

**2021-2023 Proposed Biennial Budget  
City Manager's Budget Message  
May 5, 2021**



CITY OF BEND

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

I am pleased to present the Proposed Biennial Budget for the 2021-2023 biennium. This balanced budget reflects the City's response to the ongoing challenges of the COVID-19 pandemic while maintaining, if not expanding, services offered to the community. It also identifies funding to address City Council's goals for the upcoming biennium. Overall, the proposed biennial budget of \$919.4 million reflects a 3% increase compared to the revised budget for the 2019-2021 biennium.

**Response to the COVID-19 Pandemic**

Balancing the budget was particularly challenging during the 2019-2021 biennium due to impacts of the COVID-19 pandemic. When the pandemic began in Spring 2020, its financial impacts were unknown. The City estimated a revenue shortfall of approximately \$8 million. City-wide, department budgets were reduced by approximately 10%, including 37 vacant positions that were eliminated in an effort to maintain a balanced budget. We anticipated substantial shortfalls from these sources of revenue: highway gas tax allocations, lodging/room taxes, property taxes (due to an anticipated decrease in collection rates), and fine and citation revenues. Overall these revenues are coming in stronger than predicted. The 2021-2023 proposed budget assumes the majority of the COVID-19 impacted revenues return to pre-pandemic levels or higher, beginning in fiscal year 2021-2022, the first year of the biennium. An overview of projected revenues and related spending are discussed below.

**Financial Overview**

*Revenues*

The \$919.4 million biennial budget includes all our operating revenues for the biennium (\$395 million), as well as debt proceeds, interfund transfers, one-time grant funding, and ending reserves from the prior fiscal year. The \$395 million of City-wide operating revenues for the biennium is a 5% increase in projected revenues for the first year of the biennium and a 6% increase for the second year. Of the \$395 million of City-wide operating revenues, \$124 million are in the City's General Fund.

Key drivers for the additional revenues include anticipated increases in tax assessed property value of 5.5% for fiscal year 2021-22 and 5% for fiscal year 2022-23. Property taxes primarily fund police, fire, and street maintenance services. The proposed budget also includes a \$2,249,500 property tax levy for fiscal year 2022-23 specifically related to the voter approved Transportation General Obligation (GO) Bond Measure 9-135. Consistent with the voter approved ballot language, property taxes related to the 2020 GO Bond will not be assessed until the second year of the biennium. Additional revenue drivers include projected room tax increases of 16% in fiscal year 2021-22 and 5% in fiscal year 2022-23, as we anticipate tourism activity to return to pre-pandemic levels.

Rate increases are proposed for water utilities (3% for sewer, 2.5% for water, 7% for stormwater), to keep pace with existing infrastructure deficiencies as well as future needs. Fee increases are also proposed for Building, Planning and Private Development Engineering permits in the Community Development Department, which are needed to support the additional staffing needed to maintain permit turnaround times. Proposed increases to Building and Private Development Engineering fees reflect Consumer Price Index (CPI) level increases of 3% per year. Annual fee increases of 6% per year are projected for Planning services.

### *Expenditures*

Personnel services expenses, which includes salary and benefit costs for City employees, represent the largest category of spending in the proposed budget. The 2021-2023 budget proposes the addition of 30.5 new staff, which will replace some of the vacant positions that were eliminated due to the anticipated revenue impact of the COVID-19 pandemic, as well as support new projects and initiatives. During fiscal year 2020-21, the City Council authorized 14 additional positions, which coupled with the 30.5 new staff proposed in the upcoming budget, will result in staffing levels that slightly exceed pre-pandemic levels.

Proposed investments in infrastructure make up another significant 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 of these improvements include the Newport and Murphy Corridor Improvements, among many others. In order 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 Newport project includes replacing stormwater, water, sewer and street facilities versus just focusing on one piece of infrastructure. In addition to these large “synergy” projects, the proposed budget also includes the issuance of \$24 million in long term debt for the first series of General Obligation Bond projects, which will be reviewed and prioritized by the Transportation Bond Oversight Committee. The 5-year CIP includes total infrastructure investments of \$306 million with \$126 million programmed in the 2021-2023 biennium.

In order 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 today’s and future generations equally share in paying for investment and replacement of aging infrastructure, facilities and equipment.

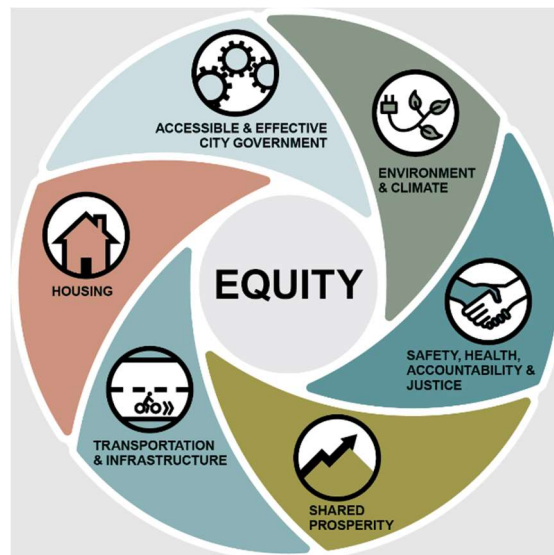
### *Contingency and Reserves*

City-wide, contingency and reserve levels are \$26 million higher than the prior biennial budget. At the end of the 2017-2019 biennium, the City Council approved a reduction in the General Fund reserve target from 17% of operating expenditures to 16% in order to provide additional funding for implementing Council’s goals during the current 2019-2021 biennium, specifically related to transportation improvements. In the upcoming biennium, General Fund reserve levels are projected to be in line with the City Council adopted fiscal policies of 16% of operating expenditures, which includes the General Fund Revenue Stabilization Fund balance. Reserve balances in the Community & Economic Development service area, specifically in the Building and Planning Funds, are proposed to decline to help lessen the impact of necessary fee

increases on the community. An external fee study is planned for the second year of the biennium to ensure development fees are set to cover the costs of permit processing. Infrastructure service area reserves are increasing slightly as the City issues debt for transportation projects that will span multiple years and beyond the 2021-2023 biennium. Administration and Central Services reserves are projected to be fairly consistent with prior years.

### **Implementation of the City Council Goal Framework**

The foundation of this proposed budget began early this year with a rigorous Council Goal setting process that included input from community member committees, advisory groups, community organizations, individual Councilors, the City’s Leadership Team and supporting data such as a statistically-valid community survey to assess priorities. Using this input to drive the agenda, Council held a retreat and follow-up work sessions to refine the themes and create their goals for the 2021-2023 biennium, which are 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 on pages 49-55 in the ‘Introductory Section’ of the budget document.

In early March 2021, the City Council was presented with a budget scenario to allocate approximately \$3 million of General Fund discretionary revenue to support its goals. The City Council approved that option and the budget includes \$3.08 million of General Fund revenues to support implementation of Council Goals. Programs and facilities to address homelessness have been prioritized, with approximately 40% of the General Fund revenues dedicated to Council’s Housing Goal. A summary of the proposed General Fund allocations can be found in the General Fund budget narrative on page 86.

## **Budget Summary and Looking Forward**

The proposed 2021-2023 biennial budget reflects an anticipated rebound in revenues which not only allows the City to continue delivering a high quality of services for our core operations, but also provides funding for support and implementation of Council's Goals.

Moving forward, it is important to note that the \$3.08 million included in the budget for support of Council Goals will serve as "seed money" to kick-start Council's priority programs and projects until long term, sustainable funding is identified. For example, there is limited General Fund support proposed for Council's Transportation and Infrastructure goals. The funding chapter of the Transportation System Plan (TSP) identified new revenues and/or fee increases that are necessary to implement the "near term" projects identified in the TSP which have yet to be created.

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 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. 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. This structural challenge impacts the Public Safety departments' ability to keep pace with the changing needs of the community as those department rely almost exclusively on funding from the General Fund. Roughly 80% of the General Fund is used to fund the public safety departments. As a result, a renewal and increase to the Fire Department's operating levy will be necessary in future years beyond the upcoming biennium to ensure the City continues to deliver core Fire and Emergency Medical Services.

The City is actively pursuing grant opportunities, partnerships with state and local community partners, and federal funding including the \$12.65 million allocated to Bend through the American Rescue Plan as well as funding opportunities included in the American Jobs Plan, which will provide critical funding for economic recovery and infrastructure investments. These funds will be recognized through a supplemental budget later this summer or early fall. As we begin planning for the allocation of these federal funds, I am looking for feedback from the Budget Committee on proposed uses. We have set aside time during our budget deliberations for this topic.

Bend continues to be a great city in which to live, work and play, and I am proud of the work we have accomplished. This proposed budget incorporates Council's goals and strategies for the 2021-2023 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