

### City of Portland

# Quarterly General Fund Budget and Economic Tracking Report

FY 2011-12, 3<sup>rd</sup> 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 fiscal year. The City's Five-Year Financial Forecast was released at the end on May 3<sup>rd</sup> and can be found <a href="here">here</a>. The tables in this document compare the current expectations with the revised FY 2011-12 budget.

#### FY 2011-12 GENERAL FUND REVENUE

With three quarters of the fiscal year complete, only business license taxes are subject to significant variation. As a result, table 1 summarizes expectations for total General Fund revenue. Property taxes will remain below budgeted levels for the fiscal year, as compression took a larger-than-expected bite out of collections. Meanwhile, an improving economy, especially for corporations, has pushed both business license and transient lodging taxes above budgeted levels. For Utility License/Franchise Fees, two quarterly payments for the fiscal year are in and, because collections tend to be somewhat predictable for the second half of the year, it is likely that collections for the entire fiscal year will be close to projections. Overall, total General Fund revenue is tracking slightly ahead of forecasted levels.

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

Resource Category	Current Budget	Estimated Year-End	Difference
Property Taxes	\$198.0	\$195.6	(\$2.4)
Utility License/Franchise Fees	\$70.8	\$70.2	(\$0.6)
Business License Taxes	\$67.3	\$72.1	\$4.8
Transient Lodging Taxes	\$15.3	\$17.5	\$2.2
State Shared Revenue	\$12.9	\$13.5	\$0.6
Other General Fund Revenue <sup>1</sup>	\$137.1	\$136.1	(\$1.0)
Total General Fund Revenue	\$501.4	\$505.0	\$3.6

<sup>&</sup>lt;sup>1</sup> Includes transfers, overhead, miscellaneous, and non-discretionary General Fund revenues.

(\$11.2)

## FY 2011-12 General Fund Expenses

With three-quarters of the fiscal year complete, the potential for large variation in year-end estimates for General Fund expense categories is limited. Unlike revenues, expenses follow a much more stable and even pattern over the course of the fiscal year. This is especially true of personal services, which account for more than 60% of General Fund expenses. Table 2 summarizes the current budget and estimated year-end totals based on the first nine months of FY 2011-12.

	Current	Estimated	
Expense Category	Budget	Year-End	Difference
Personal Services	\$315.5	\$316.6	\$1.1
External Materials and Services	\$76.3	\$65.2	(\$11.1)
Internal Materials and Services	\$56.6	\$55.8	(\$0.8)
Other <sup>1</sup>	\$53.0	\$52.6	(\$0.4)

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

\$501.4

\$490.2

Year-end personal services costs are estimated to be \$316.6 million. Personal services expenses were running 8.7% ahead of last year, primarily due to higher PERS costs, the implementation of multiple labor agreements, and significantly higher overtime costs for the Police Bureau, as well as an increase in retiree payouts of \$2.7 million. Police overtime is currently \$3 million (62%) above last year's level. An increase in overtime, coupled with 250% increase in retiree payout, as well as new labor contract costs, which include receiving 2% pay raise and additional raises for night and afternoon shifts, have all contributed to an increase in Police Bureau spending of 10.3% above the same period a year ago. The Fire Bureau has seen overall personal services spending increase \$1 million (4.6%) from last year's level, with retiree payouts accounting for two-thirds of the increase.

External materials and services are projected to reach approximately \$65.2 million, approximately 13.2% higher than last year's \$57.6 million, but well below budgeted amounts. Internal material and services are close to budgeted amount of \$56.6 million. Capital outlay spending is down to about 50% of budget, and reflects a fall in year-to-date expenditure of \$610,000.

#### **CURRENT ECONOMIC CONDITIONS**

**Total Expenses** 

In contrast to the beginning of the year, the latest economic data suggest a slightly slowing economy, especially locally. Nationally, orders for durable goods, a gauge of manufacturing activity fell in March, as did housing starts. The state lost jobs in both February and March, while initial unemployment claims rose. More locally, activity at the Port of Portland has stagnated (see Figure 1), while hotel room occupancy and room rates have waned in the last two months. At this point, we would like to see more positive data in order to avoid a repeat of 2011's summer slowdown where robust growth early in the year quickly faded.

<sup>&</sup>lt;sup>1</sup> Includes Capital Outlay, Bond Expenses, Fund Transfers, and Contingency. Compensation Set-aside totaling \$5.2 million is included in personal services.



FIGURE 1. Port of Portland Marine Freight Activity (12-month moving total)

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. In spite of the most recent negative news, the uneven economic expansion continues.

**Employment**. In March, the seasonally-adjusted unemployment rate for the Portland-Vancouver-Hillsboro metro area fell below 8% for the first time since November 2008. Meanwhile, job growth remains anemic, especially in the context of the dramatic losses during the recession.

**TABLE 3. Selected Portland Economic Indicators** 

Indicator	Most Recent	Value	Year Ago Change	Recent Trend
Economy				
Total Employment, Portland MSA <sup>1</sup>	3/2012	988,100	1.1%	Neutral
Portland MSA Unemployment Rate <sup>1</sup>	3/2012	7.9%	-1.7%	Positive
Consumer Price Index, Portland-Salem <sup>2</sup>	4Q-2011	221.5	3.3%	Neutral
Real Estate				
Median Home Price, Portland Metro <sup>3</sup>	3/2012	\$215,700	0.3%	Neutral
Housing Units Permitted (Y-T-D) <sup>4</sup>	3/2012	541	104%	Positive
Foreclosure Activity <sup>5</sup>	3/2012	327	19.3%	Negative
Portland Metro Industrial Vacancy Rate <sup>6</sup>	4Q-2011	14.2%	-0.8%	Positive
Portland Office Vacancy Rate <sup>6</sup>	4Q-2011	13.0%	1.2%	Neutral
Commerce				
Total PDX Air Passengers (Y-T-D) <sup>7</sup>	3/2012	3,033,034	2.7%	Positive
Total PDX Freight (Y-T-D in Tons) <sup>7</sup>	3/2012	50,178	5.3%	Positive
Total Port of Portland Marine Freight (Y- T-D in Tons) <sup>7</sup>	3/2012	3,221,243	-7.5%	Negative
Hotel Average Daily Rate <sup>8</sup>	2/2012	\$116	-2.2%	Neutral
Hotel Occupancy Rate <sup>8</sup>	2/2012	65.0%	-5.6%	Negative

<sup>&</sup>lt;sup>1</sup> Oregon Employment Department, Unemployment Rate is seasonally-adjusted, Year Ago Change is percentage point increase/decrease

**Commerce.** Robust growth in hotel activity in Portland's downtown slowed markedly in February, as both occupancy and room rates fell from year-ago levels. Figure 2 shows the amount of hotel revenue per available room since the end of 2006. Displayed is a 12-month moving average in order to smooth out seasonal disruptions. Though the recovery has been substantial, revenue remains well below 2008 levels, and the most recent data show outright declines. Finally, offsetting some of the weakness in marine activity, the Port of Portland showed modest increases in air passenger and air freight activity.

<sup>&</sup>lt;sup>2</sup> Bureau of Labor Statistics. CPI-W. Portland-Salem, OR-WA

<sup>&</sup>lt;sup>3</sup> Market Action, Publication of RMLS

<sup>&</sup>lt;sup>4</sup> U.S. Census Bureau

<sup>5</sup> RealtyTrac

<sup>&</sup>lt;sup>6</sup> Norris, Beggs & Simpson, Market Research, Office vacancy is for Central Business District, Year Ago Change is percentage point increase/decrease

<sup>&</sup>lt;sup>7</sup> Port of Portland, Aviation & Marine Statistics

<sup>&</sup>lt;sup>8</sup> Wolfgang Rood Hospitality Consulting – Downtown Portland Market, Year Ago Change is percentage point increase/decrease

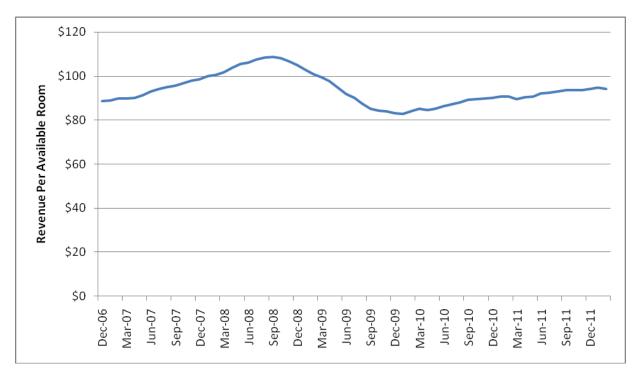


FIGURE 2. Portland Downtown Hotel Revenue Per Available Room (12-month moving average)

Source: Wolfgang Rood Hospitality Consulting

**Real Estate.** The big question is whether or not the local real estate market has "hit bottom." The most recent data suggest that perhaps we have. Sales prices in March were essentially the same as March 2011, and total closed sales were up 4.9% from a year ago. Inventories remain very low as homeowners either cannot move because of lack of equity or are discouraged by the low prices. Historically low mortgage rates are also undoubtedly helping the market.