

Lane County Quarterly Financial Report

Quarter Ended December 31, 2016
(Second Quarter of FY 16-17)



**Presented to Lane County Board of Commissioners:
March 21, 2017**

Table of Contents

	Page Number
Executive Summary.....	2
National Economic Indicators.....	3
Local Economic Indicators.....	4
Actual Revenues and Expenses vs. Budget (All County Funds).....	7
General Fund.....	8
Road Fund.....	10

Executive Summary

We are pleased to present you with Lane County's Quarterly Financial Report for the Second Quarter of Fiscal Year (FY) 16-17. This report includes national and local economic indicators, budget vs. actual expenditures, and year-over-year financial data.

The purpose of this report is to monitor the current year's budget. This report makes no representations about the level of budget or services and whether they are adequate. The County has adopted a Strategic Plan that focuses on the highest priority service areas and continues to address the declining revenues due to the loss of Federal Secure Rural Schools payments. We continue to work with community partners in the short and long term to meet the needs of residents.

This report focuses on a one year period with budget comparisons and some economic information that may prove useful in developing future budgets. To learn more about the County's overall financial health, please refer to the Comprehensive Annual Financial Report, Debt Affordability Report, and Investment Report located at www.lanecounty.org/Finance. For information on the development of the County's budget and the service levels provided, please visit www.lanecounty.org/budget.

The following is a brief summary of the report:

- The cost of living in the United States increased by 0.3 percent in December, 2016. Unemployment levels at both the national and local levels have stabilized and local residential housing prices and taxable values are increasing. Building permit activity within Lane County Land Management Division between October and December 2016 showed gains of 13.6% for residential permits and a decrease of 40.0% for commercial permits compared to the same period in 2015.
- The General Fund has received \$50.4 million, or 66.8% of its budgeted revenue. General Fund operating expenses for the first quarter totaled \$29.3 million, or 42.7% of budget. Operating expenditures do not include budgeted transfers.
- Road Fund revenues totaled \$12.7 million, or 43.4% of budgeted revenue. Road Fund operating expenditures totaled \$14.3 million, or 44.5% of budget. Actual expenses are down in most categories for the Road Fund.

Steve Mokrohisky,
County Administrator

National Economic Indicators

United States

December 2016 241.432
Year Change 2.1%

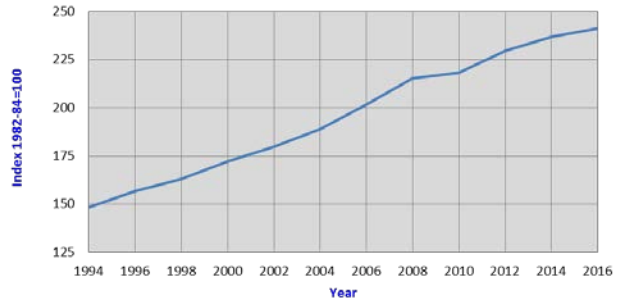
Portland-Salem MSA

Jan - June 2016 247.143
Year Change 1.7%
Jul - Dec 2016 251.71
Year Change 2.6%

www.bls.gov/cpi

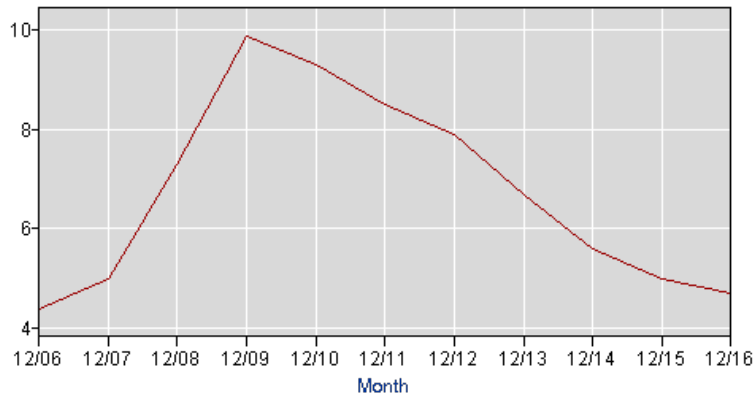
Consumer Price Index

Not Seasonally Adjusted
Area: US city average
Item: All items
Base Period: 1982-84=100



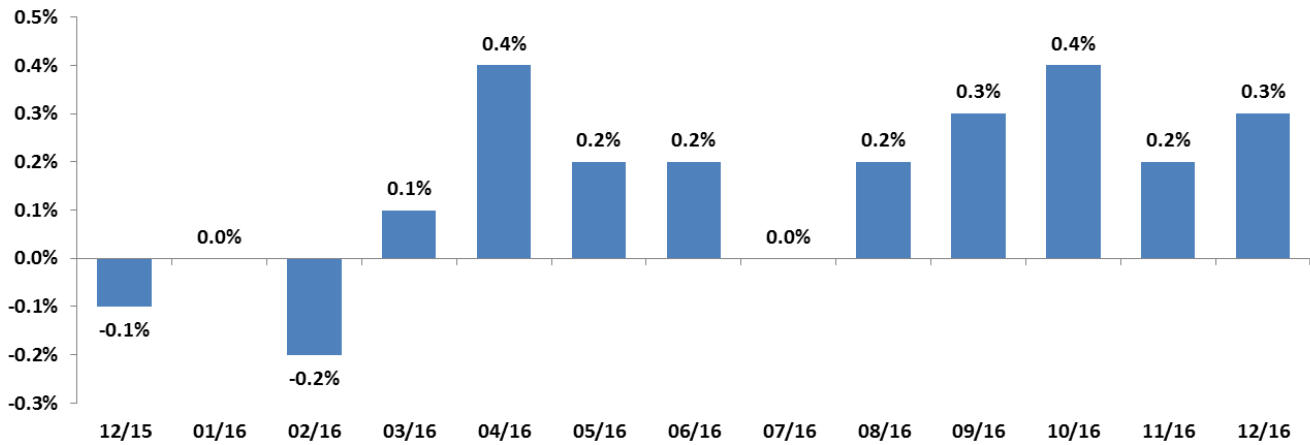
National Employment

The US Bureau of Labor Statistics reports that the national unemployment rate dropped to 4.7% in December, 2016. This is down from 5.0% in the same period last year.



Inflation

The Consumer Price Index for All Urban Consumers (CPI_U) increased 0.3 percent in December (seasonally adjusted basis). Over the last 12 months, the all items index increased 2.1 percent.



Health Insurance Costs

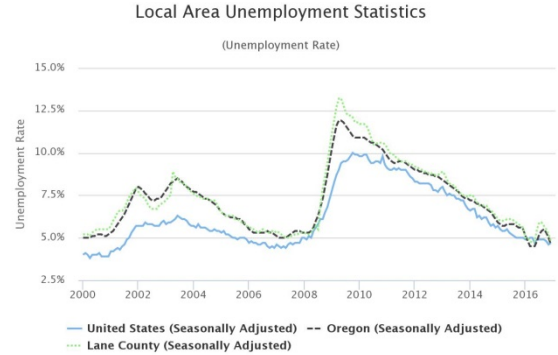
CPI for Medical Care gained 0.2% in the quarter ending December 2016, while Health Insurance decreased 0.3%. The annual CPI increase in Health Insurance from December 2015 to December 2016 was 5.6%.

Local Economic Indicators

Employment Data

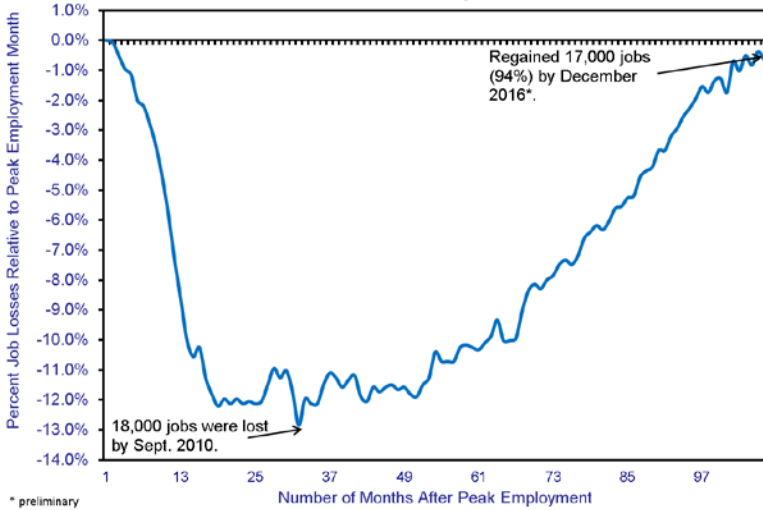
Unemployment in Lane County has decreased in the last six months. In June 2016, the unemployment rate was 5.5% and in September 2016, the unemployment rate was 5.7%. In December 2016, the unemployment rate was 4.8%.

Unemployment in Oregon was 4.8% in June and has decreased to 4.6% in December. The National rates for the same time periods are 4.9% and 4.7% respectively.



Unemployment has returned to pre-recession levels.

Percent of Job Losses in Lane County Since Peak in February 2008



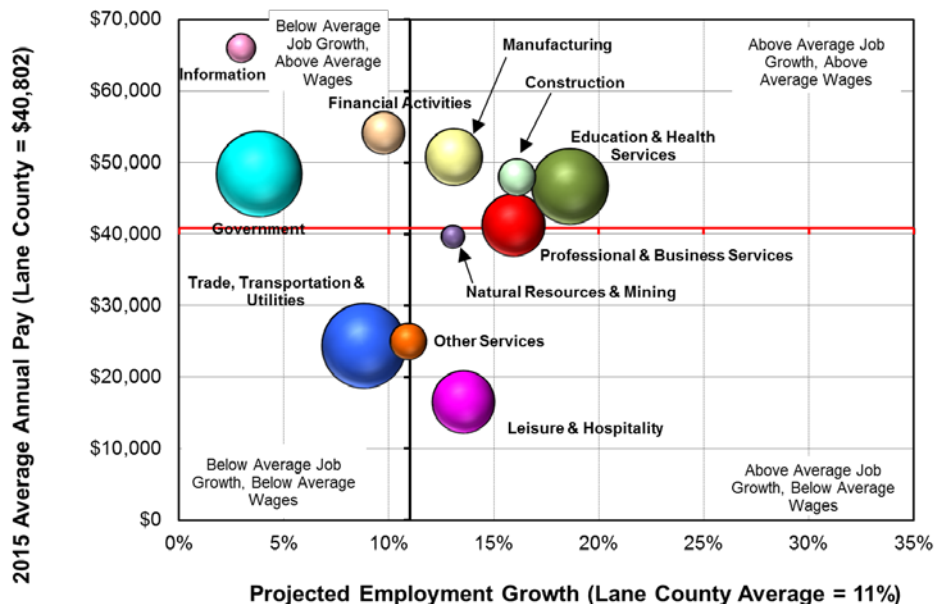
Most jobs lost during the recession have returned, except for manufacturing jobs.

For non-manufacturing jobs, Lane County has regained all jobs lost during the recession and surpassed pre-recession employment totals by about 4,500 jobs. However, the manufacturing sector has only regained 21% of the jobs lost during the recession as of December, 2016. Certain manufacturing sectors such as Transportation Equipment (RVs), Computers and Electronics (Hynix), and Wood Products saw the largest losses during the recession and have had minimal post-recession growth. (Brian Rooney, Regional Economist)

Job Growth Outlook

The ten year outlook for job growth is positive, with expected job growth in many industries above ten percent. A significant portion of the anticipated job growth will be in industries that have a higher wages than the Lane County average. If future job growth matches the forecast, we will continue to see a strong local economy and job market in Lane County.

Lane County Industry Wages and Forecasted Employment Growth, 2014-2024

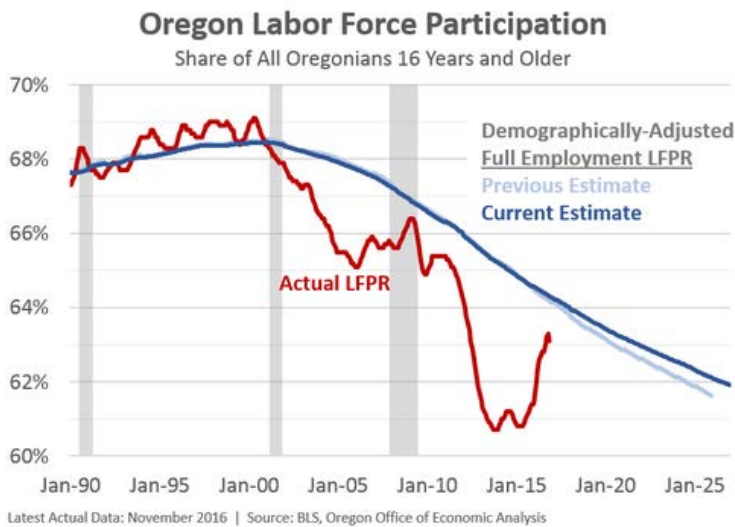


Source: Oregon Employment Department

The job growth outlook for Lane County forecasts strong growth.

Labor Force Participation

Additional metrics beyond unemployment are helpful in achieving a more complete overview of the post-recession economy. One additional metric, the Labor Force Participation Rate (LFPR) or Participation Gap, measures the current workforce versus the expected workforce based on demographic information. As shown in the chart to the left, the Participation Gap remains higher than expected in a fully recovered economy. In the data, we see a steady decline in labor participation, beginning with the recession in the early 2000s and decreasing much further after the Great Recession in 2008. While labor participation remains below full participation, the participation rate has increased over the last few years and is approaching a normal level.

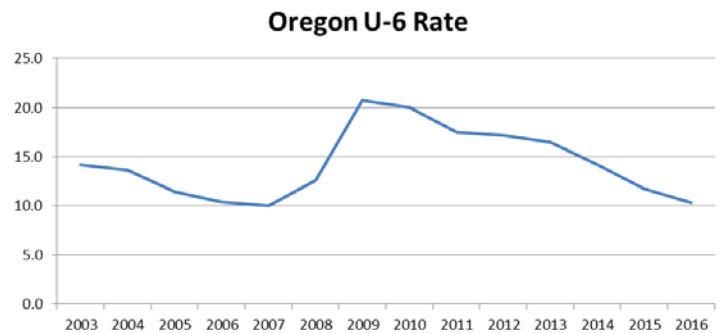


The Labor Force Participation Rate (LFPR) in Oregon is increasing.

U-6 Unemployment Rate - Oregon

The next measure is the U-6 unemployment rate, which is an alternate measure of unemployment. U-6 is the broadest unemployment measure and includes anyone who has looked for work in the last 12 months, those who are willing and available to work but have not looked in the last 4 weeks, and those who are working part time because full time work is not available. The U-6 rate has returned to pre-recession levels.

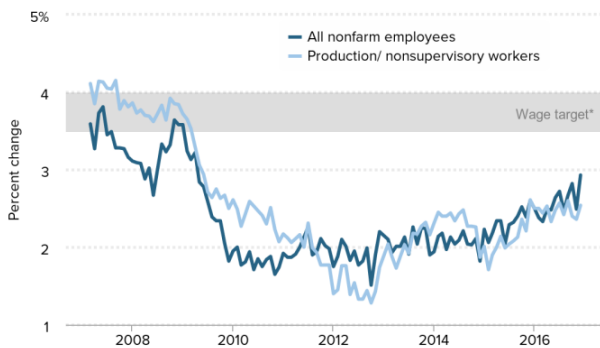
(Source: Bureau of Labor Statistics)



The U-6 unemployment rate has returned to pre-recession levels.

Nominal wage growth has been far below target in the recovery

Year-over-year change in private-sector nominal average hourly earnings, 2007–2016



*Nominal wage growth consistent with the Federal Reserve Board's 2 percent inflation target, 1.5 percent productivity growth, and a stable labor share of income.

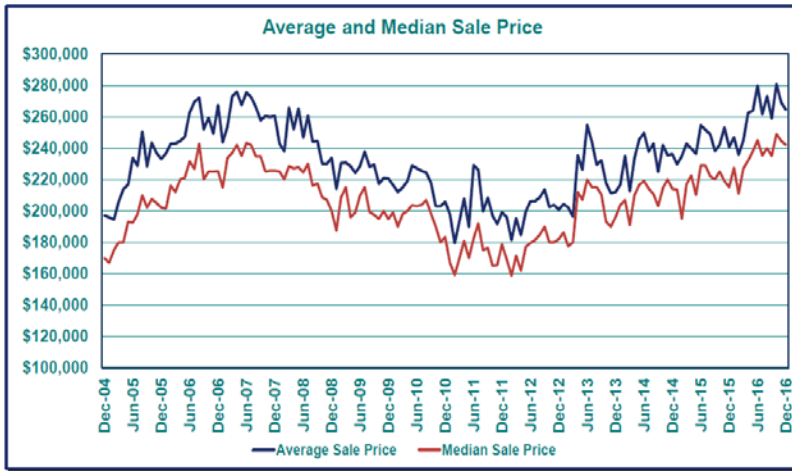
Source: EPI analysis of Bureau of Labor Statistics Current Employment Statistics public data series

Economic Policy Institute

Wage Growth

The final economic metric is wage growth. One of the more discussed aspects of this economic recovery has been relatively poor wage growth, even as unemployment continues to decline. While we are still significantly below the Federal Reserve's target wage growth of three and a half percent to four percent annually, we have seen some indications lately that wages are increasing, with nominal wage growth approaching three percent. This could potentially be a sign of stronger long term wage growth, especially in light of continued low unemployment, which tends to push wages up.

Wage growth is increasing, but remains below healthy levels.



Real Estate Statistics

The average price of a home in Lane County grew to \$264,400 in December 2016 from \$240,600 in December 2015. This is a 9.9% increase over the period. In the same comparison period, the median sale price rose by 12.6% from \$215,000 to \$242,000. Total Market Time decreased from 84 days to 77 days in the same period.

Source: Market Action, RMLS, December 2016

Home prices are increasing at a strong pace in Lane County.

Building Permit

Building permit activity within Lane County Land Management was mixed for the period between October and December 2016 as compared to the same period in 2015. Residential permits have increased 13.6%, while commercial permits have decreased by 40.0%.

2 Year Building Permit Data	FY 15/16					FY 16/17				
	Q1	Q2	Q3	Q4	Total	Q1	Q2	Q3	Q4	Total
Commercial	48	35	43	58	184	43	25			68
Residential	424	406	402	436	1668	500	470			970
Percent change Commercial last Quarter	-52.1%	-37.1%	18.6%	25.9%		-34.9%	-72.0%			
Percent change Residential last Quarter	0.2%	-4.4%	-1.0%	7.8%		12.8%	-6.4%			
Percent change Commercial 1 year	4.2%	8.6%	32.6%	-25.9%	2.2%	-11.6%	-40.0%			
Percent change Residential 1 year	-0.2%	-12.1%	8.2%	3.0%	-0.2%	15.2%	13.6%			

Building Permit activity was mixed in the second quarter of FY 16/17 versus Q2 FY 15/16.

ALL COUNTY FUNDS

FY 16-17

RESOURCES	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year to Date	Current Budget	% Actual to Budget
Beginning Fund Balance/Reserves	229,622,492	-	-	-	229,622,492	229,064,778	100.24%
Revenues							
Taxes & Assessments	2,114,407	48,719,808	-	-	50,834,215	59,851,520	84.93%
Federal Revenue	(3,580,995)	8,151,855	-	-	4,570,860	46,077,946	9.92%
State & Local Revenue	20,048,242	24,137,067	-	-	44,185,310	95,357,826	46.34%
Fees & Charges	27,846,018	31,401,526	-	-	59,247,544	124,626,058	47.54%
Other Revenues	8,362,183	8,904,087	-	-	17,266,270	31,655,246	54.54%
Total Revenue	54,789,856	121,314,343	-	-	176,104,199	357,568,596	49.25%
Transfers In	4,170,253	12,703,735	-	-	16,873,987	29,976,529	56.29%
TOTAL RESOURCES	288,582,601	134,018,077	-	-	422,600,678	616,609,903	68.54%

REQUIREMENTS	First Quarter	Second Quarter	Third Quarter	Third Quarter	Year to Date	Current Budget	% Actual to Budget
Expenditures							
Salaries & Wages	21,723,858	21,823,312	-	-	43,547,170	101,054,742	43.09%
Employee Benefits	13,543,447	14,661,794	-	-	28,205,241	66,524,790	42.40%
Material & Services	34,274,880	40,643,608	-	-	74,918,488	205,842,504	36.40%
Capital Expenses	2,972,203	2,793,473	-	-	5,765,676	20,339,786	28.35%
Debt Service	159,991	3,753,873	-	-	3,913,864	10,897,068	35.92%
Other Fiscal Transactions	-	-	-	-	-	-	0.00%
Total Expenditures	72,674,380	83,676,060	-	-	156,350,439	404,658,890	38.64%
Transfers Out	4,170,253	12,703,735	-	-	16,873,987	29,996,529	56.25%
Ending Fund Balance/Reserves						181,974,484	
TOTAL REQUIREMENTS	76,844,632	96,379,794	-	-	173,224,427	616,629,903	28.09%

Net Revenue (Expense)	(17,884,523)	37,638,283	-	-	19,753,760	(47,090,294) *
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*The net expense shown in the Current Budget column is the result of spending reserves, rather than new revenue, on continuing services. This is a planned spend down in many areas and represents the lag of the Secure Rural schools payments, and the receipt of multi-year grant revenues which are carried forward for multi-year service delivery.

General Fund

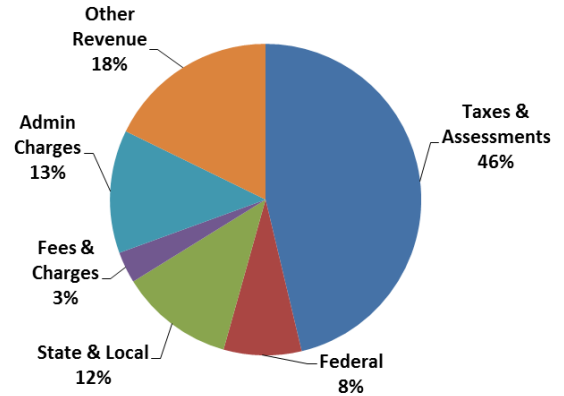
Positive and Within Budget

Revenues:

At the end of the Second Quarter of FY 16-17, the County has received 66.81% of its budgeted annual General Fund revenue. This is an increase of 2.83% over the same period last year.

The timing of receipt for grant and state revenues impacts the comparison of revenue received between fiscal years for the same time periods. In addition, several revenues within the General Fund have experienced slightly higher than projected growth – including car rental tax, recording fees and cable franchise fees. The higher receipts result in a higher percentage of collection at the end of the second quarter. Overall, the variance between budget and actuals is within expectations.

Budgeted Revenue



General Fund Operating Revenues				
Quarter ended December 31	13-14	14-15	15-16	16-17
Quarter 2 YTD Actual	46,186,125	47,716,425	48,263,544	50,387,555
Total Annual Budget	71,618,361	74,040,183	75,435,133	75,422,166
Actual as % of Budget	64.49%	64.45%	63.98%	66.81%

General Fund Operating Revenues					16-17 vs. 15-16 Variance	
Quarter Ended December 31	13-14	14-15	15-16	16-17	\$	%
Taxes & Assessments	32,226,696	33,939,552	35,107,442	36,596,758	1,489,316	4.24%
Federal Revenue	639,477	685,128	644,316	588,157	(56,160)	-8.72%
State & Local Revenue	5,197,993	5,097,453	3,309,696	4,516,898	1,207,202	36.47%
Fees & Charges	1,193,355	1,277,259	1,649,485	1,522,806	(126,678)	-7.68%
Administrative Charges	5,284,038	5,320,997	5,712,658	5,665,542	(47,116)	-0.82%
All Other Revenue	1,644,566	1,396,036	1,839,947	1,497,395	(342,552)	-18.62%
Total	46,186,125	47,716,425	48,263,544	50,387,555	2,124,011	4.40%

General Fund

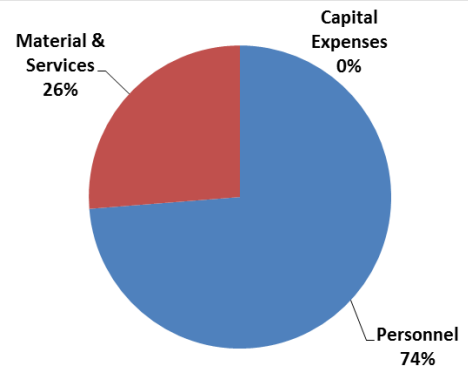
Positive and Within Budget

Expenditures:

At the end of the Second Quarter of FY 16-17, the County has expended 42.67% of its budgeted annual General Fund operating expense budget. This is a decrease of 0.83 % over the same period last year.

Expenditure levels through the second quarter are within expectation. The increase in variance occurring within personnel expenses varies from year to year based upon vacancy rates. Material & Service expenses show a very slight increase in expenditure levels from FY 15-16, but as a whole remain flat and well within budget.

Budgeted Operating Expenses



General Fund Operating Expenses				
Quarter Ending December 31	13-14	14-15	15-16	16-17
Quarter 2 YTD Actual	27,037,306	28,212,305	27,681,801	29,327,733
Total Annual Budget	68,851,186	62,772,835	63,631,967	68,736,960
Actual as % of Budget	39.27%	44.94%	43.50%	42.67%

General Fund Operating Expenses	Quarter Ended December 31	13-14	14-15	15-16	16-17	16-17 vs. 15-16 Variance	
						\$	%
Personnel Services		19,775,617	20,569,245	20,064,971	21,672,707	1,607,736	8.01%
Materials & Services		7,222,257	7,610,134	7,616,830	7,658,254	41,424	0.54%
Capital Projects/Outlay		39,432	32,926	-	(3,228)	(3,228)	0.00%
Total		27,037,306	28,212,305	27,681,801	29,327,733	1,645,932	5.95%

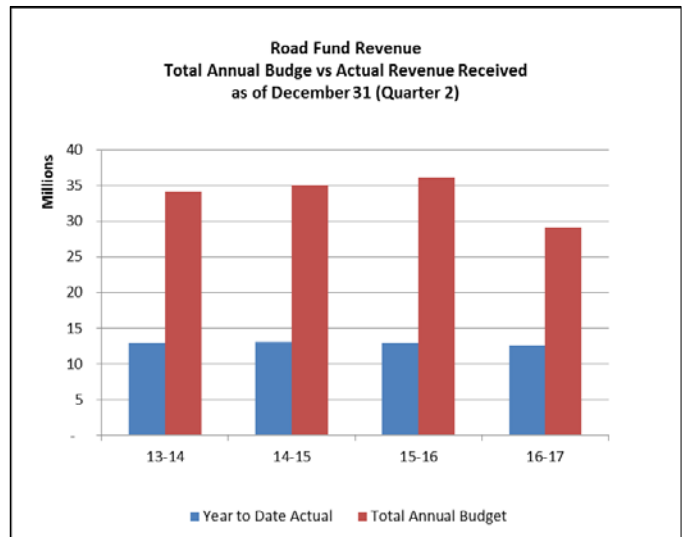
Road Fund

Positive and Within Budget

Revenues:

As of the end of the Second Quarter of FY 16-17, the County has received 43.39% of its budgeted annual Road Fund operating revenue. This is an increase of 7.52% from the same period last year as a percent of budget. However, the actual dollars received have decreased by \$305,324, a 2.4% revenue decrease for the quarter compared to the previous year. The decrease in revenue received is from Federal Highway Administration grant, land sales, and department indirect revenue. Total budgeted operating revenue as compared to FY 15.16 is down by 19.3%, (\$7 million) due to a scheduled elimination of SRS revenue.

Budgeted v. Actual Revenue



Road Fund Operating Revenues as of December 31				
	13-14	14-15	15-16	16-17
Quarter 2 YTD Actual	12,952,002	13,104,551	12,980,888	12,675,564
Total Annual Budget	34,205,498	35,074,003	36,187,650	29,211,233
Actual as % of Budget	37.87%	37.36%	35.87%	43.39%

Road Fund Operating Revenues					16-17 vs. 15-16 Variance	
Quarter Ended December 31	13-14	14-15	15-16	16-17	\$	%
SRS/Federal Timber Receipts	-	-	-	-	-	-
State Highway Fund Transfer	8,249,199	8,026,297	8,189,995	8,656,487	466,492	5.70%
Other Intergovernmental	1,767,908	2,336,920	1,524,055	1,274,797	(249,258)	-16.35%
Fees and Charges	413,079	520,590	699,800	653,533	(46,267)	-6.61%
Property Sales & Rentals	481,105	201,184	599,598	226,408	(373,191)	-62.24%
Department Indirect Revenue	1,893,981	1,876,984	1,831,640	1,705,832	(125,808)	-6.87%
Other Revenues	146,730	142,577	135,799	158,507	22,708	16.72%
Total	12,952,002	13,104,551	12,980,888	12,675,564	(305,324)	-2.35%

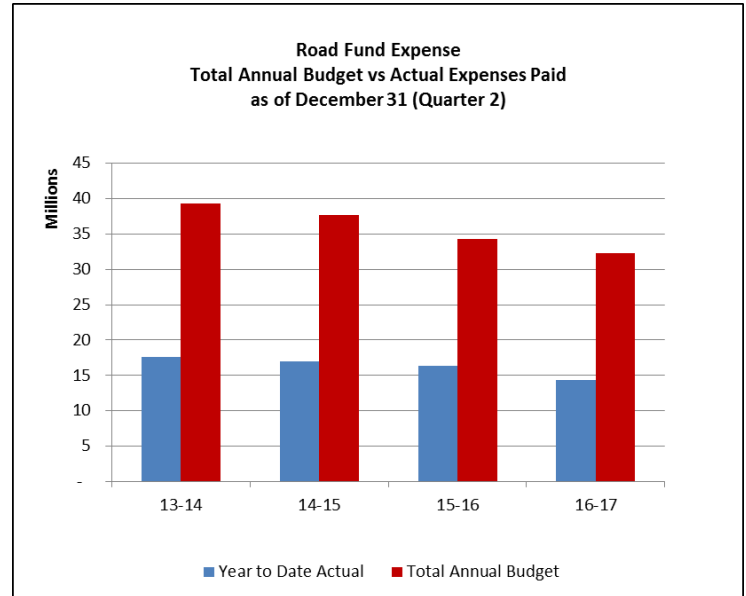
Road Fund

Positive and Within Budget

Expenditures:

As of the end of the Second Quarter of FY 16-17, the County has expended 44.47% of its budgeted annual Road Fund operating expense budget. This is a decrease of 3.13% from the same period last year and is more closely aligned with 2014 and 2015. Actual expenses are down; the decrease of \$1.9 million reflects decreases in all categories as a result of the department's reductions to balance the structural gap between revenue and expense. The FY 16-17 Operating Expense Budget was reduced by \$2 million, 6% from the previous year. This is the eighth year of budget reductions.

Budgeted Operating Expenses



Road Fund Operating Expenses				
Quarter December 31	13-14	14-15	15-16	16-17
Quarter 2 YTD Actual	17,628,423	16,971,060	16,317,331	14,336,850
Total Annual Budget	39,321,617	37,664,736	34,278,342	32,238,997
Actual as % of Budget	44.83%	45.06%	47.60%	44.47%

Road Fund Operating Expenses					16-17 vs. 15-16 Variance	
Quarter Ended December 31	13-14	14-15	15-16	16-17	\$	%
Personnel Services	7,906,358	7,824,251	7,047,319	6,400,038	(647,281)	-9.18%
Materials & Services	6,534,110	6,936,464	5,534,184	5,394,667	(139,517)	-2.52%
Capital Projects/Outlay	3,187,955	2,210,345	3,735,828	2,542,146	(1,193,682)	-31.95%
Total	17,628,423	16,971,060	16,317,331	14,336,850	(1,980,480)	-12.14%

Road Fund Net Operating Balance				
Quarter Ended December 31	13-14	14-15	15-16	16-17
YTD Actual	(4,676,421)	(3,866,508)	(3,336,443)	(1,661,287)
Total Annual Budget	(5,116,119)	(2,590,733)	1,909,308	(3,027,764)
Actual as % of budget	91.41%	149.24%	-174.75%	54.87%