February 13, 2020

- Overview of reports on Revenues
- Overview of Budget Challenges
- Question & Answer

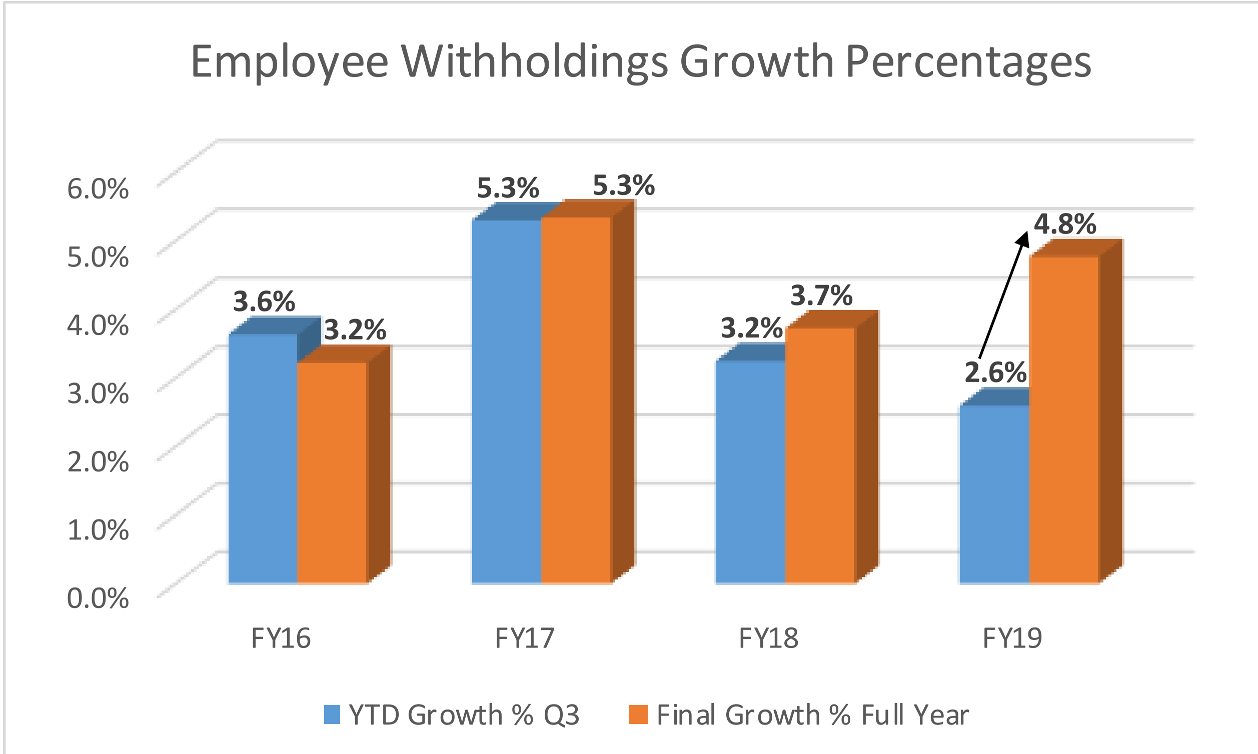
The State of the City

- Strong economy, as seen in higher-than-projected employee withholdings and net profits from local companies.

- Short- and long-term budget challenges remain.

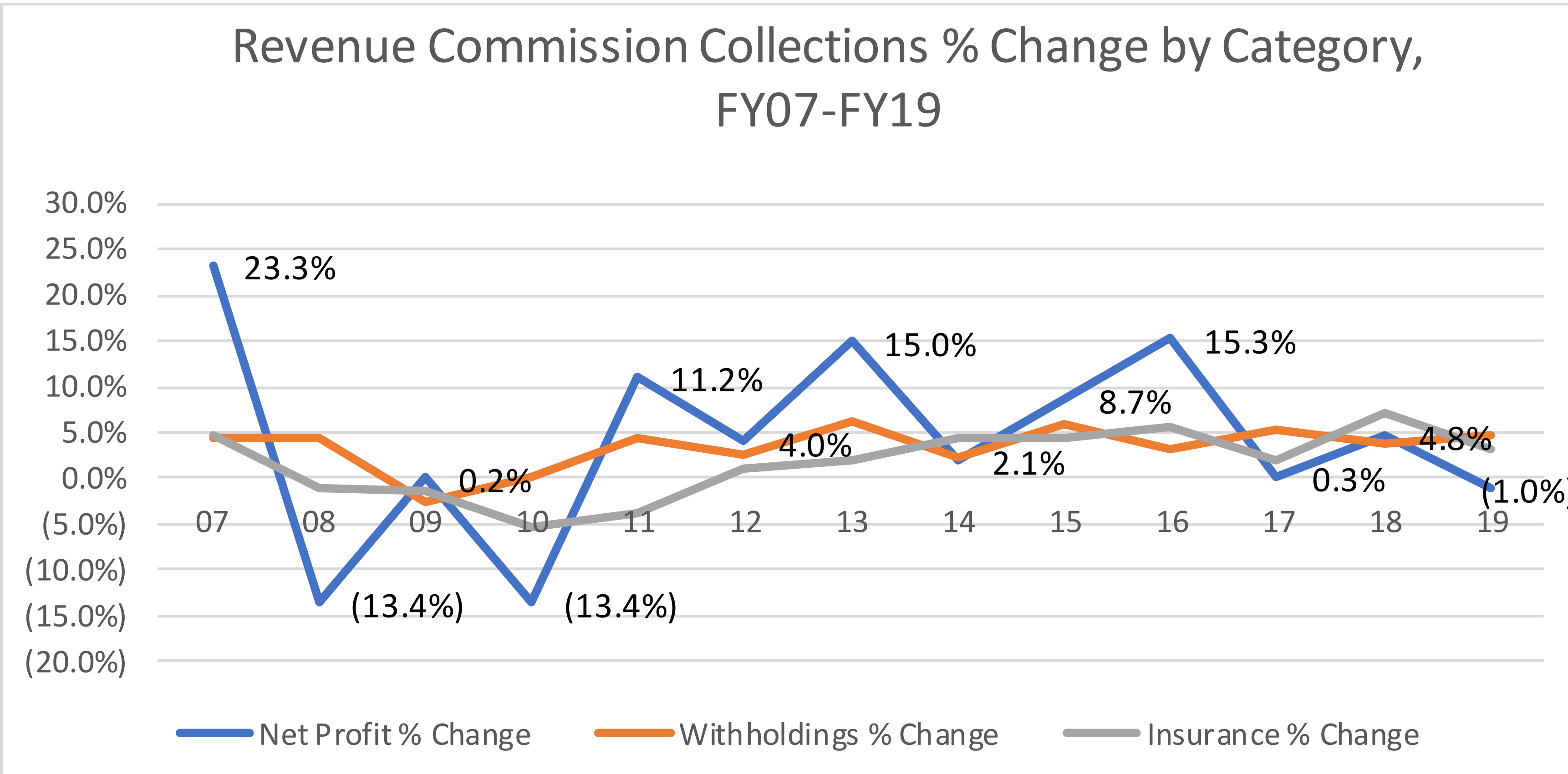
STRONG ECONOMY

Employee Withholdings Saw Sharp Higher-Than-Anticipated Q4 Increase of $3.4M



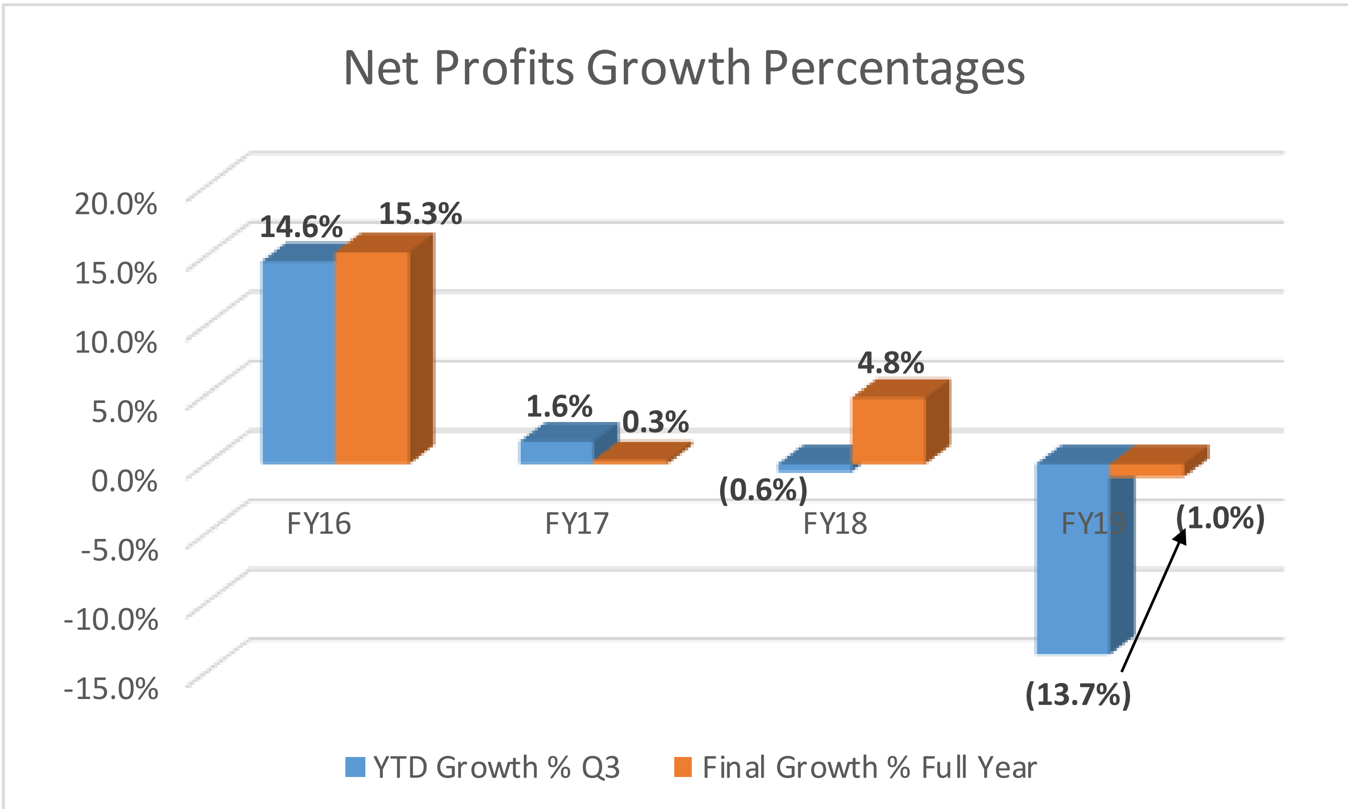
After growing 2.6% for the first 9 months of FY19, **employee withholdings grew 11.1%** in Q4 (forecast was for 6.4% growth in Q4) resulting in 4.8% growth ($3.4 million) for the year and $293.6M compared to forecast of $290.2M. The 11.1% quarterly growth rate has only been exceeded one time since merger (12.4% growth in Q1 of FY13 as we accelerated out of the recession). This growth was not expected at the end of Q3 last year, due to the 2.6% rate for the prior nine months. Employee withholdings make up 48% of our General Fund revenues.

Background: Net Profits Have Unusual Amount of Volatility for such a Large Revenue Source



This chart speaks to the volatility of Net Profits as a revenue source. About half the time it has experienced growth or contraction greater than 10%. This is a rarity for such a large revenue source. It is also a backloaded revenue, with more than half collected in Q4 (April to June).

Net Profits Saw Sharp Higher-than-Expected Q4 Increase of $9.3M



After contracting by 13.7% for the first 9 months of FY19, **net profits grew 9.3%** (creating a $9.3M increase at $68.1M compared to a forecast of $58.8M) in Q4. Net profits make up 10% of our General Fund revenues.

FY19 End-of-Year data for period ending 6-30-19

	FY19 Forecast	FY19 Actual	$ Difference	% Difference
Real & Personal Property	141,860,000	142,030,741	170,741	0.1%
Employee Withholdings	290,230,000	293,612,070	3,382,070	1.2%
Net Profits	58,830,000	68,130,306	9,300,306	15.8%
Subtotal:	349,060,000	361,742,376	12,682,376	3.6%
Insurance Premiums	63,920,000	64,238,545	318,545	0.5%
Fee Officers' Term	5,500,000	1,579,655	(3,920,345)	(71.3%)
All Other	53,981,000	56,413,872	2,432,872	4.5%
Total	614,321,000	626,005,189	11,684,189	1.9%

- Combined Wages and Profits were up $12.7M, less a one-time payment from an individual corporate capital gain of $4.1M for base growth of $8.6M.
- The anticipated combined total was $349M, while the actual was $361.7M, or 3.6% more.

FY20 Budget and Forecast

FY20 Half-Year Forecast Compared to FY20 Original Budget	
Base Wage & Profit Growth from FY19:	8,600,000
Forecasted Wage & Profit Growth Above Base Change:	3,080,000
Fee Officers' Term from Sheriff in FY20:	4,730,000
All Other Forecasted Growth:	2,509,400
Total Growth in FY20 Forecast to Budget:	18,919,400

	FY20 Original Budget	**FY20 Half-Year Forecast**	**$ Difference**	**% Difference**
Real & Personal Property	147,710,000	149,070,000	1,360,000	0.9%
Employee Withholdings	296,540,000	306,030,000	9,490,000	3.2%
Net Profits	62,740,000	64,930,000	2,190,000	3.5%
Insurance Premiums	65,330,000	65,850,000	520,000	0.8%
Fee Officers' Term	-	4,730,000	4,730,000	N/A
All Other	51,125,800	51,755,200	629,400	1.2%
Total	623,445,800	642,365,200	18,919,400	3.0%

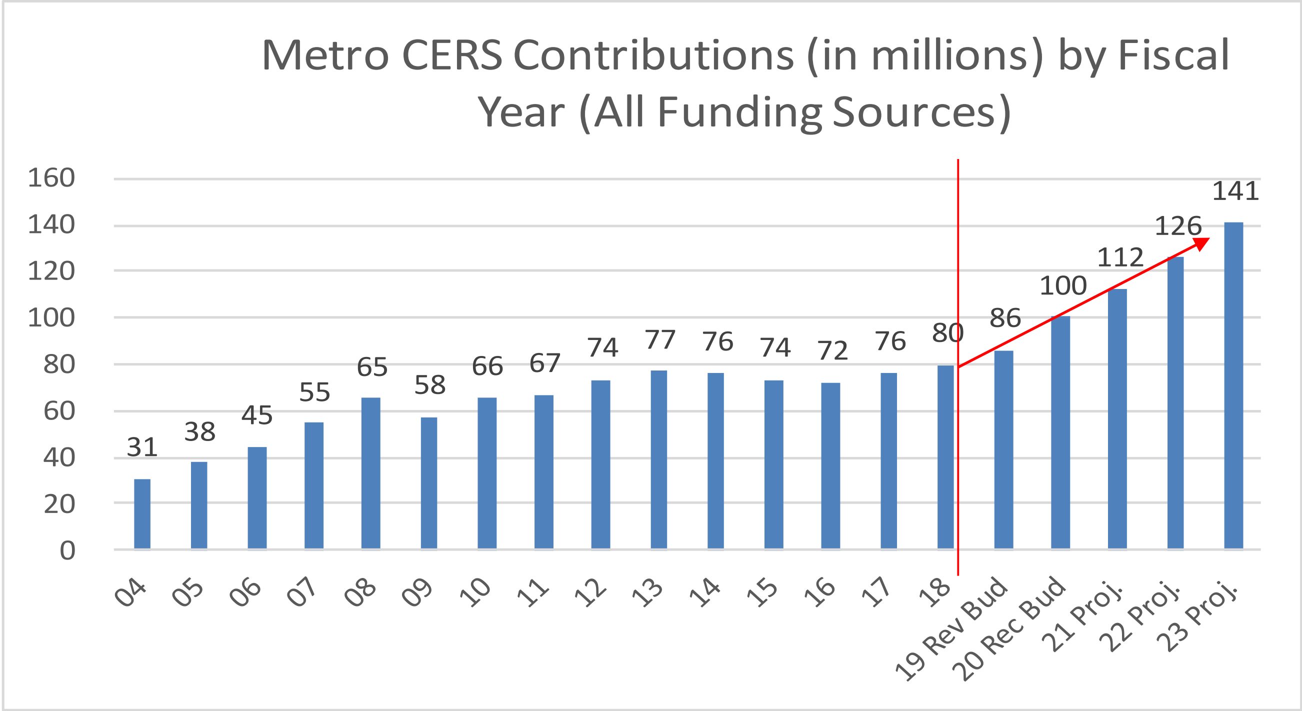
Economic Growth Drives Projection of Higher-than-Expected FY20 Revenue

FY20 revenue is forecasted to be $18.9M higher than expected, due to these factors:

- Revenue growth of $14.2M, because payrolls are higher and corporations are reporting greater growth in their profitability; and
- Non-recurring revenue of $4.7M from the Sheriff due to timing. The Sheriff's surplus was delayed from FY19 due to a delay in their audit.

BUDGET CHALLENGES REMAIN

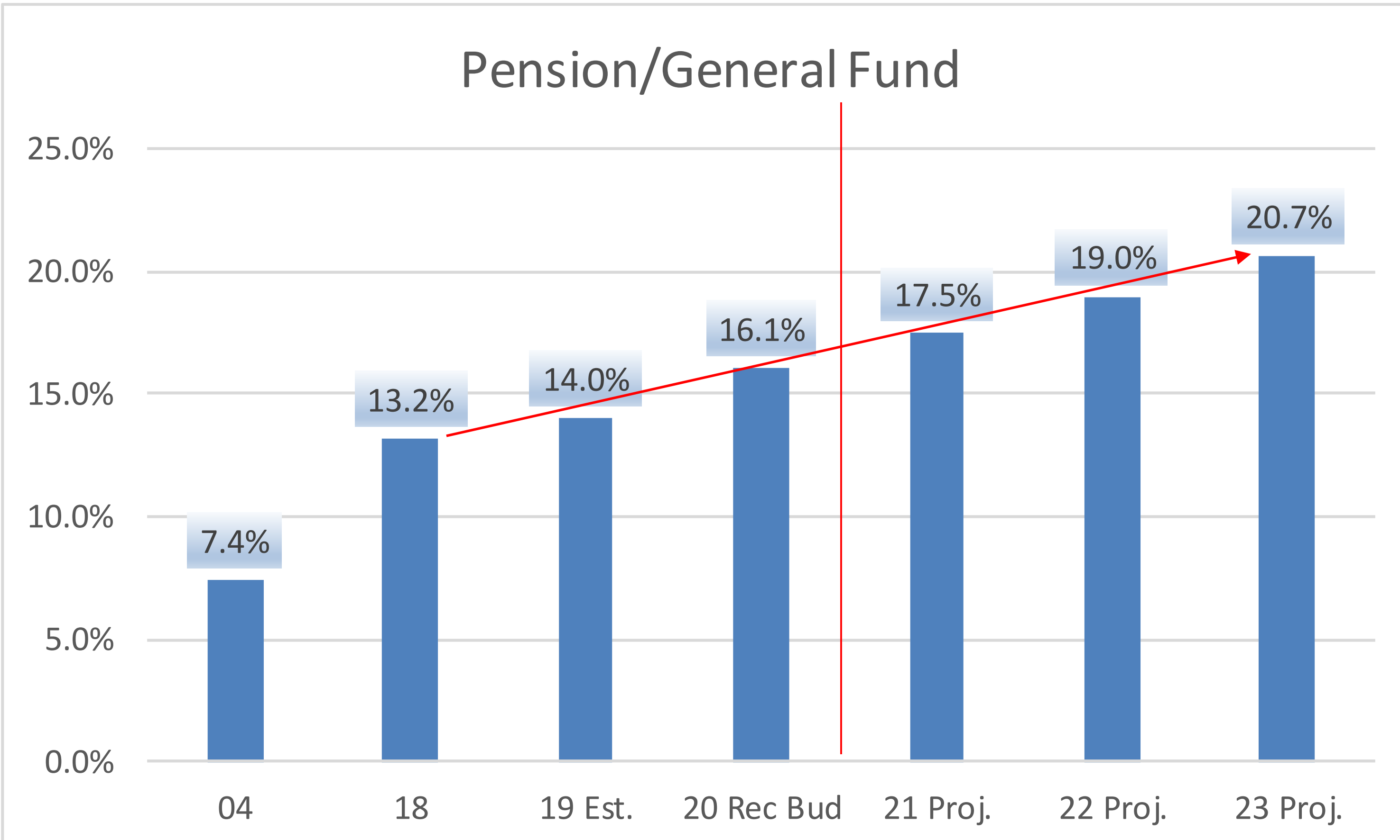
Reminder: Pension Expenses Forecasted to Grow by $41 million ($100M in FY20 to $141M in FY23) Despite Uptick in Forecast



Note: estimated 12% CERS annual rate increase assumed for FY21-FY23 without any assumed wage growth

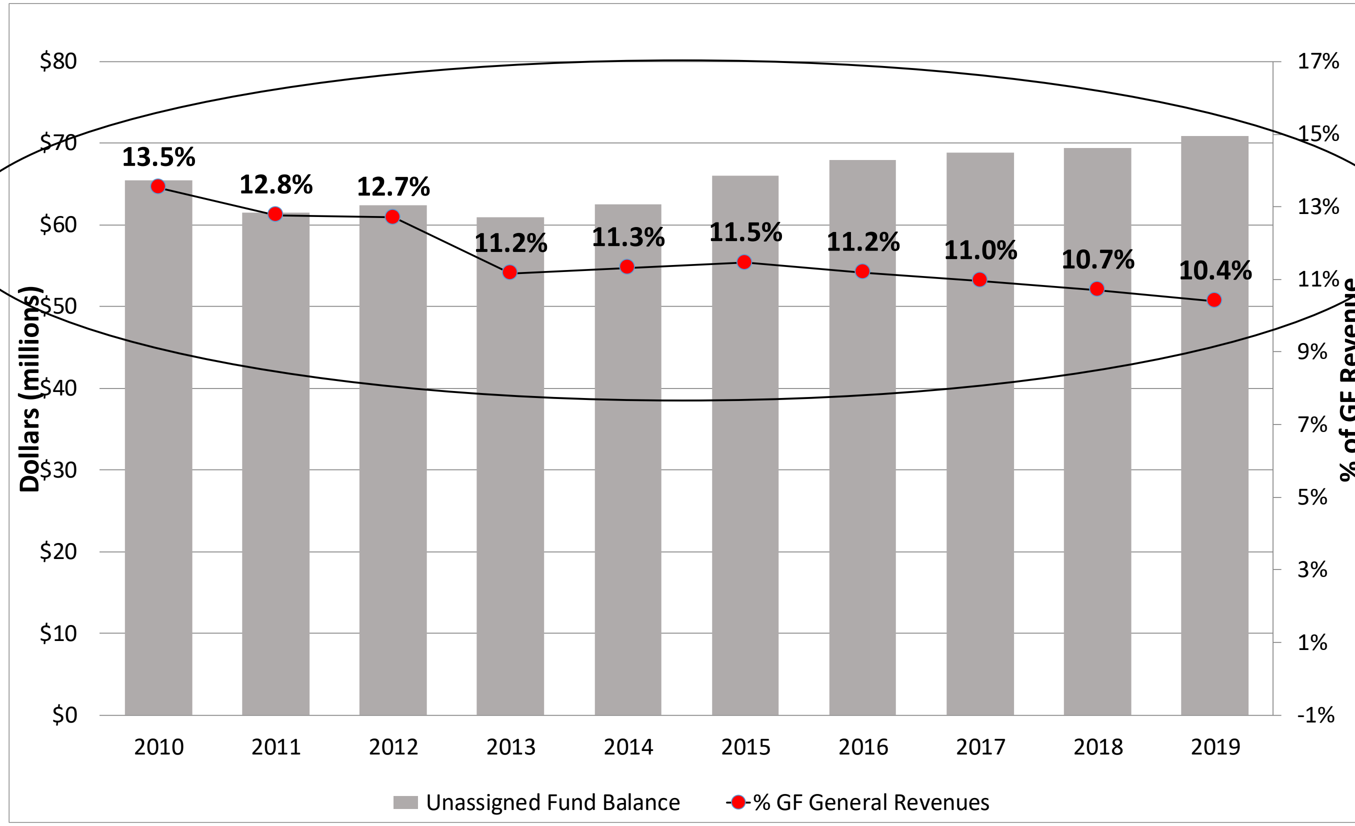
As shared with Council in May and November of 2019, beginning with the 12% pension increase in FY19, it is anticipated that Metro will need to add a recurring $61M for our pension expenses by FY23 (going from $80M in FY18 to $141M in FY23). This more positive revenue forecast has not changed this fact.

Reminder: Pension Costs Grow from 7% to 21% of budget



FY21-23 Projections assume General Fund revenue growth of 3%/year and CERS pension growth of 12%/year with no Metro employee wage increases from FY20—this will result in almost a tripling of pension expense as a portion of the budget.

Reminder: Rainy Day Fund Is Declining as a Percentage of Budget, Currently Less than Policy Recommends



- Each percentage point decrease = $6.8M, so a 3 percent drop would mean that we need about $20M MORE in the Rainy Day Fund than our current $71M to maintain13.5% benchmark
- Benefits of a healthy Rainy Day Fund include: lower cost of debt, improved cashflow during the year, and community security for an actual rainy day event

Metro Faces Short-Term Budget Challenges

- Funding basic city services that residents expect, including recruiting and retaining public employees.
- Restoring pay-go capital levels so that the city is not bonding basic maintenance and repairs.
- Adhering to our Rainy Day Fund policy to reverse the declining percentage funded and maintain our credit rating/access.

Metro Faces Long-Term Budget Challenges

- Investing in our city and people to address our most serious challenges:

  Equity, Skills Development & Our Built Environment

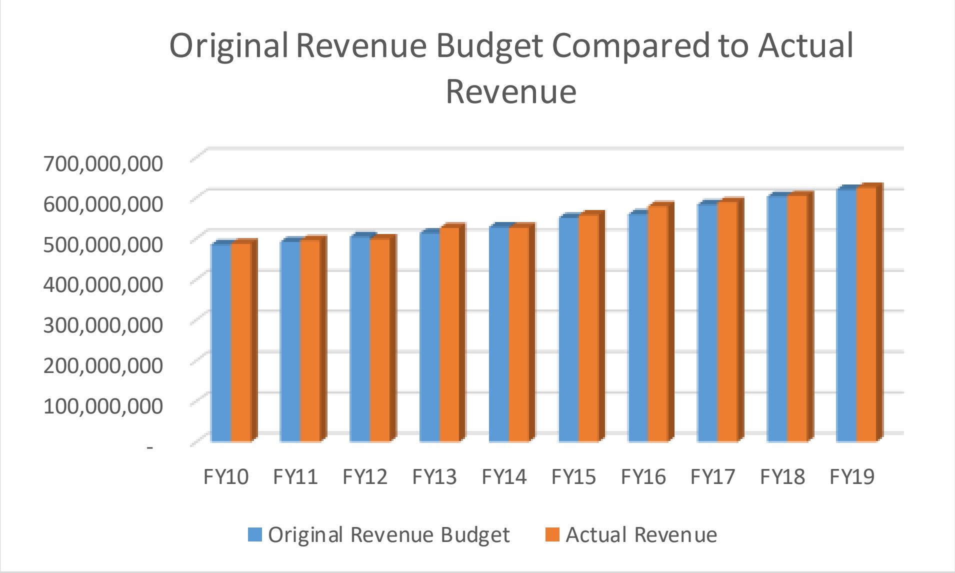
  This must include: investments to address education, workforce development, affordable housing, multi-modal transportation, climate change mitigation, human services, deferred maintenance, vacant properties, and other chronic challenges.

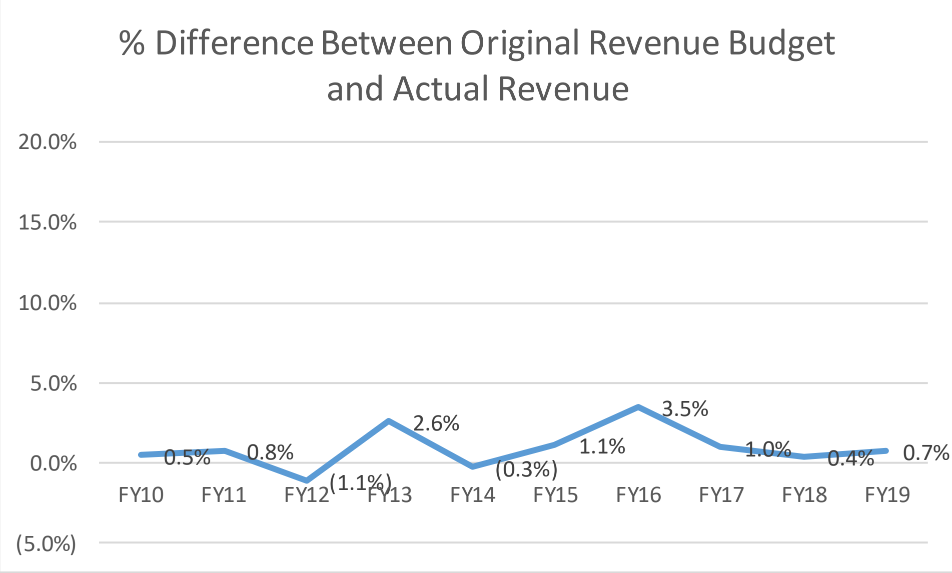
- Continuing to address our pension challenges; pension payments expected to grow $41 million more after FY20.

Key Takeaways

- The higher-than-expected revenue, driven by a strong economy, provides **temporary** relief for FY21 pension-driven cuts.
- The forecasted revenue does not provide sustainable ongoing relief to restore FY20 budget cuts.
- Pension challenges continue in FY22 and FY23, estimated at a $29 million increase from $112M to $141M.
- Our short- and long-term budget challenges require new revenue to address pension and systemic challenges.

Background: Revenue Forecasting History for the Past Decade





- Generally speaking, an on-point forecast is considered to be within +/- 2%
- Metro's average forecast for the past 10 years has been 0.9%, with 8 of those years being within +/- 1.1%

What’s Next

- Monitor revenue growth through Q3 to see if projections hold.
- Mayor’s proposed budget in April will include recommendations on how to responsibly and sustainably address FY20 and FY21 projections.
- Recommend saving additional forecasted revenue of $18.9M for future pension obligations, avoiding more cuts when possible, reclaiming investments in pay-go capital projects, and funding one-time expenses in conjunction with the Metro Council.
- Continue to advocate for revenue to address Louisville’s needs.

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Question & Answer