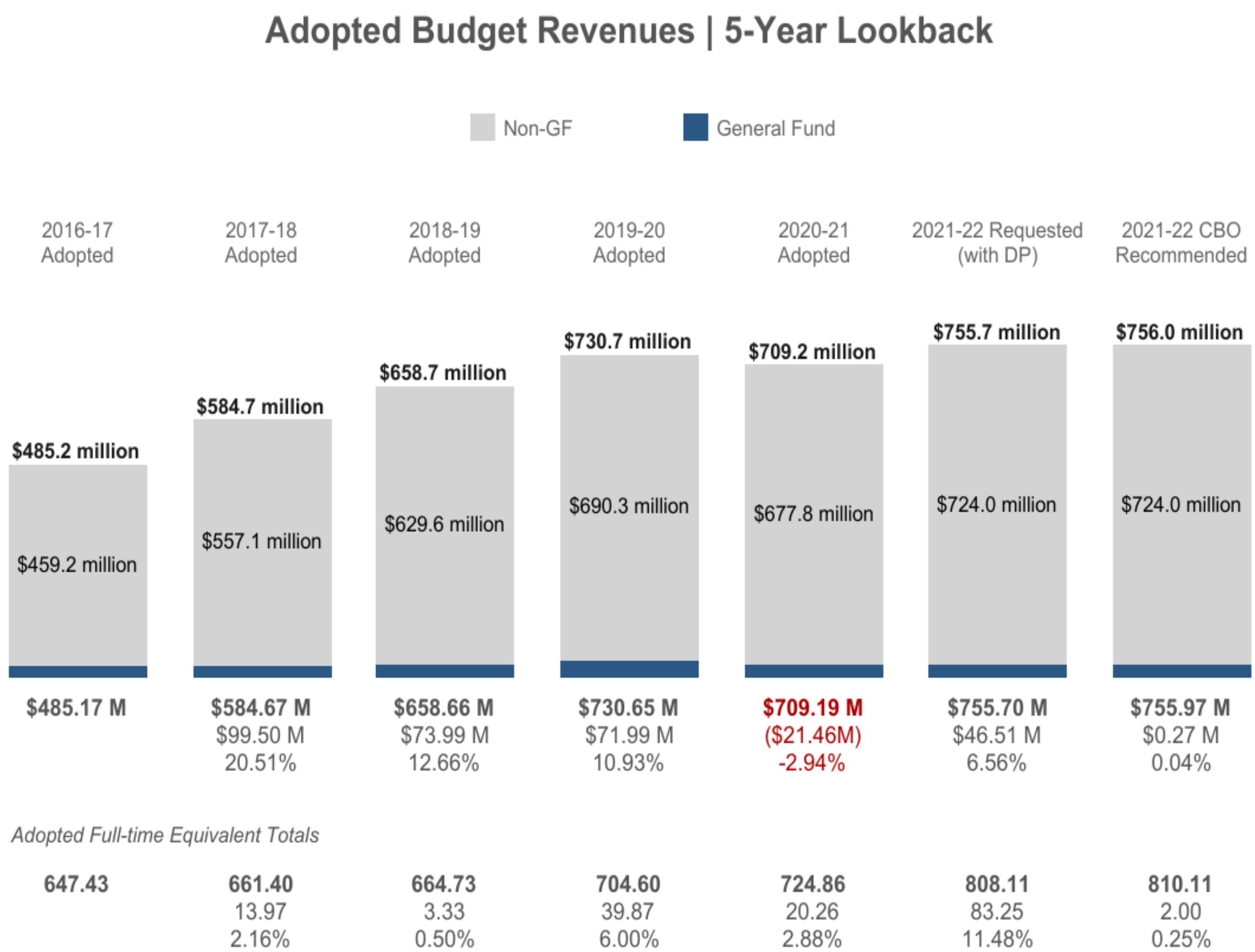
City Budget Office

Office of Management & Finance

Analysis by Shannon Fairchild and Yung Ouyang



INTRODUCTION

The Office of Management & Finance's (OMF) FY 2021-22 base budget totals $755.7 million, across multiple funds. This represents a decrease of $10.5 million compared to the FY 2020-21 Revised Budget. The bureau has 808.11 authorized FTE, adding 8.2 FTE in the base budget, seven of which are related to staff increases for the 3-11 Program.

Per the Mayor's Budget Guidance, OMF put forward a 5% reduction to their General Fund allocation, totaling $1,642,693. OMF did not request the resources back, however, the bureau submitted four decision packages for new resources, totaling $1,652,135. The bureau also submitted two realignment decision packages which equate to a $160,000 net increase in total expenses. CBO recommends new resources totaling $1,920,128, which includes the restoration of ongoing funding for the Deputy Controller position in Accounting, with resources for half of the year reduced one-time, and funding to support the implementation of the Paid Family Medical Leave Act. CBO also recommends OMF's realignment request for the Procurement Services program to convert funding of its Compliance Team's services ($890,000) from General Fund overhead to interagency funding from construction bureaus using the team's services.

BASE BUDGET & KEY ISSUES

Bureau of Human Resources

The Bureau of Human Resources (BHR) provides centralized support to City employees and employment processes. Over the past three years, the bureau has led the implementation of several high-profile initiatives that have had a direct impact bureau workload and on Citywide employee compensation and personnel costs. These efforts include:

- Conclusion of the **Classification and Compensation Study** which sought to update non-represented classifications to improve employee recruitment and evaluation, clarify the duties of professional and technical career tracks, identify positions with supervisory responsibilities, and update compensation ranges. The first-year impact of the wider compensation bands that resulted from the Classification and Compensation Study was likely $3.3 million across bureaus, due to the approximately 600 non-represented employees who were no longer at the top of their compensation range.
- Implementation of **Oregon's Equal Pay Act (the "Equal Pay Act" or "Act")** which included a statistical analysis that attempted to determine employees' "justifiable wage" and made proactive increases to employees pay. The Pay Equity law allows for only certain bonified factors to explain differences in pay for employees in the same classification. **To ensure compliance with the law, BHR has taken a proactive role in determining what salary range can be offered to all employees upon hire or promotion.** The initial Citywide impact of increasing employees pay in December of

2018 was approximately $3.7 million[1]; any additional cost impacts since have not been assessed.

- Piloting of a new **Enterprise-wide Merit System, "**SuccessFactors," to minimize inconsistencies in the personnel evaluation process and the possibility of pay inequities going forward. SuccessFactors was paused due to COVID-19, however, Citywide implementation is set for July 2021. Given that the previous process for evaluating non-represented employees and awarding merit increases was highly decentralized across and within bureaus, transitioning to an enterprise wide merit-based system is a significant lift for Human Resources and bureaus across the City.

In addition to managing the City's continued compliance with these high-profile initiatives, BHR has experienced increased calls for strategic leadership and management during a national reckoning with racial injustice and structural and institutional racism across our society. Over the past year, the bureau has also responded to the COVID-19 public health crisis and implemented facility and workplace COVID-19 safety policies and protocols to ensure the health and safety of employees who work in City facilities. Looking ahead to 2022 and 2023, BHR will lead the City's implementation of Oregon's Paid Family Medical Leave (PFLMA) insurance program. The state law, enacted in 2019, will provide an important safety net for workers who are facing their own or a family member's serious health condition, for bonding with a new child, and for those facing domestic violence and other issues.

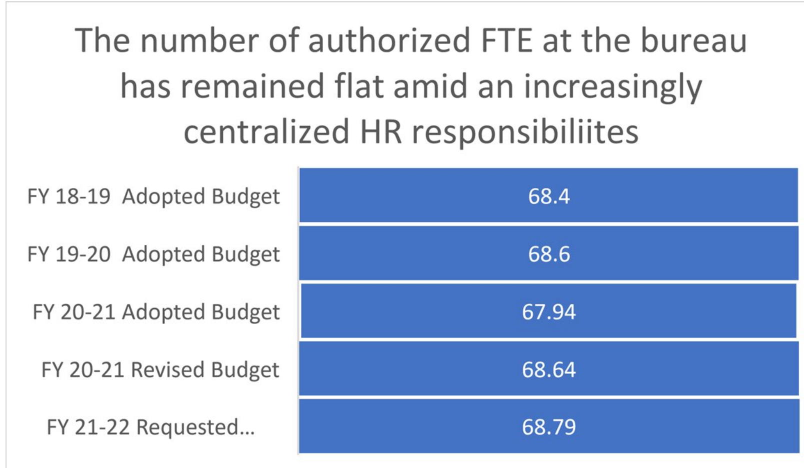
While facing the need to provide strategic leadership and management for Citywide human resource systems, programs, and policies, the bureau has itself been challenged operationally by rising personnel costs due to the implementation of the Classification and Compensation Study and the Equal Pay Act. Twenty-five General Fund-supported staff within BHR were at top of range under the prior class-comp structure and became newly eligible for merit-based increases after the new compensation ranges were approved by Council. This exposed the bureau to $95,000 in potential immediate and annually increasing additional ongoing costs until these employees reach the new top of range. During the same time period, BHR experienced significant increases related to pay equity. The bureau independently made six pay equity adjustments in FY 2019-20 that increased ongoing personnel costs by approximately $80,000.[2]

Like other General Fund-supported bureaus, BHR cannot offset rising costs through rates or fee recovery models. In last year's review, CBO outlined the strategies the bureau considered to close a $230,000 projected funding gap in its FY 2019-20 budget. The strategies included holding vacancies open and reducing external material services as base budget balancing tactics. Last

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

[2] Information from the bureau indicates this was in accordance with HRAR 8.04 Compensation and pay equity compliance.

year, the bureau also considered a reduced workhour schedule for several employees, but ultimately the bureau was able to utilize underspending from other OMF bureaus to balance its FY 2019-20 budget. The FY 2021-22 Requested Budget includes a $520,046 reduction in personnel and external material services to address the bureau's budget gap.

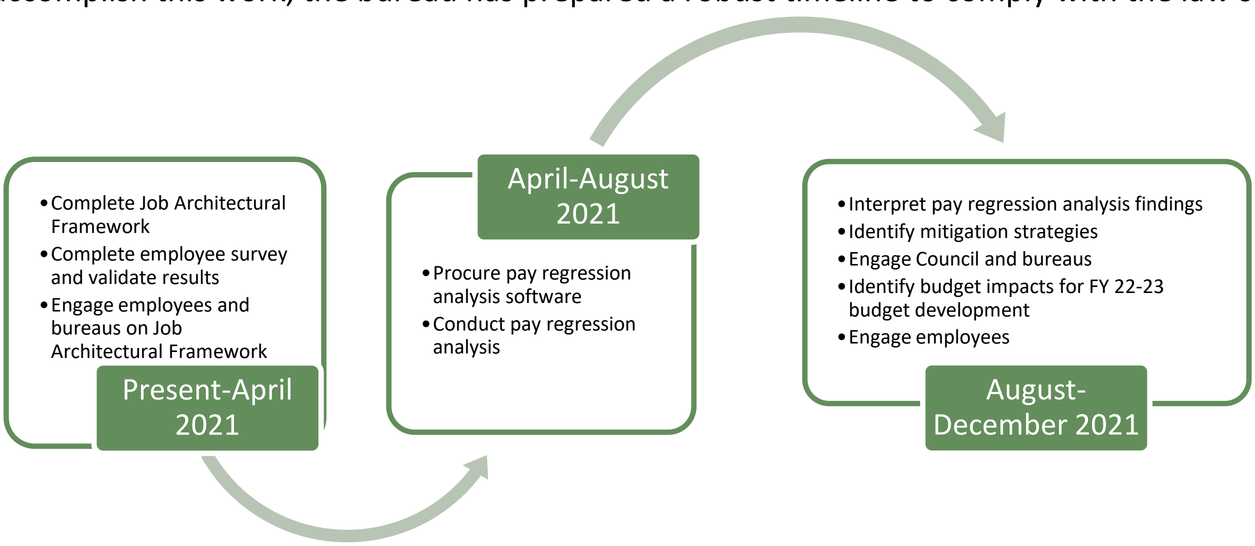


Despite the bureau's growing role at the City, the Bureau's FTE have remained relatively flat over the last four years. BHR also continues to hold the Deputy Director position vacant in response to growing expenditures, however, the bureau has indicated that reorganizations efforts may produce the savings needed to fill this critical position.

Based on recent discussions with the bureau and a review of the FY 2021-22 Requested Budget, CBO has concerns that the Bureau's cost savings measures are having an impact on BHR's ability to meet the growing list of legal mandates and citywide policies and procedures. For example, the **Equal Pay Act** requires employers to demonstrate a good faith effort to identify wage differentials every three years. Based on the law's timeline, the **City must conduct an updated pay regression analysis by December 31, 2021.** To prepare, BHR is taking the initial steps to invest in the core competencies, IT infrastructure, and processes to support the City's compliance with the law. These critical efforts include:

- Creating a Job Architectural Framework to identify work of comparable character and surveying City staff for information needed for pay regression analysis
- Investing in IT infrastructure to conduct pay equity analysis for years to come
- Building the staff and processes needed to support and operationalize the Equal Pay Act

To accomplish this work, the bureau has prepared a robust timeline to comply with the law's



requirements.

The previous Classification and Compensation Study generated approximately 200 appeals from employees. Depending on the extent of the changes from the Job Architectural Framework, the Bureau's timeline leaves little room for meaningful engagement with staff and bureaus on the Framework's findings or for validating the results of the employee survey. Depending on how long either effort takes, there may be just a few months left in 2021 to complete the pay regression analysis, identify mitigation strategies if pay differentials exist, and plan for potential budgetary impacts in time for FY 2022-23 budget development.

In addition to BHR's critical work to comply with the Equal Pay Act, the bureau is leading the City's efforts to implement **Oregon's Paid Family Medical Leave Act (PFMLA**) over the next year. For the City to be compliant with the legislation, employees must begin making contributions from their paychecks by January 1, 2022. PFMLA benefits will be payable a year later, beginning January 1, 2023. For this to happen, BHR, in conjunction with Enterprise Business Solutions, Accounting and Payroll need resources to support the technical and administrative changes required to comply with the law. As OMF's Requested Budget did not budget resources for the project, CBO has created a request for the resources needed to comply with the legislation, supported initially by resources already budgeted for implementation of the PFMLA.

BHR has a significant governance role that often involves implementing policies that have operational and fiscal impacts to bureaus across the City. BHR is doing what it can to meet the bureau's mandates using existing resources, but rising personnel costs have created tradeoffs that are impacting service levels. At the same time, the stakes are high: BHR's ability to roll out new policies and programs thoughtfully and successfully will have a substantial and lasting impact on all bureau finances and operations. Therefore, CBO encourages BHR to engage the Chief Administrative Officer, the City Attorney's Office, CBO, and customer bureaus to develop a system of shared accountability in ensuring the success of these major initiatives. The group should develop immediate measures to ensure implementation of these near-term mandates are appropriately planned and subsequently resourced for success.

Revenue Collection and the Integrated Tax System

Multnomah County and Integrated Tax System Cost Sharing

The Integrated Tax System (ITS) project went live in September 2020 and is currently in a one year-long stabilization phase. Per the terms of an Intergovernmental Agreement (IGA) for business tax collection services, Multnomah County is currently estimated to pay the City $1.1 million per year for ten years in allocated ITS costs for business income tax collection services, based on the proportion of the County's Business License Tax revenues collected on the platform. The final contribution amount will be finalized by the end of this year.

Certain collection categories outlined in the IGA form a $4.1 million baseline referenced in the IGA, with collections above that amount for those categories going to the City until the County's ITS costs are repaid over a ten-year horizon. Under this IGA, if revenues in those specific collection categories do not come in over the baseline amounts, the County would not be paying its share of ITS costs. The collection categories and their amounts that form the baseline are:

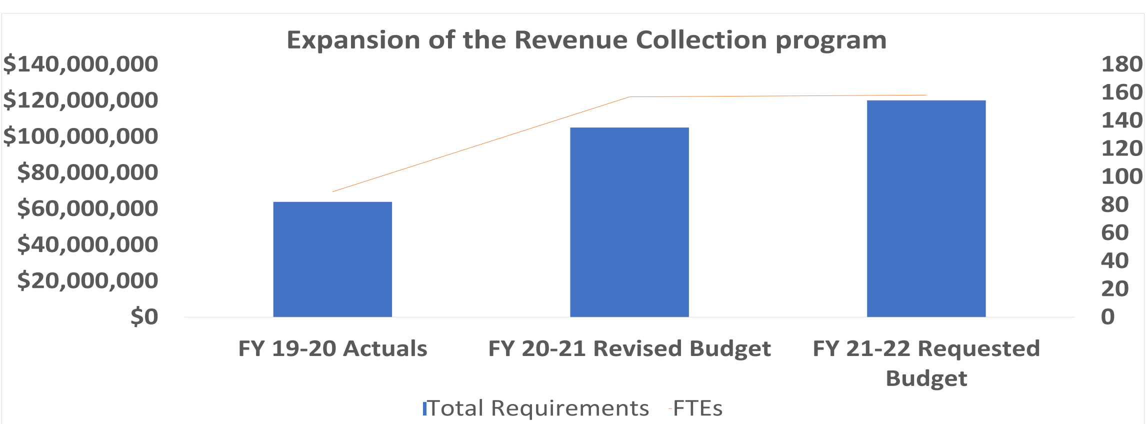
- Delinquent Collections: $973,927
- Audit Recovery: $962,641
- Unregistered Businesses: $1,478,199
- Unreported Property Transactions: $678,230

The Revenue Division intends to sign a technical memorandum with the County documenting precisely how funds in the collection categories will be counted, and this study is still in progress.

There are ongoing costs to maintain and operate ITS that are predicated on the City receiving $2.2 million annually from the County ($1.1 million of which is from the IGA for collecting the County's Business Income Tax), and as such there is inherent risk in the structure of the IGA with the County with respect to the City recuperating ITS-related expenses. If County collections do not come in sufficiently above baseline to support the County's $1.1 million obligation for ITS costs, the Revenue Division may have insufficient resources to cover known expenses and the County may never actually be required to fund their proportional share of system costs. CBO recommends that the Revenue Division closely monitor County collections across these baseline categories, as under-collection may result in budgetary issues within the Revenue Division. This potential risk is greater in the early years of the ten-year agreement, as the division may have sufficient reserves in later years from the soft cost collections for a system refresh set-aside that it could self-fund a deficit deriving from under-collection from the County.

Revenue Collection for Other Local Governments and System Cost Sharing

The City, through the Revenue Division's efforts, has taken on the role of tax revenue collector for the region. In rapid succession, the Revenue Division has entered into new IGAs with other local jurisdictions to collect two new taxes: the Supportive Housing Tax for Metro and the Preschool for All Tax the County passed in the November 2020 election. As a result of this regional pivot, the Revenue Collection program has expanded significantly in both budget and the number of support staff positions. The current year expenditure budget for the Revenue program is greater than last year's actual expenditures by 65%, and the number of authorized positions has increased by almost 67.6 FTEs, or 76%. These increases are primarily due to the addition of the Metro tax from May 2020. The program's Requested Budget for next year represents an increase of 15% and 1.2 FTEs when compared to the FY 2020-21 Revised Budget.



These two initiatives are very new, and there is the potential for issues to arise as the Revenue Division takes on additional customers. There are provisions in the IGAs that delineate the financial obligations these jurisdictions must meet, though the IGAs cannot anticipate all the possible scenarios that may arise. It is unknown whether collection of new taxes may be affected by the COVID-19 pandemic, or whether the partner jurisdictions' ability to cover obligations under the IGAs would likewise be affected. While these obligations are clear under the IGAs, there is an element of risk for the City to increase staffing and other expenditure budgets to provide the services to these other local governments in financially uncertain times.

BRFS acknowledges that there will always be organization risks when taking on the new programs and has indicated that the Revenue Division regularly assesses these risks and actively works to manage them. To this end, it has created a Risk and Issue Management Team which includes Revenue Division staff, staff from FAST Enterprises (the vendor for ITS), Quality Assurance consultants, and an external facilitator. This team meets monthly to identify, discuss, log, and escalate risks if necessary.

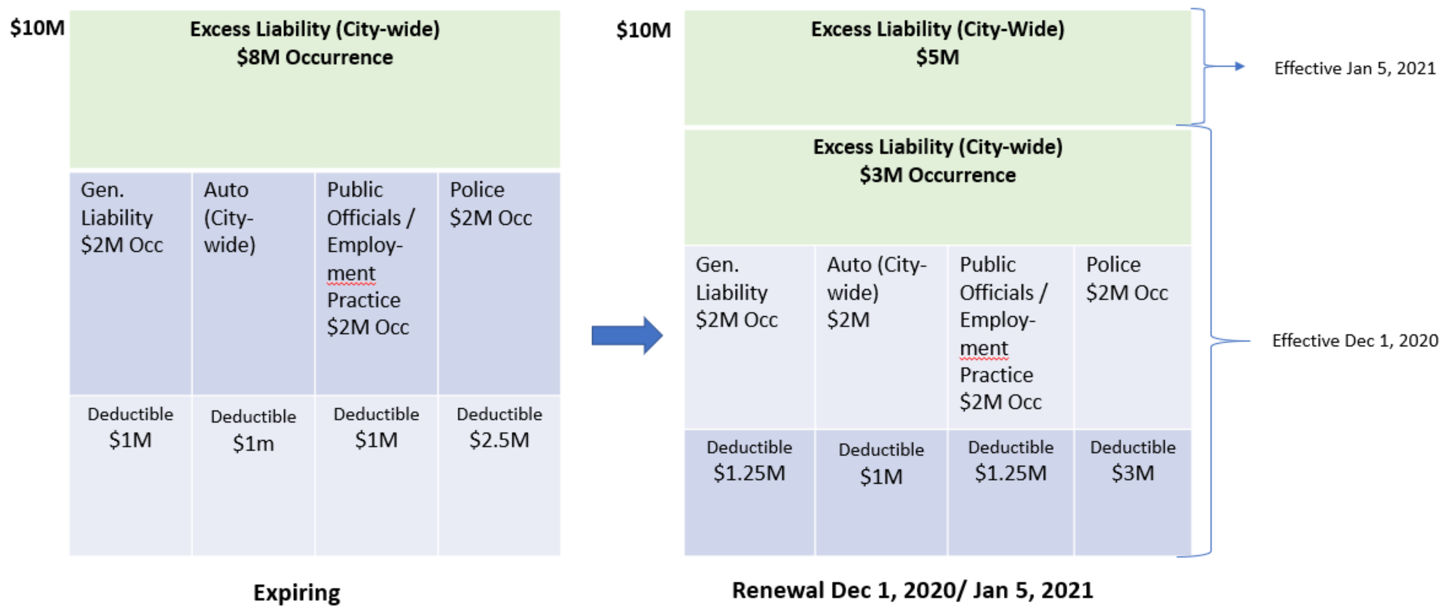
One significant non-personnel cost is for the support of ITS itself, which includes operational costs as well as debt service. These costs are included in the established IGAs with the partner jurisdictions who are expected to pay for a portion of the total system's costs. With the new tax collection services added to the ITS cost sharing model, the costs to the City's General Fund should ideally decrease as the total costs are spread out to more payers. The most recent cost sharing model issued in January 2021 shows a minor increase from the prior model due to the inclusion of data on actual collections in FY 2019-20. Nevertheless, the Revenue Division emphasizes that much of the data used in the models are estimates. For example, 42% of the total estimated amount of revenues to be collected are from the new taxes, of which no actual dollars have been collected when the model was updated. CBO continues to work with OMF to determine the amount of General Fund resources that should be devoted to the Revenue Collection program, including resources for ITS, and recommends that OMF leadership regularly keep Council and the CBO apprised of any findings regarding the program's finances.

Increasing Costs of Insurance and Claims

Risk Management administers the City's self-insured general liability, fleet liability, and workers' compensation programs, as well as the City's portfolio of insurance coverage, which includes property, excess workers' compensation, and excess liability. The program manages the Insurance and Claims (I&C) Operating Fund, which provides tort, general liability, and fleet liability claims administration; management of the liability excess insurance program; management of the City's commercial insurance portfolio; and Citywide leadership in loss prevention. The liability fund is funded primarily through interagency (IA) charges to City bureaus for self-insurance premiums, commercial insurance, and property insurance. Costs are allocated to bureaus based on a four-year average of claims costs and the prior year's payroll costs.

Insurance Costs

The City buys commercial excess insurance policies to protect its I&C Fund from catastrophic loss. The market for insurance coverage for public entities remains very limited and is tightening; the City is currently paying more for excess liability insurance while getting less coverage than it did in FY 2019-20. Prior to December 2020, the City's policy covered losses from $2.5 million to $10 million for the Police Bureau, and from $1.0 million to $10.0 million for all other bureaus. The prior year deductible for most exposures was set at $1.0 million per occurrence, with a split retention for law enforcement liability at $2.5 million per occurrence. Starting in December 2020, the policy's coverage changed, reflecting a decrease as the new policy only covered losses from $3.0 million to $8.0 million for Police, and from $1.25 million to $6.25 million for all other bureaus. Additionally, the cost of this excess liability policy increased from about $943,000 to $1.1 million, a 16% year-over-year increase.



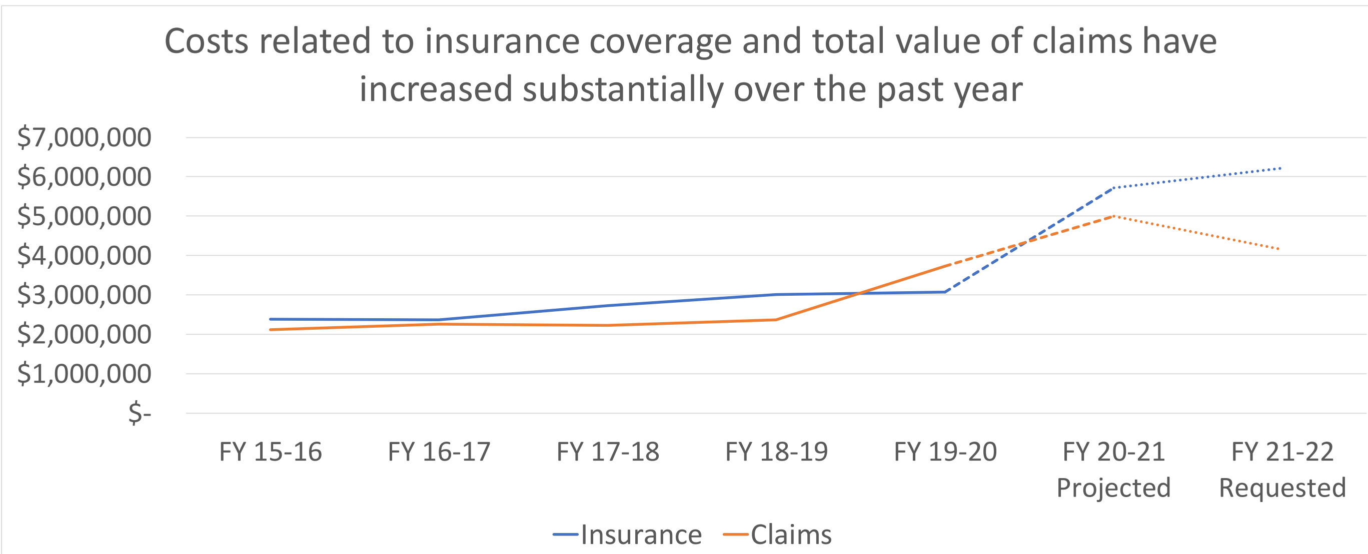
In order to increase coverage back to a total of $10 million, the same level of coverage the City had before December 2020, Risk Management contracted with a provider that provides $5 million of additional excess liability coverage for a cost of $666,250 per year, which amounts to a total cost to the City of almost $1.8 million. The City's deductible is now $1.25 million for general liability and public officials/employment practice liability areas, $1.0 million for auto liability, and $3.0 million for law enforcement. This additional excess coverage began in early January 2021.

Over the last three years, there has been only one claim against the City which required the usage of the excess liability insurance policy. With a date of loss in February 2017, this police liability settlement was for $2.7 million. At the time, the deductible was $2.5 million, and so the City accessed $200,000 of the excess liability layer. Although the excess coverage was only utilized once over the last three years, Risk Management believes that with the rising costs of legal defense, jury verdict amounts increasing fast, and situations where cases may also require payment of plaintiff lawyers' fees, reaching the excess insurance layers is becoming more and more likely.

The timing of this increase in costs for additional excess liability insurance is such that the I&C Fund will not be able to pass these costs on to bureaus this year or next since OMF had already developed the interagency rates for the bureaus by the time the additional excess coverage was realized. Instead, the fund's Rate Stabilization Reserve will be covering these cost increases in both the current year and FY 2021-22.

Costs for property insurance have also increased significantly. Last year, property insurance costs increased 24% more than the rate of inflation, primarily due to a high rate of natural disasters around the world. Since this increase happened after FY 2019-20 IAs had been established, it was covered with the fund's Rate Stabilization Reserve. For this year, OMF forecasted a rate increase of 20% and again decided to use the reserve to cover costs greater than the rate of inflation.

Usage of the Rate Stabilization Reserve to fund these increases in costs for property insurance and excess liability coverage equates to at least $1.5 million draw on the reserve. The result of the draws on this reserve is that OMF is now forecasting the IA rates for bureaus will now increase by 15% each year beginning in FY 2022-23, instead of the 13% forecasted in December 2020.



Claims Costs

Claims costs to the City have also been increasing significantly. Civic activism has resulted in an increase in demonstrations, some involving police intervention. The City continues to experience an increase in claims and litigation because of such interventions, and OMF expects this to continue as well due to the state and national political environment. The State of Oregon has a tort cap, limiting the amount the City is required to pay in many liability instances, regardless of a jury verdict. However, such cap does not apply to cases where there is an allegation of violation of constitutionally protected rights, which are found in nearly all actions filed against law enforcement. In such cases, the City could face significant jury verdicts or settlements, likely in the millions, and therefore be required to cover their full costs.

Data from Risk Management shows that in FY 2019-20 the number of claims that are law enforcement related increased by 101% from 86 claims in FY 2018-19 to 173 in FY 2019-20. The amount paid out for law enforcement-related cases was actually greater in FY 2018-19, at almost $1.3 million, with the average amount paid over the last three years being $921,498. The number of claims so far this year, as of early February, is 79, although a total of only $500 has been paid, with $177,748 of reserves set on claims.

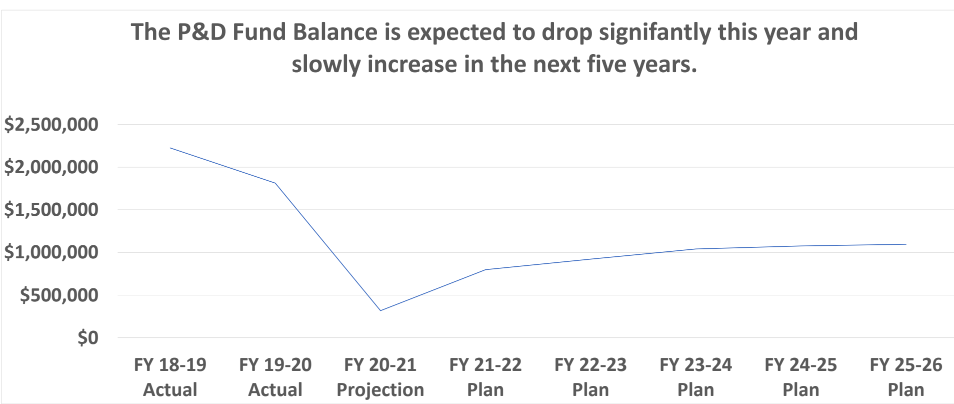
Impacts of the COVID Pandemic on Printing & Distribution

The financial and operational impacts of the COVID pandemic on Printing & Distribution (P&D) began in the fourth quarter of FY 2019-20 and have extended into the current year. The bureau's primary revenue source – interagency revenues (IAs) – are projected to end the current year at 55% of budget, while intergovernmental revenues are forecasted at 26% of budget. City employees continue to telework, and there continues to be less demand for printing and copying services from City bureaus and other jurisdictions that use P&D's services.

On the operations side, service requests per FTE in the Print Shop last year ended at 1,358, substantially below the target of 2,300 requests. This year, while demand for P&D's distribution services is still strong, demand for copy services is only at 49% of normal volume, and demand for inserting services is only at 23% of pre-pandemic volume. Although printing volume throughout the City is down, the Print Shop is still operating at nearly full service. Spending on personnel is projected to end the year at 92% of budget, while spending on materials & services and capital outlay may be only 55% of budget at year end.

This combination of lower revenues and the fixed costs associated with equipment and personnel necessitates draws from fund balance to pay for all of the program's expenses. Consequently, fund balance may end this year at only $317,415, substantially lower than the $1.6 million average over the five years before.

For FY 2021-22, P&D expects community communications and other work to return to pre-COVID volumes. P&D expects its customers to pick-up their communication expenditures next year but is not confident that Copier Services revenues will quickly return to pre-pandemic levels. Next year's target for the number of service requests per FTE in the Print Shop is 1,800, which, while higher than FY 2019-20's, is lower than pre-pandemic levels.

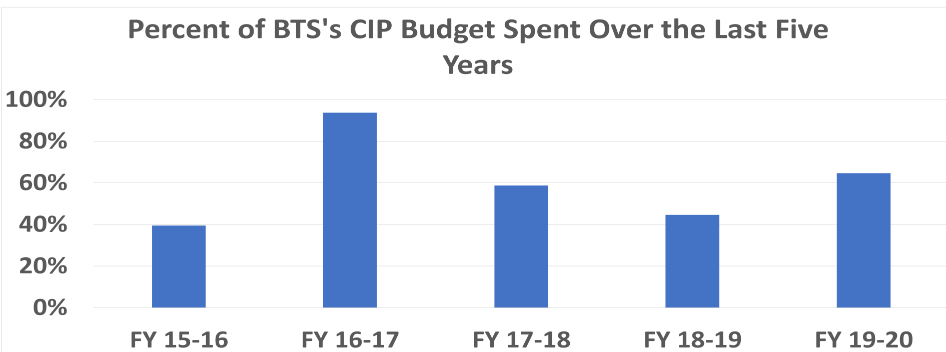


The combination of differences in demand for the division's various services is expected to result in the fund balance slowly or moderately returning to a healthy level, although by the end of the fifth year of the fund's five-year forecast, the balance, at $1.1 million, will still be below the average of the prior five years (see graph above). While P&D realizes that post-COVID print work is still somewhat unknown and that it will need to remain flexible into the future, the division needs to be open to the idea that it may at some point have to divest equipment and staff to ensure financial sustainability.

COVID Impacts on Technology Services and Next Year's Rates

Technology Services' interagency revenues were not materially affected by the onset of the public health crisis at the end of FY 2019-20; however, overall operations have been impacted. Starting last year, the pandemic brought about a shift in priorities to enable significantly more City employees to have access to telework support and options. This effort required extensive redeployment of BTS assets and the reprioritization of the immediate and long-term needs of the bureau and its customers. This year, COVID-19 is also impacting the delivery of services through the Helpdesk as well as the delivery of new hardware to customers.

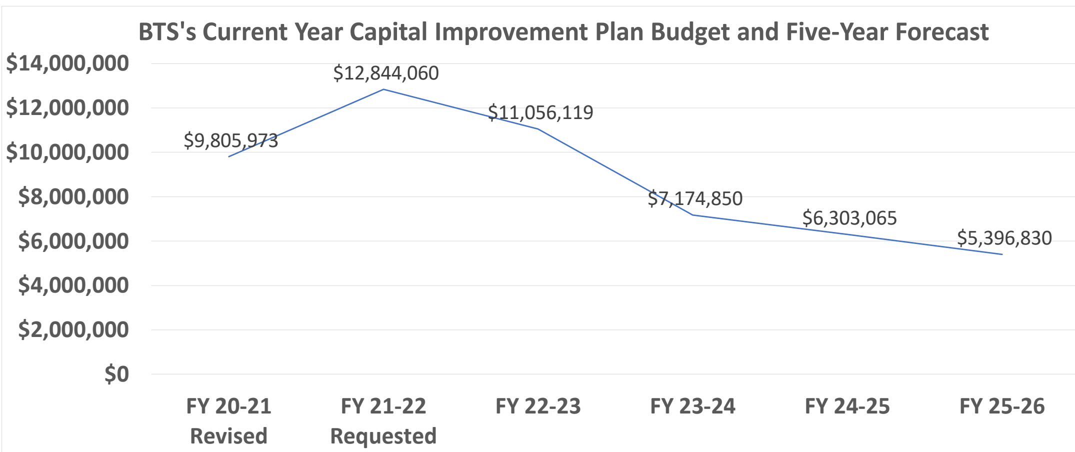
Each year as part of the City's budget process, BTS's rates are adjusted with the goal of aligning them with the cost of service delivery. The bureau states that overall, its rate budget for FY 2021-22 is below target, which is Current Service Level plus inflation. BTS followed the Mayor's budget direction to strive to keep rates at previously forecasted levels and was able to set most rates at or below the internal service inflation factor provided by the City Economist. Aside from changes in rates to support Audio/Video systems in the Portland Building and the deployment of Next Generation File Shares to replace traditional file and print servers, the most notable rate change is a 10.6% increase for the addition of 5.0 FTEs in the City's data network support team. The large increase in demand for teleworking support due to the pandemic has led to an eight-fold increase in demand for remote access. BTS has had to materially increase the size of City's data network support team, resulting in an increase in the data network rates.



When the pandemic started, BTS made a conscious effort to reduce overall spending in the Technology Services Fund. The bureau spent 65% of its Capital Improvement Plan (CIP) budget in FY 2019-20, and BTS states that the realignment of priorities due to the pandemic is one significant factor contributing to the delayed delivery on capital projects due to the uncertainty of future funding availability. CBO notes that this level of underspending is comparable to the 60% average in underspending over the last five years, highlighting a continued challenge for the bureau in its effort to complete planned projects. The bureau took a conservative approach with its CIP plans for FY 2021-22 primarily due to questions surrounding the current economy and changes stemming from restrictions related to the pandemic. BTS anticipates customer bureau reductions in service requests and inventories of equipment supported by its personnel, and in response, has moderated the bureau's projections for funding available for projects, delaying some projects to out-years. At this time, projects planned for FY 2021-22 are fully funded, but the bureau states that project planning may need to be adjusted depending on how the current year ends and any adjustments customer bureaus may make in planning for next year.

Funding for BTS Projects

In past reviews, CBO has highlighted the challenge BTS faces in acquiring funding for both capital and operating projects. BTS has indicated that approximately $10 million is needed each year to fund their projects and that existing funding sources are reserves and collections through the rate recovery model. Ongoing, sustainable, and reliable funding sources are entirely rate-based, and these total slightly less than $3 million annually. Any unsupported costs must be covered by technology reserves, which are only available if BTS underspends its budget, accumulates additional revenue from increased customer demand for service, or finds savings through efficiencies. The bureau states that it is better able to accumulate reserves when customer bureaus are able to add or maintain funding in their budgets to cover ongoing costs for maintaining existing inventories and requested services.



Some major maintenance funding is built into the rate budget to cover projects, but the bureau says that these funds are often not enough to meet all the financial demands of its capital and operating projects. BTS programs that do not have a funding source from interagency rates rely fully on technology reserves to fund their projects. The ending fund balance last year included about $13 million in technology reserves not committed to any projects this year which will be used to fund future projects. The bureau notes that if there are funding gaps in the future, it may need to identify new funding sources and make service level tradeoffs by either decreasing the number of projects it undertakes in the future or deferring projects.

Another similar and related challenge involves simply forecasting the bureau's project funding needs due to the rapid pace of technological change. BTS also has difficulty in predicting the evolving technological needs of its customer bureaus as their business requirements change may change as well. The current practice for BTS to be financially responsive to this dynamic is to continually adjust budgeted requirements in its Five-Year Plan. Costs associated with CIPs and Operating Projects are forecasted over this five-year period on a per project basis, and higher costs are estimated for the first two years, with costs beyond that significantly falling. BTS states that this approach is more indicative of the unknown direction of future technology changes than an assumption by the bureau that future project costs will be less than what they currently are.

Citywide Technical Debt

The issue of the City planning for the retirement of technical debt has also been discussed by CBO in prior reviews. While BTS tracks and plans for replacement costs for assets that it manages or operates, planning for technology replacement for non-enterprise (i.e. bureau-specific) technology needs is less comprehensive, with BTS either not as aware or involved in customer bureau discussions of their future replacement plans. At present there is no standardized practice across bureaus which would meet the existing City financial policies (FIN 6.11) for capital project budgeting, especially with regard to planning for capital technology projects. As a result, there is no aggregate estimate of technical debt or unfunded technology replacement costs in the City. Historically, the lack of a more comprehensive plan for large-scale technology projects that are bureau-specific have resulted in large, one-time budget requests from bureaus.

BTS has taken initial steps towards Citywide technical debt planning to address this issue. The bureau states that as a part of each budget and capital planning process, it reviews its technology landscape for efficiencies, risks associated with outdated technology, and opportunities to refresh or upgrade to more updated and/or better supported platforms. The bureau's Technology Business Consultants (TBCs) continue to work with customer bureaus in their portfolios to understand bureau business and planned or desired technology updates. However, BTS has found that its customer bureaus are at widely varying levels of maturity when it comes to strategic and technology planning. The Business Engagement and Technology Strategy team works with bureaus individually and looks for cross-bureau themes that may suggest enterprise opportunities or needed capabilities within BTS. CBO is supportive of this effort as BTS seeks to balance customer bureau business operations within the technology enterprise of the City.

In FY 2019-20, the City Budget Director, the Chief Financial Officer, and the City Attorney conducted an initial assessment of the major liabilities facing the City. The assessment was a starting point for future conversations and more detailed analysis, with many of the liabilities having elements of uncertainty around the likelihood and magnitude of cost risk. One of the assessment's recommendations concerning retiring technical debt is to continue supporting the development of a data governance policy for the City. This policy would include developing agreements on questions such as who has the authority to make data management decisions and who is accountable for the data, as a precursor to a technology and equipment replacement fund and allocation process. Recommendations for the future include planning for and incentivizing bureau investments in technology replacement needs by establishing a technology and equipment replacement reserve practice similar to the current Capital Set-Aside policy where unspent one-time resources are dedicated towards one-time capital projects.

IRNE and I-Net

BTS's Communications program is continuing its work on two multi-year data and voice connectivity fiber network projects that are expected to make the City's infrastructure more resilient. This effort includes the expansion of the City-owned Integrated Regional Network Enterprise (IRNE) and the transition of the Institutional Network (I-Net), which involves a franchise agreement with Comcast and serves government agencies, libraries, and schools throughout Multnomah County. Originally, this was a single project but since has split into two distinct ones. The expansion of the IRNE fiber optic network aims to bring improved communications connectivity while offering greater efficiency and affordability. With a total project cost of $12.5 million and a FY 2021-22 budget of $1.2 million, the IRNE Fiber Expansion is funded by interagency revenues and technology reserves, although BTS is also exploring potential partnership opportunities with Multnomah County to defray some of the costs.

For I-Net, BTS's contract with Comcast is set to expire at the end of 2021, thus contributing to the urgency for identification of a transition system that allows customers to retain uninterrupted data connectivity. Due to changes in the industry, BTS has decided on a new carrier's dark fiber product, which has unlimited bandwidth potential, for the transition, and the contract is currently scheduled to come before Council in early March 2021. The project is funded by $2.6 million of technology reserves with $2.5 million of the expenses planned in FY 2021-22. For the transition, the City will be purchasing a ten-year fixed rate lease for dark fiber, not subject to increases in the Consumer Price Index (CPI), with the asset still belonging to the vendor. Since the previous contract with Comcast was for $14 million and the transition network is for $11 million, the new service is expected to be more affordable to most of the system's users. BTS states that the new carrier is offering the City a "once in a life-time" price due to collective purchasing with the other jurisdictions such as the County and other local governments.

This project services internal City stakeholders, in addition to outside partner agencies. Currently, I-Net is used to provide data connectivity to several City bureaus, with Portland Fire & Rescue being the largest customer. There are currently nine non-City agencies which are I-Net customers, with the largest being the Portland Public Schools, the Multnomah Education Service District, and Multnomah County, for a total of 300 sites. This dynamic adds to complexity in project planning and governance structure post go-live. The most significant risk with the transition contract involves the potential for a large number of employees continuing to telework after the COVID pandemic which may result in the closure of sites. If there are site closures, the City will still have to pay for the ten-year contract since it is solely with the City, despite other jurisdictions' contributions that make up almost half of the funding. Hence, it is in the interest of the City and the other jurisdictions to maintain the number of sites, and the new IGAs negotiated with these other governments should require them to locate new sites if existing ones close.

DECISION PACKAGES

OMF Constraint Package

($1,642,693) ongoing General Fund, -7.00 FTE

Request Summary

This decision package cuts $1.6 million in General Fund resources and eliminates 7.0 FTE. The Bureau is not requesting these resources back.

CBO Analysis

The Mayor's Guidance directed bureaus to submit a 5% reduction to their General Fund allocation. The bureau submitted 4 add packages for additional resources, however, the bureau is not requesting funding back from this decision package. A summary of the significant reductions is described below:

- **Bureau of Human Resources ($520,046, 3.0 FTE)**

The package cuts 3.0 FTE, or $451,046 in General Fund resources for the bureau. According to BHR, two of the three positions being cut are expected to retire. The reductions offered through retirement are within the Workforce Recruitment and Training Group which are expected to impact service levels, specifically the time from posting to hire. To reduce the impact of cuts on service delivery, the bureau is exploring opportunities to reallocate work. The third position is currently filled, however, BHR did not provide details on how the cut will impact service levels or which program the position supports. BHR's portion of the cut package also includes $69,000 in materials and supplies for the We Are Better Together program.

- **Homelessness and Urban Camping Impact Reduction Program (HUCIRP) ($51,300)**

This package reduces the cash transfer from the General Fund for the HUCIRP program, now known as the Impact Reduction Program. The program's FY 2021-22 base budget is $5,183,875 which includes a mix of General, interagency, and intergovernmental revenues. OMF's FY 2021-22 Requested Budget also includes a request for $875,000 in General Fund resources for the Impact Reduction Program to address the impacts of urban camping and homelessness. CBO's analysis of the request is discussed separately.

- **311 Program ($106,025, 1.0 FTE)**

The package cuts a Customer Service Representative 1 from the 311 Program. Per Resolution 37456, adopted November 19, 2019, the 311 Program's four-year rollout includes an annual increase of staff and resources. This cut reduces the number of staff the program will add in FY 2021-22 from 8.0 FTE to 7.0 FTE. The program does not anticipate this reduction will have a significant impact on the program's operations until FY 2023-24.

- **Business Operations ($125,188, 1.0 FTE)**

The package cuts a vacant Financial Analyst I position from Business Operations, reducing the amount of financial services the Business Operations group provides to the Internal Service Bureaus, i.e. Facilities, CityFleet. While the Internal Service Bureaus (ISB) may experience a lower level of service from Business Operations, the cost ISBs pay for financial services could decrease in future budget cycles.

The Office of Management and Finance apportioned it's required 5% constraint equally amongst General-Fund supported divisions. BRFS's 5% reductions are distributed across the three programs of Revenue Collection, Procurement Services, and the Accounting program.

- **Accounting Division ($194,065, 1.0 FTE)**

Accounting proposes to eliminate a vacant Deputy Controller position and associated materials and services, reducing staff support to the City financial audit and accounting compliance group. This position was also envisioned to support grants compliance and federal audit work, as well as future known upgrades to software systems.

The position has been vacant for ten months at this point, with the Controller currently covering the duties of both positions while delegating some tasks to other staff. If the position is eliminated, some Accounting work will either continue to be on hold or slowed down, including training and development of new processes. The program anticipates that the most critical tasks it is responsible for would be completed in FY 2021-22, such as producing the City's annual Comprehensive Accounting Financial Review (CAFR).

While CBO is typically accepting bureau constraints as proposed, it is not recommending the full reduction of the Deputy Controller because of the financial risks to the City posed by the loss of the position. The importance of maintaining proper accounting procedures and internal controls is especially salient and intensive in the current environment, given potential losses due to electronic fraud and the influx of hundreds of millions of dollars in federal grants as well as federally reimbursable resources during the COVID-19 pandemic. In particular, the prolonged activation of the Emergency Coordination Center and the significant federal reimbursement and granting practices of the past year has created a large increase in workload for a limited number of staff who ultimately report to and rely on the Deputy Controller and Controller for oversight. Adequate staffing in the Accounting program – particularly in this moment of crisis – will prevent mistakes that leave the City vulnerable to fraud and financial losses from audit findings.

- **Revenue Division ($332,565)**

The reduction in the Revenue Collection program reallocates centralized management and support staff to external programs and businesses, i.e. local cost sharing revenue, that would otherwise be charged to the General Fund. This reduction option spreads the cost of the Revenue Division's internal overhead expenses (e.g. rent, administrative and managerial support) onto new funding streams from expanded regional tax collection services, thereby reducing the amount of General Fund required to support those functions.

Total indirect personnel in the Revenue program is 4.94 FTEs costing $895,433, and the total overhead and indirect costs for this program is $2.5 million. OMF has indicated that without the elimination of this $332,565 in General Fund support, it would use the funds to pay for additional service needs required by the addition of the IGA programs and/or use this resource to fill any Revenue program funding gaps. In addition, the bureau believes that a reduction in General Fund resources is risky now due to the financial uncertainties associated with the addition of two major new tax collection programs as articulated earlier in this review. CBO supports this true-up of General Fund support for the Revenue Collection program given the need to identify General Fund reductions to support a large deficit and the fact that no immediate or pressing service level declines will be realized as a result of this reduction option.

- **Procurement Division ($200,000, 1.0 FTE)**

OMF proposes to eliminate the currently vacant Coordinator I position and materials and services budget for the inactive Prime Contractor Development Program (PCDP) that supported education, technical assistance, and business development for certified Disadvantaged, Minority, Women and Emerging Small Businesses (DMWESB). The position was created in 2018 to support the PCDP and the COEP program but has never been filled. Given these factors, the General Fund resources that are identified as a reduction are not currently supporting active programs and have not been utilized in the last two fiscal years.

The pause on the PCDP originates from a recent audit that identified a number of major concerns regarding the program's design and management. During a work session on the City's social equity in contracting programs held in February 2021, Council requested that OMF come up with recommendations and options on how to achieve equity outcomes and improve, restructure, or consolidate current programs. After the evaluation, the City can then revisit how much resources are needed to run the programs and how they can be funded, including the PCDP or any successor program.

CBO supports this reduction in the PCDP program as the resources have not been used for a couple of years.

CBO Recommendation: ($1,642,693 ongoing) | -7.00 FTE

OMF Equity Manager

$76,489 in ongoing General Fund and $122,135 in internal service funds, 1.00 FTE

Request Summary

The bureau is requesting $76,489 in ongoing General Fund resources for an OMF Equity Manager position. The remainder of the position costs, $122,135, will be paid from internal service funds' contingency. Beginning in FY 22-23, the cost of the position will be included in Internal Service bureau target rate budgets.

CBO Analysis

OMF is the largest bureau in the City without a dedicated Equity Manager position. Given OMF's size and scope, the bureau is uniquely positioned to influence citywide issues that have a direct impact on racial equity such as human resources, procurement, and finance.

In the position's absence, the bureau has relied on existing staff to perform the work. While several staff are dedicated and passionate about racial and disability equity issues at the bureau, a dedicated Equity Manager is needed to make meaningful progress on the bureau's Racial Equity Plan and other priority projects. If funded, the position will spend the first 1-2 years of their work conducting an organizational assessment and leading the development of an updated OMF Equity Plan and bureau specific work plans. The Equity Manager will also serve as a resource to bureau staff, work collaboratively to support and inform efforts to develop workforce diversity, hiring and retention strategies, embed social equity in contracting policies and integrate racial equity in the City's asset management and infrastructure investment decisions.

CBO notes that OMF is one of the City's largest, most complex bureaus with several distinct lines of business. Most larger bureaus across the City are currently relying on teams of equity managers to provide adequate support and integration of equity into their systems and processes. To ensure effectiveness of this single position, their work and expectations will need to be very carefully scoped; they should have direct advisory access to top bureau leaders; and other OMF staff will need to hold primary responsibility for implementing recommended equity work.

CBO recommends this package. As a central service provider, OMF is well-positioned to meaningfully advance racial and disability equity for employees, bureaus, and the City at large.

Noting the concerns above, CBO believes that funding this position will also help bureau staff to incorporate the City’s core values of equity and anti-racism into all OMF’s policies, procedures, and programs.

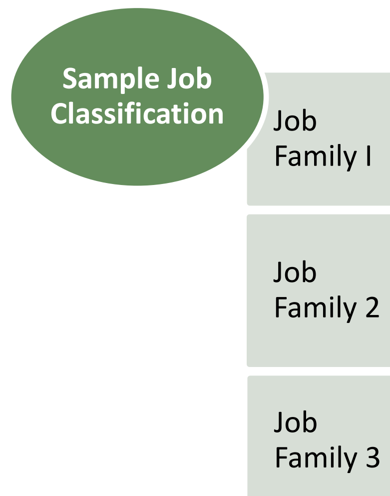
CBO Recommendation: ($76,489 ongoing) | ($ one-time) | 1.00 FTE

BHR Consistent Pay Equity Practices and Tools

DP 11,376, $423,611 in ongoing General Fund resources and 2.00 FTE

Request Summary

This package is for $423,511 in ongoing General Fund resources for two limited term positions that were approved in the FY 2020-21 Fall BMP to support the implementation of the Oregon Equity Pay Act (House Bill 2005 or the “Act”). The request includes $106,284 for an Administrative Specialist I ($106,284) to support the Class Comp team with tracking P4s, developing reports, responding to customer inquiries, and supporting the team’s administrative functions. The funding would also support one Human Resource Analyst II ($159,360) position to coordinate, evaluate, and support the City’s ongoing efforts to comply with the Pay Equity Act.



The package also requests $160,000 in ongoing General Fund resources for software maintenance and professional services to support the ongoing requirements of the Equal Pay Act.

CBO Analysis

The **Oregon Equity Pay Act (House Bill 2005 or the “Act”)** went into effect on January 1, 2019 and allows for only certain bonified factors to explain differences in pay for employees performing comparable work. The Act requires employers to demonstrate a good faith effort to identify wage differentials every three years. In late 2018, the City attempted to determine employees’ “justifiable wage” and made proactive pay increases to employees’ pay, leading to an initial Citywide cost of $3.7 million and a General Fund cost of $1.4 million. **The City’s updated pay equity analysis legally must be completed by December 31, 2021** to determine whether pay disparities exist that cannot be explained by the bonified factors.

Over the past year, BHR has taken steps to develop the core competencies, IT infrastructure and processes to operationalize the ongoing requirements of the law, as described below.

- **Creating a Job Architectural Framework to identify work of comparable character**

Under the Equal Pay Act, employers must pay employees the same as people doing comparable work with consideration given to an employee’s knowledge, skills, effort, responsibilities and working conditions. In response to the Act, BHR is creating a **Job Architecture Framework** to identify work of comparable character or “job families” within the City’s recently updated Classification and Compensation Structure (“Structure”). A visually example is shown in table __.

Finalized in late 2018, the City updated its non-represented employee Classification and Compensation Structure (“Class Comp Structure”) which reduced the number of non-represented classifications from approximately 400 to 100 and significantly widened the low and high ends of the City’s non-represented classification pay ranges. Complicating the roll out of the new Class Comp Structure was the implementation of the Equal Pay Act which proactively adjusted employees pay based on the City’s *former* Classification and Compensation Structure. In response, the City is working to narrow the City’s updated job classifications into groups based on work of comparable character. This effort must be completed prior to conducting an updated pay regression analysis.

BHR has indicated the Job Architectural Framework does not impact the current Class Comp Structure’s pay ranges. The bureau anticipates the Framework will be completed in March 2020. Depending on the extent of changes the Framework will produce, there may not be sufficient time for City staff and bureaus to provide meaningful feedback before the pay regression analysis moves forward.

- **Building the IT infrastructure and investing in tools to support compliance**

In addition to the Job Architectural Framework, BHR must also conduct an employee survey to obtain data needed for the pay regression analysis (e.g. employees’ prior work experience, education, and training). In 2018, the City conducted a similar survey, however, OMF lacked the IT infrastructure to use the survey data for subsequent pay regression analysis. Recognizing the issue, BHR is taking steps to update the City’s SAP system so that the survey data can be gathered and maintained in the system moving forward.

To build the IT infrastructure required to comply with Equal Pay Act, the Bureau received $175,000 in one-time funds in FY 2020-21 Fall BMP to purchase a web-based pay equity software and starting pay salary calculator. The bureau is still in the process of procuring the software and consultant support. The bureau anticipates that the software and consultant support will be completed by April 2021, which gives the bureau eight months to conduct the analysis, review the findings with bureaus and Council, identify remediation strategies, and make pay adjustments by December 2021. If there are delays with the implementation of the software tool, the Job Architectural Framework, or the survey, it will take time away from the analysis and planning for the budgetary impacts if pay differentials exist. The bureau’s FY 2021-22 Request Budget also includes a request for $150,000 for ongoing software maintenance and support. This is essential for determining starting pay for new hires, reclassifications, and for conducting subsequent pay regression analysis.

- **Ensuring adequate support staff for continued implementation**

The centralization of BHR duties around starting pay for new hires, reclassifications, and pay regression analysis has significantly added to BHR's workload. OMF's FY 2021-22 Requested Budget includes a request for ongoing General Fund resources for two permanent positions that were approved in the FY 2020-21 Fall BMP. The request funds an Administrative Specialist I to support the Class Comp team with tracking P4s, developing reports, responding to customer inquiries, and supporting the team's administrative functions. The funding will also support one Human Resource Analyst II FTE to coordinate, evaluate, and support the City's ongoing efforts to comply with the Pay Equity Act. Unfortunately, the original recruitment for the Human Resource Analyst II was not successful and the position remains unfilled. BHR is continuing to recruit for this role.

CBO recommends this request due to the potential for a significant financial impact to the City, particularly if the effort is not resourced properly. Based on the number of significant deliverables that must be completed by year's end to comply with the Equal Pay Act, CBO is concerned that there is not sufficient time to provide meaningful feedback on the Job Architectural Framework or develop sustainable remediation strategies if pay differentials are found. This is essential as personnel costs are creating pressure in bureau budgets Citywide and will create tradeoffs between service provision and rising costs for existing staff. Bureaus have differing levels of cost exposure and ability to adjust to rising personnel costs.

CBO encourages BHR, in partnership with the City Attorney's Office and the City Budget Office, to share findings and provide a meaningful forum for feedback on Job Architectural Framework for bureaus and staff. CBO also encourages BHR and the City Attorney's Office to work in partnership with the Budget Office to review the pay equity assessment findings and develop financially sustainable remediation strategies if pay differentials are found. Additionally, CBO recommends the City Attorney quantify the level of risk the City would assume if required to take additional time to analyze and roll out system-wide changes thoughtfully and accurately.

CBO Recommendation: $423,511 ongoing | ($ one-time) | 2.00 FTE

Impact Reduction Program-Campsite Cleanup

DP, $725,000 in one-time General Fund resources and reallocation of $150,000 in ongoing General Fund resources for a Livability Coordinator position to the Impact Reduction Program, (1.00) FTE

Request Summary

This package requests $725,000 in one-time General Fund discretionary resources for campsite cleanup and reallocates $150,000 of ongoing General Fund from the Livability Coordinator position (approved in the FY 2019-20 budget process) to the Impact Reduction Program for direct service provision. The realignment eliminates the Livability Coordinator (Analyst III) position that is currently vacant. The position was created to enhance the City's ability to reduce litter in the public right of way.

CBO Analysis

COVID-19 has complicated the City's response to campsite cleanup and removal. Per health guidance from the Center for Disease Control (CDC) and public health authorities, the Impact Reduction Program (the Program) has adjusted campsite cleanup and removal protocols in response to the pandemic. The program is averaging 3-7 site removals a week compared to the 40-60 full site removals that occurred a week prior to the pandemic. In place of campsite removals, the Program shifted its focus toward making frequent visits to encampments to remove trash and biohazardous materials. While the program has adapted its approach in response to public health guidance, the number of high impact encampments throughout the City, including downtown, has increased significantly. For example, as of February 18, 2021, there were 68 large congregate camps in the City with 10 or more structures. Of those 68 sites, 50 of them have not been removed since March 2020.

The request augments the Impact Reduction Program's current year budget of $6,349,695 which is funded with a mix of General Fund, interagency, and Oregon Department of Transportation resources. The Program's current year budget includes $800,000 in one-time resources allocated in the FY 2020-21 Fall BMP to increase the number of Clean Start (CS) and Rapid Response (RR) crews collecting garbage and biohazardous materials from encampments in the downtown I-405 loop. The Program notes that procuring the CS Crews took more time than anticipated (the CS crews were deployed on February 22, 2021). However, the new RR crews that have been online since December 2020 are making process cleaning up in the downtown core. As of January 2021, the new RR Crew removed 30,000 pounds of additional trash from encampments in the I-405 downtown loop, exceeding the Program's estimates for the added RR crews.

Since late fall, the Program has been in direct communication with the Multnomah County Health Department regarding updating the City's campsite removal guidance. Based on discussions with the County, the guidance will allow for more campsite removals throughout the City where conditions present a heightened risk of community spread of HIV and fecal borne illnesses like Hepatitis A and bacteria resistant spread Shigella. The Impact Reduction Program estimates that once campsite cleanup and removals resume to pre-COVID levels (anticipated in Spring of 2021), it will take 18-24 months to address the backlog of encampments requiring clean-up services.

To address the growing public health issues from unsheltered homelessness, the Program is requesting $725,000 in one-time resources and to reallocate $150,000 in ongoing resources for the Livability Coordinator included in the FY 2019-20 Adopted Budget. This funding will be used to address the growing backlog of locations that require extensive and costly cleanup services throughout the City. For example, prior to COVID-19, the cost of a single campsite removal was approximately $750. Due to the accumulation of personal property and waste at the encampments, the cost has increased to $1,700 per removal (as of February 2021). The additional funding will also enable the program to provide the level of service currently provided in the downtown I-405 loop citywide.

The rising costs are reflected in the growing number of encampments assessed at the criteria's highest risk level for campsite removal. In late February 2021, 108 locations throughout Portland meet the Program's criteria for posting and removal. Of the 108 locations, 70% were assessed at the high-risk level and contained eight or more structures. The risk assessment criteria include:

- Evidence of Conspicuous Drug Use/Paraphernalia

- Amount of Trash Debris
- Proximity to School, Park, Business or Private Residence
- Environmental Impact
- Restricts ADA Access
- Posted No Trespassing
- Size of Camp
- Violence/Crime reported
- Blocking Public Access
- Restricts Maintenance Activities

This program addresses one symptom of the much larger, complex issue of homelessness that the City has been wrestling with for years. The City has been in an official State of Housing Emergency for 8 years. Since the original declaration of Emergency, the City has spent over half a billion dollars through the Portland Housing Bureau and the Joint Office of Homeless Services to address the underlying causes of houselessness. The influx of new resources via the Metro Supportive Housing Tax offers a significant opportunity to continue progress on addressing the underlying causes of houselessness, as discussed in the budget review for the Joint Office of Homeless Services. The HUCIRP program has been working to coordinate with the JOHS and service providers where possible and appropriate, as they strive to meet the primary program goal of ensuring clean and safe public spaces.

Given the confluence of multiple crisis that have impacted the City and the unsheltered homeless population as well as the growing backlog of encampments requiring intensive clean up services over the next 18-24 months**, CBO recommends ongoing funding for this request**. CBO notes that the City's budget for campsite clean-ups has grown significantly over the past several years and that further discussions are needed to define sustainable levels of service once the City has recovered from COVID-19.

CBO Recommendation: $875,000 ongoing | ($0 one-time) | (1.00) FTE

Facilities Services Core Operating and Asset Management Needs

DP 11381, $155,000 in Interagency Revenue from Customer Bureaus, 1.50 FTE

Request Summary

The $155,000 request is for 1.0 FTE Capital Project Manager III to carry out condition assessment functions for Facilities Services and 0.5 FTE Business Systems Analyst to implement and support the asset management software system. The request includes partial funding for the Capital Project Manager III position as the role is not expected to begin until January 2022.

This ongoing funding will support critical one-time Facility investments that are essential for planning and operations. Facilities is funding the one-time investments—a condition assessment and asset management software tool—from major maintenance reserves. All Facilities customers have agreed to reallocate funding from their FY 21-22 budgets to cover the ongoing cost of the positions to support the work.

CBO Analysis

This request from the Division of Asset Management (DAM) provides Facilities Services with foundational tools to build its asset management program. CBO applauds DAM's efforts to engage its' customer bureaus through the Customer Stakeholder Group (CSG) forum. Launched in September 2020, OMF has engaged bureau directors, finance managers, and operations managers in discussions about Facilities' operating model and limitations within the model that prevent DAM from performing core functions or reasonable levels of service. In early January 2021, DAM used this forum to present the need for AM and FCA, hosting three information sessions with finance managers at customer bureaus. **All customer bureaus agreed to fund the ongoing portion of DAM's investment proposal using existing resources.** This investment includes $155,000 in FY 21-22 for 1.5 FTE. The cost increases to $374,000 in FY 22-23 which includes the cost 1.5 FTE plus $140,000 in ongoing AM software maintenance. The key components of the proposal are described below:

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

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

2) **Asset Management Software System (AM)**. AM Systems house system of record data for critical assets, such as asset location, nameplate, and FCA information. It also allows for asset work order development and completion from customer bureaus and/or preventative maintenance, tracks asset costs, and provides for performance measurement and reporting capability. Without an AM system, there is nowhere to store or analyze data FCA data. The one-time cost for this investment is $650,000 which is funded from Facilities major maintenance reserves. Beginning in FY 2022-23, customer bureaus have agreed to fund $140,000 in ongoing system maintenance/upgrades/licensing fees to support the software system or $374,000 total requested funding by FY 2022-23 from customer bureaus for the AM and FCA functions.

   CBO notes that the focus of this request is an AM system for Facilities owned assets. While this decision package would directly benefit Facilities' asset management program, this investment has ancillary benefits that would help the city as whole. Other bureaus, such as Portland Fire and Rescue, BES, PBOT, Police, and Parks have also expressed interest in potentially procuring AM and FCA services from Facilities for help managing properties that are outside of Facilities' purview. This would be an important step in bureaus managing their facilities to comparable core standards.

3) **Staff support** for the procurement, implementation and maintenance of an AM system *and* support for the condition assessment function at Facilities. The package includes 1.0 FTE Capital Project Manager III to operationalize FCA findings and 0.5 FTE Business Systems Analyst II (BSA) to support asset management software system. The BSA position will eventually be combined with an existing 0.5 FTE BSA II position in the Security program to create 1.0 FTE.

CBO recommends the request. Careful consideration has been given in requesting these resources, which are foundational to core City functions and operations. Investments in a facility condition assessment and asset management software align with Financial Policy 2.02 and 2.03 and will provide the data needed to articulate Facilities' major maintenance gap. This information is essential for developing funding strategies to increase major maintenance reserves and fund critical infrastructure projects.

CBO Recommendation: ($ ongoing) | ($ one-time) | 1.50 FTE

Procurement Compliance Team Funding Conversion to Interagency Agreements

$0, 0.00 FTE

Request Summary

This realignment request converts $890,000 in General Fund resources (discretionary and overhead) to interagency funding associated with the Procurement Division's Compliance Team providing services to seven bureaus with construction activities. The request eliminates a General Fund subsidy currently provided to bureaus that manage infrastructure projects through which Procurement ensures compliance with Social Equity in Contracting program requirements, freeing up General Fund resources that can be used to address other City needs and priorities.

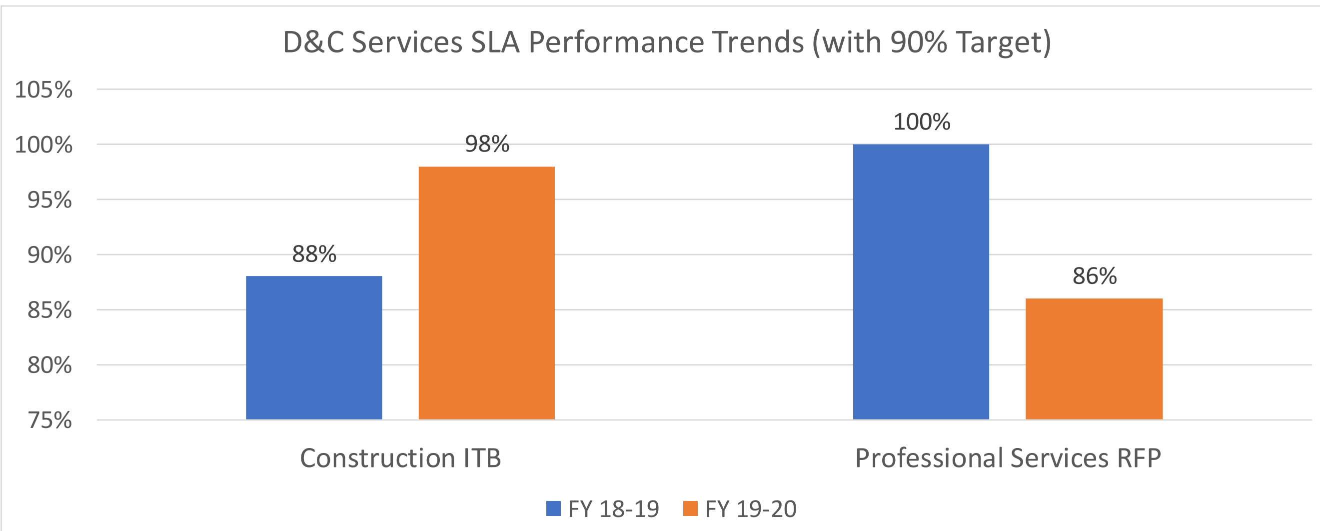
CBO Analysis

The Compliance Team is staffed with 4.45 FTE, and the $890,000 is comprised of:

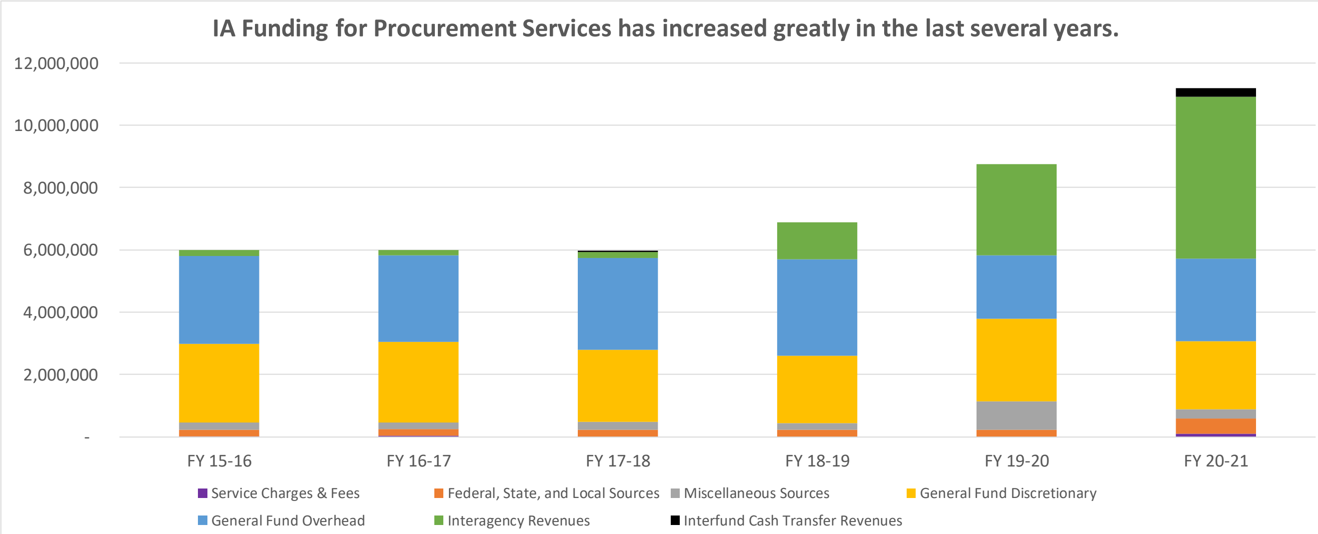
- $626,553 for direct personnel costs
- $126,547 for indirect personnel costs
- $136,900 for materials and services

Two years ago, funding for the Design & Construction (D&C) Team's services was converted to an interagency (IA) funding model. The Compliance Team considered in this realignment request is a component of D&C's services, and OMF has indicated that in hindsight, the Compliance Team should have been included in the first conversion. Stakeholders' meetings specific to cost allocation and budget matters have been held every three to six months to adjust and modify cost allocation as well as contemplate changes such as the subject of this Compliance Team Realignment Decision Package. In addition, OMF met with each affected bureau's finance and program contacts at least three times over the last six months. OMF has indicated that program staff in the bureaus have voiced support for the stabilization of funding for the service through IAs; bureau finance staff initially had reservations about the additional costs but generally supported the new funding model inasmuch as their bureau contract staff support it.

The transition requires the establishment and negotiation of Service Level Agreements (SLAs) with the customer bureaus that detail Procurement's commitments to meet construction demand and project outcomes. The primary driver for both the D&C and Compliance Team conversion was the demand from customer bureaus for a significant increase in service level and stability, including the avoidance of service reductions based upon factors having little to do with construction bureau service demand. Under the new system, D&C services commit that, for 90% of projects, the time to execute the contract will be below the target number of days: 168 days for Construction Invitation to Bid (ITB) services and 274 days for Professional Services Request For Proposals (RFP). Procurement is in the process of updating the SLAs for FY 2021-22, including for services related to Social Equity in Contracting programs. Performance data is listed in the chart below.



As shown in the chart below, interagency funding for Procurement's services has substantially increased over the last several years. OMF states that there are currently no plans to convert any additional services from General Fund to interagency funding and that services related to construction are provided to a small subset of City bureaus. The remaining Procurement workgroups are largely for Citywide services touching all bureaus proportionate to the General Fund Overhead Model metrics of budget and FTE size.



CBO supports Procurement's request to convert funding for the Compliance Team's services to the IA model because the services provided benefit a subset of City bureaus and should not be subsidized by the General Fund. Additionally, CBO lauds the bureau's efforts to establish and meet agreed-to performance standards with regards to procurement processes.

CBO Recommendation: $0 ongoing | 0.00 FTE

Add back Deputy Controller 50% of Year

$97,032, 1.00 FTE

Request Summary

This request was added by CBO to restore the Deputy Controller position that BRFS submitted to be eliminated from the Accounting program as part of the required 5% constraint. While the bureau has carefully considered its reductions in light of the General Fund shortfall and not proactively requested this funding back, CBO is advocating for the restoration of this position based upon our Citywide analysis and the unique financial risk to the City presented by the loss of this position at this time. Please refer to the discussion on the Constraint package above for a description of OMF's request and CBO's analysis and recommendation.

CBO Analysis

If the position is retained, Accounting has indicated that it would not be filling the position until sometime mid-year in FY 2021-22. Therefore, CBO is recommending that funding for half of the year be reduced on a one-time basis, leaving ongoing funding for the position intact.

CBO Recommendation: $194,065 ongoing | ($97,033 one-time) | 1.00 FTE

Paid Family Medical Leave Act (PFMLA) Implementation Support

$170,961 in one-time General Fund resources ($97,224 discretionary; $95,757 overhead), 1.00 FTE

Request Summary

This request is for $170,961 in one-time General Fund resources to support the implementation of PFMLA. It includes $40,000 to support technical and testing requirements and $130,961 for a limited term Human Services Analyst II (HRA II) to support testing and communication regarding the new policy with City staff.

CBO Analysis

In 2019, Oregon passed House Bill 2005, creating an insurance program to provide employees with a portion of wages while on family, medical or safe leave. Oregon is the 8th state in the country to pass paid family medical leave legislation and the first to pay low income workers 100% of their wages when they are off work. Oregon's PFMLA law states that total contributions may not exceed 1% of employee wages, up to a maximum of $132,900 in wages or a total annual contribution of $1,392 per employee. Of the 1% of employee wages, the legislation mandates that employers contribute at least 40%, with employees contributing the remaining portion. The contribution ratio will be subject to bargaining.

The FY 2020-21 Fall Supplemental Budget included instructions for a CAL target adjustment to support anticipated employer costs for bureaus in the General Fund. Based on initial payroll estimates, CBO has set aside $1,184,970 in ongoing General Fund discretionary resources to cover the employer contribution for General Fund-backed employees. For the City to be compliant with the legislation, employees must also begin making contributions from their paychecks beginning January 1, 2022. PFMLA benefits will be payable a year later, beginning January 1, 2023.

The City must have the system and procedures in place to pay into the State's system in January of next year. This requires resources in FY 2021-22 to fund the technical system build-out and administrative support required to comply with the law. As these costs were not included in the Bureau's FY 2021-22 Requested Budget, CBO worked with the bureau to identify resource and created a decision package on behalf of the bureau and the City.

- **Technical Implementation Costs: $40,000.** To deduct the employee's portion of the 1% contribution from paychecks, BHR, Accounting, Payroll and Enterprise Business Solutions need to build the technical requirements in SAP for new leave types and conduct system testing. CBO used the implementation of the Statewide Transit Tax (July 2018) as a proxy for the resources needed to complete this work. HB 2005 presents similar requirements in that it can be handled from a system perspective.
- **Administrative Costs: $130,961 for 1.0 FTE.** The City has leave coordinators assigned to all bureaus Citywide, many of which spend anywhere from 5-20% of their time coordinating leave, with a single full time leave coordinator that is housed in BHR. This request includes funding for a limited term leave coordinator to support early testing and communication regarding the new policy with City staff. BHR is likely to have an additional

request for staff resources next year when benefit payouts begin in January 1, 2023.

CBO recommends this request as funding is needed to support the City's compliance with HB 2005. The funding that is set aside for ongoing payroll contributions represents an initial estimate of annual costs. While PFMLA administrative rules are still being finalized by the State, the City it appears as though only 6 months of employee and employer payroll contributions will be required in FY 2020-21. As a result, CBO recommends allocating one-time resource from the PFMLA set-aside for these needs, and assessing ongoing system needs and funding options as part of FY 2022-23 development when more information is known about the program.

CBO Recommendation: ($ ongoing) | ($170,961 one-time)| 1.00 FTE

SUMMARY OF REQUESTS & RECOMMENDATIONS (ALL FUNDS)

Office of Management & Finance

		2020-21 Adopted Budget	2021-22 Requested Base (A)	Bureau Decision Packages (B)	CBO Recommended Adjustments (C)	Total Recommended Budget (A+B+C)
Revenue	Taxes	$38,175,000	$39,720,000	$0	$0	$39,720,000
	Miscellaneous	$14,901,994	$16,293,702	$0	$0	$16,293,702
	Licenses & Permits	$7,780,000	$7,929,000	$0	$0	$7,929,000
	Intergovernmental	$14,260,471	$49,078,461	$0	$0	$49,078,461
	Interagency Revenue	$196,359,712	$214,389,238	$1,317,135	$0	$215,706,373
	General Fund Overhead	$13,550,972	$12,701,144	($737,269)	$150,074	$12,113,949
	General Fund Discretionary	$17,887,040	$19,034,827	($1,079,530)	$117,919	$18,073,216
	Fund Transfers - Revenue	$8,035,992	$5,685,759	$669,106	$0	$6,354,865
	Charges for Services	$142,617,670	$145,838,583	$0	$0	$145,838,583
	Bond & Note Proceeds	$22,232,139	$25,554,137	$0	$0	$25,554,137
	Beginning Fund Balance	$233,391,291	$219,306,178	$0	$0	$219,306,178
Revenue	**Sum:**	**$709,192,281**	**$755,531,029**	**$169,442**	**$267,993**	**$755,968,464**
Expense	Personnel	$102,840,345	$115,107,657	($535,889)	$219,761	$114,791,529
	Internal Materials and Services	$34,784,814	$46,613,203	$64,525	$0	$46,677,728
	Fund Transfers - Expense	$20,843,308	$28,206,443	$0	$0	$28,206,443
	External Materials and Services	$283,870,744	$307,536,657	$864,400	$48,232	$308,449,289
	Debt Service Reserves	$10,065,550	$23,700,000	$0	$0	$23,700,000
	Debt Service	$43,674,698	$30,200,565	$0	$0	$30,200,565
	Contingency	$182,011,766	$172,555,938	($223,594)	$0	$172,332,344
	Capital Outlay	$31,101,056	$31,610,566	$0	$0	$31,610,566
Expense	**Sum:**	**$709,192,281**	**$755,531,029**	**$169,442**	**$267,993**	**$755,968,464**