

Multnomah County Five Year Forecast General Fund Expenditures and Revenue

The outlook for the County's General Fund over the next five years appears to indicate a period of stagnant revenues and constrained expenditures. Local government revenues in Oregon have been constrained over the past decade by two citizen initiated property tax limitation measures – Measure 5, passed in 1990 and Measure 47, passed in 1996 and enacted into law under the provisions of Measure 50. Total General Fund revenue in FY 2000-01 totals slightly more than **\$301 million**. Property taxes, which account for roughly 58% of total discretionary revenue, are statutorily limited to 3% annual growth.

The overall revenue picture, thus, is constrained to a large degree by this limitation. Two significant changes occurred with passage of Measure 47 and its companion Measure 50:

- ⇒ Property Tax levying capacity was cut by approximately 17% statewide and
- ⇒ A “permanent rate” was established for each taxing jurisdiction.

Local government's ability to generate additional tax revenue is further constrained by a provision in Measure 47 which requires that a majority of all eligible voters cast an affirmative ballot in favor of any new “local option” levies. Please see the Appendix section of this document for a more detailed discussion of how tax limitation impacts Multnomah County.

This forecast assumes that Property Tax revenue will grow by its statutory limit each year. The forecast also assumes that an additional half percent (approximately \$900,000) will be generated due to new construction and improvements. For the immediate future, this level of property tax growth should be sufficient to provide for ongoing expenditure requirements so long as inflation remains at bay.

Other significant revenues in the General Fund include the Business Income Tax (BIT), Motor Vehicle Rental Tax and Intergovernmental Sources. The BIT is the second largest single source of income in the County's revenue stream. It accounts for roughly **\$37 million** in FY 01-02, or about 12.5% of General Fund revenue. This revenue source has, historically, been very difficult to forecast. As of this writing, BIT revenue is predicted to decline for the third time in four years.

Because the BIT accounts for such a large share of the General Fund we have initiated analysis to determine why collections have been so volatile. It is a revenue source that is clearly elastic in that it reflects shifts in the regional economy. Attached as an appendix to this document is a memo that outlines some of the factors we are exploring to account for the recent downturn in tax collections. Interestingly, while BIT receipts have trended downward over the past few years the Motor Vehicle Rental tax, which is forecast to generate **\$13.6 million** in FY 01-02, has grown at an average rate of more than eight percent.

Most indicators seem to be pointing toward a period of slower growth than the state and region have experienced over the past four to five years. The State of Oregon's most recent economic forecast highlights the flattening economy and suggests we will not see a full recovery until sometime in the next year. It should be noted, though, that this forecast also suggests Oregon's economy will be able to sustain slow economic growth, in the 1.5% to 2% range, over the next few years. The one sector of the economy that is unlikely to rebound as quickly as others is manufacturing; including the high tech sector, which was one of the engines that spurred growth over the past five years.

The regional economy, and the potential for even slower growth than forecast, will be a limiting factor to Multnomah County's revenue growth. There are also some uncertainties surrounding the status of the economies of Oregon's large trading partners that have become critical to the state's economy. Asia, for example, is overwhelmingly the largest export market for Oregon's agricultural and forest products industries. Of more pertinent interest, however, may be the impact that the further deterioration of Asian economic conditions will have on the high technology sector.

This forecast takes a moderate approach to growth in both the BIT and Motor Vehicle Rental Tax. BIT growth has been forecast at a modest 3.5% to 4.5% annual rate of increase, while the Motor Vehicle Rental Tax is expected to grow by about 6% a year. The forecast growth rates are well below the historical trend for both of these sources and reflect our caution in assessing economic conditions. These assumptions will be revisited as more detailed economic analysis warrants.

Intergovernmental revenue sources have been forecast to remain relatively flat. This reflects a growing concern that constraints at other levels of government will eventually trickle down to the local level. Most of the General Fund revenue received in this category comes from the rental of bed space at adult and juvenile corrections facilities. State shared revenue, in the form of Video Lottery receipts and so-called "sin" taxes (cigarette and liquor), accounts for roughly \$6.5 million. These sources are expected to grow slower than other tax revenue, perhaps an indication that recent tax increases have had the effect of changing consumption patterns.

Overall revenue growth is forecast at between 3.5% and 4% percent over the next few years. If inflation remains at its current low levels – it is forecast at slightly less than 3% annually - this level of revenue growth should be sufficient to provide for funding at current service levels. General Fund expenditures have been forecast to grow at about 3.5% annually over the next five years. This reflects an assumption that inflation will remain moderate and provides for anticipated cost increases associated with employee medical benefits.

The Pro Forma on the following pages details the General Fund revenue and expenditure forecast through FY 2005-6. The "FY 00-01 Approved" column reflects the budget approved by the Board of County Commissioners on May 3, 2001. The Pro Forma indicates that the County will be able to maintain current service levels within the forecast revenue stream but there will be very little, if any, discretionary revenue with which to expand existing programs or implement new programs.

Two issues which will have a significant impact on the County's financial position are:

- ⇒ Current service levels include programs supported by revenues which do not have a track record. For example, we have assumed approximately \$4 million in additional revenue related to housing federal prisoners in County jails. We will need to develop alternatives if these revenues do not materialize as forecast.
- ⇒ This pro forma assumes no new funding for expanded programs/facilities associated with the operation of the Wapato Facility, scheduled to open in 2003, nor does it contemplate the renewal of the current local option levy dedicated to Library services.

These issues will command attention as we undertake planning for FY 02-03 budget. Questions regarding the figures and assumptions used in preparing this forecast should be directed to Mark Campbell in the Budget & Quality Office.

Multnomah County
General Fund Forecast

FY 01-02 to FY 05-06

	FY 01-02 Approved	FY 02-03 Forecast	FY 03-04 Forecast	FY 04-05 Forecast	FY 05-06 Forecast
BEGINNING WORKING CAPITAL	17,105,013	7,640,517	7,321,942	7,141,442	8,026,602
Reappropriated Carryover	0	0	0	0	0
Uncommitted Carryover	12,605,013	3,140,517	2,821,942	1,141,442	526,602
5% Revenue Reserve	4,500,000	4,500,000	4,500,000	6,000,000	7,500,000
General Fund Sources					
TAXES	223,839,268	233,787,172	244,281,924	255,441,798	266,713,918
Property Taxes					
Current Year	167,261,975	174,672,693	182,532,965	190,746,948	198,853,693
Prior Years	4,912,800	4,935,877	5,043,573	5,197,086	5,380,040
Other (Penalty/Interest)	809,672	835,764	878,579	931,497	989,999
Total Property Taxes	172,984,447	180,444,334	188,455,117	196,875,531	205,223,732
Business Income Tax	37,176,808	38,713,514	40,324,997	42,139,622	44,246,603
Motor Vehicle Rental Tax	13,590,129	14,541,438	15,413,924	16,338,760	17,155,698
Other Taxes	87,885	87,885	87,885	87,885	87,885
INTERGOVERNMENTAL	33,392,617	30,860,855	31,136,262	31,714,166	31,979,150
SB 1145	10,360,014	10,658,046	10,658,046	10,965,018	10,965,018
US Marshal (Jail Beds)	5,344,406	5,344,406	5,344,406	5,344,406	5,344,406
Video Lottery	3,558,177	3,608,528	3,749,228	3,895,413	4,047,299
Liquor Tax Sharing	1,593,798	1,633,643	1,674,484	1,699,601	1,725,095
Juvenile Detention	1,676,042	1,729,327	1,784,477	1,841,558	1,900,636
Cigarette Tax Sharing	1,119,966	1,147,965	1,176,665	1,194,315	1,212,229
O&C Grant	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
Other Intergovernmental	8,740,214	5,738,939	5,748,956	5,773,855	5,784,467
LICENSES & PERMITS	2,330,420	2,304,852	2,373,997	2,445,217	2,518,574
Environmental Health	1,825,370	1,880,131	1,936,535	1,994,631	2,054,470
Other Licenses & Permits	505,050	424,721	437,462	450,586	464,104
SERVICE CHARGES	8,471,876	8,750,827	8,990,513	9,203,650	9,427,246
Health Department					
Ambulance Fees	827,345	827,345	827,345	827,345	827,345
Other Health	246,318	246,318	246,318	246,318	246,318
Total Health	1,073,663	1,073,663	1,073,663	1,073,663	1,073,663

Multnomah County
General Fund Forecast

FY 01-02 to FY 05-06

	FY 01-02 Approved	FY 02-03 Forecast	FY 03-04 Forecast	FY 04-05 Forecast	FY 05-06 Forecast
Public Safety					
MCRC Room & Board	1,436,800	1,436,800	1,436,800	1,436,800	1,436,800
Civil Process	312,167	321,532	331,178	341,113	351,347
Other Public Safety	342,572	342,572	342,572	342,572	342,572
Total Public Safety	2,091,539	2,100,904	2,110,550	2,120,485	2,130,719
Assessment & Taxation					
Recording Fees	3,550,000	3,834,000	4,064,040	4,267,242	4,480,604
Other A & T	178,000	178,000	178,000	178,000	178,000
Total A & T	3,728,000	4,012,000	4,242,040	4,445,242	4,658,604
Elections	1,041,614	1,041,614	1,041,614	1,041,614	1,041,614
Other Service Charges	537,060	522,646	522,646	522,646	522,646
INTEREST	4,725,000	4,209,375	4,328,605	4,408,347	4,702,810
SERVICE REIMBURSEMENTS	16,031,947	16,410,215	16,871,872	17,426,629	18,000,803
Indirect Costs					
Road Fund	651,839	677,913	698,250	722,689	747,983
Federal/State Fund	9,647,602	10,033,506	10,334,511	10,696,219	11,070,587
Library Levy Fund	1,828,689	1,901,837	1,958,892	2,027,453	2,098,414
Jail Levy Fund	8,585	8,928	9,196	9,518	9,851
A & T Fund	224,985	233,984	241,004	249,439	258,169
Care Oregon Fund	699,341	727,315	749,134	775,354	802,491
Other Indirect Costs	1,034,616	1,076,001	1,108,281	1,147,070	1,187,218
Total Indirect Costs	14,095,657	14,659,483	15,099,268	15,627,742	16,174,713
Other Service Reimbursements	1,936,290	1,750,731	1,772,604	1,798,887	1,826,090
CASH TRANSFERS	32,204,720	33,602,990	34,987,230	36,437,848	37,869,221
Animal Control	1,432,000	1,467,800	1,504,495	1,542,107	1,580,660
Other Cash Transfers	30,772,720	32,135,190	33,482,735	34,895,740	36,288,561
MISCELLANEOUS REVENUE	1,127,988	1,044,276	1,052,375	1,060,798	1,069,557
Total GF Sources	322,123,836	330,970,561	344,022,777	358,138,453	372,281,280

Multnomah County
General Fund Forecast

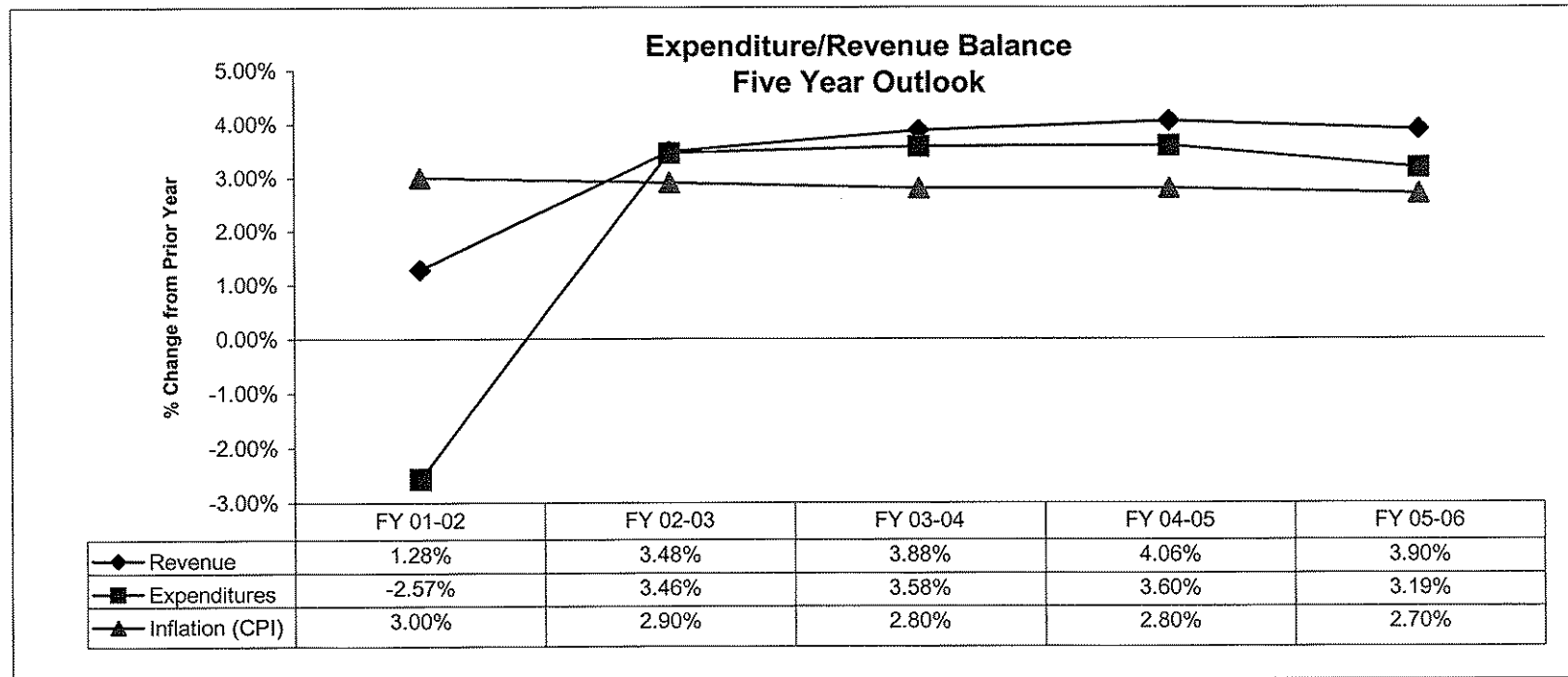
FY 01-02 to FY 05-06

	FY 01-02 Approved	FY 02-03 Forecast	FY 03-04 Forecast	FY 04-05 Forecast	FY 05-06 Forecast
<u>All Funds Uses</u>					
Community & Family Services	36,321,166	37,047,589	38,344,255	39,888,785	41,694,916
Aging Services	6,643,320	6,880,972	7,085,655	7,333,653	7,704,826
Health Department	40,749,390	42,260,003	43,597,019	45,173,383	47,248,619
Community Justice	42,351,563	43,643,940	45,171,478	46,752,480	48,870,654
District Attorney	13,677,228	14,166,506	14,587,906	15,098,482	15,862,651
Sheriff's Office	83,582,639	86,661,321	89,773,402	93,239,202	97,462,522
Sustainable Community Development	6,657,872	6,896,046	7,137,407	7,349,718	7,721,704
Nondepartmental	15,394,577	15,945,290	16,419,602	16,994,288	17,764,233
Support Services	26,644,831	27,598,002	28,418,937	29,413,600	30,746,216
Overall County	38,167,717	30,959,806	33,639,753	35,142,820	35,142,820
Library	15,979,928	17,979,660	18,777,863	19,616,882	19,616,882
Total GF Uses	326,170,230	330,039,136	342,953,277	356,003,293	369,836,042
Available Contingency Account	5,418,102	1,250,000	1,250,000	1,250,000	1,250,000
Excess/(Deficit)					
Sources Over Uses	(9,464,496)	(318,575)	(180,500)	885,160	1,195,238
Ending Working Capital	7,640,517	7,321,942	7,141,442	8,026,602	9,221,840
Uncommitted Carryover	3,140,517	2,821,942	1,141,442	526,602	221,840
5% Revenue Reserve	4,500,000	4,500,000	6,000,000	7,500,000	9,000,000
Total Requirements	339,228,849	338,611,078	351,344,719	365,279,895	380,307,882

Forecast of Ongoing Revenue Sources

General Fund and Public Safety Levy Fund

	FY 01-02	FY 02-03	FY 03-04	FY 04-05	FY 05-06	Avg Growth
Property Taxes	\$ 172,876,380	\$ 180,871,127	\$ 188,904,302	\$ 197,346,682	\$ 205,715,899	4.44%
BIT	37,176,808	38,713,514	40,324,997	42,139,622	44,246,603	4.45%
Motor Vehicle Rental Tax	13,590,129	14,541,438	15,413,924	16,338,760	17,155,698	6.00%
SB1145 Reimbursement	10,281,022	10,589,452	10,589,452	10,907,136	10,907,136	1.50%
Service Reimbursements	10,103,029	10,507,150	10,760,816	11,105,439	11,460,844	3.20%
Fed Detention Reimbursement	8,249,183	8,249,183	8,249,183	8,249,183	8,249,183	-
State Shared Revenue	6,371,941	6,490,137	6,700,377	6,889,329	7,084,623	2.69%
Interest	4,725,000	4,405,869	4,367,238	4,412,963	4,554,949	-0.84%
Recording Fees	3,500,000	3,780,000	4,006,800	4,207,140	4,417,497	6.00%
Health Inspections and EMS	2,617,645	2,671,354	2,726,674	2,783,654	2,842,343	2.08%
Subtotal - Major Sources	269,491,137	280,819,224	292,043,763	304,379,907	316,634,774	
All Other GF	22,247,872	20,792,243	21,171,019	21,503,250	21,911,438	
Total - Ongoing Sources	\$ 291,739,008	\$ 301,611,467	\$ 313,214,781	\$ 325,883,157	\$ 338,546,212	



Appendix - BIT Explanation



MULTNOMAH COUNTY OREGON

DEPARTMENT OF SUPPORT SERVICES
BUDGET & EVALUATION DIVISION

BUDGET
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TO: Bill Farver, Interim Chair
Board of County Commissioners

FROM: J. Mark Campbell, Budget Office

DATE: May 1, 2001

SUBJECT: Business Income Tax

In 1976 the Board of County Commissioners passed Ordinance # 121 which established a Business Income Tax (BIT) as a replacement for the former Business License Tax. The BIT was originally set at a rate of .6% of net income, or profit, derived from business activity within the county.

Between 1976 and 1987 the tax rate was increased on two occasions.

1985	Increased by .35% to .95%
1987	Increased by .51% to 1.46%

Until 1993 the State of Oregon, through the Department of Revenue (DOR), administered the BIT and disbursed collections to the County. In 1993, the County entered into an intergovernmental agreement with the City of Portland to administer the BIT. This agreement was undertaken with a view toward coordinating and aligning the City's Business License program and the BIT program as it had become clear to both jurisdictions that there would be benefits to the business community as well as the County and City. The primary goals of this effort – code alignment and uniformity – have largely been met. When the City and County codes were changed the BIT rate was reduced from 1.46% to 1.45%, the rate that remains in place today.

The rate was increased on one other occasion in recent years. On March 10, 1998 the voters of Multnomah County approved a "Temporary Education Surcharge", the receipts from which were dedicated to local school districts within the county. The surcharge was established at a rate of .5% and was in effect only for the 1998 tax year. The ordinance referred to the voters specifically exempted any taxpayer with less than \$100 in BIT liability from having to pay the surcharge.

The following table highlights collections for both the "regular" BIT and the temporary surcharge since the City and County codes were consolidated.

	Regular BIT @ 1.45%	Surcharge @ .50%	Total
FY 93-94	22,911,579		22,911,579
FY 94-95	27,048,000		27,048,000
FY 95-96	30,040,000		30,040,000
FY 96-97	33,255,000		33,255,000
FY 97-98	32,524,000		32,524,000
FY 98-99	36,592,898	4,310,988	40,903,886
FY 99-00	34,152,396	5,781,104	39,933,500

This table demonstrates the enigmatic nature of this revenue over the past few years. As the data indicates, revenue from the 1.45% BIT has declined in two of the past three years. This pattern is not unusual – in fact, collections over the past four years closely mirror the period from FY 80-81 through FY 83-84 – and it is a factor that is taken into consideration when making budgetary forecasts.

Over the long term the BIT has grown, on average, between 6% to 7% annually. It is a difficult revenue source to predict accurately on an annual basis because, unlike the Property Tax, there is no fixed base amount. We have analyzed payment records for all tax accounts with liability greater than \$75,000 over the past five years. We undertook this analysis in the belief that we would be able to detect some type of pattern in the payment histories. It is interesting to note, however, that many of these accounts do not appear on the list in all five years.

This last point highlights the single biggest reason for the variation in tax collections from year to year. Because the BIT is a tax on net income, accounting practices and business decisions made by individual taxpayers directly impact annual collections. A few statistics may help underscore this point. There are 43,818 active BIT accounts. A sizable percentage of those accounts pay no tax and another large group pays less than \$100 per year.

The bulk of the BIT revenue comes from a relatively small subset of accounts. The analysis referred to above encompassed only 50 tax accounts. These accounts represent between 25-30% of the gross revenue generated by the BIT. All told, roughly 60% of the BIT is paid by 500-600 accounts.

Because the tax is based on sales within the county the BIT typically reflects consumer activity. Conversely, manufacturing entities generally pay relatively little BIT because most of their income is derived from sales made outside the county. There has been a great deal of speculation as to why we have experienced a decline in this revenue source. A standard answer does not apply in all cases but we have identified the following as being contributing factors to the collection pattern exhibited over the past few years.

Mergers and Acquisitions

There have been a number of high profile acquisitions of local companies over the past four years. Among the most notable, PGE was acquired by Enron, Fred Meyer was acquired by Kroger Foods and US Bank became part of Minneapolis based US Bancorp. This "headquarters exodus" has had a couple of distinct impacts on our revenue stream.

First, when a company is headquartered in Multnomah County all of the income derived from its non-sales activities (i.e.; gain on investments, intangibles, interest earnings) is apportioned to the headquarters location. By itself, the movement of a headquarters outside of the county probably does not result in a significant loss of revenue unless the acquiring entity discontinues business operations here.

A more direct revenue impact is likely to be felt if the new company is one that either derives the majority of their revenue outside the county or has a net operating loss in a given year. In the first case, we would expect the revenue from a given business to decline if the income in Multnomah County represents a smaller share of total income reported by the acquiring entity.

Where a company is able to claim a loss, not necessarily as a result of the merger/acquisition, we would not collect any BIT revenue for at least that year. The code allows businesses to credit their loss until it is exhausted but it must be applied within five years. If an acquiring company had a substantial enough loss we may not receive anything from that company for several years.

Similarly, we have experienced a number of cases where businesses have restructured over the past few years. If a business restructures and claims its primary location outside the county it derives benefit in the same way as a described above - even if the new location is as close as Beaverton or Lake Oswego. In this scenario, the subsidiary businesses that remain in Multnomah County are generally the least profitable operations of the parent company.

These factors account for about 20% - or \$1.7 million – of the projected shortfall.

Estimated Payments Due to Temporary Surcharge

The code requires taxpayers that expect to have more than \$1,000 in annual BIT liability to file quarterly payments. As noted above, the Temporary Education Surcharge increased the tax rate to 1.95% for the tax year beginning January 1, 1998. In the following two years (because not all of the surcharge revenue was received in FY 98-99) it is likely that many businesses made their estimated payments based upon their 1998 tax liability.

Since the tax rate in that year was approximately 25% higher than the regular rate it is reasonable to assume that much of what we received represents "overpayments" for tax years 1999 and 2000. As a result, BIT collections can be impacted in one of two ways:

- a business can request a refund of the overpayment amount
- a business can apply the overpayment as a credit against future tax payments

The refund activity we have experienced this year would seem to bear out the first point. Through February we have issued nearly \$6.5 million in refunds. This is \$2 million more in refunds than were issued in all of FY 99-00. Refunds represent a one time loss of revenue assuming that requests for refunds are not an indicator that a business has experienced an ongoing reduction in their income.

If a business carries forward an overpayment as a credit against future tax payments this would have an impact on our ongoing revenue stream. Again, through February there was more than \$8.5 million in credits on the books. It is unlikely that all of these credits would be applied in one year and, in fact, many of them have been carried forward for a number of years. To the extent that businesses can make use of these credits we would not receive any "new" revenue, or at least reduced levels of revenue, from those entities.

These factors account for about 42% – or \$3.4 million – of the projected shortfall.

Economic Factors

The slump that occurred in Asian economies appears to have had a residual impact on our BIT revenue. Oregon's largest export markets are Japan and South Korea. Recently exports to Japan have begun to rebound but they are still well below record levels experienced in 1995. Exports to South Korea, which had become the state's largest trading partner, have declined dramatically during the past two years. It is, therefore, reasonable to assume that any business with significant revenue from export operations would have shown a decrease in their overall revenue.

It has also become evident over the past several months that the United States economy is, if not headed toward a recession, at least going through a period of slower growth. A review of the estimated payments made for the 2000 tax year suggests that a number of businesses have anticipated a reduction in their profits as a result of the current economic conditions.

These factors account for about 10% - or \$850,000 – of the projected shortfall.

Forecast Methodology

Finally, we have explored the way we account for the BIT. We recognize quarterly revenues when they are received. Refunds are netted against revenue and this tends to make it difficult to accurately estimate the actual revenue we will get in any given year. For example, last year our quarterly payments through January gave us reason to believe our collections were on target with the budget forecast. After refunds and credit carry forwards were applied our actual revenue for the year declined by about 3% from the previous year. Our accounting methodology is acceptable practice. Experience tells us, though, that using the quarterly payments for forecasting purposes does not lead to reliable results.

We originally estimated we would receive approximately \$11.5 million from the surcharge. We estimated that we would receive 65% of the payments in the year the tax was imposed and subsequent payments would trickle in over a three to four year period. The revenue forecast assumed collections of about \$7 million in FY 98-99. We actually only recorded about \$4.8 million in that year. That made the ongoing portion of the BIT appear to be about \$2.3 million higher than, in fact, it was. Unfortunately, this did not become apparent until after we had completed deliberations on the current year's budget.

This factor accounts for about 27% - or \$2.3 million – of the projected shortfall.

Summary

All told, we expect to receive about \$8.3 million less in BIT revenue than we had assumed in the budget for FY 00-01. This shortfall will be a determinant factor in estimating revenue in the near term future.

As noted above, the BIT has, over time, grown consistently at a rate between 6% - 7% annually despite some notable fluctuations in recent years. Given our experience in recent years we believe it is prudent to lower our expectations for this revenue source. The budget for FY 01-02 is based on a modest 3.5% rate of growth over the expected receipts for the current year. The forecast for the next several years calls for growth averaging between 4% - 5%.

Please let me know if you have any questions or if you would like me to provide additional information.