



# Five-Year Forecast

Fiscal Years 2019-20 to 2022-23



Finance Department  
January 2019

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# City of Woodburn

## Five-Year Forecast

### FY 2019/20 - FY 2023/24

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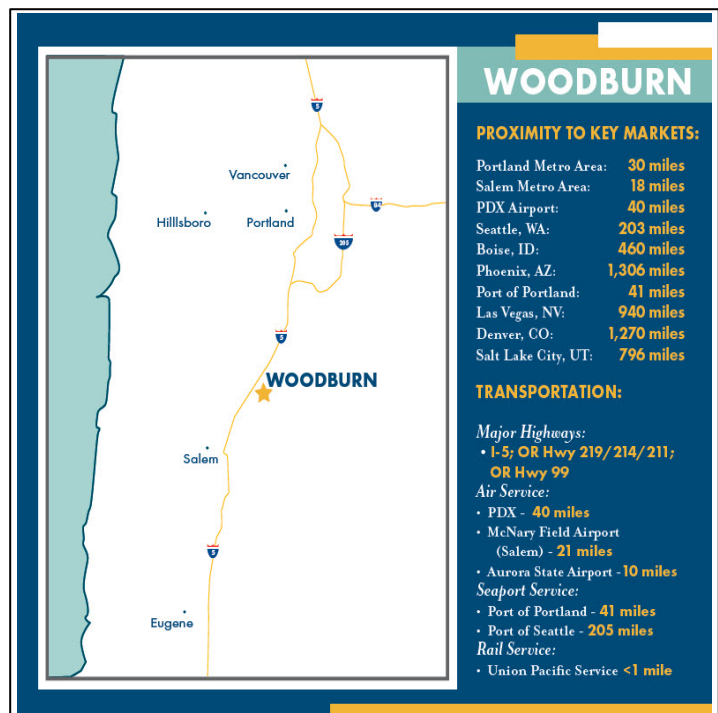
# Introduction

## City of Woodburn Background

The City of Woodburn is a municipal corporation which operates under a Council-Manager form of government. Policy making and legislative authority are vested in the City Council which consists of an elected Mayor (two-year term position) and six councilors (four-year term positions). The City Administrator is responsible for carrying out Council ordinances and policies, managing the daily operations, and appointing department heads. The City provides a full range of services, including but not limited to: police, water, wastewater, public works, library, parks, recreation, aquatics, municipal court, community planning and building inspections, and economic development.

Woodburn, incorporated in 1989, is located in the Willamette Valley halfway between the larger urban areas of Portland and Salem.

The City of Woodburn, with a population of 24,760<sup>1</sup>, is Oregon's 21st populated city, and 3rd populated city in Marion County. The population of the region within a 30-mile drive of Woodburn is 2.1 million, according to the American Community Survey. The US Census data shows Woodburn per capita income was \$18,839 (compared to \$30,410 for the state), and the median income for a household was \$47,042, or 16 percent less than the state median household income of \$56,119<sup>2</sup>.



Historically the Woodburn economy centered around agricultural and forest products, with the City serving as the manufacturing and services hub for these two sectors. As nearby urban populations have grown, Woodburn has attracted a variety of new businesses ranging from advanced manufacturing, distribution and warehousing, agricultural and food processing, wood products manufacturing, regional retail and a wide range of service-providing businesses.

Woodburn is an attractive community with new single and multi-family housing subdivisions already in the development queue. Metro area transportation issues and affordable housing shortages are creating population shifts into Woodburn. Marion County's adopted population projections indicate Woodburn will grow to 37,216 by 2030.

<sup>1</sup> Portland State University, Population Estimates and Reports, Certified Population Estimates, July 1, 2018

<sup>2</sup> US Census Bureau Quick Facts, Woodburn, OR (figures shown in 2017 dollars)

## Purpose of the Forecast

The intent of this forecast is to project the financial position of primary operating funds, based on current service levels and conservative assumptions. The forecast sets the stage for the annual budget process, aiding both the City Administrator and City Council in establishing policies and priorities to allocate resources appropriately. 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

Economic forecasting is not an exact science; rather it is dependent upon the best professional judgment of the forecaster. The City of Woodburn's approach to forecasting is to apply a conservative philosophy that neither overstates revenues nor understates expenditures. 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. 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 assumptions are noted at the beginning of each fund.

Capital improvement projects are prioritized according to master plans for Water, Sewer, Transportation, Storm Water, and Parks, but are scheduled based on available resources. To the extent possible, operations are funded first and remaining resources are allocated to fund capital improvement projects. This frequently means that improvements are delayed until the needed funding has been set aside. 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 reports, audited financial statements, water and sewer master plans/rate studies and published City budgets, each of the funds listed below were examined to identify patterns in revenues, expenditures and cash balances that may indicate financial instability or threats to the sustainability of current operations.

We look forward to feedback from the City Council and other interested parties on identified issues. Because the fund section provides detailed information, the executive summary will focus on the most significant issues facing the City.

# Executive Summary

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The forecast is based on the combined effort of City staff and 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 forecast allows the City to identify where problems might occur and provides the adequate time to take corrective action before the situation becomes a crisis. The goal in assembling this report is to reveal trends, highlight financial issues and provide suggestions and options.

## Economic and Demographic Assumptions

Oregon and the City of Woodburn's economic condition will be heavily influenced by population growth. Woodburn's economy determines the ability to retain the local workforce as well as attract new 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 the Coming Year

- Continued focus on stabilizing finances across all funds in light of rising wages, increased retirement costs and medical insurance costs, and the need to grow the work force to sustain a growing community
- The Urban Growth Boundary (UGB) expansion creates opportunities future development (an estimated 1,000 housing units are already in the permit phase), but also increases future demands on safety/security, water, sewers, streets, building activities, and recreational opportunities
- Expansion of the Economic Development program

## Citywide Issues Beyond One Year

**Public Employees Retirement System (PERS):** The City participates in the Oregon PERS State and Local Government Rate Pool employee pension program. The City's liability in PERS was \$13,401,200<sup>3</sup> as of June 30, 2017. This liability will be paid through a combination of interest earnings and rate increases. Annual interest earnings that meet or exceed 7.2 percent will reduce the liability and subsequent biennial PERS rates, while earnings below 7.2 percent will increase the liability and also increase subsequent biennial PERS rates. Currently the unfunded liability of \$13.4 million has been amortized for repayment through 2033-35. Therefore each biennium includes an increase due to normal cost increases for the current employees, plus an amortization payment for the unfunded liability. Rate relief is projected to begin in the 2035-37 biennium.

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<sup>3</sup> The \$13,401,200 is the City of Woodburn's net proportionate share of the Unfunded Actuarial Liability as of June 30, 2017. Oregon PERS' independently audited financial statement can be found at <http://www.oregon.gov/pers>



In May 2017, Gov. Kate Brown appointed a PERS task force to identify potential funding sources to address the statewide \$5 billion PERS liability. The findings resulted in the approval of Senate Bill (SB) 1566 establishing an Employer Incentive Fund (EIF), which provides up to 25.0 percent matching funds for qualifying employers who make an additional one-time lump sum payment to pay down their PERS unfunded actuarial liabilities (UAL). The PERS board is developing the program, inclusive of procedures to request matching funds, and develop a strategy to reduce the unfunded liability.

Due to the desire to control escalating costs and be strategic about the SB1566 matching opportunity, in FY 2018-19 City Council approved the creation of a PERS Reserve Fund. There were three primary funding sources for the PERS Reserve Fund; a one-time transfer of \$1.5 million held in the General Fund reserve specifically for PERS; a transfer of 1.0 percent of personnel costs charged to each fund; and interest earnings in the newly created fund. A citywide transfer totaling \$1,658,800 was budgeted in FY 2018-19 with the intent of analyzing the opportunity of a payment to PERS to reduce the liability and minimize the escalating rates in the future. The transfer of 1.0 percent of personnel costs charged to each fund has been assumed to continue in each forecast year.

### **Health Insurance**

Though the City has implemented a high-deductible medical plan and attempted to control health insurance costs, the growth rates on some policies have continued to increase. Due to the uncertainty in health care premiums, prescription rates, and the future stability of the Affordable Care Act, the first forecast year includes a 5 percent growth assumption in each forecast year.

## **Fund Summaries:**

### **General Fund**

Service demands in Police and Community Services (i.e. Library, Aquatic Center, Recreation, and Parks) will increase as Woodburn's populations grows. Meeting the service demands will require new/additional revenue or cuts to existing programs. Property tax revenue will assist in meeting the community needs, and the 3.0 percent annual growth allowed by law has been included in each of the forecast years. Anticipated property development will be included in the tax forecast as they are added on the county assessor tax rolls.

### **Water**

The operational fund is strengthening following a declining fund balance due to rising costs without corresponding rate increases since 2006. The fund ended each fiscal year in the positive due to the deferral of capital improvement projects. A rate study was presented in spring 2018 which resulted in City Council approving ten years of rate increases beginning July 2018; 10 percent increases in 2018 and 2019, followed by annual increases of 4 percent each July in years 3-10. Fund balance reductions are anticipated over the next few years as capital projects are completed ahead of growth needs. Fund balance should improve as rate increases are implemented and new development is completed.

### **Transit**

Each year the Transit Fund struggles to meet its operational needs, and most years is able to maintain a fund balance due to an annual subsidy of \$116,000 from the General Fund. Transit is aggressively seeking grants to fund operations and maintain and/or increase current levels of service. The statewide transit tax of 0.1% charged to all employees through payroll was implemented in July 2018 and is reflected in the forecast.

### **Sewer**

The Sewer Fund reflects the utility rate revenue and operational costs. Major expansion at the Wastewater Treatment Plant (WWTP) originally planned in 2011-12 is on hold awaiting a decision from DEQ regarding the water quality limits for temperature. The decision may modify the original improvements projects, and will certainly cost more than planned due to the delay in completion time. While the final DEQ decision is pending, other necessary sewer system improvements will be completed. These improvements will reduce fund balance in the short-term.

### **Streets**

The City has been allowing the fund balance to grow in preparation for priority capital projects. Currently the West Hayes Street improvement is the top capital improvement project. As the budgeted capital projects are completed, the fund balance is anticipated to decrease until revenue from the gas tax increase is received.

HB 2017 *Keep Oregon Moving* was implemented in 2018 and includes a 4-cent gas tax increase. The State has not provided implementation information, nor revenue estimates and distribution dates. The information is anticipated to be available and included in the FY 2019-20 budget.

# General Fund

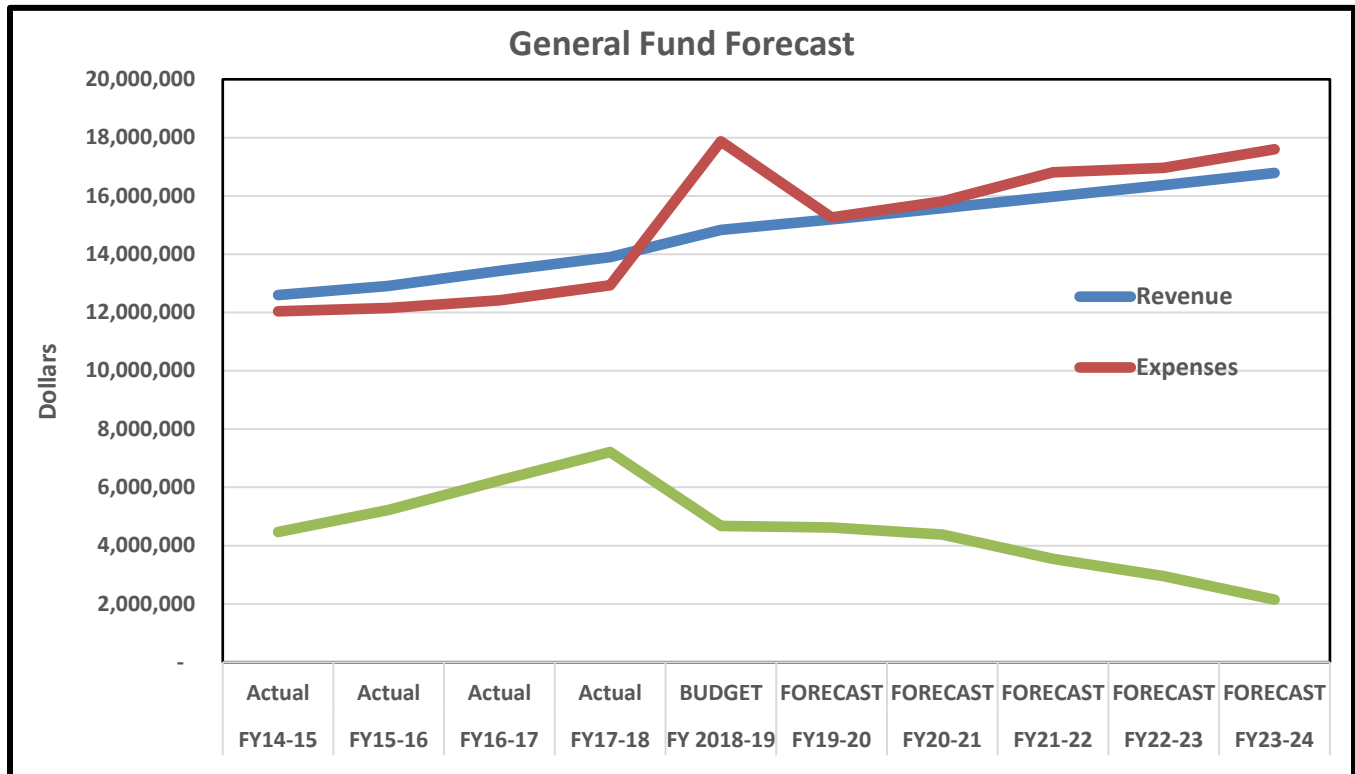
## Variations from Status Quo Assumptions

- None

## Key Assumptions

- Property tax revenue increase of 3 percent in years 1-5
- PERS rate increase (20 percent impact) as of July 1, 2019; 26 percent increases in years 3-5
- General Fund Right-of-Way charge on Water and Sewer of 5 percent continues

## Operating Position



Property taxes account for nearly two-thirds (62 percent) of the annual revenues in the General Fund. Property taxes will increase as new developments occur within City limits, but it takes several years to see the income increase. The forecast assumes a conservative 3 percent growth in property tax revenue, which is the amount of growth allowed by law on existing properties.

Franchise fees, the second largest revenue in this fund, are based on the gross revenues collected in Woodburn for utilities that use the City’s right-of-way. Charges for Goods and Services is the third largest type of revenue at 6.7 percent. This revenue includes pool admissions and fees, Fiesta event, reimbursements for shared services with the school district and county, and park rentals. Revenues are projected to increase at a modest 1.0 percent rate beyond year one of the forecast period.



## Capital Projects — From Operating Revenues

After decades of deferred maintenance, it has been necessary to complete capital repairs to City facilities. In December 2018, departments housed in City Hall were relocated to a temporary facility in order to make critical roof repairs, replace the HVAC units, replace carpets damaged from roof leaks and wear-and-tear, and upgrade the facility to current ADA standards. The renovation to the building, inclusive of the City Council Chambers and Finance and Community Development remodeling, should be completed in the summer 2019.

## Potential Impacts and Issues

There are potential future demands that could increase costs in this fund and will require close monitoring. These include:

*Police Staffing:* As the community grows, there will be an increased demand for police services.

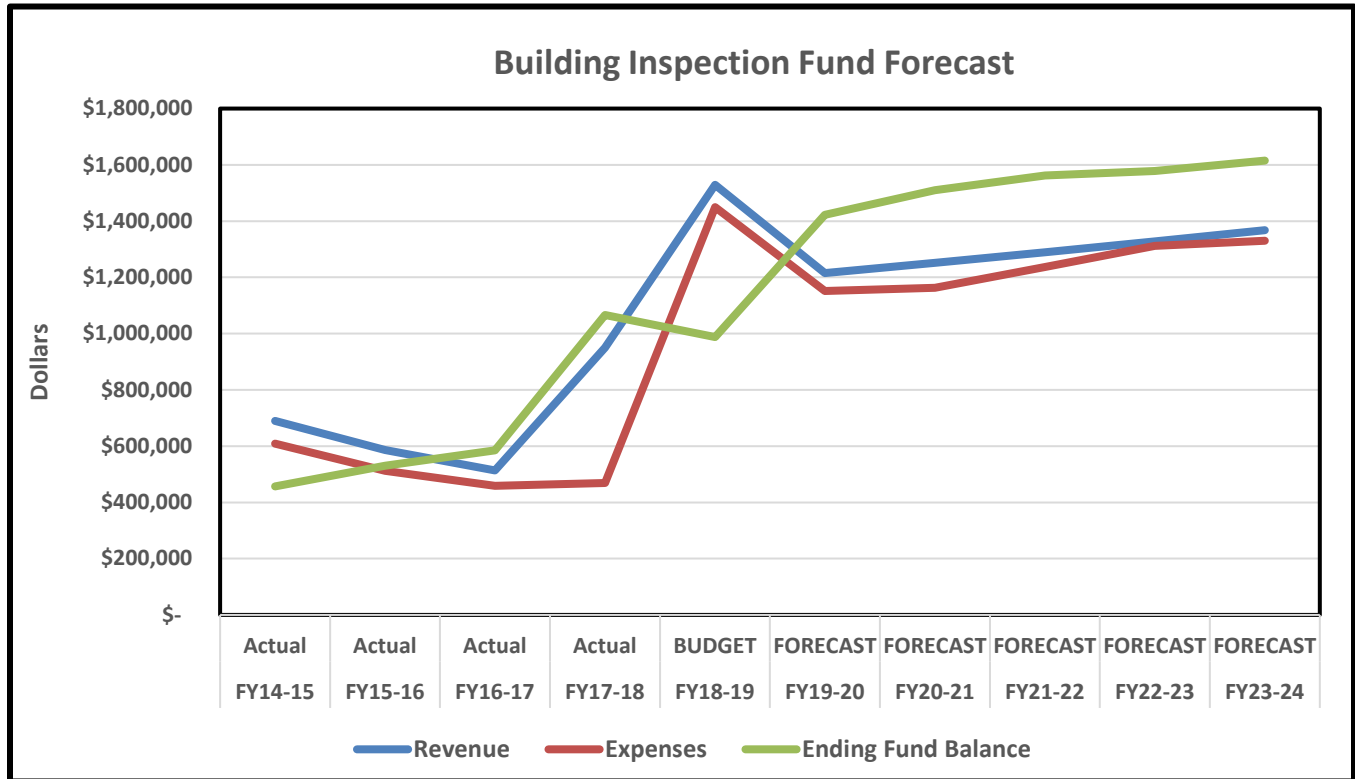
*Parks & Recreation:* As demand grows for use of City parks, additional burden is placed on the City's General Fund to provide enhanced services. Additional staff hours are required for cleanup and maintenance of these parks. These potential cost increases are not included in the forecasts.

# Building Inspection Fund

## Variations from Status Quo Assumptions

- Permit revenues increased dramatically in FY 2017-18
- Increased building activity required the filling of a vacant plans examiner-building inspector position and creation of an additional plans examiner-building inspector position to meet demands. The costs of these two positions are shown in the forecast.

## Operating Position



The Building Inspection team provides services to ensure safe building design and construction through the enforcement of building codes and standards. Revenues are based on permits issued for new development and redevelopment that historically ebbs and flows. Future revenues are based on estimates of when specific projects might begin.

## Potential Impacts and Issues

The Building Fund, of course, will be significantly impacted by the Urban Growth Boundary expansion. Delays in developers submitting plans or starting construction will impact the bottom line. The City will closely monitor the actual revenues against the forecast and will take corrective action if necessary.

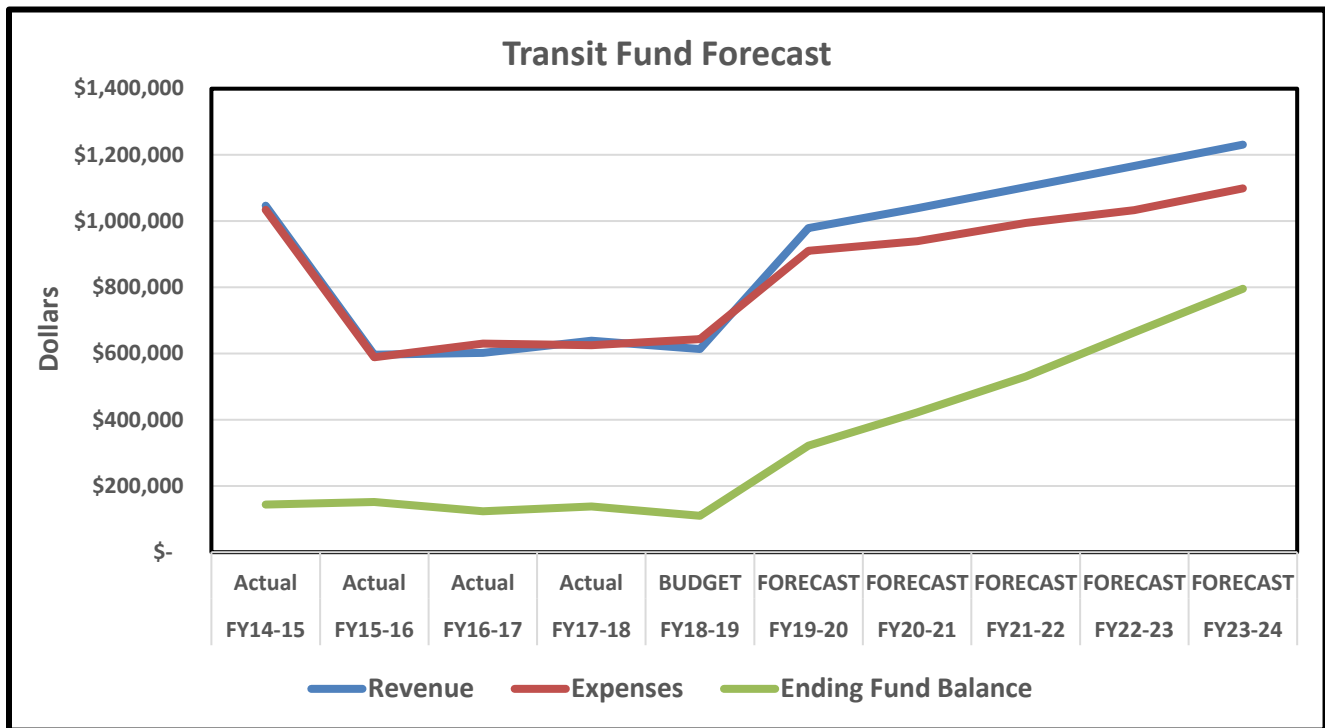
Approximately 50 percent of the Woodburn School District 2015 voter approved bond measure allows for significant construction work to all the school buildings for repairs, additions and two new schools. The school bond will impact the department workload and revenue over the next five years.

## Transit Fund

### Variations from Status Quo Assumptions

- Reduction of one FTE in May 2017
- July 2019 Statewide Transit Tax implementation and required service expansion expenses

### Operating Position



Transit provides Dial-a-Ride services for disabled citizens and fixed route bus operations and is funded by a contribution of \$116,000 from the General Fund with the balance from fare and grant revenue. In FY 2018-19 HB 2017 *Keep Oregon Moving* was implemented. This statewide transit tax of 0.1% is charged on all employee payroll and transferred to Oregon’s Department of Revenue to fund public transportation. The first revenue distribution is anticipated in spring 2019. Both the additional revenue and required service growth have been included in the forecast. Overall the new tax is anticipated to greatly improve the transit service delivery in terms of convenience, speed, and routes.

### Capital Projects — From Operating Revenues

Replacement of buses and vans is done as needed and historically has occurred when grant funding is available. The spike in Capital Outlay in FY 2014-15 was for grant-funded purchases.

## Potential Impacts and Issues

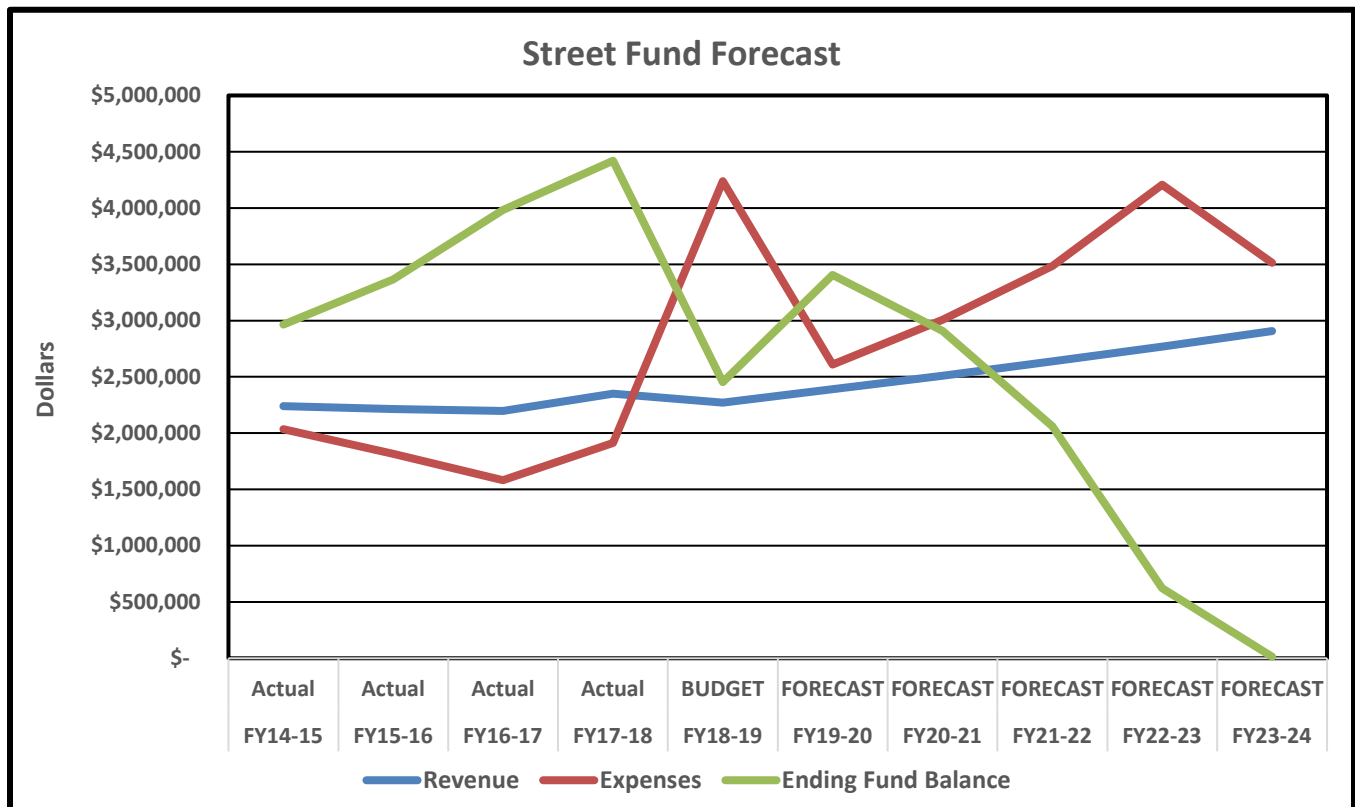
Should a large, unanticipated curtailment of state and/or federal grant revenue occur, this program could potentially be drastically curtailed or discontinued as replacement funding is not anticipated to be available from the General Fund.

# Street Fund

## Variances from Status Quo Assumptions

- None

## Operating Position



State gas taxes are the largest source of revenue followed by privilege taxes paid by PGE and NW Natural. Revenue is allowed to accumulate over time in order to fund major street improvements. As the improvements are underway the expense budget spikes and the fund balance decreases. While the forecast shows fund balance decreasing to zero, in reality the capital projects will be staggered or delayed in a manner that preserves the fund balance.

## Capital Projects — From Operating Revenues

The current major capital projects shown in the forecast period are West Hayes Street from Settlemier to Cascade, and Hardcastle Avenue/Railroad Crossing Realignment.

## Potential Impacts and Issues

Due to the increase in the gas tax/registration/other fees, and the shifting of shared revenues (to cover street lighting expenses) to this fund, the financial outlook remains relatively stable. Privilege taxes are dependent on population growth and can also be impacted by weather patterns.

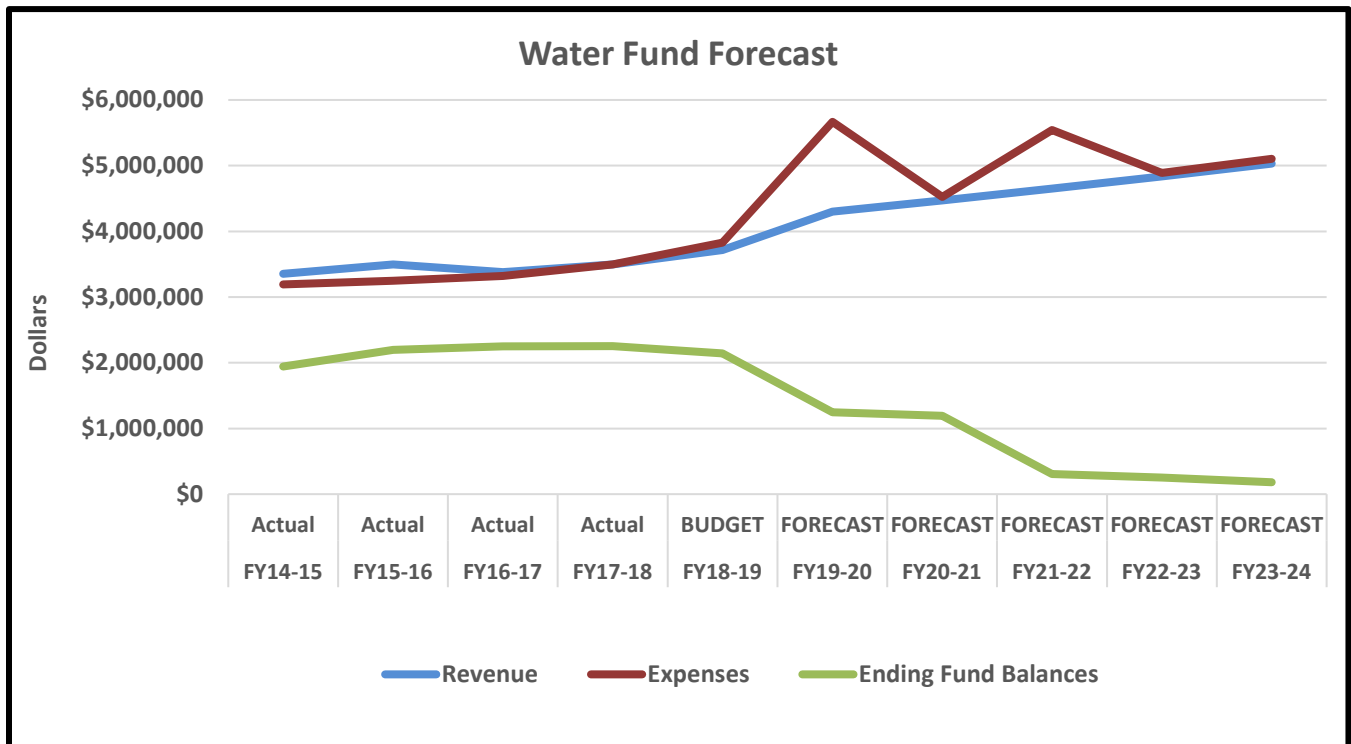
## Water Fund

### Variations from Status Quo Assumptions

- Spring 2018 water rate study resulted in City Council approved increases over the next 10 years; 10 percent in 2018 and 2019, followed by annual increases of 4 percent each July in years 3-10.

### Operating Position

Water revenues is primarily driven by consumption. The funds costs are a mix of fixed expenses for the systems and infrastructure required to provide water, plus variable operating expenses.



### Potential Impacts and Issues

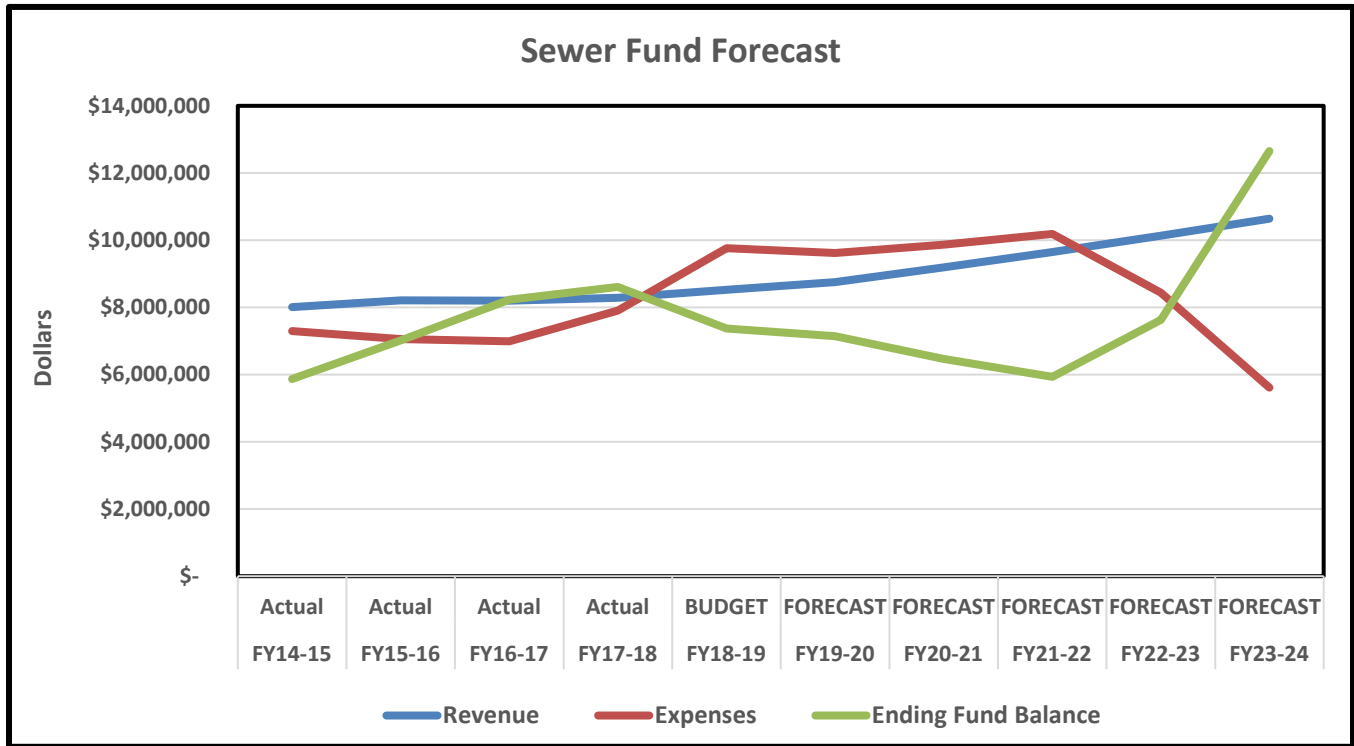
As personnel, material and services costs continue to increase, levels of service will become difficult to maintain. Additionally, unknown capacity improvements predicated by the UGB expansion will impact future capital needs.

# Sewer Fund

## Variations from Status Quo Assumptions

- None

## Operating Position



## Potential Impacts and Issues

In 2007 the City entered a Mutual Order Agreement (MAO) with the Department of Environmental Quality which established an implementation framework, interim effluent limitations and schedule for completing improvements to the wastewater facility for compliance with winter-time ammonia limits and temperature total maximum daily load (TMDL). The temperature TMDL per the MAO was to be based on the findings of a separate water quality analysis that was currently being conducted by DEQ for the Molalla-Pudding River Sub-basin. The Molalla-Pudding River Sub-basin TMDL was issued by DEQ December 2008 and was subsequently approved the U.S. Environmental Protection Agency (EPA). An evaluation report was submitted to DEQ in April 2009, which provided the framework, implementation schedule and identified the required improvements needed to meet compliance with the established limits. In 2011 the City sold Wastewater Revenue and Refunding Bonds to fund the needed future wastewater treatment plan compliance upgrades.

In January 2012 the final design plans were submitted to DEQ based on their previously approved evaluation report. In August 2013 EPA provided notice to DEQ disapproving of Oregon Water Quality Standards. Natural Conditions Criteria for Temperature, and Statewide Narrative Natural Conditions

Criteria, in general. The Pudding River TMDL for temperature, established in 2008 using natural criteria, could no longer be used for permitting.

Staff has been working with DEQ to update the current MAO to reflect the changes, limits and timeline that have been influenced by the court's decision. Until a water quality standard is established for the Pudding River, the City's National Pollutant Discharge Elimination System permit will not be renewed, nor can the City move forward with upgrades at the Water Treatment Plant as related to temperature compliance. Currently an outcome and timeline for DEQ in resolving temperature limits for water bodies that cannot meet numeric criteria is not known. Though the City has issued approximately \$43 million in bonds for the project, many portions of the project are stalled until a decision is made. This brings uncertainty for the Sewer Fund because project costs will be more than estimated due to the multi-year delay. In addition to the uncertainty surrounding the permit and capital projects, unknown capacity improvements predicated by the UGB expansion may also impact future capital needs.

While the City awaits the establishment of standards and a decision by DEQ, Woodburn has moved forward with other necessary sewer system improvements. As bond funds are expended on system infrastructure projects, a review of sewer rates will be necessary to ensure long-term funding is available.



# Remaining Funds

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## 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 were implemented for development during the FY 2018-19 budget cycle.

## Remaining Funds

The remaining 19 funds have dedicated revenue sources, are for a specific purpose, or have nominal activity. These funds have not been included as part of the Five-Year Forecast.

# Major Assumptions – Revenues

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The assumptions for this forecast are based on historical trends and expected growth. Most revenues will be improved as the City's boundary grows, but there will be pressure on staffing levels or other expenses that may generate offsetting expenses in the short run.

## Revenue Assumptions

### **Property Taxes — General Fund**

The Marion County Assessor determines the taxable assessed value of each property. In Oregon, there is no correlation between real market value and assessed value. Generally, assessed values grow by 3 percent per year as allowed by the state constitution, but has been impacted by compression. Reduced property tax revenue due to compression reached a peak during the recession and has steadily improved in the last three years. The City's tax rate is permanently set at \$6.0534 per \$1,000 of assessed value, and is subject to limitation under Ballot Measures 5 and 50.

### **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 percent to 8 percent. Franchise fees are assessed on telecommunication, cable television, natural gas, electric utilities, ambulance and garbage. These revenues are expected to grow at a rate of 1 percent for the forecast period.

### **Charges for Goods & Services — Utility User Charges**

Water: The forecast assumes a 10 percent annual increase in year one of the forecast and 4 percent increase in years 2-5.

Sewer: The forecast assumes a 5 percent annual increase for growth. The last rate increase adopted by City Council was effective July 1, 2014 at 9.5 percent.

### **Gas Taxes**

The State Gas Tax is estimated with a growth rate of 5 percent 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.

# Major Assumptions – Expenditures

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## Personnel Services

- Wages: Assumed to increase by 3.5 percent per year across all funds and all labor groups. This is a conservative estimate which takes into account bargaining agreements and merit increases.

<b>Bargaining Group</b>	<b>FY 2018-19</b>	<b>FY 2019-20</b>
Woodburn Police Association – Officers (WPA)	2.75%	2.5%
Woodburn Police Association – Community Service Officers (WPA)	4%	2.5%
American Federation of State, County, and Municipal Employees (AFSCME)	2%	N/A

- Insurance: A growth rate of 5 percent is used for insurance costs in each of the forecast years.
- PERS: Rate assumptions vary somewhat by fund, with an average rate of 20 percent used for years 1-2, and 26 percent average growth rate applied to years 3-5.

## Material and Services

Impacts of inflation are assumed to steadily increase over the five years at 3 percent. 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. However, inflation, workers' compensation and other liability insurance rates may cause this category to exceed the management targets as years pass.

## Capital Equipment

The Public Works Fund maintains a replacement reserve for capital equipment replacement, which is funded via transfers from the Water, Streets and Sewer funds. The General Fund replaces equipment on an as-needed basis or emergency basis, with emphasis on whether funding is available.

## Debt Service

Estimates are based on amortization schedules for outstanding debt issues.

# Glossary

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## **Capital Projects**

New construction and major repairs to the City's fixed assets

## **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 ongoing revenues

## **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

## **Urban Growth Boundary (UGB)**

A regional boundary around the City's perimeter used by local governments as a guide to zoning and land use decisions to control urban expansion onto farm and forestlands