

Analysis by: Shannon Fairchild

Bureau of Environmental Services

Supplemental Budget Changes to All Funds

	Current Revised Budget (A)	Bureau Request (B)	CBO Recommended Adjustments(C)	Total Recommended Revised (A+B+C)
Resources				
Budgeted Beginning Fund Balance	\$ 272,770,600	\$ (12,000,000)		\$ 260,770,600
Licenses & Permits	\$ 2,420,000			\$ 2,420,000
Charges for Services	\$ 369,361,071	\$ 3,000,000		\$ 372,361,071
Intergovernmental Revenues	\$ 391,886	\$ 20,150		\$ 412,036
Interagency Revenue	\$ 2,591,744	\$ 7,000		\$ 2,598,744
Fund Transfers - Revenue	\$ 338,772,265	\$ 13,182,637		\$ 351,954,902
Bond and Note	\$ 229,000,000			\$ 229,000,000
Miscellaneous	\$ 4,681,100	\$ 11,125,000		\$ 15,806,100
Total Resources	\$1,219,988,666	\$15,334,787	\$0	\$1,235,323,453
Requirements				
Personnel Services	\$ 70,320,885	\$ 255,058		\$ 70,575,943
External Materials and Services	\$ 70,574,307	\$ 3,863,241		\$ 74,437,548
Internal Materials and Services	\$ 46,421,096	\$ (25,426)		\$ 46,395,670
Capital Outlay	\$ 77,569,281	\$ 2,679,669		\$ 80,248,950
Bond Expenses	\$ 184,602,857			\$ 184,602,857
Fund Transfers - Expense	\$ 344,766,124	\$ 13,182,637		\$ 357,948,761
Contingency	\$ 354,624,116	\$ (4,620,392)		\$ 350,003,724
Unappropriated Fund Balance	\$ 71,110,000			\$ 71,110,000
Total Requirements	\$1,219,988,666	\$15,334,787	\$0	\$1,235,323,453

Key Decisions

- Decrease contingency by \$1.5 million for new requests including items to support process changes for capital projects (Recommended)
- Process \$3.9 million of carryover funds from the prior year, \$3.2 million of which is for fleet vehicles (Recommended)
- Reduce contingency by \$214,811 for three full-time and one part-time position, including adjustments for positions approved in the FY 2016-17 and FY 2017-18 Adopted Budget (Recommended)
- Recognize \$11.1 million of revenue from the sale of Terminal 1 (Recommended)

Discussion

The Bureau has requested changes resulting in a \$5.8 million draw on the Sewer System Operating Fund's contingency. Of this, \$1.5 million is for new requests including items to support process

changes for capital projects, mitigation banking efforts, Portland Building move related expenses, and specialized services to support culture change at the bureau. The bureau is also requesting \$3.2 million in carryover for fleet vehicles that were not delivered on time. Finally, the bureau's request includes \$15.3 million in increased net revenues, mostly from the sale of Terminal 1 (\$11.1 million) and higher than expected SDC revenues (\$3 million).

City financial policy requires that all operating funds have a contingency account. CBO recognizes that contingency is an important resource for bureaus to utilize as needs arise. For General Fund bureaus, the bar for contingency requests is quite high; requests must demonstrate that the need is unanticipated or an emergency and is a higher priority than other requests. For non-General Fund bureaus, City financial policy (FIN 2.04) notes that contingency should be used "to address reasonable but unforeseen requirements." In addition, drawing on contingency increases the bureau's allocation of resources, whereas program adjustments reallocate existing resources from one priority to another and preserve contingency for future, unforeseen requirements. Given this dynamic, CBO notes concerns with the amount of contingency the bureau is requesting this early in the budget cycle, particularly as the bureau has underspent its operating budget and revenues have exceeded targets for several years.

CBO recommends all the bureau's requests with reservations noted on the select items in the discussion section.

Capital Improvement Process Related Requests

This request has two components; together they reduce the Sewer System Operating Fund's contingency by \$150,000. The first is a request for \$50,000 in one-time funding for a consultant to provide organizational development services to the Engineering Services Group. The consultant will be tasked with helping the Engineering Services Group to improve operational effectiveness in preparation for the capital improvement plan expansion over the next several years. The bureau strongly believes that an external perspective is necessary to recommend and begin to implement changes in the group. CBO notes the FY 2017-18 Adopted Budget authorizes a Principal Management Analyst to help implement major change efforts at the bureau. In discussions with the bureau regarding how that new position fits with this request, CBO learned that the bureau plans to engage the new position, the Engineering Service Managers, and the Bureau Leadership Team to implement the changes recommended by this consultant.

The second component is a \$100,000 one-time request for specialized professional assistance to develop recommendations and strategies for implementing the second phase of the CIP-PREP process to improve the delivery and oversight of the capital program. This consultant will utilize the Phase I Report to inform this work (the publication is targeted for completion by October 2017).

CBO recognizes that timing is an important aspect of both requests; the bureau is at a critical point in its capital improvement process and an effective engineering group is a crucial piece in that work. Because the requests have overlapping dependencies and needs, CBO recommends that the bureau assess whether this work could be accomplished with one consultant rather than two, and whether any savings would result.

Given the work the bureau has accomplished this calendar year to begin identifying areas of organizational change, CBO agrees this is a reasonable request and the need was unforeseen during development of the bureau's FY2017-18 request. CBO recommends these requests.

Staff Requests

This request includes three FTE, one limited term or part-time position as well as adjustments for positions approved in the FY 2016-17 and FY 2017-18 Adopted Budget. CBO recommends all the requests. A discussion on the recruitment service related positions, contract conversions and wastewater position is provided below.

- Recruitment Services

This request also has two components. The first is a \$40,000 request for a limited duration and/or part-time staff person to provide administrative support for recruitment efforts at the bureau. As of 6/30/17, the bureau had 52 vacancies. This is 21 more than it had on the same date the year before. In addition to managing more vacancies, the bureau identifies long recruitment timelines and the need for more targeted recruitment strategies to attract candidates to the bureau as reasons for this request. The bureau is also requesting \$60,000 for recruitment support (either part-time or specialized services) to focus on enhanced efforts to attract highly competitive and difficult to hire positions. The bureau notes that recruitment has become particularly challenging for engineers in this robust economy.

Given the size of BES, it is not unreasonable for the bureau to want to augment the services provided by the Bureau of Human Resources (BHR). While BHR is taking steps to improve its process, the bureau may not be positioned at this time to conduct targeted recruitment strategies for some of the highly competitive positions that BES needs to fill. CBO encourages BES to put together a recruitment plan and begin to track its recruitment timelines to understand whether these additional resources are achieving the intended outcomes. CBO recommends the bureau use this information to inform potential future budget requests related to this work. CBO recommends this request.

- Contract Conversions

This request converts two Engineering Tech II positions to permanent FTE. Currently, the first position is working on Heron implementation as the bureau's project management software and providing technical support across the bureau. Technical support for Heron implementation has been identified as a priority in the Phase I of the CIP Prep exercise. Given the importance of the system support for the bureau's capital program changes, the bureau foresees an ongoing need for this work and would extend the contract in the absence of this request. The second contract position currently supports 10 engineer positions in the Surface Water Engineering Design section. This position would bring the total number of permanent Engineering Tech IIs in the Design Division to two (currently there is one permanent FTE supporting nearly 20 engineers and project managers). Some operational urgency exists for both positions as the bureau shifts to Phase II of the CIP-Prep with the urgency for the Heron implementation position being the clearer of the two.

CBO recommends these requests with reservations. The Contract Tech II that is supporting Heron implementation is budgeted for a six-month \$60,000 contract per year over the next three years (\$107,530 is the estimated annual cost of an average Contract Tech II¹). Because the position was budgeted for only six months over three years, the full cost of converting the position or extending the contract to a full year is not currently in the bureau's five-year forecast. Thus, all other things equal, the bureau would need more resources in future years to fund this position if the bureau does

¹ Estimate uses FY 2017-18 salary rate data. Information provided by the bureau.

not reallocate existing resources for it. The second contract conversion position is budgeted in the five-year CIP. The bureau states that the conversion could result in costs savings. However, the amount of savings will depend on the permanent Engineering Tech II's salary. For example, the annual cost of an Engineering Tech II is between \$83,959 a year for entry level and \$107,110 for top of class (mid-point is approximately \$95,000) compared to an average annual salary of \$107,530 for a Contract Tech II.²

While the rate impact of converting these positions is relatively small, the bureau should make a concerted effort to identify contract conversion requests as part of its annual budget process moving forward where more time is given to Council and the public to fully consider the request in the context of the overall BES budget.

- Wastewater

This request for an Engineering Technician II was originally requested in the FY 2017-18 Requested Budget but it was not recommended by CBO or included in the Adopted Budget. The review recommended delaying approval of the request until the two-staff approved in FY 2016-17 budget were hired and a workplan that demonstrates the need for future investment in the program was completed. The bureau has followed the guidance in the review and demonstrated the need for this position. CBO recommends this request.

Eastbank Crescent Plan

This request supports the Eastbank Crescent Riverfront Plan which is a concept for redeveloping the riverfront area between Hawthorne and Marquam bridges on the east side of the Willamette River. The plan is an outcome of the Central City 2035 plan that looked to co-locate swimming, recreation, and habitat restoration. In June 2017, BPS, Prosper Portland, and BES presented a conceptual plan to City Council. Council directed the group to pursue the habitat restoration option at the Eastbank Crescent site.

This request includes three components and decreases the Sewer Operating Fund's contingency by \$625,000. It includes 30% of the design costs for habitat restoration at Eastbank Crescent (\$300,000); acquiring property at Eastbank Crescent from the Oregon Museum of Science and Industry (OMSI) (\$225,000); and market analysis to pursue the habitat forward option as a mitigation bank (\$100,000). Restoring habitat at the Eastbank Crescent has the potential to serve as a mitigation bank to compensate for new development elsewhere in the floodplain. The bureau asserts that funding for restoration work could be generated through compensatory fees assessed for new floodplain developments. The bureau notes that the mitigation bank could help BES meet future FEMA regulatory requirements.

Given the City Council's directive and the urgency around the property acquisition, CBO recommends this request. CBO notes that design costs for the project will continue beyond this fiscal year as the \$300,000 only funds 30% of the project design for habitat restoration. Thus, ongoing project costs will have a rate impact in future budgets if the bureau does not reallocate existing resources to fund this work.

² Estimate uses FY 2017-18 salary rate data. Information was provided by the bureau.

Prior Year Carryover

This request is for various carryover requests totaling a \$3.9 million reduction to contingency; \$3.2 million is for fleet vehicles. CBO has concerns regarding the City Fleet procurement process as well as the bureau's allocation of fleet vehicles to its staff. In preparation for the FY 2018-19 budget, CBO looks forward to learning more about the steps the bureau and the City is taking to improve the City Fleet process as well as the bureau's process for allocating vehicles to staff.