



City of Portland
Five-Year General Fund Financial Forecast
FY 2015-16 through FY 2019-20
City Budget Office
December 2014

The economy is finally reaching growth rates that are commensurate with a substantial economic expansion. Therefore, we are expecting slightly above average revenue growth over at least the next two years, which will provide the City with a modest amount of new ongoing resources beginning in FY 2015-16. Table 1 summarizes discretionary General Fund resources and expense requirements through FY 2019-20. As shown in Table 1, the City will have \$4.6 million in additional ongoing resources and \$14.4 million in one-time resources in FY 2015-16.

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

Budget Category	Fiscal Year					
	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Total Resources	\$426.7	\$455.4	\$457.0	\$472.5	\$487.6	\$501.0
Total Expenses	\$426.7	\$436.4	\$453.5	\$467.7	\$483.8	\$501.0
Available Ongoing Adds		\$4.6				
Available One-Time		\$14.4				
Reserved for Future Year Balance ¹		\$0.0	\$3.6	\$4.8	\$3.8	\$0.0
Total Expenses with Adds & One-Time Spending	\$426.7	\$455.4	\$457.0	\$472.5	\$487.6	\$501.0

¹These dollars are required in order to fund ongoing programs in future years.
Note: Totals may not add due to rounding

The totals in the table slightly obscure underlying revenue growth because FY 2015-16 is expected to have a much larger beginning balance than out-years of the forecast. This occurs because revenues in FY 2014-15 are now expected to be significantly higher than budgeted amounts, which were conservatively forecast per City financial policy. During periods of robust economic growth, we would expect City revenue to exceed the forecast, sometimes by a significant amount.

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 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

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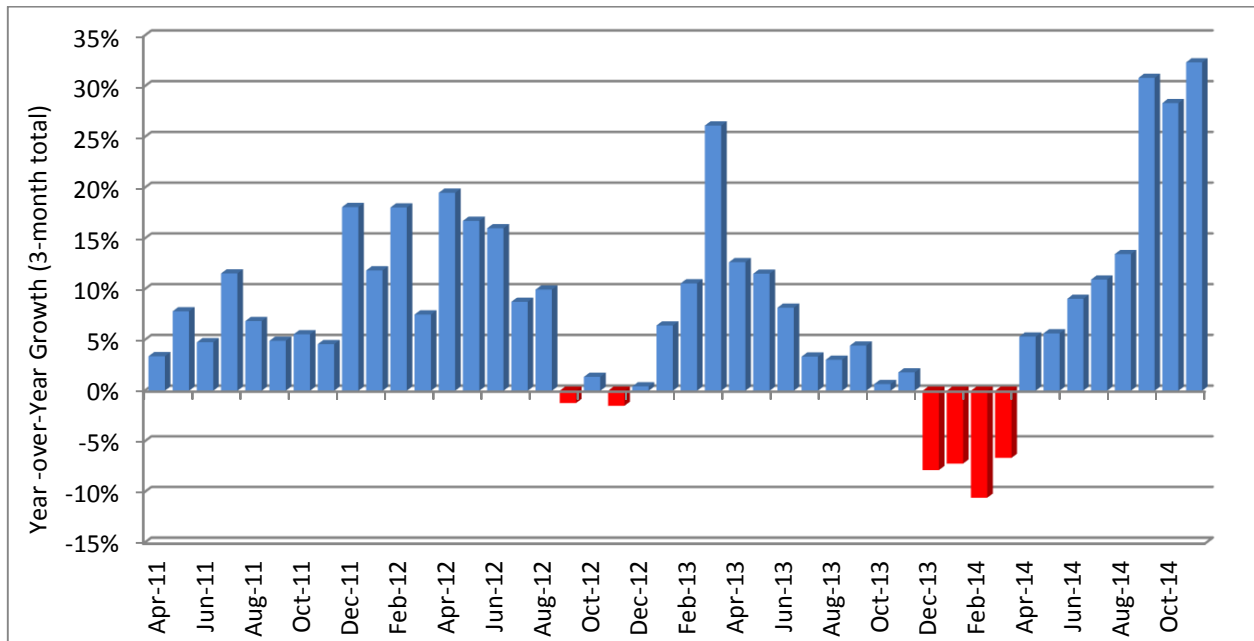
course. While the December forecast does not require any ongoing cuts, the projections for revenues and expenses are such that the City will need to reserve resources in the forecast’s intervening years in order to balance future year budgets. This is largely the result of the expectation that revenue growth will be highest in the first two years of the forecast.

Changes Since April 2014 Forecast

Near-term Revenue Forecasts – Early indications show that actual revenue received in FY 2014-15 will likely be substantially higher than budgeted (detailed revenue forecasts can be found in Appendix Table A-1).

- Based on information released by the County in October, **property tax** collections are likely to exceed budgeted levels in FY 2014-15 by approximately \$4 million. This was largely the result of lower-than-expected compression, as housing value appreciation jumped by more than 10%. Also, robust new construction activity will help to add to the property tax rolls for the near future.
- Figure 1 illustrates both the recent strength in **business license tax** collections and how quickly the outlook can change. Just a year ago collections appeared to be weakening, only to turn around abruptly come tax reconciliation time in April.

FIGURE 1. Business License Tax Deposits (Year-over-Year Growth, 3-month moving totals)



- Meanwhile, **transient lodging taxes** are in the midst of the largest quarter of collections in history. To give a sense of scale, collections received in just October and November 2014 equal nearly half of what was received in all of FY 2011-12, just three years ago.

Prior Council Spending Decisions – Though not explicit in the forecast figures, past decisions made by Council determine the amount of money available in each forecast. Table 2 summarizes the impact of several recent decisions that City Council has made. Absent these decisions, the forecast would reflect an additional \$2.5 million in available ongoing resources. Detailed discretionary expense forecasts can be found in Appendix Table A-2 – Specific Bureau and transfer current appropriation level targets can be found [here](#) on the [City Budget Office](#) website.

TABLE 2. Prior Council Decisions Impacting FY 2015-16 Forecast

Bureau/Program	Decision Point	Amount
Parks	Budget Note – Eliminate Prior Year Cut	\$400,000
Parks	Ordinance - Park Rangers Labor Contract	\$328,084
Parks	Various Ordinances (O&M)	\$516,045
OMF - EBS Metrics Changes	Fall BMP	\$1,165,647
OMF - Facilities (Fueling Stations) ¹	Fall BMP	\$170,000
OMF - Citywide Projects (PSSRP)	Fall BMP	(\$332,326)
BDS	Budget Note – Inspectors	\$286,048
Total		\$2,533,498

¹Reflects net costs after accounting for the ongoing resources made available after paying off internal service loan as part of Fall BMP.

Major Short-Term Financial Forecast Risks

Revenue Forecasts – It appears the City’s revenue streams are reaching cyclical highs in terms of growth rates, particularly as it relates to the most volatile revenue streams – business license and transient lodging taxes. The December forecast assumes that growth will wane in the out-years as the business cycle slows somewhat. Though the forecast does not assume a recession, a slowing of the economy during the forecast window is likely. *Ultimately, the near-term risk appears to be more to the positive, while the longer-term forecast risk is more mixed.*

Finally, the state successfully defended its lawsuit with Comcast regarding property tax valuation. Though determining the final financial outcome was assigned to a lower court, the likely result is that the City (along with other jurisdictions) will see a significant one-time windfall – Comcast has been paying based on the lower valuation since 2009 – as well as up to \$1 million in additional ongoing resources. It is not clear when the issue will be resolved.

Potential Future Obligations – The City has some costly projects that could add significantly to the City’s General Fund expenses:

- 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 rehabbing or new construction of the Portland Building will likely require significant General Fund resources to finance the debt taken out in order to pay for the project; and,
- A federal grant that allowed the City to avoid laying off 26 firefighters expires in the middle of the next fiscal year. The City must either lay off those officers or find additional resources that are not currently projected in this forecast.

The forecast for General Fund expenses is driven largely by a variety of inflation factors as well as policy decisions. The forecast incorporates a 2.5% cost-of-living adjustment (COLA) for personnel services for FY 2015-16. Other expense assumptions were modestly higher, particularly those associated with PERS, where employer rates released by PERS in late September were slightly higher than anticipated, resulting in slightly less than \$1 million in additional projected expenses for FY 2015-16.

PERS Lawsuits – This will be an ongoing risk to the forecast until the disputes are resolved. To the extent that plaintiffs are successful in repealing the PERS reforms passed by the state legislature, the City may be required to have higher PERS employer rates for the foreseeable future. These rate increases would outstrip any projected revenue increases, thus constraining the City budget. It is not anticipated that any legal outcome would require the City (or any other PERS-covered jurisdiction) to make a one-time lump sum payment into the system, but rather simply pay higher employer rates into the future.

Current Economic Conditions

The current economic environment appears to have reached true expansion levels for the first time since the recession ended in June 2009. Generally speaking, the more local the data, the better. The United States is growing faster than most industrialized nations; Oregon is doing better than most states; and, Portland looks better than the state as a whole. Portland area employment surged past its pre-recession peak early in 2014, while the most recent state level data for November 2014 show the state finally accomplishing this feat.

Economic Indicators/Forecast Assumptions. Tables 5 summarizes current selected economic indicators. Data are essentially positive across the board. In fact, some real estate indicators may be “too hot,” particularly the multi-family vacancy rate. The low rate is certainly inducing supply, as multi-family permits in 2014 will be higher than at the apex of the real estate bubble. For more detailed forecast assumptions, please see appendix table A-3.

TABLE 5. Selected Portland Economic Indicators

Indicator	Most Recent	Value	Year Ago Change	Recent Trend
Economy				
Total Employment, Portland MSA ¹	10/2014	1,080,700	2.6%	Positive
Portland MSA Unemployment Rate ¹	10/2014	6.3%	-0.6%	Positive
Consumer Price Index, Portland-Salem ²	1H-2013	233.565	2.4%	Neutral
Real Estate				
Median Home Price, Portland Metro ³	11/2014	\$287,000	6.3%	Positive
Housing Units Permitted (Y-T-D) ⁴	10/2014	4,272	43.0%	Positive
Portland Metro Industrial Vacancy Rate ⁵	3Q-2014	7.5%	-2.1%	Positive
Portland Office Vacancy Rate ⁵	3Q-2014	10.6%	0.7%	Neutral
Portland Multi-Family Vacancy Rate ⁵	3Q-2014	2.5%	0.1%	Neutral
Commerce				
Total PDX Air Passengers (Y-T-D) ⁶	10/2014	13,379,386	7.0%	Positive
Total PDX Freight (Y-T-D in Tons) ⁶	10/2014	179,679	3.8%	Positive
Total Port of Portland Marine Freight (Y- T-D in Tons) ⁶	10/2014	10,895,676	11.0%	Positive
Hotel Average Revenue Per Available Room ⁷	3Q/2014	\$149.72	12.7%	Positive
<p>¹ Oregon Employment Department, Unemployment Rate is seasonally-adjusted, Year Ago Change is percentage point increase/decrease</p> <p>² Bureau of Labor Statistics. CPI-W. Portland-Salem, OR-WA</p> <p>³ Market Action, Publication of RMLS</p> <p>⁴ U.S. Census Bureau</p> <p>⁵ Norris, Beggs, & Simpson, Market Research, Year Ago Change is percentage point increase/decrease.</p> <p>⁶ Port of Portland, Aviation & Marine Statistics</p> <p>⁷ PFK Hospitality Research, LLC</p>				

Appendix Tables

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

Resource Category	Fiscal Year				
	2015-16	2016-17	2017-18	2018-19	2019-20
Beginning Balance	\$20.0	\$9.5	\$12.8	\$15.3	\$13.5
Property Taxes	\$219.7	\$226.7	\$233.9	\$241.2	\$248.7
Transient Lodging	\$24.0	\$25.4	\$26.1	\$26.5	\$27.7
Business Licenses	\$88.2	\$89.1	\$90.6	\$92.3	\$95.3
Utility License/Franchise	\$85.8	\$88.5	\$91.1	\$94.0	\$97.4
State Revenues	\$14.8	\$14.9	\$15.1	\$15.3	\$15.4
Transfers	\$0.7	\$0.7	\$0.7	\$0.8	\$0.8
Miscellaneous	\$2.1	\$2.2	\$2.2	\$2.3	\$2.3
Total Resources	\$455.4	\$457.0	\$472.5	\$487.6	\$501.0
Note: Totals may not add due to rounding					

TABLE A-2. Discretionary General Fund Expense Five-Year Forecast (\$millions)

Expense Category	Fiscal Year				
	2015-16	2016-17	2017-18	2018-19	2019-20
Bureaus CAL Targets	\$384.4	\$401.1	\$413.7	\$427.8	\$443.5
Transfers to Bureaus	\$19.2	\$16.7	\$17.1	\$17.5	\$17.9
Council Set-Asides/Special Appropriations	\$32.8	\$35.6	\$36.9	\$38.5	\$39.7
One-time Spending Available	\$14.4				
Available FY 2014-15 Ongoing	\$4.6				
Reserved for Future Year Balancing	\$0.0	\$3.6	\$4.8	\$3.8	\$0.0
Total Budget Requirements	\$455.4	\$457.0	\$472.5	\$487.6	\$501.0
Note: Totals may not add due to rounding					

TABLE A-3. Selected Economic Indicator Forecasts

	2014	2015	2016	2017	2018	2019
<i>Macroeconomic Indicators</i>						
Real Gross Domestic Product ¹	2.2%	3.3%	3.6%	3.0%	2.5%	2.0%
Corporate Profits - U.S. ¹	9.0%	11.1%	6.5%	0.5%	-0.3%	2.1%
Retail Trade Spending - U.S. ¹	3.9%	5.3%	5.5%	5.6%	4.3%	3.8%
Unemployment Rate - Portland-Vancouver-Hillsboro MSA ¹	6.3%	6.3%	6.1%	5.7%	5.6%	5.6%
Employment Growth - Portland-Vancouver-Hillsboro MSA ¹	2.7%	2.5%	2.9%	1.7%	1.0%	0.7%
Retail Trade Spending - Portland-Vancouver-Hillsboro MSA ¹	6.6%	5.7%	5.4%	5.1%	3.9%	3.5%
<i>Prices</i>						
CPI-W for Portland-Salem OR-WA	2.5%	2.6%	2.7%	3.0%	3.0%	3.0%
CPI-Services For U.S. ¹	3.2%	5.0%	4.9%	4.1%	3.3%	2.8%
Producer Price Index - U.S. ¹	2.8%	2.6%	2.4%	2.3%	2.2%	2.2%
Natural Gas Prices ²	-3.2%	5.4%	4.9%	4.7%	4.7%	5.7%
Electricity Prices ²	1.8%	2.4%	2.6%	2.6%	2.3%	2.3%
<i>Other Factors</i>						
PERS Employer Cost Rates - Tier 1 & 2	9.3%	13.34%	13.34%	14.5%	14.5%	16.0%
PERS Employer Cost Rates - OPSRP (non-sworn)	7.5%	7.53%	7.53%	9.5%	9.5%	12.0%
PERS Employer Cost Rates - OPSRP (sworn)	10.4%	11.64%	11.64%	14.3%	14.3%	16.0%
¹ Provided by Moody's/Economy.com						
² United States Energy Information Administration						