

**2025-2027 Proposed Biennial Budget
City Manager's Budget Message
May 7, 2025**

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

It is my honor to present the Proposed 2025-2027 Biennial Budget (FY 25-27). This budget reflects the City's commitment to innovation in times of uncertainty, maintaining key service levels, achieving City Council goals, and investing in the community of Bend within the City Council's guiding principles of Safety and Belonging, Inclusive Governance, Environment and Climate, Fiscal Stewardship, and Partnership.

Budget Summary and Looking Forward

The 2025-2027 budget reflects a total financial plan of \$1.48 billion, a 9% increase from the current biennium. Bend's growth brings exciting opportunities for innovation and progress. However, the current national, political, and economic climate presents unique challenges for developing this biennium's budget. The biggest hurdle is creating sustainable funding models and balancing increasing operating expenses with revenues. This proposed budget reflects the City Council's goals and priorities for the 2025-2027 biennium alongside providing core services with a focus on innovative solutions and cost-saving measures.

Uncertainties and Risk

The current economic climate is fraught with volatility and uncertainty at both state and federal levels, which poses significant risks. The City of Bend is ready to implement contingency plans if needed. Thanks to robust financial policies, ongoing financial modeling, and contingency planning, the City is well-positioned to adapt. Strategic revenue adjustments, conservative spending, debt management, and a strong focus on contingency and reserve balances have prepared the City to effectively navigate these uncertain times.

Financial Overview

The City of Bend continues to grow, albeit at a slower pace than in previous years. This slower growth impacts the revenue available to maintain or expand programs. Coupled with rising expenses, this creates a structural imbalance in the budget that requires close monitoring.

As structural gaps between revenue and expenses emerged last fiscal year, the City has been innovative in maximizing resource use. Continuous improvement projects over the last biennium have saved thousands of staff hours, streamlined processes for the community, and evaluated fee structures to ensure increases are minimal and targeted towards maintaining service levels. This proposed budget seeks innovative ways to deliver programs and achieve Council goals. Revenue and expense pressures will challenge the City through this biennium and beyond. Annual operating revenues are projected to increase by 12% (\$63 million), while expenses are forecast to rise by 19% (\$181 million), creating a \$118 million gap. Reserves and one-time revenues, such as grants and asset sales, will close most of this gap. However, relying on these funds is not sustainable long-term. The City has taken steps to limit expenditure increases while drawing down reserves and contingency levels where feasible and in compliance with City financial policies.



Revenue Highlights

The \$1.48 billion biennial budget includes \$591 million in operating revenues, interfund transfers, and one-time funding from debt proceeds, land sales, grants, and reserves. Of the operating revenues, \$162.5 million (27%) is discretionary revenue in the General Fund, where City Council has the maximum amount of discretion in allocating these resources during budget development. The remaining 73% of revenue is restricted, allocated to enterprise funds like development services, capital projects, water utilities, airport, and parking, and have restrictions in how they are used.

Revenue Assumptions and Key Highlights:

- **Property Taxes:** Expected to increase by 4.5% annually, they fund police, fire, and street services. This increase represents a lower than historical average growth in tax assessed value. Property taxes are a primary discretionary funding source for the General Fund.
- **Local Option Levy:** Approved in May 2023, provides fire and emergency medical services funding at \$0.76 per \$1,000 of assessed property value.
- **Transient Room Taxes (TRT):** Projected to remain flat in the first year and increase by 1% in the second year, impacting General Fund revenue.
- **Franchise Fees:** Expected to increase by 2% annually, these fees are derived from public and private use of the City's rights of way.
- **Utility Rates:** Proposed increases of 4.9% for water, 1.8% for sewer, and 8% for stormwater, leading to an average utility bill increase of 4%. These increases are necessary to meet operational and maintenance needs while planning for future requirements.
- **Development Fees:** Strategic increases will significantly improve the long-term financial sustainability of the Community Development Department. Building, Planning, and Engineering fees and efforts are underway to take a more strategic approach to aligning fees with service performed- which has recently been completed with Planning, with Engineering and Building to follow in FY 26 with average increases ranging from 5-15% per year.
- **Grant Funding:** The American Rescue Plan Act funds will be exhausted by December 2026, impacting houseless shelter operations, public safety, and other initiatives. Uncertainty in grant funding poses additional challenges for future planning.
- **Transportation and Mobility:** The second phase of the Transportation Fee targets \$10 million in revenue per fiscal year. The Streets and Operations Fund will receive a \$10 million General Fund subsidy for 2025-2027, demonstrating the need for both new Transportation Fee revenue and continued General Fund support to keep pace with inflationary expenses.
- **Airport Fund:** In alignment with City Council direction that airport operations should be self-sufficient, \$200,000 annually must be identified to support operations and facility improvements, with the source yet to be determined. The FY 25-27 Proposed Budget includes this revenue assumption, which will require new or increased user fees. The FY 25-27 Budget also includes new revenue from the Reversion Fee program. The City has also received an updated appraisal that will lead to increases in lease rates for certain areas of the Airport. These new rates are anticipated to be adopted on July 1, 2025.



Expenditure Highlights

During budget development, departments were asked to look internally for cost-saving measures and limit requests to essential expenses for operations and to meet Council goals.

Personnel Expenses: The FY 25-27 biennium budget allocates \$326 million for personnel expenses, covering 831.12 full-time equivalent staff (FTE), which includes an additional 14.5 FTE (or 1.7% increase) proposed with this budget. The overall staffing level reflects a general alignment with the City's population growth trends since 2010. As population growth is anticipated to slow down over the coming years, staffing additions were limited to key operational positions only. Health insurance premiums are budgeted to increase by 20% in the first year of the biennium and 20% the second year due to cost pressures and increased utilization rates, resulting in an additional \$10 million expense. Public Employee Retirement System (PERS) rates will increase by 33% and will add \$13.2 million across the biennium. To better align budgeted and actual expenses, a refined approach to personnel modeling has been implemented, including applying a vacancy factor for departments with historically higher turnover rates.

Labor Agreements: The City is negotiating new labor agreements with the City of Bend Employee Association (COBEA), Bend Police Association (BPA), and Bend Fire Association (BFA). Current agreements expire on June 30, 2025. The proposed budget includes a 2.0% cost-of-living adjustment (COLA) and appropriate step increases for all represented employee groups.

Capital Outlay: The proposed budget allocates \$285 million for capital outlay, including land acquisitions, vehicles, equipment, building improvements, and infrastructure upgrades and investments. This is \$78.9 million less than the current biennium primarily due to the completion of the major Public Works Campus projects. Proposed upgrades and investments in infrastructure improvements total \$209 million, covering complex, multi-year projects in water, sewer, stormwater, and transportation. Examples include improvements to the Southwest sewer basin, SE Area sewer, South Awbrey Butte drainage, Outback water filtration facility, Aune Street extension, Bend Bikeway construction, and various intersection improvements like Butler Market and Wells Acres. The City aims to align multiple projects to achieve economies of scale and minimize community impacts.

5-Year CIP: The 5-year Capital Improvement Program (CIP) includes \$494.8 million in total infrastructure investments. To fund these projects, the City will leverage fee and rate increases and issue long-term debt, ensuring both current and future generations share the costs of infrastructure investment and replacement. The proposed budget includes \$85.5 million in long-term debt for General Obligation Bond projects.

Materials and Services: Budgeted to increase by 1.7% (\$2.2 million) city-wide versus the prior biennium, departments have worked to identify cost-saving measures where feasible. Examples of these cost saving measures include modernizing the City phone system to reduce technical debt, consolidating and eliminating copiers where other options exist, and using staff expertise to conduct analysis versus contracting out the work to consultants where feasible.

Debt Service: Budgeted to increase by 29.4% (\$26.2 million) over the prior biennium, primarily due to the issuance of debt to fund the Public Works campus.



Contingency and Reserves

Given the current economic conditions, the City has chosen to draw down reserves for several funds as an alternative to raising revenue through new or increased fees. It's important to note that reserves are used for ongoing operations, not one-time events, and won't be replenished without new revenue or expense reductions. We will need to closely monitor spending levels in the short term and consider new revenue or further expense reductions as we look toward the 2027-2029 biennium.

In the FY 25-27 Proposed Budget, General Fund reserve levels are projected to decline but remain in line with the City Council's adopted Financial Policy of 16% of operating expenditures, projected to be over 18% by the end of the biennium. There is a similar story with development-related revenues. Reserve balances for Engineering and Building Funds will be eight and 15 months respectively at the end of the FY 25-27 Biennium, within acceptable policy ranges. For the Planning Fund, additional support from the General Fund is needed along with continued implementation of planned fee increases. With the economic uncertainty and volatility, Planning, Engineering and Building fund reserve levels need to be watched closely. Infrastructure service area reserves are decreasing as the City invests in multi-year water services capital projects extending beyond the 2025-2027 biennium. Administration and Central Services reserves are expected to remain relatively flat.

Implementation of the City Council Goal Framework

The City Council goal setting process aligns with the biennial budget development and is guided by input from advisory bodies, community partners, public engagement, and reports and surveys. Below is a summary of key initiatives in the proposed budget that reflect the allocation of resources toward achieving City Council's goals.

Housing

The City of Bend currently permits the most housing units per capita in the State of Oregon. However, it's still not enough to address our housing needs. More must be done to meet our goal of permitting nearly 4,000 housing units over the next two years, with two-thirds being affordable (120% AMI or less). To help achieve this goal, continued resources are being allocated toward:

- Dedication of staff support to facilitate the Housing Production Strategy Work Group that will broadly explore financing, funding, and policy options to help meet Council Goals.
- \$4,900,000 dedicated PRO-Housing grant funds to support staff administration, land acquisition, construction of new dwelling units, and efforts to improve permit efficiency and remove zoning code barriers, creating more opportunities for housing in more zones.
- Continued deployment of funds from Bend's local Affordable Housing fee to create deed-restricted housing.
- Deployment of site-specific tax increment financing programs to integrate deed-restricted affordable housing within market-rate projects.

Transportation and Infrastructure

To enhance travel safety and reliability, and to invest in infrastructure that supports Bend's rapid growth while addressing current shortcomings, this budget includes:

- Implementation of the second phase of the Transportation Fee that enables the hiring of 3 new FTE in the Transportation and Mobility Department dedicated to increased striping, winter operations, and other street maintenance services and 1 new FTE to support Transportation System Plan (TSP) bicycle, pedestrian, and travel demand management programs.



- \$15,953,100 of urban renewal, grant, general obligation bond, and transportation CIP funds to complete key projects, including Hawthorne Crossing, Franklin Avenue, and 2nd Street in the Bend Central District.
- \$23,171,100 of General Obligation Bond and Transportation Construction funds to complete the Bend Bikeway, improve intersections such as NE Butler Market and Wells Acres, enhance safety along Olney Avenue and various Neighborhood Street Safety projects.
- \$8,860,000 dedicated toward the critical neighborhood-driven septic to sewer program.

Climate Resiliency

This budget includes investments to advance actions in the recently updated Community Climate Action Plan (CCAP), and increases resources in wildfire prevention and water conservation efforts through:

- \$200,000 annually for CCAP related outreach and education programs.
- Supporting a work group, comprised of Council advisory bodies, that will inform and advance electrification policy options.
- 1 FTE in Fire and Rescue to coordinate and promote wildfire awareness, education, and hazard assessments.
- \$270,000 to analyze and expand current water conservation programs.

Public Safety

In response to community priorities, this budget invests in technology to enhance traffic enforcement and supports dedicated teams focused on addressing livability concerns, including:

- Revenue and expenditure assumptions through the implementation of Automated Traffic Enforcement (ATE), including full costing of the recent additional Police Department and Municipal Court positions that have been hired in the current biennium.
- 2.0 Police FTE to staff specialty teams that work across City Departments to solve livability issues.

Economic Prosperity

To strengthen the City's role as an economic leader, resource hub, and convener in advancing Council Goals, this budget allocates funding toward:

- Completion of a comprehensive Economic Development Strategic Plan.
- Reclassification of an existing vacant position to an Economic Development Officer.
- Consolidating existing economic development funds to be distributed through a competitive request for proposal process with a focus on recruitment and retention of traded sector businesses, entrepreneurial and small business support, and workforce development.
- \$900,000 for a City Hall Master Plan, financial analysis, and exploration of public private partnership models that leverage City real estate assets.

Accessible and Effective Government

In alignment with the goal of fostering a thriving, engaged and inclusive community by enhancing transparency, strengthening public participation and expanding engagement this budget reflects:

- Redirecting a vacant .50 FTE and a portion of existing sponsorship funds to consulting services to expand community outreach.
- \$150,000 to complete the City's website redesign, enhancing community engagement and awareness.
- Utilizing funding from the Pathway to Remove Obstacles (PRO) Housing Grant to hire a consultant to improve the Private Development Engineering Permit review process.



- Funding to support a ‘One-City’ strategic plan, improving the integration of work across departments and aligning it with the mission, vision, and values of the City.

A copy of the Council Goal Framework, that includes detailed strategies, actions, and performance metrics that support each goal area, can be found at the end of the “Introductory Section” of the budget document.

This biennial budget is more than a financial plan—it is a roadmap for achieving the City Council’s vision for Bend. It reflects a commitment to delivering core services while advancing bold goals in housing, transportation, climate resiliency, public safety, economic prosperity, and accessible government. Despite economic uncertainties, the City remains focused on innovation, efficiency, and long-term sustainability. Through strategic investments and community partnerships, we are laying the foundation for a resilient, inclusive, and thriving Bend.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Eric King". The signature is stylized with a large, looped "E" and a cursive "King".

Eric King
Budget Officer / City Manager

