City of Portland

General Fund Forecast

FY 2014-15 through FY 2018-19

City Budget Office

April 2014

In spite of an accelerating economy, the City's business license tax collections in FY 2013-14 will likely come in below FY 2012-13 levels. Fortunately, the City's other two large revenue streams – property taxes and utility license taxes/franchise fees – are showing much stronger growth. As a result, the City finds itself with additional ongoing and one-time resources in FY 2014-15. Table 1 summarizes discretionary General Fund resources and expense requirements through FY 2018-19. As shown in Table 1, the City will have $4.6 million in additional ongoing resources and $4.7 million in one-time resources above projected expenditures over the five-year forecast horizon. This represents an approximate **1.1% addition** from the projected FY 2014-15 General Fund current appropriation level.

TABLE 1. Discretionary General Fund Five-Year Forecast ($millions)

	Fiscal Year					
Budget Category	**2013-14**	**2014-15**	**2015-16**	**2016-17**	**2017-18**	**2018-19**
Total Resources	**$406.2**	**$420.8**	**$429.2**	**$445.6**	**$460.2**	**$476.2**
Total Expenses	**$406.2**	**$411.5**	**$429.2**	**$445.6**	**$460.2**	**$476.2**
Available Ongoing		$4.6	$0.0	$0.0	$0.0	$0.0
Available One-Time		$4.7	$0.0	$0.0	$0.0	$0.0
Total Expenses with Adds & One-Time Spending	**$406.2**	**$420.8**	**$429.2**	**$445.6**	**$460.2**	**$476.2**
Note: Totals may not add due to rounding						

City financial policies require that the City balance its budget over the entire five-year forecast. This means that, to the extent forecasted revenues in year five of the forecast are insufficient to cover expected costs in the same year, the policy requires cuts be enacted in year one of the forecast to set the budget on a sustainable course. It should be noted that there was $5.8 million in one-time spending in the FY 2013-14 Adopted Budget, but only $4.7 million is forecast for FY 2014-15 and none is forecast for FY 2015-16 and beyond. However, lower-than-expected spending or higher-than-expected revenue may generate one-time ending fund balances.

For more information regarding this document please contact:

Josh Harwood, City Economist

503-823-6954

Josh.Harwood@portlandoregon.gov

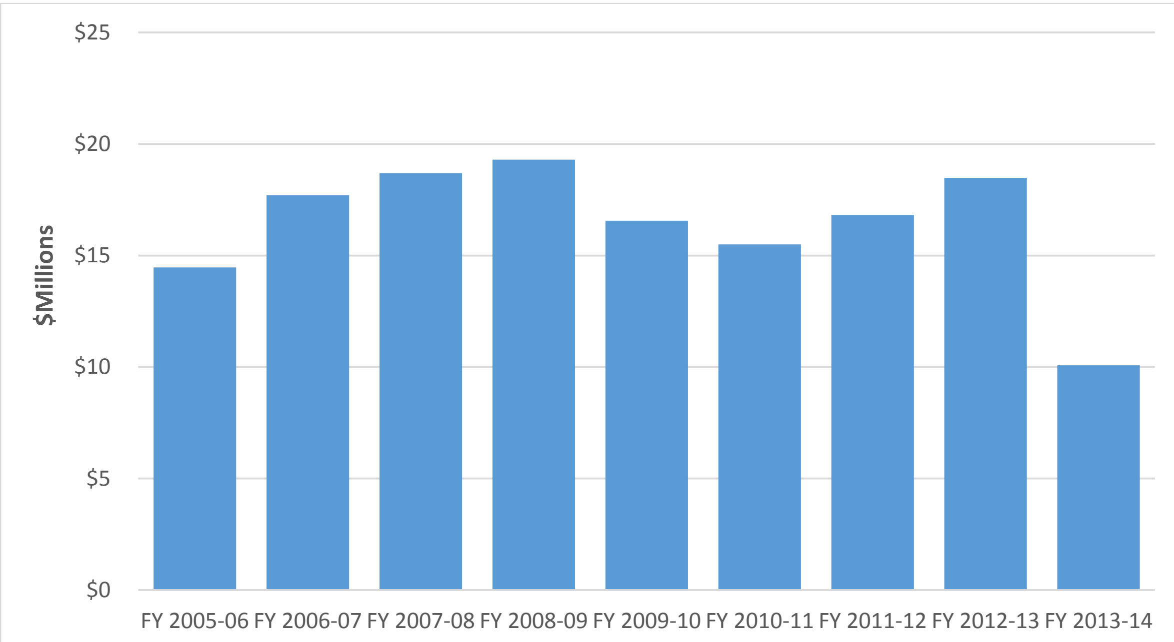
Twitter: @PDXBudgetOffice

Changes Since March Forecast Update

Near-term Revenue Forecasts – The disappointing results from the April business license tax season required a reduction in the forecast for future business license tax collections. However, this reduction was largely offset by increases in utility licenses taxes/franchise fees forecasts.

Higher Beginning Balance Expectations – The combination of increased utility license taxes and franchise fees, and historically low external materials and services spending in the beginning of 2014 have led to a $3 million increase in the forecast for FY 2013-14 ending balance. Figure 1 below illustrates just how low EM&S spending has been over the last few months.

Figure 1. External Materials & Services Spending (January through March)



Lower Benefits Costs – Final benefit plan determinations resulted in lower-than-expected benefit costs increases for FY 2014-15. In particular, the costs for the medical plan offered under Kaiser will essentially stay at FY 2013-14 rates, while the City plan will see only modest increases. Future year costs remain a risk to the forecast – both higher and lower – as provisions from the Affordable Care Act are implemented.

Major Financial Forecast Risks

Potential Future Obligations – As was noted in the December forecast, the City has begun discussions regarding some potentially costly projects that could add significantly to the City's General Fund expenses. In addition to long term major maintenance and replacement projects, the Willamette River's Superfund project may require some General Fund discretionary resources over the next several years. The City also received a federal grant allowing the City to avoid laying off 26 firefighters for the next two years. However, when funds run out, the City must either lay off those officers or find additional resources that are not currently projected in this forecast.

Public Utility District – In May, voters will vote on the establishment of a new water district, which would govern the City's current Water and Environmental Services bureaus. Currently, those bureaus constitute nearly $30 million in City General Fund and overhead spending, in addition to various interagency agreements to which they are a party. Establishing a new governance structure for these bureaus will have budget consequences, the severity of which is unknown at this time because it would be dependent on actions to be decided by an elected board for the District.

Excess Ending Fund Balance – This is largely an upside risk. During the last economic expansion excess ending fund balances approached $30 million. While excess balances at that level are unlikely in our current economic and budget condition, an excess ending balance of $15-$20 million is more likely than a deficit.

Discretionary General Fund Resources

Roughly 90% of discretionary General Fund revenue (excluding beginning fund balance) comes from three sources: property taxes, business licenses, and utility licenses/franchise fees. Most of the remainder comes from transient lodging taxes and state shared revenues, which are comprised of the City's share of state-collected liquor and cigarette revenues. Transfers and various small miscellaneous sources round out the City's discretionary General Fund revenue sources. Table 2 summarizes the forecasts for each of these General Fund revenue sources over the five-year forecast horizon.

TABLE 2. Discretionary General Fund Resources Five-Year Forecast ($millions)

	Fiscal Year				
Resource Category	**2014-15**	**2015-16**	**2016-17**	**2017-18**	**2018-19**
Beginning Balance	$15.0	$7.6	$9.0	$9.1	$10.3
Property Taxes	$205.3	$213.8	$221.0	$228.1	$235.2
Transient Lodging	$21.1	$21.9	$22.5	$23.2	$23.8
Business Licenses	$79.8	$83.4	$87.5	$91.7	$96.0
Utility License/Franchise	$82.3	$84.8	$87.7	$90.1	$92.5
State Revenues	$14.5	$14.8	$15.1	$15.1	$15.3
Transfers	$0.7	$0.7	$0.7	$0.7	$0.8
Miscellaneous	$2.1	$2.1	$2.2	$2.2	$2.3
Total Resources	***$420.8***	***$429.2***	***$445.6***	***$460.2***	***$476.2***
Note: Totals may not add due to rounding					

Other than property taxes, which are projected to be slightly above prior forecasts, the largest changes in the forecast outlook since December are to business license taxes and utility license taxes/franchise fees. These changes largely offset each other, though reductions in the out-year forecasts for business license taxes serve to decrease the amount of ongoing resources available. Business License tax collections grew by 31% over the past three years, but are expected to decline slightly in FY 2013-14, as it is suspected that the stronger economy induced investment and thereby slowed profit-taking. Collections will likely increase in FY 2014-15. Both business license and transient lodging forecasts are highly sensitive to broad economic conditions, and thus present the greatest exposure to the revenue forecast.

Discretionary General Fund Expenses

The forecast for General Fund expenses is driven largely by a variety of inflation factors, as well as policy decisions. As highlighted in the March Forecast Update, the forecast incorporates a 2.7% cost-of-living adjustment (COLA) for personnel services for FY 2014-15, which is 0.9 percentage points higher than the 1.8% forecasted in December, thus increasing costs by approximately $2 million. Other expense assumptions were modestly lower, particularly health benefits costs. The summary of these expenses is displayed in Table 3.

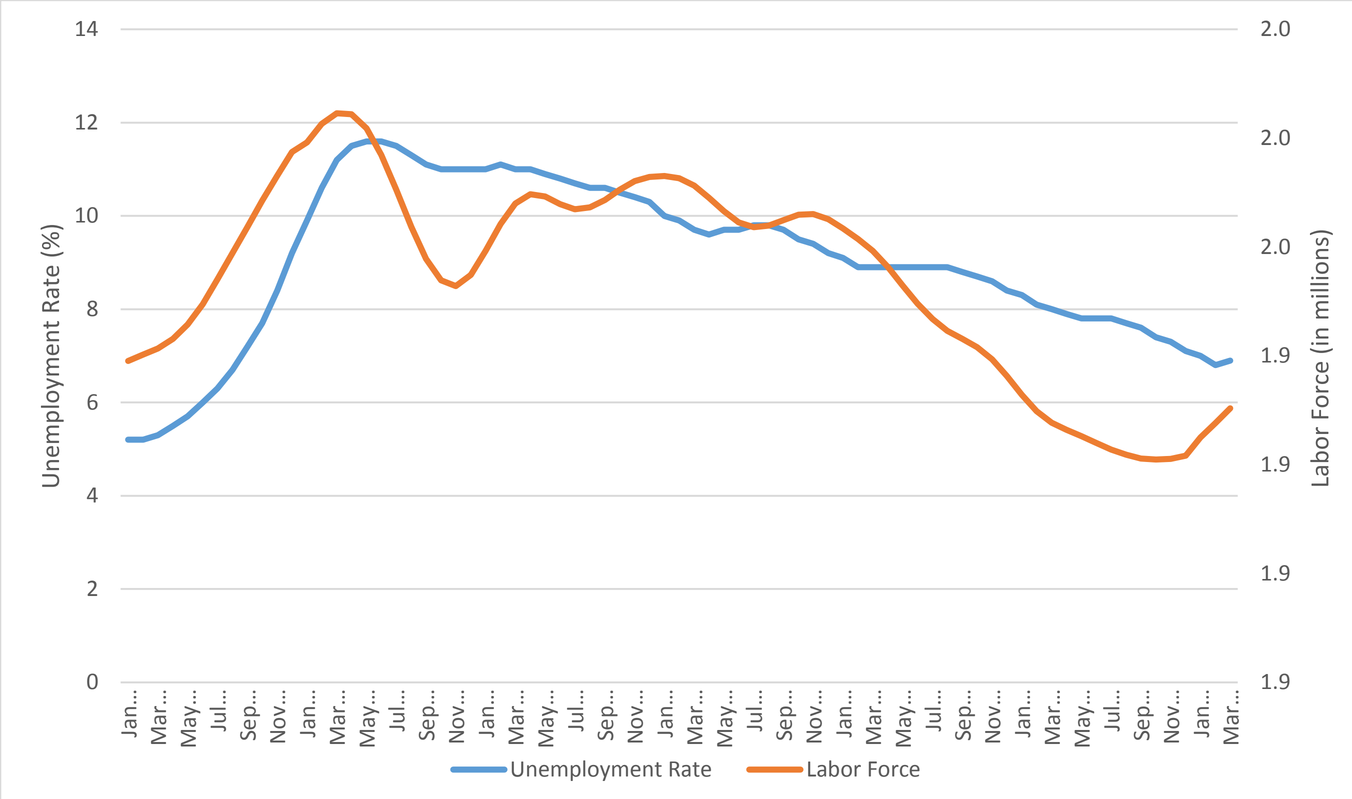
TABLE 3. Discretionary General Fund Expense Five-Year Forecast ($millions)

	Fiscal Year				
Expense Category	**2014-15**	**2015-16**	**2016-17**	**2017-18**	**2018-19**
Bureaus CAL Targets	$362.1	$381.2	$394.7	$408.3	$423.1
Transfers to Bureaus	$14.9	$15.1	$15.5	$15.8	$16.0
Council Set-Asides/Special Appropriations	$34.5	$32.8	$35.4	$36.1	$37.1
One-time Spending Available	$4.7	$0.0	$0.0	$0.0	$0.0
Available FY 2014-15 Ongoing	$4.6	$0.0	$0.0	$0.0	$0.0
Total Budget Requirements	**$420.8**	**$429.1**	**$445.6**	**$460.2**	**$476.2**
Note: Totals may not add due to rounding					

Current Economic Conditions/Forecast Assumptions

For the first time since the current economic expansion began nearly five years ago, we are seeing data more indicative of historical economic growth following a recession. Among these is a good illustration of why the unemployment rate can be a misleading indicator. Unemployment rates, both locally and nationally, have been dropping for several years. However, people simply giving up and leaving the labor force has been a significant contributor to these declines. The most recent data actually show the unemployment rate increasing slightly in spite of robust employment gains. This occurs because the economy has actually recovered to the point that those that had previously exited are now returning (or opting to enter the labor force instead of, say, attending college). Figure 2 shows the unemployment rate and labor force for Oregon over the last six years.

Figure 2. Statewide Unemployment and Labor Force (Bureau of Labor Statistics)



Economic Indicators/Forecast Assumptions. Tables 4 summarizes current selected economic indicators. Data is largely positive, particularly real estate-related indicators.

TABLE 4. Selected Portland Economic Indicators

Indicator	Most Recent	Value	Year Ago Change	Recent Trend
Economy				
Total Employment, Portland MSA[1]	3/2014	1,049,700	2.7%	Positive
Portland MSA Unemployment Rate[1]	3/2014	6.4%	-1.1%	Positive
Consumer Price Index, Portland-Salem[2]	2H-2013	231.399	2.7%	Neutral
Real Estate				
Median Home Price, Portland Metro[3]	3/2014	$277,500	11.0%	Positive
Housing Units Permitted (Y-T-D)[4]	3/2014	762	16.0%	Positive
Portland Metro Industrial Vacancy Rate[5]	1Q-2014	10.9%	1.0%	Neutral
Portland Office Vacancy Rate[5]	1Q-2014	8.9%	-1.2%	Positive
Commerce				
Total PDX Air Passengers (Y-T-D)[6]	3/2014	3,404,034	7.1%	Positive
Total PDX Freight (Y-T-D in Tons)[6]	3/2014	52,055	1.6%	Neutral
Total Port of Portland Marine Freight (Y- T-D in Tons)[6]	3/2014	3,491,006	11.6%	Positive
Hotel Average Revenue Per Available Room[7]	3Q/2013	$95.26	10.7%	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

Employment

Year-over-year employment growth during the first quarter of 2014 was nearly 3%, the fastest growth since the end of 2006. For private employers the growth was even greater, approaching 3.5%. Gains have been widespread with construction employment increasing nearly 10%, followed by leisure and hospitality sector employment jumping by almost 5%.

Real Estate

Double digit growth in home values characterized described the reality for most of the city in 2013. While those value increases are not expected recur again in 2014, the low inventory is still expected to produce modest home value gains. The biggest risk here remains interest rates. A sharp rise in mortgage rates would limit demand and, correspondingly, any price increases.

Commerce

The local lodging industry has continued to build on its record numbers from 2012-13, as evidenced both in independent data and the City's lodging tax collections. For calendar year 2013, revenue per available – a statistic that combines both room rates and occupancy levels – exceeded 10% growth for the second year in a row. Meanwhile, with the long-running labor dispute at the Port resolved, marine freight movement is returning to its pre-dispute growth pattern.