

CITY BUDGET OFFICE

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CITY OF PORTLAND, OREGON

TO: Mayor Charlie Hales
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FROM: Andrew Scott
City Budget Director

DATE: March 8, 2016

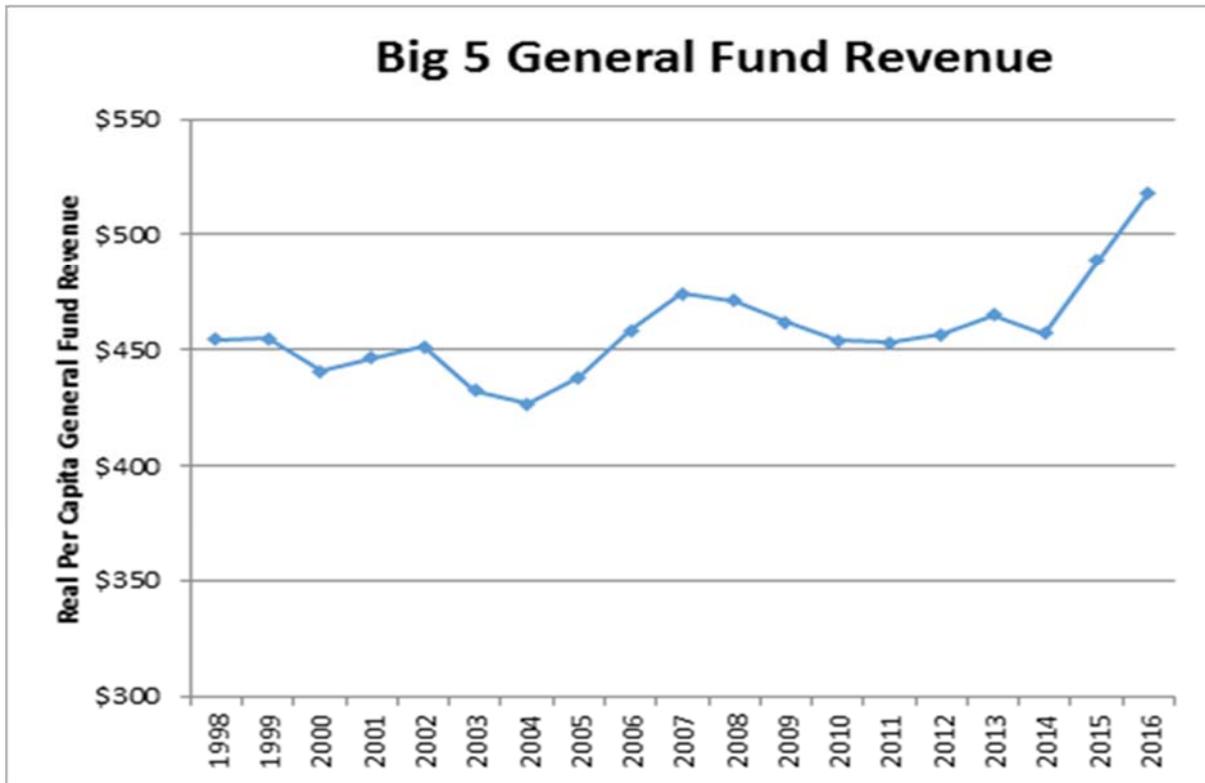
SUBJECT: **City Budget Office FY 2016-17 Budget Reviews**

Attached are the City Budget Office (CBO) reviews of the FY 2016-17 requested budgets. These reviews analyze and highlight the key issues that CBO believes Council should consider during the budget process and continue our focus on bureau and program performance. We asked bureaus to provide expected accomplishments given their base budgets, and specify how performance will be improved or hindered by decision packages. We have largely based our recommendations for additional funding on whether a program will positively impact one or more key performance measures. We encourage Council to look to performance outcomes when making budget decisions.

The City is at a key moment financially. We are experiencing record-breaking revenue growth, yet we do not have enough money to pay for this year's budget priorities: housing and homelessness services, public safety staffing, employee wage increases in Parks, and infrastructure repair and replacement. In addition, there is long-term fiscal pressure from growing pension, wage, and benefit costs and potential liabilities such as Portland Harbor.

The chart below shows the per capita rate of General Fund revenue collection from the five largest sources: property taxes, business license taxes, utility license fees, transient lodging taxes, and state shared revenue. For 15 years the rate hovered around \$450 per person, but has grown to well over \$500 per person in the last two years.

This reflects the strength of the local economy and the desirability of Portland as a place to live, but it also poses a significant question: are we experiencing a new “normal” or will per capita revenues drop back to the historical trend line?



If the current growth in General Fund revenue is unsustainable, or we face an economic downturn, the City will not be able to fund all of the priorities mentioned above without significant reductions in services.

FY 2016-17 Budget Guidance

In October, the Mayor and Council declared a housing state of emergency and pre-allocated \$10 million to the Portland Housing Bureau in FY 2016-17. In December, per resolution 37170, Council created a \$1.2 million General Fund transfer to the Housing Investment Fund for the development and preservation of affordable housing. The Mayor directed other bureaus to propose General Fund reductions of 5% so that he and Council would have options for finding additional resources for housing or other priorities.

Forecast

The City financial picture continues to be strong, and it appears that tax year 2015 will be another record year for business license tax revenues. As a result of strong business license and transient lodging tax revenue growth, along with low inflation, CBO is currently projecting that the General Fund will have a \$20.3 million surplus – \$4.4 million in excess ongoing and \$15.9 million in excess one-time resources. This surplus assumes the \$11.2 million for housing noted above. CBO will issue a final forecast in late April; given current trends we anticipate that the surplus will continue to grow in the short term.

CBO General Fund Recommendations

In total, bureaus requested \$19.7 million in ongoing funding, \$76.2 million in one-time funding, and placed \$20.1 million of ongoing reductions on the table. The largest General Fund requests came from Housing, Parks, Transportation, Police, Fire, Management & Finance, and Special Appropriations.

CBO has made a series of budget recommendations based on the guidance provided by the Mayor as well as City financial policies. In total, we recommend almost **\$13.4 million in ongoing adds** offset by just under **\$9.0 million in ongoing cuts**, as well as **\$15.9 million in one-time spending** primarily on infrastructure projects. Please see the reviews for a more detailed discussion of the recommendations.

Key Additions

- ***State of Housing Emergency.*** In addition to the \$10.0 million in new General Fund support allocated by Council, CBO recommends \$3.7 million in one-time funding. The \$13.7 million is spread across a number of requests primarily from A Home for Everyone and PHB. In addition to these funds, PHB plans to borrow against the ongoing HIF General Fund contribution, which would generate over \$14 million in development funds. Finally, Council's recent action to increase the TIF set-aside for affordable housing will generate up to \$30 million in new TIF resources for the fall 2016 NOFA. With these recommendations, the City will have significantly exceeded its \$20 million commitment of new resources to housing and homelessness.
- ***Public Safety.*** CBO recommends \$2.1 million of ongoing adds for the Police Bureau, including new background investigators and recruiters, new officer recruitment incentives and higher starting pay, additional DOJ agreement-related resources for internal affairs investigations, sexual assault team staffing, and a position to help engage the Somali refugee community. As an offset, we recommend shifting the cost of the School Resource Officers to the Portland Public School district. PPS discontinued its support for SROs in the early 2000s and the City picked up the cost. This shift would be consistent with other IGAs, such as the one we have with TriMet, where the government requesting enhanced patrol presence pays for that service.

For the Fire Bureau, CBO recommends the restoration of ongoing funding for 13 firefighter positions and suggests that Fire explore ways to expand the Rapid Response Vehicle program within existing resources and move to a peak staffing model to increase response reliability.

- ***Parks.*** CBO recommends an additional \$3.5 million of ongoing resources for the Parks Bureau to pay for the increased wage costs resulting from a recent arbitration decision and \$200,000 for operations and maintenance of new Parks facilities. However, we recommend offsetting this with about \$1.5 million in reductions throughout a variety of Parks programs, resulting in a net ongoing addition of \$2.2 million.

- **Investing in Infrastructure.** City financial policy requires that 50% of the excess one-time resources in the forecast, or about \$8.0 million, be spent on infrastructure maintenance and replacement. A complete list of the submitted projects is included with our reviews. CBO is recommending \$9.7 million for the following:
 - Traffic signal reconstruction (\$950,000)
 - Sunderland Bridge replacement (\$890,000)
 - Washington Park sanitary and pipe reline (\$1.0m)
 - Mt. Scott Community Center roof replacement (\$2.6m)
 - Migration of the City's data center (\$4.3m)

In addition, the City is a partner agency with the Levee Ready Columbia group and in the fall of 2015, Council entered into an IGA to provide resources for the second phase of an engineering assessment for the levees along the Columbia River. CBO recommends \$1.6 million for the City's share of this assessment.

Ongoing Reductions

- In addition to the offsets for Police and Parks noted above to cover some of their additional costs, CBO recommends ongoing reductions in a number of administrative bureaus and Special Appropriations in order to create additional resources for other FY 2016-17 priorities. If taken, these reductions will impact the day-to-day operations of those bureaus. However, we believe those impacts, which in some cases will be significant, were less compelling than the pressing housing, homelessness, and public safety needs.

Ongoing Capital Set-Aside

In addition to the recommendations noted above and in the reviews, CBO is also recommending the creation of a \$1.4 million ongoing capital set-aside. These funds would augment the one-time funding that is currently reserved for infrastructure projects and would allow the City to make additional progress on its infrastructure backlog. A capital set-aside could also function as a rainy day fund: in good years, the funds would be spent on infrastructure, but in economic downturns the funds could be used to soften the immediate impact of budget reductions.

Conclusion

Portland is in the midst – and quite possibly at the peak – of a positive economic cycle that has restored the resources lost during the Great Recession and continues to generate large surpluses. It is important that we spend these surpluses with an eye towards our financial future – a future that may see a reduction in the per capita tax collection rates noted above and will almost certainly see an economic slowdown. CBO recommends adding new ongoing programs sparingly, since they will most likely require ongoing cuts in the future.

Please do not hesitate to contact me with any questions about the CBO budget reviews. I look forward to working with you to craft the FY 2016-17 budget over the next three months.