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From: Josh Harwood, Metro Fiscal & Tax Policy Director

Subject: Supportive Housing Services Taxes – March 2024 Forecast Update

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This report provides an update to the tax collection forecast presented in November for Metro's Supportive Housing Services (SHS) program. It should be noted that tax collection data is still coming in and this forecast update is being published just prior to tax collection season, so these forecasts may be subject to large variances. The following pages summarize the latest economic data and tax collection details available through December 2023. In addition to quarterly Finance Review Team meetings, Metro will notify counties if it is confident that collections are diverging significantly.

The forecast was discussed with the Financial Review Team and Joint Leadership Team in mid-March. Counties will incorporate this information in their FY 2024-25 budgets.

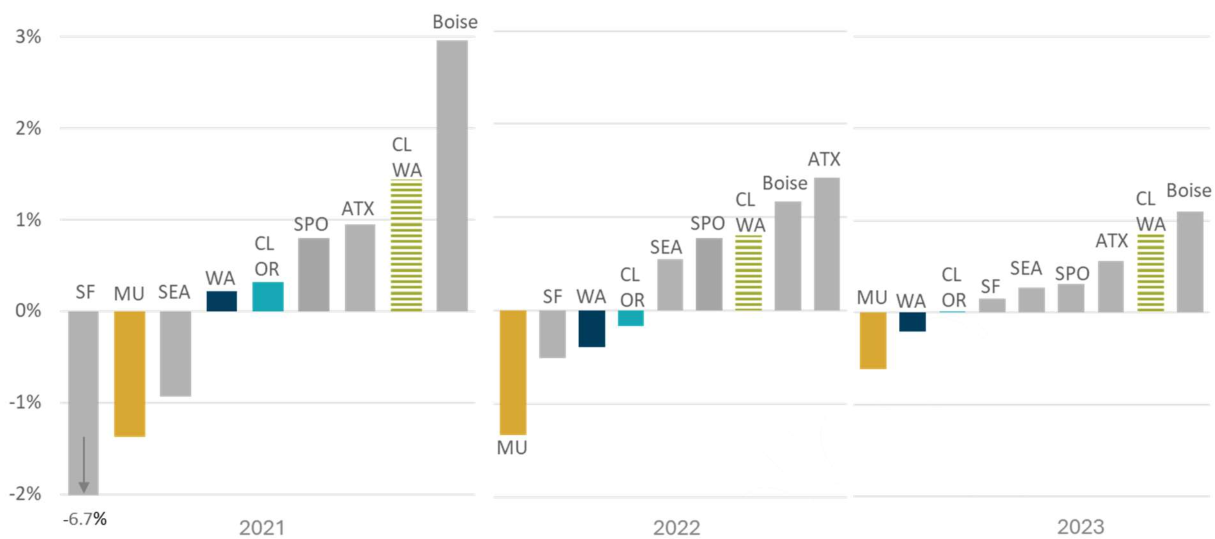
Current Year/Budget Year Forecast Context

This forecast update draws a clearer distinction between SHS Personal and Business taxes than prior forecasts. Over the course of implementation, it is becoming increasingly clearer that business taxes – largely driven by national and international economic forces – are more certain, whereas personal income taxes – driven by the local economy and migration – are much more dynamic. As a result of this uncertainty, this update recognizes the need for a larger discussion around reserves and cash flow that will be informed by a forecast advisory group being formed this summer. Metro will reach out to finance staff at the counties with more details soon.

Current Conditions. For decades, higher-income earners have had the ability to live in Clark County to avoid Oregon income taxes. While there is anecdotal evidence that that has happened in some cases; generally speaking, people have not fled the Porland area because of higher tax rates.[1] A more likely scenario is that a greater proportion of higher-income residents choosing to move to the Portland region will opt to live in Washington than on the Metro/Oregon side of the river. The most recent county-level population estimates from the U.S. Census (Figure 1) suggest that migration patterns may have also changed within the metro region. The impact on tax revenues has not been seen yet, but the pending tax season will eventually give some indication as to if/when we might see those impacts on tax revenues.

[1] Further complicating matters going forward is Washington's new capital gains income tax, which largely eliminates the income tax benefit of moving to Washington from Oregon in order to realize a large sale of a business or equities. This tax benefit exists in other states with lower or no state income taxes as well.

FIGURE 1. Selected County Population Growth Estimates (US Census Bureau)



Note: Figures are by county, in some cases, the largest city is shown in the label for ease of understanding. MU = Multnomah County, WA = Washington County, CLOR = Clackamas County, CLWA = Clark County, SF = San Francisco County, SEA = King County, SPO = Spokane County, ATX = Travis County, Boise = Ada County

The forecast presented here is slightly more conservative than the fall forecast because of uncertainty in future trends. Although a record runup in household wealth and corporate profits helped push the underlying SHS tax base significantly higher than prior estimates, the current information we have suggests that the landscape may be changing. Many studies have shown that wealthier populations are both more sensitive to tax rates and have a higher propensity to move. Additionally, Figure 1 illustrates that migration patterns may be shifting toward lower cost locations. Furthermore, the region's reputational damage continues to have a significant impact - both on migration and industries such as travel and tourism. The forecast currently incorporates the assumption that some of the reputational damage and quality of life challenges will moderate significantly over the course of the next 6-18 months.

While we continue to monitor revenue collections and relevant economic data, 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.

Regional Economic & Revenue Review

Given the dynamic current economic conditions as well as the need for multi-jurisdictional communication, Metro will set up a regional economic and revenue review panel to coalesce around shared context for the region's economic outlook and revenue forecasts. The review team will also provide a greater ability to disseminate communications around budgetary and revenue risks. The goal will be to establish a very small, highly technical group made up of regional economists, statisticians, and econometricians to help consistently describe the forecast to policy makers and executives throughout the region. Metro will contact county finance staff with more information in April.