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Cc:	Patricia Rojas, Metro Housing Director; Rachael Lembo, Metro Finance Manager; Antionette Payne, Joint Office of Homeless Services Finance Director; Adam Brown, Clackamas County Deputy Director
From:	Revenue & Analytics Division, Finance & Regulatory Services
Subject:	FY 2023-24 SHS Taxes Fiscal Year-End (FYE) and FY 2024-25 Forecast Update

FY 2023-24 represented the third full year of Supportive Housing Services Taxes collections. In the fall, Metro provided a forecast with more aggressive revenue estimates based on tax collections in the prior two years, the growth of the higher-income tax base indicated by state return data, and high revenue numbers early in the FY 2023-24 fiscal year. The year-end number of $335.1 million is about 6% lower than our Fall 2023 forecast, which is within the margin of error that should be expected for these taxes. Likely, the single biggest reason for the actual collections to be below forecast was that the local economy has performed worse than one would have expected a year ago, especially considering the nationwide growth that has occurred over the last 12-18 months (see *Economic Context* below).

Original Budget	$234,100,000
Fall 2023 Forecast	$356,700,000
FY 2023-24 Actual Collections	**$335,136,020**
Deviation from latest forecast	*($21,563,980) (6%)*

FY 2023-24 Results

At the beginning of the current fiscal year, an adjustment was made to account for revenue collections on an accrual basis. The chart below shows a comparison of tax revenue received by Metro from August through July each year, which represents revenue collected from July to June. The FY 2023-24 revenue path was higher than the prior fiscal year through the first quarter, matched FY 2022-23 collection figures closely through the second quarter, and then dropped in the third quarter. In March, Metro issued a forecast update noting this information as well as the potential for tax season collections to shift the trendline. Collections ticked up during the last few months and pushed the final fiscal year revenue closer to the Fall 2023 forecast.

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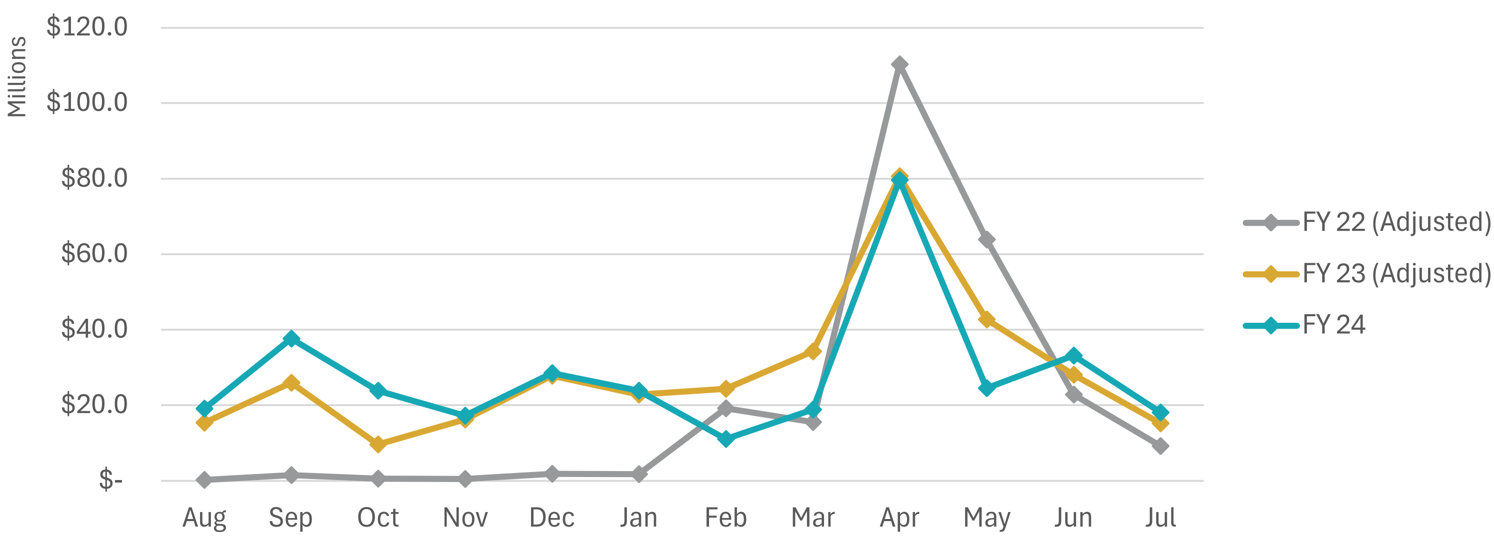
Figure 1: FY 2023-24 revenue collection trends varied compared to prior years



While it is possible that revenue trends may converge into a more predictable seasonal pattern over the next few years, it is more likely that collections will continue to vary month-to-month and the forecast outlook could shift just as frequently. This supports Metro's FY 2024-25 recommendation for healthy reserves and suggests that other expense-side strategies, such as scalable contracts outside of core programming, are the best option for managing this dynamic revenue source.

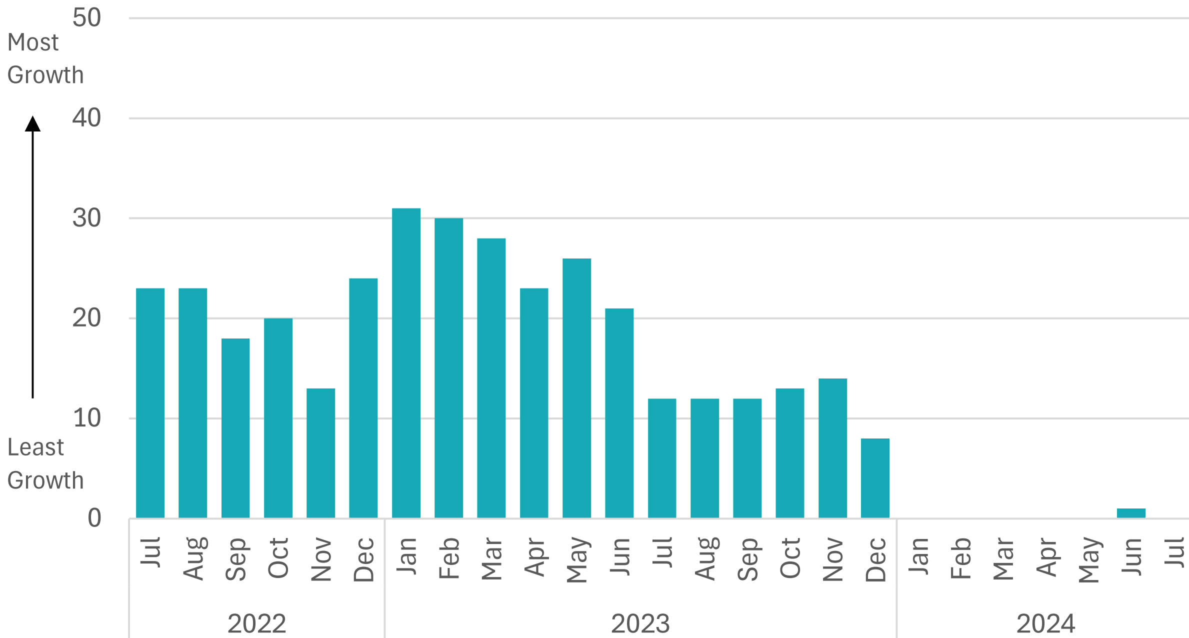
Economic Context

Oregon's National Employment Ranking Drops

The national labor market shows signs of cooling but remains stable. In July, the U.S. economy added 114,000 jobs, a significant slowdown from the 179,000 added in June. Unemployment has also been ticking up since March, reaching 4.3% in July, the highest rate since October 2021, though it remains within healthy levels.

The local economic picture is a bit more complex. Most Oregonians who want a job have one, as reflected in the state's 4.1% July unemployment rate. While Oregon's job growth is up by about half a percent since July 2023, the Portland-Vancouver-Hillsboro metro area has experienced a slight decline of 0.2% (2,100 jobs) over the past year. This lack of job growth becomes even more apparent when compared to the rest of the country. Figure 2 shows Oregon's employment growth rankings from July 2022 to July 2024, where a rank of 50 indicates the fastest-growing state. As the chart illustrates, Oregon hovered around the middle of the pack in statewide job growth two years ago, but since the start of 2024, we have consistently ranked last except for June (when we ranked second to last).

Figure 2: Oregon Employment Growth Ranking



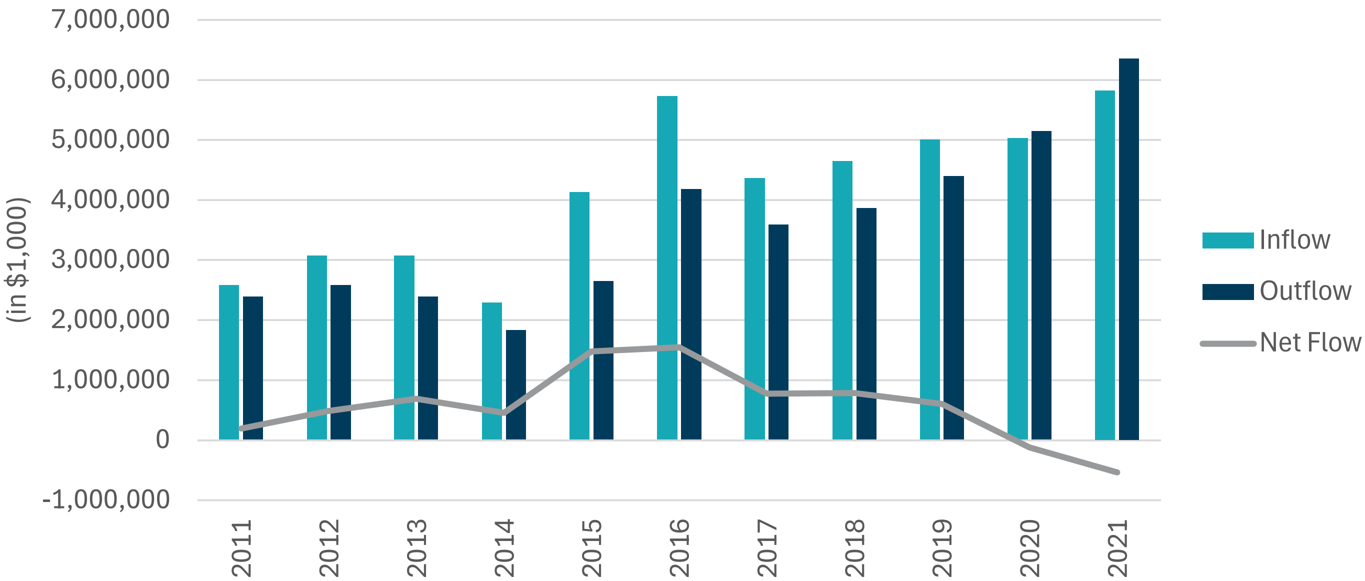
Source: US Bureau of Labor Statistics, total nonfarm employment, 12-month percent change

SHS personal and business taxes are dependent on a small number of wealthy households and businesses for the majority of the revenue. This means that a relatively few individual decisions can cause fluctuations in tax collections. A significant factor shaping the current local economic landscape is the recent layoffs at two of Portland's major employers: Intel and Nike. Intel, who is headquartered in California but whose largest operating site resides in Hillsboro, recently announced plans to lay off approximately 15,000 employees (about 15% of its global workforce) by the end of 2024. Similarly, Nike revealed in April that it would be cutting 1,600 jobs, with around 740 of those reductions affecting employees at its Beaverton headquarters.

State and Regional Migration Trends May be Shifting

The November 2023 forecast expected the region to experience a more robust return to growth than the region has actually experienced. Since 1960, the average net migration rate has been about 15,000 migrants to the Portland metro region, sometimes annually rising higher or falling with economic surges and dips in economic business cycles. This has begun tapering down in recent years, especially in Multnomah County. There is a years-long delay in getting some detailed migration data, but the latest tax return data for Oregon residents (tax year 2021) show a decline in net in-migration since 2015, with an increase in the number of taxpayers leaving the state. In 2020 and 2021 (the most recent years of data available), the total adjusted gross income for those who left Oregon was higher than those who moved in.

Figure 3: Migration has led to a net decrease in Adjusted Gross Income reported on state tax returns over the last few years



Source: Internal Revenue Service, [U.S. population migration data]

Combined, this may show recent movement of higher-income households to avoid paying higher taxes. However, people move for a variety of reasons, and the data is limited at this point. We will be reviewing actual SHS taxpayer data in greater detail this fall after the October extension filing deadline.

Next Steps

Metro will share a new five-year forecast later this fall to be used for next year's revenue budget. We will work with our county partners to help assess spending plans and reserve levels based on the best information we have available. We will provide a separate memo with details about FY 2023-24 enforcement actions and resulting collections once Tax Year 2022 enforcement data is available.