MULTNOMAH COUNTY, OREGON

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TO: All Interested Parties

FROM: J. Mark Campbell JMC

DATE: July 15, 1996

SUBJECT: Five Year Forecast/Editor's Note

The ***Five Year Financial Forecast*** document which follows reflects the County Chair's Proposed Budget. It is shown here to give the reader a historical context for the assumptions which were the basis for crafting that budget. The figures shown in Appendix A - the General Fund Pro Forma - are as Approved for submission to the Tax Supervising and Conservation Commission (TSCC). We have not attempted to capture the changes made in the Adopted Budget.

It is our intent to provide an update to this forecast in early September. At that time we will provide a detailed analysis of the Adopted Budget and discuss the impacts it can be expected to have on the long range forecast.

TO: Chair Beverly Stein
Commissioner Tanya Collier
Commissioner Gary Hansen
Commissioner Sharron Kelley
Commissioner Dan Saltzman

FROM: J. Mark Campbell, Budget & Quality Office

DATE: July 1, 1996

SUBJECT: Five Year Financial Forecast

As we approach the turn of the century the State of Oregon, in general, and the Portland metropolitan region, in particular, are enjoying a continuation of unprecedented economic growth which began in the early 1990's. Nearly all the indicators followed in this report support a very positive ***Multnomah County Forecast*** for the next five years.

Construction employment is at a post World War II high, fueled primarily by the heavy investment which high technology companies have made in the region. In 1995, Oregon's overall rate of job growth was the fourth highest in the nation. Also last year, personal income grew at the eighth fastest rate of the fifty states. Population growth in the Portland metropolitan region has been double the national average over the past two years. These trends are likely to continue for at least two more years as the high technology companies now under construction become operational.

The strength of the economy - which is propelling a record level of business profits - supports a favorable General Fund revenue forecast. We have forecast average revenue growth at just less than six percent annually, while inflation driven expenditures will grow at an annual rate of between 3-3.5%. If expenditures remain at the service levels proposed in FY96-97 budget and no new programs are initiated, receipts will exceed spending by between **$2 million to more than $15 million by the end of the forecast period.**

Yet, while the signs are generally positive, external factors may eventually have grave impacts on the County's financial status. Rapidly increasing residential property values have given rise to another effort to limit property taxes. A tax limitation measure is likely for the November ballot and, if passed, it would severely restrict the County's primary source of discretionary revenue. Reductions in federal and state revenues are very likely to occur at some point during the forecast period. Federal budget discussions have essentially reached a stalemate, though, making it virtually impossible to locate the real impact of the expected cuts.

The report that follows is comprised of two sections. Section I is the *Forecast of Economic Indicators*, a collection of economic statistics we review in the context of their relationship to the regional economy. This section discusses the macroeconomic factors driving Portland's rapid growth while Section II, *The General Fund Forecast*, provides detailed analysis of how those factors impact the County's financial position.

Section I.
Forecast of Economic Indicators

The Oregon economy, in general, and the Portland regional economy, in particular, are forecast to continue their spectacular performance over the next few years. Nearly every indicator followed in this report gives reason for optimism.

This forecast focuses on ten indicators - each reflective of a slightly different aspect of the regional economy. The following pages discuss the trends manifest by those indicators and their meaning for the local and regional economies.

While the overall forecast is generally positive, there some caveats must be placed on our analysis of these economic indicators. One potential problem is that the regional economy may be the very victim of its own success - meaning that excessively fast growth could lead to inflationary pressures in some labor markets.

In addition, two factors have been prominent in Oregon, and Portland's, economic boom over the past few years. The first factor has been the state's competitive cost structure. For much of the decade, Oregon's per capita income has been roughly 90% of the national average. Based on the most recent figures, Oregon's per capita income is at its highest level relative to the nation as a whole since 1979; that year marked the beginning of the state's economic downturn. A recession of the type that Oregon weathered through the mid-1980's is unlikely to occur again. However, as per capita income growth moves closer to the national average the state and region will face increasing competition from lower cost regions.

Portland and Vancouver, because of their geographic position at the confluence of the Columbia and Willamette Rivers, have been able to benefit from increased trade with the Pacific Rim nations. Goods shipped through the ports of the lower Columbia River account for nearly $10 billion worth of trade. However, as trade with Asia has grown dramatically over the past few years, so too has the competition among west coast ports for access to that trade.

The indicators discussed on the following pages do suggest a strong, sustainable period of economic growth for the Portland metropolitan region. The challenge for the region seems to lie in managing the growth brought about by the strong economy and in continuing to diversify as Oregon continues its rapid shift from a natural resource based economy to one based primarily on high technology and service industries.

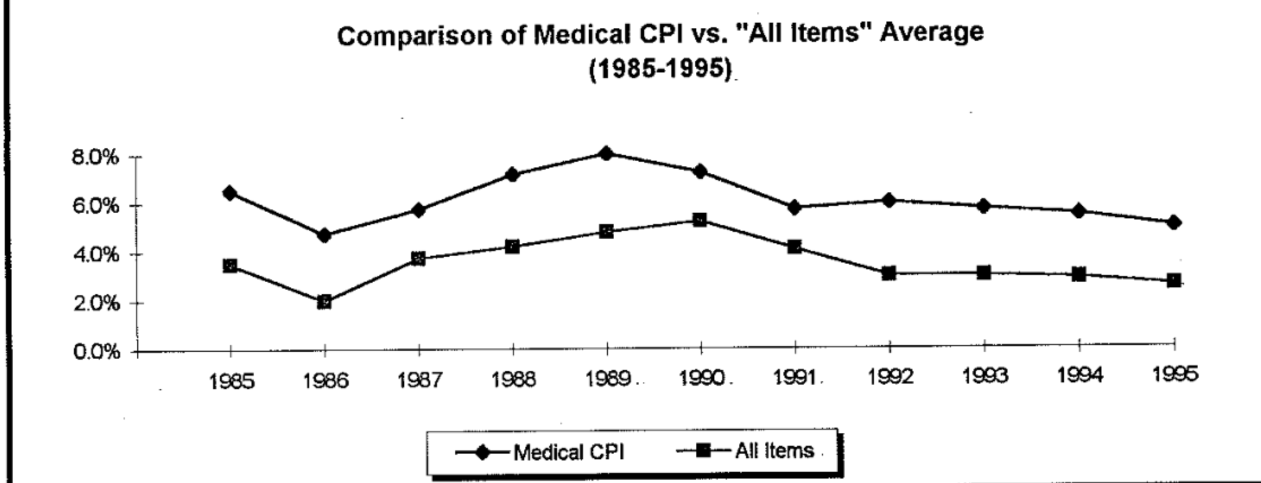
Consumer Price Index (CPI)

The Federal Reserve Board has, by all accounts, managed a "soft landing" for the economy. As you may recall, last year at this time the national economy was growing at an annual rate of nearly three percent. Prolonged expansion at this rate would have placed inflationary pressures on the economy. It was recently reported that growth in the national economy had, in fact, slowed in the fourth quarter of last year.

Current forecasts seem to indicate a slight moderation in economic activity. A recent report published by Goldman Sachs suggests a sluggish first half in 1996, with overall growth slowing to an annual rate in the 1.5% - 2% range, then calls for an upturn heading into the following year. Due to this "deceleration" of the national economy inflation is expected to hover around three percent into the foreseeable future. Our forecast calls for CPI growth ranging from 3.1% in FY96-97 to 3.4% in the final year of the forecast. This represents a slight downward adjustment to the estimates we used in last year's forecast.

As usual, we must offer cautionary language regarding the enigmatic performance of the economy. No less an authority than Federal Reserve Chairman Alan Greenspan even suggested several months ago that perhaps the CPI may not be the most precise measure of cost changes. There are sectors of the economy which are influenced more by regional, than national, factors. For example, housing prices in the Pacific NW have risen faster than the national average for the past three years. And, some costs just simply seem to run "hotter" than others. Medical and healthcare costs are a prime example of a sector of the economy which increases faster than the CPI. The following chart shows a comparison of medical and healthcare cost increases compared to the average for all costs.

Figure 1



Wage growth, typically the single largest cost in most government budgets, is forecast to remain in the range of 3% - 3.5% throughout the forecast period. However, overall wages and benefits in the County may grow faster than the CPI rate.

In the past two years we have made an effort to manage labor costs through the budget process. We have limited budgets for Personal Services to a rate less than overall CPI growth. Over time this strategy may have an adverse impact on the ability of departments to manage at current service levels.

And, because external cost factors (i.e.; medical and dental benefits) are increasing at rates faster than the overall CPI we expect it may be difficult to continue to manage labor costs at, or below, the level of inflation. The impact this could have on the County's financial position will be discussed in greater detail in *Section II* of this report.

<u>Property Value Growth</u>

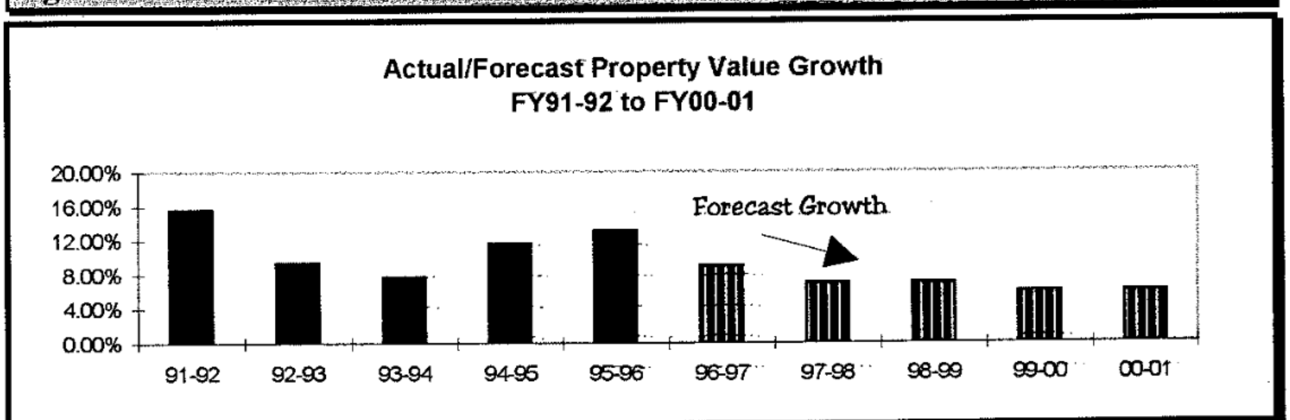
At this time last year we told you it was ". . *unlikely that [an 11.7%] rate of growth can be sustained for an extended period of time.*" It appears, however, that property value growth remains strong in the Portland metropolitan region. For FY95-96 Multnomah County had property value growth of 13.1% - representing the second consecutive year of double digit growth.

City of Portland analysis indicates there is no three year period since World War II when Portland's property values grew by more than ten percent a year. We are looking at the prospect of that becoming a reality when the FY96-97 assessment data is tabulated. Sales data through December indicates 5.5% growth in residential property values. The County's revenue forecast has been built on an assumption that we will have nine percent value growth in FY96-97, although we acknowledge that actual value growth could exceed this rate.

The long term forecast seems to indicate a continuous demand for new housing - migration to Oregon is anticipated to remain a significant factor for the next few years and the high technology industry expects to employ 11,000 additional workers by the end of the century. This forecast does not account for the impact of METRO's pending decision on expansion of the urban growth boundary (UGB) on future property value growth; although, if the so-called "zero option" is adopted we would anticipate that existing homes will continue to increase in value as the land available for new development becomes more scarce.

The factors seem to be in place to foster continuing strong property value growth in Multnomah County, although not at the levels experienced over the past few years. We have built our forecast conservatively, using growth figures that are closer to the historical average.

Figure 2



This forecast assumes that assessments will not be artificially capped through the initiative process. There are currently at least two ballot initiatives, sponsored by Oregon Taxpayers United, that may be scheduled for the November general election which would severely limit value growth in future years. The ramifications of value growth limitation measures for the County's finances will be discussed later; but they indicate the way that residential property value growth has become a double edged sword.

The Portland metropolitan region has been blessed with a strong economy and in-migration from other western states (mostly California) throughout the early/mid 1990's. Property value growth rates of 10% - 13% a year have enabled local governments in Multnomah County to come out of tax rate compression sooner than anyone had anticipated.

However, housing affordability has been declining. Costs have grown faster than incomes have been rising. A survey conducted last summer by the National Association of Homebuilders ranked Portland as the ninth most expensive metropolitan area in the nation. The median sale price of residential homes in Multnomah County is approximately $135,000 - *up more than 80% over the past five years.* Given these figures, the urge to curb property value growth is easily understandable.

Interest Rates

The Federal Reserve Board has utilized fiscal policy in its successful engineering of a "soft landing." Rates have held steady for the past several months - a clear indication the Fed believes inflationary pressures have been alleviated. Long term rates had fallen, dropping nearly back to the low levels experienced in 1993 and 1994, but have gradually crept back up as the Fed attempts to manipulate a slowing of the economy.

Some analysts believe that 1996 will see a gradual reduction in interest rates. One national columnist wrote, as recently as November, that "*. . 1996 should be a good year for people who missed out in the refinancing frenzy [of 1993/94] to capitalize on lower interest rates.*" Our forecast does not call for rates to drop as low as that quote would imply; however, a couple of factors do seem to support this view.

If growth slows further than the Federal Reserve Board is comfortable with they may use the interest rate "lever" to stimulate the economy. Those who see a significant reduction in interest rates over the long term point out that two successive quarters of economic growth in the two percent range have been sufficient in the recent past to trigger a response from the Fed. The other factor playing into this scenario is the fact that consumer spending is down. Overall spending during the holiday season (typically seen as a barometer of the strength of the consumer market) was down by an average of more than six percent nationally.

Our forecast is based on the Federal Reserve's clear indication that it will not tolerate an acceleration of inflation. Gross Domestic Product (GDP) growth will probably have to remain moderate for an extended period for any further rate reductions to take place. We expect a quarter percent decline in the Federal Funds rate within the first half of 1996, with rates expected to remain in the 5.25% - 5.5% for the forecast period. Likewise, we predict that 30 Year Treasury Bonds will dip slightly and then flatten out - at around 6.4% - for the next few years. The expectation of relatively benign inflationary growth will be the key to moderate long term interest rates.

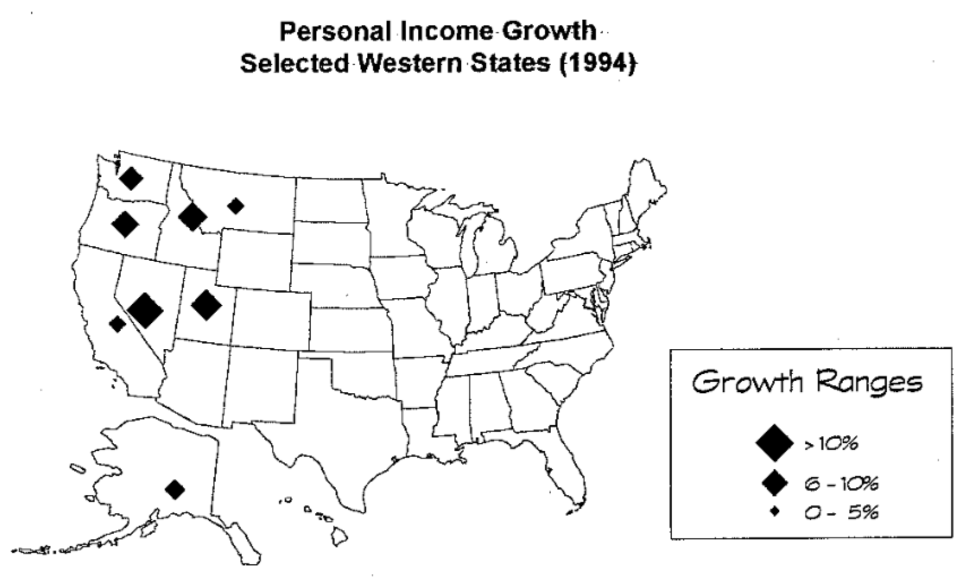
With no end in sight to the federal budget stalemate, federal fiscal policy remains uncertain and unpredictable. Both sides in the budget debate seem committed to deficit reduction - and this has had a positive influence on long term interest rates. The Federal Reserve's flexibility will be greatly enhanced by the passage of a credible deficit reduction package. Although the details of a budget deal have yet to be negotiated, a large tax cut and major expenditure reductions appear possible.

Personal Income

The ***Oregon Economic and Revenue Forecast*** reported in December that personal income in the state had reached it's highest rate of growth in the past decade. At 7.6%, in 1995, it was nearly a third higher than the rest of the nation.

The map in Figure 3 shows the relative growth rates of a group of selected western states. The interesting fact to note is that Nevada (at 10.5%) and Utah (at 8.6%) were first and third, respectively, in personal income growth among the 50 states.

Figure 3



Source: NW Policy Center/The 1996 Portrait

Oregon's strong income growth has been driven primarily by construction and manufacturing (notably high technology). The forecast estimates income growth will remain higher than the national average for the next few years. The state will retain a competitive labor market advantage in attracting new business. The rapid growth of the high technology industry and the tightening labor market in the construction sector, while leading to higher wage gains, will eventually erode that competitive advantage.

Per capita income is forecast to rise by 3.9% in 1996, pushing it to 94% of the national average. Oregon's per capita income has not been higher compared to the rest of the nation in 15 years. Because of the rapid increases experienced over the past few years, the state's wage rates have increased to 91% of the national average. This rate is higher than any time over the past 12 years.

In the short term the forecast calls for continued strong income growth. As noted above, Oregon's income growth should remain above the national average for the forecast period. As labor markets tighten and wage rates push inexorably higher, though, the state and region can expect slower rates of income growth.

Labor Market Growth

The unemployment rate in the Portland metropolitan region is currently at 3.5% - this rate represents a post World War II low - and has declined (when seasonally adjusted) nearly every month for the past year. Overall employment **increased by 4.7%** in Portland last year. This is nearly double the rate experienced by Seattle and more than three times the growth rate in Los Angeles!

As might be expected, construction and high technology account for much of the employment growth seen in the past few years. Construction related jobs grew at an annual rate of 18.5% over the past year. In 1995 more than 8,500 jobs were added statewide by construction employers. The table below shows that the majority of those jobs are concentrated in several large, high technology projects.

Table 1 - Construction Jobs at Selected High Tech Sites

Company	Location	# Employed
Integrated Device Technology	Hillsboro	300
Komatsu Electronic Metals	Hillsboro	300
Intel Corporation	Aloha	500
Intel Corporation	Hillsboro	1,000
Wacker Siltronic	Portland	500
Fujitsu Microelectronics	Gresham	1,500
LSI Logic Corporation	Gresham	700

Source: Oregonian (12/24/95)

When construction is complete and these facilities are in full production, analysts have forecast that another 11,000 jobs will be created in the high technology sector. While high technology will continue to lead the way the services and trade sectors are also forecast to grow at rates above the national average.

Job growth is expected to remain strong, although the region cannot continue to have growth rates approaching five percent per year. A growing shortage of workers and tightening labor markets in some key industries makes slower employment growth almost inevitable. There appears to be little on the horizon, however, to suggest that the Portland metropolitan region will not continue to perform better than the national average.

The economy has become increasingly diversified over the past ten years. The one cautionary element in the long term forecast is that the region could become too reliant on high technology employment. The huge investment in the high technology sector has fueled job growth over the past few years, but it is important to keep in mind that it is just one of 14 "key industries" identified by the Oregon Economic Development Department (OEDD) as being critical to the future of the state's economy.

Commercial Vacancy Rates

The commercial real estate market in the Portland metropolitan region is forecast to extend its recovery into a fifth year. Analysts point to two primary factors in the continuing strength of the region's commercial market:

- Office space was not overbuilt in the 1980's; and
- The unemployment rate is approaching a historical low.

There continues to be a good supply of Class A, B and C office space in the downtown core. Vacancy rates, though, are forecast to continue their downward trend. Now at 8.5%, the vacancy rate in the downtown core could fall to 5.5% over the next year. Recent "build to suit" construction in Clackamas and Washington County pushed the suburban vacancy rate up slightly - to 7.8% - although this rate is still well below the national average.

The Portland metropolitan region's unemployment rate of 3.5% is a full percent below the state as a whole and it is two full points below the national average. Rapid job growth over the past four years has increased demand for office space and driven the overall vacancy rate down. If vacancy rates are declining and job growth is forecast to increase at a steady rate why isn't Portland seeing more in the way of commercial construction?

According to the *Portland 1996 Market Study* prepared by CB Commercial, new construction becomes feasible when office leases can command $24 per square foot. Class "A" space is currently at approximately $20 per square foot, but rental rates have been increasing slowly.

In addition, the explosive growth in the high technology sector has created an extremely tight labor market for the construction trades. As Table 1 indicates, approximately five thousand workers are being employed in the construction of seven high technology facilities. The high cost of construction combined with reasonably low rents would seem to preclude any significant new office construction within the next 18-24 months.

Declining vacancy rates and steady job growth eventually will lead to a need for future office construction. The CB Commercial report suggests that nearly 60% of the jobs in the Portland metropolitan region are new within the past ten years. If this trend continues we will be likely to see some significant construction projects get underway before the end of this forecast period.

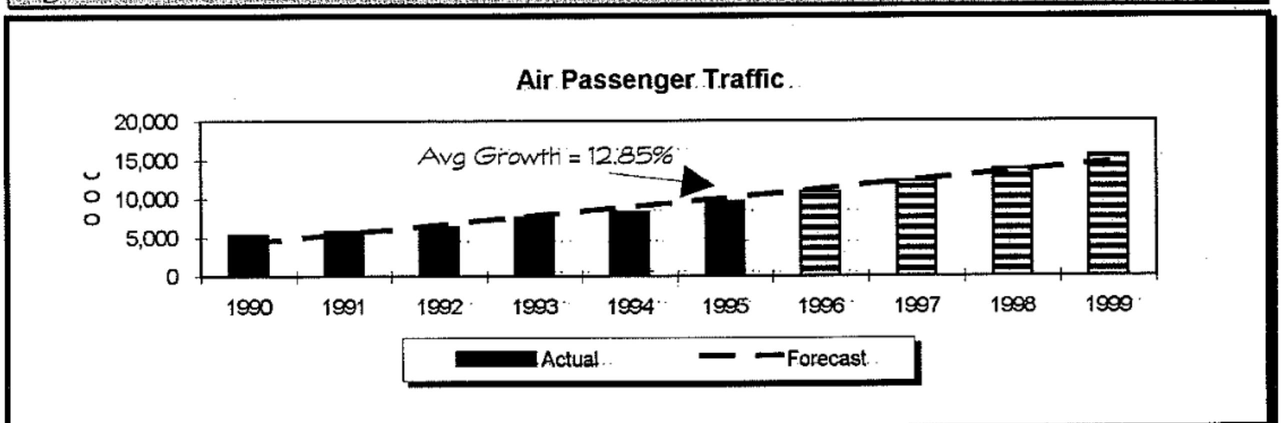
Port Activity

Portland's geographic location coupled with its emergence as a trade center for the Pacific Rim suggests a continuing strong role in the regional economy for the Port of Portland.

Activity through the Port highlights two very different aspects of the regional economy. Shipping activity along the Columbia River corridor primarily captures the agricultural and natural resource base of the state economy, while air traffic tends to serve as a barometer of the manufacturing and tourism industries. While the forecast assumes continued overall growth for the Port of Portland, it can be helpful to examine some of the underlying differences between the two facilities.

Passenger traffic through Portland International Airport (PDX) is expected to exceed one million travelers per month sometime this year. The graph below charts the rapid growth the airport has experienced over the past five years. PDX has been the fastest growing domestic airport in three of the past five years. Since 1990, the airport has averaged growth of 12.85% - that trend should continue over the next several years indicating Portland's (and Oregon's) growing popularity as a convention site and vacation destination.

Figure 4



Air freight shipments have also grown rapidly over the past several years. Air cargo tonnage has increased more than 200% in the past ten years. Last year cargo tonnage increased by 15% over the previous year. That trend is likely to continue, particularly given the influx of high technology companies, which rely on access to air transport, into the region.

Shipping on the Columbia River also represents a significant economic enterprise. In 1994, trade through the Columbia/Snake River Customs District generated an $867 million surplus. This was the highest surplus reported for any Customs District along the west coast. Port of Portland facilities rank number three on the west coast in terms of total tonnage of waterborne cargo.

Yet, the Port is being faced with increasing competition from other west coast facilities (notably Tacoma and Oakland) Recently, the question of deepening the shipping channel in the Columbia River has arisen as a potential issue impacting the future of the Port. Two major Asian shippers recently announced their departure from the Port of Portland, citing their concerns the Port would not be able to keep the Columbia dredged, enabling large container vessels to reach Portland.

The Port of Portland will continue to play a major role in the regional economy. It will be interesting to note the differences in growth between air and water facilities as a way of gauging the changes to the economic base of the state and region.

Population Growth

Portland's metropolitan population (slightly more than 1.7 million in 1995) makes it the 19th largest metropolitan area in the nation. Much of that growth has occurred over the past five years. The overall rate of growth in the six county metropolitan region has averaged more than 2.5% over the past five years, a rate more than double the national average. Table 2 shows the growth rates experienced by the individual counties.

Table 2 - Metro Area Population (1990-95)

County	1990	1995	% Annual Growth
Multnomah	583,887	626,500	1.46%
Washington	311,554	370,000	3.75%
Clackamas	278,850	308,600	2.13%
Clark, WA	238,053	291,027	4.45%
Yamhill	65,551	74,600	2.76%
Columbia	37,557	39,700	1.14%

Sources: ***Portland State University/Center for Population Research***
Clark County/Department of Assessment & GIS

Much of the population growth has been fueled by in-migration from other western states. Growth rates are forecast to remain strong, primarily due to tightening labor supplies and growth in the high technology sector. The overall strength of the Oregon economy - nearly all indicators forecast above average growth for the forecast period - will continue to fuel growth in the Portland metropolitan region.

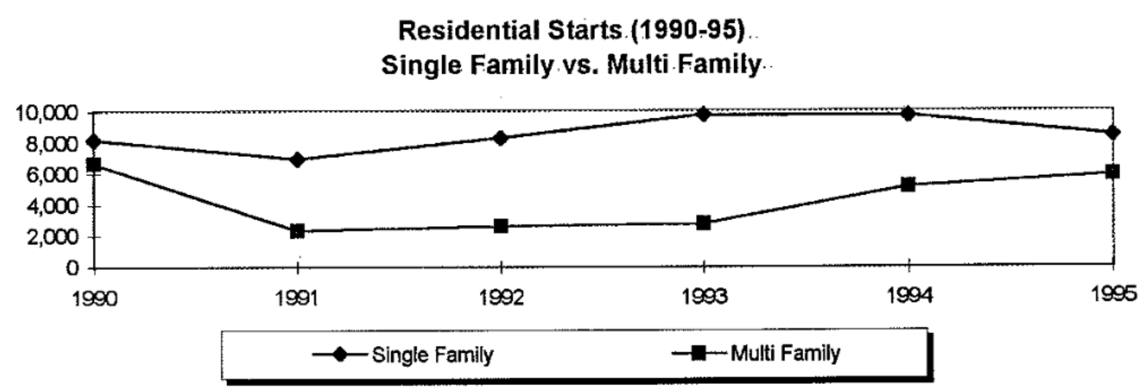
The population increase in Multnomah County in 1995 was a full percent, thus, we have revised our population estimates upward for the forecast period. We had based our earlier estimate on a more conservative .7% annual growth rate. The current forecast calls for one percent annual growth.

It seems apparent that the period of rapid growth in the state and region has yet to run its course. It is important to note, though, that migration patterns can change dramatically in response to changing economic conditions. A major factor impacting Oregon's continued growth will be the relative health of the California economy. As the California economy strengthens, the incentives for movement to other states will wane.

Housing Starts

The residential housing market rebounded in the last half of 1995 after undergoing a slight downturn over the previous four quarters. Much of the growth experienced last year can directly be attributable to the rapid growth in multi family construction. The number of apartment units permitted in 1995 was higher than any year since 1990 - the peak year of the last construction boom.

Figure 5



Source: CB Commercial Market Report

The preceding graph shows the trend in residential construction over the past six years. The downturn in single family construction can be directly attributed to the gradual increase in interest rates, which began in the spring of 1994. As the graph indicates, single family construction has slowed from its peak year in 1993. The second half rebound experienced in 1995 can be traced partly to the Federal Reserve's decision to lower interest rates. The forecast suggests that single family construction will grow at a moderate rate over the next several years. It is likely we will see a higher rate of growth towards the end of the forecast period as high technology facilities now under construction become fully operational.

The high technology and construction sectors are fueling the rapid growth in the multi family market. Multi family construction typically follows a very definite three year pattern. If this holds, we are currently in the third year of a "high" cycle. We anticipate that apartment growth will peak this year and gradually decline over the forecast period. When vacancy rates decline to the 2% - 3% range it typically becomes economical to initiate new construction.

This forecast does not take into account the impact of METRO's pending decision on expansion of the urban growth boundary. Recently, METRO planning staff released a report detailing how many new households would be needed to accommodate the growth forecast for the next twenty years. Based on this report, the incorporated areas of Multnomah County will see an increase of approximately 70,000 households between now and 2015. This figure represents an annual addition of 3,500 households to the County's population base.

While we neither agree with nor dispute the METRO estimates, it is interesting to note, for example, that the City of Portland is expected to average roughly 2,500 new households per year. In 1995, the City of Portland issued just slightly more than 2,000 housing permits (both single family and multi-family). If METRO's growth figures do bear out, however, it would seem to imply an even faster period of economic growth than we have recently experienced.

Travel/Tourism

As we indicated last year, the travel/tourism industry has become one of the top three employers in the state. Because there are many different sectors and many different definitions of what fits under the travel and tourism banner, the data on employment and economic impact in this industry may not be entirely accurate. According to the Northwest Policy Center's ***1996 Portrait***, however, the fact that many estimates of spending on tourism related activities do not account for a ". . multiplier effect . . . would tend to underestimate the impact of the industry."

Thus, the figures given for the overall impact of travel and tourism on the state's economy are likely to be on the conservative side. With that in mind, data from 1994 indicates that there are approximately 56,000 people employed in the travel/tourism industry statewide. And it is estimated that travelers to the state spent in **excess of $3.5 billion** on their visits to Oregon.

A recent study by the Oregon Tourism Division indicates that Portland remains the single most visited destination in the state - with slightly more than 25% of all visitors passing through the metropolitan region. The study also verified that Multnomah Falls remains the single most visited tourist attraction in the state. Pleasure trips tend to dominate visits to the state, with the visitor profile indicating that 83% of out-of-state visitors were on a pleasure trip or combining business with pleasure.

All signs point to the growing importance of the travel and tourism industry in the regional economy. Air passenger traffic through PDX is expected to continue to grow. With the Oregon Convention Center now in its third full year of operation, Portland has become one of the prominent convention sites on the west coast. And, the Oregon Tourism Division has recently undertaken efforts to widen their marketing of the state to foreign travelers.

Section II.
The General Fund Forecast

The long range forecast for Multnomah County is largely favorable. There are some areas of concern - chief among them are federal budget deliberations and the prospect of further property tax limitation - which will be discussed later. But, on average, the County should be able to continue to operate in a favorable cost environment for the next few years.

The strength of the regional economy has begun to be reflected in the County's revenue and expenditure patterns. Most notably, Business Income Tax (BIT) receipts in FY94-95 **increased by nearly 20%** from the previous year. And, continuing low inflation has enabled the County to more easily manage increases in program costs. As noted earlier, inflation is expected to moderate and remain at or near three percent throughout the next five years. Combined with the still surging economy, our forecast calls for revenue sources to increase by nearly double the rate of expenditure growth.

General Fund resources in FY94-95 were nearly $175 million, ***up approximately 3.5%*** over our original forecast figure, while expenditures were only about $160 million. The nearly $15 million ending balance - produced with $6 million in unanticipated revenue - has enabled Multnomah County to fully fund the Board of County Commissioners goal of a 5% revenue reserve.

All of the traditional economic indicators suggest a period of sustained growth for the Portland metropolitan region. Our current revenue stream should continue to support current service levels and allow the Board of County Commissioners some flexibility in pursuing new initiatives. However, the specter of looming cuts in federal spending and the possibility of further property tax restrictions does serve to temper the otherwise good news contained in this forecast.

A forecast is a snapshot in time. The economy is forecast to continue to outperform the nation as a whole, yet in the recent news we have seen the Port of Portland lose two major Asian shipping companies and Freightliner announced that it is laying off nearly 700 employees. Also, the recent downturn in the performance of high technology stocks has interesting implications for the construction now underway in the Portland metropolitan region.

The data used throughout this report is taken from sources considered to be reliable. We have based our assumptions on our analysis, as well as the consensus view of other economic forecasters, of that data. In general, we have taken a conservative approach in developing this forecast. There are too many unquantifiable factors to address a full range of options. Yet, we feel this forecast can serve as a framework for developing policies to address current and emerging issues.

Introduction

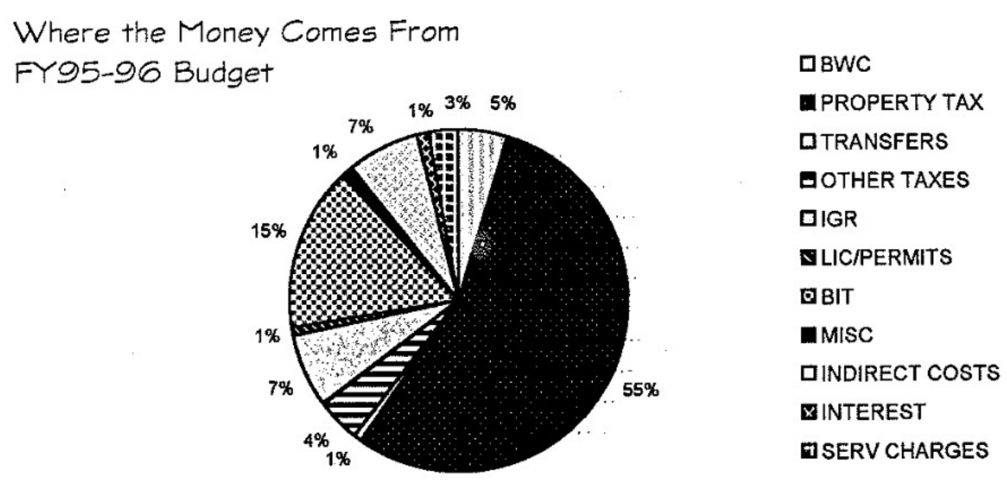
The following sections will detail the assumptions used in forecasting General Fund revenues and expenditures. We will discuss the property tax issue and provide a general analysis of what potentially could happen under the Oregon Taxpayer's United initiatives proposed for the November general election. We will also outline the status of the current Federal budget stalemate and offer a perspective on what the County may be faced with.

We have based this forecast on the following "core" assumptions:

- Inflation will increase at no more than 3.5% annually;
- Property tax rates for governmental jurisdictions will remain out of compression;
- Economic growth in the Portland metropolitan region will continue to exceed the national average; and
- The County can expect reductions in its federal and state revenue sources, although details have yet to be negotiated in Washington and Salem.

The General Fund provides support for nearly all the County's functions. In FY95-96 total General Fund resources are budgeted at approximately $180 million. Figure 6 shows the different sources of revenue in the General Fund along with their respective shares of the total.

Figure 6



The Property Tax continues to be the largest single source of revenue in the General Fund. In FY95-96, for the first time since passage of Measure 5, the tax rate within the City of Portland is not in compression. Property tax revenue should stabilize and become easier to predict over the next few years. The forecast calls for above average property value growth and we expect to be able to work with the City to maintain the "share agreement," thereby ensuring that we stay out of rate compression. This forecast further assumes that no additional tax limitation measures will be passed into law.

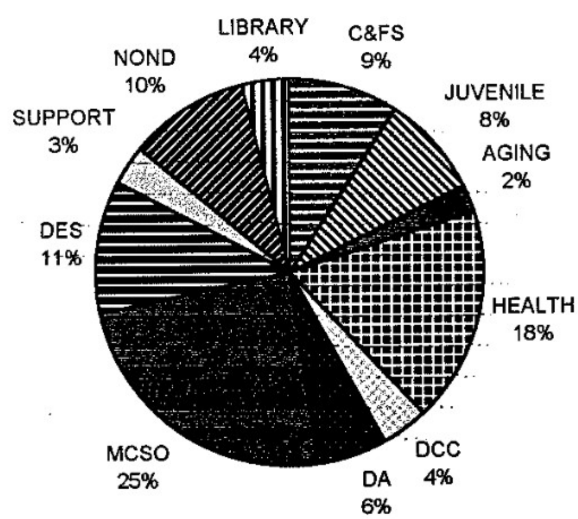
Revenue from the Business Income Tax (BIT) should continue to become a larger share of the total General Fund. Total forecast revenue for FY95-96 is expected to be approximately $30 million. With the outlook for strong growth in the state and regional economies, we expect BIT revenues will grow to more than $40 million by the end of the forecast period.

Total revenue is forecast to grow at an annual average of just under six percent over the next five years. During that same period, General Fund expenditures are only projected to grow by about 3.5% annually. Inflation is forecast to remain moderate - and any increases are anticipated to be measured in tenths of a percent.

Because revenues are growing at roughly twice the rate of expenditures the General Fund forecast estimates **<u>$2 million to $15 million</u>** available until the end of the five year period. This forecast assumes the County will maintain programs at current service levels and will not create new, or enhanced, programs. This should provide the Board of County Commissioners with the flexibility to either develop new policy initiatives or respond to cuts in programs currently supported by state and federal revenues.

Figure 7

Where the Money Goes
FY95-96 Budget



As the chart in Figure 7 indicates, the justice system (both adult and juvenile) accounts for **about 43% of total General Fund spending**. Public safety is typically the single largest expenditure for most governments. The point to be made, however, is that an increasing share of the County's discretionary funds is being invested in this area. That trend is likely to continue with the full implementation of a number of citizen initiated measures - most notably Measure 11.

This forecast assumes the County will be able to continue funding for the existing level of programs. We have further assumed that the overall level of General Fund revenue growth will allow those programs to grow with inflation. Earlier, it was noted that it may be difficult for County programs to manage at their current service levels, even given the low rates of inflation we are expecting throughout the forecast period.

In the past two years, we have pursued a budget strategy which allowed departments to capture anticipated salary savings as a way of limiting overall spending growth. Essentially, departments have been asked to do more within their existing funding levels. That strategy provided the Board of County Commissioners with additional funding with which to address emerging policy issues. It also provided us the ability to target some of this "one time only" revenue toward important infrastructure needs.

This strategy has been successful in helping to pursue some of the Board's programmatic goals. But, it has also had the impact of artificially limiting departmental expenditures particularly in the area of Personal Services. Much of the evidence is anecdotal and it is not uniform across organizations. Traditionally, we have been able to count on about 3-4% underspending in the General Fund when we prepare an initial revenue forecast. Based on what can be determined from this year's evidence, though, we have assumed that *departments will spend 98% of their budgeted appropriations.*

On the positive side, the strength of the regional economy contributed to unanticipated revenue growth of nearly $6 million last year. We have earmarked ***about $4 ½ million of that revenue*** to achieve the Board of County Commissioner's goal of having a 5% revenue reserve in the General Fund. As you may recall, last year we forecast that an annual contribution of $1.5 million would get us to the goal in four years.

The forecast indicates that revenue will continue to grow faster than expenditures. Because the reserve is fully funded, it will only need to be incrementally adjusted as programmatic expenditures increase. We have assumed that the $1.5 million originally forecast to build the reserve can, thus, be made available to fund operational needs.

The following pages provide more detailed analysis of the County's revenue and expenditure forecasts.

General Fund Revenue Analysis

Property tax rates within the City of Portland are out of compression. The forecast assumes the City and County will work together to maintain the "share agreement."

Further property tax limitation will result in a significant revenue loss to Multnomah County. The forecast assumes that no further tax limitation will be imposed.

Business Income Tax (BIT) revenue will continue to reflect the strong state and regional economy.

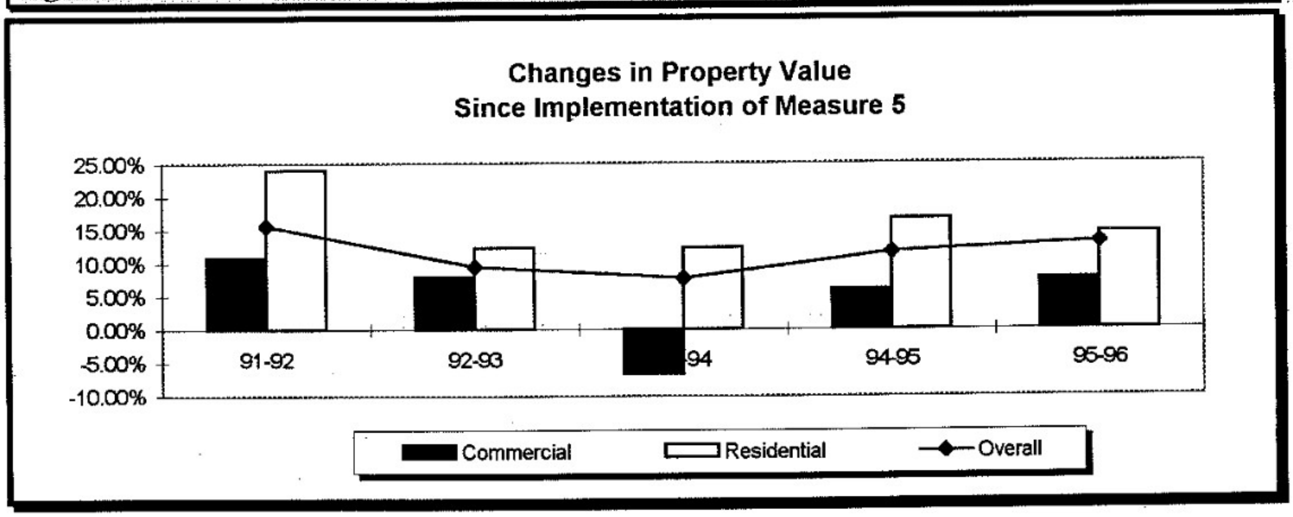
Revenue from intergovernmental sources is likely to grow at a slower rate than other sources, and may, in fact, decline.

Property Tax

As Figure 6 indicates, property taxes account for slightly more than half of total General Fund revenues. Measure 5, which took effect in FY91-92, capped the total tax rate which could be levied by local governments at one percent of assessed value. Since the restrictions imposed by Measure 5 have been in place the General Fund revenue lost to tax limitation has been roughly $25 million.

Portland, and Multnomah County, have been benefactors of the strong regional economy. Higher than average property value growth has enabled us to come out of rate compression sooner than had been originally forecast. It is interesting to note, however, that the strong economy has primarily been reflected in the residential housing market. The following graph shows the difference in value growth between residential and commercial property in Multnomah County.

Figure 8



As the "Overall" trend line indicates, much of the increase in total value growth has been driven by increases in residential values. As noted earlier, one recent study has listed Portland as the ninth most expensive housing market in the nation. The rapid increase in residential assessed values has two implications for the County's property tax revenue forecast.

First, residential growth which has **averaged more than 14% per year** has enabled jurisdictions within Multnomah County to come out of tax rate compression sooner than had been forecast. Local governments can now collect their full, uncompressed tax bases for the first time in five years. As long as the total tax rate stays within $10/$1,000 of assessed valuation the General Fund property tax forecast is relatively stable and predictable.

In addition, the strong regional economy has helped increase the tax collection rate to historically high levels. In FY94-95, current year tax collections were nearly 97%, marking the third consecutive year collections have been above the historical "average" of about 93%. This trend is forecast to continue and we have revised our long term forecast to reflect the additional revenue generated by a higher collection rate.

The second implication of the rapid growth in residential values, is that property taxes for Multnomah County taxpayers are **forecast to increase by 17%** next year. Even though total property values have grown at 14% per year most taxpayers have seen some reduction in their total tax bills because of the phased in nature of Measure 5.

In its February , 1996 edition of ***News & Views*** the Tax Supervising and Conservation Commission (TSCC) discusses the reasons for this forecast increase. The primary reason for the increase is the fact that the total tax rate has dropped to its constitutionally proscribed ($15/$1,000) rate while property values are forecast to continue to rise. In addition, both the City and County have plans to increase their tax levies above their existing levels. And, a number of jurisdictions have either received approval for, or are planning on submitting, new general obligation debt.

These factors are chiefly responsible for the forecast increase in property taxes. If the two Multnomah County serial levies are passed and all the proposed bond measures pass at the levels indicated in the TSCC report, the tax rate within the City of Portland will be approximately $17.25 per $1,000 of assessed value. Perhaps not surprisingly, local governments and school districts once again find themselves facing a citizen led initiative to further limit property taxes.

At least one initiative sponsored by Oregon Taxpayers United is expected to be included on the November general election ballot. The one which has the most potential impact on the County calls for property taxes to be rolled back to their FY94-95 levels. Individual taxpayers would have their tax bill reduced 15% from that level and residential assessments would not be allowed to grow at more than three percent a year. Were this initiative to pass, and it is far too early to judge public sentiment on this particular initiative, it would essentially push the City of Portland and Multnomah County into a permanent state of tax compression.

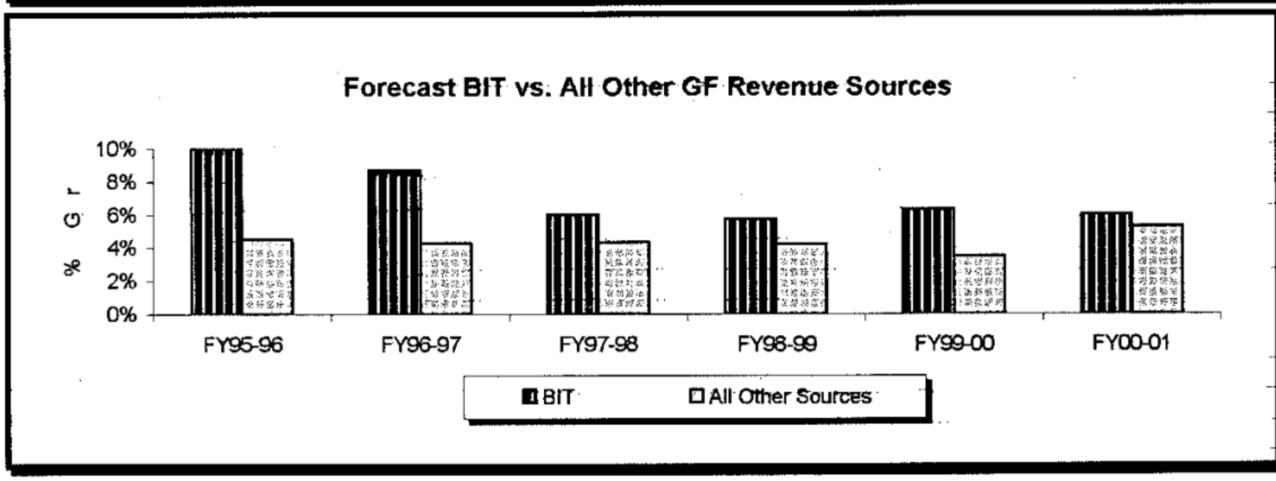
Preliminary estimates suggest that the General Fund would ***lose between $15 and $18 million*** if the measure were to take effect in the FY97-98 tax year. The proposed Library and Public Safety levies would lose a combined $9 to $11 million in the first year. And, the fact that assessed value growth would be capped at 3% per year would virtually guarantee that we would be in tax rate compression in the City of Portland, and probably in other areas of the County as well.

This forecast assumes a tax limitation initiative will not pass in November. If history is any guide it will likely take a few attempts to gain momentum for passage of further tax limitation measures. When Measure 5 passed in 1990 it represented the sixth attempt to pass a constitutional rate limitation. We have not prepared a full analysis of the impact the Oregon Taxpayers United initiative would have on the County's property tax revenue. We will be prepared to provide a more detailed briefing on this issue in June as the Board considers adoption of the FY96-97 budget.

Business Income Tax
The strong regional economy is being reflected in the County's Business Income Tax (BIT) revenue. In FY94-95, total BIT collections were just slightly more than $27 million. Current year tax collections were **nearly 20% more** than the previous year. This continues to be an enigmatic revenue source; since it is the second largest revenue source in the General Fund we have devoted more effort to developing a more reliable forecasting methodology.

The following chart provides a visual depiction of how the BIT is forecast to grow at a faster rate than the rest of the General Fund. The BIT accounts for approximately 15% of total General Fund revenues. At it's estimated rate of growth it is projected to be 19% of all revenues by the end of the forecast period.

Figure 9



Revenue in FY94-95 was nearly $1.2 million more than had been forecast in May. You may recall that a year ago we expressed some concern about the transition in administration of the tax. We believe the Department of Revenue (DOR) refunded a large number of accounts, immediately prior to the City of Portland consolidating collection of the BIT with its Business License Tax, simply to settle their records. Because of the DOR's reporting methodology the refunds were credited against current year tax collections.

This made it appear that the current year receipts were growing slower than they actually were. Our forecast has been adjusted to reflect a "base" current year estimate of approximately $27 million. In addition, we estimate that another $3 million of prior year receipts will be received annually. The base is forecast to grow by the following rates over the next five years:

	95-96	96-97	97-98	98-99	99-00	00-01
Revenue	$30.2 M	$33.3 M	$35.5 M	$37.6 M	$39.8 M	$42.3 M
% Growth	11.36%	10.43%	6.60%	5.71%	6.00%	6.29%

We believe this estimate is consistent with forecasts for similarly based revenue sources (i.e.; Portland's Business License Tax, State Corporate Income Tax) We acknowledge that our projection may be conservative in the out years of this forecast. The economy remains strong, with no visible sign of slowing on the short term horizon. In addition, the winter of 1996 will not only be remembered for it's extreme weather - it will also be remembered as an economic boon for construction and restoration related businesses.

The current year forecast assumes total BIT receipts of **slightly more than $30 million**. This is almost $3 million more than was budgeted - a nearly 7% increase - and represents an additional ongoing amount which was not in our previous forecast. We expect continued strong growth, perhaps even exceeding ten percent, over the next two to three years. We should have a clearer idea of how conservative this forecast is after we receive April tax payments. We will provide an update to this estimate during the Board's deliberations on the budget.

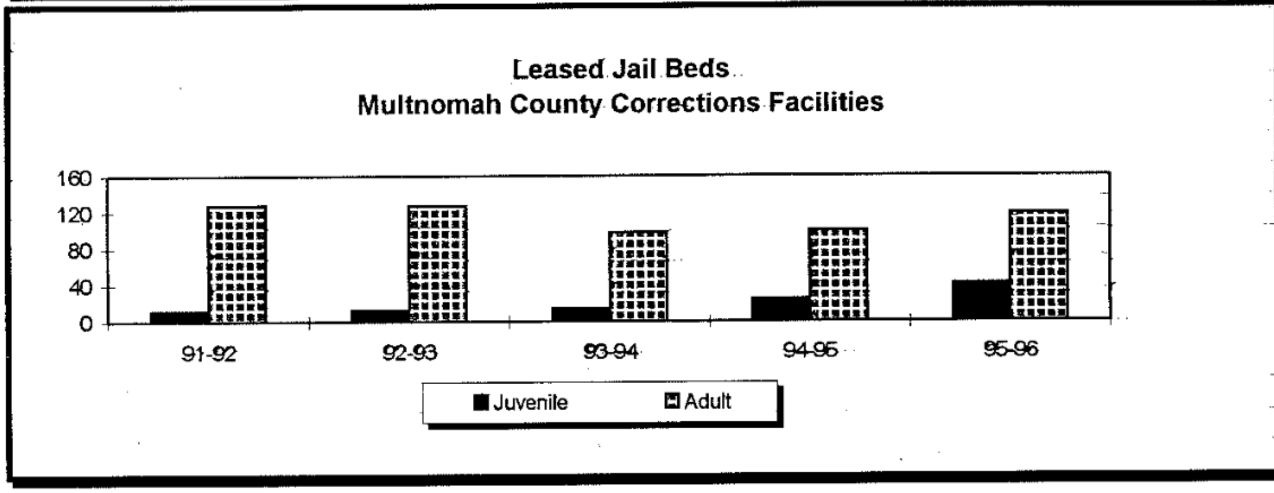
Intergovernmental Revenue

General Fund revenue from federal and state sources is expected to be approximately $12.5 million in the current year. This represents **about seven percent** of all General Fund revenue. The largest sources of revenue in this category, along with their budgeted amounts for FY95-96, are listed below.

Source	Amount
U.S. Marshal per Diem	$ 3,885,782
Video Lottery	2,592,356
Liquor Tax	1,408,020
Juvenile per Diem	1,353,612
Cigarette Tax	1,076,320
O&C Land Grant	826,630
Total	**$11,142,720**

The lease of jail beds, both adult and juvenile, provides the General Fund with just over $5.2 million. Multnomah County houses adult prisoners from other jurisdictions at a federally negotiated rate of about $90 per day. The Sheriff's Office agreement with the U.S. Marshal provides for the lease of up to 172 beds - roughly 13% of overall adult corrections capacity - although actual usage has averaged closer to 100 beds per day in recent years. The following chart highlights actual usage figures for both adult and juvenile corrections for the past five years.

Figure 10



Note the nearly doubling in the number of bed days at the juvenile facility. Primarily as part of the expansion of the juvenile detention center and partly in response to tougher juvenile sentencing legislation, Multnomah County is housing more juveniles from other jurisdictions. The County has lease agreements with the State of Oregon (32 beds), Washington County (14 beds) and Clackamas County (14 beds). In addition, Clatsop and Columbia Counties lease space on an "as needed" basis.

This forecast makes no assumption regarding the construction of a jail in conjunction with the new federal courthouse. If such a project became a reality, we would anticipate that the U.S. Marshal's Office would reduce their bed usage to the contract minimum of 86 per day. This would be a mixed blessing from the standpoint that the General Fund would lose approximately half a million dollars of revenue; but, the Sheriff's Office would not need to matrix as many local prisoners due to overcrowding.

If the ***Oregon Economic and Revenue Forecast*** is correct in its assumptions, it appears that we are now seeing the slowdown in Video Lottery revenues which had been expected. Total state revenue from the video lottery is forecast to be <u>down more than $78 million</u> in the FY95-97 biennium. This is a significant revision - more than a ten percent reduction from what was budgeted - and the Oregon legislature voted during its recently concluded special session to make across the board cuts in all lottery funded programs.

The ***Oregon Economic and Revenue Forecast*** states that *"[t]his change has been over the course of just a few weeks, which coincide with the opening of three tribal casinos."* Greater competition from casinos, both in state and out of state (Reno, NV has targeted the Portland metro area very heavily in its marketing efforts), and a reduced per machine handle are seen as the two contributing factors in the revised lottery forecast. The impact of the "structural market change" in video lottery games has yet to be fully examined, thus, we have built our forecast on a reasonably conservative estimate.

Our revenue projection for FY95-96 was built on a more conservative estimate of growth in the video lottery. The State's estimate in June, 1995 anticipated a 25% increase in total lottery revenue, with the video lottery accounting for most of that growth. Our budget was based on a nine percent rate of growth. The General Fund forecast calls for a slight reduction in budgeted video lottery revenues in the current year, with a gradual decline over the next two years. We expect to see revenue from this source start to increase in the second year of the upcoming biennium (FY97-99.)

Regardless of the reasons, it is apparent that counties can no longer count on rapid growth in this revenue source. Last year we told you that the County's share of video lottery revenue would increase to $4 million by the end of the forecast period. In keeping with the State's revised estimates, we are now anticipating that FY95-96 receipts will be the peak for this revenue source.

The County receives a share of the Cigarette Tax and Liquor Tax collected by the State. Together, these sources accounted for approximately $2.7 million in FY94-95. The County also receives nearly $.9 million as its share of the O&C timber sales revenue. These sources are forecast to remain flat or, in the case of the O&C revenue, decline over the forecast period.

The forecast population increase should help to offset any reductions which may be experienced in cigarette and alcohol consumption. We have built our revenue estimate on a modest two percent growth in these two sources. We have been advised, however, that our share of the O&C revenue will be declining. Federal statute provides a guarantee of revenue until the year 2003 - and no county's allocation can drop by more than ten percent in any year. Our estimates reflect the maximum ten percent reduction in each successive year.

Other Revenues

The General Fund receives **approximately $13 million** in Indirect Cost reimbursement from other County funds. Indirect costs are paid to the General Fund for the provision of normal business overhead activity (i.e.; processing of payment vouchers, employee payroll) at a rate established for each department. The majority of indirect cost revenue, by far, comes from the Federal State Fund.

Figure 11

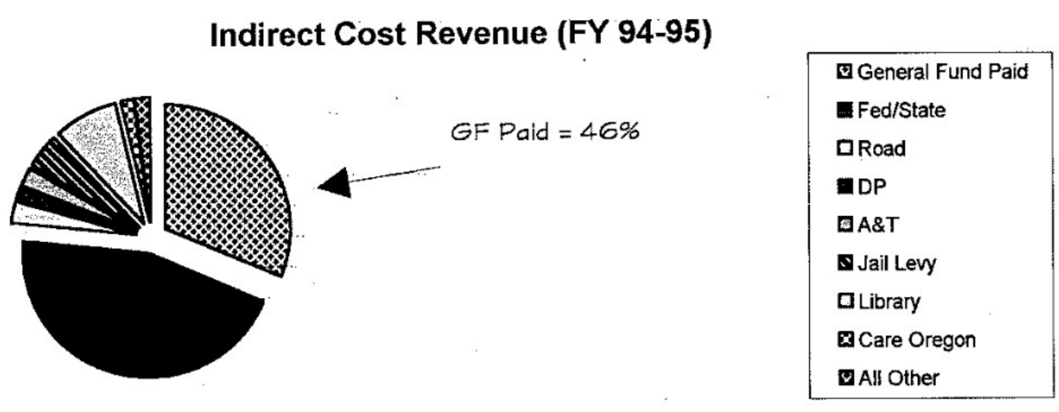


Figure 11 above highlights the fact that approximately two-thirds of all Indirect Cost revenue is paid by the Federal/State Fund. This has important implications given the likelihood of cuts in federal and state programs. It is also important to note, however, that only a little more than half of the total Federal/State paid indirect costs represent actual revenue to the County. The remainder represents a General Fund subsidy of those programs and their overhead expenditures.

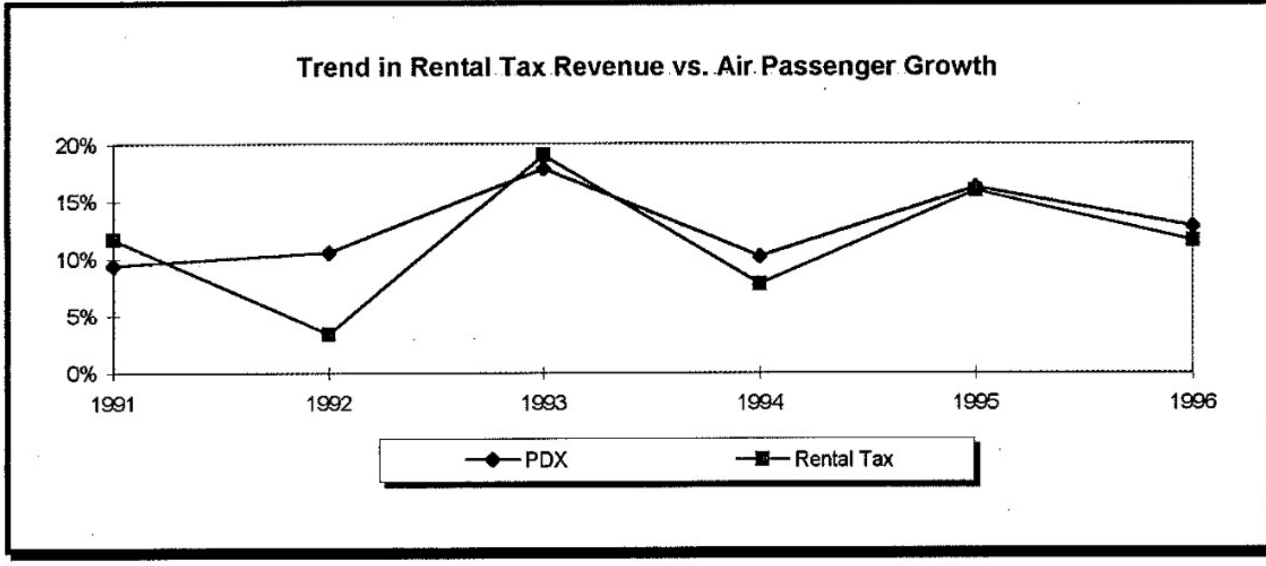
There are legitimate reasons why the County might subsidize Federal/State Fund programs. Certain granting agencies may not allow for the recovery of full indirect costs, or they may require that the County provide a matching subsidy. However, the Board of County Commissioners does retain the option of full cost recovery - such a policy would generate more General Fund revenue, although, perhaps it might come at the expense of reduced program capacity.

It is a tradeoff which we may be faced with increasingly in the future, particularly if a federal budget agreement provides for block grants to states. The Budget & Quality Office intends to further examine the extent to which the General Fund is subsidizing grant programs. A report should be available for presentation sometime in early fall.

We have assumed, for purposes of this forecast, that the impact of any federal budget negotiations will be felt in terms of *reductions in overall growth rates* - rather than reductions in current year spending. For that reason, the General Fund revenue forecast assumes that Indirect Costs will grow at roughly the rate of inflation over the next five years.

Receipts from the County's Motor Vehicle Rental Tax continue to parallel the steady growth in the economy. Revenue from this source was approximately $7.5 million last year - an <u>increase of 16%</u> over the FY93-94 amount. Over the past five years, Motor Vehicle Rental tax receipts have grown at an average of nearly 12% annually. We believe this trend will continue; the following chart indicates the parallel between air traffic and rental tax revenue.

Figure 12



We have projected Motor Vehicle Rental Tax revenue to grow at about 8% annually over the forecast period. We feel this projection is consistent with indicators which suggest continued growth in air passenger traffic as well as a forecast population growth rate which should remain well above the national average.

Service Charges and Licenses, at more than $6 million, account for about 4% of total General Fund revenue. Significant among the sources which make up these categories are Recording Fees and Regulatory Health charges. The forecast for Recording Fee revenue is favorable, given the rebounding housing market, the expanding multi-family market and a projected interest rate reduction on the horizon. We have estimated current year revenue will be virtually the same as last year and the forecast for FY96-97 and beyond suggests steady growth in the 4% - 5% range. Rate increases in several Regulatory Health fees has boosted revenue from these sources. This forecast assumes these revenues will grow at a slightly faster rate than inflation.

General Fund Expenditure Analysis

> *Growth in base budgets has been limited to 2% for FY96-97. In future years, we have forecast that expenditures will grow at approximately the same rate as inflation.*
>
> *General Fund surpluses can range from $2 to $15 million over the forecast period beginning in FY97-98 if the County maintains programs at "current service levels."*
>
> *Unanticipated FY94-95 revenues have provided for full funding of the 5% General Fund revenue reserve.*
>
> *Expenditure growth in Public Safety programs will take up an increasingly larger share of discretionary revenue and reductions in intergovernmental revenues may create additional pressure on the General Fund.*

<u>Budget Strategy</u>
The budget for FY96-97 has been developed around a strategy which provides for moderate inflationary increases and allows the Chair and Board of County Commissioners flexibility in responding to new policy initiatives.

Departments were asked to submit budget requests with only a two percent increase for inflation. Since we expect that inflation will actually be closer to 3% next year, this strategy provides an <u>additional $1.5 million in ongoing savings</u> which can be reallocated among departments, provide for new program initiatives or used to "backfill" anticipated reductions in intergovernmental revenues.

This is the second year in a row in which we have pursued a strategy of requesting departments to budget at less than the rate of inflation. This approach was based on an assumption that the budget could be managed within nominal inflationary constraints and that programs could be maintained at existing levels. We define "current service level" as

> *the level of funding necessary for programs to perform the same functions as the preceding year.*

Given this definition, we adopted the position that a number of costs do not increase with inflation and, in fact, many of our costs are predetermined. We also provided departments the opportunity to "budget" for salary savings - thus, limiting the amount of actual programmatic cuts which would otherwise be necessary.

Because Multnomah County is a large, dynamic organization we anticipate a certain amount of employee turnover each year. By having departments budget for salary savings we have assumed a certain level of underspending. In FY95-96, budgeted salary savings are <u>approximately $600,000</u> or, in other terms, slightly less than one percent of total personnel costs. This represents a "one time only" level of savings in the sense that departments still need to budget for their full personnel costs in succeeding years.

Lately, we have been seeing evidence that it is becoming more difficult for departments to manage their personnel costs within this limited constraint. We indicated earlier that we have traditionally assumed that overall spending ranges from 96% to 97% of departmental budgets. To put that into perspective, **each one percent** of underspending in the General Fund (based on the FY 95-96 budget) represents approximately $1.75 million in savings.

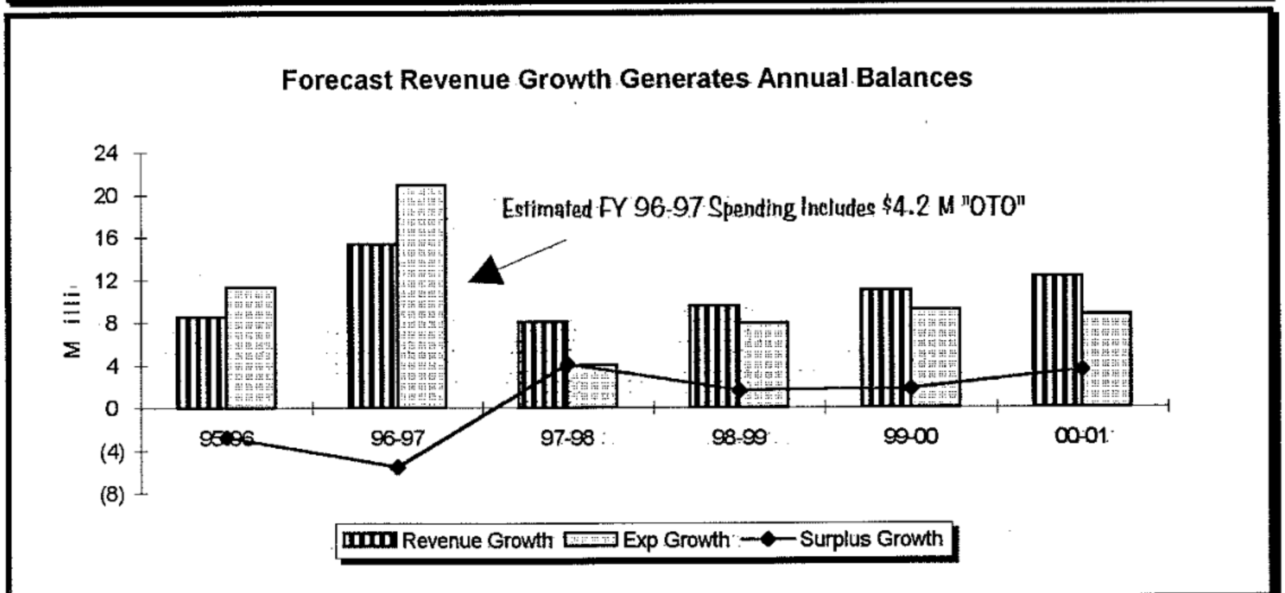
In the past two years the budget has been built around the assumption that a certain level of Personal Services savings already exists. We have based our forecast on an overall 98% spending rate. As department budgets experience further constraints, it is likely that Personal Services spending could exceed even this high rate.

Our expenditure forecast assumes that the General Fund can continue to provide for program spending at current service levels *within the rate of inflationary growth.* This will not be true for all departments. In smaller organizations, or in departments with low turnover rates, the cost of providing for existing employees will likely exceed the rate of inflation. We will continue to monitor overall department spending patterns to determine where these impacts are being felt most severely. It is an issue, though, that we may need to address in preparing for the FY 97-98 budget.

Forecast Surpluses

We have previously indicated that overall revenue growth in the General Fund would be approximately double the rate of growth in expenditures.

Figure 13



The graph in Figure 13 shows how the gap between revenue growth and expenditure growth will produce significant General Fund surpluses over the last four years of this forecast period.

There are two important points that need to be made in regard to this graph. First, the negative "growth" in FY 95-96 and FY 96-97 directly reflects the earmarking of certain one time only expenditures. In FY 95-96 we utilized approximately $4.5 million of unanticipated revenue to fully fund the General Fund revenue reserve. In FY 96-97 other one time only expenditures are planned to address internal infrastructure needs and to build long term capacity for full funding of the proposed Public Safety and Library levies.

If the revenue and expenditure forecasts hold true we expect that the General Fund will have **between $2 to $15 million in ongoing revenue** which can be used to expand programs above their "current service levels." In theory, there should be a sufficient revenue stream to fund new initiatives at a level equal to the lowest level of annual surplus. In other words, we would expect to be able to sustain an additional $2 million annually in new ongoing spending.

It is important to distinguish between the ongoing and "one-time-only" components of the surplus. Appendix A - the General Fund Pro Forma - shows the impact of a revenue stream which is growing faster than expenditures. The ongoing surplus can be seen on the line titled **"Excess/(Deficit) Sources Over Uses."**

Most of our revenue growth is being driven by the strong economy. The Business Income Tax (BIT), for example, is expected to grow at double digit rates for at least the next two years. However, by identifying and segregating ongoing from non-recurring revenue we can target expenditures that maximize the use of the entire surplus. A good example of a non-recurring revenue would be the salary savings issue discussed above. Any savings in the current year is a one time only windfall in the sense that departments still need to plan for the same level of expenditure in the following year.

General Fund Reserves

The General Fund ended FY94-95 with nearly $15 million in unspent revenue, fueled primarily by unanticipated growth in the BIT. Expenditures were within one percent of the forecast amount; but revenue growth was 3.5% more than anticipated.

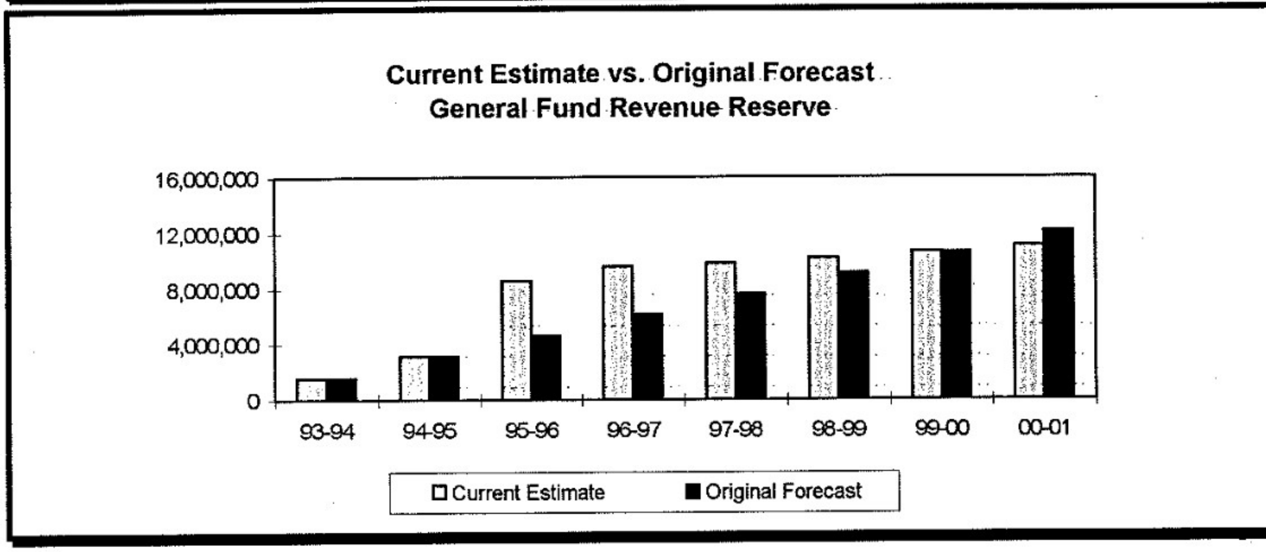
Table 3 - FY94-95 General Fund Forecast vs. Actual

	Forecast	Actual
Revenue	$168,654,728	$174,602,446
Expenditures	159,451,700	159,898,855
Reserve	3,120,000	7,994,944
"Ongoing" Surplus	(1,780,059)	4,247,659

For FY95-96, we are projecting the General Fund will end the year with a $1.5 million surplus. The growth in the ongoing revenue stream has provided us with an unexpected opportunity to fully fund the Board of County Commissioners policy of attaining a 5% revenue reserve.

The significance of fully funding the General Fund reserve *four years earlier than anticipated* cannot be understated. In addition to providing a buffer against any unforeseen economic downturn or reductions in intergovernmental assistance, it allows for the reallocation of $1.5 million of ongoing revenue which had been set aside to build the reserve.

Figure 14



Any increases necessitated by additional spending will be incremental in nature. For example, if the entire $2 million surplus forecast for FY 97-98 were to be spent, we would need to add $100,000 to the reserve. This forecast makes no assumption regarding the reprogramming of surplus funds generated in future years and they are included as part of the overall fund balance.

As noted above, the forecast assumes that departments will spend 98% of their budgeted appropriations. This is a conservative spending forecast - although it does take into account the fact that we have essentially spent part of our anticipated salary savings - and any savings generated by a lower rate of spending would be available in future years on a one time only basis.

<u>Expenditure Growth</u>
This forecast makes the assumption that the General Fund can continue to support programs at their current service level, given the predictions for moderate inflation growth. And, revenue growth should be sufficient to absorb some of the pressure departments are experiencing in managing their personnel costs.

Two areas of rapid growth in the General Fund, however, may dampen this otherwise optimistic forecast. Public safety, most notably adult and juvenile detention, will continue to require a greater share of discretionary revenues. With the prospects for reductions in intergovernmental support, the Board of County Commissioners may wish to further subsidize Federal/State Fund programs.

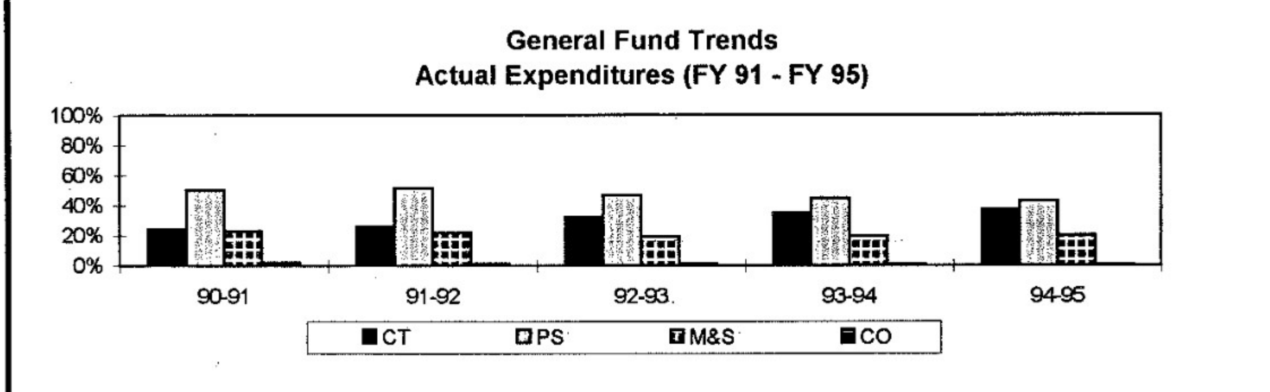
As a direct response to a number of citizen initiated ballot measures the State of Oregon is currently in the midst of significant transformation in the institutions that provide public safety services - most notably adult and juvenile detention. Multnomah County can expect to have to accommodate up to 750 additional adult prisoners due to stiffer sentencing sanctions at the state level. The County also has also added more than 50% to its juvenile detention capacity in the past two years.

The proposed Public Safety serial levy will provide funding for much of the increase brought about by the need for jail expansion. And, the state legislature has appropriated approximately $93 million for construction of local jail facilities. Funding from these sources may fall short of expected program needs in this area. As we noted earlier, public safety (Sheriff's Office, District Attorney, Juvenile Justice and Community Corrections) accounts for approximately 43% of General Fund spending.

We have estimated that public safety programs will account for **slightly more than 50%** of the total General Fund by the time the proposed serial levy expires. We have taken steps to address this issue by setting aside some of the surplus revenue forecast in the current year to support the levy in FY 97-98 and FY 98-99.

Another area of rapid growth in the General Fund budget has been Cash Transfers to other funds. As recently as FY 90-91, transfers were less than a quarter of total expenditures. In FY 96-97 we are forecasting that transfers will be **approximately 40% of the General Fund** budget. General Fund support of Federal/State Fund programs alone is forecast to be nearly 30% of total expenditures.

Figure 15



The forecast anticipates that transfers to other funds will increase slightly faster than the rate of inflation. We have made no assumption regarding reductions in federal and state funding.

Budget deliberations in Washington have essentially reached an impasse. Most federal agencies have operated on continuing resolutions since the beginning of the federal fiscal year. We see no end in sight to the political battle being waged over the budget - and a clear picture is not likely to come into focus until after the November election.

Both sides of the federal budget debate seem genuinely in agreement on the basic premise of a balanced budget. And, there does not seem to be a significant philosophical difference related to the issue of block grants. The Republican leadership in the House believes the budget can be balanced through tax cuts and program reductions. The President, on the other hand, seems to be arguing for an approach that attempts to have greater control over the growth in spending.

It seems apparent that some level of tax cuts and spending reductions is in store. Block grants appear to be on the horizon, but that horizon gets farther and farther away as Congressional elections draw closer. And, even if Congress were to enact a budget plan there is no way of knowing what the State of Oregon might do in response to reduced funding levels. Thus, for purposes of this forecast we have assumed that a moderate level of reduction in Federal/State Fund programs can be managed within the projected revenue stream.

Appendix A

General Fund Pro Forma

	FY 95-96 "CYE"	FY 96-97 Forecast	FY 97-98 Forecast	FY 98-99 Forecast	FY 99-00 Forecast	FY 00-01 Forecast
BEGINNING WORKING CAPITAL	**14,703,561**	**14,181,733**	**14,384,883**	**14,927,611**	**19,048,389**	**26,993,120**
Reappropriated Carryover	0	337,905	0	0	0	0
Uncommitted Carryover	11,093,561	4,692,899	3,844,883	4,578,502	8,402,410	15,989,407
5% Revenue Reserve	3,120,000	8,660,929	10,050,000	9,859,109	10,155,979	10,513,712
Inventory Reserve	490,000	490,000	490,000	490,000	490,000	490,000
General Fund Sources						
TAXES	**137,391,903**	**148,244,759**	**158,367,207**	**166,987,866**	**177,369,330**	**188,327,319**
Property Taxes						
Current Year	95,105,827	102,438,179	108,009,949	113,272,562	120,068,915	127,273,050
Prior Years	2,907,798	2,672,901	3,178,681	3,585,280	3,935,321	4,154,097
Other (Penalty/Interest)	848,731	816,880	935,735	1,035,530	1,124,943	1,188,933
Total Property Taxes	**98,862,356**	**105,927,960**	**112,124,365**	**117,893,371**	**125,129,179**	**132,616,080**
Business Income Tax	30,192,879	33,330,509	36,550,323	38,637,346	40,955,587	43,531,693
Motor Vehicle Rental Tax	8,269,618	8,931,188	9,645,683	10,417,338	11,250,725	12,150,783
Other Taxes	67,050	55,102	46,837	39,811	33,840	28,764
INTERGOVERNMENTAL	**11,853,801**	**12,567,389**	**11,971,738**	**12,060,511**	**12,152,013**	**12,269,269**
US Marshal (Jail Beds)	3,120,057	3,382,633	3,293,268	3,293,268	3,293,268	3,293,268
Video Lottery	2,555,736	2,300,163	2,185,155	2,239,784	2,295,778	2,376,131
Liquor Tax Sharing	1,408,020	1,590,559	1,622,370	1,654,818	1,687,914	1,721,672
Juvenile Detention	1,353,612	1,765,940	1,415,540	1,415,540	1,415,540	1,415,540
Cigarette Tax Sharing	1,076,320	1,258,911	1,284,089	1,309,771	1,335,966	1,362,686
O&C Grant	826,360	796,127	765,894	735,662	705,429	675,196
Other Intergovernmental	1,513,696	1,473,056	1,405,422	1,411,669	1,418,118	1,424,777
LICENSES & PERMITS	**1,608,026**	**1,756,223**	**1,800,217**	**1,850,219**	**1,908,474**	**1,962,507**
Environmental Health	1,284,390	1,421,040	1,477,882	1,529,607	1,583,144	1,630,638
Other Licenses & Permits	323,636	335,183	322,336	320,611	325,330	331,869
SERVICE CHARGES	**4,614,517**	**5,471,131**	**4,815,341**	**5,218,126**	**5,043,874**	**5,481,904**
Health Department						
Ambulance Fees	504,234	795,542	353,316	353,316	353,316	353,316
Other Health	188,305	218,776	216,136	216,136	216,136	216,136
Total Health	**692,539**	**1,014,318**	**569,452**	**569,452**	**569,452**	**569,452**

Appendix A

General Fund Pro Forma

	FY 95-96 "CYE"	FY 96-97 Forecast	FY 97-98 Forecast	FY 98-99 Forecast	FY 99-00 Forecast	FY 00-01 Forecast
Public Safety						
MCRC Room & Board	322,510	350,000	350,000	350,000	361,550	373,843
Civil Process	340,000	340,000	348,500	357,213	366,143	375,296
Other Public Safety	202,124	170,910	162,671	163,279	163,907	164,554
Total Public Safety	**864,634**	**860,910**	**861,171**	**870,492**	**891,600**	**913,693**
Assessment & Taxation						
Recording Fees	1,984,282	2,323,170	2,404,481	2,500,660	2,600,687	2,665,704
Other A & T	40,106	43,335	43,335	43,335	43,335	43,335
Total A & T	**2,024,388**	**2,366,505**	**2,447,816**	**2,543,995**	**2,644,022**	**2,709,039**
Elections	768,188	1,029,442	784,118	1,080,468	784,118	1,134,044
Other Service Charges	264,769	199,956	152,785	153,719	154,682	155,675
INTEREST	**2,100,967**	**2,231,948**	**1,896,700**	**1,671,136**	**1,677,175**	**1,758,671**
SERVICE REIMBURSEMENTS	**12,954,215**	**16,653,456**	**17,186,367**	**17,753,517**	**18,357,136**	**18,981,279**
Indirect Costs						
Road Fund	472,933	495,001	510,841	527,699	545,641	564,192
Federal/State Fund	7,449,529	9,152,782	9,445,671	9,757,378	10,089,129	10,432,159
Library Levy Fund	1,251,048	1,361,001	1,404,553	1,450,903	1,500,234	1,551,242
Jail Levy Fund	836,644	1,816,486	1,874,614	1,936,476	2,002,316	2,070,395
A & T Fund	516,551	448,759	463,119	478,402	494,668	511,487
Care Oregon Fund	268,972	628,118	648,218	669,609	692,376	715,916
Other Indirect Costs	766,121	830,326	856,896	885,174	915,270	946,389
Total Indirect Costs	**11,561,798**	**14,732,473**	**15,203,912**	**15,705,641**	**16,239,633**	**16,791,781**
Other Service Reimbursements	1,392,417	1,920,983	1,982,454	2,047,875	2,117,503	2,189,498
CASH TRANSFERS	**1,595,403**	**1,183,200**	**1,183,200**	**1,183,200**	**1,183,200**	**1,183,200**
Animal Control	1,265,700	1,183,200	1,183,200	1,183,200	1,183,200	1,183,200
Library Bond Sinking	249,853	0	0	0	0	0
Road Fund	50,000	0	0	0	0	0
Other Cash Transfers	29,850	0	0	0	0	0
MISCELLANEOUS REVENUE	**577,937**	**494,320**	**504,130**	**515,779**	**527,778**	**540,137**
Total GF Sources	**172,696,759**	**188,602,426**	**197,724,900**	**207,240,354**	**218,218,981**	**230,504,285**

Appendix A

General Fund Pro Forma

	FY 95-96 "CYE"	FY 96-97 Forecast	FY 97-98 Forecast	FY 98-99 Forecast	FY 99-00 Forecast	FY 00-01 Forecast
<u>General Fund Uses</u>						
COMMUNITY & FAMILY SERVICES	**15,878,057**	**21,099,044**	**21,774,213**	**22,492,762**	**23,257,516**	**24,048,272**
Current Service Level	14,222,191	21,099,044	20,752,156	21,436,977	22,165,834	22,919,472
"Scheduled" Costs	1,655,866	0	1,022,058	1,055,786	1,091,682	1,128,800
AGING SERVICES	**3,714,357**	**4,475,480**	**4,618,695**	**4,771,112**	**4,933,330**	**5,101,063**
Current Service Level	3,714,357	4,475,480	4,618,695	4,771,112	4,933,330	5,101,063
"Scheduled" Costs	0	0	0	0	0	0
JUVENILE JUSTICE	**14,527,682**	**16,872,489**	**17,412,409**	**17,987,018**	**18,598,577**	**19,230,928**
Current Service Level	14,527,682	16,872,489	17,412,409	17,987,018	18,598,577	19,230,928
"Scheduled" Costs	0	0	0	0	0	0
HEALTH DEPARTMENT	**31,333,231**	**35,063,182**	**36,185,204**	**37,379,316**	**38,650,212**	**39,964,319**
Current Service Level	26,811,231	35,063,182	31,533,980	32,574,601	33,682,138	34,827,330
"Scheduled" Costs	4,522,000	0	4,651,224	4,804,714	4,968,075	5,136,989
COMMUNITY CORRECTIONS	**6,244,742**	**7,359,398**	**7,594,899**	**7,843,888**	**8,108,889**	**8,382,900**
Current Service Level	6,194,987	7,359,398	7,545,144	7,794,133	8,059,134	8,333,145
"Scheduled" Costs	49,755	0	49,755	49,755	49,755	49,755
DISTRICT ATTORNEY	**10,131,137**	**11,390,599**	**11,755,098**	**12,143,016**	**12,555,879**	**12,982,779**
Current Service Level	9,886,835	11,390,599	11,679,366	12,064,785	12,474,988	12,899,137
"Scheduled" Costs	244,302	0	75,732	78,231	80,891	83,642
SHERIFF'S OFFICE	**41,142,614**	**44,378,869**	**45,798,993**	**47,292,397**	**48,881,831**	**50,525,306**
Current Service Level	40,558,459	44,378,869	45,254,663	46,748,067	48,337,501	49,980,976
"Scheduled" Costs	584,155	0	544,330	544,330	544,330	544,330
ENVIRONMENTAL SERVICES	**18,752,463**	**19,294,240**	**20,311,656**	**20,490,070**	**21,505,678**	**21,742,217**
Current Service Level	14,354,826	19,294,240	17,927,705	18,106,119	19,121,727	19,358,266
"Scheduled" Costs	4,397,637	0	2,383,951	2,383,951	2,383,951	2,383,951
OVERALL COUNTY	**530,555**	**0**	**0**	**0**	**0**	**0**
Current Service Level	530,555	0	0	0	0	0
"Scheduled" Costs	0	0	0	0	0	0

Appendix A

General Fund Pro Forma

	FY 95-96 "CYE"	FY 96-97 Forecast	FY 97-98 Forecast	FY 98-99 Forecast	FY 99-00 Forecast	FY 00-01 Forecast
NONDEPARTMENTAL	**17,311,540**	**12,717,632**	**13,124,596**	**13,540,825**	**13,993,575**	**14,479,723**
Current Service Level	11,181,927	12,717,632	6,253,182	6,459,537	6,679,161	6,906,253
"Scheduled" Costs	6,129,613	0	6,871,414	7,081,288	7,314,413	7,573,470
SUPPORT SERVICES	**5,950,944**	**10,470,339**	**10,805,390**	**11,161,968**	**11,541,475**	**11,933,885**
Current Service Level	5,786,204	10,470,339	10,805,390	11,161,968	11,541,475	11,933,885
"Scheduled" Costs	164,740	0	0	0	0	0
LIBRARY	**6,451,266**	**6,347,887**	**6,551,019**	**6,767,203**	**6,997,288**	**7,235,196**
Current Service Level	6,451,266	6,347,887	6,551,019	6,767,203	6,997,288	7,235,196
"Scheduled" Costs	0	0	0	0	0	0
Total GF Uses	**171,968,587**	**189,469,159**	**195,932,172**	**201,869,576**	**209,024,250**	**215,626,588**
Available Contingency Account	**1,250,000**	**2,775,000**	**1,250,000**	**1,250,000**	**1,250,000**	**1,250,000**
Excess/(Deficit)						
Sources Over Uses	**(521,828)**	**(3,641,733)**	**542,728**	**4,120,778**	**7,944,731**	**13,627,697**
Ending Working Capital	**14,181,733**	**10,540,000**	**14,927,611**	**19,048,389**	**26,993,120**	**40,620,817**
Uncommitted Carryover	5,030,803	0	5,203,502	8,402,410	15,989,407	29,286,988
5% Revenue Reserve	8,660,929	10,050,000	9,234,109	10,155,979	10,513,712	10,843,829
Inventory Reserve	490,000	490,000	490,000	490,000	490,000	490,000
Total Requirements	**187,400,320**	**202,784,159**	**212,109,783**	**222,167,965**	**237,267,370**	**257,497,405**

Appendix B

Just What Are "Scheduled Costs" and Why Do We Budget For Them?

The General Fund *Pro Forma* highlights, in each department, the known requirements we need to budget for beginning in FY 97-98. The spreadsheet on the following page details these "Scheduled Costs."

We have attempted to isolate all the costs in the General Fund for which we either have a legal obligation, a policy statement by the Board or an intergovernmental agreement that specifies terms of payment. These are essentially costs which have the first call on our resources - and, presumably, would be exempt in the event General Fund revenues fall short of projections.

The following is a brief description of each item on that list:

<u>General Fund Paid Indirect</u>
The General Fund provides a subsidy to other funds, primarily the Federal/State Fund, for the recovery of indirect costs. It has been the Board of County Commissioner's policy to reflect the full cost of providing overhead functions for grant programs. While we have included this as a Scheduled Cost, it is only a cost to the extent that it represents an opportunity cost. If the County recovered a higher percentage of indirect costs some of that revenue could be used to fund other programs.

<u>County School Fund</u>
By state statute counties are required to pay ten dollars per school aged child, defined as any person between the ages of 4 and 20, residing within the county. These funds go to support operation of local Education Service Districts (ESD).

<u>Technology Infrastructure</u>
An amount has historically been set aside in the General Fund to support new and ongoing data processing projects. The County has become increasingly dependent on information technology. The amount projected in this forecast is only a fraction of the total being spent throughout the organization. It does serve to highlight the organization's commitment to the ultimate goal of being able to make "data based decisions."

<u>Tax Supervising</u>
By state statute the County is charged with responsibility for funding the Tax Supervising & Conservation Commission (TSCC). That amount is statutorily set at $230,000 per year.

<u>Allocations to Non-County Agencies</u>
Either by practice, or by legal requirement, the County provides funding for the following functions:

Institutional Dues - membership in national and state organizations (i.e.; NACO, AOC)
Administration of Food Stamp Program
Portland/Multnomah Progress Board
Boundary Commission

Appendix B

BIT to Cities

BIT revenue is shared, by intergovernmental agreement, with the four east county cities (Gresham, Troutdale, Fairview and Wood Village). The cities receive one quarter of the revenue produced by the original .6% rate. Unlike some of the other "Scheduled Costs," the BIT payment will fluctuate with changes in actual BIT revenue.

Capital Lease Payments

These are payments for equipment purchased through the issuance of Certificates of Participation (COP's). The payments are scheduled over several years and because they constitute a legal obligation we have projected them as a "Scheduled Cost" in the departments which purchased the equipment.

The payment for the Juvenile Justice facility is not shown here, primarily due to the fact that it is not a General Fund expenditure. For information purposes, however, that cost is roughly $3 million per year. We have assumed in our forecast that the revenue received from the Video Lottery is dedicated to payment of that expense.

Transfer to CIP Fund

The Board of County Commissioners has adopted a policy which provides for replacement funding of capital facilities. That policy states that the County will provide enough funding to replace buildings on a thirty year depreciation schedule. The amount established in the forecast does not provide full funding for that goal, but it represents a substantial commitment to the County's physical infrastructure.

Contingency

Based on historical spending patterns we have established a Contingency of $1.25 million.

Contribution to Reserve

In our previous forecast, we assumed a contribution of $1.5 million would be required to fully fund the Board of County Commissioners goal of a 5% General Fund revenue reserve. Overall revenue growth in FY 94-95 was sufficient to eliminate the need for this contribution in future years.

Ending Balance/Reserve

The policy states that a reserve in the amount of 5% of total expenditures will be established in the General Fund. The amount shown as a "Scheduled Cost" represents 5% of forecast departmental expenditures.

Inventory Reserve

This represents the value of fixed assets charged to the General Fund.

OTO (Carryover)

Carryover expenditures are "Scheduled Costs" to the extent that they represent a commitment to expenditures made in the previous year.

OTO (In FY 95-96 Budget Only)

These represent expenditures for costs, or programs, which the Board of County Commissioners included in the FY 95-96 budget, but does not expect to fund in future years.

Appendix C - Data Tables

Multnomah County Forecast Population Estimates

Year	Estimated Population
1996	632,765
1997	639,092
1998	645,844
1999	651,011
2000	656,218
2001	661,469

Source: PSU/Center for Population Studies

Forecast Annual CPI Growth

Year	% Change
96-97	3.1%
97-98	3.2%
98-99	3.3%
99-00	3.4%
00-01	3.4%

Source: Oregon Economic & Revenue Forecast

Multnomah County Housing Starts (1991-95)

Year	Single Family Starts
1991	1,274
1992	1,478
1993	1,535
1994	1,607
1995	1,667 (Est.)

Source: CB Commercial Market Report

Appendix C - Data Tables

Multnomah County Housing Starts (1991-95)

Year	Multi Family Starts
1991	731
1992	821
1993	730
1994	884
1995	906 (Est.)

Source: CB Commercial Market Report

Forecast Property Value Growth

Year	% Change
96-97	9.0%
97-98	7.0%
98-99	7.0%
99-00	6.5%
00-01	6.5%

Note: ***The forecast assumes that the County will not be in tax rate compression. Any growth above six percent does not generate additional levy capacity.***