



City of Portland
**Quarterly General Fund Budget
and Economic Tracking Report**
FY 2014-15, 2nd Quarter (Oct. – Dec. 2014)
City Budget Office

INTRODUCTION

This quarterly report summarizes the City's current General Fund financial position and the City's 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 2014-15 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 2014-15 ENDING BALANCE/RISKS

Illustrating the accelerating economic growth that characterized much of 2014, it appears that the City will collect revenue significantly above FY 2014-15 budgeted levels. Conversely, General Fund spending is on track to meet or exceed budgeted levels in some expenditure categories. At the same time, there is still only limited flexibility through the rest of the year. A little less than \$1 million (approximately 0.2% of General Fund discretionary resources) in contingency funds are left to cover unexpected expenditures during the second half of the fiscal year. However, due to the higher-than-expected revenue levels, the ending balance for FY 2014-15 is poised to exceed \$30 million, as compared to the \$20 million included in the December forecast. If the trend continues, the April forecast will include an increased beginning balance for FY 2015-26, likely adding to the one-time funds available in the FY 2015-16 budget.

The largest risk at this point in the fiscal year is usually going to be business license taxes. However, it is highly likely we will significantly exceed budgeted amounts in FY 2014-15. This year, the concerns lie largely on the spending side, primarily in personnel services. Figure 1 shows the year-over-year growth in personnel services spending over the first six months of the year. The nearly 8% growth is the fastest in the last ten years. Growth over the first six months in FY 2011-12 was 7.8% and ended the year at 7.9%. If the city continues this rate of growth, it will overspend personnel services.

For more information regarding this document please contact:

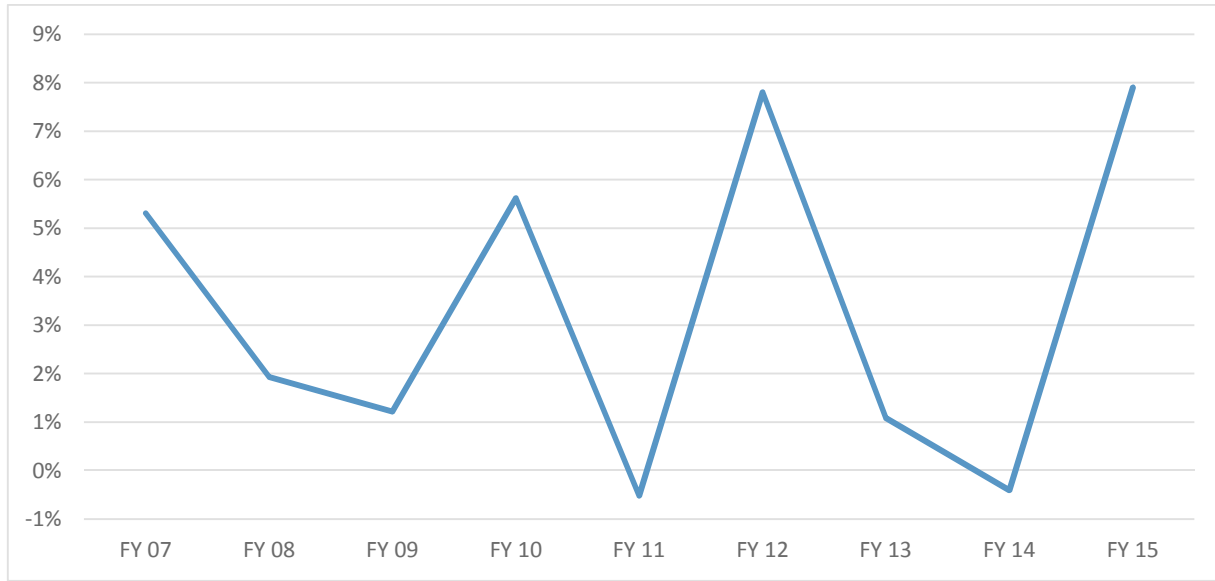
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FIGURE 1. Personnel Services Spending Growth (Year-over-Year, Year-to-Date through December)



FY 2014-15 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 2014-15 Selected General Fund Revenue Source Tracking (\$millions)

Resource Category	Current Budget	Estimated Year-End	Difference
Property Taxes	\$206.8	\$211.1	\$4.3
Business License Taxes	\$79.8	\$93.0	\$13.2
Utility License Taxes/Franchise Fees	\$82.3	\$84.5	\$2.2
Transient Lodging Taxes	\$21.1	\$23.1	\$2.0
State Shared Revenue	\$14.7	\$15.4	\$0.7

About a year ago, the largest concern relating to FY 2013-14 revenues was the relative weakness in business license tax collection. Those concerns never materialized as final April payments and June estimated payments exceeded expectations. For FY 2014-15 exactly the opposite situation is presenting itself. Though April payments typically allow for wide variability, it is nearly assured that business license tax collections will exceed budgeted amounts, perhaps by as much as \$10-\$20 million. This is not unusual at this point in the business cycle, and, as a result, we have forecasted a larger-than-typical beginning balance for FY 2015-16. Due to the cyclical nature of these revenues, a large proportion of these

“surpluses” should be thought of as one-time resources. This also applies to transient lodging taxes, which are also at record levels.

FY 2014-15 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 2014-15.

TABLE 2. FY 2014-15 General Fund Expense Tracking (\$millions)

Expense Category	Current Budget	Estimated Year-End	Difference
Personnel Services	\$337.2	\$339.1	\$1.9
External Materials and Services	\$89.5	\$86.0	(\$3.5)
Internal Materials and Services	\$53.6	\$54.8	\$1.2
Other ¹	\$53.0	\$53.0	\$0.0
Total Expenses	\$533.3	\$532.9	(\$0.4)
¹ Includes Capital Outlay, Bond Expenses, Fund Transfers, and Contingency. Compensation Set-aside totaling \$8.3 million is included in personnel services.			

General Fund spending is running faster-than-expected at this point in the year. Overall, total personnel services spending through December was 7.9% higher than a year ago. Including compensation set-aside, personnel services budgets can only grow by about 6% to remain on budget. There are a variety of factors driving this, but the most obvious driver is overtime in the public safety bureaus, particularly the Fire Bureau. Because bureaus have some degree of control of overtime spending, it is expected that the rate of overtime spending will slow in the second half of the year.

External materials and services are 4% above a year ago, and are expected to end the year slightly under budget, including encumbrances. It should be noted that this particular line item is subject to significant variation – about 30% of external material and services spending occurs in the final two months of the fiscal year. Meanwhile, internal materials and services are also outpacing budgeted amounts at this point, with 51.2% of the total budget consumed through December, up almost 11% over the first six months of FY 2013-14.

CURRENT ECONOMIC CONDITIONS

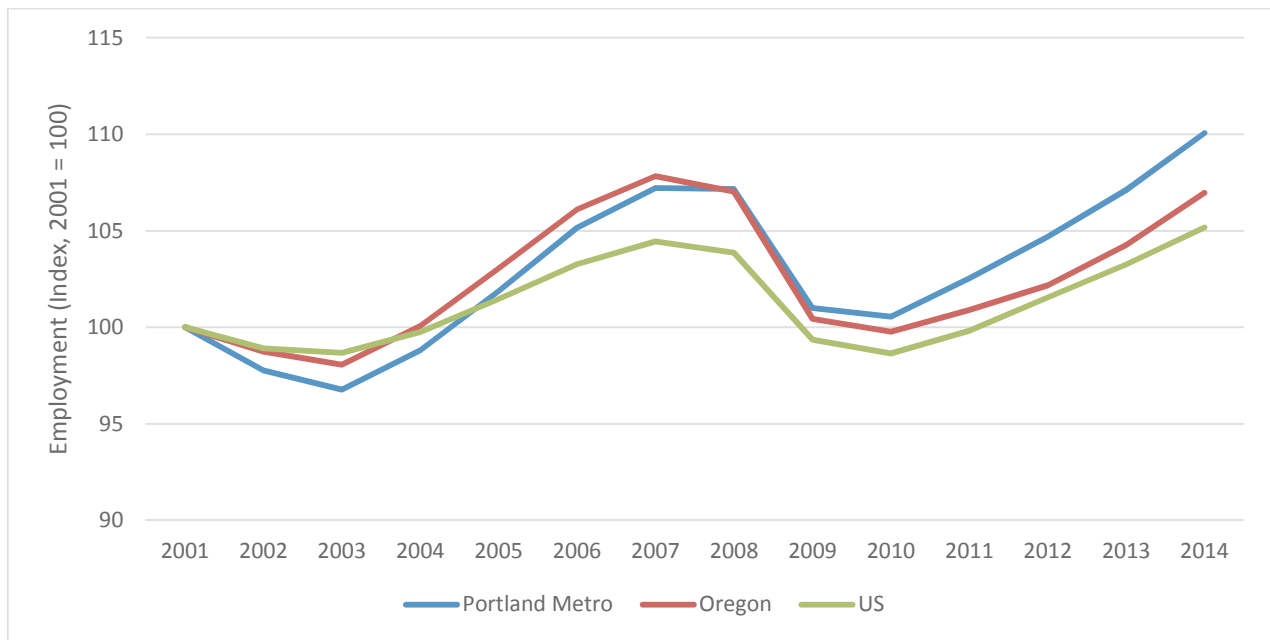
The current economic expansion finally hit its stride in 2014. Though overall growth slowed at the end of

the year, GDP growth in the middle of the year was the fastest since the recovery began nearly five years earlier. Generally speaking, national growth has picked up, Oregon is doing even better, and the Portland area is doing better still.

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 2014 in the Portland metro area was 2.7%, the fastest since 2006. Figure 2 shows employment growth for the nation, Oregon, and the Portland metro area since 2001. For 2014, the biggest gains were in leisure and hospitality, and professional and business services. Meanwhile, the information, financial activities, and construction sectors were essentially flat for 2014.

FIGURE 2. Employment Growth (Index, 2001=100)



Real Estate. After 2013 saw home values grow at housing bubble levels, 2014 moderated to a more sustainable growth rate. Median home sales prices in the Portland area increased 8.5% in the last year. Market conditions remain very tight, as inventory levels reached a record low in December at only 2.3 months. Inventory is measured by how many months it would take at the current sales pace to sell all homes currently on the market. Though it’s more concentrated in the multi-family housing, more supply is on the way. Permits rose to more than 5,000 units in 2014, which is nearly 20% higher than the height of the housing bubble in 2007.

Commerce. Export data were broad positive in 2014. While it remains to be seen if labor issues will slow

activity at the port, 2014 saw gains in activity at both the marine port and the airport. Furthermore, the number of airplane passengers grew by the fastest rate since the recovery began at 5.9% over 2013 figures. Occupancy rates remained high and room rates continued to exceed expectations throughout 2014. 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	12/2014	1,085,100	2.5%	Positive
Portland MSA Unemployment Rate ¹	12/2014	6.4%	-0.4%	Positive
Consumer Price Index, Portland-Salem ²	1H-2014	233.565	2.4%	Neutral
Real Estate				
Median Home Price, Portland Metro ³	12/2014	\$290,000	8.5%	Positive
Housing Units Permitted (Y-T-D) ⁴	12/2014	5,016	33.6%	Positive
Portland Metro Industrial Vacancy Rate ⁵	4Q-2014	6.8%	-3.0%	Positive
Portland Office Vacancy Rate ⁵	4Q-2014	9.0%	-1.6%	Positive
Portland Multi-Family Vacancy Rate ⁵	4Q-2014	2.8%	0.1%	Neutral
Commerce				
Total PDX Air Passengers (Y-T-D) ⁶	12/2014	15,916,512	5.9%	Positive
Total PDX Freight (Y-T-D in Tons) ⁶	12/2014	220,256	3.8%	Positive
Total Port of Portland Marine Freight (Y- T-D in Tons) ⁶	12/2014	12,761,756	8.1%	Positive
Hotel Average Revenue Per Available Room ⁷	3Q/2014	\$149.72	12.7%	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				