

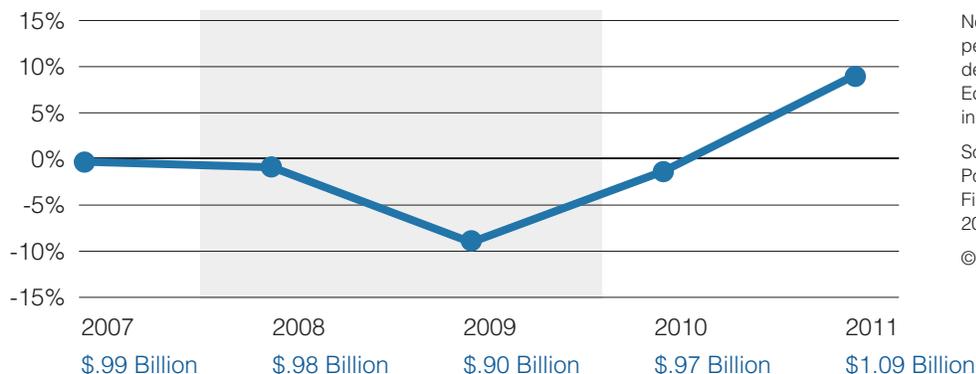
Portland, OR

Property taxes offset early revenue losses; then aid from the federal and state governments strengthened Portland's rebound from the Great Recession

Portland's fiscal rebound was already well under way in 2011, after property tax gains and reserve funds helped the city get through the worst of the Great Recession. Then, largely because of stimulus funds from the state and federal governments, the city's revenue exceeded its previous peak by 10 percent. (See Figure 1.) That revenue growth coincided with a rise in operating spending in 2011. But the city's growing annual bill for pension benefits may necessitate trade-offs among spending priorities or further revenue increases.¹

FIGURE 1

Portland Governmental Revenue, Percent Change From Pre-downturn Peak, 2007-11



Note: Shaded area indicates the period of the Great Recession as defined by the National Bureau of Economic Research. Amounts are in 2011 dollars.

Source: Pew calculations from Portland's Comprehensive Annual Financial Reports for Fiscal 2007-11.

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Growing property tax receipts helped Portland weather the storm

Portland's revenue began falling early in the Great Recession and bottomed out as it ended in 2009. The losses came despite growth in property taxes. Charges and fees—which included charges for services, such as parks and recreation, and business licenses—declined \$64 million and intergovernmental aid dropped \$62 million during the period from 2007 to 2009.

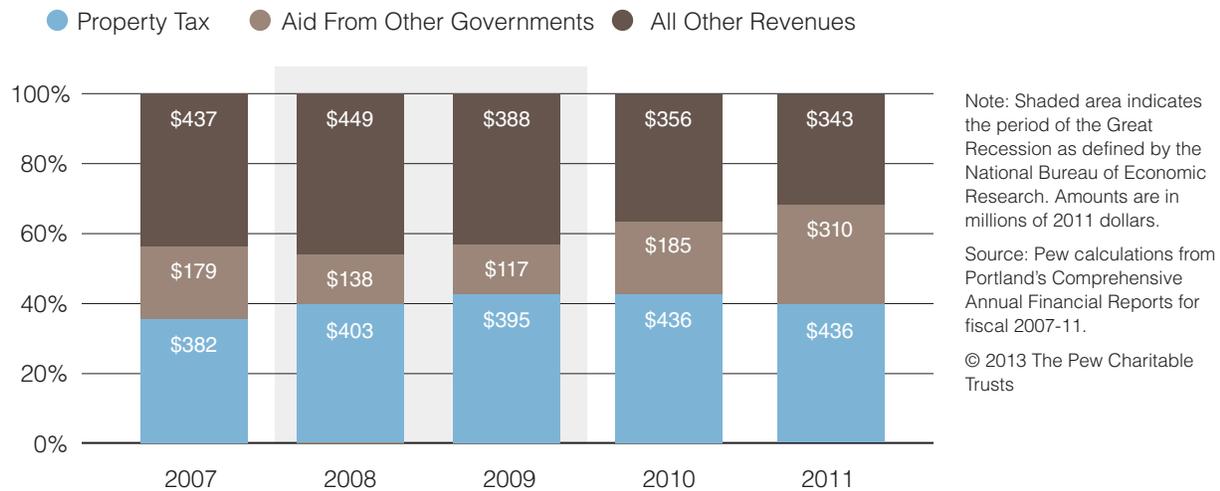
While the city reported staff cuts in the police bureau, overall spending on public safety, which also includes fire and emergency services, grew \$28 million.² That growth was counterbalanced primarily by a decline in debt service payments, driving total operating spending down by \$15 million during the period.

Reserves preserved spending as revenue rebounded

Beginning in 2009, after the city reached its revenue low point, Portland used about two-thirds of its reserves, or \$90 million, to help mitigate the need to cut spending.³ From there, total revenue improved as property taxes grew \$42 million through 2011. In addition, during the same period, the city received a \$193 million increase in aid from other governments, including both state stimulus and federal funds from the American Recovery and Reinvestment Act. (See Figure 2.) By 2011, Portland had surpassed its pre-downturn revenue.

FIGURE 2

Portland Share of Revenue by Category (in millions), 2007-11



As revenue recovered between 2009 and 2011, Portland's total operating spending increased 16 percent, with much of additional outlays used to pay down outstanding debt.⁴ The city also began fast-tracking nearly \$500 million of capital improvement projects to spur the local economy.⁵ Housing and economic development spending also grew \$101 million.

Managing the future: Pension liabilities grew through the recession

Demand for services, investment decisions, and revenue performance driven by economic activity and demographic changes will shape Portland's fiscal future. Two long-term obligations which can be analyzed using the data available are pensions and retiree health care and other benefits.

Portland's unfunded pension commitments increased during the Great Recession, growing by \$1.5 billion between 2007 and 2010. In 2010, the city's main pension plan—a cost-sharing arrangement with the State of Oregon Public Employees Retirement System—was 87 percent funded.

A second plan, the Fire and Police Disability Retirement Plan,⁶ has its obligations met on a pay-as-you-go basis by a perpetual local levy included in property taxes, which are capped by the state.⁷ The cost of those retirement promises is expected to rise over time due to increasing numbers of retirees and longer life spans, and this could place significant pressure on future budgets by cutting into property tax revenue intended for other city services.⁸

See Pew's 30-city interactive at pewstates.org/City-Fiscal-Conditions-Interactive for complete data.

Endnotes

1 See the full study methodology at pewstates.org/City-Fiscal-Methodology for a detailed explanation of the terms used in this profile and view the underlying data at pewstates.org/City-Fiscal-Conditions-Interactive.

2 City of Portland, OR, *Comprehensive Annual Financial Report, Fiscal Year Ended June 30, 2009* (2009), p. 23, <http://www.portlandoregon.gov/bfs/article/279250>.

3 Josh Harwood, City Economist (Team Lead), pers. comm., January 7, 2013.

4 Large payments were made on the redevelopment bonds issued for the Central Eastside Industrial District (\$66 million), North Macadam Urban Renewal Area (\$66 million), Convention Center Area (\$36 million), and Gateway Urban Renewal Area (\$13 million). City of Portland, OR, *Comprehensive Annual Financial Report, Fiscal Year Ended June 30, 2011* (2011), pp. 156-157, http://library.oregonmetro.gov/files/cafr_10-11.pdf.

5 J. Baer, *Authorize Emergency Declaration for the Procurement of Projects Funded by the 2009 Local, State and Federal Economic Stimulus Program and Delegate Authority to the Purchasing Agent to Execute Contracts Funded Under the Program. Ordinance No. 182809* (2009), <http://www.portlandonline.com/shared/cfm/image.cfm?id=275694>; Mark Larabee, "Portland Will Spend \$500 Million to Stimulate Local Economy," *The Oregonian—OregonLive.com*, Jan. 13, 2009, http://www.oregonlive.com/news/index.ssf/2009/01/portland_will_spend_500_millio.html.

6 In 2006, city voters approved reforms that placed new public safety hires in the state employee retirement system, rather than the dedicated police and firefighters plan, but the city's annual costs are still expected to continue rising until the last pre-2007 employees retire in 20 to 25 years.

7 Jane Kingston, City Controller, pers. comm., Jan. 7, 2013.

8 Moody's Investor Service, *Moody's Assigns Aa1 Rating to City of Portland, Oregon's Limited Tax Revenue Bonds, 2012 Series B, New Issue*, May 1, 2012, https://www.moody.com/research/MOODYS-ASSIGNS-Aa1-RATING-TO-CITY-OF-PORTLAND-OREGONS-LIMITED-PR_244752 [CK]; Department of Revenue: Property Tax, "How Property Taxes Work in Oregon," Oregon.gov, http://www.oregon.gov/DOR/ptd/Pages/property.aspx#Tax_Limitation__Compression. The Oregon Constitution imposes a cap on property tax rates for municipalities. For more information and analysis on the state of retirement funding in the 30 cities, see Pew's American Cities Issue Brief, *Cities Squeezed by Pension and Retiree Health Care Shortfalls*, (2013), http://www.pewstates.org/uploadedFiles/PCS_Assets/2013/Pew_city_pensions_brief.pdf.