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CITY OF PORTLAND, OREGON

TO: Tax Supervising & Conservation Commission
FROM: Andrew Scott, City Budget Director
DATE: June 17, 2015
SUBJECT: TSCC Hearing on FY 2015-16 Approved Budget

The Tax Supervising and Conservation Commission (TSCC) hearing on the FY 2015-16 Approved Budget will take place Wednesday, June 17, 4:00 – 5:00 PM in the Rose Room. The responses to questions received from the Commission are below.

1. Establishing city-wide priorities is at the top of the list. But it is hard to maintain an enterprise-wide perspective in a political atmosphere. It is a challenging goal. Our first question is: What tools do councilors find useful in maintaining a global view? Are there other promising tools on the horizon? Are you missing useful tools?

Response from Mayor Hales

The Mayor agrees, as does the city's independent auditor, that enterprise-wide priorities are necessary in any government, but especially in a city that still maintains the commission form of government. For that reason, the Mayor works with City Council members each year to establish budget priorities for each bureau. The priorities serve as a benchmark for the quarterly budget adjustments, and for the annual budget. The process acknowledges that the Mayor has few responsibilities not shared by his cohorts, and that crafting the annual budget is one of them. However, this mayor, like past mayors, relies on consensus when setting the annual priorities.

Response from Commissioner Fish

The Commission form of government does not encourage enterprise-wide thinking. Regular communication between Council offices – formal or informal – is critical to establish a common understanding of Council's high-level priorities. This year Council held its first Proposed Budget Work Session, between the releases of the Mayor's Proposed Budget and the Approved Budget. That exercise offered a forum for Council members to discuss their priorities, and for the Council as a whole to discuss the Mayor's Proposed Budget before final adoption. I believe the Council generally underutilizes work sessions—which provide an opportunity to strengthen communication and build consensus on issues before they come to Council for a vote.

Response from Commissioner Novick

PBOT is part of the utility coordinating steering committee so that we can work with other bureaus to better coordinate utility access in the right of way. PBOT is also working toward vision zero, the idea that all traffic fatalities are preventable. As part of our Vision Zero goals we are working with police bureau, fire bureau, health agencies, Oregon Department of Transportation, and other external

agencies. In addition, City infrastructure bureaus collaborate through the Citywide Asset Manager's workgroup, and produce City asset condition reports and presentations for City Council annually. Individual bureaus produce Asset Status and Condition Reports which detail the value of assets, condition of assets, and the unmet need in maintaining those assets. Perhaps an added exercise could ask the bureaus to describe what they suspect each of their worlds would look like in 20 years, assuming resources remain relatively static. If some bureaus project a relatively static picture, but others project catastrophe, that might indicate that we should consider shifting our emphasis to the most endangered services - or agree to "write off" some of those services altogether. The ability to maintain a global view works best when there is clear council direction for bureaus to work together on a specific subject.

2. With enterprise-wide goals in place, the next step is to develop approaches to achieve them. It looks to us like the *Portland Plan*, created three years ago, is the source for those approaches. How are the Council's goals being realigned with the *Portland Plan*?

Portland City Council Budget Goals and Portland Plan Goals are in alignment, and overlap significantly. FY 2015-16 Budget Goals:

1. *Ensure a safe and peaceful community*
2. *Promote economic vitality and opportunity*
3. *Improve the quality of life in neighborhoods*
4. *Protect and enhance the natural and built environment*
5. *Operate and maintain an effective and safe transportation system*
6. *Deliver efficient, effective, and accountable municipal services*

The Portland Plan is a community-wide strategic plan. The Plan focuses directly on Budget Goals 2-5 by promoting 1) a healthy connected city – including neighborhood quality of life, effective and safe transportation, and quality natural and built environment; and 2) economic prosperity and affordability – including economic vitality and opportunity. Goal 1 is supported by several Portland Plan policies and actions woven throughout the plan and is included in the indicators – Measure of Success #11 Safer City. Goal 6 is supported by Portland Plan actions related to quality public infrastructure. In general, however, the Portland Plan is outward focused, and not targeting strategic improvements in internal municipal services and practices.

The Portland Plan includes specific guiding policies and 142 actions in the Five Year Action plan. It also includes 12 measures of success and more than 20 implementation agency partners. During FY 2015-16, the Bureau of Planning and Sustainability will report to Council with an assessment of the implementation of action items from July 2012 – June 2015.

3. We have some follow-up questions from last year's hearing.
 - a. Last year reconfiguring the Urban Renewal Areas was a high priority. Please give us an update on that action.

On May 7, 2014, City Council directed PDC and City staff to begin processing amendments to six URAs that would:

- *Reduce the impact of urban renewal on taxing jurisdictions;*
- *Provide resources to meet economic development, redevelopment, and affordable housing goals; and*
- *Support Portland State University (PSU).*

After an eight month process of working with an advisory committee, holding dozens of meetings with neighborhoods, business associations, and the Planning and Sustainability Commission, and holding briefings with the City Council and PDC Board, City Council formally adopted the package on April 1, 2015. The plan amendments and associated financial impacts will be effective July 1, 2015.

Of the six URAs amended, two of the amendments (Central Eastside and North Macadam) resulted in extending and expanding those areas to address key redevelopment opportunities and partnerships. Four other amendments reduced assessed value and acreage. In total, a net \$1 billion in assessed value and 1,845 acres were removed from urban renewal areas. The fiscal impact of these changes are estimated to provide taxing jurisdictions an additional \$197 million in revenue over the next 30 years.

- b. Last year an official said.... “If the December 2014 forecast shows a budget surplus for FY 2015-16, Council will put a process in place that will effectively use that surplus on the highest priority services” There is a surplus and the budget documents show how it will be spent. How did the Council determine these highest priority services?

Response from Mayor Hales

The Mayor creates a set of budget priorities after consulting with his cohorts. This year, one of his priorities was to maintain past priorities despite the changes in the economy. In the Mayor’s first budget year, the City faced the worst fiscal crisis in memory. In his second year, the budgets were mostly flat. And this year, the City experienced a surplus of funds. Mayor Hales asked his staff and the bureaus to retain the priorities of the past, despite the changing budget. Those include: back to basics; funding key City missions; equity and opportunity; emergency preparedness, and public safety.

Response from Commissioner Fish

The FY 2015-16 Approved Budget rightly prioritizes infrastructure investments. Through informal conversations with colleagues and bureau directors, budget forums, the Budget Work Session, and meetings facilitated by the City Budget Office, Mayor Hales developed a budget package that reflects priorities established by the Council.

Response from Commissioner Novick

In the past year, the Council has become keenly aware that our transportation assets are in much worse shape than our water and sewer assets, and significantly worse shape than our parks assets - but the City has not raised new revenue for transportation, and for decades has allocated minimal General Fund to transportation. Thus, a major investment of one-time funds in transportation maintenance and repair was way overdue. At the same time, in the past year residents of areas lacking basic transportation safety amenities such as safe crossings and sidewalks on busy streets made a strong case that investing only in maintenance without any new safety investments would tend to "lock in" existing inequities. In addition, as part of the "street fund" discussion, many Portlanders argued that before the City asked for more revenue for transportation, it needed to prioritize transportation within existing resources. With additional one-time General Fund, there will be much needed safety investments on 122nd and Burnside in addition to street paving on several roads. Further, a large majority of Portlanders want increased investments in safety, and the City is working with TriMet to restore frequent bus service on 122nd, which serves low income communities of color.

- c. The Auditor has said that the existing performance measures are not useful and last year the Council told us that you were test driving a new performance measure system. We see that system is up and running on the web. Is that tool effective for goal setting and performance management?

This past year, the City has made significant changes to move from performance measurement, a system that focuses on measurement and reporting, to performance management, in which data informs budget decision-making on an ongoing basis. We have pared down the list of 628 performance measures reported in the FY 2014-15 Adopted budget to focus on a selective set of the most useful, outcome-oriented measures for each bureau’s core programs and services, which we call Key Performance Measures (KPMs). These measures are now represented in the online performance dashboards that are much more accessible and interactive than the printed Adopted Budget.

The discussions thus far have helped highlight each bureau's core services, helping us focus on the outcomes we hope to achieve with the investments made in this budget. We'll begin reaping the benefits of the new system in earnest in the next fiscal year, when performance information is highlighted at key points in the budget process. For example, bureaus will highlight progress on Key Performance Measures as Council deliberates the Fall Budget Monitoring Process.

4. The term "Basic Services" is used repeatedly in the budget document. What are basic services and how does a service qualify as a basic service?

The Mayor has made a focus of agencies "staying in their lane" – which has included negotiations with three Multnomah County chairs, over three years, in an analysis of City and County responsibilities and funding. The Mayor defines "basic services" as those services which no other government funds, and which would not exist should the City stop providing them. The breakdown of the major bureaus serves as a ready guidepost for the City's basic services: police, fire, parks, housing, water, environmental services, planning, and development.

5. We appreciate the Mayor's analogy: "are we spending new money on a family vacation or a new roof?" It captures the tension between spending on growing needs and spending on asset maintenance. How does the City of Portland allocate resources to achieve a sustainable balance of these two demands?

The Mayor uses two philosophical priorities in his budgets: one is Back to Basics. And the other, to borrow a phrase from an economist, is the Second Paycheck. Back to Basics means putting the City's money into the key priorities: police, fire, parks, housing, water, environmental services, planning, and development. The Second Paycheck is a recognition that many people move to Portland, or stay in Portland, because of the sense of place: the clean air and water; the public transportation; the arts and culture; and the state's Urban Growth Boundaries, which have protected rural and forested parts of the state from sprawl. "Placemaking" serves as a sort of second paycheck for Portlanders. That's why the City will finance things like a streetcar, which benefit development, but which also add to the placemaking. The same is true for bike lanes, and walking trails, and public spaces like Director's Park. These may not be basic functions, the same way a police department and potable water are, but they are the "second paycheck" that lures people here, or keeps them here. And as such, the City has a responsibility to maintain them.

6. We have two questions that touch on financial restraint and budget discipline.
 - a. As in all communities, constituents look to the City for financial support of worthy causes-another source of budget tension. Does the City have an objective system for addressing these special appropriation requests?

The Mayor acknowledges that there are many worthy causes competing for finite resources. As such, he would support the adoption of an objective system for addressing special appropriations requests.

- b. The budget process provides a regular systematic means of allocation resources. The system can be disrupted by off-cycle expenditure requests. What tools does the City have to help maintain allegiance to the budget cycle?

The City maintains a General Fund contingency to deal with unforeseen expenses. This year, General Fund contingency is approximately \$2.2 million. The purpose of the contingency is to handle, on a one-time basis, unforeseen expenses that arise during the year. In order to be funded on an ongoing basis, items that are initially funded by contingency will need to be requested and approved as part of the annual budget process.

Occasionally ongoing issues arise that cannot wait until the next budget process. For example, the City's agreement with the Department of Justice required more immediate attention. In those circumstances, the City Budget Office provides Council with a clear estimate of the ongoing impact of their decisions.

7. A class and comp study has been pending for a couple of years. Please give us an update on that study. Does this budget contemplate implementation of the study?

The table below details the status of the Non-represented Class Compensation Study. The project is on schedule and is estimated to be completed by 3/31/2017. It should be noted that at this time there are no funds budgeted for implementation of the results of this study.

Phase	Project Phase Description & Milestones	Target Start Date	Target Completion Date	Actual Completion Date
1-A	Project Planning & Initiation	7/18/2014	8/19/2014	8/19/2014
1-B	Position Description Development	8/20/2014	3/31/2015	5/15/2015
	<i>Develop Materials & Training</i>			
	<i>Distribute Position Descriptions & Train Participants</i>			
	<i>Review Position Descriptions</i>			
2	Classification Structure Development	4/1/2015	12/31/2015	In process
	<i>Group Position Descriptions</i>			
	<i>Develop Summaries of Class Concepts</i>			
	<i>Develop Classification Format</i>			
	<i>Develop Proposed Classifications</i>			
	<i>Present & Discuss Proposed New Classification Structure with Stakeholders</i>			
	<i>Allocate Positions to Classifications</i>			
	<i>Communicate Results of Allocations</i>			
	<i>Resolve Allocation Appeals</i>			
3	Compensation Structure Development	1/1/2016	12/31/2016	
	<i>Conduct Compensation Surveys</i>			
	<i>Develop Modified Compensation Structure</i>			
	<i>Discuss New Compensation Structure with Stakeholders and Make Adjustments</i>			
	<i>Create & Implement Communication Plan for Affected Employees</i>			
4	Reporting	1/1/2017	3/31/2017	
	<i>Draft Study Summary Report</i>			
	<i>Deliver Summary of Recommended Changes</i>			
5	Implementation	Unknown	Unknown	Council decision

8. The Public Utility Review Board and the utility Budget Advisory Committees may soon be replaced by a single Public Utility Board. What is the goal of this Board and how will it be more effective than the previous entities in achieving that goal?

The new Portland Utility Board (PUB) is designed to strengthen accountability and transparency at the City's public utilities. It addresses longstanding structural barriers that limited the effectiveness of both the PURB and the utility bureaus' Budget Advisory Committees (BACs). Two reforms in particular should enhance the effectiveness of the PUB. First, consolidating the PURB and the two BACs into one year-round oversight body will facilitate a deeper, more thoughtful upstream analysis of the bureaus' Capital Improvement Plans, which drive budgeting and ratemaking in both bureaus. Previously, the BACs met for just a few months each year, which limited their ability to develop the necessary expertise to evaluate the bureau's proposed budgets and to offer critical feedback. Second, the PUB will be supported by dedicated professional staff housed in the City Budget Office. This will work to "level the playing field" while providing the necessary expertise and support to dig into bureaus' operations, capital spending, and finances.

9. The City was on a Biennial budget a few years ago. We understand that the City is considering converting the City back to a biennial budget. What would the City gain and lose by doing that?

The Mayor and Commissioners have not discussed a return to biennial budgeting, but it is a topic that warrants further conversation. Biennial budgeting generally allows for a longer-term focus, making decisions for the next 24 rather than 12 months. It eliminates some of the fiscal year carryover and end-of-year spending issues, and allows bureaus to focus on program operations and outcomes. Some advocates of biennial budgeting suggest that it may result in administrative savings. This is possible, but only if the elected officials and bureaus refrain from off-cycle budgeting requests, which can be difficult if the next budget process is 12-24 months off. There is also risk that biennial budgeting can result in less of a focus on the budget as a whole and more of a focus on off-cycle budget issues that come up during the two-year period. Finally, elected officials have fewer opportunities to provide input and guidance in a two-year budget.

The Mayor believes that City Council should look at the issue of biennial budgeting to determine if the benefits outweigh the costs.