City of Portland

Closing the Major Maintenance and Asset Replacement Funding Gap

Funding Options Report

Capital Projects Workgroup

October 2014

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Executive Summary

The City of Portland lacks sufficient resources to properly maintain all of its existing assets and provide public services at the current level. In an effort to address this issue, Council directed the City Budget Office and bureau asset managers to form a workgroup to develop options for funding and allocating resources for major maintenance and infrastructure replacement needs. Specifically the FY 2014-15 Adopted Budget note states:

> *Bureau asset managers are directed to work with the City Budget Office to develop options for funding and allocating resources to address recurring major maintenance and replacement needs of infrastructure assets. A report detailing the options and implementation timeline should be provided with the FY 2014-15 Fall BMP.*

This report outlines a suite of options for closing the major maintenance and asset replacement funding gap, recognizing that a successful approach will include a selective blend of various options, since there is no single solution. This report also includes recommendations and an implementation timeline that are intended to serve as a framework for making progress on this Citywide issue. Recommendation highlights include:

- Reestablishing a General Fund Capital Set-Aside;
- New revenue sources for transportation;
- Incremental increases in internal service fund rates;
- Developing options for ongoing General Fund allocations to bureaus; and,
- Policy changes and project prioritization activities.

It is important to acknowledge that, implicit in all the options and recommendations presented in this report is the fact that, without a substantial realignment of resources – new or existing – to address this issue, the City risks higher costs and lower levels of service in the future. Further, unless Council fully funds the day-to-day operations and preventative maintenance costs associated with City infrastructure, the backlog will continue to increase.

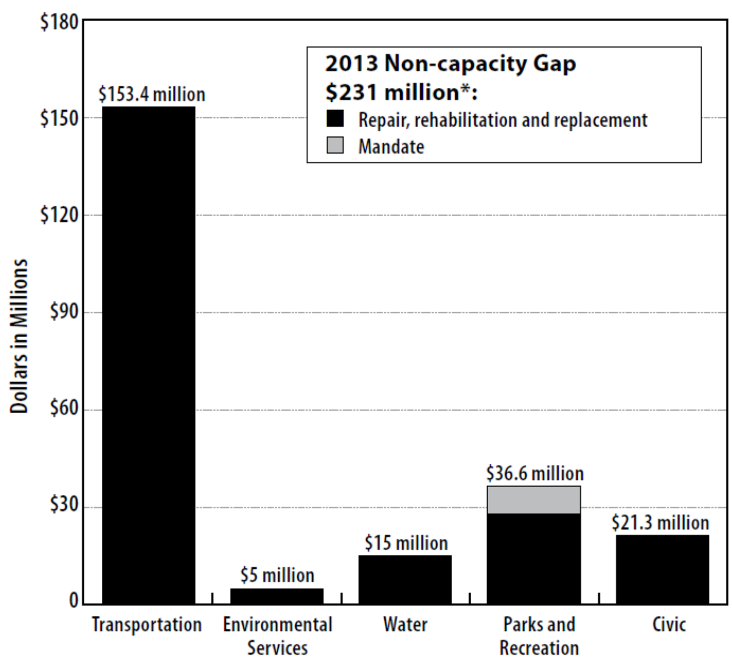
Background

The City of Portland, like many cities around the nation, has a large and aging infrastructure. Also like many cities, Portland struggles to maintain its infrastructure while also meeting the growing needs of its population. The difficulty in balancing these priorities has created a funding gap; in that the level of resources dedicated to maintaining the City's infrastructure is insufficient when compared to the overall need.

The funding gap has been documented in the Citywide Assets Report since 2002. Additionally, the City's external auditor has expressed concerns over the City's declining net asset position, which is in part linked to a lack of investment in the City's existing infrastructure assets. A number of other reports have emphasized the importance of addressing this issue, including the Draft Citywide Systems Plan and a 2013 Audit Report on street paving.

The FY 2013-14 Citywide Assets Report documents that the annual funding gap for infrastructure maintenance and replacement of existing assets for Transportation, Parks, Water, Environmental Services, and Civic Assets is $231.1 million. This amount does not include the cost of system expansion necessary to ensure equitable service delivery or address issues created by population growth, nor does it include certain large-scale projects like building replacements, technology software replacements, or significant renovations at the Veterans Memorial Coliseum. This gap is likely to widen over the next several years as assets continue to deteriorate, along with reduced levels of service. The following graph details the annual ongoing funding gap by bureau and the citywide nature of the issue.

2013 Citywide Assets Report:
Annual Funding Gap by Bureau (Mandate, Repair, Rehabilitate, Replace) in millions per year, 2013



City bureaus are attempting to address this funding gap through the use of several different strategies. Specific information on these strategies, as well as financial policy information and a historical look at the use of General Fund resources to support major maintenance and replacements, can be found in Appendix A.

Funding and Allocation Options

Despite the previous efforts of Council and the bureaus, the funding gap remains and continues to grow. As directed by Council, the workgroup identified available financial mechanisms for addressing the backlog along with the pros and cons of each option. Because there is no single solution to this issue, the items below represent a menu of options that are grouped into four categories: Increase Use of One-time General Fund Discretionary Resources, Increase Use of Ongoing General Fund Discretionary Resources, Identify or Create New Dedicated Resources, and Pursue Legislative Actions.

OPTION 1: Increase Use of One-time General Fund Discretionary Resources

<table>
<tr><td rowspan="4">A</td><td colspan="2">Increase use of excess General Fund beginning balance set-aside: Per Financial Policy 2.03, at least 25% of General Fund discretionary revenue that exceeds budgeted beginning balance shall be allocated to infrastructure maintenance or replacement in the fall budget monitoring process. The 25% allocation amount is the floor, not the ceiling. Under this option, Council could allocate more of the excess balance towards capital needs to address the backlog.</td></tr>
<tr><td colspan="2">Potential Beneficiaries: All City bureaus</td></tr>
<tr><td>Pros</td><td>Cons</td></tr>
<tr><td>• Adequate resources to fund small to medium size projects.</td><td>• Hard to project, fluctuations from year-to-year.
• Policy is a guideline that can be waived.
• Difficult for bureaus to plan for these resources.
• Challenging in the allocation process.
• Only provides one-time resources for initial project costs.
• Difficult to fund large projects.</td></tr>
<tr><td rowspan="4">B</td><td colspan="2">Prioritize General Fund one-time for use on infrastructure maintenance: This option prioritizes the use of available one-time funds in the annual budget process to capital infrastructure maintenance and replacement. Over the course of the last three years, that City has identified approximately $18.9 million of one-time funding in the forecast as available for allocation during the annual budget processes.</td></tr>
<tr><td colspan="2">Potential Beneficiaries: All City bureaus</td></tr>
<tr><td>Pros</td><td>Cons</td></tr>
<tr><td>• Adequate resources to fund small to medium size projects.</td><td>• Not available for programmatic needs.
• Hard to project, fluctuates from year-to-year.
• Very little one-time funding is identified outside of the first year of the forecast.
• Not a sustainable ongoing resource to address ongoing maintenance needs.
• Difficult to fund large projects with these resources.</td></tr>
</table>

OPTION 2: Increase Use of Ongoing General Fund Discretionary Resources

<table>
<tr><td></td><td colspan="2">Provide asset managing bureaus General Fund Current Appropriation Level (CAL) increases to address the backlog through one of two options:</td></tr>
<tr><td rowspan="3">A_1</td><td colspan="2">The first option prioritizes the use of additional ongoing funds identified in the budget process for capital infrastructure maintenance and replacement.

Potential Beneficiaries: All City bureaus</td></tr>
<tr><td>Pros</td><td>Cons</td></tr>
<tr><td>• Ongoing allocation helps address the long-term needs of each bureau.
• Enables bureaus to plan for replacement of predictable and recurring assets on lifecycle schedules.</td><td>• The amount of funding allocated would depend upon the availability of funds in a given year (assuming economic growth above forecast) and Council’s prioritization of the capital needs compared to other City services and programs.
• The amount of funding available each year to further address the problem would be inconsistent.
• Limits or eliminates Council’s flexibility to fund new programs.</td></tr>
<tr><td rowspan="3">A_2</td><td colspan="2">The second option establishes an ongoing funding goal for each bureau and a current appropriation level growth schedule to accomplish the goal.

Potential Beneficiaries: All City bureaus</td></tr>
<tr><td>Pros</td><td>Cons</td></tr>
<tr><td>• Allocating ongoing funds addresses the long-term needs of each bureau.
• The scheduled increases in CAL would allow City asset managers to plan and manage their respective capital systems with more certainty.
• Enables bureaus to plan for replacement of predictable and recurring assets on lifecycle schedules.</td><td>• This option could result in cuts to General Fund programs in years of slow or negative economic growth.
• Some bureau capital asset needs would not necessarily be consistent year over year.</td></tr>
<tr><td rowspan="3">B</td><td colspan="2">Reestablish General Fund Capital Set-Aside: This option dedicates ongoing General Fund resources to a capital set-aside. The funds would be available each year for one-time projects in the bureaus. Funds will be awarded based on project rankings according to a standard set of criteria. The set-aside can either be a fixed amount and increased when additional funds are available (see option #2A_1 above) or increased according to a schedule approved by Council (see option #2A_2 above).

Potential Beneficiaries: All City bureaus</td></tr>
<tr><td>Pros</td><td>Cons</td></tr>
<tr><td>• Provides for a competitive allocation process whereby the highest priority projects are funded.</td><td>• This option could result in cuts to General Fund programs in years of slow or negative economic growth, depending on option used.
• Not a predictable source of funding for recurring major maintenance activities.</td></tr>
</table>

OPTION 3: Identify or Create New Dedicated Resources

A

Increase use of voter-approved general obligation bonds: Council can refer general obligation bond approval to the voters for financing large capital investments, including asset replacement. General obligation bonds typically have a maximum 20-year lifespan, and are paid for by new property taxes. This option is currently in use for several programs including parks and various public safety projects.

Potential Beneficiaries: All City bureaus

Pros	***Cons***
• Not subject to property tax compression. • Scope of uses is tightly defined by ballot measure language. • Could generate resources substantial enough to fund large capital asset replacement or maintenance projects.	• Not a sustainable ongoing resource. • Typically a "one-time" option. Repeated uses of this option are subject to repeated approval by Council.

B

Increase use of other forms of debt financing: Council can authorize new bonds or other lending tools for financing large capital investments, including asset replacement. Bonds would be paid for by existing (or new, non-property tax) revenue sources and the repayment term would match the expected revenue availability and useful life of the assets being financed. The City currently has various outstanding debt issuances paid for by General Fund revenues, gas taxes, transient lodging taxes, enterprise revenues and/or other specific revenue streams.

Potential Beneficiaries: All City bureaus

Pros	***Cons***
• Could generate resources substantial enough to fund large capital asset replacement or maintenance projects.	• Not a sustainable ongoing resource. • Typically a "one-time" option. Repeated uses of this option are subject to repeated approval by Council. • Would require new revenues, or would reduce current revenues available for other uses.

C

Increase property taxes through local option levy: Council could refer a new property tax to the voters to support ongoing maintenance and/or asset replacements. The types of projects funded are based on the size of the levy, with the levy term typically being about five years.

Potential Beneficiaries: All City bureaus

Pros	***Cons***
• Scope of uses is tightly defined by ballot measure language. • Could generate substantial multi-year resources. • Resources are useful in funding a series of short-term one-time projects.	• Additional taxes levied are subject to compression. • Not a sustainable ongoing resource. • Subject to continuous approval by Council and voters (upon expiration).

D

Increase or implement new fees: Many City bureaus charge fees for services, or generate revenue through new fees or taxes for bureau operations, maintenance, or capital needs. Some of these fees-for-service do not recover the full cost of service, including the cost to maintain and replace assets that deliver the service. Most fee increases, or the creation of new fees, require Council approval.

Potential Beneficiaries: All City bureaus

Pros	***Cons***
• Scope of uses is tightly defined. • Could generate substantial multi-year resources.	• Setting fees to high could make the service cost prohibitive and actually lower revenues.

E	***Increase internal service funds rates:*** With Council approval, internal service funds have the ability to increase rates to address maintenance backlogs. Internal service fund rate increases that should be considered include Facilities Services, the Bureau of Technology Services, and CityFleet. Facilities Services only collects 1.2% of the replacement value to fund asset major maintenance, and industry best practice is a 3% collection. This increase would not cover the actual replacement of the assets managed by Facilities Services, such as the Portland Building, just major maintenance projects. Currently, the Bureau of Technology Services does not collect replacement funding on many City assets, including most end-user equipment. Additionally, CityFleet does not currently charge for the replacement of fueling system infrastructure. Adding a $0.25 cent per gallon surcharge to the cost of fuel paid by City bureaus would allow CityFleet to adequately replace infrastructure at the end of its useful life. It should be noted that, separate from the $0.25 per gallon cost for replacing tanks that are close to the end of its life in the future, there is a one-time cost to replace tanks that are already at the end of its lives. These costs are estimated at $9.0 million. ***Potential Beneficiaries:*** Internal services fund programs and ratepayers

Pros	***Cons***
• Increased rates would represent the actual cost of service. • Provides an ongoing source of funding. • Consistent with financial policies. • Relatively simple to administer. • Allows for the IA revenue to be used to fund debt service for large projects. • Recognizes and recovers for the total cost of ownership.	• General Fund bureaus will have to absorb rate increases if Council does not approve additional appropriations. • Would require bureaus to make internal cuts to pay for the increased IA rates. Raising interagency rates doesn’t guarantee the funds will be generated without a decrease in other City services. • Increasing rates to outside agency customers who have limited resources could result in them dropping City services. • Even if rates are increased, funds will still be insufficient to cover large technology replacement projects or building replacements. • Increases the cost of fuel closer to market rates. • Bureaus with large fleets, including BES, Parks, Water, Police and PBOT, will all experience significant increases to their fuel costs.

F	***Utility rates increases:*** The Portland Water Bureau and the Bureau of Environmental Services (BES) finance major maintenance and asset replacement projects through user rates, which are annually approved by Council. Increasing these rates would allow the utility bureaus to address more of the backlog. With regard to BES, each 1% increase in rates results in roughly $3.2 million of annual resources. A one-time incremental increase over the existing rate forecast of less than 2% would address the current gap of $5.0 million. Similarly, each 1% increase in rates results in roughly $1.3 million of annual resources for the Portland Water Bureau. A one-time incremental increase over the existing rate forecast of approximately 9% would address the current gap of $11.5 million. This figure is based on current risk-adjusted, least-cost planning assumptions and assumes cash financing the incremental project work. ***Potential Beneficiaries:*** Portland Water Bureau and Bureau of Environmental Services

Pros	***Cons***
• Administratively simple since systems are already in place.	• There is significant public and stakeholder pressure to keep rates low.

<table>
<tr><td rowspan="3">G</td><td colspan="2">Citywide programmatic reprioritization, realignments, or reductions: Council could request the Citywide reprioritization or realignment of resources in an effort to dedicate more funding to major maintenance and asset replacement projects. This may include taking cuts in existing programs in order to direct resources to the ongoing base budget for major maintenance and not pursuing program expansions or new programs.

Potential Beneficiaries: All City bureaus</td></tr>
<tr><td>Pros</td><td>Cons</td></tr>
<tr><td>• Aligns with City financial policy.
• In the long-term, aligns bureau incentives to internally prioritize asset-based and program-based service levels when considering annual allocations as well as programmatic and asset expansions.
• Results in greater inter-generational equity by not burdening future taxpayers with replacement of assets used to deliver services to current payers.</td><td>• City bureaus may have to reduce service levels in other program areas.
• Less funding available for new and existing programmatic needs.
• This may result in current programs to pay for future asset utilization.</td></tr>
<tr><td rowspan="3">H</td><td colspan="2">Leverage external sources: Bureaus provide a baseline level of service. Any premium features incorporated into design or programming would require the neighborhood to develop a mechanism for funding the incremental cost through the use of private funding mechanisms.

Potential Beneficiaries: All City bureaus</td></tr>
<tr><td>Pros</td><td>Cons</td></tr>
<tr><td>• Resolves service inequities in the cases where some neighborhoods benefit from ‘premium’ assets.</td><td>• May lead to service inequities (assuming that those inequities don’t already exist and are funded with existing public resources).
• Difficult to identify resources and there may be associated implementation costs.</td></tr>
</table>

OPTION 4: Pursue Legislative Action

<table>
<tr><td rowspan="2">A</td><td>Pursue legislative changes at the state level: Council could lobby the state legislature to make changes in the following areas:</td></tr>
<tr><td>System Development Charge Policy Changes: System development charges are fees assessed to development projects. These fees are collected to help offset the impact of development projects on the City’s infrastructure, including storm and sanitary sewer systems, parks and recreation facilities, water systems, and street systems. The fees are typically used to construct City infrastructure to address growth and expansion. The City could explore statutory changes to provide for more flexible and discretionary uses, including major maintenance and replacements of existing assets.</td></tr>
<tr><td>B</td><td>State Gas Tax Changes: The State gas tax is a primary source of discretionary revenue for the Portland Bureau of Transportation. This revenue is made up of gasoline, diesel, and other fuel taxes; motor carrier weight-mile charges; and driver and motor vehicle registration and titling fees. This is one of the main sources of revenue PBOT uses to maintain its existing transportation infrastructure. The state gas tax has remained unchanged since 2009, with no inflationary increases built into the current formula. The lack of inflationary increases, combined with a reduced demand for fuel, has led to an overall decline in revenues. In an effort to reverse this trend, the City could consider supporting efforts at the state level to increase the gas tax.</td></tr>
<tr><td>C</td><td>Property Tax Changes: Limitations in the Oregon property tax system have prevented overall property tax receipts from growing at the same pace as appreciation in overall property values. This means that in some cases local governments must meet increases in maintenance expenses and/or service expectations without an equivalent increase in property tax revenues. Council could pursue strategies that advocate for a State</td></tr>
</table>

	Constitutional change that would diminish inconsistencies and inefficiencies in the Oregon property tax system and provide additional revenues to apply toward maintaining City assets and/or services. ***Potential Beneficiaries:*** All City bureaus	
	Pros	***Cons***
	• Could provide stable funding sources if changes are successful.	• Provides for a long-term solution. • Requires time, process, and sustained advocacy.

Recommendations and Timeline

Based on the options provided above, the workgroup developed several recommendations. These recommendations are intended to make progress on closing the major maintenance and asset replacement funding gap and preserve current levels of services in City bureaus. The recommendations are not expected to be sufficient on their own to completely close the existing funding gap, and as aforementioned, do *not* address costs related to system growth or expansion.

As there is no one single solution, these recommendations are designed to support the following ***five point strategy*** for addressing the unfunded gap in major maintenance and capital replacement of the City's infrastructure. The workgroup recommends that Council consider these next steps and elevate this issue to a top budgetary priority in future budget processes, starting in FY 2015-16.

Five Point Strategy

1. Fully fund operations and maintenance requirements for the day-to-day needs of providing services.
2. Provide *ongoing* resources for the predictable and recurring major maintenance requirements of assets.
3. Reestablish a General Fund Capital Set-Aside to support unfunded major maintenance and asset replacement projects citywide and use a project prioritization process to allocate these funds in the annual budget process.
4. Use debt financing tools, when appropriate and when repayment revenues can be identified, to fund major capital asset renewal and replacement projects.
5. Implement and coordinate robust asset management programs in all infrastructure bureaus to ensure the most efficient use of financial resources.

FY 2014-15 Recommendations

- ✓ **Increase FY 2014-15 Fall BMP Allocation**. The workgroup recommends that Council dedicate as much excess General Fund beginning balance as possible, at least 50%, in the FY 2014-15 Fall BMP to major maintenance and asset replacement projects. These funds should be allocated based on the citywide project ranking process that was recently completed.

- ✓ **New Revenues for PBOT.** The Portland Bureau of Transportation's maintenance backlog is double that of all other bureaus combined, and cannot be eliminated without a substantial infusion of new revenues. Therefore the workgroup recommends Council pursue new revenue strategies that will dedicated ongoing resources to this issue. This can be achieved both through the current *Our Streets* transportation funding proposal and an ongoing long-term commitment from City Council.

FY 2015-16 Recommendations

- ✓ **Reestablish General Fund Capital Set-Aside.** Council should reestablish a Capital Set-Aside using a portion of one-time General Fund identified in the five-year forecast, and newly available ongoing Public Safety Systems Revitalization Project (PSSRP) resources. These resources should be allocated using the project prioritization process during the annual budget process.

- ✓ **Policy Revision**. Council should revise financial policy to set aside at least 50% of excess General Fund beginning balance. Resources made available through this policy change should be added to the Capital Set-Aside starting in FY 2016-17.

- ✓ **Incremental Rate Increases for Internal Service Funds.** Council should direct the City's internal service funds to submit decision packages to phase-in closing the gap that exists for funding major maintenance and replacement of the City's internal service fund assets. The packages will be funded by rate increases to customers. The phase-in will be over a number of years.

- ✓ **Debt Finance Fueling System Infrastructure Replacements:** Council should direct the City's Fleet Services Fund to submit two decision packages regarding the replacement of fueling stations. The first package would debt finance all stations currently in need of replacement. The debt service on this would be paid by the Fleet Services Fund and funded through interagency agreements with all fuel consumers. The second package would authorize the Fleet Services Fund to increase its fuel rate to include a fuel station replacement component so that when the new stations need to be replaced in the future, adequate funds are available.

- ✓ **Develop Ongoing General Fund CAL Target Options:** Beyond operations and maintenance requirements and before major renewal or replacement, there are known and predictable recurring major maintenance requirements for many assets. Rather than having these known and predictable requirements compete with other major capital needs in order to keep facilities open and operating, consider funding these through increased Current Appropriation Levels. Council should direct infrastructure bureaus to identify and quantify these requirements. This same workgroup, led by the City Budget Office, should bring to Council options and recommendations regarding phased CAL target adjustments to fund these requirements for FY 2016-17 budget development consideration.

FY 2016-17 Recommendations and Beyond

- ✓ **Continue with Incremental Internal Service Fund Rate Increases.** Council should continue with incremental increases to internal service fund rates as described above until target levels are achieved.

- ✓ **Consider Ongoing General Fund Options:** Council should consider the ongoing General Fund Current Appropriation Level target adjustment recommendations presented by the workgroup.

- ✓ **Increase Capital Set-Aside Allocation:** Council should direct to increase the General Fund Capital Set-Aside appropriation, recommended to be reestablished in FY 2015-16, by the remaining ongoing PSSRP resources made available after implementation of the final Radio project, a portion of available one-time General Fund resources identified in the forecast, and 50% of the excess General Fund beginning balance identified in the Fall BMP. These resources should be allocated using the project prioritization process during the annual budget process.

Appendix A: Additional Background

Current Funding Strategies

With the exception of the utility bureaus, most City bureaus lack a sustainable, dedicated funding source to properly maintain their existing assets or address the backlog. This places bureaus in a position to rely on existing General Fund allocations (which in most cases would require significantly cutting funding for programs to fund capital maintenance needs), periodic allocations of additional one-time General Fund, or new sources of revenue (as is currently the case for the Portland Bureau of Transportation (PBOT) and Portland Parks & Recreation). Described below are specific strategies currently used by bureaus to begin addressing this issue.

Transportation

The Portland Bureau of Transportation, under Council direction, is engaging in a process to identify new, sustainable, revenue for maintenance and safety needs. PBOT has identified an annual backlog of $153.4 million for all transportation assets including $91.0 million per year for the next ten years just for pavement needs. This $91.0 million would allow the bureau to elevate 80% of the pavement conditions to fair or better, leaving no more than 2% in very poor condition. After that ten years, it is estimated that PBOT will need approximately $40-$50 million per year (in today's dollars) of ongoing funds to maintain the system at that level of service. If the revenue proposal is successful, half of the new revenue will be dedicated to prioritizing preventive maintenance and replacement of transportation infrastructure.

Parks & Recreation

The funding picture for Portland Parks & Recreation is increasingly complex and insufficient. The annual funding gap for major maintenance of existing assets is projected to be $36.5 million. The bureau is allocated $1.5 million ongoing General Fund resources dedicated to major maintenance of existing assets. Periodically targeted, major renovations may be funded from grants and donations, however, usually these are focused on new development. Urban Renewal Area (URA) funding assists in major development of existing parks, however this is restricted to parks within the URAs. Recent examples include Leach Botanical Garden and Dawson Park in 2014, Walker Stadium at Lents Park in 2011, and Patton Square Park at the Interstate Firehouse Cultural Center in 2009. A proposal for a Parks Replacement Bond (voter-approved general obligation bond) is requesting $68.0 million for asset maintenance projects and will be decided by voters in the November 2014 election.

Civic Assets – Fire and Rescue, Facilities Services, Technology Services, and Spectator Facilities

Civic assets, which include management of City owned facilities, fueling stations, and technology infrastructure, funds major maintenance and most system replacements through its rate structure. These internal services fund rates are designed to charge City bureaus for services received and planned. However, due to cuts over the last several years, both the technology and facilities internal services funds are no longer able to charge for the "true" costs necessary to maintain the assets. The fleet fund has never had a replacement charge for fuel tanks. The Office of Management and Finance collects resources for facilities assets in its Facilities Services rental rates to fund major maintenance projects in the current year or in the future. The fund only collects 1.2% of the replacement value to fund asset maintenance; best practice recommends a 3% collection. As a result, all facilities needs cannot be met and needed projects get pushed out into the future. In an effort to continue making progress on this issue, Facilities Services is performing condition assessments on assets owned and managed by Facilities Services. This contract includes an optional seismic assessment and has been opened up to all other City Bureaus. The conditions assessment will help the City to better understand the true condition and replacement costs of its buildings owned and managed by Facilities Services.

Portland Fire & Rescue facilities are also included in the Civic Assets category. A portion of Fire and Rescue's budget is dedicated to the major maintenance of its facilities. In the case of OMF and Fire & Rescue facilities, annual amounts collected for major maintenance are less than the industry standard of 3% of replacement value per year.

As for technology assets, the Technology Services Fund has little ongoing replacement or major maintenance money coming in from its rates. As a result, it funds most of its major maintenance and replacement projects through its technology reserve, which is one time money the fund has available from higher than planned revenues or lower than planned expenses. Currently this reserve cannot fund all needs, so projects are delayed. Moreover, each year the programs in the Technology Services Fund identify needed projects and provide reasons for inclusion, submitting them to a management review group for coordination and approval. Priority is given to items that support clear business needs of its customers.

This category also includes Spectator Facilities, which manages the Veterans Memorial Coliseum and other City-owned visitor-related facilities. The maintenance of these facilities is largely funded by user fees like ticket sales and parking garage fees. However, it should be noted that like many other large scale renovations or replacement projects that exist within the City, the funding mechanisms for the City's spectator facilities, including the most urgent - Veteran's Memorial Coliseum, are out of scope of this report.

General Fund Policies and Support

In addition to the bureau specific strategies detailed above, the City has, in the past, dedicated a portion of General Fund discretionary to support asset major maintenance and replacement through a capital set-aside allocation. Specifically, in 1996 City Council began increasing the General Fund Capital Set-Aside, with the set-aside funding climbing to a high point of $7.0 million in FY 2002-03. After a series of annual budget cuts, the Capital Set-Aside was eliminated entirely in FY 2007-08 with the funds redirected to the Public Safety Systems Revitalization Program (PSSRP), a program that addresses the replacement of public safety systems technology infrastructure. The City continues to fund this program, with the FY 2014-15 General Fund allocation totaling $1.2 million. PSSRP projects are projected to be completed in FY 2015-16 and the annual PSSRP General Fund allocation will need to be re-evaluated at that time.

Besides the retired General Fund Set-Aside and PSSRP allocation, several City policies have also sought to direct General Fund resources to the backlog in certain bureaus, but this approach has not proven entirely successful. For example, Financial Policy 2.03 directs that 25% of excess General Fund beginning balance be dedicated to major maintenance and replacement projects. Based on this direction, Council has dedicated $6.9 million to this effort over the last five years. This amount was partially impacted by funding shortfalls that occurred in the FY 2010-11 and FY 2012-13 Fall BMP's when no funds were allocated to address the capital funding shortfall.

Additionally, the City dedicated almost $2.0 million in ongoing General Fund to Transportation beginning in FY 2011-12 through amendment of an ordinance originating in 2008. This distribution of funds, although needed, is only a small contribution to this growing problem. In the late 1980's City Council passed a resolution with the aspirational goal of spending 28% of Utility License Taxes/Franchise Fees (which are a primary General Fund revenue source), on transportation needs, which today would equal approximately $23.0 million; however, the City did not achieve this policy goal. Currently, the General Fund transfers approximately $9.0 million, the bulk of which is to pay for streetlights.

Recently the City revised its Council-approved financial polices to state that, "Bureaus shall submit an estimated operations and maintenance (O&M) costs schedule at the time a capital project or asset is planned or requested." Functionally, this means that a General Fund bureau should, as part of its requested budget, submit a decision package for any project that is anticipated to begin in the following fiscal year or any project already underway, in which the O&M funding was not contemplated during the prior budget process. The intent of the policy is to avoid a situation whereby the City has committed to financing the construction of a project, but has failed to secure funding to sustain operations and maintenance of the asset.

Appendix B: Resources

Draft Citywide Systems Plan

City of Portland 2013 Citywide Assets Report

Street Pavement: Conditions show need for better stewardship

FY 2014-15 Adopted Budget

Appendix C: Workgroup Members

Susan Aldrich, Bureau of Environmental Services
Aaron Beck, Office of Management and Finance
Jonas Biery, Office of Management and Finance
Claudio Campuzano, City Budget Office
Jim Coker, Office of Management and Finance
Susan Gibson-Harnett, Office of Management and Finance
Wendy Gibson, Office of Management and Finance
Bob Glascock, Bureau of Planning and Sustainability
Jay Guo, Portland Fire and Rescue
Sarah Huggins, Portland Parks and Recreation
John Hunt, Office of Management and Finance
Ryan Kinsella, City Budget Office
Michelle Kunec-North, Bureau of Planning and Sustainability
Ken Lee, Portland Bureau of Transportation
Jeff Leighton, Portland Water Bureau
Sara Lowe, City Budget Office
Jeramy Patton, City Budget Office
Andrew Scott, City Budget Office
Ralph Smith, Office of Management and Finance
Jamie Waltz, Portland Bureau of Transportation
Kezia Wanner, Portland Police Bureau
Randy Webster, Portland Parks and Recreation