



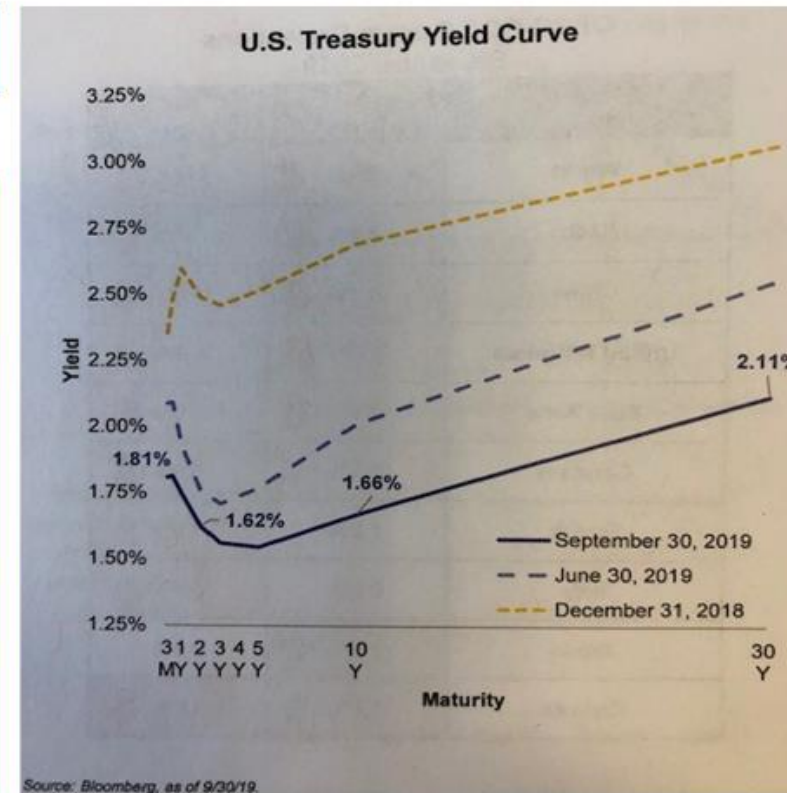
City of Salem, Oregon

October 28, 2019 Finance Committee Meeting

U.S. Yield Curve is Inverted (long-term yields have fallen below short-term yields)

Yield Curve Inversion Persists

Tenor	9/30/2019	6/28/2019	12/31/2018	12/31/2017
3 month	1.81%	2.09%	2.35%	1.38%
1 year	1.62%	1.93%	2.60%	1.73%
2 year	1.62%	1.75%	2.49%	1.88%
3 year	1.62%	1.71%	2.46%	1.97%
5 year	1.62%	1.70%	2.51%	2.21%
10 year	1.66%	2.01%	2.68%	2.41%
30 year	2.11%	2.53%	3.01%	2.74%



Source: Bloomberg, as of 9/30/19.

Investment Trends

- Declining Market Value
- Steady Portfolio Yield
- Declining WAM
- Sector Distribution Within Policy Limits

	QE 3/31/19	QE 6/30/19	QE 9/30/19
QUARTERLY SUMMARY			
Market Value (MV)	\$ 388,504,315	\$ 341,493,363	\$ 320,140,544
Amortized Cost	\$ 388,337,955	\$ 339,997,415	\$ 318,558,740
Combined Portfolio Yield on Cost	2.26%	2.24%	2.26%
Weighted Average Maturity (years)	0.79	0.83	0.73
Weighted Average Maturity (months)	9.48	9.96	8.76

Sector Distribution				
Sector	Amortized ¹ Cost	Market ¹ Value	% of Portfolio	Allowed by Policy
U.S. Treasuries	\$148,329,395	\$149,642,634	47%	100%
Federal Agencies	\$28,430,107	\$28,425,262	9%	100%
Municipal Obligations	\$1,500,742	\$1,522,254	<1%	10%
Commercial Paper	\$14,918,890	\$14,922,574	5%	Combined 35% Max.
Corporate Notes	\$22,662,313	\$22,910,528	7%	
LGIP	\$80,318,670	\$80,318,670	25%	ORS limit
Collateralized Deposit Accounts	\$22,398,623	\$22,398,623	7%	100%
Total	\$318,558,740	\$320,140,544	100%	

The City of Salem's Investment Program

Managed by City Staff		Managed by PFM		
U.S. Bank	LGIP	GO Bond Portfolios	Short-Term Portfolio	Long-Term Portfolio
* High degree of liquidity	* High degree of liquidity	* Bond Proceeds from: 2018 Library Project, 2017 Police Facility, and Salem Streets & Bridges	* Complement to LGIP and U.S. Bank balances	* "Core" portfolio whose assets may be invested to take advantage of longer maturity securities at potentially higher yields
* Competitive yield	* Competitive yield	* Invested to meet draw scheduled needs of CIP	* Targets cash needs up to 12 months	
* Suitable for operational cash needs	* Suitable for operational cash needs	* Reasonable level of liquidity	* Capitalizes on yields in money market sector	
No Benchmark	No Benchmark	Matched to Project Needs	Benchmark: Oregon LGIP	Benchmark: Bank of America/Merrill Lynch 1-3 Year US Treasury Index
Balances as of:	(includes accrued interest) Total market value			
September 30, 2019 \$22,398,623 7.0%	\$320,140,545 \$80,318,670 25.1%	\$58,002,846 18.1%	\$32,154,197 10.0%	\$127,266,209 39.8%
August 31, 2019 \$18,420,826 5.6%	\$327,604,516 \$86,925,864 26.5%	\$56,852,152 17.4%	\$38,579,451 11.8%	\$126,826,223 38.7%

Market Value Differences between Quarterly and Monthly Reports

	9/30 Quarterly			9/30 Monthly	Variance
	Security MV	Accrued Int	Total MV		
Long-Term	\$ 126,580,051	\$ 686,158	\$ 127,266,209		
Short-Term	\$ 32,142,076	\$ 12,121	\$ 32,154,197		
			\$ -		
Bonds			\$ -		
Streets & Bridges	\$ 1,924,963	\$ 11,023	\$ 1,935,986		
Police	\$ 40,292,793	\$ 121,009	\$ 40,413,802		
Library	\$ 15,599,325	\$ 53,733	\$ 15,653,058		
Total Bonds	\$ 57,817,081	\$ 185,765	\$ 58,002,846		
PFM Managed	\$ 216,539,208	\$ 884,044	\$ 217,423,252	\$ 216,539,208	
<i>LGIP-City</i>				\$ 49,532,723	
<i>LGIP-URA</i>				\$ 30,785,946	
Total			\$ 80,318,670	\$ 80,318,670	
US Bank			\$ 22,398,623	\$ 22,398,623	
City Managed			\$ 102,717,293	\$ 102,717,293	
Report Total			\$ 320,140,545	\$ 319,256,500	\$ 884,045

Long-Term Bonding Strategy

- Having well maintained infrastructure is crucial for efficiently providing critical services to, and for ensuring the economic vitality of, the Salem community. The City of Salem owns and operates diverse infrastructure systems valued in the billions of dollars
- For many types of City-owned infrastructure, the only way to fund major repairs or improvements is through periodic general obligation bonding

	Governmental Activities	Business-type Activities	Total
Land, land improvements, and art	\$ 261,920,779	\$ 18,863,820	\$ 280,784,599
Construction work-in-progress	\$ 80,331,392	\$ 37,662,307	\$ 117,993,699
Buildings and building improvements	\$ 72,266,683	\$ 31,305,571	\$ 103,572,254
Other Improvements	\$ 53,695,282		\$ 53,695,282
Motor Pool	\$ 33,322,581		\$ 33,322,581
Equipment and machinery	\$ 39,784,241	\$ 6,914,808	\$ 46,699,049
Infrastructure/Water and Sewer system	\$ 456,962,934	\$ 933,312,196	\$ 1,390,275,130
Total	\$ 998,283,892	\$ 1,028,058,702	\$ 2,026,342,594
Accumulated Depreciation	\$ (406,178,538)	\$ (358,803,472)	\$ (764,982,010)
Book Value (Net of Depreciation)	\$ 592,105,354	\$ 669,255,230	\$ 1,261,360,584
Total without Land, improvements and art	\$ 736,363,113	\$ 1,009,194,882	\$ 1,745,557,995

Long-Term Bonding Strategy

1. Should the current Council Debt Policy be affirmed or revised?
Recommendation: Staff recommends affirming the current debt policy limitations of 1.5% of RMV
2. Should a prioritized list of debt-funded projects be adopted by Council?
Recommendation: Develop a methodology based on asset management principles for scoring and prioritizing all debt-funded projects
3. Should public review of the capital projects prioritization list be undertaken?
Recommendation: a rigorous public involvement process should be implemented that allows residents to provide input into the asset management ranking system and the project priorities list
4. How should general obligation bond fund elections be scheduled?
Recommendation: Conduct a single general obligation bond fund election
5. Should a policy to address failure at the ballot box be adopted?
Recommendation: Such a policy and criteria should be developed as a tool for decision making

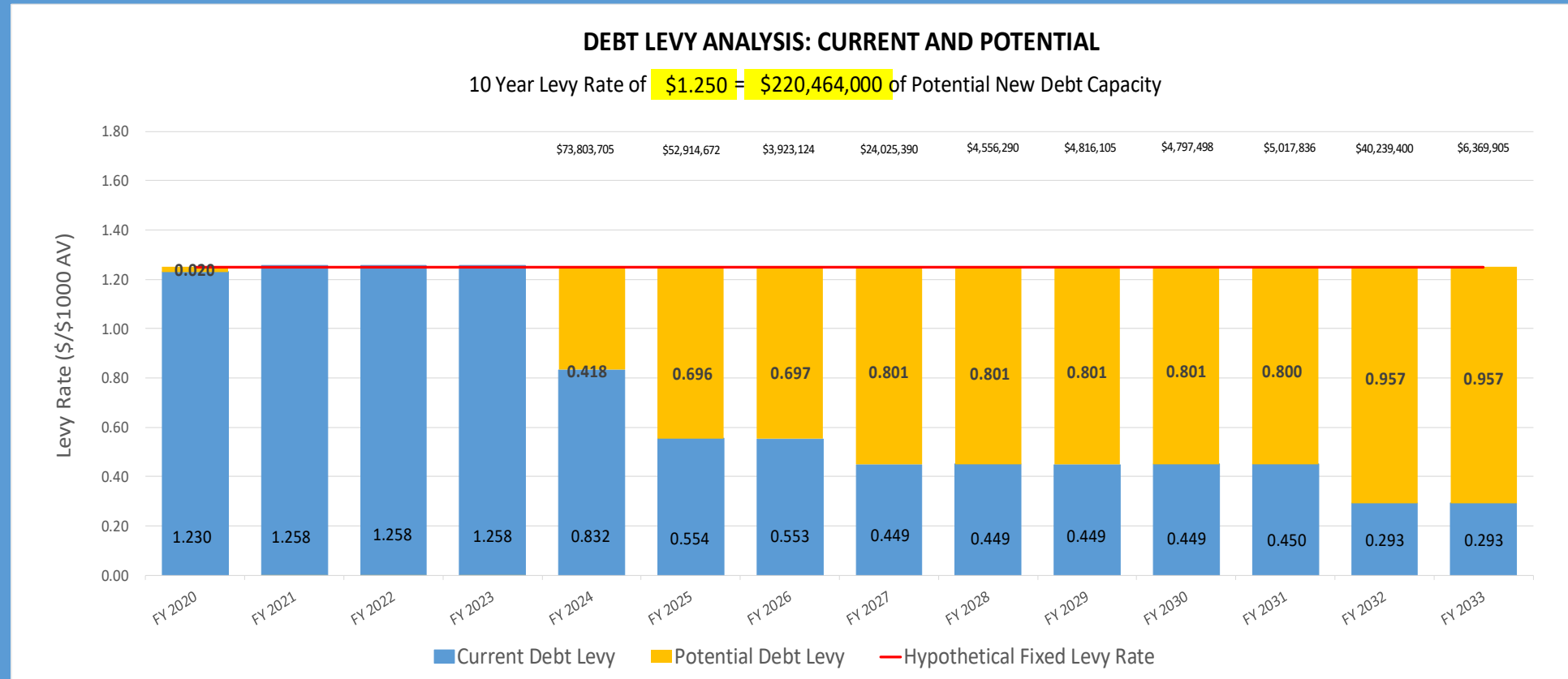
Long-Term Bonding Strategy

- Elevate Denver Bond Program was approved by voters in 2017
- Close to a Billion Dollar Authorization for 500+ projects (deferred capital maintenance backlog of \$789 million)
- The County and City of Denver received the 2018 GFOA Award for Excellence for exemplary use of GFOA's Best Practice in Communicating Capital Improvement Strategies



Long-Term Bonding Strategy

A vote in the year prior to FY 2024 could request \$220.5 million in exchange for keeping the Levy Rate flat at \$1.25



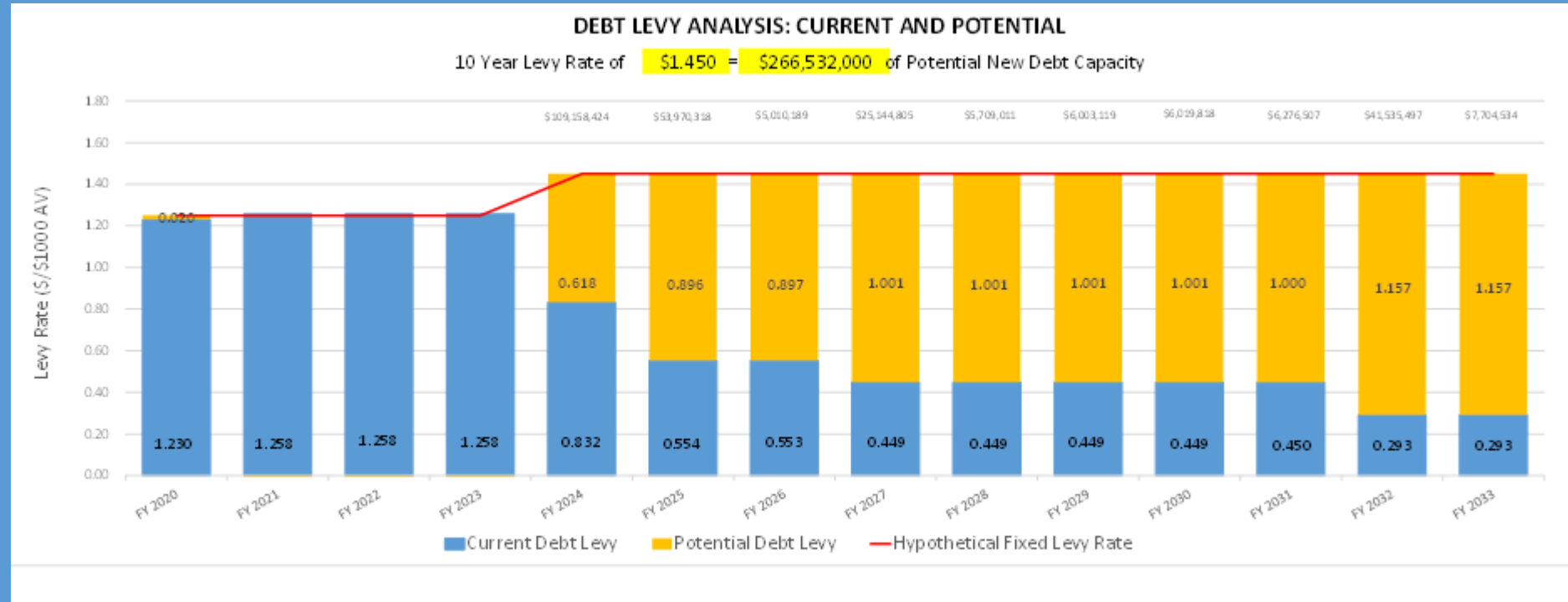
Long-Term Bonding Strategy

However, a preliminary needs analysis indicates the City may need as much as \$266.5 million in the 10-year period beginning FY 2024

Community Need	Fiscal Year	FY 2018-19 Amount (In Millions)	Amount with 2.5% Inflation Escalator	Term (Years)
Fire Apparatus	FY 2021	22.32	23.45	12
Fire Stations	FY 2025	14.31	16.60	20
IT Infrastructure	FY 2025	8.62	10.00	5
Civic Center	FY 2025	29.20	33.86	20
Streets & Bridges	FY 2027	50.00	60.92	15
Parks	FY 2028	33.10	41.34	15
WVCC	FY 2029	11.50	14.72	20
Streets & Bridges 2	FY 2030	50.00	65.60	15
Total			266.50	

Long-Term Bonding Strategy

If the City asks the voters for approval of a \$266.5 million bonding plan it would require an increase of the Levy Rate by \$0.20 to \$1.45



Long-Term Bonding Strategy

ITEMS FOR DISCUSSION:

- Would the Finance Committee support a single 10-year general obligation request to voters?
- Would the Finance Committee prefer the strategy that voters' tax levy remain flat at \$1.25 (\$220.5 million issue) or that it increase to \$1.45 (\$266.5 million issue)?