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CITY OF PORTLAND, OREGON

Memorandum

To: Mayor Ted Wheeler
Commissioner Mingus Mapps
Commissioner Carmen Rubio
Commissioner Dan Ryan
Commissioner Rene Gonzalez
Auditor Simone Rede

Cc: Michael Jordan, Chief Administrative Officer
Michelle Kirby, Chief Financial Officer
Tim Grewe, City Budget Director
City Bureau Directors
City Elected Officials Executives

From: Peter Hulseman, City Economist
Date: April 28, 2023
Subject: December General Fund Forecast

This memo serves as the April 2023 General Fund forecast update. Pursuant to City Code, this update must be released by April 30th. After analyzing the latest economic, revenue, and expense data, the **April forecast** now reflects $9.6 million of unallocated ongoing discretionary resources, and $17.2 million in one-time discretionary resources above projected expenditures in FY 2022-23 to be allocated in the Mayor's Proposed (see Table 1). City financial policy states that at least 50% of the one-time resources be spent on major maintenance and replacement of City assets.

The increase in resources from the December forecast comes from two sources: 1) a release of incremental assessed value relating to two Urban Renewal Districts (see impact of returned URA Fund Balance below), and 2) an increase in forecasted current year collections of $13.2 million—primarily due to Business License Tax (BLT) receipts. Additionally, this forecast also includes a $5 million reduction in the FY 2023-24 BLT forecast which is described in the Revenue Update and Outlook section. Excluding the increased revenue from the release Urban Renewal Districts, the forecast shows an increase of $8.2 million in one-time.

Please contact Peter Hulseman (peter.hulseman@portlandoregon.gov, 503-865-6331) if you have any questions.

Revenue & Expenditure Projections

Table 1 summarizes discretionary General Fund resources and expenses through FY 2027-28. As shown in Table 1, the City will have $9.6 million in unallocated ongoing General Fund discretionary resources, and $17.2 million discretionary resources above projected expenditures in FY 2023-24.

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

	Fiscal Year					
Budget Category	**2022-23**	**2023-24**	**2024-25**	**2025-26**	**2026-27**	**2027-28**
Total Resources	688.1	698.1	724.2	755.4	783.3	811.1
Total Expenses	688.1	671.3	704.2	745.9	780.5	805.9
Available Ongoing		9.6	0.0	9.5	2.8	2.3
Available One-Time		17.2	0.0	0.0	0.0	0.0
Ongoing Funds Set Aside		0.0	20.0	0.0	0.0	0.0
Total Expenses with Adds & One-Time Spending	688.1	698.1	704.2	755.4	783.3	808.2
Note: Totals may not add due to rounding. FY 2022-23 figures are reflective of the Adopted Budget						
Note: $20 million of ongoing funds are set aside in FY 2024-25 as per FY 2022-23 Budget Note						

Impact of Returned URA Fund Balance

The City is in a unique position where large Urban Renewal Area (URA, or Tax Increment Financing Districts) are set to expire over the next couple of years. Expiration of URAs happens when maximum indebtedness is reached, or all bonded indebtedness is repaid. Typically, the City will collect the full amount of property taxes available, and any revenue beyond what is needed to reach either of those thresholds—i.e. excess balance—will be remitted through the County to the taxpaying jurisdictions. This is outlined in Oregon Revised Statues 457 and has been the practice with the recently closed URAs. The Office of Management and Finance Debt Management Division compiled their estimates around remaining excess balance for the closing districts, and the excess balances for Interstate Corridor and Central Eastside are estimated to total $51 million. Under typical practice, the amount expected to return to the City's General Fund in FY 2024-25 would be $12 million.

Given both 1) the size of the Interstate Corridor and Central Eastside URAs, and 2) the low amount of revenue needed to close those URAs, the City is reducing the incremental assessed value (IAV) to collect only the needed amount. This makes the excess revenue available in FY 23-24 instead of FY 24-25 for all taxing jurisdictions. The City will receive an estimated additional $12 million in property tax collections in FY 23-24. In other words, instead of receiving the one-time excess balance in FY 24-25, the City and other taxing jurisdictions are receiving this revenue in FY 23-24.

Revenue Update and Outlook

There is a heightened level of risk regarding the revenue outlook due to the failure of Silicon Valley Bank, elevated interest rates, and the ongoing Federal debt-ceiling discussions. The uncertainty among financial institutions has depressed lending which has a broad economic impact and could affect profits among a variety of businesses. All general fund revenues are conservatively forecast; however, the general level of uncertainty—and the importance of the next six months—should be highlighted as the City nears the end of FY 2022-23. What follows below is a brief update of the five major General Fund revenue sources.

Property Taxes –This is a very stable resource with Measures 5 and 50 both limiting the amount of taxes able to be collected as well as providing a considerable buffer to declines in Real Market Values. There are risks to this revenue stream as falling Real Market Values in the downtown core could increase compression and delinquencies. To account for this risk, the forecast assumes elevated levels of both compression and delinquencies. Collections have tracked with expectations, and the outlook is stable.

Business License Taxes – While BLT receipts are tracking to come in higher than the December forecast, the expectation remains for a decline in this revenue source relative to FY 2021-22. Furthermore, based on the amount of yearly revenue that has come in relative to unearned credits and quarterly estimated payments, the expectation is that there will more refunds/credit carryforwards than previously forecast. This leads to a decrease in the FY 2023-24 forecast of $5 million. While the forecast for FY 2023-24 is conservative, any additional fallout from the failure of Silicon Valley Bank and the corresponding financial uncertainty could further impact business profits beyond what is currently expected.

Utility License/Franchise Fees – The longer-term secular declines in this revenue source (e.g., lower expectations for telecom-related revenue due to “cord-cutting”) were captured in prior forecasts. Current year revenues have slightly exceeded expectations. The next quarterly payment for large payers is due May 15th.

State-Shared Revenue – This revenue source is comprised largely of state liquor taxes, but also includes state marijuana and cigarette taxes. This revenue has grown as expected, and the outlook remains stable.

Transient Lodging Taxes – This revenue stream was the most adversely affected by the COVID-19 Pandemic. Revenues from FY 2021-22 exceeded expectations but are still forecast to come in only slight above 50% of peak in FY 2022-23. Steady growth should continue over the span of the forecast. This revenue has grown as expected, and the outlook is for a continued moderate recovery.