

Office of Management & Finance

CBO has posted the online, interactive version of the bureau's performance dashboard here:

<http://www.portlandoregon.gov/cbo/article/523272>

The following questions were asked during the bureau's budget work session. Responses are included in the attached packet.

1. What are the Portland Building Funding Options?
2. What are the City's MWESB numbers split by each group (minorities, women, and small businesses)?
3. How is the ADA compliance plan being tracked in OMF?
4. What were the number of vacancies, and total vacancy savings, for each fund in OMF?
5. What is causing the \$33 million increase in contingency?
6. Does the percent for art requirement apply to renovation projects or does it only apply to new construction?



CITY OF PORTLAND
OFFICE OF MANAGEMENT AND FINANCE

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Date: April 9, 2015

To: Jeramy Patton, City Budget Office
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From: Jane Braaten, Business Operations Division Manager

Cc: OMF Leadership Team

RE: Response to Questions on OMF's FY 2015-16 Budget presented in Council Work Session

Below are the responses to the Council work session questions on the OMF FY 2015-16 Requested Budget:

- ***Please provide the Portland Building funding options.***

Response:

See the attached Portland Building Funding Options.

- ***Council would like the MWESB numbers split by the three groups (minorities, women, and small business).***

Response:

Preference is granted to Minority, Women and Emerging Small Businesses in the areas of Construction and Professional Services subcontracting through the City's Social Equity Contracting Initiatives. The percentage of subcontract dollars awarded to minority businesses in FY 2012-13 was 9.15% and increased to 17.41% in FY 2013-14. Women-owned businesses obtained 6.74% in subcontract dollars in FY 2012-13 and 11.76% in FY 2013-14 and emerging small businesses saw a slight decrease from 6.11% in FY 2012-13 to 5.85% in FY 2013-14. The increase in minority and women percentages are a direct result of Council adopted strategies to focus City dollars to certified businesses and to promote a healthy local economy.

	FY 2012-13 Actuals	FY 2013-14 Actuals
Minority-owned Businesses	9.15 %	17.41%
Women-owned Businesses	6.74%	11.76%
Emerging Small Businesses	6.11%	5.85 %
TOTAL	22%	35.02%

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- ***How is the ADA compliance plan being tracked in OMF?***

Response:

For projects managed by OMF through the Facilities Services Division, ADA improvements are included in the development stage of the projects. Once a project has started, Facilities Services tracks ADA Transition Plan improvements using an internal work order number in SAP that captures the costs for each project.

For the Spectator Facilities projects, identified barriers are being tracked/addressed separately at each facility. Staff is working with operating partners to address the barriers as part of routine maintenance work and will be developing more detailed plans for more complex work. Under the terms of the operating agreements, the operators will either perform or contract others to perform the work and the City will reimburse applicable costs. Recent Transition Plan implementation efforts have focused on addressing barriers at the Rose Quarter East/West Garages and Benton surface lot.

Additionally, the Office of Equity and Human Rights is currently forming a citywide committee to discuss the framework for ADA Transition Plan tracking. Representatives from all impacted bureaus will be included in these discussions.

- ***Please provide the number of vacancies throughout the year, and total vacancy savings, for each fund in OMF (FY 2014-15 data).***

Response:

What seems like a straightforward question has a complex answer. The reason is that the amount of budget savings can be related to the number of vacant positions – but other related personnel costs still have to be covered within those savings.

OMF bureaus use any initial vacancy savings to ensure that overall personnel costs, including uncontrollable costs like vacation leave payouts or unemployment, are covered. Then, savings may be used to pay for temporary staff, overtime, or contractors to maintain service levels to customers. General Fund bureaus do not receive funding for Cost of Living Adjustments (COLA) or for increases in health benefit costs. These funds are in the compensation set-aside administered by the CBO, which assumes that most groups will have sufficient vacancy savings during a fiscal year to cover these inflationary costs.

For the carryover request that generated this question, vacancy savings were generated in two OMF General Fund groups, Accounting and Business Operations. The CFO hired the new City Controller in March and began a review of the Accounting organizational structure. Vacancies that occurred in this time period were held pending this review. In Business Operations, some staff vacancies were filled with internal candidates after open recruitments, which in turn led to a cascading vacancy. These two groups generated enough budget savings that was not needed for related personnel costs to fund this request. If approved, this one-time realignment allows work to continue in training and onboarding without allocating new revenue.

As Council will see in the OMF Spring BMP report, the OMF General Fund is projected to spend 98% of its personnel services budget for this fiscal year. Any unspent balance at year-end, whether from personnel services or materials and services, will fall to the General Fund ending balance. In 2013-14, the OMF General Fund had less than 4% of its budget remaining at year-end; in 2012-13, it had less than 2% of budget remaining at year-end.

OMF's budget includes the OMF General Fund – as well as internal service funds. In the internal service funds, a vacant position may not equate to any budget savings. Vacancies in positions predominately funded by billing hourly rates may result in losing money, and a reduction in reserves, because not enough hours are getting billed to customers to cover fixed costs. Vacancies in positions funded by fixed rates will result in savings. Any remaining savings in the internal service funds falls to reserves where it can be appropriated in the next budgeted process for one-time projects benefitting all customers.

OMF's experience in this area mirrors the rest of the City. The City Auditor's Office conducted an audit of vacant position management within the City in 2014. Their report states that, due to the number of positions in the City, there are vacant positions on any given day of the year, but the City does not have a large number of vacancies and vacant positions are not open for long periods of time. The report cited reasons for positions to remain vacant, including operational changes that result in revising job descriptions, budget balancing needs, or the time necessary to hire new employees.

- ***What is causing the \$33 million increase in contingency?***

Response:

The aggregate amount budgeted in the Contingency account for all of OMF's 15 funds increases from \$116 million in the FY 2014-15 Revised Budget to \$144 million in the FY 2015-16 Requested Budget without decision packages. The Contingency account includes funds for multiple purposes, such as the ending balances of replacement accounts, major maintenance accounts, actuarial reserves, operating reserves, and money dedicated to specific purposes in the future.

The change from \$116 million to \$144 million is due primarily to:

- An increase in the replacement account (+\$6M) in the Fleet Fund, used to replace vehicles for City operations.
- Net debt sale proceeds in the Fleet Fund for the fueling stations replacement project (+\$9M).
- An increase in the amount of the major maintenance account (+\$8M) in the Facilities Fund due to revenues received for projects in the future.
- An increase in the Arts and Education Fund (+\$7M) based on the timing of tax collection and disbursement across fiscal years. This may be adjusted in the Mayor's Proposed Budget.
- A decrease in the Technology Services Fund (-\$4M) due to funding of FY 2015-16 capital and operating projects. Projects funded from reserves include the first phase of an IRNE Voice System Technology Refresh, a Secure Web Gateway Technology Refresh and the final phase of the Office 365 project.
- Changes in actuarial reserve levels in the Health Insurance and Risk Management Funds (+\$2M).

Additional Follow-up Item

- ***Does the percent for art requirement apply to renovation projects or does it only apply to new construction?***

Response:

City Code 5.74 Acquisition of Public Art requires the City to dedicate two percent of the total Eligible Costs or Eligible Funds of all Improvement Projects to the selection, acquisition, installation and maintenance of Public Art.

The Portland Building project qualifies as an Improvement Project and the project budget has estimated the Percent for Art contribution based on the Eligible Costs for the Project. Specific information on the City Code is found at the following link below:

Chapter 5.74 Acquisition of Public Art

<http://www.portlandonline.com/auditor/index.cfm?c=28803>

Per 5.74, "Improvement Project means any project paid for wholly or in part by a Participating Bureau in which the Participating Bureau's contribution of Eligible Funds equals \$50,000 or more for the construction, rehabilitation, remodeling, improvement or purchase for a public use of any building, structure, park, public utility, street, sidewalk or parking facility or any portion thereof within the limits of the City of Portland."

PORTLAND BUILDING PROJECT—FINANCING OPTIONS

Two project financing options have been developed based on an assumed project cost of \$175 million. For each option it has been assumed that a City cash contribution totaling \$10 million will be part of the financing plan, funded from a combination of \$8.75 million of one-time funds appropriated as part of the adopted FY2015-16 budget and Portland Building capital maintenance reserve funds of \$1.25 million. The remaining \$165 million will be financed through the City issuance of limited tax revenue bonds, secured by a pledge of the City’s General Fund revenues. Specific details for each funding option are described as follows:

Item	Option 1	Option 2
Term of bonds	30 years	30 years
Tax Status	Fully Tax-Exempt	Fully Tax-Exempt
Debt service structure	Level debt service of about \$10.015 million annually over the term of the bonds	Phased debt service payments: --Years 1-5: Interest only --Years 6-10: Partial amortization with debt service capped at \$10 million per year --Years 11-30: Full amortization of remaining principal with equal annual debt service payments of about \$12.1 million
Building operating and reserve costs	Assume equal to current Portland Building rental rate of \$16.37/sq. ft.	Assume equal to current Portland Building rental rate of \$16.37/sq. ft.
General Fund Impacts	\$3.76 million/year	Years 1-5: \$2.72 million Year 6-10: \$3.76 million Years 11-30: \$4.5 million

For each financing option, estimated rental rates and bureau costs have been calculated for Portland Building tenants and are summarized in the following tables. For Option 1, per square foot rental costs (debt service plus operating and reserve costs) totals \$48.77 square foot. For Option 2, the per square foot costs for the first 5 years is estimated to total \$39.82 for years 1-5, stepping up thereafter as debt service increases in years 6-10 and years 11-30.

The phasing of debt service payments in Option 2, though helping to lower early year costs, does defer the amortization of principal thus increasing overall interest cost over the life of the bonds. Interest costs under Option 2 are estimated to total about \$20 million higher under this option when compared to Option 1.

Option 1—Thirty-Year Term, Level Debt Service

Rate by Bureau/Division

Tenant	Fund	Rentable Square Ft	Percent Share	Rate Per \$10.015M	O&M Rate in FY 2015-16	Total
City Budget Office	100	3,040	1.0%	\$98,484	\$49,765	\$148,249
BES	600	48,015	15.5%	\$1,555,499	\$786,006	\$2,341,505
OMF General Fund Bureaus	100	41,350	13.4%	\$1,339,579	\$676,900	\$2,016,479
OMF - Health Fund	700	1,371	0.4%	\$44,415	\$22,443	\$66,858
OMF - P&D	703	385	0.1%	\$12,473	\$6,302	\$18,775
OMF - Insurance & Claims	704	3,337	1.1%	\$108,106	\$54,627	\$162,733
OMF - Workers Comp	705	3,595	1.2%	\$116,464	\$58,850	\$175,314
OMF - BTS	706	23,179	7.5%	\$750,910	\$379,440	\$1,130,350
OMF - EBS	708	7,777	2.5%	\$251,945	\$127,309	\$379,254
OMF - Facilities	701	8,794	2.8%	\$284,891	\$143,958	\$428,849
Parks	100	23,293	7.5%	\$754,603	\$381,306	\$1,135,909
PBOT	200	58,733	19.0%	\$1,902,721	\$961,459	\$2,864,180
Water	602	68,219	22.1%	\$2,210,031	\$1,116,745	\$3,326,776
Multnomah County		18,054	5.8%	\$584,879	\$295,544	\$880,423
TOTAL RENTABLE SQ FT		309,142	1	10,015,000	5,060,655	15,075,655

RATE PER RENTABLE SQUARE FOOT PER \$10.15 OF FINANCING

32.40

O&M RATE PER SQUARE FOOT

16.37

TOTAL RATE PER SQUARE FOOT

\$48.77

Option 2—Thirty-Year Term, Phased Debt Service

Rate by Bureau/Division

Tenant	Fund	Rentable Square Ft	Percent Share	Rate Per \$7.25M	O&M Rate in FY 2015-16	Total
City Budget Office	100	3,040	1.0%	\$71,294	\$49,765	\$121,059
BES	600	48,015	15.5%	\$1,126,048	\$786,006	\$1,912,054
OMF General Fund Bureaus	100	41,350	13.4%	\$969,740	\$676,900	\$1,646,640
OMF - Health Fund	700	1,371	0.4%	\$32,153	\$22,443	\$54,596
OMF - P&D	703	385	0.1%	\$9,029	\$6,302	\$15,331
OMF - Insurance & Claims	704	3,337	1.1%	\$78,259	\$54,627	\$132,886
OMF - Workers Comp	705	3,595	1.2%	\$84,310	\$58,850	\$143,160
OMF - BTS	706	23,179	7.5%	\$543,594	\$379,440	\$923,034
OMF - EBS	708	7,777	2.5%	\$182,386	\$127,309	\$309,696
OMF - Facilities	701	8,794	2.8%	\$206,237	\$143,958	\$350,195
Parks	100	23,293	7.5%	\$546,268	\$381,306	\$927,574
PBOT	200	58,733	19.0%	\$1,377,407	\$961,459	\$2,338,866
Water	602	68,219	22.1%	\$1,599,872	\$1,116,745	\$2,716,617
Multnomah County		18,054	5.8%	\$423,403	\$295,544	\$718,946
TOTAL RENTABLE SQ FT		309,142	1	7,250,000	5,060,655	12,310,655

RATE PER RENTABLE SQUARE FOOT PER \$7.25 OF FINANCING	23.45
O&M RATE PER SQUARE FOOT	16.37
TOTAL RATE PER SQUARE FOOT	\$39.82