MARK DION (MAYOR)
PIOUS ALI (A/L)
APRIL FOURNIER (A/L)
BENJAMIN GRANT (A/L)

SARAH MICHNIEWICZ (1)
WESLEY PELLETIER (2)
REGINA L. PHILLIPS (3)
ANNA BULLETT (4)
KATE SYKES (5)

CITY COUNCIL WORKSHOP

FY26 Budget Primer Presentation with Brendan O'Connell, Finance Director

January 27, 2025 at 5:00 PM in Council Chambers and remotely via Zoom

REMOTE PARTICIPATION:

The City Council will conduct this meeting from Council Chambers, located on the second floor of City Hall and via Zoom pursuant to the Remote Meeting Policy adopted by the Portland City Council.

To watch this meeting remotely, please visit: https://portlandme.portal.civicclerk.com/event/7693/media

AGENDA ITEMS:

FY26 Budget Primer Presentation (Brendan O'Connell, Finance Director)

ADJOURNMENT:

1

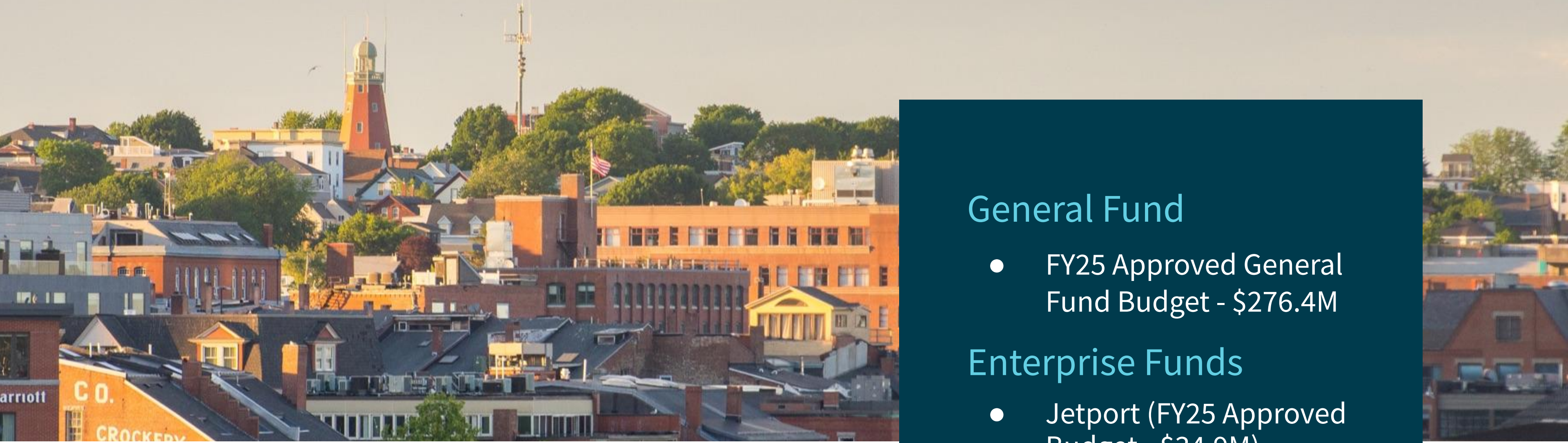
FY26 Budget Primer

City of Portland, Maine

January 27, 2025

AGENDA

- **Introduction**
  - Budgeting basics
  - Review of City budget calendar
- **FY25 Budget Update**
  - Review of budget to actual info for FY25
- **FY26 Budget Challenges and FY26 Budget Opportunities**
  - Review of major budget pressures on and drivers of the FY26 municipal budget and their estimated tax rate impact
  - Pause for Questions and Answers
- **Council Budget Guidance Discussion**



Budgeting Basics

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 four **enterprise funds**.

General Fund

- FY25 Approved General Fund Budget - $276.4M

Enterprise Funds

- Jetport (FY25 Approved Budget - $34.9M)
- Sewer (FY25 Approved Budget - $33.7M)
- Stormwater (FY25 Approved Budget - $7.5M)
- Fish Pier (FY25 Approved Budget - $0.4M)

Learn more at *portlandmaine.gov/finance*

Budgeting Basics (continued)

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.

General Fund

- FY25 Approved General Fund Budget - $276.4M

Enterprise Funds

- Jetport (FY25 Approved Budget - $34.9M)
- Sewer (FY25 Approved Budget - $33.7M)
- Stormwater (FY25 Approved Budget - $7.5M)
- Fish Pier (FY25 Approved Budget - $0.4M)

Learn more at *portlandmaine.gov/finance*

General Fund

- FY25 Approved General Fund Budget - $276.4M

Enterprise Funds

- Jetport (FY25 Approved Budget - $34.9M)
- Sewer (FY25 Approved Budget - $33.7M)
- Stormwater (FY25 Approved Budget - $7.5M)
- Fish Pier (FY25 Approved Budget - $0.4M)

Learn more at *portlandmaine.gov/finance*

Budgeting Basics (continued)

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.

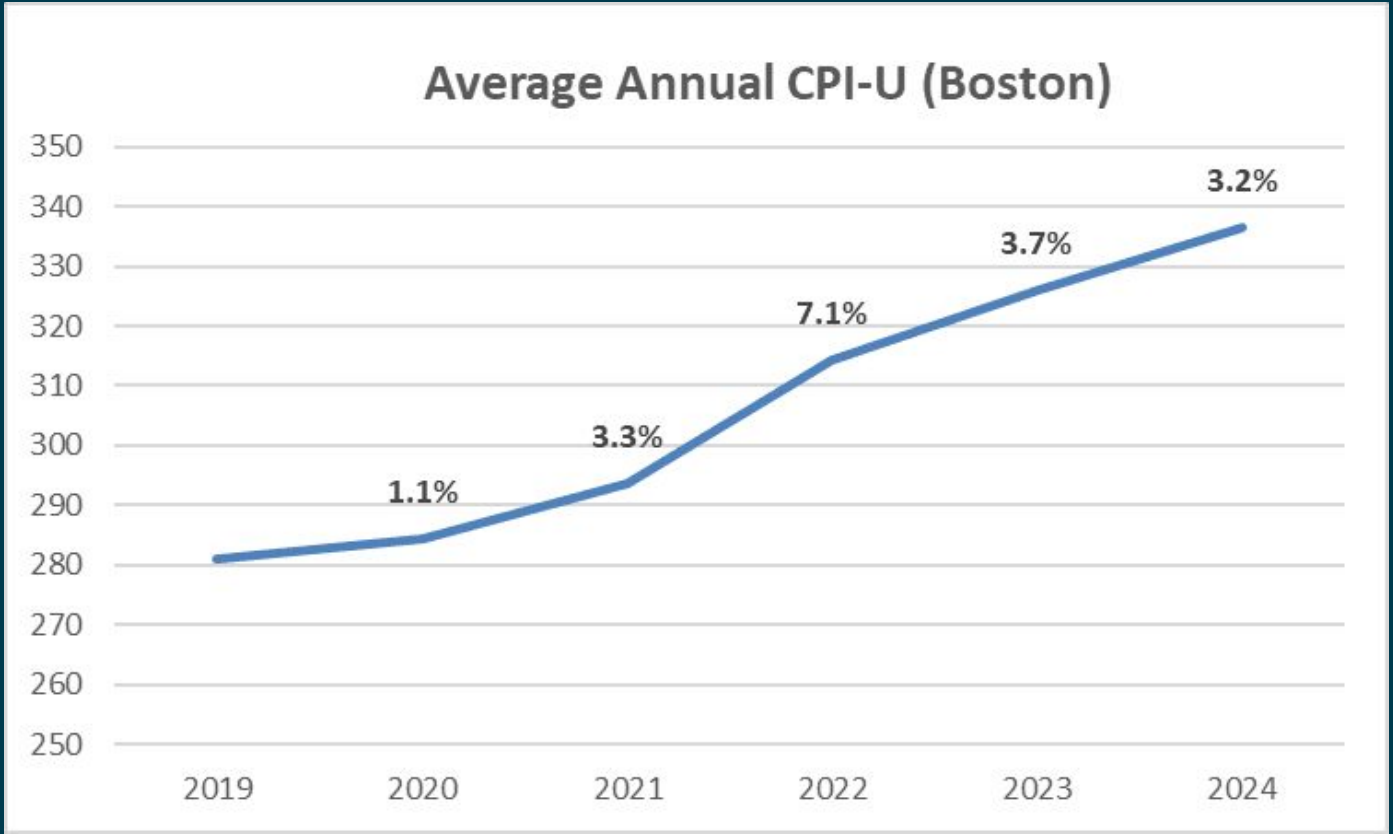
Budgeting Basics - Inflation and CPI

Inflation

Inflation can be defined as a persistent rise in the general price of goods and services of common or daily use — such as clothing, food, fuel, transport, etc — which results in an increase in the cost of living. Inflation is the measure of change in average price of services and commodities, done at regular intervals

Consumer Price Index (CPI)

The **Consumer Price Index (CPI)** tracks any shift in retail prices of essential and daily goods and services consumed by households across the country. In short, it captures changes in price level at the consumer level.



CPI-U Boston Historical Data

(CPI-U is our preferred local CPI index for all urban consumer data)

Budgeting Basics - Tax Levy vs 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.

Budgeting Basics - FY25 Tax Rate Computation

	General Fund	County Tax	City General Fund	Enterprise Funds	TOTAL CITY	School Dept	GRAND TOTAL
Total Expenditures	$268,012,467	$8,414,304	$276,426,771	$76,600,285	$353,027,056	$154,045,767	$507,072,823
Less: Revenues	(164,311,085)	-	(164,311,085)	(75,519,896)	(239,830,981)	(29,960,363)	(269,791,344)
Surplus	(4,200,000)	-	(4,200,000)	(1,080,389)	(5,280,389)	(4,682,780)	(9,963,169)
Tax Levy	**$99,501,382**	**$8,414,304**	**$107,915,686**	-	**$107,915,686**	**$119,402,624**	**$227,318,310**
					47.5%	52.5%	100.0%
Valuation	*15,145,000,000*						
Tax Rate:							
FY25	$6.57	$0.56	*$7.13*	$0.00	$7.13	$7.88	**$15.01**
FY24	$6.34	$0.62	*$6.96*	$0.00	$6.96	$7.45	**$14.41**
$ Increase	***0.23***	***(0.06)***	***0.17***	-	***0.17***	***0.43***	**0.60**
% of Total Increase	***3.3%***	***-0.9%***	***2.4%***	***0.0%***	***2.4%***	***5.8%***	***4.2%***

Budgeting 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 first by the Board of Public Education, and then ultimately by the City Council. This amount is then approved by voters in June of each year. The Charter specifically indicates that “[t]he City Council...shall...appropriate one gross amount for the support of the public schools” City Charter, Article III Section 5.

The FY25 school budget (per the appropriation resolve) is $154M with a required school tax levy of $119.4M.

Budgeting Basics - City Budget Schedule

- December/January/February – City Departments compile/enter their budget requests based on current year actuals and guidance from City Manager and City Council.
- February – Finance/HR Department review of submissions for completeness/accuracy and other minor changes
- March – City Manager detailed review of submissions (full day Department presentations), preparation of recommended budget, consultations with Mayor and meetings with Councilors.
- April – Presentation of City Manager recommended budget to City Council, referral to Finance Committee for detailed review meetings, Finance Committee public hearing and vote (occasionally extends into early May).

Budgeting Basics - City Budget Schedule (Confirmed Dates)

- Thursday March 20, 2025 - Joint City/School Finance Committee Meeting #1
- Thursday March 27, 2025 - Joint City/School Finance Committee Meeting #2
- Monday, April 14, 2025 - Presentation of City Manager’s Recommended Budget to City Council (and referral to FC)
- Tuesday, April 15, 2025 - Finance Committee review of City Manager’s Recommended Budget begins (other currently scheduled Committee review dates include 4/29, 5/1)
- May or June 2025 TBD - City Council approval of Finance Committee recommended FY26 budget

City of Portland

Expenditure Comparison by Department

FY2023-FY2025

Period 5 Year-to-Date

(Excludes Encumbrances & Carry Forward)

Department	FY23 Actual	FY23 % of Budget	FY24 Actual	FY24 % of Budget	FY25 Actual	FY25 % of Budget
General Fund:						
City Council	$133,104	31.2%	$121,295	22.8%	$158,401	32.0%
City Clerk	291,695	42.8%	438,919	34.3%	$334,627	41.2%
City Manager	398,643	38.0%	459,016	30.5%	$531,971	35.5%
Assessor	190,584	39.8%	205,703	37.6%	$197,187	30.6%
Finance	743,494	36.2%	789,282	35.6%	$873,222	36.6%
Legal	332,528	31.6%	309,607	27.6%	$436,569	37.4%
Human Resources	422,289	33.5%	480,804	33.2%	$606,609	37.6%
Parking	725,749	29.3%	919,792	37.1%	$813,292	31.0%
Economic Development	347,457	23.4%	515,763	28.7%	$629,077	35.4%
Police Department	5,818,493	36.9%	6,699,207	36.8%	$7,531,813	38.1%
Fire Department	7,650,432	39.9%	7,692,970	37.9%	$8,757,439	40.1%
Dispatch Services	1,194,269	49.4%	1,407,709	38.1%	$1,596,301	42.0%
Planning & Development	713,476	45.4%	665,497	35.0%	$618,049	35.5%
Permitting & Inspections	861,394	35.1%	928,010	33.3%	$1,103,000	37.4%
Information Technology	958,389	33.1%	1,113,793	34.7%	$1,386,668	40.6%
Public Works	5,283,049	32.4%	5,319,888	31.2%	$6,345,201	34.3%
Parks Recreation & Facilities	4,409,090	41.2%	4,677,288	40.9%	$5,372,118	42.7%
Public Buildings & Waterfront	1,434,035	25.0%	1,880,812	29.4%	$2,226,796	29.1%
HHS Administration	195,188	38.4%	191,557	35.5%	$207,273	32.1%
Public Health	1,040,948	36.2%	1,088,772	36.4%	$1,274,839	32.8%
Social Services[1]	17,789,994	29.6%	13,623,399	37.0%	$9,741,285	29.7%
Barron Center	5,309,368	31.1%	4,973,566	32.6%	$5,834,176	36.5%
Debt Service	18,624,161	35.4%	15,593,890	28.6%	$15,806,249	26.2%
Library	1,705,813	39.6%	1,785,987	39.4%	$2,016,136	41.2%
Pension	3,290,875	34.8%	3,594,068	32.9%	$4,255,376	37.1%
Employee Benefits	9,228,670	42.9%	9,526,256	40.2%	11,674,210	44.0%
Contingent	92,748	26.5%	82,254	32.9%	$907	0.4%
Liability Insurance	398,876	44.2%	475,494	48.9%	558,610	46.9%
County Tax	7,563,215	100.0%	8,445,080	91.7%	8,414,303	100.0%
Memberships / Other	3,417,831	87.3%	3,516,105	92.6%	3,448,759.13	93.0%
Wage Adjustment	-	-	-	- -----		-
Total General Fund:	**$100,565,857**	**37.4%**	**$97,521,782**	**37.2%**	**$102,750,463**	**37.2%**

FY25 Budget Status

(Note: Revenues were 47% collected through Period 5)

1A - 1D) State of Maine proposing cuts to General Assistance (GA) program;

2) Contractually obligated wage increases across 8 bargaining units;

3) Rising health insurance costs;

4) Use of Fund Balance in FY25 to reduce tax levy; and

5) Pension obligation bond debt service & other future debt service considerations.

FY26 Budget Challenge #1A - 1D: State of Maine Proposed Cuts to General Assistance

- The public is somewhat familiar with the current GA formula (State will reimburse for 70% of eligible costs).

- Due to such a significant portion of total local/municipal costs being INELIGIBLE for reimbursement (for example, food service costs, utilities, and many other "shared" expenses), the actual percentage of State reimbursement of City costs of administering GA has been lower than 70%. The chart below of historical City GA spending and State reimbursement establishes that reimbursement has been below 70% even before the reductions being proposed by the State.

- Future State GA reimbursements (as a percentage of total municipal GA costs) could drop significantly due to State proposed cuts from slide 1A, 1B and 1C, potentially to below 25% or 30% of municipal GA costs).

City of Portland GA Expense and State Reimbursement - FY22 through FY24

	2024	2023	2022
City Expense	22,394,909	30,641,735	32,855,563
State GA reimb	(11,089,942)	(21,003,310)	(21,980,662)
Ratio	*50%*	*69%*	*67%*

FY26 Budget Challenge #1A: State of Maine Limiting Emergency Housing Assistance to 3 months

- Governor Mills Budget: Appears to propose cutting off emergency rental assistance after just 3 months, **putting 592 households in Portland at risk of eviction from their housing**.

- This change could result in the City having to address this cost shift in its annual budget, and it may also result in landlords no longer wanting to work with cities/towns knowing they can only receive a guarantee of 3 months of assistance.

- The State of Maine has indicated this will be a $10M annual savings to their budget if enacted.

FY26 Budget Challenge #1B: State of Maine Proposing Cuts to Congregate Shelter Funding

- Currently the City requests State reimbursement for actual eligible congregate sheltering costs incurred (up to $87/night at the Homeless Services Center). Many shared costs (food, utilities etc) and guests with assets are already ineligible for any reimbursement from State.

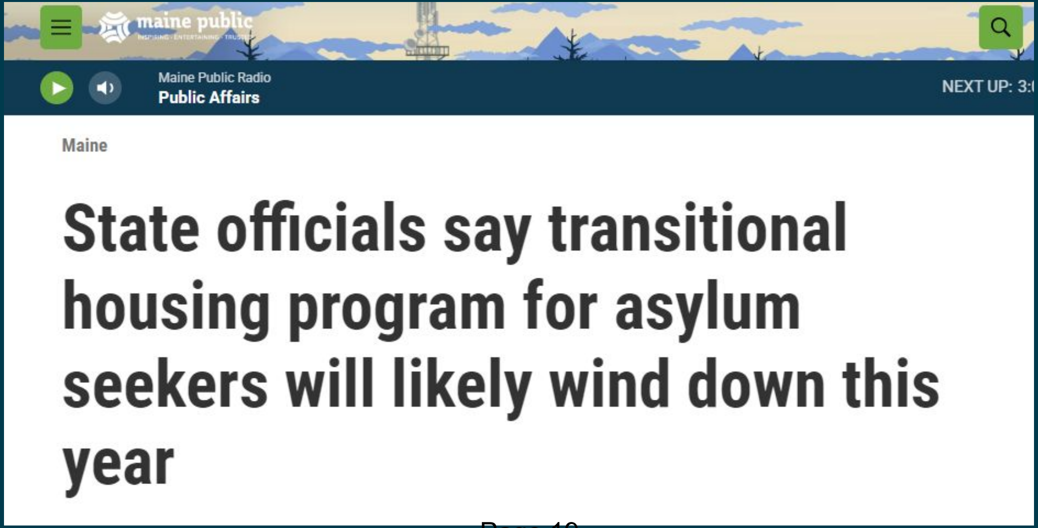
- The State is proposing a MAXIMUM per bed night reimbursement of $30.80 per bed night (70% of $44/night). **This puts our provision of 212,795 nights of municipally operated shelter at risk of service reductions.** It is too early to tell what changes or reductions might be required.

- It is important to note that City staff have been working to reduce GA costs over the last several years and have been very successful in providing more cost effective service. Despite major increases in service levels and number of shelter bed nights needed, the City has reduced costs by over $10M in 2 years.

FY26 Budget Challenge #1C: State of Maine Proposing End of Transitional Asylum Seeker Shelter

- State of Maine is also proposing to end financial support for the Saco asylum seeker shelter in September 2025.

- This proposal will further increase pressure on the City as the largest provider of services to asylum seekers in the State.



maine public

Maine Public Radio
Public Affairs

NEXT UP: 3:

Maine

State officials say transitional housing program for asylum seekers will likely wind down this year

[State officials say transitional housing program for asylum seekers will likely wind down this year | Maine Public]

FY26 Budget Challenge #1D: State of Maine Supplemental Budget Impacts

- Other unknown impacts may exist in the proposed State budget. City staff still working to fully understand the recently released budget proposals and their intent.

FY26 Budget Challenge #1 A - 1D: State of Maine Proposing Significant Cuts to General Assistance

Q: What does this all mean for the City of Portland budget?

A: Too early to tell. Challenge 1B alone would be a $4.4M revenue loss. State has indicated 1A would be a $10M State Budget savings, and we expect both 1A and 1C to cause additional pressure/demand for City GA and shelter services regardless of GA eligibility.

Local Property Tax Impacts of Varying Level of Revenue Loss		
Amount of Potential Revenue Loss	Impact to Municipal Mill Rate (in dollars)	Impact to Municipal Mill Rate (Percent Increase)
$1M	$0.07	1.0%
$2M	$0.13	1.8%
$3M	$0.20	2.8%
$4M	$0.26	3.6%
$4.4M	$0.29	4.1%
$5M	$0.33	4.6%
$6M	$0.40	5.6%
$7M	$0.46	6.5%
$8M	$0.53	7.4%
$9M	$0.59	8.3%
$10M	$0.66	9.3%
$11M	$0.73	10.2%
$12M	$0.79	11.1%

FY26 Budget Challenge #2: Contractually Obligated Wage Increases

- City Council has already approved new contracts for 3 of our 8 unions at an estimated FY26 cost of $3.7M
  - Firefighters - Fiscal impact note indicated $2.1M FY26 cost
  - Supervisors - Fiscal impact note indicated $563k year 1 cost
  - CEBA - Fiscal impact note indicated $1.3M year 1 cost

- City Council also approved a mid year increase to Labor & Trades contract increase with an FY26 fiscal impact estimate of $710k

- Total of above 4 <u>already approved</u> increases for FY26 is <u>**$4.7M**</u> and we still have 5 other contracts to settle plus non-union.

- Total W-2 wages for 2024 in excess of $108M City wide. Unsettled portion of that total is approx. $68.2M

FY26 Budget Challenge #3: Health Insurance Costs Rising Locally and Nationally

- The City uses a 3rd party benefits broker (Lockton Companies) for assistance with our Health Insurance / Employee Benefit offerings

- Early look at FY26 health insurance projection shows monthly cost increase from $21.6M to $26.3M (a 21.6% increase or $4.7M).

- Approximately 14% is due to increase in costs of underlying services (i.e. inflation) and remaining 7-8% is due to increase in benefit eligible employees due to expansion of City sheltering operations

- A $4.7M increase to the property tax levy results would increase municipal property rate by $0.31 or 4.3%

FY26 Budget Challenge #4: Use of $4.2M of Fund Balance in FY25 to Balance Budget

- In FY24 the State of Maine provided a lump sum payment of $7.4M to the City of Portland as a “high use” General Assistance provider.

- Prospects for continued lump sum payment looked positive during the 2024 legislative session, however in the final budget no payment was included. This caused a last minute $4.2M budget shortfall for the City.

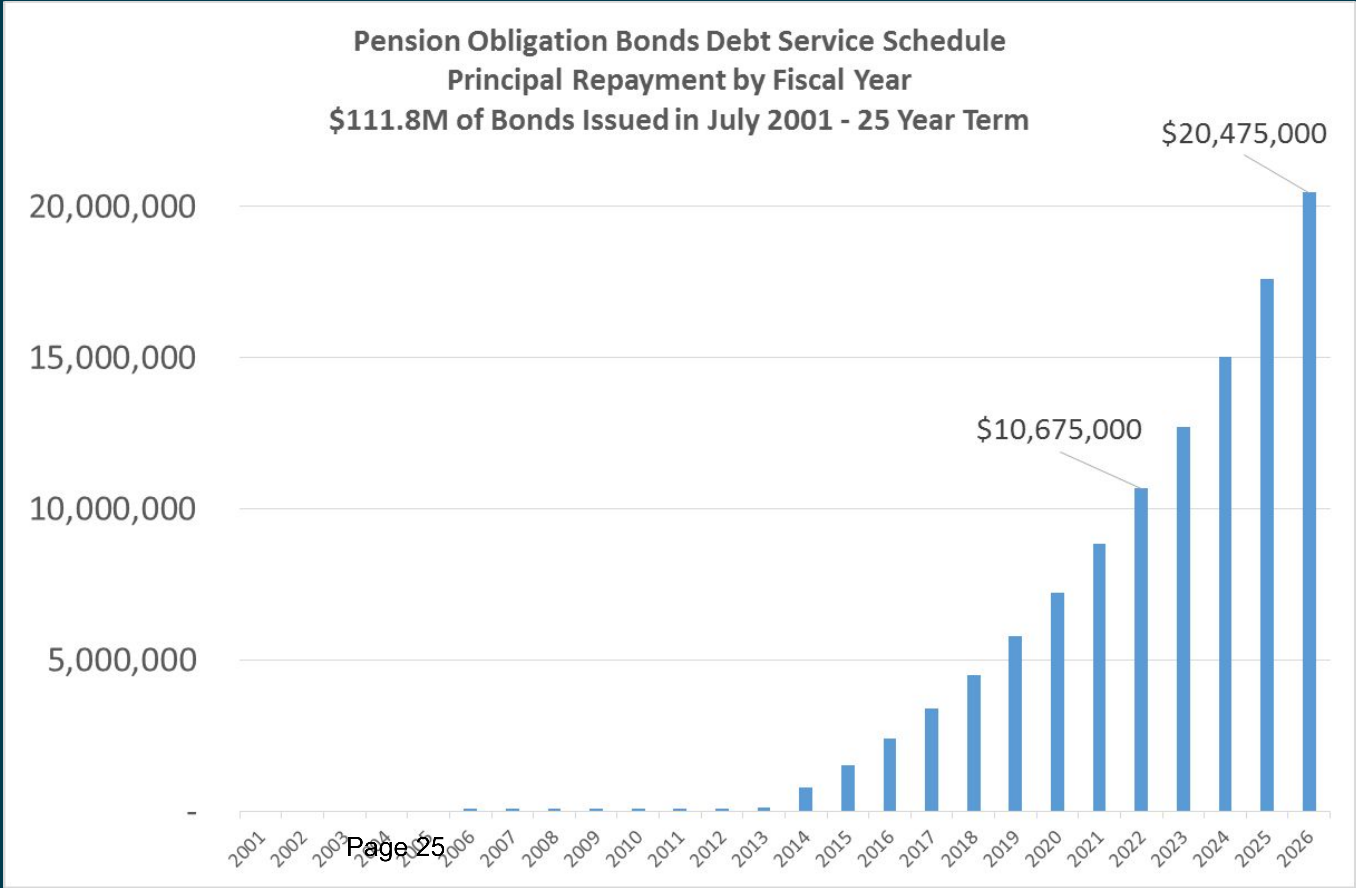
- Rather than have local property taxpayers shoulder the burden, or make reductions to municipal service levels, the final FY25 budget included use of $4.2M of fund balance to address this shortfall.

- When one time funds are used to pay for ongoing program operating expenses, a gap is created for future budgets. A $4.2M increase to the property tax levy in FY26 would increase municipal property rate by $0.28 or 3.9%.

FY26 Budget Challenge #5: Final Year of Pension Obligation Bond Debt Service Increase

- City has final pension obligation bond payment due in FY26 of $22.3M (an increase of $1.3M from FY25 amount due of $21M)

- This has been one of the most consistent financial strains on the City for over a decade due to lack of principal payments / mounting interest over first 12 years of the debt (see chart for detail).



1) Debt Service Reserve to offset final pension obligation bond increase;

2) Less conservative revenue estimates;

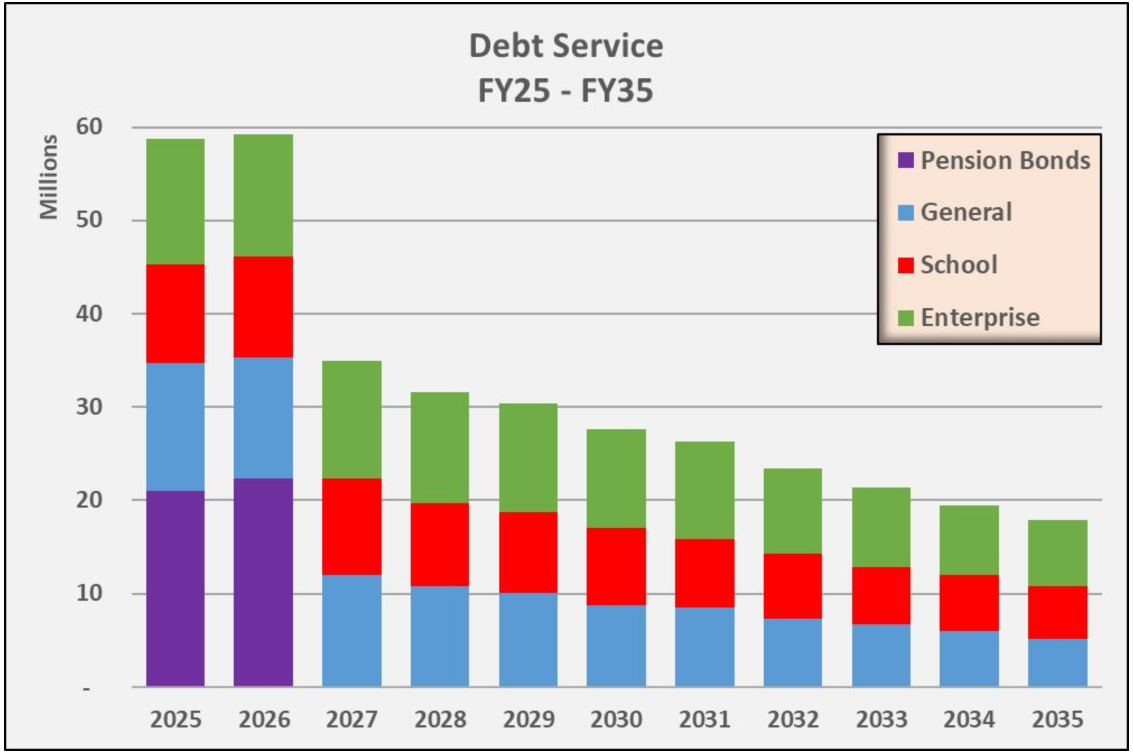
3) Vacancy savings estimate utilized to reduce required tax collection; and

4) Well organized State lobbying effort for upcoming State budget process.

FY26 (and FY27) Budget Opportunity #1 - Final Maturity of Pension Obligation Bonds

Final 2 pension obligation bond payments are due in next 18 months:

FY25 (6/1/25) - $20,989,817
FY26 (6/1/26) - $23,148,244
FY27 and Beyond - NONE!



FY26 (and FY27) Budget Opportunity #1 - Final Maturity of Pension Obligation Bonds

We have shielded Portland property taxpayers and the local property tax levy from debt service increases from the Pension Obligation Bonds **since FY20.**

Nearly **$16M** of tax stabilization has occurred as a result of the debt service reserve use plan, with a final $6.8M of use set for FY26.

We will fully expend the remaining debt service reserve in FY26 and close out the debt service fund.

Pension Obligation Bond Retirement Plan

	Total Annual POB Debt Service	Proposed Use of Debt Service Reserve*	Property Tax Backed POB Debt Service
FY15	$11,346,996	0	$11,346,996
FY16	$12,075,335	0	$12,075,335
FY17	$12,851,662	0	$12,851,662
FY18	$13,674,852	0	$13,674,852
FY19	$14,547,881	0	$14,547,881
FY20	$15,472,397	0	$15,472,397
FY21	$16,448,711	$976,314	$15,472,397
FY22	$17,485,795	$2,013,398	$15,472,397
FY23	$18,585,400	$3,113,003	$15,472,397
FY24	$19,752,493	$4,280,096	$15,472,397
FY25	$20,989,817	$5,517,420	$15,472,397
FY26	$22,297,889	$6,825,492	$15,472,397
FY27	$0	$0	$0

*Approximate amounts - actual use varied slightly by year

FY26 Budget Opportunity #2: Less conservative revenue estimates from Departments

- Many City Departments have been somewhat conservative in setting their revenue budgets in recent fiscal years for a variety of reasons (potential for building boom coming to an end, lingering pandemic impacts and supply chain issues, fears of high interest rate environment, fears of future recession, etc.)

- The City has **consistently outperformed** revenue estimates in most Departments several consecutive fiscal years (Finance, Parking, Permitting & Inspections, Parks & Recreation)

- For key revenues, in the absence of evidence to the contrary, City will make FY26 projections assuming additional economic growth. Based on recent history, we feel that although not every Department will individually hit their estimates, in total the City has room for less conservative projections.

FY26 Budget Opportunity #3: Formally budgeting for vacancy and turnover savings

- The City has historically budgeted for 100% of the necessary positions, only factoring in vacancy savings in very limited instances.

- For FY26, the City will expand budgeting for vacancy/turnover savings across all Departments, using a 5 year history of budget to actual overall to ensure under expenditures in payroll, and corresponding over expenditures in overtime, contractual services, and temp help are all considered.

FY26 Budget Opportunity #4: Well Organized State and Federal Lobbying Efforts

- Over the last 5 years, the City has improved our State and Federal lobbying efforts on a number of fronts.

- Despite the challenges we face in the State budget for the upcoming year, our team of dedicated staff, Mayor, Council, other local elected officials, the Maine Municipal Association, and other outside consultants are well organized and focused.

- Staff feels strongly that we will have a positive impact for our City, Schools and residents via our collaborative work with the State legislature on their upcoming budget.

City of portland

Questions & Answers

Contact *finance@portlandmaine.gov*