



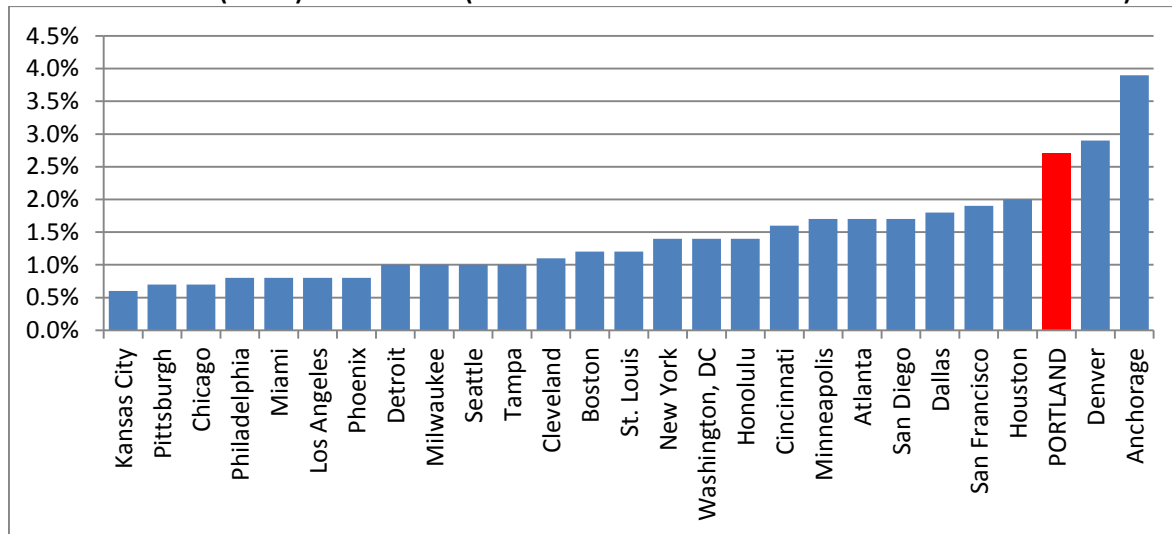
City of Portland
General Fund Forecast UPDATE
FY 2014-15 through FY 2018-19
City Budget Office
March 2014

This document incorporates information gleaned since the release of the December Five-Year Financial Forecast. Though there has been little change in the economic outlook, certain other aspects of the forecast have come into focus. Ultimately, the City finds itself in a slightly worse, though still generally good, financial position. As of the end of February, it appears the City will be able to *add \$3.6 million in ongoing program spending, as well as \$2.4 million in one-time spending*, and remain balanced to expected resources over the five-year forecast horizon. Both the ongoing and one-time figures are down slightly from December. Most of the remaining potential changes to the outlook surround business license taxes, which could still change the outlook significantly. A longer discussion of this risk is on page 2.

Changes Since December 2013 Forecast

COLA Costs – Very low inflation figures have described much of the last two years. This trend continued for much of the country through the end of 2013. However, Portland became an outlier in 2013 (see Figure 1 below), as the CPI-W for Portland rose 2.7% from the second half of 2012 to the second half of 2013. The December forecast included a lower expectation for FY 2014-15 cost-of-living allowances (COLA). As a result, ongoing General Fund personnel expenses beginning in FY 2014-15 will be approximately \$2 million higher than expected.

FIGURE 1. Inflation (CPI-W) for U.S. Cities (2nd Half 2013 over 2nd Half 2012 - Bureau of Labor Statistics)



For more information regarding this document please contact:

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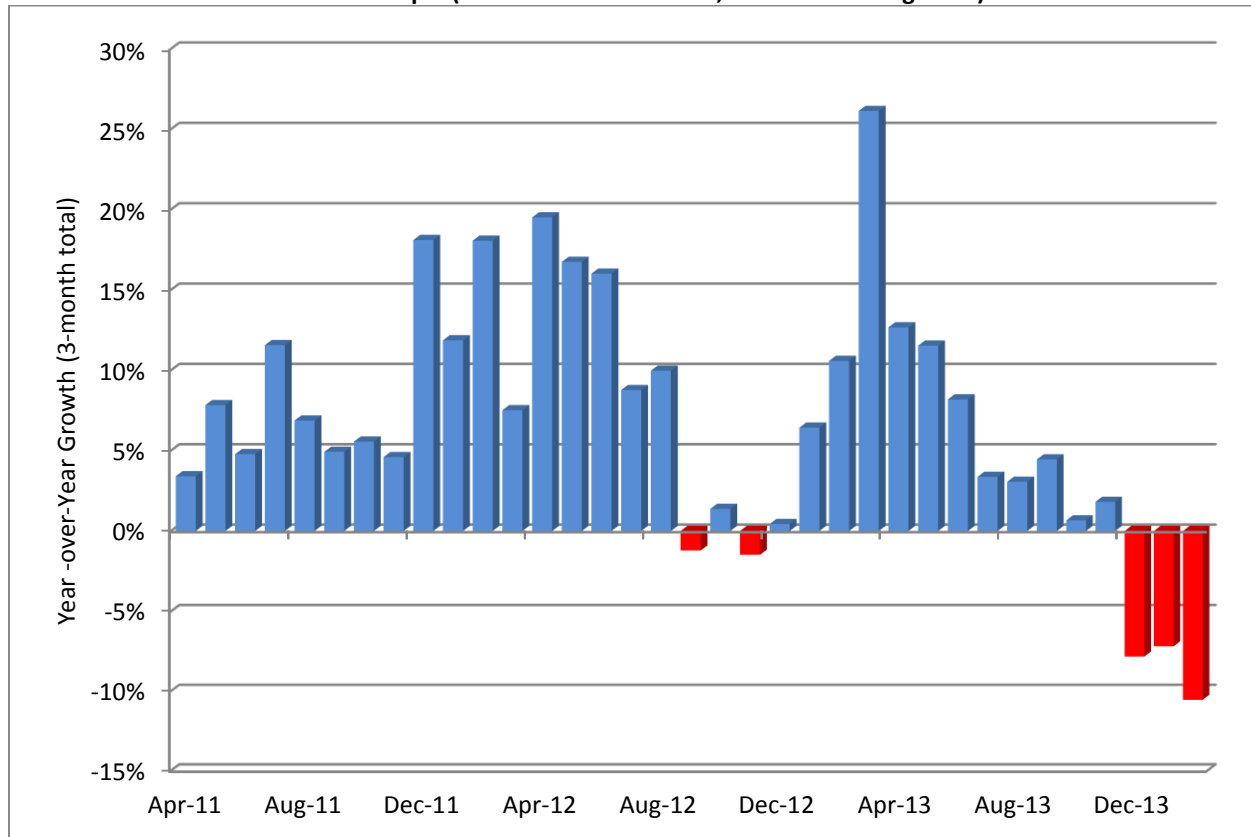
Revenue Forecasts – Changes to forecasts for General Fund revenues mostly offset one another, as expectations for both property taxes and utility license taxes were increased slightly, while near-term forecasts for business license taxes were reduced. Of particular note, the reductions in the business license tax forecast served to significantly reduce the beginning balance expectation for FY 2014-15.

Future PERS Rates – PERS investment returns were significantly higher in 2013 than the “planned-for” 8%. This was the second year in a row of returns near 15%. Though a more refined estimate of future PERS rates will be included in the April forecast, the forecast for increasing PERS rates beginning in FY 2015-16 was reduced slightly as part of the forecast update, thus lowering forecasted expenses in the out-years of the forecast.

Major Short-Term Financial Forecast Risks

Business License Taxes – Business License tax payments have been lower-than-expected over the past several months. Though not necessarily predictive of a weak April tax collection season, it is cause for concern as the volatility inherent in these taxes could easily change the available resources for FY 2014-15. If the City experiences a very weak April, it is possible that there would not be resources to add any ongoing or one-time programs. Figure 2 below illustrates the recent weakness.

FIGURE 2. Business License Tax Receipts (Year-over-Year Growth, 3-month Moving Total)



PERS Lawsuits – To the extent that plaintiffs are successful in repealing the PERS reforms passed by the state legislature in 2013, the City may be required to have higher PERS employer rates for the foreseeable future. The timing of the resolution of these lawsuits will determine the extent of any impacts to the City’s financial forecast.

Public Utilities District – A measure has qualified for the May ballot that would create a new government entity responsible for water and sewer utility operations. Though the ultimate impacts will depend on a variety of factors, should the measure pass, the City could experience significant budgetary impacts that will affect FY 2014-15 and beyond.

For More Information see December 2013 Financial Forecast: <http://www.portlandoregon.gov/cbo/article/474105>