
Gresham Fire District Financial Analysis Study

City of Gresham, Oregon

June 2025



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June 9, 2025

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We have completed our Gresham Fire District Financial Analysis. This report outlines the fiscal opportunities and challenges associated with forming a new independent Fire District, providing an examination of projected revenues, operating costs, and capital financing needs for two distinct scenarios:

1. Baseline Operations: Funding for operations at current staffing levels (including additional positions added as a result of the May 2024 levy) with estimates for the cost of providing independent internal services.
2. Enhanced Future Growth: Funding for operations to support future growth goals.

Several assumptions have been made in this analysis and are detailed within the following report. One of the key assumptions made for the purposes of this analysis is that the independent Fire District's boundaries would include only the current City boundaries and would not include annexation of surrounding communities. It is assumed that the independent Fire District would continue to provide the same level of services to Gresham residents and the surrounding communities through intergovernmental agreements.

We believe this high-level analysis will serve as a valuable resource for the City Council as you navigate the complex decisions involved in establishing an independent Fire District. We are available to discuss the findings in further detail and to assist the City as you evaluate this option.

We wish to express our appreciation to the City personnel we spoke with for their cooperation and assistance during this review.

Sincerely,

Merina+Co

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Executive Summary

The City of Gresham's Fire Department (GFD) currently provides fire prevention, fire suppression, and emergency medical services to approximately 153,000 city residents and contracts with surrounding communities for fire and emergency response. Merina+Co performed a high-level financial analysis to provide the City of Gresham's City Council with additional information and guidance on costs to operate as an independent Fire District. This financial analysis assumes the independent Fire District's boundaries include the current City boundaries only and does not include annexation of surrounding communities. It assumes the Fire District would continue to provide the same level of service to Gresham residents and the surrounding communities through intergovernmental agreements. The analysis assumes the establishment of an independent Fire District as of July 1, 2024. The financial figures presented are hypothetical and derived from various assumptions, intended for illustrative purposes only.

Results

We modeled two different scenarios: one at the current staffing levels and another focusing on enhanced future growth estimates. The results include:

- **Scenario 1: Baseline Operations** (including current staffing levels, additional positions from the May 2024 Fire and Police Levy) for an independent Fire District:
 - Estimated operating costs (excluding debt service) of approximately:
 - \$39.9 million in fiscal year (FY) 2025 to \$59.1 million FY 2034
 - Average of \$48.8 million (*10-year forecasted*)
 - Estimated reserve/fund balance of approximately:
 - \$3.0 million in FY 2025 to \$13.2 million in FY 2034
 - Estimated tax rate of \$3.73 per \$1,000 of assessed value necessary to support operations over the ten year forecast, generating roughly \$36.4 million of property tax revenue in FY 2025 and \$49.2 million of property tax revenue in FY 2034
- **Scenario 2: Enhanced Future Growth** goals for an independent Fire District:
 - Estimated operating costs (excluding debt service) of approximately:
 - \$41.4 million in FY 2025 to \$80.3 million in FY 2034
 - Average \$58.7 million (*10-year forecasted*)
 - Estimated reserve/fund balance of approximately:
 - \$10.4 million in FY 2025 to \$18.5 million in FY 2034
 - Estimated tax rate of \$4.69 per \$1,000 of assessed value necessary to support operations over the ten year forecast, generating roughly \$45.3 million of property tax revenue in FY 2025 and \$61.2 million of property tax revenue in FY 2034

The estimated impacts to the City if they are no longer providing Fire services include:

- Estimated reduction of approximately \$22.9 million in costs per year and a one-time increase in costs of approximately \$7.1 million needs to be prepared to pay out City fire department during the transition (FY 2025).
- Estimated reduction of City's future liabilities (amounts the City would be required to pay in the future) of \$24.5 million
- **Scenario 1: Baseline Operations** estimated revenue lost on property tax compression would be roughly \$0.10 per \$1,000 of assessed value or \$1.2 million (*10-year forecasted average*)
- **Scenario 2: Enhanced Future Growth** estimated revenue lost on property tax compression would be roughly \$0.13 per \$1,000 of assessed value or \$1.6 million (*10-year forecasted average*)

Implementation

Should the City Council decide to form an independent Fire District, several administrative steps will be necessary for the transition. We have included a high-level table that outlines the steps and their estimated timelines. A key factor in determining the transition timeline is the current Fire and Police Levy, which remains in effect until June 2029. In addition, several policy considerations will need to be addressed to proceed with the formation of an independent Fire District.

Introduction and Objectives

Like many local governments in Oregon, the City of Gresham is experiencing resource constraints as demands for service and costs outpace revenues, specifically property tax revenues, which are subject to statutory limits in Oregon. In response to these budgetary constraints, the City has developed a three-year plan to move towards financial sustainability. As part of this plan, the City has committed to exploring potential alternative revenue tools to ensure resources are in place to continue to provide critical services to the community.

In June of 2024, Merina+Co (MCO) was engaged by the City of Gresham, Oregon (City) to conduct a high-level financial analysis of one of these alternative revenue tools for the purposes of providing the City with more information regarding the financial implications of providing fire and emergency services within a special district model.

The specific objectives for this financial analysis are to:

- Estimate the administrative and operational costs for providing Fire services as an independent Fire District for two distinct scenarios:
 1. **Baseline Operations:** Funding for operations at current staffing levels (including additional positions added as a result of the May 2024 levy) with estimates for the cost of providing independent internal services, and
 2. **Enhanced Future Growth:** Funding for operations to support future growth goals.
- Determine the estimated property tax rate required to support an independent Fire District at each of the future scenarios and estimate the impact on property tax compression, and
- Conduct an analysis of the City's liabilities and implementation considerations for transitioning fire services to an independent district.

Background

The City of Gresham's Fire Department (GFD) currently provides fire prevention, fire suppression and emergency medical services to city residents as well as residents of the cities of Fairview, Troutdale, Wood Village and areas of unincorporated Multnomah County encompassed by Fire District 10. In fiscal year (FY) 2024, GFD's actual operating expenditures were approximately \$34.8 million, supported primarily through intergovernmental revenues (approximately \$6 million), a Police, Fire and Parks fee (fires portion is approximately \$3.8 million), and property tax and other revenues from the City's General Fund (approximately \$26.8 million). In May of 2024, voters approved a local option levy of \$1.35 per \$1,000 of assessed property value to provide funding for 18 existing positions previously funded by the General Fund and fund 4 positions previously funded by American Rescue Plan Act (ARPA) in addition to adding 11 new positions.¹

Approach and Methodology

To establish a comprehensive understanding of current costs for providing fire services, MCO conducted a brief period of information gathering focused on identifying the direct costs for providing Fire services as well as the indirect costs necessary to support service delivery such as finance and accounting support, management and governance, information technology, and human resources, etc. To establish this base year, we requested and reviewed information such as:

- Annual comprehensive financial reports,

¹ City of Gresham FY 2025 Proposed Budget: <https://www.greshamoregon.gov/globalassets/city-departments/budget-and-finance/budget-documents/fiscal-year-2024-25-proposed-budget.pdf>

- Property tax rolls,
- Administrative cost allocations for HR, Payroll, Budget and Finance, IT, GIS, Fleet, Facility Maintenance/Management, Legal Services, Risk Management, etc.
- Financial projections, population estimates and forecasts,
- Assessed value estimates and forecasts,
- Current and proposed Fire staffing levels by classification,
- Standards of Cover reports and back-up documentation,
- Current collecting bargaining agreement(s),
- Current budget and five-year budget to actual history,
- Capital improvement plan and/or projected capital costs related to Fire Department operations and facilities, and
- Financial and/or operational assumptions proposed in the May 2024 levy for modeling increased staffing options.

After reviewing the information provided, MCO met with internal stakeholders to understand current GFD operations and budgetary considerations relevant to understanding the current costs for providing fire and emergency services as well as future operational and capital expenditures necessary to sustain service levels. After establishing a base year understanding of current costs and resources, MCO compiled financial information into a comprehensive financial model to facilitate a series of work sessions with City staff to refine assumptions for modeling the costs of independent district operations under both scenarios. The results of this modeling were used to translate the total revenue requirements into a necessary property tax levy rate expressed as a dollar value per \$1,000 of assessed value, taking into consideration possible property tax compression.

Financial Analysis

The following sections describe key assumptions and inputs into the modeling for the two district scenarios. The financial figures presented in this analysis are hypothetical and based on various assumptions. They are intended for illustrative purposes only and should not be considered exact.

Analysis Assumptions

In the process of modeling high-level financial scenarios for independent district operations, several key assumptions have been made in collaboration with City staff. These assumptions include:

- **Establishment date for the Fire District:** For the purposes of this analysis, it is assumed that the independent Fire District would have hypothetically been established as of July 1, 2024.
- **Base year for operational costs:** Modeling for fire and emergency services costs are based on actual FY 2024 (July 2023 – June 2024) resources and costs, with the exception of property tax revenues, local option levy revenue, personnel costs, and taxes and benefits costs which are based on the adopted FY 2025 (July 2024 – June 2025) budget to include the 2024 Fire and Police Levy.
- **District boundaries:** The assumed boundaries for the proposed district are Gresham city limits.
- **Intergovernmental agreements:** The City of Gresham currently provides fire and emergency services to the cities of Fairview, Wood Village, and Troutdale, to operate Multnomah County's Rural Fire Protection District 10, and to operate one-third of Portland Fire Station 31 under contract through intergovernmental agreements (IGAs). For the purposes of this analysis, it is assumed that an independent district would continue to provide the same level of services to these entities.
- **Financial horizon:** Financial modeling of potential operational expenses over a ten-year period (July 1, 2024, through June 30, 2033) was conducted to identify property tax rates necessary to sustain

different levels of operations.

- **Forecasted operational assumptions:** Assumptions, including inflation and growth, were determined in collaboration with City staff.
- **Property tax revenues:**
 - Reduction in collected property taxes: A 5.6% reduction based on historic trends for discounts (2.5%) and delinquencies (3.1%) based on City of Gresham data².
 - Tax compression limits: Property taxes exceeding the compressed limits by Oregon's Measure 50 are reduced until the limit is reached. Taxes on local option levies, including the Fire and Police Levy and the Historical Society Levy, are compressed first. If the local option tax is compressed to zero and the limit still hasn't been reached, the City and all other jurisdictions in the general government category are proportionally reduced.
 - Assumption for analysis: The City will stop collecting on the Police and Fire Levy to offset the compression impact to the City of Gresham and all other jurisdictions until it expires in June 2029.
- **Funding for capital expenditures:** Based on conversations with the City, it has been assumed that funding for planned and future capital expenditures may include a combination of funding sources. To assist in identifying necessary property tax rates, it was assumed that:
 - Capital expenditures for vehicles and equipment less than \$1 million would be funded by the Fire District's general purpose revenues by contributing a portion of replacement funds each year into a capital equipment reserve fund based on the expected life and expected replacement value.
 - Capital expenditures greater than \$1 million would be funded through borrowing above and beyond the Fire District's projected tax rate.
- **Operating Reserve fund:** For the independent Fire District, the annual operating reserve was set at 25% of operating expenditures. This is consistent with other fire districts' policies that range from 15-35%. This philosophy is to ensure the district can meet its requirements until levied taxes are received. This will allow sufficient cash resources until November 15, when the bulk of property tax revenue is received.

Base Year Costs

Before modeling future scenarios, MCO conducted a thorough assessment of current costs associated with fire and emergency services to establish a clear base year of costs for comparison. Using actual revenue and expense data provided by the City for FY 2024, along with FY 2025 adopted budget which includes the Fire and Police Levy for identified line items, the total resources and expenditures for GFD are summarized below in Table 1.

² City of Gresham FY 2025 Adopted Budget

Table 1: GFD Resources and Expenditures Base Year (FY 2024)

Resources and Expenditures	Base Year
Resources	
Property Tax and Other General Fund Revenues ³	\$ 23,260,000
Intergovernmental Revenues	6,060,000
Police, Fire and Parks Fee	3,800,000
Other Revenues	150,000
Local Option Levy ³	5,290,000
Total Resources	\$ 38,560,000
Expenditures	
Personnel ³	\$ 30,120,000
Professional & Technical Services	1,290,000
Property Services	500,000
Materials	870,000
Internal Service Charges	5,730,000
Capital Outlay	50,000
Total Expenditures	\$ 38,560,000

Assessed Values and Property Tax Compression

For this analysis, the boundaries of the potential district are assumed to include all properties within Gresham City limits. The assessed value (AV) for the City of Gresham for FY 2024 was \$10,165,517,114 after adjustments for urban renewal excess values. The Enterprise Zone AV below represents the amount of AV returning to the City's property tax rolls from expiring Enterprise Zone abatements. Forecasted assessed values for FY 2025 through FY 2029 were provided by the City of Gresham and are shown in Table 2 below.

Table 2: Forecasted Assessed Values (AV) for the City of Gresham (FY 2025 - 2029)⁴

Forecast	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
Base AV	\$10,470,482,627	\$10,857,727,106	\$11,214,358,919	\$11,581,689,687	\$11,960,040,378
New Construction AV	\$71,000,000	\$30,000,000	\$30,000,000	\$30,000,000	\$30,000,000
Expiring Abatements	\$52,050,000	\$134,000,000	\$69,000,000	\$76,500,000	\$2,700,000
Total AV	\$10,593,532,627	\$11,021,727,106	\$11,313,358,919	\$11,688,189,687	\$11,992,740,378

Urban Renewal Areas: There is currently one Urban Renewal Areas within the City of Gresham. Within this area, the assessed value has been assumed to remain constant for the purposes of determining property tax revenues collected by an independent Fire District under different tax rate alternatives.

Oregon's Constitution limits the amount of property taxes that can be collected for educational and general government taxes. When taxes exceed these limits, taxes can be reduced for individual properties, which leads to property tax compression. Local option taxes are compressed first, then permanent rates and some special

³ City of Gresham FY 2025 Adopted Budget

⁴ Compiled by MCO from forecasts provided by the City of Gresham

assessments. MCO conducted an analysis to determine the likelihood of property tax compression with the addition of the proposed district to identify possible revenue impacts. Based on this analysis, it was determined that property tax compression is a factor with the addition of an independent Fire District tax rate.

Initial Costs and Internal Service Costs

Aside from the direct costs to provide fire and emergency services, an independent district would incur initial “start-up” costs in addition to having to provide independent internal services. While the exact amount of these initial and ongoing costs are difficult to estimate due to varying options for addressing each of the cost items (i.e. internally provided services vs. outsourced services, etc.), MCO conducted high-level benchmarking and facilitated work sessions with internal stakeholders to arrive at a series of assumptions for potential costs. These estimates and assumptions are outlined in more detail below:

Table 3: Independent Fire District's "Start-up" Costs

Initial Costs	Assumption	Estimated Costs (FY 2025)
Other miscellaneous set-up expenses	Assumes transitional costs for relocating GFD administrative staff to a new location outside of City Hall, furnishing new offices, internal and external costs associated with hiring new administrative employees.	\$ 216,000
Re-branding	Assumes expenses for GFD's vehicles, uniforms, and other equipment.	30,000
Establish an initial reserve fund	Assumes GFD is establishing an initial reserve either through funds donated by the City or through financing (until the district starts collecting property taxes in November).	11,700,000

Table 4: Additional Independent Fire District's Costs to Offset City's Internal Services

Internal Services Costs	Assumption	Estimated Costs (FY 2025)
Administration	Assumes GFD hires 2 employees to manage administrative and governance responsibilities, other miscellaneous expenses and leased office space for administrative staff.	\$ 783,000
Finance and accounting	Assumes GFD hires 4 employees to perform/oversee finance and budget duties, contracted service fees for payroll support and audit services, accounting software, and other miscellaneous expenses.	795,000
Human resources	Assumes GFD hires 3 employees to oversee hiring, ensure compliance, and manage employee relations.	567,000
Information technology	Assumes contracted service fees related to IT consulting, software subscriptions, network management, data backup, and technical support.	713,000
Facilities maintenance	Assumes contracted service fees for maintenance on GFD fire stations, janitorial and landscaping services.	657,000
Vehicle maintenance	Assumes contracted service fee for maintenance on GFD vehicles and fuel costs to operate.	776,000
Insurance	Assumes premiums for property and vehicle insurance, and general/other insurance.	309,000
Legal	Assumes contracted legal service fee to provide support to GFD operations.	493,000

Analysis Results

Having established a clear base year for providing fire and emergency services and refining assumptions for initial and internal services costs, MCO conducted an analysis of resource and expenditure requirements necessary to support a district under Scenario 1: Baseline Operations and Scenario 2: Enhanced Future Growth Goals.

Scenario 1: Baseline Operations assumptions includes the following:

- Staffing/contracting
 - Current fire department staffing levels **135 FTE**
 - Adds **9 new FTE** within administration, finance and accounting, and human resources to help run fire district functions
- Assumes **debt-financing for capital expenditures** greater than \$1 million, including the following projects:
 - Station 71 – **replace** in FY 2028
 - Station 73 – **replace** in FY 2028
 - Station 74 – **replace** in FY 2030
 - **Apparatus** (e.g., engines, rescue rig, pumper, ladder truck, etc.)

Scenario 2: Enhanced Future Growth assumption includes the following:

- Scenario 1 (see above)
AND
- Additional expenditures for enhanced future growth goals:
 - An increase of **\$960,000** in expenditures above the FY 2025 budget relating to: training and education, equipment and tools, PPE and uniform, and other supplies.
 - An increase of **\$250,000** for specialty team training.
 - An increase of **10 FTE** added between FY 2026 and FY 2028 to support administration, training, and fire safety
 - **New Station 77** operational in FY 2031
 - Additional **41 FTE**
 - Construction of **new station** (debt-financed)
 - **2 additional fire apparatus** (debt-financed)

The estimated resources and expenditures for providing fire service under each Scenario are included below.

Table 5: Estimated Results for Scenario 1: Baseline Operations and Scenario 2: Enhanced Future Growth (excluding Debt Service)

Resources and Expenditures	Scenario 1 FY 2025 Estimated	Scenario 2 FY 2025 Estimated	Scenario 1 FY 2034 Estimated ⁵	Scenario 2 FY 2034 Estimated ⁵
Resources				
Property Tax Revenues	\$ 36,430,000	\$ 45,300,000	\$ 49,180,00	\$ 61,200,000
Intergovernmental Revenues	6,090,000	6,090,000	8,280,000	8,280,000
Other Revenues	410,000	410,000	490,000	490,000
Total Resources	\$ 42,930,000	\$ 51,800,000	\$ 57,950,000	\$ 69,970,000
Expenditures				
Personnel services	\$ 31,800,000	\$ 32,300,000	\$ 48,800,000	\$ 68,370,000
Professional & Technical Services	3,620,000	3,770,000	4,470,000	4,670,000
Property Services	1,240,000	1,630,000	1,620,000	2,130,000
Materials	2,180,000	2,630,000	2,670,000	3,250,000
Capital Outlay	490,000	490,000	640,000	640,000
Operating Contingency	590,000	610,000	940,000	1,270,000
Total Expenditures	\$ 39,920,000	\$ 41,430,000	\$ 59,140,000	\$ 80,330,000

Reserve and fund balances will fluctuate throughout the 10-year analysis. For Scenario 1: Baseline Operations the reserve fund balance would be approximately \$3.0 million in FY 2025 and \$13.2 million in FY 2034. For Scenario 2: Enhanced Future Growth the reserve fund balance would be approximately \$10.4 million in FY 2025 and \$18.5 million in FY 2034. This will aid the district in being able to cover their expenditures until property tax revenues come in November.

As previously mentioned, capital expenditures exceeding \$1 million will be financed through borrowing, which is in addition to the Fire District's projected tax rate. Figure 1 illustrates the operating expenditures, excluding debt service payments for both scenarios. Figure 2 illustrates the operating expenditures, including debt service payments for these capital expenditures, to provide a comprehensive view of the independent Fire District's financial needs for both scenarios.

⁵ In both Scenario 1 and Scenario 2, operating expenditures are projected to exceed resources by FY 2034. This shortfall would be addressed using the operating reserves. This would not be sustainable into the future see the section titled "Future Revenue Gaps."

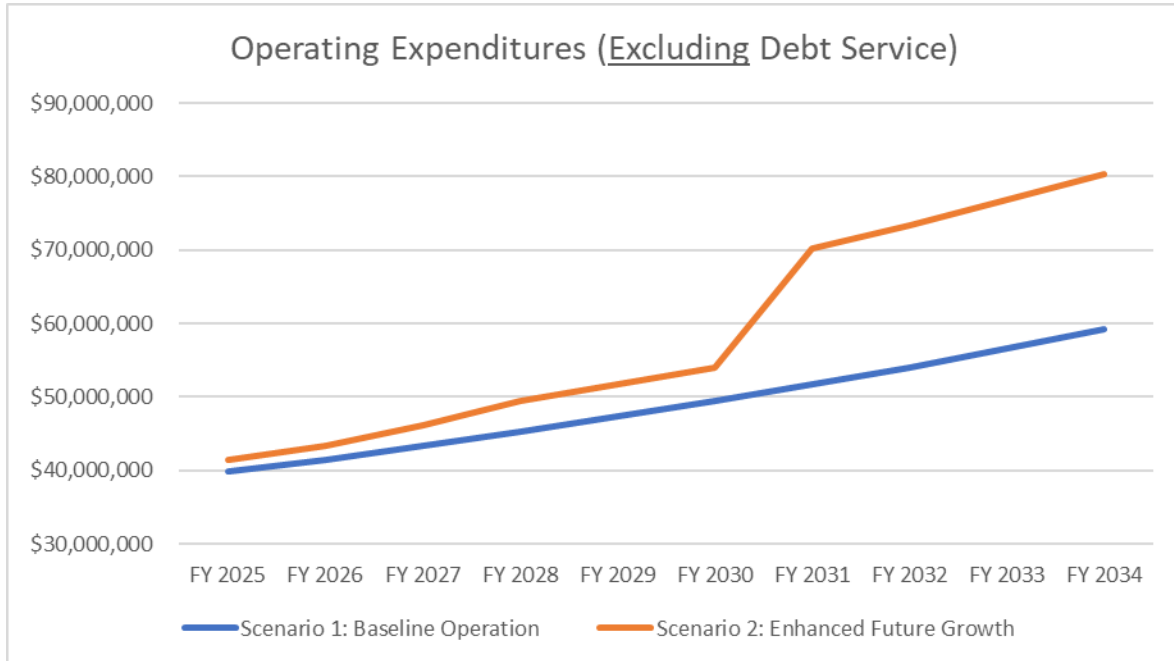


Figure 1: Operating Expenditures with Future Debt Service Obligations **Excluded**

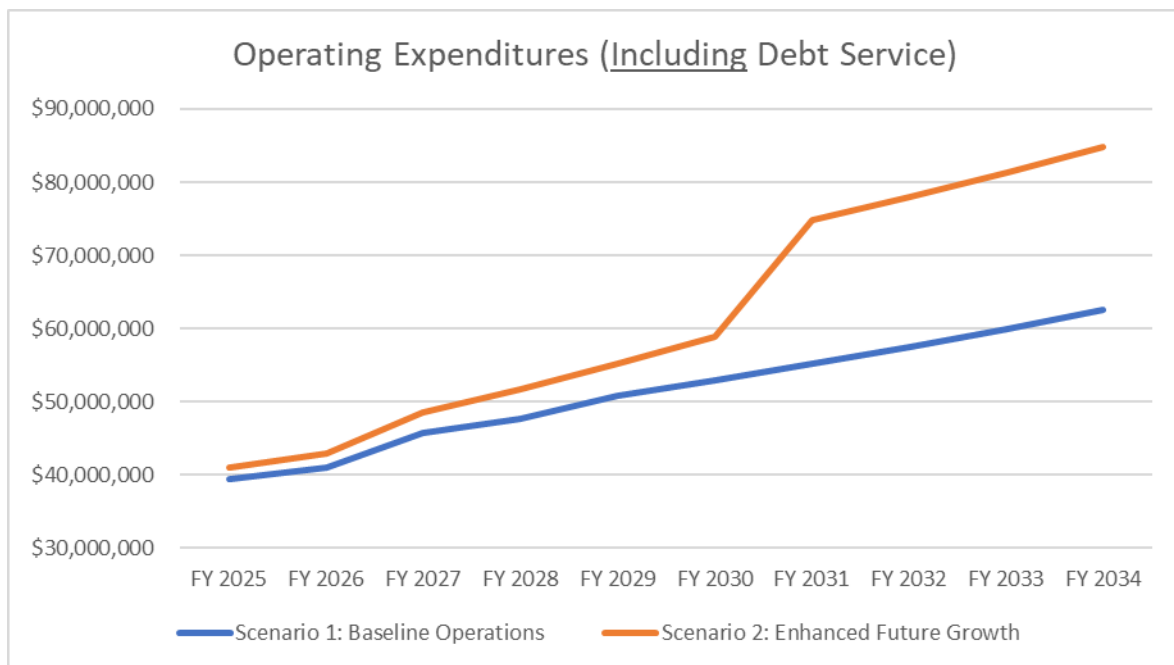


Figure 2: Operating Expenditures with Future Debt Service Obligations **Included**

Figures 3 and 4 illustrate operating revenues and operating expenses, **excluding** debt service obligations over the 10-year period (July 1, 2024, through June 30, 2034). Figure 3 depicts Scenario 1: Baseline Operations, while Figure 4 shows Scenario 2: Enhanced Future Growth. It is important to note that expenses are projected to surpass revenues, a trend expected to continue into the future.

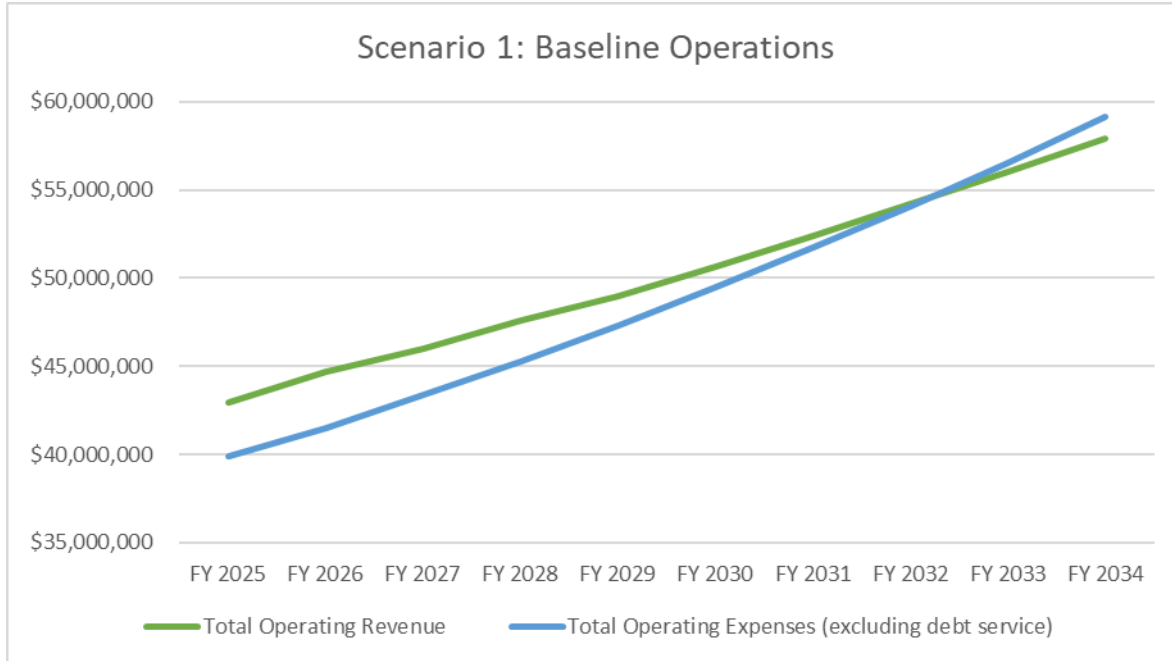


Figure 3: Scenario 1 - Baseline Operations Operating Revenues and Expenditures with Future Debt Service Obligations **Excluded**

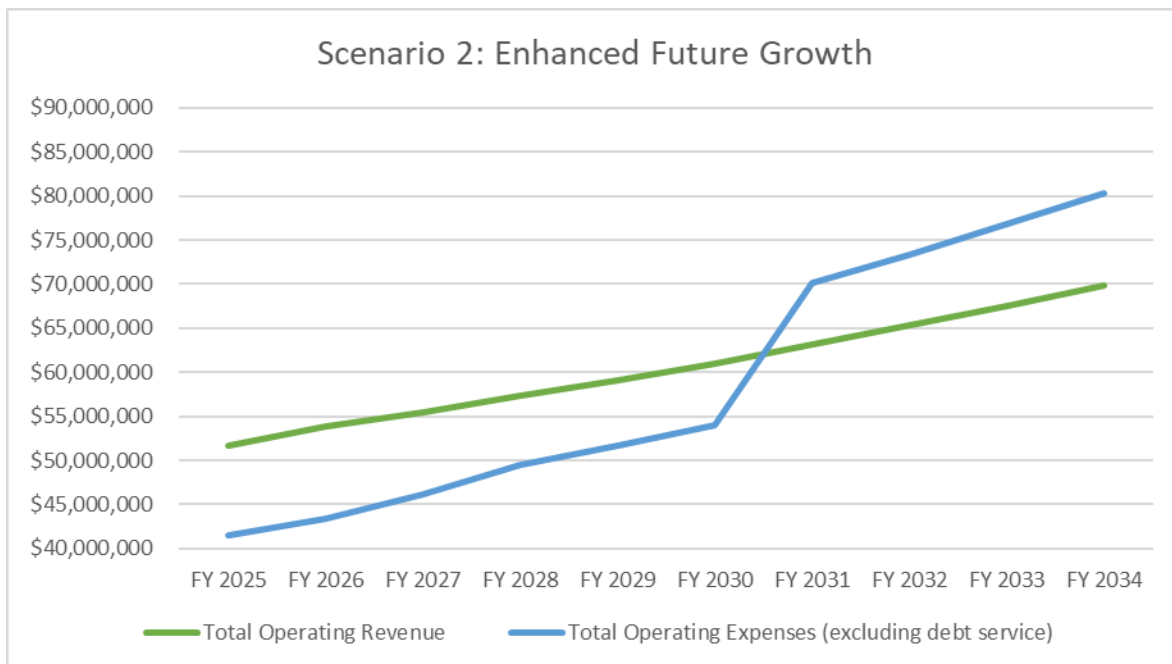


Figure 4: Scenario 2 – Enhanced Future Growth's Operating Revenues and Expenditures with Future Debt Service Obligations **Excluded**

Based on the forecasted estimates for operational expenses, a projected tax rate was identified for each scenario. The estimated tax rate and projected property tax revenues for the first fiscal years, last fiscal year and 10-year forecasted average is presented below in Table 6. The estimated impact (annual cost) to property owners for each of these tax rates is presented in Table 7.

Table 6: Future Revenue Alternatives

Future Scenarios	Tax Rate (\$/\$1,000AV)	Projected Revenue (Excluding Debt Proceeds) ⁶		
		FY 2025	FY 2034	10-year Forecasted Average
Scenario 1: Baseline Operations	\$3.73	\$36,430,000	\$49,180,000	\$42,540,000
Funding for operations to support current level of staffing (including the additional positions funded by the May 2024 local option levy) with estimates for the cost of providing independent internal services.				
Scenario 2: Enhanced Future Growth	\$4.69	\$45,300,000	\$61,200,000	\$52,930,000
Funding for operations to support baseline operations (scenario 1) plus costs for enhanced future growth goals.				

Table 7: Estimated Impacts to Property Owners Under Different Tax Rates

Future Scenarios	Tax Rate ⁷ (\$/\$1,000 AV)	Annual Cost to Home at \$228,000 AV	Annual Percentage Increase in Taxes to Home at \$228,000 AV
Scenario 1: Baseline Operations	\$3.73	\$850	19.8%
Scenario 2: Enhanced Future Growth	\$4.69	\$1,069	24.9%

In the case that an independent district is formed, the City would no longer need to support fire services through general fund revenues. The potential savings to the City's General Fund would still not result in a balanced General Fund. Assuming the City would not reduce the tax rate assessed as part of the transition, this cost reduction is estimated to be \$22.9 million in FY 2025 and the following equivalent tax rate savings of:

Table 8: Estimated Impacts to City General Funds

Future Scenarios	Potential Equivalent Tax Rate Savings ⁸ (\$/\$1,000 AV)
Scenario 1: Baseline Operations	\$1.72
Scenario 2: Enhanced Future Growth	\$1.67

MCO determined that property tax compression is a factor by the introduction of an independent Fire District tax rate. Table 9 illustrates the potential impact on compression per \$1,000 in AV and the average annual revenue loss for each scenario. For context, in FY 2024, the City's property tax

⁶ Includes projected revenues from the current intergovernmental agreements

⁷ Base year tax rate based upon the total assessed value of the City's current boundaries.

⁸ These are potential tax rate savings, as the City's General Fund would not be balanced even with the fire department's reduction of expenses.

compression loss was estimated to be around \$97,000⁹.

Table 9: Estimated Impacts of Additional Compression on the City

Future Scenarios	Impact of Compression on City's Property Taxes	
	Average Annual Loss (\$/\$1,000 AV)	Average Annual Revenue Loss
Scenario 1: Baseline Operations	\$0.10	\$1,200,000
Scenario 2: Enhanced Future Growth	\$0.13	\$1,600,000

Implementation Considerations

The following section outlines key considerations for implementation of a district, including an estimate of the City's liabilities, an overview of the district formation process and a proposed timeline for implementing a district.

City Liabilities

The formation of an independent Fire District will have a significant impact on the City's liabilities, requiring either payout during the transition or transfer to the new district. There are a few items that would require the City Council to make a policy decision for example, the PERS assets and PERS liabilities associated with fire personnel¹⁰ can be retained by the City or transferred to the new district. In addition, if the new district is formed when the PERS side account is in place through December 31, 2027, the Council would need to determine if the district would have to pay back a portion of this side account and PERS bond. The side account and PERS Bond are in the City's name; therefore, if the new district were to pay back a portion, it would be done through an IGA or debt agreement.

Tables 10 and 11 below show a total reduction in liabilities to the City for a total of \$31.4 million based on the balances as of June 30, 2024. Table 10 estimates that \$24.5 million of these liabilities could be transferred to the new district, pending City Council approval. In contrast, Table 11 outlines the \$6.9 million in costs the City must pay out in the year the district is formed, as required by state statutes. Additionally, some employees have exceeded their cap amounts, which means they may need to take significant time off to reduce their balances or risk forfeiting the excess. There will also be formation process expenses of approximately \$220,000 for legal/consultant experts to advise the City through the formation process, prepare an economic feasibility statement per ORS 198, conduct community outreach and engagement, and pay for filing/elections. Based on these assumptions, the City would have a one-time cost increase of approximately \$7.1 million (\$6.9 million in liabilities and \$220,000 in formation expenses).

⁹ City of Gresham's Table 4a – Detail of Taxing District Levies for Tax Year 2023-24 as prepared by Multnomah County

¹⁰ A portion of the City's PERS asset and liability was created through legislative action when Fire District 10 no longer had employees, if the City wants this portion to be transferred to the new district it may require legislative action.

Table 10: Impact on City's Liabilities Assuming Transfer to the Independent Fire District

	Reduction to City's Liabilities/(Assets) Transferred to the Fire District
Net Pension Liability	\$19,560,000 ¹¹
Other Post Employment Benefits (OPEB):	
Retirement Health Insurance Account (RHIA)	(\$340,000)
CityCounty Insurance Services (CIS)	\$2,210,000
IGA to pay back PERS Bond Obligation	\$2,360,000
Workers Comp	\$670,000
Total Transferred to the Fire District	\$24,460,000

Table 11: Impact on City's Liabilities Due to Required Employee Payouts

	Current Liabilities Required to be Paid Out by the City at Formation
Sick	\$3,990,000
Wellness	\$230,000
Holiday	\$30,000
Vacation	\$2,290,000
Paid Time Off	\$160,000
Comp Time	\$200,000
Total Required Payout	\$6,900,000

Future Revenue Gaps

In the future, the independent Fire District will face significant financial challenges where property tax revenues fail to keep pace with the rising operating costs. This situation is often referred to as a fiscal cliff, which occurs when the growth in expenses outpaces revenue growth, leading to budget shortfalls. The projected Fire District tax rate is calculated to ensure that the district can cover operating costs and maintain a reserve balance during a 10-year period (July 1, 2024 – June 30, 2034). Based on the assumptions of steady inflation and increasing service demands, there will be a fiscal cliff in FY 2035 under both scenarios. The fiscal cliff is the same in both scenarios because they have different tax rates. The future revenue gap should be considered when setting the independent Fire District's property tax rate and fees for services to ensure long-term financial stability and continued service excellence. Revenue tools will be limited as Oregon Fire Districts can only generate revenues from property taxes and fees for services (e.g. maintenance of fire hydrants, inspection and permit fees, etc.). A Fire District cannot have a fee like the Police, Fire, and Park (PFP) fee to generate additional revenue per Oregon Revised Statute 478.

Formation Process

Formation of a special district in Oregon is governed by Oregon Revised Statutes Chapter 198 and includes several steps. The process for district formation is summarized in the Revenue Options Analysis prepared for the City of Gresham in 2022, with references to the Special Districts Association of Oregon's (SDAO) Administrative Handbook (2022). For the purpose of the implementation timeline in this report, it is assumed that the following tasks for formation have been followed:

¹¹ PERS assets and PERS liabilities associated with fire personnel can be retained by the City or transferred to the new district. In this example, we are assuming it is transferred to the new Fire District.

1. Evaluate feasibility of a new fire district, including:
 - a. Establish a working committee
 - b. Hire consultants and/or attorneys
 - c. Determine a preliminary boundary
 - d. Prepare an Economic Feasibility Statement
 - e. Hold public meetings
 - f. Gain consent from the City for inclusion in the proposed district
 - g. Notify Oregon Department of Revenue, the Multnomah County Assessor, and the Multnomah County Clerk of the intention to form a new district
 - h. Finalize the boundary
2. File the petition to form a new district, including:
 - a. Obtain petition from Multnomah County Clerk and circulate petition
 - b. File petition for formation
 - c. Obtain resolution from the City indicating the intent to join the proposed district
 - d. Initiation and order of the Multnomah County Commission
 - e. Submit final petition, Economic Feasibility Statement, and security deposit 180 days prior to election
 - f. Draft county resolutions and orders
3. Conduct hearings
4. Hold election

Implementation Timeline

After completing the official formation process, several administrative steps would need to be taken to transition GFD to an independent district. The following table outline the potential steps and estimated timelines at a very high-level. Since the independent Fire District would be collecting property taxes, it must have a fiscal year ending on June 30, as required by state statute. A key factor in determining the transition timeline is the current Fire and Police Levy. As explained above in the compression section, local option taxes are compressed first. If the City Council decides to proceed with the independent Fire District, there are different options:

- Form the district when the Fire and Police Levy is in place (July 1, 2024 – June 30, 2029)
 - Continue to collect Fire and Police Levy at the current rate as it will be compressed first,
 - Reduce the assessments on the Fire and Police Levy, or
 - Stop collecting on the Fire and Police Levy.
- Postpone formation of the district until the Fire and Police Levy is complete (July 1, 2029), when compression will have less impact.

After evaluating the financial feasibility of the district, the City should engage outside expertise to develop a detailed and comprehensive implementation path and timeline.

Table 11: Potential Implementation Timeline

Administrative Step	Potential Tasks	Estimated Timing
Complete official formation process	<ul style="list-style-type: none"> • Evaluate feasibility • File petition for formation • Conduct hearings • Hold election 	Month 1 to 12

Establish a working group with City and Fire personnel to formalize the implementation plan and timeline	<ul style="list-style-type: none"> • Identify membership and define roles/responsibilities • Formalize plan and timeline 	Month 12 – 14 and ongoing
Complete a comprehensive communications and outreach plan for communicating important information regarding the transition	<ul style="list-style-type: none"> • Consider engaging outside experts to assist • Identify key messages and communication channels • Define communication and outreach strategy • Implement communications and outreach strategy • Develop an official marketing and re-branding strategy 	Month 12 – 14 and ongoing
Establish agreed-upon service levels and fire and emergency services operational plan for new district	<ul style="list-style-type: none"> • Consider engaging outside experts to assist • Define level of service to be provided • Formalize official organization chart and staffing plan for new district operations • Establish and adopt formal district policies and procedures and position descriptions • Negotiation and formalize intergovernmental agreements, service contracts, and labor contracts • Recruit and hire for required positions 	Month 14 - 18
Establish and implement an administrative services operational plan for new district	<ul style="list-style-type: none"> • Consider engaging outside experts to assist • Determine level of administrative services and support needed • Evaluate feasibility of internal staffing versus outsourcing • Complete procurement for outsourced services and/or complete recruitment for administrative positions 	Month 14 - 18
Establish and implement a district human resource plan	<ul style="list-style-type: none"> • Consider engaging outside experts to assist • Complete hiring and/or onboarding of Human Resources function • Formalize position descriptions, classifications, and benefits, etc. • Work with City HR to notify existing staff and determine path to transition • Complete recruitment/hiring of personnel 	Month 18 - 24

Establish a district financial plan and budget	<ul style="list-style-type: none"> Consider engaging outside experts to assist Establish a formal budget document and process for building and approving annual budgets in accordance with local government budget law Conduct request for proposals and select an auditor for annual financial statement audits 	Month 18 - 24
Establish a facilities, fleet and equipment management plan	<ul style="list-style-type: none"> Consider engaging outside experts to assist Determine the agreed-upon transition plan for capital assets Conduct a comprehensive inventory and condition assessment of facilities, fleet, and equipment Prepare a comprehensive facilities, fleet, and equipment replacement schedule Establish formal preventative maintenance schedules for all facilities, fleet, and equipment 	Month 18 - 24

Policy Considerations

The City Council will have several policy decisions to make regarding forming an independent Fire District. One key decision is the timing of the district's formation. Some major considerations that may be impacted by the timing include:

- **Fire and Police Levy:** Deciding whether to establish the district while the Fire and Police Levy is in effect (July 1, 2024 – June 30, 2029) or wait until the levy expires to minimize compression impacts.
- **PERS side account and PERS bond:** If the district is formed while the PERS side account is active through December 31, 2027, the Council will need to determine if the district should repay a portion of the PERS side account and PERS bond.
- **Date to transfer fire department employees:** Consider whether to establish the district on July 1st and delay transferring the fire department employees until after property tax revenues are received in the first year to help reduce start-up costs needed during formation.
- **Capital financing:** Consider the challenges a newly formed district might face in securing financing for upcoming capital projects. This could impact the district's ability to fund essential infrastructure and apparatus (e.g., engines, rescue rig, pumper, ladder truck, etc.) upgrades or replacement in the initial years. Therefore, it is crucial to evaluate potential financing options and strategies early in the planning process to ensure the district can meet its capital needs without compromising response times.

Additional decisions for the City Council relate to:

- **Property taxes:** It should be noted that the City's General Fund would not be balanced even with the fire department's reduction of expenses.
 - Would the City decrease the amount of property taxes they are collecting or assess less than the permanent rate?
 - Would the City keep collecting on the Police and Fire Levy or stop collecting?
- **Start-up funds:** Would the City provide start-up funds to the new district (until they start collecting

property taxes in November)?

- **Payroll liabilities cap:** Would the City consider increasing the cap for payroll liabilities (more to pay out at formation) to reduce the amount of time taken off by the employees exceeding the cap amounts, which could leave coverage gaps before the transition?
- **Line of credit or loan:** Would the City provide a line of credit or loan to the district until they have established their reserves?
- **Donation of assets:** Would the City donate existing fire stations, land, and apparatuses to the new district?
- **PERS liabilities and assets:** Would the City keep or transfer the associated PERS liabilities and assets?
- **Police, Fire, and Park (PFP) fee:** Would the City reduce the PFP fee?

Please note that policy considerations were not a part of the scope of this financial analysis; these items were identified during the analysis, and there may be additional considerations not covered here.