

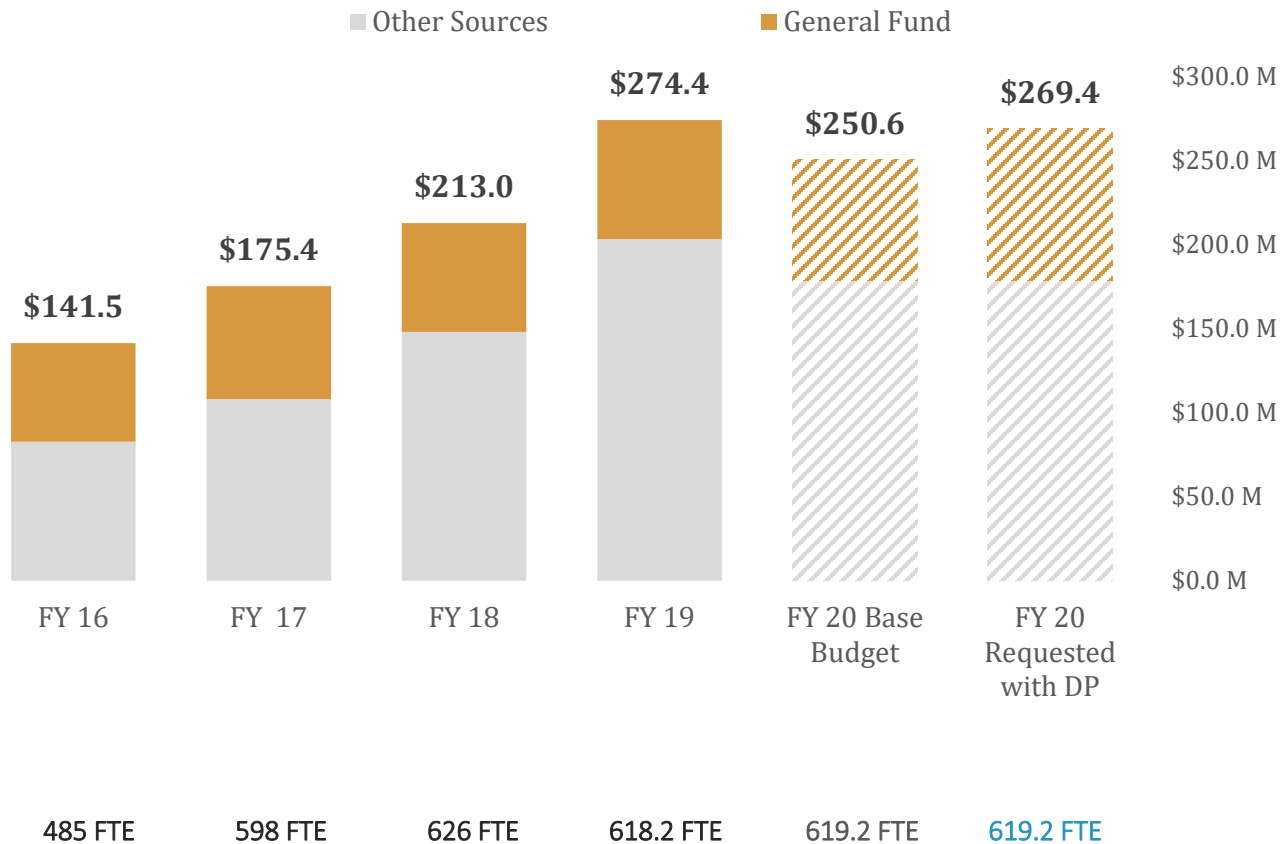


**City
Budget
Office**

Portland Parks & Recreation

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Adopted Budget Revenues - 5-Year Lookback



INTRODUCTION

The Portland Parks & Recreation (PP&R) FY 2019-20 Requested budget submitted February 4th, 2019 included a \$6.3 million budget gap between projected revenues and expenses. The bureau is working to balance projected expenses with projected revenues by working with internal staff, the PP&R budget advisory committee (BAC), and Council to evaluate a series of gap-closing scenarios that will likely reduce service levels, lower staff levels, and lower projected spending. There are several factors that contributed to this budget shortfall, which fundamentally relate to bureau expenditures outpacing actual revenues for the past several years. While the bureau has submitted balanced budgets each year, in two of the past four years the bureau requested

additional mid-year General Fund support to prevent estimated year-end over-expenditures; recognizing these shortfalls, Council has allocated \$1.9 million from General Fund contingency in the supplemental budget processes. However, the bureau has in each year been able to close their projected shortfalls either by relying on vacancy savings, meeting revenue targets, reducing expenditures, or implementing one-time methods that allowed the bureau to end the year within its allocated General Fund budget appropriation.

Finance staff within PP&R and the City Budget Office expressed concerns about personnel cost increases and/or non-cost recovering practices in several budget reviews over this timeframe, highlighting to bureau leadership and Council the need to align projected fee revenues with projected spending and/or better define core services to identify where program reductions should occur. Specifically, the addition of General Fund resources and FTE for the Local 483 Arbitration Settlement and the minimum wage required that recreation fees increase to support the reduced flexibility in Parks' business model. Previously Recreation staff could reduce or increase seasonal hours in response to demands for classes and programming but after the transition to permanent positions there was less flexibility to decrease costs if revenue targets fell short. Concurrently, during this timeframe, the bureau was required to submit General Fund reduction options as part of budget guidance, which may have contributed to the challenge in solving for the growing structural issue within their base budget.

PP&R had previously handled structural deficit issues with one-time strategies, but in December 2018 building the FY 2019-20 budget—it became clear that the budget gap was too large to handle with one-time strategies any more. These budget issues also coincided with transitions in bureau and staff leadership which led to further complexity in the budget timeline. To provide the bureau additional time to balance its requested budget, CBO and PP&R have agreed that the bureau will make additional adjustments to its budget by March 9th. Once the balanced requested budget is submitted, CBO will analyze proposed changes in its base budget. Specific consideration will be given to the following areas:

- Revenue increases in comparison to personnel costs
- Assumptions around projected personnel costs
- Impacts of the proposed reductions on the long-term financial sustainability of the Parks
- Impacts on core services, particularly in historically underserved communities

CBO will make available these findings in a subsequent analysis later on in the budget development process. In this review, CBO is providing analysis of Parks' capital set-aside requests and two directions to develop submitted with the FY 2019-20 Requested budget.

CAPITAL SET ASIDE

Per the City financial policy, at least 50% of any excess ending General Fund balance and 50% of any one-time General Fund resources available in the annual budget development process is

dedicated to major maintenance and replacement of existing assets. These funds are not intended to provide new services.

Since FY 2015-16, PP&R has received \$12.8 million or 20% of the total \$64.7 million allocated in Citywide capital set-aside funding. The 2016 Citywide Assets report noted a major maintenance funding gap of \$472 million that would require \$25.8 million per year over the next ten years to close the level-of-service gaps citywide. Sourcing an annual revenue stream for major maintenance and replacement outside of the capital set-aside process is essential to maintain the existing infrastructure in the system. Currently, PP&R is dependent upon ongoing O&M funds being approved in concert with new park construction.

Capital Set Aside Request for Pittock Mansion Road, O’Bryant Square, and Forest Park

\$12,500,000, 0.00 FTE

Decision Package Language

PP&R is requesting \$12.5 million in one-time capital set-aside resources to fund maintenance for three assets: Pittock Mansion Road, O’Bryant Square, and Forest Park.

- The Pittock Mansion Road portion of this request is for \$1.0 million to stabilize the most hazardous slopes above below NW Pittock Drive, spot-widen the road to two-width, stabilize the roadbed, improve drainage, and strengthen pavement system to withstand current and expected usage volumes. Funding this request would initiate the first phase of road stabilization, focusing on the most hazardous slopes above NW Pittock Drive.
- O’Bryant Square is an urban park located in Portland’s downtown core. This portion of the request is for \$9.0 million to revitalize the park.
- The third project is a \$2.5 million request to replace failing culverts at Forest Park.

CBO Analysis

Included within this request is \$1.0 million to repair the Pittock Mansion Road. These funds would support Phase I of the maintenance necessary repairs required to stabilize the slopes above NW Pittock Drive, strengthen the pavement system, and expand the road to two-lane width. This project ranked 20 of 25 in the capital set-aside rankings. Due to criticality and risks of other projects, relative to this project, CBO does not recommend funding.

Also included in this request is funding for \$9.0 million to support the redesign and re-opening of O’Bryant Square. In March of 2018 O’Bryant Square was closed following a Portland Bureau of Transportation (PBOT) commissioned structural assessment, which indicated that site’s underground parking structure was at ‘imminent risk of catastrophic collapse.’ In order to maintain compliance with the requirement of the Land and Water Conversation Fund grant requirements, Parks committed to a redevelopment process that would maintain the area above the structure as a public and open space, and expand uses on the site so that it better serves the

needs of a densifying downtown Portland.¹ To date, the bureau has committed \$1.5 million in SDC funding to perform scoping, feasibility, and preliminary design studies for the portion of the re-development work that will add capacity to O’Bryant Square. This project ranked 8 of 25 in the capital set-aside rankings. Due to criticality and risks of other projects, relative to this project, CBO does not recommend funding.

Lastly, PP&R requested funding of \$2.5 million to fund the repair of critical infrastructure at Forest Park. This project ranked 4th on the list of capital set-aside projects, primarily due to the amount of residents served by Forest Park and need to repair key arterials within the park so that service vehicles can maintain the park and so that emergency vehicles can access popular trails and locations within Forest Park. In FY 2018-19, this project ranked 7th on the list of capital set-aside projects and was funded at 50% of full cost. This request will provide the additional funding to complete the project and allow for restored access to roads, trails, and bridges that will improve safety and emergency response. CBO recommends funding for this request.

CBO Recommendation: \$2,500,000 one-time

Energy Saving Pilot Contract Implementation

\$4,750,000, 0.00 FTE

Decision Package Language

In March 2017, City Council approved Portland Parks & Recreation’s plan to initiate a pilot Energy Savings Performance Contract (ESPC)² feasibility study, which aims to reduce utility consumption, deferred maintenance, and emergency and demand maintenance work orders, allowing staff to focus on preventative work orders.

Council awarded the ESPC in January of 2018 and the bureau funded the feasibility analysis phase for \$150,000 with internal resources. Per terms of the current contract, the City should initiate the implementation phase of the project by December 2019.

Service Impacts. As part of the ESPC, energy-inefficient lighting along pathways in parks will be replaced by energy efficient LEDs that also provide better lighting, improving the nighttime safety in these areas. The project also includes the installation of new irrigation wells, and as a result, could improve the quality of turf in East Portland parks. By making these improvements, this contract would help Parks to reduce waste production, resource use, carbon emissions, lower greenhouse gas emissions, and reduce the amount of water and wastewater Parks generates.

Equity Impacts. Pathway lighting, interior lighting, heating ventilation and air conditioning, irrigation, and other systems at approximately 29 sites were selected with consideration for the

¹ The LWCF grant restricts the future use and disposal of the property to the following options:

1. Transfer it to another public-sector entity that will maintain it for recreation purposes
2. Redevelop the park
3. Declare that a conversion has occurred, and find a replacement property, or
4. Lease/license the property consistent with the grant terms.

² The pilot project between Parks and McKinstry kicked off March 6, 2018 and would focus on identifying efficiencies in approximately 15% of Park’s properties. <https://www.mckinstry.com/2018/03/06/mckinstry-kicks-off-pilot-energy-project-with-portland-parks-recreation/>

percentage of diversity, youth and poverty in the neighboring area. The project implementation will include DMWESB contractors if possible.

CBO Analysis

PP&R is requesting \$4.8 million in one-time capital set-aside resources to for ESPC pilot implementation. In FY 2017-18 and FY 2018-19 Parks requested \$500,000 in one-time General Fund resources to the initial contract costs for the ESPC, which would finance energy retrofits with utility savings.

This package represents a scalable solution to increasing maintenance and operations costs, implements efficiencies and focuses one-time requests on investments that decrease the City's long-term costs. However, given the limited availability of one-time resources, and the low ranking of this project in the capital set-aside ranking, CBO does not recommend this request.

CBO Recommendation: \$0 one-time

DIRECTIONS TO DEVELOP

During FY 2019-20 budget development Parks received two directions to develop. The first direction-to-develop, 'Major Maintenance,' directs the bureau to request \$500,000 pursuant to the FY 2018-19 budget note that directs Parks to request additional \$500,000 annual increases to Parks' Capital Fund CAL target for the next five years.³ In addition, the Commissioner-in-Charge directed the bureau to request additional funding as necessary to responsibly address the bureaus most urgent needs. The bureau has requested \$675,000 for major maintenance funding for FY 2019-20.

Major Maintenance

\$675,000, 0.00 FTE

Direction Language

During the FY 2018-19 budget process, City Council voted to, "direct the Portland Parks & Recreation bureau to request ongoing funding of \$500,000 for major maintenance needs in each budget process until a level of funding is achieved that is sufficient for addressing the bureau's regular, scheduled maintenance needs. Council will make the determination each year whether to fund this additional allocation with new or realigned resources."

Council strives to develop a fiscally sustainable parks system. Efficient investment in parks assets allows the bureau to extend the life of the assets while minimizing the frequency of repairs and replacements.

Council directs the bureau to request \$500,000 pursuant to the FY 2018-19 budget note. Further, the Commissioner-in-Charge directs the bureau to request additional funding as necessary to responsibly address the most urgent needs.

³ Budget Note: Increases to Parks' Major Maintenance Funding. Page 226.
<https://www.portlandoregon.gov/cbo/article/694030>

CBO Analysis

Serial one-time investments are unpredictable and lead to an asset management approach where assets on the verge of failure are funded first while preventive work that reduces long term costs goes unfunded. While these sources are effectively used to address pressing needs, this funding approach to asset management is not cost efficient. Without contributions to major maintenance, PP&R assets will continue to deteriorate and require more costly repairs. In addition to requesting capital set-aside resources, PP&R must continue to plan to obtain other resources and implement mitigation strategies to effectively maintain their assets.

Even with the approval of the \$68.0 million Parks Replacement Bond and the \$2.4 million in additional annual major maintenance appropriation, PP&R faces a significant gap in major maintenance funding. To sustain the current condition of all assets, which is estimated at approximately 50% in fair or better condition, an additional \$10.0 to \$15.0 million dollars per year would be needed. The funding needed for capital maintenance of the existing asset base over a 10-year forecast is over \$450.0 million, of that amount Parks estimates \$370.0 million is currently unfunded.

Asset maintenance has been exacerbated by the overall systemwide expansion and increasing annual growth of PP&Rs' asset base. As such, the bureau faces a maintenance backlog that effectively limits the capacity of maintenance work to urgent or emergency repairs. With 72% of backlogged work orders overdue by 252 days, the bureau's capacity to respond to work orders in a timely fashion increases maintenance costs as daily maintenance resources are spent responding to failed or failing assets.

Given the limited resources and the vast infrastructure needs of the City, it is incumbent upon the bureau to develop a major maintenance and replacement funding plan and adopt sustainable service levels with the explicit goal of operating and maintaining a park system that can be maintained indefinitely within the resources allocated. This funding should complement other strategies in addressing the bureau's major maintenance gap, including the internal reallocation of resources, the divestment of assets, and periodic General Obligation bonds. To that end, a FY 2018-19 budget note directed Parks to request additional \$500,000 annual increases to Parks' Capital Fund CAL target for the next five years. The bureau has requested \$675,000 for major maintenance funding for FY 2019-20.

To date, the bureau has not presented a funding plan to address the overall major maintenance gap, identified during the FY 2018-19 budget process as approximately \$450.0 million. Further, the bureau has not provided indication of its other strategies in place to address the gap, how it will internally reallocate resources, and what assets it is planning for disposition. To that end, there is a clear need for an updated asset divestiture policy. In the FY 2018-19 budget process the bureau indicated that it had identified surplus assets that would reduce near term major maintenance obligations by \$13.0 million. To date there have been no updates on these plans.

The bureau would use the requested \$675,000 in ongoing General Fund will address the following major maintenance concerns in the upcoming budget year:

- \$500,000 would be allocated to Columbia Park Restroom A.

- \$100,000 will be prioritized to continue to support emerging and urgent Health, Safety and Environmental (HSE) work in collaboration by the bureau’s HSE and maintenance programs.
- \$75,000 of this funding will be used to upgrade security elements, such as security cameras, security lighting or lockdown, as funding permits, at recreation community centers.

CBO recommends funding \$500,000 for this request, in line with the original Council-directed budget note. These resources are critical to the financial sustainability of the bureau and the City and will help with maintaining intergenerational equity of service. If not funded, the bureau’s major maintenance costs are likely to increase as a greater proportion of assets near failure. Moreover, CBO finds that these costs cannot be absorbed within the bureau’s current appropriation without resulting in significant negative impacts to other citywide financial or legal obligations or to other core City services [cite any trade-offs considered and analyzed]. CBO notes that, given the size of the annual funding gap, the bureau clearly has a need for resources even beyond this allocation. CBO recommends that the bureau complete and present a comprehensive plan with strategies to address the overall major maintenance gap for Council consideration.

CBO Recommendation: \$500,000 ongoing

Operations & Maintenance of New Assets

\$891,694, 0.00 FTE

Direction Language

City Financial Policy 2.03.02 directs bureaus to request the full amount necessary for operations and maintenance of new assets in their annual requested budgets. Portland Parks & Recreation is directed to develop a funding plan, and request funding, for the full cost of operations and maintenance of new assets that will be contracted for or constructed in FY 2019-20.

This direction-to-develop requests \$891,694 in ongoing General Fund discretionary resources and includes 38 projects that are currently being constructed or planned for construction in FY 2019-20. This proposal will assist the Bureau with reaching a strategic goal of providing safe, functional and reliable recreation experiences through effective management and maintenance of all park facilities.

Category	Sum of O&M Requested
Acquisitions	\$43,384
Amenities	\$151,971
Bridges	\$211,621
Buildings	\$132,236
Developed Parks	\$173,656
Gardens	\$65,353
Playgrounds	\$96,812
Trails	\$16,661
Grand Total	\$891,694

CBO Analysis

Parks is requested \$891,694 in O&M funding to fund 38 projects that are planned for construction. The request includes: nine new acquisitions, eight amenities, five new buildings, four gardens, four playgrounds, and eight trails. According to PP&R, these projects are either complete or nearing completion and factoring in sunk costs, the bureau would not hold off on

moving forward with the projects if O&M funds were not provided.

CBO notes that the City's financial procedure (FIN 2.03.02) intends to ensure that there is sufficient operations and maintenance funding for new assets while also giving Council the flexibility to provide direction on projects during the budget process and prior to approval of construction contracts. CBO has concerns that by proceeding in building new assets without secured O&M costs, PP&R has placed Council in the challenging position of having to fund this request or direct the bureau to absorb these costs, thereby lessening the operation and maintenance service levels across the parks system. Alternatively, another option is that funds are appropriated to fund the O&M, thereby lessening the availability of scarce General Fund ongoing dollars and creating a counterintuitive situation where the City expands services via new parks assets but makes significant reductions in other parts of the park system.

CBO has concerns about continuing to invest SDC resources into new assets that will have both increasing O&M and major maintenance costs, particularly in consideration of the existing funding gap. In effect, by building new SDC-funded parks without a corresponding increase in major maintenance funding, the City is further exacerbating a key structural challenge of the park system. Eventually, this cohort of new SDC-funded assets will have unfunded major maintenance costs, creating large service disruptions in future years.

CBO continues to recommend that Parks should consider strategies that limit and reduce the ongoing costs of new parks. To that end, the bureau should consider:

- Design parks and community centers to minimize O&M and major maintenance costs. This may also include building assets with sustainable landscapes or assets that provide services with cost recovery, such as community centers or public-private partnerships. The bureau should continue to consider this strategy.
- Allocate an amount of General Fund available for O&M over the next five years. Council could then direct that PP&R be designed to meet funding constraints.
- Decrease the scale of the SDC capital plan, thereby lessening the O&M needed to fund new projects. This strategy could be accomplished by either delaying projects and/or decreasing the amount of SDC's collected via a reduction in fees. Fewer parks and community centers would be available.

CBO does not recommend funding at this time. Prior to expanding PP&Rs' services via the SDC capital program in FY 2019-20 and beyond, CBO recommends that the bureau prepare a funding plan which identifies the requisite operation and maintenance costs, and major maintenance costs, for the SDC plan. Moreover, this plan should address how the bureau intends to balance the challenge of maintaining current service levels in the parks, particularly in light of requisite reductions in the bureau's FY 2019-20, with the opportunity to expand the parks system via SDC resources. Lastly, prior to moving forward with the construction of SDC projects, the bureau should ensure the approval of ongoing operation and maintenance resources. At these decision points, Council could give direction to delay, eliminate or redesign projects in order to reduce O&M costs.

CBO Recommendation: \$0 ongoing

SUMMARY OF REQUESTS AND RECOMMENDATIONS

Below is a summary of Portland Parks & Recreation’s total budget.

	Adopted FY 2018-19	Request Base (A)	Bureau Decision Packages (B)	CBO Recommended Adjustments (C)	Total Recommended Revised (A+B+C)
Resources					
Budgeted Beginning Fund Balance	\$ 135,173,938	\$ 95,868,191	\$ -	\$ -	\$ 95,868,191
Licenses & Permits	\$ 1,272,386	\$ 1,079,460	\$ -	\$ -	\$ 1,079,460
Charges for Services	\$ 47,386,212	\$ 51,039,625	\$ -	\$ -	\$ 51,039,625
Intergovernmental Revenues	\$ 2,252,673	\$ 8,198,159	\$ -	\$ -	\$ 8,198,159
Interagency Revenue	\$ 3,137,230	\$ 3,275,478	\$ -	\$ -	\$ 3,275,478
Fund Transfers - Revenue	\$ 5,565,089	\$ 4,516,100	\$ 17,925,000	\$ (14,925,000)	\$ 7,516,100
Bond and Note	\$ 11,572,353	\$ 12,369,000	\$ -	\$ -	\$ 12,369,000
Miscellaneous	\$ 2,241,496	\$ 6,211,551	\$ -	\$ -	\$ 6,211,551
General Fund Discretionary	\$ 65,797,195	\$ 68,038,260	\$ 891,694	\$ (891,694)	\$ 68,038,260
Total Resources	\$ 274,398,572	\$ 250,595,824	\$ 18,816,694	\$ (15,816,694)	\$ 253,595,824
Requirements					
Personnel Services	\$ 70,799,901	\$ 79,230,658	\$ -	\$ -	\$ 79,230,658
External Materials and Services	\$ 61,589,751	\$ 71,226,107	\$ 18,816,694	\$ (15,816,694)	\$ 74,226,107
Internal Materials and Services	\$ 12,761,965	\$ 13,647,514	\$ -	\$ -	\$ 13,647,514
Capital Outlay	\$ 57,943,065	\$ 66,072,466	\$ -	\$ -	\$ 66,072,466
Bond Expenses	\$ 758,827	\$ 1,050,085	\$ -	\$ -	\$ 1,050,085
Fund Transfers - Expense	\$ 1,514,602	\$ 1,757,442	\$ -	\$ -	\$ 1,757,442
Contingency	\$ 68,864,720	\$ 23,750,389	\$ -	\$ -	\$ 23,750,389
Unappropriated Fund Balance	\$ 165,741	\$ 164,041	\$ -	\$ -	\$ 164,041
Total Requirements	\$274,398,572	\$256,898,702	\$18,816,694	\$ (15,816,694)	\$259,898,702