

**City of Portland**  
**Office of Management & Finance**  
**THE FINANCIAL OUTLOOK**

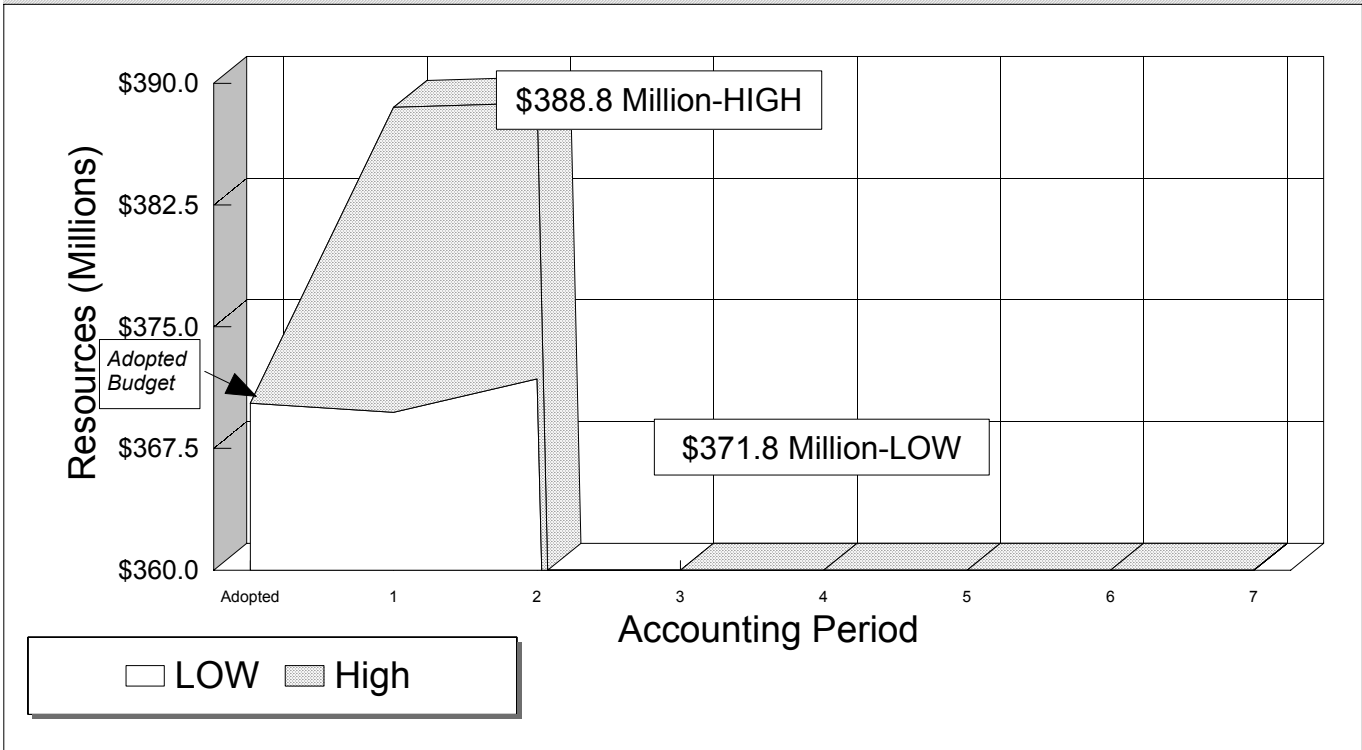
**Accounting Period 2**  
**(July 31, 2003 to Aug. 27, 2003)**

**General Fund Financial Outlook**  
**(Issue Date: Nov. 3, 2003)**

**Estimated Year-End General Fund Resources At AP-02** are forecast to range from \$371.8 million (LOW) to \$388.8 million (HIGH). Estimated revised budget, period 2, is \$370.7 million. This estimated budget is about \$339,900 above Council's July 1, Adopted Budget. Early on in the new fiscal year revenues appear to be about 1.58 percent behind year-ago. Discretionary revenues are about 4.4 percent behind year-ago after adjustment for last year's one-time \$1.4 million transfer from Fleet. This year begins as last year ended: revenue growth continues to be very weak and spotty or nonexistent. It is very early in the year and no new property tax data is currently available.

RESOURCE RECAP	
* IBIS Budgeted Resources.....	\$370,618,103
* Resource Range....(High).....	\$388,789,624
.....(Low).....	\$371,784,384
* Revenues At AP-2 .....	\$25,360,777
Versus Year-Ago...UP.....	-1.58%
(*) Net of Short-Term Borrowing	
NOTEWORTHY AT AP-2	
* Hotel/Motel Up 2.4 % vs. year-ago	
* Business License Down -14.1 % vs. year-ago	
* Property Taxes Up -47.0% vs. year-ago	

**Estimated Year-End Resource Range FY2003-04**  
**General Fund Financial Model**



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

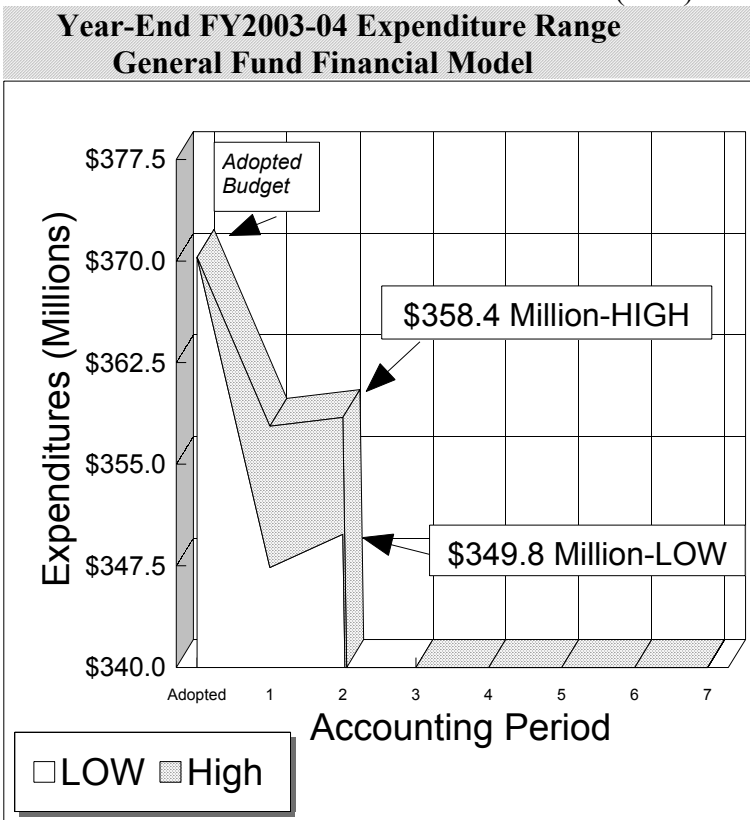
**The Bottom Line:** Resources, year-end, are estimated to range from \$371.8 million (Low) to \$388.8 million (High). Budgeted resources are \$370.62 million. Year-end expenditure estimates range from \$349.8 million (Low) to \$358.4 million (High). Forecast year-end balance, beginning FY2003-04 balance, is forecast at somewhere between \$13.3 million (Low) to as much as \$38.9 million (High). A wide range is typical this early in the year.

Discretionary revenues are off to a weak start, continuing the recession related weakness that began 18 months ago. Transient lodging taxes at period 2 total about \$2.738 million versus \$2.664 million year-ago. Through the first quarter the year-over-year comparison is slightly worse. Business license revenues are 14.1% behind last year and utility license fees are 7% behind year-ago.

Early assessed value data from the County indicates overall assessed value growth of about 2.5% versus a budgeted revenue estimate that assumed 2.9% plus released urban renewal assessed value of about \$300 million from the "option three" districts. Assessed value growth outside of option three districts was about as expected, while released assessed value was about \$200 million short of forecast. No data is yet available on certified levy amounts or compression. The lower assessed value growth ensures that actual property tax revenues will be short of budget by at least one million, possibly more depending on what happens with actual levy compression. This is the second year in a row that this property tax system has experienced weak assessed value growth. This lends support to the proposition that revenues in this Measure 47/50 tax system, unlike the two past incarnations (pre-Measure 5, and Measure 5) follow the business cycle. This makes it more difficult than in past years for the General Fund to defend current service levels (mostly Police, Fire, and Parks) during a sharp downturn like this recession.

EXPENDITURE RECAP	
* IBIS Budgeted Expenses.....	\$370,618,103
* Expense Range.....(High).....	\$358,446,611
* .....(Low).....	\$349,836,309
* Expenses At AP-2(*).....	\$55,059,761
Versus Year-Ago..Up.....	-1.9%
(*) Net of Short Term Borrowing	
NOTEWORTHY AT AP-2	
* Personal Services DOWN-0.3% vs. year-ago	
* All M&S UP 3% vs. year-ago	
* Capital Outlays DOWN-15.8% vs. year-ago	

**General Fund expenditures at AP-2 total about \$55.1 million vs. last year's \$56.1 million, down 1.9 percent versus year-ago.** Spending comparisons continue to be difficult in the absence of a contract with Portland Police Association (PPA). Personal services expenditures are slightly below year-ago. An "interest arbitration" is scheduled during October and November. The arbitrator will probably not issue a decision until sometime late in December or possibly after the first of the new year. Current year-end personal services expenditure estimates assume the City prevails in the interest arbitration. In this case PPA personnel would be awarded a 2.2% and 2.0% wage increases for FY2002-03 and FY2003-04 respectively.



**Figure 2-General Fund Expenditures, FY2003-04**

External materials and service expenditures are off to an uncharacteristically weak start and are about 0.3% behind year-ago. Internal materials and services expenditures are about 10.7% ahead of year-ago. Overall, materials and services are about 3.5% ahead of last year at period 2.

Capital outlays already total \$1.05 million at period 2 versus a revised budget of about \$1.52 million. This budget, like last year, is now almost completely spent.

The Estimated Year-End General Fund Balance at AP-2 ranges from \$13.3 (Low) to \$38.9 million (High). The projected ending balance estimate in this OUTLOOK reflects and FY2002-03 ending fund balance that is about \$11.474 million above the General Fund's FY2003-04 beginning fund balance of about \$8.4 million. Under existing financial policies about \$919,045 represents bureau revenues (Police and Fire) in excess of budget that will be reallocated to bureaus during the fall budget adjustment process (the "Fall Bump"). Council recently passed Resolution #36169 allocating additional FY2003-04 beginning fund balance. In this resolution Council's directed the return of \$919,045 of excess bureau revenues to Police and Fire as required by the revenue policy. The remaining \$10.5 million of balance is allocated \$5.4 million to payoff the remainder of the the \$19.6 million schools line of credit that was used to keep schools open last year. Another \$5.1 million is allocated to buy down the \$18 million, three-year business license surcharge that supports schools for the current and nex two fiscal years.

Estimated Year-End Balance Range		
Item	Low	High
Resources.....	\$371,784,384	\$388,789,624
Expenses.....	\$358,446,611	\$349,836,309
<b>End Balance</b>	<b>\$13,337,773</b>	<b>\$38,953,315</b>

*Ending Fund Balance Range*

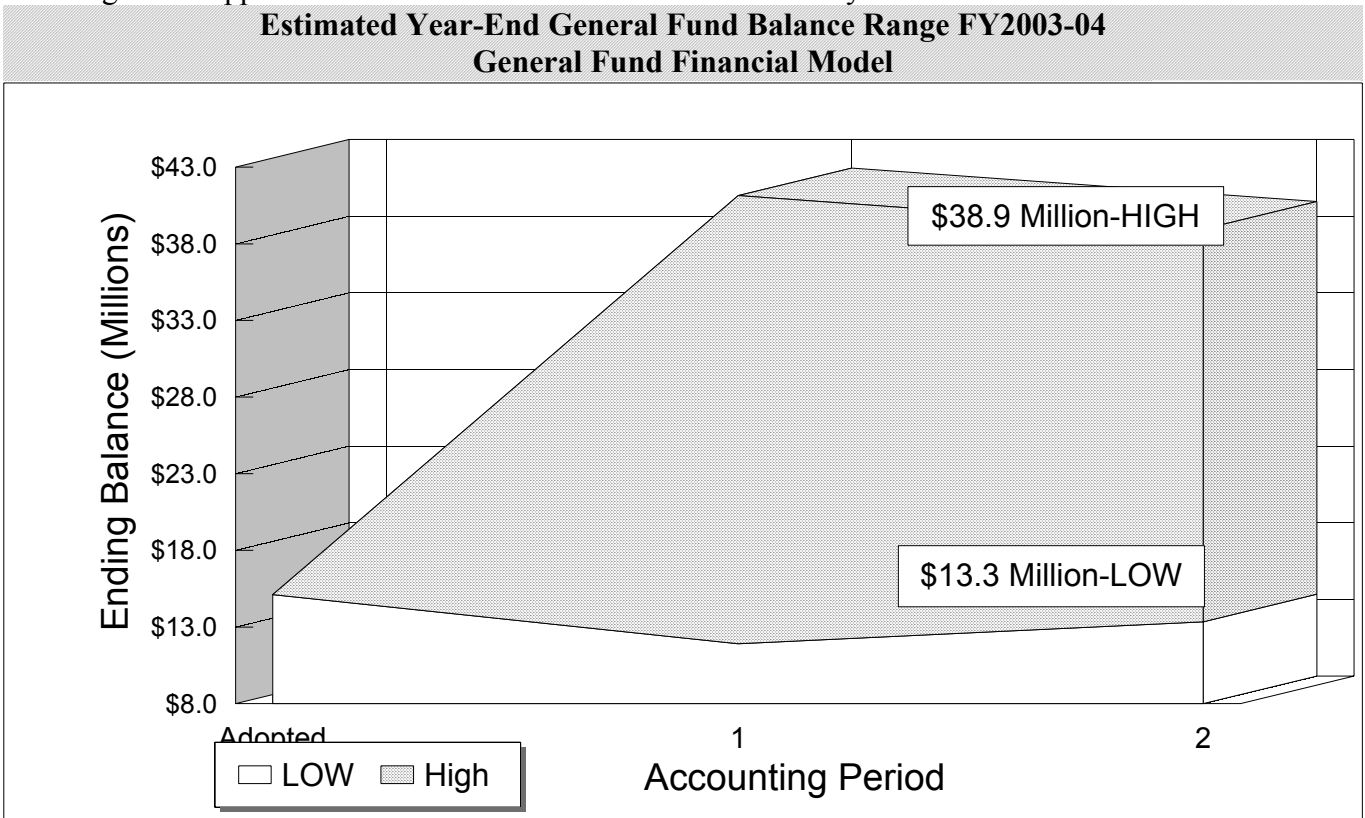


Figure 3-Estimated General Fund Balance, Year-End FY2003-04

**Oregon Steel Mills Acquires Structural Tube Facility**

According to a recent article in the Oregonian, troubled Oregon Steel Mills has leased (with an option to buy) the equipment of the former LTV Structural Tube after reporting second quarter losses of almost \$52 million. Under the name Columbia Structural Steel, the mill will produce rectangular hollow steel structural tubing with typical applications including construction, transportation, agricultural, plus many other engineering and industrial applications. However, the expansion comes amid fierce overseas competition from imported steel and an economic slowdown has adversely affected the overall steel industry. According to US Department of Labor, the industry has sustained significant job losses, almost 340,000 over the last twenty years, despite the fact that the industry has invested over \$50 billion in new technology and environmental controls.

Table 1-General Fund Resources, FY2003-04				
GENERAL FUND RESOURCE CATEGORY		Through	Estimated	Revised
		AP-2	Year-End	Budget
<b>INTERNAL REVENUES.....</b>	<b>41000</b>			
Service Reimbursements.....		\$234,002	\$24,437,719	\$24,936,448
Other Internal & Transfers-IN.....		\$3,022,958	\$29,246,056	\$31,287,573
<b>PROPERTY &amp; LODGING TAXES</b>	<b>42100</b>			
Property Taxes.....		\$16,407	\$151,750,146	\$151,594,887
Lodging Taxes.....		\$2,728,161	\$10,974,011	\$10,978,701
<b>BUSINESS LICENSES, PERMITS....</b>	<b>43000</b>			
Business Licenses.....		\$2,048,431	\$41,553,537	\$40,664,039
Utility License/Franchise.....		\$11,875,774	\$55,737,479	\$57,235,993
Other Permits.....		\$342,370	\$2,054,270	\$2,863,825
<b>SERVICE CHARGES &amp; FEES.....</b>	<b>44000</b>	\$1,957,963	\$12,298,276	\$12,797,303
<b>STATE, FEDERAL SOURCES.....</b>	<b>46000</b>	\$191,433	\$9,211,097	\$9,520,137
<b>LOCAL SOURCES (Contracts).....</b>	<b>47000</b>	\$2,140,319	\$9,155,084	\$9,218,024
<b>MISC. REVENUES &amp; INTEREST.....</b>	<b>49400</b>	\$810,781	\$4,223,663	\$5,772,058
<b>TAX ANTICIPATION NOTES/Note Sales.....</b>		\$0	\$0	\$0
<b>BEGINNING FUND BALANCE.....</b>		\$19,950,707	\$19,950,707	\$8,349,115
<b>ENCUMBRANCE &amp; CARRYOVER.....</b>		\$3,060,603	\$3,060,603	\$5,400,000
<b>GENERAL FUND RESOURCE TOTAL</b>		<b>\$48,379,909</b>	<b>\$373,652,647</b>	<b>\$370,618,103</b>
<b>Estimated Percent Of Budget Resources Realized</b>		<b>13.1%</b>	<b>100.8%</b>	

Table 2-General Fund Expenditures, FY2003-04				
GENERAL FUND EXPENDITURES		Through	Estimated	Revised
		AP-2	Year-End	Budget
<b>Salaries &amp; Wages.....</b>		\$24,669,134	\$164,606,435	\$166,956,692
<b>Overtime.....</b>		\$1,281,357	\$7,171,067	\$6,994,069
<b>Benefits.....</b>		\$6,704,004	\$36,398,655	\$37,613,424
<b>Premium &amp; Part-Time.....</b>		\$4,355,053	\$14,279,036	\$17,086,565
<b>TOTAL PERSONAL SERVICES.....</b>		<b>\$37,009,548</b>	<b>\$222,455,193</b>	<b>\$228,650,751</b>
<b>Estimated Percent Of Budget Spent.....</b>		<b>16.2%</b>	<b>97.3%</b>	
<b>EXTERNAL MATERIALS &amp; SERVICES.....</b>		\$9,409,908	\$56,319,192	\$58,321,675
<b>Estimated Percent Of Budget Spent.....</b>		<b>16.1%</b>	<b>96.6%</b>	
<b>INTERNAL MATERIALS &amp; SERVICES.....</b>		\$4,614,470	\$45,780,290	\$46,682,338
<b>Estimated Percent Of Budget Spent.....</b>		<b>9.9%</b>	<b>98.1%</b>	
<b>CAPITAL OUTLAY.....</b>		\$1,040,076	\$1,484,567	\$1,484,567
<b>Estimated Percent Of Budget Spent.....</b>		<b>70.1%</b>	<b>100.0%</b>	
<b>CONTINGENCY &amp; UNFORESEEN.....</b>		\$0	\$4,083,024	\$8,902,743
<b>FUND CASH TRANSFERS.....</b>		\$2,985,759	\$26,541,029	\$26,576,029
<b>INVENTORY.....</b>		\$0	\$0	\$0
<b>GENERAL FUND EXPENSE TOTAL</b>		<b>\$55,059,761</b>	<b>\$356,663,295</b>	<b>\$370,618,103</b>
<b>Estimated Percent Of Budget Spent.....</b>		<b>14.9%</b>	<b>96.2%</b>	

<b>Table 3-General Fund Expenditures By Appropriation Unit, FY2003-04</b>					
Percent Of Year Gone...	15.4%				
Percent Year Left.....	84.6%				
AU Description	AU#	Through AP-2	Estimated Year-End	Revised Budget	Percent Spent
Police Bureau.....	100	\$18,922,971	\$125,914,601	\$129,390,585	14.6%
Fire Bureau.....	124	\$12,074,166	\$67,021,695	\$69,371,208	17.4%
Bureau Of Parks.....	130	\$7,153,282	\$44,747,200	\$46,477,567	15.4%
<b>Subtotal-Public Safety and Parks</b>		<b>\$38,150,419</b>	<b>\$237,683,497</b>	<b>\$245,239,360</b>	<b>15.6%</b>
Commissioner #2 (Sten)	190	\$96,095	NA	\$634,596	15.1%
Commissioner #4 (Leonard)	191	\$83,981	NA	\$629,451	13.3%
Commissioner #3 (Saltzman)	192	\$119,971	NA	\$774,714	15.5%
Commissioner #1 (Francesconi)	193	\$98,878	NA	\$668,365	14.8%
Office Of The Mayor	195	\$186,143	NA	\$1,413,235	13.2%
Operating Contingency...	298	\$6	\$3,083,024	\$6,902,743	NA
Unforeseen Revenues..	298	\$0	\$1,000,000	\$2,000,000	NA
Other Cash Transfers.....	299	\$2,985,759	\$26,541,029	\$26,576,029	11.2%
Office of Cable Com.....	300	\$308,741	NA	\$1,736,683	17.8%
Emergency Management	110	\$50,324	NA	\$970,223	NA
Office-Sus. Develop.....	302	\$217,200	NA	\$3,137,776	6.9%
Government Relations..	303	\$95,696	NA	\$742,056	12.9%
Office Of Man. & Fin.....	307	\$3,734,766	NA	\$25,687,596	14.5%
Office Of City Attorney....	312	\$748,164	NA	\$5,279,257	14.2%
Business Licenses.....	316	\$567,362	NA	\$4,107,585	13.8%
Purchases & Stores.....	319	\$0	NA	\$0	NA
Stock Account.....	325	(\$11,429)	NA	\$25,000	NA
City Auditor.....	336	\$997,589	NA	\$6,995,434	14.3%
Unused Line.....		\$0	NA	\$0	NA
Office Neigh. Involve.....	342	\$1,274,744	NA	\$7,376,982	17.3%
Bureau General Svces.....	346	\$0	NA	\$0	NA
Unused Line.....		\$0	NA	\$0	NA
Special Appropriations....	401	\$2,757,281	NA	\$12,067,562	22.8%
Bureau Of Planning.....	510	\$1,033,284	NA	\$8,240,615	12.5%
Bureau Com. Develop.....	540	\$1,597,867	NA	\$9,412,841	17.0%
<b>Subtotal-All Other AUs.....</b>		<b>\$16,892,098</b>	<b>\$119,170,243</b>	<b>\$125,378,743</b>	<b>13.6%</b>
<b>General Fund Total-All AUs</b>		<b>\$55,042,517</b>	<b>\$356,853,739</b>	<b>\$370,618,103</b>	<b>14.9%</b>

<b>Table 4-Revenue and Economic Indicators</b>			
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."			
	FY2002-03	FY2002-03	
Reserve Fund Usage Condition	4th Quarter	3rd Quarter	Concern Level
Basic Revenue Growth (*)	-0.4%	0.6%	Below 3.0%
Portland Unemployment Rate	8.0%	8.1%	Above 6.5%
Business License Revenue Growth	-3.5%	-7.0%	Below 5.5%
Property Tax Delinquency Rate	5.8%	5.7%	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.