



Executive Summary

SUMMARY

The Fall Budget Monitoring Process (BMP) is typically focused on technical adjustments and changes that true-up costs between fiscal years. However, a number of factors have led to atypical issues and changes being discussed during this year's Fall BMP.

Given the City's current financial outlook, any General Fund allocations made in the Fall BMP – particularly allocations that are ongoing in nature – are likely to drive budget and service-level reductions in FY 2021-22. It is challenging to weigh the urgent needs of the present against future unidentified cuts to City programs, services, and staffing levels. Because of this, CBO has proactively recommended funding only those requests for costs that are urgent and unforeseen, unable to be funded by other resources, critical for operations in FY 2020-21, and are required in order to meet compliance or contractual obligations or would otherwise increase costs to the City were they not funded. These requests also generally align with the Fall BMP guidance related to furthering the City's equity goals.

There are a number of requests before Council that additionally provide support to vulnerable communities and/or strive to address historic and current inequities. These proposals support distinct and important policy goals, ranging from extending programs providing relief to communities most impacted by the pandemic to new investments addressing known gaps in the City's equity response and support structure. CBO recognizes and supports the goals proposed by these requests, while acknowledging that supporting many of these requests is challenged by the lack of comprehensive information around the financial and service-level tradeoffs that they would necessitate.

The FY 2020-21 Adopted Budget included \$3.2 million in one-time General Fund unrestricted contingency, \$1.47 million in ongoing General Fund contingency as a result of Police Bureau de-appropriation, \$10.7 million in General Fund policy set-aside accounts for distinct services, and \$1.8 million in ongoing Recreational Cannabis Fund Contingency resources. Provided \$8.3 million in excess General Fund ending balance and returns to the General Fund related to facilities interagency agreement adjustments, total General Fund unrestricted contingency (including one-time and ongoing contingency) stands at \$9.0 million. CBO recommendations assume a total draw on one-time General Fund contingency of \$4.9 million, leaving an unrestricted one-time contingency balance of \$2.6 million. As described below, CBO recommends Council retain as much resource as possible to offset likely required reductions in the upcoming FY 2021-22 budget process.

General Fund Update: Reductions Anticipated in FY 2021-22

Due to City bureaus adhering to Mayoral budget guidance in Fiscal Year 2019-20 to limit non-essential spending, the General Fund ended the fiscal year on track and in a slightly better position than anticipated. These savings provide for a relatively small, short-term cushion for the City; CBO recommends reserving as much resource as possible to help build a bridge across the next budget cycle, which is likely to require bureau budgetary cuts. The amount of the budget shortfall for FY 2021-22 is currently unknown as revenue projections continue to be challenged by the "off-model" nature of the

pandemic with an uncertain end date. However, expenditures will be increasing significantly in the next year as a result of labor costs, Citywide obligations, and overall increased demand for services; and CBO believes it is unlikely that revenues will recover sufficiently to meet expenditure needs. While the magnitude of required cuts is unknown, it is worth noting that during the last recession, then-Mayor Sam Adams released budget guidance which directed cuts of up to 10%.

On a household level, the economic impact of the pandemic has further exacerbated existing inequalities. Individuals and families in upper-middle to higher income brackets have generally fared well, while those making less have seen higher rates of job loss and reduced wages. The increased need in the community is reflected in the requests submitted by the Emergency Coordination Center, discussed further below.

Required General Fund Reductions

To help solve for an estimated \$75 million decline in General Fund revenue, the FY 2020-21 Adopted Budget assumed 5.6% reductions on all bureau General Fund allocations. For some bureaus, this cut was met through Citywide cost mitigation strategies related to wage freezes and materials and services constraints. Bureaus that did not meet that 5.6% reduction as part of the Adopted were required to submit the remaining reduction target in the Fall BMP.¹ As a group, these cut packages total \$9.8 million.

Because the City ended the year in a slightly better financial position than anticipated, reductions are not required at this time to balance the current year budget; however, these resources are very likely required to offset reductions in the FY 2021-22 budget as described above. CBO's analysis found that the majority of reductions brought forward have limited impact on bureau operations for FY 2020-21, and recommends that \$8.1 million of the reductions be taken and placed into a General Fund Stability Reserve to help smooth the anticipated revenue decline in FY 2021-22. This funding can help bridge service levels and help mitigate layoffs and cuts to core program and services in the near-term.

CBO's analysis focused on weighing the tradeoffs of taking specific cuts in the current year against future known and unknown budget shortfalls. As such, CBO did not recommend a total of \$1.65 million of the proposed reductions that would have exacerbated existing major maintenance funding gaps and ultimately led to increased costs by delaying scheduled critical repair and replacements. These recommendations are discussed further in the Portland Police Bureau, Portland Fire & Rescue, and Parks & Recreation reviews. These three bureaus were required to identify the largest General Fund reductions and are also experiencing other major cost pressures in the current fiscal year.

Key Decisions for Council

CBO has organized key Council decisions into five distinct categories:

- **One-time General Fund contingency requests.** CBO received approximately \$6.0 million in one-time requests from City bureaus in the Fall BMP. These requests generally meet City Financial Policy and guidance for being unforeseen, urgent, one-time, unable to be absorbed within existing resources, and critical for operations in FY 2020-21. Additionally, a number of requests would result in additional cost or impact to the City if not funded. As a result, CBO has predominantly recommended supporting each request with either General Fund contingency or another resource where appropriate. A handful of BMP requests are primarily financial in nature, but most requests adhere to and prioritize the FY 2020-21 Fall BMP Equity Guidance. In total, CBO recommends allocating \$4.9 million in one-time contingency resources towards these requests, leaving a

¹ See Budget Monitoring Process Manual, pg. 8.

balance of \$2.6 million for other urgent or unforeseen needs through this fiscal year.

- **One-time COVID-response requests.** The City's Emergency Coordination Center (ECC) has submitted several requests for resources to extend the City's ability to provide services through the end of FY 2020-21, and in some cases to expand services to meet needs that are not currently funded. These requests generally meet the criteria of being urgent, unforeseen, and serving our most vulnerable community members due to the duration and reach of the COVID-19 pandemic. Combined, these requests total approximately \$12.0 million in new General Fund contingency, which exceeds current unrestricted contingency resources. It is very possible that additional federal resources will be available through FEMA reimbursement or potential reallocation from CARES funding to cover part of these costs, but it is unknown at this point when those decisions will be made. It is also unknown at this point whether the declaration of emergency will be extended beyond December. CBO has recommended allocating \$290,000 in one-time General Fund resources to provide the 25% match for the Emergency Coordination Center to continue operations in the event that FEMA extends the declaration of emergency. CBO has provided further recommendations and considerations for Council on the other requests in [this memo](#).
- **Ongoing General Fund requests.** Typically, ongoing General Fund resources are only available during the annual Budget Development process. However, Council de-appropriated ongoing resources from the Portland Police Bureau as part of the FY 2020-21 Adopted Budget, with \$1.47 million deposited into General Fund contingency for future allocation. Council expressed an intent to reinvest these resources into programs that support Black, Indigenous, and People of Color (BIPOC) communities and City equity efforts but did not specify when this reallocation would take place.

CBO received ongoing General Fund requests totaling just under \$1.46 million in the Fall BMP from the Office of Youth Violence Prevention (OYVP, \$215,040), Office of Government Relations (OGR, \$520,159), and the Office of Equity & Human Rights (OEHR, \$724,656). All requests share a common theme of strengthening the City's support and structure for equity work and better serving historically marginalized communities, especially those who are Black, Indigenous, and people with disabilities. CBO analysis of these requests notes that, while there is urgency in the need to respond to the intersecting crises before us, there remains substantial uncertainty around resource availability in the upcoming FY 2021-22 budget process. Council may elect to allocate these resources now; in doing so, Council would need to affirm that these new investments are a high enough priority that the Council will be willing to take as-yet undetermined cuts to other City services during the upcoming FY 2021-22 budget development process in order to support these new investments.

- **General Fund reduction options.** As discussed above, per Mayoral direction, CBO received \$9.8 million in General Fund reduction packages as part of the Fall BMP. After reviewing, CBO recommends Council approve all but \$1.65 million of these requests, and allocate the \$8.15 million balance into a General Fund Stability Reserve. Retaining resources in a Stability Reserve will help the City smooth the anticipated General Fund shortfall FY 2021-22.
- **Other Requests & CAL Target Adjustments.** There are several adjustments requested in the Fall BMP that do not align with the above BMP request categories but which represent key decisions for Council. Additional detail is available in individual bureau memos and will be discussed further at the work session on October 20th. CBO highlights the following items:

- There are Citywide requests to include current appropriation level (CAL) adjustments for FY 2021-22 to bureaus in order to support the Paid Family Medical Leave Act (\$1.2 million), addressing labor cost true-ups (estimated at ~\$8.1 million), multi-year costs associated with the Columbia River Levee IGA (\$0.3 million), and changes requested to the City's Blended Rate and Facilities Adjustments (the net General Fund impact is currently estimated at \$439,689). There is also a CAL adjustment required to true-up resources in the Revenue Division related to Multnomah County Tax Collection and the Integrated Tax System.
- In the Public Safety service areas there are two requests. One is a \$577,849 request from Fire and Rescue to fund Portland Street Response (PSR) ongoing positions from the existing \$4.8 million PSR contingency allocation. The second is a request from the Office of Management & Finance to charge \$300,000 in ongoing interagency support to public safety bureaus in order to establish a Community Safety Transition Director.

Budget & Fiscal Monitoring: Immediate and Future Impacts

Bureaus were asked to include updates in their Fall BMP cover letters about key fiscal risks and mitigation strategies. CBO reviews include further discussion and analysis of these updates for each individual bureau. Key themes include:

- Some bureaus are grappling with more immediate reductions to revenue impacting current year operations.
 - The Bureau of Development Services has experienced significant revenue impacts from the COVID-19 crisis, and expects to continue seeing lower revenues from development activity over the next several years. The bureau has revised its five-year financial plan with updated projections and is making a \$26.0 million draw on contingency, as well as eliminating 53.0 FTE vacant positions in the Fall BMP to maintain current-year operations.
 - PBOT realized a loss of \$17.8 million of discretionary revenue through the end of FY 2019-20. Projected losses for FY 2020-21 are \$20 to \$25 million, with losses in the five-year forecast expected to be \$35 to \$45 million. In response, PBOT is reducing revenues by \$19.4 million in the Transportation Operating Fund and \$7.5 million from the Parking Garage Fund in the FY 2020-21 Fall BMP to reflect forecasted revenue changes as a result of the economic impacts of COVID-19. The bureau is also requesting to decrease budgeted personnel expenses by \$16.5 million for 155 vacant positions.
 - Spectator Venues and Visitor Facilities Fund has submitted a \$6.2 million reduction in charges for services due to lost revenue from venue closures due to COVID-19 and a request to draw \$6.14 million from the fund's contingency to meet ongoing obligations and prior commitments, including debt payments. Risks to the fund will increase if social distancing measures continue into next year and venue events remain closed.
 - Portland Parks & Recreation projects a net reduction of \$11 million in external revenues including Parks permits and facilities fees as well as revenues generated from the aquatics, preschool, music, arts and crafts, and other recreation programs as a result of the closure of its facilities as a public health policy response to COVID-19.

- The Portland Water Bureau anticipates \$21 million in lost revenue in the current year driven by reduced water usage from commercial customers, foregone delinquency fees, and financial assistance bill discounts. The bureau is attempting to address this revenue shortfall by reducing expenditures, but may draw on its rate stabilization account in the Spring.
- The Police Bureau is on track to over-expend its current year resources. Recent payroll projections show that, should current rates of spending continue through June 2021, personnel expenditures are on track to exceed budget by about \$7 million by fiscal year-end, driven by large overtime costs and payouts. These projections are low confidence, given that it is relatively early in the fiscal year, but it is critical that the bureau engage in cost mitigation strategies in the near-term in order to avoid over-expenditure. The Fire Bureau is similarly wrestling with high payout and overtime costs, albeit at a lesser order of magnitude. No specific requests were put forward from Police or Fire around these issues, but this topic and potential solutions warrant discussion by the Mayor and Council.
- Several additional bureaus are also experiencing COVID-related revenue impacts in the short term, though to a somewhat lesser extent than those noted above. These bureaus, including the Office of Community and Civic Life (Noise Program), Portland Housing Bureau (Construction Excise Tax), are making adjustments in the Fall BMP to account for updated projections for revenues in the current year.
- While some bureaus are seeing immediate declines in permit and fee revenues, many funding sources are expecting a lag between economic slowdown and reductions to revenue. These bureaus, including Portland Fire & Rescue (Plan Review), Portland Housing Bureau (Short Term Rental Taxes and Fees), BPS (Solid Waste Management Fund and Portland Clean Energy Fund), and Bureau of Environmental Services will continue to monitor real-time revenues and will likely need to make adjustments in their budgets for FY 2021-22 if not sooner.
- Recreational Cannabis Fund resources ended the year with tax revenues coming in \$1.1 million above budget. Revenues in the Fund are currently trending 30% above budget in the first quarter of FY 2020-21. In the Fall BMP, the Recreational Cannabis Tax Fund contingency includes \$1.9 million in available ongoing resources and \$1.0 million in available one-time resources.

Additional information and detail is provided in individual bureau reviews, in the [Ongoing General Fund Requests memo](#), and in the [ECC COVID Requests memo](#) on the CBO website.