

FISCAL YEARS

2022 - 2026

CITY OF *Salem*
AT YOUR SERVICE



Salem Police Station • *Equitas*, by artist Blessing Hancock

FIVE-YEAR FORECAST

City of Salem Oregon

Five-Year Financial Forecasts

Fiscal Year 2022 through 2026

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

Steve Powers, City Manager

City of Salem Budget Office

January 2021



Table of Contents

Why We Forecast _____	5
How to Use This Document _____	6
Forecast Snapshot _____	7
General Fund _____	8
Transportation Services Fund_____	19
Utility Fund _____	28
Willamette Valley Communication Center (WVCC) Fund _____	36
Airport Fund _____	44
Building and Safety Fund _____	45
Cultural and Tourism (TOT) Fund _____	46
Document Services, City Services Fund _____	48
Emergency Services Fund _____	49
Fleet Services, City Services Fund _____	50
Radio Communications, City Services Fund _____	51
Self Insurance Fund, Benefits _____	52
Self Insurance Fund, Risk _____	53
Streetlight Fund _____	54
Economic Outlook, Tim Duy Economic Consulting _____	55
Citywide Expenditure Financial Forecast Risks and Rankings_____	59

Appendix

A – Assumptions for Forecast _____	A1 – A4
B – Property Tax Tables_____	A5 – A8
C – Other Background Information_____	A9 – A14

Five-Year Financial Forecasts, FY 2022 – FY 2026

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, the quality of our environment and neighborhoods and the vitality of the economy. While an update of the strategic plan is underway and the City’s mission may change, fiscal stewardship and sustainability continues 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 typically provided by the City. With the increase in expenses, strategies to move toward alignment include analysis of alternate ways to deliver services, opportunities for additional revenues, 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 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 14 funds. It highlights in greater detail four of the forecasts prepared by City staff – General Fund, Transportation Services Fund, Utility Fund, and the WVCC* Fund. The forecasts are developed within the framework of City Council goals, fiscal responsibility, and continuity of City services.

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

How To Use This Document

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

- a brief summary and additional information about forecast results,
- a schedule demonstrating the result of revenue and expenditure assumptions for the five-year forecast period,
- revenue and expenditure detail, and
- revenue risk factors and rankings.

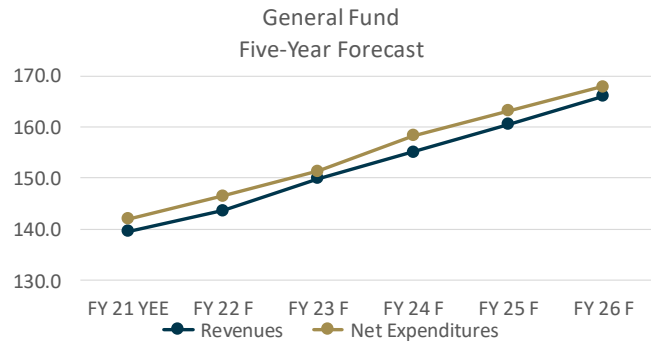
The remaining 10 fund forecasts are presented next in the document with a one-page summary for each fund. The page includes a numeric table with the five-year result, a brief narrative explanation, highlighted risk factors, and graphic displays of historical and projected revenues and expenditures.

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

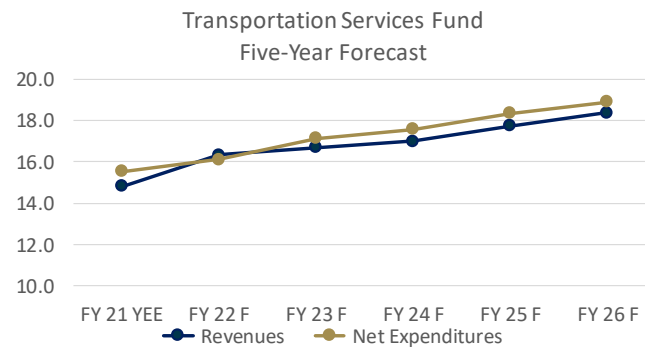
An analysis of Citywide expenditure risk factors and rankings closes the document. The appendices focus primarily on the General Fund and property tax, but also provide additional detail on assumptions employed in developing the forecasts.

Forecast Snapshot

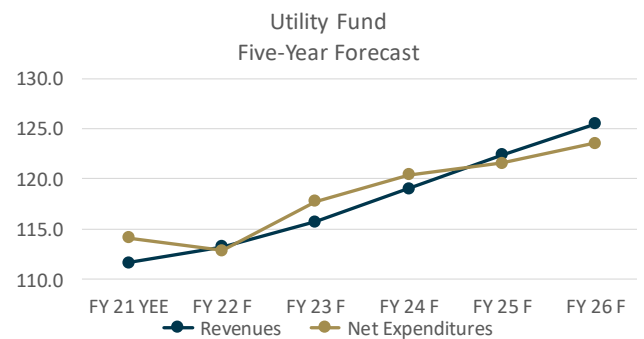
The forecast for the *General Fund* demonstrates a structural imbalance between current, available revenue and the cost of providing services. With the approval of the City Operations fee to support General Fund services, this imbalance over the forecast period is reduced, but not completely resolved.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



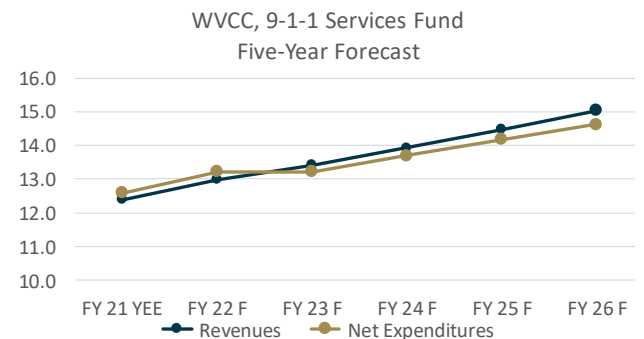
The *Transportation Services Fund* forecast reflects cost savings as the result of shifting the operation and maintenance of the streetlight system to the Streetlight Fund (forecast on page 54) and anticipated increases in state highway fund revenues. However, these two contributions are not sufficient to stall an imbalance between current revenues and the expense of transportation services. (More detail on page 19.)



Consistent rate increases are modeled in the forecast for the *Utility Fund* and provide sufficient resources to operate and maintain the water, wastewater, and stormwater utility systems over the five-year period. In addition, the forecast demonstrates an approximate \$34-39 million annual contribution through debt service payments and pay-as-you-go funding for Utility capital improvements. (More detail on page 28.)



In the past few years, the *WVCC Fund* transitioned from a period of financial stress to improved fiscal health due to the willingness of member agencies to align the rates they pay to the cost of service. This forecast includes the addition of a capital project to replace the CADD system. (More detail on page 36.)

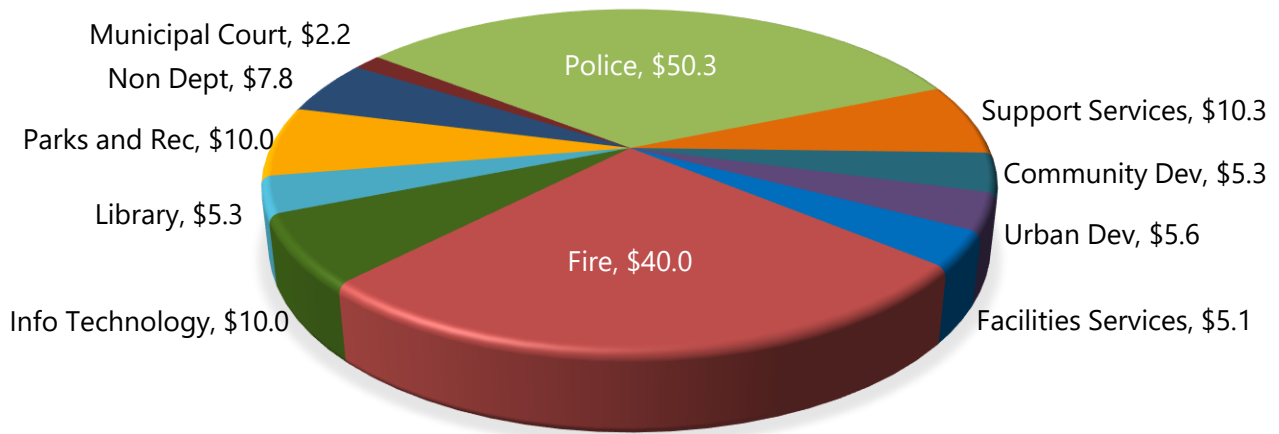


General Fund

Summary

The City's General Fund supports operations in the areas of public safety, planning, code enforcement, public library, municipal court, parks and recreation, urban development, and support services that provide a Citywide benefit. The General Fund five-year forecast is built with a baseline set of assumptions that represent a reasonable level of consistency with current service delivery.

General Fund FY 2022 Forecast
Total Expenditures \$151.9 Million



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

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

The General Fund forecast for FY 2022 – 2026 continues the trend experienced during fiscal years 2017 through 2019 where expenditures exceed revenues. In the out years, the growth rate of expenses has flattened which has positively impacted the gap between revenues and expenses.

Current Status

The City's strong financial management practices have helped to maintain General Fund fund balance at a level near the City Council's policy of 15 percent of budgeted revenues. 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 and reduces borrowing costs for capital improvements, and provides resources to manage the cyclical nature of revenue receipts. The City needs over \$27 million in available cash or fund balance to avoid borrowing and to pay for expenses from July through October each fiscal year in the General Fund. The General Fund's largest revenue source, property taxes, begin to be received in the month of November.

FY 2021 began with fund balance of nearly \$25 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. The year-end estimate for FY 2021 indicates further use of fund balance, or one-time funds, to balance anticipated expenditures and is projected to be \$23.1 million by the end of the fiscal year, a reduction of \$2.5 million. Additional CARES funding was received in FY 2021 but was offset by reduced revenue from COVID-19 restrictions as well as additional expenses because of the pandemic, such as business grants and programs for Salem's unsheltered population.

Future Outlook

The outlook for the next five years is more positive than the forecast results presented in prior years. While General Fund expenditures continue to exceed revenues for the forecast period, additional revenue from the City Operating Fee narrows the gap and ending fund balance remains positive through the fifth year of the forecast. Fund balance is also bolstered by legislative changes to PERS that redirect a portion of the 6 percent employee Individual Account Program (IAP) contribution to reduce employer contribution rates, lowering the growth in expenses over the forecast period. The City's actual experience for use of fund balance was less than the amount documented in the prior forecast. This is due to savings from delayed hiring and one-time funds received because of the pandemic, as well as purchases and projects carried over from one year to the next (shown in Table 3). While fund balance was not accessed to balance expenditures in FY 2020, the trend of using fund balance is anticipated to continue throughout the forecast period, but not to the extent of exhausting fund balance.

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

- FY 2022 is the first year of a biennium with employer rates for PERS Tiers 1 / 2 at 24.21 percent, a decrease of approximately 5 percent from the FY 2021 rate.
- The benefit of the 3 percent statutory limit on property tax growth is the consistent source of revenue it provides. Property tax is estimated at \$78 million for FY 2022,

representing 55 percent of all General Fund revenues. This demonstrates the disadvantage of the consistent rate of growth for property tax - its insufficiency to keep pace with the rate of cost increases for General Fund services. The forecast for FY 2022 through FY 2026 anticipates property valuation gains of 4.4 percent on average, the statutory limit plus a level of increase for new growth.

- Forecasted costs for the General Fund’s two largest departments – Police and Fire – equate to \$90.3 million for FY 2022, nearly 61 percent of the fund’s budget (without contingency). The FY 2022 forecast expense for the two public safety departments exceeds the current year base budget by \$4.48 million or 5.2 percent.

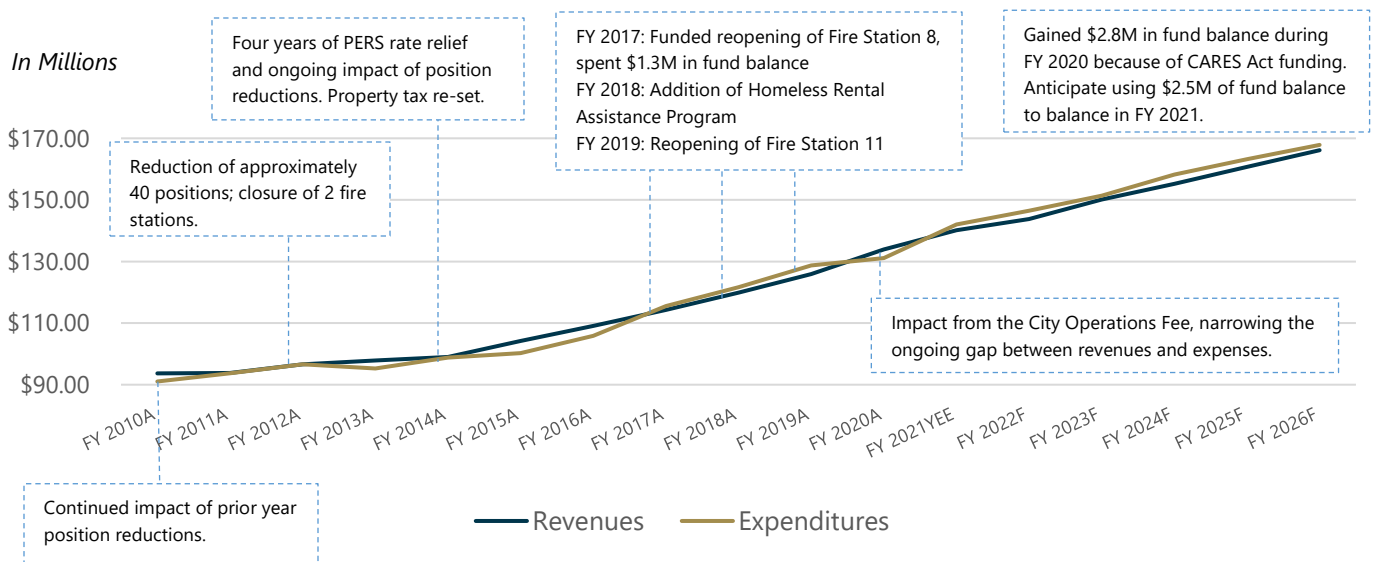
Forecast Result

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

The pandemic negatively impacted many categories of City revenue. With the assumption of revenue returning to trend mid-fiscal year 2022, the fund is predicted to realize aggregate increases of 2.9 percent to 4.4 percent through the forecast period. This projected growth is not sufficient to meet the increasing cost of providing services, which are anticipated to grow by a range of 2.8 percent to 6.9 percent. The primary drivers of expense increases for the fund remain those associated with the cost of employees.

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

General Fund Revenue and Expenditure History and Forecast



General Fund Table 1, FY 2022 – FY 2026 Forecast Summary

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

	FY 2021 YEE	FY 2022 F	FY 2023 F	FY 2024 F	FY 2025 F	FY 2026 F
Beginning Fund Balance	\$ 24.97	\$ 22.50	\$ 19.62	\$ 18.19	\$ 14.97	\$ 12.31
Revenues	\$ 139.57	\$ 143.62	\$ 149.98	\$ 155.06	\$ 160.53	\$ 165.98
Total Expenditures	\$ 142.04	\$ 151.89	\$ 156.91	\$ 163.91	\$ 168.91	\$ 173.70
Unspent Contingency		(2.50)	(2.50)	(2.50)	(2.50)	(2.50)
2% Savings		(2.88)	(2.99)	(3.13)	(3.23)	(3.34)
Net Expenditures	\$ 142.04	\$ 146.51	\$ 151.42	\$ 158.28	\$ 163.18	\$ 167.86
Fiscal Year Impact	\$ (2.46)	\$ (2.88)	\$ (1.44)	\$ (3.22)	\$ (2.65)	\$ (1.88)
Ending Fund Balance	\$ 22.50	\$ 19.62	\$ 18.19	\$ 14.97	\$ 12.31	\$ 10.44
<i>Fund Balance Policy at 15% of Revenue</i>	\$ 20.94	\$ 21.54	\$ 22.50	\$ 23.26	\$ 24.08	\$ 24.90



Forecast Result – General Fund Current Service Level Detail

The forecast expenditure base is adjusted for all known and projected service level costs. This includes market adjustments or cost-of-living increases for all represented work units, as well as non-represented staff. These increases are held at 2 percent in the forecast for any year not included within a current labor contract. The expenditure base also includes estimated PERS rate escalations for FY 2024 and FY 2026. Health benefits rate increases align with actuarial guidance. Most materials and services category items (professional services, supplies, equipment) have a 2 percent inflation during the five-year period. The forecast also includes a contribution of 1 percent of direct compensation for the Oregon Paid Family and Medical Leave Insurance Program that begins January 1, 2022.

Despite increases, which align with a five-year (FY 2016 – FY 2020) 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 ranging from averaging 3.5 percent through the forecast period. As context, the level of aggregate savings realized in FY 2020 was 5.1 percent and FY 2021 year-end savings are estimated at 4.7 percent.

General Fund Table 2, FY 2022 – FY 2026 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 FY 2022. Throughout the forecast period, net expenditures exceed revenues by a range of \$1.4 million to \$3.2 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 2021 YEE	FY 2022 F	FY 2023 F	FY 2024 F	FY 2025 F	FY 2026 F
Beginning Fund Balance	\$ 24.97	\$ 22.50	\$ 19.62	\$ 18.19	\$ 14.97	\$ 12.31
Revenues	\$ 139.57	\$ 143.62	\$ 149.98	\$ 155.06	\$ 160.53	\$ 165.98
Total Expenditures	\$ 142.04	\$ 151.89	\$ 156.91	\$ 163.91	\$ 168.91	\$ 173.70
Unspent Contingency		(2.50)	(2.50)	(2.50)	(2.50)	(2.50)
2% Savings		(2.88)	(2.99)	(3.13)	(3.23)	(3.34)
Net Expenditures	\$ 142.04	\$ 146.51	\$ 151.42	\$ 158.28	\$ 163.18	\$ 167.86
Fiscal Year Impact	\$ (2.46)	\$ (2.88)	\$ (1.44)	\$ (3.22)	\$ (2.65)	\$ (1.88)
Ending Fund Balance	\$ 22.50	\$ 19.62	\$ 18.19	\$ 14.97	\$ 12.31	\$ 10.44

General Fund Table 3, FY 2022 – FY 2026 Forecast, Carryovers

The forecast outcome of Table 3 mirrors Table 2 with the addition of an estimate for carryovers in FY 2021. 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 2021 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 2021 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 2021 YE Estimate	FY 2022 Forecast	
Fund balance	\$ 24.97	\$ 24.00	1
Revenues	139.57	143.62	
TOTAL RESOURCES	\$ 164.54	\$ 167.62	
TOTAL EXPENDITURES	\$ 142.04	\$ 153.39	2
Unspent Contingency			
2% Savings			
Carryovers	(1.50)		
NET EXPENDITURES	\$ 140.54		1
ENDING FUND BALANCE	\$ 24.00		
Chg to Fund balance	(0.97)		

Forecast Result – Revenue Detail

The revenue estimates presented in this document rely on analysis of county property tax records, adjustments in utility rates / costs, local building activity, legislated changes, recent historical trends, and other economic drivers. Revenue projections include the estimated impact of the COVID-19 pandemic on City revenues as well as the assumption of recovery to historical trends by December 2021. While the General Fund's largest revenue sources are generally unaffected, parks and recreation fees, parking and court fines, and parking rent have decreased sharply during the pandemic. The forecast uses FY 2021 revenue sources and year-end estimates augmented with assumptions for growth in all revenue categories with the exception of grants due to one-time CARES Act funding, franchise fees with a reset in telecommunications, and interest income as fund balance declines. The range of growth assumptions includes:

- The impact of the full 3 percent statutory increase and 1.04 to 2.80 percent for new growth in current property tax revenues. Tax receipts increase year-over-year in the forecast by \$3.3 million to \$3.5 million.
- A franchise fee base remaining flat for FY 2021 estimates and ongoing aggregate increases ranging from negative 0.6 percent to 1.3 percent, an anticipated reduction of cable receipts with changes in technology and demand, and a reduction in telecommunications to reflect changes in federal regulations.
- The decline in parking activity downtown during the pandemic translated to a drastic reduction in parking meter revenue and parking fines (see fine and penalty information below) in FY 2021. Other impacts to rents are the cyclical effect of legislative sessions meter revenue with an approximate 15 percent increase during a full session (FY 2023, FY 2025), a decrease for police staff no longer paying for parking, and the temporary closure of the Library parking structure.
- The impact of an increase by the state to 9-1-1 revenues in FY 2022, as well as steady increases at 5 percent to alcohol and 4 percent to revenue sharing combined with a decrease to marijuana state shared revenues due to the passage of Measure 110 drives an average 3 percent increase to this revenue category, which also includes taxes on cigarette sales (declining). In November 2020, voters approved an increase to cigarette taxes which is dedicated to State programs and does increase state shared revenues received by the City.
- The City Operations Fee which is expected to generate between \$7.1 million and \$7.9 million in each year of the forecast.
- A combination of factors influencing fine and penalty revenue including:
 - FY 2021 estimated parking and court fine revenue decreased due to the pandemic by 33% and 22% respectively. FY 2022 reflects an anticipated recovery to normal trending mid-year.
 - Parking fines alternating increases / decreases aligned with parking meter revenue.

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

	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026
Property Taxes	\$ 78.05	\$ 81.42	\$ 84.73	\$ 88.17	\$ 91.73
Sales Tax	1.34	1.42	1.51	1.60	1.70
Franchise Fees	17.90	18.13	18.40	18.58	18.80
State Shared Revenues	7.33	7.61	7.90	8.16	8.43
Fees for Services / Other Fees	11.61	11.95	12.23	12.53	12.83
Fines, Penalties, and Forfeitures	1.99	2.47	2.53	2.56	2.63
Rents, Permits, Licenses	3.21	3.69	3.58	3.77	3.65
Cost Allocation / Internal Chgs	17.32	18.10	18.99	19.95	20.93
Other Agencies, Grants	2.49	2.78	2.82	2.88	2.97
Transfer from Other Funds	1.58	1.63	1.68	1.73	1.78
Miscellaneous	.81	.78	.73	.60	.53
TOTAL REVENUES	\$ 143.62	\$ 149.98	\$ 155.06	\$ 160.53	\$ 165.98
% Change from Previous Year	2.90%	4.43%	3.38%	3.53%	3.40%

Forecast Result – Expenditure Detail

The base forecast for the General Fund is developed using cost escalation information from labor agreements, health insurance consultant analysis, up-to-date PERS rate information and estimates for future years, vendor contracts, the Consumer Price Index, and other research to inform five years of expense inflation factors. The assumption tables used for expenditures are included in appendix A. The forecast includes a general inflationary increase of 2 percent to expenses in the materials and services category.

General Fund Table 5 summarizes the five-year expenditure forecast by expense category. Increased rates for compensation market adjustments, PERS obligations, and health insurances for current employees prompt increases in personal services. The area of the table with italicized text demonstrates the effect on base expenditures of anticipated savings and unspent contingencies to provide the calculation in the *Total Net Expenditures* row. In the FY 2022 column, the percent change from the previous year (bottom row) is based on the comparison of FY 2021 year-end estimates and the FY 2022 forecast.

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

	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026
Personal Services	\$ 118.63	\$ 123.39	\$ 129.58	\$ 133.94	\$ 138.49
Materials and Services	28.79	28.77	29.46	30.18	29.57
Capital Outlay	0.46	0.47	0.48	0.49	0.50
Debt Service	0.39	0.39	0.39	0.39	0.39
Transfers*	0.61	0.87	1.00	0.91	0.41
Contingency	3.00	3.00	3.00	3.00	3.00
TOTAL EXPENDITURES	\$ 151.89	\$ 156.91	\$ 163.91	\$ 168.91	\$ 173.70
<i>Less:</i>					
<i>Unspent Contingency</i>	<i>(2.50)</i>	<i>(2.50)</i>	<i>(2.50)</i>	<i>(2.50)</i>	<i>(2.50)</i>
<i>Anticipated Savings (2%)</i>	<i>(2.88)</i>	<i>(2.99)</i>	<i>(3.13)</i>	<i>(3.23)</i>	<i>(3.34)</i>
TOTAL NET EXPENDITURES	\$ 146.51	\$ 151.42	\$ 158.28	\$ 163.18	\$ 167.86
% Change from Previous Year	6.93%	3.31%	4.46%	3.05%	2.83%

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

Forecast Variability – Fund Balance Scenarios

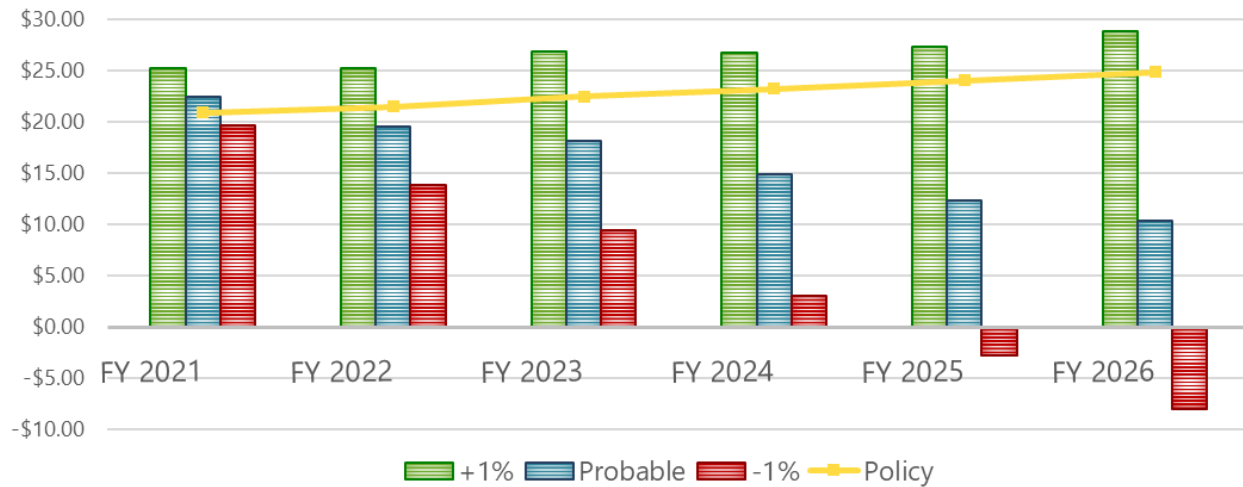
The graph below demonstrates variable results of the FY 2022 – FY 2026 forecast through the display of fund balance - the difference between resources and expenditures for each fiscal year. There are three scenarios presented.

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 gold horizontal line representing the dollar equivalent of City Council policy for General Fund 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 and an additional 1 percent of expenditure savings. The outcome of these variables does stabilize fund balance. Fund balance remains in compliance with policy throughout 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 2024.

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

Current Status

In 2017, the Oregon State Legislature passed HB 2017, *Keep Oregon Moving*, providing increases in State Highway Fund revenue for the purpose of making a significant investment in transportation. The legislation contains conditional increases anticipated in January 2022 and 2024 based on accountability requirements in the HB 2017; which will boost overall revenues through 2025. If these requirements are not met, there is a risk that revenue forecasts will be reduced in 2022 or 2024.

The Oregon Department of Transportation (ODOT) provides a forecast of State Highway Fund revenue twice a year. ODOT initially revised revenue projections in July 2020 to reflect the impacts of COVID-19; fuel consumption and travel decreased resulting in lower revenues. In October 2020, ODOT further revised projections assuming 90 percent of 2019 adjusted revenue through summer of 2021. The ODOT forecast update resulted in an anticipated revenue reduction of \$1.6 million in FY 2021 for the City of Salem.

The City's Transportation Services Fund forecast is based on the October 2020 ODOT forecast and anticipates a pandemic-related revenue reduction through summer 2021, a return to a more typical revenue pattern in fall 2021, and the anticipated increases in 2022 and 2024 from HB 2017. The FY 2021 Transportation Services Fund beginning fund balance was \$3.2 million and is projected to decline to \$2.5 million by the end of this fiscal year. The anticipated loss of \$1.6 million in State Highway Fund revenue is partially offset by forced savings from prolonged vacancies and a reduction in the transfer to the fleet reserve.

If assumptions hold, and the anticipated conditional State Highway Fund revenue increases are realized in 2022 and 2024, the Transportation Services Fund will be able to sustain basic operations. Funding is insufficient, however, to support either structural pavement maintenance and reconstruction activity or a robust safe crossings program without additional funding from other sources. Investment for safe crossings will be funded through limited Streets and Bridges Bond savings, federal grants, and matching funds from State Highway Revenue. The sidewalk repair program and pavement maintenance activities continue at current levels through the five years of the forecast.

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 are proposed to include minimal asphalt paving using in-house City resources to complete a combination of maintenance overlays as well as mill and inlay repairs. Preventive pavement maintenance, including crack seal and slurry seal treatments, will also be continued on residential and higher traffic volume streets. Available funding is insufficient to support ongoing structural pavement rehabilitation projects beyond this limited in-house maintenance program.

Two positions are proposed as conversions from seasonal labor to support the in-house paving program, to recruit qualified candidates and sustain a skilled workforce. Costs are partially offset by a reduction in seasonal labor. The forecast also includes the addition of one position in FY 2025 to support street sweeping activities which are fully reimbursed with stormwater revenue. Due to current funding limitations, equipment replacements and capital outlay have been reduced and deferred. The loss of several inmate labor crews is anticipated in late FY 2021 and may result in increased costs to provide the same level of service through contract with a private landscaping company or with additional staff. However, the financial impact of this change is still unknown.

In November 2008, Salem voters approved a "Keep Salem Moving" \$100 million/ 40+ project bond to pay for street and bridge projects that relieve congestion, improve safety, and rebuild or maintain pavement and bridges in Salem. Due to careful financial and project management, the City was able to use bond savings and leverage other funds to address additional transportation needs, including neighborhood sidewalk reconstruction. As the bond-funded projects near completion, remaining bond proceeds may be allocated to future transportation projects. It is possible to use a portion of the 2008 Streets and Bridges bond savings for pedestrian safety improvements. This relieves the Transportation Services Fund from \$125,000 of annual transfers for pedestrian safety projects.

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

The forecast employs a 4 percent savings rate, 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 2021 budget and maintains the \$1.7 million annual program for sidewalk maintenance and replacement, including the Sidewalk Response Team, during the five years of the forecast. The forecast also maintains \$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 economic recovery from the COVID-19 pandemic. Routine activities such as signs, markings, striping, right-of-way landscape and tree maintenance, snow and ice response, shoulder / alley grading, pedestrian and bicycle safety improvements, and traffic signal operations and maintenance are supported throughout the forecast period. Available revenue is insufficient to fund an ongoing structural pavement rehabilitation program. Large capital investments in the transportation system will require supplemental funding through future bond measures. Pedestrian Safety improvements are assumed to be funded with remaining bond funds.

A greater level of pavement maintenance and sidewalk replacement is desired over time. The 2018 Sustainable Services Revenue Task Force recommended City Council explore three revenue generating opportunities. The first two represented revenues to the General Fund. The Operations Fee was implemented in January 2020, and the payroll tax was scheduled to be on the ballot in May 2020 but was pulled from consideration. The third recommendation, a local option gas tax, remains to be considered and referred to voters at some point in the future. If enacted at a rate of \$0.06 per gallon, a local option gas tax is anticipated to provide \$4.8 million in annual resources. A portion of these resources could be directed 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. A local option gas tax requires voter approval. The local tax allows all who benefit from the transportation system – residents, workers, and visitors – to contribute to its maintenance.

Another option to reduce the pressure of the fund is to determine the future of the Sidewalk Repair program which the City Council adopted in 2007. The program places a significant portion of the maintenance responsibility for sidewalks on the City and maintenance needs far surpass the capacity of the current program. A part of the city's strategic plan is to evaluate the program's effectiveness, potential improvements, and an exploration of alternative approaches.

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

TS Fund Table 1, FY 2022 – FY 2026 Forecast Summary

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

	FY 2021 YEE	FY 2022 F	FY 2023 F	FY 2024 F	FY 2025 F	FY 2026 F
Beginning Fund Balance	\$ 3.24	\$ 2.52	\$ 2.75	\$ 2.32	\$ 1.74	\$ 1.15
Revenues	\$ 14.81	\$ 16.34	\$ 16.70	\$ 17.00	\$ 17.74	\$ 18.38
Net Expenditures	\$ 15.53	\$ 16.11	\$ 17.14	\$ 17.57	\$ 18.33	\$ 18.89
Ending Fund Balance	\$ 2.52	\$ 2.75	\$ 2.32	\$ 1.74	\$ 1.15	\$ 0.64

Change to Fund Balance

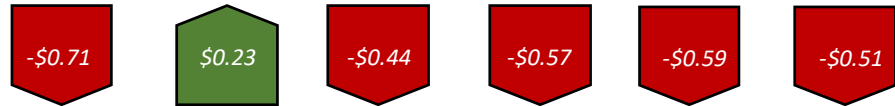


Table 2 is the full summary of the Transportation Services Fund forecast, including the components of *Net Expenditures*. Personal services costs in this forecast are based on current labor contracts, and in the later years of the forecast, annual adjustments to salary are 2 percent.

TS Fund Table 2, FY 2022 – FY 2026 Forecast Summary

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

	FY 2021 YEE	FY 2022 F	FY 2023 F	FY 2024 F	FY 2025 F	FY 2026 F
Beginning Fund Balance	\$ 3.24	\$ 2.52	\$ 2.75	\$ 2.32	\$ 1.74	\$ 1.15
Revenues	\$ 14.81	\$ 16.34	\$ 16.70	\$ 17.00	\$ 17.74	\$ 18.38
Total Expenditures	\$ 15.53	\$ 17.25	\$ 18.31	\$ 18.78	\$ 19.56	\$ 20.16
Unspent Contingency		(0.50)	(0.50)	(0.50)	(0.50)	(0.50)
8% Savings		(0.64)	(0.67)	(0.70)	(0.73)	(0.76)
Net Expenditures	\$ 15.53	\$ 16.11	\$ 17.14	\$ 17.57	\$ 18.33	\$ 18.89
Fiscal Year Impact	\$ (0.71)	\$ 0.23	\$ (0.44)	\$ (0.57)	\$ (0.59)	\$ (0.51)
Ending Fund Balance	\$ 2.52	\$ 2.75	\$ 2.32	\$ 1.74	\$ 1.15	\$ 0.64

Forecast Result – Revenue Detail

The revenue forecast is developed using conservative growth expectations for Transportation Services’ revenue sources. It reflects current revenues, acknowledges the continued anticipated impact of HB 2017 and COVID-19, and assumes no new or unrealized revenues. Approximately 80 percent of Transportation Services’ resources (excluding beginning fund balance) come from State Highway Fund revenue.

With HB 2017, additional increases of 2 cents per gallon are anticipated in 2022 and 2024 subject to the state meeting accountability and reporting requirements. The State Highway Fund’s revenue distribution is approximately 50 percent to the Oregon Department of

Transportation, 30 percent to counties, and 20 percent to cities. The City’s allocation is based on population and is 5.72 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 2021 YEE	FY 2022 F	FY 2023 F	FY 2024 F	FY 2025 F	FY 2026 F
State Highway Revenue	\$ 11.57	\$ 12.96	\$ 13.19	\$ 13.37	\$ 13.87	\$ 14.39
Intra City Billings and Transfers	2.41	2.57	2.67	2.76	2.98	3.08
Other Agencies, Grants	0.47	0.49	0.51	0.52	0.54	0.55
All Other Sources	0.35	0.32	0.33	0.34	0.35	0.36
TOTAL REVENUES	\$ 14.81	\$ 16.34	\$ 16.70	\$ 17.00	\$ 17.74	\$ 18.38

Forecast Result – Expenditure Detail

The expenditure forecast is developed based on anticipated increases in the cost of labor, materials, and capital. When available, it uses known expenditure information such as labor agreements, vendor contracts, PERS rates, health care cost increases, and inflation factors.

Table 4 summarizes the five-year expenditure forecast by expense category. The forecast assumes \$1.7 million for sidewalk maintenance programs and \$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 \$277,000 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 nearly \$2.0 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 2021 YEE	FY 2022 F	FY 2023 F	FY 2024 F	FY 2025 F	FY 2026 F
Personal Services	\$ 6.23	\$ 7.28	\$ 7.57	\$ 8.01	\$ 8.45	\$ 8.75
Materials and Services	8.21	8.83	9.26	9.61	9.88	10.34
Capital Outlay	0.28	0.04	0.36	0.04	0.04	-
Debt Service	-	-	-	-	-	-
Transfers	0.81	0.61	0.62	0.61	0.70	0.57
Contingency	-	0.50	0.50	0.50	0.50	0.50
Total Expenditures	\$ 15.53	\$ 17.25	\$ 18.31	\$ 18.78	\$ 19.56	\$ 20.16
Less:						
<i>Unspent Contingency</i>		(0.50)	(0.50)	(0.50)	(0.50)	(0.50)
<i>Anticipated Savings</i>		(0.64)	(0.67)	(0.70)	(0.73)	(0.76)
Net Expenditures	\$ 15.53	\$ 16.11	\$ 17.14	\$ 17.57	\$ 18.33	\$ 18.89

Forecast Variability – Fund Balance Scenarios (Values in Millions)

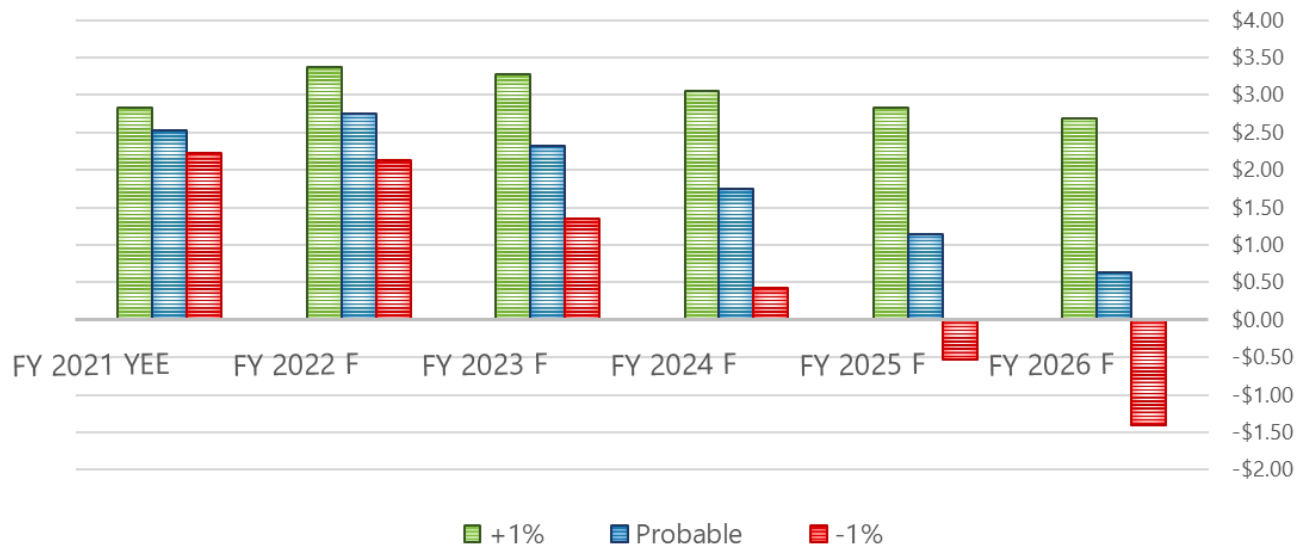
The graph below demonstrates variable results of the FY 2022 – FY 2026 forecast through the display of fund balance - the difference between resources and expenditures for each fiscal year. There are three scenarios presented.

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 \$303,390 to \$372,750 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 2024, this demonstration reflects fund balance being depleted by 80.6 percent, a loss of \$1.79 million, as compared to year-end FY 2021.

(Values in Millions)



Transportation Services Fund Forecast Risks and Rankings

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

Forecast Risk – Revenue

	Ranking	Percent Total Revenue
State Highway Fund Revenue	MEDIUM	80%

State Highway Fund Revenue

Transportation Services’ primary revenue source is the City’s allocation of State Highway Fund revenues – a revenue source over which the City has little or no control. Revenues are impacted by worldwide, national, and regional factors including the COVID-19 pandemic, availability of fuels, prices, transport costs, refinery capacity, vehicle technology, and consumer behavior. The amount and allocation of motor vehicle fuel taxes and Department of Motor Vehicle fees are determined by the state legislature. The ongoing risk to the City is that if actual State Highway Fund revenue received is less than forecasted, a corresponding reduction in City services will be required.

Risk Factor Ranking – MEDIUM

State Highway Fund revenue can be subject to changes in legislation, technology, petroleum supplies, prices, and consumer behavior. As the primary revenue source for the City’s transportation services, potential changes need to be monitored and, in the case of legislative challenges, defended.

Utility Fund Summary

The City manages its utility services in a fiscally responsible manner to ensure ongoing day-to-day operations and provide capital funding for infrastructure. The Utility Fund (Fund 310) supports:

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

Current Status

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

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

FY 2021 began with a fund balance of \$52.2 million, an increase of \$6.7 million from the prior fiscal year.

Future Outlook

The forecast presented this year provides for 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, the amount exceeding the debt service and operating reserves, remains positive for the term of the forecast, but declines to just \$314,000 in FY 2024. 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 and the current COVID-19 pandemic while projecting rate increases consistent with previous financial plans. The reserves also provide financial stability for a revenue stream that can vary as a result of customer demand or decline due to delinquencies and write-offs.

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

Utility Fund revenues are assumed to grow at an average rate of 2.4 percent throughout the forecast period. This level of growth maintains operations and supports an annual transfer for capital construction of \$18 million to \$23 million during the five-year period as debt obligations are reduced from \$19.1 million to \$13.3 million annually.

Assumptions and highlights of this forecast include:

- Over the forecast period, revenue growth adequately maintains operations and allows for an increase in the transfer for capital construction. The final year of proceeds from the \$16.9 million sale of a portion of Salem’s Willamette River water rights to the City of Hillsboro is reflected in FY 2022.
- The forecast establishes capacity for capital funding. Capital funding is maintained over the five-year period as debt is retired. The Capital Improvement Plan identifies major capital improvement projects for the community. Overall system consumption increased slightly in FY 2018 after years of declining consumption, and this trend continued with a 1.5 percent increase in system-wide water sales in FY 2019. Consumption in 2020 declined during the pandemic in commercial and public classifications and increased in residential and multifamily. The forecast assumes these trends will continue through FY 2021 for water consumption. Wastewater volumes set in April 2021 based on water consumption during November 2020 through February 2021 will be in place through March 2022.
- As of December 1, 2020, a total of \$1.5 million in revenue remained uncollected from delinquent utility accounts. All accumulated delinquencies as of January 1, 2021, will be transferred to a 12-month no interest, no penalty payment plan managed by the City’s Finance Department. These delinquencies continue to show as revenue until some time in the future when they may be written off and turned over to a collection agency.

Forecast Result

Utility Fund Current Service Level Detail

The Utility Fund forecast provides a view of the financial impact on the City's utilities services, priorities, and policies in relation to projected economic activity through FY 2026. This view is influenced by federal and state economic factors and trends, local business activity and property development, and growth in primary revenue sources. Water, wastewater, and stormwater rate revenues are anticipated to provide approximately 83 percent of the fund's total new revenue in FY 2022. Additionally, the forecast includes a variety of assumptions for expenditure activity over five years. The primary drivers of expense increases include labor agreements, PERS and health care costs, energy costs, and inflationary increases on contracted goods and services. The tables for expenditure assumptions are included in Appendix A of this document.

Developing a forecast for water, wastewater, and stormwater utilities requires establishing specific assumptions regarding the customer base, growth, consumption, economic trends, operating needs, and capital requirements. All assumptions have been reviewed based on historical data through FY 2020 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 2021 Year End (YE) Estimate column as the base year. The base year uses current information to update revenue trends and adjust the expenditure base for any ongoing service level changes. The October 2020 City Council-adopted rate adjustments are reflected for calendar years 2021 and 2022: 3 percent for water, 3 percent for wastewater, and 5 percent for stormwater. The remaining years of the forecast assume a 3 percent revenue slope for water and wastewater and 5 percent for stormwater through 2024, with 3 percent in 2025 and 2026. The fund maintains adequate fund balance levels throughout the forecast period.

Utility Fund Table 1, FY 2022 – FY 2026 Forecast Summary

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







	FY 2021 YEE	FY 2022 F	FY 2023 F	FY 2024 F	FY 2025 F	FY 2026 F
Beginning Fund Balance	\$ 52.22	\$ 49.74	\$ 50.09	\$ 48.05	\$ 46.69	\$ 47.50
Revenues	\$ 111.65	\$ 113.23	\$ 115.76	\$ 119.04	\$ 122.38	\$ 125.50
Net Expenditures	\$ 114.13	\$ 112.88	\$ 117.80	\$ 120.40	\$ 121.56	\$ 123.54
Ending Fund Balance	\$ 49.74	\$ 50.09	\$ 48.05	\$ 46.69	\$ 47.50	\$ 49.46
<i>Change to Fund Balance</i>	 -\$2.48	 \$0.35	 -\$2.04	 -\$1.37	 \$0.81	 \$1.96

Table 2 on the next page is the full summary of the Utility Fund forecast, including the components of *Net Expenditures*. Personal services costs in this forecast are based on current labor contracts, and in the later years of the forecast, annual adjustments to salary at 2 or 3 percent depending on the bargaining unit. The forecast also includes a 1 percent expense of direct compensation for the State paid family and medical leave program that is expected to begin January 2022.

Utility Fund Table 2, FY 2022 – FY 2026 Forecast Summary

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

	FY 2021 YEE	FY 2022 F	FY 2023 F	FY 2024 F	FY 2025 F	FY 2026 F
Beginning Fund Balance	\$ 52.22	\$ 49.74	\$ 50.09	\$ 48.05	\$ 46.69	\$ 47.50
Revenues	\$ 111.65	\$ 113.23	\$ 115.76	\$ 119.04	\$ 122.38	\$ 125.50
Total Expenditures	\$ 114.13	\$ 122.37	\$ 127.62	\$ 130.47	\$ 131.83	\$ 134.03
Unspent Contingency		(3.00)	(3.00)	(3.00)	(3.00)	(3.00)
8% Savings		(6.49)	(6.82)	(7.07)	(7.26)	(7.49)
Net Expenditures	\$ 114.13	\$ 112.88	\$ 117.80	\$ 120.40	\$ 121.56	\$ 123.54
Fiscal Year Impact	\$ (2.48)	\$ 0.35	\$ (2.04)	\$ (1.37)	\$ 0.81	\$ 1.96
Ending Fund Balance	\$ 49.74	\$ 50.09	\$ 48.05	\$ 46.69	\$ 47.50	\$ 49.46

Forecast Result – Revenue Detail

The revenue forecast is developed using conservative growth expectations for the Utility Fund. Approximately 83 percent of Utility Fund resources (excluding beginning fund balance) come from one external source – rate revenue. New rates are adopted by City Council every two years. In October 2020, City Council adopted a 3 percent revenue slope for water, 3 percent for wastewater, and 5 percent for stormwater effective January 1, 2021. The remaining years of the forecast assume a 3 percent revenue slope for water and wastewater and 5 percent for stormwater through FY 2024 followed by 3 percent in FY 2025 and 2026. Table 3 summarizes the five-year revenue forecast by revenue source.

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

	FY 2021 YEE	FY 2022 F	FY 2023 F	FY 2024 F	FY 2025 F	FY 2026 F
Water, Wastewater, Stormwater Rates	\$ 91.56	\$ 94.46	\$ 97.97	\$ 101.40	\$ 104.13	\$ 106.93
Franchise Fees	3.81	3.91	4.05	4.19	4.31	4.42
Other Fees	3.46	2.67	3.03	3.11	3.19	3.28
Permitted Development	1.36	1.41	1.45	1.49	1.54	1.58
Internal Charges	6.37	6.63	7.62	7.23	7.60	7.88
All Other Sources	5.08	4.16	1.65	1.61	1.62	1.41
Total	\$ 111.65	\$ 113.23	\$ 115.76	\$ 119.04	\$ 122.38	\$ 125.50

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. One new position is included in the forecast: a systems technician to support maintenance needs of the utility’s reservoirs and pump stations.

Transfers are anticipated annually from the Utility Fund to the Capital Improvements Fund for utility construction projects. The transfers are projected to increase from \$18 million to \$23 million in each of the five years of the forecast. The transfers represent less than a 0.5 percent annual investment in the utility’s infrastructure, but when combined with the annual debt service, the investment is maintained throughout the forecast period at \$32 to \$34 million each year. The City’s goal is continual increases in the annual capital construction transfers, as debt is retired, until the transfers equal \$40 million – or 1 percent – of the asset’s \$4 billion value. This goal will allow the City to address new capital improvements and replace aging infrastructure, and assumes that, on average, infrastructure lasts 100 years.

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

	FY 2021 YEE	FY 2022 F	FY 2023 F	FY 2024 F	FY 2025 F	FY 2026 F
Personal Services	37.15	42.87	44.53	46.85	48.51	50.28
Materials and Services	32.99	38.29	40.77	41.53	42.28	43.36
Capital Outlay	1.66	1.10	1.49	1.10	1.10	1.10
Debt Service	19.08	19.06	19.05	17.32	14.40	13.28
Transfers	23.25	18.05	18.78	20.67	22.53	23.00
Contingency	-	3.00	3.00	3.00	3.00	3.00
Total Expenditures	114.13	122.37	127.62	130.47	131.83	134.03
Less:						
<i>Unspent Contingency</i>		(3.00)	(3.00)	(3.00)	(3.00)	(3.00)
<i>Anticipated Savings</i>		(6.49)	(6.82)	(7.07)	(7.26)	(7.49)
Total Net Expenditures	114.13	112.88	117.80	120.40	121.56	123.54

Forecast Variability – Fund Balance Scenarios (Values in Millions)

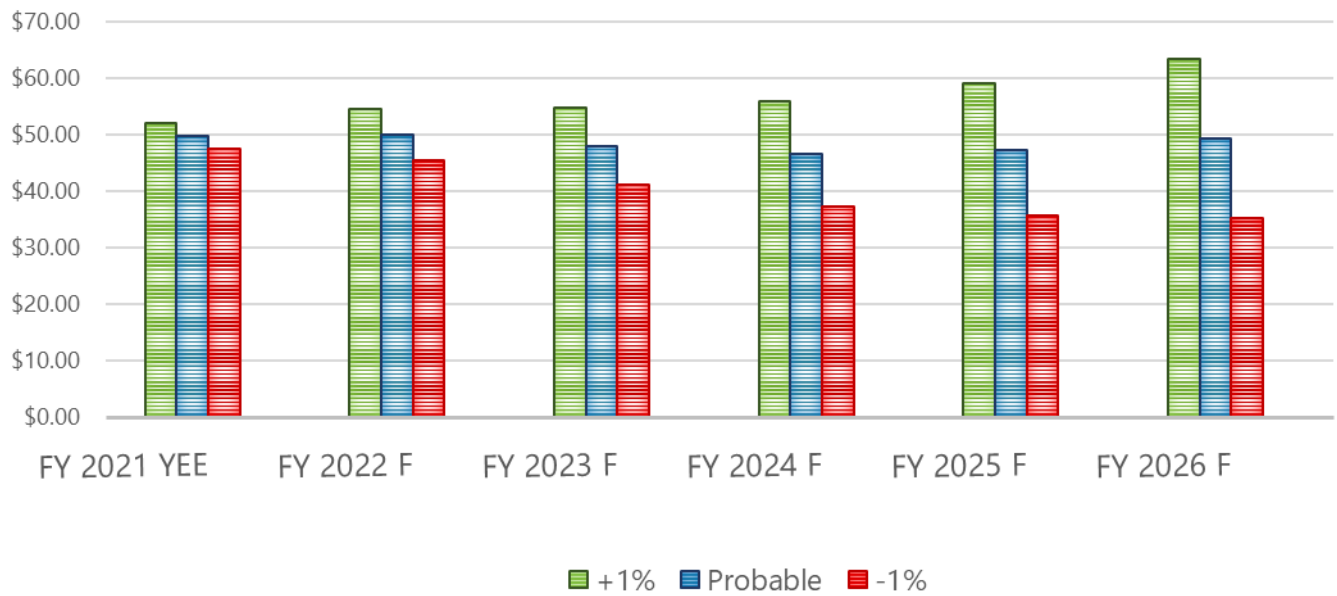
The graph below demonstrates variable results of the FY 2022 – FY 2026 forecast through the display of fund balance - the difference between resources and expenditures for each fiscal year. There are three scenarios presented.

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 up to \$14.2 million during the forecast period.

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 2026, this demonstration results in fund balance declining by \$14.5 million or 29.1 percent from the estimate for fiscal year-end 2021.

(values in Millions)



Utility Fund Forecast Risks and Rankings

The forecast acknowledges that there are risks associated with sustaining the resources needed to fund current and future City utility services. Each identified risk is evaluated on the degree it will impact service delivery and assists in determining courses of action to be taken over the five-year period.

Forecast Risk – Revenue

	Ranking	Percent Total Revenue
Water, Wastewater, Stormwater Revenue	LOW	83%

Water and Wastewater Rate Revenue

Decreasing water consumption is a national trend, and Salem is not unique in facing this challenge. Most of the costs to provide utility services to customers are fixed. A very small percentage of costs are related to the volume of water produced or wastewater accepted. When consumption declines and revenue is adversely impacted, water utilities must increase rates to maintain operations. After declining for several years, FY 2018 and FY 2019 represented 1.8 and 1.5 percent increases in water consumption respectively, while FY 2020 saw a decline of 4.7 percent. Reductions in consumption for the commercial and public customer classes have been incorporated into the forecast for both water consumption as well as the associated wastewater volumes that will be in effect from April 2021 through March 2022.

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 more appropriately assign costs of operating the system.

WVCC Fund Summary

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

Current Status

FY 2022 is a continuation of a multi-year strategy to stabilize the WVCC Fund, sufficiently staff operations, and reduce the impact of overtime. As part of this strategy, ongoing efforts to hire and train staff to meet the current turnover rate were achieved during FY 2021.

The strategy to reduce dependency on overtime is having a positive impact as overtime expense is trending to reduce by more than 20% for this year. The staff retention rate has increased to 94% for calendar year 2020. Attracting qualified candidates continues to be a significant challenge, resulting in more resources being focused towards recruitment.

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

The five-year forecast plans for a rate increase for member agencies of 4.7 percent in FY 2022. The FY 2021 rate increased by 6.7 percent to take advantage of the increased E911 tax received by the member agencies to provide additional funding for the Computer-Aided Dispatch (CAD) system described in the next section. The forecast returns the rate increase to 4.7 percent in FY 2022 with further decreases to 3.9 percent the last four years of the five-year forecast, while maintaining sufficient fund balance and reserving \$300 thousand annually for future CAD replacement needs.

Future Outlook

The forecast for the WVCC Fund demonstrates the implementation of the multi-year strategy is showing positive results. Maintenance of fund balance, which provides the opportunity to plan for equipment reserves, is an outcome achieved in this forecast.

One of the capital needs WVCC is facing in the next year is the replacement of the CAD system. The division is actively researching multiple options for this system, each of which will likely have significant capital costs. Estimated capital expenditures of \$3.4 million for the CAD system replacement is included in the forecast.

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

Forecast Result

WVCC Fund Current Service Level Detail

The forecast demonstrates a level of projected increase in revenues sufficient to meet the anticipated growth in expenditures and increase fund balance to a level of approximately \$2.4 million.

WVCC Fund Table 1, FY 2022 – FY 2026 Forecast Summary

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

	FY 2021 YEE	FY 2022 F	FY 2023 F	FY 2024 F	FY 2025 F	FY 2026 F
Beginning Fund Balance	\$ 1.69	\$ 1.49	\$ 1.26	\$ 1.46	\$ 1.69	\$ 1.98
Revenues	\$ 12.40	\$ 12.99	\$ 13.42	\$ 13.93	\$ 14.47	\$ 15.03
Net Expenditures	\$ 12.59	\$ 13.22	\$ 13.22	\$ 13.71	\$ 14.18	\$ 14.63
Ending Fund Balance	\$ 1.49	\$ 1.26	\$ 1.46	\$ 1.69	\$ 1.98	\$ 2.38



Table 2 is the full summary of the WVCC Fund forecast. Personal services costs in this forecast are based on current labor contracts, and in later years of the forecast, annual adjustments to salary at 2.5 percent. Table 2 also displays savings derived from unspent fund contingencies and a level of naturally occurring savings from employee attrition and other unanticipated economies. This level of savings is anticipated at 3.0 percent in FY 2022 and FY 2023 declining to 2.0 percent in the later years with the expectation of becoming fully staffed. The forecast also includes a 1 percent expense of direct compensation for the State paid family and medical leave program that is expected to begin January 2022.

WVCCF Table 2, FY 2022 – FY 2026 Forecast Summary

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

	FY 2021 YEE	FY 2022 F	FY 2023 F	FY 2024 F	FY 2025 F	FY 2026 F
Beginning Fund Balance	\$ 1.69	\$ 1.49	\$ 1.26	\$ 1.46	\$ 1.69	\$ 1.98
Revenues	\$ 12.40	\$ 12.99	\$ 13.42	\$ 13.93	\$ 14.47	\$ 15.03
Total Expenditures	\$ 12.59	\$ 14.09	\$ 14.11	\$ 14.48	\$ 14.96	\$ 15.42
Unspent Contingency		(0.50)	(0.50)	(0.50)	(0.50)	(0.50)
3% Savings		(0.37)	(0.39)	(0.27)	(0.28)	(0.29)
Net Expenditures	\$ 12.59	\$ 13.22	\$ 13.22	\$ 13.71	\$ 14.18	\$ 14.63
Fiscal Year Impact	\$ (0.19)	\$ (0.23)	\$ 0.19	\$ 0.23	\$ 0.29	\$ 0.40
Ending Fund Balance	\$ 1.49	\$ 1.26	\$ 1.46	\$ 1.69	\$ 1.98	\$ 2.38

Forecast Result – Revenue Detail

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

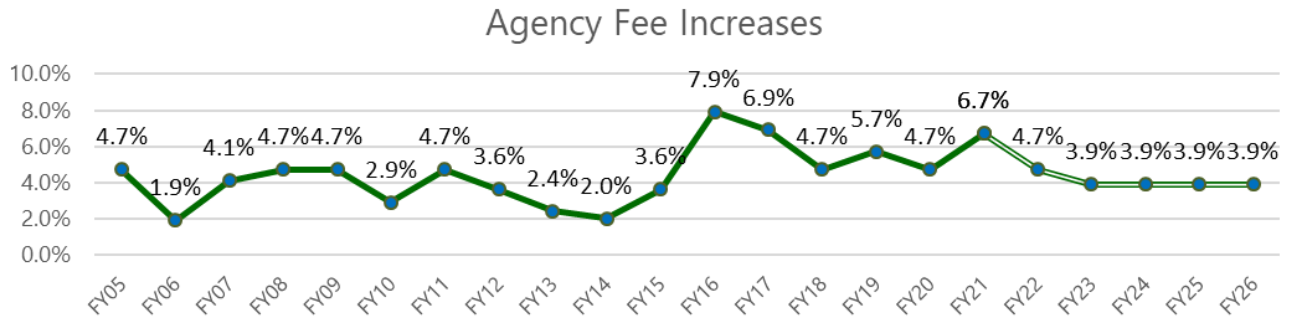


Table 3 displays all fund revenues by source.

WVCCF Table 3, Revenues by Source

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

	FY 2021 YEE	FY 2022 F	FY 2023 F	FY 2024 F	FY 2025 F	FY 2026 F
Member Agencies	\$ 6.86	\$ 7.18	\$ 7.46	\$ 7.75	\$ 8.06	\$ 8.37
Other Fees	0.03	0.02	0.02	0.02	0.02	0.02
Internal Charges*	5.33	5.58	5.79	6.02	6.25	6.50
All Other Sources	0.18	0.21	0.14	0.14	0.14	0.14
TOTAL REVENUES	\$ 12.40	\$ 12.99	\$ 13.42	\$ 13.93	\$ 14.47	\$ 15.03

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

Forecast Result – Expenditure Detail

The forecast for the WVCC Fund is developed using a base cost escalation for compensation, health insurance consultant analysis, and up-to-date PERS rate information and estimates for future years. The forecast demonstrates full staffing and a maintenance of overtime expense throughout the forecast at a base of \$533,000 to \$588,000 annually. The assumption tables used for expenditures are included in the appendix. The forecast includes a general inflationary increase of 2 percent to expenses in the materials and services category.

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

WVCCF Table 4, Expenditures by Category

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

	FY 2021 YEE	FY 2022 F	FY 2023 F	FY 2024 F	FY 2025 F	FY 2026 F
Personal Services	\$ 9.75	\$ 10.49	\$ 10.97	\$ 11.62	\$ 12.03	\$ 12.43
Materials and Services	1.71	1.98	1.97	2.02	2.09	2.15
Capital Outlay	0.13	0.12	0.07	0.04	0.04	0.04
Debt Service	-	-	-	-	-	-
Transfers	1.00	1.00	0.60	0.30	0.30	0.30
Contingency	-	0.50	0.50	0.50	0.50	0.50
TOTAL EXPENDITURES	\$ 12.59	\$ 14.09	\$ 14.11	\$ 14.48	\$ 14.96	\$ 15.42
Less:						
<i>Unspent Contingency</i>	-	<i>(0.50)</i>	<i>(0.50)</i>	<i>(0.50)</i>	<i>(0.50)</i>	<i>(0.50)</i>
<i>Anticipated Savings (2%)</i>	-	<i>(0.37)</i>	<i>(0.39)</i>	<i>(0.27)</i>	<i>(0.28)</i>	<i>(0.29)</i>
TOTAL NET EXPENDITURES	\$ 12.59	\$ 13.22	\$ 13.22	\$ 13.71	\$ 14.18	\$ 14.63

Forecast Variability – Fund Balance Scenarios

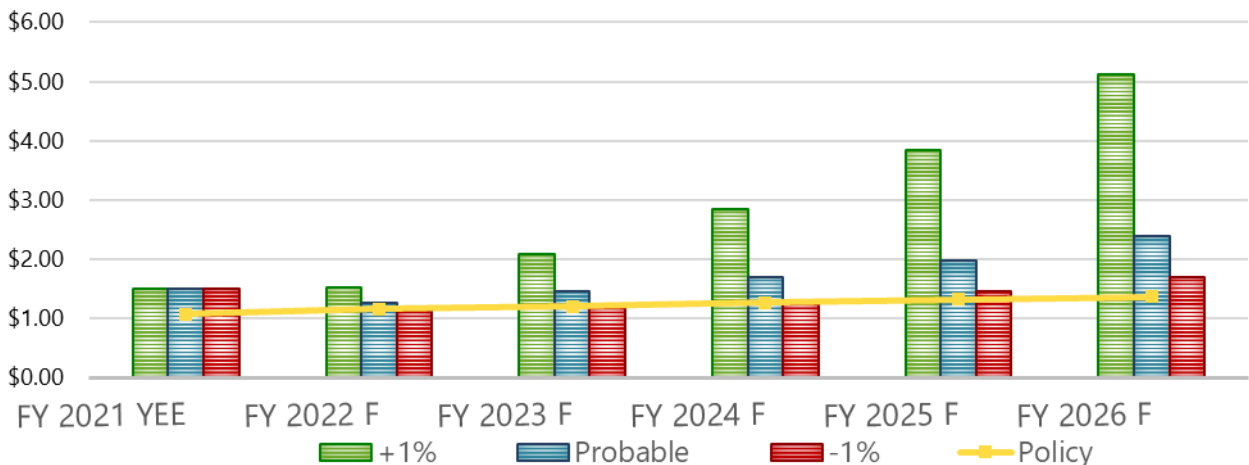
The graph below demonstrates variable results of the FY 2022 – FY 2026 forecast through the display of fund balance - the difference between resources and expenditures for each fiscal year. There are three scenarios presented.

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 gold horizontal line representing the dollar equivalent of WVCC Board policy for the WVCC fund balance.

Scenario 2, Higher Revenue / Lower Expenses. The green bar in each fiscal year grouping represents the forecast result augmented by an agency rate 1 percent higher in each year of the forecast (5.7 percent in FY22, 4.9 percent in FY23, etc.) and an additional 1 percent of expenditure savings. The outcome of these variables provides approximately \$3.8 million in fund balance in excess of policy by FY 2026.

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

(Values in Millions)



WVCC Fund Forecast Risks and Rankings

Each identified forecast risk is evaluated on the degree it will impact service delivery. These evaluations of existing and potential resources assist in determining actions to be taken over the five-year period to ensure a balanced budget. The most significant risks to WVCC are summarized below.

Forecast Risk – Revenue

	Ranking	Percent Total Revenue
<i>Member Agency Rates</i>	LOW / MEDIUM	98.9%

Member Agency Rates

Annual charges to the 29 WVCC member agencies are compounded by a growth rate (4.7 percent in FY 2022) and distributed based on the agencies’ percentage of population and the percentage of emergency call volume (9-1-1 calls received) and dispatch call volume (9-1-1 operator calls to public safety / emergency responders).

Risk Factor Ranking – LOW / MEDIUM

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

Forecast Risk – Expenditures

	Ranking	
<i>Overtime Expense</i>	MEDIUM	3.8% of Total Expense
<i>Salary Expense</i>	MEDIUM	40.0% of Total Expense
<i>CAD System Replacement</i>	MEDIUM	\$3.4 Million (est.)

Overtime Expense

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

Personal Services Expense

Starting in FY 2023 of the forecast, a 2.0 percent annual market adjustment is applied to salary expense. Any amount above 2.0 percent, without an offsetting increase to member

agency rates, will impact ending fund balance as demonstrated above in the forecast variability graph.

CAD System Replacement

The forecast presented in this document includes an estimated \$3.4 million capital expenditure to pay for the Computer-Aided Dispatch (CAD) system replacement. This cost estimate includes support from the City's IT Department as well as an outside project management firm. Project expenditures are expected to continue in FY2022 following the selection process. In order to meet this level of capital expenditure, agency rates were increased by 6.7 percent in FY 2021, taking advantage of the increased E911 tax received by the member agencies, then forecasted to decrease to 4.7 percent in FY 2022, and decrease further to 3.9 percent in FY 2023 for the remainder of the forecast. The division is currently reviewing multiple options for system replacement, which could result in widely varying short-term and long-term costs. Starting in FY 2023, the forecast includes reserving \$300 thousand annually for future equipment and CAD system replacement needs.

Airport Fund FY 2022 – FY 2026 Five-Year Forecast

FY 2022 - FY 2026 Summary <i>(in millions)</i>						
	FY 21 YE Est	FY 22 F	FY 23 F	FY 24 F	FY 25 F	FY 26 F
Beginning Fund Balance	\$ 1.21	\$ 0.87	\$ 0.83	\$ 0.65	\$ 0.15	\$ (0.15)
Revenues	\$ 1.29	\$ 1.56	\$ 1.32	\$ 1.35	\$ 1.38	\$ 1.41
Total Expenditures	\$ 1.63	\$ 2.43	\$ 2.15	\$ 2.00	\$ 1.73	\$ 1.71
Unspent Contingency		(0.79)	(0.61)	(0.11)	-	-
5% Savings on M&S		(0.04)	(0.04)	(0.04)	(0.04)	(0.04)
Net Expenditures	\$ 1.63	\$ 1.60	\$ 1.50	\$ 1.85	\$ 1.69	\$ 1.67
Fiscal Year Impact	\$ (0.34)	\$ (0.04)	\$ (0.18)	\$ (0.50)	\$ (0.31)	\$ (0.25)
Ending Fund Balance	\$ 0.87	\$ 0.83	\$ 0.65	\$ 0.15	\$ (0.15)	\$ (0.41)

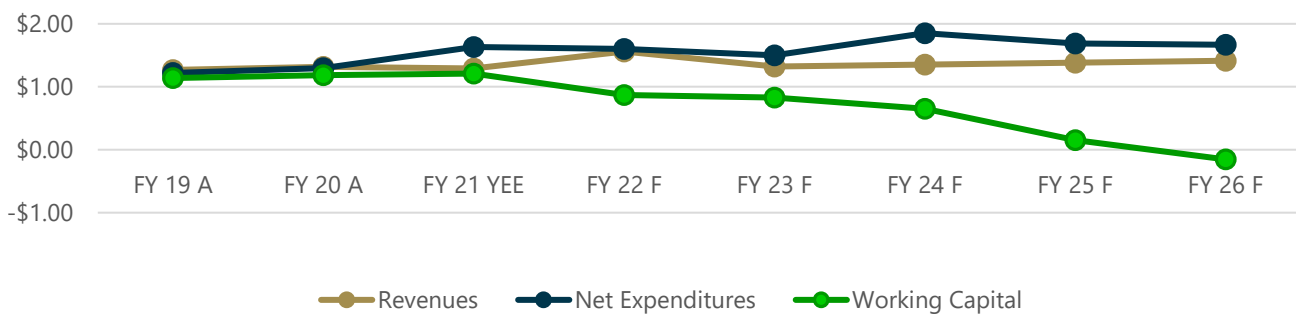
The financial forecast for the Airport Fund provides continuation of current service levels with assumptions for inflationary factors to increase service costs and estimates for revenue growth. Included is a level of projected increase in revenues lower than the anticipated growth in expenditures in all years of the forecast period. The forecast demonstrates a temporary reduction in parking revenues from no shuttle service to the Portland Airport because of the pandemic. It also displays savings derived from unspent fund contingencies (FY 2022 – FY 2024) and a level of naturally occurring savings through unanticipated economies. This level of savings is anticipated at 5 percent on materials and services.

To fund needed improvements to buildings at the Airport, projects costing over \$1.3 million are included in the forecast that are not eligible for Federal Aviation Administration grant funding. The forecast demonstrates depletion of the \$0.87 million in estimated fund balance for these projects by the end of FY 2025.

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

<i>Forecast Risk</i>	<i>Ranking</i>
<i>Fund Balance</i>	High
<i>Land / Building Rent</i>	High
<i>Parking Rent</i>	Medium
<i>Operational Expenses</i>	High
<i>Match for Federal Grants</i>	Low
<i>Building Improvement Project Funding</i>	High

Airport Fund Revenues, Expenditures and Fund Balance



Building and Safety Fund FY 2022 – FY 2026 Five-Year Forecast

FY 2022 - FY 2026 Summary *(in millions)*

	FY 21 YE Est	FY 22 F	FY 23 F	FY 24 F	FY 25 F	FY 26 F
Beginning Fund Balance	\$ 12.30	\$ 12.30	\$ 12.91	\$ 13.57	\$ 14.18	\$ 14.79
Revenues	\$ 6.71	\$ 6.71	\$ 6.91	\$ 7.12	\$ 7.33	\$ 7.56
Total Expenditures	\$ 6.09	\$ 5.92	\$ 6.12	\$ 6.39	\$ 6.59	\$ 6.80
Unspent Contingency		(0.30)	(0.30)	(0.30)	(0.30)	(0.30)
3.0% Savings		(0.18)	(0.18)	(0.19)	(0.20)	(0.20)
Net Expenditures	\$ 6.09	\$ 5.44	\$ 5.64	\$ 5.89	\$ 6.09	\$ 6.29
Fiscal Year Impact	\$ 0.61	\$ 1.27	\$ 1.27	\$ 1.22	\$ 1.24	\$ 1.26
Ending Fund Balance	\$ 12.91	\$ 13.57	\$ 14.18	\$ 14.79	\$ 15.42	\$ 16.05

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

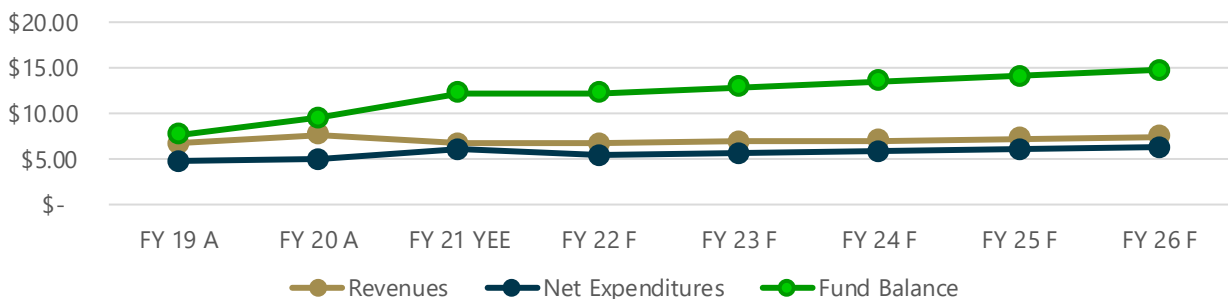
The forecast demonstrates an increase of fund balance over the next five-year period due to increased revenues in the near term. There are several known large building projects that are in the planning phase that will contribute to the increased fund balance. The forecast also anticipates a 3 percent unspent expenditure savings and any unspent contingency funds. The last three years of the forecast display a base level of revenue from general permit activity

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

Forecast Risk Ranking

Forecast Risk	Ranking
<i>Fund Balance</i>	Low
<i>Permit Revenue</i>	Medium
<i>PERS Rates</i>	High
<i>Health Benefits</i>	Medium
<i>Other Labor Factors</i>	High

Building and Safety Fund Revenues, Expenditures, and Fund Balance (in millions)



Cultural Tourism (TOT) Fund FY 2022 – FY 2026 Five-Year Forecast

The COVID-19 Pandemic has impacted nearly all business sectors, but arguably the most effected has been the hospitality sector which includes tourism. The largest revenue source for the Cultural and Tourism (or TOT fund) are taxes on stays in hotels/motels, bed and breakfasts and short-term rental stays in Salem. With the obvious decline in travel nationwide due to the pandemic, staff felt it necessary to take extra time to highlight the impacts of the pandemic on the fund thus far, highlight fixed expenditures and outline some potential scenarios for the fund depending on economic recovery.

FY 2022 - FY 2026 SUMMARY (in millions)						
	FY 21 YE Est	FY 22 F	FY 23 F	FY 24 F	FY 25 F	FY 26 F
Beginning Fund Balance	\$ 0.38	\$ 0.14	\$ 0.04	\$ 0.20	\$ 0.36	\$ 0.02
Revenues	\$ 2.89	\$ 3.16	\$ 4.10	\$ 4.22	\$ 4.35	\$ 4.48
Total Expenditures	\$ 3.13	\$ 3.26	\$ 4.06	\$ 4.18	\$ 4.81	\$ 4.51
Unspent Contingency	-	-	(0.12)	(0.12)	(0.12)	(0.12)
NET EXPENDITURES	\$ 3.13	\$ 3.26	\$ 3.94	\$ 4.06	\$ 4.69	\$ 4.39
Fiscal Year Impact	(0.24)	(0.10)	0.16	0.16	(0.34)	0.09
Ending Fund Balance	\$ 0.14	\$ 0.04	\$ 0.20	\$ 0.36	\$ 0.02	\$ 0.11

Fund Status

In the third quarter of fiscal year 2020, the COVID-19 pandemic began to have noticeable impacts on TOT receipts. The table below show the month-by-month difference in TOT revenue between fiscal years 18-19 and 19-20 for the Spring of those years.

Month	March	April	May	June
FY 19	0.26	0.34	0.34	0.77
FY 20	0.29	0.20	0.08	0.29
Variance	0.03	(0.14)	(0.26)	(0.48)

Values are presented in millions

As demonstrated by the table above, there has been a noticeable decrease in revenues. Traditionally, this time period has always been very active for TOT revenues as more people are taking their spring breaks and early summer vacations. In the first four months of fiscal year 2021, which include the later summer months, continue to show a decline in receipts compared to fiscal year 2020. Due to the displacement of people as a result of a Santiam Canyon fire, there was an almost normal amount of receipts in October.

Month	Aug	Sept	Oct	Nov
FY 20	0.52	0.53	0.35	0.36
FY 21	0.21	0.24	0.32	0.29
Variance	(0.31)	(0.29)	(0.03)	(0.07)

Values are presented in millions

The impact of these continued months of reduced revenue has resulted in the use of fund balance to cover the costs of expenses. Without a significant increase in revenues or a decline in expenses, the fund will be near depleted by the end of this fiscal year.

Cultural Tourism (TOT) Fund FY 2022 – FY 2026 Five-Year Forecast

Fixed Expenses

Total fixed costs total approximately 45% of fund revenues

Tourism Promotion - According to SRC 37.165, the City's Destination Marketing Organization is to receive 25 percent of Transient Occupancy Tax revenues.

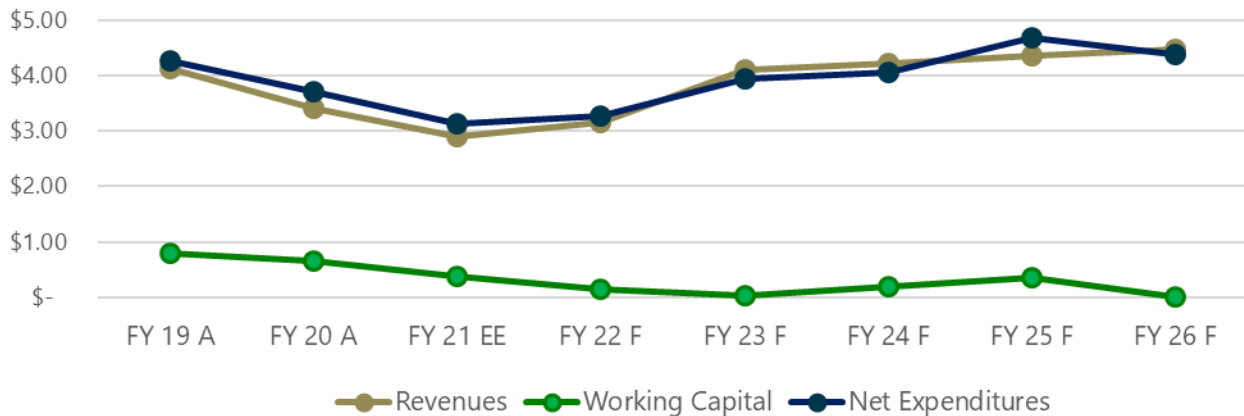
Salem Convention Center - As approved by City Council in November, 2020, the Salem Convention Center is to receive either \$300,000 or 10 percent of Transient Occupancy Tax revenues (whichever is higher) annually for marketing of the Salem Convention Center.

Administration – Costs associated with the fund, such as the maintenance and utilities of City – owned historic buildings and city administrative costs associated with the tax collection, recording, disbursement, and management of this fund annually cost 11 to 15 percent of Transient Occupancy Tax revenues.

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

Forecast Risk	Ranking
Fund Balance	High
Tax Revenue	High
Expense: Parks Transfer	High
Capital Projects (CIP)	High
Tourism Promotion Allocation	High

Cultural and Tourism (TOT) Fund Revenues, Expenditures and Fund Balance (in millions)



Document Services, City Services FY 2022 – FY 2026 Five-Year Forecast

FY 2022 - FY 2026 SUMMARY (in millions)						
	FY 21 YE Est	FY 22 F	FY 23 F	FY 24 F	FY 25 F	FY 26 F
Beginning Fund Balance	\$ 0.48	\$ 0.36	\$ 0.35	\$ 0.20	\$ 0.15	\$ 0.07
Revenues	\$ 0.97	\$ 1.10	\$ 1.10	\$ 1.11	\$ 1.12	\$ 1.15
Total Expenditures	\$ 1.08	\$ 1.13	\$ 1.26	\$ 1.18	\$ 1.21	\$ 1.24
2% Savings on M&S		(0.01)	(0.01)	(0.01)	(0.01)	(0.01)
NET EXPENDITURES	\$ 1.08	\$ 1.11	\$ 1.24	\$ 1.16	\$ 1.20	\$ 1.23
Fiscal Year Impact	\$ (0.12)	\$ (0.01)	\$ (0.15)	\$ (0.06)	\$ (0.07)	\$ (0.08)
Ending Fund Balance	\$ 0.36	\$ 0.35	\$ 0.20	\$ 0.15	\$ 0.07	\$ (0.00)

The base forecast for the Document Services Division of the City Services Fund reflects current service levels with assumptions for inflationary factors to increase service costs and estimates for revenue growth.

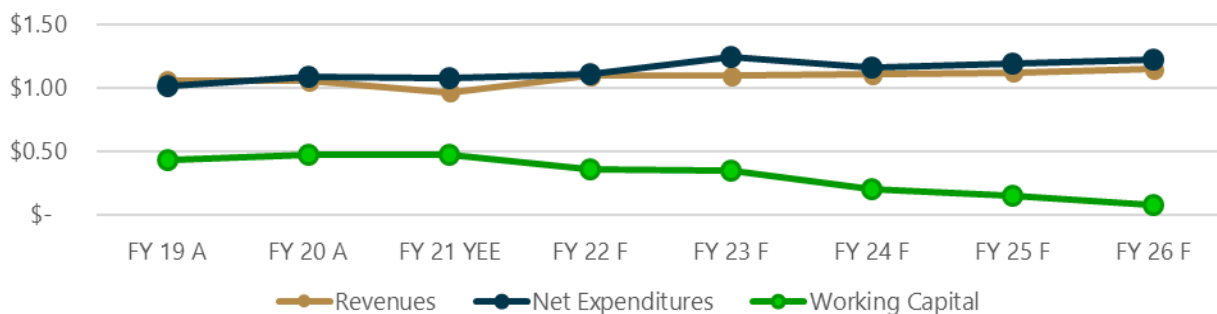
The forecast demonstrates a level of projected increase in revenues that does not keep pace with the anticipated growth in expenditures over the five-year period. It also displays a level of naturally occurring savings from unanticipated economies. This level of savings is anticipated at 2 percent for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

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

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

Forecast Risk	Ranking
Fund Balance	High
Internal Revenue	High
Other Labor Factors	High
Copier Replacement Strategy	Medium

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



Emergency Services Fund FY 2022 – FY 2026 Five-Year Forecast

FY 2022 - FY 2026 Summary (in millions)

	FY 21 YE Est	FY 22 F	FY 23 F	FY 24 F	FY 25 F	FY 26 F
Beginning Fund Balance	\$ 3.34	\$ 3.19	\$ 3.04	\$ 3.02	\$ 3.05	\$ 3.02
Revenues	\$ 0.85	\$ 0.86	\$ 0.86	\$ 0.91	\$ 0.93	\$ 0.96
Total Expenditures	\$ 1.00	\$ 1.08	\$ 0.96	\$ 0.95	\$ 1.03	\$ 1.03
Unspent Contingency		(0.06)	(0.06)	(0.06)	(0.06)	(0.06)
3% Savings on M&S		(0.02)	(0.01)	(0.01)	(0.01)	(0.01)
Net Expenditures	\$ 1.00	\$ 1.01	\$ 0.89	\$ 0.88	\$ 0.96	\$ 0.96
Fiscal Year Impact	\$ (0.15)	\$ (0.14)	\$ (0.03)	\$ 0.03	\$ (0.02)	\$ (0.00)
Ending Fund Balance	\$ 3.19	\$ 3.04	\$ 3.02	\$ 3.05	\$ 3.02	\$ 3.02

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

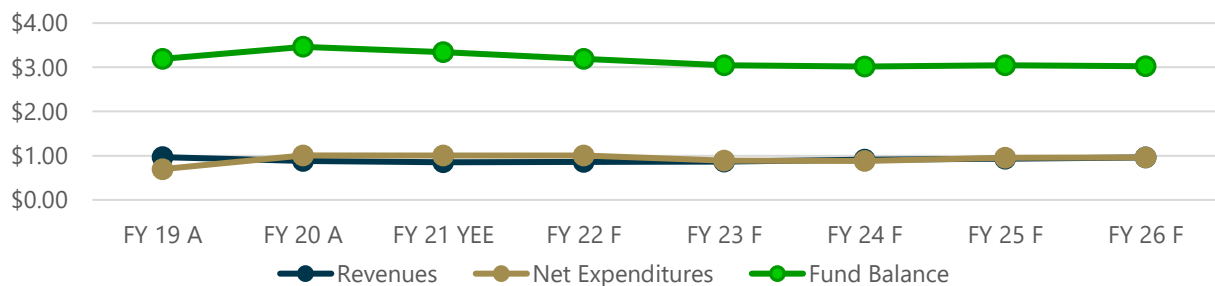
The forecast demonstrates a level of projected increases in revenues that allows the EMS Fund to remain balanced with anticipated growth of on-going expenditures. It also displays savings derived from unspent fund contingencies and a level of naturally occurring savings from unanticipated economies. This level of savings is anticipated at 3 percent in the materials and services category.

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

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

The EMS Fund is required to maintain a fund balance that provides resources for six months of immediate and uninterrupted ambulance transport services. The fund currently meets the minimum requirement and anticipates maintaining fund balance at this level through the forecast. Future capital equipment needs account for the highest risk factor for the health of the EMS Fund. Starting in FY 2019, expenditures include an annual transfer to the Capital Reserve Fund to provide funding for required capital equipment purchases. The Fire Department is continually looking for new funding sources as the anticipated annual transfer to the Capital Reserve Fund is insufficient to provide for future equipment needs.

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



Fleet, City Services Fund FY 2022 – FY 2026 Five-Year Forecast

FY 2022 - FY 2026 Summary (in millions)						
	FY 21 YE Est	FY 22 F	FY 23 F	FY 24 F	FY 25 F	FY 26 F
Beginning Fund Balance	\$ 2.05	\$ 1.99	\$ 1.81	\$ 1.63	\$ 1.45	\$ 1.27
Revenues	\$ 4.06	\$ 4.05	\$ 4.18	\$ 4.35	\$ 4.47	\$ 4.60
Total Expenditures	\$ 4.13	\$ 4.38	\$ 4.52	\$ 4.69	\$ 4.82	\$ 4.95
3.0% Savings		(0.15)	(0.15)	(0.16)	(0.17)	(0.17)
Net Expenditures	\$ 4.13	\$ 4.23	\$ 4.37	\$ 4.52	\$ 4.65	\$ 4.78
Fiscal Year Impact	\$ (0.06)	\$ (0.18)	\$ (0.18)	\$ (0.18)	\$ (0.18)	\$ (0.18)
Ending Fund Balance	\$ 1.99	\$ 1.81	\$ 1.62	\$ 1.45	\$ 1.27	\$ 1.09

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 3.0 percent of expenses.

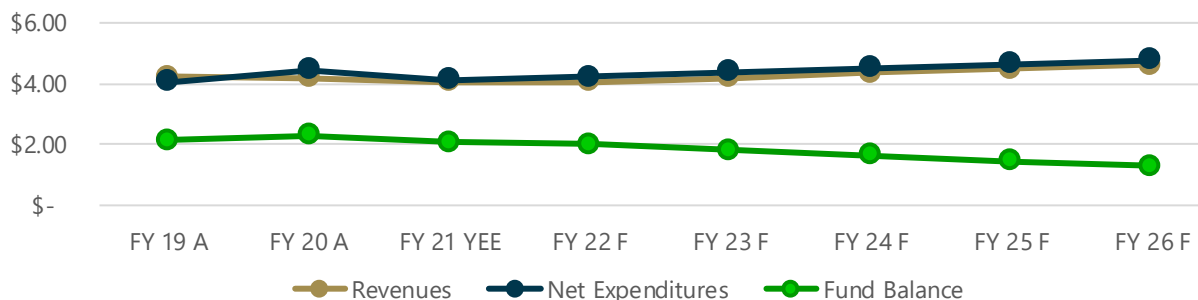
The reduction in fund balance reflects an effort to reduce the fund balance over the five-year period. The balance at the end of the forecast period is estimated at 25% of planned expenditures for FY 2026.

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 2022 – FY 2026 Five-Year Forecast

FY 2022 - FY 2026 Summary (in millions)

	FY 21 YE Est	FY 22 F	FY 23 F	FY 24 F	FY 25 F	FY 26 F
Beginning Fund Balance	\$ 3.74	\$ 4.68	\$ 5.14	\$ 5.51	\$ 5.89	\$ 6.28
Revenues	\$ 2.00	\$ 2.04	\$ 2.00	\$ 2.05	\$ 2.10	\$ 2.16
Total Expenditures	\$ 1.07	\$ 1.78	\$ 1.83	\$ 1.87	\$ 1.92	\$ 1.97
10% Savings on M&S		(0.12)	(0.12)	(0.13)	(0.13)	(0.13)
70% Savings on Capital		(0.07)	(0.07)	(0.07)	(0.08)	(0.08)
Net Expenditures	\$ 1.07	\$ 1.58	\$ 1.63	\$ 1.67	\$ 1.71	\$ 1.76
Fiscal Year Impact	\$ 0.93	\$ 0.46	\$ 0.37	\$ 0.38	\$ 0.39	\$ 0.40
Ending Fund Balance	\$ 4.68	\$ 5.14	\$ 5.51	\$ 5.89	\$ 6.28	\$ 6.68

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

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

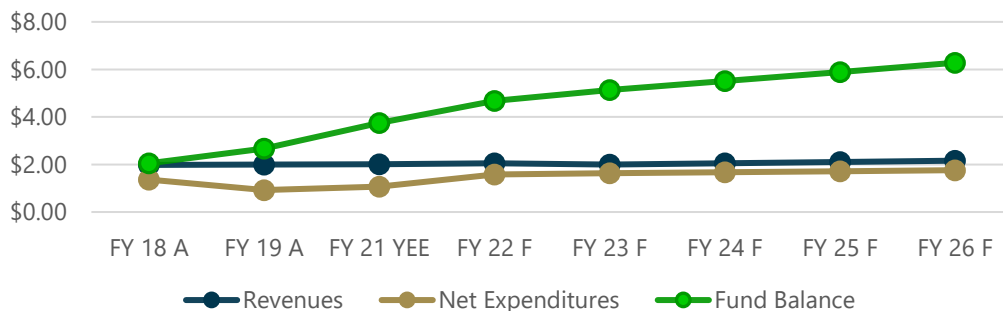
General Fund departments account for approximately 80 percent of participating agency rate revenue. With the deployment of the city's new radio system in FY21, replacement

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	Low
Operation Expenses	Low/Medium
Capital Equipment Needs	Low

expenses are expected to be relatively low and stable for the next several years. During this time, funds will be collected and held in reserve for future replacement.

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



Benefits Self Insurance Fund FY 2022 – FY 2026 Five-Year Forecast

FY 2022 - FY 2026 Summary *(in millions)*

	FY 21 YE Est	FY 22 F	FY 23 F	FY 24 F	FY 25 F	FY 26 F
Beginning Fund Balance	\$ 11.78	\$ 11.00	\$ 9.97	\$ 8.78	\$ 7.57	\$ 6.33
Revenues	\$ 24.57	\$ 25.36	\$ 26.57	\$ 28.03	\$ 29.58	\$ 31.23
Total Expenditures	\$ 25.35	\$ 26.39	\$ 27.76	\$ 29.25	\$ 30.82	\$ 32.53
Net Expenditures	\$ 25.35	\$ 26.39	\$ 27.76	\$ 29.25	\$ 30.82	\$ 32.53
Fiscal Year Impact	\$ (0.78)	\$ (1.03)	\$ (1.19)	\$ (1.21)	\$ (1.24)	\$ (1.30)
Ending Fund Balance	\$ 11.00	\$ 9.97	\$ 8.78	\$ 7.57	\$ 6.33	\$ 5.03

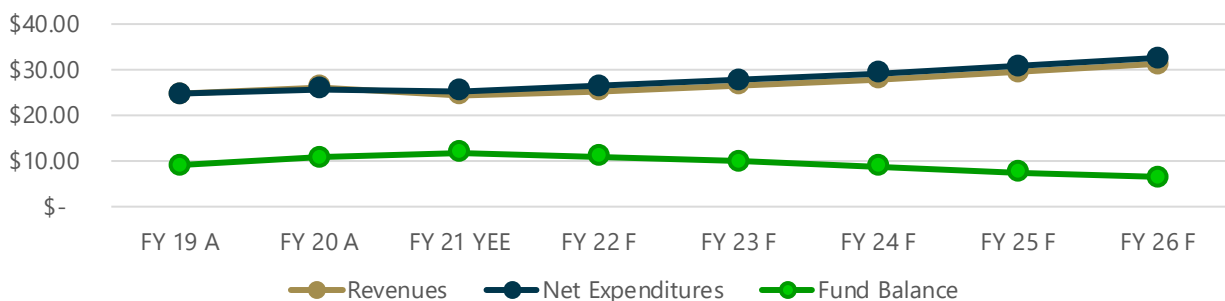
The City's annual financial forecast for the Benefits Self Insurance Fund provides continuation of current service levels with assumptions for inflationary factors to increase service costs and estimates for revenue growth.

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

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 2022 – FY 2026 Five-Year Forecast

FY 2022 - FY 2026 Summary <i>(in millions)</i>						
	FY 21 YE Est	FY 22 F	FY 23 F	FY 24 F	FY 25 F	FY 26 F
Beginning Fund Balance	\$ 10.03	\$ 8.60	\$ 8.16	\$ 7.80	\$ 7.50	\$ 7.30
Revenues	\$ 2.33	\$ 3.66	\$ 3.84	\$ 4.03	\$ 4.22	\$ 4.43
Total Expenditures	\$ 4.28	\$ 4.45	\$ 4.55	\$ 4.69	\$ 4.80	\$ 4.76
Anticipated Savings	(0.36)	(0.35)	(0.35)	(0.36)	(0.37)	(0.37)
Net Expenditures	\$ 3.92	\$ 4.10	\$ 4.20	\$ 4.32	\$ 4.43	\$ 4.39
Fiscal Year Impact	\$ (1.59)	\$ (0.44)	\$ (0.36)	\$ (0.29)	\$ (0.20)	\$ 0.04
Ending Fund Balance	\$ 8.44	\$ 8.16	\$ 7.80	\$ 7.50	\$ 7.30	\$ 7.34

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

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

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

Forecast Risk Ranking

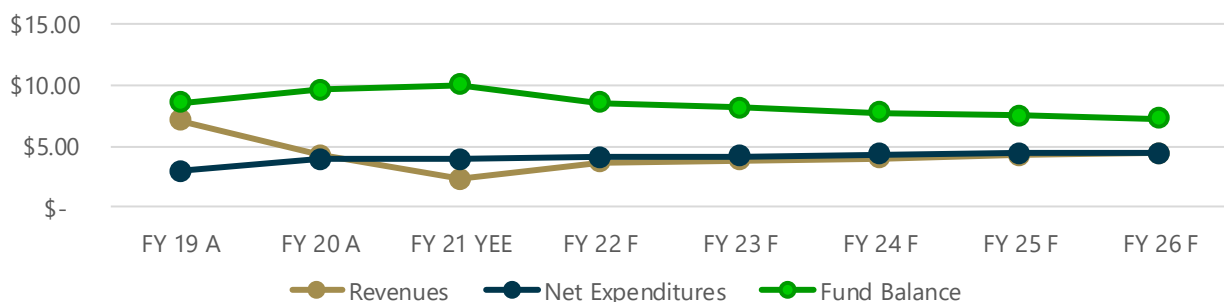
Fund Balance Medium

Internal Revenue Low

Liability Claims High

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

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



Streetlight Fund FY 2022 – FY 2026 Five-Year Forecast

FY 2022 - FY 2026 Summary (in millions)

	FY 21 YE Est	FY 22 F	FY 23 F	FY 24 F	FY 25 F	FY 26 F
Beginning Fund Balance	\$ 1.08	\$ 1.02	\$ 1.01	\$ 0.95	\$ 0.82	\$ 0.62
Revenues	\$ 1.86	\$ 1.86	\$ 1.87	\$ 1.87	\$ 1.88	\$ 1.88
Total Expenditures	\$ 1.92	\$ 2.11	\$ 2.17	\$ 2.24	\$ 2.31	\$ 2.39
Unspent Contingency		(0.20)	(0.20)	(0.20)	(0.20)	(0.20)
3.0% Savings on M&S		(0.03)	(0.04)	(0.04)	(0.04)	(0.04)
Net Expenditures	\$ 1.92	\$ 1.87	\$ 1.93	\$ 2.00	\$ 2.07	\$ 2.15
Fiscal Year Impact	\$ (0.06)	\$ (0.01)	\$ (0.07)	\$ (0.13)	\$ (0.20)	\$ (0.27)
Ending Fund Balance	\$ 1.02	\$ 1.01	\$ 0.95	\$ 0.82	\$ 0.62	\$ 0.36

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. There is an anticipated 5% annual increase resulting from increased electricity costs and system expansion.
- New streetlights are being installed in under-served areas based on a prioritized list.
- Since FY 2020, electricity and maintenance are being provided for lighting fixtures in parks, relieving the General Fund of approximately \$100,000 per year in expenses.

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

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

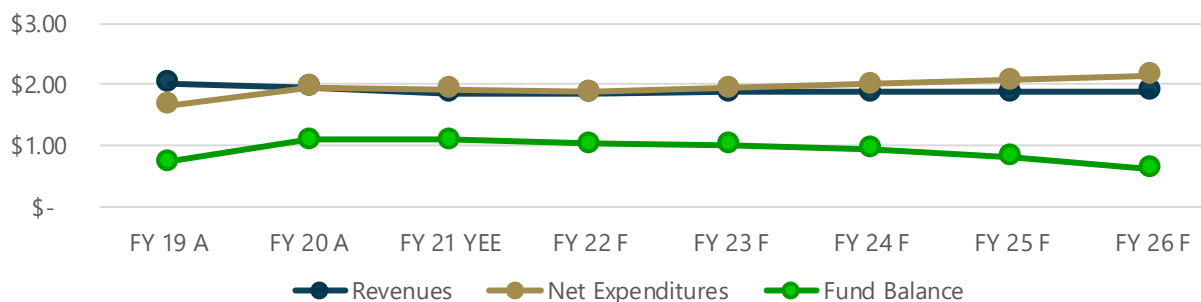
Forecast Risk factors are evaluated on the degree of impact to continued service delivery and fund fiscal health.

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

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

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

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



Summary of Findings

National Summary

The Covid-19 pandemic brought an unexpectedly abrupt end to what was the record-breaking expansion that followed the 2007-09 recession. Economic activity sank in the second quarter of 2020 in the wake of indiscriminate shutdowns of firms in an effort to slow the spread of the virus; a sharp but partial rebound occurred in the third quarter. The new wave of Covid-19 cases is depressing activity this winter but with newly developed vaccines now available there is light at the end of the tunnel. Assuming distribution of the vaccine continues relatively unimpeded, the economy should gain strength quickly in 2021.

The U.S. economy suffered through a record drop in activity in the second quarter of the year with national output contracting at a 38% annualized rate while firms shed 22 million employees. Labor force participation contracted sharply as persons left the labor force due to lack of employment opportunities in affected industries, health concerns, and a lack of school or day care options for working parents. Households responded to the pandemic by shifting spending patterns; spending on services declined relative to pre-pandemic trends while spending on goods exceeds the trend.

The end of the initial spring shutdowns triggered a sharp recovery in activity; arguably, the economy endured only a very short recession that did not extend into the third quarter although the National Bureau of Economic Research has not declared an end to the recession that began in March. Record fiscal support that included substantial direct payments to households and firms supported the rebound. A strong housing market also bolstered the recovery while a rebound in jobs helped maintain spending even as some fiscal supports such as enhanced unemployment benefits expired at the end of July. Still, the economy has 10 million fewer jobs than in February.

The surge of Covid-19 cases this winter and the resulting business closures will weigh on economic activity in early 2021. That said, the negative impact will be less severe than the shutdowns of spring 2020. This round of shutdowns is less indiscriminate and focuses more on activities known to be conducive to spreading the virus and particularly impacts the indoor leisure and hospitality sector. This sector of the economy will struggle until the pandemic is brought under control.

The distribution of vaccines will allow the economy to return to normal as early as the second half of 2021. I expect the following trends will be supportive of a fairly rapid economic recovery:

1. **Pent up demand.** By my estimates, households have accumulated at least \$1.5 trillion of excess savings as the result of fiscal support and reduced spending. I think that the leisure and hospitality sector will see a particularly strong rebound in demand as households tap this saving to ramp-up spending in 2021.
2. **Strong housing.** Supported by low interest rates and demographic shifts, demand for housing has been high. New home sales spiked higher to levels last seen during the housing bubble that preceded the 2007-09 recession. Housing is traditionally a very good leading indicator of overall activity and numbers like these indicate a strong economy in 2021.

3. **Demographics.** The demographic picture is very different than that of the last decade in which the Baby Boomers were aging out of the economy and being replaced by the smaller group of Gen-Xers. Now the situation is reversing such that the Gen-Xers are aging out and being replaced by the larger Millennial population. The Millennial generation is just beginning to enter its peak homebuyer and earning years and will provide considerable spending power to support the economy.
4. **Solid underlying job market.** Interestingly, job openings did not collapse as they did in the last recession. This suggests that firms are largely viewing the pandemic as a temporary disruption and anticipate a fairly rapid return to normality after the pandemic ends. Also, labor force participation will likely increase quickly after schools return to normal in-person instruction.
5. **Financial conditions remain accommodative.** The Federal Reserve signaled its intention to hold rates near zero until inflation reaches its 2% target. This will support continued easy financial conditions already evident in record high stock prices and a return to pre-pandemic corporate credit conditions.

The primary negative risk to my outlook is that the vaccine distribution does not progress as quickly as anticipated and as a consequence the pandemic continues to constrain activity longer than anticipated. The primary positive risk to my outlook is that the additional fiscal stimulus enacted by Congress in December while important in a microeconomic sense in that it alleviates pain to households is not strictly required to support an already self-sustaining macroeconomic recovery and thus will help “supercharge” activity in 2021.

Oregon Summary

The Oregon economy followed a path similar to the nation’s in 2020. The spring shutdowns triggered widespread layoffs; nonfarm payroll lost 300,000 employees while unemployment spiked from 3.3% to 14.9%. The unemployment rate has since retreated to 6%. Jobs have only partially recovered and the Oregon Office of Economic Analysis expects a muted pace of future job gains. The state’s revenue forecast was initially lowered dramatically but then revised upward both because the economic rebound this summer and fall was larger than expected and the brunt of the recession fell on lower income workers who, due to Oregon’s progressive tax structure, have less of an impact on revenue.

The University of Oregon Index of Economic Indicators illustrates the path of the economy this year with sharp declines in March and April followed by a rebound beginning in June. The economy, however, did not follow patterns typical of a recession. For instance, the Oregon weight-distance tax, a measure of trucking activity, remained on its general upward trend. This reflects the resilience of the goods sector of the economy over the past year. Similarly, housing activity in the state has remained strong. Residential housing has seen strong demand and limited inventory, conditions supportive of price appreciation. Building permits are modestly weaker due to softer multi-family numbers but single-family permits have held steady. These are very different housing dynamics than the last recession and, considering the importance of property taxes for municipal government, will lead to less financial stress for cities and counties.

Similar to the national economy, Oregon’s economy is expected to continue recovering in 2021.

Salem Summary

The Salem economy was hit hard by the pandemic; as of October, the region had lost 10,600 jobs compared to a year ago, a decline of 6.1%. Job losses were concentrated in

manufacturing (particularly food manufacturing), business and professional services, education and health services, leisure and hospitality, and local education. The losses in health services may seem surprising at first, but the pandemic is weighing on the demand for elective procedures. Lodging tax revenue declined sharply as tourism and travel activity plummeted.

Despite the depth of the job losses, this recession is very different from the last. Most notably, housing markets have remained strong with both home prices and the value of residential construction permitted continuing to climb. The region is experiencing the same housing boom as that of the nation and the state. Considering that housing is a well-known leading indicator of general economic activity, the strength in this sector bodes well for the economy next year. Note that negatively impacted sectors may rebound quickly after the mass distribution of the vaccine.

Forecast Summary

I used the Oregon Office of Economic Analysis Oregon job growth forecast as the principle driver of the Salem job forecast. I compared this with the forecasted path of job growth as might have been expected prior to the recession (a historical simulation). **Actual percentage changes realized are also sensitive to employment data revisions.**

Nonfarm Payroll Growth Forecasts

	OR (OEA)*	Salem MSA**
2020 (last)	1.5%	1.5%
2020 (current)	-7.5%	-7.6%
2021	2.7%	2.2%

(OR (OEA) refers to the official state forecast (dated November 2020). * indicates fourth quarter to fourth quarter % change, ** December to December % change.)

Uncertainty/Risks

This recession is very much unlike the last recession. The last recession was characterized by a damaged financial sector, a sharp drop in household wealth, limited fiscal stimulus, and unfavorable demographics. These factors contributed to a slow recovery. For the most part though, what were headwinds in the last recovery are tailwinds now. The financial sector recovered quickly from a tightening of conditions in March, household wealth has grown with higher stock and home prices, fiscal stimulus has poured billions of dollars into the economy, and the demographics of the Millennials aging into their home buying and peak earning years all should support growth in 2021 and beyond. These factors contribute to considerable upside risk to the outlook. The downside risk at this juncture is predominantly pandemic-related. A full recovery requires that the Covid-19 virus be suppressed sufficiently such that we can resume typical economic activities in sectors like leisure and hospitality and allows workers pushed out of the labor force due to child care or health issues to return. A delayed rollout of the vaccine would slow the recovery and is the primary downside risk to the outlook.

Local Revenue Implications

Falling or slow-growing property tax revenues were the primary challenge to local budgets after the 2007-09 recession. The particular nature of the last recession – it was driven by a boom and bust cycle in housing – contributed to this impact. Falling home prices and a slower pace of new construction forced local governments to revise down property taxes projections.

This cycle is different in that housing markets remained steady with strong sales, a steady pace of new construction, and rising prices. Consequently, the staff's projections that property tax revenues continue to grow in line with historical norms are appropriate.

In addition, the staff projects that revenues from fees such as the transient occupancy tax will rebound later this year with the expected economic recovery. This projection is also consistent with my forecast for 2021. There is some downside risk associated with this portion of the forecast. If the distribution of Covid-19 vaccines is slower than expected, the recovery in leisure and hospitality sectors will be delayed.

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, 2019), the PERS Board provided the City with employer contribution rates for July 1, 2021 through June 30, 2023. The rates, which are used in the forecast, appear in Table 1 below. Rates for the two-year periods beginning July 1, 2023 and July 1, 2025 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% (PERS Board assumed rate is 7.2%);
- Side account relief rate expected to stabilize at 6.9 percent; and
- OPSRP replacement percentage will continue to increase as Tier 1 and 2 employees retire.

Expenditures Risks, Table 1 PERS Employer Contribution Rates

PERS Type	FY 2018 – FY 2019	FY 2020 – FY 2021	FY 2022 – FY 2023	FY 2024 – FY 2025	FY 2026- FY 2027
Tier 1 and 2	21.07%	25.49%	24.21%	26.61%	27.11%
OPSRP General Service	11.97%	16.41%	17.40%	19.80%	20.30%
OPSRP Fire and Police	16.74%	21.04%	21.76%	24.16%	24.66%

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 2.5-6.0 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 2.0 percent wage increase is used.

Risk Factor Ranking – HIGH

Negotiations are underway with one labor unions – AFSCME– during the current fiscal year. The risks associated with increased costs from future labor negotiations beyond FY 2021 are difficult to measure at this time.

Inflation

The Bureau of Labor Statistics reported for November 2020 that the Consumer Price Index, Western Region, CPI-U increased 1.4 percent from November 2019. For purposes of this forecast, 2.0-3.0 percent inflation factors are used on general goods and services. Inflation factors for internal City services such as motor pool, radio communications, and 9-1-1 call-taking and dispatch are tied to the projected cost of providing the service during the forecast period.

Risk Factor Ranking – MEDIUM

Inflation may become a more significant factor over the forecast period for the goods and services that the City purchases. Energy price fluctuations will be monitored but are not anticipated to be significant risks at this time.

Over the five-year forecast period, risk factors with medium rankings will be monitored and action will be taken should they begin to move to a higher risk status. All high-ranking risks are monitored closely and, when possible, steps will be taken to lower the City's exposure.

Forecast Risk – Expenditures

	Ranking	Percent Total Expenditures
PERS Costs / Employer Rate Increases	HIGH	11.5%
Health Benefit Costs	MEDIUM	9.0%
Labor Agreements / Salary Costs	HIGH	36.1%
Inflation	MEDIUM	Varies

Comparative data for *PERS Employer Rate Increases* include the costs of PERS employer, PERS pickup (6 percent of salary), and the City's assessment for its unfunded PERS liability. *Labor Agreements / Salary Costs* equal salary, overtime, standby, differential, incentives, and seasonal wages. Percentages in the expenditures table are based upon comparison with the total operations budget for the four funds – General, Transportation Services, Utility, and WVCC – in the FY 2022 forecast year. The operations budget includes personal services, materials and services, capital outlay, debt service, contingencies, and transfers.

Expenditure Assumptions Table

	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026
Wage Projections	%	%	%	%	%
	Increase	Increase	Increase	Increase	Increase
Market adjustment – AFSCME	<i>2.00%</i>	<i>2.00%</i>	<i>2.00%</i>	<i>2.00%</i>	<i>2.00%</i>
Market adjustment – Attorneys (SCABU)	3.00%	3.00%	<i>2.00%</i>	<i>2.00%</i>	<i>2.00%</i>
Market adjustment – Police (SPEU)*	3.02%	3.02%	3.02%	<i>2.00%</i>	<i>2.00%</i>
Market adjustment – Battalion Chiefs (IAFF)*	4.55%	<i>2.00%</i>	<i>2.00%</i>	<i>2.00%</i>	<i>2.00%</i>
Market adjustment – Fire (IAFF)*	3.02% - 4.55%	<i>2.00%</i>	<i>2.00%</i>	<i>2.00%</i>	<i>2.00%</i>
Market adjustment – Non-represented	3.00%	3.00%	3.00%	3.00%	3.00%
Market adjustment – PCEA (9-1-1)*	3.00%	<i>2.00%</i>	<i>2.00%</i>	<i>2.00%</i>	<i>2.00%</i>
<i>Note: Italicized text represents a rate outside a current labor contract.</i>					
<i>*In final year of union contract.</i>					
Other Personal Services Costs	Annual Percentage Change in Benefits Projections				
PPO Medical (effective Dec 1, each fiscal year)	2.50%	4.00%	6.00%	6.00%	6.00%
Kaiser Medical (effective Dec 1, each fiscal year)	1.89%	5.00%	5.00%	5.00%	5.00%
Dental (effective Dec 1, each fiscal year)	0.00% - 3.00%	0.00% - 3.00%	0.00% - 3.00%	0.00% - 3.00%	0.00% - 3.00%
Vision (effective Dec 1, each fiscal year)	0.00%	0.00%	0.00%	0.00%	0.00%
Workers' compensation**	100.00%	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	24.21%	24.21%	26.61%	26.61%	27.11%
Retirement-Employer – OPSRP General	17.40%	17.40%	19.80%	19.80%	20.30%
Retirement-Employer – OPSRP Police and Fire	21.76%	21.76%	24.16%	24.16%	24.66%

**Workers' compensation was not charged in FY 2020.

	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026
Materials and Services	% Increase	% Increase	% Increase	% Increase	% Increase
General inflation factor	2.00%	2.00%	2.00%	2.00%	2.00%
Gasoline / Diesel	2.00%	2.00%	2.00%	2.00%	2.00%
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	5.00%	5.00 %	5.00 %	5.00 %	5.00 %
Motor pool (Fleet Services)	Varies by department, overall -1.2%	4.00 %	6.00 %	4.00 %	6.00 %
Radio communications	Varies by department, overall 2.00%	2.00%	2.00%	2.00%	2.00%
9-1-1 services*	4.70%	3.90%	3.90%	3.90%	3.90%

General Fund Revenues Assumptions Table

	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026
Revenue	% Increase	% Increase	% Increase	% Increase	% Increase
Current year property tax	5.79 %	4.32 %	4.07 %	4.05 %	4.04 %
Electric franchise	1.00 %	1.00 %	1.00 %	1.00 %	1.00 %
Telecommunications franchise	2.00 %	2.00 %	2.00 %	2.00 %	2.00 %
Natural gas franchise*	0.00 %	0.00 %	0.00 %	0.00 %	0.00 %
Cable franchise	-5.00 %	-5.00 %	-5.00 %	-5.00 %	-5.00 %
Refuse (solid waste) franchise	3.00 %	3.00 %	3.00 %	3.00 %	3.00 %
Fees for service	3.00 %	2.50 %	2.50 %	2.50 %	2.50 %
Planning, site, dwelling review fees	2.00 %	2.00 %	2.00 %	2.00 %	2.00 %
Other fees	92.00 %	7.30 %	1.50 %	2.40 %	2.40 %
Licenses, permits	2.90 %	1.20 %	1.20 %	1.20 %	1.20 %
Rents (parking, building)**	2.90 %	28.80 %	-7.40 %	10.10 %	-7.80 %
Indirect cost allocation (ICAP)	4.20 %	6.00 %	4.00 %	6.00 %	4.00 %
Other internal charges	10.00 %	4.00 %	6.00 %	4.00 %	6.00 %
State shared revenue***	1.10 %	3.80 %	3.80 %	3.30 %	3.30 %
Other agencies****	19.40 %	14.70 %	1.40 %	2.60 %	3.60 %
Grants*****	-88.80 %	-2.00 %	0.00 %	0.00 %	0.00 %
Fines, penalties	31.40 %	24.40 %	2.70 %	0.90 %	2.70 %

FY 2022 escalators or de-escalators for specific accounts are calculated against the FY 2021 estimates for year-end revenue totals by type. Factors for categories represent an average increase for the entire category. Large increases in rates represent recovery of revenue from COVID-19 losses, unless otherwise noted.

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

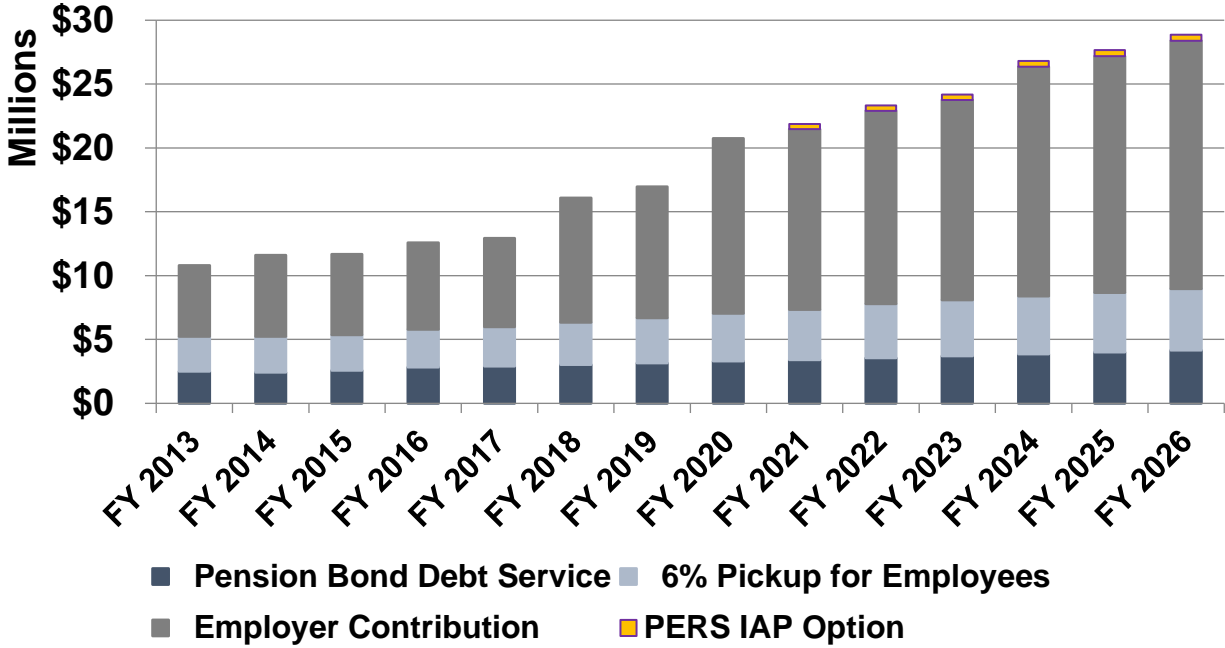
**The pattern of escalation and de-escalation for rent revenues reflects the impact of biennial full legislative sessions.

***The passage of measure 110 limits state shared revenue derived from Marijuana sales.

****Assumes a reinstatement of revenue from the School District for School Resource Officers beginning in January 2022.

*****Large reduction in factor for FY 2022 due to receipt of one-time CARES Act funding in FY 2021.

City of Salem General Fund PERS Expense by Type



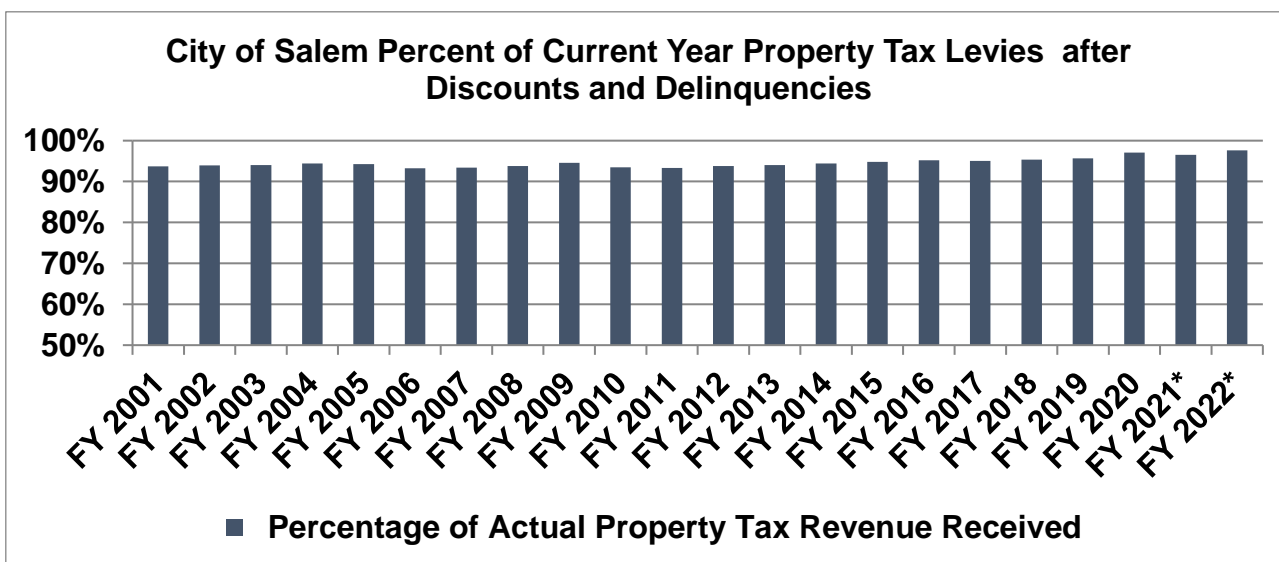
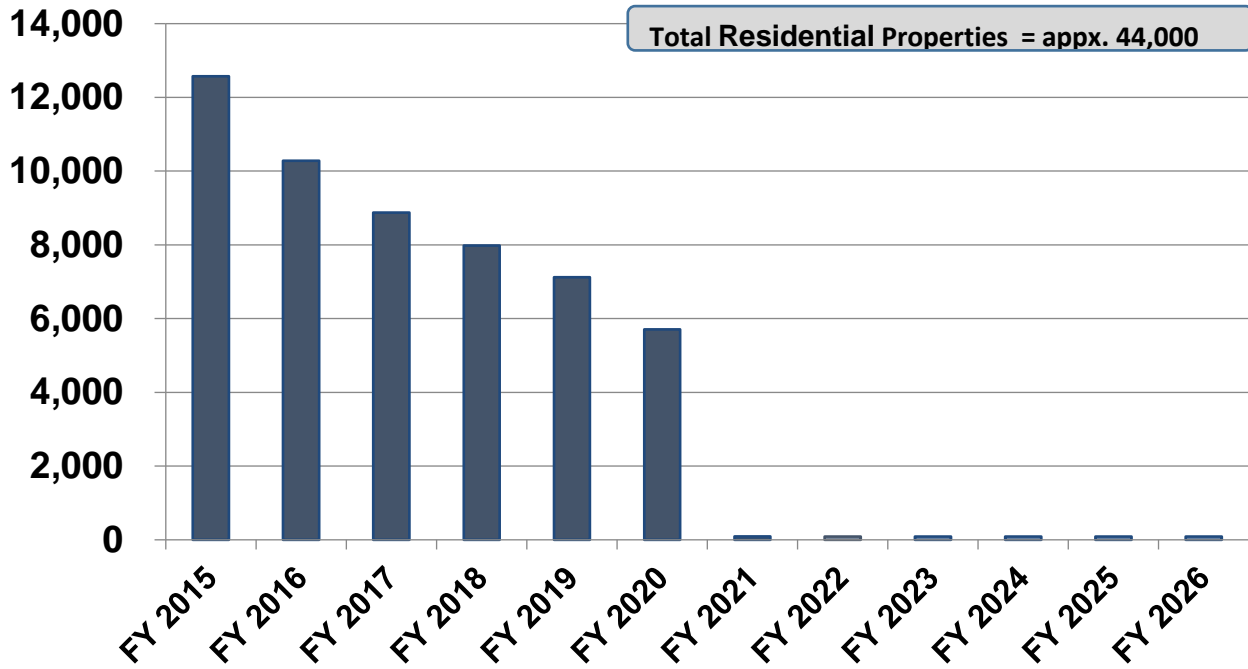


Table 2 - Historic Changes in Property Tax Levies Since the Passage of Measure 50

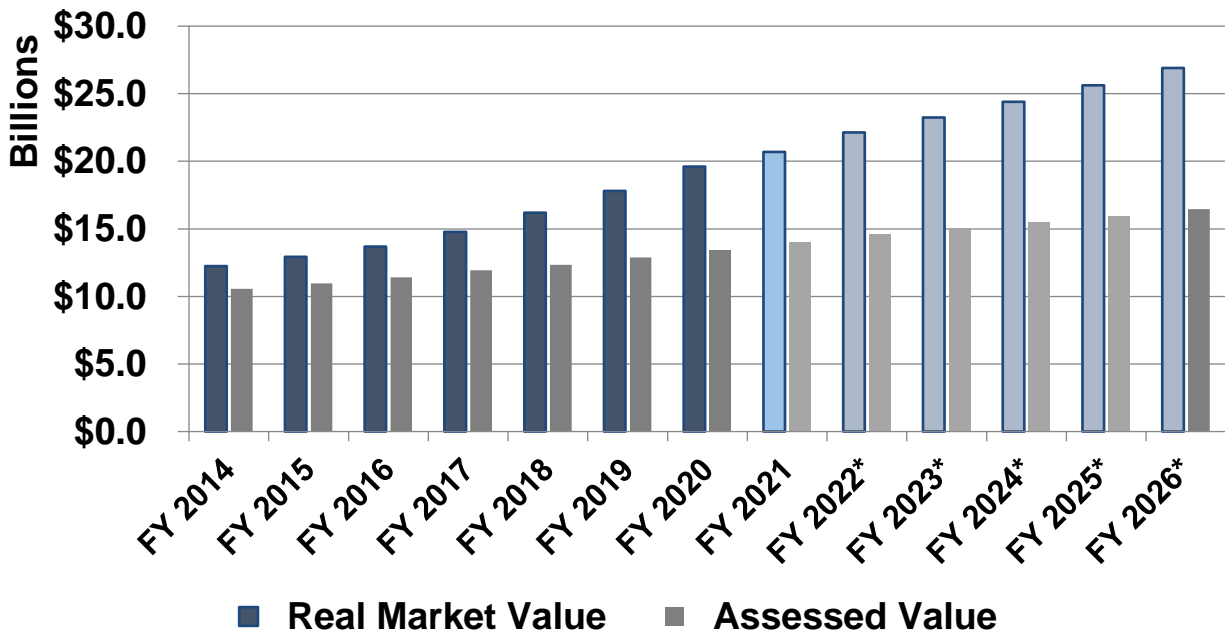
Fiscal Year	Levy	Increase	Actual	Increase
FY 2001	35,000,560	-	32,787,613	-
FY 2002	36,754,990	5.0%	34,517,563	5.3%
FY 2003	38,815,890	5.6%	36,495,536	5.7%
FY 2004	40,564,780	4.5%	38,309,011	5.0%
FY 2005	42,316,782	4.3%	39,880,157	4.1%
FY 2006	44,234,818	4.5%	41,238,540	3.4%
FY 2007	46,747,259	5.7%	43,661,990	5.9%
FY 2008	49,708,758	6.3%	46,619,613	6.8%
FY 2009	51,979,085	4.6%	49,177,277	5.5%
FY 2010	53,837,888	3.6%	50,330,937	2.3%
FY 2011	55,258,868	2.6%	51,547,855	2.4%
FY 2012	56,259,395	1.8%	52,765,171	2.4%
FY 2013	56,224,933	-0.1%	52,860,672	0.2%
FY 2014	57,476,027	2.2%	54,281,270	2.7%
FY 2015	60,123,315	4.6%	56,987,431	5.0%
FY 2016	62,877,738	4.6%	59,874,938	5.1%
FY 2017	65,808,335	4.7%	62,526,467	4.4%
FY 2018	67,942,307	3.2%	64,772,793	3.6%
FY 2019	70,414,872	3.6%	67,345,574	4.0%
FY 2020	73,273,597	4.1%	71,146,768	5.6%
FY 2021*	76,574,086	8.7%	71,749,440	6.5%
FY 2022*	79,979,237	9.2%	75,980,275	8.9%

* Projected

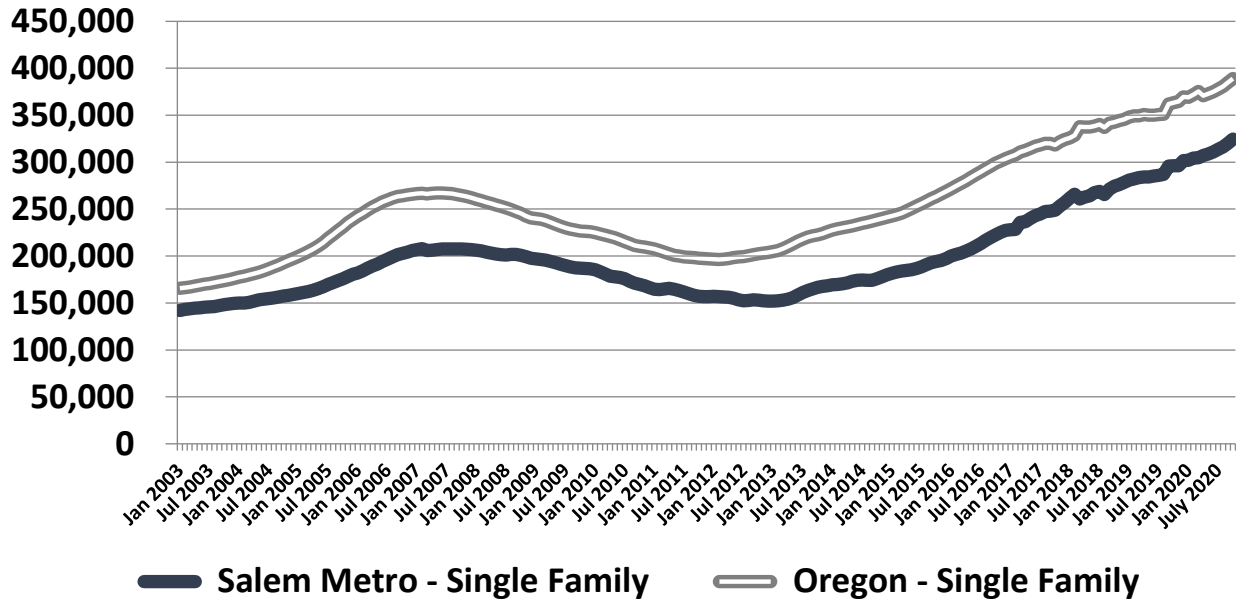
City of Salem Residential Properties where Real Market Value is equal to Assessed Value



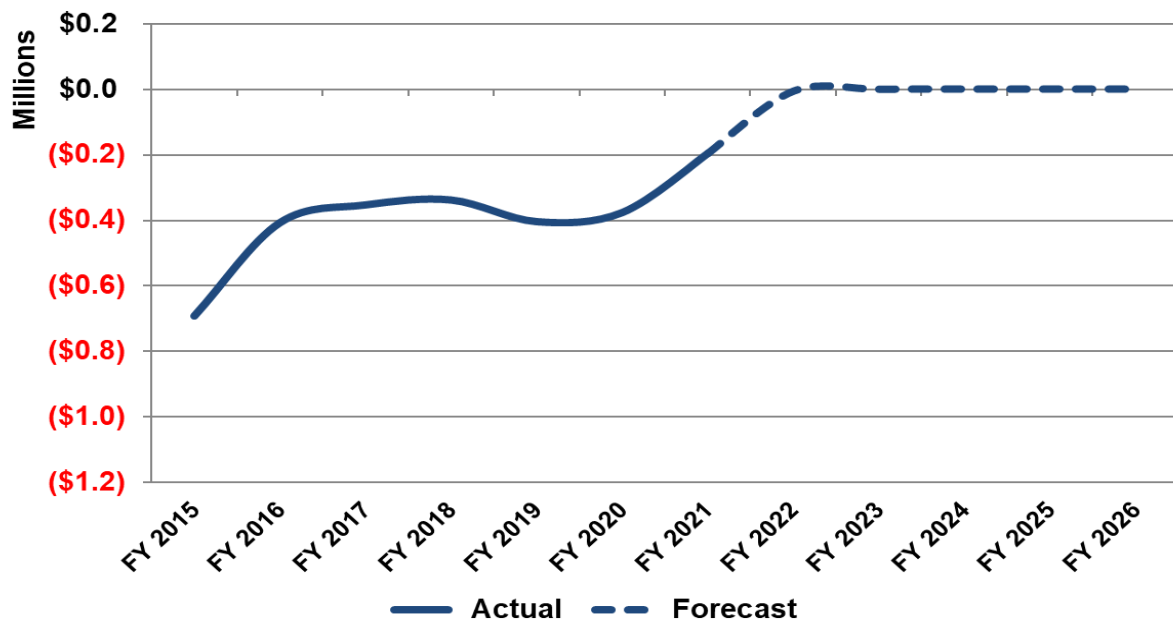
City of Salem Real Market Value vs. Assessed Value

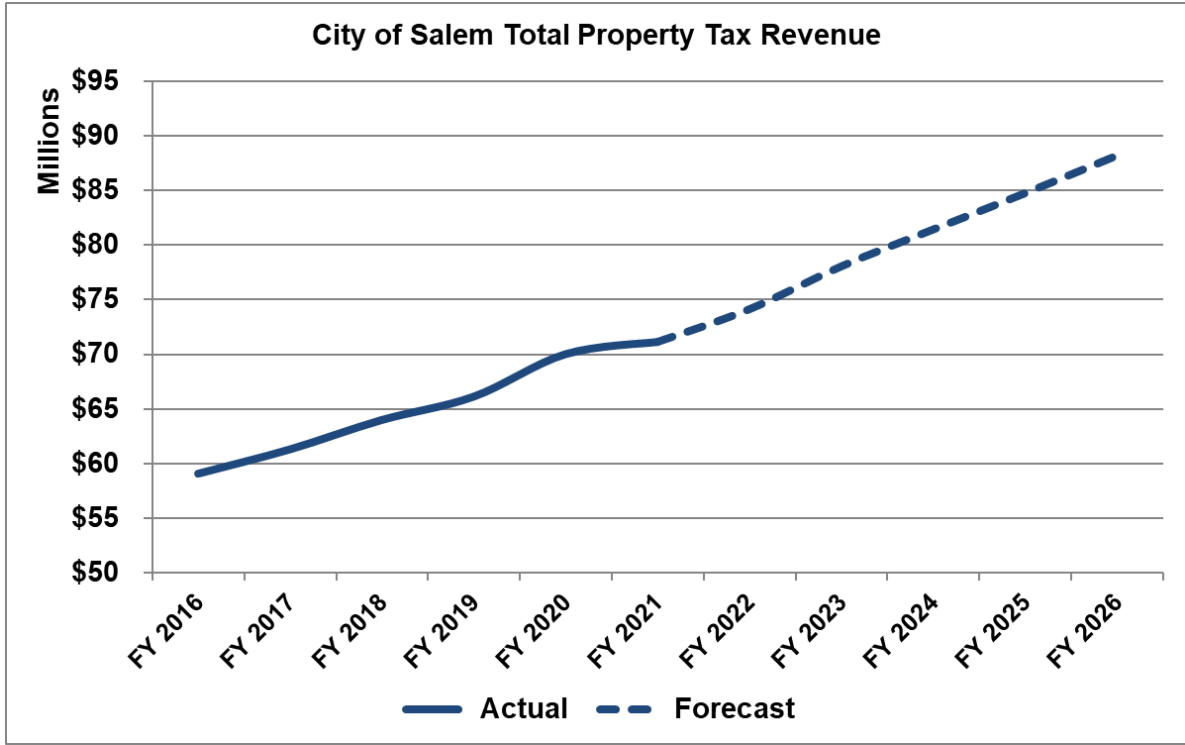


Salem Year-over-Year Percentage Change in Median Housing Value - Single Family Residence

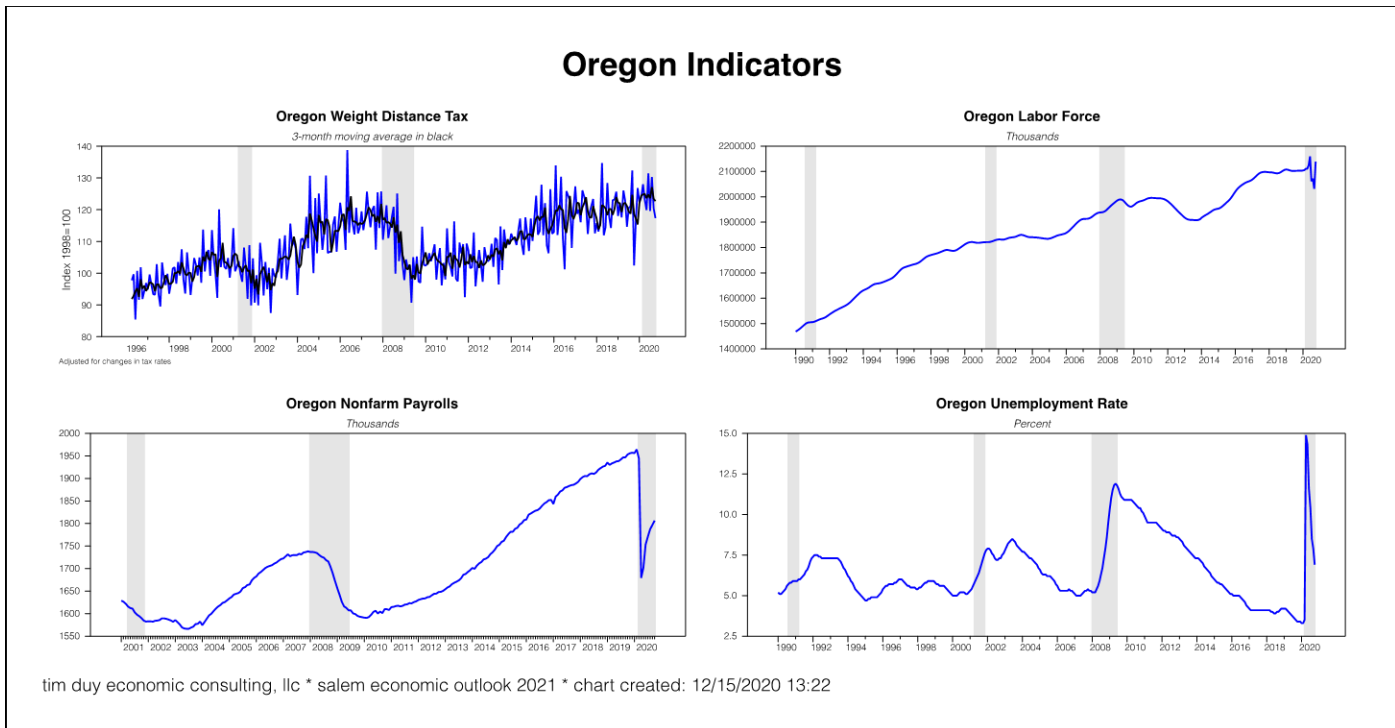
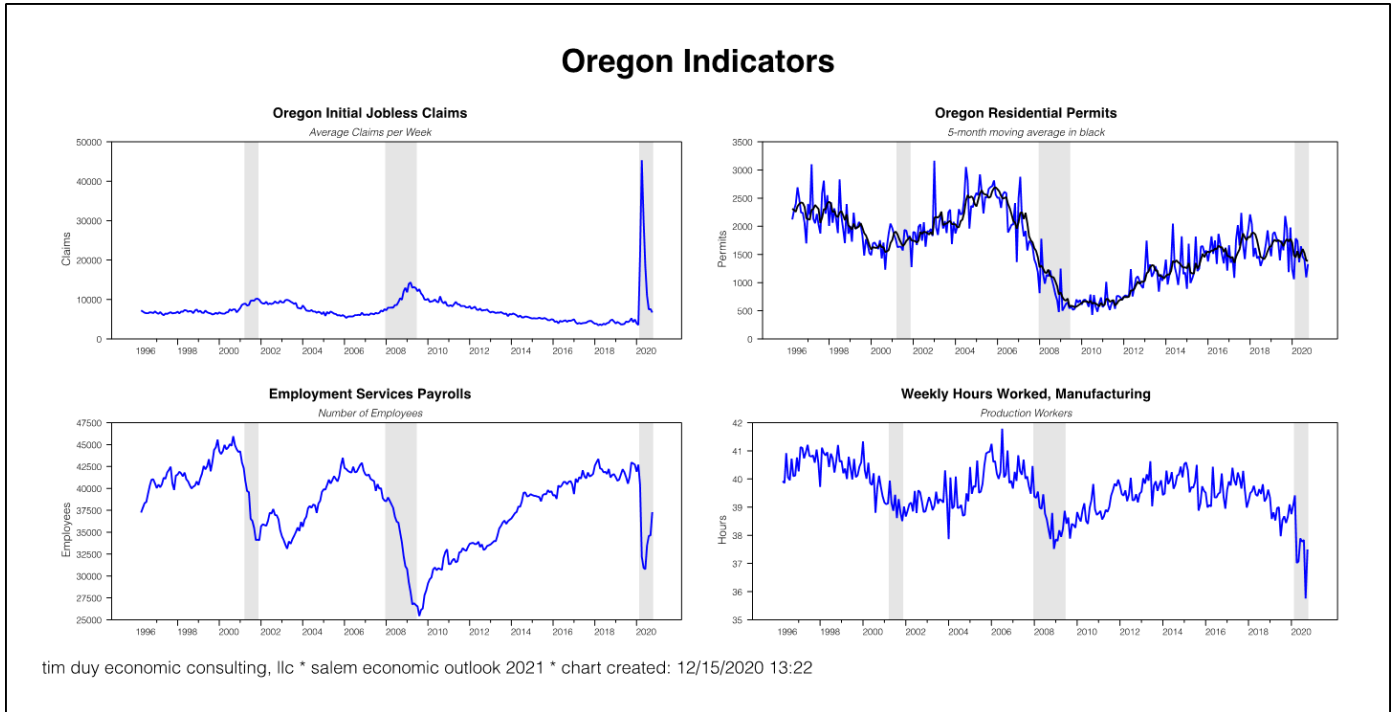


City of Salem Property Tax Revenue Loss due to Compression

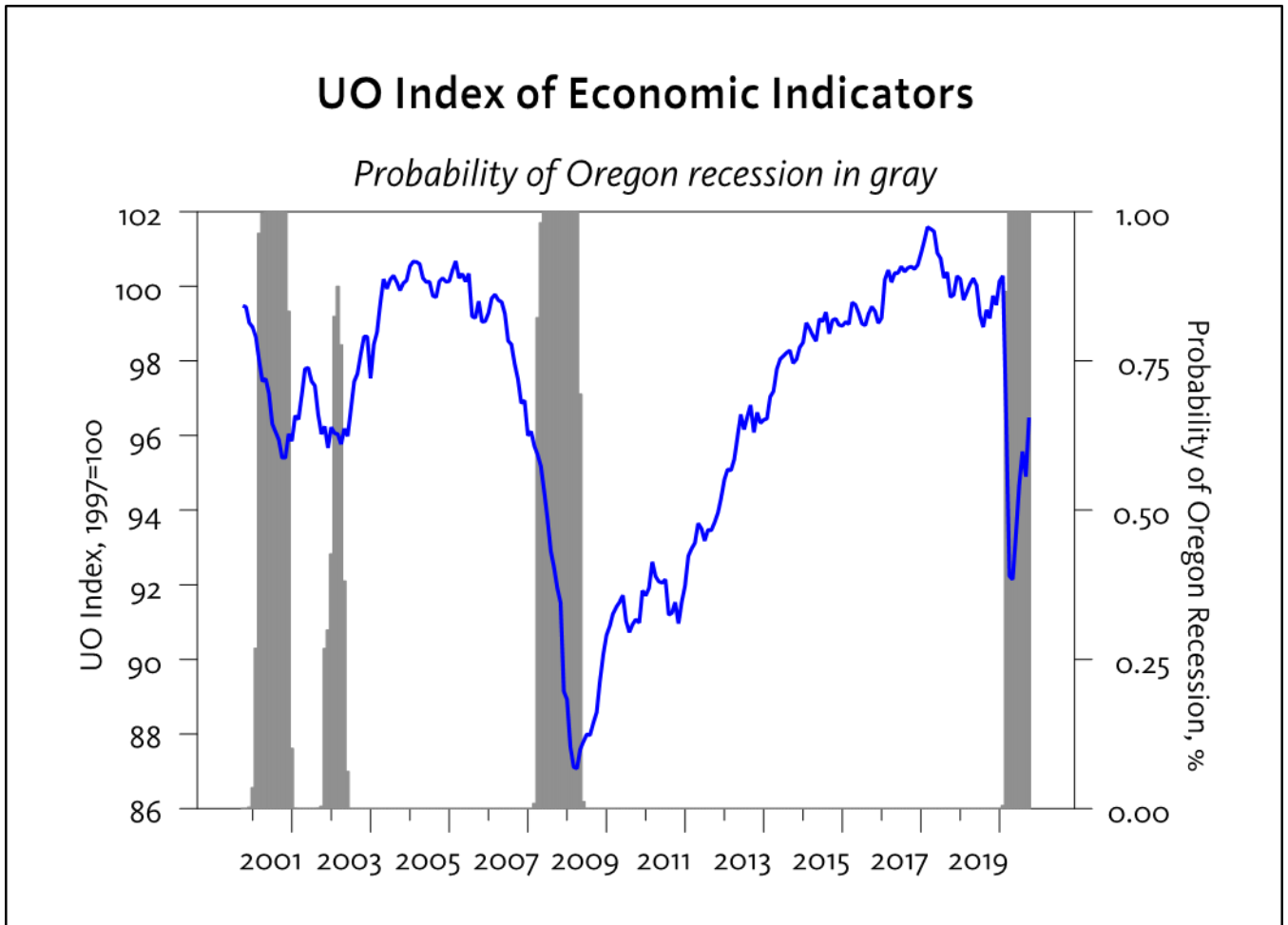




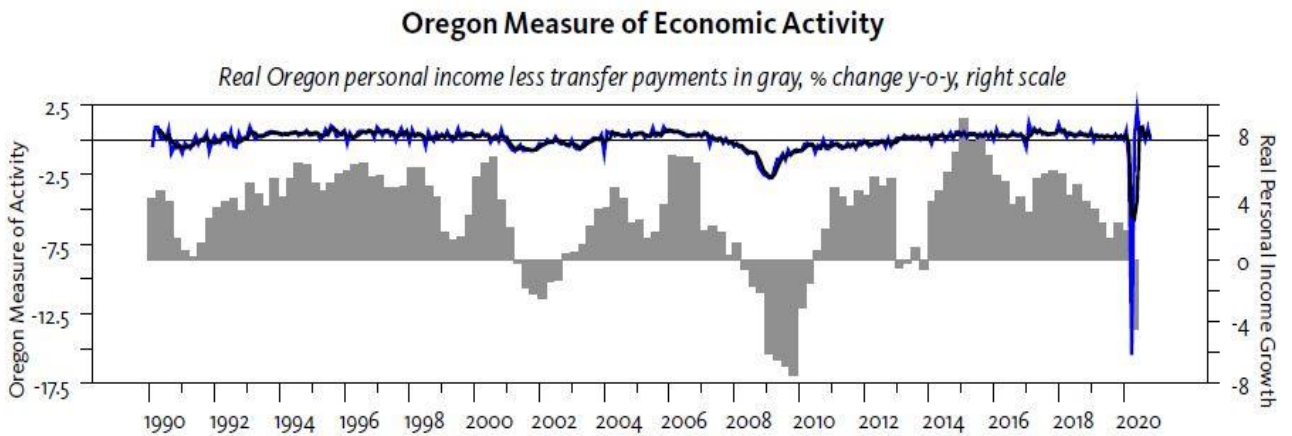
Oregon Recovering



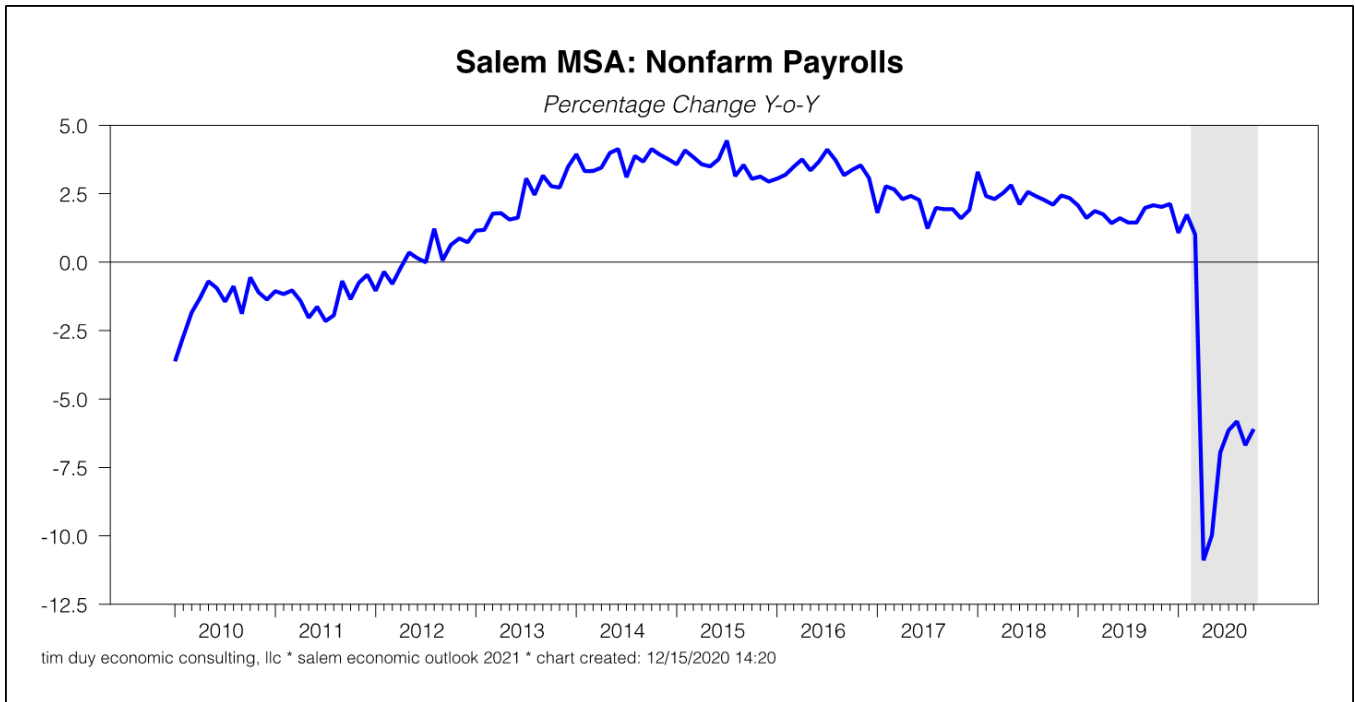
Future Looking Indicators Better



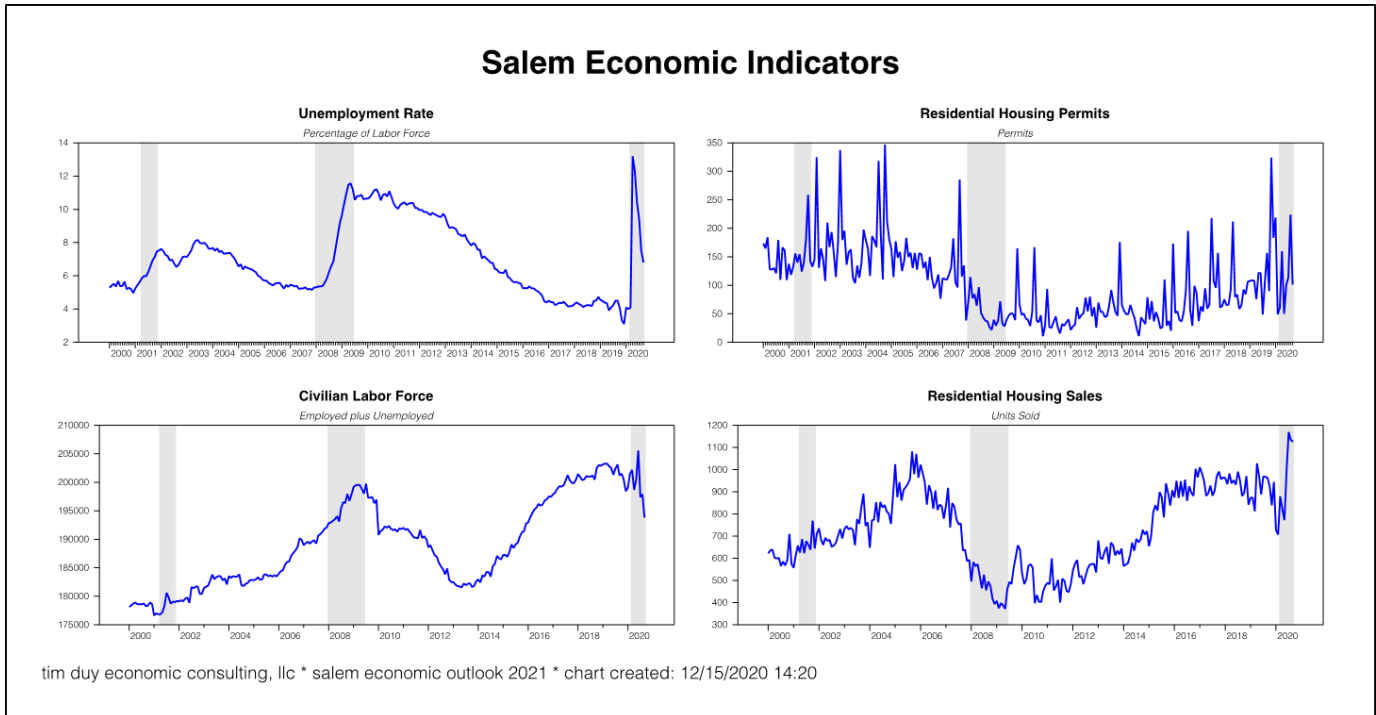
Oregon Economic Activity



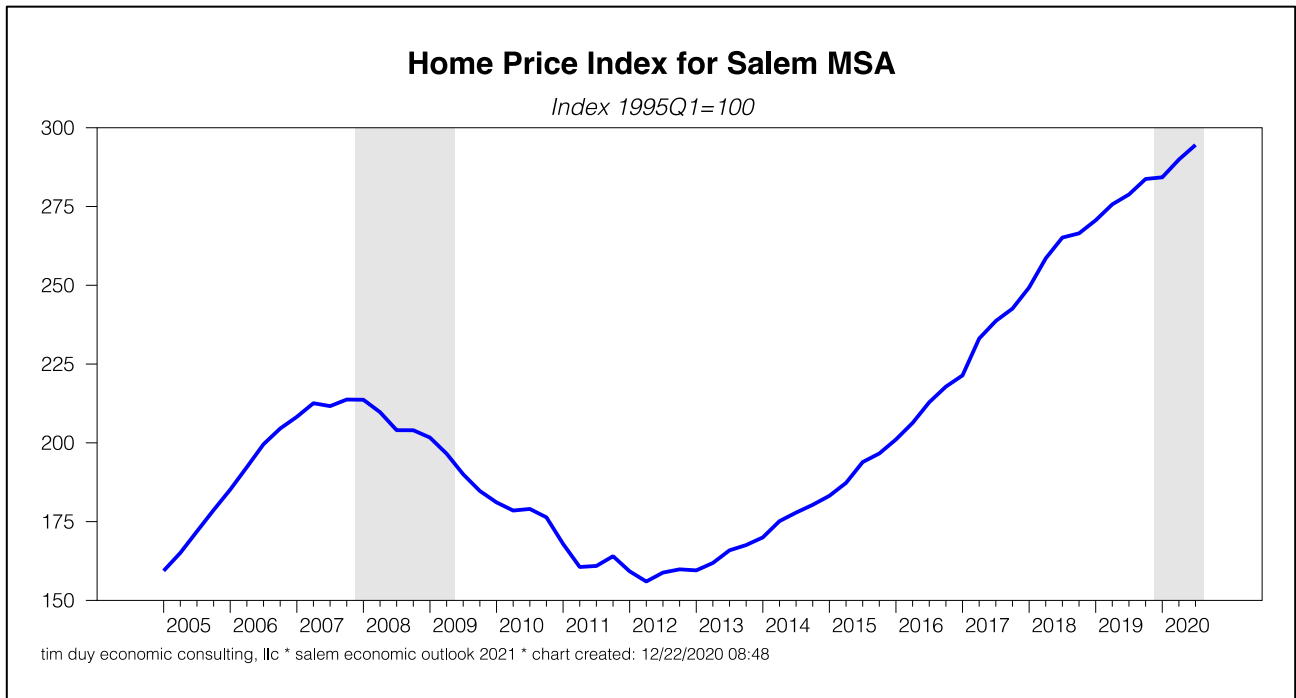
Salem Region



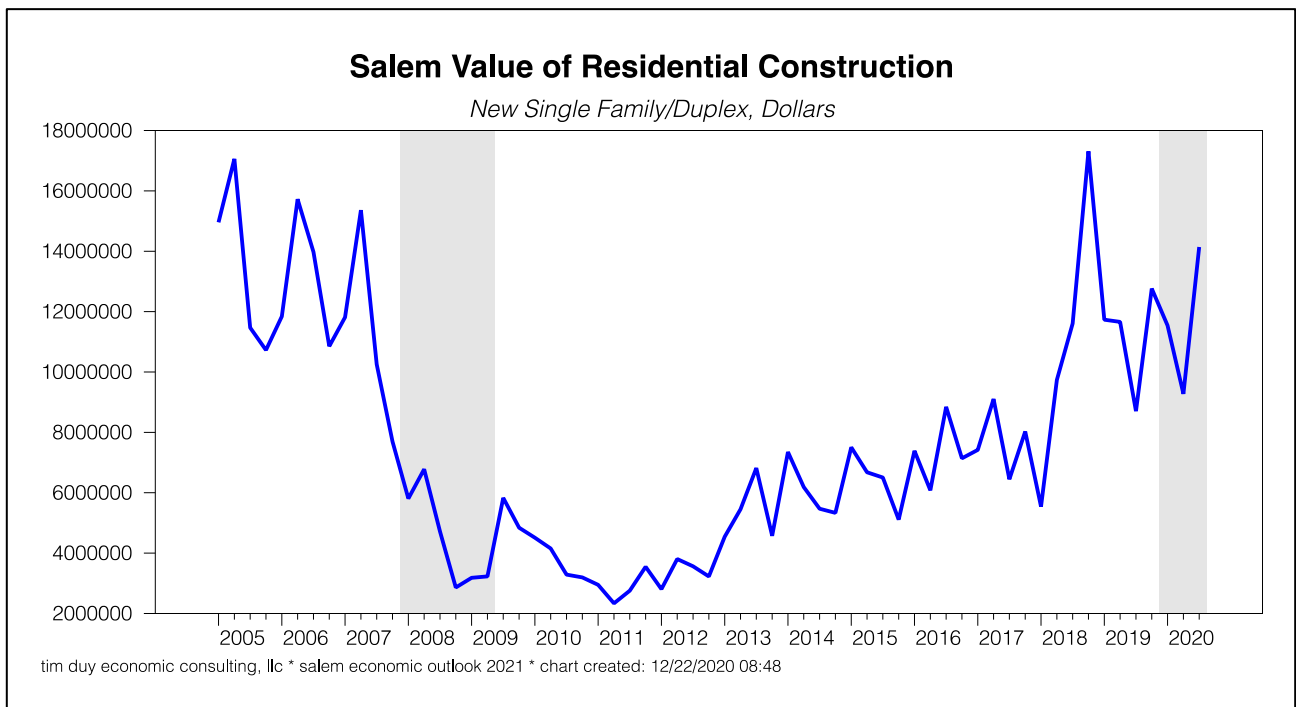
Salem Region



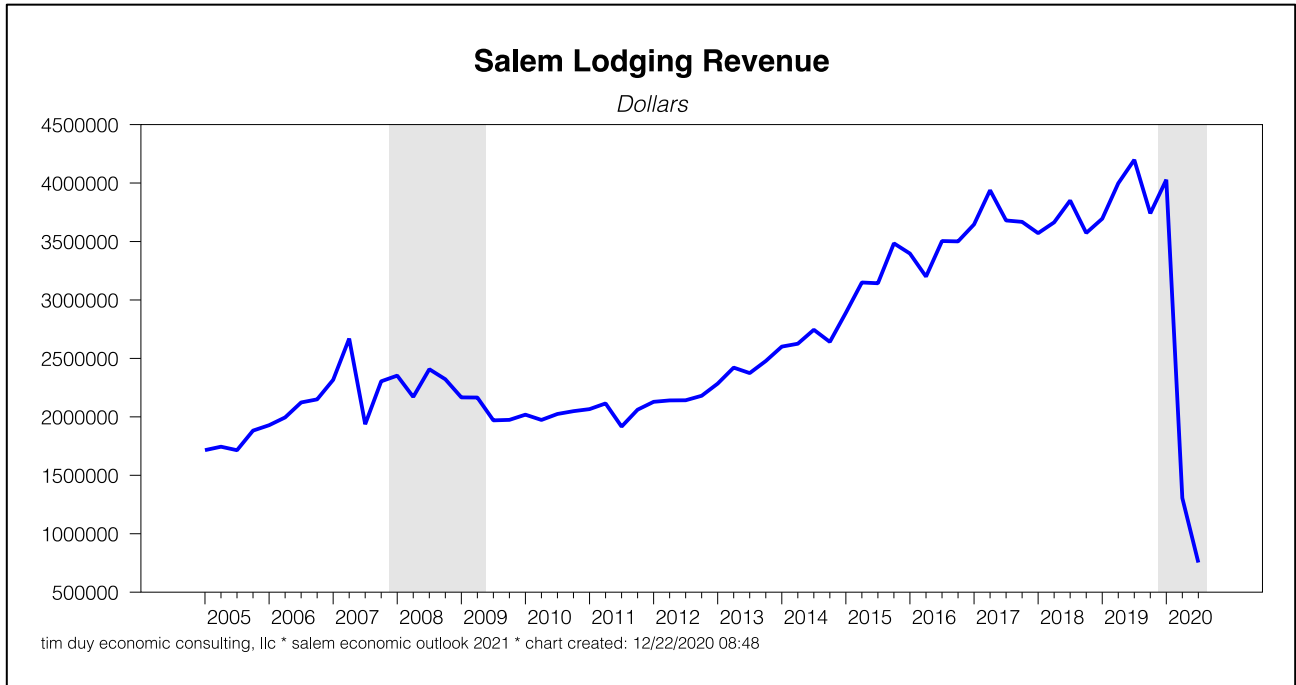
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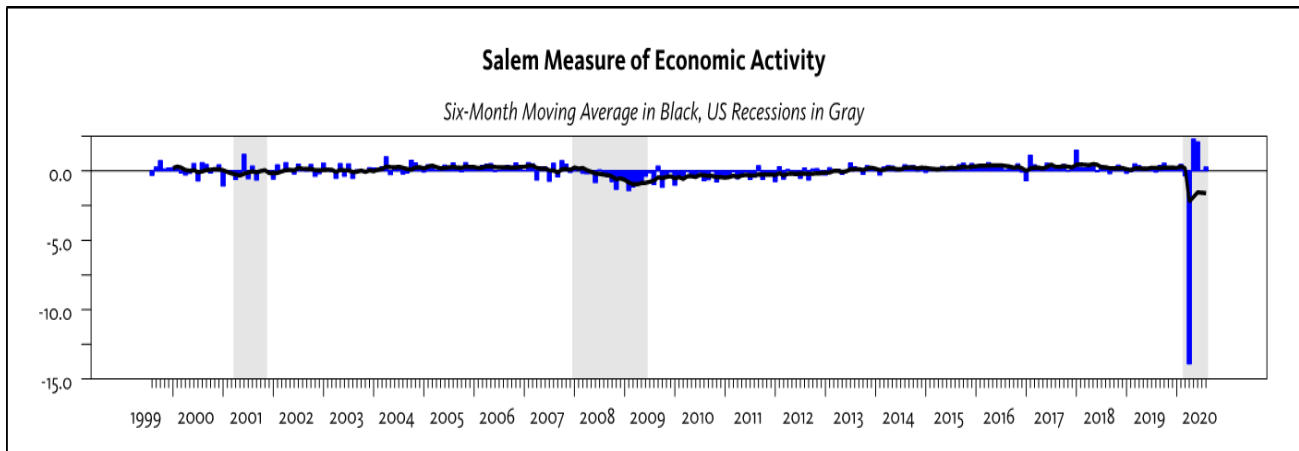
Salem Region



Salem Region



Salem Region



Salem Region

