



City of Portland  
**Quarterly General Fund Budget  
and Economic Tracking Report**  
FY 2014-15, 3<sup>rd</sup> Quarter (Jan. – Mar. 2015)  
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 a significant portion of the fiscal year remains, especially at it relates to certain revenue streams, 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 be closer-than-typical to budgeted levels in some expenditure categories. At this point the General Fund is not likely to see overspending, though high overtime spending, in particular, poses the greatest risk. Finally, assuming there are no material amendments to the Mayor's proposed Spring Budget Monitoring Process (BMP), the City will have a little more than \$1 million (approximately 0.2% of General Fund discretionary resources) in contingency funds. Due to the higher-than-expected revenue levels, the ending balance for FY 2014-15 is could exceed \$50 million – the April forecast includes \$35 million, and any balance above this level will be recognized in the Fall BMP.

As business license taxes come in following the April 15<sup>th</sup> deadline, it appears highly likely we will significantly exceed budgeted amounts in FY 2014-15. The risk here is properly managing what could be a sizable influx of revenue. As occurred during the last expansion, the City finds itself with large amounts of one-time moneys, 50% of which must be spent on infrastructure major maintenance and replacement.

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**FY 2014-15 GENERAL FUND REVENUE**

With the exception of utility license taxes/franchise fees (ULF), the potential variation in estimated revenue totals for the fiscal year are narrowing significantly. ULF collections are largely paid quarterly and two quarterly payments still remain (May 15<sup>th</sup> and August 15<sup>th</sup>) for the current fiscal year. Most revenue sources are tracking above forecasted levels, particularly the City’s most economically sensitive revenue sources, business license and transient lodging taxes. The figures presented in Table 1 remain subject to significant variability.

**TABLE 1. FY 2014-15 Selected General Fund Revenue Source Tracking (\$millions)**

<b>Resource Category</b>	<b>Current Budget</b>	<b>Estimated Year-End</b>	<b>Difference</b>
Property Taxes	\$206.8	\$211.1	\$4.3
Business License Taxes	\$79.8	\$98.8	\$19.0
Utility License Taxes/Franchise Fees	\$82.3	\$84.5	\$2.2
Transient Lodging Taxes	\$21.1	\$25.5	\$4.4
State Shared Revenue	\$14.7	\$14.6	(\$0.1)

Most of the data presented in this document relate to the first nine months of the year. The exception is business license taxes. Because April is so critical, the figures presented here are more current. At this point it is nearly assured that business license tax collections will exceed last year’s collections by more than 20%, perhaps by more than \$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 most of the fiscal year complete, General Fund expense estimates are becoming more certain. Unlike revenues, expenses generally follow a more stable and even pattern over the course of the fiscal year. The exception to this is external materials and services spending, as bureaus tend to weight spending in this category toward the end of the year. Table 2 summarizes the current budget and estimated year-end totals based on the first nine months of FY 2014-15.

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

<b>Expense Category</b>	<b>Current Budget</b>	<b>Estimated Year-End</b>	<b>Difference</b>
Personnel Services	\$337.3	\$335.0	(\$2.3)
External Materials and Services	\$89.5	\$84.0	(\$5.5)
Internal Materials and Services	\$53.6	\$53.5	(\$0.1)
Other <sup>1</sup>	\$53.0	\$53.0	\$0.0
<b>Total Expenses</b>	<b>\$533.3</b>	<b>\$525.5</b>	<b>(\$7.8)</b>
<sup>1</sup> 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. Following two years of essentially flat personnel services spending, total personnel services spending through March was 6.2% higher than a year ago. Including compensation set-aside, personnel services budgets can only grow by about 6% to remain on budget. Spending on personnel services has slowed modestly over the last quarter and further slowing is expected through the end of the year, as public safety bureaus slow their overtime spending.

External materials and services are 18.3% 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 spending has slowed considerably over the last quarter, with 18% of the total budget consumed over the last quarter. However, spending on internal materials and services are still up 7.3% over the first nine months of FY 2013-14.

**CURRENT ECONOMIC CONDITIONS**

The current economic expansion is at an interesting spot as it relates to broader economic conditions. The latest national data suggest some spots of weakness – employment growth in March was half of the average of the prior six months and the initial growth estimate for gross domestic product during the first quarter of 2015 was essentially zero. Some analysts have blamed the lackluster numbers on the abnormally bad winter experienced in much of the country. However, in Oregon, it appears as sunny as ever. The Philadelphia Federal Reserve bank expects Oregon to be the fastest growing state in the country over the next six months,<sup>1</sup> and in Portland the housing market in much of the City is as tight as it has ever been.

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 higher

<sup>1</sup> According to their February State Index of Leading Indicators.

than 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 5.2%, slightly lower than the state and nation. Underlying job growth has crept up near levels of a typical recovery. Preliminary March data indicate that employment growth since March 2014 in the Portland metro area was 2.9%, the fastest since 2006. Over the last 12 months, the biggest gains were in professional and business services, financial activities, and manufacturing. Meanwhile, the construction sector saw small losses.

**Real Estate.** After 2013 saw home values grow at housing bubble levels, 2014 and early 2015 moderated to a more sustainable growth rate. Median home sales prices in the Portland area increased 4.5% in the last year. Market conditions remain very tight, as inventory levels reached a record low in March at only 1.9 months. A balanced housing market would see selling inventory close to three times the current supply. Commercial markets are healthy as vacancy rates have seen steady declines.

**Commerce.** Year-over-year growth in the local lodging industry has pushed transient lodging taxes to record levels and spurred construction plans for several new hotels near downtown. Economic activity at the airport continued its steady growth in the beginning of 2015, while the impact of the two largest container shippers leaving the port can already be seen in the marine data.

**TABLE 4. Selected Portland Economic Indicators**

<b>Indicator</b>	<b>Most Recent</b>	<b>Value</b>	<b>Year Ago Change</b>	<b>Recent Trend</b>
<b>Economy</b>				
Total Employment, Portland MSA <sup>1</sup>	3/2015	1,091,200	2.9%	Positive
Portland MSA Unemployment Rate <sup>1</sup>	3/2015	5.2%	-1.2%	Positive
Consumer Price Index, Portland-Salem <sup>2</sup>	2H-2014	233.28	2.1%	Neutral
<b>Real Estate</b>				
Median Home Price, Portland Metro <sup>3</sup>	3/2015	\$290,000	4.5%	Positive
Housing Units Permitted (Y-T-D) <sup>4</sup>	3/2015	691	-9.3%	Neutral
Portland Metro Industrial Vacancy Rate <sup>5</sup>	1Q-2015	8.1%	-0.8%	Positive
Portland Office Vacancy Rate <sup>5</sup>	1Q-2015	9.5%	-1.4%	Positive
Portland Multi-Family Vacancy Rate <sup>5</sup>	1Q-2015	2.7%	0.2%	Neutral
<b>Commerce</b>				
Total PDX Air Passengers (Y-T-D) <sup>6</sup>	3/2015	3,404,034	2.1%	Positive
Total PDX Freight (Y-T-D in Tons) <sup>6</sup>	3/2015	52,055	3.0%	Positive
Total Port of Portland Marine Freight (Y- T-D in Tons) <sup>6</sup>	3/2015	2,653,198	-24.0%	Negative
Hotel Average Revenue Per Available Room <sup>7</sup>	4Q/2014	\$75.04	15.5%	Positive
<sup>1</sup> Oregon Employment Department, Unemployment Rate is seasonally-adjusted, Year Ago Change is percentage point increase/decrease <sup>2</sup> Bureau of Labor Statistics. CPI-W. Portland-Salem, OR-WA <sup>3</sup> Market Action, Publication of RMLS <sup>4</sup> U.S. Census Bureau <sup>5</sup> Norris, Beggs, & Simpson, Market Research, Year Ago Change is percentage point increase/decrease. <sup>6</sup> Port of Portland, Aviation & Marine Statistics <sup>7</sup> PFK Hospitality Research, LLC				