



City of Portland
**Quarterly General Fund Budget
and Economic Tracking Report**
FY 2011-12, 2nd 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 may end the current year. The tables in this document compare the current expectations with the revised FY 2011-12 budget. Because half of the fiscal year remains, the following estimates of revenue or expense categories may be subject to significant variation between now and the end of the fiscal year.

FY 2011-12 GENERAL FUND REVENUE

With the exception of property taxes, it is still too early in the fiscal year to narrowly estimate year-end totals for General Fund revenue sources. While both business license and transient lodging taxes are tracking above forecasted levels, the amount received so far represents less than 40% of what the City is expected to receive over the course of the fiscal year. For Utility License/Franchise Fees, only the first quarterly payment for the fiscal year - due November 15th - has been received. As a result, the figures presented in Table 1 remain subject to potential variability.

TABLE 1. FY 2011-12 Selected General Fund Revenue Source Tracking (\$millions)

Resource Category	Current Budget	Estimated Year-End	Difference
Property Taxes	\$198.0	\$193.8	(\$4.2)
Utility License/Franchise Fees	\$70.8	\$69.4	(\$1.4)
Business License Taxes	\$67.3	\$69.5	\$2.2
Transient Lodging Taxes	\$15.3	\$16.5	\$1.2
State Shared Revenue	\$12.9	\$13.0	\$0.1

New Library District Impact Estimates. At the beginning of January, Multnomah County chose to send to voters a renewal of the existing local option property tax levy for funding the library. This act effectively eliminates the potential for the City to lose property tax revenue through additional compression in FY

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2012-13, as would have happened had voters approved a permanent library district in May. However, the county has suggested that it will now ask voters to approve such a district in November. As part of its analysis, the county re-estimated the impacts to the overlapping jurisdictions using the current year tax assessments. The new assessments revealed a much larger impact to the City than those from a year earlier. The impact to the City’s General Fund is now estimated to be approximately \$7 million, up from just under \$5 million using last year’s assessments. The continuing decline in real market values means that by the time the election comes in November the impact will likely be higher still. The lower property tax collections from the establishment of a Library District would be initially felt in FY 2013-14.

FY 2011-12 General Fund Expenses

With half of the fiscal year complete, certain spending patterns are beginning to emerge related to General Fund expenses. Unlike revenues, expenses follow a much more stable and even pattern over the course of the fiscal year. Table 2 summarizes the current budget and estimated year-end totals based on the first six months of FY 2011-12.

TABLE 2. FY 2011-12 General Fund Expense Tracking (\$millions)

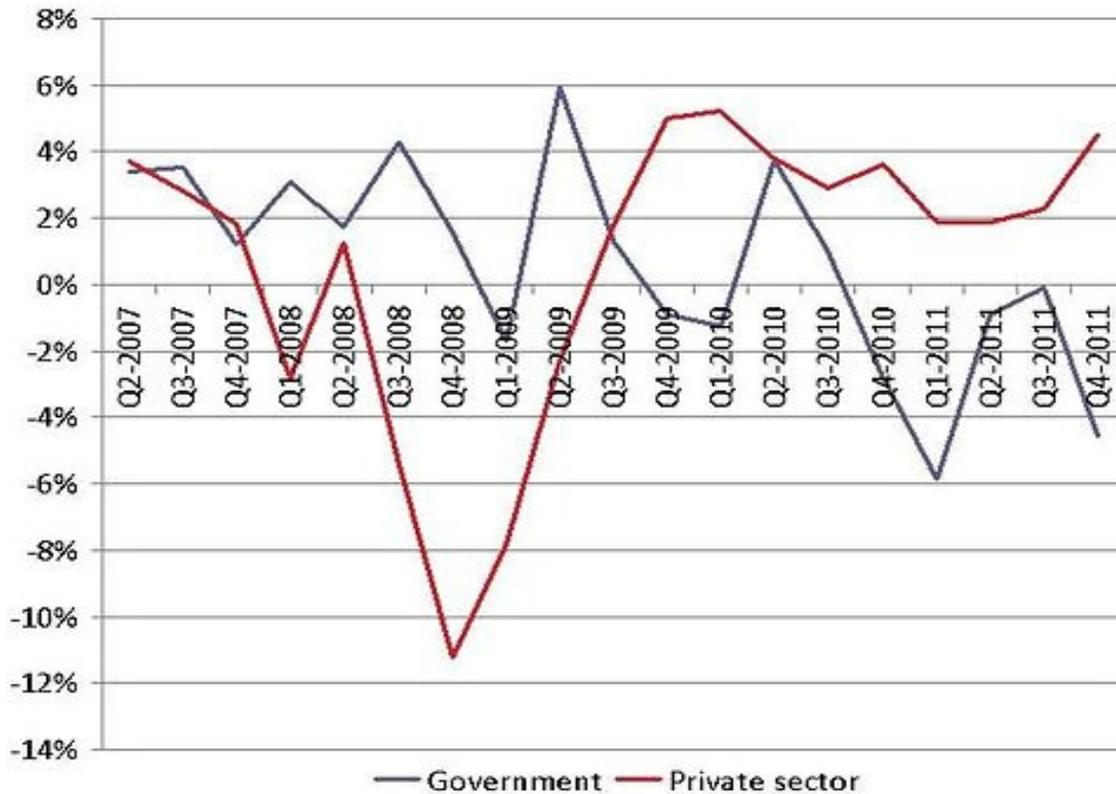
Expense Category	Current Budget	Estimated Year-End	Difference
Personal Services	\$315.5	\$316.2	\$0.7
External Materials and Services	\$76.3	\$65.0	(\$11.3)
Internal Materials and Services	\$56.6	\$56.0	(\$0.6)
Other ¹	\$53.0	\$52.6	(\$0.4)
Total Expenses	\$501.4	\$489.8	(\$11.6)
¹ Includes Capital Outlay, Bond Expenses, Fund Transfers, and Contingency. Compensation Set-aside totaling \$5.2 million is included in personal services.			

Total personal services spending through December was 7.8% above a year ago. Most of the increase was due to new labor contract obligations, a 47% increase in PERS rates, and a 37% increase in overtime and premium pay. Health benefit costs are running approximately 3.2% over last year. When coupled with the PERS increases, it is expected that total benefits will exceed last year’s by 15%. External materials and services spending is running about 11% above a year ago, but is expected to fall well below budgeted amounts. Meanwhile, internal materials and services expenses are tracking close to the adopted budget. Finally, year-end capital outlay is estimated to be close to last year’s level.

CURRENT ECONOMIC CONDITIONS

The lack of any major economic “narratives” continues into 2012. Europe “bubbles up” every few weeks, but remains largely where it did for nearly all of 2011 – on the brink of crisis? The housing market continues to be a drag on the economy, though in some areas of the country that is clearly abating. The other drag on the economy has been government spending. The chart below shows the relative growth rates of the public and private contributions to economic growth. It illustrates the dramatic decline in private sector growth at the end of 2008, the subsequent stimulus spending in 2009, and then the rollback of government spending (largely at the state and local level) beginning in late 2010. The two competing theories go broadly like this: (1) the stimulus spending stabilized the economy and allowed for the private sector to recover, albeit slowly, or (2) the decrease in government spending instilled confidence in the private sector as evidenced by the uptick in private sector growth coinciding with the decrease in government spending. General political leanings tend to drive which theory one supports.

FIGURE 1. Growth in Government vs. Private Sector



Source: Reinhart, Carmen and Rogoff, Kenneth, and Oregon Office of Economic Analysis

Table 3 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. Moderate economic improvement continues. While certainly better than the alternative of declines, growth remains below what one would expect during a typical economic expansion.

Employment. The local unemployment rate has continued to fall, although some of the reason for this is people simply stopped looking for work and dropped out of the labor force. The December unemployment rate for the Portland Metro Area reached a post-recession low of 8.6%, its lowest level since December 2008. Slightly less than half of the drop in the unemployment rate since August has been the result of people leaving the labor force, with the remainder being driven by moderate job growth. Still, underlying job growth remains below levels of a typical recovery. The same government drag that is slowing national growth is also evident in local figures. In 2011, private employers added 16,600 jobs, while government employers lost 2,300, with the majority of those at the local level.

TABLE 3. Selected Portland Economic Indicators

Indicator	Most Recent	Value	Year Ago Change	Recent Trend
Economy				
Total Employment, Portland MSA ¹	12/2011	988,300	1.5%	Neutral
Portland MSA Unemployment Rate ¹	12/2011	8.6%	-1.6%	Positive
Consumer Price Index, Portland-Salem ²	2Q-2011	218.9	2.7%	Neutral
Real Estate				
Median Home Price, Portland Metro ³	12/2011	\$216,600	-5.8%	Negative
Housing Units Permitted (Y-T-D) ⁴	12/2011	1,364	24.0%	Positive
Portland Metro Industrial Vacancy Rate ⁵	4Q-2011	8.1%	-0.4%	Positive
Portland Office Vacancy Rate ⁵	4Q-2011	9.1%	-0.3%	Positive
Commerce				
Total PDX Air Passengers (Y-T-D) ⁶	12/2011	13,675,924	3.7%	Positive
Total PDX Freight (Y-T-D in Tons) ⁶	12/2011	205,846	2.6%	Positive
Total Port of Portland Marine Freight (Y- T-D in Tons) ⁶	12/2011	13,379,404	2.0%	Positive
Hotel Average Daily Rate ⁷	11/2011	\$119.55	4.5%	Positive
Hotel Occupancy Rate ⁷	11/2011	69.5%	0.3%	Neutral
¹ Oregon Employment Department, Unemployment Rate is seasonally-adjusted, Year Ago Change is percentage point increase/decrease ² Bureau of Labor Statistics. CPI-W. Portland-Salem, OR-WA ³ Market Action, Publication of RMLS ⁴ U.S. Census Bureau ⁵ Grubb & Ellis, Office vacancy is for Central Business District, Year Ago Change is percentage point increase/decrease ⁶ Port of Portland, Aviation & Marine Statistics ⁷ Wolfgang Rood Hospitality Consulting – Downtown Portland Market, Year Ago Change is percentage point increase/decrease				

Real Estate. By and large, 2010 was arguably the worst year on record for the housing market, so a healthier, albeit still weak, housing market was welcome in 2011. While sales began to pick up near the end of the year, they did so as prices continued to drop. A sign of good news is that the market tightened

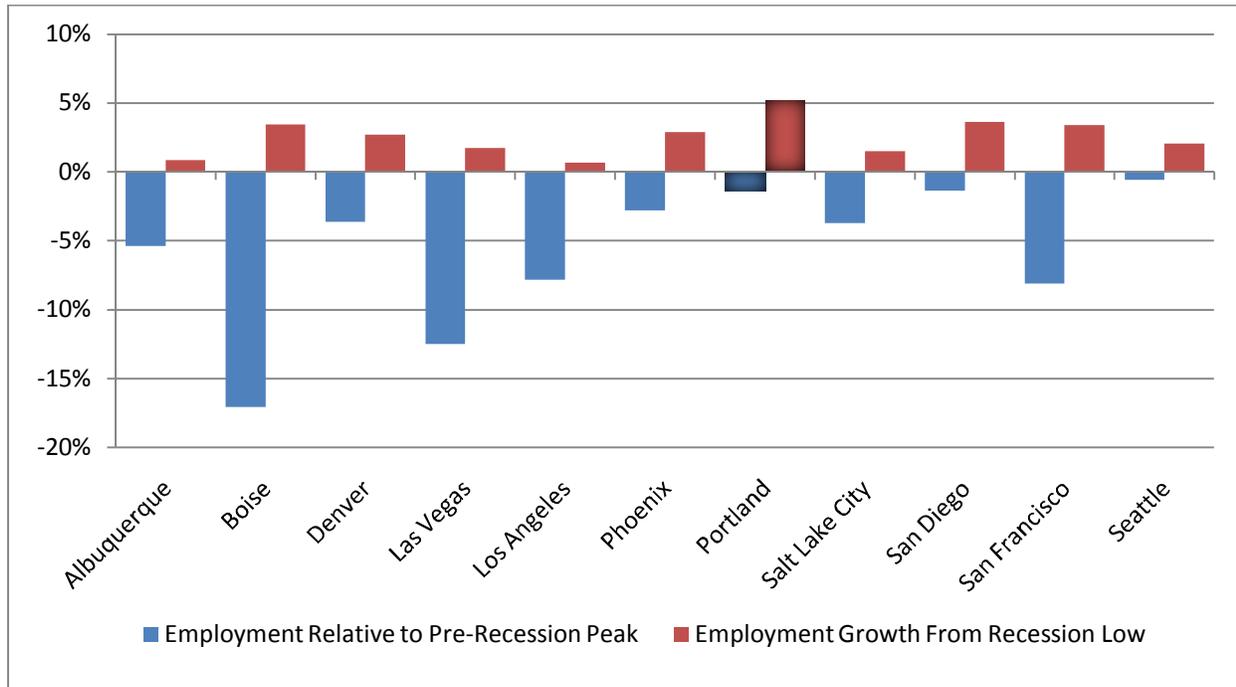
significantly throughout the year. According to the local Market Action Report published by the Regional Multiple Listing Service showed that the inventory of homes for sale, based on current sales levels, fell from 7.9 months worth in December 2010 to 5.3 months worth in December 2011, its lowest level since the recession began. Overall, total sales in 2011 were up 4%, while prices fell by approximately 6%.

Commerce. Export data showed slowing growth at the end of 2011, but nonetheless the year ended with significant progress. For marine freight, total tonnage climbed to nearly 13.4 million, trailing only 2007 and 2008. Commercial activity at PDX also increased in 2011. Though still 6.7% below the peak year of 2007, passenger traffic increased for the second consecutive year. However, air freight activity, while up in 2007, remained more than 25% below 2007 levels. Local hotel activity continues to paint a rosy economic picture. Both occupancy rates and room rates exceeded expectations throughout 2011, although the magnitude of growth has slowed a bit recently.

Employment Comparisons. Limited data is published at the city level – most data is reported by metropolitan area or county. However, the Bureau of Labor Statistics has begun to publish data from their household unemployment survey at the city level. The data is not seasonally adjusted, so month-to-month movement is not necessarily indicative of trends, but year-over-year data can be informative. At this small a geography there can be sample size issues; however, these should also mitigate over a longer timeframe. The following figure and table show comparisons between Portland and various Western and Oregon cities.

Figure 2 illustrates both how far western cities have come from the depths of the recession, as well as how far they still need to climb just to return to their pre-recessionary employment levels. By these measures, Portland looks relatively strong, though once again we should note that this strength is only relative to other cities given current conditions, not relative to historical growth. Portland has grown faster than any large western city and is closer to returning to its pre-recession peak than any city other than Seattle.

FIGURE 2. December Employment Statistics for Selected Western Cities (Bureau of Labor Statistics)



The following table takes a more localized look at these statistics for Oregon Cities and Vancouver, Washington. The size and industrial characteristics play a role in the outcome of the figures presented in table 4. For instance the dependence on the volatile construction sector in Bend versus the relatively stable higher education and government employment in Corvallis and Salem result in wide-ranging employment growth patterns.

TABLE 4. December Employment Statistics for Selected Cities (Bureau of Labor Statistics)

City	Dec. Unemployment Rate	One-Year Emp. Growth	10-year Emp. Growth	Dec. 2011 From Peak	Dec. 2011 From Recession Low
Bend	10.5%	0.2%	25.5%	-10.0%	0.5%
Corvallis	5.7%	2.5%	7.5%	0.0%	6.6%
Eugene	7.5%	-0.6%	5.5%	-5.5%	1.1%
Medford	9.7%	1.0%	11.1%	-4.3%	3.2%
Portland	7.9%	2.9%	2.1%	-1.4%	5.2%
Salem	9.4%	1.8%	9.0%	-0.2%	3.1%
Vancouver, WA	9.3%	-0.2%	5.5%	-4.7%	1.8%