

**City of Portland, Oregon**

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**OMF Internal Services Funding  
Methodology Review**

Report Appendices

October 9, 2017

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## Appendix 1: Strategies Considered

### Summary

Following are the strategies we considered as part of this review. Some were identified during our review of “best practices”. Others were suggested by OMF staff or project stakeholders. Not all strategies were fully vetted by stakeholders or recommended. Elements of some strategies were combined with others to form the final recommendations.

Budget Process Strategies	Cost Recovery Strategies	Service Delivery Strategies
<ul style="list-style-type: none"> <li>A. Change the City’s budget model.</li> <li>B. Improve budget decision support.</li> <li>C. Implement a growth factor.</li> <li>D. Allow General Fund (GF) carryover.</li> <li>E. Require bureaus to budget for central support services as part of project appropriations.</li> </ul>	<ul style="list-style-type: none"> <li>F. Modify the General Fund Overhead (GFOH) model.</li> <li>G. Describe base services and performance levels.</li> <li>H. Create a Citywide Service Level Agreement (SLA).</li> <li>I. Create “buy-up” opportunities. Increase use of Interagency Agreements (IAs).</li> <li>J. Create internal services funds.</li> </ul>	<ul style="list-style-type: none"> <li>K. Change service delivery models.</li> <li>L. Share services with other jurisdictions.</li> </ul>

## A. Change the City's budget model.

### Strategy

Consider changes to the City's budgeting model for General Fund bureaus, based on models used in other cities and counties.

### Discussion

The City of Portland's budget for General Fund bureaus begins with an adjusted base budget and uses bureau decision packages to add or reduce overall funding. The City first establishes Current Appropriate Level (CAL) Targets for all General Fund bureaus. CAL Targets are calculated using a bureau's previous year's Adopted General Fund Budget adjusted for inflation, Council-directed adjustments or priorities, Cost of Living (COLA) increases, and a formula to approximate position step increases. Bureaus may submit decision packages to request additions or reductions to General Fund revenues, add new sources of revenues or fees, add or cut positions, or to realign resources among programs.

In recent years the Mayor has directed General Fund bureaus to create decision packages identifying a minimum 5-10% of budget reductions. In theory, reduction packages are used to focus attention "on the bureau's core mission, and to limit add package requests to those which address only the highest priority programs and services."<sup>1</sup> In practice, reduction packages complicate the budget decision process. OMF's central support services decision packages compete directly with packages from other general fund bureaus. Base expenditures included in CAL Targets are not subject to evaluation, and there is no ability to compare new requests to existing programs, services, or levels of expenditures.

This budget process has not worked well for BHR or Procurement Services. Traditionally, OMF's decision packages have not been competitive for General Fund resources against packages offered by direct public service bureaus. OMF's reduction or "cut" packages have been accepted at a higher rate than those of other General Fund bureaus. Fully 92% of OMF submitted budget reductions were accepted as part of the Adopted Budget during the past five years, as compared 60% of all other General Fund bureaus' reduction packages.<sup>2</sup>

According to OMF staff, the City has used a number of different budgeting approaches over time, including models that included reductions and additions, restoration of services if reduction packages were denied, and used realignment packages.

Some form of the following budget models have typically been used by government agencies:

- **Revenue-Based Budgeting (RBB)** has been used by institutions of higher education and some cities. It allows organizations to spend a set amount of general fund resources, based on City priorities and projections to balance the budget. Managers are free to budget and manage funds as they see fit. All savings are carried forward from year to year, and managers are encouraged to set aside revenues in contingency accounts to handle emergencies or revenue downturns.<sup>3</sup>

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<sup>1</sup> City of Portland FY 2017-18 Adopted Budget, Citywide Summaries and Bureau Budgets, Vol 1. Pg. 31.

<sup>2</sup> Data provided by OMF using historic compilation of budget database data from FY 2011-12 through FY 2017-18.

<sup>3</sup> Lazenby, S. D., The Human Side of Budgeting: Budget Games & How to End Them, Erehwon Press, Sandy, Oregon, 2013, p. 2.

- **Zero-Based Budgeting (ZBB)** requires an organization’s entire budget to be justified and approved each year. Under a pure ZBB model, bureaus do not receive a base budget; instead, they submit decision packages to describe and justify base funding, current services funding, and enhanced services funding. Packages can be ranked within each Bureau. Some organizations establish a base level (50-55% of current budgets) and require decision packages to justify any remainder.
- **Service Level Budgeting (SLB)** is a variation of Zero-Based Budgeting where organizations create decision packages to reflect desired levels of service. One package might describe minimum funding to remain viable (maintain current service levels). Other packages could detail the resources needed to achieve new service levels. Each package would include positions required, estimated costs for personal services, other operating expenses, and capital outlay, and related performance measures detailing levels of service and service workloads or outputs.

Evaluation

Benefits	Considerations
<p><u>Zero-Based Budgeting</u></p> <ul style="list-style-type: none"> <li>▪ Improves analysis during periods of stagnant or reduced revenues, since it requires deeper look at existing funding levels.</li> </ul> <p><u>Service Level Budgeting</u></p> <ul style="list-style-type: none"> <li>▪ Focus on service levels is appropriate for central support services.</li> <li>▪ Impact of budget cuts on services would be very clear.</li> <li>▪ Could provide better justification for expenditures, and make decision packages more competitive.</li> <li>▪ Should encourage better decisions where cuts should occur, replacing across-the-board cuts.</li> </ul> <p><u>Revenue Based Budgeting (RBB)</u></p> <ul style="list-style-type: none"> <li>▪ Could give bureaus greater control over line items.</li> <li>▪ Competition between bureaus for General Fund resources would be reduced.</li> <li>▪ RBB usually includes carryover provisions. Bureaus control annual savings and can use them as contingency funds.</li> </ul>	<ul style="list-style-type: none"> <li>▪ These methods would represent a major change in approach for the City of Portland. OMF alone is unlikely to effect this change.</li> <li>▪ RBB may restrict ability of City to evaluate and set funding priorities.</li> <li>▪ ZBB and Service Level Budgeting require results-oriented performance measures and data. Performance data are under development, but not currently available.</li> <li>▪ ZBB and Service Level Budgeting require extensive work each budget cycle.</li> <li>▪ GF carryover could be extended to internal support services without changing the budget methodology.</li> </ul>

Benefits	Considerations
<ul style="list-style-type: none"> <li>▪ RBB creates incentives for long-term planning, efficient fund management.</li> </ul>	

Stakeholder Feedback

This strategy was briefly discussed at an Advisory Committee meeting, but was not referred to the Stakeholder Workgroup for detailed discussion.

Recommendation

Do not pursue a citywide change to the overall budget model or process at this time. Consider using some of the elements or tools of RBB and SLB to improve the budget development process and the quality and content of decision packages such as:

- Better definition and prioritization of decision packages; linkage of decision packages and appropriations to desired levels of service (see Strategy B),
- GF carryover (see Strategy D),
- Identification of performance measures (see Strategy G),
- Elimination of mandatory cut packages for central support services (see Strategy E),
- Modification of the CAL Target (see Strategy E).

## B. Improve budget decision support.

### Strategy

Build well-defined, compelling decision packages that are supported by customers. Improve prioritization of packages. Encourage planning, priority-setting, and other discussions between bureaus and with CBO and City Council during the budget process.

### Discussion

BHR and Procurement Services decision packages have not been competitive for General Fund revenues against direct public service bureaus such as Police and Fire. OMF reduction packages have been accepted at a higher rate than those of other General Fund bureaus. OMF has not been able to quantify the impacts of funding or staffing changes on BHR and Procurement Services service levels or performance. Lack of data has likely hurt its decision packages.

We discussed two ways to improve packages:

- *Make decision packages more persuasive.* Use performance measures to describe the impact of proposed funding and/or staffing increases on service levels and performance. Include workload data and measures of outputs, efficiency, and effectiveness as appropriate.
- *Encourage customers to play a greater role.* Work with customer bureaus to build compelling decision packages for OMF central support services. Packages should describe customer needs and demonstrate customer support for OMF requests. Improve communication with customer bureaus during planning and budgeting for central support services.

OMF would need to determine the most effective ways to work with customer bureaus. This could be through use of a formal stakeholder or budget advisory group, or customers could be consulted one-on-one during the budget process.

### Evaluation

Benefits	Considerations
<ul style="list-style-type: none"><li>▪ If used correctly, decision packages are an effective tool to help prioritize services.</li><li>▪ Should result from better communication between bureaus and with Council.</li><li>▪ Requires the least amount of structural change of any strategy.</li><li>▪ Improvement is always a worthwhile goal.</li></ul>	<ul style="list-style-type: none"><li>▪ Procurement Services and BHR decision packages have not been competitive with other General Fund bureau requests. Even if support for packages is improved, there is no guarantee that requests will be any more competitive against other General Fund demands.</li><li>▪ Risks continuation of processes and practices that have not worked well in the past.</li><li>▪ Competitive packages require clear identification of services to be provided, expected performance, and resource</li></ul>

Benefits	Considerations
	requirements that are clearly linked to service levels and performance.

### Stakeholder Feedback

Customer bureaus agreed that OMF could improve its decision packages by better describing impacts to services and performance levels and by improving communication with bureaus. However, they were concerned improved packages alone would not likely solve funding problems or improve central support services funding competitiveness.

CBO representatives strongly supported this strategy, and advocated for improved communication between service bureaus and customer bureaus. They noted CBO is willing to consider packages that have strong customer bureau support, and where it is clear customers have agreed to forgo General Fund resources to support central support services.

### Recommendation

Include improvements to budget decision support as part of a comprehensive solution. Specifically:

- Use performance data and targets collected as part of Strategy G to improve the overall quality of OMF's central support services decision packages. Justify requests and quantify the impacts of funding and staffing resources on bureau performance.
- Continue to improve communications between OMF central support services and customer bureaus during the budget process. Find ways to involve customer bureaus in planning and budgeting for central support services.

## C. Implement a growth factor.

### Strategy

Add a factor to the Current Appropriation Level (CAL) Target for Procurement Services and BHR to reflect citywide growth and contractions.

### Discussion

Current Level Appropriation Level (CAL) Targets are used to create a base budget for BHR and Procurement Services each fiscal year. CAL Targets are calculated using a bureau's previous year's Adopted General Fund Budget adjusted for inflation, Council-directed adjustments or priorities, Cost of Living (COLA) increases, and a formula to approximate position step increases. This calculation does not capture citywide growth in budgets or FTE positions, both drivers of additional workload for central service providers. Any projected growth in demand for services related to citywide growth, large projects or new policy initiatives must be requested in bureau decision packages. Historically, these have not tended to survive citywide budget cut directives and have not been competitive with packages from direct services bureaus such as Fire or Police.

Because the General Fund Overhead Model (GFOH) uses CAL targets to calculate the internal services costs that will be allocated to City funds, it builds "business as usual" into customer bureau budgets.

We considered several options for a growth factor, including:

- 1) Apply the growth factor to the entire CAL Targets for BHR and Procurement Services. Create specific factors for each provider, selecting citywide data are likely to predict demand for services. Factors might include, for example:
  - City Full Time Equivalent (FTE) positions, City Personal Services (PS) expenditures (for BHR)
  - Total number and/or value of City contracts (for Procurement Services)
- 2) Apply a growth factor to a subset of services. Recognizing that large construction contracts drive contracting workload for Procurement Services, we considered creating a growth factor that could be applied only to Procurement Service's construction contracting work. The City's capital improvement plan (CIP) could be used to predict upcoming work. City analysis revealed that the Water Bureau, Bureau of Environmental Services (BES), and Bureau of Transportation (PBOT) and Parks Bureau accounted for 99% of the value of awarded construction projects within the last five years. OMF staff determined that more analysis was needed before this strategy could be used.
- 3) Use authorized budgets or projected data rather than historical data to create the factor. We concluded that while current fiscal year authorized budgets and positions might provide a more accurate measure of citywide demand, any small increases in accuracy would be offset by the confusion of waiting for budgets to be approved and making last-minute adjustments to general fund bureau budgets. OMF could find ways to make projections based on historical data and information about future trends.

- 4) Use the growth factor to replace annual General Fund budget reductions. OMF staff advocated for eliminating budget reduction packages, since the growth factor should automatically reduce CAL Targets in years of negative growth or economic contraction.
- 5) Use the factor in place of required reduction decision packages. Allow the CAL Target to automatically adjust during periods of budget contractions or lower growth.

Currently, any approved OMF decisions packages require a reduction to other General Fund bureaus.

Evaluation

Benefits	Considerations
<ul style="list-style-type: none"> <li>▪ Procurement Services and BHR base budgets would begin to reflect citywide growth or contractions.</li> <li>▪ Factors could be more closely related to BHR and Procurement Services workload drivers.</li> <li>▪ Less impact on bureaus than the current process, since additions would be built into the CAL Target. Avoids a cut to customer bureaus in the middle of their budget process.</li> <li>▪ Growth or contractions/cuts would be applied only to impacted central services providers (using factors specific to each provider.)</li> <li>▪ Would reduce BHR and Procurement’s need to compete for basic funding against more popular General Fund decision packages.</li> <li>▪ Simple, easy to administer once factors are identified.</li> <li>▪ Council would retain authority to approve all FTE positions, and could reduce budgets if needed.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Anticipates some, but not all, growth. Relies on historical data (but data are citywide).</li> <li>▪ Central service providers will need to prepare for reduced funding during periods of contraction.</li> <li>▪ Is a mechanical factor, and somewhat restricts Council control over funding. (However, the CAL Target is also a mechanical calculation, and there is little or no Council review over CAL Target allocations.)</li> <li>▪ Most effective after “right-sizing” occurs.</li> <li>▪ Does not eliminate the need for well-constructed decision packages. OMF may need to prepare decision packages to meet unanticipated demand for services due to new projects or city initiatives.</li> </ul>

Stakeholder Feedback

Most stakeholders were supportive of some method to better match base revenue with growth or contractions in demand for central support services.

The CBO and some stakeholders did not support a mechanical factor. OMF staff suggested that the CAL Target itself is a mechanical calculation with limited Council review or oversight of base level allocations.

The CBO was concerned that the factor would reduce Council's ability to prioritize funding each year. CBO suggested finding ways to better use authorized budget data to anticipate growth needs, although stakeholders were quick to point out that any increases to Procurement Service or BHR budgets based on authorized data would require mid-cycle cuts in other General Fund bureau budgets. CBO preferred that OMF work with customers to determine needs and to prepare and defend better decision packages. The CBO preferred a one-time true up to ongoing use of a growth factor.

#### Recommendation

Include a growth factor as one of project's primary funding strategies. Develop appropriate factors for BHR and Procurement Services, a minimum/maximum amount, and consider smoothing over several years. Consider using the growth factor in place of routine budget reduction packages – only in years of negative growth to the bureau-specific factor would a reduction package be prepared.

## D. Allow General Fund carryover.

### Strategy

Allow BHR and Procurement Services to automatically carryover some or all unspent General Fund balances for limited use in the next fiscal year (subject to review when funds are appropriated.) Carryover could be limited to GF Discretionary funds to minimize the impact to non-general fund bureaus.

### Discussion

Bureaus currently have the ability to request a carryover in certain circumstances:

- Encumbrance carryover for open purchase orders or a contract where appropriated funds have been encumbered but not yet used. These are not automatic, and must be recommended by the CBO and approved by Council in a BMP process.
- Programmatic Carryover. A Bureau may request carryover for a specific purpose. These are discouraged by the CBO and often not recommended.
- Excess Revenue. Bureaus that collect more revenue than anticipated may request a carryover of these funds. Allowable revenues include licenses, permits, fines, fees intergovernmental revenues, capital and revenues from miscellaneous sales. They exclude interagency and General Fund discretionary or overhead resources. These are not automatic, and must be recommended by the CBO and approved by Council.<sup>4</sup>

Per current City Financial Management Policy, 50% of ending fund balance should be used for infrastructure maintenance (FIN 2.03). The remaining 50% of any excess balance is added to contingency or allocated to new funding requests (FIN 2.04). Projects requesting to be considered for funding in the Fall Budget Monitoring Process (BMP) need to be included in the citywide project ranking process conducted in coordination with the Fall BMP<sup>5</sup>.

Internal services funds and Enterprise Funds also allow bureaus to carryover funds from year to year without many of the restrictions placed on General Funds.

### Evaluation

Benefits	Considerations
<ul style="list-style-type: none"><li>▪ Would provide BHR and Procurement Services with better ability to manage for contingencies.</li><li>▪ Allows OMF to better manage short-term fluctuations in growth and demand.</li></ul>	<ul style="list-style-type: none"><li>▪ Reduces General Fund balance available to Council.</li><li>▪ Treats Procurement Services and BHR differently than other GF bureaus.</li><li>▪ May only be used for one-time, not ongoing, needs. Will not address permanent staffing requirements (but may</li></ul>

<sup>4</sup> City of Portland Budget Monitoring Process Manual, August 2017, p. 15

<sup>5</sup> Ibid, p. 13.

Benefits	Considerations
<ul style="list-style-type: none"> <li>▪ Could be structured to provide performance incentives or to reward central support services for savings realized.</li> <li>▪ Carryover would still be subject to review by CBO, and approval by Council.</li> </ul>	<p>help to provide contingency staffing or to “seed” longer term positions.)</p> <ul style="list-style-type: none"> <li>▪ Would need to determine how, if at all, carryover is reflected in CAL Target calculations.</li> <li>▪ If not limited to GF Discretionary funds, customer bureaus would be impacted. (GFOH paying bureaus receive savings as part of the GFOH true-up process each year.)</li> <li>▪ Could impact the amount of the General Fund Capital Set-Aside.</li> <li>▪ Must have appropriate stakeholder oversight, control.</li> </ul>

Stakeholder Feedback

Most stakeholders supported this concept. Stakeholders cautioned that carryforward should be limited to certain defined uses and that expenditures should be prioritized with customer oversight. CBO did not support this option. CBO representatives expressed concern about oversight and use of funding, and that other General Fund bureaus might insist on using this tool resulting in unintended fiscal impacts.

Recommendation

Include General Fund carryover without required administrative action as one of the project’s primary funding strategies. Prepare the appropriation of ending fund balance as carryover in the Fall BMP, and include a description of use for Council to evaluate. Funds would primarily be used for long term technology and efficiency project investment, as a contingency for unforeseen program needs and bureau demand, and for other stabilization funding.

## **E. Require customer bureaus to budget for central support services as part of project appropriations.**

### Strategy

Require bureaus to estimate central support services costs as part of the cost of capital projects, information technology projects, or other larger-scale initiatives. This strategy could be broadened to include an annual assessment of all bureau's needs for central support services as part of the budget process.

### Discussion

Central service providers and customer bureaus do not usually anticipate or plan for central support services that will be required as part of large capital construction programs or information technology projects. These projects are significant drivers of BHR and Procurement Services workload.

We discussed requiring bureaus to budget for direct central support services costs as part of obtaining budget approval for capital projects. This proposal is similar to the requirement that the Parks Bureau budget for Operations and Maintenance (O&M) as new park construction is approved.

BHR and Procurement Services costs related to large construction projects are allocated to all bureaus even though few bureaus consume most of the services. The Water Bureau, Bureau of Environmental Services (BES), and Bureau of Transportation (PBOT) and Portland Parks & Recreation accounted for a significant portion of all construction projects within the last five years. The GFOH model fully allocates Procurement Services' costs related to construction contracts to all bureaus, even in cases where enterprise bureaus are the largest consumers of services and have the ability and authority to pay for them.

### Evaluation

Benefits	Considerations
<ul style="list-style-type: none"><li>▪ Would allow BHR and Procurement Services to plan for anticipated growth in demand for services.</li><li>▪ Forward-looking.</li></ul>	<ul style="list-style-type: none"><li>▪ Bureaus would need direction or support to correctly estimate costs.</li><li>▪ Would require better communication between bureaus.</li></ul>

### Stakeholder Feedback

This concept was suggested during a Stakeholder Workgroup session. It is consistent with stakeholder desires to continue to improve planning and communication between bureaus. The CBO supported this strategy.

## Recommendation

Encourage customer bureaus to budget for central services as part of project appropriations. This could be done formally (through Council action) or informally. Use the Park Bureau's requirement to identify and fund O&M expenses when new parks are approved as a model. Explore:

- Requiring customer bureaus to budget for central services as part of project appropriations, similar to the method used to fund O&M expenses when new parks are approved.
- Building an annual assessment of all bureau's needs for central support services into the budget process.

## **F. Modify the General Fund Overhead Model (GFOH).**

### Strategy

Modify GFOH cost factors to more accurately describe the specific costs of providing services to customers.

### Discussion

The current overhead model (GFOH) was adopted in 2004 after a technical review of the City's overhead models<sup>6</sup>. Detailed cost factors were abandoned in lieu of a simplified, more straightforward approach to cost allocation.

Per City Code FIN 2.08.02, the cost allocation system provides for the stability, predictability, and equity of charges. The criteria for determining the costs to be allocated through the GFOH include:

- If the service provides a benefit to all City bureaus,
- If the service provides an oversight or regulatory function for City bureaus,
- If the service exists within the General Fund,
- If the bureau demand for a service is difficult to predict from one fiscal year to the next,
- If the costs of a service are difficult to charge to customer bureaus through a rate times unit model.

A leading practice in cost allocation is that the “beneficiary pays”. Bureaus should pay for central support services costs based on the benefit received by the bureau and the cost of providing those benefits. In the case of public utilities, the overhead allocation method must demonstrate that ratepayers benefit from the services and that benefits are commensurate with the charges.

We found one example where bureaus may be paying for services they do not directly benefit from. The GFOH model fully allocates Procurement Services' costs related to construction contracts to all bureaus, even though the services benefit a few bureaus. Most of the City's construction work is completed by the Water Bureau, Bureau of Environmental Services (BES), Portland Bureau of Transportation (PBOT), and Portland Parks & Recreation, for example. Other bureaus subsidize procurement-related costs for large projects, even though in most cases enterprise bureaus have the ability and authority to pay these costs.

We explored removing some construction-related costs from the GFOH and pricing services separately (Strategy I). We also considered applying a growth factor to construction costs (Strategy C). We recognized that bureaus supported by customer rate payers (Water, BES) must demonstrate the benefits of any charged services to rate payers, and that benefits are commensurate with the charges.

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<sup>6</sup> See “City of Portland Overhead Model Review, Final Report”, December 2004, FCS Group Incorporated.

## Evaluation

Benefits	Considerations
<ul style="list-style-type: none"><li>▪ Overhead charges could be more closely linked to actual costs and use of services.</li><li>▪ Could address objectives related to growth, fairness, and transparency.</li><li>▪ Funds from enterprise bureaus could offset General Fund dollars and make more resources available to Procurement Services.</li></ul>	<ul style="list-style-type: none"><li>▪ Would trade simplicity and ease of administration for small gains in model accuracy.</li><li>▪ Unclear revenue impact. Changes to the model would allocate costs more accurately, but might not produce additional resources for central support services.</li></ul>

## Stakeholder Feedback

We introduced this strategy at an Advisory Committee meeting. It was not referred to the Stakeholder Workgroup for detailed discussion; however, possible changes to construction-related cost allocation or fees were discussed at other meetings.

## Recommendation

Do not pursue wholesale changes to the GFOH at this time. If costs can be isolated, consider removing certain construction-related services and costs from the GFOH, and describe and price these services using Interagency Agreements (see Strategy I.)

## G. Define base services and performance levels.

### Strategy

Define, describe, and document basic services and service expectations (performance levels) that are available to all customers of BHR and Procurement Services.

### Discussion

BHR and Procurement Services do not have written descriptions of basic services that are available to customer bureaus as part of the General Fund overhead assessment. Costs or prices of services are not calculated unless customers have executed an Interagency Agreement (IA) with OMF. Customers do not have a common understanding about what levels of services and performance they can expect. Basic performance data (timeliness, service volumes or quality) are not available, although providers are attempting to define and collect some of these data.

Other providers within OMF have prepared service descriptions that could be used as models for BHR and Procurement Services. For example, Business Operations Division has created a Service Level Agreement that summarizes its core services and identifies additional services available for a fee.

This strategy would provide much-needed visibility to services and performance and is critical to the success of other strategies. There is no direct revenue impact.

### Evaluation

Benefits	Considerations
<ul style="list-style-type: none"><li>▪ Provides greater customer visibility to service levels and expected performance.</li><li>▪ Important to the success of other strategies.</li><li>▪ Potential tool for helping to align Council, citizen, and bureau expectations. Opportunity to find out what customers really expect.</li><li>▪ Critical to “right-sizing” BHR, Procurement Services.</li><li>▪ Strengthens planning and budgeting. Creates data essential to effective decision packages.</li></ul>	<ul style="list-style-type: none"><li>▪ Measures have never been developed. Desired performance data may not be available.</li><li>▪ Requires time, effort, and resources to create.</li><li>▪ Will need to discover what customers really want or expect.</li></ul>

### Stakeholder Feedback

This strategy was strongly supported by OMF staff, the CBO, customer bureaus, and stakeholders.

### Recommendation

This is a core strategy. Include in recommendations.

## H. Create a Citywide Service Level Agreement (SLA).

### Strategy

Create a Citywide Service Level Agreement between BHR, Procurement Services and customer bureaus.

### Discussion

A Service Level Agreement (SLA) is an agreement between service providers (BHR, Procurement Services) and customer bureaus. Typically, an SLA describes the type and quantity of services to be provided, performance customers should expect, parties' roles and responsibilities, process for requesting services, and pricing for additional services, if applicable. The agreement can be formal (legally-binding and subject to remedies or penalties) or informal (description of a relationship).

An abbreviated form of an SLA is already in use for some OMF service providers, including BTS and BIBS. Business Operations Division has created a Service Level Agreement that describes its organization, summarizes its core services, identifies additional services available for a fee, and identifies primary customer bureaus.

Per City Financial Policy<sup>7</sup>, each Interagency Agreement (IA) should be augmented with a Service Level Agreement (SLA), negotiated between the provider and receiver bureaus. The SLA can take many forms, but specifies the quantity and quality of services to be provided.

### Evaluation

Benefits	Considerations
<ul style="list-style-type: none"><li>▪ Provides customers with greater visibility to service levels and expected performance.</li><li>▪ The process used to create the SLA helps to open and strengthen communications between internal service providers and customer bureaus.</li><li>▪ Helps to avoid conflicts between internal services providers and customers, since roles, responsibilities, needs and priorities are described and agreed to.</li></ul>	<ul style="list-style-type: none"><li>▪ Requires significant time and effort to create.</li><li>▪ Performance data may not be available.</li><li>▪ Formal (binding) agreements are less suitable for government internal services.</li><li>▪ Requires a process to review and update the agreement over time.</li><li>▪ BHR and Procurement Services may need to start with service definitions or descriptions, as some of their services are regulatory and may not be optional as the term "agreement" implies.</li></ul>

### Stakeholder Feedback

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<sup>7</sup> FIN 2.08.04 "Interagency Agreements":

Stakeholders considered this strategy, but preferred to focus on creating base level descriptions instead. (See Strategy G.)

#### Recommendation

Once base service levels and performance are defined (Strategy G) consider creating informal (non-binding) SLAs for BHR and Procurement Services. Or, modify Interagency Agreements to include key components of an informal SLA.

## I. Create buy-up options for services. Increase use of Interagency Agreements (IAs).

### Strategy

Identify additional services that could be purchased by customers based on need. Use performance-based Interagency Agreements to confirm services, prices. Allow customers to purchase additional service volumes or enhanced performance based on need. Use performance-based Interagency Agreements (IAs) to confirm services, pricing.

### Discussion

Per City Financial Policy<sup>8</sup>, Interagency Agreements (IAs) are agreements between bureaus for the exchange of goods or services for payment. If bureaus decide to recover costs through use of a rate system, they must execute an IA between the providing bureau and the receiving bureau. Rates must include all direct and indirect costs of providing the service. IAs are considered as part of the budget process and may only be adjusted by ordinance.

According to OMF representatives, IAs have been problematic for BHR and Procurement Services:

- IAs are difficult to construct and execute each year. The process to negotiate, draft, execute and staff the services is time consuming for both the service providers and the customers.
- Historically, some Procurement Services and BHR IA's have assigned dedicated positions (or portions of positions) to customer bureaus, rather than identify a level of service to be provided. Bureaus have viewed these "purchased" positions as theirs to control.
- Positions associated with IA funding are limited term and not ongoing, complicating the recruitment and retention of staff and service provision.

### Evaluation

Benefits	Considerations
<ul style="list-style-type: none"><li>▪ Could provide better visibility to costs, service levels.</li><li>▪ Works well for demand-driven services (recruitments, PTE contracting, training).</li><li>▪ IAs are familiar tools.</li><li>▪ Could better match costs to service usage.</li><li>▪ Would allow customers some control over costs.</li><li>▪ Potential to provide additional revenue from the most demanding customer bureaus, and</li></ul>	<ul style="list-style-type: none"><li>▪ Requires more detail about services and performance than is currently available.</li><li>▪ Annual IAs can be challenging to manage; often restricts hiring options to limited-term hires making it difficult to recruit.</li><li>▪ Requires more detail about services and performance than is currently available.</li><li>▪ Requires definition of base level services to work effectively.</li><li>▪ Requires base level services to be sufficient for most customers. System must not give</li></ul>

<sup>8</sup> FIN 2.08.04 "Interagency Agreements":

Benefits	Considerations
<p>enterprise bureaus with needs related to large projects.</p>	<p>undue advantage to customers with greater ability to pay.</p> <ul style="list-style-type: none"> <li>▪ Buy-up opportunities must be separate from base level services provided to all bureau customers under the GFOH.</li> <li>▪ IAs will need to become more performance-based.</li> <li>▪ Might not be needed once basic support services are fully-funded and BHR, Procurement are “right sized.”</li> </ul>

Stakeholder Feedback

Stakeholders were supportive of this strategy.

Recommendation

Include a “buy-up” option using Interagency Agreements as a recommended strategy. In the longer term, consider identifying and pricing specific services separately. The City will still need to address shortcomings of Interagency Agreements and staffing.

## J. Create internal services funds.

### Strategy

Create internal service funds for Procurement Services and for BHR. Charge for direct services, and allocate indirect costs to the price of services as appropriate.

### Discussion

Internal service funds are used to account for central support services costs provided to bureaus. OMF has established internal service funds for City Fleet, Facilities Services, Enterprise Business Solutions, Risk Management, Printing and Distribution, and Technology Services.

Internal service funds provide certain flexibility to bureaus, but come with accounting restrictions and requirements. Bureaus may use internal services fund balances as needed, and balances may be carried over to the next fiscal year. However, funds must recover all costs, maintain working capital reserves (have sufficient reserves to operate from one billing cycle to the next), and maintain asset recovery reserves, if applicable. According to ORS 294.343, internal service funds must operate on a full cost reimbursement basis (no profit or loss over time.) Rates must be established through structured study and methods, and usually stakeholder oversight is required.

The Government Financial Officers Association (GFOA) recommends using internal services funds in cases where costs can be identified and assessed to specific customer bureaus, but notes that there is a cost to developing and maintaining pricing systems.<sup>9</sup> Many of BHR's and Procurement Services' costs cannot be assigned to a specific customer.

Other jurisdictions have established internal service funds for human resources and/or procurement functions, including the City of Fresno, California; Josephine County, Oregon; County of San Diego (Purchasing and Contracting); and the states of Utah and Vermont.

### Evaluation

Benefits	Considerations
<ul style="list-style-type: none"><li>▪ Could give OMF greater control over revenues.</li><li>▪ More accurate linkages of revenues to demand for services.</li><li>▪ Includes useful tools, like ending balance carryover and contingency funds.</li><li>▪ Customers would have greater visibility to and control over prices/costs.</li></ul>	<ul style="list-style-type: none"><li>▪ No guarantee of additional revenues, but could provide more control over revenues.</li><li>▪ Internal services funds expand and contract with demand. Resources may decline in some years.</li><li>▪ Funds create extra administrative overhead, analysis.</li><li>▪ Requires study to include full costs of services in prices.</li></ul>

<sup>9</sup> Government Finance Officers Association Best Practices Advisory, "Pricing Internal Services".

Benefits	Considerations
	<ul style="list-style-type: none"> <li>▪ Most services are not amenable to pricing or assignment to a specific customer.</li> <li>▪ Customers could choose not to buy some services, reducing revenues to the funds.</li> <li>▪ City Council retains authority. There is no guarantee that funds or position authority will be granted.</li> <li>▪ Works best if BHR and Procurement Services are “right-sized”.</li> </ul>

Stakeholder Feedback

This strategy was mentioned at an Advisory Committee meeting, but was not referred to the Stakeholder Workgroup for detailed discussion.

Recommendation

- Do not pursue at this time.
- Recommend use of General Fund carryover as a tool to manage contingencies (see strategy D).

**K. Change service delivery models and processes.**

Strategy

Consider changes to service delivery models, such as delegating responsibility for some procurement and human resources functions to customer bureaus, out-stationing staff, or streamlining business processes.

Discussion

This strategy could take several forms:

- Delegate responsibility for some activities to customer bureaus. Provide consultation, training, support and oversight to bureaus as they assume greater responsibility for activities. Assist customer bureaus to navigate business process and to resolve problems. Formally delegate purchasing or other authority as needed.
- Outstation staff. BHR already uses this strategy for site teams, and some bureaus currently use Interagency Agreements to “purchase” an out-stationed FTE position.
- Streamline business processes. Improve or redesign business processes to improve efficiency and effectiveness. Procurement Services is proceeding with business process improvement.

Benefits	Considerations
<ul style="list-style-type: none"> <li>▪ Potential to reduce costs of service delivery for BHR, Procurement Services (and need for additional General Fund revenues).</li> <li>▪ Could give customer bureaus greater visibility to and control over service consumption and costs.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Requires significant changes to current centralized model.</li> <li>▪ May require Council approval to delegate authority.</li> <li>▪ Shifts costs (and responsibility for budgeting for services) to customer bureaus.</li> <li>▪ Any changes to service delivery should be driven by industry best practice, and not by funding necessities.</li> <li>▪ Would not address immediate need for resources.</li> <li>▪ Requires better definition of base level services and performance (see Strategy G.)</li> </ul>

Stakeholder Discussion

We introduced this strategy at an Advisory Committee meeting. It was not referred to the Stakeholder Workgroup for detailed discussion.

BHR representatives noted that any changes to service delivery should be driven by industry best practice, and not by funding necessity.

Recommendation

Do not pursue at this time. Bureaus should continue work to improve the efficiency and effectiveness of business processes.

## L. Share services.

### Strategy

Execute intergovernmental agreements to share delivery of certain central support services with Multnomah County or others governmental entities.

### Discussion

Shared service delivery is a best practice in government administration. Agencies or government entities cooperate to share facilities, establish purchasing or insurance pools, merge IT departments and services, or manage special districts for example.<sup>10</sup> This strategy has potential to reduce the cost of delivering services (and the need for additional revenues.)

The City of Portland and Multnomah County have executed intergovernmental agreements for some of these purposes. Theoretically, agreements could be extended to include some of the services delivered by BHR and Procurement Services.

Benefits	Considerations
<ul style="list-style-type: none"><li>▪ Mechanisms are already in place to share resources between some jurisdictions.</li><li>▪ Could lower the costs of service delivery.</li></ul>	<ul style="list-style-type: none"><li>▪ Would not address immediate need for additional resources.</li><li>▪ Requires more study.</li></ul>

### Stakeholder Comments

We introduced this strategy at an Advisory Committee meeting. It was not referred to the Stakeholder Workgroup for detailed discussion.

### Recommendation

Do not pursue at this time.

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<sup>10</sup> Government Finance Officers Association (GFOA) Best Practices Advisory, October 2007.

## Appendix 2: Year-end Balance Carryover Analysis

### Bureau of Human Resources (BHR) FY 2013 to FY 2017 Year End Balance Analysis

	Revised Budget	Actual Expenditures	Year End Balance	Carryover Requested	Adjusted Year End Balance	Adj YE Bal as % of Budget	Total YE Bal as % of Budget
FY 2013	\$ 8,040,571	\$ 7,741,251	\$ 299,320	\$ 16,965	\$ 282,355	3.5%	3.7%
FY 2014	\$ 8,391,942	\$ 8,134,375	\$ 257,567	\$ -	\$ 257,567	3.1%	3.1%
FY 2015	\$ 9,081,370	\$ 8,538,169	\$ 543,201	\$ -	\$ 543,201	6.0%	6.0%
FY 2016	\$ 9,660,776	\$ 9,245,230	\$ 415,546	\$ 378,783	\$ 36,763	0.4%	4.3%
FY 2017	\$ 9,683,148	\$ 8,954,864	\$ 728,284	\$ 513,898	\$ 214,386	2.2%	7.5%
<b>Total</b>	\$ 44,857,807	\$ 42,613,889	\$ 2,243,918	\$ 909,646	\$ 1,334,272	3.0%	5.0%

Source: OMF

1. SAP Budget to Actuals (FY13 through FY17)
2. Fall BMP Submission documents (FY14 through FY17)
3. FY17 AP12 Year-end Actuals Report
4. Includes Training Fund.

Ave Adj Yr End: \$ 266,854

### Procurement Services FY 2013 to FY 2017 Year End Balance Analysis

	Revised Budget	Actual Expenditures	Year End Balance	Carryover Requested	Adjusted Year End Balance	Adj YE Bal as % of Budget	Total YE Bal as % of Budget
FY 2013	\$ 5,114,602	\$ 4,732,938	\$ 381,664	\$ 155,153	\$ 226,511	4.4%	7.5%
FY 2014	\$ 5,263,744	\$ 4,568,449	\$ 695,295	\$ 343,498	\$ 351,797	6.7%	13.2%
FY 2015	\$ 5,754,387	\$ 5,355,237	\$ 399,150	\$ 71,209	\$ 327,941	5.7%	6.9%
FY 2016	\$ 5,988,951	\$ 5,584,125	\$ 404,826	\$ 222,441	\$ 182,385	3.0%	6.8%
FY 2017	\$ 6,001,295	\$ 5,516,722	\$ 484,573	\$ 230,847	\$ 253,726	4.2%	8.1%
<b>Total</b>	\$ 28,122,979	\$ 25,757,471	\$ 2,365,508	\$ 1,023,148	\$ 1,342,360	4.8%	8.4%

Source: OMF

1. SAP Budget to Actuals (FY13 through FY17)
2. Fall BMP Submission documents (FY14 through FY17)
3. FY17 AP12 Year-end Actuals Report

Ave Adj Yr End: \$ 268,472

### Appendix 3: Growth Factor Analysis

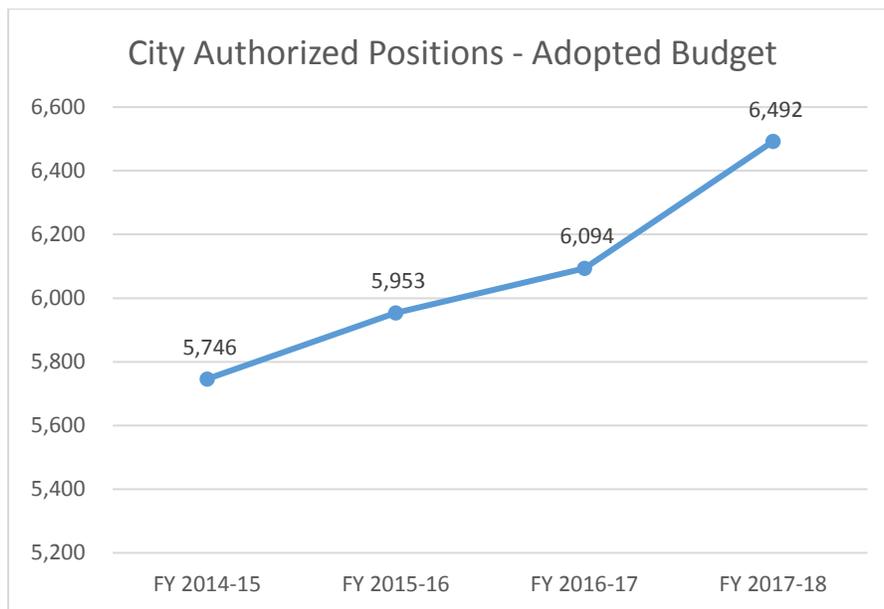
OMF prepared the following analysis to estimate the possible impact of a growth factor on BHR and Procurement Services during times of positive growth and contraction (negative growth.) Assumptions and results are shown below.

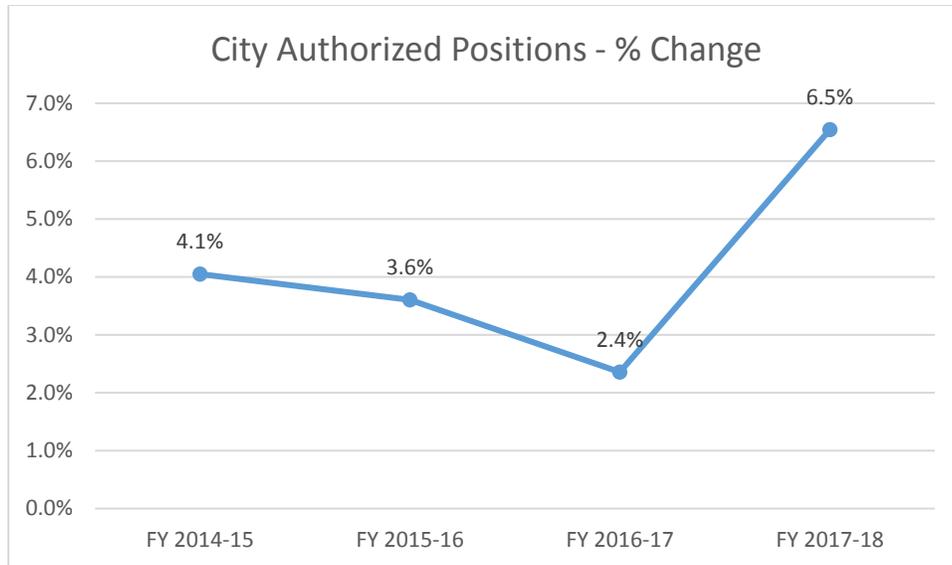
#### The growth factor in times of positive growth:

OMF estimated the impact of a growth factor on BHR's and Procurement Services' FY 2017-18 budget using data that were available during that budget preparation process.

OMF created a growth factor for BHR by applying the percentage of growth in City Authorized Positions to the initial CAL Target for BHR. OMF smoothed the growth factor over three years, and established a maximum/minimum adjustment of 3% to be used in years of positive and negative growth.

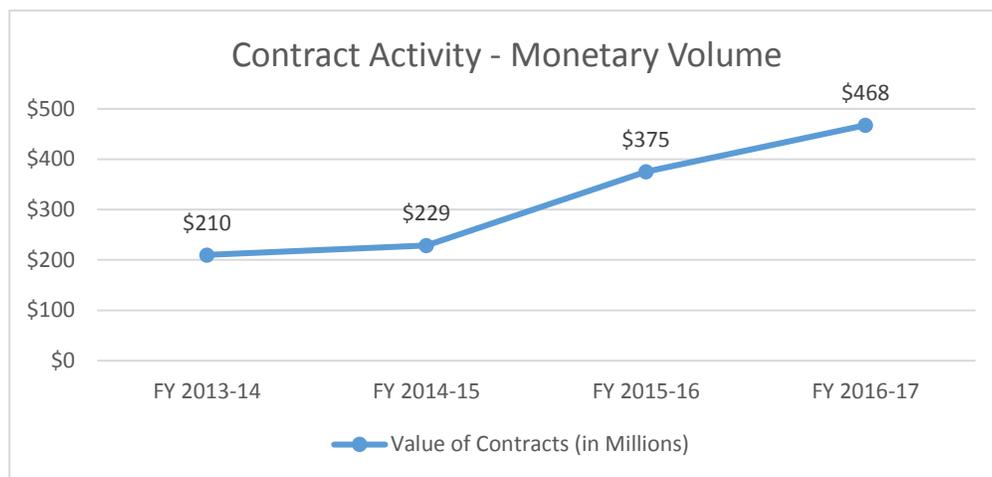
The data below include City Authorized Positions from FY 2014-15 to FY 2017-18. The percentage change for the same time period is also included.





At the time of CAL Target development for budget year FY 2017-18, data from FY 2014-15 through FY 2016-17 would have been available. By smoothing the above trend from FY 2014-15 through FY 2016-17, OMF obtained a growth factor of 3.3%. If this factor was applied to BHR’s FY 2017-18 CAL Target of \$8.8M, BHR would have received an additional \$294,975 in resources. If the factor were capped at a proposed maximum of 3%, BHR would have received \$265,088 in additional resources.

Similarly, OMF created a growth factor for Procurement Services based on the dollar value of City contracts. The growth in value of City contracts has increased significantly. When smoothed over three years, the 16% growth exceeded OMF’s recommended amount of 3% maximum.



A maximum growth factor of 3% would have resulted in \$179,463 in additional Procurement Services resources.

The growth factor in times of negative growth:

Required bureau reduction packages (cuts) can materially impact bureau budget development and ultimately service delivery. In times of increasing bureau service demand, the development of reduction packages while at the same time engaging, analyzing and preparing add packages to meet bureau demand is counterintuitive. The growth factor is intended to be used not only as a tool to pace growing bureau demand, but a tool to determine if cut decision packages (or reduction options) should be prepared. For example, if demand for BHR services is growing, (the number of City Authorized Positions increasing) no reduction options will be prepared. City authorized positions are a gross indicator of BHR demand for services, such as labor relations, classification and compensation, payroll, recruiting and other services. Conversely, if demand is contracting, the BHR CAL Target will be reduced by an amount equal to the amount of negative growth. The proposal herein recommends a growth factor ceiling and floor, no greater 3% positive or negative.

Adding the recommendation to smooth the growth factor over three years would lessen volatility, and create a “tail” on negative growth that would allow BHR to provide services sufficient to support City authorized position contraction, which at its worst still requires BHR staff support and resources to separate staff from City employment.

If the BHR example above was conversely negative growth of 3%, it would have required BHR to identify \$265,068 in cuts for the FY 2017-18 budget.

## Appendix 4: Strategies and Desired Outcomes

Desired Outcomes	Recommended Strategies			
	Define Base Service Level	Allow GF Carryover	Growth Factor	Buy Up Option
Resource sufficiency		√	√	√
Adaptable to growth, changes in demand		√	√	√
Resource predictability	√	√	√	√
Visibility, transparency	√	√	√	√
Performance-driven	√			√
Fairness	√	√	√	√
Accuracy, reliability	√		√	√
Better communication and planning	√	√	√	√
Ease of administration	√	√	√	√