-year forecast interval, due to a combination of higher construction financing costs and increasing operating costs. BES forecasts annual rate increases averaging 6.1% over the next five years (see *Revenue Requirement from Rates* table at the end of this Executive Summary). These increases are a combination of growth in annual system costs, partially offset by increases in non-rate revenues, as explained below.

- Forecast annual system revenues from sources other than rates (balance not a revenue) increase by \$25.1 million over the five-year forecast interval. This is due primarily to an increase in transfers from the Rate Stabilization Fund, which grow to \$22.3 million in FY 2010-11.
- Reimbursements from the Construction Fund to the Operating Fund decrease by \$131.0 million over the forecast interval. This decrease reflects declining expenditures for CSO control facilities as that program nears completion.
- System development charge revenues are forecast to increase by \$1.7 million over the forecast interval, reflecting an assumption of modest regional economic growth.
- Annual revenue requirements from rates must increase by \$56.5 million from the current year's forecast rate revenues to FY 2010-11, an average increase of 6.1%.

RISKS TO THE FORECAST

The following were judged to be issues of potential significance, but their effects were not explicitly included in the forecast.

Portland Harbor Sediments

Costs associated with the City's share of the Portland Harbor Superfund site are unknown. The City cannot at this time predict the financial impact on the sewer system, but the costs are potentially significant.

Willamette Basin TMDLs

Costs associated with implementation of watershed plans related to new Total Maximum Daily Load (TMDL) standards for the Willamette basin are not known at present, but could be significant.

Sanitary Sewer Overflows (SSO)

Newly proposed SSO rules could have significant financial impacts to both capital and operating budgets.

Underground Injection Control Rules

Both the capital and operating budgets could be impacted by costs associated with complying with new regulations and permit requirements.

EPA Letter

BES is currently in discussions with representatives from EPA and DEQ related to concerns regarding CSO controls, the water quality implications of underground injection wells, and sanitary sewer overflows. Substantive changes to current CSO control plans would impact the budget.

Fanno Basin Infiltration and Inflow

Costs of either reducing infiltration and inflow from the Fanno Basin or expanding wet weather treatment capacity at the Tryon Creek treatment facility for Fanno Basin flows are at present unknown, but could be significant.

Other Factors

- Forecast rate increases could be affected by residential, commercial, and industrial water use patterns that differ substantially from the conservation assumptions in the forecast.
- A significant increase in interest rates over the forecast interval will increase revenue requirements for interest on new debt.
- An increase in the actual rate of inflation over the forecast inflation rate will require correspondingly higher rate increases.
- Greater than anticipated economic growth in the region could cause system development charge revenues to exceed forecast levels over the coming five years. Any such unexpected revenues would be an offset to revenue requirements from rates.

ADDENDUM: CHANGES SUBSEQUENT TO THE FIVE-YEAR PLAN

- Several changes subsequent to the completion of the five-year plan had impacts on expenditures, and therefore on the rate forecast:
- The bureau proposed cut packages totaling approximately \$1 million.
- Sewer system revenue bonds totaling approximately \$270 million were issued in late May. Extending the term on this debt, issuing one-third of the bonds as second-lien debt (with correspondingly lower debt service coverage requirements), and lower than previously forecast interest rates combined to produce significant savings in debt service over previously forecast levels.
- Capital maintenance was increased by \$1.5 million for each of the next five years.
- A \$2.4 million add package of strategic system investments including a sewer lining crew, additional biosolids hauling, Columbia Slough sediment investigation, and additional investments in green street projects was approved.

These changes allowed a reduction in forecast rate increases from 6.1% to 5.6%.

Revenue Requirement from Rates (In Thousands of Dollars)

	FY 2006-07	FY 2007-08	FY 2008-09	FY 2009-10	FY 2010-11
O&M and CIP Expenses				·	
Personal Services	\$33,303	\$34,938	\$36,615	\$37,985	\$39,572
Materials & Services – External	17,216	18,529	19,314	20,129	21,099
Materials & Services - Internal	35,025	35,490	36,515	38,193	38,350
Capital Outlay (non-CIP)	1,373	1,338	1,526	1,395	1,426
CIP	210,375	160,176	177,712	143,061	78,522
Equipment Cash Transfers	26	26	27	27	28
Lease/Purchase Payments	54	54	54	85	0
Amortized Bond Interest/Disc.	311	4,301	261	3,214	255
Cash Transfers:					
General Fund Overhead	3,327	3,429	3,533	3,641	3,752
Utility License Fees	12,809	12,809	12,809	12,809	12,809
Rate Stabilization Fund	4,636	13,341	3,103	0	0
Sewer Revolving Loan Fund	0	0	0	0	0
Other Funds	6,942	7,227	3,065	3,185	3,306
Total O&M and CIP Expenses	\$325,142	\$292,498	\$295,120	\$262,922	\$194,988
Cash Transfers to Debt Redemption	on Eundi				
Existing Debt Service	64,405	65,088	65,095	65,090	72,857
Projected New Senior Debt Svc.	22,656			45,688	61,988
Existing/New Junior Debt Svc.		22,656 19,031	45,688		·
C	18,823	19,031	18,762	19,498	11,601
Cash Transfers to Construction Fu		0.0	10.010	11.626	24.020
Cash Contributed towards CIP	5,900	88	12,213	11,626	34,029
Annual System Costs	\$437,181	\$398,521	\$436,292	\$405,627	\$379,594
Less: Other System Resources					
Reimbursement from Constr.	\$217,275	\$167,278	\$185,022	\$150,586	\$86,268
Fund					
Systems Development Charges	6,655	7,054	7,482	7,942	8,335
Wholesale Sewer Contracts	3,224	3,336	3,453	3,574	3,699
Other Service Charges	693	715	737	760	784
Service Reimbursements	1,286	1,326	1,368	1,410	1,454
Rate Stabilization Fund Transfer	6,147	2,049	11,500	200	22,300
Other Cash Transfers	0	0	0	0	0
Product Sales	168	174	179	185	190
Rents	144	148	153	158	163
Licenses and Permits	670	691	713	735	758
Interest on Investments	1,094	774	864	881	1,072
Miscellaneous	3,796	3,914	4,037	4,163	4,293
Over/(Under) Collected on Rates	(3,774)	(4,018)	(4,277)	(4,554)	(4,848)
Retro. Stormwater Discounts	(6,147)	(2,049)	0	0	0
Use/(Replenish) Fund Balance	7,313	5,654	(67)	(81)	(58)
Total Other Resources	\$238,544	\$187,047	\$211,162	\$165,959	\$124,415
Revenue Required from Rates	\$198,637	\$211,474	\$225,129	\$239,667	\$255,180

OFFICE OF MANAGEMENT AND FINANCE

Five-Year Financial Forecast: Executive Summary

The OMF internal service, enterprise, and health insurance funds, as well as the Revenue Bureau, face a number of significant issues and challenges over the course of the next few years. This five-year plan for FY 2006-07 through FY 2010-11 identifies these issues and challenges and details how OMF proposes to address them. The following is a summary of the issues and challenges common to the funds as well as a summary of each fund's specific issues and challenges.

All Funds

The internal service funds have reduced budgets through efficiencies and cuts for the past seven years. However, instead of directing that money toward critical areas in need of funding, primarily replacement and major maintenance, the internal service funds have used those savings to meet budget reduction targets.

The infrastructure assets in the Bureau of Technology Services (BTS) and Facilities Services funds are significantly underfunded for replacement and major maintenance. Facilities Services rental rates now collect only 1.5% of building replacement value each year for major maintenance; this is down from 2.2% and the industry standard of 3%. In BTS, few programs have a replacement and/or major maintenance component in their rates. For the 800 MHz system, the major maintenance portion is low (2% compared to an industry standard of 5%) and has had to be supplemented by General Fund capital set-aside money for the last several years.

The other funds also need large investments to make to remain competitive and meet the needs of their customers. Each time the funds send savings from budget reductions or efficiencies to customers, the ability of the funds to invest in their businesses and assets is reduced. In FY 2006-07, some of the funds began reinvesting some of the savings from efficiency packages instead of passing the savings on to customers.

Bureau of Technology Services

The most significant issue for the fund is the lack of a comprehensive replacement and major maintenance funding program. The 800 MHz system is a critical system that must be replaced in the next five years. The core system, including back-bone equipment and software, must be replaced because within that time Motorola, the system's vendor, will not continue to provide support to it. The technology is becoming obsolete as Motorola is focusing on digial systems; the underlying component chips are old, and it is an analog system. The estimated cost to replace the system is between \$30 million and \$50 million. BTS and several local counties are pursuing grants to replace the system with one that would be used by all local counties, with Portland as the prime site. Replacement will allow for increased interoperability between the City and neighboring counties and result in increased bandwidth, which is required given increased use of the system for data communications. Any plan to replace the system has to address the fact that debt on the old core system extends through FY 2012-13. The City has budgeted \$85,000 in FY 2006-07 to prepare a study on replacement of the system.

Just as the core system has to be replaced in the next five years, the devices that use the system have to be replaced. Some radios are being replaced in CY 2006 as part of the Nextel rebanding of the 800 MHz frequencies. The cost of replacing those radios that will not function in the rebanded scenario will be paid by Nextel; the final count of replaced radios will not be known until project completion. Device rates currently include a replacement rate, but this rate is not sufficient to fully fund all replacement needs if the system is replaced in five years. That insufficiency is due to two factors: the rates are at 45% of the level they should be (a conscious decision made by stakeholders to keep rates down), and the rates were based on the assumption that the devices would be replaced in FY 2012-13, when the system was originally planned to be replaced. If the devices were to be replaced in FY 2006-07, there would be a one-time funding gap of \$9 million. This is calculated based on a replacement cost of \$13.9 million less the \$4.9 million collected for replacement thus far. The \$4.9 million replacement money may be able to be used as a grant match.

Only two programs, the 800 MHz system and Geographic Information System (GIS), have replacement and/or major maintenance components in their rates. For example, the core switching equipment for the telephone network was debt funded without replacement funding in the rate structure.

There are three historical reasons for this issue. First, in the case of the 800 MHz radio system, too little money for these purposes was built into the initial rate model. Second, none of the rates ever had a replacement component, and the City does not use a depreciation accounting model to build replacement reserves. When BTS absorbed delivery of IT services previously delivered by bureaus, BTS received the specifically identified operations and maintenance funds used to provide the service. But, as most bureaus did not have replacement monies budgeted (the bureaus would fund the replacement out of one-time savings or delay replacement until catastrophic failure), no money was transferred to BTS to replace the equipment. Subsequently, no replacement funding reserve component has been allowed to be included in the rates due to the need to reduce costs to bureaus. Third, instead of reserving money saved through efficiencies for replacement/major maintenance, BTS has had to use those efficiencies to meet rate relief targets as required by the budget process.

Therefore, the only real source of funding available for many BTS projects is the fund's technology/capital reserve. This reserve was established to support projects in programs with no capital component in their rates. The reserve is funded through any net income from rates that the fund charges for its services. Net income can come from spending less than the budget or increasing the level of customers. However, the reserve is insufficient to fund all of the capital needs of the programs that do not have a capital component in their rates. After funding the replacement of the Council Crest tower in FY 2005-06, along with other immediate needs, the reserve is projected to have a balance of \$1.045 million at the beginning of FY 2006-07. BTS has identified needs of \$5.427 million from this reserve. In addition, BTS has identified the need for \$426,000 annually to fully fund the replacement of its storage area net-work, data network, core server, and email systems.

Another significant issue for the fund is the unfunded, one-time capital requirements related to two critical applications: Computer-Aided Dispatch (CAD) and Portland Police Data System (PPDS). The CAD system needs to be replaced at an estimated cost of \$6.4 million, based on a recent implementation of a similar system in Louisville. The PPDS application, which sits on the City's mainframe, will cost an estimated \$5 million to replace, based on a recent implementation of a similar system in Seattle. The replacement of PPDS is complicated by the fact that the Police Bureau pays a share of the costs of the mainframe on which it sits. The other significant mainframe application is IBIS, which will go out of service in FY 2007-08. If, by then, the Police Bureau has not replaced PPDS with an application that can run on less expensive core servers, the Police Bureau will be the only major user of the mainframe and will then have to bear 100% of its costs. Using FY 2006-07 rates as an example, the costs would increase from \$1.137 million for the Police Bureau to \$1.914 million. Working with the customer agencies, BOEC, and the Police Bureau, BTS has begun strategy evaluations for the replacement of these systems; funding for replacement is not identified in the Capital Improvement Plan.

CityFleet

After successfully implementing the recommendations of the focused review (including establishing an advisory board), developing relations with customers to better manage the fleet, and implementing a new rate model, CityFleet is turning its attention to a new set of improvements. A common practice in municipal fleets is to become certified by the Fleet Counselor Services, Inc.; this certification shows that the fleet is well managed because it meets benchmark criteria in a number of categories. CityFleet is embarking on a process to become certified. While there are a number of benchmark criteria to meet, the two that will require the most change in CityFleet operations are fleet utilization and preventive maintenance compliance.

Fleet utilization is the practice of making sure a fleet is right-sized. This is accomplished by establishing standards and reports and by monitoring all vehicles to make sure there aren't underutilized vehicles. Adequacy of back-up vehicles and those available for downtime also are analyzed. The City has never systematically done this type of review before, but fleet optimization may represent an area of potential savings for bureaus.

Because preventive maintenance services reduce break downs, minimize repair costs, and contribute to longer, more effective vehicle life, the City benefits from reliable, regular service. To encourage customers to bring in their vehicles for preventive maintenance services at the scheduled times, CityFleet has developed fixed preventive maintenance rates that will be billed whether or not the vehicle is delivered for preventive maintenance services.

Risk Management

The following are findings from the Insurance & Claims actuarial study for FY 2004-05 that form the basis of the FY 2007-11 plan.

- The fund is seeing several overall trends that are neutral for fleet liability and unfavorable for general liability.
 - * Fleet Liability—While costs per claim are generally escalating over time, the number of claims generally has been declining over time. Further, cost per \$1,000 of payroll (or pure premiums) has been fairly stable. The City has done a good job of reducing the number of claims through programs like defensive driving, but when we do have claims, the cost per claim and severity of the accident have been increasing.
 - * General Liability—Costs per claim have increased significantly as a result of adverse development on claims. While particularly evident for FY 2002-03 claims, it also has had an impact on most of the recent fiscal years. This adverse development translates into higher reserve requirements.
- Significant trends in this adverse development in general liability claims (both in terms of quantity and size) include:
 - * An increase in claims against the Police Bureau related to use of force
 - An increase in claims by businesses against the City, questioning the way we do business, particularly in the area of franchise fees
 - * An increase in employment claims, such as constructive discharge, wrongful termination, retaliation, etc.

These trends translate into higher reserve requirements and higher annual claims payments.

• The fund's reserve requirement at the discounted 60% confidence level was \$13,664,000 for FY 2005-06 and will be \$16,973,000 in FY 2010-11. Since the actual level of reserves is less than the reserve targets specified by the actuarial study, the deficit will be recovered over the five-year period through an increase in charges to customers. Therefore, rates for FY 2007-11 are projected to increase by 9.15% annually.

Findings from the Workers' Compensation actuarial study for FY 2004-05 that form the basis of the FY 2007-11 plan include:

- The fund is seeing several trends that are favorable overall. First, while ultimate costs per ultimate claim are generally escalating over time, the number of claims per current level payroll (or claim frequency) generally has been declining over time. Second, ultimate cost per \$1,000 of payroll (or pure premiums) appears to be leveling off and current-level payroll is relatively constant. These trends translate into lower reserve requirements and reduced annual claims payments.
- The fund's reserve requirement at the discounted 75% confidence level is \$11,988,000 for FY 2005-06 and will be \$16,904,000 in FY 2010-11. Since the actual level of reserves is greater than the reserve requirements specified by the actuarial study, this excess will be used over the five-year period to decrease charges to customers. Therefore, rates for FY 2007-11 are projected to decrease by 0.67% annually.
- This favorable trend is due to a focus on loss prevention, return-to-work programs, and good claims handling.

We are monitoring the discussions of potential changes with the Fire and Police Disability and Retirement Fund. These changes, if approved by the voters, could impact this financial plan.

Parking Facilities

The forecast for the fund's finances over the next five years shows that the fund will be able to provide sufficient net operating revenues to support the major maintenance program at 3% of replacement value per year, fund reserves at policy-specified levels, and fund the following system-wide obligations:

- Annual debt payments for the parking construction debt and for the downtown streetcar construction debt
- Annual operating transfer to PDOT at the current level
- Contribution to downtown marketing of \$100,000 year

This is the first year that the major maintenance program will be funded at the policy-specified target, 3% of replacement. Fund finances have improved based on revenue growth and cost cutting. Parking revenues have improved primarily due to increased usage of the Smart Park garages as a result of improved economic conditions in the downtown area.

Facilities Services

Last fall, the City Council approved an ordinance requiring bureaus to occupy available City-owned space rather than rent outside space. The intent is to fully use City facilities by occupying vacant space in City-owned buildings before any space is leased in privately owned buildings.

Presently, the 1900 Building has approximately 30,000 square feet of vacant space. For the short term, the cost of the vacant space in the 1900 Building is being absorbed by its major maintenance account. The account covered the net loss in FY 2003-04 and FY 2004-05. However, this cannot continue and the account would be drained by FY 2007-08 if the space were to remain vacant.

Facilities Services completed an overall space plan that addresses space issues in the Portland Building and the 1900 Building. This plan relocates the newly created Revenue Bureau to leased space, backfills the resulting vacant space, and moves bureaus currently leasing private space back into City-owned space. The FY 2006-07 capital budget includes the move and tenant improvement projects identified in the space plan. Some projects in the plan won't be completed until leases in private space expire in a few years and the EBS project is completed, freeing the project staff's space for use.

A significant Police Master Plan project that was included in the FY 2006-07 budget is the relocation of the Property Warehouse, which is the Police Bureau's greatest maintenance liability, the most costly to maintain, and is operationally inefficient because of the building's condition and space configuration. The project would move the warehouse from its present building, at SW 17th and Jefferson, to BES-owned Guilds Lake commercial property. Based on a recent appraisal, funds from selling the SW 17th and Jefferson site would cover the cost of the project. The Police Bureau's major maintenance account may be used as interim funding to cover the costs of the project until the site is sold. The Police Bureau major maintenance account has adequate funds to cover these costs on an interim basis. The project is part of the OMF FY 2007-11 CIP. The project is scheduled to be done in FY 2006-07 with occupancy in FY 2007-08. The project will require increasing the Police Bureau's ongoing operating budget by \$165,000 beginning in FY 2007-08 to cover the lease payments for the Guilds Lake site. Police will see many efficiencies from the move, but these won't necessarily translate into cash savings to offset the lease costs.

Spectator Facilities

In February 2004, Oregon Arena Corporation (OAC) filed bankruptcy, and its properties were taken over by OAC's secured creditors effective January 1, 2005. In the bankruptcy process, the obligation of OAC's successor to assume all City agreements, including the Memorial Coliseum Operating Agreement, was upheld. This aspect of the court order is being appealed by the creditor group and final resolution is expected within two years. In the meantime, the creditor group is obligated to operate and maintain Memorial Coliseum and cover any operating losses during the appeal process.

The City has conducted two studies and explored several reuse options for the Memorial Coliseum in the past two years. However, at this point, a viable reuse option has not been identified. The Memorial Coliseum continues to be operated by Portland Arena Management (PAM), and the City has no operating responsibilities or operating liability for the facility. The building is over 40 years old, and capital improvements are a City cost. The previous studies concluded that \$7 million to \$10 million in capital improvements are needed to continue to operate the facility as a spectator venue. This financial plan includes a program of reinvesting \$500,000 annually into the Memorial Coliseum to improve the appear-ance and reliability of the facility under the assumption that it will remain in its current use for the next several years.

In late 2005, the Pacific Coast League and the City entered into a new agreement for the operation of PGE Park. Over the five-year term of the agreement, the city expects to receive a total of about \$5.8 million in revenue. The new agreement runs through 2010 and may be extended until 2012. The agreement will allow Pacific Coast League to continue to manage PGE Park and provides for the Portland Beavers and Timbers to continue playing their home games at the park.

Health Insurance Fund

The Health Insurance Fund covers the medical and prescription drug plan claims and administrative costs for the self-insured CityCore program, which is the medical coverage for the majority of the City's employees, COBRA enrollees, and retirees (excluding the Portland Police Association [PPA]). The fund also covers the annual difference between the combination of City and employee contributions and the actual plan costs. This "cap gap" is paid from the fund's unrestricted reserves. (COBRA enrollees and retirees participate in the program on a self-pay basis.) The level of unrestricted reserves iss estimated to be insufficient to continue the funding model through FY 2006-07. Negotiations with the city's bargaining units recently resulted in an agreement to split plan costs so the City pays 95% and the employees pay 5%. This will eliminate reliance on the fund's now depleted reserves. The fund also maintains a restricted reserve to cover the Incurred But Not Reported (IBNR) requirements, which is a standard for self-insured programs. The fund pre-viously maintained a large claims reserve but now purchases stop loss insurance coverage to pay for claims over \$250,000.

While the City implemented major plan design changes in the early 2000s, costs continue to rise. A number of factors contribute to the increases, including the City's aging workforce and retiree enrollment. New wellness and disease management strategies are underway as efforts continue to moderate overall costs.

Portland Police Association (PPA) Health Insurance Fund

The PPA Health Insurance Fund covers the medical and prescription drug plan claims and administrative costs for the self-insured coverage for the Portland Police Association members, COBRA enrollees, and retirees. (COBRA enrollees and retirees participate in the program on a self-pay basis.) This fund was established in FY 2004-05 as the result of an interest arbitration that separated the PPA from the City Health Fund. Similar to the Health Fund, an IBNR is held for the program. The fund also purchases stop loss coverage to pay for claims over \$100,000. The City splits the costs for self-funded PPA by paying 95% of the total, with employees paying the 5% balance.

Revenue Bureau

The Revenue Bureau was created in FY 2005-06 by combining the functions of Utility Customer Services, Licenses, and the lien accounting part of the Auditor's Office. While not technically a fund, this appropriation unit within the General Fund is required to prepare a five-year financial plan. The budget for FY 2006-07 was prepared based on a reorganization of the above functions into a single bureau. The Revenue Bureau receives revenue from various sources, primarily interagency revenues (from the Water Bureau, BES, and the Auditor's Office for collection efforts related to their services) and Multnomah County local sources revenues (for collection efforts for Business Income Tax and Personal Income Tax programs). Other revenue sources are General Fund discretionary and regulatory program revenues. It is expected that the Revenue Bureau will experience efficiencies that result in ongoing savings of \$600,000

beginning in FY 2006-07 and an additional \$260,000 beginning in FY 2007-08. The ordinance approving implementation of the Revenue Bureau and supporting communications document the intended efficiencies. In addition, the Utilities Customer Services Division is expected to experience efficiencies as detailed in the Water Bureau and BES financial plans. The bureau also anticipates significant revenue shortfalls due to impending termination of income tax programs.

OFFICE OF NEIGHBORHOOD INVOLVEMENT— NEIGHBORHOOD INSPECTIONS TEAM

Five-Year Financial Plan: Executive Summary

PROGRAM FUNCTIONS

The Neighborhood Inspections program, also known as the Neighborhood Inspections Team (NIT), enforces Title 29, the section of City Code relating to property maintenance requirements. The two major service components of this program are housing inspections and nuisance abatement. Housing Inspections works to ensure safe housing for Portland's citizens through the enforcement of minimum standards in residential structures regarding basic equipment, facilities, sanitation, fire safety and maintenance requirements. The Nuisance Abatement program works to eliminate property nuisances such as trash and debris, overgrown lawn areas, garbage, storage of nontrash items, visibly-disabled vehicles, and illegal dumps. This five-year financial plan is for FY 2006-07 through FY 2010-11.

RESOURCE GAP

Historically, Neighborhood Inspections has been funded by a mix of General Fund, interagency, and program fee revenues. Each of these funding streams is in varying states of decline, as illustrated below.

When NIT was transferred from the Bureau of Development Services to the Office of Neighborhood Involvement (ONI) in the FY 2003-04 Adopted Budget, General Fund support was \$670,000. This funding was cut again in the FY 2004-05 budget process, leaving just \$277,588. That support rose in FY 2005-06 slightly to \$316,526 in the Adopted Budget.

The program's two major interagency funding sources have also scaled back support. In FY 1998-99, the Bureau of Housing and Community Development provided \$555,000 in support of a program of target area housing inspections and nuisance abatements. Since then, this funding has been gradually reduced and was ultimately eliminated starting FY 2004-05. Likewise, the Office of Sustainable Development provided an average of \$230,000 to support NIT garbage service inspections and nuisance abatements between FY 1998-99 and FY 2000-01, but this funding was reduced in FY 2005-06 to \$70,000.

Finally, the code enforcement fee revenue stream has returned to more historical levels after spiking in FY 2001-02 and FY 2002-03 and then declining between December 2003 and September 2004. Overall program revenues now seem to have normalized to about a \$1.5 million annual range under the current fee structure.

Under existing conditions, this financial plan forecasts a \$976,365 funding gap for the Neighborhood Inspections program between FY 2006-07 and FY 2010-11. The Neighborhood Inspections program has a reserve fund which exists to offset cyclical downturns in program revenues. The fund balance, however, is currently just over \$800,000. Under current projections the reserve would be exhausted by FY 2010-11.

While an enforcement policy shift may be credited with some of the reduced code enforcement fee revenues, the motivating factor for these changes was that prior enforcement practices were deemed to have been excessively punitive and inconsistently applied. Following an Ombudsman review in FY 2002-03, and after becoming part of Commissioner Randy Leonard's portfolio, Neighborhood Inspections focused its code enforcement practices increasingly on resolving housing and nuisance cases, and less so upon assessing code enforcement fees.

STRATEGIES TO CLOSE FUNDING GAP

The shortfall projected for the Neighborhood Inspections program will need to be addressed in the near future. In FY 2005-06, revenues are coming in at levels slightly above those budgeted, but contractor costs for abatement services are also higher than expected. The current budget includes a transfer of revenue from the NIT reserves of \$67,000. This was set aside mostly as an offset to lost resources from the Office of Sustainable Development and the low revenue forecast projected at the time of the FY 2005-06 budget development.

The Office of Neighborhood Involvement recommends that additional General Fund resources be allocated to this program to close the funding gap. In FY 2004-05, \$400,000 of General Fund resources were cut from the Neighborhood Inspections budget. This cut was made under an assumption that NIT could rely increasingly on code enforcement revenues and still maintain existing service levels. ONI recommended against this cut given that the bureau expected shrinking program revenues, and recent history has borne this expectation out.

ONI believes that requiring NIT to rely heavily on code enforcement revenue encourages excessively punitive enforcement. If General Fund resources cannot be leveraged to support these services the City will need to identify another permanent solution which incorporates new revenues, a reduction in service levels, or both. The Neighborhood Inspections cost of service study, prepared in December 2004 at the request of the City Council, addresses alternative strategies for closing this funding gap.

OFFICE OF SUSTAINABLE DEVELOPMENT— SOLID WASTE MANAGEMENT FUND

Five-Year Financial Plan: Executive Summary

The Solid Waste Management Fund currently supports the efforts of the Office of Sustainable Development (OSD) Solid Waste and Recycling and Green Building programs, Office of Neighborhood Involvement (ONI) Residential Nuisance Abatement program, and the Public Trash Can program.

Revenue sources for the Solid Waste Management Fund include residential franchise fees, commercial tonnage and permit fees, and grants.

- Residential franchise fees are set at 5% of total revenues.
- Commercial tonnage fees are set at \$3.80/ton for garbage disposal.

The Solid Waste Management Fund FY 2007-11 Financial Plan includes the financial forecast for fiscal years 2006-07 through 2010-11.

FINANCIAL FORECAST

The fund balance on July 1, 2005 was \$4,213,470 and comprised of:

- \$2,289,624 from the Commercial program
- \$1,079,833 from the Residential program
- \$844.013 from combined sources

OSD projects a fund balance of over \$1.6 million in FY 2010-11 and has proposed to cover commercial program costs using commercial revenues and unrestricted Metro funds in the forecast.

FINANCIAL ISSUES

The following issues will have an impact on the Five-Year Financial Plan:

- Nuisance Abatement
- Public Trash Cans
- Residential Rates
- Green Building/Green Incentive Fund
- License Fees
- Food Composting
- Business Resource Conservation Center

Nuisance Abatement

An agreement was reached in 2003 that beginning in FY 2005-06, OSD no longer provides a fund transfer that is explicitly used to replace General Funds for nuisance abatement. Instead, OSD has an interagency agreement with ONI for up to \$70,000 annually. This allows for better accounting of services provided and funded.

Public Trash Cans

Until July 1998, the Office of Transportation funded the Public Trash Can program. In FY 1998-99, the Solid Waste and Recycling Commercial program began to fund this service. The Five-Year Financial Plan assumes the program costs will increase to \$210,000 annually due to increased fuel and labor costs for hauling companies that provide the service.

Residential Rates

Every year the Office of Sustainable Development reviews and revises rates to reflect the current costs of providing residential garbage, recycling, and yard debris collection. Analysis includes independent CPA review of hauler financial records, monitoring of the average weights of garbage in each can size, and forecasting the market value of recyclables. Rates are developed using cost-of-service rate-making principles, with solid waste and recycling haulers projected to earn a 9.5% operating margin, and the City receiving a 5.0% franchise fee. Prior to submittal to City Council, the Portland Utilities Review Board reviews the proposed rates.

City Council approved a rate increase effective July 1, 2005, which was the first for most customers since 2002. The most common service level, the 32-gallon can weekly service, increased 5.9% from \$18.55 per month to \$19.65 per month. The rate increase was due to rising costs experienced by haulers in labor, health insurance, and fuel.

Green Building

The Green Building program provides technical assistance on comprehensive sustainable building practices, including a strong emphasis on waste prevention and reduction, job site recycling, recycling facilities in buildings, reuse of salvage materials, and recycled-content building products.

License Fees

OSD makes an annual payment to the Bureau of Licenses that offsets residential haulers' business license fees. The City has followed this process since the onset of Portland's franchise collection system in 1992. The cash transfer was increased from \$55,000 to \$85,000 in FY 2004-05.

Business Resource Conservation Center

OSD will create a Business Resource Conservation Center by forming a partnership of public and private service providers that have a direct interest in working with the small business sector to achieve specific resource conservation goals. The intent is to offer small businesses a menu of resource conservation services and incentives that are locally available to them in a simple, one-stop format. OSD will house the program and serve as the coordinating body for potential partners, including the Water Bureau, Portland Development Commission, Pacific Power, Portland General Electric, the Energy Trust of Oregon, and others.

PROGRAM SUMMARY

Solid Waste and Recycling Program

The Solid Waste and Recycling program oversees the collection of solid waste, yard debris, and recyclable materials from residential and commercial sources within the Portland urban services boundary. Residential program responsibilities include franchising of residential collection companies, enforcing service standards, setting rates, educating customers, and promoting programs. The Commercial program provides recycling technical assistance to multifamily property managers and local businesses, issues permits, and enforces service standards and compliance with the City's mandatory commercial recycling requirement. Commercial service is not franchised or rate-regulated in Portland.

Green Building Program

The Green Building program promotes the design and development of healthy, resource-efficient buildings with a focus on such areas as recycled building materials, energy and water conservation, construction site recycling, stormwater management, and indoor air quality. Services include training, education, on-site technical help, and financial assistance for private developers, homeowners, nonprofit developers, and City government projects.

Nuisance Abatement Program

The Nuisance Abatement program provides nuisance abatement and cleanup services by the Office of Neighborhood Involvement to residential properties with accumulations of garbage.

Public Trash Can Program

The Public Trash Can program provides trash receptacles and contracts collection service for 617 trash cans in downtown and six other business areas of the city. This service was funded by the Office of Transportation until July 1998.

OFFICE OF TRANSPORTATION

Five-Year Financial Forecast: Executive Summary

FINANCIAL FORECAST

This financial forecast lays out the City of Portland Office of Transportation's (PDOT) strategy to balance program objectives against limited revenues from existing authorized sources for fiscal years 2006-07 through 2010-11. It also outlines major challenges the City must address in accomplishing PDOT's mission. This forecast discusses several points in detail:

- Due to one-time funding, PDOT's budget is balanced in FY 2005-06. However, beginning in FY 2006-07, deficits emerge. These deficits will total approximately \$46.4 million by FY 2010-11.
- For the FY 2006-07 budget request PDOT will need to identify cuts totaling \$8.3 million. This will bring PDOT in balance through FY 2009-10, with a deficit of \$4.2 million in FY 2010-11. PDOT will solicit feedback from the public and transportation stakeholders in evaluating a variety of cuts and revenue proposals.
- The city's transportation infrastructure is deteriorating. As a result the City needs to invest more, not less, in maintaining the infrastructure.
- New requirements, such as rising health benefit costs, continue to put upward pressure on program costs, making it increasingly difficult to balance the budget with spending cuts.

FINANCIAL ISSUES

PDOT's primary source of discretionary operating revenue is the State Highway Trust Fund. The main components of Highway Trust Fund revenue are gas tax revenue, vehicle registration fees, and titling fees. Discretionary revenues are projected to be relatively flat in coming years.

Infrastructure maintenance costs are increasing due to the age, complexity, and growth of the assets in the City's transportation system. Furthermore, new and ongoing commitments increase PDOT's funding requirements. These include:

- Americans with Disabilities Act (ADA) requirements
- Operations and maintenance needs related to new development
- Energy and health benefit cost inflation
- Environmental protection requirements (for example, sweeper debris cost increases)
- ◆ PDOT share of the PERS Bond Redemption debt service—growing by 26.6% in FY 2006-07 and by 16.2% in FY 2007-08 before flattening out at a 3.9% rate of growth for the last three years of the forecast
- \$3.55 million in program costs that once received General Fund support

The gap between requirements and resources is not new, and simply reallocating resources will not close it. After several years of funding shortages, the City is investing far below a sustainable level in infrastructure maintenance. PDOT has implemented cuts in services and deferrals of much-needed work in the following activities:

- Road reconstruction
- Street preservation
- New street lights and street light maintenance
- Signal maintenance
- Street area landscaping

Resources

PDOT's revenue sources are summarized in Figure 1. The projected budget for the Office of Transportation in FY 2005-2006 is \$187 million. Gas taxes, parking revenue, and citations provide the largest segment, about 37% of the total, and together represent the General Transportation Revenue (GTR) available for maintenance and operation of the transportation system (with a small portion, about \$2 million, set aside for capital). Funding is also provided by a variety of customers that purchase Office of Transportation services, such as other City bureaus. The final portion includes funding from grants for specific projects and purposes.

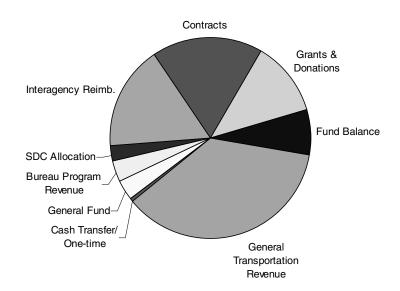


Figure 1: FY 2005-06 Transportation Revenue Total, \$187 million

Requirements

Cost increases in this forecast are driven by two factors: inflation and new requirements.

Inflation

Key inflation factors for PDOT include:

- Inflation for most goods and services will range from 2.2%–3% in the coming years.
- Employee health benefits increase is 32% for FY 2006-07.
- Energy costs are rising faster than general inflation and are a critical component in asphalt and street lighting expenses.
- PDOT's share of the PERS bond redemption debt service is growing by 26.6% in FY 2006-07 and by 16.2% in FY 2007-08, before flattening out at a 3.9% growth rate for the last three years of the forecast.

New Requirements

Cost increases from new requirements include:

- The Transit Mall project will require \$3.2 million annually in bond payments and direct project management costs, beginning in FY 2007-08.
- The City's annual portion of tram operations and maintenance is projected to be \$150,000. This cost begins in the last half of FY 2006-07.

Bottom Line: Revenues vs. Expenses

About \$68 million of PDOT's annual budget is discretionary revenue from gas taxes, while the remaining sources of funds are committed to specific projects or activities. Thus, the FY 2006-11 Financial Forecast focuses primarily on GTR.

Table 1 shows PDOT's five-year projection of expected revenue and expenses supported by GTR. The table shows that projected annual operating expenses exceed revenues every year. One-time resources helped PDOT through FY 2005-06. However, the annual deficit starts in FY 2006-07 and will grow to over \$12.3 million. The total deficit is \$46.4 million over the five-year planning horizon.

Table 1: Five-Year General Transportation Revenue Budget (millions)

	FY 2005-06	FY 2006-07	FY 2007-08	FY 2008-09	FY 2009-10	FY 2010-11
Requirements						
Base Requirements	70.8	74.7	79.6	80.7	82.7	84.8
Inflation		3.2	2.6	2.5	2.5	2.4
Adjustments and New Requirements		(1.7)	(1.8)	(2.2)	(2.2)	(2.1)
Total Requirements	70.8	76.2	80.5	77.0	77.4	78.7
Set-aside for CIP		2.5	1.2	.3		
Revenues	68.0	68.4	69.0	70.8	71.2	72.7
Annual +/-	(2.8)	(2.3)	(10.2)	(9.9)	(11.7)	(12.3)
Beginning Balance	5.8	3.0				
Ending Balance	3.0	3.0	(0.9)	(7.4)	(13.1)	(18.9)

BUREAU OF WATER WORKS

Five-Year Financial Plan: Executive Summary

The Bureau of Water Works is a major public water utility owned by the people of the City of Portland, serving more than 900,000 people. As an enterprise fund, the bureau operates on a self-sustaining basis, and is required to operate the water system within available resources and budget approved by the City Council. Water rates are established annually to ensure the collection of adequate revenues for the support of the water system as provided for in the City Charter.

Overall, the bureau's mission is to provide reliable water service, to act as a steward of our natural and financial resources, to provide the highest value service to our customers, and to support the values of the community. The operating goal is to ensure that a reliable supply of water is available to provide sufficient quantities of high quality water to satisfy the existing and future needs of the community and regulatory standards. This five-year financial plan is for fiscal years 2006-07 through 2010-11.

FINANCIAL PLANNING PROCESS

The Water Bureau faces the unique challenges of operating like a private enterprise while remaining a governmental agency, and providing an essential service at an affordable cost. Almost all of the bureau's costs are recovered through user charges. Considering the substantial capital investment and years of planning and construction necessary to create and deliver additional water supply, it is an ongoing task to keep user charges low and yet meet the water supply and distribution needs of the largest water utility in the state.

The objective of the financial forecasting effort is to provide a multi-year framework within which the revenues, expenditures, and capital financing options of the Portland water system may be managed. Each year a new Five-Year Financial Forecast is prepared for the active funds under the bureau's management, to reflect changing economic conditions as well as changes in the operating environment. The forecast is monitored closely throughout the year to address budgetary constraints, capital decisions, and cash flow requirements.

The bureau's approach has been to create an interactive process that examines the large planning issues within the framework of the financial realities of the utility business. The utility financial planning/ratemaking process is complex and dynamic, requiring a variety of inputs ranging from accounting data to strategic planning goals and policy decisions.

The following set of requirements shape our financial planning process and the objectives we emphasize each year:

- The need to preserve a sound fiscal position as measured by the presence of adequate capital investment, fund balances, operating income, and credit ratios
- The need, as a governmental agency, to comply with City Charter mandates, and be responsive to City Council direction and Office of Management and Finance budgetary requirements
- The need to be financially self-sustaining by covering virtually all costs through user charges and other bureauspecific revenue sources
- The need to allocate equitable user charges between inside-City (retail) and outside-City (wholesale) customers, in accordance with wholesale contract terms
- The need to accurately predict and meet water demands, both through demand-side and supply-side management
- The need to plan, construct, and finance large and expensive capital facilities which take years to complete and must meet changing federal and state regulations

ANNUAL FINANCIAL PLANNING PROCESS

As a result of the unique nature of the utility environment, the bureau utilizes a rigorous year-round financial planning process. The annual planning process has been summarized below to highlight the key financial activities of the bureau and to provide the context from which this planning document was derived. The bureau's financial planning process addresses both the governmental budgetary perspective as well as the utility ratesetting/financial planning environment.

The basic elements of the bureau's financial planning process include:

- Establishment of goals and program priorities by upper management
- Development of an internal budget process with participation from citizens
- Development of the Capital Improvement Plan (CIP)
- Preparation and implementation of the cost-of-service rate model
- Development of Operating and Maintenance (O&M), and Capital requirements for each bureau program, including effectiveness measures for the program
- Evaluation of new program requests and available funding, including efficiencies in existing operations
- Forecast/rate scenarios to determine fiscal impacts of budget decisions
- Preliminary financial forecast analysis and plan publication
- Budget request publication
- Development and presentation of rate ordinance
- Final Financial Plan publication
- Ongoing monitoring, analysis and reporting of utility and budgetary fiscal/operating performance through the Budget Monitoring Process (BuMP)
- Implementation of financial adjustments, as appropriate, to ensure the bureau's financial plan is achieved

FORECAST RESULTS

Annual Changes in System Costs, Revenue Requirements from Rates (Water Sales), Rates and Residential Bill

Fiscal Year	Annual System Costs	Water Sales/ Revenue Requirements from Rates	Average Retail Rates	Weighted Average Wholesale Rates	Typical (7 CCF) Residential Monthly Bill
2006-07	8.8%	-0.7%	2.5%	-12.7%	\$15.71
2007-11 (Avg)	5.1%	5.4%	5.8%	4.7%	N/A

The bureau's annual system costs increased from \$83.1 million in FY 2005-06 to \$90.4 million in FY 2006-07. This 8.8% addition is primarily related to increased operations and maintenance services.

The bureau's water sales (revenue requirements from rates) are forecast to decrease from \$77.5 million in FY 2005-06 to \$77.0 million in FY 2006-07. This decrease of 0.7% in water sales revenue for FY 2006-07 is achieved through utilization of fund balance consistent with the FY 2005-06 Five Year Plan. Net revenue requirements from water sales are projected to rise on average 5.4% annually over the five-year forecast period.

The percentage change in revenue requirements from rates (water sales) is an aggregate figure that cannot be interpreted as a rate increase. The revenue requirements are the total dollar amounts collected from both wholesale and retail customers, without regard to the rate structure under which they must be collected. To determine rate impacts, revenue requirements from rates must be allocated between wholesale and retail customers. The method of allocating costs to wholesale customers is mandated by contractual provisions, and the proportion of the total revenue requirement recoverable from them therefore varies each year. Retail rates are set on a "cash-residual" basis to recover whatever

portion of the total revenue requirements (water sales) is not allocable to wholesale customers and not recoverable from non-rate revenue sources, such as interest income and system development charges. Also, wholesale and retail rate changes take into account changes in estimated water demand. For FY 2006-07, overall retail demand is forecast to decrease about 0.7%, largely due to continuing conservation efforts, both in the residential and industrial/commercial customer classes.

FY 2006-07 Average Retail Rate Increase

The adopted FY 2006-07 average retail rate increase is 2.5%. This increase reflects funding for increased maintenance and operational services, including 56 new positions.

Retail Bills

On May 31, 2006, FY 2006-07 water rates and charges were adopted with the passage of City Ordinance 180192. The resulting "typical" residential customer using 7 ccf/month will pay \$15.71 per month—an increase of \$0.47. The "medium" commercial customer using 200 ccf/month will pay \$363.96 per month—an increase of \$5.00.

The bureau's Low Income Utility Assistance program was once again approved by City Council. This program will provide to qualified single-family residential water customers a 40% discount on a typical low-income (5 ccf per month usage) bill—a discount of \$58.20 per year.

Wholesale Water Rates

The City sells water on a long-term wholesale contract basis to other cities and public water districts in the region. The City is in the final stages of entering into new wholesale contracts with 12 cities and public water districts. As of May 24, 2006, five had signed 10-year contract agreements and seven had signed 20-year contract agreements. The City is expected to sign these agreements before the end of FY 2005-06. One water district remains under the terms and condition of the old wholesale contract. In addition, the bureau sells water to six small private water systems, whose contracts renew every five years. Under the terms and conditions of the new wholesale contract agreements, the overall effective wholesale rate decreased 12.7%. Although wholesale demand is expected to increase about 6% in FY 2006-07, revenue to be generated from wholesale customers will be down 10.4% from FY 2005-06. FY 2006-07 revenue from wholesale customers totals \$14.7 million. Retail rates will need to be increased about 1.3% in each of the four years remaining in the five-year planning period to make up for the reduced revenue from wholesale customers.

Wholesale rates are calculated using methodologies that differ from inside-City retail rates, and as such are subject to different influences. Wholesale rates are set on the Utility-Enterprise basis (as required by their various contracts) and fluctuate from year to year according to the allowable rate of return, plant depreciation, and other factors.

These wholesale contracts continue to benefit the retail ratepayers as well as the wholesale purveyors. As well as providing our wholesale customers the ability to cost-effectively purchase high quality water, the wholesale contracts remain a very valuable supplemental income source to city ratepayers. Without these contracts, retail rates would be about 20% higher than those proposed.

CAPITAL POLICIES

Capital Expenditures

The bureau's capital expenditures cover routine, ongoing capital repair and replacements to the water system as well as enhancements and additions, which tend to be large and nonrecurring. The capital expenditure forecast is composed of the capitalized portion of the Capital Improvement Plan (CIP) and indirect capitalized costs (overhead and interest). The expenditure forecast also includes the cost of issuing water revenue bonds.

Capital Financing

Capital costs are financed mainly from three major sources of funds, including water sales, proceeds from revenue bond sales, and Construction Fund revenues (capital project reimbursements, sales of property, interest earnings, etc.). For FY 2006-07, 50% of the capital forecast will be funded with current resources (24% from cash, 26% from contributions, including reimbursements and system development charges) and the balance from bond sales. The funding of capital over the five-year forecast period averages 14% cash, 20% contributions, and 66% debt.

Debt

The bureau has the ability, by City Charter and State Authority, to issue debt in the form of tax-exempt general obligation (G.O.) or revenue bonds. Before July 1993, the bureau had issued only "double-barreled" G.O. bonds, whose primary source of repayment was water revenue but which were also backed by the full faith and credit of the City. These bonds carried no debt coverage requirement because of the full faith and credit pledge. The bureau had made it a practice to target a minimum overall debt service coverage ratio of only 1.2, to limit cash requirements and keep rates low. For reasons related to State Ballot Measure 5, debt issued since 1993has been in the form of revenue issues. Unlike G.O. debt, the bureau's new revenue issues were required by bond ordinance to dedicate net water revenues to the payment of revenue bond debt service and pass a debt service coverage test. Given the likelihood the bureau will no longer sell G.O. debt, it has adopted the more conservative assumption that all future debt will be supported solely by net revenues of the water system. Because revenue bonds carry a coverage requirement, and the bureau desires as a policy to maintain its recently reaffirmed (April 2004) Moody's Aa1 revenue bond rating, the bureau's minimum target coverage for overall (G.O. plus revenue) debt service was increased to 1.9. The bureau's overall target coverage is met or exceeded each year of the forecast.

The Bureau is currently working with OMF staff to develop alternative financing strategies to achieve the same rate benefit in lieu of reducing the debt coverage target ratio from 1.90 to 1.75 on senior lien water revenue bonds. An alternative strategy proposed by OMF with similar rate reduction benefits involves the development of a subordinate lien debt instrument, with lower required debt service coverage.

City Housing and Enterprise Zone Tax Abatements

OVERVIEW

The City of Portland grants property tax exemptions for five housing programs, as well as enterprise zone tax abatements. Exemptions are used to spur economic development that otherwise might not occur or might not occur at levels desired by Council.

A review of 3,305 FY 2005-06 County Assessment and Taxation (A&T) property tax records subject to housing and enterprise zone exemptions revealed:

- Portland has an inventory of \$1.1 billion of real market value exempted from property taxation, constituting 1.8% of City real market value.
- Exempted taxable assessed value is estimated at \$636.9 to \$662.4 million. The bulk of the exemptions, \$570 million, is concentrated in core area multi-unit, low-income rental housing and new housing in distressed neighborhoods. The remaining exemptions, worth about \$90 million, support transit-oriented development and residential rehabilitation.
- The report estimates levy losses to all local governments at between \$8.2 million and \$8.8 million annually.
- City levy losses total between \$5.8 million and \$6.4 million. The General Fund loss is estimated at \$2 million annually. Local option levy losses are estimated at \$352,000 to \$391,000. Portland Development Commission (PDC) divide-the-taxes are estimated to be \$3.5 million to \$3.8 million lower due to exemptions.
- City revenue losses are estimated in a range from \$5.5 to \$6.0 million annually.
- Multnomah County levy losses are estimated at between \$2.2 million to \$2.4 million. Revenue losses are probably about \$2.1 million annually.
- ♦ School levy losses are estimated at \$2.4 million to \$2.5 million. The existence of the statewide funding formula makes it difficult to know if school levy losses represent a loss to local schools, a loss to Oregon schools in general, or simply results in an increase in Oregon General Fund K-12 funding requirements.
- Most local governments and schools set a fixed permanent tax rate that determines a levy once taxable assessed value is known. For general obligation (GO) bond levies and the City's FPD&R levy, the tax rate is a passive outcome of the levy certified for collection and taxable assessed value. Thus, property tax exemptions result in higher tax rates than otherwise would have been the case. This report estimates the annual tax bill increase is \$11 to \$15.60 for a home with \$200,000 of taxable assessed value.

It is important to remember that the data summarized in this report represent a snapshot of FY 2005-06 property tax exemptions. In addition, it is not the intent of this report to assess the efficacy of tax exemptions. The sole intent of this report is simply to provide financial information to Council as it relates to existing property tax abatements under Council's control.

INTRODUCTION

The purpose of this report is to tabulate statistics summarizing City-granted property tax exemptions for five housing programs and enterprise zone tax abatements. The City uses exemptions or abatements to encourage specific types of development that otherwise might not occur or might not occur at levels desired by Council.

Property tax abatements, however, come with opportunity costs. The fiscal impacts fall into three basic categories:

- Local governments and schools suffer levy (revenue) losses because development takes a specific form that is exempted from property taxes. Location of exemptions within Option #3, flat-funded urban renewal districts also creates revenue losses for local governments and schools because taxable assessed value released to local agencies is lower than it otherwise would have been.
- Levy-based tax rates for GO bond debt and the City's Fire & Police Disability & Retirement (FPD&R) levy are higher because the exempted property tax values are not used to determine tax rates for these levies.
- *Traditional* urban renewal districts (as opposed to Option #3 districts) experience lower divide-the-taxes collections when an exemption is granted within district boundaries. Traditional districts are districts where the increment assessed value multiplied by the consolidated tax rate defines district divide-the-taxes collections.

The following section summarizes exempted property assessed and real market values by program. The third section estimates agency levy and revenues losses. The fourth section summarizes the impact on levy-based tax rates that result from exemptions. The last section provides a short summary.

ESTIMATED EXEMPTION VALUES BY PROGRAM

Table 1 (on page 287) summarizes exempted real market value (in \$1,000s) by program. At present, the City has about \$1.1 billion of real market value property tax exemptions spanning five housing programs and enterprise zone exemptions.

County A&T records show that the exemptions are spread over 3,035 property tax accounts:

- Property tax records indicate that about 1,741 exemptions are located outside of urban renewal areas in code area 201, with a total of 1,884 exempted outside of urban renewal areas totaling \$500 million.
- About 974 exemptions are located in traditional urban renewal districts:
 319-Lents, 45-River district, 487-Interstate, 12-Gateway, and 3-Central Eastside, totaling \$310 million.
- ◆ About 177 exemptions are located in Option #3 urban renewal districts: 54-Convention Center, 63-South Park Blocks, and 60-Downtown Waterfront, totaling \$270 million.

The \$1.1 billion in exemptions represents about 1.9% of real market values within city boundaries in Multnomah County.

Table 1: Property Tax Exemptions

Estimated Real Market Value of City Property Tax Exemptions

	Estimated Real Market Value (*)				
	Outside UR	Exempted In Urban Renewal Areas			Total By
Program	Districts	Option#3s(**)	Central ES	Other UR	Exempt Type
Core Area Multi-Unit	\$36,045	\$179,766	\$0	\$102,504	\$318,315
Low Income Rental Housing	\$258,219	\$91,856	\$6,616	\$80,522	\$437,212
Residential Rehabilitation	\$30,442	\$0	\$0	\$3,236	\$33,678
Transit-Oriented Development	\$44,090	\$0	\$0	\$43,625	\$87,715
New Housing-Distressed Area	\$131,551	\$0	\$0	\$62,588	\$194,139
Enterprise Zone Exemptions	\$32,473	\$1,373	\$0	\$5,980	\$39,826
Column Totals	\$532,820	\$272,994	\$6,616	\$298,454	\$1,110,885

^(*) All real market and Measure 50 assessed values expressed in \$1,000s

Tables 2 and 3 (on page 287 and on page 288) summarize exempted taxable assessed value. Two different methods are used to estimate exempted taxable values. Exemptions are entered onto the tax rolls using real market value. Taxable Measure 50 (M50) assessed value is reduced when the exemption is granted by translating the real market value into exempted assessed value by using the average ratio of M50 taxable assessed value to real market value specific for the type of property exempted. The critical ratio used in this calculation is a *changed property ratio* (CPR). In subsequent years the exempted assessed value is lost. Discussion with County A&T staff indicates that there are at least two different ways to estimate the taxable assessed value exempted. In this report these two different ways, called Method #1 and Method #2, generate Tables 2 and 3:

- Method #1 (see Table 2) uses a property's real market value and the code area's CPR to estimate a property's full M50 taxable assessed value and tax bill. The difference between the estimated tax bill and the actual tax bill is the estimated levy loss.
- Method #2 (see Table 3) uses a property's taxable assessed value net of exemption plus real market value of the exemption adjusted by the CPR to estimate full taxable assessed value and levy loss.

Table 2: M50 Exemptions Method #1

Estimated Taxable Measure 50 Tax Exemption Values (Method #1)

	Estimated Taxable Assessed Value (*)				
	Outside UR	Exempted In Urban Renewal Areas			Total By
Program	Districts	Option#3s(**)	Central ES	Other UR	Exempt Type
Core Area Multi-Unit	\$23,232	\$112,152	\$0	\$59,935	\$195,319
Low Income Rental Housing	\$153,702	\$63,713	\$4,118	\$45,844	\$267,377
Residential Rehabilitation	\$18,341	\$0	\$0	\$5,203	\$23,545
Transit-Oriented Development	\$31,576	\$0	\$0	\$27,274	\$58,850
New Housing-Distressed Area	\$89,760	\$0	\$0	\$20,033	\$109,793
Enterprise Zone Exemptions	\$5,973	\$1,415	\$0	\$108	\$7,496
Column Totals	\$322,585	\$177,279	\$4,118	\$158,397	\$662,379

^(*) All real market and Measure 50 assessed values expressed in \$1,000s

^(**) South Park Blocks, Convention Center, and Downtown Waterfront districts.

^(**) South Park Blocks, Convention Center, and Downtown Waterfront.

Table 3: M50 Exemptions Method #2

Estimated Taxable Measure 50 Tax Exemptions Values (Method #2)

	Estimated Taxable Assessed Value (*)				
	Outside UR	Exempted In Urban Renewal Areas			Total By
Program	Districts	Option#3s(**)	Central ES	Other UR	Exempt Type
Core Area Multi-Unit	\$22,985	\$109,354	\$0	\$56,134	\$188,474
Low Income Rental Housing	\$151,493	\$54,590	\$3,844	\$36,066	\$245,993
Residential Rehabilitation	\$17,191	\$0	\$0	\$7,640	\$24,831
Transit-Oriented Development	\$28,036	\$0	\$0	\$28,189	\$56,224
New Housing-Distressed Area	\$75,060	\$0	\$0	\$17,012	\$92,072
Enterprize Zone Exemptions	\$18,315	\$917	\$0	\$111	\$19,342
Column Totals	\$313,080	\$164,861	\$3,844	\$145,153	\$626,937

^(*) All real market and Measure 50 assessed values expressed in \$1,000s

The two methods give different results and are best viewed as a range for the estimated M50 assessed value tied up in these programs:

- Method #1 estimates exempted assessed value at \$662.4 million. The exempted assessed value is concentrated in core area multi-family housing and low-income rental housing programs, totaling about \$462.7 million.
- Method #2 yields an estimated exempted taxable assessed value of \$626.9 million with the bulk of the exemption value concentrated in core area multi-family housing and low income rental housing programs, totaling about \$434.5 million.

This data identifies somewhere between 1.68% and 1.79% of taxable City assessed value in Multnomah County as being tied up in property tax abatements.

ESTIMATED LOCAL AGENCY LEVY AND REVENUE LOSSES

Table 4a: Levy Losses

Estimated Agency Levy Losses

Property tax exemptions encourage specific types of development, but with a cost. The costs

	Levy Losses				
Agency	Method#1	Method#2			
City Of Portland					
General Fund	\$2,134,369	\$2,016,826			
Local Option Levies (*)	\$390,960	\$352,257			
PDC Divide-The-Taxes	\$3,837,396	\$3,449,683			
Subtotal City	\$6,362,725	\$5,818,766			
Multnomah County					
General Fund	\$2,024,626	\$1,913,127			
Local Option Levy (**)	\$371,867	\$335,054			
Metro Service District	\$45,300	\$42,805			
Port of Portland	\$32,873	\$31,062			
East Mult. Co. Soil Dist.	\$13,253	\$12,540			
Subtotal Local Gov.	\$8,850,645	\$8,153,354			
Schools					
Schools/K-12	\$2,181,148	\$2,086,245			
Education Service Dist.	\$210,691	\$201,520			
Community College	\$137,195	\$131,451			
Subtotal Education	\$2,529,033	\$2,419,217			
Total All Agencies	\$11,379,678	\$10,572,571			
(t) Parks Childrenal legal antion (tt) Library legal ention					

(*) Parks, Childrens' local option. (**) Library local option.

are lower local government, schools, and urban renewal divide-the-tax levies than otherwise would have been available. Table 4a summarizes the levy losses associated with exempted taxable assessed values estimated in Tables 2 and 3. In Table 4a, the estimated General Fund levy losses amount to somewhere between \$2 million and \$2.1 million.

City local option levy losses range from \$352,000 to \$390,000.

Exempted values in urban renewal districts reduced PDC divide-the-taxes collections by somewhere between \$3.5 and \$3.8 million. Overall local government levy losses are estimated to total between \$8.2 and \$8.9 million.

^(**) South Park Blocks, Convention Center, and Downtown Waterfront.

Table 4a also estimates levy losses for schools. For K-12 school districts within Portland, the central estimate is \$2.1 million of levy losses. The statewide funding formula makes it difficult to know if Table 4a's estimates represent losses to local schools, a loss to Oregon schools in general, or simply results in an increase in State of Oregon General Fund requirements. It also needs to be pointed out that schools do not suffer levy or revenue losses in non-Option #3 urban renewal districts due to exemptions. For the City of Portland, the losses accrue solely to these urban renewal districts: Lents, River District, Interstate, Gateway, and Central Eastside districts.

Table 4b: Revenue Losses

Estimated Agency Revenue Losses

In Table 4b, estimated levy losses are translated into agency revenue losses by adjusting levy losses for taxes not received due to delinquency and discounts. This translation of levy

	Revenue Losses		
Agency	Method#1	Method#2	
City Of Portland			
General Fund	\$2,015,911	\$1,904,892	
Local Option Levies (*)	\$369,262	\$332,706	
PDC Divide-The-Taxes	\$3,624,421	\$3,258,226	
Subtotal City	\$6,009,594	\$5,495,824	
Multnomah County			
General Fund	\$1,912,259	\$1,806,948	
Local Option Levy (**)	\$351,229	\$316,458	
Metro Service District	\$42,786	\$40,430	
Port of Portland	\$31,048	\$29,338	
East Mult. Co. Soil Dist.	\$12,518	\$11,844	
Subtotal Local Gov.	\$8,359,434	\$7,700,843	
Schools			
Schools/K-12	\$2,060,094	\$1,970,459	
Education Service Dist.	\$198,997	\$190,336	
Community College	\$129,580	\$124,156	
Subtotal Education	\$2,388,672	\$2,284,950	
Total All Agencies	\$10,748,106 \$9,985,7		

(*) Parks, Childrens' local option. (**) Library local option.

losses into revenue losses is the simplest approach. It is, however, far from satisfactory for a couple of reasons. First, tax abatements are multi-year exemptions. Thus, this snapshot ignores the fact that delinquent tax revenues from previous years are also lost because of prior-year delinquencies. For example, in Table 4a, City levy losses total about \$6.4 million, which after delinquencies and discounts, translates into lost revenues of about \$6 million. The delinquent portion of the \$353,151 difference would be recovered over the next 10 to 12 years. The revenue loss estimates do not reflect this nicety.

A second problem that is common to both Tables 4a and 4b is that without the exemptions, property tax system basic outcomes (such as compression, levies, and revenues) would have been different. There is no way to simulate what would have happened in the absence of the exemptions. It is not clear how good a proxy Table 4a and 4b calculations are for this unobservable alternative.

Keeping these caveats in mind, City revenue losses are estimated at between \$5.5 and \$6 million. Well over half of the revenue losses take the form of lower PDC divide-the taxes revenues. The General Fund's revenue loss appears to be between \$1.9 and \$2 million. All other local government revenue losses are estimated at between \$2.21 and \$2.34 million.

Table 4b summarizes school revenue losses, but again, it is unclear whether the revenues represent a loss to schools, Oregon schools in general, or an increase in Oregon General Fund requirements. Exemption-related revenue losses are incurred by the districts.

ESTIMATED TAX RATE IMPACTS

Local governments and school operating levies are the outcome of applying a fixed permanent tax rate to M50 taxable assessed values. The tax rate applied to assessed value defines the levy.

For GO bond tax levies and the City's FPD&R levy, the tax rate is a passive outcome of the levy amount certified by the governing body and M50 taxable assessed value. Here exemptions do not lead to smaller levies. Rather, the impact of the exemption is to spread the levy over a smaller amount of M50 taxable assessed value through the mechanism of a higher tax rate than otherwise would have been the case. Table 5 summarizes the estimated tax rate impacts associated with exemptions.

Table 5: Tax Rate Differences

Estimated Tax Rate Differences

	Actual	Revised	Estimated	Difference
Local Government/Levy	Tax Rate (*)	Tax Rate (**)	Tax Rate	Tax Bill (***)
City of Portland				
FPD&R Levy	\$2.3293	\$2.2883	\$0.0410	\$8.19
GO Bond	\$0.2192	\$0.2154	\$0.0039	\$0.77
Multnomah County	\$0.2081	\$0.2052	\$0.0029	\$0.59
Metro-GO Bond	\$0.1875	\$0.1849	\$0.0026	\$0.52
TriMet-GO Bond	\$0.1191	\$0.1175	\$0.0016	\$0.32
Schools & Com. College				
Parkrose, K-12-GO Bond	\$1.4386	\$1.4268	\$0.0118	\$2.36
Reynolds, K-12-GO Bond	\$1.5524	\$1.5499	\$0.0025	\$0.51
David Douglas, K-12-GO Bond	\$1.9101	\$1.8840	\$0.0261	\$5.22
Centennial, K-12-GO Bond	\$2.1940	\$2.1832	\$0.0108	\$2.17
Portland CC-GO Bond	\$0.2122	\$0.2096	\$0.0026	\$0.51

^(*) Actual before urban renewal adjustment

The difference in tax rates ranges from a low of \$0.0016 (TriMet bond levy) to about \$0.0410 (City FPD&R levy). For a homeowner with \$200,000 of M50 taxable assessed value in Portland with K-12 School District No. 1 (Portland Public), the difference in the overall tax bill amounts to about \$10.90 a year. For a homeowner in one of the other K-12 districts and service from Mt. Hood Community College, the annual tax bill difference ranges from \$10.90 (Reynolds) to \$15.60 (David Douglas).

SUMMARY

The City of Portland currently uses tax exemptions to spur certain types of housing and economic development.

FY 2005-06 A&T Record Review

Estimates from 3,035 tax records show that:

- About \$1.1 billion of real market values are currently exempted from property taxation. About \$950 million of this is concentrated in core area multi-family exemptions, low-income rental housing, and new housing exemptions in distressed neighborhoods.
- \$1.1 billion of exempted real market value translates into about \$640 million of M50 taxable assessed value that is currently exempted from property taxation.

^(**) Recomputed using exempted M50 assessed value, before urban renewal adjustment

^(***) Assumes \$200,000 M50 assessed value

- Local government levy losses are estimated at somewhere between \$8.2 million and \$8.9 million annually. Property tax exemptions are estimated to lower the General Fund's fixed rate operating levy by about \$2.1 million annually.
- ◆ Local government revenue losses have been estimated by adjusting levy losses for a delinquency and discount factor. City revenue losses work out to somewhere between \$5.5 and \$6 million annually. Over half of the estimated revenue loss takes the form of lower PDC divide-the-taxes revenues. General Fund revenue losses are estimated at just under \$2 million annually. Total local government revenue losses are estimated at \$7.7 million to \$8.4 million.
- Schools nominally experience levy losses of about \$2.4 to \$2.5 million annually. Because of the complexity involved in school funding through a statewide equalization formula, it is difficult to assess whether the levy losses accrue locally, are shared statewide, or accrue to the State's General Fund.
- Exemptions appear to cost a homeowner with \$200,000 of taxable assessed value between \$11 and \$16 annually depending on the school district in which a property is located.

