CITY OF SALEM, OREGON
FIVE YEAR FORECAST

FISCAL YEARS 2012-2013 THROUGH 2016-2017

CITY OF SALEM
GENERAL FUND

FIVE YEAR FINANCIAL FORECAST
FY 2012-13 – FY 2016-17

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Executive Summary

The City of Salem continues to provide needed municipal services to the community. General Fund-supported services include police, fire, code enforcement, municipal court, planning, parks and recreation, library, parking services, economic development outside of Urban Renewal Areas, and a proportionate share of central service costs.

In addition to providing core, day-to-day operations, the organization also implements City Council direction and works to achieve goals developed in the broad categories of public safety, livability, environmental health and economic development. The City Council and the city organization remain committed to providing quality municipal services and needed infrastructure and amenities to make Salem an increasingly strong and vibrant community while ensuring on-going financial stability during this prolonged period of economic uncertainty.

The organization has managed well through the last four years of the economic downturn and will continue to do so, even with the continuing financial challenges presented in this long-range forecast.

The forecast is a financial planning document that allows us to look at anticipated resources and expenditures over a five-year period. It allows cities to make financially responsible decisions regarding the level of services that can be supported with anticipated revenue. Forecasts are reviewed by bond credit rating agencies as they assess the financial stability of the organization. This year, as in previous years, we've presented a current service level forecast as well as an alternative scenario (Schedule B) which will keep us on a path of financial stability.

The forecast is developed based on what we believe are reasonable assumptions regarding revenue and expenditures.

<u>Current Service Level Forecast – Schedule A</u>

Consistent with previous year forecasts, Schedule A demonstrates the challenge faced by the city to maintain current service levels within a financial structure where expenditures outpace revenues. As reflected in Schedule A, maintaining current service levels will result in depleting the beginning working capital to approximately $8.4 million by the second year of the forecast period. FY 2013-14 budgeted expenditures are forecast to exceed total resources, which would prevent adoption of a balanced budget as required by state law.

<u>Budget Balancing Scenario through FY 2015-16 – Schedule B</u>

Schedule B represents an alternative scenario that requires a draw-down of the current beginning working capital through the five-year forecast period and on-going cost-of-service reductions of nearly $10.5 million between the current fiscal year and the end of FY 2014-15. Through FY 2014-15, this scenario maintains a financially prudent ending working capital of not less than $10 million (Row 11)

after anticipated annual savings and on-going budget reductions. Using forecast assumptions, we will not have a balanced budget in FY 2016-17 without additional revenues or additional on-going expenditure reductions. Schedule B also demonstrates operating expenditures in closer alignment with each year's anticipated current revenues.

While expenditures are reduced, they continue to include the same forecast assumptions for rate increases for PERS, market-level wages and health insurances as used in Schedule A. Total costs for wages and benefits will decrease as the base becomes lower from service level reductions.

Why are reductions needed?

The FY 2012-17 General Fund Financial Forecast shows the following trends **for current service levels and costs:**

Revenue growth will not keep pace with the growth in operating expenses. Revenue is predicted to grow an average of approximately 1.2% per year while operating expenses are increasing at approximately 3.3% per year. In the previous year's financial forecast, we anticipated a modest growth in revenue through FY 2012-13 and a somewhat higher rate of revenue growth from FY 2013-14 through FY 2015-16. This year's forecast is built on lowered assumptions about revenue growth through the five-year period based on recent property tax receipts and an extended period of economic downturn.

Compression from Real Market Value in relation to Assessed Valuation is increasing each year. The amount of property tax revenue lost to this form of compression has grown from $197,000 in FY 2008-09 to $296,000 in FY 2009-10, $401,000 if FY 2010-11 and $602,000 in FY 2011-12. Beginning in FY 2012-13, the forecast assumes $800,000 in compression losses which are carried forward through the five years. We will monitor compression loss each year and update future forecasts if the situation changes. For a detailed description of compression, refer to Appendix C.

Economic trends do not anticipate a financial recovery resulting in increased revenue. An analysis of Salem's economy, prepared by Dr. Timothy Duy, Director of the Oregon Economic Forum from the University of Oregon's Department of Economics, continues to predict a very slow economic recovery with the possibility of another smaller recession during the forecast period.

The beginning working capital will deplete rapidly to cover operating expenses. In addition to providing needed operating revenue between the start of the fiscal year each July until we begin to receive property tax revenue in November, the beginning working capital provides financial stability in the event of unanticipated emergencies or opportunities. At current levels of service and costs, beginning working capital will begin to be drawn down rapidly in FY 2011-12 and is projected to be depleted by early FY 2013-14, resulting in a General Fund deficit of approximately $5.3 million in FY 2013-14 and growing to a deficit of $22 million by FY 2016-17.

Most revenue sources are flat or declining. Other than property tax, most General Fund revenue sources are anticipated to be fairly flat or to decline over the forecast period unless we begin to experience a significant economic recovery during that time.

Mandated Public Employees' Retirement System (PERS) rates are expected to increase every two years. These rates are anticipated to increase every two years until the retirement system's market losses experienced at the beginning of the economic downturn are recovered and the fund meets required stability levels. For the General Fund, PERS rates are anticipated to increase by an additional $1.5 million for FY 2013-14 and $1.7 million in FY 2015-16. PERS reform resulted in three different retirement plans: Tier 1, Tier 2 and the Oregon Public Service Retirement Plan (OPSRP). PERS rate increases are highest for Tier 1 employees (entering the plan on or before December 31, 1995) and Tier 2 employees (entering the plan on or after January 1, 1996 through August 28, 2003). The rate increase for employees who entered the plan after August 28, 2003, are in the OPSRP with lower rates. The number of employees in the OPSRP will continue to increase as new employees are hired.

There will be some increases to personal service costs each year. General Fund services are labor intensive and approximately 78% of the city's workforce is represented by one of the four unions: SPEU (Police), IAFF Local 314 (Fire), PCEA (9-1-1 Communication Workers) and AFSCME. Three of the unions, SPEU, IAFF and PCEA have mandatory arbitration rights for contract disputes and state mandated requirements related to comparable agency market wages and benefits. The forecast includes either negotiated market wage increases for employees covered by current union contracts, or assumes a 1% increase in wages each year for forecast purposes. Even though employees are paying higher deductibles and prescription costs, medical insurance rates are expected to increase by 9.25% in December 2012, 10.4% in December 2013 and an average of 12% each of the following forecast years.

The City has unmet building, maintenance and system needs that are addressed only marginally in the budget and financial forecast. For several years, the city has lacked the capacity to address many needs such as new roofs, carpet and furniture replacement, HVAC systems, and seismic retrofits, with the exception of projects accomplished with federal stimulus funding, the Fire Bond or Urban Renewal Area funding (Center 50+, Information Technology Center). The forecast assumes an expense of $500,000 per year to help address a minimal number of our growing maintenance needs.

The following schedules show the difference, using forecast assumptions, between continuing current service levels and costs (Schedule A) and making reductions that draw down the beginning working capital to $10.1 million by FY 2014-15 and align operating expenses more closely with current revenue that year and each preceding year (Schedule B).

Schedule A - FY 2012-13 Five Year General Fund Financial Forecast

		FY 11-12 Adopted Budget		FY 12-13 Forecast	FY 13-14 Forecast	FY 14-15 Forecast	FY 15-16 Forecast	FY 16-17 Forecast
	RESOURCES							
1.	Beginning Working Capital (Reserves)	17,222,200	[1]	13,139,610	8,373,400	254,060	-	-
2.	Reappropriations/Begin Working Capital	444,330						
	Reappropriation Grants	531,210						
	Subtotal - Prior Year Resources	18,197,740		13,139,610	8,373,400	254,060	-	-
	Du Jour Borrowing Revenue	3,600,000						
3.	**Current Year Revenue**	93,500,880	[2]	95,797,310	96,715,610	97,780,930	99,033,940	100,376,050
4.	**TOTAL RESOURCES**	115,298,620		108,936,920	105,089,010	98,034,990	99,033,940	100,376,050
	% Change in Current Revenue			*2.46%*	*0.96%*	*1.10%*	*1.28%*	*1.36%*
	EXPENDITURES							
5.	Current Base Expenditures	103,876,110		106,980,330	111,424,950	114,440,560	119,319,740	122,642,560
6.	Reappropriations/Carryovers	444,330						
	Reappropriation Grants	531,210						
	Du Jour Borrowing Expense	3,600,000						
7.	**TOTAL EXPENDITURES**	108,451,650		106,980,330	111,424,950	114,440,560	119,319,740	122,642,560
	% Change in Base Expenditures			*2.99%*	*4.15%*	*2.71%*	*4.26%*	*2.78%*
8.	**UNAPPROPRIATED FUNDS**	***6,846,970***	[3]	***1,956,590***	***(6,335,940)***	***(16,405,570)***	***(20,285,800)***	***(22,266,510)***
	Requirement Assumptions							
9.	Unspent Contingency/Reserves	2,300,000		2,300,000	2,300,000	2,300,000	2,300,000	2,300,000
10.	4% Expenditure Savings	3,992,640		4,116,810	4,290,000	4,410,620	4,605,790	4,738,700
11.	ESTIMATED Adjustments	6,292,640		6,416,810	6,590,000	6,710,620	6,905,790	7,038,700
12.	ESTIMATED Ending Working Capital	13,139,610		8,373,400	254,060	(9,694,950)	(13,380,010)	(15,227,810)
13.	ESTIMATED Actual Expenditures							
	Current Base Expenditures	103,876,110	-	106,980,330	111,424,950	114,440,560	119,319,740	122,642,560
	(Less ESTIMATED Adjustments)	6,292,640	-	6,416,810	6,590,000	6,710,620	6,905,790	7,038,700
	TOTAL Est. Actual Expenditures	97,583,470	[4]	100,563,520	104,834,950	107,729,940	112,413,950	115,603,860

[1] *Actual*

[2] *Adjusted for actual revenues receipts through current year*

[3] *Amount varies from FY 11-12 Adopted Budget figure of $7.4 million due to lowered property tax receipts*

[4] *Du Jour borrowing and reappropriations not included*

Schedule B - Budget Balancing Scenario through FY 2015-16

		FY 11-12 Adopted Budget		FY 12-13 Forecast	FY 13-14 Forecast	FY 14-15 Forecast	FY 15-16 Forecast	FY 16-17 Forecast
	RESOURCES							
1.	Beginning Working Capital (Reserves)	17,222,200	[1]	13,640,530	12,117,214	10,759,073	11,125,995	8,501,838
2.	Reappropriations/Begin Working Capital	444,330						
	Reappropriation Grants	531,210						
	Subtotal - Prior Year Resources	18,197,740		13,640,530	12,117,214	10,759,073	11,125,995	8,501,838
	Du Jour Borrowing Revenue	3,600,000						
3.	**Current Year Revenue**	93,500,880	[2]	95,797,310	96,715,610	97,780,930	99,033,940	100,376,050
4.	**TOTAL RESOURCES**	115,298,620		109,437,840	108,832,824	108,540,003	110,159,935	108,877,888
	% Change in Current Revenue			*2.46%*	*0.96%*	*1.10%*	*1.28%*	*1.36%*
	EXPENDITURES							
5a.	Base Expenditures	103,876,110		105,643,136	107,423,576	106,739,905	107,637,925	110,630,259
5b.	Additional Permanent Reductions			(2,500,000)	(3,500,000)	(3,500,000)		
6.	Reappropriations/Carryovers	444,330						
	Reappropriation Grants	531,210						
	Du Jour Borrowing Expense	3,600,000						
7.	**TOTAL BUDGETED EXPENDITURES**	108,451,650		103,143,136	103,923,576	103,239,905	107,637,925	110,630,259
	% Change in Base Expenditures			*-0.71%*	*0.76%*	*-0.66%*	*4.26%*	*2.78%*
8.	**UNAPPROPRIATED FUNDS**	***6,846,970***	[3]	***6,294,704***	***4,909,248***	***5,300,099***	***2,522,011***	***(1,752,371)***
	Requirement Assumptions							
9.	Unspent Contingency/Reserves	2,300,000		2,300,000	2,300,000	2,300,000	2,300,000	2,300,000
10a.	3.5% One-Time Expenditure Savings	3,493,560		3,522,510	3,549,825	3,525,897	3,679,827	3,784,559
10b.	Additional Permanent Reductions	1,000,000						
11.	ESTIMATED Adjustments	6,793,560		5,822,510	5,849,825	5,825,897	5,979,827	6,084,559
12.	ESTIMATED Ending Working Capital	13,640,530		12,117,214	10,759,073	11,125,995	8,501,838	4,332,188
13.	ESTIMATED Actual Expenditures	97,082,550	[4]	97,320,626	98,073,751	97,414,008	101,658,097	104,545,700

[1] *Actual*

[2] *Adjusted for actual revenues receipts through current year*

[3] *Amount varies from FY 11-12 Adopted Budget figure of $7.4 million due to lowered property tax receipts*

[4] *Du Jour borrowing and reappropriations not included*

GENERAL FUND FORECAST SCHEDULES

The FY 2012-13 General Fund Five Year Financial Forecast Schedule is organized in the following manner:

1. **Beginning Working Capital (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 working capital is Total Resources (line 4) minus Total Budgeted Expenditures (line 7) plus Estimated Adjustments (line 11).The final two years of the forecast period in Schedule A reflect no beginning working capital.

2. **Reappropriations/Begin Working Capital/Carryovers** which were included in the FY 2011-12 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 Working Capital and Current Revenues (and Reappropriation/Carryovers in FY 2011-12). Total Resources in the FY 2011-12 column of the schedule reflect the amount in the adopted budget plus $385,840 in additional unanticipated beginning working capital primarily from additional savings. Also reflected is a loss of $992,000 in FY 2011-12 estimated property tax receipts. FY 2011-12 beginning working capital is the only actual – or known – number at this point in the fiscal year. Other resources shown are as budgeted and could change throughout the year.

5. **Current Base Expenditures** in Schedule A reflect the aggregate annual General Fund expenditures required to sustain current FY 2011-12 services throughout the forecast period. Schedule B Current Base Expenditures reflect the budget for FY 2011-12 and the assumed rate of growth as used in Schedule A. FY 2012-13 reflects the impact of reductions made in FY 2011-12 (line 10b) plus additional reductions to be made in FY 2012-13 (line 5b) a total of $3.5 million over the two years.

6. **Reappropriations/Carryovers** which were included in the FY 2011-12 adopted budget are included in both schedules to accurately reflect the current year expenditure plan.

7. **Total Budgeted Expenditures** in Schedule A is the sum of Current Base Expenditures and any Reappropriations/Carryovers, Reappropriation Grants, and Du Jour Borrowing. In FY 2011-12 this row reflects the amount in the adopted budget. Schedule B reflects budgeted numbers for FY 2011-12, but anticipates service reductions in years FY 2011-12 through FY 2014-15 to maintain a balanced budget through FY 2015-16.

8. **Budgeted Unappropriated Funds** is the difference between Total Resources and Total Expenditures. The current year budget has an unappropriated working capital of $7.8 million

after accounting for the additional working capital recognized following completion of the annual financial audit. State budget law requires Total Resources to be the sum of Total Budgeted Expenditures and Unappropriated Funds to be equal at budget adoption.

9. – 11. **Requirement Assumptions** provide the reader with a detailed accounting of the assumptions used to arrive at the estimated ending working capital balance for FY 2011-12. Funds made available for future year use include any unspent appropriated contingencies/reserves, expenditure savings of 4 percent of the budget in Schedule A and 3.5 percent of budget in Schedule B. Schedule B includes the addition of a Requirement Assumption of Permanent Reductions in FY 2011-12, the impact of which is carried over into FY 2012-13.

12. **Estimated Ending Working Capital** is the amount of funds available at the end of each year and becomes available to help balance the budget for the next fiscal years.

13. **Estimated Actual Expenditures** are Current Base Expenditures less the Estimated Adjustments.

KEY FORECAST ASSUMPTIONS

There are several assumptions used in the FY 2012-13 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. Impacts of population growth are assumed to be immaterial in this forecast.

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. Generally the rate of inflation is assumed to be 1.6 percent. However, where specific changes are known for revenues and expenses, they are calculated independently. .

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 1.9 percent over FY 2011-12 estimated revenues in the first year of the forecast and maintains a 1.9 percent year-to-year increase throughout the forecast period. In addition, it is assumed compression losses will impact the tax revenues by $800,000 per year. A more detailed discussion about property taxes is included in Appendix A.

Franchise Fees. This forecast assumes an increase to the water and sewer franchise fee revenue 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 maintains a General Fund appropriated contingency of $2.5 million in order to address unexpected operational situations.

APPENDIX A

REVENUE ASSUMPTIONS USED IN THE FORECAST

Beginning Working Capital. The beginning working capital in Schedule A for FY 2012-13 is estimated to be $13.1 million. A variety of factors build the estimated beginning balance for FY 2012-13. First, this forecast assumes there will be budget savings in FY 2011-12 of $3.99 million which reflects spending 96 percent of the operating budget. The FY 2012-13 beginning working capital calculation includes expenditure savings that occur throughout the year as well as the revenues estimate for anticipated property tax receipts.

Second, the forecast assumes that $2.3 million of the $2.5 million contingency account will not be spent. Third, the actual beginning working capital balance for FY 2011-12 reflects $385,840 in additional carryover from the FY 2010-11 budget achieved from expenditure savings. Fourth, the FY 2011-12 budget contained an unappropriated balance or ending working capital which is anticipated to be $7.45 million. Fifth, revenue estimates for FY 11-12 property taxes have been reduced by $992,000 based on property tax assessment information for the current year.

In summary, the $14.1 million estimated beginning working capital for FY 2012-13 is comprised of the items shown in **Table 1** below.

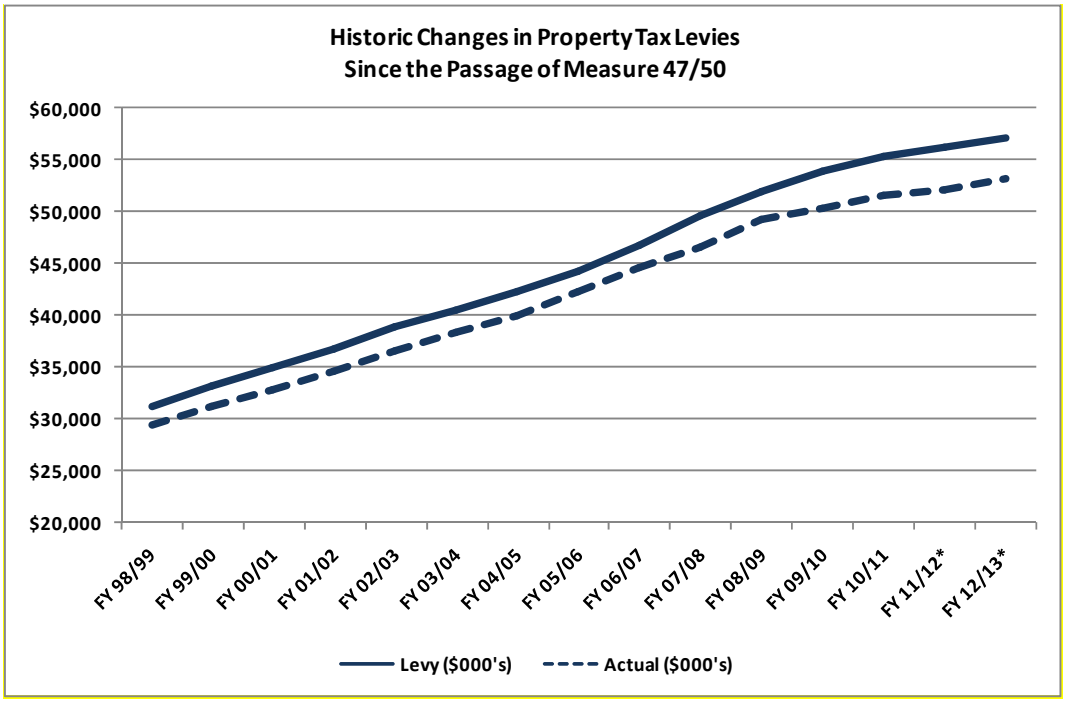
Table 1 - Estimated Beginning Working Capital: FY 2012-13	
Adopted FY 2011-12 unappropriated ending balance	$ 7.45 million
Adjustment for lower than budgeted property tax receipts	(.99 million)
FY 2011-12 contingency account savings	2.30 million
FY 2011-12 additional beginning balance from reduced spending in FY 2010-11	.39 million
FY 2011-12 anticipated budget savings of 4%	3.99 million
TOTAL	$13.14 million

Property Taxes. A 1.9 percent increase over FY 2011-12 estimated property tax levy revenues is provided in the first year of the forecast. Each subsequent year includes an assumed 1.9 percent increase over the prior year, less $800,000 each year for compression. This assumption takes into account that new construction will not be a factor in increasing assessed valuations (AV). To achieve this level of tax revenue in FY 2012-13, it is assumed the AV increases by 2 percent, and the levy increases by 1.9 percent over the FY 2011-12 level. Three percent is the maximum increase for AV allowed under Measure 50. Additional increases to AV may result from new construction, of which none is projected as noted above.

The actual amounts estimated to be received are adjusted for discounts and delinquencies as well as compression.

Chart 1 below illustrates the increase in the City's property tax levy resulting from the passage of Measures 47/50 in 1996.

Chart 1



Franchise Fees - Electric. Rate increases announced by the electricity providers in Salem, are assumed to increase franchise fee revenues 2.4 percent over the FY 2011-12 annual estimate for the first year of the forecast. Beginning in FY 2013-14, 1.0 percent increases are assumed. The Public Utilities Commission oversees rate increases that are imposed by the electric utilities. Due to the volatility of production costs, growth in revenue is held at forecasts for electricity are held to a minimum level for the remaining years of the forecast.

Franchise Fees - Telecommunications. The majority of telecommunication franchise fee revenues are received from providers serving Salem customers. Based on recent performance, the forecast assumes telecommunications fees will be flat and remain at FY 2011-12 estimated levels throughout the five forecast years.

Franchise Fees - Natural Gas. Natural gas franchise fee revenue in FY 2012-13 is projected to remain at present FY 2011-12 estimated levels. Beginning in FY 2013-14, 1 percent increases are assumed for the three following years.

Franchise Fees - Refuse and Cable Television. Refuse franchise fee revenues are anticipated to increase by 1 percent per year in the five year forecast. Significant rate changes are not anticipated. Increased construction levels and the waste removal needed to support this industry will need to occur to cause an increase in this franchise fee revenue. Cable television fees are projected to remain flat in FY 2012-13. Recent history shows this revenue is gradually declining as customers make choices about their cable needs and use. Assuming we have reached the low point, increases of 1 percent per year are assumed from FY 2013-14 through FY 2016-17.

Franchise Fees - Water/Sewer. Using the Cost of Service Analysis (COSA) financial model, water/sewer franchise fees are projected to increase by 1.7 percent in the first year of the forecast. Increases in the following years are forecast as follows – FY 2013-14, 2.2 percent, and FY 2014-15 through FY 2016-17, 4.3 percent per year. The franchise fee is assessed to rate payers within the City of Salem only. Also, rates collected to make debt service payments for debt incurred since 2004 are not subject to the franchise fee. Reflected in the COSA model and incorporated into this forecast is the deferral of the January, 2011 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 1.9 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 over the FY 2011-12 budget 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 for support such as human resources, information technology, finance, payroll and purchasing. Based on the FY 2012-13 indirect cost allocation plan (ICAP), revenue derived from this source will increase by approximately $162,970 or 2.2 percent. For the remaining years, this revenue is held flat assuming that the City organization will contract in conjunction with the forecast for flat revenues.

State Shared Revenues. This forecast assumes continuation of cigarette, liquor and state revenue sharing throughout the forecast period. Alcoholic beverage taxes are shown to increase by 1 percent in FY 2012-13 followed by a 3 percent increase in FY 2013-14. This 1 percent/3 percent pattern which was established on historical receipts is repeated for the remaining forecast years. Cigarette taxes are projected to be flat in FY 2012-13 and decline by 2.2 percent per year through FY 2016-17. State 911 revenues are forecast to increase by 1.6 percent per year. State shared revenue increases are assumed at 3 percent per year, based on history.

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

APPENDIX B

EXPENDITURE ASSUMPTIONS USED IN THE FORECAST

Salaries and Benefits. For forecasting purposes, growth in salaries and wages are based on existing negotiated labor contracts. Represented and unrepresented groups in the General Fund are calculated with a 1 percent market adjustment for each year of the forecast. Market adjustments for IAFF average approximately 2.5 percent for FY 2012-13 and are calculated at 1 percent for the remaining four forecast years. SPEU market adjustments are assumed to increase by 2 percent in FY 2012-13 and FY 2013-14. Beginning in FY 2014-15 and for each remaining year, market adjustments are assumed at 1 percent per year.

The PERS unfunded actuarial liability bond payment for the General Fund decreases in FY 2012-13, with the General Fund realizing approximately $115,490 in lower cost.

In FY 2012-13, the forecast provides for a 9.25 percent increase to medical insurance premiums effective December 1, 2012. The forecast for FY 2013-14 reflects a 10.4 percent increase and all remaining years reflect 12 percent increases to medical insurance premiums in December of each year.

Dental insurance also reflects increases, with adjustments adding 2.2 percent to costs beginning in each December. Vision insurance increases by 3.1 percent for FY 2012-13 with no increases anticipated for the remaining forecast years.

Table 2 on the following page shows the detailed rate assumptions for salaries as well as all benefits. Actual rates and projections will differ.

Table 2 Personal Services Wage and Benefit Assumptions

	FY 12-13 % Increase	FY 13-14 % Increase	FY 14-15 % Increase	FY 15-16 % Increase	FY 16-17 % Increase
WAGE PROJECTIONS:					
Market Adjustment - AFSCME	1.00%	1.00%	1.00%	1.00%	1.00%
Market Adjustment - Police (SPEU)	2.00%	2.00%	1.00%	1.00%	1.00%
Market Adjustment - Fire (IAFF)	2.17%	1.00%	1.00%	1.00%	1.00%
Market Adjustment - Non-Represented	1.00%	1.00%	1.00%	1.00%	1.00%
ANNUAL PERCENTAGE CHANGE IN BENEFIT PROJECTIONS:					
Health - All Other	9.25%	10.40%	12.00%	12.00%	12.00%
Dental	2.20%	2.20%	2.20%	2.20%	2.20%
Vision	3.10%	0.00%	0.00%	0.00%	0.00%
Worker's Compensation	25.00%	4.30%	4.30%	4.30%	4.30%
Life Insurance and Disability Insurance	0.00%	0.00%	0.00%	0.00%	0.00%
Retirement - Employer Tier 1 & 2	0.00%	28.00%	0.00%	22.00%	0.00%
Retirement - Employer - OPSRP Police and Fire	0.00%	30.00%	0.00%	23.00%	0.00%
Retirement - Employer - OPSRP Non-Safety	0.00%	39.00%	0.00%	28.00%	0.00%
PERS RATE ON ELIGIBLE EARNINGS:					
Retirement - Employer Tier 1 & 2	12.93%	16.53%	16.53%	20.13%	20.13%
Retirement - Employer - OPSRP Police and Fire	11.85%	15.45%	15.45%	19.05%	19.05%
Retirement - Employer - OPSRP Non-Safety	9.14%	12.74%	12.74%	16.34%	16.34%

Workers' Compensation. Within the General Fund, workers' compensation rates are projected to increase by 25 percent or $252,020 in FY 2012-13. The increase reflects the need to recover costs associated with the workers' compensation division operations as well as to maintain a prudent reserve. Costs for workers' compensation are allocated to departments based on their three year history of claims experience as well as to provide base coverage rates. The amount paid by each department will vary depending upon their average annual losses. It is anticipated rates will increase by 4.3 percent in each year from FY 2013-14 through FY 2015-16.

Retirement. PERS rates are adjusted every two years following actuarial analysis. Rates will not change for the next fiscal year, FY 2012-13. However, over the five year forecast, there are two increases assumed, one in FY 2013-14 and another in FY 2015-16. In order to arrive at the best estimate for the increases, staff recently analyzed the PERS current system-wide funded status. Current rates were

adjusted based on the assumed impact of higher contribution rates needed to restore funded status across multiple years. The Salem specific advisory rates were released in late November. Based on the outcome, the percentage change in PERS rates ranges between 28 and 39 percent In FY 2013-14 and 22 and 28 percent for FY 2015-16. The variation in rates is due to employee eligibility for one of three retirement formula options. PERS is calculated on eligible earnings which include salaries and incentives. **Table 2** on page 12 shows the percent change in the PERS rates over the five year period. Also included are the rates 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 2012-13	FY 2013-14	FY 2014-15	FY 2015-16	FY 2016-17
$2,489,290	$2,589,340	$2,698,110	$2,806,970	$2,917,380

Materials and Services. Table 3 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 experience inflationary increases at the same rate. 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 3- Materials and Services Assumptions

Item	FY 12-13	FY 13-14	FY 14-15	FY 15-16	FY 16-17
Base	1.60%	1.60%	1.60%	1.60%	1.60%
Natural Gas	-2.80%	1.60%	1.60%	1.60%	1.60%
Electric	2.40%	1.60%	1.60%	1.60%	1.60%
Refuse Disposal	0.00%	0.00%	1.60%	1.60%	1.60%
Radio Communications	0.00%	10.00%	2.80%	3.00%	-1.00%
Motor Pool (Fleet Services)	7.93%	6.00%	6.00%	6.00%	6.00%
Liability Insurance	0.00%	1.60%	1.60%	1.60%	1.60%

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.

Utilities. PGE anticipates no January 2012 price increases for residential and large non-residential customers. The rate structure includes increases for some customers with decreases for others. Salem Electric implemented an overall 10.8 percent increase on October 1, 2011. However, as most of Salem's facilities are served by PGE, the forecast assumes a 1 percent increase in FY 2012-13.

Natural gas as provided by Northwest Natural Gas received approval from the OPUC to decrease rates effective November 1, 2011. The average residential bill is expected to decrease by 2.3 percent while the average commercial customer bill will go down by 3.5 percent. The forecast uses a decrease in FY 2012-13 of 2.8 percent to the natural gas franchise fee. The November 2011 new rates are about the same as existed in 2004. 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. In FY 2012-13 rates are not increased. When the interoperability project begins in FY 2013-14, rates are forecast to increase by 10 percent as building at the first four tower sites will be complete and maintenance contracts are expensed. We will also start paying the new connection fee to our partnering agency. The rates stabilize for the next two years as we transfer radios onto the new system and continue to build out the remaining three tower sites. Rates drop in FY 2016-17 when we are able to fully transition to the new system.

Motor Pool (Fleet). Motor pool fleet rates reflect an average increase of 7.9 percent in FY 2012-13. Due to anticipated fleet replacement needs in addition to inflationary pressure on fuel and fuel based products, rates are anticipated to increase by 6 percent for the remaining four years of the forecast.

Liability Insurance. The cost of liability insurance remains at current levels for FY 2012-13. Beginning in FY 2013-14, increases of 1.6 percent are assumed.

Capital Outlay. The forecast assumes capital outlay (purchases over $10,000 with a life expectancy of greater than five years) 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 2012-13 and throughout the forecast, it is assumed the General Fund will continue transferring a portion of the water and sewer franchise fee revenue from the General Fund to the Public Works Fund. The forecast assumes $1 million per year will be transferred to Public Works for street maintenance purposes.

Transfers. Park Operations. The General Fund forecast continues the practice of transferring funds to the Public Works Fund for management and administration of the park maintenance operations. In FY

2009-10, as the City addressed declining revenues, management and supervision of the park and recreation operations were consolidated in the Public Works Fund.

Contingencies. General Fund contingencies are budgeted at $2.5 million for each forecast year, which equates to approximately 2.6 percent of projected General Fund FY 2012-13 revenues. This level of contingency provides approximately nine days of operating expenses.

APPENDIX C

Compression from Real Market Value in relation to Assessed Valuation is increasing each year. Measure 50 passed in 1997, and reduced the assessed value on each property to 90 percent of the 1995-96 level. The Measure also established permanent tax rates for each jurisdiction. Measure 50 allows a properties' annual assessment to grow 3 percent per year. However, in slow economic times it is possible for real market value to increase at a rate of less than 3 percent per year or even decrease as experienced recently. As assessed value cannot exceed real market value, the growth in taxable assessed value is capped once assessed value and market value are equal. The number of properties with approximate assessed and real market values has been on the rise since 2006-07 as evidenced in the growing compression losses.

Measure 5 Compression

In addition to Measure 50 limits on permanent rates and growth in assessed valuations, Measure 5 provisions are also applied to each property's real market value. Measure 5 is a statewide property tax limitation approved by voters in November 1990. One of the key features of Measure 5 is that it limits operating levies of non-school, local governments to a maximum property tax rate of $10 per thousand dollars of real market value.

This means that the combined operating tax rates for the City of Salem, Marion and Polk Counties, Marion and Polk Soil Districts, the Salem Area Transit District, the Chemeketa Regional Library and Salem Urban Renewal Agency division of taxes and their special levies cannot exceed a tax rate of $10 per thousand on real market value for any individual property. As the difference between the real market value and real market value of properties narrows, the likelihood of tax losses to compression increases. Because the calculation of compression factors in the real market and Measure 50 assessed value of an individual property, situations exist where some properties may be in compression and others may not. This makes it very difficult to estimate the impact of compression on property tax levies.

Table 4 - Historic Compression

Fiscal Year	Compression
2000-01	45,000
2001-02	86,000
2002-03	386,000
2003-04	341,680
2004-05	226,680
2005-06	177,530
2006-07	155,770
2007-08	174,310
2008-09	197,350
2009-10	296,402
2010-11	401,020
2011-12	601,785
2012-13 *	812,410

**Estimate*

	Table 5 - Revenues	Budget FY 2011-12	Forecast FY 2012-13	Forecast FY 2013-14	Forecast FY 2014-15	Forecast FY 2015-16	Forecast FY 2016-17
	Property Taxes						
31110	Property Tax Levy	52,263,290	53,109,740	53,918,825	54,743,283	55,583,405	56,439,490
31120	First Prior Year	975,000	994,500	1,014,390	1,034,678	1,055,371	1,076,479
31130	Second Prior Year	300,350	357,000	364,140	371,423	378,851	386,428
31140	All Other Prior Years	230,000	357,000	364,140	371,423	378,851	386,428
31210	Other - taxes	45,100	45,100	45,100	45,100	45,100	45,100
	Total Property Taxes	**53,813,740**	**54,863,340**	**55,706,595**	**56,565,906**	**57,441,579**	**58,333,925**
	Franchise Fees						
32110	Electricity	6,331,350	6,538,004	6,603,385	6,669,418	6,736,113	6,803,474
32120	Telecommunications	775,000	1,104,760	1,104,760	1,104,760	1,104,760	1,104,760
32130	Natural Gas	2,147,790	2,262,311	2,284,934	2,307,783	2,330,861	2,354,169
32140	Refuse	1,080,210	1,091,012	1,101,922	1,112,941	1,124,071	1,135,312
32150	Cable TV	941,390	895,000	903,950	912,990	922,119	931,341
32160	Water and Sewer	2,499,290	2,422,990	2,477,340	2,584,940	2,696,600	2,813,950
	Total Franchise Fees	**13,775,030**	**14,314,077**	**14,476,290**	**14,692,832**	**14,914,524**	**15,143,005**
	Fees for Service						
32310	Accident & Fire Recovery	2,000	2,000	2,000	2,032	2,065	2,098
32320	Document Sales	72,670	74,220	74,220	75,408	76,614	77,840
32335	Fire Protection	748,500	778,882	794,460	810,349	826,556	843,087
32340	Grass and Weeds	4,320	-	-	-	-	-
32345	Comm. Enforce. Cost Recovery	39,620	40,254	40,898	41,552	42,217	42,893
32350	Planning Fees	133,000	140,000	140,000	140,000	140,000	140,000
32351	Site Plan Review	96,000	106,930	106,930	106,930	106,930	106,930
32352	Dwelling Plan Review	41,000	37,040	37,040	37,040	37,040	37,040
32365	Security Service	16,300	22,340	22,340	23,010	23,701	24,412
32391	Ambulance Contractor Fee	219,960	219,960	219,960	219,960	219,960	219,960
32490	Lien Search Fee	110,000	104,960	104,960	104,960	104,960	104,960
32495	Other Charges for Services	3,000	3,048	3,097	3,146	3,197	3,248
	Total Fees for Service	**1,486,370**	**1,529,634**	**1,545,905**	**1,564,387**	**1,583,239**	**1,602,467**
	Other Fees						
32610	Senior Center Fees	330,000	300,000	300,000	300,000	300,000	300,000
32630	Library	221,000	224,536	228,129	231,779	235,487	239,255
32636	Towing	90,000	85,500	85,500	85,500	85,500	85,500
32695	Other Fees	51,000	58,360	58,360	58,360	58,360	58,360
	Total Other Fees	**692,000**	**668,396**	**671,989**	**675,639**	**679,347**	**683,115**
	Licenses and Permits						
32810	Apartment Licenses	228,430	233,880	233,880	233,880	233,880	233,880
32825	Fire Safety Permits	223,000	200,000	200,000	200,000	200,000	200,000
32830	Automation Surcharge	65,000	65,000	65,000	65,000	65,000	65,000
32855	Sign Permits	66,000	58,040	58,040	58,040	58,040	58,040
32895	Other Permits	-	500	500	500	500	500
	Total Licenses and Permits	**582,430**	**557,420**	**557,420**	**557,420**	**557,420**	**557,420**
	Rent						
34110	Land/Bldg Rent Income	51,100	66,000	66,000	66,000	66,000	66,660
34125	Sidewalk Telephones	250	120	120	120	120	121
34132	Parking/Civic Center	76,000	75,000	75,000	75,000	75,000	75,750
34134	Parking/Pringle Creek	140,820	204,000	204,000	204,000	204,000	206,040
34146	Parking/Carpool	109,430	110,510	110,510	110,510	110,510	111,615
34148	Parking Meters	538,750	400,000	425,000	400,000	425,000	400,000
	Total Rent	**916,350**	**855,630**	**880,630**	**855,630**	**880,630**	**860,186**

		Budget FY 2011-12	Forecast FY 2012-13	Forecast FY 2013-14	Forecast FY 2014-15	Forecast FY 2015-16	Forecast FY 2016-17
	Internal Charges						
35130	Indirect Cost Allocation	7,389,340	7,552,310	7,552,310	7,552,310	7,552,310	7,552,310
35212	Intra City - Direct Charge Labc	2,789,250	2,789,250	2,833,878	2,879,220	2,925,288	2,972,092
35213	Intra City - Budgeted Transfer:	507,940	496,940	496,940	496,940	496,940	496,940
35215	Intra City - Interdept. Billings	927,060	927,060	941,893	956,963	972,275	987,831
	Total Internal Charges	**11,613,590**	**11,765,560**	**11,825,021**	**11,885,433**	**11,946,812**	**12,009,173**
	State Shared Revenues						
35315	State Alcoholic Beverage	1,611,290	1,868,500	1,924,555	1,943,801	2,002,115	2,022,136
35320	State Cigarette Tax	234,520	234,520	229,243	224,085	219,043	214,224
35325	State Revenue Sharing	1,106,200	1,139,386	1,173,568	1,208,775	1,245,038	1,282,389
35330	State 911	743,540	755,437	767,524	779,804	792,281	804,957
	Total State Shared Revenues	**3,695,550**	**3,997,843**	**4,094,890**	**4,156,464**	**4,258,477**	**4,323,707**
	Other Agencies						
35350	Chemeketa Comm. College	495,300	533,603	542,141	550,815	559,628	568,582
35355	Housing Authority	22,850	16,581	16,846	17,116	17,390	17,668
35361	State Reimbursement	62,950	63,957	64,981	66,020	67,077	68,150
35367	City of Keizer	29,800	30,277	30,761	31,253	31,753	32,262
35380	School District	437,520	444,520	451,633	458,859	466,201	473,660
35385	Payment in Lieu of Taxes	112,170	112,170	112,170	112,170	112,170	113,965
35395	Other Government Agencies	215,650	219,100	222,606	226,168	229,786	233,463
35495	Other Agencies	417,930	424,617	48,831	49,612	50,406	51,213
	Total Other Agencies	**1,794,170**	**1,844,826**	**1,489,969**	**1,512,013**	**1,534,411**	**1,558,961**
35510	***State Grants***	36,000	36,576	37,161	37,756	38,360	38,974
35615	***Federal Grants***	866,690	1,216,690	1,221,690	1,007,690	866,690	866,690
	Fines, Penalties & Forfeitures						
36110	Parking	574,000	583,184	592,515	601,995	611,627	621,413
36115	Court	2,284,000	2,269,947	2,306,266	2,343,167	2,380,657	2,418,748
36116	Photo red light fines	531,760	540,268	548,912	557,695	566,618	575,684
36195	Other Fines & Forfeitures	52,480	47,244	48,000	48,768	49,548	50,341
	Total Fines, Penalties & Forfeitures	**3,442,240**	**3,440,643**	**3,495,694**	**3,551,625**	**3,608,451**	**3,666,186**
36210	***Interest***	35,000	142,240	144,516	146,828	149,177	151,564
	Other Revenue						
36810	Bad Debt Recovery	2,590	1,524	1,548	1,573	1,598	1,646
36815	Wage Recovery	25,000	50,800	51,613	52,439	53,278	54,876
36820	Donations	67,550	68,631	69,729	70,845	71,978	73,418
36895	Other Revenue	70,000	66,812	67,881	68,967	70,071	72,173
38715	Loan Proceeds	300					-
	Total Other Revenue	**165,440**	**187,767**	**190,771**	**193,824**	**196,925**	**202,113**
38755	***Sale of Assets***	30,000	25,400	25,806	26,219	26,639	27,305
39110	***Interfund Transfer***	556,280	351,260	351,260	351,260	351,260	351,260
39920	***Beginning Balance***	17,222,200 *	13,139,614	8,373,399	254,056	-	-
	TOTAL GENERAL FUND	**110,723,080**	**108,936,917**	**105,089,005**	**98,034,984**	**99,033,940**	**100,376,051**
	Current Revenues	***93,500,880*** **	***95,797,302***	***96,715,606***	***97,780,927***	***99,033,940***	***100,376,051***

* Actual

** Estimate