

A wide-angle photograph of the Portland, Oregon skyline across the Willamette River. The Astoria-Megler Bridge is in the foreground, with its two large steel towers. The city skyline features several prominent skyscrapers, including the Wells Fargo Center. The sky is blue with scattered white clouds. The text "Overview of the City's Fiscal Condition & Financial Philosophy" is overlaid in white on a dark blue banner at the bottom of the image.

Overview of the City's Fiscal Condition & Financial Philosophy

December 11, 2024



Agenda

Introductions & Background *(10 minutes)*

Budget & Finance – The Basics *(30 minutes)*

- Laws & Regulations
- Requirements & Best Practices
- City Budget 101

FY2025-26 Budget Process Preview *(15 minutes)*

Summary of Fiscal Condition and Key Drivers *(45 minutes)*

- Economic picture
- Citywide revenues & trends
- Citywide expenses & trends

Q&A / Intake *(~45 minutes)*



Presenters

Jonas Biery

*Deputy City Administrator of Budget
& Finance / Chief Financial Officer*

Ruth Levine

Director – City Budget Office

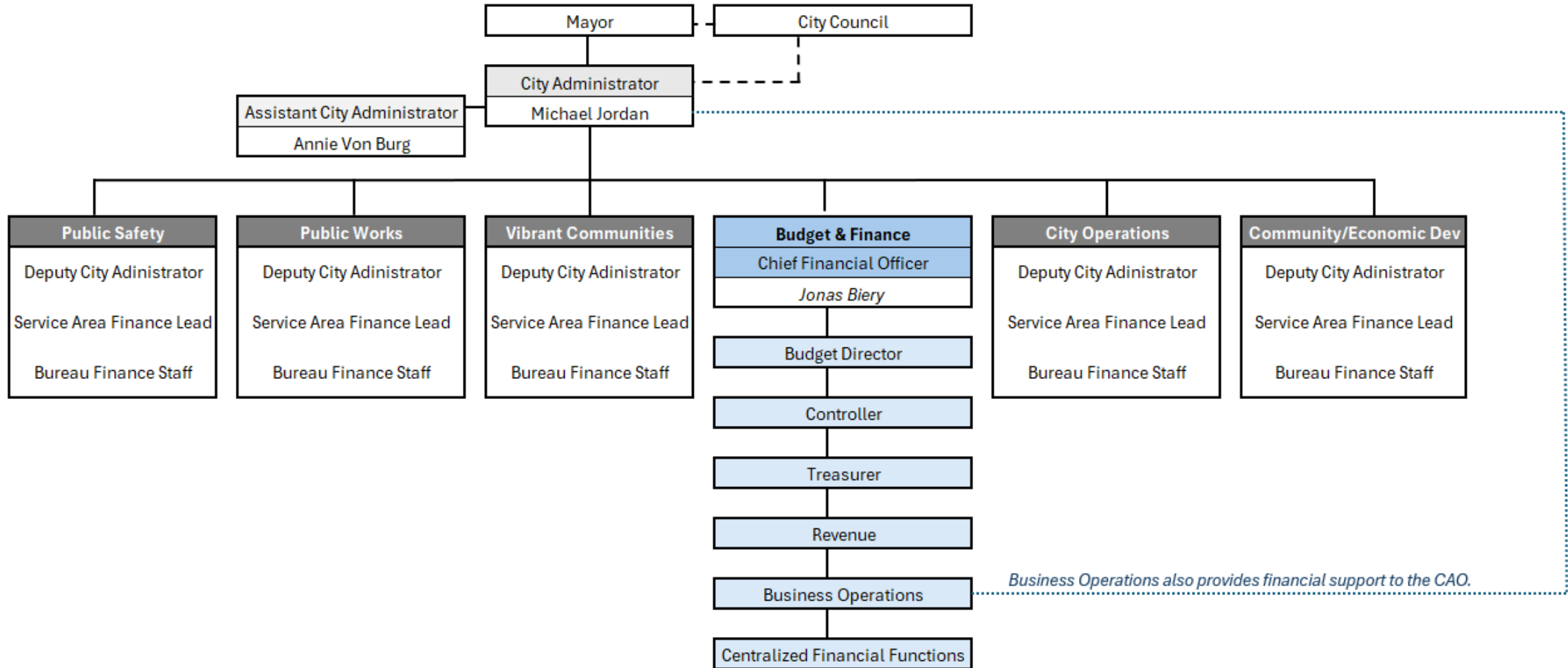
Peter Hulseman

City Economist



Budget & Finance – The Basics

Basic City Financial Structure



Every City employee is responsible for good stewardship of the public's money.

The City must operate within financial laws and regulations



Federal regulations



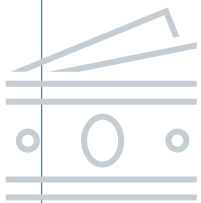
State law



City Charter



City Code



City Financial policy



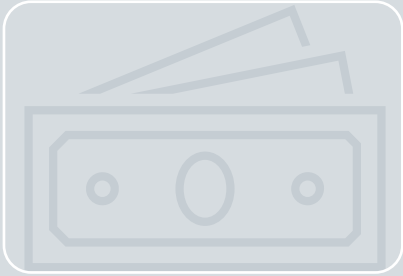
Bond Covenants

Key Requirements & Financial Best Practices

- Internal Controls & Authorities
 - Fund Management / Restricted Revenues (vs Unrestricted)
 - Revenue Collection Authorities, Requirements & Protocols
 - Banking Relationships & Authorities
 - Centralized Investment of City Portfolio
 - Centralized Debt Management & Administration
 - Annual Financial Audit & Report
 - State Budget Law
-
- Collaborative Strategy & Decision-Making via City Leadership Team

If you have any questions about administration or use of public funds, we can support you!

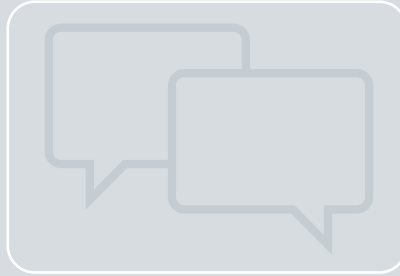
Purpose of a City Budget



Plan how to use
resources to
meet residents'
needs



Connect
strategic and
operational
goals to
investments



Communicate
about priorities



Set expenditure
controls to
ensure
spending is less
than revenues



Track
outcomes of
investments

Key Requirements – Budget

City Charter

- **Mayor submits proposed budget** by May 5 of each year (Sec. 2-128)
- **City Council functions as budget committee** (for purposes of state law) and approves budget. (Sec. 2-128)
- City funds may only be expended in conformance with a **budget approved by Council**. (Sec. 2-128)

Oregon Budget Law

- **Balance revenue and expenditure** in all funds and all “organizational units”
- **Public hearings required** for Mayor’s Proposed Budget, Approved Budget, Tax Supervising Conservation Committee (TSCC) (ORS 294.453)
- **Budget message is prepared by the Mayor** that explains the budget document and changes in revenues & expenditure (ORS 294.391)
- **Supplemental budget changes** that adjust 10% or more of a fund require a public hearing (ORS 294.471)

City Financial Policy

- **Conservative financial planning** (FIN 2.03)
- **Balance five-year forecast** so that expenditures do not exceed revenues in any of the five years of the forecast in any fund (FIN 2.03-2.04)
- **Manage capital asset needs** to identify funding gaps; 50% of one-time General Fund discretionary revenue identified in the 5-year forecast is allocated to capital maintenance. (FIN 2.03)
- **One-time funds** may be applied to contingency or one-time resources only. (FIN 2.04)
- **Current Appropriation Level (CAL)** is based on ongoing General Fund discretionary and overhead from the prior year and ordinances directing CBO to revise CAL. (FIN 2.04)

Budget Process Best Practices

The National Advisory Council on State and Local Budgeting (NACSLB) defines a good budget process as one that accomplishes the following:

- Incorporates a ***long-term perspective***,
- Establishes linkages to ***broad organizational goals***,
- Focuses budget decisions on ***results and outcomes***,
- Involves and promotes effective ***communication with stakeholders***, and
- Provides incentives to ***government management*** and employees.



CITY FUNDING TYPES

Two types of funding (revenue sources)

90%

Legally Restricted



Utility Rates



Transportation



Debt Repayment



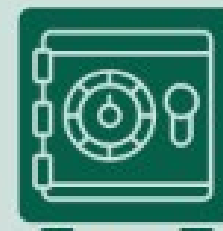
Federal Funds



Other....

10%

Unrestricted



General Fund



RESTRICTED FUNDS

*CAN ONLY BE
USED FOR
SPECIFIC
PURPOSES*

Examples of restricted funds



Water/Sewer bills



Parking/vehicle registration



Permits fees



Examples of services funded



Water & Sewer



Transportation



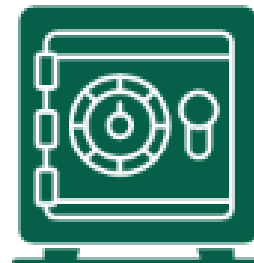
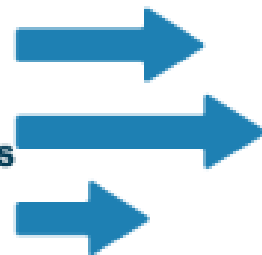
Building inspections,
permitting



GENERAL FUND

Examples of General Fund revenues

- Property Taxes
- Business Taxes
- Licenses & Permits
- State & Federal Revenue



**GENERAL
FUND**

*DOES NOT HAVE
PRE-ASSIGNED
PURPOSES*



Examples of services funded



Fire, Police



Parks



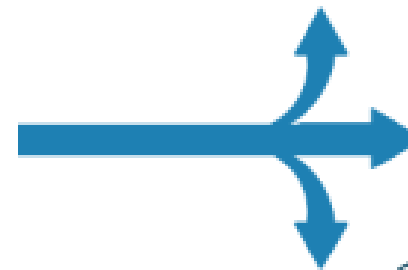
Transportation



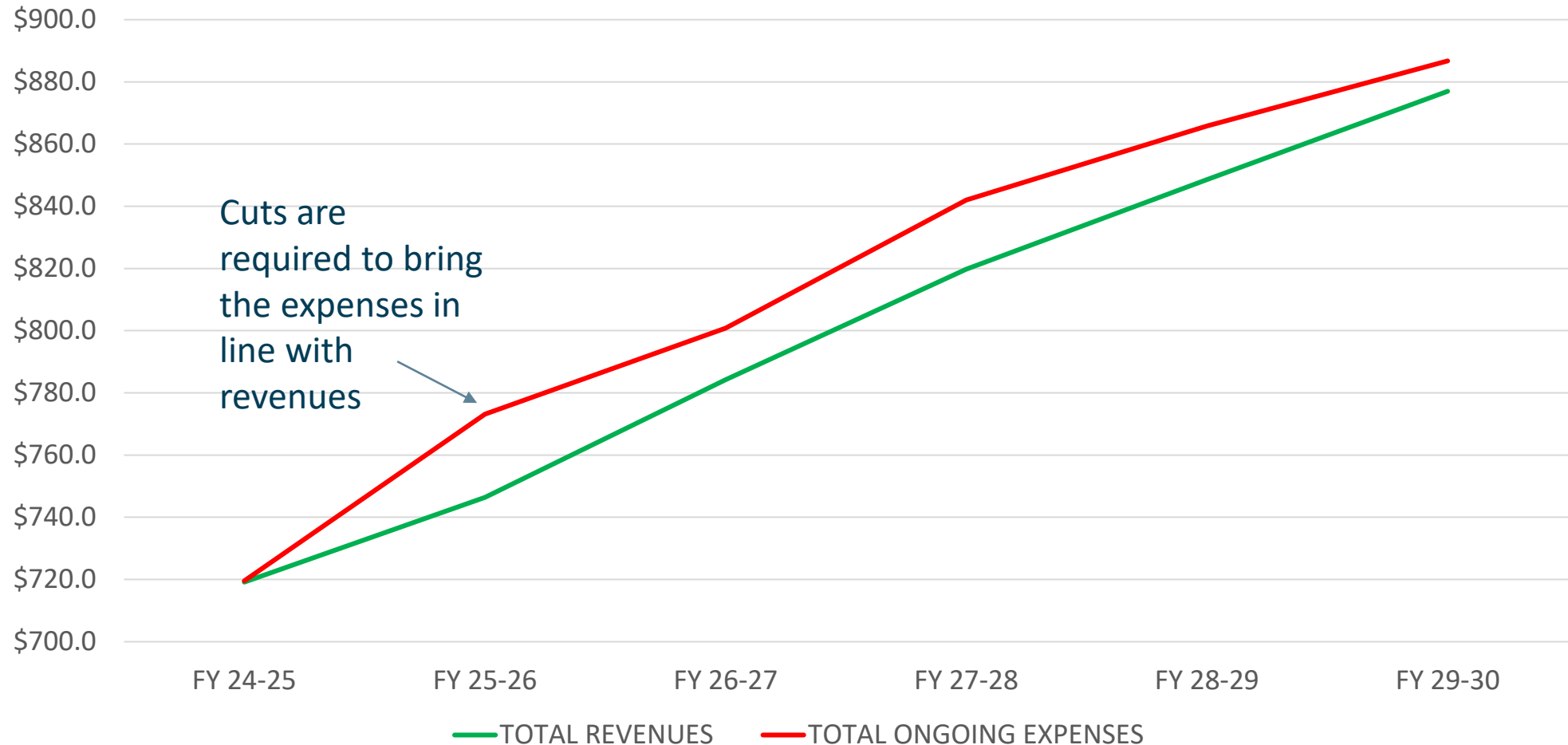
Housing



Other...

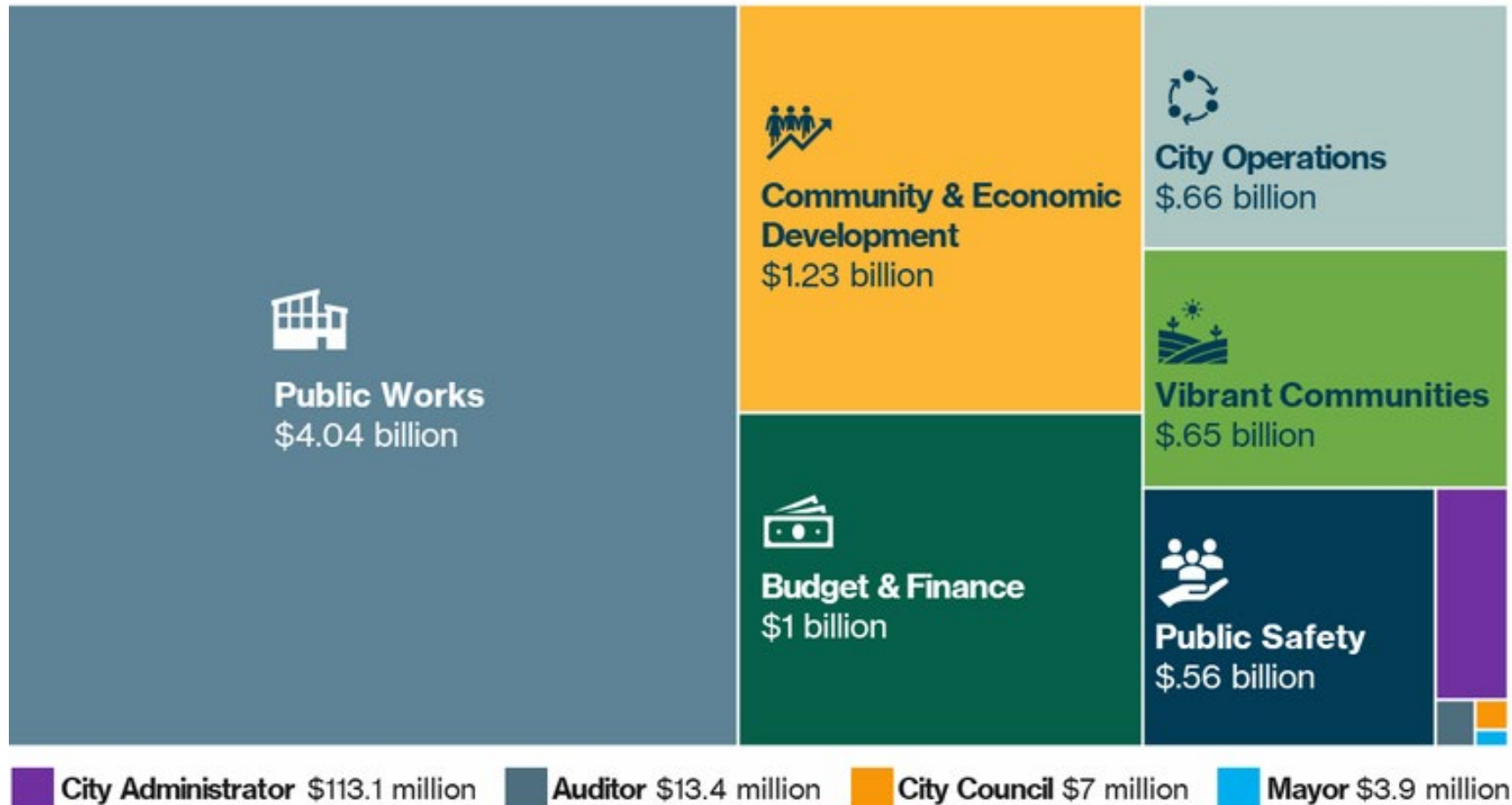


5-Year Balanced Forecast



Overview of FY 2024-25 Adopted Budget

FY 2024-25 Expenses Across All Funds by Service Area



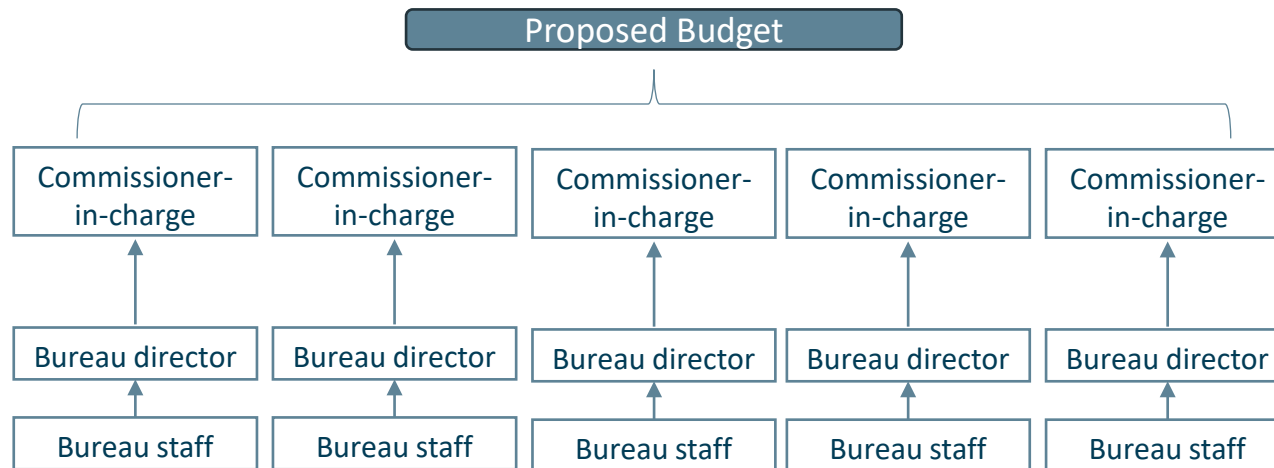
For more
information
go to:
[Portland.gov/
budget/intro](https://portland.gov/budget/intro)



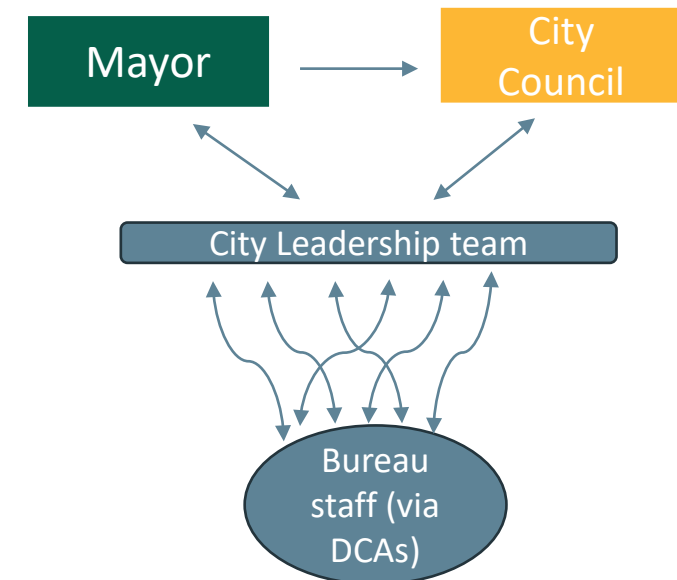
FY2025-26 Budget Process

The City budget process is undergoing a major transition

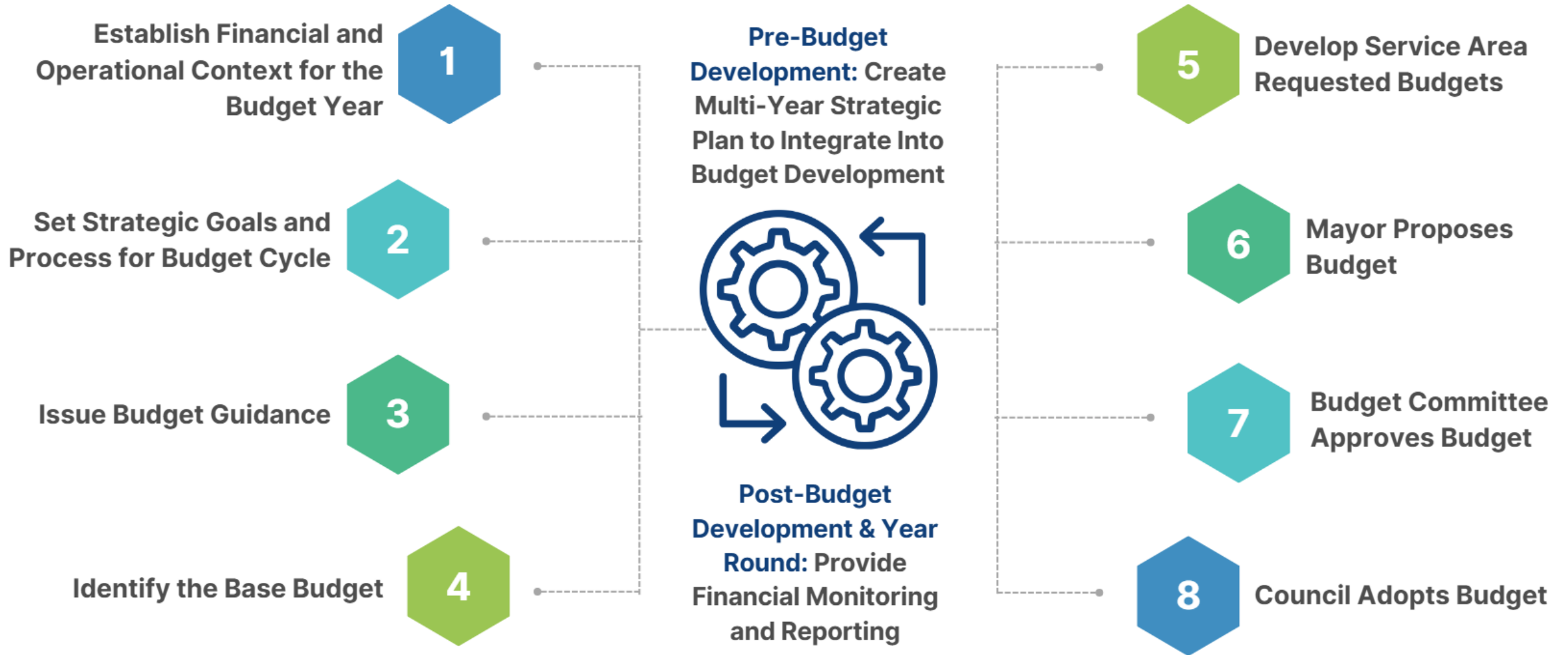
Under the commission form of government...



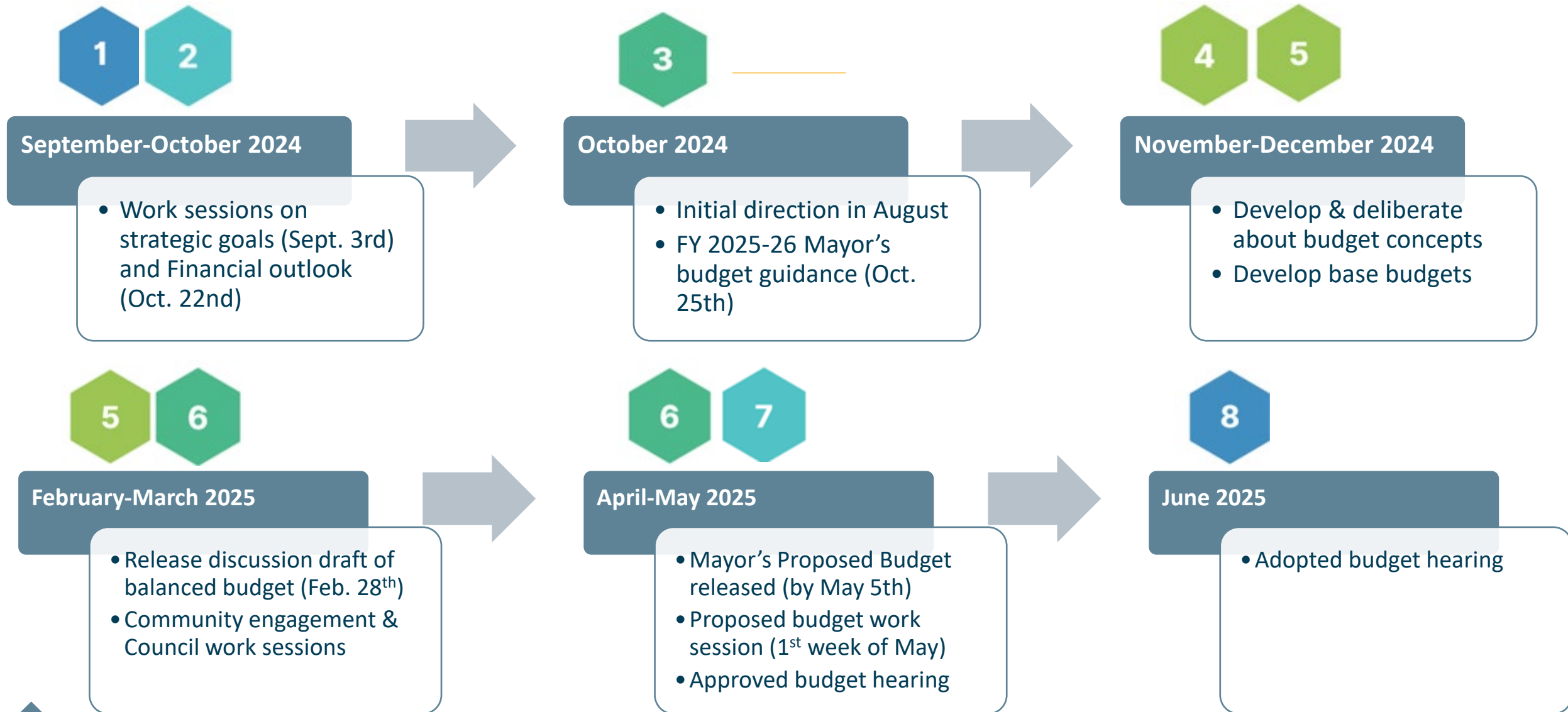
Under the new form of government...



Budget Process Overview



FY 2025-26 Timeline



Approved & Adopted Process Details

Proposed Budget Released **By May 5th**

- Mayor's budget message hearing - May 6th (tentative)
- City Council proposed budget work session – May 6th (tentative)
 - City Council may discuss possible amendments during the Proposed budget work session

Approved Budget Hearing **May 14th**

- City Council submits desired amendments to the City Budget Office for technical support
- Full City Council convenes as the Budget Committee under Oregon budget law to hear the Approved Budget
 - City Council considers budget amendments and votes on the Approved budget as amended

Tax Supervising Conservation Committee Hearing **June 10th**

- Approved budget is submitted to the Tax Supervising Conservation Committee (TSCC) ahead of the hearing and the Committee brings questions for City Council and staff

Adopted Budget Hearing **June 11th**

- Second reading on June 18th if needed

Community Engagement in the Budget

- **Introduction to City Council & Budget 101** – January 2025
 - In-person with hybrid option & recording
 - Provide financial context and budget education
- **Trial Budget engagement**– March 2025
 - In-person with hybrid option & recording
 - Gather feedback to inform budget decisions
- **Budget Comment Form** – Year-round
 - Written comments online
- **Insights Survey + Focus Groups** – Biennial
 - 2024 survey results - available Spring 2025
 - 2025 focus group discussions TBD
- **Public testimony** during public hearings
- **Budget Advisory Committees (BACs)**
 - Citywide & some bureau BACs in FY 2024-25
 - Future BACs likely to be at service area level





Summary of Fiscal Condition and Key Drivers



General Economic Picture

The Big Picture



For the United States, all major indicators look good

Unemployment Rate: 4.1% (Sep. 2024)

Production (GDP): 3% (2024 Q2)

Year-over-year Inflation (CPI): 2.4% (Sep. 2024)

Year-over-year Real Wages: 1.5% (Sep. 2024)



For Portland, a different story...

Population Loss/Flat Outlook

Employment not back to pre-2020 levels

Downtown Office Vacancy Rate Climbing

Major Economic Takeaways



Employment and population are the most important drivers of long-term growth



The tourism industry has become more reliant on events, as business travel is low



Downtown hotels, offices, and multifamily development are a key concern for revenues, as their valuations are tied to the City's property taxes



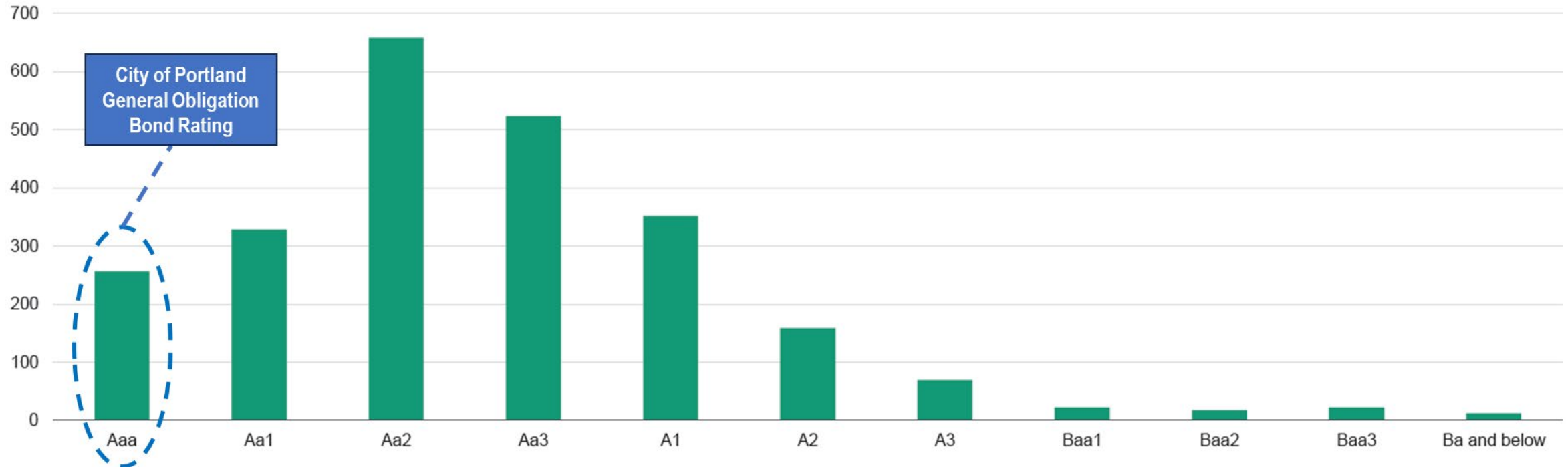
Most of the City's General Fund revenue is insulated from outright declines in the short term, but the above factors have a significant impact on projected growth

City Bond Ratings

- Bond rating agencies independently review credit quality (i.e. ability to repay outstanding debt).
- Rating methodologies consider macroeconomic factors, regional data and risks, and City-specific financial data and risks
- **The City of Portland is rated “AAA” (Moody’s) - highest possible quality, and in top 12% of U.S. cities rated by Moody’s.**
- Water Revenue Bonds (First Lien) rated Aa1 (Moody’s) & AA+ (S&P).
- Water Revenue Bonds (Second Lien) rated Aa2 (Moody’s) & AA (S&P).
- Sewer Revenue Bonds (First Lien) rated Aa1 (Moody’s) & AA+ (S&P).
- Sewer Revenue Bonds (Second Lien) rated Aa2 (Moody’s) & AA (S&P).
- Gateway Regional Center Urban Renewal and Redevelopment Bonds rated A1 (Moody’s)

City Bond Ratings

US local government rating distribution - cities
Median rating for cities improved to Aa2 from Aa3



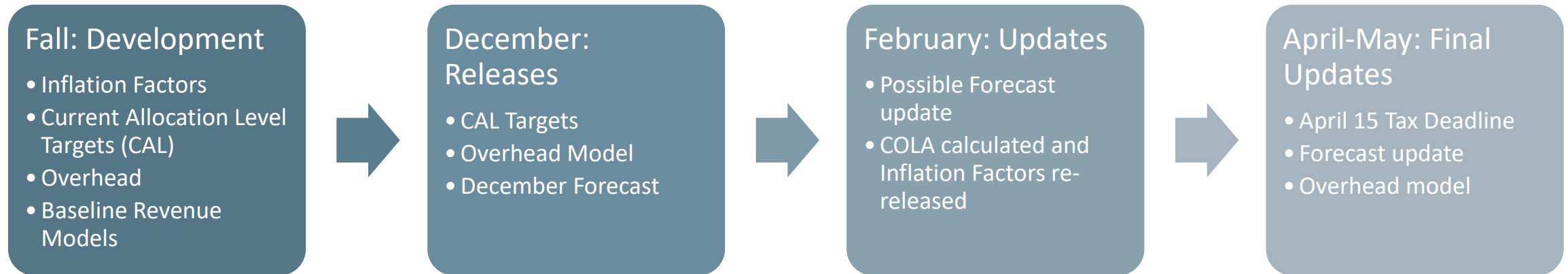
Ratings as of May 2023

Source: Moody's Investors Service

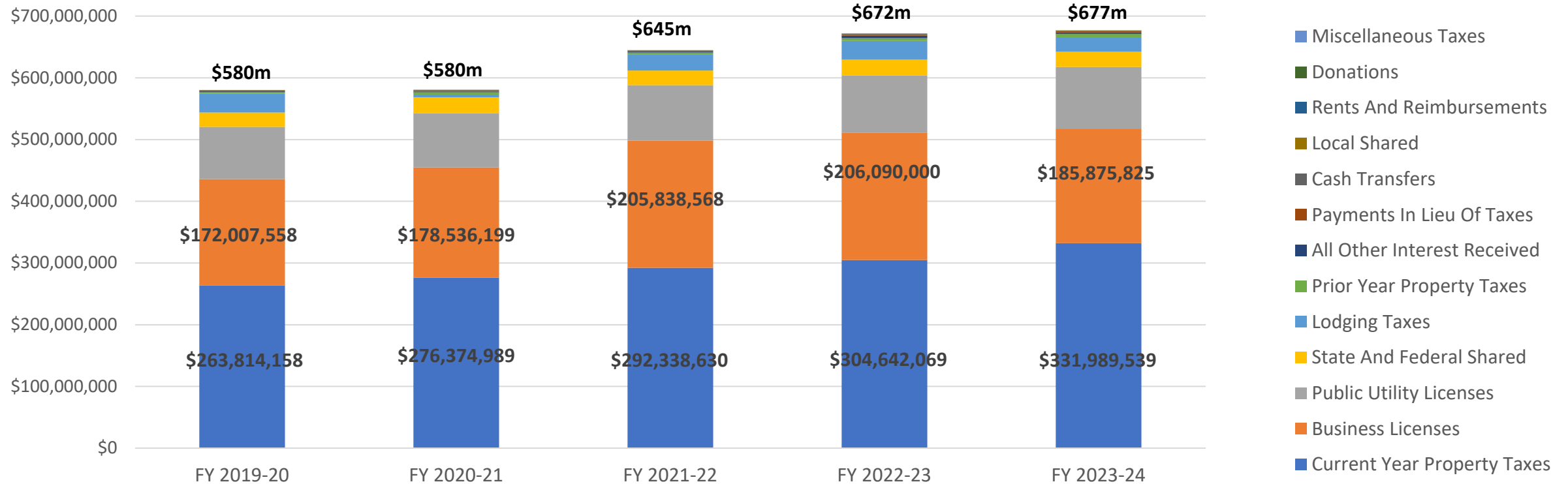


Citywide Revenues

General Fund Forecast Timeline



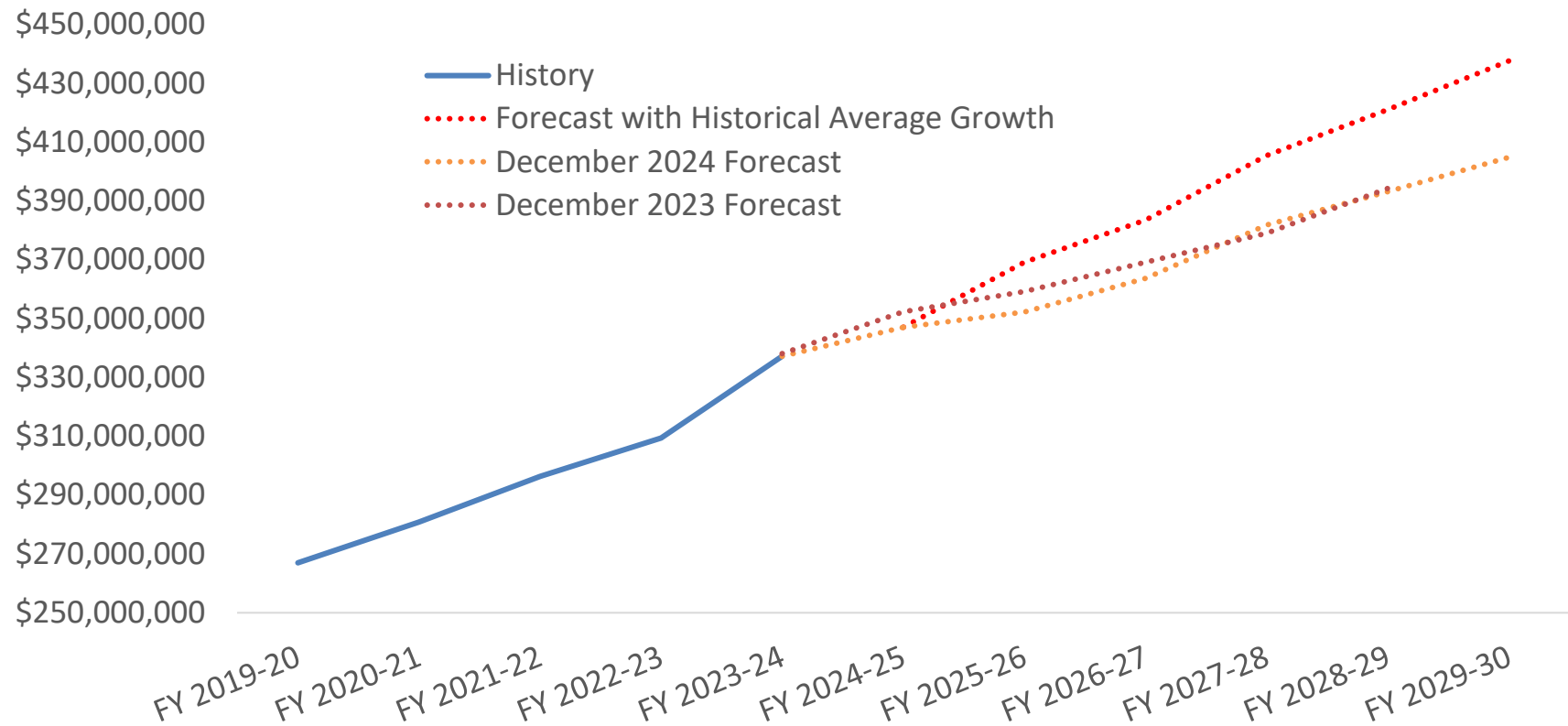
General Fund Revenue Trends



Reminder: Property Taxes

- **Real Market Value** = What Assessor believes you could reasonably receive were you to sell your home
- **Maximum Assessed Value** = 1995 Property Value + 3% growth per year since then (sometimes just called "Assessed Value") or the Real Market Value, whichever is lower
- Tax Rate = \$ per \$1,000 of **Assessed Value**
- Measure 5: Limits general government property taxes to one percent (\$10 per \$1,000 **real market value**) and school-related property taxes to one-half percent (\$5 per \$1,000 **real market value**). When property taxes are higher on a particular property, they are compressed down to meet these requirements.
- Local option levies are compressed first (for the City of Portland this includes the Parks Levy and the Children's Levy)
 - After they reach \$0, each remaining permanent levy is compressed proportionally until limit is reached
- Measure 50: Limits future growth on **maximum assessed value** to 3% annually. The Assessed Value is what determines the property taxes owed... prior to Measure 5 limits.

Property Taxes—General Fund



Historical
AV growth:
4.1%
Compression:
4.0%
Delinquency:
4.0%

Forecast
AV growth:
1-3%
Compression:
5.0-5.5%
Delinquency:
5.0%

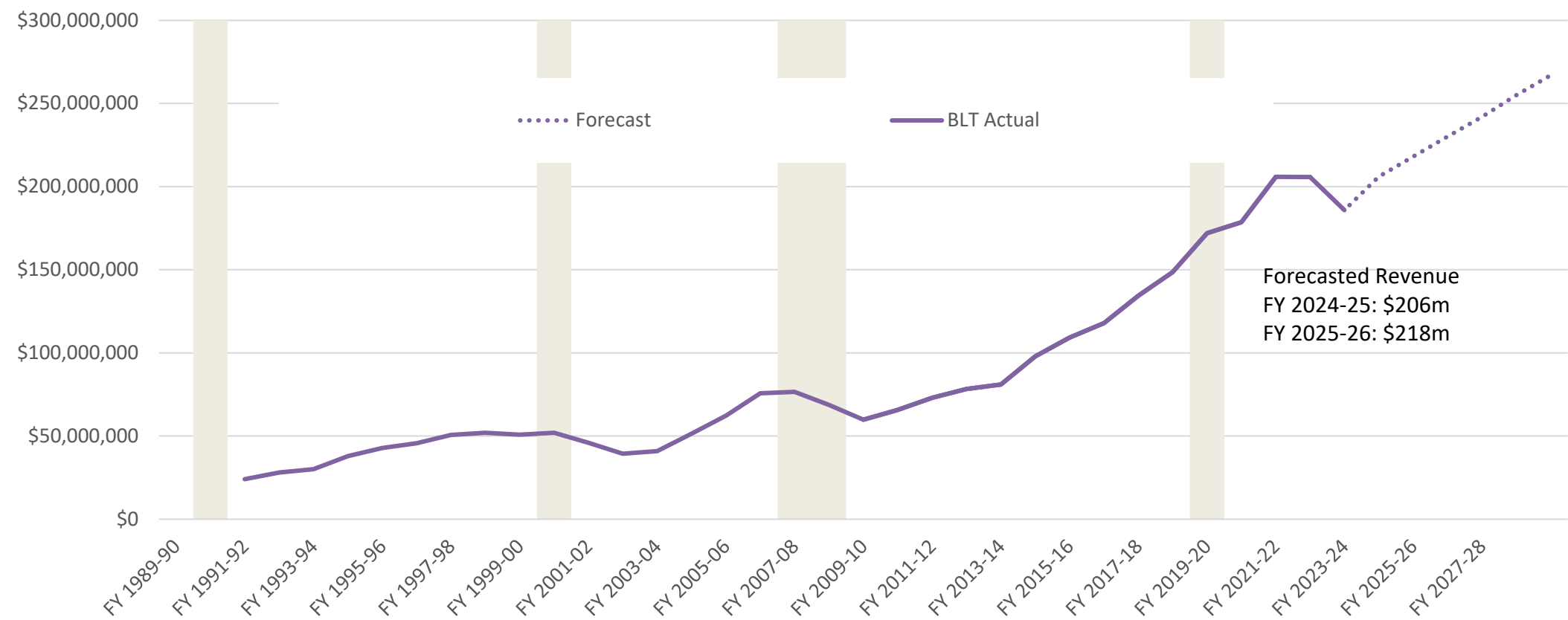
Local Options (Parks and Children Fund) are forecasted to have compression of 30% by FY 2025-26

Business License Taxes

- The Business License Tax (BLT) is a 2.6% tax on net income (profits)
- This tax is based on business activity (revenue). For example, a large software/finance/retailer company may not have any employees in Portland, but if they have revenue from Portland, they are likely paying the tax.
- The expected tax payment is due in April, but most large businesses are extended filers (November/December see a lot of refunds)
- There are over 50,000 businesses paying the BLT. However, a relatively small number pay a large proportion of the tax. Many of these large payers are big, national companies that report earnings (profits) to the Securities Exchange Commission. Meaning there is a relationship between reported earnings, stock indices such as the S&P 500, and BLT revenue.

Ranking (Businesses)	TY 2023 Return	Firm Count vs Total
Top 20	21.1%	0.0%
Top 100	39.6%	0.2%
Top 500	63.2%	1.0%
Top 1,000	72.8%	1.9%
Top 5,000	90.5%	9.7%
Top 10,000	95.5%	19.4%

Business License Tax Preliminary Forecast



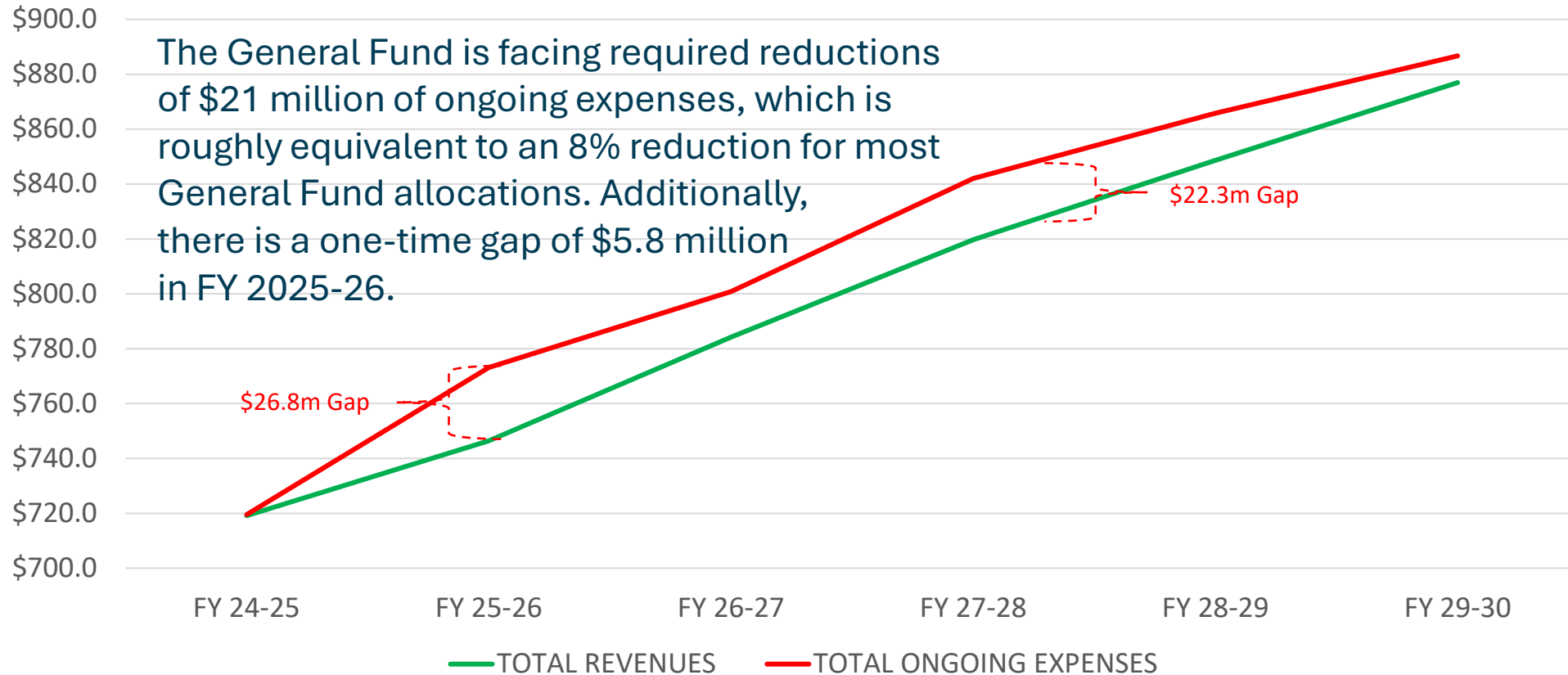
Other General Fund Discretionary

Utility License/Franchise Fees (~\$100m): Typically stable, recent private utility rate increases have improved the outlook.

Transient Lodging Taxes (~\$30m): Revenue growth has slowed, and the outlook is continued growth with revenue remaining below peak for the duration of the five-year forecast.

State Shared Revenue (~\$25m): Primarily related to state-shared liquor revenue, the outlook is for slow growth.

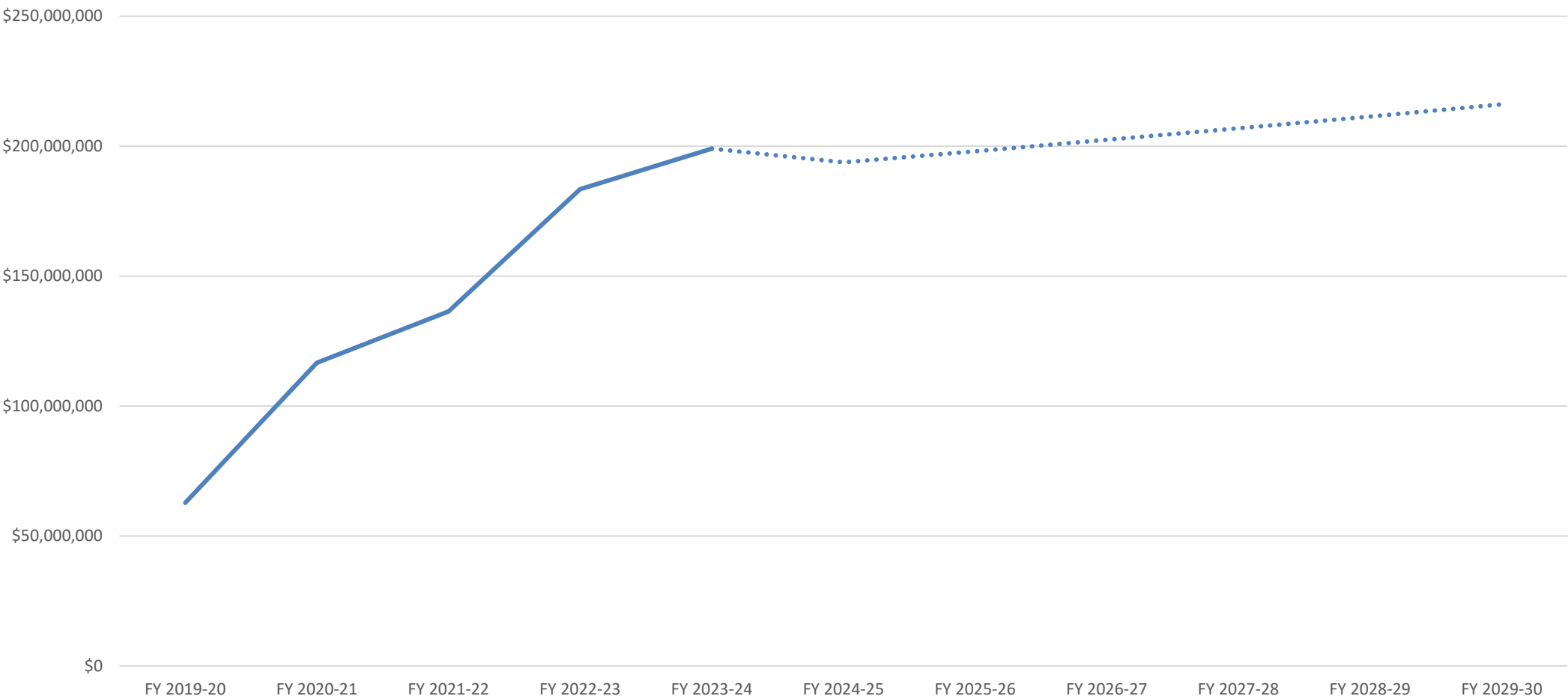
General Fund Forecast



Note: Ongoing reductions or additions are inflated in the balanced forecast. Meaning that a reduction of \$21 million is roughly equivalent to \$22.3 million in FY 2027-28.

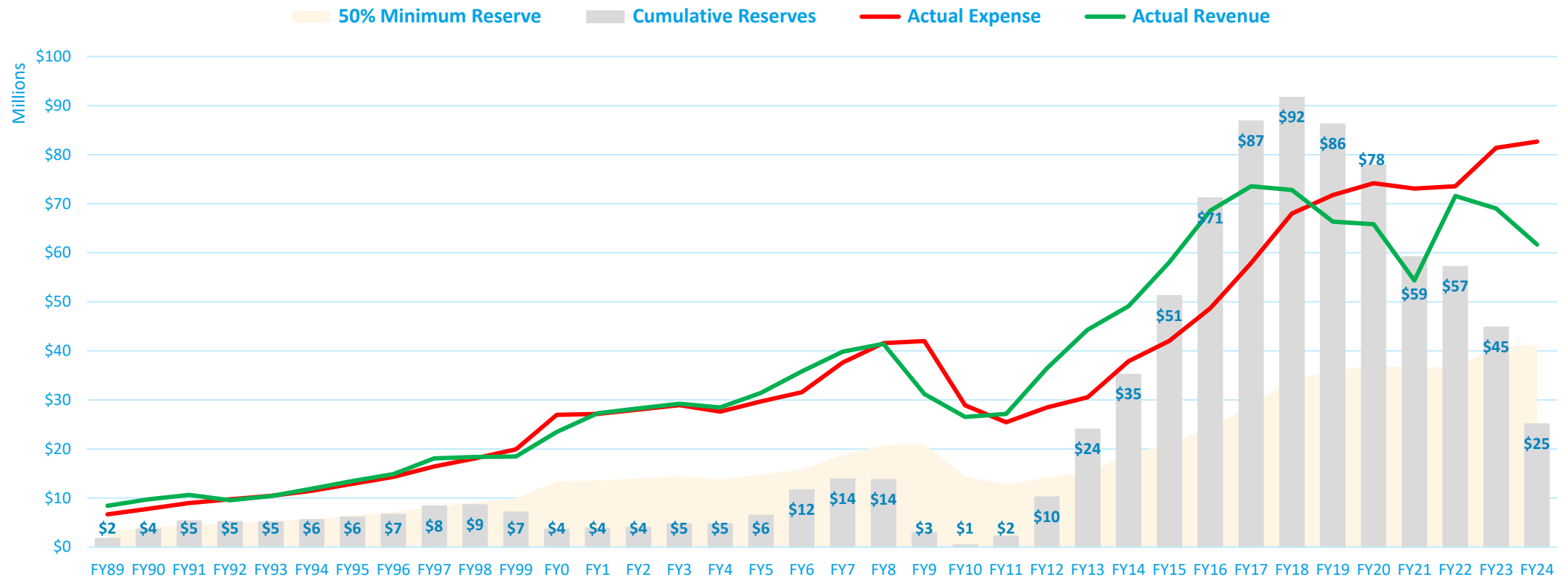
Clean Energy Surcharge Revenue

Supports the Portland Clean Energy Community Benefits Funds (PCEF)



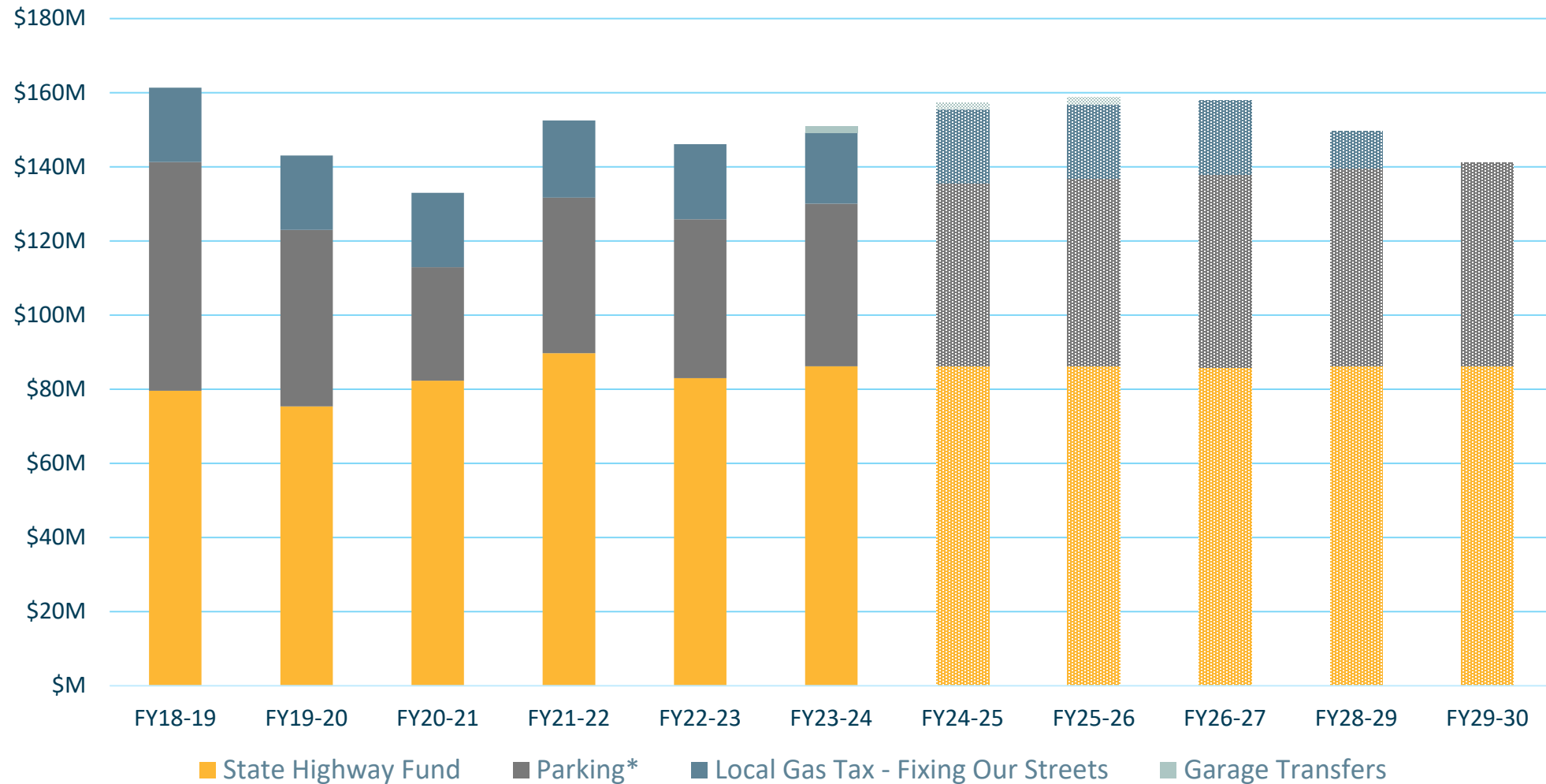
Permitting Revenues

Revenues, Expenses and Reserves since 1989



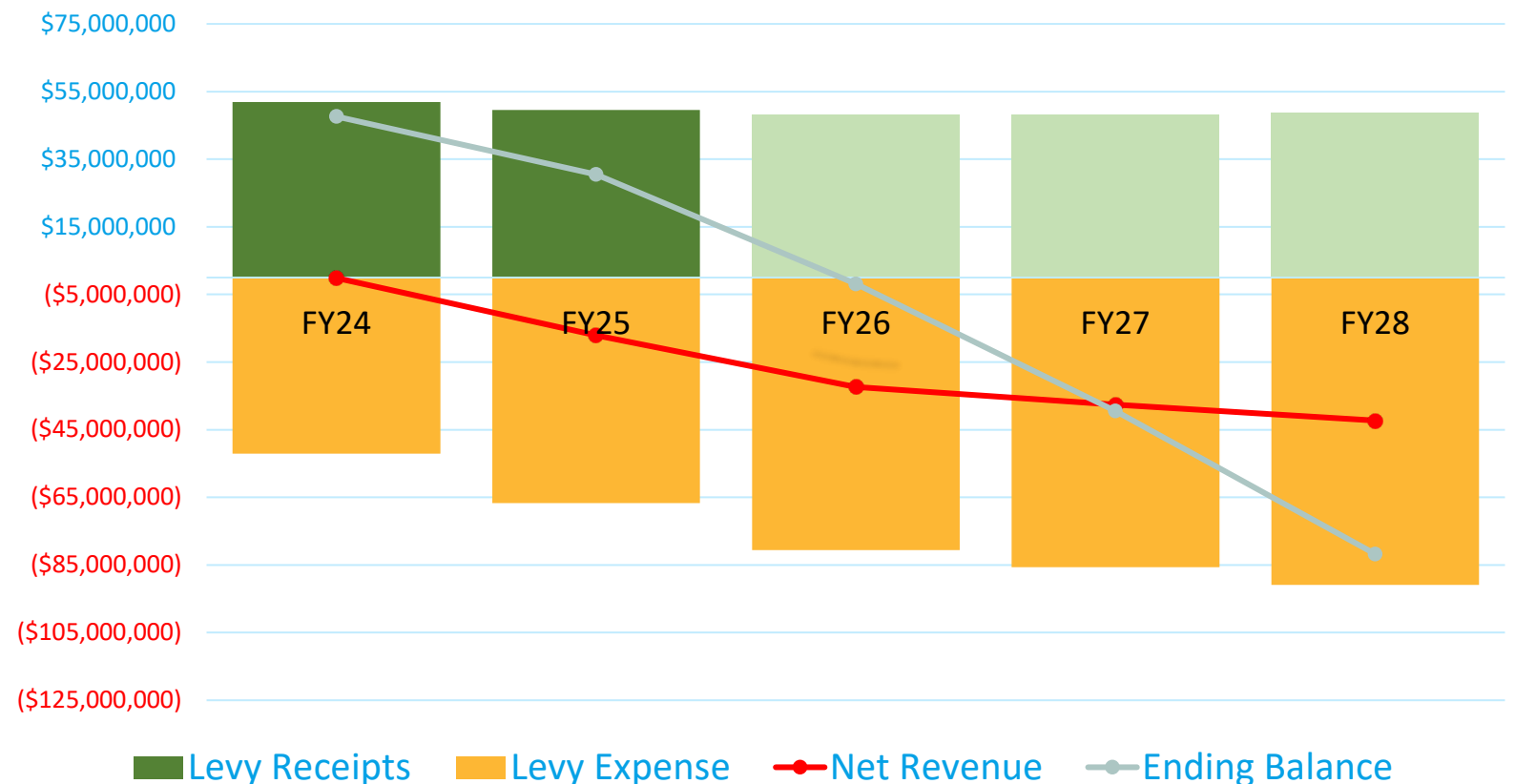
Transportation Revenue Trends

PBOT State Highway, Local Gas Tax, & Parking Revenues (Actual and Forecast)



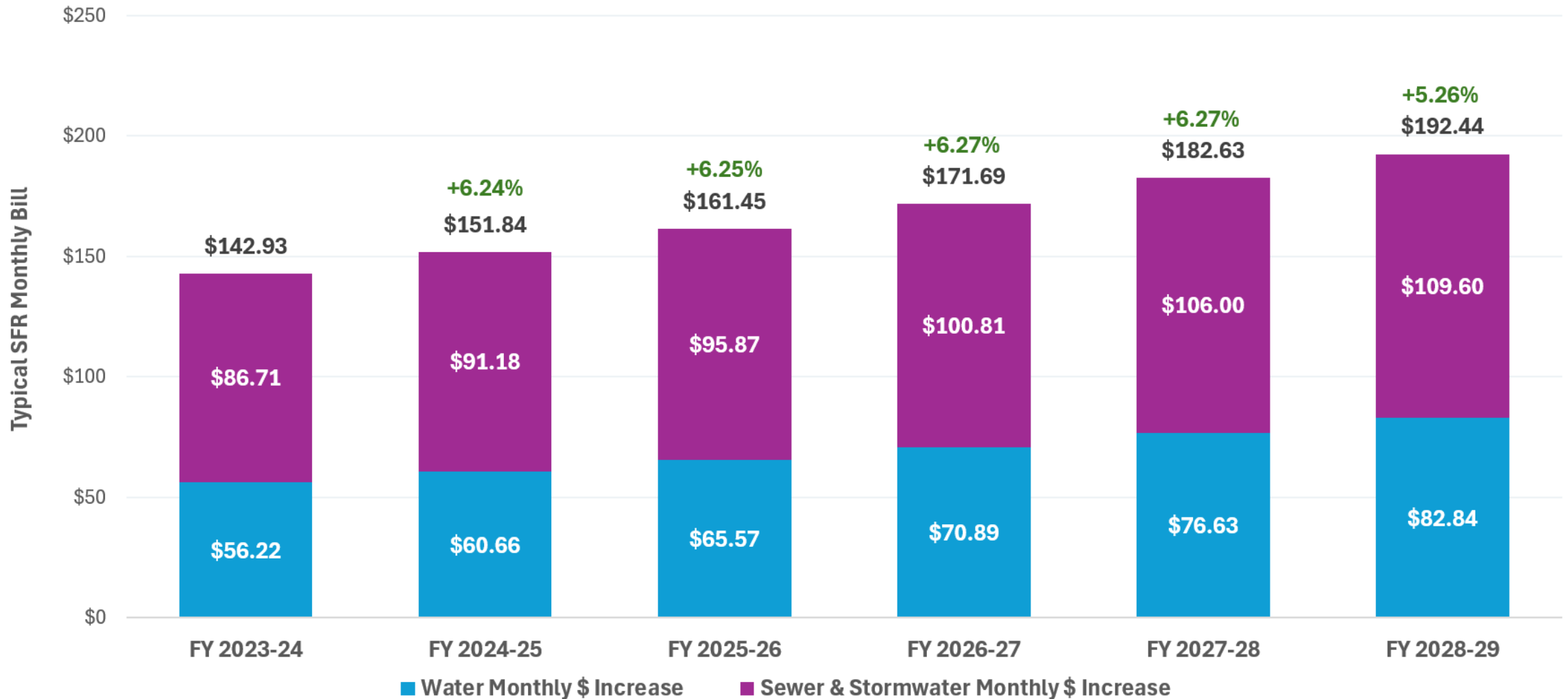
Parks Levy Fund Forecast

- Balance starts at \$47.6 million
- Expenses exceed revenues by \$17.1 million in FY2024-25 Adopted Budget
- Balance drawn down completely over five years of first Parks Levy
- Negative balance without substantial changes in expenses and/or revenues in outyears
- After FY25, assumes Parks Levy renewal at \$0.80 per \$1000 of Assessed Value (current rate)



Water & Sewer Combined Cost Projection

Projected cost of increases to typical single-family residential monthly bill



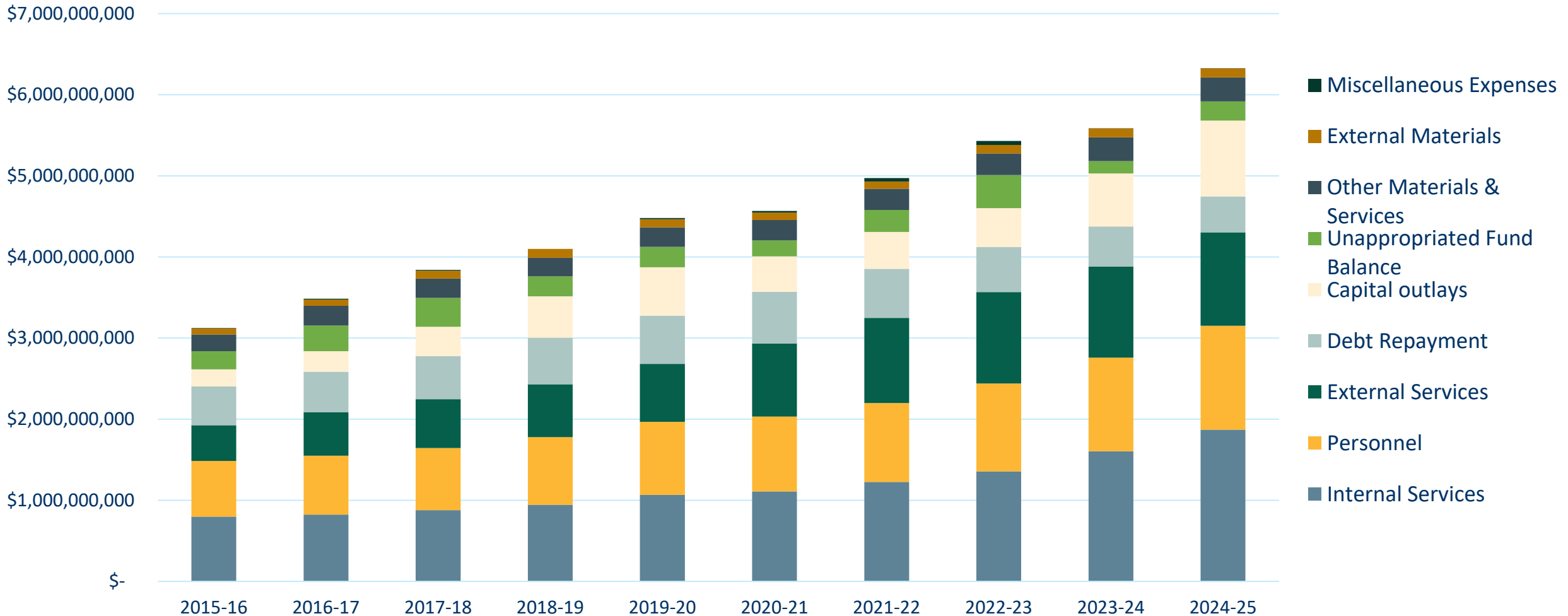


Citywide Expenditures

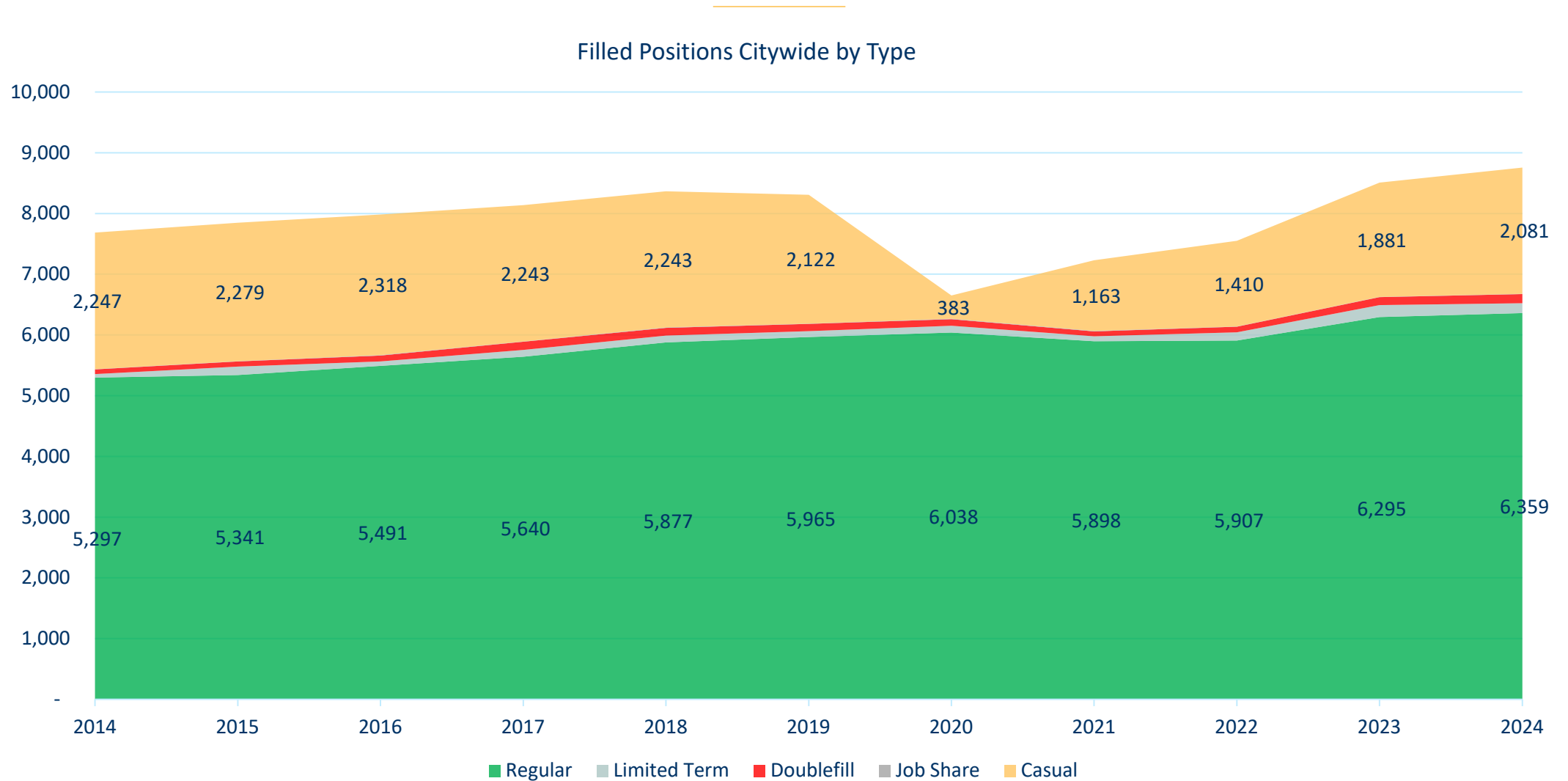
Citywide Expenditures

All Funds Adopted Budgets FY 2015-16 to FY 2024-25

Total budgeted expenditures have grown by an average of 8% per year since FY 2015-16

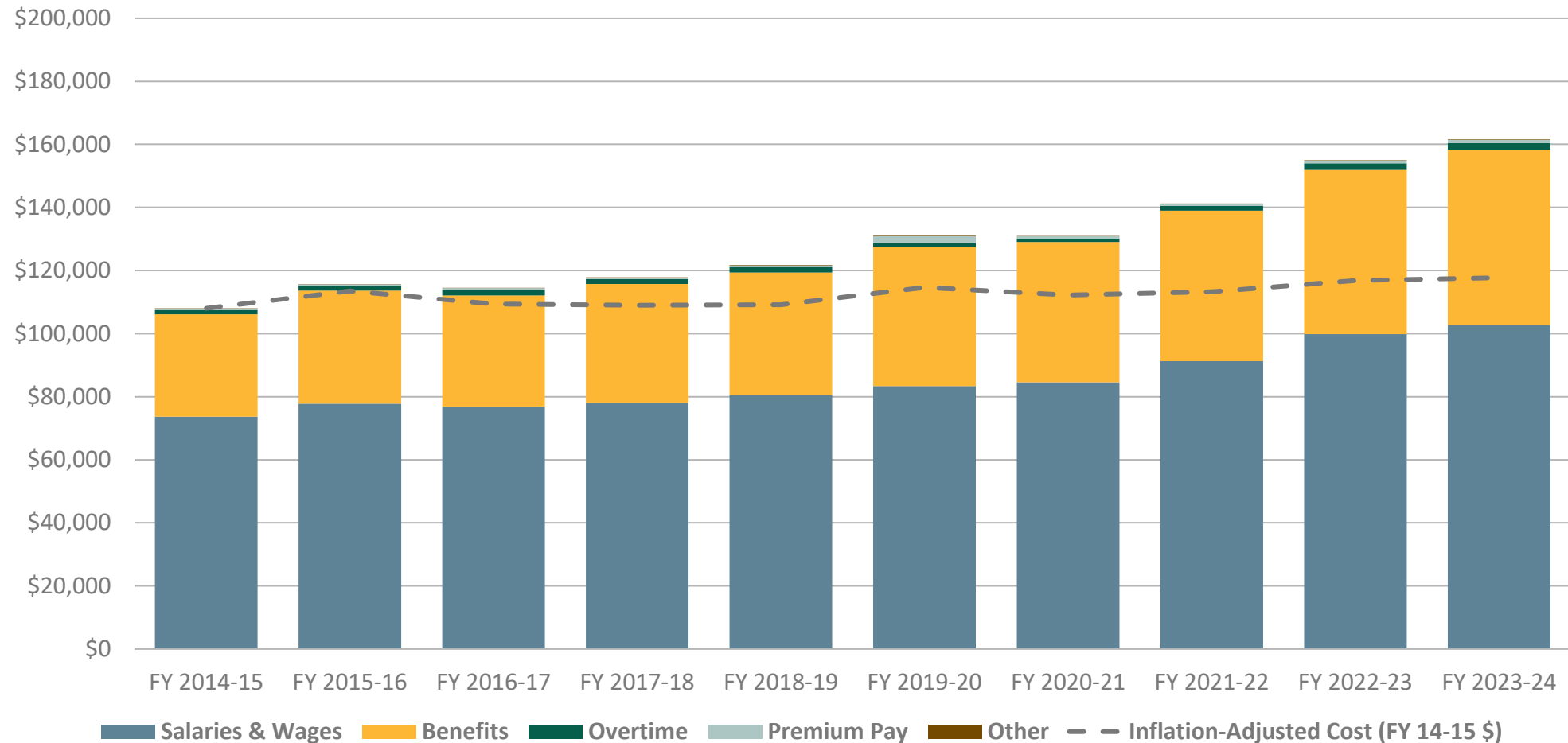


Personnel Costs

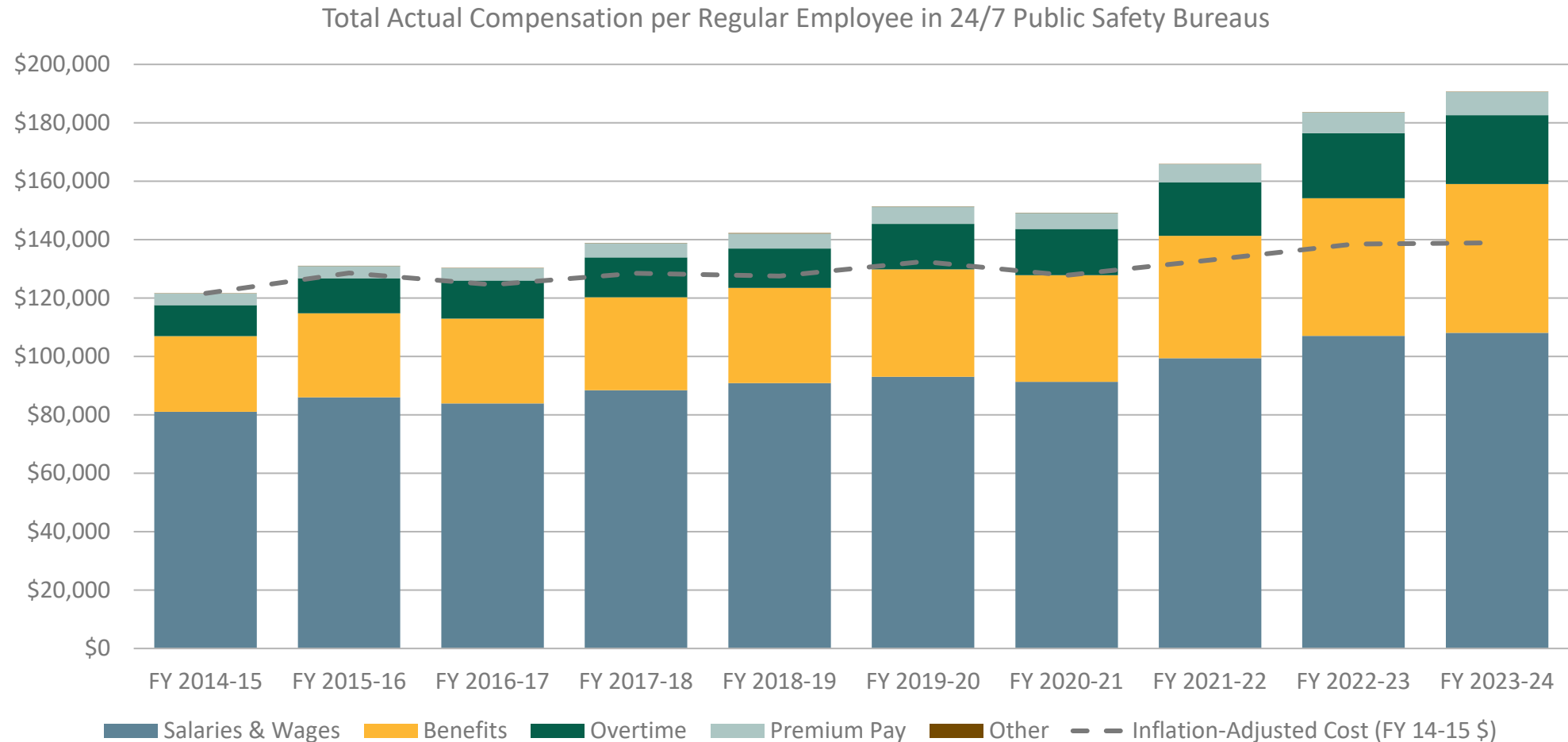


Personnel Costs per Employee (excluding 24/7 public safety)

Total Actual Compensation for Filled Regular Positions



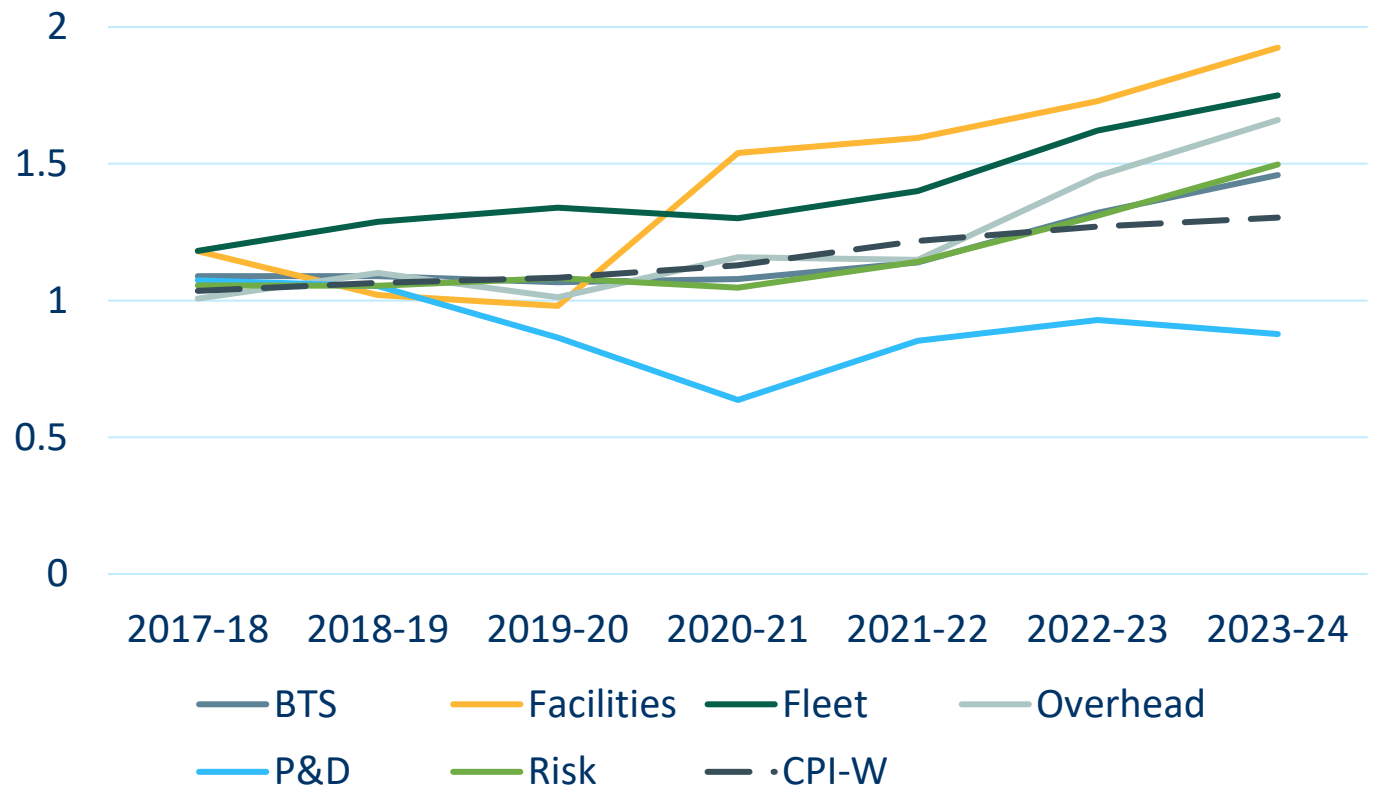
Public Safety Personnel Costs



Internal Services Costs

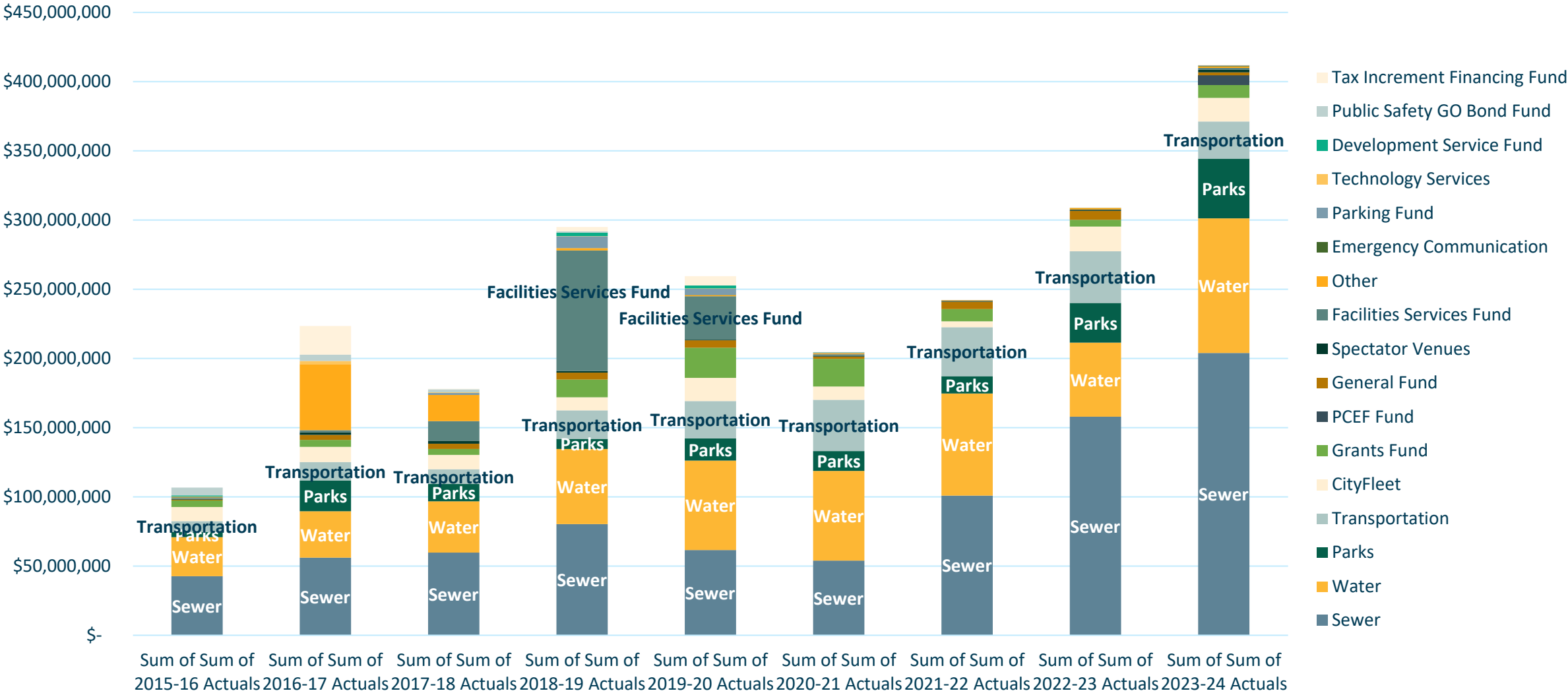
- Growth in internal services costs driven by increases in **prices** and **quantities**
- Key drivers include:
 - Portland building and Vanport building costs
 - Software cost increases and non-standard software
 - Vehicle cost increases and specialized vehicles with non-standard equipment
 - Security (physical & cyber)

Growth in Expenditure from FY 2016-17 by Internal Service Provider



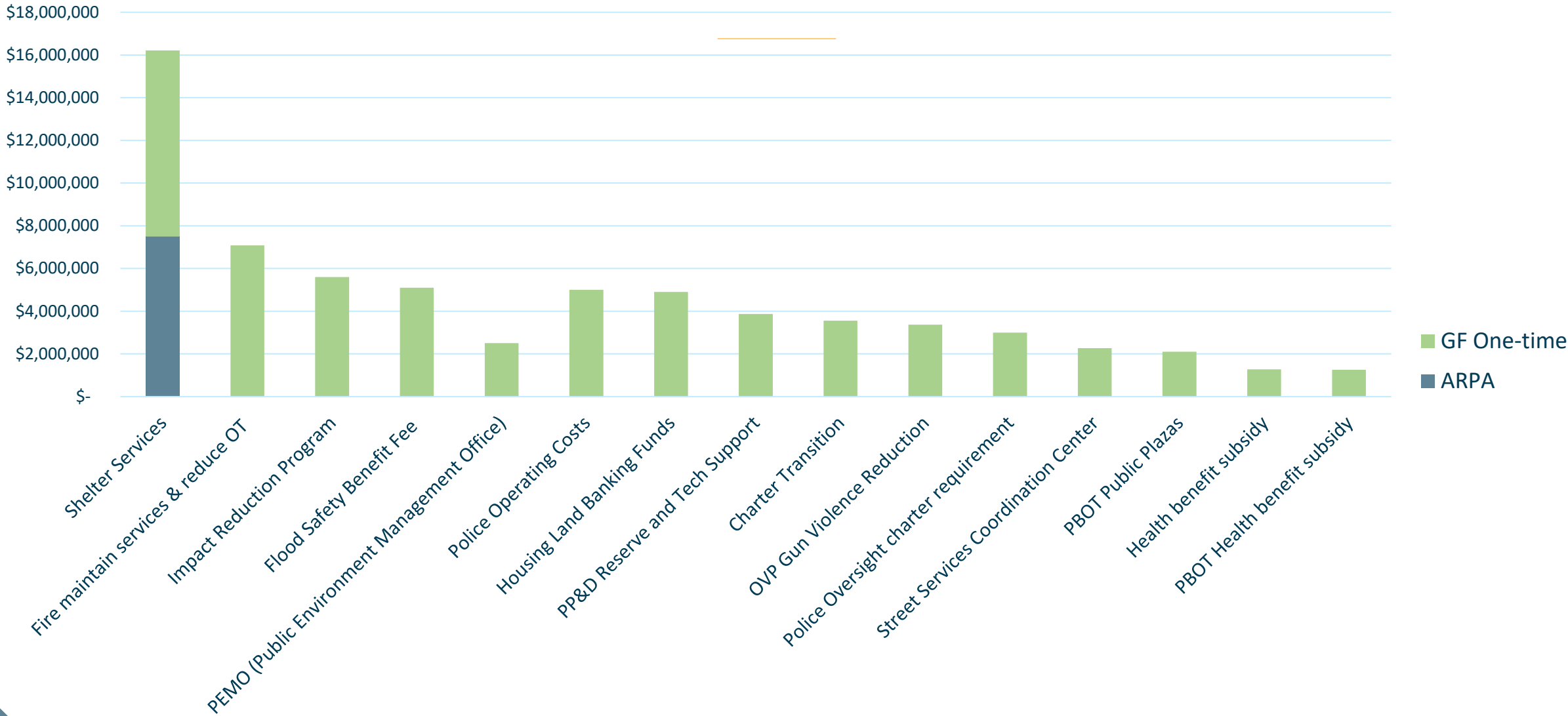
Capital Expenditures

Actual Citywide Capital Expenditures by Fiscal Year



Fiscal Cliff

Largest Decision Packages in FY 2024-25 Adopted Budget with General Fund One-time Funding





Summary of Current Conditions

Key Takeaways



The City's expenses are growing faster than revenues

Key revenues (property taxes) are growing more slowly than in the past, and some non-General Fund revenues are declining

Large one-time investments are coming to an end, presenting difficult tradeoffs

Significant cuts are required to maintain current allocation levels, with even more cuts needed to support any additional expense beyond what Council has already allocated

Expense Pressures & Issues

Labor Bargaining

- Open contracts
- Health benefit rate increases

Citywide Capital Needs

- Major asset maintenance backlogs in many areas (public safety facilities, Parks, roads, and more)

Fiscal Cliff

- \$20-\$25 million required to continue current levels of public safety operations (Police, Fire, PSR, OVP).
- IRP and PEMO have roughly \$10 million in one-time that will expire.

Alternative Shelter & HRS

- Uncertainty around operations & funding for SRV & TASS in FY 2025-26.
- Current IGA would require negotiation to take the 5% or 8% reduction from the City's General Fund allocation to JOHS.

Parks budget gap & levy renewal

- Current local option levy expires in 2026.
- Even assuming renewal, revenue declines and expenditure increases require a ~13% reduction in ongoing budget to close the gap.

Mayor's Guidance (October 2024)

General Fund guidance

- Required expense reductions of 5% plus an 8% scenario
- Forecast update in December
- Additional reductions required to fund **any** needs above what council has already allocated

Non-General Fund Guidance

- Larger gaps in some funds outside General Fund including Parks, Permitting
- Utility rate guidance
- Internal services guidance



Questions?

In order to maximize time, we anticipate collecting questions at this time, and providing written responses to all participants.