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

\$0

\$0

\$0

\$0

As Of.... 10-Dec-2002 Previous..... Recession Opens Up Gap Between Current Service Levels And Available Fund Resources Previous December Difference *Item* 20 June '02 **Forecast** vs. Previous **Council Discretionary** <u>\$292,720,323</u> <u>\$2</u>88,106,875 Available FY2003-04... (\$4,613,449)Requirements: \$3,199,269 Capital Set-Aside..... \$3.199.269 \$0 Council Set-Asides...... \$36,510,105 \$34,925,976 (\$1,584,129)**One-Time Bureaus** \$375,000 \$0 \$375,000 Bureaus & Programs.... \$253.010.949 \$253,406,634 \$395,685 **CSL** Requirements... \$292,720,323 \$291,906,879 (\$813,444) Resources Less CSL (\$3,800,005) (\$3,800,005)\$0 Programs FY03-04...... \$0 (\$5,750,005) (\$5,750,005) Available One-Time... \$0 \$1,950,000 \$1,950,000

Lower Property Taxes. Business Licenses, Open Up A Gap

\$0

\$0

- The resource forecast is revised down about \$4.6 million compared to to the previous FY2003-04 forecast of last Spring. Business licenses continue to decline given poor local economic conditions. The severity of this decline is likely to match the recession of the 1980s despite a recession that is overall much weaker. The real surprise however, is current year assessed value growth of only 2.4%. The current property tax system financial forecast assumes the was billed as one that would stabilize revenue growth with a predictable 3% floor. The Measure 50 system in reality does not work this way, rather CPI cost-of-living adjustment for it is subject to recessionary influences somewhat like business licenses.
- Bureau current service levels are up net about \$395,685 due to an expected 2.16 percentage point PERS employer contribution rate increase.
- The \$3.8 million "budget gap" identified in the financial forecast requires "current service level" reductions of \$5.75 million with about \$1.9 million becoming available for one-time FY2003-04 budgets.

Resource Outlook **Regional Economy Remains Mired In Recession**

The revenue outlook continues to be problematic. The regional economy remains mired in recession. Local and state unemployment rates are among the highest nationally. The metroarea's unemployment rate still well above 6% and does not seem to be improving. The US economy's health remains questionable. The recession is deeper here in the Pacific North-Recovery locally can be expected to lag the national economy.

Police Contract Remains Unresolved

Fire's new labor contact is reresolved. Negotiations with Police are on-going. This five-year approved Fire contract and a Police. If Police exceeds this assumption, it further unbalances the General Fund financial forecast. If this turns out to be the case, Council will be faced with a revised forecast showing a higher gap.

	M50 Assess. Value \$1000	\$35,302,656	State Cigarette & Liquor	
	FY2003-04 M50 Tax Base	\$161,580,255	Tax Revenues To City	\$8,959,637
	M50 Compression Loss	(\$5,207,727)	CPI-W Increase (December '01	
Some	Est. Tax Base Imposed	\$156,372,528	To December '02)	1.6%
Key	Delinquency/Discount(%)	-5.8%	Measure 50 FPD&R Levy	\$83,192,088
Forecast	Delinquency/Discount (\$)	(\$8,991,420)	Beginning General Fund	
Assump-	FY04 Tax Base Revenues	\$147,381,108	FY2003-04 Balance	\$8,392,305
tions	County M50 Levy	\$182,287,146	Estimated Urban Renewal Di-	
	Library-Local Option	\$31,686,420	vide-The-Taxes (10 Districts)	\$47,133,125
	Total-County Levies	\$213,973,565	665 Current Forecast: FY2003-04 to FY2007-08	

Programs FY04-05.....

Available One-Time....

Forecast FY2003-04 resources are down \$4.613 million compared to the previous FY2003-04 forecast done last June. In addition, the beginning balance estimate is higher, but clouded by an outstanding labor contract with Police. Property tax revenues are down \$3.79 million compared to last Actual FY2002-03 assessed value growth was a dismal 2.4%, well below the so-called Measure 50 50 minimum of 3%. In addition, Shilo-Inn related compression appears to be about 0.3% higher than estimated last Spring from County Assessment & Taxation modeling. FY2002-03 results pulled down the

entire property tax reve-	Revenue Forecast RECAP-First Year Budget, FY2003-04				
enue line.	General Fund		FY2003-04		
	Revenue Category	Previous	Current	Difference	
Business license reve-	Property Taxes	\$155,493,415	\$151,698,798	(\$3,794,616)	
nues are \$2.35 million	Transient Lodgings	\$10,857,717	\$10,704,104	(\$153,613)	
lower reflecting the se-	Business Licenses	\$47,725,376	\$45,375,177	(\$2,350,199)	
verity of this recession	Utility License/Franchise	\$54,400,501	\$56,623,430	\$2,222,929	
locally.	State Revenues	\$8,813,833	\$8,959,637	\$145,804	
	Interest Income	\$1,898,014	\$1,158,809	(\$739,204)	
Franchise fees, particu-	Transfers (*) IN	\$596,764	\$590,704	(\$6,060)	
larly electric energy re-	Miscellaneous	\$4,856,189	\$4,603,911	(\$252,278)	
lated fees are up \$2.2	Revenue Forecast	\$284,641,808	\$279,714,570	(\$4,927,239)	
million reflecting the ex-	Beginning FUND Balance	\$8,078,515	\$8,392,305	\$313,790	
pectation that deregu-	Forecast Resources \$292,720,323		\$288,106,875	(\$4,613,449)	
lation has stalled and	% Change In Revenues		-1.73%		
few, if any, of PGE's	% Change In Resources	-1.58%			

CUSTOMERS ARE NOW EX- (*) Includes excess reserves transfer-IN of \$1.46 million from the General Reserve Fund.

pected to purchase power on the open market from some other supplier. Office of Sustainable Development staff will continue to monitor the power market, but the "conventional wisdom" seems to be that

deregulation does not pose a threat to revenues.

A key revenue forecast assumption is a "Measure 50" General Fund tax base levy of \$161.58 million versus a June forecast of \$164.93 million. This is about 2% lower than last June and results mostly from FY2003-04's 2.4% assessed value growth. Compression also increased to 3.2%. About 0.3% is lost to Shilo-Inn rule increased property-by-property compression from divide-the-taxes collections. The forecast calls for 2.9% assessed value growth just below the 3% minimum. This assumes that the slower growth this year was due in part to one-time factors, although it is difficult to tell from current data if this is exactly what occurred during FY2002-03. New construction growth is assumed to be entirely offset in this forecast by reductions on assessed value due to slower or very little growth in large industrial, commer-

Revenue Forecast ASSUMPTIONS				
Revenue Category	FY2003-04			
CITY Property Tax Levies				
Measure 50 Taxbase Levy	\$161,580,255			
Local Option, UR Special	\$43,298,609			
Measure 50 F&PD&R Levy(*)	\$83,192,088			
FPD&R, General Fund Total.	\$288,070,952			
MULTNOMAH County Levies				
Measure 50 Levy Authority	\$182,287,146			
Local Option Levy (Library)	\$31,686,420			
Mult. County Levy Total	\$213,973,565			
M50 Assessed Value Growth	2.9%			
Percent of FY2003-04 Levies				
Not Received First Year	-5.8%			
Measure 50 Compression	-3.2%			
Est. Portland Population	546,172			
GDP Growth (Economy.Com)	1.1%			
Revenue Sharing (State)	\$8,959,637			

cial, and (centrally assessed) utility values. The po- (*) Preliminary

tential effect of the Portland Harbor superfund site on values is not known, as well as what changes the Oregon Legislature might enact as a result of DOR's new Shilo-Inn tax collection rule.

THE BOTTOM LINE: The forecast shows that General Fund resources are down \$4.6 million from the previous forecast and requirements are down net, about \$0.813 million. There is a gap of about \$3.8 million. This gap is due largely to the effect of poor economic conditions on business license revenues as well as unexpectedly low FY2002-03 assessed value growth that pulled the property tax revenue forecast down. Current service levels must be reduced 5.75 million in order to balance the fund.

Current (December) 5-Year REVENUE Forecast General Fund Financial Model

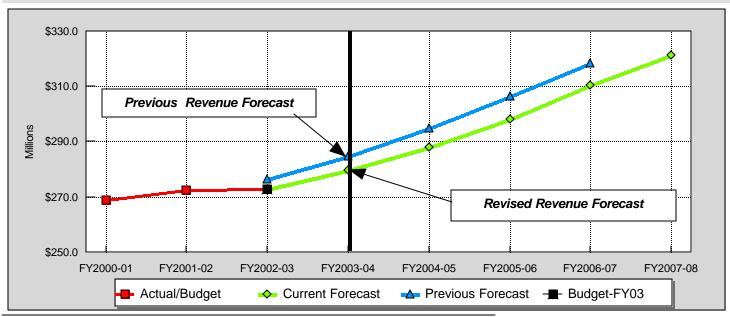


Figure 1-Current General Fund 5-Year Revenue Forecast

A key forecast assumption is a national economy that continues to recover from recession and revives the local area economy. Oregon and the Pacific Northwest, however remain mired in recession and the national economy continues to struggle through a very weak recovery. Recovery appears problematic locally.

Figure 1 summarizes the 5 year revenue forecast off of the FY2002-03 base. Revenue growth remains critically dependent on assessed value growth. Revenue growth is forecast to average 3 percent over the next five years. The recession translates into a dip in revenues because of a sharp downturn in "cyclical" revenues such as business licenses and transient lodging taxes. Property taxes, under new Shilo Inn calculations rules are still a question mark.

Estimated FY2003-04 General Fund current service level (CSL) costs are \$253.406 million, versus the December estimate of \$253.011 million for FY2003-04 bureau CSL costs. The CSL estimate is net \$0.395 million higher due the expectation that the PERS employer contribution tax rates will increase by about 2.16 points on July 1, 2003. This is a preliminary number that may change in the Spring.

Estimated Current Service Level Forecas Assumptions FY2003-0	
Assumptions 1 12005-0	4
FY2003-04 CSL Cost	
Previous CSL Forecast \$253,010,	949
Current CSL Forecast \$253,406,	634
Difference In CSL Estimates \$395	,685
General Inflation Rates	
	.4%
,	.6%
	.8%
	.5%
	.3%
External M&S	
	.6%
	.0%
	.5%
Sewer 8	.0%
	.0%
Utilities-Overall 17	.9%
Internal M&S	
	.6%
•	.0%
Wage & Salary % Increase	
	.0%
All Other2	.0%

A key assumption in this financial forecast is slower CSL growth. This results from lower inflation as a result of the break in energy cost increases as well as the "moderating" effects of a recession on general price increases. There was little or no inflation in the Portland area overall as measured by the local CPI-W index over the first half of calendar 2002. The expected December 2001 to December 2002 CPI-W Portland-Salem increase is 1.6%. COLAs are expected to reflect 2 percent contractual minimums.

COUNCIL set-asides, FY2003-04, as currently assumed are shown in the table at the right as follows:

• The business license refund set-aside is set at \$6.4 million, but in two out of the last four years refunds have been at or above this level.

• The General Fund's cash position seems to have improved and the forecast assumes that the fund will not have to issue tax anticipation notes (TANS).

● The capital set-aside net of related debt service requirements remains as previously forecast at \$3.199 million. Debt service related requirements are included in "Other Debt Service" and includes "Schools" and various other debt services.

• The compensation set-aside is forecast at \$6.5 million reflecting the expectation that the July 1 COLA will be 2%. Health benefits escalation is set at 6.8% pending publication of actual medical care inflation in February.

Forecast Council Set-Asides					
	Forecast FY2003-04				
Set-Aside Item	Last June	Current			
Compensation Set-Aside	\$7,158,204	\$6,478,302			
ESA(*) Set-Aside	\$962,307	\$954,175			
Street Light O&M	\$6,023,660	\$5,798,942			
General Fund Contingency	\$1,400,000	\$1,400,000			
Unforeseen & Inventory	\$2,000,000	\$2,000,000			
Subtotal-Contingency	\$3,400,000	\$3,400,000			
Capital Set-Aside (**)	\$3,199,269	\$3,199,269			
PDOT CSL Support	\$87,008	\$86,338			
2040/Town Centers	\$200,065	\$200,065			
Unemployment Insurance	\$200,000	\$200,000			
City Hall Debt Service	\$2,479,350	\$2,479,350			
POBS Debt Service	\$5,387,449	\$3,320,937			
Other Debt Service	\$2,320,483	\$2,607,608			
Business License Refunds	\$5,737,045	\$6,367,525			
City Hall Maintenance Reserve	\$316,800	\$316,800			
Housing Trust Fund	\$516,414	\$516,414			
TANS Borrowing-Interest	\$350,685	\$0			
Transfer to Reserves	\$251,959	\$1,095,082			
CIPs O&M Set-Aside	\$594,530	\$580,292			
Early Childhood Development	\$0	\$0			
BIT Transfers	\$489,147	\$489,147			
Miscellaneous Transfers	\$35,000	\$35,000			
Total Budgeted/Council					
Estimated Council Set-Asides	\$39,709,374	\$38,125,245			
Difference versus Previous Fore	ecast	(\$1,584,129)			

(*) Endangered Species Act (ESA) (**) Net of debrt service.

The set-aside reflects the new Fire contract and assumes that Police contract is resolved around with a CPI-W COLA and health benefits increases tied to local medical care inflation.

Adopted Budget Current Service Level (CSL) Requirements General Fund Financial Model

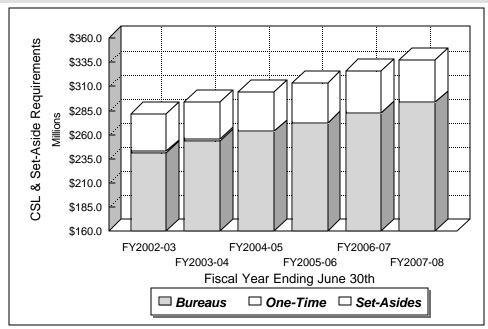


Figure 2-Current Service Level (CSL) Requirements

Set-asides are down about \$1.6 million compared to the June financial forecast for FY2003-04.

Other set-asides in Council's second year budget include Pension Obligation Bond debt service costs of about \$3.32 million. Costs are lower because variable rate debt service is lower.

The Early Childhood Development set-aside is eliminated because of passage of the the Children's local option levy.

PDOT CSL support remains as included in Council's previous financial plan.

The table at the right combines the FY2003-04 resource forecast with fund CSL forecast estimates

for FY2003-04. Resources total an estimated \$288.106 million. Deducting setasides of \$38.125 million leaves about \$249.981 million for on-going CSL program and one-time budgets.

The forecast gap between resources and requirements is \$3.800 million. Ongoing CSL requirements are balanced against available resources over the five-year financial forecast if \$5.75 million in CSL reductions occur in the Council's budget process with \$1.95 million becoming available one-time.

Sources & Uses of Funds: F	inancial Forecas	t FY2002-03
	Budget	FY2003-04
Item	FY2002-03	Forecast
Forecast FUND Revenues	\$276,295,286	\$279,714,570
Beginning FUND Balance	\$5,271,367	\$8,392,305
Total FUND RESOURCES	\$281,566,653	\$288,106,875
Less: Council Set-Asides	(\$36,407,230)	(\$34,925,976)
Less: Capital Set-Aside	(\$2,582,950)	(\$3,199,269)
EQUALS: AVAILABLE TO		
BUREAUS-PROGRAMS	\$242,576,473	\$249,981,629
Bureaus CSL Requirement	\$242,576,474	\$253,781,634
EST. GAP, DIFFERENCE	(\$1)	(\$3,800,005)
AVAILABLE ON-GOING FY2003-0	4	(\$5,750,005)
New One-TimeFY2003-04		\$1,950,000

The "Forecast" column, shows that forecast FY2003-04 resources, and more importantly out-year resources are insufficient to fund General Fund current service level (CSL) costs as embodied in Council's Adopted FY2002-03 Budget and as forwarded to FY2003-04:

- A \$4.613 million decrease in resources in this forecast has opened up a gap between CSL requirements and expected resources. Council is faced with the task of having to reduce bureau budgets and set-asides in order to bring requirements in line with on-going resources in the absence of new revenues.
- Last year Council reduced bureau current service levels by \$9.87 million and cut back Council set-sides by another \$3.8 million. Additional financial forecast reductions of \$3.8 million will bring the two-year total to \$17.5 million.

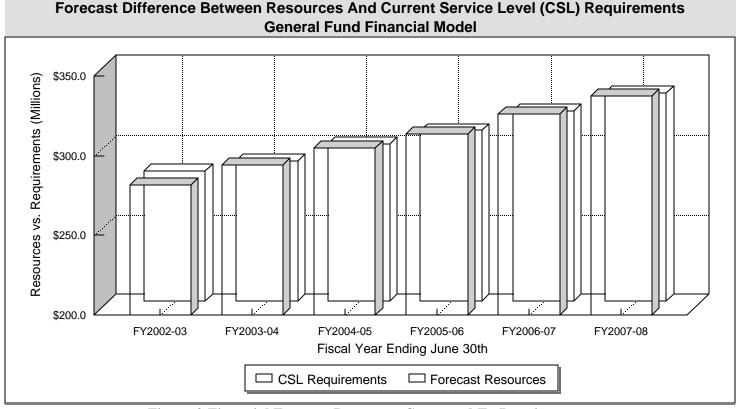


Figure 3-Financial Forecast Resources Compared To Requirements (FORC0405) 10-Dec-2002

2-YEAR FINANCIAL FORECAST RESOURCES & REQUIREMENTS DETAIL

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

- Resources total \$586.732 million for two years ending FY2004-05.
- Estimated requirements total \$590.532 million over two years.
- The General Fund can be balanced only if Council reduces CSL bureau and set-aside reductions by about \$5.75 million in this budget process and in the absence of new revenues.

	Resources & Requirements Summary Next Two Years				
	Budget				
	FY2003-03	FY2003-04	FY2004-05	Total	
Item-Category ▼ Resources →	\$281,566,653	\$288,106,875	\$298,625,336	\$586,732,211	
Less: Assumed Set-Asides					
TANS Interest Expense	\$349,589	\$0	\$0	\$0	
Compensation Set-Aside	\$8,053,712	\$6,478,302	\$6,352,448	\$12,830,750	
Other Set-Asides					
Contingency	\$1,682,248	\$1,400,000	\$1,400,000	\$2,800,000	
Unforeseen Reimbursable	\$2,000,000	\$2,000,000	\$2,000,000	\$4,000,000	
Subtotal-Contingency	\$3,682,248	\$3,400,000	\$3,400,000	\$6,800,000	
Capital Set-Aside	\$2,582,950	\$3,199,269	\$3,499,162	\$6,698,431	
PERS Debt Service	\$3,843,602	\$3,320,937	\$5,077,442	\$8,398,379	
Other General Fund Debt Service	\$2,977,549	\$2,607,608	\$2,427,998	\$5,035,605	
City Hall/Precincts-Debt Service	\$2,479,350	\$2,479,350	\$2,479,350	\$4,958,700	
Street Light O&M Transfer	\$5,989,356	\$5,798,942	\$5,967,000	\$11,765,942	
2040 Planning	\$133,377	\$200,065	\$200,000	\$400,065	
PDOT CSL Support	\$84,795	\$86,338	\$88,305	\$174,643	
Unemployment Insurance	\$500,000	\$200,000	\$200,000	\$400,000	
Business License Refunds	\$5,551,863	\$6,367,525	\$6,217,057	\$12,584,582	
City Hall Maintenance Reserve	\$316,800	\$316,800	\$316,800	\$633,600	
ESA Set-Aside	\$938,887	\$954,175	\$973,316	\$1,927,491	
Early Childhood Development	\$940,550	\$0	\$0	\$0	
CIPs Related O&M Costs	\$0	\$580,292	\$803,430	\$1,383,722	
Housing Trust Fund	\$55,652	\$516,414	\$513,953	\$1,030,367	
Miscellaneous Transfers	\$35,000	\$1,130,082	\$2,246,027	\$3,376,109	
BIT Transfer	\$474,900	\$489,147	\$503,821	\$992,968	
Subtotal, Assumed Set-Asides	\$38,990,180	\$38,125,245	\$41,266,109	\$79,391,354	
Bureau Requirements + One-Time	\$242,576,473	\$253,781,621	\$257,359,227	\$511,140,848	
Total Requirements	\$281,566,653	\$291,906,879	\$298,625,336	\$590,532,203	
Resources less Requirements					
Equals Excess(+)/CSL Gap(-)	\$0	(\$3,800,005)	\$0		
On-Going Program Reductions	\$0	(\$5,750,005)	\$0	(\$5,750,005)	
Available One-Time	\$0	\$1,950,000	\$0	\$1,950,000	

FY2003-04 Through FY2007-08 Financial Forecast Summary

- This financial forecast shows that the General Fund's financial outlook continues to detiorate because local economic conditions continue to depress revenue growth. Resources are insufficient to fund CSL levels over the five-year forecast period. The financial forecast identifies the need for about \$5.75 million in on-going program reductions which makes available about \$1.95 million of new one-time budget resources. CSL reductions of \$5.75 million close the budget gap and balances both the budget and the five-year financial forecast mostly through bureau budget reductions.
- This financial forecast makes the assumption that \$4.1 million of excess reserves are used over the life of the five-year forecast with the bulk of this use occurring in the last three years of the forecast. The General Reserve Fund is expected to remain fully funded at 10% of net revenues.
- The scenario used for the 5-year forecast is realistic. Legislative or voter actions that reduce property tax revenues, state shared cigarette and liquor revenues, or franchise fees upsets the forecast. The possibility of a deeper or longer lasting recession continues to represent more of a risk to the five-year forecast than at any time during the recent past.

Out-Year Detail Of 5-Year Financial Forecast

The financial forecast shows a five-year forecast that is balanced with the General Reserve Fund remaining at the required 10% level throughout the five-year forecast horizon. The General Fund is balanced at a lower CSL level as required by the financial forecast. The table (below) summarizes the five-year financial forecast as it currently stands given Council's previous five-year financial plan and budget outcomes. The current CSL cost forecast does not assume higher capital set-asides as scheduled in past forecasts. Last year Council rescinded adopted Resolution #33526 (at budget adoption) which had previously required \$1 million annual increases in the capital set-aside.

	Two-Year Budget Window		Following Two	Out-Year	
Item	2004	2005	2006	2007	2008
Total Resources	\$288,106,875	\$298,625,336	\$306,818,571	\$317,254,995	\$329,380,516
Transfer In From					
General Reserve	\$0	\$0	\$314,628	\$2,319,187	\$1,479,625
Bureaus & Programs	\$253,406,621	\$257,359,227	\$266,157,929	\$276,398,533	\$286,697,205
Capital Set-Aside	\$3,199,269	\$3,499,162	\$3,842,386	\$5,042,970	\$5,042,970
Est. CSL Reduction	(\$5,750,005)				
Scheduled One-Time	\$375,000	<i>\$0</i>	\$0	<i>\$0</i>	\$0
New One-Time	\$1,950,000	<i>\$0</i>	\$0	\$0	\$0
Pension Bonds P&I	\$3,320,937	\$5,077,442	\$6,813,860	\$7,787,710	\$8,544,873
Council Set-Asides	\$31,605,052	\$32,689,505	\$30,319,025	\$30,344,969	\$30,575,093
Total Requirements	\$288,106,874	\$298,625,336	\$307,133,199	\$319,574,182	\$330,860,141
Difference	\$0	<i>\$0</i>	(\$0)	(\$0)	(\$0)
Reserve Fund As A					
Percent Net Revenues	10.6%	11.2%	11.1%	10.5%	10.2%

Risks To The Financial Forecast

This forecast assumes that the recession lasts well into calendar 2003 with local recovery starting during late 2003. There are several uncertainties that could adversely affect this forecast:

- A national economy that is in danger of lapsing back into recession.
- Remand of the Shilo Inn case to the Oregon Tax Court still represents an uncertainty.
- PERS is still grappling with system funding problems that may further increase employer costs.
- Oregon continues to grapple with large state budget shortfalls, the resolution of which could could easily have an adverse impact on state tax revenues shared with cities.
- Regionalizaton of the City's water system may adversely impact General Fund revenues.

Two-Year Forecast Resources-By Budget Category Detail					
Category	FY2002-03	FY2003-04	FY2004-05		
RESOURCES	Budget	Forecast	2nd Year		
Property Taxes					
Current Year Taxes	\$145,382,226	\$147,381,108	\$152,544,168		
Prior Year Taxes	\$3,036,202	\$3,611,175	\$3,190,662		
Payment in Lieu of Taxes	\$617,767	\$706,515	\$706,515		
Total Property Taxes	\$149,036,195	\$151,698,798	\$156,441,345		
Other Taxes					
Lodging Tax	\$10,488,630	\$10,704,104	\$10,999,291		
Licenses & Permits					
Business Licenses	\$46,640,528	\$45,375,177	\$45,978,202		
Utility License-External	\$37,275,724	\$41,254,435	\$42,307,858		
State Sources(*)					
State Shared Revenue	\$8,868,233	\$8,959,637	\$9,055,497		
Local Government					
Local Shared Revenue	\$2,715,251	\$2,553,911	\$2,603,399		
Miscellaneous Revenues					
Refunds	\$30,000	\$30,000	\$30,000		
Interest on Investments	\$1,471,022	\$1,158,809	\$1,392,717		
Other Misc. Revenues					
Other Misc. Revenues	\$20,000	\$20,000	\$20,000		
Unforeseen Reimbursable	\$2,000,000	\$2,000,000	\$2,000,000		
Transfers, Other Funds					
Utility License-Internal					
Water Operating	\$3,917,219	\$4,182,472	\$4,455,787		
Sewer Operating	\$10,417,152	\$11,186,523	\$12,238,318		
Miscellaneous					
Parking Facility-Tax Offset	\$202,014	\$202,014	\$208,074		
Hyro-Fund Transfer	\$200,000	\$200,000	\$200,000		
Fleet Transfer	\$1,360,853	\$0	\$0		
Refuse Disposal	\$55,000	\$55,000	\$55,000		
HCD-Indirect	\$133,690	\$133,690	\$133,690		
Federal Grants-Indirect	\$0	\$0	\$0		
Transfer-General Reserve	\$1,463,775	\$0	\$0		
From Parks Trust	\$0	\$0	\$0		
Subtotal-Transfers, Misc.	\$3,415,332	\$590,704	\$596,764		
Beginning Fund Balance					
Unencumbered	\$5,271,367	\$8,392,305	\$10,506,158		
TOTAL DISCRETIONARY	\$281,566,653	\$288,106,875	\$298,625,336		
Checksum Total-Page 2	\$281,566,653	\$288,106,875	\$298,625,336		
Checksum Difference	\$0	\$0	\$0		

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

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

The Financial Forecast is written and produced by D.S. Barden, City Economist, Kourosh Ghaemmaghami, Economist, Bureau of Financial Planning dbarden@ci.portland.or.us (503-823-6954) and kmaghami@ci.portland.or.us (503-823-6957)

<u>Discussion of PERS Pension Obligation Bonds (POBS) Debt Service Schedule</u>

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

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

		Annual POB Debt Service		
		Percentage	FY2003-04	FY2004-05
FUND	Liability	Allocation	\$8,841,947	\$13,399,419
General Fund Bureaus	\$112,995,285	37.55889%	\$3,320,937	\$5,032,672
Unused Line	\$0	0.00000%	\$0	\$0
Unused Line	\$0	0.00000%	\$0	\$0
Unused Line	\$0	0.00000%	\$0	\$0
Unused Line	\$0	0.00000%	\$0	\$0
Subtotal	\$112,995,285	37.55889%	\$3,320,937	\$5,032,672
PDOT (net)	\$55,353,650	18.39919%	\$1,626,846	\$2,465,384
BOEC (net)	\$2,863,692	0.95187%	\$84,164	\$127,545
Buildings (OPDR)	\$14,372,047	4.77717%	\$422,395	\$640,113
BES	\$39,339,045	13.07604%	\$1,156,176	\$1,752,113
Hydroelectric	\$301,519	0.10022%	\$8,862	\$13,429
WATER	\$40,857,865	13.58088%	\$1,200,815	\$1,819,760
Golf Operating	\$2,463,623	0.81889%	\$72,406	\$109,727
PIR	\$474,262	0.15764%	\$13,939	\$21,123
Refuse Disposal	\$765,029	0.25429%	\$22,484	\$34,073
Environ. Remediation	\$17,662	0.00587%	\$519	\$787
Parks Bond Const.	\$1,364,843	0.45366%	\$40,113	\$60,788
Parks Construction	\$22,806	0.00758%	\$670	\$1,016
Facilities Services	\$2,448,975	0.81402%	\$71,975	\$109,074
Fleet Operating	\$5,754,908	1.91289%	\$169,137	\$256,317
Print & Distribution	\$1,950,219	0.64824%	\$57,317	\$86,860
BIT	\$4,415,663	1.46774%	\$129,777	\$196,668
Insurance & Claims	\$1,074,630	0.35720%	\$31,583	\$47,863
Health Insurance	\$454,732	0.15115%	\$13,365	\$20,253
LID	\$1,025,120	0.34074%	\$30,128	\$45,658
FPD&R	\$613,557	0.20394%	\$18,032	\$27,327
Unused Line	\$0	0.00000%	\$0	\$0
Comm. Services	\$2,424,160	0.80577%	\$71,246	\$107,969
Public Safety Fund	\$225,242	0.07487%	\$6,620	\$10,032
Worker Comp. Oper.	\$1,005,184	0.33412%	\$29,542	\$44,770
PDC	\$8,264,628	2.74711%	\$242,898	\$368,096
TOTAL All Funds	\$300,848,346	100.00000%	\$8,841,947	\$13,399,419

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

	2006	2007	2008
Out-Year Debt Service	\$17,981,842	\$20,551,842	\$22,550,003

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