2024 State of the Cities Report

Every two years, the League of Oregon Cities (LOC) conducts a survey to gauge the general fiscal condition of the cities in Oregon. Sixty-eight percent of cities have seen an increase in service demand, compared to 56% in 2021. Additionally, the financial outlook is significantly more distressing. In the past, 90% of cities were better able or able to meet their financial needs compared to the previous year. This year's survey shows only 70% respond in the same way. Overall, this year's survey indicated a considerable lack of certainty for cities across the state.

For most cities, the primary sources of revenue are property taxes and utility franchise fees. Studies by the LOC since 2016 reveal franchise fee revenues often do not keep pace with inflation. Additionally, the property tax constraints from 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.

While most cities reported financial conditions as stable or improving over the last year, a marked decline in optimism for future fiscal health is evident. Cities have reacted by adjusting their financial practices; the majority increased fees, charges, and licenses, while maintaining or slightly increasing service levels and city employee numbers. There is a clear trend of operating cost hikes, likely due to inflation, with some cities also reporting staff and service cuts in departments such as city hall, libraries, and social services. These adjustments have not been uniformly sufficient.

This survey collected data between November 6, 2023, and December 1, 2023, with 73 cities responding. The respondents represent only 972,806 city residents, or 32% of the city residents in Oregon. In addition, survey respondents were overrepresented by cities in the 4th and 5th Quintiles[1] and cities in South Willamette Valley, and Central Oregon regions.

KEY FINDINGS

- The "2024 State of the Cities" survey indicates that 68% of Oregon cities have seen an increase in service demand, up from 56% in 2021, with a concerning decrease in the number of cities reporting improved financial capability compared to previous years.
- Traditional revenue sources for cities, like property taxes and utility franchise fees, are not keeping pace with inflation, compelling cities to either cut spending, eliminate services, or rely on alternative revenues.
- A significant number of cities have raised fees, charges, and licenses to cope with fiscal pressures, while maintaining or increasing service levels and city employee numbers, amidst a trend of rising operating costs.
- Survey responses were skewed towards cities with larger populations and those in certain regions, like South Willamette Valley and Central Oregon, where the fiscal challenges and service demand increases were most pronounced.
- The housing shortage and homelessness have strained city services, with a significant part of law enforcement resources being allocated to address these issues, leading to new roles such as homeless liaisons, and increased public safety spending.

RESULTS

Nineteen percent of responding cities reported they were better able to meet financial needs, as opposed to 39% in 2021. This shows a significant change as the responses to this question had been relatively stable for the previous six years (2017, 2019, 2021 surveys). Cities with a population greater than 3,276 were more likely to answer, "better able." This was also more likely in South Willamette Valley, South Coast, and regions east of the Cascades. Thirty-two percent of respondent cities reported being "less able" to meet their financial needs in 2023 than in 2022. This is a substantial increase from the 10% of cities that responded the

> "Our biggest challenge … is maintaining aging facilities. We just do not have financial capacity to timely address facility issues. This isn't just buildings, but parks, streets, sidewalks, etc." – *City of Coos Bay*

same way two years ago. These cities were mostly cities with a population less than 500, as well as in the South Willamette and Southern Oregon regions. The difference between cities being "better able" and "less able" to meet needs in the same regions indicates the financial health of cities is often specific to that city and to that region.

When asked about the anticipated state of their finances in the next fiscal year, cities were as pessimistic as ever recorded by this survey. Forty-nine percent of cities anticipated general fund revenue would keep pace or exceed current needs in the future. This is far less than the 72% of cities anticipating this outcome in 2019, and the 61% in 2021, indicating not only growing pessimism about future revenue sources but an accelerating decline in city optimism. A total of 59% of cities anticipated current revenue sources will fall short in the future (compared to 36% in 2021); the overwhelming majority of these cities have populations greater than 3,276. Overall, 68% of cities statewide have witnessed demand increases and expect these demands to continue increasing in the future. This is much higher than the 58% reporting an expected increase in 2019 or the 56% in 2021. This demand increase is most commonly seen in South Willamette, South Coast, Southern Oregon and Central Oregon regions.

Cities maintained or increased their financial practices from the previous year, depending on the activity. Among the surveyed actions taken in FY2023, the majority of cities:

- Increased fees/charges/licenses (59%)
- Maintained overall service levels (78%)
- Maintained city FTEs (59%)
- Maintained transportation infrastructure spending (49%)
- Increased water infrastructure spending (44%)
- Maintained safety spending (47%)
- Increased operating spending (84%)
- Increased employee wages (84%)
- Maintained employee contributions to health insurance (67%)

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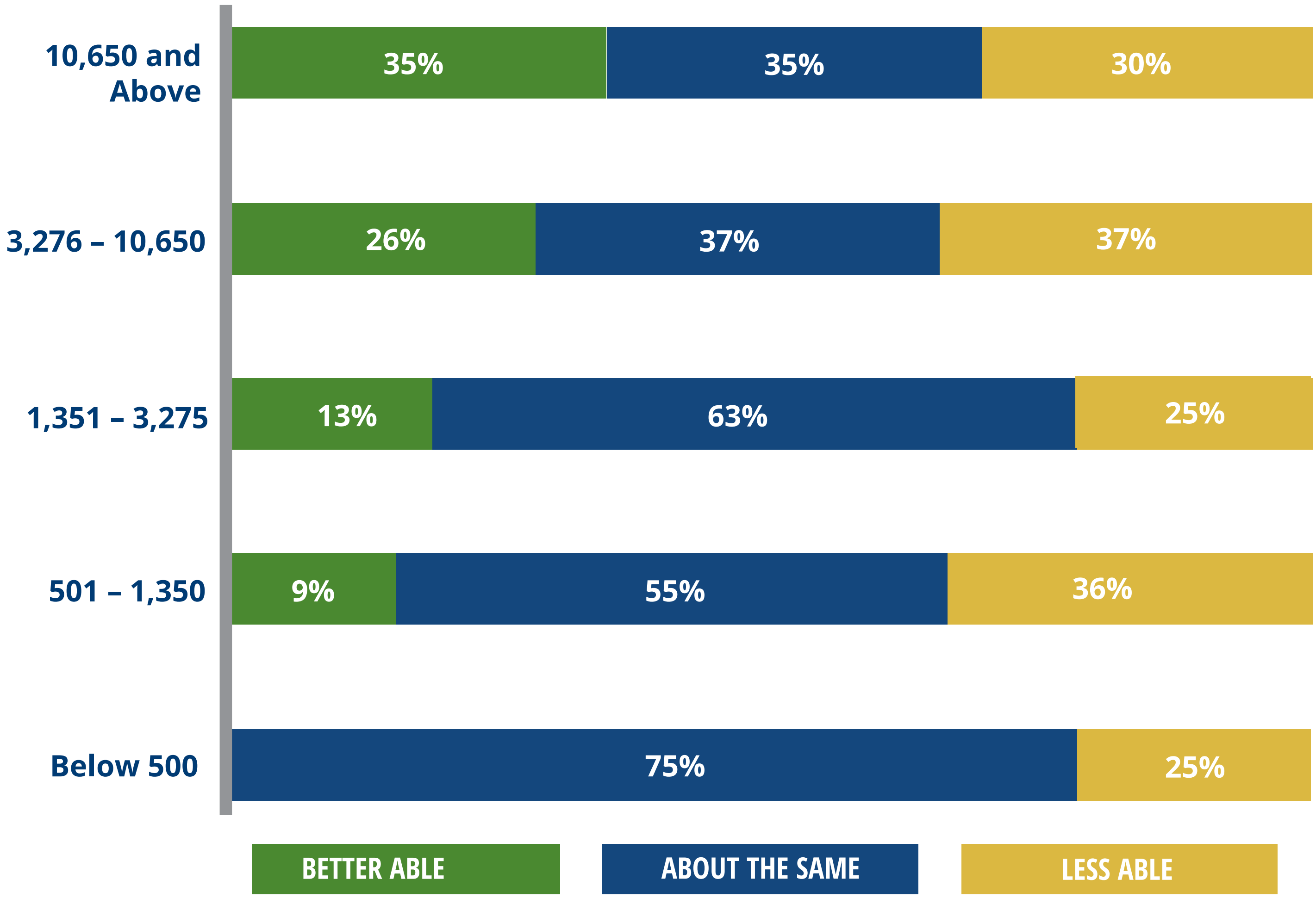
OVERALL, IS YOUR CITY BETTER ABLE TO MEET ITS FINANCIAL NEEDS THAN LAST FISCAL YEAR? (BY POPULATION)



> "The addition of ARPA dollars to the city's general fund reserve balance has helped keep the city afloat. However, as these get spent, the city will once again be scraping by, and we will have to return to looking for other sources of revenue for the General Fund." – *City of Canby*

These results indicate significant increases in operating costs and wages, potentially due to inflation. Further, the inability of other revenue sources to keep pace has resulted in an increase in fees, charges, and licenses to fill the gap. Yet other questions in this survey suggest this is not enough.

Cities with a population greater than 1,325 were most likely to increase charges and fees. Due to a more cautious approach among member cities, spending patterns have remained relatively identical since 2017. Only 22% of responding cities added new revenue sources in FY2023. These include a potential transient room tax and gas tax, increased public safety and wastewater fees, new car rental and construction excise taxes, higher business license and franchise fees, and miscellaneous charges such as dumping fees for RVs and increased fees for public passenger vehicle licenses. Cities in the 4th and 5th Quintiles were most likely to take on new revenue sources.

Member cities are also reducing hours and staffing levels at about the same rate as in 2021. Police, fire, and social services showed the only increase in staff reductions in 2023. Respondent cities reduced staffing, services, and/or hours of operation in the following areas:

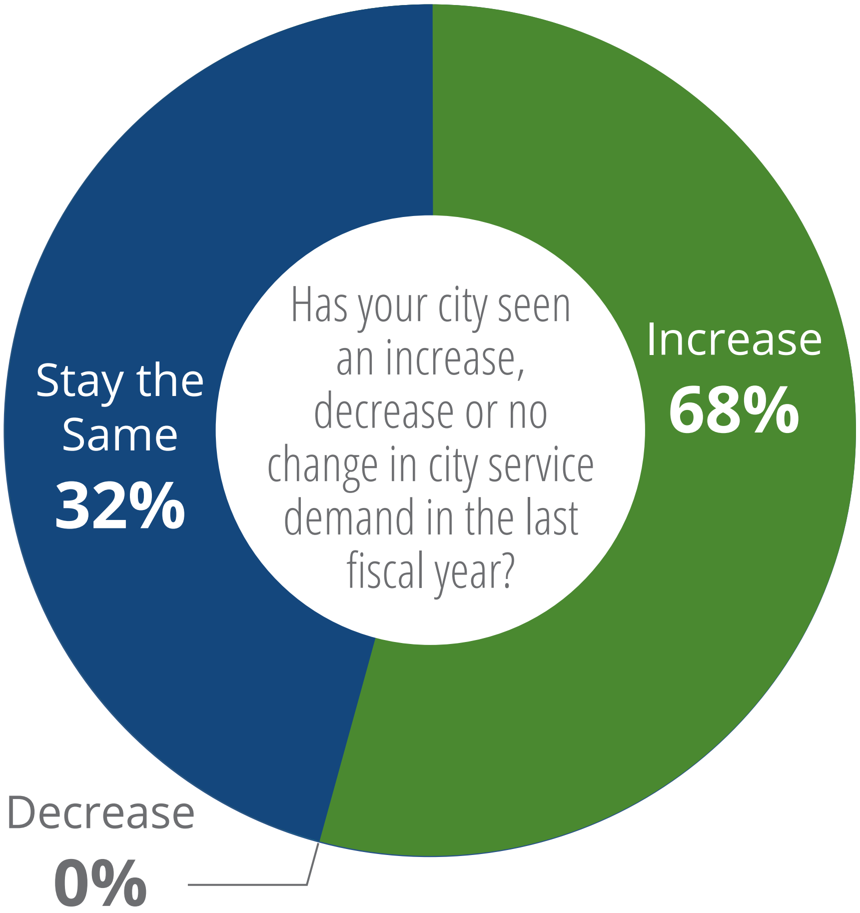
- City Hall (14% of cities, previously 17%)
- Libraries (9%, previously 17%)
- Senior Services (7%, previously 9%)
- Planning/Permitting (6%, previously 10%)
- Public events/arts/etc. (12%, previously 28%)
- Police (10%, previously 5%)
- Fire Services (3%, previously 1%)
- Social Services (6%, previously 1%)
- Transit/transportation services (3%, consistent with 2021)
- Recreational facilities and/or activities (10%, previously 19%)
- Parks/green spaces/natural areas (10%, previously 9%)

General fund revenue anticipated to keep pace or exceed current needs in the future.

2022	2024
61% of CITIES	49% of CITIES

> "The biggest challenge for us has been in recruiting a talented workforce. We also easily lose employees to [smaller] communities. I know this has been true for many of the businesses in our community and for our partners at the school district." – *City of Lake Oswego*

68% **of responding cities saw increases in service demand.**



The fiscal health of cities statewide is also reflected in their end-of-year general fund balances. Fifty-two percent of cities saw an increase in their general fund balance in FY2021, more than in 2021, while 26% of cities also saw a decrease. Cities with a population greater than 3,275, as well as cities in the Metro, South Willamette Valley, Central Oregon, and Northeastern 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 (68%) saw increases in service demand, particularly those in the Willamette Valley, Metro, and Central Oregon regions, as well as those with a population of more than 1,350 people. Further, 78% of cities expect demand to continue increasing in the future. Both responses are significantly higher than in previous years. Not a single respondent noted a decrease in demand.

When asked to rank the most important factors in their city's financial health, LOC members listed wages, infrastructure, and "other" as the highest cost drivers. This is the first year in which PERS was not in the top three (it is now fifth). Law enforcement ranked fourth, as was the case in 2021. Marijuana once again was the least important cost driver among respondent cities and averaged eighth place among the 10 cost drivers *(see page 20)*.

Finally, cities were asked about housing and homelessness. These open-ended questions provided a rich narrative about the impact of housing shortages and homelessness in Oregon. The scarcity of affordable housing is a significant obstacle for settling in the affected areas, which ultimately hinders economic development and strains industries. Smaller cities struggle to attract and keep talent, particularly in key professions, due to limited housing options. The shortage has not only escalated housing prices but also increased homelessness, contributing to a higher cost of living, and reduced public involvement in city planning.

Homelessness has taxed city services significantly according to the respondents. Law enforcement dedicates a large share of its time to related issues, leading to the creation of specialized positions and tasks. Financial impacts are significant, as cities divert budgets to cover increased policing, sanitation operations, emergency medical responses, and social services. The negative public perception of safety and cleanliness has forced some cities to invest in community education and outreach efforts.

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Yet, some cities report minimal impact, attributing this to their small size or lack of a homeless population.

CONCLUSION

The 2024 State of the Cities survey reveals a complex fiscal landscape for Oregon cities, with a notable shift from previous years. While most cities' financial conditions are stable or improved, there is an increasing concern for the future, with a significant drop in the number of cities reporting improved financial capability and growing pessimism about future revenues. Larger cities are more likely to report being "better able" financially, whereas smaller cities and certain regions are struggling more. Wages and operating costs appear to be a significant factor in this pessimism.

In response to these challenges, cities are raising fees and maintaining service levels, but approximately one quarter have introduced new revenue sources in 2023. Service demands are increasing across the board, with 68% of cities noting higher demands, particularly in areas affected by the housing crisis and homelessness, which are stretching city services and resources thin, leading to increased law enforcement duties and specialized responses. Despite these challenges, some cities report minimal impact, suggesting that the effects are unevenly distributed and highlighting the need for targeted solutions. ■

[1] To provide a more accurate comparison, cities are divided into population quintiles, or groups of cities representing roughly one-fifth of the 241 total cities. If the LOC randomly selected cities from each quintile, we would expect 20% to come from each of the five quintiles. See the quintile population chart here.

CITY COST DRIVERS

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