Remote Finance Committee
Meeting Agenda
Thursday, February 13, 2025
5:00 PM

MEMBERS
Councilor April Fournier, Chair
Councilor Benjamin Grant
Councilor Wesley Pelletier
Mayor Mark Dion (Ex-Officio)

LOCATION: Remote via ZOOM

PUBLIC COMMENT INFORMATION

To submit written public comment on an agenda item for which public comment is being accepted, email finance@portlandmaine.gov. Submissions must be received by 12:00 pm the day before the Finance Committee meeting to guarantee their inclusion in the agenda packet. All submissions must include the commenter's name and legal address. To help ensure your comment is submitted for the correct item, please include the name of the agenda item (see below).

ZOOM MEETING INFORMATION

This meeting will take place remotely using Zoom. This meeting will be held remotely pursuant to the Remote Meeting Policy adopted by the Portland City Council. Allow your computer to install the free Zoom app to get the best meeting experience. If you are not able to attend live, a recording will be available in the Agenda Center following the meeting. For agenda items where public comment is scheduled, you will need to use the "raise your hand" feature. To raise your hand via the telephone, please hit *9. You will be unmuted by the host when it is time for public comment.
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1. Introductions

2. City of Portland Capital Improvement Plan Update

Over the course of 2024, City staff members have worked to better incorporate equity into the Capital Improvement Plan process. At the current meeting, City staff will outline changes made to the current year process and next steps for the current *year. The FY26 City Manager's Recommended CIP is expected to be ready for presentation at the Thursday, February 27, 2025 Finance Committee meeting. This CIP will include recommendations from the Board of Public Education, which is expected to finalize their CIP at their Tuesday, February 18th meeting of the Board. This is a discussion item only; no action is scheduled for the current meeting.*

3. Finance Committee 2025 Goal Setting

The Committee will brainstorm and discuss a list of Committee goals for the 2025 calendar year. This is a discussion item only; no action will be taken at the current meeting.

4. Future Meeting Dates / Topics (all meeting times 5PM)

- **Thursday, February 27th** - City Manager's Recommended CIP Presentation
- **March (date TBD)** - Public Hearing and Vote on City Manager's Recommended CIP
- **Thursday, March 20th** - 1st Joint City/School Finance Committee Meeting on FY26 Portland Public Schools Budget
- **Thursday, March 27th** - 2nd Required Joint City/School Finance Committee Meeting on FY26 Portland Public Schools Budget
- **Tuesday, April 15th** - Finance Committee begins discussion of FY26 City Manager's Recommended Budget

5. Adjournment

Capital Planning 101

PLANNING, ECONOMIC DEVELOPMENT & MUNICIPAL PUBLIC FINANCE

Updated for Finance Committee 2/13/25

Brendan T. O'Connell, CPA,MSA

Capital Improvement Plan (CIP) Definition

What is the Capital Improvements Plan or Program (CIP)?
The CIP is a plan that assesses capital facility needs in a jurisdiction against its overall goals and objectives, using a multi-year planning horizon—usually five years. The capital plan contains projects budgeted in the current Fiscal Year as well as projects in subsequent years for which funding may not have been obtained or authorized. Since the CIP is not a legally binding document, it can and does change in the "out" years. The CIP is often spoken of as a rolling document since older projects drop off and new ones are added each year. (Robinson 1991)

Capital Improvement Plan in Portland
What is Required (by City Charter)

(i) To prepare a five (5) year rolling capital improvement plan for annual presentation to the city council, which plan includes the following:

1. A one (1) year plan of specific projects and their cost;

2. A two (2) through five (5) year plan of specific projects and general categories, and amounts of proposed spending and funding sources; and

3. A discussion of the basis for the plan and the factors which went into its development or amendments.

Capital Improvement Plan in Portland

Prior CIP Process

Step 1	Project Submission (Nov-Dec)
Step 2	Project Review (Dec-Jan)
Step 3	City Manager Review (Jan)
Step 4	Fin. Committee/CC Review (Feb-Mar)

Pilot CIP Process - FY26

Step 1	**Establish Investment Priorities (Sep-Oct)**
Step 2	Project Submission (Nov-Dec)
Step 3	Preliminary Project Review (Dec)
Step 4	**CPAC* Review (Jan - Feb)**
Step 5	City Manager Review (Jan - Feb)
Step 6	Finance Committee/CC Review (Feb-Mar)
Step 7	**Post Process Evaluation (Apr-Jun)**

CPAC: Capital Program Advisory Committee

Capital Improvement Plan in Portland

- Steps 1 and 2 (Department Level): Capital project requests are generated by each City Department
  - Total general fund and School requests are in the $50M-$100M range annually, with new bond funding limited to between $10M-$20M annually. Enterprise fund projects (Jetport, Water, Sewer, Stormwater) request $20M - $70M annually.
- 5 or 10 year plans developed by Departments and submitted via a CIP database

  BEST PRACTICE - Facility capital needs study for specific facility of category of facilities
- Current year changes:
  - Additional process and inputs for staff
  - Situates department priorities within broader city priorities
  - Integrates equity and sustainability lenses within project submissions

Capital Improvement Plan in Portland - Current Year Changes

- Current year changes:
  - Additional process and inputs for staff (based on new criteria below)
  - Situates department priorities within broader city priorities
  - Integrates equity and sustainability lenses within project submissions

- Current year factors in development of CIP
  - Legal Compliance and Risk to Health, Safety and Environment
  - Asset Condition and Level of Service
  - Equitable Community Investment*
  - Sustainability and Climate Action*
  - Local Funding Optimization
  - Project Readiness
  - Department Priority

Capital Improvement Plan in Portland

In Portland our City Council approves two things related to the CIP based on recommendations from the City Manager and Finance

- CIP bond authorization order (List of all CIP projects financed by new municipal borrowing)
- CIP appropriation order (Complete list of year one CIP projects noting all types of funding sources).

Types of Assets in a Capital Improvement Plan

Capital projects typically fall into to one of the following categories:

- Water / Sewer / Stormwater
- Streets, Streetscapes and Transportation
- Community Facilities
- Equipment and Vehicles
- Energy and Telecommunications
- Housing for Low and Moderate Income Families

Listing of Portland's Major Capital Assets

- 82 buildings containing 2.5 million square feet (sf) of occupied space
- 1,075 acres of parks area
- 6.3 million sf of sidewalk area
- 43.2 million sf of road area
- 2 million linear feet of underground pipe
- 683 vehicles

Capital Assets by Function
Last 10 Fiscal Years

CITY OF PORTLAND, MAINE
CAPITAL ASSET STATISTICS BY FUNCTION/PROGRAM
Last Ten Fiscal Years

Function/Program	2024	2023	2022	2021	2020	2019	2018	2017	2016	2015
Police										
Stations	1	1	1	1	1	1	1	1	1	1
Community policing centers	6	6	5	5	5	5	5	5	5	5
Marked cruisers and other vehicles	57	54	44	40	41	49	53	50	50	50
Unmarked sedans	34	36	45	39	38	36	28	33	39	39
Fire										
Fire stations	10	10	10	10	10	10	10	10	10	10
Fire/rescue boats	3	3	3	3	3	3	3	3	3	3
District owned fire hydrants	1,480	1,480	1,480	1,480	1,480	1,480	1,480	1,480	1,500	1,500
Refuse collection										
Collection trucks - packers	14	14	14	14	14	14	12	14	14	14
Collection trucks - recycle	2	2	2	2	-	5	15	5	5	5
Street sweepers	8	9	8	8	8	8	9	10	9	8
Other Public Works										
Streets (lane miles)	708	708	708	708	708	582	582	582	582	582
Street lights (1)	7,200	7,200	7,200	7,500	7,500	7,110	775	775	615	615
Traffic signalized intersections	209	209	205	205	205	205	124	124	115	115
Parks and recreation										
Parks	69	68	67	67	67	66	66	37	37	37
City tree inventory	20,200	20,200	20,200	20,000	20,000	20,000	20,000	20,000	19,500	19,500
Public golf courses	2	2	2	2	2	2	2	2	2	2
Ice Arena	1	1	1	1	1	1	1	1	1	1
Playgrounds	30	30	30	30	30	30	30	30	27	27
Ball fields	50	50	50	50	50	50	50	50	50	50
Community centers	4	4	4	4	4	4	4	5	5	5
Swimming pools	3	3	3	3	3	3	3	3	3	3
Education (Public)										
Schools	17	17	17	17	17	18	18	18	18	18
Classrooms	327	397	472	473	473	479	465	462	462	448
Wastewater										
Sanitary sewers (miles)	100	100	99	98	94	70	94	92	96	85
Storm sewers (miles)	152	152	149	165	194	201	193	138	129	108
Combined sewer (miles)	130	130	130	135	135	162	135	139	141	131
Treatment capacity (000's gallons)	80,000	80,000	80,000	80,000	80,000	80,000	80,000	80,000	80,000	80,000
Licensed for (000's gallons)	19,800	19,800	19,800	19,800	19,800	19,800	19,800	19,800	19,800	19,800

Capital Improvement Plan: Portland Falling Behind & Catching Up

- In the late 2000's and early 2010's, the City due to financial constraints the City had extremely limited approved Capital Improvement Plan funding.
- Capital assets were falling significantly behind in terms of replacement dates. Operating budget repairs & maintenance expense was rising and the amount of overall deferred maintenance continued to grow at a higher than usual rate.
- In several recent Recommended Capital Improvement Plans, the City Manager recognized the need to catch up in many categories of capital assets City wide and recommended $5M of catch up funding in addition to the regular CIP.
- This strategy, combined with casting a wide net on available funding sources, has allowed us to make recent progress which needs to be continued.

Capital Improvement Plan: Recent Progress Example - Fleet Vehicles

- Public Works has always maintained an excellent CIP replacement schedule for Fleet Vehicles with purchase dates and scheduled replacement dates.
- Unfortunately, due to fiscal constraints during 2010-2014, in a 630+ vehicle fleet, only approximately 3% per year was upgraded / replaced.
- This triggered a significant backlog of significantly past due fleet vehicles, deferred maintenance, breakdowns, increased vehicle repair and rental costs in the operating budget, and triggered reduction of service levels in some instances when vehicles went out of service unexpectedly.
- From 2015 - 2021 nearly 50% of the fleet was replaced, in excess of 275 vehicles have been replaced, with a significant portion of those purchases being of more energy efficient vehicles.

Capital Improvement Plan: Recent Progress Example - School Department

- From FY10 - FY16 average annual CIP spending on School projects was just over $1M per year, averaging less than 3 approved projects per CIP year.
- From FY17 - FY25, annual CIP spending on School projects has averaged approximately $3M per year, with an average of 9+ approved projects per year, (and these figures exclude buses and the nearly $30M spent on the Fred P. Hall* School Replacement from 2017/2018 and the four elementary school renovation projects from Buildings For Our Future)

*Now renamed the Amanda C. Rowe Elementary School

Financing Capital Expenditures

Balancing our capital needs with the impacts to property taxes and sewer/stormwater rates

Capital Improvement Plan: Sources of Financing Capital Expenditures

- Municipal Borrowing (new bonds / general obligation debt)
- Use of Fund Balance / Cash Reserves
- Use of Current Revenues (aka Operating Revenues or Operating Budget Funds)
- Grants / Other State / Federal Funding Sources (Intergovernmental Transfers)
- Private Donations, Trust Funds
- TIF Proceeds and Impact Fees
- Use of Private Capital (non-guaranteed debt) and Public Private Partnerships

Capital Improvement Plan - Financing with Bonds (Municipal Borrowing)

Portland City Council has authorized over $600M of general obligation bonds in the last 10 years alone to fund City, School and Sewer/Stormwater capital projects.

Outstanding debt as of **June 30th, 2024** is approximately $370M with an additional $86M of Jetport Revenue Bonds.

Outstanding debt has decreased slightly over the last 5 years as the City has repaid significant principal on the City’s **pension obligation bonds.**

Capital Improvement Plan - Financing with Bonds (Municipal Borrowing)

- Debt service expense created by City Council municipal borrowing is typically repaid over 10 or 20 years and has a lower initial impact to the property tax levy and sewer/stormwater rates than if projects were paid in cash. The impact in total is larger over the full 10 or 20 year period of debt service repayment due to interest cost but better synchronizes the costs and benefits of infrastructure over time.

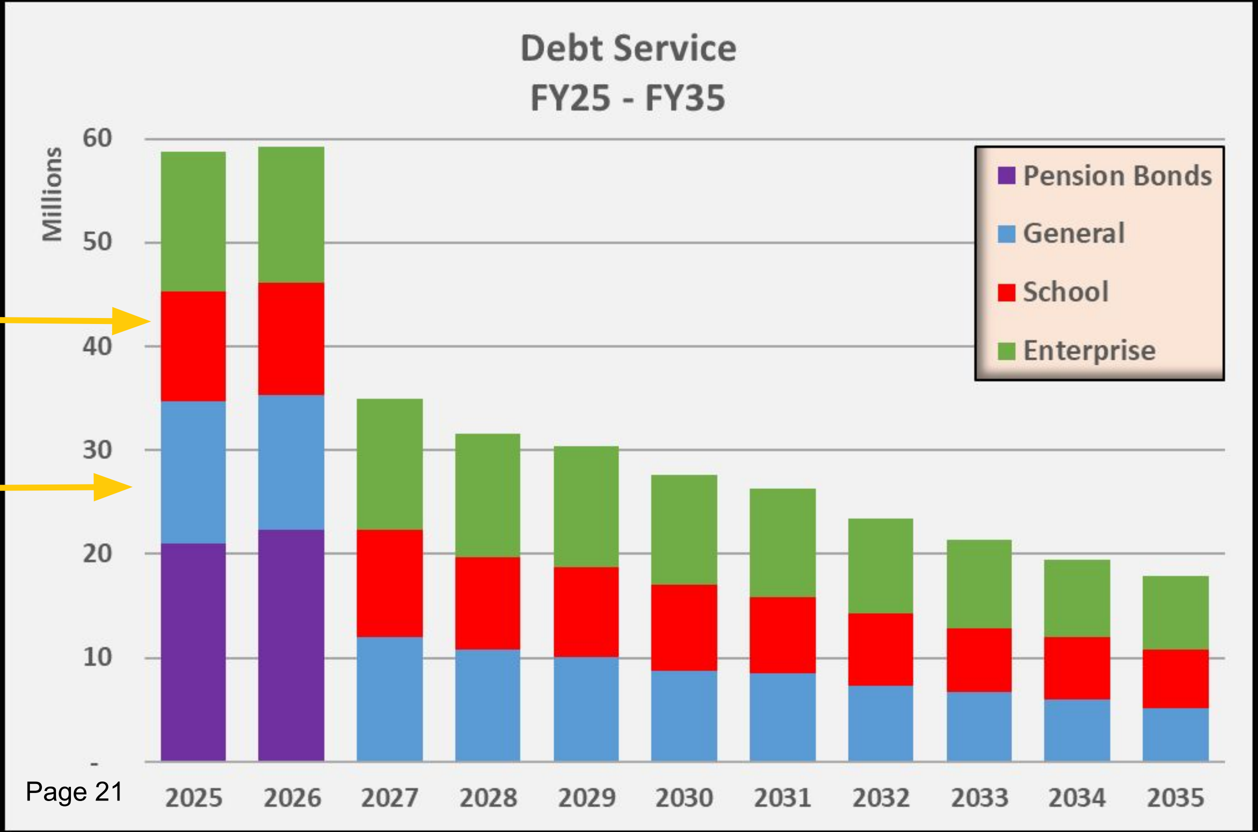
- "Borrowing allows a municipality to enjoy the immediate benefit from the capital improvement, which is not always possible when relying on current revenues. Current revenues (taxes and user fees) are usually not sufficient to fund large expenditures on a "pay-as-you-go basis" (PAYGO).....Borrowing allows municipalities to avoid large year-to-year fluctuations in tax rates." -UN Habitat (Guide to Municipal Finance)

MUNICIPAL BORROWING 10 YEAR DEBT VS 20 YEAR DEBT VS PAYGO
$20M CAPITAL INVESTMENT

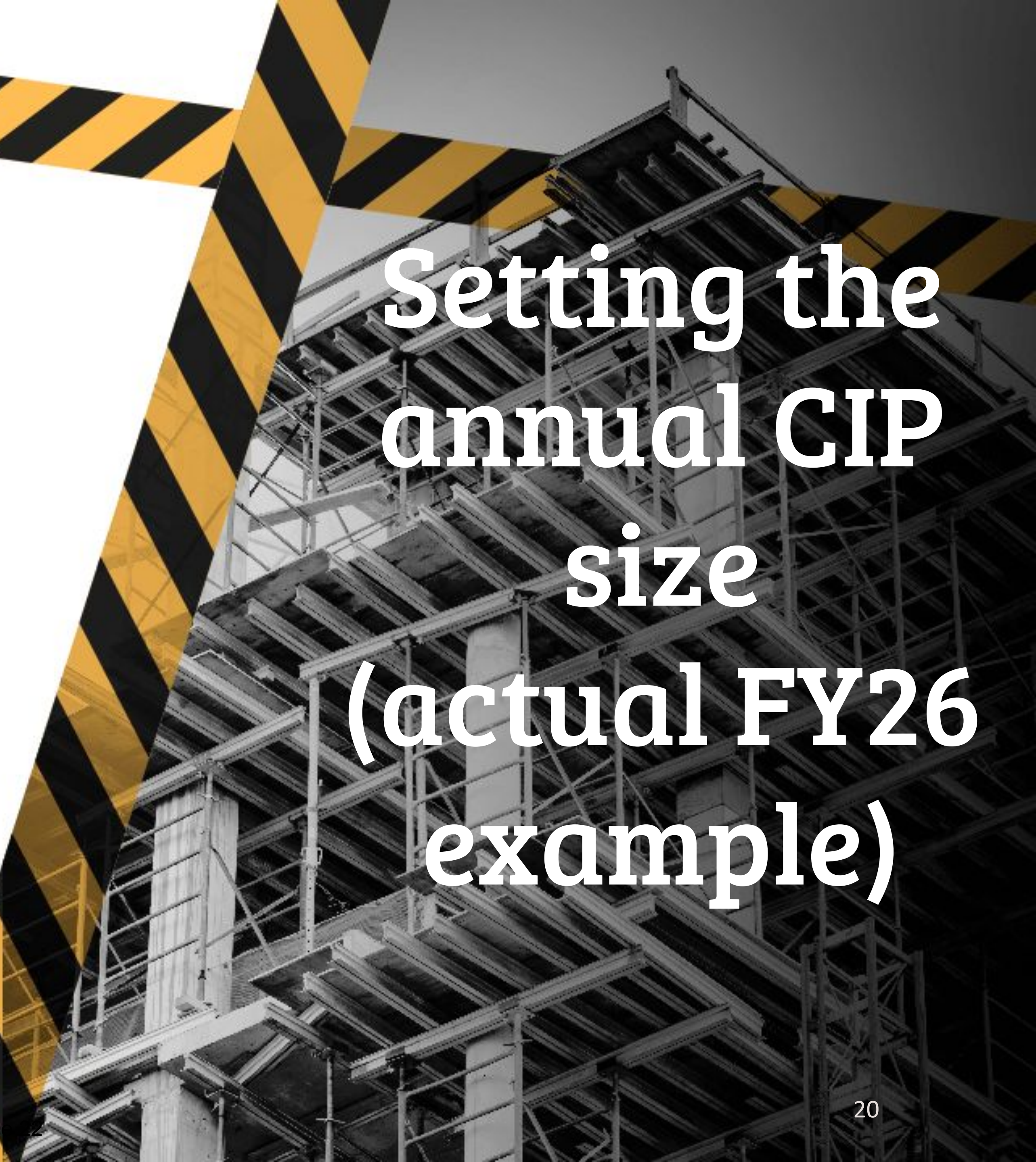
	PAYGO	10 YEAR MUNICIPAL BORROWING			20 YEAR MUNICIPAL BORROWING		
Year		PRINCIPAL OUTSTANDING	INTEREST AT 4%	PRINCIPAL PAYMENT	PRINCIPAL OUTSTANDING	INTEREST AT 4%	PRINCIPAL PAYMENT
1	$20,000,000	$ 20,000,000	$ 800,000	$ 2,000,000	$ 20,000,000	$ 800,000	$ 1,000,000
2		$ 18,000,000	$ 720,000	$ 2,000,000	$ 19,000,000	$ 760,000	$ 1,000,000
3		$ 16,000,000	$ 640,000	$ 2,000,000	$ 18,000,000	$ 720,000	$ 1,000,000
4		$ 14,000,000	$ 560,000	$ 2,000,000	$ 17,000,000	$ 680,000	$ 1,000,000
5		$ 12,000,000	$ 480,000	$ 2,000,000	$ 16,000,000	$ 640,000	$ 1,000,000
6		$ 10,000,000	$ 400,000	$ 2,000,000	$ 15,000,000	$ 600,000	$ 1,000,000
7		$ 8,000,000	$ 320,000	$ 2,000,000	$ 14,000,000	$ 560,000	$ 1,000,000
8		$ 6,000,000	$ 240,000	$ 2,000,000	$ 13,000,000	$ 520,000	$ 1,000,000
9		$ 4,000,000	$ 160,000	$ 2,000,000	$ 12,000,000	$ 480,000	$ 1,000,000
10		$ 2,000,000	$ 80,000	$ 2,000,000	$ 11,000,000	$ 440,000	$ 1,000,000
11					$ 10,000,000	$ 400,000	$ 1,000,000
12					$ 9,000,000	$ 360,000	$ 1,000,000
13					$ 8,000,000	$ 320,000	$ 1,000,000
14					$ 7,000,000	$ 280,000	$ 1,000,000
15					$ 6,000,000	$ 240,000	$ 1,000,000
16					$ 5,000,000	$ 200,000	$ 1,000,000
17					$ 4,000,000	$ 160,000	$ 1,000,000
18					$ 3,000,000	$ 120,000	$ 1,000,000
19					$ 2,000,000	$ 80,000	$ 1,000,000
20					$ 1,000,000	$ 40,000	$ 1,000,000
	$20,000,000		$ 4,400,000	$ 20,000,000		$ 8,400,000	$ 20,000,000

CIP Financing in Portland / CIP Borrowing Size and Impact on Property Tax Rates

- Each year the City retires older debt related to past CIP borrowings (debt that was issued 10 or 20 years ago), and therefore can issue new debt in its place without increasing overall debt service costs to the City related to CIP.
- We typically set the annual CIP target size to ensure no increase to property tax rates related to CIP debt service.



Setting the annual CIP size (actual FY26 example)



- **FY26 Existing CIP debt service = $23,800,000**
- **FY27 Existing CIP debt service = $22,300,000**

- **The $1.5M decrease in debt service from FY26 to FY27 is the initial “target” which can be used to estimate amount of new debt which can be issued without triggering an increase to tax levy.**

- **Assuming we only issued 20 year bonds and wanted to keep CIP debt service flat, the CIP size for FY26 would be approximately $16.7M ($1.5M / $90k of debt service per $1M = $16.66M)**

Setting the annual CIP size (Pension Obligation Bonds Retirement Opportunity)

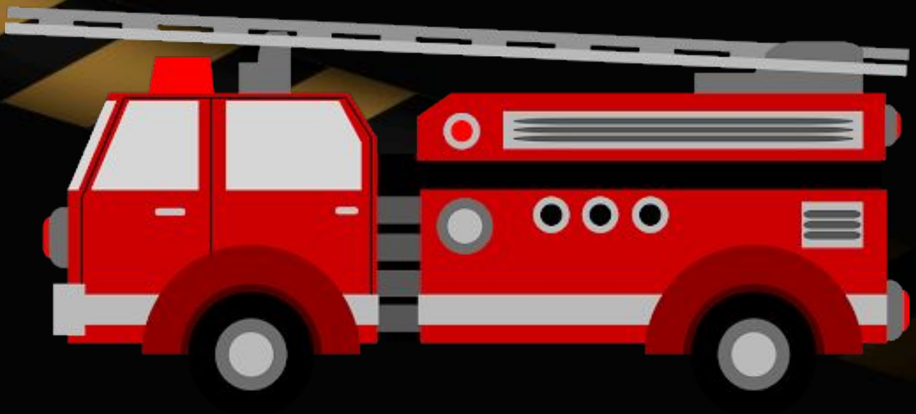
- **FY26 Pension Obligation Bond debt service = $22,297,889 (tax backed portion - $15,472,394)**
- **FY27 Pension Obligation Bond debt service = NONE! (tax backed portion also = NONE!)**

- **For the first time in decades, overall debt service in the City budget will be significantly decreasing**

- **The City Manager may consider issuing additional CIP bonds in FY26 above typical "target" in recognition of the $15.4M of debt service expense falling out of City budget from FY26 to FY27.**

- **Assuming we only issued 20 year bonds, each 1M of additional debt = $90,000 of debt service**

Capital Improvement Plan: Financing Example



Assume the CIP target size is set at $10M to protect property tax rate (i.e. City budget can take on $800k in debt service without increasing property tax rate based on debt being retired).

Let's further assume as part of the $10M CIP plan the City is recommending purchasing a new fire engine at an estimated $1M cost taking up 10% of CIP target size.

The City is required to pay in full for most vehicles on delivery, but can manage the ongoing cost by issuing bonds in the total amount of the CIP. The City would pay the 3rd party vendor $1M using our bond proceeds, and the only ongoing operating budget costs would be the $90k in annual debt service for the next 20 years.

$90k of expense on $1M of new debt is approximately $0.01 on the mill rate (tax rate) for 20 years which is a lower mill rate impact than $1M of cash / operating budget expense would be equivalent to a one time mill rate increase of approximately $0.12.

Capital Improvement Plan - Financing

- In recent years the City has also more aggressively pursued alternative funding sources to increase the impact of our annual CIP while maintaining the same responsible impacts to the property tax rate and utility rates.

- These alternative funding sources have included tens of millions of dollars in matching funds from the State of Maine and Federal Government, use of prior year surplus fund balance / cash reserves, use of savings from prior year CIP projects completed under budget, private donations from individuals and corporations, TIF revenues, grants, CDBG funding, impact fees, asset forfeiture funds, and special revenues including Merrill ticket surcharges and cruise ship passenger surcharges.

- Projects which include significant 3rd party funding / matching funds typically are more likely to be funded in the CIP.

Capital Improvement Plan: Sources of Financing Capital Expenditures

- ~~Municipal Borrowing (new bonds / general obligation debt)~~
- Use of Fund Balance / Cash Reserves
- Use of Current Revenues (aka Operating Revenues or Operating Budget Funds)
- Grants / Other State / Federal Funding Sources (Intergovernmental Transfers)
- Private Donations, Trust Funds
- TIF Proceeds and Impact Fees
- Public Private Partnerships

Capital Improvement Plan - Financing With Fund Balance / Cash Reserves

- The City council frequently appropriates surplus fund balance to support the CIP and provide tax stabilization / mill rate relief via using reserves to create expenditure reductions. The use of fund balance rather than issuing debt to fund CIP reduces debt service expenditures in future budgets.

- The tax stabilization from use of fund balance to finance capital items in lieu of general obligation bonds is spread over 10-20 years rather than just a single year and the amount of the savings ends up being larger over time due to the elimination of interest payments.

Capital Improvement Plan - Use of Operating Funds (Current Revenues)

- The City of Portland only uses operating budget funds (current revenues) for Capital Planning for smaller CIP projects (office renovations, smaller computers/technology purchases, occasional vehicles or large equipment).
- We consider using operating funds for larger capital purchases if the operating revenue is one-time in nature (i.e. a large payment not expected to repeat itself over time).

Capital Improvement Plan - Intergovernmental Transfers (Grants / Federal / State)

- Large Federal grants are rare (applications are typically very competitive). Example: The RAISE grant program from Department of Transportation.

- Other smaller Federal or private grants for specific categories of asset (Airport Improvement Grants from the FAA, Homeland Security Grants etc)

- State funding for large transportation projects (mostly State maintained roads within a municipality) are also available annually require a City match (10-50%). These are usually pass through funds from the Federal government.

- Other smaller categories of State grants are available occasionally for specific types of assets (most recently for energy efficient vehicles / infrastructure).

Capital Improvement Plan - Private Donations / Trust Funds

- Rare to receive significant volume of private donations to augment our CIP process. Typically 1-2 projects per year have companion private donations.

- Recent examples include:
  - A urban park on Congress Street (Congress Square Park) - many small donations & some medium sized corporate donations
  - A library on one the City Islands (Peaks Island Library) - one large family donation
  - A City owned skate park - many small donations solicited via a text to donate campaign

- City also receives donations via trusts (typically received upon death of a resident for use in cemeteries and our City owned nursing facility)

Capital Improvement Plan - TIF Proceeds / Impact Fee Funds

- City has three "area TIF districts" where certain types of capital infrastructure improvements are considered to be eligible uses of TIF funds.

  Tax Increment Financing (TIF) is a value capture revenue tool that uses taxes on future gains in real estate values to pay for new infrastructure improvements

  "Infrastructure" is defined, but not limited to: traffic upgrades, public parking facilities, roadway improvements, lighting, sidewalks, water and sewer utilities, storm water management improvements and placing above ground overhead electric and telecommunications lines underground.

- City also utilizes an impact fee program [launched in 2018] which has collected over $5M to date. Impact fees may be used on specific related projects only (typically growth related) and are generally pooled to support larger projects.

  Impact fees are charges paid by a proposed development to fund the cost of providing municipal facilities to serve that development. This idea is premised on the concept that when development occurs, it can bring many benefits, but it also affects the existing infrastructure around it by adding more cars, bikes, and pedestrians to the streets, increasing sewer flows into City systems, and infusing additional visitors into the City's parks and open spaces. In order to accommodate this growth in demand, these facilities require additional capital investment.

Capital Improvement Plan - Public Private Partnerships (PPP)

https://www.liveabout.com/public-private-partnership-pros-and-cons-844713

Q&A

Questions and Answers

Contact Brendan:

finance@portlandmaine.gov
https://portlandmaine.gov/