The City of Woodburn

Forecast 2013-2017

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Introduction

City of Woodburn Background

The City of Woodburn is located in Marion County, Oregon, 18 miles northeast of the City of Salem along the I-5 corridor. Woodburn is located in Oregon's Willamette Valley which experiences a moderate climate.

Woodburn has changed significantly in population since it was first incorporated in 1899. The city originally began as a small farming and manufacturing community. Beginning in the 1960's Woodburn became a suburb of Salem and Portland with its proximity to I-5. Over the past 18 years, Woodburn has grown 74%. As of the census of 2000, there were 20,100 people residing in Woodburn. As of 2010, its population had risen to 24,080, a net rise of 19.8% over 2000, ranking it the 21st most-populated city in Oregon. The per capita income was $16,357 (compared to $26,171 for the state), and the median income for a family was $42,519 (or 14% less than the state median household income).

Purpose of the Forecast

The 5 Year Financial Forecast takes a forward look at the City's most significant fund revenues and expenditures with the purpose of identifying financial trends, shortfalls and issues so the City can proactively address them. For the purposes of this year's financial outlook, we will strive to look at operating revenues (those revenue sources not subsidized by beginning fund balance) versus operating expenses. Future results are projected based on the City's current service levels, policies and unavoidable future impacts. This is a change from the initial forecast that included beginning fund balance as operational revenue.

The financial forecast will serve as a basis of our financial plan for our primary operational funds – which influence changes to the City's budget policy. The intent of this financial forecast is to project each operating fund's financial position under certain assumptions. The forecast then sets the stage for the upcoming budget process, aiding both the City Manager and Council in establishing priorities and allocating resources appropriately. Responsible financial stewardship is imperative to provide for the current and future needs of our community. Forecasting is one of the most powerful tools the City has available to help make informed financial decisions that will ensure the City's future vitality and economic stability.

Forecast Methodology

The City of Woodburn's approach to forecasting is to apply a conservative philosophy that neither overstates revenues nor understates expenditures. Economic forecasting is not an exact science. Rather, it is dependent upon the best professional judgment of the forecaster. To enhance the accuracy of projections the City identifies factors that contribute to the changes in revenues and expenditures, such as development, inflation, interest rates and known future events that will affect operations. Of the five years of forecast, the first year primarily reflects the projected ending balance for 2012-13. The remaining four years are based on a variety of assumptions applied to the 2012-13 ending projections.
Our forecasting of operating costs embraces the concept of Status Quo. This concept assumes that the current level of service will continue for the next five years with cost changes based on inflationary increases. This provides a baseline economic estimate from which reductions or increases in service levels can be determined. To the extent certain reductions or additions are anticipated, they are noted within the Fund section of this report. Exceptions to the status quo assumption are noted at the beginning of each fund.

Because capital improvements are based on available resources, a long-term forecast is not useful for budgeting purposes. Master plans governing our long term investments in Water, Sewer, Transportation, Storm Water, and Parks have been established. Projects are prioritized based on the master plans, but are scheduled based on available resources that due to variations in growth rates that are not readily predicted. To the extent possible, operations are funded first and remaining resources are allocated to fund capital improvements. This frequently means that improvements are delayed to achieve the matching funding source. Improvements which are too expensive to be paid from net resources are assumed to be funded via bonded debt, although in practice, this is a rare occurrence. For these reasons, capital construction funds, and the related special revenue funds are not included in this forecast.

Utilizing general ledger records and reports, audited financial statements, water and sewer master plans/rate studies, and published City budgets, each of the funds listed below will be examined to identify patterns in revenues, expenditures, and cash balances that may indicate financial instability or threats to sustainability of current operations.

Executive Summary

This report is a combined effort of all City staff. Each department provided insight into future year operating revenues and costs. Our goal in assembling this report is to reveal trends, highlight financial issues, and provide suggestions and options. We look forward to feedback and input from the City Council and other interested parties on these issues.

Because the Fund Section provided detailed fund information, the executive summary will focus on the most significant issues facing the City. We have also included an organization chart in the appendix to aid you in understanding the City's departmental structure.

Overview

The forecast model predicts that most operating funds will have sufficient resources to meet expenses over the five-year period. A few of the fund graphs depict a declining undesignated balance of resources. While this may seem alarming it is just an indicator. In reality, the City would not submit a proposed budget where costs exceed all available resources. The value of the forecast is that it allows us to predict where problems might occur and provides the City adequate time to take corrective action before the situation becomes a crisis.

Economic and Demographic Assumptions

As a result of recent economic downturn and slow pace of recovery, Woodburn's population is expected to continue a slow pace of growth in the near future. Oregon as a whole is expected to grow with an annual population growth rate of 1.1 percent between 2010 and 2017. Oregon and the City of Woodburn's economic condition heavily influence the population growth. Woodburn's economy determines the ability to retain local work force as well as attract job seekers. These factors will weigh heavily upon the City's ability to continue to provide a high level service to the public.

Issues in Coming Months

- Continued decline in property tax revenues
- Continued focus on stabilizing General Fund finances
- Fund financial structure reorganization
- Effects of legislation affecting PERS rates and insurance costs

Issues in the Coming Year

- Evaluation of cost control measures such as contracting out and expansion of high deductible health insurance plans

- Implementation of a General Fund Right of Way charge (franchise fee on Water & Sewer utilities)

Issues Beyond One Year

Water

Water expenses have met or exceeded revenue collections from operations for the last several years. The fund balance has declined from $635,000 in June 2006 but has stabilized in recent years. The Water master plan is badly out of date and is in need of update which is scheduled for 2013-14. An updated rate study will be included as part of the master plan and will address potential rate adjustments.

General Fund

New demands for services will need either new resources or program cuts in other areas. Currently, police coverage is 1.26 officers per 1,000 residents (recommended coverage is 1.50 per 1,000 residents). The challenge for the City will be to continue to provide a high level of service with continued flat revenues. Demand for park and recreation services are expected to continue to increase due to increases in population and put additional strain on the limited resources of the General Fund.

In addition, City Hall and Library maintenance and improvements continue to be deferred. Staff is working on recommendations to fund improvements and alleviate pressure on capital needs.

Transit

As the economic downturn continues it will become increasingly difficult for the General Fund to sustain its contribution to the transit fund. Historically, the General Fund has provided $151,000 annually to Transit; that support has declined to $116,000, resulting in reductions in service hours and routes. The transit operation is aggressively seeking grants to fund operations and maintain and/or increase current levels of service. New capital investments in vehicles and shelters are exclusively grant funded.

Streets

Due to economic conditions Street SDC revenues have remained flat and are expected to remain flat. The City has committed to provided $5.5 million to ODOT for the interchange project – of which the City has currently reserved $4 million towards this obligation. The reserve amount and flat revenues have a direct impact on the City's ability to provide for street capital projects. Additionally, the City may need to finance the remaining portion of the obligation.

Issues for Administrative Attention

Not all of the issues that arise from the forecast need Council direction. Those listed here can be dealt with at an administrative level. The purpose of this forecast as noted previously is to point to areas of concern and allow staff and council to direct resources and focus to areas of need. This forecast is also intended to 'drive' the City's financial policies and assist in formulating need financial policies to guide staff and council in making informed decisions.

Based on 'forecasted concerns' the following 'general' financial policies are being implemented:

- Adopt policies and plans for capital asset acquisition, maintenance, replacement, and retirement.
- Develop a capital improvement plan that identifies priorities and time frames for undertaking capital projects and provides a financing plan for those projects. The plan, including both capital and related operating costs, should project at least five years into the future and should be fully integrated into the overall financial plan.
- Periodically evaluate the performance of programs and services.

- Identify cost effective opportunities where performance, efficiency and effectiveness measures can be developed and included as part of the basic budget materials and budget document.
- Monitor, measure and evaluate capital program implementation, especially for projects funded by restricted funds.
- Identify programs that should be self-sufficient.
- Review of established fees to ensure cost recovery is sufficient.
- Establish and adopt cost recovery policies for all other services with fees and charges not established by state statute. Opportunities for new fees and charges will need to be determined as part of this process.
- Continue to monitor indirect cost recovery for Internal Services Funds and evaluate the effectiveness of these charges. These indirect costs should be evaluated and updated periodically.

General Fund

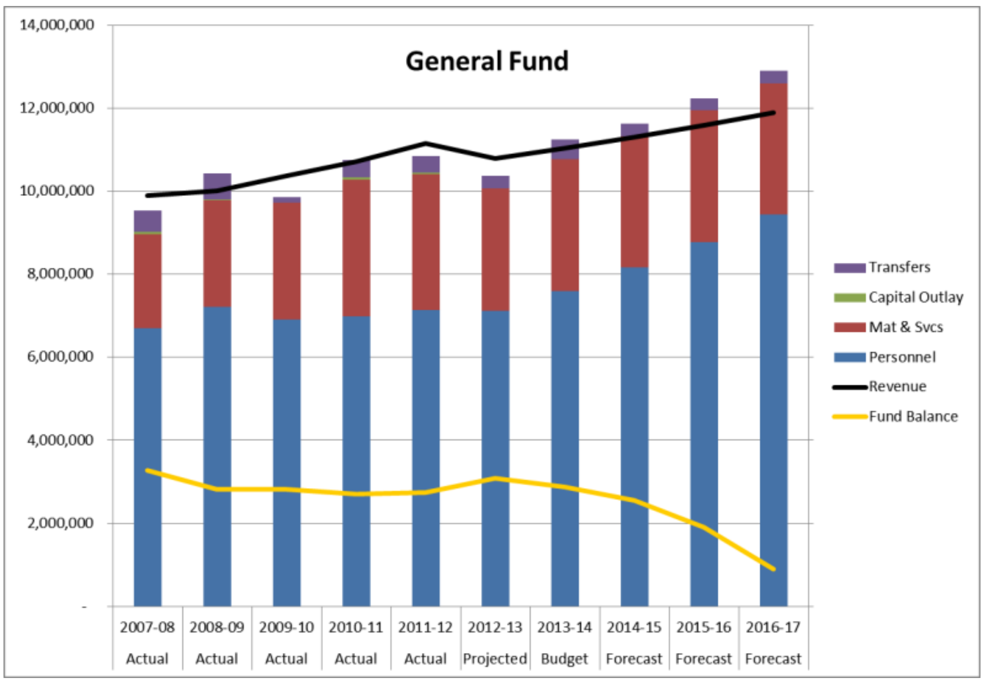
Variances from Status Quo Assumptions

- None

Key Assumptions

- PERS Rate Increase effective 7/1/2013
- Reduction of Transit subsidy
- Implementation of General Fund Services charge on Water & Sewer revenue

Operating Position



Property taxes account for almost 69% of the annual resources in the General Fund. Tax growth is expected to be flat for the current year and begin to increase at a minimal rate over the forecast period. This is due to the continued slow recession recovery rate in Woodburn and the effects of compression due to depressed market values. Property taxes could increase if there are significant new developments within city limits. Franchise fees are the second largest revenue in this fund equating to 9% of total resources. Franchise fees are taxes based on the gross revenues of utilities that use the City's right-of-way. Private utilities doing business in the City of Woodburn include Portland General Electric, Northwest Natural Gas, Qwest, United Disposal, Wave Broadband, Woodburn Ambulance and others. The only way this source of revenue will increase is if the private utilities revenues derived from Woodburn residents also increase. Intergovernmental is the third largest type of revenue at 7%. This type includes state and federal grants, and state cigarette, liquor and revenue sharing. Revenue increases in the current budget period (2013-14) are due entirely to the implementation of the General Fund Services charge. Overall, revenues are projected to increase at a modest 2% rate for the forecast period.

Capital Projects – From Operating Revenues

There are no significant capital projects to be funded by the General Fund in the forecast.

Potential Impacts and Issues

There are potential future demands that could increase costs in this fund; however, there are no available resources for these expansions. Potential future demands are explained below.

Parks Maintenance – As demand continues to grow for the public's use of City parks, additional burdens are being placed on the City's General Fund to provide enhanced services. Additional staff hours are required for clean up and maintenance of these parks. With the completion of first phase of the City's Greenway project staff will be asked to maintain the trail. These potential cost increases are not included in the forecasts.

Police Staffing – Crime, of all types, is on the rise in Woodburn. While population continues to increase, there has not been a proportional increase in development resulting in increased tax revenues. This phenomenon places an increased burden on the demand for Police services without commensurate revenue increases.

Funding Alternatives

As costs grow there either needs to be a corresponding reduction in other costs or new resources need to be generated. Possible new resources are presented below. Staff does not take a position for or against these options. They are presented for informational purposes.

General Fund Services Fee – The City levies a franchise fee on private utilities for the use of the City right of way. For the first time in Fiscal 2013-14, the City will levy this franchise fee on its own utilities. A 5% General Fund Services franchise fee was approved for a 4-year period. Council will evaluate the need and effectiveness of this fee prior to the sunset date of June 30, 2017.

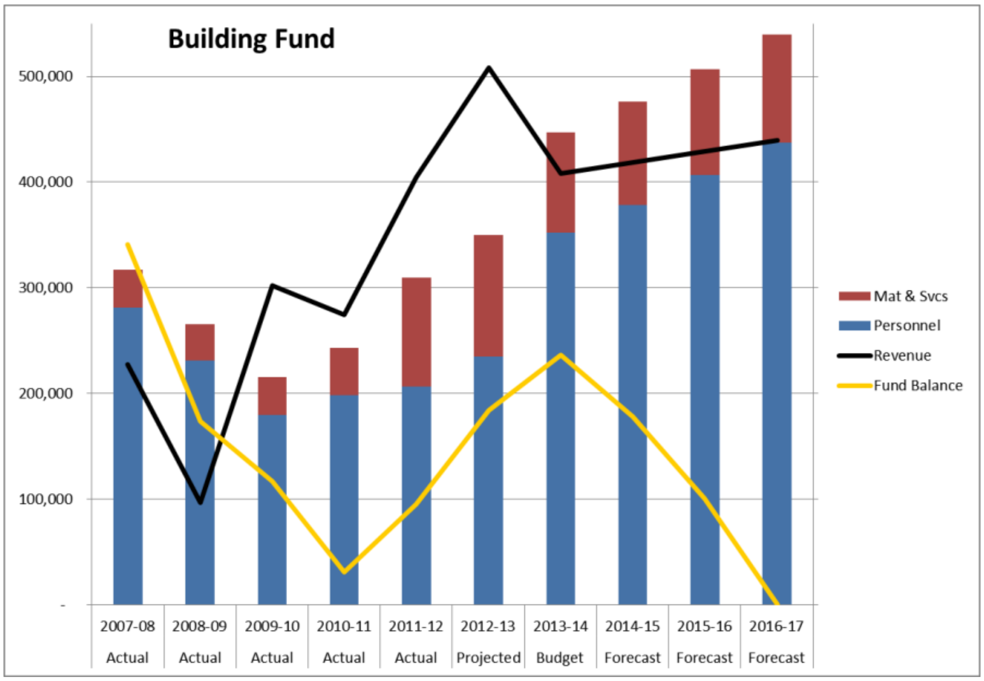
Building Fund

Variances from Status Quo Assumptions

- Permit revenues are based on slowly increasing activity, primarily in the residential housing market. We expect increased commercial development in FY 2014-15.

Operating Position

Revenues are based upon permits issued for new development and redevelopment that historically ebb and flow. Permits are collected prior to the work being done and therefore cash balances exist to pay for services to be performed in the future. The graph depicts the effects of the current downturn in new development starts. Future revenues are based on estimates of when specific projects might begin. Costs reflect cuts and reductions already in place. Additionally, the difference between operating revenues and expenses is the use of beginning fund balance to supplement the program through FY 2010-11. This is illustrated by the steep decline in beginning fund balance beginning in FY 2008-09.



Potential Impacts and Issues

Delays in developers submitting plans or starting construction will affect the bottom line. The City will closely monitor the actual revenues against the forecast and will take corrective action if necessary. This fund is projected to have sufficient resources to carry the program through the forecast horizon.

A return to a 'normal' level of development will necessitate a return to historic staffing levels. Restoring the additional Building Inspector/Plans Examiner and increasing hours for existing staff would add approximately $100,000 per year to the Buidling Program.

Transit Fund

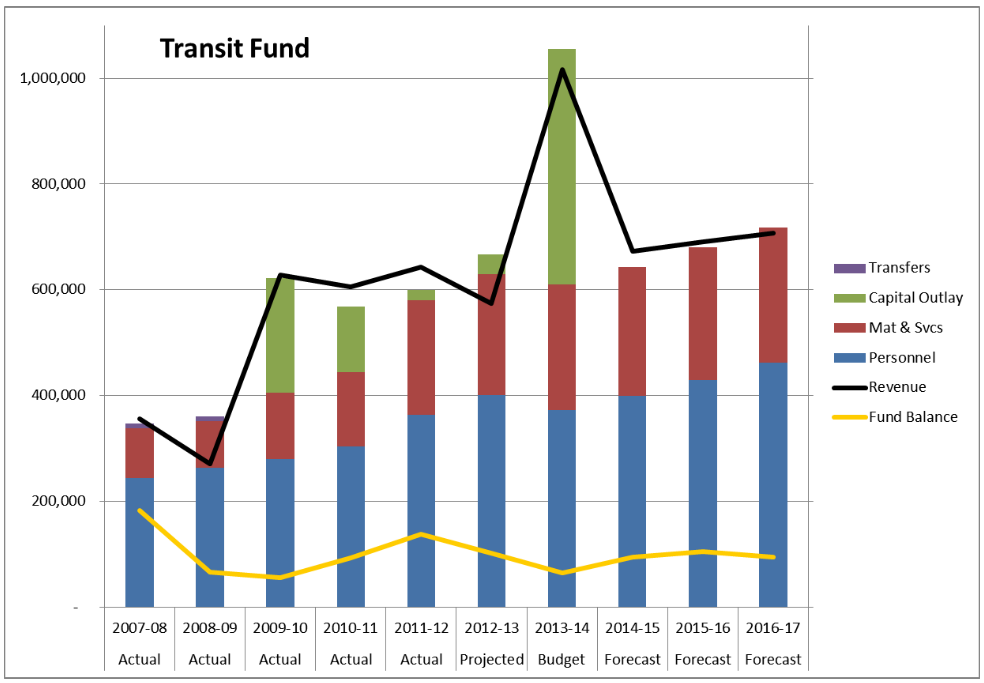
Variances from Status Quo Assumptions

- Award of capital grants to replace one full size bus and provide for security enhancements

Key Assumptions

- Ability to continue to obtain grant funding
- General Fund contribution remains stable for forecast period
- Fares remain consistent for forecast period
- Reorganization of Transit Program
- Maintenance of operating hours

Operating Position



The City's Transit system provides bus operations as well as Dial-a-Ride services for disabled citizens. The Transit operation is funded by a contribution of $116,000 from the General Fund, approximately $30,000 in fare revenue with the balance made up from State and Federal grants.

The large increase in capital outlay (and revenue) for FY2013-14 is due to the receipt of a Federal Grant for a new heavy duty transit bus. This bus is expected to have a longer service life and reduced maintenance costs when compared to our current fleet of light duty buses. The City continues to monitor the availability of Federal funds for this program and manages staffing and service levels to available resources.

Capital Projects – From Operating Revenues

Replacement of buses and vans is done as-needed and historically has occurred when grant funding is available.

Potential Impacts and Issues

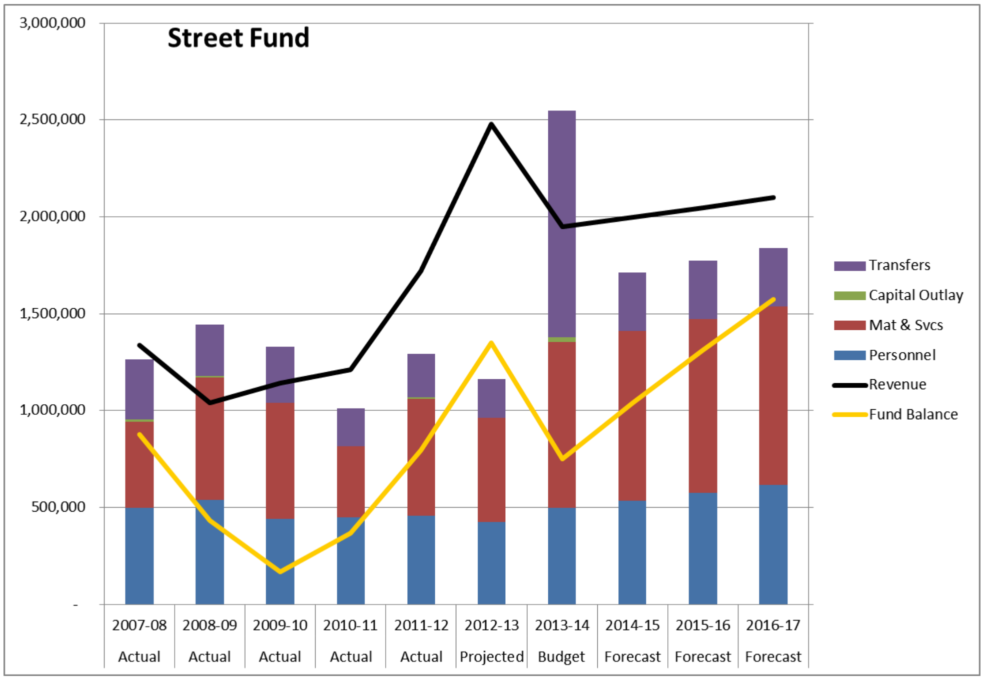
Should a large unanticipated curtailment of Federal grant revenue occur, this program could potentially be drastically curtailed or discontinued as replacement funding is not anticipated to be available from the General Fund.

Street Fund

Variances from Status Quo Assumptions

- None

Operating Position



Gas taxes distributed by the State are the primary resource for this fund. Taxes peaked in FY 2005-06 and have been in decline since. The 2009 Legislative Session approved increases in vehicle title and registration fees which became effective in 2010 and an increase in tax of 6 cents per gallon of gasoline became effective January 2011. A referendum petition to repeal the new law failed to collect enough signatures. Revenues have begun to increase and should continue to do so for the next several years due to the phase-in of title, registration and weight fees.

Additionally, the Revenue Sharing Fund was collapsed into the Street and Local Gas Tax Funds (the construction portion of the Revenue Sharing Fund was transferred to the Local Gas Tax Fund). Street lights are now being paid for out of the Street Fund beginning in FY 2011-12. State shared revenues are now transferred in from the General Fund to provide funding for that expenditure.

Capital Projects – From Operating Revenues

Projects related to, but not a part of the Interstate 5 Interchange project are funded in FY2013-14. This is the cause of the sharp increase in Transfers for FY2013-14.

Potential Impacts and Issues

Due to the increase in the gas tax, increases to registration and other fees and the shifting of shared revenues (to cover street lighting expenses) to this Fund, financing remains relatively stable for the forecast period.

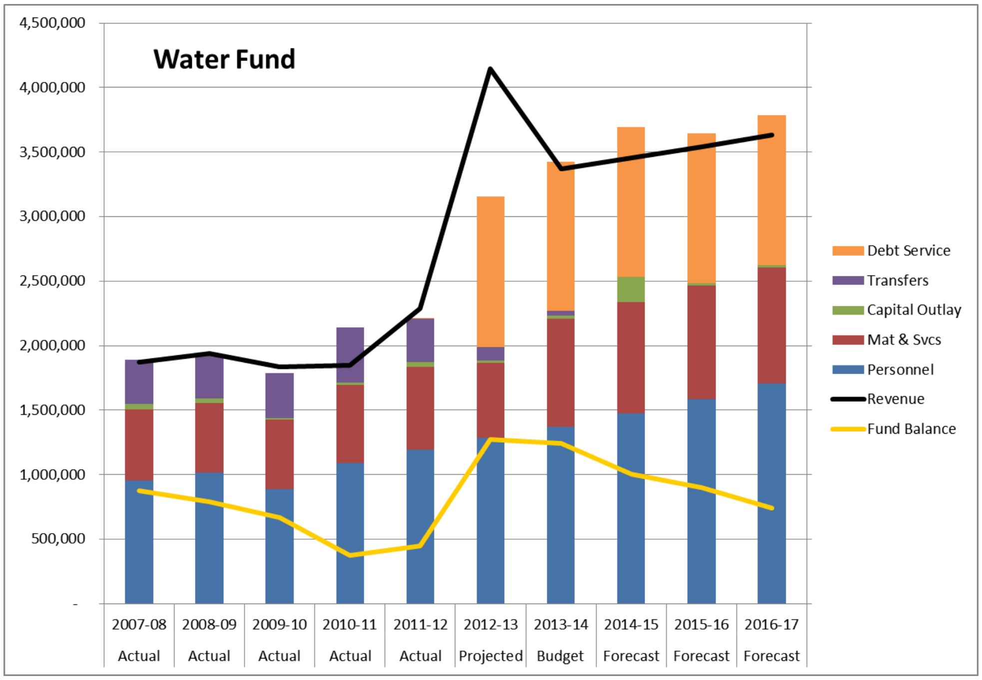
Water Fund

Variances from Status Quo Assumptions

- Implementation of the General Right of Way Fee

Operating Position

Revenues and treatment costs are driven by consumption – which due to increased conservations efforts by the City should continue to decline over the forecast period. The 2001 Water Master Plan authorized the City's last rate increase – those increases ended in FY 2006. The 2001 Water Master Plan called for several treatment and raw water transmission line projects to be completed including the disinfection project (completed in FY 2007 and May 2011, respectively).



As the graph depicts expenses will exceed revenues beginning in FY 2013-14. This may be a result of conservative estimates in increases in associated payroll and materials and services costs. An update to the rate study and Master Plan may reveal the need for a rate adjustment. Management is monitoring these cost progressions and is working on recommendations for any revenue short falls in ensuing fiscal years.

Potential Impacts and Issues

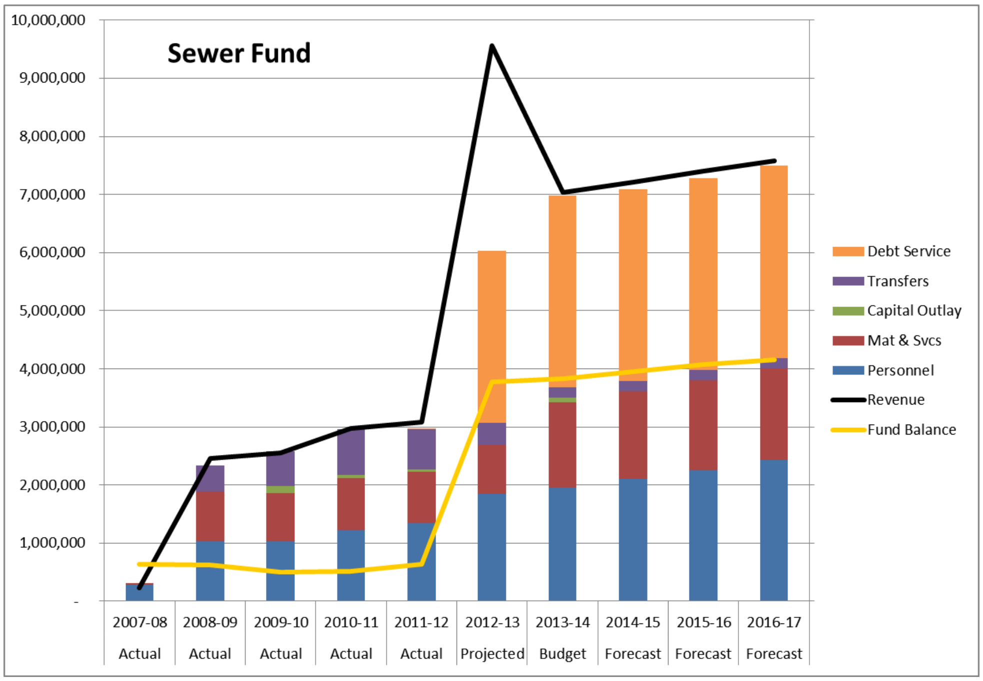
As personnel, material and services costs conservation efforts continue to increase levels of service will become difficult to maintain. Management is recommending the 2001 Water Master Plan be updated as soon as possible to address the next phase in the City's water system and continued efforts to maintain a high level of service.

Sewer Fund

Variances from Status Quo Assumptions

- Rate increases of 9.5% per year through FY 2013-14
- Implementation of General Right of Way Fee

Operating Position



In 2007 the City entered a Mutual Order Agreement with the Department of Environmental Quality that called for significant improvements to the City's wastewater treatment plant and system as part of the approval of the City's wastewater treatment permit. The City implemented those improvements beginning in FY 2008-09 as part of a 20 year plan – the total cost of those required improvements will total $94 million. To date the City has issued approximately $19.5 million in loans for Phase I of the project. Phase II of the project will begin in FY 2011-12 – an additional $23.5 million in loans/bonds have been issued to fund the second phase of the project.

To fund the on-going capital projects the City Council approved rate increase implemented in FY 2008-09 with the initial increases of 12.5%. Additional increases will take place through FY 2013-14 at 9.5% per year.

Potential Impacts and Issues

Adopted rates are providing adequate revenues to fund operations for the forecast period – management continues to monitor revenues and expenses closely to ensure rates remain adequate.

Remaining Funds

Fund Consolidation

As done in the initial forecast the Finance Department continues to review the need for further consolidation of funds into 'like' operations/funds. Finance will make any recommendations for further consolidation as part of the FY 2013-14 Proposed Budget.

Capital Construction Funds

Capital Construction Funds are not included in this forecast because their activity is limited by funds available. A more robust capital construction plan and reporting mechanisms are planned for development during the 2013-14 fiscal year.

Remaining Funds

The remaining twenty-two funds have dedicated revenue sources, are for a specific purpose, have nominal activity and/or will be retired in FY 2011-12. These funds have not been included as part of the five year forecast.

Major Assumptions – Revenues

Operating Revenues

The City received about $28 million in operating revenues last fiscal year.

Revenue Source	FY2012 Actual
Taxes	8,391,644
Licenses & Permits	225,156
Franchise Fees	1,499,300
Intergovernmental	3,081,225
Fines & Forfiets	689,217
Charges for Goods & Services	10,927,396
Miscellaneous Revenue	3,211,708
	28,025,646

Revenue Assumptions

Property Taxes – General Fund

Taxes are based on assessed value which is determined by the county Assessor. Generally, assessed values grow by 3% per year as allowed by the State Constitution. There is no correlation between real market value and assessed value. In addition to the 3% growth, an estimate is provided for expected new development. The City must also allow for the effects of compression, which in the last two fiscal years has resulted in the loss of over $3 million in tax revenue. The city's tax rate is permanently set at $6.0534 per $1,000 of assessed value, but is subject to limitation under ballot measures 5 and 50 limitations. As a result of these factors, the City estimates property tax growth at zero for the FY2013-14 and as minimal for the forecast horizon.

Franchise Fees – General Fund

These fees are assessments on the utility companies' gross receipts for using the City's right-of-way. Rates vary by type of utility – ranging from 3% to 8%. Franchise fees are assessed on telecommunication, cable television, natural gas, electric utilities, ambulance and garbage. These revenues are expected to remain flat for the forecast period.

Charges for Goods & Services - Utility User Charges

Water: The forecast assumes a nominal 1% annual increase due to new development.

Sewer: As with water, the forecast assumes a 1% annual increase for growth. A rate increase of 9.5% per year through FY 2013-14 has been adopted by the City Council.

Gas Taxes

The increase to the State Gas Tax is reflected in the forecast period. The forecast estimates a growth of 3% per year.

Building. Planning and Engineering Permits

Permit revenues are based on identification of specific developments with assumptions based on which fiscal year the development is likely to begin.

Other Resources

Bond Sales

None planned.

Transfers In – Operating Funds

This category relates to services one fund, e.g. the Information Services Fund, charges another for services provided. These types of transfers are forecasted to remain stable over the forecast period. Overhead charges for engineering services are charged to capital projects on an hourly basis.

Major Assumptions – Expenditures

Personnel Services

Combined Personnel Services are assumed to increase by 1.5% to 3.0% per year. Wages are expected to increase via cost of living adjustments of 0% to 3% plus an average 3% merit increase. Benefit changes are related to retirement and health insurance. Recently approved retirement increases are reflected in FY 2013-14 and then a 5% per year increase for the remaining four year period. Insurance cost increases have been curtailed by the implementation of high deductible plans for the AFSCME bargaining unit and Unrepresented employees. Management will seek to include the high deductible plans when next bargaining with the Woodburn Police Association.

Material and Services

Impacts of inflation are assumed to remain minor over the five years remaining stable over the forecast period at 2.5%. Management has been aggressive in managing costs in this category to help offset growth in personnel services costs and has been successful in holding spending well under budgeted amounts. Certain costs which are not affected by inflation are excluded from these estimates, e.g. insurance and workers compensation premiums.

Capital Equipment

The Public Works funds' maintain a replacement reserve for capital equipment replacement and is funded via transfers from the Water, Streets and Sewer funds. The General Services funds replace equipment on an as needed basis.

Debt Service

Estimates are based on amortization schedules for outstanding debt issues.

Other Uses

Transfers Out

This is the counter-part to transfers in category. Transfers out from operating funds are primarily for administrative services provided by the Information Services and Building Maintenance Funds. Transfers out from capital project funds are primarily for engineering services and project administration provided by departments within the Public Works Services fund.

Glossary

Capital Projects

New Construction and major repairs to the City's fixed assets.

Carryover Balance

The amount of cash that is brought forward from one fiscal year to the next.

Operating Position

Recurring Revenues and Recurring Expenditures

Potential Impacts

Refers to issues and challenges that are in addition to the status quo. The intent is to inform the reader of economic matters that might occur during the forecast period.

Recurring Expenditures

The expense portion of Status Quo, predictable and on-going costs.

Recurring Revenues

The resource portion of Status Quo, predictable and on-going revenues.

Reserve Balance

Fiscal year-end balance of cash that is restricted either by legal or policy decision. Examples include debt service reserves and amounts accumulated for specific use in a future year. Designated contingency is the primary component of this balance.

Revenues

Includes both Recurring Revenues and Transfers In.

Status Quo

The current level of services

Transfers In

Internal Charges by General Fund for services provided to other funds

Contingency

The portion of a fund's balance that is not restricted for a specific purpose and is available for emergency appropriation via council action