

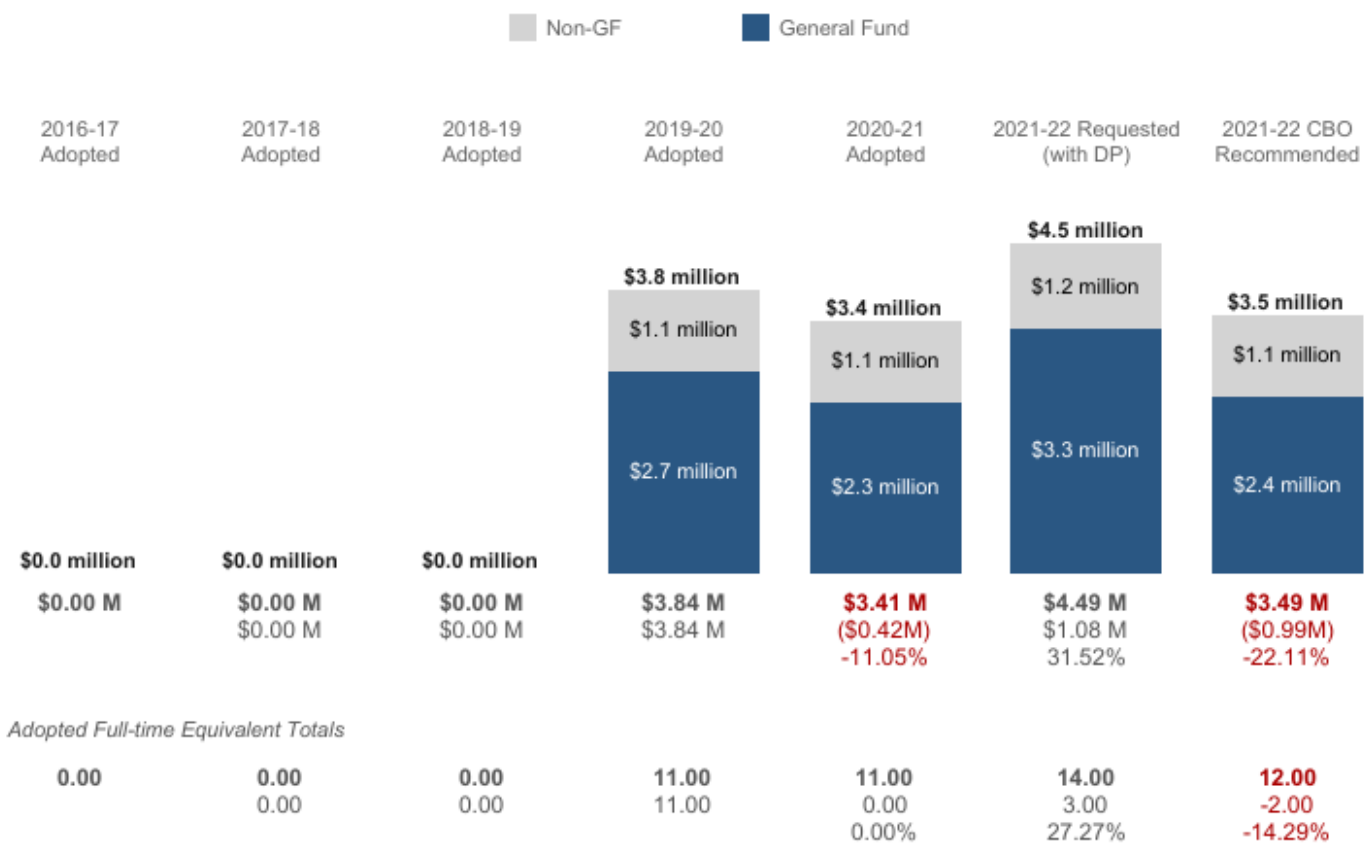


**City
Budget
Office**

Office for Community Technology

Analysis by Katie Shifley

Adopted Budget Revenues | 5-Year Lookback



INTRODUCTION

The Office for Community Technology (OCT) FY 2021-22 Request Budget is approximately \$3.5 million, supporting 12.0 FTE. OCT has several key projects slated for FY 2021-22:

- Finalization of a new franchise agreement with Comcast
- Proposed transition to code-based management of the Right-of-Way
- Development of Phase II of the Digital Equity Action Plan

In addition to these initiatives, OCT will also be a key participant in the allocations of any new federal resources that support digital access in the community during the COVID-19 pandemic.

As a General Fund bureau with fewer than 30 employees, OCT was not required to put forward a 5% constraint under the Mayor’s FY 2021-22 budget guidance. OCT is requesting new General Fund discretionary resources totaling \$918,513 across four decision packages:

- Addition of 1.0 FTE Financial Analyst - \$75,892
- Addition of 1.0 FTE Community Broadband Planner - \$192,621
- Cyber Security and Personal Data Protection - \$150,000
- Digital Inclusion Fund - \$500,000

Combined, these requests would increase OCT’s existing General Fund allocation by more than 38%. CBO does not recommend any of these requests for new resources due to limited General Fund resources but notes where existing or anticipated resources can support these initiatives.

BASE BUDGET & KEY ISSUES

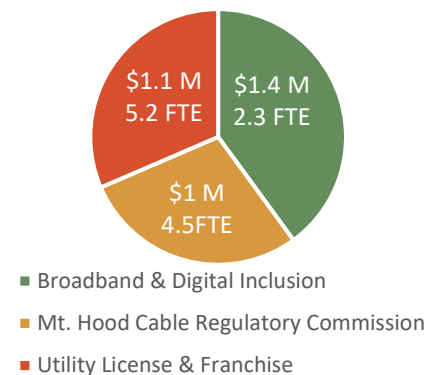
Office for Community Technology – History and Base Budget

The Office for Community Technology (OCT) was re-established as a stand-alone bureau during FY 2018-19. This action was taken as a result of Council direction, following an external organizational assessment. OCT had been a program within the Office of Management & Finance’s (OMF) Revenue Division for several years due to the strong connection to the division’s collection function. Pending direction from the bureau’s Commissioner-in-Charge, OCT may again explore alternative organizational structures.

OCT has a unique mix of programs and functions that are organized into three program offers:

- Franchise agreement negotiation, utility license administration, and compliance management, which brings in about \$85.0 million in annual franchise and license fee revenue,
- Broadband & Digital Inclusion, which promotes access to technology for low-income and other populations,
- Mt. Hood Cable Regulatory Commission (MHCRC) staff support, which provides direct staffing and operational management of the MHCRC’s activities

OCT FY 2021-22 Base Budget by Program Offer



OCT’s FY 2021-22 Requested base budget (excluding new resource requests) totals \$3.5 million and supports 12.0 FTE. Approximately two thirds of total revenues are General Fund discretionary, with a third from intergovernmental revenues from Mt Hood Cable Regulatory Commission. In addition to resources to support 12.0 FTE and internal materials and services expenses (e.g. space rent), OCT has almost \$1.7 million in resources dedicated to external

materials & services (EMS) to support operations, planning, and pass-through obligations. The chart below shows OCT’s FY 2021-22 base EMS budget, by program and intended use:

Program	External Materials & Services Budget	Description
Broadband & Digital Inclusion	\$70,663	Implementation of Digital Equity Action Plan II (evaluation, metrics, reporting) annual DEAP summit, strategic planning
	\$955,594	Open Signal operations support
MHCRC	\$153,975	Cable franchise negotiation support, legal counsel, and operational expenses
	\$189,385	MHCRC capital compliance work
Utility & Franchise	\$300,007	Right-of-Way code change implementation, communications, legal work, and resources for strategic planning
Total	\$1,669,624	

OCT expenses funded via intergovernmental revenues from MHCRC are preliminary, and are ultimately dependent on 1) Council’s approval of total City support to the financial entity MHCRC via Special Appropriation (which is passed through back to OCT), 2) the approval of MHCRC’s budget by the MHCRC commission, 3) Final approval by every MHCRC jurisdiction, including Portland. Given the overall complexity of the Comcast renegotiations and potential financial implications for City revenues, CBO has recommended that Council support the requested addback of the Special Appropriation supporting MHCRC.

General Fund Revenue Generation

OCT performs a critical revenue generation function for the City’s General Fund. OCT Utility License & Franchise program negotiates and administers franchise agreements that grant access to the public Right of Way (ROW), manage the long-term use of the ROW, and levy taxes and fees to ensure the City is fairly compensated for use of the ROW.

Utility License Fees (ULF) and franchise fees generated approximately \$85.0 million in total revenue to the City in FY 2019-20 – a decline from the prior year of about 3.6%. As noted in prior reviews, total cable franchise revenues continue to decline as subscribership wanes. This resource is the City’s third largest source of discretionary General Funds and makes up approximately 14% of the City’s currently forecasted discretionary resources for FY 2022-23.

FY 19-20 Utility & Franchise Revenue (millions)	
Utilities	\$36.50
Cable and Communications	\$16.50
Internal (BES, Water)	\$25.90
All other payers	\$5.70
Total	\$84.60

A large proportion of this revenue is paid by major utilities (e.g. Portland General Electric, Bureau of Environmental Services, Water Bureau) governed by City Code 7.14 Utility License Law. The majority of ULF-related work in OCT is spent negotiating and managing franchise agreements governed by City Code 7.12 Franchises and Utility Privilege Tax Law and managing compliance

across several hundred smaller accounts.

OCT plans to bring revisions to the City Code governing managing of the ROW before Council in fall 2021. Managing the variation across hundreds of smaller franchise accounts is time-consuming and requires substantial work to ensure compliance and renewals. This is especially true given the rapid pace of change in communications companies. OCT hopes to simplify overall management of the ROW and receipt of payment for private use of the public ROW by moving to a code-based system rather than a franchise and privilege tax-based system. The proposed changes would honor any current franchise agreements until their expiry and would not preclude franchises in general. Cable franchise agreements, which are negotiated by MHCRC on behalf of the City and partner jurisdictions, would likely not be affected by these proposed changes absent a change to the existing intergovernmental agreement with MHCRC.

Individual payers under the current structure will see differences through this proposed change, though large institutional payers (that comprise a majority of current ULF revenues) are not expected to see significant changes. OCT is currently evaluating whether or not these changes are expected to have a material impact on total revenues to the City.

Comcast And Ziplly Negotiations

The existing franchise agreement with Comcast will expire in December 2021, and negotiations for a new agreement are under way. MHCRC and OCT staff are leading the negotiation efforts on behalf of the City of Portland and other local jurisdictions. A negotiation with the firm Ziplly is also planned for FY 2021-22. As noted in prior reviews, recent FCC rulings regarding mixed-use and in-kind benefits have complicated these negotiations.

- **Mixed-use Rule.** Previously, cable companies in Portland paid franchise fees totaling 5% of gross revenues on cable services and 5% on any non-cable telecommunications services (i.e. voice over internet).
- **In-kind Rule.** Where the City negotiates a community benefit as part of a franchise agreement, the fair market value of this benefit (as determined by the provider) is deducted against the franchise fee payments. In Portland, the biggest current risk to revenues are the in-kind benefits provided under the Comcast franchise agreement. While Comcast has not yet provided its assessment of the fair market value of the current in-kind benefits (i.e. community media center support, community technology/digital equity grants, public agency communications network assets and infrastructure (I-Net)), the valuation could be substantial.

The in-kind rule in particular creates a tension between revenue generation and negotiated community benefits during the agreement development process. The City of Portland, in conjunction with MHCRC and partner jurisdictions, will have a choice to make in the coming months about whether to prioritize the maximization of revenue streams or the preservation or expansion of certain community benefits. As mentioned above, this issue has notable implications for the City's overall availability of General Fund discretionary resource.

While Comcast's provision of data connectivity I-Net has been a substantial community benefit for many years, the uncertainty around the continuation of this benefit has prompted the City

and other local partners to pursue alternatives. In March 2021, the Bureau of Technology Services intends to bring a contract before Council to ensure data connectivity through a different provider. However, there remains an opportunity to re-envision an alternative public benefit, based on community needs, through negotiations.

As part of the negotiation preparations, MHCRC and OCT contracted for an ascertainment study to help determine community priorities as they relate to cable and internet service provision. A full presentation of the results of this study can be found [here](#). MHCRC and OCT have contracted with two consultant groups to help guide negotiations, and have identified resources within the FY 2021-22 Requested Budget to support negotiation expenses. As negotiations progress, OCT intends to regularly brief Council in order to incorporate Council priorities into the process. Council approval of the franchise agreement is expected as early as November 2021.

Digital Divide

COVID-19 Work

The Broadband & Digital Inclusion program worked closely with staff in the Bureau of Planning & Sustainability (BPS) over the last 8-10 months to provide enhanced support to the community during the COVID-19 pandemic. With much of school, work, and social life moving online, a COVID-19 Response Digital Divide Work Group was formed to shepherd the allocation of \$5 million in CARES Act funding to support data connectivity and hardware needs in the community. Additional federal resources may be available for these efforts through the American Rescue Plan, pending passage by Congress and allocation decisions by Council.

More recently, the federal government announced the Emergency Broadband Benefit to support households struggling to pay for critical internet access during the pandemic. The program provides a discount of up to \$50/month toward broadband for eligible households, though this benefit is sent to the service provider rather than directly to households. OCT's policy and advocacy function provided comments back to the FCC on this program, and is currently planning an information campaign to raise local awareness around the program.

Ongoing Digital Divide Work

Reducing technology access barriers for Portlanders is a regional effort, and OCT works closely with Multnomah County, the library system, schools, and community organizations on this issue. Separate from COVID-19 related work, OCT is in the midst of developing the second phase of the Digital Equity Action Plan (DEAP). The DEAP was initially approved by Council in 2016. Five years later, OCT is working with local partners like the Digital Inclusion Network on the next phase of the plan. As noted in the recent Council work session on this and other digital equity issues, the second phase of the plan is intended to have more concrete and actionable short-term and long-term strategies that align with the City's digital equity goals and economic prosperity priorities. Phase II of the DEAP is expected to be before Council during FY 2021-22.

Substantial financial support for work to bridge technology access has been provided under the terms of negotiated cable agreements for many years. For example, under the current agreement, Comcast pays 3% of gross revenues in Public, Education, and Government (PEG) fees. These fees – about \$4.5 million in 2020 – have supported the provision of low-cost data

connectivity (via I-Net, or the institutional network) as well as a robust grant-making function within MHCRC. Regional support for Open Signal and Metro East Community Media are also supported via PEG fees¹. PEG fees are projected to decline in the coming years per OCT analysis. As noted above, the relative prioritization of revenue generation or community benefit in the negotiations of cable franchise agreements will also affect dedicated support for this work going forward.

DECISION PACKAGES

Add 1.0 Financial Analyst FTE

CB_11450, \$149,480, 1.00 FTE

Request Summary

OCT is requesting \$75,892 in ongoing General Fund resources to fund half of a Financial Analyst III position, with the other half funded via intergovernmental revenues from MHCRC.

CBO Analysis

OCT established a limited term Financial Analyst III in Fall FY 2020-21. This position is filled, and acts as the finance manager for OCT's budget and accounting work. OCT's FY 2021-22 Requested Budget fully funds this limited term finance manager position; no additional resources are required to ensure this position will be funded in FY 2021-22 and beyond.

While allocating \$75,892 in additional General Fund resources would create additional flexibility and capacity within OCT's budget to support other priorities, CBO does not recommend this request given the availability of OCT base budget resources to support this position and the forecasted deficit of General Fund resources in FY 2021-22.

CBO does recommend Council authorize permanent position authority for the Financial Analyst III, which would allow OCT to convert the limited term position to permanent within its existing resources. Pending potential Council action to again reassess OCT's organizational structure within the City, CBO deems it advisable for OCT to have a permanent financial manager.

CBO Recommendation: \$0 ongoing | 1.00 FTE

Community Broadband Planner

CB_11451, \$192,621, 1.00 FTE

Request Summary

OCT is requesting \$192,621 to support a Coordinator III position. This position would advance the City's work in supporting a Broadband Strategic Plan. As envisioned, the broadband strategic plan would act as a support to Phase II of the Digital Equity Action Plan, identifying infrastructure

¹ The City of Portland provides direct General Fund discretionary funding to Open Signal for operations support, but capital needs are supported through PEG fees. Previous Councils made the determination that the City would directly collect and allocate its share of cable franchise fees. Metro East Community receives capital funding through PEG fees and operational funding via cable franchise fees.

resources to help reduce barriers to low-cost internet access.

CBO Analysis

The City first established a Broadband Strategic Plan in 2011. This plan acknowledged the critical role that high-speed internet access plays in daily life, its benefits to economic development, climate, and education. The recent community needs ascertainment study performed by OCT and MHCRC has highlighted cost as a major barrier to some Portland area residents in accessing high-speed internet and noted that these barriers contribute to disparities in education and employment access. The impacts of the COVID-19 pandemic have exacerbated this divide.

A study was completed earlier this year assessing the viability of a municipal broadband network in the region. Other localities (e.g. Hillsboro) have pursued municipal broadband networks with the goal of providing high-speed internet access like a government-managed utility. However, the study indicated that this type of effort would be cost-prohibitive and risky to undertake at a local government level. With a \$1 billion investment and a high risk of insufficient subscribership to a municipal network, this initiative has largely lost steam within the City and County organizations.

The intent of this request is to dedicate new staff resources to identify and leverage existing City and local fiber assets to build out networks and meet the needs of the community for low-cost high-speed internet access. A new iteration of a broadband strategic plan would act as a companion to the second phase of the Digital Equity Action Plan that is currently in development. It is not clear what financial or legal risks may be associated with pursuing this variation of community broadband provision.

The City is just one of several stakeholders in this area. Multnomah County's Community Connectivity work group also has participants from the County, jurisdictions in Eastern Multnomah County, members of the Digital Inclusion Network, and others. OCT has noted that the County may be pursuing a similar request for a broadband planner in the near future to monitor and assist in any continuing municipal broadband discussions.

Access to high-speed internet is a serious concern for low-income residents, even more so over the past year as libraries and other community institutions closed due to the pandemic. However, there are some immediate supports provided under the Emergency Broadband Program and the potential for additional community support under the anticipated American Rescue Plan. Given the limited availability of General Fund resources and the fact that the Digital Equity Action Plan has not yet been finalized, CBO does not recommend funding for this request at this time.

CBO Recommendation: \$0 ongoing | 0.00 FTE

Cyber Security and Personal Data Protection

CB_11452, \$150,000

Request Summary

OCT is requesting \$150,000 in one-time General Fund resources to establish a new competitive grant program. The grant program would award resources to local community organizations to provide cyber security and personal data protection training.

CBO Analysis

OCT has requested \$150,000 in new one-time General Fund discretionary resources to provide grants to technology-focused community organizations, who would develop and provide relevant and accessible cyber security and data protection training for vulnerable populations. This proposal builds off the work of the Digital Divide COVID-19 work group.

The Multnomah County library system provides direct digital literacy training through the Welcome to Computers program, but this program has been paused due to the pandemic. According to OCT staff, many online trainings about cyber security and data protection already exist, but are often not geared toward audiences that speak English as a second language, are elderly, or have relatively low technical know-how. OCT hopes to offer more relevant trainings to community members through provision of grants to develop online trainings with this in mind.

It is not clear under this proposal what the intended timeline would be for disbursing grants. However, under the Federal American Recovery Plan's current draft language, this request would likely be eligible for future federal stimulus funding. It is anticipated that the rules and distribution any additional federal resources will be finalized in the next few months. Due to limited available General Fund resources, CBO does not recommend General Fund support for this proposal; however, Council could consider allocating American Rescue Plan resources towards this request once the rules and funding are finalized.

CBO Recommendation: \$0 one-time | 0.00 FTE

Digital Inclusion Fund

CB_11452, \$500,000

Request Summary

OCT is requesting \$500,000 in ongoing General Fund resources to establish a new Digital Inclusion Fund to provide community grants for digital literacy training, resources for future public-private partnerships, and matching funds for City grant applications.

CBO Analysis

This \$500,000 request would broadly support efforts to reduce the digital divide. OCT has provided very compelling data on barriers to high-speed internet access in our community, and the compounding impact the lack of access can have on education and employment.

As noted above, phase two of the Digital Equity Action Plan (DEAP) is expected before Council some time during FY 2021-22, with a stated goal of including clearer goals, action items, and performance metrics around regional digital equity work. The current request for a revolving Digital Inclusion Fund is intended to support the City's digital equity goals as defined under the current DEAP and those of the second phase of the DEAP. The request is not tied to specific action items in DEAP II, which is still in development, and does not specify discrete investments to be made in FY 2021-22.

This request could be more effectively evaluated after the second phase of the DEAP has been approved by Council and additional detail is available. Given the limited availability of General

Fund resources in the current forecast, CBO does not recommend funding for this request as part of the FY 2021-22 budget.

CBO Recommendation: \$0 one-time | 0.00 FTE

SUMMARY OF REQUESTS & RECOMMENDATIONS (ALL FUNDS)

Office for Community Technology

		2020-21 Adopted Budget	2021-22 Requested Base (A)	Bureau Decision Packages (B)	CBO Recommended Adjustments (C)	Total Recommended Budget (A+B+C)
Revenue	Intergovernmental	\$1,087,661	\$1,102,408	\$73,588	(\$73,588)	\$1,102,408
	General Fund Discretionary	\$2,323,948	\$2,392,493	\$918,513	(\$918,513)	\$2,392,493
Revenue	Sum:	\$3,411,609	\$3,494,901	\$992,101	(\$992,101)	\$3,494,901
Expense	Personnel	\$1,752,280	\$1,623,984	\$280,441	(\$280,441)	\$1,623,984
	Internal Materials and Services	\$195,307	\$201,293	\$0	\$0	\$201,293
	External Materials and Services	\$1,464,022	\$1,669,624	\$711,660	(\$711,660)	\$1,669,624
Expense	Sum:	\$3,411,609	\$3,494,901	\$992,101	(\$992,101)	\$3,494,901