

City of Salem, Oregon

Preparing for the Future



Five-Year
Forecasts
FY 2019 – FY 2023

City of Salem Oregon

Five-Year Financial Forecasts

Fiscal Year 2019 through 2023

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

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City of Salem Budget Office
December 2017



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Five-Year Financial Forecasts, FY 2019 – FY 2023

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

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City of Salem, Oregon

Vision

A safe and livable capital city with a sustainable economy and environment that is open to all.

Mission

The City of Salem provides fiscally sustainable and quality services to enrich the lives of present and future residents, the quality of the environment and neighborhoods, and the vitality of our economy.

Why We Forecast

The mission of the City is to provide fiscally sustainable and quality services to enrich the lives of present and future residents, the quality of our environment and neighborhoods and the vitality of the economy. The recently completed strategic plan underscores the importance of fiscal sustainability with the adoption of *Sustainable Service Delivery* as one of seven goal areas. The intended outcome of this goal is alignment of City services and resources and maintenance of fund balance for the future through redesign of the budget process, identification of the desired level of services that can be sustained with existing revenues, and exploration of alternate ways to deliver services, realize revenues, and generate cost savings.

A forecast is 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 financial management. 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 forecast period.

The information presented in the forecasts validates the importance and necessity of the City Council's expressed commitment to the goal of *Sustainable Service Delivery* and the associated actions. A financial forecast is a widely accepted best practice to evaluate current and future fiscal conditions. The Government Financial Officer's Association recommends that governments at all levels forecast major revenues and expenditures and that the forecast extend several years into the future. It is important to note that to realize the outcome illustrated in the forecast document, all revenue, expense, and savings assumptions would need to be experienced exactly as predicted. The General Fund section of the document includes a demonstration of variability with the forecast assumptions (page 15).

In addition to the General Fund, this document includes forecasts for ten 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 continuity of City services.

*Willamette Valley Communication Center, 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 seven 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 and projected 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.

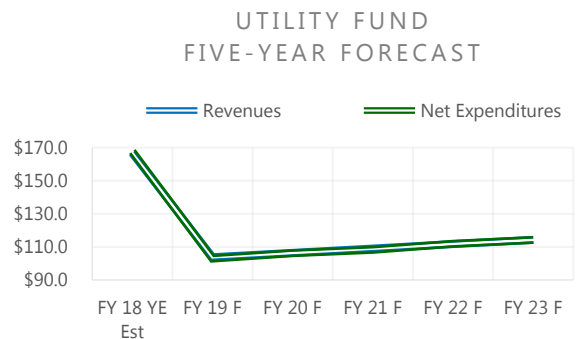
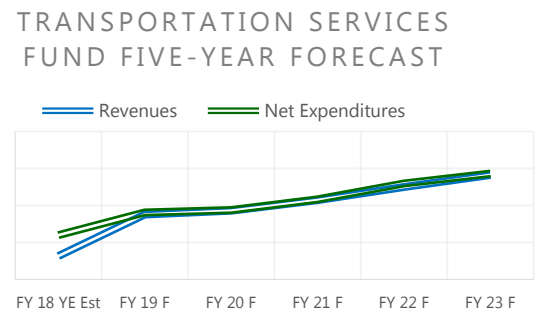
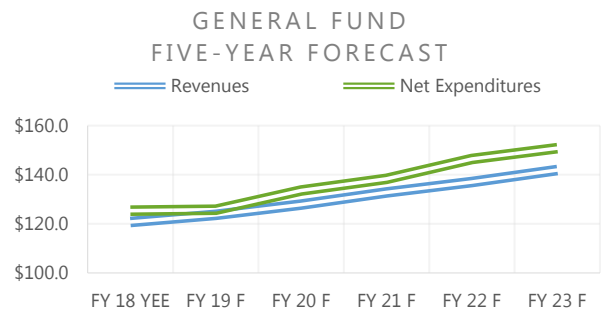
Forecast Snapshot

The forecast for the *General Fund* demonstrates 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.)

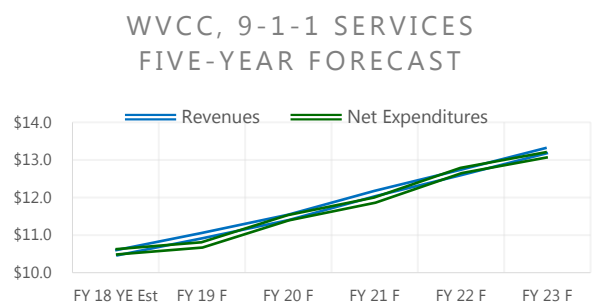
The *Transportation Services Fund* forecast displays the positive result of implementing a streetlight fee and relieving the fund of the cost of operating and maintaining the streetlight system, as well as anticipated increases in state highway fund revenues. The imbalance between current revenues and the expense of transportation services translates to a loss of less than \$500,000 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.)



Note: FY 2018 YE Est includes the impact of a bond refinancing. The forecast years reflect a normal level of revenue and expense.



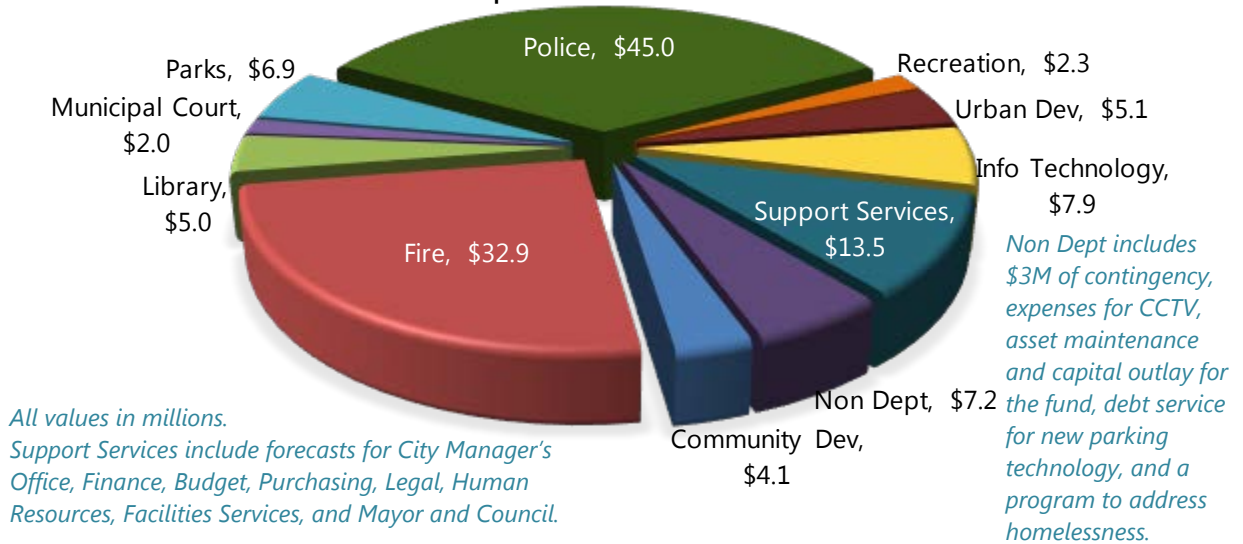
General Fund

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 support services that provide a Citywide benefit. The General Fund five-year forecast is built with a baseline set of assumptions that represents a reasonable level of consistency with the status quo.

General Fund FY 2019 – FY 2023 Forecast, Year 1

Total Expenditures: \$131.99M



The forecast is an objective proposal that seeks to estimate revenues and expenditures as accurately as possible. There are bound to be variations from the estimates. However, major drivers of expenditures and revenues are analyzed and evaluated at a very granular level. For example, property tax information is received from the county and individual properties are compared year-over-year. This level of analysis has produced highly accurate estimates in the City's budget. Personnel costs, the major expense associated with delivering services, are calculated at the position level to afford accuracy in future year projections.

The General Fund forecast for FY 2019 – FY 2023 continues the trend experienced with the most recently completed fiscal year where revenues exceed expenditures. The gap widens with costs escalating more precipitously than revenues and with the addition of ongoing programs and services during FY 2018.

Current Status

Thanks to the City's strong financial management practices, as recognized in recent bond rating reviews, the City has established a balance in General Fund working capital that exceeds the Council's policy of 15 percent of budgeted revenues. Sufficient working capital is not only necessary to maintain a favorable credit rating and reduce borrowing costs, but also to provide the cash on hand to deal with the cyclical nature of revenue receipts. A recent analysis determined that the City needs approximately \$22 million in available cash to avoid borrowing and interest costs from July through November each fiscal year.

FY 2018 began with working capital of \$26.8 million. The change to this balance from FY 2017 to FY 2018 was a decrease of \$1.3 million. This represents the most significant use of working capital to balance actual year-end expenditures in the General Fund since FY 2007. The year-end outlook for FY 2018 continues the use of working capital, or one-time funds, to balance anticipated expenditures. It is projected working capital will be depleted to \$22.2 million by the end of the current fiscal year.

Future Outlook

Four years of PERS rate relief, recovery in the housing market with corresponding improvement to property tax receipts, and opportunities for departments to constrain spending allowed the City to maintain service delivery and supported a strong financial condition for the General Fund as measured by working capital. However, current results in FY 2018 demonstrate a shift in all three of these pulse points of fiscal health for the fund.

- FY 2018 and FY 2019 is the first of what is anticipated to be multiple biennia of PERS rate increases. The employer rate for PERS Tiers 1 / 2 increased from 15.82 percent in FY 2017 to 21.07 percent to begin the current fiscal year. Rate increases for all PERS tiers calculated against higher salary costs inflated year-over-year budgeted expense in the General Fund by \$2.8 million or 36.9 percent for FY 2018.
- The forecast for FY 2018 through FY 2022 anticipated property valuation increases at approximately 4 percent for the first 2 years of the forecast period and 3.8 percent for the remaining 3 years. The estimated increases are above the statutory limitation due to new growth and acknowledge the end of the valuation re-set that began in FY 2015. Property valuation for Salem in 2017 increased by a combined rate of 3.4 percent, which is projected to deliver approximately \$296,000 less tax revenue than anticipated in the FY 2018 budget.
- Over the past year, the General Fund's two largest departments, Police and Fire, have determinedly sought and recruited new officer and firefighter candidates to ensure high levels of employee retention. The result in FY 2018 is increased capacity to deliver valued services, but a much lower vacancy rate and correspondingly, much lower expenditure savings.

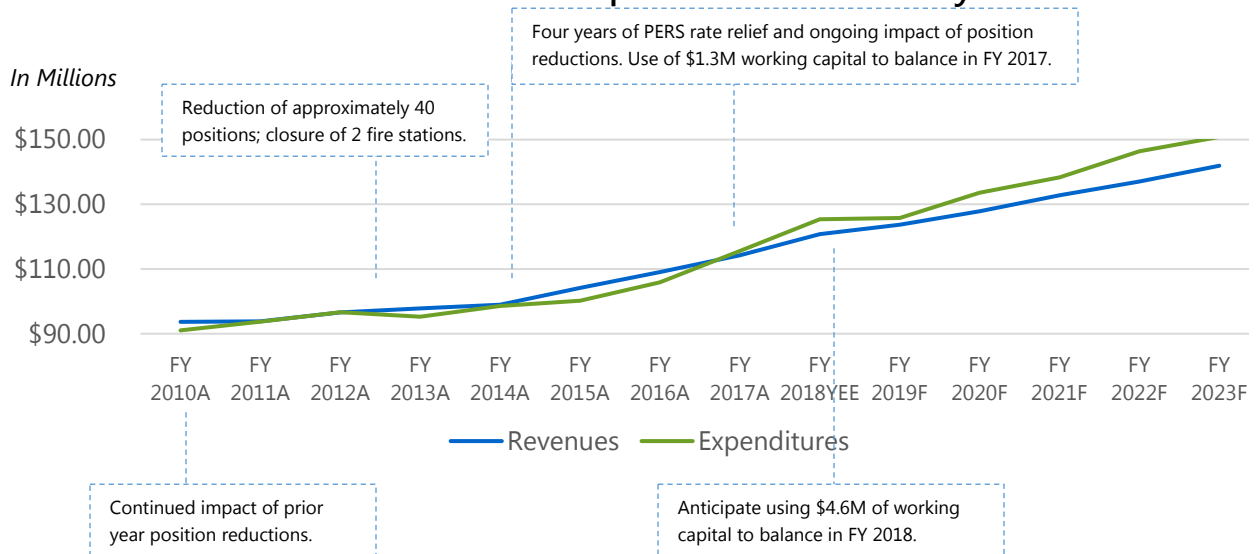
Forecast Result

The outlook for the next five years, which incorporates the conditions noted above, as well as dozens of assumptions for both revenues and expenses, provides ongoing evidence of a structural imbalance between the proposed cost of General Fund services and anticipated revenues.

The fund is predicted to realize increases in almost every revenue type with an aggregate increase of 2.4 percent to 3.9 percent through the forecast period. This projected growth is not sufficient to meet the increasing costs for providing services, which are anticipated to grow by a range of 3.0 percent to 6.0 percent year-over-year. The primary drivers of expense increases for the fund remain those associated with the cost of employees.

The graph below illustrates recent revenue and expenditure history in the General Fund with projections for the current fiscal year and the five-year forecast period. A high-level summary of the five-year forecast with indicators of working capital status appears on the next page.

General Fund Revenue and Expenditure History and Forecast









General Fund Table 1, FY 2019 – FY 2023 Forecast Summary

(Values in Millions, YEE = Year-End Estimate, F = Forecast, WC = Working Capital)

	FY 2018YEE	FY 2019F	FY 2020F	FY 2021F	FY 2022F	FY 2023F
Beginning Working Capital	\$ 26.82	\$ 22.22	\$ 20.16	\$ 14.40	\$ 8.85	\$ 0.00
Revenues	120.76	123.70	127.84	132.79	137.04	141.92
Total Resources	\$ 147.58	\$ 145.91	\$ 148.00	\$ 147.19	\$ 145.89	\$ 141.92

Net Expenditures	\$ 125.37	\$ 125.75	\$ 133.60	\$ 138.35	\$ 146.40	\$ 150.83
Ending Working Capital	\$ 22.22	\$ 20.16	\$ 14.40	\$ 8.85	\$ (0.51)	\$ (8.91)
Change to WC	\$ (4.61)	\$ (2.05)	\$ (5.76)	\$ (5.55)	\$ (9.36)	\$ (8.91)

WC Council Policy at 15% Revenues	\$ 18.11	\$ 18.55	\$ 19.18	\$ 19.92	\$ 20.56	\$ 21.29
Policy Compliance Status of this Forecast	 \$4.10	 \$1.61	 \$4.78	 \$11.07	 \$21.07	 \$30.20

Forecast Result – General Fund Current Service Level Detail

The forecast 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 2.5 percent in the forecast for any year not included within a current labor contract. The expenditure base also includes estimated PERS rate escalations in FY 2020 and FY 2022; and health benefits rate increases aligning with actuarial guidance. Most materials and services category items (professional services, supplies, equipment) have a 2 percent inflation during the five-year period.

Despite increases, which align with a five-year (FY 2014 – FY 2018YEE) compounded rate of growth, the forecast demonstrates a level of projected revenues lower than the anticipated gain in service delivery costs. It also displays savings derived from unspent fund contingencies and a level of naturally occurring savings from employee attrition and other unanticipated economies ranging from 4.7 percent in FY 2019 to 4.4 percent in FY 2023. As context, the level of aggregate savings realized in FY 2017 was 4.2 percent and FY 2018 year-end savings are estimated at 3.5 percent.

The assumptions in the forecast lead to the depletion of working capital with it falling well below the minimum in the City’s financial policies by year-end FY 2020. In all forecast years, net expenditures exceed revenues by a range of \$2.1 million to \$9.4 million. This imbalance is illustrated in Table 1 on the preceding page and with additional detail in Table 2 below.

General Fund Table 2, FY 2019 – FY 2023 Forecast

(Values in Millions, YE = Year-End)

	FY 2018 YE Estimate	FY 2019 Forecast	FY 2020 Forecast	FY 2021 Forecast	FY 2022 Forecast	FY 2023 Forecast
Working Capital	\$ 26.82	\$ 22.22	\$ 20.16	\$ 14.40	\$ 8.85	\$ 0.00
Revenues	120.76	123.70	127.84	132.79	137.04	141.92
TOTAL RESOURCES	\$ 147.58	\$ 145.91	\$ 148.00	\$ 147.19	\$ 145.89	\$ 141.92
TOTAL EXPENDITURES	\$ 125.37	\$ 131.99	\$ 140.08	\$ 144.97	\$ 153.28	\$ 157.85
Unspent Contingency		(2.50)	(2.50)	(2.50)	(2.50)	(2.50)
3% Savings		(3.74)	(3.98)	(4.12)	(4.38)	(4.52)
NET EXPENDITURES	\$ 125.37	\$ 125.75	\$ 133.60	\$ 138.35	\$ 146.40	\$ 150.83
ENDING WORKING CAPITAL	\$ 22.22	\$ 20.16	\$ 14.40	\$ 8.85	\$ (0.51)	\$ (8.91)
Chg to Working Capital	(4.61)	(2.05)	(5.76)	(5.55)	(9.36)	(8.91)

Forecast Result – Revenue Detail

The revenue estimates presented in this document rely on analysis of county property tax records, adjustments in utility rates / costs, local building activity, legislated changes, recent historical trends, and other economic drivers. The forecast uses FY 2018 revenue sources and year-end estimates augmented with assumptions for growth in all revenue categories with the exception of grants, where a base amount is applied, and interest income as fund balance declines.

The range of growth assumptions includes:

- The impact of the full 3 percent statutory increase and 0.8 to 1.3 percent for new growth in property tax revenues. Tax receipts increase year-over-year in the forecast by \$2.5 million to \$3.1 million.
- A franchise fee base increased by an aggregate 5.6 percent in FY 2018 and ongoing aggregate increases of 1.2 to 1.6 percent despite lowered natural gas rates and an anticipated flattening of telecommunications and cable receipts with changes in technology and demand.
- The cyclical effect of legislative sessions on parking revenue with an approximate 15 percent increase during a full session (FY 2019, FY 2021, FY 2023).
- The potential impact of state taxing efforts applied at the local level on marijuana sales, as well as steady 3.0 to 3.5 percent increases to alcohol-based state shared revenues drives an aggregate 2.9 percent increase to this revenue category, which also includes taxes for cigarette (no increase) and 9-1-1 (1.7 percent increase).
- Continued steady growth for planning-related fees, which reflect increases to 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 3 percent on a slightly lowered base in FY 2018.
 - A steady 2 percent increase each year in court fine revenue on a flat base comparing FY 2017 actual activity with current FY 2018 receipts.

General Fund Table 3, Revenues by Source (Values in Millions)

	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
Property Taxes	\$ 68.86	\$ 71.82	\$ 74.75	\$ 77.78	\$ 80.92
Other Taxes	0.56	0.56	0.56	0.56	0.56
Franchise Fees	18.24	18.54	18.84	19.13	19.42
State Shared Revenues	5.78	5.95	6.12	6.30	6.49
Fines, Penalties, and Forfeitures	3.02	3.07	3.13	3.19	3.25
Fees for Services / Other Fees	3.99	4.15	4.31	4.49	4.67
Rents, Permits, Licenses	2.93	2.82	3.05	2.96	3.21
Cost Allocation / Internal Chgs	15.49	16.29	16.91	17.79	18.47
Other Agencies, Grants	2.73	2.47	2.92	2.58	2.63
Transfer from Other Funds	1.42	1.50	1.55	1.64	1.69
Miscellaneous	.67	.66	.65	.63	.62
TOTAL REVENUES	\$ 123.70	\$ 127.84	\$ 132.79	\$ 137.04	\$ 141.92

Forecast Result – Expenditure Detail

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 4 summarizes the five-year expenditure forecast by expense category. Increased rates for compensation market adjustments, PERS obligations, and health insurances for current employees prompt increases in personal services. The area of the table with italicized text demonstrates the effect on base expenditures of anticipated savings and unspent contingencies to provide the calculation in the “Total Net Expenditures” row.

General Fund Table 4, Expenditures by Category (Values in Millions)

	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
Personal Services	\$ 102.14	\$ 109.35	\$ 113.49	\$ 121.34	\$ 125.21
Materials and Services	25.66	26.53	27.28	28.01	28.70
Capital Outlay*	0.70	0.70	0.70	0.70	0.70
Debt Service	0.28	0.28	0.28	-	-
Transfers	0.21	0.22	0.22	0.23	0.23
Contingency	3.00	3.00	3.00	3.00	3.00
TOTAL EXPENDITURES	\$ 131.99	\$ 140.08	\$ 144.97	\$ 153.28	\$ 157.85
<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 (3%)</i>	<i>(3.74)</i>	<i>(3.98)</i>	<i>(4.12)</i>	<i>(4.38)</i>	<i>(4.52)</i>
TOTAL NET EXPENDITURES	\$ 125.75	\$ 133.60	\$ 138.35	\$ 146.40	\$ 150.83

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

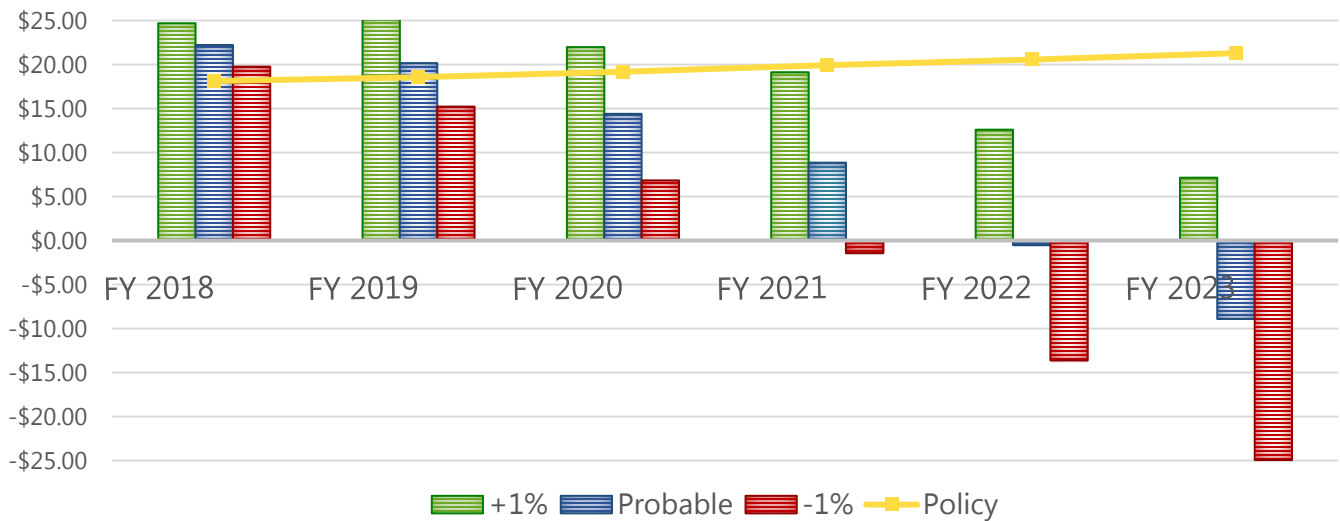
Forecast Variability – Working Capital Scenarios

The graph below demonstrates variable results of the FY 2019 – FY 2023 forecast through the display of working capital - the difference between resources and expenditures for each fiscal year.

The blue bar at the center of each grouping represents the result reflected in the numeric tables on the preceding pages of this document. This result is compared against the gold horizontal line representing the dollar equivalent of City Council policy for General Fund working capital.

The green bar in each fiscal year grouping represents the forecast result augmented by an additional 1 percent of revenue growth and an additional 1 percent of expenditure savings. The outcome of these variables does not prevent a decline in working capital, but does provide another year – FY 2020 – of compliance with City Council policy.

The red bar uses the forecast working capital as the base for assuming 1 percent lower revenues and 1 percent higher expense for each fiscal year. The result falls well below City Council policy as early as year-end FY 2019.



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	FY 2019 Percent of Total Revenue
Property Tax	HIGH	56%
Local Option Levies	HIGH	None currently
State Shared Revenue	MEDIUM	5%
Franchise Fee Revenue	MEDIUM	15%

Property Tax

Since FY 2015, Salem has experienced a reset in property valuations. The valuation reset prompted significant improvement for tax revenue with lowered compression losses. However, assessed valuation was less than anticipated in the FY 2018 budget resulting in an estimated \$296,000 decrease to anticipated tax revenue. Despite this experience, the forecast includes an approximate 3.8 to 4.3 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 approximate 4 percent year-over-year increase is an attainable level of growth.

Marion County

Residential properties have experienced significant Real Market Value (RMV) growth over the past four years, with 14.62 percent growth in FY 2018. This large change in RMV has built in an adequate spread between RMV and Assessed Value (AV) so that the full government rate of \$10.3643 per \$1,000 in AV can be realized and not compressed in FY 2018. The revenue loss attributable to compression in FY 2018 decreased to \$337,106 and is anticipated to be approximately \$160,905 for FY 2019. While overall RMV grew at 9.15 percent in Marion County, AV only grew at 3.23 percent for FY 2018, which is the lowest rate since 2014.

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. Overall RMV grew at 11.84 percent in Polk County, with AV growth at 4.21 percent for 2018. This is the lowest rate of AV growth since 2015 for Polk County.

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 3.0 to 3.5 percent annual increase during the forecast period. Shared cigarette tax revenues are not expected to grow over the five-year period. The forecast assumes the 9-1-1 tax revenue will experience growth at approximately 1.7 percent each year. The forecast includes an estimate for revenues from shared marijuana taxes. The estimate for this revenue source is derived from currently limited data, is less than receipts from FY 2017 due to a lowering of the tax rate, and includes no inflation over the forecast period.

Risk Factor Ranking – MEDIUM

Policy changes are needed for the 9-1-1 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 for energy utility providers is projected to decline for natural gas (-6.5 +and -2.0 percent in forecast years 1 and 2, respectively), and increase by 2 percent for electricity over an increased FY 2018 base for both franchise types. PGE's electricity rate request to the Public Utility Commission is pending. A 2 percent increase in franchise revenue is anticipated for Salem Electric resulting from anticipated growth in the customer base.

The 6.5 percent aggregate reduction in year-over-year estimates for Northwest Natural Gas franchise fees reflects a 6.4 percent reduction in residential rates and a 7.3 percent reduction in small commercial rates. In the forecast, reduced rates continue in FY 2020 (-2 percent) and then flatten for the remainder of the forecast period.

The City's water and wastewater franchise fee anticipated growth is based upon projections from the City's internal rate modeling with a 2.6 to 2.8 percent rate of growth. Cable franchise revenue is anticipated to continue experiencing increases of 3 percent or less during the first 3 years of the forecast period, with revenues remaining flat for years 4 and 5 due to predicted changes in demand and options for consumers. Refuse hauler franchise fees are projected to grow by 2 percent in each year of the forecast period due to anticipated cost-of-service increases. One percent growth is forecast for Telecommunications for the first 2 years based on current trending with revenues flattening by year 3.

Risk Factor Ranking – MEDIUM

Growth in this revenue is difficult to predict as it is influenced by the provider's billing rate, customer growth, technological changes, 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 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. In 2017, the Oregon State Legislature passed HB 2017, *Keep Oregon Moving*, intending to make a significant investment in transportation.

FY 2018 began with working capital of \$4.65 million. Year-end results reflect use of approximately \$1.13 million of working capital to balance expenditures as the result of greater investment in pavement maintenance and rehabilitation activities and significant equipment purchases.

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 expenditure 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.

State highway fund revenues, distributed by formula to local jurisdictions, are anticipated to increase over the next five years. Based on the state revenue projections, the Transportation Services Fund will have the capacity to sustain core street maintenance and operations and to continue the sidewalk repair program at current levels while increasing funding for

pedestrian and bikeway improvements, adding transportation opportunity grants, and increasing pavement maintenance contracts through the forecast period.

The Oregon Department of Transportation (ODOT) provides a forecast of state highway fund revenue annually in December, but this forecast is based on an ODOT forecast published in June 2017 which reflected increases anticipated as a result of HB 2017. Many factors impact fuel usage trends including changes in the consumers' fleet (fuel efficient, hybrid and electric vehicles) and the impact of relatively low retail fuel prices on consumption. The ODOT forecast for Salem reflects a 13.2 percent increase the first year, followed by an average of 4.2 percent in the remaining four years. Salem's five-year forecast anticipates 98 percent of the revenue identified in the ODOT forecast and incorporates a lag in receipts the first year.

Expenditures in the forecast are proposed to include an expanded asphalt paving program that combines in-house City resources and increased pavement rehabilitation 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.

Additional state highway revenue funding in the forecast is anticipated to be used for capital improvements which may include pedestrian and bikeway projects, pavement rehabilitation, match for opportunity grants and for other transportation projects. Annual funding allocations and program priorities will be based upon policy guidance provided by City Council.

The forecast employs an 8 percent savings rate, commensurate with recent experience, 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 Result

Transportation Services Fund Current Service Level Detail

The forecast is based on the service level represented by Transportation Services' FY 2018 budget and maintains the \$1 million program for sidewalk replacement during the five years of the forecast. The forecast also maintains \$2.94 million of pavement maintenance activities annually while increasing pavement rehabilitation contracts throughout the five-year period. Legislated changes will provide an increase to primary transportation revenue sources. However, projected growth in service delivery costs and increases in capital improvements are anticipated to deplete working capital by approximately \$460,000 by the end of the forecast period, FY 2023.

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 for street maintenance impacts the General Fund forecast and is not assumed in the Transportation 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.

TS Fund Table 1, FY 2019 – FY 2023 Forecast Summary

(Values in Millions, YEE = Year-End Estimate, F = Forecast)

	FY 2018YEE	FY 2019F	FY 2020F	FY 2021F	FY 2022F	FY 2023F
Beginning Working Capital	\$ 4.65	\$ 3.52	\$ 3.40	\$ 3.37	\$ 3.33	\$ 3.14
Revenues	13.26	15.50	15.72	16.28	17.00	17.64
Total Resources	\$ 17.91	\$ 19.02	\$ 19.12	\$ 19.65	\$ 20.32	\$ 20.78

Net Expenditures	\$ 14.39	\$ 15.62	\$ 15.75	\$ 16.33	\$ 17.19	\$ 17.72
Ending Working Capital	\$ 3.52	\$ 3.40	\$ 3.37	\$ 3.33	\$ 3.14	\$ 3.06

<i>Change to Working Capital</i>	<i>\$1.13</i>	<i>\$0.12</i>	<i>\$0.03</i>	<i>\$0.05</i>	<i>\$0.19</i>	<i>\$0.08</i>
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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 are 2.5 percent.

TS Fund Table 2, FY 2019 – FY 2023 Forecast Summary

(Values in Millions, YE = Year-End)

	FY 2018 YE Estimate	FY 2019 Forecast	FY 2020 Forecast	FY 2021 Forecast	FY 2022 Forecast	FY 2023 Forecast
Working Capital	\$ 4.65	\$ 3.52	\$ 3.40	\$ 3.37	\$ 3.33	\$ 3.14
Revenues	13.26	15.50	15.72	16.28	17.00	17.64
TOTAL RESOURCES	\$ 17.91	\$ 19.02	\$ 19.12	\$ 19.65	\$ 20.32	\$ 20.78
TOTAL EXPENDITURES	\$ 14.39	\$ 17.26	\$ 17.46	\$ 18.08	\$ 19.00	\$ 19.57
Unspent Contingency		(0.50)	(0.50)	(0.50)	(0.50)	(0.50)
8% Savings		(1.14)	(1.21)	(1.25)	(1.31)	(1.35)
NET EXPENDITURES	\$ 14.39	\$ 15.62	\$ 15.75	\$ 16.33	\$ 17.19	\$ 17.72
ENDING WORKING CAPITAL	\$ 3.52	\$ 3.40	\$ 3.37	\$ 3.33	\$ 3.14	\$ 3.06
Chg to Working Capital	(1.13)	(0.12)	(0.03)	(0.05)	(0.19)	(0.08)

Forecast Result – Revenue Detail

The revenue forecast is developed using conservative growth expectations for Transportation Services’ revenue sources. It uses current revenue sources, acknowledges the anticipated impact of HB 2017, and assumes no new or unrealized revenues. Approximately 78 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. With HB 2017, this will increase by 4 cents in 2018, with additional increases of 2 cents in 2020, 2022, and 2024 subject to the state meeting accountability and reporting requirements. 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 3 summarizes the five-year revenue forecast by revenue source. This table demonstrates all revenues anticipated to be received in the Transportation Services Fund. Approximately 15 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.

TS Fund Table 3, Revenues by Source (Values in Millions)

	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
State Highway Revenue	\$ 12.01	\$ 12.31	\$ 12.78	\$ 13.31	\$ 13.86
Intra City Billings and Transfers	2.78	2.67	2.75	2.91	2.99
Other Agencies, Grants	0.42	0.43	0.45	0.47	0.48
All Other Sources	0.30	0.30	0.31	0.31	0.32
TOTAL REVENUES	\$ 15.50	\$ 15.72	\$ 16.28	\$ 17.00	\$ 17.64

Forecast Result – Expenditure Detail

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 4 summarizes the five-year expenditure forecast by expense category. Sidewalk maintenance at nearly \$1 million annually and \$1.74 million of pavement maintenance will be undertaken by City crews. Work includes trench patching resulting from utility work, pothole repair, skin patching, and overlays. In addition, the current level of service as reflected throughout the forecast anticipates \$200,000 for preventive maintenance contracts and \$1,000,000 for pavement rehabilitation contracts increasing to \$1.5 million at the end of the forecast period. Expenditure assumption tables are included in the appendix.

TS Fund Table 4, Expenditures by Category (Values in Millions)

	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
Personal Services	\$ 6.15	\$ 6.61	\$ 6.86	\$ 7.34	\$ 7.61
Materials and Services	8.04	8.50	8.73	9.04	9.21
Capital Outlay	0.80	0.20	0.20	0.20	0.20
Transfers	1.76	1.65	1.79	1.91	2.05
Contingency	0.50	0.50	0.50	0.50	0.50
TOTAL EXPENDITURES	\$ 17.26	\$ 17.46	\$ 18.08	\$ 19.00	\$ 19.57
<i>Less:</i>					
<i>Unspent Contingency</i>	<i>(0.50)</i>	<i>(0.50)</i>	<i>(0.50)</i>	<i>(0.50)</i>	<i>(0.50)</i>
<i>Anticipated Savings (8%)</i>	<i>(1.14)</i>	<i>(1.21)</i>	<i>(1.25)</i>	<i>(1.31)</i>	<i>(1.35)</i>
TOTAL NET EXPENDITURES	\$ 15.62	\$ 15.75	\$ 16.33	\$ 17.19	\$ 17.72

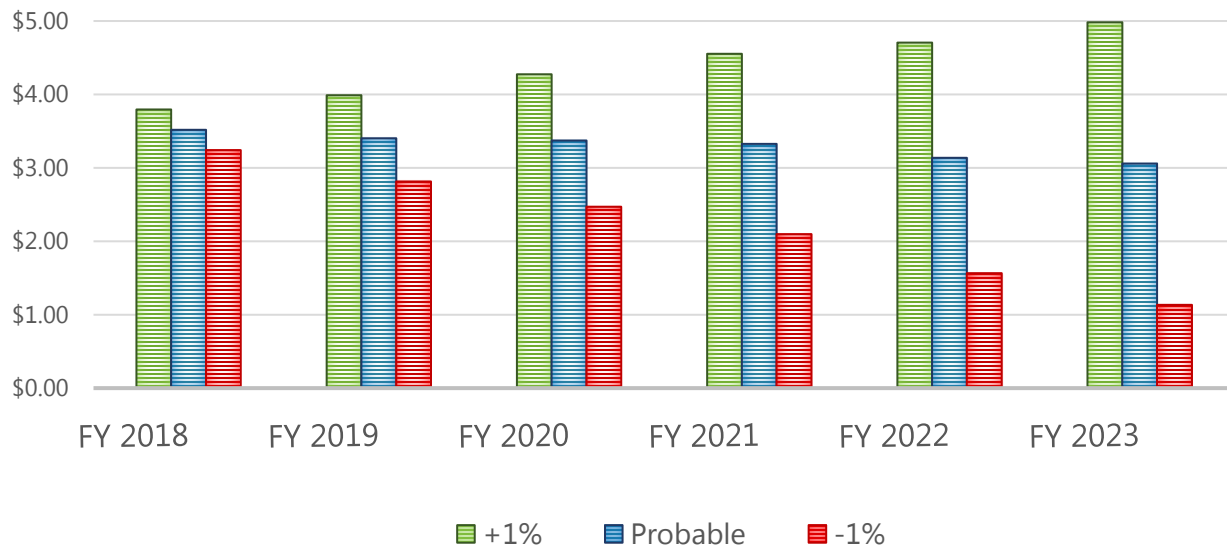
Forecast Variability – Working Capital Scenarios (Values in Millions)

The graph below demonstrates variable results of the FY 2019 – FY 2023 forecast through the display of working capital - the difference between resources and expenditures for each fiscal year.

The blue bar at the center of each grouping represents the result reflected in the numeric tables on the preceding pages of this document.

The green bar in each fiscal year grouping represents the forecast result augmented by an additional 1 percent of revenue growth and an additional 1 percent of expenditure savings. For the Transportation Services Fund, these changes represent increases to working capital of up to \$1.9 million by FY 2023.

The red bar uses the forecast working capital as the base for assuming 1 percent lower revenues and 1 percent higher expense for each fiscal year. By FY 2023, this demonstration results in working capital declining by 68 percent from the estimate for year-end FY 2018.



Transportation Services Fund Forecast Risks and Rankings

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	MEDIUM	78%

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 – MEDIUM

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. Future expansion and modernization needs are on the horizon, but current work is focused on rehabilitation of existing infrastructure.

FY 2018 began with working capital of \$42.9 million. The change to this balance from the prior fiscal year was a decrease of \$4.1 million related to the early payoff of an Oregon Economic and Community Development Department loan during FY 2017.

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, to 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 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.

Utility Fund revenue is assumed to grow at an average of 2.4 percent throughout the forecast period. This level of growth maintains operations and allows for an increase in the transfer for capital construction from \$16.0 million to \$20 million during the five-year period as debt is retired.

Assumptions and highlights of this forecast include:

- 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 3.0 percent rate revenue slope, which is maintained throughout this forecast. Proceeds of \$16.9 million from the sale of water rights on the Willamette River to the City of Hillsboro are included in the 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, and support important projects of significance to the community. The forecast establishes capacity for capital funding. The Capital Improvement Plan and annual budget will specifically identify projects and implement policy recommendations from City Council.
- Overall system consumption is slowly increasing. Revenue in FY 2018 is meeting projections. The forecast assumes average weather and consumption patterns through the five-year period.

Forecast Result

Utility Fund Current Service Level Detail

The Utility Fund forecast provides a view of the financial impact on the City's utilities services, priorities, and policies in relation to projected economic activity through FY 2023. This view is influenced by federal and state economic factors and trends, local business activity and property development, and growth in primary revenue sources. Water, wastewater, and stormwater rate revenue is anticipated to provide approximately 82 percent of the fund's total new revenue in FY 2019. 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 2017 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 is 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 2018 Year End (YE) Estimate column as the base year. The base year uses current information to re-project revenue trends and adjust the expenditure base for any ongoing 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.

Utility Fund Table 1, FY 2019 – FY 2023 Forecast Summary

(Values in Millions, YEE = Year-End Estimate, F = Forecast)

	FY 2018YEE	FY 2019F	FY 2020F	FY 2021F	FY 2022F	FY 2023F
Beginning Working Capital	\$ 42.89	\$ 41.91	\$ 42.76	\$ 43.01	\$ 43.76	\$ 43.62
Revenues*	166.69	103.77	106.40	108.95	111.75	114.17
Total Resources	\$ 209.59	\$ 145.68	\$ 149.17	\$ 151.97	\$ 155.51	\$ 157.79

Net Expenditures*	\$ 167.68	\$ 102.91	\$ 106.15	\$ 108.20	\$ 111.89	\$ 114.24
Ending Working Capital	\$ 41.91	\$ 42.76	\$ 43.01	\$ 43.76	\$ 43.62	\$ 43.55

<i>Change to Working Capital</i>	 \$(0.99)	 \$0.86	 \$0.25	 \$0.75	 \$(0.14)	 \$(0.07)
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*FY 2018 year-end revenue and expenditure estimates reflect the impact of a bond refinancing during the fiscal year. The refinancing saved the Utility \$7.8 million over the remaining term of the debt.

Table 2 on the next page 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 2.5 percent.

Utility Fund Table 2, FY 2019 – FY 2023 Forecast Summary (Values in Millions)

	FY 2018 YE Estimate	FY 2019 Forecast	FY 2020 Forecast	FY 2021 Forecast	FY 2022 Forecast	FY 2023 Forecast
Working Capital	\$ 42.89	\$ 41.91	\$ 42.76	\$ 43.01	\$ 43.76	\$ 43.62
Revenues	166.69	103.77	106.40	108.95	111.75	114.17
TOTAL RESOURCES	\$ 209.59	\$ 145.68	\$ 149.17	\$ 151.97	\$ 155.51	\$ 157.79
TOTAL EXPENDITURES	\$ 167.68	\$ 111.75	\$ 115.29	\$ 117.51	\$ 121.51	\$ 124.07
Unspent Contingency		(3.00)	(3.00)	(3.00)	(3.00)	(3.00)
8% Savings		(5.83)	(6.13)	(6.30)	(6.63)	(6.83)
NET EXPENDITURES	\$ 167.68	\$ 102.91	\$ 106.15	\$ 108.20	\$ 111.89	\$ 114.24
ENDING WORKING CAPITAL	\$ 41.91	\$ 42.76	\$ 43.01	\$ 43.76	\$ 43.62	\$ 43.55
Chg to Working Capital	(0.99)	0.86	0.25	0.75	(0.14)	(0.07)

Forecast Result – Revenue Detail

The revenue forecast is developed using conservative growth expectations for the Utility Fund. Approximately 82 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 3 summarizes the five-year revenue forecast by revenue source.

Utility Fund Table 3, Revenues by Source (Values in Millions)

	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
Water, Wastewater, Stormwater Rates	\$ 85.39	\$ 87.58	\$ 89.83	\$ 92.14	\$ 94.52
Franchise Fees	3.51	3.60	3.70	3.79	3.89
Other Fees	3.36	3.40	3.44	3.48	3.53
Permitted Development	2.09	2.14	2.18	2.22	2.27
Internal Charges	5.27	5.58	5.75	6.09	6.27
All Other Sources	4.14	4.10	4.06	4.02	3.70
TOTAL REVENUES	\$ 103.77	\$ 106.40	\$ 108.95	\$ 111.75	\$ 114.17

Forecast Result – Expenditure Detail

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 \$16 million in the first year to \$20 million in the fifth year. The peak represents a 0.5 percent annual investment in the utility’s infrastructure, but when combined with annual debt service is maintained throughout the forecast period at nearly \$35 million annually. The goal is to continue to increase the annual transfers to the Construction Fund, as debt is retired, until the transfers equal \$40 million – or 1 percent – of the asset’s value. This goal will allow the City to adequately maintain and continue replacing aging pipes, reservoirs, and treatment plants, and is based on the assumption that, on average, infrastructure lasts 100 years.

Utility Fund Table 4, Expenditures by Category (Values in Millions)

	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
Personal Services	\$ 36.23	\$ 38.91	\$ 40.16	\$ 43.07	\$ 44.64
Materials and Services	36.71	37.73	38.65	39.74	40.71
Capital Outlay	0.87	0.89	0.91	0.93	0.94
Debt Service	18.94	18.01	14.79	14.77	14.77
Transfers	16.00	16.75	20.00	20.00	20.00
Contingency	3.00	3.00	3.00	3.00	3.00
TOTAL EXPENDITURES	\$ 111.75	\$ 115.29	\$ 117.51	\$ 121.51	\$ 124.07
<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 (8%)</i>	<i>(5.83)</i>	<i>(6.13)</i>	<i>(6.30)</i>	<i>(6.63)</i>	<i>(6.83)</i>
TOTAL NET EXPENDITURES	\$ 102.91	\$ 106.15	\$ 108.20	\$ 111.89	\$ 114.24

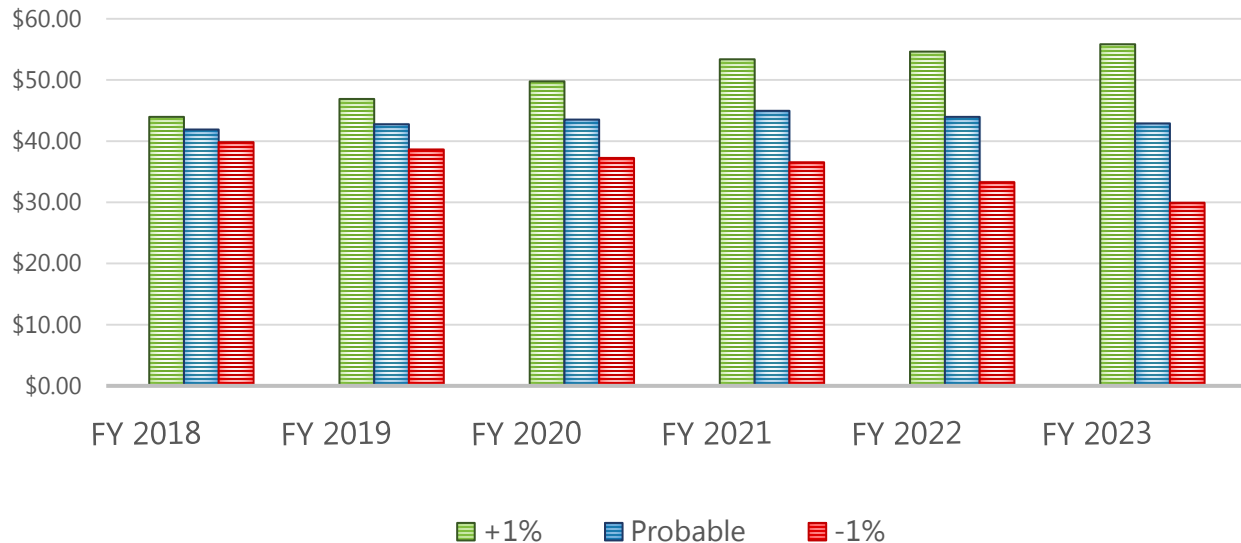
Forecast Variability – Working Capital Scenarios (Values in Millions)

The graph below demonstrates variable results of the FY 2019 – FY 2023 forecast through the display of working capital - the difference between resources and expenditures for each fiscal year.

The blue bar at the center of each grouping represents the result reflected in the numeric tables on the preceding pages of this document.

The green bar in each fiscal year grouping represents the forecast result augmented by an additional 1 percent of revenue growth and an additional 1 percent of expenditure savings. For the Utility Fund, these changes represent increases to working capital of up to \$12.95 million during the forecast period.

The red bar uses the forecast working capital as the base for assuming 1 percent lower revenues and 1 percent higher expense for each fiscal year. By year-end FY 2023, this demonstration results in working capital declining by \$11.31 million or 27 percent from the estimate for year-end FY 2018.



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	82%

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. Per the adopted Council Policy, the Cost of Service Analysis is anticipated to be updated in 2018 prior to the rate proposal in fall 2018.



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 2019 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, work continues to refine a staffing model designed to assist in predicting the number of employees necessary to hire, and at what intervals, to address minimum staffing needs, training requirements, and current retention rates.

While FY 2017 saw improvements in the number of overtime hours – calendar year 2016 was 2,580 less than the previous year - with a strengthening economy and reduced unemployment, recruiting is becoming more difficult. The retention rate has decreased from 85% to 80% in the past year. In order to maintain sufficient staffing levels, more energy and resources are being directed towards recruitment. The call taker hiring process is increasing from three times a year to four times a year, or every 90 days.

The five-year forecast plans for rate increases to be maintained at 4.7 percent until sufficient working capital and equipment reserves are established, at which time the annual rate increases may be reduced.

Future Outlook

The forecast for the WVCC Fund demonstrates the successful implementation of the multi-year strategy. Restoration of working capital, which provides the opportunity to plan for equipment reserves, is an outcome achieved in this forecast.

One of the capital needs WVCC is facing in the near future is the replacement of the Computer-Aided Dispatch system (CAD). The division is actively researching multiple options for this system, each of which will likely have significant capital costs.

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 Result

WVCC Fund Current Service Level Detail

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.

WVCC Fund Table 1, FY 2019 – FY 2023 Forecast Summary

(Values in Millions, YEE = Year-End Estimate, F = Forecast)

	FY 2018YEE	FY 2019F	FY 2020F	FY 2021F	FY 2022F	FY 2023F
Beginning Working Capital	\$ 1.03	\$ 1.00	\$ 1.25	\$ 1.25	\$ 1.43	\$ 1.38
Revenues	10.52	10.98	11.47	12.11	12.67	13.25
Total Resources	\$ 11.55	\$ 11.98	\$ 12.72	\$ 13.36	\$ 14.10	\$ 14.64

Net Expenditures	\$ 10.55	\$ 11.46	\$ 12.20	\$ 12.68	\$ 13.48	\$ 13.91
Ending Working Capital	\$ 1.00	\$ 1.25	\$ 1.25	\$ 1.43	\$ 1.38	\$ 1.50


<i>Change to Working Capital</i>	 \$0.03	 \$0.25	 \$0.01	 \$0.18	 \$0.05	 \$0.11
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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 last four years of the forecast), annual adjustments to salary at 2.5 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.

WVCCF Table 2, FY 2018 – FY 2022 Forecast Summary

(Values in Millions)

	FY 2018 YE Estimate	FY 2019 Forecast	FY 2020 Forecast	FY 2021 Forecast	FY 2022 Forecast	FY 2023 Forecast
Working Capital	\$ 1.03	\$ 1.00	\$ 1.25	\$ 1.25	\$ 1.43	\$ 1.38
Revenues	10.52	10.98	11.47	12.11	12.67	13.25
TOTAL RESOURCES	\$ 11.55	\$ 11.98	\$ 12.72	\$ 13.36	\$ 14.10	\$ 14.64
TOTAL EXPENDITURES	\$ 10.55	\$ 11.46	\$ 12.20	\$ 12.68	\$ 13.48	\$ 13.91
Unspent Contingency		(0.50)	(0.50)	(0.50)	(0.50)	(0.50)
2% Savings		(0.22)	(0.24)	(0.25)	(0.26)	(0.27)
NET EXPENDITURES	\$ 10.55	\$ 10.74	\$ 11.46	\$ 11.93	\$ 12.72	\$ 13.14
ENDING WORKING CAPITAL	\$ 1.00	\$ 1.25	\$ 1.25	\$ 1.43	\$ 1.38	\$ 1.50
Chg to Working Capital	(0.03)	0.25	0.01	0.18	(0.05)	0.11

Forecast Result – Revenue Detail

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.

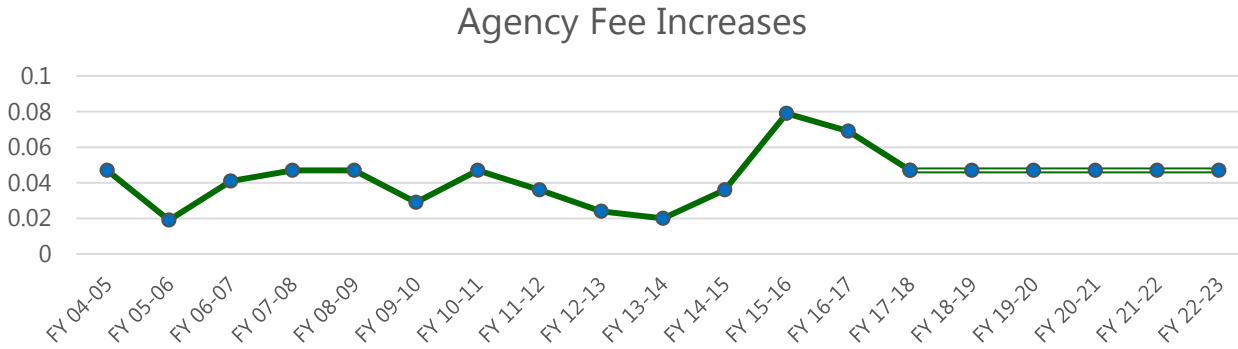


Table 4 displays all fund revenues by source.

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

	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
Member Agencies	\$ 6.06	\$ 6.35	\$ 6.65	\$ 6.96	\$ 7.29
Other Fees	0.05	0.05	0.05	0.05	0.05
Internal Charges*	4.67	4.87	5.20	5.45	5.70
All Other Sources	0.20	0.21	0.21	0.21	0.22
TOTAL REVENUES	\$ 10.98	\$ 11.47	\$ 12.11	\$ 12.67	\$ 13.25

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

Forecast Result – Expenditure Detail

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 base of \$500,000 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 2019	FY 2020	FY 2021	FY 2022	FY 2023
Personal Services	\$ 9.26	\$ 9.95	\$ 10.36	\$ 11.10	\$ 11.47
Materials and Services	1.70	1.75	1.81	1.87	1.94
Capital Outlay	0.00	0.00	0.00	0.00	0.00
Contingency	0.50	0.50	0.50	0.50	0.50
TOTAL EXPENDITURES	\$ 11.46	\$ 12.20	\$ 12.68	\$ 13.48	\$ 13.91
<i>Less:</i>					
<i>Unspent Contingency</i>	<i>(0.50)</i>	<i>(0.50)</i>	<i>(0.50)</i>	<i>(0.50)</i>	<i>(0.50)</i>
<i>Anticipated Savings (2%)</i>	<i>(0.22)</i>	<i>(0.24)</i>	<i>(0.25)</i>	<i>(0.26)</i>	<i>(0.27)</i>
TOTAL NET EXPENDITURES	\$ 10.74	\$ 11.46	\$ 11.93	\$ 12.72	\$ 13.14

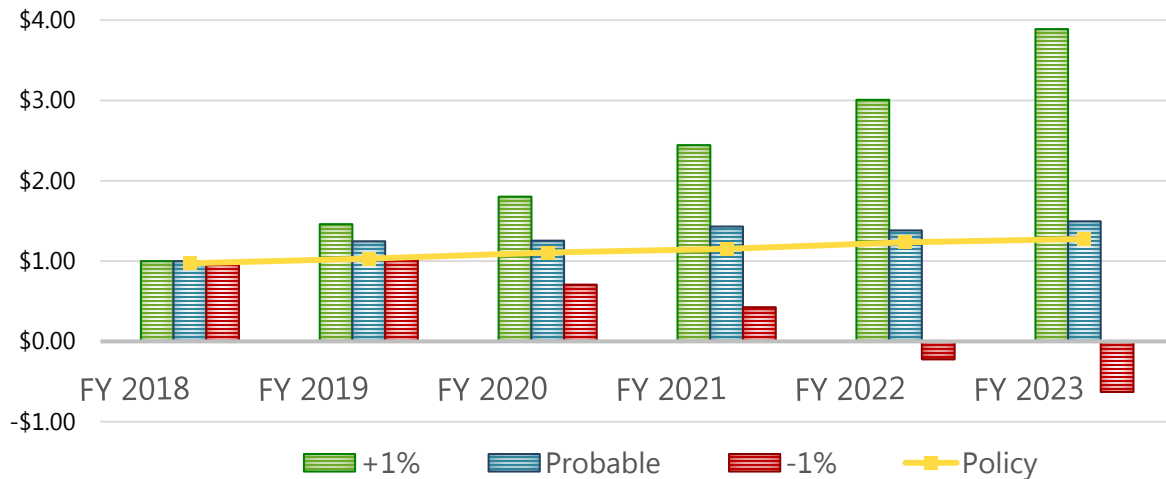
Forecast Variability – Working Capital Scenarios

The graph below demonstrates variable results of the FY 2019 – FY 2023 forecast through the display of working capital - the difference between resources and expenditures for each fiscal year.

The blue bar at the center of each grouping represents the result reflected in the numeric tables on the preceding pages of this document. This result is compared against the gold horizontal line representing the dollar equivalent of WVCC Board policy for the WVCC Fund working capital.

The green bar in each fiscal year grouping represents the forecast result augmented by an additional 1 percent of revenue growth in agency rates and an additional 1 percent of expenditure savings. The outcome of these variables provide approximately \$2.6 million in working capital in excess of policy by FY 2023.

The red bar again uses the forecast result as the base for assuming 1 percent lower agency rates and 1 percent higher expense for each fiscal year. Under this scenario, working capital falls below WVCC Board policy by FY 2020.



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	97.6%

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.

Forecast Risk – Expenditures

	Ranking	Percent Total Expense
<i>Overtime Expense</i>	MEDIUM	5.6%
<i>CAD System Replacement</i>	MEDIUM	Unknown at this time

Overtime Expense

Significant overtime expense is one reason why forecasting was initiated for the WVCC Fund several years ago. The variability of this expense is heavily dependent upon staffing levels and availability of existing staff for shift coverage. The division’s vacation calendar is covered using overtime, as is a considerable amount of training. All new hires require six months of training prior to working solo. During this time trainees are paid, and existing staff are paid overtime to provide the training.

CAD System Replacement

The forecast presented in this document does not provide sufficient excess working capital to pay for the Computer-Aided Dispatch system (CAD) replacement. Covering the cost of system replacement will require increased rates to member agencies or additional savings will need to be realized. The division is researching multiple options for system replacement, which could result in widely varying short-term and long-term costs.



Airport Fund FY 2019 – FY 2023 Five-Year Forecast

FY 2019 - FY 2023 SUMMARY (in millions)

	FY 18 YE Est	FY 19 F	FY 20 F	FY 21 F	FY 22 F	FY 23 F
Working Capital	\$ 0.92	\$ 1.04	\$ 1.03	\$ 1.12	\$ 1.07	\$ 1.02
Revenues	1.16	1.18	1.20	1.12	1.14	1.16
TOTAL RESOURCES	\$ 2.09	\$ 2.22	\$ 2.23	\$ 2.24	\$ 2.21	\$ 2.18
TOTAL EXPENDITURES	\$ 1.04	\$ 2.22	\$ 2.23	\$ 2.24	\$ 2.21	\$ 2.18
Unspent Contingency		(1.01)	(1.11)	(1.05)	(1.01)	(0.48)
3% Savings on M&S		(0.02)	(0.02)	(0.02)	(0.02)	(0.02)
NET EXPENDITURES		\$ 1.19	\$ 1.11	\$ 1.17	\$ 1.18	\$ 1.69
ENDING WORKING CAPITAL	\$ 1.04	\$ 1.03	\$ 1.12	\$ 1.07	\$ 1.02	\$ 0.49

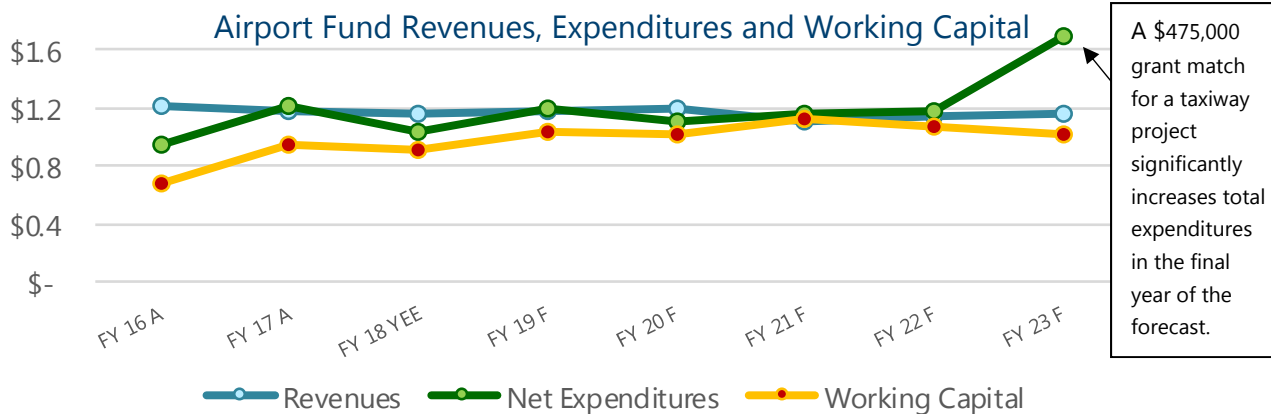
The financial forecast for the Airport Fund provides continuation of current service levels with assumptions for inflationary factors to increase service costs and estimates for revenue growth. The forecast demonstrates a level of projected increase in revenues lower than the anticipated growth in expenditures in the final 3 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.

Federal Aviation Administration (FAA) grant matching funds of \$0.06 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.

The assumptions in the forecast lead to the decline of beginning working capital between FY 2018 – \$0.92 million at the beginning of the year – and FY 2023 – \$0.49 million at the conclusion of the fiscal year.

Forecast Risk factors are evaluated on the degree of impact to continued service delivery and fund fiscal health.

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



Building and Safety Fund FY 2019 – FY 2023 Five-Year Forecast

FY 2019 - FY 2023 Summary (in millions)

	FY 18 YE Est	FY 19 F	FY 20 F	FY 21 F	FY 22 F	FY 23 F
Working Capital	\$ 6.16	\$ 7.20	\$ 7.06	\$ 6.77	\$ 6.86	\$ 6.76
Revenues	5.49	5.02	5.14	5.27	5.40	5.54
TOTAL RESOURCES	\$ 11.64	\$ 12.22	\$ 12.21	\$ 12.04	\$ 12.26	\$ 12.30
TOTAL EXPENDITURES	\$ 4.44	\$ 5.50	\$ 5.78	\$ 5.53	\$ 5.84	\$ 6.00
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		\$ 5.16	\$ 5.44	\$ 5.19	\$ 5.50	\$ 5.66
ENDING WORKING CAPITAL	\$ 7.20	\$ 7.06	\$ 6.77	\$ 6.86	\$ 6.76	\$ 6.64

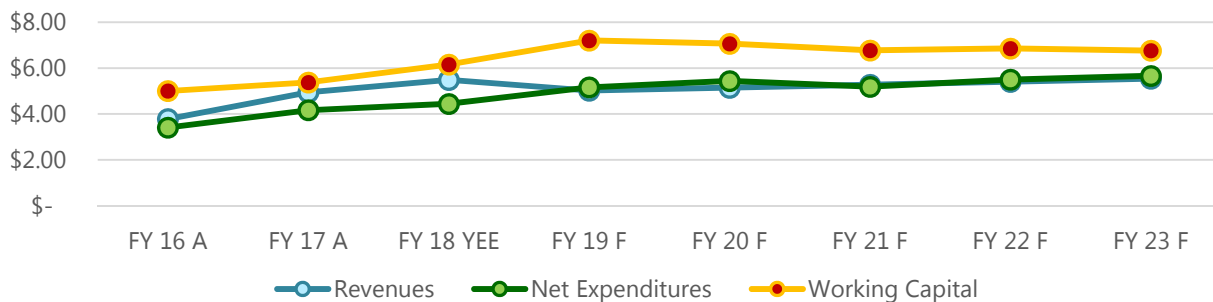
The City's annual financial forecast for the Building and Safety Fund provides continuation of current service levels with assumptions for inflationary factors to increase service costs and estimates for revenue growth. In addition, the forecast includes three new positions to increase capacity for permit processing, analysis, and management of information technology systems.

The forecast demonstrates a level of projected increase in revenues slightly lower 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.

Forecast Risk factors are evaluated on the degree of impact to continued service delivery and fund fiscal health.

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

Building and Safety Fund Revenues, Expenditures and Working Capital



Cultural and Tourism (TOT) Fund FY 2019 – FY 2023 Five-Year Forecast

FY 2019 - FY 2023 SUMMARY (in millions)

	FY 18 YE Est	FY 19 F	FY 20 F	FY 21 F	FY 22 F	FY 23 F
Working Capital	\$ 0.55	\$ 0.71	\$ 0.79	\$ 0.76	\$ 0.88	\$ 0.90
Revenues	4.25	4.54	4.86	5.15	5.46	5.78
TOTAL RESOURCES	\$ 4.80	\$ 5.25	\$ 5.65	\$ 5.91	\$ 6.34	\$ 6.68
TOTAL EXPENDITURES	\$ 4.21	\$ 4.58	\$ 5.00	\$ 5.15	\$ 5.56	\$ 5.92
Unspent Contingency	(0.12)	(0.12)	(0.12)	(0.12)	(0.12)	(0.12)
NET EXPENDITURES	4.09	\$ 4.46	\$ 4.88	\$ 5.03	\$ 5.44	\$ 5.80
ENDING WORKING CAPITAL	\$ 0.71	\$ 0.79	\$ 0.76	\$ 0.88	\$ 0.90	\$ 0.88

The City's annual financial forecast for the Cultural and Tourism (TOT) Fund provides continuation of services supported by funding allocations consistent with current code and policy guidance.

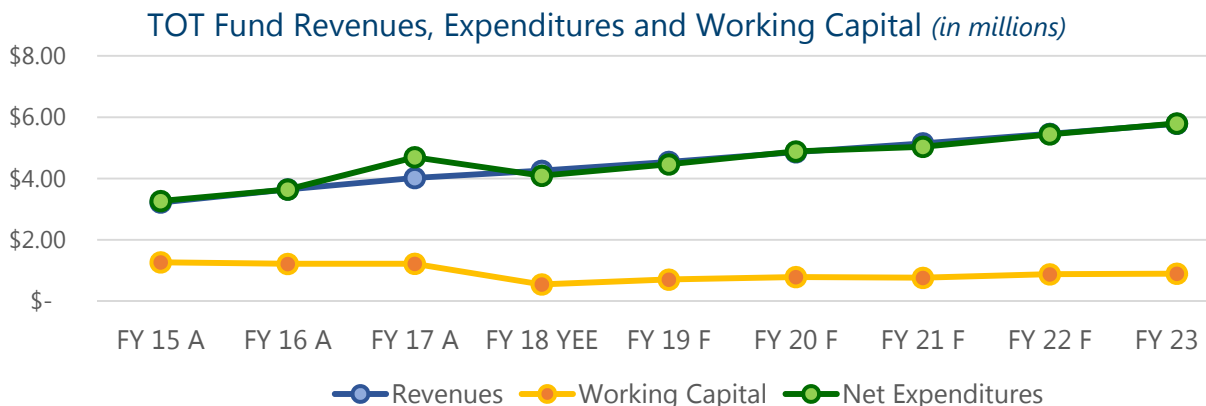
Investments in FY 2017 for ongoing projects to enhance large community parks for sports tourism and large tourist-drawing events reduced working capital by more than \$660,000 to begin FY 2018.

The forecast demonstrates a level of projected increase in revenues equivalent to anticipated growth in expenditures for the period of FY 2019 through FY 2023. The forecast also includes continued investment in Wallace Sports Complex and Minto Brown Island, Orchard Heights, and Riverfront parks, as well as a 25 percent allocation of tax revenues to support tourism promotion.

The forecast projects reinstatement of the TOT transfer to the Gain / Loss Reserve in the final 2 years, reflecting possible use of the reserve for capital projects at the Convention Center.

Forecast Risk factors are evaluated on the degree of impact to continued service delivery and fund fiscal health.

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



Document Services FY 2019 – FY 2023 Five Year Forecast

FY 2019 - FY 2023 SUMMARY *(in millions)*

	FY 18 YE Est	FY 19 F	FY 20 F	FY 21 F	FY 22 F	FY 23 F
Working Capital	\$ 0.40	\$ 0.27	\$ 0.23	\$ 0.17	\$ 0.05	\$ -
Revenues	0.95	0.96	0.99	1.01	1.04	1.06
TOTAL RESOURCES	\$ 1.35	\$ 1.23	\$ 1.22	\$ 1.18	\$ 1.09	\$ 1.06
TOTAL EXPENDITURES	\$ 1.08	\$ 1.01	\$ 1.06	\$ 1.14	\$ 1.14	\$ 1.17
Unspent Contingency		-	-	-	-	-
1% Savings on M&S		(0.01)	(0.01)	(0.01)	(0.01)	(0.01)
NET EXPENDITURES		\$ 1.00	\$ 1.05	\$ 1.13	\$ 1.13	\$ 1.16
ENDING WORKING CAPITAL	\$ 0.27	\$ 0.23	\$ 0.17	\$ 0.05	\$ (0.04)	\$ (0.11)

The base forecast for the Document Services Division of the City Services Fund reflects 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. It also displays a level of naturally occurring savings from unanticipated economies. This level of savings is anticipated at 1 percent.

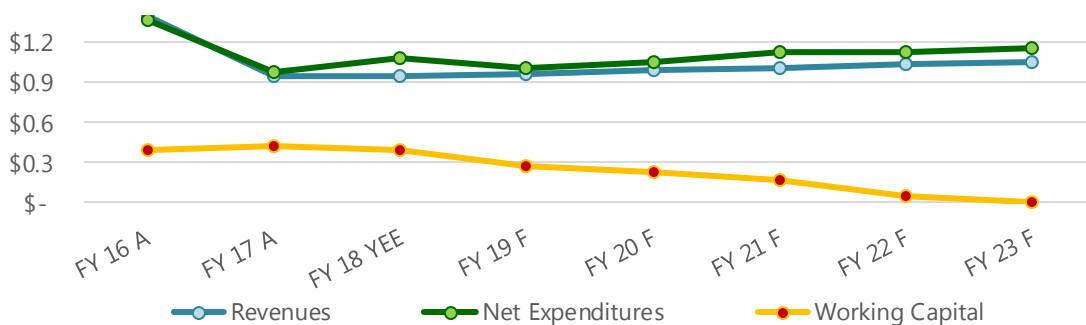
The assumptions in the forecast lead to almost complete depletion of beginning working capital by the conclusion of the third year of the forecast.

Forecast Risk factors are evaluated on the degree of impact to continued service delivery and fund fiscal health.

Forecast Risk	Ranking
Working Capital	High
Internal Revenue	High
Other Labor Factors	High
Copier Replacement Strategies	Medium

The projected budget shortfall in the later years of the forecast will be addressed by strategic equipment replacements, as well as evaluation of lease versus buy for the department copier fleet. The division, which is managed by the Information Technology Department, will also evaluate a shift in supervision oversight charging mechanisms to further lower costs.

Document Services, City Services Fund Revenues, Expenditures and Working Capital



Emergency Services Fund FY 2019 – FY 2023 Five-Year Forecast

FY 2019 - FY 2023 SUMMARY (in millions)

	FY 18 YE Est	FY 19 F	FY 20 F	FY 21 F	FY 22 F	FY 23 F
Working Capital	\$ 2.84	\$ 2.97	\$ 3.02	\$ 3.07	\$ 3.09	\$ 3.00
Revenues	0.79	0.80	0.82	0.84	0.87	0.89
TOTAL RESOURCES	\$ 3.63	\$ 3.78	\$ 3.84	\$ 3.91	\$ 3.96	\$ 3.89
TOTAL EXPENDITURES	\$ 0.65	\$ 0.83	\$ 0.84	\$ 0.88	\$ 1.03	\$ 0.95
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		\$ 0.76	\$ 0.77	\$ 0.82	\$ 0.96	\$ 0.88
ENDING WORKING CAPITAL	\$ 2.97	\$ 3.02	\$ 3.07	\$ 3.09	\$ 3.00	\$ 3.01

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.

Forecast Risk factors are evaluated on the degree of impact to continued service delivery and fund fiscal health.

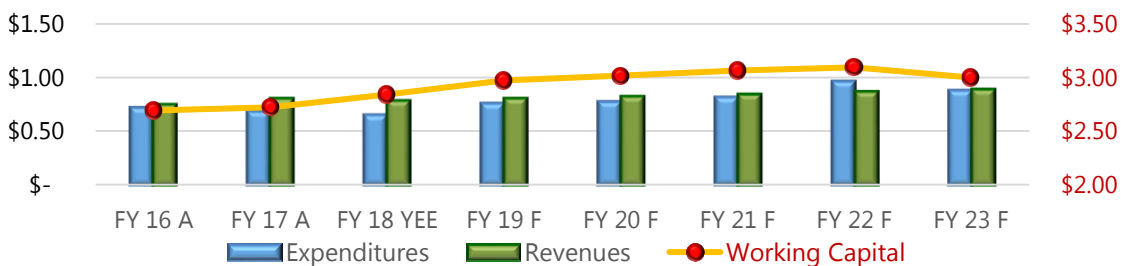
The forecast demonstrates a level of projected increases in revenues that allows the EMS Fund to remain balanced with anticipated growth of on-going expenditures. It also displays savings derived from unspent fund contingencies and a level of naturally occurring savings from unanticipated economies. 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. Starting in FY 2019, this forecast includes an annual transfer to the Capital Reserve Fund to provide funding for required capital equipment purchases. The Fire Department is continually looking for new funding sources as the anticipated annual transfer to the Capital Reserve Fund is insufficient to provide for future equipment needs.

EMS Fund Revenues, Expenditures and Working Capital



Fleet Services FY 2019 – FY 2023 Five-Year Forecast

FY 2019 - FY 2023 SUMMARY (in millions)

	FY 18 YE Est	FY 19 F	FY 20 F	FY 21 F	FY 22 F	FY 23 F
Working Capital	\$ 1.73	\$ 1.63	\$ 1.76	\$ 1.84	\$ 1.91	\$ 1.99
Revenues	4.04	3.99	4.07	4.15	4.29	4.35
TOTAL RESOURCES	\$ 5.77	\$ 5.62	\$ 5.83	\$ 5.99	\$ 6.20	\$ 6.34
TOTAL EXPENDITURES	\$ 4.14	\$ 3.89	\$ 4.01	\$ 4.10	\$ 4.24	\$ 4.30
1% Savings on M&S		(0.02)	(0.02)	(0.02)	(0.02)	(0.02)
NET EXPENDITURES		\$ 3.86	\$ 3.99	\$ 4.08	\$ 4.21	\$ 4.27
ENDING WORKING CAPITAL	\$ 1.63	\$ 1.76	\$ 1.84	\$ 1.91	\$ 1.99	\$ 2.06

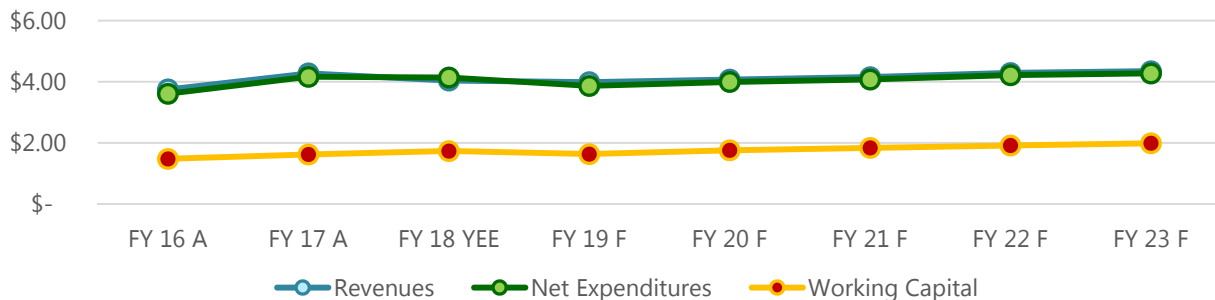
The City’s annual financial forecast for Fleet Services in the City Services Fund provides continuation of current service levels with assumptions for inflationary factors to increase service costs and estimates for revenue growth.

The forecast demonstrates a level of projected increase in revenues slightly higher 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.

Forecast Risk factors are evaluated on the degree of impact to continued service deliver and fund fiscal health.

Forecast Risk	Ranking
Working Capital	Medium
Internal Charge Revenue	Medium
PERS Rates	High
Health Benefits	Medium
Other Labor Factors	High

Fleet, City Services Fund Revenues, Expenditures and Working Capital



Radio Communications FY 2019 – FY 2023 Five-Year Forecast

FY 2019 - FY 2023 SUMMARY *(in millions)*

	FY 18 YE Est	FY 19 F	FY 20 F	FY 21 F	FY 22 F	FY 23 F
Working Capital	\$ 2.44	\$ 1.70	\$ 2.20	\$ 2.63	\$ 3.06	\$ 3.47
Revenues	1.97	1.98	2.00	2.02	2.04	2.06
TOTAL RESOURCES	\$ 4.41	\$ 3.68	\$ 4.20	\$ 4.65	\$ 5.10	\$ 5.52
TOTAL EXPENDITURES	\$ 2.70	\$ 1.64	\$ 1.73	\$ 1.75	\$ 1.80	\$ 1.69
10% Savings on M&S		(0.11)	(0.12)	(0.12)	(0.12)	(0.11)
50% Savings on Capital		(0.05)	(0.05)	(0.05)	(0.05)	(0.05)
NET EXPENDITURES		\$ 1.48	\$ 1.57	\$ 1.58	\$ 1.63	\$ 1.54
ENDING WORKING CAPITAL	\$ 1.70	\$ 2.20	\$ 2.63	\$ 3.06	\$ 3.47	\$ 3.98

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

The forecast demonstrates a stable revenue stream with moderate growth in ending working capital as funds are set aside for the future replacement of equipment. It also displays naturally occurring savings through unanticipated economies. This level of savings is anticipated at 10 percent in the materials and services category and 50 percent in capital expenditures.

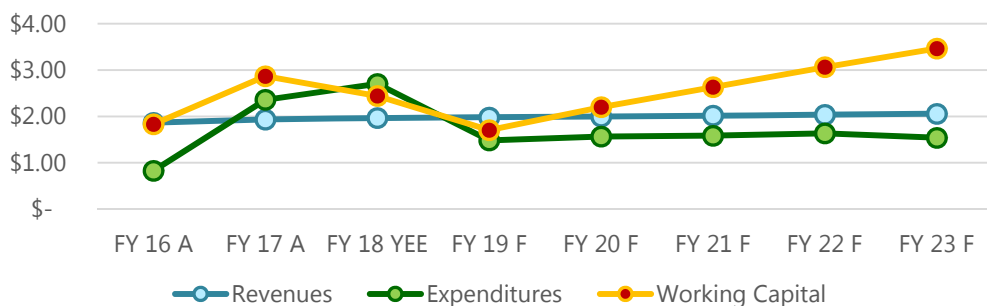
Agency Rates – General Fund departments account for approximately 80 percent of participating agencies rate revenue.

Operational Expense – Most large, long-term expenses for the new radio system are fixed costs beyond the forecast period. However, expenses for the existing system may need to be held over longer than forecasted depending on the timing of the new system rollout. Planning for future system needs includes developing capital reserve accounts with the participating agencies.

Forecast Risk factors are evaluated on the degree of impact to continued service delivery and fund fiscal health.

Forecast Risk	Ranking
Working Capital	Low
Agency Rates	Medium
Operational Expenses	Low / Medium
Capital Equipment Needs	Low

Radio Communications, City Services Fund Revenues, Expenditures and Working Capital *(in millions)*



Self Insurance Fund, Benefits FY 2019 – FY 2023 Five-Year Forecast

FY 2019 - FY 2023 SUMMARY *(in millions)*

	FY 18 YE Est	FY 19 F	FY 20 F	FY 21 F	FY 22 F	FY 23 F
Working Capital	\$ 8.47	\$ 9.88	\$ 10.21	\$ 10.24	\$ 9.91	\$ 9.14
Revenues	24.47	24.75	26.07	27.44	28.93	30.42
TOTAL RESOURCES	\$ 32.94	\$ 34.63	\$ 36.27	\$ 37.68	\$ 38.83	\$ 39.57
TOTAL EXPENDITURES	\$ 23.06	\$ 24.42	\$ 26.03	\$ 27.77	\$ 29.69	\$ 31.72
NET EXPENDITURES		\$ 24.42	\$ 26.03	\$ 27.77	\$ 29.69	\$ 31.72
ENDING WORKING CAPITAL	\$ 9.88	\$ 10.21	\$ 10.24	\$ 9.91	\$ 9.14	\$ 7.85

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.

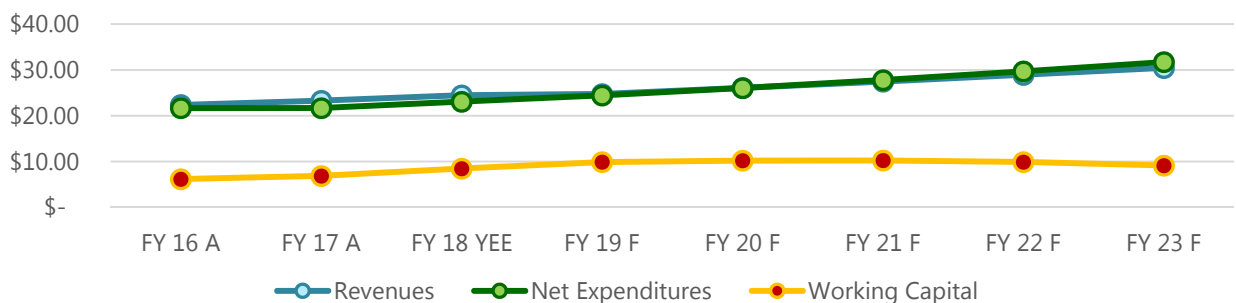
The forecast demonstrates a level of projected increase in revenues slightly lower than the anticipated growth in expenditures.

The assumptions in the forecast lead to the reduction of working capital by \$2.03 million. The balance is within the standard practices of the City with sufficient reserves.

Forecast Risk factors are evaluated on the degree of impact to continued service delivery and fund fiscal health.

Forecast Risk	Ranking
Working Capital	Low
Internal Revenue	Medium
Health Care Legislation	High
PERS Rates	High
Changing Demographics	High

Benefits, Self Insurance Fund Revenues, Expenditures and Working Capital



Self Insurance Fund, Risk FY 2019 – FY 2023 Five-Year Forecast

FY 2019 - FY 2023 SUMMARY (in millions)

	FY 18 YE Est	FY 19 F	FY 20 F	FY 21 F	FY 21 F	FY 23 F
Working Capital	\$ 7.73	\$ 7.83	\$ 7.65	\$ 7.42	\$ 7.15	\$ 6.82
Revenues	4.25	4.11	4.18	4.25	4.32	4.39
TOTAL RESOURCES	\$ 11.98	\$ 11.94	\$ 11.83	\$ 11.67	\$ 11.47	\$ 11.21
TOTAL EXPENDITURES	\$ 11.88	\$ 11.94	\$ 11.83	\$ 11.67	\$ 11.47	\$ 11.21
Unspent Reserve	(7.73)	(7.24)	(7.01)	(6.74)	(6.42)	(6.06)
3.5% Savings		\$ (0.42)	\$ (0.41)	\$ (0.41)	\$ (0.40)	\$ (0.39)
NET EXPENDITURES	4.15	\$ 4.29	\$ 4.41	\$ 4.52	\$ 4.65	\$ 4.76
ENDING WORKING CAPITAL	\$ 7.83	7.65	\$ 7.42	7.15	6.82	6.45

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.

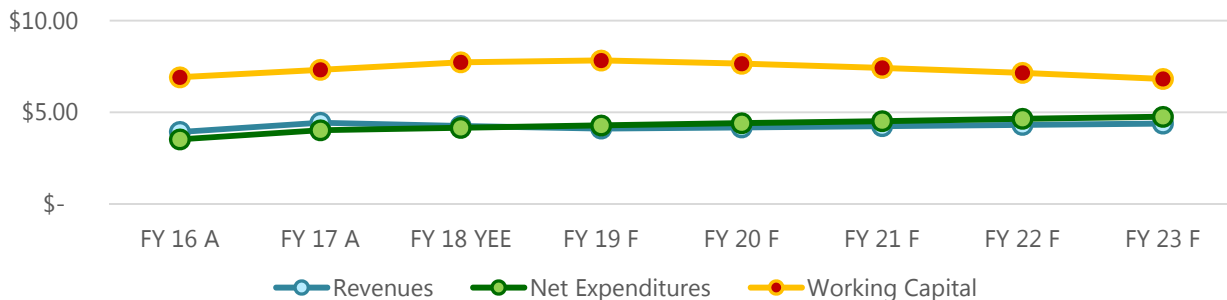
The forecast demonstrates a slight decrease in working capital over the five year period that is still within actuarial guidelines for the fund balance.

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.

Forecast Risk factors are evaluated on the degree of impact to continued service delivery and fund fiscal health.

Forecast Risk	Ranking
Working Capital	Medium
Internal Revenue	Low
Liability Claims	High
PERS Rates	High

Risk, Self Insurance Fund Revenues, Expenditures and Working Capital



Streetlight Fund FY 2019 – FY 2023 Five-Year Forecast

FY 2019 - FY 2023 Summary (in millions)

	FY 18 YE Est	FY 19 F	FY 20 F	FY 21 F	FY 22 F	FY 23 F
Working Capital	\$ 0.23	\$ 0.98	\$ 1.13	\$ 1.20	\$ 1.25	\$ 1.16
Revenues	2.40	1.89	1.90	1.90	1.91	1.91
TOTAL RESOURCES	\$ 2.63	\$ 2.87	\$ 3.03	\$ 3.11	\$ 3.15	\$ 3.07
TOTAL EXPENDITURES	\$ 1.66	\$ 2.00	\$ 2.03	\$ 2.07	\$ 2.20	\$ 2.24
Unspent Contingency		(0.20)	(0.20)	(0.20)	(0.20)	(0.20)
5.0% Savings		(0.06)	(0.01)	(0.01)	(0.01)	(0.01)
NET EXPENDITURES		\$ 1.74	\$ 1.83	\$ 1.86	\$ 1.99	\$ 2.03
ENDING WORKING CAPITAL	\$ 0.98	\$ 1.13	\$ 1.20	\$ 1.25	\$ 1.16	\$ 1.04

Several goals have been realized following enactment of the Streetlight Fee and management of system resources in the Streetlight Fund.

- The Transportation Services Fund has been relieved of the cost of operating and maintaining the streetlight system.
- A system-wide fixture conversion to light emitting diodes (LEDs) has been accomplished.
- Installation of new streetlights in under-served areas has begun.

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 with factors for growth.

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.

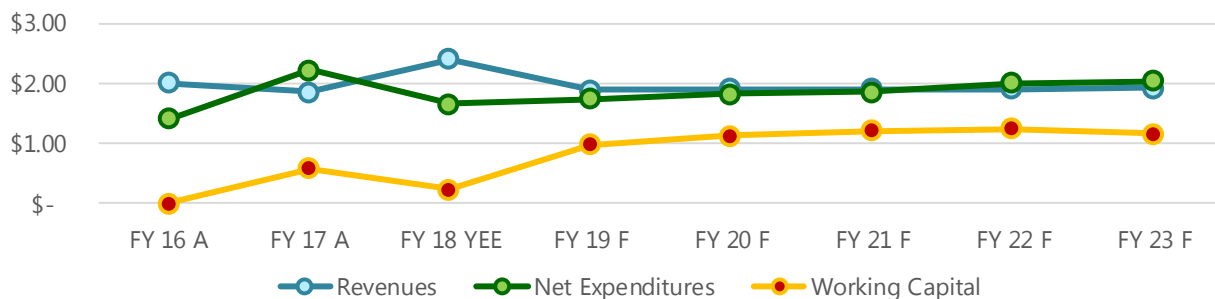
Forecast Risk factors are evaluated on the degree of impact to continued service delivery and fund fiscal health.

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

The forecast maintains the following assumptions over the five-year period:

- Anticipated savings in electricity costs with re-lamping of existing fixtures.
- Replacement pole funding at \$200,000.
- Funding for new poles at \$400,000 in forecast years 1 – 3; \$500,000 in remaining 2 years.

Streetlight Fund Revenues, Expenditures and Working Capital



Summary of Findings

National Summary

National economic growth accelerated in 2017, rebounding from the 2015-2016 slowdown. That slowdown predominantly affected the manufacturing sector due to the impacts of collapsing oil prices on the energy industry and a stronger value of the dollar on export industries. In the past, a decline of manufacturing activity would have predicted a recession. In this instance, however, the oil price and exchange rate shocks were very sector specific, with the negative impacts contained within the manufacturing sector. That sector is now recovering as the impact of those shocks wane. Importantly, investment spending by firms picked up, supporting overall national gains.

The national economy grew at a more than 3% pace in the second and third quarters of this year, the best back-to-back performance since 2014. The Atlanta and New York Federal Reserve Banks estimate that the economy is growing at a 3.5% and 3.9% pace, respectively, in the final quarter of 2017. Economic growth is expected to continue in 2018: Federal Reserve policymakers currently anticipate economic growth of 2.1% next year. Upward trending recession indicators support the scenario for continued growth.

The pace of job growth decelerated slightly in 2017, with average twelve-month job growth of 167k per month, compared to 203k a year ago. Still this pace remains well above the range of 65-115k considered to be consistent with a steady unemployment rate in the longer run. As I anticipated last year, the relative stability of the unemployment rate gave way to further declines as the pace of labor force growth eased. Demographic trends, primarily an aging population, will continue to weigh on labor force growth and, eventually, job growth as the economy hits supply side constraints such as a lack of available labor.

That said, the amount of remaining slack in the labor market remains a mystery. Although the unemployment rate is at 4.1%, while below the Federal Reserve's estimate longer-run rate of 4.6%, and measures of underemployment approach pre-2007 recession levels, national average employee wage growth remains tepid at best. Wage growth, however, may be stronger than it appears. First, note faster wage growth for experienced workers, with an acceleration in recent years in the Atlanta Federal Reserve indicator that measures only individuals continuously employed for 12 months. Second, after adjusting the Atlanta Fed wage measure for inflation, real wage gains are consistent with the pre-recession period. These gains are low compared to the 1990s, but this would be expected given low productivity growth. Third, and perhaps most important for planning purposes, wage growth may simply be lagging the tightening of the labor market over the past year. If so, expect wage growth to accelerate in 2018.

Inflation remains subdued below the Federal Reserve's 2 percent target. Still, anticipating a need to stabilize unemployment, the Federal Reserve remains committed to raising interest rates, and has already done so three times since 2015 with a fourth quarter percentage point hike expected this month. The median projection among monetary policy makers anticipates a total of 75 basis points of rate hikes in 2018; the actual number will depend on actual economic outcomes. Rate hikes are having their strongest impact on near-term interest rates, as typically occurs during a rate hike cycle. Longer term rates have held steadier, leading to a flattening of the yield curve, or a smaller difference between long- and short-term interest rates. A flattening of the yield curve often occurs in the mature stages of the business cycle, but only an inverted yield curve, where long-rates are below short-rates, is an indicator of recession.

In my opinion, the monetary tightening experienced during this cycle is not likely to trigger a recession in the near term. Continued tightening as expected, however, could in theory reduce financial accommodation sufficient to invert the yield curve late next year. Such an event would raise the possibility of recession in late 2019 or early 2020.

Oregon Summary

The Oregon economy continues to experience the benefits of the protracted national expansion. Most forward-looking measures of economic activity remain indicative of continued job growth. Initial unemployment claims continue to hover near historical low as solid underlying demand stems layoffs. Residential building permits extended the gains of 2016 but remain low compared to past expansions; the slow pace of new residential construction is fueling housing price gains. Manufacturing activity picked up in 2017, in line with the national situation. Similarly, job growth in Oregon slowed compared to the peak of the cycle. Note the erratic job growth numbers in recent months, with steep declines followed by sharp gains. This likely overstates the volatility of the Oregon economy; I anticipate the numbers will be smoothed when the Employment Department releases revised jobs estimates.

As often occurs in the mature stage of an economic expansion, Oregon job growth is slowing back to a pace consistent with US job growth. Again, this likely reflects the impact of tighter labor markets.

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 the volatility of the Measure of Economic Activity in recent months. This volatility reflects the impact of the job numbers. The three-month moving average smooths this volatility and is thus more likely indicative of the pace of overall activity. That pace appears to be somewhat subdued relative to 2016.

Salem Summary

Job growth fell short of my expectations for 2017, although this looks largely attributable to the downward revision to 2016 data. This serves as a reminder that the employment data is subject to potentially significant revisions that can have meaningful impact on forecasts.

Still, job growth continues in the region, extending the solid expansion of employment that began in 2012. Low levels of initial unemployment claims indicate job gains are likely to continue for the foreseeable future. Transient room tax collections continue to grow, indicating solid tourism and travel activity in the region.

The housing market remains strong, but tempered a bit compared to a surge of activity in 2016. Still, the pace of housing sales remains near the peak of the 2005/2006 era. Residential housing permits finally picked up somewhat in 2017, but remain subdued relative to the pace of sales. The value of housing put in place was somewhat stronger through June of 2017, but the August through September values fell short of the same months in 2016. Not surprisingly, the tepid pace of building activity has contributed to upward pressures on home prices.

The Salem Measure of Economic Activity indicates that regional growth remained above normal in 2017.

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. My forecast generally agrees with the OEA forecast; I anticipate 2.0% Oregon job growth in 2018, compared to the OEA’s forecast of 1.9%.

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 initially looked to deviate substantially from this comparator in 2016, but was subsequently revised downward closer to model expectations. Using this past historical relationship. I anticipate job growth will be 1.6% in 2018, essentially unchanged from the 2017 pace of 1.7%. **Actual percentage changes realized are sensitive to employment data revisions.**

Nonfarm Payroll Growth Forecasts

	OR*	OR (OEA)*	Salem MSA**
2017 (last)	2.3%	2.5%	3.5%
2017 (current)	2.4%	2.4%	1.7%
2018	2.0%	1.9%	1.6%

(OR refer to outcomes using my model loosely conditioned on forecasts of national variables from the Oregon Department of Economic Analysis. OR (OEA) refers to the official state forecast (dated Nov. 13, 2016). * indicates fourth quarter to fourth quarter % change, ** December to December % change.)

Uncertainty/Risks

In my opinion, the economy is very unlikely to enter recession in 2018 or 2019. The most likely recession scenario over the medium-term proceeds as follows: The Federal Reserve decides that the US economy is in fact operating beyond full employment as becomes evidences by stronger wage and price inflation. In response, they accelerate the pace of interest rate hikes, inadvertently overtightening monetary policy and tipping the economy into recession. Given traditional business cycle dynamics, it is most likely too late for this scenario to cause a recession in 2018. As noted above, late 2019 to early 2020 would be a more likely time horizon.

Nationally, there remains a great deal of political uncertainty. While the Republican controlled government failed to eliminate the Affordable Care Act, as of the writing of this report they are poised to enact a different legislative priority, tax reform. The exact details of the bill, however, remain uncertain. Some provisions, such as the elimination of the federal tax deduction for state and local income, may have significant negative impacts to households of high income tax states, like Oregon. Moreover, the tax bill may also eliminate the individual mandate for purchasing health insurance, which may further disrupt health care insurance markets. Without a final bill, however, the ultimate impacts of the tax bill remain uncertain. Still, the bill is likely to be far-reaching and could be a concern for state and local policymakers as they react to the impacts on constituents.

One point of the tax reform effort seems certain: It is expected to expand the federal deficit. This expansion would occur when the economy is already operating at potential output and thus may contribute to an overheated economy and higher inflation expectations. This could prompt more aggressive action on the part of the Federal Reserve than currently expected.

Local Revenue Implications

Staff's expectations for city revenue growth are consistent with the area's likely path of economic activity this year. As expected, steady property price appreciation lessened the compression of local revenue that had become an impediment to revenue growth during the most recent recession. Still, new construction activity has disappointed. Residential construction remains constrained, and hence an expected increase in related property tax collections has failed to materialize. This is not a Salem specific issue; residential building activity remains subdued in the Eugene-Springfield area. Reasons for the lack of construction include difficulty in obtaining financing for building, labor shortages, and lack of available lots. Given that these problems have lasted longer than anticipated, it is reasonable for staff to reduce expectations for revenue growth accordingly.

Risks on the cost side of the economy remain the same as last year. The likelihood of accelerating wage gains poses an upside risk for employee and contractor costs. Also, the global economy remains mired in a period of low overall returns (a condition often referred to as "secular stagnation"). Note, for example, that longer-term interest rates remain low even as the Federal Reserve tightens policy. Low returns will likely thus continue to weigh on pension funds and thus state and local entities in Oregon are not likely to see substantial risk on PERS costs in the near

future. The equity rally, if sustained, may provide at least a short-term boost to returns, but this would not affect PERS rates in the near term. Finally, there still remains 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 Costs and Employer Rate Increases

In its *Actuarial Valuation Report* for December 31, 2015 the PERS Board provided the City with employer contribution rates for July 1, 2017 through June 30, 2019. The rates, which are used in the current fiscal year and the first year 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);
- Due to higher year-to-date earnings in 2017 (12.52 percent as of October), funded percentage is expected to stay above 70 percent for the remaining forecast 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

Accelerating PERS rates are a significant factor in year-over-year forecast cost increases, particularly in the General Fund. It is unknown whether the Oregon Legislature will undertake any type of PERS reform during the 2018 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 PPO medical premiums escalating by 3.5 percent for the first year of the forecast and 6.0 percent for each subsequent 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 five unions—SPEU (Police), IAFF (firefighters and battalion chiefs), PCEA (911 Communications), and AFSCME (general unit), and 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, 48 percent; Transportation Fund, 25 percent; Utility Fund, 30 percent; and WVCC Fund, 50 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 2.5 percent wage increase is used.

Risk Factor Ranking – MEDIUM

Negotiations are underway with one labor union – AFSCME – during the current fiscal year. The risks associated with increased costs from future labor negotiations beyond FY 2018 are difficult to measure at this time.

Inflation

The Bureau of Labor Statistics reported for October 2017 that the Consumer Price Index-All Urban Consumers (CPI-U) Western Region (not seasonally adjusted) increased 2.9 percent from October 2016 to September 2017. Over the measurement period, the index for all items less food and energy advanced 3.0 percent. Higher prices for "other goods and services (4.6 percent) and fuels and utilities (1.7 percent) contributed to the increase. Prices for gasoline (all types) rose overall by 9.2 percent, however, the period from September to October 2017 saw a -3.1 percent change. For purposes of this forecast, a 2 percent inflation factor is used on general goods and services. Inflation factors for internal City services such as motor pool, radio communications, and 9-1-1 call-taking and dispatch are tied to the projected cost of providing the service during the forecast period.

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 Costs / Employer Rate Increases	HIGH	11.5%
Health Care Costs	MEDIUM	10.3%
Labor Agreements / Salary Costs	MEDIUM	40.9%
Inflation	MEDIUM	Varies

Comparative data for *PERS Employer Rate Increases* include the costs of PERS employer, PERS pickup (6 percent of salary), and the City's assessment for its unfunded PERS liability. *Labor Agreements / Salary Costs* equal salary, overtime, incentives, and seasonal wages. Percentages in the expenditures table are based upon comparison with the total operations budget for the four funds – General, Transportation Services, Utility, and WVCC – in the FY 2019 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 2019	FY 2020	FY 2021	FY 2022	FY 2023
Wage Projections	%	%	%	%	%
	Increase	Increase	Increase	Increase	Increase
Market adjustment – AFSCME	2.50%	2.50%	2.50%	2.50%	2.50%
Market adjustment – Attorneys (SCABU)	2.25%	2.25%	2.50%	2.50%	2.50%
Market adjustment – Police (SPEU)*	<i>1.50% / 1.50%</i>	<i>1.50% / 1.50%</i>	2.50%	2.50%	2.50%
Market adjustment – Battalion Chiefs (IAFF)	2.00%	2.50%	2.50%	2.50%	2.50%
Market adjustment – Fire (IAFF)**	5.00%	2.50%	2.50%	2.50%	2.50%
Market adjustment – Non-represented	2.50%	2.50%	2.50%	2.50%	2.50%
Market adjustment – PCEA (9-1-1)	3.00%	2.50%	2.50%	2.50%	2.50%

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

**SPEU contract increases at July 1 and January 1.*

***FY 2019 IAFF Firefighters at 5.0 percent; Apparatus Operators at 3.0 percent; Deputy Fire Marshals, EMS Trainer / Coordinator, Training Officer at 4.0 percent.*

Other Personal Services Costs	Annual Percentage Change in Benefits Projections				
Medical (effective Dec 1, each fiscal year) / PPO	3.50%	6.00%	6.00%	6.00%	6.00%
Dental (effective Dec 1, each fiscal year)	4.90%	2.00%	2.00%	2.00%	2.00%
Vision (effective Dec 1, each fiscal year)	2.30%	0.00%	0.00%	0.00%	0.00%
Workers' compensation	-12.0%	0.00%	0.00%	0.00%	0.00%
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%	26.88%	26.88%	33.56%	33.56%
Retirement-Employer – OPSRP General	11.97%	15.98%	15.98%	20.49%	20.49%
Retirement-Employer – OPSRP Police and Fire	16.74%	21.70%	21.70%	27.36%	27.36%

	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
Materials and Services	% Increase	% Increase	% Increase	% Increase	% Increase
General inflation factor	2.00%	2.00%	2.00%	2.00%	2.00%
Liability insurance	Varies by department, overall 1.62%	3.00%	3.00%	3.00%	3.00%
Internal charges	3.00% - 4.50%	4.50% - 6.00%	3.00% - 4.50%	4.50% - 6.00%	3.00% - 4.50%
Motor pool (Fleet Services)	Varies by department, overall -6.63%	6.00%	3.00%	6.00%	3.00%
Radio communications	Varies by department, overall 2.00%	1.00%	1.00%	1.00%	1.00%
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 for the first 2 years of 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 Revenues Assumptions Table

	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
Revenue	% Increase	% Increase	% Increase	% Increase	% Increase
Current year property tax	3.80%	4.30%	4.07%	4.05%	4.04%
Electric franchise	2.00%	2.00%	2.00%	2.00%	2.00%
Telecommunications franchise	1.00%	1.00%	0.00%	0.00%	0.00%
Natural gas franchise*	-6.50%	-2.00%	0.00%	0.00%	0.00%
Cable franchise	3.00%	2.00%	1.00%	0.00%	0.00%
Refuse (solid waste) franchise	2.00%	2.00%	2.00%	2.00%	2.00%
Fees for service	3.12%	2.97%	2.95%	3.01%	2.99%
Planning, site, dwelling review fees	7.00%	7.00%	7.00%	7.00%	7.00%
Other fees	3.41%	3.46%	3.52%	3.57%	3.62%
Licenses, permits	3.73%	3.75%	3.78%	3.81%	3.83%
Rents (parking, building)**	10.23%	-8.69%	11.38%	-7.89%	11.96%
Indirect cost allocation (ICAP)	4.70%	4.50%	4.50%	4.50%	4.50%
Other internal charges	3.90%	6.00%	3.00%	6.00%	3.00%
State shared revenue***	2.90%	2.91%	2.91%	2.92%	2.93%
Other agencies	-14.11%	-11.42%	22.80%	-14.19%	2.67%
Grants****	0.00%	0.00%	0.00%	0.00%	0.00%
Fines, penalties	1.87%	1.88%	1.89%	1.90%	1.91%

FY 2019 escalators or de-escalators are calculated against the FY 2018 estimates for year-end revenue totals by type.

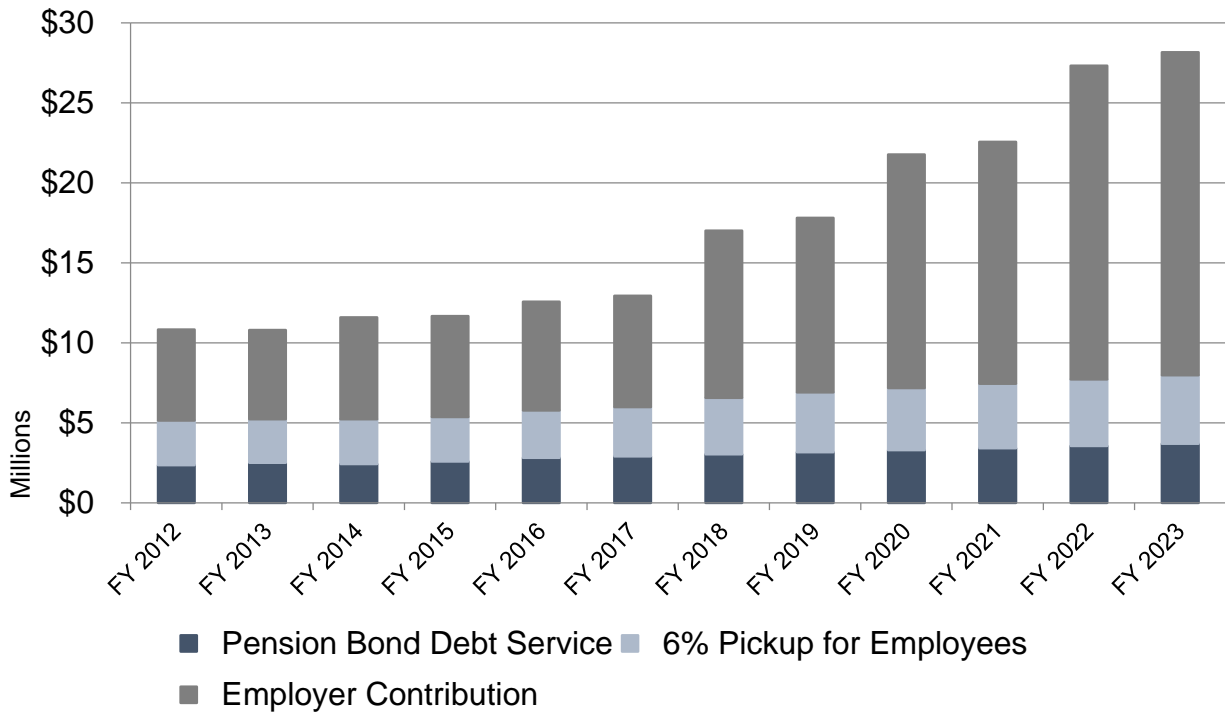
*Decreasing, then flattening natural gas franchise revenues relate to a current request from Northwest Natural Gas to the Public Utility Commission for a lowering of rates.

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

***The rate of increase for FY 2019 reflects anticipated gains from a base amount of state shared revenues. The change from FY 2018 to FY 2019 is actually a decrease due to FY 2018 receipt of January 2016 through June 2017 back payments of marijuana shared revenues.

****FY 2019 assumption is a base amount of approximately \$490,000, no increase in forecast years.

City of Salem General Fund PERS Expense by Type



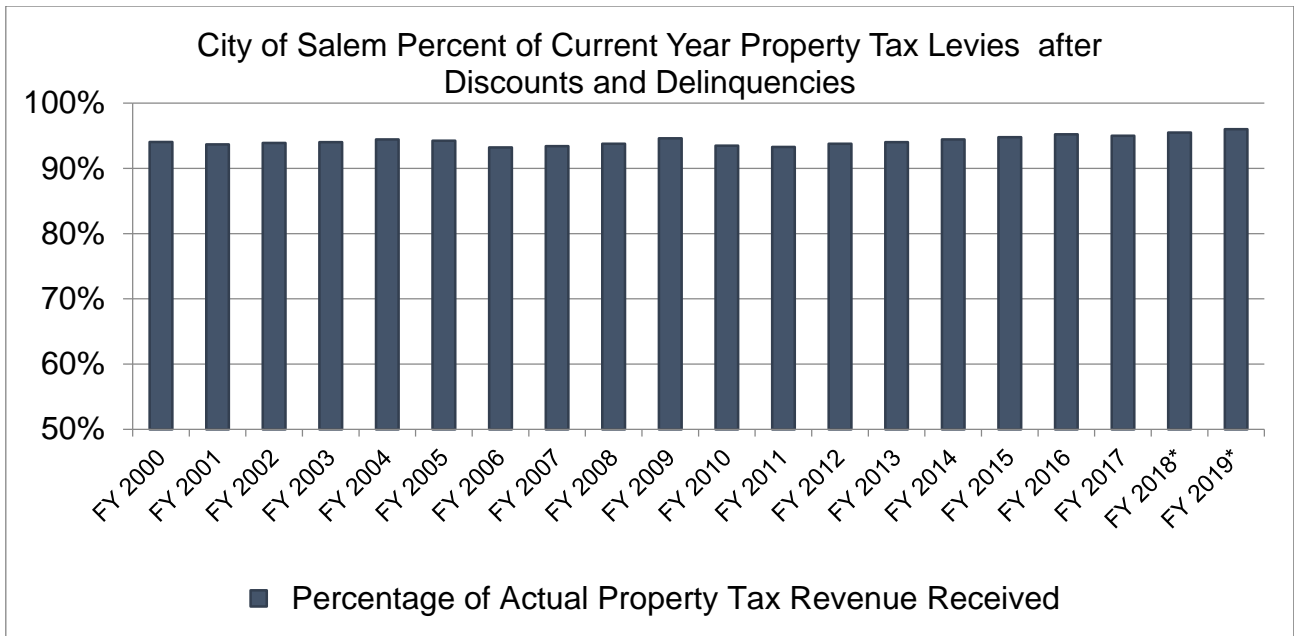
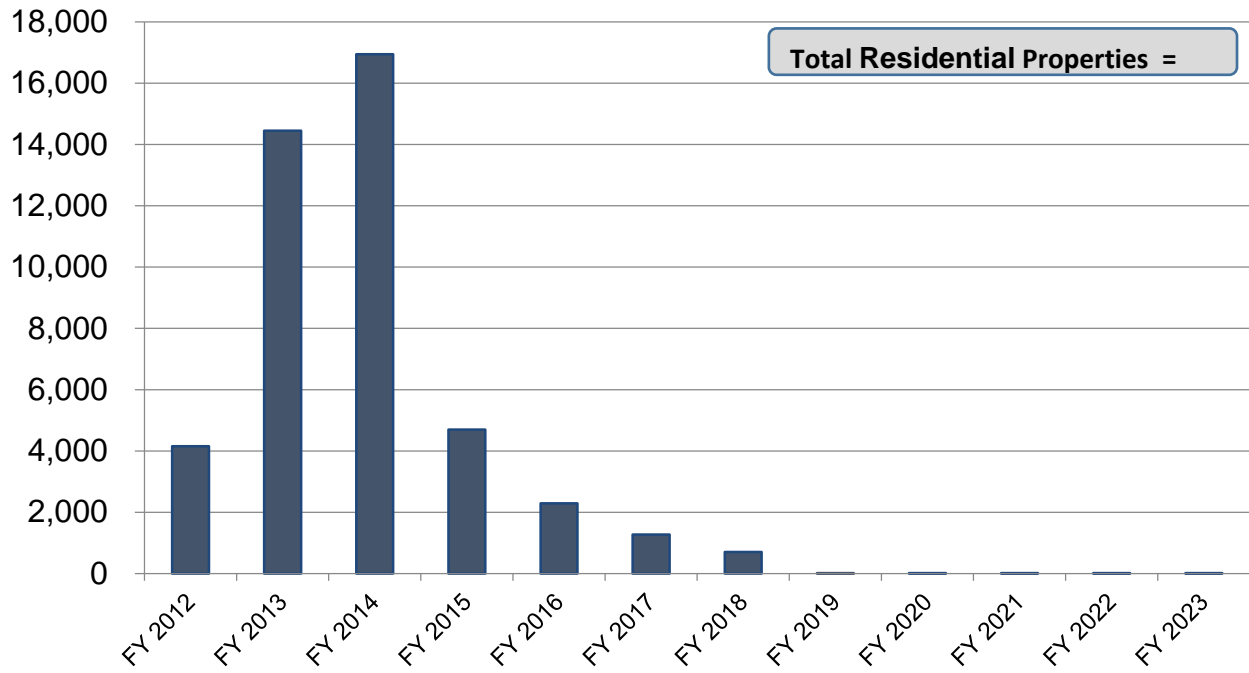


Table 2 - Historic Changes in Property Tax Levies Since the Passage of Measure 50

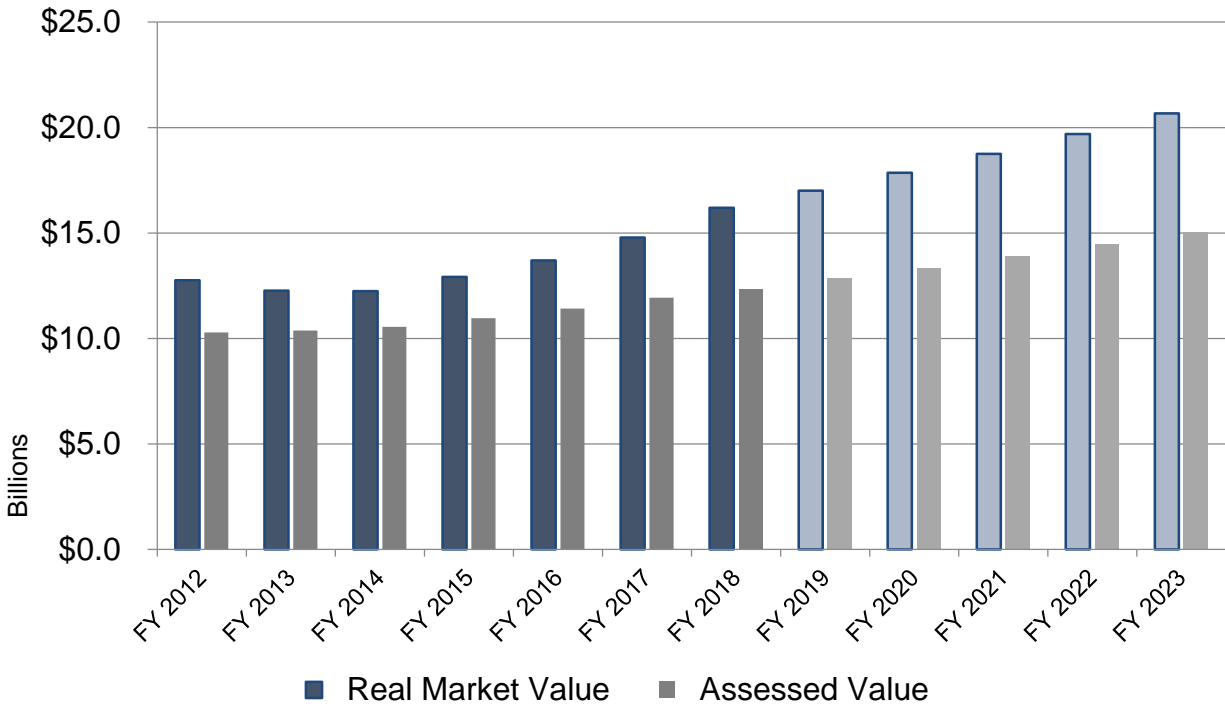
Fiscal Year	Levy	Increase	Actual	Increase
FY 2000	\$33,213,490	-	\$31,239,718	-
FY 2001	35,000,560	5.4%	32,787,613	5.0%
FY 2002	36,754,990	5.0%	34,517,563	5.3%
FY 2003	38,815,890	5.6%	36,495,536	5.7%
FY 2004	40,564,780	4.5%	38,309,011	5.0%
FY 2005	42,316,782	4.3%	39,880,157	4.1%
FY 2006	44,234,818	4.5%	41,238,540	3.4%
FY 2007	46,747,259	5.7%	43,661,990	5.9%
FY 2008	49,708,758	6.3%	46,619,613	6.8%
FY 2009	51,979,085	4.6%	49,177,277	5.5%
FY 2010	53,837,888	3.6%	50,330,937	2.3%
FY 2011	55,258,868	2.6%	51,547,855	2.4%
FY 2012	56,259,395	1.8%	52,765,171	2.4%
FY 2013	56,224,933	-0.1%	52,860,672	0.2%
FY 2014	57,476,027	2.2%	54,281,270	2.7%
FY 2015	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%	62,526,467	4.4%
FY 2018*	67,942,307	3.2%	64,884,904	3.8%
FY 2019*	70,152,183	3.3%	67,347,706	3.8%

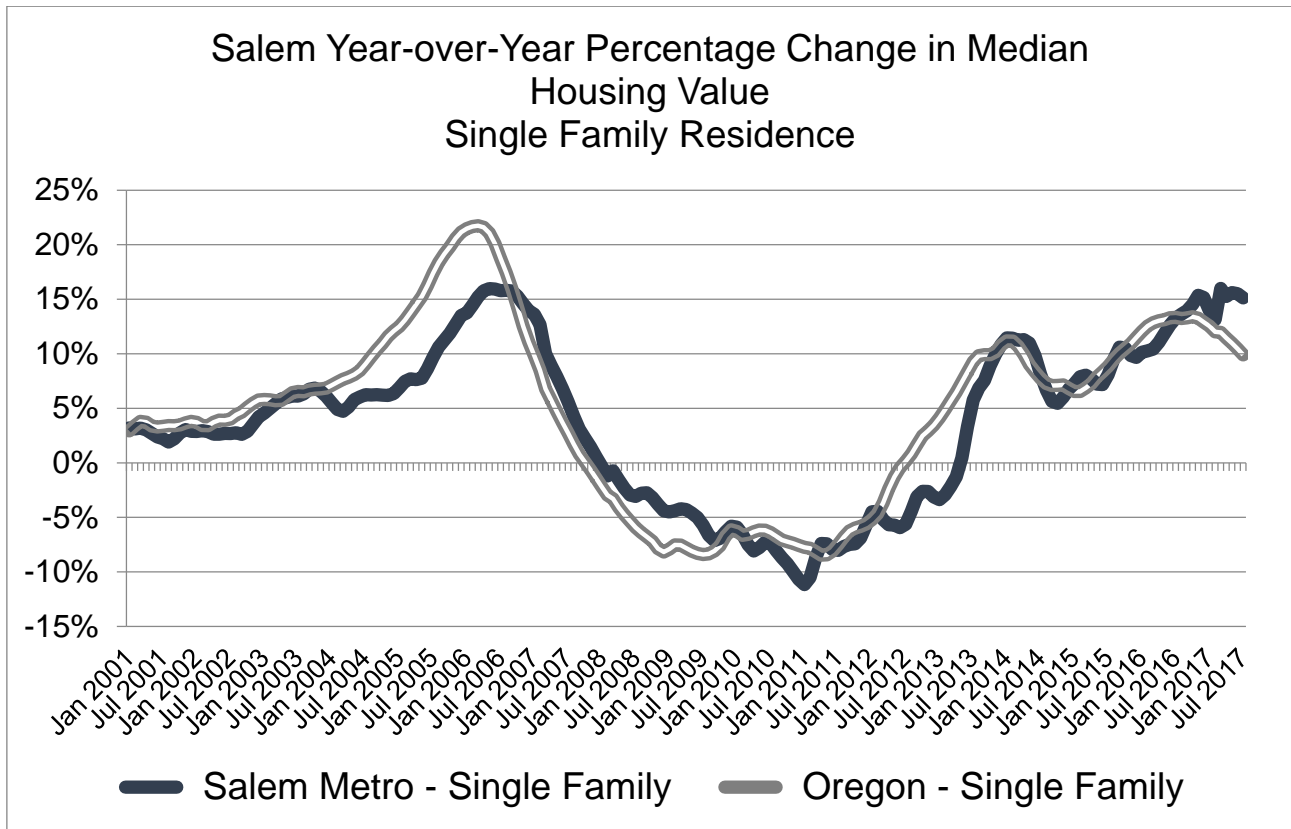
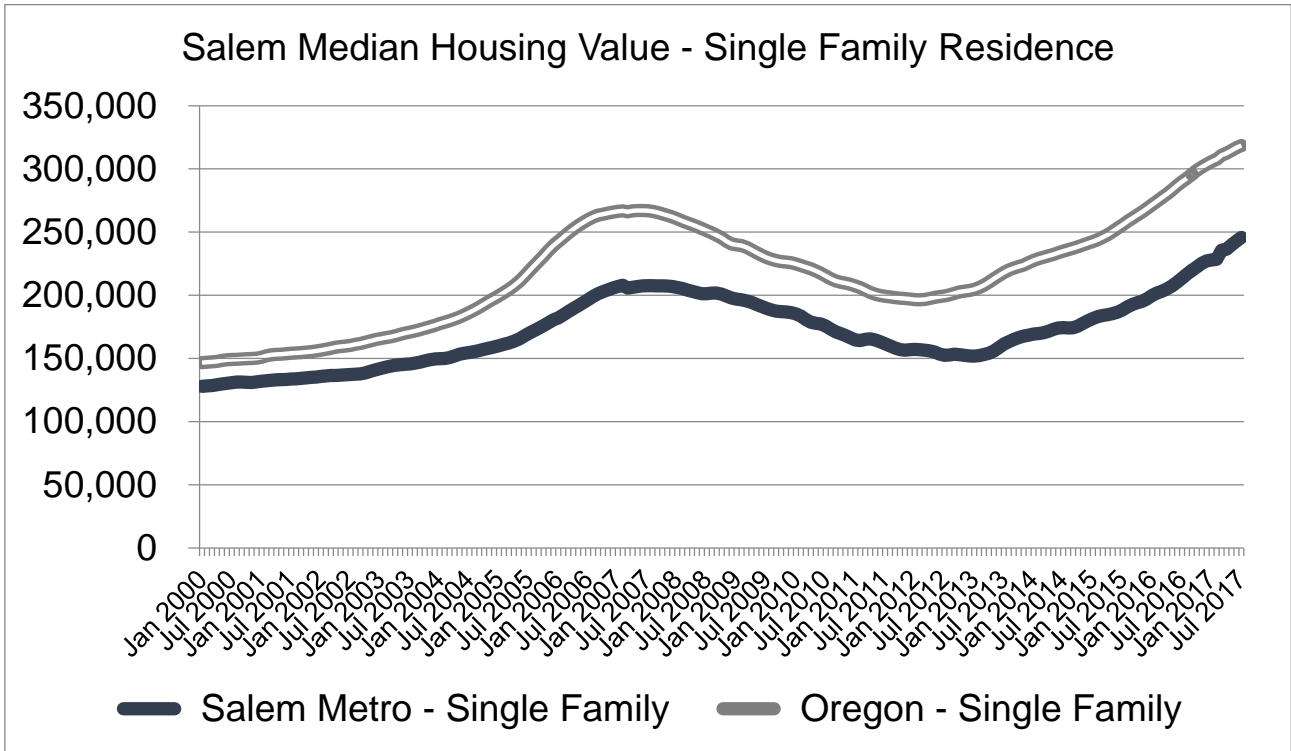
* Projected

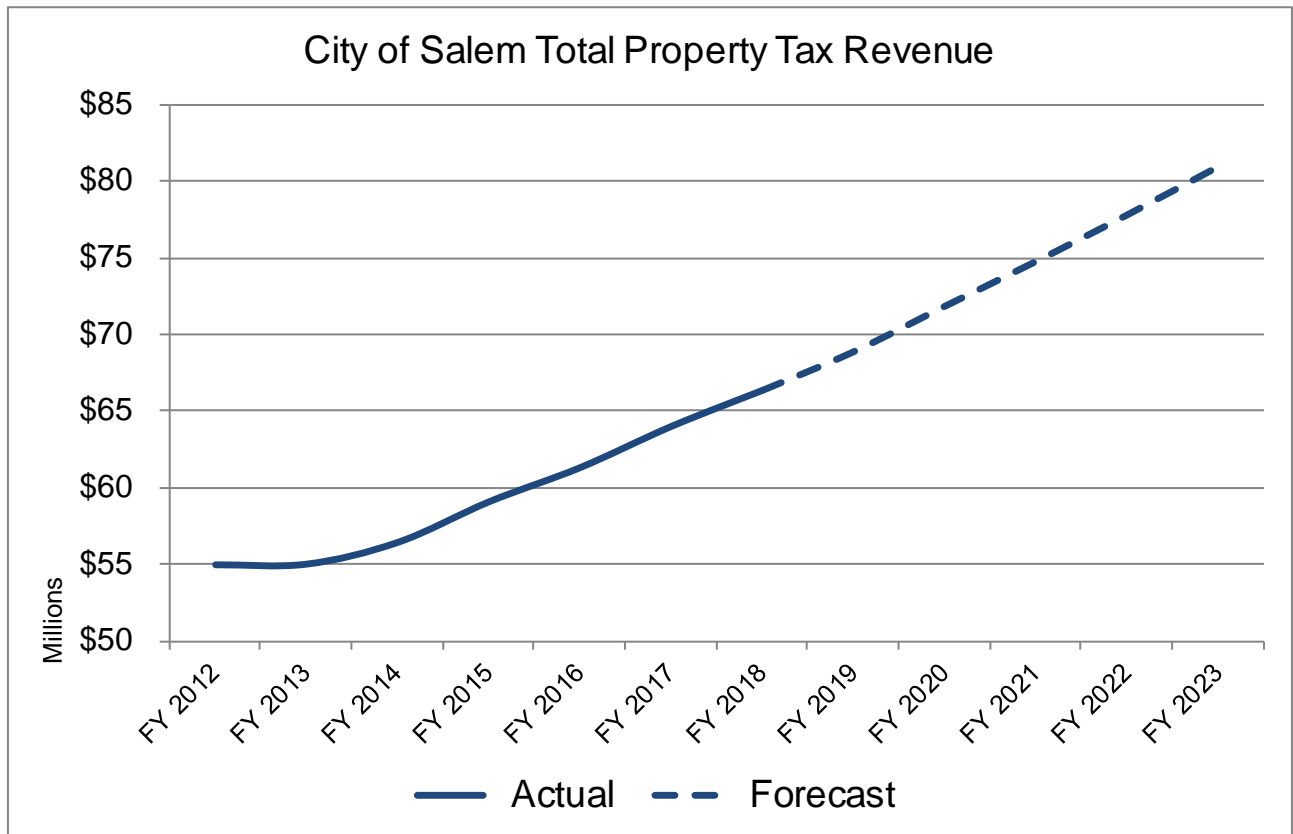
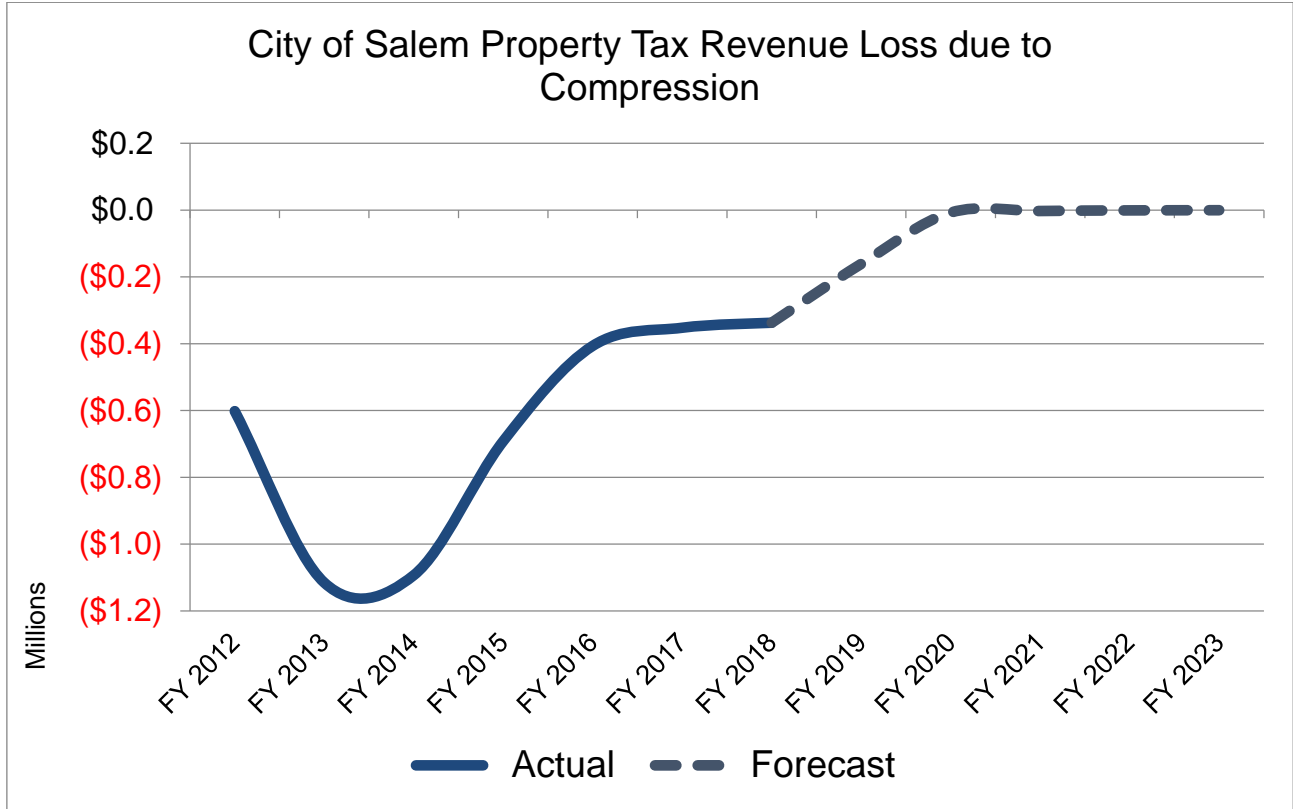
City of Salem Residential Properties where Real Market Value is equal to Assessed Value (Marion County)



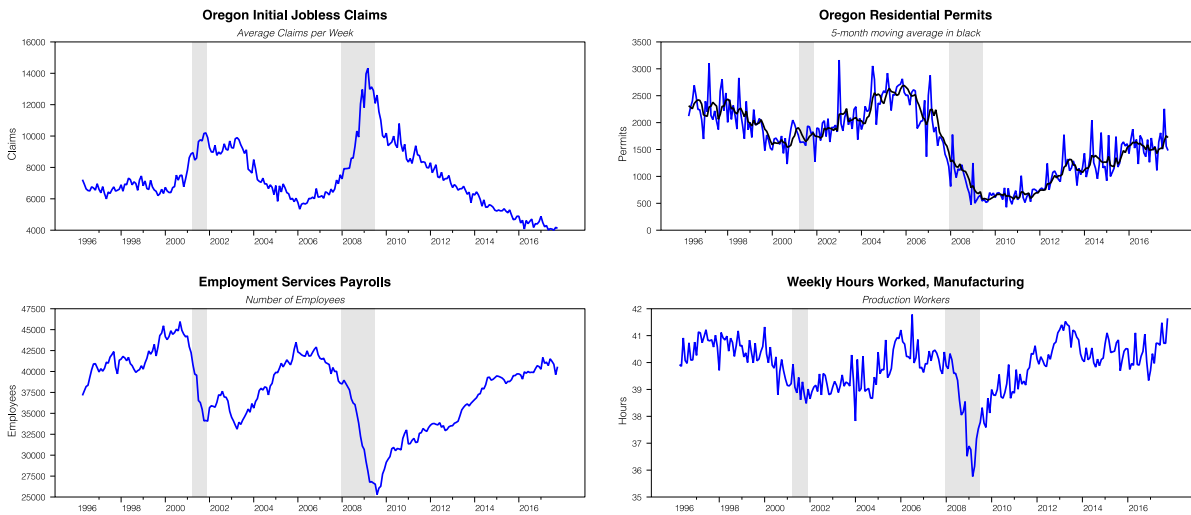
City of Salem Real Market Value vs. Assessed Value





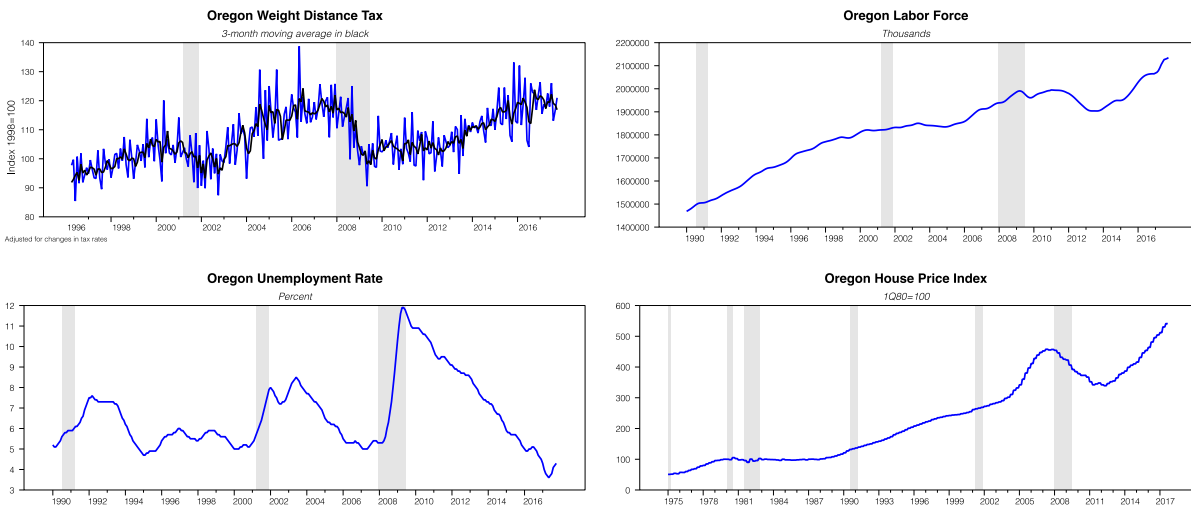


Oregon Indicators

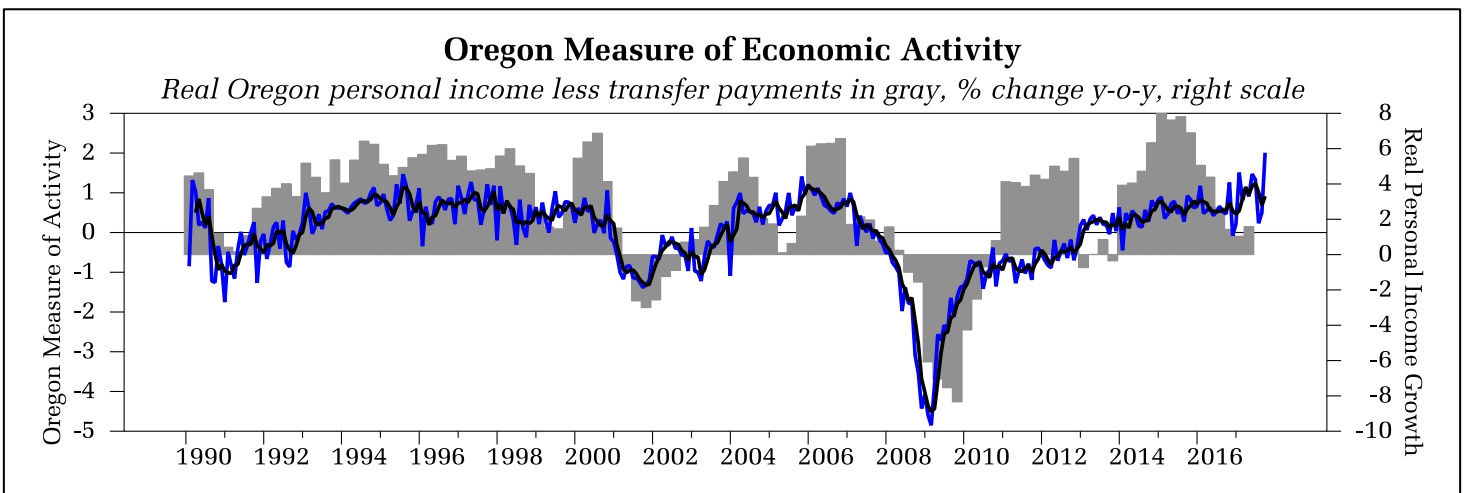
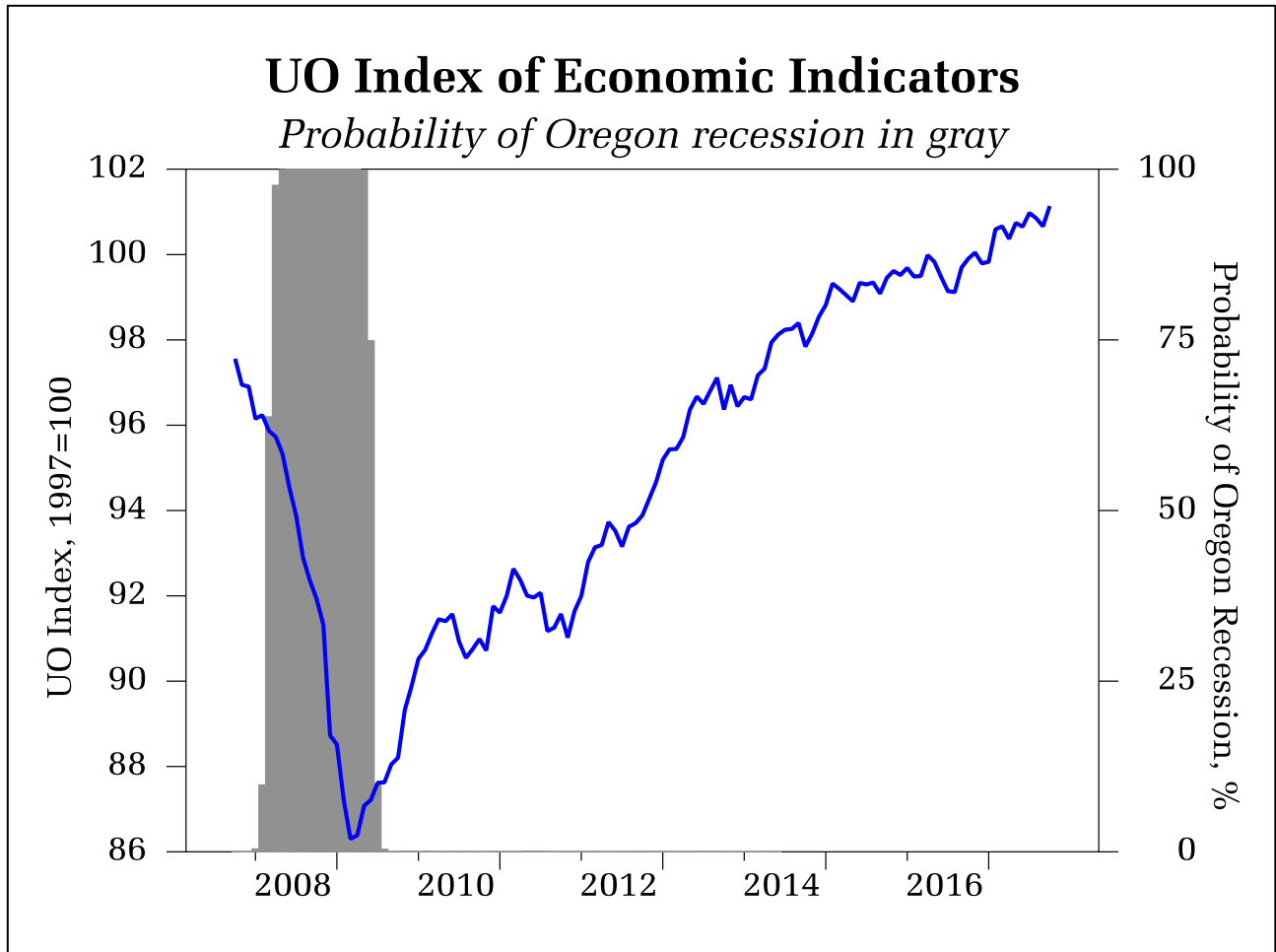


Tim Duy Economic Consulting, LLC * Salem Economic Outlook 2018 * Chart created: 12/02/2017 10:28

Oregon Indicators II

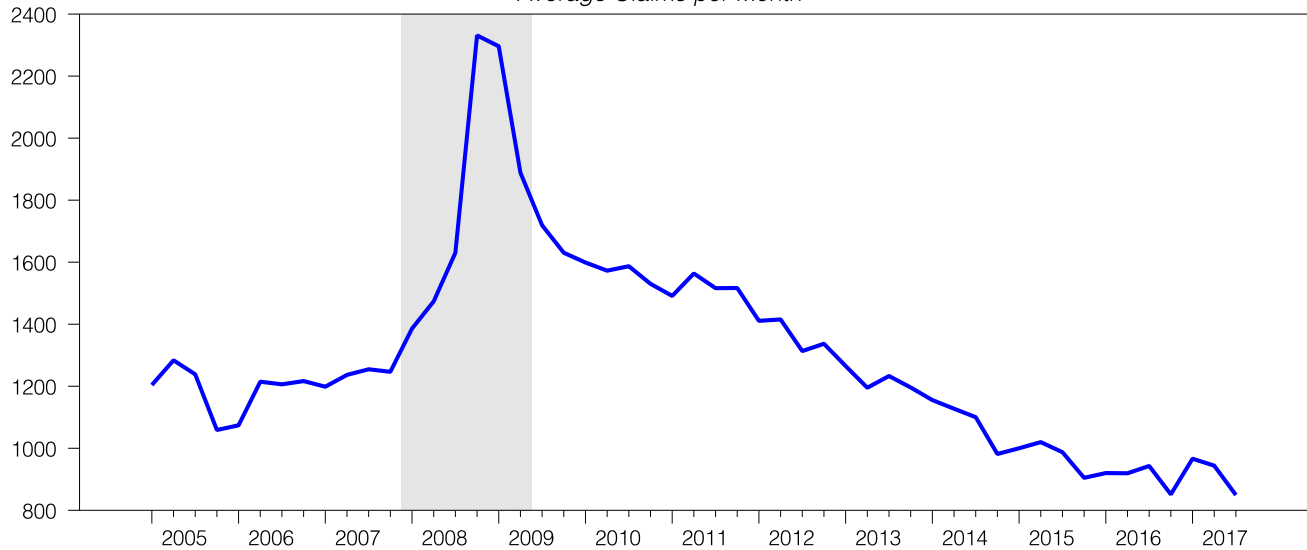


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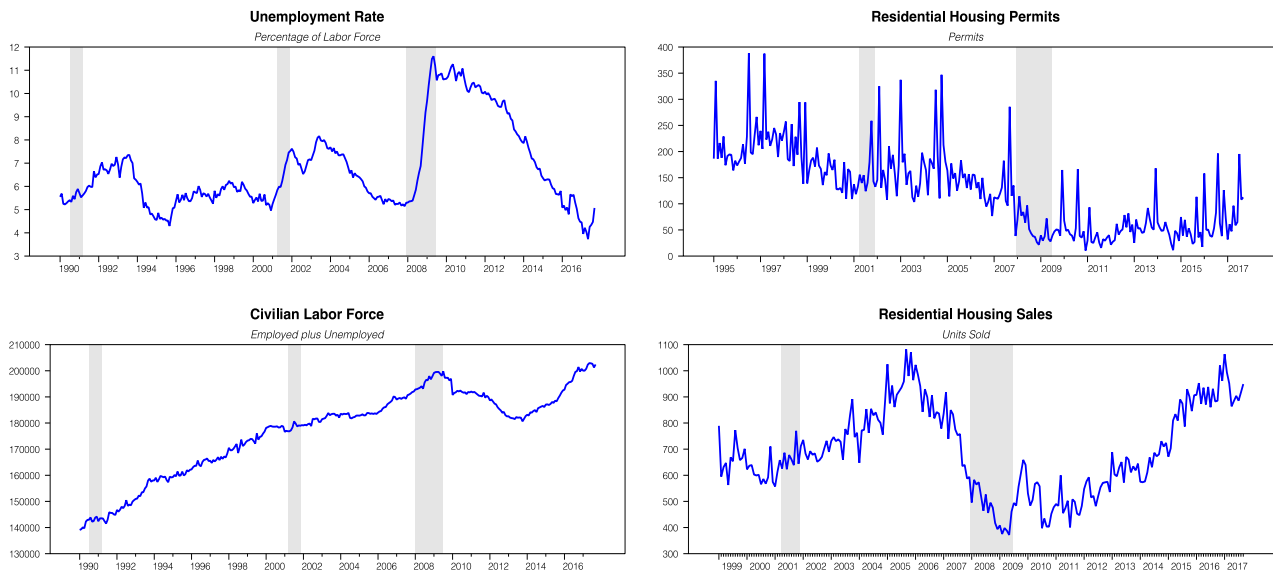
Marion County Initial Jobless Claims

Average Claims per Month



Tim Duy Economic Consulting, LLC * Salem Economic Outlook 2018 * Chart created: 12/04/2017 13:05

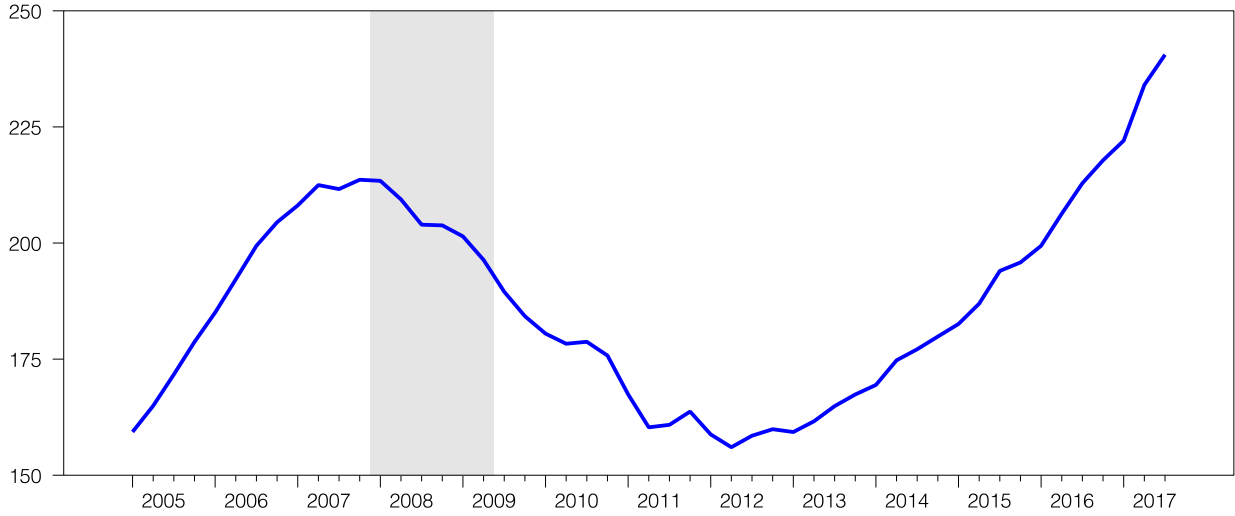
Salem Economic Indicators



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Home Price Index for Salem MSA

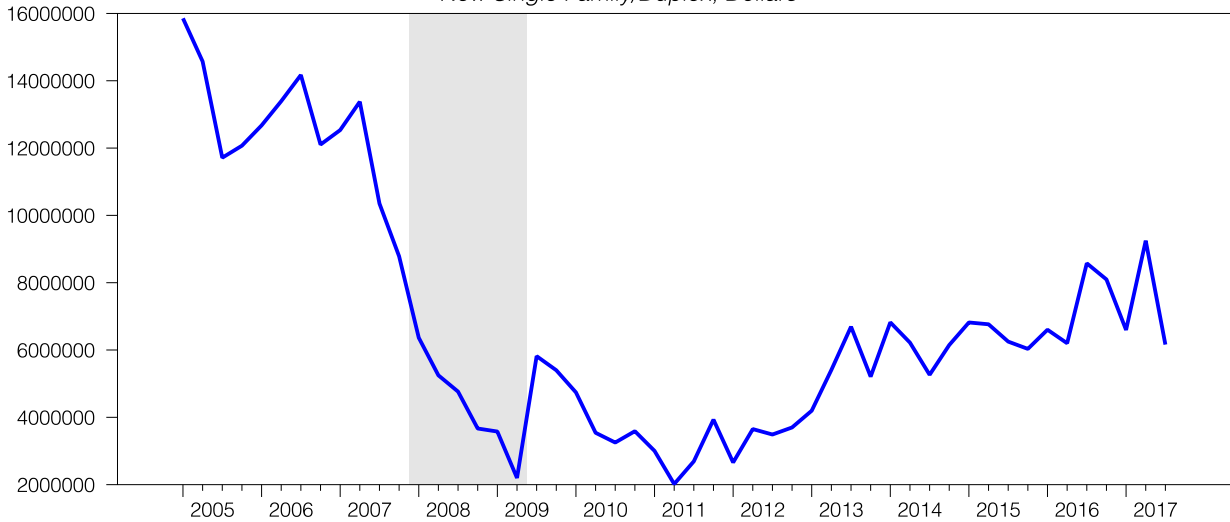
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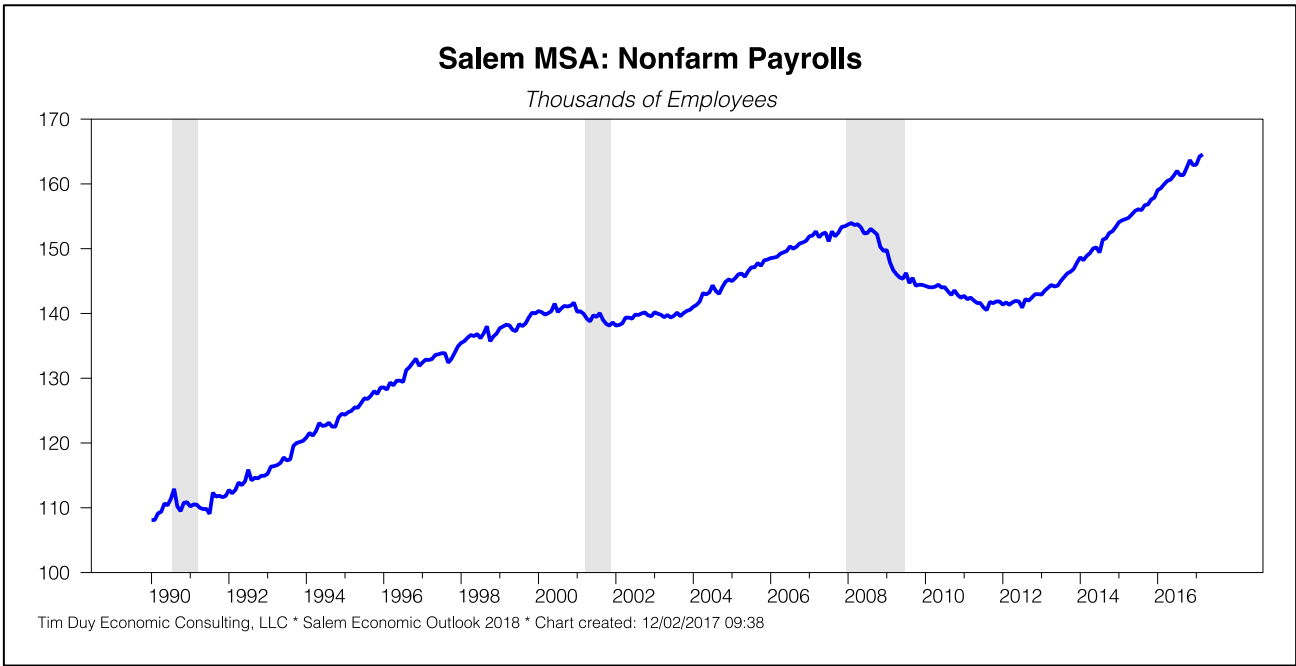
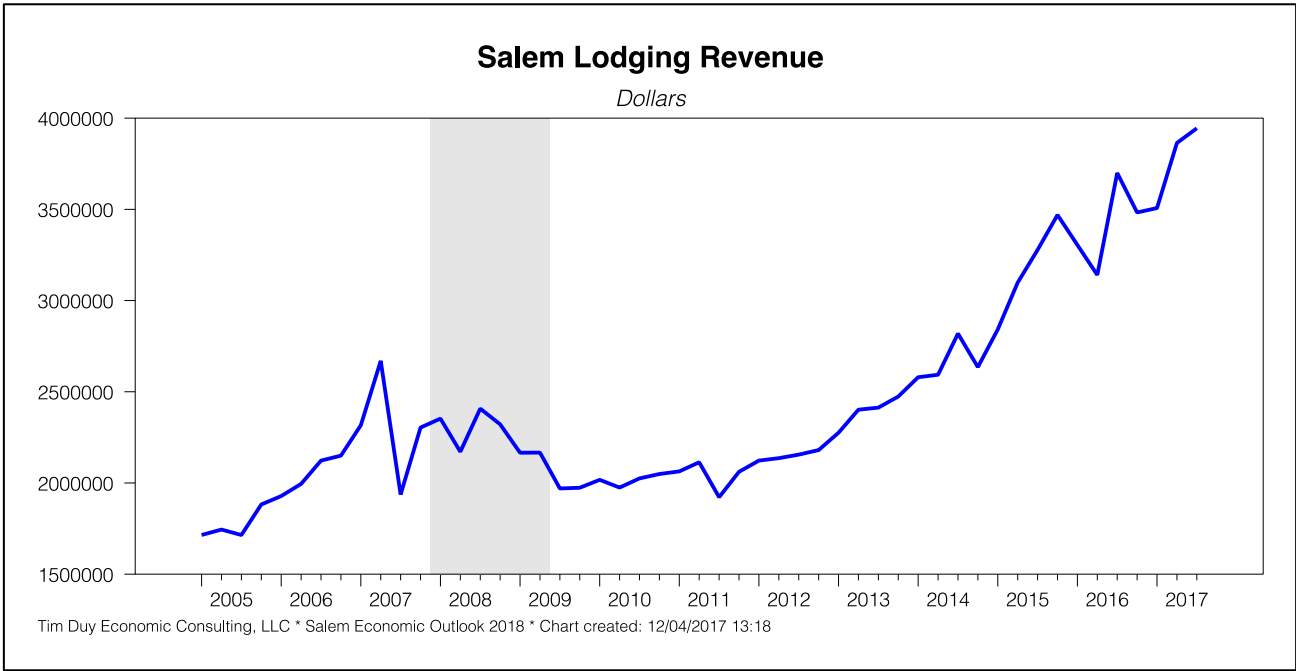
Tim Duy Economic Consulting, LLC * Salem Economic Outlook 2018 * Chart created: 12/04/2017 13:05

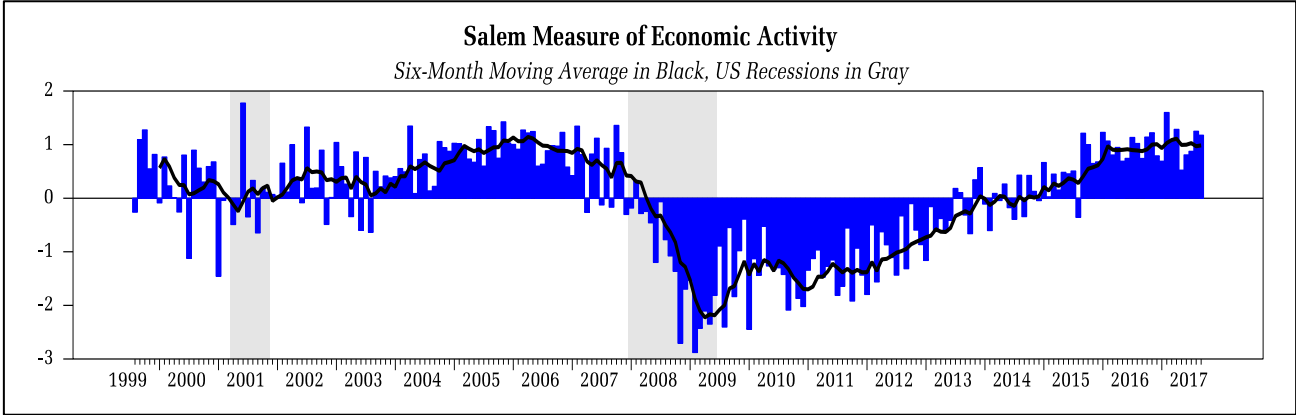
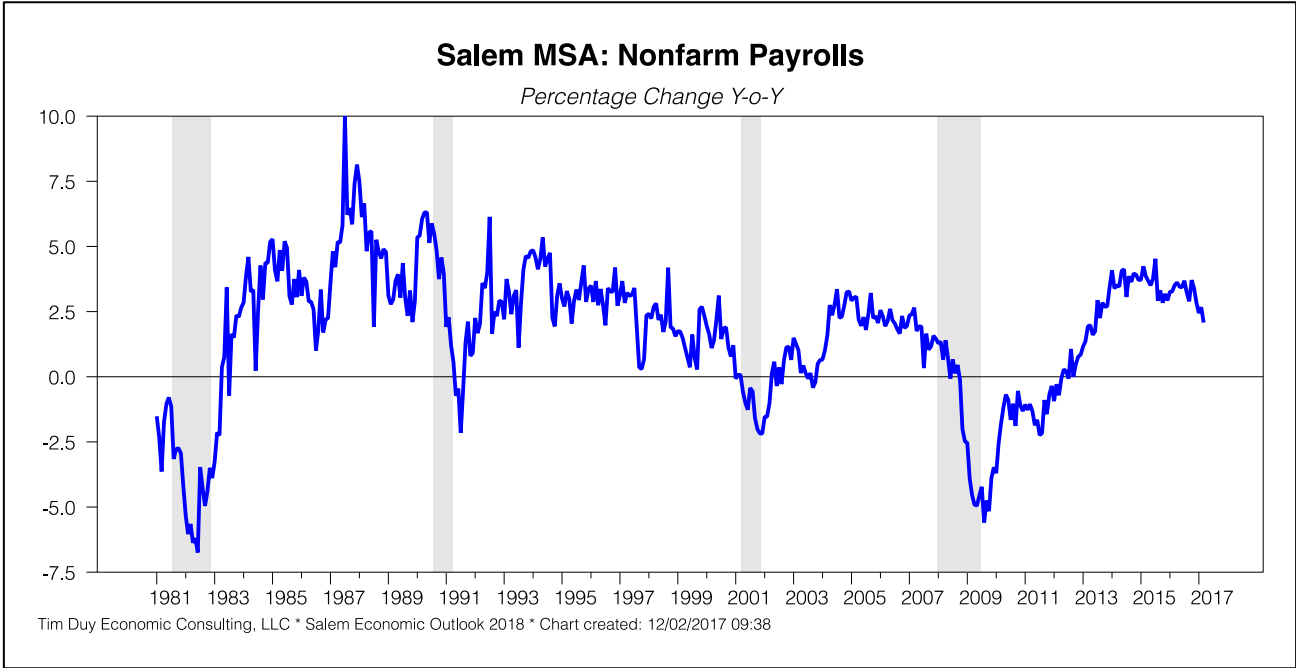
Salem Value of Residential Construction

New Single Family/Duplex, Dollars



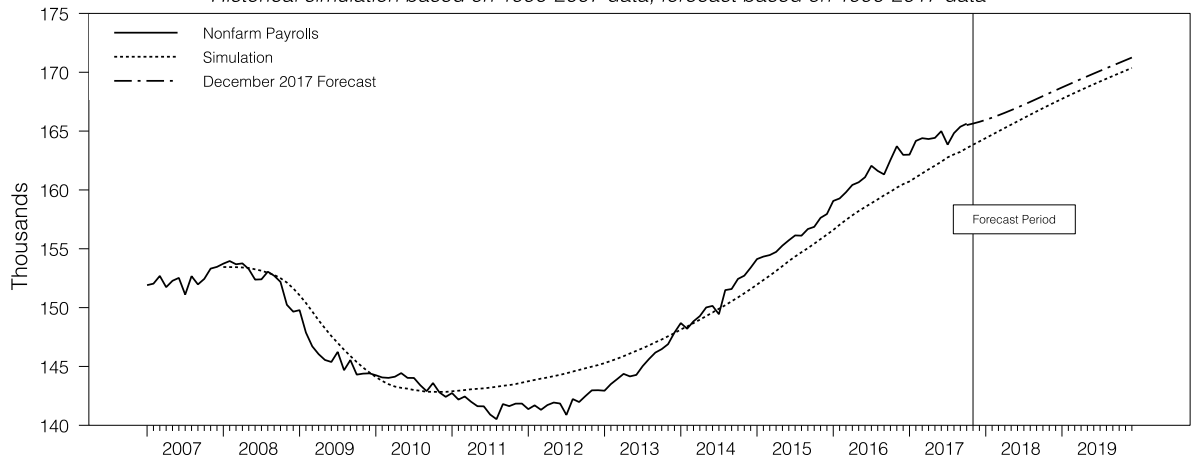
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Salem MSA Nonfarm Payrolls, Seasonally Adjusted, 2018 Forecast

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



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