

Clark County

Budget and Economic Outlook

May 18, 2016

Budget Office Work Session

Presented to the Board of County Councilors

Agenda

- General Fund 2015-16 current budget overview
- General Fund actual revenue and expense trends through the first quarter of 2016
- General Fund forecast of available reserves
- Economic outlook

Summary

Starting point

- General Fund available unassigned reserves were at \$24.8 million at start of 2015-2016 biennium.

Trends

- General Fund 2015-2016 current budget uses \$3.6 million from reserves. Expectation is available fund balance will grow by \$1.5 million by biennium end. This projection does not include additional appropriations that may be needed in final 2016 supplemental.

Reserves

- General Fund 2015-2016 current projections preserve recommended level of unassigned reserves.

Economy

- Budget is built on cautiously optimistic forecast assumptions; positive trends continue; downside risks still significant.

Expense and revenue trends

Payroll expenses

- Unlike prior biennia, 2015-2016 General Fund is not anticipated to have payroll-related savings.

Non-payroll expenses “controllables”

- Some non-payroll expense savings likely will materialize; this depend on department spending; will only be known at biennium end.

Revenues

- Revenues are projected to be above forecast by \$5.1 million, or 1.7%; mostly due to accounting adjustment that recognizes law/justice sales tax accrued fund balances as General Fund revenue.

Overall trends

- Underspending in department budgets and revenue above forecast may help address pressing needs of 2016 final supplemental.

Revenue trends

Sales tax receipts were \$4 million above budget in 2015, mostly due to an accounting adjustment.

- Revenues previously recognized in General Fund as transfers from other funds collecting law/justice sales taxes are now recognized in General Fund as sales tax revenue.
- Due to one-time adjustment to recognize sales tax earned in November and December but not received until January and February, each law/justice sales tax fund had balance. Closing the funds transferred fund balance to General Fund.

All other revenues are ahead of the forecast by \$1.1 million, mostly due to improved motor vehicle fee collections.

Expense trends

Unlike prior biennia, General Fund is not anticipated to have significant payroll-related expense savings. Total payroll expenses were up 7.4 percent in first quarter 2016, compared with first quarter 2015.

- PERS employer share costs were up 26 percent due to rate increases. Additional significant rate increases expected in 2017.
- Salary spending was up 6.4 percent.
- Medical employer costs were up 11.7 percent.

Savings could occur in department expense budgets for non-payroll related expenses, e.g., supplies, professional services. Amount is difficult to project – departments can plan for larger purchases/reconciliations at biennium end.

Final supplemental major needs

The October 2016 final supplemental will include additional funding requests:

- Indigent defense: estimated \$815,000 per biennium, ongoing. Current funding is insufficient for ongoing costs; past practice was to cover costs at end of biennium through contingency allocation; contingency is not available now.
- ERP renovation project: estimated \$1 million one-time to pay budget and HR software replacements.
- Additional funding may be needed for LEOFF retiree expenses: \$200,000.

Outlook for General Fund reserves policy target: \$23 million

Unassigned available reserves	Amount
2015-2016 Starting point January 1, 2015	\$24.8 million
2015-2016 Forecasted fund balance increase	\$1.5 million
Potential new final supplemental expenses	(\$2.0) million
2016 Year-end projection	\$24.3 million

Outstanding liabilities and risks not included in 2016 reserves outlook

General Fund parks maintenance liability: \$1.5 million/biennium, ongoing.

Vancouver proposed annexation impacts: loss of General Fund sales tax revenues estimated at \$2.4 million/biennium, ongoing.

Likely loss of Vancouver records management contract: potential \$3.3 million/biennium, ongoing.

Current forecast assumes moderate growth; does not assume recession in next three years. Revenue loss could be significant, particularly sales tax.

Global economy

- International Monetary Fund projects global economic growth at 3.2 percent in 2016, 3.6 percent in 2017.
- Worldwide growth softened in late 2015 weighed down by multiple factors:
 - Slowdown of Chinese economy
 - Lower commodity prices, including oil
 - Deep recessions in Brazil and Russia
 - Risks associated with gradual exit from accommodative US monetary policies

National economy

Economic indicators

- **GDP grew at annual rate of 1.4 percent in fourth quarter 2015. Early estimates indicate decline to annual rate of 0.5 percent in first quarter 2016. GDP growth rate in US averaged 3.26 percent/year from 1947-2015.**
- **Total nonfarm employment growth declined from 200,000 in March to 160,000 in April.**
- **Main drivers of consumption and investment positive**
 - ❖ Improving labor market
 - ❖ Higher consumer confidence
 - ❖ Modest wage increases
 - ❖ Lower fuel prices
 - ❖ Stronger housing market

Clark County economy

Jobs: added 5,900 jobs March 2015-March 2016;
annual growth rate of 4.1 percent

Comparative growth rates

US: 1.9% (Apr-Apr) State: 3.2% Portland Metro: 3.2%

Employment growth in every major sector; leading sectors were:

- ✓ Trade, transportation, utilities: up 1,600 jobs, 5.9%
- ✓ Retail trade: up 1,200 jobs, 7.2%
- ✓ Accommodation, food services: up 800 jobs, 7.0%

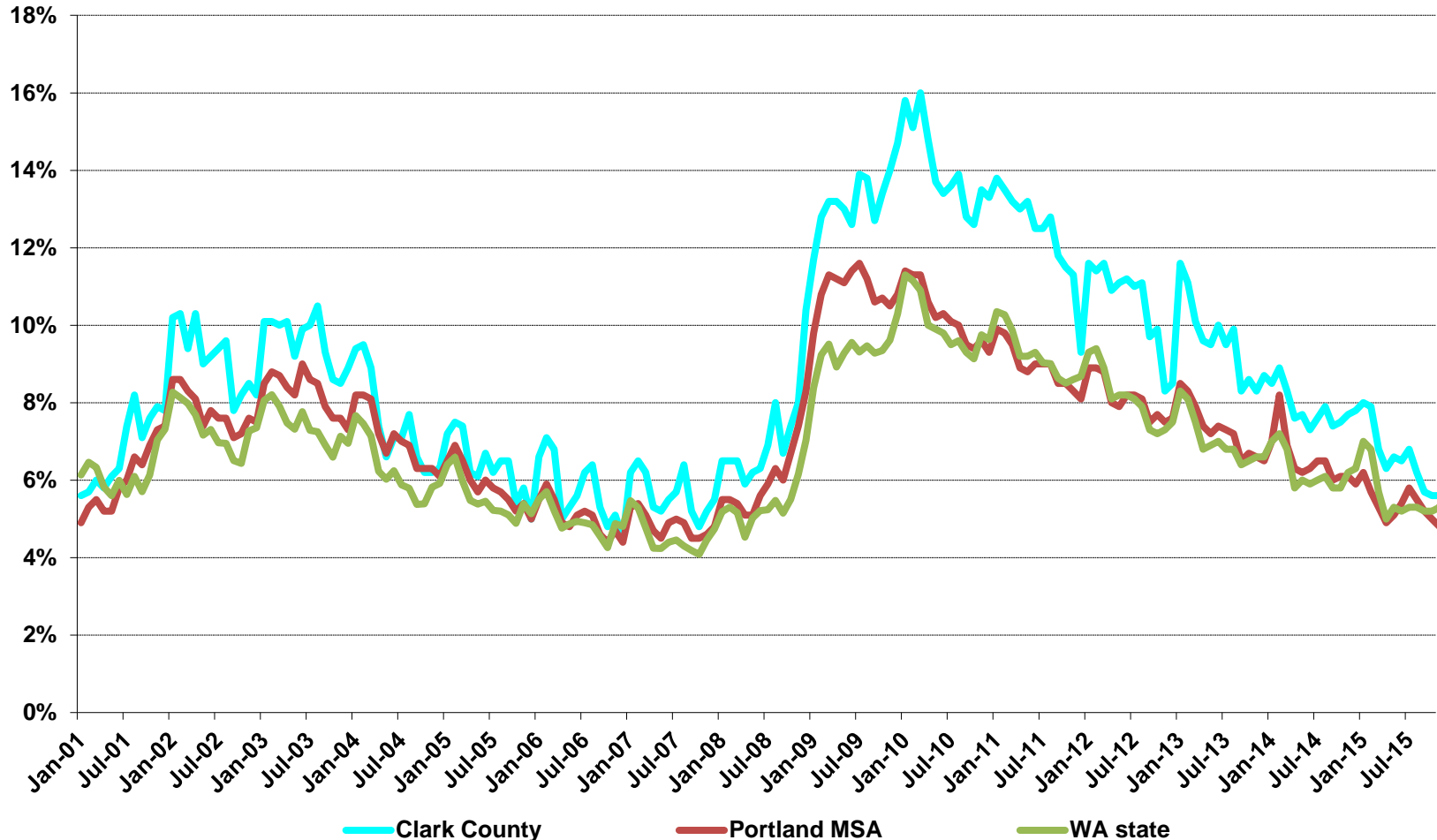
Unemployment preliminary rate 6.3% in March 2016,
down from 6.6% in March 2015.

March comparative unemployment rates, not seasonally adjusted

US: 5% State: 6% Portland Metro: 4.6%

Clark County economy, cont.

Monthly unemployment rates January 2001 - March 2016
not seasonally adjusted



Clark County economy, cont.

Taxable retail sales

- Countywide sales rose 12.6 percent in fourth quarter 2015, compared with fourth quarter of 2014
- *Construction-related sales up 26 percent*
- *Vehicles sales up 24 percent*

Residential building permits

- Countywide through March 2016, *compared with same months in 2015:*
- *Single family: 326, compared with 272, 20% increase*

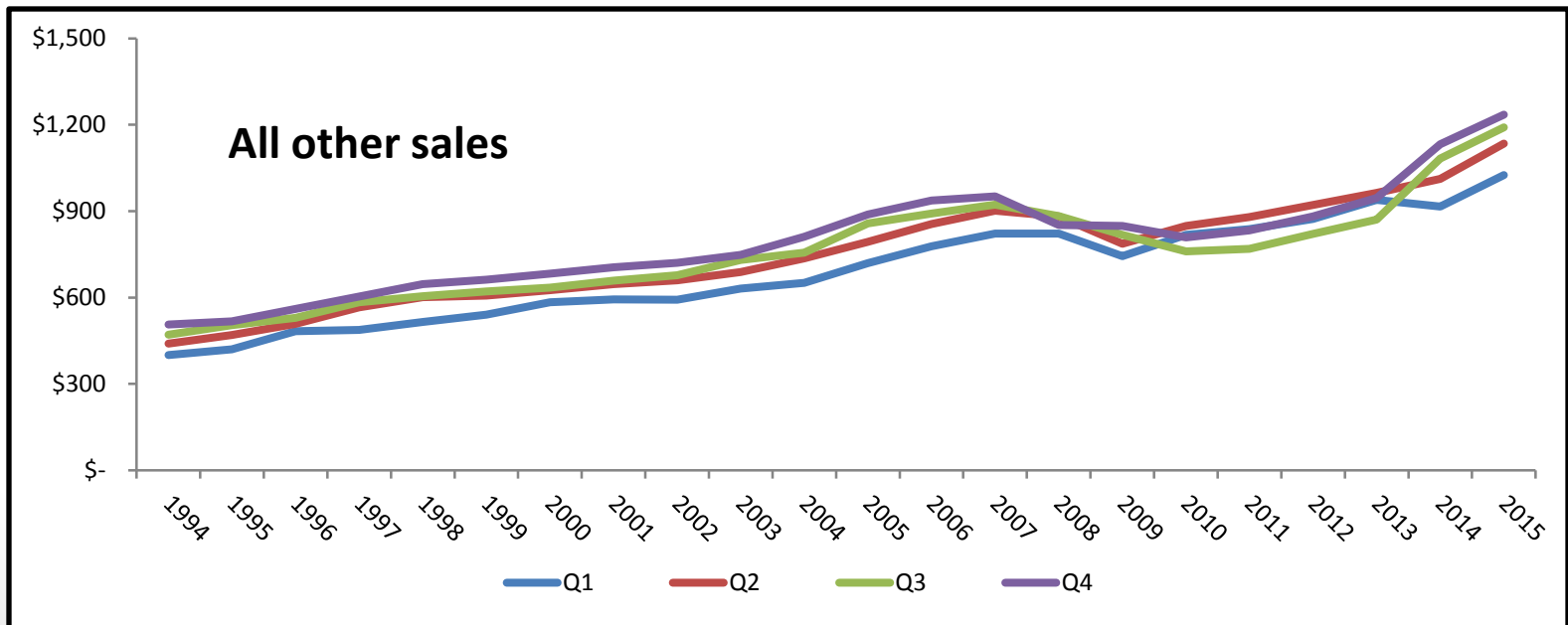
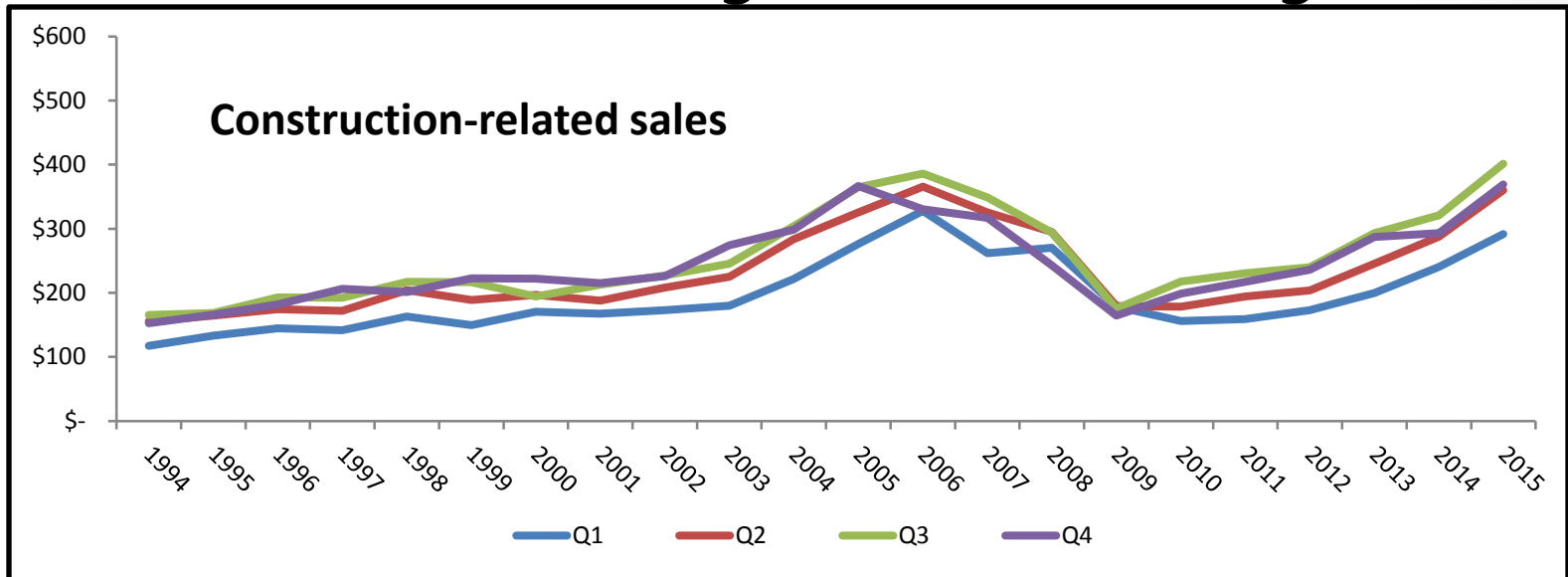
Housing inventory

- In April 2016, supply of residential units for sale was 1.2 months. Normal supply is 4-7 months.

Median home sale price

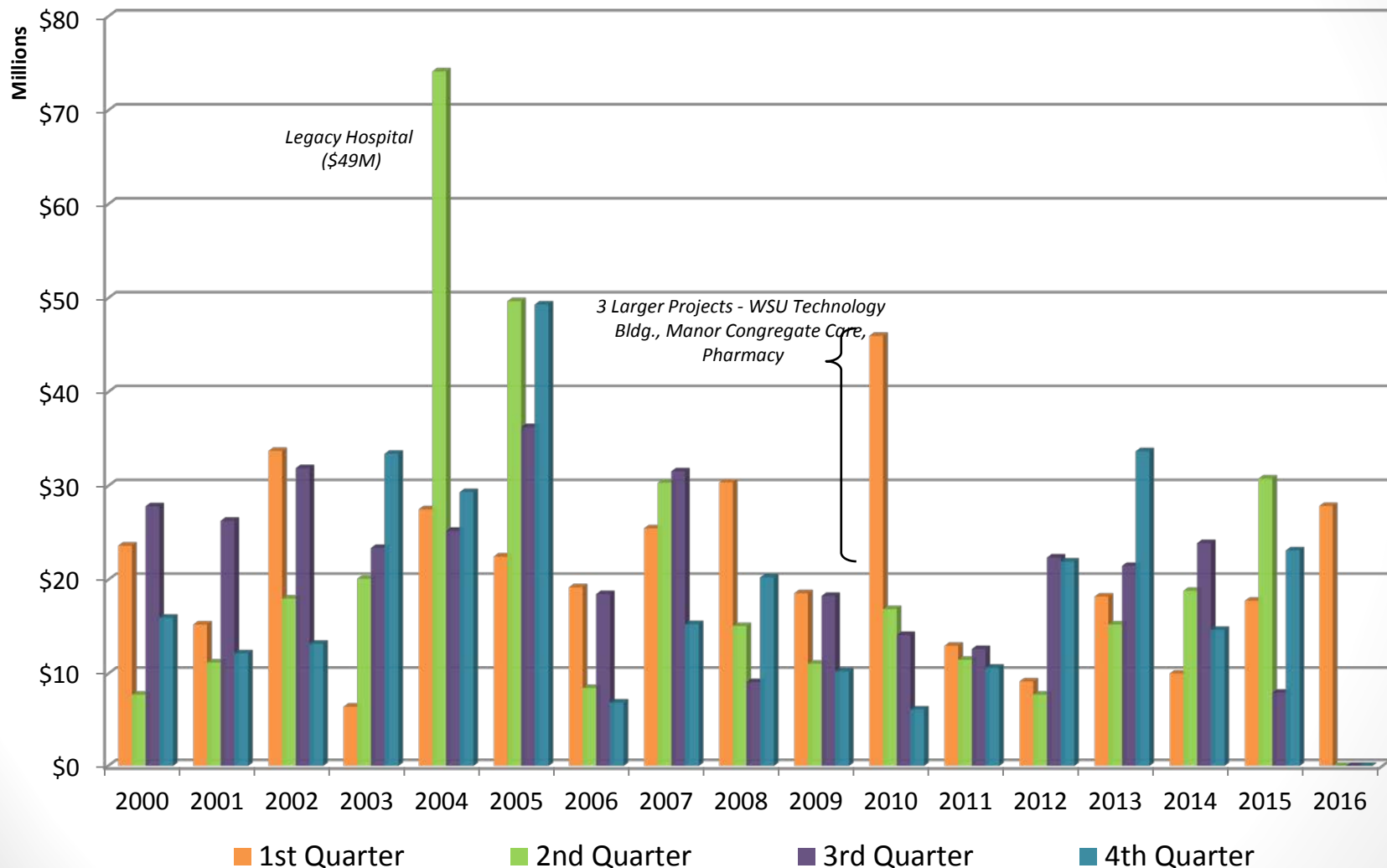
- In April 2016, median home sale price was \$290,000. Up 15.4% over March 2015 (RMLS data).

Clark County economy, cont.



Clark County economy, cont.

Unincorporated non-residential building permit valuation



Data and graph courtesy of Clark County Community Development

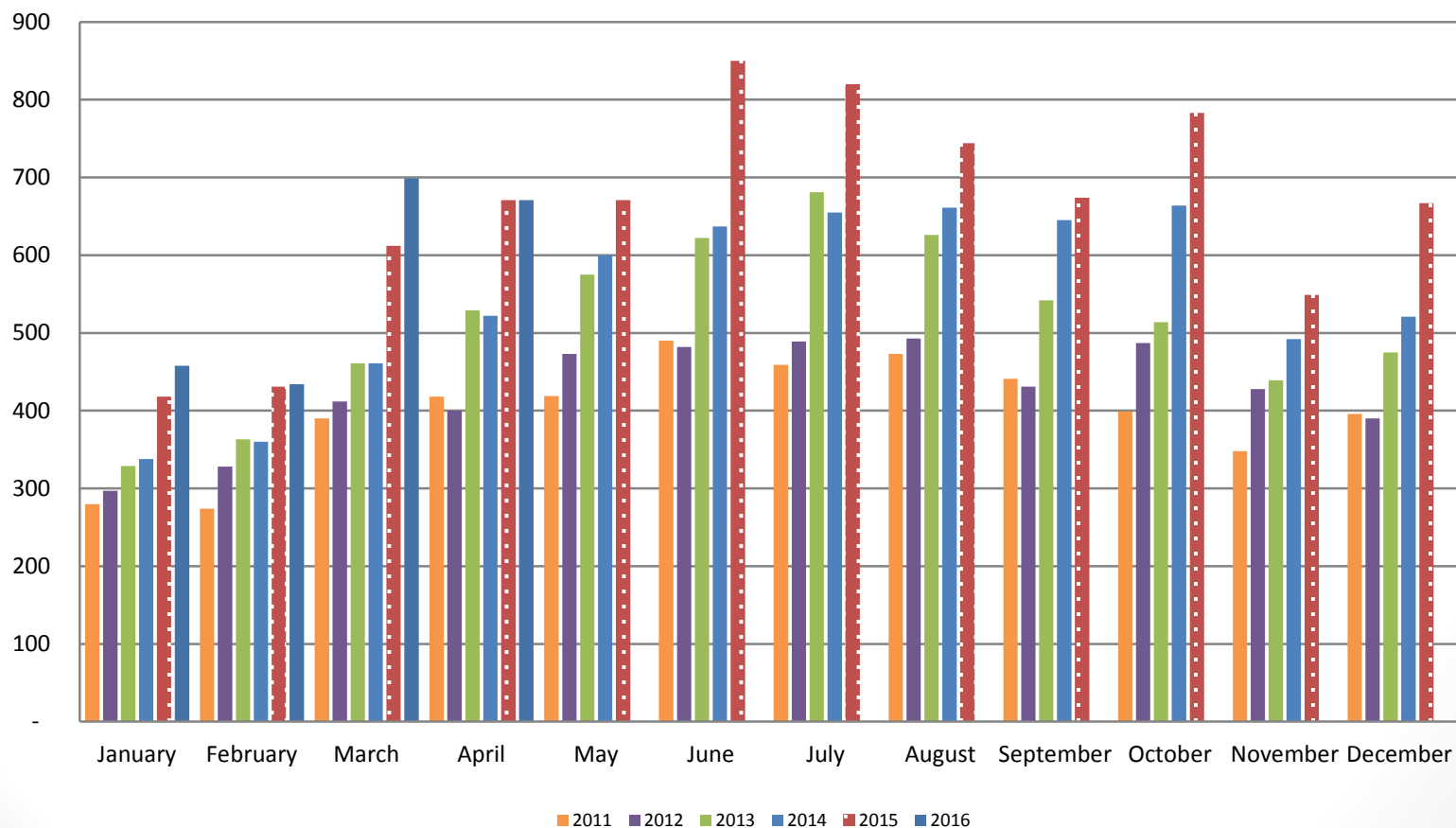
Clark County economy, cont.

Single-family residential permits 12 month rolling average - through March 2016



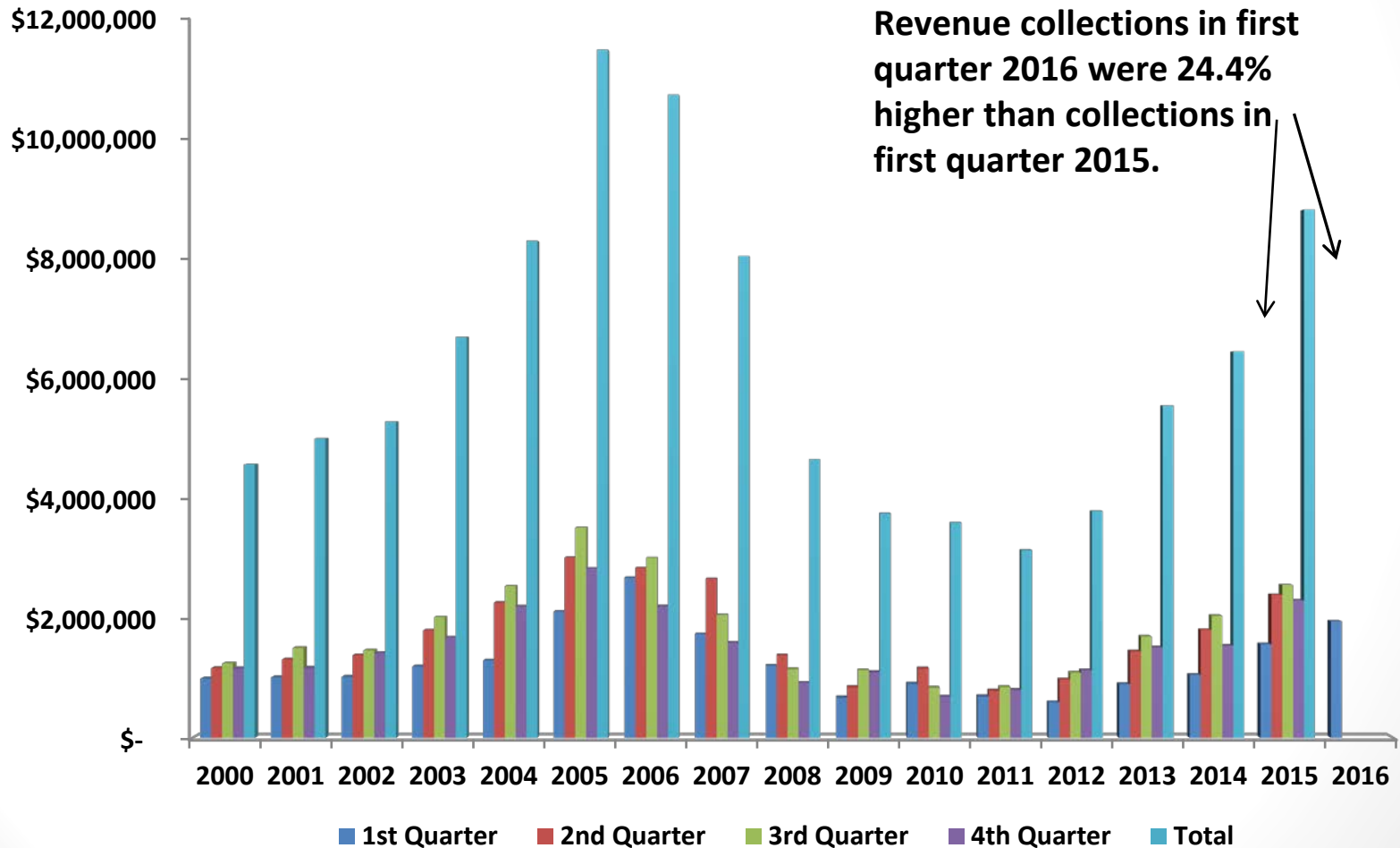
Clark County economy, cont.

5 + Year History - Closed Home Sales (year-over-year increase through April 2016)



Clark County economy, cont.

Historical REET revenue collections



Risks remain

- Weakness persists
 - Building permit activity up but still lags pre-recession levels
 - Real wage growth low but showing signs of improvement
- Continued Federal Reserve rate increases: timing and impacts
- Global economic growth slowdown intensifying
- Geopolitical conflicts raise possibility of economic/financial instability
- US dollar appreciation leveled out but still poses risks of balance sheet and funding risks for dollar debtors, especially in emerging market economies.

Summary

- General Fund started FY 2015-16 with unassigned reserves of \$24.8 million, above recommended level of \$23 million.
- County economic conditions moderately exceeded revenue forecast assumptions. Improving revenues allowed funding major projects and critical needs in 2015 readopt and 2016 spring supplemental.
- General Fund is expected to maintain recommended fund balance through 2016 after addressing important needs in final 2016 supplemental. Significant challenges and liabilities are still to be resolved in 2017-2018.
- Next step: BOCC work session July 13 to provide update on 2017-2018 budget process and General Fund status, same time as second quarter outlook report.