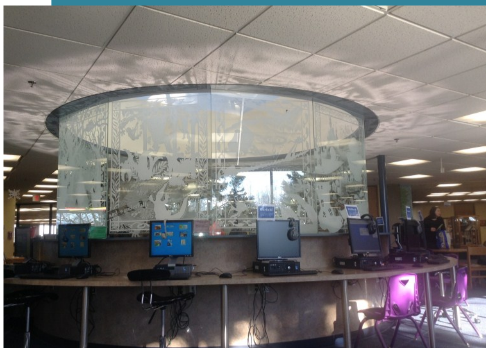

FIVE YEAR FORECAST

Fiscal Years 2015-16 through 2019-20

City of Salem
OREGON

Renovation of the Children's Area in the Salem Public Library – expanding the story time activity room; enhancing staff and children work areas, which highlight the signature skylight; refreshing the Discovery Room, and adding an ADA accessible restroom. Funding for this project came from the Salem Public Library Foundation, the Salem Public Library Advisory Board, the Friends of the Salem Public Library, and the City of Salem's General Fund.

General Fund

Transportation Fund

Building and Safety Fund

Water and Sewer Fund

CITY OF Salem AT YOUR SERVICE

CITY OF SALEM, OREGON

FIVE-YEAR FINANCIAL FORECASTS

FISCAL YEARS 2015-16 THROUGH 2019-20

GENERAL FUND

TRANSPORTATION SERVICES FUND
(FORMERLY, PUBLIC WORKS FUND)

BUILDING AND SAFETY FUND

WATER AND SEWER FUND

LINDA NORRIS, CITY MANAGER

KACEY DUNCAN, DEPUTY CITY MANAGER

January 21, 2015

CITY OF Salem
AT YOUR SERVICE

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APPENDIX

INTRODUCTION

The City's annual budget is a policy guide for resource allocation and operations, a time-limited financial plan, and a means to convey detailed information about municipal services to our citizens. As preparation for developing the upcoming budget, City staff utilize a variety of costing models, plans, analyses, and assumptions to project anticipated Citywide revenues and expenditures.

Five year forecasts for several City funds are prepared as well. This document highlights four of the forecasts prepared by our staff – General Fund, Transportation Services Fund (which was previously called the Public Works Fund), Building and Safety Fund, and the Water and Sewer Fund. The forecasts are developed within the framework of City Council goals, fiscal responsibility, and City services sustainability.

The forecasts for the General Fund and the Transportation Services Fund continue to demonstrate a structural imbalance between current, available revenue and the cost of providing services. In both forecasts, new revenue sources are needed to avoid further reductions to expenditures and the corresponding services to the public. Both of these funds are presented in the forecast document with multiple scenarios to demonstrate the impact of various assumptions. It is important to note that the information provided in the fund forecasts is not a prediction of what will occur, but a view of what could occur if all the forecast assumptions are realized.

HOW TO USE THIS DOCUMENT

Each fund forecast has its own section, which includes:

- a brief summary and forecast results,
- schedules demonstrating revenue and expenditure scenarios for the five-year forecast period,
- revenue and expenditure detail, and
- revenue risk factors and rankings.

An analysis of Citywide expenditure risk factors and rankings follows the fund sections. The document appendices focus primarily on the General Fund and property tax, but also provide additional detail on assumptions employed in developing the forecasts.

To provide additional context for the forecasts presented in this document, the City's economic consultant, Dr. Tim Duy, developed the following brief national, state, and local economic outlook.

ECONOMIC OUTLOOK

Prepared by Tim Duy, Economic Consulting, LLC

January 2015

National Summary

US economic activity gained strength as anticipated in 2014. A combination of still-accommodative monetary policy, reduced fiscal drag, and continued recovery of financial markets from the damage of the recession supported growth. While a negative reading on GDP growth will weigh on the overall numbers for the year, note that four of the past five quarters have seen growth in excess of 3%, three of which were greater than 4%. The third quarter growth of 5% was particularly strong, the best since 2006.

Job growth accelerated during the year, and private sector job creation in 2014 will be the best since 1999. Unemployment fell below 6%, a level traditionally associated with faster wage growth. Moreover, a higher pace of job quitters, more job openings, and few layoffs should also be consistent with stronger wage gains. Still high measures of underemployment, such as part-time employees for economic reasons (cannot find a full-time job), however, may continue to temper wage growth. Residential investment remains weak, particularly single family housing. There are no indications a recession is imminent.

I anticipate activity will accelerate further in 2015 to the 3% range. Fiscal drag continues to lessen and although the Federal Reserve is anticipated to raise interest rates mid-year or later, a fairly slow pace of rate hike is expected as inflation remains low. Moreover, a sharp drop in energy costs will have a net positive effect on the US economy; although energy production is up sharply, the US remains a net importer of oil. Job growth will remain strong while unemployment falls further. Overall, I anticipate the economy will feel more "normal" relative to past expansions. Falling oil prices, however, do pose some risks. Energy producing states such as North Dakota and Texas will see some drag from reduced investment activity. More important for the national outlook is the concern that financial loses in the energy sector will propagate more broadly through the financial sector. Federal Reserve Chair Janet Yellen, however, recently remarked that she did not see systemic problems as likely. Overseas weakness related to oil or Euro-breakup concerns may temper US growth as well.

Oregon Summary

The Oregon economy also continued to improve during 2014. Oregon job growth in November 2014 was 3%, well above the US growth of 2.0%. The traditional relationship of faster than national job growth has returned, supported by further job recovery outside of the Portland region, particularly in the Bend and Salem regions. The UO Index of Economic Indicators points toward continued expansion while the UO Oregon Measure of Economic Activity currently indicates an above-average pace of growth.

Salem Summary

Job growth in the Salem area easily exceeded my expectations as an acceleration in activity help the region regain its pre-recession employment trends. While job gains were widespread, they were particularly concentrated in the education and health services sector. Note also support provide by the government sector as the State's financial situation improves. Home prices rebounded, and although they remain low relative to past trends, the surprise improvement brightens the financial outlook by reducing the extent of tax compression. Still, the pace of new construction remains relatively anemic, a phenomenon experienced largely across Oregon and the rest of the nation. Overall, activity has accelerated to an average pace for the region that nonetheless remains anemic compared to past expansions.

Forecast Summary

To generate forecasts, I began with an unrestricted multiple equation model of Oregon nonfarm payrolls to create a baseline forecast. I simulated the model 1,000 times to create a 90% confidence interval, illustrating the potential outcomes within that interval. I then restricted the model to approximate growth assumptions used by the Oregon Office of Economic Analysis to generate the Oregon revenue forecast. I anticipated somewhat fast job growth in Oregon compared to the current state forecast, although the latter may be revised upward to take into account favorable recent data. I expect Oregon job growth of 3.2% in 2015 December to December).

I used my forecast of Oregon job growth as the principle driver of the Salem job forecast. I compare this with the forecast of a model estimated using data prior to the last recession to forecast the path of job growth as might have been expected prior to the recession. The current number of jobs is now modestly in excess of this comparator, indicating a more normal level of jobs relative to the Oregon. Assuming this more normal relationship continues to hold, I anticipate nonfarm payrolls in the Salem MSA would be expected to grow 3.2% and 2.6% in 2014 and 2015, respectively (Dec. to Dec. growth). The deceleration of job growth reflects the assumption that the “catch-up” period has come to an end.

Nonfarm Payroll Growth Forecasts
December to December % Change

	OR	**OR (OEA)***	**Salem MSA**
2014	2.8%	2.4%	3.2%
2015	3.2%	2.8%	2.6%

(OR refer to outcomes using my model loosely conditioned on forecasts of national variables from the Oregon Department of Economic Analysis. OR (OEA) refers to the official state forecast. * Fourth quarter to fourth quarter % change.)

Local Revenue Implications

Improving economic conditions and stronger housing markets should again be supportive for local revenue growth in 2015. Last year I noted the possibility of upside risk to the revenue forecast, which appears to have been realized with the impact of higher housing prices. Note, however, that new construction remains weak, thus still limiting the pace of tax base expansion. Current year revenue forecasts are reasonable considering the economic forecast, and I believe risks to the forecast remain weighted to the upside.

Note: OR in the above table refers to outcomes using Dr. Duy’s model loosely conditioned on forecasts of national variables from the Oregon Department of Economic Analysis. OR (OEA) refers to the official state forecast.

* Fourth quarter to fourth quarter % change.

Data used in this analysis, particularly the employment data, is subject to future revisions.

GENERAL FUND

FIVE-YEAR FINANCIAL FORECAST

FISCAL YEARS 2015-16 THROUGH 2019-20

PREPARED BY:

CITY MANAGER'S OFFICE
Kelley Jacobs, Budget Officer
Ryan Zink, Budget Analyst

ADMINISTRATIVE SERVICES DEPARTMENT
David Lacy, Management Analyst II

CITY OF Salem
AT YOUR SERVICE

GENERAL FUND SUMMARY

While an improving economic outlook and promising outcomes for property tax receipts during the current fiscal year have had a positive impact, the General Fund's forecast continues to project revenue growth that is insufficient to cover the increasing costs to provide the current level of services. This forecast demonstrates the continuing challenge of providing both essential services to the community while attempting to balance the cost of addressing needed maintenance and improvements to aging facilities and infrastructure.

The City of Salem manages its resources in a fiscally prudent manner and over the past seven years has made changes in service delivery to ensure ongoing day-to-day operations in the areas of public safety, planning, code enforcement, municipal court, parks and recreation, urban development, and the central services supporting these direct services. The key message of the General Fund five-year forecast continues to be the ongoing fiscal challenge faced by the City, which includes:

- Current revenue growth does not keep pace with the growth in current operations costs.
- Growth in the property tax revenue year-over-year ranges between 2.8 percent and 3.2 percent, still below historical levels of up to 5.5 percent. One positive outcome that influences the growth range used in the forecast – compression losses decreased in FY 2014-15 and are expected to continue to decline through the forecast period.
- Ending working capital will be depleted significantly below the amount prescribed in City Council policy by year three of the forecast without additional expenditure reductions or new revenue sources.
- PERS rates are forecast using the PERS Advisory Board's recommended rate assuming a negative result with the legal challenges to PERS rate relief.
- The General Fund's beginning working capital will allow us to forecast another year of lean operations in FY 2015-16.

GENERAL FUND FORECAST RESULTS

The General Fund forecast is an analysis of the fund's financial condition based upon reasonable economic assumptions. It provides a view of the financial impact of the City's services framed within national, state, and local economic activity and trends for both revenue sources and cost drivers. While the fund is predicted to realize increases in property tax receipts, total franchise fees, and state shared revenues, the growth in these essential sources is not sufficient to meet the increasing costs for providing services. The primary drivers of cost increases for the fund remain wages, PERS, and health care costs. Balancing the budget in the later years of the forecast will require significant expenditure reductions absent more robust growth in revenues.

The presentation of the General Fund forecast, which includes two schedules, is built referencing the targets for FY 2015-16 budget development provided to each General Fund department. The base year includes currently available information on revenues received as of November and December 2014, to project year-end receipts and forecast future year trends.

The expenditure base is adjusted for all known and projected service level costs. This includes the full cost of Parks Operations, which was previously contained in the Public Works Fund (now referred to as the Transportation Services Fund), and costs associated with operating and maintaining the planned installation of new parking technology in the Capitol Mall area. Additional revenue of $1.16 million for Parks Operations' responsibility for street tree and median maintenance is included in the forecast to offset returning the full cost of this program to the General Fund. Parks Operations, a General Fund-supported service, will remain under the management of the Public Works Department, but the budget is moving back to the General Fund to improve transparency.

In addition, the forecast assumes additional revenues derived from the new parking technology of $600,000 in FY 2015-16, increasing to $1.2 million in the remaining years of the forecast. Increased expenses associated with the new parking technology include the addition of two full-time equivalent positions, plus maintenance costs, an annual reserve allocation for equipment replacement, and debt service on the loan authorized for purchase of the system for an annual total of approximately $694,000 in the first year of the forecast and approximately $1.13 million for each of the remaining years.

Values in the forecast are represented in millions and have been rounded to the nearest ten thousand.

Schedule A – General Fund Current Service Level

The City's annual financial forecast for the General Fund includes two forecast schedules. The first schedule, which appears below as Schedule A, demonstrates continuation of current service levels with assumptions for inflationary factors to increase service costs and estimates for revenue growth or decline. Schedule B demonstrates the same data that appears in Schedule A with the addition of actions that would be required to ensure the forecast remains balanced throughout the five-year period.

Schedule A illustrates a level of projected increase in revenues lower than the anticipated growth in expenditures, and what could happen if no steps are taken to maintain ending working capital at a level commensurate with City Council policy. In the first year of the forecast period, anticipated revenues increase by an average of 2.6 percent, while net expenditures increase by an average of 2.9 percent. Schedule A includes an assumption for anticipated expenditure savings. The percentage factor used to estimate savings is 2.5 percent, which may be difficult to realize without implementing service reductions based upon the current capacity of General Fund departments to accrue budget savings.

The assumptions in Schedule A result in the depletion of beginning working capital by the conclusion of the second year of the forecast to $13.76 million, which is below the minimum in the City's financial policies (illustrated in General Fund Table 1). By the fifth year of the forecast, the assumptions demonstrate expenditures exceeding total resources.

SCHEDULE A– FY 2015-16 Five-Year General Fund Financial Forecast

(Values in Millions)	FY 14-15 Budget	FY 14-15 Projected	FY 15-16 Forecast	FY 16-17 Forecast	FY 17-18 Forecast	FY 18-19 Forecast	FY 19-20 Forecast
RESOURCES							
Beginning Working Capital	$ 19.56	$ 20.99	$ 20.22	$ 16.91	$ 13.76	$ 9.32	$ 4.72
Current Year Revenues	101.65	103.90	106.37	109.63	112.32	115.12	117.97
TOTAL RESOURCES	**$121.22**	**$124.89**	**$126.59**	**$126.54**	**$126.08**	**$124.44**	**$122.69**
EXPENDITURES							
Base Expenditures	$110.80	$104.67	$114.79	$117.97	$122.04	$125.09	$128.69
Less:							
Unspent Contingencies			(2.30)	(2.30)	(2.30)	(2.30)	(2.30)
Anticipated Expense Savings			(2.81)	(2.89)	(2.99)	(3.06)	(3.15)
TOTAL NET EXPENDITURES	**$110.80**	**$104.67**	**$109.68**	**$112.79**	**$116.75**	**$119.72**	**$123.23**
Estimated Ending Working Capital	**$ 10.42**	**$ 20.22**	**$ 16.91**	**$ 13.76**	**$ 9.32**	**$ 4.72**	**$ (.55)**

Note: The FY 14-15 Projected column includes proceeds from a mid-year loan for implementation of the new parking technology in the Capitol Mall area. Capital outlay costs associated with the implementation are included in the FY 14-15 Projected column. Revenue and expenditures associated with du jour loans to the Urban Renewal Agency are removed from all years of both Schedules A and B.

Schedule B – General Fund Budget Balancing Scenario

To provide a balanced budget throughout the forecast period, Schedule B includes the same projection of anticipated expenditure savings in Schedule A and adds a level of permanent reductions beginning in FY 2016-17, which equate to $7.2 million over the forecast period.

With these assumptions in Schedule B, beginning working capital is maintained at a level more aligned with City Council policy and within the range reviewed with the City Council during the November 12, 2014 work session as part of the FY 2015-16 budget development guidelines. The level of working capital maintained in Schedule B provides greater stability for the fund at the beginning of each fiscal year prior to the receipt of property tax revenues and is a key element in maintaining the City's positive bond rating.

SCHEDULE B–General Fund Budget Balancing Scenario Through FY 2019-20							
(Values in Millions)	FY 14-15 Budget	FY 14-15 Projected	FY 15-16 Forecast	FY 16-17 Forecast	FY 17-18 Forecast	FY 18-19 Forecast	FY 19-20 Forecast
RESOURCES							
Beginning Working Capital	$ 19.56	$ 20.99	$ 20.22	$ 16.91	$ 15.56	$ 14.72	$ 15.52
Current Year Revenues	101.65	103.90	106.37	109.63	112.32	115.12	117.97
TOTAL RESOURCES	**$121.22**	**$124.89**	**$126.59**	**$126.54**	**$127.88**	**$129.84**	**$133.49**
EXPENDITURES							
Base Expenditures	$110.8	$104.67	$114.79	$117.97	$122.04	$125.09	$128.69
Less:							
Unspent Contingencies			(2.30)	(2.30)	(2.30)	(2.30)	(2.30)
Anticipated Expense Savings			(2.81)	(2.89)	(2.99)	(3.06)	(3.15)
Permanent Reductions				(1.80)	(1.80)	(1.80)	(1.80)
Ongoing Permanent Reductions					(1.80)	(3.60)	(5.40)
TOTAL NET EXPENDITURES	**$110.80**	**$104.67**	**$109.68**	**$110.99**	**$113.15**	**$114.32**	**$116.03**
Estimated Ending Working Capital	**$ 10.42**	**$ 20.22**	**$ 16.91**	**$ 15.56**	**$ 14.72**	**$ 15.52**	**$ 17.45**

Comparing Revenues and Expenditures in Schedule B							
	FY 14-15 Budget	*FY 14-15 Projected*	*FY 15-16 Forecast*	*FY 16-17 Forecast*	*FY 17-18 Forecast*	*FY 18-19 Forecast*	*FY 19-20 Forecast*
Current Revenues	***$101.65***	***$103.90***	***$106.37***	***$109.63***	***$112.32***	***$115.12***	***$117.97***
Net Expenditures	***$110.80***	***$104.67***	***$109.68***	***$110.99***	***$113.15***	***$114.32***	***$116.03***

General Fund Table 1 – *Fund Balance Policy Comparison*					
	FY 15-16 Forecast	FY 16-17 Forecast	FY 17-18 Forecast	FY 18-19 Forecast	FY 19-20 Forecast
Fund Balance Policy – 15 Percent of Revenues	*$ 15.96*	*$ 16.44*	*$16.85*	*$ 17.27*	*$ 17.70*
Ending Working Capital Schedule A	*$ 16.91*	*$ 13.76*	*$ 9.32*	*$ 4.72*	*$ (.55)*
Ending Working Capital Schedule B	*$ 16.91*	*$ 15.56*	*$ 14.72*	*$ 15.52*	*$ 17.45*

The FY 14-15 Projected column in both Schedules A and B reflect cost savings related to the second of two years of legislated PERS rate relief. The City is not forecasting further PERS rate savings in either Schedule A or B due to the current legal challenges to the legislated changes. However, a positive outcome in the case – equating to continuation of the legislated rate relief – would provide approximately $2.3 million in expenditures savings in FY 2015-16 and growing to $2.6 million in FY 2019-20 as the forecast is currently presented.

REVENUE FORECAST

Consistent with prior year financial forecasts, the revenue estimates presented in this document rely on conservative expectations for growth. The forecast uses available revenue sources augmented with assumptions for growth or, in some cases, decline. Assumptions are derived from analysis of county property tax records, adjustments in utility rates or costs, local building activity, legislated changes, recent historical trends, and other economic drivers. Approximately 77 percent of General Fund revenues, which excludes beginning working capital, come from three external revenue sources–property taxes, franchise fees, and state shared revenues. Table 1 summarizes the five-year revenue forecast by revenue source.

General Fund Table 2	Fiscal Year				
Revenue By Source	**2015-16**	**2016-17**	**2017-18**	**2018-19**	**2019-20**
Property Taxes	$ 60.17	$ 62.12	$ 64.12	$ 66.17	$ 68.29
Franchise Fees	16.98	17.14	17.29	17.44	17.60
State Shared Revenue	4.97	5.12	5.28	5.44	5.61
Fines, Penalties and Forfeitures	2.60	2.61	2.61	2.61	2.62
Fees for Services, Other Fees	2.95	3.00	3.05	3.11	3.16
Rents, Permits, Licenses	2.43	3.10	3.11	3.14	3.15
Indirect Cost Allocation/Internal Chgs	12.50	12.77	13.06	13.36	13.67
Other Agencies, Grants	2.24	2.27	2.30	2.33	2.36
Transfers from Other Funds	1.15	1.15	1.15	1.15	1.15
Interest Income	.14	.14	.14	.14	.14
Miscellaneous	.23	.23	.23	.23	.23
Total Current Revenue	$106.37	$109.63	$112.32	$115.12	$117.97

EXPENDITURE FORECAST

The base forecast for the General Fund is developed using cost escalation information from labor agreements, health insurance consultant analysis, up-to-date PERS rate information, vendor contracts, the Consumer Price Index, and other research to inform five years of expense inflation factors. The assumption tables used for all expenditures are included in the appendix.

General Fund Table 3 summarizes the five-year expenditure forecast by expense category for Schedule B–General Fund Budget Balancing Scenario. Increased rates for compensation market adjustments, PERS obligations, and health insurances for current employees prompt increases in personal services. The area of the table with italicized text demonstrates the effect on base expenditures of anticipated savings, unspent contingencies, and permanent reductions initiated in FY 2016-17 in the "Total Net Expenditures" row.

General Fund Table 3–Schedule B	**Fiscal Year**				
Expenditure Categories	**2015-16**	**2016-17**	**2017-18**	**2018-19**	**2019-20**
Personal Services	$ 87.55	$ 90.31	$ 93.91	$ 96.47	$ 99.57
Materials and Services	22.80	23.62	24.09	24.58	25.07
Capital Outlay	.35	.35	.35	.35	.35
Subtotal Operating Expenditures	**$110.69**	**$114.28**	**$118.35**	**$121.39**	**$124.99**
Debt Service	.26	.26	.26	.26	.26
Contingencies	2.50	2.50	2.50	2.50	2.50
Transfers to Other Funds (facility and information technology asset maintenance projects)	1.33	.93	.93	.93	.93
Total Base Expenditures	**$114.79**	**$117.97**	**$122.04**	**$125.09**	**$128.69**
Less:					
Unspent Contingencies	*(2.30)*	*(2.30)*	*(2.30)*	*(2.30)*	*(2.30)*
Anticipated Savings	*(2.81)*	*(2.89)*	*(2.99)*	*(3.06)*	*(3.15)*
Permanent Reductions		*(1.80)*	*(1.80)*	*(1.80)*	*(1.80)*
Ongoing Permanent Reductions			*(1.80)*	*(3.60)*	*(5.40)*
Total Net Expenditures	***$109.68***	***$110.99***	***$113.15***	***$114.32***	***$116.03***

FINANCIAL FORECAST RISKS AND RANKINGS

Risks to Revenue Forecast

The forecast acknowledges that there are risks associated with the resources needed to sustain the current level of City services, now and into the future. Each identified risk is evaluated on the degree it will impact service delivery. These evaluations of existing and potential resources assist in determining actions to be taken over the five-year period to ensure a balanced budget. The identified risks to the General Fund's resources are summarized below.

Property Tax–Measure 5 compression, the post-recession lag in new construction, and low growth in real property values on existing houses contributed to slow growth in property tax revenues over the past several years. However, during the current fiscal year, the City is realizing the positive impact to improving property values and the corresponding increase in property tax revenues, due in part to lowered compression losses. The forecast includes an approximate 2.8 percent increase in revenue derived from property taxes– current year receipts plus previously uncollected amounts from prior years for FY 2015-16. The annual growth rate is maintained at 3.2 percent for the remaining four years. The optimistic view in the later years of the forecast includes continued growth in the economy creating increases in development activity and housing prices, which should result in an increased return on tax revenues. The forecasted growth assumption is still well below historical revenue growth rates of up to 5.5 percent experienced prior to 2009.

Marion County–In FY 2014-15, the City experienced a significant change to predicted Measure 5-driven property tax compression losses. With the prior year forecast, losses for the General Fund were anticipated at $1.2 million for FY 2014-15 and expected to grow to $1.5 million by FY 2018-19. With a significant improvement in property values, the revenue loss attributable to compression in FY 2014-15 decreased to $700,000.

Over the past several years, the Real Market Value (RMV) of many properties dropped below the Assessed Value (the amount that is used to calculate the tax). The lower RMV effectively became the new Assessed Value, and the Measure 5 limit of $10 per $1,000 in RMV resulted in higher compression losses. In FY 2014-15, residential properties experienced RMV growth of over 11 percent. This large change in RMV built in an adequate spread between RMV and AV so that the full government rate of $10.5138 per $1,000 in AV could be realized and not compressed. There is a dual benefit of higher tax revenue due to the increase in value, as well as a reduction in compression. Compression loss is expected to continue to decrease over the forecast period.

Polk County–At a current general government tax rate of $9.2510, West Salem is not experiencing compression. In FY 2013-14, approximately 61 percent of residential properties had a Real Market Value that was equal to Assessed Value, limiting tax growth to the 1.7 percent decline in Real Market Value. In FY 2014-15, that percentage declined to approximately 32 percent of residential properties due to 5 percent RMV growth. The increase in RMV will allow Assessed Value to start growing at the 3 percent statutory limit once again.

Risk Factor Ranking–HIGH

Growth in real market property values at a rate of 5 percent or greater would be welcomed but property tax reforms are still needed to correct the inequities of the overall tax system. The League of Oregon Cities has focused its efforts on communicating the negative impacts of Measure 5 and 50 and the need for tax reform, in addition to strengthening stakeholder alliances in preparation for the 2015 session. The City will remain actively involved with this effort.

Enacted Local Option Levies–The property tax rate limitation of Measure 5 also applies to voter-approved tax operating levies. Taxes to be collected from a voter approved local option levy are compressed first, before collections from a jurisdiction's permanent tax rate are affected. This means properties in compression when the levy was enacted would not pay for the levy, and additional properties may become compressed as a result of the levy, further reducing collections. Also, compression can cause the enactment of a local option levy in one jurisdiction to reduce the permanent rate tax collections of another jurisdiction within the same county.

Risk Factor Ranking–HIGH

The Measure 5 rate limitation negatively impacts the voters' ability to have local control over the level of services they wish to fund and receive, and creates inequities with who pays for the services the levy is to provide. The possibility of a neighboring jurisdiction enacting a special operating levy that could reduce Salem's tax revenue is also a concern. The League's 2013 referral measure to remove local option levies from the compression rate cap failed. As noted above, efforts to communicate the need for property tax reform will continue.

State Shared Revenues–Revenues from liquor tax and revenue sharing are expected to have approximate 4 percent annual increases during the forecast period reflecting continued steady growth. Changes to the State of Washington's liquor distribution laws and taxes may be a contributing factor. Shared cigarette tax revenues are expected to continue to decline by 3 percent annually over the five-year period. Decreasing revenue is anticipated due to trending, which is indicative of a change in consumer behavior. The 911 tax revenue is expected to decline by 1 percent annually over the forecast period. The 2013 legislature approved extending the sunset date for the tax to January 2022, without an increase to the $.75 rate, but did not approve taxing prepaid cell phones and Voice over Internet Protocol (VoIP) users, declining revenues are anticipated due to changes in consumer behavior for this revenue source as well.

Risk Factor–MEDIUM

Policy changes are needed for the 911 system to be adequately funded for the emergency services it provides. State shared revenue sources must be defended against legislation that may divert portions of these revenues to resolving state budget challenges.

Franchise Fee Revenues–Franchise fee revenue growth for energy utility providers is projected to be 3.0 percent (electricity) to 3.5 percent (natural gas) over FY 2014-15 estimates and declining to 1.5 percent over the remaining forecast years. PGE received a 1 percent rate increase starting in January 2015. This coupled with steady growth in consumption and recent revenue trends project a 3.0 percent increase in franchise revenues. Northwest Natural received an overall 3.4 percent rate increase beginning in November 2014 reflecting higher natural gas prices due to colder than normal weather in the Eastern part of the U.S., which temporarily decreased storage levels well below the five year average. Natural gas prices are expected to return to the long-term trend of lower-priced gas as storage levels increase. The City's water and wastewater franchise fee projected growth is 1.25 percent in the first year of the forecast based upon projections from the City's biennial Water/Sewer Cost of Service Analysis and compared to the extraordinary usage currently being experienced in FY 2014-15. The rate of growth fluctuates from 3.2 percent to 2.5 percent in the remaining years of the forecast and assumes a return to more normal usage. No growth is anticipated in cable franchise revenue over the forecast period. Refuse hauler franchise fees are projected to increase by 23.5 percent between the FY 2014-15 and FY 2015-16 projections for this revenue type, then experience little to no growth for the remaining forecast period. The revenue increase in FY 2015-16 is the result of recently approved rate increases for solid waste haulers and an increase to the franchise fee rate from 5 to 7 percent. Telecommunications is expected to continue to decline (by -4.0 percent year-over-year) as customers move to less expensive forms of communicating and due to the state's statutory restrictions on how cites can charge these fees to telecommunication companies.

Risk Factor Ranking–MEDIUM

Growth in this revenue is difficult to predict as it is influenced by the provider's billing rate, customer growth, conservation, legislation, and weather. These fees are one of the three primary, external revenue sources in the General Fund. Potential changes need to be monitored and, in the case of legislative challenges, defended.

Forecast Risk–Revenue	Ranking	Percent Total Revenue
Property Tax Limitations	HIGH	*57%*
Local Option Levies	HIGH	
State Shared Revenue	MEDIUM	*4.7%*
Franchise Fee Revenue	MEDIUM	*15% - 16%*

CITY OF Salem
AT YOUR SERVICE

TRANSPORTATION SERVICES FUND

FIVE-YEAR FINANCIAL FORECAST

FISCAL YEARS 2015-16 THROUGH 2019-20

PETER FERNANDEZ, P.E., PUBLIC WORKS DIRECTOR

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CITY MANAGER'S OFFICE
Kelley Jacobs, Budget Officer

CITY OF Salem AT YOUR SERVICE

TRANSPORTATION SERVICES SUMMARY

The Public Works Department's Transportation Services Division supports the operation and maintenance of the City's streets, traffic signals, streetlights, and sidewalks. The Transportation Services Fund (Fund 155) provides the financial structure for the department to respond to City Council goals that address long term support of community needs for public safety, livability, environmental health, and economic development.

The key concern that emerges from the Transportation Services Fund forecast is the ongoing imbalance between current revenue sources and the cost of providing services. While the state and local economic outlook is improving, the fiscal capacity of this fund to continue current levels for sidewalk repair and replacement, as well as core street maintenance and operations continues to decline. Absent new revenue sources, the funding gap for current service levels equals $2.8 million by the fifth year of the forecast period in Schedule A. In FY 2015-16, a $500,000 infusion of street bond funds (included in all Schedules) and a $400,000 transfer of franchise fees (in Schedules B and C) provide funding for continuation of the sidewalk program and basic street maintenance for one more year at current service levels. Service reductions or additional revenues are needed in FY 2016-17 to prevent working capital from being entirely depleted. Immediate steps will need to be taken to address the City's fiduciary responsibility for maintenance of core transportation services and to ensure adequate beginning working capital. In the absence of a new revenue source, significant service reductions will be recommended—and will have to be implemented—in the FY 2016-17 budget.

TRANSPORTATION SERVICES FORECAST RESULTS

This five-year forecast is an analysis of the Transportation Services Fund based upon current and reasonable economic assumptions. It provides a view of the financial impact of the City's services, priorities, and policies within the context of national, state, and local economic factors; emerging vehicle technologies; worldwide and regional petroleum supplies and prices; consumer behavior; and the growth in primary revenue sources. The forecast includes a variety of assumptions for expenditure activity over five years. The primary drivers of expense increases include wages, PERS and health care costs; energy costs; and inflationary increases on contracted goods and services. The tables for the expenditure assumptions are included in the appendix.

The primary funding source for Transportation Services is the City's monthly allocation of state highway fund revenues, which include motor vehicle fuel taxes; heavy commercial vehicle weight/mile taxes; and title, licensing, and registration fees from the Department of Motor Vehicles (DMV). The state highway revenue represents 70 percent of the Transportation Services Fund total new revenue. The statewide motor vehicle fuel tax is currently 30 cents per gallon of retail fuel sold.[1] The City's allocation is based on a per capita distribution of the portion allocated to cities. Salem's current share of the city apportionment is 5.81 percent. Fuel tax revenue is sensitive to economic factors such as

[1] The state highway fund's distribution is as follows: 50 percent to the Oregon Department of Transportation; 30% to counties; and 20% to cities.

the regional price and availability of fuel, incorporation of fuel-efficient vehicle technologies, and consumer behavior.

The Oregon Department of Transportation (ODOT) provides a four-year forecast of state highway fund revenues in June and December of each year. The City uses the ODOT forecast to calculate its anticipated allocation of state highway fund revenues. Based on historical performance, the City budgets its revenue and expenditures to 97 percent of ODOT's forecasted revenue amount for Salem. While the June 2014 ODOT revenue forecast addressed the impact of decreasing fuel consumption through changes in the consumers' fleet (increased fuel efficiency; use of hybrid and electric vehicles), it did not predict the recent decreases in retail fuel prices in Oregon nor the potential of increased consumption with the lower cost. The state forecast includes one year of accelerated growth to 2.2 percent in FY 2015-16 from the current year estimate, then slows the growth rate to a low of 0.84 percent in FY 2018-19, the final year of its forecast. The City's five-year forecast includes a 0.84 percent increase in state highway fund revenues for FY 2019-20.

The Transportation Services Fund forecast is presented in three schedules. Each schedule builds out the forecasted years using the FY 2014-15 Projected column as the base year. The base year uses currently available revenue received to re-project trends continuing in FY 2015-16 with a street bond transfer (in all Schedules) and the transfer of solid waste franchise fee revenue (in Schedules B and C) anticipated for one year. Each schedule includes an increase of $258,000 associated with conversion of existing seasonal positions to full-time equivalents to address requirements of the Affordable Care Act. Continued use of some seasonal staffing is reflected in FY 2015-16 in conjunction with the additional funding available for both sidewalk repairs and street maintenance. All three schedules employ an expenditure savings rate of 2 percent, which supports the assumption that ongoing efforts to reduce costs will have a corresponding impact on the capacity to save. Values in the forecast are represented in millions and have been rounded to the nearest ten thousand.

Schedule A – Transportation Services Fund Current Service Level

Schedule A presents the challenges Transportation Services faces to maintain current service levels over the five-year forecast period. It is based on the service level represented by Transportation Services' FY 2014-15 budget and maintains one year of street bond funding for sidewalk replacements in the amount of $500,000 in FY 2015-16.

Projected growth in service costs and continued slow to no growth in primary transportation revenue sources will deplete working capital to $1.08 million by the end of FY 2015-16. While this working capital amount aligns with the fund balance target of 10 percent of the annual state highway revenue ($9.1 million), it results in insufficient funding for a balanced budget in the second year of the forecast.

It is important to note that Oregon Budget Law requires a balanced budget. The budgets presented in FY 2016-17 through FY 2019-20 of Schedule A demonstrate the structural imbalance of the Transportation Services Fund, but would be a violation of Oregon Budget Law for the City to adopt.

SCHEDULE A–FY 2015-16 Transportation Services Five-Year Financial Forecast							
(Values in Millions)	**FY 14-15 Budget**	**FY 14-15 Projected**	**FY 15-16 Forecast**	**FY 16-17 Forecast**	**FY 17-18 Forecast**	**FY 18-19 Forecast**	**FY 19-20 Forecast**
RESOURCES							
Beginning Working Capital	$ 1.54	$ 2.07	$ 2.12	$ 1.08	$ -	$ -	$ -
Current Year Revenues	12.41	12.37	12.70	12.43	12.63	12.74	12.85
TOTAL RESOURCES	**$ 13.95**	**$ 14.44**	**$ 14.82**	**$ 13.51**	**$ 12.63**	**$ 12.74**	**$ 12.85**
EXPENDITURES							
Base Expenditures	$ 13.95	$ 12.32	$ 14.48	$ 14.69	$ 15.01	$ 15.30	$ 15.63
Less:							
Unspent Contingencies			(.50)	(.50)	(.50)	(.50)	(.50)
Anticipated Expense Savings			(.24)	(.24)	(.25)	(.25)	(.26)
TOTAL NET EXPENDITURES	**$ 13.95**	**$ 12.32**	**$ 13.74**	**$ 13.94**	**$ 14.26**	**$ 14.55**	**$ 14.87**
Estimated Ending Working Capital		**$ 2.12**	**$ 1.08**	**$ (.43)**	**$ (1.63)**	**$ (1.81)**	**$ (2.02)**

Schedule B – Current Service Levels, Additional One-Time Revenue

Schedule B presents the same service level as Schedule A and includes the $500,000 of street bond funding for sidewalk replacements in FY 2015-16. Schedule B provides an additional $400,000 in FY 2015-16 derived through a transfer of General Fund solid waste franchise fee revenue. This infusion allows for a minimal street maintenance program in a balanced budget through FY 2015-16. Even with this infusion, reductions of up to $960,000 are required in FY 2016-17 and beyond to balance the fund.

As noted above, Schedule B demonstrates the impact of a one-year transfer of $400,000 General Fund franchise fee revenues; the transfer is not reflected in the four remaining years of the Transportation Services Fund forecast. Any use of the solid waste franchise fee revenue for Transportation Services requires a policy decision by City Council. The continued infusion would provide some relief from anticipated service reductions for the Transportation Services Fund. The $500,000 of remaining street bond revenue also ends in FY 2015-16, so forecast years FY 2016-17 and beyond reflect a cumulative revenue reduction of $900,000 annually compared to FY 2015-16.

Without continued funding through a transfer or other sources, the City will be challenged to balance limited resources with needs. The fund cannot sustain service levels proposed in FY 2015-16 for both sidewalk repairs and street maintenance without continued funding to support them. However, further commitment of General Fund franchise fee revenue to Transportation Services during the forecast period would negatively impact the General Fund forecast.

SCHEDULE B– Transportation Services Forecast, Additional One-Time Revenue in FY 2015-16

(Values in Millions)	FY 14-15 Budget	FY 14-15 Projected	FY 15-16 Forecast	FY 16-17 Forecast	FY 17-18 Forecast	FY 18-19 Forecast	FY 19-20 Forecast
RESOURCES							
Beginning Working Capital	$ 1.54	$ 2.07	$ 2.12	$ 1.48	$ .93	$ .94	$ .95
Current Year Revenues	12.41	12.37	13.10	12.43	12.63	12.74	12.85
TOTAL RESOURCES	**$ 13.95**	**$ 14.44**	**$ 15.22**	**$ 13.91**	**$ 13.56**	**$ 13.68**	**$ 13.80**
EXPENDITURES							
Base Expenditures	$ 13.95	$ 12.32	$ 14.48	$ 14.69	$ 15.01	$ 15.30	$ 15.63
Less:							
Unspent Contingencies			(.50)	(.50)	(.50)	(.50)	(.50)
Anticipated Expense Savings			(.24)	(.24)	(.25)	(.25)	(.26)
Permanent Reductions				(.96)	(.69)	(.17)	(.21)
Permanent Ongoing Reductions					(.96)	(1.65)	(1.82)
TOTAL NET EXPENDITURES	**$ 13.95**	**$ 12.32**	**$ 13.74**	**$ 12.98**	**$ 12.61**	**$ 12.73**	**$ 12.84**
Estimated Ending Working Capital		**$ 2.12**	**$ 1.48**	**$ .93**	**$ .94**	**$ .95**	**$ .96**

Addressing the imbalance between revenues and expenditures in the Transportation Services Fund through service reductions would require the loss of ten or more full-time positions and six seasonal positions. Position loss of this depth would prompt the consolidation of asphalt and concrete maintenance programs into a single program staffed by a common crew. Maintaining lower levels of staffing all year without the capacity to manage the peak construction season is a less efficient use of resources. Available resources would be focused on state-mandated safety requirements for the operation of traffic signals and streetlights and maintenance and installation of signage, very limited street maintenance, spot repairs rather than overlays, for arterial and collector streets, and very limited sidewalk repairs, without reconstruction or installation.

Schedule C – Current Service Levels, Impact of Streetlight Fee

Schedule C maintains the same service level as Schedules A and B with $500,000 of street bond funding for sidewalk replacements in FY 2015-16. It also reflects the transfer of $400,000 from General Fund franchise fees for street maintenance in FY 2015-16 as shown in Schedule B. Since both of these infusions are limited to one year; FY 2016-17 reflects the $900,000 decrease in total revenues offset with anticipated gains in other revenue sources.

SCHEDULE C– Transportation Services Forecast with Impact of Streetlight Fee

(Values in Millions)	FY 14-15 Budget	FY 14-15 Projected	FY 15-16 Forecast	FY 16-17 Forecast	FY 17-18 Forecast	FY 18-19 Forecast	FY 19-20 Forecast
RESOURCES							
Beginning Working Capital	$ 1.54	$ 2.07	$ 2.12	$ 2.46	$ 1.76	$ 1.36	$ 1.09
Current Year Revenues	12.41	12.37	13.10	12.43	12.63	12.74	12.85
TOTAL RESOURCES	**$ 13.95**	**$ 14.44**	**$ 15.22**	**$ 14.90**	**$ 14.39**	**$ 14.10**	**$ 13.94**
EXPENDITURES							
Base Expenditures	$ 13.95	$ 12.32	$ 13.49	$ 13.88	$ 14.08	$ 14.40	$ 14.75
Less:							
Unspent Contingencies			(.50)	(.50)	(.50)	(.50)	(.50)
Anticipated Expense Savings			(.24)	(.24)	(.25)	(.25)	(.26)
Permanent Reductions					(.30)	(.33)	(.39)
Permanent Ongoing Reductions						(.30)	(.63)
TOTAL NET EXPENDITURES	**$ 13.95**	**$ 12.32**	**$ 12.75**	**$ 13.14**	**$ 13.03**	**$ 13.02**	**$ 12.98**
Estimated Ending Working Capital		**$ 2.12**	**$ 2.46**	**$ 1.76**	**$ 1.36**	**$ 1.09**	**$ .96**

A streetlight fee proposal will be considered by City Council in February 2015. If approved, all revenue and associated expenses will be directed to a separate Streetlight Fund. The Transportation Services Fund would be relieved of approximately $1.4 million in annual expense related to operating and maintaining streetlights.

The impact of the proposed streetlight fee is reflected in Schedule C beginning in FY 2015-16 and continuing through the forecast period. Expense relief for the Transportation Services Fund begins immediately in FY 2015-16, but is somewhat tempered by a transfer expense of $220,000 to establish the Streetlight Fund and pay the initial electricity bills until revenue is received. While expense relief for the Transportation Services Fund is ongoing, the revenue reduction of $900,000 for bond funding and franchise fee contributions after FY 2015-16 results in an imbalance of approximately $700,000 to maintain current services levels comparing FY 2016-17 Current Revenues with Net Expenditures.

While the Streetlight Fee is anticipated to adequately fund streetlight maintenance for the next six years, the Transportation Services Fund requires reductions or an alternate revenue source as early as FY 2017-18 for street maintenance. Reductions of $300,000 to $400,000 annually will be required to maintain minimal street maintenance and sidewalk programs unless additional revenue sources are identified.

REVENUE FORECAST

The revenue forecast is developed using conservative growth expectations for Transportation Services' revenue sources. It uses current revenues and assumes no new or unrealized revenues other than the addition of one-time revenue in FY 2015-16. Approximately 70 percent of Transportation Services' revenues (excluding beginning working capital) come from state highway fund revenue. Table 1 summarizes the five-year revenue forecast by revenue source. This table demonstrates all revenues anticipated to be received in the Transportation Services Fund. Any offsetting expense transferring State highway fund revenues used to support Parks Operations' maintenance of the City's street trees and landscaping in the public rights of way is included in the expenditure forecast.

Transportation Services Table 1 - Schedule A	Fiscal Year				
Revenue By Source	**2015-16**	**2016-17**	**2017-18**	**2018-19**	**2019-20**
State Highway Revenue	$ 9.14	$ 9.28	$ 9.45	$ 9.52	$ 9.60
Intra City Billings and Transfers	2.89	2.48	2.50	2.53	2.55
Other Agencies, Grants	.55	.56	.56	.57	.57
All Other Sources	2.60	2.61	2.61	2.61	2.62
Total Current Revenue	$ 12.70	$ 12.43	$ 12.63	$ 12.74	$ 12.85

EXPENDITURE FORECAST

The expenditure forecast is developed based on anticipated increases in the cost of labor, materials, and capital. When available, it uses known expenditure information such as labor agreements, vendor contracts, PERS rates, health care cost increases, and inflation factors. Table 2 summarizes the five-year expenditure forecast by expense category for Schedule C. The assumption tables for all expenditures are included in the appendix.

Transportation Services Table 2– Schedule C	Fiscal Year				
Expenditure Categories	**2015-16**	**2016-17**	**2017-18**	**2018-19**	**2019-20**
Personal Services	$ 5.41	$ 5.47	$ 5.65	$ 5.79	$ 5.96
Materials and Services	5.12	5.64	5.79	5.94	6.10
Capital Outlay	.08	.08	.08	.08	.08
Subtotal Operating Expenditures	**$ 10.61**	**$ 11.19**	**$ 11.52**	**$ 11.81**	**$ 12.14**
Contingency	.50	.50	.50	.50	.50
Transfer	2.38	2.19	2.06	2.08	2.11
Total Base Expenditures	**$ 13.49**	**$ 13.88**	**$ 14.08**	**$ 14.40**	**$ 14.75**
Less:					
Unspent Contingencies	*(.50)*	*(.50)*	*(.50)*	*(.50)*	*(.50)*
Anticipated Savings	*(.24)*	*(.24)*	*(.25)*	*(.25)*	*(.26)*
Permanent Reductions			*(.30)*	*(.33)*	*(.39)*
Ongoing Permanent Reductions				*(.30)*	*(.63)*
Total Net Expenditures	***$ 12.75***	***$ 13.14***	***$ 13.03***	***$ 13.02***	***$ 12.98***

FINANCIAL FORECAST RISKS AND RANKINGS

Risks to Transportation Services Fund Revenue Forecast

The forecast acknowledges that without additional revenue, Transportation Services will be unable to sustain the current level of services, now and into the future. Each identified risk is evaluated on the degree it will impact service delivery. These evaluations of existing and potential resources assist in determining actions to be taken over the five-year period to ensure a balanced budget. The most significant risk to Transportation Services' resources is summarized below.

State Highway Fund Revenue–Transportation Services' primary revenue source is the City's allocation of state highway fund revenues– a revenue source over which the City has little or no control. Revenues are impacted by worldwide, national, and regional factors including the availability of fuels, prices, transport costs, refinery capacity, vehicle technology, and consumer behavior. The amount and allocation of motor vehicle fuel taxes and DMV fees is determined by the state legislature. Actual receipts have not kept pace with original ODOT forecasts published after adoption of the Oregon Jobs and Transportation Act in 2009, which raised the motor fuel tax by five cents beginning in January 2011. ODOT has reduced its forecasted growth percentages for the state highway fund five times since June 2010. The June 2014 ODOT forecast reduced December 2013 projections by 1.08 percent for FY 2015-16. The ongoing risk to the City is any loss between forecasted revenues and actual receipts.

Risk Factor Ranking–HIGH
State highway fund revenue can be subject to changes in legislation, technology, petroleum supplies, prices, and consumer behavior. Because it is the primary revenue source for transportation, potential changes need to be monitored and, in the case of legislative challenges, defended.

Forecast Risk–Revenue	Ranking	Percent Total Revenue
State Highway Fund	HIGH	*70%*

BUILDING AND SAFETY FUND

FIVE-YEAR FINANCIAL FORECAST

FISCAL YEARS 2015-16 THROUGH 2019-20

GLENN GROSS, COMMUNITY DEVELOPMENT DIRECTOR

PREPARED BY:

COMMUNITY DEVELOPMENT DEPARTMENT
Rebai Tamerhoulet, Building and Safety Administrator
Chris Neider, Management Analyst II

CITY MANAGER'S OFFICE
Kelley Jacobs, Budget Officer
Ryan Zink, Budget Analyst

CITY OF Salem
AT YOUR SERVICE

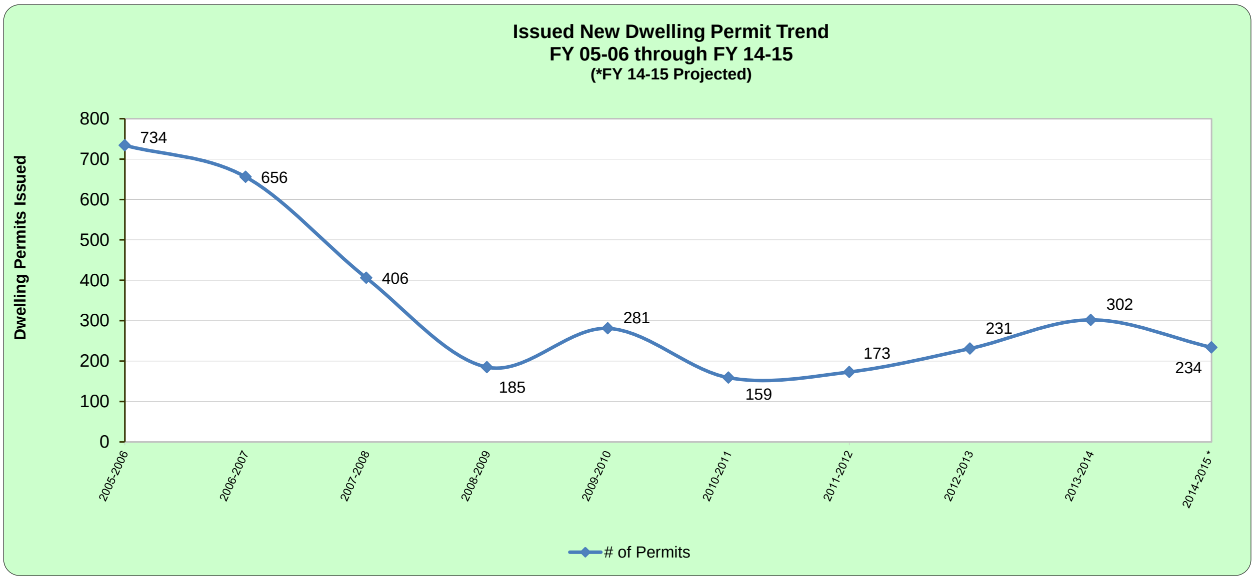
BUILDING AND SAFETY FUND SUMMARY

The Building and Safety Division continues to ensure public safety while providing consistent and efficient service in its provision of plan review, residential and commercial construction permitting and inspection, non-construction permit issuance, and regulatory licensing. Revenues derived from these activities and the costs for services are managed within the Building and Safety Fund.

Through FY 2013-14, permitting activity and permit valuation had demonstrated steady improvement since the low point for both measurements in FY 2011-12. FY 2013-14 realized the most improvement for both measurements since FY 2009-10. However, current year statistics represent a 12.1 percent decline in total permits and 39.1 percent less valuation associated with the permit activity comparing activity through December for both 2013 and 2014. Significant commercial / industrial activity for one or two large projects through December 2013 provided $54.7 million in valuation in excess of activity through December 2014. In addition, the continued slow recovery for new dwelling permit activity is acknowledged in projections contained in this forecast.

One focus of the Building and Safety Fund forecast is to identify a reasonable assumption for base permit revenue over the five-year period without the potentially sporadic infusion of a large commercial or industrial project. That is not to say that large projects are not anticipated for the community. As an example, renovation of the State Capitol is a well-publicized possibility, which could generate $2.4 million in permit revenue for the fund and could require minimal additional expenditures to manage the Building and Safety Division's responsibilities for this multi-year project.

The financial outlook for the Building and Safety Fund remains positive, but tempered with only a 1.5 percent annual increase in permit revenue. There is no anticipation in this forecast that permit activity will recover to pre-recession levels. The forecast reflects sustaining current activity for new dwelling permits during the five year period.



- After hitting a low point in FY 2008-09 (185 permits), there was an uptick in activity for FY 2009-10 (281 permits) driven by multiple incentives for first time home buyers.
- After the expiration of the incentives, FY 2010-11 permits declined below the FY 2008-09 levels (to 159 permits).
- FY 2011-12 permits increased 8.8 percent over FY 2010-11 (to 173 from 159).
- FY 2012-13 permits increased 33.5 percent over FY 2011-12 (to 231 from 173).
- FY 2013-14 permits increased 30.7 percent over FY 12-13 (to 302 from 231).
- FY 2014-15 permits total 117 through December with 234 projected at year-end, if this trend continues, for a decrease of 22.5 percent as compared to FY 2013-14.

BUILDING AND SAFETY FUND FORECAST RESULTS

The Building and Safety Fund forecast provides a view into the financial impact of typical operating decisions and service priorities in relation to projected business activity through FY 2019-20. The forecast uses the same assumptions for expenditure activity over five years as the City's General Fund and does not include any increase to staffing levels. Primary drivers of expense increases include wages, PERS, health care costs, energy costs, technology improvements, and inflationary increases. Tables for the expenditure assumptions are included in the appendix section of this report.

The forecast presented this year is provided in one schedule, which carries forward current service levels. The forecast demonstrates a balanced budget for the fund over the five year period. However, estimated ending working capital is reduced from $4.9 million at the end of FY 2014-15 to $3.4 million for the final year of the forecast. Despite the decrease to ending working capital, it exceeds the requirements for the fund in City Council Policy C-10 through the five-year forecast period. Building and Safety Table 1, which follows the forecast schedule, illustrates the impact to revenues and expenditures from the potential State Capitol renovation project. The impact is expressed through a comparison of ending working capital in Schedule A.

Values are in millions and have been rounded to the nearest ten thousand. The schedules build out the forecasted years using the projected FY 2014-15 as the base year. The base year uses currently available information on revenues received as of December 2014 to re-project revenue trends.

Schedule A – Building and Safety Current Service Level

SCHEDULE A–Building and Safety Fund Forecast through FY 2019-20							
(Values in Millions)	FY 14-15 Budget	FY 14-15 Projected	FY 15-16 Forecast	FY 16-17 Forecast	FY 17-18 Forecast	FY 18-19 Forecast	FY 19-20 Forecast
RESOURCES							
Beginning Working Capital	$ 3.96	$ 4.80	$ 4.91	$ 4.72	$ 4.47	$ 4.15	$ 3.79
Current Year Revenues	3.61	3.06	3.10	3.15	3.20	3.24	3.29
TOTAL RESOURCES	**$ 7.56**	**$ 7.86**	**$ 8.01**	**$ 7.87**	**$ 7.67**	**$ 7.40**	**$ 7.08**
EXPENDITURES							
Base Expenditures	$ 3.92	$ 2.95	$ 3.68	$ 3.78	$ 3.90	$ 4.00	$ 4.12
Less:							
Unspent Contingency			(.30)	(.30)	(.30)	(.30)	(.30)
Anticipated Expense Savings			(.08)	(.09)	(.09)	(.09)	(.10)
TOTAL NET EXPENDITURES	**$ 3.92**	**$ 2.95**	**$ 3.30**	**$ 3.40**	**$ 3.51**	**$ 3.61**	**$ 3.73**
Estimated Ending Working Capital	**$ 3.65**	**$ 4.91**	**$ 4.72**	**$ 4.47**	**$ 4.15**	**$ 3.79**	**$ 3.35**
Service Stabilization Reserve	**1.67**	**1.45**	**1.69**	**1.74**	**1.80**	**1.85**	**1.91**
Capital Asset Reserve	**.65**	**.65**	**.65**	**.65**	**.65**	**.65**	**.65**
EWC in Excess of Reserve Funds	**$ 1.33**	**$ 2.81**	**$ 2.38**	**$ 2.08**	**$ 1.70**	**$ 1.29**	**$ .79**

Building and Safety Forecast – Table 1 *Comparing Ending Working Capital – Schedule A and Addition of State Capitol Renovation Project*							
	FY 14-15 Budget	FY 14-15 Projected	FY 15-16 Forecast	FY 16-17 Forecast	FY 17-18 Forecast	FY 18-19 Forecast	FY 19-20 Forecast
Schedule A	***$ 3.65***	***$ 4.91***	***$ 4.72***	***$ 4.47***	***$ 4.15***	***$ 3.79***	***$ 3.35***
With Additional Project	***$ 3.65***	***$ 4.91***	***$ 5.58***	***$ 6.67***	***$ 6.26***	***$ 5.89***	***$ 5.46***

Table 1 illustrates the impact of a large construction project on the Building and Safety Fund's ending working capital over the forecast period. The example – the State Capitol renovation – would provide approximately $2.4 million total permit revenue during FY 2015-16 and FY 2016-17. The Building and Safety Division estimates nominal additional costs to manage the project over its three-year estimated duration. The result increases ending working capital by over $2 million by FY 2019-20 as compared to the base assumptions in Schedule A.

REVENUE FORECAST

Building permit data – excluding very large building or alteration projects – shows activity has stabilized to a "new normal" with minimal growth. New construction remains low as noted in Dr. Tim Duy's economic outlook earlier in this document. As the result, a 1.5 percent increase in permit revenues has been applied each year.

Building and Safety Fund Table 2	**Fiscal Year**				
Revenue By Source	**2015-16**	**2016-17**	**2017-18**	**2018-19**	**2019-20**
Permits	$ 2.87	$ 2.92	$ 2.96	$ 3.00	$ 3.05
Other	.07	.07	.07	.07	.07
Intrafund-Budgeted Transfer	.17	.17	.17	.17	.17
Total Current Revenue	$ 3.10	$ 3.15	$ 3.20	$ 3.24	$ 3.29

EXPENDITURE FORECAST

The expenditure forecast is developed based on "most likely" increases in the cost of goods and services. When available, it uses known expenditure information such as, labor agreements, vendor contracts, PERS rates, health care cost increases, and inflation factors. The assumption tables for all expenditures are included in the appendix.

Table 3 summarizes the five-year expenditure forecast by expense category. Increased rates for PERS obligations for current employees prompt increases in personal services for FY 2015-16, FY 2017-18, and FY 2019-20. The area of the table with italicized text demonstrates the effect on base expenditures of anticipated savings and unspent contingency in the "Total Net Expenditures" row.

Building and Safety Fund Table 3	**Fiscal Year**				
Expenditure Categories	**2015-16**	**2016-17**	**2017-18**	**2018-19**	**2019-20**
Personal Services	$ 2.57	$ 2.65	$ 2.75	$ 2.84	$ 2.94
Materials and Services	.81	.83	.85	.86	.88
Subtotal Operating Expenditures	**$ 3.38**	**$ 3.48**	**$ 3.60**	**$ 3.70**	**$ 3.82**
Contingency	.30	.30	.30	.30	.30
Total Base Expenditures	**$ 3.68**	**$ 3.78**	**$ 3.90**	**$ 4.00**	**$ 4.12**
Less:					
Unspent Contingency	*.30*	*.30*	*.30*	*.30*	*.30*
Anticipated Savings	*.08*	*.09*	*.09*	*.09*	*.10*
Total Net Expenditures	**$ 3.30**	**$ 3.40**	**$ 3.51**	**$ 3.61**	**$ 3.73**

FINANCIAL FORECAST RISKS AND RANKINGS

Risks to Revenue Forecast

The forecast acknowledges there are risks associated with sustaining the resources needed to fund current and future services. Each identified risk is evaluated on the degree it will impact service delivery and assists in determining courses of action to be taken over the five-year period. The identified risk to the Building and Safety Fund's resources is summarized below:

Permit Revenue–Building permit revenue accounts for 93 percent of all revenue of the Building and Safety Fund. Changes in this revenue source can have a drastic effect on fund revenues overall. From the peak of new dwelling (SFD/Duplex) permits issued in FY 2005-06 of 734, annual activity decreased 78 percent to 159 permits issued in FY 2010-11. Activity appears to have stabilized. However, current year permit activity has caused a re-projection of annual increases on a lower base.

> <u>Risk Factor Ranking–HIGH</u>
> Because this revenue is derived from activity that is influenced primarily by outside sources (supply/demand, consumer confidence, credit availability, economic health) and represents such a large percentage of the total revenue for the fund, even slight swings in this revenue source can have a significant impact on the fund. Activity is measured on a monthly basis and economic trends are reviewed to help ensure the City can respond to changes accordingly.

Risks to Expenditure Forecast

Forecast Risk–Revenue	Ranking	Percent Total Revenue
Permit Revenue	HIGH	*93%*

WATER AND SEWER FUND

FIVE-YEAR FINANCIAL FORECAST

FISCAL YEARS 2015-16 THROUGH 2019-20

PETER FERNANDEZ, P.E., PUBLIC WORKS DIRECTOR

PREPARED BY:

PUBLIC WORKS DEPARTMENT
Alicia Blalock, Budget Analyst

ADMINISTRATIVE SERVICES DEPARTMENT
David Lacy, Management Analyst II

CITY OF Salem AT YOUR SERVICE

WATER AND SEWER FUND SUMMARY

The City manages its utility services in a fiscally responsible manner to ensure ongoing day-to-day operations and provide capital funding for infrastructure. The Water and Sewer Fund is the financial structure supporting:

- Treatment, storage, and delivery of the highest quality drinking water to homes and businesses;

- Collection, conveyance, and treatment of wastewater before its return to the Willamette River; and

- Collection and conveyance of stormwater runoff from streets, buildings, and other hard surfaces through the system to prevent flooding and protect the environment.

The forecast presented this year continues to demonstrate conservative, but adequate spending resulting in the maintenance of an ending working capital balance sufficient to meet City Council-adopted bond and working capital reserve requirements. In the Water and Sewer Fund, there are a number of required reserves for bonded debt and recommended reserves for rate stabilization and operations. These reserves provide financial stability for a revenue stream that can vary as a result of customer demand. In addition, the water, sewer, and stormwater utility systems represent nearly $3.86 billion of capital infrastructure which must be continually maintained and replaced. In any given year, a new economic development project or unanticipated system failure may require an immediate expenditure of several million dollars in capital investment.

Highlights of this forecast include:

- Rate revenue growth over the forecast period adequately funds operations and allows for an increase in capital construction transfers as debt is retired over the forecast period.

- The increase in capital improvement funding over the five-year period to continue progress toward more adequately funding utility infrastructure needs, and providing funding for significant projects of great importance to the community.

Although water consumption has been declining for the past several years, Salem recently experienced a long dry spring through fall. Revenue in FY 2014-15 is exceeding projections. The forecast assumes a return to more average weather and consumption patterns.

WATER AND SEWER FUND FORECAST RESULTS

The Water and Sewer Fund forecast provides a view into the financial impact on the City's utilities services, priorities, and policies in relation to projected economic activity through 2019. This view is influenced by federal and state economic factors and trends, local business activity and property development, and the growth in primary revenue sources. Water, sewer, and stormwater rate revenue is anticipated to provide approximately 86 percent of the fund's total new revenue in FY 2015-16. Additionally, the forecast includes a variety of assumptions for expenditure activity over five years. The primary drivers of expense increases include labor agreements, PERS and health care costs, energy costs, and inflationary increases on contracted goods and services. The tables for expenditure assumptions are included in the appendix section of this report.

Developing a forecast for water, wastewater, and stormwater utilities requires establishing specific assumptions regarding the customer base, growth, consumption, economic trends, operating needs, and capital requirements. All assumptions have been reviewed based on historical data through FY 2013-14 and in the context of current economic trends and industry standards. Each assumption about economic variables can have a restrictive or expansive effect on projected cash flow. The goal has been to be realistically conservative while not overly reducing financial capacity for operations and capital improvements.

Schedule A – Water and Sewer Fund Current Service Level

The Water and Sewer Fund forecast is presented as Schedule A. The values in the forecast are in millions of dollars and have been rounded to the nearest ten thousand. The schedule builds out the forecasted years using the FY 2014-2015 Projected column as the base year. The base year uses current information to re-project revenue trends and adjust the expenditure base for any on-going service level changes. The October 2014 City Council-adopted rate adjustments maintain an adequate level of working capital throughout the forecast period.

SCHEDULE A–Water and Sewer Fund Forecast through FY 2019-20

(Values in Millions)	FY 14-15 Budget	FY 14-15 Projected	FY 15-16 Forecast	FY 16-17 Forecast	FY 17-18 Forecast	FY 18-19 Forecast	FY 19-20 Forecast
RESOURCES							
Beginning Working Capital	$ 35.55	$ 38.64	$ 41.31	$ 42.86	$ 41.48	$ 38.43	$ 35.99
Current Year Revenues	85.27	87.15	87.80	89.93	92.06	94.25	96.49
TOTAL RESOURCES	**$120.83**	**$125.79**	**$129.11**	**$132.79**	**$133.53**	**$132.68**	**$132.48**
EXPENDITURES							
Base Expenditures	$ 93.08	$ 84.47	$ 89.75	$ 94.81	$ 98.60	$100.19	$97.41
Less:							
Unspent Contingency			(3.50)	(3.50)	(3.50)	(3.50)	(3.50)
TOTAL NET EXPENDITURES	**$ 93.08**	**$ 84.47**	**$ 86.25**	**$ 91.31**	**$ 95.10**	**$ 96.69**	**$ 93.91**
Estimated Ending Working Capital	**$ 27.74**	**$ 41.31**	**$ 42.86**	**$ 41.48**	**$ 38.43**	**$ 35.99**	**$ 38.57**

REVENUE FORECAST

The revenue forecast is developed using conservative growth expectations for the Water and Sewer Fund. Approximately 86 percent of Water and Sewer Fund resources (excluding beginning working capital) come from one external source–rate revenue. New rates are adopted by City Council every two years. In October 2014, City Council adopted a 3 percent revenue slope effective January 1, 2015, and a 3 percent revenue slope effective January 1, 2016; a 3 percent revenue slope is assumed for the remaining years of the forecast. Table 1 summarizes the five-year revenue forecast by revenue source.

Water and Sewer Fund Table 1	**Fiscal Year**				
Revenue By Source	**2015-16**	**2016-17**	**2017-18**	**2018-19**	**2019-20**
Water, Sewer, Stormwater Rate Revenue	$ 75.35	$ 77.30	$ 79.27	$ 81.29	$ 83.36
Franchise Fees	3.09	3.19	3.27	3.35	3.43
Other Fees	2.28	2.29	2.30	2.32	2.33
Permitted Development	.52	.53	.53	.53	.54
Internal Charges	5.18	5.23	5.28	5.34	5.39
All Other Sources	1.38	1.39	1.41	1.42	1.44
Total Current Revenue	**$ 87.80**	**$ 89.93**	**$ 92.06**	**$ 94.25**	**$ 96.49**

EXPENDITURE FORECAST

The expenditure forecast is developed based on anticipated increases in the costs of labor, materials, and capital, and generally agrees with assumptions used across all City funds. When available, it uses known expenditure information such as labor agreements, vendor contracts, the most recent information for PERS rates and health care cost increases, and inflation factors. Future costs associated with higher PERS obligations for current employees are included. Table 2 summarizes the five-year expenditure forecast by category for Schedule A.

Water and Sewer Fund Table 2	Fiscal Year				
Expenditure Categories	**2015-16**	**2016-17**	**2017-18**	**2018-19**	**2019-20**
Personal Services	$ 31.61	$ 32.60	$ 33.84	$ 34.79	$ 35.92
Materials and Services	25.47	25.98	26.49	27.00	27.53
Capital Outlay	.74	.74	.74	.74	.74
Subtotal Operating Expenditures	**$ 57.82**	**$ 59.33**	**$ 61.07**	**$ 62.54**	**$ 64.20**
Debt Service	20.98	20.98	19.53	18.15	17.21
Contingency	3.50	3.50	3.50	3.50	3.50
Capital Construction Transfers	7.45	11.00	14.50	16.00	12.50
Total Base Expenditures	**$ 89.75**	**$ 94.81**	**$ 98.60**	**$ 100.19**	**$ 97.41**
Less:					
Unspent Contingency	*3.50*	*3.50*	*3.50*	*3.50*	*3.50*
Total Net Expenditures	***$ 86.25***	***$ 91.31***	***$ 95.10***	***$ 96.69***	***$ 93.91***

Transfers are anticipated annually from the Water and Sewer Fund to the Construction Fund for utility capital projects. During the forecast period, this investment is projected at between $7.45 million to $16 million. The peak represents a 0.4 percent annual investment in the utility's infrastructure. The goal is to continue to increase the annual transfers to the Construction Fund until they equal $38.6 million representing 1 percent of the utility's asset value. This goal will allow the City to adequately maintain and replace aging pipes, reservoirs and treatment plants, and is based on the assumption that, on average, infrastructure lasts 100 years.

FINANCIAL FORECAST RISKS AND RANKINGS

Risks to Revenue Forecast

The forecast acknowledges that there are risks associated with sustaining the resources needed to fund current and future City utility services. Each identified risk is evaluated on the degree it will impact service delivery and assists in determining courses of action to be taken over the five-year period.

Water and Sewer Rate Revenue – Water and sewer rate revenue is affected both by economic conditions and by customer behavior. Continued conservation, which is important to the sustainability of water resources, also negatively impacts revenue in systems where most costs are fixed and cannot be adjusted quickly based on demand.

Water consumption has been declining over the past 10 years nationally, and a small decline is anticipated to continue in Salem throughout the forecast period with reduced consumption of about two percent annually. The restrictive impact on revenues from declining consumption is partially offset by a very small (less than .25 percent annually) anticipated growth in the number of customer accounts.

Although stormwater rates were implemented in January 2013, it is important to remember they do not represent a new or increasing revenue source. Stormwater services were previously funded through wastewater rates. As stormwater and wastewater are separated, and stormwater rates are implemented, there is a corresponding decrease in wastewater rates. Stormwater rates will be fully separated from wastewater in January 2016.

Risk Factor – MEDUIM
Decreasing water consumption is a national trend, and Salem is not unique in facing this challenge. Most of the costs to provide utility services to customers are fixed. A very small percentage of costs are related to the volume of water produced, or sewage accepted. When consumption declines and revenue is adversely impacted, water utilities must increase rates to maintain operations. It is unclear how far per capita consumption will decline, but it is assumed a decline will continue throughout the five-year period.

One way utility systems have attempted to stabilize revenue is to recover more costs through fixed rates rather than volume (consumption). The 2012 Cost of Service Analysis updated the rate structure, and an adjustment was made to shift some costs from the variable rate to the fixed rate in an effort to stabilize revenue.

Forecast Risk–Revenue	Ranking	Percent Total Revenue
Water and Sewer Rate Revenue	MEDIUM	*86%*

CITYWIDE FINANCIAL FORECAST RISKS AND RANKINGS

Risks to Expenditure Forecast

This summary presents risks to the expenditure forecast by evaluating the degree by which each identified risk will impact service delivery. This assessment assists in determining actions to be taken over the five-year period.

PERS Employer Rate Increases–New rates established by the PERS Advisory Board for FY 2015-16 through FY 2016-17 continue to reflect the impact of legislative reforms enacted in 2013 and improving investment returns. A decision is pending on lawsuits filed on SB 822 and SB 861 with action by the Oregon Supreme Court anticipated in March 2015. The decision could possibly impact the newly established rates should these bills be ruled unconstitutional. Because of this uncertainty, the forecast assumes PERS rates that would allow the City to manage the impact of an unfavorable outcome with the lawsuits. The rates utilized in the forecast for FY 2015-16 represent a five percentage point increase over the PERS Advisory Board's base rates. A five percentage point increase reflects an approximate 32 percent increase between the forecast rate for Tiers 1 and 2 of 20.82 percent of salary as compared to the PERS Advisory Board's base rate for Tiers 1 and 2 of 15.82 percent

Below is a table of the rates by tier for comparison, rates are adjusted every two years to meet pension funding requirements. See Appendix A for a complete table of PERS related expenses.

EXPENDITURE RISKS Table 1 PERS Employer Contribution Rates					Projected Rate		
PERS Type	**FY 07-08**	**FY 09-10**	**FY 11-12**	**FY 13-14**	**FY 15-16**	**FY 17-18**	**FY 19-20**
Tier 1 and 2	8.65%	6.12%	12.93%	19.06%	20.82%	22.00%	23.00%
OPSRP General Service	8.96%	4.37%	9.14%	14.68%	13.62%	15.00%	16.00%
OPSRP Fire and Police	12.23%	7.08%	11.85%	17.41%	17.73%	19.00%	20.00%

Table 2 projects the expenditures savings that may be achieved with a favorable outcome in the PERS lawsuits based upon how each of the fund forecasts is presented in this document.

EXPENDITURE RISKS Table 2 **Estimated PERS Savings Resulting from Favorable Lawsuit Outcome (In Millions)**					
Fund	**FY 15-16**	**FY 16-17**	**FY 17-18**	**FY 18-19**	**FY 19-20**
General Fund	$ 2.34	$ 2.41	$ 2.49	$ 2.55	$ 2.61
Transportation Services Fund	$ .14	$ .14	$ .14	$ .15	$ .15
Building and Safety Fund	$ .07	$ .08	$ .08	$ .08	$ .08
Water and Sewer Fund	$ .90	$ .93	$ .95	$ .97	$ 1.0

Risk Factor Ranking–HIGH

The lawsuit outcomes will have an immediate impact on employer rates. Should the legislation be declared unconstitutional, it is anticipated that the PERS Board will recover the needed contributions by increasing future rates. The forecast assumes a higher increase in rates than the PERS advisory rates for this reason.

Health Care Costs–The City's rates are developed annually with the assistance of a consultant knowledgeable in the industry. The rate analysis is based on a review of national and statewide health care cost trends, legislated health care reforms, the required cash reserves to meet obligations year-over-year and the City's claims activity from previous years. The rate of increase for health benefits premium costs is assumed to decline over the five-year period; see Appendix A for the detailed assumption table. The Patient Protection and Affordable Care Act program for transitional reinsurance premium charged on employer plans is included in the calculated rates.

Risk Factor Ranking–MEDIUM

Health care costs could be higher or lower depending on a variety of factors, which are difficult to predict, including increased costs in the health care industry, the amount of filed claims, and future impacts associated with the Patient Protection and Affordable Care Act.

Labor Agreements–Approximately 77 percent of the City's workforce is represented by one of four unions–SPEU (Police), IAFF (Fire), PCEA (911 Communications), and AFSCME (general unit). For the fund forecasts in this document, personal services expenses equate to a significant percentage of total operating costs – General Fund, 48 percent; Transportation Fund, 29 percent; Building and Safety Fund, 46 percent; and Water and Sewer Fund, 33 percent. Labor agreements are a significant cost driver. Wage increases associated with the most recent agreements are incorporated in the forecast. For the years beyond the term of these agreements an assumed 2 percent wage increase is used.

Risk Factor Ranking–MEDIUM

Labor agreements for AFSCME, PCEA and IAFF expire on June 30, 2015. Negotiations will be underway during the current fiscal year for these agreements. Negotiations for the Police (SPEU) which expired on June 30, 2014 were completed in December 2014. The risks associated with increased costs from future labor negotiations beyond FY 2015-16 are difficult to measure at this time.

Inflation–The Bureau of Labor Statistics reported in August that the Consumer Price Index-All Urban Consumers (CPI-U) for the Portland-Salem, OR-WA area (not seasonally adjusted) increased 1.0 percent in the first half of 2014 for an annual change of 2.6 percent. Over the year, the index for all items less food and energy advanced 2.7 percent. Prices increased for recreation (4.0 percent), shelter (3.2 percent), medical care (2.9 percent), and education and communication (2.4 percent). Partially offsetting the increases were lower prices for apparel (-4.4 percent) and household furnishings and operations (-1.1 percent). Although prices for energy increased 1.4 percent over the year, gasoline decreased 1.7 percent during the same time period. For purposes of this forecast, 1.7 percent was used as the inflation factor on general goods and services.

Risk Factor Ranking–LOW

Inflation is expected to remain relatively low over the forecast period for the goods and services that the City purchases. Energy price fluctuations will be monitored but are not anticipated to be significant risks at this time.

Over the five-year forecast period risk factors with medium rankings will be monitored and action will be taken should they begin to move to a higher risk status. All high ranking risks are monitored closely and when possible, steps will be taken to lower the City's exposure.

Forecast Risk–Expenditures	Ranking	Percent Total Expense
PERS Employer Rate Increases	HIGH	11.4%
Health Care Costs	MEDIUM	10.5%
Labor Agreements/Salary Costs	MEDIUM	42.1%
Inflation	LOW	

*Percentages in the expenditures table are based upon comparison with the total operations budget for the four funds in the FY 2015-16 forecast year. The operations budget includes personal services, materials and services, and capital outlay. Debt service, contingencies, and transfers are not included in this comparison.

APPENDIX A

ASSUMPTIONS FOR FORECAST

PROPERTY TAX TABLES

OTHER BACKGROUND INFORMATION

APPENDIX A

EXPENDITURE ASSUMPTIONS TABLE

WAGE PROJECTIONS	FY 15-16 % Increase	FY 16-17 % Increase	FY 17-18 % Increase	FY 18-19 % Increase	FY 19-20 % Increase
Market adjustment-AFSCME	2.00%	2.00%	2.00%	2.00%	2.00%
Market adjustment-Police (SPEU)	2.25%	2.50%	2.00%	2.00%	2.00%
Market adjustment-Fire (IAFF)	1.50%	2.00%	2.00%	2.00%	2.00%
Market adjustment-Non-represented	2.00%	2.00%	2.00%	2.00%	2.00%

ANNUAL PERCENTAGE CHANGE IN BENEFIT PROJECTIONS

Medical (effective Dec 1, each fiscal year)	10.00%	5.00%	5.00%	5.00%	5.00%
Dental (effective Dec 1, each fiscal year)	3.00%	3.00%	3.00%	3.00%	3.00%
Vision (effective Dec 1, each fiscal year)	3.00%	3.00%	3.00%	3.00%	3.00%
Worker's compensation	7.90%	5.00%	5.00%	5.00%	5.00%
Life insurance (effective Dec 1, each fiscal year)	2.50%	5.00%	5.00%	5.00%	5.00%
Disability insurance (effective Dec 1, each fiscal year)	2.50%	2.00%	2.00%	2.00%	2.00%

PERS RATE ON ELIGIBLE EARNINGS

Retirement-Employer Tier 1 and 2	20.82%	20.82%	22.00%	22.00%	23.00%
Retirement-Employer-OPSRP General	13.62%	13.62%	15.00%	15.00%	16.00%
Retirement-Employer-OPSRP Police and Fire	17.73%	17.73%	19.00%	19.00%	20.00%

The percentage year-to-year increase to PERS rates in this table for FY 2015-16 is based on the FY 2014-15 charge rate, which was 4.4 percentage points lower than the rate used in the FY 2014-15 budget.					
Retirement-Employer Tier 1 and 2	42.02%	0.00%	5.67%	0.00%	4.55%
Retirement-Employer-OPSRP General	32.49%	0.00%	10.13%	0.00%	6.67%
Retirement-Employer-OPSRP Police and Fire	36.28%	0.00%	7.16%	0.00%	5.26%

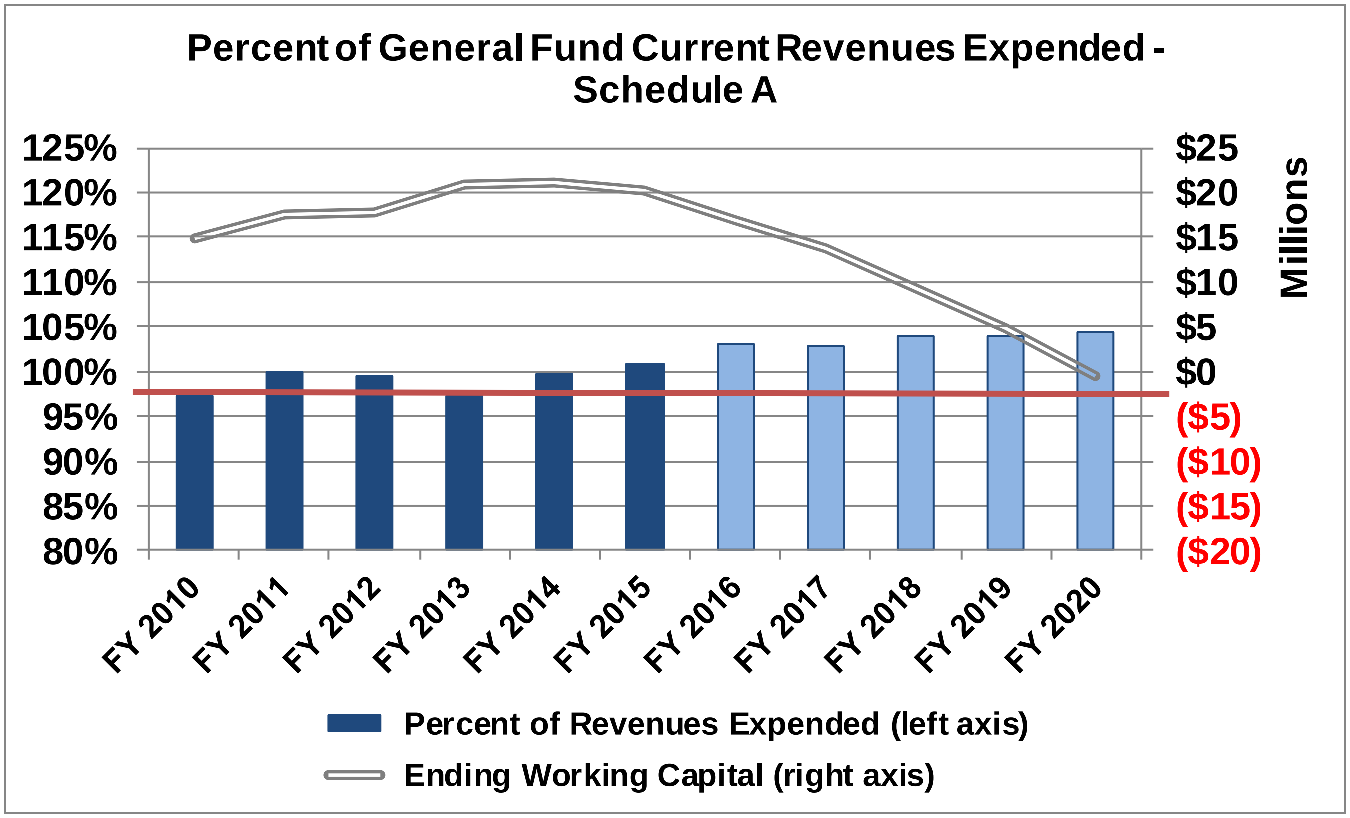
MATERIALS AND SERVICES	FY 15-16 % Increase	FY 16-17 % Increase	FY 17-18 % Increase	FY 18-19 % Increase	FY 19-20 % Increase
Base	1.70%	1.70%	1.70%	1.70%	1.70%
Electricity	2.00%	2.00%	2.00%	2.00%	2.00%
Postage	1.70%	1.70%	1.70%	1.70%	1.70%
Natural gas	3.50%	1.00%	1.00%	1.00%	1.00%
Motor Pool (Fleet Services)	Varies by department	2.50%	2.50%	2.50%	2.50%
Radio Communications	0.00%	0.00%	0.00%	0.00%	0.00%
9-1-1 Services	3.50%	3.50%	3.50%	3.50%	3.50%

GENERAL FUND REVENUE ASSUMPTIONS TABLE

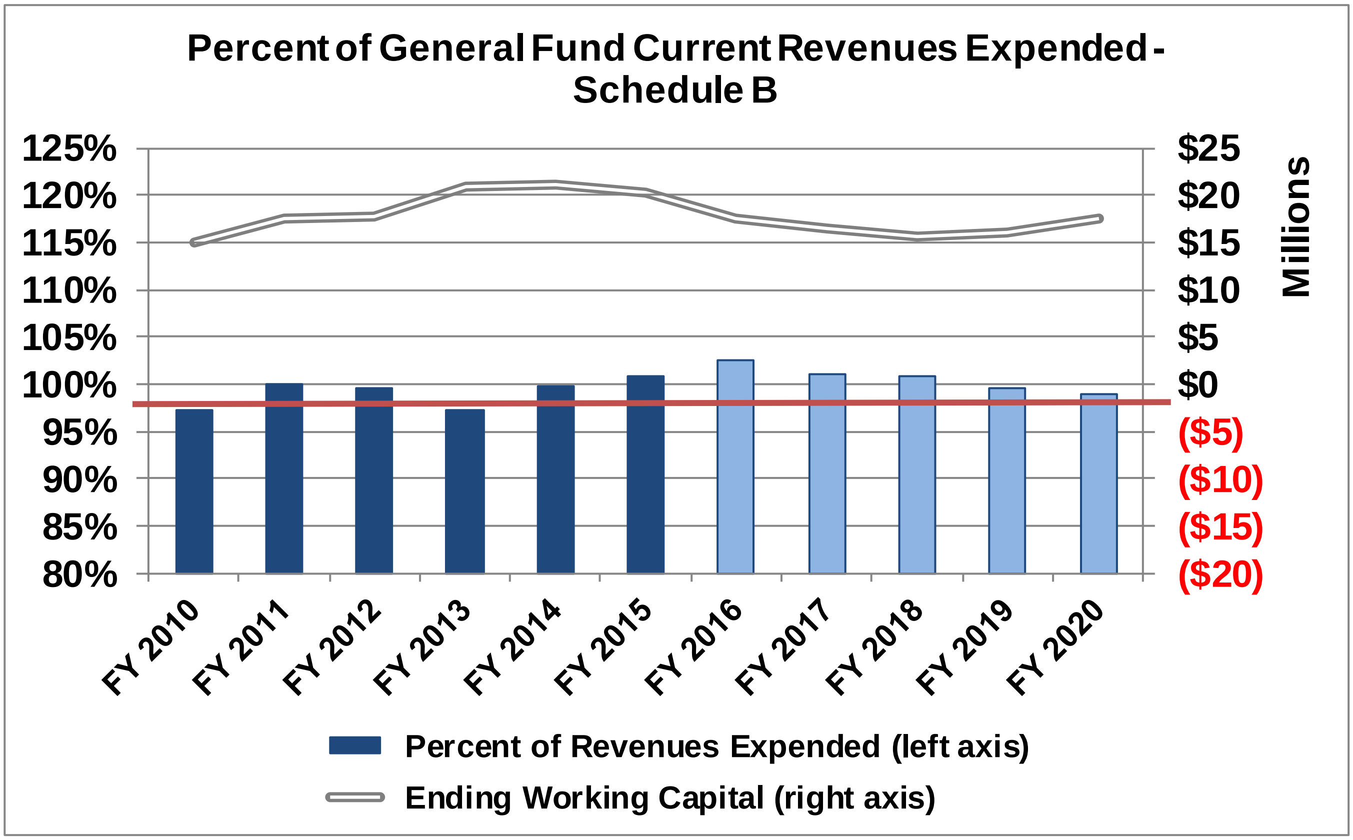
REVENUE	FY 15-16 % Increase	FY 16-17 % Increase	FY 17-18 % Increase	FY 17-18 % Increase	FY 18-19 % Increase
Property tax - driven by growth in AV	2.83%	3.24%	3.22%	3.21%	3.20%
Electric franchise	3.00%	1.50%	1.50%	1.50%	1.50%
Telecommunications franchise	-4.00%	-4.00%	-4.00%	-4.00%	-4.00%
Natural gas franchise	3.50%	1.00%	1.00%	1.00%	1.00%
Cable TV franchise	0.00%	0.00%	0.00%	0.00%	0.00%
Refuse (solid waste) franchise	23.50%	0.00%	0.00%	0.00%	0.00%
Water and sewer franchise	1.25%	3.22%	2.53%	2.53%	2.53%
Fees for service	2.70%	2.20%	2.20%	2.30%	2.30%
Planning fees (site and dwelling plans)	6.20%	3.00%	3.00%	3.00%	3.00%
Other fees	1.00%	1.00%	1.00%	1.00%	1.00%
Licenses/permits	3.70%	2.30%	2.30%	2.30%	2.30%
ICAP	2.68%	2.50%	2.50%	2.50%	2.50%
Other internal charges	Addition of Parks state highway revenue	1.50%	2.00%	2.00%	2.00%
State shared revenue	3.00%	3.00%	3.00%	3.10%	3.10%
Other agencies	1.70%	1.70%	1.70%	1.70%	1.70%
Grants	-41.70%	0.00%	0.00%	0.00%	0.00%
Fines/penalties	0.00%	0.00%	0.00%	0.00%	0.00%

Note: FY 2015-16 escalators or de-escalators are calculated based upon FY 2014-15 estimates for year-end revenue totals by type.

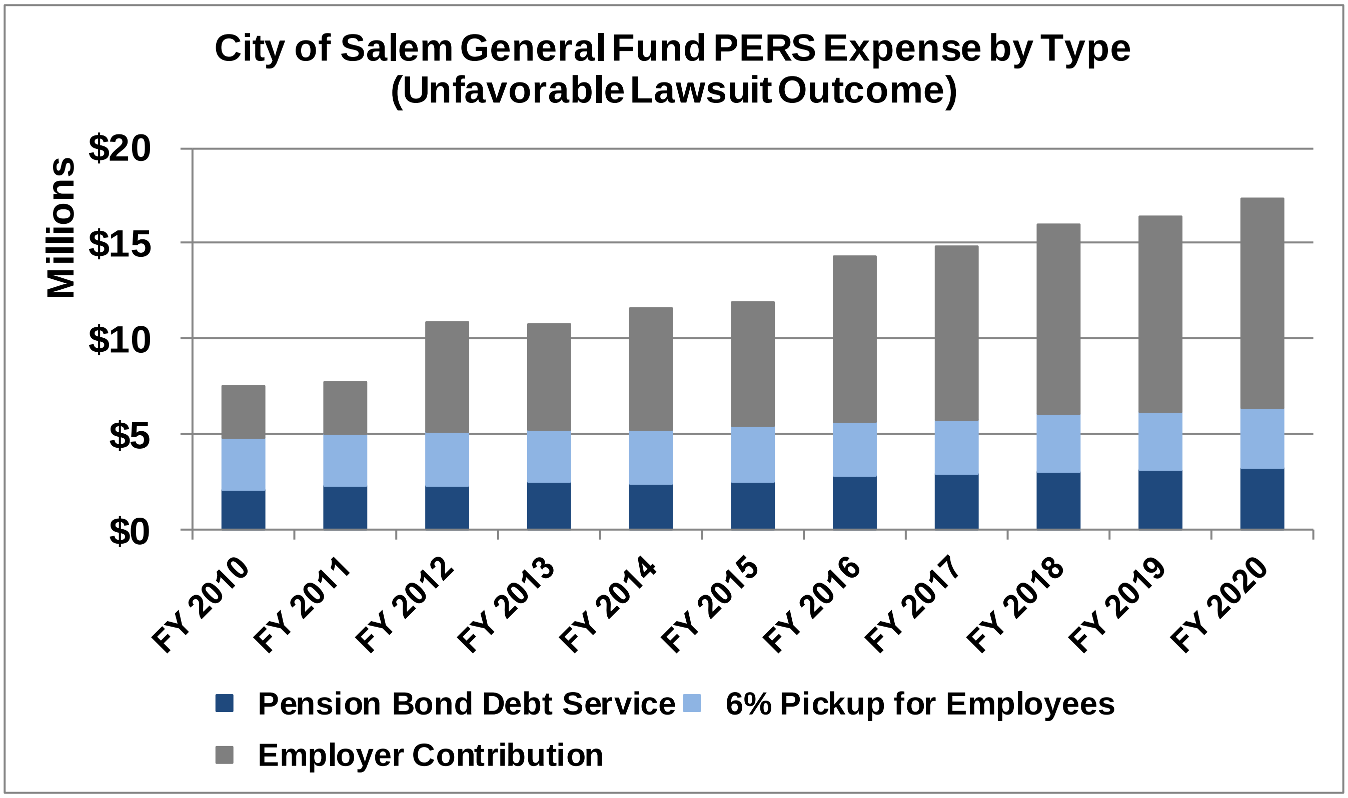
APPENDIX B

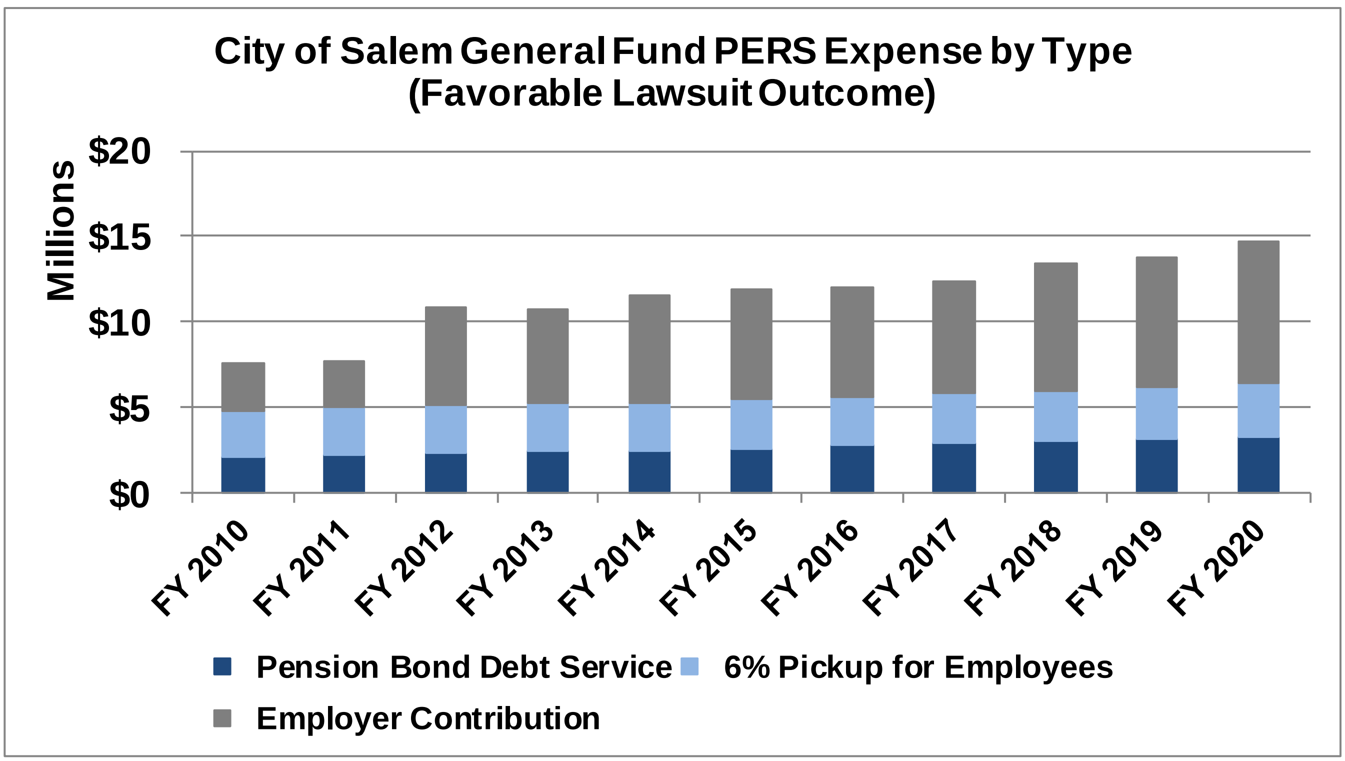


Percent of General Fund Current Revenues Expended - Schedule A
125%
120%
115%
110%
105%
100%
95%
90%
85%
80%
$25
$20
$15
$10
$5
$0
($5)
($10)
($15)
($20)
Millions
FY 2010
FY 2011
FY 2012
FY 2013
FY 2014
FY 2015
FY 2016
FY 2017
FY 2018
FY 2019
FY 2020
Percent of Revenues Expended (left axis)
Ending Working Capital (right axis)



Percent of General Fund Current Revenues Expended - Schedule B
125%
120%
115%
110%
105%
100%
95%
90%
85%
80%
$25
$20
$15
$10
$5
$0
($5)
($10)
($15)
($20)
Millions
FY 2010
FY 2011
FY 2012
FY 2013
FY 2014
FY 2015
FY 2016
FY 2017
FY 2018
FY 2019
FY 2020
Percent of Revenues Expended (left axis)
Ending Working Capital (right axis)


City of Salem General Fund PERS Expense by Type
(Unfavorable Lawsuit Outcome)
Millions
$20
$15
$10
$5
$0
FY 2010
FY 2011
FY 2012
FY 2013
FY 2014
FY 2015
FY 2016
FY 2017
FY 2018
FY 2019
FY 2020
Pension Bond Debt Service
6% Pickup for Employees
Employer Contribution


City of Salem General Fund PERS Expense by Type
(Favorable Lawsuit Outcome)
Millions
$20
$15
$10
$5
$0
FY 2010
FY 2011
FY 2012
FY 2013
FY 2014
FY 2015
FY 2016
FY 2017
FY 2018
FY 2019
FY 2020
Pension Bond Debt Service
6% Pickup for Employees
Employer Contribution

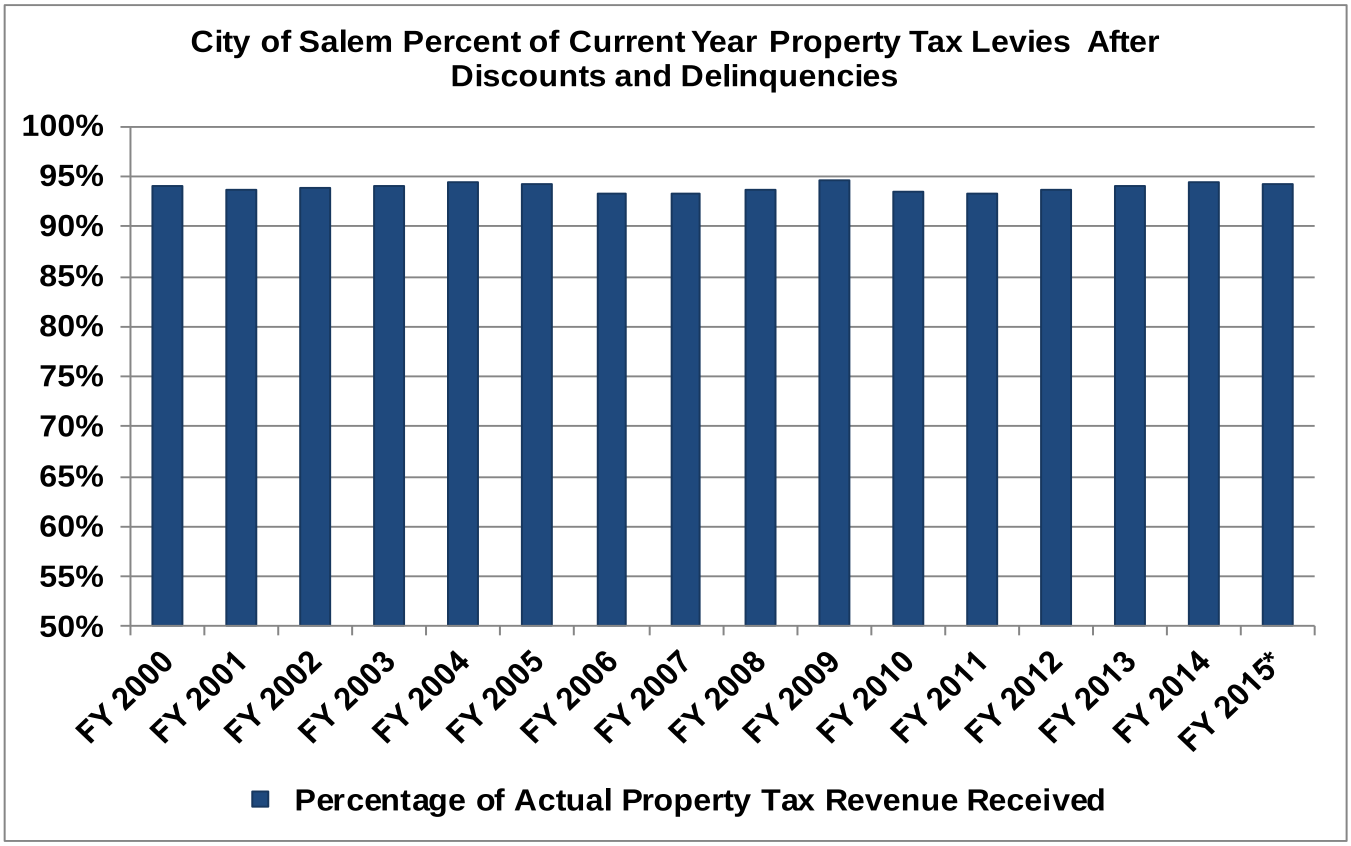
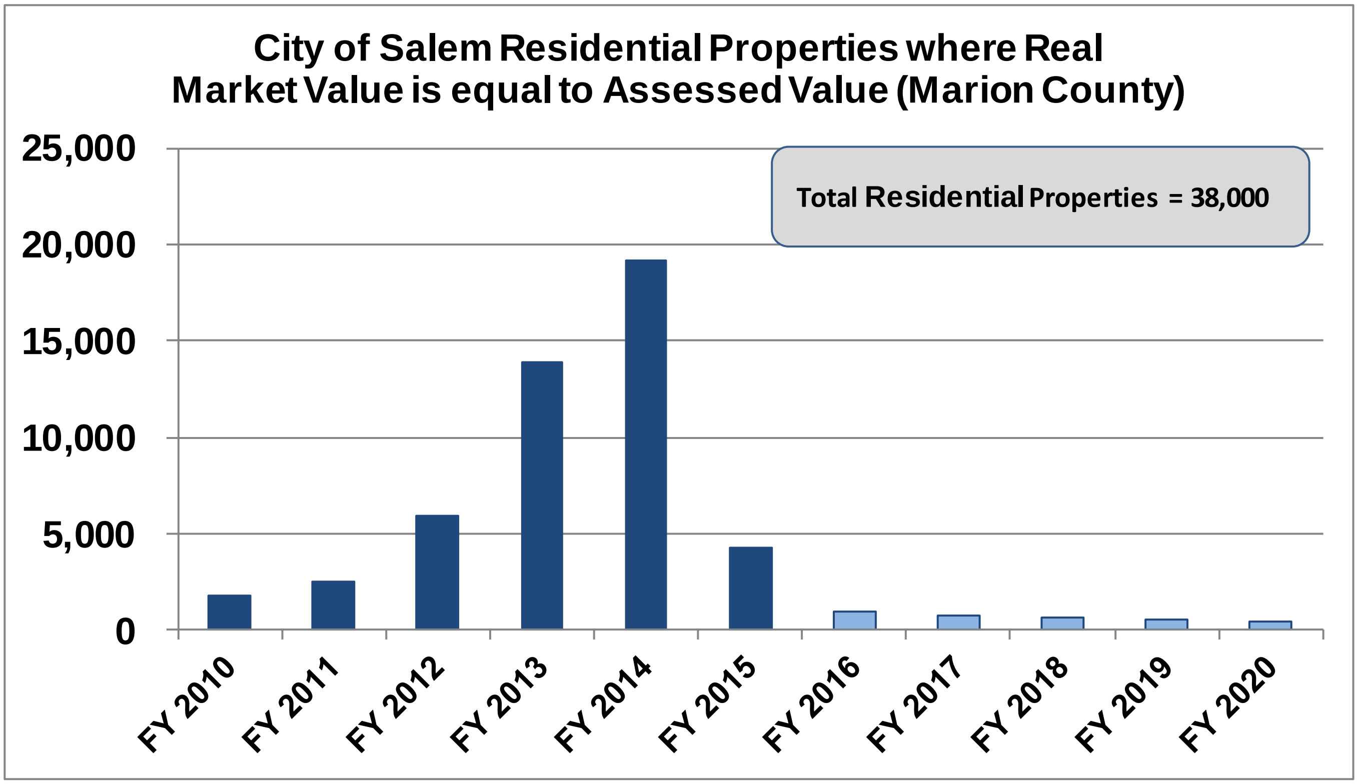


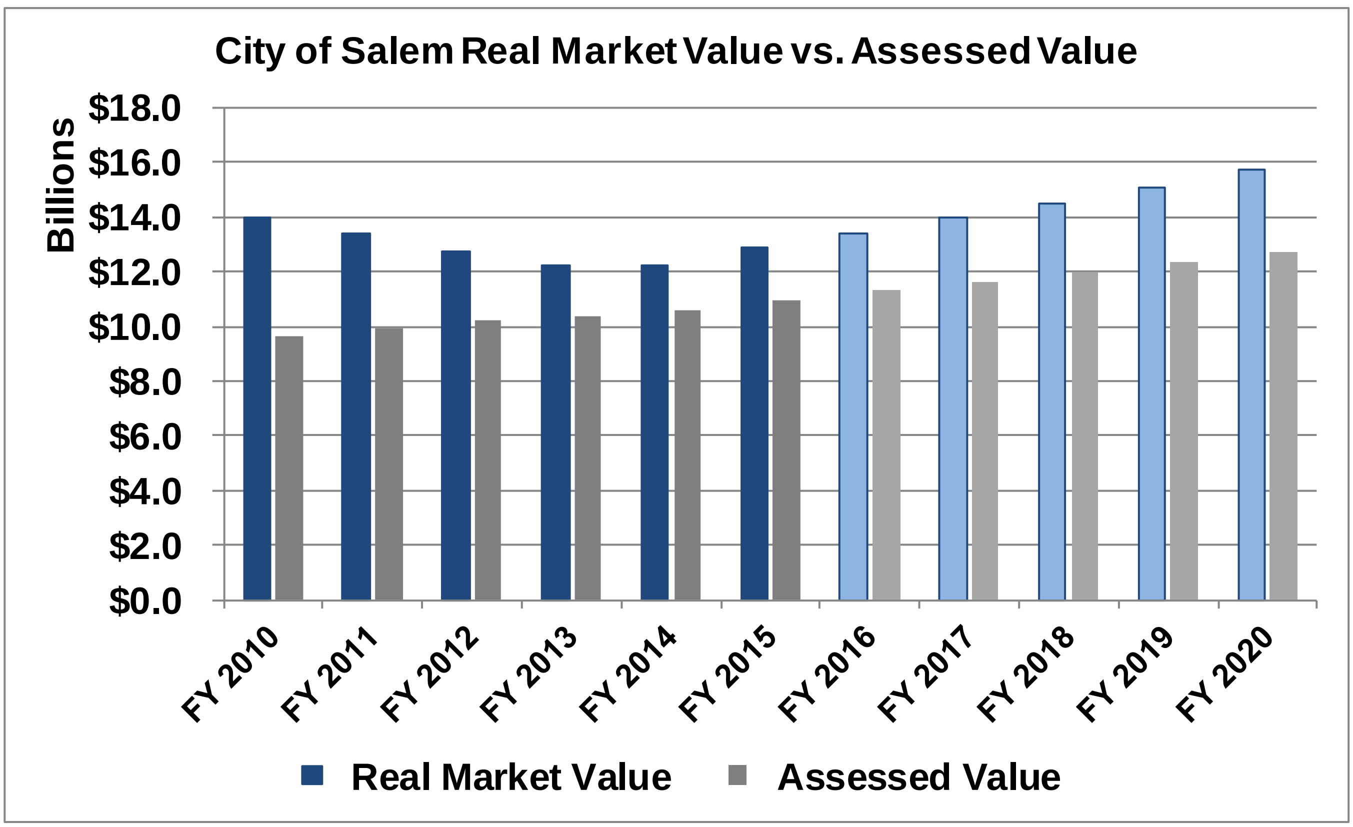
Table 2 - Historic Changes in Property Tax Levies

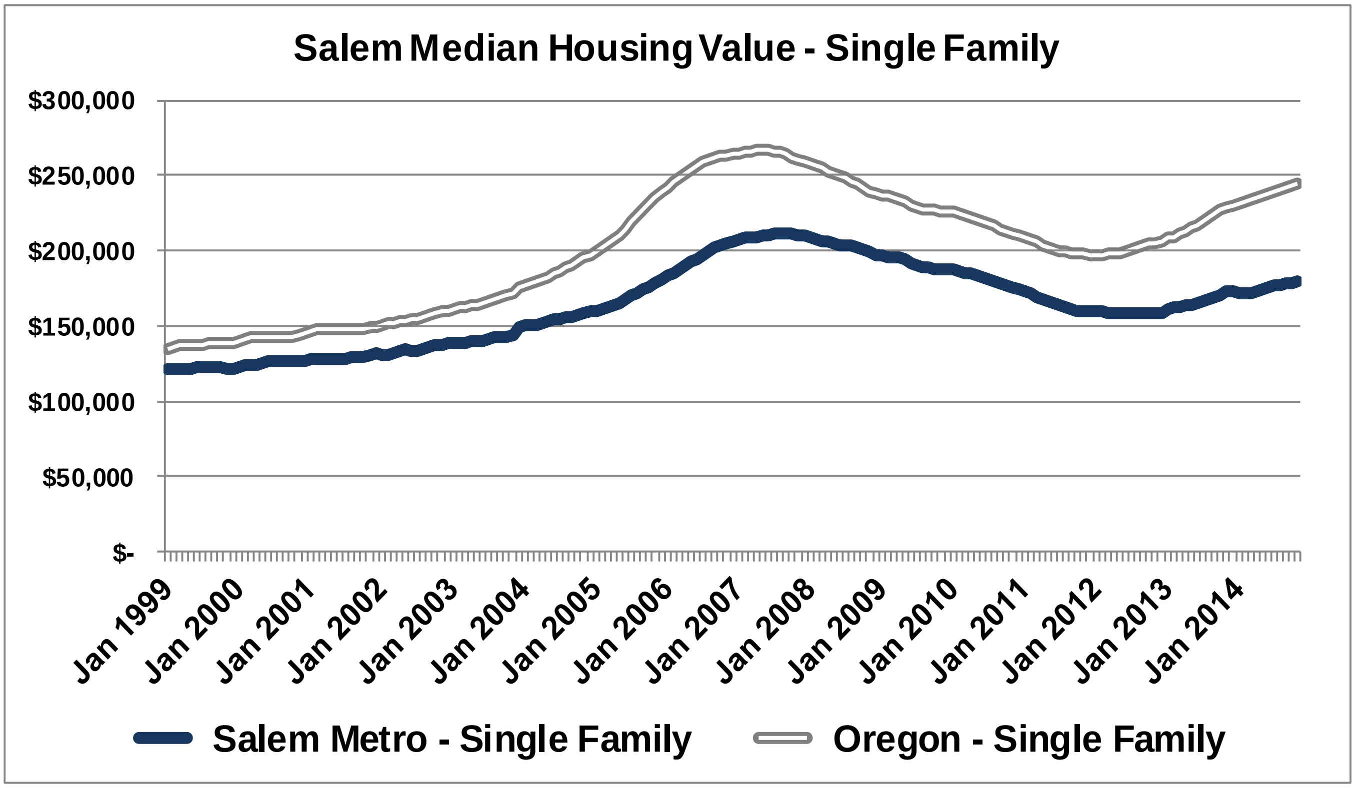
Since the Passage of Measure 50

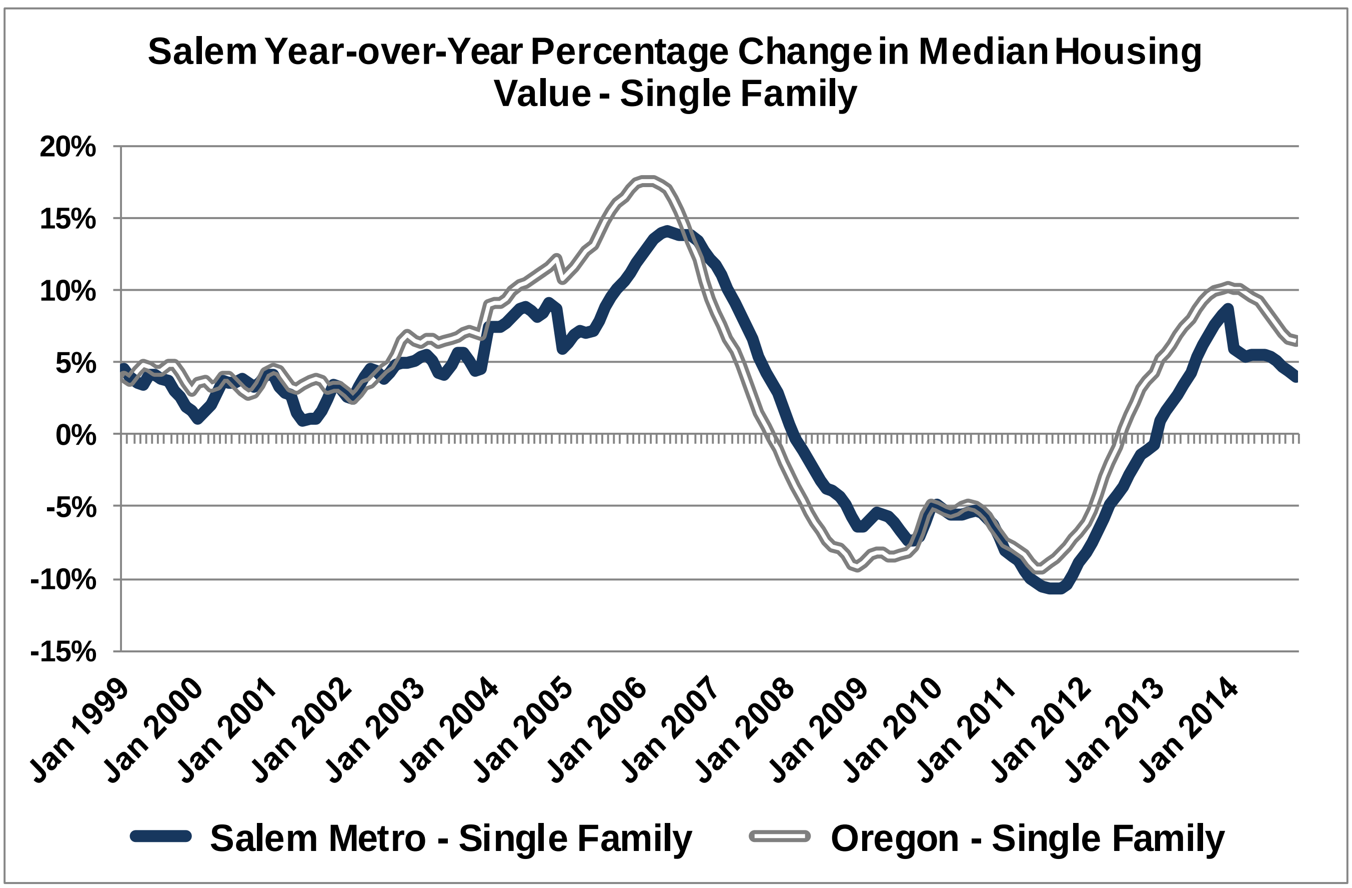
Fiscal Year	Levy	Increase		Actual	Increase
FY 2000	$33,213,490	-		$31,239,718	-
FY 2001	35,000,560	5.4%		32,787,613	5.0%
FY 2002	36,754,990	5.0%		34,517,563	5.3%
FY 2003	38,815,890	5.6%		36,495,536	5.7%
FY 2004	40,564,780	4.5%		38,309,011	5.0%
FY 2005	42,316,782	4.3%		39,880,157	4.1%
FY 2006	44,234,818	4.5%		41,238,540	3.4%
FY 2007	46,747,259	5.7%		43,661,990	5.9%
FY 2008	49,708,758	6.3%		46,619,613	6.8%
FY 2009	51,979,085	4.6%		49,177,277	5.5%
FY 2010	53,837,888	3.6%		50,330,937	2.3%
FY 2011	55,258,868	2.6%		51,547,855	2.4%
FY 2012	56,259,395	1.8%		52,765,171	2.4%
FY 2013	56,224,933	-0.1%		52,860,672	0.2%
FY 2014	57,476,027	2.2%		54,281,270	2.7%
FY 2015*	59,760,532	4.0%		56,377,860	3.9%
FY 2016*	62,343,667	4.3%		58,814,780	4.3%

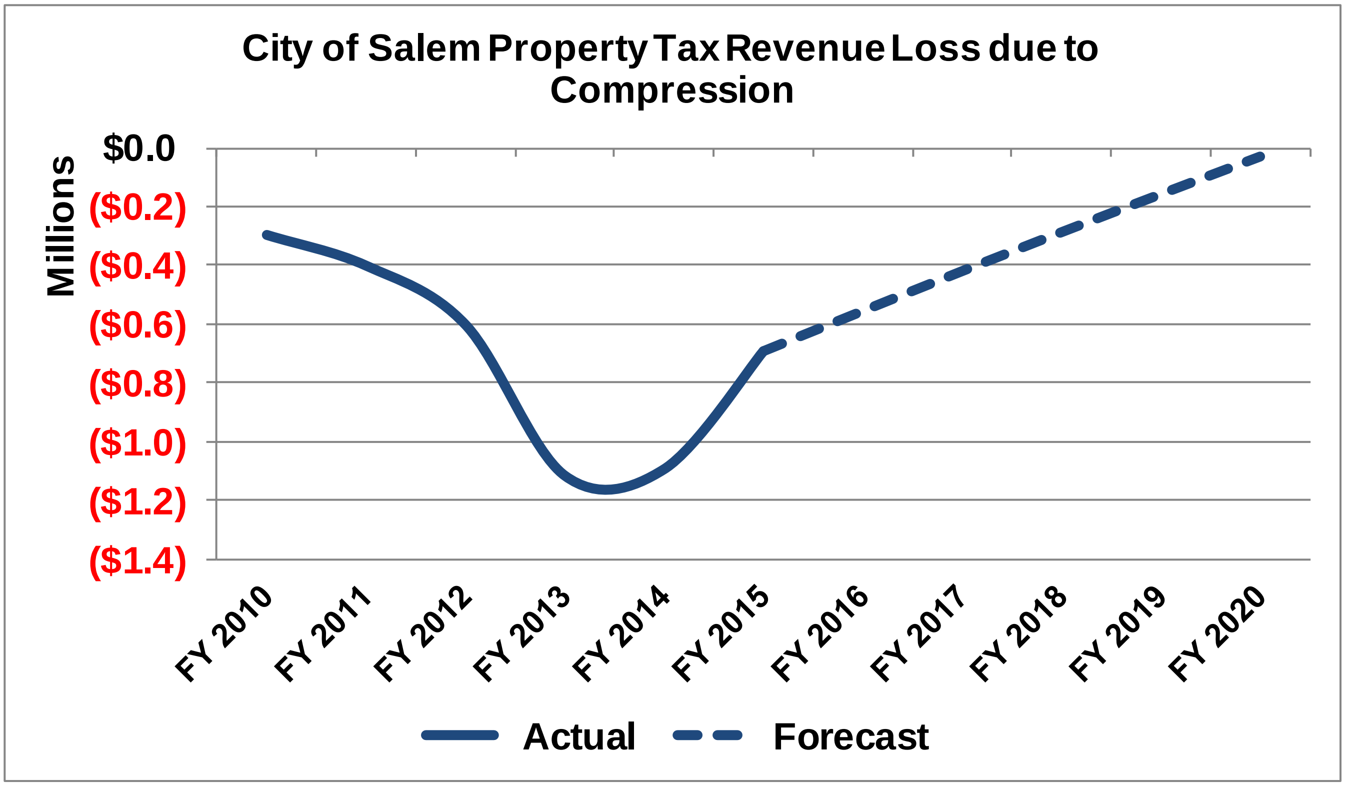
*** Projected**

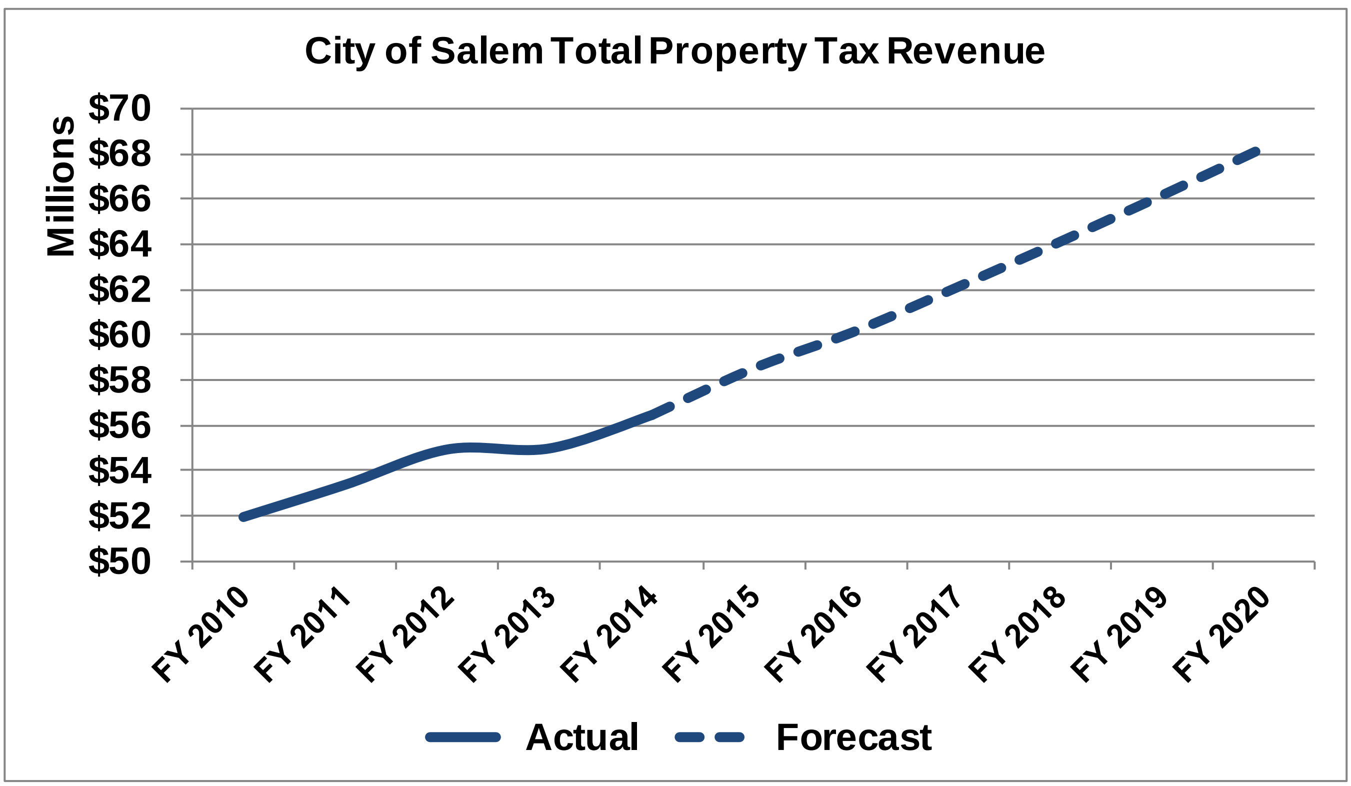

City of Salem Residential Properties where Real Market Value is equal to Assessed Value (Marion County)
Total Residential Properties = 38,000
25,000
20,000
15,000
10,000
5,000
0
FY 2010
FY 2011
FY 2012
FY 2013
FY 2014
FY 2015
FY 2016
FY 2017
FY 2018
FY 2019
FY 2020

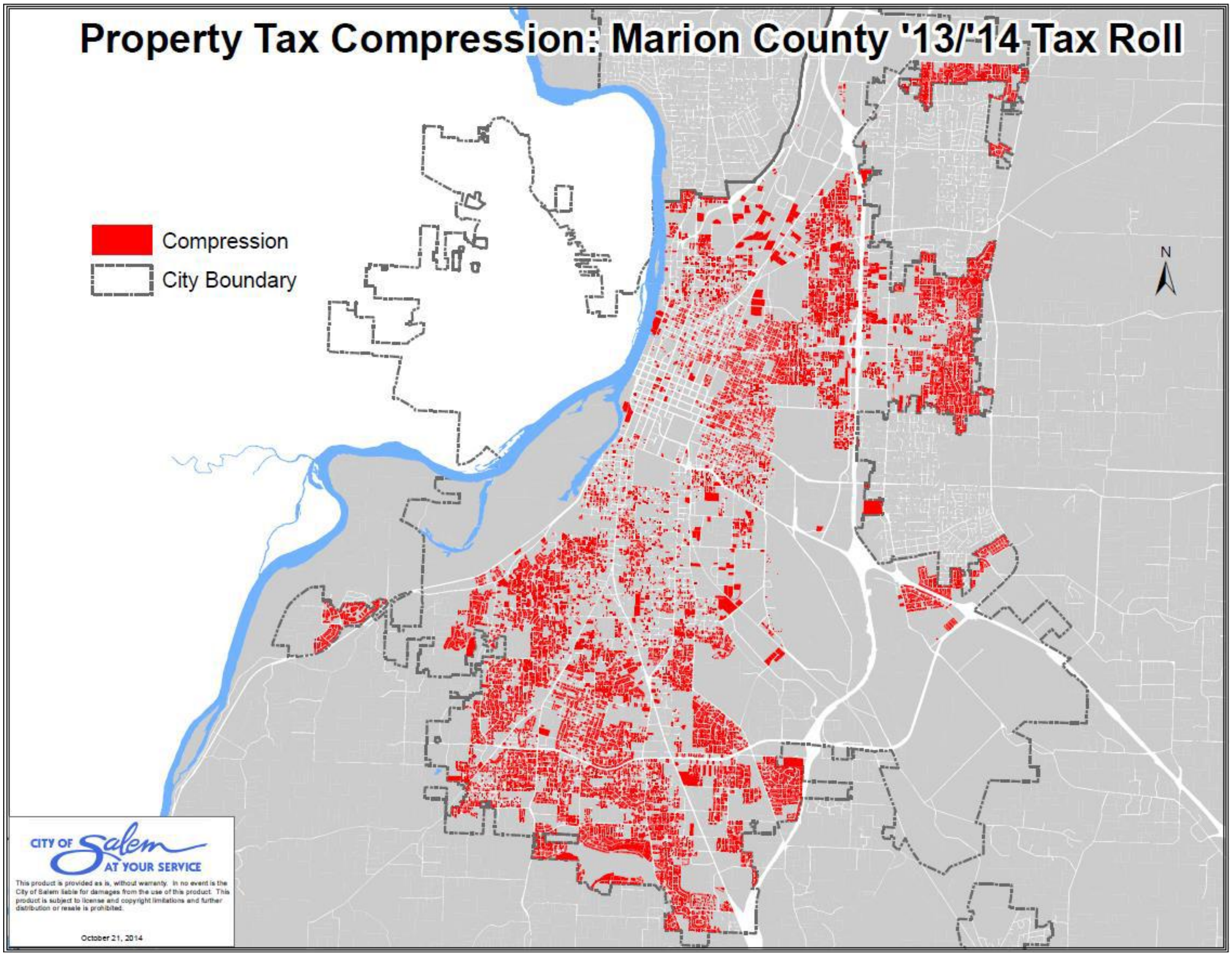

City of Salem Real Market Value vs. Assessed Value
Billions
$18.0
$16.0
$14.0
$12.0
$10.0
$8.0
$6.0
$4.0
$2.0
$0.0
FY 2010
FY 2011
FY 2012
FY 2013
FY 2014
FY 2015
FY 2016
FY 2017
FY 2018
FY 2019
FY 2020
Real Market Value
Assessed Value


Salem Median Housing Value - Single Family
$300,000
$250,000
$200,000
$150,000
$100,000
$50,000
$-
Jan 1999
Jan 2000
Jan 2001
Jan 2002
Jan 2003
Jan 2004
Jan 2005
Jan 2006
Jan 2007
Jan 2008
Jan 2009
Jan 2010
Jan 2011
Jan 2012
Jan 2013
Jan 2014
Salem Metro - Single Family
Oregon - Single Family


Salem Year-over-Year Percentage Change in Median Housing Value - Single Family
20%
15%
10%
5%
0%
-5%
-10%
-15%
Jan 1999
Jan 2000
Jan 2001
Jan 2002
Jan 2003
Jan 2004
Jan 2005
Jan 2006
Jan 2007
Jan 2008
Jan 2009
Jan 2010
Jan 2011
Jan 2012
Jan 2013
Jan 2014
Salem Metro - Single Family
Oregon - Single Family


City of Salem Property Tax Revenue Loss due to Compression
Millions
$0.0
($0.2)
($0.4)
($0.6)
($0.8)
($1.0)
($1.2)
($1.4)
FY 2010
FY 2011
FY 2012
FY 2013
FY 2014
FY 2015
FY 2016
FY 2017
FY 2018
FY 2019
FY 2020
Actual
Forecast


City of Salem Total Property Tax Revenue
Millions
$70
$68
$66
$64
$62
$60
$58
$56
$54
$52
$50
FY 2010
FY 2011
FY 2012
FY 2013
FY 2014
FY 2015
FY 2016
FY 2017
FY 2018
FY 2019
FY 2020
Actual
Forecast


Property Tax Compression: Marion County '13/'14 Tax Roll
Compression
City Boundary
N
CITY OF Salem
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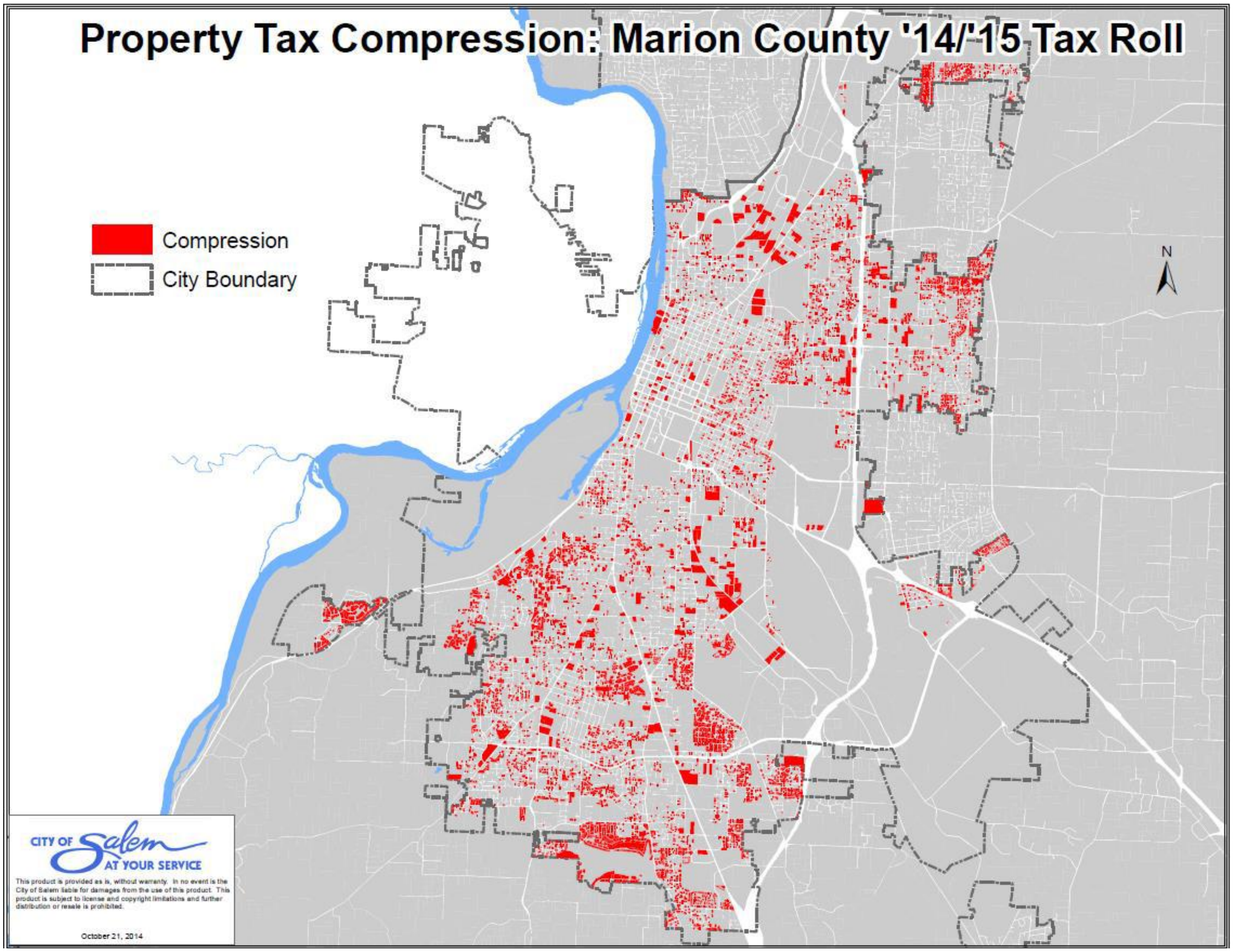
October 21, 2014


Property Tax Compression: Marion County '14/'15 Tax Roll
Compression
City Boundary
N
CITY OF Salem
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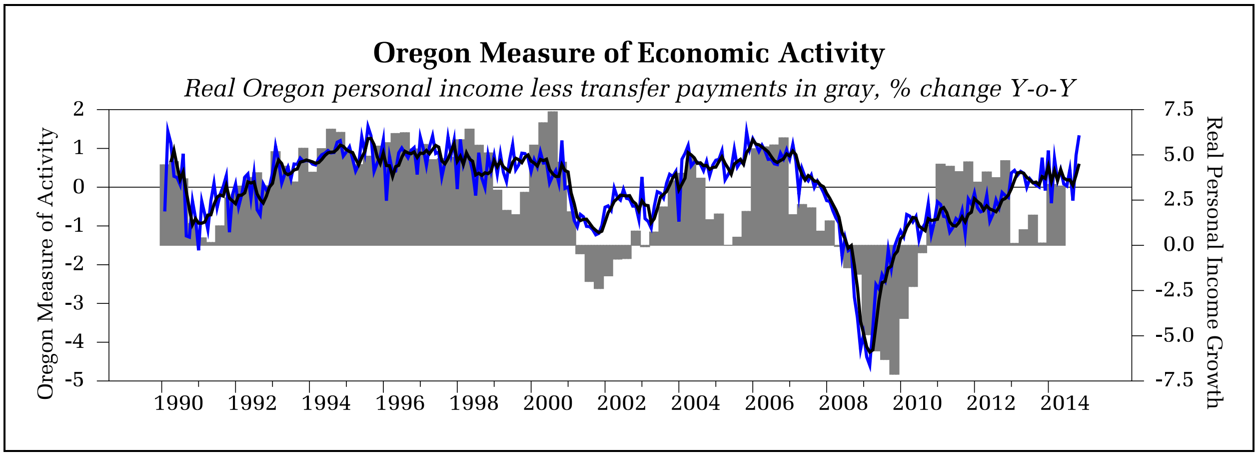
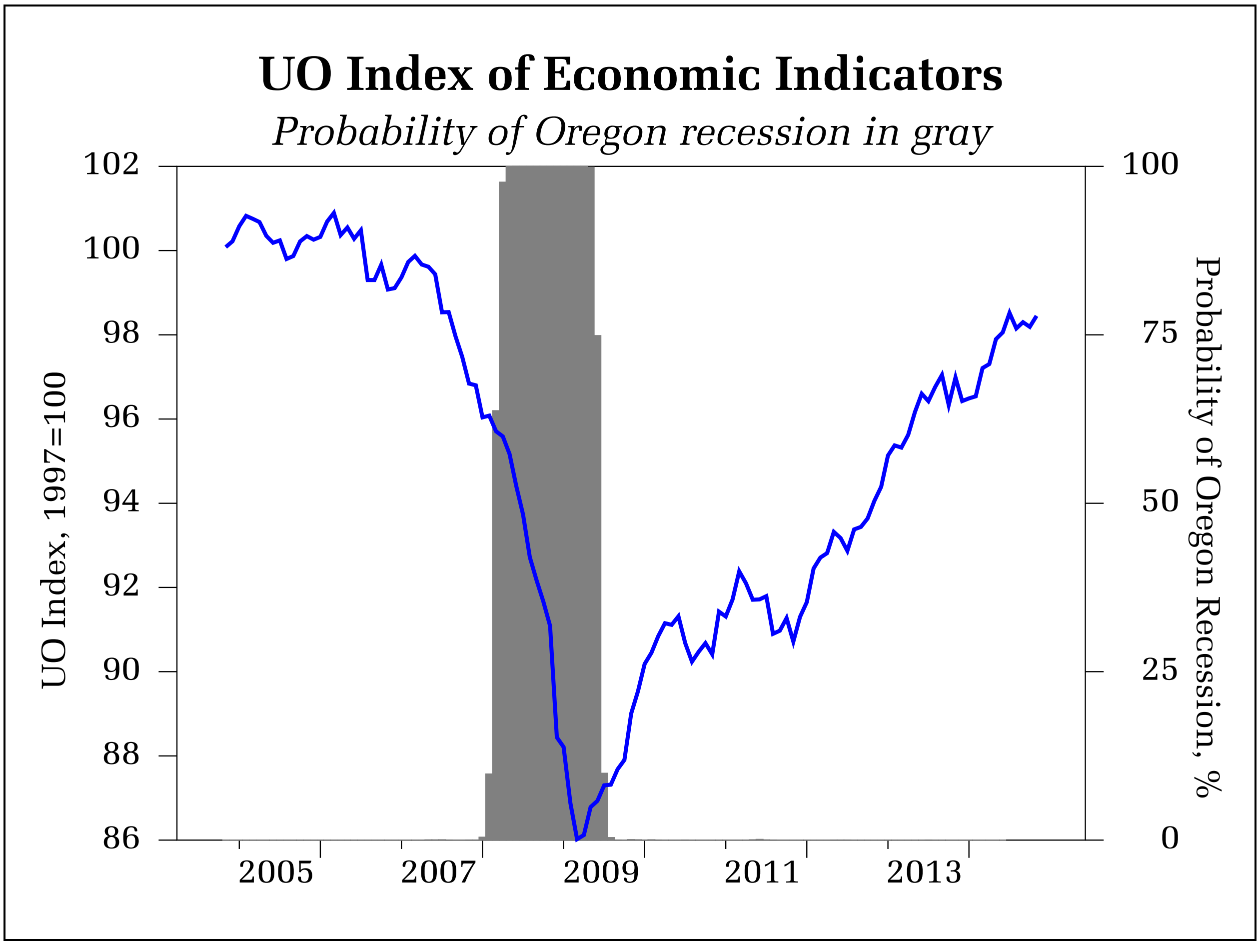
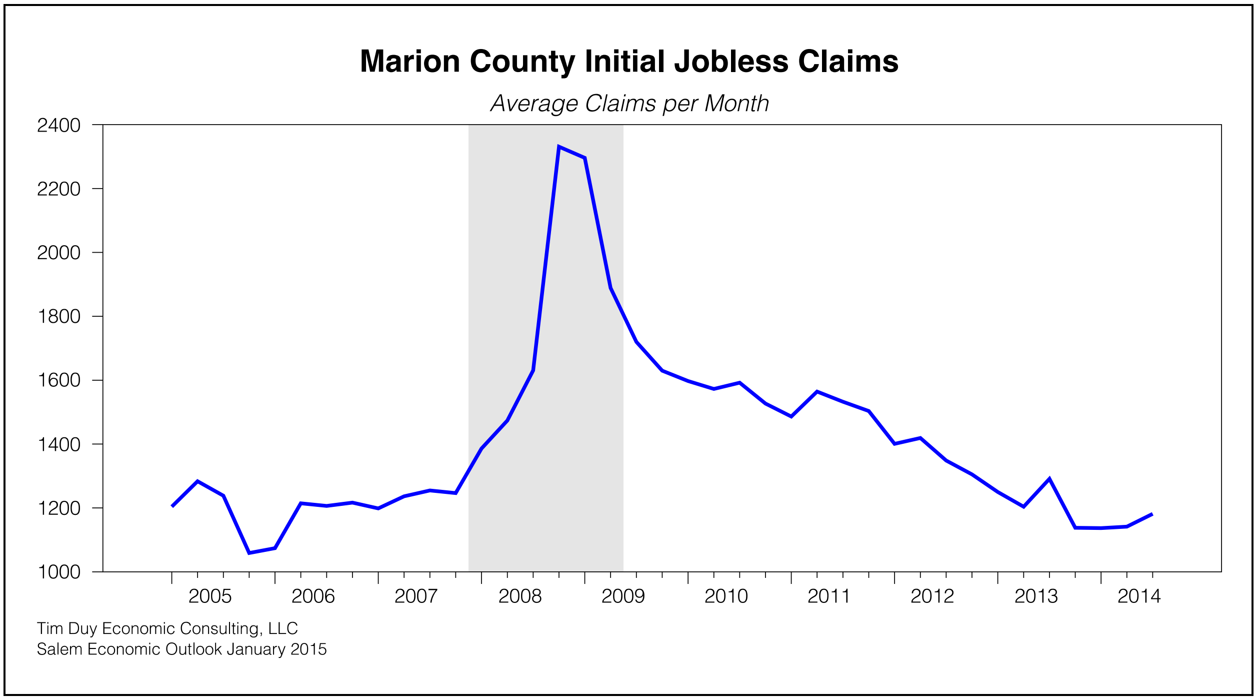
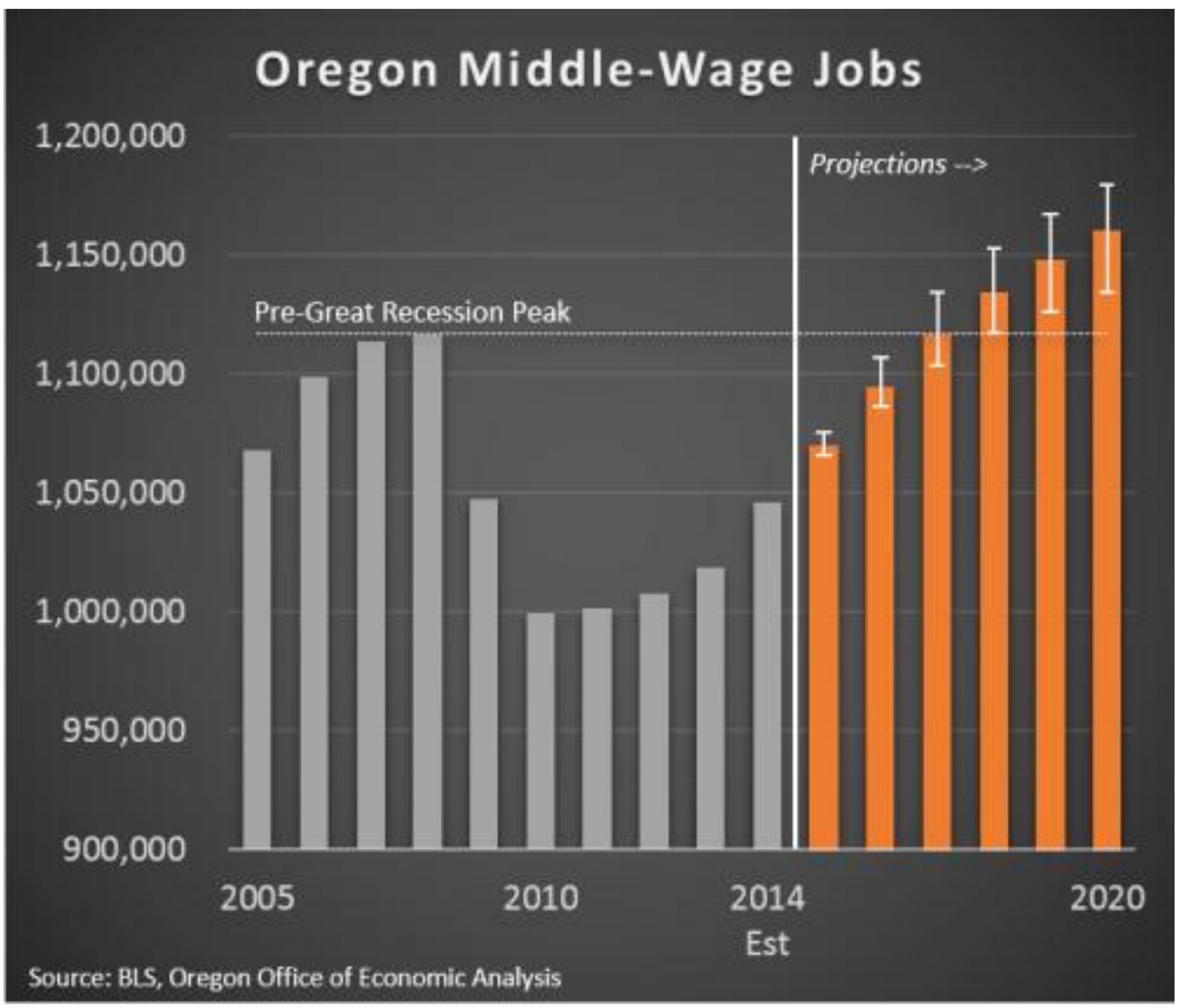
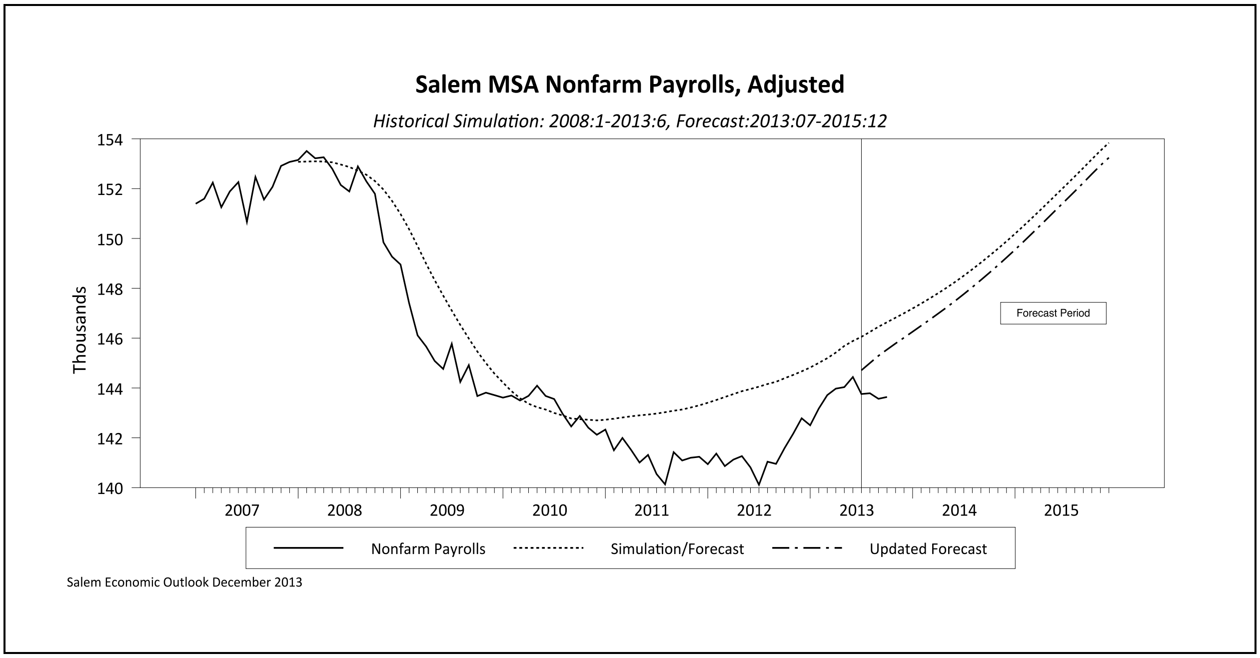

Oregon Measure of Economic Activity
Real Oregon personal income less transfer payments in gray, % change Y-o-Y
Oregon Measure of Activity
Real Personal Income Growth
2
1
0
-1
-2
-3
-4
-5
7.5
5.0
2.5
0.0
-2.5
-5.0
-7.5
1990
1992
1994
1996
1998
2000
2002
2004
2006
2008
2010
2012
2014


UO Index of Economic Indicators
Probability of Oregon recession in gray
UO Index, 1997=100
Probability of Oregon Recession, %
102
100
98
96
94
92
90
88
86
100
75
50
25
0
2005
2007
2009
2011
2013

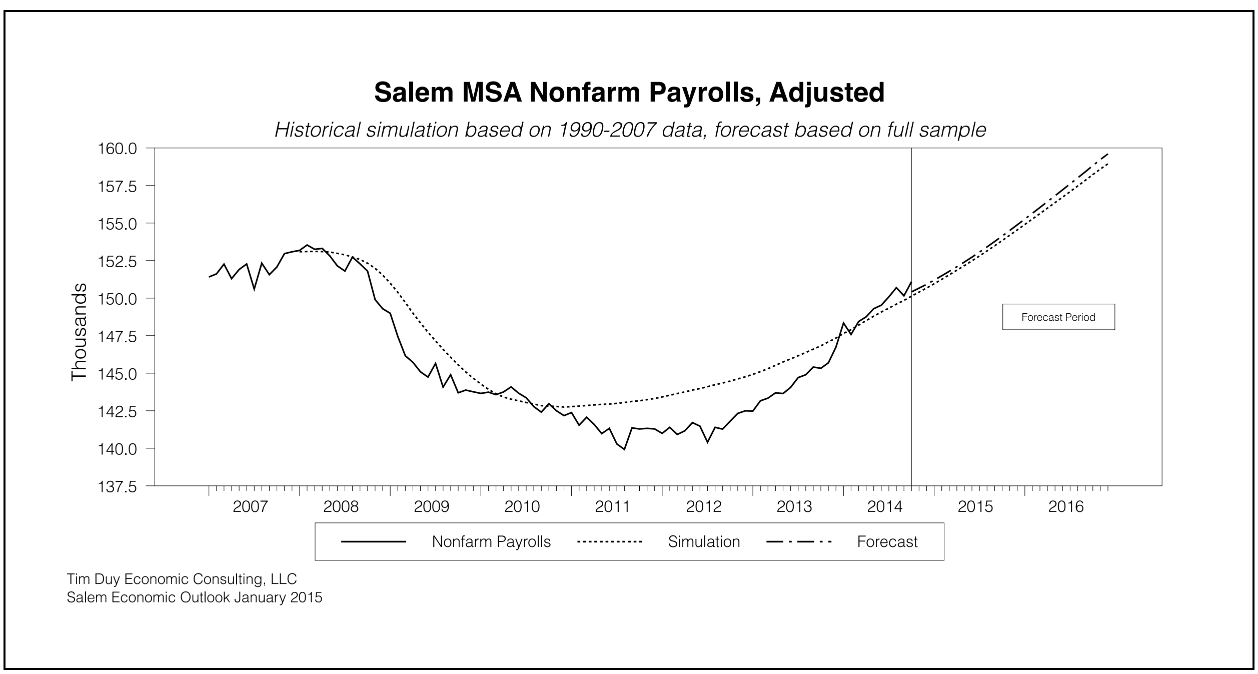

Marion County Initial Jobless Claims
Average Claims per Month
2400
2200
2000
1800
1600
1400
1200
1000
2005
2006
2007
2008
2009
2010
2011
2012
2013
2014
Tim Duy Economic Consulting, LLC
Salem Economic Outlook January 2015


Oregon Middle-Wage Jobs
1,200,000
1,150,000
1,100,000
1,050,000
1,000,000
950,000
900,000
Projections -->
Pre-Great Recession Peak
2005
2010
2014
Est
2020
Source: BLS, Oregon Office of Economic Analysis

Salem Job Forecast – Last Year



Salem Job Forecast



Salem Area Business Index