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CITY OF PORTLAND, OREGON

TO: Tax Supervising & Conservation Commission
FROM: Andrew Scott, City Budget Director
DATE: June 18, 2014
SUBJECT: TSCC Hearing on FY 2014-15 Approved Budget

The Tax Supervising and Conservation Commission (TSCC) hearing on the FY 2014-15 Approved Budget will take place Wednesday, June 18, 4:00 – 5:00 PM in the Rose Room. The responses to questions received from the Commission are below.

1. The City updates its 5-year General Fund financial forecast annually in December and April. This year, the April forecast projected a 3-1/2 percent average annual increase in discretionary revenue for the General Fund for the next five years. Based on that, the Mayor is confident that current service levels can be funded for the next five year period. What are the risks in this scenario and how does this budget protect against those risks?

Answer: At this point, the biggest risks appear to be largely on the expense side. The City will likely have to invest resources in projects that are not part of the current forecast, in particular the Portland Building remodeling or replacement and superfund mitigation. Additionally, ongoing expenses relating to health benefit and pension costs remain a concern. Given the current economic environment, modest growth of 3.5% is conservative, per City financial policy. Property taxes next year will almost certainly grow by at least 3.5%, while other revenue sources – particularly business license and transient lodging taxes - tend to grow at higher rates during economic expansions.

The City protects against risks by balancing the budget over the entire five-year forecast. This means that, to the extent forecasted revenues in year five of the forecast are insufficient to cover expected costs in the same year, the policy requires cuts be enacted in year one of the forecast to set the budget on a sustainable course. As to pension and health benefit risks, those anticipated cost increases are part of the current forecast. Therefore, only deviations from already anticipated increases will impact the budget.

2. Should the December 2014 forecast indicate that there will be a budget surplus next year, does the Council have a process for allocating or reserving that surplus? Has the Council developed a policy that will effectively counteract the boom to bust cycle for which this budget indicates we are now on the upside?

Answer: The City uses the December planning forecast to shape the following year's budget process. If the December 2014 forecast shows a budget surplus for FY 2015-16, Council will put a process in place that will effectively use that surplus on the highest priority services, while ensuring that our General Fund reserve is fully funded and that General Fund contingency has adequate resources to deal with unforeseen emergencies. Over the last 18 months, Mayor Hales and City Council have set-aside one-time surpluses to

reduce City debt, invested in essential capital projects such as a west-side emergency operations center, and invested ongoing resources into restoring key City services cut in the last few years.

Careful financial planning can mitigate the downside risks of a forecast and can help smooth the negative effects of an economic downturn. However, there is no way to fully counteract the impact of a recession with reserves or rainy-day funds. Instead, it is important for Portland to continue its long-range forecasting and five-year balancing, with frequent updates and opportunities for budget adjustments. This will allow the City to be as resilient as possible and make the necessary adjustments to deal with the downturn and emerge as quickly as possible.

3. Total Bureau expenditures in the General Fund will be \$467 million. Total contingency (effectively the reserve) for this fund is \$71.6 million (15%). What is the Council's policy on fund balance and does this reserve level meet that policy?

Answer: Current financial policies state that the level of the General Reserve Fund shall be 10 percent of the General Fund revenues less any short-term borrowing receipts, intrafund, and grant revenues. In addition, policy states that shortfalls associated with bureau service reimbursement income, contract income, or cost recovery revenues may not be offset by a transfer of resources from the reserve. The General Reserve Fund is currently budgeted at \$62.9 million, which includes \$8.1 million set aside to pay off existing debt, \$7.6 million for replacement of fire apparatus, and \$47.3 million for coverage related to the 10 percent stated in policy. After removing resources that are not eligible to be offset by the reserve, the total General Fund revenues are less than \$450 million, which is within the range covered by the \$47.3 million reserve.

4. With sustainability comes investment and this budget launches three investment priorities: emergency preparedness, homelessness and hunger, and complete neighborhoods. How much additional money is being invested in this effort and how will the outcomes be measured?

Answer: The Approved Budget includes \$2.15 million for complete neighborhoods, \$2.25 million for homelessness and hunger, and \$1.27 million for emergency preparedness. The Mayor directed CBO to work with bureaus to define key performance indicators around these priorities. Over the past several months, the City Budget Office has worked with bureaus to create 3-5 indicators for each of the priority areas, aiming to finalize the indicators by the beginning of FY 2014-15. Below are sample indicators for each of the priority areas.

Emergency Preparedness

- % of neighborhoods with active Neighborhood Emergency Teams*
- % of resident who have at least one week of emergency supplies*

Complete Neighborhoods

- Percentage of households on a street with a sidewalk on at least one side*
- Percentage of households within ½ mile of a park*

Homelessness

- Increase in households placed into housing*
- Decrease in the number of newly homeless*

5. The City's budget document does not include longitudinal performance measures. If the performance measures for the new investments prove valuable, could this effort become a model for a system of city wide performance measures?

Answer: The City Budget Office plans to use the performance management model, Priorities to

Performance, to develop key performance indicators and long-term “impact measures” for a larger number of City priorities. It is the goal that each of the City’s service areas will have key performance indicators, updated on an online performance dashboard, that Council can use to make future budget decisions and inform the public on how well the City is performing in its service delivery. Not all of these “key performance indicators” will be new, as all bureaus currently report upon annual performance measures. Most of the performance measures are included in the City’s Adopted Budget.

6. During our Multnomah County Budget Hearing, former Chair Madrigal expressed pride in the work that she and Mayor Hales have done this year in realigning the City and the County’s responsibilities for certain social services. Mayor Hales, would you please provide your perspective on this effort and the resulting impact on service delivery to these areas.

Answer: First, the depth and breadth of this year’s city/county budget discussions would not have been possible without the strong leadership of Chair Madrigal. Her deft knowledge of the budgetary workings of Multnomah County was a key ingredient in our success. I have crafted two budgets as mayor of Portland. Both times, one of my top priorities was to be able to answer these questions: Who has primary administrative responsibility for a public service? And who has primary funding responsibility for a public service? Over decades, a wide array of public services have become blended and unclear to residents, and even to the governments themselves. This is not exclusively a city/county issue, but also involves the school districts within our borders, TriMet, Metro, and other agencies. Clarity in budgeting, and clarity in responsibility, seem like a minimum threshold for good governance. It is worth noting that a discussion of budget clarity is not a discussion of the importance of a service. Asking, “Who pays for a needle-exchange program?” is not the same as asking, “Is a needle-exchange program important?. I will continue to seek budget clarity with all of the regional agencies as we prepare for next year’s budget-writing process.

7. Are there other joint City-County projects are in the pipe line?

Answer: There are so many projects handled cooperatively between the city and the county that attempting to list them would be a disservice. On any given day, from transportation, to housing, to public safety and more, city and county staff work cooperatively on a myriad of projects.

8. Levee Accreditation is a growing issue for all the properties along the Columbia River. When the engineering evaluation required increased funding, the City took the lead on the IGA that will secure the funding. Beyond that loan, is the City involved in other Levee activities and how is the Accreditation effort addressed in this budget?

Answer: The City is a co-convener, along with Multnomah County, of a multi-party Oregon Solutions group assembled to review strategies for addressing accreditation concerns along the Columbia River levees. Potential costs of future efforts related to levee accreditation are currently unknown. The City expects that the engineering evaluation currently in progress will provide direction about future cost expectations. The Oregon Solutions group will then work to identify a strategy to address the accreditation effort, including determining how costs might be allocated among the various regional partners.

9. Urban renewal efforts can be a thankless task, regardless of the outcome. This year’s proposed reduction and reconfiguration of Portland’s urban renewal areas seems to have hit the right note, though. Please describe the plan, its financial impact, and what we can expect to see regarding Portland urban renewal in the next 12 months.

Answer: The plan is to make changes to 6 URAs – shrink or eliminate 4 of them (River District, Airport Way, Education District and Willamette Industrial) and expand and extend the life of 2 others (Central Eastside and North Macadam). The goal is to advance key redevelopment and economic development objectives while reducing the impact of urban renewal on local taxing jurisdictions. These plans will be finalized in the

fall and presented to the PDC Commission and City Council for official action so that they take effect in the FY 2015-16 tax year.

The financial impact will be significant. The changes will put a large amount of assessed value back on the property tax rolls much sooner. Over the next 30 years, we estimate that the city, the county, the state school fund, and the library will collect approximately \$158,000,000 more than they would under the status quo. At the same time, we will be able to provide the same value of support for affordable housing as we would under the status quo. \$6 million will be returned in FY 2014-15 from River District and Willamette Industrial URA by instructing Multnomah County Assessment and Taxation to not use the full amount of tax increment for urban renewal purposes in those areas. This plan has little impact to the PDC budget over the next year, but does make some longer-term directional changes to PDC's work plan as it relates to the Education URA, Central Eastside, and North Macadam.

The major activity in the coming year will be to finalize the recommendations and develop the findings for the expansion and extension of two of the districts. PDC has already assembled a citizen committee to oversee the process and will coordinate closely with Bureau of Planning & Sustainability's Central City 2035 planning. When that work is done, the package of changes will come back to City Council for approval in December of this year.

10. In March of 2014 a Council Budget Subcommittee released a report on citywide span of control issues. The recommendations in that report included adding span of control reporting requirements in the budget process, conducting a non-represented class and comp study, and position and department specific recommendations that would save money. Are any of the recommendations addressed in this budget?

Answer: The Span of Control Report was released in March 2014. Status of the report recommendations highlighted above are as follows:

- **Bureau Specific Recommendations:** City bureaus were asked to submit implementation plans that addressed the position specific span of control recommendations along with their FY 2014-15 Requested Budget submissions. As requested in the report, the Portland Police Bureau submitted follow up information in April 2014. Many bureaus chose to internally address the identified span of control issues; however no action was taken with regards to the Portland Police Bureau recommendations. The Portland Police Bureau has acquired a contractor to complete a comprehensive staffing study and depending on the outcome that study, Council may make future resource adjustments.*
- **Classification and Compensation Study:** As part of the FY 2013-14 Spring Budget Monitoring Process, Council approved funds for the OMF-Bureau of Human Resources to hire a consultant to assist with the classification and compensation review of non-represented classifications. These funds were carried over and re-budgeted in the FY 2014-15 Adopted Budget. The request for proposal (RFP) process is complete and the City expects to have a contract signed at the beginning of July 2014. The goal is to have the review completed by March 2016 and then move to the implementation stage.*
- **Budget Process Reporting Requirements:** The City Budget Office will review the recommendations and, as necessary, adapt future year requested budget submissions to incorporate the recommended span of control reporting requirements.*

11. At the Port of Portland Budget Hearing last week, we asked about the increase in storm water fees in the Port's budget. We learned that the new fee level is being implemented incrementally and that that even the FAA in Washington DC is involved in the discussion about the fees. Please explain why the Port's fees rose so dramatically and how the fees are determined.

Answer: The increased stormwater charges do not represent increased costs of stormwater management. Rather, they are the result of phasing in stormwater charges that homeowners and businesses in the rest

of the City have been paying all along. The stormwater billing changes in the Districts are an attempt to make stormwater billing more equitable citywide.

Prior to 2000, many in the Districts were paying the same rates as customers elsewhere in the City. Others were paying nothing, being the beneficiaries of an administrative decision at the Bureau of Environmental Services early in the 90's to eliminate stormwater charges for anyone permitted to discharge stormwater directly (not passing through a City-owned facility) into the Willamette or Columbia rivers, or the Slough. At that time we did not have a discount program to recognize on-site stormwater management costs. We thought that concluding an agreement with the Districts would be an acceptable alternative. So in 2000, Council adopted an Intergovernmental Agreement between the City and the Districts. The intent of the agreement was to allow collection of City stormwater management costs in the Districts, while recognizing that the Districts performed stormwater management activities that benefitted the City. The charges started very low (at \$200,000), but escalated annually. At 5 years the City and Districts could not agree on a cost recovery number going forward, defaulting to inflation-based increases for the remainder of the agreement. BES staff informed the Districts that the agreement would terminate and direct billing would resume in the Districts.

In September 2012, Council voted to resume direct billing in the Districts for stormwater management on July 1, 2013. By that time, the City had developed a discount for on-site stormwater management. The full discount (35% of stormwater charges) was applied to everyone in the Districts to recognize the work done by the Districts. The remaining 65% of stormwater costs primarily represent costs of managing the quantity and quality of stormwater runoff from public rights of way Citywide, and are costs of services shared by all ratepayers, regardless of specific site characteristics. In order to offset the rate shock of resuming direct billings, Council directed the Bureau to phase the stormwater rate in over four years. This means the full (discounted) rate will not be billed in the Districts until July 1, 2016.

The other part of this is City payments to the Districts for District stormwater management services. Council has approved an Intergovernmental Agreement with the Districts, under which the City will pay for impervious area in public rights of way within the Districts, as well as the costs of managing stormwater the originates within the City that flows into the Districts. The agreement is retroactive to July 1, 2013.

12. And what is the fate of the Portland Building? Does this budget include any funds to continue with the analysis of the future of the building?

Answer: The City of Portland developed a comprehensive list of options to consider in addressing the issues facing the Portland Building. OMF convened a group of industry professionals with knowledge and skills relative to the Portland Building challenges. This group is providing expert-level feedback on the staff work. In September, staff will present data and findings to Council and discuss project future. The FY 2014-15 budget includes contingency appropriation in the Facilities Services Fund that could be transferred to the capital budget for further assessment work.