

Comprehensive Long Term Financial Forecast



The City of Tigard has developed a comprehensive long term financial forecast every year since the 1980s. This forecast allows the City to project expected revenues and expenditures for each of its funds to help anticipate financial requirements.

The Comprehensive Long Term Financial Forecast continues to be central to Tigard's financial management strategy. By forecasting and anticipating financial trends, Tigard can develop strategies to respond to emerging financial trends.

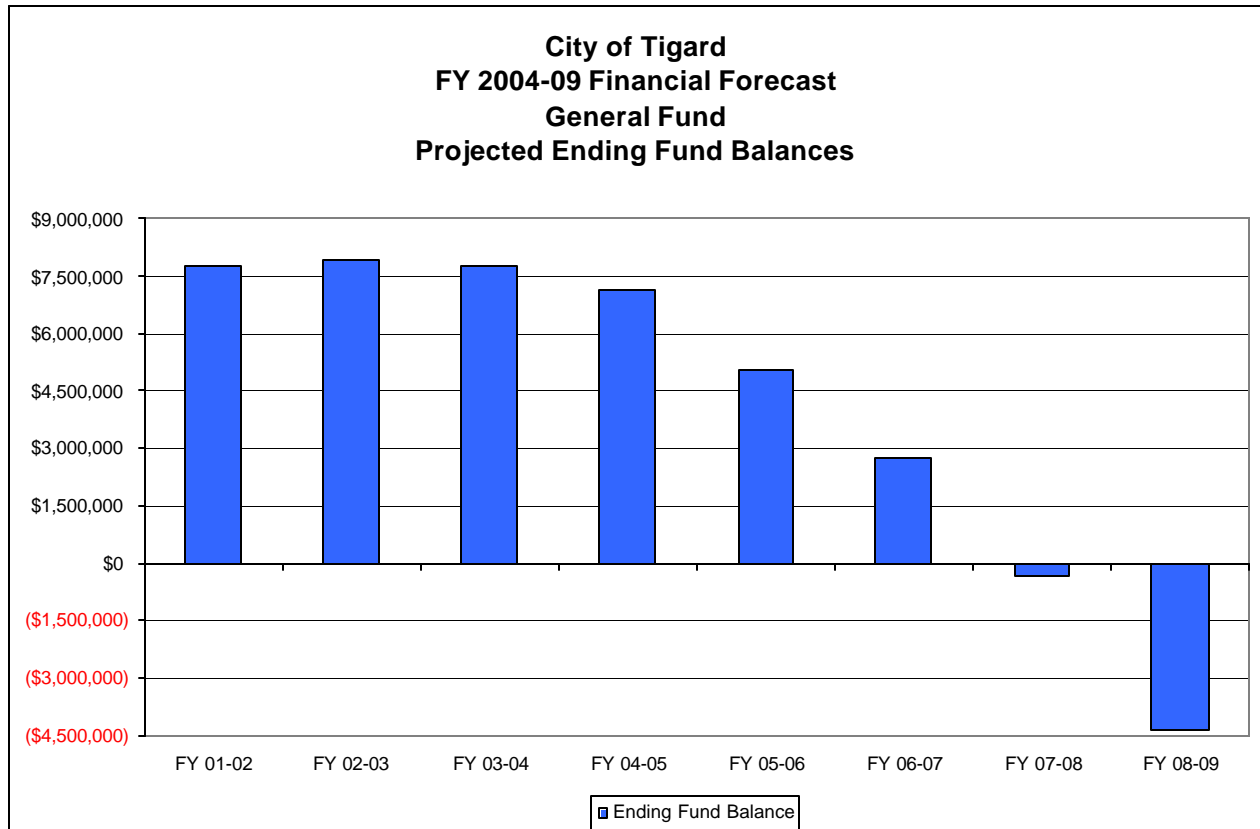
The City forecasts operating fund revenues and expenditures over a five year period. The forecast is adjusted as each year's final results are known and as new years are budgeted.

The financial forecast does not include any projected expenses or revenues from the possible annexation of the Bull Mountain area. The City has been studying the possible annexation of the 1,400 acre area, which currently includes 7,600 residents, but is projected to grow to almost 10,000 residents. The annexation study shows that the area will produce more than enough revenues to cover on-going operating costs to provide services to this area, but the area also will not produce sufficient revenues to cover capital improvement needs. Clearly, if the area is annexed, it will have a major impact on the five year financial forecast. If the City Council decides to pursue this annexation, it would most likely be referred to voters, but that decision has not yet been made. It is therefore premature to include these financial projections in this forecast. This issue will most likely be resolved one way or the other during FY 2004-05.

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General Fund



General Fund revenues are projected to grow over the five year period from \$16.3 million in FY 2004-05 to \$18.3 million in FY 2008-09, or about 12%. Last year's forecast projected the five-year growth rate to be about 20%. During the same period, operating expenditures are projected to grow from \$15.2 million to \$21.1 million, or about 39%. Last year's forecast projected the five-year growth rate to be 34%. These dual revenue and expenditure growth trends contribute to a draw-down of General Fund balance from \$7.3 million to a negative \$4.4 million in FY 2008-09. Last year's forecast projected that the General Fund ending balance FY 2007-08 (the end of last year's forecast period) with a negative balance of \$0.8 million.

The major factors affecting the growth of General Fund revenues are the sluggish economy and Measure 50, passed in 1997, which limited the growth in property tax revenues to no more than 3% per year plus the value of new construction. Many of the City's General Fund revenues are dependent upon economic activity. These revenues have been affected by the recent recession, which has contributed to the projected negative fund balance.

The five year forecast assumes no major new programs over the next five years, though it does assume a higher staffing level for the new Tigard Library. City services are expected to keep pace with the growth in Tigard's population growth and service demands. However, the City is projected to experience sharply increased

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energy costs, and the cost of employee benefits (particularly health and dental insurance costs and Police retirement costs) are expected to increase significantly.

The City has traditionally limited the growth of General Fund expenditures and will continue these efforts. Rising energy and employee costs will continue to make this a challenge. The City is aggressively pursuing energy-saving options and is exploring ways to offset projected double-digit increases in employee health insurance costs. City employees are paying an increasing share of health insurance premiums out of pocket.

During FY 2004-05, the City will continue efforts begun in FY 2000-01 to more actively manage its revenues. The City regularly reviews fees and charges to ensure that those charges continue to recover City costs. In addition, the City will more actively manage its franchise revenues and will review all franchise fees paid to ensure that all money due to the City for use of the public rights-of-way are collected. The first project in this effort concluded in April 2002 with the recovery of \$310,746 in electrical franchise fee revenues due to the City. The City is currently partnered with 70 other Oregon cities in a joint audit of franchise fees paid by Qwest and Verizon. The City is also partnering with the cities of Portland and Salem on a joint audit of natural gas franchise fees paid. Finally, the City will more aggressively seek grant revenues to help pay for needed City projects and services.

In April 2003, the City Council adopted a Strategic Finance Plan. This plan identifies major financial issues expected over the next several years and several new revenue options. Council organized the issues into “Major” and “Other” categories and then set top priorities within each category. The top priorities are

Major

- Local Option Property Tax
- Bull Mountain Annexation
- New Revenue Sources

Other

- Fee Increases
- Urban Renewal
- Water Revenue Bond

The Council has received periodic briefings on the possibility of going to voters to approve a local option property tax levy. The Council has expressed a willingness to consider this option, but has also instructed staff to continue to budget expenses conservatively and to continue to explore other revenue options in an attempt to delay or eliminate the need to ask for this additional authority.

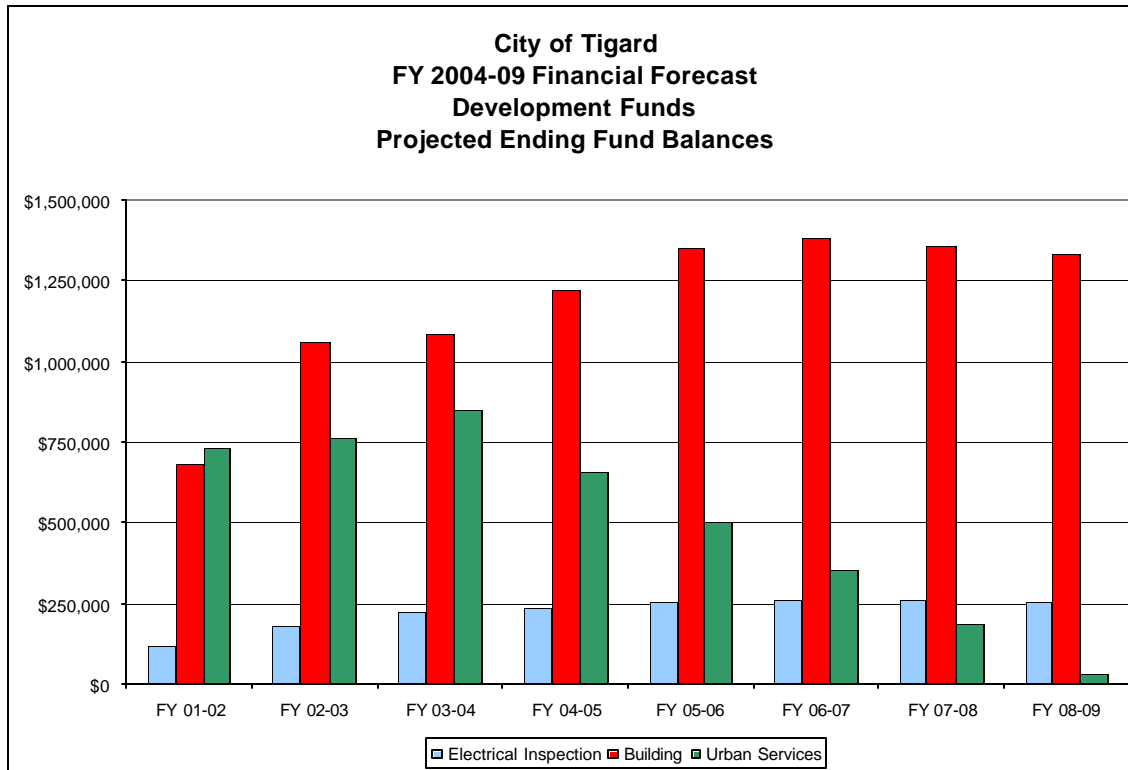
The possible annexation of Bull Mountain continues to be actively studied. The Council is expected to make a decision in July 2004 whether or not to refer this issue to the voters of the City and the Bull Mountain area in November 2004. If approved, this annexation will change the five year forecast significantly.

Finally, staff has been reviewing other possible revenue options, and expects to return to the Council in the fall of 2004 with a recommended option for further development.

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Development Funds



The projections for the City's Development funds (Building, Electrical Inspection, and Urban Services Funds) continue to show strong balances.

The Building Fund shows the strongest performance. The Building Fund balance is projected to grow from \$1.2 million in FY 2004-05 to \$1.3 million in FY 2008-09. In FY 1999-00, this fund required a transfer of \$150,000 from the General Fund to prevent a year-end deficit. In FY 2000-01, the expenses of this fund were reduced and fees were increased. Those efforts paid off, and the future outlook for this fund remains positive. Building activity has remained strong through the current recession. As with all of the Development funds, however, future performance is heavily dependent upon the condition of the local economy, so fund performance will continue to be closely monitored.

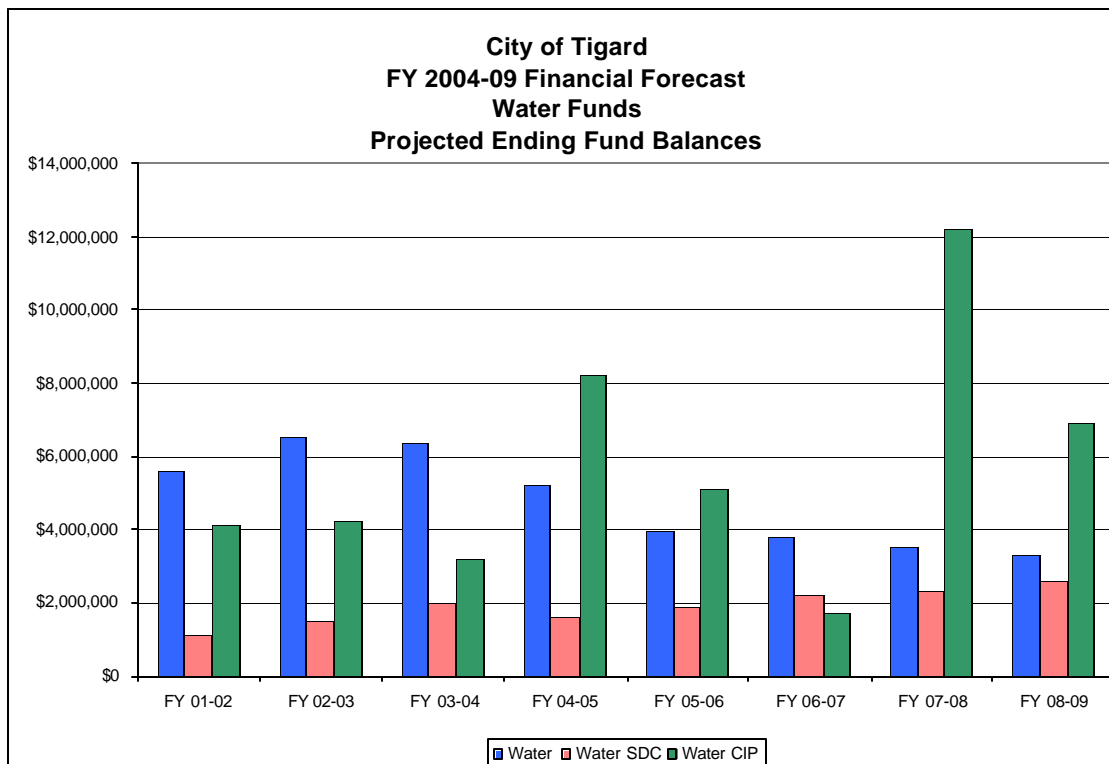
The Electrical Inspection Fund is projected to remain relatively constant from a projected FY 2004-054 ending fund balance of \$236,000 to \$252,000 in FY 2008-09. Expenses of all of the building inspection services are split between the Building and Electrical Inspection Funds on one hand and the Urban Services Fund on the other. The City reviews the basis of splitting those expenses each year to ensure that they are accurately assigned to the proper fund.

The Urban Services Fund was created to account for services provided in the urban services area outside of the current City boundary. The fund's primary resources are planning and building fees charged in the area plus a contractual payment from Washington County. This fund was designed to operate on a break-even basis. It is projected to maintain positive balances throughout the forecast period.

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Water Funds



The Water funds include the Water Fund, the Water Systems Development Charge (SDC) Fund, and the Water CIP Fund. For financial forecasting purposes, the Water Fund and the Water SDC Fund are treated as a single unit. The Water CIP Fund is reserved for a new, long-term water source, and is projected separately from the other two Water Funds.

The financial condition of the Water funds is almost entirely dependent upon the size of the projected capital program and the size of future water rate and SDC increases. The capital program was developed pursuant to a 20-year projection of capital needs.

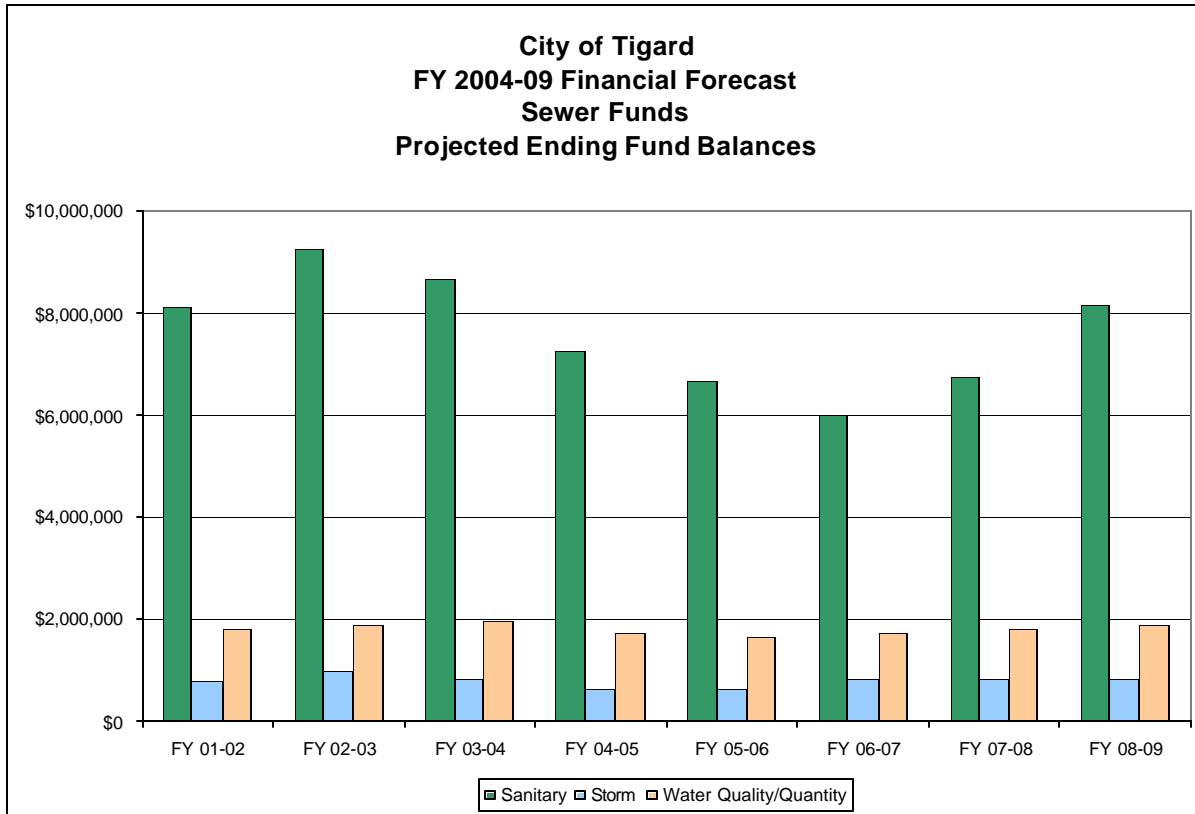
During FY 2000-01, the City improved management of its water resources to reduce peak-day demand. These efforts resulted in a significant decrease in the cost of water purchased from the City of Portland. The ending balances of the Water Fund are projected to drop from \$5.2 million to \$3.3 million over the forecast period. Balances in the Water SDC Fund are projected to grow from \$1.6 million to \$2.6 million. The City is currently reviewing the Water Rate Model study, which is reflected in this forecast.

The Water CIP Fund balance varies with fluctuations in the capital program. These funds are reserved to help pay for a future long-term water supply and projects that contribute to that supply or which store and deliver additional water. The forecast shows large ending fund balances in FY 2004-05 and FY 2007-08. The forecast includes projected revenues from proposed Water Revenue Bond sales in FY 2004-05 and FY 2008-09. In future years, the ending fund balance in this fund is expected to fluctuate between \$1.7 million and of \$12.2 million, again, based on the projected Capital Improvement Program.

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Sanitary and Storm Sewer Funds

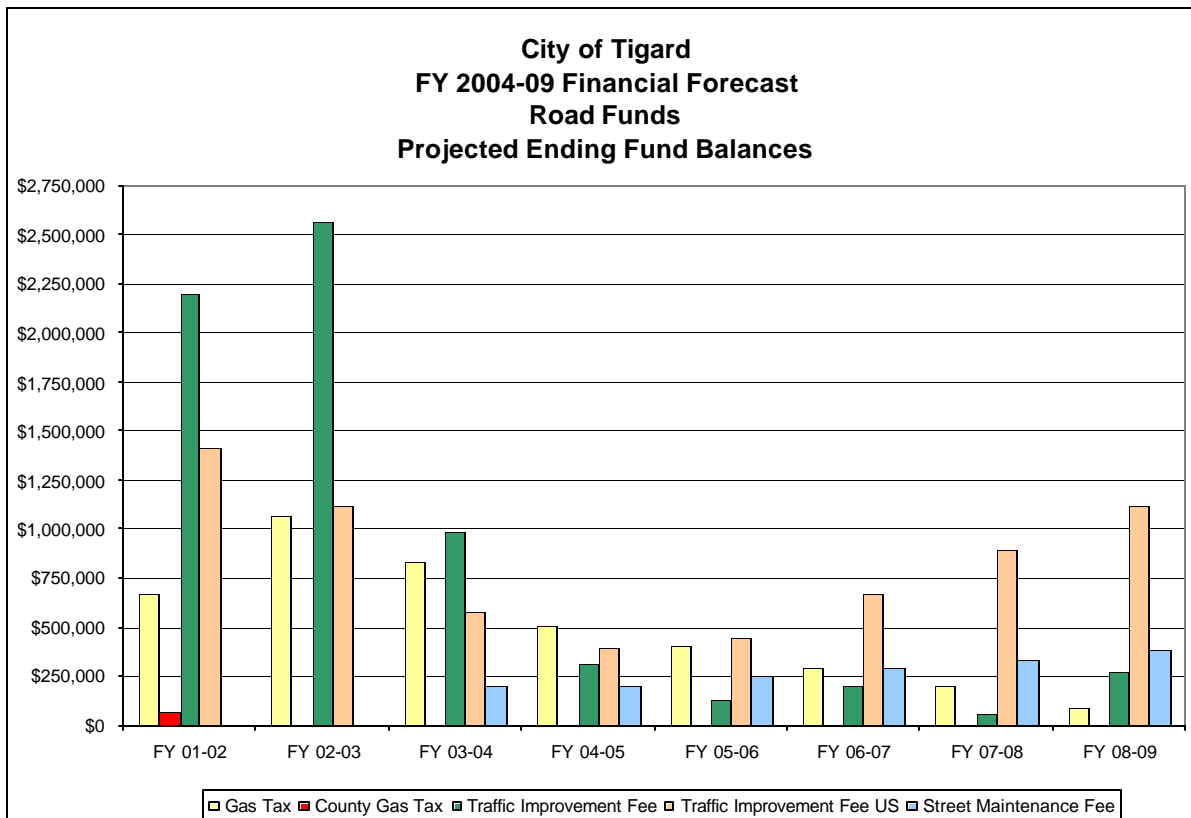


The FY 2004-05 projection shows the condition of the Sanitary Sewer and the Water Quality/Quantity Funds to be relatively constant. Ending balances in the Storm Sewer Fund are expected to grow from \$640,000 to \$824,000 over the forecast period. The condition of this fund is closely related to activity in the City's Capital Improvement Program (CIP). Projects may be balanced between this fund and the Water Quality/Quantity Fund. The fund balances in the Sanitary Sewer Fund are expected to fluctuate over the forecast period from \$7.2 million to \$6.0 million, ending in FY 2008-09 at \$8.1 million. The sanitary and storm sewer systems will experience additional capital needs over the next several years as the region addresses water quality issues. These needs are not yet reflected in the City's CIP. If significant CIP projects are added in future years, the projected fund balance would be affected.

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Road Funds



The City's Road funds include the Gas Tax Fund, the Traffic Impact Fee (TIF) Fund, the Traffic Impact Fee – Urban Services Fund, and the Street Maintenance Fee Fund. Like the Water funds and the Sanitary and Storm Sewer funds, the financial condition of the Road funds is heavily dependent upon the projected capital needs of the City.

The major change in this family of funds is the addition of the Street Maintenance Fee Fund mid-year in FY 2003-04. The City Council adopted a new street maintenance fee dedicated to maintenance of existing roadways. That fee is designed to produce \$800,000 per year over the next five years. This new revenue has allowed the City to rebalance its Road CIP, which has relieved pressure on the Gas Tax Fund. The City receives a share of the state gas tax and the county gas tax. Historically, these taxes have not kept pace with capital needs, with the result that the City was projecting deficits in this fund and capital construction was limited.

The Gas Tax Fund balance is projected drop from a high of \$504,000 in FY 2004-05 to a low of \$93,000 in FY 2008-09. This is the first forecast in a number of years that did not project deficits in this fund. This was achieved by taking maintenance projects out of this fund and paying for them with the new street maintenance fee.

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The fund balances in the Traffic Impact Fee Fund is projected to decline from \$317,000 in FY 2004-05 to \$271,000 in FY 2008-09. The Traffic Impact Fee – Urban Services Fund appears strong. This is the portion of the TIF collected by the City in areas outside the city limits for those areas expected to be served by the City in the future. These revenues can only be used for projects within the urban services area or which address traffic concerns in that area. The traffic impact fee is imposed by Washington County and can only be used to pay for needed improvements to major roads.

Summary

The City's Five Year Financial Forecast shows that, overall, the City's current financial condition is good. The FY 2004-05 Budget continues to actively manage the expenditures of the General Fund. The financial forecast suggests, however, that strong financial management alone may not be sufficient to avoid future deficits. The demand for City services is greater than the resources available to pay for them. The financial forecast suggests the need to go to voters in the forecast period to request additional General Fund resources. The City will continue to monitor its revenues and expenditures and will develop plans and options to manage its resources to continue to provide quality services to its citizens.