



City of Portland
**Quarterly General Fund Budget
and Economic Tracking Report**
FY 2012-13, 2nd Quarter
City Budget Office

INTRODUCTION

This document summarizes the City's current General Fund financial position and the current economic environment. The first section discusses the City's risk for overspending in the current fiscal year. The second looks at the City's various General Fund revenue streams and expense categories, while 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 2012-13 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.

PROJECTED FY 2012-13 ENDING BALANCE/RISKS

At this point in the fiscal year, it appears that the City will slightly underspend its General Fund appropriation. However, given a nearly \$500 million General Fund, the margin for error is much lower than in recent years. Though revenue collections appear to be slightly ahead of budgeted amounts, bureaus are on pace to exceed their personnel budgets even after including the compensation set-aside. The City has set aside \$4.9 million for future years that could be accessed to cover current year overages. However, the result would be fewer resources in FY 2013-14, necessitating greater cuts. There are several reasons that the City finds itself in this position:

- The City budgeted \$2.3 million in vacancy savings for FY 2012-13. Historically, vacancy savings have helped bureaus manage within their appropriation and/or the savings have fallen to balance. Because bureaus have gone through several years of cuts and now must refund vacancy savings, that budgetary flexibility has disappeared, resulting in more bureaus in danger of overspending.
- The City spent over \$1 million in contingency funds as part of the FY 2012-13 Adopted Budget. This action left less than \$400,000 (approximately 0.1% of General Fund discretionary resources) to cover unexpected expenditures during FY 2012-13. Of that total, \$75,187 remains after a large portion of it was spent in the Fall Budget Monitoring Process.
- The City will have some expenses relating to the Department of Justice agreement in the current

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fiscal year. However, the new revenue that was intended to pay for these increased costs is unlikely to materialize in the near-term as its collection is now the subject of a court challenge.

- Though it is very early in the fiscal year for business license taxes, the potential volatility remains a major risk to the City’s General Fund. Thus far in the fiscal year, collections have moderated following two years of double-digit growth. The budget called for 5.7% growth and while that remains well within the range of plausible outcomes, at this point we are tracking to something closer to 2% growth.

FY 2012-13 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 significant variability.

TABLE 1. FY 2012-13 Selected General Fund Revenue Source Tracking (\$millions)

Resource Category	Current Budget	Estimated Year-End	Difference
Property Taxes	\$197.9	\$198.0	\$0.1
Business License Taxes	\$76.6	\$73.5	(\$3.1)
Utility License Taxes/Franchise Fees	\$72.2	\$74.0	\$1.8
Transient Lodging Taxes	\$18.1	\$19.8	\$1.7
State Shared Revenue	\$12.9	\$13.5	\$0.6

FY 2012-13 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 generally follow a 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 2012-13.

TABLE 2. FY 2012-13 General Fund Expense Tracking (\$millions)

Expense Category	Current Budget	Estimated Year-End	Difference
Personnel Services	\$315.9	\$317.3	\$1.4
External Materials and Services	\$81.0	\$74.5	(\$6.5)
Internal Materials and Services	\$54.4	\$54.1	(\$0.3)
Other ¹	\$45.7	\$45.7	\$0.0
Total Expenses	\$497.0	\$491.6	(\$5.4)
¹ Includes Capital Outlay, Bond Expenses, Fund Transfers, and Contingency. Compensation Set-aside totaling \$4.4 million is included in personal services.			

Total personnel services spending through December was 1.1% above a year ago, but is expected to end the year 1.3% above last year. Overall year-end personal services are estimated at around \$317 million, or slightly above the current appropriation, including the compensation set-aside. Overtime costs through December are running 16% below last year, mainly due to 2011’s Occupy Portland protests that cost the City at least \$1 million in Police overtime in November 2011. These costs dropped significantly in the second half of FY 2011-12 after the Occupy Portland movement dissipated. However, there is little reason to expect a similar drop off this year. Regular wages and retirement payouts, which account for two-thirds of General Fund personnel services, are 2.2% above last year. A substantial part (69%) of the growth increase is due to increases in Police regular wages, which are running 3.6% above last year, followed by Fire and Management and Finance, up 1.9% and 3.4%, respectively, from a year ago. Total benefits are estimated at around \$71.8 million, or 0.7% above last year.

External material services, including advances, are 17% above a year ago, and are expected to end the year at \$74.5 million. Nearly all of the increase so far in FY 2012-13 is in the Office of Management and Finance, and is the result of increased Special Appropriations – with over \$7 million paid to schools – and the consolidation of the Office for Community Technology into the Revenue Bureau. Internal material and services are estimated at budget - \$54.4 million, while capital outlay is projected at around \$760K.

CURRENT ECONOMIC CONDITIONS

With respect to jobs growth, 2012 was nearly identical to 2011, with each year averaging a little more than 150,000 new jobs per month. There are signs that one of the two major drags on the economy is turning a corner with housing market perking up locally as low inventories and favorable loan terms – for those that can qualify – combine to help spur demand. The other drag on the economy has been government spending. Some are predicting that this, too, will turnaround in 2013. The data may be showing signs, as government appears to have at least stopped cutting jobs, even if hiring remains elusive. The chart below shows the employment growth for the Portland MSA for government (federal, state, and local) and private employers.

FIGURE 1. Portland MSA Employment Growth – Government vs. Private Sector (12-month moving average)

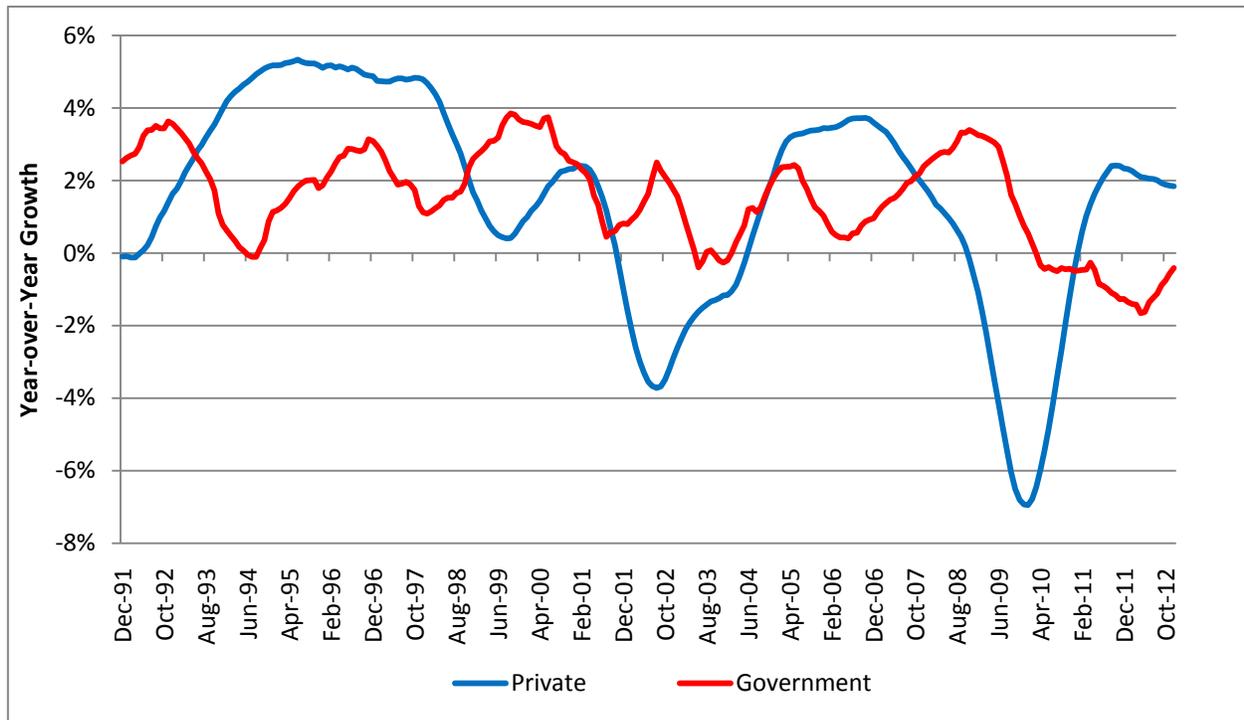


Table 3 shows many area economic indicators, the relative strength compared to a year ago, and a description of the trend regarding the most recent data points.

Employment. The local unemployment rate has continued to fall and job growth has been tracking at about the long-term average for the Portland metro-area. The December seasonally-adjusted unemployment rate for the Portland metro-area reached a post-recession low of 7.8%, its lowest level since November 2008. Still, underlying job growth remains below levels of a typical recovery. Construction employment is still down over the last 12 months, but recent permit data would suggest that this trend will reverse itself in 2013. Meanwhile, more than one-third of the job gains from December 2011 to December 2012 were in manufacturing. Other large industry gains were seen in retail trade and professional services.

TABLE 3. Selected Portland Economic Indicators

Indicator	Most Recent	Value	Year Ago Change	Recent Trend
Economy				
Total Employment, Portland MSA ¹	12/2012	1,010,400	1.2%	Neutral
Portland MSA Unemployment Rate ¹	12/2012	7.8%	-0.7%	Positive
Consumer Price Index, Portland-Salem ²	2Q-2012	223.7	2.2%	Neutral
Real Estate				
Median Home Price, Portland Metro ³	12/2012	\$247,900	14.5%	Positive
Housing Units Permitted (Y-T-D) ⁴	11/2012	2,274	74.9%	Positive
Portland Metro Industrial Vacancy Rate ⁵	4Q-2012	12.9%	-1.3%	Positive
Portland Office Vacancy Rate ⁵	4Q-2012	12.1%	-0.9%	Positive
Commerce				
Total PDX Air Passengers (Y-T-D) ⁶	12/2012	14,390,784	5.2%	Positive
Total PDX Freight (Y-T-D in Tons) ⁶	12/2012	211,873	2.9%	Positive
Total Port of Portland Marine Freight (Y- T-D in Tons) ⁶	12/2012	12,351,569	-7.7%	Negative
Hotel Average Daily Rate ⁷	11/2012	\$131.94	9.9%	Positive
Hotel Occupancy Rate ⁷	11/2012	65.4%	-3.0%	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 Norris, Beggs, & Simpson, Market Research, 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. The last six months of 2012 saw a significant uptick in the local housing market, both in terms of sales and prices. According to the local Market Action Report, published by the Regional Multiple Listing Service, the inventory of homes for sale, based on current sales levels, fell to 3.6 months in December 2012, its lowest level since August 2006. Overall, total sales in 2012 were up 19.1%, while prices reversed course, increasing by approximately 6% for the year. Rising rents and low vacancy rates are also likely attracting investors into the market. According to Norris, Beggs & Simpson, vacancy rates for multi-family housing are below 4% for most of the City, with southwest Portland seeing rates dip below 2%.

Commerce. Export data was largely mixed in 2012. While it is difficult to ascertain the underlying impact of the longshoreman dispute at the port versus a larger economic reason, marine freight through the port fell 7.7% over 2011 figures. However, commercial activity at PDX increased in 2012, with both the number

of passengers and freight rising from 2011 figures. Local hotel activity continues to paint a rosy economic picture. Though occupancy rates dipped at the end of the year, room rates continued to exceed expectations throughout 2012. The result can be seen in the City's transient lodging tax receipts, which have reach record levels this year.