



# FY 2019 General Fund 5-Year Forecast Update

*Presentation to the  
Board of County Commissioners*

Multnomah County Budget Office  
March 13, 2018  
[www.multco.us/budget](http://www.multco.us/budget)

# Overview

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- **Economic Overview**
  - ✓ National Economic Conditions
  - ✓ Oregon & Multnomah County Employment Info
- **FY 2018 Revenue Review**
  - ✓ Business Income Tax (BIT)
- **FY 2019 General Fund 5-Year Forecast**
  - ✓ FY 2018 Forecast & 5-Year Outlook
  - ✓ Expenditure Assumptions – CPI and Labor Contract Settlements
- **FY 2019 One-Time-Only Funds**
- **FY 2018 General Fund Contingency Update**
- **Forecast Risks & Issues**
- **Summary & Questions**



# Overview & Reminders

- **Constitutional Restrictions on Property Tax Growth Help to Create a Structural Deficit** *(especially when inflation is higher)*
  - ✓ Limited Assessed Value Growth & Change Property Ratio
  - ✓ Higher Labor Costs -- Inflationary Increases, PERS, etc.,
- **Strong Local & National Economy, But Any Resulting Revenues Offset by Higher Costs**
  - ✓ Higher Business Income Tax (BIT)
  - ✓ Higher Labor Costs -- Inflation, Open Contracts (Deputy Sheriff's, Prosecuting Attorneys', etc.,)
- **Five-Year General Fund Deficit Grows to over \$30 million**
  - ✓ This Situation was Anticipated... Reflects 5% Gap or About 1% Year
  - ✓ Timing of and Planning for Next Recession
- **Federal Policies**
  - ✓ Tax Cuts, Increased Spending, and Higher Deficits at Peak of the Business Cycle
  - ✓ Implications for Future Policies and Response to Next Recession?

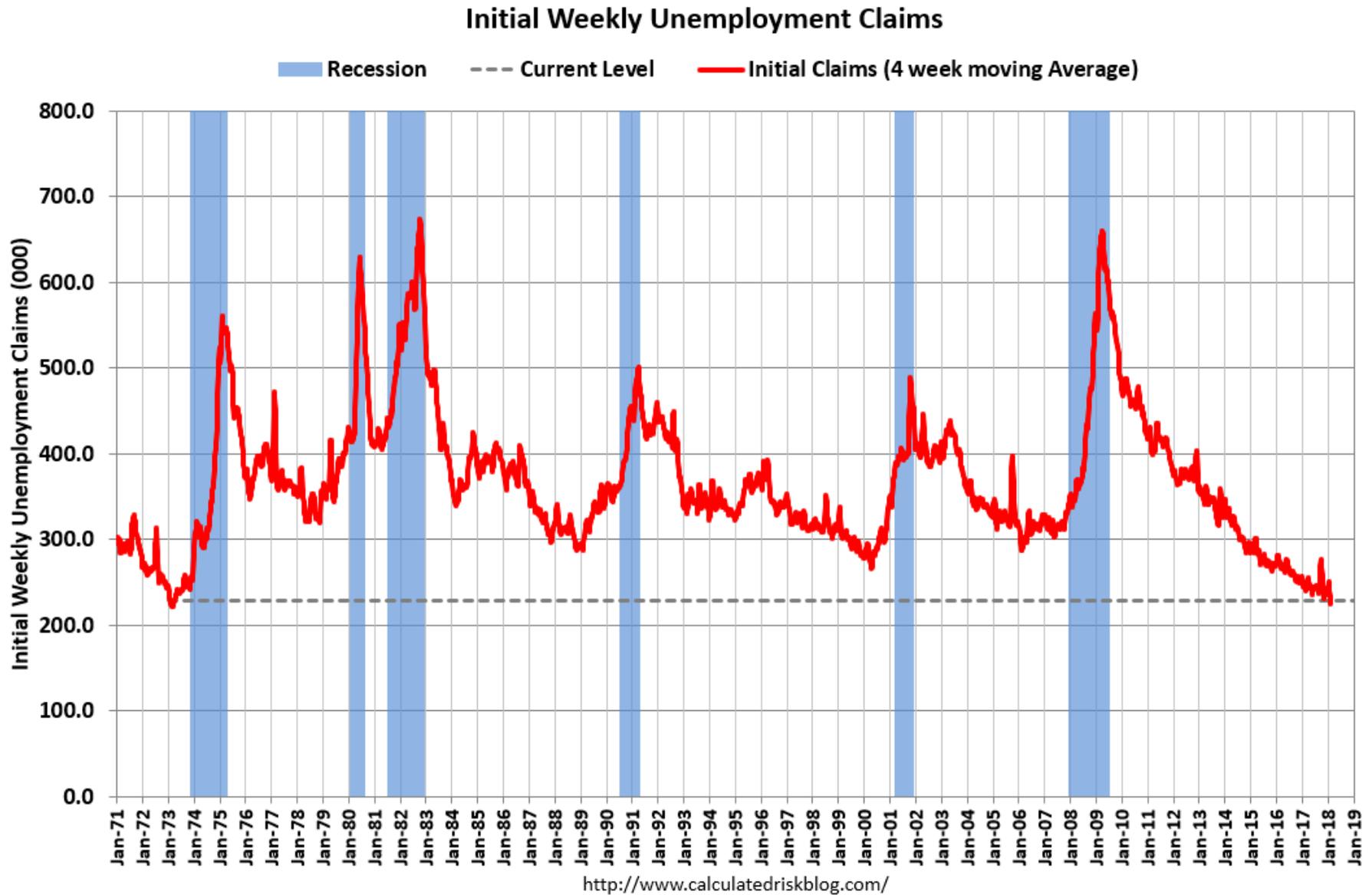


# Economic Overview

- U.S. growth has been sustained and is forecast to improve further during the year
  - ✓ GDP growth of 3.1%, 3.2%, and 2.5% in the last 3 quarters
  - ✓ Fiscal policy changes expected to have modest, short-term expansionary effect
  - ✓ Domestic growth in sync with global growth across broad range of countries
- Employment data positive but little room for additional growth
  - ✓ Oregon employment at record highs
  - ✓ Increased wage growth
- Inflation at national level and tighter labor market, likely spurring Federal Reserve to continue to raise interest rates
- Policy uncertainty
  - ✓ Trade policy (Tariffs)

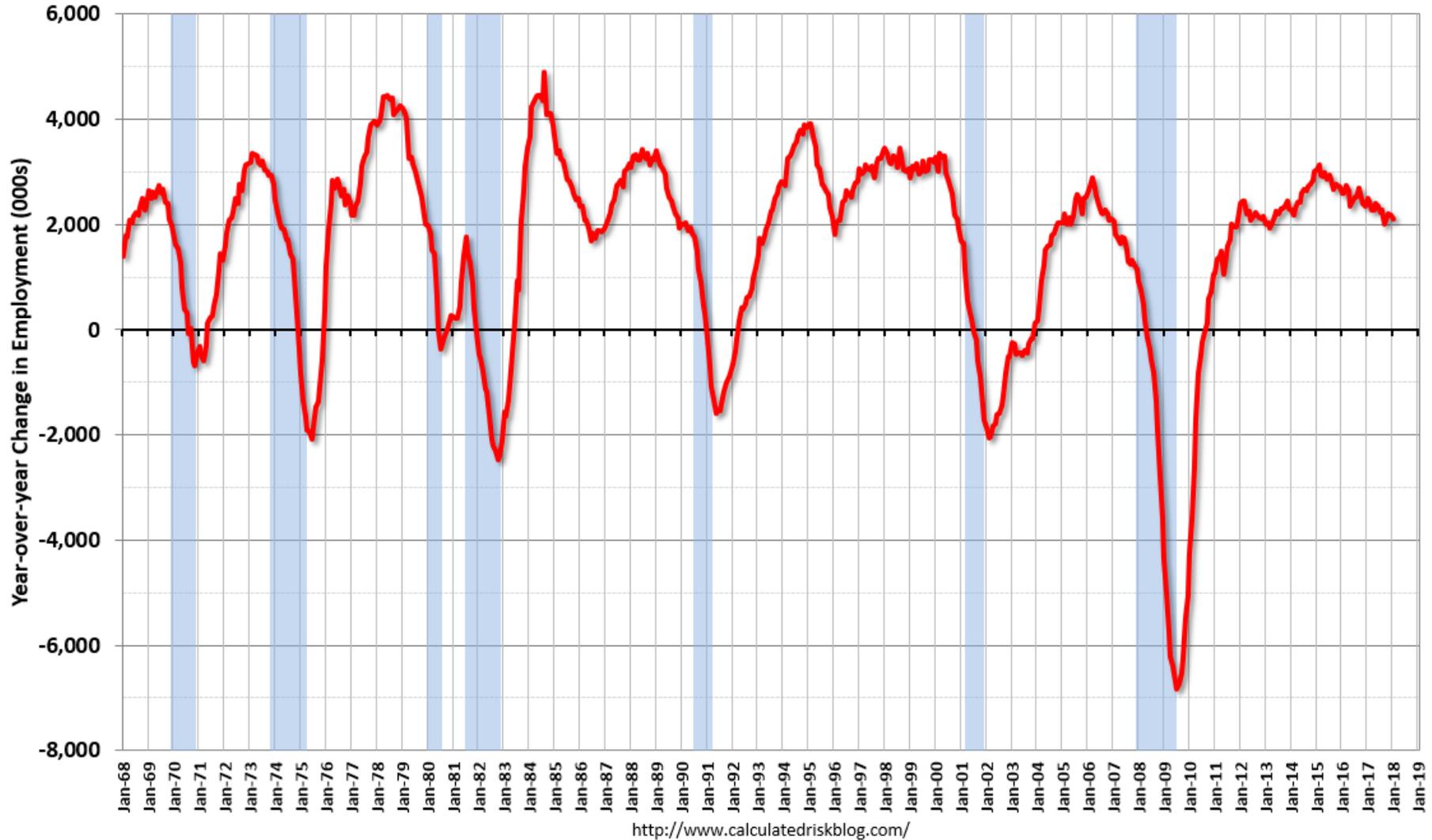


# Economic Overview

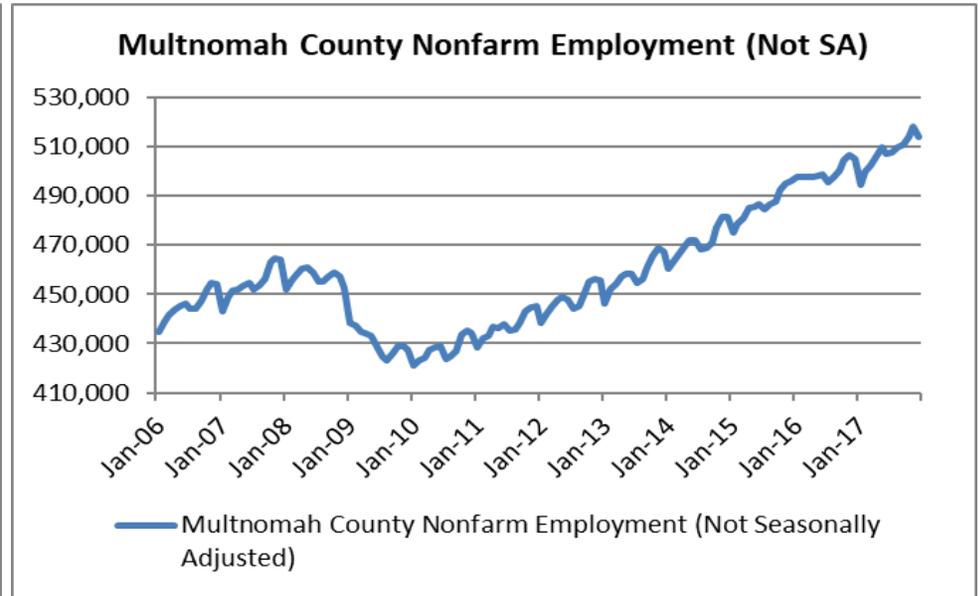
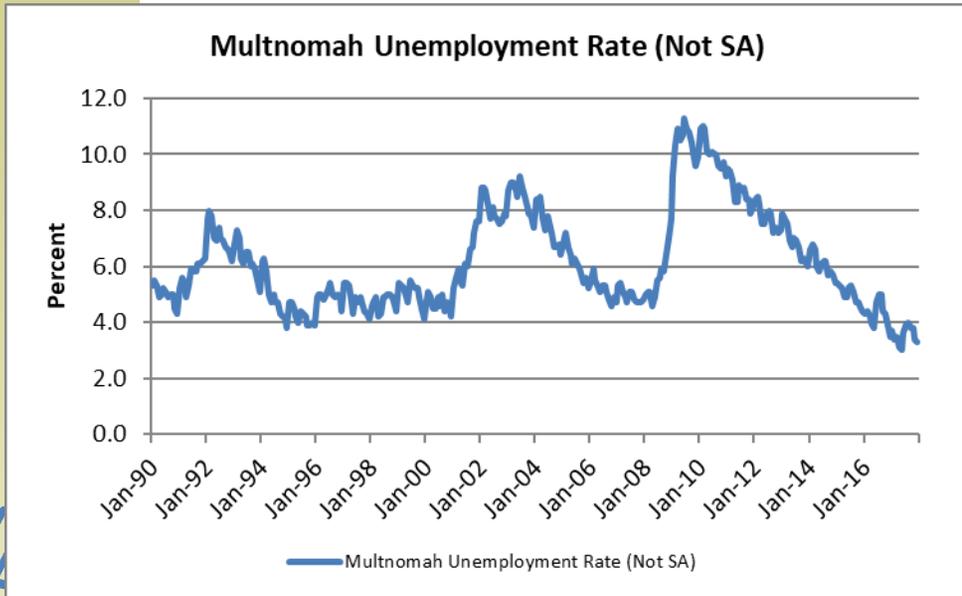
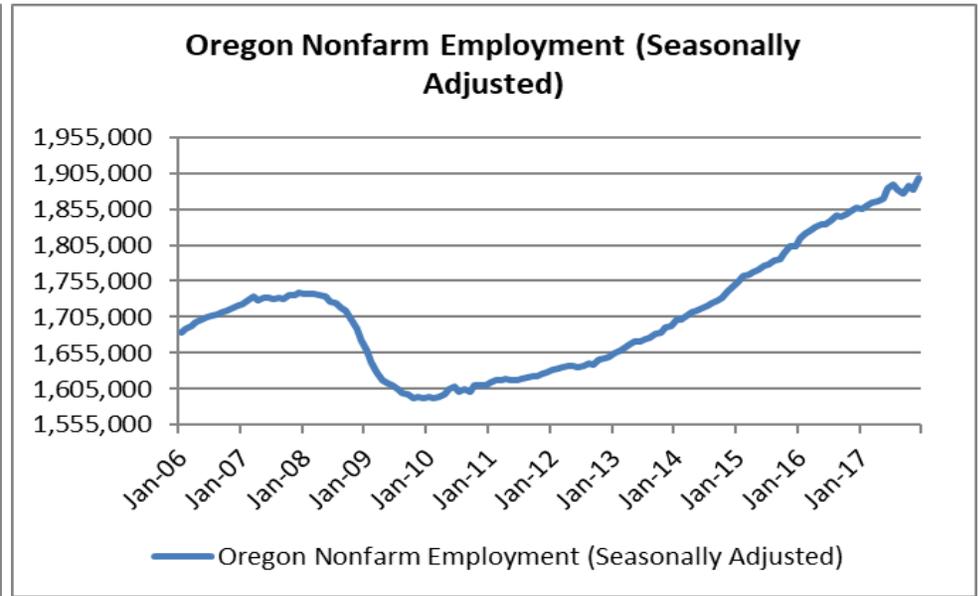
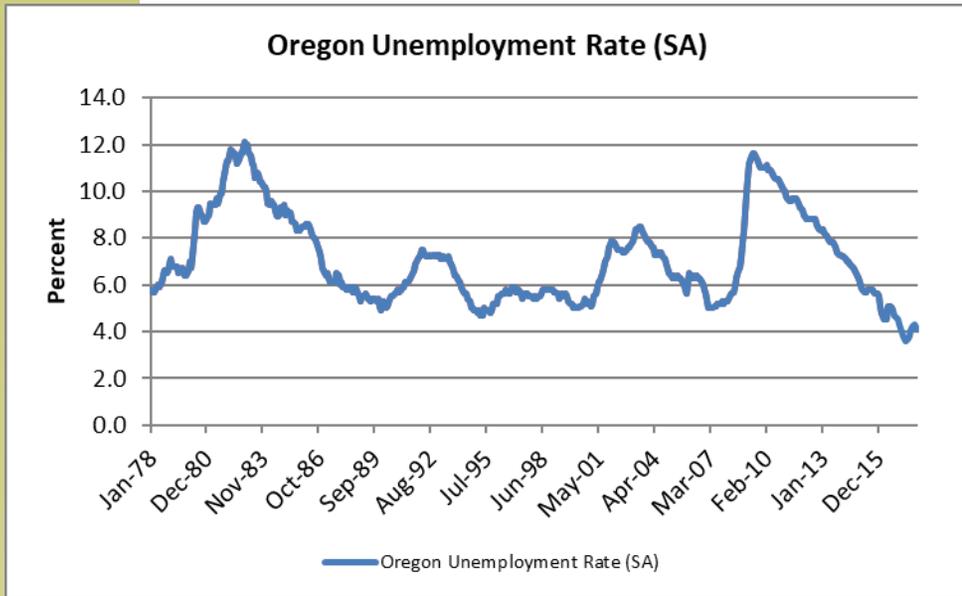


# Economic Overview

## Year-over-Year Change in Employment



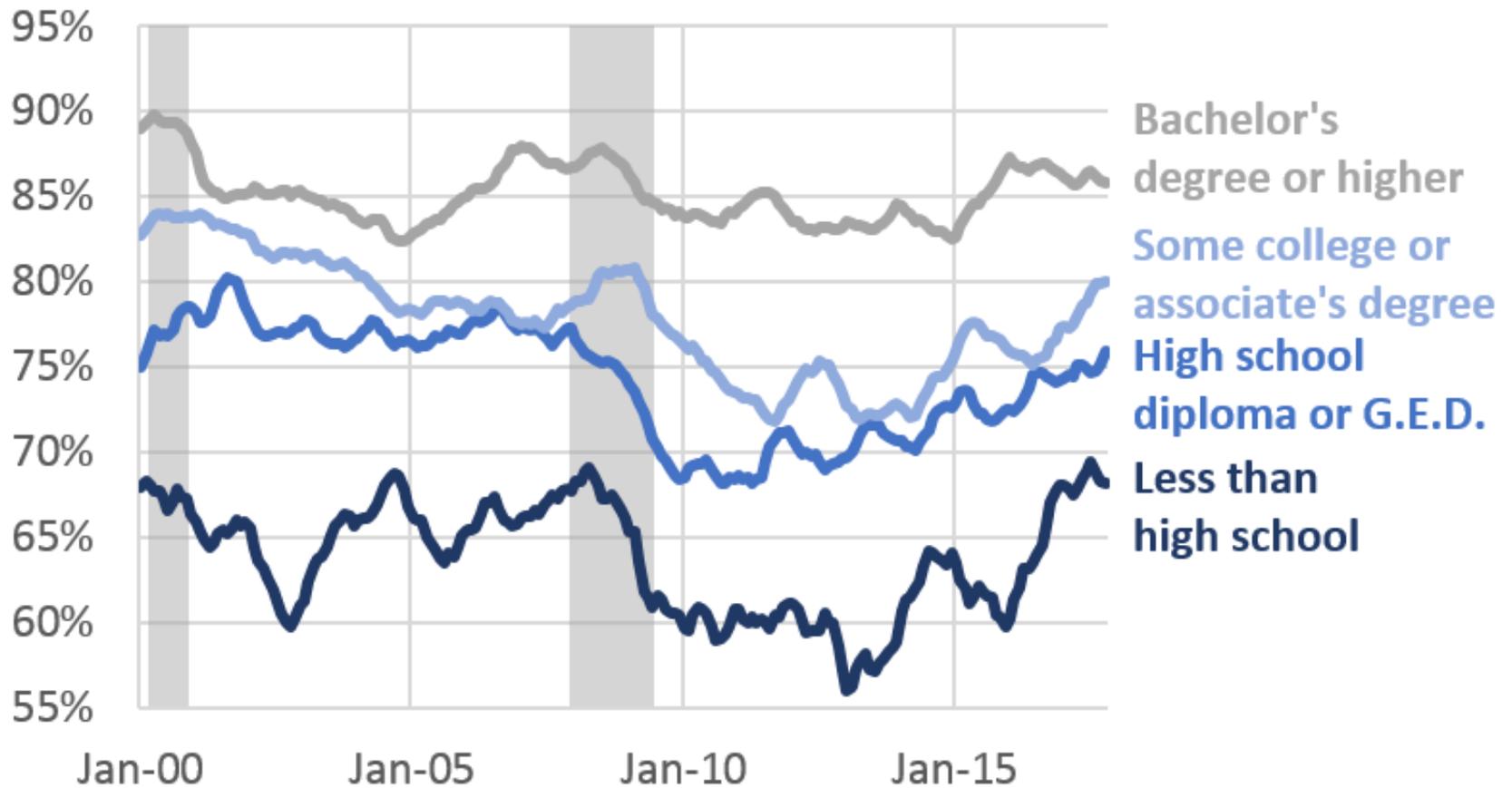
# Economic Overview



# Economic Overview

## Rising Employment Rates

Share of Prime-Age Oregonians (25-54) with a Job



Data: 12 Month Avg | Latest: Oct '17 | Source: IPUMS-CPS, Oregon Office of Economic Analysis



# FY 2018 Revenue Review

|   | Adopted <sup>1</sup> | October<br>Forecast<br>Change | March<br>Forecast<br>Change | May<br>Forecast<br>Change | Net Change<br>From<br>Adopted | Note   |
|---|----------------------|-------------------------------|-----------------------------|---------------------------|-------------------------------|--|
| Property Taxes                                | 291,218,541          | 1,013,164                     | 0                           |                           | 1,013,164                     |  |
| Business Income Taxes                         | 84,500,000           | 0                             | 4,500,000                   |                           | 4,500,000                     | Strong economy/development activity                                    |
| Motor Vehicle Rental Taxes                    | 31,043,271           | (737,392)                     | 0                           |                           | (737,392)                     | Weaker FY 2017 Q4 collections; slowing PDX traffic                     |
| US Marshal/BM 73/BOP                          | 3,942,774            | 234,093                       | 374,548                     |                           | 608,641                       | Assuming monthly average of 93 beds                                    |
| State Shared                                  |                      |                               |                             |                           |                               |  |
| Video Lottery                                 | 4,654,250            | 345,750                       | 0                           |                           | 345,750                       | La Center Casino impact less than expected                             |
| Liquor  | 4,429,253            | 0                             | 0                           |                           | 0                             |  |
| Cigarette                                     | 666,649              | 0                             | 0                           |                           | 0                             |  |
| Marijuana                                     | 1,200,000            | 1,700,254                     | 0                           |                           | 1,700,254                     | Includes FY 2017 retroactive payment (OTO) and FY 2018 ongoing changes |
| Amusement                                     | 173,000              | 0                             | 0                           |                           | 0                             |  |
| Recording Fees/CAFFA Grant                    | 8,745,072            | (234,728)                     | (605,072)                   |                           | (839,800)                     | Slowing activity and refinancing                                       |
| Indirect                                      |                      |                               |                             |                           |                               |  |
| Departmental                                  | 19,313,503           | 0                             | 0                           |                           | 0                             |  |
| Central Indirect/Svc Reimburse                | 12,158,266           | 0                             | 0                           |                           | 0                             |  |
| All Other                                     | 28,156,500           | 0                             | 0                           |                           | 0                             |  |
| <b>FY 18 Revenue Adjustments <sup>2</sup></b> | <b>490,201,079</b>   | <b>2,321,141</b>              | <b>4,269,476</b>            | <b>0</b>                  | <b>6,590,617</b>              |  |
| <b>% of Revenue</b>                           |                      | <b>0.47%</b>                  | <b>0.87%</b>                | <b>0.00%</b>              | <b>1.34%</b>                  |  |

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.



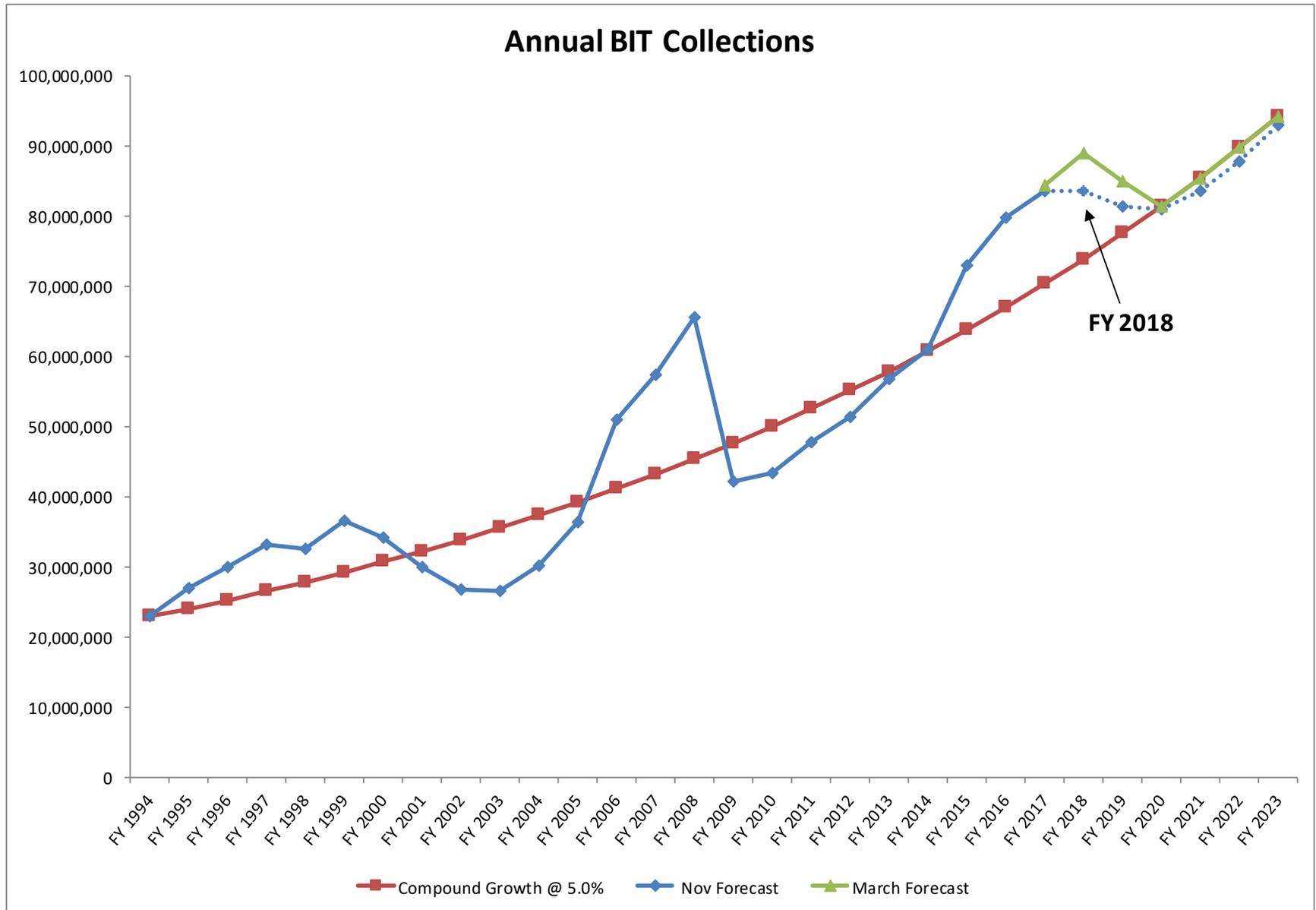
# FY 2018 Revenue Review

## BIT Collections Fiscal Year-to-Date Through February

|                         | FY 14             | FY 15             | FY 16             | FY 17             | FY 18             | FY 18 vs.<br>FY 17 |
|-------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|--------------------|
| Quarterly               | 19,371,834        | 26,118,461        | 27,776,338        | 26,635,050        | 29,094,191        | 9.2%               |
| Yearly                  | 5,160,759         | 5,985,777         | 7,821,015         | 10,699,689        | 10,973,466        | 2.6%               |
| Refund/Interest         | 3,012,454         | 3,116,127         | 3,102,498         | 3,232,861         | 3,474,794         | 7.5%               |
| NSF Check               | 22,777            | 54,691            | 169,597           | 300,963           | 114,240           | -62.0%             |
| <b>Total</b>            | <b>21,497,362</b> | <b>28,933,419</b> | <b>32,325,258</b> | <b>33,800,915</b> | <b>36,478,623</b> | <b>7.9%</b>        |
| <i>Actual or Budget</i> | <i>61,800,000</i> | <i>73,825,000</i> | <i>80,710,000</i> | <i>84,450,000</i> | <i>84,500,000</i> |                    |
| <i>March Forecast</i>   |                   |                   |                   |                   | <i>89,000,000</i> |                    |

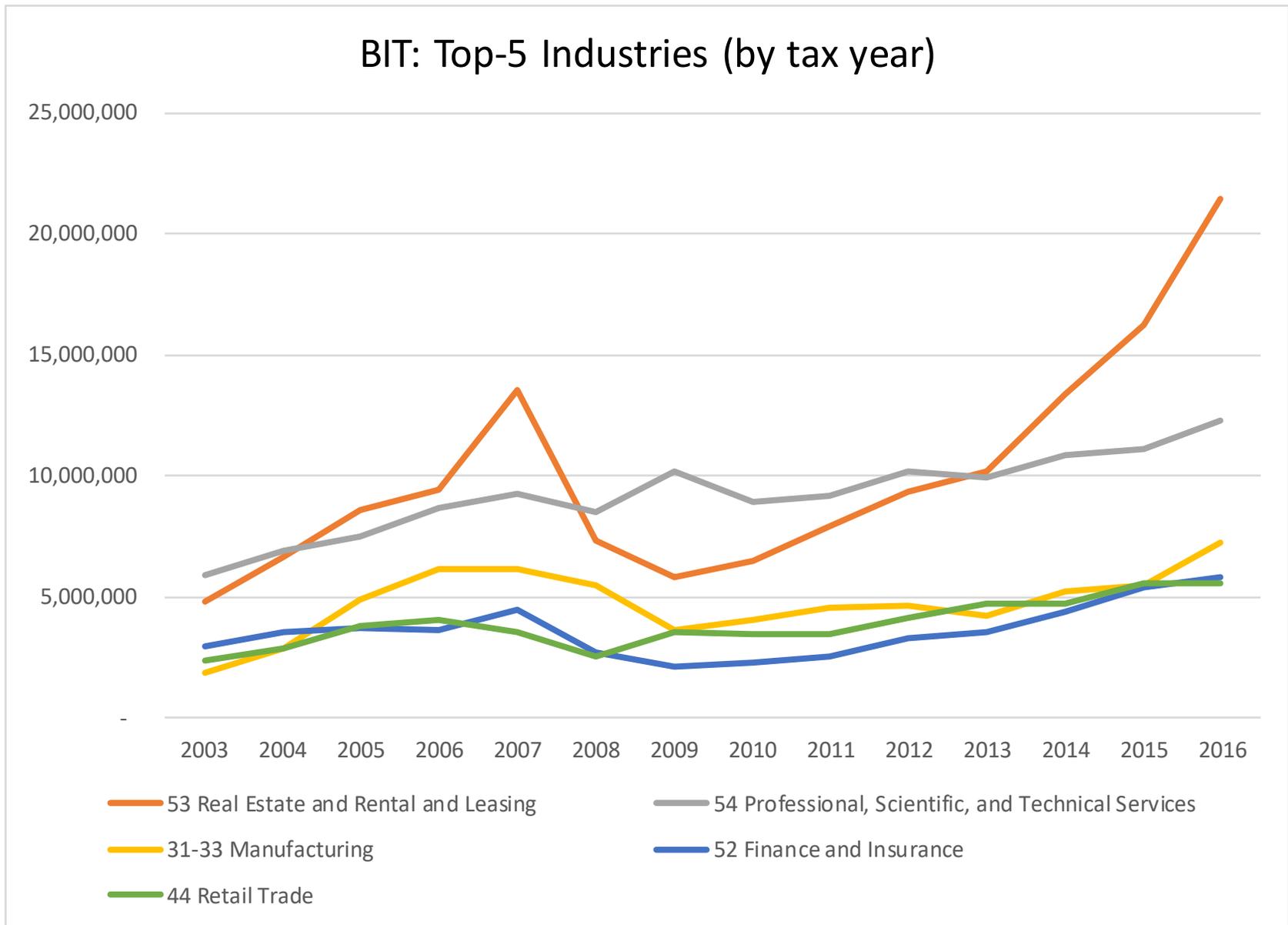


# FY 2018 Revenue Review

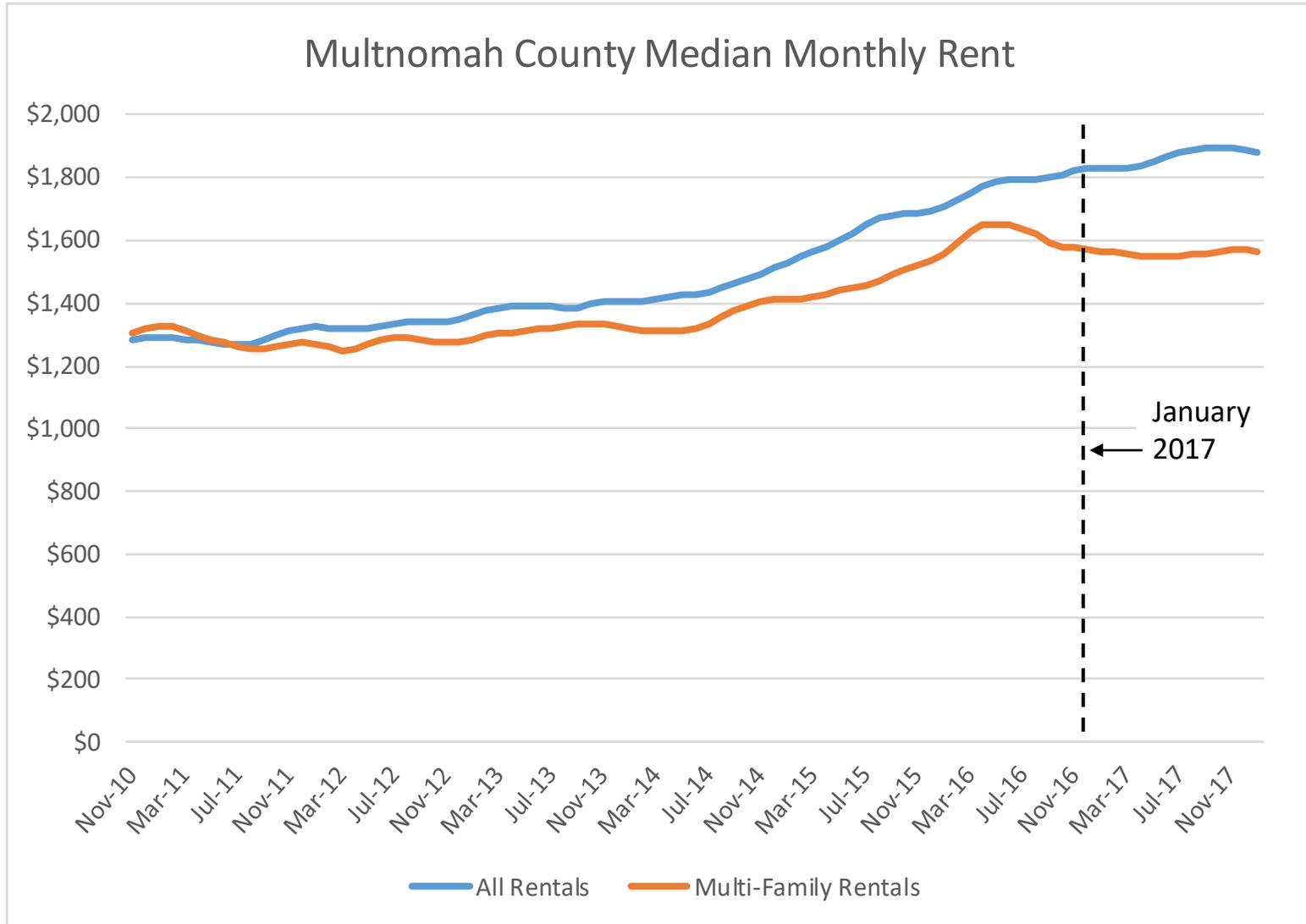


# FY 2018 Revenue Review

BIT: Top-5 Industries (by tax year)



# FY 2018 Revenue Review

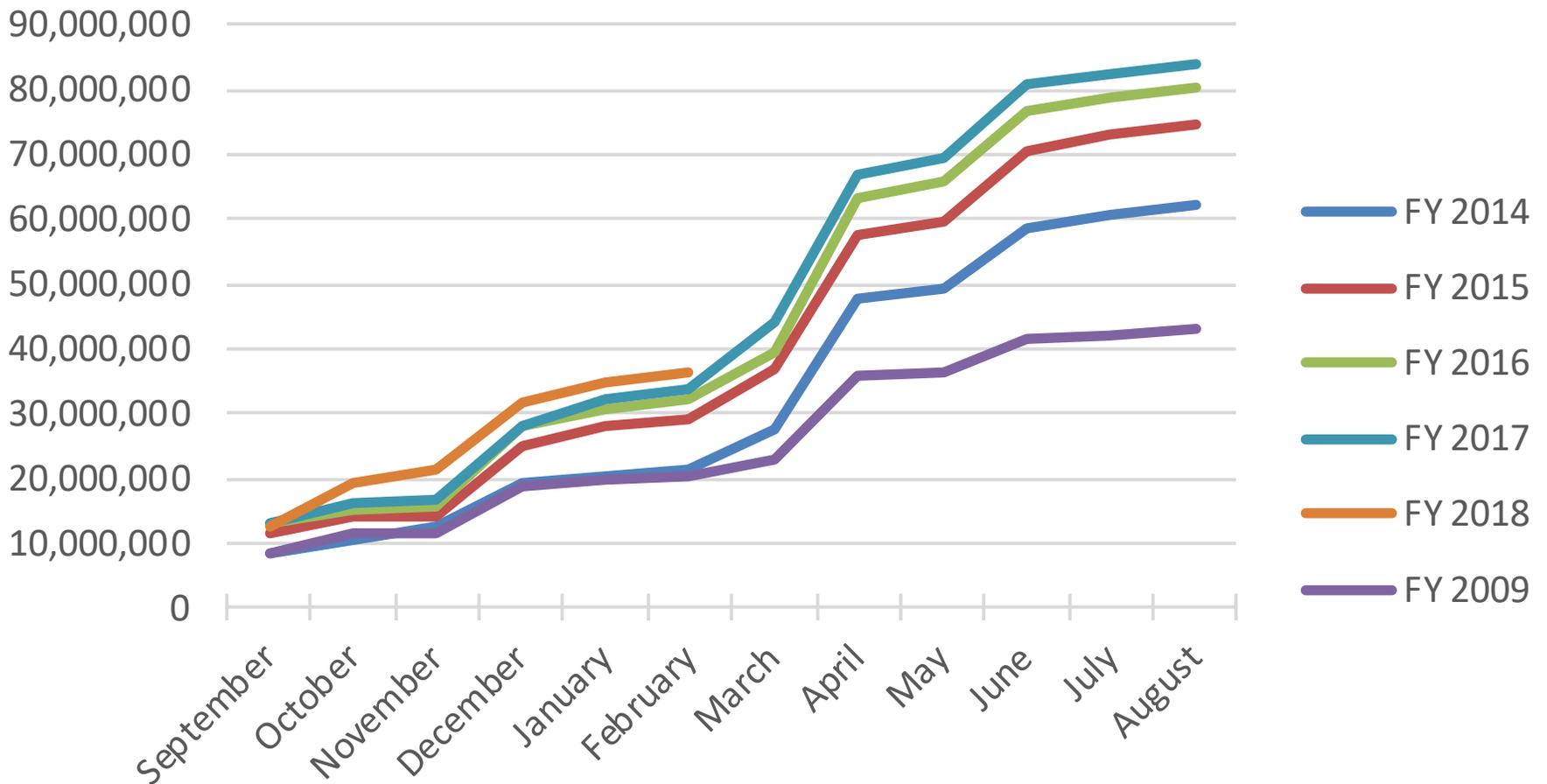


Source: Zillow



# FY 2018 Revenue Review

## Cumulative BIT Collections by Year



# 5-Year General Fund Forecast

- Forecast assumes that BIT revenues are near peak for this cycle, and anticipated to revert to long-term trend.
- Significant changes – BIT Adjustment and Increased Personnel Costs.
  - ✓ Inflation assumptions adjusted up
- Revenues just cover current expenditures for FY 2019, significant deficits are forecast starting in FY 2020.
- New, ongoing programs cannot be supported.

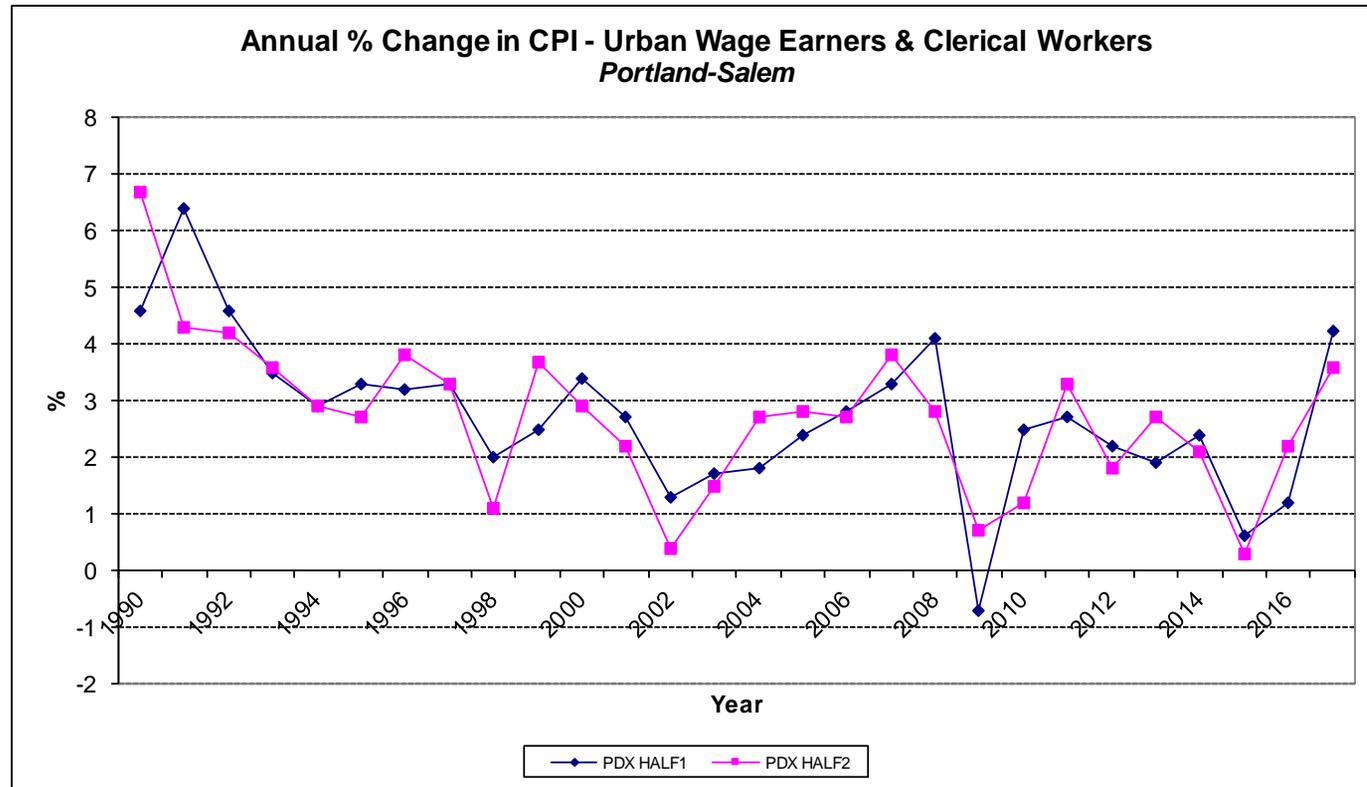
**Table 1: Forecasted Ongoing General Fund Expenditures, Revenues, and Balance**

|  | FY 2019          | FY 2020             | FY 2021             | FY 2022             | FY 2023             |
|--|------------------|---------------------|---------------------|---------------------|---------------------|
| <b>Revenues</b>                                    | 504,641,924      | 514,156,237         | 531,114,323         | 548,561,120         | 566,608,243         |
| <b>Expenditures</b>                                | 501,581,084      | 525,129,596         | 550,517,978         | 573,473,518         | 597,444,296         |
| <b>Surplus/(Deficit)</b>                           | <b>3,060,840</b> | <b>(10,973,358)</b> | <b>(19,403,655)</b> | <b>(24,912,398)</b> | <b>(30,836,053)</b> |
| <i>Change in Surplus from Prior Year</i>           |                  | <i>(14,034,198)</i> | <i>(8,430,297)</i>  | <i>(5,508,742)</i>  | <i>(5,923,655)</i>  |
| <i>Surplus/(Deficit) is this % of Expenditures</i> | 0.61%            | -2.09%              | -3.52%              | -4.34%              | -5.16%              |

*Note: Revenues/Expenditures include video lottery, but excludes reserves, FQHC wraparound and prospective health payments*



# 5-Year General Fund Forecast



- 2017 Second-Half Portland CPI-W rose 3.6% vs. assumed growth of 3.5%
- Cost of Living Adjustment (COLAs) for FY 2019 tied to this index
- No adjustments required based on CPI-W actual



# 5-Year General Fund Forecast

## Changes to Ongoing General Fund Revenues and Impact on the Expenditure/Revenue Gap

|  | FY 2019            | FY 2020             | FY 2021             | FY 2022             | FY 2023             |
|--|--------------------|---------------------|---------------------|---------------------|---------------------|
| <b>Rev/Exp Gap - November 2017 Forecast</b>                | <b>3,674,128</b>   | <b>(7,082,781)</b>  | <b>(16,310,894)</b> | <b>(21,826,108)</b> | <b>(27,138,538)</b> |
| <b>Changes to Expenditures</b>                             |                    |                     |                     |                     |                     |
| Courthouse Debt Adjustment                                 | (1,214,509)        | (1,214,509)         | (1,214,509)         | (1,214,509)         | (1,214,509)         |
| Labor Contract Settlement                                  |                    |                     |                     |                     |                     |
| MCCDA  | (610,062)          | (626,839)           | (642,510)           | (656,966)           | (671,748)           |
| ONA Market Adjustment                                      | (151,403)          | (317,469)           | (325,405)           | (332,727)           | (340,213)           |
| Local 88   | 0                  | (344,317)           | (352,925)           | (360,866)           | (368,985)           |
| FY 2020 0.3% COLA Adjustment<br>(each 1% = \$3.1 million ) | 0                  | (898,005)           | (943,065)           | (989,072)           | (1,035,560)         |
| <b>Total Expenditure Change</b>                            | <b>(1,975,974)</b> | <b>(3,401,138)</b>  | <b>(3,478,414)</b>  | <b>(3,554,140)</b>  | <b>(3,631,015)</b>  |
| <b>Changes to Revenues</b>                                 |                    |                     |                     |                     |                     |
| Net BIT  | 1,890,009          | 0                   | 835,967             | 877,766             | 301,718             |
| Recording Fees   | (527,323)          | (489,439)           | (450,314)           | (409,916)           | (368,217)           |
| <b>Total Revenue Change</b>                                | <b>1,362,686</b>   | <b>(489,439)</b>    | <b>385,653</b>      | <b>467,850</b>      | <b>(66,500)</b>     |
| <b>Net Revenue/Expenditure Change</b>                      | <b>(613,288)</b>   | <b>(3,890,577)</b>  | <b>(3,092,761)</b>  | <b>(3,086,290)</b>  | <b>(3,697,515)</b>  |
| <b>Updated Revenue/Expenditure Gap</b>                     | <b>3,060,840</b>   | <b>(10,973,358)</b> | <b>(19,403,655)</b> | <b>(24,912,398)</b> | <b>(30,836,053)</b> |



# 5-Year General Fund Forecast

## Major General Fund Revenue Sources <sup>1</sup>

|                             | Adopted FY<br>2018 | Forecast FY<br>2018 <sup>2</sup> | Forecast FY<br>2019 | Forecast FY<br>2020 | Forecast FY<br>2021 | Forecast FY<br>2022 | Forecast FY<br>2023 |
|-----------------------------|--------------------|----------------------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| Property Taxes              | 291,218,093        | 292,231,705                      | 304,223,486         | 313,751,128         | 325,065,194         | 335,586,460         | 346,419,919         |
| Business Income Taxes       | 84,500,000         | 89,000,000                       | 85,000,000          | 81,466,077          | 85,539,381          | 89,816,350          | 94,307,168          |
| Motor Vehicle Rental Taxes  | 31,043,271         | 30,305,879                       | 30,911,997          | 31,530,237          | 32,160,841          | 32,804,058          | 33,460,139          |
| US Marshal (& BM 37)        | 3,942,774          | 4,551,415                        | 4,409,573           | 4,409,573           | 4,409,573           | 4,409,573           | 4,409,573           |
| Recording Fees/CAFFA Grant  | 8,757,704          | 7,917,904                        | 8,136,802           | 8,318,643           | 8,504,599           | 8,694,763           | 8,889,233           |
| State Shared                | 10,523,152         | 13,169,156                       | 12,197,332          | 12,565,312          | 12,947,051          | 13,343,076          | 13,753,934          |
| Indirect & Service Reimbrs. | 31,471,769         | 31,471,769                       | 32,401,998          | 33,361,086          | 34,349,933          | 35,369,464          | 36,413,138          |
|                             | <b>461,456,763</b> | <b>468,647,828</b>               | <b>477,281,188</b>  | <b>485,402,056</b>  | <b>502,976,572</b>  | <b>520,023,744</b>  | <b>537,653,104</b>  |
| <b>% of Total Revenue</b>   | <b>94.1%</b>       | <b>94.5%</b>                     | <b>94.4%</b>        | <b>94.5%</b>        | <b>94.6%</b>        | <b>94.7%</b>        | <b>94.9%</b>        |
| All Other General Fund      | 28,744,316         | 27,415,868                       | 28,170,740          | 28,331,771          | 28,496,024          | 28,913,561          | 29,084,447          |
| <b>Total</b>                | <b>490,201,079</b> | <b>496,063,696</b>               | <b>505,451,928</b>  | <b>513,733,827</b>  | <b>531,472,596</b>  | <b>548,937,305</b>  | <b>566,737,551</b>  |
| % Change in Ongoing Revenue |                    | 1.20%                            | 1.89%               | 1.64%               | 3.45%               | 3.29%               | 3.24%               |
| AV Growth                   | 4.00%              | 4.77%                            | 4.00%               | 3.50%               | 3.50%               | 3.25%               | 3.25%               |
| Compression                 | 3.50%              | 3.86%                            | 3.85%               | 3.85%               | 3.85%               | 3.85%               | 3.85%               |
| BIT Growth                  | 0.00%              | 5.30%                            | -4.49%              | -4.16%              | 5.00%               | 5.00%               | 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.



# FY 2019 OTO Funds

## General Fund FY 2018 Beginning Working Capital & FY 2019 OTO <sup>1, 2</sup>

|   |                   |
|---|-------------------|
| Additional FY 18 BWC Above Forecast <sup>3</sup>                  | 14,193,985        |
| Plus Additional FY 2018 Revenue (November Forecast)               | 2,321,141         |
| Plus Additional FY 2018 Revenue (March Forecast)                  | 4,269,476         |
| Less BIT Transfer to East County Cities                           | (465,517)         |
| Less Amount to Bring Reserves to Board Policy Levels              | (1,571,016)       |
| <b>Additional FY 2018 BWC (OTO)</b>                               | <b>18,748,069</b> |
| <br>  |                   |
| If no new programs are added in FY 2019                           | 3,060,840         |
| <b>OTO Funds for FY 2019 With Policy Assumptions</b>              | <b>21,808,909</b> |
| <br>  |                   |
| <i>50% Dedicated to County Facility Projects per Board Policy</i> | 10,904,455        |
| <i>Remaining 50% to be Allocated</i>                              | 10,904,455        |

1. Assumes the FY 2018 General Fund Contingency is fully spent in FY 2018.

2. Assumes departments fully spend their FY 2018 appropriation.

3. Adjusted for additional restricted County Clerk BWC, Prospective Health Payments, and Tax Title: Affordable Housing.



# FY 2018 Contingency Update

## Contingency

|  |                  |
|--|------------------|
| General Fund 'Regular' Contingency                               | 1,250,000        |
| Additional Contingency (includes GO Bond Sinking Fund remainder) | 107,096          |
| <b>Remaining Non-Earmarked Contingency</b>                       | <b>1,357,096</b> |

## Earmarks

|                           |           |
|---------------------------|-----------|
| State/Fed Ramp Down       | 2,474,585 |
| Earmark - OPI Restoration | 250,000   |

## Less

|   |                  |
|---|------------------|
| State/Fed Rampdown - HD Tobacco Prevention                      | (111,494)        |
| State/Fed Rampdown - HD Chronic Disease and Violence Prevention | (100,000)        |
| State/Fed Rampdown - HD Mental Health Residential Services      | (100,296)        |
| State/Fed Rampdown - HD AMHI                                    | (280,000)        |
| State/Fed Rampdown - DA Sexual Assault Kit Project              | (78,000)         |
| State/Fed Rampdown - DA Neighborhood DA                         | (57,696)         |
| <b>Remaining State/Fed Ramp-Down and OPI Restoration</b>        | <b>1,997,099</b> |

|   |                   |
|---|-------------------|
| BIT Reserve @ 10% (in General Fund Contingency) | 8,500,000         |
| <b>Total General Fund Contingency</b>           | <b>11,854,195</b> |

***Unallocated Contingency and State/Fed Ramp Down funds  
for use in FY 2018 or to be rolled over to FY 2019*** **3,354,195**

*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 2019*



# Forecast Risks, Uncertainties & Issues

- Timing of changes in development cycle and local rents
- Trade policy and tariffs
- Housing affordability/homelessness
- Policy & economic implications of Federal gov't actions
- Inflation
- Climate change and geopolitics
- A confluence of risks, uncertainties, and issues
  - ✓ PERS
  - ✓ Downtown Courthouse & other capital project funding
  - ✓ Timing of next recession
  - ✓ Inflation and monetary policy changes
  - ✓ Health Care – costs for employee coverage and revenues/costs associated as a provider of health care services



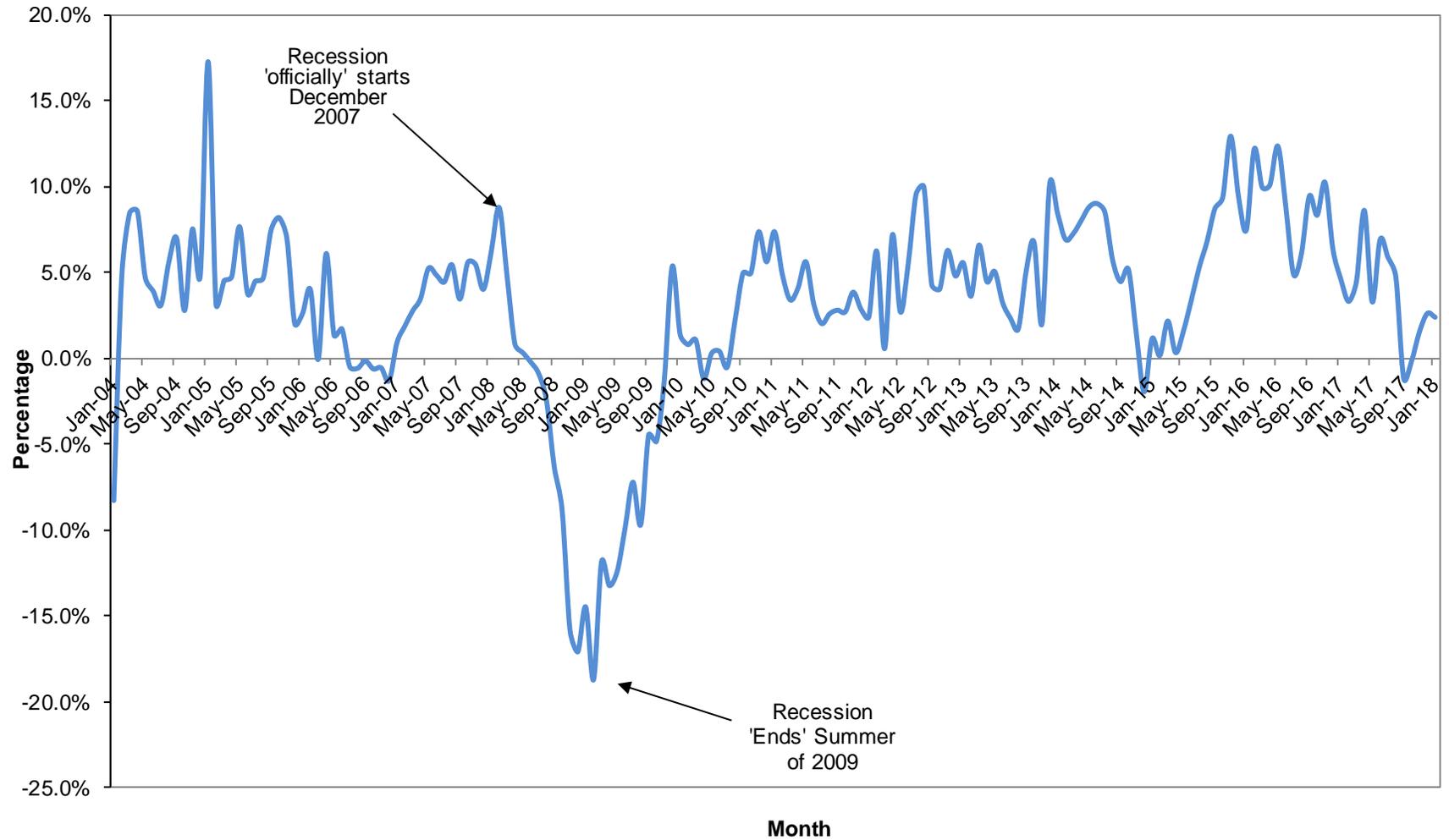
# Summary

- FY 2018 General Fund revenue forecast increased \$4.3 million (0.87%)
- FY 2018 General Fund contingency balance of \$1.4 million (unallocated)
  - ✓ Plus \$2.0 million remaining from State/Fed Ramp-down and OPI Restoration
- Revenues just cover costs of current programs in FY 2019
- No new, ongoing programs can be supported in FY 2019 absent additional revenues or reallocation of existing resources
  - ✓ Deficit grows to \$30.8 million by FY 2023
  - ✓ Approximately \$30 million of new revenue or program reductions needed over next 5-years versus year-by-year reductions.
- FY 2019 General Fund one-time-only resources of \$21.8 million, assuming no new programs are started.
- Major risks, uncertainties, and issues include:
  - ✓ Open Labor Contracts and associated costs (including PERS)
  - ✓ Inflation

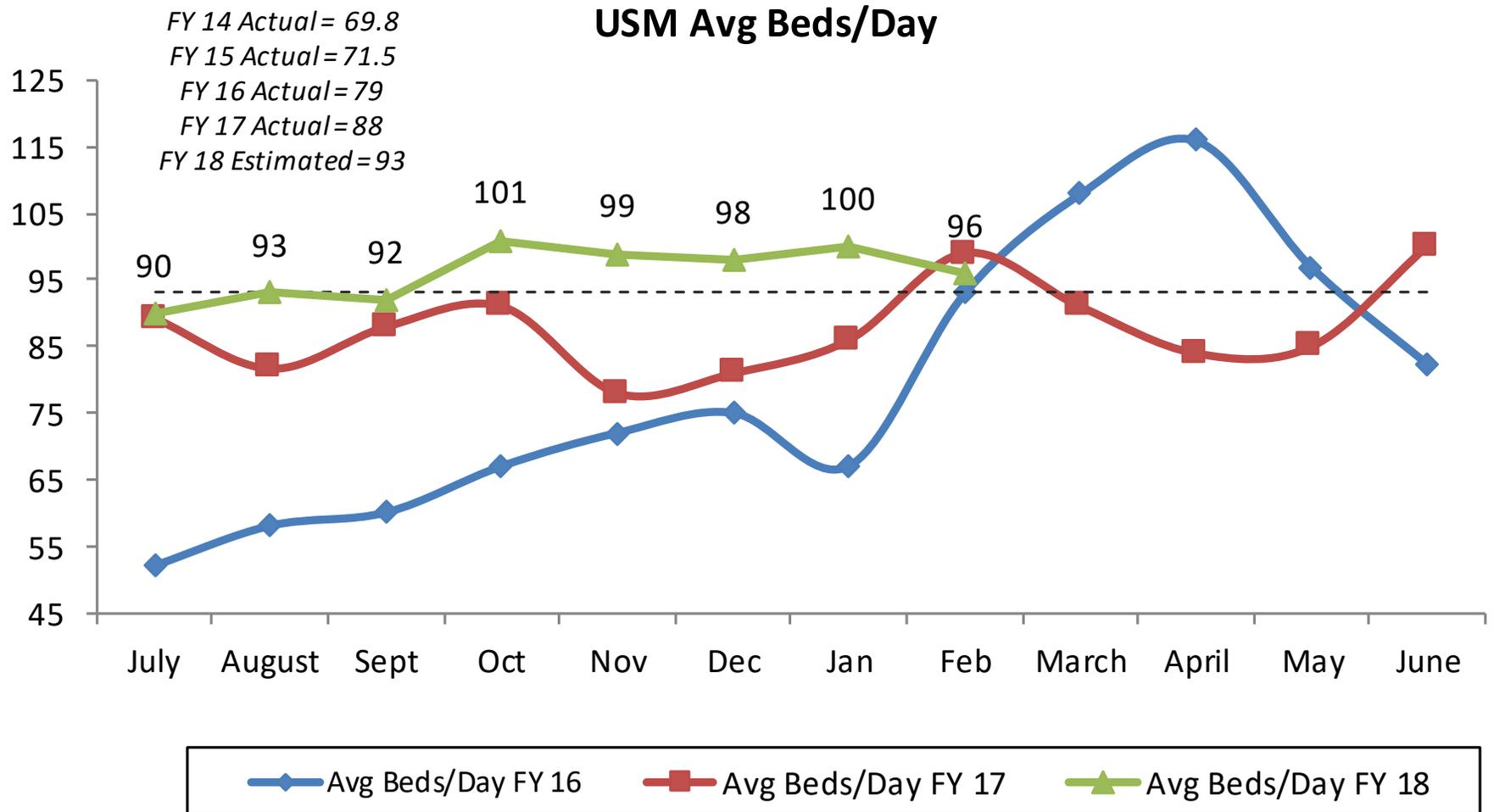


# Appendix

Year-Over-Year Change in Passengers at PDX (Thru January)

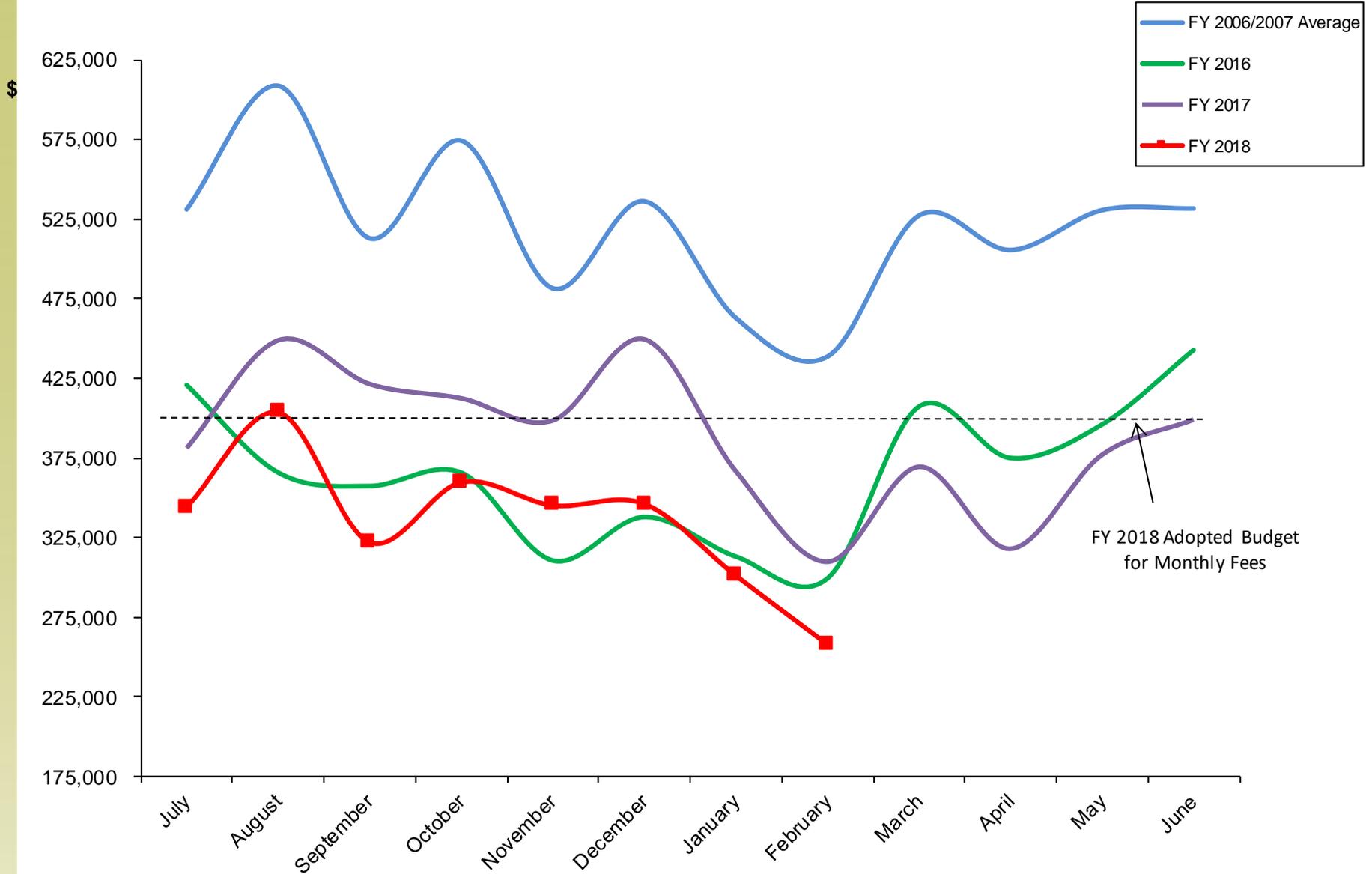


# Appendix



# Appendix

## Monthly Recording Fees (Thru February)



FY 2018 Adopted Budget for Monthly Fees

