

CITY BUDGET OFFICE

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Nick Fish, Commissioner
Amanda Fritz, Commissioner
Chloe Eudaly, Commissioner
Dan Saltzman, Commissioner
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CITY OF PORTLAND, OREGON

TO: Mayor Ted Wheeler
Commissioner Nick Fish
Commissioner Amanda Fritz
Commissioner Chloe Eudaly
Commissioner Dan Saltzman
Auditor Mary Hull Caballero

FROM: Andrew Scott
City Budget Director

DATE: March 6, 2017

SUBJECT: **City Budget Office FY 2017-18 Budget Reviews**

Attached are the City Budget Office (CBO) reviews of the FY 2017-18 requested budgets. These reviews analyze and highlight the key budget and program performance issues that CBO believes Council should consider during the budget process.

The City continues to experience record-breaking revenue growth, and yet at the same time is faced with a \$1.8 million ongoing deficit. The deficit is primarily driven by three policy decisions made earlier this fiscal year: the settlement with the Portland Police Association, the intergovernmental agreement with Multnomah County for the Joint Office of Homeless Services (JOHS), and the approval of publicly-financed elections. The more than \$11 million of ongoing General Fund allocated to these priorities outpaced the growth in property taxes, transient lodging, and other revenues.

In contrast to the ongoing deficit, the City is projected to have a \$17.1 million one-time surplus, which is the result of strong revenue projections in the near term but accelerating expenditure growth in the out-years. Under City financial policy, one-time resources should be spent on infrastructure or other one-time investments.

The strong local economy has recently allowed Portland to expand services (e.g., affordable housing and homelessness) and increase wages (e.g., police officers and certain Parks seasonal employees) without making significant programmatic reductions. However, the City continues

to face long-term fiscal pressure from our infrastructure repair and replacement backlog; growing pension, wage, and benefit costs; and liabilities such as Portland Harbor. If the current growth in General Fund revenue reverts to its historical norm or if we face an economic downturn, the City will need to make significant reductions in services in order to fund the priorities noted above and others requested in this budget process.

FY 2017-18 Budget Guidance

In October, the Mayor and Council met to discuss the FY 2017-18 budget. They gave bureaus the following guidance:

- 2% reduction options for public safety bureaus and housing, with reductions focused on the potential regionalization of services and leveraging of technology.
- 5% reduction options for all other General Fund bureaus and programs, with reductions focused on programs outside of the bureau's core mission.
- Efficiencies and reductions in non-General Fund bureaus to keep fee and rate increases as low as possible.

CBO General Fund Recommendations

In total, bureaus requested \$10.4 million in ongoing funding, \$95.2 million in one-time funding, and placed \$15.6 million of ongoing reductions and realignments on the table. The largest ongoing General Fund requests came from Parks, PBOT, and OMF; the largest one-time requests were from PBOT and Parks for asset repair and replacement, and from Housing for homeless services through the JOHS.

CBO has made a series of budget recommendations based on the guidance provided by the Mayor and Council as well as City financial policies. In total, we recommend just under **\$3.4 million in ongoing adds** offset by about **\$7.6 million in ongoing cuts**, as well as **\$19.6 million in one-time spending**. Please see the individual reviews for a detailed discussion of specific recommendations.

Key Recommendations

- **CEO Surtax.** In December 2016, Council adopted a business license tax surcharge on publicly-traded companies that pay their CEO at least 100 times more than the average company worker. This tax is projected to bring in \$2.5 million in ongoing resources once fully phased in. However, the Trump Administration has announced its intent to review the SEC regulation that requires companies to report this information. If the regulation is rescinded, it will make collection difficult or impossible. CBO recommends that Council not budget this ongoing resource in FY 2017-18. This has the effect of increasing the ongoing deficit to \$4.3 million while also increasing the available one-time to \$19.6 million.
- **Marijuana Tax.** In November, Portland voters adopted a recreational marijuana tax that is projected to bring approximately \$3.0 million into the City. Allowable uses for proceeds of the tax include:

- Drug and alcohol education and treatment programs, including but not limited to services that increase access to these programs and programs that support rehabilitation and employment readiness.
- Public safety investments to reduce impacts of drug and alcohol abuse such as police DUII training and enforcement, support for firefighter paramedics, street infrastructure projects that improve safety, other initiatives to reduce the impacts of drug and alcohol abuse.
- Support for neighborhood small businesses, especially women-owned and minority-owned businesses, including but not limited to business incubator programs, management training, and job training opportunities; and providing economic opportunity and education to communities disproportionately-impacted by cannabis prohibition.

CBO recommends using \$2.65 million of the marijuana tax to fund the Service Coordination Team and Traffic Division within the Police Bureau, which will allow for \$2.65 million in General Fund savings that can be used to offset the ongoing deficit.

- **General Fund Support for Land Use Services.** CBO recommends taking a \$1.1 million reduction in General Fund support for the land use services (LUS) program at BDS. LUS is currently fully reserved, and this reduction could be backfilled with development fees to ensure no impact on BDS service levels. However, LUS will need to be monitored closely in the coming years, particularly if the building sector slows.
- **State of Housing Emergency.** In addition to the \$15.0 million ongoing baseline, CBO recommends \$7.9 million in one-time resources for the Joint Office of Homeless Services. This represents the FY 2016-17 one-time allocation plus inflation, but is less than the \$11.5 million requested by the JOHS.
- **Ongoing Reductions and Adds.** As noted above, in order to offset the ongoing deficit and create room for high priority investments, CBO recommends \$7.6 million in ongoing reductions and \$3.4 million in ongoing adds. There are a number of cuts and adds recommended throughout City bureaus, and we encourage you to read the detailed bureau reviews for more information on each recommendation.
- **Investing in Infrastructure.** City financial policy requires that 50% of the excess one-time resources in the forecast, or just under \$9.0 million, be spent on infrastructure maintenance and replacement. A complete list of the ranked projects is included in your binder. CBO is recommending \$9.0 million for the following:
 - Major maintenance and asset replacement (\$7.2m)
 - City Hall Exterior Masonry Rehabilitation (\$1.2m)
 - Washington Park Stearns Canyon Stairs (\$500k)

In addition, CBO recommends that Council look for ways to address the City's growing infrastructure backlog in order to preserve City assets – and the services they make possible – for future generations.

Conclusion

Portland continues to benefit from a strong economy and booming revenues, but the needs and priorities of the City are growing as well. The City will need to make smart, strategic decisions in FY 2017-18 and beyond in order to ensure that we maintain and expand our fiscal resiliency. CBO recommends that Council add new ongoing programs sparingly since they will almost certainly drive 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 2017-18 budget.