

City of Portland | Executive Department

Danielle West, *Interim City Manager*



To: Mayor Snyder and City Councilors

From: Danielle West, Interim City Manager

Date: September 15, 2022

Re: Fiscal Impact of the November 2022 Citizen Initiatives and Charter Commission Proposals

In response to a September 1, 2022 request by Mayor Snyder for staff's evaluation of the fiscal impact of the Citizen initiatives and Charter Commission proposals voters will be presented with on the November ballot, we have prepared the following memo.

The amounts contained herein reflect only estimates of how much it would cost the City to implement the proposals, on an annual basis. These costs include investments explicitly mandated in the proposals, as well as costs related to the day-to-day administration of the proposed regulations and programs.

In total, we estimate the cost of all of the Charter Commission proposals to be an estimated \$1,000,000 annually. The cost of all of the citizen initiatives is estimated to be more than \$5,500,000 annually. The total estimated increase to the City budget required for both the Charter Commission proposals and the Citizen Initiatives would be in excess of \$6,500,000.¹² The costs included in this total are based on current staffing levels, pay grades, and construction/material costs. The costs also include the loss of revenue.

This total does not include costs that, although likely, were impossible to confirm prior to implementation. For example, Question 5 (regarding changes to the City Charter re: school budget autonomy) may prevent overall cost savings the City has seen as a result of the Council's budgetary review authority and may have additional costs required due to the lack of clarifying details within the proposal.

If \$6,500,000 in new costs and revenue losses were added to the overall City operating budget, there would be an increase in the mill rate of \$0.44, or 3.4%. For a Portland homeowner with the median home value of \$365,000, these changes would add an estimated \$161 in property taxes annually.

¹ The total estimated cost of implementing Charter Commission recommendations is exactly \$1,005,521; the total estimated cost of implementing the Citizen Initiatives is \$5,579,141.

² \$250,000 of the over \$6.5 million estimated total represents capital expenditures for renovations required to accommodate new employees, and should not be a recurring expense.

Costs associated with each individual proposal are outlined in more detail below. Please note that Question 1 (Amendment to Preamble), Question 4 (Proportional Ranked Choice Voting), and Question 6 (Peaks Island Council) were determined to not carry significant implementation costs, and have been omitted from this memo.

I. Citizen Initiatives (Questions A, B, C, D, E)

- **Question A (An Act to Regulate Short-Term Rentals in Portland and Prohibit Corporate and Absentee Operation of Short-Term Rental Properties): \$175,000**

This initiative, along with Question B and Question C (below), introduces new regulations to short-term rentals. All three require a significant increase in administrative tasks related to the regulation and oversight of short-term rentals, including notifications, enforcement, and record keeping.

Staff estimate that one (1) additional enforcement officer and one (1) administrative staff member would be required to effectively implement Question A, carrying a total cost of \$150,000 (salaries and benefits).

Lastly, as office space at City Hall is currently over capacity, expansions or major changes to existing spaces would be required to accommodate these additional staff members. Staff estimate these changes would cost approximately \$25,000.

- **Question B (An Act to Reduce the Number of Short Term Rentals in Portland): \$127,500**

This initiative would result in a loss of approximately \$127,500 in revenue earned each year from short-term rental registration fees.

Staff do not believe there would be significant additional costs related to the implementation of this initiative.

- **Question C (An Act to Protect Tenants in Portland): \$175,000**

Similar to costs reflected in the implementation of Question A, this initiative would require a significant increase in administrative tasks related to the regulation and oversight of short-term rentals, including notifications, enforcement, and record keeping.

Staff estimate that one (1) additional enforcement officer and one (1) administrative staff member would be required to effectively implement Question C, carrying a total cost of \$150,000 (salaries and benefits).

Lastly, as office space at City Hall is currently over capacity, expansions or major changes to existing spaces would be required to accommodate these individuals. Staff estimate these changes would cost approximately \$25,000.

- **Question D (An Act to Eliminate the Sub-Minimum Tipped Credit Wage, Increase the Minimum Wage and Strengthen Protections for Workers):** \$2,101,641 (excluding any impact to the Portland Public Schools)

This initiative requires the creation of a Department of Fair Labor Practices, which would be responsible for the enforcement of wage and worker safety laws. Staffing this Department would require, at minimum, a Director, one Enforcement Officer, and one Administrative Assistant (\$300,000).

As office space at City Hall is currently over capacity, expansions or major changes to existing spaces would be required to accommodate these individuals. Staff estimate these changes would cost approximately \$25,000.

In addition, if the City were to increase employee wages to reflect the new minimum wage of \$18/hour (or \$27/hour for overtime), the total increase in cost to the City's operating budget would be an estimated \$701,641.³

In the event that the City increased employee wages, there may also be cost implications for other employees making slightly above the minimum wage. In many instances, those employees have additional qualifications or skills that justify the gap between their wage and the wages of employees earning less. A minimum wage increase would exacerbate these so-called "compression issues" and, in many instances, push the wages of staff to nearly the same wage as their supervisors. To address these issues, the City has estimated an additional \$875,000 may be required to adjust wages for employees making between \$0.00 and \$5.00 above the proposed new minimum wage.

Finally, there would be a fiscal impact related to all contracted services with vendors who are currently paying below \$18 per hour. The City spends approximately \$20,000,000 on contractual services each year, so the cost implications could be significant. For the purposes of this analysis, staff have estimated a 1% potential increase in this cost category, which represents a \$200,000 annual increase in costs related to contractual services.

³ Sec. 9-36(b) of Portland City Code states that the wages of city employees are not subject to ordinances or amendments to ordinances made by citizen initiatives. Therefore, any increase in city employees' wages to reflect the new minimum wage would need to be determined based on guidance (legal and otherwise) during the municipal budgeting process.

- **Question E (An Act to Restrict Cruise Ships): \$3,000,000**

Cruise ship activity generates public revenue through a head tax (starting at \$14.50 per passenger and increasing \$0.50 each year thereafter) and infrastructure fee (\$2.00 per passenger) paid by each cruise ship that docks and disembarks in the City of Portland.

In the years immediately preceding the COVID pandemic, taxes and fees paid by ships carrying over 1,000 passengers totalled approximately \$2,800,000 annually. Staff estimate that, between FY24 and FY28, this revenue would total an annual average of over \$3,000,000. This revenue would be lost under the proposed restriction.

Beyond that direct loss, the required cancellation of port visits by cruise ships carrying more than 1,000 passengers is likely to have a significant impact on the Portland economy: many businesses and individuals, including artists, vendors, stores, and the working waterfront rely on cruise ships for support.

Staff do not believe that significant expenditures would be required to implement this initiative. However, there may be additional pressure on the City to financially support portions of the working waterfront industry that may be negatively affected by the loss of revenue from larger cruise ships.

II. Charter Commission Recommendations (Questions 2, 3, 5, 7, 8)

- **Question 2 (Charter Commission Governance Recommendation): \$398,021**

This recommendation would require additional funding for elected officials' compensation, due to both an increase in the total number of elected officials and an increase in the compensation for the elected positions. The increase in compensation for school board members, councilors and mayor is estimated at \$155,000.

A change in the size of the City Council would also require renovations of Council Chambers (unless an alternative location for Council meetings was selected). These renovations would also require compliance with updated building code. We estimate these renovations could cost up to \$150,000.

The recommendation also requires that a special election be held if an elected position is vacated more than six months prior to the next municipal election. Administration of a special election is estimated at \$75,000.

The salary of a city administrator would be based on a number of factors, including the priorities of a strong mayor, the pool of candidates, and negotiations. Based on information provided by International City/County Management Association

(ICMA), it's possible that a skilled city administrator could command a very high salary.

ICMA, whose members include municipalities with both Mayor-Council and Council-Manager government systems, provided data and insight that suggests a competitive salary for an Administrative Officer could be more than the current City Manager salary. From Jason Grant, Director of Advocacy at ICMA:

“In comparing compensation of a city manager under council-manager form of government versus the strong mayor form, the political nature of the appointment becomes a factor that influences the negotiation for pay. Under a council-manager system, the city manager understands that there is greater stability considering that they are held directly accountable for performing their duties effectively. However, in a strong mayor system, they are directly tied to the political will of the mayor. So, regardless of their effectiveness in achieving the goals of the mayor, if the mayor loses an election, the city administrator may be out of a job. And so, a manager will seek greater compensation when there is greater volatility in the role.”

ICMA provided the salaries for city administrator positions in 10 cities with populations similar to that of Portland. After adjustments based on BestPlaces.net's cost of living index, they determined that the median salary for a city administrator in a city of approximately Portland's size was \$189,892. Of the 10 cities identified, the lowest salary was \$116,362; the highest was \$342,551.

Mr. Grant recommended that Portland budget a minimum of \$200,000 for the salary of a city administrator. For comparison's sake, the base salary of Portland's most recent City Manager was \$181,079.

It is important to acknowledge that the salary of a chief administrator will ultimately be determined by the executive Mayor and Council. Additionally, the salary for this position could change as mayoral administrations do, or even year-over-year. Mr. Grant acknowledged that, regardless of the salary associated with this position, a municipality will likely be able to find a candidate to fill it, although the candidate pool may be very limited if the salary offered is not competitive.

- **Question 3 (Charter Commission Clean Elections Recommendation):**
Approximately \$290,000

The amount originally suggested by the Charter Commission was approximately \$290,000 for this program, and includes staffing costs as well as public campaign funds for qualifying candidates.

However, staff notes that the true cost of this initiative seems impossible to predict at this time. It will depend on the structure of the ordinance ultimately adopted by the Council and the number of eligible candidates in any given election cycle.

- **Question 5 (Charter Commission School Board Budget Autonomy Recommendation):** Unknown

Costs associated with this recommendation are difficult to predict, since much of it depends on how this new authority would be exercised. It is possible, however, that historic cost savings that have occurred as a direct result of the Council's budgetary oversight may not be realized and ultimately cost the taxpayers additional money.

More specifically, the current City Charter requires Council approval of the School Board's final budget, as well as collaboration between the two bodies.⁴ Over the last 20 years, this oversight and collaboration has resulted in a total of more than \$4,500,000 in reductions to the District's proposed operating budget.⁵ Without this history of oversight and collaboration, the school mill rate would be at least 4.4% higher than it is currently.

Another concern is the uncertainty of the proposal's legality.⁶ Given that, the City may face legal challenges resulting in an additional expense to the City - either in the form of time and resources spent by Corporation Counsel's office or fees (likely in excess of \$50,000 or more) for outside counsel to assist the City.

Lastly, another important factor to note is that given the lack of oversight by the Council and depending on how this new authority is ultimately exercised, this proposal could also potentially have a negative impact on the City's overall credit score, and thus impact the interest rates on all City-issued debt.⁷

⁴ The Charter currently requires that the School Board and the City Council meet jointly at least twice to review the proposed school budget. It also permits the City Council to reduce the amount of the school budget with at least six votes.

⁵ Staff analysis showed that, on average, the proposed school budget was reduced by an average of at least \$225,000 every year as a result of Council oversight.

⁶ The Charter Commission's attorney declined to provide a legal opinion in support of the proposal due to his concerns regarding its legality. In order to meet the statutory requirement that a legal opinion in support of each proposal be submitted, the Commission did submit the opinion of an attorney representing the Schools and the School Board.

⁷ The City's credit rating currently covers both School and City operations, and the City handles all bonding for the school district and municipal operations. These two roles will likely continue under this proposal. Given this, removing the City Council from the School District's budgetary process could be viewed as an increase in risk by the credit rating agencies. Since the City's current S&P rating of AAA is based in part on "very strong management, with strong financial policies and practices under our Financial Management Assessment methodology, coupled with a strong institutional framework score," any decrease in the Financial Management Assessment could decrease the AAA rating of the City. This

- **Question 7 (Charter Commission Civilian Police Review Board (CPRB) Recommendation): \$180,000**

This recommendation mandates that funding be provided for, at minimum, a community liaison and a police liaison to support the CPRB. The cost above reflects the salaries and benefits for two full-time employees.

Lastly, as office space at City Hall is currently over capacity, expansions or major changes to existing spaces would be required to accommodate these individuals. Staff estimate these changes would cost approximately \$25,000.

- **Question 8 (Charter Commission Ethics Commission Recommendation): \$137,500**

This recommendation suggests that an Accountability Officer be hired by the City in order to fulfill specific duties and responsibilities. Staff estimate compensation for this position at \$125,000 (salary and benefits).

As office space at City Hall is currently over capacity, expansions or major changes to existing spaces would be required to accommodate this individual. Staff estimate these changes would cost approximately \$12,500.

could ultimately result in an increase in the cost of future debt issuance due to higher interest rates on issued bonds.