Memo

Metro
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Date: November 27, 2023
To: SHS Oversight Committee
From: Metro
Subject: 5-year Forecast

Executive Summary

The forecast was discussed with the Financial Review Team (FRT) and Joint Leadership Team in November. Counties will then incorporate the forecast as part of their FY 2024-25 budget development and long-term plans. The full revenue forecast memo is available on the Supportive Housing Services Tax website.

- A record runup in household wealth and corporate profits helped push the underlying taxbase, from which the SHS Taxes are collected, significantly higher than prior estimates. Collections are still coming in from tax year 2021, but they will likely approach $300 - $325 million – up to 30% higher than originally estimated.

- Enforcement actions conducted by the SHS tax administrator (Portland Revenue Division) continue to bring in significant revenue from prior years as non-filers are assessed the taxes.

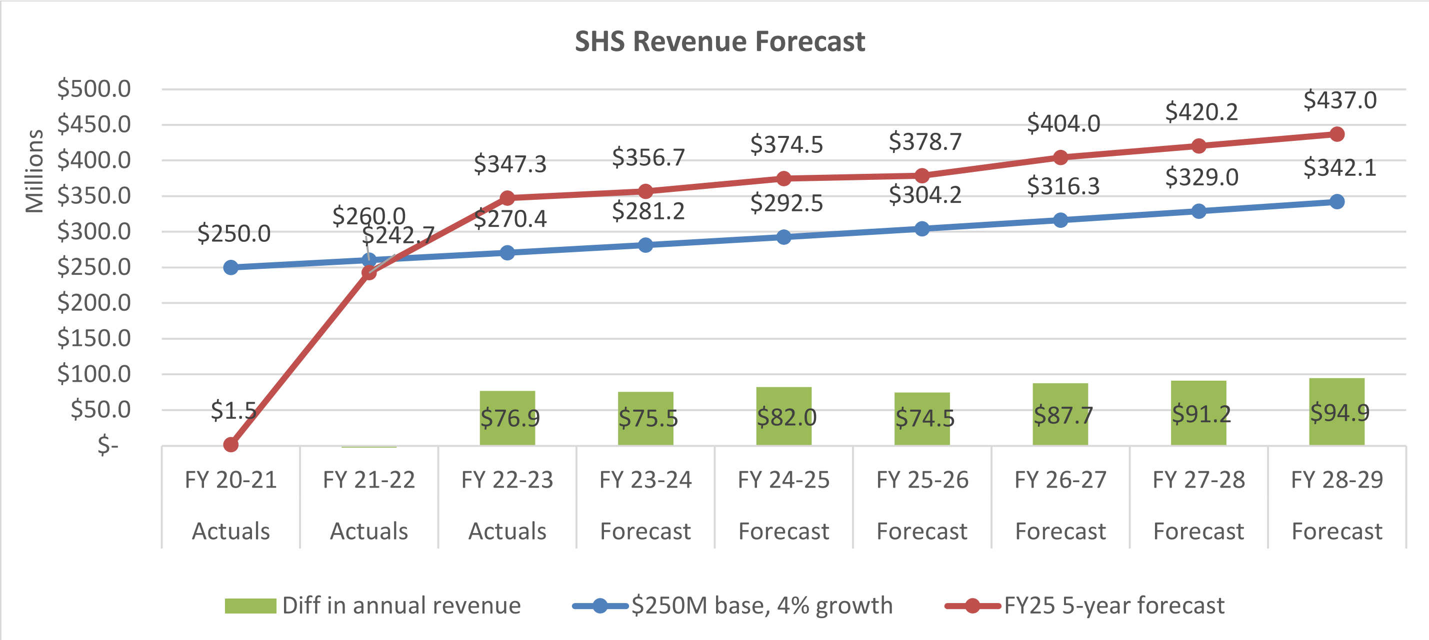
- The forecast presented here is notably less conservative than prior forecasts. The combination of continuing to collect from tax years 2021 and 2022, along with county-level income data provided by the state, support this change. As a result, the large increases in the latest forecasts are unlikely to be duplicated moving forward.

- The higher revenues will allow the counties to build larger programs that serve more people. The next three years will see considerable growth in operational capacity and significant one-time investments.

SHS Revenue and Expenditure Forecast
(Collections in $ millions)

FY 23-24	FY 24-25	FY 25-26	FY 26-27	FY 27-28	FY 28-29
$356.7	$374.5	$378.7	$404.0	$420.3	$437.0

Based on state and regional tax data, the Metro tax base is higher than originally estimated, which results in a higher revenue forecast. The chart below compares the new forecast to the original $250 million annual estimate. The annual difference of $75-95 million is due to the larger tax base. This amount is comparable to the unanticipated revenue received in FY23.



The FY25 forecasted net tax collections (after tax collection costs) is $363.4 million. Counties should budget the following for FY25 SHS tax revenue:

- Clackamas County, $73.7 million
- Multnomah County, $156.5 million[1]
- Washington County, $115.1 million[1]

The increased revenue will allow counties to build larger programs that serve more people, but that will take more time than previously forecasted. The forecast assumes a ramp-up period of 4-5 years, through FY25-26. At that point programs are expected to be fully built out, and future growth will be relative to changes in revenue. As counties plan for continued program growth during FY25 budget development, they will consider impacts such as increased costs due to inflation, uneven program growth as some programs expand quickly and new ones need more time, and increasing cumulative costs as more individuals move into permanent supportive housing.

During the ramp-up period counties will continue to generate carryover funds for investments and increases in scalable programs. The forecast assumes carryover investments will be made over four years, beginning in the current year and complete by FY26-27.

Metro's administration and oversight costs will increase due to expanding program areas including oversight and data coordination, regional capacity growth, and policy development. Tax collection costs are projected to remain steady with minimal annual increases.

The chart below shows five-year forecast spending. Carryover investment funds generated in the early years of the program will be spent in years 3-7. Ongoing operations costs increase steadily during the ramp-up period, years 1-5, and grow modestly in the later years.

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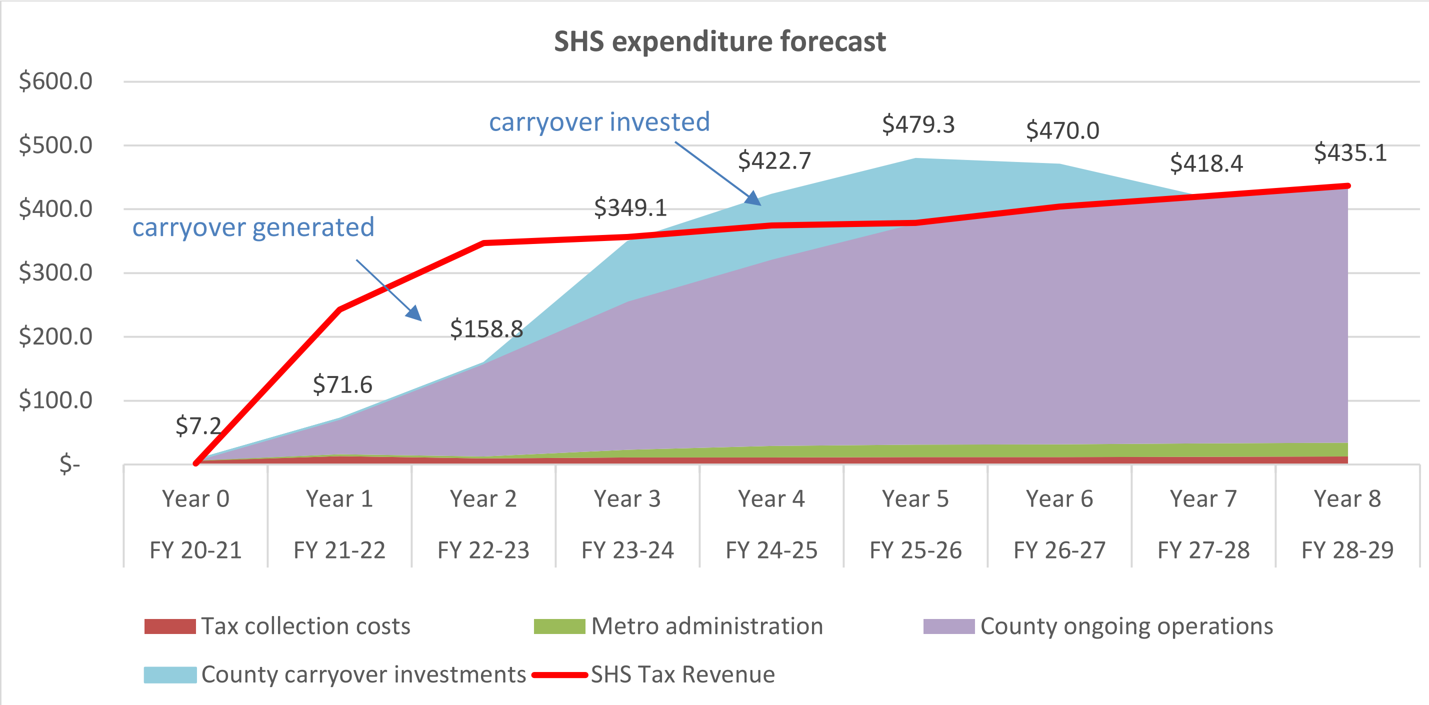
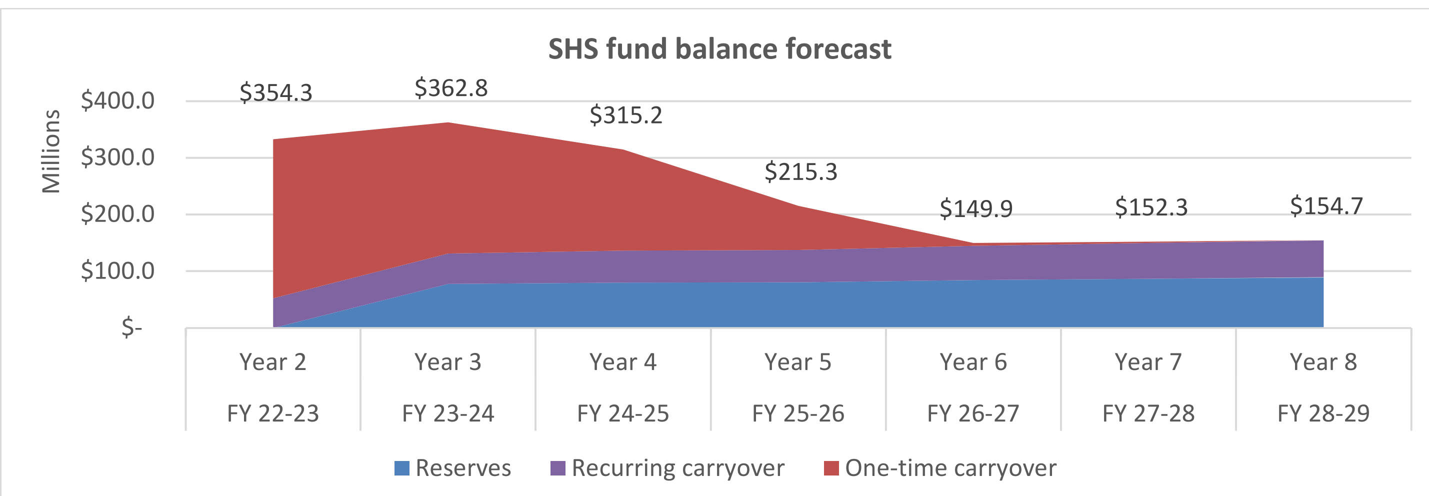
[1] The original report published in the SHS Oversight Committee packet incorrectly reflected the FY26 tax revenue for Multnomah County, $158.2 million, and Washington County, $116.3 million. The packet has been updated to reflect the FY25 tax revenues.



Counties and Metro will maintain stabilization reserves, to be used in an economic downturn, and program reserves. There will also be naturally recurring carryover due to the timing of tax receipts, which will not accumulate for investment like one-time carryover. The chart below shows the forecasted fund balance.



Metro recommends a stabilization reserve of 15% of budgeted SHS program funds. Program reserve amounts are established by each county based on their program needs.