

City of Portland

Quarterly General Fund Budget and Economic Tracking Report

FY 2010-11, 3rd Quarter
Office of Management and Finance

Introduction

This document is intended to summarize the City's current financial status, as well as discuss the current economic environment. The first section discusses the City's various General Fund revenue streams, the second looks at the City's General Fund expenses, and the last section describes selected aspects of our local economy. The figures shown here are not an official forecast and, as such, represent a midpoint estimate of where the City will likely end the current year. The tables in this document compare the current expectations with the Spring 2010 forecast, on which the current budget was based.

Table 1 below illustrates the relative good health of the current fiscal year. As described in the City's December 2010 Five-Year Financial Forecast, General Fund revenues are trending slightly higher than the current budget anticipated. Meanwhile, budgeted expenses are slightly lower, consistent with past experience that not every city bureau will spend 100% of its allotted budget. It is important to note that the ranges at the far right of Table 1 are still relatively broad as the underlying data only covers seven months of the fiscal year. Also, the ranges are not intended to be inclusive of all possible outcomes, but rather reflect a typical outcome based on recent history.

TABLE 1. FY 2010-11 General Fund Revenue & Expense Tracking (\$millions)

				Estimated Range	
Category	Current Budget	Estimated Year-End	Difference	Low	High
Total Resources	\$467.8	\$475.7	\$7.9	\$455.8	\$497.5
Total Expenses	\$467.8	\$455.0	-\$12.8	\$467.3	\$443.7
Projected Surplus/(Deficit)	\$0.0	\$20.7	\$20.7	-\$11.5	\$53.8

GENERAL FUND REVENUE

Overall, General Fund revenue has performed above initial budget expectations through January of FY 2010-11. However, it should be noted that business license taxes – the City's most volatile revenue source

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– are mostly received during the second half of the fiscal year, so the potential for significant volatility still exists. Table 2 below summarizes the current budgeted amounts of selected General Fund revenue sources, along with the expected range into which these sources are expected to fall. It is important to note that the ranges presented are not intended to be all-inclusive of the potential outcomes, but rather reflect a reasonable expectation of where one might expect to end the year based on recent history.

TABLE 2. FY 2010-11 General Fund Revenue Tracking (\$millions)

			Estimated Range		
	Current	Estimated			
Resource Category	Budget	Year-End	Difference	Low	High
Property Taxes	\$192.0	\$193.5	\$1.5	\$192.4	\$194.7
Business License Taxes	\$57.8	\$63.1	\$5.3	\$56.8	\$69.4
External Utility Licenses/Franchise Fees ¹	\$52.8	\$53.3	\$0.5	\$49.7	\$58.7
Transient Lodging Taxes	\$14.5	\$14.9	\$0.4	\$13.4	\$16.4
State Shared Revenue	\$12.9	\$14.8	\$2.0	\$13.8	\$15.9
Other External Revenues ²	\$40.6	\$38.2	(\$2.4)	\$34.8	\$42.9
Internal Service Reimbursements	\$23.7	\$22.8	(\$0.9)	\$21.7	\$24.0
Internal Transfers/Overhead	\$46.7	\$46.7	\$0.0	N/A	
Beg. Balance/ Encumbered Funds	\$26.8	\$26.8	\$0.0	N/A	
Total Resources ³	\$467.8	\$475.7	\$7.9	\$455.8	\$497.5

¹ Does not include revenue from internal sources, such as Water and Sewer, which are in the Internal Transfers category.

The positive deviations in most of the General Fund revenue categories are largely reflective of two things. First, to the extent that we are seeing an economic recovery, it has been largely concentrated with large corporations seeing larger-than-expected profit levels. This helps fuel growth in the City's business license taxes. Secondly, the City's stated financial policies call for conservative revenue forecasting, resulting in higher-than-expected revenue collections more often than not – the last recession being a notable exception.

General Fund Expenses

Through the first half of the fiscal year, General Fund expenses have tracked generally as expected. Table 3 summarizes the current budget, estimated year-end totals based on the first seven months, and potential ranges for those totals for major expenses categories.

Overall, expenses are roughly where one might expect them to be through January with one notable

² Includes Other Permits, Service Fees, Intergovernmental revenue, Interest Income and Miscellaneous revenue.

³ Estimated year-end totals will not necessarily equal the sum of above categories because the total includes offsetting intra-year differences between the categories.

exception. Personal services expenses through January are actually below the levels seen during the first seven months of FY 2009-10. This is the second time this has happened in the last three years. For comparison purposes it happened only two other times in the prior 20 years. Meanwhile, spending on external materials and services through January are at the lowest level since FY 2003-04. These expenses are usually "under spent" for a variety of reasons, including delays in executing outside contracts and because this is often the primary place where bureaus have budget flexibility.

				Estimated Range ¹	
Expense Category	Current Budget	Estimated Year-End	Difference	Low	High
Personal Services	\$293.7	\$291.6	(\$2.0)	\$287.5	\$298.1
External Materials and Services	\$73.1	\$59.1	(\$14.0)	\$53.0	\$69.8
Internal Materials and Services	\$55.6	\$58.3	\$2.7	\$55.8	\$63.8
Other ²	\$45.5	\$45.5	\$0.0	N/A	
Total Expenses ³	\$467.8	\$455.0	(\$12.8)	\$443.7	\$466.9

¹ Based on the minimum and maximum year-to-date expense rates for the last five years.

CURRENT ECONOMIC CONDITIONS

In spite of some recent good economic news, the hangover from the most recent recession persists. Employment growth has been extremely limited, as companies having been willing to eliminate furloughs and increase hours, but have not been willing to bring on new employees in large numbers. Table 4 shows many area economic indicators, the relative strength compared to a year ago, and a description of the trend regarding the most recent data points. Though these suggest significant positive momentum, it is important to recognize we are, in many cases, simply bouncing off of historic lows, and have a long way to recover to the previous peak.

Employment. The unemployment rate reached a post-recession low in December 2010. The non-seasonally adjusted rate of 9.2% matched that of January 2009 and represented a decrease of 0.7 percentage points from the prior December. Underlying jobs numbers remain disappointing. While the household survey showed gains, jobs figures from the establishment survey¹ for the metro area – the smallest geographic area available – paint a much starker picture with jobs off 0.5% from December 2009. Among the bright spots over the past year were educational and health services (up 3.3%) and

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² Includes Capital Outlay, Bond Expenses, Fund Transfers, and Contingency. Ranges are not provided because these are largely "fixed" expenses and intra-year variation is not necessarily indicative of year-end totals.

³ Estimated year-end totals will not necessarily equal the sum of above categories because the total includes offsetting intra-year differences between the categories.

¹ The most widely-reported unemployment rate and jobs figures come from two different surveys. Broadly speaking, the unemployment rate is based on a phone survey of households, while the jobs figures are based on a sampling of establishments covered by the unemployment insurance system.

manufacturing employment (up 0.9%). Meanwhile, the largest losses were in government, as 2.2% of jobs were lost in 2010, mostly in local education.

TABLE 4. Selected Portland Economic Indicators

Indicator	Most Recent	Value	Year Ago Change	Recent Trend
Economy				
Total Employment, Portland City ¹	12/2010	281,758	3.8%	Positive
Portland City Unemployment Rate ¹	12/2010	9.2%	-0.7%	Positive
Consumer Price Index, Portland- Salem ²	4Q-2010	214.4	1.2%	Neutral
Portland Metro Business Index (2002=100) ³	3Q-2010	92.5	-0.6%	Negative
Real Estate				
Median Home Price, Portland Metro ⁴	1/2011	\$210,000	-10.4%	Negative
Foreclosure Activity, Portland City ⁵	12/2010	365	-46.9%	Positive
Housing Units Permitted (Y-T-D) ⁶	12/2010	1,100	65.4%	Positive
Portland Metro Industrial Vacancy Rate ⁷	4Q-2010	8.5%	-3.4%	Positive
Portland Office Vacancy Rate ⁷	4Q-2010	9.4%	-13.0%	Positive
Commerce				
Total PDX Air Passengers (Y-T-D) ⁸	12/2010	13,184,843	2.0%	Positive
Total PDX Freight (Y-T-D in Tons) ⁸	12/2010	200,706	5.6%	Positive
Total Port of Portland Marine Freight (Y- T-D in Tons) ⁸	12/2010	13,121,665	27.6%	Positive
Hotel Average Daily Rate ⁹	12/2010	\$108.80	4.1%	Positive
Hotel Occupancy Rate ⁹	12/2010	52.3%	7.0%	Positive

¹ Bureau of Labor Statistics. Local Area Unemployment Statistics, Portland city, OR

Real Estate. Housing markets throughout the west have undergone a dramatic correction over the past several years. While Portland has not been immune to that, prices have generally fallen more modestly compared to most cities in California, Phoenix, Las Vegas and, more locally, Bend. As shown in Table 4, permit activity in Portland was up significantly in 2010. However, it is still nearly 75% below 2007 levels. In

² Bureau of Labor Statistics. CPI-W. Portland-Salem, OR-WA

³ A measure of local business activity produced by the Oregon Economic Forum, University of Oregon

Market Action, Publication of RMLS

⁵ Realtytrac

⁶ U.S. Census Bureau

⁷ Grubb & Ellis, Office vacancy is for Central Business District

⁸ Port of Portland, Aviation Statistic

⁹ Wolfgang Rood Hospitality Consulting – Downtown Portland Market

positive news, the Portland downtown office vacancy has dropped dramatically over the past 18 months to a level that is roughly half of that seen in the suburbs.

Commerce. The low value of the dollar and growing demand in parts of Asia helped to drive shipping activity at the Port of Portland to nearly pre-recession levels. In combination with the weak dollar and relative economic strength of China – which became Oregon's largest trading partner in 2009 – export data suggest that much of the growth is being driven by local high-tech companies sending component goods to factories around the world for assembly.

Inflation. Based on data released February 17th, inflation² rose 1.2% for the 12 months ending in December 2010. The total Consumer Price Index is a weighted average of several component prices. The components that saw the largest increases were transportation (4.5%), particularly motor fuels (8.4%), and medical care (4%). Meanwhile, prices associated with housing (-0.4%), recreation (-3.2%), and education and communication (-2.1%) all saw declines over the past year.

² As measured by the CPI-W for the Portland-Salem area, which is historically referenced for City cost-of-living adjustments.