



Fall 2024 Supportive Housing Services Revenue Forecast

December 2024
Metro Finance and Regulatory Services
Revenue and Analytics Division (RAD)



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EXECUTIVE SUMMARY

FY 2023-24 saw weaker Supportive Housing Services (SHS) tax collections than expected, and this forecast revises the near-term outlook to flat to slow tax revenue growth.

In 2023, Metro [provided a forecast](#) with more aggressive revenue estimates based on local tax collections in 2021 and 2022, 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 actual revenue of \$335.1 million was about 6% lower than the Fall 2023 forecast, which is within the margin of error that should be expected for these taxes.

However, the trend of weaker collections has continued through the first quarter of FY 2024-25. Income data from Tax Year 2022, released in mid-November 2024, suggests that the spike in tri-county income in Tax Year 2021 was more of an anomaly than a baseline. The next two years, at least, will likely result in slow to no growth in revenue. Due to the unstable nature of these taxes, however, collection estimates for the current year may vary by \$50 million.

Please note that the forecast presented here is based on the best available data and current tax law, both of which may change, impacting key assumptions of this analysis. Any law changes, legislative or through referral, may yield significant impacts to revenue and warrant additional analysis.

ROLE OF THE SUPPORTIVE HOUSING SERVICES REVENUE FORECAST

Metro's Supportive Housing Services Revenue Forecast plays a role in managing a complex system of taxes and services. Recognizing the volatility in the tax system and income variability of households with high incomes in particular, as well as the critical services that revenue supports, the forecast helps to manage expectations for future funding. By examining historical data, economic trends, and factors that influence taxable income and taxpayer behaviors, these forecasts project revenue streams, and provide information for partners to manage programs financed by the SHS taxes.

PROGRAM FORECAST

Figure 1 illustrates the best estimate of collections through FY 2029-30 based on current law, economic conditions, and available data.¹ Per intergovernmental agreements, after collection costs and Metro administration, the revenue is distributed in the following proportions: Multnomah County – 45.3%, Washington County – 33.3%, and Clackamas County 21.3%.

FIGURE 1. SHS Five-year Revenue Forecast/Distributions[†]

	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
<i>Tax Collection Costs</i>	\$11.1	\$11.4	\$11.8	\$12.1	\$12.5	\$12.8
<i>Net Collections</i>	\$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

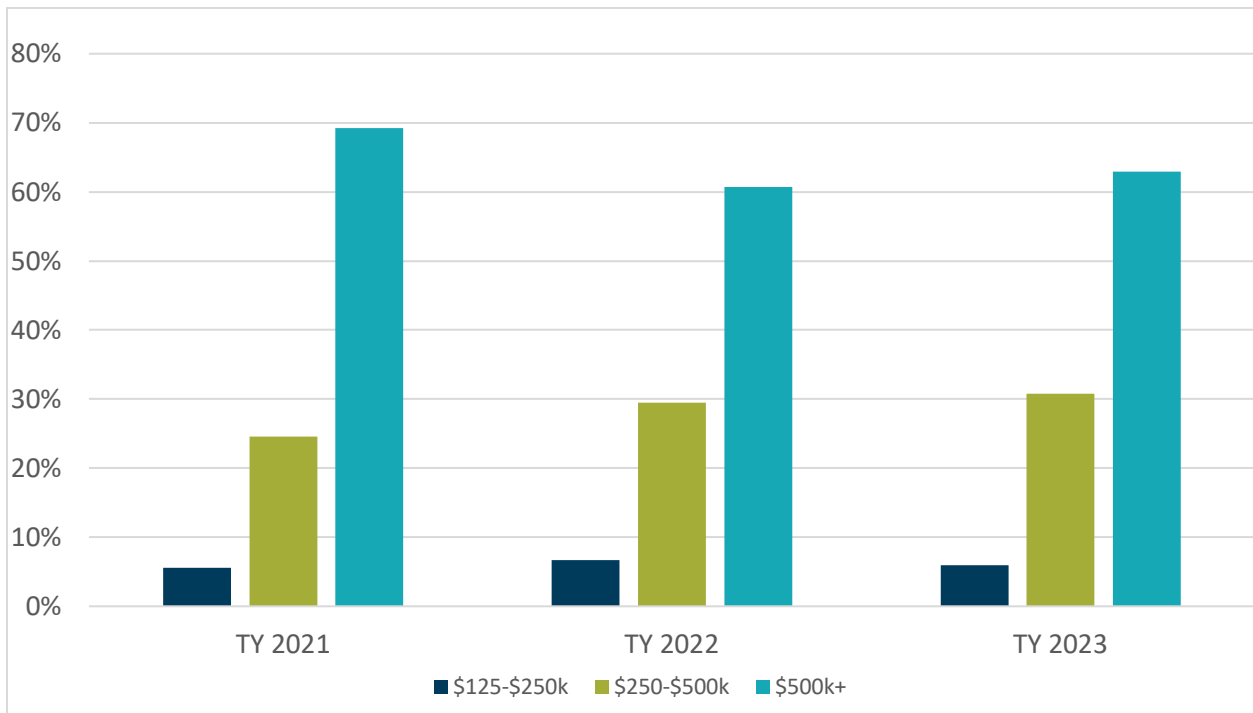
[†]Columns may not sum due to rounding

Personal Income Tax

Understanding and managing the personal income tax base can be difficult, even when a system has been long established. The progressive structure of personal income taxes adds to their variability, as a significant share of revenue depends on a small group of high-income earners, as shown in Figure 2. This is particularly relevant for the SHS personal income tax, which relies heavily on the highest-income residents within the Metro area.

¹ Data sources include, but are not limited to, the Oregon Department of Revenue, City of Portland Revenue Division, S&P global, U.S. Bureau of Labor Statistics

FIGURE 2. Share of Personal Income Tax Revenue by Income Group and Tax Year



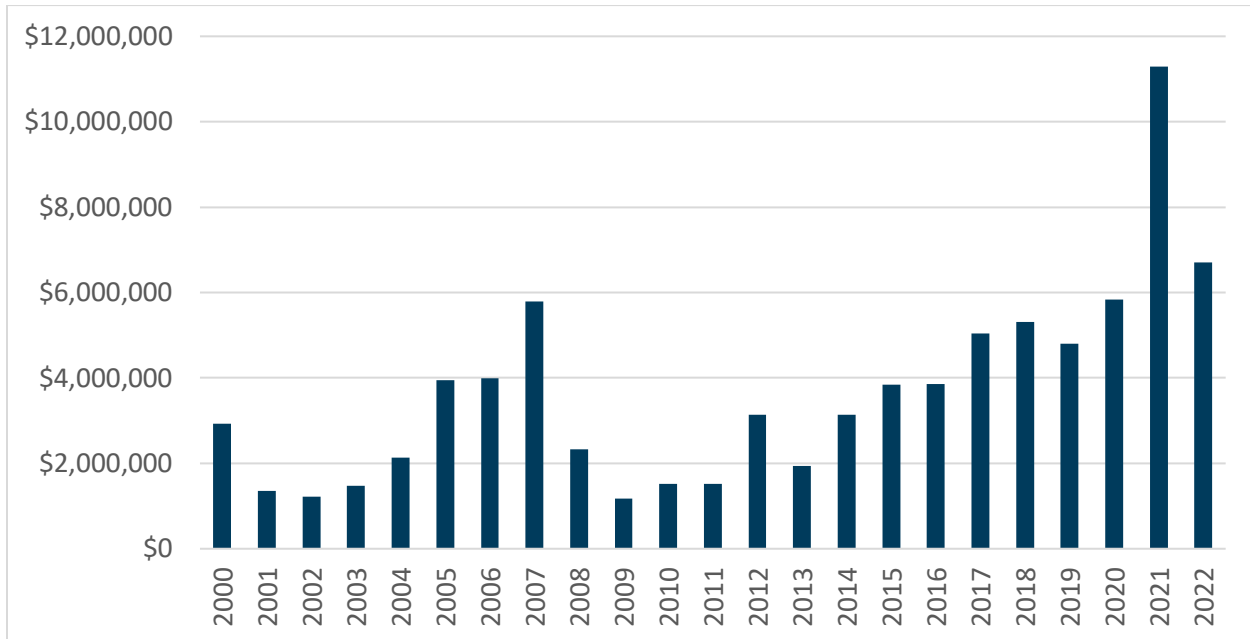
High-income taxpayers often derive a substantial portion of their income from non-wage sources, such as capital gains on investments, which are highly susceptible to market fluctuations and individual taxpayer circumstances and decisions. This sensitivity contributes to the volatility of their tax liability. For instance, at the tri-county level, taxpayers earning over \$500,000 saw a 67% increase in capital gains income between the 2020 and 2021 tax years. Some of these taxpayers may have experienced one-time income spikes from events such as selling a home or business, placing them temporarily above tax thresholds but below in subsequent years. Moreover, these taxpayers often can control the timing of some income realization, adding yet another layer of unpredictability to the tax base.

Capital gains taxation is subject to large swings from one year to the next,² with its impact becoming particularly evident during periods of rapid market expansion, as shown in Figure 3. Notably, historic peaks in capital gains income for both Oregon and the broader U.S. occurred in 2007, largely driven by the housing market boom and financial market highs preceding the Great Recession, and again in 2021. The most recent surge can be attributed to the economic rebound following the COVID-19 lockdowns and a flourishing

² Washington State enacted a capital gain-specific income tax and collections the first year were nearly \$800 million. Second year collections have fallen off dramatically. (<https://washingtonstatestandard.com/2024/05/21/capital-gains-tax-receipts-in-washington-tumble/>)

stock market, as well as unprecedented federal stimulus to both businesses and households.

FIGURE 3. Statewide Capital Gains for Adjusted Gross Incomes over \$500k (thousands)



We continue to see tax payments from the first years of the tax due to enforcement actions but expect that most late payments going forward will come from the most recent tax year. Approximately 14% of revenue collected in FY 2024 for both taxes were late payments for prior tax years 2021 and 2022. At this point, it is not clear to what extent this may be attributed to the nature of the tax and how payers may show up in some years but not others based on major life events or other income fluctuations; if taxpayers may simply be late in paying for 2023 or are on a payment plan; or if this reflects larger demographic shifts and high-income earners moving outside of Metro.

As the tax system matures, we anticipate that some of these fluctuations will stabilize. However, due to the inherent nature of this tax, it will consistently exhibit a greater level of uncertainty compared to other sources of tax revenue.

Business Income Tax

Business income tax collections got a slower start than personal income tax collections because some businesses have fiscal years that do not align with calendar years. For instance, businesses with fiscal years ending in October were not required to start filing until the second fiscal year of the tax.

Forecasting business income tax revenue is challenging when historical data is limited. Without a robust dataset, it is difficult to identify long-term trends and cyclical fluctuations within key sectors that contribute to the tax base. Business income is inherently variable, often influenced by national or global market dynamics, industry-specific developments, and broader economic conditions such as recessions or booms.

Forecasting corporate income tax revenue has always been more complicated compared to other taxes due to the complexity of corporate tax codes as well as the various entity types (e.g., C-corp, LLC, Partnership, etc.). Furthermore, because business taxes are collected on a market-based approach, SHS business tax collections are based not only on the amount of profits but also on the share of a business' sales that occur inside of Metro. This means that changes in a company's profits may not automatically lead to an increase or decrease in the taxes they owe.

LOCAL ECONOMIC CONDITIONS

The Portland Metro Area has seen slower economic growth compared to the rest of Oregon and the nation. While regional unemployment remains low, employment growth in the metro area has lagged behind its historical average. Throughout 2024, Portland has consistently ranked at or near the bottom in job growth among similarly sized metro areas across the country.

The state of the local economy plays a key role in our forecast, as we anticipate limited growth in the types of income that drive the variability of SHS revenue collection. Capital gains represent the largest opportunity for income tax revenue growth, and this source is particularly sensitive to slowed business and economic activity.

FORECAST ASSUMPTIONS AND RISKS

This five-year forecast assumes that the Federal Reserve will continue to adjust interest rates in a way that provides the economy with some flexibility while preventing a recession. However, due to the sensitivity of the tax system to economic shifts and the relative newness of these taxes, even small changes in the economic outlook could lead to significant variations in projected collections.

National and statewide economic trends influence SHS tax revenues. These inputs call for slow growth but no downturn. Given the volatility in the history of these time series, we can expect that the actual experience will be less “smooth” than the current forecast. **There is not a forecast of a recession, but local conditions are expected to continue to be slightly worse than the nation in terms of economic growth, at least in the near term.**

APPENDIX

This section provides summary statistics for SHS tax collections through October 2024.

Figure A.1: Number of Resident Vs Non-Resident Personal Income Tax Filers

This figure shows how many personal income taxpayers filed as full year residents and non-residents. Most filers in each tax year have been full year residents.

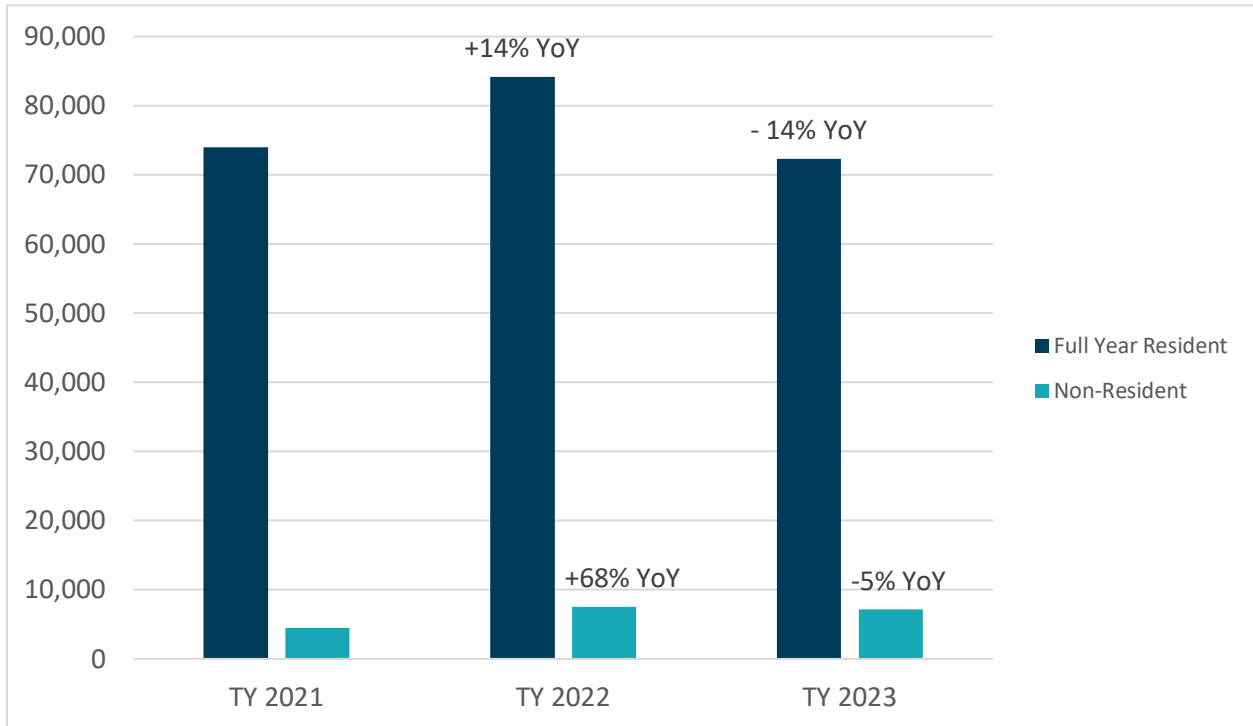


Figure A.2: Number of Personal Income Tax Filers by Taxable Income Group

The majority of filers have taxable incomes between \$125,000 and \$500,000. A sizeable number of filers did not meet the SHS tax threshold but are included in data provided by the Portland Revenue Division. There are likely several reasons for this, among them are the following: 1) These taxpayers did not actually pay any taxes but filed due to overcaution or confusion. 2) These taxpayers did pay taxes and were owed a refund. 3) These taxpayers come from dual income households where the primary filer does not meet the income threshold but withholds taxes for both taxpayers in the household.

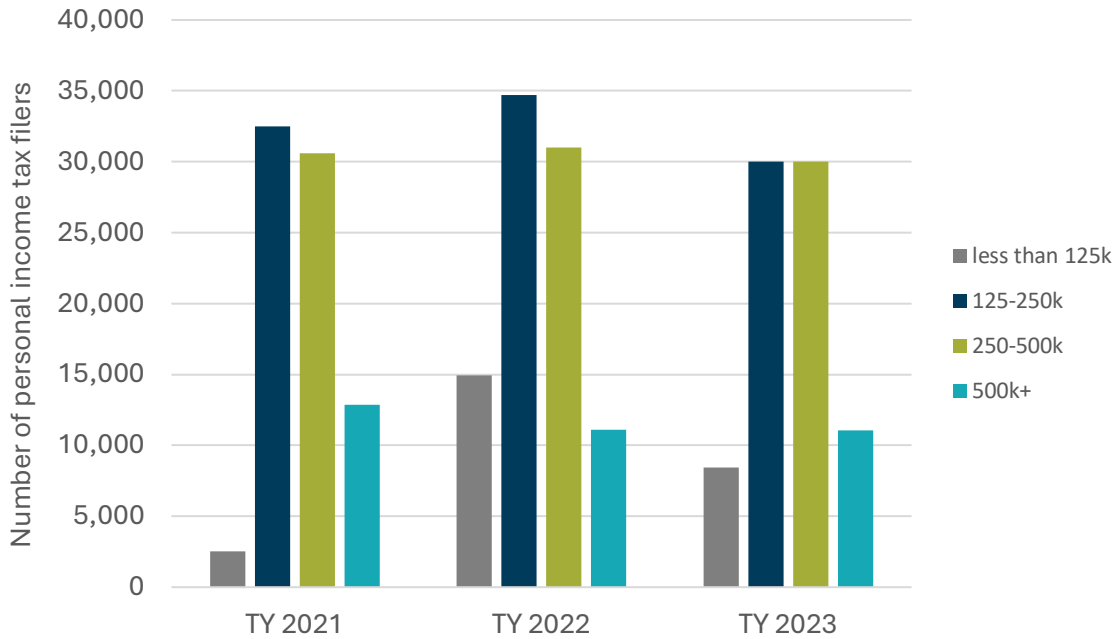


Figure A.3: Number of Business Income Tax Filers by Entity Type

The following bar chart shows the number of business tax filers by business entity. Corporation and S-corporations make up the majority of business tax filers in each tax year.

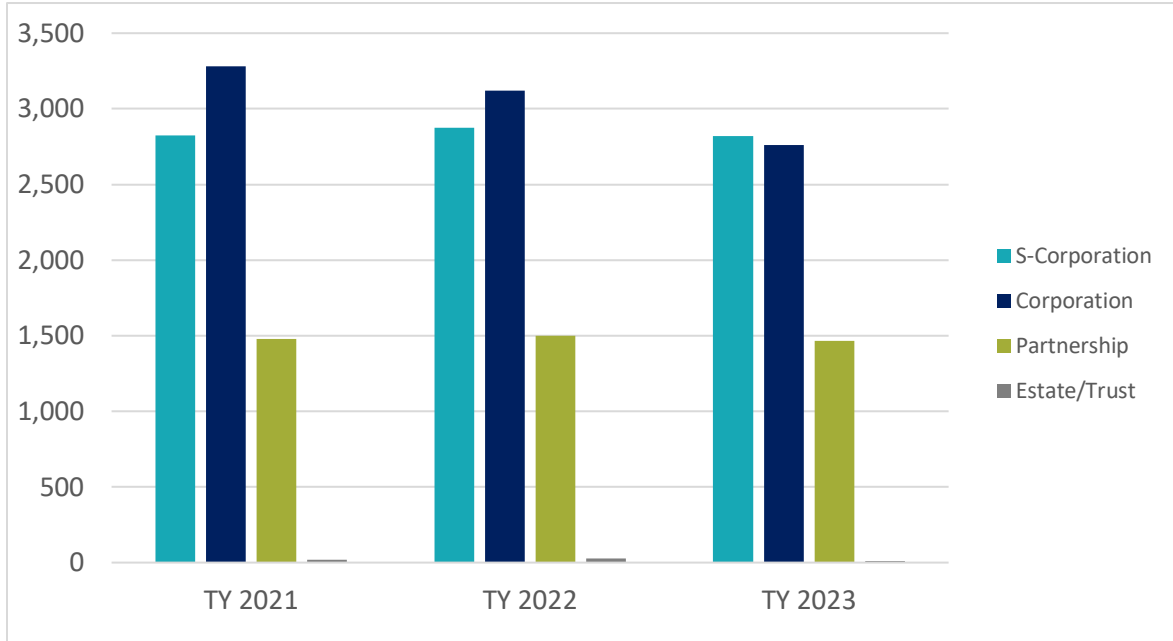


Figure A.4: Percent of Total Revenue Collected by Tax Type

The graph below illustrates the proportion of total revenue collected from each SHS account type (personal or business). For the last two fiscal years, personal income tax has made up 55% of total SHS revenue although there is some overlap between the two account types as those making income through a Non-C Corp (pass through income) may claim it as a deduction on their personal income taxes.

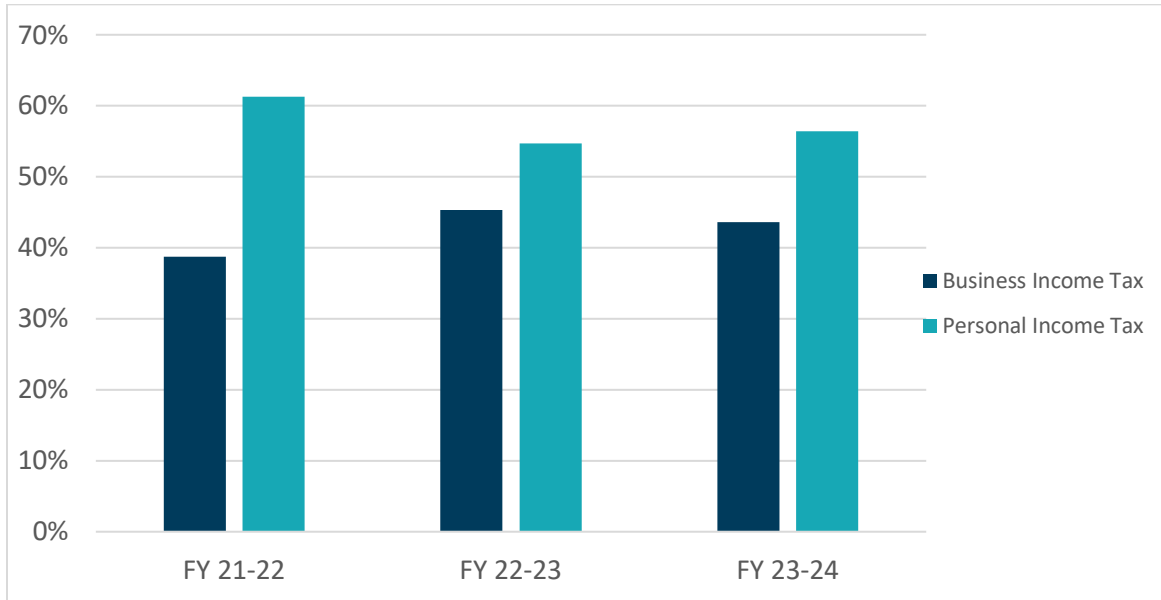


Figure A.5 Total Number of Filers by Tax Year

For the past three tax years the number of SHS personal tax filers has ranged from 78,000 to 92,000 while the number of business tax filers has varied less at 7,000 to 7,500 filers. The jump in number of filers for 2022 has two possible reasons. First, in 2022, heightened taxpayer awareness could have led to a significant rise in PRO filings and e-filing submissions in the City of Portland. Additionally, the City anticipates an increase in 2023 filers due to its noncompliance campaign, bringing the number of filers for the past two tax years closer in alignment.

