

Analysis By: Doug Le

BUREAU OF DEVELOPMENT SERVICES

All Funds Budget Summary	Adopted FY 2015-16	Request Base FY 2016-17	Decision Pkgs FY 2016-17	Request Total FY 2016-17	Percent Change
Resources					
Budgeted Beginning Fund Balance	\$45,634,924	\$62,159,090	\$0	\$62,159,090	36.2%
Licenses & Permits	32,808,701	37,282,949	0	37,282,949	13.6%
Charges for Services	13,633,486	15,909,098	0	15,909,098	16.7%
Interagency Revenue	1,076,213	1,111,021	0	1,111,021	3.2%
Fund Transfers - Revenue	2,177,273	2,229,204	553,250	2,782,454	27.8%
Miscellaneous Sources	2,442,221	3,459,447	0	3,459,447	41.7%
Total Resources	\$97,772,818	\$122,150,809	\$553,250	\$122,704,059	25.5%
Expenditures					
Personnel Services	\$35,656,588	\$37,115,204	\$514,710	\$37,629,914	5.5%
External Materials and Services	2,581,908	2,849,117	38,540	2,887,657	11.8%
Internal Materials and Services	8,684,895	9,103,880	0	9,103,880	4.8%
Capital Outlay	2,690,225	1,611,117	0	1,611,117	-40.1%
Debt Service	1,084,750	1,165,052	0	1,165,052	7.4%
Fund Transfers - Expense	1,193,727	1,714,598	0	1,714,598	43.6%
Contingency	14,782,627	28,591,841	0	28,591,841	93.4%
Unappropriated Fund Balance	31,098,098	40,000,000	0	40,000,000	28.6%
Total Requirements	\$97,772,818	\$122,150,809	\$553,250	\$122,704,059	25.5%
Total Bureau FTE	333.92	339.10	5.00	344.10	3.0%

Percent Change is the change from FY 2015-16 Adopted Budget to FY 2016-17 Total Requested Budget.

Key Issues

General Fund Support for Bureau of Development Services Programs

The Bureau of Development Services (BDS) currently receives \$2,229,204 in ongoing General Fund resources to support the Land Use Services (LUS) and the Neighborhood Inspections Program (NIP). In FY 2015-16 and FY 2016-17, BDS allocates the General Fund (GF) amount equally to both programs, even though the LUS is three times larger and in a significantly stronger financial position than the NIP.

The LUS is responsible for administering Title 33 of City Code, Planning and Zoning, to implement the goals and policies of the City's Comprehensive Plan, including neighborhood and community plans. In FY 2016-17, the program has a base budget of \$8,621,085 and the current five-year financial plan shows a cumulative reserve of \$10,779,780 with an excess reserve of \$4,106,995. The program is funded by program revenues (92%), and ongoing GF transfer (8%).

In FY 2016-17, the NIP has a base budget of \$2,383,948, with a cumulative reserve of \$2,488,910 and an excess reserve of \$522,451. The program is funded by program revenues (75%) and ongoing GF transfer (25%).

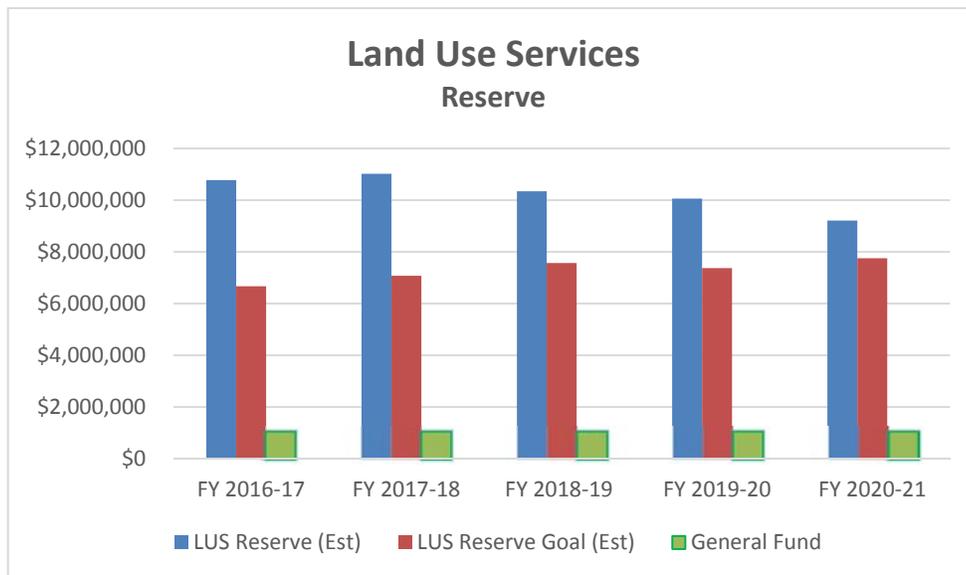
While program revenues are required to stay in the programs that generate them, the allocation of GF is only restricted by Council direction. For BDS, the Council allocates GF resources to support both LUS and NIP without any specific instructions as to how much should be directed to either program.

In October 2015, Council declared a housing emergency to address increased homelessness in the City. The housing emergency and homelessness situation have significantly increased the workload in NIP and the number of nuisance abatement cases has increased over previous years. Many of these cases are related to chronic nuisance and housing conditions often caused by vacant and abandoned houses in neighborhoods. The bureau created the Extremely Distressed Properties Program (EDPEP) in 2011 to address this issue. EDPEP has been successful, but additional resources are needed to address new cases on the waiting list and therefore keeps the backlog from growing.

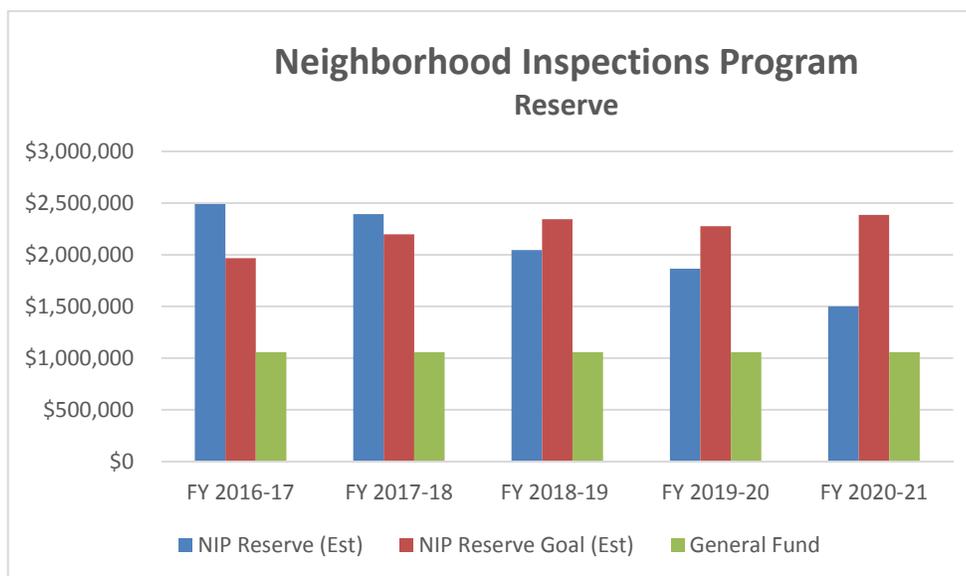
The Enhanced Rental Inspection Program is also experiencing a sharp increase in workload. The program identifies property owners who are chronically out of compliance with housing and maintenance codes and are unwilling to make cited repairs in a timely manner. The program started in FY 2011-12 to provide enhanced inspection services for outer Southeast and Northeast Portland. The program has been very successful and BDS expanded it in FY 2015-16 with program reserves to include the North, inner Northeast, and inner Southeast areas. Ongoing funding is needed to sustain this expansion. The NIP funding includes two sources: program revenues (75%) and GF (25%). The program revenues include fees and assessments and with the current allocation of General Fund resources to the program, it does not have sufficient resources to carry out the necessary services to protect the neighborhoods and the public. The bureau has repeatedly requested additional General Fund resources to support EDPEP and the Enhanced Rental Inspection program, most recently in the FY 2015-16 Fall BMP and the previous four budget cycles.

On the other hand, LUS is in solid financial position. BDS' current five-year financial plan shows the program with a cumulative reserve of \$10,779,780 and an excess reserve amount of \$4,106,995 in FY 2016-17. The excess reserve balance is projected for the remaining four years of the financial plan. The program maintains a 50% reserve goal based on projected total costs. The current economic forecast indicates no major corrections impacting BDS in the next three to five years.

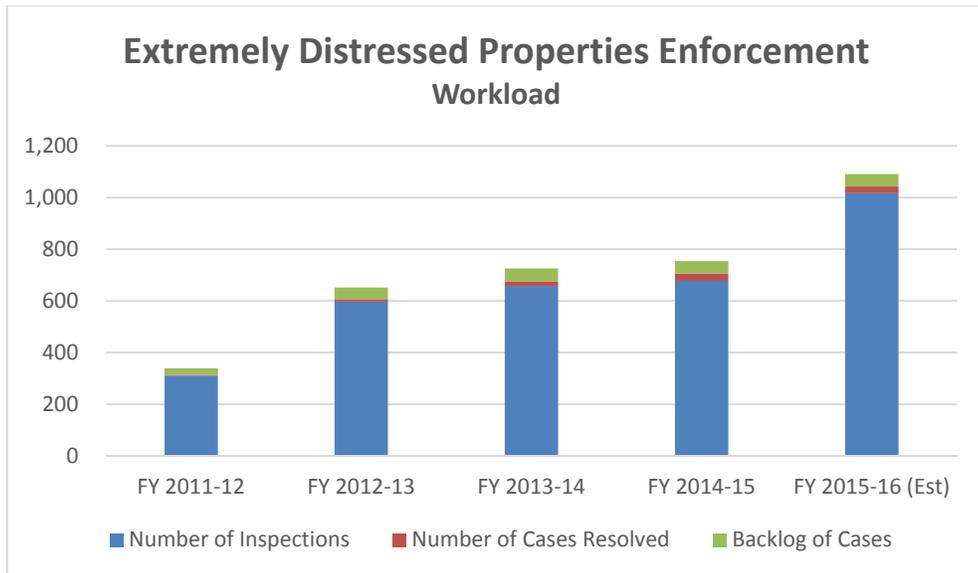
Based on the above observation, CBO believes that the ongoing General Fund support for BDS would best be allocated to support NIP, the program with a significant increase in workload and inadequate resources to carry out its program's mission. As a result, CBO recommends the permanent allocation of the full GF transfer for BDS in NIP. The current allocation is no longer the best model for the bureau nor the City and it creates a superficial shortfall of GF resources to fund critical services in the bureau's local programs, particularly in NIP. The new model would provide the necessary resources for NIP to address current and future challenges related to the current housing emergency and homelessness in administering the Title 33 of the City Code. Information on reserves and workloads of the above programs is presented below.



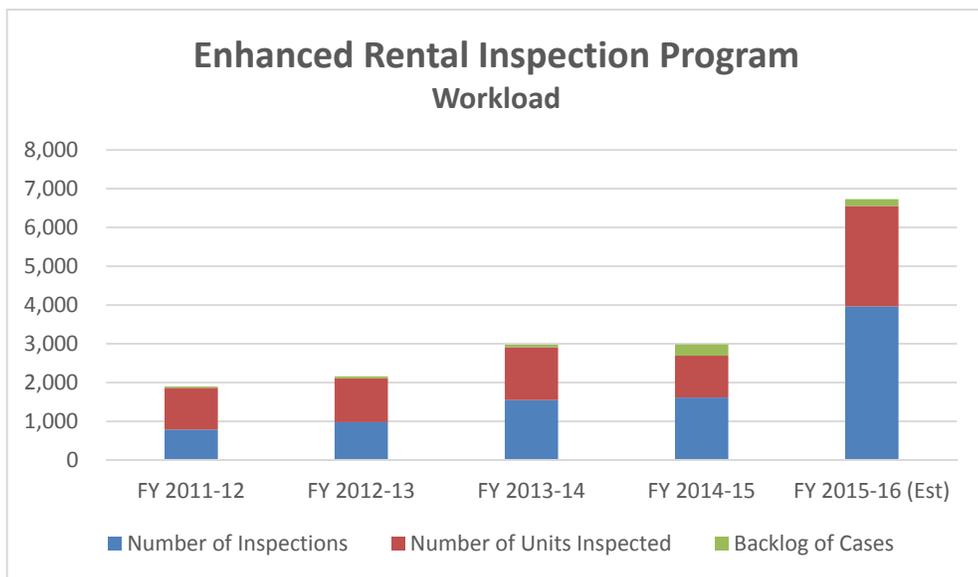
The current financial plan shows LUS with a cumulative reserve of \$10,779,780 in FY 2016-17. This balance declines to \$9,216,939 in FY 2020-21. The program has a reserve goal of 50% of projected total costs. Current economic forecast shows no major corrections impacting BDS in the next three to five years.



NIP is projected to end FY 2016-17 with a cumulative reserve of \$2,489,910. This balance declines to \$1,500,996 in FY 2020-21. The program has a reserve goal of 50% of projected total costs. According to the current five-year financial plan, the program will not meet the reserve goal in the last three years of the plan.



BDS received one-time funding to start EDPEP in FY 2011-12. The number of inspections has increased from 311 in FY 2011-12 to 1,017 estimated in FY 2015-16, an average growth increase of 34%.



The program started out as a pilot project in outer Southeast and Northeast Portland. It has been very successful. BDS expanded the program in FY 2015-16 with one-time funding to include North, inner Northeast, and inner Southeast. The number of inspections has increased from 786 in FY 2011-12 to 3,964 estimated in FY 2015-16, an average growth increase of 50%.

Information Technology Advancement Project (ITAP)

BDS is in the process of replacing the current and outdated permitting system (TRACS). The new system, ITAP, will provide a more robust permitting system that will allow for online and expanded services for the bureau and public. Due to multiple delays, the project is not progressing as scheduled.

The total ITAP project budget is estimated at \$11.8 million and the timeline for completion was reset to winter 2016, instead of December 2015 as originally planned. However, the project continues to face delays and as a result, the completion date of 2016 will not be met. In the February 2016 report of the Technology Oversight Committee (TOC), the Quality Assurance Executive Summary prepared by Case Associates, Inc. (CAI) rated ITAP with an overall rating of “red” on all three primary constraints: project scheduling, budgeting, and scope stability. According to the Bureau of Technology Services (BTS) website, a TOC rating of “red” is described as follows:

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

Regarding project scheduling, CAI reports that the vendor and BDS have a revised schedule with a go-live date of April 2019. However, there are still a number of large scope issues with schedule-related metrics that are still outstanding. The project budget is poorly rated, because both parties have not reached agreement on critical scope and cost issues. The vendor asserts that several major deliverables are subject to change orders for increasing project costs. BDS is disputing this claim. Due to the longer timeline, the project will likely accumulate additional costs. However, the vendor and BDS have not been able to develop a reliable budget, leaving both parties unable to determine how much more, if any to allocate to the project. CAI projects that the additional costs will double the project budget. The scope stability is also rated poorly because of the uncertainties related to the scope of work and budget issues mentioned above.

BDS reported that the bureau and the Commissioner-in-Charge have been involved in extensive discussions with the vendor regarding project timelines and overall costs. The bureau is exploring options for bringing portions of the system online as they are ready, instead of waiting for the entire project to be completed.

BDS has decided to cash finance this project using internal reserves instead of debt financing. Any cost overrun would be covered by internal resources. Ongoing operation and maintenance costs for ITAP are included in the bureau’s five-year financial plan. According to the plan, BDS is estimated to end FY 2016-17 with \$35,436,372 in excess of reserve goals. As it currently stands, the risk ITAP poses to the General Fund is low. The project budget and costs information is presented in the table below.

ITAP Project Costs

	FY 2013-14 Actuals	FY 2014-15 Actuals	FY 2015-16 Budget	Project Total	FY 2015-16 Costs as of Dec 2015
Personnel Services	726,593	943,683	485,997	2,156,273	590,638
External Materials & Services	3,487,633	1,542,875	1,883,756	6,914,264	227,974
Internal Materials & Services	311,203	320,539	165,078	796,820	168,799
Contingency (20%)	905,086	561,419	506,966	1,973,471	0
Total	\$5,430,515	\$3,368,516	\$3,041,797	\$11,840,828	\$987,411

BDS and the vendor still have not finalized the project scope and several key budget issues. The numerous delays will result in additional costs.

Decision Package Analysis & Recommendations

Mandatory 5% General Fund Cut, DS_01, (\$111,460)

This decision package complies with the FY 2016-17 budget guidance to propose a 5% General Fund reduction. BDS allocates the total reduction amount of \$111,460 equally to LUS and NIP. In LUS, the bureau proposes to eliminate a \$55,771 scholarship program with Portland State University that funds scholarships for three minority students pursuing a Master’s degree in Urban and Regional Planning Program. This scholarship program has not yet started. The effort is to diversify the workforce at BDS. In NIP, the cut would reduce the nuisance abatement budget by \$55,689 or 12% of the budget, resulting in an estimated 27 fewer nuisance abatements.

CBO recommends the proposed reductions based on the following arguments: LUS is in solid financial position as discussed above under the Key Issues section and as a result CBO believes that the program can absorb this reduction without having a negative impact on operations or Council goal on equity. Additionally, CBO is concerned that the Master’s degree level may not be the appropriate level for achieving the bureau’s equity goals. As a result, CBO has referred this decision package to the Office of Equity and Human Rights to assist BDS in reviewing this package for a more suitable target to accomplish the goal or to look for another alternative that would not have a significant impact on equity.

In NIP, the cut would reduce the program flexibility in carrying out nuisance abatement services; however, the cut would still leave the program with 88% of the budget to address the most urgent needs in the City. Furthermore, as discussed above under the Key Issues section, CBO recommends the allocation of the full GF set-aside for BDS in NIP to provide additional resources to address these nuisance abatement issues and other challenges related to the Title 33 of the City Code affecting neighborhoods and communities in the City.

CBO Recommendation: (\$111,460)

Extremely Distressed Property Enforcement, DS_02, \$375,864, 2.00 FTE

BDS requested ongoing General Fund resources to fund two Housing Inspector positions and \$150,000 to support the Extremely Distressed Properties Enforcement Program. One of the two positions is a limited term position currently funded with program reserves. The program has seen a sharp increase in workload with an average growth increase of 34% in the last five years and this trend is projected to continue in the future amid the current housing and homelessness situation. CBO concurs with the bureau that ongoing funding is necessary to sustain this program.

Due to the limited availability of ongoing General Fund resources, CBO recommends that the above package be funded with program reserves in FY 2016-17. For ongoing funding, CBO recommends the formation of a task force, including BDS, Auditor's Office, Attorney's Office, and other agencies as needed to explore the feasibility of applying the provisions in the City Codes related to Collections and Foreclosure Process and Housing Receivership to address the vacant and abandoned houses in the neighborhoods, one of the main causes of EDPEP, and to generate long-term program revenues for the program.

CBO Recommendation: \$0

Enhanced Inspections, DS_03, \$288,846, 3.00 FTE

This package would convert three limited term Housing Inspector positions to permanent funded with ongoing GF resources. The above positions are currently funded with program reserves to expand the Enhanced Inspections program to the North, inner Northeast, and inner Southeast Portland. The program started in FY 2012-13 and it has been very successful.

The FY 2015-16 Adopted Budget includes the following budget note:

Rental Inspection Fee

Council directs the Portland Housing Bureau and the Bureau of Development Services to work together to develop recommendations regarding the feasibility of a rental inspection fee to support the current Enhanced Rental Inspections Program, including an enhanced model of rental inspections and increased landlord and tenant education and outreach. The bureaus will present a recommendation to Council for consideration by January 2016.

On January 29, 2016, the bureaus sent a joint memo to Council requesting a delay until March 2016. Because the report to Council is not yet ready, CBO recommends the continuation of the program funded by program reserves in FY 2016-17. Ongoing funding for this program will depend on Council decisions on the recommendations presented in March. Additionally, CBO recommends that BDS coordinate with PHB to inform affected property owners about the Rental Unit Rehabilitation program that provides grants to owners and landlords to address outstanding code violations.

CBO Recommendation: \$0

Vertical Applications Analyst, MF_06, \$158,213, 1.00 FTE

This decision package would convert a limited term Application Analyst position to permanent. The position is in the Bureau of Technology Services to support the implementation of the Information Technology Advancement Project (ITAP) in BDS. The position was created in 2010 to provide technical assistance in identifying new system configuration options, developing, testing programming codes, trouble shooting, resolving errors, and other technical functions. ITAP was scheduled to go live in the winter of 2106; however, due to multiple delays the completion date of 2016 will not be met. A new schedule is under negotiation with the vendor. To provide continued support for ITAP, it is necessary to convert the above position to permanent. CBO recommends this decision package, funded from BDS permit fees.

CBO Recommendation: \$158,213, 1.00 FTE

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

	Bureau Priority	Bureau Requested					CBO Analyst Recommendations				
		FTE	Gen Fund Ongoing	Gen Fund 1-Time	Other Revenues	Total Expenses	FTE	Gen Fund Ongoing	Gen Fund 1-Time	Other Revenues	Total Expenses
Bureau of Development Services											
<i>Adds</i>											
DS_02 - Extremely Distressed Properties Enforcement	01	2.00	375,864	0	0	375,864	2.00	0	0	0	0
DS_03 - Enhanced Inspections	02	3.00	288,846	0	0	288,846	3.00	0	0	0	0
<i>Total Adds</i>		5.00	664,710	0	0	664,710	5.00	0	0	0	0
<i>Reductions</i>											
DS_01 - Mandatory 5% General Fund Cut	01	0.00	(111,460)	0	0	(111,460)	0.00	(111,460)	0	0	(111,460)
<i>Total Reductions</i>		0.00	(111,460)	0	0	(111,460)	0.00	(111,460)	0	0	(111,460)
Total Bureau of Development Services		5.00	553,250	0	0	553,250	5.00	(111,460)	0	0	(111,460)