



City of Portland
General Fund Forecast
FY 2017-18 through FY 2021-22
City Budget Office
December 2016

I. FORECAST SUMMARY

Local economic growth remains healthy. While the recent national election has inserted greater economic uncertainty going forward, there is little evidence thus far to necessitate significant changes to the local economic outlook in the near term. Many of the problems facing the City – high housing prices and speculative real estate investment, homelessness and economic displacement – are a byproduct of this robust growth. The cost-of-living in Portland is still less expensive than other west coast cities and the City continues to attract the highly educated and wealthy. These factors have led to record revenue growth that has allowed the City to invest in these issues without cutting existing services. Absent other policy decisions, we estimate the City would have had \$8.3 million in additional ongoing resources in FY 2017-18. However, over the last few months the City has pledged \$12.3 million in additional ongoing spending beginning next year that has not been offset with other reductions. As a result, the City will need to **cut \$4 million in ongoing programs** to balance the five-year forecast. Additionally, the robust near-term revenue growth will yield **\$18.8 million in available one-time resources** in FY 2017-18.

The City balances 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 2021-22. Current policy states that at least 50% of one-time funds must be spent on major maintenance and replacement of City assets.

FORECAST HIGHLIGHTS

Ongoing Cuts: **-\$4.0 million**

New One-Time: **\$18.8 million**

Significant Changes Since April:

- Policy decisions added \$12.3 million in ongoing expenses and \$1.5 million in ongoing revenue
- Increased forecast for property taxes as robust new construction bolsters assessed value growth
- Savings from lower expected COLA and health benefit costs

LOCAL ECONOMIC HIGHLIGHTS

- Portland remains one of the top cities nationally in overall economic growth
- Incomes showing signs of significant growth for the first time in current expansion
- Home price growth fastest in the country for much of 2016

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

Budget Category	Fiscal Year					
	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22
Total Resources	\$501.4	\$504.6	\$505.7	\$521.0	\$535.5	\$550.4
Total Expenses	\$501.4	\$489.9	\$503.3	\$521.0	\$535.5	\$550.4
Ongoing Available/Cuts		-\$4.0	\$0.0	\$0.0	\$0.0	\$0.0
One-time Available		\$18.8	\$2.4	\$0.0	\$0.0	\$0.0
Total Expenses with Adds & One-Time Spending	\$501.4	\$504.6	\$505.7	\$521.0	\$535.5	\$550.4

Note: Totals may not add due to rounding. FY 2016-17 figures are for the Adopted Budget.

II. REVENUE/EXPENSE ASSUMPTIONS

In addition to the typical changes that occur with every forecast, Council took a number of actions since the budget was adopted in June that influence both revenues and expenditures:

- A. *REVENUES* – Two recent actions have had opposing impacts on revenues.
 - a. Council adopted a business license tax surtax on publicly-traded companies that pay their CEO at least 100 times more than the average company worker. Though it is difficult to know how much this will bring in and it is subject to significant annual fluctuations, **\$2.5 million in ongoing resources were added to the forecast**, phased in over the next three fiscal years because of the relationship between tax years and fiscal years.

- b. The City's new inclusionary housing program uses a property tax exemption as the method to offset a loss to developers that results from complying with the new law. While this is not an expenditure in the traditional sense, it effectively acts like one by reducing the amount of property tax revenue that would have otherwise been realized. Though a variety of factors make it difficult to make precise estimates of future losses, the **forecast includes a \$1 million reduction in property tax revenue by year five of the forecast**. It should be noted that *this amount will grow as more projects are completed under the program and the impact will be proportional to the relative success of the program. That is, to the degree the program is successful in growing the number of affordable units, the larger the cost to the General Fund.*

B. **EXPENSES** – Four significant actions changed the City's ongoing obligations.

- a. In October, City Council agreed to a new labor contract with the Portland Police Association. While the contract specified a number of non-financial provisions, the financial impact of changes to the contract **increased the City's ongoing expenses \$6.6 million** once the contract is fully implemented.
- b. As part of the Fall Budget Supplemental, the City increased the Housing Bureau's current appropriation level target in order to comply with provisions the City had previously agreed to as part of an intergovernmental agreement with Multnomah County to provide homeless services. The result was **increasing ongoing expenses by about \$3.5 million** beginning in FY 2017-18.
- c. Also included in the Fall Budget Supplemental was an administrative change that eliminated the City's Independent Police Review from the City's overhead model.¹ The result is that the General Fund will pay for

Major Revenue Forecast Risks

Public Policy Decisions – From City Council decisions to state government mandates to the potential for new federal policies around everything from tax policies to sanctuary cities, decisions at all levels of government will help shape the local economy. Uncertainty around these policies has rarely been higher, which may lead to at least a temporary slowdown in investment.

City Labor Contracts – The City spends about three-fourths of its General Fund discretionary budget on personnel. While this forecast already incorporates costs associated with the Portland Police Association labor contract, other contracts, particularly with the Portland Fire Fighters Association and 911 emergency operators, remain open. Any additional costs above cost-of-living increases will increase the amount of cuts necessary to balance the budget.

¹ The City's Overhead Model is designed to spread the cost of the City's internal administrative functions to all City bureaus and funds. The Independent Police Review function was not deemed one of these functions and, thus, was taken out of the cost pool.

the entirety of this office, **increasing costs by about \$1 million beginning in FY 2017-18.**

- d. Most recently, the City re-established public financing of campaigns. The mechanism for funding these is through a **\$1.2 million General Fund appropriation beginning in FY 2017-18.**

Other changes were relatively modest. Property tax forecasts were raised by about \$2 million (less than 1%) after FY 2016-17 data received in October came in slightly higher than projected. Meanwhile, expectations for cost-of-living and particularly health benefit costs were lowered significantly, resulting in forecast savings.

III. CURRENT ECONOMIC CONDITIONS

As we approach the post-World War II record for the length of an economic expansion, it is important to remember that economic expansions do not die of old age.² In fact, the relatively slow recovery, especially near the beginning of the current expansion, in many ways has prolonged the cycle. Finally, incomes began rising significantly in 2015, especially in the Portland area. Though the recent election has caused some economists to adjust assumptions about inflation and overall growth, there has been very little in the latest macro-economic data to suggest that we will see anything but continued growth in 2017. However, the range of possibilities does seem wider than it was a few months ago.

Table 2 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. Employment growth has begun to slow over the last few months, though remains at healthy levels. As the expansion matured and unemployment fell, the supply of available workers has made hiring difficult in some industries. Still, October figures show a 2.8% annual increase in jobs in the metro area, with every major sector experiencing growth. Meanwhile, the unemployment rate in Multnomah County has now seemed to settle in a range between 4% and 5%, suggesting that the region may have reached full employment.

Commerce. According to CRBE Hotels, demand for hotel rooms in Portland fell slightly in the 3rd quarter. This represents the first decline since the Great Recession and may be one of the first signs that business investment is slowing. Uncertainty around tax and trade policies will often put many businesses into a “wait and see” approach. However, none of those signs are showing at PDX or the marine port as both are seeing some of the largest increases in activity in several years.

Real Estate. Though some measures of home price growth have slowed, the pace of growth is still unsustainable and both home prices and rent growth are outpacing income growth. Furthermore, though the number of housing units permitted is increasing, the City needs to see many more units built to meet the increased demand. One sign that things may be moderating is the uptick in rental vacancy rates, though anecdotal data suggests that is likely mostly due to overbuilding high-end properties.

² <http://www.reuters.com/article/us-usa-fed-recession-idUSKCN0VH1PX>

TABLE 2. Selected Portland Economic Indicators

Indicator	Most Recent	Value	Year Ago Change	Recent Trend
Economy				
Total Employment, Portland MSA ¹	10/2016	1,160,300	2.8%	Positive
Multnomah County Unemployment Rate ¹	10/2016	4.7%	-0.1%	Positive
Consumer Price Index, Portland-Salem ²	1H-2016	237.784	1.2%	Neutral
Real Estate				
Median Home Price, Portland Metro ³	10/2016	\$350,000	13.3%	Positive
Housing Units Permitted (Y-T-D) ⁴	10/2016	4,202	12.8%	Positive
Portland Metro Industrial Vacancy Rate ⁵	3Q-2016	4.3%	-0.7%	Positive
Portland Office Vacancy Rate ⁵	3Q-2016	8.3%	-1.0%	Positive
Portland Multi-Family Vacancy Rate ⁵	3Q-2016	5.5%	1.2%	Positive
Commerce				
Total PDX Air Passengers (Y-T-D) ⁶	10/2016	15,306,461	8.9%	Positive
Total PDX Freight (Y-T-D in Tons) ⁶	10/2016	185,938	1.1%	Positive
Total Port of Portland Marine Freight (Y- T-D in Tons) ⁶	10/2016	8,322,767	19.7%	Positive
Hotel Average Revenue Per Available Room ⁷	3Q/2016	\$126.76	2.1%	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 Colliers International, Year Ago Change is percentage point increase/decrease.</p> <p>⁶ Port of Portland, Aviation & Marine Statistics</p> <p>⁷ CBRE Hotels</p>				