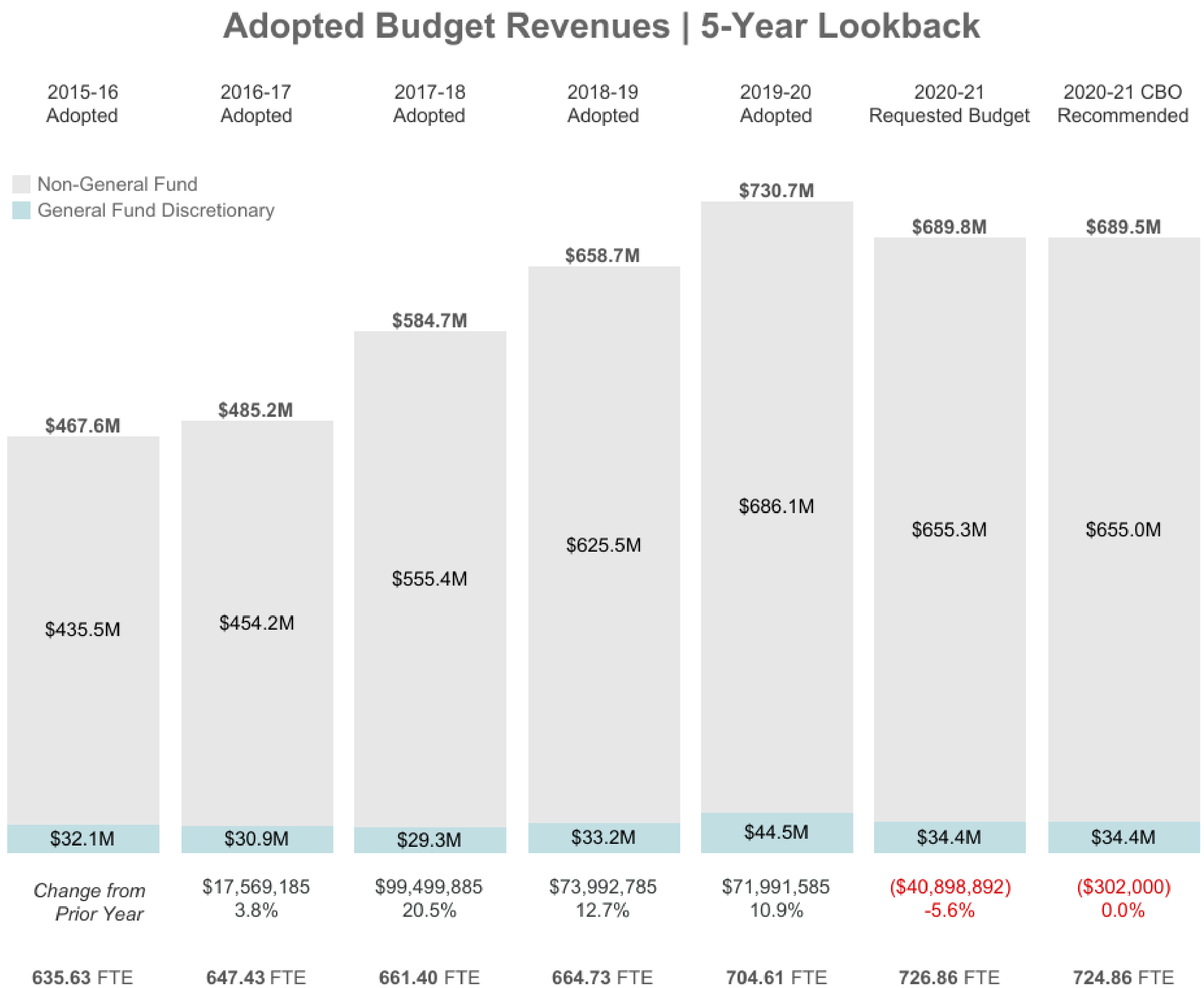
City Budget Office

Office of Management & Finance

Analysis by Shannon Fairchild and Michelle Rubin



INTRODUCTION

The Office of Management & Finance's (OMF) FY 2020-21 base budget totals $685.6 million, across multiple funds. The bureau put forward five decision packages for new resources, totaling $4.2 million. Citywide, bureaus are experiencing increased cost pressures as a result of recent policy changes; OMF bureaus are also challenged by these cost pressures, and CBO notes several areas where internal tradeoffs have been made to keep expenses in alignment with revenues. CBO is recommending new General Fund resources totaling $2.5 million, primarily for the preservation of tax collection staffing levels and for investment in an enterprise asset management system.

BASE BUDGET KEY ISSUES

Centralized Initiatives Producing Citywide Cost Pressures

As a centralized service provider, the Office of Management & Finance (OMF) has a governance and oversight role that often involves implementing policies that have operational or fiscal impacts to bureaus across the City. Recently, the confluence of several policy shifts implemented by OMF has led to substantially increased cost pressures across the City in the tens of millions of dollars. As noted last year[1], policy changes from the Bureau of Human Resources created new personnel costs and cost exposure across all City bureaus; these pressures remain in the current year, and are discussed in more detail below. FY 2020-21 is also the first year that the Blended Rate for office space in the downtown core will be in effect. The implementation of this new rate structure has been anticipated for some time, and the full costs of the debt service on the Portland Building and for 4th & Montgomery are being spread to bureaus based on this new rate model. The impact of these higher rent costs has proven to be quite substantial for many bureaus as they must identify internal tradeoffs to either absorb the costs or pass them on through rate or fee recovery models. Questions remain as to whether this model should be kept in place after an initial two-year pilot.

Increased Personnel Cost Pressures

The Bureau of Human Resources (BHR) provides centralized support to City employees and employment processes. They have led the implementation of several Citywide initiatives over the past two years, all of which are related and directly impact how the City's approximately 1,600 non-represented employees are classified and compensated. These efforts include:

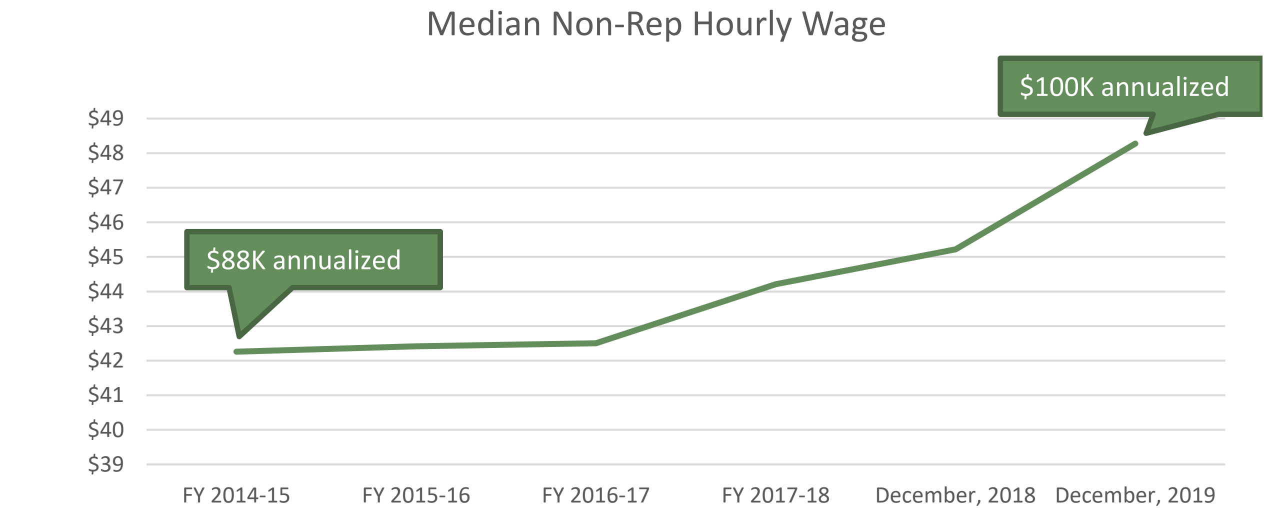
- Conclusion of the **Classification and Compensation Study** which sought to update classifications to improve employee recruitment and evaluation, clarify the duties of professional and technical career tracks, identify positions with supervisory responsibilities, and update compensation ranges.
    - Effective December 2018, the new classification structure reduced the total number of classifications Citywide from around 400 to about 100 and widened both the higher and lower ends of the pay bands for all classifications. The classification ranges were not tied to a comparison with market rates or other published pay schedules for comparator jurisdictions.
- Implementation of the **Oregon's Equal Pay Act (House Bill 2005)** which included a statistical analysis that attempted to determine employees' "justifiable wage" and made proactive increases to employees pay. The Pay Equity law allows for only certain bonified factors to explain differences in pay for employees in the same classification.
- Piloting of a new **Enterprise-wide Merit System** to minimize inconsistencies in the personnel evaluation process and the possibility of pay inequities going forward.

CBO provided analysis last year showing that the first-year impact of the wider compensation bands was likely \$3.3 million across bureaus, due to the approximately 600 non-represented employees who were no longer at the top of their compensation range, and therefore newly eligible for merit pay increases. CBO also performed analysis on BHR's proactive pay equity wage changes (initiated in late December of 2018) that suggested the initial Citywide impact was approximately \$3.7 million[2]. These changes, in

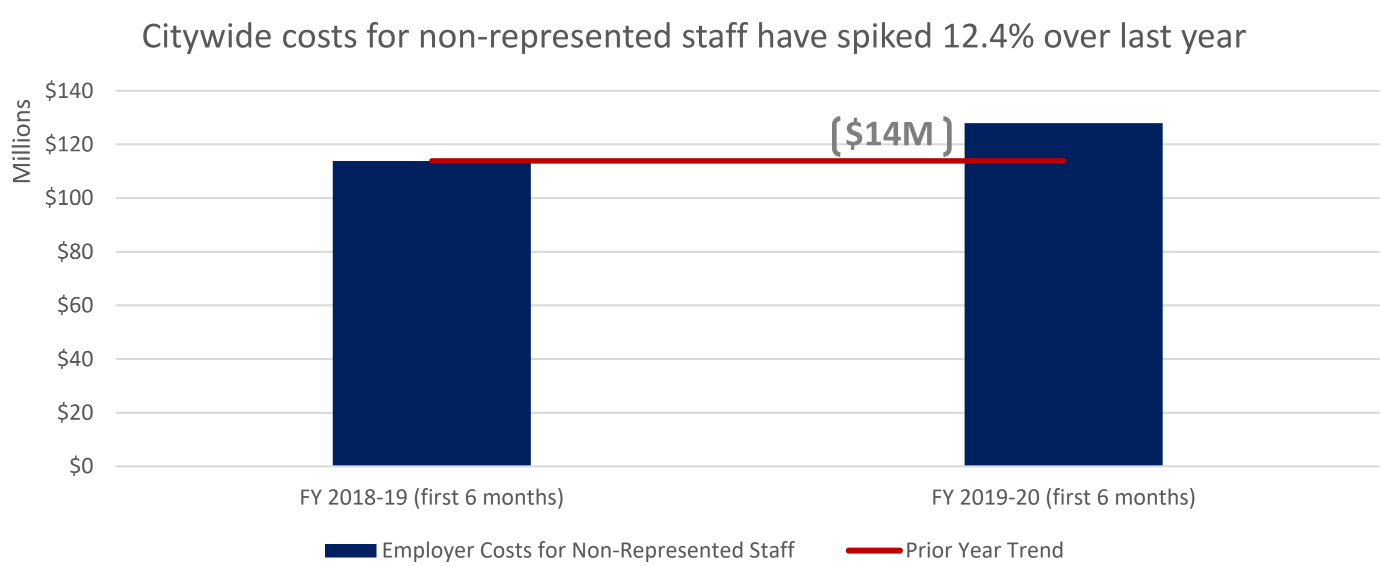
[1] https://www.portlandoregon.gov/cbo/article/714618#page=2

[2] The impact to General Fund bureaus was approximately \$1.4 million; General Fund bureaus received Current Appropriation Level adjustments in FY 2019-20 budget development for General Fund-backed positions that received pay equity

addition to cost of living increases, are reflected in the increased growth curve for median non-represented hourly wages in the last year.



A comparison of total employer costs for personnel (including wage-driven benefits) over the first six months of FY 2018-19 and the first six months of FY 2019-20 also confirms that personnel costs are indeed rising quickly. Total employer costs (including benefits) have increased by over 12% over the prior year, with only slight increases in total staffing levels. This increase is notable given that the data includes the offsetting impact of decreases in wages that occur annually with retirements or attrition of longer-tenured employees.



Cost increases from these policy changes have affected bureaus differently, depending on factors such as: the number of employees that were formerly at the top of their compensation ranges; the incidence of pay equity changes; and the bureau's current merit award allocation practices.

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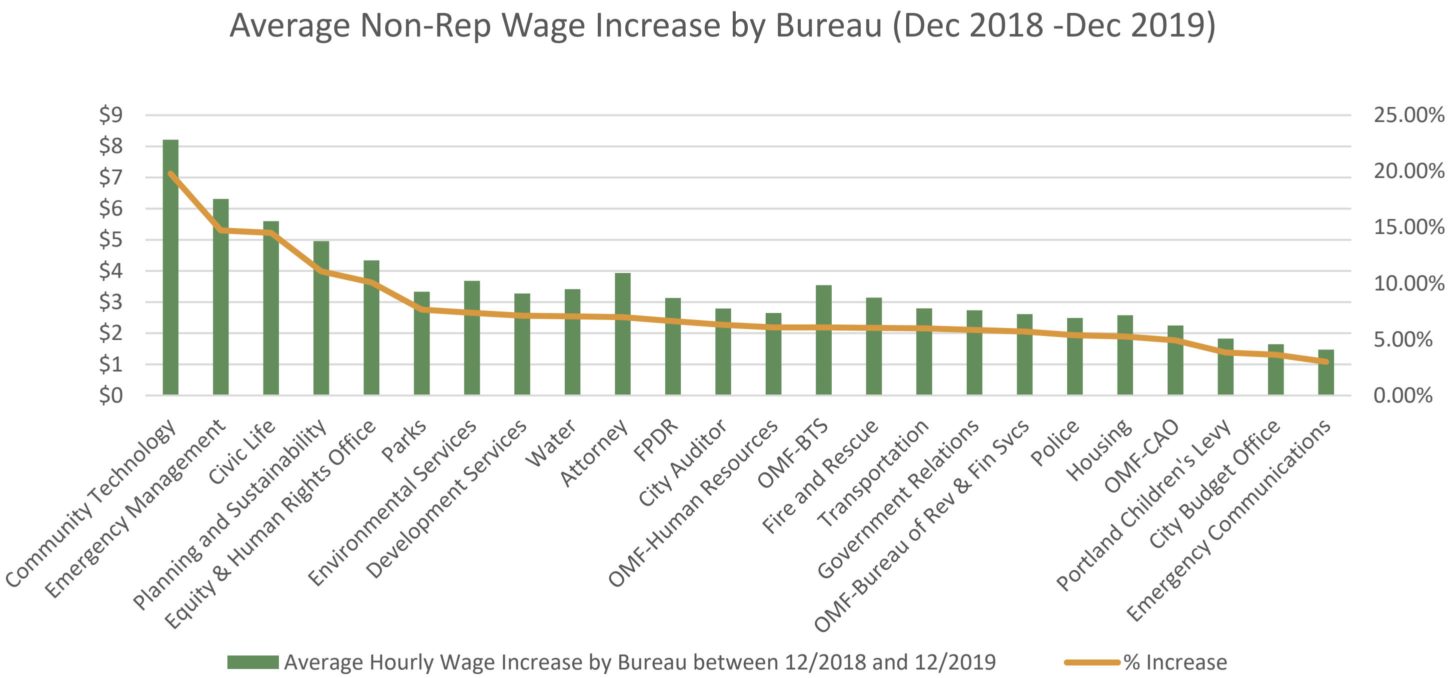
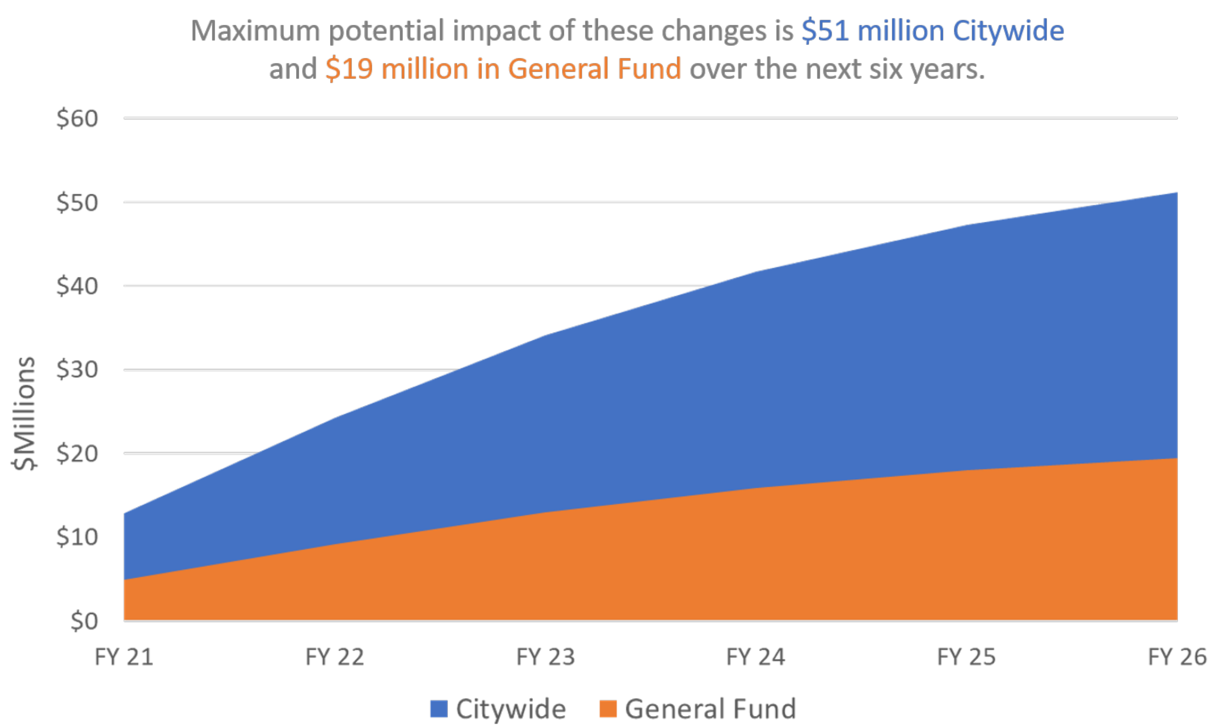
adjustments.



The year-one impacts of these policy changes have been significant, and will compound in coming years, especially if the current norm of awarding the maximum merit increase award of 4.1% to the majority of non-represented employees until they reach top-of-range continues. The combination of this practice, the wider compensation bands, and preemptory pay equity wage increases have, in combination, exposed the City to large prospective cumulative costs in the coming years, as shown in the chart below.



Rising personnel costs are creating pressure in bureau budgets Citywide and will create tradeoffs between service provision and rising costs for existing staff. Bureaus have differing levels of cost exposure and ability to adjust to rising personnel costs. Bureau managers also have less authority to manage personnel costs; in an effort to ensure compliance with the Pay Equity law, BHR has taken a proactive role in determining what salary range can be offered to all employees upon hire or promotion.

The average annual salary of a non-represented employee is now over $100,000, and total average per-employee costs to the City exceed $140,000 including benefits like retirement and healthcare. Large questions remain about how to best ensure that 1) non-represented employees are compensated fairly for their work and 2) the City can mitigate burgeoning personnel cost such that service levels can be preserved and layoffs can be avoided in the coming years.

On January 22, 2020, The Mayor's Office issued updated guidance for FY 2020-21 that will:

1. restrict merit pay increases to 2%,
2. freeze the top of compensation bands for one-year, and
3. limit percentage-based cost of living adjustments to the first $100,000 of salary earnings. Employees earning more than $100,000 in annual salary will receive a fixed cost of living amount totaling $2,900.

These efforts are a critical first step toward mitigating the City's total exposure to rapidly rising personnel costs. Given the significance of the recent personnel cost increases and the complex factors that limit bureau's flexibility to address these changes, Council may want direct BHR, CBO, and the City Attorney's Office to explore longer term and wholesale changes in its overall approach to merit pay, cost of living increases, and its approach to compliance with the Oregon Equal Pay Act. Some potential options to consider include:

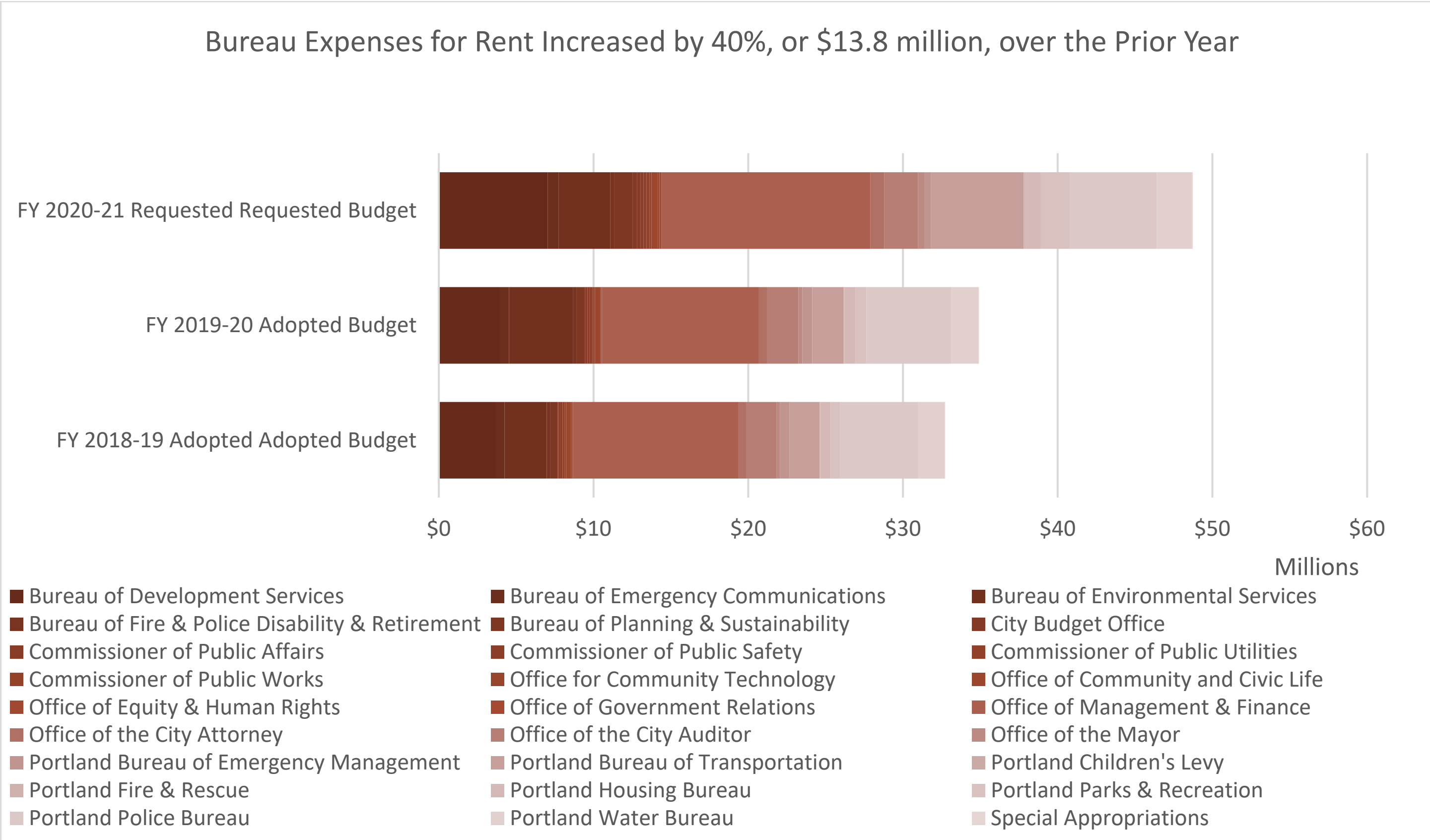
- Continue to refine the City's compliance methodology for the Oregon Equal Pay Act. The City took steps to come into full compliance with the Oregon Equal Pay Act by the January 1, 2019 effective date, well ahead of many other jurisdictions. This reflects the City's commitment to equal pay for equal work, both as a moral principle and as a legal obligation. The City should now continue to refine its equal pay analyses, to ensure that accurate data is being utilized. The City should also continue to work toward more precise determinations of what positions are performing comparable work within and across bureaus, to provide maximum flexibility to hiring managers while ensuring continued legal compliance.
- Consider reducing the maximum allowable merit pay increase from 4.1% on a more permanent basis, or otherwise ensure that merit increases across the City follow a more traditional bell curve distribution. The first year of implementation of SuccessFactors will provide additional data points on where additional guidance to bureaus may be most useful.
- Freeze the top of compensation ranges for several more years and commit to performing a total compensation analysis that compares City compensation practices with the private sector or to comparable jurisdictions.

Increased Facilities Cost Pressures

In 2015, the City Council authorized OMF to move forward with a "blended rate" approach to charging bureaus for office space in the downtown core. The purpose of the blended rate as proposed was to eliminate variations across bureaus for office space. An outcome of this policy decision was that the substantial debt service payments for major facilities projects (i.e. the Portland Building reconstruction project and the 4th & Montgomery project) were spread across more payers.

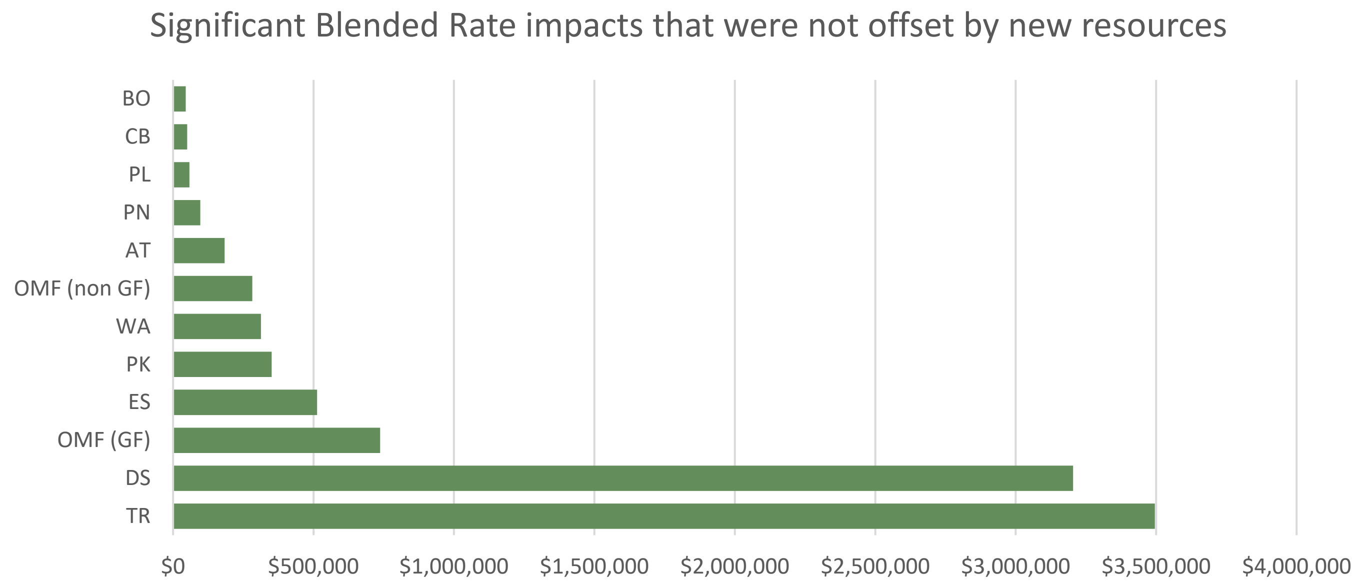
With work on the reconstructed Portland Building near-complete and payments to PSU for the 4th &

Montgomery building processed, OMF has based its higher "blended" rate for office space in its charges to bureaus for downtown office space. Across the City, bureaus are paying about $14 million more for office space than they were last year. Of this total impact, about $11.2 million is attributable to debt service costs for the Portland Building and 4th & Montgomery spread via the Blended Rate.



OMF has been modeling these cost increases and sharing information with payers for several years, but the total cost increase has put pressure on bureaus budgets. General Fund bureaus received current appropriation level adjustments totaling $5.3 million for the General Fund-backed portion of their budgets, per Council direction, but there are significant impacts in other areas. The Bureau of Transportation, Bureau of Development Services, Office of Management & Finance, Parks[3], Water Bureau, and Bureau of Environmental Services all experienced substantial cost increases that were not offset by new resources and are creating significant trade-offs within bureau budgets.

[3] Both OMF and Parks have substantial portions of their General Fund budgets that are not backed by discretionary resources.



The CBO review last year noted that OMF had intended to cross-subsidize the costs of technology, furniture, and equipment costs across office locations via the blended rate. An updated model was implemented which limits the blended rate pool to debt service costs, lease costs, and operational and maintenance costs.

OMF also issued a memo confirming that the blended rate program will be a two-year pilot, stating the following:

> The Blended Rates Program will be a two-year pilot program. The pilot program will be a success if the program:
>
> - Facilitates the overall management of the spaces and consistency across them
> - Facilitates setting and maintaining standards of service levels
> - Facilitates the development of service level agreements and expectations of OMF-Facilities and tenants
> - Improves the ability to move tenants as business needs require
> - Provides more flexibility in allocating resources to buildings where it's needed most

The blended rate program represents a massive centralization effort – with enormous financial and operational impacts to bureaus – and cost accountability is a critical component of such a centralization effort. However, none of the metrics put forward by OMF mention total cost or decision-making around new costs introduced to the blended rate as important metrics of success. Having such metrics is extremely important, as the very nature of the blended rate separates the bureau's sensitivity to cost (which is generally to preserve service levels) from decision-making around space costs.

The blended rate cost per square foot, $46.62, is slightly higher than the 2018 market rate for Class A office space in downtown Portland. Despite being higher than market rates, the City's blended rate does not sufficiently recover costs for known major maintenance needs. There are longer term efforts to develop a data-driven approach to making progress on OMF's major maintenance backlog and space planning. Still, it is a valid concern that, absent additional controls or cost accountability metrics, rent costs may eventually bear no relation to market rates. Bureau budgets have only so much capacity to absorb higher interagency costs from OMF providers, and CBO recommends that OMF develop cost accountability metrics prior to any consideration of moving the Blended Rate program beyond a pilot phase.

Base Budget Issues

Bureau of Human Resources

Bureaus across the City, BHR included, are facing cost pressures as a result of the rising personnel costs discussed in greater detail above. BHR had 25 General Fund-supported staff who were at top of range under the prior class-comp structure who became eligible for merit-based increases after the new compensation ranges were approved by Council. This exposed the bureau to $95,000 in immediate potential additional ongoing costs (assuming a 4.1% merit increase), and subsequent similar increases annually until these employees reach the new top of range. BHR also experienced significant increases related to pay equity. The bureau independently made six pay equity adjustments in the current year that increased ongoing personnel costs by approximately $80,000. Information from the bureau indicates this was in accordance with HRAR 8.04 Compensation and pay equity compliance.

Recently, the bureau stated that it is reducing work hours to address a projected funding gap in its current year General Fund budget. It is unclear how large of a gap the bureau is facing; however, the bureau expects that 15-18 employees will volunteer to adopt the reduced hour schedule over the course of the year. BHR's FY 2020-21 Requested Budget includes a $237,000 reduction in personal services and an external materials and services (EMS) budget that is $300,000 lower than the bureau's historical actual spending ($400,000 - $600,000). This is the only bureau in the City proposing a voluntary reduced hour work week as a base budget balancing tactic. CBO is concerned that this measure taken by BHR has the potential to be adopted by additional bureaus as a strategy to afford increased personnel expenses. If this is practice is indeed approved in FY 2020-21, CBO recommends a more comprehensive policy for reduced hour workweek options, especially as there will be service level tradeoffs to consider.

The Bureau's requested budget narrative does not discuss these reductions nor how it will achieve the savings. When asked, the bureau indicated that it will realize the savings through a portion of its staff voluntarily converting to a 37.5-hour week, holding vacancies open, and requesting compensation set aside in the FY 2020-21 Spring BMP, if needed. These efforts may bring BHR's revenues and expenses into alignment for FY 2020-21 but does not necessarily address longer term issues. To meet the $300,000 EMS target, costs such as supplies and travel will be kept to a minimum and work that would have utilized professional service contracts will be completed either in-part or fully utilizing BHR staff. Finally, the bureau indicated that it eliminated merit increases for the senior management team. CBO notes that freezing merit increases for budgetary reasons could have pay equity implications if BHR's senior staff are in classifications that span across bureaus. Guidance is needed on whether bureaus have discretion to limit or freeze merit to address rising costs.

BHR plays a critical and central role in ensuring compliance with high profile initiatives like Pay Equity Act of 2017 and the roll out of SuccessFactors. Given that the previous process for evaluating employees and awarding merit increases was highly decentralized across and within bureaus, transitioning to an enterprise wide merit-based system will be a significant lift at both the bureau and City level. It remains to be seen what impact these cost saving measures will have on the bureau's ability to manage these major initiatives, provide clear and coordinated communication of new guidelines across bureaus, and adjust to any new direction from Council.

Bureau of Revenue and Financial Services

BRFS had to make several internal service tradeoffs in its FY 2020-21 Requested Budget submission in order to adjust to new cost pressures, predominantly due to personnel costs rising as a result of pay equity and merit adjustments. Noteworthy tradeoffs include:

- The Procurement Division is holding several vacancies open and reorganizing administrative functions for efficiency.
- The Procurement, Revenue, Grants Management, and Accounting Divisions Requested Budgets assume that compensation set aside will be requested in the Spring Budget Monitoring Process (BMP) if other measures, such as holding positions vacant, do not produce expected savings.
- In the Debt Management, Treasury, and Risk Management Divisions, increased personnel costs were accounted for as drift in the development of its Target Rate Budget; actual costs for Personnel Services reduced other areas of the rate budget.

In general, CBO notes that these are primarily one-time strategies to address increased costs and may not be sustainable solutions for the long-term. Additional base budget issues are discussed in more detail below, including 1) uncertainty surrounding the ongoing funding strategy for Procurement Services Community Opportunities and Enhancements Program (COEP) and 2) base budget issues in the Revenue Division (discussed in the context of the decision package request for maintaining current tax collection staffing levels).

Bureau of Technology Services

The Bureau of Technology Services (BTS) is an internal service provider for the City of Portland, with a mission "to deliver strategic leadership through effective, innovative, reliable and secure technology services for our stakeholders." Funding sources for BTS include major maintenance reserves, technology reserves, and rate funding. The bureau's FY 2020-21 Requested Budget totals $107.9 million, decreasing from the FY 2019-20 Revised Budget of $117.8 million.

The BTS FY 2020-21 Requested Budget reflects the Mayor's Budget Guidance that Internal Service Funds absorb cost increases above inflation in the development of its rate budget. In order to meet Mayoral budget guidance and absorb Citywide increased personnel costs as a result of pay equity and merit adjustments, the bureau made several internal service tradeoffs in its requested budget submission. Noteworthy tradeoffs include:

(1) During FY 2020-21 budget development, BTS program managers originally identified the baseline resource levels needed to sustain current operations and service levels. In order to stay within its target rate budget, BTS ultimately identified approximately $1.2 million in total adjustments. While these reductions may not have near term visible impacts to customers, service level reductions may be felt in future fiscal years.

(2) Due to the introduction of the Blended Rate, some of BTS's interagency agreements (IAs) with other bureaus increased significantly and will be resourced by drawing on BTS fund balance. An example of this is BTS' IA with the Portland Bureau of Transportation.

Community Opportunities and Enhancements Program (COEP) Funding Strategy

As part of initial COEP policy development, Resolution 37331 stated that 1% of hard construction costs for several pilot large public improvement projects be set aside to support low-income, disadvantaged, minority and women workers in the construction trades and the development and growth of firms certified by the Office for Business Inclusion and Diversity (COBID). Pilot projects included the Portland Building Reconstruction Project, 10th and Yamhill Garage, and Washington Park Reservoirs Project. It also directed OMF and Office of Equity and Human Rights (OEHR) to work with infrastructure bureaus and the City Budget Office (CBO) to establish mechanisms for collecting 1% from all City public improvement construction contracts moving forward. At the time of the resolution, estimates of the resources for this program were between $1-2 million per year. For a variety of reasons – explored more fully in the Prior Year Performance Report[4] (page 5) – the methodology and high level revenue estimates for COEP are currently in flux.

An Ordinance to authorize an Intergovernmental Agreement between OMF, OEHR, and Prosper Portland for a pilot administration of the COEP was passed by Council in January 2020 (Ordinance 189834). The IGA directs $2,234,786 million in currently available set aside resources from the three pilot public improvement projects listed above to Prosper Portland for administration to pilot COEP.

The agreement outlines that Prosper will receive $150,000 for its services during the term of the Agreement, until June 30, 2021. The Ordinance authorizes only the disbursement of pilot project funds by Prosper.

As of February 2020, ongoing resources for the COEP program have yet to be adopted by Council or articulated in administrative rules. Further action by Council will be required to amend the IGA with Prosper to disburse ongoing/future funding received via COEP.

Although this ordinance identified the framework for the COEP pilot project funds, there are several issues around COEP that remain unclear. Most notable issues include: remaining uncertainty about what constitutes as an eligible funding source, what the estimated total COEP program revenue will be in a given year, and what methodology will be used to collect revenue from infrastructure bureaus. Depending on how these outstanding questions are resolved, unplanned impacts to the City's General Fund and/or unplanned constraints on several bureaus may result. The ordinance directed the City's Chief Administrative Officer to work with the infrastructure bureaus who execute public improvement construction contracts to establish Portland City Code and Administrative Rules to further outline the details of the COEP including how the 1% of hard construction costs is to be collected from the infrastructure bureaus by OMF, how those funds will be administered, and how the program will be implemented. The development of revised administrative rules is underway, and OMF anticipates revisions will be presented to Council in the spring of the current year.

Procurement Services FY 2020-21 Requested Budget includes COEP and Prime Contractor Development Program (PCDP)[5] program expenses that are backed by a $1.5 million estimated in annual COEP revenue.

These include:

FY 2020-21 COEP Program Administrative Expenses ($376,000)

- $150,000 to Prosper Portland for administration of workforce development and technical assistance grants.
- $226,000 for City staff and indirect costs (1.0 FTE leading the Community Equity & Inclusion Committee; managing the IGA with Prosper Portland; and administering the COEP program overall). The revenue source for this expenditure is "Miscellaneous Revenue" and is contingent on a future COEP funding strategy being adopted by Council.

FY 2020-21 PCDP Program Expenses ($404,000)

- Budgeted at $404,000 for 1.0 FTE and indirect and direct materials and services. $148,451 of these expenses are budgeted through realignment of General Fund resources within the

[4] For the full FY 2019-20 Prior Year Performance Report, please see: https://www.portlandoregon.gov/cbo/article/748890
[5] For more information on the Prime Contractor Development Program, please see: https://www.portlandoregon.gov/brfs/59370#:~:text=

bureau; however, $255,668 are budgeted as "Miscellaneous Revenue" with a currently unknown revenue source.

It had previously been discussed that the PCDP would be funded by COEP resources due to similar program goals, but the scale and timeline of COEP resource materialization has fluctuated since that time. Procurement Services has stated that it does not expect Council will support funding the PCDP budget from future COEP revenues because the COEP administrative expenses outlined above already account for 25% of the anticipated total annual revenue. OMF stated it is working to identify short-term and ongoing funding and service-delivery solutions that allow the City to establish the COEP and maintain the PCDP program. Procurement Services intends to deploy one-time bridge funding solutions, such as FY 2019-20 Spring Budget Monitoring Process (BMP) carryover requests, while exploring efficiency-based ongoing cost reduction options in order to fund the $255,668 in administrative costs for the PCDP. CBO notes that there is some risk attached to funding an ongoing program with one-time resources and that it is currently uncertain where the revenue for the PCDP will come from.

The actual ongoing revenue for COEP is still unknown, in that the final administrative rules have not been developed to determine what ongoing charges will be. Procurement Services is still currently developing a funding strategy with relevant bureau stakeholders, which may veer from the initial methodology of 1%. CBO notes that there is a risk to the City if ongoing revenues do not come to fruition, especially with the consideration that the Division is operating on an expedited timeline, with a plan to bring forward Administrative Rules to Council by April 2020. However, Procurement Services states that it has a high degree of confidence that Council will approve Code and Administrative Rules establishing the ongoing COEP funding strategy in sufficient time to appropriate the infrastructure-funded interagency revenues in FY 2020-21 to back the COEP program expenses highlighted above, either through the budget process or in the Spring Budget Monitoring Process (BMP). There is still uncertainty around revenues for the PCDP costs. CBO notes that there is a level of risk associated with this assumption, which could result in impact to the General Fund with a one-time bridge funding request later in FY 2020-21 Budget Development to fund unfunded COEP and PCDP program expenses or have an impact of bureaus having to absorb currently unknown interagency costs for COEP passed late in the FY 2020-21 budget process.

Integrated Tax System (ITS) Project Update

In the FY 2019-20 Adopted Budget BRFS received resources to partially fund the Integrated Tax System project (ITS). The total General Fund one-time resources allocated to this project in FY 2019-20 were $9.68 million.[6] ITS will replace multiple legacy tax administration systems that are at the end of their useful lives. In total, the project is estimated to cost $24.3 million. Although this project was discussed and partially funded during FY 2019-20 budget development, the full project cost and contract was finalized after the conclusion of the budget development process.

A budget note was issued by Council in the FY 2019-20 Adopted Budget, which directed CBO and the Revenue Division to finalize a finance plan and ongoing cost estimates and incorporate the City's share of these ongoing costs via a current appropriation level (CAL) adjustment going into FY 2020-21 budget development. The budget note also directed the Revenue Division to negotiate cost recovery for ongoing tax system and tax collection cost with partner organizations and funds.

As a result of this budget note, BRFS developed a cost recovery financing plan to fund this project in out years. Also, in accordance with this guidance, in the FY 2019-20 Fall Budget Monitoring Process (BMP)

[6] This included $248,000 in one-time resources embedded in the bureau's base budget and $9.4 million in new one-time resources.

OMF's CAL was increased in the City's forecast by $1.8 million to account for increased ongoing costs associated with the ITS Project. These resources will be added to the division's CAL beginning in FY 2021-22 when the project is finished, and the ongoing costs are expected to be realized.

The Revenue Division developed a cost allocation methodology to achieve full cost recovery of the project's ongoing costs based on the proportion of revenues collected by the new system and will spread the ongoing costs among local partner agencies. Based on the current version of the cost allocation methodology, the City's share of ongoing ITS costs are estimated at $1.9 million, which is approximately $150,000 higher than the previous cost estimate, and the amount of the CAL adjustment requested by the Revenue Division in the FY 2019-20 Fall Budget Monitoring Process (BMP).

The increase was due to revisions to the original estimates in June 2019, including:

(1) using a three-year actual look-back of payers' actual revenues collected, instead of relying on FY 2018-19 data only,

(2) applying a 3.5% interest rate to unbonded debt,

(3) increasing the Bureau of Technology Services (BTS) ongoing costs by $80,000 for increased security precautions for the system (i.e. secure phones and a dedicated circuit to the City's data center in Colorado)

(4) correcting the recovery rate for one-time cash contributions, and

(5) decreasing the estimated revenue of the City's new Clean Energy Surcharge by $10.0 million.

It was originally CBO's understanding that stakeholders would begin paying into the repayment plan after the project reached completion, beginning in FY 2021-22. However, the Revenue Division has indicated that components of the repayment plan (i.e. bonded debt service, unbonded debt service, ongoing maintenance and support, upgrade set-aside) will begin July 1, 2020. Generally, CBO does not have a concern with this approach, but notes that it is critical that the Revenue Division retain strong accounting of the repayment schedule, given fluctuations over time in the amount of payers, the length of the repayment schedule, and the proportion of relevant revenues.

Costs to the General Fund for the ITS project are largely known, though there are still ongoing costs that may fluctuate depending on the following:

- Any changes to the allocation methodology;
- Cost adjustments, such as the recently added BTS recommended security measures, and
- Amount of costs the City will recover from Multnomah County.

Conversations with Multnomah County and other partner jurisdictions regarding cost sharing to support ongoing ITS costs are still underway. The Revenue Division states that most stakeholders agree with the cost-sharing arrangement; however, negotiations with the County are not yet conclusive. As CBO stated in in its FY 2019-20 Fall Budget Monitoring Process (BMP) review, this represents a major risk to the City's ongoing General Fund resources: absent proportional payment from the County, the General Fund is likely to bear an additional $1.8 million in ongoing costs attributed to the County that is not currently accounted for in the budget.[7]

The Revenue Division states that as of February 2020, the year to date spending on the ITS project is approximately $5.6 million. The ITS project is currently still on time with a planned launch date of August 17, 2020 and a stabilization period through June 30, 2021. The Revenue Division projects to spend $2.0

[7] For the full review, please see: https://www.portlandoregon.gov/cbo/article/743155

million in personnel services, $7.8 million in external materials and services and $430,000 in internal materials and services in FY 2019-20 on the ITS project, which would result in a $1.0 million surplus. This surplus assumes the use of the LOC/Bond funding that is budgeted in revenues. The division expects that it will request to carry over unspent project funds in FY 2019-20 into FY 2020-21. The Technology Oversight Committee (TOC) began oversight of the ITS project in October 2019.[8] This will result in clearer documentation of the project's perceived health, including expected timeline and potential risks.

In addition, within the Revenue Division there is significant projected non-ITS project underspending in personnel costs this fiscal year. Non-project underspending on personnel services is likely the result of redirecting existing Revenue Division staff to positions supported by the project, without backfilling those positions at a 1:1 ratio. The Revenue Division plans to request any underspending to help offset future ITS Project costs; to the extent that non-project underspending is carried over for ITS, there should be a clear and documented reduction in ongoing costs for the project (i.e. reduced debt service costs).

Funding and Prioritization of Technology Projects

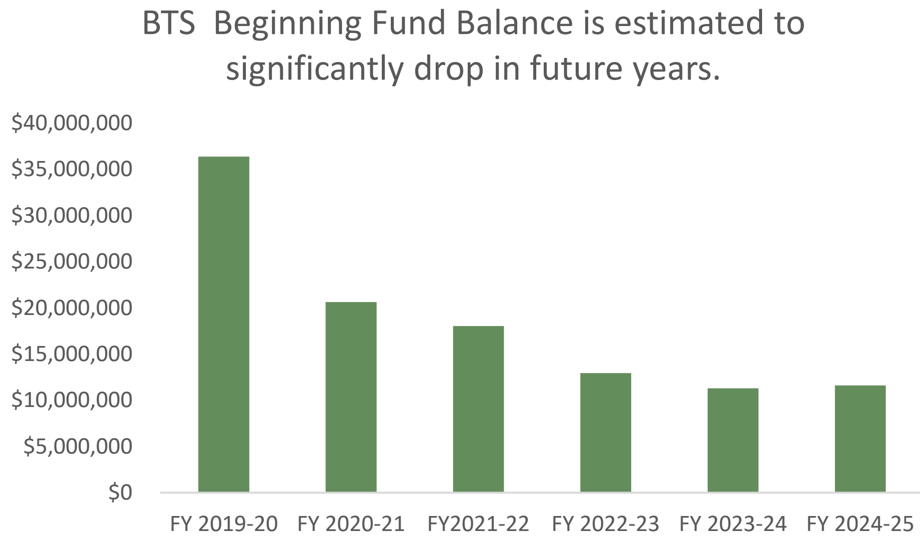
The Bureau of Technology Service's FY 2020-21 Requested Budget notes that funding technology projects within allowable rate growth targets has become increasingly difficult. Some major maintenance funding is built into the rate budget to cover capital projects; however, these funds are frequently insufficient to meet all Capital Improvement Plan (CIP) financial demands and operating projects. While BTS has substantial resources for selected high-priority projects in its CIP, BTS lacks identified funding sources to cover several large priority projects, including the Integrated Regional Network Enterprise (IRNE) Fiber Expansion Program, IRNE Network Technology Refresh, and Dense Wave Division Multiplexing (DWDM) System Lifecycle Replacement projects. Additionally, there is a historical trend of underestimating the required project timeline of technology projects. To try to combat this, BTS had initially planned to not add any additional new projects to its CIP in FY 2020-21 until it could complete other priority projects. However, due to rapidly changing technology needs in the City, the bureau ultimately added 11 new projects that are planned to begin in FY 2020-21. BTS states it is committed to working with its managers to further prioritize and evaluate their ability to complete critical technical projects; CBO supports this approach.

The bureau has increased transparency and communication around large technology projects in recent years. In partnership with the Technology Executive Steering Committee (TESC), BTS develops an annual workplan to prioritize the use of limited resources. Unsupported costs must be covered by Technology Reserves. Technology Reserves amass if there is underspending in expenses (i.e. one-time vacancy savings) or there is unanticipated revenue collection. BTS states that, in general, to fund large technology projects, BTS is drawing down its Technology Reserves. In BTS' budget, Technology Reserves are represented as contingency at year end, and Beginning Fund Balance in the following year.

BTS' Technology Services Fund Beginning Fund Balance has been steadily growing in recent years, moving from $19.4 million in FY 2015-16 to $36.4 million in FY 2019-20. However, BTS shows Beginning Fund Balance of the fund dropping significantly by FY 2024-25: the five-year plan shows a FY 2019-20 balance of $33.4 million decreasing to $11.6 million by FY 2024-25. For comparison, BTS' prior year five-year plan estimated a FY 2023-24 Beginning Fund Balance of $13.0 million, which has been revised downward to $11.3 million in its current five-year plan. This $1.7 million reduction is due in part to a change in internal bureau budgeting practices – the bureau has changed assumptions in how it budgets FTE to projects, resulting in fewer resources falling to balance at the end of each fiscal year – though updated estimates

[8] The Technology Oversight Committee is an independent five-member citizen committee for City of Portland technology projects, created by Resolution #36844.

of the length and cost of large technology projects may also be a contributing factor.



In previous years, the bureau has had one-time funds available in Technology Reserves to cover major project expenses, but as of FY 2020-21 Requested Budget submission, these resources have been committed to projects and the bureau notes that there are not resources available for the out-years of the bureau's five-year plan. BTS states that to remedy this funding gap, it may need to identify new funding sources and/or make internal service level tradeoffs by either decreasing the number of projects it undertakes in the future or deferring projects. As discussed above, these tradeoffs could result in unspecified impacts to customer bureaus and service level reductions beginning in FY 2021-22.

In addition, many BTS projects have associated ongoing operating costs, which increase the overall total cost of ownership for BTS, and subsequently customer bureaus. For example, completion of the CIP and Operating Projects in the BTS five-year plan is preliminarily estimated to increase ongoing operations and maintenance expenses by more than $1.0 million annually. Due to increases in ongoing costs, the bureau expects that its interagency rates will increase beyond the rate of inflation in future fiscal years as BTS does not have capacity within its current budget structure and interagency rates to absorb additional ongoing expense associated with the increase to ongoing operations from completing various capital projects. Continued efforts to prioritize limited technology resources and staff capacity across multiple and competing demands will be critical in the coming years.

Fiber Expansion Strategy

Prioritization and funding of technology tradeoffs is especially important as the City continues to determine its best option for fiber build investments as part of the Integrated Regional Network Enterprise (IRNE)[9] in FY 2020-21. The City's current agreement with Comcast for I-NET[10] will end in December 2021, and Comcast is not expected to continue current levels of support for I-NET.[11] When the

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[9] IRNE is the fiber optic telecommunications network that carries all voice, video, and data communications traffic for the City. IRNE is integrated with I-Net, another regional fiber network.

[10] I-Net is owned and operated by Comcast Corporation. The City has a franchise agreement with Comcast that allows the City to purchase service that the City then resells to local governmental and educational institutions.

[11] The synergy between IRNE and I-Net has allowed the City to provide significantly less expensive data connectivity to numerous external customers. The current franchise agreement with Comcast will expire at the end of calendar year 2021. The City does not anticipate that Comcast will re-sign the agreement. When the Comcast agreement expires, the City will no longer be able to leverage I-Net to serve internal and external customers at lower costs.

Comcast agreement expires, the City will no longer be able to leverage I-Net to serve internal and external customers at lower costs. As CBO has previously noted, the current agreement garners approximately $2.9 million in revenue annually. BTS direct operating expenses are approximately $1.5 million, the other $1.4 million represents more flexible revenues that support BTS indirect costs.[12] A portion of the indirect costs are for IRNE major maintenance, which will need to be backfilled with other resources. Currently, BTS remains in conversations with relevant stakeholders, such as Multnomah County, about its fiber business plan after the expected discontinuation of the I-Net agreement with Comcast. Although there remains uncertainty, it is likely that the City will be servicing a smaller portion of fiber customers than it is currently, resulting in a potential loss in revenue for the City. As this decision will have direct financial costs to the City and its stakeholders, CBO recommends that Council and the TESC continue to actively work with the bureau to evaluate the tradeoffs of different fiber expansion strategies.

Tracking and Planning for Retiring Citywide Technical Debt

Technical debt arises when technology becomes outdated and approaches the end of its useful life. BTS tracks and plans for replacement costs for assets that are BTS- managed or operated by using replacement funds. Planning for technology replacement for non-enterprise (i.e. bureau-specific) technology needs is less comprehensive; BTS may be aware of replacement needs in some bureaus, but not all. In addition, bureaus across the City currently budget their Capital Improvement Plans (CIPs) in varying ways and do not uniformly plan for software and technology assets. There does not seem to be standardized practices across bureaus that meets existing City financial policies (FIN 6.11[13]) for capital project budgeting, especially with regard to planning for capital technology projects.

Due to this, there is no aggregate estimate of technical debt or unfunded technology replacement costs in the City. The lack of a more comprehensive plan for large-scale technology projects that are bureau-specific can result in large, one-time budget requests from bureaus when critical technology has reached its useful end of life. A recent example of this is the Integrated Tax System (ITS) $24.3 million request that came forward from the Bureau of Revenue and Financial Services (BRFS) in its FY 2019-20 Requested Budget to replace its tax collection software.

BTS has taken some steps towards Citywide technical debt planning already. Retiring technical debt is one of the criteria used on the TESC technology priorities list, which the bureau uses to prioritize its annual workplan. Currently, BTS Technology Business Consultants (TBCs) work with bureaus to understand current technology needs and document future needs. Historically, this has focused more specifically on capital improvement projects and communicating upcoming BTS changes, rather than bureau-wide technology strategy. BTS will be piloting a technology planning process with select bureaus in 2020 to understand overall business strategy and goals, with the goal of determining how technology might support these efforts.

A Citywide strategy for large scale technology projects and needs could help BTS better plan for funding and prioritization of projects and help customer bureaus better plan and prepare for the end of useful life for critical technology systems. This is especially important given the constraints and service level tradeoffs discussed above. It also has the potential to limit large one-time asks when bureau-owned technology that has reach its useful end of life, as these needs would be known and planned for ahead of

[12] For additional analysis on I-Net and IRNE, please see CBO's FY 2019-20 Budget Review: https://www.portlandoregon.gov/cbo/article/714618

[13] For the full financial policy, please see: https://www.portlandoregon.gov/citycode/article/663145,

time. Once bureaus begin thinking more proactively about future technology replacement needs and develop more robust technology plans, one budgetary tool worth exploring may be the establishment of bureau-specific technology reserve funds that can be used to budget expected replacement costs and known technology expenses.

It is critical that the City develop a more concrete technology planning strategy in order to better prioritize and allocate resources efficiently, and BTS, CBO, and the Bureau of Revenue & Financial Services should all support the advancement of this practice at the City. To this end, CBO recommends that BTS, the Accounting Division, and CBO convene prior to FY 2021-22 budget development to identify strategies to help strengthen the City's planning around technical debt and improve communication with bureaus about the City's current guidelines around Capital Improvement Planning. It is the expectation that these stakeholders will engage the TESC, which has membership from several bureaus, to evaluate best practices around technology replacement reserves.

DECISION PACKAGES

Procurement – Clean Air Construction

$327,782, 1.00 FTE

Request Summary

Procurement Services within the Bureau of Revenue and Financial Services is requesting a total of $327,782 in additional resources to continue developing the Clean Air Construction Program (CAC). Of this total request, $136,184 is for ongoing General Fund resources, with the remainder anticipated revenue from partner jurisdictions. Council passed Resolution 37403 in December 2018, adopting the Clean Air Construction Standard (CACS) for the City. The CACS restricts allowable emissions of diesel equipment and trucks used in fulfilment of City contracts. This policy was developed in conjunction with multiple regional governments who have or are expected to adopt the Clean Air Construction Standard and contribute financial resources to the Clean Air Construction Program.

Offset Summary

The bureau identified $191,598 in expected intergovernmental resources from participating regional partners to meet the 50% efficiency guidance. Procurement Services states that an intergovernmental agreement (IGA) to formalize commitments from jurisdictional partners is expected to be signed by all parties by the end of February 2020. Memorandums of Understanding (MOUs) have already been signed by the parties. Regional partners include Multnomah County, Washington County, Metro, and the Port of Portland.

Procurement Services is confident that the external resources will materialize; however, if the resources to fund the program do not materialize, the draft IGA between jurisdictions gives the City the authority to "make a unilateral decision to reduce Program activities or other related expenses in order to operate the Program within available funds."

The term of the draft IGA is through June 30, 2027. The IGA cost share calculation includes a base fee that all parties pay, which is 25% of the projected CAC Regional Program budget divided by the number of participating agencies and a sliding scale fee, which is calculated based on the Agency's annual total adopted budget. Expected IGA payments for FY 2020-21 are as follows:

Agency Name	CAC Regional Program Cost Share
Multnomah County	$53,000
Port of Portland	$49,000
Washington County	$42,000
Metro	$40,000
City of Portland	$120,000

If external revenues from partner jurisdictions do not materialize, or do not materialize in a timely manner, Council may anticipate future additional General Fund requests.

CBO Analysis

In the FY 2019-20 Adopted Budget, Procurement Services received $458,000 in one-time resources to support CAC program implementation. The FY 2019-20 Adopted Budget also included the following budget note regarding expending program funds to ensure commitments from partner jurisdictions prior to the City funding the CAC program:

> **Clean Air Construction Standard**
>
> *City Council directs the Office of Management & Finance's Procurement Services division to continue its work on the Clean Air Construction standard, as passed by Council in Resolution 37403 in December 2018. However, prior to expending any resources for this program that are allocated in the FY 2019-20 Adopted Budget, OMF shall first determine that the State of Oregon and partner jurisdictions have also committed resources to funding the goals of the program. State resources will provide equipment upgrade support to businesses certified by the Office for Business Inclusion & Diversity.*

In FY 2019-20, the full disbursement of CAC funds was delayed until more firm contributions with partner jurisdictions were identified and there was clarity around state resources.[14] Funds for technical assistance and the development of the online database was approved by the Mayor's Office in October 2019 and funds for the limited term CAC coordinator position were released in February 2020, but are expected to be redirected to higher than anticipated database costs.

Procurement Services identified that the overall outcome of this request is to support the CAC program in order to reduce the harmful diesel particulate matter (PM) pollution in the Portland Metro area.[15] The CAC policy includes equipment age restrictions, retrofit options, and restrictions on idling practices, as well as requirements around compliance and verification for contractors. The CAC Program involves three core program elements: administration, compliance/enforcement, and support for certified disadvantaged, minority, women, emerging small business, and service-disabled veteran business enterprises (D/M/W/ESB/SDVBE) or firms certified by the Office for Business Inclusion and Diversity

[14] HB 2007 (2019) authorizes the State of Oregon Department of Environmental Quality (DEQ) to establish a grant program with Volkswagen Settlement funds to help owners of diesel equipment transition to cleaner options (via retrofit/repower/replacement), prioritizing COBID certified firms. The DEQ grant program is expected to launch in 2021.

[15] According to the Oregon Department of Environmental Quality (DEQ), the Portland area has particulate concentration above benchmark levels, please see the following link for more information: https://www.oregon.gov/deq/aq/Pages/AQ-Portland.aspx

(COBID).

Accomplishments of the program to date include the following: regional program design, finalization of a CAC IGA document, a request for information (RFI) for Online CAC Database, and creation of CAC program outreach materials for the contractor community. The CAC program is currently developing a template for contract specifications, the COBID technical assistance program, a Request for Proposal (RFP) for the Online CAC Database. The CAC workplan over the remainder of 2020 is largely focused on establishing the Online CAC Database and beginning assistance programs for COBID firms to help comply with the CAC requirements.

This request includes $136,184 in additional ongoing General Fund resources ($62,090 discretionary, $74,094 overhead). Combined with the expected intergovernmental resources from partner jurisdictions (described in the offset summary above), total requested resources are $327,782. The combined resources are requested to fund 1.0 FTE Coordinator I – NE to administer the program on behalf of the City and regional partners ($110,092) and materials and services to support the Clean Air Construction Online database, technical assistance, stakeholder outreach education materials, and other program elements ($217,690).

In the FY 2019-20 OMF budget review, CBO highlighted potential downsides to the program structure, including higher per contract costs to the City as a result of the policy, that the City may be assuming financial risk on behalf of other jurisdictions, and the relative limitations to the standard covering only publicly contracted construction.[16] While CAC program development has addressed some of these elements, CBO still has existing concerns, including increased costs to contractors and the City for policy implementation and the overall impact of the CAC on reducing particulate matter, given the limited amount of construction activity this standard regulates.

Upon passage of the Clean Air Construction standard, it was noted there were likely substantial costs associated with implementing the proposed amendments to the City's Sustainable Procurement Policy, but that the Procurement Division had not fully evaluated or quantified these costs at that time. As a result of this policy change, the City may face higher per-contract costs as firms adjust to these requirements, but the amount of these higher costs are unknown. In other regions where similar policies have had the greatest impact, they are typically led at the state level to ensure that a critical mass of diesel emitters are affected by the policy change.[17] Based on the Cumming Construction Market Report infrastructure construction represents approximately 18-20% of Portland area construction expenditures. Procurement Services states that once equipment complies with the CAC, it is appropriate to assume that cleaner equipment is used on other, non-City or non-public construction projects.

The City elected to take a lead role on the CAC due to the City's large volume and variety of construction projects and Procurement Services' history of serving as a regional leader on construction-related programming. Procurement Services states that if additional General Fund resources are not approved, the Clean Air Construction Standard will not be implemented, or implementation will be significantly delayed until another agency assumes the lead agency role. Procurement Services identified that risks to delaying implementation of the program include: 1) dissatisfied climate action stakeholders, who have already voiced significant concerns over the long implementation timeframe for the Standard; 2) continued health and associated cost burdens on society due to unhealthy levels of diesel particulate matter in the Portland metro area 3) prolonged poor air quality impacts on the community.

In general, the CAC program is well-planned, and the intent to reduce diesel particulate matter pollution

[16] For CBO's full FY 2019-20 OMF budget review, please see: https://www.portlandoregon.gov/cbo/article/714618

[17] Examples include the State of California and the Province of British Columbia.

in the Portland metro area aligns with Citywide climate goals and strategic plans. The United States Environmental Protection Agency reports that every dollar invested in reducing diesel pollution has a $10 return on investment; though these returns will likely not accrue to the City in a financial sense, there is clear benefit to the region as whole. The bureau also identifies several performance measures for the program that will allow the City to evaluate its investment. These include:

1. Percent of applicable equipment on City (and regional partner) construction projects that meet the Clean Air Construction requirements, and
2. Estimated diesel PM emission reductions based on the use of equipment replaced or upgraded with emission controls to comply with the Clean Air Construction requirements.

In terms of measuring the outcomes, the online contractor equipment registration currently in development as part of the CAC Program, and further supported by the requested resources, will enable applicable tracking and reporting.

CBO does note that some program elements remain uncertain and may result in either an increase or decrease in resources required for CAC program administration in the future.

- **Vehicle Equipment Registration Fees:** Vehicle and equipment registration fees associated with the program could provide a potential funding stream that may support the City's General Fund contribution to the program in the future. However, the bureau notes that there is currently low confidence in estimates of how many pieces of equipment and vehicles will be registered through the program, so it is not including this revenue as part of this request. The bureau states that any potential program fund surplus is addressed through the draft IGA, with priority given to investing any revenue in assistance programs for COBID firms. The Division expects to have a clearer estimate regarding revenue from registration fees in late 2021 or early 2022 as January 1, 2021 is the start date for the first CAC engine requirement and it will need six months to a year of data in the CAC registration database before making a sound estimate on future revenue levels.
- **Program Scale:** With any new program, there is the potential that future year costs of program administration will fluctuate as the program becomes more developed; CBO notes that this may occur with the CAC program. However, Procurement Services has a high degree of confidence that future year General Fund costs will be in line with the current request. It anticipates that any future fiscal year increases in program costs will be offset by program revenues from the planned registration fee, as well as additional agency partners over time. Council could consider funding this request on a one-time basis until program development costs are more solidified. However, Procurement Services states that multiple program elements dictate an ongoing commitment from the City, especially as the CAC standard is phased in over multiple years. CBO notes that the appropriate level of administrative resources may need to be reevaluated by Council and the bureau in future years.
- **State Level Policies:** The CAC could be affected by future state-level policies that address diesel particulate matter, although Procurement Services believes that State legislation is not likely to occur in the near future. Over the past decade, the City and its regional partners have lobbied the state legislature to regulate dirty on-road and non-road diesel equipment, but legislation has failed, resulting in the City's regional approach to this issue. In 2019 the Oregon Legislature passed HB 2007, which tasks the Oregon Department of Environmental Quality with several new programs and requirements to reduce harmful emissions from diesel engines. This includes new on-road diesel regulations for State construction projects, a grant program for diesel engine retrofits or replacements, and other related programs. In general, HB 2007 doesn't specifically affect the CAC,

although on-road regulations in HB 2007 are more stringent than the CAC; there are some contractors that may have to comply with both standards.

CBO recommends that Council consider fully funding this package if resources are available, for a total ongoing investment of $136,184 in General Fund and $191,598 in external resources. The ongoing General Fund requirements are split between discretionary ($62,000) and overhead ($74,000).

Limiting diesel particulate emissions in the Portland metro area is important for the health and quality of life for Portland residents. Council has already authorized the new Clean Air Construction Standard, and full implementation will require staff time to support and monitor. Careful consideration has been given in requesting these resources in terms of the program design and impacts on historically under-served communities. The proposed outcomes of this program are supported by data and evidence and address Council priorities.

CBO Recommendation: $327,782 ongoing | 1.00 FTE

Revenue – Maintain Current General Fund Revenue Collection Levels

$1,182,218, 8.00 FTE

Request Summary

The Revenue Division is requesting $1.2 million additional General Fund resources ($753,815 in ongoing General Fund resources and $428,404 in one-time General Fund resources) to maintain current revenue collection staffing levels.

There are two main components to this request:

- 5.0 existing permanent FTE for revenue collection, $753,815 in ongoing General Fund resources (2.0 FTE Revenue & Tax Specialist IV, 3.0 Revenue & Tax Specialist III)
- 3.0 Limited Term Business License Tax collection FTE, $428,404 in General Fund one-time resources (2.0 FTE of Revenue & Tax Specialist IV, 1.0 of Revenue & Tax Specialist III)

Included in these requests are $372,000 in materials and services budget; $214,000 is internal bureau overhead costs (i.e. management support, space rent), and $158,000 are materials and supplies associated with the staff and program.

Offset Summary

The Revenue Division did not identify an offset to defray the cost of this request. The Revenue Division noted that tax collection compliance may suffer if staffing levels are not maintained but did not identify any potential offsets across OMF's $24 million General Fund budget.

CBO Analysis

The Revenue Division administers business taxes for the City of Portland and Multnomah County. It also administers special taxes such as occupancy taxes for hotels, B&Bs, and vacation rentals, and two enhanced services districts: Clean & Safe District and Lloyd Improvement District. The bureau notes that the existing 8.0 FTE in this decision package would be laid off without additional funding; these 8.0 FTE comprise 27% of the staffing for the Business License Tax (BLT) program. City financial policy dictates that revenue-generating functions be given high priority during budget development (FIN 2.06). For this reason, CBO has recommended for multiple staff increases in the Revenue Division in recent years. CBO's FY 2020-21 recommendations are in line with this approach.

Additional analysis and recommendations on the two components of this ask are below:

Funding Limited Term Tax Collection Specialists

Beginning in FY 2018-19 Council allocated one-time General Fund resources for 3.0 FTE of additional revenue collections specialists to accommodate the increase in customer service facing workload as a result of dramatic increases in the number of business license tax accounts. The bureau requested these one-time resources for a total of three fiscal years, to align with the implementation of the Integrated Tax System. At the time of the bureau's FY 2018-19 request, CBO recommended funding with the noted expectation that the Division would report back to Council on the impact of these positions with regard to compliance rates and preserved revenue collection, prior to requesting additional funds in future years.

These FTE were funded again in FY 2019-20 based upon an apparent increase in compliance rates shown from adding the 3.0 positions in FY 2018-19, as estimated compliance rates were 83% in February of 2018, compared to 92% in February 2019. At the time of FY 2019-20 budget development, CBO recommended an additional year of one-time resources to support these positions as requested, but noted the need for these positions to be re-evaluated in FY 2020-21. According to the Revenue Division, as of February 2020, the BLT compliance rate is 89%, down from 92% in February 2019, but still more in line with historical norms than the February 2018 compliance rate low of 83%. In addition, BLT tax account creation saw a larger increase this year; as of February 2020, there are 136,563 BLT accounts, up 7,921 total accounts from February 2019. For comparison, BLT accounts only increased by 748 from February 2018 to February 2019. The large increase in BLT accounts between February 2019 and February 2020 could be a reason for the slight dip in compliance rates.

CBO recommends Council fund the $428,404 in General Fund one-time resource for the 3.0 Limited Term Business License Tax collection FTEs as these resources have shown to have a positive return on investment for the City and due to the recent increase in BLT accounts. This is the final year of a three-year request, and any future requests for additional tax collection staff should be evaluated once ITS has been fully implemented.

Backfilling County Subsidization of Revenue Collection Costs

The $753,815 request for ongoing General Fund resources to fund 5.0 existing tax collection positions is the continuation of an issue raised in prior budget processes: the proportional allocation of costs between the City and County for tax collection services.[18] City Council has directed, via budget note, the Revenue Division to achieve cost recovery with the County based on the proportion of business income taxes received by the City and County. Under this methodology, the County's proportional payment would be closer to $2.5 million, based on a cost recovery expectation of 41% of the total $6.1 million cost of providing this service[19]. The intergovernmental agreement (IGA) that governs this arrangement – currently on a one-year extension - requires annual payment from the County of approximately $1.4 million.

Background

[18] For previous CBO analysis on this topic please see the following links: https://www.portlandoregon.gov/cbo/article/714618; https://www.portlandoregon.gov/cbo/article/675824

[19] The total BLT tax collected has historically been split between the County (41%) and City (59%). Beginning in tax year 2018, the City increased the percentage of BLT it collects from 2.2% to 2.6%. As City BLT collection increases, this split with the County will shift to closer to 36% (County) and 64% (City).

In FY 2016-17, Council reduced the ongoing current appropriation level (CAL) target for the Business License Tax/Multnomah County Business Income Tax collection group within the Revenue Division and replaced it with one-time General Fund backfill resources (see budget note below). The goal was to encourage Multnomah County to contribute a higher proportion of the expenditures for collection of the combined tax.

Multnomah County Tax Collection Reimbursement

Council directs the Office of Management & Finance - Revenue Division to renegotiate the intergovernmental agreement with Multnomah County for the collection of business income taxes. The updated agreement will be in place before the start of FY 2016-17 and will include full-cost recovery defined by the percent split of business income taxes received by the City and County. The new agreement will eliminate any General Fund subsidy for services provided on the County's behalf. The City Budget Office is directed to reduce the FY 2016-17 current appropriation level target for the Office of Management & Finance by an amount equal to the increase in resources received from Multnomah County per the new agreement.

This renegotiation with the County did not reach conclusion. In FY 2017-18, Council followed up with another budget note:

Multnomah County Tax Collection Reimbursement

Council directs the Office of Management & Finance to renegotiate the intergovernmental agreement with Multnomah County for the collection of business income tax with the goal of achieving full cost recovery. Full cost recovery is defined by the percent split of business income taxes received by the City and County. Council also directs the City Budget Office to backfill the bureau's $640,050 current appropriation level reduction on a one-time basis in FY 2017-2018 and FY 2018-19.

This renegotiation with the County also did not reach conclusion and resulted in the following budget note in the FY 2019-20 Adopted Budget:

Multnomah County Tax Collection Reimbursement

In accordance with prior year budget notes, Council directs the Office of Management & Finance to renegotiate the intergovernmental agreement with Multnomah County for the collection of business income tax with the goal of achieving full cost recovery. Full cost recovery is defined by the percent split of business income taxes received by the City and County. Cost recovery should be achieved as part of intergovernmental agreement negotiations prior to June 2020, and OMF may include non-remittance of funds as an option for achieving cost recovery. Bridge funding for the County's portion of costs are included in the bureau's FY 2019-20 budget on a one-time basis.

The FY 2018-19 IGA with the County was extended for another year (through FY 2019-20), with a 5% increase over the previous cost-sharing contribution. Per the IGA, the total amount received from the County is approximately $1.35 million; this agreement will expire on June 30, 2020. As of February 2020, renegotiation conversations with the County remain uncertain.[20] The future of the IGA with the County, including its length and annual payment are currently unknown. Given the uncertainty regarding FY 2020-21 revenues from the County, the Revenue Division has requested resources to maintain collection levels.

Absent the requested resources, staffing levels in the Revenue Division would be reduced, and collection rates may suffer as a result. The City and County's tax codes are in conformity and 95% of tax accounts

[20] The City's negotiation team includes the Chief Administrative Officer, Chief Financial Officer, and the Revenue Division Director.

are joint, so there is limited potential cost-savings from not enforcing the County's tax code, as the City's workload would not be significantly reduced. However, if the City stopped collecting Business License Taxes on behalf of the County, the City would not recover the approximately $1.35 million in revenue that the County currently provides to the City for tax collection services as outlined in the current IGA.

In line with CBO's FY 2019-20 recommendation, for FY 2020-21 CBO recommends that bridge funding for the County's portion of costs in the amount of $753,815 be included in the bureau's FY 2020-21 budget on a one-time basis with the expectation that the Revenue Division continue cost recovery negotiations with the County prior to June 2021. It is anticipated that the County may increase its Business License Tax rate, which may provide new resources for the County to fund proportional cost-sharing with the City for tax collection services. CBO also notes that, while the City is dependent on existing revenues from the County to fund tax collection services, the City has not exercised the option of non-remittances of funds outlined in the FY 2019-20 budget note. The Revenue Division's interpretation of the current IGA does not allow for non-remittance of funds, but this option could be explored as part of renegotiation of the IGA prior to its expiration in the summer of 2020. Alternatively, Council could consider funding this request with ongoing resources, which would signal an end of negotiations on cost recovery to the County.

CBO anticipates that the Revenue Division will submit an ongoing request as part of the FY 2021-22 budget process if no progress is made with the County as part of the IGA renegotiation. It seems plausible that with the Integrated Tax System (ITS) fully implemented, the Revenue Division can maintain tax collection levels with fewer staff resources, reducing some portion of the overall request for revenue collection FTE in this package. The ITS project may result in a relative decrease in required customer service support due the availability of modernized e-filing, and other benefits. The current go-live date for ITS is August 17, 2020, with stabilization efforts planned through June 30, 2021. In FY 2021-22 budget development, the City will have more clarity around ITS efficiencies, which could impact a longer-term funding strategy. The revenue collection staffing levels should be reevaluated by Council and the bureau at this time.

CBO also notes that the Revenue Division is projected to have significant non-project underspending in personnel services in FY 2019-20; these resources could be reprogrammed to cover some or all of the additional requested positions in this package.

CBO Recommendation: $1,182,218 one-time | 8.00 LT FTE

Facilities Services Core Operating and Climate Investments

$1,734,808 one-time and $452,194 ongoing, 4.00 FTE

Request Summary

This decision package requests $452,194 in ongoing interagency revenue and $1.7 million in one-time cash transfer resource across customer bureau funds. $1.1 million of the cash transfer revenue is requested from the General Fund on behalf of General Fund bureau customers. In addition, the request includes a $400,000 draw on the Facilities Services Operating Fund reserve. Requested resources will support the following:

1) An Asset Management Software System;
2) Facilities Condition Assessment for all Facilities-owned properties; and
3) 2.0 Limited Term staff to support the procurement and initial implementation of the

Asset Management Software and Facilities Condition Assessment and 2.0 permanent FTE to manage the Facilities' Asset Management System and operationalize the facilities condition assessment findings.

Offset Summary

For the one-time portion of the request, the decision package includes a $400,000 one-time contribution from the Facilities Service Fund's operating reserve balance. The Facilities Services Operating Fund operating reserve balance is currently $2.6M. Per OMF's internal policies, a 5% operating reserve needs to be maintained.

For the ongoing portion of the request, the estimated ongoing interagency impact to General Fund bureaus is $292,000. This is not a direct General Fund request; no offset option was required.

CBO Analysis

This request from the Division of Asset Management (DAM) provides Facilities Services with foundational tools to build its asset management program. While this package does not directly address the City's climate related goals, investing in these tools would help the City to make better informed decisions that advance its climate goals. The package has three components:

1) **Facilities Condition Assessment (FCA)** for all Facilities-owned properties to assess the basic condition, energy performance, ADA performance, and seismic resilience of critical facility asset and buildings. This information is elemental for crafting facility safety and long-range plans, so that the City can make informed decisions like investing in energy efficiency or projects supporting disaster resiliency. Done absent an FCA, these investments may appear to be good-value projects in facilities that need substantial rehabilitation.

   CBO notes that Facilities conducted a condition assessment in 2015, however, the findings from the assessment were not fully operationalized as the bureau lacked an asset management software system to store the information that was collected. The other component of this package addresses that need.

2) **Asset Management Software System (AM)**. AM Systems house system of record data for critical assets, such as asset location, nameplate, and FCA information. It also allows for asset work order development and completion from customer bureaus and/or preventative maintenance, tracks asset costs, and provides for performance measurement and reporting capability. Without an AM system, there is nowhere to store or analyze data FCA data.

   CBO notes that the focus of this request is an AM system for Facilities owned assets. This approach differs from a previous effort led by OMF to implement an Enterprise Asset Management Software System which stalled after several customer bureaus expressed concern regarding the proposed software solution. While this decision package would directly benefit Facilities' asset management program, this investment has ancillary benefits that would help the city as whole. DAM has indicated it plans to engage bureaus that might use the AM in the development of technical business requirements for the procurement. Other bureaus, such as Portland Fire and Rescue, BES, PBOT, Police, and Parks have also expressed interest in potentially procuring AM and FCA services from

Facilities for help managing properties that are outside of Facilities' purview. This would be an important step in bureaus managing their facilities to comparable core standards.

3) **Staff support** for the procurement and implementation of an AM system and updating FCA's data. The package includes two limited duration staff to launch and run these projects with permanent FTE needed to manage the AM system and operationalize FCA findings. The goal is for these support staff to specify, procure and onboard the AM and FCA functions over the next thirty months (January 2020 – June 2022).

   A few years ago, Facilities added an Asset Management Coordinator position. Per DAM, the position is being reclassified to assist DAM leadership with analytical support and coordinator capacity. The position will be open for recruitment in July 2020 as a limited term position focused on revisiting the business and rate models for both organizations, including developing a current and future state assessment, researching best practices for fleet. In FY 2022-23, this role will be converted to a Facilities Portfolio Management Analyst.

Careful consideration has been given in requesting these resources, which are foundational to developing better practices across Facilities' asset management program. While near term impacts to the City's climate goals are not anticipated as a direct result of this investment, the Division of Asset Management will be better positioned to make progress on these goals at future decision points.

CBO recommends one-time funding for this request of $1.7 million in FY 2020-21, including $1.1 million in General Fund resources, and 2.0 limited term FTE. The remaining $600,000 in one-time resources are cash transfers from customer bureaus; major contributors are Development Services, Transportation, and the Water Bureau. Including the $400,000 draw from operating reserves, total expenses for this request are $2.2 million.

CBO also recommends additional position authority for 2.0 permanent FTE but notes that the ongoing interagency revenues of $452,000 that support these positions will not be phased in until FY 2022-23. These costs would be absorbed by customer bureaus absent other action.

CBO Recommendation: $1,734,808 one-time | 2.00 LT FTE, 2.0 FTE

Phase 2 Long Range Facilities Master Plan

$175,000 one-time

Request Summary

The Strategic Projects and Opportunities Team (SPOT) within the CAO's Office is requesting $175,000 in one-time General Fund discretionary resources for consultant services to complete phase 2a of the Citywide Long-Range Facilities Plan (the Plan). The Plan is a multi-phase comprehensive assessment of the facilities needed to support the delivery of City services of the project. The full cost of this phase of the project is $350,000. The bureau proposes using underspending in the FY 2019-20 budget to fund the other half of the project.

Offset Summary

No offset budgeted. The decision package references current year underspending that could be directed to fund $175,000 of the $350,000 total cost. This would require future Council action in Spring BMP and is dependent on actual underspending materializing as planned.

CBO Analysis

This decision package provides funding for the second phase, or Phase 2a, of the Citywide Long-Range Facilities Plan (the Plan). Phase 1, completed in January 2020, focused on establishing the facility needs of each bureau, cataloguing the existing facility portfolio and identifying the gap. Based on the information gathered, Phase 1 identified two key challenges that will require further exploration and refinement in Phase 2. The key challenges are: 1) downtown facilities are concentrated downtown and on the west side, east side communities most in need of services experience service accessibility challenges, and 2) operations and emergency response (operations buildings are aging, poorly configured, and poorly positions to serve future demand). The first phase of the project was funded with underspending in the CAO's Office and Facilities' FY 2018-19 budget.

Phase 2a of the Plan will advance key challenges identified in Phase 1 which includes the completion of the facilities needs assessment and the development of concept evaluations. Concurrent to this work is the completion of Facilities' condition assessment and asset management software, which are requested in a separate decision package, as well as condition assessment information from bureaus that own facilities. Using the information gathered in Phase 2a, including from concurrent projects, i.e. completion of condition assessments on the City's existing portfolio, the project will transition to Phase 2b/3: Master Plan, Investment Plan, and Decision Tool. The bureau expects this Phase 2b/3 to begin in FY 2022-23. CBO notes that the full cost of the Master Plan is unclear; however, it is assumed that work accomplished in Phase 2a will inform future cost estimates.

CBO recommends that Council consider funding this package. This project, if done successfully, will provide a long-range strategy for City facility management to support the delivery of City services. Funding for this phase of the project is an important step in achieving the project's desired outcomes. If funding from underspending does not materialize in the FY 2019-20 Spring BMP, CBO recommends the bureau utilize underspending in the FY 2020-21 budget to fully fund this project.

CBO Recommendation: $175,000 one-time

CityFleet Climate Investments

$302,000, 2.00 FTE

Request Summary

CityFleet is requesting $302,000 in ongoing interagency revenue from Fleet customers to for 2.0 FTE (Analyst III and a Coordinator II) to develop and implement a plan to support green fleet conversion at scale, including a facility to handle additional electrical loads and accommodate RCNG operations. The staff will also enhance long-range vehicle acquisition planning practices and maintain fleet conversion trajectories that balance emission goals and conversion costs. The impact to General Fund bureaus is estimated at $131,000.

Offset Summary

No offset was provided.

CBO Analysis

Council has indicated its support for ambitious action to tackle emissions, transitions to renewable energy resources, and address climate change. The City has a robust Climate Action Plan that includes a commitment to reduce local carbon emissions by 80% from 1990 levels. Council reaffirmed its commitment to this initiative in July 2017 (resolution 37289) and strengthened the emissions goal to meet 100% of community-wide energy needs with renewable energy by 2050. In February 2020, the Mayor released a draft Climate Emergency Declaration which amends the City's carbon reduction targets to at least 50% by 2030 and net zero emissions before 2050. It is expected that the resulting resolution will be considered for adoption by City Council on Earth Day, April 22, 2020.

The Analyst III position and the Coordinator II position would advance CityFleet's efforts to align itself with the City of Portland's carbon emission reduction goals. These positions would work on the following:

- Conduct routine, in-depth analysis of market trends for non-sedan vehicle procurements;
- Maintain fleet conversion trajectories that balance emission goals with conversion costs;
- Develop (in conjunction with customer bureaus) standardized "green" vehicles/equipment specifications;
- Enhance long-range vehicle acquisition planning practices;
- Participate in regional discussions about the charging infrastructure;
- Monitor fueling and fuel infrastructure strategy; and
- Apply for grant applications and other funding resources that can help offset green operations.

Customer bureau that rely most heavily on CityFleet services and carbon-based fuels are Police, PBOT, Water, and Parks. Work to advance the 100% renewable energy goal for City-specific functions is already underway; since FY 2006-07, emissions from the City's operations has decreased by over 41%. Vehicle fleet operations comprise approximately 20% of the carbon emissions generated by City activities and have declined by over 25% in the past decade.

CityFleet currently manages a fleet of over 3,500 vehicles and pieces of equipment. Of those approximately 300 are sedans. Since 2015, CityFleet and bureau customers have made significant progress transitioning their sedan fleet to electric/hybrid vehicles. Currently, 41% of sedan class vehicles in the City's fleet are plug-in hybrid or electric vehicles. While there is an initial price premium for electric/hybrid sedans, these vehicles have lower-life cycle costs than traditional sedans. The primary limiting factor for the sedan class is the cost and availability of the infrastructure to support the vehicles, i.e. charging stations; customer bureaus are reluctant to agree to additional sedan conversion goals absent clarity of where their charging needs will be met.

The remainder of the CityFleet's 3,500 vehicles and pieces of equipment are heavier vehicles and equipment, such as light duty trucks, heavy dump trucks, and patrol sedans (FIUs). One of CityFleet's goals is to develop a strategy for adopting the use of Compressed Natural Gas (CNG) for portions of the fleet. This presents a financial challenge for customer bureaus, as the cost for CNG vehicles can be as much as $50,000 more than standard vehicles and the available infrastructure to support CNG vehicles and equipment is very limited.

In addition to considerations of total cost impact and the availability of the supporting infrastructure, any long-term strategy around fleet conversions should be informed by the cumulative change in total carbon emissions that could occur from vehicle conversions. Portland State University is conducting an initial assessment of a Green Fleet Trajectory Options Analysis on non-sedan asset classes. This project will develop a quantitative approach to balancing emissions reductions and conversion costs and make recommendations on how to proceed. PSU's trajectory model will be complete this summer or fall. The

City is also pursuing a partnership with Portland General Electric to explore how to develop charging infrastructure at scale and to develop relationships with other regional fleet institutions with comparable needs.

CityFleet noted in its submission that its dependence on ad hoc partnerships that utilize graduate students is not a sustainable solution to address this need. The bureau also noted in its submission that the absence of essential staff and a proper facility for CityFleet operations has resulted in a sustained inability to operate efficiently. For example, CityFleet does not have the staff to maintain the PSU modeling work or advance it to reach the City's emission and renewable energy goals. Further, there are many opportunities in the near term on which a dedicated analyst and coordinator could capitalize, including fleet conversion and trajectory analysis, grant opportunities, and participation in regional partnerships to develop charging infrastructure.

It's clear that both these positions would help to advance Council's goals and the Mayor's Climate Emergency Declaration goals related to carbon emissions and renewable energy. However, CBO is hesitant to recommend funding for two permanent positions when heavy use vehicles technology is still emerging and costly, and PSU's model that will help to inform recommendations is still in progress. Therefore, CBO recommends that CityFleet advance the planning and coordination around this strategy with a one-time increase in interagency charges to fund two limited duration positions. With these resources, CityFleet will be better positioned to develop a preferred conversion timeline that considers costs and carbon emissions and begin to develop plans for fueling and charging infrastructure. CBO also recommends that CityFleet continue to work with customer benefits to get buy-in and support for this work.

CBO Recommendation: | $302,000 one-time | 2.00 LT FTE

SUMMARY OF REQUESTS AND RECOMMENDATIONS

Below is a summary of the Office of Management and Finance's total budget.

Office of Management & Finance - All Funds

		2019-20 Adopted Budget	2020-21 Requested Base (A)	Bureau Decision Packages (B)	CBO Recommended Adjustments (C)	Total Recommended Budget (A+B+C)
Expense	Personnel	$99,884,387	$103,201,256	$2,083,728	($277,056)	$105,007,928
	External Materials and Services	$288,889,446	$279,862,072	$2,379,314	($24,944)	$282,216,442
	Internal Materials and Services	$26,260,465	$37,827,098	$133,600	$0	$37,960,698
	Capital Outlay	$80,596,987	$30,824,331	$0	$0	$30,824,331
	Debt Service	$21,434,196	$26,674,698	$0	$0	$26,674,698
	Fund Transfers - Expense	$19,859,034	$21,137,456	$0	$0	$21,137,456
	Contingency	$178,228,573	$175,987,733	($422,640)	$0	$175,565,093
	Debt Service Reserves	$15,500,000	$10,065,550	$0	$0	$10,065,550
	Total	**$730,653,088**	**$685,580,194**	**$4,174,002**	**($302,000)**	**$689,452,196**
Revenue	Beginning Fund Balance	$191,308,104	$207,949,783	$0	$0	$207,949,783
	Bond & Note Proceeds	$33,190,955	$21,841,542	$0	$0	$21,841,542
	Charges for Services	$139,603,020	$142,617,670	$0	$0	$142,617,670
	Fund Transfers - Revenue	$11,618,918	$8,093,814	$1,734,808	$0	$9,828,622
	General Fund Discretionary	$26,911,863	$16,031,531	$1,419,308	$0	$17,450,839
	General Fund Overhead	$11,335,034	$13,067,880	$74,094	$0	$13,141,974
	Interagency Revenue	$173,028,988	$200,646,205	$754,194	($302,000)	$201,098,399
	Intergovernmental	$13,538,040	$13,978,611	$191,598	$0	$14,170,209
	Licenses & Permits	$7,536,066	$7,780,000	$0	$0	$7,780,000
	Miscellaneous	$86,416,100	$15,398,158	$0	$0	$15,398,158
	Taxes	$36,166,000	$38,175,000	$0	$0	$38,175,000
	Total	**$730,653,088**	**$685,580,194**	**$4,174,002**	**($302,000)**	**$689,452,196**