



City of Portland
**Quarterly General Fund Budget
and Economic Tracking Report**
FY 2013-14, 2nd Quarter (Oct. – Dec. 2013)
City Budget Office

INTRODUCTION

This quarterly report summarizes the City's current General Fund financial position and the current economic environment. The first section discusses the City's General Fund outlook for 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 2013-14 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 2013-14 ENDING BALANCE/RISKS

At this point in the fiscal year, it appears that the City will both slightly underspend its General Fund appropriation and receive revenue above budgeted levels. This, coupled with the City agreeing to many new labor contracts with small additional costs, means that there is a low chance of overspending in FY 2013-14. At the same time, there is still only limited flexibility through the rest of the year. The City spent nearly \$2.6 million in contingency funds as part of the FY 2013-14 fall budget monitoring process and subsequent human trafficking ordinance. These actions leave a little more than \$500,000 (approximately 0.1% of General Fund discretionary resources) to cover unexpected expenditures during the second half of the fiscal year. The City has set aside \$1.5 million for FY 2014-15 that could be accessed to cover current year needs; however, that would lower the level of resources previously forecasted to be available for FY 2014-15.

The largest risk at this point in the fiscal year is usually going to be business license taxes, and this year is no exception. The current concern is reflected in the December and January receipts. These receipts largely reflect 4th quarter estimated payments for large taxpayers. In many cases, the fourth quarter payment can be indicative of what the City might see in April, particularly as it relates to decreases in collections. Initial indications are that the weakness illustrated in Figure 1 is concentrated in payments made by large corporations. Perhaps the strengthening economy has led to more investment – either through the purchasing of equipment or entering into new markets – thus reducing taxable income. It is important to note that it is still relatively early in the year in terms of business license tax receipts.

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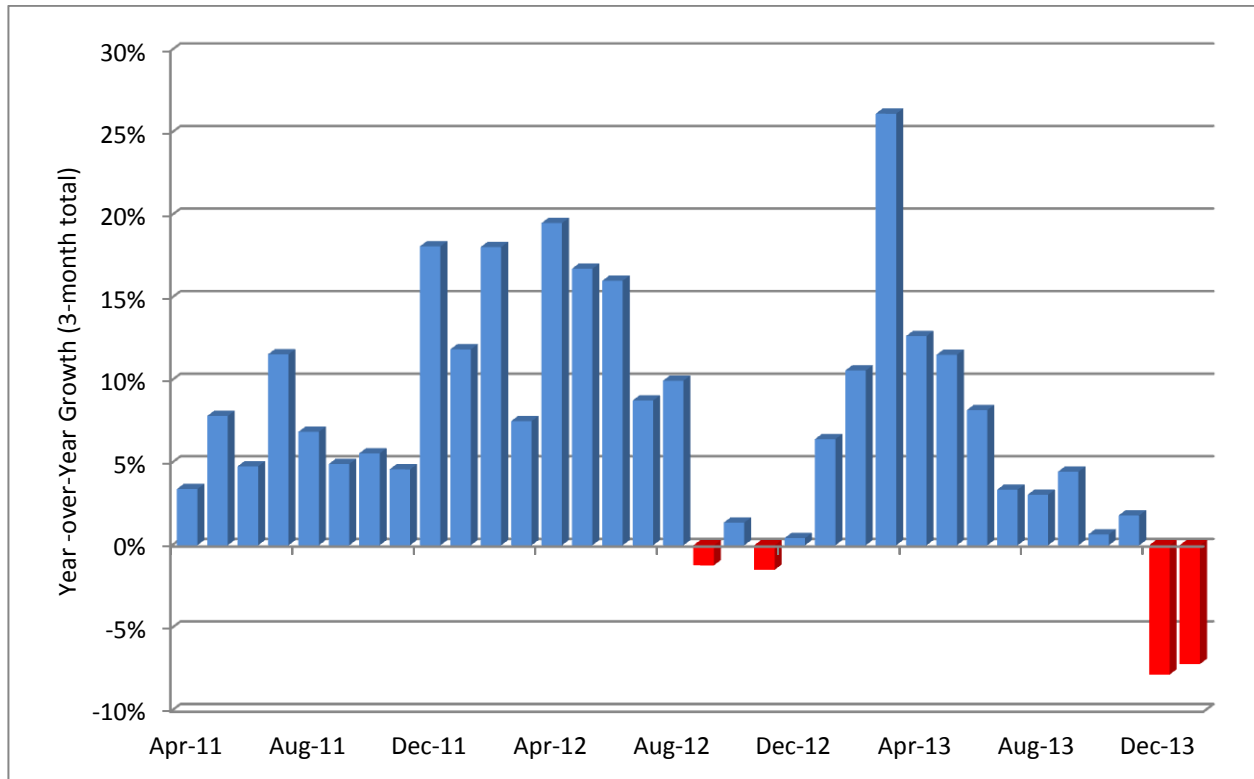
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However, history has shown that the volatility inherent in these collections can lead to swings of \$5 to \$10 million in terms of the April forecast.

FIGURE 1. Business License Tax Receipts (Year-over-Year Growth, 3-month Moving Total)



FY 2013-14 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. Most revenue sources are tracking above forecasted levels. However, the amount received so far for business license taxes, utility taxes, and transient lodging taxes represents less than one-quarter of what the City is expected to receive over the course of the fiscal year. 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	\$193.7	\$196.6	\$2.9
Business License Taxes	\$79.1	\$75.0	(\$4.1)
Utility License Taxes/Franchise Fees	\$77.4	\$78.5	\$1.1
Transient Lodging Taxes	\$19.1	\$19.1	\$0.0
State Shared Revenue	\$13.9	\$14.4	\$0.6
Other	\$131.3	\$132.6	\$1.3

FY 2013-14 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, with the possible exception of external materials and services, which see a large bump in spending at the end of the year. Table 2 summarizes the current budget and estimated year-end totals based on the first six months of FY 2013-14. The figures presented in the table are generally consistent with expectations included in the December forecast.

TABLE 2. FY 2013-14 General Fund Expense Tracking (\$millions)

Expense Category	Current Budget	Estimated Year-End	Difference
Personnel Services	\$324.0	\$319.9	(\$4.1)
External Materials and Services	\$81.8	\$81.0	(\$0.8)
Internal Materials and Services	\$50.9	\$49.9	(\$1.0)
Other ¹	\$57.6	\$57.6	\$0.0
Total Expenses	\$514.3	\$508.4	(\$5.9)
¹ Includes Capital Outlay, Bond Expenses, Fund Transfers, and Contingency. Compensation Set-aside totaling \$5.2 million is included in personal services.			

Total personnel services spending through December was 0.4% below a year ago, but is expected to end the year 1.9% above last year. Deferred cost-of-living increases included in many of the City’s recent labor agreements, as well as a one-time cost for a component of the Portland Police Association contract will push costs higher in the second half of the year. Overtime and premium pay costs through December are running 1% above a year ago, while benefits are 3.5% higher than at this point in FY 2012-13. Regular wages and retirement payouts, which account for two-thirds of General Fund personnel services, are 1.8% *below* last year. This is likely reflective of both the significant cuts that the City sustained as part of the FY 2013-14 budget, as well as the aforementioned labor contracts, most of which concluded after the December pay period.

External materials and services, are 2.9% above a year ago, and are expected to end the year at \$81.0 million, including encumbrances. Meanwhile, internal materials and services are estimated slightly below budget at \$49.9 million.

CURRENT ECONOMIC CONDITIONS

The current economic expansion is now the 7th longest in US history – though only the most recent quarters have shown growth typical of economic recoveries. Government investment, or the lack thereof, continues to subtract from growth. Annualized Real Gross Domestic Product grew by 3.2% in the fourth quarter of 2013. However, it would have exceeded 5% had shrinking government investment simply been flat for the quarter. Regardless, most economic forecasters have increased expectations for growth in

2014.

Table 4 at the end of the document 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.

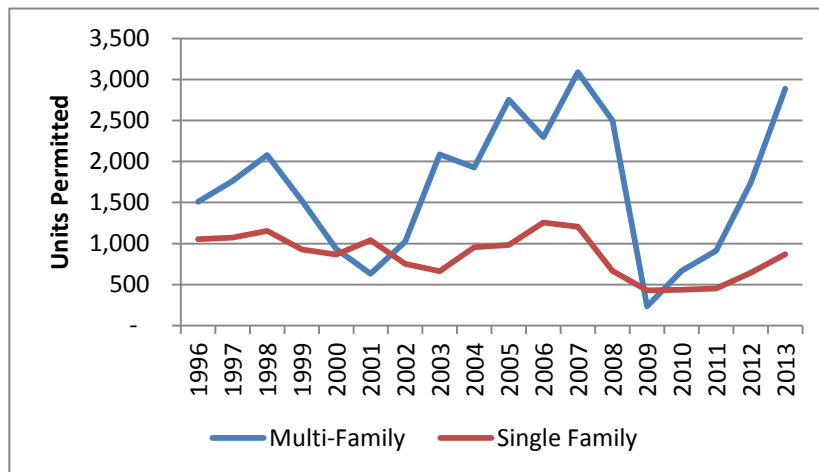
Employment. The local unemployment rate has continued to fall and job growth has been tracking at about the long-term average for the Portland metro-area. The December seasonally-adjusted unemployment rate for the Portland metro-area reached a post-recession low of 6.6%, its lowest level since August 2008. Underlying job growth has crept up near levels of a typical recovery. Preliminary December data indicate that employment growth for 2013 in the Portland metro area was 2.3%, which was the 15th fastest out of the nation’s 50 largest metro areas. Table 3 shows the metro areas with the fastest and slowest employment growth since December 2012. Construction employment boomed in 2013 and recent permit data would suggest that this trend will continue in 2014. Employment growth was broad-based in 2013, with professional and business services being the other industry showing large gains. Meanwhile, government employment was essentially flat for 2013.

TABLE 3. Metro Area Employment Growth Since December 2012 (BLS)

Metro Area	Emp. Growth	Rank
San Jose, CA	3.4%	1
Orlando, FL	3.1%	2
Tampa, FL	3.0%	3
Portland, OR	2.3%	15
New Orleans, LA	0.2%	48
Memphis, TN	0.0%	49
Cleveland, OH	-0.6%	50

Real Estate. The last year saw true recovery in much of the local housing market. Median sales prices increased by more than 10% for large parts of the metro area, particularly those within five miles of downtown Portland. Price growth is expected to moderate slightly this year, but the area still should see some growth. Where the truly massive growth is occurring, however, is in multifamily housing. Due to some pent up demand (young adults finally having the ability to rent their own place), long run demographic changes, as well as the type of migrant that Portland is attracting – young, educated, potentially underemployed – the market for multifamily housing is booming. Figure 2 below shows the number of units permitted, with 2013 nearly eclipsing the record high set in 2007. While the movement to multifamily housing from single family housing is expected, the boom in construction will likely slow at least some by 2015.

FIGURE 2. Portland Housing Units Permitted (US Census Bureau)



Commerce. Export data were largely mixed in 2013. 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 3.4% in 2013, after falling 7.7% in 2012. However, commercial activity at PDX

increased in 2013, with both the number of passengers and freight rising for the third consecutive year. Local hotel activity continues to paint a rosy economic picture. Occupancy rates remained high and room rates continued to exceed expectations throughout 2013. The result can be seen in the City’s transient lodging tax receipts, which have reached record levels over the last year.

TABLE 4. Selected Portland Economic Indicators

Indicator	Most Recent	Value	Year Ago Change	Recent Trend
Economy				
Total Employment, Portland MSA ¹	12/2013	1,023,500	1.6%	Positive
Portland MSA Unemployment Rate ¹	12/2013	6.6%	-1.1%	Positive
Consumer Price Index, Portland-Salem ²	1H-2013	228.033	1.9%	Neutral
Real Estate				
Median Home Price, Portland Metro ³	12/2013	\$267,300	7.8%	Positive
Housing Units Permitted (Y-T-D) ⁴	12/2013	3,755	57.6%	Positive
Portland Metro Industrial Vacancy Rate ⁵	4Q-2013	9.8%	-3.1%	Positive
Portland Office Vacancy Rate ⁵	4Q-2013	10.7%	-1.4%	Positive
Commerce				
Total PDX Air Passengers (Y-T-D) ⁶	12/2013	15,029,569	4.4%	Positive
Total PDX Freight (Y-T-D in Tons) ⁶	12/2013	212,414	2.9%	Neutral
Total Port of Portland Marine Freight (Y- T-D in Tons) ⁶	12/2013	11,937,580	-3.4%	Negative
Hotel Average Daily Rate ⁷	3Q-2013	\$115.25	7.2%	Positive
Hotel Occupancy Rate ⁷	3Q-2013	82.6%	2.6%	Positive
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 PFK Hospitality Research, LLC				