



FY 2020 General Fund 5-Year Forecast Update

*Presentation to the
Board of County Commissioners*

Multnomah County Budget Office
March 12, 2019
www.multco.us/budget

Agenda

- **Financial Context**
- **Economic Overview**
 - ✓ National Economic Conditions
 - ✓ Oregon & Multnomah County Employment Info
- **FY 2019 Revenue Review**
 - ✓ BIT
 - ✓ Recording Fees
 - ✓ US Marshall Beds
- **FY 2020 General Fund 5-Year Forecast**
 - ✓ FY 2019 Forecast & 5-Year Outlook
 - ✓ COLA
- **FY 2020 One-Time-Only Funds**
- **FY 2019 General Fund Contingency Update**
- **Forecast Risks & Issues**
- **Summary & Questions**



Financial Context

- Some modestly good news, but we still face nearly a \$35 million (5.5%) gap over the next 5-years.
 - ✓ We can cut at a slower rate
- Business Income Tax (BIT) drives forecast changes.
 - ✓ ... And the rate at which we will need to cut (or find additional revenues)
 - ✓ As forecast, 15-years without material decline in the BIT & at long-term trend in FY 2024
- FY 2020 deficit now \$3.6 million vs. \$5.9 million, but known challenges will make gap worse.
- Natural tendency to focus on next-year, but we also need to remain focused on the long-term.

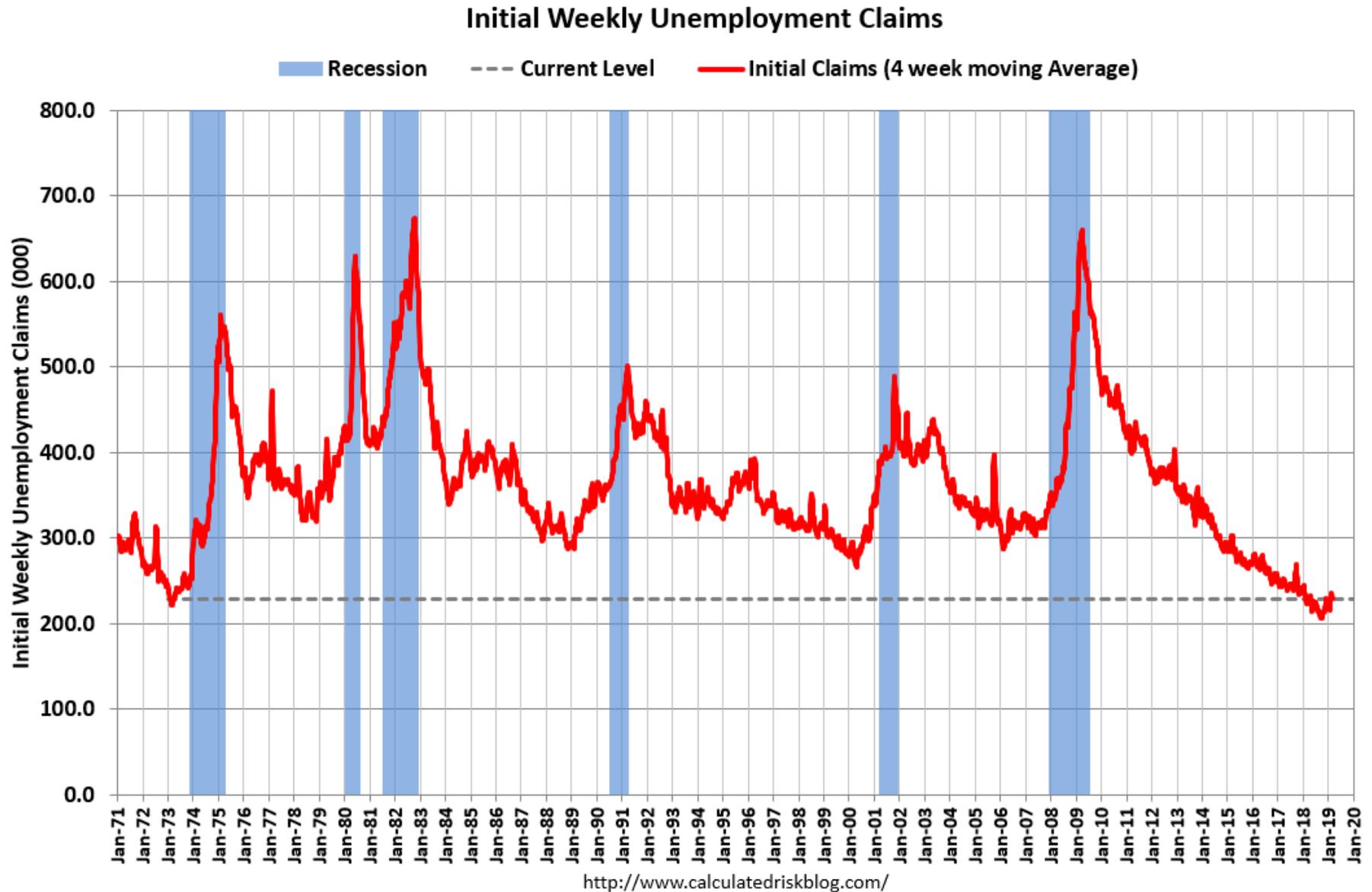


Economic Overview

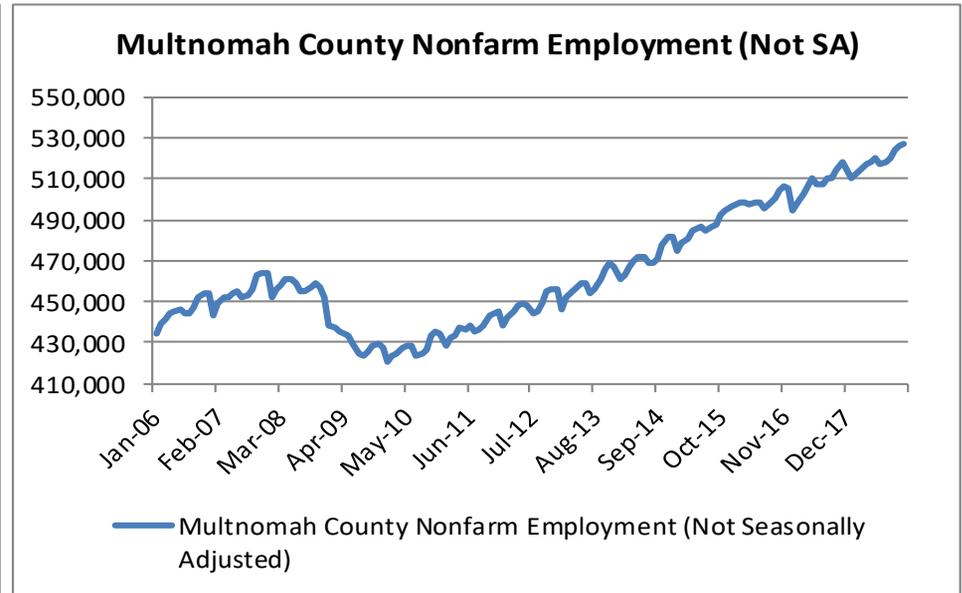
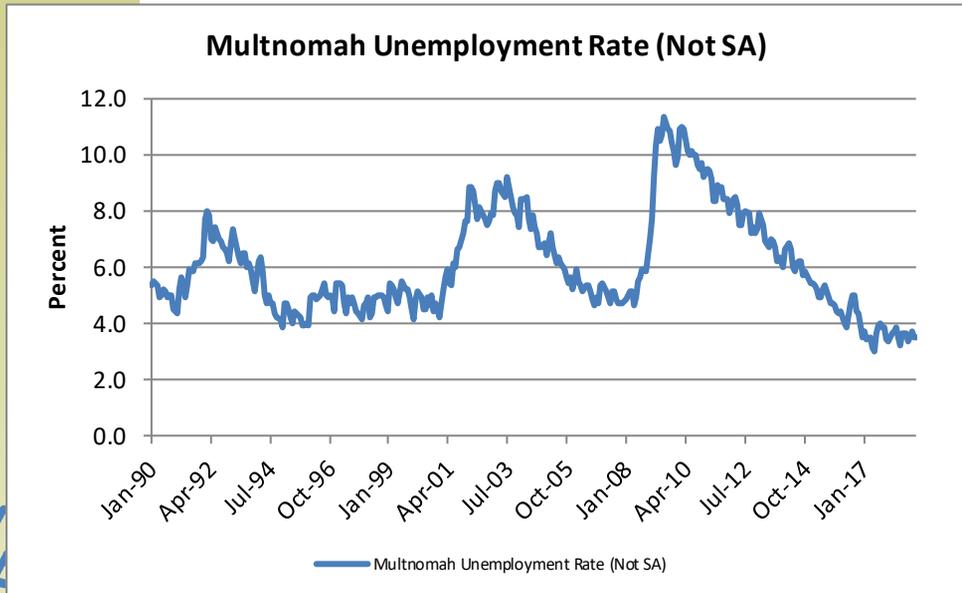
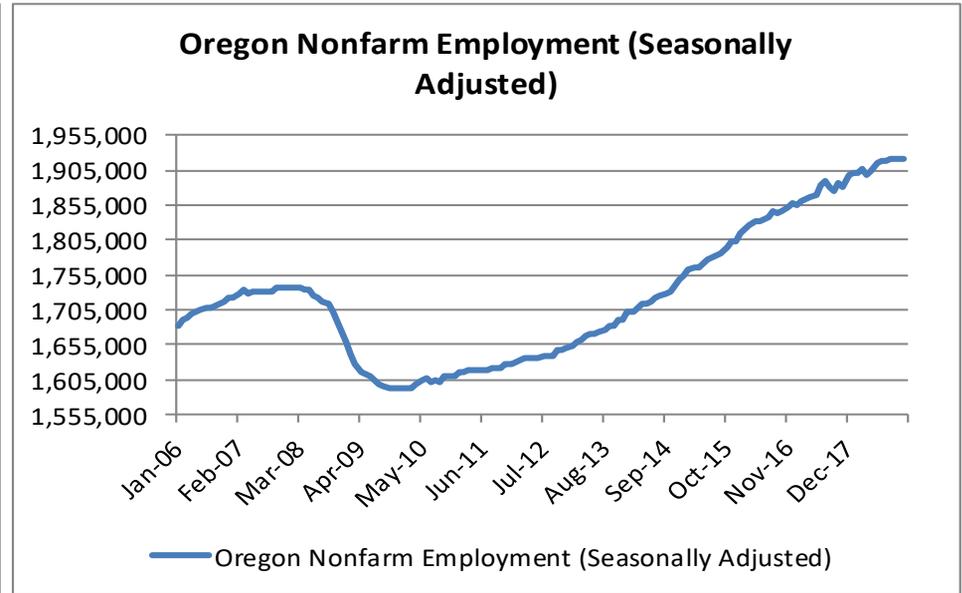
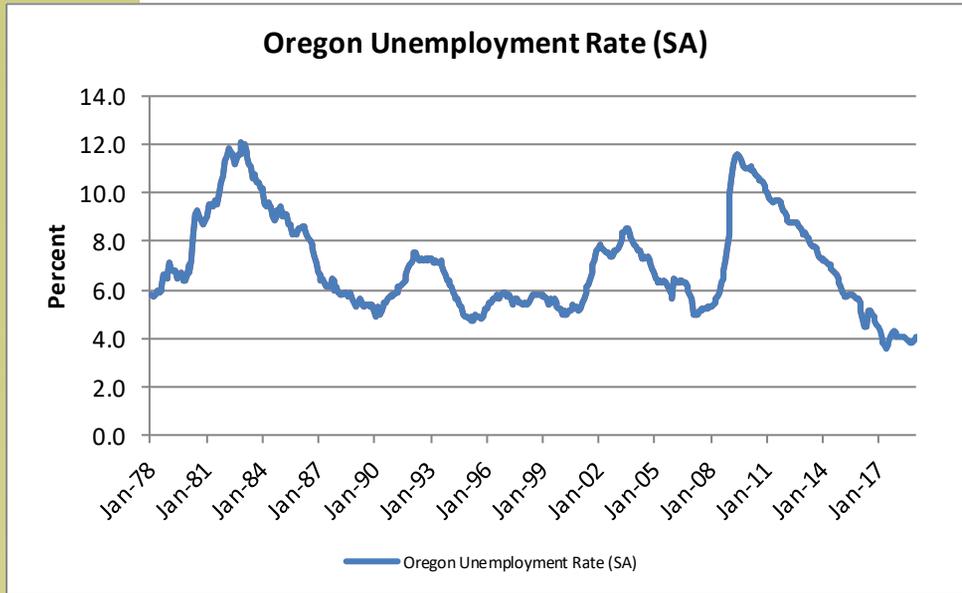
- U.S. growth has been strong, but is slowing.
 - ✓ GDP growth of 4.2%, 3.4%, and 2.6% in the last 3 quarters of 2018
 - ✓ Global growth slowing – China/Europe
- Unemployment rate remains at lowest level in decades.
 - ✓ Oregon employment at record highs, but growth continues to slow
 - ✓ Widespread wage growth and corresponding decrease in poverty and racial/ethnic disparities
- Federal Reserve pausing rate increases is effectively a stimulus.
- Uncertainty
 - ✓ Macroeconomic policy from divided government
 - ✓ Increasing Federal deficit: future cuts/tax increases or constrained recession response



Economic Overview



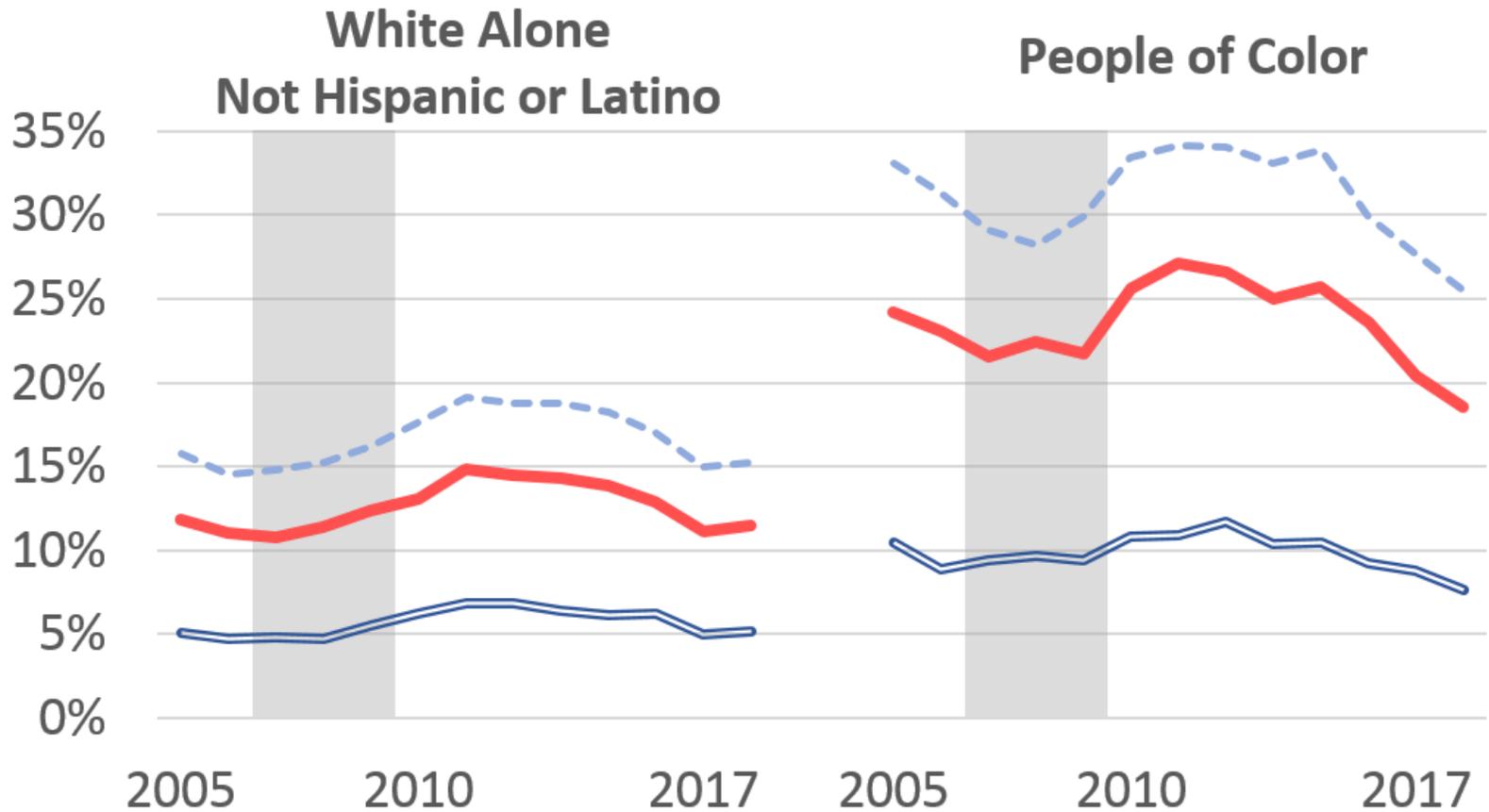
Economic Overview



Economic Overview

Poverty in Oregon

— < 50% Poverty Level — Poverty Rate - - - < 125% Poverty Level

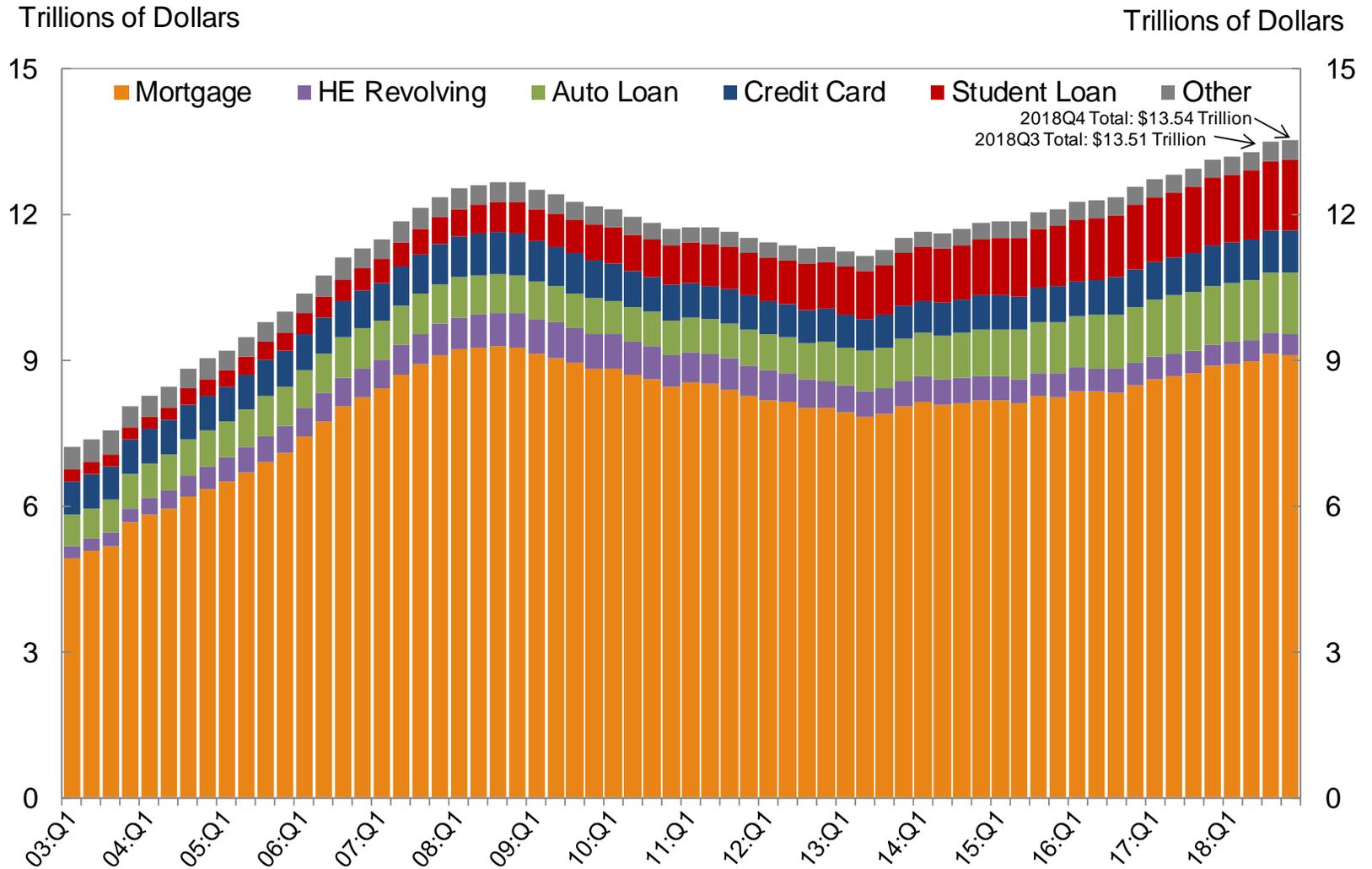


Source: Census, Oregon Office of Economic Analysis



Economic Overview

Total Debt Balance and its Composition



Source: New York Fed Consumer Credit Panel/Equifax



FY 2019 Revenue Review

	Adopted ¹	October Forecast Change	March Forecast Change	May Forecast Change	Net Change From Adopted	Note
Property Taxes	304,223,486	(1,484,528)	0		(1,484,528)	Lower than expected AV Growth
Business Income Taxes	85,000,000	2,500,000	4,000,000		6,500,000	
Motor Vehicle Rental Taxes	30,911,997	0	0		0	
US Marshal/BM 73/BOP	4,265,994	374,548	515,004		889,552	Increased from 85 to 93 to 104 beds. Assumes return to historical levels.
State Shared						
Video Lottery	5,125,000	0	0		0	
Liquor	4,628,569	0	0		0	
Cigarette	668,102	0	0		0	
Marijuana	1,612,683	0	0		0	
Amusement	173,000	0	0		0	
Recording Fees/CAFFA Grant	8,123,854	0	(1,250,000)		(1,250,000)	
Indirect						
Departmental	22,874,140	0	0		0	
Central Indirect/Svc Reimburse	12,640,064	0	0		0	
All Other	31,028,031	0	0		0	
FY 19 Revenue Adjustments ²	511,274,920	1,390,020	3,265,004	0	4,655,024	
% of Revenue		0.27%	0.64%	0.00%	0.91%	

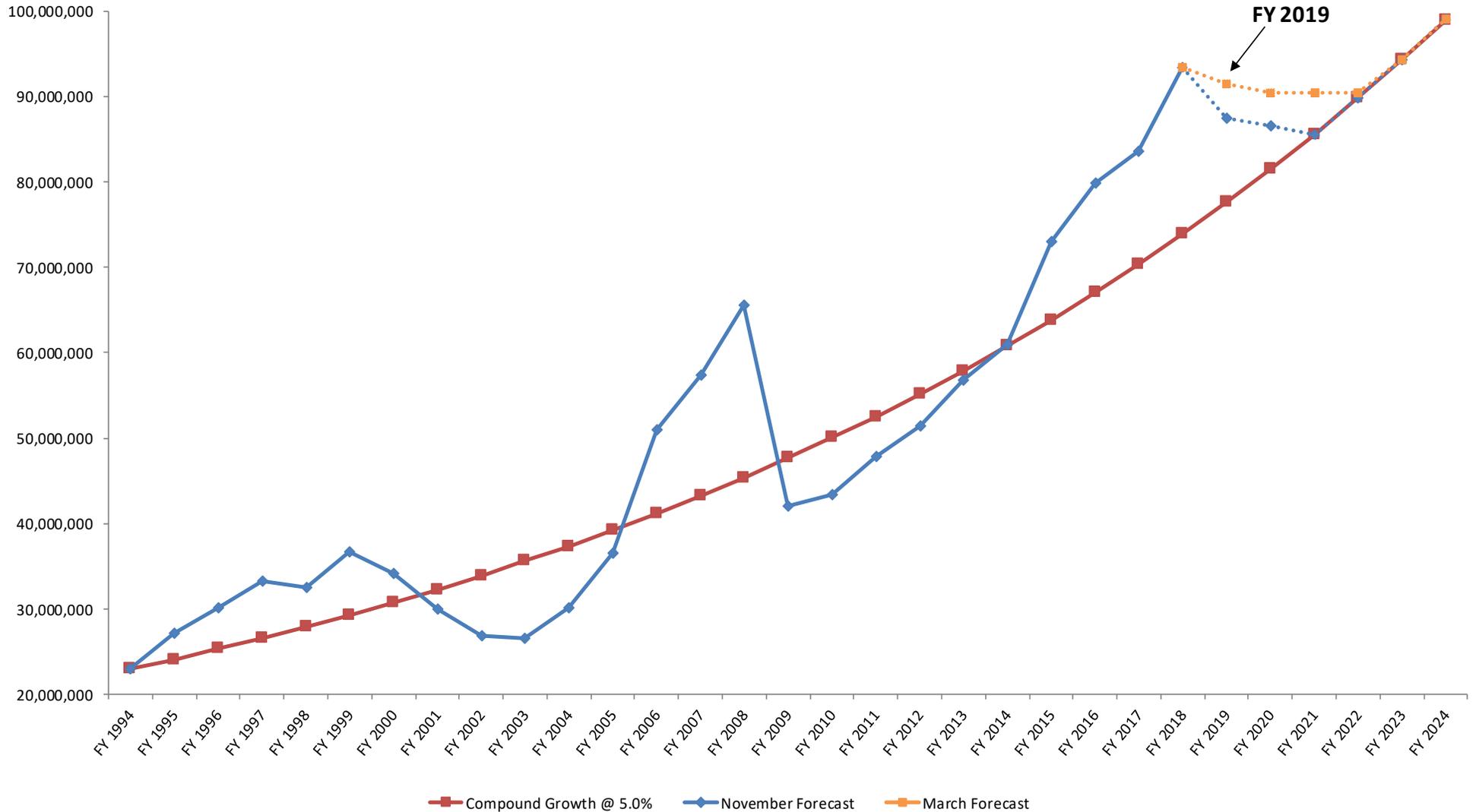
1. Excludes BWC, FQHC wraparound revenues, prospective health payments, and Tax Title: Affordable Housing but includes Video Lottery.

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



FY 2019 Revenue Review

Annual BIT Collections



FY 2019 Revenue Review

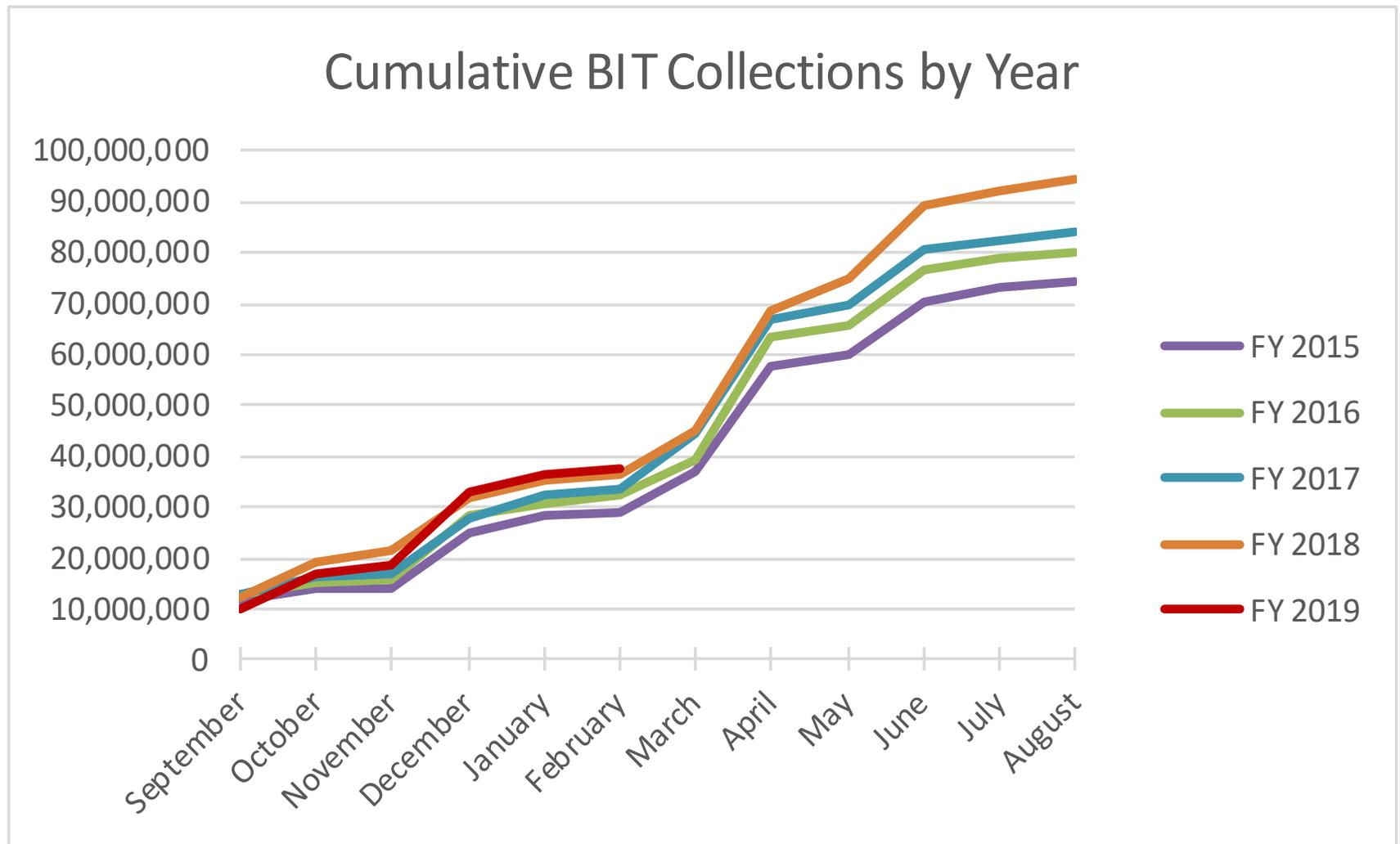
BIT Collections Fiscal Year-to-Date Through February

	FY 15	FY 16	FY 17	FY 18	FY 19	FY 19 vs. FY 18
Quarterly	26,118,461	27,776,338	26,635,050	29,094,191	30,283,572	4.1%
Yearly	5,985,777	7,821,015	10,699,689	10,973,466	10,039,627	-8.5%
Refund/Interest	3,116,127	3,102,498	3,232,861	3,476,202	2,488,580	-28.4%
NSF Check	54,691	169,597	300,963	121,466	173,532	42.9%
Total	28,933,419	32,325,258	33,800,915	36,469,989	37,661,086	3.3%
<i>Actual or Budget</i>	<i>73,825,000</i>	<i>80,710,000</i>	<i>84,450,000</i>	<i>93,400,000</i>	<i>85,000,000</i>	
<i>March Forecast</i>					<i>87,500,000</i>	<i>November Forecast</i>
					<i>91,500,000</i>	<i>March Forecast</i>



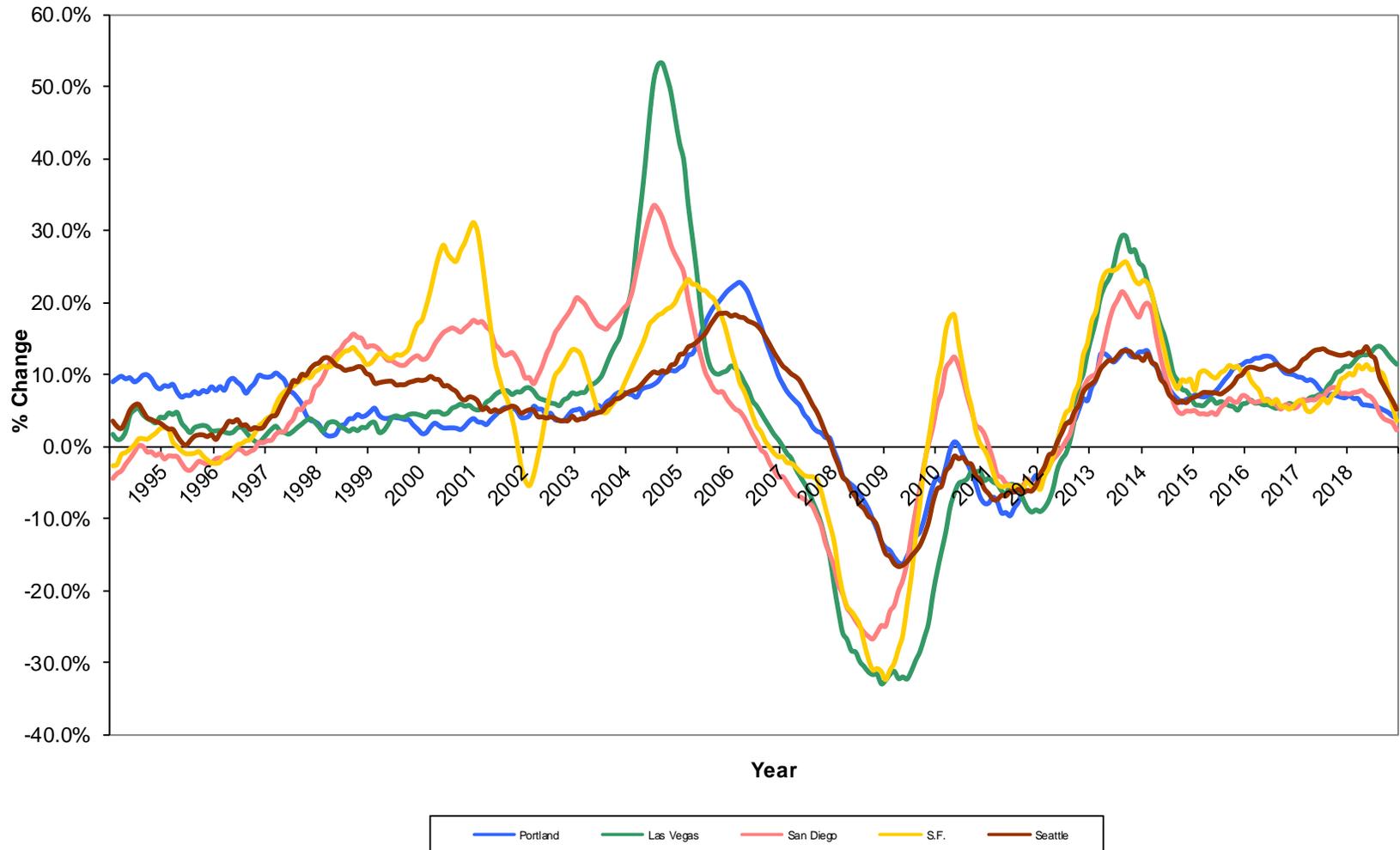
FY 2019 Revenue Review

What will May and June hold?



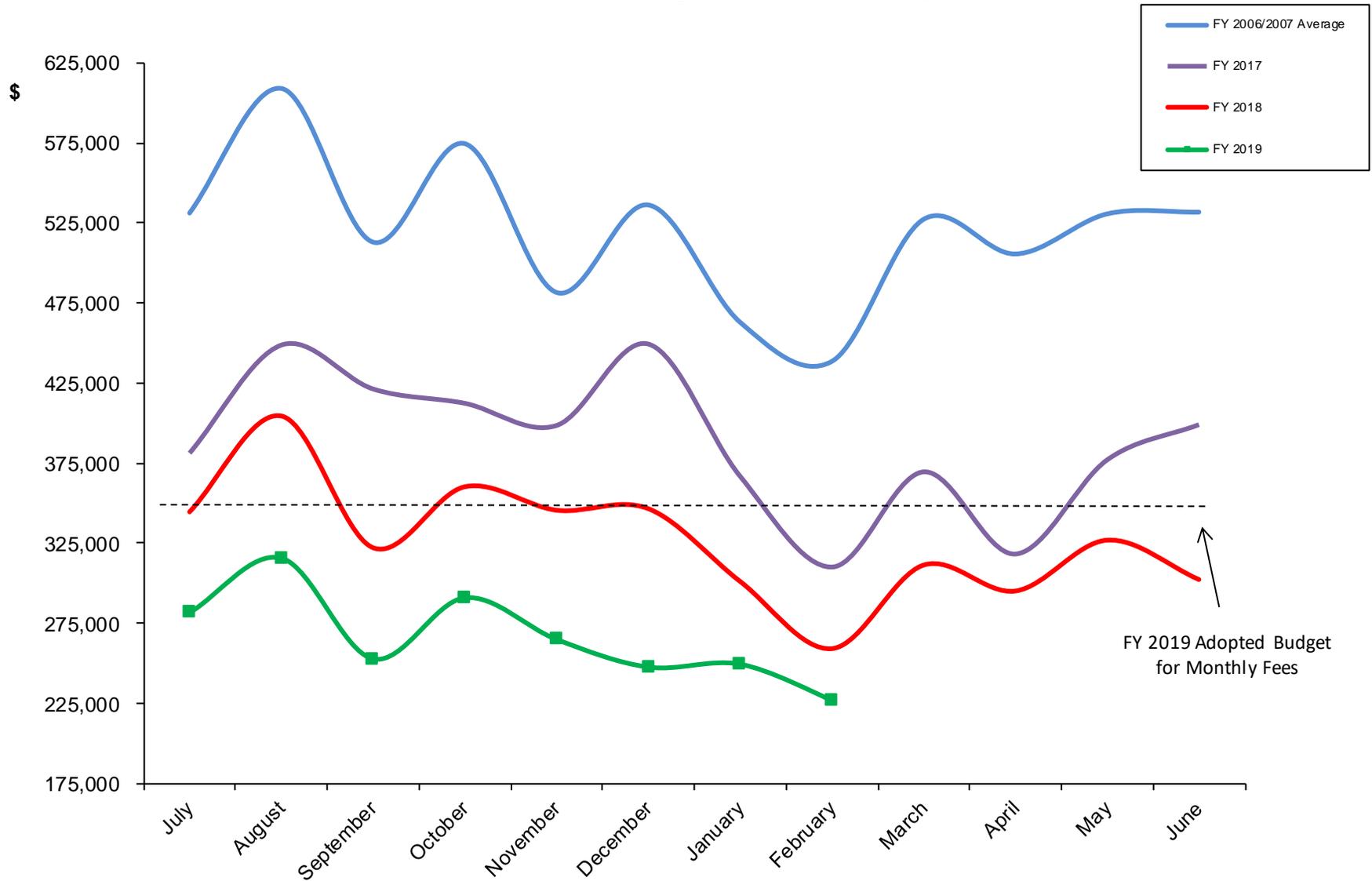
FY 2019 Revenue Review

Monthly Year-Over-Year % Change
Based on S&P/Case-Shiller Home Price Index Thru December 2018



FY 2019 Revenue Review

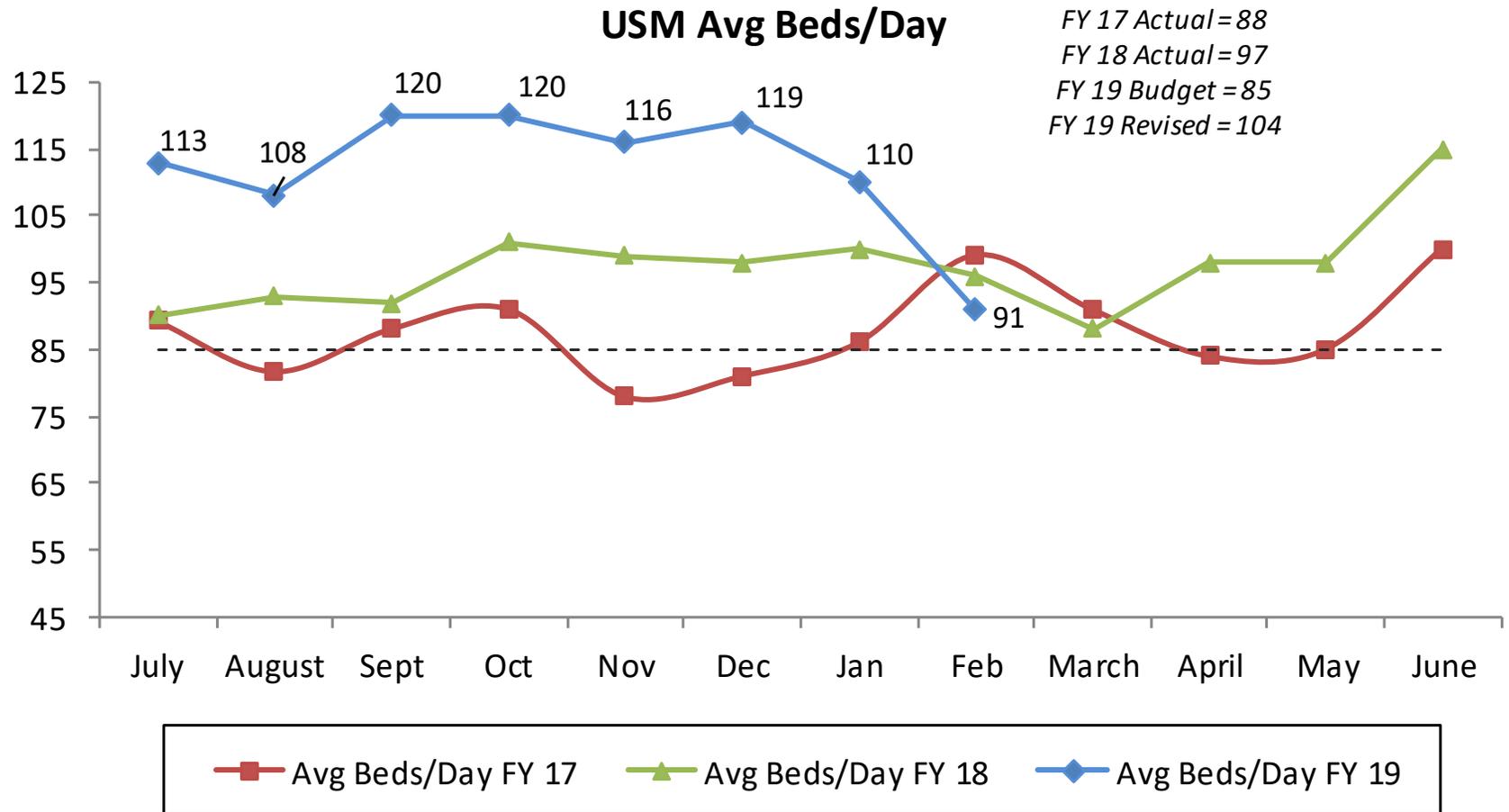
Monthly Recording Fees (Thru February)



FY 2019 Adopted Budget for Monthly Fees



FY 2019 Revenue Review



5-Year General Fund Forecast

- Forecast continues to assume that property values will continue to grow but at a slower rate, and that BIT revenues have peaked for this business cycle, but does not include a recession.
- Significant changes – BIT (adjusted for FY 2020 and FY 2021).
- Forecast continues to show need for \$34 million in reductions, new revenue, or a combination of the two over the next five years.

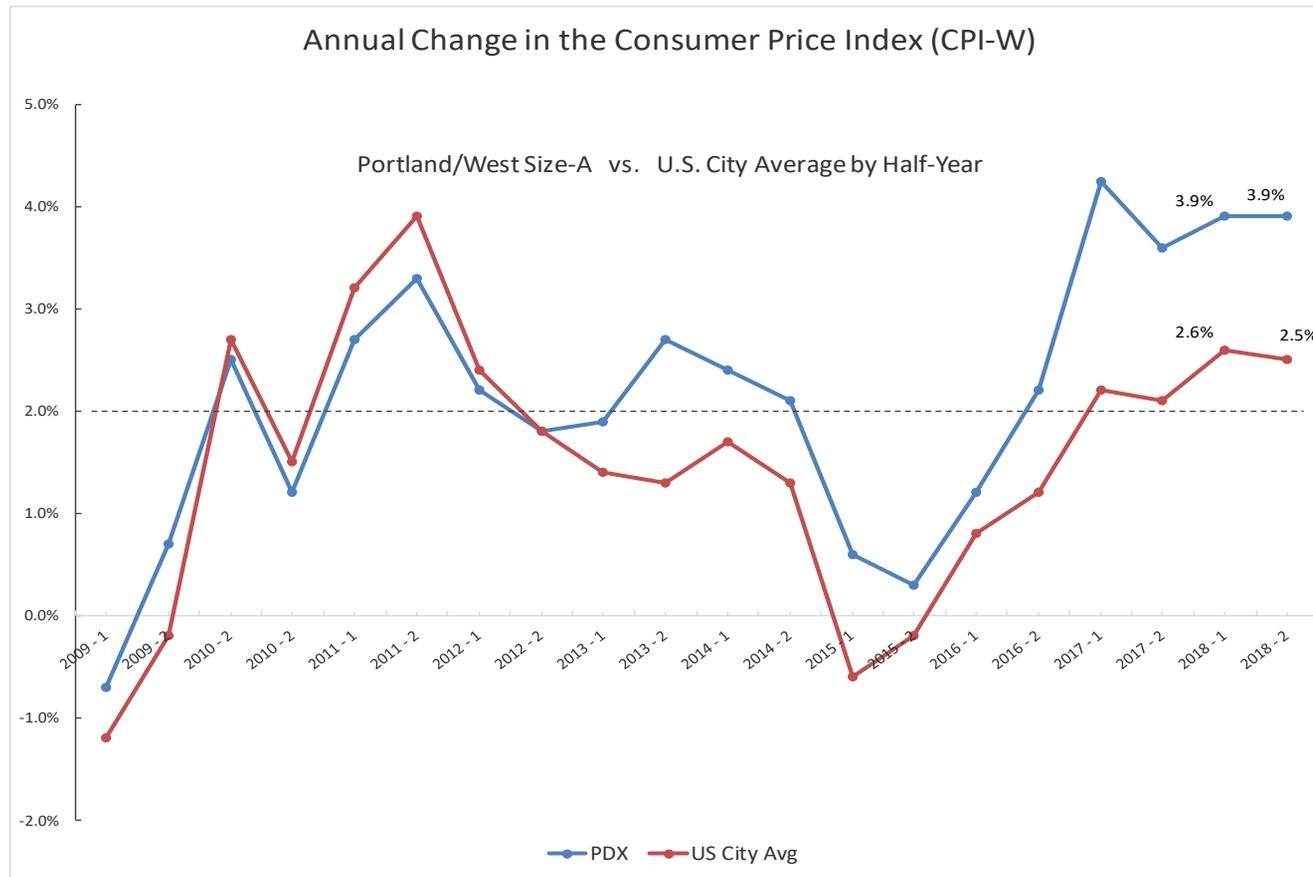
Table 1: Forecasted Ongoing General Fund Expenditures, Revenues, and Balance

	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
Revenues	528,545,649	540,853,560	554,530,597	572,359,889	591,269,432
Expenditures	532,129,294	556,163,229	581,387,409	603,297,134	625,401,784
Surplus/(Deficit)	(3,583,645)	(15,309,669)	(26,856,812)	(30,937,245)	(34,132,352)
<i>Change in Surplus from Prior Year</i>		<i>(11,726,024)</i>	<i>(11,547,143)</i>	<i>(4,080,433)</i>	<i>(3,195,107)</i>
<i>Surplus/(Deficit) is this % of Expenditures</i>	-0.67%	-2.75%	-4.62%	-5.13%	-5.46%

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



5-Year General Fund Forecast



- 2018 Second-Half West Size-A CPI-W rose 3.9% vs. assumed growth of 4.0%
- Cost of Living Adjustment (COLAs) for FY 2020 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 2020	FY 2021	FY 2022	FY 2023	FY 2024
Rev/Exp Gap - November 2018 Forecast	(5,907,395)	(18,815,600)	(26,832,651)	(30,624,677)	(34,132,352)
Changes to Revenues					
Net BIT Adjustment	4,000,000	4,951,912	672,633	0	0
USM	0	0	0	0	0
Recording Fees/CAFFA	(1,276,250)	(950,790)	(629,531)	(312,568)	0
Total Revenue Change	2,723,750	4,001,122	43,102	(312,568)	0
Changes to Expenditures					
BIT Payment to East County Cities	(400,000)	(495,191)	(67,263)	0	0
Labor Costs (PERS/Inflation)					
Total Expenditure Change	(400,000)	(495,191)	(67,263)	0	0
Net Revenue/Expenditure Change	2,323,750	3,505,931	(24,161)	(312,568)	0
Updated Revenue/Expenditure Gap	(3,583,645)	(15,309,669)	(26,856,812)	(30,937,245)	(34,132,352)



5-Year General Fund Forecast

Major General Fund Revenue Sources ¹

	Adopted FY 2019	Forecast FY 2019 ²	Forecast FY 2020	Forecast FY 2021	Forecast FY 2022	Forecast FY 2023	Forecast FY 2024
Property Taxes	304,223,486	302,738,958	312,747,581	322,340,565	332,378,196	343,289,696	354,380,990
Business Income Taxes	85,000,000	91,500,000	90,537,500	90,537,500	90,537,500	94,358,110	99,076,016
Motor Vehicle Rental Taxes	30,911,997	30,911,997	31,530,237	32,160,841	32,804,058	33,460,139	34,129,342
US Marshal (& BM 37)	4,265,994	5,155,546	4,640,542	4,640,542	4,640,542	4,640,542	4,640,542
Recording Fees/CAFFA Grant	8,123,854	6,873,854	7,029,122	7,540,206	8,051,290	8,562,374	9,073,459
State Shared	12,207,354	12,207,354	12,575,183	12,956,774	13,352,654	13,763,368	14,189,435
Indirect & Service Reimbrs.	35,514,204	35,514,204	36,596,635	37,701,261	38,840,115	40,014,262	41,224,800
	480,246,889	484,901,913	495,656,800	507,877,689	520,604,355	538,088,491	556,714,584
% of Total Revenue	93.9%	94.0%	93.7%	93.8%	93.9%	94.0%	94.2%
All Other General Fund	31,028,031	31,028,031	33,288,849	33,471,062	33,993,507	34,271,400	34,554,848
Total	511,274,920	515,929,944	528,945,649	541,348,751	554,597,862	572,359,891	591,269,432
% Change in Ongoing Revenue		0.91%	2.52%	2.34%	2.45%	3.20%	3.30%
AV Growth	4.00%	3.15%	3.50%	3.40%	3.25%	3.25%	3.25%
Compression	3.85%	3.66%	3.66%	3.85%	3.85%	3.85%	3.85%
BIT Growth	0.00%	2.03%	-1.05%	0.00%	0.00%	4.22%	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 2020 OTO Funds

General Fund FY 2019 Beginning Working Capital & FY 2020 OTO ^{1, 2}

Year-End as of February 12, 2019

OTO Funds for FY 2019 per November Forecast	15,907,558
Plus Additional FY 2019 BIT Revenues (March Forecast)	4,000,000
Less Payment to East County Cities	(400,000)
Less Amount to Maintain Reserves @ Policy Level	(800,000)
Plus Additional FY 2019 USM Revenues (March Forecast)	515,004
Less Decrease in FY 2019 Recording Fee/CAFFA Revenue (March Forecast)	<u>(1,250,000)</u>
OTO Funds for FY 2019 per March Forecast	17,972,562
<i>50% Dedicated to County Facility Projects per Board Policy</i>	8,986,281
<i>Remaining 50% to be Allocated</i>	8,986,281
<i>Assumed ERP OTO Support</i>	<u>(1,250,000)</u>
<i>Remaining OTO to be Allocated</i>	7,736,281

1. Assumes the FY 2019 General Fund Contingency is fully spent in FY 2019.

2. Assumes departments fully spend their FY 2019 appropriation.

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



FY 2019 Contingency Update

General Fund Contingency Update

Contingency

General Fund 'Regular' Contingency	1,500,000
Additional Contingency	16,375

Earmarked Contingency

Earmark - Municipal Broadband Feasibility Study	150,000	
Earmark - Counterpoint Outpatient Program	0	Earmark Released 9/27/2018
Earmark - Legal Services for Employment and Housing Barriers	0	Earmark Released 9/20/2018
Total General Fund Contingency	1,666,375	

BIT Reserve @ 10% (in General Fund Contingency)	8,500,000
Total General Fund Contingency	10,166,375

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 2020



Forecast Risks, Uncertainties & Issues

- Wage pressures – inflation and PERS
- State Legislative session
- Construction/Development cycle changes
 - ✓ AV growth
 - ✓ BIT revenues

- A confluence of risks, uncertainties, and issues
 - ✓ Timing of next recession
 - ✓ PERS
 - ✓ Inflation and monetary policy changes
 - ✓ Structural deficit



Summary

- FY 2019 General Fund revenue forecast increased \$3.3 million (0.64%)
- FY 2019 General Fund contingency balance of \$1.5 million (unallocated)
- Deficit of \$3.6 million forecast for FY 2020.
 - ✓ Deficit grows to \$34.1 million by FY 2024
 - ✓ \$30 to \$35 million of new revenue or program reductions needed over next 5-years
- FY 2020 General Fund one-time-only resources of \$18.0 million.
 - ✓ \$9.0 million for facility projects (per Board policy)
 - ✓ \$7.7 million to be allocated (after adjusting for OTO ERP Support)
- Major risks, uncertainties, and issues include:
 - ✓ Inflation and PERS
 - ✓ Recession timing

