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CITY OF

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**PORTLAND, OREGON**

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**Sam Adams, Mayor**  
Nick Fish, Commissioner  
Amanda Fritz, Commissioner  
Randy Leonard, Commissioner  
Dan Saltzman, Commissioner

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**TO:** City Bureau Directors  
City Budget Managers

**FROM:** Mayor Sam Adams  
Mayor-Elect Charlie Hales  
Commissioner Nick Fish  
Commissioner Amanda Fritz  
Commissioner Randy Leonard  
Commissioner Dan Saltzman  
Commissioner-Elect Steve Novick

**DATE:** December 6, 2012

**SUBJECT: FY 2013-14 Budget Guidance**

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Portland, along with other local governments, has been impacted by the national recession. As a City, we have taken targeted cuts over the last four years to reduce ongoing expenditures while judiciously using one-time funds to smooth out the worst of the service impacts, assist Portlanders who are most in need, and invest in economic development and capital projects that create jobs.

### **Budget Outlook**

At a November 13<sup>th</sup> work session, OMF discussed with Council the known and unknown risks facing the City in FY 2013-14 and beyond. The Office of Management and Finance presented its five-year General Fund financial forecast to the City Council on December 5<sup>th</sup>, showing an ongoing General Fund deficit of \$25.0 million.

Several non-economic factors will impact the City budget over the next five years. Voters recently approved a permanent Library District, and it is estimated that the City will lose \$10 million in property taxes beginning in FY 2013-14 as a result of increased property tax compression. Additionally, the City will see increased ongoing costs resulting from the agreement with the Department of Justice (\$5.4 million), budget notes included in the FY 2012-13 Adopted Budget (\$8.5 million), and currently known labor agreement costs (\$0.6 million).

Other risks also remain, particularly at the federal level, as we have yet to see a meaningful conclusion to open questions about federal fiscal policy, including the so called "fiscal cliff" facing Congress at the end of this year. As we experienced during the 2011 debt ceiling debate, uncertainty around fiscal policy can cause investors to

withdraw and businesses to stagnate while waiting to gauge subsequent action by policymakers. We may have already seen some of this impact as the most recent business license tax collection information shows a flattening trend after nearly two years of robust growth.

### **Modified Zero-Based Budgeting**

Under traditional zero-based budgeting, bureaus are asked to build their budgets from the ground up while justifying each program. This approach has delivered good results in some jurisdictions. However, it is very time intensive, and in most cases does not result in changes to the core services provided by the government.

A modified zero-based approach assumes that the bulk of government services provided by bureaus are appropriate. Instead of starting from zero, bureaus build their budgets from a lower base (e.g., 10% or 20% below current service level) and justify each incremental program. The goal is to identify those programs and services that are the lowest priority, either because they are not part of the bureau's core mission or because they have not delivered the intended results.

**Given the size of the potential projected shortfall in FY 2013-14 and beyond, Council is asking General Fund bureaus to develop their budgets using a modified zero-based approach.** Each General Fund bureau will receive a discretionary allocation that will be 90% of its Current Appropriation Level (CAL) target. Bureaus will be allowed to request the additional 10% of CAL through add packages.

It is expected that the 10% add-back packages will include programs and services that have the least impact on each bureau's overall core mission compared to activities and programs in the 90% base. Programs that generate General Fund discretionary dollars should be included in the 90% base wherever possible. The Budget Manual will include more complete instructions on the submission of these packages.

- Bureaus receiving General Fund support** (discretionary resources or cash transfer): The base discretionary budget will be 90% of the Current Appropriation Level target. The remaining 10% of resources to reach CAL can be requested through add packages.

- OMF Internal Service Funds** (BTS, CityFleet, P&D, Facilities, Worker's Compensation, Risk Management, EBS Services): Internal Service Funds should submit requested budgets at 90% of the FY 2013-14 base budget. The remaining 10% of resources to reach the FY 2013-14 base budget can be requested through add packages.

- Rate-supported utility bureaus** (Water, BES): Guidance regarding budget targets for utility bureaus will be distributed in a future communication. It is likely the utility bureau operations will be asked to find efficiencies and other cost-saving measures that would lower future rate increases.

•**All other bureaus and non-General Fund supported programs:** 0% reductions to non-General Fund discretionary supported programs and services.

### **Other Decision Packages**

Bureaus will not be allowed to submit General Fund discretionary **add packages** outside of the packages noted above, with the exception of add packages that continue services funded with one-time resources in the FY 2012-13 Adopted Budget. Add packages that increase bureau specific revenues will be allowed as long as the package does not require additional General Fund resources.

**Realignment packages** are encouraged, so long as they create efficiencies and are cost neutral.

### **Summary**

The City has responsibly managed its resources through the Great Recession, and we will continue to pursue a prudent, financially sustainable path going forward. It appears that FY 2013-14 will again be challenging, and we appreciate the diligent efforts of City bureau directors, managers, and staff that provide services to citizens and support in the workplace through these tough times.

We look forward to working with you as we craft next year's budget.