

Five-Year Financial Forecasts



Fiscal Years 2018 through 2022

City of Salem, Oregon

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General Fund
Transportation Services Fund
Utility Fund
WVCC Fund
Airport Fund
Building and Safety Fund
Cultural and Tourism (TOT) Fund
Emergency Services Fund
Fleet, City Services Fund
Self Insurance Fund, Benefits
Self Insurance Fund, Risk
Streetlight Fund

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Five-Year Financial Forecasts, FY 2018 – FY 2022

The forecasts in this document were developed collaboratively with the Budget Office and other City departments.

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Why We Forecast

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. 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 includes forecasts for 11 City funds. It highlights in greater detail four of the forecasts prepared by City staff – General Fund, Transportation Services Fund, Utility Fund, and the WVCC Fund*.

The forecasts are developed within the framework of City Council goals, fiscal responsibility, and City services sustainability.

Prophecy is a good line of business, but it is full of risks.

Mark Twain in "Following the Equator"

I always avoid prophesying beforehand because it is much better policy to prophesy after the event has already taken place.

Winston Churchill

*Willamette Valley Communication Center Fund, 9-1-1 services

How To Use This Document

The General Fund, Transportation Services Fund, Utility Fund, and WVCC Fund each have a section in the document, which includes:

- a brief summary and additional information about forecast results,
- a schedule demonstrating the result of revenue and expenditure assumptions for the five-year forecast period,
- an explanation of potential corrective action (General Fund only),
- revenue and expenditure detail, and
- revenue risk factors and rankings.

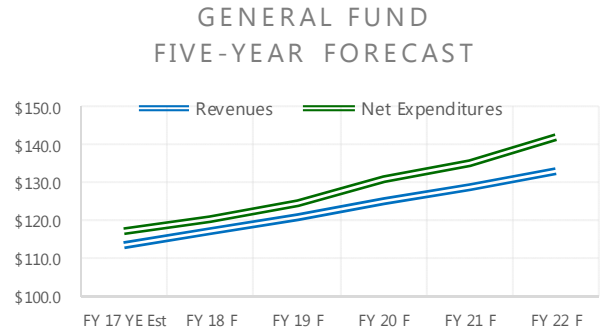
The remaining 7 fund forecasts are presented next in the document with a one-page summary for each fund. The one-page includes a numeric table with the five-year result, a brief narrative explanation, highlighted risk factors, and graphic displays of historical revenues and expenditures.

To provide additional context for the forecasts presented in this document, a brief national, state, and local economic outlook by the City's economic consultant, Dr. Tim Duy, follows the fund forecast sections.

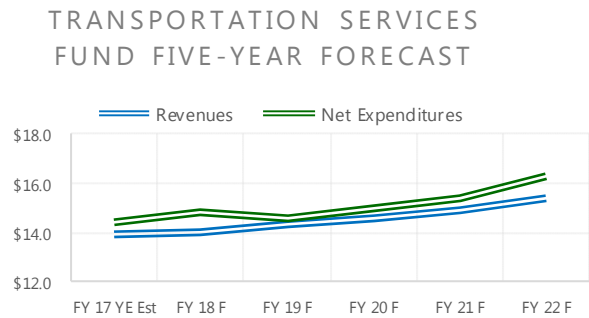
An analysis of Citywide expenditure risk factors and rankings closes the document. The appendices focus primarily on the General Fund and property tax, but also provide additional detail on assumptions employed in developing the forecasts.

Forecast Snapshot

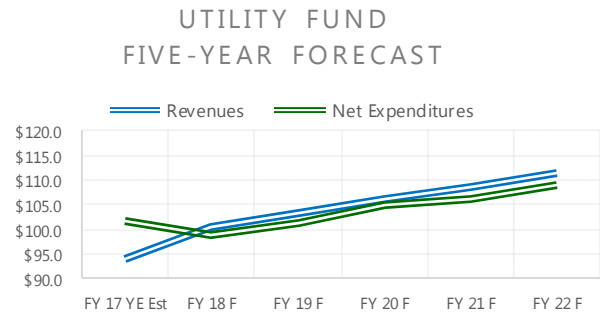
The forecast for the **General Fund** continues to demonstrate a structural imbalance between current, available revenue and the cost of providing services. Relieving this imbalance over the forecast period may require new, additional revenue sources to prevent significant service reductions. (More detail on page 8.)



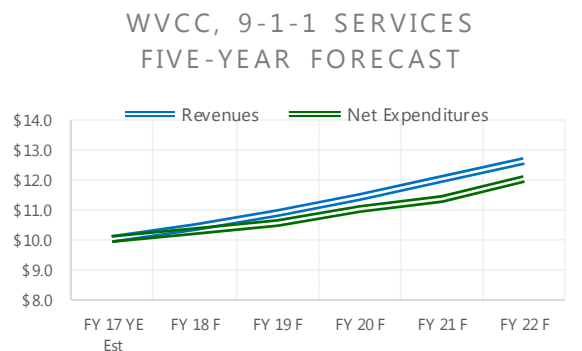
The **Transportation Services Fund** forecast displays the positive result of implementing a streetlight fee and relieving the fund of the cost of operating and maintaining the streetlight system. The imbalance between current revenues and the expense of transportation services translates to a loss of \$2.9 million in working capital during the forecast period. (More detail on page 19.)



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 increasing funding for capital improvements that would otherwise require the sale of revenue bonds to support. (More detail on page 27.)



The forecast result for the **WVCC Fund** can be characterized as a success story. A few years ago, the fund was experiencing a rapidly declining fund balance with escalating use of overtime to cover staff attrition and absence. Planned annual rate increases were insufficient to address ongoing operational costs. Swift action on the part of the Police Department and the WVCC member agencies, including significantly increased member agency rates, has eased the financial stress of this fund. (More detail on page 35.)

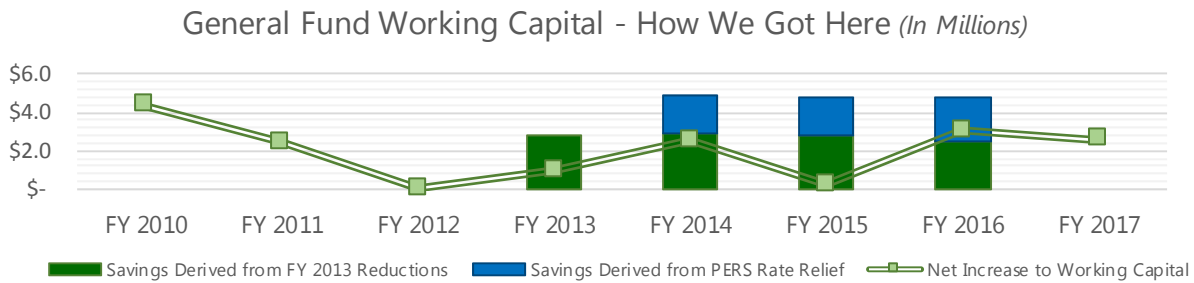


General Fund Summary

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.

Current Status

From FY 2009 to FY 2013, the City reduced its General Fund work force by 11 percent, representing 82 full-time equivalent positions, and re-organized several departments. In FY 2013 alone, the General Fund work force was reduced by 42 full-time equivalent positions and included the closure of two fire stations. Over the next several years, a few positions were added or restored and the City experienced four years of legislated PERS rate relief. The graphic below demonstrates the combined fiscal benefit of the position reductions (based only on average salary for the General Fund, no other benefit costs) and an estimate of savings derived from the PERS rate relief. These two elements of financial savings are compared to growth in beginning working capital – the actual cash on hand at the beginning of each fiscal year.



FY 2017 began with working capital of \$28.13 million. The net change to working capital (minus reappropriations) from FY 2016 to FY 2017 was an increase of \$2.57 million. The year-end outlook for the current fiscal year appears below. It demonstrates use of \$3.92 million in working capital to balance anticipated expenses.

General Fund FY 2017	Year End Estimate	As Compared to Budget	Year-over-Year Change
Estimated Revenues	\$113.17 M	1.0%	3.8%
Estimated Expenditures	\$117.09 M	(2.9)%	9.6%
Surplus / (Deficit) Change to Working Capital	(\$3.92) M		

Future Outlook

Reductions to the work force, PERS rate relief, recovery in the housing market and the corresponding improvement to property tax receipts, and the propensity of departments to make do with less has resulted in a healthier fiscal condition for the General Fund. It has come at the cost of lowered emergency response in the community; diminished capacity to research, analyze, and implement new or innovative programs; and continued degradation of City infrastructure without General Fund dollars to address millions in deferred maintenance.

This new outlook on the next five years does not tell a much different story than the forecast published a year ago. It provides continued evidence of a structural imbalance between the proposed cost of General Fund services and anticipated revenues. The structural imbalance continues to be the key message of the General Fund five-year forecast.

To manage this imbalance over the past several years, the City's executive management team made continual adjustments through constraining spending, reprioritizing supply and equipment needs, and realizing savings through delayed or failed position recruitments. Those expenditure adjustments, in addition to savings from legislated PERS relief accumulating in working capital, have helped to delay depletion of working capital.

While the fund is predicted to realize increases in almost 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.

The General Fund forecast in this document is the result of research, evaluation, and analysis of funding sources aligned with the proposed cost of City services for the next five years. The forecast base year, FY 2017, relies on current information on revenues received as of December 2016, 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. These increases are held at 2 percent in the forecast for any year not included within a current labor contract. Later in the document, the forecast result is augmented by increases of 2.5 percent and 3 percent to provide a view of the financial impact of varying expense inflators on all fund expenditures. The expenditure base also includes estimated PERS rate escalations in FY 2018, FY 2020, and FY 2022; and health benefits rate increases aligning with actuarial assessments. Most materials and services category items (professional services, supplies, equipment) have a 2 percent inflation during the five-year period.

Forecast – General Fund Current Service Level

The forecast demonstrates a level of projected increase in revenues lower than the anticipated growth in expenditures. 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 2 percent.

The assumptions in the forecast lead to the immediate depletion of working capital with it falling well below the minimum in the City’s financial policies by FY 2020. In all forecast years, net expenditures exceed revenues by \$3.3 million to \$9 million. This imbalance is illustrated in Table 1 below.

GF Table 1, Comparison of Revenues and Net Expenditures (Values in Millions)

	FY 2017 YE Estimate	FY 2018 Forecast	FY 2019 Forecast	FY 2020 Forecast	FY 2021 Forecast	FY 2022 Forecast
Revenues	\$ 113.17	\$ 117.24	\$ 121.02	\$ 124.93	\$ 129.04	\$ 133.24
Net Expenditures	\$ 117.09	\$ 120.53	\$ 124.28	\$ 131.06	\$ 134.93	\$ 142.19
Surplus / (Deficit)	(\$3.92)	(\$3.28)	(\$3.25)	(\$6.13)	(\$5.90)	(\$8.96)

Table 2 is the full summary of the General Fund forecast. Personal services costs in this forecast are based on current labor contracts and, in the absence of a current contract (especially in the later years of the forecast), annual adjustments to salary at 2 percent.

Table 3 demonstrates the impact to working capital of adding a half percentage point and a full percentage point increase to labor costs and all other expenditures for years 2 through 5 of the forecast.

GF Table 2, FY 2018 – FY 2022 Forecast Summary (Values in Millions)

	FY 2017 YE Estimate	FY 2018 Forecast	FY 2019 Forecast	FY 2020 Forecast	FY 2021 Forecast	FY 2022 Forecast
Working Capital	\$ 28.13	\$ 24.21	\$ 20.93	\$ 17.67	\$ 11.54	\$ 5.64
Revenues	113.17	117.24	121.02	124.93	129.04	133.24
TOTAL RESOURCES	\$ 141.30	\$ 141.46	\$ 141.95	\$ 142.60	\$ 140.57	\$ 138.88
TOTAL EXPENDITURES	\$ 117.09	\$ 125.41	\$ 129.23	\$ 136.16	\$ 140.10	\$ 147.52
Unspent Contingency		(2.50)	(2.50)	(2.50)	(2.50)	(2.50)
2% Savings		(2.38)	(2.46)	(2.60)	(2.67)	(2.83)
NET EXPENDITURES	\$ 117.09	\$ 120.53	\$ 124.28	\$ 131.06	\$ 134.93	\$ 142.19
ENDING WORKING CAPITAL	\$ 24.21	\$ 20.93	\$ 17.67	\$ 11.54	\$ 5.64	\$ (3.32)
Chg to Working Capital	(3.92)	(3.28)	(3.25)	(6.13)	(5.90)	(8.96)

GF Table 3, Impact of Varying Inflatons on Expenditures

(Values in Millions)	FY 2018 Forecast	FY 2019 Forecast	FY 2020 Forecast	FY 2021 Forecast	FY 2022 Forecast
ENDING WORKING CAPITAL RESULT, Additional 0.5%, years 2 - 5	\$ 20.93	\$ 17.05	\$ 9.64	\$ 1.80	\$ (9.82)
ENDING WORKING CAPITAL RESULT, Additional 1.0%, years 2 - 5	\$ 20.93	\$ 16.43	\$ 7.74	\$ (2.05)	\$ (16.33)

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 almost a \$20 million depletion of General Fund working capital by FY 2021. Cost reductions of \$9 million dollars with the cumulative impact of a \$21.5 million decrease in costs over four years would be necessary to correct the decline in fund balance and improve alignment with City Council policy of 15 percent of revenues. A reduction scenario and its impact are demonstrated in Table 4 below. The cumulative effect of the reductions is working capital stabilized at \$18.2 million as compared to -\$3.32 at the end of FY 2022.

GF Table 4, Correcting the Imbalance with Cost Reductions (Values in Millions)

	FY 2018 Forecast	FY 2019 Forecast	FY 2020 Forecast	FY 2021 Forecast	FY 2022 Forecast
FORECAST ENDING WORKING CAPITAL	\$ 20.93	\$ 17.67	\$ 11.54	\$ 5.64	\$ (3.32)
Cumulative Reductions*		\$ 2.00	\$ 4.00	\$ 6.50	\$ 9.00
ENDING WORKING CAPITAL Result of Reductions	\$ 20.93	\$ 19.67	\$ 17.54	\$ 18.14	\$ 18.18

*Permanent reductions of \$2.0 M each forecast year 2, 3; and \$2.5 M each forecast year 4, 5. No reduction year 1.

To avoid the severity of the reduction scenario illustrated above, additional or new sources of revenue would be required. Maintaining property tax growth at approximately 4 percent – 3 percent annual increase based on statute and 1 percent for new growth – all other revenue sources (except for grants) in the General Fund would need to increase by approximately 10 percent annually above current estimates in the forecast. Table 5 demonstrates this concept. This scenario corrects the alignment of ending working capital with City policy until the final year of the forecast (Policy - \$19.99 million; Table 5 - \$16.68 million) under this scenario.

GF Table 5, Correcting the Imbalance with Additional Revenues (Values in Millions)

	FY 2018 Forecast	FY 2019 Forecast	FY 2020 Forecast	FY 2021 Forecast	FY 2022 Forecast
CURRENT REVENUES (excluding property taxes and grants)	\$ 50.07	\$ 51.15	\$ 52.41	\$ 53.79	\$ 55.16
Year-to-Year Change	4.90%	2.17%	2.47%	2.62%	2.55%
ADD'L REVENUE		\$ 5.00	\$ 5.00	\$ 5.00	\$ 5.00
Percent Increase Over Current		9.77%	9.54%	9.29%	9.06%
ENDING WORKING CAPITAL Result of Additional Revenue	\$ 20.93	\$ 22.67	\$ 21.54	\$ 20.64	\$ 16.68

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 impact of the full 3 percent statutory increase and 1 percent for new growth in property tax revenues. Tax receipts increase year-over-year in the forecast by \$2.7 to \$2.8 million.
- The cyclical effect of legislative sessions on parking revenue with a 10 percent increase during a full session (FY 2017, FY 2019, FY 2021).
- The potential impact of state and local taxing efforts on marijuana sales, as well as an indication of plateauing of alcohol-based state shared revenues. Increases of 1.5 percent over the forecast period for the State Shared Revenues category after an initial bump in FY 2018 of 6.2 percent from marijuana shared receipts.
- Continued steady growth on an increased base following accelerated activity in FY 2016 and year-to-date in FY 2017 for planning-related fees. Increases support maintenance of cost recovery for planning services as personnel costs increase.
- A combination of factors influencing fine and penalty revenue including:
 - Parking fines at 2 percent on an increased base (and assuming a mitigating impact from the new Capitol Mall parking technology).
 - A steady 2 percent increase each year in court fine revenue with the offsetting concern of capacity for the continuum of services – police, legal, and the court.
 - An anticipated flattening of photo red light revenues absent the need for future installations.

GF Table 6, Revenues by Source (Values in Millions)

	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
Property Taxes, Other Taxes	\$ 67.04	\$ 69.73	\$ 72.38	\$ 75.11	\$ 77.94
Franchise Fees	17.01	17.28	17.51	17.80	18.04
State Shared Revenues	5.28	5.36	5.48	5.52	5.60
Fines, Penalties, and Forfeitures	3.18	3.24	3.29	3.35	3.40
Fees for Services / Other Fees	3.54	3.64	3.74	3.84	3.96
Rents, Permits, Licenses	2.43	2.61	2.55	2.74	2.68
Cost Allocation / Internal Chgs	14.48	14.82	15.60	16.19	17.03
Other Agencies, Grants	2.40	2.44	2.50	2.54	2.61
Transfer from Other Funds	1.28	1.30	1.33	1.35	1.38
Interest Income	.31	.31	.30	.29	.28
Miscellaneous	.29	.29	.29	.30	.30
TOTAL REVENUES	\$ 117.24	\$ 121.02	\$ 124.93	\$ 129.04	\$ 133.24

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 expenditures are included in the appendix. The forecast includes a general inflationary increase of 2 percent to expenses in the materials and services category.

General Fund Table 7 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.

GF Table 7, Expenditures by Category (Values in Millions)

	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
Personal Services	\$ 96.70	\$ 100.08	\$ 106.34	\$ 109.48	\$ 116.39
Materials and Services	23.92	24.45	25.09	25.89	26.66
Capital Outlay*	0.90	0.80	0.80	0.80	0.81
Debt Service	0.28	0.28	0.28	0.28	-
Transfers	0.61	0.63	0.64	0.65	0.66
Contingency	3.00	3.00	3.00	3.00	3.00
TOTAL EXPENDITURES	\$ 125.41	\$ 129.23	\$ 136.16	\$ 140.10	\$ 147.52
<i>Less:</i>					
<i>Unspent Contingency</i>	<i>(2.50)</i>	<i>(2.50)</i>	<i>(2.50)</i>	<i>(2.50)</i>	<i>(2.50)</i>
<i>Anticipated Savings (2%)</i>	<i>(2.38)</i>	<i>(2.46)</i>	<i>(2.60)</i>	<i>(2.67)</i>	<i>(2.83)</i>
TOTAL NET EXPENDITURES	\$ 120.53	\$ 124.28	\$ 131.06	\$ 134.93	\$ 142.19

*Capital Outlay includes funding for information technology and facilities asset maintenance projects as well as capital outlay needs for General Fund departments.

General Fund Forecast Risks and Rankings

The forecast acknowledges 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	HIGH	57%
Local Option Levies	HIGH	None currently
State Shared Revenue	MEDIUM	5%
Franchise Fee Revenue	MEDIUM	15%

Property Tax

The 5 percent increases in current year property tax receipts realized in FY 2015 and FY 2016 (4.4 percent anticipated for FY 2017) are the result of a reset in property valuations, following the recession. The valuation reset prompted significant improvement for tax revenue resulting from lowered compression losses. The forecast includes an approximate 3.8 to 4 percent increase in current property tax receipts for all five years. The view in 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 does not meet the historical growth rates of over 5 percent immediately preceding the recession. The forecast assumes the 4 percent year-over-year increase is a sustainable level of growth.

Marion County

Residential properties experienced Real Market Value (RMV) growth of over 11.4 percent in FY 2015, 9.22 percent in FY 2016, and 9.55 percent in FY 2017. This large change in RMV built in an adequate spread between RMV and Assessed Value (AV) so that the full government rate of \$10.3538 per \$1,000 in AV can be realized and not compressed in FY 2018. The revenue loss attributable to compression in FY 2017 decreased to \$352,121 and is anticipated to be approximately \$162,808 for FY 2018.

Polk County

At a current general government tax rate of \$9.4068, West Salem is not experiencing compression, which is indicative of an adequate spread between RMV and AV, thus allowing AV to grow at the 3 percent statutory limit.

Risk Factor Ranking – HIGH

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 not currently in compression, when the levy is enacted, may become compressed as a result of the levy. This compression reduces 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 percent annual increase during the forecast period, which may be optimistic with current FY 2017 results. Shared cigarette tax revenues are expected to continue to decline by 1 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 be flat over the forecast period assuming the benefit from 2014 legislation taxing prepaid cell phones and Voice over Internet Protocol (VoIP) users has been realized. The forecast includes a significant increase with the addition of revenues from shared marijuana taxes. The estimate for this revenue source is derived from currently limited data and includes no inflation over the forecast period.

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 relatively flat for natural gas (-1 percent to 0 percent change), and 2 percent for electricity over a lowered FY 2017 base. PGE's most recent rate case was settled with an approximate 1 percent decrease effective January 2016 with an upward adjustment allowed if the Carty Generating Station

was online by end-July 2016. The station went online in July, which allowed for an approximate 2.5 percent increase. The forecast reflects no change in rates for Salem Electric. In September 2016, Northwest Natural Gas decreased rates 2.6 percent for residential, and 1.6 percent for commercial beginning in November 2016. The forecast assumes an increased customer base among other factors to somewhat offset the decrease in rates.

The City's water and wastewater franchise fee projected growth is 3.9 percent in the first year of the forecast based upon projections from the City's internal rate modeling with a 2.6 – 2.7 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 3 percent in alternating years of the forecast period due to anticipated cost-of-service increases. One percent growth is forecast for Telecommunications based on current trending.

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.



Transportation Services Fund 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.

Current Status

Adoption of the streetlight fee and creation of the Streetlight Fund, effective in FY 2016, 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.

The fiscal capacity of the Transportation Services Fund in FY 2017 to support sidewalk repair and replacement, as well as core street maintenance and operations is sustainable through the financial relief provided by the streetlight fee and the continued transfer of \$400,000 annually from General Fund franchise fees.

The view below represents the year end estimates for FY 2017. Year-end results reflect use of approximately \$532,300 of working capital to balance expenditures.

Transportation Services Fund FY 2017	Year End Estimate	As Compared to Budget	Year-over-Year Change
Estimated Revenues	\$13.92 M	 1.9%	 1.8%
Estimated Expenditures	\$14.45 M	 (13.7)%	 21.1%
Surplus / (Deficit) Change to Working Capital	(\$0.53) M		

Future Outlook

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 Oregon Department of Transportation (ODOT) provides a four-year forecast of state highway fund revenue with the most recent iteration published in December 2016. The City considers recent, local fuel usage trends; changes in the consumers' fleet (fuel efficient, hybrid and electric vehicles); and the impact of relatively low retail fuel prices on consumption – as well as the ODOT forecast – to create five years of estimates for this revenue source. The five-year forecast includes an increase of 1.8 percent to the FY 2017 year-end estimate for FY 2018, then increases at 2.5 percent each year for the remaining four years of the forecast period.

Expenditures in the forecast are proposed to include an expanded asphalt paving program that combines in-house City resources and contractor paving contracts to complete a combination of maintenance overlays, mill and inlay repairs, and structural pavement rehabilitation. Preventive pavement maintenance programs will include crack sealing and slurry seal treatments on local residential streets. The City will continue a sidewalk repair program that combines repairs to major Americans with Disability Act-designated pedestrian routes and priority spot repairs in residential neighborhoods. These high profile programs will augment the important routine maintenance activities such as signs, markings, striping, right-of-way landscape maintenance, snow and ice response, shoulder / alley grading, and traffic signal operations and maintenance.

The forecast employs a 2 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 2017 budget and maintains the sidewalk replacement level of \$1 million for five years of the forecast. The forecast also maintains \$2.35 million of pavement maintenance activities annually through five years. 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 \$2.9 million by the end of the forecast period, FY 2022.

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. The City will annually review the fiscal health of the fund and evaluate program priorities should the current levels of service become unsustainable or a greater level of pavement maintenance or sidewalk replacement be desired over time. Additional revenue sources, such as a local gas tax, may be explored with the City Council.

TSF Table 1, Comparison of Revenues and Net Expenditures (Values in Millions)

	FY 2017 YE Estimate	FY 2018 Forecast	FY 2019 Forecast	FY 2020 Forecast	FY 2021 Forecast	FY 2022 Forecast
Revenues	\$ 13.92	\$ 14.02	\$ 14.36	\$ 14.55	\$ 14.91	\$ 15.39
Net Expenditures	\$ 14.45	\$ 14.80	\$ 14.62	\$ 14.97	\$ 15.42	\$ 16.32
Surplus / (Deficit)	(\$0.53)	(\$0.78)	(\$0.26)	(\$0.42)	(\$0.51)	(\$0.93)

Table 2 is the full summary of the Transportation Services Fund forecast. Personal services costs in this forecast are based on current labor contracts and, in the absence of a current contract (especially in the later years of the forecast), annual adjustments to salary at 2 percent.

Table 3 demonstrates the impact to working capital of adding a half percentage point and a full percentage point increase to labor costs and all other expenditures for years 2 through 5 of the forecast.

TSF Table 2, FY 2018 – FY 2022 Forecast Summary (Values in Millions)

	FY 2017 YE Estimate	FY 2018 Forecast	FY 2019 Forecast	FY 2020 Forecast	FY 2021 Forecast	FY 2022 Forecast
Working Capital	\$ 4.99	\$ 4.46	\$ 3.68	\$ 3.42	\$ 3.00	\$ 2.49
Revenues	13.92	14.02	14.36	14.55	14.91	15.39
TOTAL RESOURCES	\$ 18.91	\$ 18.48	\$ 18.04	\$ 17.97	\$ 17.91	\$ 17.87
TOTAL EXPENDITURES	\$ 14.45	\$ 15.59	\$ 15.42	\$ 15.77	\$ 16.23	\$ 17.15
Unspent Contingency		(0.50)	(0.50)	(0.50)	(0.50)	(0.50)
2% Savings		(0.29)	(0.29)	(0.30)	(0.31)	(0.33)
NET EXPENDITURES	\$ 14.45	\$ 14.80	\$ 14.62	\$ 14.97	\$ 15.42	\$ 16.32
ENDING WORKING CAPITAL	\$ 4.46	\$ 3.68	\$ 3.42	\$ 3.00	\$ 2.49	\$ 1.55
Chg to Working Capital	(0.53)	(0.78)	(0.26)	(0.42)	(0.51)	(0.93)

TSF Table 3, Impact of Varying Inflatons on Expenditures

(Values in Millions)	FY 2018 Forecast	FY 2019 Forecast	FY 2020 Forecast	FY 2021 Forecast	FY 2022 Forecast
ENDING WORKING CAPITAL RESULT, Additional 0.5%, years 2 - 5	\$ 3.68	\$ 3.34	\$ 2.77	\$ 2.04	\$ 0.52
ENDING WORKING CAPITAL RESULT, Additional 1.0%, years 2 - 5	\$ 3.68	\$ 3.27	\$ 2.55	\$ 1.60	\$ 0.22

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. Approximately 70 percent of Transportation Services’ revenues (excluding beginning working capital) come from state highway fund revenue. The statewide motor vehicle fuel tax is currently 30 cents per gallon of retail fuel sold. The state highway fund’s distribution is 50 percent to the Oregon Department of Transportation, 30 percent to counties, and 20 percent to cities. 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.

Table 4 summarizes the five-year revenue forecast by revenue source. This table demonstrates all revenues anticipated to be received in the Transportation Services Fund. Approximately 17.4 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.

TSF Table 4, Revenues by Source (Values in Millions)

	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
State Highway Revenue	\$ 9.75	\$ 10.0	\$ 10.25	\$ 10.50	\$ 10.77
Intra City Billings and Transfers	3.63	3.72	3.65	3.75	3.94
Other Agencies, Grants	0.44	0.46	0.47	0.49	0.50
All Other Sources	0.19	0.18	0.17	0.17	0.17
TOTAL REVENUES	\$ 14.02	\$ 14.36	\$ 14.55	\$ 14.91	\$ 15.39

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 5 summarizes the five-year expenditure forecast by expense category. Sidewalk maintenance at \$1 million annually and \$1.65 million of pavement maintenance will be undertaken by City crews. In addition, the current level of service as reflected throughout the forecast anticipates \$200,000 for preventive maintenance contracts and \$500,000 for pavement contracts. Expenditure assumption tables are included in the appendix.

TSF Table 5, Expenditures by Category (Values in Millions)

	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
Personal Services	\$ 6.17	\$ 6.39	\$ 6.80	\$ 7.02	\$ 7.47
Materials and Services	8.44	8.33	8.27	8.52	8.98
Capital Outlay	0.39	.10	0.10	0.10	0.10
Transfers	0.10	0.10	0.10	0.10	0.10
Contingency	0.50	0.50	0.50	0.50	0.50
TOTAL EXPENDITURES	\$ 15.59	\$ 15.42	\$ 15.77	\$ 16.23	\$ 17.15
<i>Less:</i>					
Unspent Contingency	(0.50)	(0.50)	(0.50)	(0.50)	(0.50)
Anticipated Savings (2%)	(0.29)	(0.29)	(0.30)	(0.31)	(0.33)
TOTAL NET EXPENDITURES	\$ 14.80	\$ 14.62	\$ 14.97	\$ 15.42	\$ 16.32

Transportation Services Fund Forecast Risks and Rankings

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 Revenue	HIGH	70%

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. 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. As the primary revenue source for the City's transportation services, potential changes need to be monitored and, in the case of legislative challenges, defended.



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.

Current Status

The Utility Fund is in excellent financial shape. Staff has worked effectively to manage its expenses and City Council has adopted prudent rate increases over the past decade to sustain adequate revenues to properly operate, maintain, and modernize the utility’s infrastructure, as well as service and reduce the debt load incurred from prior large capital programs.

The Utility is the community’s most valuable asset, with an estimated facility value of about \$4 billion. Over \$300 million was invested at the turn of the century to modernize and expand the system. Continued improvements must be made to the Utility at a sustainable pace so that we do not find ourselves having to take on sizable debt in the future.

The view below represents the year end estimate for FY 2017. The proposed pay off of an Oregon Economic and Community Development Department loan in the amount of approximately \$5.2 million will cause expenditures to exceed revenues in the current fiscal year.

Utility Fund FY 2017	Year End Estimate	As Compared to Budget	Year-over-Year Change
Estimated Revenues	\$94.03 M	1.1%	2.74%
Estimated Expenditures	\$101.83 M	(9.87)%	19.6%
Surplus / (Deficit) Change to Working Capital	(\$7.80) M		

Future Outlook

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 to protect the City's General Fund, stabilize rates if needed, and provide emergency operating funds. 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. Rate revenue is assumed to grow at 3 percent throughout the forecast period. This revenue slope maintains operations and allows for an increase in the transfer for capital construction from \$14.28 million to \$20 million during the forecast period as debt is retired.

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 3 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 2017 is meeting projections. The forecast assumes average weather and consumption patterns through the five-year period.

Forecast – Utility Fund Current Service Level

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 FY 2022. 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 83 percent of the fund’s total new revenue in FY 2018. 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 document.

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 2016 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.

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 2017 YE Est 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 2016 City Council-adopted rate adjustments are reflected with a projected 3 percent revenue slope thereafter. The fund maintains an adequate level of working capital throughout the forecast period.

UF Table 1, Comparison of Revenues and Net Expenditures (Values in Millions)







	FY 2017 YE Estimate	FY 2018 Forecast	FY 2019 Forecast	FY 2020 Forecast	FY 2021 Forecast	FY 2022 Forecast
Revenues	\$ 94.03	\$ 100.53	\$ 103.47	\$ 106.17	\$ 108.76	\$ 111.35
Net Expenditures	\$ 101.83	\$ 98.83	\$ 101.21	\$ 105.13	\$ 106.27	\$ 109.06
Surplus / (Deficit)	 (\$7.80)	 \$1.70	 \$2.26	 \$1.04	 \$2.49	 \$2.29

Table 2 is the full summary of the Utility Fund forecast. Personal services costs in this forecast are based on current labor contracts and, in the absence of a current contract (especially in the later years of the forecast), annual adjustments to salary at 2 percent.

UF Table 2, FY 2018 – FY 2022 Forecast Summary (Values in Millions)

	FY 2017 YE Estimate	FY 2018 Forecast	FY 2019 Forecast	FY 2020 Forecast	FY 2021 Forecast	FY 2022 Forecast
Working Capital	\$ 47.02	\$ 39.23	\$ 40.93	\$ 43.18	\$ 44.22	\$ 46.71
Revenues	94.03	100.53	103.47	106.17	108.76	111.35
TOTAL RESOURCES	\$ 141.06	\$ 139.76	\$ 144.40	\$ 149.36	\$ 152.98	\$ 158.06
TOTAL EXPENDITURES	\$ 101.83	\$ 105.20	\$ 107.68	\$ 111.76	\$ 113.00	\$ 115.96
Unspent Contingency		(3.00)	(3.00)	(3.00)	(3.00)	(3.00)
5% Savings		(3.37)	(3.47)	(3.63)	(3.73)	(3.90)
NET EXPENDITURES	\$ 101.83	\$ 98.83	\$ 101.21	\$ 105.13	\$ 106.27	\$ 109.06
ENDING WORKING CAPITAL	\$ 39.23	\$ 40.93	\$ 43.18	\$ 44.22	\$ 46.71	\$ 49.00
Chg to Working Capital	(7.80)	1.70	2.26	1.04	2.49	2.29

This most recent forecast of the Utility Fund shows \$2 million in annual increases in revenues after FY 2018, when compared to the information presented in October 2016’s rate proposal. The capacity to sustain increases in capital investment will be evaluated annually with the goal of allocating 1 percent of the Utility’s capital infrastructure value for this purpose.

Table 3 demonstrates the impact to working capital of adding a half percentage point and a full percentage point increase to labor costs and all other expenditures for years 2 through 5 of the forecast.

UF Table 3, Impact of Varying Inflatons on Expenditures

(Values in Millions)	FY 2018 Forecast	FY 2019 Forecast	FY 2020 Forecast	FY 2021 Forecast	FY 2022 Forecast
ENDING WORKING CAPITAL RESULT, Additional 0.5%, years 2 - 5	\$ 40.93	\$ 42.68	\$ 42.68	\$ 43.61	\$ 43.80
ENDING WORKING CAPITAL RESULT, Additional 1.0%, years 2 - 5	\$ 40.93	\$ 42.17	\$ 41.15	\$ 40.51	\$ 38.60

Revenue Forecast

The revenue forecast is developed using conservative growth expectations for the Utility Fund. Approximately 83 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 2016, City Council adopted a 2 percent revenue slope for water, 2.5 percent for wastewater, and 3 percent for stormwater effective January 1, 2017, and a 3 percent revenue slope for all the utilities effective January 1, 2018; a 3 percent revenue slope is assumed for the remaining years of the forecast. Table 4 summarizes the five-year revenue forecast by revenue source.

UF Table 4, Revenues by Source (Values in Millions)

	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
Water, Wastewater, Stormwater Rates	\$ 83.08	\$ 85.39	\$ 87.58	\$ 89.83	\$ 92.14
Franchise Fees	3.42	3.51	3.60	3.70	3.79
Other Fees	2.18	2.22	2.26	2.30	2.34
Permitted Development	1.51	1.54	1.57	1.60	1.64
Internal Charges	6.36	6.55	6.95	7.15	7.58
All Other Sources	3.97	4.25	4.21	4.17	3.85
TOTAL REVENUES	\$ 100.53	\$ 103.47	\$ 106.17	\$ 108.76	\$ 111.35

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 5 summarizes the five-year expenditure forecast by category.

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 \$14.4 million in the first year to \$20 million in the fourth and fifth years. 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.

UF Table 5, Expenditures by Category (Values in Millions)

	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
Personal Services	\$ 34.44	\$ 35.57	\$ 37.80	\$ 38.98	\$ 41.42
Materials and Services	32.96	33.76	34.71	35.57	36.59
Capital Outlay	0.80	0.82	0.83	0.85	0.87
Debt Service	19.13	17.74	16.81	13.60	13.58
Transfers	14.38	16.29	18.10	20.50	20.00
Contingency	3.50	3.50	3.50	3.50	3.50
TOTAL EXPENDITURES	\$ 105.20	\$ 107.68	\$ 111.76	\$ 113.00	\$ 115.96
<i>Less:</i>					
<i>Unspent Contingency</i>	<i>(3.00)</i>	<i>(3.00)</i>	<i>(3.00)</i>	<i>(3.00)</i>	<i>(3.00)</i>
<i>Anticipated Savings (5%)</i>	<i>(3.37)</i>	<i>(3.47)</i>	<i>(3.63)</i>	<i>(3.73)</i>	<i>(3.90)</i>
TOTAL NET EXPENDITURES	\$ 98.83	\$ 101.21	\$ 105.13	\$ 106.27	\$ 109.06

Utility Fund Forecast Risks and Rankings

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, Wastewater, Stormwater Revenue	MEDIUM	83%

Water and Wastewater Rate Revenue

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. A small decline is anticipated to continue in Salem throughout the forecast period but is offset by a very small growth in customer accounts.

Risk Factor Ranking – MEDIUM

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 and 2016 rate proposal both included shifting cost recovery from variable to fixed rates in an effort to more appropriately assign costs of operating the system.



WVCC Fund Summary

The City's Willamette Valley Communication Center (WVCC) Fund supports the provision of emergency dispatch services to 29 police, fire, and emergency medical services agencies in Marion, Polk, and Lincoln counties.

Current Status

FY 2017 represents the continuation of a multi-year strategy to stabilize the WVCC Fund, sufficiently staff operations, and reduce the impact of overtime. As part of this strategy the division developed, and continues to refine, a staffing model designed to identify the number of employees necessary for basic operations, incorporate the retention rate, and predict hiring needs.

This process has led to a planned hiring process approximately every 120 days. In FY 2016 the division hired 17 call takers and has hired 6 more call takers so far in FY 2017. As a result, the number of overtime hours in calendar year 2016 was 2,580 less than the previous year. This trend is expected to continue in 2017.

Another element of the strategy to stabilize the fund has been the member agencies willingness to increase rates to meet operational needs. In FY 2016 member agency rates were increased by 7.9 percent and by 6.9 percent in FY 2017. The five-year forecast plans for rate increases to stabilize at 4.7 percent until sufficient working capital and equipment reserves are established, at which time the annual rate increases may be further reduced.

The graphic below provides year-end estimates for FY 2017 with a comparison to the budget and the prior fiscal year.

WVCC Fund FY 2017	Year End Estimate	As Compared to Budget	Year-over-Year Change
Estimated Revenues	\$10.00 M	0.3%	2.2%
Estimated Expenditures	\$10.01 M	(6.5)%	3.1%
Surplus / (Deficit) Change to Working Capital	(\$0.01) M		

Future Outlook

The forecast for the WVCC Fund demonstrates the successful implementation of the multi-year strategy described on the previous page. It reflects the financial impact of attaining staffing levels for 9-1-1 call taking and dispatch services that are appropriate to manage work load and provide adequate coverage for employee absences. Restoration of working capital, which provides the opportunity to plan for equipment reserves, is another outcome achieved in this forecast.

The forecast includes a variety of assumptions for expenditure activity over five years. The primary drivers of expense increases are the cost of personnel in this service-oriented fund. The forecast reflects wage adjustments and other provisions in the current labor contract, declining estimates for overtime use, as well as escalators for PERS, and health care costs. The tables for the expenditure assumptions are included in the appendix.

Forecast – WVCC Fund Current Service Level

The forecast demonstrates a level of projected increase in revenues sufficient to meet the anticipated growth in expenditures and restore working capital to a level of approximately \$1.5 million. Table 1 displays revenues and net expenditures for the FY 2017 year-end estimate and the five years of the forecast period.

WVCCF Table 1, Comparison of Revenues and Net Expenditures (Values in Millions)







	FY 2017 YE Estimate	FY 2018 Forecast	FY 2019 Forecast	FY 2020 Forecast	FY 2021 Forecast	FY 2022 Forecast
Revenues	\$ 10.00	\$ 10.44	\$ 10.90	\$ 11.39	\$ 12.02	\$ 12.58
Net Expenditures	\$ 10.01	\$ 10.29	\$ 10.51	\$ 11.00	\$ 11.36	\$ 12.01
Surplus / (Deficit)	 (\$0.01)	 \$0.15	 \$0.39	 \$0.39	 \$0.66	 \$0.57

Table 2 is the full summary of the WVCC Fund forecast. Personal services costs in this forecast are based on current labor contracts and, in the absence of a current contract (in the final three years of the forecast), annual adjustments to salary at 2 percent. Table 2 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 2 percent.

Table 3 demonstrates the impact to working capital of adding a half percentage point and a full percentage point increase to labor costs and all other expenditures for years 3 through 5 of the forecast.

WVCCF Table 2, FY 2018 – FY 2022 Forecast Summary (Values in Millions)

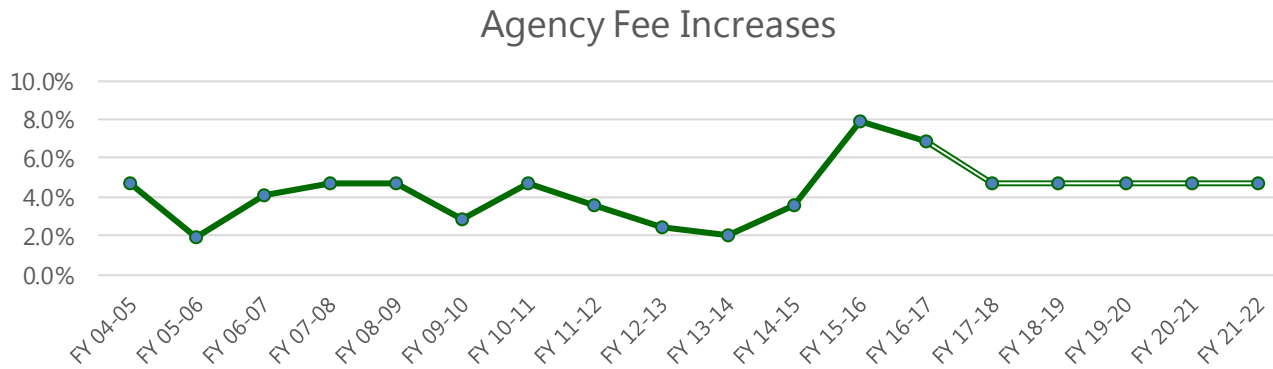
	FY 2017 YE Estimate	FY 2018 Forecast	FY 2019 Forecast	FY 2020 Forecast	FY 2021 Forecast	FY 2022 Forecast
Working Capital	\$ 0.81	\$ 0.80	\$ 0.95	\$ 1.33	\$ 1.72	\$ 2.38
Revenues	10.00	10.44	10.90	11.39	12.02	12.58
TOTAL RESOURCES	\$ 10.81	\$ 11.24	\$ 11.85	\$ 12.72	\$ 13.74	\$ 14.96
TOTAL EXPENDITURES	\$ 10.01	\$ 10.95	\$ 11.18	\$ 11.67	\$ 12.04	\$ 12.71
Unspent Contingency		(0.45)	(0.45)	(0.45)	(0.45)	(0.45)
2% Savings		(0.21)	(0.21)	(0.22)	(0.23)	(0.24)
NET EXPENDITURES	\$ 10.01	\$ 10.29	\$ 10.51	\$ 11.00	\$ 11.36	\$ 12.01
ENDING WORKING CAPITAL	\$ 0.80	\$ 0.95	\$ 1.33	\$ 1.72	\$ 2.38	\$ 2.95
Chg to Working Capital	(0.01)	0.15	0.39	0.39	0.66	0.57

WVCCF Table 3, Impact of Varying Inflatons on Expenditures

(Values in Millions)	FY 2018 Forecast	FY 2019 Forecast	FY 2020 Forecast	FY 2021 Forecast	FY 2022 Forecast
ENDING WORKING CAPITAL RESULT, Additional 0.5%, years 2 - 5	\$ 0.95	\$ 1.29	\$ 1.57	\$ 2.07	\$ 2.42
ENDING WORKING CAPITAL RESULT, Additional 1.0%, years 2 - 5	\$ 0.95	\$ 1.23	\$ 1.41	\$ 1.73	\$ 1.85

Revenue Forecast

The primary revenue source for the WVCC Fund is member agency rates. The graphic below demonstrates a multiple year history of rate increases and projected increases for the forecast period. Other revenue estimates presented in this forecast use current sources augmented with assumptions for growth based on available information and historic trends. Table 4 displays all fund revenues by source.



WVCCF Table 4, Revenues by Source (Values in Millions)

	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
Member Agencies	\$ 5.79	\$ 6.06	\$ 6.34	\$ 6.64	\$ 6.95
Other Fees	0.04	0.04	0.04	0.04	0.04
Internal Charges*	4.48	4.67	4.87	5.20	5.44
All Other Sources	0.13	0.14	0.14	0.14	0.14
TOTAL REVENUES	\$ 10.44	\$ 10.90	\$ 11.39	\$ 12.02	\$ 12.58

*Charges to the Salem Police Department and Salem Fire Department for dispatch services.

Expenditure Forecast

The base forecast for the WVCC 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. The forecast demonstrates full staffing and a reduction to overtime expense throughout the forecast to a new base of less than \$300,000 annually. The assumption tables used for expenditures are included in the appendix. The forecast includes a general inflationary increase of 2 percent to expenses in the materials and services category.

WVCC Fund Table 5 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.

WVCCF Table 5, Expenditures by Category (Values in Millions)

	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
Personal Services	\$ 8.79	\$ 8.99	\$ 9.42	\$ 9.73	\$ 10.33
Materials and Services	1.67	1.73	1.79	1.86	1.92
Capital Outlay	0.03	0.00	0.00	0.00	0.00
Contingency	0.45	0.45	0.45	0.45	0.45
TOTAL EXPENDITURES	\$ 10.95	\$ 11.18	\$ 11.67	\$ 12.04	\$ 12.70
<i>Less:</i>					
<i>Unspent Contingency</i>	<i>(0.45)</i>	<i>(0.45)</i>	<i>(0.45)</i>	<i>(0.45)</i>	<i>(0.45)</i>
<i>Anticipated Savings (2%)</i>	<i>(0.21)</i>	<i>(0.21)</i>	<i>(0.22)</i>	<i>(0.23)</i>	<i>(0.24)</i>
TOTAL NET EXPENDITURES	\$ 10.29	\$ 10.51	\$ 11.00	\$ 11.36	\$ 12.01

WVCC Fund Forecast Risks and Rankings

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 the WVCC Fund's resources is summarized below.

Forecast Risk – Revenue

	Ranking	Percent Total Revenue
<i>Member Agency Rates</i>	LOW / MEDIUM	98.4%

Member Agency Rates

Annual charges to the 29 WVCC member agencies are compounded by a growth rate (4.7 percent in the forecast) and distributed based on the agencies' percentage of population and the percentage of emergency call volume (9-1-1 calls received) and dispatch call volume (9-1-1 operator calls to public safety / emergency responders).

Risk Factor Ranking – LOW / MEDIUM

Member agency rate revenues can be subject to changing priorities for the member agency or its city or county government. As the primary revenue source for the City's emergency dispatch services, potential changes are reviewed with a budget committee comprised of agency representatives followed by review from the full complement of member agencies.

Airport Fund FY 2018 – FY 2022 Five Year Forecast

FY 2018 - FY 2022 SUMMARY (in millions)

	FY 17 YE Est	FY 18 F	FY 19 F	FY 20 F	FY 21 F	FY 22 F
Working Capital	\$ 0.95	\$ 0.81	\$ 0.89	\$ 0.71	\$ 0.67	\$ 0.21
Revenues	1.12	1.13	1.15	1.06	1.08	1.10
TOTAL RESOURCES	\$ 2.08	\$ 1.94	\$ 2.04	\$ 1.77	\$ 1.75	\$ 1.32
TOTAL EXPENDITURES	\$ 1.26	\$ 1.94	\$ 2.04	\$ 1.77	\$ 1.75	\$ 1.32
Unspent Contingency		(0.87)	(0.69)	(0.65)	(0.20)	(0.02)
3% Savings on M&S		(0.02)	(0.02)	(0.02)	(0.02)	(0.02)
NET EXPENDITURES		\$ 1.05	\$ 1.33	\$ 1.10	\$ 1.54	\$ 1.28
ENDING WORKING CAPITAL	\$ 0.81	\$ 0.89	\$ 0.71	\$ 0.67	\$ 0.21	\$ 0.04

The financial forecast for the Airport Fund provides continuation of current service levels with assumptions for inflationary factors to increase service costs and estimates for revenue growth.

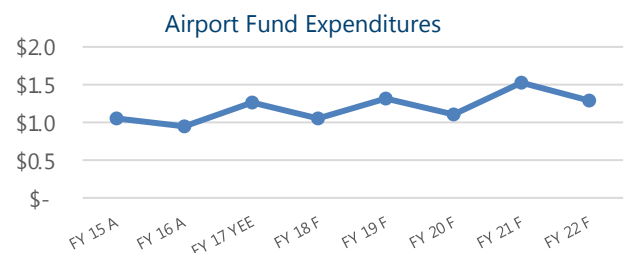
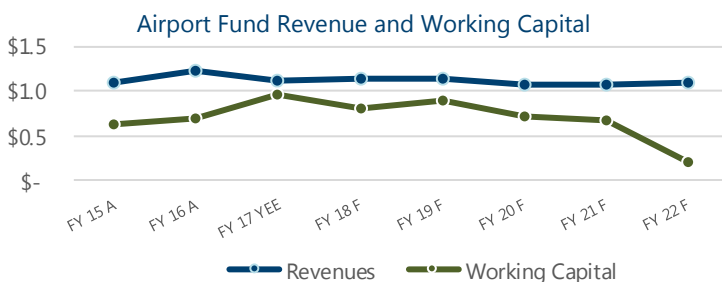
The forecast demonstrates a level of projected increase in revenues lower than the anticipated growth in expenditures in the final 4 years of the forecast period. It also displays savings derived from unspent fund contingencies and a level of naturally occurring savings through unanticipated economies. This level of savings is anticipated at 3 percent on materials and services.

The assumptions in the forecast lead to the decline of beginning working capital between FY 2017 – \$0.95 million at the beginning of the year – and FY 2022 – \$0.04 million at the conclusion of the fiscal year.

Federal Aviation Administration (FAA) grant matching funds of \$0.08 million over the forecast period are included. Ongoing capital improvement projects are dependent on FAA grants and the forecast demonstrates depletion of working capital for the requisite match.

Fund fiscal health risk factors are evaluated on the degree of impact to continued service delivery.

Forecast Risk	Ranking
Working Capital	High
Land / Building Rent	High
Parking Rent	High
Operational Expenses	High
Match for Federal Grants	High



Building and Safety Fund FY 2018 – FY 2022 Five Year Forecast

FY 2018 - FY 2022 Summary *(in millions)*

	FY 17 YE Est	FY 18 F	FY 19 F	FY 20 F	FY 21 F	FY 22 F
Working Capital	\$ 5.37	\$ 6.24	\$ 6.10	\$ 6.19	\$ 6.21	\$ 6.26
Revenues	5.10	4.66	4.67	4.83	5.00	5.17
TOTAL RESOURCES	\$ 10.48	\$ 10.90	\$ 10.77	\$ 11.02	\$ 11.21	\$ 11.43
TOTAL EXPENDITURES	\$ 4.24	\$ 5.14	\$ 4.92	\$ 5.15	\$ 5.29	\$ 5.54
Unspent Contingency		(0.30)	(0.30)	(0.30)	(0.30)	(0.30)
3.5% Savings on M&S		(0.04)	(0.04)	(0.04)	(0.04)	(0.04)
NET EXPENDITURES		\$ 4.80	\$ 4.58	\$ 4.81	\$ 4.95	\$ 5.20
ENDING WORKING CAPITAL	\$ 6.24	\$ 6.10	\$ 6.19	\$ 6.21	\$ 6.26	\$ 6.24

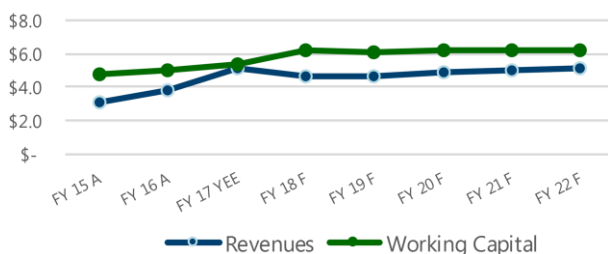
The City's annual financial forecast for the Building and Safety Fund provides continuation of current service levels with assumptions for inflationary factors to increase service costs and estimates for revenue growth.

The forecast demonstrates a level of projected increase in revenues slightly greater than the anticipated growth in expenditures. It also displays savings derived from unspent fund contingencies and a level of naturally occurring savings from other unanticipated economies. This level of savings is anticipated at 3.5 percent of material and services expenses.

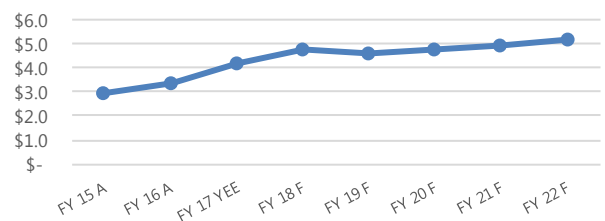
Fund fiscal health risk factors are evaluated on the degree of impact to continued service delivery.

Forecast Risk	Ranking
Working Capital	Low
Permit Revenue	Medium
PERS Rates	High
Health Benefits	Medium
Other Labor Factors	High
General Materials / Services	Medium

Building and Safety Fund Working Capital and Revenues



Building and Safety Fund Expenditures



Cultural and Tourism (TOT) Fund FY 2018 – FY 2022 Five Year Forecast

FY 2018 - FY 2022 SUMMARY (in millions)

	FY 17 YE Est	FY 18 F	FY 19 F	FY 20 F	FY 21 F	FY 22 F
Working Capital	\$ 1.22	\$ 0.33	\$ 0.15	\$ 0.44	\$ 0.55	\$ 0.38
Revenues	3.88	4.12	4.40	4.71	5.04	5.39
TOTAL RESOURCES	\$ 5.10	\$ 4.45	\$ 4.55	\$ 5.15	\$ 5.59	\$ 5.77
TOTAL EXPENDITURES	\$ 4.77	\$ 4.42	\$ 4.23	\$ 4.71	\$ 5.33	\$ 5.33
Unspent Contingency		(0.12)	(0.12)	(0.12)	(0.12)	(0.12)
NET EXPENDITURES		\$ 4.30	\$ 4.11	\$ 4.59	\$ 5.21	\$ 5.21
ENDING WORKING CAPITAL	\$ 0.33	\$ 0.15	\$ 0.44	\$ 0.55	\$ 0.38	\$ 0.56

The City's annual financial forecast for the Cultural and Tourism (TOT) Fund provides continuation of services with assumptions for inflationary factors to increase service costs and estimates for revenue growth.

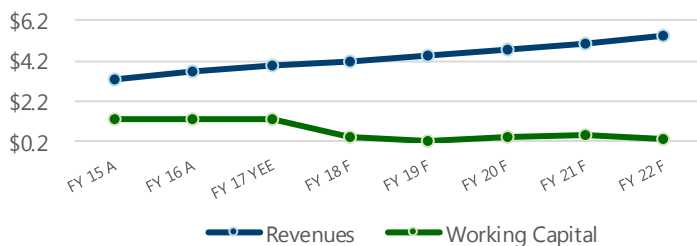
With an increased allocation for tourism promotion and significant action on improvements to Riverfront Park (electrical vaults), Minto Brown Island Park (trails), and Wallace Marine Sports Complex (field lights) to enhance these areas for sports tourism and large tourist-drawing events in the FY 2017 budget, working capital in the TOT Fund is anticipated to be depleted by almost \$900,000 to begin FY 2018.

The forecast demonstrates a level of projected increase in revenues roughly equivalent to anticipated growth in expenditures for the period of FY 2018 through FY 2022.

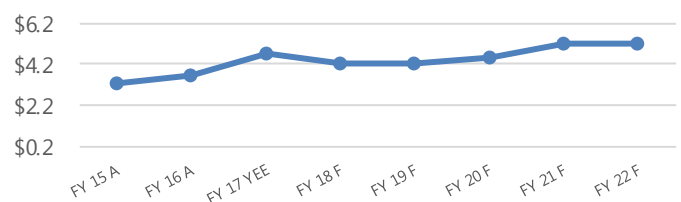
Fund fiscal health risk factors are evaluated on the degree of impact to continued service delivery.

Forecast Risk	Ranking
Working Capital	High
Occupancy Tax Revenue	High
Parks Transfer	High
Capital Improvement Projects	Medium
Tourism Promotion Allocation	High

TOT Fund Revenue and Working Capital



TOT Fund Expenditures



Emergency Services Fund FY 2018 – FY 2022 Five Year Forecast

FY 2018 - FY 2022 SUMMARY *(in millions)*

	FY 17 YE Est	FY 18 F	FY 19 F	FY 20 F	FY 21 F	FY 22 F
Working Capital	\$ 2.72	\$ 2.74	\$ 2.87	\$ 2.98	\$ 3.10	\$ 3.20
Revenues	0.76	0.78	0.80	0.82	0.84	0.87
TOTAL RESOURCES	\$ 3.48	\$ 3.52	\$ 3.67	\$ 3.80	\$ 3.94	\$ 4.06
TOTAL EXPENDITURES	\$ 0.74	\$ 0.71	\$ 0.76	\$ 0.77	\$ 0.81	\$ 0.97
Unspent Contingency		(0.06)	(0.06)	(0.06)	(0.06)	(0.06)
2% Savings on M&S		(0.01)	(0.01)	(0.01)	(0.01)	(0.01)
NET EXPENDITURES		\$ 0.65	\$ 0.69	\$ 0.70	\$ 0.75	\$ 0.90
ENDING WORKING CAPITAL	\$ 2.74	\$ 2.87	\$ 2.98	\$ 3.10	\$ 3.20	\$ 3.17

The City's annual financial forecast for the Emergency Services (EMS) Fund provides for the continuation of current service levels with assumptions for inflationary factors to increase service costs and estimates for revenue growth.

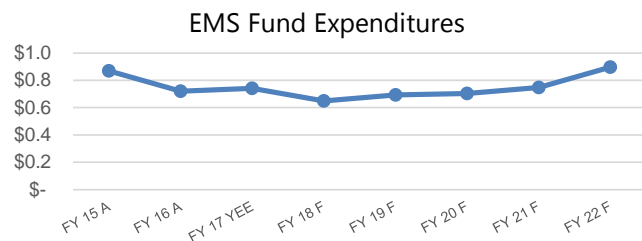
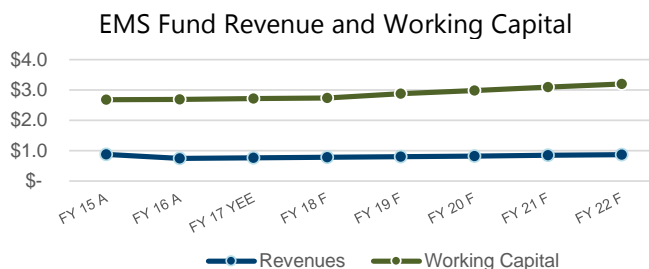
Fund fiscal health risk factors are evaluated on the degree of impact to continued service delivery.

The forecast demonstrates a level of projected increases in revenues that allows the EMS Fund to remain balanced with anticipated growth of on-going expenditures. It also displays savings derived from unspent fund contingencies and a level of naturally occurring savings from unanticipated economies. This level of savings is anticipated at 2 percent in the materials and services category.

Forecast Risk	Ranking
Working Capital	Medium
Ambulance Service Revenue	Low
Medicare / Medicaid Reimbursement	Medium
General Materials / Services	Medium
Capital Equipment Needs	High

The EMS Fund is required to maintain a working capital that provides resources for six months of immediate and uninterrupted ambulance transport services. The fund is anticipated to reach this level of working capital in FY 2020.

Future capital equipment needs account for the highest risk factor for the health of the EMS Fund. This forecast does not include any required capital equipment purchases. The Fire Department is continually looking for new funding sources as the current anticipated fund growth is insufficient to provide for future equipment needs.



Fleet, City Services Fund FY 2018 – FY 2022 Five Year Forecast

FY 2018 - FY 2022 SUMMARY *(in millions)*

	FY 17 YE Est	FY 18 F	FY 19 F	FY 20 F	FY 21 F	FY 22 F
Working Capital	\$ 2.45	\$ 2.28	\$ 2.22	\$ 2.21	\$ 2.20	\$ 2.20
Revenues	4.88	5.10	5.26	5.42	5.55	5.73
TOTAL RESOURCES	\$ 7.33	\$ 7.38	\$ 7.48	\$ 7.64	\$ 7.75	\$ 7.93
TOTAL EXPENDITURES	\$ 5.05	\$ 5.19	\$ 5.30	\$ 5.47	\$ 5.59	\$ 5.77
1% Savings on M&S		(0.03)	(0.03)	(0.03)	(0.03)	(0.04)
NET EXPENDITURES		\$ 5.15	\$ 5.27	\$ 5.43	\$ 5.55	\$ 5.73
ENDING WORKING CAPITAL	\$ 2.28	\$ 2.22	\$ 2.21	\$ 2.20	\$ 2.20	\$ 2.20

The City’s annual financial forecast for Fleet Services in the City Services Fund provides continuation of current service levels with assumptions for inflationary factors to increase service costs and estimates for revenue growth.

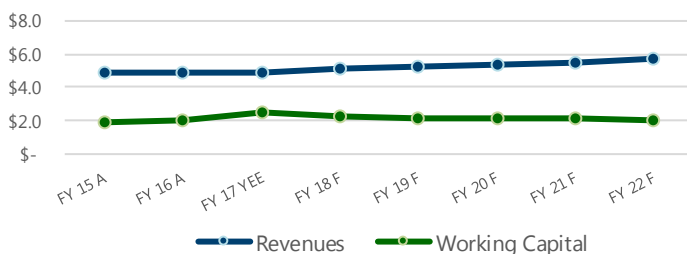
The forecast demonstrates a level of projected increase in revenues slightly lower than the anticipated growth in expenditures. It also displays a level of naturally occurring savings. This level of savings is anticipated at 1 percent of material and services expenses.

The assumptions in the forecast lead to a reduction of beginning working capital by \$.08 million by the conclusion of the fifth year of the forecast.

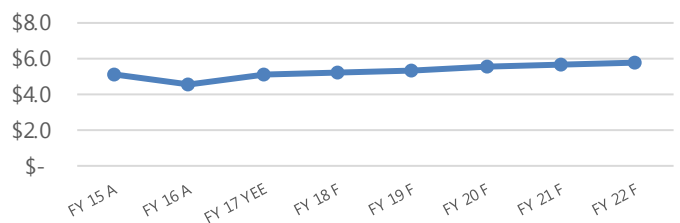
Fund fiscal health risk factors are evaluated on the degree of impact to continued service delivery.

Forecast Risk	Ranking
Working Capital	Medium
Internal Charge Revenue	Medium
Fuel Costs	High
PERS Rates	High
Health Benefits	Medium
Other Labor Factors	High
General Materials / Services	Medium

Fleet, City Services Fund Revenue and Working Capital



Fleet, City Services Fund Expenditures



Benefits, Self Insurance Fund FY 2018 – FY 2022 Five Year Forecast

FY 2018 - FY 2022 SUMMARY *(in millions)*

	FY 17 YE Est	FY 18 F	FY 19 F	FY 20 F	FY 21 F	FY 22 F
Working Capital	\$ 6.86	\$ 6.78	\$ 7.36	\$ 7.61	\$ 7.55	\$ 7.14
Revenues	22.69	23.78	25.13	26.57	28.09	29.70
TOTAL RESOURCES	\$ 29.55	\$ 30.56	\$ 32.49	\$ 34.17	\$ 35.64	\$ 36.84
TOTAL EXPENDITURES	\$ 22.77	\$ 23.20	\$ 24.89	\$ 26.62	\$ 28.50	\$ 30.56
NET EXPENDITURES		\$ 23.20	\$ 24.89	\$ 26.62	\$ 28.50	\$ 30.56
ENDING WORKING CAPITAL	\$ 6.78	\$ 7.36	\$ 7.61	\$ 7.55	\$ 7.14	\$ 6.28

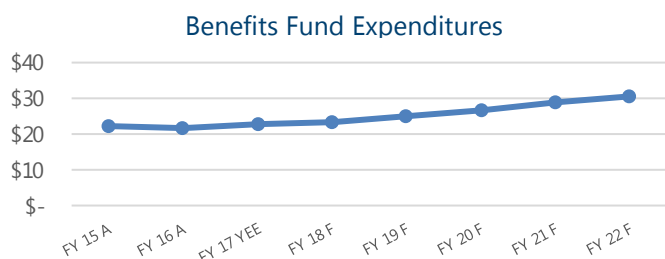
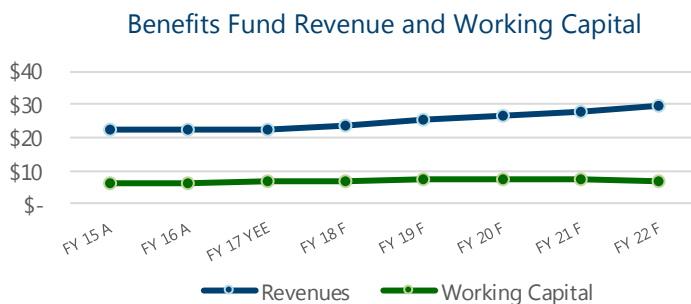
The City's annual financial forecast for the Benefits Self Insurance Fund provides continuation of current service levels with assumptions for inflationary factors to increase service costs and estimates for revenue growth.

The forecast demonstrates a level of projected increase in revenues slightly lower than the anticipated growth in expenditures.

The assumptions in the forecast lead to the reduction of working capital by \$0.5 million. The balance is within the standard practices of the City with sufficient reserves.

Fund fiscal health risk factors are evaluated on the degree of impact to continued service delivery.

Forecast Risk	Ranking
Working Capital	Low
Internal Revenue	Medium
Health Care Legislation	High
PERS Rates	High
Health Benefits	Medium
Changing Demographics	High
General Materials / Services	Medium



Risk, Self Insurance Fund FY 2018 – FY 2022 Five Year Forecast

FY 2018 - FY 2022 SUMMARY *(in millions)*

	FY 17 YE Est	FY 18 F	FY 19 F	FY 20 F	FY 21 F	FY 22 F
Working Capital	\$ 7.32	\$ 7.80	\$ 7.38	\$ 6.97	\$ 6.57	\$ 6.22
Revenues	4.39	4.45	4.56	4.69	4.86	5.01
TOTAL RESOURCES	\$ 11.71	\$ 12.24	\$ 11.94	\$ 11.66	\$ 11.42	\$ 11.23
TOTAL EXPENDITURES	\$ 3.91	\$ 4.86	\$ 4.97	\$ 5.09	\$ 5.20	\$ 5.32
NET EXPENDITURES		\$ 4.86	\$ 4.97	\$ 5.09	\$ 5.20	\$ 5.32
ENDING WORKING CAPITAL	\$ 7.80	\$ 7.38	\$ 6.97	\$ 6.57	\$ 6.22	\$ 5.91

The City's annual financial forecast for the Risk Self Insurance Fund provides continuation of current service levels with assumptions for inflationary factors to increase service costs and estimates for revenue growth.

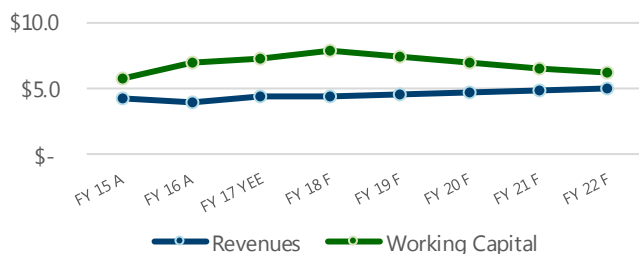
The forecast demonstrates a slight decrease in working capital over the 5 year period that is still within actuarial guidelines for the fund balance.

Claims experience has been more favorable than projected in recent years and is anticipated to remain level or improve. This would result in a higher working capital than forecasted and lower internal rates.

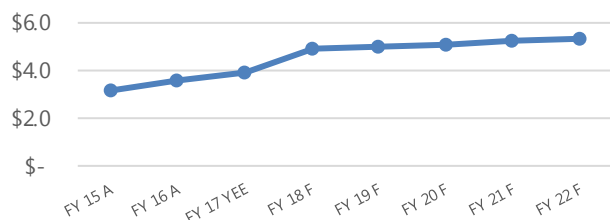
Fund fiscal health risk factors are evaluated on the degree of impact to continued service delivery.

Forecast Risk	Ranking
Working Capital	Medium
Internal Revenue	Low
Liability Claims	High
PERS Rates	High
Health Benefits	Medium
Other Labor Factors	High
General Materials / Services	Medium

Risk, Self Insurance Fund Revenue and Working Capital



Risk, Self Insurance Fund Expenditures



Streetlight Fund FY 2018 – FY 2022 Five Year Forecast

FY 2018 - FY 2022 Summary (in millions)

	FY 17 YE Est	FY 18 F	FY 19 F	FY 20 F	FY 21 F	FY 22 F
Working Capital	\$ 0.59	\$ 0.62	\$ 0.64	\$ 0.74	\$ 0.79	\$ 0.81
Revenues	2.21	1.87	1.88	1.88	1.89	1.89
TOTAL RESOURCES	\$ 2.80	\$ 2.49	\$ 2.52	\$ 2.62	\$ 2.68	\$ 2.70
TOTAL EXPENDITURES	\$ 2.18	\$ 2.06	\$ 1.98	\$ 2.03	\$ 2.08	\$ 2.13
Unspent Contingency		(0.20)	(0.20)	(0.20)	(0.20)	(0.20)
0.5% Savings		(0.01)	(0.01)	(0.01)	(0.01)	(0.01)
NET EXPENDITURES		\$ 1.85	\$ 1.78	\$ 1.82	\$ 1.87	\$ 1.92
ENDING WORKING CAPITAL	\$ 0.62	\$ 0.64	\$ 0.74	\$ 0.79	\$ 0.81	\$ 0.78

FY 2018-19 represents the third year of this new fund. Revenues have been stable and slightly in excess of original forecasts. The five-year plan anticipates no increase in rates and a very small increase in account growth consistent with utility account modeling. Expenditures in the forecast are consistent with the current year. There are some specific changes anticipated over the five-year period:

- Anticipated savings in electricity costs with re-lamping of existing fixtures.
- Replacement pole funding increased to \$200,000 from \$100,000.
- Funding for new poles at \$250,000 in year 1 and increasing to \$400,000 for years 2 - 5.

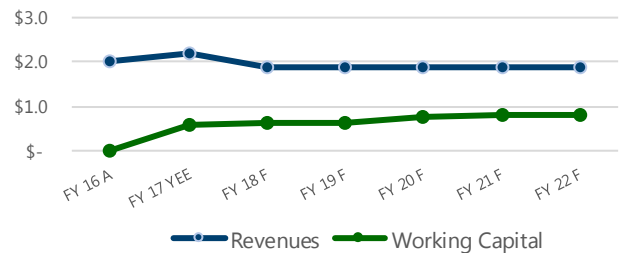
An interfund loan from the Utility Fund was provided to the Streetlight Fund to accomplish the re-lamping over a shorter period of time and take advantage of energy cost savings. The lower borrowing costs help the Streetlight Fund and provide better than market earnings on Utility reserves.

The streetlight fees were forecast to be sufficient for at least five years. Based on the current model, fees will be sufficient throughout the forecast period, representing a total of seven years since the program began. Investment in new and replacement poles will be evaluated annually to fund these activities appropriately.

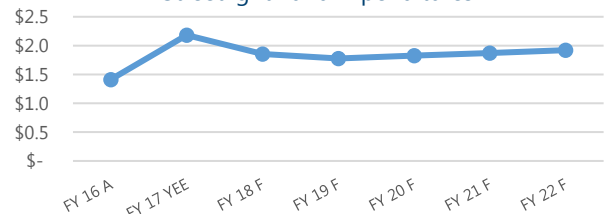
Fund fiscal health risk factors are evaluated on the degree of impact to continued service delivery.

Forecast Risk	Ranking
Streetlight fee	High
Electricity savings	High
Capital improvement transfers	High

Streetlight Fund Revenue and Working Capital



Streetlight Fund Expenditures



Summary of Findings

National Summary

Aggregate measures of economic activity (GDP) remained soft through the first half of 2016. Weak investment growth and an overhang of inventories – both associated with the sharp rise in the value of the dollar and sharp decline in the price of oil in late 2014 – were behind the disappointing numbers. Still, toward the end of 2016 signs emerged that this source of weakness was drawing to a close. The inventory correction process looks to be well underway as firms work off excess goods, new capital goods orders have stabilized, and surveys of both manufacturing and service sector industries rebounded in the final months of the year. As of January 6, 2017, the Atlanta Federal Reserve estimates 4 quarter 2016 economic growth at 2.9%. The Federal Reserve currently anticipates 2017 growth of 2.1%, up from 1.9% in 2016. While slow in comparison to past expansions, this would likely exceed the growth in productive resources, estimated to be 1.8%.

Job growth continued to slow during the year, which is normal as the economy reaches full employment. Still, average monthly job growth over the last 12 months ending in December was 179.8k per month, above the range of 65-115k considered to be consistent with a steady unemployment rate in the longer run; job growth will likely slow further. Despite the relatively fast job growth, the unemployment rate remained stable for much of the year due to an increase in the labor force as the strong labor market pulled people into the workforce. Still, it is expected that demographic trends – primarily, an aging population – will soon again dominate the labor force numbers, pulling down job growth.

As of December 2016, the unemployment rate stood at 4.7%, slightly below the Federal Reserve's estimate of full employment. Wage growth (for all employees) accelerated to 2.9% year-over-year, the fastest pace since 2009. When looking at individuals continuously employed for 12 months (via the Atlanta Federal Reserve), wage growth is 3.9%, consistent with the pre-recession pace. Inflation remains subdued at a 1.6% rate in November, below the Federal Reserve's 2% target. The median projection among monetary policy makers anticipates a total of 75bp of rate hikes in 2017; the actual number will depend on actual economic outcomes. In my opinion, this pace of monetary tightening is not likely to trigger a recession in the near term.

Oregon Summary

The Oregon economy held strong in 2016 and forward looking indicators suggest continued growth in 2017 is likely. Similar to the national situation, job growth has slowed. Still, job growth continues well in excess of the US pace, typical of Oregon expansions. Initial jobless claims remain at historically low levels while temporary help payrolls continues to climb. Both are associated with ongoing job growth. Building permits rose substantially between 2012 and 2016, but remain below levels typically seen during expansions. The University of Oregon Index of Economic Indicators and Measure of Economic Activity are consistent with continued growth at an above average pace of activity in 2017. Note that the peak growth rate of this

cycle has likely passed (barring an acceleration in the underlying growth of productive resources). This however, does not suggest an imminent end to the expansion.

Salem Summary

Regionally, economic performance exceeded my expectations; Salem is experiencing the fastest pace of sustained job growth since the mid-1990s. Job growth remains fairly widespread, but the private sector is the primary driver. 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 rose¹. Residential housing sales are very strong, but new home construction remains sluggish. This situation, however, looks to be changing; there was a jump in the value of new single/duplex housing permits in the 3rd quarter of 2016. The Salem Area Business Index (data only available through 2Q16) indicates that the regional expansion is likely to continue. The Salem Measure of Economic Activity indicates that regional growth remained above normal in 2016.

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 (OEA) to generate the Oregon revenue forecast. I anticipated modestly slower job growth in Oregon compared to the current state forecast, although both estimates are near 2.4%. I expect Oregon job growth of 2.3% in 2017 (December to December). For all practical purposes, my forecast agrees with that of OEA.

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. Job growth in Salem deviated substantially from this comparator in 2016. My forecast centers on post-recession data to account for this deviation from historical relationships. I anticipate job growth will moderate from 2016 rates to 3.5% growth in 2017, a pace that will exceed overall state growth. Actual percentage changes realized are sensitive to employment data revisions.

Nonfarm Payroll Growth Forecasts

December to December % Change

	OR	OR (OEA)*	Salem MSA
2016 (last)	2.9%	3.2%	3.2%
2016 (current)	2.7%	2.4%	5.1%
2017	2.3%	2.5%	3.5%

(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 (dated Nov. 13, 2016). * Fourth quarter to fourth quarter % change.)

¹ At the current time, data from the Department of Environmental Quality (DEQ) shows a steep drop in 3Q16 waste collection. According to DEQ, the drop is because they have yet to receive all of the data for the quarter. For this reason, the SABI data ends in 2Q16.

Political Uncertainty

Nationally, with Donald Trump becoming president, Republicans now control all three branches of government. This sets the stage for potentially significant policy changes. For example, trade agreements might change and disrupt current patterns of global economic activity, the Affordable Care Act might be repealed (with or without equivalent replacement), and the federal government may no longer tolerate state level legalization of marijuana. In addition, there is discussion of tax cuts and additional spending on infrastructure. Also, at the state level, a large budget deficit for the upcoming biennium is yet to be filled. These factors could have a significant impact on economic activity but we lack sufficient information of the ultimate outcomes of the upcoming policy debates to inform the forecast. Consequently, the forecast is subject to an additional degree of uncertainty.

Local Revenue Implications

Staff's expectations for city revenue growth are consistent with the area's likely path of economic activity this year. Continued job gains and high housing demand should continue to place upward pressure on residential investment; note that multifamily construction picked up over the last two years, from \$10.8 million and \$22.3 million in fiscal years 2014-15 and 2015-16, respectively to \$33.4 million in the first five months of fiscal year 2016-17. Steady property price appreciation will further lessen the compression of local revenue that had become an impediment to revenue growth during the most recent recession. Stronger economic activity should also support business investment in the region. Also, consistent with my outlook, staff reports strong planning activity likely to lead to a multi-year pipeline of projects in the region. Still, like last year, note that due to lags between initial construction plans and tax collections, upside benefits from construction activity would likely be realized beyond the current fiscal year. But overall, the solid pace of recent growth and a bright forecast mean that the risks to the revenue forecast are weighted to the upside.

On the cost side of the equation, accelerating wage gains pose an upside risk for employee and contractor costs. Likewise, the global economy remains mired in a period of low overall returns (a condition often referred to as "secular stagnation"). Low returns will likely thus continue to weigh on pension funds and thus state and local entities in Oregon are not likely to see any relief on PERS costs in the near future. Finally, there is currently considerable political uncertainty surrounding the fate of the Affordable Care Act. Depending on the ultimate resolution, health care cost could rise or fall relative to expectations.

Note

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



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

In its *Actuarial Valuation Report* for December 31, 2015 the PERS Advisory provided the City with employer contribution rates for July 1, 2017 through June 30, 2019. The rates, which are used in the first 2 years of the forecast, appear in Table 1 below. Rates for the two-year period beginning July 1, 2019 and July 1, 2021 were developed using the following key assumptions:

- The double rate collar is triggered with FY 2018 and FY 2019 rates (funded percentage of 69 percent);
- Funded percentage will stay above 70 percent for remaining biennia (single rate collar range);
- Top of collar rate increases will occur for the next two biennia; and
- Side account relief rate expected to stabilize at 7 percent.

Expenditures Risks, Table 1 PERS Employer Contribution Rates

PERS Type	FY 2012	FY 2014	FY 2016	FY 2018	FY 2020	FY 2022
Tier 1 and 2	12.93%	14.66%	15.82%	21.07%	26.88%	33.56%
OPSRP General Service	9.14%	10.28%	8.62%	11.97%	15.98%	20.49%
OPSRP Fire and Police	11.85%	13.01%	12.73%	16.74%	21.70%	27.36%

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

Risk Factor Ranking – HIGH

In 2013, the Oregon Legislature enacted PERS rate relief with the majority of the reforms subsequently overturned by the Oregon Supreme Court in April 2015. Two PERS reform bills have been introduced in the 2017 legislative session.

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 with medical premiums escalating by 6.5 percent each year. 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), SCABU (City attorneys). For the more in-depth fund forecasts in this document, wage expenses equate to a significant percentage of total operating (personal services, materials / services, capital outlay) costs – General Fund, 49 percent; Transportation Fund, 24 percent; Utility Fund, 31 percent; and WVCC Fund, 52 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. In addition, each forecast includes a table displaying the impact of a 2.5 percent increase and 3.0 percent increase to salary (and the associated "rollups," FICA / Medicare, PERS), as well as all other forecasted expenses, on working capital.

Risk Factor Ranking – MEDIUM

Negotiations are underway with three labor unions – SPEU, SCABU, and IAFF / Battalion Chiefs – during the current fiscal year. The risks associated with increased costs from future labor negotiations beyond FY 2017 are difficult to measure at this time.

Inflation

The Bureau of Labor Statistics reported in January 2017 that the Consumer Price Index-All Urban Consumers (CPI-U) Western Region (not seasonally adjusted) increased 2.5 percent from December 2015 to December 2016. Over the year, the index for all items less food and energy advanced 2.9 percent. Prices for (household) fuels and utilities rose overall by 4.5 percent, however, the period from October to December 2016 saw a -2.6 percent change. Gasoline rose 0.4 percent year-over-year with a -4.9 percent shift from October to December 2016. For purposes of this forecast, a 2 percent inflation factor is used on general goods and services.

Risk Factor Ranking – MEDIUM

Inflation may become a more significant factor 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 Expenditures
PERS Employer Rate Increases	HIGH	11.7%
Health Care Costs	MEDIUM	10.1%
Labor Agreements / Salary Costs	MEDIUM	41.7%
Inflation	MEDIUM	Varies

Percentages in the expenditures table are based upon comparison with the total operations budget for the four funds in the FY 2018 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.



Expenditure Assumptions Table

	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
WAGE PROJECTIONS	%	%	%	%	%
	Increase	Increase	Increase	Increase	Increase
Market adjustment – AFSCME	2.75%	2.00%	2.00%	2.00%	2.00%
Market adjustment – Attorneys (SCACBU)	2.00%	2.00%	2.00%	2.00%	2.00%
Market adjustment – Police (SPEU)	2.00%	2.00%	2.00%	2.00%	2.00%
Market adjustment – Battalion Chiefs (IAFF)	2.00%	2.00%	2.00%	2.00%	2.00%
Market adjustment – Fire (IAFF)*	5.00%	5.00%	2.00%	2.00%	2.00%
Market adjustment – Non-represented	2.00%	2.00%	2.00%	2.00%	2.00%
Market adjustment – PCEA (9-1-1)	3.00%	3.00%	2.00%	2.00%	2.00%

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

**IAFF Firefighters at 5.0 percent and 5.0 percent; Apparatus Operators at 4.0 percent and 3.0 percent; Deputy Fire Marshals, EMS Trainer / Coordinator, Training Officer at 4.0 percent and 4.0 percent.*

	Annual Percentage Change in Benefits Projections				
Medical (effective Dec 1, each fiscal year)	6.50%	6.50%	6.50%	6.50%	6.50%
Dental (effective Dec 1, each fiscal year)	2.00%	2.00%	2.00%	2.00%	2.00%
Vision (effective Dec 1, each fiscal year)	0.00%	0.00%	0.00%	0.00%	0.00%
Worker's compensation	2.60%	3.00%	3.00%	3.00%	3.00%
Life insurance (effective Dec 1, each fiscal year)	0.00%	0.00%	0.00%	0.00%	0.00%
Disability insurance (effective Dec 1, each fiscal year)	0.00%	0.00%	0.00%	0.00%	0.00%
	PERS Rates on Eligible Earnings				
Retirement-Employer – Tier 1 and 2	21.07%	21.07%	26.88%	26.88%	33.56%
Retirement-Employer – OPSRP General	11.97%	11.97%	15.98%	15.98%	20.49%
Retirement-Employer – OPSRP Police and Fire	16.74%	16.74%	21.70%	21.70%	27.36%

	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
MATERIALS AND SERVICES	% Increase	% Increase	% Increase	% Increase	% Increase
General inflation factor	2.00%	2.00%	2.00%	2.00%	2.00%
Liability insurance	2.60%	4.00%	5.00%	6.00%	6.00%
Internal charges	4.50% - 6.00%	3.00% - 4.50%	4.50% - 6.00%	3.00% - 4.50%	4.50% - 6.00%
Motor pool (Fleet Services)	Varies by department, overall 10.64%	2.50%	5.50%	2.50%	5.50%
Radio communications	Varies by department, overall 2.30%	2.00%	2.00%	2.00%	2.00%
9-1-1 services*	4.70%	4.70%	4.70%	4.70%	4.70%

*Escalators for 9-1-1 services reflect the rates charged to all member agencies. The City's rate will be 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 few years.

GENERAL FUND REVENUE ASSUMPTIONS TABLE

	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
REVENUE	%	%	%	%	%
	Increase	Increase	Increase	Increase	Increase
Current year property tax	4.25%	4.00%	3.80%	3.80%	3.80%
Electric franchise	2.00%	2.00%	2.00%	2.00%	2.00%
Telecommunications franchise	0.00%	-1.00%	-1.00%	-1.00%	-1.00%
Natural gas franchise	-1.00%	-1.00%	0.00%	0.00%	0.00%
Cable franchise	1.00%	1.00%	1.00%	1.00%	1.00%
Refuse (solid waste) franchise	0.00%	3.00%	0.00%	3.00%	0.00%
Fees for service	2.00%	2.00%	2.00%	2.00%	2.00%
Planning, site, dwelling review fees	5.40%	2.60%	5.50%	2.60%	5.80%
Other fees	2.90%	3.40%	2.50%	2.60%	2.70%
Licenses, permits	3.20%	3.60%	3.80%	3.80%	3.80%
Rents (parking, building)*	-5.80%	9.70%	-5.70%	9.80%	-5.70%
Indirect cost allocation (ICAP)	5.80%	4.50%	4.50%	4.50%	4.50%
Other internal charges*	18.90%	3.00%	6.00%	3.00%	6.00%
State shared revenue**	6.20%	1.50%	1.50%	1.50%	1.50%
Other agencies	3.20%	2.10%	3.30%	2.20%	3.40%
Grants***	0.00%	0.00%	0.00%	0.00%	0.00%
Fines, penalties	1.70%	1.70%	1.70%	1.70%	1.70%

*FY 2018 increase due to positions added to Information Technology Department and reimbursed by other departments / funds.

**FY 2018 increase due to addition of marijuana state shared revenues.

***FY 2018 assumption is return to base amount of approximately \$500,000, no increase in forecast years.

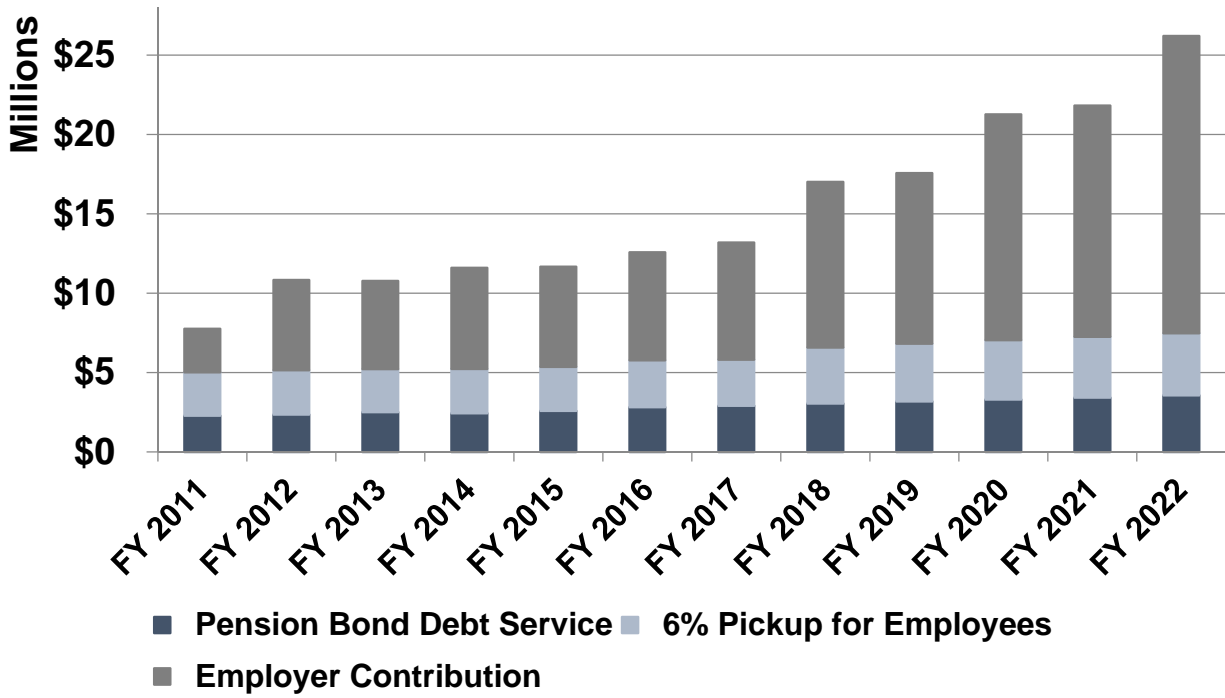
Notes:

All percentages are rounded.

FY 2018 escalators or de-escalators are calculated based upon FY 2017 estimates for year-end revenue totals by type.

*The pattern of escalation and de-escalation for rent revenues reflects the impact of biennial full legislative sessions.

City of Salem General Fund PERS Expense by Type



City of Salem Property Tax

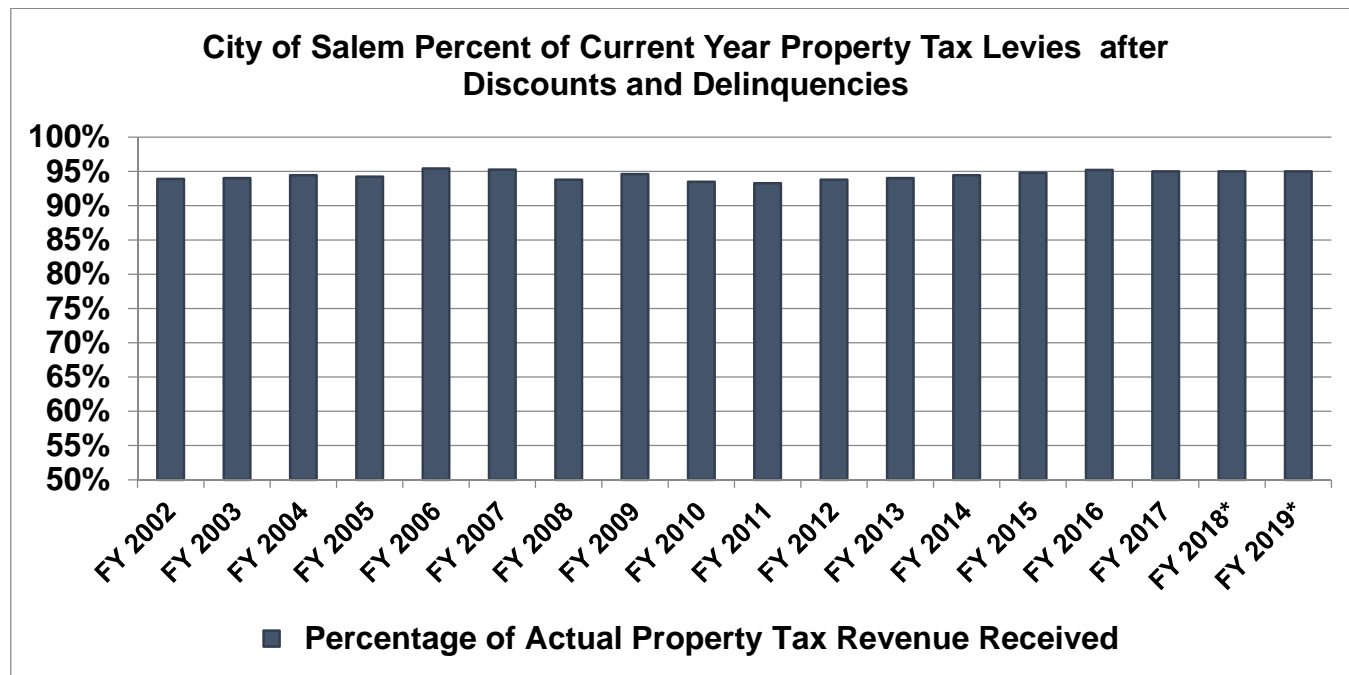
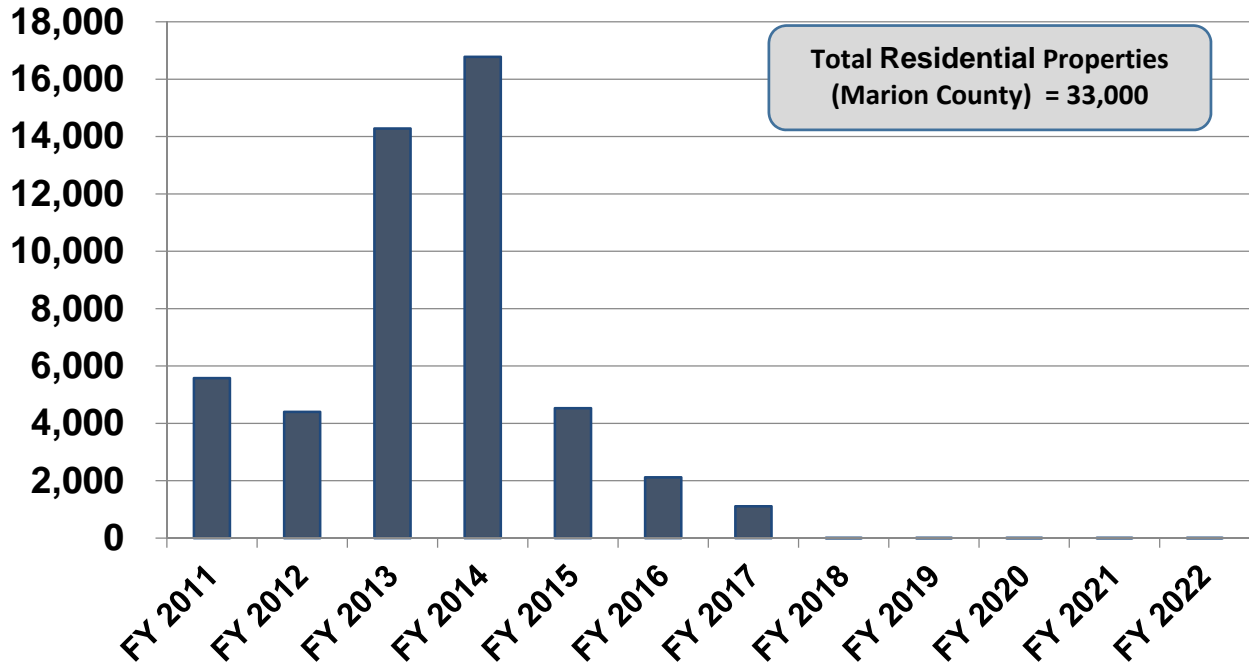


Table 2 - Historic Changes in Property Tax Levies Since the Passage of Measure 50

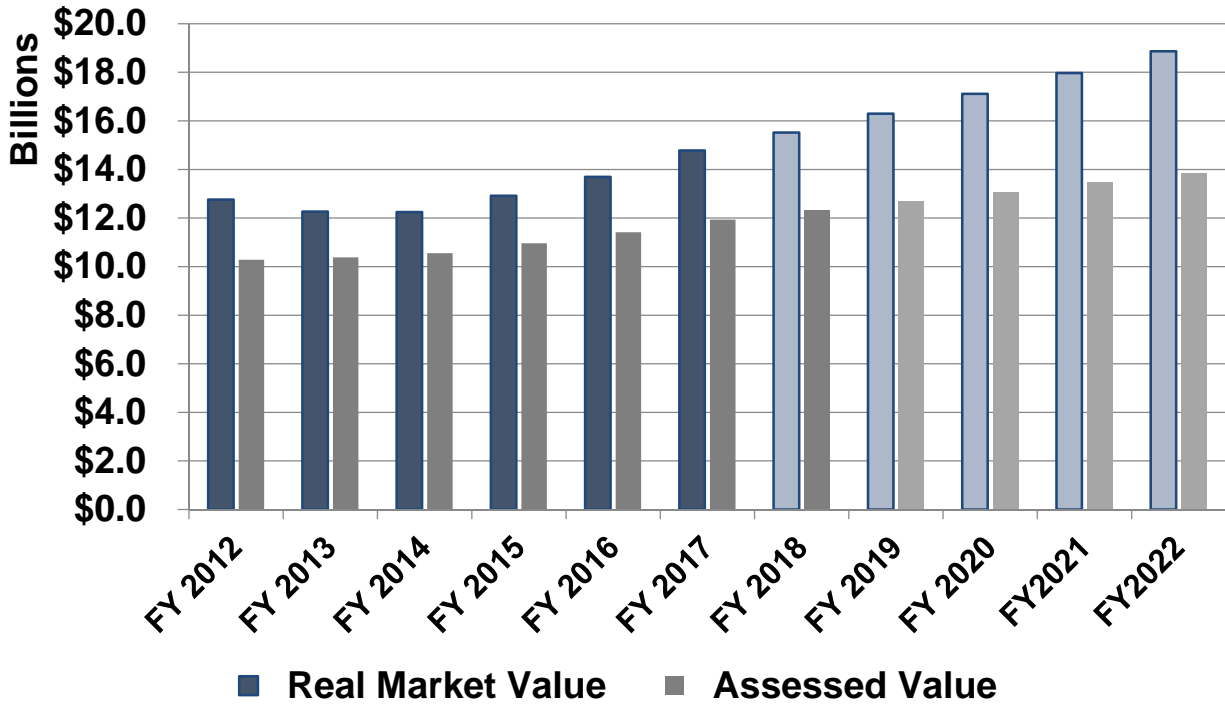
Fiscal Year	Levy	Increase	Actual	Increase
FY 2002	36,754,990	-	34,517,563	-
FY 2003	38,815,890	5.6%	36,495,536	5.7%
FY 2004	40,564,780	4.5%	38,309,011	5.0%
FY 2005	42,316,782	4.3%	39,880,157	4.1%
FY 2006	44,234,818	4.5%	42,212,928	5.8%
FY 2007	46,747,259	5.7%	44,535,508	5.5%
FY 2008	49,708,758	6.3%	46,619,613	4.7%
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%	59,874,938	5.1%
FY 2017	65,808,335	4.7%	62,517,919	4.4%
FY 2018*	68,604,973	4.2%	65,174,724	4.2%
FY 2019*	71,377,050	4.0%	67,808,198	4.0%

* Projected

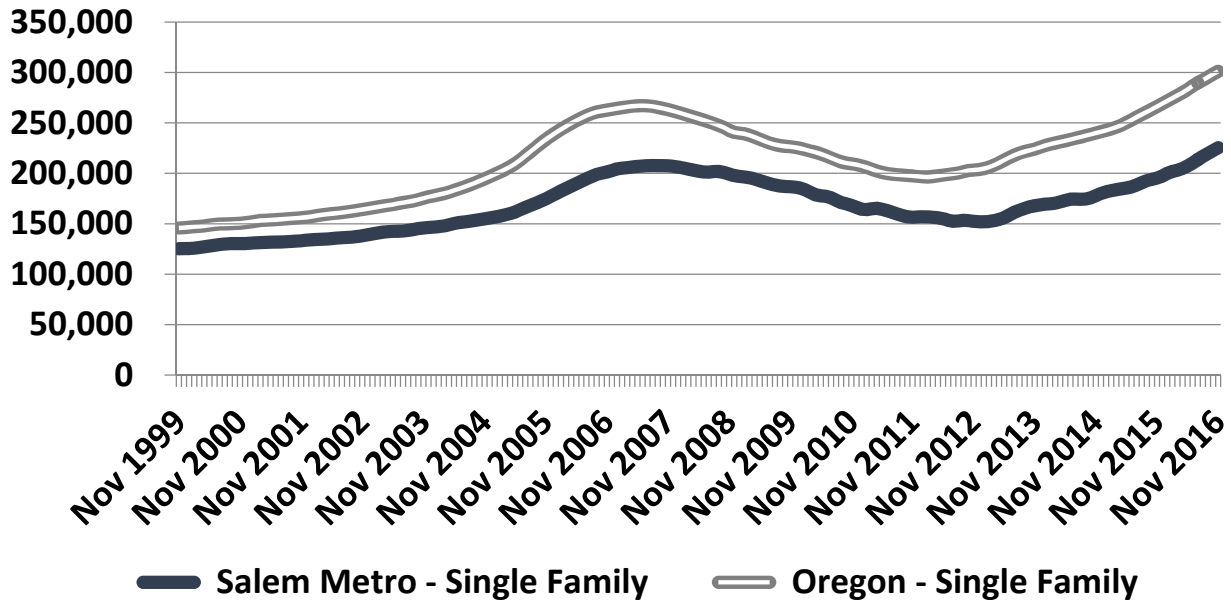
City of Salem Residential Properties where Real Market Value is equal to Assessed Value (Marion County)



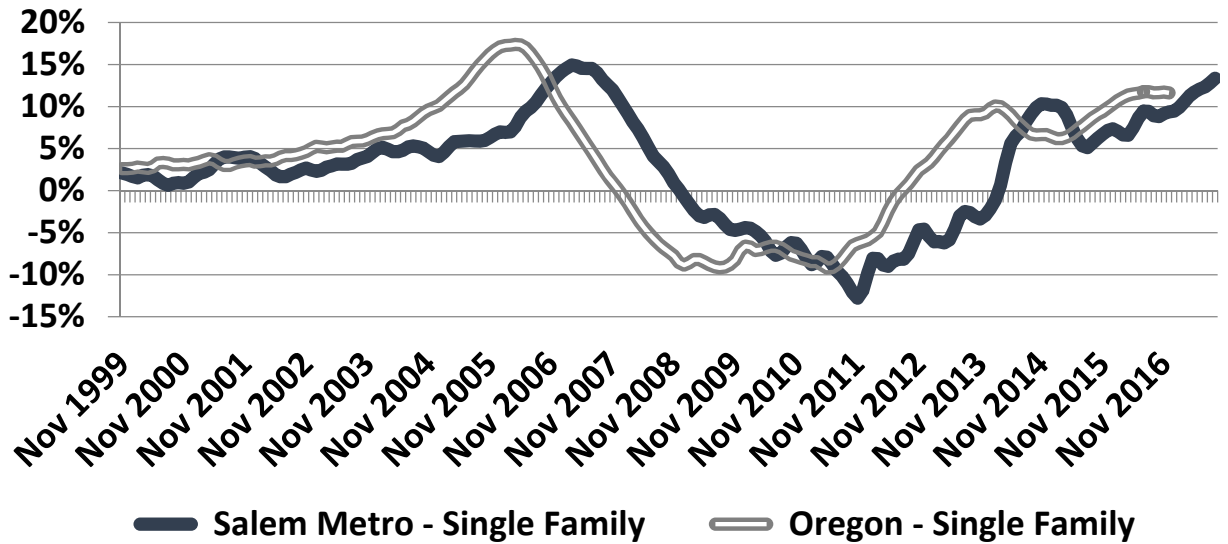
City of Salem Real Market Value vs. Assessed Value



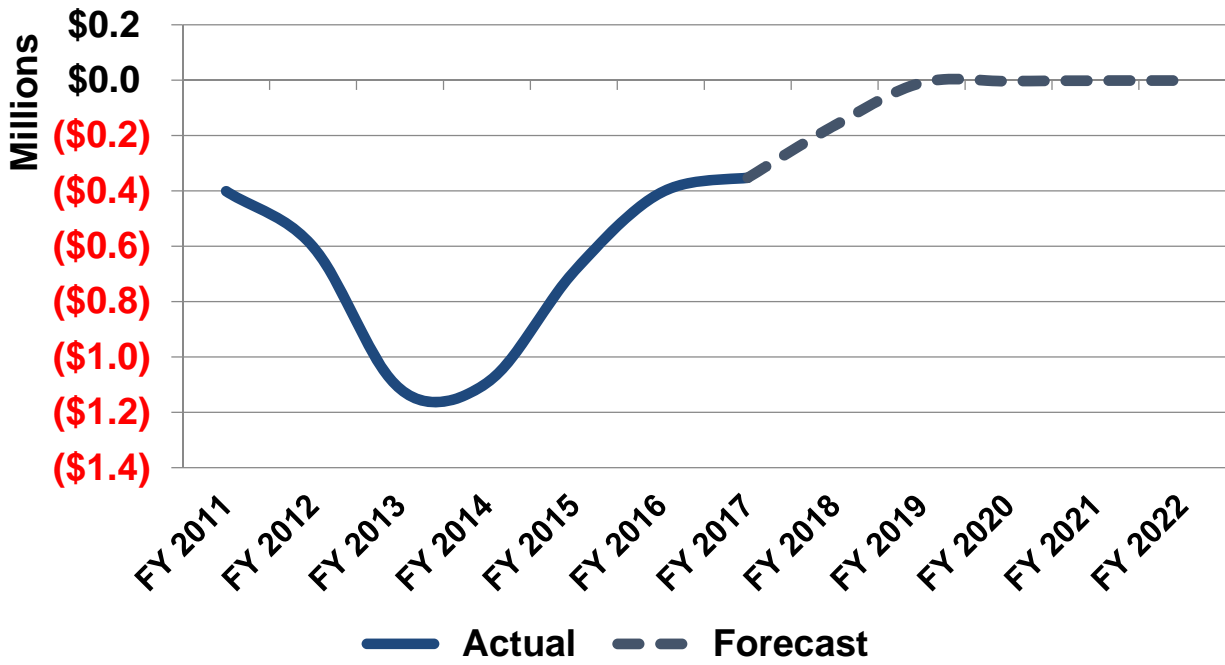
Salem Median Housing Value - Single Family Residence



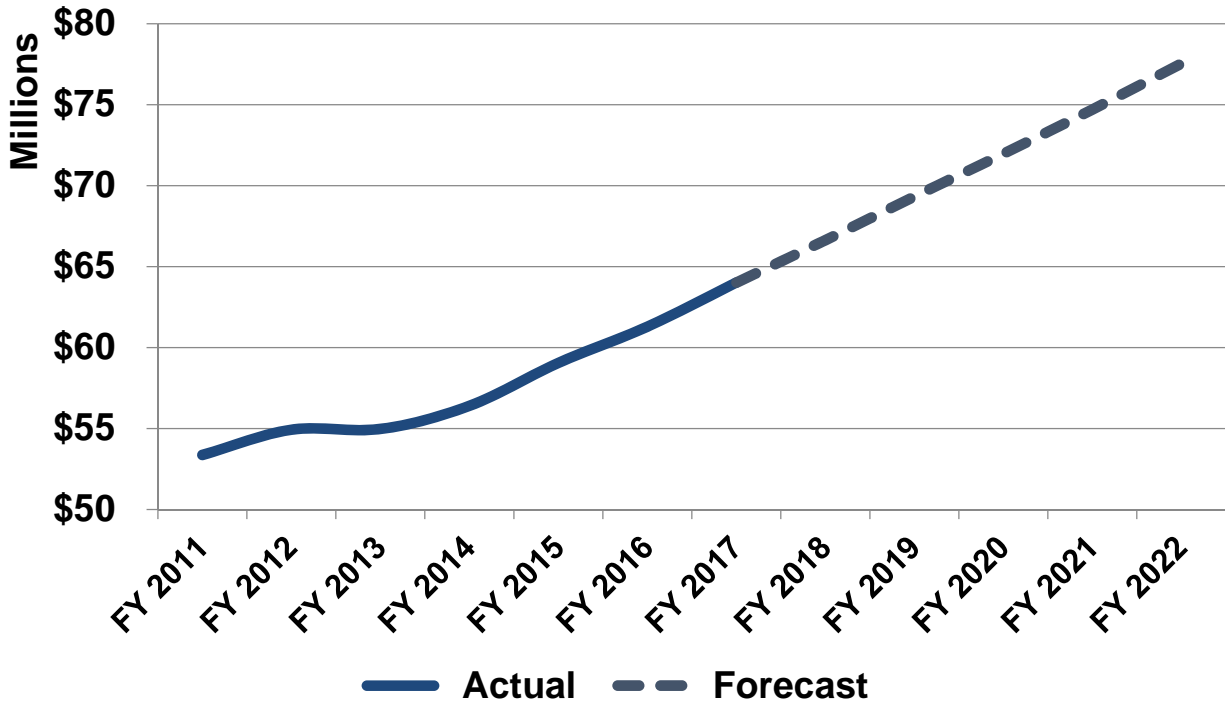
Salem Year-over-Year Percentage Change in Median Housing Value - Single Family Residence



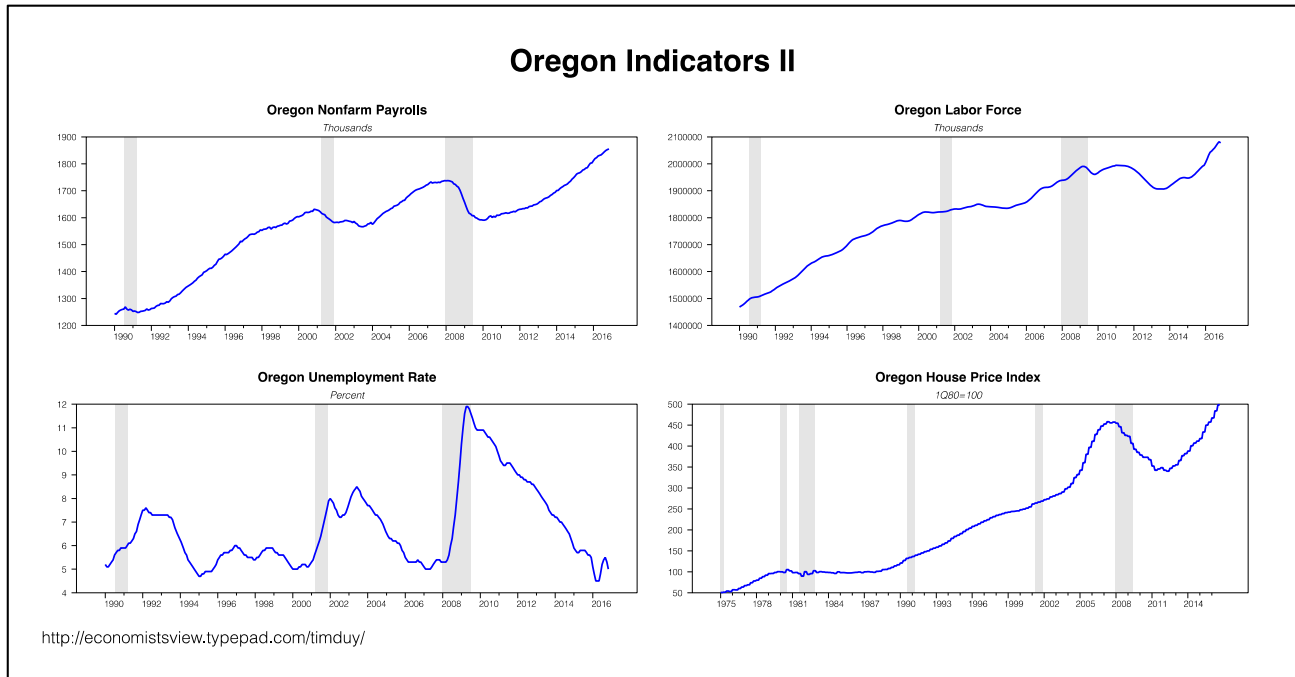
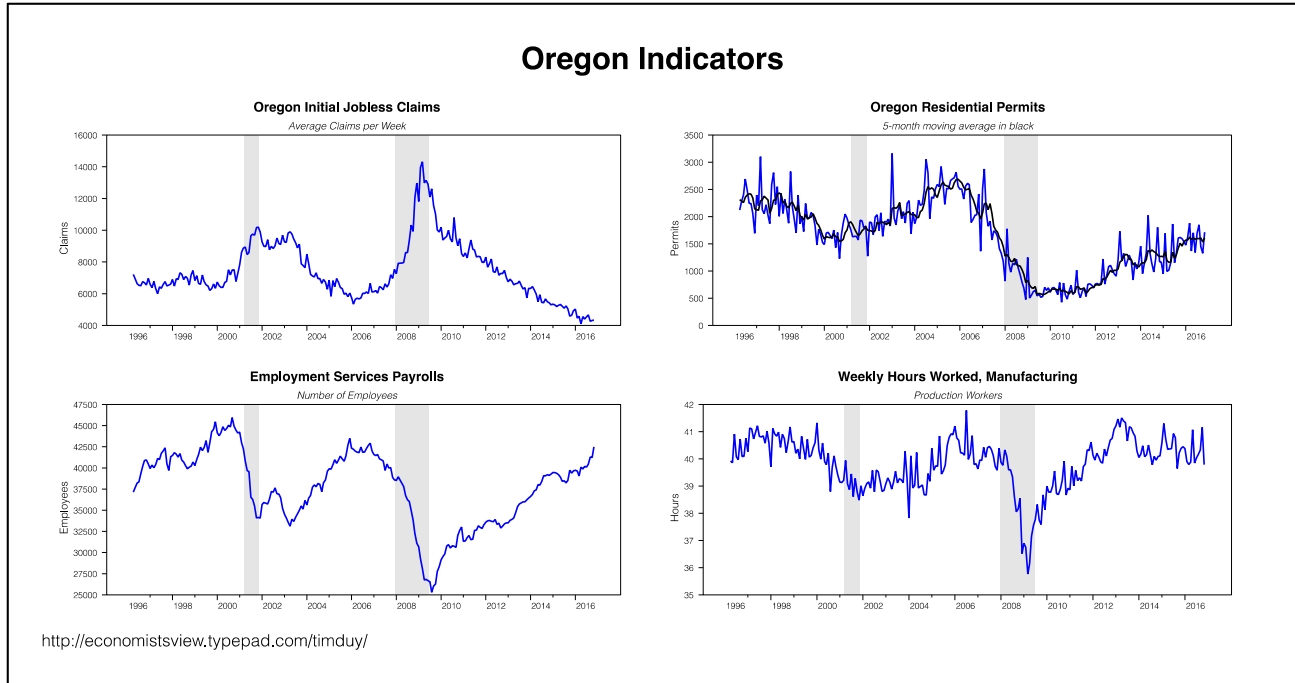
City of Salem Property Tax Revenue Loss due to Compression

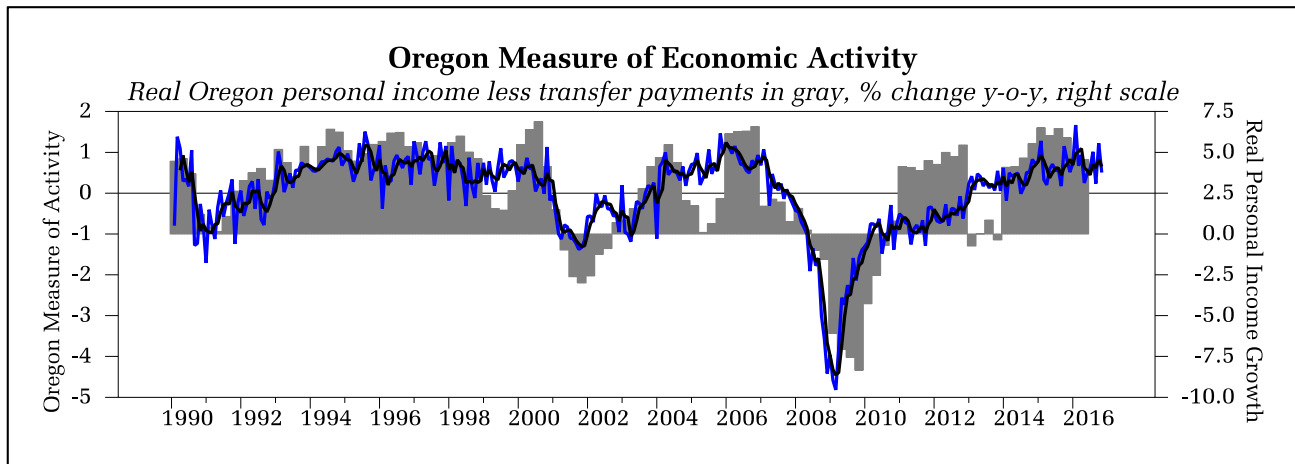
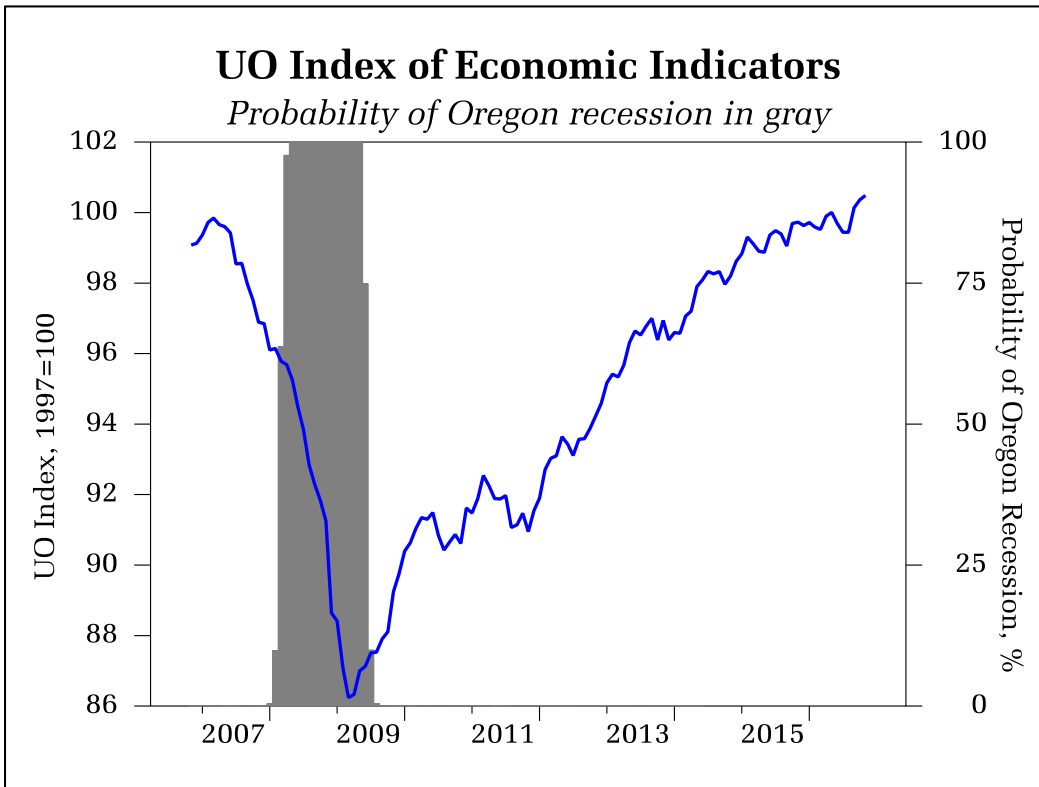


City of Salem Total Property Tax Revenue



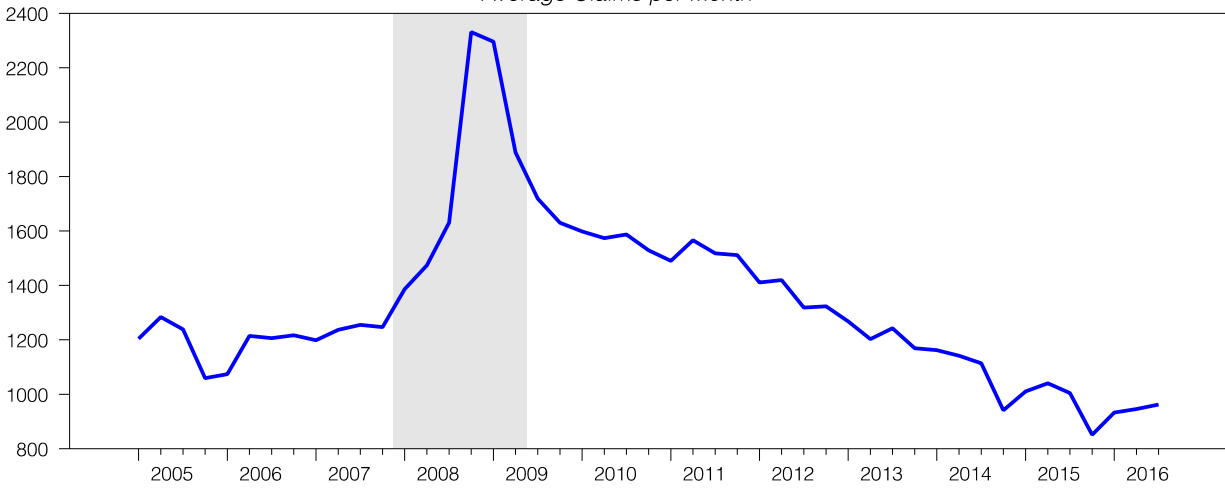
Other Background Information





Marion County Initial Jobless Claims

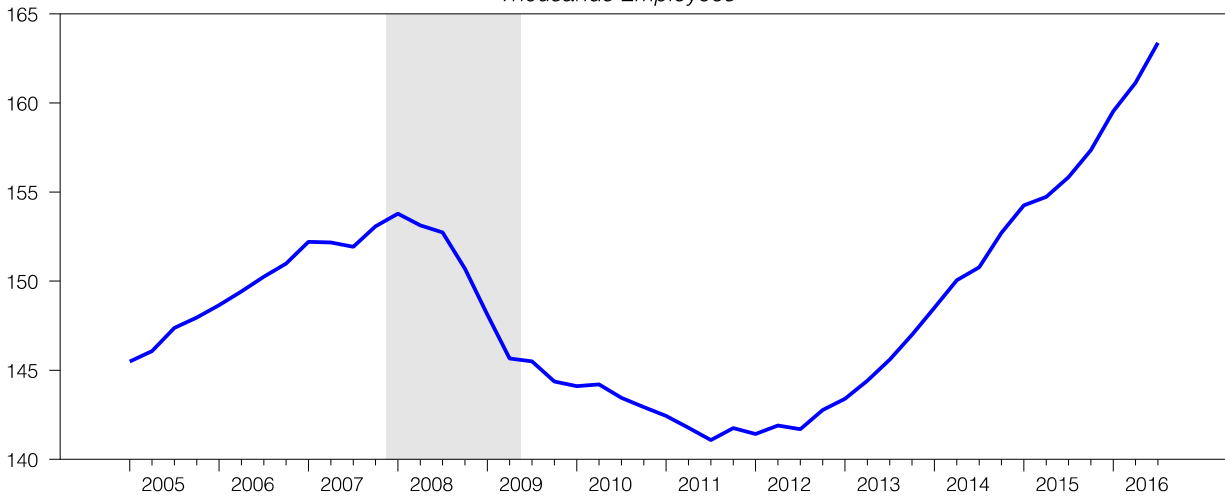
Average Claims per Month



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Salem Economic Outlook January 2017

Salem MSA Nonfarm Payrolls

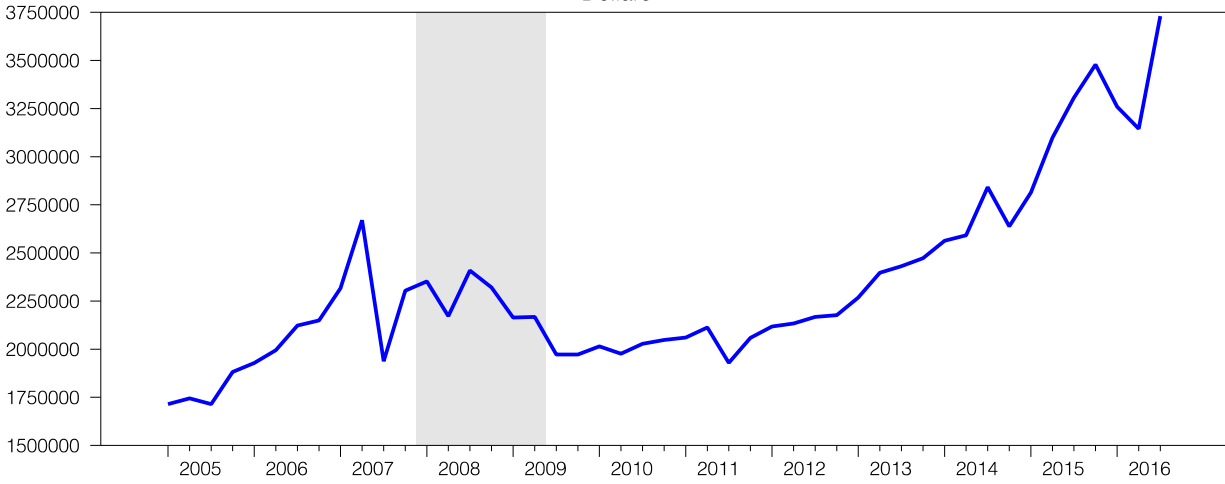
Thousands Employees



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Salem Economic Outlook January 2017

Salem Lodging Revenue

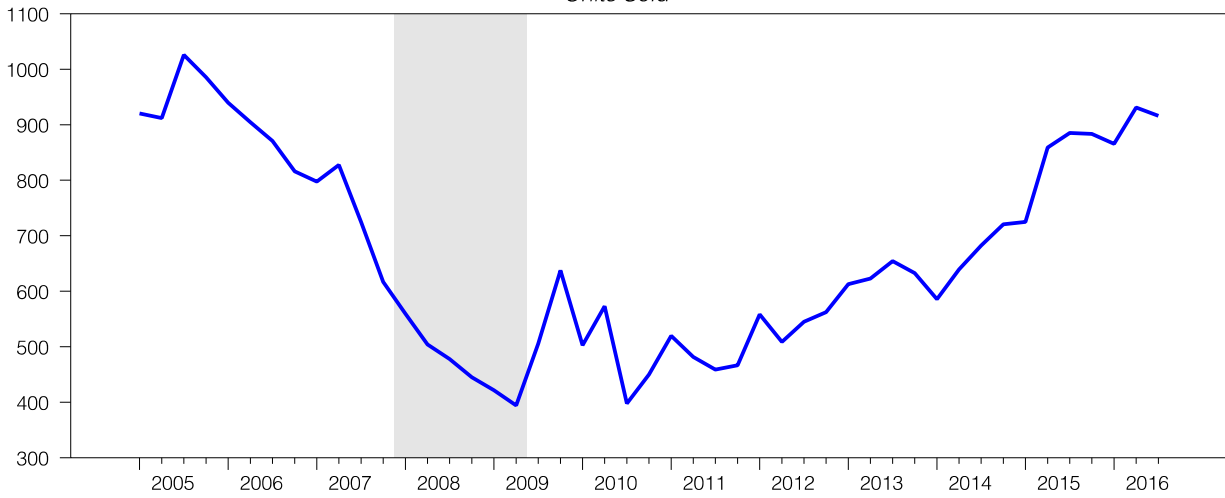
Dollars



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Willamette Valley Residential Housing Sales

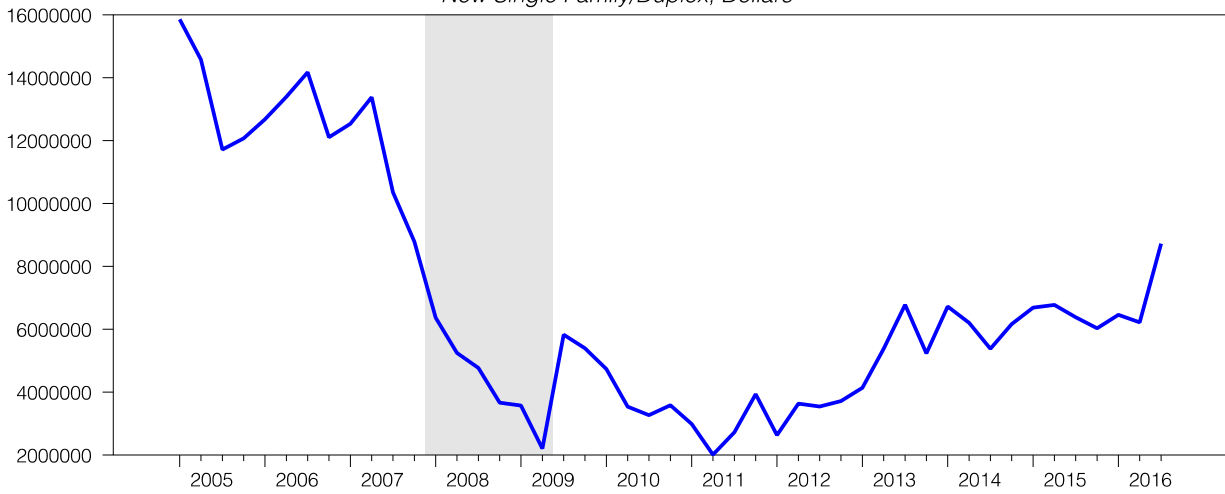
Units Sold



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Salem Value of Residential Construction

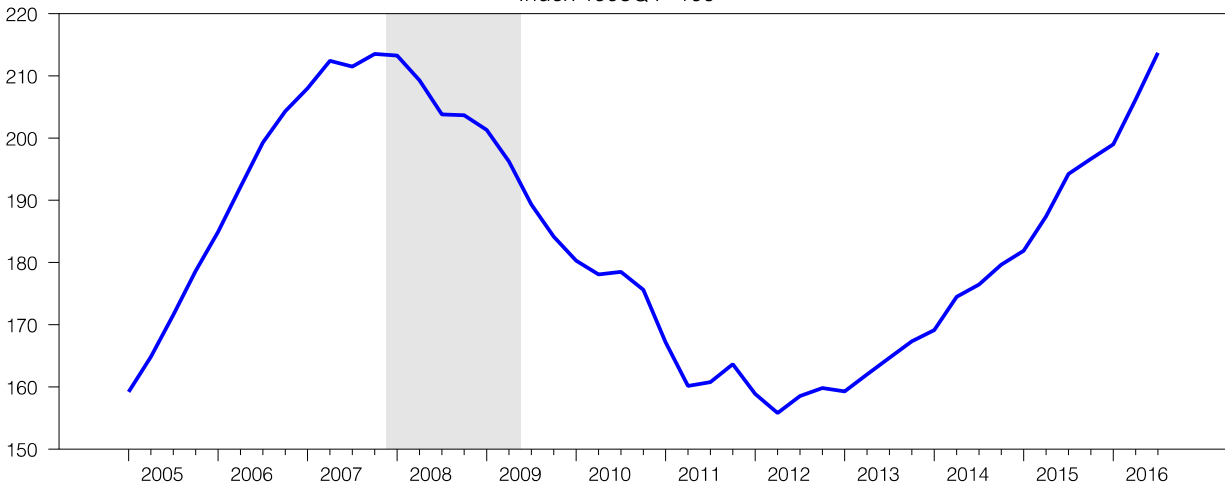
New Single Family/Duplex, Dollars



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Home Price Index for Salem MSA

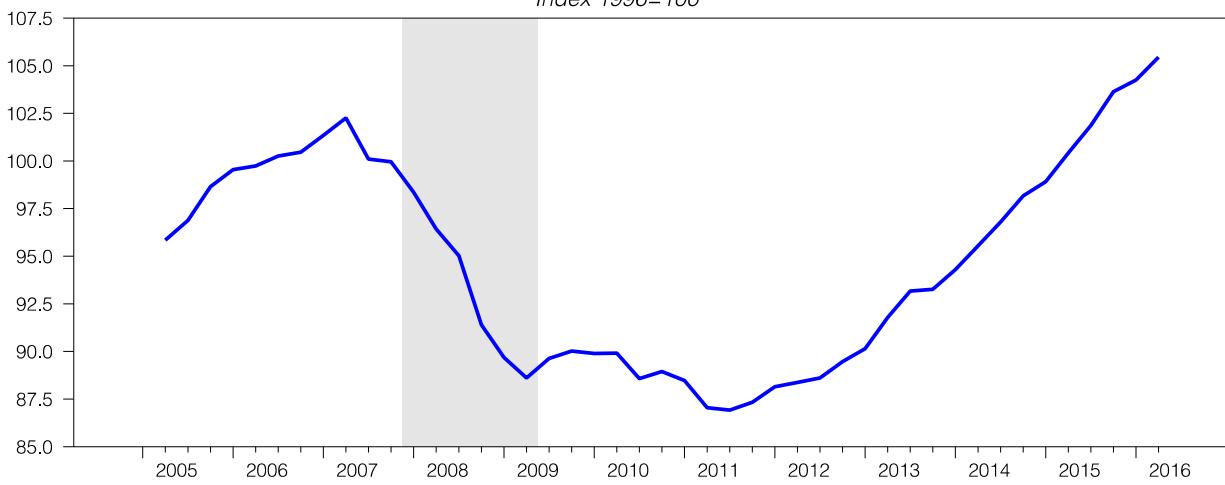
Index 1995Q1=100



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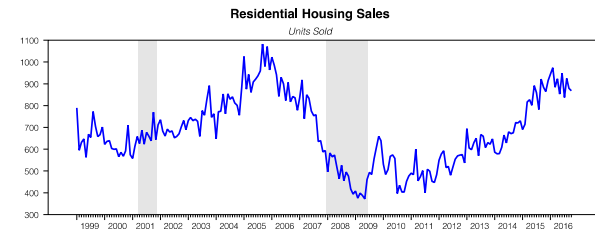
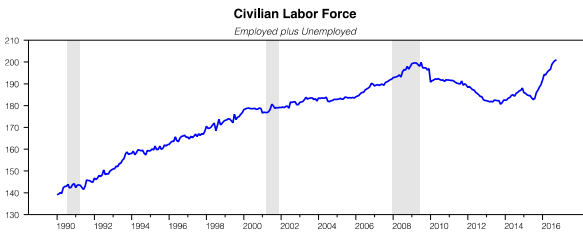
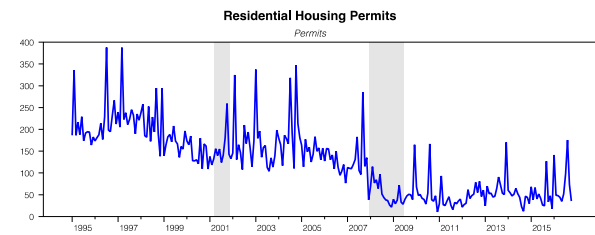
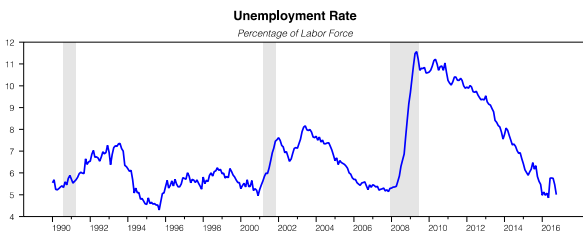
Salem Area Business Index

Index 1996=100



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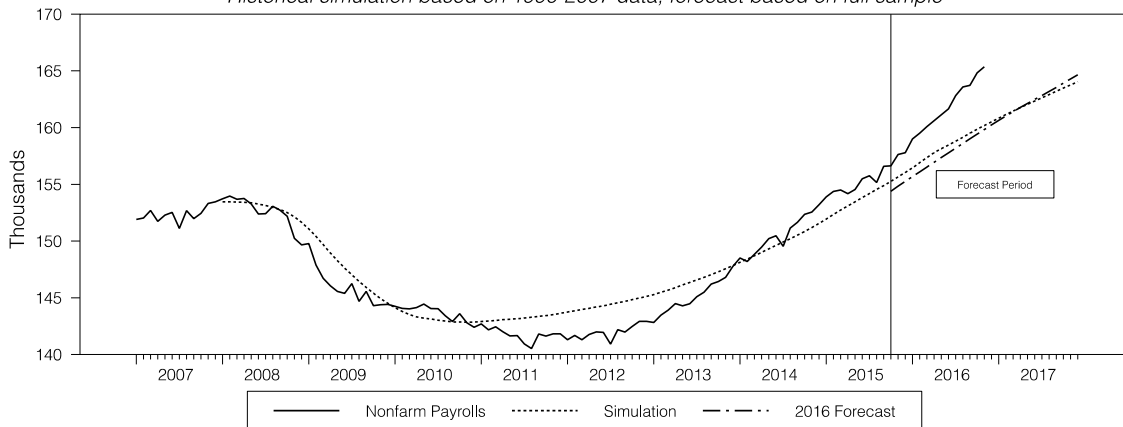
Salem Economic Indicators



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Salem Economic Outlook January 2017

Salem MSA Nonfarm Payrolls, Seasonally Adjusted, 2016 Forecast

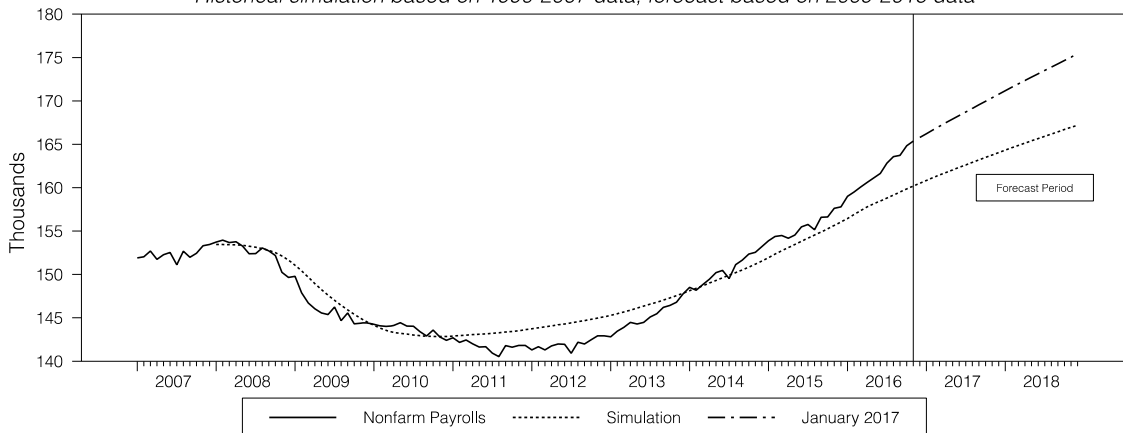
Historical simulation based on 1990-2007 data, forecast based on full sample



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Salem Economic Outlook January 2017

Salem MSA Nonfarm Payrolls, Seasonally Adjusted, 2017 Forecast

Historical simulation based on 1990-2007 data, forecast based on 2009-2016 data



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Salem Economic Outlook January 2017

