

Clark County

Budget & Economic Outlook

January 27, 2016

Budget Office Work Session

Presented to the Board of Clark County Councilors

Agenda

- General Fund 2015-16 current budget overview
- General Fund actual revenue and expense performance through 2015
- General Fund status of available reserves
- Economic outlook

Summary

Starting Point

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

Trends

- The General Fund 2015-2016 current budget uses \$3.4 million from reserves; projected / expected use is only \$1.3 million.

Reserves

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

Economy

- The budget is built on cautiously optimistic forecast assumptions; positive trends continue but downside risks appear more pronounced.

Expense and Revenue Trends

Payroll Expenses

- General Fund payroll-related expense savings are not projected to be significant during the current 2015-2016 biennium.

Non-payroll Expenses ("Controllables")

- Non-payroll expense savings are under the control of individual departments until the close of the biennium.

Revenues

- Revenues above forecast provided funding for major critical projects in the 2015 Readopt (telephone system, document imaging system & phase I of Oracle replacement).

Overall Trends

- Underspending in departmental budgets and revenue above forecast may help cover additional expenses during 2016 biennial supplemental appropriations.

Outlook For General Fund Reserves (Policy Target: \$23 million)

Unassigned Available Reserves	Amount
2015-2016 Starting Point (As of January 1, 2015)	\$24.8 million
2015-2016 Forecasted Use	(\$1.3) million
Expected Additional Spring Supplemental Expenses	(\$0.5) million
2016 Year-End Projection	\$23 million

Outstanding Liabilities And Risks Not Included in Reserves Outlook

General Fund parks maintenance liability = \$1.5 million per biennium ongoing.

Oracle/FMS replacement or upgrade = at least \$3 - 5 million in 2017-2018 one-time (only the investigative phase was funded in 2015-2016).

Significant unmet needs still exist in staffing levels (e.g. Sheriff's Office) and infrastructure (e.g. central precinct, jail space, parks capital repairs).

Inmate medical & food services contractual increases.

Forecast does not assume recession in next 3 years. Revenue loss could be significant, particularly sales tax.

Global Economy

- The International Monetary Fund projects global economic growth to be at 3.4 % in 2016, and 3.6% in 2017.
- Worldwide growth prospects are weighed down by multiple factors:
 - The slowdown in the Chinese economy;
 - Lower commodity prices (raw materials such as oil, copper, aluminum, iron ore and gold);
 - Strains in some large emerging market economies;
 - The risks associated with the gradual exit from accommodative US monetary policies.

National Economy

Economic Indicators

- **The national economy grew at an annual rate of 2.0% in the third quarter of 2015. In the second quarter, real GDP increased at an annual rate of 3.9%. GDP growth rate in the United States averaged 3.26% per year from 1947 until 2015.**
- **However, the main drivers of consumption and investment are positive:**
 - ❖ **improving labor market;**
 - ❖ **higher consumer confidence;**
 - ❖ **better financial conditions;**
 - ❖ **lower fuel prices;**
 - ❖ **strengthened housing market.**

Clark County Economy

Jobs: 6,000 jobs in the past 12 months, with a strong annual growth rate of 4.1%.

Comparative Growth Rates

US = 2.0%, WA State = 2.2% / Portland Metro = 3.0% (Nov to Nov)

Over the year, employment growth occurred in every major sector; the leading sectors were:

- ✓ Trade, transportation and utilities (up 1,500 jobs, 5.4%)
- ✓ Construction and Mining (up 1,000 jobs, 10%)
- ✓ Retail trade (up 900 jobs, 5.2%)
- ✓ Accommodation and food services (up 900 jobs, 8.2%)

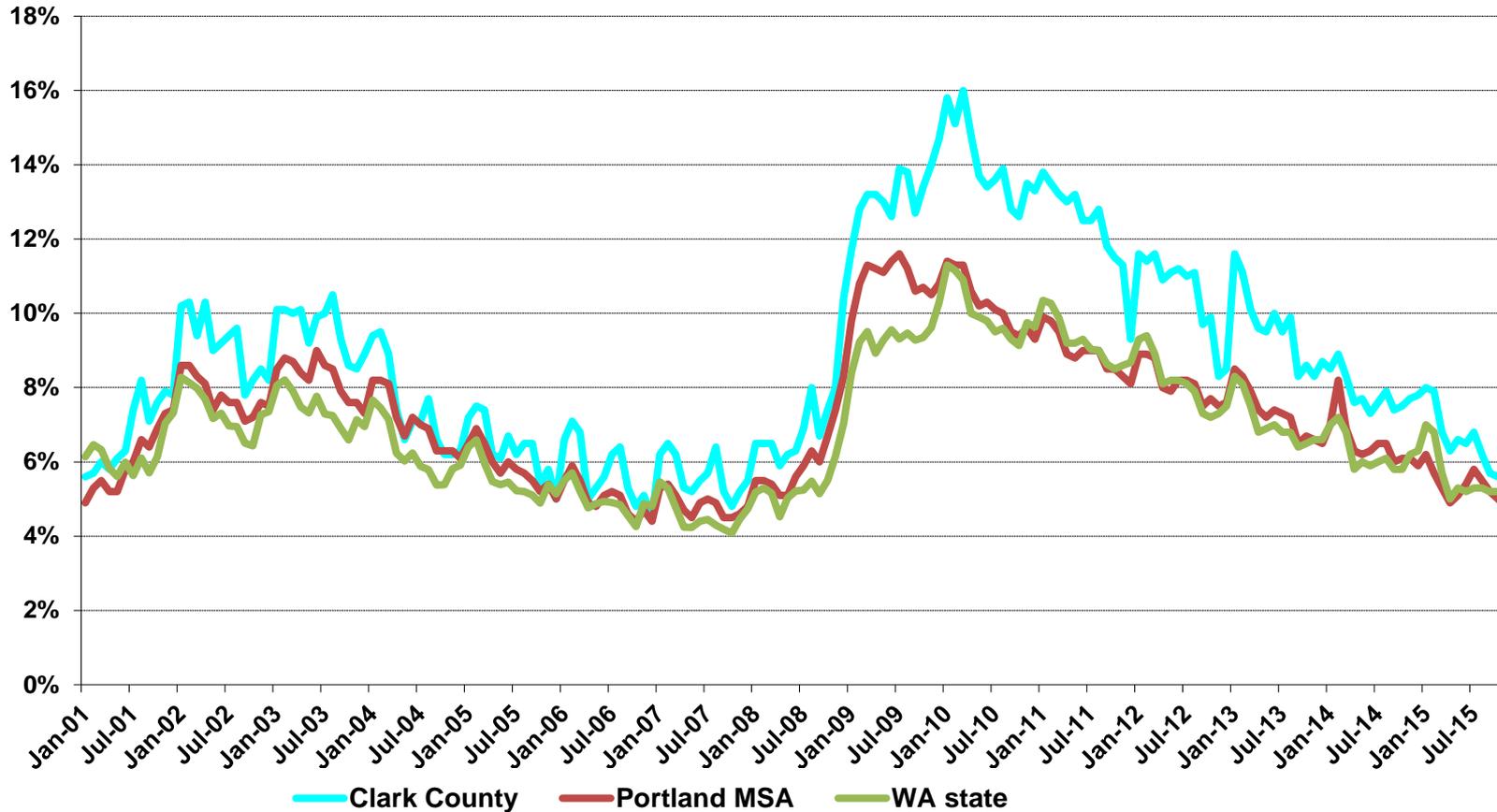
Unemployment preliminary rate was 6.0% in December 2015, down from 7.3% in December 2014.

Comparative Unemployment Rates (Not seasonally adjusted)

US = 5.0% (Dec) WA State = 5.9% (Dec)
Portland Metro = 4.8% (Nov)

Clark County Economy

Monthly Unemployment Rates January 2001 - December 2015
(not seasonally adjusted)



Clark County Economy

Taxable Retail Sales

- Countywide sales rose 13.4% in the third quarter of 2015, compared with the third quarter of 2014.
 - *Construction related sales were up 25%*
 - *Vehicles sales were up 12.4%*

Residential Building Permits

- Issued countywide through November 2015, *compared with the same months in 2014:*
 - **Single family: 2,067**, compared with 1,470 (41% increase)
 - **Multi-family: 990**, compared with 820 (20% increase, and well above the historical average of 272)

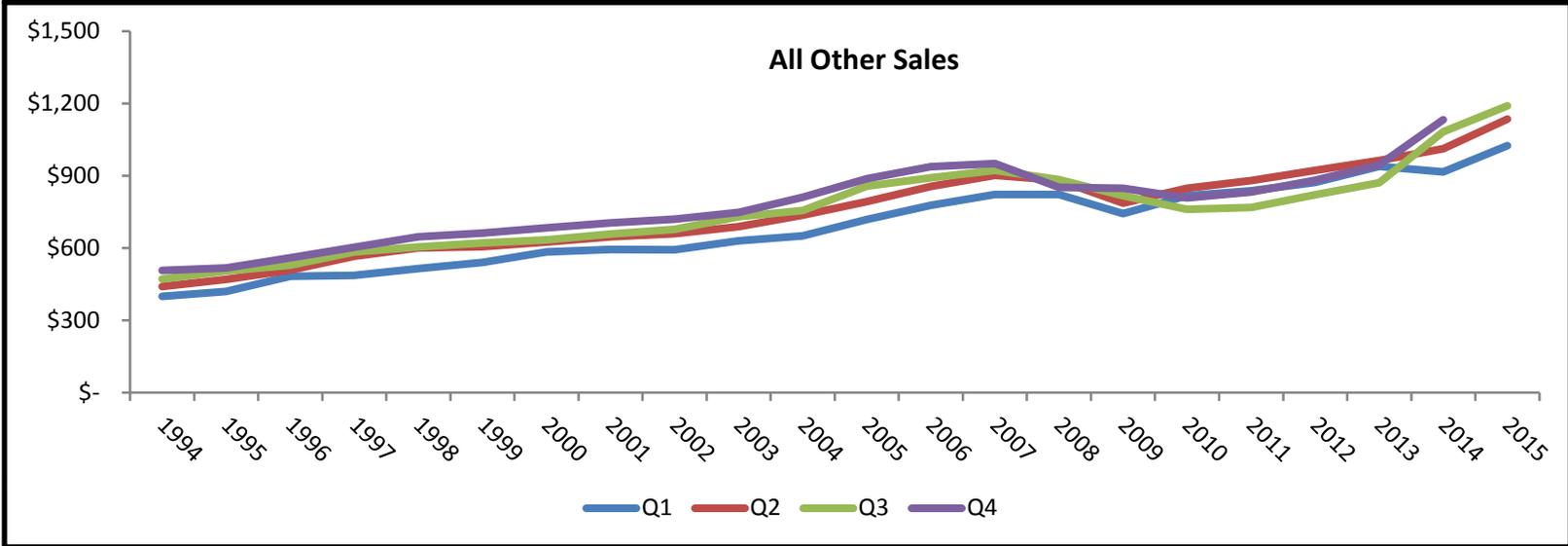
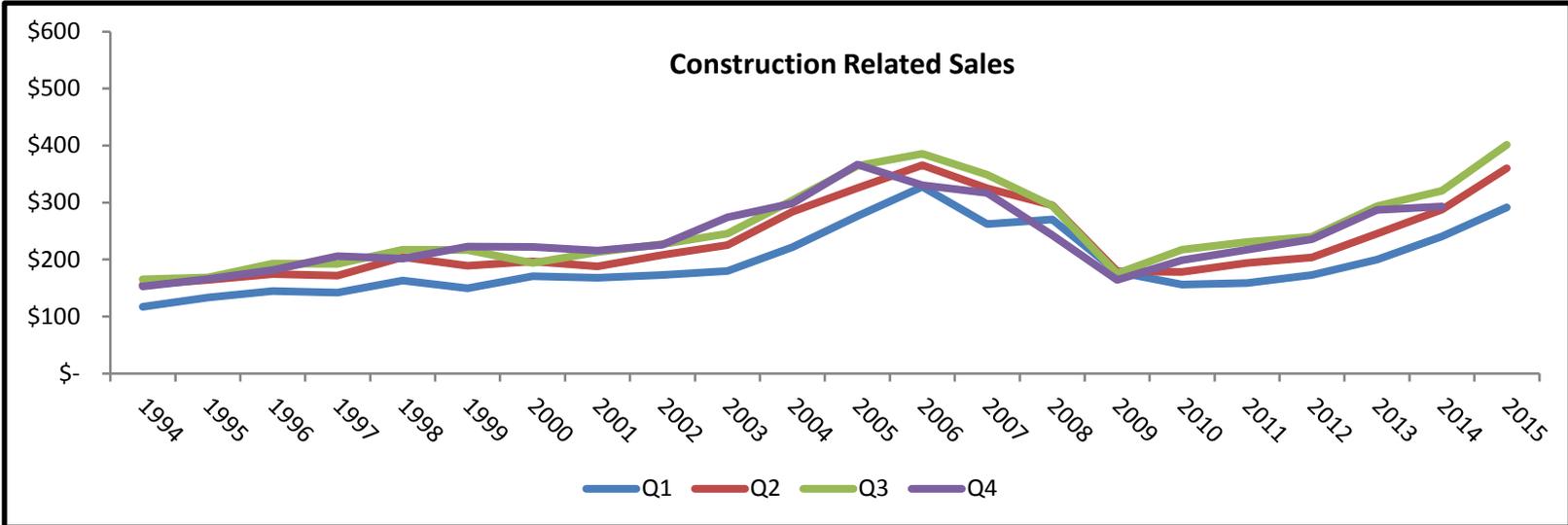
Housing Inventory

- As of December 2015, the supply of residential units for sale was 1.3 months. This is on the very low end (“normal” supply is 4-7 months).

Median Home Sale Price

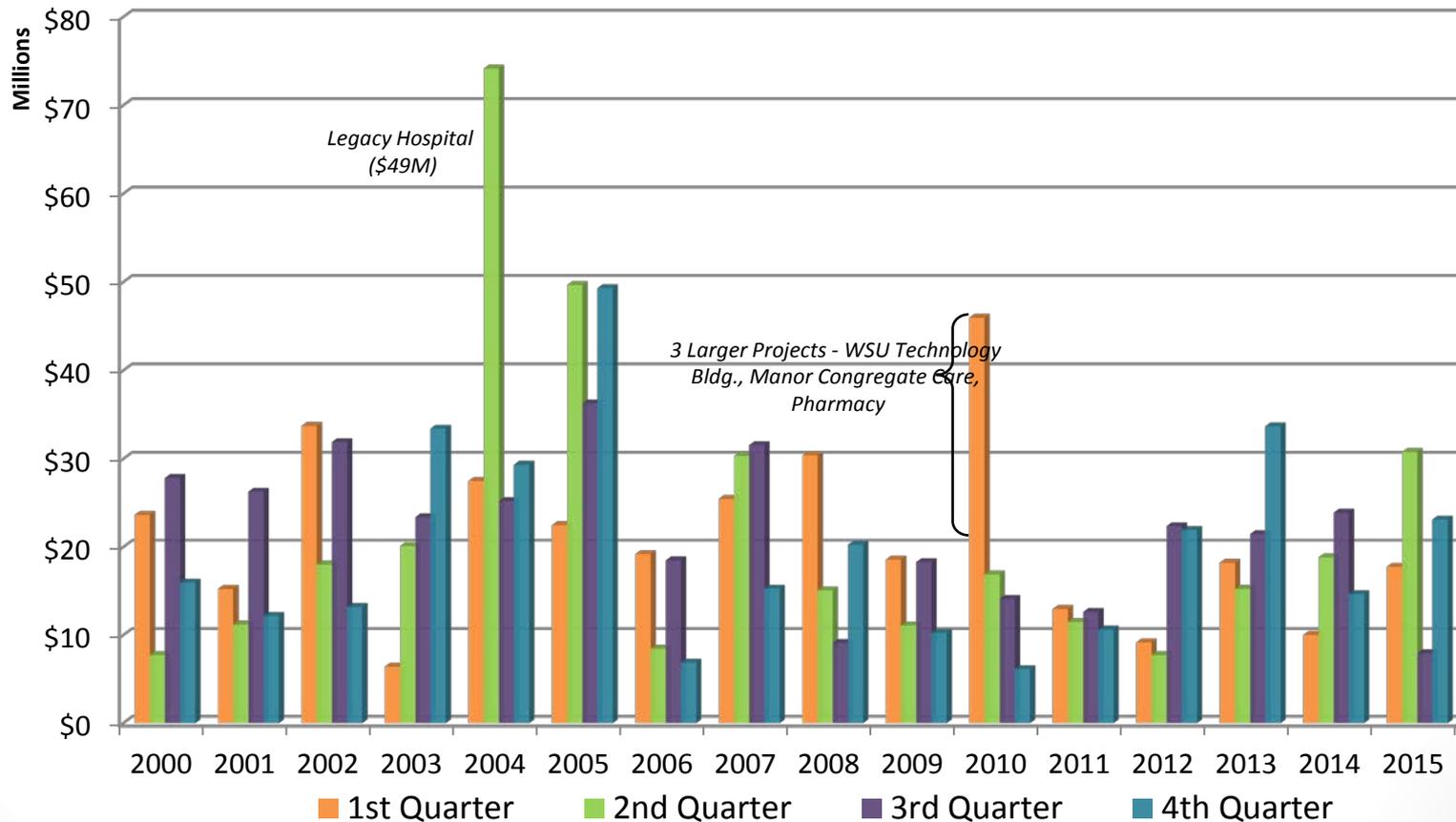
- As of December 2015, the median home sale price was \$272,500. Median price is up 11% over December 2014 (RMLS data).

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Clark County Economy

Unincorporated Non-Residential Building Permit Valuation



Data and graph courtesy of Clark County Community Development

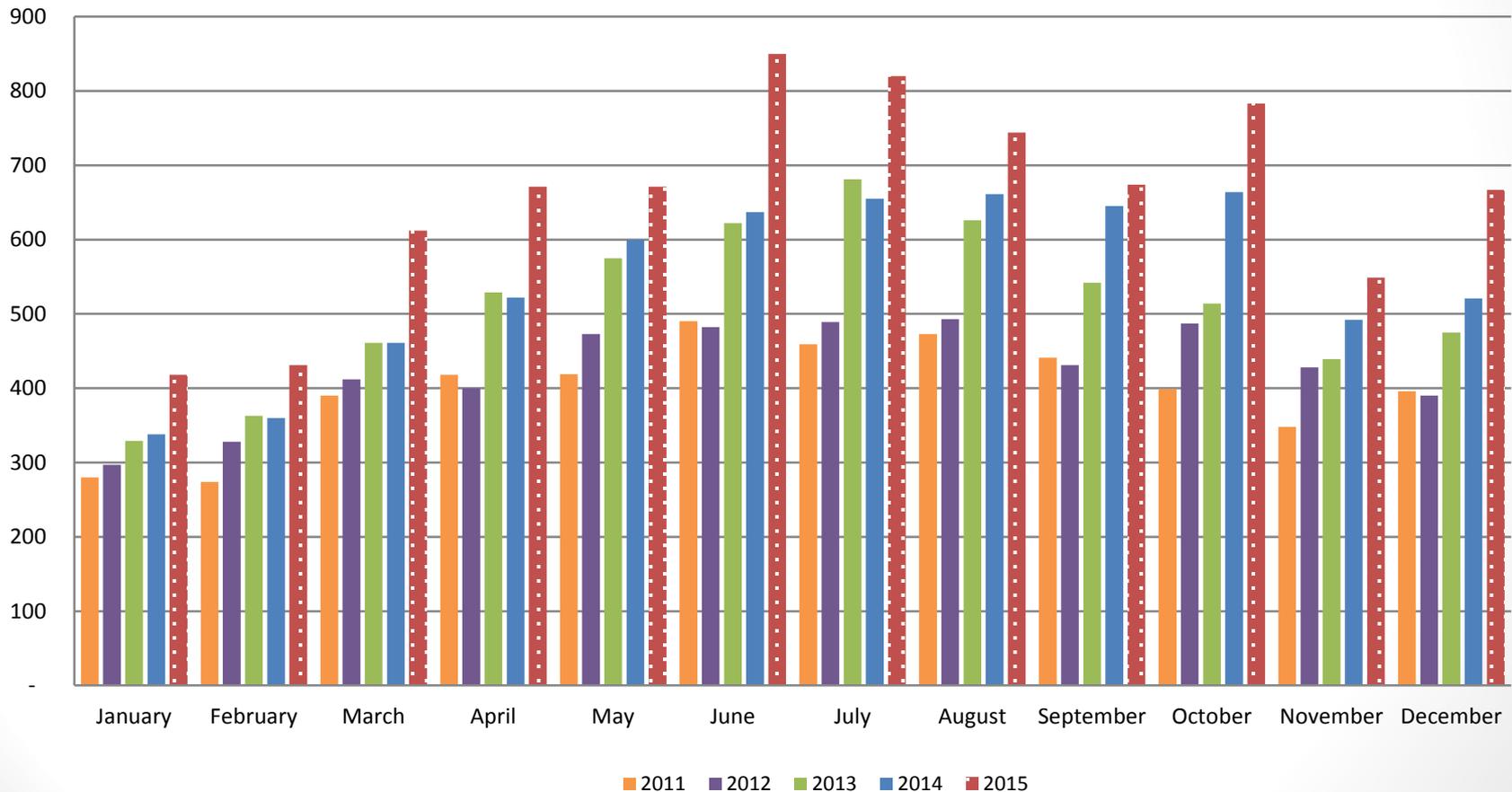
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**Clark County Single Family Residential Permits
12 month rolling average - through November 2015**



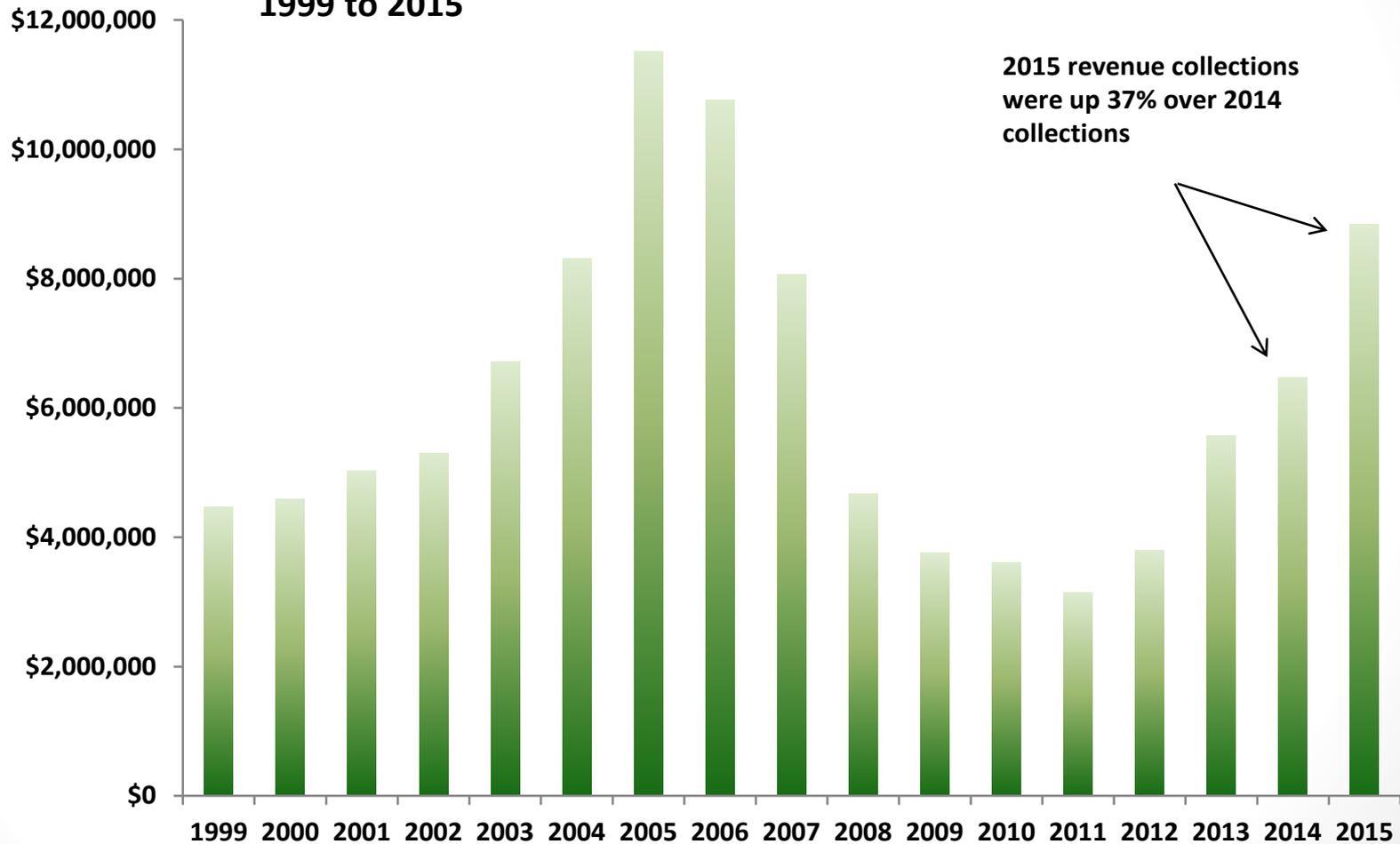
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5 Year History - Closed Home Sales (year-over-year increase through December 2015)



Clark County Economy

**Historical Annual REET Collections
1999 to 2015**



Risks Remain

- Weakness persists in some areas:
 - ❖ Building permit activity has increased but still lags behind pre-recession levels
 - ❖ Real wage growth is low
- Continued Federal Reserve rate increases: timing and impacts
- Intensifying slowdown of China's economic growth
- Geopolitical conflicts raise the possibility of economic / financial instability
- U.S. dollar appreciation poses risks of balance sheet and funding risks for dollar debtors, especially in emerging market economies.

Summary

- The General Fund started FY 2015-16 with unassigned reserves of \$24.8 million (above the recommended level of \$23 million).
- Current Clark County economic conditions moderately exceeded the revenue forecast assumptions. Accordingly, improving revenues allowed funding of major projects in the 2015 Readopt.
- In 2016, any potential departmental expense savings and revenue over forecast could be used to cover additional critical expenses, preserving fund balance at the recommended level.
- The General Fund is expected to maintain the recommended fund balance through the end of 2016. However, significant challenges and liabilities need to be addressed in 2017-2018.
- Next step: BOCC work session to approve assumptions and processes for the 2017-2018 budget is scheduled for February 3, 2016.