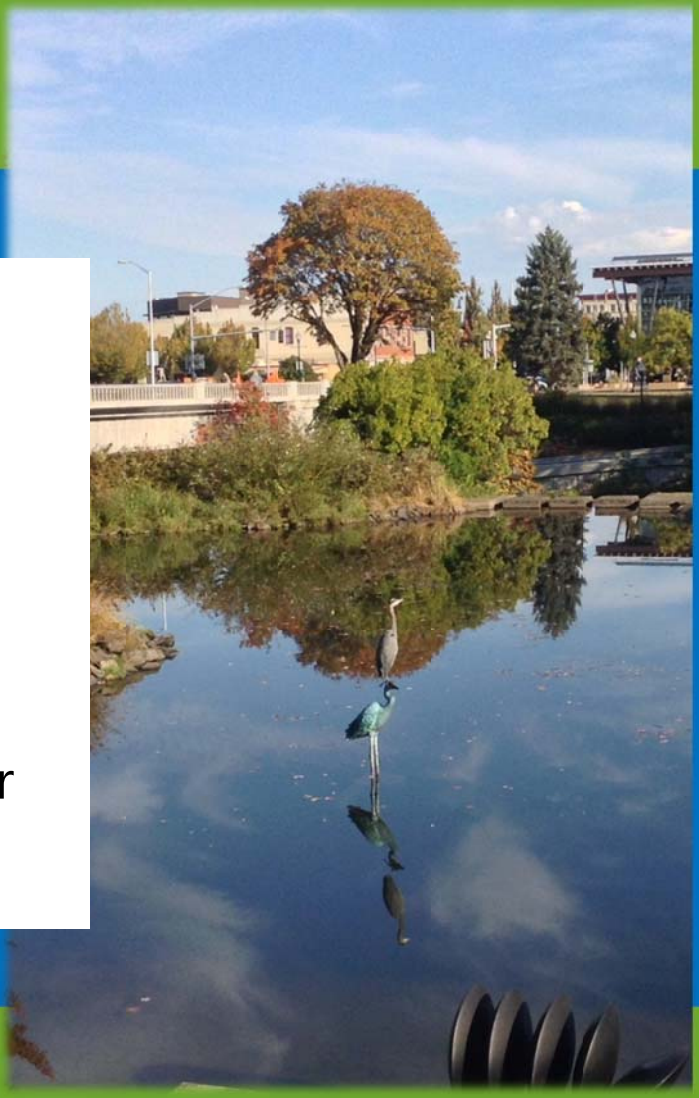
FIVE-YEAR FORECAST

Fiscal Year 2016-17 through 2020-21



General Fund

Transportation Services Fund

Water and Sewer Fund

City of Salem, OREGON

CITY OF SALEM, OREGON

Five-Year Financial Forecasts

Fiscal Year 2016-17 THROUGH 2020-21

GENERAL FUND

TRANSPORTATION SERVICES FUND

UTILITY FUND

(Formerly Water and Sewer)

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December 9, 2015

CITY OF Salem
AT YOUR SERVICE

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WHY WE FORECAST

The financial forecasts presented in this document represent one of many tools employed by staff to support the provision of services in the community through sound management of the City's financial resources. City staff access a variety of costing models, plans, and analyses, and use assumptions to project anticipated Citywide revenues and expenditures for the current year and the five-year forecast period. The City's annual budget is constructed utilizing all of these tools. The budget serves as a policy guide for resource allocation and operations, a time-limited financial plan, and a means to convey detailed information about municipal services.

This document highlights three of the forecasts prepared by City staff – General Fund, Transportation Services Fund, and the Utility Fund (previously named Water and Sewer Fund). The forecasts are developed within the framework of City Council goals, fiscal responsibility, and City services sustainability.

FORECAST RESULTS

The forecast for the General Fund continues to demonstrate a structural imbalance between current, available revenue and the cost of providing services. Easing this imbalance over the forecast period may require new, additional revenue to prevent service reductions.

The Transportation Services Fund forecast displays the positive result of implementing a streetlight fee and relieving the fund of the cost of operating and maintaining the streetlight system. With this cost relief and the ongoing transfer of $400,000 of General Fund franchise fee revenue, the imbalance between current revenues and the expense of transportation services is mitigated to a loss of only $0.66 million in fund balance during the forecast period.

Consistent rate increases are modeled in the forecast for the Utility Fund and provide sufficient resources to operate and maintain the water, wastewater, and stormwater utility systems over the five-year period. In addition, the forecast demonstrates increased funding for capital improvements that would otherwise require the sale of revenue bonds to support.

HOW TO USE THIS DOCUMENT

Each fund forecast has its own section, which includes:

- a brief summary and additional information about forecast results,
- a schedule demonstrating revenue and expenditure assumptions for the five-year forecast period,
- an explanation of potential corrective action,
- 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

November 2015

Summary of Findings

National Summary

Aggregate measures of economic activity (GDP) lost some momentum in the second half of 2015 as the drag from the foreign sector and firms reducing inventories weighed on activity. These factors, as well as a decline in oil and gas drilling in response to lower oil prices, slowed activity in the manufacturing sector, but the much larger service sector continues to experience a solid pace of gains. Final sales to domestic purchasers, a measure of underlying activity, maintained the acceleration to the nearly 3% growth level that occurred during 2014. Overall, the domestic economy is solid.

Job growth slowed as 2015 progressed, but remained sufficiently strong to sustain continued improvement in most measures of labor underutilization. The unemployment rate fell to 5%, which is near the Federal Reserve's estimates of the long-term rate of unemployment. There is increasing evidence that labor market slack is near to being eliminated. Wage growth finally accelerated during at the end of the year; further growth is likely as the unemployment rate pushes below 5%. Inflation remains below the Federal Reserve's target of 2%.

The peak of growth rates for this cycle likely occurred in late 2014 and early 2015. The productive resources in the US are growing at near a 2% annual rate (compared to estimates as high as 4-4.5% in the late 1990s), curtailed by slow labor force and productivity growth. The sustained period of above trend growth witnessed in 2014 and 2015 likely reduced excess slack in the economy enough that Federal Reserve policymakers believe they need to see growth ease back to 2% to prevent overshooting of their inflation target in the medium term. Federal Reserve regional presidents have noted that job growth of 150,000 per month remains sufficient to reduce the unemployment rate and that 100,000 per month would be consistent with a stable unemployment rate. These are reasonable estimates; the Federal Reserve would probably like to see the latter number by the end of 2016. That said, the Federal Reserve anticipates a very gradual path of rate hikes that should not derail the expansion in 2016. Due to lags in the monetary policy process, it is likely two years or longer before policy would be tight enough to trigger a recession.

Oregon Summary

The Oregon economy sustained the gains experienced during 2014. Job growth remains well above the US pace as is typical for economic expansions in Oregon. Most Oregon indicators continue to improve. Labor market data has been somewhat challenging to read this year. The unemployment rate fell sharply and then rose, temporary services employment fell sharply, and the economy supposedly lost 5,300 jobs in October. These examples point to problems with the construction of the data; they are inconsistent with other measures of activity (such as initial unemployment claims and income tax withholdings collected by the state). Expect revisions to smooth out some of these data issues. 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

Regionally, the economy remained strong in 2015. Job growth was largely in-line with my expectations. Job growth continues to be fairly widespread. The only sector that saw significant job losses (as of September) was financial activities. Low levels of initial unemployment claims suggest the labor market is solid and that job gains are likely to continue. Like many parts of Oregon, tourism and travel activity has rebounded as indicated by rapid growth in transient room tax collections. Solid waste collection rose. Residential housing sales are very strong, but this strength has not translated into a large increase in new residential construction. This is probably the result of a combination of low demand from first time homeowners, tighter mortgage underwriting conditions, and lack of large tracks of land for low-cost housing construction. Home prices continue to rise. The Salem Area Business Index (data only available through 2Q15) indicates that the regional expansion is likely to continue. The Salem Measure of Economic Activity indicates that regional growth accelerated to above normal in 2015.

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 slower job growth in Oregon compared to the current state forecast, although both estimates are bouncing around 3%. I expect Oregon job growth of 2.9% 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 effectively the same as this comparator, suggesting that the relationship between Salem and Oregon job growth is the same as prior to the recession. 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). Note that the actual percentage changes realized are sensitive to employment data revisions. For instance, the December 2014 Salem job number was revised upward, lowering the base from which the percentage growth was calculated. The level forecast of 153.8k made last year for this September, however, was remarkably accurate.

Nonfarm Payroll Growth Forecasts
December to December % Change

	OR	OR (OEA)*	Salem MSA
2015 (last)	3.2%	2.8%	2.6%
2015 (current)	3.2%	3.3%	1.8%
2016	2.9%	3.2%	3.2%

Local Revenue Implications

Local economic growth remains solid and likely to support revenue growth consistent with staff's expectations. As we enter a more mature stage of the business cycle, declining levels of slack may induce additional business investment (note, for example, the recent purchase of a long-dormant semiconductor plant in Eugene). Also, continued job gains and high housing demand should push up residential investment (note though that the pace of this rebound has been slow nationwide). Both of these factors pose some upside risk to revenue. Due, however, to lags between initial construction plans and tax collections, any upside benefits would likely be realized beyond the current fiscal year. Note that rising labor costs nationwide will likely be reflected locally as well, which could push employee and contractor costs higher than currently expected.

On a longer-term basis, note forecasts of slowing statewide job growth beyond 2016 as the economy settles in to a full-employment equilibrium. Job growth then is limited by an aging population. Current slow productivity growth also limits expected growth. These factors may limit the growth of local tax bases beyond 2016. Finally, the Federal Reserve is expected to raise interest rates, with the first hike likely coming in December of 2015. Typically, the first rate hike marks the beginning of the end for the economic expansion as the Federal Reserve often over-tightens monetary policy. However, as noted earlier, this is likely a longer-run concern, on the order of two to three years.

Note: *OR* in the table on page 6 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.

CITY OF Salem
AT YOUR SERVICE

GENERAL FUND

FIVE-YEAR FINANCIAL FORECAST

FISCAL YEARS 2016-17 THROUGH 2020-21

PREPARED BY:

CITY MANAGER'S OFFICE

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GENERAL FUND SUMMARY

As noted by Dr. Tim Duy in his annual analysis, Salem's economic outlook continues to gradually improve. This is evident in the General Fund with growing property tax receipts resulting from increased property values. Despite this improvement and consistent with the prior year forecast, the updated view of the General Fund for the five years beginning in FY 2016-17 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 escalating costs and address required advancements in technology as well as needed maintenance and improvements to aging facilities and infrastructure.

The City's General Fund supports operations in the areas of public safety, planning, code enforcement, public library, municipal court, parks and recreation, urban development, and the central services supporting these direct services. The City manages the provision of these services within the goal of good governance and responsible stewardship of the public's resources.

Each year with the best information available at the time, the City develops a forecast for the General Fund. A five-year forecast is essentially a planning tool to aid the City Council and Salem's executive management team in maintaining consistent service delivery to the community within available resources. Over the past eight years in response to dire economic conditions, the City reduced its General Fund workforce by 11 percent, representing 82 full-time equivalent positions, and re-organized several departments resulting in a healthier fund balance and continuity of essential City services. While this new forecast is not overshadowed by the urgency of a recession, it is evidence of the continued structural imbalance between the proposed cost of General Fund services and anticipated revenues. This imbalance is the key message of the General Fund five-year forecast and includes:

- Current revenue growth does not keep pace with the growth in current operations costs.

- Growth in property tax revenue year-over-year ranges between 3.5 percent and 3 percent, still below historical levels of up to 5.5 percent. Lower-than-predicted compression losses beginning in FY 2014-15 are expected to continue, which improves the City's forecast for this essential resource.

- 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.

- For years two through five of the forecast, PERS rates are assumed to exceed the current PERS Advisory Board's recommended rate as the result of current status of investment earnings.

- The General Fund's beginning working capital will allow us to forecast another year of stable operations in FY 2016-17 while providing time to plan a response to the result of the forecast for the succeeding four years.

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 every revenue type, the forecasted growth 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.

Presentation of the General Fund forecast appears in one schedule indicative of the result of research, evaluation, and analysis of funding sources aligned with the proposed cost of City services for five years. The forecast base year, FY 2016-17, includes currently available information on revenues received as of October 2015, 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 market adjustments or cost-of-living increases for all represented work units, as well as non-represented staff; estimated PERS rate escalations in FY 2017-18 and FY 2019-20; and health benefits rate increases aligning with actuarial assessments. Most materials and services category items (professional services, supplies, equipment) have little or no inflation during the five-year period.

In addition, the forecast includes the addition of two police officer positions to augment the Downtown Bike Unit. The forecast assumes continuation of the $400,000 transfer of refuse franchise fee revenue to the Transportation Services Fund to support sidewalk and street maintenance, and it supports the full cost of operating and maintaining the new parking technology installation in the Capitol Mall area and reflects revenue estimates associated with its use.

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

FORECAST – General Fund Current Service Level

The City's annual financial forecast provides continuation of current service levels with assumptions for inflationary factors to increase service costs and estimates for revenue growth. The forecast demonstrates a level of projected increase in revenues lower than the anticipated growth in expenditures (further illustrated in General Fund Table 1). It also displays savings derived from unspent fund contingencies and a level of naturally occurring savings from employee attrition and other unanticipated economies. This level of savings is anticipated at 1 percent.

The assumptions in the forecast lead to the depletion of beginning working capital by the conclusion of the third year of the forecast to $15.46 million, which is below the minimum in the City's financial policies (further illustrated in General Fund Table 2). By the fifth year of the forecast, the assumptions demonstrate expenditures exceeding total resources.

FORECAST– General Fund Through FY 2021

(Values in Millions)	FY 15-16 Budget	FY 15-16 Projected	FY 16-17 Forecast	FY 17-18 Forecast	FY 18-19 Forecast	FY 19-20 Forecast	FY 20-21 Forecast
RESOURCES							
Beginning Working Capital	$ 21.98	$ 24.94	$ 23.45	$ 23.33	$ 19.52	$ 15.46	$ 7.85
Current Year Revenues	112.73	113.57	110.93	113.93	117.13	120.24	123.52
TOTAL RESOURCES	**$134.71**	**$138.52**	**$134.38**	**$137.27**	**$136.66**	**$135.6 9**	**$131.36**
EXPENDITURES							
Base Expenditures	$122.67	$115.06	$114.45	$121.21	$124.71	$131.42	$135.03
Less:							
Unspent Contingencies			(2.30)	(2.30)	(2.30)	(2.30)	(2.30)
Estimated Expense Savings			(1.10)	(1.17)	(1.21)	(1.27)	(1.31)
TOTAL NET EXPENDITURES	**$122.67**	**$115.06**	**$111.05**	**$117.74**	**$121.20**	**$127.8 5**	**$131.42**
Estimated Ending Working Capital	**$ 12.04**	**$ 23.45**	**$ 23.33**	**$ 19.52**	**$ 15.46**	**$ 7.85**	**$ (0.06)**

It is important to note that the FY 15-16 Projected column includes proceeds from a loan for implementation of new parking meter technology in the Capitol Mall area. Costs associated with the implementation (approximately $1.5 million) are included in the FY 15-16 Projected column as well. Revenue and expenditures associated with short term ($5.077 million in FY 15-16) loans to the Urban Renewal Agency are removed from all years of the forecast. Therefore, the FY 15-16 Projected to FY 16-17 Forecast decrease in Base Expenditures is caused by the absence of the parking project and short-term loan costs.

General Fund Table 1 – Year-to-Year Growth in Forecast Revenues and Expenditures

	FY 16-17 to FY 17-18	FY 17-18 to FY 18-19	FY 18-19 to FY 19-20	FY 19-20 to FY 20-21
All Current Revenues	2.71%	2.81%	2.65%	2.73%
Net Expenditures	**6.03%**	2.94%	**5.48%**	2.80%

Bold text in the above table is indicative of a PERS rate adjustment year.

General Fund Table 2 – Forecast Fund Balance Policy Comparison

(Values in Millions)	FY 16-17	FY 17-18	FY 18-19	FY 19-20	FY 20-21
Policy	$16.64	$17.09	$17.57	$18.04	$18.53
Forecast Result	$23.33	$19.52	$15.46	$ 7.85	$(0.06)

FORECAST – How to Correct the Imbalance

Absent new funding sources or substantial growth in all General Fund revenues, service level reductions will be necessary to prevent the result demonstrated in General Fund Table 2, which equates to full depletion of General Fund working capital by FY 2020-21. Reductions of $7 million dollars with the cumulative impact of a $16.5 million decrease in costs over five years would be necessary to correct the decline in fund balance and align it with City Council policy. A reduction scenario and its impact are demonstrated in Table 3 below. The cumulative effect of the reductions is working capital restored to $16.44 million as compared to -$0.06 at the end of the forecast period.

General Fund Table 3 – Correcting the Imbalance with Expenditure Reductions

(Values in Millions)	FY 16-17	FY 17-18	FY 18-19	FY 19-20	FY 20-21
Ending Working Capital in Forecast	$ 23.33	$ 19.52	$ 15.46	$ 7.85	**$ (0.06)**
Cumulative Reductions		$ (1.50)	$ (3.00)	$ (5.00)	$ (7.00)
Permanent reductions of $1.5 M each forecast year 2 – 3 and $2.0 M each forecast year 4 – 5. No reduction year 1.					
Ending Working Capital – Result of Reductions		$ 21.02	$ 19.96	$ 17.35	**$ 16.44**

To avoid the reduction scenario illustrated above, additional or new sources of revenue would be required. Excluding property tax as it is positively affected by new growth, but statutorily limited to a three percent annual increase of assessed value, all other revenue sources in the General Fund would need to increase by approximately 8 percent annually above current estimates in the forecast. General Fund Table 4 illustrates this concept.

General Fund Table 4 – Correcting the Imbalance with Additional Revenues

(Values in Millions)	FY 16-17	FY 17-18	FY 18-19	FY 19-20	FY 20-21
Current Revenue (excluding property tax)	$ 47.79	$ 48.79	$ 49.93	$ 50.94	$ 52.14
Year-to-Year change to current revenue		2.1%	2.3%	2.0%	2.4%
Add'l Revenue to Correct Imbalance		$ 4.00	$ 4.00	$ 4.00	$ 4.00
Percent increase over current estimate		8.2%	8.01%	7.85%	7.67%

REVENUE FORECAST

The revenue estimates presented in this document rely on analysis of county property tax records, adjustments in utility rates or costs, local building activity, legislated changes, recent historical trends, and other economic drivers. The forecast uses available revenue sources augmented with assumptions for growth in all revenue categories with the exception of grants and interest income as fund balance declines.

The range of growth assumptions includes:

- The cyclical effect of legislative sessions on parking revenue (4.6 percent increase during a full legislative session);
- The potential impact of local taxing efforts and other formula components, plus indication of declining or plateauing consumption for state shared revenues (1.7 to 2.3 percent increases for the category over the forecast period);
- The assumption of continued steady growth on an increased base following a burst of activity in early FY 2015-16 for planning-related fees (3 percent for each year of the forecast); and
- A combination of factors influencing fine and penalty revenue including:
    - Parking fines at 1.5 percent on an increased base (and assuming a mitigating impact from the new Capitol Mall parking technology);
    - A steady 3 percent increase each year in court fine revenue with the offsetting concern of capacity for the continuum of services – police, legal, and the court; and
    - An anticipated decline in photo red light revenues absent the need for future installations.

General Fund Table 5	Fiscal Year				
Revenue By Source	**2016-17**	**2017-18**	**2018-19**	**2019-20**	**2020-21**
Property Taxes	$ 63.14	$ 65.14	$ 67.20	$ 69.30	$ 71.38
Franchise Fees	16.71	16.91	17.14	17.37	17.62
State Shared Revenue	4.99	5.07	5.19	5.31	5.43
Fines, Penalties and Forfeitures	2.94	3.00	3.06	3.12	3.18
Fees for Services, Other Fees	3.26	3.34	3.42	3.50	3.59
Rents, Permits, Licenses	3.10	3.12	3.24	3.16	3.28
Indirect Cost Allocation/Internal Chgs	12.99	13.44	13.90	14.39	14.87
Other Agencies, Grants	2.14	2.19	2.23	2.29	2.33
Transfers from Other Funds	1.20	1.24	1.28	1.33	1.36
Interest Income	.20	.20	.20	.20	.20
Miscellaneous	.27	.27	.27	.27	.27
Total Current Revenue	$110.93	$113.93	$117.13	$120.24	$123.52

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 and estimates for future years, 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. The base forecast budget – FY 2016-17 – and the four succeeding years include minimal increase to expenses in the materials and services category.

General Fund Table 6 summarizes the five-year expenditure forecast by expense category. 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 and unspent contingencies to provide the calculation in the "Total Net Expenditures" row.

General Fund Table 6	Fiscal Year				
Expenditure Categories	**2016-17**	**2017-18**	**2018-19**	**2019-20**	**2020-21**
Personal Services	$ 87.95	$ 94.37	$ 97.44	$ 103.76	$ 106.93
Materials and Services	22.41	22.76	23.18	23.57	24.02
Capital Outlay	.40	.40	.40	.40	.40
Subtotal Operating Expenditures	**$110.76**	**$117.53**	**$121.02**	**$127.73**	**$131.35**
Debt Service	.28	.28	.28	.28	.28
Contingencies	2.50	2.50	2.50	2.50	2.50
Transfers to Other Funds (facility and information technology asset maintenance projects)	.91	.91	.91	.91	.91
Total Base Expenditures	**$114.45**	**$121.21**	**$124.71**	**$131.42**	**$135.03**
Less:					
Unspent Contingencies	*(2.30)*	*(2.30)*	*(2.30)*	*(2.30)*	*(2.30)*
Estimated Savings	*(1.10)*	*(1.17)*	*(1.21)*	*(1.27)*	*(1.31)*
Total Net Expenditures	***$111.05***	***$117.74***	***$121.20***	***$127.85***	***$131.42***

FINANCIAL FORECAST RISKS AND RANKINGS

Risks to General Fund 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.

Forecast Risk–Revenue	Ranking	Percent Total Revenue
Property Tax Limitations	HIGH	***57%***
Local Option Levies	HIGH	***None currently***
State Shared Revenue	MEDIUM	***4.5%***
Franchise Fee Revenue	MEDIUM	***15%***

Property Tax–In FY 2014-15 and during the current fiscal year, the City has realized the positive impact of improving property values and the corresponding increase in property tax revenues, due in part to lowered compression losses. The forecast includes an approximate 3.5 percent increase in revenue derived from property taxes–current year receipts plus previously uncollected amounts from prior years—for FY 2016-17. The annual growth rate is maintained at 3.2 to 3.0 percent for the remaining four years. The 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. However, the forecasted growth assumption is still well below historical revenue growth rates of up to 5.5 percent experienced prior to 2009.

Marion County–Over the past several years, the Real Market Value (RMV) of many properties dropped below the Assessed Value (AV, the amount that is used to calculate the tax). The lower RMV effectively became the new AV, and the Measure 5 limit of $10 per $1,000 in RMV resulted in higher compression losses. Residential properties experienced RMV growth of over 11.4 percent in FY 2014-15 and 9.22 percent in FY 2015-16. This large change in RMV built in an adequate spread between RMV and AV so that the full government rate of $10.3686 (in FY 2015-16) per $1,000 in AV can 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. With the significant improvement in property values, the revenue loss attributable to compression in FY 2015-16 decreased to approximately $406,390, and is anticipated to be approximately $302,020 for FY 2016-17. Compression loss is expected to continue to decrease over the forecast period.

Polk County–At a current general government tax rate of $9.4058, West Salem is not experiencing compression. From FY 2013-14 to FY 2014-15, the percentage of residential properties with equivalent RMV and AV decreased from 61 percent to 32 percent, and FY 2015-16 data indicates that percentage is approximately 5 percent. The increase in RMV allows AV to grow at the 3 percent statutory limit.

> **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 City will remain involved in any effort to communicate the negative impacts of property tax limitation measures and the need for tax reform.

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.

State Shared Revenues–Receipts from two of four shared revenues – liquor tax and revenue sharing from the sale of alcoholic beverages – are expected to experience an approximate 2.5 to 3 percent annual increase during the forecast period reflecting continued steady growth. 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. The 2014 legislation approved taxing prepaid cell phones and Voice over Internet Protocol (VoIP) users; however, this additional revenue is not expected to fully offset declining revenues due to changes in consumer behavior for this revenue source.

> **Risk Factor Ranking – 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 flat for natural gas and 1.75 percent for electricity over FY 2015-16 estimates and holding steady at 1 percent to 2 percent increases for the remaining forecast years. PGE requested a 3.7 percent rate increase (not yet approved) that would start in January 2016. Salem Electric increased its rate 7.5 percent due to an increase in its wholesale cost. This coupled with recent revenue trends project a 1.75 percent increase in franchise revenues. Northwest Natural Gas decreased rates overall approximately 7.2 percent beginning in November 2015 reflecting a return to long-term low-priced gas after recovering from colder than normal weather in the eastern part of the United States in 2014-15, which temporarily decreased storage levels well below the five-year average. The City's water and wastewater franchise fee projected growth is 2.66 percent in the first year of the forecast based upon projections from the City's biennial Water and Sewer Cost of Service Analysis with a 2.5 percent rate of growth in the remaining years of the forecast. No growth is anticipated in cable franchise revenue over the forecast period. Refuse hauler franchise fees are projected to increase by 2.5 percent for all years of the forecast period for this revenue type due to anticipated cost-of-service increases. Telecommunications is expected to continue to decline (by -4 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.

CITY OF Salem
AT YOUR SERVICE

TRANSPORTATION SERVICES FUND

FIVE-YEAR FINANCIAL FORECAST

FISCAL YEARS 2016-17 THROUGH 2020-21

PETER FERNANDEZ, P.E., PUBLIC WORKS DIRECTOR

PREPARED BY:

PUBLIC WORKS DEPARTMENT

Alicia Blalock, Financial Services Supervisor

CITY MANAGER'S OFFICE

Kelley Jacobs, Budget Officer

Ryan Zink, Budget Analyst

Kali Leinenbach, Administrative Analyst

TRANSPORTATION SERVICES SUMMARY

The Public Works Department's Transportation Services Fund supports the operation and maintenance of the City's streets, traffic signals, 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.

Adoption of the streetlight fee and creation of the Streetlight Fund, effective in FY 2015-16, relieved the Transportation Services Fund of about $1.3 million in electricity expense and costs to maintain light poles. This provided immediate stabilization to a fund that had experienced an ongoing imbalance between current revenue sources and the cost of providing transportation services. In addition, the FY 2015-16 budget included $500,000 of street bond funds and a $400,000 transfer of franchise fees from the General Fund, which provided funding for continuation of the sidewalk program and basic preventive street maintenance. FY 2015-16 was the first time in seven years that the City was able to allocate funding for preventive pavement maintenance.

While the state and local economic outlook continues to improve, the fiscal capacity of this fund to support current levels of sidewalk repair and replacement, as well as core street maintenance and operations remains sustainable over the forecast period through the infusion of capacity provided by the streetlight fee and the continued transfer of $400,000 annually from General Fund franchise fees. However, absent new revenue sources, a funding gap of $556,000 opens by the fifth year of the forecast period for the proposed level of service. Forecast assumptions in the early years regarding revenue create increases in estimated working capital. The decline of the revenue slope in later years creates a funding imbalance as costs increase greater than the anticipated growth in revenues.

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 67 percent of the Transportation Services Fund total current 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 5.80 percent. Fuel tax revenue is sensitive to economic factors such as 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. The last available forecast is from December 2014. The City accesses the ODOT

[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.

forecast as a tool to develop estimates for State Highway Fund revenue. Recent ODOT forecasts addressed the impact of decreasing fuel consumption through changes in the consumers' fleet (increased fuel efficiency; use of hybrid and electric vehicles), but did not predict the recent decreases in retail fuel prices in Oregon nor the potential of increased consumption with the lowered cost. In addition, current year revenue is marginally ahead of original, ODOT forecast-based estimates. As the result, the revenue estimates in the City's FY 2016-17 forecast slightly deviate from the December 2014 ODOT prediction. This forecast includes three years of increases at 1.2 percent each year, then lowering to a 1 percent growth rate in the final two years.

The Transportation Services Fund revenue forecast builds out five years of projections using the FY 2015-16 Budget column as the base year. The projections use currently available revenue data to re-project trends. A one-time transfer of $220,000 repays Transportation Services for "start-up" funding provided to the Streetlight Fund in FY 2015-16.

Expenditures in the forecast are proposed to include the restoration of two previously eliminated positions – a senior traffic technician (all five years) and a signs and markings worker (four years). In addition, two positions to support street maintenance are proposed with a cost offset through a reduction in the expense for seasonal workers and the elimination of another position. The conversion of seasonal positions to full-time positions addresses limitations in how seasonal workers can be employed in compliance with the Affordable Care Act. The additional positions respond to capacity shortages in street and sidewalk maintenance services.

The forecast employs a 6 percent savings rate, 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.

FORECAST – Transportation Services Fund Current Service Level

The forecast presents the challenges Transportation Services faces to maintain and improve service levels over the five-year forecast period. It is based on the service level represented by Transportation Services' FY 2015-16 budget and maintains the sidewalk replacement level of $500,000 and preventive pavement maintenance contracts at $250,000 annually throughout the forecast period. With continued General Fund support, the City is able to maintain current service levels throughout the forecast period.

Projected growth in service costs and slow growth in primary transportation revenue sources will deplete working capital by approximately $664,000 by the end of the forecast period, FY 2020-21. The City will continue to monitor revenue and expenditures to balance resources with the escalating cost of providing desired services. Continued commitment of $400,000 in franchise fee revenue impacts the General Fund forecast. Future discussions may include an analysis of the appropriate level of annual funding for preventive street maintenance balanced with the appropriate level of ending working capital. Should a greater level of pavement maintenance be desired over time, additional revenue sources, such as a local gas tax, may be explored with the City Council.

FORECAST – Transportation Services Fund through FY 2021

(Values in Millions)	FY 15-16 Budget	FY 16-17 Forecast	FY 17-18 Forecast	FY 18-19 Forecast	FY 19-20 Forecast	FY 20-21 Forecast
RESOURCES						
Beginning Working Capital	$ 2.52	$ 3.95	$ 4.87	$ 5.08	$ 5.14	$ 4.76
Current Year Revenues	13.51	14.02	13.99	14.19	14.37	14.55
Add:						
Additional Resources (FY 2015-16)	*.70*					
TOTAL RESOURCES	**$ 16.73**	**$ 17.97**	**$ 18.86**	**$ 19.27**	**$ 19.51**	**$ 19.31**
EXPENDITURES						
Base Expenditures	$ 14.77	$ 14.38	$ 15.10	$ 15.47	$ 16.13	$ 16.51
Less:						
Unspent Contingencies	*(.46)*	*(.50)*	*(.50)*	*(.50)*	*(.50)*	*(.50)*
Anticipated Expense Savings	*(1.54)*	*(.78)*	*(.82)*	*(.84)*	*(.88)*	*(.90)*
TOTAL NET EXPENDITURES	**$ 12.77**	**$ 13.10**	**$ 13.78**	**$ 14.13**	**$ 14.75**	**$ 15.10**
Estimated Ending Working Capital	**$ 3.95**	**$ 4.87**	**$ 5.08**	**$ 5.14**	**$ 4.76**	**$ 4.21**

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 $220,000 in one-time revenue, repaid from the Streetlight Fund, in FY 2016-17. Approximately 67 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. Approximately 13.1 percent of State Highway Fund revenues are transferred to the General Fund to support Parks Operations' maintenance of the City's street trees and landscaping in the public rights of way. This transfer is included in the expenditure forecast.

Transportation Services Table 1	Fiscal Year				
Revenue By Source	**2016-17**	**2017-18**	**2018-19**	**2019-20**	**2020-21**
State Highway Revenue	$ 9.35	$ 9.46	$ 9.57	$ 9.67	$ 9.76
Intra City Billings and Transfers	3.99	3.84	3.91	3.98	4.05
Other Agencies, Grants	.57	.58	.60	.61	.62
All Other Sources	.11	.11	.11	.11	.12
Total Current Revenue	$ 14.02	$ 13.99	$ 14.19	$ 14.37	$ 14.55

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. Both sidewalk maintenance and preventive pavement maintenance funds are reflected in the transfer category. The assumption tables for all expenditures are included in the appendix.

Transportation Services Table 2	Fiscal Year				
Expenditure Categories	**2016-17**	**2017-18**	**2018-19**	**2019-20**	**2020-21**
Personal Services	$ 5.39	$ 5.88	$ 6.08	$ 6.48	$ 6.70
Materials and Services	7.55	7.78	7.94	8.19	8.36
Capital Outlay	.10	.10	.10	.10	.10
Subtotal Operating Expenditures	**$ 13.03**	**$ 13.75**	**$ 14.12**	**$ 14.78**	**$ 15.16**
Contingency	.50	.50	.50	.50	.50
Transfer	.85	.85	.85	.85	.85
Total Base Expenditures	**$ 14.38**	**$ 15.10**	**$ 15.47**	**$ 16.13**	**$ 16.51**
Less:					
Unspent Contingencies	*(.50)*	*(.50)*	*(.50)*	*(.50)*	*(.50)*
Anticipated Savings	*(.78)*	*(.82)*	*(.84)*	*(.88)*	*(.90)*
Total Net Expenditures	***$ 13.10***	***$ 13.78***	***$ 14.13***	***$ 14.75***	***$ 15.11***

FINANCIAL FORECAST RISKS AND RANKINGS

Risks to Transportation Services Fund Revenue Forecast

The forecast acknowledges that with General Fund support, Transportation Services will be able to sustain the current level of services during the five-year period. Each identified forecast 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.

Forecast Risk–Revenue	Ranking	Percent Total Revenue
State Highway Fund	HIGH	***67%***

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. In 2015, the City learned that allocations would be impacted by funding that would be allocated to the Department of Motor Vehicles. The last available forecast from December 2014 predates this information, and no forecast has been published since the legislative session ended. Projections have been adjusted to reflect the anticipated impact, but the actual impact is unknown at this time. 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.

CITY OF Salem
AT YOUR SERVICE

UTILITY FUND

FIVE-YEAR FINANCIAL FORECAST

FISCAL YEARS 2016-17 THROUGH 2020-21

PETER FERNANDEZ, P.E., PUBLIC WORKS DIRECTOR

PREPARED BY:

PUBLIC WORKS DEPARTMENT

Alicia Blalock, Financial Services Supervisor

CITY MANAGER'S OFFICE

Kelley Jacobs, Budget Officer

Ryan Zink, Budget Analyst

Kali Leinenbach, Administrative Analyst

UTILITY 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 Utility Fund supports:

- 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 Utility 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, wastewater, and stormwater utility systems represent nearly $4 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.

Assumptions and highlights of this forecast include:

- Rate revenue growth over the forecast period adequately maintains operations and allows for an increase in the transfer for capital construction over the forecast period. Previous forecasts have assumed a three percent revenue slope, which is maintained throughout this forecast.

- Capital funding over the five-year period increases as debt is retired. Over time, the increases to this annual investment more adequately fund ongoing utility infrastructure needs with cash, rather than bonded debt, supporting important projects of significance 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 2015-16 is exceeding projections. The forecast assumes a return to more average weather and consumption patterns through the five-year period.

UTILITY FUND FORECAST RESULTS

The Utility 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 2021. 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, wastewater, and stormwater rate revenue is anticipated to provide approximately 85 percent of the fund's total new revenue in FY 2016-17. 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 2014-15 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.

FORECAST – Utility Fund Current Service Level

The values in the Utility Fund forecast are expressed in millions of dollars and have been rounded to the nearest ten thousand. The forecast builds out the five years using the FY 15-16 Budget 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, and projected three percent revenue slope thereafter, maintain an adequate level of working capital throughout the forecast period.

FORECAST–Utility Fund through FY 2020-21

(Values in Millions)	FY 15-16 Budget	FY 16-17 Forecast	FY 17-18 Forecast	FY 18-19 Forecast	FY 19-20 Forecast	FY 20-21 Forecast
RESOURCES						
Beginning Working Capital (BWC)	$ 41.50	$ 44.92	$ 45.97	$ 45.98	$ 46.18	$ 44.92
Current Year Revenues	88.68	93.45	95.85	98.30	100.83	103.43
Less:						
Reduced BWC (FY 2015-16)	*(.84)*					
TOTAL RESOURCES	**$129.34**	**$138.37**	**$141.81**	**$144.28**	**$147.00**	**$148.35**
EXPENDITURES						
Base Expenditures	$ 96.88	$101.00	$104.68	$ 107.09	$111.33	$112.94
Less:						
Unspent Contingency	*(3.50)*	*(3.50)*	*(3.50)*	*(3.50)*	*(3.50)*	*(3.50)*
Anticipated Expense Savings	*(8.97)*	*(5.10)*	*(5.35)*	*(5.49)*	*(5.74)*	*(5.89)*
TOTAL NET EXPENDITURES	**$ 84.42**	**$ 92.40**	**$ 95.83**	**$ 98.10**	**$ 102.09**	**$ 103.55**
Estimated Ending Working Capital	**$ 44.92**	**$ 45.97**	**$ 45.98**	**$ 46.18**	**$ 44.92**	**$ 44.80**

REVENUE FORECAST

The revenue forecast is developed using conservative growth expectations for the Utility Fund. Approximately 85 percent of Utility 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.

Utility Fund Table 1	Fiscal Year				
Revenue By Source	**2016-17**	**2017-18**	**2018-19**	**2019-20**	**2020-21**
Water, Wastewater, Stormwater Rate Revenue	$ 79.62	$ 81.64	$ 83.70	$ 85.84	$ 88.02
Franchise Fees	3.28	3.36	3.44	3.53	3.62
Other Fees	2.40	2.40	2.40	2.40	2.40
Permitted Development	.76	.77	.78	.79	.79
Internal Charges	6.69	6.89	7.10	7.31	7.53
All Other Sources	.71	.80	.88	.97	1.07
Total Current Revenue	**$ 93.45**	**$ 95.85**	**$ 98.30**	**$ 100.83**	**$ 103.43**

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.

Utility Fund Table 2 (In Millions)	**Fiscal Year**				
Expenditure Categories	**2016-17**	**2017-18**	**2018-19**	**2019-20**	**2020-21**
Personal Services	$ 32.99	$ 35.50	$ 36.77	$ 39.25	$ 40.52
Materials and Services	30.71	31.34	31.87	32.55	33.11
Capital Outlay	.81	.81	.81	.81	.81
Subtotal Operating Expenditures	**$ 64.51**	**$ 67.65**	**$ 69.45**	**$ 72.61**	**$ 74.44**
Debt Service	20.99	19.53	18.14	17.22	14.00
Contingency	3.50	3.50	3.50	3.50	3.50
Capital Construction Transfers	12.00	14.00	16.00	18.00	21.00
Total Base Expenditures	**$ 101.00**	**$ 104.68**	**$ 107.09**	**$ 111.33**	**$ 112.94**
Less:					
Unspent Contingency	*3.50*	*3.50*	*3.50*	*3.50*	*3.50*
Anticipated Savings	*5.10*	*5.35*	*5.49*	*5.74*	*5.89*
Total Net Expenditures	***$ 92.40***	***$ 95.83***	***$ 98.10***	***$ 102.09***	***$ 103.55***

Transfers are anticipated annually from the Utility Fund to the Construction Fund for utility capital projects. During the forecast period, transfers are projected to increase from $12 million in the first year to $21 million in the fifth year. The peak represents a 0.5 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 a $40 million – or 1 percent – of the asset's value. This goal will allow the City to adequately maintain and continue replacing aging pipes, reservoirs, and treatment plants, and is based on the assumption that, on average, infrastructure lasts 100 years.

UTILITY FUND 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.

Forecast Risk–Revenue	Ranking	Percent Total Revenue
Water and Wastewater Rate Revenue	MEDIUM	***85%***

Water and Wastewater Rate Revenue—Water and wastewater rate revenue is affected by weather, economic conditions, and 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 1.5 percent annually for water and 0.5 percent annually for wastewater volume. 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. Annual account growth excludes industrial accounts, which are anticipated to remain flat in the forecast.

Although stormwater rates were implemented with a four-year phased approach beginning in January 2013, it is not a new or additional revenue source. Stormwater services were previously funded through wastewater rates. As stormwater and wastewater are separated, and updated stormwater rates are adopted and implemented, there is a corresponding decrease in wastewater rates. Stormwater rates will be fully separated from wastewater in January 2016.

Risk Factor Ranking – MEDIUM. 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 wastewater 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 small 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.

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–For the past three fiscal years, the City has budgeted for a PERS rate exceeding the rates established by the PERS Advisory Board, which have been based on 2013 legislated reforms. This practice has effectively created a reserve, which has been allowed to accrue in fund balance in anticipation of the rate reforms being overturned. In April 2015, the Oregon Supreme Court overturned most of the 2013 legislation.

The PERS Advisory Board recently released its "Advisory Net Employer Contribution Rate" for July 2017 through June 2019. The advisory rates are based on an assumed rate of investment return of 7.5 percent. As of October 2015, the rate of return was less than half of the assumed rate—3.28 percent, which represents an improvement from September's return of 0.11 percent. As the result, the City's forecast includes PERS rates that exceed the current advisory rates because of the condition of investment returns. Expenditure Risks Table 1 below provides a history of PERS rates and a comparison of the current advisory rates and those employed in the forecast.

EXPENDITURE RISKS Table 1 PERS Employer Contribution Rates						Projected Rate in Forecast	
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%	15.82%	21.76%	27.30%
OPSRP General Service	8.96%	4.37%	9.14%	14.68%	8.62%	14.56%	20.10%
OPSRP Fire and Police	12.23%	7.08%	11.85%	17.41%	12.73%	18.67%	24.21%
PERS Advisory Board Rates as of November 2015:							
				Tier 1 and 2		20.19%	
				OPSRP General Service		10.90%	
				OPSRP Fire and Police		15.70%	

See Appendix A for a complete table of PERS related expenses.

Expenditure Risks Table 2 demonstrates the amount of working capital accrued as the result of reserving the variance between the lower charge rate for PERS employer expense and the rate the City budgeted—and estimated would have been charged—absent the 2013 legislated PERS rate relief. For the General Fund, the savings amount of $6.88 million represents 29.4 percent of the $23.45 million beginning working capital estimate for FY 2016-17.

EXPENDITURE RISKS Table 2 – Estimated PERS Savings (In Millions)				
Fund	**FY 2013-14**	**FY 2014-15**	**FY 2015-16**	**TOTAL FOR 3 YEARS**
General Fund	$ 2.12	$ 2.13	$ 2.63	**$ 6.88**
Transportation Services Fund	$ .12	$ .11	$ .15	**$ .38**
Utility Fund	$ .76	$ .76	$ .98	**$ 2.50**
FY 2013-14 and FY 2014-15 savings estimates are based upon actual compensation paid; FY 2015-16 savings estimates are based upon budgeted compensation.				

Risk Factor Ranking – HIGH. The forecast anticipates that the PERS Advisory Board will increase its current advisory rates as the result of the overturned legislative reforms and much lower-than-anticipated investment earnings.

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 increase over the five-year period from a decreased established in FY 2015-16; see Appendix A for the detailed assumption table.

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 75 percent of the City's workforce is represented by one of six unions–SPEU (Police), IAFF (firefighters and battalion chiefs), PCEA (911 Communications), and AFSCME (general unit), SCACBU (City attorneys). For the fund forecasts in this document, wage expenses equate to a significant percentage of total operating costs – General Fund, 49 percent; Transportation Fund, 26 percent; and Utility Fund, 32 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 PCEA and IAFF expire on June 30, 2016. Negotiations will be underway during the current fiscal year for these agreements. 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 0.2 percent from October 2014 to October 2015. Over the year, the index for all items less food and energy advanced 1.9 percent. Prices increased for shelter (3.2 percent), medical care (3.0 percent), and transportation services (1.8 percent). Partially offsetting the increases were lower prices for energy services (-2.9 percent), gasoline (-27.8 percent), and no change for new vehicles (0.1 percent). For purposes of this forecast, a range of 0 to 1.5 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	***10.1%***
Health Care Costs	MEDIUM	***10.5%***
Labor Agreements/Salary Costs	MEDIUM	***41.8%***
Inflation	LOW	**Low, varies**

*Percentages in the expenditures table are based upon comparison with the total operations budget for the three funds in the FY 2016-17 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.

CITY OF Salem
AT YOUR SERVICE

APPENDIX A
ASSUMPTIONS FOR FORECAST

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CITY OF Salem
AT YOUR SERVICE

APPENDIX A

EXPENDITURE ASSUMPTIONS TABLE

WAGE PROJECTIONS	FY 16-17 % Increase	FY 17-18 % Increase	FY 18-19 % Increase	FY 19-20 % Increase	FY 20-21 % Increase
Market adjustment – AFSCME	*2.00%*	*2.75%*	2.00%	2.00%	2.00%
Market adjustment – Attorneys (SCACBU)	*0.00%*	2.00%	2.00%	2.00%	2.00%
Market adjustment – Police (SPEU)	*2.50%*	2.00%	2.00%	2.00%	2.00%
Market adjustment – Battalion Chiefs (IAFF)	*3.00%*	2.00%	2.00%	2.00%	2.00%
Market adjustment – Fire (IAFF)	2.00%	2.00%	2.00%	2.00%	2.00%
Market adjustment – Non-represented	2.50%	2.00%	2.00%	2.00%	2.00%

Note: Italicized text represents a rate from a current labor contract.

ANNUAL PERCENTAGE CHANGE IN BENEFIT PROJECTIONS					
Medical (effective Dec 1, each fiscal year)	5.00%	8.00%	8.00%	8.00%	8.00%
Dental (effective Dec 1, each fiscal year)	3.00%	3.00%	3.00%	3.00%	3.00%
Vision (effective Dec 1, each fiscal year)	2.00%	2.00%	2.00%	2.00%	2.00%
Worker's compensation	2.60%	3.00%	3.00%	3.00%	3.00%
Life insurance (effective Dec 1, each fiscal year)	5.00%	5.00%	5.00%	5.00%	5.00%
Disability insurance (effective Dec 1, each fiscal year)	0.00%	2.00%	2.00%	2.00%	2.00%

PERS RATE ON ELIGIBLE EARNINGS					
Retirement-Employer – Tier 1 and 2	15.82%	21.76%	21.76%	27.30%	27.30%
Retirement-Employer – OPSRP General	8.62%	14.56%	14.56%	20.10%	20.10%
Retirement-Employer – OPSRP Police and Fire	12.73%	18.67%	18.67%	24.21%	24.21%

MATERIALS AND SERVICES	FY 16-17 % Increase	FY 17-18 % Increase	FY 18-19 % Increase	FY 19-20 % Increase	FY 20-21 % Increase
General inflation factor*	1.50%	1.50%	1.50%	1.50%	1.50%
Electricity	3.00%	3.00%	3.00%	3.00%	3.00%
Natural gas	-5.00%	-5.00%	0.00%	0.00%	0.00%
Motor pool (Fleet Services)	Varies by department	5.00%	3.00%	5.00%	3.00%
Radio communications	3.00%	3.00%	3.00%	3.00%	3.00%
9-1-1 services**	6.50%	4.20%	4.00%	4.00%	4.00%

*General inflation factor for the General Fund = 0.0 to 1.5 percent / General inflation factor for Transportation Services Fund and Utility Fund = 1.5 percent.

**Escalators for 9-1-1 services reflect rates slightly lower than those anticipated through the forecast period for other member agencies. The lowered rates comply with the plan initiated in 2015 to help the Willamette Valley Communication Center (WVCC) Fund maintain financial stability. The plan included a pre-payment of $250,000 from the City of Salem, which will be managed through lowered rates for the next four or five years. The final rate of escalation for FY 2016-17 will be based upon the anticipated annual expense for 9-1-1 services and presented for approval to the member agencies in winter / spring 2016.

GENERAL FUND REVENUE ASSUMPTIONS TABLE

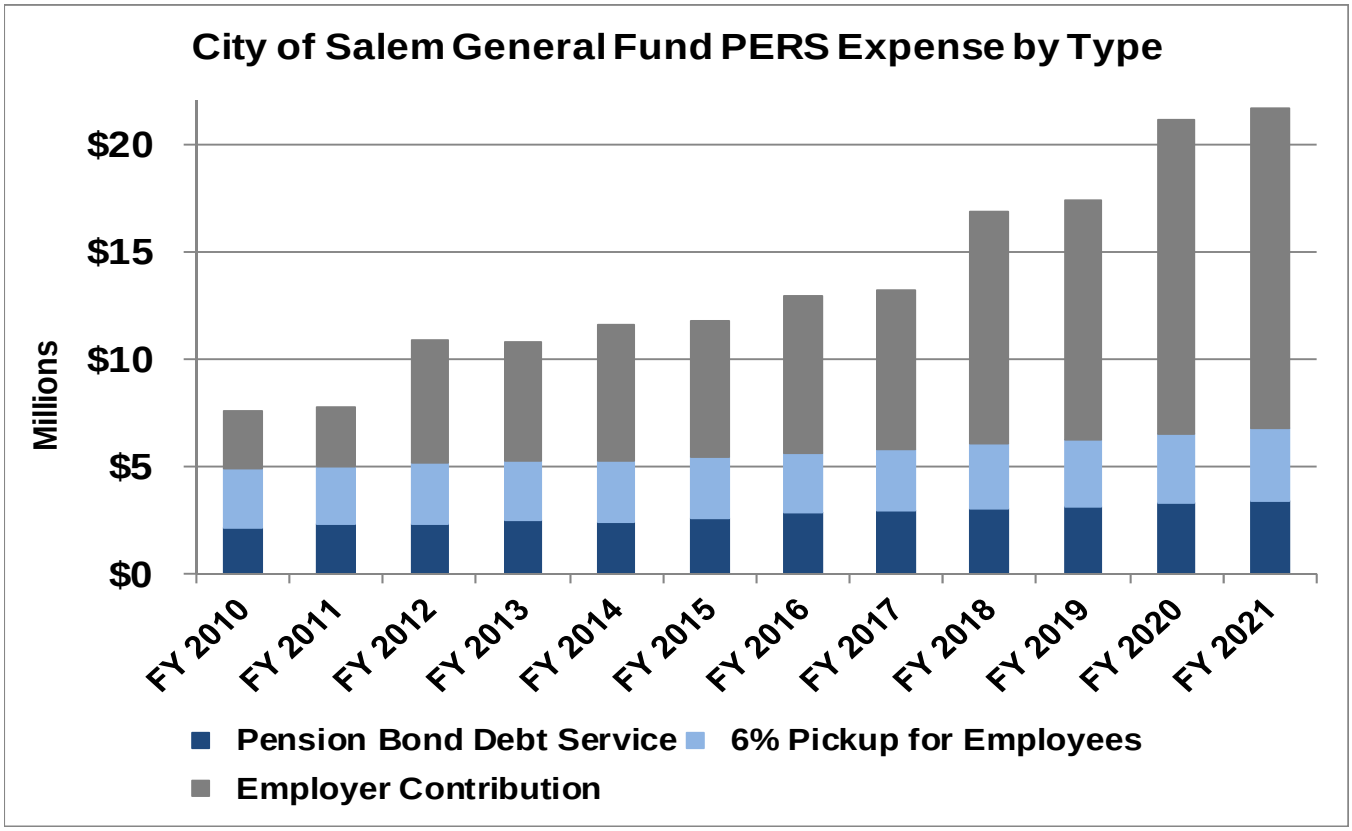
REVENUE	FY 16-17 % Increase	FY 17-18 % Increase	FY 18-19 % Increase	FY 19-20 % Increase	FY 20-21 % Increase
Current year property tax – driven by growth in AV	4.14%	3.18%	3.17%	3.12%	3.00%
Electric franchise	1.75%	2.00%	2.00%	2.00%	2.00%
Telecommunications franchise	-4.00%	-4.00%	-4.00%	-4.00%	-4.00%
Natural gas franchise	0.00%	0.00%	1.00%	1.00%	1.00%
Cable TV franchise	0.00%	0.00%	0.00%	0.00%	0.00%
Refuse (solid waste) franchise	2.50%	2.50%	2.50%	2.50%	2.50%
Water and wastewater franchise	2.66%	2.52%	2.52%	2.52%	2.52%
Fees for service*	2.69%	2.60%	2.61%	2.59%	2.55%
Planning fees (site and dwelling plans)	3.00%	3.00%	3.00%	3.00%	3.00%
Other fees	2.22%	2.23%	2.23%	2.24%	2.24%
Licenses / permits	2.15%	2.15%	2.16%	2.07%	2.08%
Rent (includes parking meters / permits)**	49.16%	-0.01%	4.63%	-4.18%	4.62%
ICAP	1.03%	2.50%	4.00%	2.50%	4.00%
Other internal charges	1.50%	4.95%	2.50%	4.95%	2.50%
State shared revenue	3.00%	3.00%	3.00%	3.10%	3.10%
Other agencies	1.66%	1.68%	2.24%	2.27%	2.29%
Grants	-45.56%	2.07%	2.07%	2.07%	2.07%
Fines / penalties	1.89%	1.94%	1.97%	1.99%	2.02%

Notes:

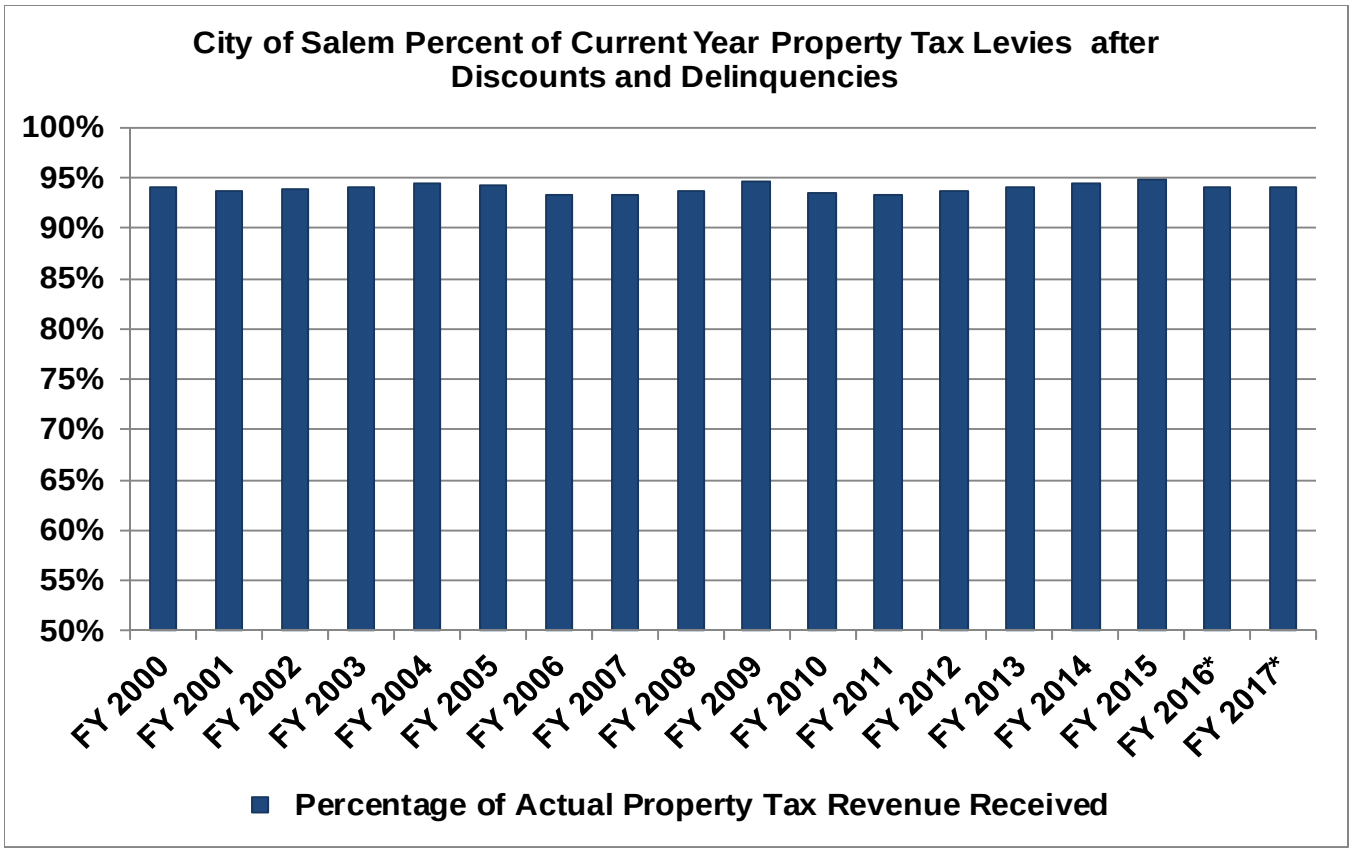
FY 2016-17 escalators or de-escalators are calculated based upon FY 2015-16 estimates for year-end revenue totals by type.

*The increase to fees for services in FY 2016-17 reflects the result of normalizing FY 2015-16 receipts to exclude the impact of a penalty payment of $53,060 from Uber during the fiscal year.

**The pattern of escalation and de-escalation for rent revenues reflects the addition of debit / credit / cash parking kiosks throughout the Capitol Mall area (as of November 2015), and the impact of biennial full legislative sessions.


City of Salem General Fund PERS Expense by Type
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
FY 2021
Pension Bond Debt Service
6% Pickup for Employees
Employer Contribution

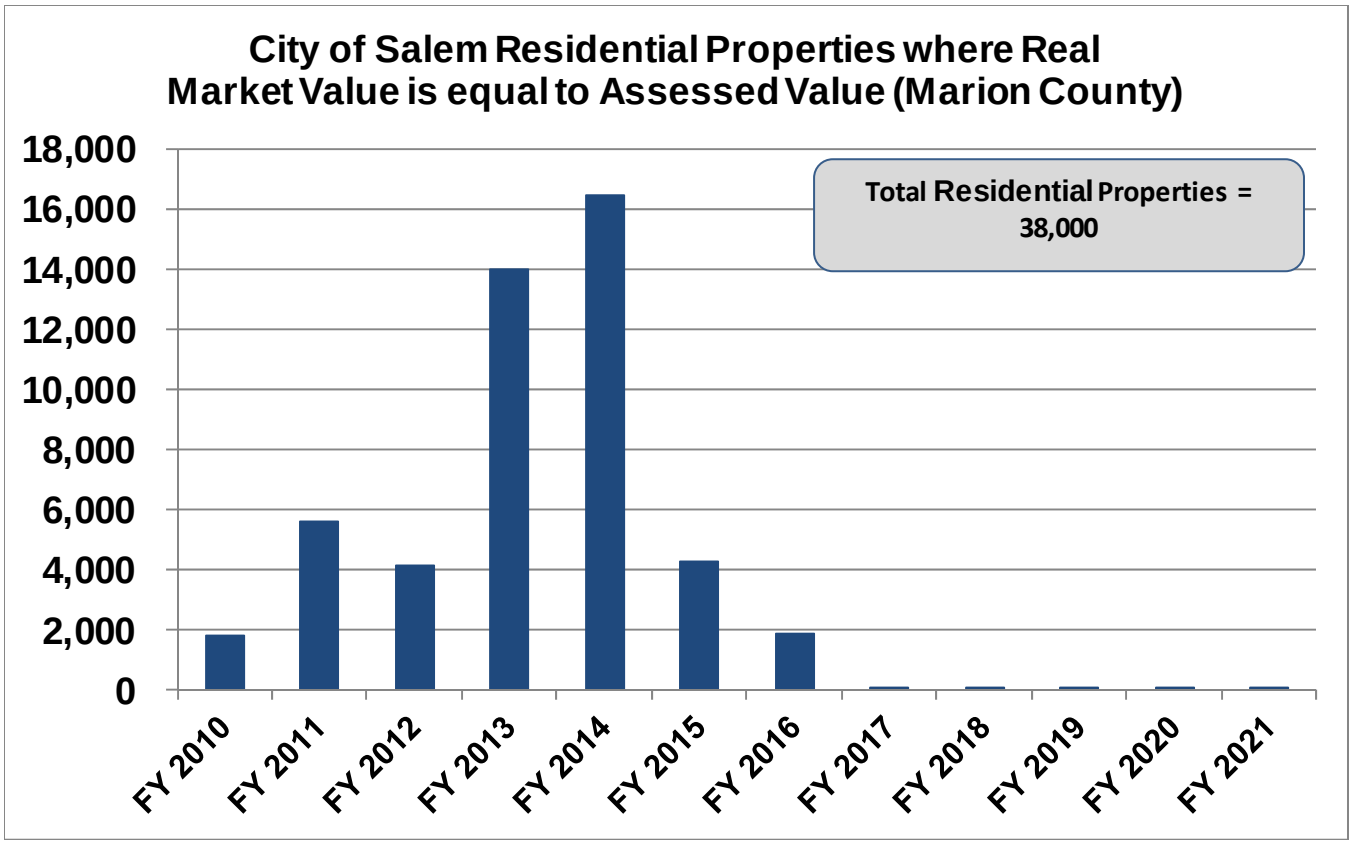
APPENDIX B

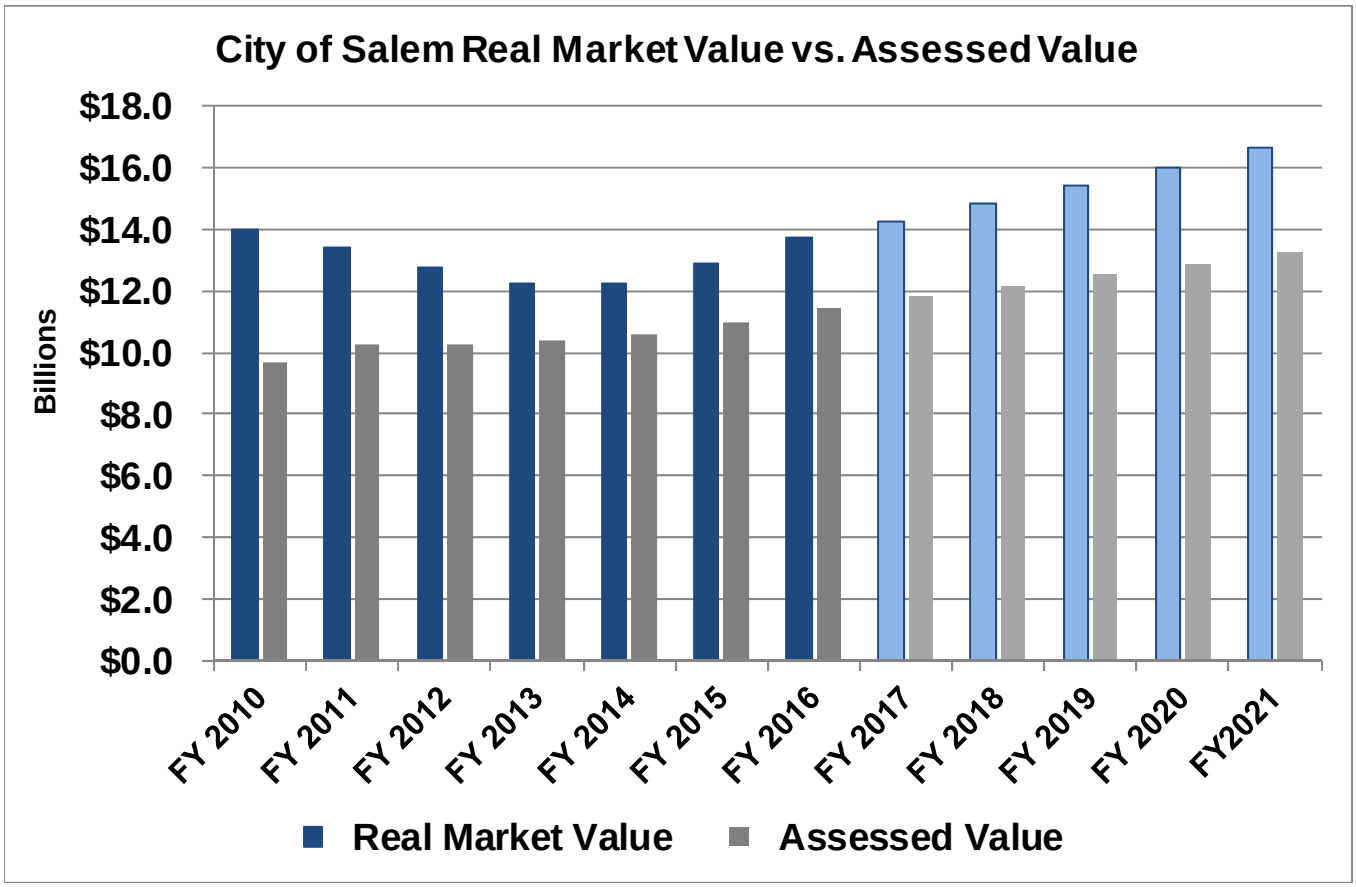


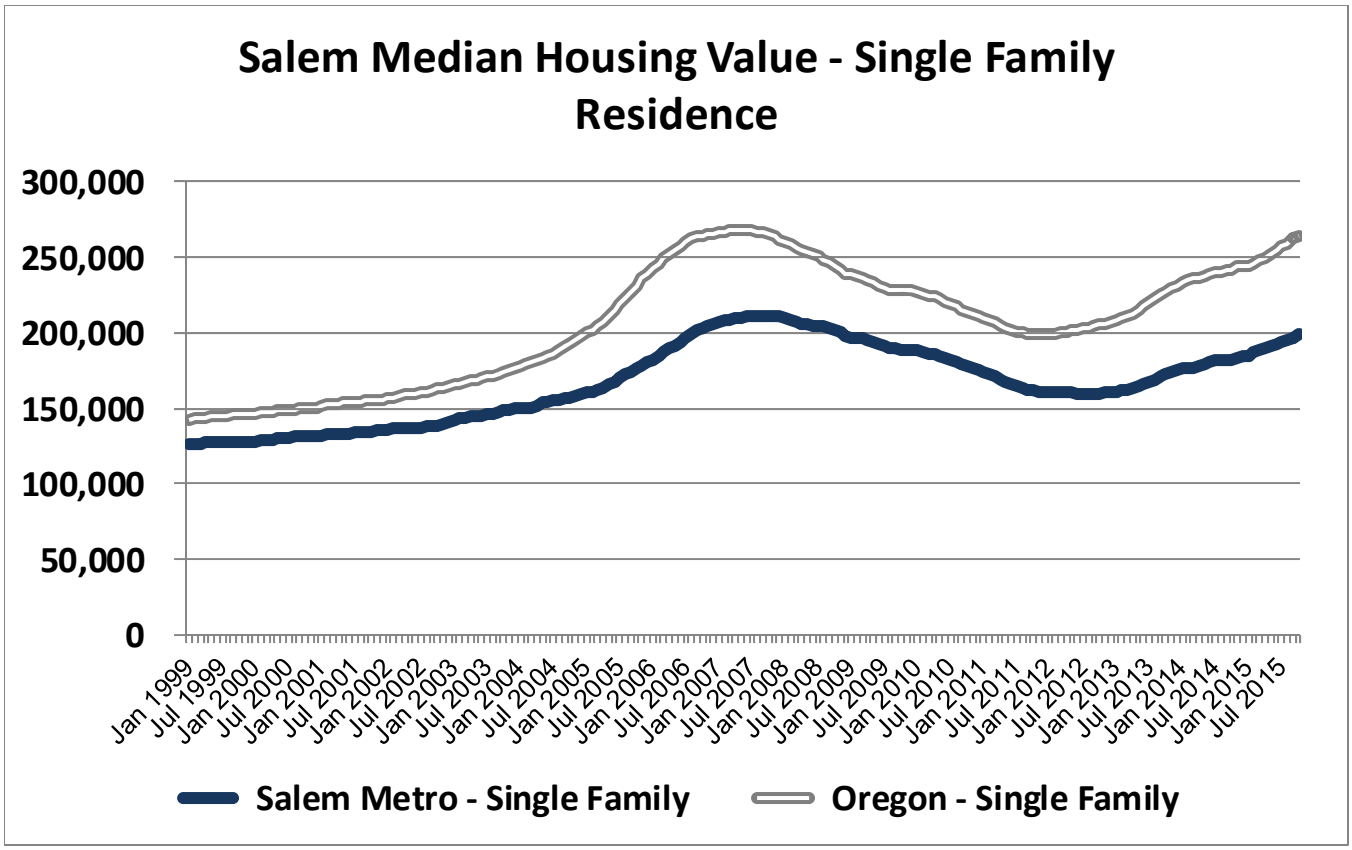
Historic Changes in Property Tax Levies

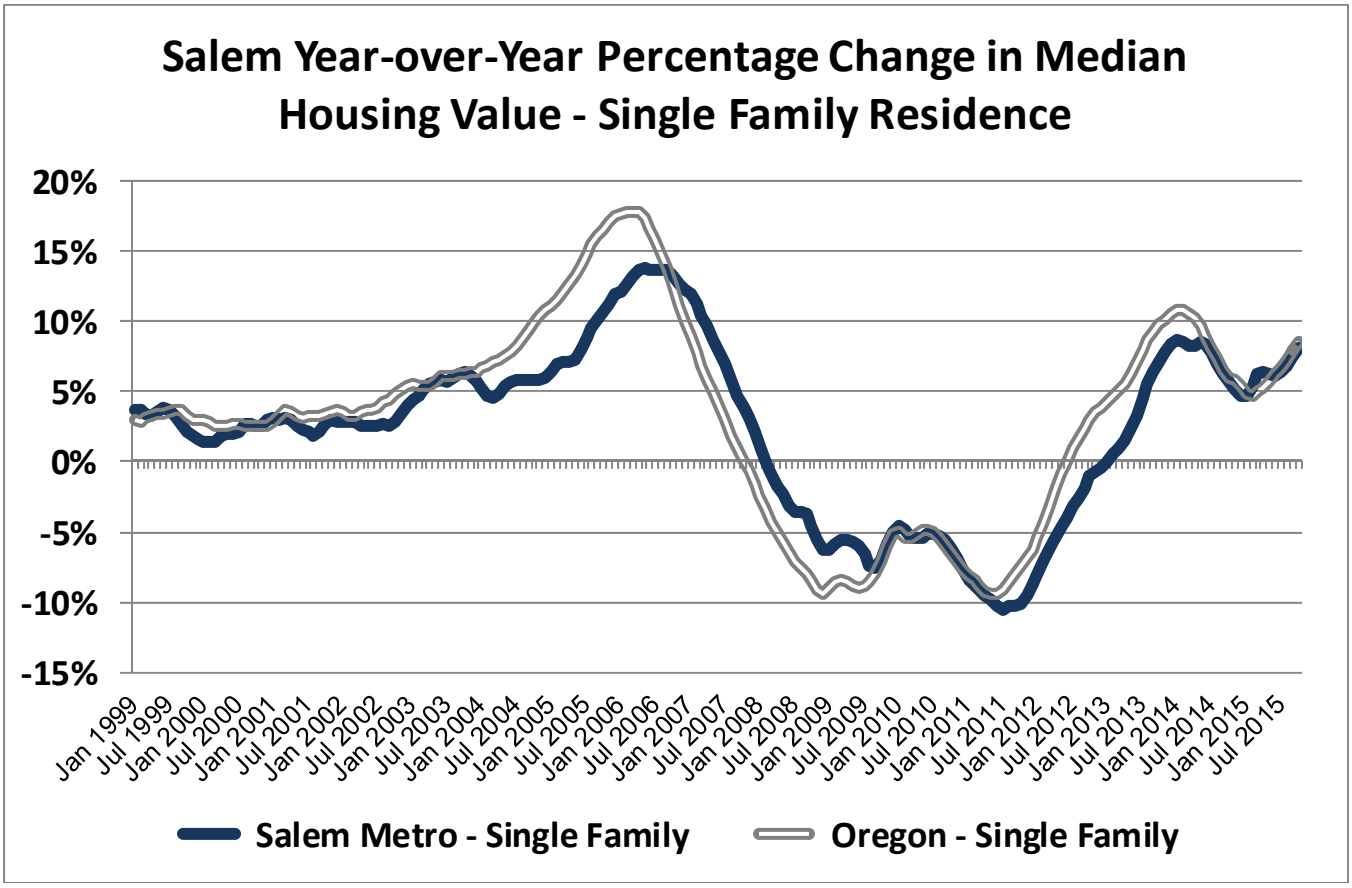
Since the Passage of Measure 50

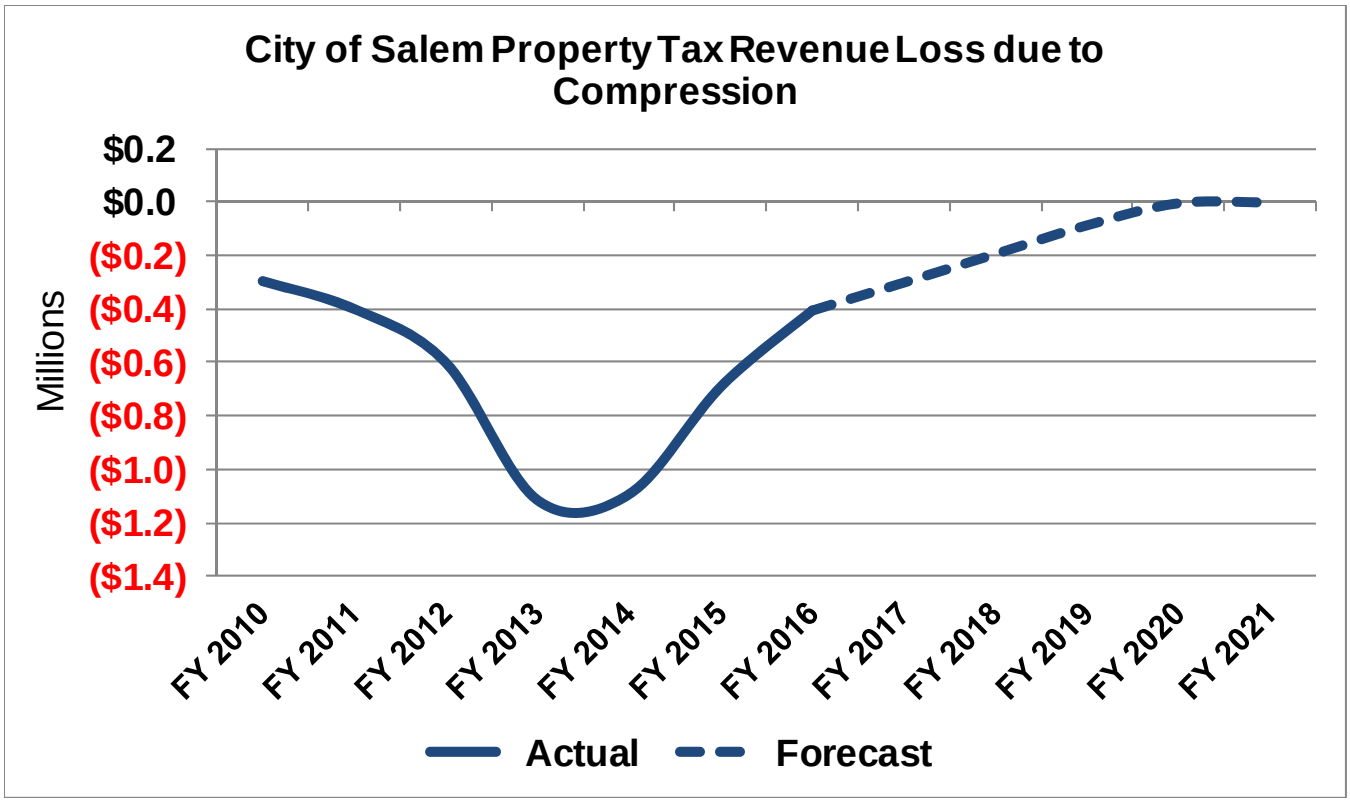
Fiscal Year	Levy	Increase		Actual	Increase
FY 2000	$33,213,490	-		$31,239,718	-
FY 2001	35,000,560	5.4%		32,787,613	5.0%
FY 2002	36,754,990	5.0%		34,517,563	5.3%
FY 2003	38,815,890	5.6%		36,495,536	5.7%
FY 2004	40,564,780	4.5%		38,309,011	5.0%
FY 2005	42,316,782	4.3%		39,880,157	4.1%
FY 2006	44,234,818	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	60,123,315	4.6%		56,987,431	5.0%
FY 2016*	62,877,738	4.6%		59,105,074	3.7%
FY 2017*	65,481,419	4.1%		61,554,296	4.1%

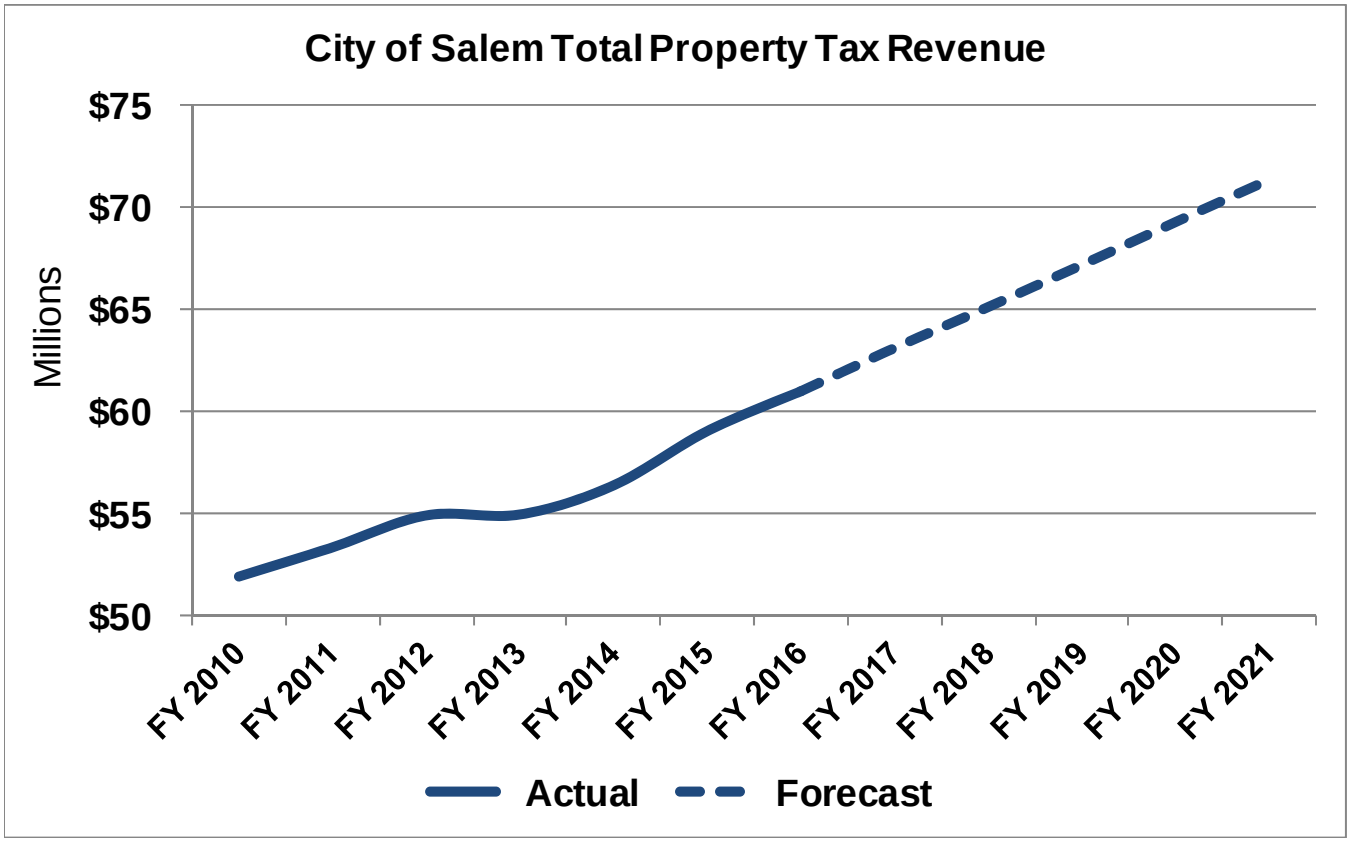

City of Salem Residential Properties where Real Market Value is equal to Assessed Value (Marion County)
Total Residential Properties = 38,000
18,000
16,000
14,000
12,000
10,000
8,000
6,000
4,000
2,000
0
FY 2010
FY 2011
FY 2012
FY 2013
FY 2014
FY 2015
FY 2016
FY 2017
FY 2018
FY 2019
FY 2020
FY 2021


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
FY2021
Real Market Value
Assessed Value


Salem Median Housing Value - Single Family Residence
300,000
250,000
200,000
150,000
100,000
50,000
0
Jan 1999
Jul 1999
Jan 2000
Jul 2000
Jan 2001
Jul 2001
Jan 2002
Jul 2002
Jan 2003
Jul 2003
Jan 2004
Jul 2004
Jan 2005
Jul 2005
Jan 2006
Jul 2006
Jan 2007
Jul 2007
Jan 2008
Jul 2008
Jan 2009
Jul 2009
Jan 2010
Jul 2010
Jan 2011
Jul 2011
Jan 2012
Jul 2012
Jan 2013
Jul 2013
Jan 2014
Jul 2014
Jan 2015
Jul 2015
Salem Metro - Single Family
Oregon - Single Family

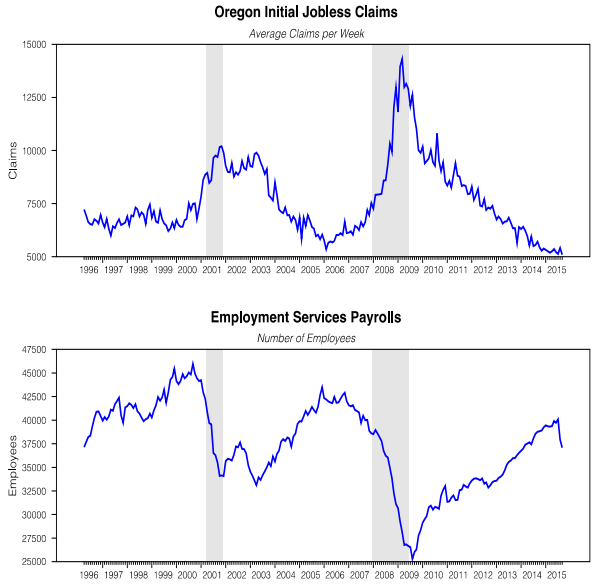

Salem Year-over-Year Percentage Change in Median Housing Value - Single Family Residence
20%
15%
10%
5%
0%
-5%
-10%
-15%
Jan 1999
Jul 1999
Jan 2000
Jul 2000
Jan 2001
Jul 2001
Jan 2002
Jul 2002
Jan 2003
Jul 2003
Jan 2004
Jul 2004
Jan 2005
Jul 2005
Jan 2006
Jul 2006
Jan 2007
Jul 2007
Jan 2008
Jul 2008
Jan 2009
Jul 2009
Jan 2010
Jul 2010
Jan 2011
Jul 2011
Jan 2012
Jul 2012
Jan 2013
Jul 2013
Jan 2014
Jul 2014
Jan 2015
Jul 2015
Salem Metro - Single Family
Oregon - Single Family

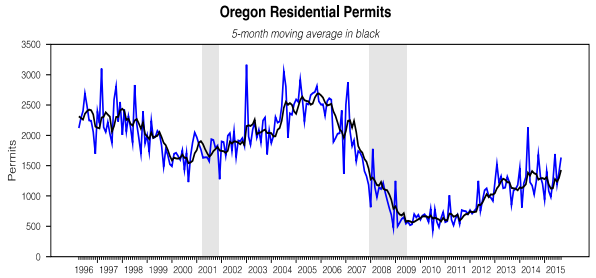

City of Salem Property Tax Revenue Loss due to Compression
Millions
$0.2
$0.0
($0.2)
($0.4)
($0.6)
($0.8)
($1.0)
($1.2)
($1.4)
FY 2010
FY 2011
FY 2012
FY 2013
FY 2014
FY 2015
FY 2016
FY 2017
FY 2018
FY 2019
FY 2020
FY 2021
Actual
Forecast

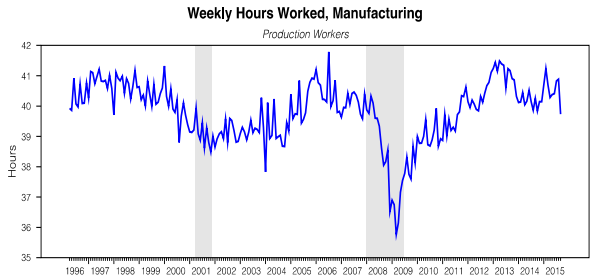

City of Salem Total Property Tax Revenue
Millions
$75
$70
$65
$60
$55
$50
FY 2010
FY 2011
FY 2012
FY 2013
FY 2014
FY 2015
FY 2016
FY 2017
FY 2018
FY 2019
FY 2020
FY 2021
Actual
Forecast

APPENDIX C
Oregon Economic Indicators

Oregon Indicators







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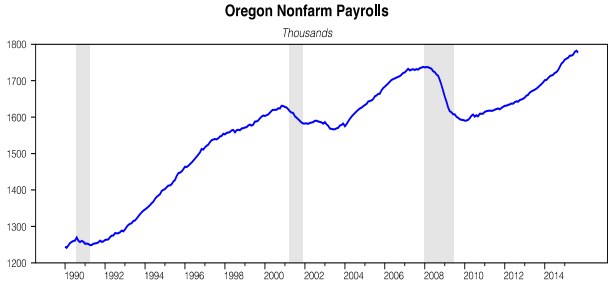
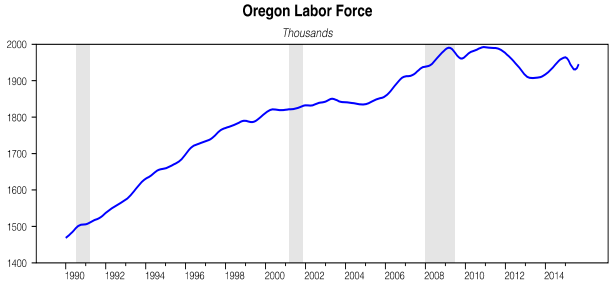
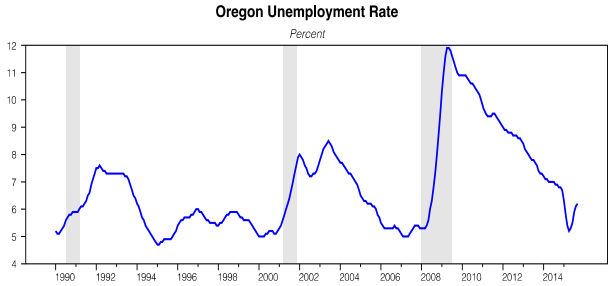
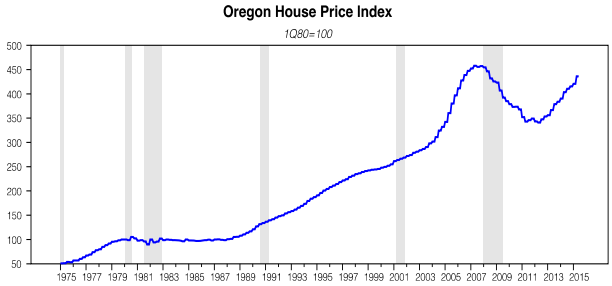
Salem Economic Outlook November 2015

Oregon Indicators II









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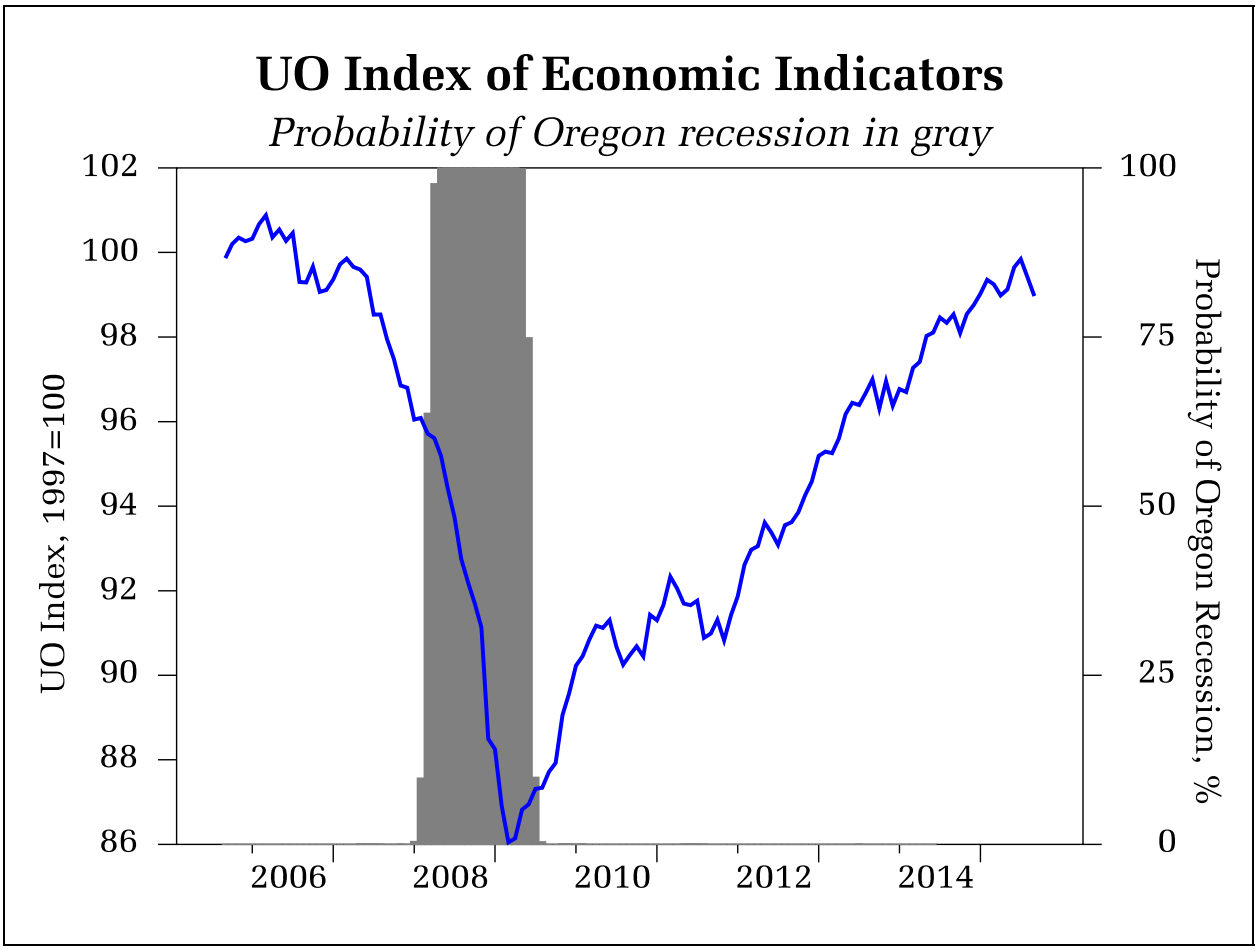
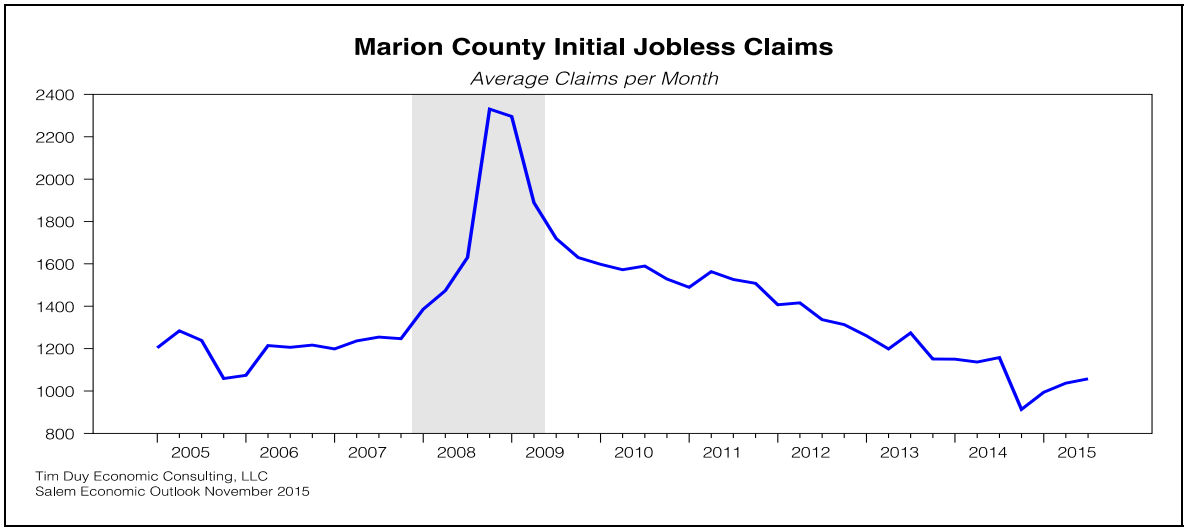
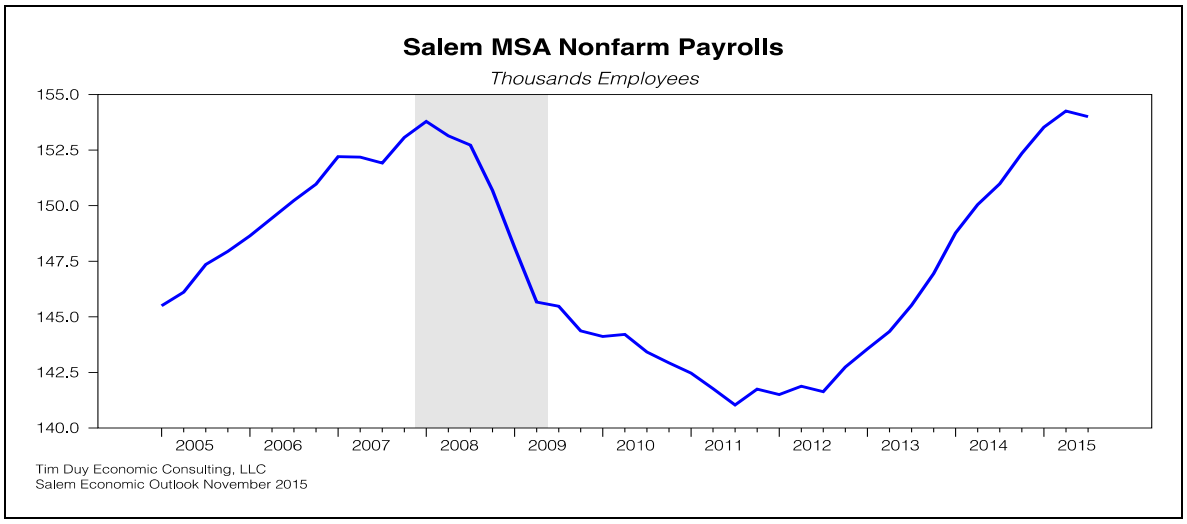
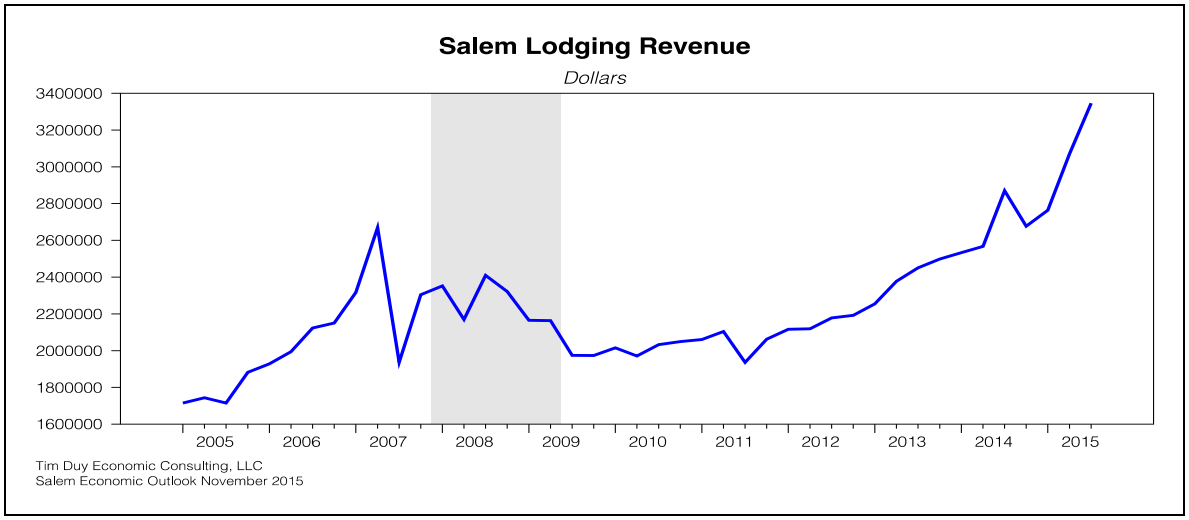
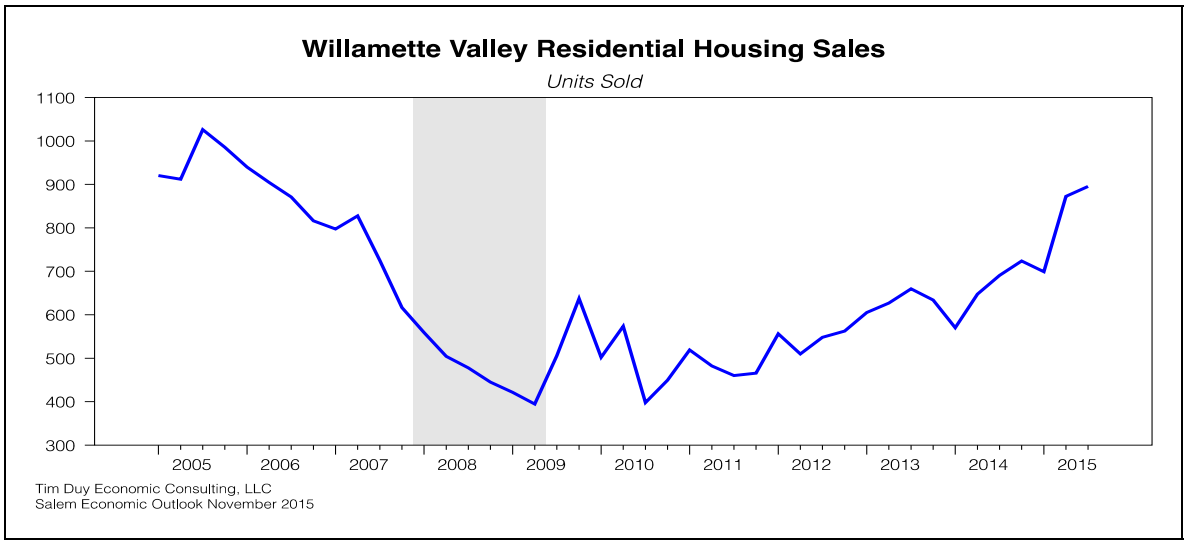

UO Index of Economic Indicators
Probability of Oregon recession in gray
UO Index, 1997=100
Probability of Oregon Recession, %
102
100
98
96
94
92
90
88
86
100
75
50
25
0
2006
2008
2010
2012
2014

Salem / Regional Business Index Components








Willamette Valley Residential Housing Sales
Units Sold
1100
1000
900
800
700
600
500
400
300
2005
2006
2007
2008
2009
2010
2011
2012
2013
2014
2015
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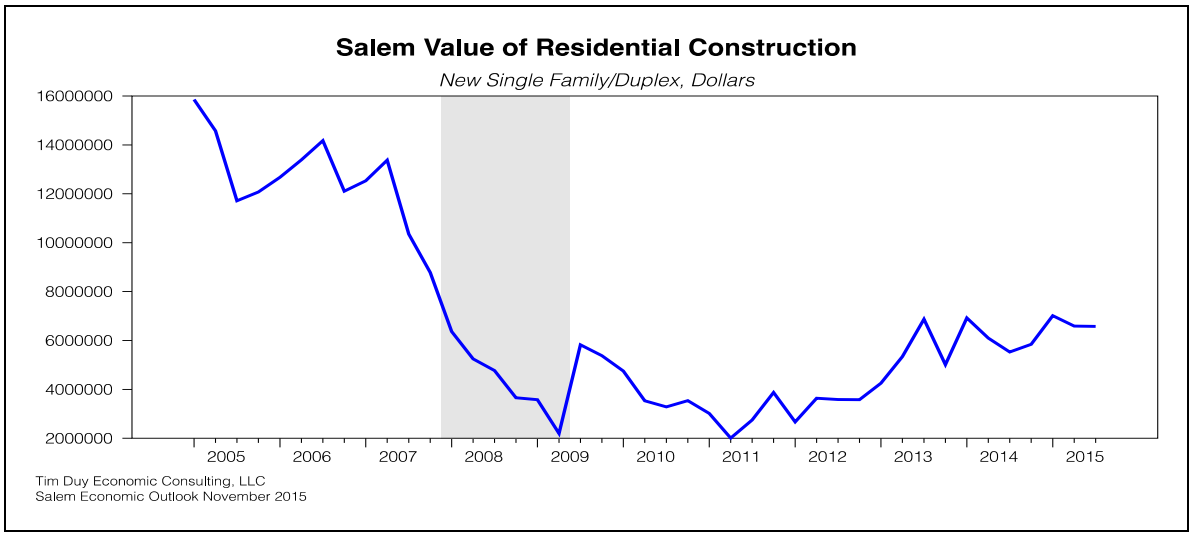
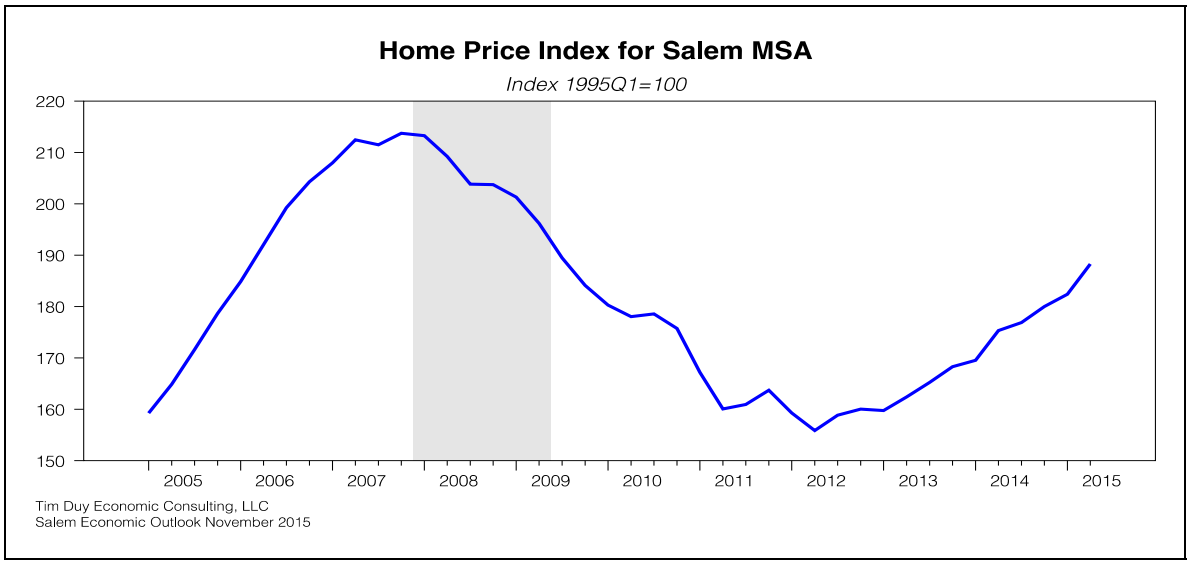
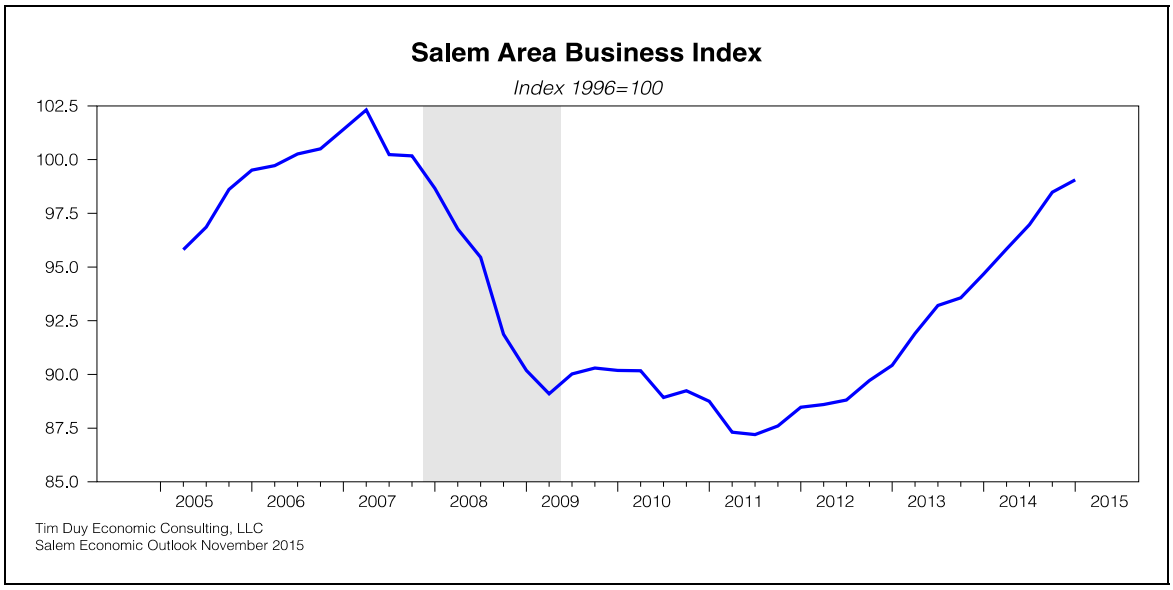
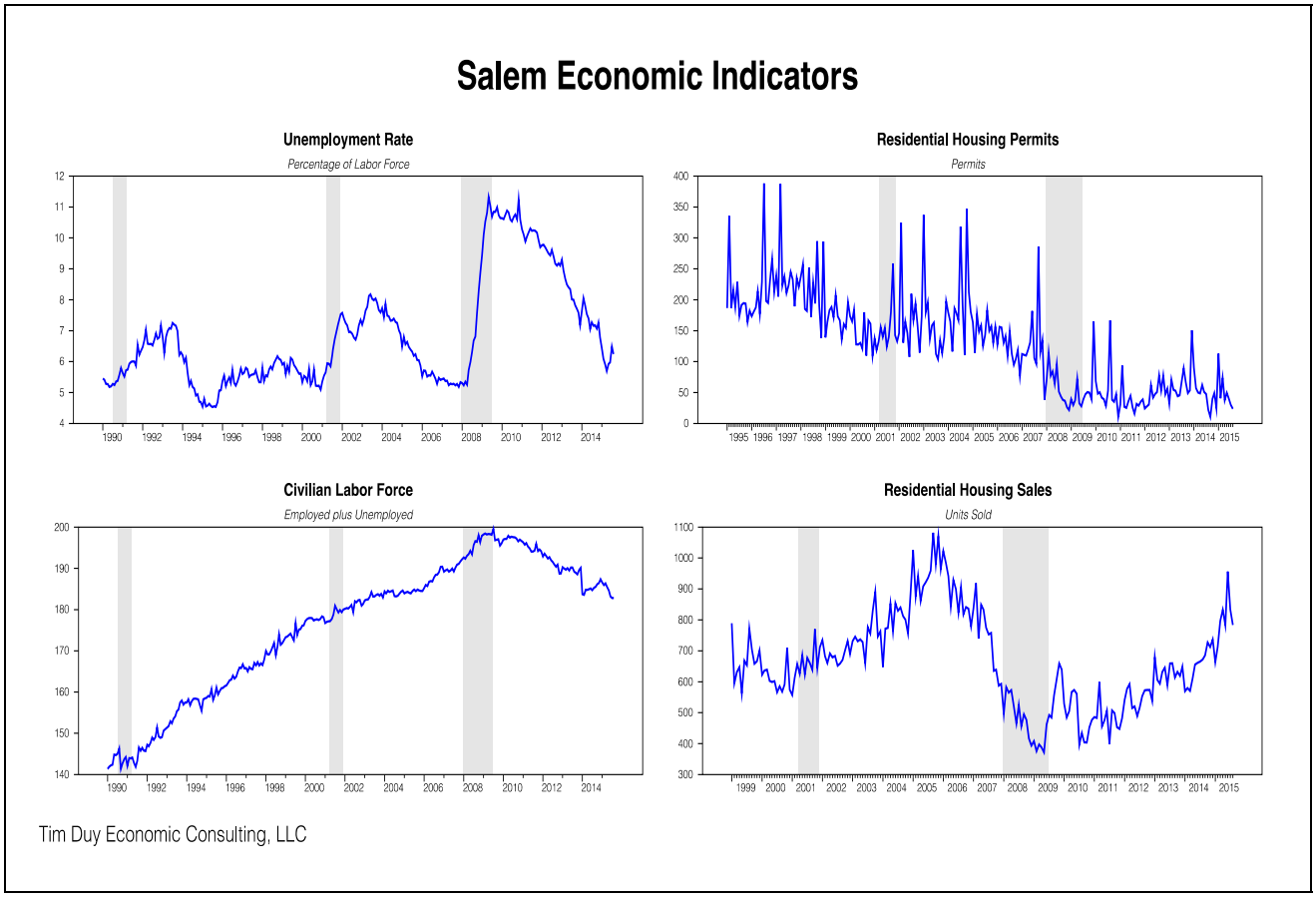
Salem Economic Outlook November 2015

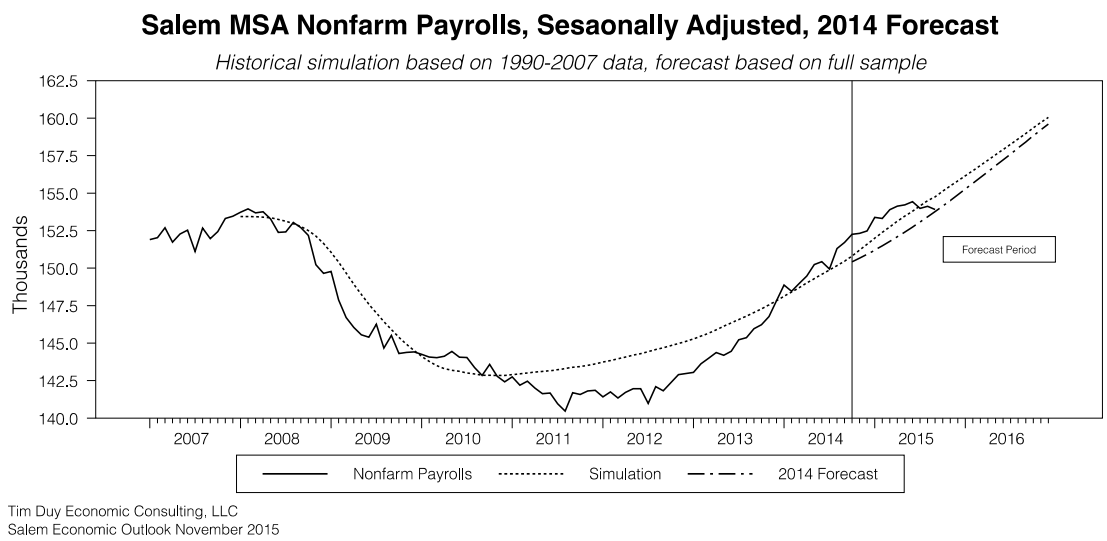

Salem Value of Residential Construction
New Single Family/Duplex, Dollars
16000000
14000000
12000000
10000000
8000000
6000000
4000000
2000000
2005
2006
2007
2008
2009
2010
2011
2012
2013
2014
2015
Tim Duy Economic Consulting, LLC
Salem Economic Outlook November 2015


Home Price Index for Salem MSA
Index 1995Q1=100
220
210
200
190
180
170
160
150
2005
2006
2007
2008
2009
2010
2011
2012
2013
2014
2015
Tim Duy Economic Consulting, LLC
Salem Economic Outlook November 2015

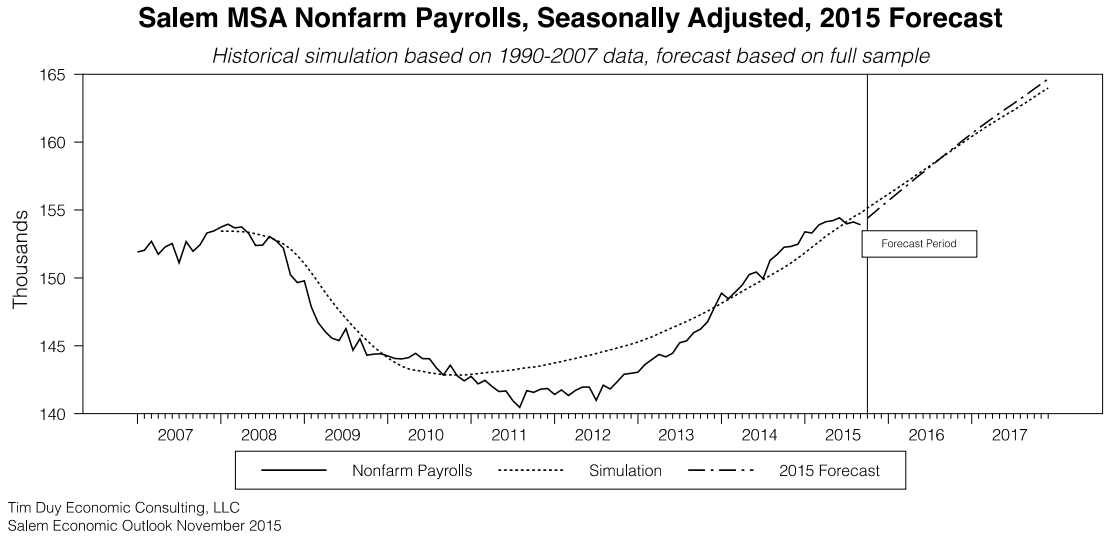

Salem Area Business Index
Index 1996=100
102.5
100.0
97.5
95.0
92.5
90.0
87.5
85.0
2005
2006
2007
2008
2009
2010
2011
2012
2013
2014
2015
Tim Duy Economic Consulting, LLC
Salem Economic Outlook November 2015

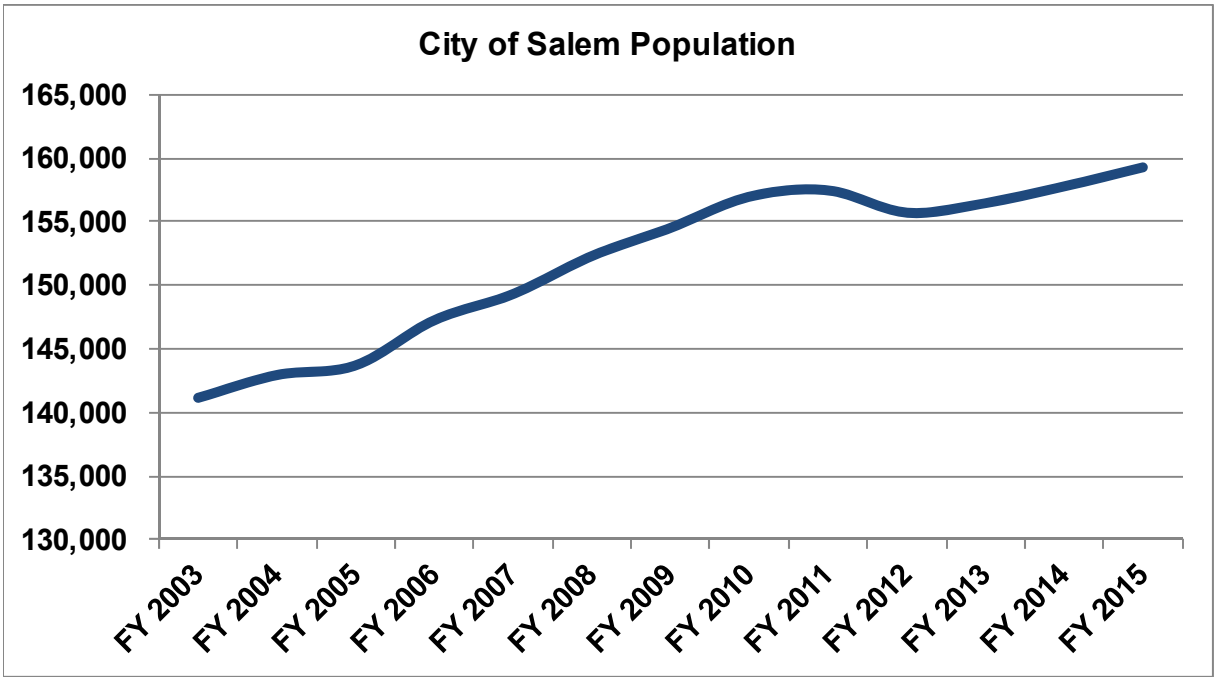

Salem Economic Indicators
Unemployment Rate
Percentage of Labor Force
Residential Housing Permits
Permits
Civilian Labor Force
Employed plus Unemployed
Residential Housing Sales
Units Sold
Tim Duy Economic Consulting, LLC

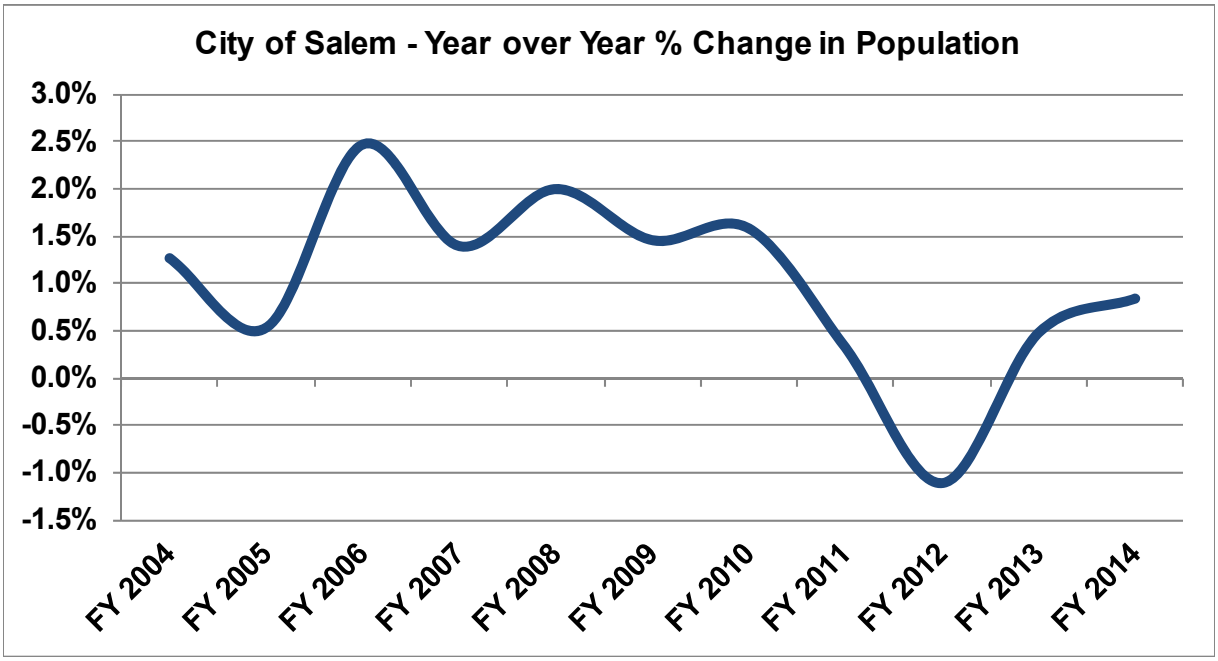
Salem Job Forecast – Last Year



Salem Job Forecast




City of Salem Population
165,000
160,000
155,000
150,000
145,000
140,000
135,000
130,000
FY 2003
FY 2004
FY 2005
FY 2006
FY 2007
FY 2008
FY 2009
FY 2010
FY 2011
FY 2012
FY 2013
FY 2014
FY 2015


City of Salem - Year over Year % Change in Population
3.0%
2.5%
2.0%
1.5%
1.0%
0.5%
0.0%
-0.5%
-1.0%
-1.5%
FY 2004
FY 2005
FY 2006
FY 2007
FY 2008
FY 2009
FY 2010
FY 2011
FY 2012
FY 2013
FY 2014

CITY OF Salem
AT YOUR SERVICE