City of Portland

General Fund Forecast

FY 2016-17 through FY 2020-21

City Budget Office

December 2015

I. Forecast Summary

This year will likely end up being the fastest year of local economic growth since the tech bubble in the late 1990s. Job growth has been widespread and income growth is finally ramping up after years of stagnation. However, for a variety of the reasons, at this point it does not appear the robust economic growth will generate any new ongoing resources above what the City has already committed. There are expected to be about $11.1 million in one-time resources in FY 2016-17. The primary drivers behind this forecast include:

- In FY 2017-18 and then again in FY 2019-20, the City will need to increase ongoing General Fund resources to cover PERS costs by $2.5-$3 million in each year. While the April forecast assumed some of these costs, the ruling against the PERS reforms by the State Supreme Court just after the issuance of the April forecast will lead to higher-than-expected costs well into the future.

- In November, City Council dedicated $5 million in ongoing resources and $5 million in one-time resources for housing needs beginning in FY 2016-17. Absent this, the forecast would have shown those ongoing and one-time resources as available.

Looking Ahead. It should be noted that, while the forecast produces an exact figure for available resources, there is actually a range of possible outcomes, especially given the preliminary nature of this forecast. Typically, though not always, the April Forecast will have greater available resources than those identified in December. This is the result of the City's financial policy that directs revenue forecasts to be conservative. The additional information gleaned

Forecast Highlights

New Ongoing: $0.0

New One-Time: $11.1 million

Significant Changes Since April:

- Expected COLA for FY 2016-17 of 1.7%.

- Property taxes up significantly again in FY 2015-16, about $3 million above forecast.

Local Economic Highlights

- Exceptionally tight housing market for both buyers and renters.

- Local job growth highest since 2006. Unemployment rate dips below 5% in 2015.

- Hotel/short-term rental industry booming.

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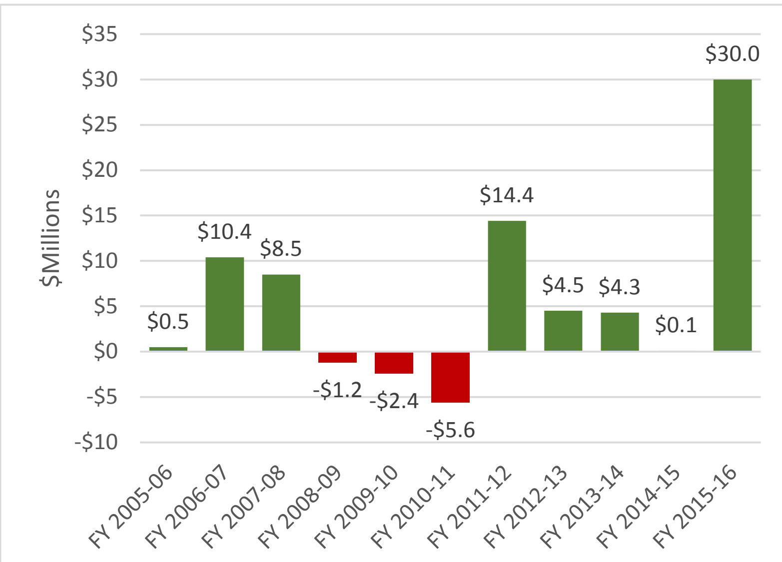
between December and April helps to narrow the relative uncertainty inherent in the forecast. Figure 1 shows the changes from the December to April forecasts for each of the last ten years. Of particular note, in aggregate, all forecast changes can be explained by changes to the amount of one-time resources available. One reason this occurs is that the December forecast typically incorporates base-building revenues associated with property taxes, while the changes in the April forecast come from revenue sources – business license and transient lodging taxes – that are generally more one-time in nature due to their volatility.

FIGURE 1. Historical Changes from December to April Forecasts



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.

Table 1 summarizes discretionary General Fund resources and expenses through FY 2020-21. As shown in Table 1, the City will have no additional ongoing resources and $11.1 million in one-time resources above projected expenditures, with an additional $6.5 million and $3.5 million in fiscal years 2017-18 and 2018-19, respectively. Current policy states that at least 50% of these funds must be spent on major maintenance and replacement of City assets.

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

	Fiscal Year					
Budget Category	**2015-16**	**2016-17**	**2017-18**	**2018-19**	**2019-20**	**2020-21**
Total Resources	**$489.7**	**$478.4**	**$483.7**	**$494.6**	**$508.2**	**$524.7**
Total Expenses	**$489.7**	**$467.3**	**$477.2**	**$491.1**	**$508.2**	**$524.7**
Available Ongoing		$0.0	$0.0	$0.0	$0.0	$0.0
Available One-Time		$11.1	$6.5	$3.5	$0.0	$0.0
Total Expenses with Adds & One-Time Spending	**$489.7**	**$478.4**	**$483.7**	**$494.6**	**$508.2**	**$524.7**

Note: Totals may not add due to rounding. FY 2015-16 figures are for the Adopted Budget.

II. Revenue Forecast

Significant Changes. The most significant forecast change was to property taxes. Receipts for FY 2015-16 will be more than $3 million higher than expected, which, due to the unique structure of our property tax system, means that essentially all of that higher-than-expected increase becomes new ongoing resources. Ultimately, this change added about $20 million over the five-year forecast window. Meanwhile, the transient lodging tax forecast was adjusted to reflect record revenues over the summer. The most substantial decrease was to utility license taxes/franchise fees, which will see declining revenues from telecom companies as consumers discontinue cable subscriptions.

TABLE 2. Changes to Revenue Forecasts ($millions)

	Fiscal Year		
Resource Category	**December**	**Change From April**	**Total 5-Year Change**
Property Taxes	$232.8	$3.4	$20.0
Transient Lodging	$28.4	$2.0	$9.6
Business Licenses	$99.9	($0.6)	($10.0)
Utility License/Franchise	$83.8	($1.9)	($15.5)
State Revenues	$16.3	($0.2)	$1.5
Total Revenues*	**$461.0**	**$2.8**	**$5.6**

Note: Totals may not add due to rounding. *Not including Beginning Balance

Major Assumptions. The revenue forecast expects continued growth in the near-term, though at slightly lower rates. The longer-term forecast contemplates at least a minor economic pull back, but does not attempt to guess the exact timing of such an outcome. As a result, the outer years of the forecast exhibit essentially flat growth for the City's most volatile revenue sources. With respect to property taxes, the vast majority of gains due to property tax compression easing – particularly in Southwest Portland – are likely over and growth rates from property taxes are expected to moderate to around 4% from the higher than 6% growth exhibited over the last two years.

Major Revenue Forecast Risks

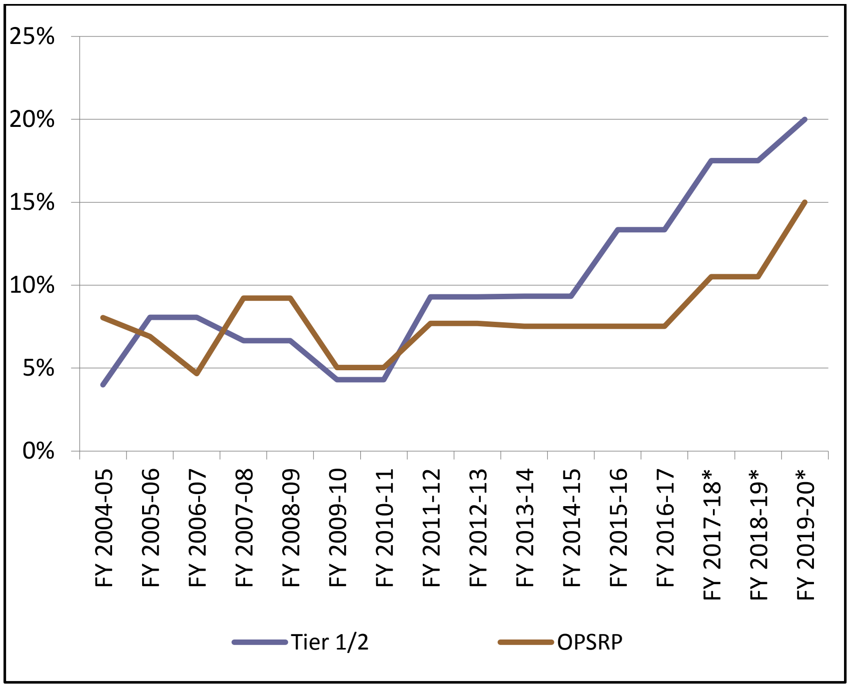
National/Global Economic Conditions – Local economy is strong but more integrated in the global economy than ever before. Any slowdown precipitated by weakness in Asia, in particular, would have significant impact on the local job and housing market.

Long-term Telecom ULF Collections – For companies like Comcast and CenturyLink, the City taxes only television program delivery but not any internet services, per federal law. As households move away from cable television, the City will likely see a slow decline in collections from these companies.

III. Expense Forecast

Significant Changes. Other than the aforementioned change to the Housing Bureau's budget and decisions made in last year's budget process, most of the changes to the expense forecast are related to expectations for inflation. Inflation has remained relatively low for the last several years and a decrease in the expected cost-of-living allowance reduces expenses by nearly $2.5 million for each percentage point. The other notable change was to the PERS rates in the out-years of the forecast. Following the release of the April forecast, the State Supreme Court struck down most of the changes to PERS passed by the legislature in 2013. As a result of this action, it is expected that the City will pay larger employer PERS rates further into the future. The increased costs included in the forecast serve to limit ongoing resources, while increasing one-time resources available in the short-term. Figure 2 shows the historical and expected PERS rates for each of the two non-public safety tiers of employees, not including the 6% pick-up.

FIGURE 2. PERS Employer Rates for the City of Portland (*Forecast)



Assumptions. The forecast for expenses is mostly characterized by what is not included. Ongoing funding has not been included for costs related to the Parks arbitration, the 13 firefighters that were previously funded by a grant, costs related to the potential shift of short-term rental revenue to the Housing Investment Fund, or City infrastructure costs. There are also relatively small expectations for increases in benefits expenses. Final COLA and benefit increases will be incorporated into the April forecast.

Major Expense Forecast Risks

Inflation/Personnel Costs – The City spends about three-fourths of its General Fund discretionary budget on personnel. Furthermore, it has labor agreements that guarantee a cost-of-living allowance to all unionized employees. As a result, an uptick in inflation can have a dramatic impact in the forecast for expenses.

Future Decisions/Obligations – The City has not yet committed ongoing funds related to Parks casual employees or 13 previously grant-funded firefighter positions.

Benefit System Costs – Though expense increases related to health benefits have been modest of late, it is still not clear what the complete impact of the ACA will be, especially as it relates to the “Cadillac” tax that some employers, including the City, may have to pay.

IV. Current Economic Conditions

The current economic expansion is nearing its 80th month. Despite a wealth of current positive data, there are increasing predictions of a pending recession. These mostly center around weakness abroad as is being signaled in national manufacturing data. In particular, the Institute of Supply Management’s business index, which largely measures activity in the manufacturing sector reported a small contraction in November for the first time in three years. In spite of this, the broad consensus amongst economists suggests the current expansion is likely to continue for at least the next 18-24 months.

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. Local job growth has accelerated to rates not seen since the peak of the last economic expansion. Similarly, the unemployment rate has continued to fall with several months in 2015 dipping below 5%. Preliminary October data indicate that employment growth since October 2014 in the Portland metro area was 3.2%, comparable to the previous expansions peak growth. Over the last 12 months, the biggest gains were in professional and business services, education and health services, and leisure and hospitality. Meanwhile, no major sector saw employment declines over the last year.

Real Estate. Unfortunately for those looking for permanent housing, the market has changed little in the last 6-9 months and seems poised to enter 2016 in much the same condition. Very low rental vacancy rates and rapidly rising rents and home prices – especially west of 82nd – have made it very difficult for middle- and low-income households to find housing anywhere close to the central city. Meanwhile, office vacancy rates continue to tighten, which has led to an increase in office construction, something not seen for much of the last decade.

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. City transient lodging tax collections have nearly doubled in five years as both occupancy levels and room rates have seen large increases in recent years. Similar to issues related to housing, this trend is expected to continue into 2016 as Portland remains relatively less expensive than other west coast cities.

TABLE 4. Selected Portland Economic Indicators

Indicator	Most Recent	Value	Year Ago Change	Recent Trend
Economy				
Total Employment, Portland MSA[1]	10/2015	1,127,100	3.2%	Positive
Multnomah County Unemployment Rate[1]	10/2015	5.2%	-0.8%	Positive
Consumer Price Index, Portland-Salem[2]	1H-2015	234.948	0.6%	Neutral
Real Estate				
Median Home Price, Portland Metro[3]	10/2015	$309,000	6.9%	Positive
Housing Units Permitted (Y-T-D)[4]	10/2015	3,724	-12.8%	Neutral
Portland Metro Industrial Vacancy Rate[5]	3Q-2015	8.9%	1.4%	Neutral
Portland Office Vacancy Rate[5]	3Q-2015	9.5%	-1.1%	Positive
Portland Multi-Family Vacancy Rate[5]	3Q-2015	2.5%	0.0%	Neutral
Commerce				
Total PDX Air Passengers (Y-T-D)[6]	10/2015	14,049,676	5.0%	Positive
Total PDX Freight (Y-T-D in Tons)[6]	10/2015	183,834	2.3%	Positive
Total Port of Portland Marine Freight (Y- T-D in Tons)[6]	10/2015	6,953,310	-36.2%	Negative
Hotel Average Revenue Per Available Room[7]	3Q/2015	$124.06	15.2%	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