



Citywide Financial Outlook Work Session

November 7, 2023



Agenda

1. Introduction (5 minutes)

- Goals of the work session
- Upcoming budget dates

2. Economic Outlook (30 minutes)

- Economic Update
- General Fund Outlook
- Q&A

3. Forecasting Process & Inputs (50 minutes)

- BDS, BES, Water, and PBOT
- Long-range forecast drivers
- Q&A

4. Expenditure Pressures (20 minutes)

- Key expenditure drivers & liabilities
- Q&A

5. Next steps (5 minutes)

- 11/14 work session
- Council survey



Introduction

Goals of the Work Session

Goals of the Work Session

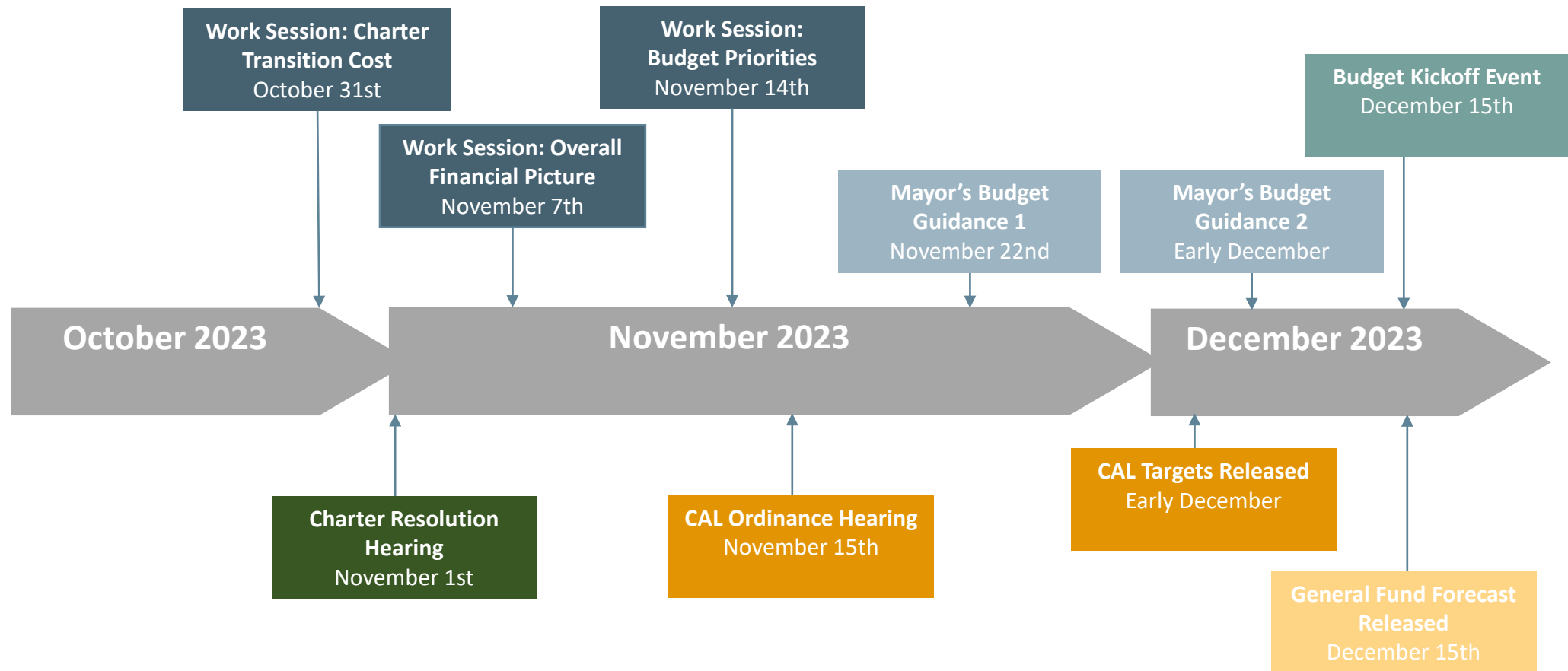
Share overall financial situation ahead of FY2024-25 budget development

Clarify inputs into revenue & expense forecasts for all funds

Begin collaborative financial planning & discussion earlier in the budget process

Highlight key budget issues for upcoming budget process

Budget Preparation Phase

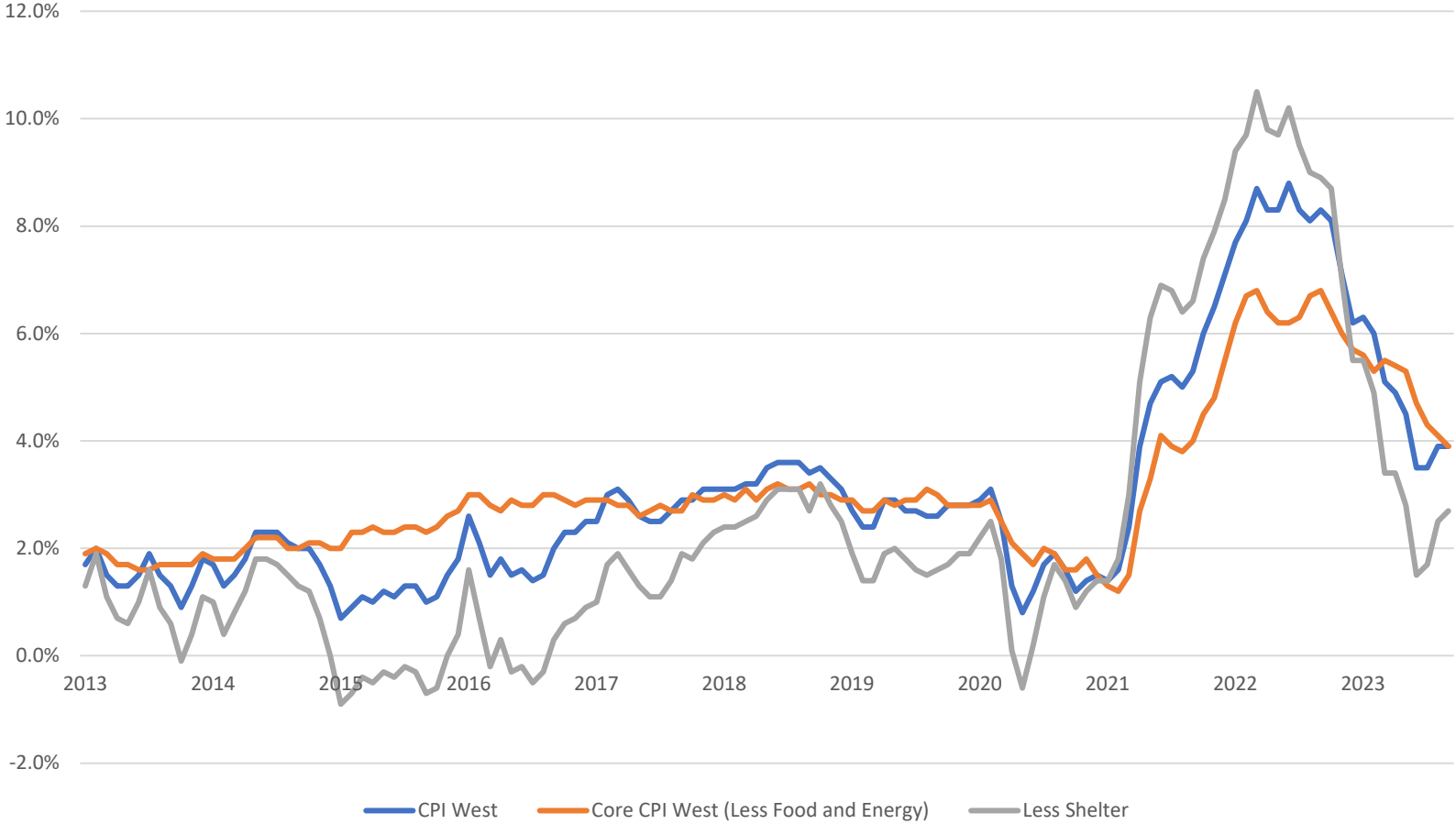




Economic Outlook

Peter Hulseman, City Economist

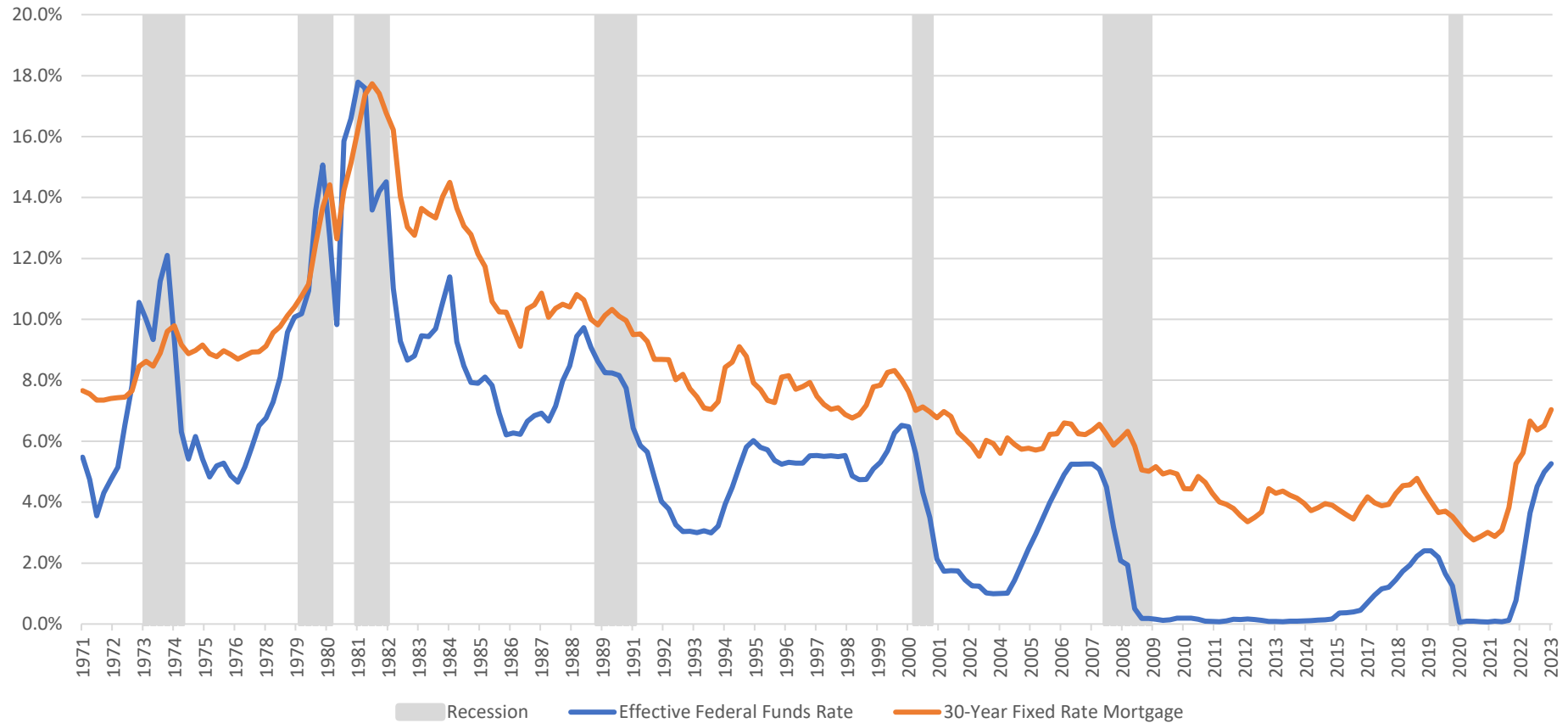
CPI West



Notes: Year-over-year % change

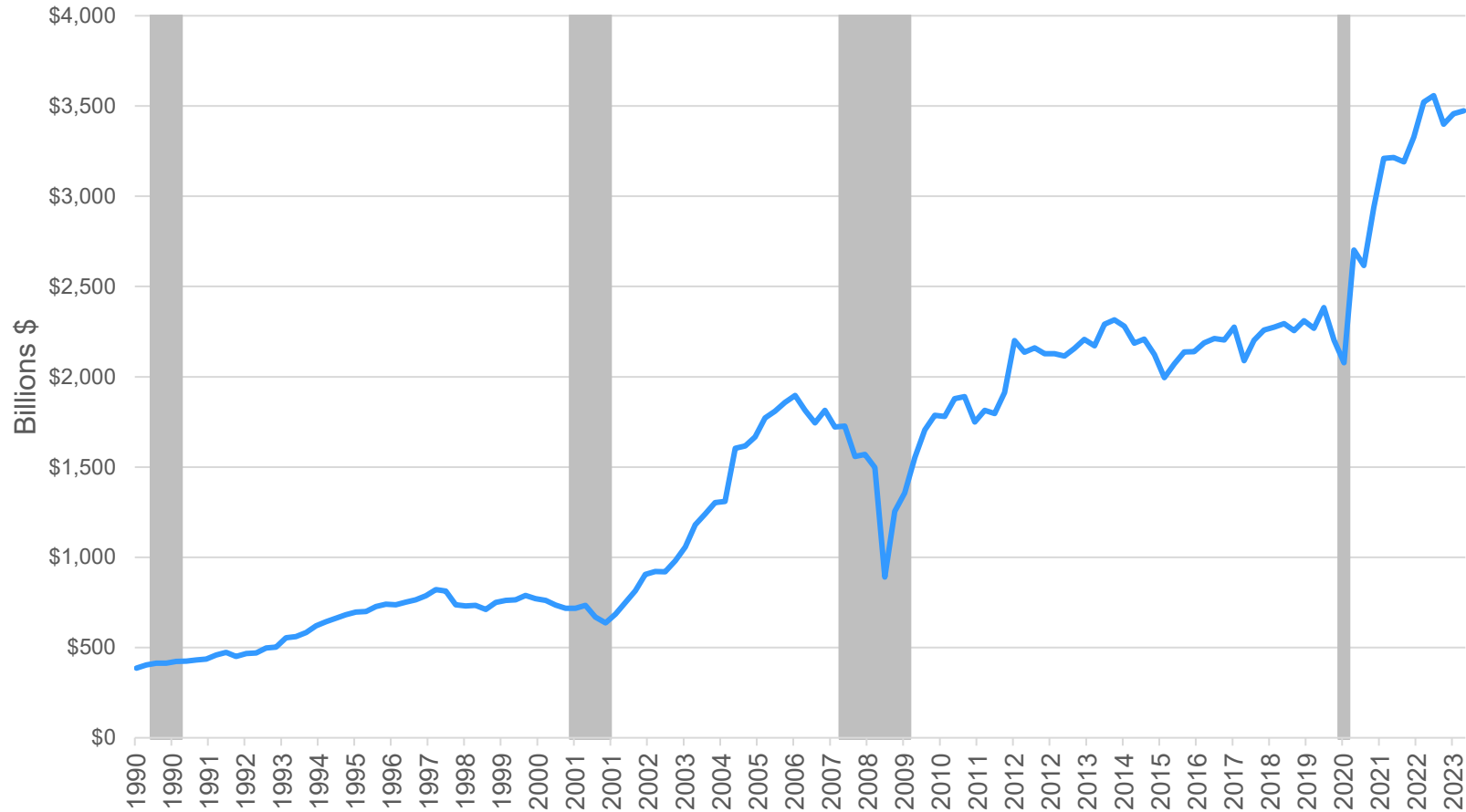
Source: BLS

Interest Rates



Sources: Freddie Mac, Board of Governors of the Federal Reserve System, St. Louis FRED

Corporate Profits



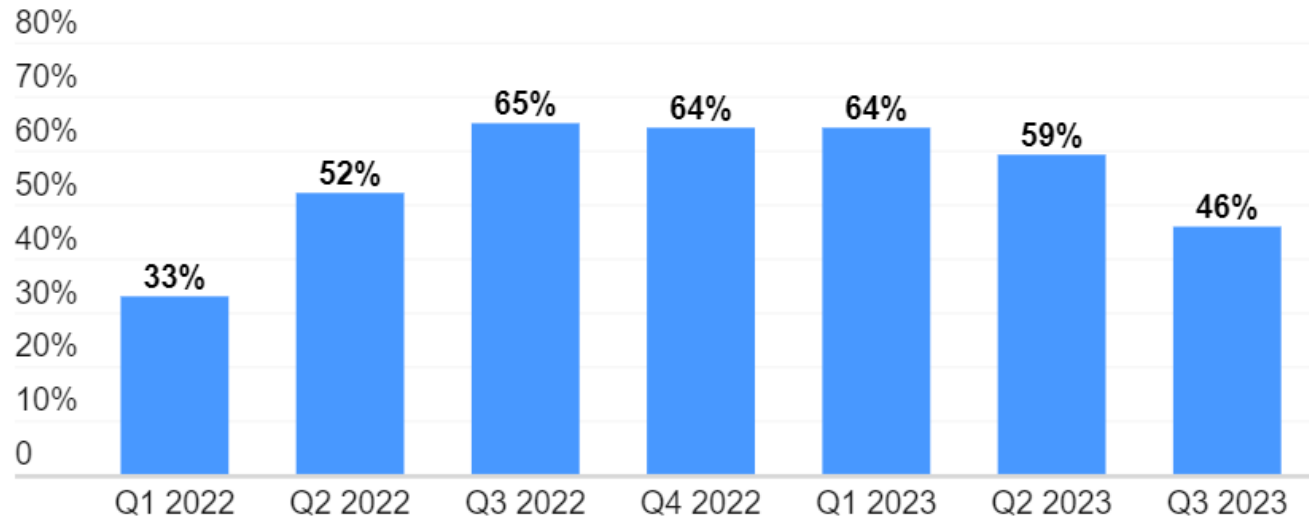
Notes: Quarterly, Seasonally Adjusted Annual Rate, Without IVA and CCAdj, Before Taxes

Sources: BEA, St. Louis FRED

Outlook and Risks

Recession odds fall to lowest in more than a year

Economists say there's still a heightened risk of a recession, but the odds of one happening within the next 12 months are the lowest since the first quarter of 2022.



Note: Figures reflect average forecast among respondents.

Source: Bankrate Second-Quarter Economic Indicators survey, September 2023

A Recession Is No Longer the Consensus

In WSJ survey, economists lower recession probability below 50% and say Fed is finished raising interest rates

Goldman Sachs cuts chances of US recession in next one year to 15%

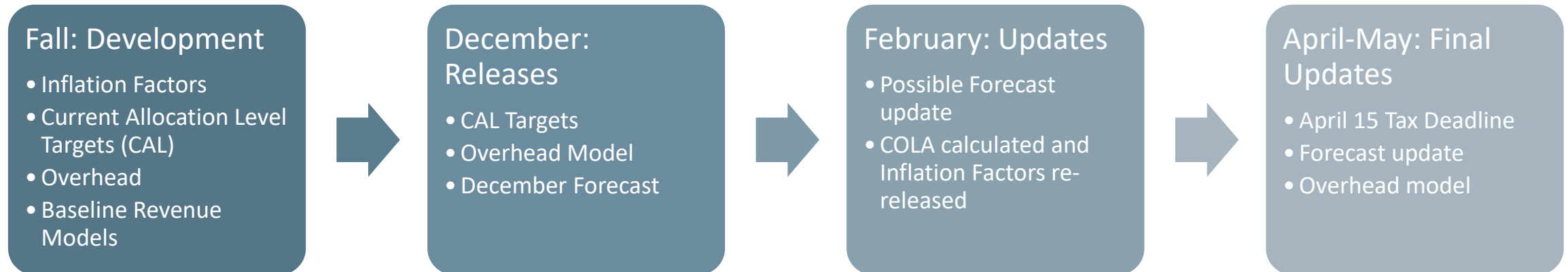
Reuters



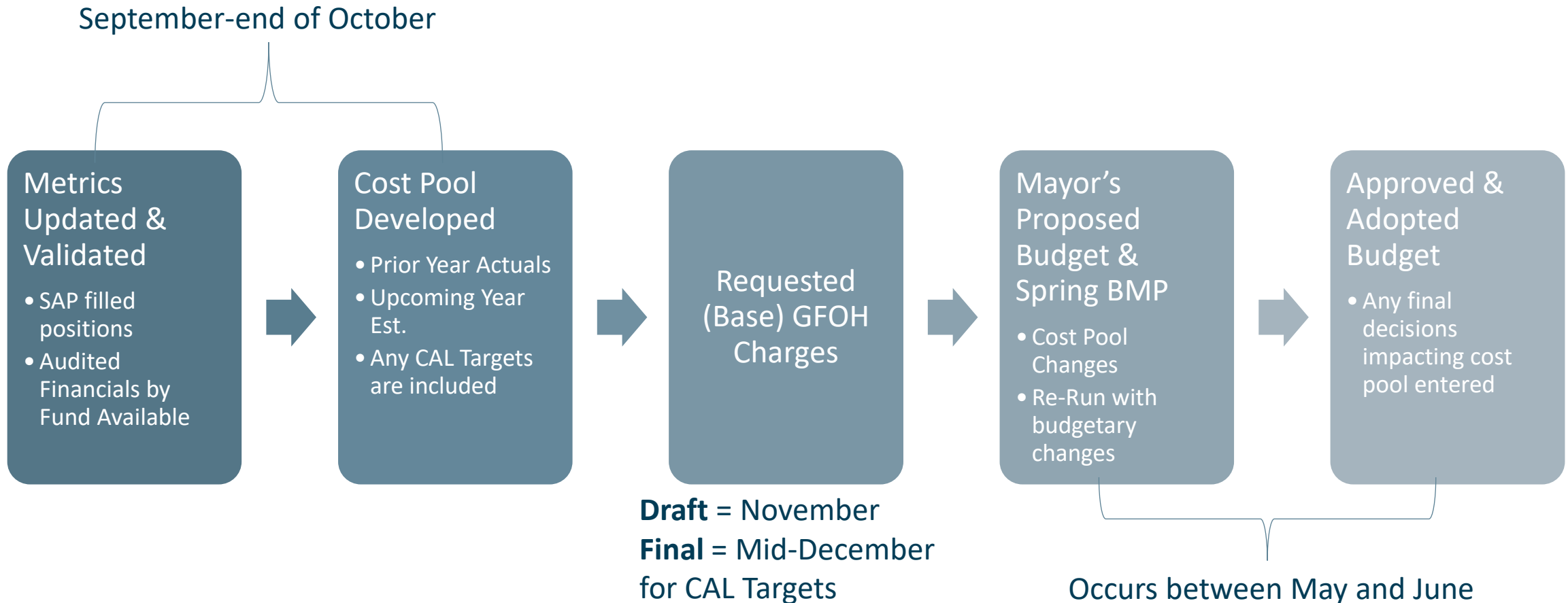
General Fund

Peter Hulseman, City Economist

General Fund Forecasting Timeline



Overhead



April 2023 Forecast

TABLE 1. Discretionary General Fund Five-Year Forecast (\$millions)

Budget Category	Fiscal Year					
	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28
Total Resources	688.1	698.1	724.2	755.4	783.3	811.1
Total Expenses	688.1	671.3	704.2	745.9	780.5	805.9
Available Ongoing		9.6	0.0	9.5	2.8	2.3
Available One-Time		17.2	0.0	0.0	0.0	0.0
Ongoing Funds Set Aside		0.0	20.0	0.0	0.0	0.0
Total Expenses with Adds & One-Time Spending	688.1	698.1	704.2	755.4	783.3	808.2
Note: Totals may not add due to rounding. FY 2022-23 figures are reflective of the Adopted Budget						
Note: \$20 million of ongoing funds are set aside in FY 2024-25 as per FY 2022-23 Budget Note						

Revenue Data Inputs

Universal Input: Population

Property Taxes: County Assessor Reports, House Price Indices, and Household Income

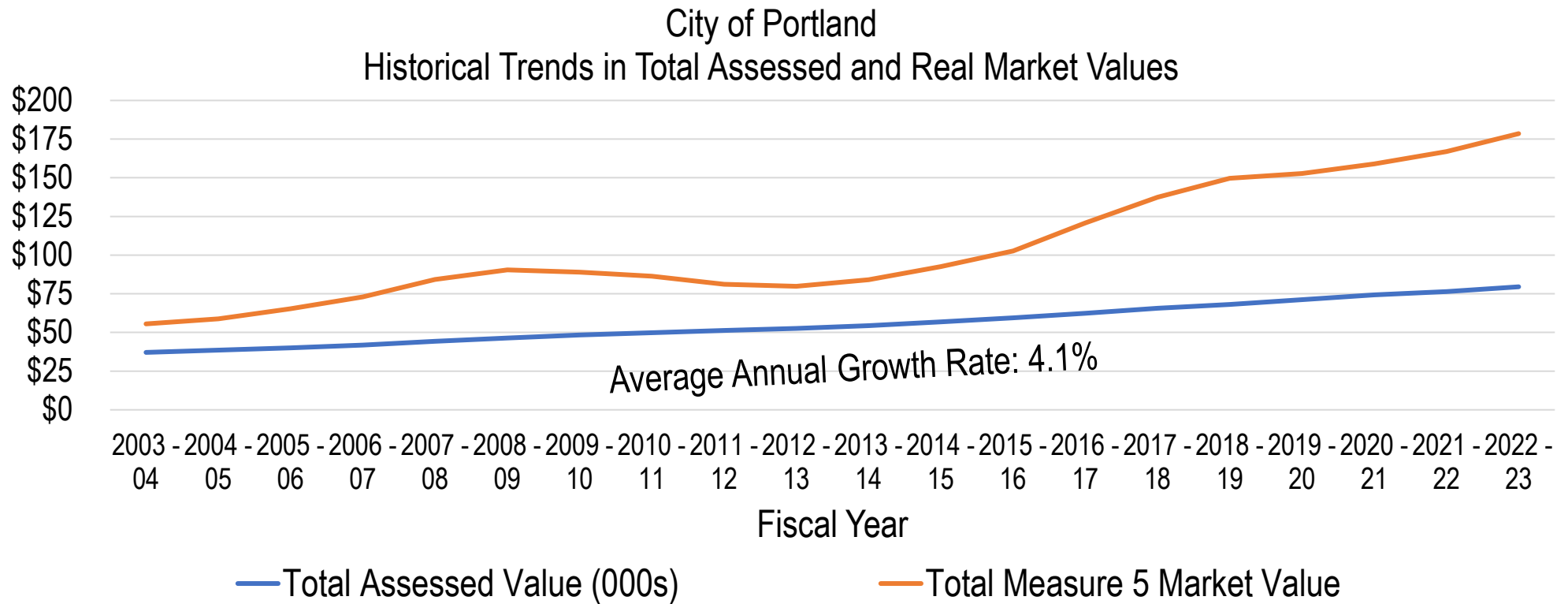
Business License Taxes: Corporate Profits, IRS Data, Composition of Revenue Reports from BRFS

Utility License/Franchise Fees: Scheduled Rate Increases

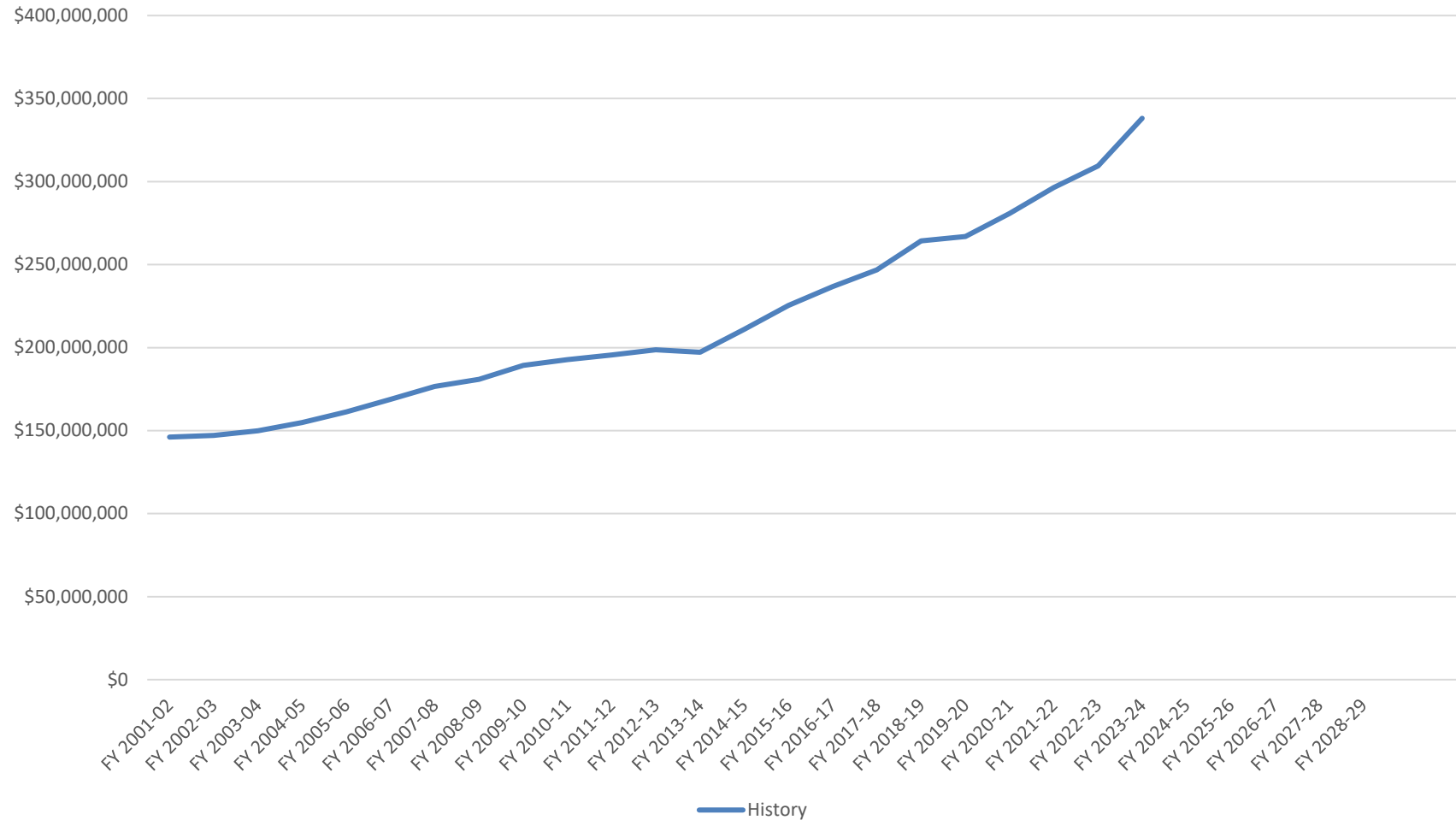
State-Shared Revenue: State Forecasts

Transient Lodging Taxes: Travel Portland Data (STR) and Port of Portland Passenger Statistics

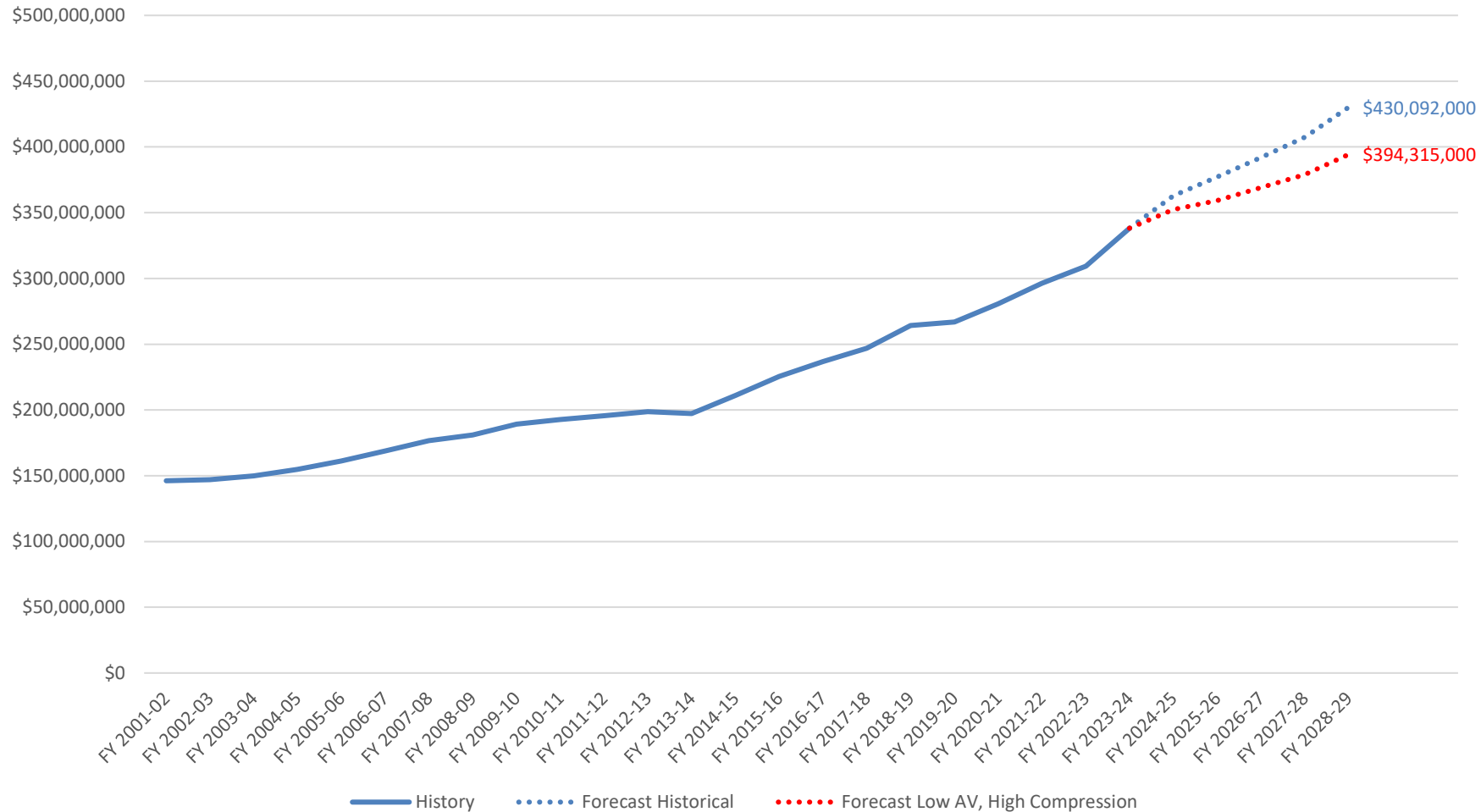
Property Taxes—History



Property Taxes—History and Outlook



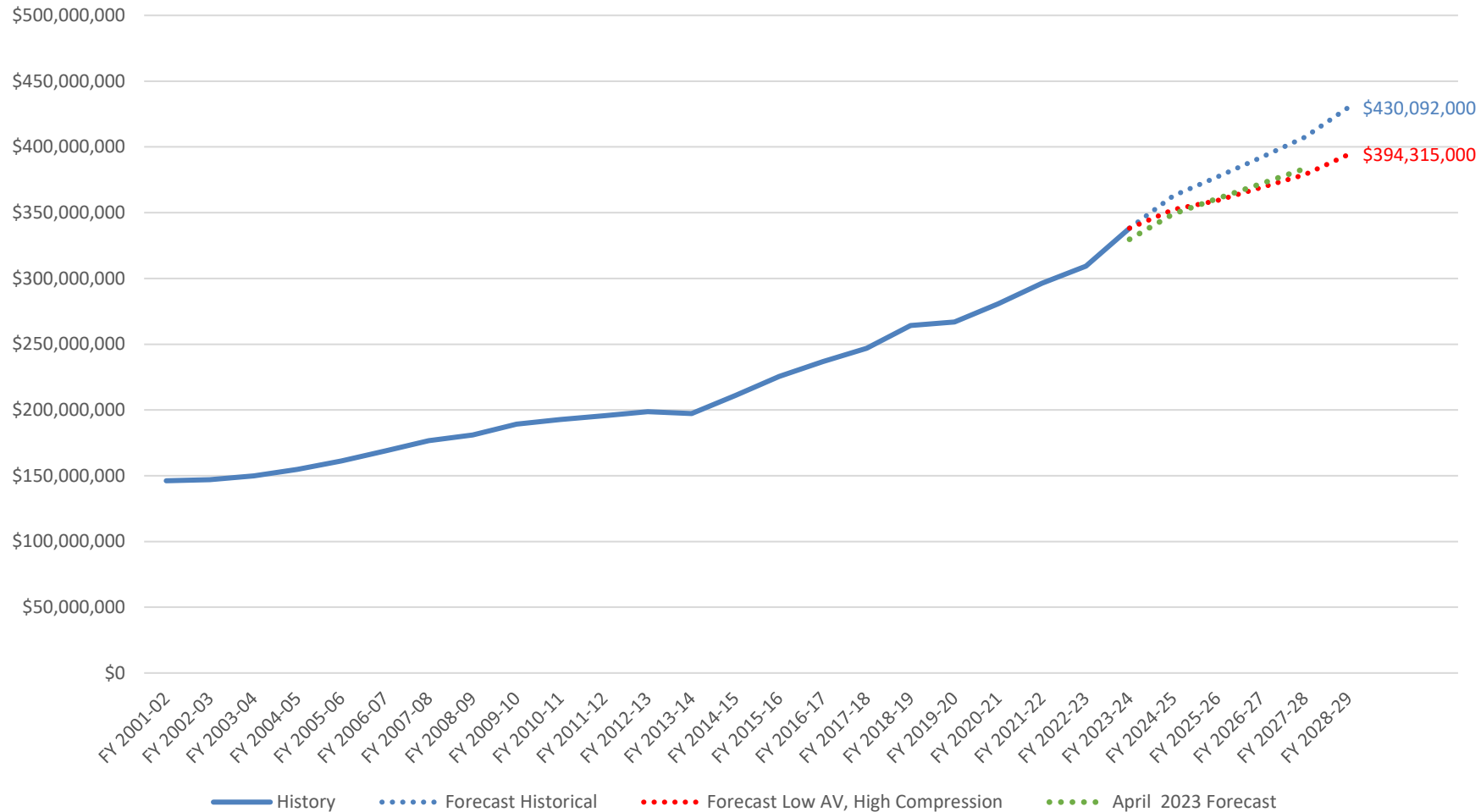
Property Taxes—History and Outlook



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

Alternative:
 AV: 2.5%
 Compression:
 5.0%-5.5%
 Delinquency:
 5.0%

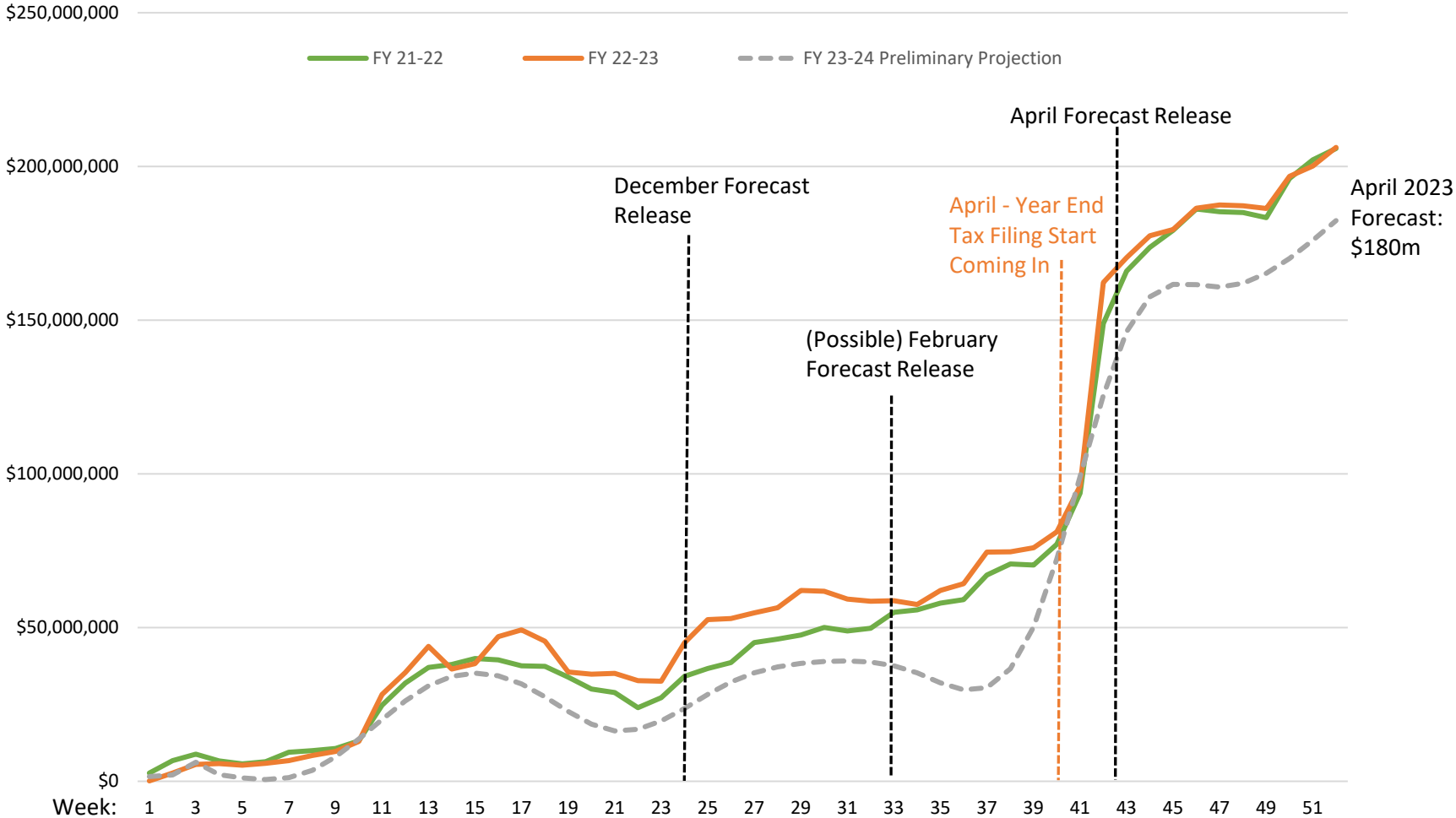
Property Taxes—History and Outlook



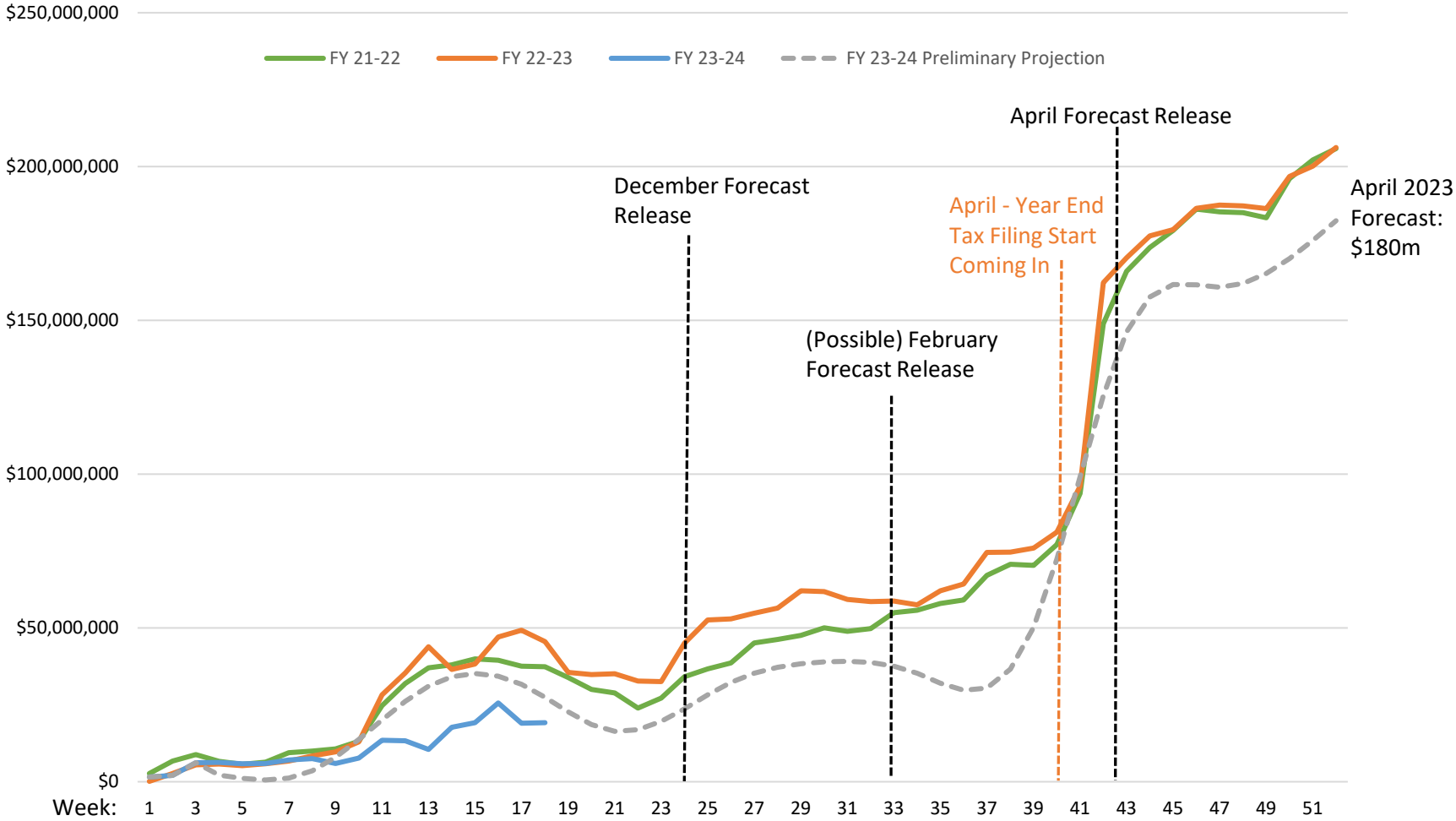
Historical:
 AV: 4.1%
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 4.0%
 Delinquency:
 4.0%

Alternative:
 AV: 2.5%
 Compression:
 5.0%-5.5%
 Delinquency:
 5.0%

Business License Taxes



Business License Taxes



Other General Fund Discretionary

Utility License/Franchise Fees (~\$90m): Typically stable, recent private utility rate increases have improved the outlook.

Transient Lodging Taxes (~\$30m): Revenue growth has slowed, and the outlook is relatively flat.

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

Forecasting Work Group

Involved Bureaus: CBO, OMF, BDS, BES, Water, PBOT, BPS, and Parks

Goals: Share assumptions, highlight upcoming budget trends, and help determine policy impacts

Future: Regular updates, Budget kick-offs

Questions and Discussion



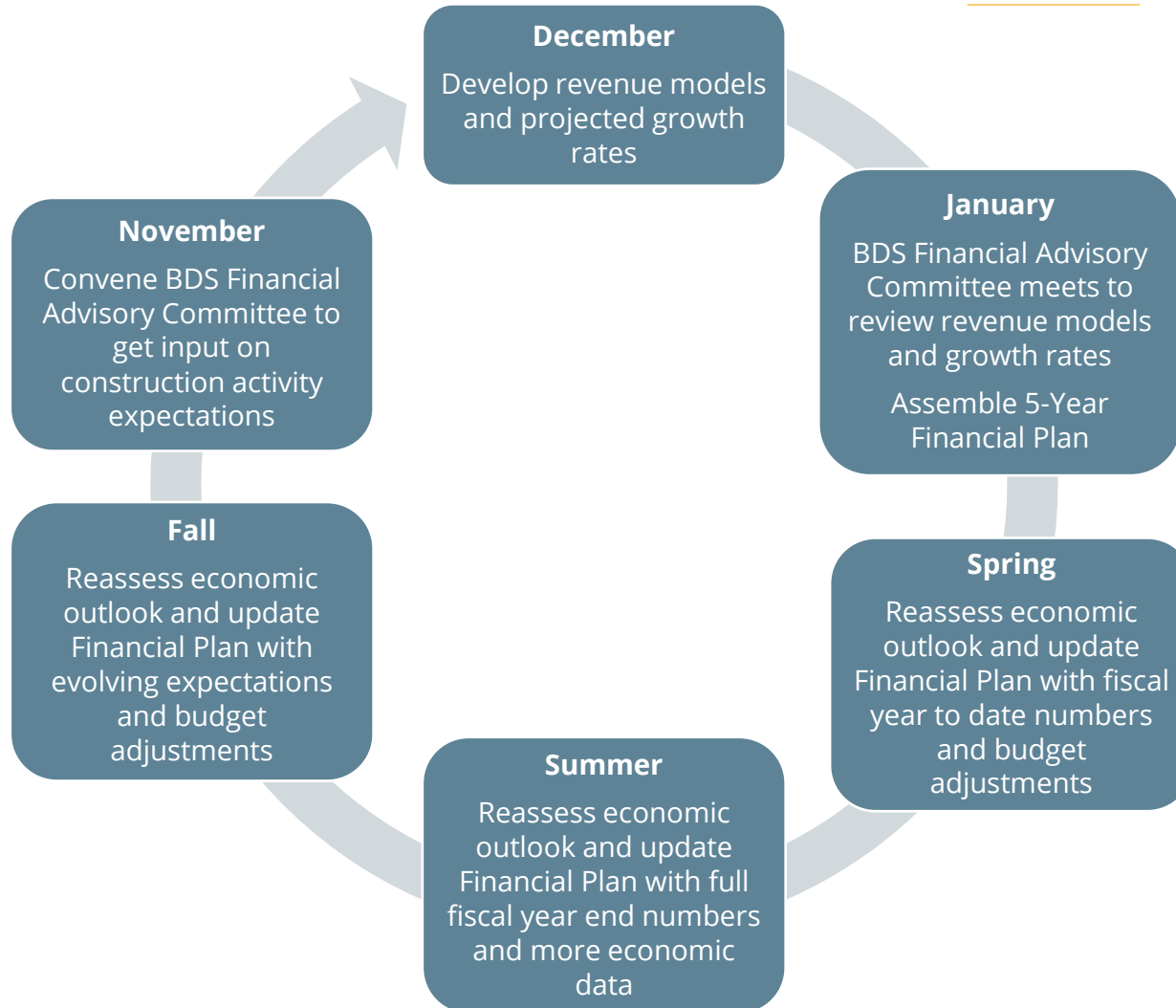


Non-General Fund Bureaus: Forecasting Process & Inputs

BDS Financial Planning

- **BDS Financial Advisory Committee convenes to provide input on the outlook for construction in Portland**
 - Meetings convened by BDS but attended by all interested bureaus (PBOT, Water, Parks, BES, Fire, PHB, BPS)
- **Independent panel of local economists, development experts and industry leaders**
 - Strong understanding of development conditions in Portland and how micro and macroeconomic factors impact construction activity
- **Unique committee within the City of Portland**
 - Plays a crucial role in informing the BDS and Citywide forecasting process

BDS Forecasting Process Continuum



- BDS employs an iterative process to financial planning
- Continuously gather economic data, information from development industry experts, and monitor permitting activity
- Update 5-Year Financial Plan as needed to account for changes in expectations and the overall economic outlook

Forecast Drivers & Risks

Revenue

- City of Portland population
- City of Portland household incomes
- City of Portland housing affordability
- City of Portland rental prices and vacancy rates
- Interest rates
- Portland's attractiveness as a destination to live, work, visit and build
- Complexity of zoning and building code

Expenditures

- Personnel costs (COLA, merit and step pay changes)
- Mandatory PERS contribution increases
- Increases associated with negotiated labor agreements
- Materials and services inflation
- Staffing requirements to meet service delivery goals in an increasingly complex regulatory environment

Risks

Portland's model of BDS development services is reliant entirely on fee revenue, which ties the bureau's finances directly to the volatile construction industry

Timing and size of large project activity difficult to project

Fees are valuation based, making large projects an important source of revenue

Macroeconomic factors are out of City's control

Interest rates currently impacting developers' ability to finance new construction

BDS Financial Outlook

- **Construction activity and bureau revenue has declined**
 - Large project activity has fallen off. No demand for new hotel or office space
 - Multifamily apartment development impacted by interest rates as well as plummeting values
- **BDS is drawing \$3 million per month from reserves**
 - \$37 million remaining in reserves
- **Taking steps to reduce the monthly draw on reserves**
- **Expecting an 18-month period of low permitting activity**
 - Need to make bureau reserves last through the duration of this downturn



Public Works Service Area



Director
Gabriel Solmer



ENVIRONMENTAL SERVICES
CITY OF PORTLAND
working for clean rivers

Director
Dawn Uchiyama



Director
Millicent Williams

Service Area Responsibilities

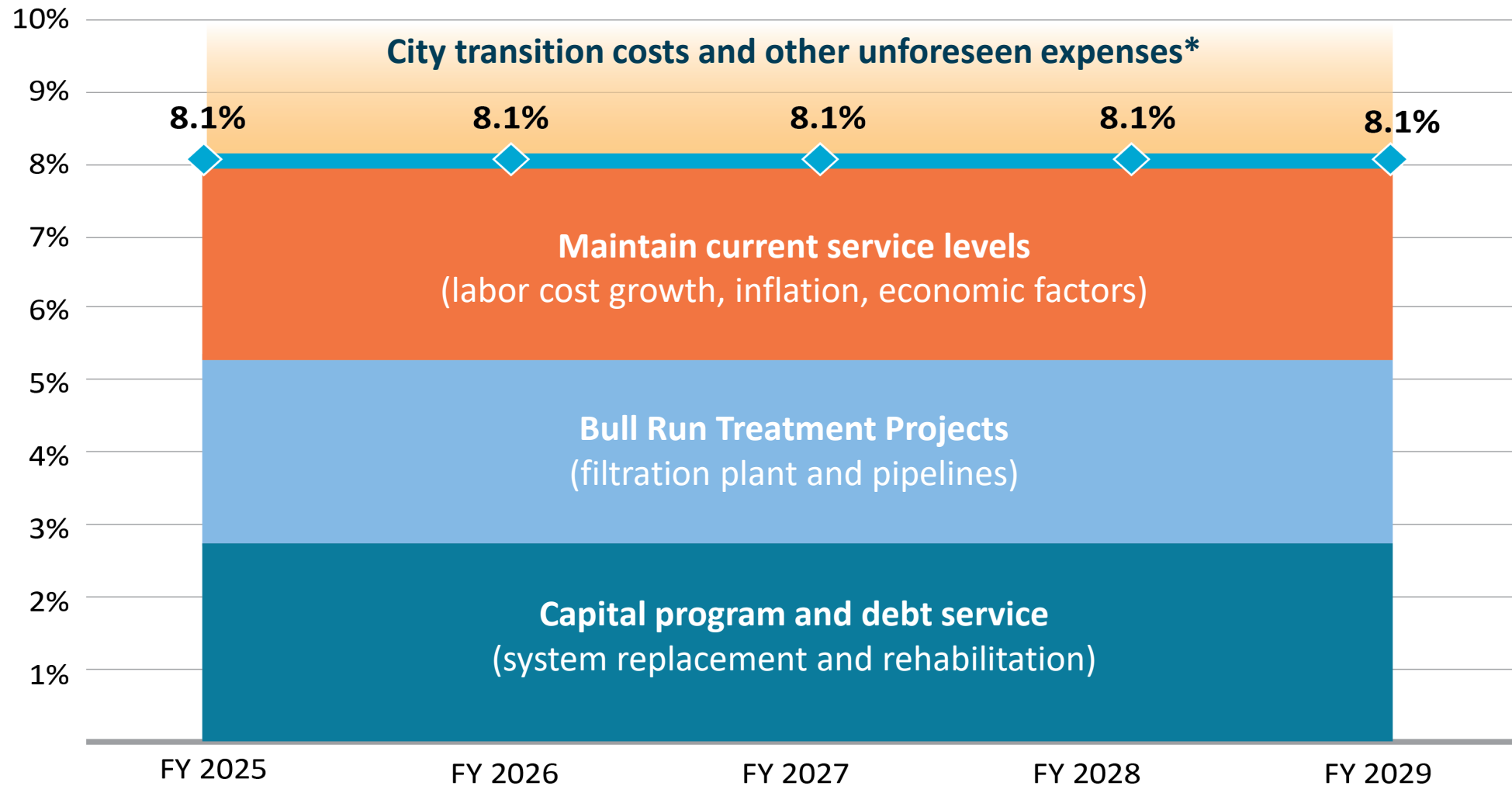
- Essential community services provided by utilities & PBOT
- Utilities driven by regulatory requirements
- PBOT driven by maintenance & safety expectations
- Old and expensive systems to maintain
- Cost and revenue pressures continue to grow





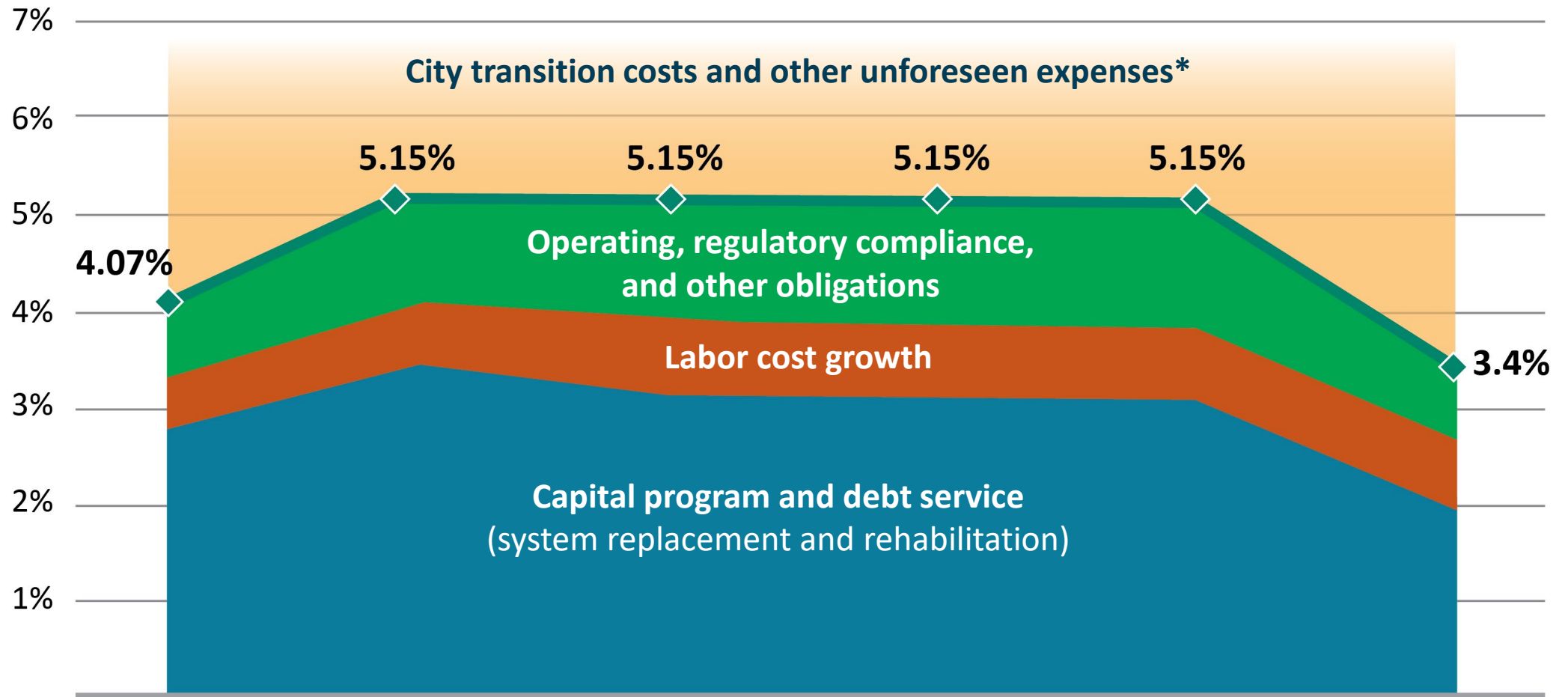
Water & BES Process for forecasting/ financial planning

- What's in the forecast
 - A balancing of current and long-term revenue and expenses
 - Leveraging of cash with borrowing needs to smooth costs over time
- How we update the forecast
 - Estimate future capital and operating expenses
 - Incorporate estimates of internal and external influences on costs
 - Estimate cash vs. borrowing necessary to support expenditures
 - Offset cash and borrowing needs with external sources (grants, federal loans, etc.)
- Target stable and predictable rates over the long-term



*This includes costs from City transition; higher General Fund overhead and City services; higher Cost of Living Adjustment and labor contracts; and unfunded liabilities.

Water Rate Drivers

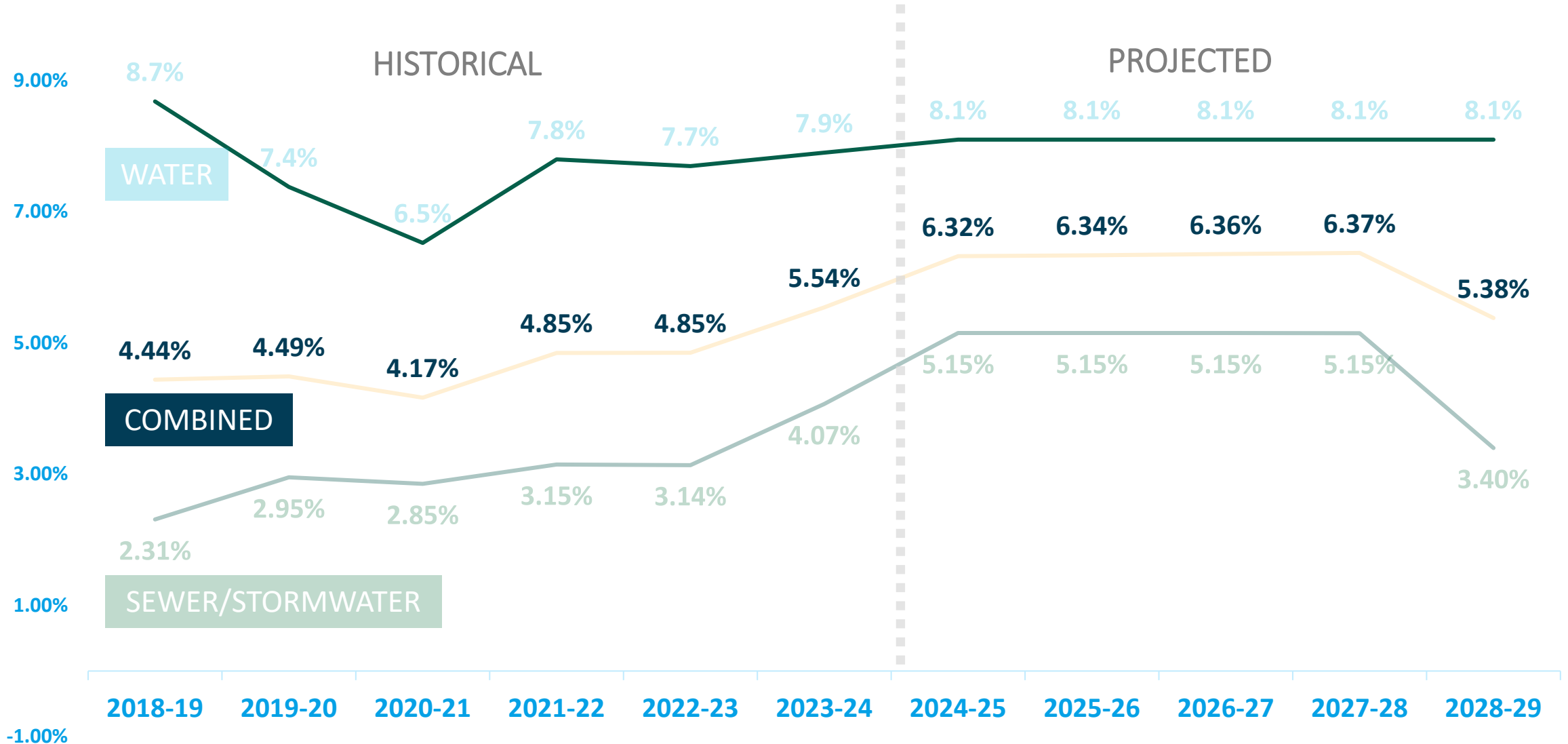


*This includes costs from City transition; higher General Fund overhead and City services; higher Cost of Living Adjustment and labor contracts; and unfunded liabilities.

BES Rate Drivers

Combined Rate Projection

Annual rate of increases to typical single-family residential monthly bill



Required
Budget
Reductions

From lower adopted rate and
fee increases for FY 2023-24

Water ↓ \$2 million

BES ↓ \$5 million



Internal Risks to Forecasted Rates

- Additional costs, beyond expectations, associated with **Charter changes and government structure**
- Facilities maintenance—no longer supported by OMF
- Other operating needs such as IT system support staffing needs
- CPPW labor agreement specifics
- Permitting
- Natural Resources
- Emergency Management
- Security
- Communications
- Interagency increases
- General Fund Overhead increases

External Risks to Forecasted Rates

- Higher than forecast macro-economic increases (BES, Water)
 - COLA/Inflation
 - Construction costs
- Higher than forecast environmental liability (BES, Water)
- Impact of Camp Creek Fire/increased groundwater use (Water)

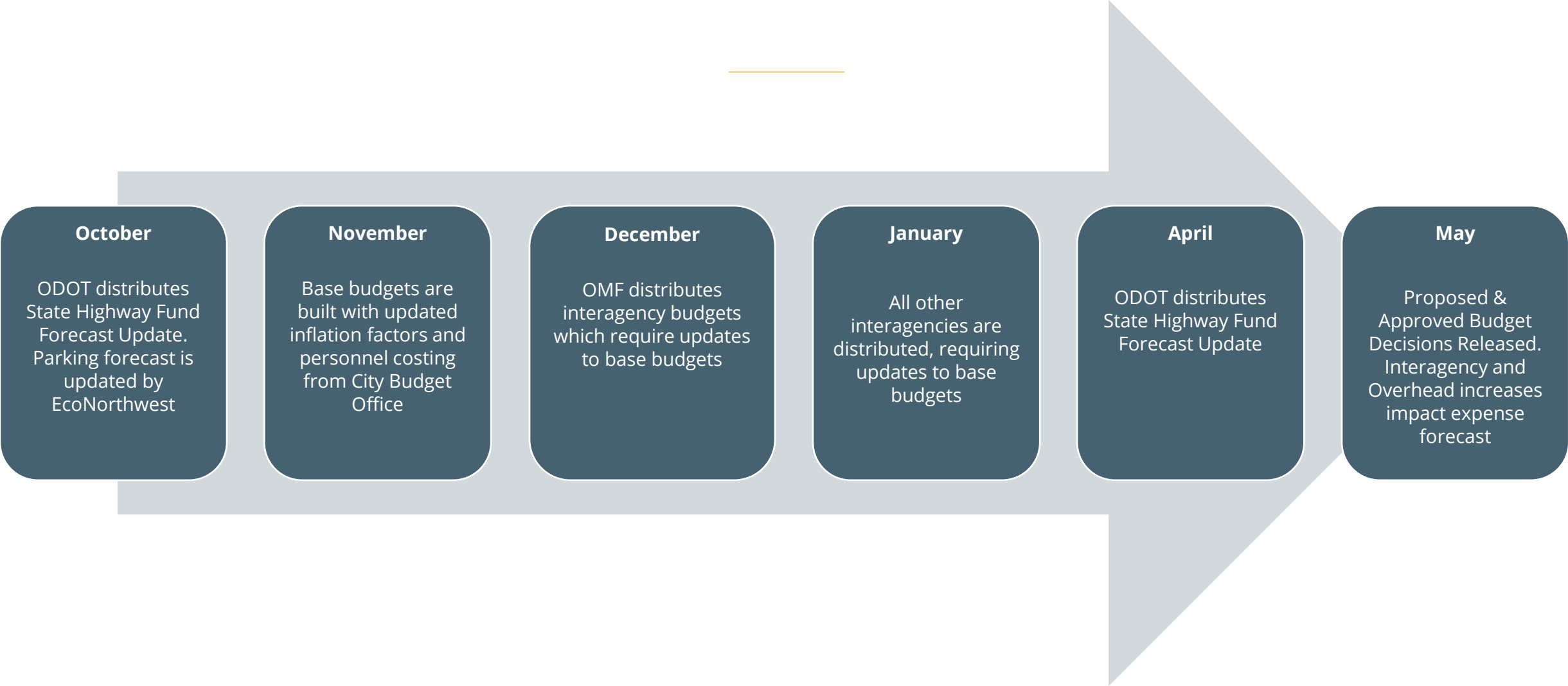




Long-term Risks to Forecasted Rates

- Backlog of capital replacement
- Large capital investment in aging system
- New regulatory requirements
- Economic risks

PBOT Forecast - Process



PBOT Forecast - State Highway Fund

- Revenues can only be used for the creation, preservation, and maintenance of Oregon's public highways, roads, streets and roadside rest areas.
 - In practice, this excludes the use of these revenues for:
 - Streetcar and Aerial Tram
 - Parking Enforcement
 - Harbor Wall Maintenance
 - Does allow for administration of eligible programs
 - Does allow for construction and maintenance of bus lanes (not purchase of vehicles)
- Resources are split approximately 50/30/20 between ODOT, counties, and cities
 - County apportionment is based on share of statewide registered vehicles
 - City apportionment is based on share of total city population
 - The City of Portland and Multnomah County have a separate agreement that allocates 80% of our combined resources to the City and 20% to the County (based on share of roads maintained within the County)

PBOT Forecast - Parking Revenues

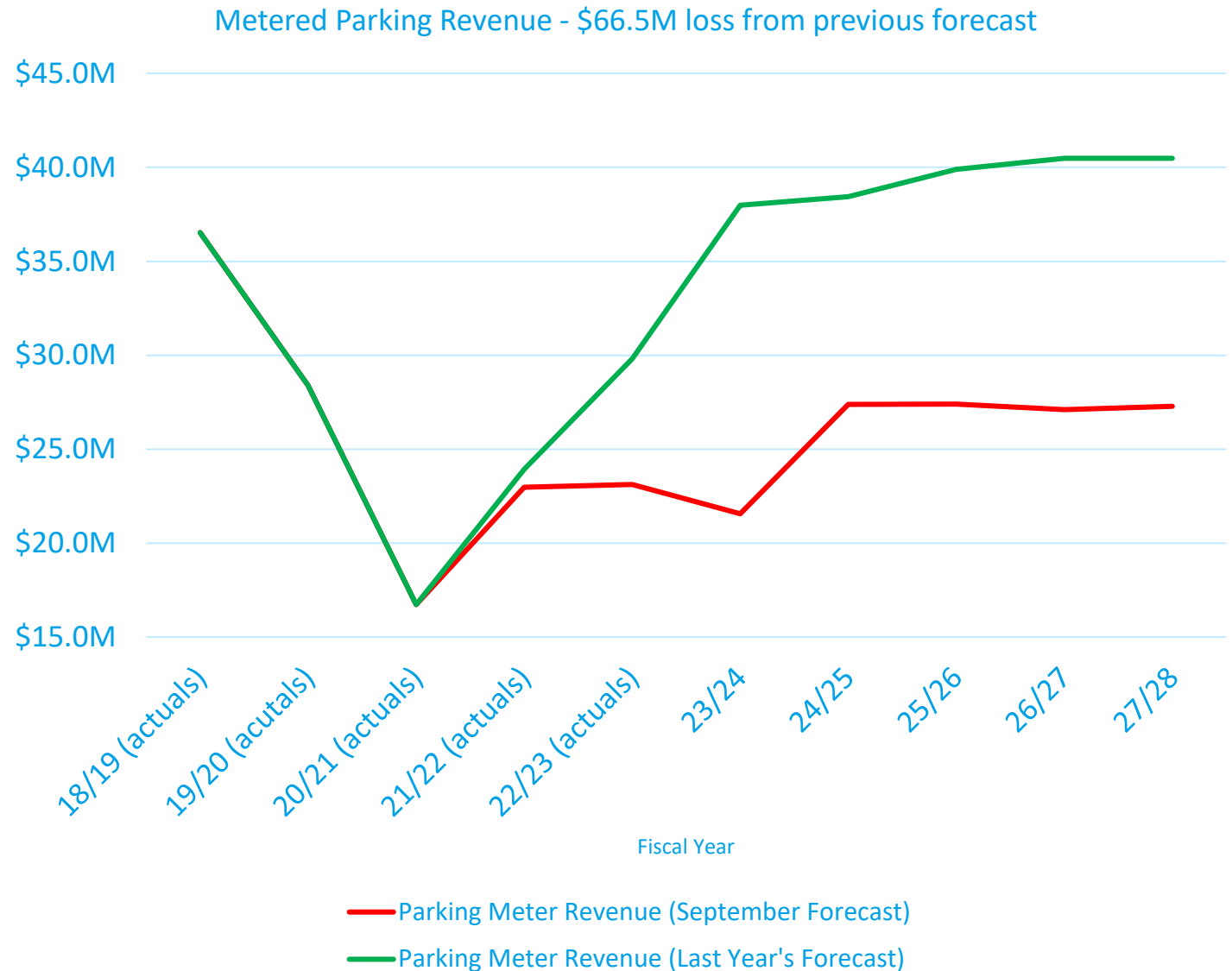
- Metered Parking
 - Districts outside of the downtown core are subject to the net meter revenue sharing policy which requires that 51% of net revenue stay within that district
 - The first priority for metered parking revenues is to pay the capital and operating costs of the meter system.
 - Revenues remaining after the capital and operating costs are covered may be allocated to support transportation services within the meter district and citywide.
- Parking Citations
 - The County Courts System retains 50% of all paid citation revenue, the City gets the other half
- Area Parking Permits
 - Annual fees for parking in zones adjacent to the Central City to help address commuter parking
 - Some districts add a surcharge that can be used to fund transportation demand management programs within the district. The surcharge revenues are restricted to the parking district.
- Temporary Street Use Permits
 - Fees charged to rent the parking space for short-term uses such as moving or weddings and long-term uses such as construction activities

PBOT Forecast – Revenue Methodology

1. The Oregon Department of Transportation provides forecast updates for State Highway Fund revenues.
2. Starting in FY 2023-24, the on-street parking meter forecast was contracted out to ECONorthwest. Meter collections are forecasted by district and revenues are split with all districts outside of the downtown district.
3. The Area parking permit forecast is completed in-house. There are no new parking districts forecasted, so changes in expected revenue are tied to fee increases only.
4. The Temporary street use permit forecast is completed in-house. Factors that influence the forecast include development permit data provided by the Bureau of Development Services and assumptions around market demand for short-term uses (e.g. one-day permits for wedding caterer). Fees are increased yearly for inflation.
5. The Parking citation revenue forecast is completed in-house. Factors that influence the forecast include parking meter collections and number of parking enforcement officers.

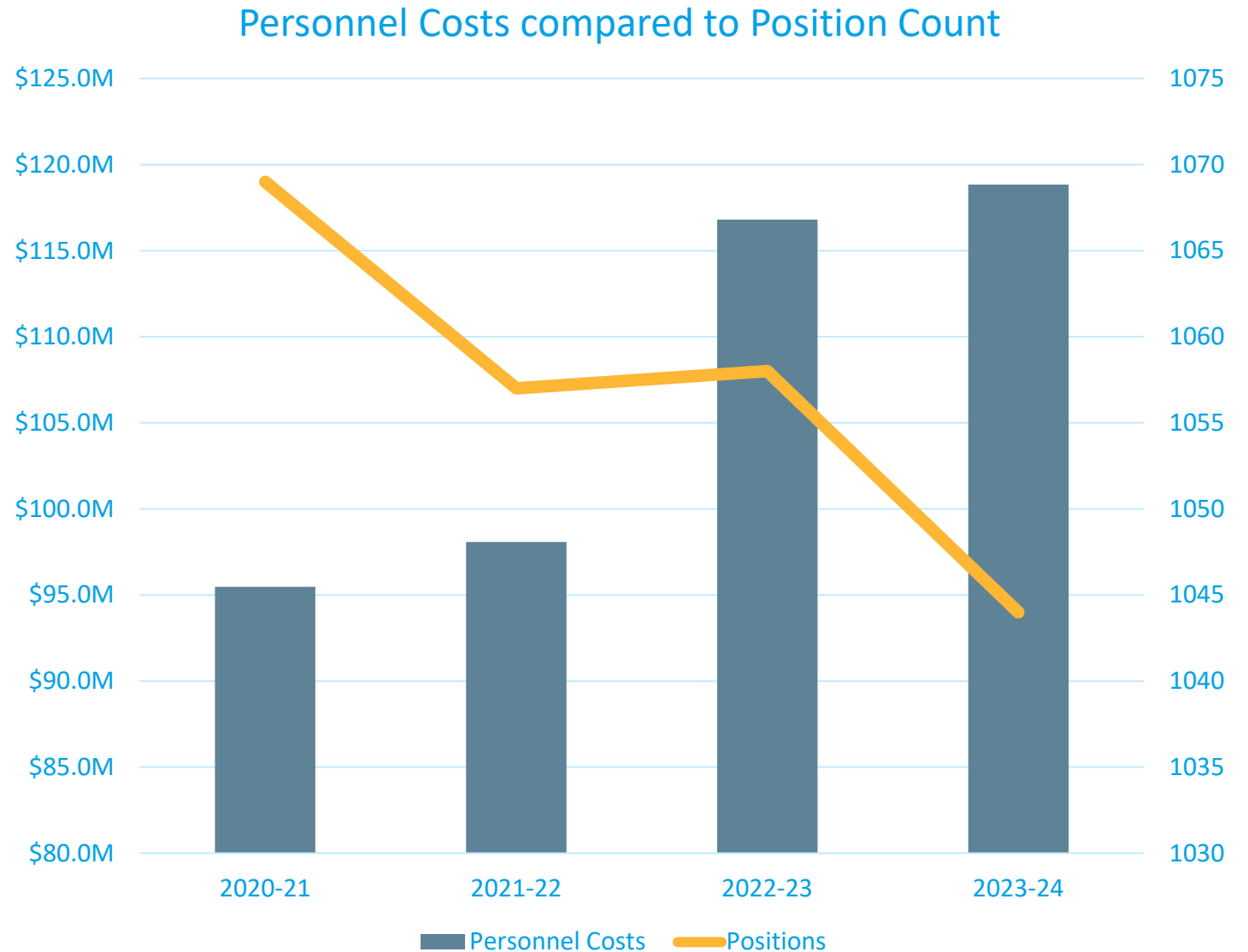
Revenue Driver – Parking Meters

- Meter revenues are projected to remain relatively flat throughout the forecast.
- Updated forecast projects meter revenues at about 73% of pre-Covid levels.
- This forecast is the most volatile and has the highest likelihood for positive or negative changes based on the health of downtown businesses and return to in-person work.
- **There are no parking meter increases projected in the 5-year forecast.**



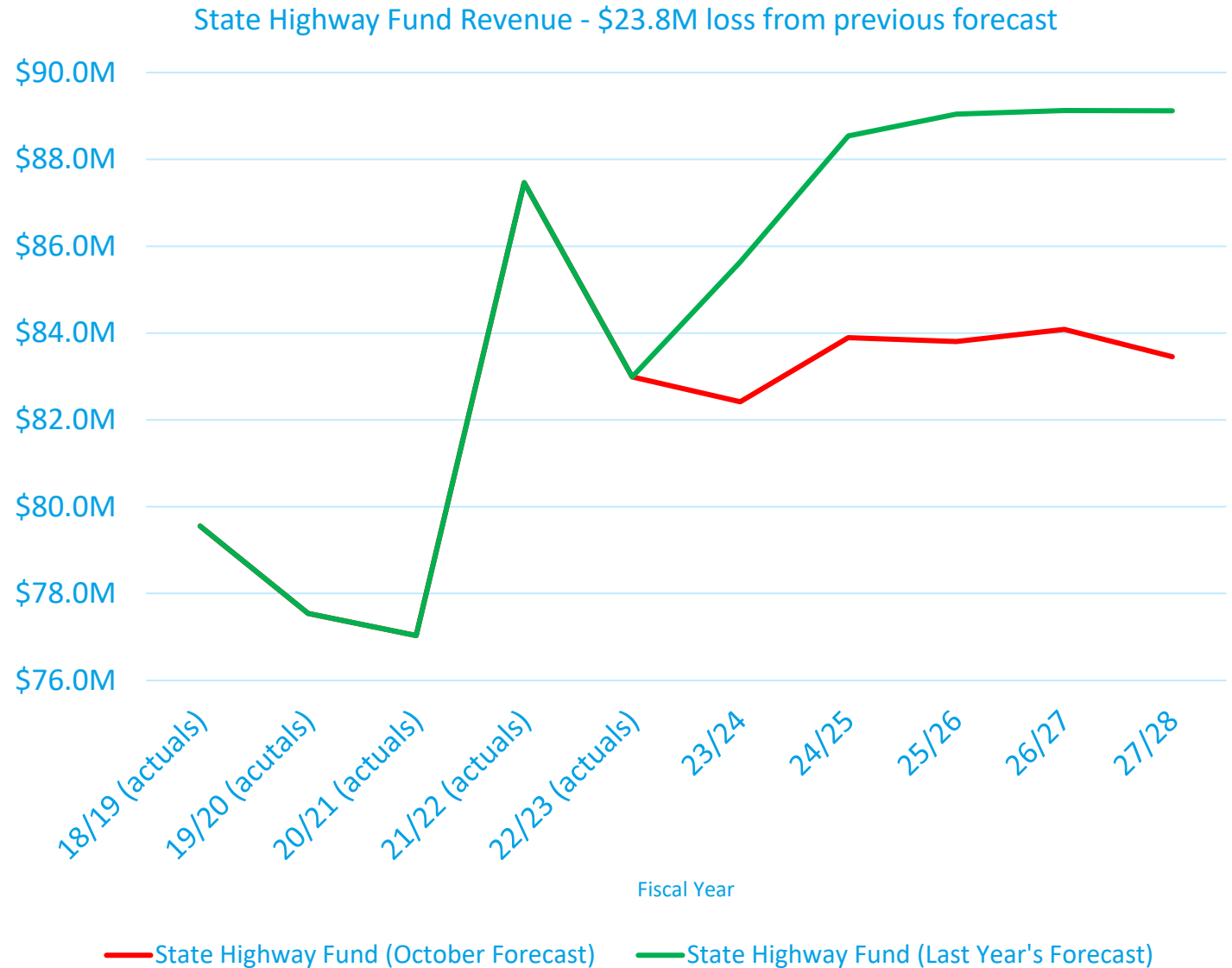
Expense Driver: Personnel Costs

- Labor costs have consistently outpaced other inflation factors.
- Even though our position count has dropped from 1,069 to 1,044 since FY 2020-21, our personnel services expenditures have increased 25%.
- The most recent LiUNA contract negotiations accounts for \$2.6M of the \$32.6M shortfall.
- Biennial increases to the required employer contribution to PERS is also a major cost driver.



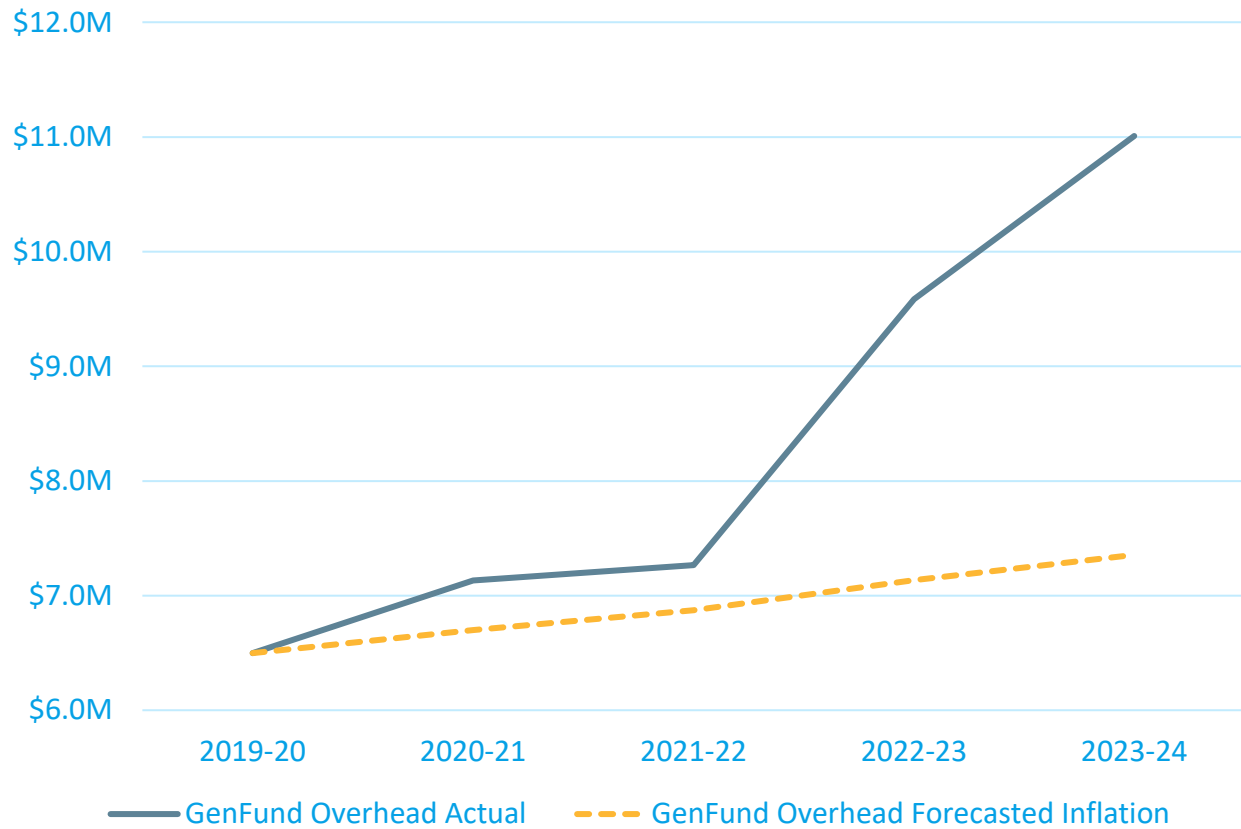
Revenue Driver— State Highway Fund

- Projected to remain flat, with only a 1.3% increase from FY 2023-24 to the end of the 5-year forecast.
- This forecast could get worse in future years if current trends in population share loss and registered vehicle loss continue in Portland.
- **There are no rate increases on gas taxes or other State Highway Fund revenues projected in the 5-year forecast.**

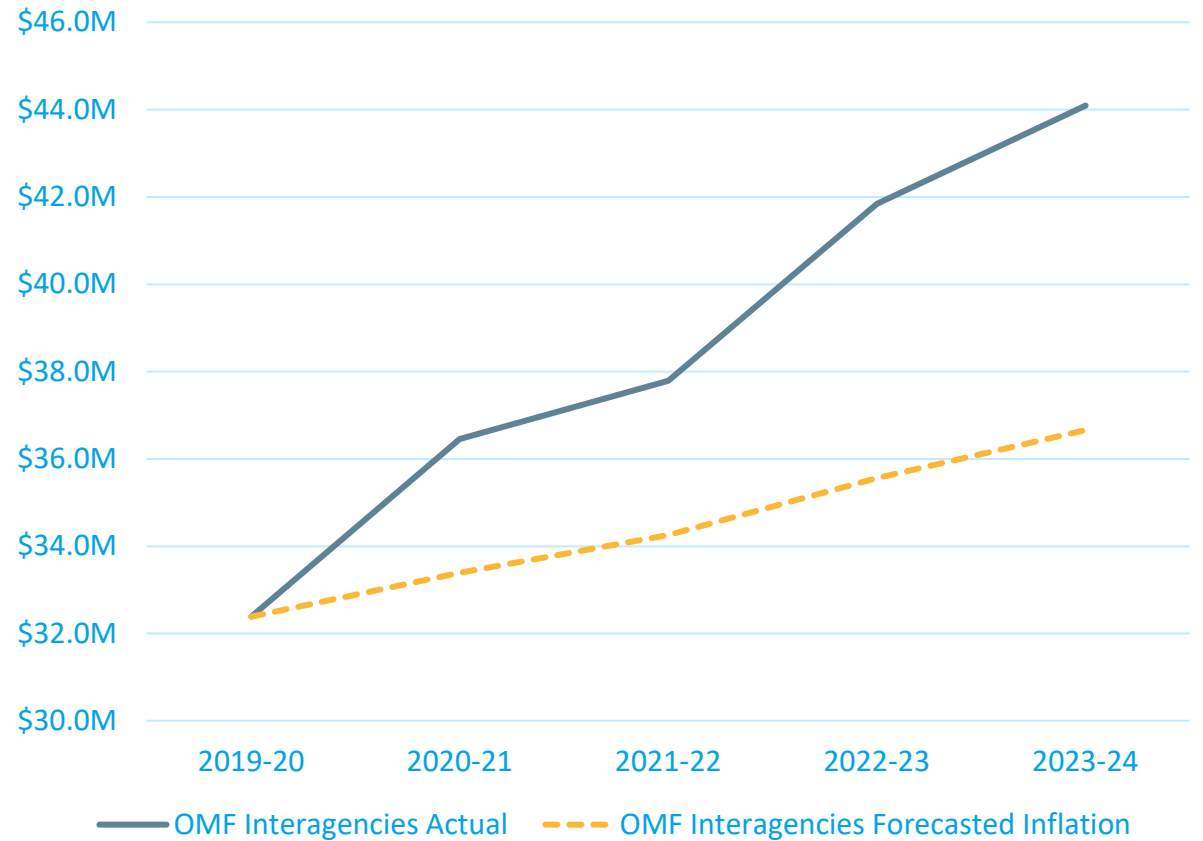


Expense Drivers: Overhead and Interagencies

General Fund Overhead: \$3.7M Ongoing Impact



OMF Interagencies: \$7.4M Ongoing Impact



Expense Driver: ADA Curb Ramp Program (CREEC)

Original budget assumptions

- Avg cost per ramp: \$5,500
- Total costs over 12 Years: \$113.5 million
- PBOT share: \$60.5 million (53%)
- General Fund share: \$53.0 million (47%)
 - Included award of Build Portland 2 funding starting in FY 2024-25

Current budget assumptions

- Avg cost per ramp: \$15,000 (most recent ramps are over \$20,000)
- Total costs over 12 Years: \$292.9 million
- PBOT share: \$228.8 million (78%)
- General Fund share: \$64.1 million (22%)
 - Build Portland 2 is no longer a program. Need \$12.3M of General Fund resources to meet original funding plan.

PBOT Forecast – Other Risks and Liabilities

- Inflation on material costs (concrete, steel, asphalt)
 - Increases above inflation are not accounted for in the forecast
- Assume savings from 2% underspending across all programs
 - As we continue to cut, our confidence in underspending across programs decreases. 2% underspending will be difficult to accomplish after \$32 million in cuts are implemented.
- Streetcar operations & maintenance
 - There is a risk that Statewide Transportation Improvement Funding is not continued in future years
 - This \$3M is currently paying for operations & maintenance of the Streetcar system
- Portland Harbor Superfund
- American with Disabilities Act future lawsuits
 - Potential for lawsuits regarding sidewalks, inadequate street signage, audible push buttons at crossings

Questions and Discussion





Expenditure Pressures

Tim Grewe, City Budget Director

Overview of Expenditure Pressures

Personnel Costs

- Citywide staffing costs over time
- Emergency response staffing cost issues

Fiscal Cliff

- Ongoing needs with one-time funding
- For example, Joint Office, Safe Rest Villages, Impact Reduction Program

Legal Liabilities

- Police Oversight Board
- Portland Harbor
- Columbia River Levee
- ADA Compliant Curb Ramps (CREEC)
- Others

Charter Transition Costs

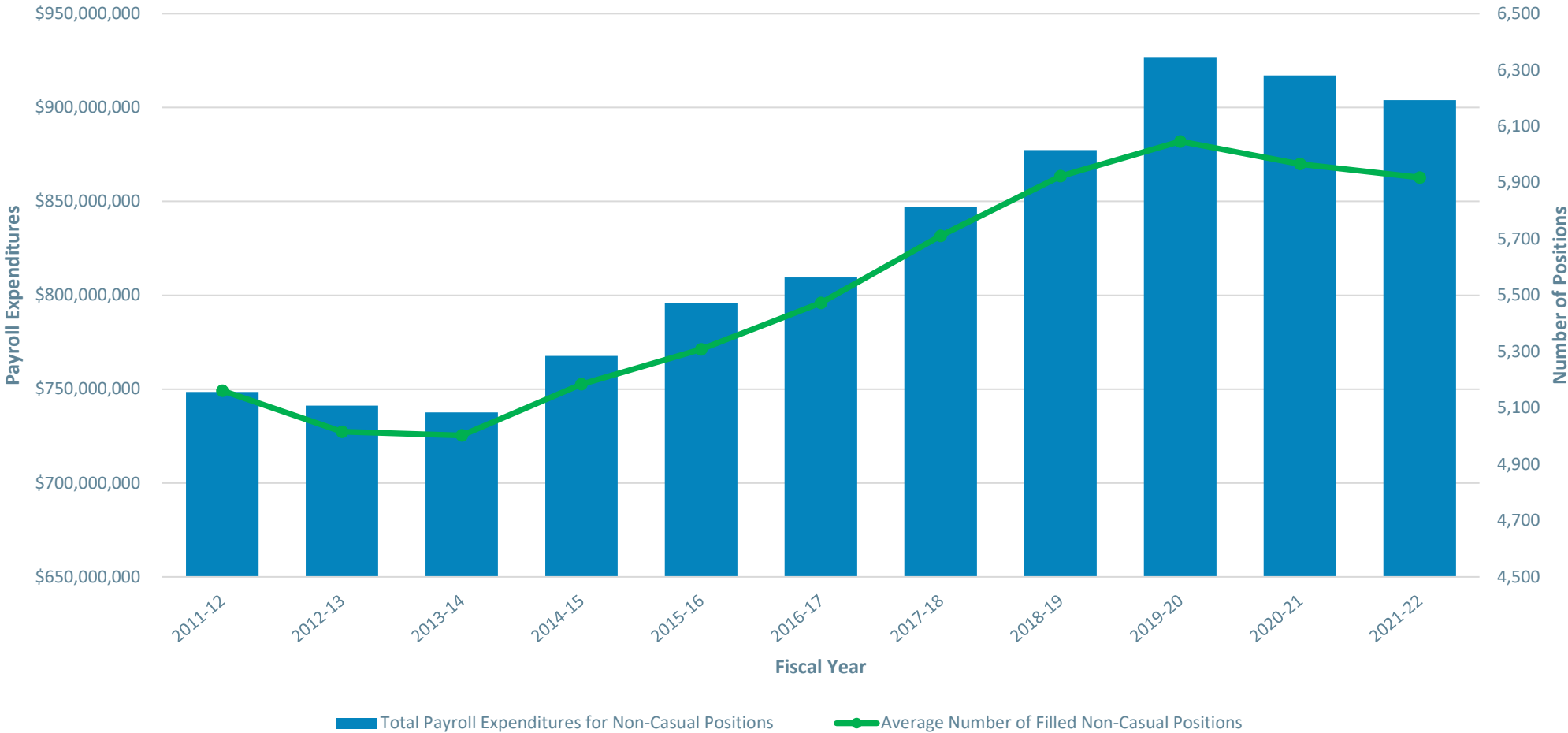
- One-time and ongoing costs related to organizational restructuring

PBOT Budget Deficit

- Projecting \$32 million in ongoing cuts beginning in FY 2024-25

Staffing Costs Over Time

Citywide Count of Filled Non-Casual Positions and their Inflation Adjusted Cost



Emergency Response Staffing Costs

Drivers of Increased Emergency Response Staffing Costs

- Increased use of overtime due to vacancies and timelines for training
 - Reduced capacity for trainings through the pandemic
 - Long training pipelines
 - Existing staff serve as coaches
- Retirements & payouts
- Paid Leave Oregon
- Changes due to recent labor contracts

Emergency Response Staffing Costs

Portland Police Bureau

The Portland Police Bureau has generated 2,134 more YTD Overtime Hours through the **first six pay periods**.

Much of this overtime is attributable to hiring efforts, which is supported by the fact that PPB is averaged 1,360 more Coach's Premium time sheet hours per pay period than the prior three-year average.

Per Article 63 in the PPA CBA, members will receive a 10% pay increase premium for any pay period in which they serve as a coach with an assigned trainee.

PPB 1.5x Overtime (Wage Code 7O02)

<i>Fiscal Year/Pay Period</i>	1	2	3	4	5	6	Total
2021	10,300	10,267	7,616	9,174	9,192	7,580	54,129
2022	4,123	5,272	4,562	5,200	6,358	5,753	31,268
2023	6,058	6,411	6,509	6,416	6,775	6,106	38,274
Prior 3-year Average	6,827	7,317	6,229	6,930	7,442	6,480	41,224
2024	5,414	6,655	6,835	8,076	8,162	8,215	43,358
Difference from 3-year Average	(1,413)	(661)	606	1,147	721	1,736	2,134

PPB Coach's Pay Hours Logged (Wage Code 7P02 - Coach PPA)

<i>Fiscal Year/Pay Period</i>	1	2	3	4	5	6	Total
2021	5,524	6,460	6,500	5,720	5,519	6,010	35,733
2022	3,444	2,480	2,880	4,800	5,170	5,196	23,970
2023	3,440	5,040	3,840	4,383	4,080	4,400	25,183
Prior 3-year Average	4,136	4,660	4,407	4,968	4,923	5,202	28,295
2024	5,449	5,620	5,086	6,860	6,320	7,120	36,455
Difference from 3-year Average	1,313	960	679	1,892	1,397	1,918	8,160

Emergency Response Staffing Costs

Portland Fire & Rescue

In FY 2023-24, PF&R was generating, on average, 2,000 more hours in Call-shift overtime through the first 5 pay periods than the prior three-year average.

Call Shift Overtime Hours by Pay Period

PF&R Call Shift Overtime						
<i>Fiscal Year/Pay Period</i>	1	2	3	4	5	Total
2021	11,647	12,633	11,602	13,569	11,673	61,123
2022	13,577	13,433	12,728	13,440	13,186	66,364
2023	16,316	17,510	16,404	15,538	14,553	80,320
Prior 3-year Average	13,846	14,525	13,578	14,182	13,137	69,269
2024	15,631	15,957	15,454	16,364	16,317	79,722
Difference from 3-year Average	1,784	1,431	1,876	2,182	3,179	10,453

Emergency Response Staffing Costs

Sworn staff retirements

There are currently 213 sworn staff in Police and Fire that are eligible to retire, with 27-pay period lookbacks in December and June. While the likelihood of all 213 retiring is low, both Police and Fire are already experiencing budget constraints associated with existing operational costs and current service levels.

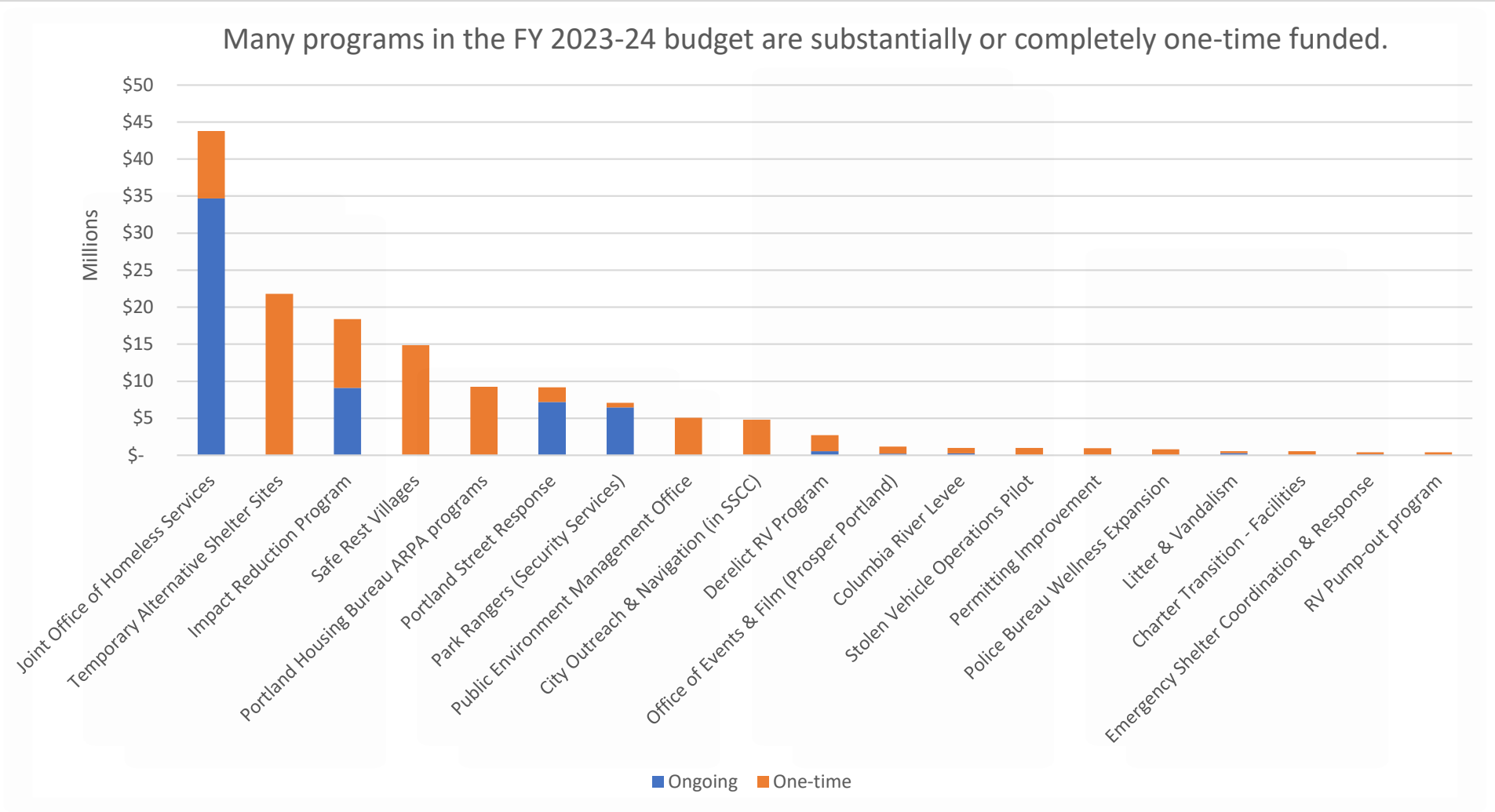
The total risk to the General Fund in the CY is **over \$9 million**.

Exposure of Public Safety Retirement Payouts to General Fund in Current FY 2023-24

	PFFA	PPA
<i>Maximum Possibly Accrued Vacation (1 Year)</i>	444.51	216.00
<i>3-year Cash Out Cap</i>	1,333.53	648.00
<i>Top of Step Salary (without Premiums)</i>	\$97,955.26	\$113,131.20
<i>Work week hours</i>	2,621	2,080
<i>Hourly Rate (Equals Annual Salary/2621 Annual Hours per Suppression Schedule)</i>	\$37.37	\$54.39
<i>Potential Payout Per Firefighter</i>	\$49,838.34	\$35,244.72
<i>Total Eligible</i>	113	100
	\$5,631,732	\$3,524,472
<i>Total Risk to General Fund (before PPA Sick Leave)</i>		\$9,156,204

Fiscal Cliff

Many programs in the FY 2023-24 budget are substantially or completely one-time funded.





Next Steps

Tim Grewe, City Budget Director

Next Work Session: Council Budget Priorities

Tuesday November, 14th 9:30-11:30: Council Budget Priorities Work Session

REMINDER: Please fill out the Council budget priorities survey that CBO distributed.

Questions and Discussion

