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Healthy Parks, Healthy Climate Plan

A Bridge Loan Proposal for the General Fund Presented to the Portland Clean Energy Community Benefits Fund Committee

To: Portland Clean Energy Fund Community Benefits Fund Committee
From: Councilor Mitch Green
CC: PCEF Staff
Date: May 5, 2025 (An update from the version sent on April 18)

Context

The City of Portland faces an historic budget crisis resulting from long-run structural imbalances between the restricted, unrestricted, discretionary and non-discretionary fund balances that change in relation to the balance of revenue to expenses in each of those categories. Property tax revenues provide the primary basis for the discretionary and unrestricted resources that fund public safety, parks and recreation, community and economic development, public works, housing, and other programs like emergency sheltering efforts.

In late February, City Administrator Michael Jordan released the draft budget recommendations to address the $93 million gap in the General Fund. The deficit is so large that unless we take extraordinary measures, and barring any surprises in Mayor Keith Wilson's budget, we will be unable to avoid cutting important programs that people rely upon, enjoy, have fought for, or otherwise deserve. Addressing this crisis through cuts alone introduces an unacceptable risk that we will push the City into the doom loop that we are close to, but not yet mired in.

The Portland Clean Energy Fund, passed by voters in 2018, has evolved over time through City Council code amendments to maximize PCEF resources authorized by City Council to help alleviate the General Fund budget deficit. City Council has previously amended the PCEF code to make government entities, such as City bureaus, eligible for PCEF funding (2022), and for the first time allowed a one-time transfer of $7.6 million of PCEF interest to the General Fund. For this budget cycle (FY 2025-26), the City Administrator recommended $18 million of PCEF interest to close the gap. This contribution from PCEF is vital to the budget process again, and the deficit demands an expanded use of PCEF and its reserves to the degree that the fund is able to accommodate during this brief surplus period without jeopardizing or defunding investments in the Climate Investment Plan (CIP).

The Proposal

City Council borrows from PCEF contingency balance (~ $100 million) by authorizing a loan to the General Fund Discretionary account.

In addition to some cuts that are worth making on their merits (e.g., ending unnecessary consultancy contracts, minimizing external materials and services, decreasing administrative overhead, increasing span of control, controlling police overtime, etc.) City Council should also be prepared to borrow the remaining balance from PCEF with a repayment schedule that does not limit the execution of existing spending approved by the Climate Investment Plan. It is important to stress that City Council should seek to minimize the borrowing action and use it as a last resort following consideration of reasonable budgetary cuts.

How It Works

The following chart from the PCEF briefing for City Council in March (Figure 1) shows ending fiscal year PCEF fund balances, expected revenues (including interest) and expected expenses for fiscal years FY 2022-23 through FY 2028-29.

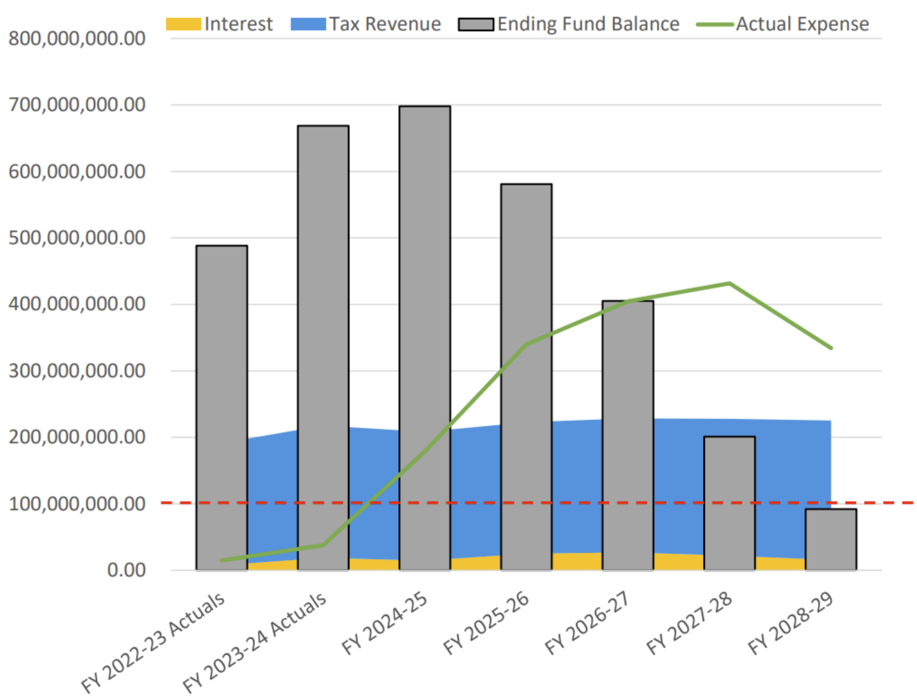

Figure 1. PCEF Budget Briefing Presentation: Revenues, Expenses, Interest, and Fund Balances

During the current fiscal year program expenses begin to outpace expected revenues as execution rates increase through the period, stabilizing by the end of the five-year planning period to a level consistent with a rollover fund balance that matches annual expected revenue. That suggests a program level of ~ $200 million per year in sustainable program spend without cashflow risk. It also implies that any amendment to the CIP that increases PCEF direct appropriations defunds the approved CIP.

However, it is possible to borrow against this fund during the period in which the fund is in surplus on an annual basis, without affecting the viability of the program delivery, provided as the loan is modest and the term is short. The repayment schedules (Table 1) suggest a three-year term at 4% interest (simple interest payable on expiration) with varying loan amounts. These values are rounded to the nearest million.

Table 1. Proposed Bridge Loan Repayment Schedules

Loan Amount (MM)	FY 2026-27	FY 2027-28	FY 2028-29	Total
$20	$7	$7	$7	$21
$40	$13	$13	$15	$42
$60	$20	$20	$22	$62
$80	$27	$27	$30	$83

Borrowing $20MM - $80MM starting in FY 2025-26 and placing it in a policy set aside fund for the purpose of filling gaps in the General Fund discretionary account would provide space to avoid requirement for unacceptable cuts, buying the City time to realize the organizational efficiencies intended by the administration and engage in a more thoughtful and deliberate process with Council. If PCEF lends at 4% with simple interest payable upon retirement of the loan, then average annual repayment terms will range between $7 to $28 million through FY 2028-29. These payback amounts will be sufficient to support PCEF balance liquidity as programmatic expenses ramp up.

There are many ways to structure the repayment, depending on City Council's risk preferences. For example, Council may choose to pay the loan back in one lump sum in FY 2028-29 with interest, if we assume that the Mayor’s sheltering strategy will result in a ramp down of expenditure over the period. Or Council may opt for a constant repayment schedule with accrued interest payable on retirement of the loan as outlined in the table.

Discussion of Risks

1. **Status Quo:** The simultaneous presence of a large budget gap for the General Fund and a large budget surplus for the PCEF balance introduces the risk for City Council to adopt an ordinance to appropriate funds from PCEF and renege on the CIP passed last December. During the budget listening session Councilor Green and others heard from constituents who voted for PCEF and are also wondering why the Council cannot use those funds at this time to solve budget gaps and keep programs and community centers whole.
2. **Loan Concept:** Creating an interfund loan between PCEF and the General Fund creates risks that are worth mentioning:
    a. Default by a future council: The City Charter grants Council the full legislative power to adopt ordinances that change code as well as the power of the purse. Title 1.07 of City Code describes the use of "binding city policy" statements that direct future action and create mandatory conditions. While the interfund loan action would include a clause that future council action to modify the terms would require a high bar (nine-twelfths vote) with a declaration that adoption is a binding city policy, Council can always change code if it chooses to do so. That is a potential risk, but it is mitigated by:
        i. Limiting the size of the borrow action
        ii. Use of binding City policy language
        iii. Appeal to state budgeting law that prohibits default on interfund loans
3. **Inadequate General Fund revenues to service the loan:** If the City remains in a low revenue state for longer than anticipated, if the near-term expenses on ending unsheltered homelessness fail to ramp down as suggested, or organizational efficiencies fail to yield realizable cost savings during the loan term period, then a General Fund gap will remain with the added expense of servicing the loan. That may require deeper cuts to the General Fund to make good on the loan. *This risk may be mitigated by issuing a smaller loan to the General Fund.*
4. **Precedent to treat PCEF fund as a bailout fund:** Pursuing this action may create future desire to treat the PCEF fund as a fungible asset from which to draw upon for general programmatic expenses. *This risk is mitigated by the anticipated draw down of the fund balance as forecasted in the CIP as programs ramp up.*

Summary

Councilor Green developed the *Healthy Parks, Healthy Climate Plan* – a proposal for the PCEF Committee to consider recommending to City Council a bridge loan from PCEF to help make core services whole and to address our General Fund imbalance for FY 2025-26. The Plan reduces the pressure to cut programs and labor from parks and transportation by offering a mechanism that addresses the near-term challenges, while guarding against efforts to reverse adopted allocations in the Climate Investment Plan. *Healthy Parks, Healthy Climate* is not without risks, but there are ways to mitigate risks, and they must be weighed against each other. Councilor Green recommends the bridge loan method as the best way to apply PCEF to the General Fund as it places it in a position to support the City in a time of great need, while reasserting that the Climate Investment Plan and its adopted allocations are worth protecting.

Contact

For questions regarding the *Healthy Parks, Healthy Climate* and matters related to Councilor Green's office, contact Chief of Staff, Maria Sipin, at maria.sipin2@portlandoregon.gov.