

FY 2018 General Fund 5-Year Forecast Update

*Presentation to the
Board of County Commissioners*

Multnomah County Budget Office
March 9, 2017
www.multco.us/budget

Overview

- **Economic Overview**
 - ✓ National Economic Conditions
 - ✓ Oregon & Multnomah County Employment Info
- **FY 2017 Revenue Review**
 - ✓ BIT
 - ✓ Recording Fees
 - ✓ Marijuana
- **FY 2018 General Fund 5-Year Forecast**
 - ✓ FY 2018 Forecast & 5-Year Outlook
 - ✓ Significant Changes
 - ✓ Expenditure Assumptions – CPI
- **FY 2018 One-Time-Only Funds**
- **FY 2017 General Fund Contingency Update**
- **Forecast Risks & Issues**
- **Summary & Questions**



Overview

■ Financial Policies Call for 5-year General Fund Forecast

- ✓ Basic Revenue & Expenditures
- ✓ Evaluate financial risk, services that can be sustained, variables impacting revenue, one-time-only funds and recommended uses, ability to support capital investments

■ Modeling

- ✓ Economic Conditions → Specific County Economic Activities → Tax Revenues
- ✓ Impacts of Federal, State, and Local Laws & Policies
- ✓ Contractual Obligations (Labor contract, PERS, IGAs) and Operational Assumptions

■ Increased Uncertainty

- ✓ Continued strong economy, but in late stage of economic expansion (business cycle)
- ✓ Federal Budgets & Policies
- ✓ Oregon State Budget

■ Balancing Strong Economy & Revenues Today with Potential Weakness in Out Years

- ✓ Providing for financial resiliency and a foundation for future operations
- ✓ Providing for services today

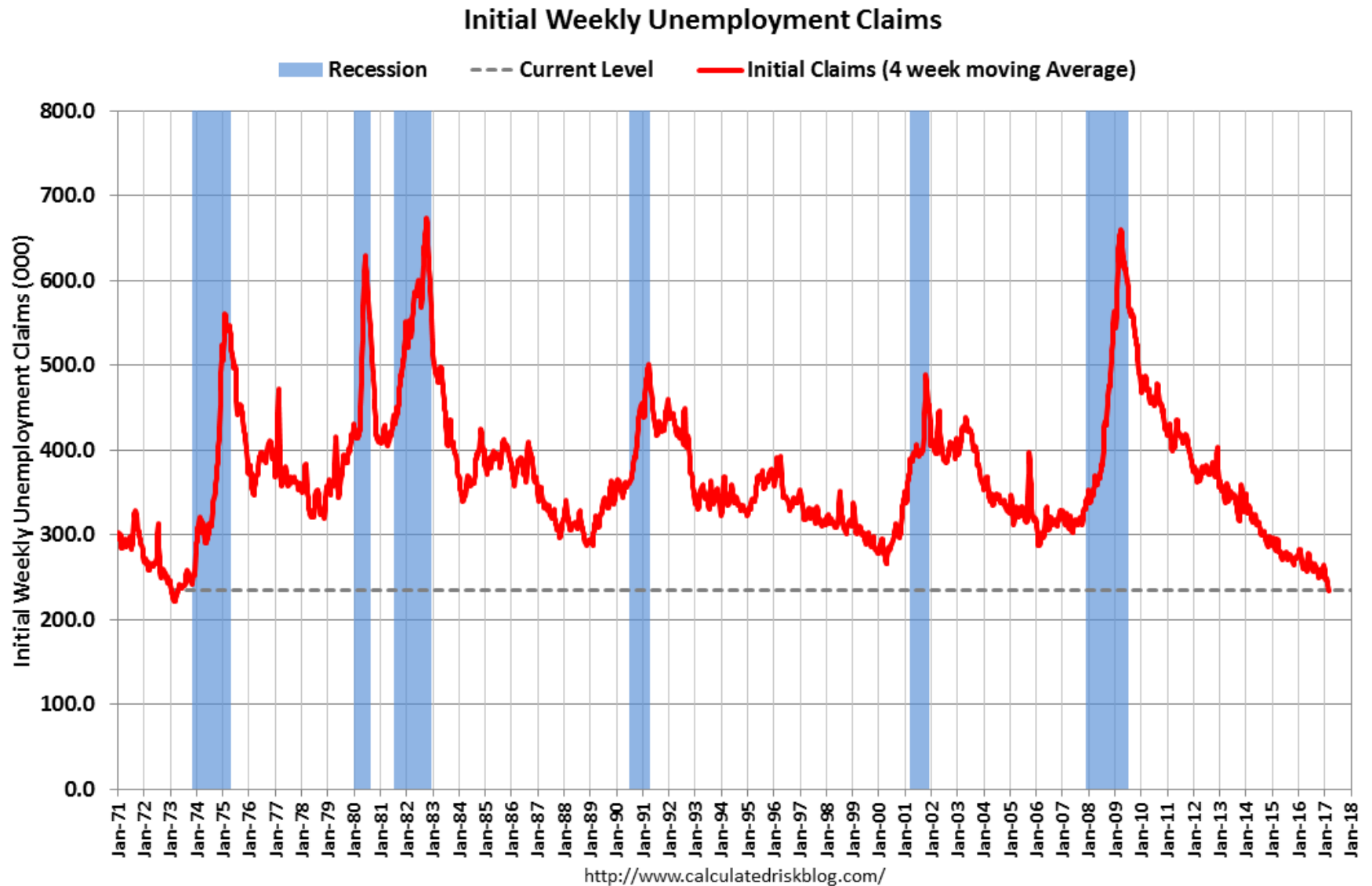


Economic Overview

- U.S. growth has been modest, but sustained
 - ✓ GDP quarterly growth of 0.8%, 1.4%, 3.5%, and 1.9% in 2016 (1.6% for year)
 - ✓ Recovery in Energy Sector removes source of economic drag
- Local employment data positive but little room for additional growth
 - ✓ Increased wage growth at all income levels
- Inflation returning to normal levels
 - ✓ Fed expected to raise interest rates at regular intervals
 - ✓ Stronger dollar and impact on manufacturing
- Policy Uncertainty at the Federal Level
 - ✓ Health Care and Tax Code Changes
 - ✓ Changes to Trade Policies
 - ✓ Immigration Policy Changes
 - ✓ Regulatory Changes

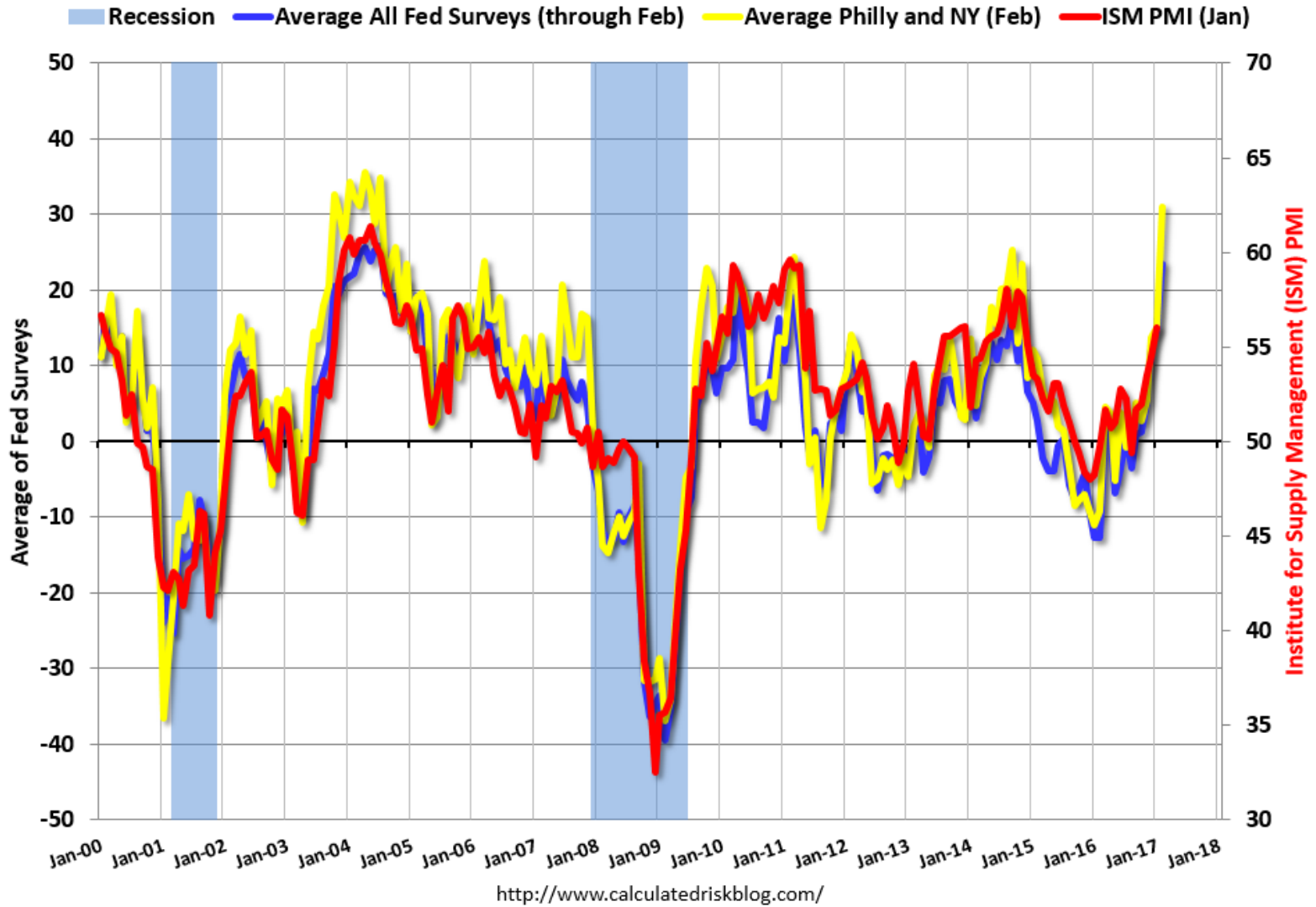


Economic Overview

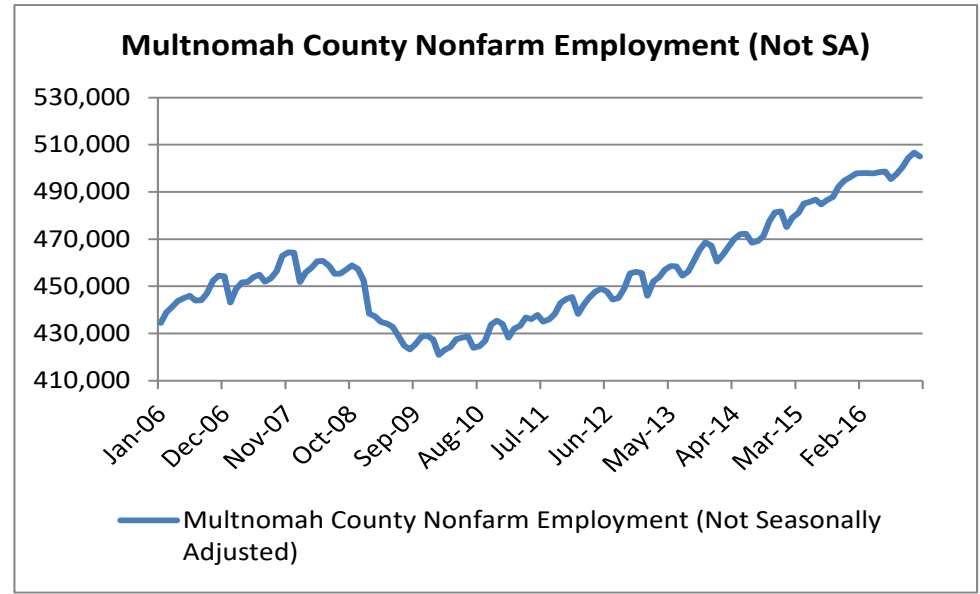
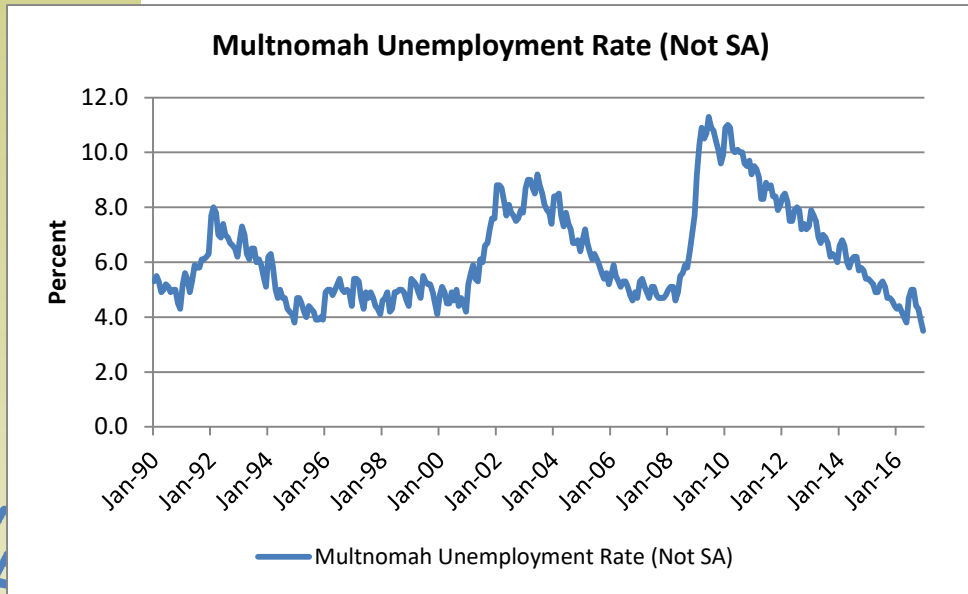
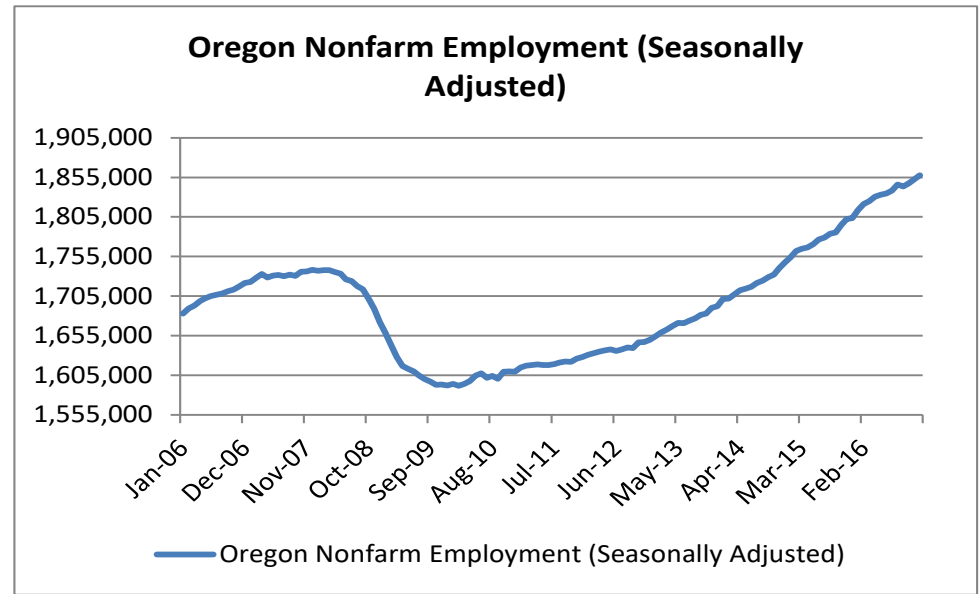
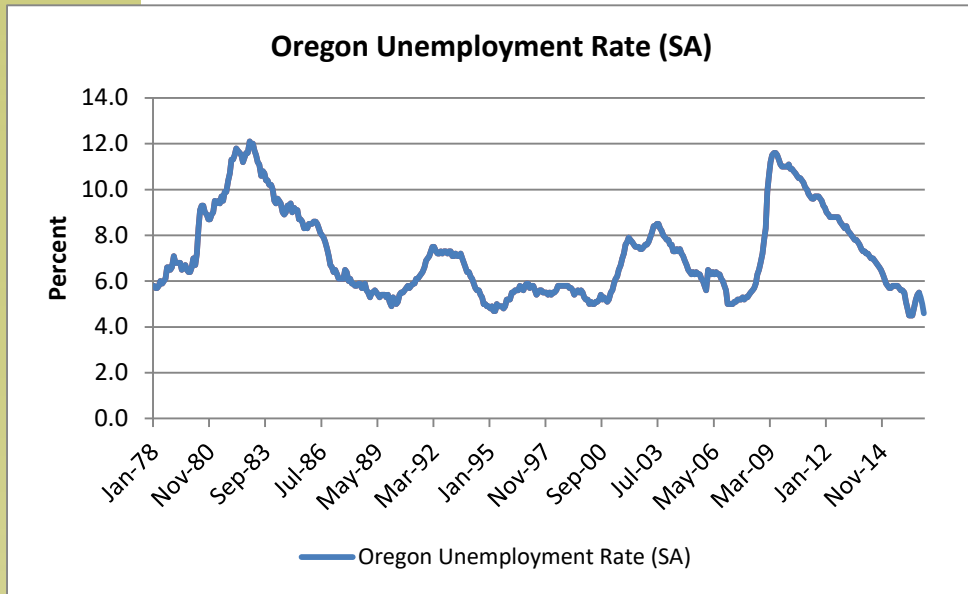


Economic Overview

ISM Purchasing Managers' Index (PMI) and Fed Manufacturing Surveys

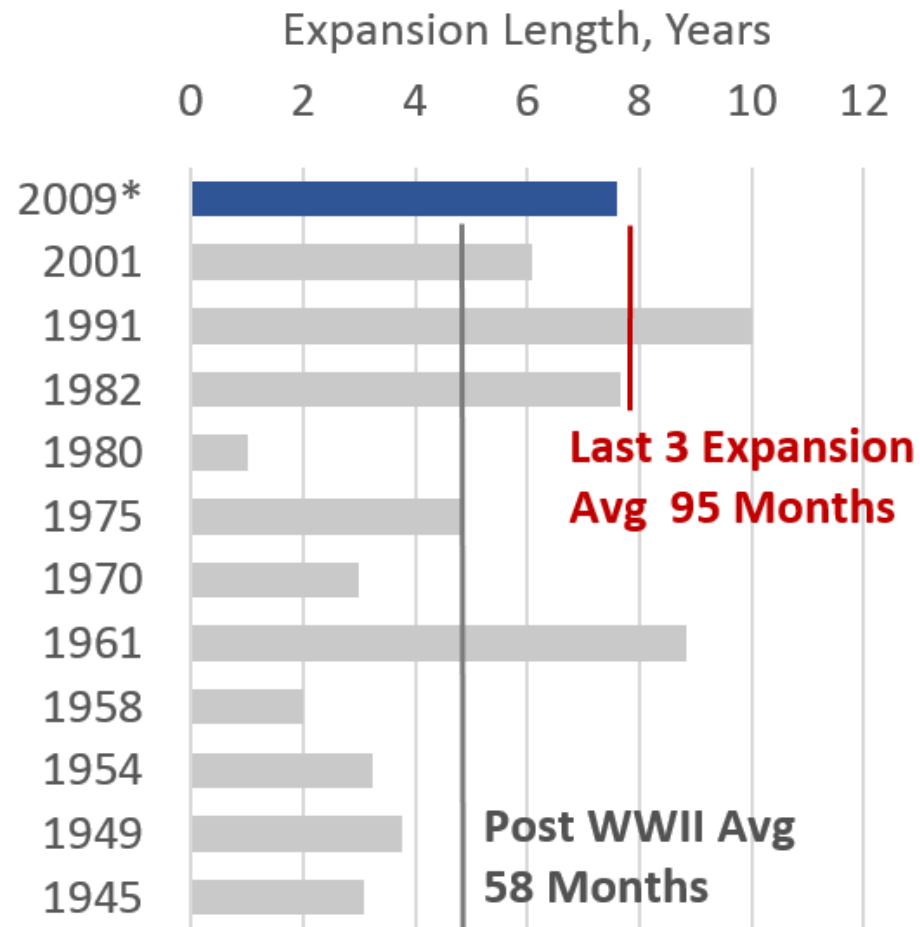


Economic Overview



Economic Overview

Postwar U.S. Expansions



* Current expansion through January 2017

Source: NBER, Oregon Office of Economic Analysis



FY 2017 Revenue Review

FY 2017 Revenue Review

| | Adopted ¹ | October Forecast Change | March Forecast Change | May Forecast Change | Net Change From Adopted | Note |
|--|----------------------|-------------------------------|-----------------------------|---------------------------|-------------------------------|--|
| Property Taxes | 279,060,801 | 753,892 | 0 | | 753,892 | AV growth 0.27% higher than forecast; Increased collection rate by 0.4% |
| Business Income Taxes | 79,623,954 | 0 | 3,507,346 | | 3,507,346 | 4.4% increase from Adopted |
| Motor Vehicle Rental Taxes | 28,218,313 | 2,216,266 | 0 | | 2,216,266 | PDX passenger up 7.3% in first 3 months of FY 2017 |
| US Marshal/BM 73/BOP | 3,707,295 | 515,004 | 0 | | 515,004 | Beds increased from 70 to 81 per day |
| State Shared | | | | | | |
| Video Lottery | 5,330,000 | 0 | 0 | | 0 | New Casino Impact in FY 2018 (next year) |
| Liquor | 4,251,767 | 0 | 0 | | 0 | |
| Cigarette | 676,801 | 0 | 0 | | 0 | |
| Marijuana | 0 | 600,000 | (600,000) | | 0 | Funds not disbursed until OLCC loan repayment |
| Amusement | 173,000 | 0 | 0 | | 0 | |
| Recording Fees/CAFFA Grant | 8,010,656 | 341,229 | 252,771 | | 594,000 | Recording Fees Actuals 13% above Forecast |
| Indirect | | | | | | |
| Departmental | 17,458,771 | 0 | 0 | | 0 | |
| Central Indirect/Svc Reimburse | 11,554,717 | 0 | 0 | | 0 | |
| All Other | 25,499,265 | 0 | 0 | | 0 | |
| FY 17 Revenue Adjustments² | 463,565,340 | 4,426,391 | 3,160,117 | 0 | 7,586,508 | |
| % of Revenue | | 0.95% | 0.68% | 0.00% | 1.64% | |

1. Excludes BWC, FQHC wraparound revenues, prospective health payments, and Tax Title: Affordable Housing but includes Video Lottery.

2. Not adjusted for revenue adjustments directly offset by expenditure changes.



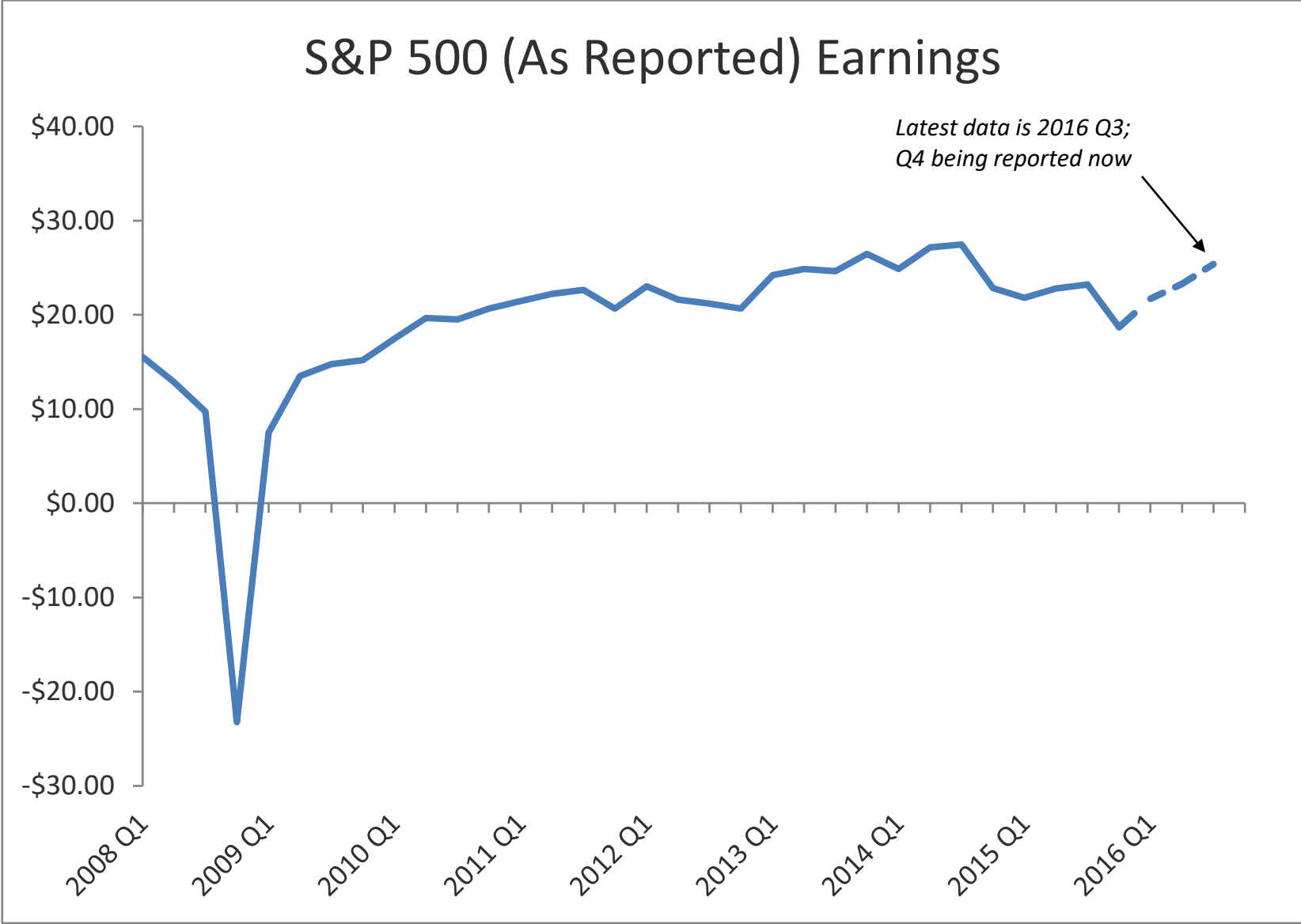
FY 2017 Revenue Review

BIT Collections Fiscal Year-to-Date Through February

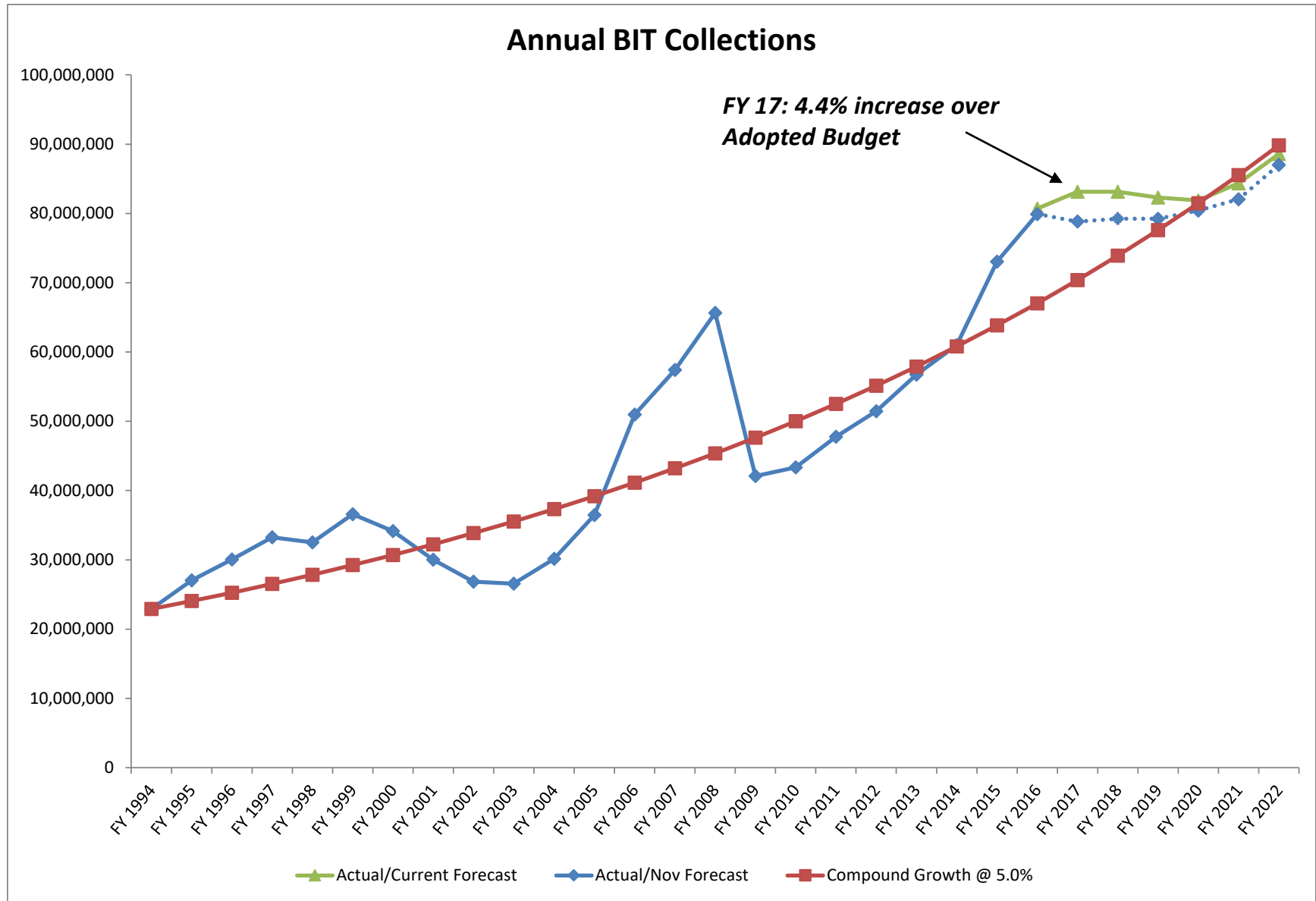
| | FY 13 | FY 14 | FY 15 | FY 16 | FY 17 | FY 17 vs. FY 16 |
|-------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|--------------------|
| Quarterly | 19,260,347 | 19,371,834 | 26,118,461 | 27,776,338 | 26,635,050 | -4.1% |
| Yearly | 5,247,925 | 5,160,759 | 5,985,777 | 7,821,015 | 10,699,689 | 36.8% |
| Refund/Interest | 2,783,165 | 3,012,454 | 3,116,127 | 3,102,498 | 3,232,861 | 4.2% |
| NSF Check | 139,589 | 22,777 | 54,691 | 169,597 | 300,963 | 77.5% |
| Total | 21,585,517 | 21,497,362 | 28,933,419 | 32,325,258 | 33,800,915 | 4.6% |
| <i>Actual or Budget</i> | <i>58,750,000</i> | <i>61,800,000</i> | <i>73,825,000</i> | <i>80,710,000</i> | <i>79,632,954</i> | |
| <i>March Forecast</i> | | | | | <i>83,131,300</i> | |



FY 2017 Revenue Review

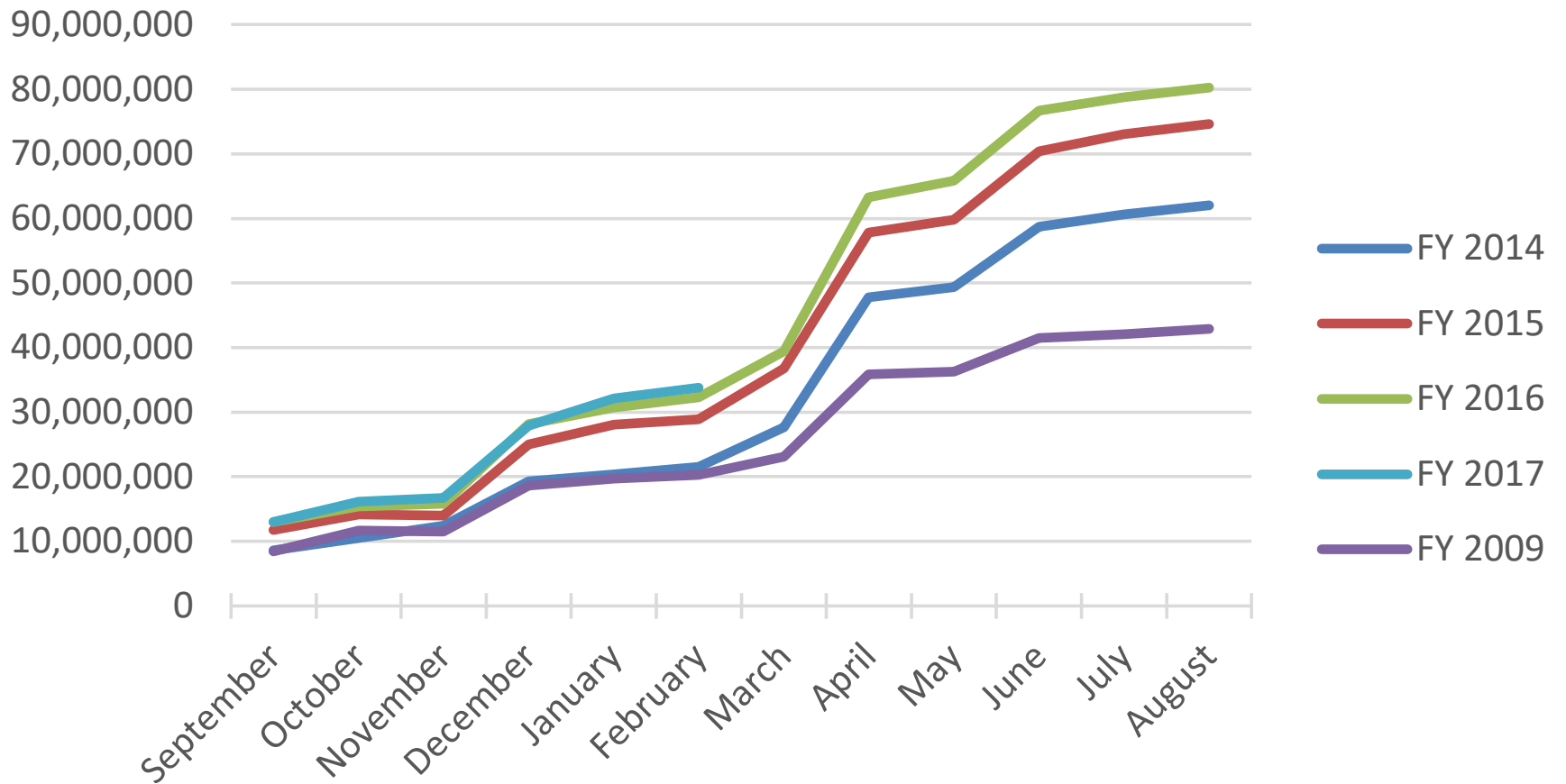


FY 2017 Revenue Review



FY 2017 Revenue Review

Cumulative BIT Collections by Year



5-Year General Fund Forecast

- Forecast assumes average to slightly better than average economic growth in the Portland Metro area with increasing employment. Property values are projected to continue growing but a slower rate than in 2016.
- Significant changes – Increased BIT and JOHS Ongoing to IGA Level
- Revenues are greater than current expenditures, but expenditures grow faster than revenues and by year-five (FY 2022) are roughly equal.
- Without additional commitments, current programs can be supported over 5 years

Table 1: Forecasted Ongoing General Fund Expenditures, Revenues, and Balance

| | FY 2018 | FY 2019 | FY 2020 | FY 2021 | FY 2022 |
|--|-------------------|--------------------|--------------------|--------------------|--------------------|
| Revenues | 484,706,748 | 496,960,033 | 509,284,391 | 525,399,126 | 542,665,814 |
| Expenditures¹ | 458,003,205 | 477,741,157 | 498,595,933 | 522,058,487 | 543,558,652 |
| Surplus/(Deficit) | 26,703,543 | 19,218,876 | 10,688,458 | 3,340,639 | (892,838) |
| <i>Change in Surplus from Prior Year</i> | | <i>(7,484,667)</i> | <i>(8,530,418)</i> | <i>(7,347,819)</i> | <i>(4,233,477)</i> |
| <i>Surplus/(Deficit) is this % of Expenditures</i> | 5.83% | 4.02% | 2.14% | 0.64% | -0.16% |
| <i>Note: Revenues/Expenditures include video lottery, but excludes reserves, FQHC wraparound and prospective health payments</i> | | | | | |



5-Year General Fund Forecast

Table 2: Changes to Ongoing General Fund Revenues and Impact on the Expenditure/Revenue Gap

| | FY 2018 | FY 2019 | FY 2020 | FY 2021 | FY 2022 |
|---|---------------------|---------------------|---------------------|---------------------|---------------------|
| Rev/Exp Gap - November 2016 Forecast | 23,707,935 | 16,966,502 | 9,879,073 | 1,783,015 | (1,777,004) |
| Changes to Revenues - March Forecast | | | | | |
| BIT | 3,109,226 | 2,277,913 | 666,082 | 1,498,289 | 744,735 |
| Recording Fees | 208,026 | 210,107 | 212,208 | 214,330 | 216,473 |
| Total Revenue Change | 3,317,252 | 2,488,020 | 878,290 | 1,712,619 | 961,208 |
| Less BIT Transfer to East County Cities | (321,644) | (235,646) | (68,905) | (154,995) | (77,042) |
| CPI Adjustment | n/a | n/a | n/a | n/a | n/a |
| Net Revenue/Expenditure Change | 2,995,608 | 2,252,374 | 809,385 | 1,557,624 | 884,166 |
| Rev/Exp Gap - March 2017 Forecast | 26,703,543 | 19,218,876 | 10,688,458 | 3,340,639 | (892,838) |
| Less Additional Debt Payments and Ongoing Operations | | | | | |
| Courthouse Debt | (5,078,457) | (5,078,457) | (5,078,457) | (5,078,457) | (5,078,457) |
| Health HQ Debt | (2,990,529) | (2,990,529) | (2,990,529) | (2,990,529) | (2,990,529) |
| ERP Debt & Incremental Cost ¹ | (2,765,796) | (3,175,877) | (3,205,376) | (3,176,014) | (3,087,279) |
| JOHS to IGA Level | (3,501,911) | (3,580,704) | (3,661,270) | (3,743,648) | (3,827,880) |
| Net Additional Obligations | (14,336,693) | (14,825,567) | (14,935,632) | (14,988,648) | (14,984,145) |
| Rev/Exp Gap - March 2017 Forecast w Debt | 12,366,850 | 4,393,309 | (4,247,174) | (11,648,009) | (15,876,983) |

¹ERP Costs assume the \$950,000 East County Data Center debt payment is re-programmed to offset ERP debt costs.



5-Year General Fund Forecast

Major General Fund Revenue Sources ¹

| | Adopted FY 2017 | Forecast FY 2017 ² | Forecast FY 2018 | Forecast FY 2019 | Forecast FY 2020 | Forecast FY 2021 | Forecast FY 2022 |
|-----------------------------|--------------------|----------------------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| Property Taxes | 279,060,801 | 279,843,033 | 291,218,093 | 302,157,997 | 312,704,177 | 324,112,272 | 334,599,624 |
| Business Income Taxes | 79,623,954 | 83,131,300 | 83,131,300 | 82,299,987 | 81,888,487 | 84,345,142 | 88,562,399 |
| Motor Vehicle Rental Taxes | 28,218,313 | 30,434,579 | 31,043,271 | 31,664,136 | 32,297,419 | 32,943,367 | 33,602,235 |
| US Marshal (& BM 37) | 3,707,295 | 4,193,029 | 4,146,572 | 4,146,572 | 4,146,572 | 4,146,572 | 4,146,572 |
| Recording Fees/CAFFA Grant | 8,010,656 | 8,604,656 | 8,745,072 | 8,888,252 | 9,034,257 | 9,183,150 | 9,334,996 |
| State Shared | 10,431,568 | 10,431,568 | 9,489,155 | 9,802,978 | 10,114,788 | 10,439,107 | 10,776,435 |
| Indirect & Service Reimbrs. | 29,013,488 | 29,013,488 | 29,833,644 | 30,719,795 | 31,633,500 | 32,575,620 | 33,547,043 |
| | 438,066,075 | 445,651,653 | 457,607,107 | 469,679,717 | 481,819,200 | 497,745,230 | 514,569,304 |
| % of Total Revenue | 94.5% | 94.6% | 94.4% | 94.5% | 94.6% | 94.7% | 94.8% |
| All Other General Fund | 25,499,265 | 25,499,265 | 27,099,641 | 27,280,316 | 27,465,191 | 27,653,896 | 28,096,510 |
| Total | 463,565,340 | 471,150,918 | 484,706,748 | 496,960,033 | 509,284,391 | 525,399,126 | 542,665,814 |
| % Change in Ongoing Revenue | | 1.64% | 2.88% | 2.53% | 2.48% | 3.16% | 3.29% |
| <i>AV Growth</i> | 3.80% | 4.07% | 4.00% | 3.60% | 3.50% | 3.50% | 3.25% |
| <i>Compression</i> | 3.80% | 3.79% | 3.50% | 3.25% | 3.10% | 3.00% | 3.00% |
| <i>BIT Growth</i> | -0.8% ³ | 4.4% ⁴ | 0.00% | -1.00% | -0.50% | 3.00% | 5.00% |

1. Excludes BWC, FQHC wraparound revenues, prospective health payments, but includes video lottery revenues.

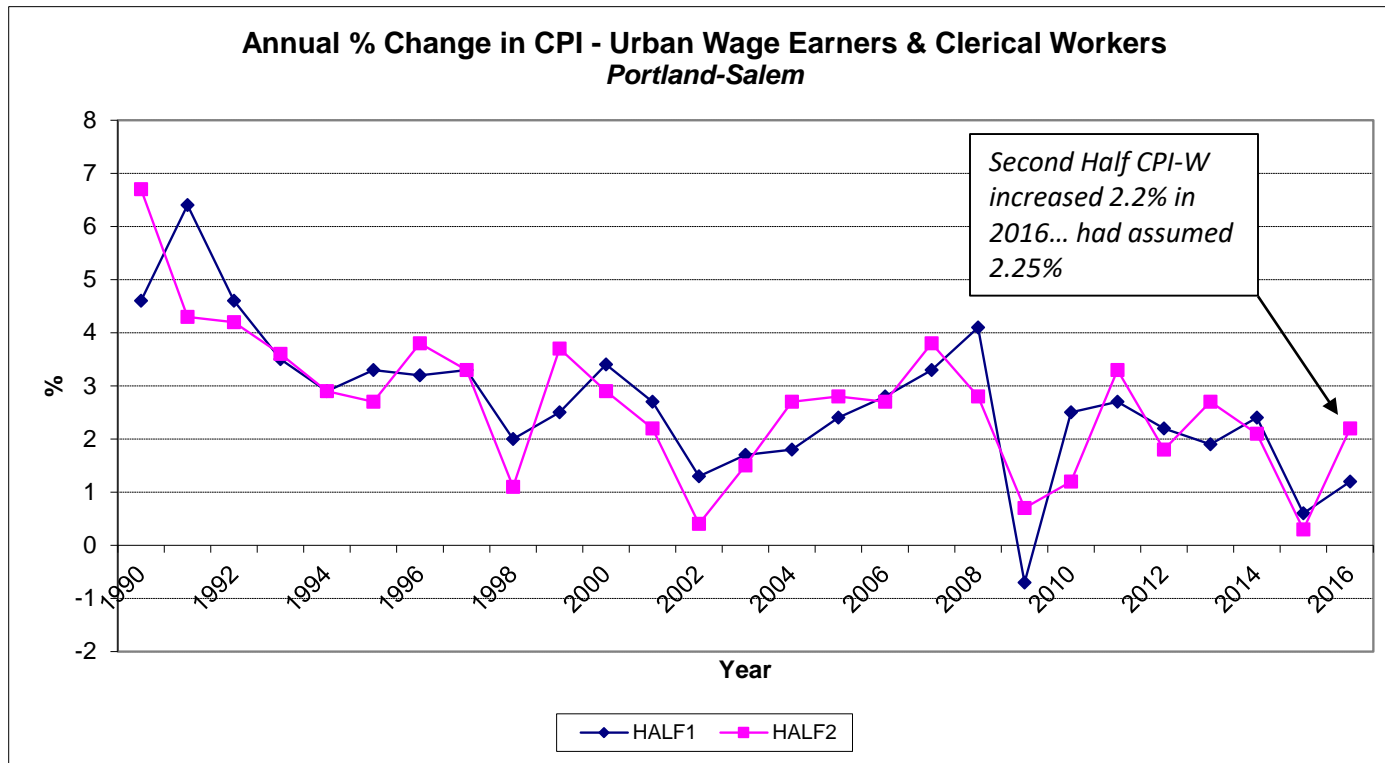
2. Not adjusted for revenue adjustments directly offset by expenditure changes.

3. Reflects growth from May forecasted FY 2016 actual collections.

4. Reflects growth from FY 2017 adopted budget.



5-Year General Fund Forecast



- 2016 Second-Half Portland CPI-W rose 2.2% vs. assumed growth of 2.25%
- Cost of Living Adjustment (COLAs) for FY 2018 tied to this index
- No adjustments required based on CPI-W actual



FY 2018 OTO Funds

General Fund FY 2017 Beginning Working Capital & FY 2018 OTO^{1, 2}

| | |
|---|-------------------|
| OTO Funds for FY 2018 per November Forecast | 24,400,521 |
| Plus Higher FY 2017 Revenue <i>(in March Forecast)</i> | 3,160,117 |
| Less BIT Transfer to East County Cities | (377,678) |
| Less Amount to Maintain Reserves | (621,845) |
| OTO Funds for FY 2018 as March Forecast | 26,561,115 |
| <i>50% Dedicated to County Facility Projects per Board Policy</i> | <i>13,280,558</i> |
| <i>Remaining 50% to be Allocated</i> | <i>13,280,558</i> |
| If no new programs are added in FY 2018 and assuming debt & ERP | <u>12,366,850</u> |
| OTO Funds for FY 2018 With Policy Assumptions | 38,927,965 |
| <i>50% Dedicated to County Facility Projects per Board Policy</i> | <i>19,463,983</i> |
| <i>Remaining 50% to be Allocated</i> | <i>19,463,983</i> |

1. Assumes the FY 2017 General Fund Contingency is fully spent in FY 2017.
2. Assumes departments fully spend their FY 2017 appropriation.
3. Adjusted for additional restricted County Clerk BWC and Prospective Health Payments (\$3.7 million).



FY 2017 Contingency Update

FY 2017 General Fund Contingency Update

| | |
|------------------------------------|------------------|
| General Fund 'Regular' Contingency | 1,250,000 |
| Additional Contingency | <u>23,724</u> |
| | 1,273,724 |

| | |
|--|------------------|
| Plus Indirect from grants & misc. | <u>71,855</u> |
| Remaining Non-Earmarked Contingency | 1,345,579 |

| | | |
|---------------------------------|---------|--|
| Earmark - Mental Health Crisis | 629,532 | |
| Earmark - Dorm 4 & 5 Funding | 303,194 | Earmark per Board Budget Note (\$505,320 Released 12/8/2016) |
| Earmark - LEAD - Jail Diversion | 0 | Earmark per Board Budget Note (Released 12/8/2016) |
| Earmark - Nurses at Inverness | 0 | Earmark per Board Budget Note (Released 10/20/2016) |

| | |
|---|-------------------|
| BIT Reserve (in General Fund Contingency) | <u>7,962,395</u> |
| Total General Fund Contingency | 10,240,700 |

***Unallocated Contingency for use in FY 2017
or could be rolled over to FY 2018***

1,345,579

Reflects non-earmarked balance

Note: The forecast assumes the General Fund Contingency will be fully spent, with the exception of the BIT Reserve, which is 'rolled over' to FY 2018. Excludes funds reserved for FY 2018 and FY 2019.



Forecast Risks, Uncertainties & Issues

- Housing affordability/homelessness
- Wage Pressures – PERS, open labor contracts, health care
- Federal policy/budget issues & economic implications
- Oregon Legislative session and State budget shortfall
- Geopolitical
- A confluence of risks, uncertainties, and issues
 - ✓ PERS
 - ✓ Downtown Courthouse & other capital project funding
 - ✓ Timing of next recession – revenue & PERS earnings impacts
 - ✓ Inflation and monetary policy changes
 - ✓ Health Care – costs for employee coverage and revenues/costs associated as a provider of health care services



Summary

- FY 2017 General Fund revenue forecast increased \$3.2 million (0.7%) for a total change of \$7.6 million (1.64%) from adopted budget.
- FY 2017 General Fund contingency balance of \$1.3 million (unallocated)
- FY 2018 projected General Fund resources exceed the cost of current services levels by \$12.4 million, but fall short by \$15.9 million in FY 2022
- No new, ongoing programs can be supported over long-term absent additional revenues or reallocation of existing resources.
- FY 2018 General Fund one-time-only resources of \$26.6 million
 - ✓ Another \$12.4 million of OTO available if FY 2018 surplus treated as OTO to balance over 2-3 years, for a total of \$38.9 million
- Major risks, uncertainties, and issues include:
 - ✓ PERS
 - ✓ Policy and economic implications of Federal Policy Changes
 - ✓ State budget and legislative session

