



Executive Summary

This document provides important contextual and summary information for the FY 2020-21 City Budget Office reviews. Interested parties are encouraged to read this document and then dive into bureau reviews for additional details.

FORECAST UPDATE

There were limited, but significant, Current Appropriation Level target adjustments approved by City Council for FY 2020-21, most notably the incorporation of the costs associated with the downtown office blended rate model following the pending completion of the reconstruction of the Portland Building. The impacts had been part of the forecast for the prior two years, and this policy decision added nearly \$5 million in General Fund discretionary costs that would have otherwise been available for other obligations. The CAL adjustments included the 311-information program estimated at an initial annual cost of \$1 million. Finally, the technology project for the Integrated Tax System (ITS) in the Revenue Division of OMF will add about \$1.8 million in ongoing maintenance and debt costs (though is expected to allow the City to collect more in taxes as a result of the upgrade).

Revenue collection in the General Fund continues the upward trend and are projected to hit record highs. As discussed in the Council Work Session on December 19, 2020, business license tax collections have the most significant growth rate, thus driving the overall record level of revenues received by the City. As a result, CBO has increased the forecast to reflect \$4.5 million in unallocated ongoing resources and \$24 million in one-time resources in FY 2020-21 (up from \$0.1 million in ongoing and \$10.8 million in one-time in the December forecast). Per City Policy, at least 50% of available one-time resources should be allocated to Capital Set-aside. These are the figures that CBO balanced to in its recommendations.

These figures are still relatively conservative but do largely reflect collections to date. In addition to what the City has experienced in the collection of business license taxes, potential positive risks to the longer term forecast still includes uncertainty for PERS costs as there are several cases in litigation where the result may relieve some future benefits-related costs. Meanwhile, downside risks to the forecast largely surround federal trade policy and, more locally, the City's compensation structure that has been revamped through both a new class compensation structure for non-represented employees and a pay equity study that was precipitated by state legislation. Recently, the Oregon State Legislature passed a new Paid Family Leave Act and there will be costs implications throughout the City when the legislation is enacted. The CBO is recommending a portion of the anticipated expenses for the General Fund be set aside on an ongoing basis to start planning for this expense. These additional costs will put pressure on bureau budgets and may be a limitation on service delivery.

In the event the local economy continues to show signs of prolonged expansion, the CBO recommends the Mayor and Council consider setting aside funding for the following long-term financial obligations:

- Future pension costs pending state legislation or court decisions.
- A project reserve for the procurement of an Enterprise Asset Management system to replace the outdated or end-of-life systems within Parks, Fire, and OMF.

- Potential cost impacts for collective bargaining agreements that are currently underway.
- Increase the General Fund contribution to the Harbor Superfund clean-up.

FY 2020-21 BUDGET PROCESS & GUIDANCE

The Mayor’s budget guidance for FY 2020-21 did not require bureaus to submit reductions. Bureaus were allowed to request new General Fund resources, however any request for new resources required either a 50% reduction or internal realignment option. The intention of this requirement was to provide options for decision-makers if requests for resources outweighed available funds. Additionally, the guidance instructed bureaus to work collaboratively to address the following seven priority areas:

- 1) Homelessness Crisis
- 2) Collaborative Public Safety Budget
- 3) Parks Financial Stability
- 4) Leadership Action on Climate Change
- 5) Ratepayer Affordability
- 6) Community Development Mitigating Displacement
- 7) Long-term liabilities

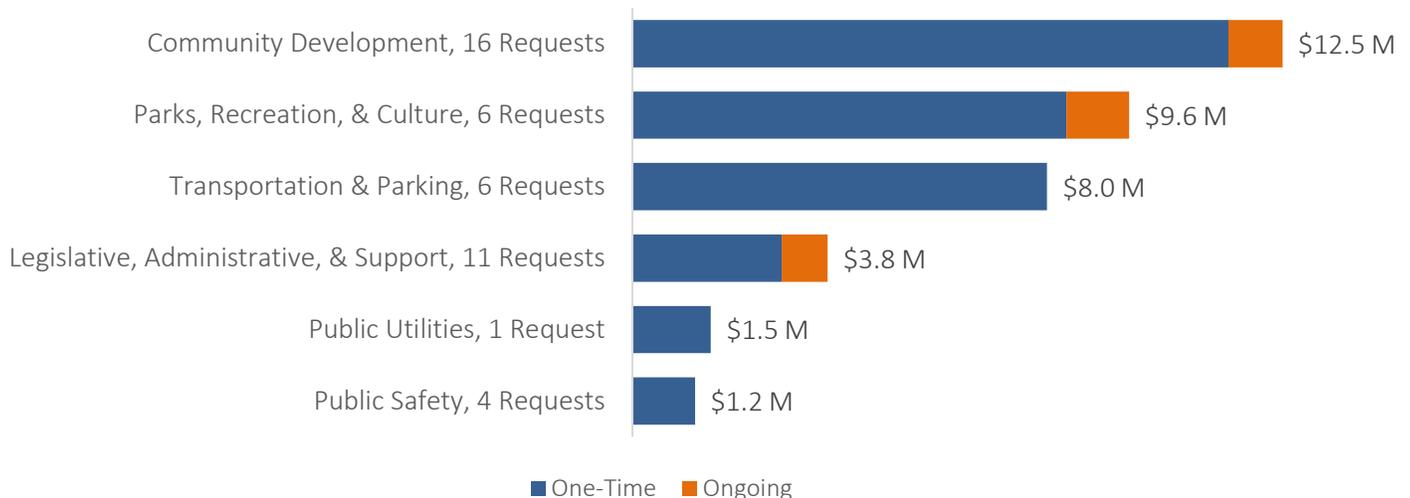
Non-General Fund Guidance

Ratepayer funded bureaus, specifically, the Water Bureau, Bureau of Environmental Services, and the Office of Management, were instructed to build their budgets in accordance with the rate levels articulated and approved as part of the bureau’s multi-year financial plan presented during FY 2019-20 budget development. Due to the potential outsize impact of the water filtration plant on estimated Water rates, the Water bureau was directed to submit a proposal and/or reduction options which seek to absorb at least 25% of the estimated rate increase associated with the updated filtration plant costs.

GENERAL FUND REQUEST SUMMARY

The FY 2020-21 Requested Budget consists of 44 requests for General Fund resources totaling \$36.5

Bureaus submitted a total of 44 requests for General Fund resources totaling \$36.5 million



million. The requests for ongoing General Fund resources total \$3.1 million. General Fund one-time requests total \$15.4 million, and one-time Capital Set-aside requests total \$18.3 million. The chart below provides the detailed breakout of the requests by service area.

In accordance with the Mayor's guidance to collaborate, there are requests for resources to address climate change, anti-displacement initiatives, and homeless services where bureaus have worked in partnership to bring options for consideration. These requests are primarily within the Community Development service area. Additional requests from the Bureau of Parks and Recreation would support the financial stability, major maintenance of parks assets, and operations and maintenance for the bureau, and one-time capital investments total \$9.7 million. The CBO reviewed the requests and the submitted offsets during the office's evaluation and development of subsequent recommendations.

CBO GENERAL FUND RECOMMENDATIONS

In the attached analyses, CBO provides a review of all bureau base budgets and all bureau requests for resources. In issuing recommendations, CBO considered criteria such as: proposal impact on the City's financial sustainability; available data and evidence supporting the proposal's impact; likelihood of improving equitable outcomes for underserved populations; completeness of the proposal; alignment with adopted Council goals and/or Mayoral priority areas; and the ability of other funding sources to support the effort, among other criteria. CBO recommendations total \$4.5 million of ongoing and \$11.2 million in one-time discretionary General Fund resources. In some cases, CBO recommended reducing ongoing allocations on a one-time basis due to funds not being needed in FY 2020-21. These recommendations leave a total balance of \$2.4 million in unallocated one-time discretionary funds.

What follows are short descriptions of these recommendations; for CBO's analysis leading to these recommendations, please see the bureau reviews. Please note that the numbers below represent General Fund discretionary resources only; additional funding sources, including General Fund overhead, have been recommended in some cases as noted in each bureau review.

Ongoing General Fund Discretionary Recommendations:

The Office of Equity and Human Rights: CBO recommends a total of \$72,633 and 1.0 FTE in ongoing and \$34,406 in one-time discretionary General Fund resources. These resources will be used to hire one full-time Analyst II for the Civil Rights Title VI program and to provide continuity of services in the bureau's base budget. The one-time resources will allow for another year of current service level support while the bureau finalizes and seeks to implement the new strategic plan.

The Office of Government Relations: CBO recommends \$68,389 and 1.0 FTE as enhancements to the City's Tribal Relations Program.

The Office of Management and Finance: CBO recommends \$62,090 and 1.0 FTE in the Procurement Services Division of the Bureau of Revenue and Finance. This position will support coordinated regional efforts aimed at the reduction of carbon emissions from fossil fuels. This position is partially funded with revenues anticipated from partner agencies.

Portland Parks and Recreation: CBO recommends a total of \$1.2 million in ongoing General Fund discretionary resources for existing asset major maintenance needs (\$500,000) and to operate and maintain new parks and assets (\$707,000).

Funds Management: CBO recommends setting aside a total of \$3.1 million for increased ongoing

personnel costs, as follows: \$2.1 million in ongoing resources for anticipated bargained labor costs for pending open contracts in various phases of negotiation. CBO also recommends \$985,000 in ongoing resources to be set aside for the implementation of the State's new Paid Family Leave Act. The full impact of this legislation is currently unknown, however based on economic modeling and analysis it is probable the impact to the General Fund will be at least \$1.3 million and this recommendation provides a starting point for the General Fund.

One-time General Fund Recommendations

The following items are recommended for one-time General Fund discretionary resources by CBO. With the one-time reductions noted above, these items leave \$2.4 million of the \$12.0 million available.

Bureau of Planning and Sustainability: CBO recommends a total of \$385,517 in one-time discretionary resources for the following planning efforts:

- \$140,000 for the anti-displacement action plan,
- \$225,000 for the acceleration climate action
- \$20,517 for the Lower SE Rising Plan

It is worth noting that BPS anticipates that the first two items will require at least one additional year of funding; to the extent resources are available, Council may consider fully funding the multi-year project cost in this year.

City Budget Office: CBO recommends \$54,711 in one-time discretionary resources for a second year of the Citywide Portland Insights Survey. CBO is recommending that the bureau self-fund a portion of the original request.

Office of Management & Finance: CBO recommends a total of \$2.5 million in one-time discretionary resources for the following Citywide facilities and revenue collection needs:

- \$1.1 million Facilities Services Core Operating & Climate Investments
- \$175,000 for the long-range facilities master plan
- \$1.2 million for the Revenue Division maintain current revenue collection levels

Portland Housing Bureau/Joint Office of Homeless Services: CBO recommends \$7.1 million in one-time discretionary resources to maintain current services levels at the Joint Office of Homeless Services. The Housing Bureau requested \$650,000 to scale homeowner support and renter services for a pilot project aiming to mitigate displacement in East Portland; CBO is supportive of the proposal but due to a variety of factors (explained more fully in the PHB analysis) did not recommend a specific dollar allocation for the effort. CBO recommendations under-allocated available General Fund one-time resource; Council should consider this proposal in tandem with other priorities as part of the ensuing budget conversations.

Portland Parks and Recreation: CBO recommends \$358,648 in one-time discretionary resources to fully fund a two-year position to conduct sustainable future planning efforts.

Prosper Portland: Prosper Portland requested \$350,000 for small business support services to mitigate commercial displacement in East Portland; CBO is supportive of the proposal but due to a variety of factors (explained more fully in the bureau review), did not recommend a specific dollar allocation for the effort. CBO recommendations under-allocated available General Fund one-time resources; Council should consider this proposal in tandem with other priorities as part of the ensuing budget conversations.

Special Appropriations: CBO recommends a total of \$783,764 for three special appropriations requests, as follows:

- \$266,500 to sustain operations and provide needed capital improvements for the Peninsula #1 drainage district as part of the Columbia Levee Ready project;
- \$427,264 to support the Charter Review project; and
- \$90,000 to continue support for the ReportHatePDX tracking tool through Portland United Against Hate.

Capital Set Aside Recommendations

Per Financial Policy, 50% of all available one-time General Fund resources should go towards funding urgent major maintenance needs in the City's Parks, Transportation, or Public Safety asset portfolio. In the FY 2019-20 Fall BMP, \$5.5 million in one-time excess balance from the prior year was deposited into the Capital Set-aside account for allocation as part of the FY 2020-21 budget development process. The updated forecast of \$24 million in available one-time discretionary resources renders an additional deposit of \$12 million into the Capital Set-aside, yielding a total available balance of \$17.5 million.

Capital Set Aside requests underwent a new pilot process this year whereby all requests were required to produce a business case analysis quantifying the costs and benefits of the proposal. Each analysis produced a benefit-cost ratio and additional information to communicate and demonstrate the benefits of the proposal. The result is a much more nuanced and comprehensive evaluation of eligible projects than with the previous evaluation process. The FY 2020-21 process does not produce a ranked list, rather requests are evaluated based on multiple criteria included in the benefits/cost analysis model.

Due to the pilot nature of this evaluation process, CBO limited the amount of resources that each bureau could request to \$8 million. This led to fewer requests for Capital Set-aside consideration than in the past. Capital Set-aside requests totaled \$18.3 million and the CBO recommends \$16.6 million, as listed below. Full details on requests and recommendations can be found in reviews.

- West Burnside signal upgrades (\$2.0 million)
- NE Cornfoot Road Paving project (\$2.0 million)
- Americans with Disability Act (ADA) compliant corners (\$1.6M)
- SE Foster signals and lighting upgrades (\$1 million)
- N. Michigan Avenue paving project (\$1 million)
- Emergency generator replacement (\$375,000)
- Fire Station roof replacement (\$150,000)
- LED lighting upgrades (\$100,000)
- Energy Performance Contract at Parks facilities (\$6.7 million)
- Stearns Canyon Stairs (\$750,000)
- Replacement work order system for Parks maintenance (\$550,000)
- ADA barrier removal at the Hydro Parks (\$370,888)

The lower level of Capital Set-aside requests and CBO recommendations should not be interpreted as a lack of need; the City has a substantial and growing major maintenance funding gap and several bureaus would benefit from additional resources for urgent needs. CBO recommends that unallocated Capital Set-aside resources be allocated for known future costs for either 1) additional enterprise management software system needs; or for 2) ADA compliant corner work.

Cannabis Fund Revenues and Recommendations

The FY 2020-21 Requested Budget includes \$4.6 million in ongoing cannabis-fund backed programs. The most recent forecast for the fund identified approximately \$680,000 in new ongoing and \$127,000 in one-time available cannabis fund resources. Requests for these resources must meet one of the following general categories of eligible expenses per voter-approved ballot language: drug and alcohol education and treatment programs, public safety services that protect community members from unsafe drivers, and support for neighborhood small businesses especially women-owned and minority-owned businesses. Requests for these resources were directed to be submitted to CBO by February 27th and will be discussed at a Council work session on March 9, 2020.

CBO REVIEW KEY ISSUE HIGHLIGHTS

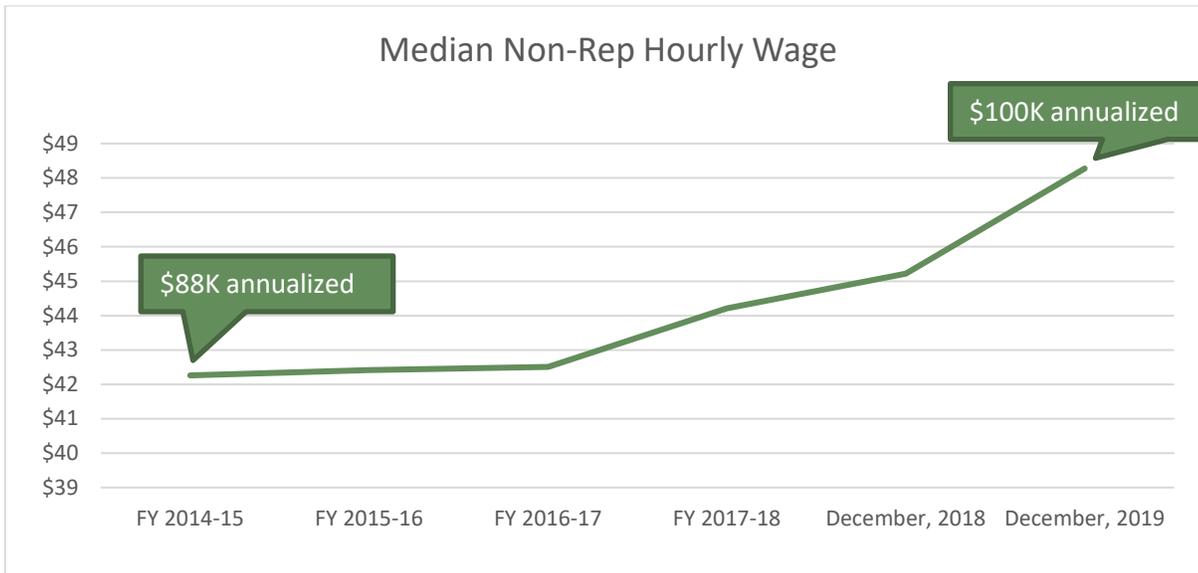
In addition to funding recommendations, CBO reviews analyzed key issues and risks both within and across bureau budgets. There are some issues that are affecting multiple bureaus across the City; these are briefly highlighted below. Please see the key issue section of each bureau review for more details on significant issues.

Rising Personnel Costs and Overall Growth in Non-represented Employee Wages

Over the past two years, the Bureau of Human Resources (BHR) has led the implementation of several Citywide initiatives impacting how the City's approximately 1,600 non-represented employees are compensated. These efforts include:

- Conclusion of the Classification and Compensation Study which sought to update classifications to improve employee recruitment and evaluation.
- Implementation of the Oregon's Equal Pay Act (House Bill 2005) which included a statistical analysis that attempted to determine employees' "justifiable wage" and made proactive increases to employees pay.

CBO provided analysis last year showing that the potential first-year impact of the wider compensation bands was likely \$3.3 million across bureaus, due to the approximately 600 non-represented employees who were no longer at the top of their compensation range and newly eligible for merit pay increases. In addition, the initial Citywide impact for pay equity adjustments was approximately \$3.7 million. These changes, in addition to cost of living increases, are reflected in the increased growth curve for median non-represented hourly wages in the last year (see chart below):



A comparison of total employer costs for personnel (including wage-driven benefits) over the first six months of FY 2018-19 and the first six months of FY 2019-20 also confirms that personnel costs are indeed rising quickly. Total employer costs (including benefits) have increased by over 12% over the prior year, with only slight increases in total staffing levels.

The Mayor issued subsequent guidance to set a lower ceiling for non-represented employee merit at 2%, as compared to the current practice of allowing up to 4.1% non-represented merit increase; a one-year freeze on the top-end of the pay bands; and a progressive Cost of Living Adjustment all in effort to slow the rate of salary increase on a temporary basis.

Additional analysis on the impacts of non-represented employee costs are included in the review of the Office of Management and Finance. It is clear without either continued and predictable growth in resources, the expense associated with personnel (wages and benefits) will likely present a situation where service reductions are probable in order to pay the growing expense.

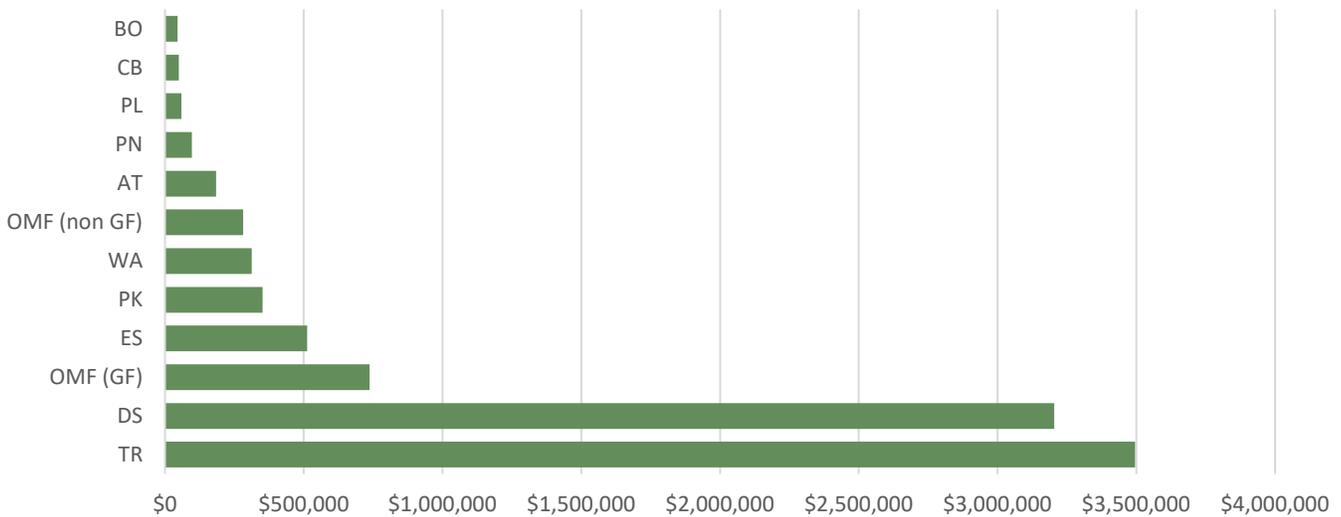
Increased Facilities Cost Pressures

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

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

OMF has been modeling these cost increases and sharing information with payers for several years, but the total cost increase has put pressure on bureau budgets. General Fund bureaus received current appropriation level adjustments totaling \$5.3 million for the General Fund-backed portion of their budgets, per Council direction, but there are significant impacts in other areas. The Bureau of Transportation, Bureau of Development Services, Office of Management & Finance, Parks¹, Water Bureau, and Bureau of Environmental Services all experienced substantial cost increases that were not offset by new resources and are creating significant trade-offs within bureau budgets.

Significant Blended Rate impacts that were not offset by new resources



Additional analysis on the impacts of facilities costs are included in the review of the Office of Management and Finance.

Equity Insights from the Budget Equity Assessment Tool

FY 2020-21 Budget Development marks the City’s fifth year of using the Budget Equity Assessment Tool to guide City bureaus and their Budget Advisory Committees in providing a holistic assessment of how budget allocations benefit and/or burden communities; especially Indigenous people, Black people, immigrants and refugees, people of color, and people with disabilities. New this year is a transition from collecting bureau responses in a standalone document to utilizing functionality in the City’s budget system. A major benefit of this change is that it facilitates easier Citywide reporting and analysis on equity issues. Below, CBO highlights key themes from three specific questions.

Base Budget Constraints

Several bureaus noted that they lacked staff capacity and/or expertise for implementing equity plans and better integrating equity within planning, engagement, and operations. This included bureaus that have dedicated equity managers, highlighting the need to distribute shared responsibility for equity work across all leaders and program managers. In addition, continued training opportunities for employees beyond Equity 101 will help to ensure that all personnel understand how to operationalize equity within their own individual work sphere.

The need to enhance data collection and analysis was noted by several bureaus. This may reflect

¹ Both OMF and Parks have substantial portions of their General Fund budgets that are not backed by discretionary resources.

heightened understanding of and commitment to the importance of using data to advance equity work through the Citywide Results Based Accountability (RBA) trainings sponsored by the Office of Equity & Human Rights in FY 2018-19 and FY 2019-20. As a next step to the RBA training, OEHR has committed to establishing shared Citywide equity indicators. The Performance Advisory Committee will be helping to identify and support all bureaus in tracking, reporting, and analyzing data for these indicators.

Accommodations

Bureaus were asked to identify what funding had been allocated within the base budget to meet the requirements of the Americans with Disabilities Act (ADA) Title II and Civil Rights Title VI, which includes but is not limited to funding for translation, interpretation, video captioning, translation of essential documents, and engagement efforts with multilingual and multicultural communities. Most bureaus indicated that accommodations costs are funded within base budgets.

As CBO has noted previously, these costs are not budgeted or tracked consistently across bureaus, so it is difficult to assess how much is being spent and where additional funding may be required. However, the new centralized Accommodations Fund for providing City employees with accommodations is a good pilot test for using more standardized budget and accounting practices to track costs across bureaus. CBO will work with the Bureau of Human Resources, Accounting Division, and other bureaus to explore whether this practice could be replicated for other accommodations costs.

CBO also recommends that the Office of Equity & Human Rights and Office of Community & Civic Life consider updating guidance on expectations for bureaus to meet not only federally required accommodations but City best practices for engagement, outreach, and services.

ADA Title II Transition Plan

The City adopted an [ADA Title II Transition Plan Update](#) in October 2014 to identify policy, program, and physical barriers to accessibility, and to develop solutions for addressing these barriers to help facilitate access for all individuals. The Budget Equity Assessment Tool asked bureaus with facilities identified in this plan to describe how funding was being prioritized to meet obligations under this plan and the bureau's barrier removal schedule.

Some responses indicated the need to clarify bureau understanding what the ADA Title II Transition Plan is, if they have responsibilities to fulfill under that plan, and where the requirements come from. One bureau noted that the ADA Transition Plan is one of many City mandates that must be considered when prioritizing and implementing changes to facilities, illustrating perhaps a larger lack of understanding about federal obligations versus City priorities.

Several bureaus noted lack of funding as a hindrance to making better progress on barrier removal. In some cases, this is part of a larger major maintenance funding gap, and other bureaus noted concerns about utilizing other revenue sources due to potential funding restrictions. Given the overall size of the City's asset repair and rehabilitation funding gap and limitations on capital throughput on a single year, CBO emphasizes the importance of developing a consistent framework to evaluate and prioritize resources for ADA barrier removal. CBO also recommends working with the City Attorney's Office to clarify eligible use of non-General Fund revenue sources where needed.