

FISCAL YEARS

2024-28



Bush Pasture Park

Five-Year Forecast

City of Salem Oregon

Five-Year Financial Forecasts

Fiscal Year 2024 through 2028

General Fund
Transportation Services Fund
Utility 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
Willamette Valley Communications Center (WVCC) Fund

Keith Stahley, City Manager

City of Salem Budget Office

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Five-Year Financial Forecasts, FY 2024 – FY 2028

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

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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 maintain City services to 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 forecast period.

The current mission statement of the City is to provide fiscally sustainable and quality services to enrich the lives of present and future residents, protect and enhance the quality of our environment and neighborhoods and support the vitality of our economy. Fiscal stewardship and sustainability continue to be a City focus.

The intended outcome of this focus is alignment of the cost of City services with available resources and stabilization of fund balance. As Salem continues to grow and diversify, so does the need for essential City services and additional programs not previously provided by the City (such as sheltering). With the increase in expenses, strategies to move toward alignment between revenues and expenses include analysis of alternate ways to deliver services, opportunities for additional revenues or revenue sources, and possibilities to generate cost savings.

A financial forecast is a widely accepted best practice to evaluate current and future fiscal conditions. The Government Financial Officer’s Association (GFOA) 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 17).

In addition to the General Fund, this document includes forecasts for 13 funds. It highlights in greater detail three of the forecasts prepared by City staff – General Fund, Transportation Services Fund, and Utility Fund. The forecasts are developed within the framework of City Council goals, fiscal responsibility, and continuity of City services.

How To Use This Document

The General Fund, Transportation Services Fund, and Utility 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.

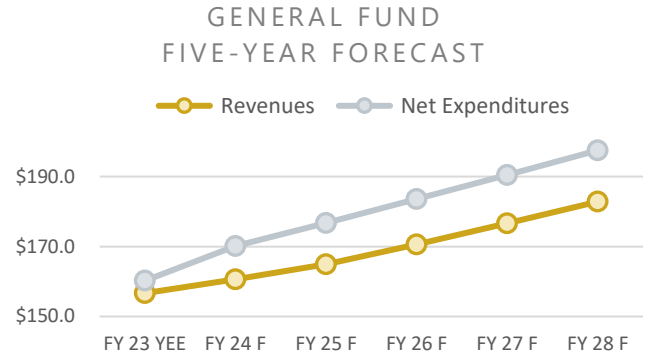
The remaining 11 fund forecasts are presented next in the document with a one-page summary for each fund. The page includes a numeric table with the five-year result, a brief narrative explanation, highlighted risk factors, and graphic displays of historical and projected revenues and expenditures.

To provide additional context for the forecasts presented in this document, a brief national, state, and local economic outlook follows the fund forecast sections.

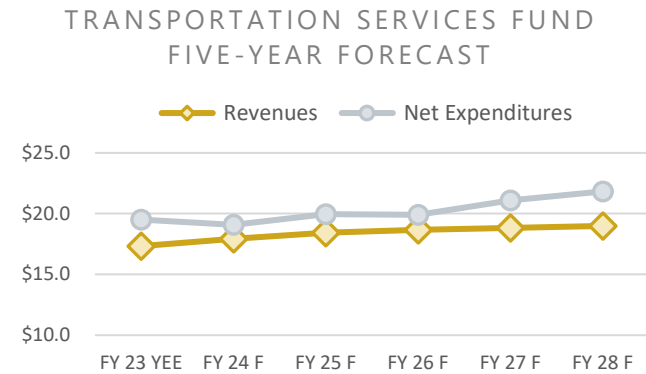
An analysis of Citywide expenditure risk factors and rankings closes the document. The appendices focus primarily on the General Fund and property tax, but also provide additional detail on assumptions employed in developing the forecasts.

Forecast Snapshot

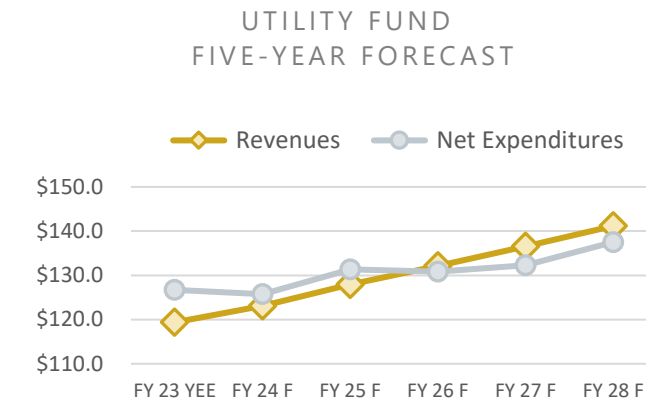
The forecast for the *General Fund* demonstrates a structural imbalance between current, available revenue and the cost of providing services. Even with the additional revenue generated by the City Operations fee and federal stimulus funds to support General Fund services, this imbalance continues throughout the forecast period. (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 44) 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 \$35.6-\$40.9 million annual contribution through debt service payments and pay-as-you-go funding for Utility capital improvements. (More detail on page 27.)

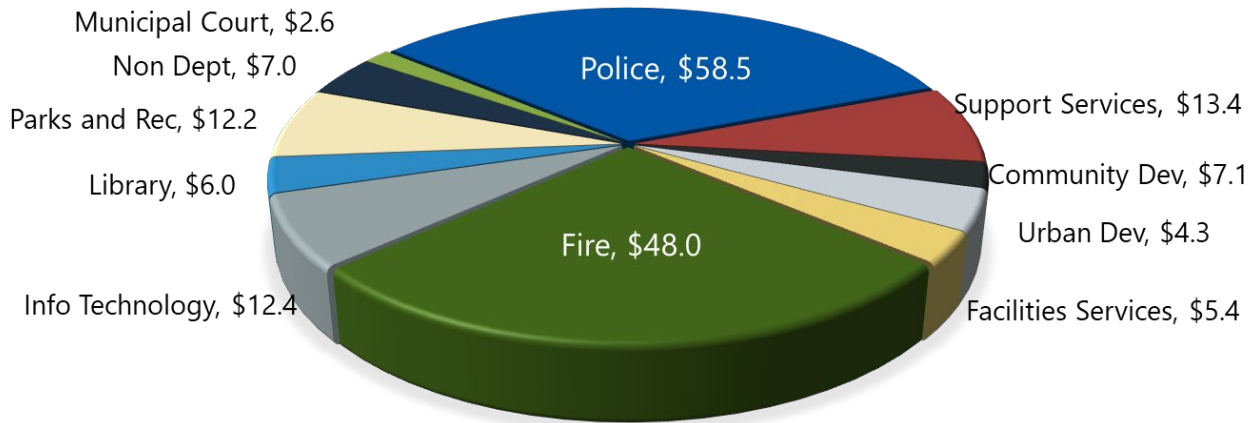


General Fund

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 internal support services that provide a Citywide benefit. The General Fund five-year forecast is built with a baseline set of assumptions that represent a reasonable level of consistency with current service delivery. This baseline includes no new positions or services and a reasonable expectation of cost increases like medical rates along with some expectation of savings.

General Fund FY 2024 Forecast
Total Expenditures \$176.9 Million



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

The goal of the forecast is to display an accurate estimate of revenues and expenditures and to determine the general financial trajectory of each fund. However, there are bound to be variations from estimates and changes in factors that make the forecast result different from actuals. 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 including all known factors and rates to afford accuracy in future year projections.

The General Fund forecast for FY 2024 – 2028 continues the trend experienced during fiscal years 2017 through 2019 where expenditures exceed revenues. In the final three years of the

forecast, the growth rate of expenses stabilizes, and projected expenses increase approximately \$7 million each year for the final three years of the forecast.

Current Status

The City's strong financial management practices have helped to maintain General Fund working capital at or above the City Council's policy of 15 percent of budgeted revenues for the last few years. Ensuring fiscal sustainability of City services is a priority of the City Council and the Executive Leadership Team. In the General Fund, fiscal sustainability allows for the continuity of services valued by the community, supports a favorable credit rating which reduces borrowing costs for capital improvements, and provides resources to manage the cyclical nature of revenue receipts. The City needs nearly \$35 million in available cash or fund balance to avoid borrowing from other funds to pay for General Fund expenses from July through October each fiscal year. The majority of property tax revenue, the largest source of revenue for the General Fund, is received in November.

FY 2023 began with fund balance of over \$40 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. During fiscal year 2020, fund balance grew by \$2.8 million due in large part to reimbursement grant funding for local government agencies included in the Coronavirus Aid, Relief, and Economic Security (CARES) Act. In May 2021, the General Fund received \$3.9 million more revenue from the American Rescue Plan Act (ARPA) to replace City revenue lost during the pandemic with another \$5.9 million received in May 2022. This infusion of federal stimulus has temporarily stabilized the budget to provide for continued City services. These one-time funds have allowed fund balance to increase during fiscal years 2020 through 2023. Consumption of fund balance is expected to occur in fiscal year 2023 and continues throughout the forecast period. City Council allocated an additional \$8.1 million in ARPA funds to expand sheltering services and programs for unsheltered residents in fiscal year 2022. Ongoing expenses for micro-shelter sites moved to a trust fund due to a change in funding source: the \$10.5 million state sheltering grant. Continuation of micro-shelter sites after current grant sources are expended is not included in the General Fund forecast.

Future Outlook

The outlook for the next five years still anticipates a gap between ongoing revenues and expenditures. While additional revenue from the City Operations Fee narrowed the initial gap, the growth of expenditures continues to outpace the growth in revenue. The City Operations Fee grows with annual changes in Consumer Price Index (CPI) and with new utility account growth, but it is not large enough to make up the gap in the General Fund. Ending fund balance is nearly fully expended in the third year of the forecast, but falls below Council policy by the second year. While fund balance was not accessed to balance expenditures in FY 2021 or FY 2022, the trend of using fund balance is expected to occur in the current fiscal year and is projected to continue throughout the forecast period.

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

- The 3 percent statutory limit on property tax growth contributes to the use of working capital in the General Fund forecast. Property tax is estimated at \$84 million for FY 2024, representing 52 percent of all General Fund revenues. The benefit of this limitation is the consistent source of revenue it provides in a variety of economic climates, with the disadvantage being its insufficiency to keep pace with the rate of cost increases for General Fund services. The forecast for FY 2025 through FY 2028 anticipates property valuation gains of 4.1 percent, the statutory limit plus a level of increase for new property and other development growth.
- The cost of personnel to provide City services continues to increase at a more rapid pace than the growth in revenue. For instance, forecasted costs for the General Fund's two largest departments – Police and Fire – equate to \$106.4 million for FY 2024, over 61 percent of the fund's budget (excluding contingency). The FY 2024 forecast expense for the two public safety departments exceeds the current year base budget by \$8.9 million or 9.1 percent.

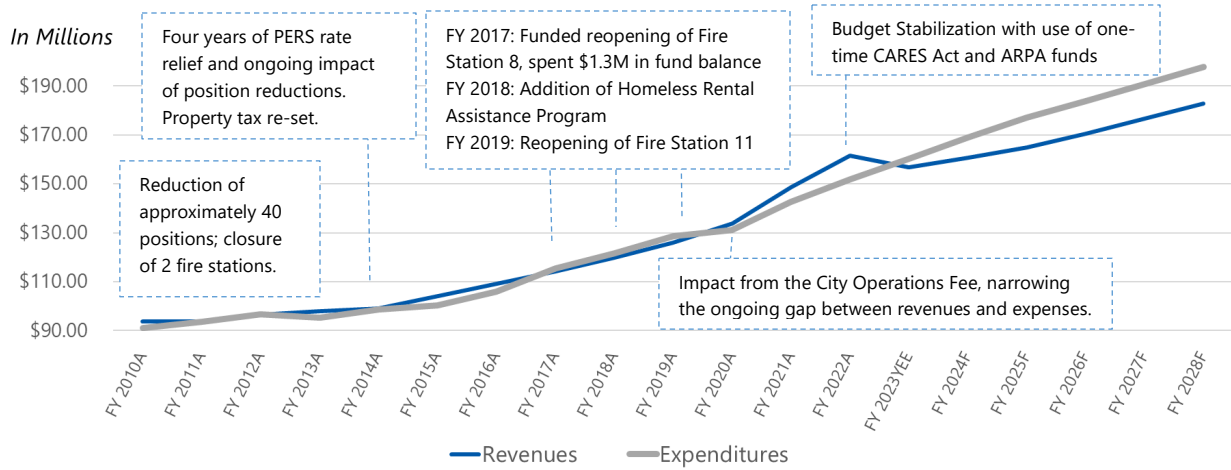
Forecast Result

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 estimated cost of General Fund services and anticipated revenues. While revenue from the Operations Fee and COVID relief funding had a positive impact, the imbalance was simply postponed and persists.

The pandemic negatively impacted many categories of City revenue in prior fiscal years. With most revenue lines stabilized during fiscal year 2023, the fund is predicted to realize aggregate increases of 3.0 percent to 4.1 percent in various revenue types through the forecast period, excluding federal stimulus. This projected revenue growth is not sufficient to meet the increasing cost of providing services, which are anticipated to grow by a range of 3.6 percent to 10.4 percent. The primary drivers of expense increases for the fund remain those associated with the cost of employees that provide City services.

The next graph 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 fund balance status appears on the next page.

General Fund Revenue and Expenditure History and Forecast



General Fund Table 1, FY 2024 – FY 2028 Forecast Summary

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

FY 2024 - FY 2028 Summary (in millions)							
	FY 2023 YEE	FY 2024 F	FY 2025 F	FY 2026 F	FY 2027 F	FY 2028 F	
Beginning Fund Balance	\$ 40.68	\$ 37.12	\$ 27.60	\$ 15.72	\$ 2.68	\$ (11.19)	
Revenues	\$ 156.68	\$ 160.62	\$ 164.89	\$ 170.58	\$ 176.60	\$ 182.84	
Net Expenditures	\$ 160.24	\$ 170.13	\$ 176.77	\$ 183.62	\$ 190.48	\$ 197.51	
Ending Fund Balance	\$ 37.12	\$ 27.60	\$ 15.72	\$ 2.68	\$ (11.19)	\$ (25.87)	
Fiscal Year Impact	\$ (3.56)	\$ (9.51)	\$ (11.88)	\$ (13.04)	\$ (13.87)	\$ (14.67)	
Fund Balance Policy at 15% of Revenues	\$ 23.50	\$ 24.09	\$ 24.73	\$ 25.59	\$ 26.49	\$ 27.43	
Council Policy Compliance		\$13.61	\$3.51	-\$9.01	-\$22.91	-\$37.68	-\$53.29

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 work units. For years outside of labor contract, an initial 5 percent cost-of-living increase is used to recognize the impact of persistently high inflation, then three percent is used for the rest of the forecasted years. The expenditure base also includes a small increase in PERS rates for FY 2026 with a slightly larger increase projected for FY 2028 when the Pension Obligation

Bond is fully paid, and the City’s side account created from those bond funds expires. The side account provides a PERS rate reduction to the City which will be removed from rate setting in FY 2028. Health benefits rate increases align with actuarial guidance. Most materials and services category items (professional services, supplies, equipment) have a 3 percent inflation in the first year of the forecast, reducing to 2 percent by the final year. The forecast also includes a contribution of 1 percent of direct compensation to fund the state medical leave program, Paid Leave Oregon. The State determined that employees would be responsible for 60 percent of the contribution, but the City opted to pay both the employee and employer portions.

Despite increases, which align with a five-year (FY 2018 – FY 2022) compounded rate of growth, the forecast demonstrates a level of projected revenues lower than the anticipated increases 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 averaging 3.7 percent through the forecast period. As context, the level of aggregate savings realized in FY 2022 was 6.6 percent and FY 2023 year-end savings are estimated at 4.5 percent.

General Fund Table 2, FY 2024 – FY 2028 Forecast

The assumptions in the forecast lead to a diminishing fund balance with it falling below the minimum in the City’s financial policies by year end in FY 2025. The City would be unable to adopt a General Fund budget as presented in fiscal year 2026. Throughout the forecast period, net expenditures exceed revenues by a range of \$9.5 million to \$14.7 million. This imbalance is illustrated in Table 1 on the preceding page and with additional detail in Table 2 below.

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

FY 2024 - FY 2028 Summary <i>(in millions)</i>						
	FY 2023 YEE	FY 2024 F	FY 2025 F	FY 2026 F	FY 2027 F	FY 2028 F
Beginning Fund Balance	\$ 40.68	\$ 37.12	\$ 27.60	\$ 15.72	\$ 2.68	\$ (11.19)
Revenues	\$ 156.68	\$ 160.62	\$ 164.89	\$ 170.58	\$ 176.60	\$ 182.84
Total Expenditures	\$ 160.24	\$ 176.88	\$ 183.66	\$ 190.70	\$ 197.74	\$ 204.96
Unspent Contingency		(2.50)	(2.50)	(2.50)	(2.50)	(2.50)
2.5% Savings		(4.25)	(4.40)	(4.58)	(4.76)	(4.95)
Net Expenditures	\$ 160.24	\$ 170.13	\$ 176.77	\$ 183.62	\$ 190.48	\$ 197.51
Fiscal Year Impact	\$ (3.56)	\$ (9.51)	\$ (11.88)	\$ (13.04)	\$ (13.87)	\$ (14.67)
Ending Fund Balance	\$ 37.12	\$ 27.60	\$ 15.72	\$ 2.68	\$ (11.19)	\$ (25.87)

General Fund Table 3, FY 2024 – FY 2028 Forecast, Carryovers

The forecast outcome of Table 3 mirrors Table 2 with the addition of an estimate for carryovers in FY 2023. 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 fund balance display in the forecast for the current fiscal year (*FY 2023 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 2023 YE Estimate* column. This demonstration reduces net expenditures by \$1.5 million and shifts additional resources to ending fund balance¹. While there is an increase to fund balance for the next fiscal year, there is also the offsetting increase to total expenditures².

(Values in Millions, YE = Year-End)

	FY 2023 YE Estimate	FY 2024 Forecast	
Fund balance	\$ 40.68	\$ 38.62	1
Revenues	156.68	160.62	
TOTAL RESOURCES	\$ 197.36	\$ 185.82	
TOTAL EXPENDITURES	\$ 160.24	\$ 178.38	2
Unspent Contingency			
2% Savings			
Carryovers	(1.50)		
NET EXPENDITURES	\$ 158.74		1
ENDING FUND BALANCE	\$ 38.62		
Chg to Fund balance	(2.06)		

Forecast Result – Revenue Detail

The revenue estimates presented in this document rely on analysis of county property tax records, adjustments in utility rates / costs for franchise revenue, local building activity, legislated changes, recent historical trends, and other economic drivers. Projections include assumptions of a recovery to historical trends for the vast majority of General Fund revenue sources during the forecast period, with the exception of parking-related revenues. The ARPA granted federal funding to cities in part to offset revenue lost during the pandemic. The General Fund received \$9.8 million in ARPA funding to replace lost revenue which resulted in the increase of fund balance in FY 2021 and FY 2022. Use of fund balance is anticipated to resume in FY 2023 without this additional funding. The forecast starts with FY 2023 revenue sources and year-end estimates and augments with assumptions for growth in all revenue categories with the exception of grants due to one-time federal funding, other government agencies from the sale of property at Mill Creek Industrial Park almost complete, and other revenue as interest income declines with the use of fund balance. The range of growth assumptions includes:

- The impact of the full 3 percent statutory increase and 0.6 to 1.1 percent for new growth in current property tax revenues. Tax receipts increase year-over-year in the forecast by \$3.0 million to \$3.9 million.
- A franchise fee base remains flat for FY 2024 estimates except for natural gas with an anticipated increase of fifteen percent. Ongoing aggregate increases in the category range from 2.0 percent to 4.1 percent.
- The decline in parking activity downtown during the pandemic translated to a drastic reduction in parking meter and parking permit revenue. While not back to pre-pandemic levels, these revenues have been trending upward. Other impacts to rents are decreases due to City employees no longer paying to park at the Library or Pringle parkades and library patrons getting three hours of free parking in the parkade.
- The internal charges category is anticipated to increase approximately fifteen percent overall in FY 2024. A twenty-two percent increase in the first forecast year for the support service charge due to higher year-over-year costs for internal services and General Fund departments using a smaller portion of internal services compared to other funds is projected.
- State shared revenues are anticipated to grow by just under 3 percent in each year of the forecast with only Cigarette tax declining.
- The City Operations Fee is expected to generate between \$8.5 million and \$9.3 million in each year of the forecast due to account growth and Consumer Price Index (CPI) rate increases.
- Transfers from other funds decline in the first two years of the forecast due to grant funds being fully expended and reimbursements to the General Fund ceasing for outreach and livability services as well as the Parks tree restoration programs.

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

	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028
Property Taxes	\$84.01	\$87.45	\$91.04	\$94.77	\$98.66
Sales Tax	1.86	1.92	1.98	2.04	2.10
Franchise Fees	21.40	21.85	22.27	22.71	23.16
State Shared Revenues	8.09	8.33	8.57	8.83	9.09
Fees for Services / Other Fees	13.62	13.97	14.27	14.57	14.87
Fines, Penalties, and Forfeitures	3.95	4.08	4.19	4.30	4.42
Rents, Permits, Licenses	3.41	3.49	3.56	3.62	3.69
Cost Allocation / Internal Chgs	18.79	19.76	20.72	21.79	22.84
Other Agencies, Grants	1.78	1.76	1.69	1.71	1.75
Transfer from Other Funds	3.04	1.65	1.70	1.76	1.81
Miscellaneous	0.65	0.63	0.59	0.51	0.45
TOTAL REVENUES	\$160.62	\$164.89	\$170.58	\$176.60	\$182.84
% Change from Previous Year	2.51%	2.66%	3.45%	3.53%	3.53%

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 CPI, 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 between 2 percent and 3 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 2023 column, the percent change from the previous year (bottom row) is based on the comparison of FY 2022 year-end estimates and the FY 2023 forecast.

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

	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028
Personal Services	\$137.12	\$142.92	\$149.35	\$155.50	\$161.87
Materials and Services	35.14	35.32	36.24	37.28	38.41
Capital Outlay	0.72	0.72	0.66	0.62	0.62
Debt Service	0.37	0.69	0.62	0.59	0.62
Transfers*	0.52	1.02	0.82	0.74	0.43
Contingency	3.00	3.00	3.00	3.00	3.00
TOTAL EXPENDITURES	\$176.88	\$183.66	\$190.70	\$197.74	\$204.96
<i>Less:</i>					
<i>Unspent Contingency</i>	<i>(2.50)</i>	<i>(2.50)</i>	<i>(2.50)</i>	<i>(2.50)</i>	<i>(2.50)</i>
<i>Anticipated Savings (2.5%)</i>	<i>(4.25)</i>	<i>(4.40)</i>	<i>(4.58)</i>	<i>(4.76)</i>	<i>(4.95)</i>
TOTAL NET EXPENDITURES	\$ 170.13	\$ 176.76	\$ 183.62	\$ 190.48	\$ 197.51
% Change from Previous Year	6.17%	3.90%	3.88%	3.74%	3.69%

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

Forecast Variability – Fund Balance Scenarios

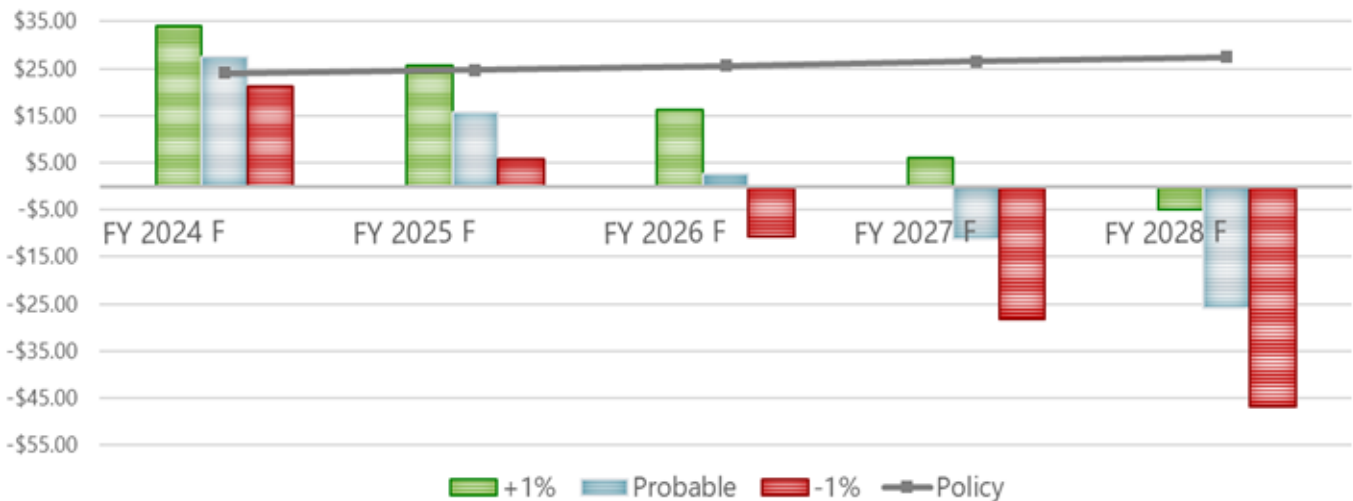
The graph below demonstrates variable results of the FY 2024 – FY 2028 forecast through the display of fund balance - the difference between resources and expenditures for each fiscal year. There are three scenarios presented.

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 fund balance. This result is compared against the gray 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 fund balance. Fund balance remains in compliance with policy until the fiscal year 2025 in this scenario.

Scenario 3, Lower Revenue / Higher Expenses. The red bar uses the forecast fund balance 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 fund balance would be fully expended by the end of FY 2025.

Fund balance Forecast Variability (Values in Millions)





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, bridges, alleys, and pedestrian network. The Transportation Services Fund provides the financial structure for the department to respond to City Council goals that address transportation, public safety, livability, environmental health, and economic development.

Current Status

The City's Transportation Services Fund forecast is based on the October 2022 Oregon Department of Transportation (ODOT) forecast. ODOT anticipates no change over the prior forecast for most revenues. In the fifth year of the ODOT revenue forecast, the anticipated impact of additional fuel efficient, hybrid, and electric vehicles results in declining revenue from gas tax. It is unknown at this time whether there will be a change in motor vehicle fees and taxes to reflect the changing economic conditions.

The FY 2023 Transportation Services Fund beginning fund balance was \$8.6 million and is projected to decrease to \$6.4 million by the end of the fiscal year. This decrease is largely due to a \$1.5 million transfer to cover the Fund's share of the Public Works Operations Building construction costs.

If assumptions hold, and the conditional State Highway Fund revenue increase is realized in 2024, the Transportation Services Fund will be able to sustain basic operations throughout the first three years of the forecast period. Funding is insufficient, however, to maintain basic operations in the fourth and fifth year or to support structural pavement maintenance and reconstruction activity or a Safer Pedestrian Crossings Program. During the forecast period, investment for the Safer Pedestrian Crossings Program will be funded through 2022 Safety and Livability Bond funds, limited remaining 2008 Streets and Bridges Bond savings, federal grants, and matching funds from State Highway Fund revenue. The sidewalk repair program and pavement maintenance activities continue at current levels through the five years of the forecast; however, the risk of industry-wide inflation in construction materials, may impact programming levels. Expenditure reductions will be required by the fourth year if additional revenue sources are not identified. Projected growth in State Highway Fund revenue is just one percent the last three years of the forecast which does not keep pace with inflationary factors for expenditures.

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 the appendix.

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. Many factors 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.

Expenditures in the City's forecast 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 continue on residential and higher traffic volume streets. Beyond this limited in-house maintenance program, available funding is insufficient to support ongoing structural pavement rehabilitation projects, replacement of residential concrete streets, or investment in neighborhood traffic calming measures.

In previous years, the forecast has included all anticipated positions. This forecast includes the addition of only one position in FY 2024 to support street sweeping activities because it is fully reimbursed with stormwater revenue from the Utility fund. Although community growth and service level demands demonstrate the need for additional positions for signs and markings and sidewalk maintenance, the fund cannot support these enhancements without additional revenue and thus those needed positions have been omitted from this forecast. Due to current funding limitations, equipment replacement and capital outlay have been carefully planned to reduce impact in any single budget year.

The forecast employs a 4 percent savings rate, commensurate with recent experience, which supports the assumption that ongoing efforts to reduce costs will have a corresponding impact on the capacity to save. Values in the forecast are represented in millions and have been rounded to the nearest ten thousand.

Forecast Result

Transportation Services Fund Current Service Level Detail

The forecast is based on the service level represented by Transportation Services' FY 2023 budget and maintains the \$2.0 million annual program for sidewalk maintenance and replacement, including the Sidewalk Response Team, during the five years of the forecast. The forecast also maintains \$4.0 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. While legislated gas tax increases are intended to provide an increase to State Highway Fund revenue – the primary revenue source for the Transportation Services Fund – realization of these funds is dependent on many factors such as inflation, economic recovery, and population trends. 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 except for the projects included in the 2022 Salem Safety and Livability Bond.

The forecast shows that the Fund is on an unsustainable trajectory and will be substantially depleted at by the end of the third year of the five-year forecast period. In the coming years, reductions in service or increased revenues will be required to balance the Fund. The 2018 Sustainable Services Revenue Task Force recommended City Council explore a local option gas tax. If enacted at a rate of \$0.06 per gallon, a local option gas tax would provide \$4.8 million in annual resources. A portion of these resources would be directed to 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. The local tax would allow 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. Each year, the City will review the fiscal health of the fund and reevaluate program priorities should the current levels of service become unsustainable.

TS Fund Table 1, FY 2024 – FY 2028 Forecast Summary

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

	FY 2023 YEE	FY 2024 F	FY 2025 F	FY 2026 F	FY 2027 F	FY 2028 F
Beginning Fund Balance	\$ 8.55	\$ 6.37	\$ 5.22	\$ 3.68	\$ 2.43	\$ 0.18
Revenues	\$ 17.33	\$ 17.92	\$ 18.43	\$ 18.67	\$ 18.83	\$ 18.99
Net Expenditures	\$ 19.50	\$ 19.08	\$ 19.97	\$ 19.91	\$ 21.09	\$ 21.83
Ending Fund Balance	\$ 6.37	\$ 5.22	\$ 3.68	\$ 2.43	\$ 0.18	\$ (2.66)



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 3 percent.

TS Fund Table 2, FY 2024 – FY 2028 Forecast Summary

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

	FY 2023 YEE	FY 2024 F	FY 2025 F	FY 2026 F	FY 2027 F	FY 2028 F
Beginning Fund Balance	\$ 8.55	\$ 6.37	\$ 5.22	\$ 3.68	\$ 2.43	\$ 0.18
Revenues	\$ 17.33	\$ 17.92	\$ 18.43	\$ 18.67	\$ 18.83	\$ 18.99
Total Expenditures	\$ 19.50	\$ 20.33	\$ 21.26	\$ 21.23	\$ 22.43	\$ 23.21
Unspent Contingency		(0.50)	(0.50)	(0.50)	(0.50)	(0.50)
4% Savings		(0.76)	(0.79)	(0.81)	(0.84)	(0.88)
Net Expenditures	\$ 19.50	\$ 19.08	\$ 19.97	\$ 19.91	\$ 21.09	\$ 21.83
Fiscal Year Impact	\$ (2.18)	\$ (1.16)	\$ (1.54)	\$ (1.25)	\$ (2.48)	\$ (3.18)
Ending Fund Balance	\$ 6.37	\$ 5.22	\$ 3.68	\$ 2.43	\$ 0.18	\$ (2.66)

Forecast Result – Revenue Detail

The revenue forecast is developed using conservative growth expectations for Transportation Services’ revenue sources. It reflects current revenue, acknowledges the continued anticipated impact of HB 2017 and assumes no new or unrealized revenue sources. Approximately 78 percent of Transportation Services’ resources (excluding beginning fund balance) come from State Highway Fund revenue.

With HB 2017, an additional increase of 2 cents per gallon is anticipated in 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. Salem’s allocation which is based on population is 5.88 percent of the total available for cities.

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 used in the General Fund to support Parks Operations’ maintenance of the City’s street trees. This expense is included in the expenditure forecast.

TS Fund Table 3, Revenues by Source

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

	FY 2023 YEE	FY 2024 F	FY 2025 F	FY 2026 F	FY 2027 F	FY 2028 F
State Highway Revenue	13.71	14.08	14.46	14.56	14.58	14.59
Intra City Billings and Transfers	2.80	3.01	3.12	3.24	3.36	3.49
Other Agencies, Grants	0.49	0.50	0.52	0.53	0.55	0.57
All Other Sources	0.33	0.32	0.33	0.33	0.34	0.35
Total REVENUES	\$ 17.33	\$ 17.92	\$ 18.43	\$ 18.67	\$ 18.83	\$ 18.99

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 \$2.0 million for sidewalk maintenance programs and \$4.0 million for pavement maintenance activities annually. City crews will undertake most of this work through utility trench patching, pothole repair, skin patching, focused mill and inlay repair, and overlays. A yearly average of \$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 the appendix. Projected growth in service delivery costs is anticipated to result in a decline in fund balance of over \$11.2 million by the end of the forecast period (see Table 2, Ending Fund Balance), even with the elimination of pavement rehabilitation contracts.

TS Fund Table 4, Expenditures by Category

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

	FY 2023 YEE	FY 2024 F	FY 2025 F	FY 2026 F	FY 2027 F	FY 2028 F
Personal Services	\$ 7.26	\$ 8.24	\$ 8.70	\$ 9.09	\$ 9.47	\$ 9.98
Materials and Services	9.69	10.71	11.02	11.17	11.56	11.99
Capital Outlay	0.50	0.33	0.42	-	0.16	-
Debt Service	-	-	-	-	-	-
Transfers	2.05	0.55	0.62	0.47	0.74	0.74
Contingency	-	0.50	0.50	0.50	0.50	0.50
Total Expenditures	\$ 19.50	\$ 20.33	\$ 21.26	\$ 21.23	\$ 22.43	\$ 23.21
Less:						
Unspent Contingency	-	(0.50)	(0.50)	(0.50)	(0.50)	(0.50)
Anticipated Savings	-	(0.75)	(0.79)	(0.81)	(0.84)	(0.88)
Net Expenditures	\$ 19.50	\$ 19.08	\$ 19.97	\$ 19.91	\$ 21.09	\$ 21.83

Forecast Variability – Fund Balance Scenarios (Values in Millions)

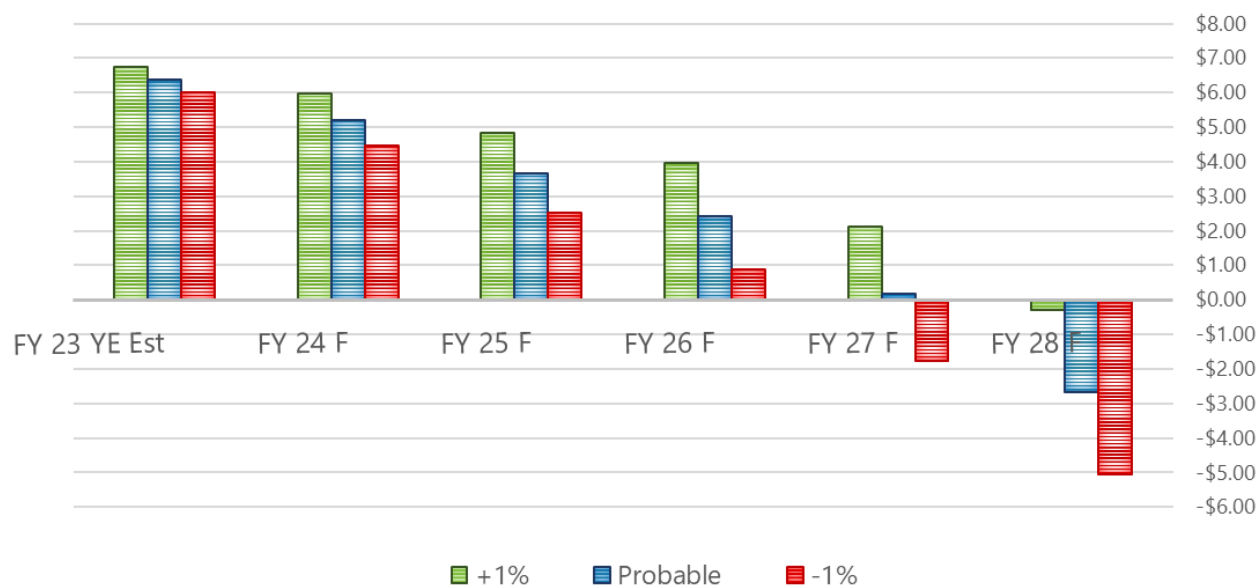
The graph below demonstrates variable results of the FY 2024 – FY 2028 forecast through the display of fund balance - the difference between resources and expenditures for each fiscal year. There are three scenarios presented.

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 fund balance.

Scenario 2, Higher Revenue / Lower Expenses. The green bar in each fiscal year grouping represents the forecast result to fund balance 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 fund balance of \$368,312 to \$422,010 each year of the forecast.

Scenario 3, Lower Revenue / Higher Expenses. The red bar uses the forecast fund balance as the base for assuming 1 percent lower revenues and 1 percent higher expense for each fiscal year. By year-end FY 2028, this demonstration reflects fund balance being depleted by 179 percent, a loss of \$11.4 million, as compared to year-end FY 2023.

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



Transportation Services Fund Forecast Risks and Rankings

Transportation Services will be able to sustain the current level of services during the first three years of the forecast; however, by the fourth year, reductions would be required because funding is insufficient to maintain service levels. 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	79%

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 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, but the utility infrastructure requires significant ongoing capital investment. 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 assets and systems.

Over twenty years ago, a \$300 million capital investment was undertaken to modernize and expand utility infrastructure including wastewater treatment capacity. The bonded debt for these improvements will be retired in 2027. The debt from the 2020 utility revenue bond for projects focused on water treatment and supplemental supply, including the Frank Mauldin Ozone Treatment Facility, will be retired in 2040. Continued improvements must be made to the Utility infrastructure at a sustainable pace, balancing rate impacts with the rehabilitation, expansion, resiliency, and modernization needs of the systems.

FY 2023 began with a fund balance of \$62.7 million, an increase of \$5.9 million from the prior fiscal year. The increase resulted from a combination of greater than anticipated savings and revenue replacement from the federal American Rescue Plan Act (ARPA) as well as a one-time insurance reimbursement from the 2021 ice storm.

Future Outlook

The forecast presented this year provides a fund balance that exceeds the one-year debt service reserve and a 120-day operating reserve as required in Council Policy C-14 (Utility Fund Financial Policy). Unrestricted fund balance, or the amount exceeding the debt service and operating reserves, remains positive for the term of the forecast, but declines to \$3.3 million in FY 2025 before increasing in the remaining years of the forecast as debt obligations are reduced. 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 2018 water advisory, the 2020 wildfires, February 2021 ice storm, and the multi-year COVID-19 pandemic, while maintaining a financial profile consistent with previous forecasts. The reserves also provide financial resiliency for a revenue stream that can vary because of weather, climate change, economic conditions, or other factors impacting customer demand. In any year, a new economic development project or unanticipated system failure in the heavily capitalized fund may require an immediate expenditure of several million dollars in capital investment.

Currently, Utility funds are also being invested in the construction of a new Public Works Operations building to replace City Shops Buildings 2 and 14 that house Public Works dispatch, utility, transportation, and parks operations. In addition to the Operations Division and a portion of the Administration Division, the new building will also house the Engineering Division, which is currently located in leased office space, resulting in savings of more than \$300,000 annually. The new Public Works Operations building is scheduled for completion in October 2023.

Based on the assumptions used in the forecast, revenue is sufficient to maintain operations and allow for an increase in capital investment throughout the forecast period as debt is retired. Assumptions and highlights of this forecast include:

- In FY 2024, Utility Fund total revenues are 3.12 percent more than the year end estimate for FY 2023. Revenues grow at an average rate of 3.48 percent the remaining four years of the forecast.
- The forecast establishes capacity for capital funding of utility infrastructure projects. Capital funding is maintained over the five-year period as debt is retired. The first three years of the forecast reflect infrastructure investment of \$21.4 million to \$26.5 million. In FY 2027 and FY 2028, investment in infrastructure increases to over to \$31 million per year as debt obligations are reduced to \$4.6 million annually, allowing for more capital investment.
- In all years, the forecast contains \$300,000 in Utility Fund support for the Utility Assistance programs which are coordinated through community partners like St. Vincent DePaul, the Salvation Army, and the Mid-Willamette Valley Community Action Agency.
- A total of eight new positions are included in the forecast. Three Engineering positions are proposed for management of projects from the recently passed 2022 Salem Safety and Livability Bond. The cost for these positions will be reimbursed to the Utility Fund. Five other positions are also proposed: three related to state and federal regulatory compliance, one for GIS stormwater asset management, and one to assist with the growing City survey staff workload.

Forecast Result

Utility Fund Current Service Level Detail

The Utility Fund forecast provides a view of the financial impact on the City’s utility services, priorities, and policies in relation to projected economic activity through FY 2028. 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 86 percent of the fund’s revenue in FY 2024. 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, and inflationary increases on contracted goods and services. The tables for City-wide 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 for each of the utility systems. All assumptions have been reviewed based on historical data through FY 2022 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 2023 Year End Estimate (YEE) column as the base year. The base year uses current, best-known information to update revenue trends and adjust the expenditure base for any ongoing service level changes. The fund maintains adequate fund balance levels in line with Council Policy C-14 and debt covenants throughout the forecast period.

Utility Fund Table 1, FY 2024 – FY 2028 Forecast Summary

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

FY 2024 - FY 2028 Summary <i>(in millions)</i>						
	FY 2023 YEE	FY 2024 F	FY 2025 F	FY 2026 F	FY 2027 F	FY 2028 F
Beginning Fund Balance	\$ 62.67	\$ 55.36	\$ 52.73	\$ 49.38	\$ 50.69	\$ 54.92
Revenues	\$ 119.38	\$ 123.11	\$ 127.97	\$ 132.16	\$ 136.55	\$ 141.17
Net Expenditures	\$ 126.69	\$ 125.74	\$ 131.32	\$ 130.85	\$ 132.32	\$ 137.53
Ending Fund Balance	\$ 55.36	\$ 52.73	\$ 49.38	\$ 50.69	\$ 54.92	\$ 58.56



Table 2 below 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 salaries for each bargaining unit. The forecast also includes a 1 percent expense of direct compensation for the State paid family and medical leave program, Paid Leave Oregon, which begins in January 2023. The paid leave program has been delayed for several years due to the COVID-19 pandemic.

Utility Fund Table 2, FY 2024 – FY 2028 Forecast Summary

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

FY 2024 - FY 2028 Summary <i>(in millions)</i>						
	FY 2023 YEE	FY 2024 F	FY 2025 F	FY 2026 F	FY 2027 F	FY 2028 F
Beginning Fund Balance	\$ 62.67	\$ 55.36	\$ 52.73	\$ 49.38	\$ 50.69	\$ 54.92
Revenues	\$ 119.38	\$ 123.11	\$ 127.97	\$ 132.16	\$ 136.55	\$ 141.17
Total Expenditures	\$ 126.69	\$ 136.22	\$ 142.02	\$ 141.86	\$ 143.62	\$ 149.10
Unspent Contingency		(3.00)	(3.00)	(3.00)	(3.00)	(3.00)
8% Savings		(7.48)	(7.70)	(8.01)	(8.30)	(8.56)
Net Expenditures	\$ 126.69	\$ 125.74	\$ 131.32	\$ 130.85	\$ 132.32	\$ 137.53
Fiscal Year Impact	\$ (7.31)	\$ (2.63)	\$ (3.35)	\$ 1.32	\$ 4.23	\$ 3.63
Ending Fund Balance	\$ 55.36	\$ 52.73	\$ 49.38	\$ 50.69	\$ 54.92	\$ 58.56

Forecast Result – Revenue Detail

The revenue forecast is developed using conservative growth expectations for the Utility Fund. Approximately 86 percent of Utility Fund resources (excluding beginning fund balance) come from one external source – rate revenue. New rates are adopted by City Council every two years. The July 2022 biennial City Council-adopted rate adjustment is reflected for calendar years 2023 and 2024: a 5 percent increase each for water, wastewater, and stormwater. The remaining years of the forecast assume a 3.5 percent revenue slope for each of the three utility systems. Table 3 summarizes the five-year revenue forecast by revenue source.

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

	FY 2023 YEE	FY 2024 F	FY 2025 F	FY 2026 F	FY 2027 F	FY 2028 F
Water, Wastewater, Stormwater Rates	\$ 100.66	\$ 105.96	\$ 110.23	\$ 113.88	\$ 117.66	\$ 121.78
Franchise Fees	4.24	4.43	4.61	4.76	4.92	5.09
Other Fees	3.35	3.35	3.42	3.50	3.58	3.66
Permitted Development	1.33	0.78	0.80	0.83	0.85	0.88
Internal Charges	6.14	6.83	7.15	7.48	7.84	8.20
All Other Sources	3.62	1.77	1.76	1.71	1.71	1.56
Total	\$ 119.35	\$ 123.11	\$ 127.96	\$ 132.16	\$ 136.55	\$ 141.17

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.

The forecast includes funding for eight new positions in FY 2024, including three engineering positions for management of the 2022 Salem Safety and Livability bond projects. additional positions are proposed: three related to state and federal regulatory compliance, one for GIS stormwater asset management, and one to assist with the growing City survey staff workload.

Transfers are anticipated annually from the Utility Fund to the Capital Improvements Fund for utility construction projects. These on-going annual transfers allow for the Utility to plan and budget for large capital projects in a methodical way. Capital transfers range from \$21.4 to \$26.5 million from FY 2024 to FY 2026, and capacity increases to more than \$31 million per year by FY 2027 as debt obligations are reduced to \$4.6 million. The goal for the past decade has been to increase the annual capital construction transfers as debt is retired so that improvements are paid for by utility rates rather than borrowed funds.

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

	FY 2023 YEE	FY 2024 F	FY 2025 F	FY 2026 F	FY 2027 F	FY 2028 F
Personal Services	40.94	48.92	51.47	53.85	56.10	58.42
Materials and Services	37.00	44.55	44.78	46.27	47.70	48.64
Capital Outlay	1.06	0.96	1.84	1.35	1.20	0.81
Debt Service	19.08	17.35	14.42	13.31	4.56	4.43
Transfers	28.61	21.44	26.50	24.09	31.07	33.80
Contingency	-	3.00	3.00	3.00	3.00	3.00
Total Expenditures	126.69	136.22	142.02	141.86	143.62	149.10
Less:						
<i>Unspent Contingency</i>		(3.00)	(3.00)	(3.00)	(3.00)	(3.00)
<i>Anticipated Savings</i>		(7.48)	(7.70)	(8.01)	(8.30)	(8.56)
Total Net Expenditures	126.69	125.74	131.32	130.85	132.32	137.53

Forecast Variability – Fund Balance Scenarios (Values in Millions)

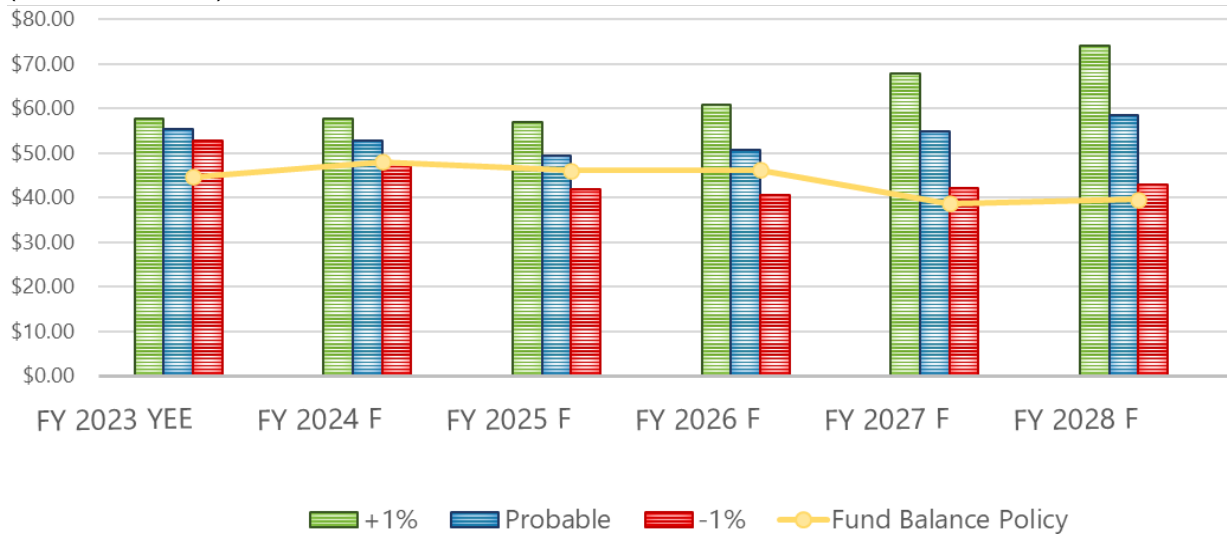
The graph below demonstrates variable results of the FY 2024 – FY 2028 forecast through the display of fund balance – the difference between resources and expenditures for each fiscal year. There are three scenarios presented.

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 fund balance.

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 fund balance of \$2.4 million to \$2.8 million each year of the forecast.

Scenario 3, Lower Revenue / Higher Expenses. The red bar uses the forecast fund balance as the base for assuming 1 percent lower revenues and 1 percent higher expenditures for each fiscal year. By year-end FY 2028, this demonstration results in fund balance declining by \$12.4 million or 22.5 percent from the estimate for fiscal year-end 2023. The amount of working capital required by the Utility Fund balance policy is reduced in the final two years of the forecast as debt is retired.

(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	86%

Water and Wastewater Rate Revenue

Declining or stable 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 related to the infrastructure and do not vary based on consumption. A smaller portion of costs are related to the volume of water produced or wastewater treated. When consumption declines and revenue is adversely impacted, water utilities must increase rates to maintain operations. Overall water consumption increased by 6.5 percent in FY 2021 due in part to extremely warm June weather and declined by 2.9 percent in FY 2022. In FY 2022, residential consumption decreased while public building and commercial consumption increased reflecting the reopening of businesses, schools, and office buildings as the pandemic lockdown and safety measures were phased out.

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 shifted some additional cost recovery for water from variable to fixed rates to assign costs of operating the system more appropriately.



Airport Fund FY 2024 – FY 2028 Five-Year Forecast

FY 2024 - FY 2028 SUMMARY *(in millions)*

	FY 23 YE Est	FY 24 F	FY 25 F	FY 26 F	FY 27 F	FY 28 F
Beginning Fund Balance	\$ 1.15	\$ 1.02	\$ 0.57	\$ 0.23	\$ (0.06)	\$ (0.25)
Revenues	1.37	1.25	1.28	1.30	1.33	1.36
Total Expenditures	\$ 1.50	\$ 2.28	\$ 1.85	\$ 1.67	\$ 1.59	\$ 1.59
Unspent Contingency		(0.49)	(0.15)	-	-	-
10% Savings on M&S		(0.08)	(0.08)	(0.08)	(0.08)	(0.08)
NET EXPENDITURES	\$ 1.50	\$ 1.71	\$ 1.62	\$ 1.59	\$ 1.51	\$ 1.50
Fiscal Year Impact	(0.13)	(0.46)	(0.34)	(0.29)	(0.18)	(0.15)
Ending Fund Balance	\$ 1.02	\$ 0.57	\$ 0.23	\$ (0.06)	\$ (0.25)	\$ (0.39)

The financial forecast for the Airport Fund projects continuation as a general aviation airport with assumptions for inflationary factors to increase service costs and estimates for revenue growth. A modest increase in revenues is projected over the five-year period. In addition, expenditures outpace revenues in all years of the forecast. The result also includes savings derived from unspent fund contingencies and a level of naturally occurring savings through unanticipated economies of 10 percent on materials and services.

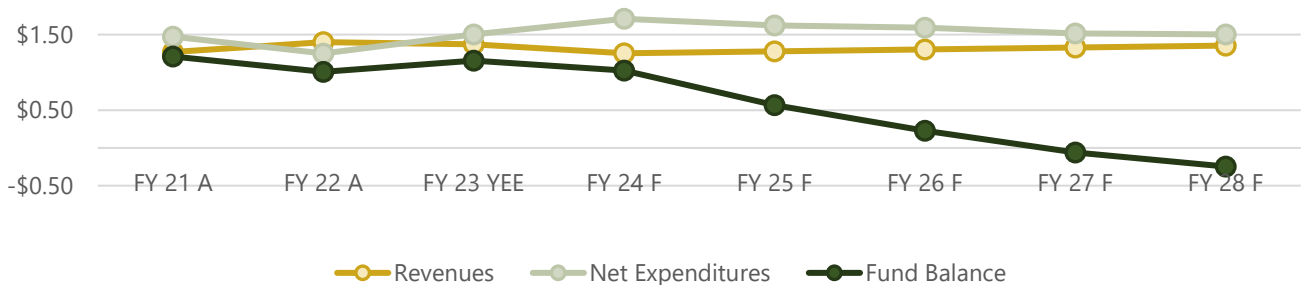
Planned improvement projects to the Airport terminal and restaurant building significantly impact the fund's financial outlook, adding over \$1.1 million of expense during the forecast period. The forecast result, including the needed capital projects, demonstrates fund balance being fully expended in year three of the forecast with fund balance ending at negative \$.39 million in the final year.

This forecast does not assume any expenses related to commercial air service. Additional expenses in the fund would deplete fund balance more quickly.

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

Forecast Risk	Ranking
Fund Balance	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 *(in millions)*



Building and Safety Fund FY 2024 – FY 2028 Five-Year Forecast

FY 2024 - FY 2028 Summary (in millions)						
	FY 23 YE Est	FY 24 F	FY 25 F	FY 26 F	FY 27 F	FY 28 F
Beginning Fund Balance	\$ 15.69	\$ 16.16	\$ 15.73	\$ 15.24	\$ 14.64	\$ 13.96
Revenues	\$ 6.44	\$ 6.58	\$ 6.88	\$ 7.07	\$ 7.27	\$ 7.47
Total Expenditures	\$ 5.97	\$ 7.55	\$ 7.91	\$ 8.22	\$ 8.51	\$ 8.82
Unspent Contingency		(0.30)	(0.30)	(0.30)	(0.30)	(0.30)
3.0% Savings		(0.23)	(0.24)	(0.25)	(0.26)	(0.26)
Net Expenditures	\$ 5.97	\$ 7.02	\$ 7.37	\$ 7.67	\$ 7.95	\$ 8.25
Fiscal Year Impact	\$ 0.48	\$ (0.44)	\$ (0.49)	\$ (0.60)	\$ (0.68)	\$ (0.78)
Ending Fund Balance	\$ 16.16	\$ 15.73	\$ 15.24	\$ 14.64	\$ 13.96	\$ 13.18

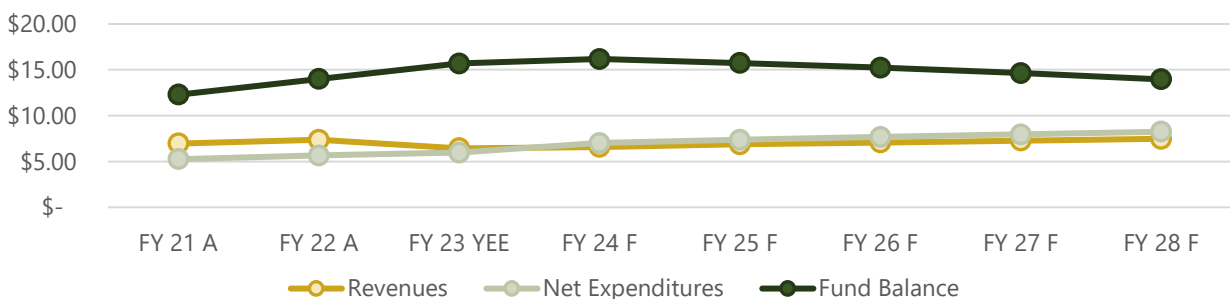
The City’s annual financial forecast for the Building and Safety Fund provides for the continuation of current service levels with assumptions for inflationary factors to increase service costs and estimates for revenue. The forecast includes an increase in the amount of funds transferred to the Equipment Replacement Reserve for replacement of the Building and Safety vehicles.

The forecast anticipates steady permitting revenues of 3 percent annually for most permits between FY 2025 and FY 2028. The year end estimate for FY 2023 shows a decrease from budget for building and mechanical permits. This is driven by a decrease in residential building permits corresponding with the increased home mortgage rates and thus home buying power. Meanwhile, commercial permits continue to perform strongly, helping to offset the reduction of residential permits. Although the forecast demonstrates a decrease of ending fund balance over the five-year period due to increased personnel and vehicle replacement transfers, the fund balance is still strong.

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

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

Building and Safety Fund Revenues, Expenditures and Working Capital



Cultural Tourism (TOT) Fund FY 2024 – FY 2028 Five-Year Forecast

FY 2024 - FY 2028 SUMMARY (in millions)						
	FY 23 YE Est	FY 24 F	FY 25 F	FY 26 F	FY 27 F	FY 28 F
Beginning Fund Balance	\$ 4.03	\$ 3.88	\$ 3.85	\$ 3.90	\$ 3.90	\$ 4.01
Revenues	\$ 4.57	\$ 4.80	\$ 5.03	\$ 5.29	\$ 5.55	\$ 5.82
Total Expenditures	\$ 4.71	\$ 5.03	\$ 5.18	\$ 5.48	\$ 5.64	\$ 5.60
Unspent Contingency	-	(0.20)	(0.20)	(0.20)	(0.20)	(0.20)
NET EXPENDITURES	\$ 4.71	\$ 4.83	\$ 4.98	\$ 5.28	\$ 5.44	\$ 5.40
Fiscal Year Impact	(0.15)	(0.04)	0.05	0.00	0.11	0.42
Ending Fund Balance	\$ 3.88	\$ 3.85	\$ 3.90	\$ 3.90	\$ 4.01	\$ 4.43

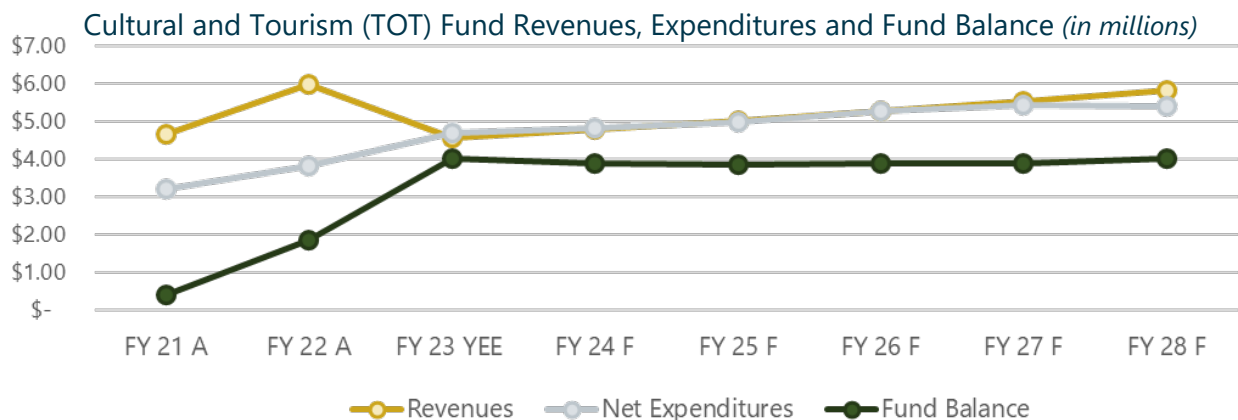
The Cultural Tourism (TOT) Fund is funded by overnight stays in Salem through a 9% tax assessed by hotels, motels, B&Bs, and third-party intermediaries like Airbnb. The revenue generated supports City programs for Parks Maintenance, events like Fourth of July fireworks and historic building utilities and maintenance at sites like Bush House and Deepwood Estates. Additionally, approximately 50% of the revenues go to outside entities like Travel Salem, the Salem Convention Center and local Cultural Heritage and Event organizers.

After being heavily impacted by the COVID-19 pandemic, staff predicts that the fund will return to pre-pandemic revenues by the end of this fiscal year.

With the increased optimism for revenues in the fund, the fund continues to increase in expense demand. Parks and Facilities capital projects that use the TOT fund along with City programs and third-party agency expenses continue to grow. Staff will be recommending a fund balance policy to manage these growing expenses in the next year. Financial policies are a Government Finance Officers Association best practice and demonstrate strategic and long-term fund planning.

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
Expense: Parks Transfer	High
Capital Projects (CIP)	High
Tourism Promotion Allocation	High



Document Services, City Services FY 2024 – FY 2028 Five-Year Forecast

FY 2024 - FY 2028 SUMMARY (in millions)						
	FY 23 YE Est	FY 24 F	FY 25 F	FY 26 F	FY 27 F	FY 28 F
Beginning Fund Balance	\$ 0.51	\$ 0.54	\$ 0.55	\$ 0.53	\$ 0.43	\$ 0.32
Revenues	\$ 1.19	\$ 1.20	\$ 1.20	\$ 1.20	\$ 1.20	\$ 1.20
Total Expenditures	\$ 1.16	\$ 1.20	\$ 1.23	\$ 1.31	\$ 1.33	\$ 1.34
2% Savings on M&S		(0.01)	(0.01)	(0.01)	(0.01)	(0.01)
NET EXPENDITURES	\$ 1.16	\$ 1.19	\$ 1.22	\$ 1.30	\$ 1.31	\$ 1.33
Fiscal Year Impact	\$ 0.03	\$ 0.01	\$ (0.02)	\$ (0.10)	\$ (0.11)	\$ (0.12)
Ending Fund Balance	\$ 0.54	\$ 0.55	\$ 0.53	\$ 0.43	\$ 0.32	\$ 0.20

The base forecast for the Document Services Division of the City Services Fund reflects a decrease in internal service levels with assumptions for inflationary factors to increase service costs.

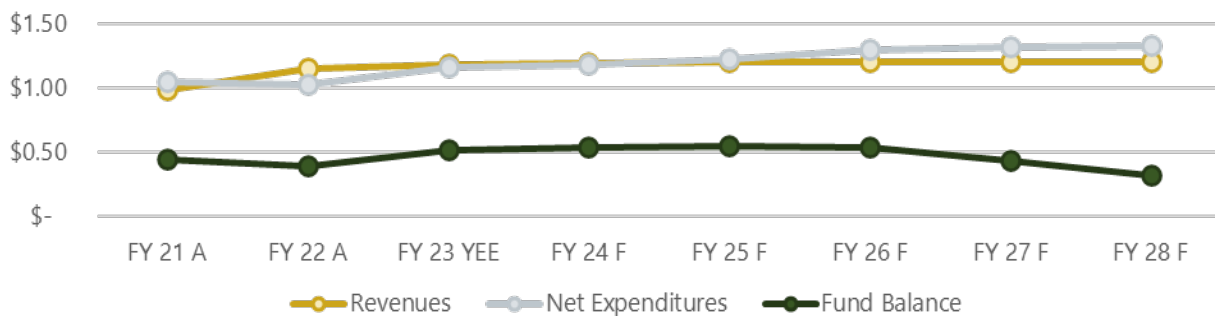
The forecast demonstrates a level of projected increase in revenues that does not keep pace with the anticipated growth in expenditures. It also displays a level of naturally occurring savings from unanticipated economies. This level of savings is anticipated at 2 percent for materials and services.

Significant funding sources for Document Services are fees charged for products or services and an annual transfer from the General Fund to support mail and courier services. To intentionally draw down fund balance, the General Fund contribution is reduced in this forecast by 3 percent annually. Several potential changes to the products and services portfolio are being evaluated to determine the service mix and if another funding method would be more sustainable.

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	High
Other Labor Factors	High
Copier Replacement Strategy	Medium

Document Services, City Services Fund Revenues, Expenditures and Fund Balance



Emergency Services Fund FY 2024 – FY 2028 Five-Year Forecast

FY 2024 - FY 2028 Summary (in millions)

	FY 23 YE Est	FY 24 F	FY 25 F	FY 26 F	FY 27 F	FY 28 F
Beginning Fund Balance	\$ 3.24	\$ 3.74	\$ 3.70	\$ 3.39	\$ 3.35	\$ 3.45
Revenues	\$ 3.65	\$ 1.30	\$ 1.37	\$ 1.44	\$ 1.51	\$ 1.58
Total Expenditures	\$ 3.15	\$ 1.42	\$ 1.76	\$ 1.55	\$ 1.50	\$ 1.64
Unspent Contingency		(0.06)	(0.06)	(0.06)	(0.06)	(0.06)
3% Savings on M&S		(0.02)	(0.02)	(0.02)	(0.02)	(0.02)
Net Expenditures	\$ 3.15	\$ 1.34	\$ 1.68	\$ 1.47	\$ 1.42	\$ 1.56
Fiscal Year Impact	\$ 0.50	\$ (0.04)	\$ (0.31)	\$ (0.03)	\$ 0.09	\$ 0.02
Ending Fund Balance	\$ 3.74	\$ 3.70	\$ 3.39	\$ 3.35	\$ 3.45	\$ 3.47

The City's annual financial forecast for the Emergency Services (EMS) Fund provides for adjusting service levels to pre-pandemic operations with assumptions for inflationary factors to increase service costs and estimates for revenue growth.

The forecast demonstrates a projected revenue decrease due to a reduction in expected transports. After FY 2023, the revenue and expenditures are predicted to remain consistent over the next five years with factored inflation. Fund balance is projected to decrease in FY 2024 & FY 2025 and then remain balanced despite the anticipated growth of ongoing expenditures. The EMS Fund must maintain a working capital that provides resources for six months of immediate and uninterrupted ambulance transport services. The expected savings level is three percent in the materials and services category.

This forecast resumes an annual transfer to the Capital Reserve as the fund is in line with City Council Policy C-12. Sufficient reserve is expected to be built up to purchase new CPR auto pulse devices for \$300,000 in FY 2025. This capital and future spending will continue to impact the fund financially. The EMS Fund is anticipated to decrease marginally at this level, with small incremental growth beginning in FY 2028.

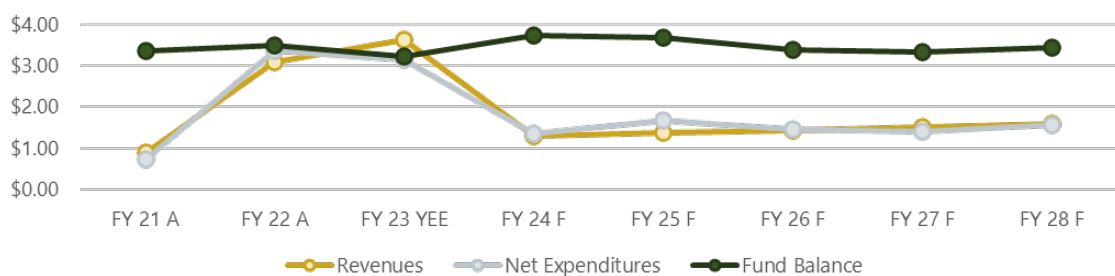
Equipment needs continue to account for the risk factor for the health of the EMS Fund. The Fire Department continues looking for new funding sources as the current Capital Reserve Fund will be insufficient to provide for future equipment needs after FY 2025 without further depleting the EMS Fund.

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

Forecast Risk Ranking

<i>Fund Balance</i>	Medium
<i>Ambulance Service Revenue</i>	Low
<i>Medicare / Medicaid Reimbursement</i>	Medium
<i>General Materials / Services</i>	Medium
<i>Capital Equipment Needs</i>	Medium

Emergency Medical Services Fund Revenues, Expenditures and Fund Balance (in millions)



Fleet, City Services Fund FY 2024 – FY 2028 Five-Year Forecast

FY 2024 - FY 2028 SUMMARY (in millions)

	FY 23 YE Est	FY 24 F	FY 25 F	FY 26 F	FY 27 F	FY 28 F
Beginning Fund Balance	\$ 1.34	\$ 1.60	\$ 1.44	\$ 1.27	\$ 1.10	\$ 0.93
Revenues	\$ 5.58	\$ 5.00	\$ 5.16	\$ 5.32	\$ 5.48	\$ 5.65
Total Expenditures	\$ 5.32	\$ 5.36	\$ 5.52	\$ 5.68	\$ 5.85	\$ 6.03
3.5% General Savings		(0.19)	(0.19)	(0.20)	(0.20)	(0.21)
Net Expenditures	\$ 5.32	\$ 5.17	\$ 5.33	\$ 5.48	\$ 5.65	\$ 5.82
Fiscal Year Impact	\$ 0.26	\$ (0.17)	\$ (0.17)	\$ (0.17)	\$ (0.17)	\$ (0.17)
Ending Fund Balance	\$ 1.60	\$ 1.44	\$ 1.26	\$ 1.10	\$ 0.93	\$ 0.77

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

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

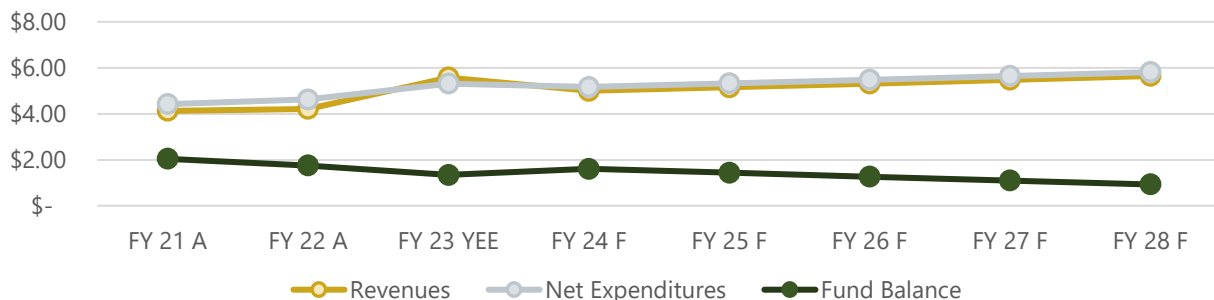
The reduction in fund balance reflects an effort to reduce the fund balance over the five-year period. The balance at the end of the forecast period is estimated at 25% of fixed costs for Fiscal Year 2028.

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

Forecast Risk Ranking

Fund Balance	Medium
Internal Charge Revenue	Medium
PERS Rates	High
Health Benefits	Medium
Other Labor Factors	High

Fleet, City Services Fund Revenues, Expenditures and Fund Balance (in millions)



Radio Comm., City Services Fund FY 2024 – FY 2028 Five-Year Forecast

FY 2024 - FY 2028 SUMMARY (in millions)						
	FY 23 YE Est	FY 24 F	FY 25 F	FY 26 F	FY 27 F	FY 28 F
Working Capital	\$ 1.22	\$ 1.13	\$ 0.99	\$ 0.96	\$ 1.01	\$ 0.93
Revenues	\$ 1.46	\$ 1.53	\$ 1.58	\$ 1.63	\$ 1.68	\$ 1.73
TOTAL EXPENDITURES	\$ 1.55	\$ 2.01	\$ 1.95	\$ 1.91	\$ 2.12	\$ 2.18
24% Savings on PS		(0.13)	(0.14)	(0.15)	(0.15)	(0.16)
10% Savings on M&S		(0.14)	(0.13)	(0.12)	(0.14)	(0.14)
70% Savings on Capital		(0.07)	(0.07)	(0.07)	(0.07)	(0.08)
NET EXPENDITURES	\$ 1.55	\$ 1.67	\$ 1.61	\$ 1.57	\$ 1.76	\$ 1.81
Fiscal Year Impact	\$ (0.08)	\$ (0.14)	\$ (0.04)	\$ 0.06	\$ (0.08)	\$ (0.07)
ENDING WORKING CAPITAL	\$ 1.13	\$ 0.99	\$ 0.96	\$ 1.01	\$ 0.93	\$ 0.86

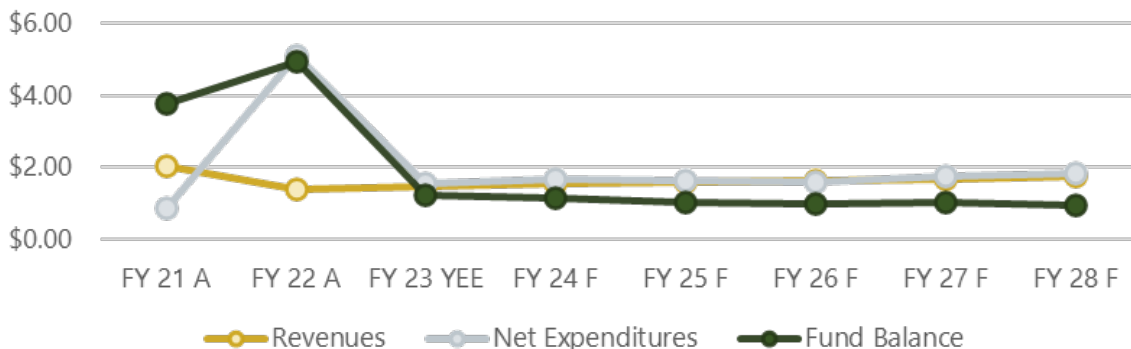
The City’s annual financial forecast for Radio Communications provides for the continuation of current service levels with assumptions for inflationary factors that reflect increasing service costs and estimates for revenue growth.

Agency rates are set to meet operational needs providing a stable revenue stream. The forecast 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. Savings in personal services reflects the intention to hold a position vacant while assessing technical support needs for the new system.

General Fund departments account for approximately 70 percent of participating agency rate revenue. Over the next few years radio rates will be increasing to fund improvements to the radio system and the future replacement of necessary equipment.

Departmental replacement reserves were moved to the Equipment Reserve Fund in FY 2021, accounting for the drop in working capital and expenditures between FY 2022 and FY 2023.

Radio Communications, City Services Fund Revenues, Expenditures and Fund Balance (in millions)



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

Forecast Risk	Ranking
Fund Balance	Low
Agency Rates	Medium
Operational Expenses	Low/Medium
Capital Equipment Needs	High

Benefits Self Insurance Fund FY 2024 – FY 2028 Five-Year Forecast

FY 2024 - FY 2028 Summary *(in millions)*

	FY 23 YE Est	FY 24 F	FY 25 F	FY 26 F	FY 27 F	FY 28 F
Beginning Fund Balance	\$ 10.85	\$ 9.99	\$ 9.49	\$ 9.19	\$ 9.12	\$ 9.28
Revenues	\$ 28.40	\$ 30.03	\$ 31.77	\$ 33.62	\$ 35.60	\$ 37.71
Total Expenditures	\$ 29.26	\$ 30.54	\$ 32.06	\$ 33.70	\$ 35.44	\$ 37.32
Net Expenditures	\$ 29.26	\$ 30.54	\$ 32.06	\$ 33.70	\$ 35.44	\$ 37.32
Fiscal Year Impact	\$ (0.86)	\$ (0.51)	\$ (0.29)	\$ (0.07)	\$ 0.16	\$ 0.40
Ending Fund Balance	\$ 9.99	\$ 9.49	\$ 9.19	\$ 9.12	\$ 9.28	\$ 9.68

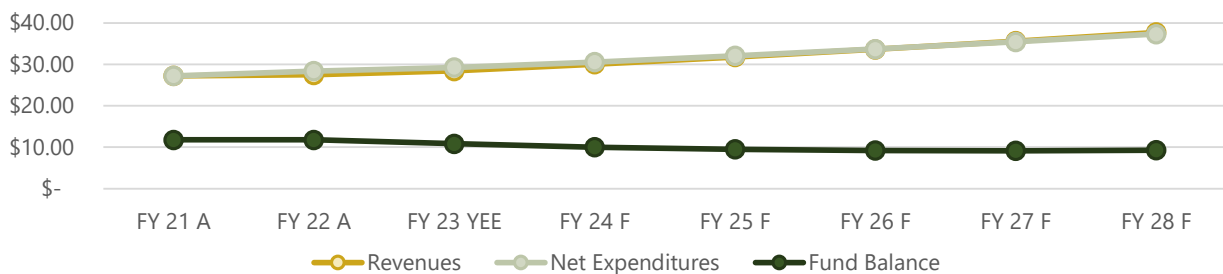
The City's annual financial forecast for the Benefits Self Insurance Fund provides continuation of current service levels with assumptions for inflationary factors to increase service costs and estimates for revenue growth. This forecast considers the City's change in claims administrator that took place in January 2023.

The forecast demonstrates a level of projected increase in revenues at a rate greater than the anticipated growth in expenditures. Additional premium rate increases are demonstrated to raise the reserve levels by the end of the forecast period. If claims grow greater than anticipated, fund balance will be reduced.

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

Forecast Risk	Ranking
Fund Balance	Low
Internal Revenue	Medium
Health Care Legislation	High
Changing Demographics	High

Benefits, Self Insurance Fund Revenues, Expenditures and Fund Balance (in millions)



Risk Self Insurance Fund FY 2024 – FY 2028 Five-Year Forecast

FY 2024 - FY 2028 SUMMARY (in millions)

	FY 23 YE Est	FY 24 F	FY 25 F	FY 26 F	FY 27 F	FY 28 F
Beginning Fund Balance	\$ 7.19	\$ 6.00	\$ 6.08	\$ 6.26	\$ 6.57	\$ 6.99
Revenues	\$ 4.12	\$ 5.74	\$ 6.02	\$ 6.32	\$ 6.63	\$ 6.96
Total Expenditures	\$ 5.32	\$ 6.13	\$ 6.32	\$ 6.52	\$ 6.72	\$ 6.94
Savings	-	(0.47)	(0.49)	(0.50)	(0.52)	(0.53)
NET EXPENDITURES	\$ 5.32	\$ 5.66	\$ 5.83	\$ 6.02	\$ 6.21	\$ 6.40
Fiscal Year Impact	\$ (1.20)	\$ 0.08	\$ 0.19	\$ 0.30	\$ 0.43	\$ 0.56
Ending Fund Balance	\$ 6.00	\$ 6.08	\$ 6.26	\$ 6.57	\$ 6.99	\$ 7.56

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

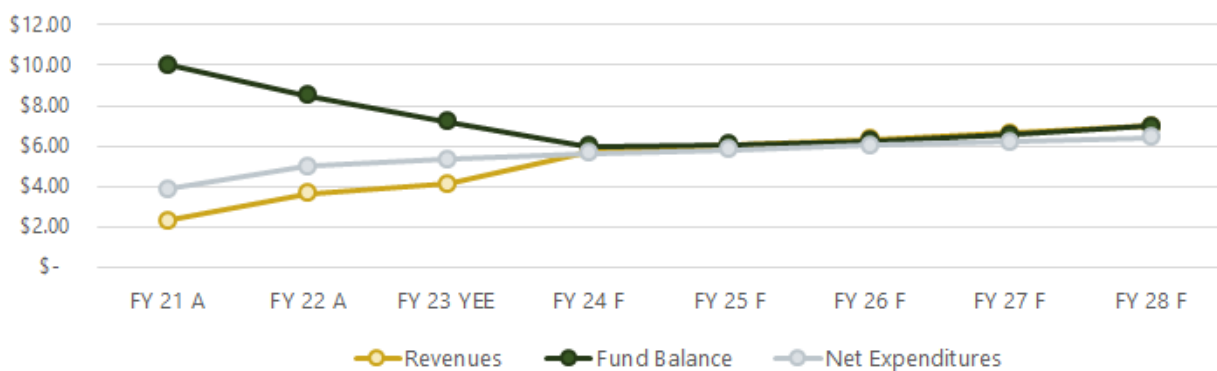
The forecast demonstrates a steady increase in ending fund balance over the five-year period to keep the fund within actuarial guidelines.

Claims experience fluctuates annually and was less favorable than projected last year and is anticipated to remain at that level. If the trend continues, this would result in a lower fund balance than forecasted and higher internal rates in future years. If claims activity and increases in insurance costs slow, lower rate increases would be required in future years.

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

Self Insurance Risk Revenues, Expenditures and Working Capital (in millions)



Streetlight Fund FY 2024 – FY 2028 Five-Year Forecast

FY 2024 - FY 2028 SUMMARY (in millions)

	FY 23 YEE	FY 24 F	FY 25 F	FY 26 F	FY 27 F	FY 28 F
Beginning Fund Balance	\$ 1.35	\$ 1.45	\$ 1.32	\$ 1.17	\$ 0.99	\$ 0.80
Revenues	\$ 1.99	\$ 2.00	\$ 2.00	\$ 2.01	\$ 2.01	\$ 2.02
Total Expenditures	\$ 1.89	\$ 2.37	\$ 2.40	\$ 2.43	\$ 2.45	\$ 2.28
Unspent Contingency		\$ (0.20)	\$ (0.20)	\$ (0.20)	\$ (0.20)	\$ (0.20)
3.0% Savings on M&S		\$ (0.04)	\$ (0.04)	\$ (0.04)	\$ (0.04)	\$ (0.04)
Net Expenditures	\$ 1.89	\$ 2.13	\$ 2.16	\$ 2.19	\$ 2.20	\$ 2.03
Fiscal Year Impact	\$ 0.10	\$ (0.13)	\$ (0.15)	\$ (0.18)	\$ (0.19)	\$ (0.02)
Ending Fund Balance	\$ 1.45	\$ 1.32	\$ 1.17	\$ 0.99	\$ 0.80	\$ 0.79

Since the 2015 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. A three percent annual increase is anticipated in general expenditures resulting from system expansion. An eight percent increase is anticipated for electricity costs in FY 2024.
- New streetlights are being installed in under-served areas based on a prioritized list.
- Since FY 2020, the Streetlight Fund has provided electricity for lighting fixtures in parks, relieving the General Fund of approximately \$100,000 per year in expenses.

While the current five-year forecast does not anticipate an increase in Streetlight Fee rates, a rate increase may be proposed within the next five years – the first in the fee’s history. Expenditures in the forecast are consistent with the current year and adjusted for growth.

A 2017 interfund loan from the Utility Fund allowed

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

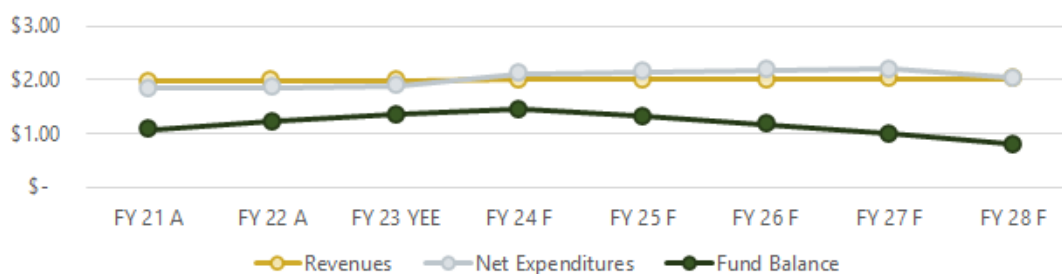
Forecast Risk	Ranking
Streetlight fee	Low
Electricity savings	Medium
Capital improvement transfers	Low

the system re-lamping to be completed within a year resulting in energy cost savings. The loan will be fully repaid in 2027.

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

- Transfer to Capital Improvements Fund for replacement and new pole installation projects at \$600,000 per year.
- Continued support for electricity and maintenance expenses for all poles in rights-of-way and parks.

Streetlight Fund Revenues, Expenditures and Fund Balance (in millions)



WVCC Fund FY 2024 – FY 2028 Five-Year Forecast

FY 2024 - FY 2028 SUMMARY (in millions)						
	FY 23 YEE	FY 24 F	FY 25 F	FY 26 F	FY 27 F	FY 28 F
Beginning Fund Balance	\$ 1.97	\$ 1.73	\$ 1.46	\$ 1.47	\$ 1.56	\$ 1.78
Revenues	\$ 13.90	\$ 14.52	\$ 15.19	\$ 15.88	\$ 16.62	\$ 17.39
Total Expenditures	\$ 14.15	\$ 16.04	\$ 16.45	\$ 17.10	\$ 17.74	\$ 18.31
Unspent Contingency		(0.50)	(0.50)	(0.50)	(0.50)	(0.50)
5% Savings		(0.75)	(0.77)	(0.81)	(0.84)	(0.87)
Net Expenditures	\$ 14.15	\$ 14.78	\$ 15.18	\$ 15.79	\$ 16.40	\$ 16.95
Fiscal Year Impact	\$ (0.25)	\$ (0.26)	\$ 0.01	\$ 0.09	\$ 0.22	\$ 0.44
Ending Fund Balance	\$ 1.73	\$ 1.46	\$ 1.47	\$ 1.56	\$ 1.78	\$ 2.22

The City’s annual financial forecast for the Willamette Valley Communication Center (WVCC) provides for the continuation of current service levels with assumptions of inflationary factors to increasing service costs and estimates for revenue growth.

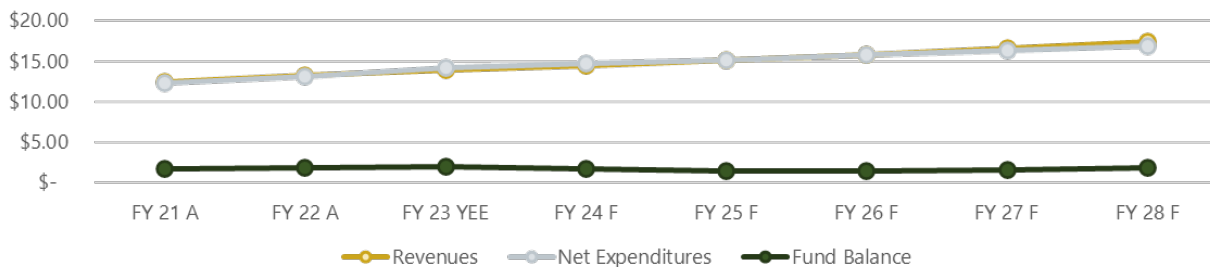
The forecast demonstrates a level of projected increases in revenues that allows the WVCC Fund to remain balanced with anticipated growth of on-going expenditures. It also displays savings derived from unspent fund contingencies and a level of naturally occurring savings from unanticipated economies. This level of savings is anticipated at 5 percent in the personal services and materials and services categories.

The WVCC Fund is required to maintain a fund balance that provides resources sufficient to cover three pay periods. The fund currently meets the minimum requirement and anticipates maintaining fund balance at this level through the forecast. Personal Services accounts for 79% of the budget for this service-oriented organization which requires overtime to cover position vacancies. Strategies and ongoing efforts continue to minimize the use of overtime. General Fund departments account for approximately 43 percent of participating agency rate revenue.

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

Forecast Risk	Ranking
Working Capital	Low
Member Agency Rates	Low
Overtime Expense	Medium
Salary Expense	Medium

WVCC Revenues, Expenditures and Working Capital (in millions)





Summary of Findings

National Summary

A more robust than expected pandemic recovery in 2022 presents new challenges that are anticipated to continue into 2023. While unemployment remains at record low levels, faster than anticipated inflation creates continued economic uncertainty with the possibility of a recession looming.

Unemployment and economic activity rates remain relatively healthy. National output fell at an annualized rate of 0.6 percent in the second quarter of 2022 followed by 2.9 percent growth in the third quarter. The Unemployment rate has also remained low at 3.7 percent by the end of October 2022.

Economic progress spurred by low unemployment and healthy GDP remains vulnerable to the effects of inflation and interest rate hikes. The Consumer Price Index inflation markers at the end of October 2022 indicated an inflation rate of 7.7 percent over the previous year. To fight inflation, the Federal Reserve has been rapidly raising its benchmark interest rate, including a fourth consecutive rate hike in November 2022 that brought the rate between 3.75 and 4 percent. If inflation figures do not recede, price increases and high borrowing costs pose a serious risk to economic health.

Continued supply chain issues, US port capacity, and employment vacancies in the logistics industry similarly threaten the pace of economic growth moving forward.

The following trends are expected to result in slower economic growth:

1. **Housing.** Supported by low interest rates and demographic shifts, demand for housing has been high over the last few years. New home sales spiked to levels last seen during the housing bubble that preceded the 2007-09 recession. However, rising borrowing costs as a result of Fed interest rate hikes are expected to cool the housing market. Housing is traditionally a good leading indicator of overall activity, and a cooling housing market will likely be indicative of a similar trend in the broader economy.
2. **Inflation.** Inflation may slow as a result of interest rate hikes, but price increases may prove difficult to curb. Continued inflation will result in lower consumer buying power and less economic activity.
3. **Interest Rates.** Rapid interest rate hikes are intended to slow inflation. However, the Federal Reserve will need to delicately design the rate hikes to slow, but not halt economic growth. If the rate hikes slow growth too much, a recession is likely.

The primary negative risks to the outlook are even higher than expected inflation and continued uncertainty around interest rate hikes. The primary positive risks to the economic outlook are a continuation of healthy unemployment numbers and wage growth. In addition, the Federal Reserve may prove successful in balancing interest rate hikes to slow but not halt economic growth.

Oregon Summary

The Oregon economy has seen improvement since the start of the COVID-19 pandemic in March of 2020. Unemployment has steadily fallen from a high of 13.3% in April 2020 to 4.1% in October 2022. As the COVID-19 pandemic begins to slowly move to the background of the economic story, more traditional concerns like labor markets and inflation reappear. Additional geopolitical concerns with Russia's invasion of Ukraine remain another factor with potential influences at the State level.

The labor market in Oregon, as anyone who is involved with hiring will tell you, is extremely tight. Between October 2021 and October 2022, Oregon was number three in the nation (behind Texas and Florida) for growth in non-farm employment at 4.5 percent. Neighbors Washington and California experienced growth of 3.9 and 4.1 respectively. While employment growth is generally considered a positive economic indicator, continuous high growth is unsustainable. The aging population of the United States and the retirement of the large Baby Boomer generation, and the filling of those vacated positions by smaller, younger generations is a concern of economists and actuaries alike. Between 2015 and 2021, the US Census Bureau reports 13.29 percent decrease in births in the State. Although this is not a problem unique to Oregon, or even the nation, as global population estimates continue to decline, it will be a factor in the next several decades as the economy switches from a job market with more workers than jobs to that of a market with more jobs than workers.

Inflation continues to remain high across the nation, including in Oregon. The United States Congress Joint Economic Committee reports by state the amount of monthly household inflation costs relative to January 2021. As of September 2022, they report Oregon household expenses have risen by \$619 while the US as a whole has risen by \$728. Actions by the Federal Reserve in the Summer and Fall of 2022 to reduce inflation by increasing the cost of borrowing through interest rate setting have impacted inflation slightly. The Bureau of Labor Statistics reports that the Western Region (which includes Oregon) experienced a year-over-year inflation rate of 8.1 percent as of October 2022, down from a high of 8.8 percent in June 2022.

Salem Summary

The Salem economy was hit hard by the pandemic; as of April 2020, the region had an unemployment rate of 11.3 percent. As of October 2022, the seasonally adjusted unemployment rate has dropped to almost pre-pandemic levels at 4.1 percent. Latest data released in October for the Salem Metropolitan Statistical Area (MSA) shows that private job sectors with the largest growth in the past year have been construction, health care and social assistance professionals, and manufacturing. The public sector also showed growth in hiring at both State and local levels (specifically education). Wages are also increasing in the region. Between 2021 and October 2022, the average wage for all occupations has increased by 4.50 percent in the Mid-Valley region; higher than both the Portland Metro and Portland Tri-County areas. Oregon as a state has increased in this same time period by 5.17 percent.

Local development has continued throughout the pandemic at a slower pace than prior years. From fiscal year 2021 through the end of fiscal year 2022, total permits issued by the City's Building and Safety division have decreased by more than 11 percent. Although total permits issued declined, permits for commercial and multi-family developments have had a slight increase year-over-year of 0.63 percent.

Tourism has rebounded since the beginning of the COVID-19 pandemic. Tourism Occupancy Tax (TOT) collections for fiscal year 2021 totaled approximately \$3.1 million, while unaudited collections for fiscal year 2022 came in at \$4.3 million. The City's tax rate is 9 percent for overnight stays within city limits, implying a spending of more than \$48 million directly in

Salem by visitors. The year-over-year increase is 39.78 percent and is indicative of a return to normal travel post-COVID. However, the pandemic will serve to remind us of the vulnerability the tourism industry has to travel advisories and large health emergencies.

Forecast Summary

Below is the Oregon Office of Economic Analysis (OEA) employment growth forecast as the principal driver of the Salem job forecast. **Actual percentage changes realized are also sensitive to employment data revisions.**

Nonfarm Payroll Growth Forecasts

	OR (OEA)*	Salem MSA**
2021 (last)	2.4%	3.92%
2022 (current)	3.9%	-0.06%
2023	0.9%	

(*OR (OEA) refers to the official state annual employment data tables (dated December 2022). ** Values from the Oregon Employment Department (OED) October to October % change.)

Uncertainty/Risks

Impacts of the predicted recession on the national level will have a ripple effect on the local economy, but the degree is yet to be seen. The Federal Reserve has continued to work on addressing record inflation through rate increases. These elevated inflation rates have resulted in a decrease in consumers buying power, however federal protections put in place after the 2008 Great Recession for borrowers along with a continuation of spending result in a recession more in line with the 1991 recession, according to the State’s economic advisors in the latest forecast. Unlike the 2008 recession which had impacts seven years after it began, the recession anticipated in early 2023 is currently anticipated to be less influential with a two-year cycle and a smaller employment impact.

Local Revenue Implications

Unlike the 2008 recession, the property values of homes (real market and assessed) have continued to grow through the COVID-19 pandemic. Growth in assessed value for the past three completed fiscal years has averaged 4.2 percent. Although local governments are limited in property tax revenue generation due to Measure 50, development and improvements to property have allowed for growth higher than 3 percent as limited by statute. For context, coming out of the 2008 recession, assessed values grew at only 0.85 percent and corresponding property tax revenue growth totaled 0.18 percent. Current year property tax revenue growth in the past three completed fiscal years has averaged 4.26 percent.

Although it is promising that property tax revenue growth has remained high, expenditures in the City’s general fund are growing at an even higher rate. City work on services not previously undertaken by the City such as sheltering and homelessness have increased pressure on the fund as well as rising PERS rates, compensation market adjustments, employment contracts, and general inflation. Work on new general fund revenue initiatives is an important next step for staff, the community, and City Council to address in order to continue providing essential city services in addition to the new programs introduced in the last few years such as sheltering and social service initiatives.



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, 2021), the PERS Board provided the City with employer contribution rates for July 1, 2023 through June 30, 2025. The rates, which are used in the forecast, appear in Table 1 below. Rates for the two-year periods beginning July 1, 2025 and July 1, 2027 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;
- The investment returns are at least 5 percent (PERS Board assumed rate is 6.9 percent);
- Side account rate relief will end in FY 2028 causing higher rates in the final year with assumptions of 7.25 percent savings in initial years; 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 2020 – FY 2021	FY 2022 – FY 2023	FY 2024 – FY 2025	FY 2026- FY 2027	FY 2027- FY 2028
Tier 1 and 2	25.49%	24.21%	25.07%	25.47%	28.12%
OPSRP General Service	16.41%	17.40%	18.31%	18.71%	21.36%
OPSRP Fire and Police	21.04%	21.76%	23.10%	23.50%	26.15%

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 impacted 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 year-to- year. 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 legislative changes and impacts on rates.

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 6.5 percent. See Appendix A for the detailed assumption table.

Risk Factor Ranking – MEDIUM

Health care costs can be higher or lower throughout the forecast period depending on a variety of factors, which are difficult to predict year-to year. These factors include 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 5.0 percent wage increase is used in the first year with 3.0 percent beyond that.

Risk Factor Ranking – HIGH

Negotiations are underway with three labor unions – PCEA, SCABU and IAFF– during the current fiscal year. The risks associated with increased costs from future labor negotiations beyond FY 2023 are difficult to measure at this time.

Inflation

The Bureau of Labor Statistics reported for November 2022 that the Consumer Price Index, Western Region, CPI-U increased to 6.0 percent from November 2021. For purposes of this forecast, 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	7.50%
Health Benefit Costs	MEDIUM	8.20%
Labor Agreements / Salary Costs	HIGH	24.06%
Inflation	HIGH	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 three funds – General, Transportation Services, and Utility – in the FY 2024 forecast year. The operations budget includes personal services, materials and services, capital outlay, debt service, contingencies, and transfers.



Expenditure Assumptions Table

	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028
Wage Projections	% Increase	% Increase	% Increase	% Increase	% Increase
Market adjustment – AFSCME	3.00%	5.00%	3.00%	3.00%	3.00%
Market adjustment – Attorneys (SCABU)*	5.00%	3.00%	3.00%	3.00%	3.00%
Market adjustment – Police (SPEU)	1.50%/1.50%	5.00%	3.00%	3.00%	3.00%
Market adjustment – Battalion Chiefs (IAFF)*	5.00%	3.00%	3.00%	3.00%	3.00%
Market adjustment – Fire (IAFF)*	5.00%	3.00%	3.00%	3.00%	3.00%
Market adjustment – Non-represented	5.00%	3.00%	3.00%	3.00%	3.00%
Market adjustment – PCEA (9-1-1)*	5.00%	3.00%	3.00%	3.00%	3.00%

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

**In final year of union contract.*

Other Personal Services Costs	Annual Percentage Change in Benefits Projections				
PPO Medical (effective Dec 1, each fiscal year)	6.50%	6.50%	6.50%	6.50%	6.50%
Kaiser Medical (effective Dec 1, each fiscal year)	6.50%	6.50%	6.50%	6.50%	6.50%
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	49.22%	5.00%	5.00%	5.00%	5.00%
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	25.07%	25.07%	25.47%	25.47%	28.12%
Retirement-Employer – OPSRP General	18.31%	18.31%	18.71%	18.71%	21.36%
Retirement-Employer – OPSRP Police and Fire	23.10%	23.10%	23.50%	23.50%	26.15%

	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028
Materials and Services	% Increase	% Increase	% Increase	% Increase	% Increase
General inflation factor	3.00%	2.50%	2.00%	2.00%	2.00%
Gasoline / Diesel	31.64%	5.00%	5.00%	5.00%	5.00%
Internal charges	Varies by department, overall 4.00% - 6.00%	4.00% - 6.00%	4.00% - 6.00%	4.00% - 6.00%	4.00% - 6.00%
Liability insurance	34.40%	5.00 %	5.00 %	5.00 %	5.00 %
Motor pool (Fleet Services)	Varies by department, overall 6.73%	4.00 %	6.00 %	4.00 %	6.00 %
Radio communications	Varies by department, overall 104.00%	-18.84%	4.00%	4.00%	4.00%
9-1-1 services	4.70%	4.70%	4.70%	4.70%	4.70%

General Fund Revenues Assumptions Table

	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028
Revenue	%	%	%	%	%
	Increase	Increase	Increase	Increase	Increase
Current year property tax	3.90 %	4.10 %	4.10 %	4.10 %	4.10 %
Electric franchise	2.00 %	2.00 %	2.00 %	2.00 %	2.00 %
Telecommunications franchise	0.00 %	0.00 %	0.00 %	0.00 %	0.00 %
Natural gas franchise ⁽¹⁾	15.00 %	0.50 %	0.00 %	0.00 %	0.00 %
Cable franchise	0.50%	0.50%	0.50%	0.50%	0.50%
Refuse (solid waste) franchise	5.00 %	3.00 %	3.00 %	3.00 %	3.00 %
Fees for service ⁽²⁾	6.10 %	2.50 %	2.10 %	2.10 %	2.10 %
Planning, site, dwelling review fees	4.00 %	3.00 %	3.00 %	2.50 %	2.50 %
Other fees	2.30 %	1.90 %	1.50 %	1.50%	1.50 %
Licenses, permits	2.80 %	2.30 %	2.10 %	2.00 %	2.00 %
Rents (parking, building) ⁽³⁾	7.30 %	1.90 %	1.90%	1.90%	1.90%
Indirect cost allocation (ICAP) ⁽⁴⁾	22.90 %	6.00 %	4.00 %	6.00 %	4.00 %
Other internal charges	6.00 %	4.00 %	6.00 %	4.00 %	6.00 %
State shared revenue ⁽⁵⁾	2.90 %	2.90 %	3.00 %	3.00 %	3.00 %
Other agencies	-19.37 %	-2.00%	-5.30%	2.10%	2.70%
Grants ⁽⁶⁾	-82.70 %	0.00 %	0.00 %	0.00 %	0.00 %
Fines, penalties	2.80 %	3.20 %	2.70 %	2.70 %	2.70 %

FY 2024 escalators or de-escalators for specific accounts are calculated against the FY 2023 estimates for year-end revenue totals by type. Factors for categories represent an average increase for the entire category.

⁽¹⁾ Large rate increase for FY 2024, then flattening natural gas franchise revenues relate to a current request from Northwest Natural Gas to the Public Utility Commission for a lowering of rates.

⁽²⁾ Anticipate a large increase in the operations fee in the first year due to high inflation.

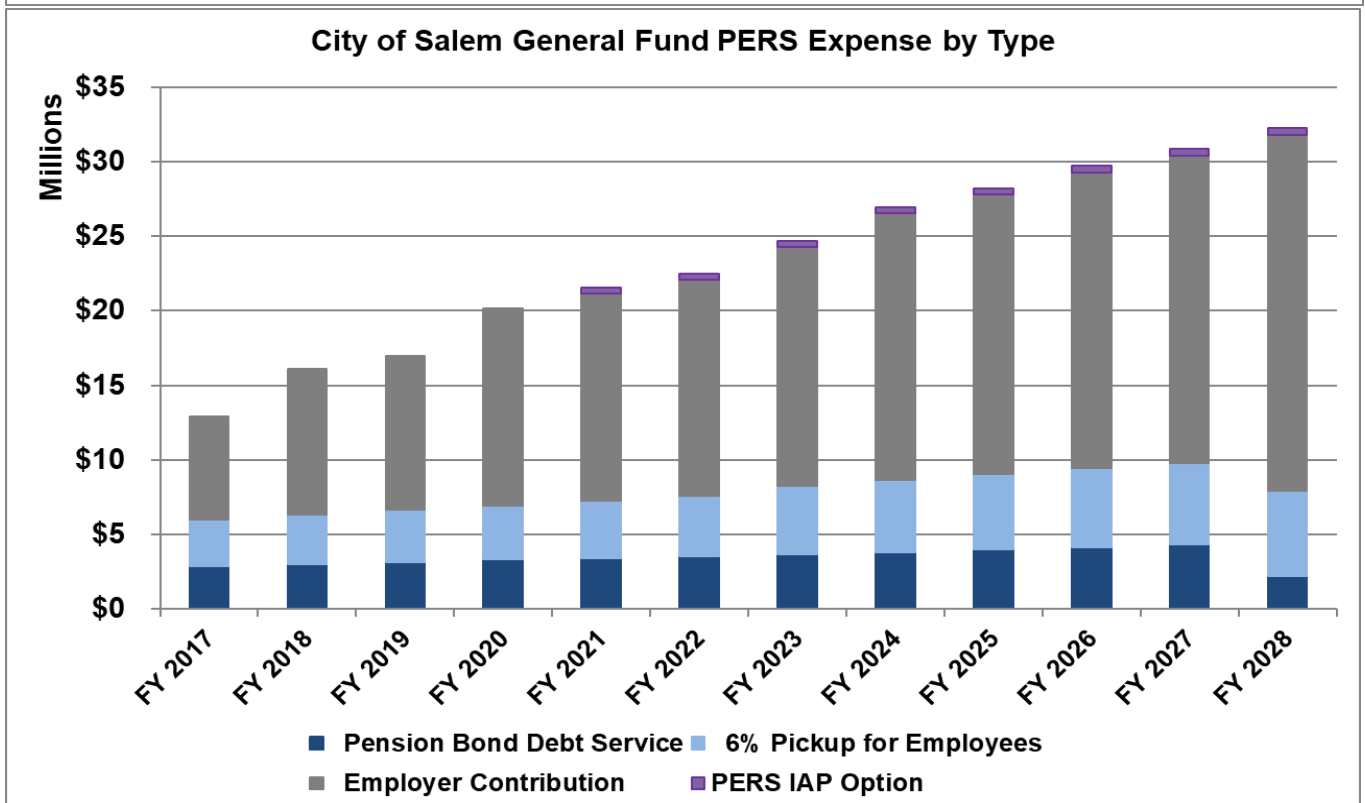
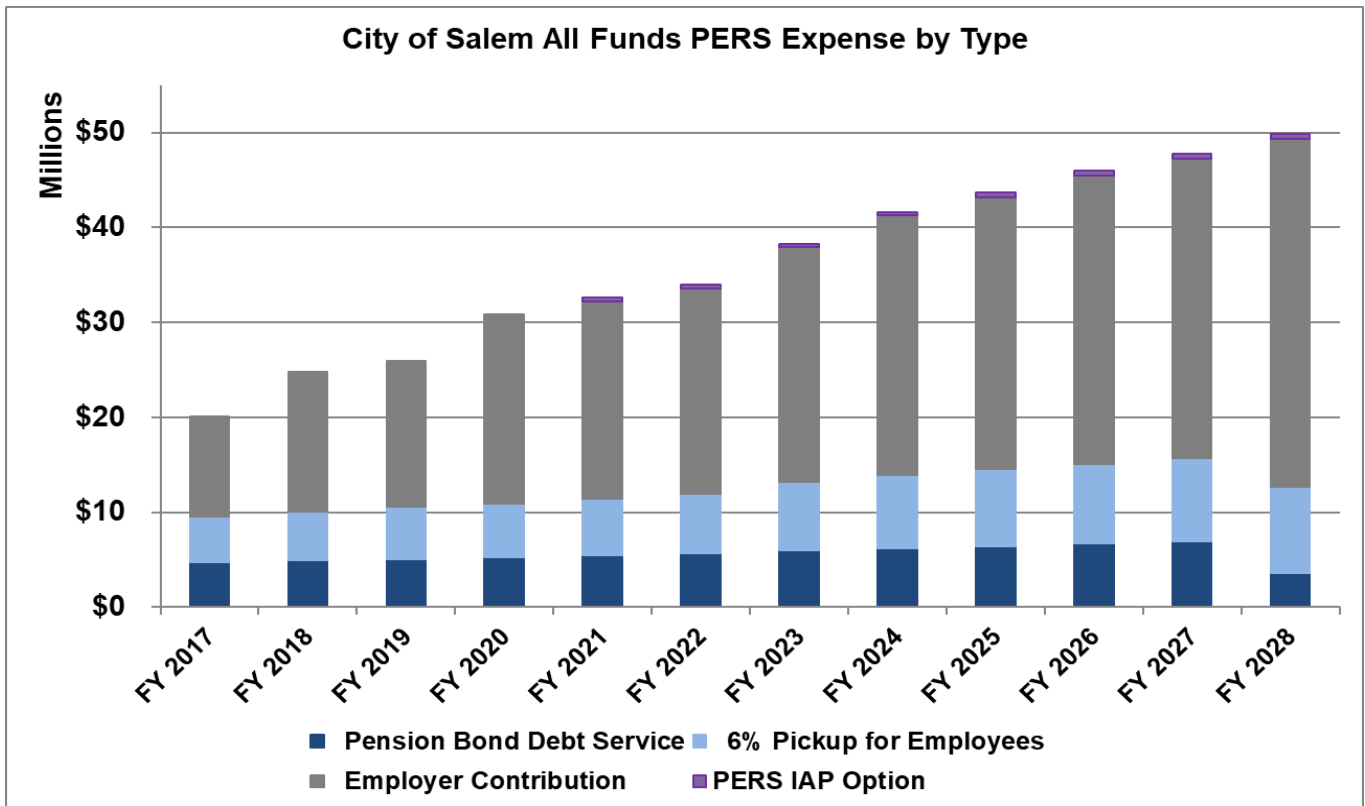
⁽³⁾ Increase in the first year is the reset to typical post-pandemic parking practices.

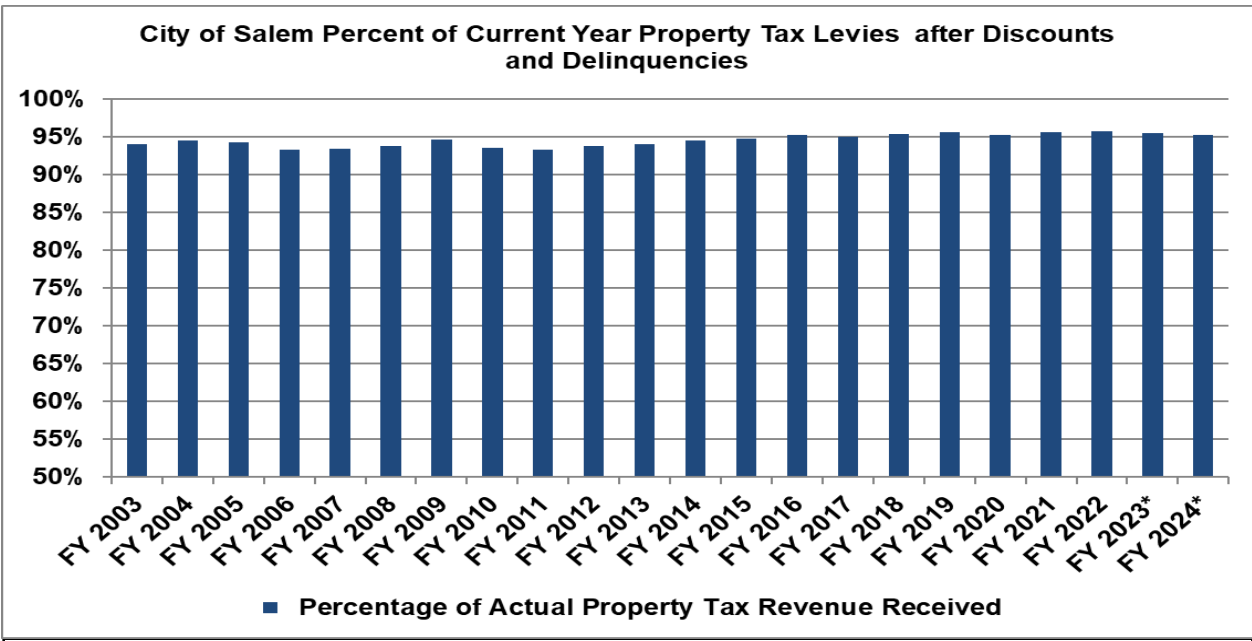
⁽⁴⁾ The increase represents higher year-over-year costs for internal services and the General Fund departments using a smaller portion of internal services compared to other funds. There was also a prior year adjustment.

⁽⁵⁾ The passage of measure 110 limits state shared revenue derived from Marijuana sales.

⁽⁶⁾ Large reduction in factor for FY 2023 due to receipt of FEMA reimbursement in FY 2023.



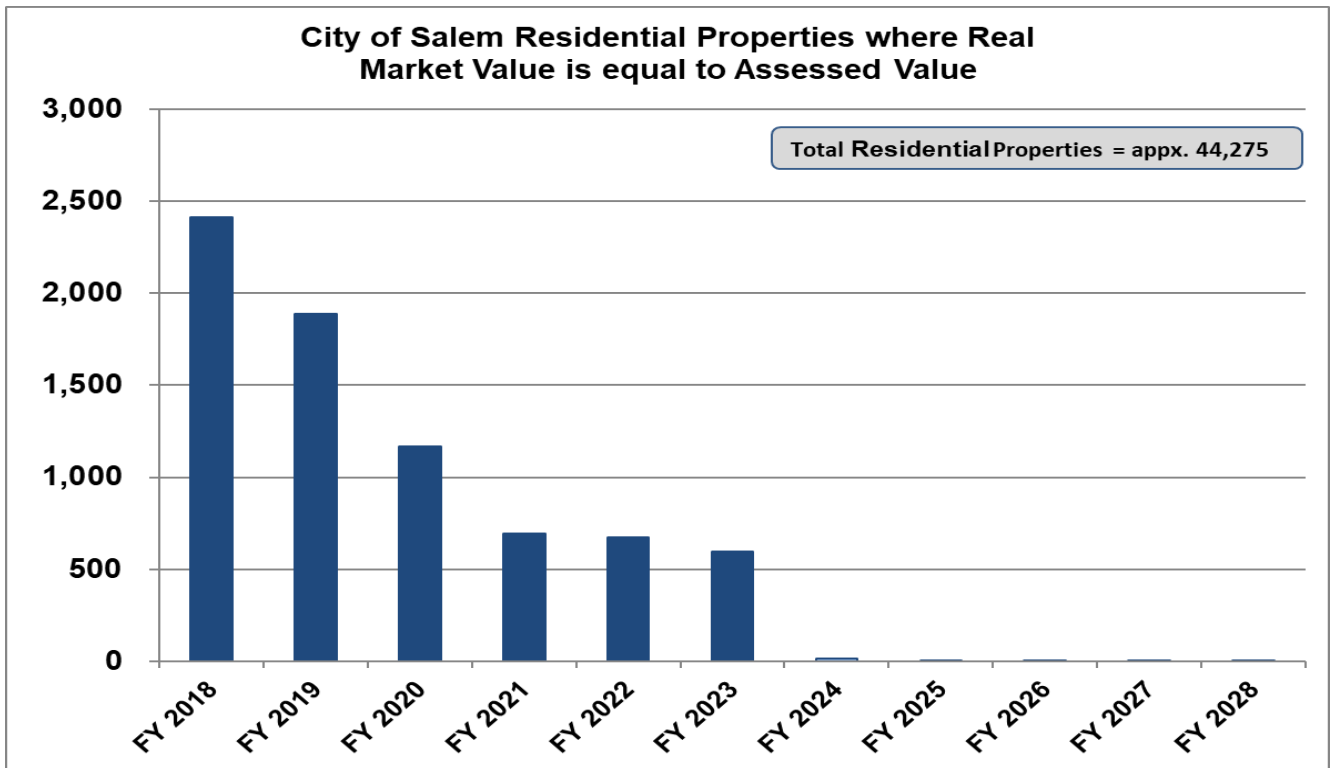
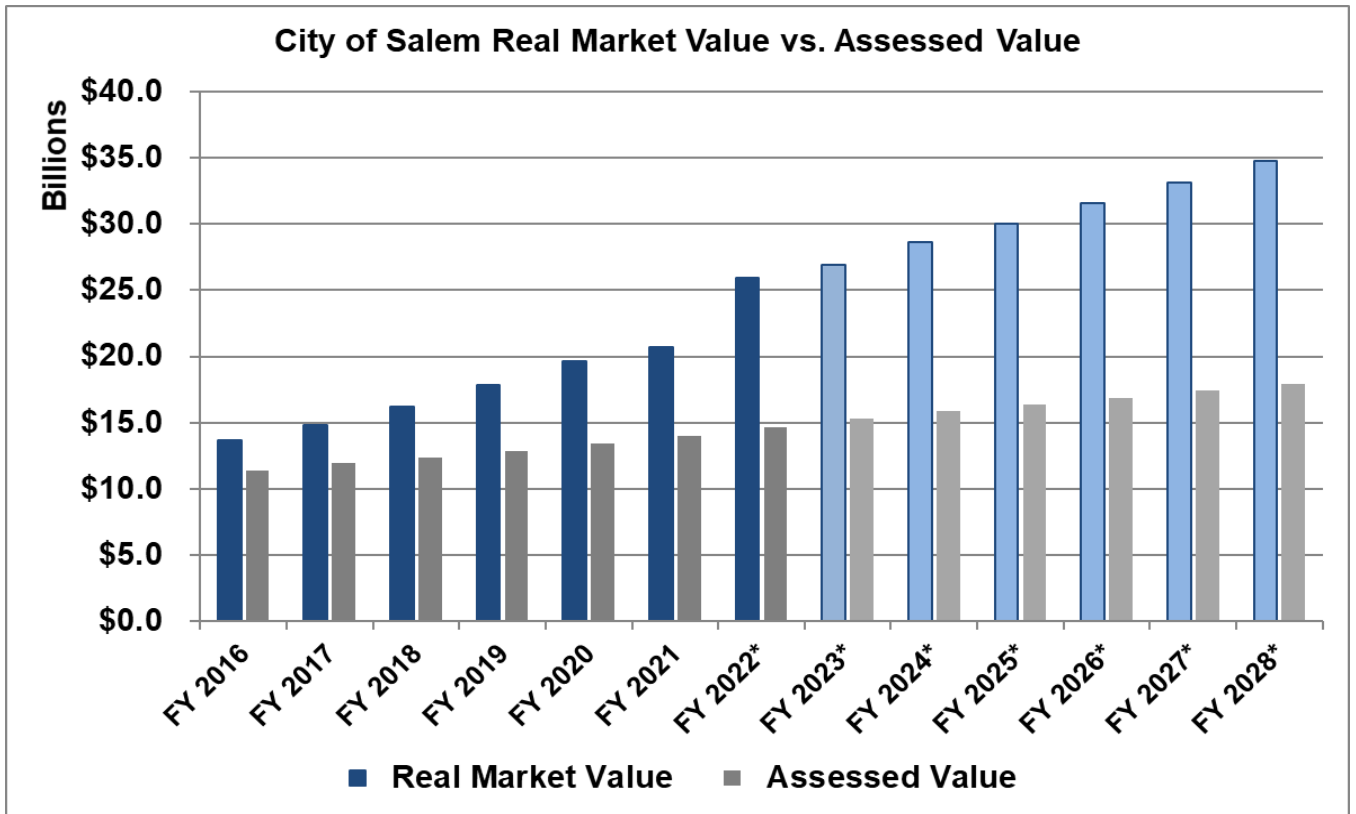




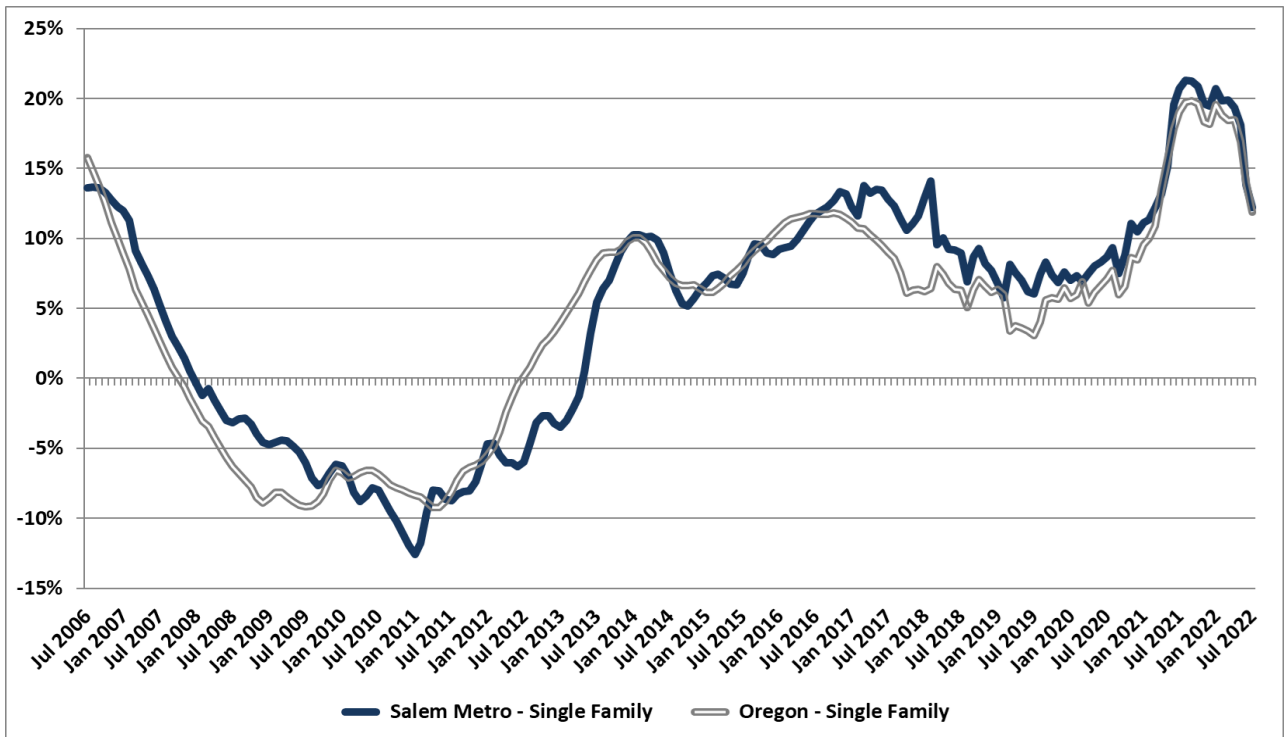
**Table 2 - Historic Changes in Property Tax Levies
Since the Passage of Measure 50**

Fiscal Year	Levy	Increase	Actual	Increase
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	73,273,597	4.1%	69,793,377	3.6%
FY 2021	76,574,086	4.5%	73,208,446	4.9%
FY 2022	79,793,872	4.2%	76,329,300	4.3%
FY 2023*	83,362,184	4.5%	79,535,131	4.2%
FY 2024*	86,748,609	4.1%	82,628,050	3.9%

* Projected



Year over Year Percentage Change in Median Housing Value – Single Family



City of Salem Property Tax Revenue Loss due to Compression

