CITY BUDGET OFFICE

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Mingus Mapps, Commissioner
Carmen Rubio, Commissioner
Dan Ryan, Commissioner
Rene Gonzalez, Commissioner
Simone Rede, Auditor

Tim Grewe, Director

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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
Thomas Lannom, Interim Chief Financial Officer
Tim Grewe, City Budget Director
City Bureau Directors
City Elected Officials Executives

From: Peter Hulseman, City Economist
Date: December 18, 2023
Subject: December General Fund Forecast

This memorandum is intended to communicate the preliminary General Fund Financial Forecast figures for FY 2024-25 through FY 2028-29, which forms the initial basis for the FY 2023-24 General Fund budget. Please contact Peter Hulseman (peter.hulseman@portlandoregon.gov) if you have any questions.

Revenue & Expenditure Projections

Table 1 summarizes discretionary General Fund resources and expenses through FY 2028-29. As shown in Table 1, the City will have $11.9 million in unallocated ongoing General Fund discretionary resources, and $1.1 million in one-time discretionary resources above projected expenditures in FY 2024-25. The available ongoing is entirely due to the budget constraint[1] of 5% outlined in the Mayor's second budget guidance memo. Prior to the constraint, the forecast showed an ongoing deficit of $2 million as well as no projected available ongoing for FYs 2025-26 or 2026-27. This memo provides an initial planning forecast provided by the City Budget Office. This forecast will be updated in February 2024 and finalized near the end of April 2024.

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1 A budget constraint is when the Current Appropriation Level (CAL) for a General Fund Bureau or program is reduced by a specified amount across the board. For example, if a bureau was scheduled to receive $100 million of general fund dollars for the upcoming fiscal year, they will now have to balance to $95 million. The Portland Police Bureau, Portland Fire & Rescue, and the Bureau of Emergency Communications were each exempted from the constraint and will receive 100% of their CAL Target.

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

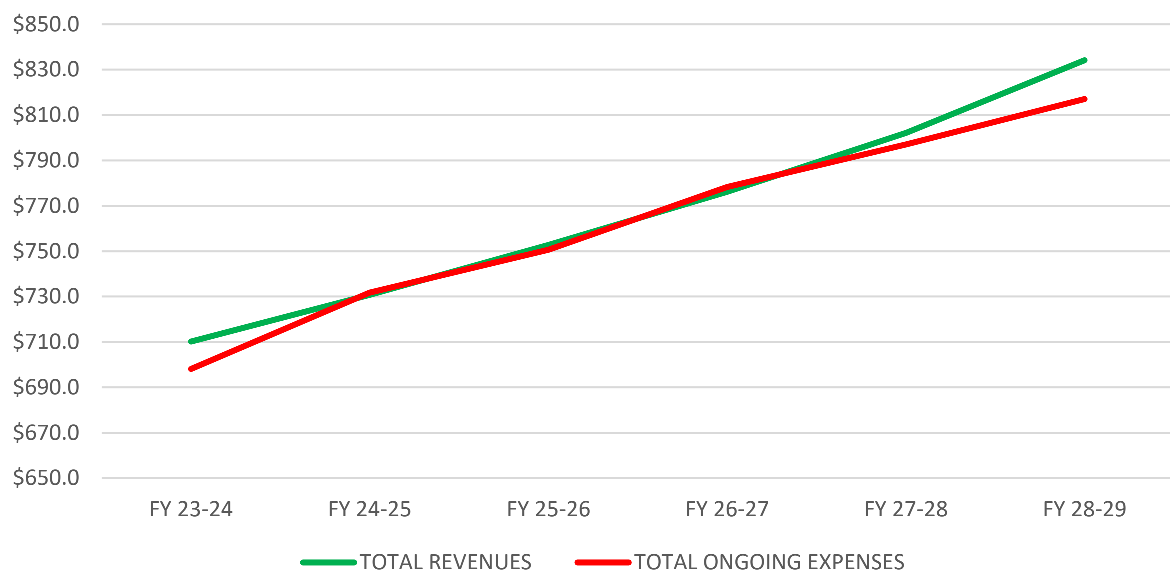
Budget Category	FY 2023-24	2024-25	2025-26	2026-27	2027-28	2028-29
			Fiscal Year			
Total Resources	698.1	730.8	752.8	776.2	802.1	834.2
Total Expenses	698.1	717.9	748.5	776.2	794.9	815.0
Available Ongoing		11.9	0.0	0.0	7.2	0.0
Available One-Time		1.1	4.3	0.0	0.0	19.1
Total Expenses with Adds & One-Time Spending	698.1	730.8	752.8	776.2	802.1	834.2
Note: Totals may not add due to rounding. FY 2023-24 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						

The expenses indicated in Table 1 are all current ongoing allocations approved by City Council and include assumptions regarding increased personnel expenses and/or legal mandates, as directed by City financial policy. These expenses include ongoing Current Appropriation Level (“CAL”) Target adjustments passed during 2023’s Current Allocation Ordinance and Fall Budget Monitoring Process. Additionally, at direction of the Mayor’s second budget guidance memo, this forecast also <u>includes a constraint of 5%</u>. Revised Current Appropriation Level Targets and Overhead costs will be posted in conjunction with the release of this forecast.

Consistent with a balanced forecast, the years following FY 2024-25 show no ongoing deficits. However, as described in the previous paragraph, only expenses already approved by Council through ordinance or City Financial Policy are included. New expenses, such as those related to charter change, upcoming labor bargaining negotiations, legal obligations, or Council priorities are not included in the expense forecast. As Figure 1 shows, the margin between ongoing revenues and expenses is razor-thin for FYs 2025-26 and FY 2026-27. This indicates that without better-than-expected revenue collections or lower-than-expected inflation, the City is likely to be in a difficult budget situation for the next two budget cycles.

The rationale for this is two-fold: elevated inflation continues to provide upward pressure on expenses, and declining downtown property values is severely limiting projected property tax growth (property taxes accounted for 46% of General Fund Discretionary Revenue in FY 2022-23). The projected average revenue growth for FY 2025-26 and FY 2026-27 is currently the exact same as the projected expense growth: 3.1%. The property tax forecast, along with the other four major revenue stream forecasts, are described in more detail below.

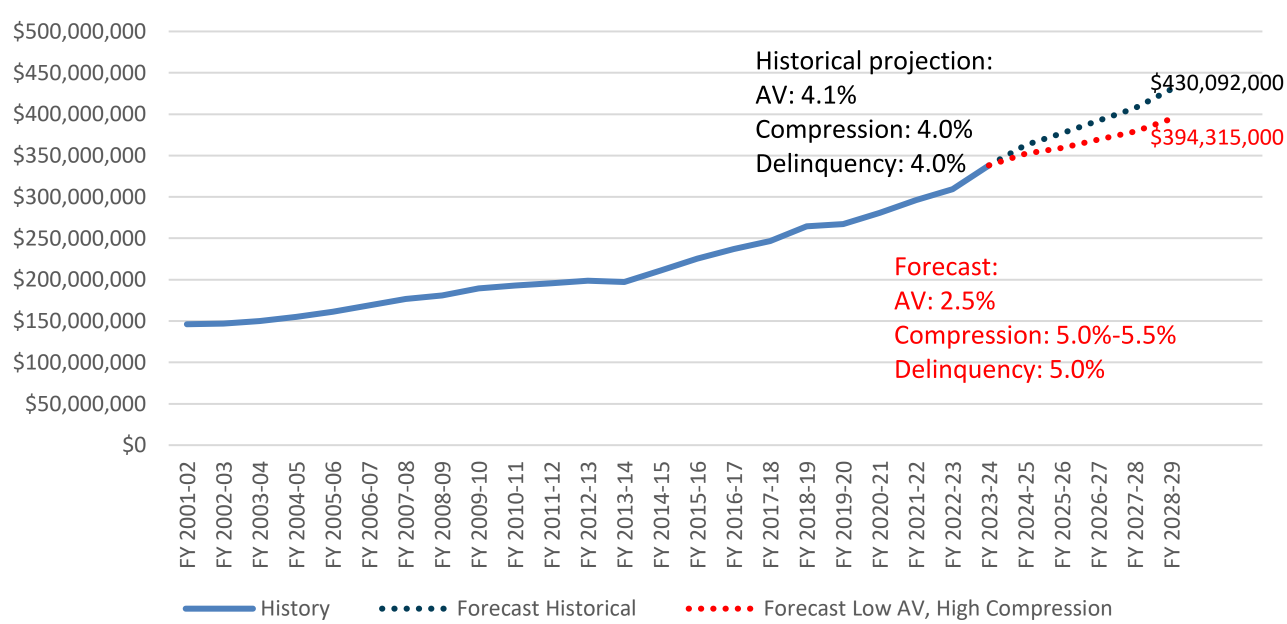
Figure 1: Forecasted Revenues and Expenses, Prior to Constraint and Balancing[2]



Property Taxes

The forecast for property taxes includes assumptions of historically low assessed value growth and elevated compression for the next five years. This is largely due to concerns around commercial space in the downtown core, as real market values for many properties are expected to drop precipitously in the coming years. This forecast implies little or negative assessed value growth in the downtown core, offset by moderate growth of residential properties. Additionally, it implies that the City will be receiving roughly $35 million less per year by the end of the five-year forecast when compared to a projection based on historical averages (see Figure 2). As with all revenue forecasts, the goal is to be conservative and adjust regularly with the most current data.

Figure 2: Property Taxes History and Outlook

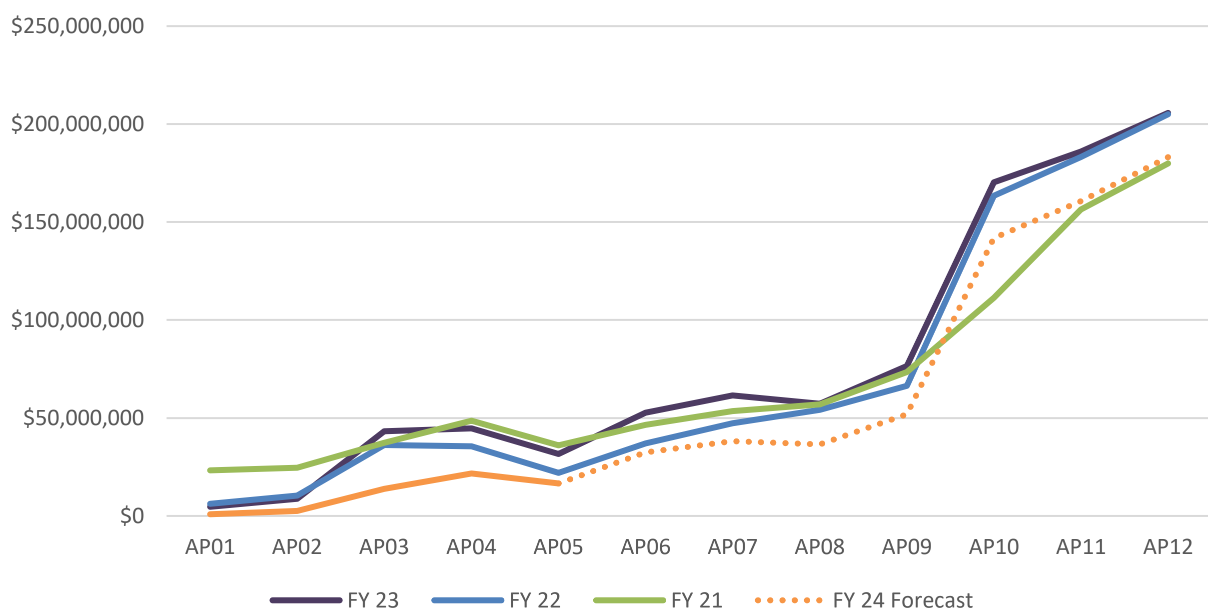


2 By financial policy, the City's General Fund Forecast is balanced—meaning that projected revenues must fully cover the expense (CAL) forecast for the duration of the forecast. In the chart above, forecasted expenses surpass revenues by roughly $2 million in FY 26-27—indicating the need for a $2m ongoing reduction in FY 24-25, prior to the constraint.

Business License Taxes

Based on April 2023 receipts, the forecast for Business License Tax (BLT) revenues in FY 2023-24 was reduced as the mix of revenues received indicated that there would be higher refunds and lower quarterly estimated payments. This has largely borne out in the revenue collections as the City has collected roughly $20 million less in BLT revenue through November than last year at this time (see Figure 3). This indicates that the decline that was expected last year—as profit margins declined—was spread over two fiscal years (many large corporations file for 6-month extensions, which straddles City fiscal years). Well over half of BLT revenue is received after March, and the current forecast projects receipts after the April tax filing deadline will closely align with the prior two years. However, there is the possibility of both a negative surprise—which would create a one-time funding hole—or a positive surprise which would provide more one-time funding. The financial outlook for the next two years, as described in Figure 1, indicates that all excess funds available in April will be for one-time use.

Figure 3: Cumulative Business License Tax Receipts by Accounting Period



Other General Fund Revenues

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. Revenues have increased in alignment with rate increases from private utility payers.

Transient Lodging Taxes—This revenue stream was the most adversely affected by the COVID-19 Pandemic, and growth has slowed over the prior 12 months suggesting a new, lower baseline than pre-pandemic. The forecast calls for continued slow growth.

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.

Conclusion

Barring an improved revenue or expense outlook, it is likely that the next few budget cycles will be characterized with difficult trade-offs between funding Council priorities and continuing current programs. Additionally, given the narrow margin between expenses and revenues in the outlook, any Business License Tax revenues received above projections in April will only provide one-time funding.