City of Portland Office of Management & Finance

THE FINANCIAL OUTLOOK

Accounting Period 2 (July 28 to August 24, 2005)

General Fund Financial Outlook (Issue Date: Oct. 7, 2005)

Estimated Year-End General Fund Resources At AP-2 are forecast to range from \$433.0 million (LOW) to \$453.6 million (HIGH). Council's revised budget, period 2, totals about \$438.0 million, unchanged compared to period 1, identical to Council's FY2005-06 Adopted Budget. The "Fall Bump" budget updating and adjustment process is just getting underway with formal Council adoption of a revised budget scheduled for late November. Overall General Fund revenues continue to show positive year-over-year growth. Fund revenues through period 2 are up about 1.7% compared to last year. Discretionary revenues started out slowly and are 2.7% behind year-ago.

RESOURCE REC	CAP
* IBIS Budgeted Resources	\$439,037,343
* Resource Range(High)	\$453,590,462
(Low)	\$432,981,802
* Revenues At AP-2(*)	\$25,603,189
Versus Year-AgoUP	1.65%
(*) Net of Short-Term Borrov	ving
NOTEWORTHY AT	Γ AP-2
* Hotel/Motel Up 13.6 % vs. year	-ago
* Utility License Up 4.1 % vs. yea	r-ago

(*) And net of intrafund revenues

Estimated Year-End Resource Range FY2004-05 General Fund Financial Model

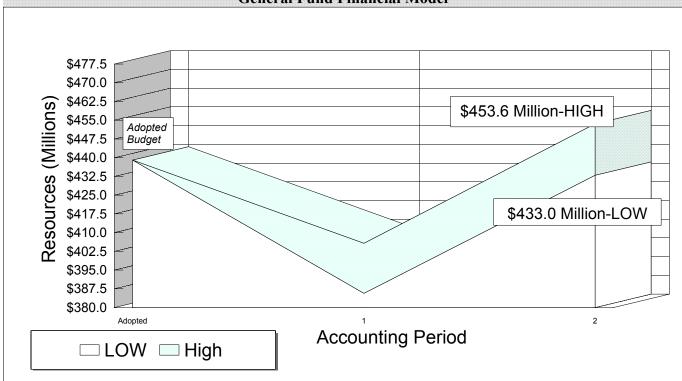


Figure 1-General Fund Resources, Year-End FY2003-04

The Bottom Line: Resources, year-end, are estimated to range from \$433.0 million (Low) to \$453.6 million (High). Budgeted resources are \$439.0 million. Year-end expenditure estimates range from \$409.5 million (Low) to \$420.5 million (High). Forecast year-end balance, beginning FY2006-07 balance, is forecast at somewhere between \$12.4 million (Low) to as much as \$44.0 million (High).

First quarter transient lodging tax revenues are in the door. This revenue was generated during the April-June quarter, which was apparently a busy one for the industry. As of period 2 revenues total about \$3.3 million versus \$2.9 million last year. Revenues are up 13.6% versus last year. This is yet another indicator that the local and state economies are growing more briskly.

Other discretionary revenues also seem to be showing
more consistent revenue growth. Utility license and fran-
chise fees are about 4.1% ahead of last year on the strength
of strong first quarter results from NW Natural. Natural
and hills are slated to increase another 150/ (residential) O

EXPENDITURE RI	ECAP
* IBIS Budgeted Expenses	\$439,037,343
* Expense Range(High)	\$420,533,639
*(Low)	\$409,546,657
* Expenses At AP-2(*)	\$61,935,420
Versus Year-AgoUp	5.9%
(*) Net of Short	Term Borrowing
NOTEWORTHY AT	Г АР-2

- * Personal Services UP 3.8% vs. year-ago
- * All M&S DOWN 5% vs. year-ago
- * Capital Outlays UP 254.0% vs. year-ago

gas bills are slated to increase another 15% (residential) October 1. Business license revenues are well ahead of last year but the bulk of revenues are not due in until next April 15th.

There is no word on FY2005-06 property tax revenues. Data should start trickling in during the first week of October. Anecdotal information as well as published data confirm that real market values are rising briskly in a very good real estate market. Under a Measure 50 system increases in real market values might result in somewhat lower levy compression (last year 3.7% of the General Fund's taxbase levy was lost to compression) and somewhat higher revenues. However, real market and assessed values are certified, FY2005-06, as of January 1, 2005. There may not be much of an effect until FY2006-07

General Fund expenditures at AP-2 total about \$61.9 million vs. last year's \$58.5 million. Expenditure growth got off to a brisk start with expenditures up 5.9% over last year at period 2. Personal services expenditures total \$39.8 million at period 2 versus about \$38.4 million last year, up

Year-End FY2005-06 Expenditure Range General Fund Financial Model

Adopted \$470.0 Budget Expenditures (Millions) \$455.0 \$440.0 \$420.5 Million-HIGH \$425.0 \$410.0 \$395.0 \$380.0 \$409.5 Million-LOW \$365.0 \$350.0 Adopted Accounting Period □LOW ■High

Figure 2-General Fund Expenditures, FY2005-06

about 3.8%. The initial year-end expense estimate is \$244.1 million.

External materials and services got off to a slow start with expenses to-date up only about 1% compared to last year. The initial year-end expense estimate is \$70.1 million.

Internal materials and services total \$3.8 million as of period 2 and are well below last year's \$4.7 million. Spending has gotten of to a slow start in this area.

Capital outlays totaled about \$3.7 million as of period 2. This is composed of about \$39,500 in cash outlays with encumbrances totaling about \$3.7 million. As of period 2 "spending" exceeds Adopted Budget by \$790,000. It is not clear what has caused this apparent problem and OMF analysts are currently researching the problem. It is likely that the apparent over-expenditiure will resolve itself in the Fall BUMP and budget will catchup to actual outlays.

The Estimated Year-End General Fund Balance at AP-2 ranges from \$12.4 (Low) to \$44.0 million (High). The initial ending balance estimate for the General Fund's FY2005-06 year-end is about \$16.7 million net of what is required for an encumbrance balance and carryover at current period 2 amounts. It is early in the year, there is a very wide variance around the \$16.7 million point estimate as shown in the table "Ending Fund Balance Range." Budgeted revenues and expense will go through three basic revisions known as the Budget Update and Monitoring Process of "BUMP." Thus, this early in the year it is difficult to make out year-end numbers because budgets will change considerably

between now and year-end. Expense forecasts tend to be less reliable this early in the year, the ultimate budgets that bureaus will be spending against are unknown prior to BUMP revisions through to the end of the year. The \$16.7 estimate is \$3 to \$4 million above the previous financial forecast's beginning fund balance estimate for FY2006-07. If

Estimated	l Year-End Bala	nce Range
Item	Low	High
Resources	. \$432,981,802	\$453,590,462
Expenses	. \$420,533,639	\$409,546,657
End Balance	\$12,448,164	\$44,043,805

cast's beginning fund balance estimate for FY2006-07. If *Ending Fund Balance Range* this balance estimate holds up it will provide Council with added FY2006-07 one-time resources.

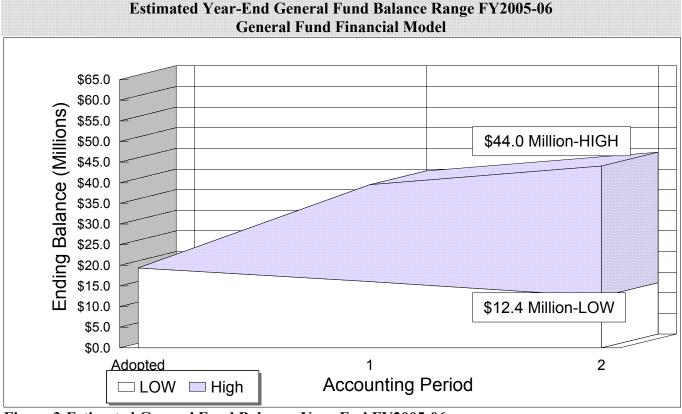


Figure 3-Estimated General Fund Balance, Year-End FY2005-06

Consumer Confidence Takes Its Biggest Monthly Fall In 15 Years.

The Conference Board's closely watched index of consumer confidence fell to 86.6 in September from 105.5 in August. Lynn Franco, Conference Board director of research said the drop in consumer confidence to its lowest level in two years was attributed to Hurricane Katrina and the subsequent rise in gasoline prices, but added:"Historically, shocks have had a short-term impact on consumer confidence, especially on consumers' expectations." Although respondents in the survey judged current conditions in the economy as relatively stable, there was a plunge in expectations for business conditions and employment six months from now. Analysts face a difficult task in interpreting subsequent data, which would be distorted by recent hurrinanes. Next month's surveys will provide an indication of whether the recent drop is going to be more than a blip.

Table 1-General Fund Resources, FY2005-06			
	Through	Estimated	Revised
GENERAL FUND RESOURCE CATEGORY	AP-2	Year-End	Budget
INTERNAL REVENUES 41000			
Service Reimbursements	. \$214,473	\$38,102,741	\$44,826,754
Other Internal & Transfers-IN	\$2,094,620	\$35,912,163	\$38,029,668
PROPERTY & LODGING TAXES 42100			
Property Taxes	\$46,146	\$159,394,085	\$158,678,968
Lodging Taxes		\$12,444,994	\$12,092,518
BUSINESS LICENSES, PERMITS 43000			
Business Licenses	. \$1,930,268	\$52,228,430	\$44,418,253
Utility License/Franchise	\$12,959,407	\$57,986,915	\$57,612,597
Other Permits	\$538,986	\$3,202,470	\$3,160,253
SERVICE CHARGES & FEES 44000	\$2,094,346	\$14,195,137	\$13,844,145
STATE, FEDERAL SOURCES 46000	\$834,821	\$9,629,554	\$10,105,896
LOCAL SOURCES (Contracts) 47000	\$922,885	\$12,392,442	\$15,115,146
MISC. REVENUES & INTEREST 49400	\$695,955	\$5,822,674	\$7,647,900
TAX ANTICIPATION NOTES/Note Sales	\$0	\$0	\$0
BEGINNING FUND BALANCE	. \$25,654,275	\$25,654,275	\$21,005,245
ENCUMBRANCE & CARRYOVER	. \$8,191,711	\$8,191,711	\$12,500,000
GENERAL FUND RESOURCE TOTAL	\$59,449,175	\$435,157,590	\$439,037,347
Estimated Percent Of Budget Resources Realized	13.5%	99.1%	

Table 2-General Fund Expenditures, FY2005-06			
GENERAL FUND EXPENDITURES	Through AP-2	Estimated Year-End	Revised Budget
Salaries & Wages	\$26,309,472	\$179,228,080	\$181,741,065
Overtime	\$1,058,190	\$8,775,660	\$7,798,743
Benefits	\$8,432,283	\$42,283,855	\$43,709,078
Premium & Part-Time	\$4,025,045	\$13,787,349	\$16,397,796
TOTAL PERSONAL SERVICES	\$39,824,990	\$244,074,944	\$249,646,682
Estimated Percent Of Budget Spent	16.0%	97.8%	
EXTERNAL MATERIALS & SERVICES	\$10,956,172	\$70,133,794	\$77,010,250
Estimated Percent Of Budget Spent	14.2%	91.1%	
INTERNAL MATERIALS & SERVICES	\$3,751,658	\$51,217,054	\$52,534,885
Estimated Percent Of Budget Spent	7.1%	97.5%	
CAPITAL OUTLAY	\$3,712,057	\$3,712,057	\$3,277,290
Estimated Percent Of Budget Spent	113.3%	113.3%	
CONTINGENCY & UNFORESEEN	\$0	\$10,994,726	\$18,259,326
FUND CASH TRANSFERS	\$3,690,543	\$38,308,857	\$38,308,860
INVENTORY	\$0	\$0	\$0
GENERAL FUND EXPENSE TOTAL	\$61,935,420	\$418,441,432	\$439,037,293
Estimated Percent Of Budget Spent	14.1%	95.3%	

Table 3-General Fund Expendi	tures By	/ Appropriati	on Unit, FY2	005-06	
Percent Of Year Gone	15.4%				
Percent Year Left	84.6%	Through	Estimated	Revised	Percent
AU Description	AU#	AP-2	Year-End	Budget	Spent
Police Bureau	100	\$20,931,023	\$134,700,742	\$135,027,383	15.5%
Fire Bureau	124	\$13,891,523	\$73,937,891	\$74,887,494	18.5%
Bureau Of Parks	130	\$7,159,215	\$48,231,447	\$48,639,181	14.7%
Subtotal-Public Safety and Pa	rks	\$41,981,761	\$256,870,080	\$258,554,057	16.2%
Commissioner #2 (Sten)	190	\$90,245	NA	\$656,537	13.7%
Commissioner #4 (Leonard)	191	\$71,269	NA	\$651,855	10.9%
Commissioner #3 (Saltzman)	192	\$90,160	NA	\$669,705	13.5%
Commissioner #1 (Adams)	193	\$112,996	NA	\$658,649	17.2%
Office Of The Mayor	195	\$226,098	NA	\$1,769,029	12.8%
Operating Contingency	298	\$6	\$9,994,726	\$16,259,326	NA
Unforeseen Revenues	298	\$0	\$1,000,000	\$2,000,000	NA
Other Cash Transfers	299	\$3,690,543	\$38,308,857	\$38,308,860	9.6%
Office of Cable Com	300	\$153,077	NA	\$1,809,844	8.5%
P.O.E.M	110	\$1,887,778	NA	\$6,744,145	28.0%
Office-Sus. Develop	302	\$283,975	NA	\$2,633,911	10.8%
Government Relations	303	\$88,840	NA	\$762,167	11.7%
Office Of Man. & Fin	307	\$3,352,511	NA	\$25,251,117	13.3%
Office Of City Attorney	312	\$782,088	NA	\$6,162,499	12.7%
Business Licenses	316	\$916,398	NA	\$8,075,363	11.3%
Stock Account	325	(\$71,909)	NA	\$25,000	-287.6%
City Auditor	336	\$964,455	NA	\$7,840,092	12.3%
Office Neigh. Involve	342	\$1,078,794	NA	\$7,217,237	14.9%
OMF Citywide Projects	381	\$652,279	NA	\$9,305,965	NA
OMF Utility Billing	390	\$2,045,764	NA	\$13,694,718	NA
Special Appropriations	401	\$2,024,799	NA	\$13,963,822	14.5%
Bureau Of Planning	510	\$932,859	NA	\$6,214,404	15.0%
Bureau Com. Develop	540	\$1,206,099	NA	\$9,808,990	12.3%
Subtotal-All Other AUs		\$20,579,124	\$166,865,119	\$180,483,236	11.4%
General Fund Total-All Al	Js	\$62,560,885	\$423,735,199	\$439,037,293	14.2%

Table 4-Revenue and Economic Indicators

This table summarizes some basic revenue and economic indicators. The onset of an economic slowdown or financial trouble will be reflected by indicators that climb above the applicable "Concern Level."

	FY2004-05	FY2004-05	
Reserve Fund Usage Condition	4th Quarter	3rd Quarter	Concern Level
Basic Revenue Growth (*)	7.2%	7.6%	Below 3.0%
Portland Unemployment Rate	7.1%	8.4%	Above 6.5%
Business License Revenue Growth	25.2%	25.3%	Below 5.5%
Property Tax Delinquency Rate	5.4%	5.4%	Above 8.0%

^(*) Basic revenues include property taxes, transient lodgings taxes, business licenses, cigarette and liquor tax distributions, utility license/franchise fees, and interest income revenues, last 12 months compared to year-ago. Financial Outlook, AP-02 FY2005-06, FOFY0602