

CITY OF BEND



Quarterly Financial Outlook

Second Quarter of FY 2010-11

December 31, 2010

OVERVIEW

The *Quarterly Financial Outlook* report summarizes revenue and expenditure projections for the General Fund and other major operating funds of the City of Bend. This report is provided in addition to the monthly financial statements, which report year to date actual revenues and expenditures. The projections included in the *Quarterly Financial Outlook* are prepared by the Finance Department and will be updated quarterly or as more information becomes available throughout the year.

EXECUTIVE SUMMARY

Revenues

- Transient room tax revenue collections have remained strong for the first half of the fiscal year due to a healthy tourism season with a significant increase of 19% from the same period last year.
- Development revenues have received a boost due to several projects at COCC and the Bend Broadband data center projects commencing, resulting in a 29% increase from the first 6 months of last year.
- Delinquent property tax collection has exceeded the budgeted amount, suggesting the housing market is still working through issues brought about by the market collapse. Property tax Assessed Value growth for FY 10-11 came in at 1.1% compared to the 2% that was included in the City's FY 10-11 budget.
- The State gas tax increased on January 1, 2011; the impact of the revenue increase will probably not be realized until the last few months of the fiscal year.

Outlook

- The regional outlook is generally improving but at a slow, uneven pace.
- Job growth above 2.0% is not projected to return until late 2011 (which is fiscal year 2011-12, the first year of the next biennium).
- Moody's Economy.com analysis shows the Bend economy and most of the other metro areas in the state are still "in recession".
- Regional foreclosure filings will remain at historic highs for the foreseeable future.

State Economic Risks

- Prolonged housing market instability - Signs are starting to reflect that housing starts have probably hit bottom but prices continue to decline.
- Continuation of the credit crunch – Credit markets have improved but consumers and businesses still are having difficulties obtaining loans.
- State of Oregon budget woes – How the Governor and Legislature address current and long-term funding issues will set the tone for Oregon's economic future. The impact to the City's budget remains uncertain.

GENERAL FUND

Top 5 Revenues	Budget	YTD Actual *	% Received	Projection	% of Budget
Property taxes	\$ 21,827,600	19,193,600	88%	\$ 21,937,400	101%
Franchise fees	5,479,100	2,569,500	47%	5,848,600	107%
Transient room taxes	2,105,500	1,472,800	70%	2,364,300	112%
State Shared	1,828,700	983,700	54%	1,781,800	97%
Fines	1,038,900	584,500	56%	1,309,700	126%
Total Top 5 Revenues	\$ 32,279,800	\$ 24,804,100	77%	\$ 33,241,800	103%

*Throughout this report, YTD Actual balances represent revenues received through December 31, 2010.

Top 5 Revenues – The top 5 revenues make up 95% of total General Fund operating revenues. Discussion of current collections and projections are noted below.

Property Taxes – The first major collection of property taxes was in November. It is projected that the collection rate for the current year assessment will be 91.5%. Year to date, collection of delinquent taxes has surpassed budgeted amounts. With continuing foreclosures, the decline of the taxable assessed value of properties and a stagnant unemployment rate, property tax collections will be closely monitored.

Franchise Fees – Franchise fees are expected to come in slightly above budget. Utility franchise fees will be watched to see how proposed rate changes affect revenues.

Transient Room Taxes – The room tax collected for the first year has continued to exceed the amount collected for the same time period last year. Year over year collections have increased over 19%. A portion of this increase is due to the settlement payments that resulted from the room tax audit performed in 2010.

State Shared Revenues – The State has maintained their projection of cigarette tax, liquor tax and state shared revenues projections available for distribution to cities and counties.

Fines – The number of violations received from the Police Department has increased 16% from the same time last year. As a result, collections of municipal court fines are projected to exceed budget.

DEVELOPMENT RELATED REVENUES

Top 5 Revenues	Budget	YTD Actual	% Received	Projection	% of Budget
Planning fees	\$ 947,200	\$ 472,400	50%	\$ 1,079,300	114%
Engineering fees	243,300	119,300	49%	212,700	87%
Building fees	1,790,800	1,145,800	64%	2,314,900	129%
SDCs	1,944,600	1,528,300	79%	2,542,200	131%
Affordable housing fee	234,900	189,900	81%	329,800	140%
Total Top 5 Revenues	\$ 5,160,800	\$ 3,455,700	67%	\$ 6,478,900	126%

Top 5 Revenues – Development revenues have shown improvement from last year. This is mainly due to the Bend Broadband data center project and several projects at COCC (specifically the Culinary, Health Careers and Science buildings). Concern remains due to the continuing weakness in the housing and commercial real estate markets.

MAJOR GOVERNMENTAL ACTIVITIES

Fire/EMS	Budget	Projection	%
Revenues	14,201,600	14,235,400	100%
Expenditures:			
Operations	13,927,400	13,927,400	100%
Capital	-	-	-
Debt	390,700	390,700	100%

Fire/EMS Fund – Fire/EMS revenues and expenditures are expected to be on track with budget.

Street	Budget	Projection	%
Revenues	6,911,100	6,855,200	99%
Expenditures:			
Operations	5,493,000	5,493,000	100%
Capital	862,000	862,000	100%
Debt	-	-	-

Street Operations Fund – Revenues from the weight mile tax increase that took effect October 2010 and the \$.06 gas tax that took effect January 2011 are anticipated to be received from the State in late FY 2010-11. Currently revenues are coming in slightly below budget. As new State transportation forecasts are released, they will be looked at for any significant deviations from the current projections.

ENTERPRISE ACTIVITIES

Water	Budget	Projection	%
Revenues	28,757,250	19,624,000	68%
Expenditures:			
Operations	11,683,100	11,683,100	100%
Capital	13,543,300	4,776,800	35%
Debt	901,700	534,900	59%

Water Fund – Revenues generated from water utility fees are coming in slightly over budget, while operating expenditures are expected to be within budgeted amounts. The budget included the issuance of \$10.5 million in debt, however actual debt proceeds were approx. \$2 million; capital and debt expenditures have been reduced accordingly.

Sewer	Budget	Projection	%
Revenues	29,190,800	25,813,898	88%
Expenditures:			
Operations	9,539,000	9,539,000	100%
Capital	19,670,600	16,632,298	85%
Debt	2,566,800	2,228,200	87%

Sewer (Water Reclamation) Fund – Water Reclamation revenues and operating expenditures are expected to be on track with budget. The budget included the issuance of \$14 million in debt, however actual debt proceeds were \$10,730,000. Capital and debt expenditures have been reduced accordingly.

Parking	Budget	Projection	%
Revenues	604,550	612,500	101%
Expenditures:			
Operations	596,800	596,800	100%
Capital	317,500	317,500	100%
Debt	-	-	-

Parking Fund – Parking fines for the downtown area have decreased 17% from the same period last year. However parking permits for the downtown area have increased 88% from a year ago. Parking structure permits have also seen a 13% increase for the 1st half of the fiscal year.

Stormwater	Budget	Projection	%
Revenues	2,479,500	2,479,500	100%
Expenditures:			
Operations	1,945,900	1,945,900	100%
Capital	1,541,000	1,541,000	100%
Debt	59,300	59,300	100%

Stormwater Fund – Stormwater revenues and expenditures are expected to be on track with budget.

Airport	Budget	Projection	%
Revenues	3,578,400	3,578,400	100%
Expenditures:			
Operations	781,400	781,400	100%
Capital	2,254,800	2,254,800	100%
Debt	260,800	260,800	100%

Airport Fund – Airport revenues and expenditures are in the process of being updated and refined. The current projection amounts reflect budgeted amounts.

Cemetery	Budget	Projection	%
Revenues	43,400	62,500	144%
Expenditures:			
Operations	85,000	85,000	100%
Capital	-	-	-
Debt	-	-	-

Cemetery Fund – Burial fees, lot sales and the related permanent maintenance fees have been coming in over budget for the first half of the fiscal year. Revenues for the remainder of the year are expected to come in at budget.

OREGON OUTLOOK – CONTINUING WEAK JOB GROWTH

The University of Oregon Central Oregon Business Index 3rd Quarter, 2010 report states “the regional economy is generally improving, albeit at an uneven pace largely attributable to now-expired tax credits that temporarily boosted housing activity.” It also mentions “the disappointingly slow response of the job market...reflects the relatively tepid pace of recovery in comparison to previous recoveries from deep recessions.” The State of Oregon’s Office of Economic Analysis (OEA) December 2010 Economic and Revenue Forecast also points out the lack of job creation by mentioning that “job growth is very weak and questions abound whether employment losses are due to cyclical effects of the business cycle or are more structural and permanent.” The unemployment rate usually tends to be one of the last measurements to improve as an economic recovery takes hold. At present, unemployment statistics are generating numerous headlines as both government (at all levels) and the private sector grapple with how to create new jobs to help the economy grow.

The state unemployment rate has essentially not changed for over a year. The Bend MSA unemployment rate has increased .7% since last year. According to the Oregon Employment Department Labor Trend report for November 2010, the largest percentage of employment losses for the Bend MSA since November 2009 was in the mining, logging and construction category. The OEA forecasts a .9% increase in employment for the first quarter of 2011, a 1.2% increase for the second quarter, and an increase exceeding 2% by year end.

Moody’s Economy.com analysis shows the Bend economy along with three other regions in the state still “in recession”. The only two regions in the state that are considered “recovering” are Portland and Eugene.

Other issues that are grabbing headlines across the state are: the ever growing state budget deficit, the continued increases in state spending, especially in the area of personnel benefits and the level of state services that might need to be cut in order to close the deficit. Both members of the Legislature and the Governor have mentioned the need to change the way the state government prepares its budget and how it operates. They have also spoken about the need to come up with solutions that will provide more long-term stability to Oregon’s economy. The pressure to address these issues successfully will be considerable while the budget is being put together this spring.

Current Unemployment	<u>USA</u>	<u>Oregon</u>	<u>Bend MSA</u>
Unemployment rate (November 2010)	9.8	10.6	15.4
Unemployment rate (November 2009)	10.0	10.7	14.7

Rates are seasonally adjusted Source: Oregon Employment Department

Projection of Housing Starts	Calendar Year		
	<u>2009</u>	<u>2010</u>	<u>2011</u>
Oregon (in thousands)	7.6	7.5	7.6
% change	-40.6%	-1.3%	1.3%

Source: Oregon Economic & Revenue Forecast December 2010

Bend	167	171	200
% change	-39.5%	2.4%	17.0%

Source: City of Bend Building and Finance Department

LOCAL HOUSING MARKET STILL CONCERNED WITH FORECLOSURES, DECLINING HOUSING PRICES

244 new foreclosures were filed in Deschutes County for December 2010. This was the second lowest month for 2010. Foreclosures for 2010 were 7.3% higher than 2009. (Deschutes County website)

The Federal Housing Finance Agency's (FHFA) purchase only house price index (HPI) for the nation declined 1.6% for the third quarter, the Bend MSA declined 2.26%. The area saw price declines of 13.73% between the third quarters of 2009 and 2010, which was the second worst in the nation.

There were 511 active listings for residential homes for December 2010. The average time a home was on the market was 191 days. For the same time period, residential homes with acreage had 148 active listings with an average of 180 days on the market. (source: www.DukeWarner.com)

RESERVE OUTLOOK FOR MAJOR OPERATING FUNDS

Reserves are used to avoid cash-flow interruptions from unexpected events, absorb revenue fluctuations, generate interest income, reduce the need for short-term borrowing, and assist in maintaining an investment grade bond rating.

For the 2nd quarter, the forecast of reserves at the end of FY 2010-11 for the major operating funds are as follows:

Major Operating Funds	Projected Operating Reserves	# Months of Operating Expenses	# Months Required by the City's Reserve Policy
General Fund	\$ 6,760,000	2.4	2.4
Street Operations	900,000	2.0	2.0
Fire/EMS	1,700,000	1.4	2.0
Planning	40,000	0.2	6.0
Building	724,000	4.0	6.0
Private Develop. Engineering	100,000	2.9	6.0
Water	3,100,000	3.0	3.0
Sewer	3,550,000	3.0	3.0
Stormwater	900,000	3.0	3.0

Please note that this list represents only the major operating funds of the City. The reserves set aside for debt service, capital projects, risk management, and facility major maintenance and repairs are not included in this list.