



Office of the City Administrator

Michael Jordan, City Administrator

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MEMO: Preview of Fiscal Year 2025-26 Budget Recommendations

January 17, 2025

To: Portland City Councilors

From: Michael Jordan, City Administrator

Jonas Biery, Deputy City Administrator of Budget & Finance and Chief Financial Officer

Cc: Mayor Keith Wilson, Mayor's Chief of Staff Aisling Coghlan, Deputy City Administrators and Officers, Budget Director Ruth Levine, Human Resources Director Tracy Warren, Equity and Human Rights Director Jeff Selby

Introduction and Background

The upcoming Fiscal Year 2025-26 budget cycle will require difficult and significant reductions to a combination of City staffing, programs and service delivery in order to balance the budget. I encourage you to review the [October 22, 2024 Council Work Session](#) for more information and context about the City's fiscal condition and economic expectations. Slides are available [here](#).

On October 25, 2024, Mayor Wheeler provided direction to service areas to prepare budget reduction concepts. The results of the bureau and service area efforts to responding to that direction are reflected in the concept packages described below.

The [General Fund Forecast](#), published December 9, identified a structural ongoing General Fund budget gap of approximately \$27 million (\$21 million ongoing and \$5.8 million one-time). There is also approximately \$40 million of one-time funding supporting programs with ongoing needs, which the City will need to find funding to continue. In total, the gap in the general fund to maintain current service levels is roughly \$67 million for the budget year that starts July 1. Beyond the general fund, deeper reductions are expected in budgets for Portland Parks & Recreation, the Portland Bureau of Transportation and Portland Permitting & Development due to reductions in specific revenues supporting those bureaus.

In addition to the required budget reduction tradeoffs to meet the structural gap for existing staffing and programs, the City of Portland's next budget will need to accommodate significant **new** expenditures that are not reflected in the forecast, including additional funding for council and mayoral offices and additional spending likely to result from ongoing labor negotiations, increasing healthcare benefit costs and increased efforts to address Portland's homelessness

crisis. While many of these new costs are not yet known and will depend on decisions made over the next few months, current estimates suggest the additional cuts could be as much as \$70 million or more in ongoing and one-time general fund.

These additional costs are not yet reflected in the reduction concepts below. With support from the City Leadership Team and the City Budget Office, the City Administrator will continue collaborating with City Council to identify options to meet these challenges.

The City is legally required to adopt a balanced budget – one in which expenditures fit within projected revenues – in June 2025. This will require significant reductions to a combination of staffing, programming and services. We expect that required reductions will have broad impact on all areas of the City – from field staff to management, from planning to maintenance to capital investment, to nearly all City services, and in all city council districts. Acknowledging this reality is difficult and identifying solutions will be difficult to do.

During recent conversations, city council members have requested more detailed information about budget reduction concepts under development. The remainder of this memo provides a summary-level preview of options that are likely to be presented in the city administrator’s recommendations, scheduled for publication by the end of February. The information is not comprehensive but is intended to highlight large and impactful categories submitted for consideration within the City’s six service areas. This information all remains under active development. Identifying expenses in each category is somewhat subjective, and therefore include potential ranges and estimates of dollar impacts. In addition, we are working to develop reduction concepts based on administrative efficiencies, external materials and services and other possible citywide efficiencies, which are in progress and therefore not reflected in this preview document.

The city administrator’s budget recommendation will include specific line-item recommendations, dollar amounts, additional service impact details and other alternatives for consideration. We look forward to receiving robust input from Portlanders and City Council as the Mayor develops the proposed budget. The Proposed Budget will be reviewed and refined by you as a Council as you work toward approving and adopting the Fiscal Year 2025-26 Budget in June.

Summary of Potential Services Impacts

Vibrant Communities Service Area

Within the Vibrant Communities service area are the Portland Children’s Levy, Office of Arts & Culture, and Portland Parks & Recreation. The Children’s Levy receives no General Fund but is experiencing decreased tax revenues due to declining property values. The Office of Arts & Culture is developing a General Fund reduction of approximately \$350,000 and managing

diminishing investment power from the flat \$35 Arts Tax. Major impacts are mostly within Portland Parks & Recreation.

Portland Parks & Recreation is funded predominantly by a mix of general fund, system development charges and a dedicated property tax levy to support operations. All these revenue streams are experiencing reductions and constraints, creating a uniquely challenging situation. Parks is planning for reductions of 12% or more in the next budget year.

Potential impacts identified below depend on future decisions related to the current operating levy. Numbers and concepts assume that the levy is renewed at the current tax rate of \$0.80/\$1000 of assessed value. If the levy is not renewed, much deeper reductions will be required. On the other hand, if the levy is renewed at \$1.60/\$1000 of assessed value, many of the reductions listed here could be avoided. However, reductions to Parks' general fund allocation would still need to be maintained.

Current reductions total approximately \$23 million, including approximately \$6 million to the general fund.

Reductions and Elimination of Parks Programming

Concepts with significant impacts reducing hours and/or eliminating summer programs and day camps, reducing hours at community centers and sports and aquatic facilities, and closing a community center, as well as several employment pathway programs.

Total reduction (including levy): \$9 million - \$10 million

General fund portion: \$2 million - 2.5 million

Reduction to Parks Maintenance and Cleanup

Multiple reduction concepts will reduce maintenance staffing and contract resources and frequency of service. Impacts will include reduced restroom cleaning, garbage clean-up and general maintenance of both built and natural parks infrastructure.

Total reduction (including levy): \$6 million – 7 million

General fund portion: \$1 million – \$2 million

Other Important Reductions

Other reduction concepts will have direct community impacts, including reductions to community assistance programs, some partnership grants and community engagement efforts, and increases to some user fees.

Total reduction (including levy): \$2 million – \$3 million

General fund portion: \$1 million – \$1.5 million

Community & Economic Development

Reductions in the Community & Economic Development Service Area primarily impact efforts to support low-income housing and economic development programs (including general fund contributions to Prosper Portland). Additionally, Portland Permitting & Development faces a significant challenge due to massively reduced permitting activity (and associated fees) and prior depletion of reserves.

Reductions to Housing & Economic Development

This category includes reductions to the Community Technology Division, planning and urban design programs and community-facing assistance such as economic development lending and support, downpayment assistance, home repair grants and eviction legal assistance programs.

Total General Fund reduction: Approximately \$5 million

Reductions to Portland Permitting & Development

Significant declines in permits have reduced revenue for Portland Permitting & Development. To help bridge this gap, the general fund transferred \$2 million during Fiscal Year 2024-25 – but development has not picked up sufficiently to avoid further reductions, including positions.

High interest rates, low investor confidence, an unfavorable perception of Portland, and declining market values of existing buildings in the downtown core have negatively impacted construction permitting activity in Portland, with the valuation of building permit applications down 14% in Fiscal Year 2024-25 compared to the previous fiscal year, and on pace to be 60% below the peak levels of the construction boom. The City has drawn on reserves heavily in the previous two fiscal years, and low development levels are expected to persist throughout Fiscal Year 2025-26, into Fiscal Year 2026-27.

Additional reductions will result in impacts to permitting and inspection timelines, property compliance inspection and enforcement capacity, and may necessitate the elimination of free public services – all of which will likely impact future economic recovery efforts.

Total reduction: Approximately \$10,000,000

General Fund portion: \$2 million of expiring one-time General Fund

Public Safety

While the majority of the Public Safety Service Area was exempt from the initial budget reduction guidance, some areas did identify potential general fund reduction concepts. In addition, the Fiscal Year 2024-25 Adopted Budget includes roughly \$20 million of one-time funding for services within Public Safety that are intended to be ongoing, including basic operations of Fire and Police, as well as the Office of Violence Prevention and other community safety programs. Based on updated guidance for Public Safety, Portland Police Bureau, Portland Fire & Rescue and the Bureau of Emergency Communications are now developing 8% reduction scenarios as well.

Reductions to Emergency Management Functions

This includes reductions in staff and technology to support City emergency response functions, which will add risk to the City’s ability to plan for and respond to emergency events.

Total General Fund reduction: Approximately \$250,000

Reductions in Enterprise Services and Community Safety Programs

Reductions in Community Safety would reduce the City’s capacity to address factors contributing to violent crime using community-based resources in addition to traditional public safety systems. This also includes reductions to financial oversight and strategic planning.

Total general fund reduction: Approximately \$2.5 million

Reductions to Police, Fire and 911 Services

October 2024 guidance from Mayor Wheeler exempted Police, Fire and Emergency Communications from submitting initial reduction concepts for City Leadership Team budget discussions. In early January, City Administrator Michael Jordan requested that these bureaus submit 5% and 8% reductions and impacts.

	5% Reduction	8% Reduction
Police	\$12.8 million	\$20.5 million
Fire	\$7.9 million	\$12.6 million
Emergency Communications	\$1.2 million	\$1.95 million

Initial submissions are expected to be available by January 21.

Portland Solutions

Budget concepts include reductions to the Impact Reduction Program and the Public Environment Management Office at the 8% target, along with reductions to external materials and services. In addition to directed reductions, Portland Solutions' budget for Fiscal Year 2024-25 has roughly \$10 million of one-time funding that is set to expire in Fiscal Year 2025-26. We will continue to work with partners at all levels of government to identify any and all funding to support these programs. The impacts of these reductions will be fewer crews and resources to respond to citywide cleanup and livability issues.

Total General Fund reduction: Approximately \$750,000

Central Services and Operations

Reduction concepts within the City Administrator's Office (excluding Portland Solutions – see above) and the City Operations and Budget & Finance service areas total over \$11 million in Citywide impact. Many reductions have direct downstream impacts through all areas and functions of the City, which rely on central services and operations to support their daily work. This category includes many services that have been subject to repeated reductions over the past decade and are already operating at suboptimal staffing levels, with little to no funding for external material and service contracts. The risks of under-investment have recently been exposed through examples in 2024 such as deficiencies related to payroll processing and the external auditor's identification of a material accounting weakness. In addition to further increasing these types of risks, reductions will likely delay service response for City bureaus, contractors and partners.

Reductions to Technology, Human Resources, 311, Fleet and Facilities

Concepts in this category include reductions to funding for security services, a reduction of operating hours for 311 services and a shift to limited and more efficient management of technology and fleet assets.

Total reduction: \$5 million – \$6 million

General fund portion: \$900,000 – \$1,000,000

Reductions to Business/Financial Support Resources

Concepts in this category include reductions to positions in the Budget & Finance and City Operations business operations group, the City Budget Office, and Grants Management, as well as outgoing community grants that are made through Special Appropriations.

Total reduction: \$1.5 million – \$2 million

General fund portion: \$1 million – \$1.5 million

Reductions to City Attorney’s Office, Government Relations, Community Engagement and the Office of Equity & Human Rights and Central Communications

Each of these service areas have reduction concepts at the 8% level via a combination of reduced staffing and/or External Materials & Services, resulting in reduced services to the community and elongated timelines to respond to City needs.

Total reduction: \$2 million – \$2.5 million

General Fund portion: \$1.25 million – \$1.5 million

Other Important Reductions

Other relevant reduction concepts include a portion of outgoing community grants and resources available to the Small Donor Elections program.

Total General Fund reduction: Approximately \$500,000

Public Works

Representing roughly half of the total City budget (\$4 billion in Fiscal Year 2024-25), Public Works programs are predominantly funded from non-general fund resources, including transportation revenues, water system revenues and sewer/stormwater system revenues. The Portland Bureau of Transportation (PBOT) does receive revenue from the general fund, which is subject to reductions as described below; additionally, PBOT is facing reductions due to declines in major revenue streams including parking revenues and gas tax revenues. Portland Water Bureau and the Bureau of Environmental Services are funded almost exclusively by enterprise revenues, but submitted reduction concepts that mitigate future year rate increases to customers. Additionally, these enterprise bureaus are impacted by increasing costs of central services, because they pay a portion of general fund overhead as well as directly through interagency agreements.

Reductions to Portland Bureau of Transportation

PBOT's updated forecast will require significant reductions to be taken across programs supported by general transportation revenue, including street paving, maintenance and replacement of signals and streetlights, removal of debris from streets and catch basins, project planning and development activities, parking management, traffic safety improvements, derelict RV removal, and support services. Reduction concepts also include reducing sewer maintenance activities at the request of Environmental Services.

Total reduction: Up to approximately \$25 million

General Fund portion: Up to approximately \$250,000

Reductions to Portland Water Bureau

In compliance with the October 2024 budget guidance, the Portland Water Bureau submitted a reduction concept that reduces the water rate increase from 8.1% to 7.7% (a reduction of 5%). Water has identified this reduction would come from staffing reductions – predominantly via currently vacant positions in system maintenance, operations, customer service and support/administration.

Total reduction: Approximately \$1 million

General fund portion: none

Reductions to Bureau of Environmental Services

In compliance with the October 2024 budget guidance, the Bureau of Environmental Services (BES) submitted a total reduction concept that reduces the sewer and stormwater system rate increase from 5.15% to 4.89% (a reduction of 5%). BES has identified reduction concepts that reduce professional and real estate brokerage services contract budgets, strategy and integrated planning budgets, and the space leasing budget.

Total reduction: Approximately \$1 million

General fund portion: none

Potential Personnel Impacts

Personnel costs represent approximately 67% of total general fund appropriations, including public safety bureaus and excluding debt payments and fund transfers. As such, there is no way to address significant general fund budget reductions without impacts to personnel. The combined concepts – excluding Police, Fire and Emergency Communications, which are still under development – include reductions of over 120 FTE citywide. This number is expected to increase to address remaining gaps the Portland Bureau of Transportation and Portland

Permitting & Development, and to address the additional budget gap that is anticipated as described in the introduction of memo.

While precise positions have not been identified for all of the reduction concepts, estimates as of January suggest that the reductions will impact represented and non-represented positions roughly proportionally: approximately 80 percent of non-casual staff are represented.

Work is underway to complete thorough reviews of multiple Citywide functions including communications, business operations, technology, human resources, and procurement, to identify enterprise efficiencies, as I outlined in a citywide memo earlier this week. This work will likely result in proposed staffing and material and services reductions in those areas separate from the reduction concepts identified above. That work will continue over the coming months, with the aim of incorporating results into the FY 2025-26 budget prior to Council approval and adoption. Preliminary estimates are that this effort could identify up to approximately \$3 million in general fund budget reduction.

The initial recommendations may also include a one-time elimination of merit increases for non-represented employees in Fiscal Year 2025-26, producing an ongoing general fund budget reduction of approximately \$1.5 million to \$2 million. Alternative human resource management strategies remain under analysis and consideration and may be submitted as recommendations or options.