



FIVE-YEAR FINANCIAL FORECAST FOR THE CITY OF NEWPORT

By: City of Newport Finance Work Group
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BACKGROUND

Resolution No. 3817 was adopted by City Council to establish a Finance Work Group consisting of members of the Budget and Audit Committees. This resolution was adopted to develop projections for future revenues and expenditures, based on current trends, to help future policy makers with important future decisions relating to balancing resources and expenditures, to assure a sustainable financial future for the City of Newport. The group met on three dates to review data and develop a series of recommendations for the Council, with this report being conveyed to Council on December 3, 2018.

The City of Newport was incorporated in 1882. As of the 2010 census, the City had a total population of 9,989, which amounted to 5% increase over its 2000 population. As of 2013, the official estimated population of Newport is 10,117. At the time of its incorporation, Newport consisted of areas along the north side of Yaquina Bay, and at Nye Beach. As US Highway 101 was developed by the State of Oregon, the area between Nye Beach and Yaquina Bay developed as the City center. The construction of the Yaquina Bay Bridge further influenced the development of Newport. Beginning in 1972 the City of Newport initiated annexation of South Beach with Hatfield Marine Science Center, and annexed southward to the Wolf Tree Destination Resort property in the later 80s.. The northern boundary of the City limit was extended with the annexation of Agate Beach, beginning in the mid-70s, and extending into the early 80s. Today the City of Newport has a total area of 10.59 square miles, of which 9.05 square miles is land. Stretching along a narrow corridor along the Pacific Coast, from south of the Municipal Airport in South Beach, north to Agate Beach. During these various annexations, the City assumed various utilities, roads, and other infrastructure, which was often not constructed to City standards, with the City now being responsible for all of these infrastructures.

Newport enjoys a relatively diverse coastal economy that is not dependent upon the success or failure of any specific component, which includes: tourism, commercial fishing, and a growing marine/science and research community.

The City of Newport's single largest source of revenue for governmental operations provided by the General Fund comes from property taxes. Voters of the State of Oregon passed a number of initiatives that impact (and limit) the amount of property taxes that local governments can receive. This includes Measure 5, which imposes a limit of \$10 per thousand dollars of real market value for the overall payments of general government taxes. Measure 5 placed a permanent rate on taxes for local government and districts, limiting the growth of property tax receipts during times of expansion, but provides a level of stability during economic downturns, provided the market value of property exceeds the assessed valuations for those same properties.

A significant source of revenue for the City includes the transient room tax. The City has seen a growth in this revenue during the years since the great recession. The City receives revenues from the State of Oregon through State Revenue Sharing, as well as, a share of fees for things such as liquor taxes and marijuana taxes. The City also has a local gas tax that is used to help fund roads, and a local marijuana tax that is used within the General Fund. The City also receives franchise fees to offset the cost of utilities that utilize public rights-of-way.

Another significant source of revenue is the City's business operations of water, sewer, and storm water fees. The City has recently completed, and implemented, a restructuring of utility fees. This was done to allocate the cost appropriately between various classes of users for the water, sewer, and storm water fees, and to review the sufficiency of the fees to cover future debt-to-finance required improvements to the system. In addition, the City collects fees to assist in the financing of the use of parks and recreation facilities, the airport, business licenses, and other similar activities.

The City of Newport is also facing a number of trends that have a significant impact on the fiscal sustainability of the City. Key fiscal impacts on various City funds have resulted from the implementation of salary adjustments that resulted from various salary studies completed in the last couple of years. As the economy is reaching full employment, the ability for the City to attract and maintain personnel had been problematic. In reviewing compensation, the City was well below other comparable cities, which was one of the reasons contributing to a high turnover of employees in the City. This impacted the City's ability to attract employees to the City of Newport. The salary study has been implemented for the Newport Employees Association jobs. A new part-time salary structure was put into place that primarily impacts the Recreation Fund for various seasonal and part-time employees there. This schedule brings all of our part-time salaries above the steps of the State of Oregon minimum wages. It also creates a more competitive situation when hiring seasonal and part-time employees, so that we can compete with fast food restaurants, and other similar employers within the community. The salary study for non-union employees was implemented over four fiscal years beginning with the 2016-2017 Fiscal Year, and ending with the 2019-2020 Fiscal Year.

Furthermore, the City continues to deal with significant increases in the State of Oregon's PERS retirement system, which covers uniformed Police and Fire personnel. In addition, the cost for health care continues to escalate at a rate higher than the overall cost of living, which continues to place additional pressures on the various City operating funds. Finally, the City has added a number of positions to address service needs in the past years which have long-term financial impacts on the City.

One of the key challenges facing the City of Newport has been financing major maintenance projects and upgrades to the City's various facilities. Buildings such as the Recreation Center, Library, PAC, VAC, and City Hall were initially built using urban renewal funds. Over the years, the City has not established any type of reserves to address replacement of various elements of these facilities, such as HVAC systems, roofs, etc. The Urban Renewal funds are no longer available to help off-set these costs, which now must be covered by the General Fund, or other operational funds. The City has appropriated some funding for key projects; however, this is being done by utilizing fund balances, which is not sustainable over a long period of time.

While Council has approved implementation of components of the utility rate study generating revenues for infrastructure upgrades, addressing environmental problems, and to assure liability of these systems, there are other key expenses that are not supported by the rate structure approved by Council. These include addressing the seismic insufficiency of the City's two dams. Finding a way to finance this project will be a major challenge for the next, and future, Councils.

As part of the 2018-2019 Fiscal Year Budget, the City Manager recommended, and the Budget Committee concurred, that a review of the City's long-term finances should be conducted prior to developing a budget for the 2019-2020 Fiscal Year. This recommendation was made due to challenges of providing for personnel costs, materials, capital outlay, and addressing needs and aspirations the community expressed in visioning and planning processes for Newport, within the current financial system.

Furthermore, challenges in addressing major maintenance items for City facilities (HVAC systems, roofs, and other similar projects), have stressed the City's finances to the point that the existing revenue structure cannot sustainably support the needs identified by the community. As a result, a clear understanding of these long-term trends is necessary for staff, Budget Committee, and City Council to understand these limitations. They also need to help identify strategies on how best to address the level of expenditures and revenues to keep the City's operational funds in a healthy, sustainable way.

PURPOSE OF FORECAST

The intent of this forecast is to project the financial positions of primary operating funds, based on the historic growth of various expenses and revenues, with those trends being forecast five years in the future. This would show what the impact would be on various operating funds if the current trends relating to revenue and expenditures availability, would occur during this period of time. This is a preliminary forecast of long-term City finances, and should be used as a basis to further refine the methodology in future years. This report serves as a beginning to a process which will be refined and updated in subsequent years.

FORECAST METHODOLOGY

The Finance Department has compiled actual data for the major operating funds by various categories of revenues and expenditures. From the financial data of 2014-2015 through 2017-2018, a three-year average change has been calculated for various categories of expenditures and revenues. The three-year average has been reviewed, and if appropriate, used for our projections for 2018-2019 through the 2022-2023 Fiscal Years. In cases where there are extenuating circumstances, or anomalies, that makes this average problematic, a projected increase for that category of revenues or expenditures has been incorporated in this analysis. The key indicator for all the funds, is the impact that these trends would have on ending fund balances. A fund balance that remains stable, or increases, indicates ongoing sustainability to maintain that level of expenditures with the current framework of revenues, to finance those activities. If fund balances are declining, and if they are ending up in a negative position, that indicates that the rate of growth of revenues is insufficient to maintain the rate of growth of expenditures for that particular fund. This would mean that either revenues would need to be increased, expenditures decreased, or some combination of both will need to happen in the next five-year period to address those shortfalls.

Where significant financial issues may impact the growth rate for either revenues or expenditures, in other than an even rate during the five-year projected period, those changes have been reflected in the projected numbers. A good example of this is with the salary study, which increased expenditures on wages at a rate that will not be required after the 2019-2020 Fiscal Year. This review should be used as preliminary projections for key City operating funds. The purpose of these projections are to illustrate what would

happen if no changes are made at the rate of spending and collection of revenues during this five- year period. It is intended to inform Department Heads, City Administration, City Council and the Budget Committee of what long-term considerations need to be made in developing future budgets for the City. For purposes of this analysis, any contingencies and reserves for future expenditures are included in the ending fund balance, with the exception of the 2018-2019 budget line, which breaks those numbers out in accordance with the approved budget.

FUND ACCOUNTING

In order to address future budgetary decisions, it is important to have an understanding of the requirements imposed on local governments regarding limitations on the use of certain revenues to fund certain local government activities. In addition, the City has certain requirements for things such as bond covenants, and other expenditures, which require segregation of funding in those cases. While some funds are required by the State, other funds have been set up for the convenience of the City. The way in which funding is restricted for specific purposes is by creating separate funds within the City accounting system for this purpose.

Government funds, also known as Governmental Activities, are used to account for various governmental services provided by the city that are supported by taxes and other general revenues for the city. Revenues are recognized as soon as they are both measurable and available. Revenues are considered *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the city considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Proprietary funds are used to account for operations that are financed and operated in a similar manner to a private business enterprises, known as Business-type Activities. Operating revenues and expenses generally result from delivering goods and providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the water and sanitary sewer enterprise funds and the City's internal service funds are charged to customers for sales and services. Operating expenses for enterprise funds and internal service funds include the costs of services, administrative expenses, and depreciation on capital assets. In this fund type, fees charged are intended to support the overall business operation. These include the Water Fund (601) and Wastewater Fund (602). In the audited financial report that is issued by the City's independent auditors each year, these proprietary funds are shown in separate schedules in business type activities. The balance of the funds is reflected on the balance sheets for governmental funds.

Furthermore, the State of Oregon requires local governments to divide its financial operations into several types of operating funds, which in turn follow the GFOA Standards. The General Fund (101) is the general operating fund for government operations for the City of Newport. Most of the general City services are included within this fund such as

General Government, Police, and Fire. Another type of fund is called Special Revenue funds which are established to account for various revenues that are designated for a specific purpose.

The Special Revenue funds for the City are as follows:

- 201 Parks and Recreation
- 211 Public Parking
- 212 Housing
- 220 Airport
- 230 Room Tax
- 240 Building Inspection
- 251 Streets
- 252 Line Undergrounding
- 253 SDCs
- 254 Agate Beach Closure
- 270 Newport Urban Renewal Agency

These funds are established to ensure that funds collected for a specific purpose are spent on those purposes, with the exception of reimbursing other funds for services provided to support the special reserve fund.

The next fund types are the Debt Service funds and they are noted as:

- 301 Debt Service - Water
- 302 Debt Service - Wastewater
- 303 Debt Service - General
- 304 Debt Service - Urban Renewal
- 351 Debt Service - Proprietary GO Bonds
- 352 Debt Service - General GO Bonds

Debt Service funds are used to account for the City's various debt type for both the Governmental and Business-type activities.

The City has also established a Reserve Fund (404), which is a fund being used to accumulate money for financing the cost of future property or equipment acquisitions. Finally, the City utilizes a Capital Projects Fund (402) for government type activities, combined with proprietary activities, a second fund (403) for proprietary-type capital projects activities, and a third fund (405) for governmental activities only.

The next type of funds are business type activities. These are funds, which are intended to be supported solely by fee based revenues. The City of Newport's business type funds include the Water Fund (601) and the Wastewater Fund (602). The related Debt and Capital Outlay Funds are considered proprietary, as well. Proprietary funds are budgeted on a cash basis, but are presented in the audited financial reports on an accrual basis reflecting capitalized assets and depreciation for those operations.

Internal Service funds provide services to other departments in the City. These funds include the Public Works Fund - 701 and the City Facilities Fund - 711.

Finally, the Urban Renewal Agency budget activities are shown in fund 270. The Urban Renewal Agency is a separate blended component entity of the City, but for purposes of the budget process are included in the joint City of Newport and Urban Renewal Agency budget documents.

For purposes of long-term financial planning, it is important to note that most of the revenues collected in the General Fund can be used without restriction for most government activities. Special Revenue Funds may have specific restrictions in how they can be used. For example, fees collected in the Recreation Fund are to be used for funding recreational activities. The same would be true with Public Parking, Airport, Building Inspection, Room Tax, Streets and other similar types of funds.

Debt Service Funds are only to be used to pay long-term debt for water, wastewater, general, and other specific purposes. Some of the City's bonded debt requires that reserves be established within that Debt Service Fund to cover future payments of that debt. This varies depending on the specific provisions of each bond issue.

Another major category of operating funds are the City's business-type funds which are the Water, Wastewater, and Storm Water Funds. These funds do not utilize any General Fund revenue to fulfill their obligations. The rates established for these funds are to support those utility operations. These type of business operations can pay a fee to the General Fund for support provided to this operation by services paid for by the General Fund, and pay a franchise fee and/or a payment in lieu of taxes to the General Fund for general utility purposes. This is consistent with other utilities utilizing City right-of-ways.

One source of funds, the Room Tax, is collected with a portion of it being restricted in a special revenue fund for marketing of tourism or tourist facilities, 46%, with 54% being revenue to support general City operations in the General Fund. Understanding what limitations are in place for the use of certain funds is critical in developing a long-term financial strategy for the City.

OPERATIONAL FUNDS ANALYSIS

Historic financial data has been compiled for the major operating funds for the City of Newport. In this section of the report, the historic financial trends will be examined for each of these funds, with this information being utilized to illustrate how these trends would impact revenues, expenditures, and fund balance. The key line to review in each of these funds is the end of the fund balance in the next five years. A fund balance that is steady or increasing indicates that the current growth of revenues is able to sustain the current growth of expenditures. In cases where the fund balances decline, then either revenues need to increase, expenditures decrease, or some combination of both to maintain a sustainable fund balance over time.

A detailed projection analysis for each fund is provided at the end of this report. A graph showing a summary of historic and projected fund balances is provided for each fund. Please note that "Options for Maintaining a Sustainable Fund Balance" are only listed for informational purposes. The listing of options should not infer Work Group or Council

support for that option, but are items that could be considered by the City Council in the future in addressing financial operations.

In addition, the following graphs show the impact that transfers from the General Fund have on other operational funds, as well as, the General Fund, itself. The dash-gray line on the General Fund (101), which contributes funding, and the Recreation Fund (201), Airport Fund (220), and the Facilities Fund (711), shows the impact when transfers from the General Fund have in supporting those services. The dash-gray line shows what the impact would be if all other revenues remain the same, and the General Fund no longer provided that financial support. This illustration clearly shows that the General Fund is supporting various services in the City, in addition to those services funded directly out of the General Fund, such as Police, Fire, City Administration, and other activities.

General Fund 101

Revenue Assumption Anomalies:

- Property Taxes - projected to increase at 3% inflationary rate
- Room Tax - projected to have peaked and increase at 3% inflationary rate
- Services Provided For - projected to increase at 3% inflationary rate based on 2018/19 budget
- Fees, Fines, and Forfeitures - projected to remain steady at 2% inflationary increase
- Investments and Miscellaneous - projected to increase at 10%
- Transfer In - projected to remain steady at 1% increase

Expenditure Assumptions Anomalies:

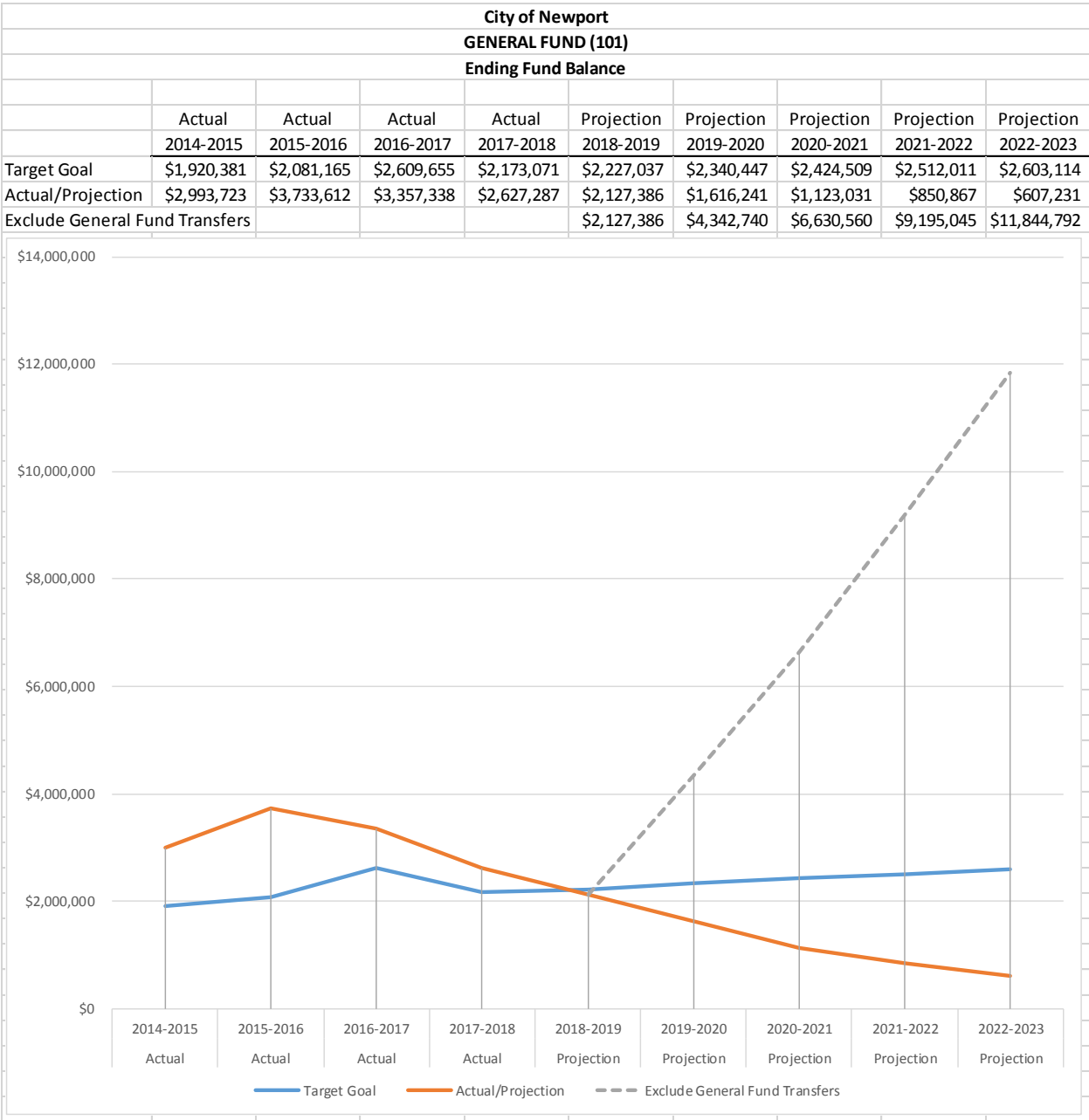
- Wages and Salaries - projected to increase at 6% for 2018/19 and 2019/20 due to salary survey study and increase at 3% inflationary rate for 2020/21, 2021/22, and 2022/23
- Utilities - projected to remain steady at 4% inflationary increase
- Abatement; Insurance, Communication, Advertising, and Printing; Other Material Expenses; and Acquisition and Improvements - projected to remain steady at 2% inflationary increase
- Lease and Rental; and Fuel - projected to remain steady at 1% inflationary increase
- Travel and Meeting - projected to increase at 10%
- Clothing and Uniforms; and Volunteer, General, and Safety/Health - projected to increase at 3% inflationary rate
- Data Processing - projected to remain steady at 5% inflationary increase
- Transfers Out - projected to remain steady at 2% inflationary increase. LoCap 2009 loan paid off in 2019/20. \$200K reserve for PAC discontinued in 2021/22 and 2022/23.

Options for Maintaining a Sustainable Fund Balance:

- Consider Special operating levies (local option tax)
Operating - Five years

Capital - ten years

- Consider a creation of tax on prepared meals
- Consider a salary freeze
- Evaluate open positions for replacing when someone leaves or retires
- Consolidate copier leases citywide
- Resume a payment to the General Fund for Water and Sewer payment in lieu of franchise
- Increase fees for services
- Consolidate through services the creation of Districts for services provided for a regional population (Parks, Fire)
- Reduce transfers from the General Fund to other funds
- Consider reducing transfers from the General to other funds, with those funds generating additional revenues or reducing expenses
- Evaluate purchasing policies to reduce costs
- Explore the sale of carbon credits as Astoria has done around their watershed



Recreation Fund 201

Revenue Assumption Anomalies:

- Fees, Fines, and Forfeitures; Miscellaneous; and Gifts and Donations - projected to increase at 2.5% inflationary rate
- Investments - projected to increase at 10%
- Transfer In - projected to remain steady at 2% increase

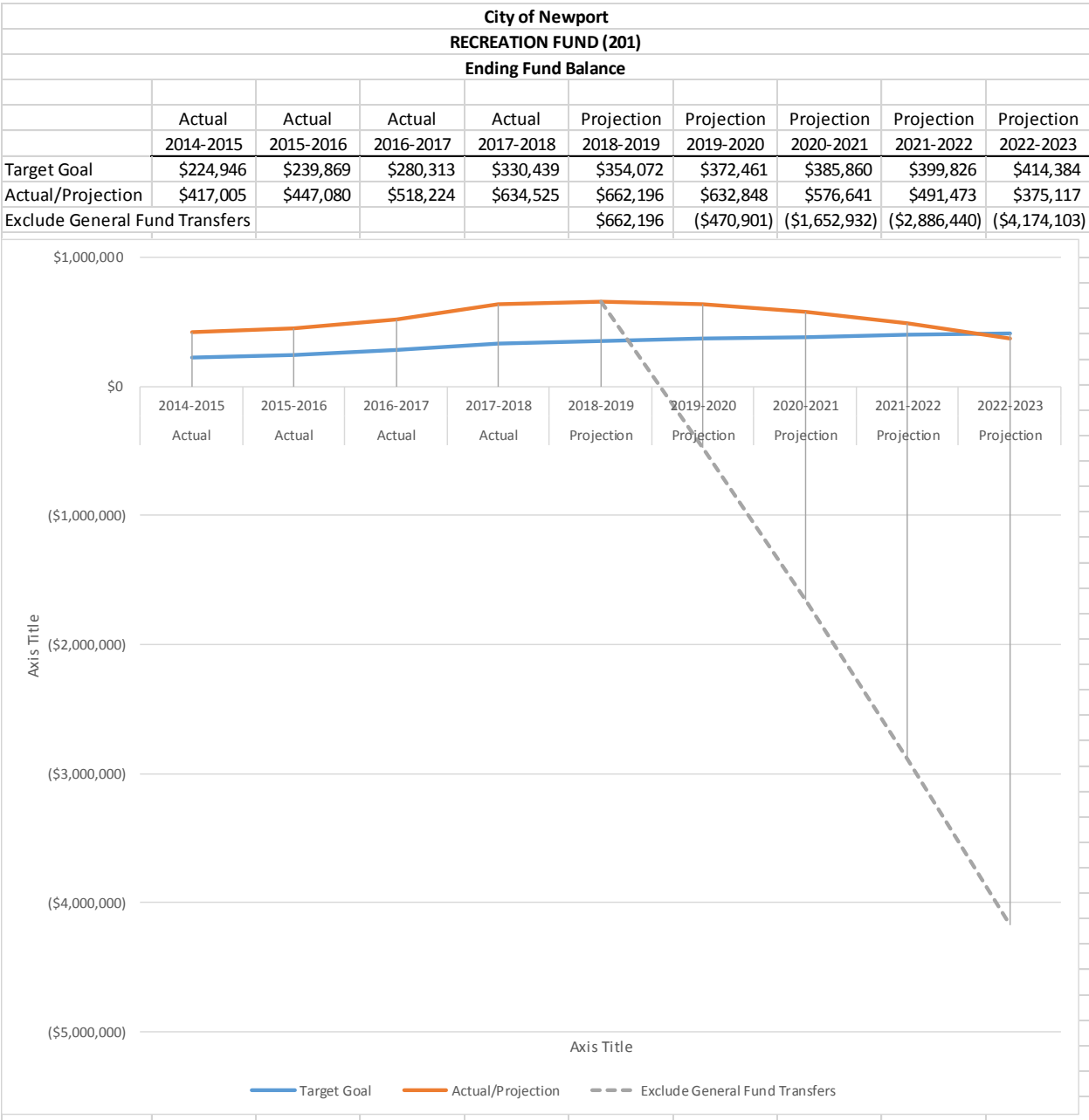
Expenditure Assumption Anomalies:

- Wages and Salaries - projected to increase at 6% for 2018/19 and 2019/20 due to salary survey study and increase at 3% inflationary rate for 2020/21, 2021/22, and 2022/23

- Fringe Benefits - projected to increase at 5.41% inflationary rate
- Utilities - projected to remain steady at 5% inflationary increase
- Cleaning; Insurance, Communication, Advertising, and Printing - projected to remain at 8% inflationary increase
- Lease and Rental - projected to remain steady at 2% inflationary increase based on the 2018/19 budget
- Travel and Meeting - projected to remain at 2% inflationary increase
- Training - projected to remain at 9.04% inflationary increase
- Program and Program Supplies - projected to remain at 4.5% inflationary increase
- Other Material Expenses; and Volunteer, General, and Safety/Health - projected to remain at 3% inflationary increase
- Service Provided By - projected at 3% inflationary increase based on the 2018/19 budget
- Clothing and Uniforms; Fuel; and Acquisition and Improvements - projected to remain steady at 1% increase
- Loan Payback - annual interfund loan repayment
- Transfers Out - Projected to decrease by 1%

Options for Maintaining a Sustainable Fund Balance

- Increase fee revenue 10% by upgrading Recreation software to allow online payment processing and fee renewals through smart devices and/or website for customer convenience. This would help the General Fund by reducing transfers to the Recreation Fund
- Actively pursue additional donations and sponsorships for capital/equipment projects and events/program activities
- Conduct a comprehensive review of existing recreation fees
- Evaluate programming and reduce or eliminate underutilized programs
- Look at staffing levels when openings occur



Airport Fund 220

Revenue Assumption Anomalies:

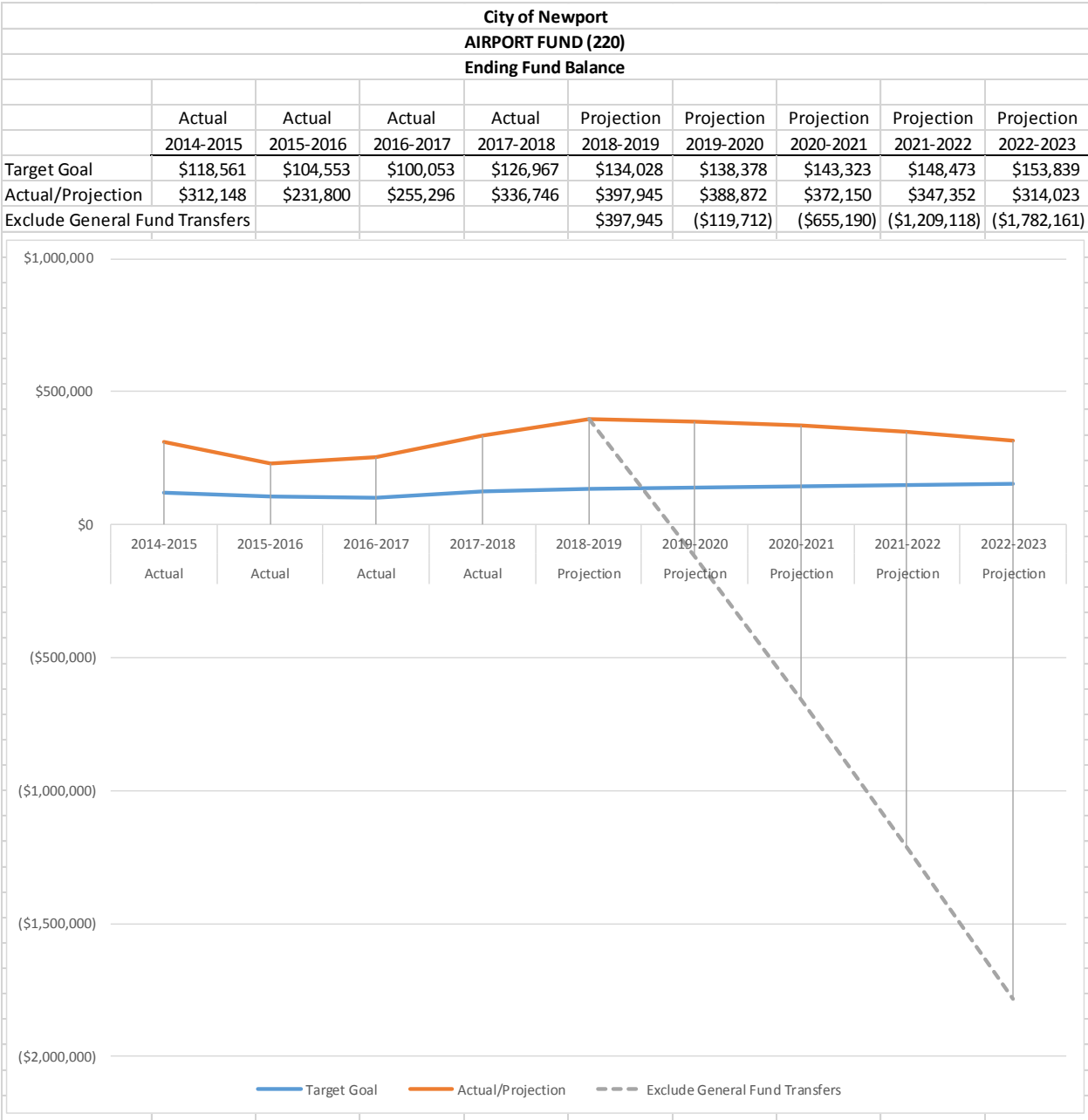
- AV Gas; and Rents, Leases, and Concessions - projected to remain steady at 5% inflationary increase
- Miscellaneous Sources - projected to increase at 1%
- Services Provided For - projected to increase at 3% inflationary rate based on 2018/19 budget
- Investments - projected to increase at 10%
- Miscellaneous and Transfers In - projected to increase at 2% inflationary rate

Expenditure Assumption Anomalies:

- Wages and Salaries - projected to increase at 6% for 2018/19 and 2019/20 due to salary survey study and increase at 3% inflationary rate for 2020/21, 2021/22, and 2022/23
- Fringe Benefits - projected to increase at 5.41% inflationary rate
- Professional Services; Utilities; Building Expense; and Travel and Meeting - projected to increase at 3% inflationary rate
- Cleaning; Membership Dues and Fees; Training; and Other Material Expenses - projected to increase at 1% inflationary rate
- Vehicle, Equipment, and Maintenance; Lease and Rental; and Volunteer, General, and Safety/Health - projected to increase at 4% inflationary rate
- Insurance, Communication, Advertising, and Printing - projected to remain at 8% inflationary increase
- Program and Program Supplies; and Service Provided By - projected to increase at 3% inflationary rate based on 2018/19 budget
- Clothing and Uniforms; Fuel; and Jet Fuel - projected to increase at 2% inflationary rate
- AV Gas - projected at 5% inflationary increase
- Loan Payback and Transfers Out - Fuel farm loan repayment in the Airport Fund in 2018/19 and Debt Fund (transfers out in 2019-2023)

Options for Maintaining a Sustainable Fund Balance

- Evaluate fees for services and facilities at the airport
- Evaluate pricing for fuel sales at the airport
- Evaluate use of temporary positions
- Look at transfers at inter-fund transfers into the airport to determine appropriate levels
- Note - the City is currently reviewing the possibilities obtaining a grant for passenger service to the airport. This would require a local subsidy of \$50,000, which is not included in any projection
- Develop strategies to implement economic development as defined in the Airport Master Plan
- Explore other uses of open space at the airport for agriculture solar power, wind generation to the extent it does not interfere with aviation
- Develop a plan to meet fire flows with the water system at the airport
- Identify opportunities with the South Beach Urban Renewal District to fund sanitary sewer services to the airport
- Evaluate alternatives to public sewer collection system at the airport
- Develop land leases for appropriate and compatible private uses at the airport
- Note: If airport revenue declines to the economy, the corresponding Airport programs can be reduced to compensate for the reduction of revenue



Room Tax Fund 230

Revenue Assumption Anomalies:

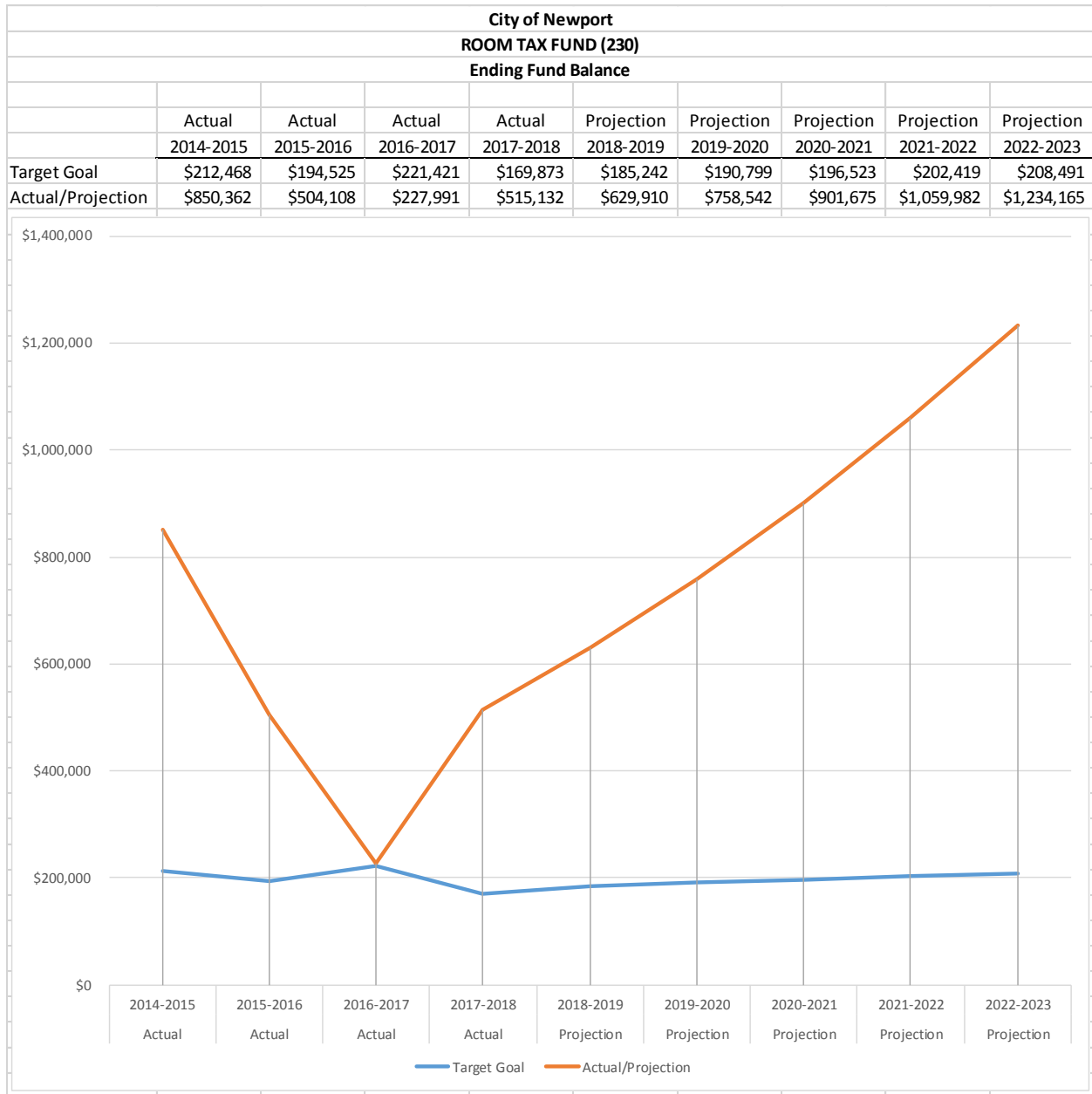
- Room Tax - projected to increase at 3% inflationary rate
- Investments - projected to increase at 10%

Expenditure Assumption Anomalies:

- All Expenditures - projected at 3% inflationary increase based on the 2018/19 budget since the expenditure accounts were recently re-organized
- Transfers Out - projected at 2% inflationary increase based on the 2018/19 budget

Options for Maintaining a Sustainable Fund Balance

- Review needs for building maintenance that would be eligible or Room Tax Fund dollars
- Review marketing levels for the City
- Explore flexibility for use of the tourism portion of the Room Tax
- Note: If room tax revenue declines due to the economy, the corresponding Room Tax programs can be reduced to compensate for the reduction of revenue



Building Fund 240

Revenue Assumption Anomalies:

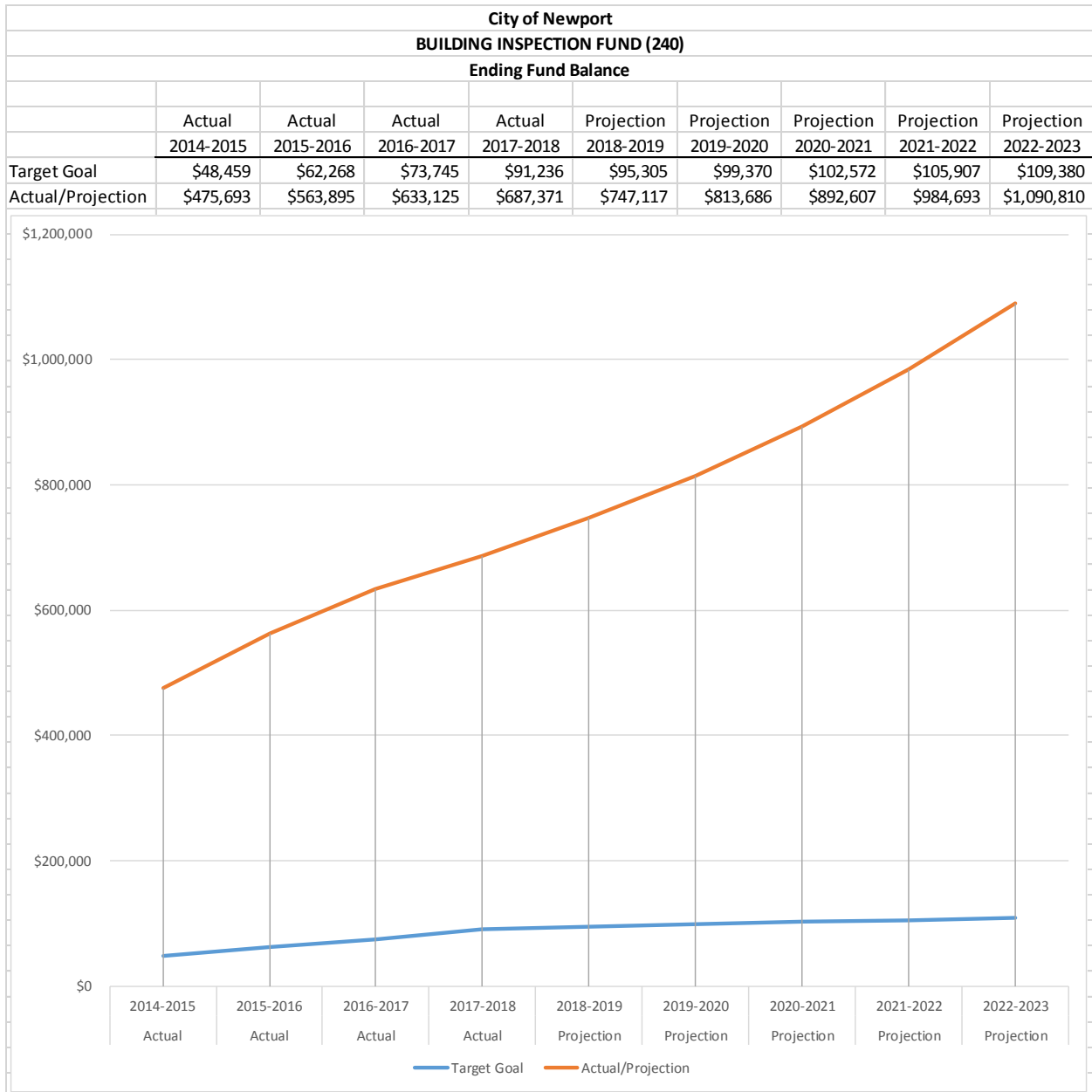
- Revenue assumption anomalies have been reduced from a three-year annual average of 49%, to 5%.

Revenue Assumption Anomalies:

- Wages and salaries have been reduced to a 3% annual adjustment with fringe benefits to a 5.41% annual adjustment
- Various other expenditures have been reduced to a 1 or 2% adjustment. (being a small fund, there is wide varieties of increases that have resulted)

Options for Maintaining a Sustainable Fund Balance

- Reduce fees
- Explore the use of funds collected for other forms of inspection services



Street Fund 251

Revenue Assumption Anomalies:

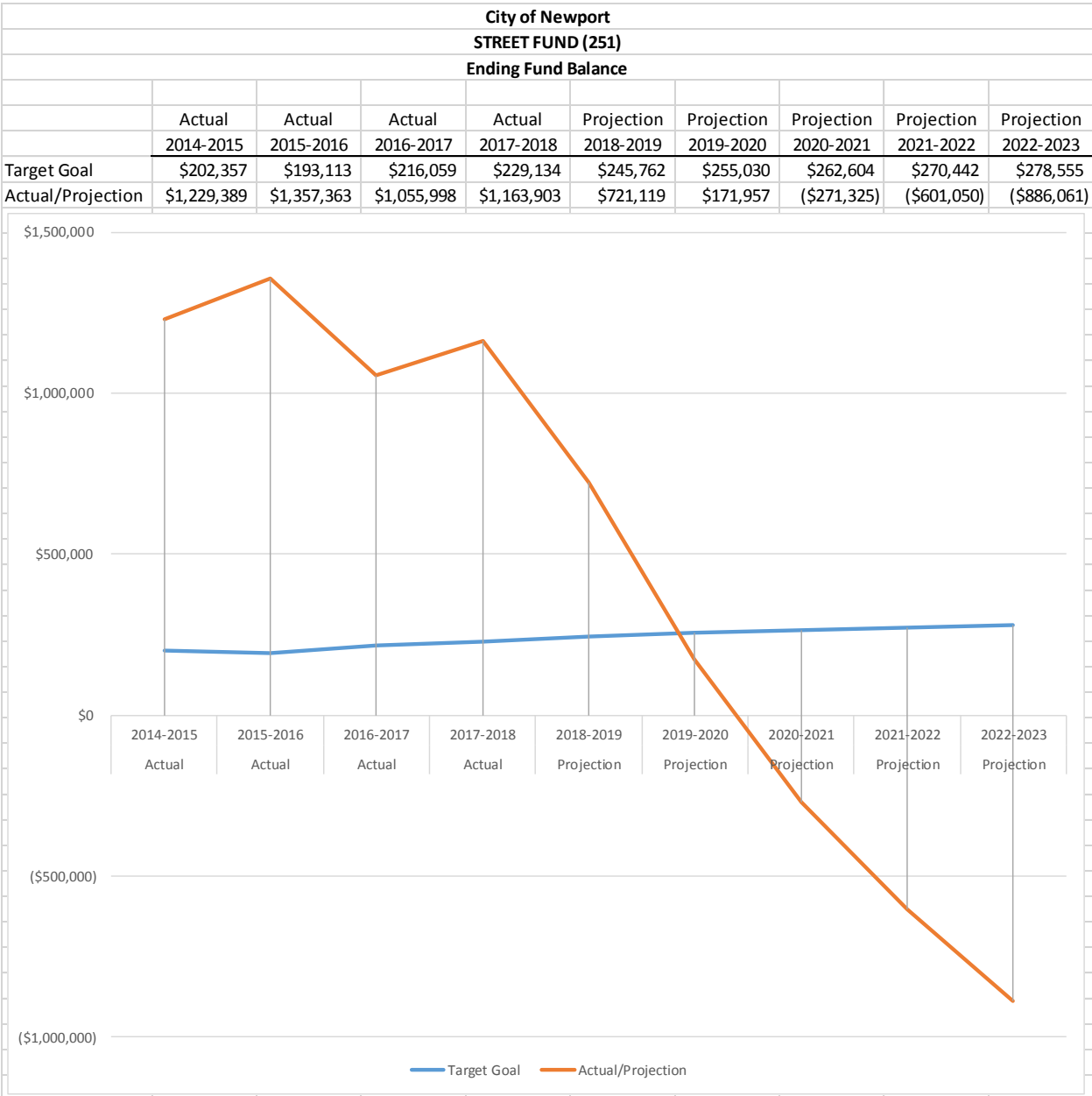
- Newport Gas Tax and State Sources - projected 2.5% inflationary increase based on the 2018/19 budget. Budget used since these funds were recently moved from the Capital Projects (402) Fund
- Capital Improvement Surcharge - Based on rate study implementation and on the 2018/19 budget. Funds recently moved from the Capital Projects (402) Fund
- Storm Drain Utility Fees - Based on rate study implementation and on the 2018/19 budget
- Investments - projected to increase at 10%
- Miscellaneous - projected to remain steady at 2% increase

Expenditure Assumption Anomalies:

- Wages and Salaries - projected to increase at 6% for 2018/19 and 2019/20 due to salary survey study and increase at 3% inflationary rate for 2020/21, 2021/22, and 2022/23
- Fringe Benefits - projected to increase at 5.41% inflationary rate
- Professional Services; Building Expense; Cleaning; Vehicle, Equipment, and Maintenance; Infrastructure Expense; Insurance, Communication, Advertising, and Printing; Training; Volunteer, General, and Safety/Health - projected to increase at 2% inflationary rate
- Utilities - projected to increase at 4% inflationary rate
- Lease and Rental - projected to increase at 5% inflationary rate
- Travel and Meeting - projected to increase at 3% inflationary rate
- Other Material Expenses; Clothing and Uniforms; Fuel; and Acquisitions and Improvements - projected to increase at 1% inflationary rate
- Service Provided By - projected at 3% inflationary increase based on the 2018/19 budget
- Transfers Out - Record additional loan repayments and additional loans (Series 2018 and DEQ R68935). Funds revenues recently moved from the Capital Projects (402) Fund shown as transfers to the Capital Projects (402) Fund

Options for Maintaining a Sustainable Fund Balance

- Note: This fund will be impacted by the creation of a Storm Sewer Utilities Fund in 2019-2020
- Consider an increase in the gas tax from .01 and .03 to a high level
- Provide additional subsidies from the General Fund
- Review staffing levels when positions open up.
- For future years, delay some of the infrastructure capital projects to allow revenue sources time to catch up with expenditures
- Utilize the Transportation System Plan update to secure funding for various motorized and non-motorized transportation projects



Water Fund 601

Revenue Assumption Anomalies:

- Water User Charges - Based on rate study implementation estimates and on the 2018/19 budget
- New Services and Meters; and Miscellaneous - projected to increase at 2.5% inflationary rate
- Investments - projected to increase at 10%

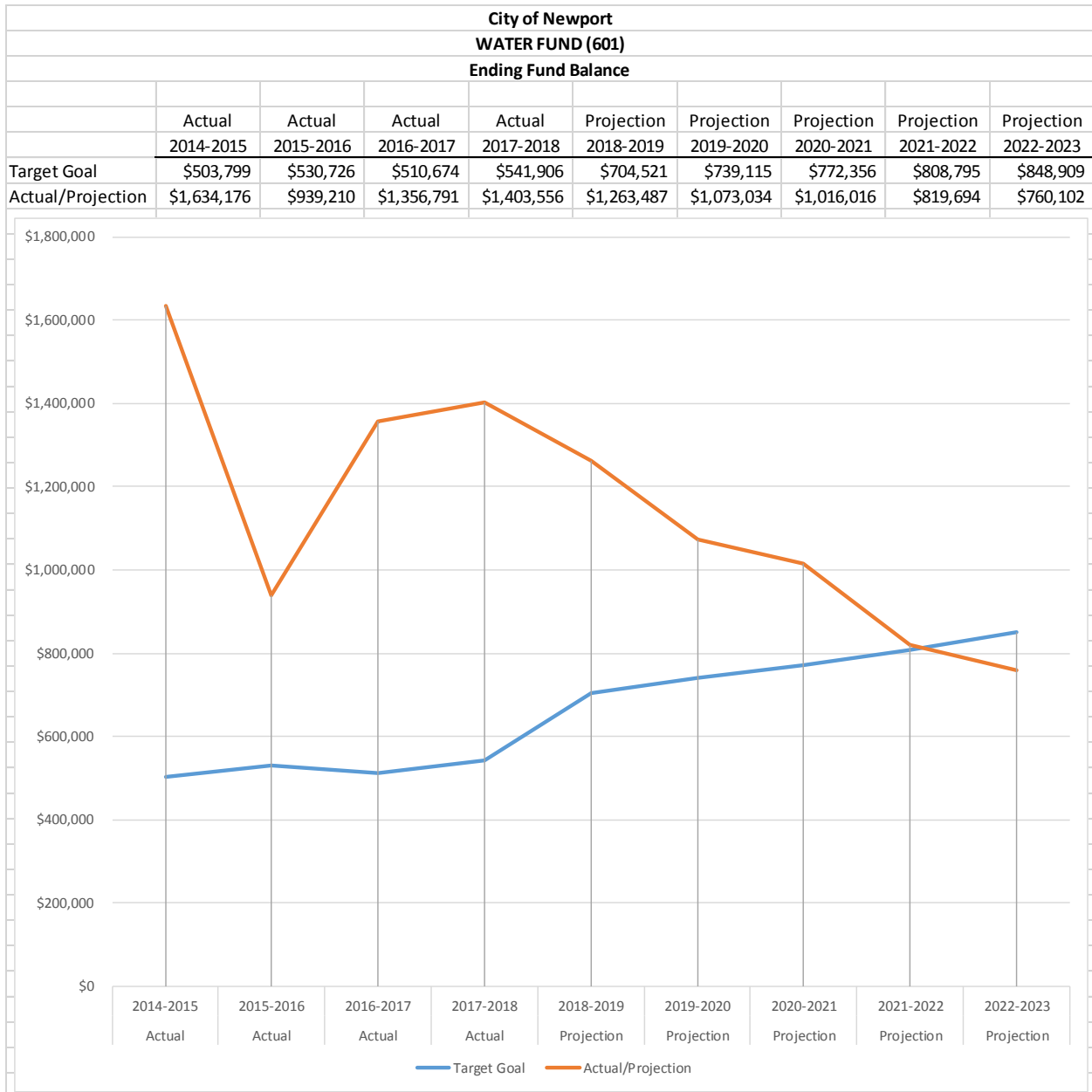
Expenditure Assumption Anomalies:

- Wages and Salaries - projected to increase at 6% for 2018/19 and 2019/20 due to salary survey study and increase at 3% inflationary rate for 2020/21, 2021/22, and 2022/23
- Fringe Benefits - projected to increase at 5.41% inflationary rate

- Professional Fees - projected to increase at 5% inflationary rate
- Building Expense and In Lieu of Franchise Fees - projected to increase at 2% inflationary rate
- Vehicle, Equipment, and Maintenance - projected to increase at 10% inflationary rate
- Infrastructure Expense - projected to increase 20%
- Travel and Meeting, Other Material Expenses, and Data Processing - projected to increase at 1% inflationary rate
- Clothing and Uniforms - projected to increase at 3% inflationary rate
- Volunteer, General, and Safety/Health - projected to increase at 4% inflationary rate
- Fuel - projected to increase at 6% inflationary rate
- Service Provided By - projected at 3% inflationary increase based on the 2018/19 budget
- Acquisition and Improvements - Based on rate study implementation estimates
- Transfers Out - Loan repayments and additional loans

Options for Maintaining a Sustainable Fund Balance

- Note: The Water Fund was part of the Utility Rate Study which was implemented by the City Council effective December, 2017. A significant portion of the funding will be used to meet future debt retirement for infrastructure projects



Wastewater Fund 602

Revenue Assumption Anomalies:

- Sewer use charges - based on rate study implementation estimate on the 2018/19 budget.
- New services in meters: miscellaneous projected to increase at 2.5% inflationary rate
- Investments - Projected to increase at 10%

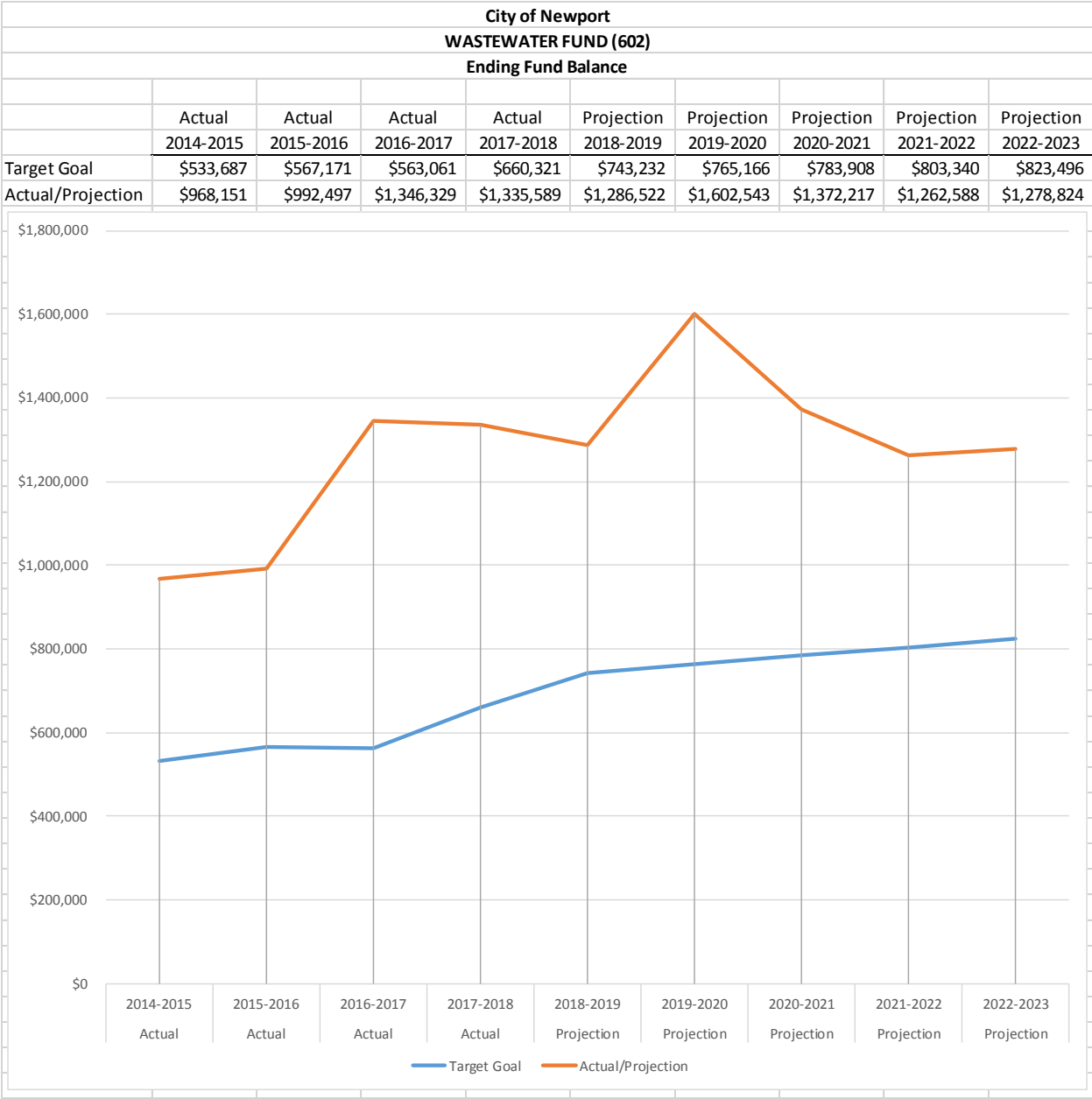
Revenue Assumption Anomalies:

- Wages and salaries expected to increase at 6% for 2018/2019 and 2019/2020 due to salary survey study and increase at 3% inflationary rates for the remaining years.
- Fringe benefits expected to increase at 5.14% inflationary rate

- Payment in lieu of franchise fees maintained at a 2% rate with a 2% inflationary rate.
- Infrastructure expense projected to increase at a rate of 10% per year.

Options for Maintaining a Sustainable Fund Balance

- Note: The Wastewater Fund as part of the Utility Rate Study which was implemented by City Council effective December, 2017. A significant portion of the funding will be used to meet future debt requirement for infrastructure projects



Public Works Fund 701

Revenue Assumption Anomalies:

- Service Provided By - projected at 3% inflationary increase based on the 2018/19 budget
- Investments - projected to increase at 10%
- Miscellaneous - projected to increase at 2%

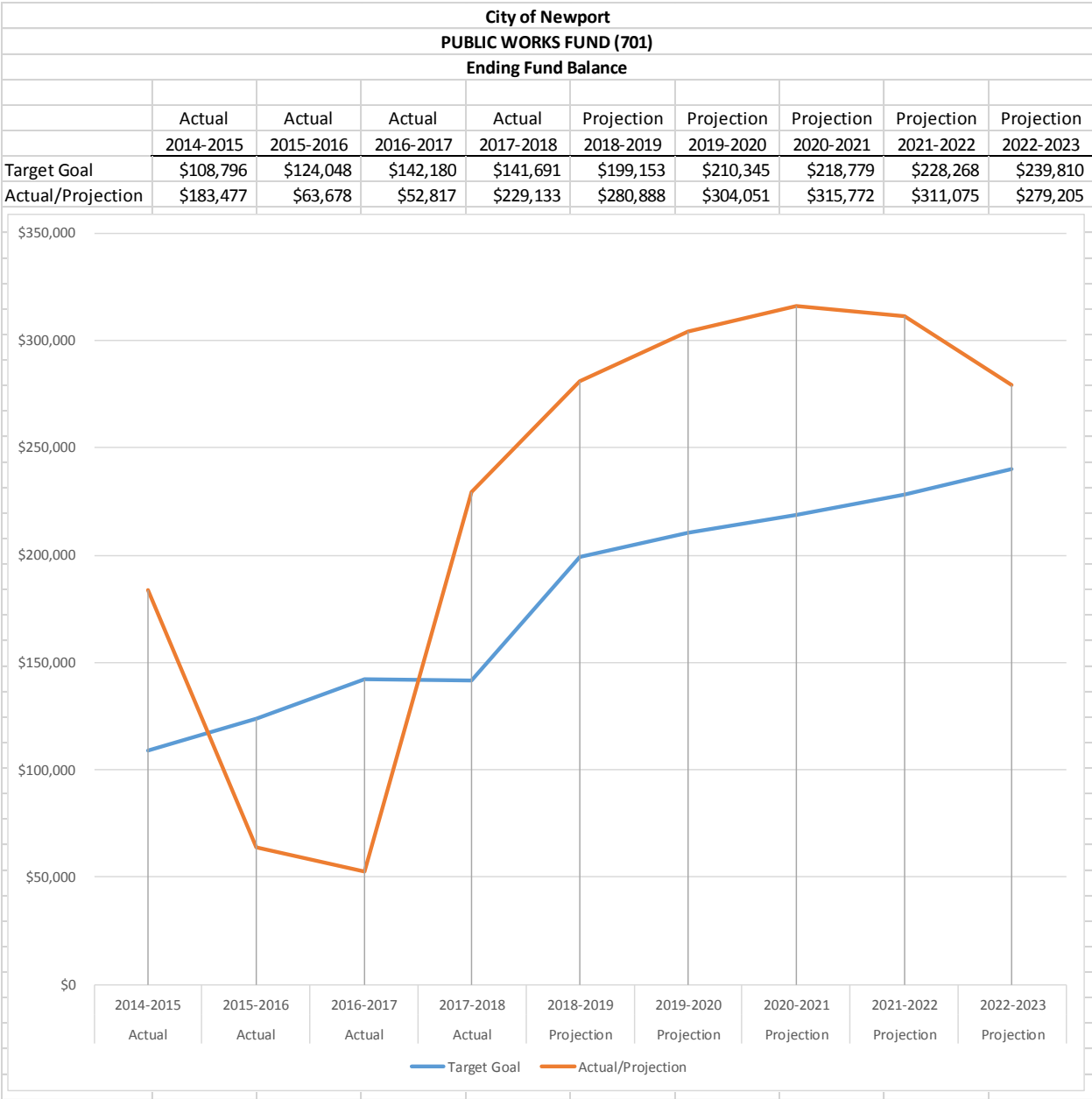
Expenditure Assumption Anomalies:

- Wages and Salaries - projected to increase at 6% for 2018/19 and 2019/20 due to salary survey study and increase at 3% inflationary rate for 2020/21, 2021/22, and 2022/23 based on budget

- Fringe Benefits - projected to increase at 5.41% inflationary rate based on budget
- Professional Fees; Membership Dues and Fees; and Other Material Expenses - projected to increase at 1% inflationary rate
- Building Expense - projected to increase at 5.25% inflationary rate
- Vehicle, Equipment, and Maintenance; Travel and Meeting; Training; Clothing and Uniforms; Volunteer, General, and Safety/Health; and Data Processing - projected to increase at 2% inflationary rate
- Service Provided By - projected at 3% inflationary increase based on the 2018/19 budget

Options for Maintaining a Sustainable Fund Balance

- Note: This fund is supported by the Water Fund, Wastewater Fund, and Street Fund



City Facilities Fund 711

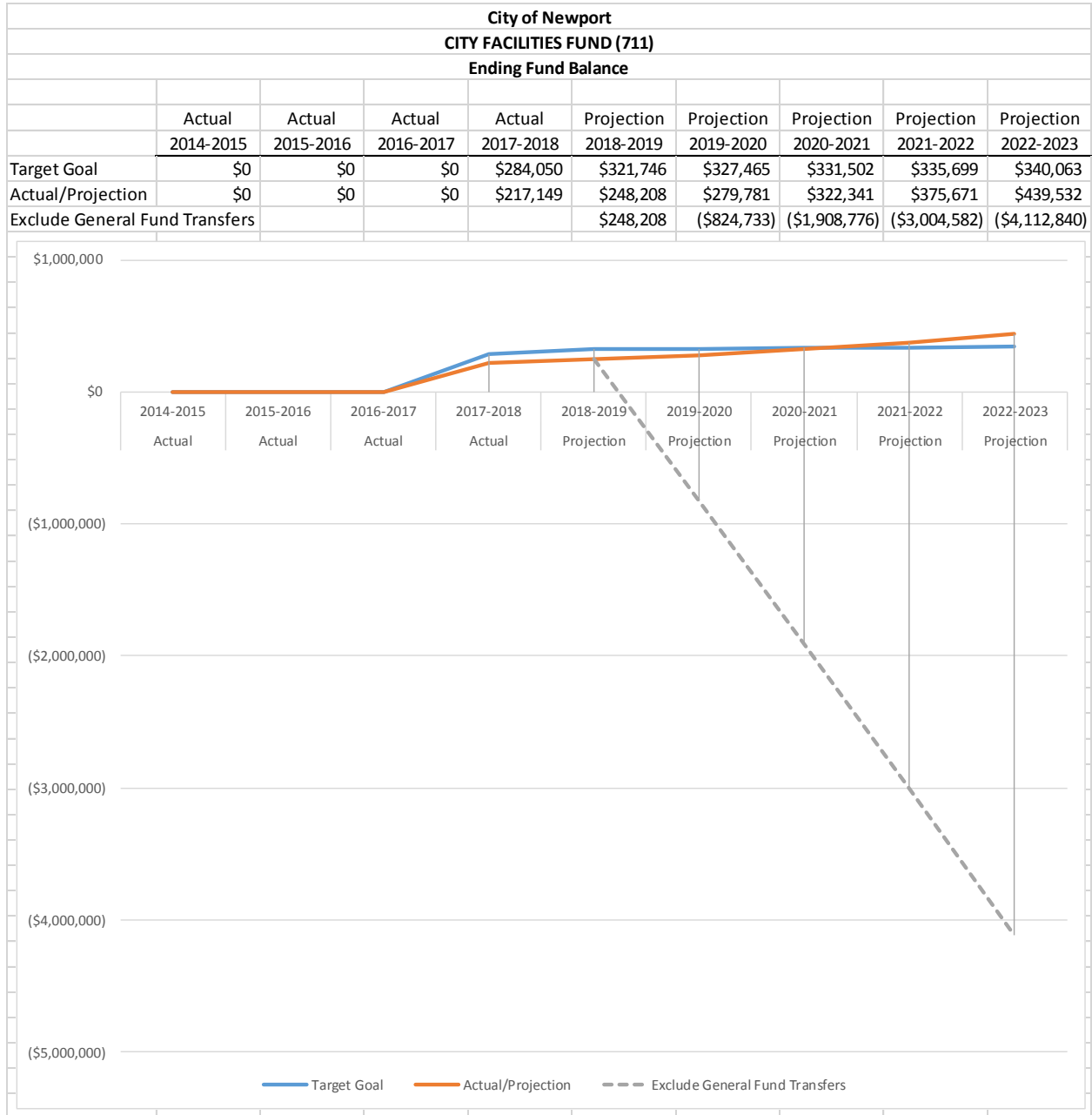
Revenue Assumption Anomalies:

- Investments - projected to increase at 10%
- Transfers In - projected to increase at 2%

Expenditure Assumption Anomalies:

- Wages and Salaries - projected to increase at 6% for 2018/19 and 2019/20 due to salary survey study and increase at 3% inflationary rate for 2020/21, 2021/22, and 2022/23 based on budget
- Fringe Benefits - projected to increase at 5.41% inflationary rate based on budget

- Service Provided By - projected at 3% inflationary increase based on the 2018/19 budget



Revenue Assumption Anomalies:

- This fund will be supported by transfers from other funds increasing by 2% per year.

Expenditure Assumption Anomalies:

- There is limited history since this fund was created in the 2017/18 fiscal year. The initial expenditures have been carried out through 2022-23 for purposes of these projections

Options for Maintaining a Sustainable Fund Balance

- Note: Goal is to set aside monies to cover city facilities projects required in the future.
- Evaluate options to utilize solar, wind and other alternative energies for these facilities

NEWPORT URBAN RENEWAL AGENCY

The City of Newport has three urban renewal agencies. These include the South Beach District, North Side District, and Mclean Point District. Urban renewal has been established by the State of Oregon as a tool for encouraging local economic development in areas of blight or decline. Urban Renewal Districts are unique in that they also have a dedicated source of funding to accomplish the projects included in the Urban Renewal District Plan. When a district is established, the county assessor calculates a total assessed value of the district, and establishes this value as the frozen base for property-tax assessments. All taxing entities that derive a property tax from properties located within the district, maintain a frozen value on those properties, through the life of the district. As property values increase within the urban renewal district, the district captures the taxes from all taxing entities above the base on the growth of property value occurring within the district. These funds then are to be used for very specific purposes for the adopted plans for that district.

Urban renewal districts have played a very critical role in the City of Newport, including, being a source of funding for such facilities as the Performing Arts Center, Visual Arts Center, Recreation Center, Library, and City Hall. Projects also include the building of infrastructure in South Beach necessary to facilitate a new NOAA facility there, neighborhood redevelopment projects, such as occurred in South Beach and other similar types of projects. The impact on the taxing entities is that growth in property taxes from taxable properties included in the district is frozen, until the district is retired. For the City, this limits the growth of property taxes to fund General Fund activities during the life of the districts. On the other hand, it captures taxes that would go to all taxing entities (including the City, County, Port, Health District, LCSD, Oregon Coast Community College, and Linn-Benton ESD) to the City, to fund high-priority improvements within the districts that will increase economic opportunities within the community of Newport.

The urban renewal districts have not been included in this study since the funding for these districts is specifically earmarked to pay for projects and/or debt incurred by the districts. Any debt incurred by the Urban Renewal District is issued through the retirement date for that district. Once the district is retired, then the taxing entities will receive a windfall of sorts, as they begin collecting taxes from the growth of property values that have occurred since the initial establishment of that district. The City is limited in the percentage of property valuation that can be included in urban renewal districts. With the implementation of the North Side and Mclean Point Districts, the City is close to the maximum amount of property that can be encapsulated within an urban renewal district by State law. Once the South Beach District expires, the City would

have the opportunity to look at the creation of new urban renewal districts if economic needs for a district would be beneficial.

CAPITAL PROJECTS

The City utilizes three Capital Outlay Funds. Fund 402 for projects funded with non-business revenues, Fund 403 which utilizes rates to pay for projects, and Fund 405 which deals with capital outlay projects for facilities. These funds have not been included in the analysis, since the source of funds comes from the operating funds which are transferred to the Capital Outlay Funds in an amount necessary to complete those projects. For purposes of the projections, a funding level transferred to Capital Outlay from the City's business funds or governmental funds has been anticipated to continue at rates reflected over the past three years, except where otherwise noted. For the business funds, the Capital Outlay Projects identified in the rate study have been used as a basis for the transfers for either Capital Outlay or Debt to cover those expenses. While we have ramped up the contributions from the General Fund for certain facility improvements, it is evident that this is not a sustainable practice with the other pressures that the General Fund is facing from an expenditure standpoint with the anticipated growth of revenue over the next five-year period.

DEBT RETIREMENT

The City of Newport utilizes the issuance of debt to pay for major capital projects that cannot be funded with cash in the fiscal year in which that project is built. As part of the financial work group, debt from all sources has been compiled showing the annual debt service requirements organized by payment source. The first section of this report shows general obligation bonds. General obligation bonds are voted upon by the taxpayers to incur debt or specific projects. With a special property tax levy supporting debt repayment. In 2019-2020 the final payment will be made on the wastewater treatment plant. When the water filtration plant needed to be built, the City financed this facility with smaller annual payments until the time the wastewater plant bonds retired. The annual payments for the water plant stepped up after the wastewater bonds were paid off. As a result, there is no reduction in the annual debt service requirement until the water treatment plant is paid off in 2028-2029. The only other general obligation debt that exists, is for the Aquatic Center which runs until 2032-2033. In addition, the City utilizes a series of debt that is issued based on utility revenues servicing the annual debt requirements. The City has a series of projects that are water, wastewater or storm water related. The City has had the opportunity to use Department Environmental Quality revolving loan funds which provide low-interest financing for the City for wastewater and storm water projects. The schedule also shows debt supported by tax increment revenues in urban renewal. Currently, the only debt that has been incurred are for projects in South Beach. The City also has issued debt for a number of smaller projects that were encapsulated in a LOCAP loan with the largest of those issues retiring in the 2018-2019 year. These were for a variety of smaller miscellaneous projects. Finally, the City has financed the replacement of a fuel farm at the airport and provided an inter-fund loan to Parks and Recreation from the Agate Beach fund to meet the funding requirements for constructing the Aquatic Center.

Moving forward, there will be additions to the utility debt structure to pay for utility upgrades, with the utility funds paying for those upgrades over the life of the debt. The

rate study has taken into account this financing model to assure that there is sufficient rates to meet these long-term obligations.

The single most significant issue relating to future debt, is how to deal with addressing the seismic resiliency of the two Big Creek Dams. These dams have been identified as two of the state's top dams for potential failure in the event of any seismic activity. The cost for replacing the two dams with a single dam is in the \$70 million dollar range. The City has been working on securing state and federal funding to offset a portion of the cost. Under any circumstances, the local cost will still be significant. This project would typically be paid for with the receipt of a general obligation bond. Unfortunately, with our current debt schedule, this would result in an increase to our taxpayers until the water plant bonds are retired in 2028-2029. If there is an opportunity to obtain significant state and federal funding to replace the dam, the City will need to focus on how the local funding for this can be obtained.

Attached at the end of this report is the annual debt service requirements organized by payment sources.

UNCERTAINTIES THAT MAY IMPACT CITY FINANCES

The Finance Work Group identified a list of uncertainties that could have a significant impact on the projection of long-term City finances. As projection reports are compiled in the future, it will be important to review this list, including, any additional items that may impact otherwise predictable financial trends for the City to adjust projection of proprieties. This list is as follows:

- Impact of costs for financing long-term projects with increasing interest rates
- The escalating costs for infrastructure construction
- Maintaining personnel in a historic time of low unemployment rates
- Healthcare costs
- PERS costs
- Funding for the dam project
- Impact of a future recession on various City revenues
- Funding requirements to replace and maintain existing current facilities (i.e. roofs, HVAC, etc.)
- Additional federal regulations impacting storm sewer discharges
- Impact of climate change on City operations
- Impact of a Cascadia Subduction Zone event (probably beyond the scope of this exercise!)

RECOMMENDATIONS

I sincerely appreciate the involvement of the Finance Work Group in participation in the development of this report on existing financial trends, to determine potential problem areas that need to be addressed in future budgets. It should be noted that the trends represented for each of the funds is generally based on historic data, except where specific adjustments or assumptions have been made that are different than trends over the past three years relating to revenues and expenditures within these funds. The Finance Work Group provides the following recommendation to the City Council for consideration as part of this report.

1. Implement a forecasting tool similar to the program used by Aumsville, Oregon, that will be beneficial for the City Manager in developing proposed budgets, and for the Budget Committee in evaluating how certain changes to the budget will impact City finances over an extended period of time.
2. Include in future budgets an update of the five-year projections for the major operating funds so that the Budget Committee, City Council and general public understand how the proposed budget will impact future financial years, as well as, the current year.
3. Review the report with department head staff and obtain any additional suggestions for addressing issues to provide for a sustainable, sound financial base for the future of the City.
4. Review the options for maintaining a sustainable fund balance outlined in each of the funds as part of the budget development process of the 2019-2020 budget and beyond.
5. Develop a 6-year capital improvement plan by the 2020-2021 fiscal year.
6. Budget for, and conduct, a comprehensive facility conditions and improvement with life-cycle costing plan for City facilities in the 2019-2020 fiscal year.
7. Consider meeting requirements for the GFOA Budget Award.
8. Review purchasing policies.
9. Reduce the number of capital projects budgeted in a given year.
10. Review the value of increasing technical staff to support capital project implementation
11. Proceed with efforts to reorganize Public Works to better focus separately on operations and projects.
12. Develop operation and business plans for City departments.
13. Consider acquiring temporary housing for new employees.
14. Consider housing allowances when recruiting staff.
15. Focus on quality of life issues to retain staffing.

16. Pool temporary housing options with other employers to attract employees to Newport.

Respectfully Submitted,

City of Newport Finance Work Group
By Spencer Nebel, City Manager