CITY OF PORTLAND

OFFICE OF MANAGEMENT AND FINANCE

Five-Year Financial Plan

FY 2008-12

January 8, 2007

Tom Potter
Mayor

Ken Rust
Interim Chief Administrative Officer

CITY OF PORTLAND
OFFICE OF MANAGEMENT AND FINANCE

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TO: Mayor Tom Potter
Commissioner Sam Adams
Commissioner Randy Leonard
Commissioner Dan Saltzman
Commissioner Eric Sten
City Auditor Gary Blackmer

FROM: Ken Rust, Interim Chief Administrative Officer

SUBJECT: Office of Management and Finance Capital Improvement Plan

Attached are five-year financial plans for the Office of Management and Finance (OMF) funds of CityFleet, Technology Services, Printing & Distribution Services (P&D), Facilities Services, Insurance & Claims, Workers' Compensation, Health Insurance, PPA Health Insurance, Spectator Facilities, Parking Facilities, and the Revenue Bureau.

For this budget process these plans focus on the issues the OMF funds face over the next five years and discuss proposals to address these issues.

These plans will be the basis for OMF's FY 2008 requested budget and have been coordinated with OMF's preparation of its FY 2008-12 capital improvement plan, and FY 2008 interagency agreements. These plans will continue to be updated on an annual basis.

Please let me, or Tom Feely of my staff, know if you have any questions.

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Introduction

The purpose of this five year plan is to highlight for the Council and Financial Planning issues the OMF funds will address over the next five years. Also discussed are proposals planned for inclusion in the FY 2008 OMF Requested Budget and changes OMF has made to FY 2008 rates and IA's to address some of these issues.

This can therefore be used to set the stage for the OMF FY 2008 Requested Budget which will be submitted on February 5, 2007.

Issues common to all funds

Replacement/major maintenance funding

The infrastructure assets in the Technology Services and Facilities Services funds are significantly under funded for replacement and major maintenance.

Facilities Services rental rates now collect only 1.5% of building replacement value each year for major maintenance. This is based on collecting $3.1M per year and assets with replacement values of $202M. Our target, based on industry standards, is 3%. This equates to $6.1M per year. This performance measure is down from 2.2% in previous years. In the past, to hit budget reduction targets or balance the budget when other costs were rising greater than the rate of inflation, major maintenance has been cut. Therefore, the annual major maintenance funding gap for Facilities is $3.0M and this was included in the December 2006 update to the City's assets conditions report. As a result, in Facilities, the accounts don't grow very large and will impact the ability to cover large projects when major systems/ components need replacement. With improved City finances in FY 2007, the fund was allowed to redirect some savings from efficiencies to major maintenance, but the dollar amount was very small ($16,000).

In BTS three programs have a major maintenance/replacement component in their rates. However, these amounts ($1,626,000 in total) are small compared to the value of the assets ($120.6M) and their needs. And, we have only recently been collecting a portion of this as a result of redirecting some savings from efficiencies in the FY 2007 budget process. As a result, BTS is having to draw down reserves to fund critical projects, and this isn't a sustainable practice.

Major maintenance set-asides for Parking Facilities are at 3% of replacement value. This was first accomplished in FY 2007. This is due to increased parking revenue from increased usage and a rate increase.

Citywide Initiatives

The OMF CIP addresses a number of Citywide Initiatives identified by the Council for focusing the FY 2008 budget process on.

Under the Community Safety Initiative the OMF CIP proposes funding for the following projects via the Public Safety Systems Revitalization Project (PSSRP):

- PPDS upgrade, programming capabilities
- City-wide Emergency Operations Center
- BOEC CAD to CAD Interoperability Capacity

Under the Sustainable Industries/Clean Energy Initiative the OMF CIP proposes funding for the following project:

- Additional fueling capability at SW First and Jefferson garage for bio-diesel.

Under the Improving Police Services Initiative OMF would be involved in:

- Regional Training Facility (Manage siting and construction of project and operate and maintain facility)
- Opening Precinct 24/7 (provide additional operations and maintenance services)

Under the Sustainable Industries/Clean Energy Initiative OMF would be involved in:

- Adoption of green building practices (In management of construction projects and operations and maintenance of facilities)

Inflation

The OMF funds use the inflation factors for the M&S-Internal accounts as our targets for how much our rates on average can increase. Individual IA costs may grow by more than inflation if your bureau has added inventory or increased service levels.

Bureau innovation projects

The OMF funds are directly impacted by the work of two bureau innovation projects (BIP).

BIP #4 - Implement cost efficiencies and customer improvement within the Office of Management and Finance:

- Create a more customer- friendly environment for bureaus that receive services from OMF.
- Involve all customer bureaus in improving OMF service delivery and finding cost efficiencies.
- Ensure accountability, accuracy, consistency, cost-efficiency, and transparency in the City overhead model and OMF interagency charges.

This BIP had a number of recommendations OMF either had was in the process fof working on or will be addressed in FY 2007 and the future.

1. Create and implement Service Level Agreements (SLAs) for all OMF internal service providers.

Creates an agreement that codifies the specific services that will be provided by OMF and the responsibilities of both the service provider and customer. Such an agreement will lead to better communication, more accountability, and ultimately better service.

2. Improved Customer Service: Conduct an annual customer survey, implement Phase II of the OMF Customer Service

Initiative, continue holding annual OMF customer forums, and initiate direct communication between OMF bureaus/divisions and upper-level management in customer bureaus.

Feedback from the annual survey will be valuable in determining where customer service problems are most prevalent, allowing OMF to focus on the most problematic areas. The Customer Service Initiative is designed to provide training to *targeted service areas to improve overall customer service. The customer forums help bureaus learn about OMF rate models, ask questions about charges or service, and generally engage in open dialogue about OMF services. The initiation of direct communication between OMF and the City's upper level bureau management is intended to improve communication and provide a forum for issue resolution.*

3. Benchmark OMF services against similar public and private sector entities.
   A thorough comparison of OMF costs and service delivery against similar entities will provide both OMF and its customers with crucial cost and customer service information, resulting in greater accountability and potential cost savings.

4. Continue conducting rotating focused reviews of OMF service areas. These focused reviews provide valuable feedback that is more detailed than the customer survey or customer forums.
   The focused reviews ensure that bureaus are meeting both their internal goals and the goals of their customers, and recommend corrective action when goals are not being met.

5. Create an OMF Advisory Committee.
   The OMF Advisory Committee advises the CAO on all matters of OMF operations, including service delivery, customer service, and cost effectiveness. The committee gives the CAO a forum for better communication with internal City bureaus and external stakeholders.

6. Pilot test simpler cost distribution model.
   By testing the use of a simpler cost distribution model and running it parallel with the existing billing system, OMF will be able to determine if the simpler system results in fairly allocated costs while still providing necessary information to the bureau. If such a system succeeds, it could result in future cost efficiencies.

The intent of recommendation #6 is to simplify rates and billings where the cost to prepare, bill, and analyze is high compared to the benefits. At the start of each budget process OMF Business Operations works with the divisions and customers to identify ways to improve rates. This encompasses all aspects of rates including, their preparation and billing by Business Operations, and analysis of rates and billings by customers. Each year we make changes accordingly. For the preparation of FY 2008 rates and IA's Business operations made a number of changes to rates and IA's to simplify them. These changes include:

<u>BTS</u>

- Bureaus will have the option of a voluntary additional charge on PC's, laptops, and servers to fund their regular replacement. This will provide bureaus a stable funding source for these replacements instead of having to find the money when a machines needs replacement.
- GIS will be funded thru IA's with General Fund bureaus instead of a cash transfer from the General Fund. This makes GIS rates consistent with rest of BTS rates. It will be easier for Financial Planning and BTS to budget and manage.

Facilities

- The cost of Portland Building meeting rooms will be folded into building rental rates. This is consistent with other buildings and reduces administrative processing and billing work.

CityFleet

- Replacement rates are being changed from a single rate per bureau based on a 20 year model to being based on the needs of each individual vehicle. This simplifies the process of determining how much money is available for a vehicle. It will be easier for bureaus to understand and for CityFleet to manage. CityFleet's management information system can keep track of account balances. This allows for the elimination of the Replacement Administration rate calculated for each AU/lass of vehicle.
- Preventive maintenance will be billed on a time and materials basis instead of on flat rates. This makes the method for billing for services consistent. CityFleet has found that fixed rates by themselves didn't improve compliance with PM schedules. This will be easier for bureaus to understand and for CityFleet to manage because the work is done and billed just like all other work.
- All repair and maintenance will be billed on a time and materials basis. This makes the method for billing for services consistent. This will be easier for bureaus to understand and for CityFleet to manage because the work is done and billed just like all other work.
- The Vehicle Management rate, calculated for each AU/lass of vehicle, has been eliminated and the costs are now being recovered by spreading them to existing rates including, hour rates, parts rate, fuel rate, etc. This allows for fewer rates and billings and has the rates more consistent with other organizations.

BIP #12 - Identify and support the implementation of opportunities to improve maintenance delivery systems.

While the recommendations of this BIP will impact some of the OMF funds, recommendation # 4 will require the leadership of CityFleet and will impact the fund. This recommendation is to formalize procedures for interagency vehicle equipment loans. This action would use CityFleet as a central facilitator to provide vehicle equipment information between bureaus. This collaborative effort is intended to assist existing bureau fleet coordinators with city-wide equipment information. This recommendation would not include fire apparatus. The benefits of this recommendation include 1) Optimization of citywide equipment resources, and 2) potential reduction of the number of vehicles rented from outside vendors.

Implementation of EBS

The City is currently in the process of purchasing and implementing an EBS, which will replace IBIS and a number of other systems. The current schedule shows that the financial system will go live on November 1, 2007, and the payroll system will go live on January 1, 2008. After implementation is completed, BTS will be responsible for the system's overall ongoing operations and maintenance because it is a corporate application. An organization within Financial Services will provide day to day and overall management of the system.

The EBS project will impact the OMF funds in a number of ways.

- The system will be more efficient for managing finances and processing financial transactions than the current system.
- The system will have more consistent and better business processes.
- The system will require interfaces so that the funds' billing/management information systems can send IA billing data to the it. And, later for the system to send payroll and expense information to the funds' billing/management information systems. These interfaces will have a one-time cost for the funds, but will allow for the opportunity to make the presentation of billing data to customers more consistent and transparent.
- The system will impact the workload and type of work of BTS.

Decision packages

To address issues in FY 2008 some proposals require decision packages. These are proposals requested in General Fund one-time money, one-time charges to customers, rate increases, or recognizing additional revenues.

OMF has six CIP decision packages in its FY 2008-12 CIP requesting General Fund one-time money. These include:

- BTS – City Hall video improvements ($316,000)
- BTS – Additional costs for Council Crest Tower ($800,000)
- Facilities - Records Center space design phase ($1,480,300)
- Facilities - Emergency Management facility study ($300,000)
- Facilities - Traffic Division relocation ($3,478,500)
- Facilities - Police training facility study ($300,000)

OMF has one CIP decision packages in its FY 2008-12 CIP requesting the use of additional revenue. This includes:

- Facilities Services – Appropriate additional land sale proceeds to project to relocate property warehouse ($427,000)

OMF has one CIP decision package in its FY 2008-12 CIP requesting one-time charges to customers. This includes:

- CityFleet – First and Jefferson garage fueling capacity ($100,000)

OMF has nine decision packages for rate increases. These include:

- Operations - 24 x 7 support $92,000 This package would provide 24x7 standby support funding based on current shifts plus standby with collapsed technology disciplines.
- Operations - Systems Monitoring $81,029 This package would add an additional ISA-II to the BTS Research, Testing & Measurement Team.
- Strat Support - Sr Procurement Specialist $85,513 This package would add a Senior Procurement Specialist to the BTS Contracts Team.

- Strat Tech - Customer Service Realignment $162,058 This package requests funding for two Business Systems Analysts and includes significant changes to the Customer Services Program and alters BTS rates. The purpose of the package is to improve customer service.
- Strat Tech - Ecomm Package $247,557 This package requests funding for two new positions, one Principal Information Systems Analyst and one Application Analyst IV. These positions along with the requested external materials and services would support the eCommerce program, specifically procurement.
- Strat Tech - Egov Package $174,308 This package requests funding for two new positions, one Business Systems Analyst and one Application Analyst IV. These positions would support the eGovernment program, specifically maintenance and improvements to PortlandOnline.
- I&C Increased Reserves & Excess Liability Insurance Coverage Limit $198,165 Increase the Insurance & Claims Fund's (Liability Fund) reserves and monetary limit for excess liability coverage in response to trend in higher litigation costs and higher awards and per recommendation of outside actuary.
- Free Annual Flu Shots for City Employees $26,338 Provide annual flu shots free to City employees.
- Portland Bldg and 1900 Bldg Fitness Centers Available at No Charge to City Employees $61,400 This package would put into the building rental rates the costs to operate and maintain the fitness centers in the Portland Bldg and 1900 Bldg. This would allow City employees in the Portland Bldg, City Hall, and the 1900 Bldg to use the fitness centers**.**

OMF has two decision package funded within CSL rates:

- Operations - Desktop Deployment $70,031 This package would add an additional IST-II to the desktop deployment team. The costs of the position are covered within the BTS CSL rates.
- Operations - Help Desk $81,029 This package would add an additional ISA-II to the BTS Help Desk. The costs of the position are covered within the BTS CSL rates.

Bureau of Technology Services

The following is a discussion of the major financial issues the fund will address over the next five years.

Funding BTS projects

The major issue for the BTS CIP continues to be a lack of forecasted funding for Technology Services equipment replacement. While limited replacement funds are established for some user devices (radio equipment) associated with the public safety radio system, video systems and phone sets, no similar systematic approach exists for the full range of IT network, communications or computing equipment. While much of this equipment had been a responsibility of the bureau that had prior ownership, most did not explicitly budget for replacement, and no replacement fund was established to build reserves for this purpose. The result is visible throughout technology infrastructure, with outdated equipment in need of replacement posing a significant liability that must be addressed. The strategy is based on efficiencies from consolidation being re-invested into future replacement funds, with the initial capital for consolidation coming from a combination of the BTS Technology Reserve, bureau funds, and grants.

Key concerns with the BTS infrastructure and supported applications include:

- Lack of comprehensive continuity of operations planning, mitigation and testing.
- Lack of funding to maintain and upgrade the IRNE system.

Key concerns with BTS infrastructure and supported applications that are addressed in the PSSRP CIP include:

- Public safety systems including the 800 MHz radio system, Portland Police Data System and Computer Aided Dispatch approaching obsolescence.
- The need for technology solutions to support the City's Emergency Operations Center (EOC).

In prior years BTS had a Technology Reserve established to fund projects in programs with no capital component in their rates. The reserve was funded through net income from rates the fund charged for its services . Net income could come from spending less than the budget or increasing the level of customers. After funding the replacement of the Council Crest tower in FY 2006 and other immediate needs, the reserve is projected to have a zero balance at the beginning of FY 2008. As a result, the fund is tapping into its Operating Reserve to complete critical projects in FY 2008. The Operating Reserve will remain within policy guidelines (5-10% of annual fixed costs). However, this is not a sustainable practice and BTS needs an on-going stable funding source for its capital/major maintenance projects. Additionally, this reduces BTS' flexibility to respond to unforeseen events.

Funding new initiatives

One of BTS's best options for building replacement into rates is to direct savings from efficiencies to replacement. This could be accomplished through one of two approaches.

The first approach is to identify infrastructure elements that, based on their age or operational capabilities, are due for replacement, bill the bureaus for their replacement, and deploy the new equipment. The new equipment's efficiencies, combined with existing rates, will generate sufficient funds for future replacement. Despite each bureau's liability for this equipment replacement, obtaining the initial working capital from the bureaus may be difficult, as they may not have budgeted for the replacement. The second approach, and the one with the most potential, is for BTS to identify efficiencies in the IT infrastructure of the City, fund them out of its fund balance combined with elements of funded projects, provide a higher level of service, and get repaid by not decreasing rates to bureaus when the savings materialize. Where these two approaches cannot yield necessary replacement funds, BTS will have to discuss with the Advisory Council options for selectively adding replacement funding into the rates.

Enterprise Business System implementation, management, and operations

The City is currently in the process of purchasing and implementing an EBS, which will replace IBIS and a number of other systems. The current schedule shows that the financial system will go live on November 1, 2007, and the payroll system will go live on January 1, 2008. After implementation is completed, BTS will be responsible for the system's overall ongoing operations and maintenance because it is a corporate application. An organization within Financial Services will provide day to day and overall management of the system.

While the EBS project is primarily a business process project, BTS will be a key partner in the implementation of the EBS because it will have a large impact on bureau applications and IT hardware. This impact extends to both the new consolidated infrastructure being implemented (database cluster and storage area network) and to the City's enterprise server that currently hosts IBIS, the Police data system, and the Lien Accounting system.

In addition to the EBS being a large project to implement, BTS will be affected in other ways by this change.

- A number of subsidiary systems (both applications and servers) now maintained by BTS will be consolidated or eliminated.
- For the subsidiary systems that will remain, such as the internal services funds' billing/management information systems, interfaces will have to be built connecting them with the EBS.

Organizational structure/workforce

As a result of changes with EBS, PPDS and other IT infrastructure, an issue for BTS over the next 5 years will be changes to its workforce to meet the demands of this new infrastructure.

Rates and IA's

The BTS IA's include a component for EBS debt service. As was discussed at the budget kickoff by Financial Services the amount for EBSP annual debt service increases from $2.166 million to $3.4 million. This $3.4 million is allocated out to bureaus based on the same methodology as was used for the original $2.166 million, but the metrics have been updated. This component of the BTS IA is outside of the BTS target for increases.

Public Safety System Revitalization Project (PSSRP)

The Public Safety System Revitalization Project in the Citywide Projects section is an initiative to address deficiencies and obsolescence of the communication and information systems essential to public safety services provided by the City of Portland. The PSSRP Program consists of five inter-related projects:

- Public Safety Radio System replacement project (previously in BTS CIP)
- Computer Aided Dispatch system replacement project (previously identified in BTS CIP)
- Portland Police Data System replacement project (previously in PPB CIP, and identified in BTS CIP)
- Emergency Operations System deployment
- Portland Fire and Rescue system project

Because of the inter-relationships of these projects, the projects have been brought under a unified charter and executive steering committee, and the finances are being managed in the City's Special Projects AU.

The major issue for the PSSRP is the identification of funding sources and appropriate regional partnerships. Many systems involved have extensive partnerships beyond the City of Portland. PPDS serves agencies in many counties; CAD serves many different police and fire agencies in Multnomah County; the expressed goal of the regional radio operators is to build a single digital radio system to meet the region's needs to maximize efficiency and interoperability.

Key concerns with the current systems include:

- Limited remaining supported life for the 800 MHz analog radio system, which is a problem common to the systems serving Clark, Washington, and Clackamas Counties as well.
- Limited data bandwidth for mobile computing via the 800 MHz system.
- The Police Data System and the Computer Automated Dispatch application at the heart of the Emergency Communication Center operations are both custom systems, running on outdated platforms, facing critical retirements of key support personnel, and serious potential problems acquiring personnel with the requisite skills.
- Lack of a system to provide operational status, event activity recording, resource utilization, and sharing of information across emergency operating centers.
- The Police data system is operated on a very obsolete mainframe . With the decision to move forward with an IBIS replacement, the costs of sustaining operation on the mainframe environment is far above the current Police budget capacity.

PSSRP Program Description

The Mission of the Project is to implement the revitalization of critical public safety information systems that will meet critical business needs for dispatch, criminal justice, emergency operations, and both voice and data communications and assure interoperability among systems and with applicable information sharing standards. The Project will replace aging technology that does not meet current needs and does not position the City to take advantage of many modern initiatives.

The goals of the Project include:

- Implementation of a modern, supportable dispatch system that supports the business requirements of multiple service dispatch, and supports Common Alerting Protocol and Global Justice XML and evolving emergency standards to support interoperability.
- Implementation of a 700/800 MHz digital radio system with P25 standard, support regional interoperability, and the highest level of system availability. Implement a single digital radio system covering at least Multnomah, Washington, Clackamas, and Clark counties with integration with the State of Oregon OWIN network.
- Replacement or re-engineering of the Portland Police Data System to provide no less than the current level of functionality, improved support for standard reporting, and support for Global Justice XML as a mechanism for data interoperability throughout the Criminal Justice System.
- Implementation of an emergency operations system to support the Emergency Operations Center, with multiple locations support.
- Improved resource management.
- Access to real-time transaction data throughout the public safety system.
- Improved management information and reporting for Fire and Rescue Systems.
- City EOC has appropriate access to all critical data assets, including Public Safety Systems, for authorized users, and to voice communications.

When completed, the new systems will result in:

- Highly available systems to support public safety efforts.
- Support for Data interoperability standards being implemented nationally.
- Supportable systems based on current technology to assure supportability for a 10-15 year time frame.
- Improved real-time access to information to support public safety operations at dispatch, field, command, and analysis levels.
- Substantially increased reporting ability with improved data integrity, transparency, and security.
- Improved support for emergency communications and notifications.
- A capability to extend the system to support a variety of additional functions and business needs.
- A flexible design that supports modern integration methods and that will allow growth for the future.

PSSRP Scope

At a minimum, the City expects to replace the following legacy systems:

Public Safety Radio System

- Capable of supporting 50% growth over current system peak voice traffic utilization
- Utilizes the broad spectrum of Public Safety radio frequencies available with maximum spectral efficiency
- Support for interoperable talk groups across the UASI region
- Interoperability with State of Oregon proposed OWIN
- Digital system with P25 compatability
- Support for regional design with unified system to support the 4 counties over the 15 year planning horizon
- Improved data connectivity and data rates
- Highest level of availability
- Maximum utilization of existing infrastructure (towers, microwave, power supplies)

Critical Issues for Public Safety Radio System replacement:

Timeline

The analog systems in the region reach end of their support life beginning in 2011. Because of concerns of maintaining the region's current level of interoperability if the systems across the region are not replaced simultaneously, due to an inability to readily build talk groups between digital and analog system cores, the regional radio managers have expressed the desire to build a single system to maximize efficiency and interoperability.

Regional governance and the impact on the timeline and cost

In order to meet this objective, a regional governance structure for the new radio system must be developed and accepted by the four counties and the City of Portland. The governance structure has to meet the legal requirements of both the State of Oregon and the State of Washington. This governance structure can build upon the UASI structure, but must be in place to effectively seek federal funding and any public voted funding. This regional governance structure is an early deliverable of the project.

Federal funding availability and options

The need for improved public safety communications have been well recognized following 9/11. In December 2006, the Senate passed a bill to help address the funding issue, including an authorization of $1 billion in advance funding ahead of a spectrum sale. Allocation of funds is expected to begin in 2007.

Existing system debt and reserves

The existing systems, which must be replaced, may still have associated debt and insufficient replacement reserves yet collected to replace end-user equipment. The re-banding of the existing 800 MHz public safety frequencies to address certain interference issues associated with the Nextel licensed frequencies will provide some new equipment that is compatible with the next generation digital equipment, but not a sufficient quantity to overcome this funding shortfall.

At this point we estimate this project could cost from $28 million - $50 million (including all end-user devices) assuming it is done with regional partner. We estimate these costs being incurred in FY 2009 - FY 2012 of this CIP.

Computer Aided Dispatch System

- Full functionality for multiple service dispatch
- Highest level of availability
- Capability to provide geographical and tabular information to dispatchers in real time
- Highly efficient for dispatch operations
- Support for data sharing using XML standard based methods, including Common Alerting Protocol and Global Justice XML
- Full support for data requirements for CALEA certification of the dispatch function

Critical Issues for CAD replacement:

- An assessment of the current system functionality and sustainability has been completed. While the system meets current needs very well, and is very stable, it does not appear to be sustainable. Recommendation: Replace the current CAD system with a new vendor-based CAD solution. Begin the selection and implementation process as soon as possible due to the 36 to 48 month lead time required to implement a vendor CAD solution.
- It is further recommended that modifications be strictly limited to avoid the current problem of limited availability of resources to maintain the highly customized code into the future.
- The consultant who completed the assessment is beginning the next phase of the project, to develop functional and technical specifications, develop an RFP for a software selection process and select the software. It is expected that the software selection will be completed in early FY 08-09, with funding required that year to purchase the software licenses and complete the implementation of the new system.
- The range of the project costs has been estimated between $9.89 million and $13.6 million, including additional costs during the stabilization phase after implementation. We estimate these costs being incurred in FY 2009 - FY 2010 of this CIP.

Portland Police Data System

- Support for full functionality of Police Records System requirements
- Full importation of existing PPDS database for future investigation and crime analysis
- Very High level of availability
- Highly efficient field reporting operations
- Capability to provide geographical and tabular information to officers
- Support for data sharing using XML standard based methods, including Global Justice XML
- Full support for data requirements for NIBRS reporting

Critical Issues for PPDS replacement:

- The project has a number of optional paths, each with different timelines and costs. The critical difference with PPDS is that the City of Portland developed the system and owns the associated intellectual property. This makes re-engineering the current system to a modern platform and with compatibility to modern standards feasible. The primary options are:
- Purchase a Commercial off-the-shelf software package through an RFP process for replacement. Estimated cost is $5 - $8 million
- Reengineer PPDS as a City project, with consultant programming. Estimated cost is $2 - $4 million
- Reengineer PPDS with partners using open source community development processes, either by joining an existing open source police record system project (such as CAPSIT) or starting an open source project with partners. Estimated cost is $1.5 - $3 million.

As discussed above, the timeline is intertwined with the decision to replace the City's financial system, which currently shares the mainframe costs with PPDS. The financial system replacement project is scheduled to go live in January 2008. Without a mainframe partner, the fixed mainframe costs will significantly rise for PPDS and the Police Bureau with no funding source identified in FY 08-09. It is the city's desire to remove the mainframe by the end of 2009.

We estimate these costs being incurred in FY 2008 - FY 2009 of this CIP.

<u>Portland Fire and Rescue Systems</u>

This project will review the existing systems which provide extensive automation of Fire Bureau records, and provide the necessary platform (software and hardware) of the systems to assure that the systems continue to provide the required operational support for the Fire Bureau.

- Provide support for the extensive automation of Fire and Rescue required record keeping.
- Assure appropriate integration with the Enterprise Business System.
- Modernize the code base to current technology if replacement is not required.

Critical Issues for Portland Fire and Rescue Systems project:

- The existing system meets the Fire Bureau needs.
- The system software and platform will require modernization in the FY 2009 - FY 2011 timeframe.
- There has been no analysis or cost estimating for the Fire system modernization, as it has been viewed as a later phased project.

<u>Emergency Operations System</u>

This project will a system to record and track incidents, resources and status to improve the management of emergency events, and facilitate the appropriate reporting and cost reimbursement from federal emergency funds when available. In addition, the project will assure that EOC staff have access to critical information within other City systems during an emergency to facilitate effective management of incidents.

- Capable of supporting a common incident view from multiple EOCs

- Capable of maintaining a wide range of information for situational awareness, including access to critical City data within the EOC environment
- Capable of acting as a redundant or back up system for Bureau EOC's

Critical Issues for the Emergency Operations Center system deployment:

- An initial software purchase (WebEOC) has been made to provide situational awareness within the EOC. The system has not yet been configured or tested. An analysis of the preferred method of integration with the City's GIS resources is just beginning.
- An initial review of critical data sources for EOC operations has been identified. The detailed requirements analysis and any planning to assure access to these resources has yet to begin.
- An initial implementation must be complete in time for training and exercise experience with the systems in advance of a major exercise in October 07.
- The initial implementation of the WebEOC product with GIS integration is anticipated to cost approximately $100,000. The cost for assuring access to other systems is unknown at this time.

At this point we estimate this project could cost from $0.2 million - $1.0 million. We estimate these costs being incurred in FY 2007 - FY 2009 of this CIP.

Additional Elements of PSSRP Scope

- The scope of the Program will include changes to business processes required to achieve the best fit of the selected purchased solutions to minimize acquired software code modifications
- The Program will include the incorporation of data exchange mechanisms built on the public safety application integration platform established within the region through the CAD to CAD project
- The City of Portland and the various systems integration firms project managers will manage all activities in concert. A professional and independent Quality Assurance consulting firm will provide additional perspective and advice
- A coordinated funding approach will be developed as part of the project.

Funding Sources

At this point in the PSSRP we don't have a fully developed financial plan for the program to incorporate into the City's capital budget. The following though is a discussion of what we do know and the approach we plan to take for developing a financial plan for the program.

- As discussed above, the program has $4.2M in General Fund one-time money for preliminary project work. This work includes establishing requirements and conducting a product selction process for CAD replacement, assessing the components of the existing PPDS and establishing the replacement strategy, developing the regional governance model for a regional radio system and aggressively seeking federal funding, and completing the initial phases of a system to improve EOC situational awareness.
- It appears unlikely there will be a single funding source for the program. The use of GO bonds has been discussed, but there are two potential drawbacks to this approach. One challenge is that software and free standing equipment cannot be GO Bond financed.

Second, these are critical projects and citizens may not want to tax themselves to fund the debt service.

- There are two other reasons a single funding source appears unlikely. First, as illustrated by the table below, the cost for these projects are significant and the City has no funding source of this magnitude to tap into. Second, the projects can be implemented independent of each other and will be done over a six year timeframe.
- The following are the cost ranges for the projects and at this point should be only considered as orders of magnitude and not estimates for budgeting purposes.

Public Safety Radio System replacement	$28M - $50M
Computer Aided Dispatch system replacement	$9.9M - $13M
Portland Police Data System replacement	$1.5M - $8M
Emergency Operations System deployment	$0.2M - $1M
Portland Fire and Rescue system project	$0.2M - $.5M
Project management and administration	$2.6M - $5M
Total	$42.4M - $77.5M

- While the General Fund has identified one-time money available for General Fund projects, the competition for this money is very high as a result of the Council's multiple priorities and other City assets' poor condition. So it is envisioned that General Fund one-time money will probably only be one piece of a multi-point plan for funding each project.
- Public Safety and Homeland Security grants will be sought. Grant funding may provide partial funding for critical infrastructure, such as replacement of the 800 MHz radio system and the emergency operations center systems.
- Both PPDS and 800 MHz systems play critical roles in the region and have many partners. Efforts are underway to involve regional partners in the replacement strategy and these partners would bring resources to share costs.
- Emergency Communications costs are shared with partner agencies, so the costs to replace CAD could be shared with partner agencies.

Since each project can be implemented independent of each other and there are multiple paths each could take (which impact the level of partnering with other agencies), the financial plans for each will be customized as the plans for the projects are solidified. Most likely a combination of funding sources will be used. For example, General Fund cash, debt financing with the City covering the debt service, bureau cash, grants, cost sharing with partner agencies, etc.

CityFleet

The following is a discussion of the major financial issues the fund will address over the next five years.

Fleet certification

A common practice in municipal fleets is to become certified by the Fleet Counselor Services, Inc.; this certification shows that the fleet is well managed because it meets benchmark criteria in a number of categories. CityFleet is embarking on a process to become certified. While there are a number of benchmark criteria to meet, the two that will require the most change in CityFleet operations are fleet utilization and preventive maintenance compliance.

Fleet utilization is the practice of making sure a fleet is right-sized. This is accomplished by establishing standards and reports and by monitoring all vehicles to make sure there aren't underutilized vehicles. Adequacy of back-up vehicles and those available for downtime also are analyzed. Fleet optimization may represent a large area of potential savings for bureaus, as this type of review has never been done systematically before.

Changes to Motor Pool and other short-term vehicles

CityFleet is exploring an alternative method of providing short-term pool vehicles for bureau use. This used Key Manager software to allow bureaus to reserve on-line pool vehicles and then check them out and return them without the aid of CityFleet staff. This would reduce two of CityFleet's largest costs of the Motor Pool program, the costs to issue vehicles and bill for their costs (the software would do the billing). This proram would be an alternative to the City's contract with vendors for this type of service (currently with Flexcar) and provide City bureaus with more options.

Alternative fuels and hybrid vehicles

The City is working to expand the use of alternative fuels, for its citizens and for its own vehicles. These alternative fuels include bio-diesel and ethanol blended fuels.

CityFleet is a leader in this field and is working with bureaus to expand their use of alternative fuels. This includes purchasing vehicles that can use bio-diesel or the higher blend ethanol fuels. Some bureaus are even opting for higher blend of bio-diesel. Water, BDS, and BOEC are moving towards blends of 99/1 for 7 months of the year and a 50/50 blend for 5 months of the year. Other bureaus will receive an estimate based on a price per gallon that takes into account an 80/20 blend 6 months of the year and 50/50 blend for 6 months of the year.

CityFleet and the bureaus are monitoring the operational impacts of the higher blend bio-diesel fuels. Due to bio-diesel not working well in cold weather, modifications to vehicles and operations might have to be made.

Another impact of providing alternative fuels is that it necessitates the construction of additional stations for providing these fuels. It is envisioned this will be accomplished in three phases.

The first phase is for the construction of an above ground E85 fueling station at Interstate Yard. The CityFleet budget will be amended in the FY 2007 Winter BUMP for this project estimated at $100,000.

The second phase will be the construction of an above ground bio-diesel fueling station at the SW First and Jefferson Garage in FY 2008. OMF is proposing that the one-time cost of this project be funded by a one-time fuel surcharge to all CityFleet fuel user. The tank will add fueling capability to CityFleet's fueling system and is estimated to cost $100,000. A decision package has been prepared for this since it involves charging customers for a cost not in their budgets in FY 2008.

The third phase is a new fueling station at Sunderland Yard to serve all City vehicles. This project will be researched in FY 2008. It is envisioned this would be done in the five-year timeframe of this plan and a more detailed plan will be developed for the FY 2009-13 CIP.

The estimated cost to install a 2,000 gallon above ground tank including the permitting, concrete pad, canopy, bollards, dispenser, fuel and tank monitoring system, applicable trenching, pulling in power, adding a phone line, and tank testing is approximately $100,000. This cost could be considerably less if we can use existing pieces that are already in place. For example, if we can install the tank on an existing concrete pad or use existing technology, the cost will be less.

Fuel management

CityFleet is in the middle of a $100,000 project to replace its antiquated DOS-based fuel management system. This project is to be funded by CityFleet reserves and repaid through an amortization in the fuel mark-up rate and will provide many benefits. A modern fuel management system will provide accurate and timely fleet fueling information, and it can be expanded to include onboard vehicle computer diagnostic data. The system is designed to interface with the City's existing fleet management software and will enhance customer billing, cost analysis, preventative maintenance tracking, replacement analysis, utilization studies, mobile fuel tracking, and fiscal control of about $4,500,000 per year in fuel inventory.

The implementation strategy is to upgrade in phases. Phase I includes all of the equipment necessary for a fully functional fuel management system. Fuel cards will be used to identify vehicles and equipment.

Phase II will use the same fueling infrastructure, but requires a computer chip to be installed on each vehicle. This "passive" system is seamless to the end user and does not require keys, cards, PINs, or human intervention. The other major benefit is that the computer chip pulls diagnostic data from the vehicles' onboard computer. This data will assist in technical troubleshooting and improve overall business performance. The cost of an onboard computer tracking device is about $250 for a new vehicle or $125 for an older vehicle. CityFleet customers are overwhelming supportive of the upgrade. The initial return on investment is approximately one year, with additional savings expected in the out years. Non-General Fund bureaus are finding money in their budgets to cover the costs of the canceivers and their installation in FY 2007. General Fund bureaus are planning for purchase and installation in FY 2008.

This project will provide the City with many efficiencies. CityFleet customers are collectively losing about three hours per day due to system problems, shuttle time, and reprogramming fuel keys. This reduces vehicle availability, and the bureaus' ability to provide essential City services. Additionally, CityFleet technical staff time required to maintain the current system and reprogram fuel keys is high and would be greatly reduced.

Fuel tanks

Fuel tanks installed in the early 1990's will begin reaching the end of their 20 year lives over the 5 year timeframe of this plan. As per EPA rules, these will need to be replaced at a substantial cost. CityFleet will develop a replacement and financing plan for these tanks to address this issue.

Hybrid replacement vehicles

Energy efficiency is one of the Council's focus areas. As fuel becomes more costly, the fuel efficiency of vehicles will be a factor at the time of their replacement. Already the City is considering using more hybrid vehicles where they make operational sense.

New rate model

For FY 2008 CityFleet has made a number of changes to rates to simplify them and to better align the rate model with other fleet organizations for benchmarking. These changes include:

- The Vehicle Management rate has been eliminated. Costs have been instead incorporated into the following rates/programs:
    - Fuel mark up
    - Parts mark up
    - Hourly rate
    - Motor Pool rate
    - Replacement program
- Replacement rates will change from a single rate per AU per year based on a 20 year model to a rate based on the needs of each individual vehicle. Rates in the IA are an annual amortization calculated by dividing purchase price (including outfitting costs) by estimated life in years.
- Preventive maintenance will be billed on a time and materials basis instead of the flat rate per vehicle.
- All repair and maintenance will be billed on a time and materials basis.

- All of the estimates for CityFleet services on the IA will be variable estimates and will be loaded as lump sum dollars. Categories now include:
    - Repair and Maintenance - including Custom Work, Fabrication, and Body and Paint (551500)
    - Accidents (551510)
    - Motor Pool (551200)
    - Leased Vehicles (551800)
    - Fuel (551600)
    - Replacement (551150)
    - New Equipment and Upgrades (551900)

Risk Management

The following is a discussion of the major financial issues the fund will address over the next five years.

FY 2008-12 rates and IA’s

Risk rates reflect our effort to provide funds to meet the requirements of sound funding as per the most recent actuarial study. For the City as a whole, Workers Compensation rates are projected to average a 6.1% decrease each year for the next five years. Those for Insurance and Claims are projected to increase 22.3% for each of the next five years.

The recent actuarial study, performed in September 2006, projected higher annual liability claims costs for the foreseeable future as well as significantly higher reserves required even at the current 60% confidence level. The Insurance & Claims Fund's recent years’ claims experience reflects consistently higher awards and potentially large ones. Through vigorous legal defense the City has been fortunate over the last couple of years to prevail in several federal cases with potentially large awards. However, even with successful outcomes, the cost of defense, including outside counsel, expert witnesses, and trial exhibits, has proven significant. In addition, the trend of higher awards and higher costs for fighting such law suits is accelerating. Additionally, these increased requirements identified by the actuarial study do not reflect changes in the liability environment stemming from the OHSU/Clarke case currently on appeal, which has the potential of eliminating limits for all other types of law suits brought against governmental entities within Oregon.

The Workers’ Comp decrease reflects a positive trend for the City through FY 2006. While medical costs have risen substantially over the past few years, the number and severity of Workers Compensation claims have been dropping somewhat, especially over the past three years. This year's actuarial numbers assume the City's ability to continue the trend of reducing incidences of worker injury.

Individual bureau amounts and rates of change may be different than these averages due to your own experience and exposure, which are used for allocating self-insurance program services and variations in the cost/amount of coverage for purchased policies.

Liability (Insurance & Claims Fund)

Findings from the actuarial study for FY 2006 that form the basis of the FY 2008-12 plan include:

- The fund is seeing several overall trends that are neutral for fleet liability and unfavorable for general liability.

  Fleet Liability – While ultimate costs per ultimate claim are generally escalating over time, claims frequency has shown a downward trend. Further, ultimate costs per $1,000 of payroll (or pure premiums) has been fairly stable over the past few years.

- General Liability – Ultimate costs per claim have increased significantly as a result of adverse development on several claims. While evident for FY's 2003 through 2005 claims, particularly jury trials of Kendra James and Liana Reyna it also has had an impact on most of the recent fiscal years. This adverse development translates into higher reserve requirements. The actuarial study in September 2006 revised upward, by over $2.8 Million, the required reserves at the current confidence level for FY 2007 compared to the number arrived at in the previous year's study. The projected claims-related payments for 2007 were increased by nearly 1.8 Million. The following five years adjuster's reserves and forecasted payments were likewise increased proportionately in the 2006 study. The actuarial consultant noted that the last several year's claims experience has pointed to a trend where more claims with higher costs are expected to be typical for the foreseeable future, requiring larger dollars for the reserves even without increasing the reserves' confidence level.

  Primarily, the major elements of the trend include:
  - An increase in claims against the Police Bureau related to use of force.
  - An increase in claims by businesses against the City, questioning the way we do business, particularly in the area of franchise fees.
  - An increase in employment claims, such as constructive discharge, wrongful termination, retaliation, Sex, Race, etc.
  - An increase in the amounts sought and awarded in civil rights claims brought in federal court and which are not subject to monetary limits.
  - An increase in the cost of defending against those claims where the City believes it can prevail.

  Consequently, these trends have translated into higher reserve requirements and higher annual claims payments.

- The fund's reserve requirement at the discounted 60% confidence level is $16,804,676 for FY 2007 and $23,773,255 in FY 2012. Since the actual level of reserves is less than the reserve targets specified by the actuarial study, this deficit will be recovered over the five-year period by annual increases in charges to customers. Therefore, rates for FY 2008 through FY 2012 are projected to increase 22.29% annually.

Other Liability Issues and Changes

Decision Package Involving Reserves and Excess Coverage in FY 2008 - Risk Management is requesting an increase in the liability reserves confidence level and in the excess liability coverage for FY 2008 going forward.

Currently the Liability Fund's claims reserves are based on a 60% confidence level. A 60% confidence level means that there is a 60% probability that the actual ultimate losses for a particular period will not exceed the stated amount. Also, at present, the City has purchased excess liability insurance coverage for claim expenses between $1M and $10M per claim.

The City pays the costs of each claim up to $1M. The current excess coverage then pays for each claim's costs between $1M and $10M.

Risk Management is seeking to increase the liability reserves beyond current service levels, by increasing the confidence level to 70% in FY 08, to 75% in FY 09, and, finally, to 80% in FY 2010. Another objective is to increase the excess insurance coverage by FY 2008 and going forward to cover per-claim costs above the $1M SIR (self-insurance retainage) up to $30M.

Not only has the trend in higher number of claims filed plus higher costs and awards driven this request, but also the recent decision in the Clarke v. OHSU case, which would eliminate tort caps for individual government employees in this state. Prior to Clarke, Oregon law limited the City's tort liability to $200,000 per claimant and $500,000 per occurrence. If the Oregon Supreme Court upholds the Court of Appeals ruling in Clarke, the actuarial basis for our current insurance structure will have to be reevaluated. While the case is pending, the reserve and excess coverage increases requested provide a prudent measure of protection against uncapped damage awards. This would give the City the flexibility to respond to the current claims trends and help to prevent drawing reserves too low or having to request additional funding from bureaus. Such additional funding requests would be on a much larger scale than proposed in this package. Increasing the liability confidence level and the excess liability insurance coverage can provide the City with the assurance in knowing that we can take cases to trial where there is a potential for a large award and when important City interests are at stake and that there are funds available to cover large unexpected losses. Also, for the past few years, the actuarial consultant has been strongly recommending that the City increase its liability reserve confidence level to at least 80%, based on his experience with other local governments.

Workers' Compensation Fund

Findings from the actuarial study for FY 2006 that form the basis of the FY 2008-12 plan include:

- The fund is seeing several trends that overall are favorable. First, while ultimate costs per ultimate claim are generally escalating over time, due to higher medical costs, the number of ultimate claims per current level payroll (or claim frequency) generally has been declining over time. Secondly, ultimate costs per $1,000 of payroll (or pure premiums) appear to be leveling off. These trends translate into lower reserve requirements and reduced annual claims payments.
- The fund's reserve requirement at the discounted 75% confidence level is $11,707,154 for FY 2007 and $16,244,587 in FY 2012. Since the actual level of reserves is greater than the reserve requirements specified by the actuarial study, this excess will be used over the five-year period to annually decrease charges to customers. Rates for FY 2008 through FY 2012 are projected to decrease 6.06% annually.
- This favorable trend is due to effective claims handling, a focus on loss prevention, and a focus on return to work programs.

Other Workers' Comp Issues and Changes

The actuarial reserve targets as well as the projections of ultimate costs and planned payments are all based on the environment in which the Workers Compensation Fund currently operates. As a result, they do not address:

- Increases in the number of claims from recent years' levels
- Changes in the medical condition of claimants.
- Legislation affecting statutory benefits.
- Ballot measures affecting the level of medical costs and/or the range of providers who can deliver compensable services.
- Changes in interpretations of statutes by the courts.
- Shifting economic conditions.
- Claim settlement patterns.
- Internal changes in claims management.

Unknowns such as these are normally addressed by increasing the confidence levels. For the foreseeable future, the Workers' Compensation Fund's 75% confidence level is adequate for providing the City flexibility to address changes in the environment.

Printing & Distribution Services

The following is a discussion of the major financial issues the fund will address over the next five years.

New Technologies

It is important for P&D to keep current with new technologies and their effective application to City business processes. P&D must be able to finance and implement these changes to ensure all customers continue to have the appropriate, cost effective reproduction technologies available when they are needed. The ongoing upgrading and replacement of production and office systems, which the financial plan assumes, will facilitate this effort. P&D has done this well in the past and the fund is recognized for this.

Sustainability

Sustainability issues will continue to grow in importance, with emphasis on increased use of sustainable paper stocks, decreased process waste, and increased effectiveness of print/mail projects. If, in the future, the City chooses to mandate higher levels of recycled content and other environmental criteria, customer bureaus would potentially see additional cost increases.

Full Digital Color

Full color is becoming cheaper and more accessible to bureaus via their copier/printers. When considering the major brands P&D places at bureau locations it is anticipated that within the next two years all newly manufactured office multi-function devices (copier/printers) will be fully color capable at a quality level that should be acceptable for a wide variety of printing projects. The City may no longer be able to buy reliable, major brand, basic black-and-white copier/printers. While this will make the cost of office business quality color decrease, the price of monochrome copies will increase. With that increase and the attractiveness of cheaper color, the result is going to be an overall increase in bureau convenience copier/printer costs.

Focused Review Findings

P&D is currently undergoing a focused review of its services and processes. Resulting recommendations will be incorporated in future budgets.

Aging Technologies

In some areas the City continues to use older technologies, such as traditional microfilm, as a part of its business work flow. Additionally, new archiving requirements will increase the demand for filming for retention along with increasing the requests for scanning hard copy documents to file as a part of that process. The result will be increased capital and maintenance costs, and increased expenditures due to increased volume.

Networking

As the number of electronic service requests continues to increase, and the number and size of digital files also increases, P&D is beginning to maximize the use of its network connections. They will need to be improved to accommodate the continuing increase in network traffic.

Facilities Services

The following is a discussion of the major financial issues the fund will address over the next five years.

Fund reserves

Prior year losses on the rates Facilities Services charged to its customers had decreased operating and capital reserves to less than policy levels. The fund has worked to build up reserves by putting net income from rates and interest earnings into these reserves. At the end of FY 2006, the fund was able to increase the operating reserve to $1,135,000, and the capital reserve $970,000 This was facilitated by net income on the fund's General Fund overhead rate, the same rate that the fund lost money on and that drew down reserves. The fund will continue with this until target levels are achieved. Building these reserves back up to at least the minimum will remain a key financial issue for the next five years.

Due to a change in how the General Fund overhead is calculated, it appears that the Facilities Services fund's transfer has been significantly reduced, and will remain at the current level over the next five years. The fund covers this overhead transfer by charging a percentage on billings to most customers. Although the transfer has decreased, the percentage charged to customers will not be decreased so that the fund can use the extra revenue to build up its operating and capital reserves. Once the reserves have reached an adequate level, the fund will evaluate lowering the overhead transfer.

Major maintenance

The infrastructure assets in the Facilities Services funds are significantly under funded for major maintenance. Facilities Services rental rates now collect only 1.5% of building replacement value each year for major maintenance. This is based on collecting $3.1M per year and assets with replacement values of $202M. Our target, based on industry standards, is 3%. This equates to $6.1M per year. This performance measure is down from 2.2% in previous years. In the past, to hit budget reduction targets or balance the budget when other costs were rising greater than the rate of inflation, major maintenance has been cut. Therefore, the annual major maintenance funding gap for Facilities is $3.0M and this was included in the December 2006 update to the City's assets conditions report. As a result, in Facilities, the accounts don't grow very large and will impact the ability to cover large projects when major systems/ components need replacement. With improved City finances in FY 2007, the fund was allowed to redirect some savings from efficiencies to major maintenance, but the dollar amount was very small ($16,000).

This 1.5% allows OMF to cover immediate needs on the 5 year horizon. This is also enough so that over the 10 year period of FY 2007 to FY 2017 overall conditions aren't expected to decrease from the very broad categories of good, fair, and poor. Contributing to this is the relative low age of these facilities. However, funding major maintenance money at the full 3%, when the large needs come due in 20-30 years conditions may then decrease.

As a result, at some facilities projects will not able to be done and special requests will have to be made in the future to fund projects. This is the case with projects with the Records Center and the Portland Communications Center.

At other facilities, such as the Portland Building, in order to keep the major maintenance account balanced the fund has to push projects to the out years or distribute projects over multiple years.

And, at other facilities, such as Police Bureau facilities, the 1900 Building, and City Hall which are relatively new, the accounts are growing slowly so problems from being behind industry standards won't show up until much later. But, based on the fund's experience with the Portland Building, they will come due.

Since the likelihood of rental rate increases is very low, the best chance for funding major maintenance increases is by directing savings from identified efficiencies toward major maintenance until the 3% goal is achieved. This was begun in the FY 2007 budget process.

1900 Building

Constructed as a central location to house the City's land development and review bureaus and departments, the 1900 Building is seven years old. As outlined in the Downtown Office Space Review in 2006, there are a number of space reconfigurations occurring in the 1900 Building. The Planning Bureau has completed a design and by the beginning of FY 2008 will be moved to new space on the 7th floor of the building. After Planning vacates their 4th floor space, the Bureau of Development Services (BDS) will expand and reorganize that space for their purposes. BDS has also moved the Residential Inspection group from private lease space back into formerly vacant 6th floor space. In addition, BTS has moved some of their operations to the 3rd floor and now occupies about 8,500 sq. ft. in the building. The result of these moves is that the 1900 Building will be mostly occupied.

Police facilities

The Police Bureau completed a Facilities Master Plan in FY 2005. The master plan identified the need for the following over the next 20 years as a result of changing demographics and facility needs.

- Two new precincts – Serving SW and outer SE Portland
- Two new support facilities – Replace property warehouse and construct a training academy
- The replacement of three existing facilities – North and Central precincts and the Traffic Division which is currently in leased space

At the current time only one project from this plan is funded. This is the relocation of the Police Property Warehouse. Originally planned for FY 2007, the Property Warehouse project will now take place in FY 2008. OMF and Police are requesting that additional land sale proceeds of $427,000 be appropriated to the project. When the budget was set at $2M based on an estimated sale price some interior features such as shelving were cut. This

$427,000 would restore these cuts. The overall sales price was $2.6 M so this still leaves $200,000 to go into the Police Bureau's major maintenance account. OMF has put this $427,000 in a decision package for the Council to make a specific decision on since it is an increase to scope and budget, even though funds are available.

Addressing the Traffic Division's facility needs is a high priority for the Police Facilities program. A potential option for the Traffic Division is to relocate to the Penumbra Kelly Building at 4735 E. Burnside Street. Multnomah County is presently assessing whether or not they can relocate their IT operations which is located in half of the Penumbra Kelly Building. The City is interested in purchasing this site from the County if it becomes available. The Police SE Precinct is located in the other half the building. A project estimate has been programmed for FY 2008 to relocate the Traffic Division. The estimated cost is based on the purchase of the 47th and Burnside site and our estimate of the tenant improvements required. The cost estimate for a facility and the scope of any potential tenant improvements for the space are currently very preliminary and would be refined as this project is developed.

Another project that is in preliminary discussion is to establish a Regional Law Enforcement Training Academy that would primarily serve Clackamas, Multnomah, Washington and Yamhill Counties and their 33 law enforcement agencies. The facility would allow for enough space to accommodate an Academic Complex, a Patrol Tactics Training Complex and a Drivers Training Complex, estimated to be about 83,460 gross square feet. This proposal is outlined in greater detail in the Police Bureau Facilities Master Plan dated March 2005. Developing this facility would provide a centralized law enforcement training academy that is currently non-existent in the state of Oregon, as well providing additional benefits further outlined in the Master Plan. An estimate of $18,000,000 from the Police Bureau Master Plan for this project is programmed in the CIP for FY 2008 and FY 2009.

Emergency Operations Center

The Portland Office of Emergency Management (POEM) is looking to consolidate office space and the Emergency Operations Center (EOC) into a new facility. Currently, the POEM staff is located in the downtown leased space and the EOC is at the Portland Communications Center, which in its current configuration cannot accomodate both the POEM staff and EOC as identified in a recent space study.

Identification of geographical factors, such as geologic zones, access needs and technology availability will be the initial task in order to determine appropriate areas for such a facility. This would be followed by research and identification of specific properties within these appropriate geographical areas.

Using information from the recently completed King County, Washington facility and information from a planned Pierce County, Washington facility, and estimated time-frame of 2 years to complete, the estimated construction cost for a 13,500 square foot facility is approximately $500 per square foot. Adding to that soft costs and land acquisition costs brings the estimated total project cost to approximately $10 million. This is a rough order of magnitude estimate that will change as this potential project becomes better defined and more detailed work is completed.

The CIP includes an estimate of $100,000 for planning work in FY 2008 and an estimate of $9,900,000 for construction in FY 2009 and FY 2010.

Portland Building

FY 2008 is the last year of debt service for the Portland Building. In FY 2009, OMF Business Operations will propose to the Council a recommendation for the use of the $2.6 million savings that will come when annual expenses for debt service will no longer be incurred. Options include, but are not limited to, increasing the level of major maintenance funding for the Portland Building, leveling out the rental rates for the Portland Building, 1900 Building, and City Hall, purchasing the 14th and 15th floors of the Portland Building from Multnomah County, or returning savings to the tenants.

Multnomah County holds a perpetual lease agreement that entitles it to occupy the 14th and 15th floors of the Portland Building. The County has expressed an interest in selling its leasehold interest if it is in the best interest of the County and City. Facilities Services is exploring ways to execute this deal if Multnomah County decides to sell its leasehold interest. The County has also expressed a desire to lease the 15th floor at full price after the sale. This would mean that the 14th floor would continue to be available for use by City bureaus. The value to the City would be that adjacent space in the Portland Building would be available for future business needs. In the long-term, this space would be potentially less expensive than leasing space in a non-City-owned building. Any potential purchase of the 14th and 15th floors of the Portland Building and resulting tenant improvements to the space would be programmed into a future CIP.

For FY 2008 the fund will be including in Portland Building rental rates the costs of the meeting rooms. So all meeting rooms in Portland Building, City Hall, and the 1900 Building are now covered under rental rates and are available at no charge to building tenants.

Records Center

In FY 2007 Facilities and the Auditor’s Office have partnered to prepare an analysis of options for addressing the Auditor’s space and facility needs. This was funded by cash the Auditor’s Office had obtained as part of the FY 2007 budget process and resulted in the identification of different options and their costs. These options include renovating the current space, leasing space, purchasing new space, and constructing new space. In the Fall BUMP the Auditor’s Office received additional money to fund the next step of producing a detailed cost estimate, project plan, and financing plan. It is anticipated this will be available in the summer of 2007. The FY 2008 CIP includes a cost estimate for the design phase of the project, based on 10% of the preferred option. Construction is programmed to start in FY 2009. The cost estimate in this CIP is just placeholders to get an order of magnitude of this project. As this project develops, cost estimates will be further refined. And, a proposal for the construction phase, including a recommended financing plan, will be submitted in the FY 2009-13 CIP.

Security

Facility security will continue to be an issue that the fund addresses, especially since increased security puts pressure on rate budgets. The fund is in the process of implementing additional security improvements approved as part of the FY 2006 budget process.

Fire and Rescue facilities construction general obligation bond program

In November 1998, Portland voters supported a facility upgrade for Portland Fire & Rescue. Through FY 2007 this program has renovated 22 fire stations and constructed six new stations. Over the next 3 fiscal years Station 18 will be relocated, Station 45 will be remodeled, Station 21 constructed, and the Station 1 facility will be renovated. By the end of FY 2010 the program will be completed and all objectives of the measure met.

Management of the Portland Fire and Rescue facilities construction general obligation bond program has been a large part of the Project Management program's workload. However, by FY 2010, the workload will be down to the last project and the bond program will be closed out that fiscal year, resulting in a significantly reduced workload for the Project Management program.

As the GO Bond program winds down, the program has two outstanding issues. First, Station 1 was to be relocated several blocks north and partially funded by PDC. The agreement with PDC for this relocation has been terminated due to concerns about cost. The project is now back to the original plan to renovate the facility at 55 SW Ash. This includes seismic improvements and office and living quarter improvements. The termination of the agreement calls for PDC to reimburse the GO Bond Fund for inflation costs during the period of the agreement. The amount of this reimbursement has not been finalized and not yet reflected in the budget amount of $11,676,000.

Second, a new service delivery study has recommended Station 21 be located further west than the site currently held for a new station. The study also recommends the station be jointly operated with Tualitin Valley Fire and Rescue. This project would providing funding for a joint station further west in FY 2009 and FY 2010, but no plans or agreements have been discussed yet with Tualitin Valley Fire and Rescue.

Energy costs

Due to their continued fluctuation, energy costs continue to be difficult to plan beyond one year. The effect of unpredictable energy costs on overall operating costs of the buildings that BGS manages represents a strong reason for the maintenance of reserves and for flexibility within operating budgets to address cost increases.

Union Station

Union Station is owned by the Portland Development Commission and managed through an agreement with the Facilities Services division. The station, with its adjacent undeveloped property, was purchased by the City in 1987. The building dates from 1896 and is on the National Register of Historic Places.

Facilities Services is responsible for maintenance, property management, capital planning, and project management for the station. The term "Union Station" refers to the station building, an annex building, a small switching tower in the rail yard, an empty City fire station, rails 1-4, the rail platforms, and the rail yard.

Union Station houses Amtrak operations, including passenger services, package express, U.S. Mail, and administrative offices. Amtrak is the station's major tenant, renting approximately 39,000 square feet of space, plus significant track, platform, and yard area. In addition, 30 other commercial leases exist in the remaining 25,000 square feet of space available for lease in the building. These private tenants include professional offices, non profit organizations, and a destination restaurant.

The leases, Amtrak and reimbursable expenses generate approximately $1,100,000 in revenue, and operating expenses total around $1,000,000 per year. The net revenues are projected to average $100,000 in FY 2008-12. However, this funding is inadequate to cover the large list of major maintenance projects required to bring the facility up to a good condition.

In 2001, Facilities Services assessed long-term future requirements. The resulting report, the Union Station Facility and Seismic Work Plan, details both the strengths and weaknesses of the existing structure. Most of the stations original features, including the double-hung windows, the extruded metal roofing, the shed dormers, gutters, and flashing are in poor condition simply due to age. However, because of some renovation over the century, the historic integrity of the facility is intact. The total cost of a complete restoration of Union Station is estimated to be approximately $45 million.

In the summer of 2003 ODOT awarded Facilities Services a $1,055,000 grant directed primarily at improving the exterior of the building to prevent water infiltration. This work will meet some of the needs identified in the Union Station Facility and Seismic Work Plan. The construction portion of this grant-funded project will begin and be completed in FY 2006-07. Facilities Services has submitted an application for another grant to continue roof repair and try to prevent further deterioration of the building.

Another option for funding improvements is from the tax increment district that the station is located within.

This year’s CIP identifies no major maintenance projects. The reason for this is first to preserve funds for potential repairs during the year, and second to accumulate enough major maintenance money to finish roof repairs. The single most important issue facing this building is to keep water out and limit further deterioration. Until the roof is water tight, it is not productive to undertake other upgrades.

Parking Facilities

The following is a discussion of the major financial issues the fund will address over the next five years.

- The forecast for the fund's finances over the next five years shows that the fund will be able to provide sufficient net operating revenues to fund the major maintenance program at 3% of replacement value per year and fund reserves at policy-specified levels, as well as fund the following system-wide obligations: annual debt payments for the parking construction debt and for the downtown streetcar construction debt, a $700,000 annual operating transfer to PDOT, and contribution to downtown marketing at $100,000 year. This forecast may change due to the potential redevelopment of 10th & Yamhill. This issue will be resolved in mid-2007.
- Due to the system wide obligations mentioned above (streetcar debt, parking debt, and PDOT operating transfer) along with funding the major maintenance program at 3% of replacement value annually, the Parking Fund is just meeting their financial obligations and does not have the financial capacity to play a major role in any new projects for the near-term.
- General investment in the 10th & Yamhill garage has been suspended while Facilities in partnership with PDC evaluate the feasibility of a major redevelopment of the property. Redevelopment proposals are due in the spring of 2007. Should redevelopment prove to be infeasible, Facilities and PDC intend to return to an earlier plan to rehab the garage by relocating elevator and stairwells, and improving the design and functionality of the retail spaces. The fund has reserved $3.5 million for either the redevelopment project or the retail remodeling. This $3.5 million will come from the Parking Fund's major maintenance account.

The following is a discussion of the revenues forecast.

- External parking revenues are projected to grow by 1.7% annually over the five-year projection. (The parking revenue projection is provided by Star Park each year as part of their management services). The five-year projection includes increased parking revenues due to higher levels of usage and the effects of a rate increase that went into effect on February 1, 2006. Parking revenue is projected to increase from $10.5 million in FY 2007-09 to $11.3 million in FY 2011-12
- External commercial rents are projected to increase by 3% annually
- Internal parking and commercial rents are increased annually by the inflation factors provided by Financial Planning.

The following is a discussion of the expenses forecast.

- Due to a new garage management contract, the fund has been able to save approximately $338,000 annually. In addition, a new attendant/revenue services contract saves $100,000 annually.
- Prior to FY 2004, the Parking System had contributed approximately $650,000 annually to the campaign to promote downtown. Beginning in FY 2003-04, that contribution has been frozen at $100,000 annually.

- The Parking Fund's operating transfer to PDOT will continue to remain at $700,000 annually. This had been as high as $1,389,000 in FY 2002-03.
- The annual debt payment for the downtown streetcar construction has reached a level that will remain virtually flat for the next 18 years. Since the bond sale in 1999, the debt payments for the streetcar have increased each year from a low of $1,603,000 to the relative constant annual amount of $2,091,700.
- The current parking garage debt attributable to the Naito & Davis and 4th & Yamhill garages will be retired in April of 2013. The annual debt service payments drop from $987,375 in FY 2007-08 to $505,375 in FY 2011-12
- As discussed above, the Parking Fund has a 3% target for major maintenance expenditures. In FY 2007-08, $1.5 million is projected in capital expenditures with the remaining balance being placed in a reserve account for future expenditures such as the 10th & Yamhill redevelopment project that will be discussed below.

Spectator Facilities

The following is a discussion of the major financial issues the fund will address over the next five years.

- Over the course of the five-year plan, fund balance is expected to fall from $6.7 million in FY 2007-08 to $5.6 million in FY 2011-12. This is a due in large part to an expected $1 million turf replacement at PGE Park scheduled for FY 2009-10 and a capital program of investing $500,000 annually into the Memorial Coliseum.

  The financial plan includes very modest increases in Rose Quarter revenue over the five-year time span. Should the Portland Trailblazers return to the revenue levels of even three-years ago, the Spectator Facilities Fund could completely pay for all the scheduled capital projects without dipping into fund reserves.

  The Spectator Facilities Fund maintains two reserve accounts : 1) Operating Reserve-The fund maintains a $4 million reserve to insure annual expense obligations can be met should there be a strike or damage to the facilities that would prevent the staging of events. The $4 million consists of $3 million in annual NBA revenues and the annual cost for one year of PGE Park obligations; 2) Capital Reserve-The fund's goal is to have sufficient funds to pay for needed capital improvements at City-owned spectator facilities including Memorial Coliseum, PGE Park and the Rose Quarter parking structures. The long-range goal is to have a $10 million capital reserve which reflects the costs to upgrade the Memorial Coliseum and address the long-term capital needs of PGE Park.

- The Memorial Coliseum continues to be operated by the Portland Arena Management (PAM) and the City has no operating responsibilities or operating liability for the facility. The building is over 40 years old and capital improvements are a City cost. Previous studies concluded that $7-$10 million in capital improvements is needed to continue to operate the facility as a spectator venue. This financial plan includes a program of reinvesting $500,000 annually into the Memorial Coliseum to improve the appearance and reliability of the facility under the assumption that it will remain in its current use for the next several years. Major projects being considered are roof replacement, painting of the concourse ceiling, and a new curtain wall that wraps around the arena bowl.

- Potential reuse options for the Memorial Coliseum were studied in 2002-2004 and a viable option for a major change in use did not materialize. Since 2004, the Memorial Coliseum has seen increased usage under the new owner/management group at the Rose Quarter. The additional investment in the Memorial Coliseum is intended to insure the viability of the building for the foreseeable future.

- In late 2005, the Pacific Coast League and the City entered into a new agreement for the operation of PGE Park. Over the five-year term of the agreement, the city expects to receive a total of about $5.8 million in revenue. The new agreement runs through 2010 and may be extended until 2012. Transfer of the agreement to a new ownership group, Portland Baseball Investment Group (PBIG), was approved by the City in early 2006. The agreement provides for the Portland Beavers, Portland Timbers, and Portland State Vikings to continue playing their home games at the park.

The following is a discussion of the revenues forecast.

- User Fees – The City collects a 6% user fee on all tickets sold at the Rose Quarter and PGE Park. User fee revenue is projected to increase by $100,000 per year over the course of the forecast. This increase in expected due to more event bookings at the Rose Quarter by Global Spectrum, higher ticket prices, and a very modest improvement in Portland Trailblazer revenue.
- Parking Revenues – The City receives parking revenue from the two City-owned parking garages and one surface lot at the Rose Quarter. Parking revenue is expected to increase from $1.2 million in FY 2007-08 to $1.5 million in FY 2011-12.
- VDI Revenue – By agreement, a portion of the Visitor Development Initiative (VDI) revenue is used to pay PGE Park debt service. In 1999, the County imposed a new 2.5 percent tax surcharge on transient lodging and vehicle rentals for a variety of projects, including the renovation of PGE Park. This payment to the Spectator Facilities Fund decreases at four percent a year to match the intended four percent annual increase in the license fee payments from the original PGE Park agreement.
- Rents and Reimbursements – Under the PGE Park operating agreement, the operator of PGE Park pays the City a rental fee for use of the stadium. This rental fee makes up the majority of the rental income the Spectator Facility Fund receives. (The rental income is a fixed amount agreed upon in the PGE Park Operating Agreement). Other rental income is derived from the Entertainment Complex and Plaza at the Rose Quarter.

The following is a discussion of the expenses forecast.

- Debt Service – Debt service is the largest expense of the Spectator Facilities Fund. The Spectator Facilities Fund was recently able to refinance all the outstanding debt for the Rose Quarter. This refinancing is reflected in the five-year forecast. The projected total debt service in FY 2007-08 is $5,866,221 and will increase at a rate of approximately 3% until FY 2011-12.
- Internal Services – Internal service costs such as salaries, rent, PGE Park insurance, and administrative overhead are projected to increase at approximately 3.6% annually per the OMF inflation factors.
- Miscellaneous Services – Miscellaneous service expenditures consist of the following items in FY 2007-08:
    1. A directed wage program at PGE Park ($150,000)
    2. Rose Quarter parking expenses ($300,000)

3. PGE Park East County VDI Reimbursement ($80,000)
4. Other Miscellaneous ($20,000)

- Capital Outlay – The Spectator Facilities Fund has budgeted $500,000 annually to address necessary improvements to the Memorial Coliseum. (This will be discussed in more detail below). In addition, $1 million is budgeted in FY 2009-10 for turf replacement at PGE Park.

Health Insurance Fund

The following is a discussion of the major financial issues the fund will address over the next five years.
The City has engaged in ongoing efforts to moderate its health plan cost increases. In FY 2003, the City reduced its self-insured and insured plan costs through benefit design changes. The overall plan redesign resulted in the implementation of CityCore, in which all employees receiving benefits through the City's self-insured plan are enrolled (except the Portland Police Association). An optional City Premium was eliminated in FY 2004 due to its costs and an employee premium share requirement was implemented.

The implementation of the benefit plan redesign and other actions extended the period during which the Health Fund Reserves were used to make up the difference between the combined City and employee contribution share and the total costs of the medical, dental and vision benefits. The ending fund balance in FY 2006 was $7.9 million of which $3.7 million is for required IBNR and large claims reserves while $4.2 million is unallocated.

The benefit design changes were effective in moderating plan expenditures. Nonetheless, cost trends continue to increase. New efforts related to employee education and wellness strategies were initiated to reduce the increases.

A number of labor contracts expired June 30, 2006. If no action was taken, employees covered by these agreements would have been responsible for the full difference between the City's contributions and the cost of the plans in FY 2007. Some unions already had negotiated a 5% premium share for 2007. Building upon these efforts, a number of contracts were negotiated with the cornerstone agreement that the City, its unions and other stakeholders would enter into a collaborative process to develop a citywide wellness plan that has the goal of reducing the City's health care trends by 3% to 5% by 2009-2010. During this period the City will contribute 95% of the combined medial, vision and dental costs. Employees will pay 5%. Reflective of its commitments under the agreements, the City also added a new wellness program coordinator to help with the new program design, implementation and evaluation.

AON Consulting is assisting the City in its wellness plan design by assisting in the development of baseline data and in the preparation of the annual five-year forecast. It is important to note that the forecast is based upon a number of assumptions that may not remain static over a five-year period. As a result, the actual fund balance is expected to vary from what is projected below.

<u>Overview of Results</u>
In FY 2007, it is estimated that City Health Fund plan expenses will reach $32.8 million. It is the policy of the City to ensure that the City Health Fund maintains sufficient reserves to make sure that incurred but not reported (IBNR) requirements are covered and that monthly claims obligations are met. The City purchases stop-loss coverage for both the non-PPA and

PPA to cover the costs associated with large claims. The coverage applies to claims over $250,00 for the non-PPA and $100,000 for the PPA.

<u>Projection Methodology</u>

<u>Activities conducted in support of the projection:</u>

1. Projected the cost of the City's benefit program for the remaining years in the fund forecast. Consideration was given to medical and prescription drug cost trend increases, migration between plans over the forecast period, and adverse selection. In addition, the forecast incorporates adjustments to administration and vendor fees and IBNR reserves based upon actuarial calculated reserve targets.
2. Insured Plan rates were projected forward using carrier anticipated trend rates.
3. Fund sources of contribution and revenue were calculated.

<u>Overview of Forecast Assumptions</u>

<u>This financial forecast makes several overall assumptions:</u>

1. Slightly more than 80% of the City's employees participating in the self-insured plan are in the redesigned health benefits plan (CityCore) for FY 2007.
2. As of September 2006, the City's self-insured CityCore program has 3009 employees and COBRA enrollees, excluding dependents, and the City's non-PPA insured program has 701 employee and COBRA participants. Overall active enrollment is expected to be stable each year over the forecast period although there may be shifts to the Kaiser HMO plans. The retiree enrollment may grow due to the age of the current workforce. There are 495 retirees in CityCore and 407 enrolled in Kaiser.
3. For the forecast period, it is assumed that the number of retirees will increase each year by 5%.
4. Plan participant migration between plans will be low after July 2007.
5. The total number of "opt-outs" for the non-PPA is assumed to remain at a level of 170 for the entire forecast period.
6. An annualized weighted average medical trend of 11.5% and an annualized prescription drug trend of 10.0% were utilized to calculate the current medical claim projection for the CityCore plans.
7. Plan administrative fees consist of third-party administrator, preferred provider network access fees, other contracted support services (e.g. utilization review), and bureau internal costs.
   - The ODS Health Plan Medical Administration Fee is calculated at $18.81 per employee per month (PEPM) for FY 2006-07 and is increased for the remaining forecast years by 4.5% per year.
   - The average panel fee for MHN and ODS/CCN is calculated to be $2.31 PEPM.
   - The PEPM administration charge for Caremark is estimated to be $.53. This is increased by approximately 5% beginning in FY 2006-07.
   - The PEPM City fee charge is estimated to be $23.10 and is assumed to increase by the Medical CPI for future years.
   - The Oregon Medical Insurance Pool fee imposed by the State of Oregon is estimated to be $4.24 per employee per month in FY 2007. For the purposes of

this forecast, future year projections are increased by the medical CPI. However, the OMIP fees have varied considerably over time.

8. The Insured plan rates have been projected forward using the carrier reported trend. Kaiser Medical and Vision rates are trended at 11.1%for non-PPA for 2007-08 and each year after. ODS Dental rates are trended at 6.7% each year, starting in 2007-08. Kaiser Dental is trended at 4.8%for non-PPA each year, starting in 2007-08. VSP Vision rates are trended at 6% beginning in 2007-08.
9. The City's contributions are the primary source of revenue to the Health Fund.
10. Primary miscellaneous sources of revenue include investment earnings, Flexible Spending Account residual forfeitures, prescription rebates and excess "opt-out" revenue deposited into the fund. Interest earnings have been trended based upon the City's estimated rate of investment returns. All other categories of miscellaneous revenue have been projected based upon historical experience.

The following projection starts with the baseline fiscal year of 2007. The aggregate benefits cost for this year reflects benefits in effect on July 1, 2006 that continue through June 30, 2007. The impact of trends and insured rate changes are carried forward from FY 2007 through FY 2011. As noted above, premium sharing was introduced in FY 2004.

Reserves

The IBNR reserve is held by the City and included in the Health Plan Fund to cover the cost of claims incurred during the active life of the self-insured plan, but presented for payment after the plan terminates. It was determined that an incurred but not reported reserve of 11.04% of paid medical claims and 4.0% of paid prescription claims in each year is adequate to maintain a financially sound and fiscally prudent reserve level.

City Contribution to Health Care Premiums

As noted above the City negotiated a numbers of contracts effective July 1, 2006 during which the City will contribute 95% of the combined medical, vision and dental costs. Employees are responsible for 5% of the total. This new model reflects that the Health Fund's excess reserves were insufficient to cover the "cap gap" between City contributions and employee premium share.

Portland Police Association Health Insurance Fund

The following is a discussion of the major financial issues the fund will address over the next five years.

The PPA Health Insurance Fund, administered by Bureau of Human Resources, was new in FY 2005 and is intended to pay medical claims for PPA City employees, dependents, retirees, and other participants in the self-insured medical plan associated with the group.

The PPA fund was established as result of an interest arbitration award that separated the PPA from the City Health Fund.

PPA Health Insurance Fund expenses include claims, claims administration, premium administration, preferred provider contract fees, utilization management fees, large case management fees, benefits administration costs, and General Fund overhead charges. Benefits administration staff and related materials and services are budgeted within the Health Fund. The PPA Health Insurance Fund reimburses the Health Fund for benefits administration services.

The PPA Health Insurance Fund supports the PPA members' CityNet health Benefits Plan.

Assumptions

The financial forecast makes several assumptions:

1. The PPA Health Fund, established for the separate Portland Police Association health plan, covers 701 active and COBRA enrollees in the CityNet self-insured plan. There are 195 retirees also enrolled. The PPA enrollment in Kaiser consists of 208 active and COBRA enrollees and 155 retirees.
2. Net plan participation migration is expected to be moderate .
3. The total number of opt-outs is expected to remain stable at a level of 12.
4. For the forecast period, it is assumed that the retirees will increase by 5% per year.
5. An annualized weighted average medical trend of 18.0% and an annualized prescription drug trend of 10.0% were used to calculate the medical claims trends. These trends are reviewed annually.
6. Plan administrative fees consist of third-party administrator, preferred provider network access fees, and bureau internal fees.
   - The ODS Health Plan Medical Administration Fee is calculated at $18.81 PEPM for FY 2006-07, increasing for the remaining forecast years by 4.5% per year.
   - The average panel fee for Managed Healthcare Northwest (MHN) and ODS/CCN is calculated to be $1.86 PEPM.
   - The PEPM administration charge for Caremark is estimated to be $.50. This is increased by approximately 5% beginning in 2006-07.
   - The PEPM City fee charge is estimated to be $23.10 and is assumed to increase by the Medical CPI for future years.

- The Oregon Medical Insurance Pool (OMIP) fee imposed by the State of Oregon is estimated to be $4.24 per employee per month in FY 2006. For the purposes of this forecast, future-year projections are increased by the medical CPI. However, the OMIP fees have varied considerably over time.

7. The Insured plan rates have been projected forward using the carrier-reported trend. Kaiser Medical and Vision rates are trended for 10.9% for 2007-08 and each year after. ODS Dental rates are trended at 6.7% each year, starting in 2007-08. Kaiser Dental is trended at 4.8% each year, starting in 2007-08. VSP Vision rates are trended at 6% beginning in 2006-07. These trends are reviewed annually.

The projection starts with the baseline fiscal year of 2007. The aggregate benefits cost for this year reflects benefits in effect on July 1, 2006 that continue through June 30, 2007. The current plan designs and insured rate changes are carried forward from FY 2007 through FY 2012. Premium sharing was introduced in FY 2004-05.

Reserves

The IBNR reserve is held by the City and included in the PPA Health Insurance Fund to cover the cost of claims incurred during the active life of the self-insured plan, but presented for payment after the plan terminates. The IBNR reserve for FY 2007 is $765,316. The City purchases large claim stop loss coverage for the PPA, the cost of which is included in the PPA self-insured plan rates.

City Contributions to PPA Health Insurance Fund

The City's contributions are the primary source of revenue to the PPA Health Insurance Fund.

Revenue Bureau

The following is a discussion of the major financial issues the fund will address over the next five years.

Financial Forecast for FY 2008

The Revenue Bureau will undergo significant changes in FY 2008. The Utility Customer Services Division was transferred to the Water Bureau via the Fall 06-07 Budget Monitoring Report. This transfer includes approximately 121 positions and $9,863,229. In addition, administration of the Multnomah County Personal Income Tax (ITAX) Program will be scaled back in FY 2008. As a result the Revenue Bureau is projecting an operating revenue shortfall in FY 2008. In the future the Bureau anticipates negotiating with Multnomah County for resources in support of minimal staff for final collections and audit.

Utility Customer Services Transfer

The City Council decided to return the Revenue Bureau's Utility Customer Services to the Water Bureau October 11, 2006 for the following reasons:

> Utility Customer Services was brought into OMF to ensure the successful implementation of the new Cayenta billing system, while also strengthening relationships with customers and the community.
>
> OMF recently completed the successful implementation of Cayenta. The new billing system is expected to generate efficiencies and future savings. In addition, under OMF Management the customer services group also found significant savings in its operating budget.
>
> The Water Bureau, under the leadership of Commissioner Leonard has undertaken a concerted effort to improve its relationship with its customers, it was of the Mayor's belief that the Water Bureau will now benefit from the reintegration of it's customer services function which was formally within the Revenue Bureau.

Financial Issues

The Revenue Bureau via the Fall BuMP requested and received restoration of three positions. The positions are Administrative Supervisor I, and two Office Support Specialist II's. In addition to these positions the Revenue Bureau received $91,968 in lost overhead revenues to backfill management costs. Total General Fund Appropriation received was $236,516. It should be noted that General Fund Discretionary in the amount of $344,827 was originally reduced with the creation of the Revenue Bureau. The Revenue Bureau only requested $236,516 in return due to other efficiencies created within the bureau.

Multnomah County Income Tax – End of funding by June 2008

A significant component of the revenue collection work is the three-year ITAX program, which is 100% funded by Multnomah County. The ITAX revenues constitute approximately 13% of the Revenue Bureau's current operating revenues. In FY 2006, there were 35 FTE budgeted as fully allocated to the ITAX program. In FY 2007, the total budgeted staff was reduced to 24 FTE fully allocated to the ITAX program. In addition, there are 6 FTE partially allocated to the ITAX program (City administrative and management staff supporting the program).

The ITAX program is scheduled to sunset after the 2005 tax year. Although collections will continue into FY 2008, staffing will be significantly reduced. During FY 2007, there was a reduction in staff capacity as vacated positions were eliminated. The bureau anticipates complete phase out by June 2008 with a staggered elimination of the limited term positions fully allocated to the ITAX program. The major financial impact will result from the reduction in revenues from the County for the 6 FTE partially allocated to the program (and previously funded by the General Fund). In addition, there will be an impact for space rental/facilities expenditures currently paid for by the County. The anticipated shortfall in Fiscal Year 2007-08 is projected to be $220,000 as support from City administrative and management staff is reduced. There will be an additional shortfall in Fiscal Year 2008-09 of approximately $250,000 as support is further reduced and space vacated. These estimates may vary considerably depending on the outcome of negotiations between the City and County.

Extension of the Business License Surcharge – End by June 2009

The original sunset of the Business Licenses Surcharge Fund was scheduled to be June of 2007. However, Business License Surcharge has been extended per ordinance adopted by City Council during 06-07 Adopted Budget process by an additional two years.

The administration of the Business License Surcharge Fund has provided $304,736 in revenue each year from FY 2004 and FY 2005, and $312,324 in revenue for FY 2006. In FY 2007 the fund provides approximately $256,000 in revenues to the Revenue Bureau. The revenue provides funding for additional collection staff, increased technology and programmer support, and increased printing expenses for collections efforts for the bureau. The Business License Surcharge is scheduled to terminate upon final payment to schools in June of 2008. The Business License Surcharge will fund bureau administration costs through FY 2008-09 for final audit and reconciliation.

A Revenue and Taxation Specialist III collection position was eliminated during the Adopted FY 2006-07 based on the termination of the surcharge and e-commerce efficiencies. However, the increased technology and programmer support and increased printing costs for collection efforts are functions that will be required to continue to achieve the efficiencies expected of the Revenue Bureau. In order to maintain service levels, it is projected that the end of the Business License Surcharge will create an additional revenue shortfall for the bureau of $256,000 beginning in FY2009-10.

<u>Financial Forecast and Possible Funding Solutions</u>
The Revenue Bureau projects a cumulative operating revenue reduction of approximately $470,000 by FY 2009 as the ITAX program is terminated and of approximately $256,000 in FY 2010 as the Business License Surcharge is terminated. **The following potential solutions have been identified:**

- Decrease expenses through efficiencies.
- Increase revenue from Multnomah County to fund MCBIT enhanced revenue collections activity.
- Explore other local tax and license collection possibilities (Tri-Met, other city business licenses, etc).
- Increase General Fund Discretionary revenue.
- Increase e-commerce efficiencies and encourage taxpayer adoption to allow elimination of staff required for data-entry of tax information. This would require full implementation of E-File and could result in elimination of up to 3-4 FTE for savings of $210,000 - $280,000.
- Possible revenue collections for PDOT and the Fire Bureau.

It is unlikely that any single approach will cover the entire projected operating revenue gap. Unless there is wider adoption of the e-commerce capabilities available to taxpayers, it is likely the bureau will need to decrease expenses through efficiencies or request additional general fund discretionary appropriation to maintain current service and collection levels.