FISCAL YEARS **2021 - 2025**

CITY OF Salem
AT YOUR SERVICE

FIVE-YEAR FORECAST

City of Salem Oregon

Five-Year Financial Forecasts

Fiscal Year 2021 through 2025

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, Benefits
Self Insurance Fund, Risk
Streetlight Fund

Steve Powers, City Manager

City of Salem Budget Office

January 2020

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Five-Year Financial Forecasts, FY 2021 – FY 2025

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

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Forecast: Emergency Services Fund

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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

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 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. Fiscal sustainability – framed as S*ustainable Service Delivery* – is one of seven goal areas in the City Council's strategic plan.

The intended outcome of this goal is alignment of the cost of City services and resources and maintenance of working capital for the future through 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. The information presented in the forecasts exemplifies City Council's 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 16).

In addition to the General Fund, this document includes forecasts for 14 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,
- revenue and expenditure detail, and
- revenue risk factors and rankings.

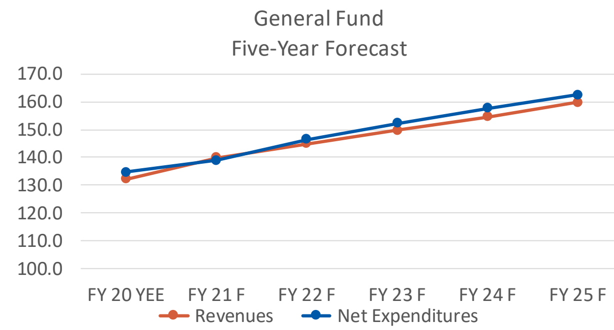
The remaining 10 fund forecasts are presented next in the document with a one-page summary for each fund. The page includes a numeric table with the five-year result, a brief narrative explanation, highlighted risk factors, and graphic displays of historical and projected revenues and expenditures.

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.

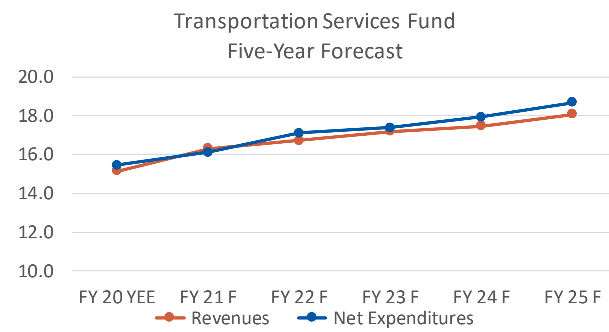
An analysis of Citywide expenditure risk factors and rankings closes the document. The appendices focus primarily on the General Fund and property tax, but also provide additional detail on assumptions employed in developing the forecasts.

Forecast Snapshot

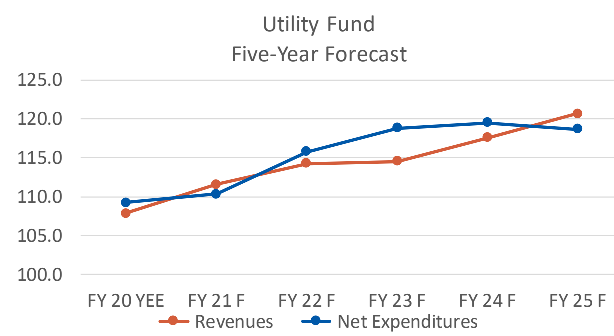
The forecast for the *General Fund* demonstrates a structural imbalance between current, available revenue and the cost of providing services. With the approval of the City Operations fee to support General Fund services, this imbalance over the forecast period is reduced, but not completely resolved. (More detail on page 8.)



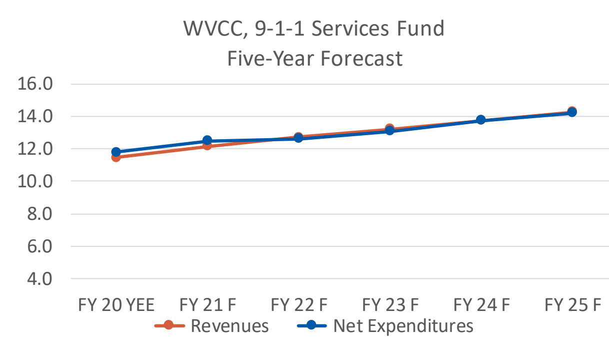
The *Transportation Services Fund* forecast reflects cost savings as the result of shifting the operation and maintenance of the streetlight system to the Streetlight Fund (forecast on page 52) and anticipated increases in state highway fund revenues. However, these two contributions are not sufficient to stall an imbalance between current revenues and the expense of transportation services. (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 an approximate $34-39 million annual contribution through debt service payments and pay-as-you-go funding for Utility capital improvements. (More detail on page 27.)



In the past few years, the *WVCC Fund* transitioned from a period of financial stress to improved fiscal health due to the willingness of member agencies to align the rates they pay to the cost of service. This forecast includes the addition of a capital project to replace the CADD system. (More detail on page 35.)



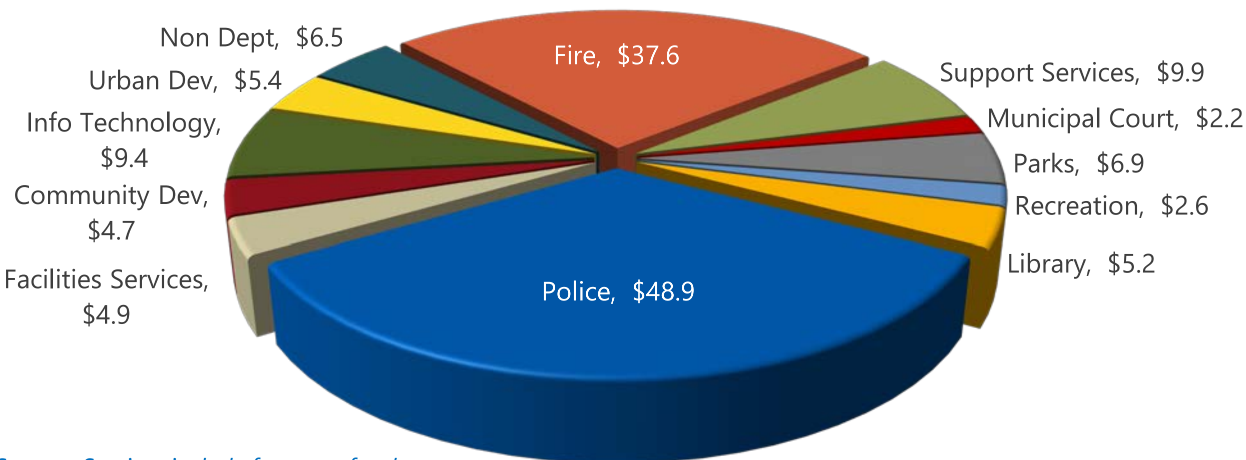
General Fund

Summary

The City's General Fund supports operations in the areas of public safety, planning, code enforcement, public library, municipal court, parks and recreation, urban development, and 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 current service delivery.

General Fund FY 2021 Forecast

Total Expenditures: $144.2M



Support Services include forecasts for the City Manager's Office, Finance, Legal, Human Resources, and Mayor and Council.
All values in millions.

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 counties 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 2021 – 2025 continues the trend experienced with the three most recently completed fiscal years where expenditures exceed revenues. The gap widens in this forecast with the costs of services escalating more steeply.

Current Status

The City's strong financial management practices have helped to maintain General Fund working capital at a level near the City Council's policy of 15 percent of budgeted revenues. Ensuring fiscal sustainability of City services – aligning revenues with the cost of services and maintaining sufficient working capital – is a goal area of the Council's strategic plan. Fiscal sustainability in the General Fund allows for the continuity of services valued by the community, supports a favorable credit rating and reduces borrowing costs for capital improvements, and provides resources to manage the cyclical nature of revenue receipts. The City needs nearly $27 million in available cash or working capital to avoid borrowing and to pay for expenses from July through November each fiscal year in the General Fund.

FY 2020 began with working capital of $22.2 million. The change to this balance from July 2016 to June 2019 – the span of three fiscal years – was a decrease of $5.9 million. The year-end outlook for FY 2020 continues the use of working capital, or one-time funds, to balance anticipated expenditures. Current working capital is projected to be depleted to $19.8 million, a reduction of $2.4 million, by the end of the fiscal year.

Future Outlook

The outlook for the next five years is more positive than the results presented in prior forecasts. While the gap between General Fund revenues and expenditures as demonstrated in the prior two forecasts persists for most of the forecast period, revenue from the Operations Fee narrows the gap and ending working capital remains positive through the fifth year. Working capital is also positively impacted by legislative PERS changes to the amortization of unfunded liability, reducing the growth in rates. The City's actual experience for use of working capital was less than the amount documented in the prior two forecasts. This is partly due to purchases and projects carried over from one year to the next, an assumption demonstrated in the forecast display in Table 3. While the exact prediction for use of working capital in FY 2019 was not realized, the resource was accessed to balance expenditures. This trend is anticipated to continue but not to the extent of exhausting working capital during the forecast period.

Factors contributing to the use of working capital to balance General Fund expenditures include:

- FY 2021 is the second year of a biennium with employer rates for PERS Tiers 1 / 2 at 25.49 percent, an increase of 21.0 percent from the FY 2019 rate.

- The benefit of the 3 percent statutory limit on property tax growth is the consistent source of revenue it provides. Property tax is estimated at $74.4 million for FY 2021, representing 54 percent of all General Fund revenues. This demonstrates the disadvantage of the consistent rate of growth for property tax is its insufficiency relative to the rate of cost increases for General Fund services. The forecast for FY 2021 through FY 2025 anticipates property valuation gains of approximately 4.1 percent, the statutory limit plus an estimated increase due to new growth.

Forecasted costs for the General Fund's two largest departments – Police and Fire – equate to $86.5 million for FY 2021, 60 percent of the fund's budget (without contingency). The FY 2021 forecast expense for the two public safety departments exceeds the current year base budget by $3.67 million or 4.4 percent.

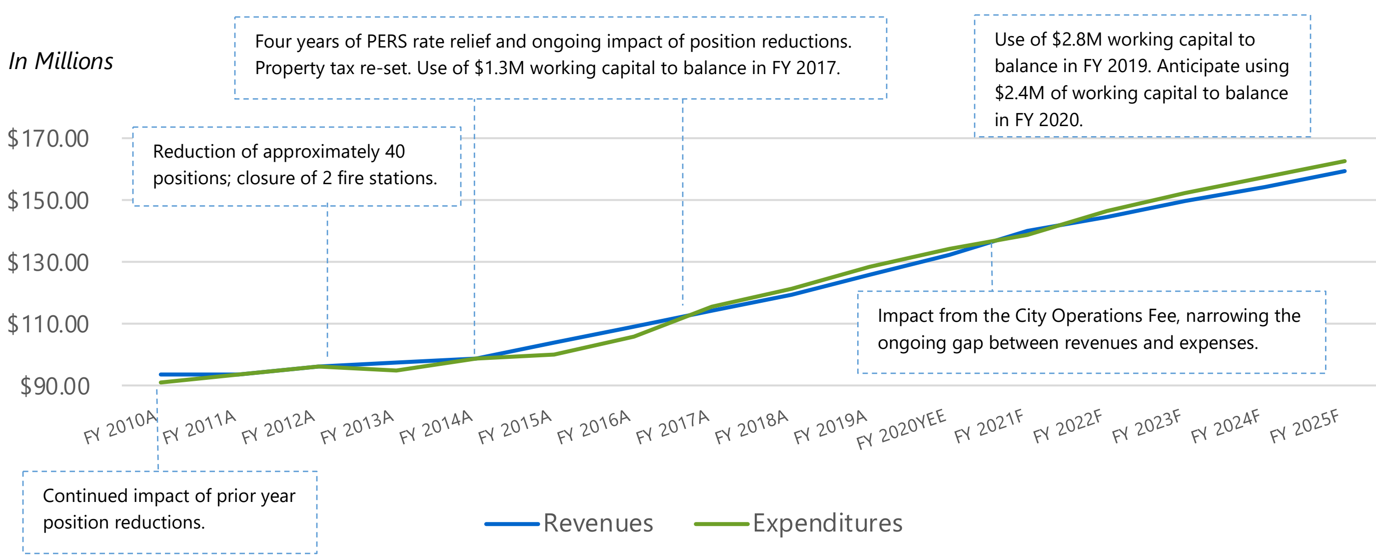
Forecast Result

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. With inclusion of the Operations Fee as a new revenue source, the imbalance is lessened but remains.

The fund is predicted to realize increases in almost every revenue type with an aggregate increase of 2.9 percent to 5.8 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 7.1 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 2021 – FY 2025 Forecast Summary

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

	FY 2020YEE	FY 2021F	FY 2022F	FY 2023F	FY 2024F	FY 2025F
Beginning Working Capital	$ 22.20	$ 19.82	$ 20.82	$ 19.43	$ 16.94	$ 13.68
Revenues	132.24	139.92	144.99	149.75	154.45	159.69
Total Resources	$ 154.44	$ 159.74	$ 165.81	$ 169.18	$ 171.39	$ 173.37
Net Expenditures	$ 134.62	$ 138.91	$ 146.38	$ 152.25	$ 157.71	$ 162.45
Ending Working Capital	$ 19.82	$ 20.82	$ 19.43	$ 16.94	$ 13.68	$ 10.92
Change to WC	*$ (2.38)*	*$ 1.00*	*$ (1.39)*	*$ (2.49)*	*$ (3.26)*	*$ (2.76)*
WC Council Policy at 15% Revenues	*$ 19.84*	*$ 20.99*	*$ 21.75*	*$ 22.46*	*$ 23.17*	*$ 23.95*
Policy Compliance Status of this Forecast	*$0.01*	*$0.16*	*$2.32*	*$5.53*	*$9.49*	*$13.03*

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 for FY 2022 and FY 2024. Health benefits rate increases align with actuarial guidance. Most materials and services category items (professional services, supplies, equipment) have a 2.0 percent inflation during the five-year period. The forecast also includes a 1 percent expense of direct compensation for the State paid family and medical leave program that is expected to begin January 2022.

Despite increases, which align with a five-year (FY 2015 – FY 2019) 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 3.6 percent in FY 2021 to 3.4 percent in FY 2025. As context, the level of aggregate savings realized in FY 2019 was 4.7 percent and FY 2020 year-end savings are estimated at 3.9 percent.

General Fund Table 2, FY 2021 – FY 2025 Forecast

The assumptions in the forecast lead to a diminishing working capital with it falling below the minimum in the City's financial policies by year-end FY 2020. Revenues are expected to be greater than net expenditures in FY 2021 by approximately $1 million. In the last four years of the forecast, net expenditures exceed revenues by a range of $1.4 million to $3.3 million. This imbalance is illustrated in Table 1 on the preceding page and with additional detail in Table 2 below.

(Values in Millions, YE = Year-End)

	FY 2020 YE Estimate	FY 2021 Forecast	FY 2022 Forecast	FY 2023 Forecast	FY 2024 Forecast	FY 2025 Forecast
Working Capital	$ 22.20	$ 19.82	$ 20.82	$ 19.43	$ 16.94	$ 13.68
Revenues	132.24	139.92	144.99	149.75	154.45	159.69
TOTAL RESOURCES	$ 154.44	$ 159.74	$ 165.81	$ 169.18	$ 171.39	$ 173.37
TOTAL EXPENDITURES	$ 134.62	$ 144.17	$ 151.79	$ 157.77	$ 163.35	$ 168.18
Unspent Contingency		(2.50)	(2.50)	(2.50)	(2.50)	(2.50)
2% Savings		(2.75)	(2.91)	(3.03)	(3.14)	(3.23)
NET EXPENDITURES	$ 134.62	$ 138.91	$ 146.38	$ 152.25	$ 157.71	$ 162.45
ENDING WORKING CAPITAL	$ 19.82	$ 20.82	$ 19.43	$ 16.94	$ 13.68	$ 10.92
Chg to Working Capital	(2.38)	1.00	(1.39)	(2.49)	(3.26)	(2.76)

General Fund Table 3, FY 2021 – FY 2025 Forecast, Carryovers

The forecast outcome of Table 3 mirrors Table 2 with the addition of an estimate for carryovers in FY 2020. The General Fund always has projects or purchases that are initially budgeted in one fiscal year, but require completion in the subsequent fiscal year. Year-end estimates and forecasts assume those projects or purchases will be completed and the funds expended. However, this assumption can create a disconnect comparing the ending working capital display in the forecast for the current fiscal year (*FY 2020 YE Estimate*, Table 2) with the result of carryover expenses and resources included in the adoption of the new fiscal year budget.

Table 3 adds the impact of carryover expenditures in the *FY 2020 YE Estimate* column. This demonstration reduces net expenditures by $1.5 million and shifts additional resources to ending working capital[1]. While there is an increase to working capital for the next fiscal year, there is also the offsetting increase to total expenditures[2].

(Values in Millions, YE = Year-End)

	FY 2020 YE Estimate	FY 2021 Forecast	
Working Capital	$ 22.20	$ 21.32	1
Revenues	132.24	139.92	
TOTAL RESOURCES	$ 154.44	$ 161.24	
TOTAL EXPENDITURES	$ 134.62	$ 145.67	2
Unspent Contingency			
~~2% Savings~~			
Carryovers	(1.50)		
NET EXPENDITURES	$ 133.12		1
ENDING WORKING CAPITAL	$ 21.32		
Chg to Working Capital	(0.88)		

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 2020 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, a one-time adjustment to franchise fees in FY 2021, and interest income as fund balance declines. The range of growth assumptions includes:

- The impact of the full 3 percent statutory increase and 1.04 to 1.35 percent for new growth in property tax revenues. Tax receipts increase year-over-year in the forecast by $2.9 million to $3.4 million.
- A franchise fee base increasing by approximately 2 percent for FY 2020 estimates and ongoing aggregate increases ranging from negative 1.5 percent to 1.5 percent despite increased natural gas rates, an anticipated reduction of cable receipts with changes in technology and demand, and a reduction in telecommunications in FY 2021 to reflect changes in federal regulations.
- The cyclical effect of legislative sessions on parking revenue with an approximate 15 percent increase during a full session (FY 2021, FY 2023, FY 2025) and a small decrease for closing the library parking structure during the seismic retrofitting project.
- The impact of an increase by the state to 9-1-1 revenues in FY 2021 and FY 2022, as well as steady 3.5 percent increases to alcohol and marijuana state shared revenues drives an average 4.7 percent increase to this revenue category, which also includes taxes on cigarette sales (declining).
- Addition of the City Operations Fee which is expected to generate between $7.2 million and $8.0 million in each year of the forecast.
- A combination of factors influencing fine and penalty revenue including:
    - Parking fines alternating increases / decreases aligned with parking revenue.
    - A steady 2 percent increase each year in court fine revenue on an increased base comparing FY 2019 actual activity with current FY 2020 receipts.

General Fund Table 4, Revenues by Source (Values in Millions)

	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
Property Taxes	$ 74.42	$ 77.66	$ 80.83	$ 84.10	$ 87.50
Sales Tax	1.16	1.20	1.25	1.29	1.33
Franchise Fees	18.08	18.35	18.62	18.89	19.17
State Shared Revenues	7.01	7.50	7.72	7.96	8.20
Fees for Services / Other Fees	11.41	11.72	12.01	12.35	12.68
Fines, Penalties, and Forfeitures	2.50	2.56	2.58	2.65	2.67
Rents, Permits, Licenses	3.68	3.54	3.76	3.59	3.81
Cost Allocation / Internal Chgs	16.47	17.28	17.88	18.50	19.14
Other Agencies, Grants	2.59	2.59	2.61	2.67	2.75
Transfer from Other Funds	1.72	1.77	1.83	1.88	1.94
Miscellaneous	.88	.82	.67	.58	.51
TOTAL REVENUES	$ 139.92	$ 144.99	$ 149.75	$ 154.46	$ 159.69
% Change from Previous Year	5.81%	3.62%	3.29%	3.14%	3.39%

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

General 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. In the FY 2021 column, the percent change from the previous year (bottom row) is based on the comparison of FY 2020 year-end estimates and the FY 2021 forecast.

General Fund Table 5, Expenditures by Category (Values in Millions)

	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
Personal Services	$ 112.96	$ 119.93	$ 125.28	$ 130.17	$ 134.31
Materials and Services	26.86	27.63	28.24	28.90	29.57
Capital Outlay	0.35	0.36	0.36	0.37	0.38
Debt Service	0.14	-	-	-	-
Transfers*	0.85	0.87	0.89	0.91	0.92
Contingency	3.00	3.00	3.00	3.00	3.00
TOTAL EXPENDITURES	$ 144.17	$ 151.71	$ 155.77	$ 163.35	$ 168.18
Less:					
Unspent Contingency	*(2.50)*	*(2.50)*	*(2.50)*	*(2.50)*	*(2.50)*
Anticipated Savings (2%)	*(2.75)*	*(2.91)*	*(3.03)*	*(3.14)*	*(3.23)*
TOTAL NET EXPENDITURES	$ 138.91	$ 146.38	$ 152.25	$ 157.71	$ 162.45
% Change from Previous Year	3.19%	5.38%	4.01%	3.59%	3.00%

*Transfers include funding for information technology and facilities asset maintenance projects.

Forecast Variability – Working Capital Scenarios

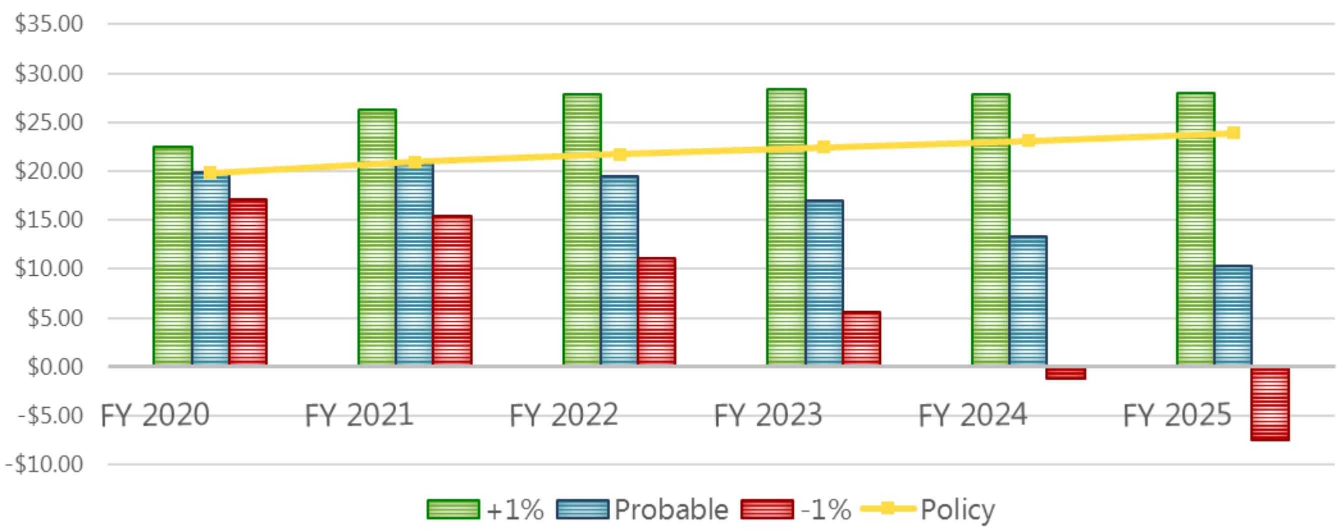
The graph below demonstrates variable results of the FY 2021 – FY 2025 forecast through the display of working capital - the difference between resources and expenditures for each fiscal year. There are three scenarios presented.

Scenario 1, Probable Scenario. 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 values reflect the forecasted levels of working capital. This result is compared against the gold horizontal line representing the dollar equivalent of City Council policy for General Fund working capital.

Scenario 2, Higher Revenue / Lower Expenses. The green bar in each fiscal year grouping represents the forecast result augmented by an additional 1 percent of revenue and an additional 1 percent of expenditure savings. The outcome of these variables does stabilize working capital. Working capital remains in compliance with policy throughout this scenario.

Scenario 3, Lower Revenue / Higher Expenses. 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 and working capital goes negative in FY 2024.

Working Capital Forecast Variability (Values in Millions)



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 2021 Percent of Total Revenue
Property Tax	MEDIUM	54%
State Shared Revenue	MEDIUM	5%
Franchise Fee Revenue	MEDIUM	13%

Property Tax

Over the past several years, Salem experienced a reset in property valuations. The valuation reset prompted significant improvement for tax revenue with lowered compression losses. The forecast includes a varying increase between 3.9 and 4.3 percent in current property tax receipts for all five years. The view in the forecast includes continued development activity, 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 experienced growth in total Real Market Value (RMV) in FY 2020 of 8.9 percent. Continued growth in RMV maintains an adequate spread between RMV and Assessed Value (AV) to allow the full government rate of $10.4069 per $1,000 in AV to be realized. The revenue loss attributable to compression in FY 2019 was $403,287 and is anticipated to be approximately $375,299 for FY 2020. While overall nonexempt real property value grew at 10.1 percent in Marion County, AV grew at 4.6 percent for FY 2020.

Polk County

At a current general government tax rate of $9.5477, 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 taxable RMV grew at 10.7 percent in Polk County, with AV growth at 4.4 percent for 2020, representing an increase of 1.8 percent from the prior fiscal year.

Risk Factor Ranking – MEDIUM

While property tax is a consistent revenue source, 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.

State Shared Revenues

Receipts from three of five shared revenues – liquor tax, alcoholic beverage sales, and marijuana tax – are expected to experience an approximate 3.5 percent annual increase during the forecast period. Shared cigarette tax revenues are expected to decline over the five-year period. The forecast assumes the 9-1-1 tax revenue will experience an increase of 34 percent in FY 2021 and 26 percent in FY 2022 largely due to a State-approved tax increase, then grow at approximately 1.5 percent each year.

Risk Factor Ranking – MEDIUM

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 remain flat for natural gas and increase by 1.25 percent for electricity over the estimated FY 2020 base for both franchise types. Portland General Electric's rate request of about 1.9 percent was approved by the Public Utility Commission, effective January 1, 2020. A two percent increase in franchise revenue is anticipated for Salem Electric due to anticipated growth in the customer base. An average increase of about 2 percent was approved for Northwest Natural Gas effective November 2019, however, historic trends are flat or declining.

The City's water and wastewater franchise fee anticipated growth is based upon projections from the City's internal rate modeling with 2.7 to 3.1 percent rate of growth for years two through five of the forecast. Cable franchise revenue is anticipated to decline for the forecast period due to predicted changes in demand and options for consumers. Refuse hauler franchise fees are projected to grow by 3 to 4 percent in each year of the forecast period due to anticipated cost-of-service increases. No growth is forecast for telecommunications in FY 2021 due to federal regulatory changes and based on current trending, 2 percent increases are forecast beginning in year two.

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

Current Status

Adoption of the streetlight fee and formation of the Streetlight Fund (Fund 156), effective in FY 2016, relieved the Transportation Services Fund of about $1.3 million in streetlight electricity and maintenance expenses. Formation of the Streetlight Fund provided immediate financial relief to the Transportation Services Fund, which had experienced an ongoing imbalance between current revenue and the cost of providing transportation services. In 2017, the Oregon State Legislature passed HB 2017, *Keep Oregon Moving*, providing increases in State Highway Fund revenue for the purpose of making a significant investment in transportation. State Highway Fund revenue, distributed by formula to local jurisdictions, is anticipated to increase over the next five years. As a result of the relief from streetlight expenses and the anticipated increase in State Highway Fund revenue, an annual $400,000 General Fund contribution to the Transportation Services Fund was eliminated in FY 2019.

Assuming anticipated State Highway Fund revenue increases are realized, the Transportation Services Fund will be able to sustain basic operations. Existing funding is insufficient to support any significant structural pavement maintenance or reconstruction activity. Beginning in FY 2019, the fund has supported a small annual allocation for safe crossings, transportation opportunity grants, and limited preventive pavement maintenance. In 2019, pavement projects on Orchard Heights NW and Market Street NE represented a $3.92 million investment and resulted in the use of $1.80 million of beginning working capital. While these projects represent important investments, this level of pavement maintenance is not sustainable.

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 impacts 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 growth in primary revenue sources. The forecast includes a variety of assumptions for expenditure activity over five years. The primary drivers increasing expenditures include: wages, Public Employees Retirement System (PERS) rates, health care, energy, and inflation on contracted goods and services. The tables for the expenditure assumptions are included in appendix A.

The primary funding source for Transportation Services is the City's monthly allocation of State Highway Fund revenues, which includes motor vehicle fuel taxes; heavy commercial vehicle weight / mile taxes; and title, licensing, and registration fees.

The Oregon Department of Transportation (ODOT) provides a forecast of State Highway Fund revenue. This Transportation Services Fund forecast is based on the ODOT forecast published in October 2019 which includes anticipated increases as a result of new legislation. The 2019 forecast is more conservative than prior years and accounts for the many factors that impact fuel usage trends including changes in the consumers' fleet (fuel efficient, hybrid, and electric vehicles) and the effect of retail fuel prices on consumption. The most recent ODOT forecast for Salem reflects nearly a 7.0 percent increase from FY 2020 to FY 2021 and assumes conditional increases in January 2020, 2022, and 2024 based on accountability requirements in the legislation. If these requirements are not met, there is a risk that revenue forecasts will be reduced in 2022 or 2024.

Expenditures in the City's forecast are proposed to include minimal asphalt paving using in-house City resources to complete a combination of maintenance overlays as well as mill and inlay repairs. Preventive pavement maintenance, including crack seal and slurry seal treatments, will also be continued on residential and higher traffic volume streets. Available funding is insufficient to support ongoing structural pavement rehabilitation projects beyond this limited in-house maintenance program. Five positions are proposed as conversions from seasonal labor to support the in-house paving program. Costs are partially offset by a reduction in seasonal labor. The forecast also includes the addition of one street maintenance position to support street sweeping activities which are fully reimbursed with stormwater revenue.

In compliance with the Americans with Disabilities Act (ADA), whenever a street surface is altered, all necessary ADA facilities are installed or upgraded. Accessibility improvements represent about 30 percent of the current street overlay program expenditures. The City will continue a sidewalk repair program along ADA prioritized pedestrian routes with the Sidewalk Rehabilitation Team. The Sidewalk Response Team will conduct smaller planned improvements and temporary maintenance, such as sidewalk patching and grinding in response to identified hazards in neighborhoods. The City will also continue important routine maintenance activities such as signs, markings, striping, right-of-way landscape and tree maintenance, snow and ice response, shoulder / alley grading, pedestrian and bicycle safety improvements, and traffic signal operations and maintenance.

The forecast employs a 4 percent savings rate, consistent 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 2020 budget and maintains the $1.7 million annual program for sidewalk maintenance and replacement, including the Sidewalk Response Team, during the five years of the forecast. The forecast also maintains $3.5 million each year for pavement maintenance activities that include trench patching, asphalt and concrete road surface maintenance, and preventive crack seal or slurry seal contracts. Legislated gas tax increases will provide an increase to State Highway Fund revenue - the primary revenue source for the Transportation Services Fund. Routine activities such as signs, markings, striping, right-of-way landscape and tree maintenance, snow and ice response, shoulder / alley grading, pedestrian and bicycle safety improvements, and traffic signal operations and maintenance are supported throughout the forecast period. Available revenue is insufficient to fund an ongoing structural pavement rehabilitation program. Large capital investments in the transportation system will require supplemental funding through future bond measures.

A greater level of pavement maintenance and sidewalk replacement is desired over time. The 2018 Sustainable Services Revenue Task Force recommended City Council explore three revenue generating opportunities. The first two represented revenues to the General Fund. The Operations Fee is set to begin in February 2020, and the payroll tax will be referred to voters in May 2020. The third recommendation, a local option gas tax, remains to be considered and would be referred to voters at some point in the future. If enacted at a rate of $0.06 per gallon, a local option gas tax is anticipated to provide $4.8 million in annual resources. A portion of these resources could be directed toward maintaining existing programs at current levels, as costs continue to escalate, and a portion could be directed to capital projects for pavement and sidewalk rehabilitation and replacement. A local option gas tax requires voter approval. A local tax allows all who benefit from the transportation system – residents, workers, and visitors – to contribute to its maintenance.

The City will continue to monitor revenue and expenditures to balance resources with the escalating cost of providing desired services. The City will annually review the fiscal health of the fund and reevaluate program priorities should the current levels of service become unsustainable.

TS Fund Table 1, FY 2021 – FY 2025 Forecast Summary

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

	FY 2020YEE	FY 2021F	FY 2022F	FY 2023F	FY 2024F	FY 2025F
Beginning Working Capital	$ 3.05	$ 2.73	$ 2.94	$ 2.53	$ 2.34	$ 1.86
Revenues	15.14	16.32	16.71	17.18	17.45	18.06
Total Resources	$ 18.19	$ 19.05	$ 19.65	$ 19.71	$ 19.79	$ 19.92
Net Expenditures	$ 15.46	$ 16.11	$ 17.11	$ 17.37	$ 17.93	$ 18.66
Ending Working Capital	$ 2.73	$ 2.94	$ 2.53	$ 2.34	$ 1.86	$ 1.27
Change to Working Capital	*$0.31*	*$0.21*	*$0.41*	*$0.19*	*$0.48*	*$0.60*

Table 2 is the full summary of the Transportation Services Fund forecast, including the components of *Net Expenditures*. Personal services costs in this forecast are based on current labor contracts, and in the later years of the forecast, annual adjustments to salary are 2.5 percent. The forecast also includes a 1 percent expense of direct compensation for the State paid family and medical leave program that is expected to begin January 2022.

TS Fund Table 2, FY 2021 – FY 2025 Forecast Summary

(Values in Millions, YE = Year-End)

	FY 2020 YE Estimate	FY 2021 Forecast	FY 2022 Forecast	FY 2023 Forecast	FY 2024 Forecast	FY 2025 Forecast
Working Capital	$ 3.05	$ 2.73	$ 2.94	$ 2.53	$ 2.34	$ 1.86
Revenues	15.14	16.32	16.71	17.18	17.45	18.06
TOTAL RESOURCES	$ 18.19	$ 19.05	$ 19.65	$ 19.71	$ 19.79	$ 19.92
TOTAL EXPENDITURES	$ 15.46	$ 17.25	$ 18.29	$ 18.56	$ 19.15	$ 19.90
Unspent Contingency		(0.50)	(0.50)	(0.50)	(0.50)	(0.50)
4% Savings		(0.64)	(0.67)	(0.69)	(0.72)	(0.74)
NET EXPENDITURES	$ 15.64	$ 16.11	$ 17.11	$ 17.37	$ 17.93	$ 18.66
ENDING WORKING CAPITAL	$ 2.73	$ 2.94	$ 2.53	$ 2.34	$ 1.86	$ 1.27
Chg to Working Capital	(0.31)	0.21	(0.41)	(0.19)	(0.48)	(0.60)

Forecast Result – Revenue Detail

The revenue forecast is developed using conservative growth expectations for Transportation Services' revenue sources. It reflects current revenues, acknowledges the continued anticipated impact of HB 2017, and assumes no new or unrealized revenues. Approximately 80 percent of Transportation Services' resources (excluding beginning working capital) come from State Highway Fund revenue. The statewide motor vehicle fuel tax increased in January 2018 and is currently 34 cents per gallon of retail fuel sold.

With HB 2017, additional increases of 2 cents per gallon are anticipated in 2020, 2022, and 2024 subject to the state meeting accountability and reporting requirements. The State Highway Fund's revenue distribution is approximately 50 percent to the Oregon Department of Transportation, 30 percent to counties, and 20 percent to cities. Cities' allocations are based on population and Salem's portion is 5.72 percent of the total available.

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 received in the Transportation Services Fund are subsequently 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 2021	FY 2022	FY 2023	FY 2024	FY 2025
State Highway Revenue	$ 13.17	$ 13.37	$ 13.71	$ 13.87	$ 14.34
Intra City Billings and Transfers	2.35	2.52	2.63	2.72	2.84
Other Agencies, Grants	0.48	0.49	0.51	0.52	0.54
All Other Sources	0.32	0.33	0.33	0.34	0.35
TOTAL REVENUES	$ 16.32	$ 16.71	$ 17.18	$ 17.45	$ 18.06

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. The forecast assumes $1.7 million for sidewalk maintenance programs and $3.5 million for pavement maintenance activities annually. City crews will undertake the majority of this work through utility trench patching, pothole repair, skin patching, focused mill and inlay repair, and overlays. Approximately $220,000 is planned for annual preventive pavement maintenance contracts. Revenue is insufficient to sustain a pavement rehabilitation and construction program. Expenditure assumption tables are included in appendix A. Projected growth in service delivery costs is anticipated to result in a decline in working capital of nearly $1.5 million by the end of the forecast period (see Table 2, Ending Working Capital row), even with the elimination of pavement rehabilitation contracts.

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

	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
Personal Services	$ 7.02	$ 7.64	$ 7.94	$ 8.33	$ 8.67
Materials and Services	8.92	9.18	9.33	9.58	9.83
Capital Outlay	0.08	0.31	0.14	0.14	0.14
Transfers	0.73	0.66	0.65	0.60	0.76
Contingency	0.50	0.50	0.50	0.50	0.50
TOTAL EXPENDITURES	$ 17.25	$ 18.29	$ 18.56	$ 19.15	$ 19.90
Less:					
Unspent Contingency	*(0.50)*	*(0.50)*	*(0.50)*	*(0.50)*	*(0.50)*
Anticipated Savings (4%)	*(0.64)*	*(0.67)*	*(0.69)*	*(0.72)*	*(0.74)*
TOTAL NET EXPENDITURES	$ 16.11	$ 17.11	$ 17.37	$ 17.93	$ 18.66

Forecast Variability – Working Capital Scenarios (Values in Millions)

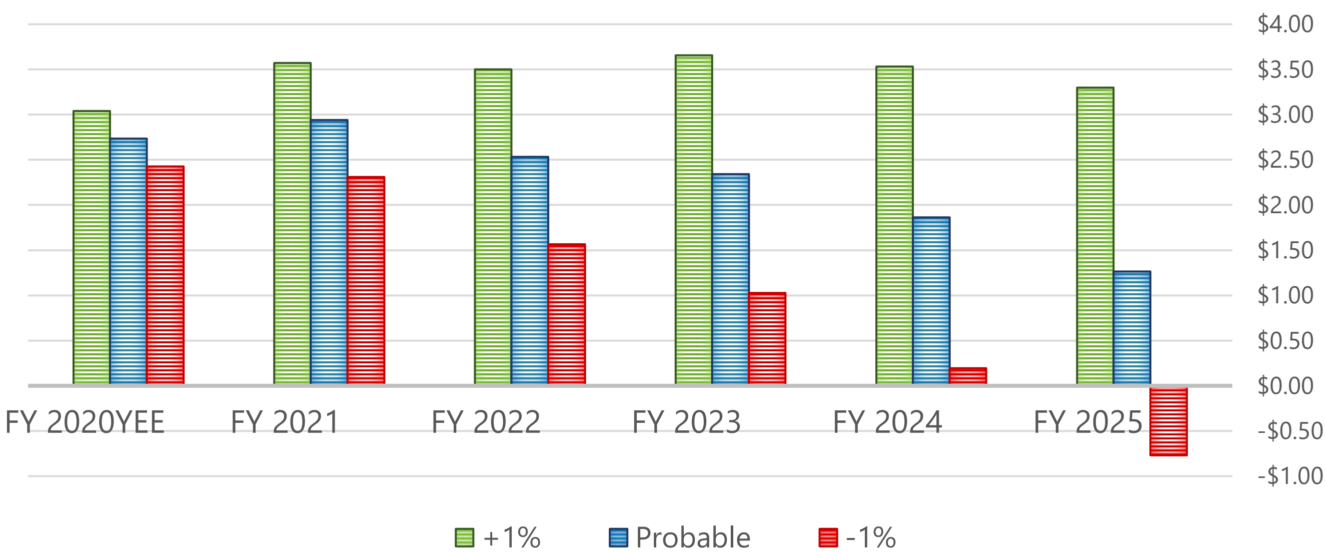
The graph below demonstrates variable results of the FY 2021 – FY 2025 forecast through the display of working capital - the difference between resources and expenditures for each fiscal year. There are three scenarios presented.

Scenario 1, Probable Scenario. 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 values reflect the forecasted levels of working capital.

Scenario 2, Higher Revenue / Lower Expenses. The green bar in each fiscal year grouping represents the forecast result to working capital 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 $324,240 to $367,220 each year of the forecast.

Scenario 3, Lower Revenue / Higher Expenses. 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 2024, this demonstration reflects working capital being depleted by 92 percent, a loss of $2.23 million, as compared to year-end FY 2020.

(values in Millions)



Transportation Services Fund Forecast Risks and Rankings

Transportation Services will be able to sustain the current level of services during the five-year period. Forecast risk is evaluated on the degree it will impact service delivery. The evaluation of existing and potential risk assists 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 a reduction in State Highway Fund revenue, which is summarized below.

Forecast Risk – Revenue

	Ranking	Percent Total Revenue
State Highway Fund Revenue	MEDIUM	80%

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 Department of Motor Vehicle fees are determined by the state legislature. The ongoing risk to the City is that if actual State Highway Fund revenue received is less than forecasted, a corresponding reduction in City services will be required.

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 (Fund 310) supports:

- Treatment, storage, and delivery of drinking water to residents, businesses, and industries;
- Collection, conveyance, and treatment of wastewater before it returns to the Willamette River; and
- Collection and conveyance of stormwater runoff from streets, buildings, and other hard surfaces to prevent flooding and protect the environment.

Current Status

The Utility Fund is financially stable despite significant capital needs and planned investments. City Council has consistently adopted prudent rate increases, and staff has worked effectively to manage expenses, allowing the City to operate, maintain, and modernize the Utility's infrastructure.

Salem's Utility is the community's most valuable asset, with an estimated facility value of approximately $4 billion. Over $300 million was invested at the turn of the century to modernize and expand the system. The associated debt is expected to be retired in FY 2027. Many of these improvements were related to the Willow Lake Water Pollution Control Facility. As a result of the 2018 water advisory event, the FY 2021 forecast anticipates a $60 million revenue bond in March 2020 for projects focused on water treatment and supplemental supply. Continued improvements must be made to the Utility at a sustainable pace, balancing rate impacts with the rehabilitation, expansion, resiliency, and modernization needs of the systems.

FY 2020 began with working capital of $45.5 million, a decrease of $706,000 from the prior fiscal year.

Future Outlook

The forecast presented this year demonstrates a planned drawdown of working capital from $45.4 million to $39.7 million at the end of the forecast period. The drawdown is the result of additional capital investments. Throughout the forecast period, the working capital balance exceeds the requirement of a 120-day operating reserve as identified in Council Policy C-14 (Utility Fund Financial Policy). Maintaining reserves is a best practice to ensure resources are available to meet obligations in the case of an emergency or an economic downturn. These reserves have allowed the City of Salem to respond effectively to the water advisory while projecting a rate increase consistent with previous financial plans. The reserves also provide financial stability for a revenue stream that can vary as a result of customer demand.

The water, wastewater, and stormwater utility systems must be continually operated, maintained, and periodically replaced. In any year, a new economic development project or unanticipated system failure may require an immediate expenditure of several million dollars in capital investment. In FY 2020, the Utility Fund is issuing revenue bonds and expending working capital for construction of capital assets of the water, wastewater, and stormwater system, including improvements to the water treatment facility, groundwater wells, aquifer storage and recovery system, and a wastewater pump station.

Utility Fund revenues are assumed to grow at an average rate of 2.3 percent throughout the forecast period. This level of growth maintains operations and supports an annual transfer for capital construction of $18 million to $20 million during the five-year period as debt obligations (including the anticipated 2020 revenue bond) are reduced from $18.9 million to $14.3 million annually.

Assumptions and highlights of this forecast include:

- Over the forecast period, revenue growth adequately maintains operations and allows for an increase in the transfer for capital construction. The final two years of proceeds from the $16.9 million sale of a portion of Salem's Willamette River water rights to the City of Hillsboro are included in the forecast. As a result, for the next two years Salem utility customers inside the city limits will continue to experience smaller water rate increases than outside-city customers.

- The forecast establishes capacity for capital funding. Capital funding is maintained over the five-year period as debt is retired. The Capital Improvement Plan identifies major capital improvement projects for the community. Overall system consumption increased slightly in FY 2018 after years of declining consumption, and this trend continued with a 1.5 percent increase in system-wide water sales in FY 2019. 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 2025. 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 revenues are anticipated to provide approximately 83 percent of the fund's total new revenue in FY 2021. 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 appendix A 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 2019 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 restricting financial capacity for operations, maintenance, 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 2020 Year End (YE) Estimate column as the base year. The base year uses current information to update revenue trends and adjust the expenditure base for any ongoing service level changes. The October 2018 City Council-adopted rate adjustments are reflected for calendar years 2019 and 2020: 3 percent for water, 2.5 percent for wastewater, and 5 percent for stormwater. The remaining years of the forecast assume a 3 percent revenue slope for water and wastewater and 5 percent for stormwater through 2024, with 3 percent in 2025. The fund maintains an adequate level of working capital throughout the forecast period.

Utility Fund Table 1, FY 2021 – FY 2025 Forecast Summary

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

	FY 2020YEE	FY 2021F	FY 2022F	FY 2023F	FY 2024F	FY 2025F
Beginning Working Capital	$ 45.55	$ 44.21	$ 45.41	$ 43.93	$ 39.67	$ 37.69
Revenues	107.86	111.55	114.27	114.52	117.53	120.66
Total Resources	$ 153.41	$ 155.76	$ 159.68	$ 158.45	$ 157.20	$ 158.34
Net Expenditures	$ 109.20	$ 110.35	$ 115.74	$ 118.78	$ 119.51	$ 118.63
Ending Working Capital	$ 44.21	$ 45.41	$ 43.93	$ 39.67	$ 37.69	$ 39.72

Change to Working Capital	*$(1.33)*	*1.20*	*$(1.48)*	*$(4.26)*	*$(1.98)*	*$2.03*

Table 2 on the next page is the full summary of the Utility Fund forecast, including the components of *Net Expenditures*. Personal services costs in this forecast are based on current labor contracts, and in the later years of the forecast, annual adjustments to salary at 2.5 percent. The forecast also includes a 1 percent expense of direct compensation for the State paid family and medical leave program that is expected to begin January 2022.

Utility Fund Table 2, FY 2021 – FY 2025 Forecast Summary

(Values in Millions)

	FY 2020 YE Estimate	FY 2021 Forecast	FY 2022 Forecast	FY 2023 Forecast	FY 2024 Forecast	FY 2025 Forecast
Working Capital	$ 45.55	$ 44.21	$ 45.41	$ 43.93	$ 39.67	$ 37.69
Revenues	107.86	111.55	114.27	114.52	117.53	120.66
TOTAL RESOURCES	$ 153.41	$ 155.76	$ 159.68	$ 158.45	$ 157.20	$ 158.34
TOTAL EXPENDITURES	$ 109.20	$ 119.64	$ 125.35	$ 128.64	$ 129.60	$ 128.90
Unspent Contingency		(3.00)	(3.00)	(3.00)	(3.00)	(3.00)
8% Savings		(6.29)	(6.61)	(6.85)	(7.09)	(7.27)
NET EXPENDITURES	$ 109.20	$ 110.35	$ 115.74	$ 118.78	$ 119.51	$ 118.63
ENDING WORKING CAPITAL	$ 44.21	$ 45.41	$ 43.93	$ 39.67	$ 37.69	$ 39.72
Chg to Working Capital	(1.33)	1.20	(1.48)	(4.26)	(1.98)	2.03

Forecast Result – Revenue Detail

The revenue forecast is developed using conservative growth expectations for the Utility Fund. Approximately 83 percent of Utility Fund resources (excluding beginning working capital) come from one external source – rate revenue. New rates are adopted by City Council every two years. In October 2018, City Council adopted a 3 percent revenue slope for water, 2.5 percent for wastewater, and 5 percent for stormwater effective January 1, 2020. The remaining years of the forecast assume a 3 percent revenue slope for water and wastewater and 5 percent for stormwater through FY 2024 followed by 3 percent in FY 2025. Table 3 summarizes the five-year revenue forecast by revenue source.

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

	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
Water, Wastewater, Stormwater Rates	$ 92.45	$ 95.22	$ 97.91	$ 100.53	$ 103.22
Franchise Fees	3.81	3.93	4.04	4.15	4.26
Other Fees	2.85	2.93	3.01	3.09	3.17
Permitted Development	1.36	1.41	1.45	1.49	1.54
Internal Charges	6.56	6.75	6.95	7.16	7.38
All Other Sources	4.51	4.03	1.16	1.11	1.09
TOTAL REVENUES	$ 111.55	$ 114.27	$ 114.52	$ 117.53	$ 120.66

Forecast Result – Expenditure Detail

The expenditure forecast is developed based on anticipated increases in the costs of labor, materials, 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 4 summarizes the five-year expenditure forecast by category. Nine new positions are included in the forecast: four water treatment operators and an instrument technician to support the new ozone water treatment facility; and, one Geographic Information System (GIS) analyst and one GIS technician in FY 2021 and a second GIS analyst and GIS technician beginning in FY 2023 to provide increased technical and infrastructure data support for water, wastewater, stormwater, streets, parks, and streetlights.

Transfers are anticipated annually from the Utility Fund to the Capital Improvements Fund for utility construction projects. The transfers are projected to remain steady at between $18 million and $20 million in each of the five years of the forecast. The transfers represent less than a 0.5 percent annual investment in the utility's infrastructure, but when combined with the annual debt service, the investment is maintained throughout the forecast period at $30 to $34 million each year. The City's goal is continual increases in the annual capital construction transfers, as debt is retired, until the transfers equal $40 million – or 1 percent – of the asset's $4 billion value. This goal will allow the City to address new capital improvements and replace aging infrastructure, and assumes that, on average, infrastructure lasts 100 years.

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

	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
Personal Services	$ 41.09	$ 43.80	$ 45.96	$ 47.93	$ 49.59
Materials and Services	37.57	38.81	39.72	40.67	41.34
Capital Outlay	1.04	1.04	1.04	1.04	1.04
Debt Service	18.93	18.92	18.91	17.17	14.26
Transfers	18.00	19.78	20.00	19.78	19.67
Contingency	3.00	3.00	3.00	3.00	3.00
TOTAL EXPENDITURES	$ 119.64	$ 125.35	$ 128.64	$ 129.60	$ 128.90
Less:					
Unspent Contingency	*(3.00)*	*(3.00)*	*(3.00)*	*(3.00)*	*(3.00)*
Anticipated Savings (8%)	*(6.29)*	*(6.61)*	*(6.85)*	*(7.09)*	*(7.27)*
TOTAL NET EXPENDITURES	$ 110.35	$ 115.74	$ 118.78	$ 119.51	$ 118.63

Forecast Variability – Working Capital Scenarios (Values in Millions)

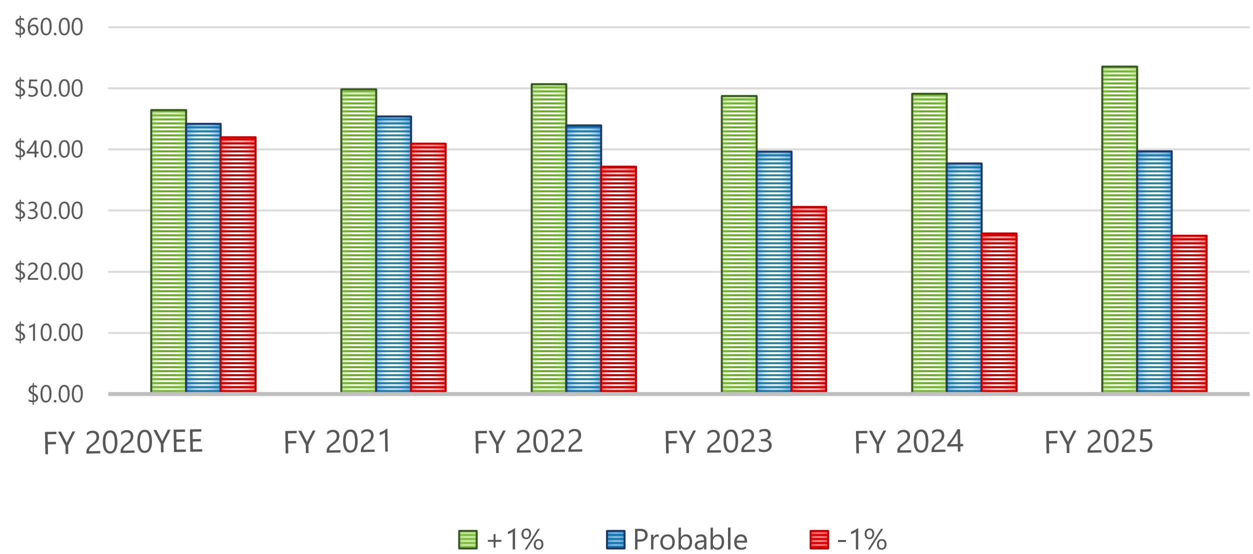
The graph below demonstrates variable results of the FY 2021 – FY 2025 forecast through the display of working capital - the difference between resources and expenditures for each fiscal year. There are three scenarios presented.

Scenario 1, Probable Scenario. The blue bar at the center of each grouping represents the result reflected in the numeric tables on the preceding pages of this document for the Utility Fund. The values reflect the forecasted levels of working capital.

Scenario 2, Higher Revenue / Lower Expenses. 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 $13.8 million during the forecast period.

Scenario 3, Lower Revenue / Higher Expenses. The red bar uses the forecast working capital as the base for assuming 1 percent lower revenues and 1 percent higher expenditures for each fiscal year. By year-end FY 2025, this demonstration results in working capital declining by $18.3 million or 41.5 percent from the estimate for fiscal year-end 2020.

(values in Millions)



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	LOW	83%

Water and Wastewater Rate Revenue

Decreasing water consumption is a national trend, and Salem is not unique in facing this challenge. Most of the costs to provide utility services to customers are fixed. A very small percentage of costs are related to the volume of water produced or wastewater accepted. When consumption declines and revenue is adversely impacted, water utilities must increase rates to maintain operations. After declining for several years, FY 2018 and FY 2019 represented 1.8 and 1.5 percent increases in water consumption respectively. A small conservation adjustment of 0.5 percent is partially off-set by a 0.25 percent growth in accounts.

Risk Factor Ranking – LOW

One method that utility systems utilize to stabilize revenue is to recover more costs through fixed rates rather than volume / consumption. The 2018 Cost of Service Analysis and rate proposal included shifting cost recovery from variable to fixed rates to more appropriately assign costs of operating the system.

WVCC Fund Summary

The City's Willamette Valley Communication Center (WVCC) Fund supports the provision of 9-1-1 call taking and emergency dispatch services to 29 police, fire, and emergency medical service agencies in Marion, Polk, and Lincoln counties.

Current Status

FY 2021 is a 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, efforts are ongoing to hire and train staff to meet the current turnover rate. The hiring frequency is expected to remain at 90-day intervals through FY 2021.

Overtime expense was at a record high in FY 2018. The strategy to reduce dependency on overtime is having a positive impact as overtime expense was reduced by nearly 8% in FY 2019 when compared to the previous year. The staff retention rate has remained close to 80% for calendar year 2019. Attracting qualified candidates continues to be a significant challenge, resulting in more resources being focused towards recruitment.

Beginning January 1, 2020, the Oregon Emergency Communications (E911) tax rate will increase from $0.75 to $1.00 and will again increase 25 cents to $1.25 on January 1, 2021.

The five-year forecast plans for a rate increase for member agencies of 5.7 percent in FY 2021, taking advantage of the increased E911 tax received by the member agencies to provide additional funding for the Computer-Aided Dispatch (CAD) system described in the next section. The forecast returns the rate increase to 4.7 percent in FY 2022 with further decreases to 3.9 percent the last three years of the five-year forecast, while maintaining sufficient working capital and reserving $300 thousand annually for future equipment replacement needs.

Future Outlook

The forecast for the WVCC Fund demonstrates the implementation of the multi-year strategy is showing positive results. 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 CAD system. The division is actively researching multiple options for this system, each of which will likely have significant capital costs. Estimated capital expenditures of $2.4 million for the CAD system replacement is included in the forecast.

The forecast includes a variety of assumptions for expenditure activity over five years. The primary drivers of expense increases are the cost of personnel in this service-oriented fund.

The forecast reflects wage adjustments and other provisions in the current labor contract, 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.

One area of risk for WVCC continues to be the possible withdrawal of one of its largest member agencies, the Marion County Sheriff's Office (MCSO). Currently MSCO has placed this action on hold while evaluating all possible options and associated costs.

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 $1.6 million.

WVCC Fund Table 1, FY 2021 – FY 2025 Forecast Summary

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

	FY 2020YEE	FY 2021F	FY 2022F	FY 2023F	FY 2024F	FY 2025F
Beginning Working Capital	$2.02	$1.70	$1.37	$1.47	$1.62	$1.60
Revenues	11.48	12.18	12.73	13.23	13.74	14.27
Total Resources	$13.50	$13.87	$14.11	$14.70	$15.35	$15.87

Net Expenditures	$11.80	$12.50	$12.64	$13.08	$13.76	$14.21
Ending Working Capital	$1.70	$1.37	$1.47	$1.62	$1.60	$1.66

Change to Working Capital	*$0.33*	*$0.32*	*$0.10*	*$0.15*	*$0.02*	*$0.06*

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 later 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 3.5 percent in FY 2021 declining to 2.0 percent in the later years with the expectation of becoming fully staffed. The forecast also includes a 1 percent expense of direct compensation for the State paid family and medical leave program that is expected to begin January 2022.

WVCCF Table 2, FY 2021 – FY 2025 Forecast Summary

(Values in Millions)

	FY 2020 YE Estimate	FY 2021 Forecast	FY 2022 Forecast	FY 2023 Forecast	FY 2024 Forecast	FY 2025 Forecast
Working Capital	$2.02	$1.70	$1.37	$1.47	$1.62	$1.60
Revenues	11.48	12.18	12.73	13.23	13.74	14.27
TOTAL RESOURCES	$13.50	$13.87	$14.11	$14.70	$15.35	$15.87
TOTAL EXPENDITURES	$11.80	$13.41	$13.51	$13.98	$14.53	$15.00
Unspent Contingency		(0.50)	(0.50)	(0.50)	(0.50)	(0.50)
Savings		(0.41)	(0.38)	(0.39)	(0.27)	(0.28)
Savings %		*3.5%*	*3.0%*	*3.0%*	*2.0%*	*2.0%*
NET EXPENDITURES	$11.80	$12.50	$12.64	$13.08	$13.76	$14.21
ENDING WORKING CAPITAL	$1.70	$1.37	$1.47	$1.62	$1.60	$1.66
Chg to Working Capital	(0.33)	(0.32)	0.10	0.15	(0.02)	0.06

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.

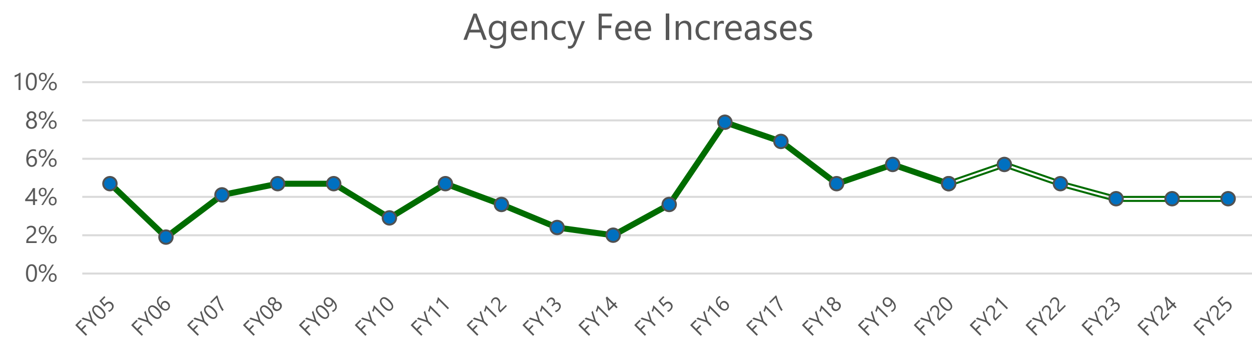


Table 4 displays all fund revenues by source.

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

	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
Member Agencies	$ 6.80	$ 7.11	$ 7.39	$ 7.68	$ 7.98
Other Fees	0.03	0.02	0.02	0.02	0.02
Internal Charges*	5.28	5.53	5.74	5.97	6.20
All Other Sources	0.07	0.07	0.07	0.07	0.07
TOTAL REVENUES	$ 12.18	$ 12.73	$ 13.23	$ 13.74	$ 14.27

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

Forecast Result – Expenditure Detail

The forecast for the WVCC Fund is developed using a base cost escalation for compensation, health insurance consultant analysis, and 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 3 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 2021	FY 2022	FY 2023	FY 2024	FY 2025
Personal Services	$ 9.90	$ 10.63	$ 11.11	$ 11.59	$ 11.96
Materials and Services	1.88	1.95	2.03	2.11	2.20
Capital Outlay	0.03	0.03	0.03	0.03	0.03
Transfers	1.10	0.40	0.30	0.30	0.30
Contingency	0.50	0.50	0.50	0.50	0.50
TOTAL EXPENDITURES	$ 13.41	$ 13.51	$ 13.98	$ 14.53	$ 15.00
Less:					
Unspent Contingency	*(0.50)*	*(0.50)*	*(0.50)*	*(0.50)*	*(0.50)*
Anticipated Savings	*(0.41)*	*(0.38)*	*(0.39)*	*(0.27)*	*(0.28)*
TOTAL NET EXPENDITURES	$ 12.50	$ 12.64	$ 13.08	$ 13.76	$ 14.21

Forecast Variability – Working Capital Scenarios

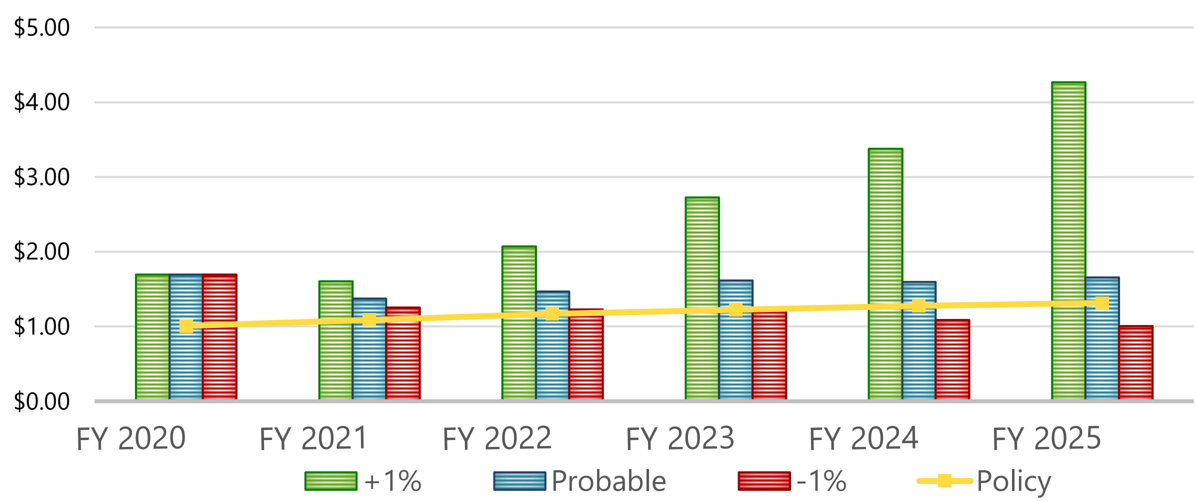
The graph below demonstrates variable results of the FY 2021 – FY 2025 forecast through the display of working capital - the difference between resources and expenditures for each fiscal year. There are three scenarios presented.

Scenario 1, Probable Scenario. 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 values reflect the forecasted levels of working capital. This result is compared against the gold horizontal line representing the dollar equivalent of WVCC Board policy for the WVCC Fund working capital.

Scenario 2, Higher Revenue / Lower Expenses. The green bar in each fiscal year grouping represents the forecast result augmented by an agency rate 1 percent higher in each year of the forecast (6.7 percent in FY21, 5.7 percent in FY22, etc.) and an additional 1 percent of expenditure savings. The outcome of these variables provides approximately $2.9 million in working capital in excess of policy by FY 2025.

Scenario 3, Maintain Revenue / Higher Expenses. The five-year forecast plans for rate increases to be set at 5.7 percent in FY 2021, reduced to 4.7 percent in FY 2022, and reduced again in FY 2023 to 3.9 percent as sufficient working capital is projected to be achieved and equipment reserves are being established. Therefore, the red bar again uses the forecast result as the base while only assuming 1 percent higher expense for each fiscal year and no change to revenue assumptions. Under this scenario, working capital falls below WVCC Board policy by FY 2024.

(Values in Millions)



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 risks to WVCC are summarized below.

Forecast Risk – Revenue

	Ranking	Percent Total Revenue
Member Agency Rates	LOW / MEDIUM	99.2%

Member Agency Rates

Annual charges to the 29 WVCC member agencies are compounded by a growth rate (5.7 percent in FY 2021) 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	
Overtime Expense	MEDIUM	4.2% of Total Expense
Salary Expense	MEDIUM	41.8% of Total Expense
CAD System Replacement	MEDIUM	$2.4 Million (est.)

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.

Personal Services Expense

Starting in FY 2023 of the forecast, a 2.5 percent annual market adjustment is applied to salary expense. Any amount above 2.5 percent, without an offsetting increase to member agency rates, will negatively impact ending working capital as demonstrated above in the forecast variability graph.

CAD System Replacement

The forecast presented in this document includes an estimated $2.4 million capital expenditure to pay for the Computer-Aided Dispatch (CAD) system replacement. Project expenditures are expected to begin during the second half of FY 2020 following the selection process. In order to meet this level of capital expenditure, agency rates are forecasted to be 5.7 percent in FY 2021, taking advantage of the increased E911 tax received by the member agencies. The division is researching multiple options for system replacement, which could result in widely varying short-term and long-term costs. Starting in FY 2023, the forecast includes reserving $300 thousand annually for future equipment and CAD system replacement needs.

Airport Fund FY 2021 – FY 2025 Five-Year Forecast

FY 2021 - FY 2025 SUMMARY *(in millions)*	FY 20 YE Est	FY 21 F	FY 22 F	FY 23 F	FY 24 F	FY 25 F
Working Capital	$ 1.19	$ 0.94	$ 0.91	$ 0.27	$ (0.17)	$ (0.43)
Revenues	1.21	1.27	1.29	1.31	1.23	1.25
TOTAL RESOURCES	$ 2.39	$ 2.21	$ 2.20	$ 1.58	$ 1.05	$ 0.82
TOTAL EXPENDITURES	$ 1.45	$ 2.21	$ 2.20	$ 1.79	$ 1.52	$ 1.43
Unspent Contingency		(0.88)	(0.24)	-	-	-
5% Savings on M&S		(0.03)	(0.04)	(0.04)	(0.04)	(0.04)
NET EXPENDITURES		$ 1.29	$ 1.93	$ 1.75	$ 1.48	$ 1.39
ENDING WORKING CAPITAL	$ 0.94	$ 0.91	$ 0.27	$ (0.17)	$ (0.43)	$ (0.57)

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 (FY 2021 – FY 2022) and a level of naturally occurring savings through unanticipated economies. This level of savings is anticipated at 5 percent on materials and services.

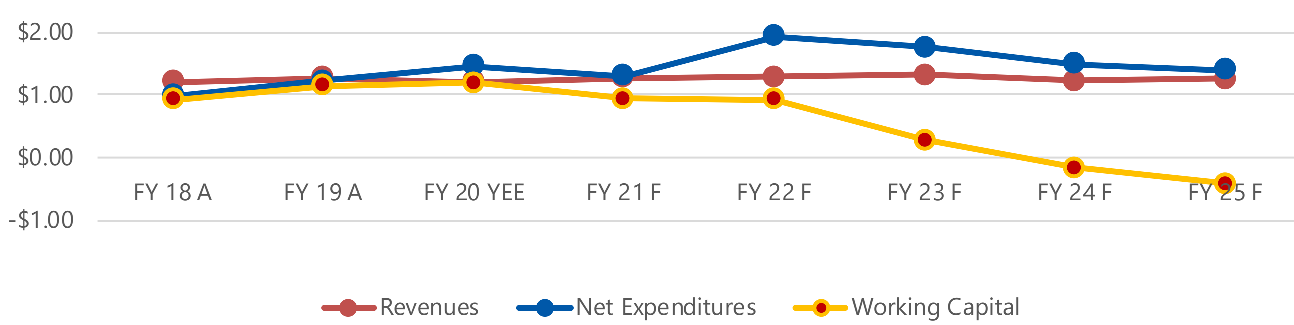
To fund needed improvements to buildings at the Airport, projects costing over $1.3 million are included in the forecast that are not eligible for Federal Aviation Administration grant funding. The forecast demonstrates depletion of working capital for these projects.

The assumptions in the forecast lead to the decline of beginning working capital. The $0.94 million estimated at the end of FY 2020 is fully expended by the end of FY 2023.

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

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

Airport Fund Revenues, Expenditures and Working Capital



Building and Safety Fund FY 2021 – FY 2025 Five-Year Forecast

FY 2021 - FY 2025 Summary *(in millions)*	FY 20 YE Est	FY 21 F	FY 22 F	FY 23 F	FY 24 F	FY 25 F
Working Capital	$ 9.59	$ 11.31	$ 11.79	$ 12.04	$ 11.57	$ 10.84
Revenues	6.88	6.48	5.98	5.48	5.48	5.48
TOTAL RESOURCES	$ 16.47	$ 17.79	$ 17.78	$ 17.53	$ 17.05	$ 16.32
TOTAL EXPENDITURES	$ 5.46	$ 6.36	$ 6.09	$ 6.32	$ 6.57	$ 6.79
Unspent Contingency		(0.30)	(0.30)	(0.30)	(0.30)	(0.30)
3.5% Savings on M&S		(0.06)	(0.06)	(0.06)	(0.06)	(0.06)
NET EXPENDITURES		$ 6.00	$ 5.74	$ 5.96	$ 6.21	$ 6.42
ENDING WORKING CAPITAL	$ 11.01	$ 11.79	$ 12.04	$ 11.57	$ 10.84	$ 9.90

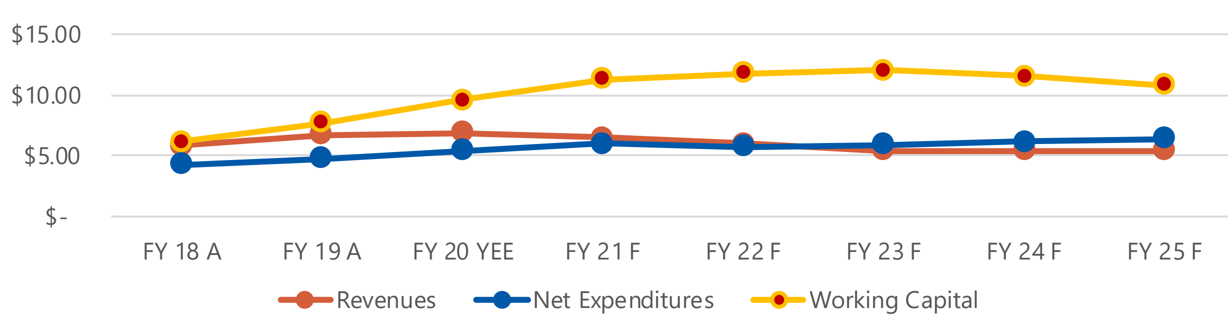
The City's annual financial forecast for the Building and Safety Fund provides for the continuation of current service levels with assumptions for inflationary factors to increase service costs and estimates for revenue. In addition, the forecast includes one new position to increase capacity.

The forecast anticipates greater revenues in the near term due to known large projects that are in the planning phase. The last three years of the forecast display a base level of revenue from general permit activity. 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. The forecast demonstrates a reduction of ending working capital over the five-year period. The ending balance is within the fund balance policy for the fund.

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 2021 – FY 2025 Five-Year Forecast

FY 2021 - FY 2025 SUMMARY *(in millions)*						
	FY 20 YE Est	FY 21 F	FY 22 F	FY 23 F	FY 24 F	FY 25 F
Working Capital	$ 0.66	$ 0.48	$ 0.39	$ 0.50	$ 0.51	$ 0.34
Revenues	4.15	$ 4.26	4.38	$ 4.50	4.62	$ 4.75
TOTAL RESOURCES	$ 4.82	$ 4.74	$ 4.76	$ 4.99	$ 5.13	$ 5.09
TOTAL EXPENDITURES	$ 4.34	$ 4.47	$ 4.39	$ 4.61	$ 4.90	$ 4.72
Unspent Contingency		$ (0.12)	(0.12)	$ (0.12)	(0.12)	$ (0.12)
NET EXPENDITURES	$ 4.34	$ 4.35	4.27	$ 4.49	4.78	$ 4.60
ENDING WORKING CAPITAL	$ 0.48	$ 0.39	$ 0.50	$ 0.51	$ 0.34	$ 0.49

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

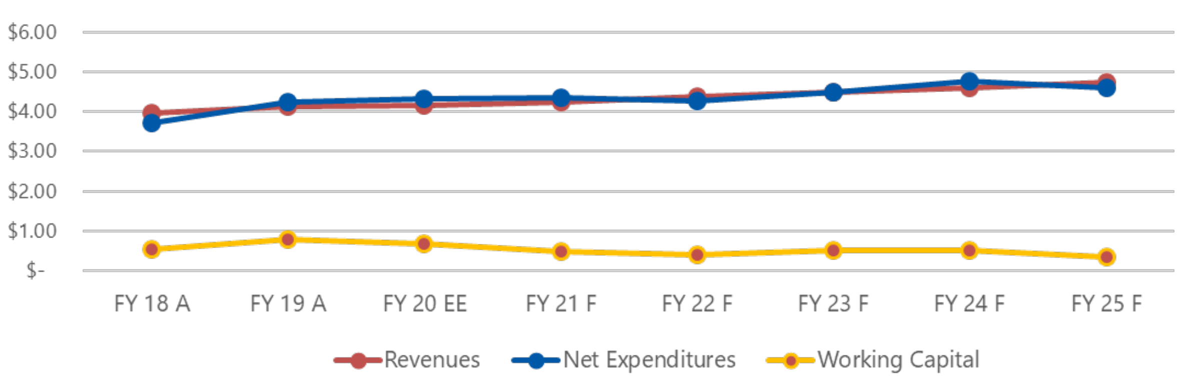
The forecast demonstrates a change to the Fund's main revenue source from the prior year forecast, a decline from 3 percent to 2.75 percent for Transient Occupancy Tax revenues, reflective of the slight economic downturn anticipated by economists over the next few years.

The forecast includes continued investment in Minto-Brown Island Trails and Wallace Marine Park as well as an additional $60,000 to the Salem Convention Center for marketing.

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

Forecast Risk	Ranking
Working Capital	Medium
Tax Revenue	High
Parks Transfer	High
Capital Projects (CIP)	Medium
Tourism Promotion Allocation	High

TOT Fund Revenues, Expenditures and Working Capital *(in millions)*



Document Services, City Services FY 2021 – FY 2025 Five-Year Forecast

FY 2021 - FY 2025 SUMMARY *(in millions)*	FY 20 YE Est	FY 21 F	FY 22 F	FY 23 F	FY 24 F	FY 25 F
Working Capital	$ 0.48	$ 0.39	$ 0.32	$ 0.26	$ 0.14	$ 0.06
Revenues	0.96	1.08	1.11	1.12	1.13	1.15
TOTAL RESOURCES	$ 1.44	$ 1.47	$ 1.43	$ 1.37	$ 1.27	$ 1.21
TOTAL EXPENDITURES	$ 1.04	$ 1.16	$ 1.18	$ 1.25	$ 1.22	$ 1.25
2% Savings on M&S		(0.01)	(0.01)	(0.01)	(0.01)	(0.01)
NET EXPENDITURES		$ 1.15	$ 1.17	$ 1.24	$ 1.20	$ 1.24
ENDING WORKING CAPITAL	$ 0.39	$ 0.32	$ 0.26	$ 0.14	$ 0.06	$ (0.03)

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.

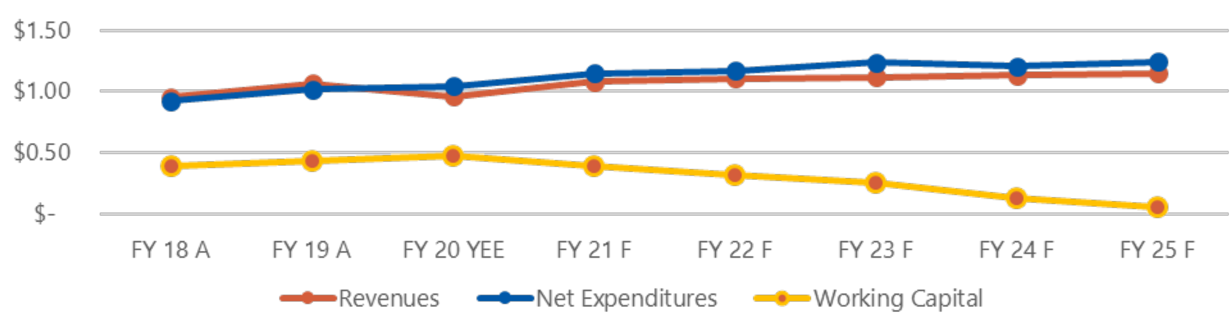
The forecast demonstrates a level of projected increase in revenues that does not keep pace with the anticipated growth in expenditures over the five-year period. It also displays a level of naturally occurring savings from unanticipated economies. This level of savings is anticipated at 2 percent for materials and services.

Document Services is dependent on General Fund support to continue to fund services. Work is ongoing to come up with ideas to enhance services and generate additional, varied revenue to support Document Services into the future.

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 Charge Revenue	High
Other Labor Factors	High
Copier Replacement Strategy	Medium

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



Emergency Services Fund FY 2021 – FY 2025 Five-Year Forecast

FY 2021 - FY 2025 SUMMARY *(in millions)*	FY 20 YE Est	FY 21 F	FY 22 F	FY 23 F	FY 24 F	FY 25 F
Working Capital	$ 3.46	$ 3.38	$ 3.39	$ 3.33	$ 3.33	$ 3.34
Revenues	0.99	0.98	1.01	1.03	1.06	1.08
TOTAL RESOURCES	$ 4.46	$ 4.37	$ 4.39	$ 4.36	$ 4.38	$ 4.42
TOTAL EXPENDITURES	$ 1.07	$ 1.05	$ 1.13	$ 1.11	$ 1.11	$ 1.16
Unspent Contingency		(0.06)	(0.06)	(0.06)	(0.06)	(0.06)
3% Savings on M&S		(0.01)	(0.01)	(0.01)	(0.01)	(0.01)
NET EXPENDITURES	$ 1.07	$ 0.98	$ 1.06	$ 1.04	$ 1.04	$ 1.09
ENDING WORKING CAPITAL	$ 3.38	$ 3.39	$ 3.33	$ 3.33	$ 3.34	$ 3.33

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.

The forecast demonstrates a level of projected increases in revenues that allow the EMS Fund to remain balanced with anticipated growth of ongoing 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 3 percent in the materials and services category.

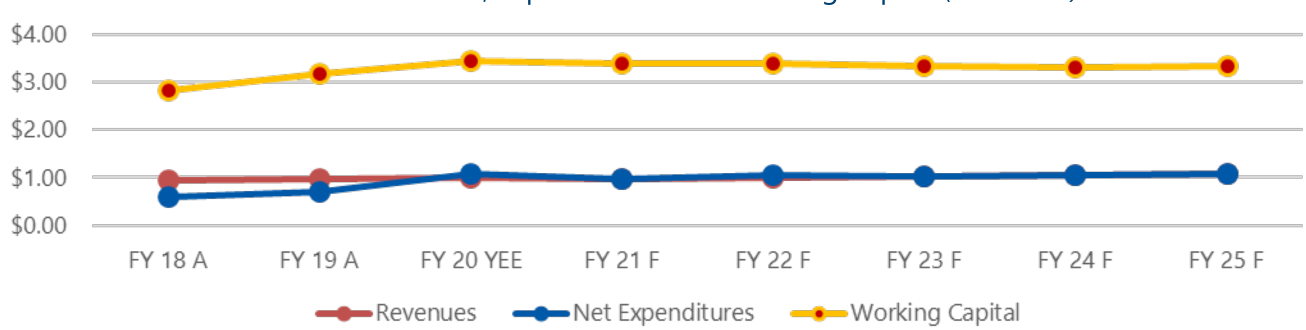
The EMS Fund is required to maintain a working capital that provides resources for six months of immediate and uninterrupted ambulance transport services. The fund currently meets the minimum requirement and anticipates maintaining working capital at this level through the forecast.

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

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

Future capital equipment needs account for the highest risk factor for the health of the EMS Fund. Expenditures include an annual transfer to the Capital Reserve Fund, which started in FY 2019, 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 *(in millions)*



Fleet, City Services Fund FY 2021 – FY 2025 Five-Year Forecast

FY 2021 - FY 2025 Summary *(in millions)*	FY 20 YE Est	FY 21 F	FY 22 F	FY 23 F	FY 24 F	FY 25 F
Working Capital	$ 2.35	$ 2.30	$ 2.37	$ 2.36	$ 2.36	$ 2.30
Revenues	4.08	4.24	4.37	4.55	4.68	4.87
TOTAL RESOURCES	$ 6.43	$ 6.55	$ 6.74	$ 6.91	$ 7.04	$ 7.17
TOTAL EXPENDITURES	$ 4.12	$ 4.27	$ 4.47	$ 4.65	$ 4.84	$ 5.02
Unspent Contingency		-	-	-	-	-
3.5% Savings on M&S		(0.09)	(0.09)	(0.09)	(0.10)	(0.10)
NET EXPENDITURES		$ 4.18	$ 4.38	$ 4.55	$ 4.74	$ 4.92
ENDING WORKING CAPITAL	$ 2.30	$ 2.37	$ 2.36	$ 2.36	$ 2.30	$ 2.25

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.

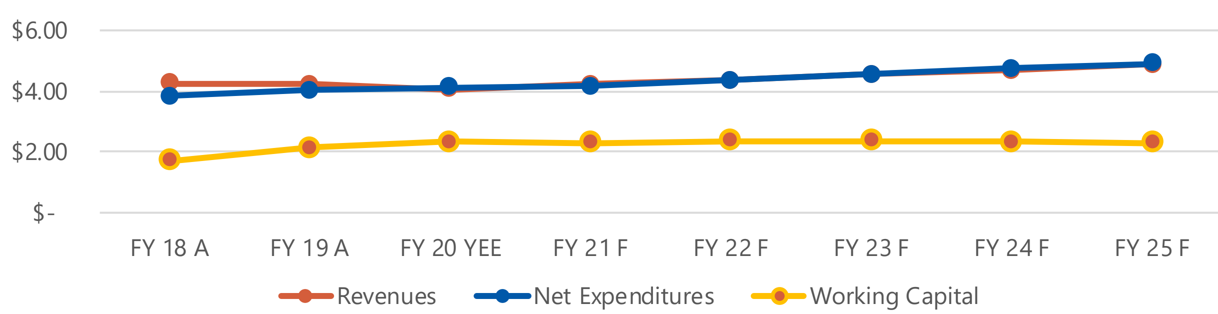
The forecast demonstrates a level of projected increase in revenues slightly higher than the anticipated growth in expenditures. It also displays a level of naturally occurring savings. This level of savings is anticipated at 3.5 percent of material and services expenses.

It is anticipated that the fleet management software will be upgraded or replaced within this five-year forecast. The amount designated for this purpose is included in the FY 2020 costs.

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 Charge Revenue	Medium
PERS Rates	High
Health Benefits	Medium
Other Labor Factors	High

Fleet, City Services Fund Revenues, Expenditures and Working Capital



Radio Comm., City Services Fund FY 2021 – FY 2025 Five-Year Forecast

FY 2021 - FY 2025 SUMMARY *(in millions)*	FY 20 YE Est	FY 21 F	FY 22 F	FY 23 F	FY 24 F	FY 25 F
Working Capital	$ 2.66	$ 3.58	$ 4.06	$ 4.56	$ 5.02	$ 5.43
Revenues	1.99	1.97	1.97	1.97	1.98	1.98
TOTAL RESOURCES	$ 4.65	$ 5.54	$ 6.03	$ 6.53	$ 7.00	$ 7.42
TOTAL EXPENDITURES	$ 1.08	$ 1.67	$ 1.65	$ 1.69	$ 1.75	$ 1.80
10% Savings on M&S		(0.11)	(0.10)	(0.11)	(0.11)	(0.11)
70% Savings on Capital		(0.07)	(0.07)	(0.07)	(0.07)	(0.08)
NET EXPENDITURES		$ 1.49	$ 1.47	$ 1.51	$ 1.56	$ 1.61
ENDING WORKING CAPITAL	$ 3.58	$ 4.06	$ 4.56	$ 5.02	$ 5.43	$ 5.81

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.

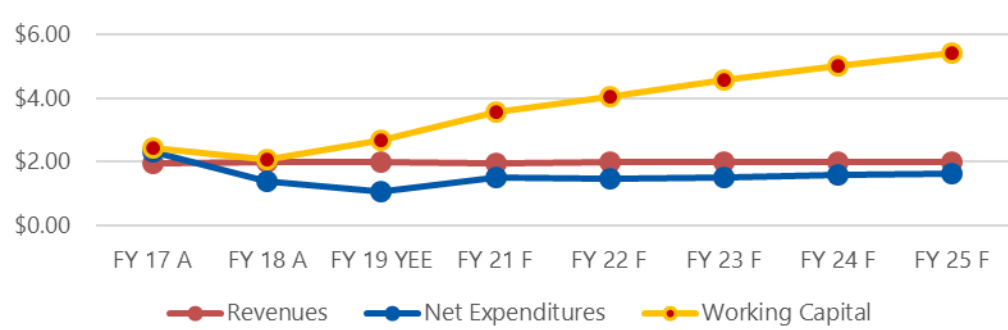
The forecast demonstrates a stable revenue stream with moderate growth in ending working capital as funds are set aside for the future replacement of equipment. It also displays naturally occurring savings through unanticipated economies and a lower ongoing need for equipment maintenance and replacement. This level of savings is anticipated at 10 percent in the materials and services category and 70 percent in capital expenditures.

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	Low
Operational Expenses	Low / Medium
Capital Equipment Needs	Low

General Fund departments account for approximately 80 percent of participating agency rate revenue. Most large, long-term expenses for the new radio system are fixed costs beyond the forecast period. The new radio system will be installed and functioning this fiscal year, with training expenses and continued operation of the old system occurring through June 2020. With new equipment and radios, replacement expenses are expected to be relatively low and stable. Planning for future system needs includes developing capital reserve accounts with the participating agencies and planned, structured savings for the next system replacement.

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



Self Insurance Benefits Fund FY 2021 – FY 2025 Five-Year Forecast

FY 2021 - FY 2025 Summary *(in millions)*

	FY 20 YE Est	FY 21 F	FY 22 F	FY 23 F	FY 24 F	FY 25 F
Working Capital	$ 10.69	$ 10.19	$ 9.26	$ 8.04	$ 6.82	$ 5.71
Revenues	26.62	27.35	28.37	29.76	31.30	32.93
TOTAL RESOURCES	$ 37.31	$ 37.54	$ 37.64	$ 37.79	$ 38.12	$ 38.65
TOTAL EXPENDITURES	$ 27.12	$ 37.54	$ 37.64	$ 37.79	$ 38.12	$ 38.65
Unspent Reserve		(9.26)	(8.04)	(6.82)	(5.71)	(4.73)
3.5% Savings on M&S		-	-	-	-	-
NET EXPENDITURES		$ 28.28	$ 29.60	$ 30.97	$ 32.41	$ 33.92
ENDING WORKING CAPITAL	$ 10.19	$ 9.26	$ 8.04	$ 6.82	$ 5.71	$ 4.73

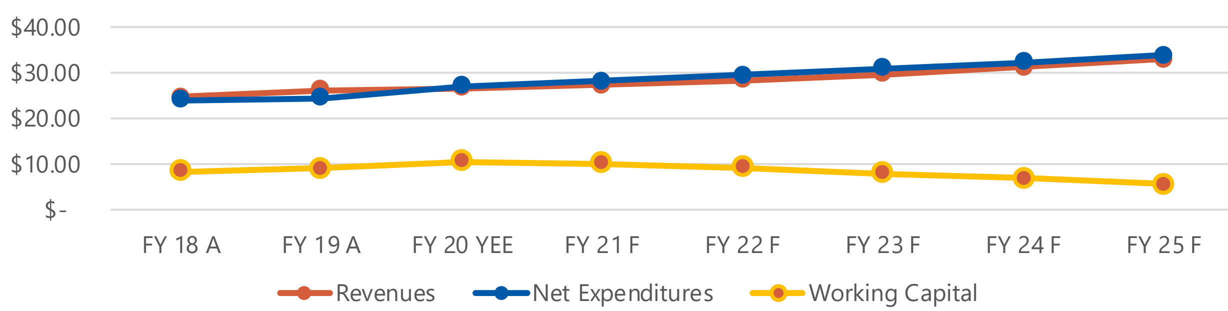
The City's annual financial forecast for the Benefits Self Insurance Fund provides continuation of current service levels with assumptions for inflationary factors to increase service costs and estimates for revenue growth.

The forecast demonstrates a level of projected increase in revenues lower than the anticipated growth in expenditures. Reduced premium rate increases are demonstrated to lower the reserve levels. If claims experience is less than anticipated, it will result in a higher working capital.

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
Changing Demographics	High

Benefits, Self Insurance Fund Revenues, Expenditures and Working Capital



Self Insurance Risk Fund FY 2021 – FY 2025 Five-Year Forecast

FY 2021 - FY 2025 Summary *(in millions)*	FY 20 YE Est	FY 21 F	FY 22 F	FY 23 F	FY 24 F	FY 25 F
Working Capital	$ 9.67	$ 10.21	$ 10.51	$ 10.67	$ 10.69	$ 10.57
Revenues	4.13	3.87	3.87	3.87	3.87	3.87
TOTAL RESOURCES	$ 13.80	$ 14.09	$ 14.39	$ 14.54	$ 14.57	$ 14.45
TOTAL EXPENDITURES	$ 3.59	$ 14.09	$ 14.39	$ 14.54	$ 14.57	$ 14.45
Unspent Reserve		(10.41)	(10.56)	(10.58)	(10.46)	(10.21)
3.5% Savings on M&S		(0.10)	(0.10)	(0.11)	(0.11)	(0.11)
NET EXPENDITURES		$ 3.57	$ 3.72	$ 3.85	$ 3.99	$ 4.13
ENDING WORKING CAPITAL	$ 10.21	$ 10.51	$ 10.67	$ 10.69	$ 10.57	$ 10.32

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.

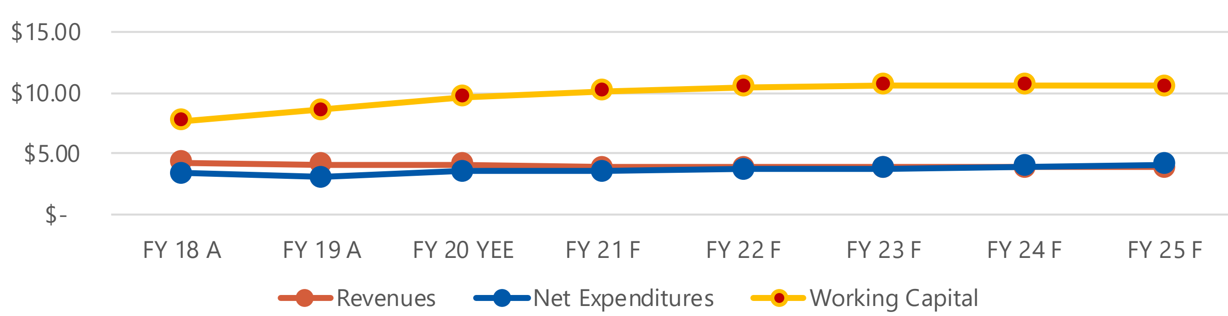
The forecast demonstrates a slight decrease in working capital over the five-year period that is still within actuarial guidelines for the fund balance.

Claims experience has been more favorable than projected in recent years and is anticipated to remain at that 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

Risk, Self Insurance Fund Revenues, Expenditures and Working Capital



Streetlight Fund FY 2021 – FY 2025 Five-Year Forecast

FY 2021 - FY 2025 Summary (in millions)	FY 20 YE Est	FY 21 F	FY 22 F	FY 23 F	FY 24 F	FY 25 F
Working Capital	$ 1.08	$ 0.95	$ 1.02	$ 1.05	$ 1.05	$ 1.02
Revenues	1.95	1.95	1.96	1.96	1.96	1.97
TOTAL RESOURCES	$ 3.03	$ 2.90	$ 2.97	$ 3.01	$ 3.02	$ 2.99
TOTAL EXPENDITURES	$ 2.08	$ 2.12	$ 2.16	$ 2.20	$ 2.23	$ 2.27
Unspent Contingency		(0.20)	(0.20)	(0.20)	(0.20)	(0.20)
Estimated Savings		(0.04)	(0.04)	(0.04)	(0.04)	(0.04)
NET EXPENDITURES	$ 2.08	$ 1.89	$ 1.92	$ 1.96	$ 2.00	$ 2.03
ENDING WORKING CAPITAL	$ 0.95	$ 1.02	$ 1.05	$ 1.05	$ 1.02	$ 0.96

Since the 2016 enactment of the Streetlight Fee and formation of the Streetlight Fund:

- All fixtures in the rights-of-way have been converted to light emitting diodes (LEDS).
- Maintenance and electricity costs are supported through the Streetlight Fund.
- New streetlights are being installed in under-served areas based on a prioritized list.
- Since FY 2020, electricity and maintenance are being provided for lighting fixtures in parks, relieving the General Fund of approximately $100,000 per year in expenses.

The five-year forecast anticipates no increase in rates and a very small increase in accounts. Expenditures in the forecast are consistent with the current year and adjusted for growth.

A 2017 interfund loan from the Utility Fund allowed the system re-lamping to be completed within a year resulting in energy cost savings. The loan will be fully repaid in 2027.

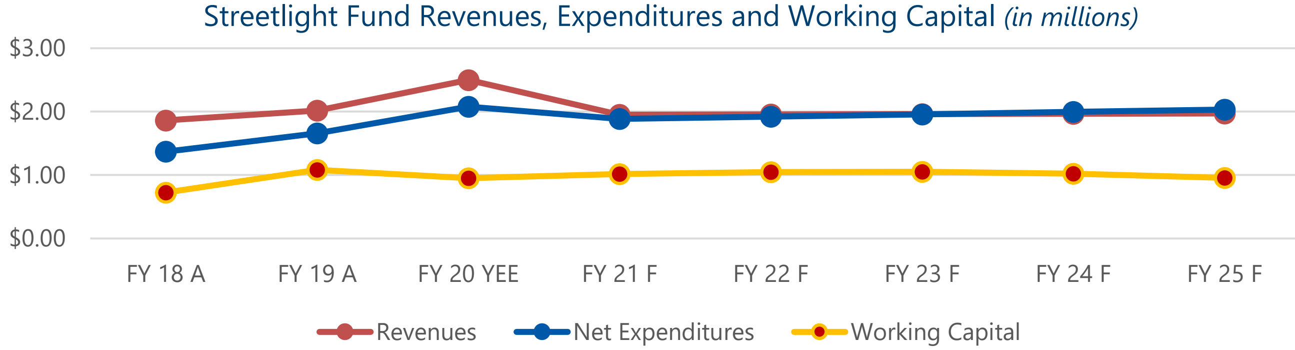
Forecast Risk factors are evaluated on the degree of impact to continued service delivery and fund fiscal health.

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

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

- Transfer to Capital Improvements Fund for replacement and new pole installation projects at $500,000 per year.
- Continued support for electricity and maintenance expenses for all poles in rights-of-way and parks.

Streetlight Fund Revenues, Expenditures and Working Capital *(in millions)*



Salem Economic Outlook 2020
Prepared by Tim Duy Economic Consulting LLC
December 2019

Summary of Findings

National Summary

National economic conditions cooled in 2019 relative to the prior year but the economy remained sufficiently strong to sustain solid job growth. Supported by a series of interest rate cuts by the Federal Reserve, activity should firm this year near the economy's trend pace of growth. The risk of recession continues to look remote.

The economy lost momentum in 2019 as it suffered under the weight of multiple negative forces. First, the fiscal stimulus from earlier tax cuts and spending increases waned; the tax cuts did not provide the persistent boost for investment spending by firms as many had hoped. Second, global economic activity slowed, which weighed on exports. Third, uncertainty over the direction of U.S. trade policy contributed to further slowing of investment activity. And finally, the lagged impact of previous interest rate increases was felt in interest rate sensitive sectors of the economy, particularly housing.

Still, those negative forces failed to push the economy into recession. Recession fears peaked in the middle of 2018 as manufacturing indicators (for example - industrial production and the Institute of Supply Management's monthly survey) worsened and the yield curve briefly inverted with longer-term interest rates falling below short-term rates. Those recession concerns, however, failed to account for the fact that the manufacturing sector of the economy bore the weight of the negative economic shocks and that sector is now a fairly small part of the economy; it is now more difficult for manufacturing-specific shocks to trigger economy-wide recessions. A similar pattern of economic activity occurred in 2015-16 when falling oil prices and a stronger dollar hit the manufacturing sector but left the rest of the economy relatively unscathed.

A yield curve inversion like the brief one in 2018 has often been a long-leading indicator of recession. By itself, and had it been sustained for a longer period of time, it would have led me to raise my odds of recession in 2020. This episode, however, differed from past recessions in that the Federal Reserve (Fed) began cutting interest rates soon after the curve inverted. In the past, the Fed has tended to discount the yield curve as an indicator and instead continued to tighten monetary policy after the curve inverted. In 2019, however, the Fed pivoted toward an easier policy path very quickly, first by dropping earlier expectations for rate hikes in 2018 and then by actually cutting interest rates 0.75 percentage points during the latter half of the year.

In contrast to recessionary periods, last year's pattern of data and policy appear most consistent with the soft-landings the Fed managed during the 1990s when interest rate cuts in 1995 and 1998 effectively prevented the economy from tumbling into recession. Indeed, easier monetary policy this year has already shown positive results. For instance, housing markets, which looked shaky at the end of last year, have rebounded strongly as new construction activity accelerates. In addition, financial market participants have pushed U.S. equity prices to record highs and the yield curve is no longer inverted. Throughout the year, job growth remained solid, unemployment held at 50-year lows, consumer spending growth held at a pace consistent with recent history, and consumer confidence still hovers near cycle highs.

At this point, the stage looks set for a more-favorable economic backdrop in 2020 relative to 2019 as the factors that weighed on activity this year all look set to stabilize or improve. Housing activity is strengthening, global growth and manufacturing activity appear to be stabilizing, and the Fed, which had originally positioned itself to be a drag on economy at the end of 2018, is now running an accommodative monetary policy. Fed officials anticipate moderate growth in 2020 of 2.0%, close to trend growth.

The risk of recession in 2020 looks remote. As noted above, the factors weighing on growth in 2019 look to be moving in the opposite direction in 2020. The Fed expects to hold interest rates steady this year but remains poised to cut interest rates further if needed. With inflation persistently low, the Fed's focus had been on sustaining the expansion and holding the unemployment rate below 4% for as long as possible. If inflation were to rise to a level that the Fed thought destabilizing for the economy, it would react with tighter policy. Given the lags in policy however, even if that were the case it would be more of a risk for 2021 than 2020.

Oregon Summary

The Oregon economy continues to enjoy the benefits of sustained economic expansion. Job growth, however, has slowed relative to earlier in this cycle but this appears to be more related to supply side constraints than a drop in the demand for labor. The long expansion has produced consistently low unemployment rates, reducing remaining slack in the labor market over time. In addition, labor force growth has slowed. This is likely attributable to both a dwindling supply of persons still on the sidelines of the labor market and a slowing pace of in-migration. On one hand, households will benefit from tight labor markets in that it will put upward pressure on wages. On the other hand, employers will have an increasingly difficult time hiring workers.

Housing activity regained its footing after stumbling late 2018. Multi-family permits, traditionally a volatile sector, bounced back from some 2018 weakness while single-family permits remain steady at levels still below the peak of past business cycles. Housing sales in most parts of the state have rebounded from weakness in 2018; statewide housing price appreciation has slowed to below 5% (down from over 10%!) as sellers have been unable to push through aggressive price increases to buyers. Unlike during the bubble period of the last decade (with its easy ability to obtain lending and creative mortgage products to extend purchasing power), the pace of home price appreciation will moderate more toward income growth over time.

The University of Oregon Index of Economic Indicators slipped this year, but remains consistent with continued economic expansion in Oregon. The declines are largely related to the weak manufacturing hours worked and the inversion of the yield curve. Like last year, the decline in manufacturing hours is a bit of a mystery that appears more related to changes within the food manufacturing sector rather than an indication of weak demand. Other indicators largely held steady or in some cases improved. Overall, the small decline in the UO index this year does not have the depth or breadth of weakness consistent with a recession. The Oregon Measure of Economic Activity indicates the pace of growth has slowed (as expected given slower job growth) but still exceeds the long run average. Like the national economy, there is only a remote risk of Oregon recession in 2020.

Salem Summary

Job growth in the Salem region was in-line with my expectations for 2019. Note that the exact growth rate measured from December to December can be volatile due to data revisions on the part of Oregon Department of Employment (job growth in 2018, for example, was less than initially reported). I anticipate a similar pace of job growth in 2020.

Labor market indicators suggest the underlying economy remains quite healthy. Unemployment rates hover near record low levels; low levels of initial unemployment claims, a leading indicator, also remain low and indicate job growth is likely to continue. Like much of the state the region's labor force growth has slowed; if the trend continues, labor supply in the region will be increasingly constrained and may dampen growth.

Housing sales rebounded from a weak patch in late-2018 while residential building permits remain in an uptrend. A spike in activity temporarily drove up the value of residential construction permitted in Salem in the fourth quarter of 2018. Tourism and travel activity continues to bolster the regional economy as evidence by rising lodging revenues.

According to the Salem measure of economic activity the area's economy remains in the healthy, above-average pace of growth it entered in 2016. Since then, job growth has been generally faster than would have been expected prior to the recession (the expectation is illustrated by the "Simulation" forecast in the Salem MSA Nonfarm Payrolls graph in the appendices). Given that the national and state economies are anticipated to remain in expansion, the most likely outcome for 2020 is that Salem enjoys another year of solid economic activity.

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. Like last year, my expectations for Oregon job growth closely align with those of the state's economist.

I used my forecast of Oregon job growth as the principle driver of the Salem job forecast. I compared this with the forecasted path of job growth as might have been expected prior to the recession (a historical simulation). **Actual percentage changes realized are also sensitive to employment data revisions.** The path of expected job growth was pushed up in last year's forecast but downward revisions to the data brought the expected path of 2020 job growth fairly close to that anticipated in the 2018 version of this report. Overall, the general pattern has been consistent with moderate to fast growth in the post-recession period.

Nonfarm Payroll Growth Forecasts

	OR*	**OR (OEA)***	**Salem MSA****
2019 (last)	1.9%	2.0%	1.7%
2019 (current)	1.3%	1.3%	1.3%
2020	1.3%	1.5%	1.5%

(OR refer to outcomes using my model loosely conditioned on forecasts of national variables from the Oregon Department of Economic Analysis. OR (OEA) refers to the official state forecast (dated November 2019). * indicates fourth quarter to fourth quarter % change, ** December to December % change.)

Uncertainty/Risks

I believe the risk of recession is remote. Still, recessions are notoriously difficult to predict as the economy could be hit with a random negative shock such as a financial crisis that overwhelms the ability of monetary and fiscal policymakers to react. Also, as noted above, there is a risk that labor supply constraints temper the pace of growth.

In Oregon, there is some uncertainty over the ultimate impact of the recently enacted commercial activities tax. Although the Legislative Revenue Office expects the tax to have a nearly neutral impact on the economy, the business community is skeptical of such claims. Ultimately, it will take at least one tax cycle to begin to understand the impacts to the state economy. My expectation is that if a sector of the economy suffers an unexpected substantial negative impact from the tax, the Legislature will work to adjust the tax to limit that impact. In addition, firms face the possibility of a carbon cap-and-trade policy. While these actual and potential legislative actions could weigh on the Oregon economy, they have yet to make a broad negative impact; the national economic expansion remains the dominant economic factor driving the cycle.

Local Revenue Implications

Like last year, staff's expectations for city revenue growth are consistent with the area's likely path of economic activity this year. The dominant revenue source, property taxes, is a fairly stable revenue stream and the weakness associated with the Great Recession was most likely an outlier. An event of that magnitude is fairly rare. Moreover, the outlook for housing is generally positive; construction activity remains in an upswing. Other revenue sources are not substantially tied to the business cycle. The City is planning to put forward a payroll tax to voters in May 2020 that, if approved, will add a revenue source more closely tied with the business cycle.

The pressures on the expense side of the budget are similar to last year. Costs are tied to the business cycle as the healthy job market places upward pressure on wages in general. Note that recently wage growth for lower-paid workers has risen above that of higher-paid workers. Benefits costs are also expected to rise, although the Legislature adopted some PERS reforms this year. At least one of the reforms, increasing the amortization period to fund the actuarial shortfall, will be unlikely to face legal challenges and will help limit the increase in PERS costs going forward.

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

Through its most recent *Actuarial Valuation Report* for the PERS system (as of December 31, 2018), the PERS Board provided the City with advisory employer contribution rates for July 1, 2021 through June 30, 2023. The rates, which are used in the forecast, appear in Table 1 below. Rates for the two-year periods beginning July 1, 2021 and July 1, 2023 were developed using the following key assumptions:

- The contributions rates are not impacted by the rate collar;
- Includes the impact of the re-amortization of the unfunded liability in SB 1049;
- The employer offset from the employee Individual Account Program (IAP) redirect was not included due to pending litigation;
- The investment returns are at least 5% (PERS Board assumed rate is 7.2%);
- Side account relief rate expected to stabilize at 6.9 percent; and
- OPSRP replacement percentage will continue to increase as Tier 1 and 2 employees retire.

Expenditures Risks, Table 1
PERS Employer Contribution Rates

PERS Type	FY 2016	FY 2018	FY 2020	FY 2022	FY 2024
Tier 1 and 2	15.82%	21.07%	25.49%	29.48%	30.48%
OPSRP General Service	8.62%	11.97%	16.41%	20.42%	21.42%
OPSRP Fire and Police	12.73%	16.74%	21.04%	24.97%	25.97%

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. The Oregon Legislature passed SB 1049 with various components to stabilize PERS employer contribution rates. The portion of SB 1049 that impacts the City of Salem PERS rates most significantly is the re-amortization of the PERS unfunded liability. By re-amortizing over a longer period of time, the impact on rates to pay down the unfunded liability will be less. It is unclear if the Oregon Legislature will undertake any additional PERS reform during upcoming legislative sessions. The City will continue to monitor for any potential changes.

Health Care Costs

The City's rates are developed annually with the assistance of a consultant knowledgeable of 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 2.5-6.0 percent. 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 the mix of enrollees.

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 (9-1-1 communications), AFSCME (general unit), and SCABU (City attorneys). 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 – HIGH

Negotiations are underway with three labor unions – IAFF, SPEU, SCABU – during the current fiscal year. The risks associated with increased costs from future labor negotiations beyond FY 2020 are difficult to measure at this time.

Inflation

The Bureau of Labor Statistics reported for October 2019 that the Consumer Price Index, Western Region, CPI-U increased 2.8 percent from October 2018. Over the measurement period, the index for all items less food and energy advanced 2.8 percent. For purposes of this forecast, 2.0-3.0 percent inflation factors are 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	13.2%
Health Benefit Costs	MEDIUM	10.1%
Labor Agreements / Salary Costs	HIGH	41.2%
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, standby, differential, 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 2021 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

Wage Projections	FY 2021 % Increase	FY 2022 % Increase	FY 2023 % Increase	FY 2024 % Increase	FY 2025 % Increase
Market adjustment – AFSCME	*2.75%*	2.50%	2.50%	2.50%	2.50%
Market adjustment – Attorneys (SCABU)**	2.50%	2.50%	2.50%	2.50%	2.50%
Market adjustment – Police (SPEU)**	2.50%	2.50%	2.50%	2.50%	2.50%
Market adjustment – Battalion Chiefs (IAFF)*	2.50%	2.50%	2.50%	2.50%	2.50%
Market adjustment – Fire (IAFF)*	2.50%	2.50%	2.50%	2.50%	2.50%
Market adjustment – Non-represented	*2.75%*	2.50%	2.50%	2.50%	2.50%
Market adjustment – PCEA (9-1-1)	*3.00%*	*3.00%*	2.50%	2.50%	2.50%

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

**Contracts final year in FY 2019.*
***Contracts final year in FY 2020.*

Other Personal Services Costs	Annual Percentage Change in Benefits Projections				
Medical (effective Dec 1, each fiscal year) / PPO	2.50%	2.50%	5.00%	6.00%	6.00%
Dental (effective Dec 1, each fiscal year)	0.00%	0.00%	0.00%	0.00%	0.00%
Vision (effective Dec 1, each fiscal year)	0.00%	0.00%	0.00%	0.00%	0.00%
Workers' compensation	-8.74%	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	25.49%	29.48%	29.48%	30.48%	30.48%
Retirement-Employer – OPSRP General	16.41%	20.42%	20.42%	21.42%	21.42%
Retirement-Employer – OPSRP Police and Fire	21.04%	24.97%	24.97%	25.97%	25.97%

Materials and Services	FY 2021 % Increase	FY 2022 % Increase	FY 2023 % Increase	FY 2024 % Increase	FY 2025 % Increase
General inflation factor	2.00% - 3.00%	2.00% - 3.00%	2.00% - 3.00%	2.00% - 3.00%	2.00% - 3.00%
Gasoline / Diesel	Varies by department, overall 0.00%	2.00 %	2.00 %	2.00 %	2.00 %
Internal charges	4.00% - 6.00%	4.00% - 6.00%	4.00% - 6.00%	4.00% - 6.00%	4.00% - 6.00%
Liability insurance	Varies by department, overall 0.00%	0.00 %	0.00 %	0.00 %	0.00 %
Motor pool (Fleet Services)	Varies by department, overall 4.10%	6.00%	4.00%	6.00%	4.00%
Radio communications	Varies by department, overall -2.00%	0.00%	0.00%	0.00%	0.00%
9-1-1 services*	5.70%	4.70%	3.90%	3.90%	3.90%

*Escalators for 9-1-1 services reflect the rates charged to all member agencies. The City's rate will be slightly higher than those anticipated for the first year of the forecast period for other member agencies. The higher rates reflect the completion of 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 was managed through lowered rates through FY 2020.

General Fund Revenues Assumptions Table

Revenue	FY 2021 % Increase	FY 2022 % Increase	FY 2023 % Increase	FY 2024 % Increase	FY 2025 % Increase
Current year property tax	4.13 %	4.35 %	4.08 %	4.05 %	4.04 %
Electric franchise	1.25 %	1.25 %	1.25 %	1.25 %	1.25 %
Telecommunications franchise	0.00 %	2.00 %	2.00 %	2.00 %	2.00 %
Natural gas franchise	0.00 %	0.00 %	0.00 %	0.00 %	0.00 %
Refuse (solid waste) franchise	4.00 %	3.00 %	3.00 %	3.00 %	3.00 %
Cable franchise*	-2.00 %	-2.00 %	-2.00 %	-2.00 %	-2.00 %
Fees for service**	60.00 %	2.50 %	2.50 %	2.50 %	2.50 %
Planning, site, dwelling review fees	4.00 %	6.00 %	4.00 %	6.00 %	4.00 %
Other fees	2.00 %	2.00 %	2.00 %	2.00 %	2.00 %
Licenses, permits	1.20 %	1.20 %	1.20 %	1.20 %	1.20 %
Rents (parking, building)***	8.50 %	-7.50 %	8.50 %	-7.50 %	8.50 %
Indirect cost allocation (ICAP)	-1.60 %	4.00 %	3.00 %	3.00 %	3.00 %
Other internal charges	4.00 %	6.00 %	4.00 %	4.00 %	4.00 %
State shared revenue****	7.40 %	7.00 %	3.10 %	3.10 %	3.10 %
Other agencies	3.00 %	3.00 %	3.00 %	3.00 %	3.00 %
Grants	-5.00 %	0.00 %	0.00 %	0.00 %	0.00 %
Fines, penalties	2.20 %	0.00 %	2.20 %	0.00 %	2.20 %

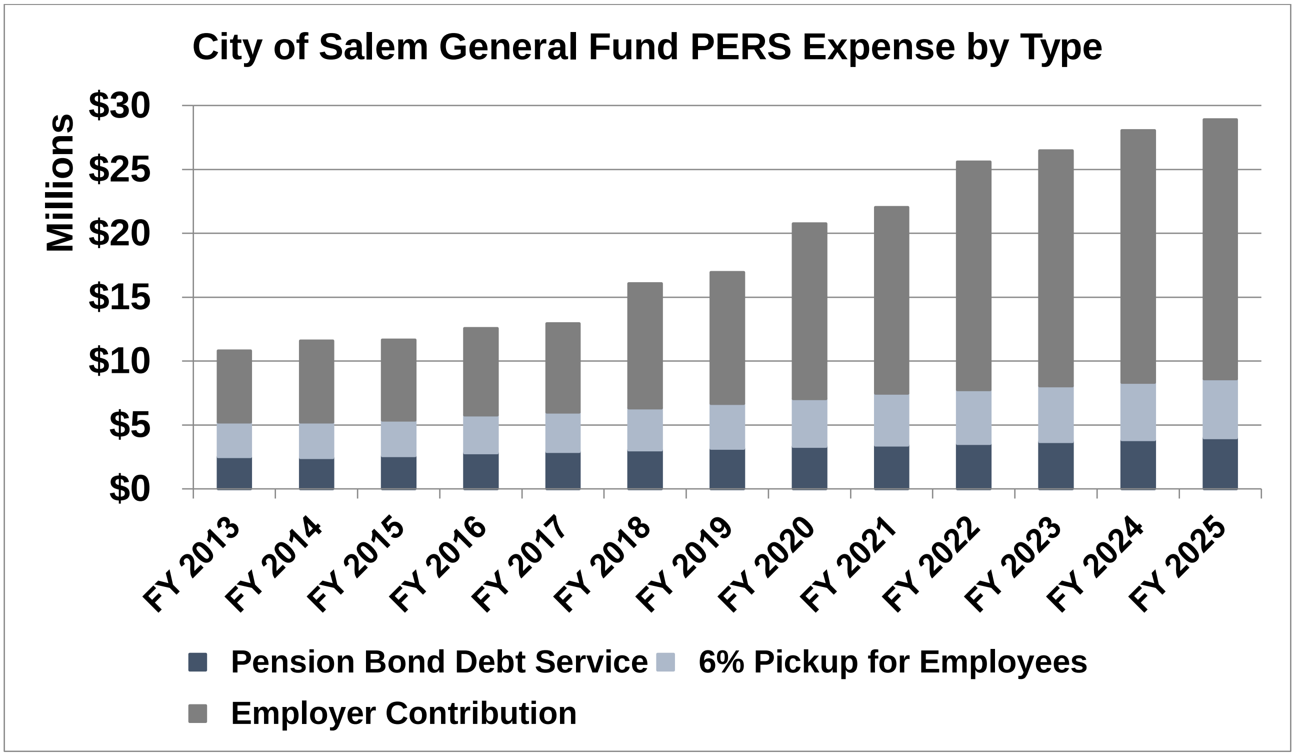
FY 2021 escalators or de-escalators are calculated against the FY 2020 estimates for year-end revenue totals by type.

*Decreasing cable franchise revenues relate to a current trend of customers moving away from traditional cable service towards over-the-top (OTT) content delivery systems.

**The rate of increase for FY 2021 reflects the addition of the new Operations Fee which will only be in place six months of FY 2020 – having started in January 2020 – and a full year during FY 2021. The Operations Fee, which is also the single largest fee, is expected to increase 2.5% annually. All other fees for service are expected to increase on average 3% - 4%.

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

****Beginning January 1, 2020, the Oregon Emergency Communications (E911) tax rate will increase from $0.75 to $1.00 and will again increase 25 cents to $1.25 on January 1, 2021.


City of Salem General Fund PERS Expense by Type
Millions
$30
$25
$20
$15
$10
$5
$0
FY 2013
FY 2014
FY 2015
FY 2016
FY 2017
FY 2018
FY 2019
FY 2020
FY 2021
FY 2022
FY 2023
FY 2024
FY 2025
Pension Bond Debt Service
6% Pickup for Employees
Employer Contribution

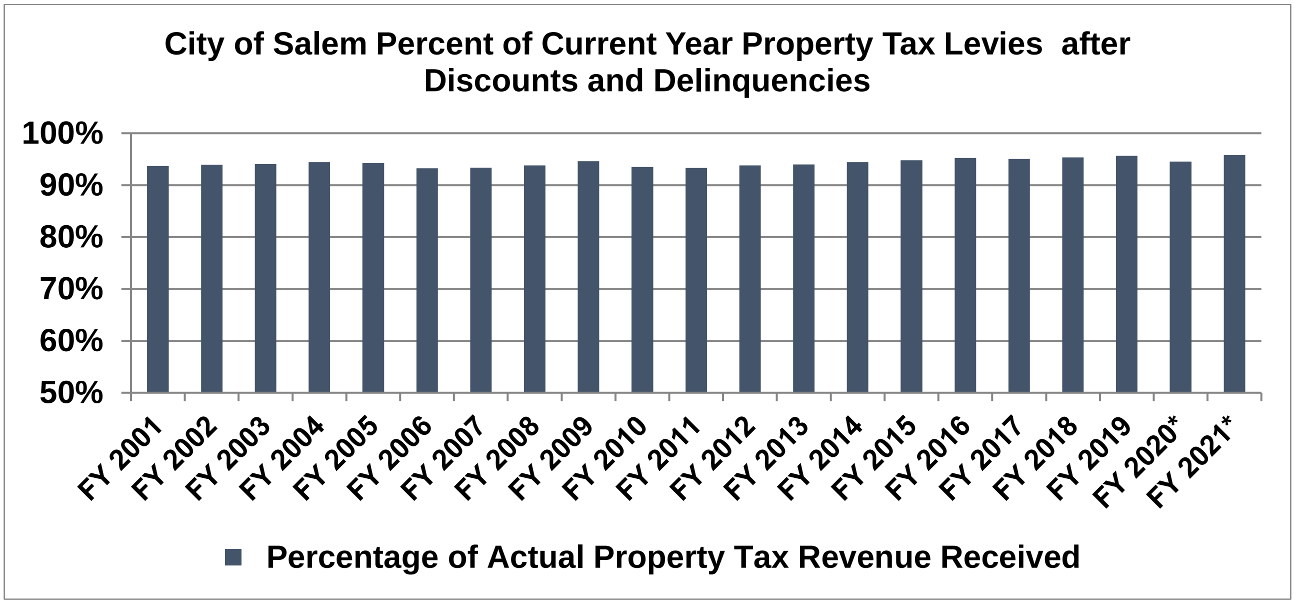
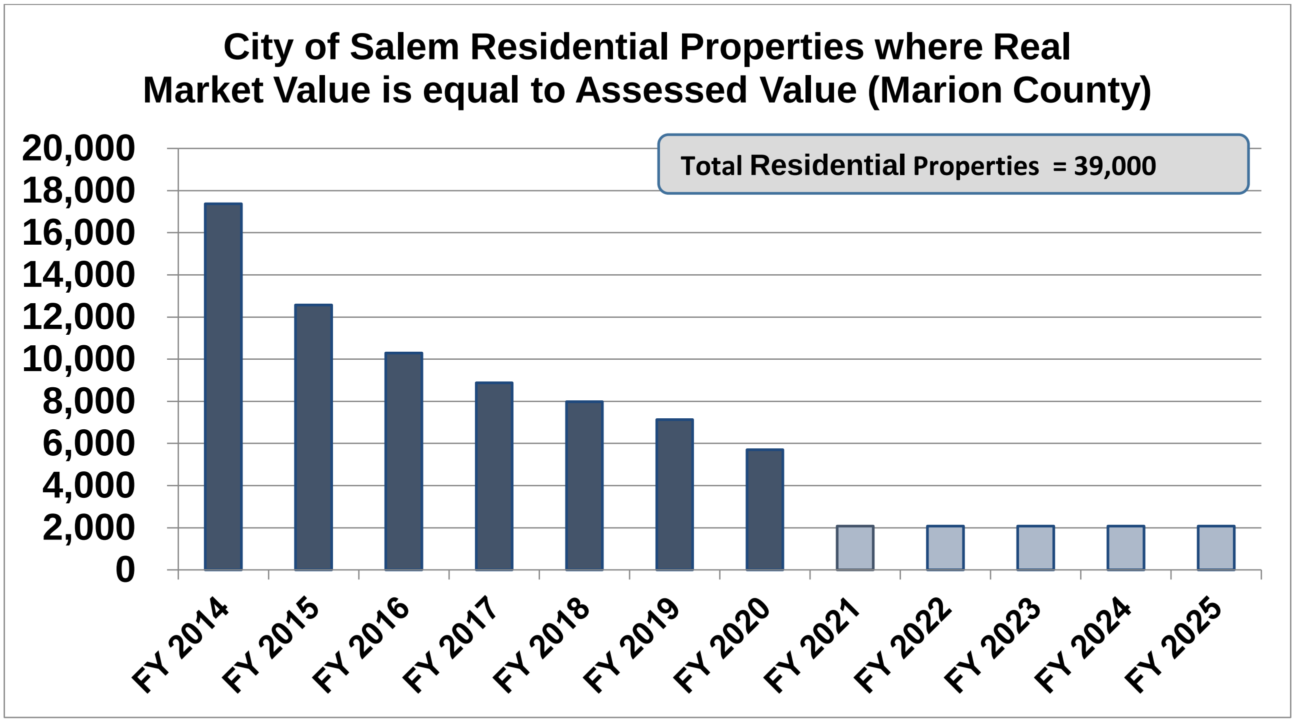


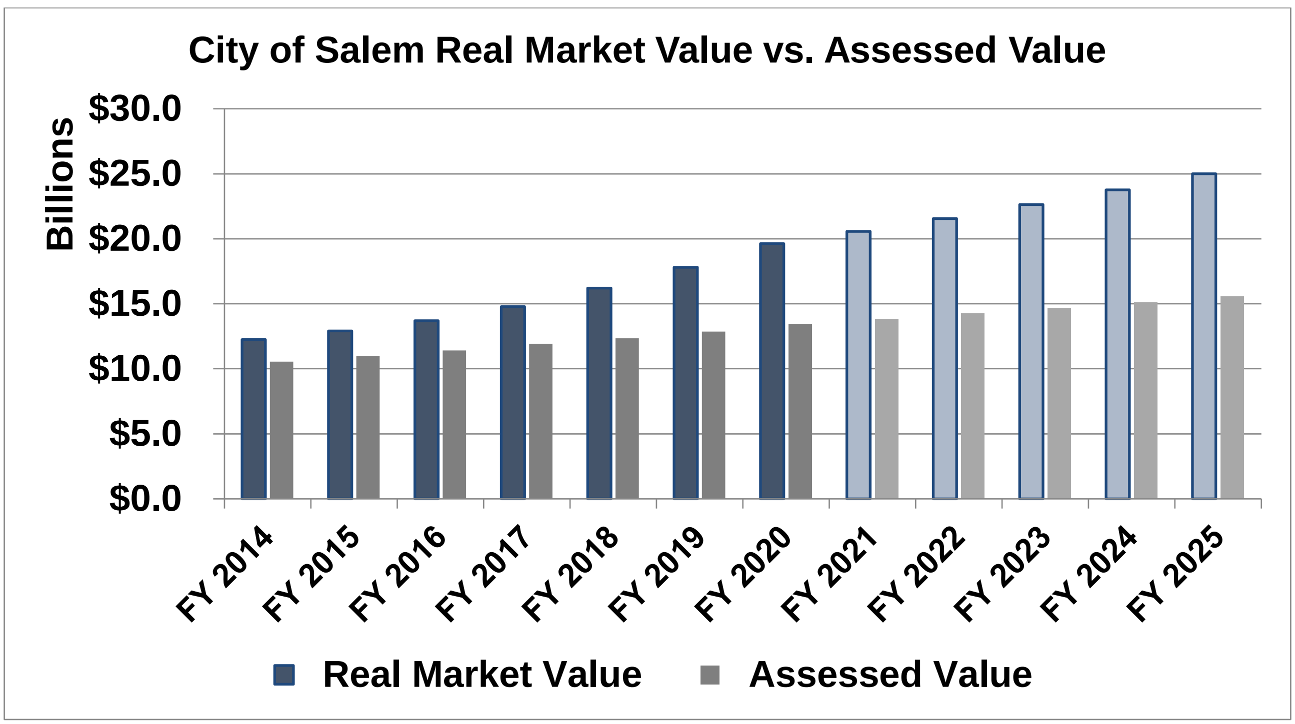
Table 2 - Historic Changes in Property Tax Levies

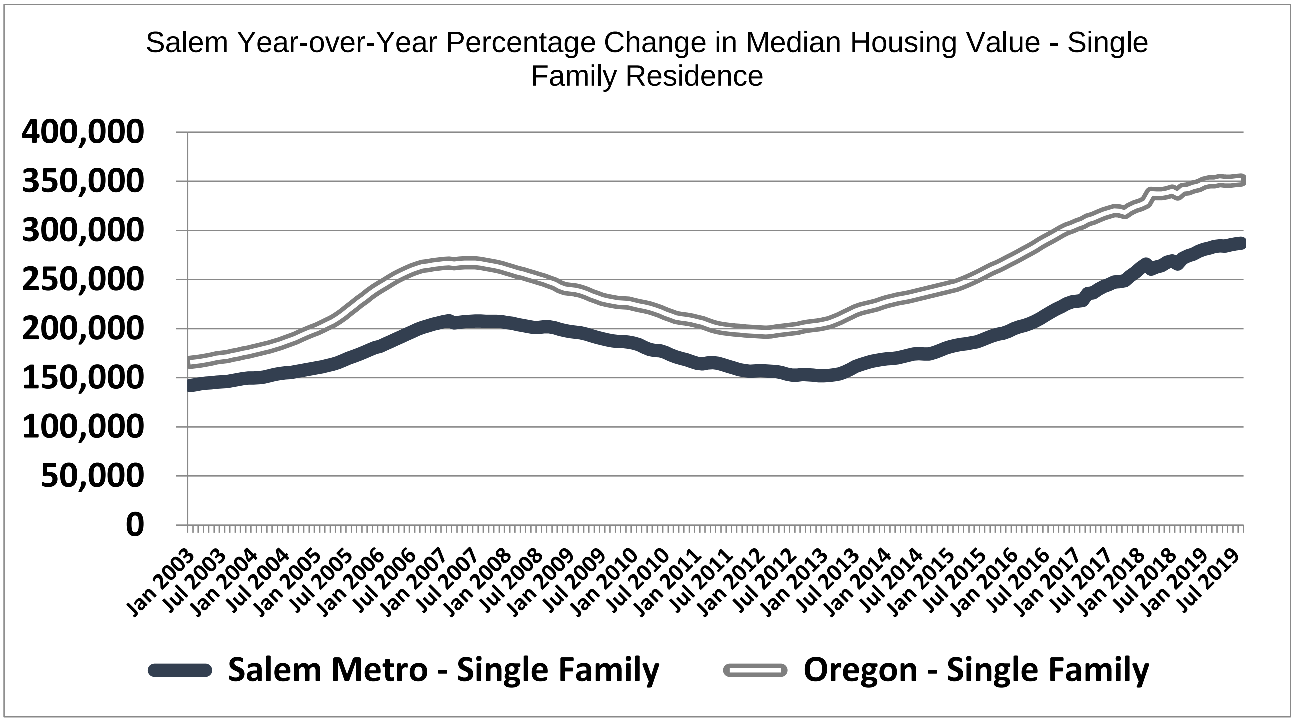
Since the Passage of Measure 50

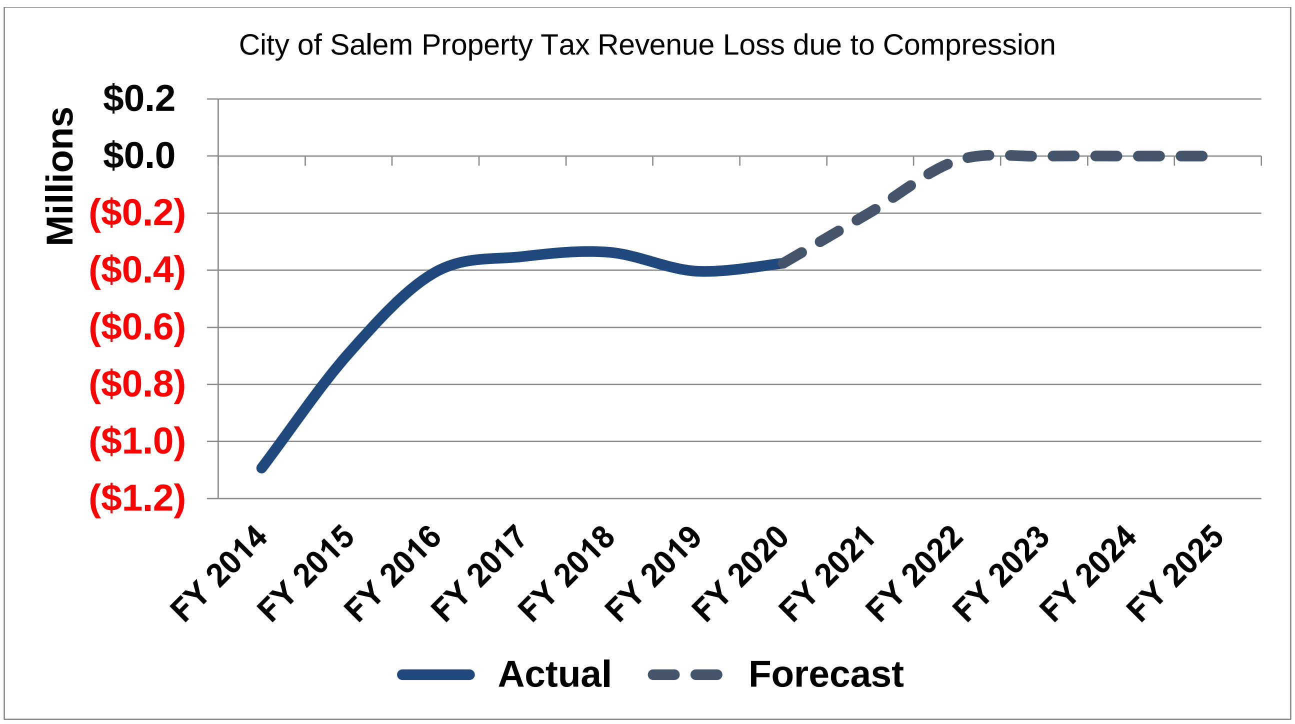
Fiscal Year	Levy	Increase		Actual	Increase
FY 2001	35,000,560	-		32,787,613	-
FY 2002	36,754,990	5.0%		34,517,563	5.3%
FY 2003	38,815,890	5.6%		36,495,536	5.7%
FY 2004	40,564,780	4.5%		38,309,011	5.0%
FY 2005	42,316,782	4.3%		39,880,157	4.1%
FY 2006	44,234,818	4.5%		41,238,540	3.4%
FY 2007	46,747,259	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%		64,772,793	3.6%
FY 2019	70,414,872	3.6%		67,345,574	4.0%
FY 2020*	73,648,895	4.6%		69,633,609	3.4%
FY 2021*	75,722,947	2.8%		72,506,673	4.1%

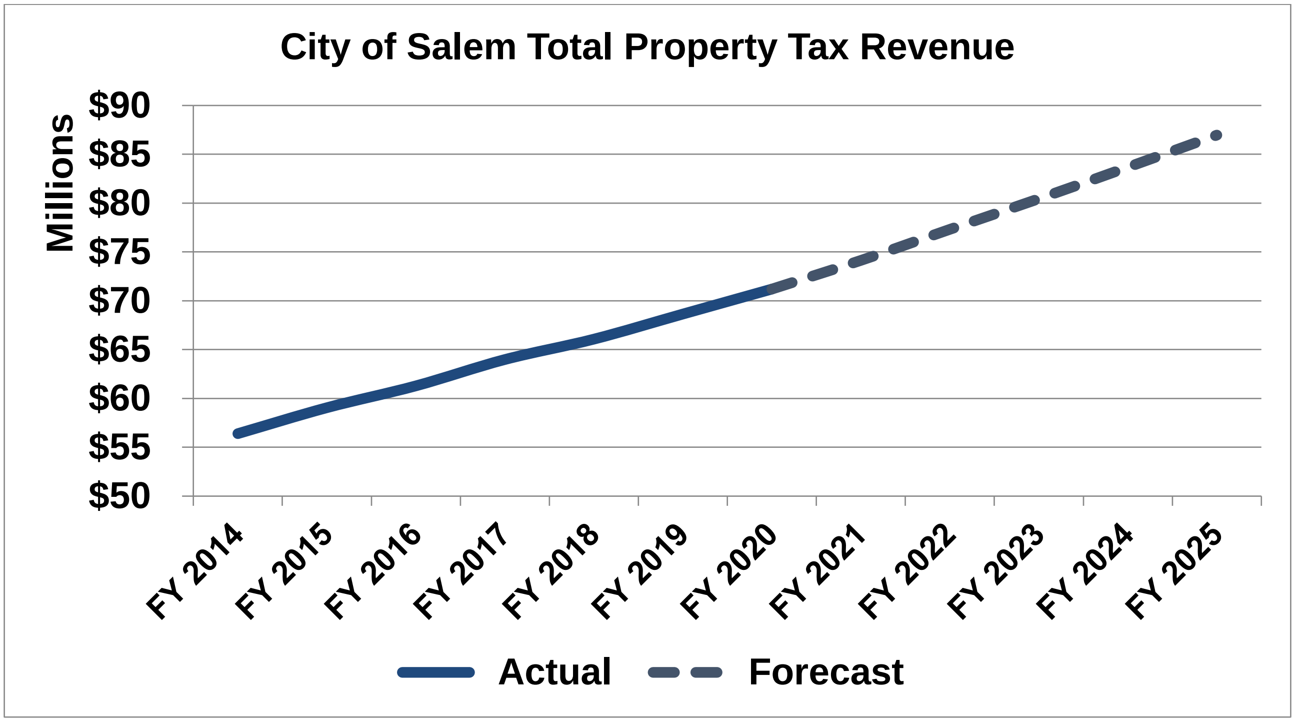
*Projected


City of Salem Residential Properties where Real Market Value is equal to Assessed Value (Marion County)
Total Residential Properties = 39,000
20,000
18,000
16,000
14,000
12,000
10,000
8,000
6,000
4,000
2,000
0
FY 2014
FY 2015
FY 2016
FY 2017
FY 2018
FY 2019
FY 2020
FY 2021
FY 2022
FY 2023
FY 2024
FY 2025

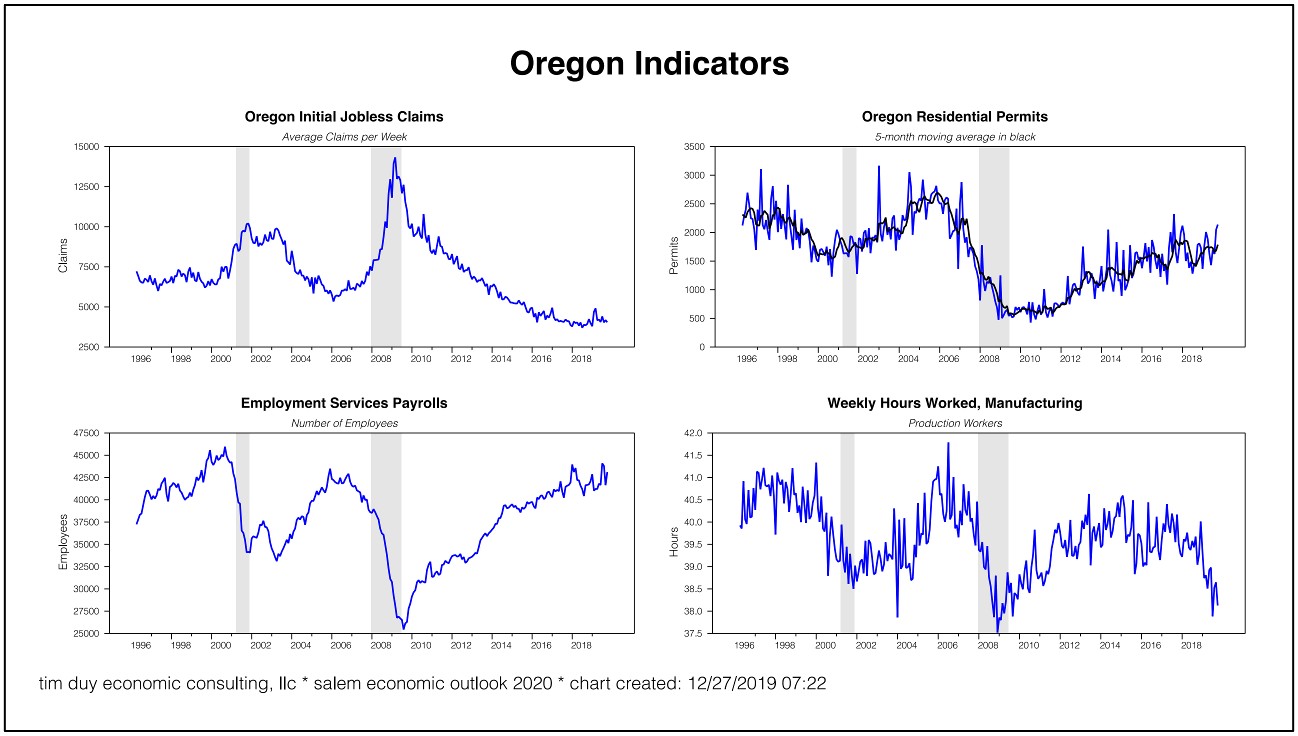

City of Salem Real Market Value vs. Assessed Value
Billions
$30.0
$25.0
$20.0
$15.0
$10.0
$5.0
$0.0
FY 2014
FY 2015
FY 2016
FY 2017
FY 2018
FY 2019
FY 2020
FY 2021
FY 2022
FY 2023
FY 2024
FY 2025
Real Market Value
Assessed Value

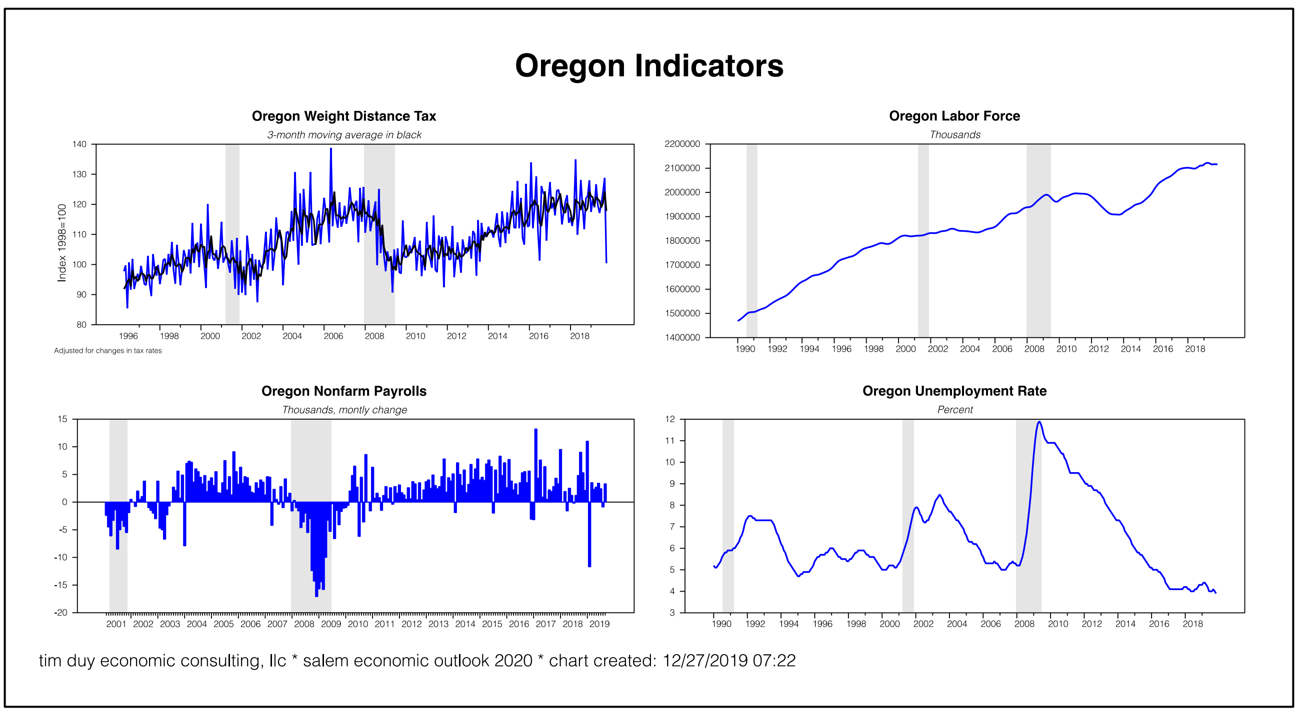

Salem Year-over-Year Percentage Change in Median Housing Value - Single Family Residence
400,000
350,000
300,000
250,000
200,000
150,000
100,000
50,000
0
Jan 2003
Jul 2003
Jan 2004
Jul 2004
Jan 2005
Jul 2005
Jan 2006
Jul 2006
Jan 2007
Jul 2007
Jan 2008
Jul 2008
Jan 2009
Jul 2009
Jan 2010
Jul 2010
Jan 2011
Jul 2011
Jan 2012
Jul 2012
Jan 2013
Jul 2013
Jan 2014
Jul 2014
Jan 2015
Jul 2015
Jan 2016
Jul 2016
Jan 2017
Jul 2017
Jan 2018
Jul 2018
Jan 2019
Jul 2019
Salem Metro - Single Family
Oregon - Single Family


City of Salem Property Tax Revenue Loss due to Compression
Millions
$0.2
$0.0
($0.2)
($0.4)
($0.6)
($0.8)
($1.0)
($1.2)
FY 2014
FY 2015
FY 2016
FY 2017
FY 2018
FY 2019
FY 2020
FY 2021
FY 2022
FY 2023
FY 2024
FY 2025
Actual
Forecast

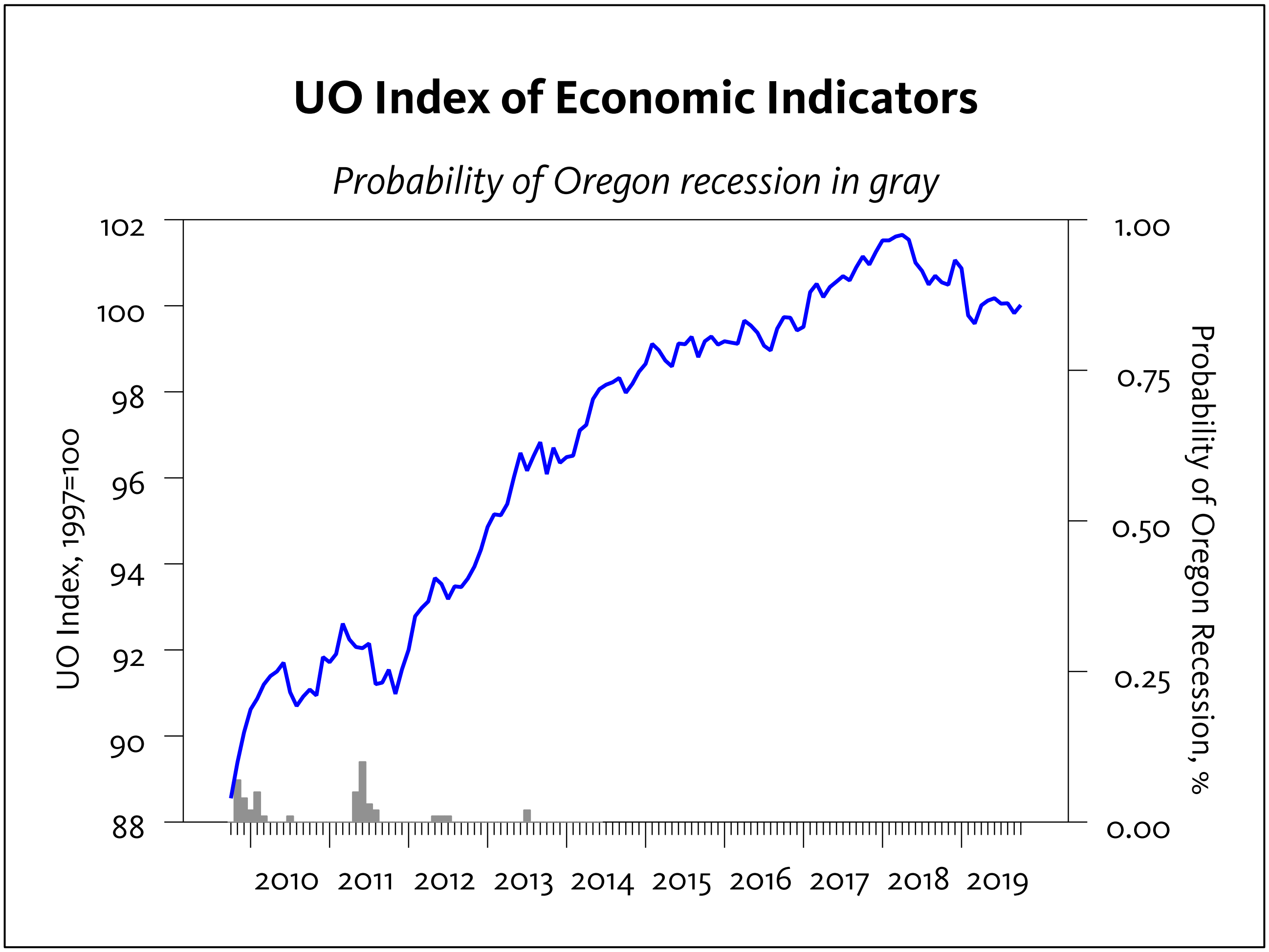

City of Salem Total Property Tax Revenue
Millions
$90
$85
$80
$75
$70
$65
$60
$55
$50
FY 2014
FY 2015
FY 2016
FY 2017
FY 2018
FY 2019
FY 2020
FY 2021
FY 2022
FY 2023
FY 2024
FY 2025
Actual
Forecast

Oregon Indicators Generally Solid

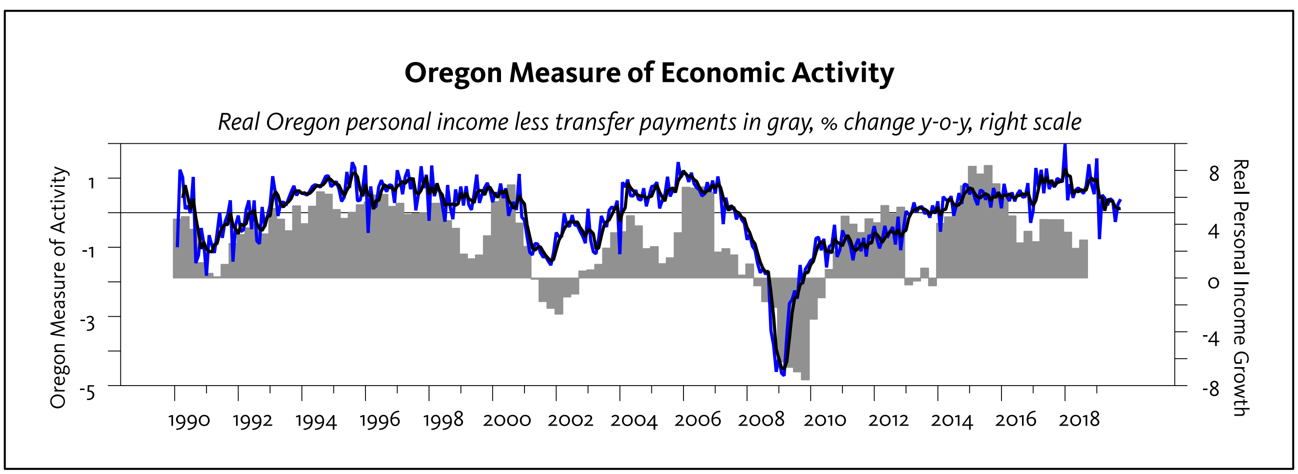




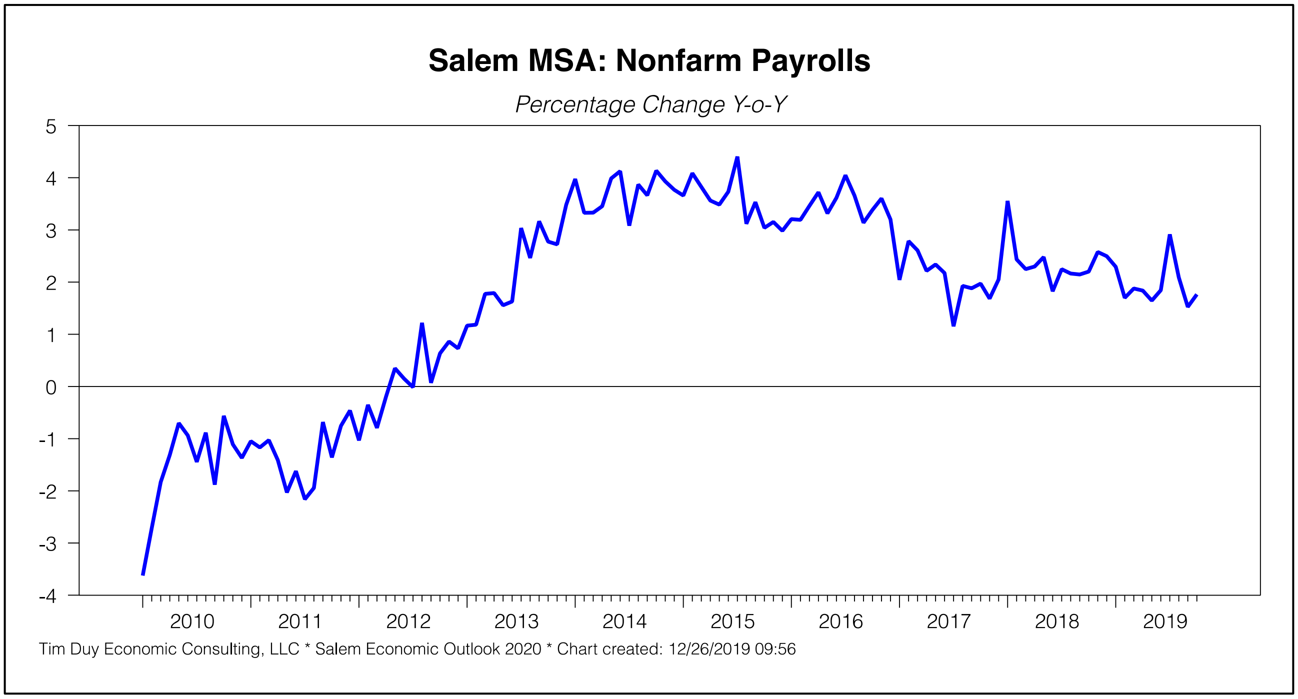
Dip Not Indicative of Recession



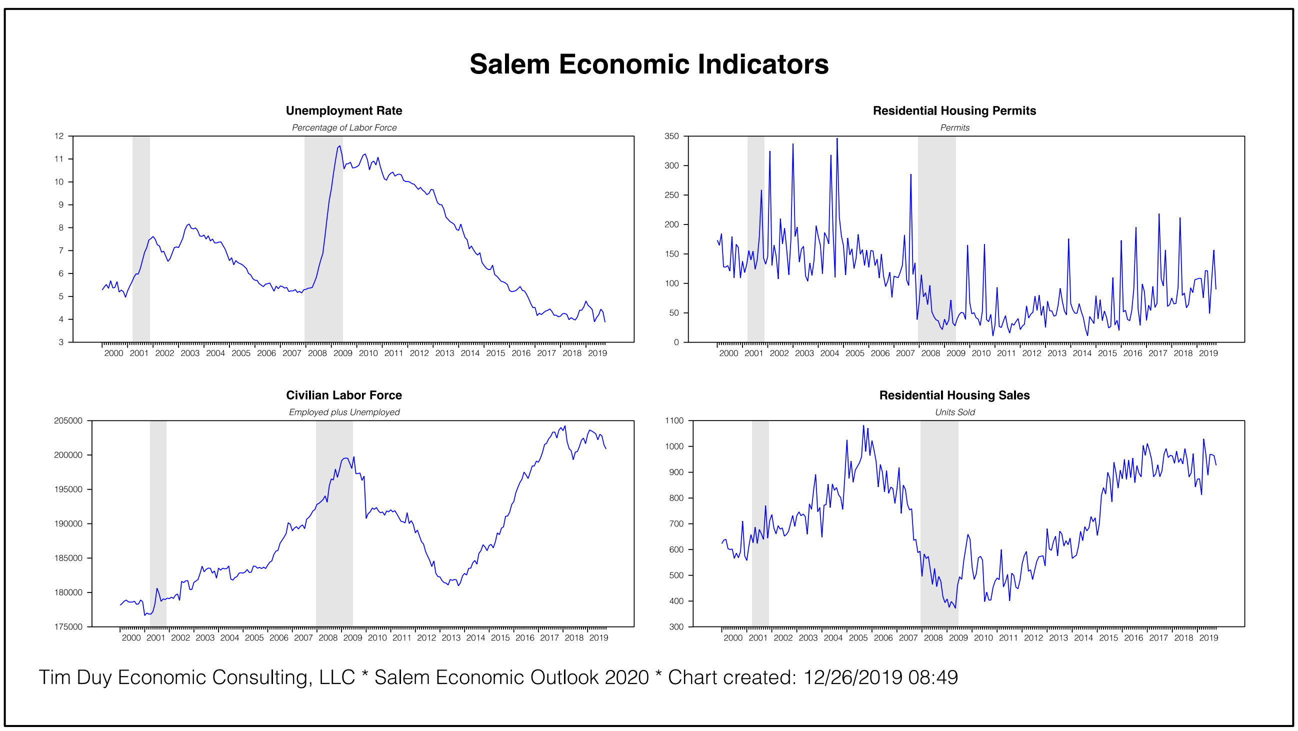
Oregon Growth Slower But Above Average



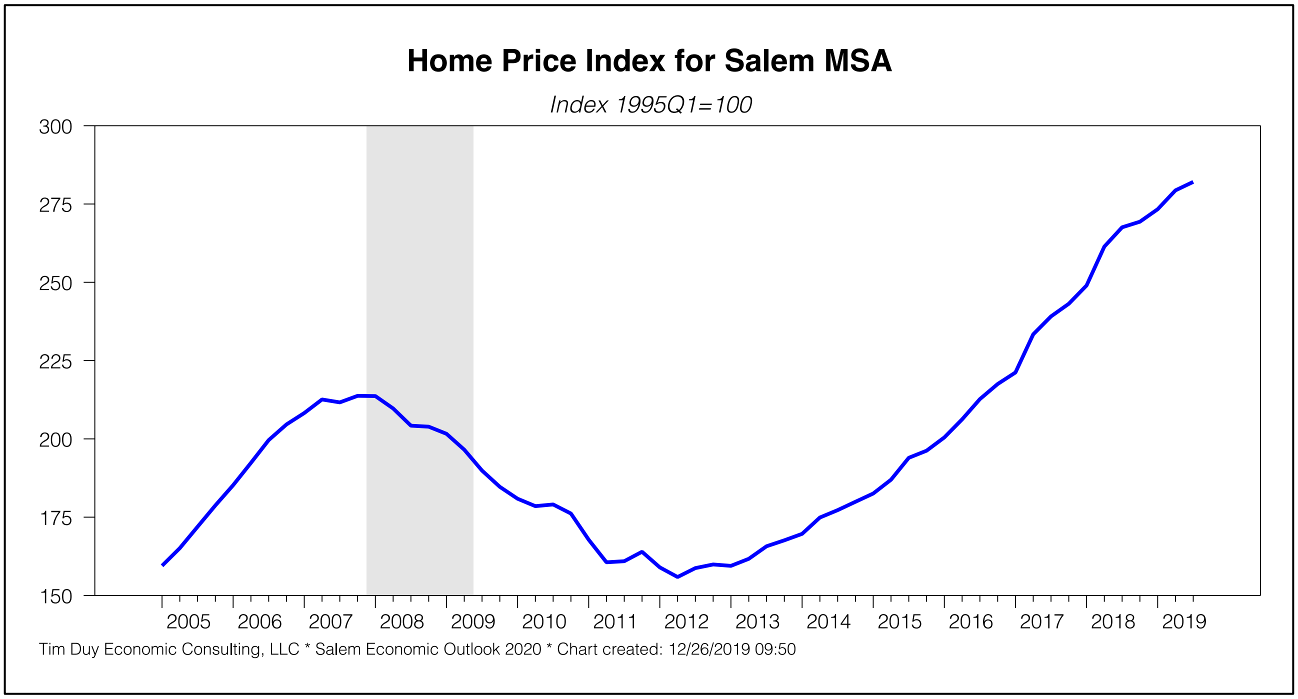
Salem Job Growth Off Its Peak



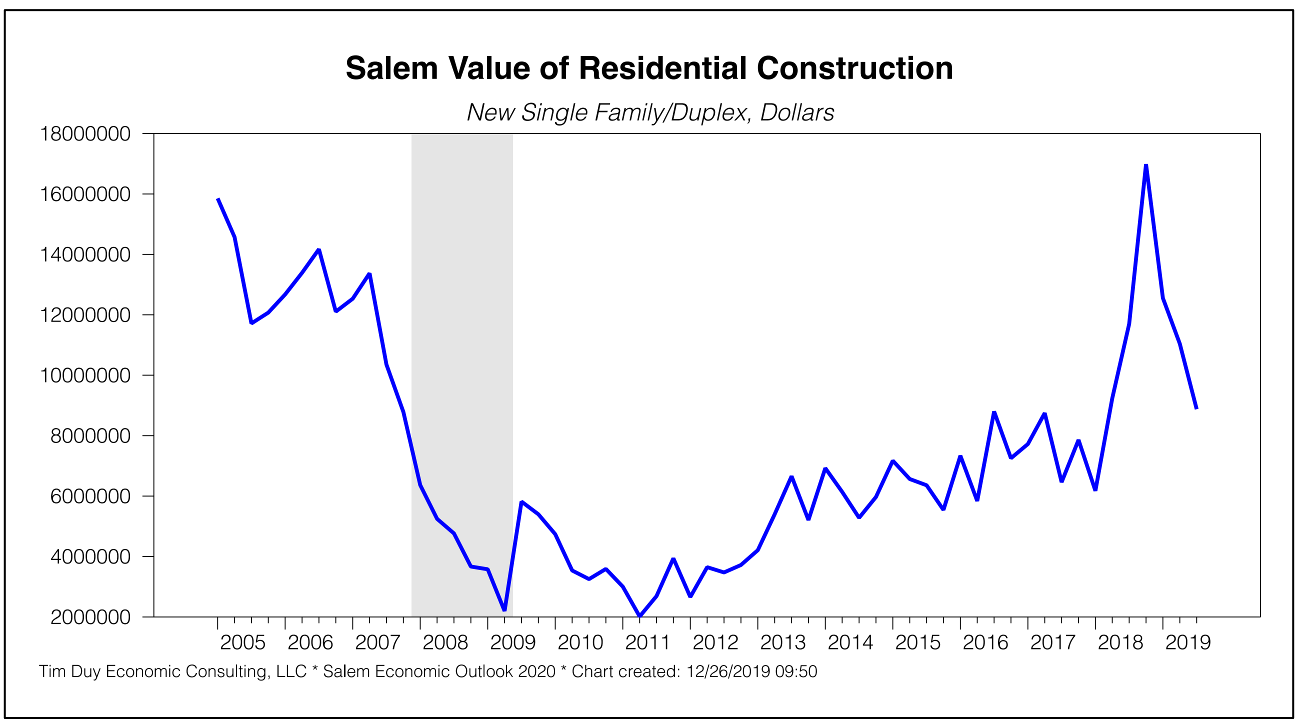
Indicators Generally Solid



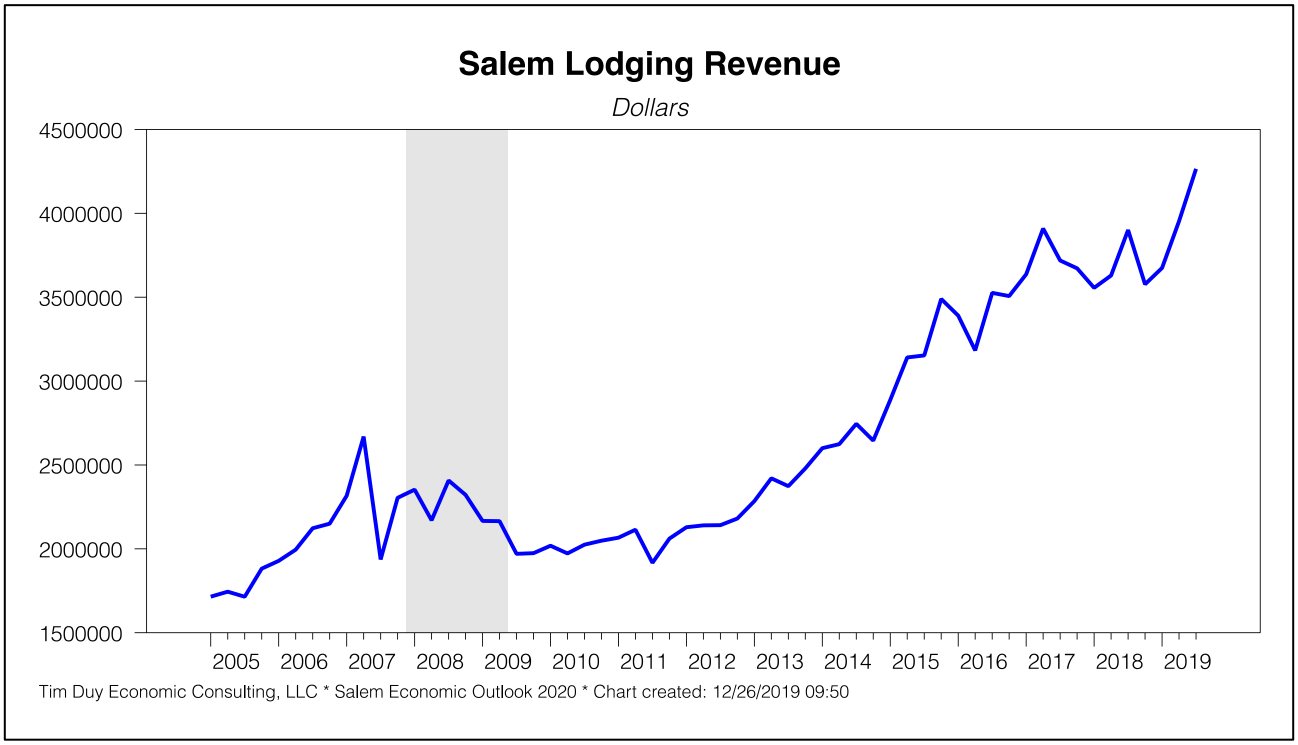
Indicators Generally Solid



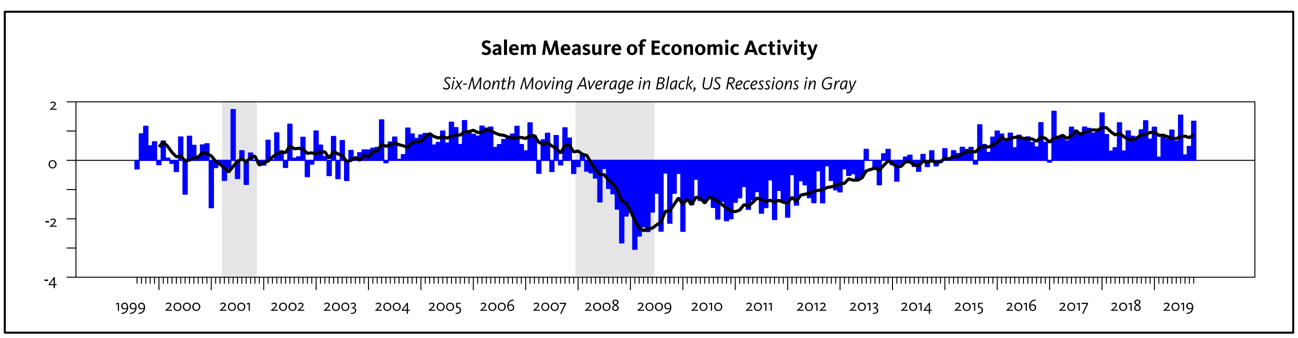
Indicators Generally Solid



Indicators Generally Solid



After a Dip Early 2018, Back on Track



Regional Job Growth Expected to Continue