



FY 2021 General Fund 5-Year Forecast

*Presentation to the
Board of County Commissioners*

Multnomah County Budget Office
November 7, 2019
www.multco.us/budget

Agenda

- **Financial Context**
- **Economic Overview**
 - ✓ Risk of Recession
 - ✓ National Economic Conditions
 - ✓ Oregon & Multnomah County Employment Info
- **FY 2020 Revenue Review**
 - ✓ Property Tax
 - ✓ BIT
 - ✓ MVRT
- **FY 2021 General Fund 5-Year Forecast**
 - ✓ FY 2021 Forecast & 5-Year Outlook
 - ✓ Expenditure Assumptions – Cost Drivers, PERS, Etc.,
- **FY 2021 One-Time-Only Funds**
- **FY 2020 General Fund Contingency Update**
- **Forecast Risks & Issues**
- **Summary & Questions**



Financial Context

- **General Fund Structural Deficit Remains, but...**
 - ✓ PERS (SB 1049) = Lower costs in near to mid-term
 - ✓ Modestly higher Assessed Value (AV) growth
- **Yet, FY 2021 Personnel Cost Growth will be 5.19% vs. Property Tax Growth of 3.85%**
- **'Saving' Additional BIT to Reduce Deficit Buffers \$6.6 million in Cuts**
 - ✓ Would have total reductions likely exceeding \$10 million
 - ✓ This only buffers FY 2021 and FY 2022
- **BIT Subject to (even) More Volatility**
 - ✓ Very small # of payers make-up large percentage of payments
 - ✓ Continue to see extraordinary payments
- **Deficit Grows from \$3.2 million to \$21.7 million by FY 2025**
 - ✓ Assumes slower revenue growth but not a recession



Financial Context – Good news, but...

- Federal Reserve has cut interest rates 3 times since Aug.
- Bank of America will raise its minimum wage from \$17 to \$20 an hour early next year, more than a year sooner than previously announced.

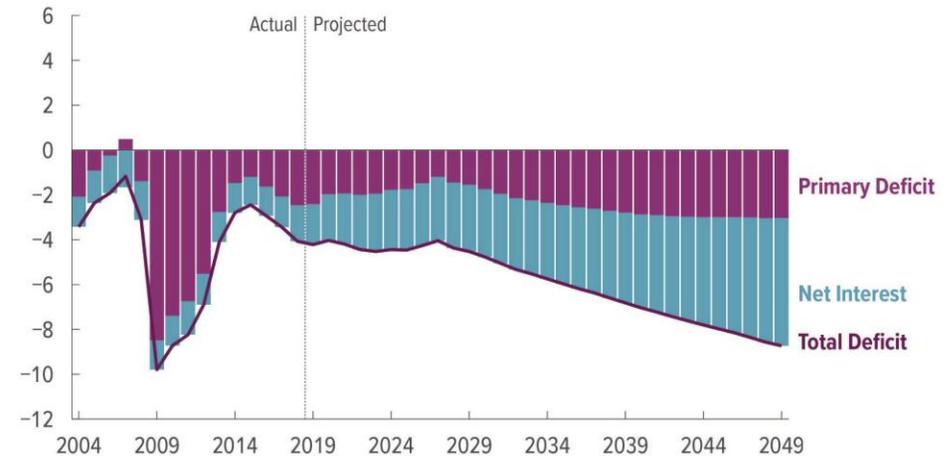
– *Bloomberg News, Nov. 4th*

- Salem-Keizer’s school district is “about 35 bus drivers short” and is “bad enough that the district soon may not be able to get some students to school.”

– *Salem Reporter, October 25th*

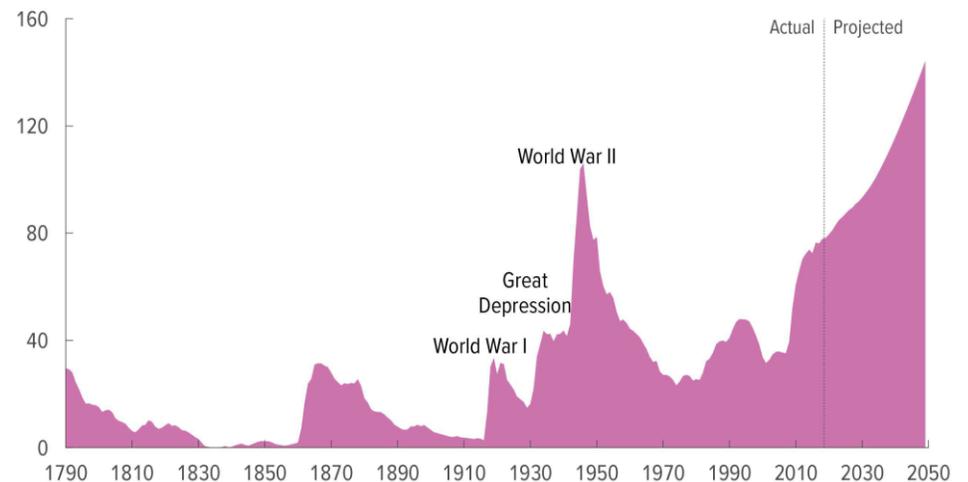
Percentage of Gross Domestic Product

Federal Deficit



Percentage of Gross Domestic Product

Federal Debt

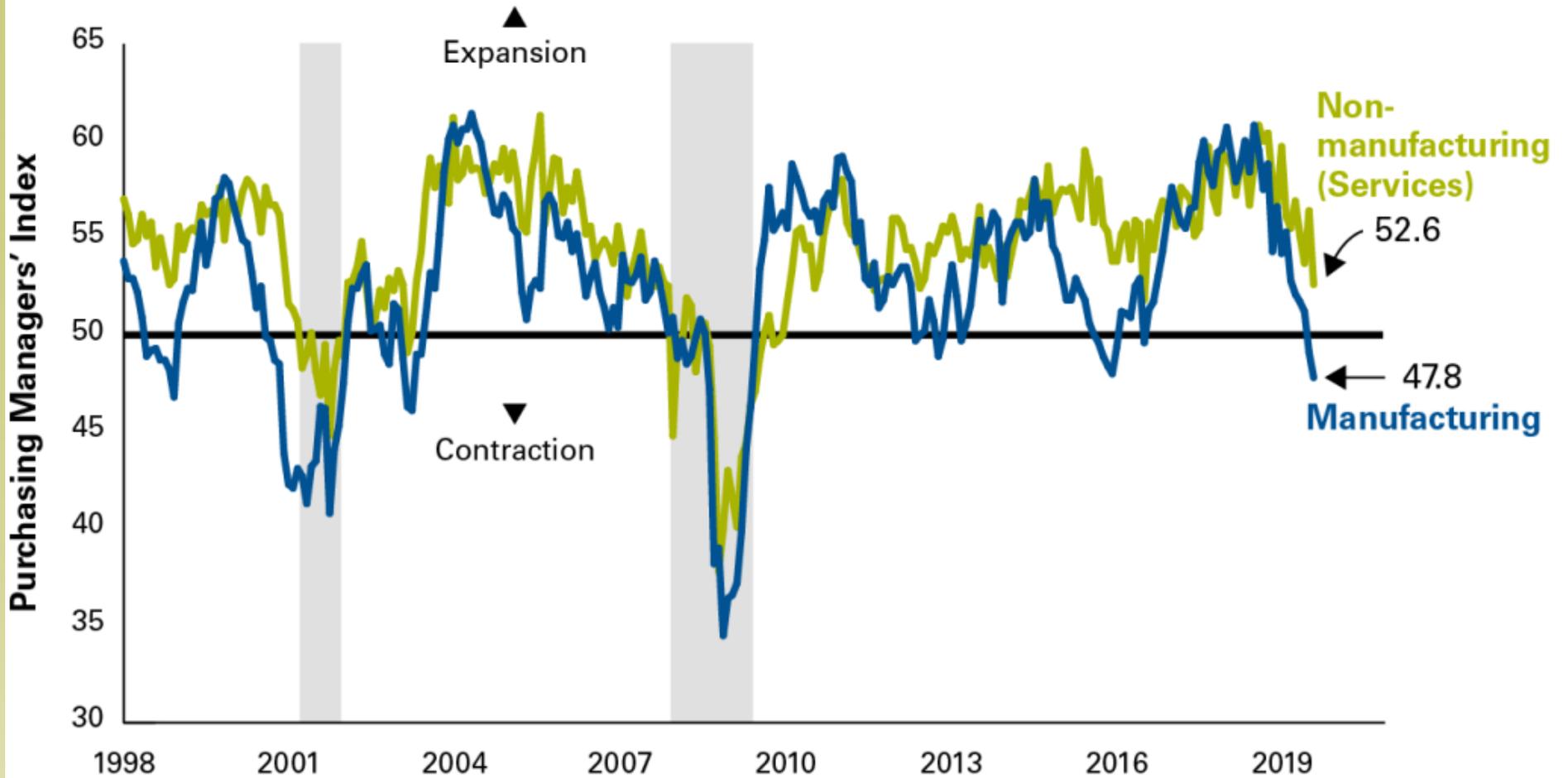


Economic Overview

- U.S. growth continues, even as other economies experience significant slowing.
 - ✓ GDP growth of 3.1%, 2.0%, and 1.9% in the first 3 quarters of 2019.
- Unemployment rate remains low, but employment growth slowing.
 - ✓ Low unemployment and resulting consumer confidence maintaining economic growth
 - ✓ Wage growth continues
- Inverted yield curve (but dissipating); weak manufacturing, but service sector remains positive
- Uncertainty
 - ✓ Federal deficit: future cuts/tax increases or constrained recession response
 - ✓ Immigration policy changes (and workforce implications)
 - ✓ Fed Policy
 - ✓ Regulatory changes and 2020 Election



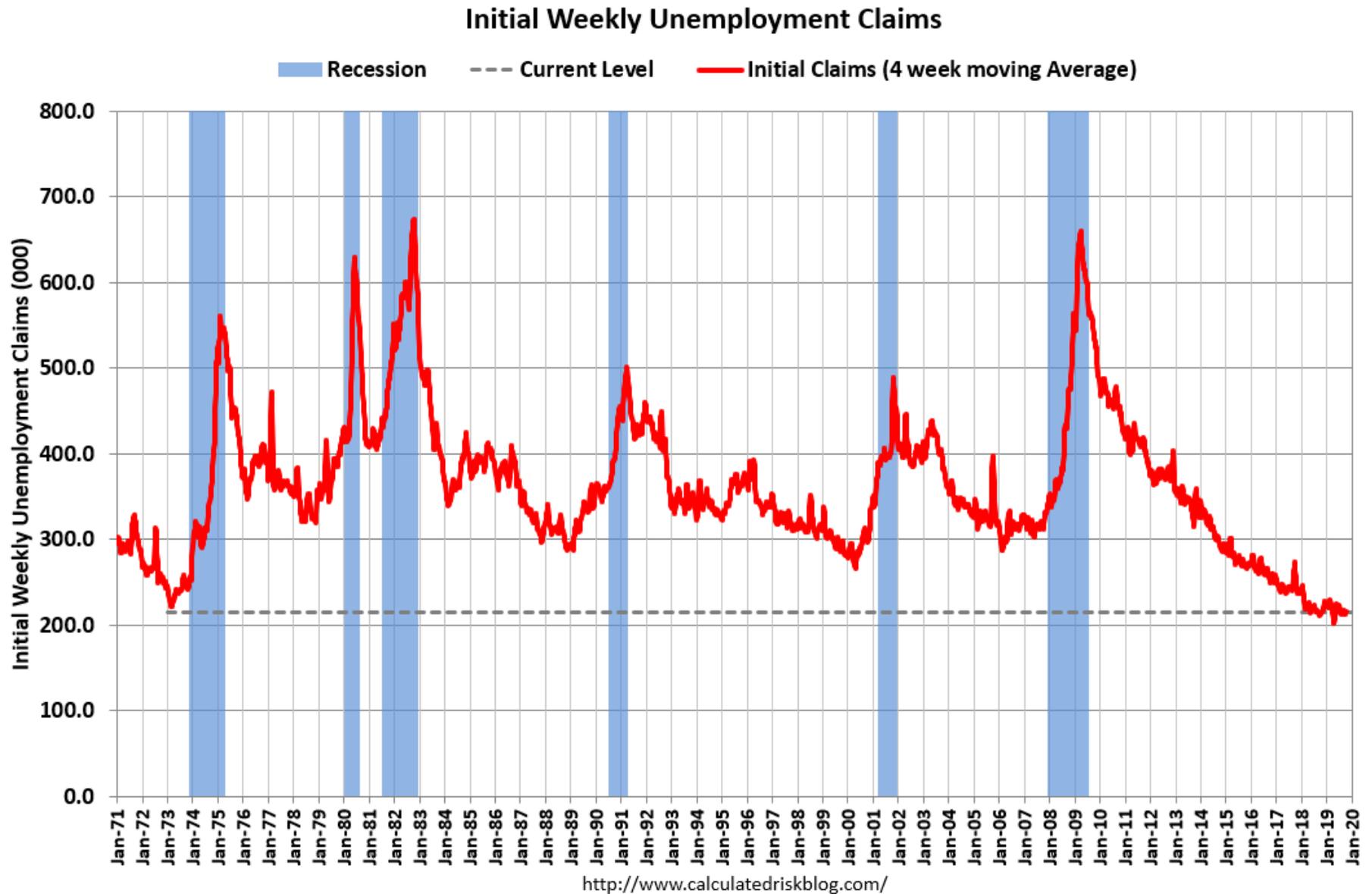
Economic Overview



Source: Vanguard, Institute for Supply Management



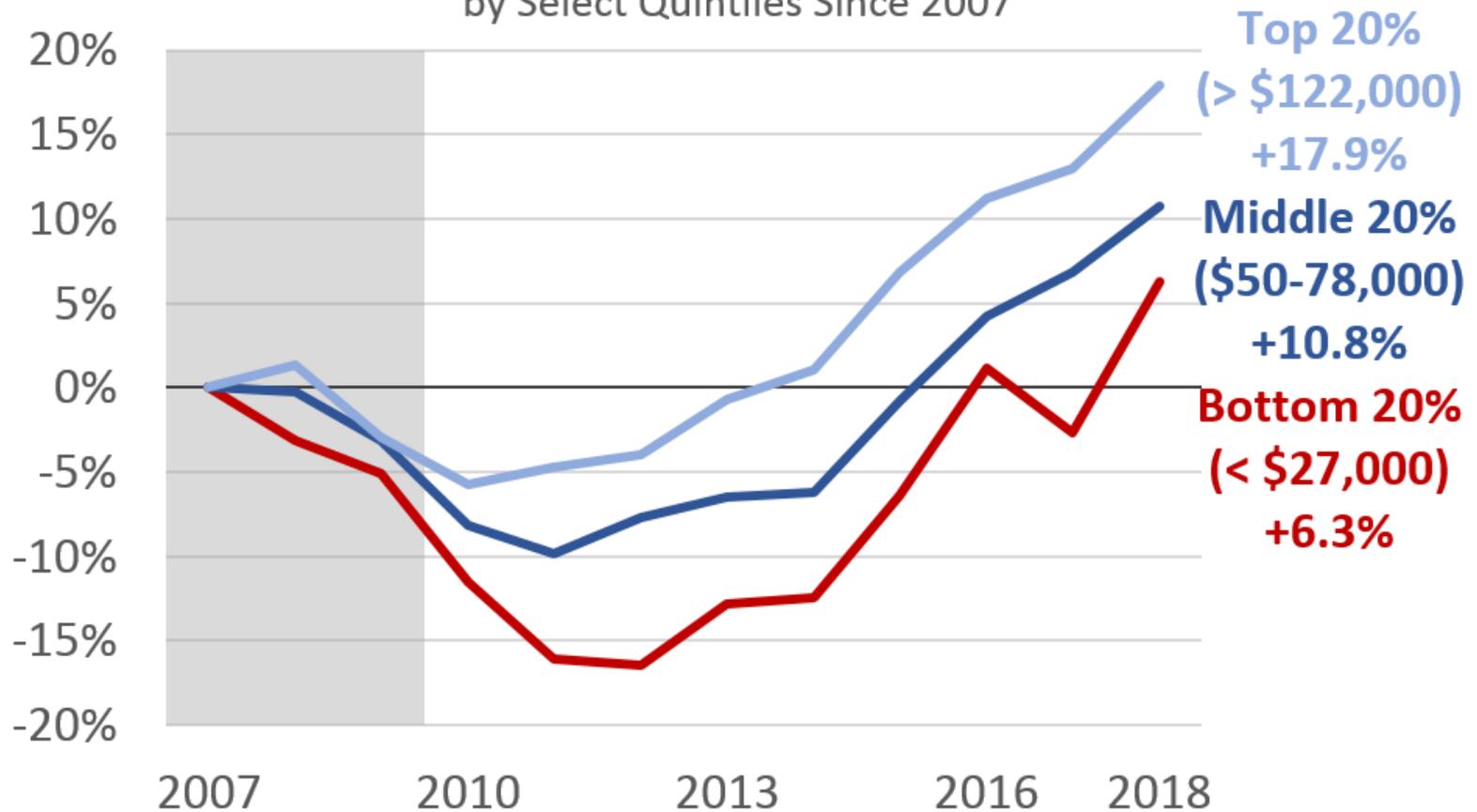
Economic Overview



Economic Overview

Oregon Household Incomes Rising

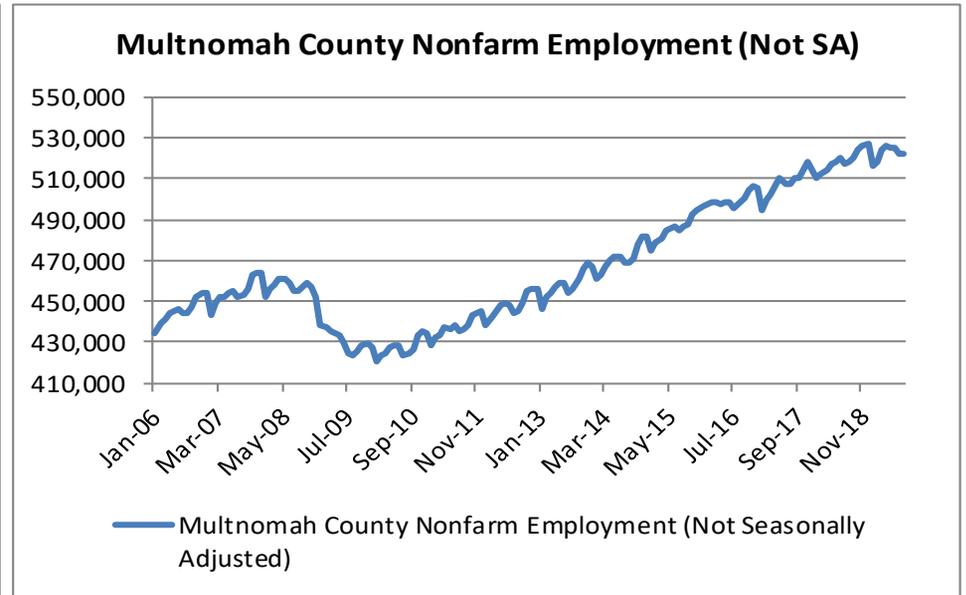
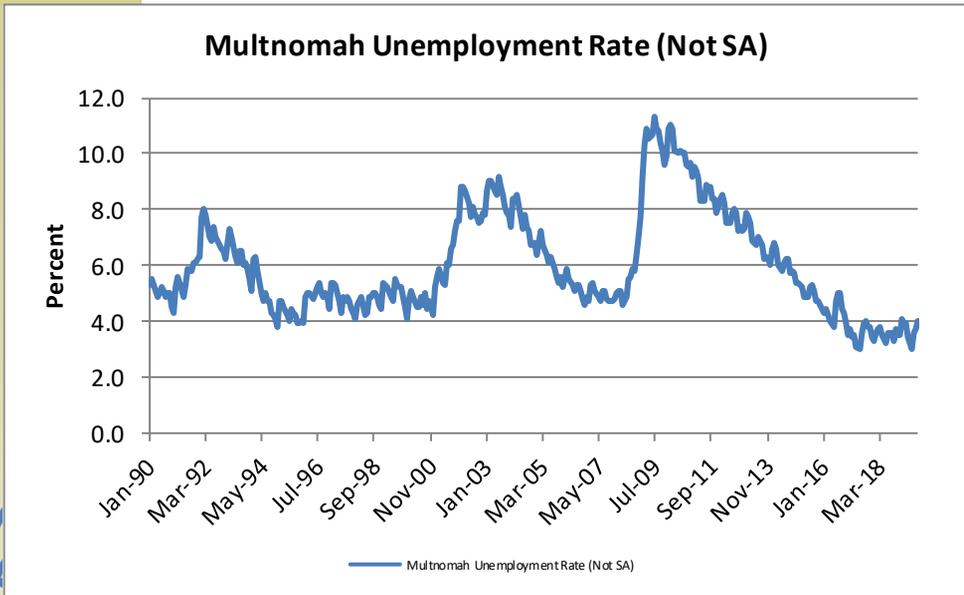
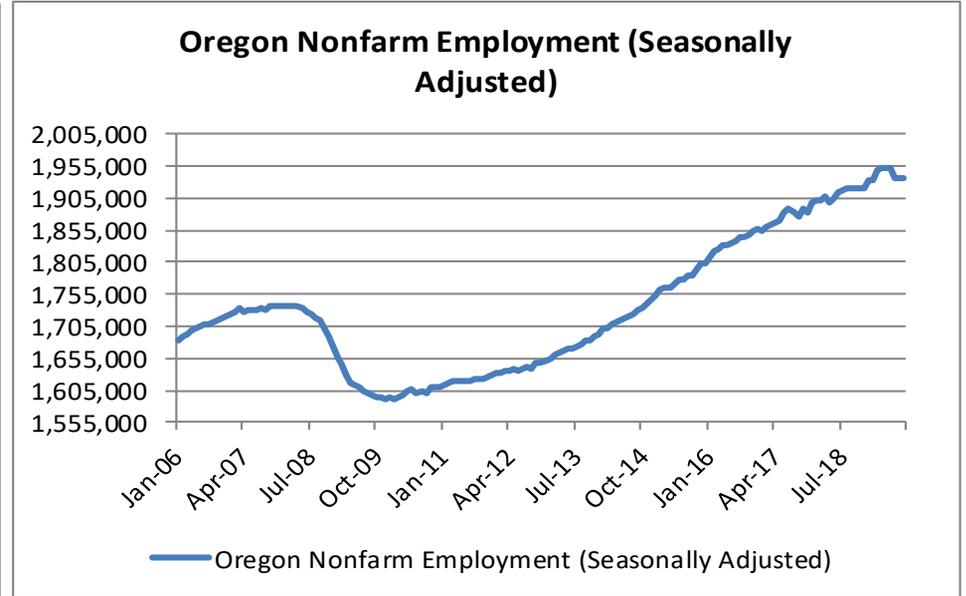
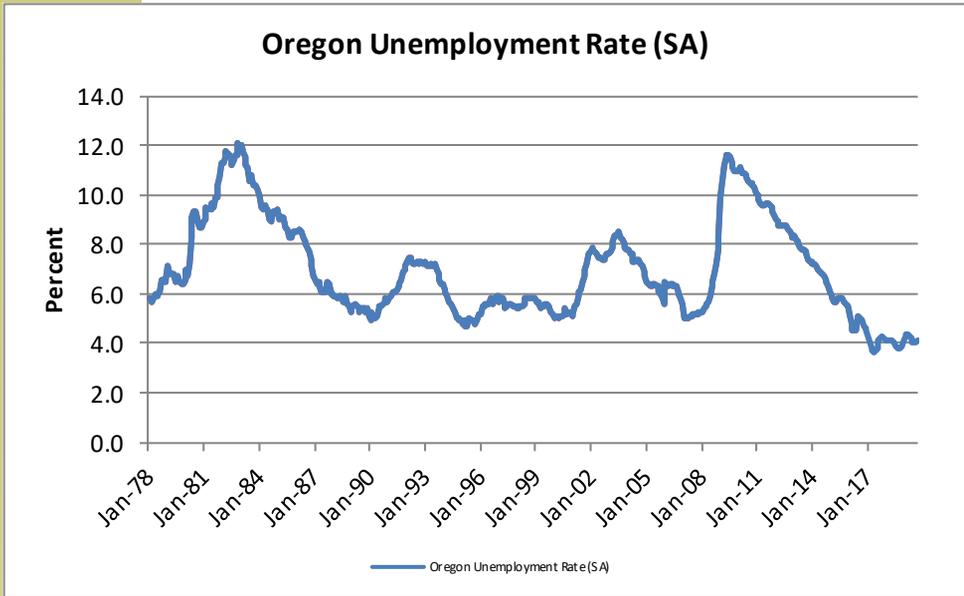
Inflation-Adjusted Change in Average Household Income
by Select Quintiles Since 2007



Inflation adjusted using PCE deflator. | Source: BEA, Census, Oregon Office of Economic Analysis



Economic Overview



FY 2020 Revenue Review

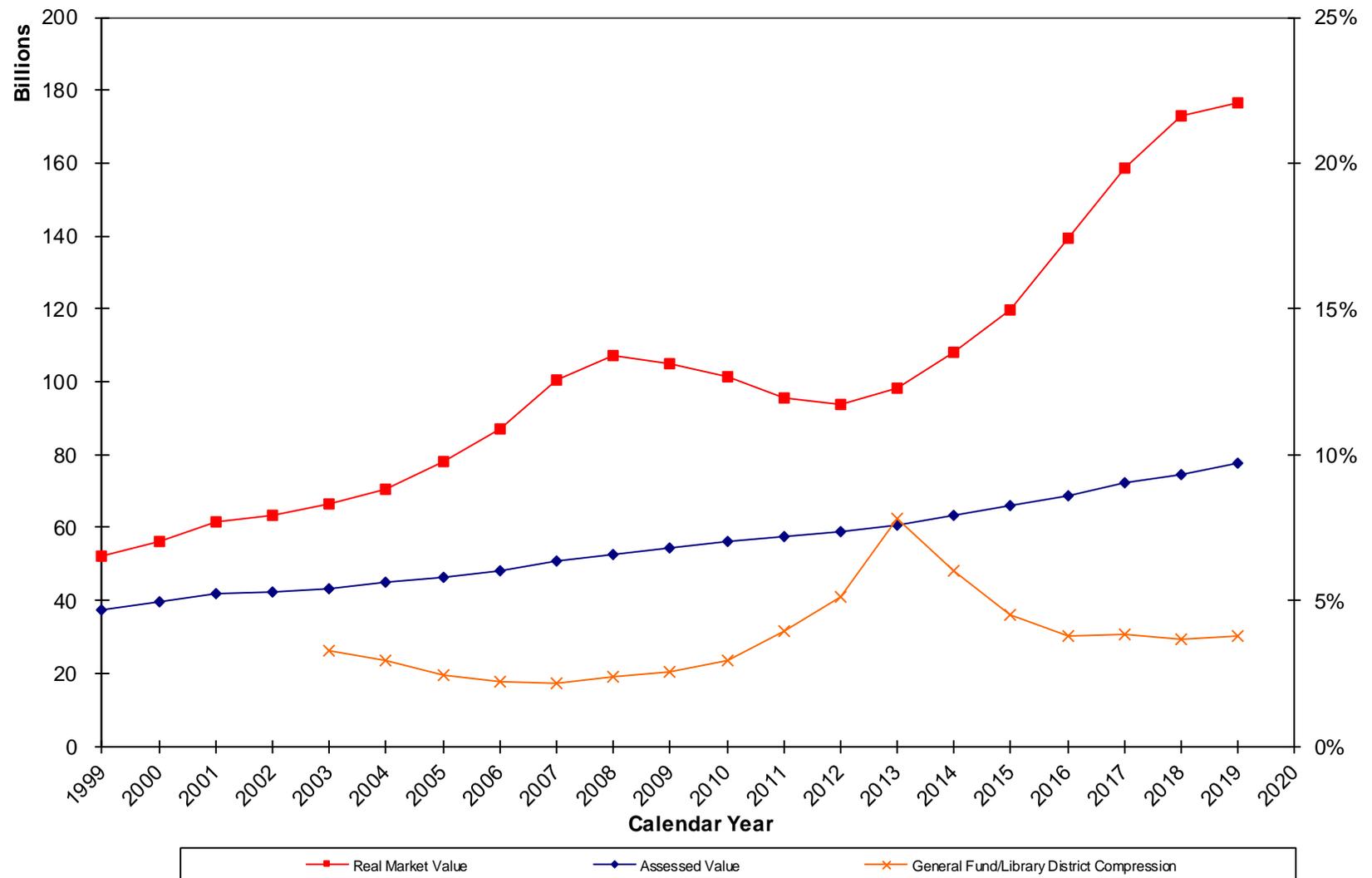
FY 2020 Revenue Review

	Adopted ¹	October Forecast Change	March Forecast Change	May Forecast Change	Net Change From Adopted	Note
Property Taxes	312,832,471	989,177			989,177	Higher AV Growth partially offset by higher compression.
Business Income Taxes	96,537,500				0	
Motor Vehicle Rental Taxes	31,530,237	469,763			469,763	
US Marshal/BM 73/BOP	5,120,560	769,901			769,901	Higher USM daily rate (\$185 starting in October vs. \$140 assumed) and reduction from 93 to 90 beds.
State Shared						
Video Lottery	5,253,125	0			0	
Liquor	4,836,855	0			0	
Cigarette	658,080	0			0	
Marijuana	1,654,123	345,877			345,877	Higher sales and stabilized Multnomah County Share
Amusement	173,000	0			0	
Recording Fees/CAFFA Grant	7,029,122	(177,108)			(177,108)	
Indirect						
Departmental	23,271,751	0			0	
Central Indirect/Svc Reimburse	13,324,884	0			0	
All Other	34,326,502	(1,000,000)			(1,000,000)	Reduction in Interest Earnings
FY 20 Revenue Adjustments ²	536,548,210	1,397,610	0	0	1,397,610	
% of Revenue		0.26%	0.00%	0.00%	0.26%	



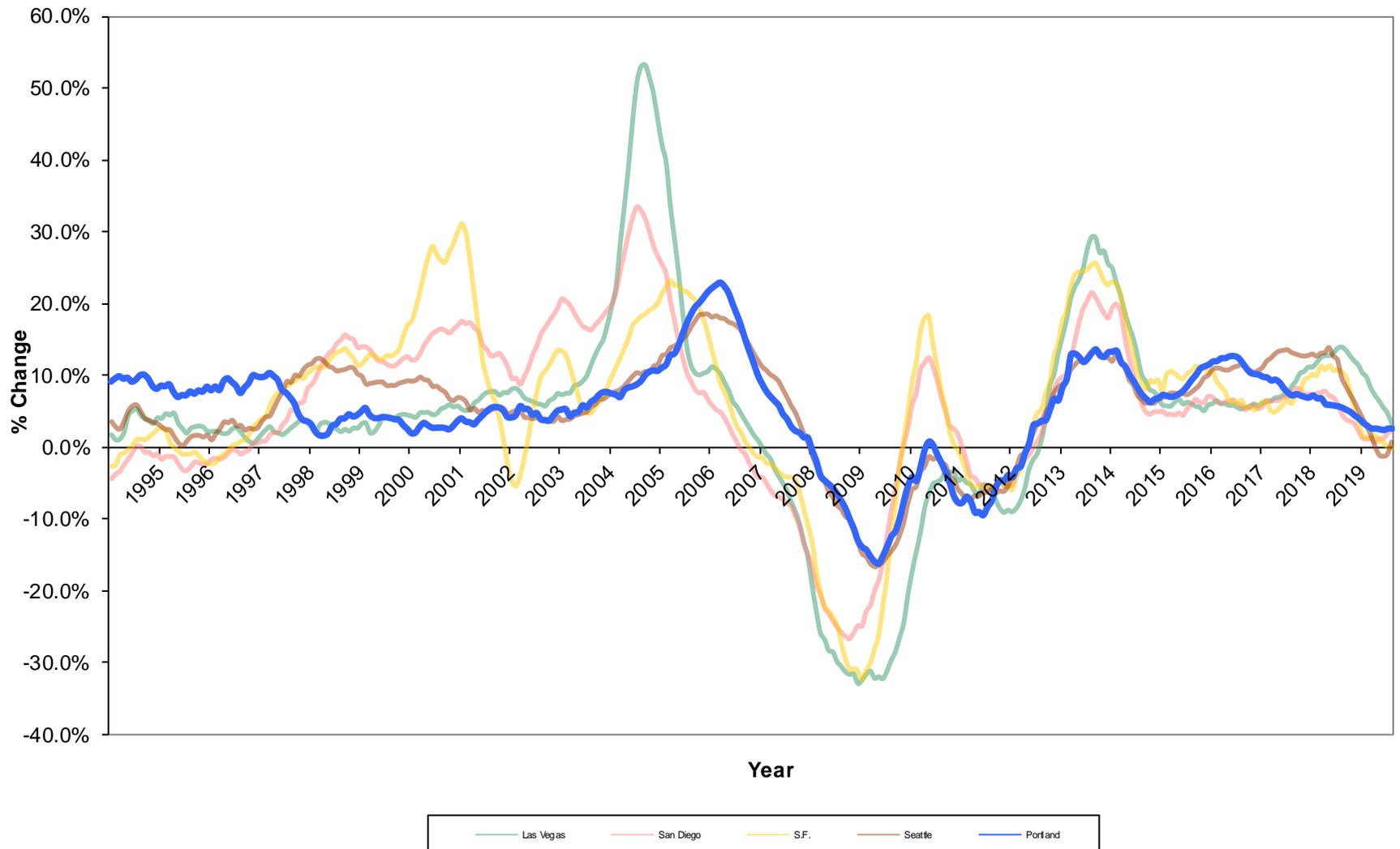
FY 2020 Revenue Review

Multnomah County Assessed Value, Real Market Value, and Compression



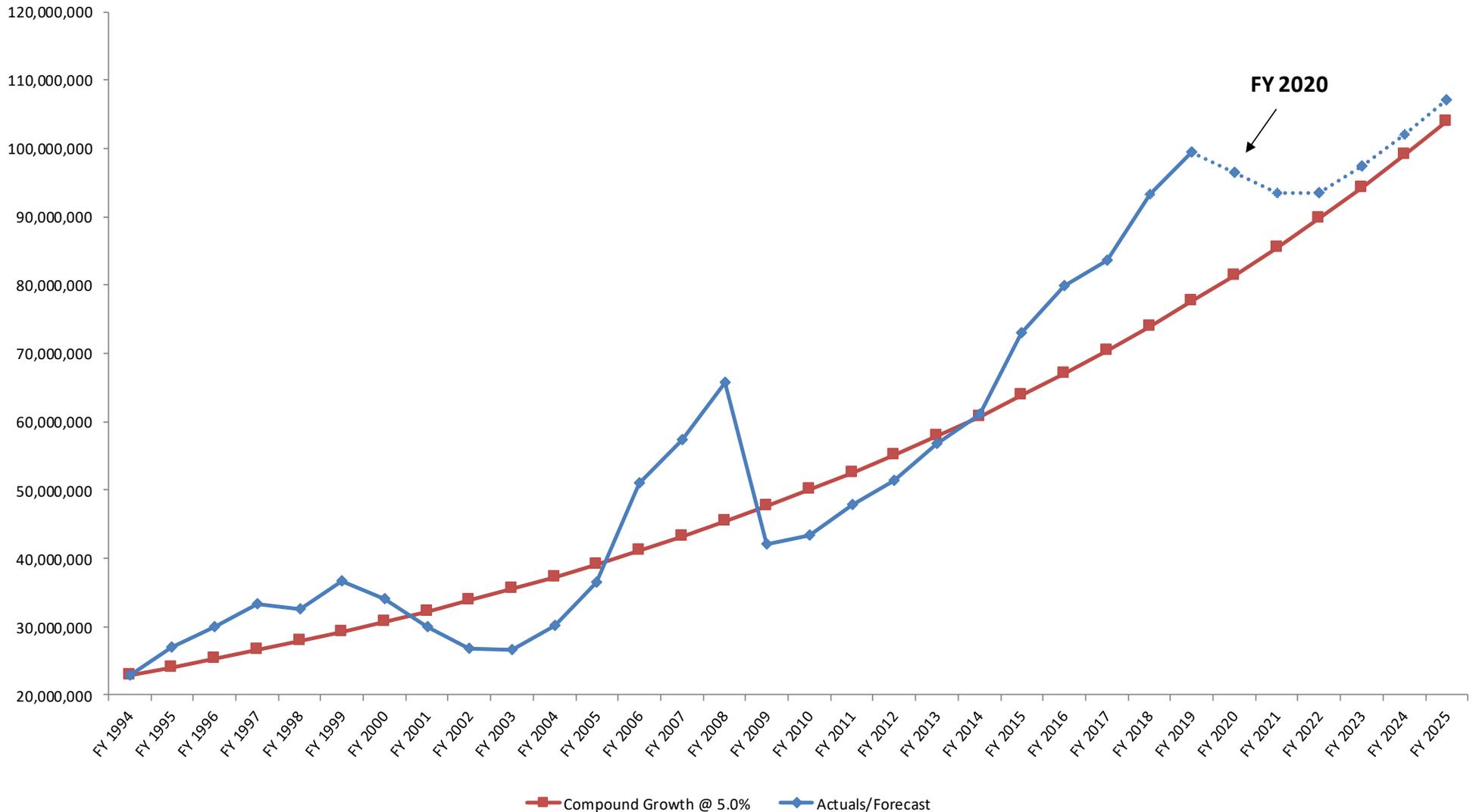
Economic Overview

Monthly Year-Over-Year % Change
Based on S&P/Case-Shiller Home Price Index Thru August 2019



FY 2020 Revenue Review

Annual BIT Collections



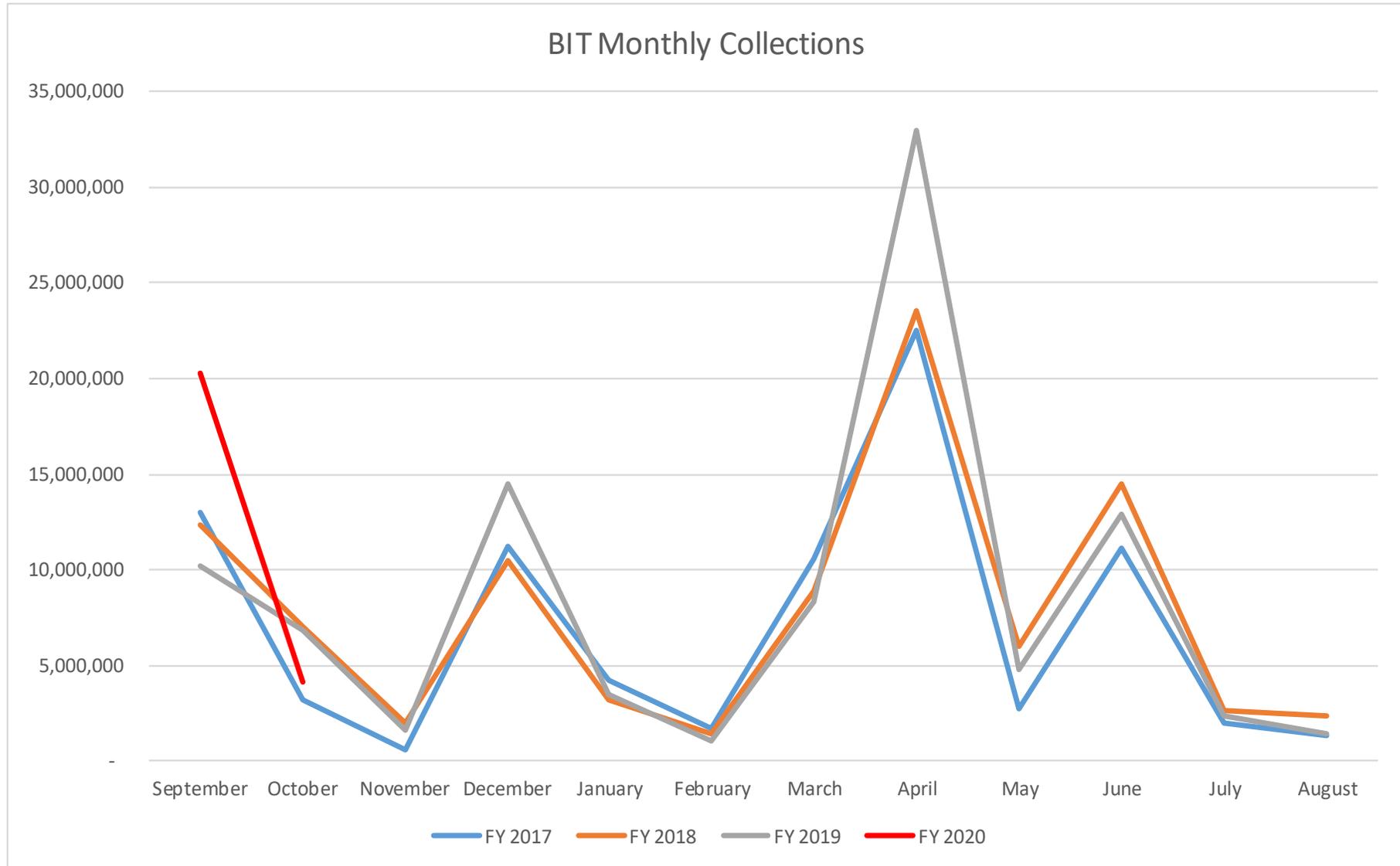
FY 2020 Revenue Review

BIT Collections Fiscal Year-to-Date Through October

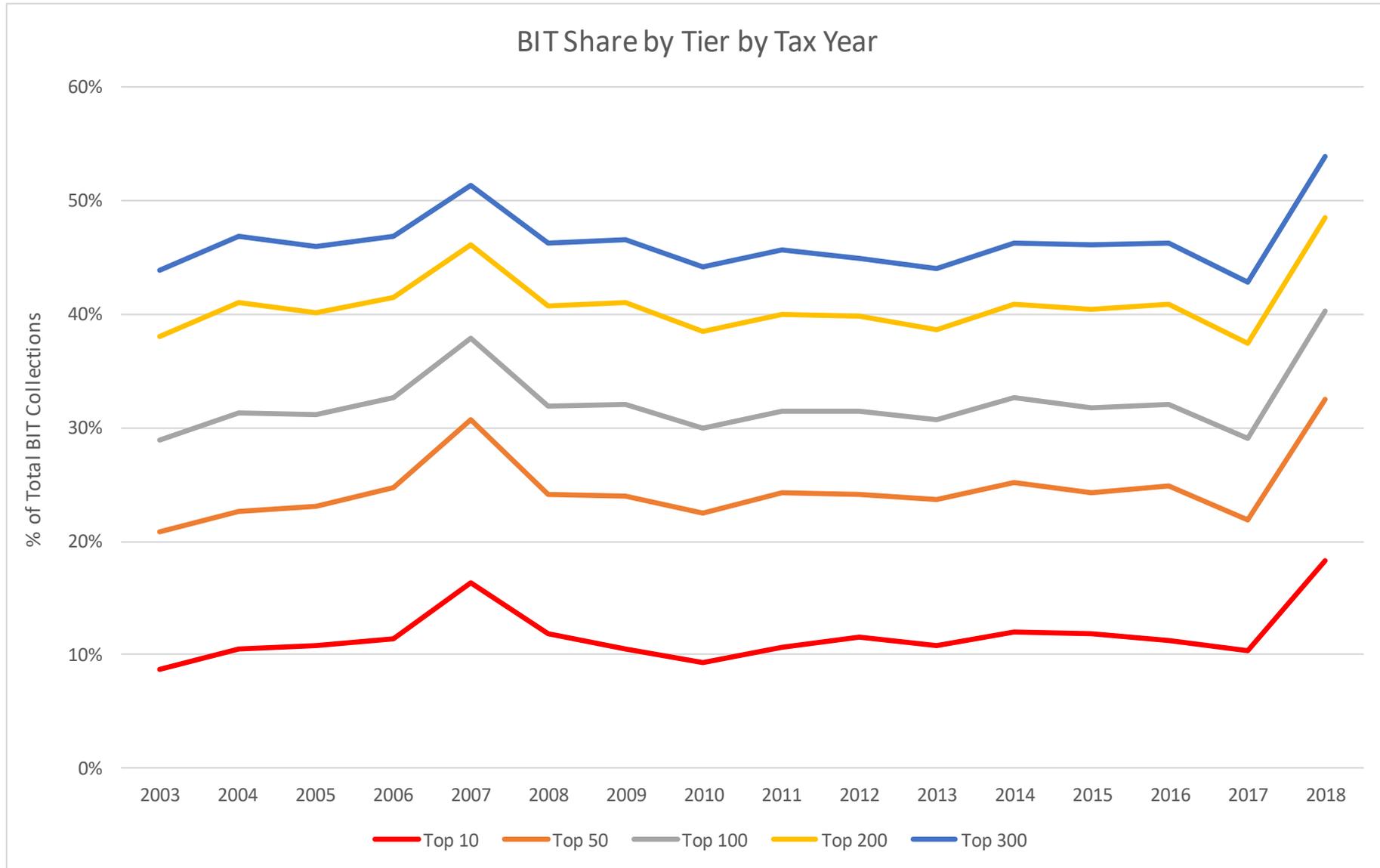
	FY 15	FY 16	FY 17	FY 18	FY 19	FY 20	FY 20 vs. FY 19
Quarterly	11,214,820	12,410,565	12,317,251	13,534,735	12,838,965	18,324,123	42.7%
Yearly	3,533,221	3,443,606	4,541,983	6,155,947	4,780,876	7,454,642	55.9%
Refund/Interest	548,418	448,608	558,451	221,464	497,518	1,380,090	177.4%
NSF Check	30,698	33,892	128,704	45,446	83,801	30,144	-64.0%
Total	14,168,926	15,371,671	16,172,079	19,423,773	17,038,522	24,368,531	43.0%



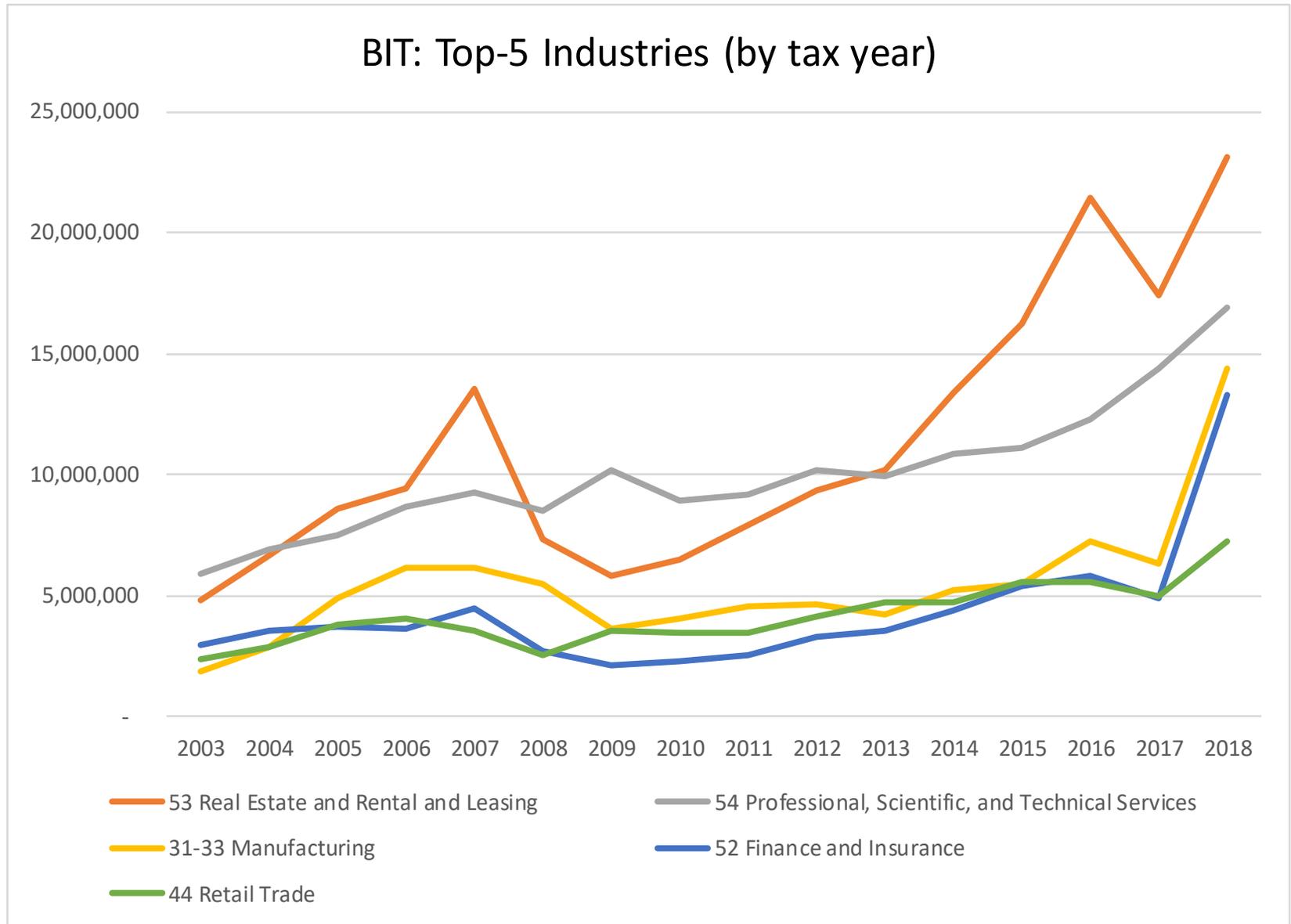
FY 2020 Revenue Review



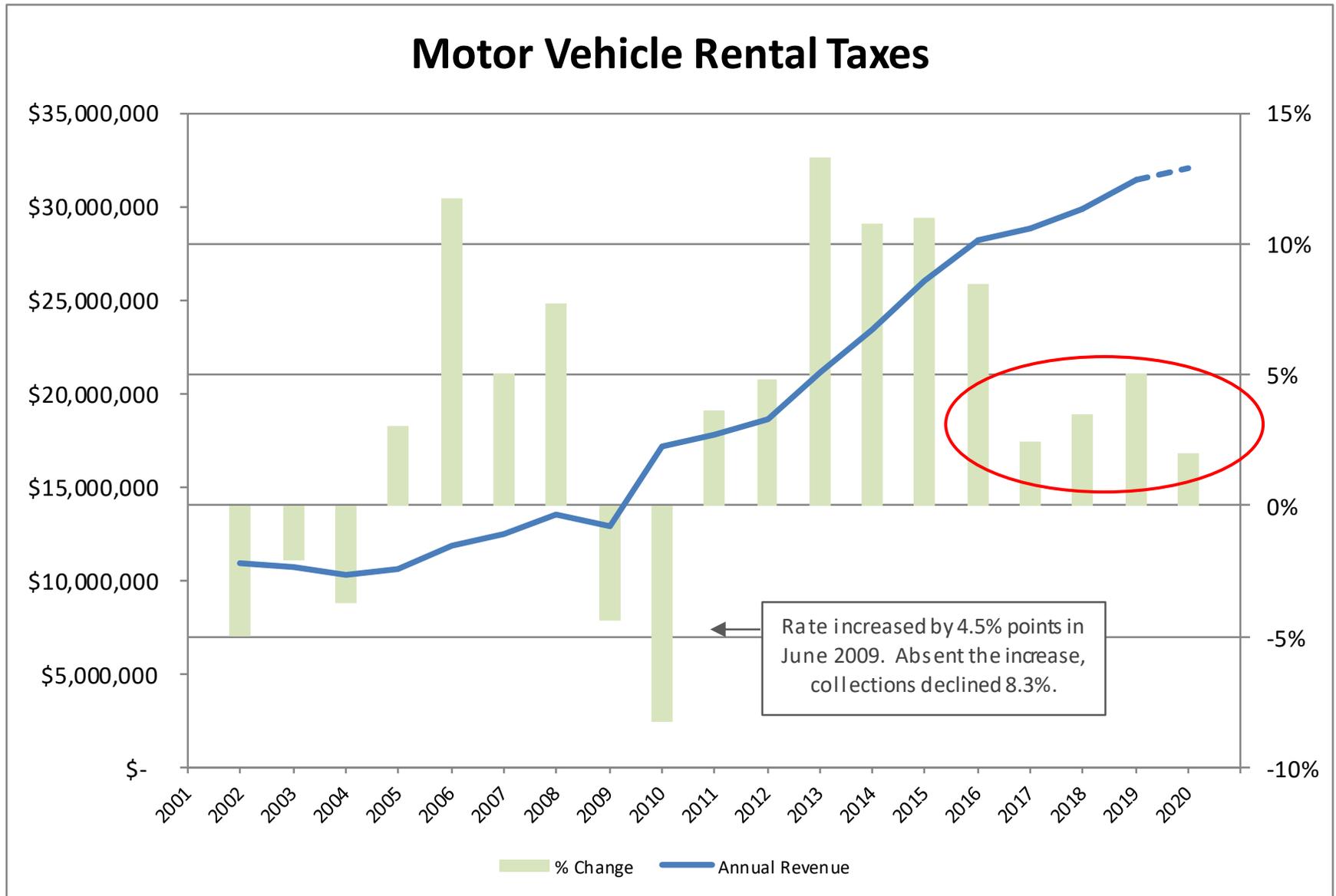
FY 2020 Revenue Review



FY 2020 Revenue Review

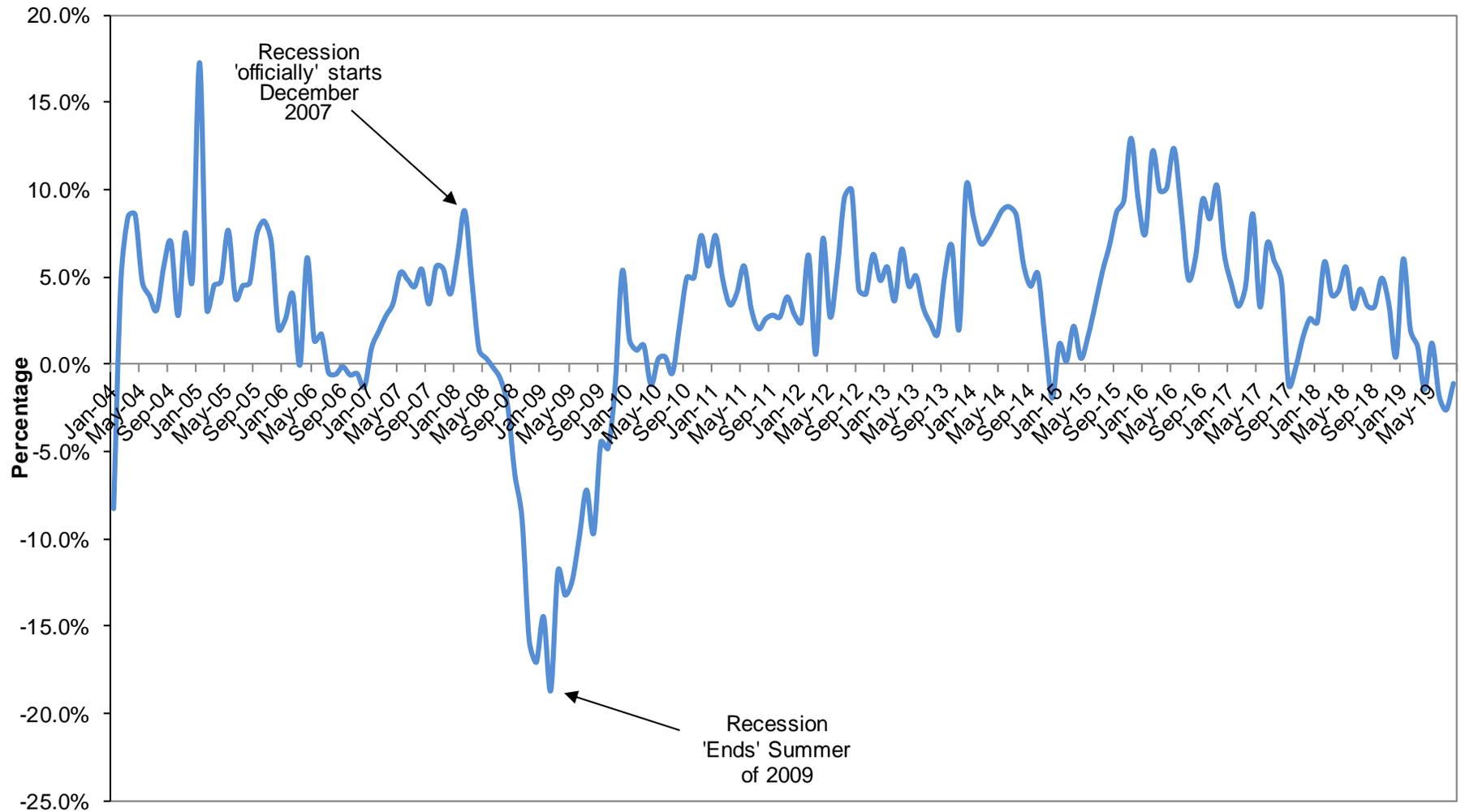


FY 2020 Revenue Review



FY 2020 Revenue Review

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



5-Year General Fund Forecast

- Significant changes – Increased property tax revenues and incorporates PERS reform (SB 1049).
- Forecast continues to show increasing deficits due to the structural deficit. Deficit growth in out years offset by slower personnel cost growth (PERS) and reduced debt service (ERP).

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

	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
Revenues	556,340,208	570,581,480	581,809,898	600,802,971	620,318,412
Expenditures	556,118,623	580,088,505	599,152,285	619,330,553	639,091,168
Ongoing Surplus/(Deficit)	221,585	(9,507,025)	(17,342,387)	(18,527,582)	(18,772,756)
Known Additional Costs	(3,405,652)	(2,667,131)	(2,761,699)	(2,858,219)	(2,968,026)
Adjusted Revenue/Expenditure Gap	(3,184,067)	(12,174,156)	(20,104,086)	(21,385,801)	(21,740,782)
<i>Change in Surplus from Prior Year</i>		<i>(8,990,089)</i>	<i>(7,929,930)</i>	<i>(1,281,715)</i>	<i>(354,981)</i>
<i>Surplus/(Deficit) is this % of Expenditures</i>	<i>-0.57%</i>	<i>-2.10%</i>	<i>-3.36%</i>	<i>-3.45%</i>	<i>-3.40%</i>
<i>Note: Revenues/Expenditures include video lottery, but excludes reserves, FQHC wraparound and prospective health payments</i>					



5-Year General Fund Forecast

Table 2: Forecasted Ongoing General Fund Balance

	FY 2021	FY 2022	FY 2023 ¹	FY 2024	FY 2025
May Forecast (Ongoing)	(9,637,524)	(21,013,472)	(24,966,599)	(28,030,881)	
OTO BIT Spread Out to Reduce Deficit	6,600,000	6,600,000	-	-	
Net May Forecast	(3,037,524)	(14,413,472)	(24,966,599)	(28,030,881)	
Net Changes For November ² (see Waterfall Chart)	3,259,109	2,130,094	3,187,118	3,291,875	
Out Years PERS Impacts	-	2,776,353	4,437,094	6,211,424	
Subtotal (before additional/uncertain costs)	221,585	(9,507,025)	(17,342,387)	(18,527,582)	(18,772,756)
Courthouse Operations ³	(1,286,379)	(1,350,569)	(1,400,810)	(1,452,080)	(1,510,889)
Workday ⁴	(1,810,773)	(1,000,349)	(1,037,562)	(1,075,537)	(1,119,096)
Janitorial Increase (CGF Portion Only)	(308,500)	(316,213)	(323,327)	(330,602)	(338,041)
Open Labor Contracts (Local 88, FOPPO, Physicians)	TBD				
State Family Leave Law (HB 2005)		TBD			
Current Operating Considerations	TBD				
November Forecast	(3,184,067)	(12,174,156)	(20,104,087)	(21,385,801)	(21,740,782)

¹Does not reflect Urban Renewal Districts releasing excess value due to reaching maximum indebtedness, which should begin in FY 2023.

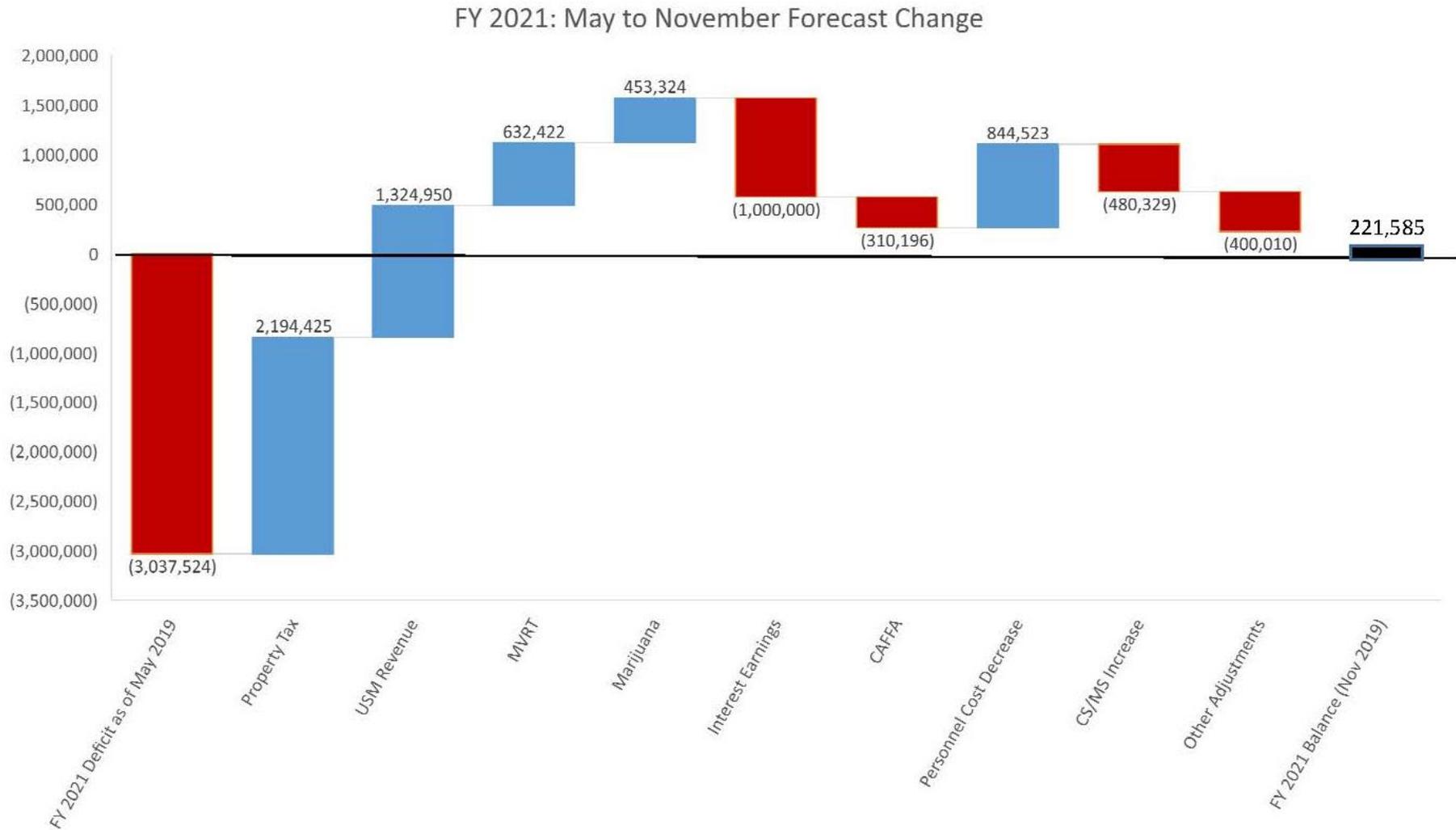
²FY 2021 impacts includes PERS change.

³Net change above prior assumption.

⁴Reflects net CGF impact of ongoing workday support requirements.



5-Year General Fund Forecast



5-Year General Fund Forecast

Major General Fund Revenue Sources ¹

	Adopted FY 2020	Forecast FY 2020 ²	Forecast FY 2021	Forecast FY 2022	Forecast FY 2023	Forecast FY 2024	Forecast FY 2025
Property Taxes	312,832,471	313,821,648	324,867,847	335,924,133	346,929,362	358,132,347	369,711,331
Business Income Taxes	96,537,500	96,537,500	93,537,500	93,537,500	97,358,110	102,076,016	107,179,817
Motor Vehicle Rental Taxes	31,680,495	32,150,258	32,793,263	33,449,128	34,118,111	34,800,473	35,496,483
US Marshal (& BM 37)	5,120,560	5,732,184	6,445,510	6,445,510	6,445,510	6,445,510	6,445,510
Recording Fees/CAFFA Grant	7,029,122	7,029,122	7,340,206	7,851,290	8,362,374	8,873,459	9,073,338
State Shared	15,575,183	12,921,060	13,430,486	13,841,944	14,268,611	14,711,063	15,169,906
Indirect & Service Reimbrs.	36,698,623	36,698,623	38,029,420	39,160,093	40,325,768	41,527,531	42,766,505
	505,473,954	504,890,395	516,444,232	530,209,598	547,807,846	566,566,399	585,842,890
% of Total Revenue	94.2%	93.9%	93.9%	94.0%	94.2%	94.3%	94.4%
All Other General Fund	31,074,256	33,074,256	33,295,976	33,771,882	34,002,052	34,236,572	34,475,522
Total	536,548,210	537,964,651	549,740,208	563,981,480	581,809,898	600,802,971	620,318,412
% Change in Ongoing Revenue		0.26%	2.19%	2.59%	3.16%	3.26%	3.25%
<i>AV Growth</i>	3.50%	4.34%	3.75%	3.55%	3.25%	3.25%	3.25%
<i>Compression</i>	3.66%	3.78%	3.85%	3.85%	3.85%	3.85%	3.85%
<i>BIT Growth</i>	0.00%	-2.98%	-3.11%	0.00%	4.08%	4.85%	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.



Expenditure Assumptions

- Cost Drivers for FY 2021:

Inflation	2.75%	Second Half West Size-A CPI-W
Labor Costs (Change in rates)	5.19%	Prior assumption was 5.26% (Was 6.59% last year)
COLA	2.75%	Dependent on Unit & Contract Status
Step/Merit/Contract Adjustment	1.92%	Dependent on Unit Demographics.
Medical/Dental	3.25%	Was assumed to increase by 6.00%
PERS	1.00%	Was assumed to increase by 1.41%
Retiree Medical	0.00%	
Liability/Workers Comp/TriMet	0.31%	Includes Workers Comp, County Attorney, and TriMet
Materials and Services	2.75%	
Contractual Services	2.75%	Every 1% increase is approximately \$700,000
Internal Services	5.19%	

- Cost Driver Notes (*for General Fund*)

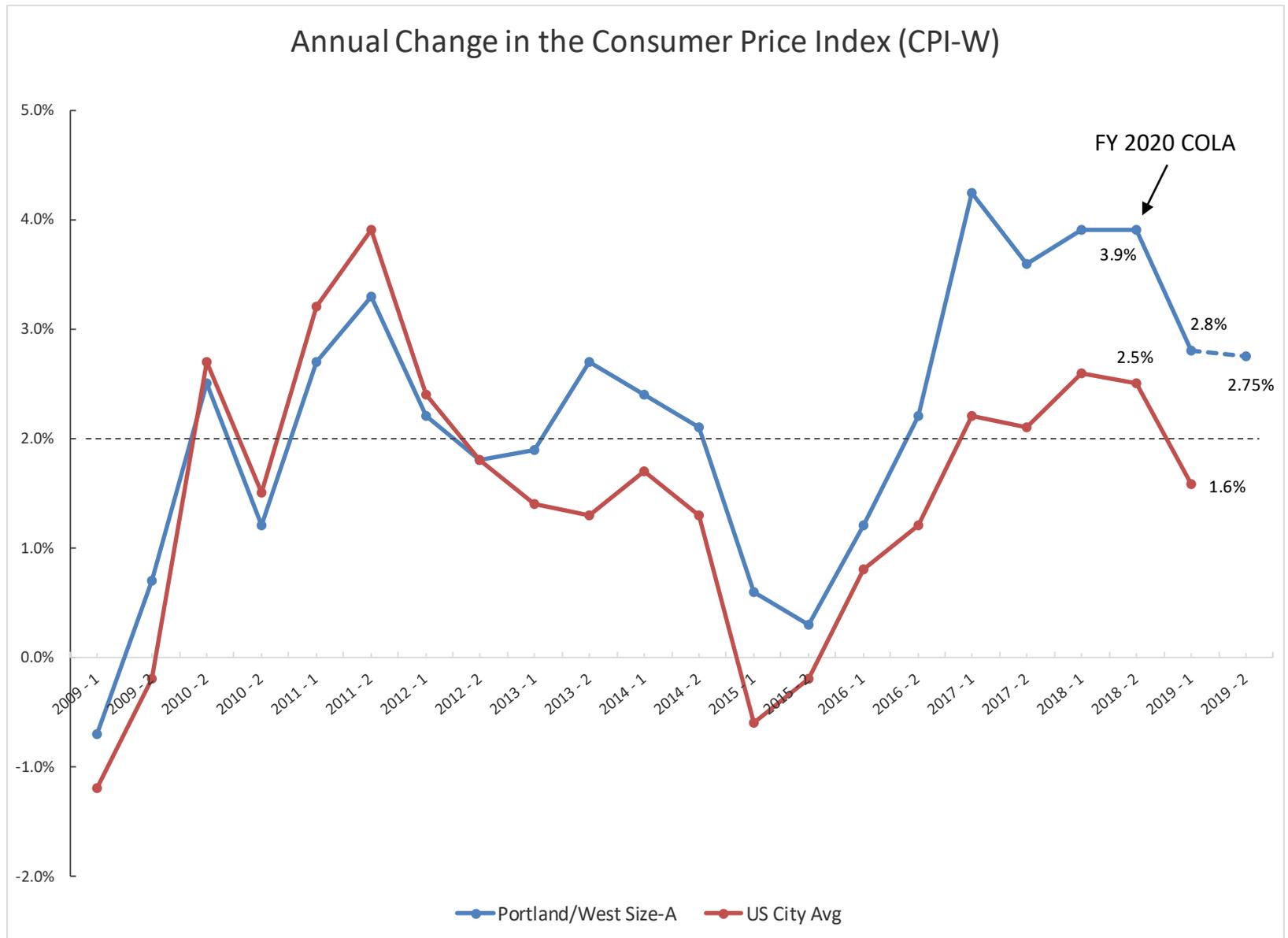
- ✓ A 1% increase in base pay = \$3.1 million
- ✓ A 4% increase in medical/dental rates = \$1.7 million
- ✓ A 1% (of base pay) increase in PERS rates = roughly \$2 million

- Reserve & Contingency Assumptions

- ✓ General Fund Contingency - \$1.5 million
- ✓ General Fund Reserve – 10% of ‘corporate’ revenues (\$46.5 million)
- ✓ BIT Reserve – 10% of BIT Revenues (\$9.3 Million)



Expenditure Assumptions



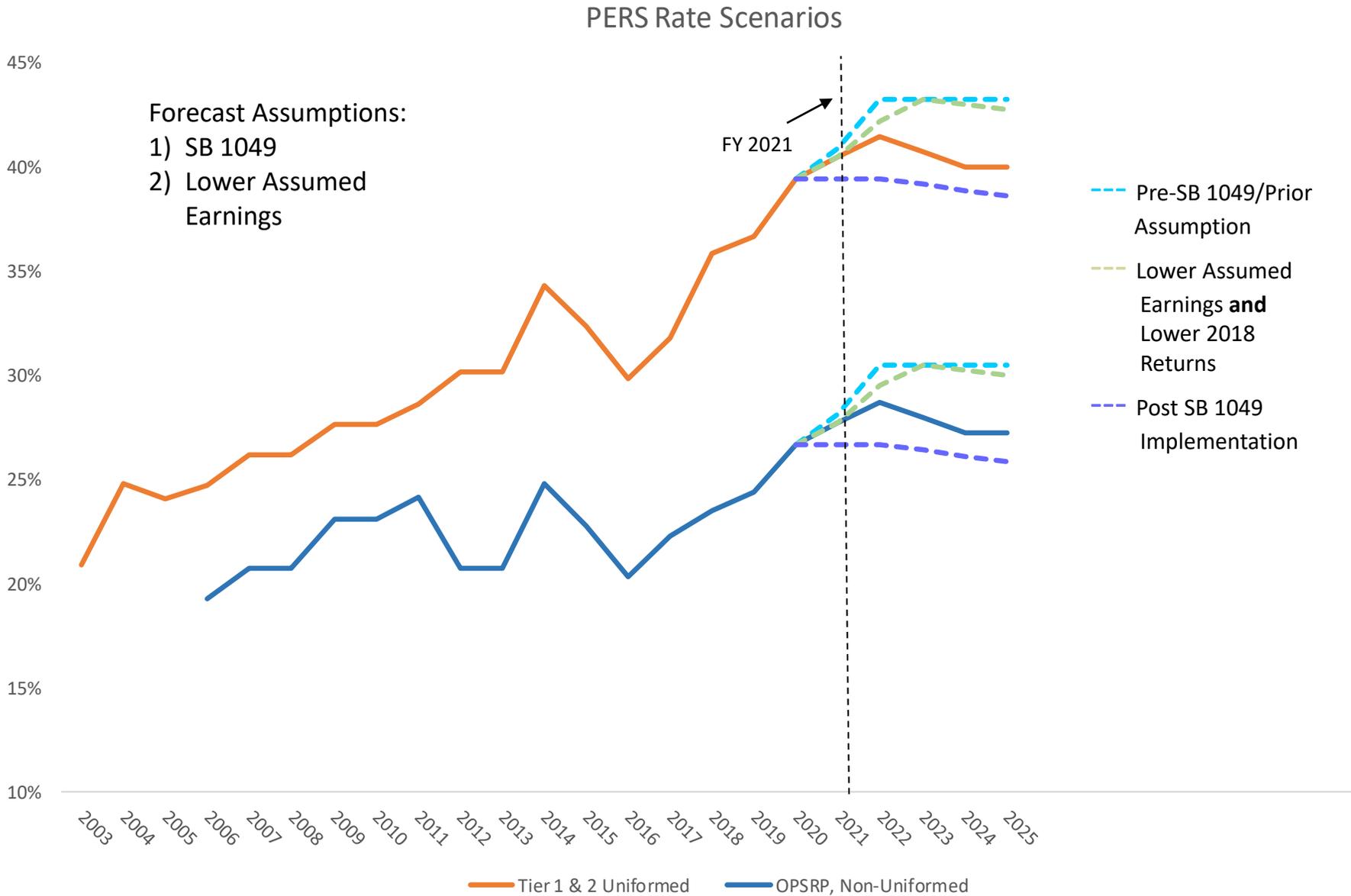
Expenditure Assumptions - PERS

- SB 1049 Impacts:
 - ✓ Re-amortizes Tier 1 and 2 UAL
 - ✓ IAP redirect (*T1/T2 – 2.5%, OPSRP – 0.75%*)
 - ✓ Final average salary limited to \$195,000
 - ✓ No hour limits for retirees, but must pay employer PERS rate on compensation

- Forecast Assumptions
 - ✓ 1.0% increase vs. 1.41% assumed (*saves \$900K in CGF*)
 - ✓ Assumed earnings – 7.2% vs. 7.0%
 - ✓ IAP redirect savings (*subject to court challenge*)
 - ✓ Note: Actual 2018 returns were 0.5% but 2019 returns currently at 9.75%
 - ✓ Side accounts/Employer Incentive Fund



Expenditure Assumptions - PERS



Expenditure Assumptions

- Programs, Cash Transfers, and Earmarks funded on a one-time-only basis in FY 2020 Budget that are assumed to not continue in FY 2021:

One-Time-Only Programs

Offer/Activity

10018B - Fossil Fuel Risk Assessment Study, Phase I	50,000
10035 - Complete Count Census 2020	250,000
10050B - Joint Office of Homeless Services Data Staff Capacity	52,400
10053C - Backfill Short Term Rental Assistance Reallocation	75,000
10053L - Housing Placement & Retention - Family System OTO Rent Assistance Restoration	420,000
10058 - Emergency Shelter Strategic Investment	3,500,000
25026A - Public Guardianship Training and Monitoring Support	25,000
25038B - ADVSD Advocacy & Community Area Plan Development	100,000
25050B - YFS - Domestic Violence Specific Immigration Legal Services at Gateway Center	30,000
25051 - Building Awareness: Violence Against Indigenous Women	50,000
25131 - YFS - Legal Services Day	125,000
25133B - YFS - Backfill Short Term Rental Assistance Reallocation	75,000
25136 - YFS - Culturally Specific Navigation Services for Immigrant Families	250,000
25138B - Runaway Youth Services (RYS)	303,682
25139B - YFS - Multnomah Stability Initiative - Community Legal Clinic	100,000
25143 - YFS - Renter Relations	65,870
25153 - Universal Pre-School Study - Phase II	100,000
25162 - Family of Friends Mentoring Project	25,000
40004B - Ambulance Services (EMS) - Clinical Services Specialist	17,722
40010C - Communicable Disease Services - Vaccine Hesitancy	80,000



Expenditure Assumptions

One-Time-Only Programs (Continued)

Offer/Activity

40024B - Student Health Centers Transition Planning	185,354
40055B - Baby Boosters	55,000
40061 - Harm Reduction	197,808
40073B - Peer Supported Employment Services	100,000
LEAD (Not in FY 2020 budget but operating with prior year funds.)	0
50013 - Replacement Radios	814,000
50050B - Training for Juvenile Custody Services Specialist	50,000
60520B - U-Visa Detective (half year funding)	78,982
60315 - MCDC Detention Electronics	424,826
72000B - Continuous Quality Improvement Pilot/County Contractors	161,888
72000C - Strategic Capital Planning Ramp Down & Economic Development	246,857
72005B - Labor Compliance	199,877
72008B - FRM Motor Vehicle Tax	150,258
72017B - Leadership Development and Accountability	527,006
72017C - WESP - Conflict Mediation & Resolution	168,471
72022 - Workday Support - Central Human Resources	1,001,475
72025B - DART County Clerk Carryover	112,000
72042 - Mental Health System Analysis Follow-up	90,000
72046 - Workday Support - Finance	248,525
78210B - Vance Property Master Plan ¹	300,000
91000B - DCS Equity and Organizational Culture Manager	82,962
91014 - Levee Ready Columbia ¹	50,000
91018B - ADA Tier One Project Development ¹	500,000



Expenditure Assumptions

Cash Transfers and Earmarks

Offer/Activity

95000 - To PERS Bond Sinking Fund (Comcast) (95000)	8,325,664
95000 - Facilities Management Fund (Shelter Transitions)(78203)	135,000
95000 - Facilities Management Fund (Syringe Boxes) (78232)	50,000
95000 - IT Capital Fund (Corporate Broadband)(78321)	1,000,000
95000 - IT Capital Fund (EMR Corrections Health) (78322)	1,000,000
Earmark - SE Health Clinic	6,000,000
Earmark - Bushong/Reception Center	10,950,000
Earmark - Corporate Broadband Network Infrastructure Replacement	1,000,000
Earmark - Preschool for All	100,000



FY 2021 OTO Funds

General Fund FY 2020 Beginning Working Capital & FY 2021 OTO ^{1, 2}

Year-End as of October 8, 2019

FY 2020 Beginning Balance ³	114,857,985
FY 2020 Budgeted Beginning Balance	<u>103,211,538</u>
Additional FY 2020 BWC (OTO)	11,646,447
Net Adjustment to FY 2020 Revenues	1,397,610
Less Amount to Maintain Reserves at Board Policy Level	<u>(139,761)</u>
OTO Funds for FY 2020 per November Forecast	12,904,296
<i>50% Dedicated to County Facility Projects per Board Policy</i>	6,452,148
<i>Remaining 50% to be Allocated</i>	6,452,148

1. Assumes the FY 2020 General Fund Contingency is fully spent in FY 2020.

2. Assumes departments fully spend their FY 2020 appropriation.

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



FY 2020 Contingency Update

General Fund Contingency Update

Contingency

General Fund 'Regular' Contingency	1,500,000
Additional Contingency	15,647
Less Partial Year Jail Dorm Funding	<u>(904,989)</u>

Remaining Non-Earmarked Contingency **610,658**

Earmarked Contingency

Earmark - Preschool for All	100,000
Earmark - SE Health Clinic	6,000,000
Earmark - Behavioral Health Resource Center	8,750,000
Earmark - Corporate Broadband Network Infrastructure Replacement	<u>1,000,000</u>

Total General Fund Contingency **16,460,658**

\$2.2 million approved on 10/24

BIT Reserve @ 10% (in General Fund Contingency) 9,653,750

Total General Fund Contingency **26,114,408**



Forecast Risks, Uncertainties & Issues

- Wage pressures – current labor negotiations
- State Legislative impacts and uncertainty at Federal level
 - ✓ 1145 Funding
 - ✓ 2020 Election
- Revenues plateau at end of economic/developmental cycle
 - ✓ AV growth/BIT volatility
- Capital costs and new ongoing needs
- A confluence of risks, uncertainties, and issues
 - ✓ Personnel costs
 - ✓ Timing of next recession
 - ✓ Inflation and monetary policy changes
 - ✓ State/Fed Funding

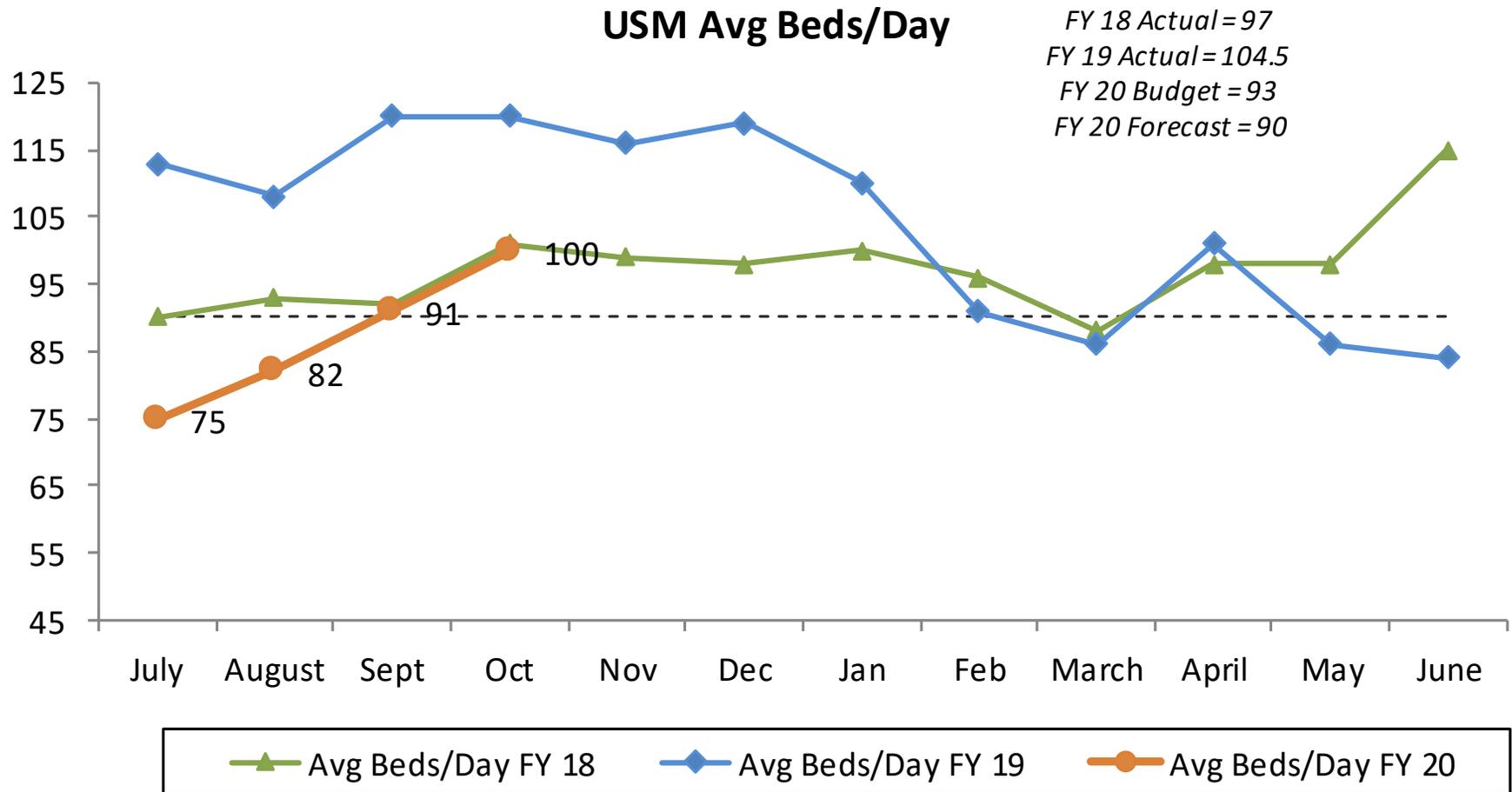


Summary

- FY 2020 General Fund revenue forecast increased \$1.4 million (0.26%)
- FY 2020 General Fund contingency balance of \$0.6 million (unallocated)
- Deficit of \$3.2 million forecast for FY 2021.
 - ✓ Deficit grows to \$21.7 million by FY 2025
 - ✓ \$20 to \$25 million of new revenue or program reductions needed over next 5-years
- FY 2020 General Fund one-time-only resources of \$12.9 million.
 - ✓ \$6.5 million for facility projects (per Board policy)
 - ✓ \$6.5 million to be allocated
- Major risks, uncertainties, and issues include:
 - ✓ Personnel costs and BIT volatility
 - ✓ Recession timing

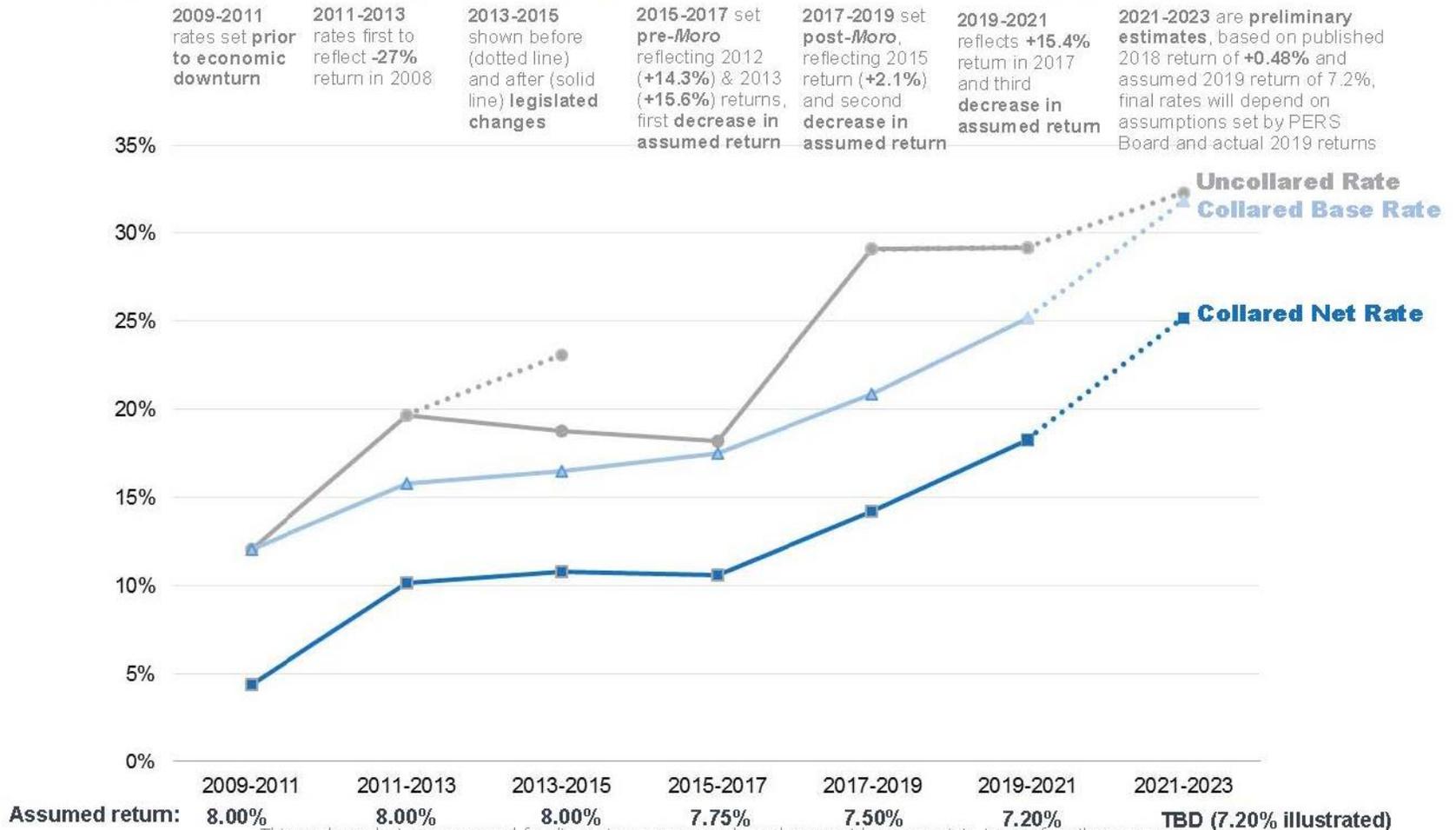


Appendix- USM



Appendix- PERS

System-Average Weighted Pension-Only Rates



This work product was prepared for discussion purposes only and may not be appropriate to use for other purposes. Milliman does not intend to benefit and assumes no duty or liability to other parties who receive this work. Any recipient of this work product who desires professional guidance should engage qualified professionals for advice appropriate to its own specific needs.



Appendix- PERS

PERS Assumptions Update

PERS Rate Change Assumptions	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
FY 2020 Forecast Assumptions (pre-SB 1049)	1.41%	2.36%	0.00%	0.00%	0.00%
Alt FY 2021 Forecast Assumptions (post-SB 1049)	0.00%	0.00%	-0.30%	-0.30%	-0.27%
FY 2021 Forecast Assumptions (lower actual/assumed earnings - 7.0% vs. 7.2%)	1.00%	1.00%	-0.74%	-0.73%	0.00%
Alt FY 2021 Forecast Assumptions 1 (no IAP Redirect and lower assumed earnings)	1.00%	1.00%	-0.27%	0.00%	0.00%
Alt FY 2021 Forecast Assumptions 2 (Lower assumed earnings and lower 2018 returns)	1.00%	1.78%	1.00%	-0.25%	-0.25%
T1/T2 Uniformed PERS Rate (includes PERS Bond)	39.49%				
OPSRP Non-Uniformed PERS Rate (includes PERS Bond)	26.73%				
A 1% Change in PERS rates equals this in General Fund		\$2.26 million			

Updated Assumptions

- Assumes 10-year amortization for third and fourth side accounts (bigger impact for shorter period)
- SB 1049 lowers the un-collared base rate, requiring a smaller increase to reach the County's top rate
 - Re-amortization of Unfunded Actuarial Liability (UAL) incorporated into all assumptions (3.40% reduction)
- Assumes assumed earnings rate decline to 7.0% (explicit PERS Board change or implicitly based on experience)
- Alternative FY 2021 Forecast Assumption 1 assumes that IAP redirect impact is never realized
- Alternative FY 2021 Forecast Assumption 2 incorporates poor 2018 returns (0.5%)

