

MARK DION (MAYOR)
PIOUS ALI (A/L)
APRIL FOURNIER (A/L)
ROBERTO RODRÍGUEZ (A/L)



ANNA TREVORROW (1)
VICTORIA L. PELLETIER (2)
REGINA L. PHILLIPS (3)
ANNA BULLETT (4)
KATE SYKES (5)

CITY COUNCIL WORKSHOP

Executive Session and FY25 Budget Guidance

January 22, 2024 at 5:00 PM in Council Chambers

The City Council will conduct this meeting from Council Chambers, located on the second floor of City Hall.

To watch the meeting remotely, please visit <https://portlandme.portal.civicclerk.com/event/6485/media>

AGENDA ITEMS:

Motion to go into executive session for a discussion regarding the duties and/or assignment of City of Portland employees, pursuant to 1 M.R.S. section 405(6)(A)(1).

EXECUTIVE SESSION:

Discussion regarding the duties and/or assignment of Portland employees.

AGENDA ITEMS:

FY25 Budget Presentation (Brendan O'Connell, Finance Director)

FY25 Budget Challenges

FY25 Budget Opportunities

Council Q&A

Budget Guidance

ADJOURNMENT:



City of Portland FY25 Budget Primer

Brendan T. O'Connell, Finance Director

January 22, 2024



AGENDA

- **City of Portland Budget Basics**
- **FY25 Budget Challenges**
- **FY25 Budget Opportunities**
- **Council Q&A, Discussion and Budget Guidance**



City of Portland Budget Basics: Definitions

- The City of Portland **budget** is a fiscal plan setting out anticipated revenues and expenditures for accomplishing City services over the course of our fiscal year (which runs each July 1st through June 30th). Setting an annual operating budget is required by the City Charter.
- The City budget includes both the **general fund** and several **enterprise funds**.

City of Portland Budget Basics: General Fund

- The **general fund** is the largest of the City's funds and includes funding for basic municipal services such as public safety, health and human services, and public works. The general fund is supported by property taxes and a variety of other sources including excise taxes, licenses and permits, State of Maine revenue sharing and general assistance reimbursement, charges for services from City Departments and more.
- The FY24 general fund operating budget is \$261.8M

City of Portland Budget Basics: Enterprise Funds

- The enterprise funds are self supporting funds that rely on their own revenues to support their expenditures. They do not utilize any property tax revenue to support their operations. The City currently has four enterprise funds totaling \$71.4M:
- Jetport Enterprise Fund
- Sewer Enterprise Fund
- Stormwater Enterprise Fund
- Fish Pier Enterprise Fund

City of Portland Budget Basics: Tax Levy / Tax Rate

- **TAX LEVY:** The City Council sets the tax levy, not the tax rate. The City tax levy is the amount of property taxes required to be collected from Portland property taxpayers to fund municipal operations.
- **TAX RATE (aka MILL RATE):** The City Assessor uses the property tax levy approved by the City Council and divides it by the total taxable valuation of the City to come up with the final tax rate (also known as the mill rate or the millage rate). The tax rate represents the amount of taxes payable per dollar of assessed property value. This usually occurs in midsummer.
- Tax rates shown during the budget process are ESTIMATES

TAX RATE COMPUTATION--FY2024

Final Allowance

	General Fund	County Tax	City General Fund	Enterprise Funds	TOTAL CITY	School Dept	GRAND TOTAL
Total Expenditures	\$252,666,885	\$9,206,423	\$261,873,308	\$71,468,475	\$333,341,783	\$143,810,343	\$477,152,126
Less: Revenues	(157,552,312)	-	(157,552,312)	(71,803,586)	(229,355,898)	(29,060,056)	(258,415,954)
Surplus	(761,343)	-	(761,343)	335,111	(426,232)	(3,900,279)	(4,326,511)
Tax Levy	\$94,353,230	\$9,206,423	\$103,559,653	-	\$103,559,653	\$110,850,008	\$214,409,661
Valuation	14,879,000,000				48.3%	51.7%	100.0%
Tax Rate:							
FY24	\$6.34	\$0.62	\$6.96	\$0.00	\$6.96	\$7.45	\$14.41
FY23	\$6.05	\$0.51	\$6.56	\$0.00	\$6.56	\$7.05	\$13.61
\$ Increase	\$0.29	\$0.11	\$0.40	\$0.00	\$0.40	\$0.40	\$0.80
% of Total Increase	4.4%	1.7%	6.1%	0.0%	6.1%	5.7%	5.9%

City of Portland Budget Basics: School Budget

- The **school budget** is separate from the City budget, but is part of the overall tax levy. As per the City Charter, the PPS Superintendent proposes a School budget, which is approved in detail by the Board of Public Education, and the City Council approves one lump sum amount for schools. This amount is then approved by voters in June of each year. The FY24 School budget is \$143.8M with a required school tax levy of \$110.9M
- “The city council... shall... appropriate one gross amount for the support of the public schools” City Charter, Article III Section 5

FY25 City of Portland Budget Challenges

Each year the City of Portland faces many budget challenges which are either fully or partially outside of staff / Council control. The first portion of this presentation will review several of the known significant budget challenges in depth.

Budget Challenge #1 – Risk of decline in State of Maine General Assistance Revenue

- A \$7.4M one time payment to Portland was included within the FY24 State of Maine GA budget to help offset the significant increased Social Services burden being shouldered in Portland. These one time funds may end in FY25.
- City will continue to lobby for increase in General Assistance reimbursement rate to municipalities from 70% to 90% and/or continued one time payments to offset our growing commitment to sheltering the unhoused.
- A loss of \$7.4M would be a **50 cent increase** to the municipal mill rate (7.8%)



FY25 Budget Challenges

Budget Challenge #2 – Declining Federal Revenues – The expiration of one time American Rescue Plan Act (ARPA) funding

- The passage of the American Rescue Plan Act of 2020 was a huge success for the City and our lobbying efforts which highlighted the impact of the pandemic on City ops.
- The City developed an off ramp for reliance of Federal revenue (\$8.5M to be used in FY22, \$5.5M in FY23, \$2.75M in FY24, \$0 to be used in FY25, remaining funds allocated to projects and community partners).
- However, FY23 budgeted ARPA funds weren't needed due to higher than expected revenue in other areas. Approximately \$1.6M was rolled into FY24's budget for a total of \$4.3M. FY25 was still expected to be \$0.
- This reduction from \$4.3M in FY24 to \$0 in FY25 represents an approximately **29 cent increase** to the municipal mill rate (4.6%)

FY25 Budget Challenges

Budget Challenge #3 - FY25 Health Insurance Costs

- FY24 City of Portland budget includes a \$20M Health Insurance Budget
 - FY24 budget rose 10.3% from prior year
 - FY24 budget is trending at above 50% through first 6 months of FY24
- FY25 City of Portland Health Insurance Budget may rise by another 10-12%*
 - A 10% increase would be an approximately \$2M increase to tax levy
 - This represents a **13 cent increase** to the municipal portion of the mill rate or a **2.1% increase** from FY25

*According to January 2024 estimates from our 3rd party benefits broker



FY25 Budget Challenges

Budget Challenge #4 – State of Maine Equalized Valuation for Portland rising from \$14.790B in 2023 to \$16.487B in 2024 (11.5% increase)

- State of Maine Valuation has several impacts on City budget
- If not for City of Portland's TIF programs, the State of Maine Equalized Valuation for the City would have been significantly higher
- It is essential to continue to carefully manage the City's three area TIF districts to ensure significant valuation increases are captured rather than added to the City's State of Maine Equalized Valuation



Budget Challenge: Valuation Increase

\$14.790B in 2023 rising to \$16.487B in 2024 (11.5% increase)

- **Impact #1 – Our share of total Cumberland County tax will rise**
 - Over the last decade, the City tax levy has **increased by over \$4M** due to County tax increases. County tax represented 3.3% of total property tax levy in FY16 and is up to 4.3% of total tax levy in FY24. Over the same period the municipal portion of the overall property tax levy has decreased from 47.6% to 44.0%.
 - County moved from calendar year budget to fiscal year budget in 2023. They are in the middle of their budget process and will not be able to provide an estimated County tax levy until March or April.



Budget Challenge: Valuation Increase

\$14.790B in 2023 rising to \$16.487B in 2024 (11.5% increase)

- **Impact #2 – School Educational Subsidy**
 - Impact / EPS estimates typically calculated by PPS staff but a higher valuation growth in Portland compared to the rest of the State will hurt Portland's share of overall funding via the funding formula.
 - Actual change in FY24 funding still unknown – many factors and inputs into the EPS State funding formula and estimates are calculated by Portland Public Schools during their budgeting process.



Budget Challenge: Valuation Increase

\$14.790B in 2023 rising to \$16.487B in 2024 (11.5% increase)

- **Impact #3 – State Revenue Sharing**
- Had the \$16.478B valuation been in place for FY24 our revenue sharing dollars would have been significantly lower. Portland's growth continues to outpace growth in other parts of Cumberland County and the State.
- Draft of FY25 State of Maine revenue sharing forecast expected in March
 - <https://www.maine.gov/treasurer/revenue-sharing/projections>

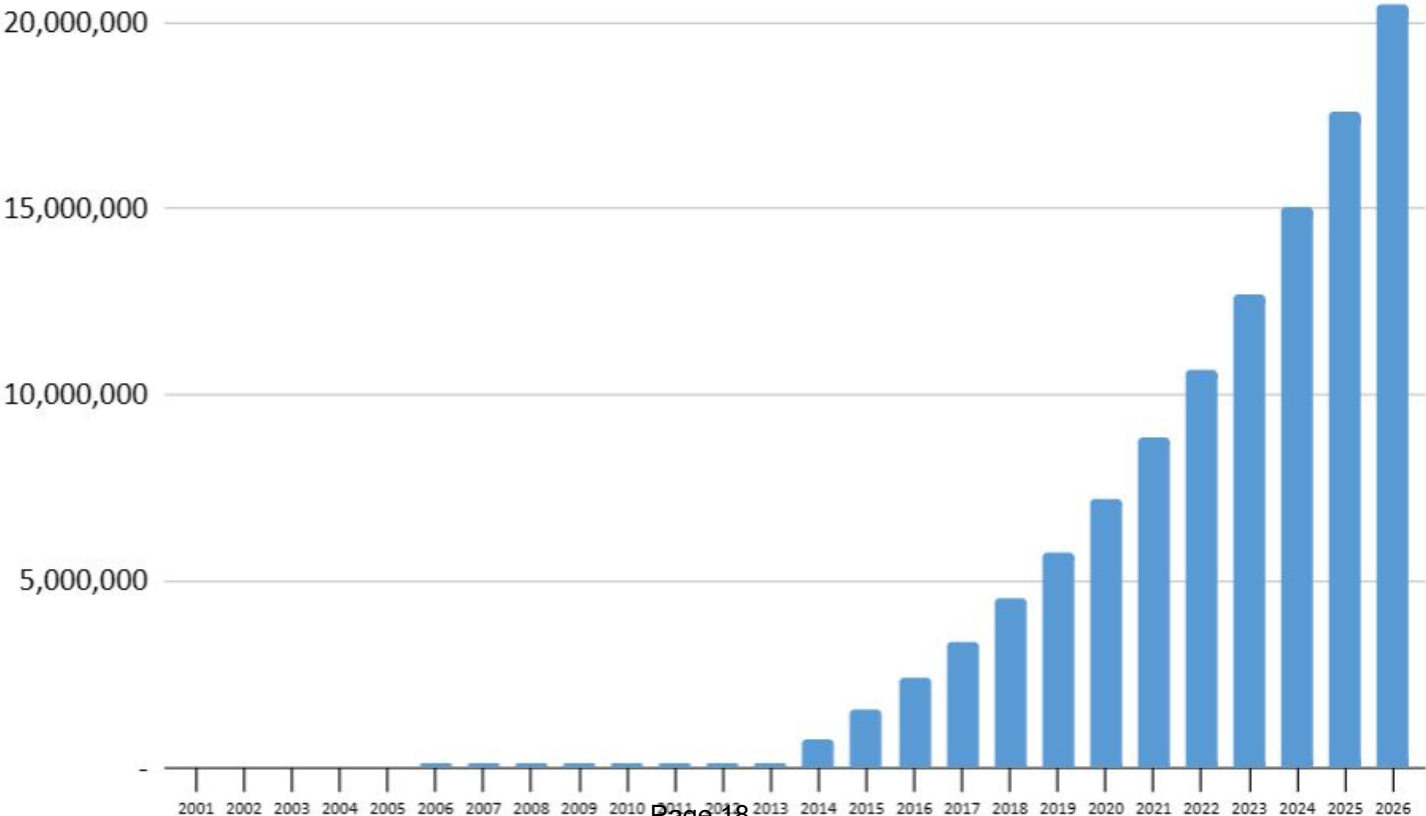
FY25 Budget Challenges

Budget Challenge #5 - Pension Obligation Bond Debt Service Increase

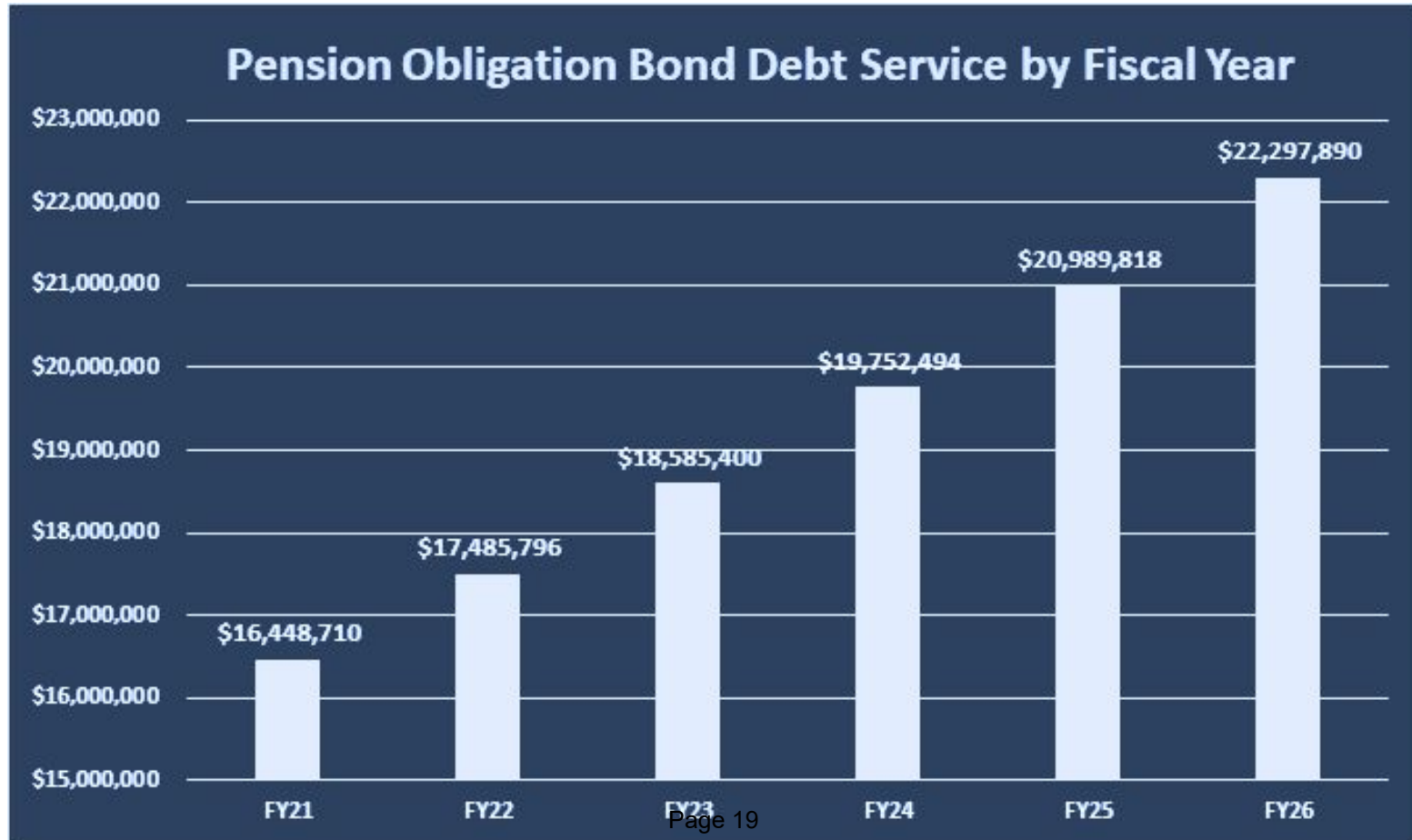
- Debt Service on 2001 Pension Obligation Bonds (POB) rising \$1.25M in FY25
- A \$1.25M increase to the municipal portion of tax levy would represent an 8 cent increase (1.3%).
- There is LIGHT at the end of the tunnel - final pension obligation bonds payment of \$22.3M due on June 1, 2026.

Pension Obligation Bond Debt Service

Pension Obligation Bonds Debt Service - Principal Repayment by Year



Pension Obligation Bond Debt Service



FY25 Known Budget Challenge

Budget Challenge #6 - Rebuilding our Workforce

- Dozens of key positions unfilled in several Departments (many vacancies are 24/7 shift based positions which are more costly when vacant – shifts must be filled at overtime or with contractors – for example 911 emergency call center, Public Works snow removal, homeless shelter attendants and many more).
- Reasons for the vacancies vary – but at least one top reason is significant wage inflation we have seen in the local market since COVID
- City wages (across general and enterprise funds) are nearing \$110M annually.
- Cost of a 1% increase in City wages is now in excess of \$1M

FY25 Known Budget Challenge

Budget Challenge #7 - Loss of Ocean Gateway Daily Parking Revenue

- Ocean Gateway Lot is budgeted for \$681k revenue in FY24
- Significant revenue and parking loss expected when construction on a new park project begins later in 2024
- Assuming loss of approximately 50% of parking revenue (\$340,000) which results in a **2 cent increase** to the municipal portion of the mill rate (**0.4%**)

FY25 Other Known Budget Challenges

Additional Expansion of City Shelter Options in FY25 Budget (which were not fully finalized and included in FY24 budget)

- Expanded capacity at Homeless Services Center (50 beds, expected to be temporary, but further discussions will certainly occur)
- Increase in capacity at City Family Shelter (grant application for expansion is in progress – partially reimbursable from State of Maine)
- Costs of operations at newly opened 166 Riverside Shelter (~\$3M annually but currently partially reimbursable from State of Maine)

FY25 Other Potential Budget Challenges

- Encampments - Policy changes could have massive impact on City budget
 - Solid Waste (EcoMaine raising tipping fees, 3rd party contractor fees)
 - Rising costs / City asks from City funded organizations
 - Any legislative cutbacks to State of Maine General Assistance program
 - Inflationary pressures relating to 2023 and 2024 inflation (see following slide)
-
- During last year's budget discussions, Portland Public Schools foreshadowed a potential budget cliff for FY24 with a pessimistic estimate presented at the [3-28-23 Joint City/School Finance meeting of a \\$20.9M of budget gap \(see page 27 at this link for breakdown from PPS staff\)](#).
 - PPS budget work is ongoing - will be further discussed at March and April 2024 Joint/City School Finance Committee meetings.

FY25 Budget: Summary of 2023 Inflation

- Inflation (CPI-U for Northeast Region - All Items) for 2023 was 2.6%
 - as noted on a previous slide, we have seen significantly higher inflation in the Portland market for labor and other cost categories.



FY25 Top 7 Known Budget Challenges

Budget Challenge	\$ Impact	Mill Rate Impact	Municipal Mill Rate % Change	Overall Mill Rate % Change
Decline in State of Maine General Assistance	\$7,400,000	\$ 0.50	7.8%	3.5%
Loss of Federal ARPA Revenues	4,300,000	\$ 0.29	4.6%	2.0%
Health Insurance Projected Increase	2,000,000	\$ 0.13	2.1%	0.9%
State of Maine Valuation Impacts to FY25	500,000	\$ 0.03	0.5%	0.2%
Pension Obligation Bond Debt Service	1,250,000	\$ 0.08	1.3%	0.6%
City Wages / Addressing Vacant Positions	4,500,000	\$ 0.30	4.8%	2.1%
Loss of Ocean Gateway Parking Revenue	340,000	\$ 0.02	0.4%	0.2%
TOTAL FROM 7 ITEMS ABOVE	\$20,290,000	\$ 1.36	21.5%	9.5%

FY24 Overall Mill Rate	14.41
FY24 Municipal Mill Rate	6.34
FY24 Tax Levy	\$94,353,230
FY24 Local Valuation	\$14,879,000,000

FY25 Budget: Property Tax Impact Examples

Impact to Property Taxpayers of Varying Levels of Tax Rate Increase			
	Mill Rate Increase	Tax Levy Increase	Impact to Median Homeowner
Increase of 1%	\$ 0.14	\$943,532	\$ 54.04
Increase of 2%	\$ 0.29	\$1,887,065	\$ 108.08
Increase of 3%	\$ 0.43	\$2,830,597	\$ 162.11
Increase of 4%	\$ 0.58	\$3,774,129	\$ 216.15
Increase of 5%	\$ 0.72	\$4,717,662	\$ 270.19
Increase of 6%	\$ 0.86	\$5,661,194	\$ 324.23
Increase of 7%	\$ 1.01	\$6,604,726	\$ 378.26
Increase of 8%	\$ 1.15	\$7,548,258	\$ 432.30
Increase of 9%	\$ 1.30	\$8,491,791	\$ 486.34
Increase of 10%	\$ 1.44	\$9,435,323	\$ 540.38
Increase of 15%	\$ 2.16	\$14,152,985	\$ 810.56
Increase of 20%	\$ 2.88	\$18,870,646	\$ 1,080.75
FY24 Mill Rate		14.41	
FY24 Tax Levy		\$94,353,230	
FY24 Tax Valuation		\$14,879,000,000	
FY24 Median Home Value (estimate)		\$375,000	



FY25 Potential Budget Opportunities

- Top notch fiscal / investment management and continued increases / significant interest and investment income - \$500k - \$1M increase
- POB debt service reserve shielding tax rate from impacts of POB debt service increase due to use of debt service reserves (\$1.25M)
- Other Departments exceeding revenue expectations
- Continued lobbying at State level for additional General Assistance partnership / program funding / mutually beneficial program changes.
- Additional State lobbying efforts in a number of key areas

FY25 Budget: Addressing Council Goals

- Improve Diversity, Equity, Inclusion (DEI) by 1) researching and exploring an equity analysis protocol, which could be pursued by the Rules Committee and/or by the DEI Committee; 2) exploring the feasibility of a living wage for City Councilors; and 3) acting on the recommendations of the Racial Equity Steering Committee.
- Impact the housing affordability crisis in the short term and long term by working on regulations, financing, and coordination.
- Act on recommendations of One Climate Future
- Explore establishment of an Office of Community Engagement.

Budget Summary Charts - Tax Rate

FY16 - FY24 City of Portland Tax Rate History & Breakdown							
Fiscal Year	City Tax Rate	City % of Total	County Tax Rate	County % of Total	School Tax Rate	School % of Total	City of Portland Tax Rate
FY16	\$ 9.83	47.65%	\$ 0.68	3.30%	\$ 10.12	49.05%	\$ 20.63
FY17	\$ 10.08	47.75%	\$ 0.70	3.32%	\$ 10.33	48.93%	\$ 21.11
FY18	\$ 10.28	47.48%	\$ 0.76	3.51%	\$ 10.61	49.01%	\$ 21.65
FY19	\$ 10.55	46.93%	\$ 0.79	3.51%	\$ 11.14	49.56%	\$ 22.48
FY20	\$ 10.79	46.29%	\$ 0.83	3.56%	\$ 11.69	50.15%	\$ 23.31
FY21	\$ 10.75	46.12%	\$ 0.87	3.73%	\$ 11.69	50.15%	\$ 23.31
FY22	\$ 5.73	44.84%	\$ 0.49	3.83%	\$ 6.56	51.33%	\$ 12.78
FY23	\$ 6.05	44.45%	\$ 0.51	3.75%	\$ 7.05	51.80%	\$ 13.61
FY24	\$ 6.34	44.00%	\$ 0.62	4.30%	\$ 7.45	51.70%	\$ 14.41

Budget Summary Charts - Tax Levy

FY16 - FY24 City of Portland Tax Rate History & Breakdown							
Fiscal Year	City Tax Levy	City % of Total	County Tax Levy	County % of Total	School Tax Levy	School % of Total	City of Portland Tax Levy
FY16	\$ 75,785,193	47.63%	\$ 5,240,009	3.29%	\$ 78,073,211	49.07%	\$ 159,098,413
FY17	\$ 78,445,570	47.78%	\$ 5,417,119	3.30%	\$ 80,331,376	48.92%	\$ 164,194,065
FY18	\$ 80,187,454	47.48%	\$ 5,907,743	3.50%	\$ 82,787,921	49.02%	\$ 168,883,118
FY19	\$ 83,323,749	46.91%	\$ 6,288,845	3.54%	\$ 88,003,431	49.55%	\$ 177,616,025
FY20	\$ 86,173,337	46.29%	\$ 6,640,316	3.57%	\$ 93,345,139	50.14%	\$ 186,158,792
FY21	\$ 86,743,535	46.12%	\$ 7,011,159	3.73%	\$ 94,338,744	50.16%	\$ 188,093,438
FY22	\$ 83,867,622	44.12%	\$ 7,149,309	3.76%	\$ 99,083,251	52.12%	\$ 190,100,182
FY23	\$ 89,023,793	44.41%	\$ 7,563,215	3.77%	\$ 103,851,071	51.81%	\$ 200,438,079
FY24	\$ 94,353,230	44.01%	\$ 9,206,423	4.29%	\$ 110,850,008	51.70%	\$ 214,409,661
The City portion of the overall tax levy has increased by \$18.6M or 14.5% since FY16 (2.8% CAGR)							
The County portion of the overall tax levy has increased by \$4.0M or 75% since FY16 (6.5% CAGR)							
The School portion of the overall tax levy has increased by \$32.8M or 47% since FY16 (4.5% CAGR)							

* Note: FY24 County Tax Levy includes (and FY25-FY28 will also include) an additional \$761,342 due to County change to 6/30 year end



1. *Reactions / Council Questions & Answers*
2. *Budget Guidance from Councilors*