

Every two years, the League of Oregon Cities (LOC) conducts a survey to gauge the general fiscal condition of the cities in Oregon. The 2019 results indicate steady increases in the ability of cities to meet their financial needs. While many cities perceive their situation to be the same or better than the previous year, the smallest cities appear to have declined in their ability to meet fiscal needs. Cities have kept pace with service demands and are more optimistic than previous years that they can meet increasing demands. These findings indicate an increasing optimism about the state cities in Oregon. In certain cases, this has come at the expense of deferred maintenance for water and wastewater systems. Despite this fact, city infrastructure, as a significant cost driver, declined in 2019.

For most cities, the primary sources of revenue are property taxes and utility franchise fees. Studies by the LOC in 2016 and again in 2018 revealed that franchise fee revenues often do not keep pace with inflation. Additionally, the property tax constraints of Measures 5 and 50 have created a system that limits the amount of taxable revenue available to local governments. This means that traditional revenue sources for cities are steadily shrinking, forcing local governments to either rely on alternative revenues, cut spending or eliminate services.

In the effort to overcome the structural deficiency in Oregon's property tax system, new revenues have most often come from additional fees and from taxes on recreational marijuana. In certain regions, population increases, and economic growth have a strong correlation to city financial health, as was true two years ago. This has resulted in a growing divide in the general fund balances of member cities.

Surprisingly, primary cost drivers for cities have shifted in the last year. Wages, employee healthcare, and the Public Employees Retirement System (PERS) remain important financial drivers for cities. Infrastructure has fallen from the second-most important to the fourth-most important driver.

## KEY FINDINGS

- Financially, cities are the same or better-off in 2019 compared to 2017. Despite the structural defect in Oregon's property tax system, revenue is expected to keep up with service level demands in the future.
- The majority of cities across the state are maintaining their spending levels from the previous year as well as maintaining similar levels of staffing and services (excepting in city hall and library services).
- Both large and small cities are now seeing an increased demand for services, indicating a growing demand in small cities following several years of the demand growth primarily occurring in larger cities.
- Rates of deferred maintenance have fallen dramatically but remain significant in water infrastructure and city administrative facilities.

This survey collected data between December 10, 2019 and January 10, 2020, with 105 cities responding. These cities represent the majority of the LOC's members. However, without the participation of the city of Portland, the respondents represent only 1.1 million city residents, or

“ I think biggest challenge is keeping pace with payroll costs: wages, PERS, benefits. The expenditure increases far outweigh the modest increase in revenues we have available. ”

- City of Gold Beach

38.7% of the city residents in Oregon. In addition, survey respondents were overrepresented by cities with a population greater than 5,000 and cities with a population between 1,301-3,250 residents.

## RESULTS

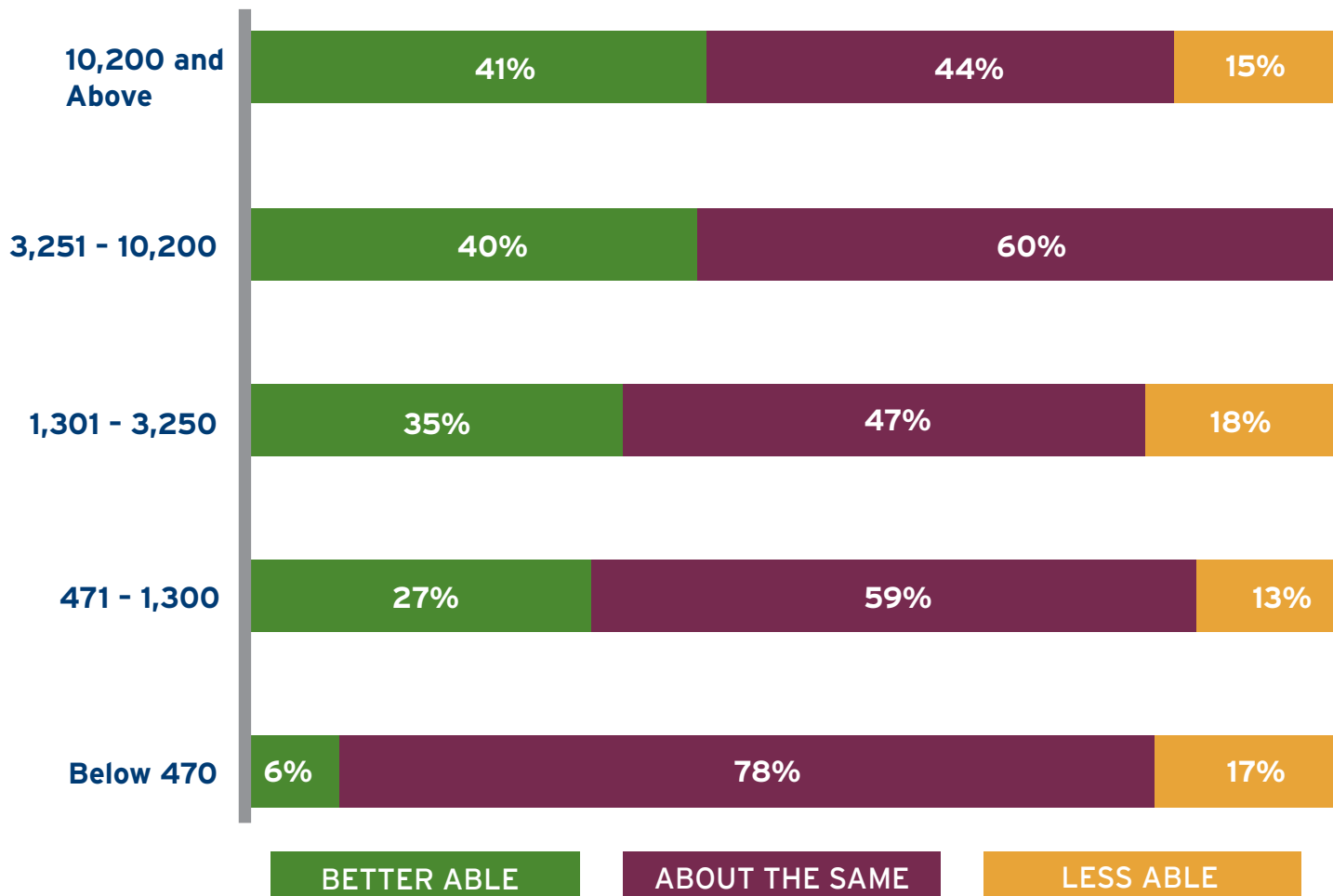
Most cities reported their financial condition as better or about the same as last year. Thirty-one percent of cities reported they were better able to meet financial needs, as opposed to 57% which answered, “About the same.” This is consistent with what was seen in 2017. Cities with a population greater than 10,000 were more likely to answer, “Better able.” This was also more likely in the Willamette Valley, Central Oregon and Southern Oregon regions. What is striking is the change from responses to this question two

years ago. While 19.2% of cities in the 1st quintile<sup>1</sup> expected to be better able to meet fiscal conditions in late 2017, that number has dropped to just 6%. All other population categories increased their perceived fiscal condition from 2017. In fact, no city in the 4th quintile (between 3,251-10,200 population) reported being less able to meet fiscal needs from previous year.

When asked about the anticipated state of their finances in the next fiscal year, cities were far more optimistic than previous years. Seventy-two percent of cities anticipated general fund revenue to keep pace or exceed current needs in the future. This was more common a response from cities with a population greater than 3,250. Overall, 58% of cities statewide have witnessed demand increases and expect increases in the future.

*(continued on page 3)*

## OVERALL, IS YOUR CITY BETTER ABLE TO MEET ITS FINANCIAL NEEDS THAN LAST FISCAL YEAR? (BY POPULATION)



## 2020 STATE OF THE CITIES

Most cities maintained their financial practices from the previous year. Among the surveyed actions taken in FY2020, the majority of cities:

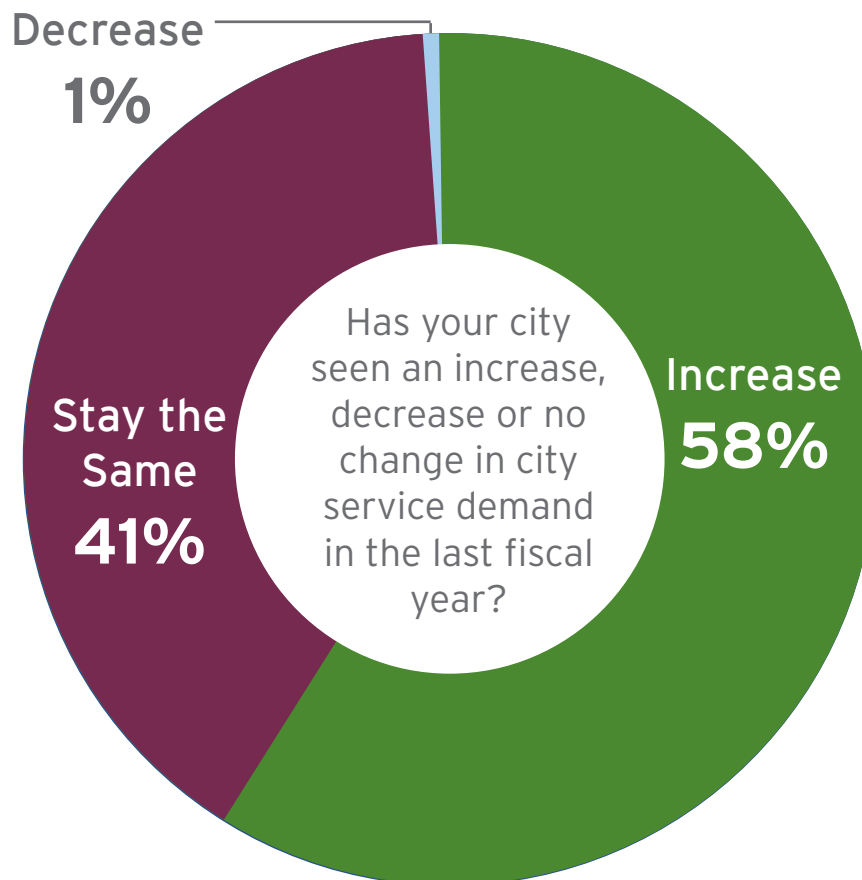
- Maintained Service Levels (81%);
- Increased Employee Wages (70%);
- Maintained Employee Healthcare Contributions (64%);
- Maintained Public Safety Spending (62%); and
- Maintained FTE Count (54%).

Cities in the 5th quintile were most likely to increase charges and fees. This set of actions shows that cities are holding firm on their spending habits, while adopting a conservative approach to spending in most cases. Despite a more optimistic mood among member cities, spending patterns have remained relatively identical to 2017. Only 23% of responding cities added new revenue sources in FY2020, most of which were miscellaneous fees, utility increases and transient lodging taxes. This indicates cities have maintained spending and filled gaps with fees and utility increases. It should be noted that cities with a population greater than 10,200 were most likely to take on new revenue sources. For most smaller cities, no new revenue sources exist.

Member cities are also reducing hours and staffing levels across their operation. Respondent cities reduced staffing, services, and or hours of operation in the following areas:

- City Hall (46% of cities)
- Libraries (75%)
- Senior Services (4%)
- Planning/Permitting (5%)
- Public events/arts/etc. (9%)
- Police (5%)
- Fire Services (1%)
- Social Services (1%)
- Transit/transportation services (3%)
- Recreational facilities and/or activities (8%)
- Parks/green spaces/natural areas (8%)

City fiscal health is also reflected in their end-of-year general fund balances. Sixty-four percent of cities saw an increase in their general fund balance in FY2019. While this does appear to be good news, 24% of cities also saw a decrease. This shows a gap in the financial welfare of cities over the last year. Cities with a population greater than 3,250, as well as cities in the Metro, North Willamette Val-



ley and Southern Oregon regions were most likely to have increasing fund balances.

The fiscal health of cities is also determined by the demand for services. In the last year, the majority of cities (57 percent) saw increases in service demand, particularly those in Willamette Valley regions, Metro, and Southern Oregon regions, as well as those with a population of more than 10,200 people. This is consistent with results from the LOC's last State of the Cities Survey two years ago. However, differing from what was seen in that survey, a near identical proportion of cities (57%) expect future demand to increase. This is a significant shift from the 70% expecting demand increase in late 2017. It should be noted that the expectation in demand was statistically more likely in cities in the 5th quintile and that no city responded to expecting lower service demand in the future.

Though less of a factor in this year, many cities are deferring maintenance on facilities and infrastructure in FY2020. It makes sense that deferrals of maintenance would persist if spending remained the same in many cities. The most common deferred maintenance projects are water, wastewater and stormwater infrastructure (31.7%), and city administrative facilities like a city hall (14.4%).

Forty-two percent of cities were not deferring maintenance on facilities, a significant increase from the 18% figure for the same question two years ago. This indicates that while spending may remain the same, cities are finding the funds to maintain facilities and catch up with facilities work delayed in previous years.

When asked to rank the most important factors in their city's financial health, LOC members listed wages, pensions, and healthcare as the highest cost drivers. This is a return to what has been observed over many years. In 2017, LOC saw infrastructure as the second highest driver, now at 4th. A fall in infrastructure may indicate improvement in this area (especially supported by the decrease in maintenance deferral). Debt service also dropped in the rankings from 6th to 8th place. Marijuana legalization, now below "other" as a cost driver, is likely no longer an important cost driver and could be removed in future iterations of this survey.

## CONCLUSION

Prospects for cities appear to be increasing compared to the survey conducted two years ago. Cities report increasing ability to meet fiscal needs from the previous year and anticipate being able to meet demand in the future. This is further enunciated by reduced maintenance deferrals and a decline in debt servicing as a cost driver.



## CITY COST DRIVERS

1. Wages/Salary Cost
2. PERS Contributions
3. Employee Healthcare
4. City Infrastructure
5. Law Enforcement
6. City Insurance
7. Fire/EMS
8. Debt Service
9. Other
10. Marijuana Legalization

However, it appears that despite this optimism, some cities in Oregon are not in a healthy condition. Cities with a population less than 470 have shown that they are not better able to meet fiscal needs compared to late 2017. Additionally, reductions in staff and services in certain areas (such as city hall and library facilities) demonstrate that it is not all good news for every Oregon city. ■

<sup>1</sup> Cities are divided into population quintiles or groups of cities representing roughly one-fifth of the 241 total cities. This is done to provide more accurate comparison of differences among city populations. If the League randomly selected cities from each quintile, we would expect 20 percent to come from each of the five quintiles.