



City of Portland  
**Five-Year General Fund Financial Forecast**  
FY 2011-12 through FY 2016-17  
Office of Management and Finance  
December 2011

Due to continued weakness in the US and global economies, along with a weak local housing market, the City will need to make significant ongoing reductions in FY 2012-13. Table 1 below summarizes discretionary General Fund resources and expense requirements through FY 2016-17. As shown in Table 1, the City is projected to need \$17.4 million in ongoing spending cuts in order to balance spending to expected revenue over the five-year forecast horizon. This would require approximately **4.7% cuts** from General Fund bureau current appropriation levels. It should be noted that, consistent with citywide financial policies, OMF's revenue projections are conservative. Given the high level of uncertainty surrounding the current economic environment – local housing market, Euro instability, federal government policy – this forecast assumes at least some of the downside risks are realized. While the current forecast calls for over \$17 million in cuts, the underlying potential variance, either positive or negative, between the current forecast and the final budget forecast in April is significant. This forecast also does not include the potential impact of a new library district which, based on a prior analysis completed by Multnomah County, would increase the needed General Fund cuts to **6.1%-6.5%** from current appropriation levels.

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

Budget Category	Fiscal Year				
	2012-13	2013-14	2014-15	2015-16	2016-17
<b>Total Resources</b>	<b>\$396.0</b>	<b>\$409.1</b>	<b>\$425.9</b>	<b>\$442.4</b>	<b>\$457.4</b>
Required Ongoing Cuts <sup>1</sup>	-\$17.4	\$0.0	\$0.0	\$0.0	\$0.0
Available One-Time	\$11.6	\$0.0	\$0.0	\$0.0	\$0.0
<b>Total Expenses with Cuts &amp; One-Time Spending</b>	<b>\$390.7</b>	<b>\$404.5</b>	<b>\$422.1</b>	<b>\$441.5</b>	<b>\$457.4</b>
<i>Reserved for Five-Year Balancing</i>	<i>\$5.2</i>	<i>\$4.6</i>	<i>\$3.8</i>	<i>\$1.0</i>	<i>\$0.0</i>

<sup>1</sup> An ongoing cut of \$17.4 million in FY 2011-12 is necessary in order to balance ongoing revenues with ongoing expenses throughout the five-year forecast.

The largest driver of the current shortfall is a significant decrease in the expectations for property tax revenue growth over the next several years. Falling property values have driven up property tax compression more rapidly than was previously anticipated. Property tax compression is resulting from the

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interaction of Measures 5 and 50 (passed by voters in the 1990s) and decreasing real market values. The practical impact is that property taxes are expected to grow by only about one-half the historical growth rate for the next several years.

City financial policies require that the city balance the budget over the entire five-year forecast. To the extent that the forecasted revenues in year five of the forecast are insufficient to cover expected costs in the same year, the policy requires that cuts be enacted in year one of the forecast to set the budget on a sustainable course. As such, the forecast requires that \$5.2 million in FY 2012-13 be reserved in order to ensure that the budget is balanced over the five-year forecast horizon. Finally, it should be noted that although there was \$22.5 million in one-time spending in the FY 2011-12 adopted budget, there is only about half that amount available for FY 2012-13 and none in subsequent years.

**Financial Forecast Risk – Multnomah County Library Permanent District** . A primary risk to this forecast is the pending decision from Multnomah County about how to fund the library system beginning in FY 2012-13. Should the County Board ask voters to renew the existing local option property tax levy, there would be no General Fund impact. However, should they ask voters to approve the establishment of a permanent district, and if it is approved in the May special election, the City would see a significant drop in property tax collections beginning in FY 2012-13. Based on preliminary calculations done by the county in February 2011, the City would have collected approximately \$4.5 million less in General Fund property taxes had a district been in place for FY 2010-11. However, because property values have continued to deteriorate, it is expected that a new district with *the same levy rate included in the February study* would have an even greater impact should it come into effect in FY 2012-13, requiring a cut of at least \$5-\$6 million, or an additional 1.4% to 1.8% of General Fund discretionary budgets.

The county has a variety of options for establishing FY 2012-13 library property taxes (i.e., options include any tax rate for either continuing the existing levy or establishing a permanent district). Thus, any subsequent impact to the city will be dependent on the specific details of the proposal. While the City should know the details of any proposal in the next couple of months, we will not know the results from the subsequent election until May, after much of the budget process has been completed.

## **Discretionary General Fund Resources**

Roughly 90% of discretionary General Fund revenue (excluding beginning fund balance) comes from three sources: property taxes, business licenses, and utility licenses/franchise fees. Most of the remainder comes from transient lodging taxes and state shared revenues, which are comprised of the City's share of state-collected liquor and cigarette revenues. Interest income, transfers, and various small miscellaneous sources round out the City's discretionary General Fund revenue sources. Table 2 summarizes the forecasts for each of these General Fund revenue sources over the five-year forecast horizon.

**TABLE 2. Discretionary General Fund Resources Five-Year Forecast (\$millions)**

Resource Category	Fiscal Year				
	2012-13	2013-14	2014-15	2015-16	2016-17
Beginning Balance <sup>1</sup>	\$19.2	\$16.9	\$16.7	\$16.5	\$14.2
Property Taxes	\$195.4	\$199.3	\$205.2	\$212.3	\$219.7
Transient Lodging	\$17.4	\$18.2	\$18.9	\$19.4	\$19.9
Business Licenses	\$73.7	\$80.4	\$87.0	\$91.9	\$97.0
Utility License/Franchise	\$74.4	\$77.6	\$80.9	\$84.5	\$88.1
State Revenues	\$12.4	\$12.6	\$12.8	\$12.9	\$13.1
Interest Income	\$0.9	\$1.3	\$1.6	\$2.0	\$2.4
Transfers	\$0.6	\$0.6	\$0.6	\$0.6	\$0.6
Miscellaneous	\$2.0	\$2.1	\$2.2	\$2.3	\$2.4
<b>Total Resources</b>	<b>\$396.0</b>	<b>\$409.1</b>	<b>\$425.9</b>	<b>\$442.4</b>	<b>\$457.4</b>

<sup>1</sup> FY 2012-13 beginning balance includes estimated unspent budget from FY 2011-12 and \$9.1 million of FY 2011-12 revenue held over for future years in order to balance the five-year forecast.

Changes in the forecast outlook since April are almost entirely related to expectations of property tax collections over the next few years. While General Fund property taxes have been historically insulated from market conditions because of voter-approved Measures 5 and 50, dramatic decreases in real market values of properties for FY 2011-12 signal that is no longer the case. All other changes to the revenue forecast are generally minimal. Among the modest changes was a slightly higher near-term transient lodging tax revenue forecast, as current collections suggest that business travel has picked up through much of 2011 and should help set a record for transient lodging tax collections in FY 2011-12. The forecast for business license tax revenue was unchanged from April. Though collections have continued to grow thus far in FY 2011-12 over FY 2010-11, the vast majority of collections occur during the spring, leaving the forecast susceptible to significant variation prior to City budget decisions in May. Finally, the forecast for Utility License/Franchise Fee revenue was essentially unchanged as increases in cable/telecom collections were largely offset by decreases in the expectations for collections from other utility providers. Table 3 describes changes in the forecasts for FY 2011-12 and FY 2012-13 from the April 2011 forecast for various revenue sources.

**TABLE 3. Discretionary General Fund Revenue Forecast Changes Since April (\$millions)**

Revenue Category	Time Period	
	2011-12	2012-13
Property Taxes <sup>1</sup>	-\$4.7	-\$8.5
Transient Lodging	\$1.7	\$0.2
Business Licenses	\$0.0	\$0.0
Utility License/Franchise	\$0.1	\$0.2
State Revenues	-\$0.2	-\$0.1
Interest Income	-\$0.3	-\$0.5
Transfers	\$0.0	\$0.0
Miscellaneous	-\$0.8	-\$0.8
<b>Total Discretionary Revenue</b>	<b>-\$4.1</b>	<b>-\$9.6</b>
<sup>1</sup> Increased compression...		

### Risks to Revenue Forecast

It should be noted that this forecast represents a conservative expectation of revenue flows. However, significant risks remain related to the City's General Fund revenue sources. Several of these risks are summarized below.

- Property Tax Collections** – In addition to a potential Multnomah County Library district, rapidly falling real market values have threatened the stability that has characterized General Fund property taxes. Because property taxes account for nearly one-half of all discretionary General Fund revenue, even small changes to the forecast can yield significant dollar amounts. Just as the current environment of falling property values under Measures 5 and 50 is unique, so too does the forecast expect three more years of historically low property tax growth rates. To the extent that prices stabilize and begin increasing more rapidly than expected, property tax growth could exceed the forecast.
- Economic Conditions** – While the forecast is built on the expectation of continued slow economic growth, it does not assume that the U.S. will fall back into a recession. Should the economy deteriorate rapidly, especially due to near-term risks associated with the European debt crisis, the City could realize lower revenue, particularly in business licenses. It should be noted that this is also a risk on the upside, as a stabilizing housing market and sharper increases in job growth could help push revenues above forecasted levels.

- **Audit Recoveries** – The forecast assumes no audit recoveries in Utility License/Franchise Fee revenue because these revenues are viewed as particularly unstable and one-time in nature. To the extent that the City recovers revenue through audits, revenues will exceed the forecast.

### Discretionary General Fund Expenses

The forecast for General Fund expenses is driven largely by a variety of inflation factors, as well as policy decisions. The forecast incorporates a 3.8% cost-of-living adjustment (COLA) for personal services for FY 2011-12, higher than the 2.3% assumed in the April forecast. For FY 2012-13, each percentage point paid in COLA increases ongoing General Fund expenses by \$2.1 million. Additionally, the forecast incorporates various other adjustments, most notably the FY 2011-12 Adopted Budget notes that increased expenses by nearly \$3 million beginning in FY 2012-13. Finally, because the City balances its budget over the entire five-year forecast, it is expected that some resources in some years will be required to go unspent in order to balance in future years. The summary of these factors is displayed in Table 4.

**TABLE 4. Discretionary General Fund Expense Five-Year Forecast (\$millions)**

Expense Category	Fiscal Year				
	2012-13	2013-14	2014-15	2015-16	2016-17
Bureaus CAL Targets	\$348.8	\$358.4	\$374.1	\$394.4	\$408.1
Transfers to Bureaus	\$16.9	\$17.1	\$17.4	\$17.6	\$17.8
Council Set-Asides/Special Appropriations	\$30.8	\$29.0	\$30.6	\$29.4	\$30.5
One-time Spending Available	\$11.6	\$0.0	\$0.0	\$0.0	\$0.0
Needed Cuts (FY 12-13 ongoing)	-\$17.4	\$0.0	\$0.0	\$0.0	\$0.0
<b>Total Budget Requirements</b>	<b>\$390.7</b>	<b>\$404.5</b>	<b>\$422.1</b>	<b>\$441.5</b>	<b>\$457.4</b>
<i>Reserved for Five-Year Balancing</i>	<i>\$5.2</i>	<i>\$4.6</i>	<i>\$3.8</i>	<i>\$1.0</i>	<i>\$0.0</i>

The current forecast assumes that while the most recent labor contracts will be fully funded, any additional costs associated with future labor agreements above cost-of-living adjustments would add new costs not reflected in the current forecast. Finally, future costs associated with higher PERS obligations for current employees are included beginning in FY 2013-14 and FY 2015-16.

### Risks to Expense Forecast

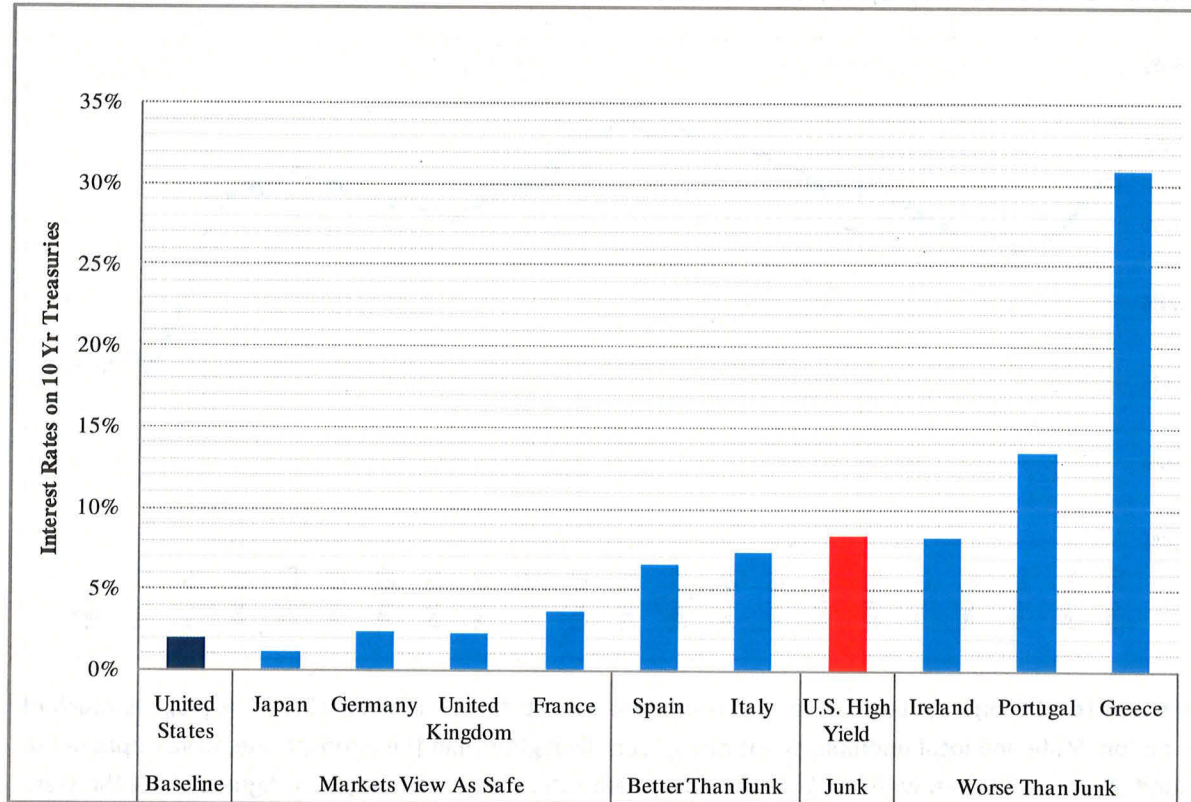
The following summarizes significant risks to the current expense forecast. To the extent that the expectations for any of these factors differ from what is realized, the forecast is at risk.

- **Continue One-time Expenses** – There are not enough resources to continue funding all of the currently one-time funded programs throughout the five-year forecast. Should these expenses be expanded, there could be a greater need for cuts in the event of a revenue downturn.
- **Inflation** – Commodities prices have maintained higher price levels through much of 2011. However, the economy is not supporting any underlying wage pressure, which should limit the potential of a prolonged period of high inflation. Ultimately, because a large majority of the forecast is based on inflation expectations, the exposure to the forecast from deviations in inflation could significantly move in either direction.
- **Benefit Costs** – Large increases in health care benefits and PERS costs are incorporated in the forecast; however the actual costs could be higher or lower depending on a variety of difficult-to-forecast measures (e.g., financial market activity).
- **Future Labor Contracts** – Because the vast majority of City costs are related to personnel and most of those costs are driven by labor agreements, there is significant risk associated with increased cost from future labor negotiations. Costs associated with the most recent agreements are incorporated into the five-year forecast.

## Current Economic Conditions/Forecast Assumptions

The current forecast generally assumes a continuation of the current “economic un-recovery.” That is, though the economy will continue to grow, it will do so at a below-trend growth rate in the near-term and be full of starts and stops, not unlike what we have seen over the last 18 months. This section of the forecast will briefly discuss the international, national, and state and local economies, followed by a table and brief description of selected economic indicator forecasts that helped inform the forecast.

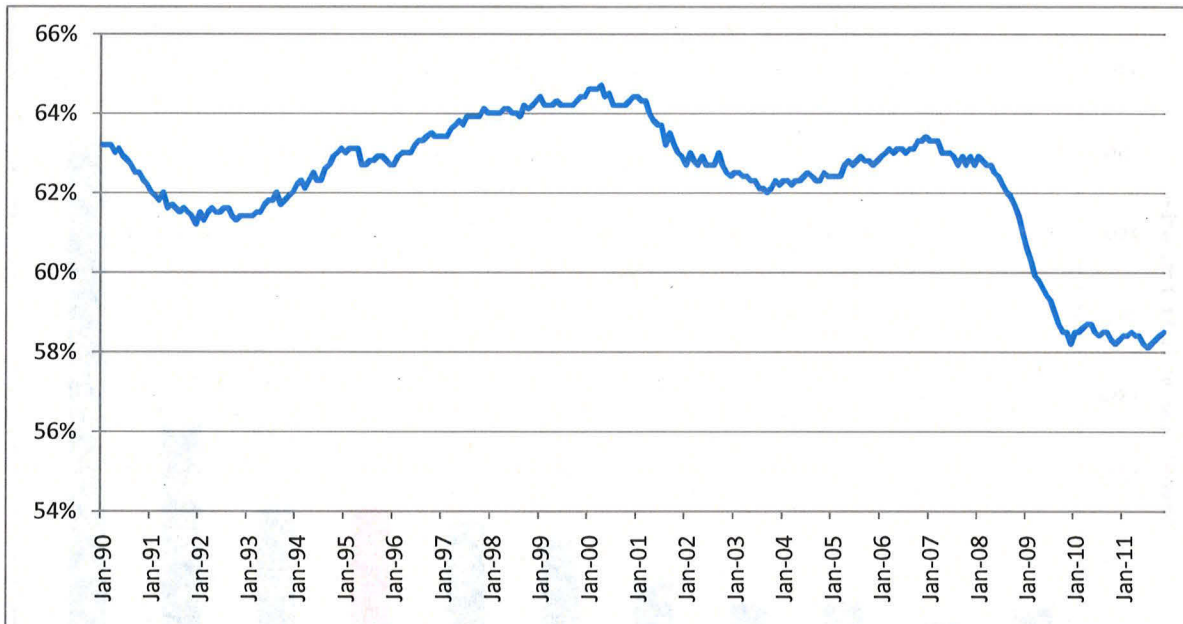
**International Economy.** Most of the international economic and political communities are focused on Europe at the present time. The instability that began – and continues – with the Greek debt crisis is feeding into the general uncertainty that has characterized the last five years. For a general perspective of how markets perceive many European countries’ fiscal situations, the graph on the next page shows the prevailing interest rates for 10-year treasuries for various entities – the higher the interest rate, the greater the market believes the likelihood of default is during the 10-year term. For instance, markets at the end of November felt that Greece debt was so risky that they were more likely to default than not. Though there is minimal direct exposure locally to European economies – Europe accounts for only a negligible portion of Oregon exports – a collapse of the Euro would have systemic effects that would likely halt bank activity and credit availability in a manner similar to that experienced in late 2008 following the Lehman Brothers collapse.

**Figure 1. Market Rates for 10-year Treasuries for Selected Countries (as of November 28, 2011)**

**National Economy.** As has been discussed in prior publications, the U.S. economy continues to plod along, though at growth rates far below what is necessary to return labor markets to anything resembling what they were in the middle of the last decade. In an indication of what counts as good news these days, the latest national labor report, released December 2<sup>nd</sup> by the Bureau of Labor Statistics, brought the following bit of information: In November, there were more jobs than ten years ago for the first time in over two years. Also in the report, released December 2<sup>nd</sup>, the unemployment rate dropped from 9.0% to 8.6%, falling to its lowest level since February 2009. Buried in that “good” news is that nearly two-thirds of the decline was the result of people simply no longer looking for work,<sup>1</sup> not people changing from being unemployed to employed. This potentially misleading aspect of the unemployment rate leads some economists to focus on another statistic, the employment-to-population ratio. This is essentially a jobs-per-capita measure that in many ways is a “cleaner” indication of the overall labor market situation. The graph below shows this ratio since 1990 and paints a much starker picture of how few people are working compared to historical levels. Each percentage point drop is equal to approximately 3 million jobs.

<sup>1</sup> In order to be counted in the unemployment statistics you have had to have actively looked for work in the last four weeks.



**Figure 2. United States Employment-to-Population Ratio**

**State and Local Economy.** Local economic conditions reflect the same uncertainty that plagues much of the nation. State and local unemployment rates, typically higher than the national rate, have improved to around 9%, roughly even with the U.S. unemployment rate. Oregon employment figures show the state with the 17<sup>th</sup> fastest year-over-year job growth. This has occurred largely in urban centers and particularly in Portland. Though the housing market remains a large drag on the economy, apartment vacancy rates in Portland are amongst the lowest in the country. Another bright spot is exports. Both air and marine freight traffic are nearly back to pre-recession levels. Meanwhile, based on data collected by WISER, which looks at exports based on the value of the shipments, Oregon exports are at record highs, buoyed by its strong connection to much of Asia.

**Economic Indicators/Forecast Assumptions.** The table below summarizes selected economic indicators that helped inform the forecast. Growth in broad economic indicators, such as Gross Domestic Product, are not expected reach trend growth rates until at least 2013, let alone exceed trend as occurs with most economic recoveries. While inflation has come up over the last 12 months, that is unlikely to continue without significant labor market support. With limited general demand, energy prices are not expected to show much movement in the near-term.



Table 5. Selected Economic Indicator Forecasts


	2011	2012	2013	2014	2015	2016
<i>Macroeconomic Indicators</i>						
Real Gross Domestic Product <sup>1</sup>	1.8%	2.6%	3.5%	4.1%	3.6%	2.9%
Corporate Profits - U.S. <sup>1</sup>	7.8%	1.9%	6.4%	12.5%	7.3%	4.9%
Retail Trade Spending - U.S. <sup>1</sup>	6.8%	4.5%	5.1%	4.3%	3.3%	2.6%
Unemployment Rate - Portland-Vancouver-Hillsboro MSA <sup>1</sup>	9.1%	9.4%	9.2%	7.6%	6.8%	6.6%
Employment Growth - Portland-Vancouver-Hillsboro MSA <sup>1</sup>	1.1%	1.3%	2.4%	3.5%	2.9%	1.5%
Retail Trade Spending - Portland-Vancouver-Hillsboro MSA <sup>1</sup>	8.4%	3.8%	5.0%	4.6%	3.8%	3.1%
<i>Prices</i>						
CPI-W for Portland-Salem OR-WA	3.8%	2.0%	2.8%	2.7%	2.0%	1.8%
CPI-Services For U.S. <sup>1</sup>	2.2%	3.7%	3.7%	3.8%	3.2%	2.8%
Producer Price Index - U.S. <sup>1</sup>	7.0%	3.2%	2.8%	2.1%	2.1%	2.2%
Natural Gas Prices <sup>2</sup>	-2.0%	-0.2%	0.7%	0.6%	2.9%	3.3%
Electricity Prices <sup>2</sup>	-4.3%	0.9%	0.9%	1.3%	1.9%	1.5%
<i>Other Factors</i>						
PERS Employer Cost Rates - Tier 1 & 2		9.3%	9.3%	14.0%	14.0%	15.5%
PERS Employer Cost Rates - OPSIRP (non-sworn)		7.7%	7.7%	10.5%	10.5%	12.5%
PERS Employer Cost Rates - OPSIRP (sworn)		10.4%	10.4%	13.0%	13.0%	15.5%
<sup>1</sup> Provided by Moody's/Economy.com						
<sup>2</sup> United States Energy Information Administration						



**CITY OF PORTLAND**  
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Jack D. Graham, Chief Administrative Officer  
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TO: Mayor Sam Adams  
Commissioner Nick Fish  
Commissioner Amanda Fritz  
Commissioner Randy Leonard  
Commissioner Dan Saltzman  
Auditor LaVonne Griffin-Valade

FROM: Andrew Scott, Financial Planning Manager 

DATE: December 7, 2011

SUBJECT: FY 2012-13 General Fund Financial Forecast

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I am pleased to submit the initial FY 2012-13 General Fund Five-Year Financial Forecast. The forecast incorporates projected City revenues and spending from FY 2012-13 through FY 2016-17. The forecast will be updated as new information becomes available, and the final five-year forecast will be released in late April.

Financial Planning will present the forecast as a report to Council on December 7. We look forward to working with the Council, City bureaus, and the community on the FY 2012-13 budget process.

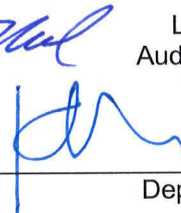
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*To help ensure equal access to programs, services and activities, the Office of Management & Finance will reasonably modify policies/procedures and provide auxiliary aids/services to persons with disabilities upon request.*

Agenda No.  
**REPORT NO.**  
Title

Transmit FY 2012-13 General Fund Five-Year Financial Forecast (Report)

<p><b>INTRODUCED BY</b> Commissioner/Auditor: <b>Mayor Sam Adams</b></p>	<p>CLERK USE: DATE FILED <u>DEC 02 2011</u></p>
<p><b>COMMISSIONER APPROVAL</b></p> <p>Mayor—Finance and Administration - Adams</p> <p>Position 1/Utilities - Fritz</p> <p>Position 2/Works - Fish</p> <p>Position 3/Affairs - Saltzman</p> <p>Position 4/Safety - Leonard</p>	<p>LaVonne Griffin-Valade Auditor of the City of Portland</p> <p>By:  Deputy</p>
<p><b>BUREAU APPROVAL</b></p> <p>Bureau: Office of Management &amp; Finance Bureau Head: Rich Coward</p> <p>Prepared by: Josh Harwood Date Prepared: December 1</p> <p>Financial Impact Statement</p> <p>Completed <input type="checkbox"/> Amends Budget <input type="checkbox"/> Not Required <input checked="" type="checkbox"/></p> <p>Council Meeting Date <b>December 7, 2011</b></p>	<p><b>ACTION TAKEN:</b></p> <p><b>DEC 07 2011 ACCEPTED</b></p>
<p><b>City Attorney Approval</b></p>	

<b>AGENDA</b>
<p><b>TIME CERTAIN</b> <input type="checkbox"/></p> <p>Start time: _____</p> <p>Total amount of time needed: _____ (for presentation, testimony and discussion)</p>
<p><b>CONSENT</b> <input type="checkbox"/></p>
<p><b>REGULAR</b> <input checked="" type="checkbox"/></p> <p>Total amount of time needed: <b>30 minutes</b> (for presentation, testimony and discussion)</p>

FOUR-FIFTHS AGENDA	COMMISSIONERS VOTED AS FOLLOWS:		
		YEAS	NAYS
1. Fritz	1. Fritz	<input checked="" type="checkbox"/>	
2. Fish	2. Fish	<input checked="" type="checkbox"/>	
3. Saltzman	3. Saltzman	<input checked="" type="checkbox"/>	
4. Leonard	4. Leonard	<input checked="" type="checkbox"/>	
Adams	Adams	<input checked="" type="checkbox"/>	