



Office of Mayor Ted Wheeler  
City of Portland

**DATE:** October 25, 2024

**TO:** Commissioner Rubio, Commissioner Ryan, Commissioner Gonzalez, Commissioner Mapps, City Auditor Rede

**FROM:** Mayor Ted Wheeler

**RE: FY 2025-26 Mayor's Budget Guidance**

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### **FY 2025-26 Mayor's Budget Guidance**

The City of Portland continues to provide services that address Portlander's most critical needs in alignment with council priorities: enhancing public safety, addressing homelessness, and improving economic vitality and livability.

On August 5<sup>th</sup>, I issued preliminary budget guidance signaling the expectation of budget constraints in the FY 2025-26 budget development process. We have reached the end of a period of significant one-time resources. That, coupled with new and increasingly acute fiscal pressures from inflation, legal obligations, labor cost, and more have led us to find creative solutions to support critical programs. We must do all that we can now to prepare our incoming leaders to make the difficult decisions that will be required to adopt a balanced budget in FY2025-26.

In preparation for the new form of government and a difficult budget year, I am working with financial leadership to take steps to mitigate the budget gap and make the budget process more collaborative, efficient, and mindful of community priorities. Based on my August guidance, the FY 2024-25 Fall Budget Monitoring Process limited budget allocations to those which were absolutely required and, as a result, we were able to retain funds in contingency to address potential needs that could arise before the end of the current fiscal year. To minimize expenditures this year, service areas have reviewed vacant positions and reclassifications to better position the City for flexibility in the FY2025-26 budget development process. The City Leadership Team (the City Administrator, Assistant City Administrator and the Deputy City Administrators) continues to collaborate to identify areas of overlap and areas for operational efficiencies. I expect this team to work together during the FY2025-26 budget process to develop proposals that reduce costs while minimizing negative impacts to City services.

This guidance provides a starting point for all service areas to identify concepts for cost reductions so that the City can collaboratively develop a budget recommendation that will balance needs and priorities with our fiscal reality. In a few weeks, a new Mayor and City Council will be elected. I will work closely with the Mayor-elect as soon as possible to begin transitioning to the new administration and anticipate that adjustments to this guidance may occur between the November election and the end of 2024.

### **General Fund Guidance**

The FY 2025-26 base budget will include adjustments for inflation plus additions to the Current Allocation Levels (CAL) such as the known FY 2024-25 costs of health insurance. These increases contribute to the gap between expenditures and forecasted General Fund revenues. To close this gap, I am directing all bureaus that receive General Fund allocations – except for those with legal obligations, elected offices, the Portland Police Bureau (PPB), Portland Fire & Rescue (PF&R), and the Bureau of Emergency Communications (BOEC) – to prepare *minimum* 5% reductions to their base budgets. These reductions are necessary for the City to maintain current allocation levels for programs with ongoing funding.

On top of the required 5% reduction, there is roughly \$40 million of programming that is currently supported by one-time funding and will need *ongoing* resources identified to continue at current levels next year. Therefore, in addition to the required cut of 5%, I am directing service areas, other than those programs and bureaus who have been exempted, to bring forward scenarios for an 8% reduction as well. These reductions will provide the City Administrator, Mayor, and the next City Council with options to consider when determining which programs might be continued. The City Budget Office will work with the City Leadership Team to set up a process for identifying and prioritizing reduction concepts. This process will look different than it has in the past – we must move away from identifying a cut target and simply solving for the math. Instead, we need to lead with collaborative questions: “How can we do our work more efficiently?” and “What can we stop doing?”

Given the challenging fiscal outlook and constraint expectations, capacity for additional, new allocations in next year’s budget is not anticipated. However, since there are always a few urgent or required items that develop dynamically and are not reflected in the base budget, service areas may bring forward packages for additional General Fund resources for consideration by the City Leadership Team. Any additions should be very narrowly focused on legal obligations, operationally critical needs, or programs that have expiring one-time funding that the City Leadership Team feels meet a high bar for effectiveness, responsiveness to community and City Council priorities, and positive equity impacts. Any new General Fund allocations in FY2025-26 will require greater reductions across the City.

### **Non-General Fund Guidance**

The General Fund bureaus are not the only parts of the City facing fiscal challenges. The Vibrant Communities service area has been impacted by General Fund reductions, reduced revenue from the Parks Levy due to property tax compression, and growth in expenditures that make it challenging to maintain current service levels. The Portland Bureau of Transportation continues to face stagnant revenues from parking and state highways funds. Portland Permitting and Development’s permit fee revenues declined over the past two years due to decreased permit activity while expenditures grew.

Given required reductions to the General Fund, it is not a viable source to mitigate the shortfalls in other funds. We must make budget decisions with a citywide perspective and collectively manage the City’s resources in order to achieve our goals. As such, I am directing the Deputy City Administrator in charge of the relevant service area for the bureaus listed above to collaboratively prepare expense reductions based on realistic revenue forecasts that would put the funds on a sustainable trajectory.

Understanding there are external pressures driving many of our increased rates, I am also directing the internal service funds, such as Technology Services, Fleet and Facilities, and Risk Management, to submit 5% reduction packages to all non-fixed costs within their base rates. This reduction is a necessary part of

a larger strategy to lower growth in the City's expenditures, though it necessitates difficult decisions about reducing costs within internal services.

For FY 2025-26, I am directing the Portland Water Bureau and the Bureau of Environmental Services to present rate increases that lead to a combined increase of no more than 5.94% above the FY 2024-25 rates (which aligns to a 5% reduction). Future year rate increases should not be adjusted above the rate increases currently projected through the entire forecast. Containing costs within our utilities is important for mitigating increases in the overall cost of living for all Portlanders, especially those experiencing financial instability. It is also part of the larger citywide strategy to achieve a more sustainable fiscal trajectory moving forward.

Since January 2018, I have led the City through eight budget cycles that have seen periods of economic growth and global economic downturns. Each budget required Council to assess programmatic priorities, cost containment, and trade-offs with creativity, collaboration, and resilience. Despite the difficult decisions we have made, we have several reasons to look to Portland's future with optimism. The incoming Mayor and City Council will have the support of all bureaus, service areas, and the City Leadership Team to develop the FY2025-26 budget, explore citywide trade-offs and efficiencies that will keep the City on a path towards long-term financial sustainability, and continue to provide services to meet the critical needs of Portlanders.

A handwritten signature in black ink, appearing to read 'Ted Wheeler', followed by a long horizontal line extending to the right.

Ted Wheeler  
Mayor, City of Portland