



# Citywide Fiscal Outlook Work Session

October 22, 2024



# Agenda

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## 1. Introduction (5 minutes)

- Goals of the work session

## 2. Economic picture (10 minutes)

## 3. Revenue Outlook (40 minutes)

- General Fund & local option levies
- Permitting revenue
- Parks
- Transportation & Utilities
- **Q&A**

## 4. Expenditure Pressures (30 minutes)

- Operating expenditure drivers: Personnel, internal services
- Capital expenses
- Fiscal cliff
- **Q&A**

## 5. Budget Process Preview (30 minutes)

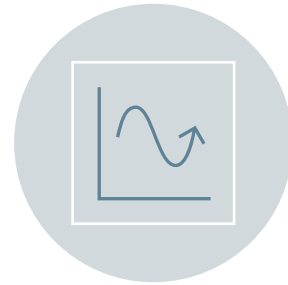
- FY 2025-26 budget development process
- Budget guidance preview
- **Q&A**

# Goals of the Work Session

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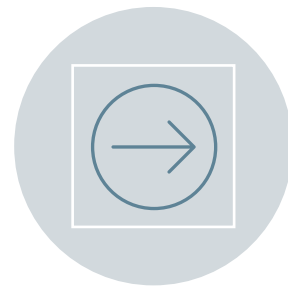
Preview upcoming budget guidance and reason for required reductions



Understand how we got here



Look at the City's financial outlook holistically



Preview the FY 2025-26 budget development process & changes from past

# Key Points

The City's expenses are growing faster than revenues

Key revenue sources 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 current allocations, with even more cuts needed to support any additional expense beyond what Council has allocated



# Economic Outlook

Peter Hulseman, City Economist

# 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)



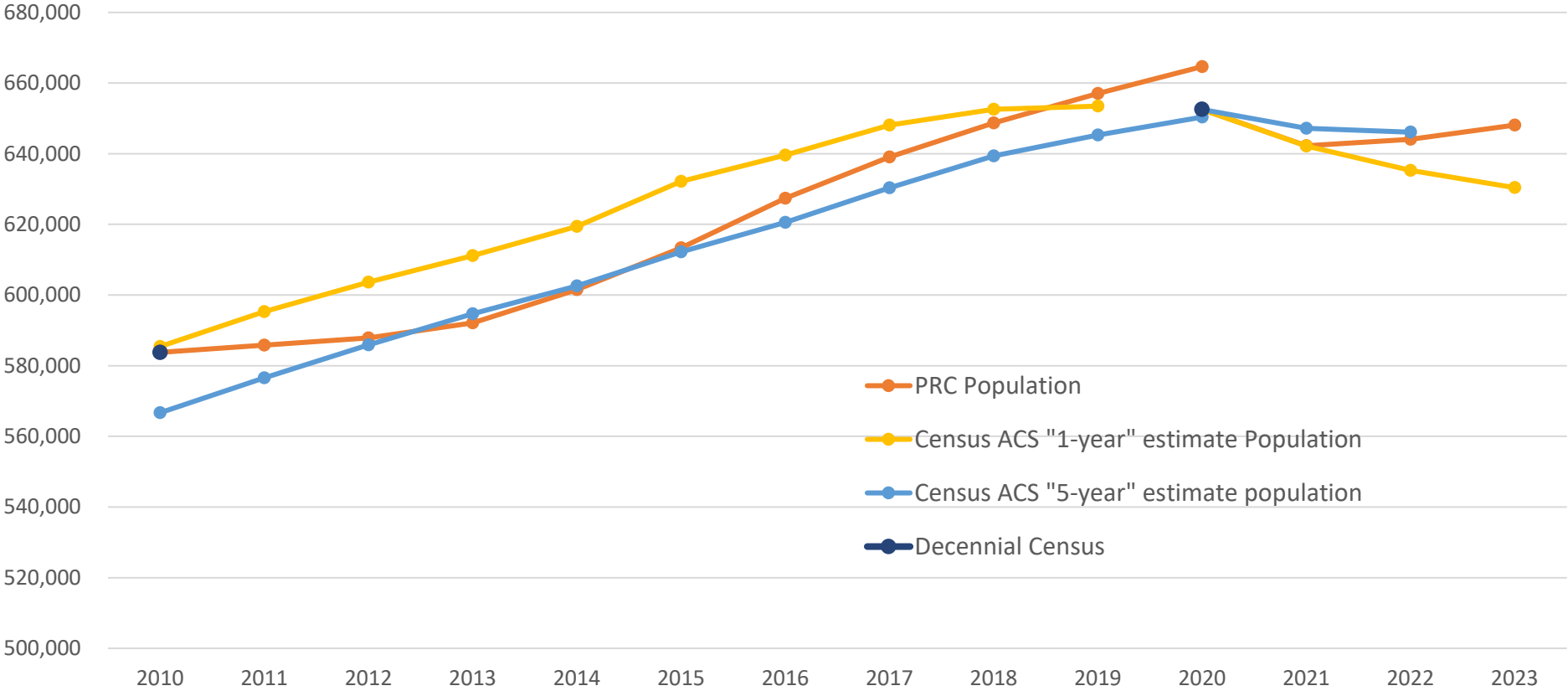
**For Portland, a different story...**

Population Loss/Flat Outlook

Employment not back to pre-2020 levels

Downtown Office Vacancy Rate Climbing

# City of Portland Population

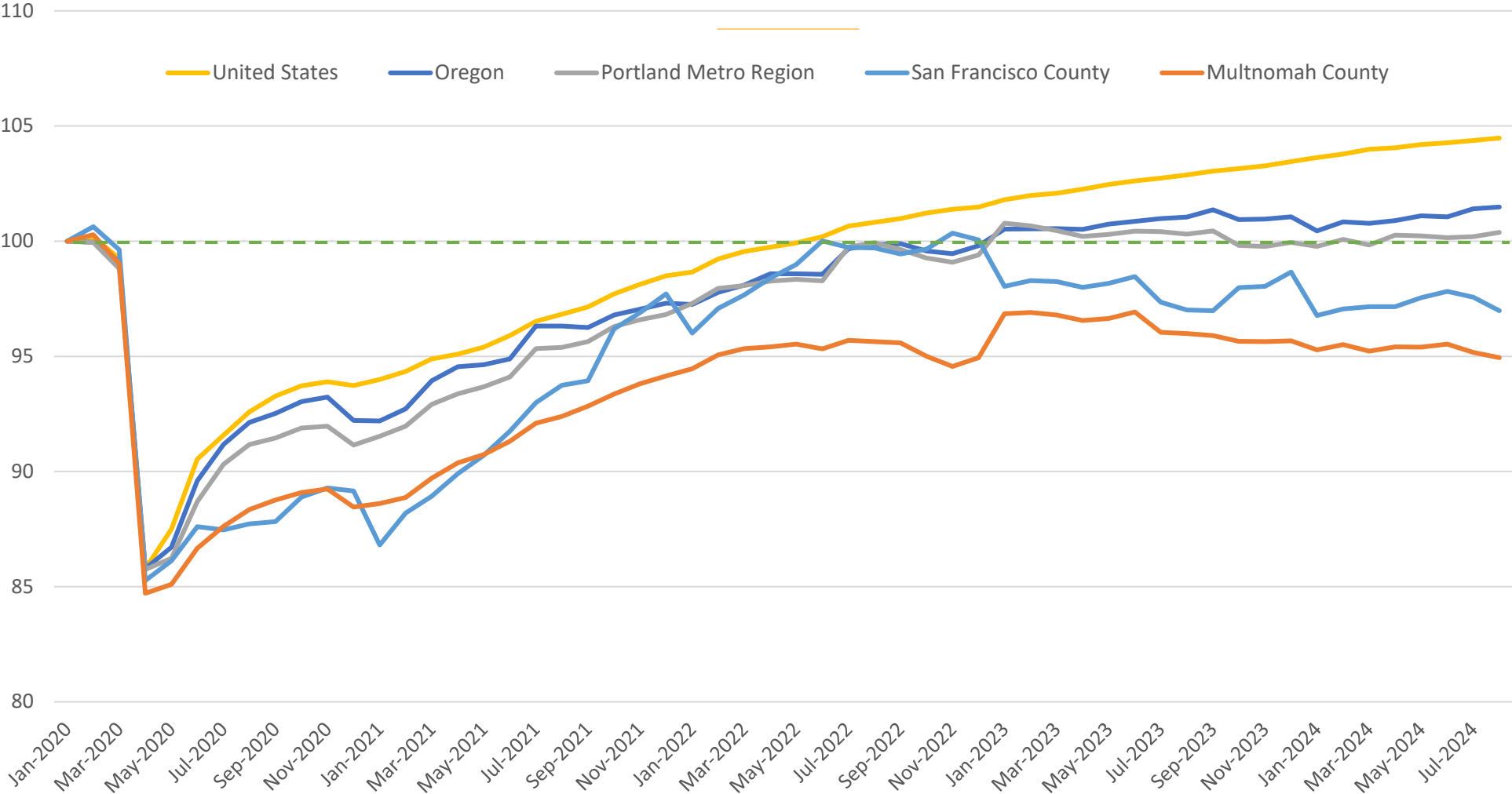


Data Sources: Population Research Center at Portland State University, The U.S. Census Bureau, American Community Survey

Note: PRC estimates are revised for 2021 and 2022

# Total Nonfarm Employment

Indexed to January 2020, to show post-pandemic recovery

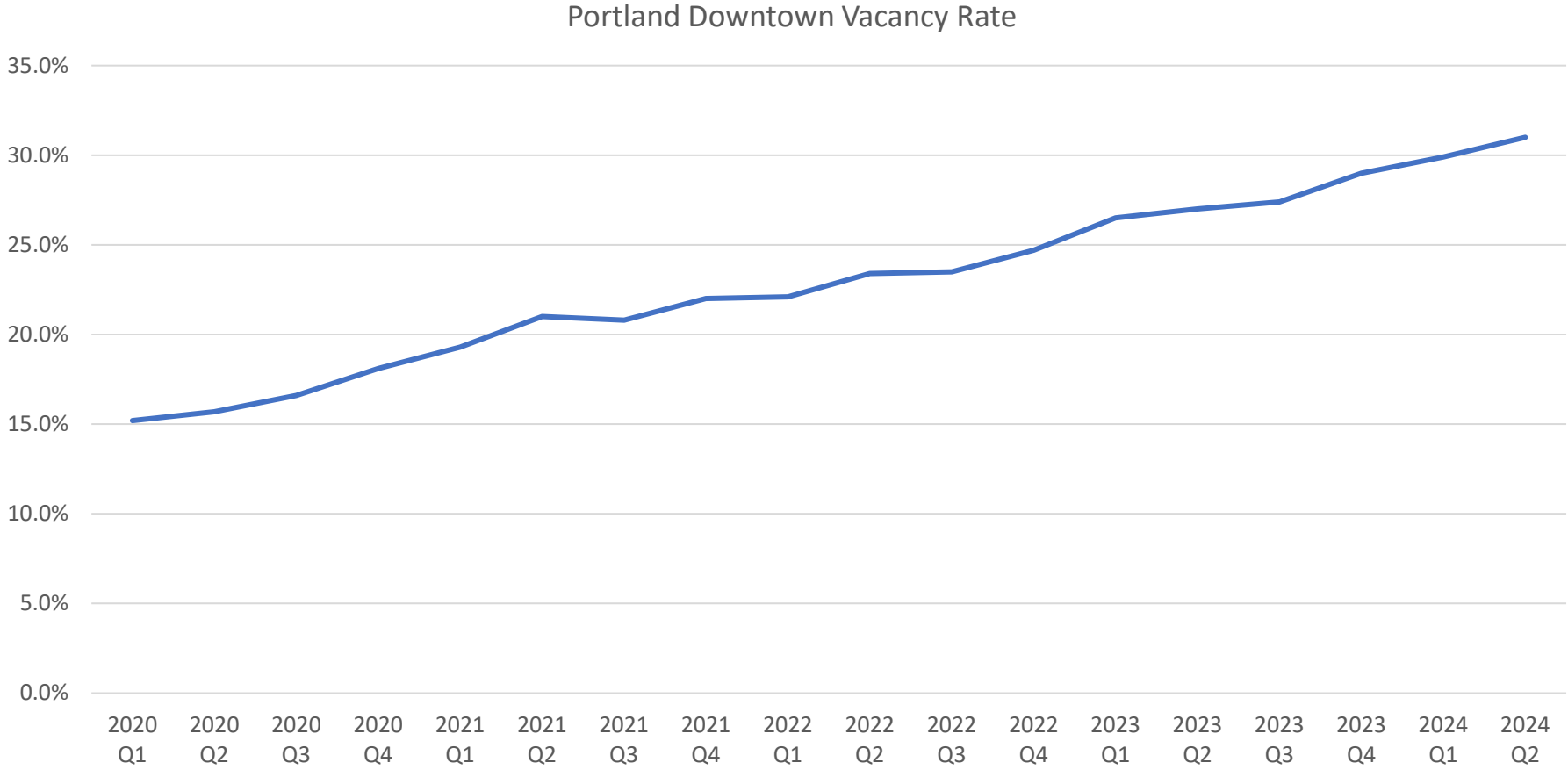


Dashed line represents no change from January 2020

Data Sources: Bureau of Labor Statistics, Oregon Employment Department QualityInfo.org, California Employment Development Department



# Portland Downtown Office Vacancy Rate



Data Source: Colliers International. This includes Downtown, Old Town, and the Pearl District.

# Downtown Hotel Occupancy



Data Sources: Travel Portland, CoStar, The Oregonian

# 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



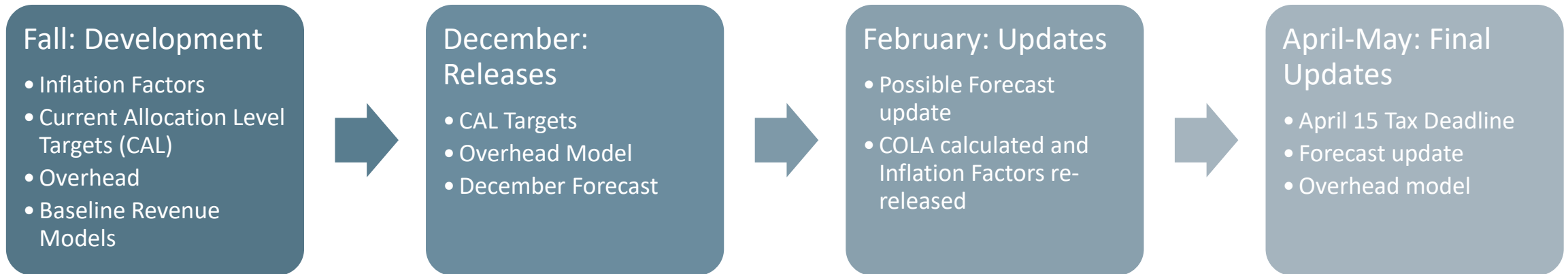
Most of the City's General Fund revenue is insulated from outright declines in the short term, but the above factors have a significant impact on projected growth



# General Fund, Local Option Levies, and the Clean Energy Surcharge

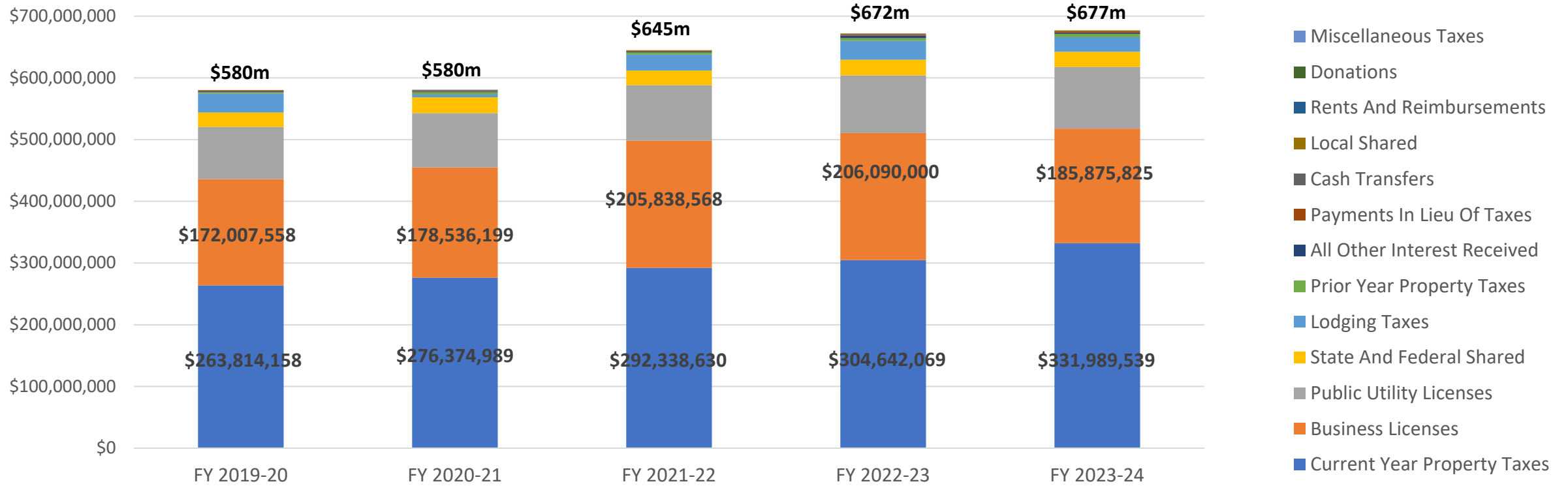
Peter Hulseman, City Economist

# Reminder: Forecast Timeline



**Note:** All forecasts shown in this presentation are either 1) in development and therefore will change, or 2) from FY 2024-25 budget development (last year's forecast)

# General Fund Revenue Trends

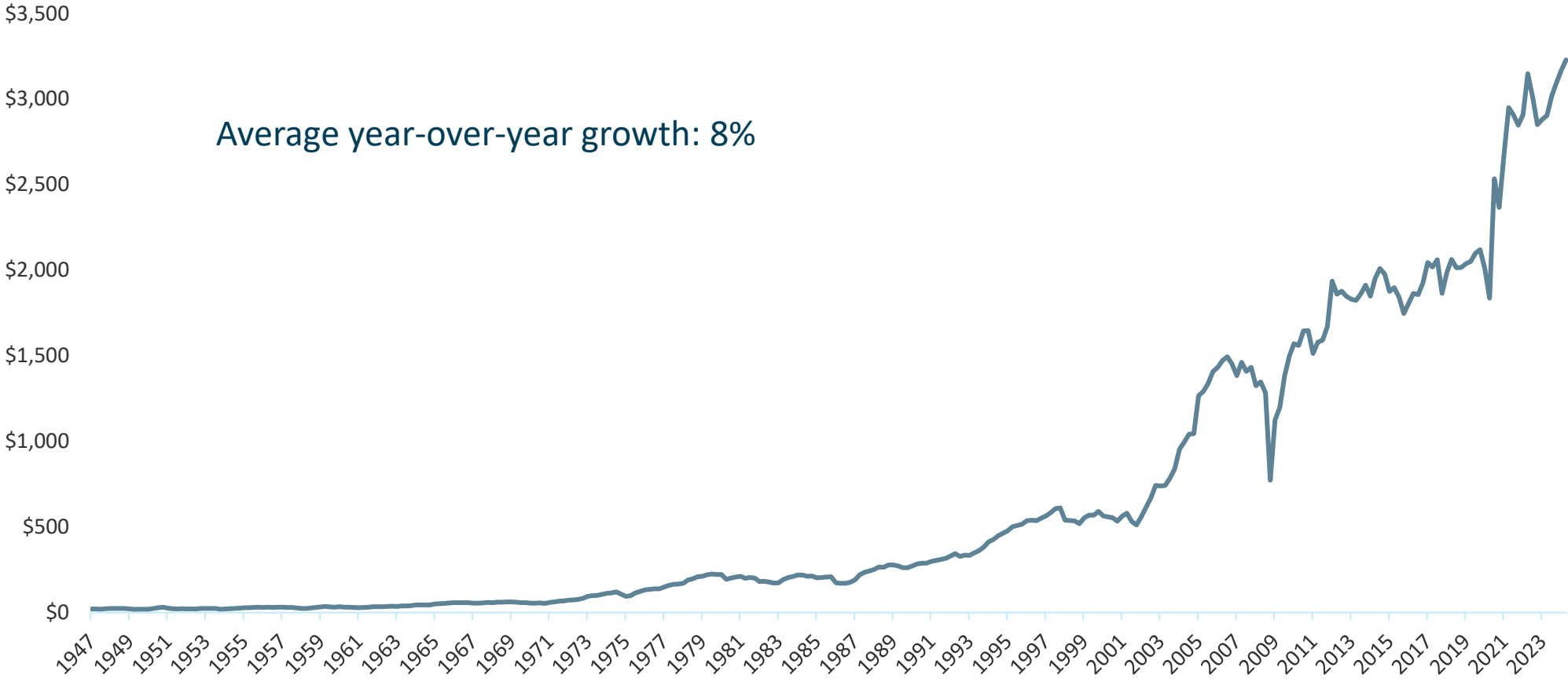


# Reminder: Business License Taxes

- 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). Meaning there is a relationship between reported earnings, stock indices such as the S&P 500, and BLT revenue.

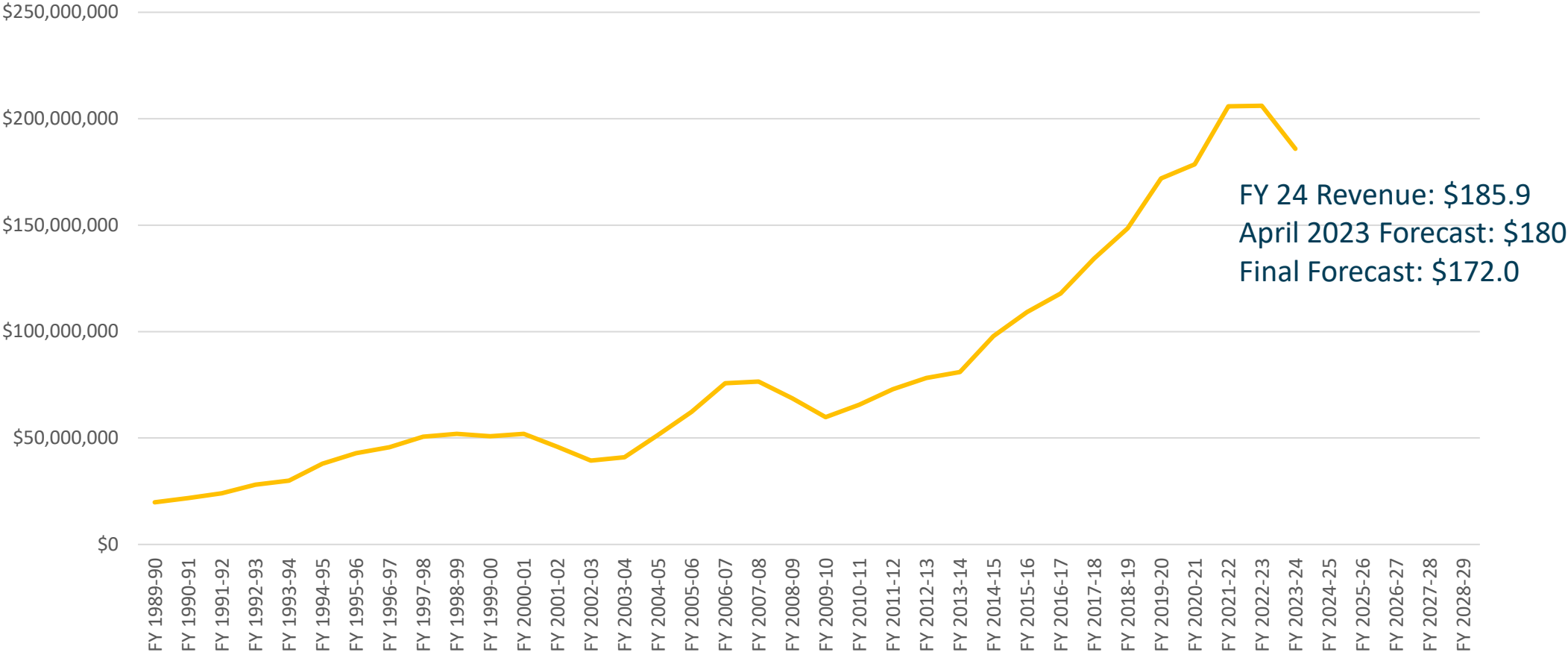
Ranking (Businesses)	TY 2023 Return	Firm Count vs Total
Top 20	21.1%	0.0%
Top 100	39.6%	0.2%
Top 500	63.2%	1.0%
Top 1,000	72.8%	1.9%
Top 5,000	90.5%	9.7%
Top 10,000	95.5%	19.4%

# National Corporate Profits (Billions \$)

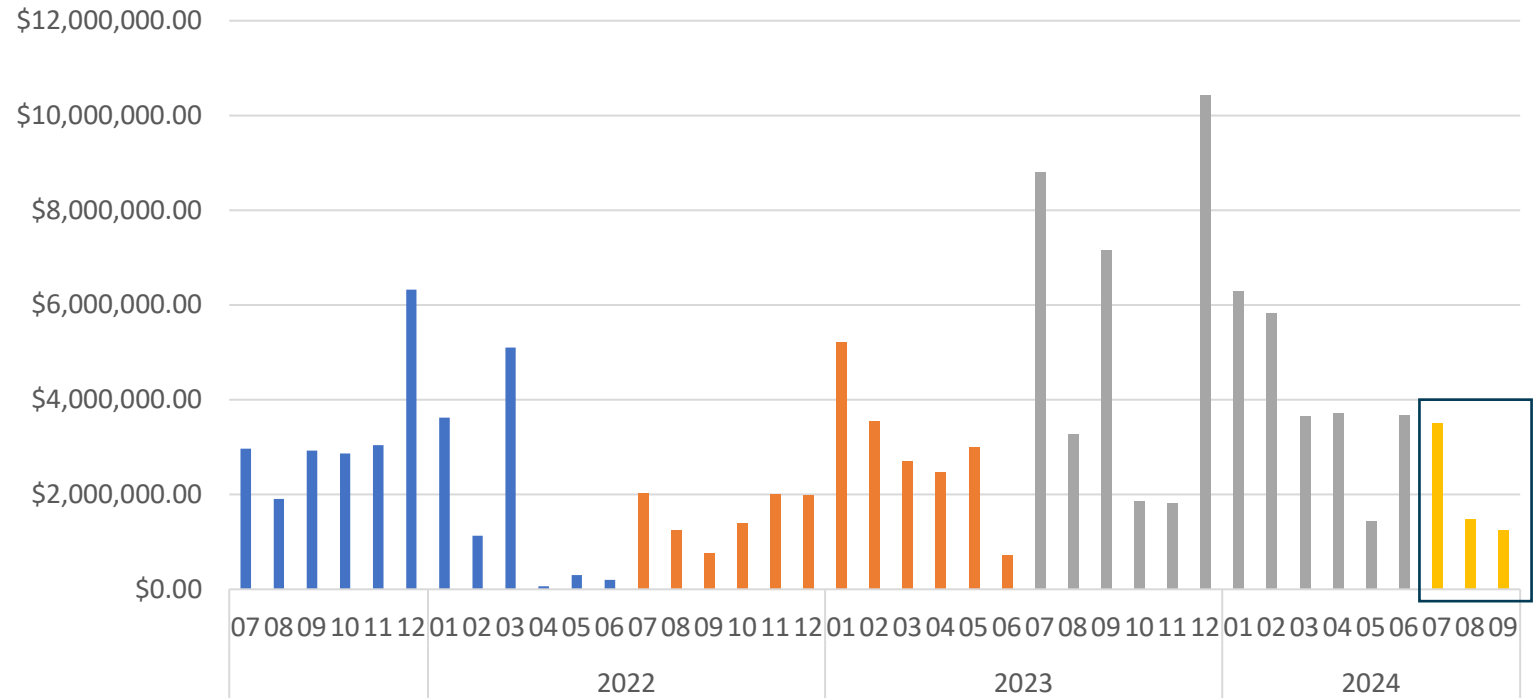
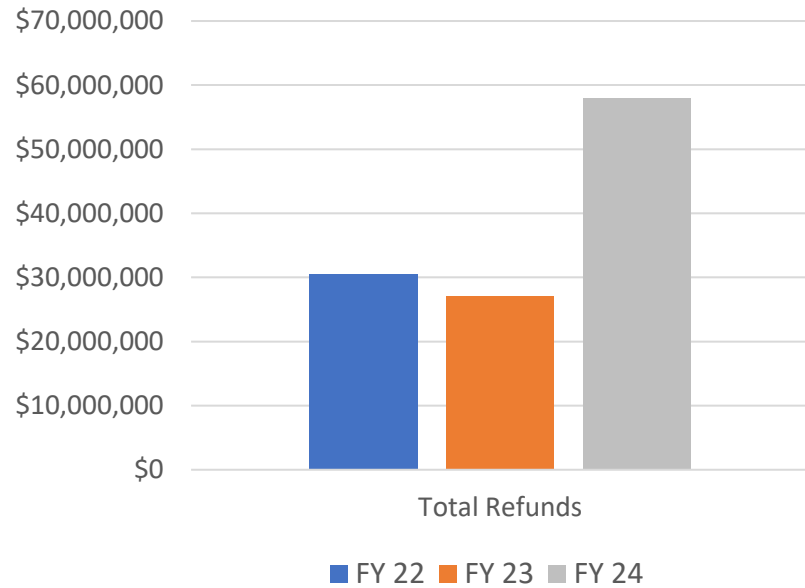




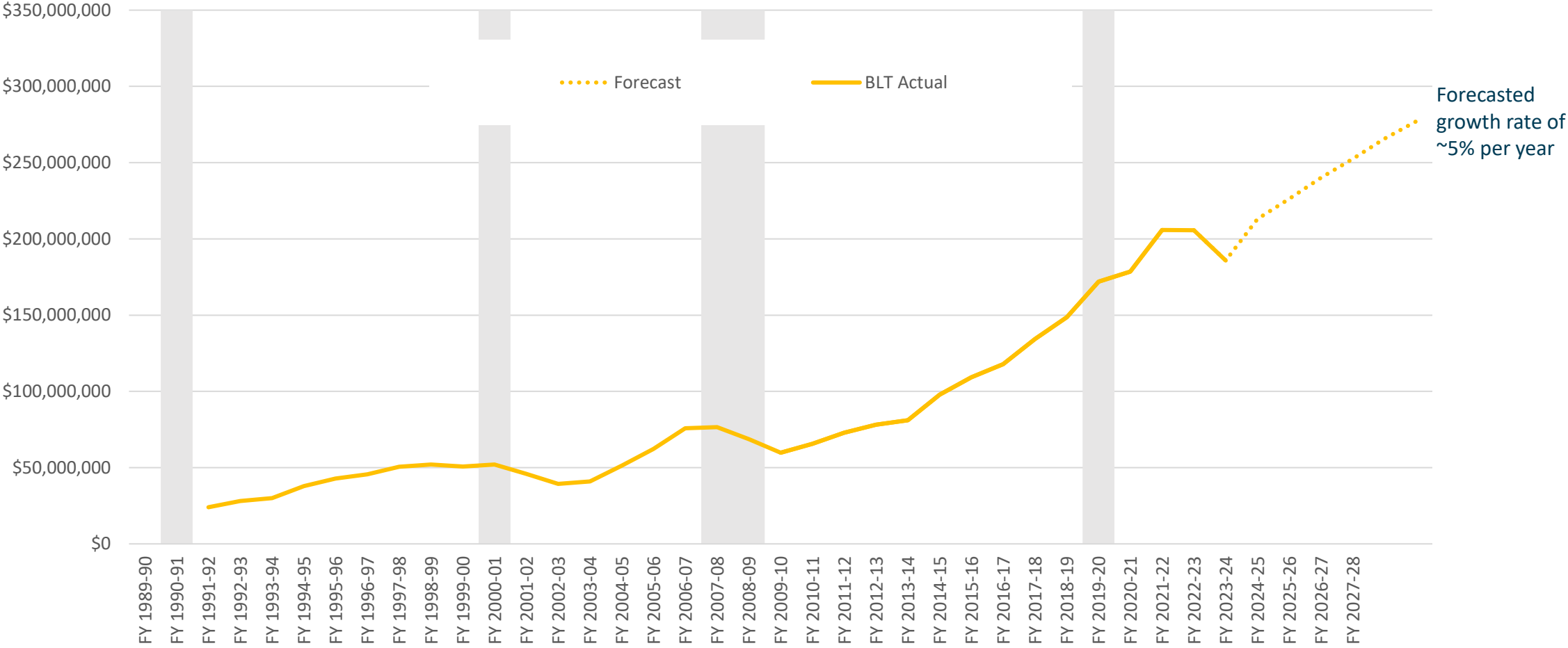
# Business License Taxes—Annual Revenue



# BLT Refunds



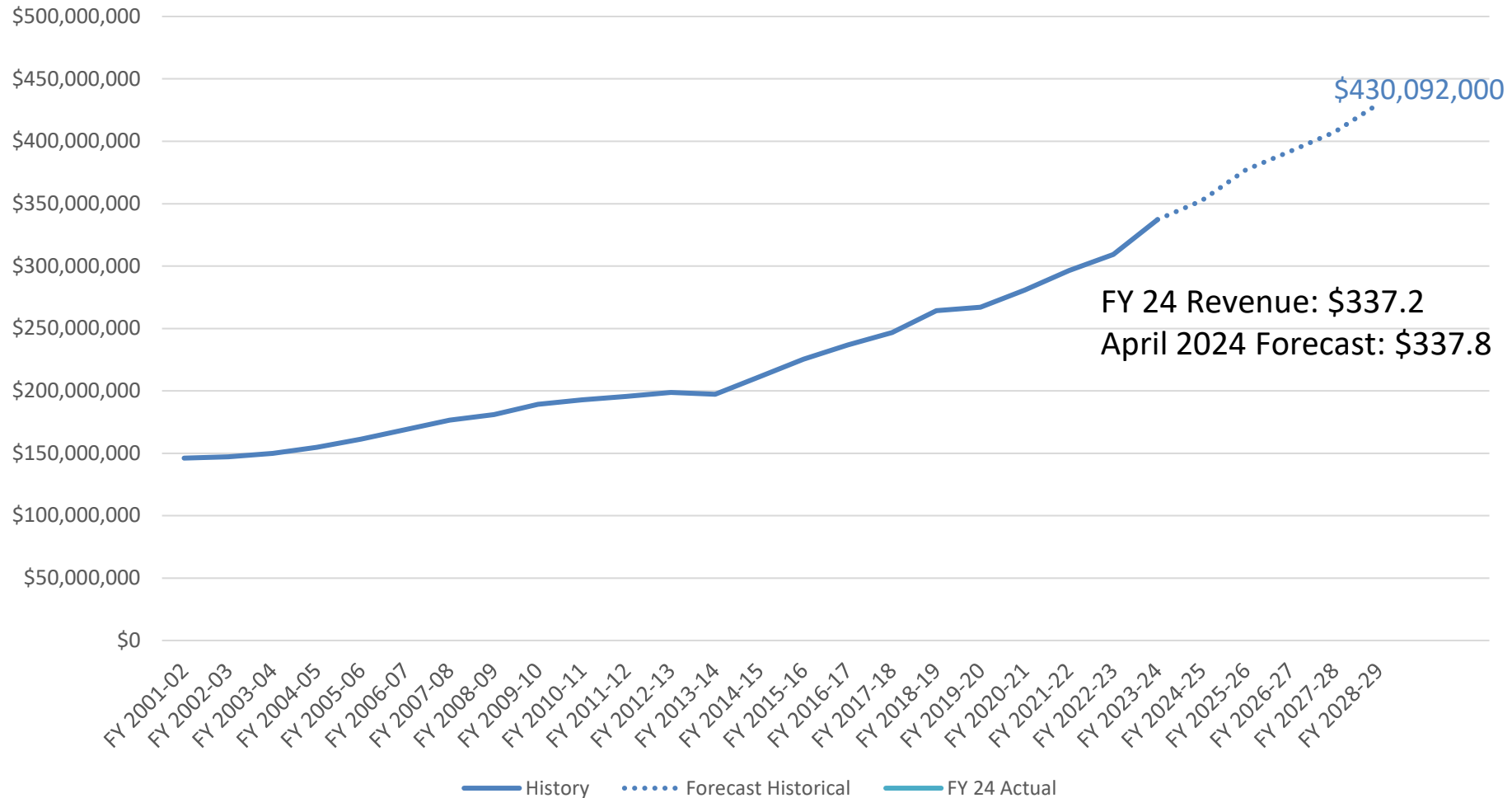
# Business License Tax Preliminary Forecast



# 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.

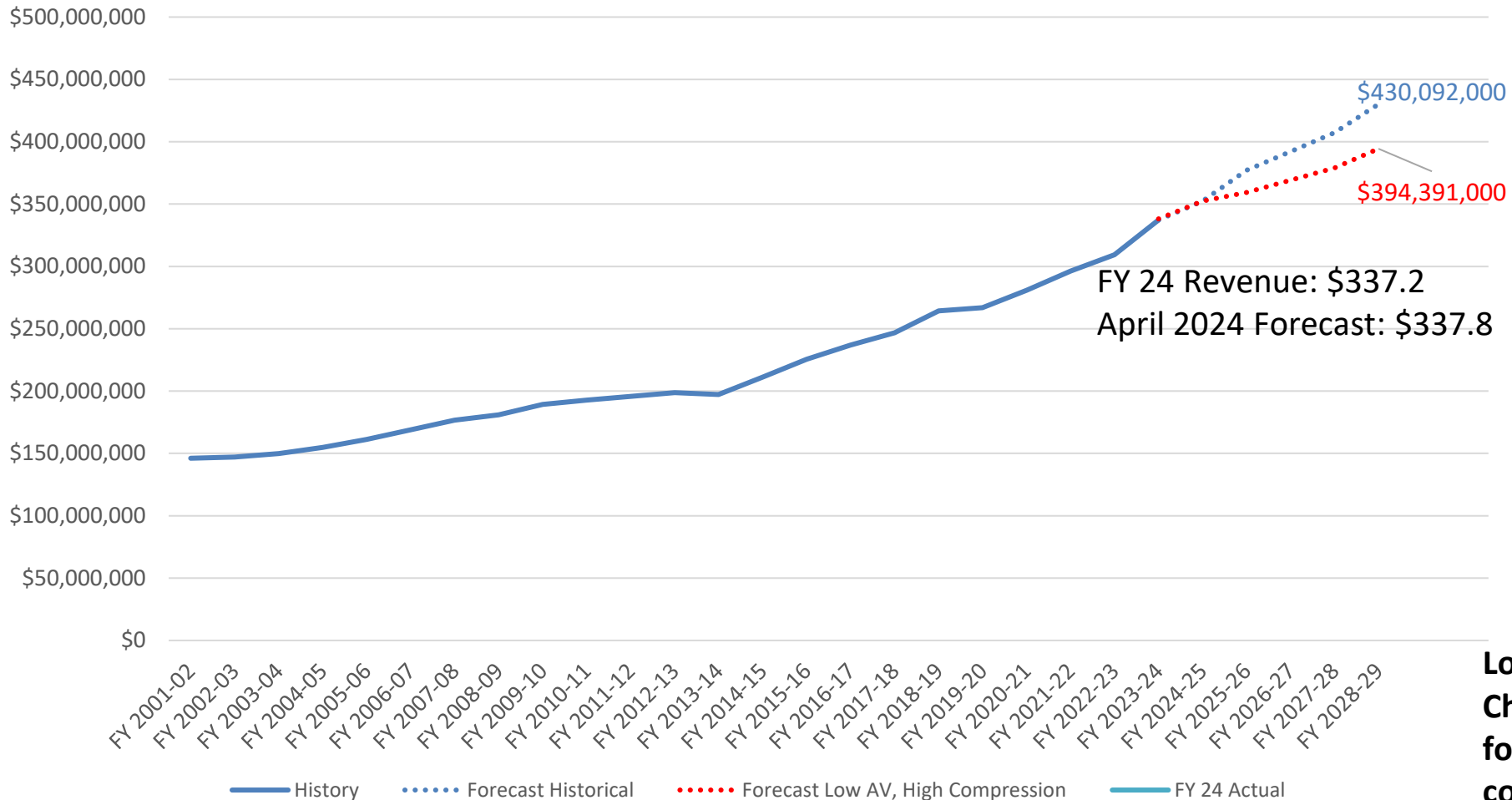
# Property Taxes—General Fund



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

FY 24 Revenue: \$337.2  
April 2024 Forecast: \$337.8

# Property Taxes—General Fund



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

Forecast  
AV growth:  
2.5%  
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**

# Other General Fund Discretionary

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**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 Expenses vs. Revenues

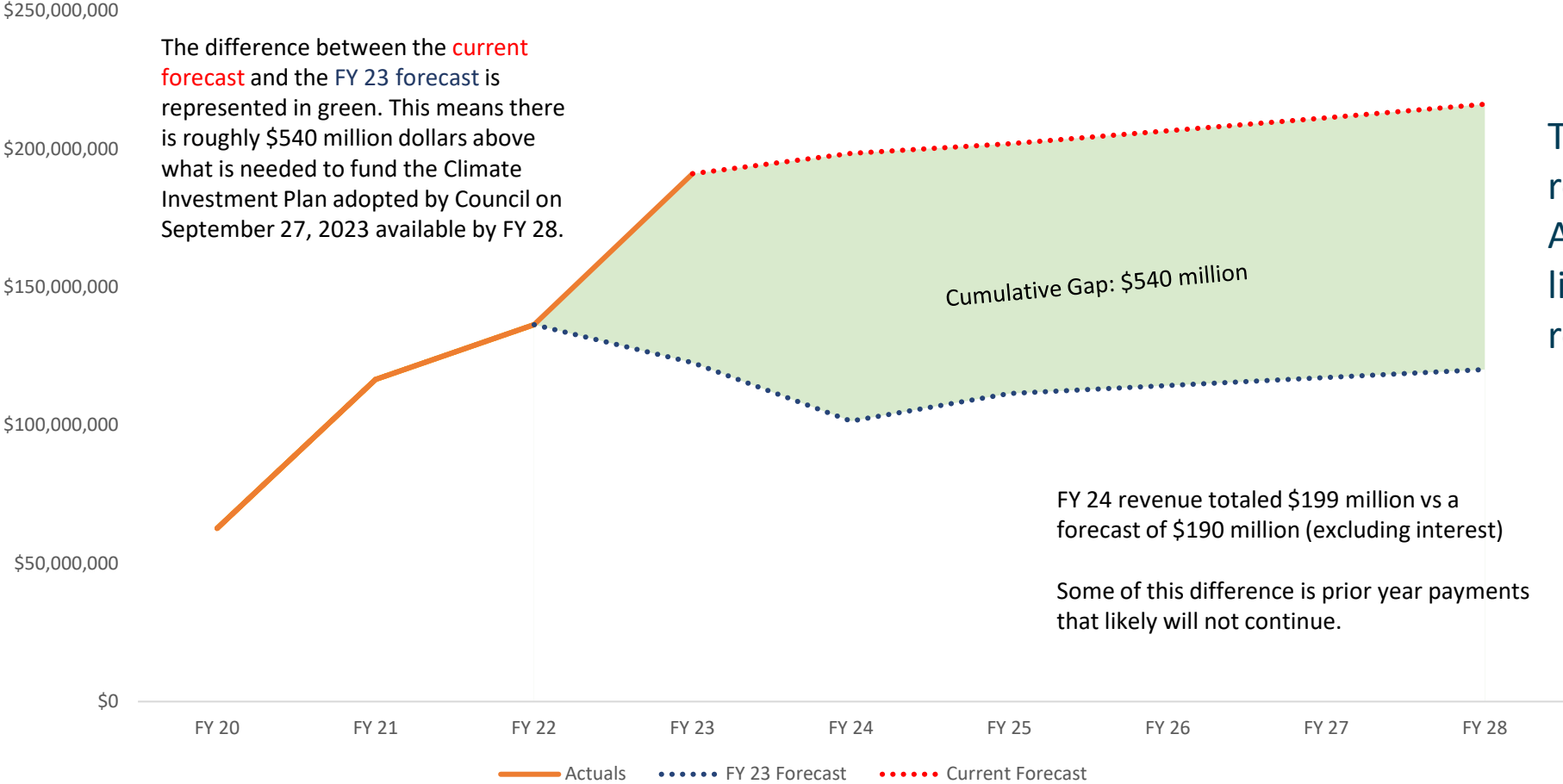
- A simple heuristic for determining the financial position of the City is the anticipated growth rates for revenues and expenses over the next five years.
- The final forecast is incomplete, but as of now expenses\* are expected to average roughly 4% for the next five years.
  - As will be highlighted later this is largely due to: Health Benefits, PERS Rate increases, COLA and other personnel costs.
- Because close to half of GF revenue comes from Property Taxes, average revenue growth will likely be lower than 4%.

\*Forecasted expenses only include current appropriations. Any additional appropriation would add to the shortfall.



# Clean Energy Surcharge Revenue

Supports the Portland Clean Energy Community Benefits Funds (PCEF)



This is last year's revenue forecast. Any updates will likely be small relative to last year

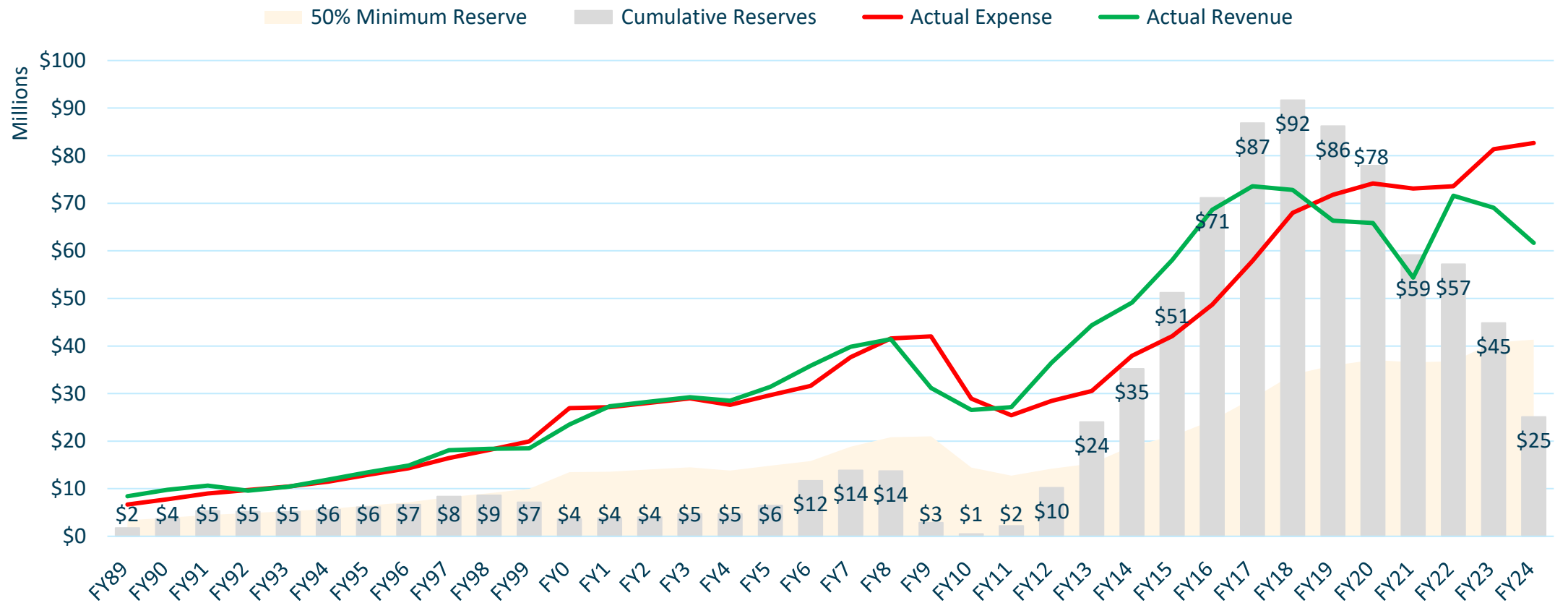


# Non-General Fund Revenues

Jonas Biery, DCA Budget & Finance

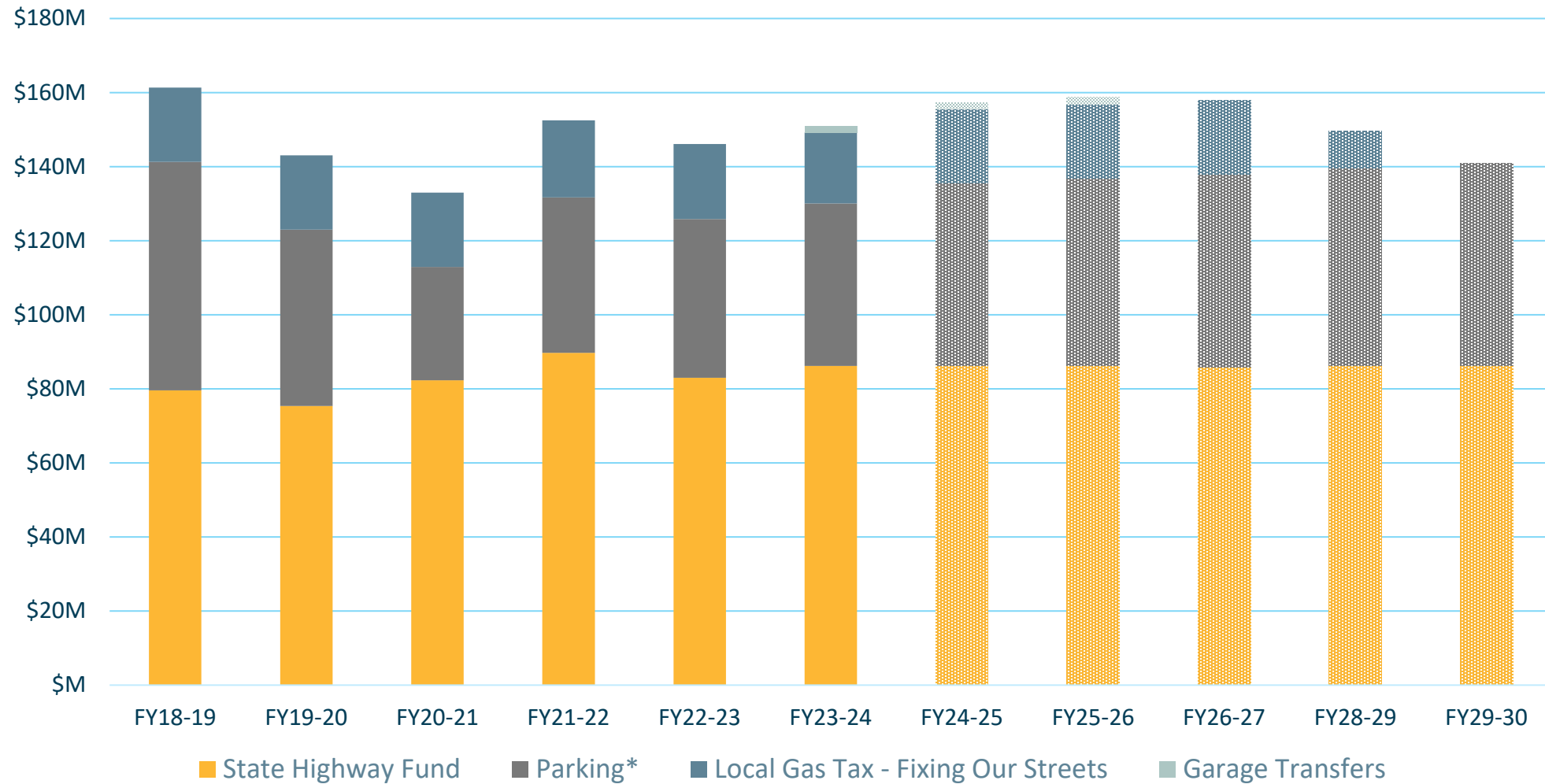
# Permitting Revenues

Revenues, Expenses and Reserves since 1989



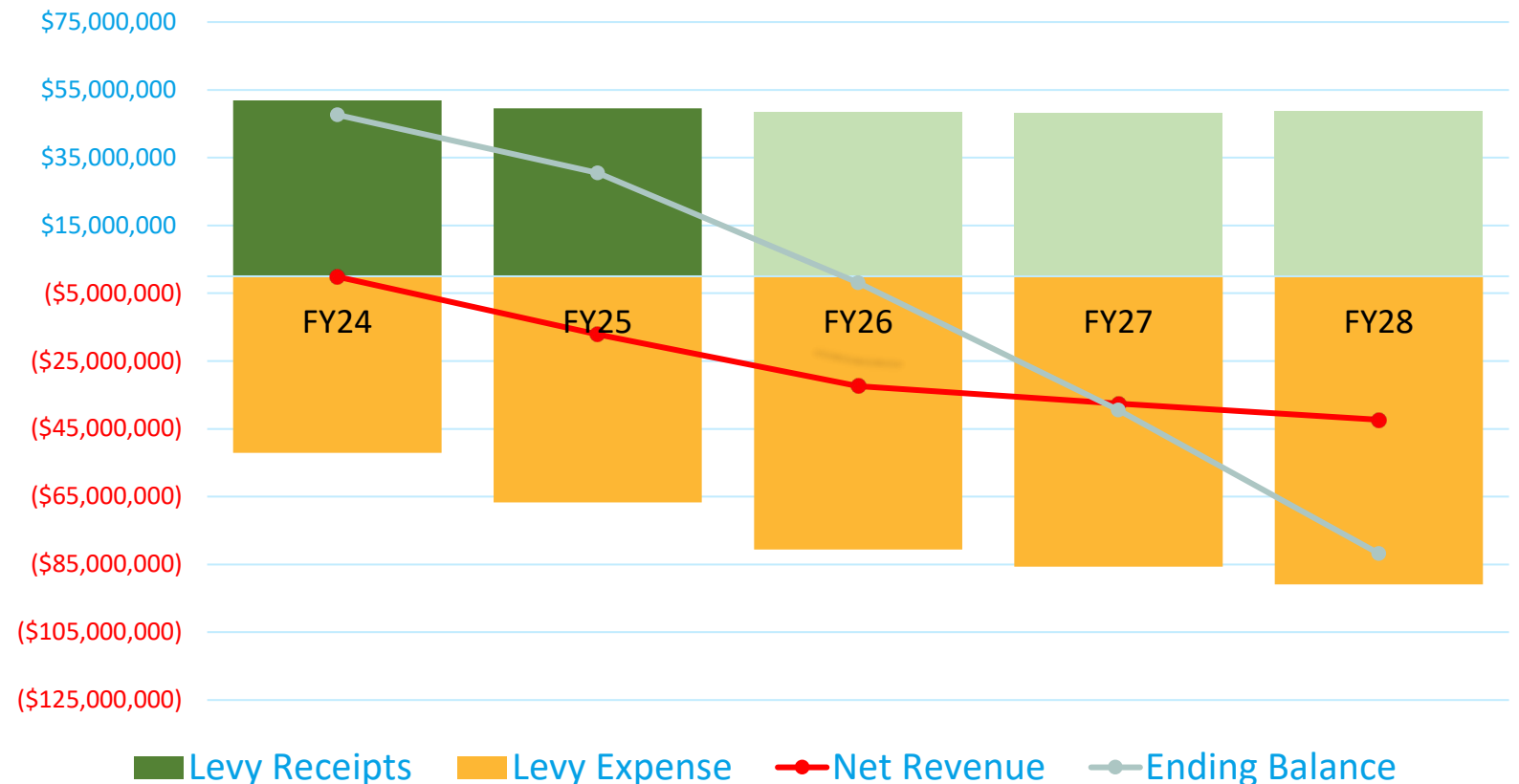
# Transportation Revenue Trends

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



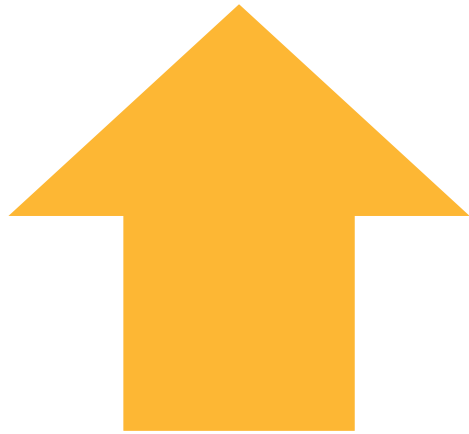
# Parks Levy Fund Forecast

- 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)



# Parks Forecast Factors

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## Expense Pressures

- Increase in the cost per hour worked of 10.8% per year (35.6% over three years) between FY 21 and FY 24
- Rapid cost growth for internal services – particularly Risk, CityFleet, Facilities, Technology, and Impact Reduction Program.

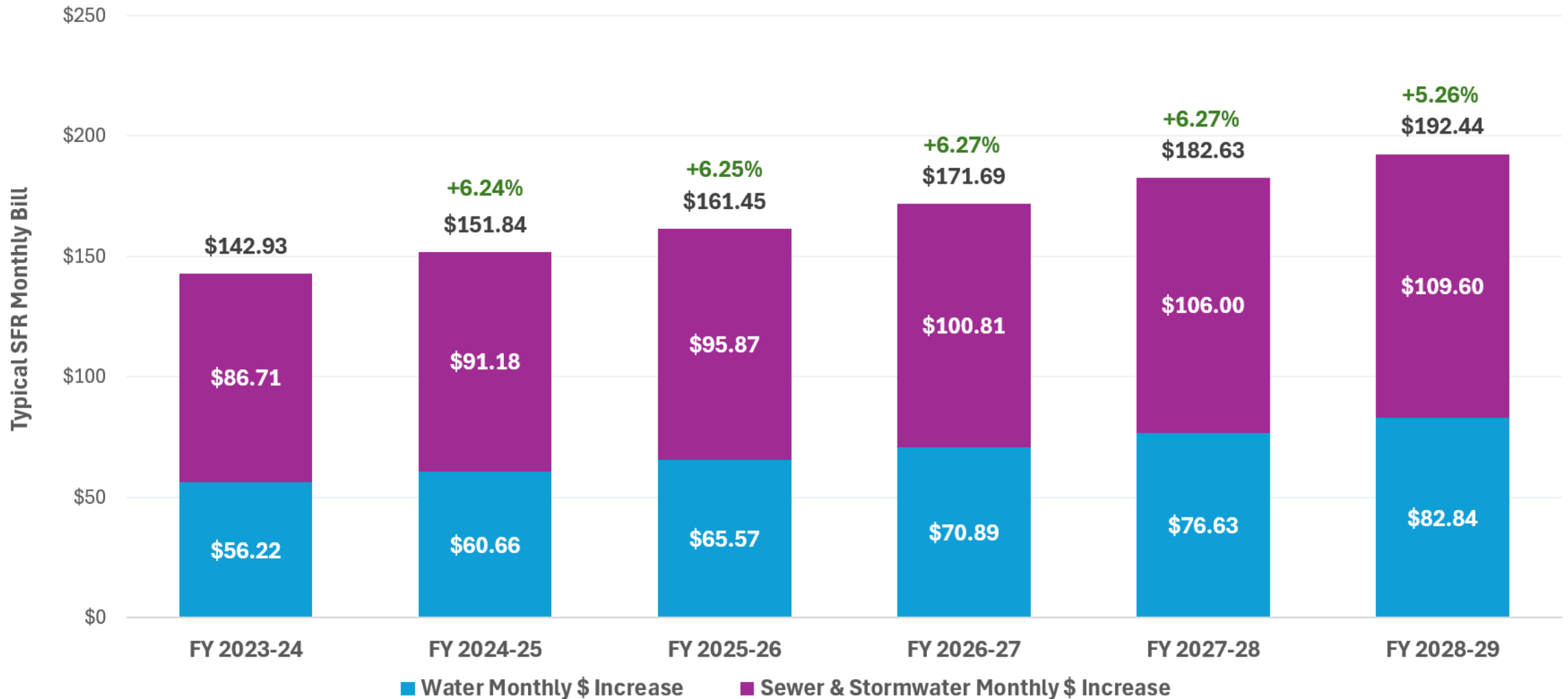


## Revenue Declines

- \$4.6 million General Fund reduction from FY 2024-25 to be identified and absorbed
- \$6.0 million reduction in forecasted annual Parks Levy tax collections

# Water & Sewer Combined Cost Projection

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



# Risks to Forecasted Utility Rates

- Higher than forecast macro-economic increases (BES, Water)
  - COLA/Inflation
  - Construction costs
- Higher than forecast environmental liability (BES, Water)
- Increases in City internal services costs beyond the forecast







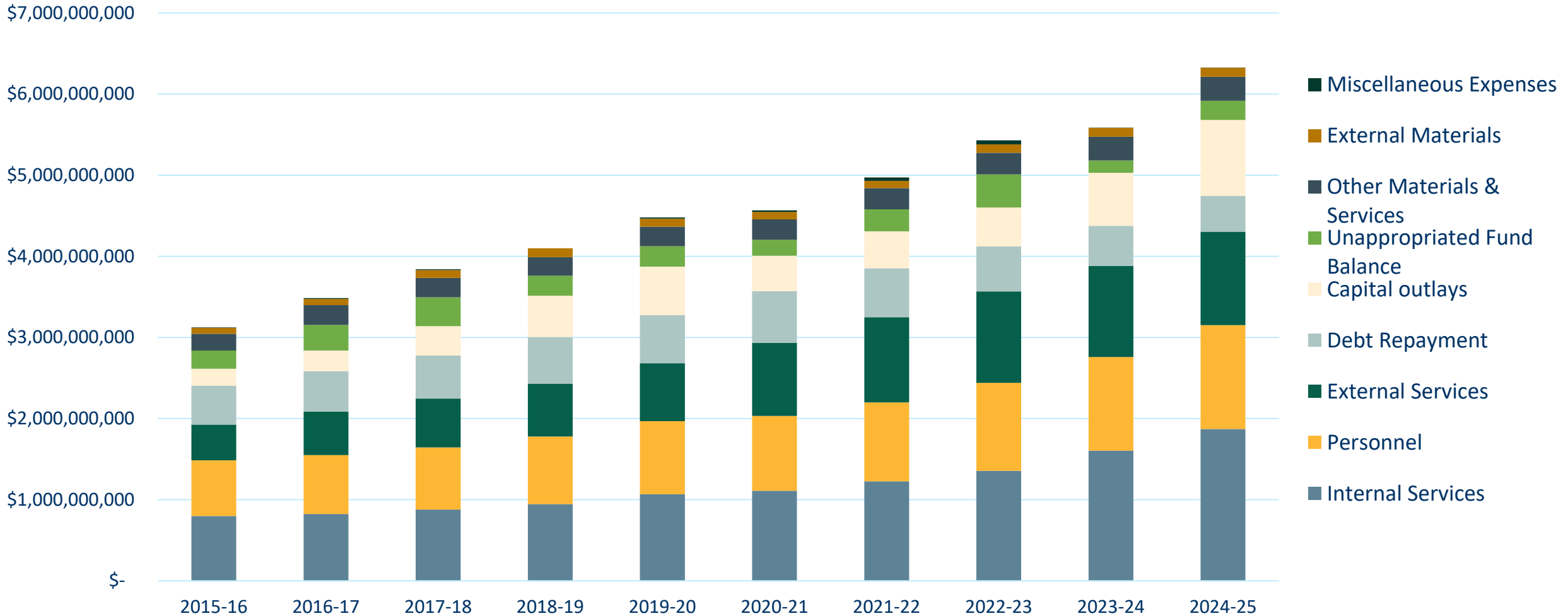
# Citywide Expenditures

Ruth Levine, City Budget Office Director

# Citywide Expenditures

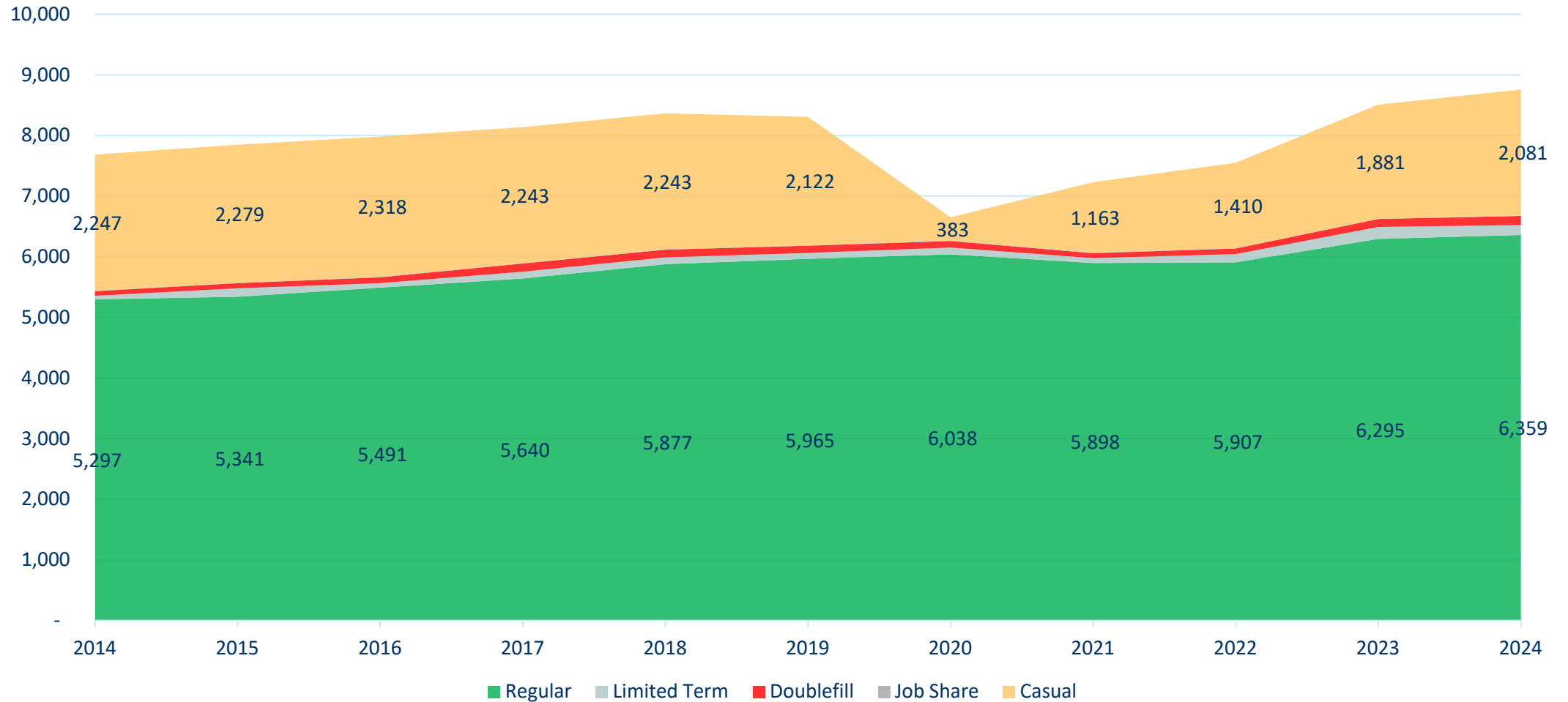
## All Funds Adopted Budgets FY 2015-16 to FY 2024-25

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



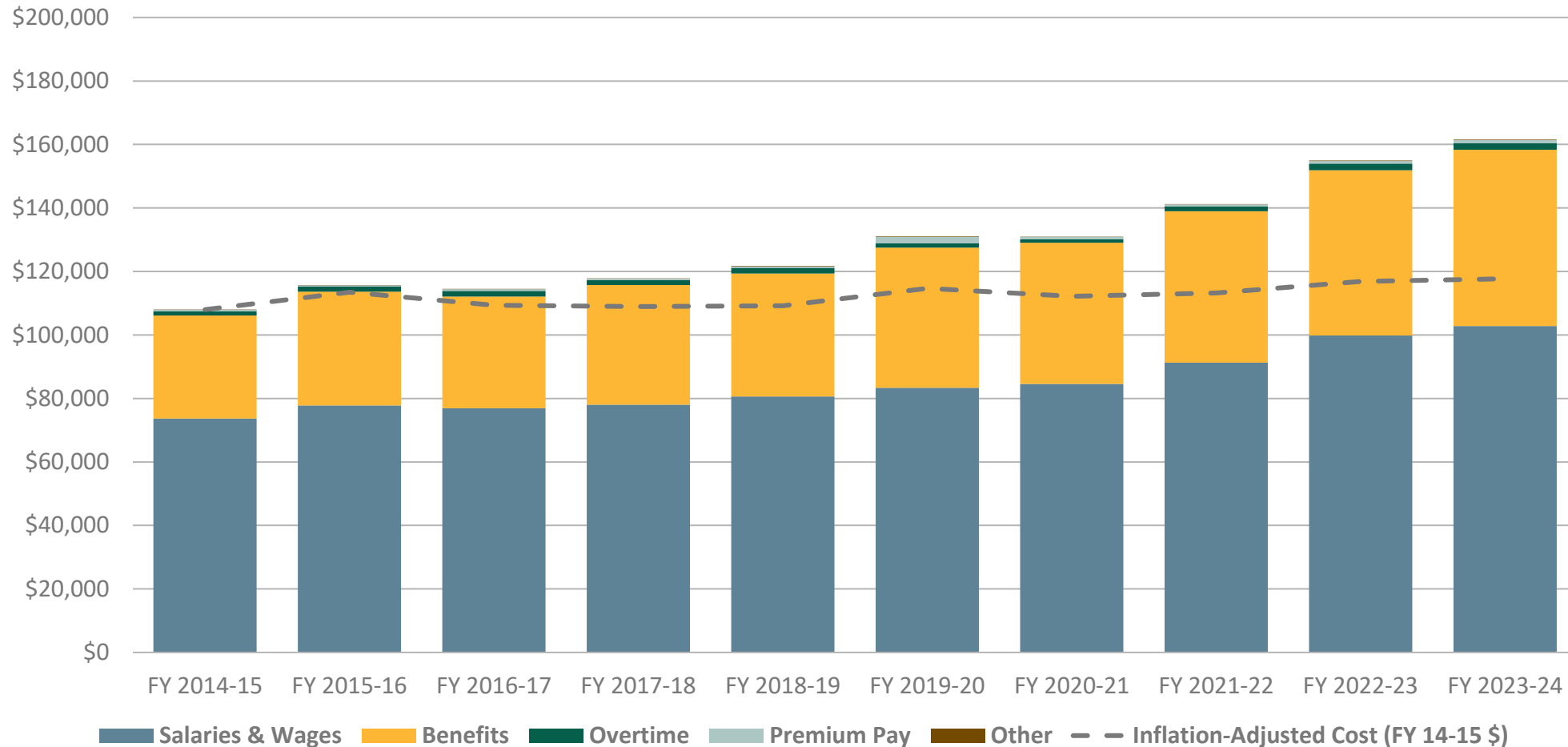
# Personnel Costs

Filled Positions Citywide by Type



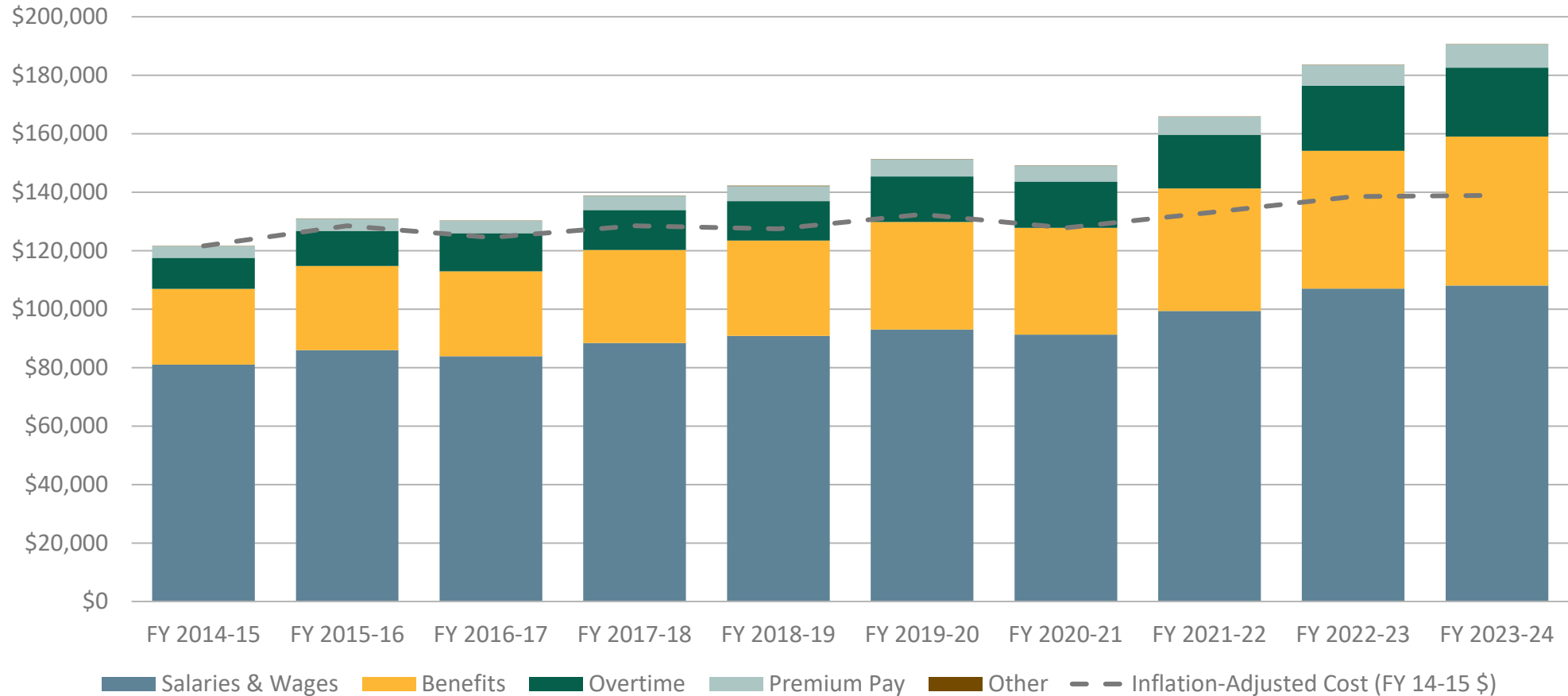
# Personnel Costs per Employee (excluding 24/7 public safety)

Total Actual Compensation for Filled Regular Positions

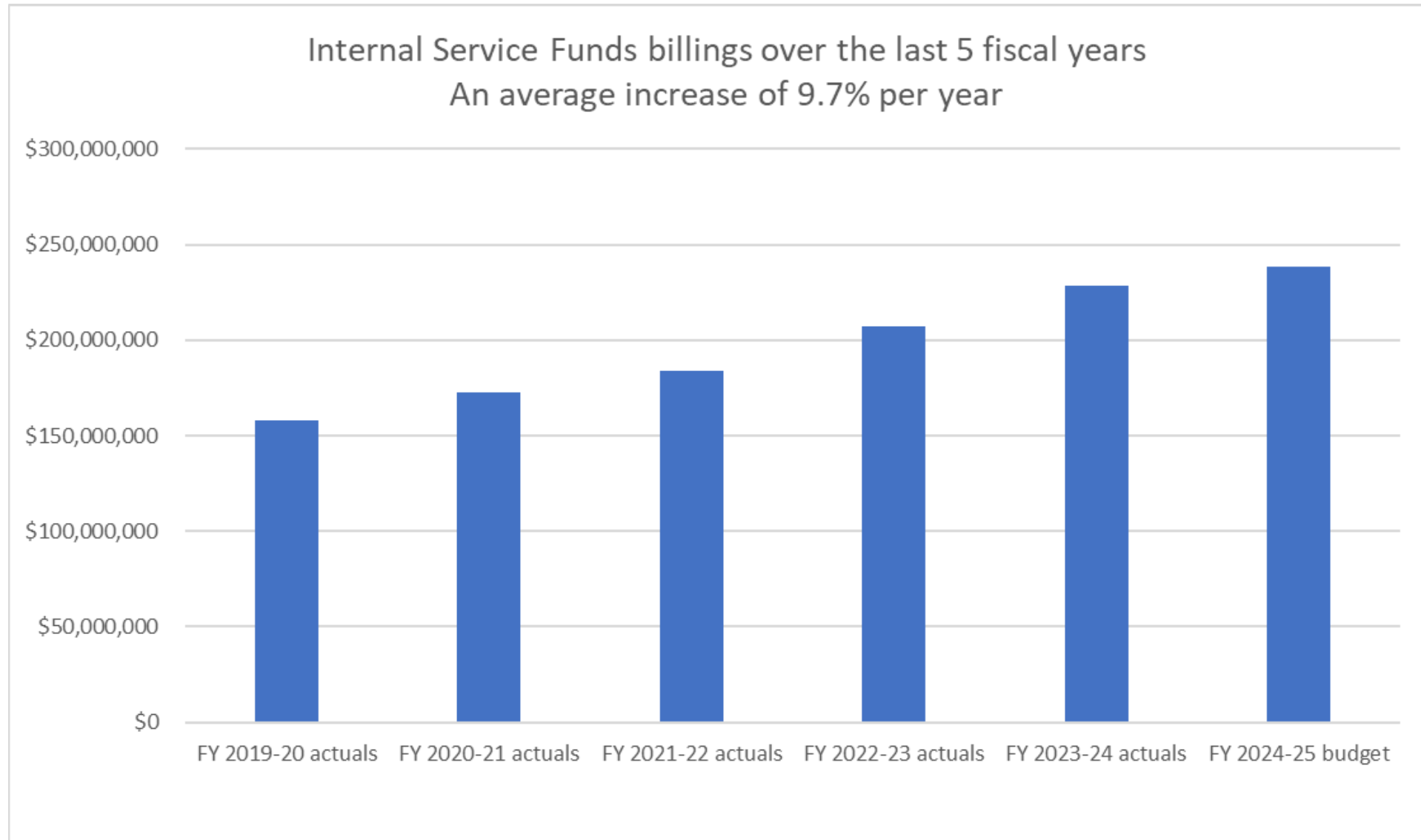


# Public Safety Personnel Costs

Total Actual Compensation per Regular Employee in 24/7 Public Safety Bureaus



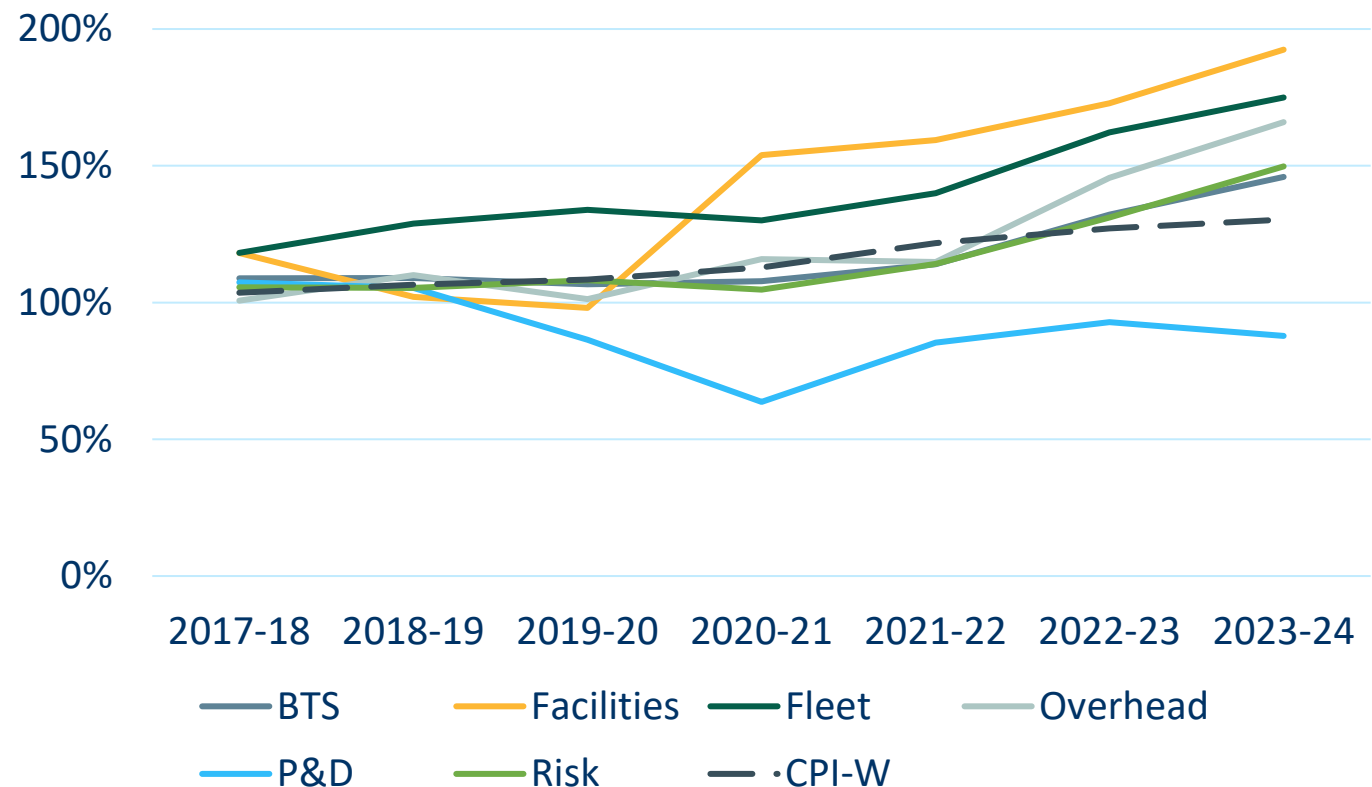
# Internal Services Costs



# Internal Services Costs

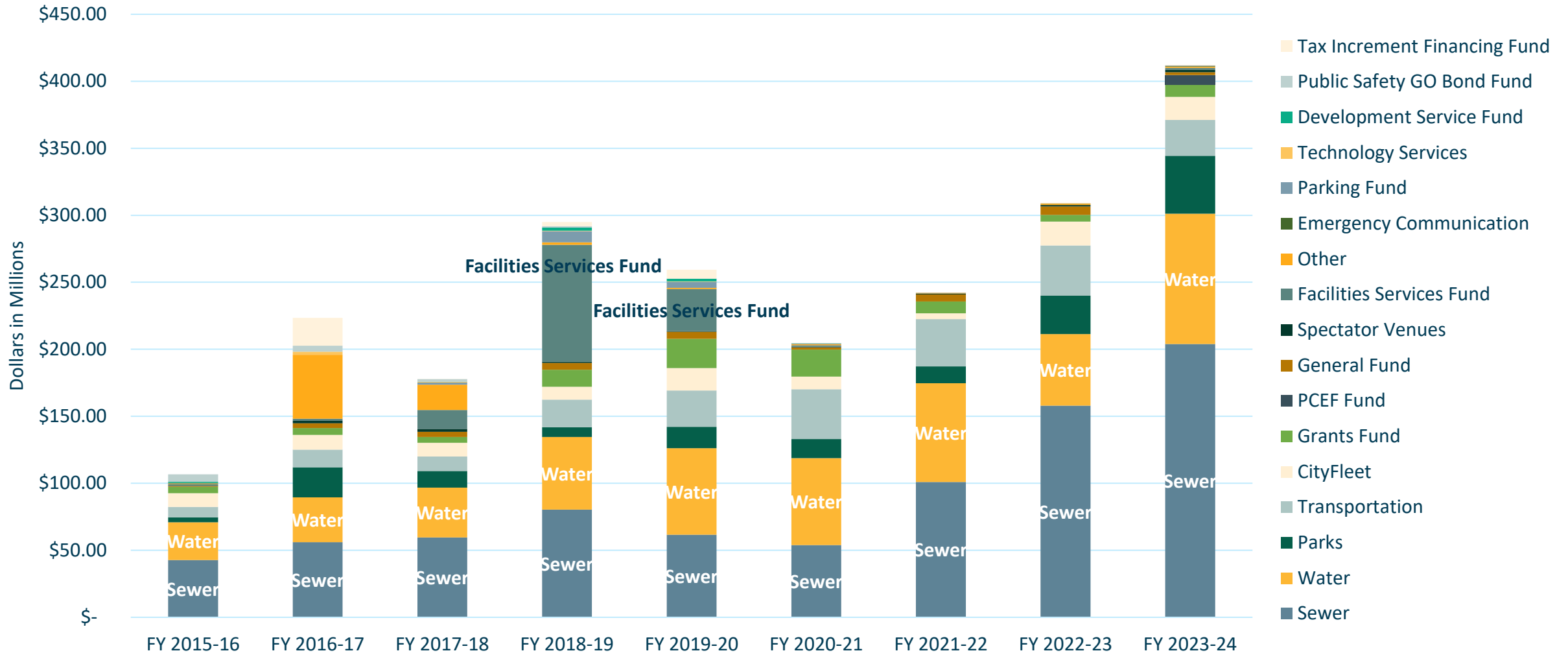
- Growth in internal services costs driven by increases in **prices** and **quantities**
- Key drivers include:
  - Portland building and Vanport building costs
  - Software cost increases and non-standard software
  - Vehicle cost increases and specialized vehicles with non-standard equipment
  - Security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

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



# Capital Expenditures

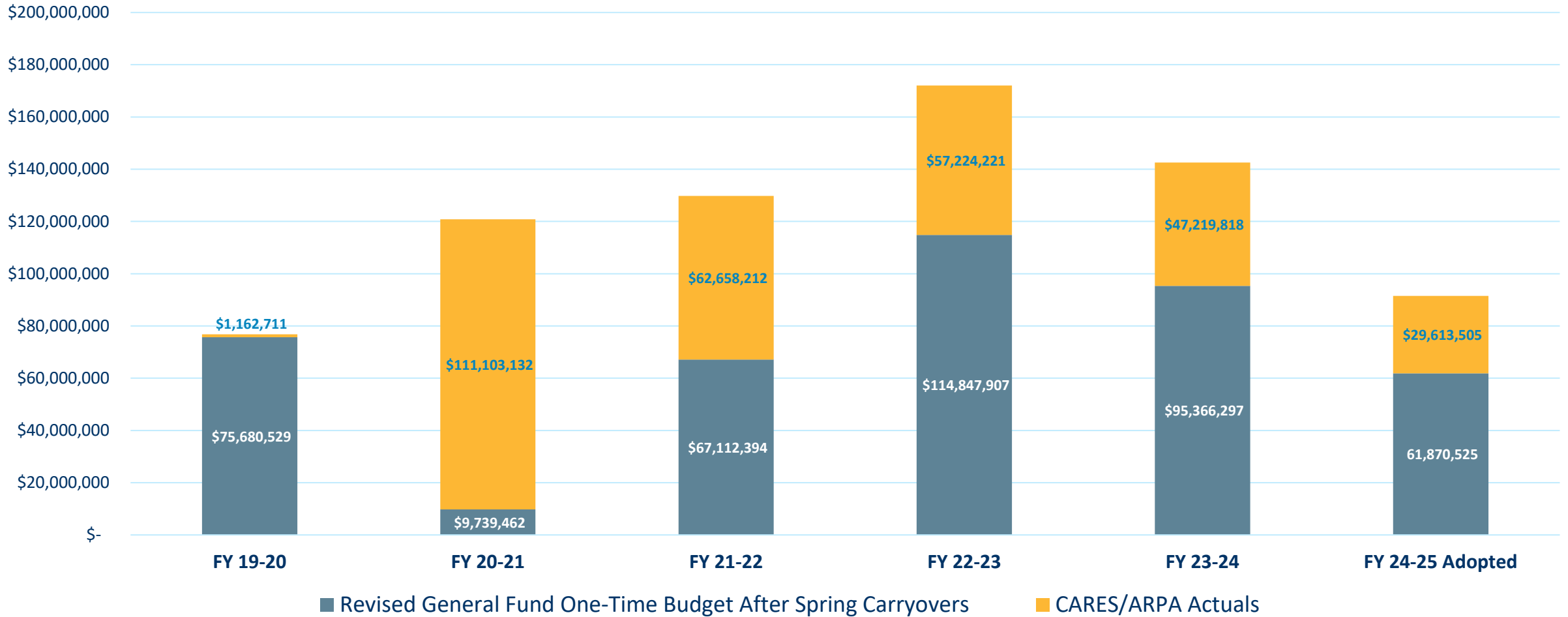
Actual Citywide Capital Expenditures by Fiscal Year





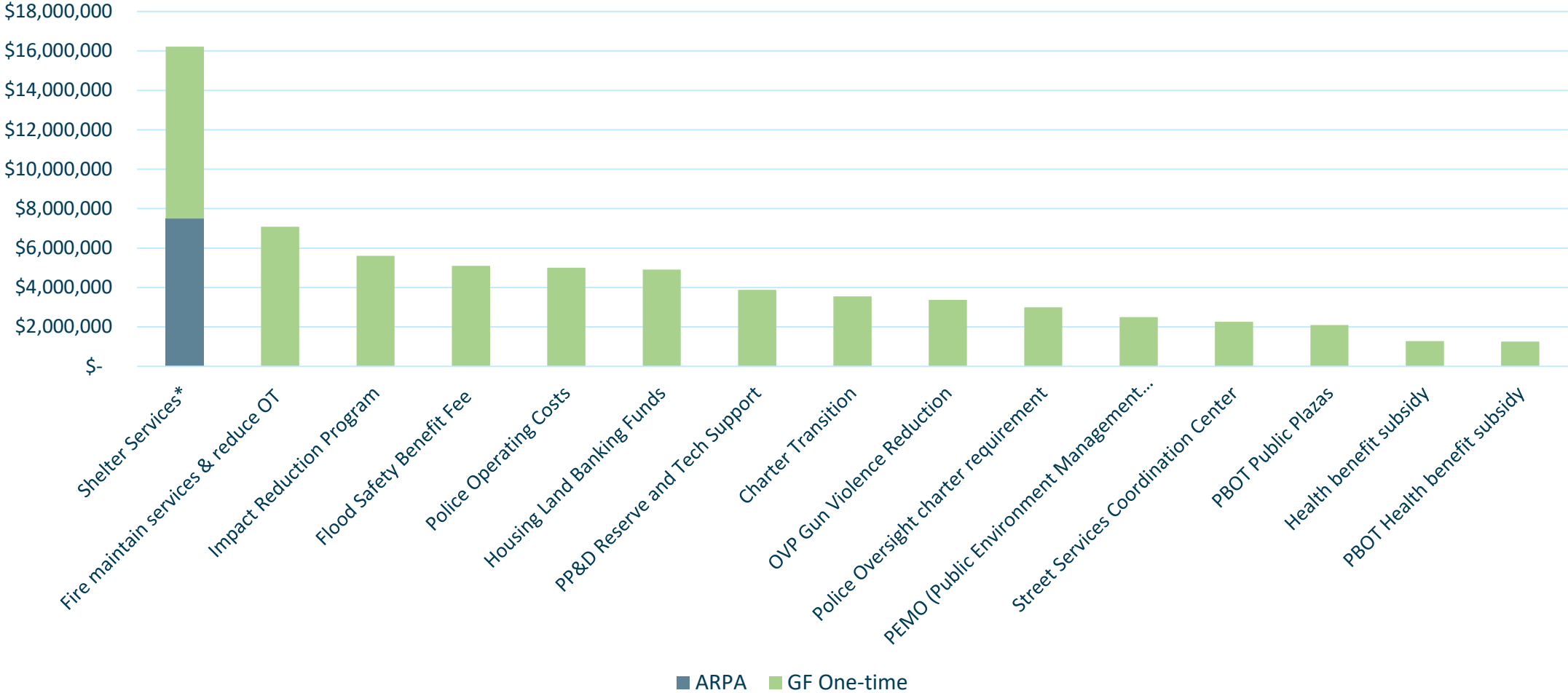
# One-Time Funding

General Fund One-time Revised Budgets after carryover and actual spending of CARES/ARP



# Fiscal Cliff

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



# Key Expense Pressures, Gaps, & Risks for FY 2025-26

## Health benefit rate increases

- Increases adopted in FY 2024-25 become ongoing
- Potential additional increases in FY 2025-26
- Ongoing 8% health benefit inflation

## Labor bargaining

- 3 open contracts
- No costs above COLA included in base budget

## Public safety operating gap

- One-time resources supporting roughly \$20-25 million of existing operations in Police, Fire, Office of Violence Prevention, Portland Street Response, and Cease Fire

## Legal obligations

- Including Flood Safety Benefit Fee in General Fund Overhead ongoing
- ADA compliance liabilities & gap

# Guidance Preview

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## General Fund guidance

- Required reductions of at least 5%
- Expected update in December
- Additional reductions required to fund **any** needs above what council has already allocated

## Non-General Fund Guidance

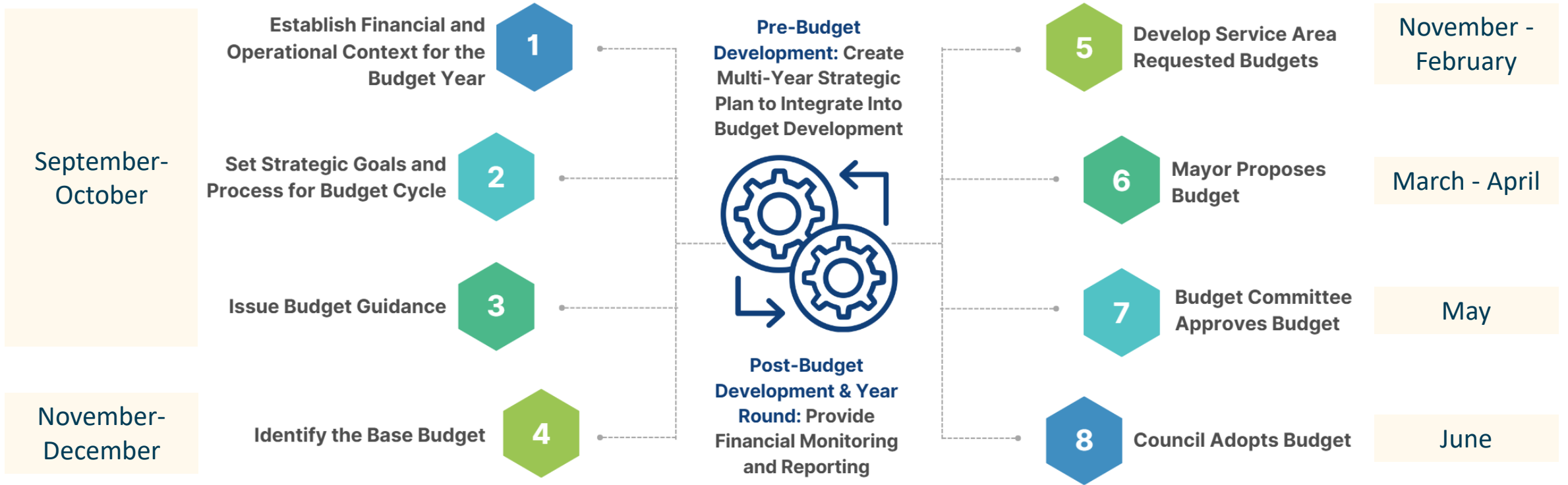
- Larger gaps in some funds outside General Fund including Parks, Permitting
- Utility rate guidance
- Internal services guidance



# Budget Process Preview

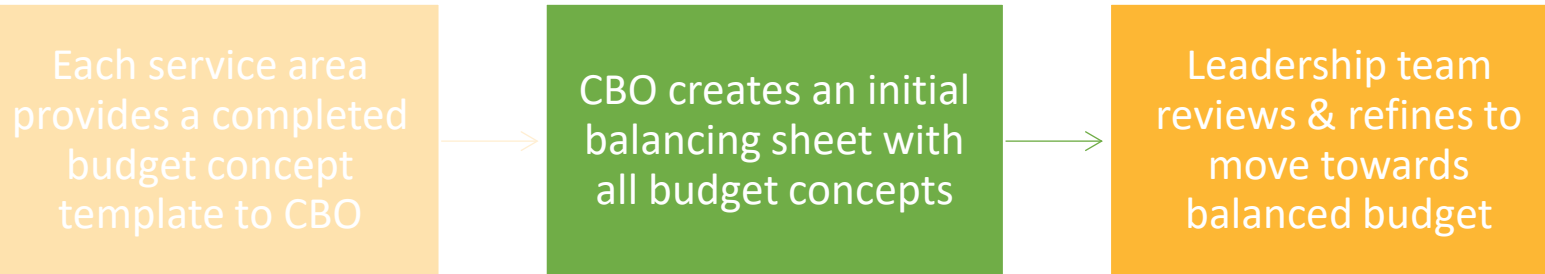
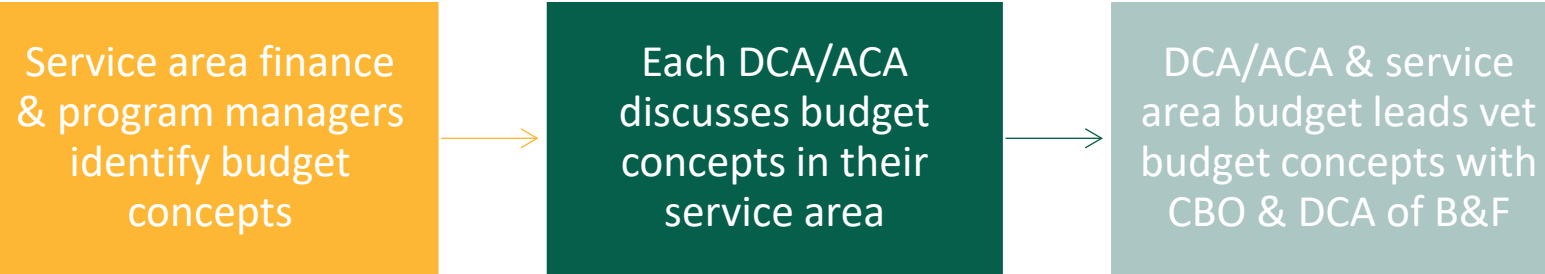
# Budget Process Overview

## Proposed Future Budget Development Process

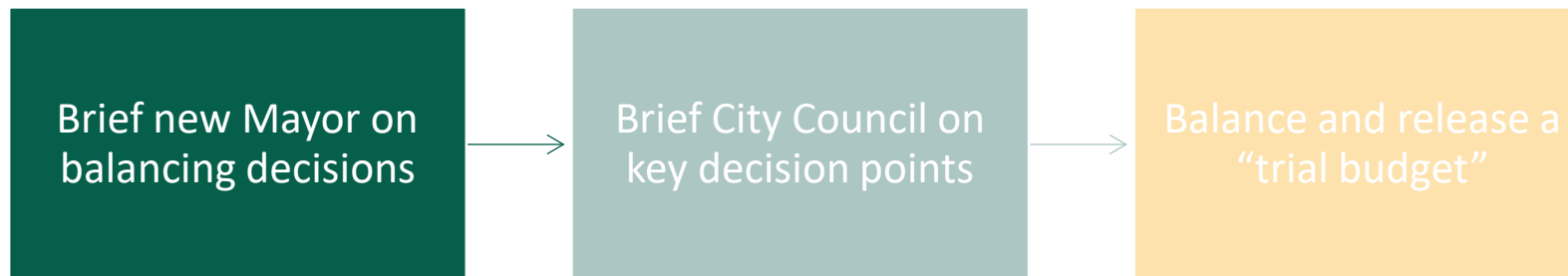


# Requested Phase

November 1



January 1



February 28



# Community Engagement

- **Budget 101**
  - Online now (Oct. 21)
  - More in January 2025.
  - Provide financial context and budget education
- **Trial Budget engagement - March 2025**
  - In-person and virtual
  - Gather feedback to help finalize Proposed Budget
- **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**
  - Some existing bureau BACs are continuing
  - Plan for future BACs is TBD - looking at service area-based and/or City-wide







# Questions & Discussion