City of Salem General Fund

Five Year Financial Forecast FY 2011-12 - FY 2015-16

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INTRODUCTION

News of the weak economy; local, national and global, continues to be at the forefront of policy concerns. In recent years, Oregon's and Salem's economies have followed national trends. Salem has experienced the sluggish housing market, high unemployment rates and shrinking revenue in several funds. The City government has been reorganizing and downsizing for several years to manage our service provision in line with our revenue.

Although Salem has attracted new industry to the local economy and our population continues to grow at a modest rate, economic concerns reflected in last year's forecast continue to exist. In response to those challenges, the City's current operating budget was prepared using a results-based approach within the framework of the City Council's four result areas of a safe community, livable community, vibrant economy and healthy environment. City Council financial policies help assure the financial stability of the City's General Fund.

As Salem continues to balance its budget, the current fiscal year expenditure budget is nearly identical to that adopted in FY 2009-10. A beginning fund balance in line with the City Council's policy tempered the need to make substantial budget cuts in the current fiscal year. This year's budget maintains service levels established in FY 2009-10. As we look forward to FY 2011-12, the beginning fund balance will allow the City to phase into higher PERS and higher operating costs without additional significant reductions in General Fund operating costs over the next three years, unless unanticipated events occur.

Using the assumptions discussed later, the resulting financial values are reflected in Schedule A and B on pages 8 and 9. The difference between the two schedules demonstrate the result of assuming either a 3 percent savings on budgeted expenditures or a 6 percent savings on budgeted expenditures. Based on a ten year historical review of savings experienced, 6 percent appears to be a realistic expectation. Therefore, Schedule B with the 6 percent savings assumption is used as the basis for discussion and comparison.

As we look at the next five years, future fund balance projections show the need to be financially conservative. The structural limitations of the revenue stream continue to exist; expenses are increasing at a rate higher than revenues. As Schedule B shows on page 9, the first year of the forecast reflects a revenue decline of 0.5 percent from the adopted FY 2010-11 revenues, while expenses in FY 2011-12 are projected to increase by 4.5 percent. The forecast shows the General Fund will reduce its fund balance by $2.5 million during FY 2011-12. Throughout the forecast period, revenues grow at an average of almost 1.8 percent per year while expenses increase by 3.8 percent.
Expenditure areas having the greatest influence on rising costs are those associated with personal services. For both represented, non-represented and management employees, for forecasting purposes, wages were assumed to increase by a market rate of 1 percent per year for all forecast years.

Another factor having an influence on the fiscal outcomes is the increase to the Public Employees Retirement System (PERS) and Oregon Public Service Retirement Plan (OPSRP) rates which were necessitated by the poor economic performance of the system during the recession. Rates for PERS Tier 1 and 2 employer contributions are projected at 12.93 percent of eligible wages. OPSRP rates increase to 11.85 percent of eligible wages for public safety employees and 9.14 percent for general service employees. The estimated impact as calculated against base pay is $2.6 million for the General Fund. The forecast assumes higher PERS rates every other year in conjunction with the actuarial analysis performed by PERS. As this is a five year forecast, there are three PERS increases included in this time span.

Medical insurance costs are increasing in the forecast. The FY 2010-11 budget contains medical insurance increases of approximately 14 percent on January 1, 2011. With our new medical plan implemented in December, 2010, increased costs were more modest at 6.5 percent. As we look to FY 2011-12, medical insurance costs are projected to increase an average of 12 percent each year in the forecast.

Our focus on process improvements and cost reductions throughout the organization to eliminate redundancies and implement efficiencies will contribute to the City's capacity to respond to the community's needs. However, those efforts alone will not prevent the financial outcome demonstrated in the forecast. Unless new revenue is realized or some service reductions are made, the fourth year of the forecast on Schedule B demonstrates a beginning fund balance of $6.8 million which is reduced throughout the year to $1 million by the end of that year. The beginning fund balance of $1 million will be insufficient to maintain city service levels throughout the following fiscal year. In other words, expenses in the fourth year will exceed resources by $15.7 million in FY 2014-15, and without intervention would result in a negative ending fund balance in FY 2015-16.

It is important to note the FY 2011-12 General Fund financial forecast represents the City's continuing efforts to live within its means while providing an adequate level of service for the community. The forecast is an analysis of the City's five-year financial condition based upon reasonable economic assumptions. The information on the following pages is not a prediction of what will occur, but a view of what could occur in the future if all the forecast assumptions are realized.

BUDGET CALENDAR
FY 2011-12 Budget

December 13, 2010	Tim Duy presentation to Budget Committee on the state of the national and local economy.
January 2011	City Council goal setting.
January 26, 2011	Budget Committee review of the General Fund Five Year Forecast.
April/May 2011	City Manger presents recommended FY 2011-12 budget to the Budget Committee. Budget Committee recommends FY 2011-12 budget to the City Council.
June 13, 2011	Public hearing on the budget.
June 27, 2011	Approval of budget resolution adopting the FY 2011-12 budget.

GENERAL FUND OUTLOOK

Revenue projections for the General Fund in FY 2011-12 demonstrate an approximate 0.5 percent decrease in current revenues as compared to the FY 2010-11 adopted budget. The single largest revenue, property tax is projected to grow about 3 percent per year through FY 2012-13 and increase to a growth rate of 3.6 percent for each remaining year. Franchise fees as a group are at nearly the same level as projected for the current year. Planning fees and fire safety permits are expected to reflect the slow construction and housing markets and are either flat or reduced beginning in FY 2011-12. State shared revenues also reflect a decrease in FY 2011-12, followed by moderate annual increases beginning in FY 2012-13.

The forecast includes three years of revenue as well as the city match expenses associated with the COPS Hiring Program (CHP) grant, although I will be bringing a recommendation to you about that program as we prepare the City Manager budget recommendation. Fine, penalty and forfeiture revenue shows a decrease in FY 2011-12 due to realigning projected court fines based on recent experience. These are down by $170,000 from the FY 2010-11 budget. Also shown in the forecast is a reduction to photo red light receipts due to the potential removal of the cameras at Mission Avenue and Airport Road. Interfund transfers reflect a one year refund from the document services internal service fund in FY 2011-12.

Expenditure projections include market adjustment increases of 1percent for all General Fund positions during the five forecast years[1]. The increase in salary cost from the adopted FY 2010-11 budget to the final forecast year of FY 2015-16 is $3.9 million. This increased cost is compounded by PERS/OPSRP rates that are projected to more than double in FY 2011-12 and are calculated against the higher salary base.

The FY 2011-12 Five Year Forecast in Schedule B demonstrates a $17.2 million beginning fund balance for FY 2011-12. Several factors and assumptions went into its projection. First, the General Fund benefitted from unanticipated beginning fund balance of $1.7 million. This was the result of additional expenditure savings that
were achieved late in FY 2009-10. Second, the forecast assumes the General Fund would spend $200,000 of its $2.5 million appropriated contingency, saving $2.3 million. Third, the forecast assumes expenditure savings for FY 2010-11 at 3 percent, or $2.8 million. Last, it assumes the unappropriated fund balance will drop by $900,000 from its FY 2010-11 level of $10.4 million to $9.5 million in FY 2011-12. Starting with the FY 2013-14, the unappropriated fund balance is assumed to be 10 percent of current revenue minus the contingency account of $2.3 million. Thus the ending fund balance is at its lowest point of $6.8 million in FY 2012-13.

[1] Adjustments to wages will be based upon the outcome of contract negotiations and the City's ability to pay. For purposes of this forecast, a 1 percent market adjustment is assumed.

From a financial planning point of view, budget forecasts are tools which can assess the long-term ability of Salem's revenues to sustain services. The current forecast identifies a structural imbalance in the budget where expenditures are outpacing current revenues. According to City policy C-8, the City is required to adopt structurally balanced budgets where operating revenues are equal to, or exceed, operating expenditures for all funds. In the event a structurally balanced budget is not attainable, and the cause of the imbalance is expected to last for no more than one year, the planned use of services and/or other one-time revenue to balance the budget is permitted. In the event a budget shortfall is expected to continue beyond one year, the use of reserves and/or other one-time revenue must be part of a corresponding strategic financial plan developed to return the budget to a structural balance through revenue increases and/or expenditure decreases.

In Schedule B, the forecast indicates there is a structural imbalance of $7.9 million in FY 2011-12. An imbalance occurs when expenses exceed current revenues. Over the five year period of the forecast, the structural imbalance grows to $14.2 million in FY 2015-16. In order to eliminate the structural imbalance in FY 2011-12, the City would need to raise revenue and/or reduce expenditures by $7.9 million.

Another measure of the City's financial future is the ending fund balance. Without spending and/or making revenue adjustments beginning now, Schedule B shows the General Fund balance will fall to $1.0 million in FY 2014-15 and become negative the fifth year of the forecast. This means significant cuts would have to occur in FY 2014-15 to avoid a negative beginning balance in FY 2015-16. We must, of course, take intervening steps to assure a financially stable condition.

GENERAL FUND FORECAST SCHEDULES

The FY 2011-12 General Fund Five Year Financial Forecast Schedule is organized in the following manner:

1. **Beginning Balance (Reserves)** indicates the funds available for use at the beginning of the fiscal year. In the General Fund, it is important to maintain these reserves to provide operating capital prior to receiving property tax revenue in November each year. As demonstrated in the forecast schedules, the balance is the net of prior year-end revenues minus expenditures, except the year the forecast is projected to have a negative ending balance.

2. **Reappropriations/Carryovers** which were included in the FY 2010-11 adopted budget are included in both schedules to accurately reflect current year resources.

3. **Current Year Revenues** reflect all sources of revenue for the General Fund, including property tax, franchise fees, state shared revenue, fees for services, and interdepartmental reimbursements.

4. **Total Resources** is the sum of Beginning Balance and Current Revenues (and Reappropriation/Carryovers in FY 2010-11). Total Resources in the FY 2010-11 column of the schedule reflects the amount in the adopted budget plus the supplemental budget.

5. **Current Base Expenditures** reflect the aggregate annual General Fund expenditures required to sustain current FY 2010-11 services throughout the forecast period.

6. **Reappropriations/Carryovers** which were included in the FY 2010-11 adopted budget are included in both schedules to accurately reflect the current year expenditure plan.

7. **Subtotal - Operations** is the sum of Current Base Expenditures and any Reappropriations/Carryovers. In FY 2010-11 this row reflects the amount in the adopted budget plus the supplemental budget.

8. **Unappropriated Fund Balance** is the difference between Total Resources and Total Requirements in FY 2010-11. The current year budget has an unappropriated Fund Balance of $10.5 million. Beginning with FY 2011-12, the unappropriated fund balance is not a calculation of revenues less expenditures. Instead, the unappropriated fund balance was established at an amount of $9.5 million, in order to help balance future budgets. In FY 2012-13, the unappropriated fund balance drops to an established level of $8.5 million. From FY 2013-14 forward, the forecast calculates the unappropriated fund balance as 10 percent of current revenues minus the contingency amount of $2.5 million. State budget law requires Total Resources and the sum of Total Requirements and Fund Balance to be equal or balanced at budget adoption.

9. **Total requirements** in the adopted FY 2010-11 budget include unappropriated ending balance, and therefore, balances to total resources.

10. **And rows 11, 12, and 13. Requirement Assumptions** provide the reader with a detailed accounting of the assumptions used to arrive at the estimated ending balance for FY 2010-11. Funds made available for future year use include any unspent appropriated contingencies, expenditure savings of 3 percent of the budget, and the FY 2010-11 unappropriated fund balance.

11a. **3 Percent Additional Expenditure Savings** shown in **Schedule B** only. Based on the past 10 year history of budget to actual, expenditure savings of 6 percent per year appear attainable in the future as shown in schedule B, the expenditure savings demonstrate the result of spending 6 percent less than the budget for FY 2012-13 through FY 2013-14.

14. **Estimated Ending Fund Balance** is the current year ending balance which becomes available to help balance the FY 2011-12 budget.

15. **Structural Imbalance** is the difference between current year revenues plus unspent contingency/reserves, minus total operation expenditures.

Schedule A and B on the following pages show the 5 year impact of maintaining current service levels with revenue growing at about 2 percent per year.

Schedule A - FY 2011-12 Five Year General Fund Financial Forecast Schedule

		FY 10-11 Adopted Budget *	FY 11-12 Forecast	FY 12-13 Forecast	FY 13-14 Forecast	FY 14-15 Forecast	FY 15-16 Forecast
	RESOURCES						
	Prior Year						
1.	Beginning Balance (Reserves)	15,176,620	17,189,410	12,256,080	6,030,140	-	-
2.	Reappropriations/Carryovers	1,450,690					
	Subtotal - Prior Year Resources	16,627,310	17,189,410	12,256,080	6,030,140	-	-
3.	**Current Year Revenue**	94,602,470	94,156,560	96,016,200	98,496,180	100,868,210	103,451,200
4.	**TOTAL RESOURCES**	111,229,780	111,345,970	108,272,280	104,526,320	100,868,210	103,451,200
	% Change in Current Revenue		*-0.47%*	*1.98%*	*2.58%*	*2.41%*	*2.56%*
	REQUIREMENTS						
	Operations						
5.	Current Base Expenditures	99,423,060	104,393,830	107,643,570	112,623,080	115,612,050	119,920,780
6.	Reappropriations/Carryovers	1,450,690	-	-	-	-	-
7.	**Subtotal - Operations**	100,873,750	104,393,830	107,643,570	112,623,080	115,612,050	119,920,780
	% Change in Base Expenditures		*5.00%*	*3.11%*	*4.63%*	*2.65%*	*3.73%*
	Non-Operating						
8.	Unappropriated Fund Balance	10,356,030	9,500,000	8,500,000	7,500,000	7,800,000	8,000,000
9.	**TOTAL REQUIREMENTS**	111,229,780	113,893,830	116,143,570	120,123,080	123,412,050	127,920,780
	SURPLUS/(DEFICIT)	-	(2,547,860)	(7,871,290)	(15,596,760)	(22,543,840)	(24,469,580)
	Requirement Assumptions						
10.	Unspent Contingency/Reserves	2,300,000	2,300,000	2,300,000	2,300,000	2,300,000	2,300,000
11.	3% Expenditure Savings	2,833,380	3,003,940	3,101,430	3,250,820	3,340,490	3,469,750
12.	Additional 10-11 Beginning Balance	1,700,000	-	-	-	-	-
13.	Unappropriated Fund Balance	10,356,030	9,500,000	8,500,000	7,500,000	7,800,000	8,000,000
	Sub-Total	17,189,410	14,803,940	13,901,430	13,050,820	13,440,490	13,769,750
14.	**ESTIMATED Ending Fund Balance**	17,189,410	12,256,080	6,030,140	(2,545,940)	(9,103,350)	(10,699,830)
15.	**STRUCTURAL IMBALANCE**	(2,520,590)	(7,937,270)	(9,327,370)	(11,826,900)	(12,443,840)	(14,169,580)

Rrounded to nearest $10

*Includes supplemental budget of $266,850 adopted by City Council on August 16, 2010.

Schedule B - FY 2011-12 Five Year General Fund Financial Forecast Schedule

		FY 10-11 Adopted Budget *	FY 11-12 Forecast	FY 12-13 Forecast	FY 13-14 Forecast	FY 14-15 Forecast	FY 15-16 Forecast
	RESOURCES						
	Prior Year						
1.	Beginning Balance (Reserves)	15,176,620	17,189,410	15,260,020	12,135,510	6,810,250	1,047,390
2.	Reappropriations/Carryovers	1,450,690					
	Subtotal - Prior Year Resources	16,627,310	17,189,410	15,260,020	12,135,510	6,810,250	1,047,390
3.	**Current Year Revenue**	94,602,470	94,156,560	96,016,200	98,496,180	100,868,210	103,451,200
4.	**TOTAL RESOURCES**	111,229,780	111,345,970	111,276,220	110,631,690	107,678,460	104,498,590
	% Change in Current Revenue		*-0.47%*	*1.98%*	*2.58%*	*2.41%*	*2.56%*
	REQUIREMENTS						
	Operations						
5.	Current Base Expenditures	99,423,060	104,393,830	107,643,570	112,623,080	115,612,050	119,920,780
6.	Reappropriations/Carryovers	1,450,690	-	-	-	-	-
7.	**Subtotal - Operations**	100,873,750	104,393,830	107,643,570	112,623,080	115,612,050	119,920,780
	% Change in Base Expenditures		*5.00%*	*3.11%*	*4.63%*	*2.65%*	*3.73%*
	Non-Operating						
8.	Unappropriated Fund Balance	10,356,030	9,500,000	8,500,000	7,500,000	7,800,000	8,000,000
9.	**TOTAL REQUIREMENTS**	111,229,780	113,893,830	116,143,570	120,123,080	123,412,050	127,920,780
	SURPLUS/(DEFICIT)	-	(2,547,860)	(4,867,350)	(9,491,390)	(15,733,590)	(23,422,190)
	Requirement Assumptions						
10.	Unspent Contingency/Reserves	2,300,000	2,300,000	2,300,000	2,300,000	2,300,000	2,300,000
11.	3% Expenditure Savings	2,833,380	3,003,940	3,101,430	3,250,820	3,340,490	3,469,750
11a.	3% Additional Expenditure Savings	-	3,003,940	3,101,430	3,250,820	3,340,490	3,469,750
12.	Additional 10-11 Beginning Balance	1,700,000	-	-	-	-	-
13.	Unappropriated Fund Balance	10,356,030	9,500,000	8,500,000	7,500,000	7,800,000	8,000,000
	Sub-Total	17,189,410	17,807,880	17,002,860	16,301,640	16,780,980	17,239,500
14.	**ESTIMATED Ending Fund Balance**	17,189,410	15,260,020	12,135,510	6,810,250	1,047,390	(6,182,690)
15.	**STRUCTURAL IMBALANCE**	(2,520,590)	(7,937,270)	(9,327,370)	(11,826,900)	(12,443,840)	(14,169,580)

Rrounded to nearest $10

Schedule B above shows the impact of applying a 6 percent per year savings assumption in FY 2011-12 through FY 2015-16. In this case, the ending fund balance approaches $0 in FY 2014-15, and is not sufficient to fund current service levels in FY 15-16.

KEY FORECAST ASSUMPTIONS

There are several assumptions used in the FY 2011-12 General Fund Five Year Financial forecast. Although the assumptions are provided in greater detail later in this section, the following are the key assumptions behind the numbers in the scenarios described above.

Growth. Additional General Fund revenue attributed to population growth is absorbed within the budget to support existing service levels. In this forecast, service levels do not increase.

Major Program Additions. There are no program additions made within this forecast; the forecast continues with current service levels.

Alternative Revenues. No new fees or alternative revenues are included.

Inflation. For subsequent years, the forecast assumes the rate of inflation for revenues will be 0 to 3 percent per year depending on the revenue type. Overall expenditures are assumed to increase by 1.6 percent per year for the five years of this forecast with salary market adjustments for all budgeted positions 1 percent for all forecast years.

State Shared Revenues. The forecast assumes the City of Salem will continue to receive state shared revenues using the State's forecasted distribution table.

Property Taxes. This report assumes a net increase of 2.6 percent over FY 2010-11 estimated revenues in the first year of the forecast. In FY 2012-13, taxes are assumed to increase by 2.6 percent followed by 3.6 percent increases for the three subsequent years of the forecast period. A more detailed discussion about property taxes is included on page 11 and in **Table 2** on page12.

Franchise Fees. This forecast assumes an increase to the water and sewer franchise fees in accordance with the Cost of Service Analysis (COSA). Franchise fee revenue estimates for other utilities are based on current or anticipated rate changes.

Contingencies. This forecast sets aside approximately 2.4 percent of General Fund revenues in contingencies in the first year of the forecast and 2.1 percent by the fifth year.

REVENUE ASSUMPTIONS USED IN THE FORECAST

Beginning Balance. The beginning balance for FY 2011-12 is estimated to be $17.2 million. A variety of factors build the estimated beginning balance for FY 2011-12. First, this forecast assumes there will be budget savings in FY 2010-11 of about $2.8 million which reflects spending 97 percent of budgeted operations. This includes expenditure savings that occur throughout the year as well as revenues that may exceed, or be less than, forecasted estimates. Second, the forecast assumes that $2.3 million of the $2.5 million contingency account will not be spent.

Third, the FY 2010-11 budget contained an unappropriated balance of $10.4 million. The unappropriated balance may also be referred to as a reserve account. Fourth, the actual beginning balance for FY 2010-11 reflects approximately $1.7 million in additional carryover from the FY 2009-10 budget achieved from expenditure savings.

In summary, the $17.2 million estimated beginning balance for FY 2011-12 is comprised of the items shown in **Table 1** below.

Table 1 - Estimated Beginning Balance: FY 2011-12	
FY 2010-11 unappropriated ending balance	$10.4 million
FY 2010-11 contingency account savings	2.3 million
FY 2010-11 additional beginning balance from reduced spending in FY 2009-10	1.7 million
FY 2010-11 anticipated budget savings of 3%	2.8 million
TOTAL	$17.2 million

Property Taxes. A 2.6 percent increase over FY 2010-11 estimated property tax revenues is provided in the first and second years of the forecast. The three two subsequent forecast years assume a 3.6 percent growth in property tax receipts stimulated by an increase to construction activity. To achieve this level of tax revenue in FY 2011-12, it is assumed the assessed valuation increases by 3 percent, and the levy increases by 3.7 percent over the FY 2010-11level. Three percent is the maximum increase for assessed valuation (AV) allowed under Measure 50. Additional increases to AV result from new construction.

In FY 2012-13, it is again assumed AV will increase by 3 percent, yielding a 2.5 percent increase in tax dollars received. Beginning in FY 2013-14, AV is forecast to increase by 4.0 percent per year, accounting for anticipated 1 percent growth due to new construction. This results in a projected dollars received increase of 3.6 percent for the three remaining forecast years. Note that the actual amounts estimated to be received are adjusted for discounts, delinquencies and compression.

Table 2 illustrates the increase in the City's property tax levy resulting from the passage of Measures 47/50 in 1996.

Table 2 - Historic Increases in Property Tax Levies Since the Passage of Measure 47/50		
Fiscal Year	Levy	Percentage Increase
1998-99	$31,275,110	-
1999-00	$33,213,490	6.2%
2000-01	$35,000,560	5.4%
2001-02	$36,754,990	5.0%
2002-03	$38,815,890	5.6%
2003-04	$40,564,780	4.5%
2004-05	$42,316,780	4.3%
2005-06	$44,234,820	4.5%
2006-07	$46,747,260	5.7%
2007-08	$49,708,758	6.3%
2008-09	$51,979,085	4.6%
2009-10	$53,837,888	3.6%
2010-11	$55,258,870	2.6%
2011-12	$57,326,560*	3.7%

*Projected

Franchise Fees - Electric. Due to rate increases announced by the electricity providers in Salem, franchise fee revenues are projected to rise by 1.9 percent over the FY 2010-11 annual estimate for the first year of the forecast. A 1.9 percent increase is also reflected in FY 2012-13, and drops to 1.6 percent for the remaining three forecast years.

Franchise Fees - Telecommunications. The majority of telecommunication franchise fees are received from Qwest. Based on recent performance, the forecast assumes telecommunications fees will increase by 1.8 percent in FY 2011-12 and remain flat for the remaining years.

Franchise Fees - Natural Gas. Natural gas franchise fees in FY 2011-12 are projected to decrease by approximately 9 percent from the FY 2010-11 estimated receipts due to a rate reduction. Beginning in FY 2012-13, it is assumed rates will rise by 1.6 percent per year.

Franchise Fees - Refuse and Cable Television. Refuse franchise fees are anticipated to remain at present levels in FY 2011-12 and increase by 1.6 percent for the remaining four forecast years. Cable television fees are projected to increase by 3 percent for each of the five forecast years. It is assumed the refuse increases are due to population growth while cable fees grow due to rate increases.

Franchise Fees - Water/Sewer. Using the Cost of Service Analysis (COSA) financial model, water/sewer franchise fees are projected to increase by 2.5 percent in the first year of the forecast. Increases in the following years are forecast as follows – FY 2012-13, 4.1 percent, FY 2013-14, 6.3 percent, FY 2014-15, 4.5 percent and FY 2015-16, 3.5 percent. The variation in revenue increases is due to the loss of revenue projected to occur with the escalation of debt obligations as fees are not charged against debt payments. Also reflected in the COSA model and incorporated into this forecast is the deferral of the FY 2010-11 water and sewer rate increases.

Fees for Services. The forecast generally assumes fees and charges, including planning related fees, will remain at their currently budgeted levels. The fire protection fee is projected to increase by three percent per year as it is associated with property tax revenues.

Internal Charges. These revenues result from direct services provided by the General Fund to other City funds, such as Water/Sewer, Building and Safety, and Public Works. There are no increases projected for this revenue category.

Indirect Cost Allocation Plan. This revenue is derived from indirect services provided by the General Fund to other city funds. Typically, services are associated with overhead. Based on the FY 2011-12 indirect cost allocation plan (ICAP) revenue derived from this source will decrease by approximately $17,300. For the three subsequent years of the forecast, this lowered base is anticipated to remain at the FY 2011-12 level.

State Shared Revenues. This forecast assumes continuation of cigarette, liquor and state revenue sharing throughout the forecast period. Based on the State forecast of state shared revenue distributions to cities and counties, the forecast reflects a decrease to Salem's alcoholic beverage taxes of 11.8 percent in FY 2011-12. The same decrease is contained in the state shared revenue which is also allocated to Salem. The decrease is due the expiration of a $0.50 per bottle surcharge implemented in April of 2009. Alcoholic beverage taxes are shown to increase by 4.8 percent in FY 2012-13 and 3 percent for the remaining years. State shared revenue projections mirror those of the alcoholic beverage taxes.

Cigarette taxes are expected to decline by 1.9 percent in FY 2011-12 and down by 2.2 percent for the remaining four forecast years.

Table 5 at the end of the forecast document shows the resulting revenues in detail.

EXPENDITURE ASSUMPTIONS USED IN THE FORECAST

Salaries and Benefits. For forecasting purposes, salary and wages assumptions for all represented and unrepresented groups in the General Fund are assumed to have a 1 percent market adjustment for each year of the forecast. Actual salary adjustments will be based on contract negotiations for represented employees and on market rates for non-represented employees.

The PERS unfunded actuarial liability bond payment for the General Fund increases in FY 2011-12, with the General Fund realizing approximately $67,610 in increased cost.

In FY 2011-12, the forecast provides for a 6.4 percent increase to medical insurance premiums effective January, 2012 which is equivalent to a 12 percent increase over the base amount. (Increase applied only to 7 months of FY, with an increase to base of 12 percent.) The forecast for FY 2012-13 and all remaining years reflects a 12 percent increase to medical insurance premiums in December of each year.

Dental insurance also reflects increases, with adjustments adding 6 percent to costs in each January. Vision insurance increases by 2 percent for each forecast year.

Table 3 shows the detailed rate assumptions for salaries as well as all benefits. Wage assumptions are based on projections of the Consumer Price Index (CPI) changes. Actual rates and projections will differ.

Table 3 Personal Services Wage and Benefit Assumptions

	FY 11-12	FY 12-13	FY 13-14	FY 14-15	FY 15-16
	% Increase	% Increase	% Increase	% Increase	% Increase
Wage Projection	1.00%	1.00%	1.00%	1.00%	1.00%
BENEFIT PROJECTIONS:					
Health - All Other (*average)	6.4%*	12.00%	12.00%	12.00%	12.00%
Dental	3.70%	6.00%	6.00%	6.00%	6.00%
Vision	0.80%	2.00%	2.00%	2.00%	2.00%
Worker's Compensation	-6.20%	-2.00%	5.00%	5.00%	5.00%
Life Insurance and Disability Insurance	0.00%	0.00%	0.00%	0.00%	0.00%
Retirement - Employer Tier 1 & 2	110.00%	0.00%	39.00%	0.00%	21.00%
Retirement - Employer - OPSRP/P&F	67.00%	0.00%	23.00%	0.00%	0.00%
Retirement - Employer - OPSRP/GS	110.00%	0.00%	30.00%	0.00%	0.00%
PERS RATE ON ELIGIBLE EARNINGS:					
Retirement - Employer Tier 1 & 2	12.86%	12.86%	17.91%	17.91%	21.65%
Retirement - Employer - OPSRP/P&F	11.85%	11.85%	15.49%	15.49%	15.49%
Retirement - Employer - OPSRP/GS	9.14%	9.14%	11.88%	15.49%	15.49%

Workers' Compensation. Within the General Fund, Workers' compensation rates are projected to decrease by 6.2 percent or $66,550 in FY 2011-12. The decrease is possible following a thorough analysis of three year average losses as well as a reduction to the insurance reserve. The amount paid by each department will vary depending upon their average annual losses. It is anticipated rates will further decrease by 2 percent in FY 2012-13. A rate increase of 5 percent is projected for FY 2013-14 and each of the remaining two years of the forecast. During FY 2011-12, the City will again review fund reserve levels as part of the actuarial analysis performed by an outside provider.

Retirement. Based on a recent estimate from PERS representatives, the rates for both PERS Tier One/Two and OPSRP will increase effective July, 2011. PERS is calculated on eligible earnings which include salaries and incentives. The table above shows the percent change in the PERS rates over the five year period. The next table shows the rate applied to eligible earnings over the forecast.

PERS Obligation Bond. In July 2005 City Council authorized the City to participate in the pooled issuance of limited pension obligation bonds via Resolution 2005-54. As a result, bonds totaling $61.7 million were issued in September 2005. The purpose of issuing PERS obligation bonds was to reduce the City's unfunded actuarial liability and stabilize the ongoing PERS rate. The PERS obligation bond is scheduled to be paid off in June 2028.

Payment for the PERS obligation bond is included in the personal services portion of each General Fund department. The total obligation for each of the five years is as follows:

FY 2011-12	FY 2012-13	FY 2013-14	FY 2014-15	FY 2015-16
$2,356,310	$2,448,840	$2,547,290	$2,654,250	$2,706,420

Materials and Services. Table 4 below provides an overview of the assumptions used to project materials and services costs. Base refers to all materials and services accounts which are projected to increase at the same rate as the anticipated growth in the Consumer Price Index. Significant exceptions to the base assumptions are detailed in the table. Following the table is a discussion of some of the more significant materials and services expense projections.

Table 4 - Materials and Services Assumptions

Item	FY 11-12	FY 12-13	FY 13-14	FY 14-15	FY 15-16
Base	1.60%	1.60%	1.60%	1.60%	1.60%
Natural Gas	-1.50%	1.60%	1.60%	1.60%	1.60%
Electric	1.60%	1.60%	1.60%	1.60%	1.60%
Refuse Disposal	0.00%	0.00%	1.60%	1.60%	1.60%
Radio Communications	0.00%	0.00%	0.00%	1.00%	1.00%
Motor Pool (Fleet Services)	3.00%	4.00%	4.00%	4.00%	4.00%
Liability Insurance	32.00%	10.00%	2.00%	2.00%	2.00%

Base - Includes such expenses as supplies, tools, construction materials, and professional services. These are projected to increase at an inflationary rate of 1.6 percent for the five forecast years. These are costs that departments tend to be able to control.

Utilities – PGE anticipates an overall price increase of approximately 4.2 percent will take effect January 1, 2011 as a result of their rate case before the Oregon Public Utilities Commission (OPUC). The rates paid by the City for electricity are anticipated to decrease by

2 percent in FY 2011-12. Salem Electric indicates their rates will increase though there is no firm number presently. The forecast assumes a 1.6 percent decrease in the cost of electricity. Natural gas as provided by Northwest Natural Gas is also working with the OPUC to establish rates for the forthcoming calendar year. The company is requesting a 1.5 percent rate decrease for Oregon. The forecast uses the adjustments noted above for FY 2011-12. The remaining years are forecast with 1.6 percent increases for both electricity and natural gas.

Radio Communications – Expenses budgeted here account for each department's share to support the radio communications system. The forecast reflects no change to the current rates until FY 2014-15 with the increase at 1.6 percent. Much of the equipment is being retained and used until we make the required move to narrow banding, which allows the rates to remain at present levels.

Motor Pool (Fleet) - Motor pool fleet rates reflect a 3 percent increase in FY 2011-12. Due to anticipated fleet replacement needs in addition to inflationary pressure on fuel and fuel based products, rates are anticipated to increase by 3 percent in FY 2011-12 and increase to 4 percent for the remaining four forecast years.

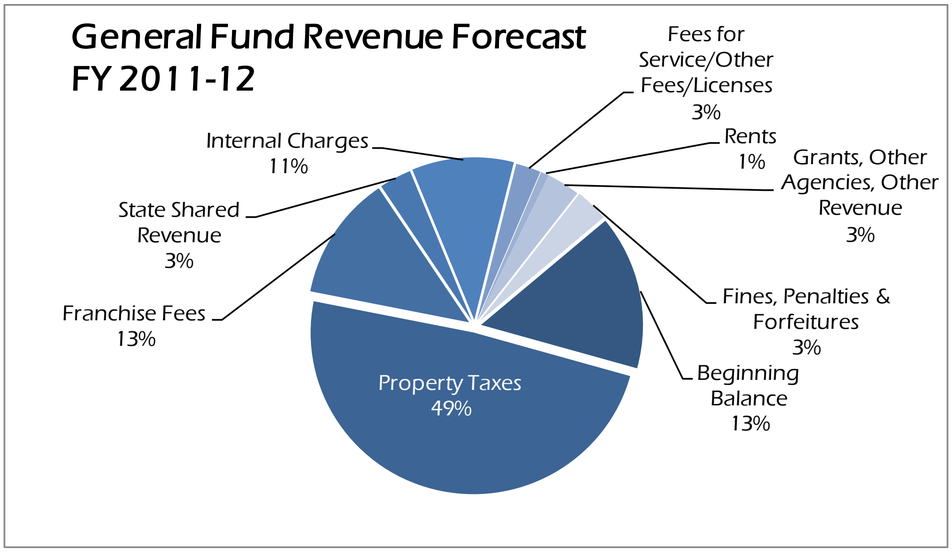
Liability Insurance – The cost of liability insurance increases in FY 2011-12 as a result of anticipated claim activity. Table 4 demonstrates the changes.

Capital Outlay. The forecast assumes capital outlay will increase by 1.6 percent per year. This should provide for normal equipment replacement purchases. In addition the Information Technology and Facilities Services Department has prepared a strategic plan identifying recommended capital outlay purchases over the next five years which are included in the forecast.

Transfers. Street and Sidewalk Maintenance. Beginning in FY 2011-12 and throughout the forecast, it is assumed the General Fund will continue transferring a portion of the water and sewer franchise fee to the Public Works Fund. The forecast assumes $1.2 million per year will be transferred to Public Works for street maintenance purposes.

Contingencies. General Fund contingencies are budgeted at $2.5 million for each forecast year, which equates to approximately 2.4 percent of projected General Fund FY 2011-12 expenses. By FY 2015-16 contingencies are equal to approximately 2.1 percent of expenses. This level of contingency provides approximately nine days of operating expenses.

The following pie charts show the General Fund revenue resources and the services provided for the first forecast year:


General Fund Revenue Forecast
FY 2011-12
Fees for Service/Other Fees/Licenses 3%
Rents 1%
Grants, Other Agencies, Other Revenue 3%
Fines, Penalties & Forfeitures 3%
Beginning Balance 13%
Property Taxes 49%
Franchise Fees 13%
State Shared Revenue 3%
Internal Charges 11%

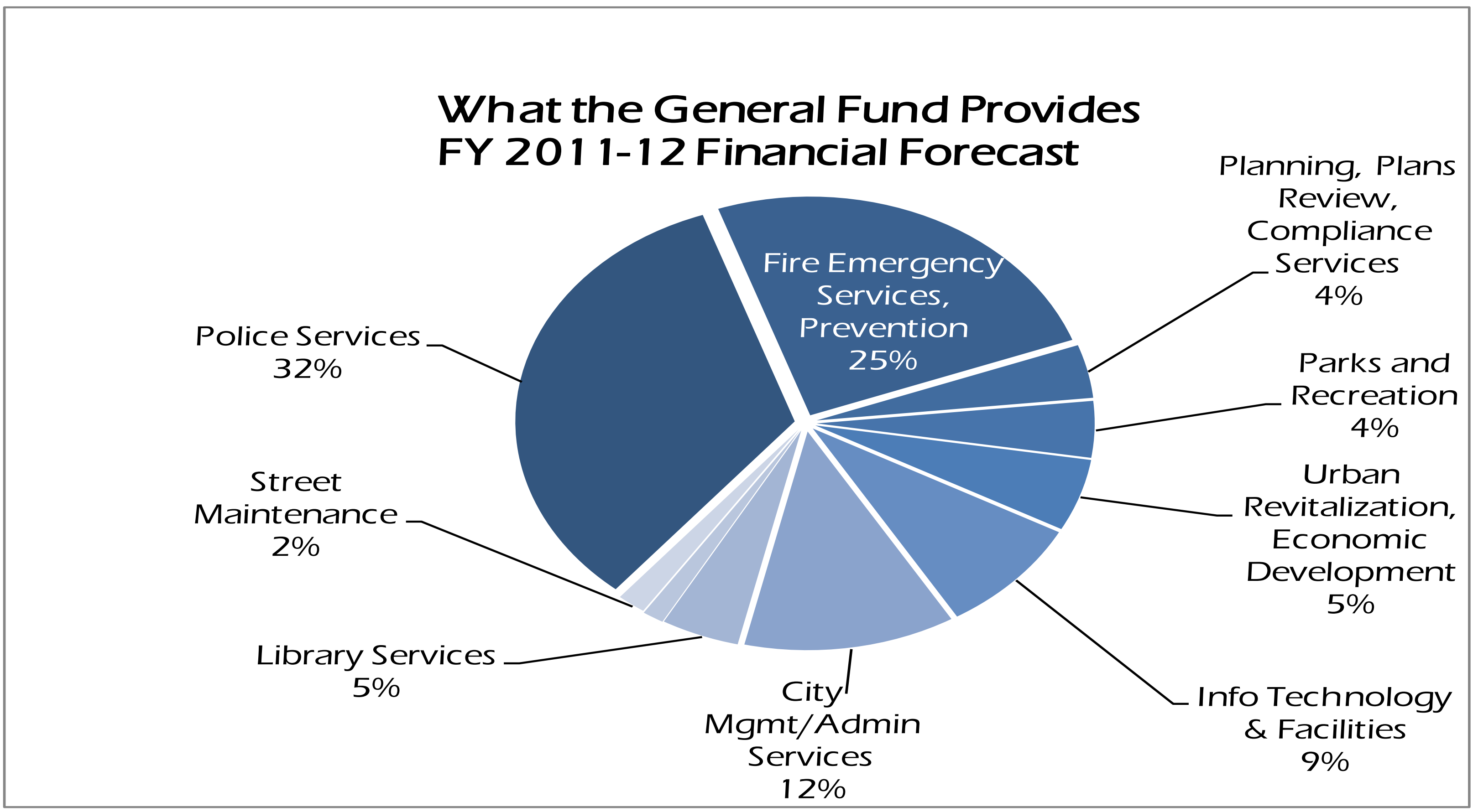

What the General Fund Provides
FY 2011-12 Financial Forecast
Fire Emergency Services, Prevention 25%
Planning, Plans Review, Compliance Services 4%
Parks and Recreation 4%
Urban Revitalization, Economic Development 5%
Info Technology & Facilities 9%
City Mgmt/Admin Services 12%
Library Services 5%
Street Maintenance 2%
Police Services 32%

Table 5 - Revenues		Budget FY 2010-11	Forecast FY 2011-12	Forecast FY 2012-13	Forecast FY 2013-14	Forecast FY 2014-15	Forecast FY 2015-16
	Property Taxes						
31110	Property Tax Levy	51,554,730	52,737,200	54,108,367	56,056,268	58,074,294	60,164,969
31120	First Prior Year	649,800	975,000	1,000,350	1,026,359	1,063,308	1,101,587
31130	Second Prior Year	220,000	300,350	308,159	316,171	324,392	336,070
31140	All Other Prior Years	230,000	230,000	235,980	242,115	248,410	257,353
31210	Other - taxes	42,600	42,600	42,600	42,600	42,600	42,600
	Total Property Taxes	**52,697,130**	**54,285,150**	**55,695,456**	**57,683,514**	**59,753,004**	**61,902,579**
	Franchise Fees						
32110	Electricity	6,064,810	6,352,190	6,453,825	6,557,086	6,662,000	6,768,592
32120	Telecommunications	905,340	851,700	851,700	851,700	851,700	851,700
32130	Natural Gas	2,400,240	2,200,000	2,235,200	2,270,963	2,307,299	2,344,215
32140	Refuse	1,015,130	1,060,210	1,077,173	1,094,408	1,111,919	1,129,709
32150	Cable TV	900,370	941,389	969,631	998,720	1,028,681	1,059,542
32160	Water and Sewer	2,522,250	2,499,290	2,602,710	2,766,320	2,890,070	2,979,400
	Total Franchise Fees	**13,808,140**	**13,904,779**	**14,190,239**	**14,539,197**	**14,851,668**	**15,133,158**
	Fees for Service						
32310	Accident & Fire Recovery	10,000	1,530	1,530	1,530	1,576	1,623
32315	Community Events	-	-	-	-	-	-
32320	Document Sales	72,670	72,670	72,670	72,670	74,850	77,096
32325	Hazardous Materials	-	-	-	-	-	-
32335	Fire Protection	754,020	748,501	770,956	794,085	817,907	842,444
32340	Grass and Weeds	-	4,320	4,320	4,428	4,539	4,652
32345	Comm. Enforce. Cost Recovery	35,000	39,624	40,258	40,902	42,129	42,803
32350	Planning Fees	175,000	133,000	133,000	133,000	133,000	133,000
32351	Site Plan Review	150,000	96,000	96,000	96,000	96,000	96,000
32352	Dwelling Plan Review	75,000	41,000	41,000	41,000	41,000	41,000
32365	Security Service	16,140	20,000	20,000	20,000	20,600	21,218
32391	Ambulance Contractor Fee	219,960	219,960	223,479	227,055	231,596	235,302
32490	Lien Search Fee	100,000	100,000	100,000	100,000	103,000	103,000
32495	Other Charges for Services	14,230	3,048	3,097	3,146	3,225	3,277
	Total Fees for Service	**1,622,020**	**1,479,653**	**1,506,310**	**1,533,816**	**1,569,422**	**1,601,415**
	Other Fees						
32610	Senior Center Fees	338,000	330,000	330,000	330,000	339,900	339,900
32630	Library	230,000	233,680	237,419	241,218	248,454	252,429
32636	Towing	128,930	128,930	128,930	128,930	132,798	132,798
32695	Other Fees	41,600	15,000	15,000	15,000	15,450	15,450
	Total Other Fees	**738,530**	**707,610**	**711,349**	**715,148**	**736,602**	**740,577**
	Licenses and Permits						
32810	Apartment Licenses	240,450	240,450	240,450	240,450	247,664	247,664
32825	Fire Safety Permits	357,000	223,000	223,000	223,000	229,690	236,581
32830	Automation Surcharge	65,370	65,370	65,370	65,370	65,370	65,370
32855	Sign Permits	70,000	66,000	66,000	66,000	66,000	66,000
32895	Other Permits	10,000	-	-	-	-	-
	Total Licenses and Permits	**742,820**	**594,820**	**594,820**	**594,820**	**608,724**	**615,614**
	Rent						
34110	Land/Bldg Rent Income	28,600	51,110	51,110	51,110	52,388	52,388
34125	Sidewalk Telephones	150	200	200	200	202	202
34132	Parking/Civic Center	75,360	76,000	76,000	76,000	76,760	76,760
34134	Parking/Pringle Creek	140,810	139,210	139,210	139,210	140,602	140,602
34146	Parking/Carpool	103,510	109,430	109,430	109,430	110,524	110,524
34148	Parking Meters	635,780	538,750	635,780	538,750	635,780	538,750
	Total Rent	**984,210**	**914,700**	**1,011,730**	**914,700**	**1,016,256**	**919,226**

	Internal Charges						
35130	Indirect Cost Allocation	7,405,210	7,389,330	7,389,330	7,389,330	7,389,330	7,389,330
35212	Intra City - Direct Charge Labor	2,700,000	2,700,000	2,700,000	2,700,000	2,700,000	2,700,000
35213	Intra City - Budgeted Transfers	364,690	365,000	365,000	365,000	365,000	365,000
35215	Intra City - Interdept. Billings	838,600	830,000	830,000	830,000	830,000	830,000
	Total Internal Charges	**11,308,500**	**11,284,330**	**11,284,330**	**11,284,330**	**11,284,330**	**11,284,330**
	State Shared Revenues						
35315	State Alcoholic Beverage	1,983,810	1,533,109	1,606,698	1,654,899	1,704,546	1,755,682
35320	State Cigarette Tax	252,310	234,285	229,014	223,861	218,824	213,900
35325	State Revenue Sharing	1,286,950	1,003,110	1,051,259	1,082,797	1,115,281	1,148,740
35330	State 911	791,780	804,448	817,320	830,397	843,683	857,182
	Total State Shared Revenues	**4,314,850**	**3,574,952**	**3,704,291**	**3,791,954**	**3,882,334**	**3,975,504**
	Other Agencies						
35350	Chemeketa Comm. College	493,650	501,548	509,573	517,726	526,010	534,426
35355	Housing Authority	22,850	23,216	23,587	23,964	24,348	24,737
35361	State Reimbursement	61,530	62,514	63,515	64,531	65,563	66,612
35367	City of Keizer	28,920	29,383	29,853	30,330	30,816	31,309
35380	School District	587,900	587,900	597,306	606,863	616,573	626,438
35385	Payment in Lieu of Taxes	107,900	107,900	107,900	107,900	107,900	107,900
35395	Other Government Agencies	345,080	350,601	356,211	361,910	367,701	373,584
35495	Other Agencies	412,040	418,633	425,331	432,136	439,050	446,075
	Total Other Agencies	**2,059,870**	**2,081,695**	**2,113,276**	**2,145,362**	**2,177,961**	**2,211,082**
35510	***State Grants***	30,200	30,683	31,174	31,673	32,180	32,695
35610	***Block Grant***	138,000	140,208	142,451	144,731	147,046	149,399
35615	***Federal Grants***	709,770	949,148	962,904	983,980	609,600	619,354
35620	***Recovery Act***	299,970	-	-	-	-	-
	Fines, Penalties & Forfeitures						
36110	Parking	699,220	710,408	721,774	733,322	745,056	756,976
36115	Court	2,525,000	2,355,291	2,392,976	2,431,263	2,470,164	2,509,686
36116	Photo red light fines	797,600	598,200	607,771	617,496	627,375	637,413
36195	Other Fines & Forfeitures	37,050	44,369	45,079	45,800	46,533	47,277
	Total Fines, Penalties & Forfeitures	**4,058,870**	**3,708,267**	**3,767,600**	**3,827,881**	**3,889,127**	**3,951,353**
36210	***Interest***	80,000	120,650	122,580	124,542	126,534	128,559
	Other Revenue						
36810	Bad Debt Recovery	2,590	2,631	2,674	2,716	2,760	2,804
36815	Wage Recovery	14,390	14,620	14,854	15,092	15,333	15,579
36820	Donations	67,550	68,631	69,729	70,845	71,978	73,130
36895	Other Revenue	70,160	71,120	72,258	73,414	74,589	75,782
38715	Loan Proceeds	99,580					-
	Total Other Revenue	**254,270**	**157,002**	**159,515**	**162,067**	**164,660**	**167,294**
38755	***Sale of Assets***	30,000	17,892	18,178	18,469	18,764	19,065
39110	***Interfund Transfer***	725,320	205,010	-	-	-	-
39920	***Beginning Balance***	15,176,620	17,189,412	12,256,078	6,030,143	-	-
	TOTAL GENERAL FUND	**109,779,090**	**111,345,963**	**108,272,281**	**104,526,326**	**100,868,214**	**103,451,204**