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Date:	March 21, 2025
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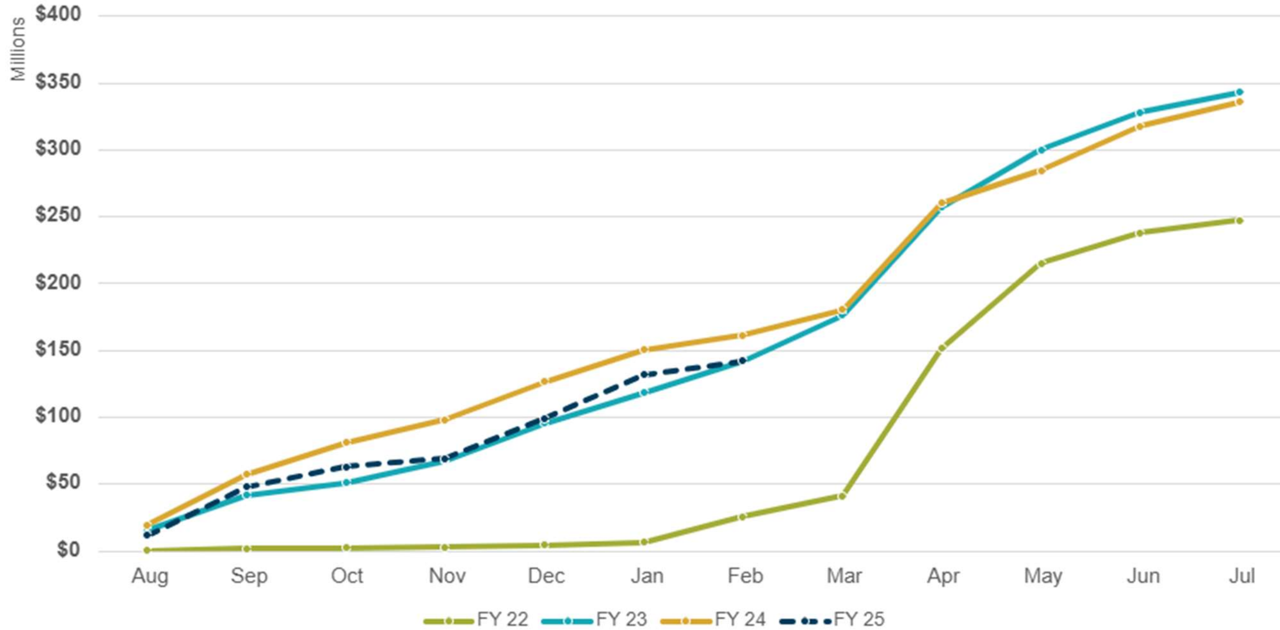
Subject:	Supportive Housing Services Taxes – March 2025 Forecast Update

This report provides an update to the tax collection forecast presented in December for Metro's Supportive Housing Services (SHS) program. Per request from the Counties, this update is being provided in March to align with budget development deadlines; however, its publication is just prior to tax collection season, meaning these forecasts may be subject to large variances.

The following pages summarize the latest economic data and tax collection details available through February 2025. The forecast was discussed with the Finance Review Team (FRT) in December and February. The FRT has decided to continue meetings quarterly, so the next update will be provided at the May meeting. In addition to quarterly FRT meetings and monthly distribution updates, Metro will continue to notify Counties if there are indications that collections are significantly diverging from forecasted estimates. Metro finance staff have also met with all Counties outside of the regular FRT meetings and continue to be available to meet upon request in order to answer questions and ensure comprehensive communication.

Figure 1 below shows annual and year-to-date SHS tax collections through February. Additional figures and prior reports can be found here.

FIGURE 1. COMPLETE SHS TAX COLLECTION HISTORY



The current forecast projects that lower revenue trends are likely to continue in the near-term, so Metro recommends that Counties make decisions about the use of contingency and reserves within the broader context of program needs in the next few years. Figure 2 summarizes the current forecast (unchanged from December).

To that end, a discussion of possible expense side strategies concludes this document. What is provided is meant as a suggestion of possibilities to explore within the context of each county's budget situation, not as a one-size-fits-all plan. However, Metro believes that there are some principles that can guide those discussions, which are provided beginning on page 3.

FIGURE 2. CURRENT FY 2025-26 TO FY 2029-30 SHS REVENUE FORECAST

	FY 25	FY 26	FY 27	FY 28	FY 29	FY 30
Forecasted Tax Revenue	$323.1	$328.8	$349.7	$383.2	$408.7	$427.0
Tax Collection Costs	$11.1	$11.4	$11.8	$12.1	$12.5	$12.8
Net Collections	$312.0	$317.4	$337.9	$371.1	$396.2	$414.2
Metro Admin	$15.6	$15.9	$16.9	$18.6	$19.8	$20.7
Partners	$296.4	$301.5	$321.0	$352.5	$376.4	$393.5
Clackamas	$63.1	$64.2	$68.4	$75.1	$80.2	$83.8
Multnomah	$134.3	$136.6	$145.4	$159.7	$170.5	$178.3
Washington	$98.7	$100.4	$106.9	$117.4	$125.3	$131.0

Current Year/Budget Year Forecast Context

The most significant changes since the forecast was released in early December are federal government policy actions, both due to the potential magnitude of impact as well as the uncertainty given continuously shifting conditions. When economic times are uncertain, both households and businesses tend to pause any financial activities or purchases as each of these activities feel riskier. As a result, economic activity stagnates. When businesses are planning purchases, inventory, production, etc., it becomes more difficult to make these decisions when the costs associated with these decisions are unclear – because of tariffs, inflation, supply chains, or other factors. For households, economic uncertainty limits people's willingness to spend while inflationary pressures from tariffs and disrupted supply chains push prices higher, limiting purchasing power.

As it relates specifically to SHS revenue streams, this uncertainty will likely result in lower receipts relative to clear, mostly permanent policy decisions. The stock markets have already receded significantly and tariffs – and subsequent trade-war counter-tariffs – will limit the profitability of companies both locally and globally. To the extent that investors have unrealized capital gains, some may get realized (and therefore become taxable) due to the uncertainty, while others will hold their investments in anticipation of favorable tax treatment in the future.

Given worsening economic signals, the current forecast should be viewed as less cautious today than it was in December – in other words, while the baseline forecast numbers and range have not been revised, developments since December have increased the probability that actuals come in below current forecasts. Uncertainty has increased significantly, and the local economy has yet to show clear signs of a rebound (though some indicators suggest gradual improvement).

Monthly revenue collections have continued to vary from prior years since the forecast release at the beginning of December. January revenue was approximately 40% higher than the last two years, while February dropped below collections in 2023 and 2024. Because any potential forecast changes made now could be dwarfed by changes in April and May collections, there is not enough information to make any changes to the baseline forecast numbers at this time. However, as has been documented, these tax collections are dynamic and variation from this year's forecast could approach $50 million. We will notify Counties if collections deviate significantly from the forecast.

SHS Budget Management Discussion

Metro is not in a position to dictate exactly how Counties budget SHS dollars. However, there are some best practices and recommendations for most effectively deploying limited, volatile resources for programs that are best run under some funding certainty. Existing IGAs specify the need for at least a 10% stabilization reserve given the known inherent volatility in the SHS revenue stream. Upon seeing increased uncertainty throughout FY 23-24, Metro recommended increasing those reserves to 15%. Because these taxes are relatively new and there is not a sufficiently similar tax structure elsewhere, these reserve increases are educated guesses and are provided in that context. Metro believes that the forecasted reduction in revenue is an appropriate use of Contingency and Stabilization Reserves. Once decisions have been made about the future of the SHS program, additional analysis should be done to help develop a more nuanced approach to reserves.[1]

[1] From IGA: "The FRT will develop a policy to establish and manage Stabilization Reserve Funds. The policy will be completed no later than May 2, 2022. In addition, the FRT will review the adequacy of each County's Stabilization Reserve, review and recommend policies for establishment and usage of reserves, use of reserves, and monitor timely restoration of required reserve levels."

The inherent volatility of the tax, which we see in monthly revenue numbers even within the current fiscal year, requires that Counties develop expense-side strategies to manage this funding source. There have been resources available in the first few years of the SHS program for spending on services that are not the primary focus of the original SHS measure.

Metro recognizes that there are no easy choices, and that the need in our community will likely outpace available funding. As we collectively recalibrate the services and capacity funded by the SHS program, we can better make the case for other entities and funding sources to support our regional system of care. Generally, Metro recommends that each county, along with Metro, identify the core ongoing service and operational needs and budget reserves in order to preserve those functions. This would likely focus on permanent supportive housing and RLRA vouchers. Other programming, such as eviction prevention and rapid rehousing, may be scaled back to help fund those core needs. The intent is to balance risk mitigation with maximizing service delivery in any given year.

Conclusions & Next Steps

The amount of collections will continue to be influenced primarily by two things: (1) overall local and national economic growth and (2) local quality-of-life indicators such as public safety, educational attainment, and incomes. As has been described in Metro's other forecast-related publications, expectations for services from the SHS program require economic growth and continual investment in the Metro area. While those conditions may be improving, it has yet to show up in revenue figures. As long as these taxes remain the funding mechanism for these services, there will remain a risk of abrupt revenue declines or increases from current expectations. Metro finance staff will continue to offer individual meetings with Counties in addition to regular quarterly FRT meetings and will notify Counties if there is a substantial shift away from current expectations following the current tax collection season.