

CITY BUDGET OFFICE

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CITY OF PORTLAND, OREGON

TO: Mayor Ted Wheeler
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Commissioner Amanda Fritz
Commissioner Chloe Eudaly
Commissioner Jo Ann Hardesty
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FROM: Jessica Kinard
Interim City Budget Director

DATE: March 5, 2019

SUBJECT: City Budget Office FY 2019-20 Budget Reviews

Attached are the City Budget Office (CBO) reviews of the FY 2019-20 requested budgets. These reviews analyze and highlight the key budget and program performance issues that CBO believes Council should consider during the budget process.

Though growth has slowed, the City's General Fund revenue sources continue to hit record highs. However, expense pressures from escalating inflation and PERS costs requires that nearly all available revenue be dedicated to fund the ongoing personnel and program costs that exist today, largely rendering excess revenue only in the near term. The latest forecast update shows that the City is projected to have \$1.7 million in ongoing General Fund resources and \$14 million in one-time resources. This forecast assumes the 1% General Fund reduction that was built into bureau base budgets, which generated \$5.3 million in ongoing resources. Under City financial policy, one-time resources should be spent on infrastructure or other one-time investments.

FY 2019-20 Budget Process Changes & Guidance

This year, the Mayor initiated several changes to the budget process with the goal of making the process more stable, predictable, and transparent. For the first time, bureaus were required to submit their budgets in a program offer format, providing clarity around the distinct suite of services and programs within the City. In the FY 2018-19 Adopted Budget, Council approved a budget note directing the City Budget Office to reduce all General Fund bureau allocation levels

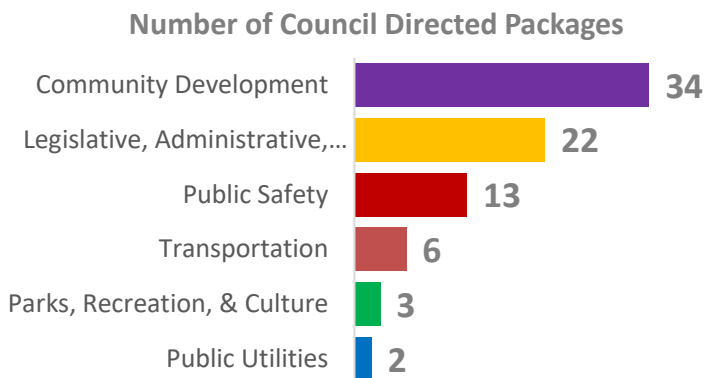
by 1% in preparing the FY 2019-20 budget. This ‘efficiency reduction’ was retained as the [Mayor’s General Fund Budget guidance](#), and the reductions were built into all General Fund bureau base budgets except for elected offices. While bureaus were granted the flexibility to make changes within their base budget allocation without generating explicit decision points for Council, any requests for additional General Fund resources had to first be directed to be developed for consideration by a member of Council.

Non-General Fund Guidance

In line with General Fund budget guidance, [Internal Services funds](#) were directed by the Mayor to build their budgets within rates which accommodate inflationary increases less 1%. The Water Bureau and the Bureau of Environmental Services were [directed](#) by their Commissioners-in-Charge to each propose a budget that: aligns with the prior years’ combined forecasted rate increase; prioritize outreach about the bureaus’ new financial assistance programs; ensures that appropriate resources are dedicated to work on strategic business plans; continues to increase investment in equity and inclusion; and prioritizes rate stability in long-term financial planning. Other non-General Fund bureaus were directed to note within their requested budget narratives changes from previously forecasted revenues and expenditures.

General Fund Request Summary

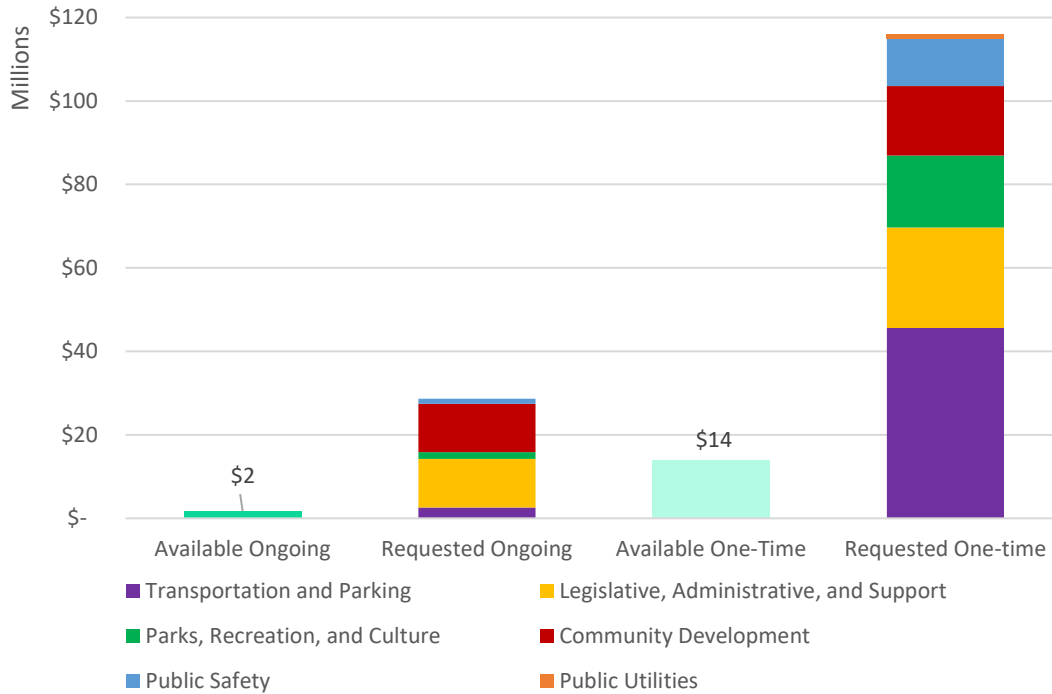
As of the release of these reviews, Council has directed the development of 80 distinct budget requests across the City. The Community Development service area has received the most directions with 32, with the Portland Housing Bureau receiving 12 of those directions. The Office of Management and Finance was directed to develop a total of 20 packages across service areas. For the first time this year, bureaus worked together to develop several joint proposals for funding. To provide adequate time for Council to adjust to this budget process change, Council may continue issuing directives through the start of April.



In response to these directions, bureau requested budgets included requests for General Fund totaling \$28.7 million in ongoing resources and \$116.0 million in one-time resources. This represents nearly 17 times the amount of available ongoing resources and 8 times the available one-time resources.

The requests for one-time resources includes \$67.1 million in major maintenance funding requests via the Capital Set Aside account. Per Financial Policy, 50% of all available one-time General Fund resources should go towards funding urgent major maintenance needs in the City’s Parks, Transportation, or Public Safety asset portfolio. As such, requests for major maintenance resources exceed the \$7 million that is available by over \$60 million, and requests for one-time discretionary exceed what is available by nearly \$42 million.

Requests for General Fund resources exceeded available resources by \$116 million for one-time, \$28.7 million for ongoing.



CAL Target Adjustments

In recent months, Council made a series of decisions that pre-allocated \$4.4 million in ongoing General Fund FY 2019-20 resources via Current Appropriation Level (or “CAL”) targets adjustments. The decision to pre-allocate resources ahead of other allocation decisions demonstrate high Council priority of certain issues. The following initiatives have received ongoing funding in the FY 2019-20 budget via General Fund CAL target adjustments:

- ADA accessibility of critical Transportation and Parks infrastructure - \$2.0 million
- Ensuring compliance with Oregon’s new pay equity law - \$1.2 million
- Establish the Office of Community Technology as stand-alone bureau with an independent bureau director - \$191,628
- Enhanced funding for the Portland Committee on Community-Engaged Policing and the Public Safety Support Specialist programs - \$283,877
- Funded cost increases to the blended rate for increased General Fund tenant costs incurred as a result of new downtown facilities coming online - \$2.0 million
- Realized General Fund savings as part of a Procurement Division reorganization - \$1,444,242 in ongoing savings, offset by a one-time General Fund increase of \$276,511 for Parks’ expenses.

CBO General Fund Recommendations

Due to the limited availability of resources in comparison to resource requests, and due to the fact that additional resource requests are forthcoming via the new direction process, CBO modified its approach to funding recommendations this year. In the attached analyses, CBO provides a review of all bureau base budgets and requests for resources. **However, CBO has only recommended allocating additional resources for those requests that CBO finds to be**

absolutely essential to the City's financial sustainability. These are requests where CBO has concluded that 1) should the request not be funded, the City will incur a direct and significant financial or legal cost; 2) the bureau is not able to absorb the cost within its existing appropriation without significantly jeopardizing the provision of core City services; and 3) the City's General Fund is the most appropriate resource - and the FY 2019-20 budget is the most appropriate time - to fund the request. These funding recommendations total \$1.1 million of the \$1.7 million available ongoing resources, and \$4.8 million of the \$7.0 million available in non-capital set-aside one-time resources. Following are short descriptions of these recommendations; for further details on CBO's analysis, please see the CBO analysis on this issue (hyperlinked):

Ongoing General Fund Funding Recommendations

- [IRS Data Exchange Tax Collection Staff - \\$617,132](#): permanently funds 2.0 currently limited term FTE that manage the IRS Data Exchange program, as well as related technology costs. The program has received serial one-time resources for several years and has demonstrated a positive return-on-investment over the past two years.
- [Portland Parks & Recreation Major Maintenance and Infrastructure Funding - \\$500,000](#): increases the bureau's annual major maintenance budget to \$2.4 million, in alignment with a Council-passed budget note. The bureau has an estimated annual funding gap for asset major maintenance of \$126 million, relies exclusively on the General Fund for discretionary resources, and is simultaneously in the process of identifying significant service level reductions as the result of a separate budget issue, leading CBO to conclude that this investment provides a financial return-on-investment and is unable to be absorbed or prioritized within the bureau's existing budget this cycle.

One-Time General Fund Funding Recommendations

- [Business License Tax Collection Staff - \\$428,404](#): continues supporting 3.0 Limited Term Business License Tax collection FTEs. These positions were added in the FY 2018-19 budget with one-time resources and have to-date been associated with a ten-point increase in BLT compliance rates. CBO is recommending one-time funding order to provide opportunity to more concretely evaluate the impact of these positions on revenue generation prior to making the resource allocation ongoing.
- [Backfilling County Subsidization of Revenue Collection Costs - \\$753,814](#): supports 5.0 existing revenue collection staff. The City provides tax collection services for the Business License Tax on behalf of the County, and the current intergovernmental agreement (IGA) governing this arrangement requires annual payment from the County for this service of \$1.3 million when cost recovery estimates dictate the County's proportional payment should be closer to \$2.5 million. Two years ago, Council reduced the Revenue bureau's ongoing appropriation to initiate achievement of cost recovery under a renegotiated IGA amount with the County. A new IGA is expected to go into effect in the summer of 2020; these resources are to ensure current tax collection levels continue until that time.
- [Fourth & Montgomery Building Cash Funding Requirements - \\$1,853,017](#): provides the required 5% cash contribution, in alignment with the City's debt policies, for construction costs associated with the new 4th and Montgomery building, a project that is underway and authorized by Council.
- [Integrated Tax System - \\$1,400,000](#): provides the estimated 5% cash contribution to finance the replacement and integration of the City's tax collection system. The project is in the initial stages but CBO finds some urgency to system replacement.

- [FEMA Biological Opinion Compliance/Floodplain Management Update](#) - **\$280,000**: In spring 2018, FEMA concluded a Programmatic Environmental Impact Statement on the National Flood Insurance Program and issued a Record of Decision (ROD) indicating that communities must document that floodplain development permits are compliant with the Endangered Species Act. This request supports work to complete the requisite regulatory changes mandated by the ROD and mitigates pressing legal risk.
- [Attorney's Office Revenue Collection](#) - **\$117,472**: continues one-time support for 2.0 legal revenue collections FTE. One-time resources were originally provided in the fall of 2017 and the Attorney's full collections team of 4.5 FTE have been addressing a backlog in caseloads and demonstrated a return-on-investment. However, CBO finds that the needed duration of this level of staffing resources is currently unclear, and thus does not recommend ongoing resources at this time.

While CBO recommendations typically align with Council-adopted policies and mandates, this year there is one notable exception: the [Mt. Tabor Historic Restoration](#) request for \$1.1 million. Council committed to historic improvements of the Mt. Tabor reservoir in July of 2015 via [Resolution No. 37146](#), which has been the basis for CBO recommended funding levels over the past three years. However, CBO notes the Council may revisit this commitment given current Citywide needs, priorities, and available resources. The request does not meet CBO's current year criteria to recommend the allocation of limited resources.

In addition, CBO has noted a number of packages that are well-constructed, which align with City policies and priorities, and which present compelling evidence that the requested funding would generate meaningful progress on key citywide goals. However, these types of requests exceed available forecasted resources. Additionally, significant requests for resources are forthcoming and have not yet been evaluated by CBO. As a result, CBO believes the question of which of these packages should be allocated funding is a question of Council and Mayor priority. CBO recommendations leave approximately \$540,000 in ongoing and \$2.2 million in discretionary one-time forecasted resources.

Finally, CBO found in the analyses that a number of requests for resources were well intentioned and aligned with City policies and priorities but found that the proposals lacked evidence that intended impacts and outcomes would be realized.

Cannabis Fund Revenues and Recommendations

Per the most recent forecast update, the City Budget Office anticipates budgeting approximately \$5.6 million in Cannabis Fund resources in FY 2019-20. Based on current ongoing appropriations, this yields approximately \$800,000 in new ongoing resources available for appropriation to eligible expenses: drug and alcohol education and treatment programs, public safety services that protect community members from unsafe drivers, and support for neighborhood small businesses especially women-owned and minority-owned businesses. As no Cannabis Fund-eligible funding requests meet CBO's current year criteria to recommend funding allocations, CBO recommendations do not include allocation of new resources from this fund. These resources should be allocated according to Council priority.

Capital Set Aside Recommendations

City financial policy requires that 50% of the excess one-time resources in the forecast, or about \$7 million, be spent on infrastructure maintenance and replacement. A complete list of the

ranked projects is included in the CBO review binder. CBO is recommending the following projects:

- [ADA Accessible Sidewalks](#) (\$1.5 million)
- [Citywide Lamp Replacement Program](#) (\$500,000)
- [Traffic Signal Reconstruction Program](#) (\$2.0 million)
- [Western Cornell Tunnel](#) (\$2.3 million)
- [Forest Park Firelanes and Critical Infrastructure](#) (\$2.5 million)

CBO recommendations retain \$200,000 to allocate in the Capital Set Aside account, noting that this number may be updated with the City Economist's April Forecast update.

For more detailed information on the above recommendations and other packages not recommended funding allocations, please see the individual reviews.

CBO Review Key Issue Highlights

In addition to the issues discussed above pertaining to funding recommendations, CBO reviews analyzed significant issues and risks both within and across bureau budgets. Notable highlights include:

- **Rising personnel costs.** A primary driver of increased costs, particularly in the General Fund, are increasing personnel costs. Between cost-of-living allowances, health benefit increases, and increasing PERS costs, individual employees' costs are rising significantly faster than inflation. These personnel increases account for \$68.5 million of new ongoing General Fund resources over the past five-years. Additionally, recent changes to the City's non-represented workforce compensation and merit system will likely [increase cost pressure](#) on bureaus, and within the next two years, the City will ratify contracts with two of its largest unions, the Portland Fire Fighters Association and the Portland Police Association. Notably, increases in labor contracts have resulted in \$13.1 million of additional ongoing General Fund costs over the past five years.
- **Increase in FTE.** In bureau's FY 2019-20 base budgets, there are 6,648.0FTE total, which were funded within bureau's current appropriations for FY 2019-20. Additionally, bureaus have requested funding for an additional 103.4 FTE in decision packages. CBO notes that even if the current year costs of these positions are funded within bureau appropriations or additional General Fund resources, the outyear cost of the positions often increase due to increases in PERs, health benefits, and salaries.
- **Homeless services and rental services.** The State of Housing Emergency has spurred unprecedented investments and interventions addressing the unmet housing need in Portland. This has included significant allocation of one-time resources for services. In FY 2019-20, Council directed the [Portland Housing Bureau](#) to bring forward following requests to maintain current year one-time funding:
 - \$6.9 million for the Joint Office of Homeless Services
 - \$1.0 million for the Rental Services Office (which includes a new Program Manager)These requests alone exceed available one-time discretionary resources, assuming the Council policy of 50% one-time resources going towards capital maintenance needs. Council's challenge in FY 2019-20 is to determine the ongoing sustainable funding allocations the City will commit along the housing continuum, prioritizing funding for target populations and services with proven outcomes, and to work toward securing commitments from other entities.

- **Personnel reductions in BPS and BDS.** As development slows following several years of record construction levels, land use services revenues are declining. This slowdown impacts both the [Bureau of Development Services](#), which has already instituted a hiring freeze, and the [Bureau of Planning & Sustainability](#), which funds several positions with this revenue to support code development. Both bureaus have requested General Fund resources to help backfill this projected gap; absent new General Fund resources, Council may need to identify tradeoffs in planning workload to smooth the anticipated decline in resources.
- **Near-term technology liabilities: RegJin and Integrated Tax System.** There are two large-scale technology replacement projects on the horizon that have large cost implications for the City. The Revenue Division is moving forward with an [Integrated Tax System](#) project to replace multiple aging tax platforms that are nearing the end of useful life. The estimated cost for this project is currently \$30 million over three years, though new information will soon be available as vendor proposals are reviewed. This is a critical software replacement project that will ensure the ability to collect revenues owed to the City. A second major technology project is the replacement of the [Police Bureau's Records Management System](#) (RegJIN). The current system is not at the end of its useful life, but the City is bearing outsized cost and risk under the current system structure and there is general dissatisfaction with the usability of the system. The low confidence cost estimate for this project is \$5 million, but the bureau has yet to receive vendor proposals.
- **Blended Rate of Downtown Office Space.** Council authorized the establishment of an [equalized rate](#) for downtown office space in October 2015 to provide greater cost certainty to bureaus in the downtown core, to be implemented in 2021. The costs included in the planned blended rate have increased substantially in recent years – over \$12 million annually – inclusive of the costs of the Portland Building and 4th & Montgomery building projects. In the current year, OMF has put forward decision packages totaling \$3.5 million that, if approved, will put further pressure on the blended rate. CBO has concerns about the substantial costs layered onto the blended rate, as well as the lack of formal and agreed-to policies around what is appropriately included in the rate.
- **Public Safety Call Volume.** Public safety call volume has increased significantly in recent years, increasing staff workload at the Bureau of Emergency Communications, Police Bureau, and Fire Bureau. A combination of new staffing resources and demand management strategies have been employed across public safety bureaus to mitigate the impact of rising call volume on overall response times. Examples of demand management strategies include making [proactive contact with high-volume callers](#) (Fire's CHAT program), deploying non-sworn staff to respond to low-level calls (the [Police Bureau's Public Safety Support Specialist](#), or PS3, program), or potentially diverting non-emergency calls to a 311 program in the future. To improve emergency call response, the Bureau of Emergency [Communications](#) has requested funding for additional positions and the implementation of a [nurse triage program](#). In addition, Portland Fire & Rescue has requested funding to restore its [RRV program](#). The reduction of one RRV would increase the low-acuity incident workload of a regular 4-person company by approximately 2,000 calls per year. Continuing to explore and evaluate these demand management strategies is a critical component of managing public safety call volume in a cost-effective manner.
- **Reductions to Police's materials and services budget.** Many bureaus met their 1% constraint target by reducing their materials and services budget, and managed to absorb the reduction with limited service level impacts. However, CBO's analysis of the Police Bureau budget indicates that the bureau's [\\$1.1 million reduction in materials and services](#)

budget may be untenable over the long term as future costs present with critical needs such as equipment and technology replacement. The bureau's materials and services expenses represent a relatively small portion of the total budget compared to the bureau's rising personnel costs, and the bureau's budget may become unstable if future constraint budgets do not include personnel cost management strategies.

- **Records management.** Lowering the cost and turnaround times for billable public records requests is a desired outcome, as evidenced in Directions to Develop for the [Attorney's Office](#), the Bureau of Technology Services, and the [Portland Police Bureau](#). As the City invests additional resources in improving turnaround times and accessibility of public records, the cost of providing this service will increase.
- **Operations and Management costs of new parks.** Parks has requested \$891,694 in ongoing General Fund resources to fund the [operations and maintenance costs](#) of new assets being constructed with system development charge (SDC) revenues. In the past five-years, \$3.6 million of General Fund ongoing resources have been allocated to operations and maintenance, and looking forward, the bureau anticipates needing an additional \$3.0 million in ongoing resources to fund the SDC expansion over the next five years. As noted in CBO's review, this ongoing request is only for day-to-day operations and maintenance costs of new parks, but these new assets will eventually have major maintenance expenses in the 10-20 years, increasing outyear liabilities and exacerbating the annual funding gap.

Conclusion

Portland continues to benefit from a strong economy, and yet significant issues remain to be addressed. The City will need to make smart, strategic decisions in FY 2019-20 and beyond in order to ensure that we maintain and expand our fiscal resiliency and quality service level provision. CBO recommends that the City add new ongoing programs sparingly in order to maintain our fiscal resiliency during an economic downturn.

Please do not hesitate to contact me with any questions about the CBO budget reviews. I look forward to working with you to craft the FY 2019-20 budget.