

CITY BUDGET OFFICE

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Mingus Mapps, Commissioner
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CITY OF PORTLAND, OREGON

Memorandum

To: Mayor Ted Wheeler
Commissioner Jo Ann Hardesty
Commissioner Mingus Mapps
Commissioner Carmen Rubio
Commissioner Dan Ryan
Auditor Mary Hull Caballero

Cc: Tom Rinehart, Chief Administrative Officer
Michelle Kirby, Chief Financial Officer
Jessica Kinard, City Budget Director
City Bureau Directors
City Elected Officials Executives

From: Peter Hulseman, City Economist
Date: December 15, 2021
Subject: December General Fund Forecast

This memorandum is intended to communicate the preliminary General Fund Financial Forecast figures for FY 2022-23 through FY 2026-27, which forms the initial basis for the FY 2022-23 General Fund budget. Please contact Peter Hulseman (peter.hulseman@portlandoregon.gov, 503-865-6331) if you have any questions.

Revenue & Expenditure Projections

Over the past two budget cycles significant steps were taken to reduce expenditures in anticipation of significant declines in revenue¹. While the effects of the COVID-19 pandemic continue to be felt, the City's revenue sources have recovered faster than previously projected. Taken together, this means the City will have resources to cover current Council-approved ongoing allocations over the five-year forecast period.

Table 1 summarizes discretionary General Fund resources and expenses through FY 2026-27. As shown in Table 1, the City will have \$3.7 million in unallocated ongoing General Fund discretionary resources, and \$24.0 million in one-time discretionary resources above projected expenditures in FY 2022-23. City financial policy states that at least 50% of the one-time resources be spent on major maintenance and replacement of City assets.

¹ <https://www.portlandoregon.gov/cbo/article/779876>

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

Budget Category	Fiscal Year					
	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27
Total Resources	576.5	649.3	658.1	699.9	730.7	754.4
Total Expenses	576.5	621.6	658.1	675.7	730.7	750.0
Available Ongoing		3.7	0.0	23.6	0.0	4.4
Available One-Time		24.0	0.0	0.6	0.0	0.0
Total Expenses with Adds & One-Time Spending	576.5	649.3	658.1	699.9	730.7	754.4
Note: Totals may not add due to rounding. FY 2021-22 figures are reflective of the Adopted Budget						

The expenses indicated in Table 1 are all current ongoing allocations approved by City Council, including ongoing Current Appropriation Level (“CAL”) Target adjustments passed during 2021’s Fall Budget Monitoring Process. The expenses **do not** include labor contract costs that are currently in negotiation or other commitments not approved by City Council. The revenues in Table 1 **do** include the previously approved expiration of Tax Increment Financing districts and return of associated resources onto property tax assessment rolls. More information on expiring Tax Increment Financing district resources is provided on the next page.

Discretionary General Fund-backed base budget expenses are growing by an average of 4.6% from FY 2021-22 to FY 2026-27, in large part due to inflationary costs in the early years. Inflationary adjustments on General-Fund backed services is requiring a commitment of over \$30 million in increased ongoing resources; the City’s Compensation Set-Aside account for FY 2022-23 totals \$18.7 million to accommodate the 5% Cost of Living Adjustment, and inflation for General-Fund backed internal and external materials costs totals \$11.5 million. While inflation should subside by the out-years of the forecast, current levels are providing significant pressure on the City’s available resource.

This memo provides an initial planning forecast provided by the City Budget Office. This forecast will be updated in February 2022 and finalized near the end of April 2022. There are two revenue sources that will be closely monitored over the coming months:

Business License Taxes. The City of Portland’s Business License Tax revenue is principally affected by the performance of large national and multinational corporations. The continued strong performance of corporate earnings indicates that there is upside risk. However, there are several downside risks. Some businesses likely chose to realize more 2020 income in anticipation of potential future tax increases at the Federal level, which reduces future tax liability. Similarly, forgiveness of Paycheck Protection Program loans will likely have a negative effect on revenue over the next two years.

Transient Lodging Taxes. Transient Lodging Taxes have been the revenue stream most directly affected by the COVID-19 pandemic. Travel to urban centers has decreased significantly during the pandemic, and the nature of business travel is unlikely to remain the same with the increased adoption of teleconferencing. As a result, revenue from Transient Lodging Taxes is not expected to return to the pre-pandemic peak in the five-year forecast.

Tax Increment Financing District Resources

Expiring Tax Increment Financing (TIF) Districts, sometimes called Urban Renewal Areas (URAs), are providing significant additional revenue to the General Fund forecast—especially in FY 2024-25 and beyond. There has been considerable conversation and interest in the return of these resources to the General Fund, resulting in an FY 2021-22 Adopted Budget note directing the Economist and the Debt Manager to provide information on returning resources to the Council, and directing the Budget Director and the Chief Administrative Officer to convene a work session to discuss potential investment options for this resource.

Table 2 shows the current estimate for the general fund impact of expiring TIF Districts over the next five years. The top row shows the estimated returning assessed value coming onto Property Tax rolls as a result of TIF district expiration, which results in the estimated General Fund impact (increase) in revenue to the City provided in the second row. It is important to note that the General Fund impact provided below describes whole or cumulative numbers, while the forecast considers marginal or year-over-year change.

TABLE 2. Discretionary General Fund Impact of Expiring TIF Districts (\$millions)

TIF Estimates	FY 2020-21	FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27
Estimate of Returning Assessed Value	121	1,862	2,329	2,586	6,439	7,775	7,957
Current Forecasted GF Impact (in \$M)	0.5	7.8	9.8	10.9	27.2	33.0	33.8

These resources are assumed in the revenue forecast that informs Table 1, above. To show the holistic impact of the expiring TIF Districts on the General Fund, Table 3 summarizes discretionary General Fund resources and expenses through FY 2026-27 *without the estimated TIF District revenue*. The table illustrates that, were it not for expiring TIF district resource, the City would be facing a budget year shortfall of over \$7 million in ongoing resource.

TABLE 3. Discretionary General Fund Five-Year Forecast *Without* Returning TIF Revenue (\$millions)

Budget Category	Fiscal Year					
	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27
Total Resources	576.5	631.8	647.2	672.8	697.7	720.6
Total Expenses	576.5	621.6	647.2	664.7	697.7	716.3
Available Ongoing		-7.1	0.0	2.4	0.0	4.3
Available One-Time		17.3	0.0	5.7	0.0	0.0
Total Expenses with Adds & One-Time Spending	576.5	631.8	647.2	672.8	697.7	720.6

Note: Totals may not add due to rounding. FY 2021-22 figures are reflective of the Adopted Budget

Given the impact of returning TIF districts on the out-years of the forecast, Council may wish to ‘set aside’ or earmark all or a portion of new ongoing resources towards certain priority services or

needs. To set aside this resource while also avoiding a near-term shortfall, Council could consider setting aside new anticipated resources beginning in FY 2024-25. Table 4 shows the discretionary General Fund resources and expenses through FY 2026-27 with the new ongoing resources set aside after FY 2024-25. *This is inclusive of TIF District revenue as well as revenue from all other General Fund sources.*

TABLE 4. Discretionary General Fund Five-Year Forecast, Setting Aside New Ongoing in FY 2024-25 (\$millions)

Budget Category	Fiscal Year					
	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27
Total Resources	576.5	649.3	658.1	699.9	730.7	754.4
Total Expenses	576.5	621.6	658.1	675.7	730.7	750.0
Available Ongoing		3.7	0.0	0.0	0.0	0.0
Available One-Time		24.0	0.0	0.6	0.0	0.0
Total Expenses with Adds & One-Time Spending	576.5	649.4	658.1	699.9	730.7	754.4
Set Aside Resources (New Ongoing)		-	-	23.6	0.0	4.4

Note: Totals may not add due to rounding. FY 2021-22 figures are reflective of the Adopted Budget

Table 4 depicts one potential option for Council consideration should Council desire to set aside resources as part of the discussion around returning TIF district resources. As directed in the FY 2021-22 Adopted Budget note, the Chief Administrative Officer and the Budget Director will be convening a work session in March to provide and discuss investment options associated with the returning TIF district resources more holistically.