Five-Year Forecast

Fiscal Years 2018/19 – 2022/2023

Woodburn Fiesta Mexicana Celebrating 54 Years

Finance Department

January 2018

Woodburn Fiesta Mexicana (aka Fiesta) began in 1964 to mark the end of the harvest and thank the community's farmers and workers.

Now in its 54th year, the tradition continues to celebrate the Hispanic culture with family orientated festivities, which include a Queen and Court coronation, parade, classic cars, carnival, soccer tournament, excellent food and amazing entertainment.

In the 2017, the Oregon Heritage Commission officially named the annual Woodburn Fiesta Mexicana the first Hispanic Oregon Heritage Tradition by the Oregon Heritage Commission.

Fiesta is held at Legion Park the first weekend in August.

Cover artwork by Hampton Rodriquez
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City of Woodburn
Five-Year Forecast
FY 2018/19 - FY 2022/23

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Introduction

City of Woodburn Background

The City of Woodburn is located within Marion County in the northern Willamette Valley, approximately halfway between the larger urban areas of Portland and Salem. Historically the economy of the immediate area around Woodburn centers 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 adapted by attracting 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.

The population of the region within a 30-mile drive of Woodburn is 2.1 million, according to the American Community Survey. Woodburn is the 21st populated city in the state and the 3rd populated city in the county. Since its incorporation in 1889, Woodburn has changed significantly in population. The City originally began as a small farming and manufacturing community. Beginning in the 1960s Woodburn became a suburb of Salem and Portland with its proximity to I-5. As of the census of 2000, 20,100 people resided in Woodburn. As of July 1 2016, its population had risen to 24,795 — a net rise of 23.4 percent over 2000.[1] The US Census' 2015 data shows Woodburn per capita income was $17,273 (compared to $27,684 for the state), and the median income for a household was $45,110, or 12 percent less than the state median household income of $51,243.[2]

Woodburn is an attractive community with new single and multi-family housing subdivisions already in the development queue. As surrounding communities grow and deal with ongoing transportation issues and shortages of affordable housing, Woodburn's population will grow. Marion County's adopted population projections indicate Woodburn will grow to 37,216 by 2030.

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 then sets the stage for the 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

[1] Population Source: Portland State University's Certified Annual Population Estimates 2016
[2] Income Source: United States Census Bureau – Quick Facts for Oregon and Woodburn

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. The use of existing fund balance may be considered for one-time expenditures only.

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.

Executive Summary

The forecast is based on the combined effort of all 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.

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.

Economic and Demographic Assumptions

Oregon and the City of Woodburn's economic condition will heavily influence the 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 water, sewers, streets and building activities
- 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, which two years ago projected rate increases of 20 percent beginning 2017-19; however, the actual rate increase was 25 percent. The updated rates received in November 2017 show a significant average increase of 28 percent for the two-year period 2019-21. Rates are projected to increase an average of 25 percent each biennium beginning 2021-23 and peaking in 2029-31. Rate relief is projected to begin in the 2033-35 biennium. Unfortunately these projections are not the worst case scenario as significant drops in the financial market will affect interest earnings and cause PERS rates to increase beyond the current projections.

In 2017 the State of Oregon created a PERS Unfunded Liability Task Force to identify options to generate savings or new funding to be applied to the PERS unfunded liability. The Task Force identified the creation of a program that will incentivize employers to reduce or eliminate the unfunded liability by providing a partial match to qualifying side account contributions. The Task Force identified an example of a 25 percent match for the creation of a qualifying side account. In FY 2017-18 the City's General Fund PERS reserve is $1.5 million and this amount is available for the creation of a qualifying PERS side account. A recommended goal and policy change is to increase the PERS reserve and to have all City funds participate in the set-aside for possible future contribution to PERS.

Health Insurance

Though the City has implemented a high-deductible health plan and attempted to control health insurance costs, the growth rates on some policies have continue to increase. Due to the uncertainty in health care premiums and the future stability of the Affordable Care Act, the first forecast year includes a 10 percent growth assumption, and 12 percent increase is assumed in years 2-5.

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. In addition, the facilities funded by the General Fund, including City Hall, the Library, and the Aquatics Center still have a significant amount of deferred maintenance. The FY 2017-18 budget includes $750,000 for upgrades to the City Hall Roof and HVAC system, Council Chambers, Finance area, and the Community Development area.

In FY 2018-19, the new marijuana tax revenue will be budgeted. This revenue is prorated based on a mix of population and the number of growers/dispensaries within the city limits. A modest value of $60,000 is included in the forecast.

Water

The operational fund is in weak financial health primarily due rising operational costs without a corresponding rate increase since 2006. The fund has ended each fiscal year in the positive due to the deferral of capital improvement projects. Given the anticipated population growth, new service is expected in the next five years. A consultant is currently completing a rate study, which will take into consideration capital improvement projects and operations expenses. The results of the study and a recommendation for rate increases will be presented to City Council in the spring 2018.

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. In FY 2016-17, despite the subsidy, the Transit Fund ended the year with an operating deficit of $27,857, which required the use of fund balance. As a corrective action, in May 2017 a position was eliminated to reduce costs. Transit is aggressively seeking grants to fund operations and maintain and/or increase current levels of service.

In FY 2018-19 HB 2017 *Keep Oregon Moving* will be implemented, inclusive of a 0.1% employee payroll tax to fund public transportation. As of the preparation of this report, the State has not provided implementation information, nor information about revenue estimates and distribution dates. If the 0.1% tax information is released prior to the FY 2018-19 budget development, the new tax revenue and expenses will be included, otherwise this information will be included in the FY 2019-20 budget.

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.

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.

HB 2017 *Keep Oregon Moving* will be implemented, inclusive of a 4-cent gas tax increase in 2018. As of the preparation of this report, the State has not provided implementation information, nor revenue estimates and distribution dates. If the gas tax information is released prior to the FY 2018-19 budget development, the new tax revenue and expenses will be included; otherwise this information will be included in the FY 2019-20 budget.

General Fund

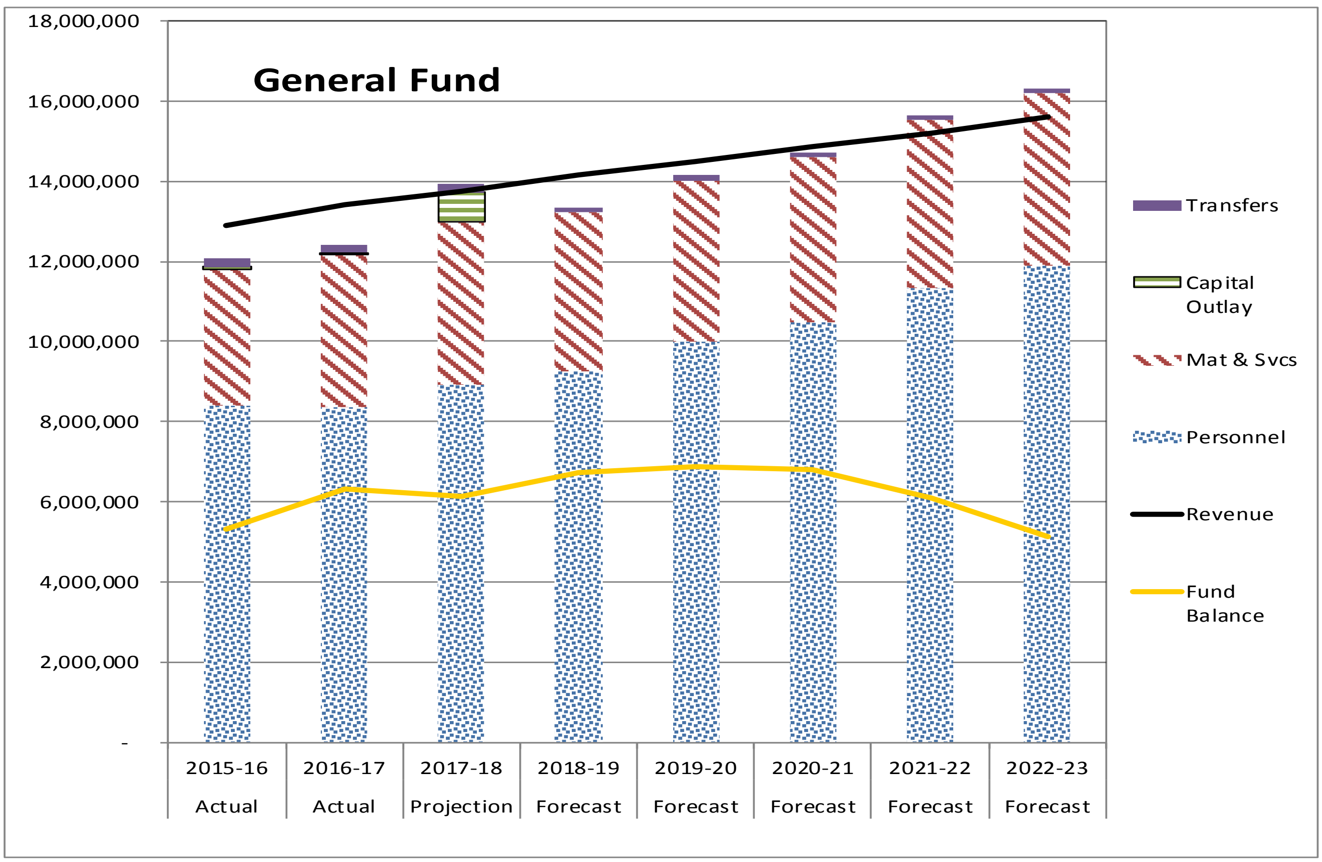
Variances from Status Quo Assumptions

- None

Key Assumptions

- Property tax revenue increase of 3 percent in years 1-5
- PERS rate increase (25 percent impact) as of July 1, 2017; 28 percent increases in years 2-5
- General Fund Right-of-Way charge on Water and Sewer of 5 percent continues

Operating Position



Property taxes account for nearly two-thirds (65 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.

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. Private utilities doing business in the City of Woodburn include

Portland General Electric, Northwest Natural Gas, Qwest, Republic Services, Wave Broadband, Woodburn Ambulance and others. The only way this source of revenue will increase is if the private revenues derived from Woodburn residents also increase.

Intergovernmental is the third largest type of revenue at 5 percent. This type includes state and federal grants, and state cigarette, liquor and revenue sharing. The City has begun to receive state shared revenue for marijuana sales. Revenues are projected to increase at a modest 2.0 percent rate beyond year one of the forecast period.

Capital Projects — From Operating Revenues

The City has postponed a number of maintenance projects for several years. In FY 2017-18 a budget of $750,000 was set aside to work on the most critical projects. Already in FY 2017-18, the first phase of the City Hall roof replacement was completed. Other projects will include the City Council Chambers, remodeling of the Finance and Community Development areas, and Aquatic Center repairs.

Potential Impacts and Issues

There are potential future demands that could increase costs in this fund; however, resources will need to be closely monitored. Potential future demands include:

Police Staffing

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.

Parks & Facilities Maintenance

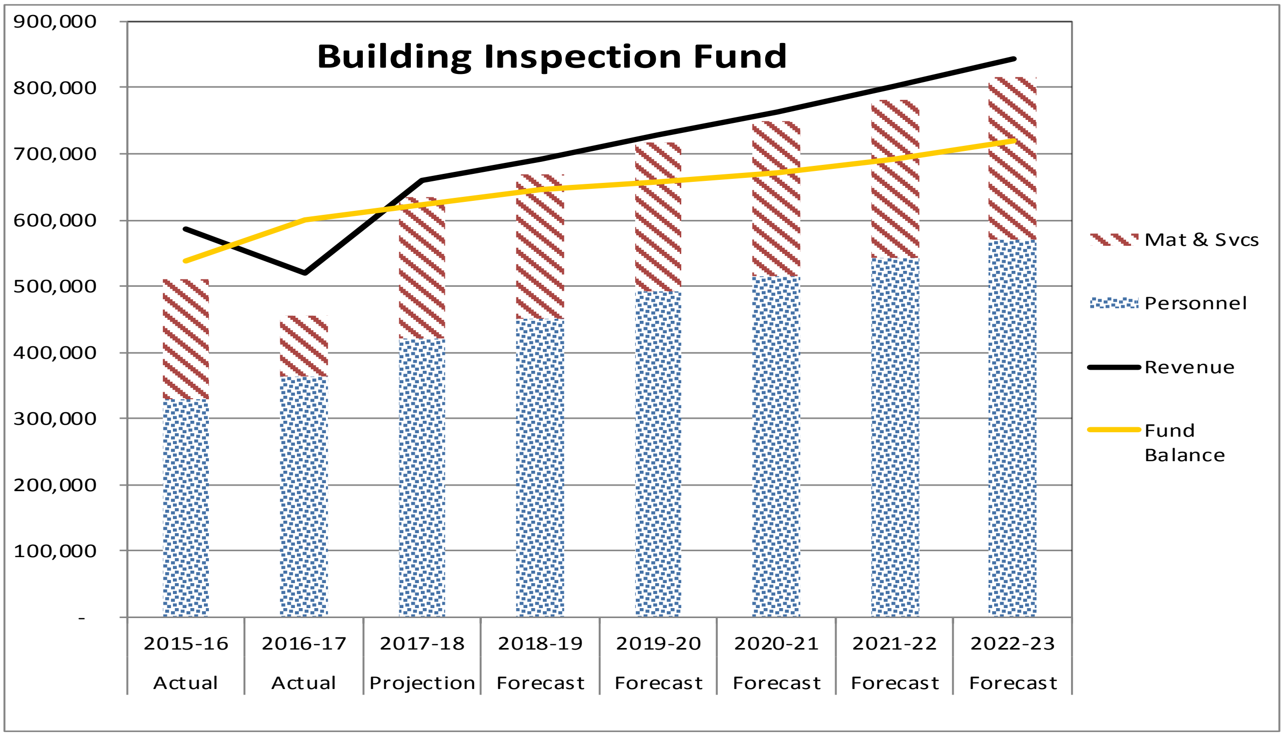
As demand continues to grow for the public's use of City parks, additional burden is placed on the City's General Fund to provide enhanced services. Additional staff hours are required for cleanup and maintenance of these parks. These potential cost increases are not included in the forecasts. Facilities maintenance continues to be a challenge with aging buildings requiring increasingly expensive repairs and maintenance.

Building Inspection Fund

Variances from Status Quo Assumptions

- Permit revenues have shown slight decrease in FY 2016/17
- Additional position approved in FY 2014/15 Supplemental Budget, currently unfilled

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. Permits are collected prior to the work being done, therefore cash balances exist to pay for services to be performed in the future. Future revenues are based on estimates of when specific projects might begin. Costs reflect cuts and reductions already in place and estimated inflationary influences.

Potential Impacts and Issues

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. The Building Fund, of course, will be significantly impacted by the Urban Growth Boundary expansion.

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 Building Department workload and revenue over the next five years , and also require additional staff and vehicles.

Transit Fund

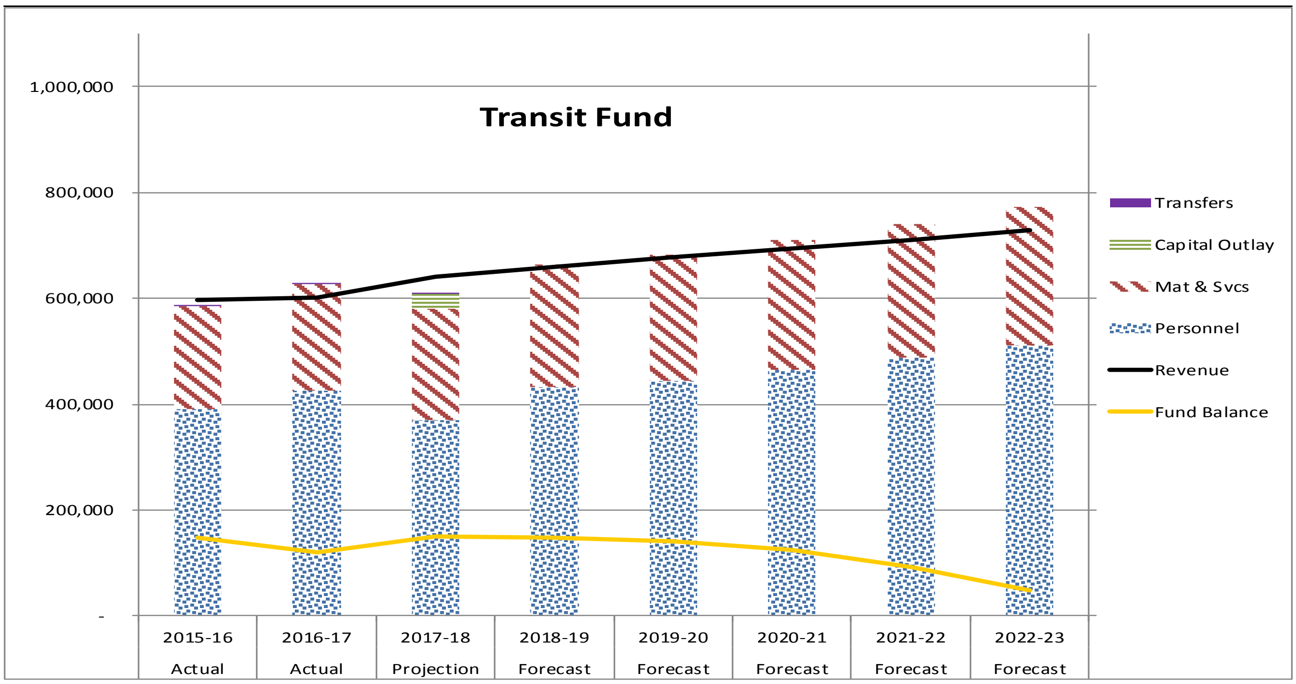
Variances from Status Quo Assumptions

- Reduction of one FTE in May 2017

Key Assumptions

- Ability to continue to obtain grant funding
- General Fund contribution remains stable for forecast period
- Fares remain consistent for forecast period

Operating Position



Transit provides Dial-a-Ride services for disabled citizens and fixed route bus operations. It is funded by a contribution of $116,000 from the General Fund, with the balance obtained from fare revenue and grants. The City actively seeks state and federal funds and manages staffing and service levels to available resources. In May 2017 one full time position was eliminated to reduce costs and preserve a small fund balance.

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

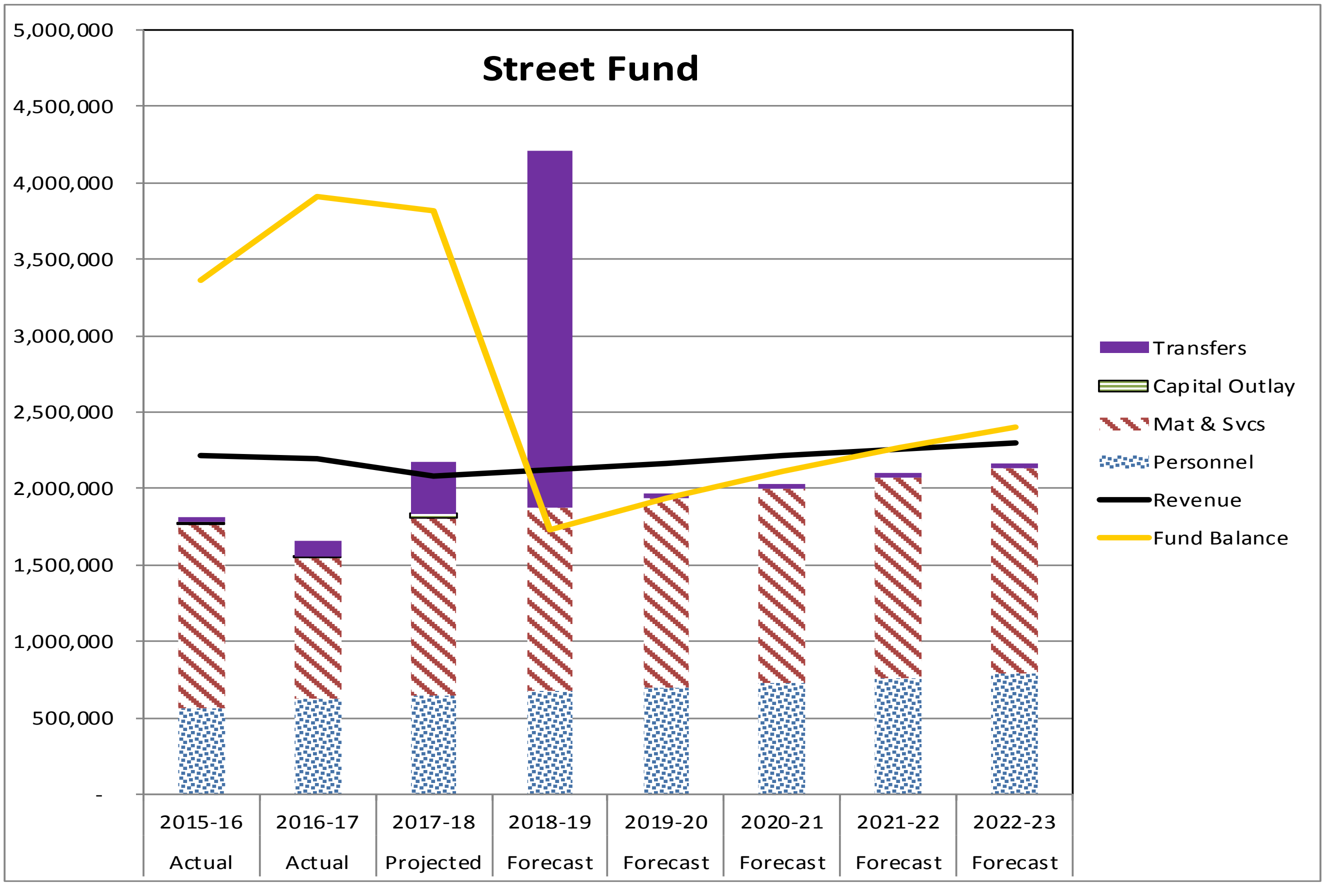
Should a large, unanticipated curtailment of state and/or federal grant revenue occur, this program could potentially be drastically curtailed or discontinued as replacement funding is not anticipated to be available from the General Fund

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.

Capital Projects — From Operating Revenues

The next major capital outlay project is West Hayes Street from Settlemier to Cascade, and Hardcastle Avenue/Railroad Crossing Realignment. Fund balance accumulates in the fund in preparation of subsequent capital projects.

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.

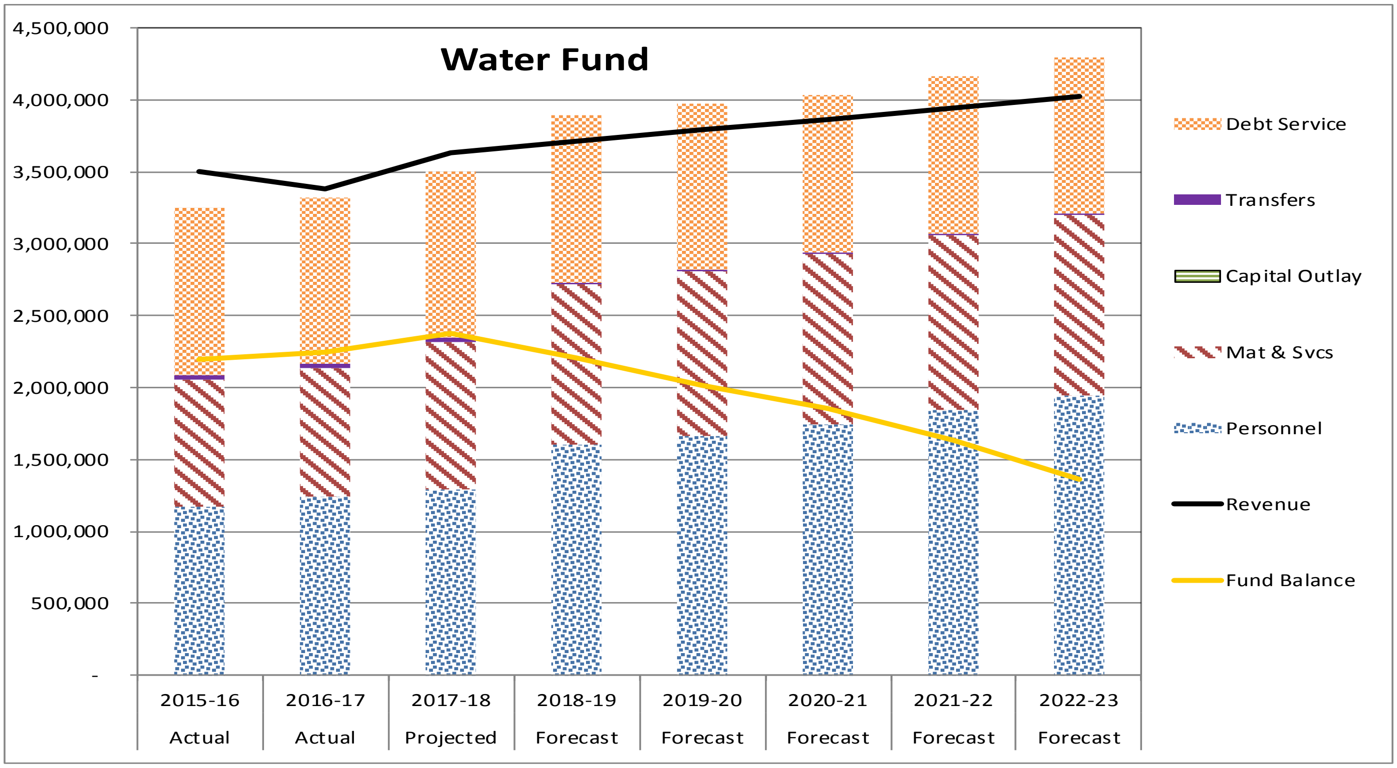
Water Fund

Variances from Status Quo Assumptions

- Water rate study will recommend future rate increases

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. The last water rate increase was adopted in 2006. Since then costs have steadily risen without a corresponding rate increase. The fund has been sustained through a combination of maintenance/capital project deferrals and the use of fund balance. Recognizing that this trend cannot continue, a rate study consultant was hired in FY217-18, with the goal of receiving rate recommendations in spring 2018.



Potential Impacts and Issues

As personnel, material and services costs continue to increase, levels of service will become difficult to maintain. The update of the Water Master Plan currently underway will inform future operating needs and may impact rates.

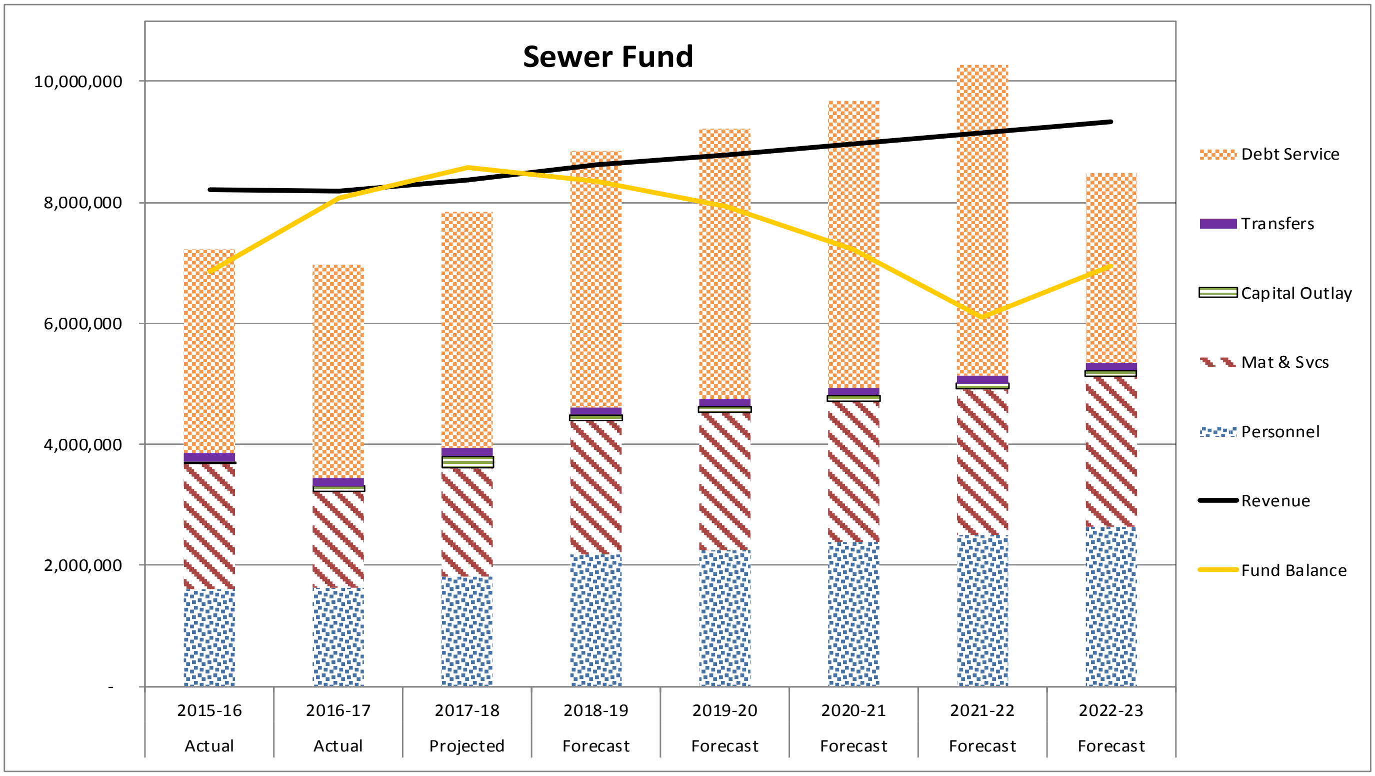
Additionally, unknown capacity improvements predicated by the UGB expansion will impact future capital needs.

Sewer Fund

Variances 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.

Remaining Funds

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

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 2 percent for the forecast period.

Charges for Goods & Services — Utility User Charges

Water: The forecast assumes a 2 percent annual increase due to typical new development. Water rates are currently under review, and will likely result in a rate increase recommendation.

Sewer: The forecast assumes a 2 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 2 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

Personnel Services

- Wages: Assumed to increase by 3.75 percent per year across all funds and all labor groups. This is a conservative estimate which takes into account bargaining agreements and merit increases.

Bargaining Group	**FY 2017-18**	**FY 2018-19**	**FY 2019-20**
Woodburn Police Association – Officers (WPA)	3%	2.75%	2.5%
Woodburn Police Association – Community Service Officers (WPA)	4%	4%	2.5%
American Federation of State, County, and Municipal Employees (AFSCME)	Varied	2%	N/A

- Insurance: A growth rate of 10 percent is used for insurance costs in the first year, and 12 percent used in years 2-5.

- PERS: Rate assumptions vary somewhat by fund, with an average rate of 28 percent used for the first year, and 25 percent average growth rate applied to years 2-5.

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, 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

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