

**2023-2025 Proposed Biennial Budget
City Manager's Budget Message
May 3, 2023**

To the City of Bend and Bend Urban Renewal Agency Budget Committee:

It is my honor to present the Proposed Biennial Budget for the 2023-2025 biennium. This budget reflects the City's commitment to providing essential services to the community within the City Council's guiding principles of Equity, Inclusive Leadership, Fiscal Stewardship, Governance and Partnership.

Financial Overview

Development of the 2023-2025 biennial budget reflects revenue pressures associated with modest revenue growth forecasts and headwinds associated with a potentially slowing economy. Coupled with pressures on expenses, there is an imbalance of money coming in versus money going out across most funds. Without additional revenue or funding increases, annual operating revenues are projected to increase 3.4% and 5.7% for each year of the biennium, which are not sufficient to keep up with rising costs. The proposed budget reflects funding increases that are needed to keep operations at current service levels.

Many of the budget challenges relate to the City's low property tax rate. Property taxes represent the majority of General Fund revenues. The City's permanent tax rate of \$2.80 per \$1,000 of taxable assessed value (TAV) is significantly less than that of our peer cities, and Measures 5 and 50 approved by Oregon voters in the 1990's restrict the City's ability to increase the permanent rate. Property taxes, including new construction, are assessed on TAV which is significantly lower than market value and is limited to annual increases of 3%. These restrictions, along with limitations on the City's ability to quickly increase other General Fund revenues such as room taxes and franchise fees, have created a structural funding challenge in the General Fund. Consistent with previous budgets, roughly 78% of the General Fund is used to fund public safety, and this structural challenge directly impacts their ability to keep pace with the changing needs of the community. If the fire levy measure passes, the General Fund support for the Fire Department will not change.

To mitigate the impact of funding increases on the community, the City plans to draw down its reserve and contingency levels. The City has also limited any increases in staffing during the biennium to areas where it is needed to keep pace with community growth and needs, primarily in public safety and utilities.

Expenditures

Proposed investments in infrastructure reflect the largest portion of proposed budget expenditures. Many of the projects outlined in the Capital Improvement Program (CIP) are complex, multi-year projects involving improvements to water, water reclamation (sewer), stormwater and transportation infrastructure. Examples include improvements to the Wilson Corridor, the intersection at Neff and Purcell and replacement of the Awbrey Butte Waterline Distribution system among many others. To use revenues responsibly, the City of Bend looks for opportunities to align multiple projects to achieve



economies of scale and lessen the impacts to the community. As an example, the Neff and Purcell Improvements Project includes replacing stormwater, water, water reclamation and street facilities versus just focusing on one piece of infrastructure.

Increasing project costs driven by inflation, coupled with a slowdown in development activity, which provides some of the funding for infrastructure projects, has necessitated that the City adjust the timing of projects in the 5-year CIP to match the funding available. The 5-year CIP includes total infrastructure investments of \$545 million with \$276 million programmed in the 2023-2025 biennium and represents a balance of the needs of the City with the funding available. To achieve this level of infrastructure spending, the City will leverage fee and rate increases to issue long-term debt for most of these projects to ensure the community today and future generations equally share in paying for investment and replacement of aging infrastructure, facilities, and equipment. The proposed budget also includes the issuance of \$64 million in long term debt for the second series of General Obligation Bond projects, which have been reviewed and prioritized by the Transportation Bond Oversight Committee.

Personnel services expenses, which include salary and benefit costs for City employees, represent the second largest category of spending in the proposed budget. In 2022, the City made an investment in its current workforce with wage increases of approximately 10% which reflect inflationary pressures consistent with the broader economy. The 2023-2025 budget reflects limited increases in the City's workforce with the addition of 28 new staff, with most of those in the public safety and infrastructure core service areas.

Revenues

The \$1.29 billion biennial budget includes all operating revenues for the biennium (\$480.1 million), as well as debt proceeds, interfund transfers, sales from City-owned land in Juniper Ridge, one-time grant funding and ending reserves from the prior fiscal year. Of the \$480.1 million of City-wide operating revenues, \$136.1 million is in the City's General Fund.

Key revenue drivers include anticipated increases in tax assessed property value of 5% for each year of the biennium. Property taxes primarily fund police, fire, and street maintenance services. In the May 2023 election, voters will have the opportunity to consider a five-year local option levy which would provide funding for fire and emergency medical services. If the measure passes, it would cost property owners \$0.76 per \$1000 of assessed property value. At the time of budget development, the outcome of the May election is unknown. The proposed budget assumes that the measure passes.

Additional revenue drivers include projected flat room tax revenues in 2023-2024, and a 5% increase in tourism activity in the second year of the biennium. Franchise fee revenues are projected to be flat in the first year of the biennium, with minimal increases of 1.4% in 2024-2025, which is in line with the forecasted increase in population growth.

Rate increases are proposed for water utilities (2.5% for sewer, 3.8% for water and 7% for stormwater), to keep pace with existing infrastructure deficiencies and future needs. Based on the outcome of an external fee study, development revenues for building, planning and private development engineering reflect respective fee increases. Although the printed budget includes proposed development fee increases ranging from 10-30%, as well as an increase of the long range planning surcharge, current discussions are taking place with a group of stakeholders to phase in the increases over time, and



eliminate the increase of the long range planning fee. More information about the proposed increases will be shared during budget deliberations later this month. These increases are needed to support staffing levels necessary to maintain permit turnaround times and maintain reserves to ensure sustainable staffing levels into the future. Development activity is projected to remain the same in fiscal year 2023-2024 and increase 2.3% in fiscal year 2024-2025. There is also a projected increase in the Commercial & Industrial Construction Tax (also referred to as the Commercial Excise Tax) from 0.33% of building permit valuation for qualified projects, to 1.2% of valuation.

The Streets & Operations budget reflects revenues from a new transportation fee or other revenue source which is needed to maintain current levels of service. At the time the budget was developed, City Council was evaluating the scope of services and programs to be funded with a transportation fee or other revenue source, the public engagement approach and timeframe of how quickly to implement a new revenue source. At the time the budget was prepared, those decisions had not been made and the budget reflects a revenue placeholder pending implementation of additional revenues.

One of the key areas of focus for the upcoming 2023-2025 biennium is securing permanent, long-term funding for shelter operations. There are no General Fund revenues available to support shelter operations; service continuity is reliant on state and federal revenues. The City continues to work collaboratively with local and state partners to establish stable funding for operations and maintenance of the three shelter facilities purchased during the current 2021-2023 biennium.

Contingency and Reserves

City-wide, contingency and reserve levels are being utilized to help mitigate the impact of funding increases on the community. In the upcoming biennium, General Fund reserve levels are projected to decline but at the end of the biennium will remain in line with the City Council adopted fiscal policies of 16% of operating expenditures, which includes the General Fund Revenue Stabilization Fund balance. Even with the proposed development fee increases, reserve balances in the Community & Economic Development service area, specifically in the Building, Planning, and Private Development Engineering Funds, are proposed to decline to help lessen the impact of necessary fee increases on the community. Infrastructure service area reserves are increasing slightly as the City issues debt for transportation projects that will span multiple years and beyond the 2023-2025 biennium. Administration and Central Services reserves are projected to be fairly consistent with prior years.

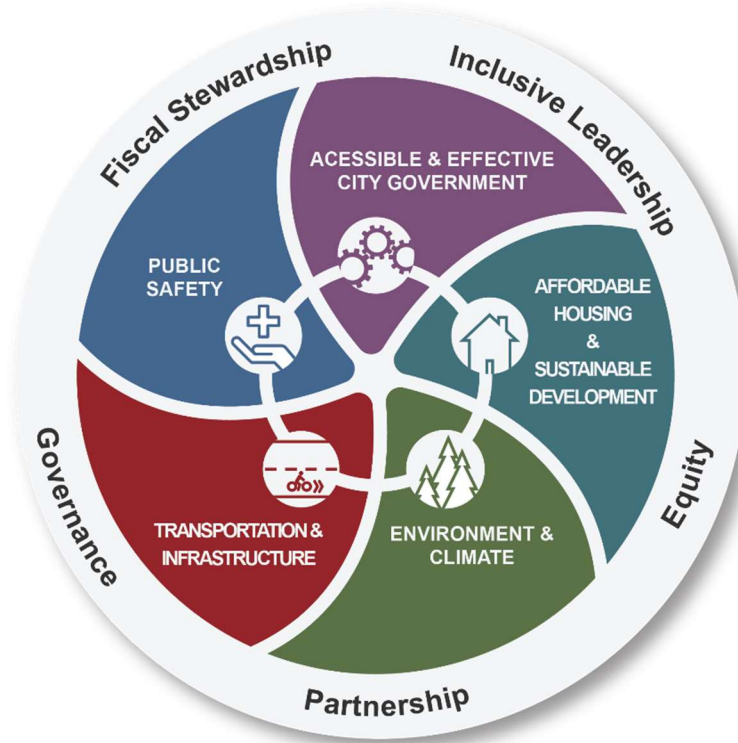
Implementation of the City Council Goal Framework

As specified in the Council Rules, the City Council goal setting process is aligned with the development of the biennial budget. The process is guided by input from community members, community organizations, City advisory boards and committees, Councilor priorities and City staff. The following information and inputs were shared with the Council in preparation for developing their 2023-2025 goal framework:

- 2022 Community Survey results and presentation;
- Summary of input from community members, community organizations, and Roundtable Listening Sessions held on Jan. 19, 2023;
- Equity Lens/Impact Assessment Best Practices and Considerations;
- An organizational Strengths, Problems, Opportunities, and Threats (SPOT) analysis; and
- Background information provided by City staff related to permit review timelines and initiatives, the transportation system, organizational capacity and a financial and budgetary update.



In late January 2023, the Council met for a two-day goal setting retreat to consider the input they had received, develop a vision and prioritize their goals for the next two years. That feedback was incorporated into the 2023 -2025 Goal Framework, which was adopted on March 15, 2023, and is summarized in the graphic below.



A copy of the Council Goal Framework, that includes detailed strategies and actions that support each goal area, can be found at the end of the “Introductory Section” of the budget document.

Budget Summary and Looking Forward

A growing community like Bend will always bring a certain number of challenges, with funding being among them. These challenges also tell the story of a community asking its leaders to not only preserve what makes Bend great, but to ensure it is better for generations to come. This proposed budget reflects Council’s goals and strategies for the 2023-2025 biennium, and makes great strides to serve everyone equitably, create a more connected community and preserve Bend’s character as we grow.

Respectfully submitted,

Eric King
Budget Officer / City Manager

