

# CITY BUDGET OFFICE

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## CITY OF PORTLAND, OREGON

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TO: Tax Supervising & Conservation Commission

FROM: Andrew Scott, City Budget Director

DATE: June 19, 2013

SUBJECT: TSCC Hearing on FY 2013-14 Approved Budget

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The Tax Supervising and Conservation Commission (TSCC) hearing on the FY 2013-14 Approved Budget will take place Wednesday, June 19, 4:00 – 5:00 PM in the Rose Room. The responses to questions received from the Commission are below.

### General

1. This was the first budget developed by the new City Budget Office. How did an independent office responsible to the entire Council change the way the budget was put together and ultimately approved?
  - The City Budget Office (CBO) was created on December 12, 2012, and Council approved the CBO work plan in late January 2013. The creation of the CBO did not change the formal process for putting the City's budget together: bureaus make requests, the Mayor proposes a budget, and then Council approves and adopts the final budget. However, the creating ordinance directs the CBO to provide information and advice to all of Council, and as a result CBO staff had more frequent direct interaction with Council offices and responded to more information requests, both formal and informal.
  - [Comments, if any, from the Mayor and Council about the budget process and how it has changed.]
2. The position of Chief Financial Officer has been eliminated. Why was that move taken and how has that changed responsibilities between the Office of Management and Finance the City Budget Office?
  - The reduction of the Chief Financial Officer position was included in the Mayor's Proposed Budget to restore cuts to the Revenue Bureau that would have reduced revenue collections and cuts to the Bureau of Human Resources that would have reduced recruitment services to City bureaus.
  - Responsibilities between the Office of Management and the City Budget Office changed significantly on Dec. 12, 2012 when Council established the new City Budget Office. The Director of the City Budget Office now serves as the City Budget Officer, a role previously held by the Chief Administrative Officer (CAO). The Chief Administrative Officer continues to oversee the Bureaus of Human Resources, Internal Business Services, Revenue Bureau, Technology Services, and the CAO's Office. Since May, the CAO has assumed the financial management responsibilities of the Chief Financial Officer by having the Accounting and

Public Finance and Treasury Divisions report directly to him. The CAO continues to have responsibility to provide leadership and expert advice and counsel to the Mayor, City Council, and bureaus on Citywide matters related to management, finance, budget, and corporate administrative services.

3. The new Arts Tax has gotten off to a rocky start. How have collections gone so far this first year compared to what had been anticipated when voters approved the tax last November?

- Arts Tax collections were \$7.7 million as of June 19, 2013. In June 2012, the Revenue Bureau projected \$8.99 million in revenue by June 30, 2013. Collections are likely to fall short of the original estimate because of changes to the definition of income and the taxability of some income sources. The revenue goal was revised downward to about \$8.6 million in March 2013 in conjunction with the City Council's decision to change the definition of income to a threshold of at least \$1,000 and another downward revision is appropriate given the non-taxability of Social Security, PERS, FERS, and other incomes.

A number of exemptions have been put in place to make the tax less regressive and to recognize that income from federal, state and local pensions are not taxable. Do you believe you have a final version of what is taxable and what isn't or do you anticipate more changes in the future?

- The City has reviewed the taxability of a range of incomes and does not anticipate any future changes as to taxable income. However, City Council has directed the Revenue Bureau to review the tax structure and make recommendations for improvement. City Council will hold a work session on the Arts Tax in August.

Funding for arts education in areas schools is based on a formula that isn't tied to how much is actually collected. If less revenue is brought in than what is to be distributed where will the City get the extra money to honor those commitments?

- The City has collected \$7.7 million to date and expects there will be ample revenue to fully honor its commitment to schools.

4. How has the Federal sequestration affected revenues for the City, both in 2013-14 and longer term?

- As a result of sequestration, many issuers experienced reductions in Federal interest subsidies for payment of debt service on Build America Bonds or other "Tax-Advantaged" bonds. The City does not have any outstanding bonds that receive Federal interest subsidies, and does not have plans to issue any such bonds in the near future.
- Virtually all of the highway, transit, and safety programs funded from the Highway Trust Fund are exempted from sequestration. As a result, ODOT does not anticipate any significant impacts to its federal funding. However, there are a number of programs funded from the General Fund that are subject to sequestration, which will reduce funding for each discretionary program by about 5% in FY 2013-14. No other impacts are anticipated.
- In terms of Housing and Urban Development entitlement funds, Portland was very fortunate in percentage changes over FY 2012-13 allocations. Of the four annual allocations we receive directly, one remained stable, one increased, and two decreased; one of those substantially. Many communities were cut more deeply.

5. One source for closing the original \$21.5 million structural deficit was saving \$1.1 million from increasing “span of control” or having fewer supervisors. Has a study already been conducted and what is the current number of employees per supervisor and what does that number need to be increased to in order to realize the savings?
  - A citywide span of control study has not been conducted, although bureaus do report their spans of control as part of their budget requests. The budget assumes \$1.1 million in ongoing savings starting in FY 2014-15, and contains a note directing a Council subcommittee to conduct a span of control review that identifies those savings, with \$100,000 set aside to hire an outside consultant. The results of the analysis will be provided to Council in advance of the FY 2014-15 budget process so that ongoing bureau budgets can be adjusted based on the findings. The \$1.1 million is a conservative estimate based on a similar process that Multnomah County went through over the last few years.

## **Parks & Recreation**

6. The agreement reached last year to renovate Veterans Memorial Coliseum fell apart when the Portland Winterhawks withdrew financial support. Have talks been restarted and is the issue mostly about who pays or are there disagreements about exactly what renovations should be made to the Coliseum?
  - The package of agreements considered by the City Council last fall covered a number of interrelated matters affecting the Veterans Memorial Coliseum (VMC). These included a Redevelopment Agreement for a \$31.5 million renovation project, a Project Funding Agreement that included both public and private contributions, and two Operating Agreements ensuring continued operation of the VMC for a 20-year period. In addition, through a separate companion ordinance, City Council considered an agreement to transfer land and development rights in the Rose Quarter to the Portland Development Commission (PDC). This was a highly complex and tightly interrelated package of agreements.
  - There are a variety of reasons why the package of agreements was not able to be executed at that time. Nonetheless, all of the parties continue to express interest in and commitment to a VMC renovation project.
  - During the final months of FY 2012-13, the Office of Management and Finance (OMF) focused on two key milestones. One was to establish the framework for a new approach to discussing and negotiating a potential VMC renovation project and the other was to amend the existing VMC Operating Agreement (OA) with Portland Arena Management (PAM) to assure continued operation of the facility beyond June 30, 2013. The OA amendments, which include extension options through June 30, 2023, were approved by City Council on May 22, 2013.
  - Over the next several months, OMF’s efforts will focus on reengaging the public and private partners in a process to consider a renovation project for the VMC. Key in this process will be an effort to more fully understanding the costs and benefits of specific choices about what elements to include in the scope of a potential project and revisiting potential ways to increase the resources available to a renovation project. Portland Arena Management and the Portland Winterhawks have both expressed support for the multi-phase approach for discussing and negotiating a potential VMC renovation, and the Winterhawks have indicated continuing interest in investing in the facility.
7. The Neighborhood Park (The Fields) in the north end of the Pearl District has opened. Can you provide us with a total cost and a breakdown of where those funds came from?
  - To date, the cost for The Fields is at \$4,921,217 with some small, final expenses still yet to come through. The project was funded by Portland Development Commission (PDC) funds with up to a \$6,375,000

budget and will be well within that budget when completely finished.

Follow up question: How was the project able to come in under budget by \$1.4 million?

- The original bid for construction came in substantially lower than the original estimate. In addition, there is a maintenance storage building that will be added back into the project as a bid alternate once it is confirmed that savings will exist.

8. What do you estimate will be the annual maintenance costs for this park?

- Annual maintenance estimates are currently \$272,967.

## Transportation

9. The new bridge for TriMet's Portland to Milwaukie light rail line is being constructed to accommodate a streetcar line to complete the loop between the east and west sides. The project is scheduled to start in 2013 with a completion date of Fall of 2015. What is the City's share of this project and have you determined yet where the money will come from to cover that?

- The City's share of the Portland Streetcar Close the Loop project is \$6.8 million. The project is funded by debt proceeds that will be repaid with system development charges.

10. The Bureau of Transportation is embarking on a project to convert all streetlights to energy efficient LED lamps. The \$17.5 million project is to be funded by debt proceeds with energy cost savings dedicated to the debt service. What is the projected energy cost savings once all of the streetlights have been converted?

- The most recent cost savings estimate was completed in December 2012. The analysis indicated annual savings (net of installation/maintenance costs and debt service costs) of approximately \$160,000 beginning in FY 2016-17, escalating to \$700,000 in FY 2018-19, and further escalating to \$1.37 million in FY 2025-26. This is based on the price of electricity from the current year and existing labor rates.

11. Will this project be completed "in-house" or will an outside contractor be hired to complete the work?

- Although still under review by the bureau, it is expected that this project will be contracted out.

12. One of Mayor Hales' campaign themes was getting back to basics, especially routine street maintenance. A modest increase is shown in this budget but obviously much more is needed. A Financial Task Force has issued a report providing several alternative funding sources to replace dwindling gas tax revenue. What are some of the alternative sources that look promising and what process will be used to decide how best to proceed with adequate funding for maintaining city streets?

- At this point, all funding sources are under review as the City of Portland works with its citizens to devise a way to pay for routine street maintenance. The report identifies several revenue generating areas, including General Obligation Bonds, a street maintenance fee, commercial parking taxes, active parking management, and a revenue package at the state level. Over the next several months, the City of Portland will engage with stakeholders and residents to identify the transportation needs that exist and explore all possible revenue sources, not just the ones identified in the Financial Task Force report.

## Public Utilities

13. Last year we talked about a proposal to change the methodology for assigning a “base rate” to cover the cost of operating the system (COS). This would tend to increase the cost for low volume, residential customers. Whatever happened to that proposal?

- The cost of service base charge proposal last year would have resulted in an increase in the base charge per billing. The Water Bureau was also proposing to send monthly statements. The Water Bureau’s Citizen Budget Advisory Committee expressed concerns about implementation of a cost of service base charge that resulted in an increase to the residential customers. The Committee recommended a phased-in approach or delaying the implementation until the economy improved. The Water Bureau in this budget process did not perform a cost of service analysis on the base charge. This was largely due to the fact that the City was undergoing considerable budget reductions that would affect the total costs to provide customer services. The budget decisions and the impact to customer services costs were not known in time to do the analysis required to develop the base charge for rate approval. The Water Bureau plans to do analysis on a cost of service base charge and the impacts to the residential customers in the next budget process.

14. Despite what has been, in our opinion, the City’s best efforts to secure a variance from the Environmental Protection Agency (EPA) regarding Long Term 2 Enhanced Surface Water Treatment (LT2) rules to discontinuing using open reservoirs it appears those efforts have failed. Still, critics argue that efforts to seek a variance should continue.

Critics point to EPA’s agreement to review the LT2 rules on behalf of New York City. Is the water distribution system in New York significantly different than Portland’s such that a variance could be granted for them but not for Portland?

- EPA is conducting a review of the LT2 rule as part of a regularly scheduled review of the rule and as a result of an executive order from the Obama administration. The review is not being conducted on behalf of New York City. New York City has one remaining large uncovered drinking water reservoir called Hillview and has eliminated all other uncovered reservoirs in its water distribution system. Hillview is located in a secured site that presents no opportunities for individuals to access or throw objects into the drinking water supply. Public access is prohibited and the site is patrolled and secured by armed law enforcement personnel. Water exiting the Hillview Reservoir is treated with Chlorine to provide at least 4-log virus inactivation. The decision of whether to allow Hillview to remain uncovered and the time schedule for when it will be covered will be made by different regulatory entities than for Portland. The decision in Portland’s case is made by the Oregon Health Authority. For NYC, the State of New York and the regional office of the EPA are currently involved in the decision and schedule associated with that facility.

There has been talk of an initiative petition effort to form a people’s utility district (PUD) to take over the water and sewer system from Portland. Would a PUD not be subject to the same LT2 rules?

- Yes, all public water systems that serve water through uncovered finished drinking water reservoirs are subject to the requirements of the LT2 rule.

15. The alleged practice of using water and sewer utility charge revenues for non-utility purposes has been an issue for a couple of years, resulting in at least one lawsuit and a whistle blower charge. What processes are in place to ensure that revenues collected from water and sewer rates are only spent on operations of those utilities in conformance with state law and the City Charter?

- Any budget decisions involving the Water Bureau and BES run through a series of steps before adoption, all of which assure the continued proper use of utility funds. City budget decisions are open to the public and each bureau has a citizen Budget Advisory Committee that would note uses of water and sewer funds they consider inappropriate or unwise. The City's independent Budget Office is fully aware of Charter provisions affecting the utilities and it reviews all proposed budgetary actions. The Budget Office consults with the City Attorney's Office whenever they believe that the provisions are not being followed. The Office of Management and Finance engages in an accounting review of all expenditures, and a citywide audit is conducted by an outside agency on a yearly basis. Finally, City utility operations are reviewed by bond counsel and by potential bond purchasers during debt sales and rating assessments. Both City utilities continue to have very favorable bond ratings.

## Public Safety

16. The approved budget eliminates 38.57 FTE in the Bureau of Fire & Rescue and 44.08 FTE in the Police Bureau. Of those, how many are sworn officer and firefighter positions?

- Police sworn - 43.5
- Fire sworn - 33

17. Will you be able to accommodate eliminating those positions through current vacancies and attrition or will some employees actually be laid off?

- No layoffs of sworn positions will occur in the Police Bureau. The bureau is able to reduce positions through attrition and by moving staff that are at risk of layoff into existing vacant positions or into vacancies that have occurred due to the Citywide Voluntary Retirement Incentive Program (VRIP).
- Of the 33 Fire sworn positions, 26 will be laid off, five will be absorbed through retirements, and two will be transferred to the Traveler Pool which will reduce overtime costs. The approved budget includes bridge funding through October 1, 2013. Portland Fire & Rescue is pursuing Council authorization to apply for a Department of Homeland Security Staffing for Adequate Fire and Emergency Response (SAFER) grant, a fund dedicated to prevent firefighter layoffs with two-year funding. Portland Fire & Rescue will seek this two-year SAFER grant funding for the 26 impacted firefighter positions. To ensure continuity, the bureau would then develop a plan for ongoing funding following grant expiration.

18. Can you update us on the project of developing a Police Bureau Training Facility – location, total cost, where the funding is coming from and when it will be completed?

- The City's new Police training facility will be located at 14912 NE Airport Way. The target completion date is August 2014. Total funding available for the project is \$15,285,884.
- Net proceeds from a bond sale were \$14,915,000. A 2% for art requirement of \$143,580 is funded from Police cash outside the bond since this is not an allowed expense under the bond sale. Interest on the bond proceeds as of February 28, 2013 was \$29,179 and will be applied to the construction budget. The project applied for an incentive from Energy Trust for energy reduction measures and received \$2,500. The Police have provided \$195,625 from their Federal Forfeiture Proceeds to guarantee that a second 50 yard indoor shooting range will be constructed.

### Funding

Bond Proceeds = \$14,915,000  
Art Reimbursement = \$143,580  
Police Forfeiture Fund Transfer = \$195,625  
Energy Trust Incentive = \$2,500  
Bond Interest = \$29,179

TOTAL Funding = \$15,285,884

### Expenditures

Property Purchase = \$6,434,939  
Estimated Construction Cost = \$4,214,422  
Estimated Other Const Cost = \$637,079  
Estimated Professional Services cost = \$531,190  
Estimated Facility Services = \$258,580  
Estimated Miscellaneous Services = \$15,025  
Estimated Permits & Fees = \$229,197  
Facility Services Overhead = \$138,263  
Estimated Shooting Range = \$2,127,190  
Project contingency = \$699,999

TOTAL Expenditures = \$15,285,884

19. There has been some controversy over plans to replace four-person fire engines with two-person rapid response vehicles. In the end, the Approved Budget retained the four-person crews but added four two-person RRV vehicles. When will these new vehicles be placed in service and how will they be integrated into the companies where they are being assigned?
  - Two four-person fire & rescue companies are eliminated in the approved budget. In addition, four, two-person Rapid Response Vehicle (RRV) units will be established and integrated into regular operations on the first pay period in FY 2013-14. The bureau will place these vehicles where call volumes have increased and companies need support. The four RRV units will respond to lower acuity medical incidents, which will allow Portland Fire & Rescue to improve its response reliability and response times of four-person crews on emergency apparatus responding to critical calls.