

Analysis By: Doug Le

BUREAU OF DEVELOPMENT SERVICES

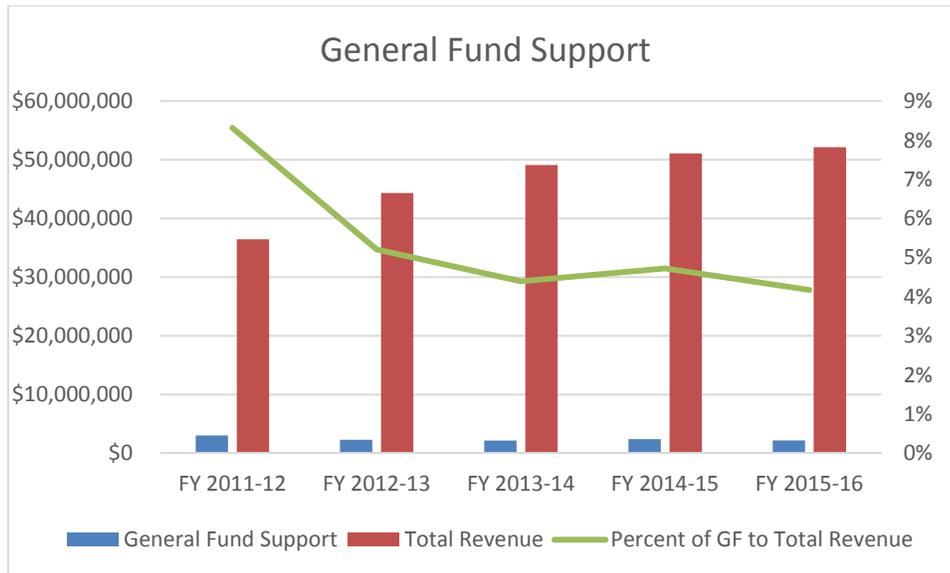
All Funds Budget Summary	Adopted FY 2014-15	Request Base FY 2015-16	Decision Pkgs FY 2015-16	Request Total FY 2015-16	Percent Change
Resources					
Budgeted Beginning Fund Balance	\$24,572,155	\$45,634,924	\$0	\$45,634,924	85.7%
Licenses & Permits	26,830,114	32,808,701	0	32,808,701	22.3%
Charges for Services	10,734,211	13,634,146	0	13,634,146	27.0%
Interagency Revenue	919,353	1,076,213	0	1,076,213	17.1%
Fund Transfers - Revenue	2,035,323	2,177,273	735,640	2,912,913	43.1%
Bond and Note Proceeds	25,000	0	0	0	-100.0%
Miscellaneous Sources	1,842,518	2,442,221	0	2,442,221	32.5%
Total Resources	\$66,958,674	\$97,773,478	\$735,640	\$98,509,118	47.1%
Expenditures					
Personnel Services	\$27,161,182	\$32,014,144	\$2,405,928	\$34,420,072	26.7%
External Materials and Services	2,086,305	2,481,908	100,000	2,581,908	23.8%
Internal Materials and Services	7,719,760	8,291,902	308,000	8,599,902	11.4%
Capital Outlay	1,495,649	2,690,225	0	2,690,225	79.9%
Debt Service	982,638	1,084,750	0	1,084,750	10.4%
Fund Transfers - Expense	1,256,774	1,162,044	0	1,162,044	-7.5%
Contingency	12,256,366	18,627,115	(2,078,288)	16,548,827	35.0%
Unappropriated Fund Balance	14,000,000	31,421,390	0	31,421,390	124.4%
Total Requirements	\$66,958,674	\$97,773,478	\$735,640	\$98,509,118	47.1%
Total Full-Time Equivalents	262.45	293.92	25.50	319.42	21.7%

Percent Change is the change from FY 2014-15 Adopted Budget to FY 2015-16 Total Requested Budget.

Key Issues

New Revenues for General Fund Supported Programs:

In FY 2015-16, the General Fund provides \$2,177,273 in ongoing resources to partially support the Land Use Services and Neighborhood Inspections programs. In the FY 2015-16 Requested Budget, BDS requests an additional \$735,640 in one-time General Fund resources to expand the Extremely Distressed Properties Enforcement (EDPEP) and Enhanced Rental Inspection programs, to restore the Nuisance Abatement program, and strengthen Land Use Services community outreach and education functions. The following graph depicts the General Fund resources currently supporting BDS programs.



While the level of General Fund support for BDS has declined over the last several years as a percent of total BDS revenue, CBO believes that there are opportunities for BDS to generate more program base revenues to further reduce the reliance on General Fund resources.

One such option for revenue generation is the Per-Unit Rental Fee proposed by the Quality Rental Housing Workgroup Report. This fee would be assessed to rental property owners annually for each rental unit to cover rental housing program costs related to inspector salaries, landlord/tenant education, and mediation services. Another option would be a type of rental licensing fee currently used by some neighboring cities, such as the City of Gresham. The City of Gresham uses this fee to fund its Rental Housing Inspection Program to perform random inspections of rental units for compliance with a broad range of habitability standards and to respond to community complaints about possible violations. A fee similar to the above examples would provide additional resources to the BDS Neighborhood Inspections program while reducing the program’s reliance on the General Fund. CBO recommends that BDS review the two options mentioned above and possibly others, and present the most viable options to Council for consideration as part of the FY 2016-17 budget process.

As part of the FY 2007-08 Adopted Budget, Council directed BDS via a budget note as follows:

“Council directs the Bureau of Development Services to prepare and present a proposal to change the existing fee structure and policies on granting waivers in the Neighborhood Inspections program during the FY 2008-09 budget process. The new fee structure and waiver policies need to be comprehensive and flexible to not only provide assistance to those in need, but also to provide sufficient resources to sustain program activities with minimal support from the General Fund.”

It has been eight years since BDS reported on the above issues; CBO believes that it would be beneficial to update Council on the bureau’s progress along with recommendations as necessary to strengthen the program both financially and programmatically to carry out the City goal to protect and enhance the

natural and build environment. This report should be presented to Council by December 2015, to allow for sufficient time to incorporate any Council directions in the FY 2016-17 Requested Budget.

Contingency Plan

As part of the bureau's budget process, BDS prepares a variety of econometric forecast models under a couple of economic scenarios. These are presented to the Bureau's Financial Advisory Committee. The committee consists of representatives from members of several advisory committees, local economic consulting firms, and the City Budget Office. The committee recommends the most likely-to-happen economic models and scenarios for use in the development of the bureau's Requested Budget and Five-year Financial Plan. The current process is effective and provides important feedback to the bureau in navigating a highly unpredictable economy.

While the assumptions for growth are incorporated into the bureau's financial documents, the bureau does not have a clear policy to manage the worst case scenario should the economy take an unexpected downturn. Given the volatility of the construction industry, directly impacting the bureau's main funding source, CBO recommends that BDS develop a clear and comprehensive policy dealing with the worst economic case scenario. Such a policy is important to guide BDS and Council in taking timely and effective steps to protect fund balance to continue funding essential services in difficult economic times. This contingency plan should include a list of the Bureau's key economic indicators, such as the number and valuation of commercial permits. If these indicators begin to show signs of stress, BDS should convene the Financial Advisory Committee to assist in assessing the current economic conditions and determining the next steps to take including, but not limited to, hiring freeze and implementing a potential workforce reduction. CBO further recommends that this contingency plan be clearly articulated and included in the bureau's Five-year Financial Plan.

Information Technology Advancement Project (ITAP)

BDS started the effort to replace the current and outdated permitting system (TRACS) in 2010. The new system, ITAP, will provide a more robust permitting system that will allow for online and expanded services for the bureau and public. The key components of the ITAP project include bringing new technology to the operations, including infield access, an electronic automated system for plan submission, review, permit issuance, and to transition historical bureau data to one centralized location.

The start of ITAP implementation was delayed until FY 2013-14, the result of the original attempt to use the same vendor as the State of Oregon, followed by the decision to issue a Request for Proposal through the Office of Management & Finance Procurement Services. In the February 2015 report from the Technology Oversight Committee (TOC), the project received an overall rating of "red", the same rating as in the previous three months. According to the Bureau of Technology Services (BTS) website, a TOC rating of "red" is described as follows:

***RED** – Scope, budget, schedule or quality assurance issues have been escalated to project governance but intervention and resolution have not yet occurred resulting in significant risk to scope schedule or budget. Issues at this level are likely to require intervention from Bureau leadership, CTO/CAO or the Technology Oversight Committee.*

In the February 2015 TOC report, the expected completion date is stated to be in the winter of FY 2015-16 with a confidence level of “Medium”. This is the same information provided in the November, December, and January TOC reports. The budget for the project is estimated at \$11.8 million in all four TOC reports mentioned above with the confidence level of “Medium”. The project budget includes a contingency of 20%. The TOC expresses concerns that: “Change in schedule may cause increase in City capital costs”.

The main reason for this poor rating is because BDS does not have a firm date or schedule for the expected go-live of the project. In the beginning, the contractor had not been responsive and had caused delays due to deliverable deficiencies. This led to the need to replace the contractor’s staff who were working on the project, which resulted in the need to re-staff and re-start many components of the project. The project is now approximately five to eight months behind the originally anticipated go-live date and no hard dates for the completion have been set. The contractor has since changed the project team and the deliverable acceptance has improved. While this is encouraging news, it will be difficult for BDS and the contractor to overcome the five to eight month delay without compromising on the quality of the deliverables. As a result, the project completion date will continue to be in flux and the project will continue to receive the TOC “red” rating in the foreseeable months.

The contract that BDS has with Sierra Systems, Inc., the integrator contractor for ITAP, is a deliverable-based contract. Under the terms of this contract, the contractor will receive payments when the deliverables are received and accepted by the bureau. The contract includes a provision for a Formal Project Plan to be developed jointly by both BDS and the contractor to describe the work, deliverables, and schedule that the Contractor will complete and deliver to the City. The Formal Project Plan is referenced in the contract as a deliverable, and is intended to be a flexible, living document “...as such specifications, and requirements and Scope of Work may be changed from time to time by mutual agreement in writing...” Therefore, it has never been formally adopted or amended in a finalized form with hard deliverable dates.

To resolve this issue, CBO, in consultation with the City Attorney’s Office, offers the following recommendation. BDS should negotiate with the Contractor to revise the current Formal Project Plan to include a detailed and realistic schedule of work and deliverables with firm dates to be expected from the Contractor for the remaining life of the contract. Additionally, the contract should be amended to include this new/revised Final Formal Project Plan as an enforceable part of the contract, potentially with additional remedies to the City such as liquidated damages for the contractor’s failure to meet hard dates. After the amendment is approved by Council, TOC will continue to monitor this project based on the new schedule.

It is important to note that, while the ITAP completion date is still uncertain, this situation has not impacted daily operations. The current permitting system (TRACS) is still operational and BDS continues to collect revenues as budgeted. The maintenance and support contract with CSDC Systems, Inc. for the TRACS system remains effective until August 31, 2016, with a Council approved option to extend it for an additional two years. The ITAP budget is currently estimated at \$11.8 million, including a 20% contingency; this total is included in BDS’ FY 2015-16 through FY 2019-20 Five-Year Financial Plan.

According to the plan, BDS is estimated to end FY 2015-16 with \$20,422,239 in excess of reserve goals. As it currently stands, the risk ITAP poses to the General Fund is low.

Key Performance Measures

For the Key Performance Measures (KPM) in FY 2015-16, BDS selected the following eight measures:

1. Percentage of Commercial Permit – New Construction – First Review Done within 20 Days of Application Intake.
2. Percent of Type II Land Use Reviews – Application Completeness Review Done within 14 Days of Application Intake.
3. Percentage of Pre-issuance Checks Completed within Two Working Days of Last Review Approval.
4. Percentage of Residential Plans Reviewed by All Bureaus within Scheduled End Dates.
5. Percentage of Commercial Plans Reviewed by All Bureaus within Scheduled End Dates.
6. Percentage of Commercial Inspections Made within 24 hours of Request.
7. Percentage of Residential Inspections Made within 24 hours of Request.
8. Number of Housing Units Brought Up to Code As a Result of Enforcement Program.

The above KPMs reflect the bureau’s key functions and support essential City services. Overall, these KPMs trend well and decision packages requested in FY 2015-16 directly support these measures. Most notably are the following:

	FY 2012-13	FY 2013-14	FY 2014-15	FY 2015-16	Average
	Actuals	Actuals	Estimated	Projected	Growth
Percentage of Commercial Inspections Made within 24 Hours	91%	86%	90%	95%	1%
Percentage of Pre-issuance Checks Completed within 2 Days	83%	58%	65%	75%	-3%
Percent of Commercial Permits Done within 20 Days	72%	61%	70%	80%	4%
Percent Type II Land Use Reviews Done within 14 Days	65%	60%	55%	80%	7%
Number of properties cleaned up as a result of enforcement program	1,606	1,984	2,740	3,757	33%

The drop in performance in FY 2013-14 for several of these measures is due to a gap between higher than anticipated workload and available staff. The bureau has since added staff to address the workload issue and the situation has improved.

Decision Package Analysis & Recommendations

The Bureau of Development Services requests seven decision packages, presented and discussed below, to address its operational needs in FY 2015-16. Of these requests, three (DS_01, DS_02, and DS_03) would be funded by program revenues and the remaining four (DS_04, DS_05, DS_06, and DS_07) would be funded by one-time General Fund discretionary resources. The bureau’s Budget Advisory Committee (BAC), Labor Management Committee (LMC), and Development Review Advisory Committee (DRAC) have all expressed support for these requests.

Development Services Center Improvements, DS_01, \$383,548, 3.00 FTE

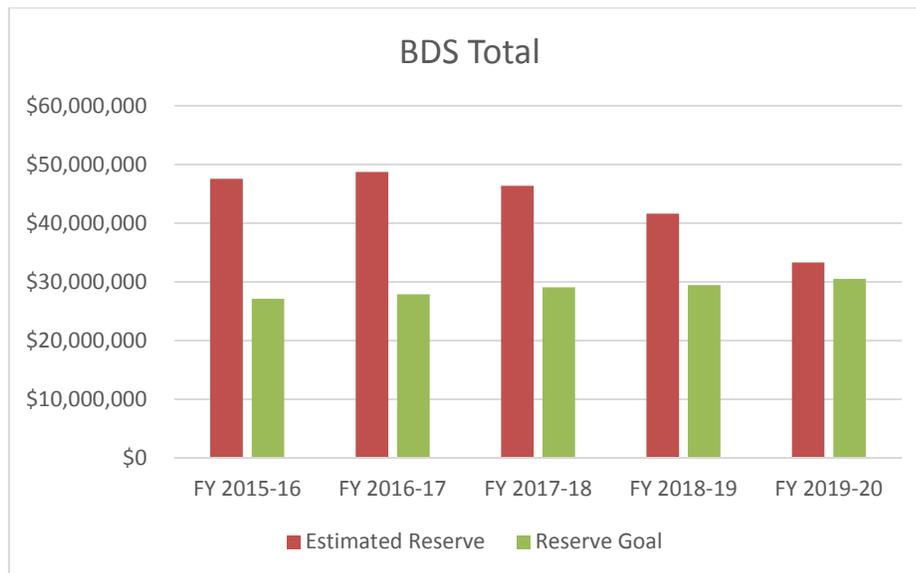
BDS requests three positions: one Development Services Technician, one Plan Examiner, and one Building Inspector to provide additional services at the Development Services Center (DSC) located in the 1900 Building. These services are aimed to improve access to programs and services, particularly to members of the under-represented and disadvantaged communities. These positions would be funded by the bureau's internal resources generated by fees. This decision package supports essential City services and is consistent with the following Mayoral priorities:

- Expand Healthy Complete Neighborhoods, because the additional staff would increase access of essential city services to more members of under-represented and disadvantaged communities;
- Institutionalize Racial Equity, because members in these groups have historically been denied city services. The additional staff would boost the overall performance of the DSC, the first stop for residents with issues related to the bureau's permitting and inspection processes. BDS has established two new key performance measures to track and evaluate efforts in these service areas: Percent of Commercial Permit – New Construction – First Review Done within 20 Days of Application Intake and Percent Type II Land Use Reviews – Application Completeness Review Done within 14 days of Application Intake. CBO recommends this decision package.

CBO Recommendation: \$383,548, 3.00 FTE

Improve Overall BDS Service Level, DS_02, \$1,501,888, 14.00 FTE

After a long and steep recession, the economy started to improve in FY 2011-12 and BDS has seen sustained and strong permit and land use revenues along with growing workloads. As a result, the bureau has been adding staff to meet workload requirements. In the Fall BMP, Council approved 22 new positions and in FY 2015-16, the bureau requests 14 new positions to provide additional support to the Plan Review and Permitting, Land Use, and Inspection Services. This is necessary to address projected service gaps in these areas. These positions would be funded by permit fees and service charges. The FY 2015-16 through FY 2019-20 Five-Year Financial Plan indicates that the bureau has sufficient resources to fund these positions, and the plan shows that the bureau is estimated to end FY 2015-16 with \$20.4 million in excess of reserve goals as presented in the graph on the next page.



BDS does not request fee increases for any of its programs in the next five years. The only exception is the Environmental Soils Program, which has a fee-based ongoing contract with Multnomah County. This decision package is consistent with the Mayoral priority to Expand Healthy Complete Neighborhoods, because these additional staff would improve the overall development services processes and increase access of these services to all residents in the city. BDS has established the following key performance measures to track and evaluate its performance in these service areas: Percentage of Pre-issuance Checks Completed within 2 Working Days of Last Review Approval, Percentage of Residential/Commercial Plans Reviewed by All Bureaus within Scheduled End Dates, and Percentage of Commercial/Residential Inspections Made within 24 Hours of Request. CBO recommends this decision package.

CBO Recommendation: \$1,501,888, 14.00 FTE

Community Outreach and Engagement, DS_03, \$192,852, 2.50 FTE

BDS requests 2.50 positions for the Customer Service & Communications section to increase the bureau’s effort on community outreach, customer service, and education for all residents, including those in the under-represented groups. The bureau’s Budget Advisory Committee (BAC) has made this request to the bureau on several occasions at BAC meetings. These positions would be funded by permit fees and service charges. This decision package is consistent with the following FY 2015-16 Mayor’s priorities: Expand Healthy Complete Neighborhoods and Institutionalize Racial Equity. BDS does not have performance measures in place to track and evaluate its efforts in community outreach services, particularly the efforts aimed at members in the under-represented groups. CBO urges the bureau to develop performance measures to track its performance in this service area. CBO recommends this decision package.

CBO Recommendation: \$192,852, 2.50 FTE

Extremely Distressed Properties Enforcement Program, DS_04, \$160,244, 1.00 FTE

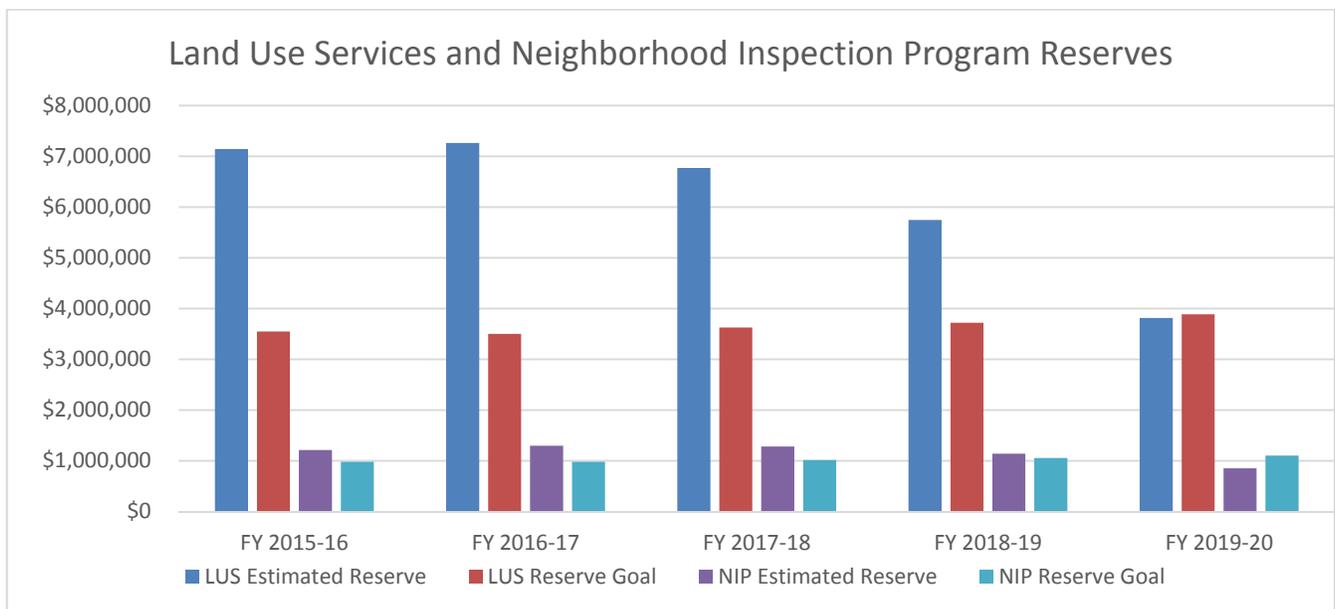
Enhanced Inspections, DS_05, \$365,916, 3.00 FTE

Nuisance Abatement, DS_06, \$50,000, 0.00 FTE

Land Use Services, DS_07, \$159,480, 2.00 FTE

BDS requests one-time General Fund discretionary resources for the above four decision packages to fund a variety of services in the Neighborhood Inspections and Land Use Services programs: additional resources for the Extremely Distressed Properties Enforcement (EDPEP), Enhanced Rental Inspections, Nuisance Abatement programs, and two limited-term positions to provide outreach and community engagement services related to land use reviews. These decision packages support essential City services and respond to the following Mayoral priorities: Expand Healthy Complete Neighborhoods, because they will improve neighborhood livability; and Institutionalize Racial Equity, because these types of nuisance problems are most often found in low-income communities.

Thanks to the robust economy in recent years; in FY 2014-15, BDS is projected to achieve 114% and 110% cost recovery in both the Land Use Services and Neighborhood Inspection Programs respectively. Additionally, both programs show positive reserves exceeding their goals in all but the last year of the five-year financial forecast as presented in the table below.



CBO recommends the above four decision packages; because the EDPEP, Enhanced Rental Inspections, and Nuisance Abatement programs are ongoing functions, CBO recommends ongoing funding for these programs. CBO recommends one-time funding for the limited-term positions in the Land Use Services program as requested. CBO does not believe that additional General Fund resources are necessary to fund these decision packages at this time, given the financial strength of the above programs. CBO recommends that BDS fund these four decision packages with current internal resources.

CBO Recommendation: \$735,640, 6.00 FTE

City of Portland
 Decision Package Recommendations
 (Includes Contingency and Ending Balance)

	Bureau Priority	Bureau Requested					CBO Analyst Recommendations				
		FTE	Gen Fund Ongoing	Gen Fund 1-Time	Other Revenues	Total Expenses	FTE	Gen Fund Ongoing	Gen Fund 1-Time	Other Revenues	Total Expenses
Bureau of Development Services											
<i>Adds</i>											
DS_01 - Development Services Center Improvements	01	3.00	0	0	0	0	3.00	0	0	0	0
DS_02 - Improve Overall BDS Service Level	02	14.00	0	0	0	0	14.00	0	0	0	0
DS_03 - Community Outreach and Engagement	03	2.50	0	0	0	0	2.50	0	0	0	0
DS_04 - Extremely Distressed Properties Enforcement	04	1.00	0	160,244	0	160,244	1.00	0	0	160,244	160,244
DS_05 - Enhanced Inspections	05	3.00	0	365,916	0	365,916	3.00	0	0	365,916	365,916
DS_06 - Nuisance Abatement	06	0.00	0	50,000	0	50,000	0.00	0	0	50,000	50,000
DS_07 - Land Use Services	07	2.00	0	159,480	0	159,480	2.00	0	0	159,480	159,480
<i>Total Adds</i>		<i>25.50</i>	<i>0</i>	<i>735,640</i>	<i>0</i>	<i>735,640</i>	<i>25.50</i>	<i>0</i>	<i>0</i>	<i>735,640</i>	<i>735,640</i>
Total Bureau of Development Services		25.50	0	735,640	0	735,640	25.50	0	0	735,640	735,640