

COMPREHENSIVE LONG TERM FINANCIAL FORECAST FY 2024-2025



CITY OF
Tigard

COMPREHENSIVE LONG TERM FINANCIAL FORECAST

Introduction

The City of Tigard's use of long-term financial forecasts dates back to the 1980's and has been an instrumental tool in understanding future trends and the impacts those trends might have on the financial health of the organization. Since FY 2023, the budget priority of Improving Tigard's Fiscal Health guided the budget team's focus on the financial forecasts. The city's financial forecast is one of several fiscal management tools used to inform and assist the City Council in making decisions regarding policies, strategic goals, and the provision of community services, and is an integral part of the annual budget process. By forecasting and anticipating key financial trends and their impacts on projected revenues and proposed expenditures, Tigard can develop strategies to respond to emerging issues. The forecast also supports city staff in promoting sound fiscal discipline in service delivery.

A financial forecast is useful to decision makers when it includes three key factors:

- Credibility.** The forecast must be based on accurate past financial results, a solid set of assumptions that consider external forces outside of the City's control, include acceptable levels of tolerance, and is presented transparently;
- Understandable.** The forecast must be clear, simple, and reasoned that relates the key assumptions to the projections, and describes the implications of those assumptions on the long-term fiscal health of the organization; and
- Sound Fiscal Practices.** The forecast must incorporate sound fiscal practices such as reserve policies, maintaining a structural balance of the organization, and is encompassed within a framework of long-term fiscal planning.

The City's forecast achieves these three factors and takes a long-range approach to inform Council policy direction on the expenditure of resources. The city forecasts operating and capital fund revenues and expenditures over a six-year period. The forecast is adjusted as each year's final results are known and as new years are budgeted. There are some key assumptions in the design of Tigard's standard forecasts:

- Known Policy Decision.** Unless specifically stated, the forecasts only assume known decisions and do not presume future decisions of the Budget Committee and Council. This means that the operating budgets only include those staff and related materials and services that are currently proposed or are adopted in this document.
- Revenue Projections.** Revenues are forecast based on best information available for future annual growth rates informed by recent history, known trends, and assumed growth stemming from increasing population and development.
- Expenditure Forecasts.** Budgeted expenditures and forecasted expenditures are different. Budgeted expenditures represent the maximum expense allowed by Council. Actual expenses are always less than budget because the City proactively manages its financial resources and only spends funds sufficient to achieve its operational goals. The forecast is based on an estimate of actual expenditures. Recent history shows that the city spends approximately 90% of its operating budget (e.g., payroll, supplies, services, and equipment) each year. This operating expenditure savings is assumed in FY 2025 and each succeeding year in the long-range forecast. Fund transfers and capital

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improvement project expenditures, however, are all projected based on the entire amount included in the FY 2025 budget and projected future years.

Where the forecast indicates a structural gap between revenues and expenditures, net of transfers, throughout the six-year forecast period that would reduce reserves below the City's reserve policies, the City will need to develop a series of budget strategies (known as a "fiscal sustainability plan") to address the gaps. The intent of the forecast is to show the relative size and impact of current decisions and what decisions will be required in the future.

Key Issues Impacting the Forecasts for FY 2024-25 Budget

Inflationary Pressures, Interest Rates and Concerns about Future Recessions

In the wake of the global COVID-19 pandemic, the disruption of supply chains and the subsequent shortages of goods and raw materials impacted product availability, leading to higher prices. Geopolitical conflicts, such as the war in Ukraine and the conflict in Israel-Gaza continue to exacerbate the cost of gasoline and oil-based products used in capital improvement projects. While inflation has been easing in recent months, the cost of labor and materials continue to stay at high levels. This is impacting many of the services and supplies upon which the City relies to provide services as well as construct improvements in its capital improvement funds.

Oregon, like the rest of the country, has experienced inflationary pressures over the last few years. The state has seen a surge in housing prices, as people from larger metropolitan areas like San Francisco and Seattle move to Oregon in search of more affordable housing. Additionally, the state has seen price increases for goods and services such as groceries, gasoline, and other supplies. The regional consumer price index reached year-over-year peak of 10.1% for the Seattle-Tacoma-Bellevue area in June 2022, but has since fallen to 3.2% in the latest February 2024 report.

The easing of inflation can be attributed to the normalization of supply chains and the monetary policy that the Federal Reserve enacted by rapidly increasing interest rates beginning in March 2022 through July 2023 and maintaining them at the highest levels in more than two decades. However, these actions may have their own economic consequences, such as slowed economic growth and exacerbating housing affordability due to higher mortgage rates. Despite the high interest rate environment, economic data from the US Bureau of Economic Analysis reported a real GDP growth of 3.2% in the fourth quarter of 2023 and the US economy grew at 2.5% for all of 2023, an increase from the 1.9% growth in 2022. Employment continues to be strong, reaching higher employment levels than prior to the pandemic. With the easing of inflation, the Federal reserve is indicating they may make three quarter point rate cuts in 2024.

For Tigard, the City's forecast conservatively assumes long-term inflation at a rate of 3.5%. The City's forecast does not assume that a recession in the next six years would have a profoundly negative impact on City revenues. Careful attention will need to be placed on the impact of interest rates on home affordability and, thus, on housing prices that could negatively impact property taxes. The positive of the highest interest rate environment is that the City's investment portfolio is now seeing yields exceeding 4% in the near term, which will help to offset the impacts of inflationary pressures.

Fiscal Sustainability of the General Fund

The City's General Fund has a fiscally healthy level of reserves as it comes into FY 2025. Reserves are projected to start at \$35.6 million, or 74% of annual operating expenditures and transfers. On a budgetary basis, the City expects to have a budgetary deficit of \$2.1 million in FY 2025. However, the City has historically underspent its appropriations due to salary and benefits savings from vacant positions and not spending all of the resources the City Council has approved while still accomplishing its goals and maintaining services. The City historically underspends its budgetary resources in the

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General Fund by 10%. When applying that realistic anticipated expenditure savings for FY 2025 and future years in the forecast, the City is expected to slightly grow its reserves through FY 2029 to \$37.3 million, or 75% of annual operating expenditures and transfers, well within its minimum reserve policy of 25%. As indicated earlier, it is important to note that there is no anticipated recession in the current forecast. A moderate recession might impact General Fund revenues by about 5% (over \$2 million) in the year in which the recession takes place, but would likely recover to pre-recessionary levels within 3 years in the most extended recessionary circumstance.

Fiscal Sustainability of the General Fund (continued)

In prior years, the General Fund had shown a long-range fiscal gap where projected revenues would not grow as fast as projected expenditures. Improvement in the forecast is due to several factors, including recovery from the pandemic in revenues such as transient lodging tax and property taxes (which continue to see strong growth), increasing the expenditure savings assumption to 10% based on historical averages and projected future trends, and increased investment earnings due to the diversification of the portfolio and capturing the increases in Treasury security yields due to the rising interest rate environment.

The City will need to remain vigilant in its expenditure of available resources while addressing the most pressing service issues it faces. The City's priority of a fiscal healthy operations is a critical policy directive in achieving that. If a fiscal gap were to persist in future years, the City would need to develop a fiscal sustainability plan to include the necessary budget strategies to enhance revenues or decrease operating costs through such options as expenditure controls, service delivery alternatives, or service level reductions. Pursuing those options now will provide even greater capacity for future service delivery and enhance the General Fund's ability to address fiscal gaps caused by recessionary impacts or other one-time impacts on services.

Proactive Set-Aside of Equipment Replacement Costs

The City is in the third year of implementation of its internal service fund methodology to set aside funds proactively for the replacement of information technology, facilities and vehicles in separate internal service funds. In FY 2024, the methodology was enhanced to include equipment used in delivering services (e.g., mowers, backhoes, generators) and furniture costs associated with meeting spaces and offices. The forecast includes the allocation of these costs for FY 2025 and future years, which comprehensively better demonstrates the true ongoing cost of operations. This allows the City Council to make more informed policy decisions taking into account these ongoing costs that allow operating departments to have the tools and facilities necessary to serve the community.

The following pages will provide an overview of the key funds of the city. The General Fund will provide more detail, as it is the fund that provides key city services that is not otherwise funded through dedicated revenue sources beyond general taxes and charges for services. For other funds, they are grouped by service area and are presented with graphs that show the projected ending reserves in each year of the forecast. A financial forecast, in the best of terms, is not meant as a tool of precision. The numbers always change based on circumstances that are outside of the City's control. A forecast, rather, provides trend information to allow the Budget Committee and, ultimately, the City Council to make informed public policy decisions in providing the level and types of services necessary to serve the Tigard community.

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Key Assumptions Used in Preparing the Long-Range Forecasts

It has been said that the primary determinants of a long-range forecast are twofold: 1) the accuracy of the data upon which it is based, and 2) the use of realistic assumptions in developing the projections for key revenue and expenditure categories. Otherwise, it is an exercise in math and spreadsheets.

The forecasts presented in this section are all based upon the FY 2023 year-end actual results and the latest projected year-end results for FY 2024 based upon actual revenue collections and expenditures up until the time of publication of this budget.

The key assumptions used in developing the long-range forecasts herein are summarized below in three sections: 1) Key Economic Indicators, 2) Key Revenue Assumptions, and 3) Key Expenditure Assumptions.

Key Economic Indicators

As discussed earlier, inflation is driving a significant impact on costs of services and supplies. Rising wages has also impacted the ability of the City to recruit and retain a quality workforce, as indicated in the increase in turnover as well as delays in filling vacant positions.

Property tax assessment increases and collections have been strong for the residential sector but might face some risks in two areas: 1) commercial sector property values depending on whether office workers will continue to work remotely, thus leaving commercial spaces vacant; and 2) increasing interest rates which are impacting affordability of home purchases and softening the increase in residential property assessments.

The state economist in the Oregon Office of Economic Analysis is softening their predictions of a recession due to slowing inflation and the Federal Reserve's proactive yet cautious measures in bringing inflation down. Employment continues to be strong. The state is no longer including any recessionary assumptions in its forecasts, believing that economic indicators point towards a "soft landing and continued economic expansion." Ultimately, they indicate that the largest factors that could create the greatest risks to a long-term forecast are in five areas: 1) the state of the US economy; 2) housing affordability; 3) global spillovers of geopolitical conflicts and their impacts on commodities and Oregon exports; 4) Federal fiscal policy that could impact support for Oregon industries; and 5) climate and natural disasters such as earthquakes, wildfires and droughts.

Key Revenue Assumptions

The key revenue assumptions used in preparing the long-range forecast is summarized below:

Development activity. The City anticipates approximately 150 single-detached residential units in River Terrace annually.

The City also anticipates smaller subdivisions and missing middle housing occurring in Tigard over the next six years.

New units in the Tigard Triangle area have softened from the prior estimate of 600 units annually.

Property taxes. Growth of 3.5% in FY 2025 based on FY 2024 projected collections, and long-term growth of 3.75% thereafter.

Public safety parcel tax levy. The public safety parcel tax levy is expected to mirror increases in property taxes and will continue through the six-year period.

Transient lodging (hotel) tax. TLT revenues have recovered to pre-pandemic levels by the end of FY 2023, with a 2.5% long-term growth rate thereafter. There are no new hotels assumed to be developed in Tigard within the six-year forecast.

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Key Revenue Assumptions *(continued)*

Cigarette, liquor and marijuana tax. The so-called “sin taxes” are collected by the State. The League of Oregon Cities issues annual projections based on the latest information they receive from the state. Cigarette taxes are expected to decline 2% per year based on reduced cigarette sales. Liquor tax is expecting a 7% growth in FY 2025, no growth in FY 2026, and 4% growth thereafter. Marijuana taxes are expecting no growth in FY 2025 from 2024 projected levels and thereafter.

Gas tax. Fuel-efficient vehicles and consumers and businesses transitioning to alternative fuel and electric vehicles is projected to cause a downward trend in gas tax. The Oregon Department of Transportation recommends a 1.8% growth in revenue assumptions in FY 2025 and then a reduction to approximately 1.4% per year through FY 2030 due to the impacts mentioned herein.

Franchise fees. Solid waste franchise fees are expected to increase by 8% on January 2024, with 4% long-term growth thereafter based on anticipated increases in garbage rates. Electric and gas franchise fees are expected to increase by 4% and 1% long-term respectively. Relative static growth in telecommunication and cable television franchises is expected due to reduced costs of telecommunications and the trend of “cord-cutting”, moving away from cable television service and more towards streaming services that are not subject to franchise fees.

Charges for services. Development fees are expected to remain at current levels throughout the six-year forecast period due to the anticipated development activity and recurring historical permit activity. Other fees and charges are expected to increase between 2% and 4%, primarily the result of anticipated increases necessary to mirror the cost of providing services.

Traffic fines. Traffic fines are expected to decrease from FY 2024 projected levels with no growth in future years.

Library support from Washington County. The ongoing grant received from Washington County Cooperative Library Services (WCCLS) is projected to increase by 1% in FY 2025 with no anticipated growth in future years based on uncertainty of funding from WCCLS.

Utility sales. Sales and charges for water are expected to increase by 2% per year based on the current rate study and City Council adoption of multi-year rates for those services. A new rate study will be required for FY 2025. Rates for sanitary sewer and stormwater services are established by Clean Water Services. Sanitary sewer and stormwater revenues assume an annual growth of 3.75% and 3.5%, respectively, per year based on information obtained from Clean Water Services.

Investment income. Investment earnings forecasts are calculated based on projected reserve balances with an assumption of 4% in FY 2025, and thereafter. As of February 2024, the Local Government Investment Pool was earning at a rate of 5.2%. With an assumption of three 0.25% rate cuts anticipated by the Federal Reserves, yields are expected to start declining in FY 2025.

Other revenue sources. Other revenue sources are expected to grow between 0% to 4% based on the respective categories and sources.

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Key Expenditure Assumptions

The key expenditures assumptions used in preparing the long-range forecast is summarized below:

Compensation and benefits costs. SEIU and TPOA labor groups are currently in multi-year contracts. The increases associated with those contracts are included in compensation and benefits projections for FY 2025 through the end of each respective bargaining unit contract. A placeholder assumption equal to 4% growth has been included in FY 2026 and beyond, which would be subject to the outcome of labor negotiations with bargaining units in future years. Health benefits are assumed to grow by 6% based on historical trends.

Inflationary factors affecting materials and supplies. A placeholder inflationary factor of 4% is expected for FY 2025, reduced to 3.5% in FY 2026 and beyond based on economic forecasts. For capital improvement projects, a contingency of 20% is factored into the project cost to account for inflationary pressures and unexpected costs.

Expenditure savings. The forecast assumes a 10% expenditure savings in FY 2024 (which affects projected starting reserve levels) and for FY 2025 and subsequent years based on historical savings trends due to a variety of factors including staffing vacancies and prudent spending practices.

General Fund Forecast

The general fund is unique in that, unlike the city's other funds, it is unrestricted in nature and can therefore be used for any valid purpose to provide government services. Because these funds are unrestricted there are also great demands for these resources to fund projects and programs for which other restricted monies are insufficient or unavailable. It is therefore critical that these funds be used judiciously, and a targeted reserve balance be maintained for unforeseen expenditures.

The Budget Committee and City Council have established reserves for the following purposes:

Undesignated Reserve: This represents excess reserves left over after the following reserves are accounted for. While this reserve does not have a specific purpose, a healthy level of undesignated reserve is the indicator of a good financial health and provides the city with the flexibility when making decisions that impact General Fund finances. This is the first reserve that would be depleted should expenditures exceed revenues (i.e., an annual deficit).

Service Level Reserve: This reserve captures annual surpluses (revenues that exceed expenditures). This is the first reserve depleted in the event that expenditures are greater than revenues collected.

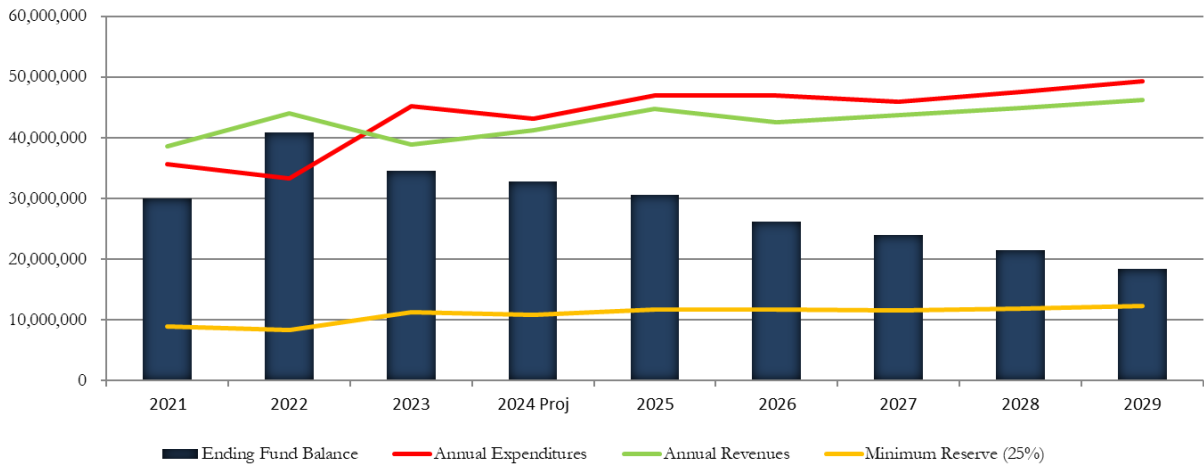
Emergency Reserve: This reserve is intended to help the city bridge a revenue slowdown caused by a recession or other unforeseen event. It is established at a flat amount of \$1 million and would be tapped into should the Service Level Reserve be depleted.

Cash Requirement Reserve: This reserve is established based on 25% of budgeted expenditures. In December, Tigard receives most of its property tax revenues. The intent of this reserve is to bridge from July through November when expenditures exceed revenues. This reserve ensures that Tigard does not need to borrow to pay for regular expenses such as payroll. This is the last reserve that would be depleted.

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The forecast graph presented below indicates trends in the City’s General Fund. Two projections are provided to illustrate realistic and worst case scenarios. The first chart presents a scenario where no expense savings are expected, and the city fully utilizes their full appropriated budget.

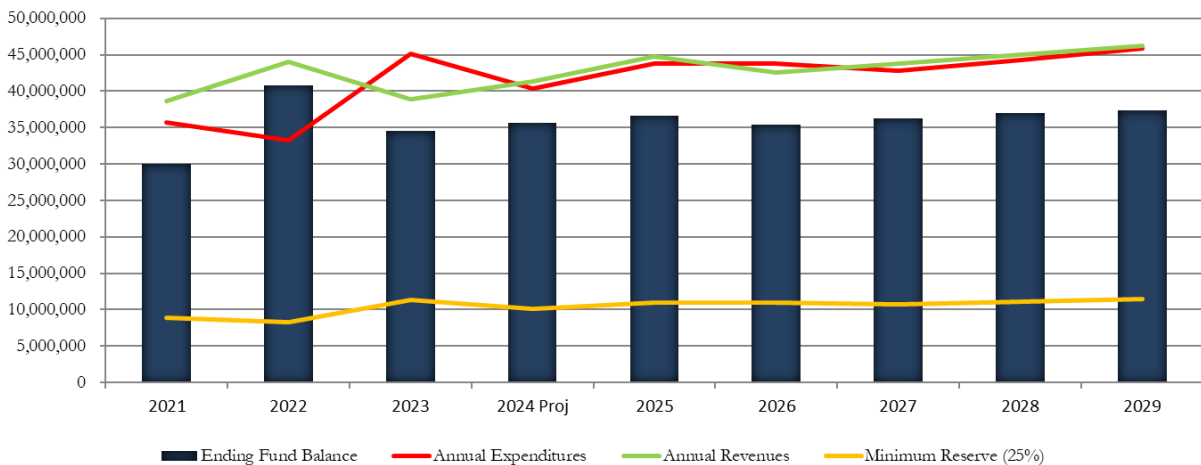
General Fund Forecast



Due to diligent fiscal management, the city has been able to maintain strong General Fund reserves and the General Fund would be able to sustain full expenditures through FY 2029 while maintaining a minimum 3-months of operating reserves when no expense savings are recognized.

The second charts presents a scenario where the General Fund is balanced through FY 2029 when considering an expenditure savings trend of 10%, which is the average annual expenditure savings for the past five years.

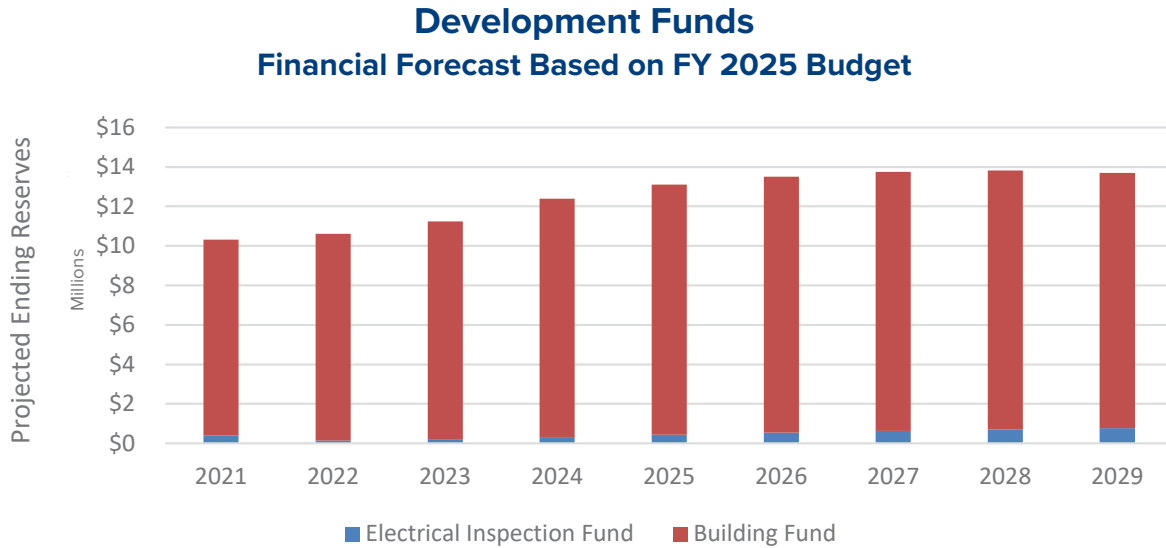
General Fund Forecast



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While the General Fund projections have improved over last year’s forecast – primarily due to improved revenue trends and greater anticipated revenue growth factors – the City will need to stay vigilant regarding key revenues upon which the General Fund relies. Those include the funding from WCCLS, property tax growth assumptions, and transient lodging tax revenues. It is expected that City leaders will continue to exercise diligence in spending resources such that the long-range expenditure savings assumption of 10% is achieved.

Development Funds Forecast

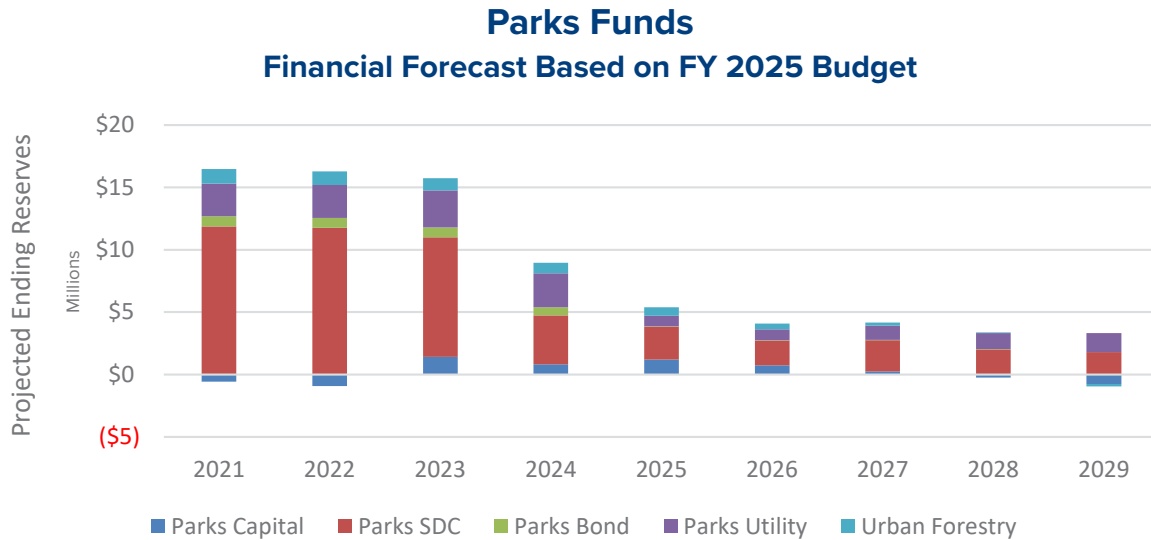


The projections for the city’s development funds (building and electrical inspection funds) show these funds are growing. Development activity associated with such projects as River Terrace, the Hunziker Core and the Tigard Triangle will drive permit revenues throughout the forecast.

Expenses of all the building inspection services are charged to the building fund. The electrical inspection fund transfers money into the building fund to pay for those costs associated with electrical inspection services. The transfer is evaluated and updated each year based upon the actual activity. The City will need to conduct a fees and charges study to determine the proper allocation of costs to revenues and establish rates that strive for full cost recovery.

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Park Funds Forecast



The revenues in the parks funds include the parks system development charge (SDC), parks and recreation fees in the Parks Utility Fund, urban forestry revenues, grants, and the Parks Bond that was approved by voters in November 2010, funds from which were fully exhausted through parks improvement projects in FY 2022. Resources from the Park SDC Fund are transferred to the Parks Capital Fund to pay the SDC portion of the capital projects for those projects that increase capacity to provide parks and recreation amenities for new development projects. Those capital improvement projects are identified in the city’s Parks Master Plan.

Highlights of key factors affecting the forecast for each of the funds is identified below:

Parks Capital Fund – includes a total of \$17.4 million in capital improvement projects, of which \$5.1 million is scheduled for FY 2025. Funding sources include one-time grants, intergovernmental revenue sources (e.g., Metro local shares, regional flexible funds), and parks SDC funds. Fund reserves are expected to be overdrawn in 2028 and 2029. Potential savings in capital improvement projects, project delays, or other one-time revenue sources would be expected to make up for any modest deficits.

Parks SDC Fund – anticipates collections of SDC revenues of nearly \$2.2 million per year. A total of \$10.8 million in transfers to the Parks CIP fund is anticipated in the five-year forecast. Planned drawdowns of these funds over the five-year period will reduce reserves from \$3.9 million at the beginning of FY 2025 to approximately \$1.8 million by FY 2029, primarily due to parks design and construction in underserved neighborhoods.

Parks Bond Fund – the \$17.0 million Parks Bond measure approved by voters in 2010 will have been fully expended by the end of FY 2025 that was used to fund development and land acquisition costs of various parks amenities.

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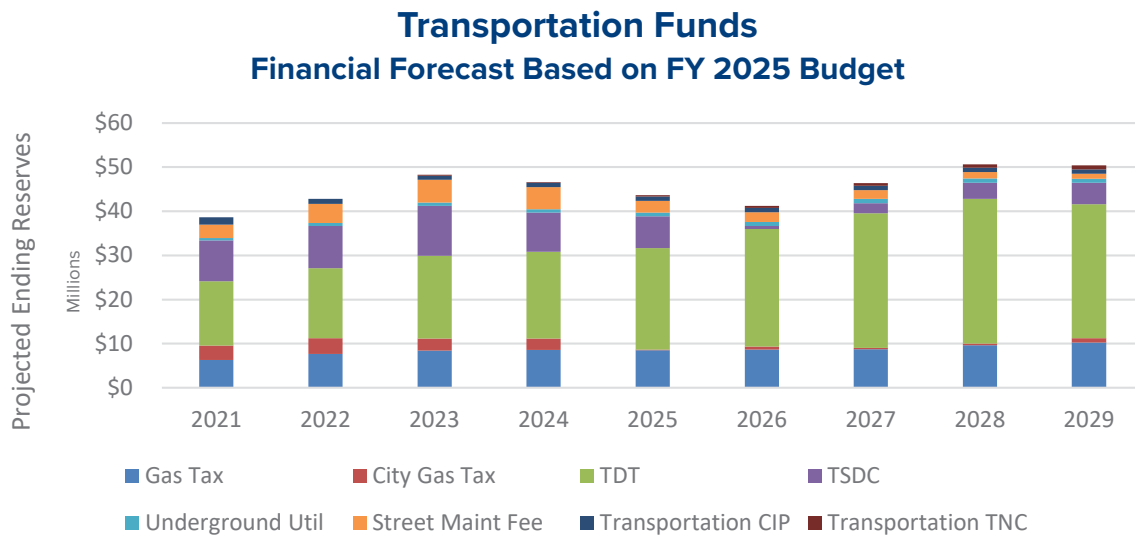
Park Funds Forecast *(continued)*

Parks Utility Fund – parks and recreation operations and the fees associated with them have been nearly restored to pre-pandemic levels. Annual fee revenue totaling \$2.9 million in FY 2025 is expected to grow at 4.2% per year assuming greater uptake of recreation services and increases in the underlying costs necessitating increases in fees and charges. Operating costs are expected to grow by approximately 4% per year. General Fund support of parks and recreation activities is required to keep the fund whole, which assumes transfers from the General Fund totaling \$0.5 million in FY 2025 growing to \$2.9 million by FY 2029.

Urban Forestry Fund – assumes a gradual drawdown of reserves as annual revenues for tree replacement and interest earnings will be insufficient to cover the anticipated funding of parks capital projects totaling \$250,000 per year. Reserves would be depleted from \$865,000 at the start of FY 2025 to a potential overdraft of \$170,000 by FY 2029.

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Transportation Funds Forecast



The city’s transportation funds include the Gas Tax, City Gas Tax, Transportation Development Tax (TDT), Tigard Transportation System Development Charge (TSDC), Underground Utility, Street Maintenance Fee, the Transportation CIP Fund, and the newly created Transportation Network Companies (TNC) Fund. A comprehensive discussion of the various CIP projects and funding challenges associated with each of these funds can be found in the CIP In Brief section of this budget.

The City’s transportation projects are primarily funded through gas tax revenues, street maintenance fees, the transportation development tax and SDC revenues from developers. Highlights of key factors affecting the forecast for each of the funds is identified below:

Gas Tax and City Gas Tax Funds – The Gas Tax fund includes federal and state gas tax revenues, plus the Washington County vehicle registration fee that went into effect in FY 2019. The City Gas Tax fund receives tax revenues generated from local gas stations from the City’s 3-cent per gallon tax. Combined, tax revenues totaling over \$7.0 million from these sources go towards funding street maintenance activities by City staff and capital projects. Gas tax revenues are expected to decline at a rate of 1.4% per year based on League of Oregon Cities projections. Other revenues are expected to grow at a rate of between 1.5% to 2.5% per year. The declining revenue projections are due to the growing adoption of electric and/or plug-in hybrid vehicles. In FY 2025, these funds contribute \$4.0 million in recurring operational costs and an additional \$9.7 million in various capital project and equipment. Reserves in these funds will collectively be reduced from \$11.1 million at the start of FY 2025 to nearly \$8.3 million by FY 2029 due to the imbalance of operational costs growth compared to anticipated revenue growth and the need to invest in transportation-related projects to maintain the City’s streets at existing pavement management standards.

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Transportation Funds Forecast *(continued)*

Transportation Development Tax (TDT) Fund – the City expects to receive over \$5.6 million in TDT revenues annually to support planned roadway and transit capital projects. A total of \$16.2 million in projects are anticipated to be funded over the five-year period, the most significant of which is the “complete street” project on McDonald Street from Hall Boulevard to Pacific Highway which will require \$18.6 million in TDT funds over that time period.

Transportation SDC Fund – anticipates collections of SDC revenues of approximately \$2.6 million per year. Projects totaling nearly \$15.7 million over the five-year period will be funded from SDC revenues, the most significant of which is the Tigard Street (Fanno Creek) Bridge replacement of \$10.6 million. Reserves are expected to be replenished to \$4.9 million by the end of the five-year period.

Underground Utility Fund – this fund is supported by in-lieu undergrounding fees charged to developers plus interest earnings on reserves totaling just over \$100,000 per year to underground various utilities (e.g., electric, telecommunications) and reduce the risk of above-ground damage to essential utilities. Capital projects totaling \$518,500 are included in the six-year CIP plan for various undergrounding activities. Reserves are expected to grow from \$770,000 in FY 2025 to \$923,000 by FY 2029.

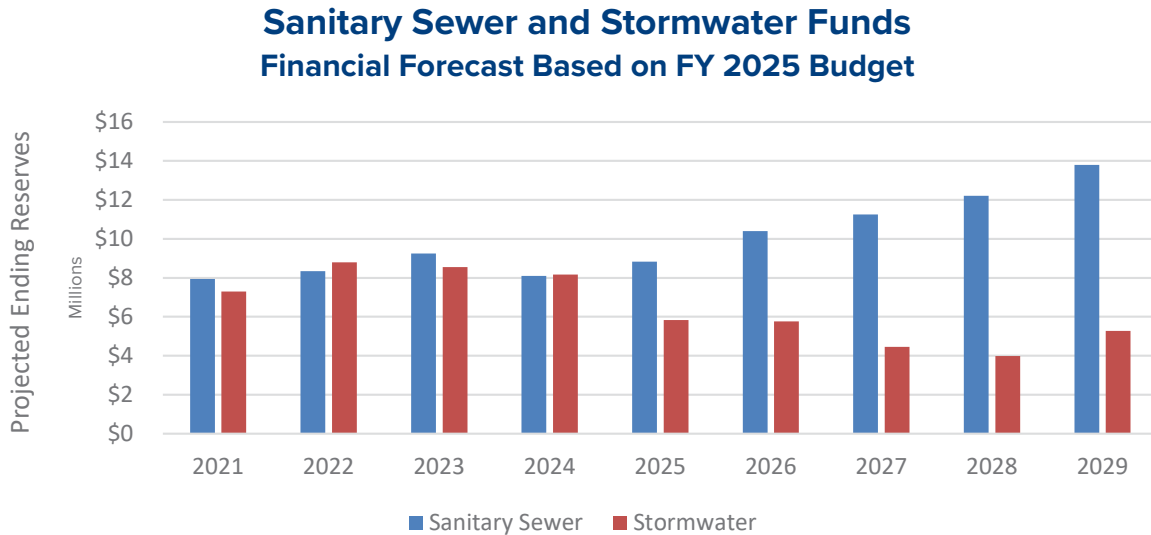
Street Maintenance Fee Fund – the City’s street maintenance fee, originally enacted in 2003 and updated in March 2016, generates over \$4.3 million in FY 2025 that grows at the same rate as property tax growth. Those fees are used to fund a total of \$31.3 million in street maintenance projects over the six-year period under the City’s Pavement Management Program.

Transportation CIP Fund – assumes that all planned capital projects are funded from federal or state grants and transfers from the other City funds including those listed in this section plus other funds such as Sanitary Sewer, Stormwater, or Water Enterprise Funds. The City’s CIP program includes nearly \$84.0 million in transportation related capital projects that will be expended out of this fund, of which \$15.6 million is planned for expenditure in FY 2025.

Transportation TNC Fund – this new fund was established in FY 2023 to account for fees charged to transportation network companies for trips originating from Tigard. A total of \$159,000 in unspent reserves are available at the start of FY 2025 for revenues generated from the start of the program. Annual revenues projected to be \$150,000 per year will grow the fund to reserves totaling \$948,000 by the end of FY 2029.

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Sanitary and Stormwater Funds Forecast



These funds support all sanitary sewer and stormwater collection and detention systems in the city. The city provides these services through an Intergovernmental Agreement (IGA) with Clean Water Services (CWS), which is a local service district in Washington County that provides both sanitary sewer treatment and stormwater management services. The Board of Directors of CWS sets most service charges and system development charges for both sanitary sewer and stormwater services throughout the service district.

Highlights of key factors affecting the forecast for each of the funds is identified below:

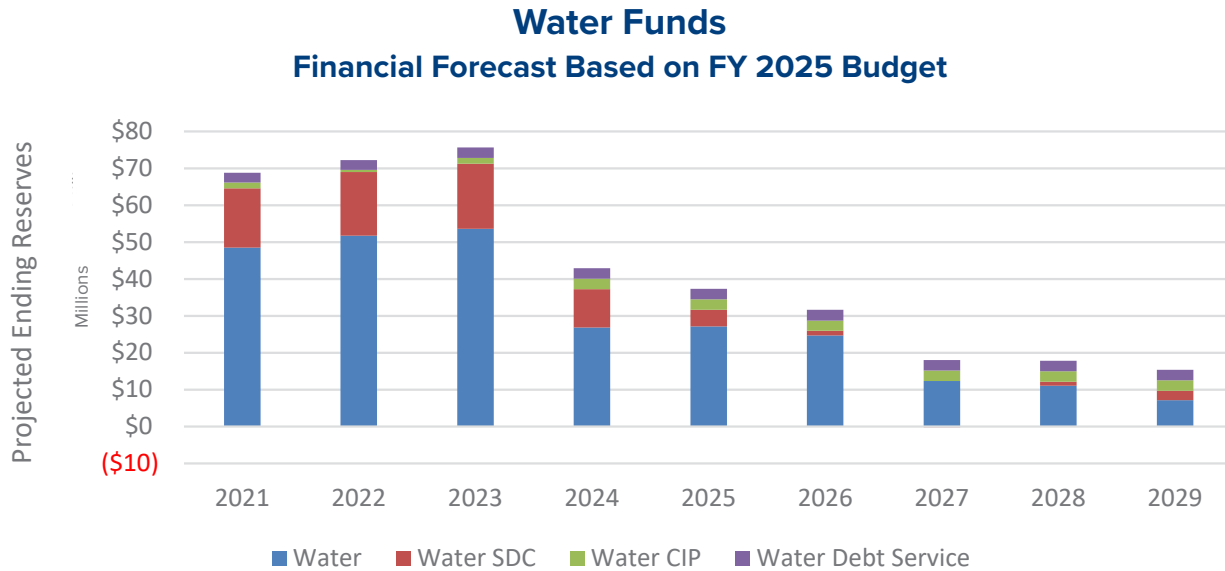
Sanitary Sewer Fund – the City’s sanitary sewer operations are funded primarily by fees charged to property owners in Tigard as determined by CWS of which the City retains 16% of those fees to fund its wastewater collection system and discharge to CWS. The City also levies a sewer surcharge to property owners to help fund ongoing capital maintenance and improvement projects. Revenues are expected to grow at a rate of 3.75% based on information obtained from CWS. Operating costs including cost allocations represent over \$3.1 million of the fund’s FY 2025 budget, which are expected to grow at a combined rate of about 4% per year. Capital project funding over the five-year period will total \$7.8 million. Of that total, \$3.4 million will be transferred to the Stormwater fund to help fund various stormwater projects (see below). Reserves are expected to grow over the five-year period, increasing from \$8.0 million at the start of FY 2025 to \$13.8 million by the end of FY 2029 in anticipation of future significant infrastructure costs beyond the forecast window.

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Sanitary and Stormwater Funds Forecast *(continued)*

Stormwater Fund – stormwater operations are funded primarily by fees charged to property owners in Tigard as determined by CWS of which the City retains 75% of stormwater fees to fund its stormwater collection system. The City also charges property owners a stormwater management (SWM) surcharge fee to support capital projects in future years. Stormwater fees are expected to grow at a rate of 3.75% per year. SWM surcharge fees, however, are expected to only grow by 1% per year as the charge is a fixed \$2 per month per property owner and only grows based on new development. Operating costs including cost allocations total \$4.3 million in FY 2025 and will grow at a rate of 4% per year. Stormwater capital projects total \$15.6 million over the five-year period. The City invests over \$400,000 per year in its storm drainage major maintenance program that is also included in that number. The largest capital projects include the Kruger Creek Stabilization and Red Rock Creek Stabilization and Enhancement projects, which comprises \$5.8 million of the \$15.6 million and are partially funded by transfers from the Sanitary Sewer Fund.

Water Funds Forecast



The water funds include the Water (operations), Water System Development Charge (SDC), Water Capital Improvement Plan (CIP), and Water Debt Service funds. The water CIP Fund is reserved for a long-term water source and other water distribution system capital projects. The costs of the Water Division are funded solely by the revenues in the Water Fund.

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Water Funds Forecast *(continued)*

Highlights of key factors affecting the forecast for each of the funds is identified below:

Water (Operations) Fund – this fund is supported through water service charges to property owners based on a fixed meter charge and volumetric consumption. Revenues in the fund total \$30.0 million in FY 2025, of which \$28.7 million comes from utility fees. Utility rate increases are expected to be 2% per year through FY 2026, with future fees subject to the outcomes and policy decisions from a future rate study. A placeholder assumption of 2% per year beyond FY 2026 is included in the forecast. Operating costs for the provision of water service is driven primarily by City personnel and operating costs (which grow by 4% per year), franchise fees paid to the City which grows based on water service charges, and cost allocations from the Lake Oswego Tigard Water Plant and Supply System operations and internal City services. Capital project funding from the Water Fund totals \$85.1 million over the five-year period (see the discussion under Water CIP Fund below) and \$7.2 million in debt service funding to the Water Debt Service fund (see discussion under Water Debt Service Fund below). The fund will draw down reserves to fund the necessary capital improvement projects over the five year-period, from \$27.1 million at the start of FY 2025 to just over \$7.1 million by FY 2029.

Water SDC Fund – the results of a recent water SDC study indicated that a 40% reduction in SDC rates was appropriate in FY 2024. Annual revenues in FY 2025 are projected at \$2.4 million. Those funds are used to fund capital projects related to water system expansion to provide the increased capacity necessary to serve the increased population from those development projects. The CIP plan calls for \$17.2 million in funding from the Water SDC Fund for capital projects during the five-year period, for which the largest projects include the Aquifer Storage and Recovery (Wells #2 and #3), Reservoir 18 and Pump Station, and the Bull Mountain Road Water Pipeline.

Water CIP Fund – a total of over \$145.3 million in capital projects are anticipated in the six-year CIP plan for the water system, of which \$116.0 million comes from water operations revenues and \$29.3 million comes from water SDC funds.

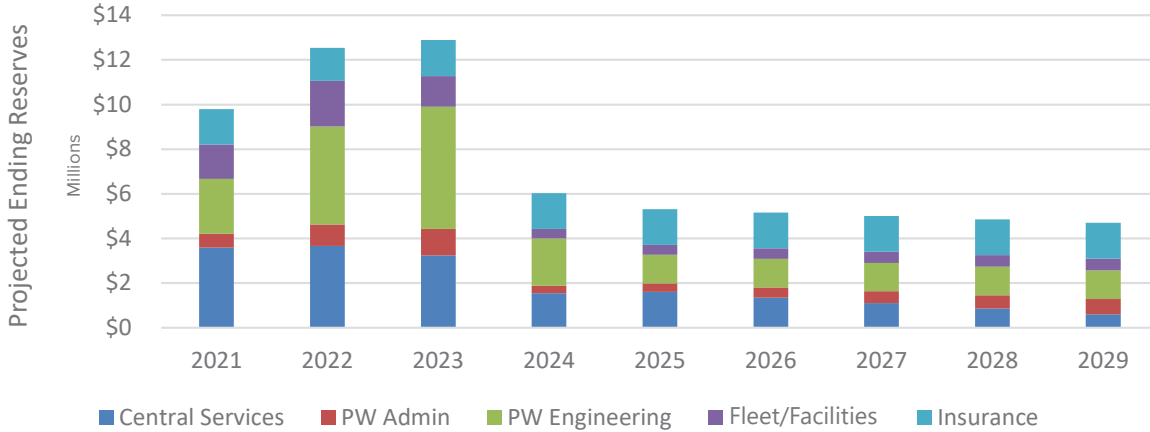
Water Debt Service Fund – annual debt service for the 2012 and 2015 Water Revenue Bonds and the American Reinvestment and Recovery Act (ARRA) loan totals \$7.2 million per year from FY 2025 to 2029, which is entirely funded by transfers from the Water (Operations) Fund.

Overall, Tigard's water funds are healthy and able to fund an aggressive next set of infrastructure projects needed to supply water to a growing community.

COMPREHENSIVE LONG TERM FINANCIAL FORECAST

Internal Service Operating Funds Forecast

Internal Service Operating Funds Financial Forecast Based on FY 2025 Budget



The City has established five (5) internal service operating funds whose costs are allocated to various operating departments based on a cost allocation methodology developed over the years. The operating funds include the following:

Central Services Fund. This fund includes the operations of the City Manager’s office, Human Resources, Risk Management, Communications, City Recorder, City Attorney, Diversity/Equity/Inclusion, Finance, and Information Technology. This fund allocates all cost to operating departments and funds.

Public Works Administration Fund. This fund includes the Administration division of the Public Works department and is funded through cost allocations.

Public Works Engineering Fund. This fund includes all engineering functions of the Public Works department. Its costs, net of revenue generated through development services fees and other permit fees, are allocated to capital projects for project management costs and to other operating funds.

Fleet and Facilities Fund. This fund includes the Fleet and Facilities Division operations and allocates all costs to operating departments and funds.

Insurance Fund. This fund is used for covering self-insured claims and is funded, if necessary, through cost allocations sufficient to replenish reserves that fall below \$1 million.

COMPREHENSIVE LONG TERM FINANCIAL FORECAST

Internal Service Operating Funds Forecast *(continued)*

Highlights of key factors affecting the forecast for each of the funds is identified below:

Central Services Fund – Operating costs consist primarily of personnel, materials and services, which primarily are assumed to increase by 4% per year. Reserves are drawn down to zero on a budget-basis in current and future years, with ending reserves only due to anticipated expenditure savings in each year. Annual operating costs total \$18.4 million in FY 2025, which are fully allocated to operating departments and funds, net of any expenditure savings which reduce the allocation in subsequent years.

Public Works Administration Fund – Similar to the Central Services Fund, operating costs consist primarily of personnel, materials and services costs. Annual operating costs total \$2.8 million in FY 2025 and are fully allocated to only those operating funds that rely on public works services. Reserves will be maintained at \$250,000 per year through allocation of all operating costs to other operating departments through the cost allocation plan.

Public Works Engineering Fund – Development services fees of approximately \$1 million per year are included in the forecast. Operating costs, net of those revenues, include personnel, materials and services costs. They are allocated first to capital projects based on an estimation of Engineering staff time to manage those projects, with the remaining costs allocated to operating departments primarily using Engineering services such as Gas Tax, Parks Utility, Sanitary Sewer, Stormwater and Water Operations Funds. Annual operating costs total \$5.7 million. Reserves are anticipated to be reduced to \$1.2 million by FY 2029.

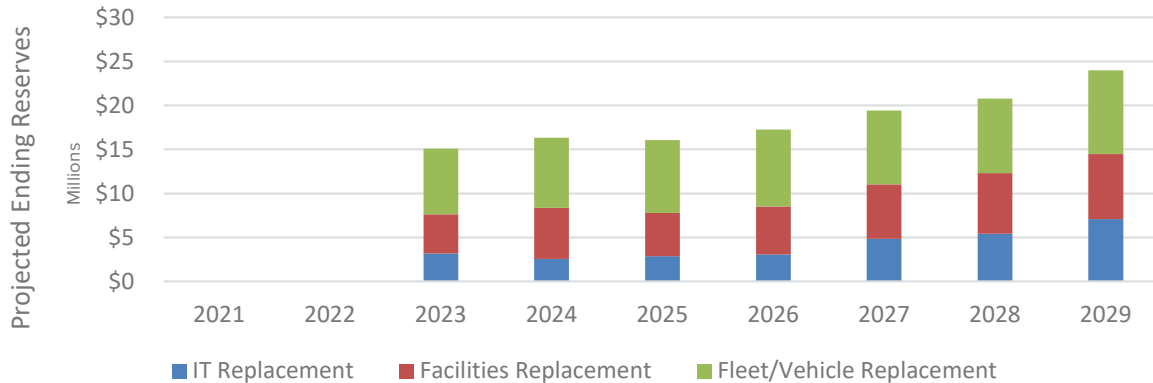
Fleet and Facilities Fund – Operating costs consist of personnel and materials and services costs necessary to maintain the City's fleet vehicles and facilities and are expected to increase consistent with other operating funds as indicated throughout this forecast. Reserves will be drawn down to just over \$500,000 per year throughout the five-year period in that the fund will be made whole annually through full cost allocation to operating departments. Annual operating costs in the fund total nearly \$3.6 million in FY 2025.

Insurance Fund – The Insurance Fund has a small allocation of personnel costs for the City's risk management personnel and is expected to grow at 4% per year. Legal fees have been included for outside counsel totaling \$250,000 in FY 2025, subject to an inflationary escalator of 4% in future years, to address any legal counsel required to adjudicate claims against the City. The fund will require a cost allocation of nearly \$500,000 per year to maintain reserve levels between \$1 million and \$1.5 million per City Council policy. The reserve balance will remain at just over \$1.6 million throughout the forecast period.

COMPREHENSIVE LONG TERM FINANCIAL FORECAST

Internal Service Equipment and Facilities Replacement Forecast

Internal Service Equipment and Facilities Replacement Funds Financial Forecast Based on FY 2025 Budget



In FY 2023, the City created three new funds to proactively set aside funds for replacement of the technology, vehicles, and building systems upon which the City relies to serve the community. These funds were seeded with one-time transfer of available reserves from various operating funds in FY 2023. Annually, the City reviews its replacement recovery needs by reviewing its asset listings, updating remaining useful life and replacement values, and determining how the calculated set-aside amounts compare to available reserves in each respective fund before determining how much to allocate to operating departments. Those costs are allocated based on usage of the underlying assets or a pro-rata allocation of shared usage (e.g., HVAC systems, IT network devices, office furniture).

The replacement funds include the following:

Information Technology (IT) Replacement Fund. This fund includes equipment such as computers, mobile devices, servers, network equipment, printers, and information systems.

Facilities Replacement Fund. This fund includes building systems that might otherwise be considered “tenant improvements” ranging from HVAC systems, paint and carpets to office furniture and tables/chairs in public spaces.

Fleet/Vehicle Replacement Fund. This fund includes all of the vehicles and other equipment (e.g., lawn mowers, backhoes) used by operating departments in serving the community.

COMPREHENSIVE LONG TERM FINANCIAL FORECAST

Internal Service Equipment and Facilities Replacement Forecast *(continued)*

Highlights of key factors affecting the forecast for each of the funds is identified below:

IT Replacement Fund – Annual replacement charges levied to operating funds totals nearly \$1.9 million per year. Equipment scheduled for replacement in FY 2025 totals \$1.6 million. Reserves are expected to grow from \$2.8 million at the start of FY 2025 to \$7.1 million by FY 2029 to ensure adequate funding of replacement assets in future years.

Facilities Replacement Fund – Annual replacement charges levied to operating funds totals \$1.3 million per year. The City has chosen to not set aside reserves for City Hall/Police Station related fixtures while the City determines how to address facility modernization needs. Otherwise, the set-aside for building systems is based on the 2017 Facilities Maintenance Study and Master Plan. Equipment scheduled for replacement in FY 2025 totals \$2.3 million. Reserves are expected to grow from \$4.8 million at the start of FY 2025 to \$7.4 million by FY 2029 based on projected replacement costs during that five-year period.

Fleet/Vehicles Replacement Fund – Annual replacement charges levied to operating funds totals nearly \$1.8 million per year. Vehicles and other equipment scheduled for replacement in FY 2025 totals nearly \$2.2 million. Reserves are expected to grow from \$8.3 million at the start of FY 2025 to \$9.5 million by FY 2029 to ensure adequate funding of replacement assets in future years.

Concluding Remarks

Overall, Tigard's financial forecast is positive. The City has the means to maintain its existing service levels, address the City Council's strategic goals, and fund all necessary capital improvement projects. Funding will be required to address aging facilities for City Hall, the Police Station, and the Public Works facilities. The forecast does not assume significant improvements or replacement of existing facilities.



CITY OF
Tigard

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