



# ADDRESSING LONG-TERM LIABILITIES

City of Portland - Initial Financial Liability Identification And Recommendations

FY 2020-21 Budget Work Sessions

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# ISSUE OVERVIEW

- **Purpose of Today's Conversation:**
  - Provide initial inventory of long-term liabilities
  - Discuss potential solutions
  - Help ensure sustained service delivery through financial liability
- **Caveats:**
  - Uncertainty around liability size, scope or timeline presents challenges
- **Recommendation:**
  - Set money aside!



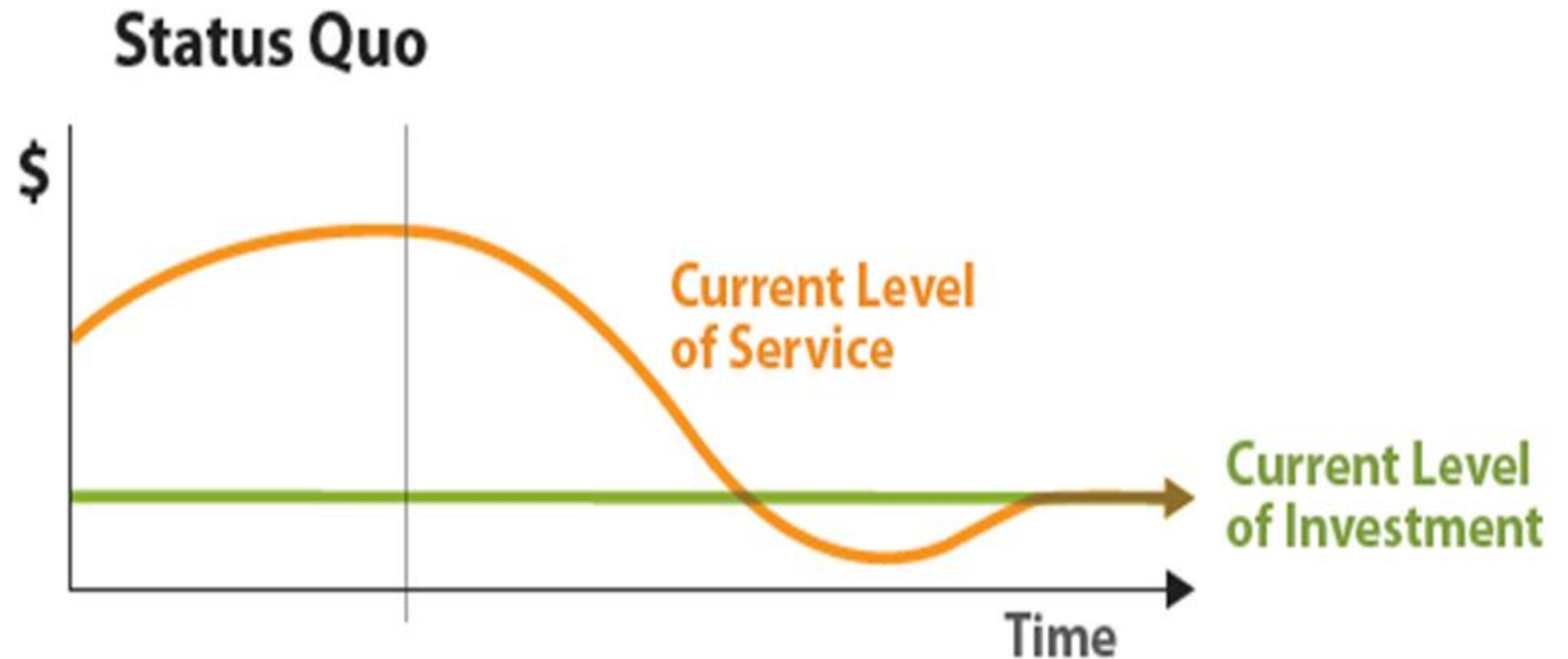
# SUMMARY OF LIABILITIES

Liability	Estimated \$ Impact	Estimated Urgency	Confidence Level of Risk
	Restrictive (>\$30M) Significant (\$5M-\$30M) Notable (<\$5M)	Near (1-3 yrs) Medium (3-7 yrs) Long-term (7+ yrs)	Certain \$ <b>and</b> timeline Certain \$ <b>or</b> timeline Uncertain \$ <b>and</b> timeline
1. Major Maintenance & Infrastructure Backlog	●	●	●
2. PERS Liability	●	●	●
3. Personnel Cost Mandates	●	●	●
4. Portland Harbor	●	●	●
5. Citywide Legal Liabilities	●	●	●
6. Technology & Equipment Replacement	●	●	●
7. Columbia Levee	●	●	●

## LIABILITY #1: MAJOR MAINTENANCE & INFRASTRUCTURE BACKLOG

- Asset portfolio valuation of \$46 Billion
- Annual funding gap totals hundreds of millions of dollars
- Inter-generational equity *and a* current generation issue

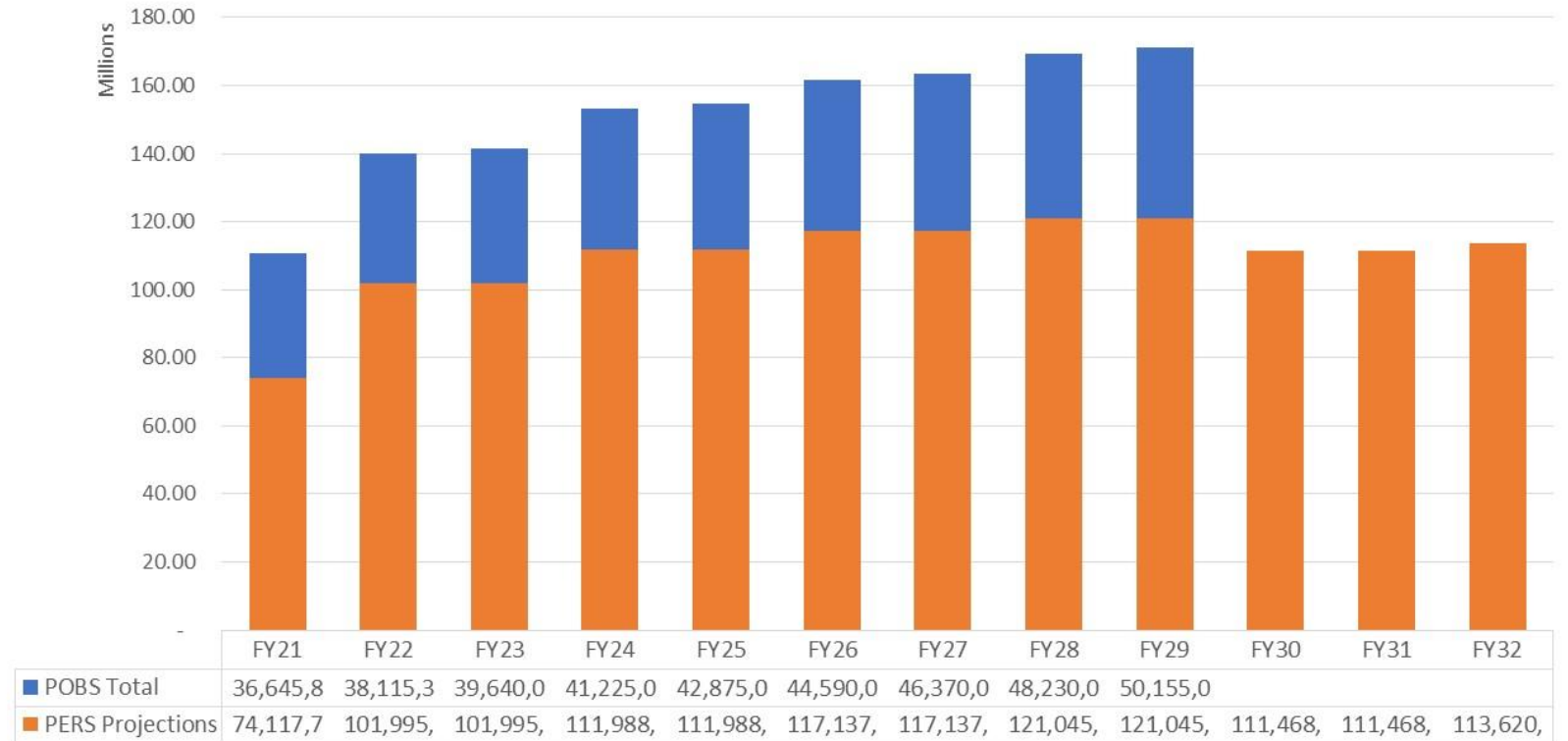
Major maintenance funding gaps will eventually force service level declines



# LIABILITY #2: PENSION COSTS

- Future pension costs consist of:
  - Scheduled repayment of Pension Obligation Bonds, final payment in fiscal year 2029
  - Oregon PERS contributions, projected to increase through 2029

Scheduled Pension Obligation Bonds (POBS) payments & Projected PERS Contributions  
Table values in thousands  
FY2020 - FY 2035



## LIABILITY #2: PENSION COSTS - RECOMMENDATION

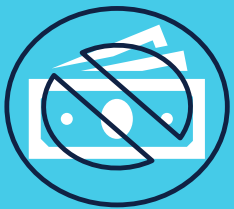
- Reserve discretionary funds now, will enable:
  - Participation in the State Employer Incentive Fund, if additional funds are made available
    - Provides 25% match to the City's cash contribution to a side account
  - Set discretionary funds aside in a PERS side account (without match) to reduce rate over 20 years through 'rate credit'



## LIABILITY #3: PERSONNEL COST MANDATES - OVERVIEW



**The City budgets for known personnel costs:** COLAs, approved wage growth, and benefit cost increases.



**The City does not budget for unapproved costs:** Future labor contract agreements, new employee benefits, and uncertain regulatory changes affecting personnel costs.

# LIABILITY #3: PERSONNEL COST MANDATES - OVERVIEW

## Oregon's new Paid Family Leave Act:

- Expands the protections and benefits of protected leave in Oregon.
- Oregon's first *paid* leave law.
- Requires paid leave for up to 18 weeks.
- Requires employers to pay into the state's Paid Family Leave Insurance Fund or create and run their own insurance fund.
- Increases the City's personnel costs beginning in FY 2021-22.





## LIABILITY #3: PERSONNEL COST MANDATES - RECOMMENDATION

- Reserve money now to smooth cost impacts over time:
  - For **known distinct liabilities** like the new Paid Family Leave Act, the City should set aside dedicated money now to smooth costs over time.
  - For liabilities that have an **unknown timeframe or magnitude**, the City should set aside discretionary money into the General Obligation Reserve Fund.



## LIABILITY #4: PORTLAND HARBOR CLEAN-UP - OVERVIEW

### **Large and unknown liability.**

- Non-judicial process with over 100 parties to divide over \$1 Billion in costs.
  - **Near-Term Costs under EPA Orders:**
    - City agreed to fund work to investigate and design remedial measures.
    - Work will occur over the next three to five years and is included in the budget.
    - Costs will be deducted from the City's ultimate liability under any future settlement.
  - **City's Ultimate Liability:** Significant and unknown.
    - May be cash payment, agreement to do work, or both.

## LIABILITY #4: PORTLAND HARBOR CLEAN-UP - RECOMMENDATION

- Reserve money now to smooth cost impacts over time.
  - **Near-Term Costs under EPA Orders:**
    - Addressed through current budget process.
  - **City's Ultimate Liability:**
    - City should set aside discretionary money into a General Obligation Reserve Fund.
    - **Note:** Ratepayer funds would have to be tracked and used only for specific purposes.

## LIABILITY #6: CITYWIDE LEGAL LIABILITIES - OVERVIEW

- Unforeseen legal costs with Multi-fund or Citywide responsibility.
- Costs may result from:
  - Pursuing legal, regulatory or policy changes that draw a legal challenge;
  - Unforeseen or unique situations requiring affirmative legal action or a response.

## LIABILITY #5: CITYWIDE LEGAL LIABILITIES - RECOMMENDATION

- Reserving money now will:
  - Empower an effective response; and
  - Avoid service disruptions.
- City should set aside discretionary money into a General Obligation reserve fund.

## LIABILITY #6: TECHNOLOGY & EQUIPMENT REPLACEMENT

### Problem:

- Good financial policy, spotty compliance
- Large requests for replacements surface when the situation is critical
- Incomplete knowledge and planning around needs

### Recommendation:

- Create Technology and Equipment Set Aside accounts
- Require bureau match to incentivize policy compliance and maximize resource
- Seek agreement on key elements around data governance





# SUMMARY OF RECOMMENDATIONS

## **This Year:**

1. Allocate one-time discretionary resources to buy down PERS liability & other known costs
2. Support funding requests for asset management systems and operations
3. Deposit discretionary resources into General Obligations Reserve for likely future costs
4. Support continued data governance policy development

## **Future Years:**

- Once large liability costs are known, create and adhere to long-term funding plan
- Establish a technology and equipment replacement reserve





QUESTIONS?