



2025-2026 Budget Process

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Agenda

- Budget Framework
- Review of Financial Policies
- Review of 2025-2030 Forecast
- Next Steps





Budget Framework



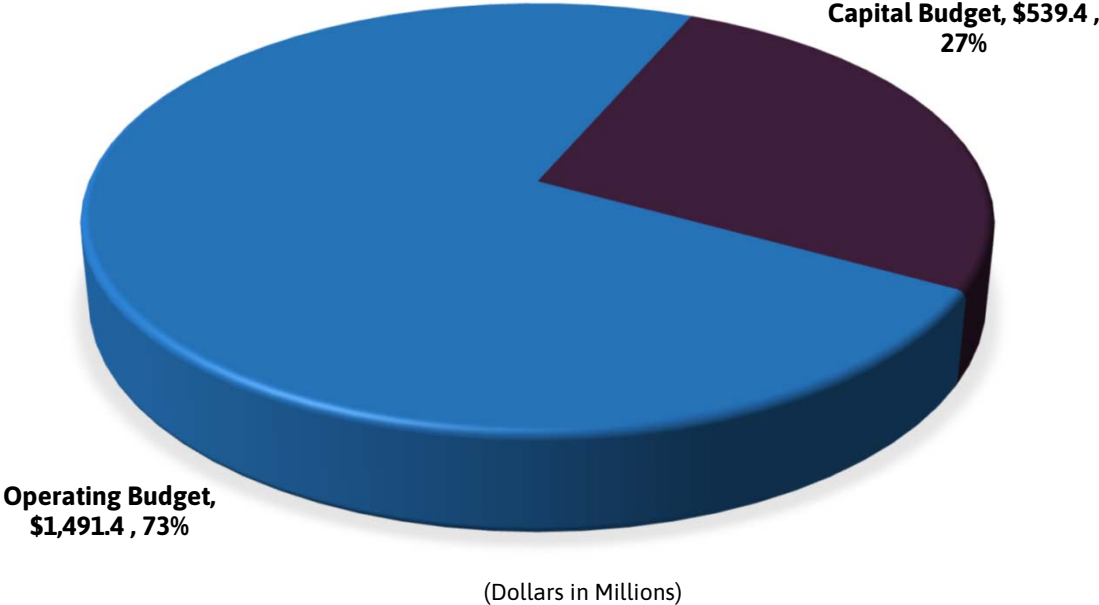
Budget Framework - *Overview*

- The City of Vancouver budgets on a biennial basis beginning on odd number years (e.g., 2025-2026)
- Total City budget consists of two separate, but integrated budgets:
Operating and **Capital**
 - **Operating budget:** general operations of the City and specific revenue-funded activities
 - **Capital budget:** construction projects in Transportation, Parks & Recreation, Utility and General Capital



Budget Framework - *Overview*

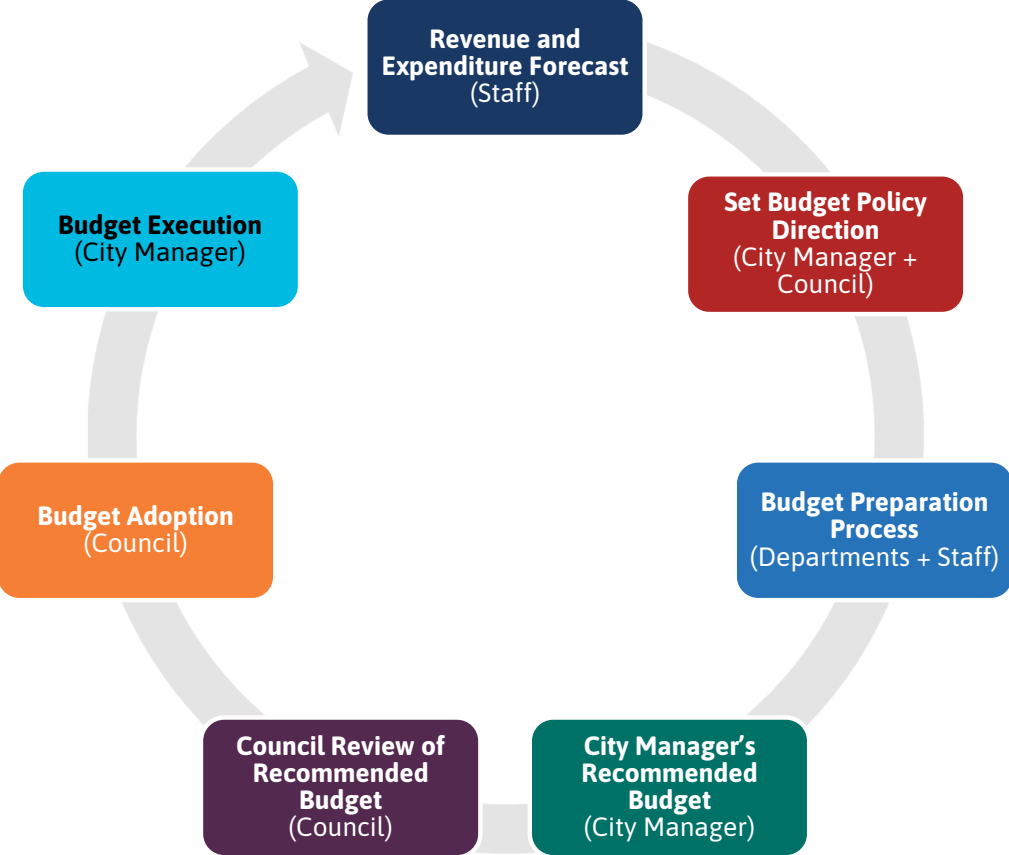
2023-2024 ADOPTED BUDGET: 2.0B



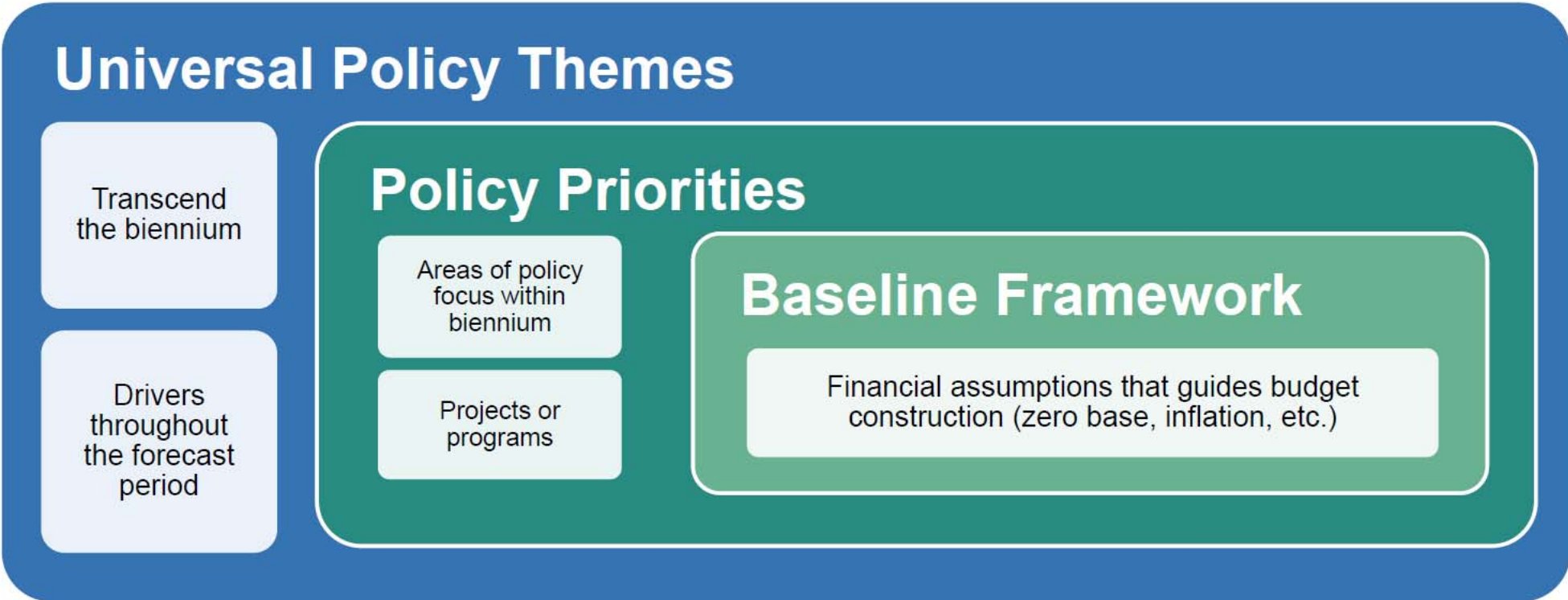
1,360.75 FTEs
authorized in
Budget



Budget Framework - *Overview*



Budget Framework - *Overview*



Budget Framework – *Universal Policy Themes*

- Outcomes of department budgets should support **City priorities**



Budget Framework – *Strategic Plan*

- Strategic Plan establishes **core values** and **focus areas**
- Outcomes of department budgets should support **core values**
- Equity lens/community vulnerability index applied to all significant investments (capital or program)

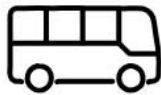


Budget Framework – *Strategic Plan*

- Department budgets will contain objectives resulting in outcomes aligned with one or more of these **focus areas**



Culture and Heritage



Transportation and Mobility



Vibrant and Distinct
Neighborhoods



Economic Opportunity



Climate and Natural Systems



High Performing Government



Housing and Human Needs



Safe and Prepared Community





Financial Policies



Financial Policies – *Role & Purpose*

- Council updated City financial policies in 2012 and every two years thereafter
- Objectives:
 - Establish framework to build City's financial future in prudent, proactive way
 - Include best practices to ensure long-term fiscal stability
 - Simplify & modernize policies to reflect current economic environment and fiscal constraints



Financial Policies - *Framework*

- ***City Financial Policy Framework***
 - Long Range Financial Planning
 - Reserves, Revenue & Resource Utilization
 - Budget Management
 - Capital Planning & Asset Management
 - Debt and Investment Policies



Financial Policies

- **Long Range Financial Planning**

- Prepare long-term revenue & expenditure forecast
- Assess financial impact of proposed budget decisions within context of a 6-year forecast
- Operating budget:
 - Current operations funded with current revenues
 - One-time revenues will not be used for ongoing expenses



Financial Policies - *Reserves*

- **Emergency Reserve** = 7% of prior year's General, Street & Fire Fund revenue
 - Unexpected, large-scale nature-driven event
 - Each emergency exceeds \$1.0 million
 - Requiring immediate remedial action to protect health & safety of residents (e.g., flood, earthquake, etc.)
 - If used, restoration of reserves begin in year following event
- Status: Funded ~\$18.6M



Financial Policies - *Reserves*

- **Revenue Stabilization Reserve**

- 2.5% of current year's General Fund revenue
- Offset ongoing revenue fluctuations or unanticipated events
 - Unexpected external mandates
 - Reductions in state shared revenues
- When used, it will be replenished within two years

Status: Funded ~\$6.6 M



Financial Policies - *Reserves*

- ***Designated Liability Funding Reserve***

- Created when City accepts funding leading to future liabilities
- Equal to identified future obligation

- Status: \$6.5M reserve consistent with HP DA

- ***Compensated Absences***

- Status: \$5.5M reserve, 50% of the value of outstanding liability



Financial Policies - *Reserves*

- **Council Designated Reserves**

- Reserve for specific purpose as identified and prioritized by City Council
 - Columbia Arts Center: \$0.9M
- Undesignated reserve - None



Financial Policies - *Reserves*

- ***Working Capital Reserve***

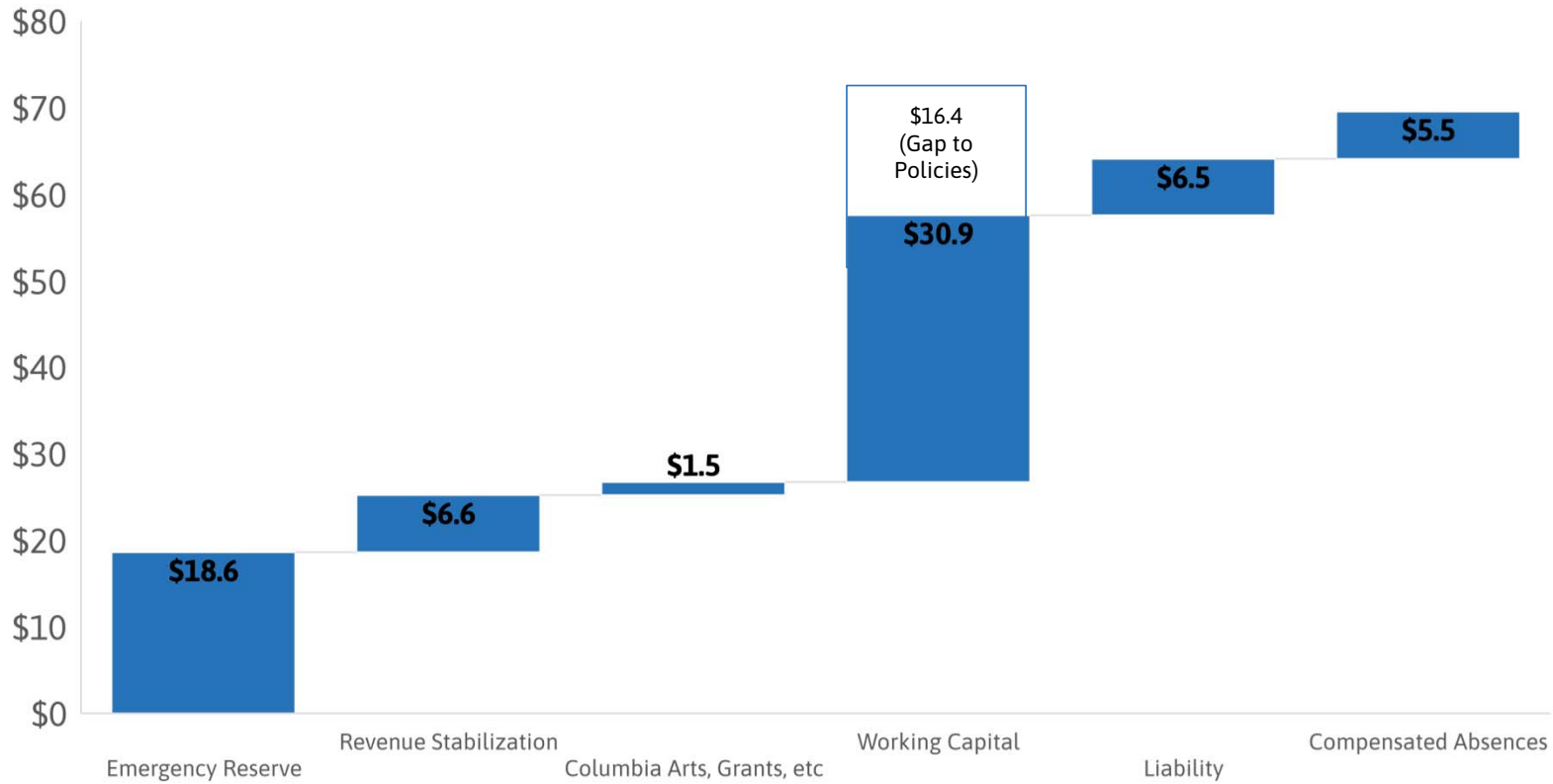
- Sufficient to fund 60-90 days of operations of General, Street, and Fire Funds
- Address City's cash flow requirements
- Provide for normal City operations without short-term borrowing

Status: Partially funded at 39 days ~\$30.9 M



Financial Policies - Reserves

2024 PROJECTED YEAR END - GENERAL FUND CASH BALANCE (\$69.6)
(IN MILLIONS)



Financial Policies

- **Revenues & Resource Utilization**

- User fees & utility rates in all funds based on:

- Full cost of providing service, including inflationary impacts
 - Public benefit
 - Community affordability considerations

- Conduct regular cost of service studies

- Include all reasonable and justifiable direct & indirect costs



Financial Policies

- **Revenues & Resource Utilization** *(continued)*
 - Establish specific cost recovery targets for certain departments (update as required)
 - Building Fee Target: 100%
 - Land Use Fee Target: 75%
 - Transportation Review Fee Target: 75%
 - Recreation Fee Target: (currently under review)
 - Parking Fund: 100%



Financial Policies

- **Capital Planning & Asset Management**

- Incorporate “pay-as-you-go” approach in Capital Investment Program
- Debt funding for large capital projects with long useful lives to better balance inter-generational equity



Financial Policies

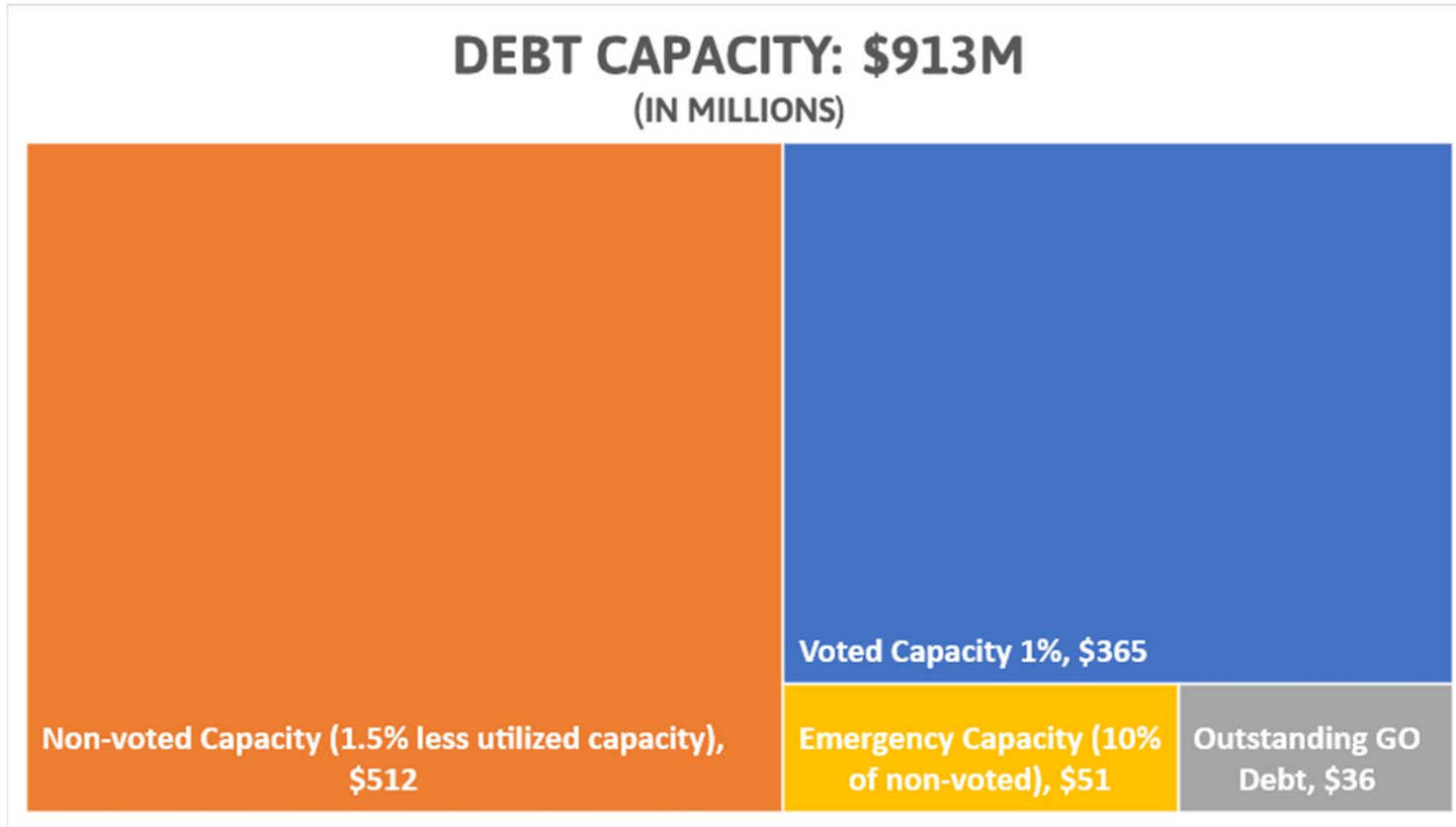
- ***Financial Asset & Liability Management***

- Debt Planning, Issuance & Compliance Policies:

- City will reserve 10% of non-voted capacity for emergency purposes
- City will not exceed 85% of non-voted debt limit, excluding 10% reserved for emergency purposes
- Annual payments of GO debt will not exceed 10% of total GF annual expenditure appropriation
- Capital projects financed with debt will be repaid during a period not to exceed project useful life



Financial Policies



Financial Policies

- **Budget Management**

- During Biennial Budget process, City Council approves number of permanent City staff positions, their assignments to specific City funds
- City will establish classification & compensation plan:
 - Consistent with labor market and within City's ability to pay



Financial Policies

- **Budget Management** *(continued)*
 - Council establishes appropriations through budget process
 - Expenditures controlled with annual appropriation at department/fund level
 - No re-appropriation required for carryforward funds into second year of the biennium
 - Quarterly reporting of budget vs. actual data





2025-2030 Revenue Forecast General, Street and Fire Funds



2025-2030 General, Street & Fire Funds Forecast

- ***Economic Conditions***

- Federal Reserve – Federal Open Market Committee (FOMC) Statement

- Economic activity expanding at slower pace
- Job gains have remained strong; unemployment rate remains low
- Inflation has eased over past year, but remains elevated and had an uptick in the last month

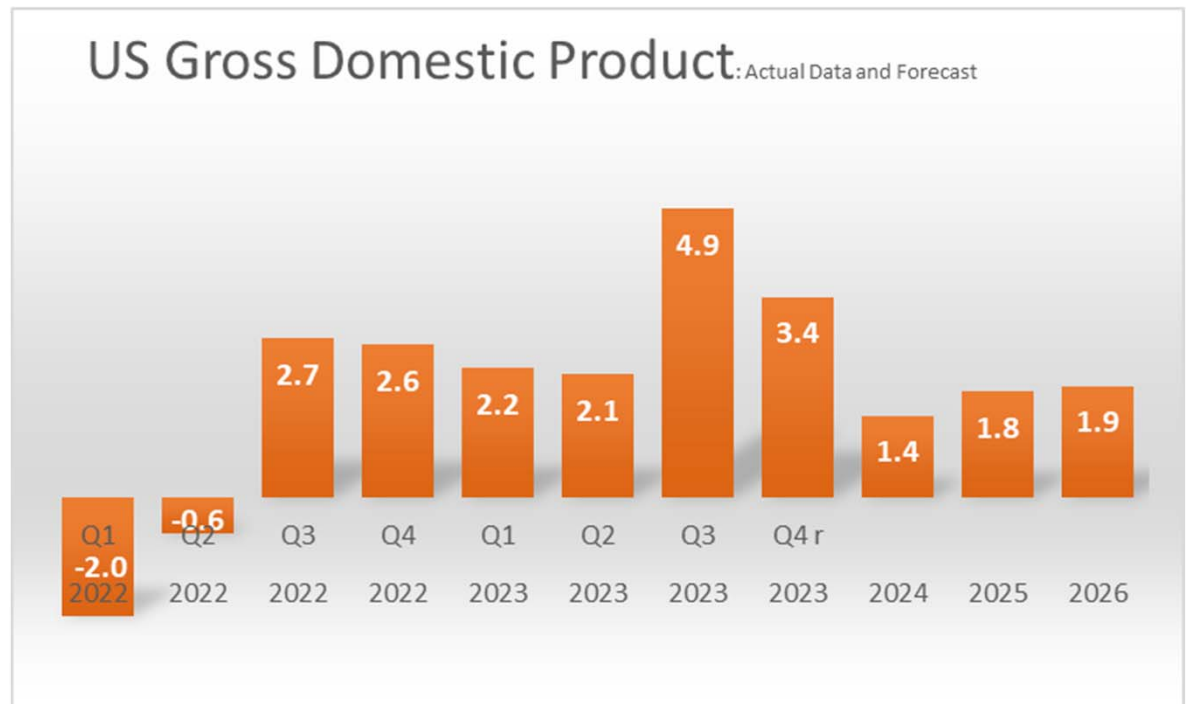


2025-2030 General, Street & Fire Funds Forecast

- **Economic Conditions**

- Gross Domestic Product:

- Slowdown in immediate future
 - Increased at an annual rate of 3.4% in 4Q2023; in the third quarter, real GDP increased 4.9%.

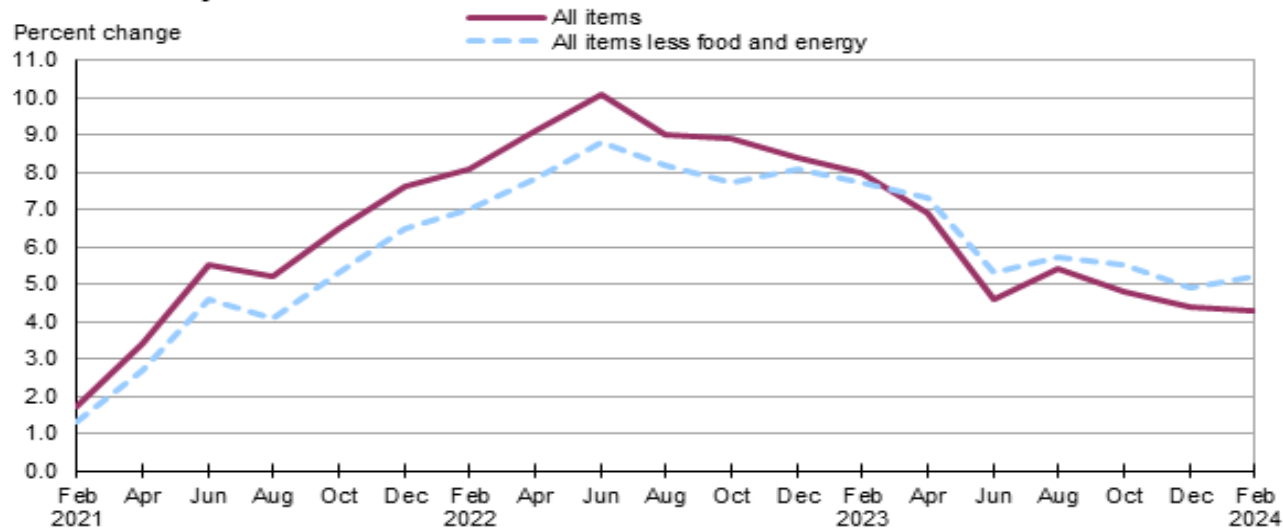


2025-2030 General, Street & Fire Funds Forecast

- **Economic Conditions**

- Consumer Price Index Summary

Chart 1. Over-the-year percent change in CPI-U, Seattle-Tacoma-Bellevue, WA, February 2021–February 2024



Source: U.S. Bureau of Labor Statistics.



2025-2030 General, Street & Fire Funds Forecast

- ***Economic Conditions***

- Inflation remains high, but forecast anticipates inflation will ease over the long run
- High inflation over last several years impacts all aspects of City spending, from personnel to capital expenditures (lag in impact on City finances)
- Structural Deficit: Expenditures outpacing revenues is anticipated to continue over the length of the forecast



2025-2030 General, Street & Fire Funds Forecast

- **“Current law” forecast**

- 2023-2024 biennium assumed as baseline
- Assumes no changes to current authorized staffing or programs
- Assumes no changes to current tax or fee rates or structure



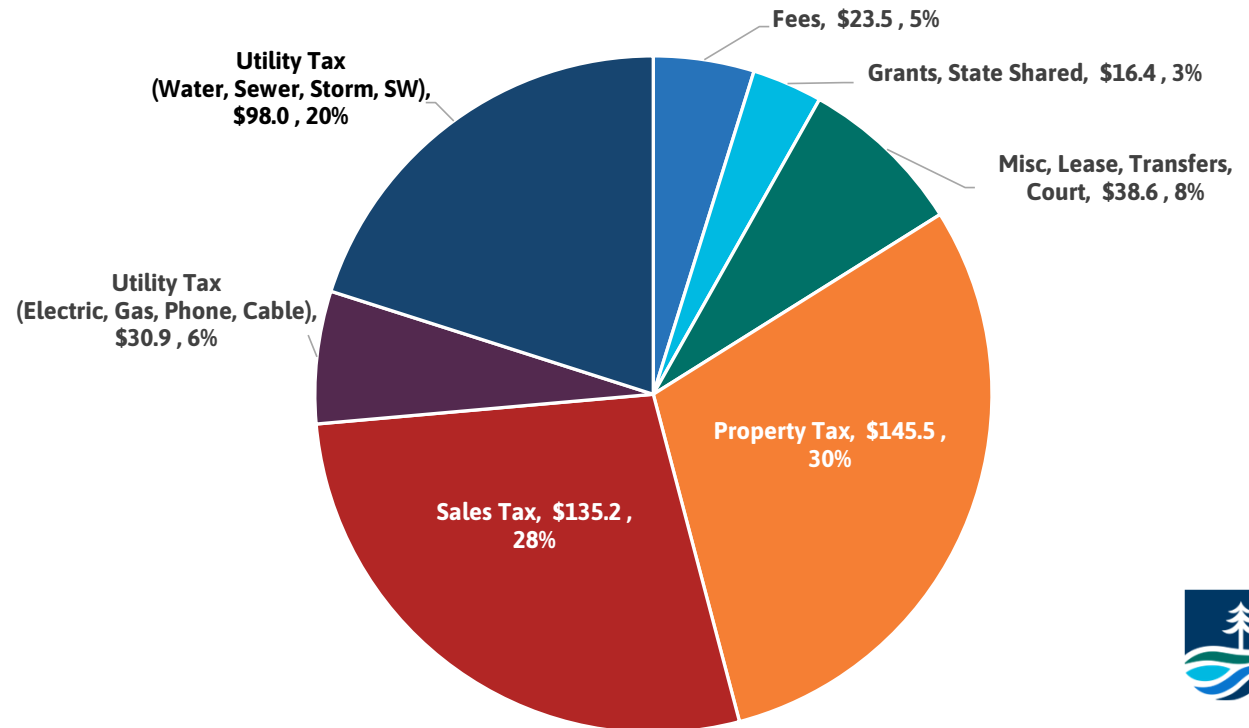
2025-2030 General, Street & Fire Funds Forecast

- **Major Sources of Revenue:**

Three major sources of revenue:
Property, Sales,
& Utility Taxes

(~84% of total revenues)

2023-24 Adopted Revenue Budget
(In Millions)



2025-2030 General, Street & Fire Funds Forecast

- **Major Assumptions - Revenue**

- Economy will continue to expand through 2025-2030 time-period, but at a slower pace
- Slowed development and construction due to higher interest rates expected to impact multiple revenue sources
- Sales tax has slowed and anticipated to come in below forecasted amounts in current biennium
 - Assumes an average sales tax growth of 4.4% through 2030



2025-2030 General, Street & Fire Funds Forecast

- **Major Assumptions – Property Tax**

- Property tax revenue:

- Continue to increase by 1% per year, plus new construction
- New construction expected to continue at reduced levels during forecasted period:
 - Slowing of construction due to higher interest rates
 - Multi-Family Tax Exemption (MFTE) expansion
- Includes Proposition 2 for fire and emergency services

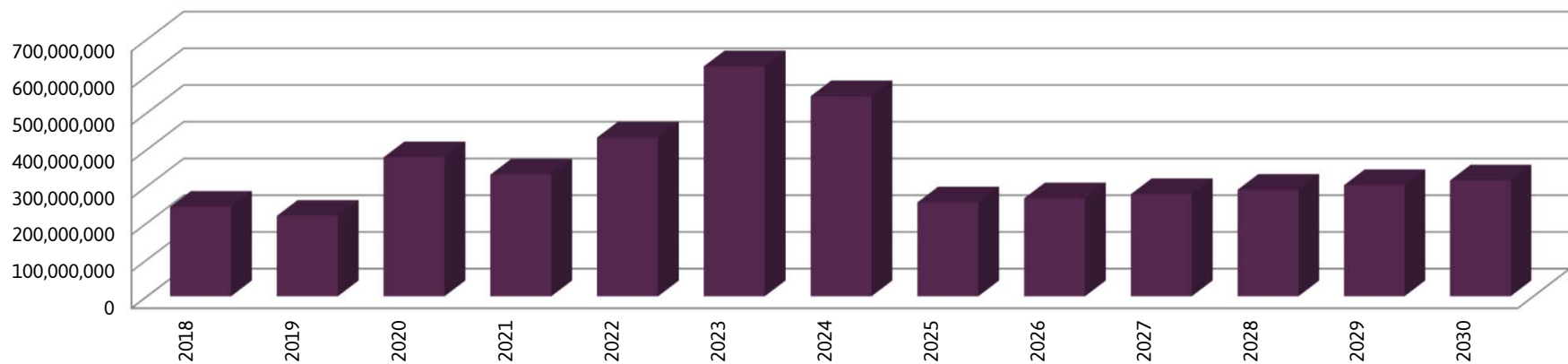


2025-2030 General, Street & Fire Funds Forecast

- **Major Assumptions – Property Tax (continued)**

- Increases in AV do not impact property tax revenues, except for new construction
- New construction reduced to 0.7% from 1.25% of the AV due to slowing development and expansion of MFTE program (historical range between 0.5% to 1.8% of AV)

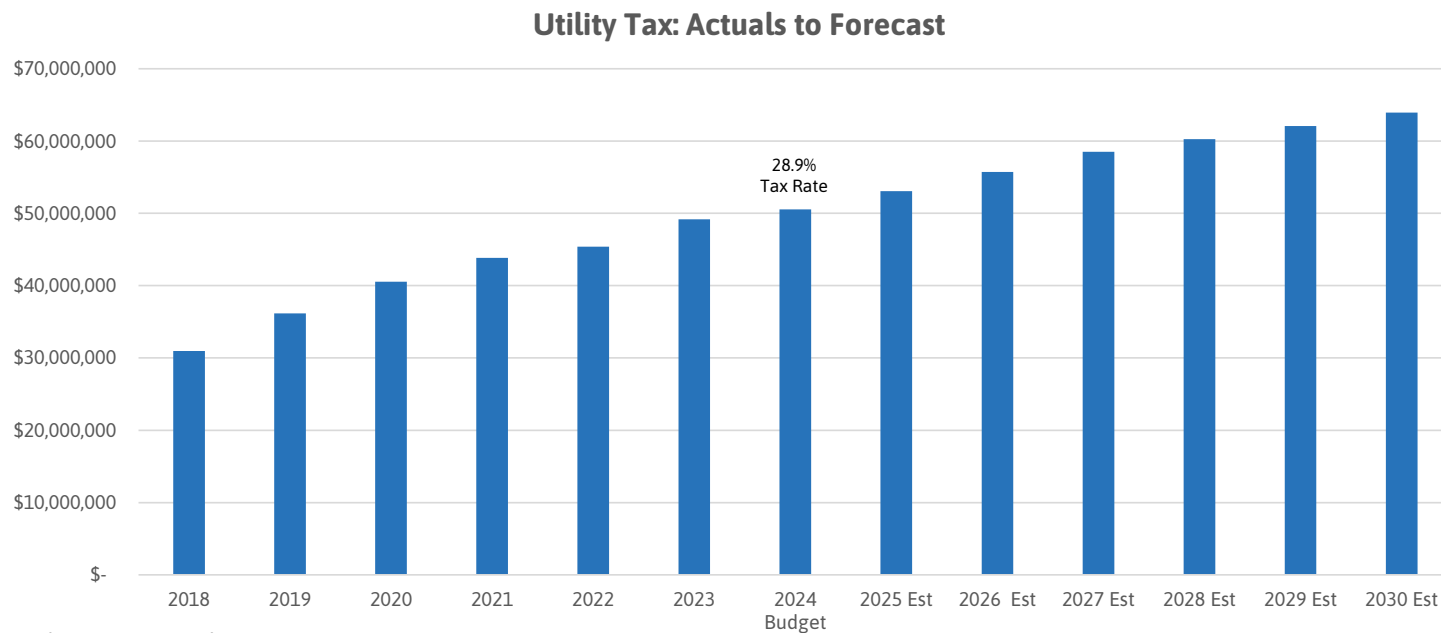
COV: New Construction



2025-2030 General, Street & Fire Funds Forecast

- **Major Assumptions – Utility Tax**

- Aggregate utility rates on City Owned (sewer, water, stormwater, and solid waste) to increase 4% on average, no changes in tax



2025-2030 General, Street & Fire Funds Forecast

- **Major Assumptions – Utility Tax (continued)**

- Utility tax on privately owned utilities - continue trend of paced level of consumption
- Recent volatility with natural gas and electric rates
 - Northwest Natural Gas – 2024: 11.9% average increase
 - Clark Public Utilities – 2024: 14% average increase



2025-2030 General, Street & Fire Funds Forecast

- **Major Assumptions – Other Revenues**

- Business License and Business License Surcharge revenues lower than anticipated (~\$1M), forecast adjusted and includes programmed increases
- Recreation Center revenues are back to pre-pandemic levels
- Development fee revenue on a declining trend
- Significant reduced collections of Real Estate Excise Tax (REET)
- Other revenues anticipate to follow historical trends



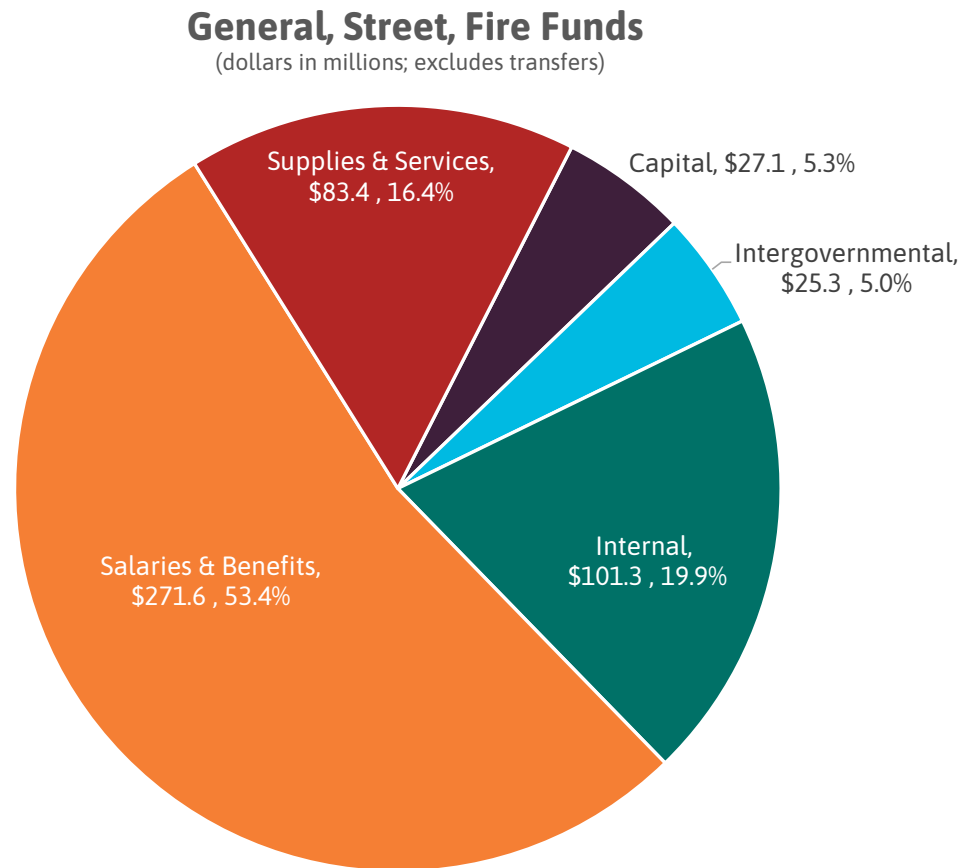


2025-2030 Expense Forecast General, Street and Fire Funds



2025-2030 General, Street & Fire Funds Forecast

- **Expenditures:
2023-2024
Adopted**



2025-2030 General, Street & Fire Funds Forecast

- **Personnel Costs Increases**

- Salary & Benefits

- Forecast includes all current, existing ongoing FTEs
- Public safety contracts through 2025
- Other contracts will be negotiated this year
- Assumptions are conservative

- Health Insurance

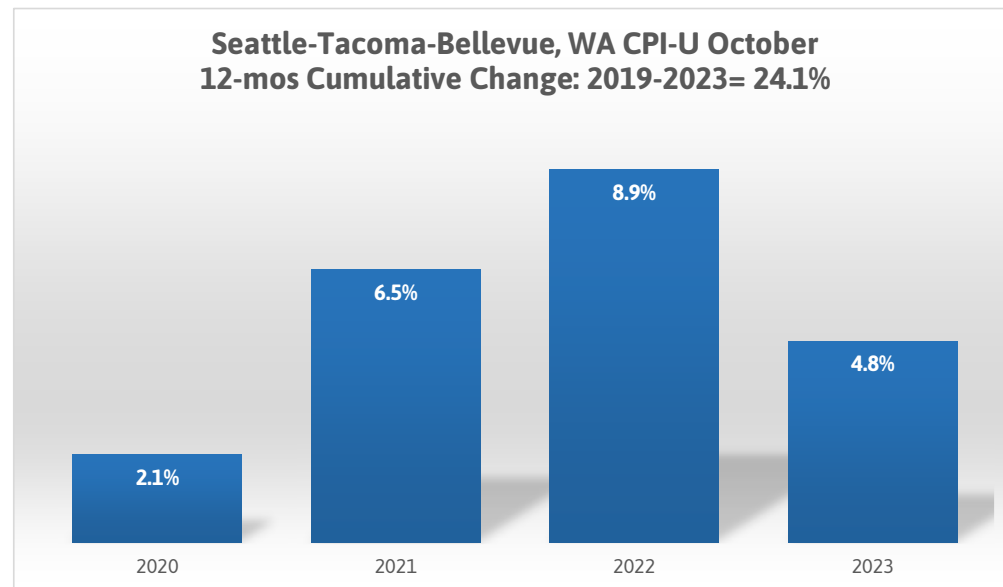
- Liability, Workers Compensation & Risk



2025-2030 General, Street & Fire Funds Forecast

- ***Inflationary Increases***

- Labor
- Supplies
- Services
- Utility
- Energy

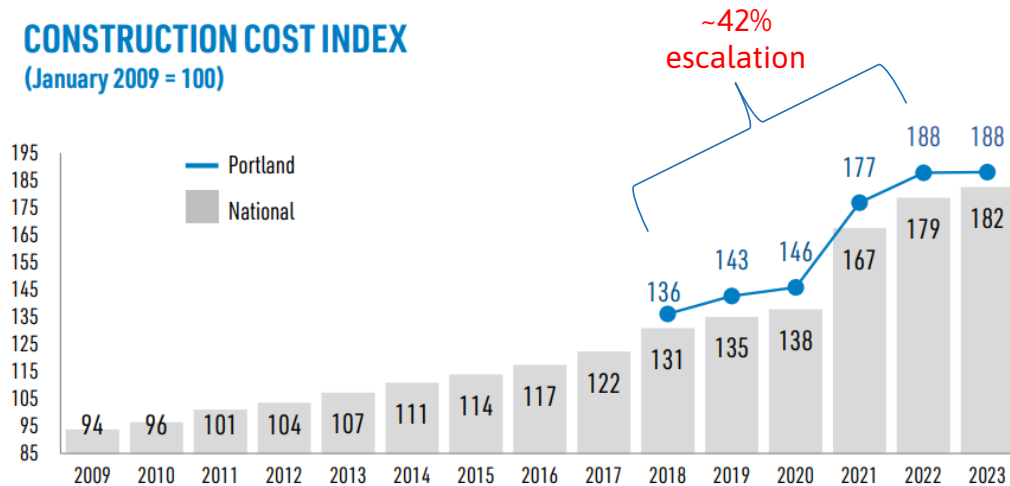


2025-2030 General, Street & Fire Funds Forecast

- **Inflationary Increases**

- Construction Costs

CONSTRUCTION COST INDEX
(January 2009 = 100)



The Mortenson Cost Index was flat in the most recent quarters. Over the last twelve months, costs increased 2.2% nationally and 0.1% in Portland.



2025-2030 General, Street & Fire Funds Forecast

- **Other Assumptions:**

- Debt Service to support Operations Center Replacement included (proportional to General Fund project ownership)
- No new FTEs in General Fund (GF) and GF-supported departments
- Minimal capacity for covering new or unavoidable issues



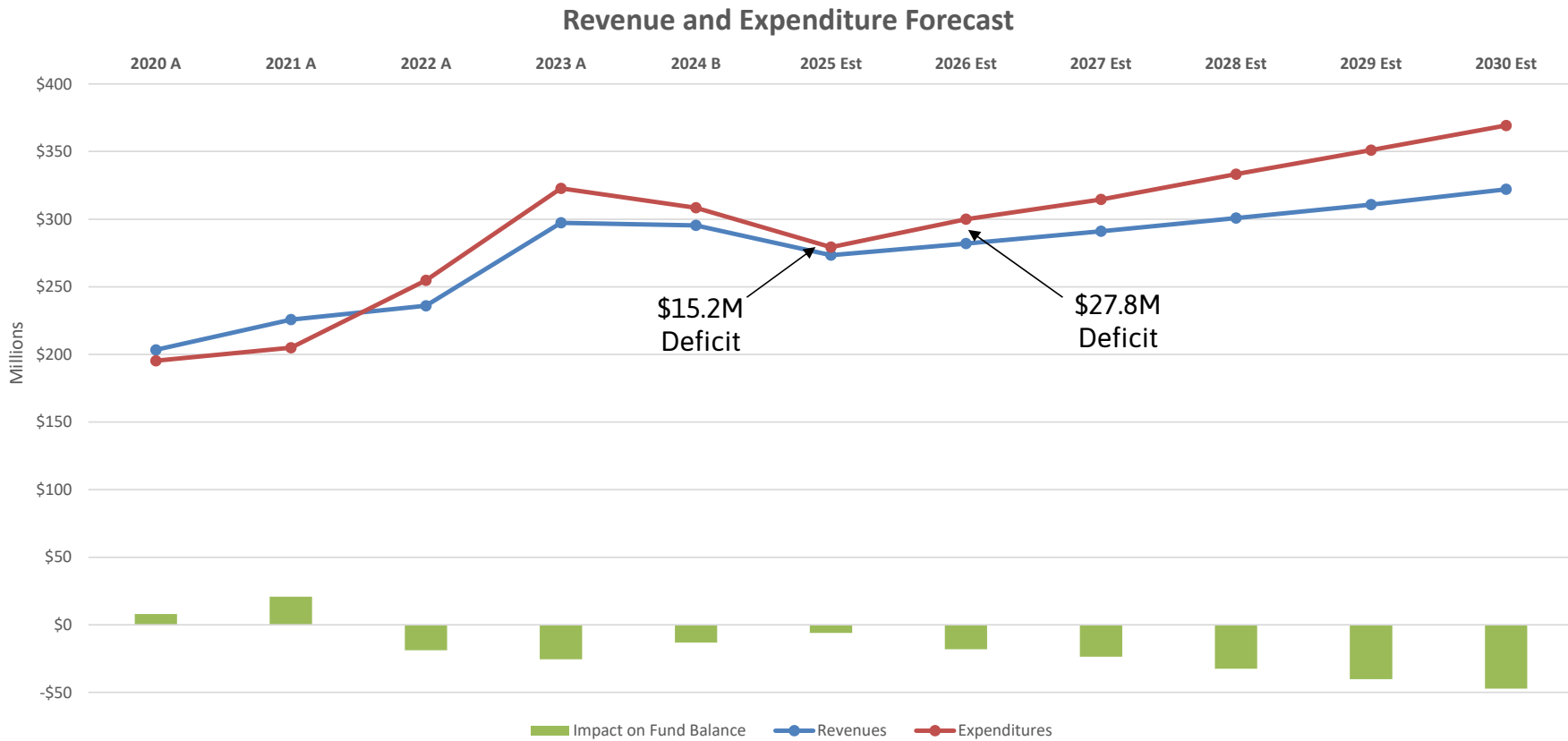
2025-2030 General, Street & Fire Funds Forecast

- ***Contributing Factors***

- Softening revenues
- Inflationary increases across all departments
- New and expanded GF initiatives without new additional revenues



2025-2030 General, Street, and Fire Funds Forecast



2025-2030 General, Street & Fire Funds Forecast

- **Deficit is Structural**

- Has been deferred for more than a decade through constrained spending and new revenues

- **Inflationary is Extraordinary**

- Highest in a generation; impacting all departments

- **Budget Must be Balanced**

- A range of options, including spending reductions and new revenue can be considered





Next Steps



2025-2030 General, Street & Fire Funds Forecast

- **Next Steps**

- May 6: Revenues and Budget Policy Framework



Thank You



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