

Operational Review of the Budget Function

Analysis and Recommendations for the City of Portland, Oregon

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Transmittal Letter

Research and Consulting Center

July 10, 2003

Mr. Timothy Grewe Chief Administrative Officer City of Portland Portland, Oregon 97204

Dear Mr. Grewe:

In October 2002, the City of Portland engaged the consulting services of the Government Finance Officers Association (GFOA) to conduct an Operational Review of the Budget Function. The objective of the GFOA consulting team was to work with City staff to examine key areas including: (1) Evaluation of the Budget Process; (2) Budget Roles and Responsibilities; (3) Job and Staffing Analysis for the Financial Planning Division; (4) Technology Utilization in the Budget Process; and (5) Assess Conformance of Current Budgeting Practices to National Advisory Council on State and Local Budgeting (NACSLB) standards. This report presents GFOA's analysis, findings, and recommendations related to these areas.

GFOA appreciates the broad participation by bureau analysts, managers, and Council executives, especially as it related to the surveys, interviews and focus groups used to collect information for this study.

At the outset of this study, GFOA's consulting team found that the City of Portland's budgeting process was progressive in a number of areas compared to your peers. Nevertheless, given its impact on tax rates and service levels, large and complex organizations are wise to periodically evaluate the budget function as Portland has. In this report, GFOA builds on the work of City's Budget Process Review Advisory Group. The findings and recommendations in this study provide the City of Portland with opportunities to optimize the effectiveness of the overall resource allocation process.

Respectfully submitted,

Rowan Miranda, Ph.D.

Director of Research and Consulting



Chapter 1

Executive Summary



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1.0 INTRODUCTION

The City of Portland is a complex organization, dedicated to providing a wide variety of programs and services for its 536,000 residents. In fiscal year 2002-2003, it plans to spend \$1.39 billion on operating and capital needs, and employ 5,300 people on a full-time basis. Coordinating and financing all of these projects, programs, services, and staff is a substantial task.

Budgeting is the process for allocating resources in the delivery of public services. The budget document, and the process by which it is developed, expresses a government's fundamental priorities. Yet for all of its time tested virtues in government, budgeting as an organizational routine and function has come under increasing attack in recent years. And this attack is not directed solely at budgeting in government. Many corporations have also sought to reform their budget processes. Indeed, a recent book titled *Beyond Budgeting* (2003) found several corporations that had abandoned budgeting altogether. The authors cite survey results showing (1) finance directors rank budgetary reform as their top priority, (2) companies are poor at executing strategy—and find this to be an indictment of the performance management capabilities of budgeting; and (3) that finance staff spent too much time on "lower value added activities" (budget preparation) and far too little on analysis and strategy.

The authors of *Beyond Budgeting* argue that dissatisfaction with budgeting stems from the following factors:

- Budgeting is cumbersome and too expensive.
 Budgeting is out of kilter with the competitive environment and no longer meets the needs of either executives or operating managers.
 The extent of gaming the numbers has risen to unacceptable levels.
- How do government agencies fare on the level of dissatisfaction with budgeting?

As a whole, governments have spent many decades attempting different models of budgetary reform (e.g., zero-base budgeting, target-based budgeting, performance-based budgeting). Many of these reform efforts have faded just a few years after rising to prominence. It was the very dissatisfaction with budgeting—and a lack of systematic practices to guide government—that led to the formation of the National Advisory Council on State and Local Budgeting (NACSLB) in 1995. The recommended practices of the NACSLB represent the state of the art in public sector budgeting.

So what then is the role of an effective budgeting function in government?

First and foremost, budgeting is a *control* device meant to promote equilibrium between demands for public programs and availability of funds. Nearly all local governments are required to balance expenditures and revenues, and so every budget limits what agencies can spend and what citizens get. It is precisely the constraint imposing nature of budgeting that makes the function unpopular to many in the government and the corporate world alike.

Budgets also serve a *planning* function. The best budget processes incorporate long-term financial and strategic planning elements so that the activities of the government match its overall goals and needs. Contemporary budget processes of municipal governments are widely criticized for a failure to embed a long-term perspective, especially in political decision-making. In its ideal role as a planning tool, budgets integrate decision making on capital and operating programs.

Budgets are also *policy statements* that describe the means by which the government will address the challenges facing the jurisdiction. The budget is a *communications device* that provides a forum for community and stakeholder discussion of the jurisdiction's financial condition, and how efforts should be prioritized to meet goals.

Lastly, the budget is a *managerial tool* that provides a means to review and monitor agency performance. When there are variances between budgeted and actual targets for revenues and expenditures, management has the responsibility of proposing mid-year actions that keep spending within means.

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So how well does the City of Portland meet the criteria of an effective budget function?

Overall, the City of Portland's budget process is sound. It is recognized as one of the most progressive approaches among U.S. cities. Portland has consistently been an innovator in a number of fiscal management areas. Nevertheless, just as the City's Administrative Services Review (ASR) process examined the operations of line departments, the City of Portland felt that it would be worthwhile to undertake a review of its budget function. The City had a number of questions: does the process facilitate effective decision-making? Does it incorporate a long-term perspective? Does it promote effective communication with stakeholders? Are budgetary decisions based on the City's strategic goals? Are they based on programmatic results and outcomes? Do current efforts achieve their stated aims? Are there approaches used by other jurisdictions that might improve Portland's process?

Building on the work of the Budget Process Review Advisory Group, this report analyzes the City's budget function. It delineates what the City does well, as well as areas where it can improve. Each chapter highlights recommendations to improve the current process, and the report concludes with a condensed, prioritized set of recommendations.

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1.1 SCOPE AND METHODOLOGY

Building on a series of issues identified by the Budget Process Review Advisory Group, the City of Portland engaged the GFOA for a scope of work designed to identify ways to improve the effectiveness of the budget function. This report addresses the following issues:

Evaluation of the Budget Process

	Strengths of Portland's budget process
	Opportunities to streamline the process
	Linking planning, budgeting, performance measurement, and decision making
	Position control and budgeting
	Interagency agreements
	Citizen participation
	Multi-year and program budgeting
Budget R	oles and Responsibilities
	Analysis of current structure
	Location of the budget office
	Assignment of analyst responsibilities
	Stakeholder roles (the Financial Planning Division (FPD) analysts, bureau analysts, the Mayor, and the Commissioners
	Alternative models for organizing analytical tasks
	Unique needs of small and enterprise bureaus
	Mechanisms to improve communication and coordination between FPD and the bureaus

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Job	and	Staffing	Analysis

recommendations.

	Comparison of staffing levels Budgetary workload and distribution (both within FPD and between the bureaus and FPD) Impact of staffing reductions, turnover, and transfers Analyst skill sets and unmet analytical needs Training needs
NACSLB	Fit-Gap Analysis
<u> </u>	Evaluate conformance with budgeting practices recommended by the NACSLB Identify specific areas of NACSLB that the City should implement
Budget To	echnology
0	Analysis of current environment and how modern solutions could address City's challenges Specific features and functions of budget technology and how they would ease the implementation of NACSLB practices The impact of an upgrade to IBIS on improving budget planning and execution
_	thered information for its analysis from three main sources: (1) surveys of bureau and FPD managers and analysts; (2) an review of existing documentation; and (3) focus groups conducted with FPD and bureau staff. The project team mapped

core processes and the distribution of budgetary workload in the bureaus and FPD. The next section summarizes GFOA's

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1.2 FINDINGS AND RECOMMENDATIONS OVERVIEW

GFOA consultants reviewed each of the areas listed above and found that the City has opportunities to undertake the following:

- (1) Streamline the Budget Process (12 recommendations)
- (2) Connect Long-Term Planning to Budgeting (3 recommendations)
- (3) Manage for Results (8 recommendations)
- (4) Modernize Budgeting Technology (3 recommendations)
- (5) Improvements to Interagency Agreements (2 recommendations)
- (6) Changes to Financial Planning Division (6 recommendations)
- (7) Staffing and Workload Improvements (6 recommendations)
- (8) Strengthen Position Control (3 recommendations)

In an effort to focus attention on those recommendations that the project team deemed most important, GFOA prioritized each recommendation. Only those recommendations deemed "high priority" are included in the executive summary. A complete list of prioritized findings and recommendations is presented in Chapter 8.

Streamlining the Budget Process

- 1-2 Compress the timeline for CIP development. Bureaus begin planning and developing their CIP requests in mid-August. Although some level of capital planning occurs throughout the year, based on our experience few governments have fiscal staff that spend 4 ½ months just developing CIP requests. Capital bureaus currently maintain separate systems—one to meet their own needs and another for FPD. The implementation of new budgeting and financial software, for example, would eliminate redundant data entry, thereby compressing the timeline for CIP development.
- **1-3 Eliminate the Program Surveys.** Program surveys are used to convert line-item detail to the program level and contain narrative describing each program. They have been essential in preparing Portland to transition to program budgeting. Making the transition to program budgeting (scheduled for FY 04-05) would eliminate the need for the program surveys.
- 1-4 Adopt the Budget Calendar Prior to the Budget Kickoff. A budget calendar is used by many local governments to set expectations and deadlines for agencies and other stakeholders. In recent years, the City (both bureaus and FPD) has had difficulty adhering to the budget calendar. The City Council should express its commitment to a smooth and orderly process by reinstituting the practice of adopting the budget calendar by resolution, and by making managers responsible for meeting deadlines.
- 1-5 OMF Should Distribute Draft Interagency Agreements at the Budget Kickoff. Interagency agreements are put in place so bureaus can compensate internal service providers for the cost of specific services (e.g., fleet, printing). An increase in the demand for (and therefore the cost of) interagency services can have a significant impact on bureau budgets. In spite of reductions in actual rates over the last three years, bureaus are challenged by top-down spending targets because a large part of their budgets are fixed (e.g., labor costs, lease payments) and internal service costs can reduce the level of "discretionary spending" that bureaus have at their disposal.

Bureaus expressed frustration with the OMF practice of distributing the first drafts of the interagency agreements late in the budget development process (the first week of January). This leaves the bureaus only three weeks to adjust their internal service demands to reflect budgetary constraints, finalize their agreements, and update their budget requests to reflect the final agreements. This is a significant challenge, given that each bureau must negotiate as many as seven agreements with OMF, in addition to its agreements with other operating bureaus. The distribution of draft agreements at the budget kickoff would help address these issues.

1-6 Establish a Mechanism for the Management of the Question and Answer Process. A good budget process should afford elected officials the opportunity to ask questions during the budget review process. However, FPD and bureau analysts typically feel overwhelmed by the volume and depth of elected official's questions. We found City staff stating that elected officials are typically dissatisfied with the quality of the analysis conducted in response to their questions. In instances where the analysis is sound, departments feel it goes unused. At the conclusion of the work sessions, the Mayor and City Council should generate a list of prioritized questions. Having a comprehensive list of prioritized questions would ensure that the most important questions are addressed, and allow FPD and the bureaus to develop in-depth responses to those questions of the highest priority.

The budget work sessions should be organized to facilitate greater dialogue between bureau managers and the elected officials. Many of the questions raised by the Mayor and City Council could be addressed through bureau testimony, which would expedite not only decision-making, but also the rate at which analysts can respond to other questions.

Elected officials should be encouraged to recognize that the ideal time to evaluate the effectiveness of existing programs, as well as alternative means of providing a service, is outside of budget deliberations. These types of questions require detailed analysis that typically cannot be conducted over a few weeks, particularly given the need to complete other budgetary tasks during that same time period and the limitations of the City's current financial software. Elected officials seeking thorough, detailed analysis on these types of issues should give bureau managers the opportunity to address them at the conclusion of the budget process, with the expectation that the issue be a point of consideration as part of the Fall Budget Monitoring Process.

- 1-7 Include Mayoral and Council Policy Objectives in the Budget Kickoff. Bureaus assert that they begin the budget process with too vague an understanding of the Mayor and Council's priorities and points of concern for the next budget cycle. If the Mayor were to prepare a statement of expectations, as part of the yearly budget instructions, bureaus could focus their analytical efforts on decision packages that are likely to receive serious consideration. Similarly, if the City Council were to reaffirm or adjust its strategic goals at the beginning of the planning process, bureau managers would have a stronger understanding of their expectations. Combined, these efforts could expedite budget development somewhat in the bureaus and the review process in FPD.
- 1-8 Work With the Enterprise Bureaus to Develop Useful Tools and Templates. Currently enterprise bureaus (e.g., water, sewer) must customize existing budget preparation templates to meet their needs. Regardless of whether the City chooses to implement new budgeting software or continue with its current applications, enterprise bureaus will continue to require their own tools and templates. FPD should work with the bureaus to develop tools and templates that meet their needs, but that also can be rolled up into the Citywide system.
- 1-11 Enhance opportunities for bureaus to explain and defend their budget requests to the Mayor and Council. Recognizing the need for greater communication with the bureaus and Council, the Mayor has established a series of work sessions throughout the budget process. The bureaus present their budgets during these sessions, and the Mayor and Commissioners have the opportunity to question bureau managers and analysts regarding their requests. Nonetheless, some bureaus feel that the format of the sessions does not provide an adequate opportunity to fully explain and defend their requests.

The work sessions occur during the busiest portion of the budget calendar, making it difficult to significantly increase the time devoted to them. Regardless, the time devoted to the work sessions should be expanded. In addition, FPD should work with the bureaus and the Mayor to determine if a more effective format could be developed.

1-12 FPD should instruct the bureaus to address "ongoing issues," either as stand-alone reports or as part of their budget request. Every budget cycle, the Mayor and Council seem to be interested in many of the same broad, organizational questions: what cooperative efforts with outside agencies could produce savings? Which take home vehicles can be eliminated? How does each bureau anticipate its overtime needs? Typically these questions require significant analytical resources in order to be addressed appropriately. Raising them during the review process dramatically increases analyst stress levels, since they are forced to prepare rushed responses, in addition to meeting their regular budgetary responsibilities. FPD should work with the Mayor and Council to identify these points, and instruct the bureaus to address them either before making, or as a part of, their budget request.

Connect Long-Term Planning to Budgeting

- **2-1 Designate the Five-Year Financial Plans As the Primary Planning Document for Major Bureaus.** The five-year plans are primarily internal planning documents designed to encourage long-term structural budgetary balance. GFOA's consulting team recommends that the financial plans play a more prominent role by providing long-term direction to the bureaus. Bureaus should present preliminary financial data with each decision package included in the five-year plan. The City Council should then amend and/or adopt each plan by resolution.
- **2-2 Establish an Unambiguous Link Between the** *Vision and Values Statement* **and Bureau Budgets.** Bureaus should include narrative in each version of the budget explaining how its programs, projects, and services are designed to meet the City's strategic goals. Bureaus should be required to justify both current service level requests and decision packages on this basis.

Many bureaus have developed their own vision and values, as well as their own strategic plans. Although laudable, undertaking strategic planning at the bureau level encourages inconsistencies with the City's overall vision and impedes collaboration between bureaus.

In addition, most bureaus inadequately explain the link between decisions made in the budget cycle and strategic needs. Each bureau, in a section of the budget entitled "Strategic Direction," is supposed to identify the significant issues that led to changes in funding levels. Unfortunately, the link back to strategic goals in the narrative is weak; operational (rather than strategic) considerations receive more prominence. In order to effectively communicate the service impacts of budgetary changes, this link should be strengthened and be made explicit.

In its budget overview, the FPD presents a clearer link between major funding decisions and strategic goals, but it is by no means comprehensive. Only one page in the budget overview is dedicated to establishing this linkage. In contrast, seven pages in the overview are dedicated to explaining how decisions affect the General Fund.

FPD analysts should also be instructed to base their issue papers on how well a bureau request is designed to meet strategic goals. Most importantly, bureaus should be asked to provide a compelling reason (i.e., regulatory mandate, worker safety) for any major expenditure that does not promote the City's strategic goals.

Managing for Results

3-2 Continue to Implement the Managing for Results Initiative. Managing for Results is an effort led by the City Auditor, Bureau of Planning, and OMF to help the City focus on its mission and goals, and to encourage the use of performance measurement information in decision-making and reporting. For Portland to fully realize the benefits of the Managing For Results model, performance measures and benchmarks must be connected to programs and also reflect strategic goals. Without this link, it is far more difficult to base funding decisions on program results. In addition, managers should be able to monitor their progress toward performance goals as frequently and as easily as they monitor revenues and expenditures. More frequent reporting would allow bureau managers to make adjustments throughout the year to meet programmatic goals.

- **3-3 Complete the Transition to Program Budgeting.** Program budgeting is far more effective in terms of framing choices for decision makers since expenditures are presented by program rather than line-item. A program and activity structure in the operating budget would allow the City to more effectively link resources with results achieved. The service impacts of decision packages could be presented to Council, supporting arguments for or against service reductions or increases. Program budgeting also provides the ability to make "surgical incisions" rather than "meat axe cuts" when budget reductions are necessary.
- **3-5 Replace Most of the Measures Currently Reported in the Budget With SEA Measures.** Replacing the current measures with those from the Service Efforts and Accomplishments (SEA) Report (released annually by the City Auditor) will increase the quality of the measures, as well as reduce bureau workload. Of course, some measures presented in the budget document are useful, and they should either be folded into the SEA process or tracked independently.

Modernize Budgeting Technology

- **4-1 Acquire New Budgeting Software.** Modern technology is supposed to facilitate analysis and expedite budget preparation. In Portland, existing technology constrains analytical capacity and slows budget preparation. Analysts spend too much time struggling with OFA Publisher, upload templates, and redundant worksheets. New budgeting software will reduce workload by improving workflow and analytical capacity. The City should move forward with its current software selection process or consolidate that process if and when it decides to replace IBIS.
- **4-2 Enhance IBIS to Accommodate Budgeting Software.** New budget preparation software will enhance the City's ability to meet many of the recommendations and process changes made in this report. However, there are other changes that may require enhancements to the current accounting system (e.g., movement to program budgeting, position budgeting). In the short-term, the City may have to consider custom enhancements to IBIS.
- **4-3 Re-evaluate the Replacement of IBIS.** Some of the comments made in focus groups and interviews conveyed the frustration of bureau finance staff with maintaining numerous standalone "shadow" systems to overcome deficiencies in IBIS. A considerable amount of redundant data entry would be eliminated with a new financial management or enterprise resource planning (ERP)

system. GFOA's earlier *Financial System Needs Assessment* conducted for the City in 1999 should be re-examined in light of the recommendations in this study. Indeed, replacing IBIS would reduce the chance that a budget package chosen now would be incompatible with an accounting system in the future.

Interagency Agreements

- **5-1 Improve the Transparency of Interagency Charges.** The term "transparency" refers to both parties in a transaction or business relationship having an equal amount of information. The City should take three steps to improve transparency in the area of interagency agreements:
 - □ Bureau managers should attend Office of Management and Finance (OMF) rate model workshop.
 - □ OMF should facilitate a forum between service providers and customers.
 - □ The Interagency Taskforce recommendations, which are intended to improve transparency in interagency billings, should be finalized

Changes to the Financial Planning Division

6-3 Clarify the Role of the Financial Planning Division (FPD) in the Budget Process. The role of FPD is not clearly understood by participants in the budget process. In particular, some bureaus expect their analysts to serve in an advocacy role, especially since bureaus perceive their role in the work sessions to be minor. FPD is charged with the responsibility of serving as an objective analyst of bureau budget requests. This demands an "arms length" relationship with the bureaus. Since it is inconsistent for FPD to simultaneously play an organization-wide budget "gatekeeper" role and a bureau-specific "advocacy" role, the bureaus themselves should be the primary advocates for their respective budgets by having a greater role in the work sessions.

- **6-4 Redefine the Mission of FPD.** Some FPD analysts are experiencing an "identity crisis." This problem begins with FPD's mission statement, which is too vague to guide the activities of the division or communicate its role to outside parties. The mission statement speaks of "customers" without identifying them. Are they the bureaus? The Mayor? The City Council? The citizens? It also defines FPD's role as providing financial planning *guidance* and *consultation*. Although the most successful bureaus actively seek the guidance of FPD, historically this has not been its primary role. FPD should redefine its mission, as well as its goals and objectives, to more effectively communicate its purpose in the organization.
- 6-5 Clarify the Responsibilities of FPD, the Bureaus, and Elected Officials in the Budget Process. It is the role of the Mayor to facilitate the overall budget process, establish Citywide strategic priorities, guide the development of budget requests within her office or bureaus, propose the budget, and work with the Council to achieve consensus on a final budget. It is the role of the Council to establish Citywide strategic priorities, guide the development of budget requests within their departments, review and amend the Mayor's proposed budget, and adopt the final budget. FPD should be responsible for the development of instructions, guidelines and other supporting materials, training bureau analysts, reviewing plans and requests, conducting program analysis, publishing each version of the budget, and managing the BMP process. Finally, the bureaus should be responsible for developing requests, justifying those requests to decision makers, tracking performance, and adjusting the budget. (This list is by no means comprehensive. For a more complete list, consult Exhibit 4.6, "Model for Assignment of Budgetary Responsibility.")

Staffing and Workload

- **7-2 Enhance Bureau and FPD Capacity to Perform Program Analysis.** The City must clear three hurdles in order to be able to conduct better program analysis. First, analysts must have the time needed to do the analysis. Second, analysts must have the skills needed to effectively analyze programs. Third, performance measures must be tied to programs, so that analysts can explore the link between intended and actual outcomes. GFOA has addressed each of these issues in other recommendations.
- **7-3 Strengthen Training on Analytical Tools and Technologies.** Analysts lose too much time attempting to make the City's budgeting systems work. This is both a systems problem and a training problem. As it does for OFA Publisher, FPD should

provide ongoing training on IBIS, and BHR should offer advanced training for Microsoft Office, particularly in Excel and Access. As the City considers the purchase of a new budget development module, comprehensive training on the use of this system will be imperative.

- **7-4 Strengthen Training on City Processes, Policies, and Procedures.** As changes occur in budgetary policies and procedures, it is important that analysts be given a forum to ask questions related to their implementation. This will be particularly important in the spring, should the Council choose to update its comprehensive financial management policy. Also, as the City considers the numerous recommendations that are included in this operational analysis, it is important that analysts be apprised and trained on any resulting procedural and policy changes.
- **7-5 FPD Managers Should Build Analyst Visits to the Bureaus Into the Summer Schedule.** As a result of significant turnover in FPD staff, too few analysts have an in-depth understanding of the operational issues of their bureaus. The current practice of encouraging analysts to visit their bureaus is not working. FPD cannot fulfill its mission unless its analysts are well versed in bureau operations, and therefore should require its analysts to do so.

Strengthening Position Control

- **8-1 Establish Strong Position Control and Staffing Analysis Functionality in the New Budget Software Package.** Since public sector service delivery is so labor intensive, it follows that sound position control and analysis of staffing patterns are critical to overall financial control. In its evaluation of budgeting software, the City should establish position control functionality as a core criterion, especially since many budgeting products are weak in this area.
- **8-2 Budget Based on Positions, Not Payroll.** Only City Council can create or eliminate a position. However, since budgets are developed based on payroll data, a key bureau strategy to "forcing" the funding of a new position is to get a person on the payroll rather than into an authorized position. For example, an employee may be hired at the end of the year because of salary savings available from vacancies—even though a full year of funding for that employee is not appropriated. BHR and FPD

should work together to strengthen position control and close the staffing loopholes.

8-3 Report on All Positions in the Budget and Budget Monitoring Process. Currently, these processes only report on full-time, permanent positions. Bureaus should be required to estimate seasonal, temporary and part-time employees.

1.3 SUMMARY

The City of Portland's budget process is recognized as one of the most progressive approaches in U.S. cities. Nevertheless, on occasion it is worthwhile to take a step back to review the effectiveness of the budget function. The City had a number of questions: does the process facilitate effective decision-making? Does it incorporate a long-term perspective? Does it promote effective communication with stakeholders? Are budgetary decisions based on strategic goals? Are they based on programmatic results and outcomes? Do current efforts achieve their stated aims? Are there approaches used by other jurisdictions that might improve Portland's process?

Building on the work of the Budget Process Review Advisory Group, this report analyzes the City's budget function. It delineates what the City does well, as well as areas where it can improve. This chapter sets forth the recommendations that the project team considers to be the highest priorities. A comprehensive list of prioritized recommendations is presented in Chapter 8.



Chapter 2

Scope and Methodology



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2.0 OVERVIEW

As budgeting has evolved, it has become a more time and labor-intensive process. Efforts to plan for the long-term, measure performance, and link programs to expenditures have given decision makers tools to prioritize between programs, projects, and services. Unfortunately, these efforts have also resulted in cumbersome processes and complex documents. Without explicit linkages between these efforts, decision makers can easily be overwhelmed by the information that is placed before them. As a result, they seek out other sources of budgetary information, often requiring analysts to reproduce information already presented in the budget.

The process frustrates operational staff and budget analysts as well. They invest significant amounts of time and effort in producing analysis that too often is lost in the process, and as a result is not incorporated into decision-making.

Frustrations with the budget process are by no means unique to the public sector. A 2001 study by the Cranfield School of Management and Accenture found that, across companies, budgets:

Ч	Consume too much time.
	Cost too much to assemble.
	Are rarely strategically focused.
	Are outdated as soon as they are produced, and are updated too infrequently.
	Encourage gaming and opportunistic behaviors.
	Are based upon unsupported assumptions.
	Focus employees on budgetary targets rather than customers.
	Reinforce departmental barriers. ¹

¹ The Cranfield School of Management and Accenture, "Driving Value Through Strategic Planning and Budgeting," (London: Accenture, 2001), pp. 6-8.



As a result, a number of private sector organizations have been revamping their budget processes. Companies are creating strategic plans that are "value-based, consequential, and continuous," and are aligning their budgets with these plans. They are also moving from legacy systems to integrated, enterprise systems that eliminate redundancies and produce a single set of data to be used by the entire organization. The primary goals of these systems are to increase efficiency and improve the quality and versatility of financial analysis.

Additionally, companies are establishing their service delivery goals based on peer benchmarks, and providing managers with the flexibility to meet goals. In addition, incentives are tied to goals rather than merely adhering to the budget. Leading companies survey customer and employee satisfaction on a regular basis. They monitor their progress toward goals through as few measures as possible, and many use scorecards to reinforce that decisions should be based on meeting strategic, not just financial, goals.²

2.1 NACSLB RECOMMENDED PRACTICES

The National Advisory Council on State and Local Budgeting (NACSLB), a Council of public sector associations (including GFOA) that represents a broad range of governmental stakeholders, echoes many of these themes. The NACSLB recommends that governments establish budget processes and documents that:

Incorporate a long-term perspective.
Establish linkages to broad organizational goals.

☐ Focus budget decisions on results and outcomes.

☐ Involves and promotes effective communication with stakeholders.

☐ Provides incentives to government management and employees.

The City of Portland has made strides toward incorporating these concepts into their planning and budgeting functions. Bureaus prepare five-year plans that have a strategic component. The City is engaged in a series of performance measurement initiatives

²Cranfield School of Management and Accenture, pp. 20-29.



intended to focus the organization on outcomes. It solicits feedback from citizens through various initiatives. Too often, though, these efforts are undertaken in isolation, rather than one effort informing and supporting the next. One of the themes of this analysis is that each component of the process should build upon the other, so that decision makers have a better context in which to choose between competing programs and services.

2.2 PURPOSE OF THE STUDY

Building on the work of the Budget Process Review Advisory Group, this project examines the City's budget function. It notes what the City does well, as well as areas where it can improve. Each chapter presents findings and makes recommendations to improve the current process, and the report concludes with a concise set of recommendations.

2.3 SCOPE OF WORK

The Budget Process Advisory Group developed a series of issues that it considers central to the evaluation of the City's budget function. They are:

The role of the bureaus, FPD, Mayor, and commissioners in the budget process.
Designating the five-year financial plans as the primary prioritization/decision-making tool for the major bureaus.
Improving budget process workflow.

In addition, the Advisory Group expressed an interest in examining the distribution of workload, (within FPD and between bureaus and FPD), capital budgeting, and more clearly presenting the City Council's strategic priorities earlier in the process.

2.4 METHODOLOGY

The project team gathered information for its analysis from three main sources: surveys of bureau and FPD managers and staff, review of existing documentation, and focus groups of FPD and bureau staff.

GFOA developed surveys for five different stakeholder groups: elected officials and their staff, bureau directors, bureau budget analysts, FPD principal analysts, and FPD analysts. GFOA sought to balance the need for consistency among the questions with its interest in the unique perspective of each group. For example, in its questions regarding analysts skill sets, the project team asked analysts to assess their own skills, while concurrently asking their managers to assess the skills of their staff. Comparing these results allowed the project team to develop a more complete understanding of analyst skill sets. The surveys sought quantitative data through rating scales, as well as qualitative data, through rank order questions.

The project team used the qualitative data generated in the surveys to identify themes for the focus group discussions. In an effort to develop a full understanding of the challenges facing the City's budget function, GFOA conducted focus groups with a variety of stakeholder groups, including capital-intensive bureaus, small bureaus, internal service managers, administrative managers, and council executives.

The project team developed two maps that are central to the analysis: a detailed map of the current budget process, and a map of budgetary tasks in the bureaus and FPD, in an effort to better understand the distribution of workload. These maps were validated by City staff.

Finally, the project team compared City policies and practices against those recommended by the NACSLB. This analysis was conducted based on the updated Comprehensive Financial Management Policy, which will soon be presented to the Mayor and Council.



Each chapter presents findings based on the GFOA's evaluation of the current environment and our knowledge of budgeting. Each recommendation is based on findings. In addition, where appropriate we present considerations and risk factors that should be taken into account in implementing the recommendations.

2.5 WHAT IS THE RESULT OF IMPLEMENTING RECOMMENDATIONS IN THIS REPORT?

GFOA developed short-term, mid-range, and long-term recommendations for each component of the analysis. Our goal was to develop recommendations that are practical and actionable. If the City implements many of the recommendations, we feel that it will have a budgeting and resource allocation process that:

Ч	More closely aligns decisions with results.
	Frames budgetary discussions in terms of programs and projects rather than bureaus
	Strengthens the City's analytical and reporting capabilities.
	Streamlines the process, allowing more time for analysis of bureau requests.
	Distributes workload more evenly throughout the process.
	Clearly defines the roles of stakeholders.
	Reduces duplicative effort in the bureaus and FPD.
	Conforms closely to the practices recommended by the NACSLB

2.6 SUMMARY

This chapter presented the problems and issues associated with budgeting. It then presented the scope of GFOA's engagement for the City of Portland and the methods we used to conduct the study. The following chapters provide the core analysis for the findings and recommendations that follow.



Chapter 3

Evaluation of the Budget Process



3.0 OVERVIEW

In spite of a number strengths and innovations, the City of Portland could shorten and streamline its budget process, and distribute its analytical tasks more evenly throughout the year. The City's Managing for Results initiative is an ambitious attempt to link expenditures to strategic needs, and to base funding decisions on program and service outcomes. Recent efforts to update the City's strategic goals are an essential first step in this streamlining process, though the City would benefit from a full-scale update of *Portland Future Focus*. The budget process would be streamlined if there were greater deliberation over the five-year financial planning process. Recent changes to the City's capital budgeting process will help to ensure that projects are more closely aligned with strategic needs. In terms of the operating budget, the City's gradual transition to program budgeting will make it far clearer to decision makers how expenditures are linked to programs and services. The City devotes substantial effort to measuring performance, but does not regularly base decisions on that data. Finally, the City's citizen participation efforts are laudable, but portions of the program should be conducted earlier in the budget process.

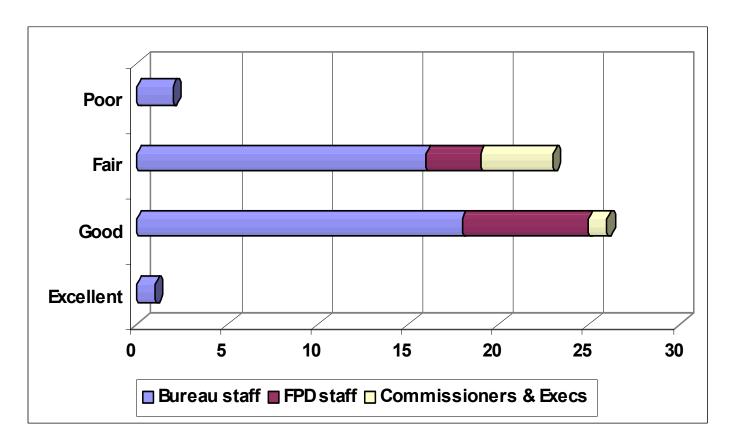
3.1 STRENGTHS OF PORTLAND'S BUDGET PROCESS

Although the project team has been charged with identifying solutions for the City's budgeting challenges, it is important to recognize that the City's budget process is already far more ambitious and sophisticated than that of most governments. Its commitment to long-term planning, both operational and financial, is not commonly found among cities of its size. Its multi-faceted effort to solicit citizen input on the budget is unique. Portland's initiative to manage for results is innovative. Its financial policies are sound. And its presence on the Web, particularly in terms of its interface between the capital improvement plan and GIS, is cutting edge.

3.2 OPPORTUNITIES TO STREAMLINE THE PROCESS

The City's internal budgetary stakeholders—elected officials, the bureaus, and FPD—generally have a favorable impression of the budget process, although many see room for improvement (Exhibit 3.1)

Exhibit 3.1 Overall Quality of the Budget Process





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Finding: The budget calendar is too long and the tasks associated with budgeting are unevenly distributed throughout the process.

Managers and analysts throughout the City have expressed frustrations with the budget calendar. First, they feel the process takes too long. Second, they feel that they do not have enough time to perform their budgetary responsibilities.

Portland's process is certainly long (Exhibits 3.2 and 3.3). Currently, the City formally concludes its process on July 15th, only to begin planning for the next cycle a few weeks later. The City's budgeting tasks can be divided into 14 major phases, which are undertaken over a 48-week period.

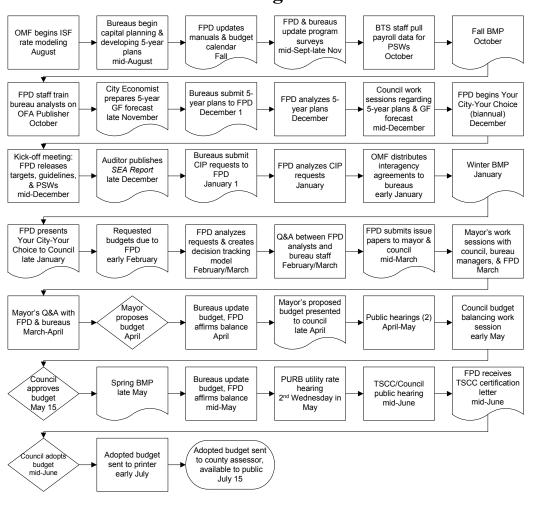
The length of the budget calendar is attributable to two major factors. First, as noted in the previous section, Portland has made a commitment to a number of long-term planning and performance management initiatives that extend beyond the core budget process. Although worthwhile, these initiatives require time and resources that could otherwise be devoted to tasks such as program analysis or the development of requests. Second, analysts in the bureaus lose substantial time attempting to use the patchwork of existing budgeting systems, and transferring data from bureau systems to the Citywide systems. (This issue is addressed in detail in Chapter 6).



Exhibit 3.2 Major Phases of Budget Development

1) Five-Year Financial Plan Preparation	(14 weeks: mid-August – December 1st)
2) CIP Request Preparation	(18 weeks: mid-August – January 1st)
3) Operating Request Preparation	(20 weeks: September/October – February 1st)
4) Fall Budget Monitoring Process	(4 weeks: October)
5) Five-Year General Fund Forecast Preparation	(4 weeks: November)
6) FPD Five-Year Financial Plan Review	(4 weeks: December 1st – January 1st)
7) Holiday Vacations	(2 weeks: mid-December – January 1st)
8) FPD CIP Request Review	(10 weeks: January 1st – mid-February)
9) Winter Budget Monitoring Process	(4 weeks: January)
10) FPD Operating Request Review	(6 weeks: February 1st – mid-March)
11) Mayoral Preparation	(4 weeks: mid-March – mid-April)
12) Council Review and Approval	(4 weeks: mid-April – May 15th)
13) Spring Budget Monitoring Process	(4 weeks: May)
13) Adjustments and Adoption	(4 weeks: May 22 nd – mid-June)
14) Printing and Distribution	(4 weeks: mid-June – mid-July)

Exhibit 3.3 Portland's Budget Process



The core budgeting process— from the kickoff through adoption— cannot begin any earlier or conclude any later. The target budget is dependent upon the general fund forecast, which cannot be prepared until tax and economic data is made available in November. State law requires that the budget be approved by May 15th, and that it be delivered to the county assessor by July 15th. Any changes to the budget calendar will have to occur within these boundaries. Given these constraints, GFOA has focused its recommendations on changes that will expedite the process, as well as changes that streamline the "non-core" elements of the budgeting process.

Recommendations (Streamlining the Budget Process)

Conduct the Citizen Survey Earlier in the Budget Process. If bureau managers are going to be encouraged to develop budgets that reflect citizen preferences, then managers must have access to survey data prior to completing their requests. Currently, the citizen survey is conducted in December, and data is not available until the end of January. Conducting the survey in October would allow bureau managers to have the data by the end of November, in time to incorporate citizen input into their budget request.

Compress the timeline for CIP development. Bureaus begin planning and developing their CIP requests in mid-August. Although some level of capital planning occurs throughout the year, based on our experience few governments have fiscal staff that spend 4 ½ months just developing CIP requests. Capital bureaus currently maintain separate systems—one to meet their own needs and another for FPD. The implementation of new budgeting and financial software, for example, would eliminate redundant data entry, thereby compressing the timeline for CIP development.

Eliminate the Program Surveys. Program surveys are used to convert line-item detail to the program level and contain narrative describing each program. They have been essential in preparing Portland to transition to program budgeting. Making the transition to program budgeting (scheduled for FY 04-05) would eliminate the need for the program surveys.

Adopt the Budget Calendar Prior to the Budget Kickoff. A budget calendar is used by many local governments to set expectations and deadlines for agencies and other stakeholders. In recent years, both the bureaus and FPD have had difficulty adhering to the budget calendar. The City Council should express its commitment to a smooth and orderly process by adopting the budget calendar by resolution, and by making managers responsible for meeting deadlines.

OMF Should Distribute Draft Interagency Agreements at the Budget Kickoff. Interagency agreements are put in place so bureaus can compensate internal service providers for the cost of specific services (e.g., fleet, printing). An increase in the demand for (and therefore the cost of) interagency services can have a significant impact on bureau budgets. In spite of reductions in actual rates over the last three years, bureaus are challenged by top-down spending targets because a large part of their budgets are fixed (e.g., labor costs, lease payments) and internal service costs can reduce the level of "discretionary spending" that bureaus have at their disposal.

Bureaus expressed frustration with the OMF practice of distributing the first drafts of the interagency agreements late in the budget development process (the first week of January). This leaves the bureaus only three weeks to adjust their internal service demands to reflect budgetary constraints, finalize their agreements, and update their budget requests to reflect the final agreements. This is a significant challenge, given that each bureau must negotiate as many as seven agreements with OMF, in addition to its agreements with other operating bureaus.

Establish a Mechanism for the Management of the Question and Answer Process. A good budget process should afford elected officials the opportunity to ask questions during the budget review process. However, FPD and bureau analysts typically feel overwhelmed by the volume and depth of elected official's questions. We found City staff stating that elected officials are typically dissatisfied with the quality of the analysis conducted in response to their questions. In instances where the analysis is sound, departments feel it goes unused. At the conclusion of the work sessions, the Mayor and City Council should generate a list of prioritized questions. Having a comprehensive list of prioritized questions would ensure that the most important questions are addressed, and allow FPD and the bureaus to develop in-depth responses to those questions of the highest priority.

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The budget work sessions should be organized to facilitate greater dialogue between bureau managers and the elected officials. Many of the questions raised by the Mayor and City Council could be addressed through bureau testimony, which would expedite not only decision-making, but also the rate at which analysts can respond to other questions.

Elected officials should be encouraged to recognize that the ideal time to evaluate the effectiveness of existing programs, as well as alternative means of providing a service, is outside of budget deliberations. These types of questions require detailed analysis that typically cannot be conducted over a few weeks, particularly given the need to complete other budgetary tasks during that same time period and limitations on the City's current information technology. Elected officials seeking thorough, detailed analysis on these types of issues should give bureau managers the opportunity to address them at the conclusion of the budget process, with the expectation that the issue be a point of consideration as part of the Fall Budget Monitoring Process (BMP).

Include Mayoral and Council Policy Objectives in the Budget Kickoff. Bureaus assert that they begin the budget process with too vague an understanding of the Mayor and Council's priorities and points of concern for the next budget cycle. If the Mayor were to prepare a statement of expectations, as part of the yearly budget instructions, bureaus could focus their analytical efforts on decision packages that are likely to receive serious consideration. Similarly, if the City Council were to reaffirm its strategic goals at the beginning of the planning process, bureau managers would have a stronger understanding of their expectations. Combined, these efforts could expedite budget development (somewhat) in the bureaus and the review process in FPD.

Work With the Enterprise Bureaus to Develop Useful Tools and Templates. Currently enterprise bureaus (e.g., water, sewer) must customize existing budget preparation templates to meet their needs. Regardless of whether the City chooses to implement new budgeting software or continue with its current applications, enterprise bureaus will continue to require their own tools and templates. FPD should work with the bureaus to develop tools and templates that meet their needs, but that also can be rolled up into the Citywide system.



Delay the Adoption of Multi-Year Budgeting. Some local governments have found that developing a two-year budget reduces staff time spent on budget preparation, providing analysts more time for other tasks. Portland has developed multi-year budgets in the past, but has abandoned the approach when uncertainty in the revenue climate prevailed. Given the magnitude of the reforms recently undertaken by the City, as well as those proposed here, the project team recommends that the City delay transitioning to a multi-year budget. The City should revisit multi-year budgeting once it has transitioned to program budgeting and the revenue climate has stabilized.

Remove the Summaries of the Five-Year Financial Plans From Volume Two of the Budget Document. This reporting is redundant, and if FPD and the bureaus were to present the plans on their Websites, removing the plans would cut the size of the budget document by fifty pages. The analyst time to prepare these summaries could be eliminated.

3.3 MANAGING FOR RESULTS

Finding: Managing for Results is an effective method for linking spending decisions to strategic goals and evaluating programs based on their outcomes.

To its credit, Portland devotes significant resources and staff time to planning and analysis. In addition to the numerous operational plans in force, major bureaus develop strategic and five-year financial plans. Every bureau develops program surveys, which present budgetary information on each program. Recently, City Council has begun to provide strategic direction through its *Vision and Values* statement. The City Auditor's *Service Efforts and Accomplishments* report is the primary performance measurement tool.

Unlike most governments, the issue is not a need for additional planning and analysis, or even for different kinds of planning and analysis. The issue is that each phase in the planning process does not sufficiently build upon the previous one. The end result is that too few spending decisions are based upon strategic needs, and too few programs are evaluated on their outcomes. For instance, strategic planning is intended to provide a framework for the bureaus to prioritize between competing programs and projects.

However, bureau plans and budget requests do not demonstrate how a program or expenditure is intended to meet those strategic goals. As a result, an opportunity to prioritize projects and programs is lost.

The City Auditor's office, in cooperation with the Bureau of Planning and OMF, is developing a resolution to adopt the Managing for Results initiative. It is an attempt to focus budgetary and managerial decision-making on the outcomes of programs and services designed to address the City's strategic priorities. It is a fundamental change in the management culture of a government. At its best, it is fact-based, results-oriented, open, and accountable.

This section will briefly evaluate each of the City's major planning and budgeting processes, and provide recommendations on how to improve them. It will also identify opportunities to strengthen the links between those processes.

Recommendation (Managing for Results)

Continue to Implement the Managing for Results Initiative. Managing for Results is an effort led by City Auditor, Bureau of Planning, and OMF to help the City focus on its mission and goals, and to encourage the use of performance measurement information in decision-making and reporting. For Portland to fully realize the benefits of the Managing for Results model, performance measures and benchmarks must be connected to programs and also reflect strategic goals. Without this link, it is far more difficult to base funding decisions on program results. In addition, managers should be able to monitor their progress toward performance goals as frequently and as easily as they monitor revenues and expenditures. More frequent reporting would allow bureau managers to make adjustments throughout the year to meet programmatic goals.

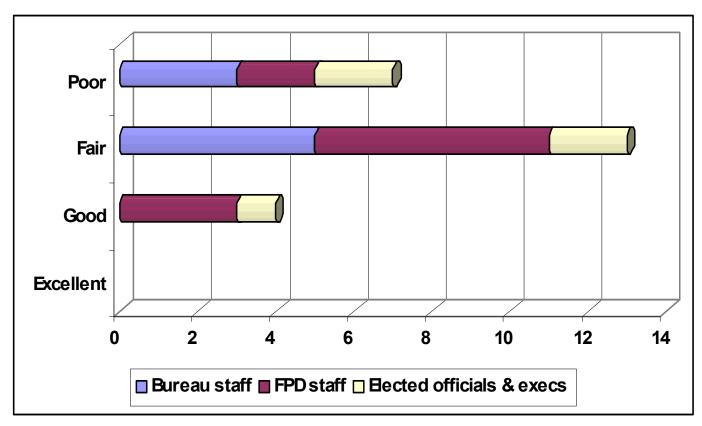
3.4 STRATEGIC PLANNING

Finding: The City's strategic planning efforts are improving, but they should be more closely linked to budgeting.

The last Citywide strategic planning effort, *Portland Future Focus*, was completed in 1991. Portland has changed significantly over the last twelve years, and the plan is no longer widely used to guide operational planning. The Bureau of Planning has studied the feasibility of embarking upon a new, ambitious strategic planning process, one that incorporates citizen input, comprehensive land use planning, and long-term financial planning. However, no decision has been made as to whether or not to move forward with a *Future Focus II*.

Bureau managers are eager for the Council to provide greater strategic direction. Having a clear understanding of the types of programs and services to which the City is committed focuses program analysis and allows for more effective budgeting. Moreover, having an understanding of which activities are outside of the City's core mission simplifies the prioritization process at the bureau level.

Exhibit 3.4 Effectiveness of the Priority Setting Process



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Recognizing the need to provide updated strategic direction, last year City Council developed, but did not adopt, a *Vision and Values Statement*. In response to regional demographic and economic trends, the statement sets forth seven "priority issues."

Exhibit 3.5: City Council's Priority Issues

- 1) **Deteriorating Physical Infrastructure** The City has the oldest infrastructure systems in the region. These systems must be maintained to provide current services at reasonable costs, meet future needs, and avoid long-term liabilities.
- 2) **Regulatory Balance** Portland uses regulatory tools more frequently than other governments in the region. Greater coordination of all the City's tools can produce better results and improve competitiveness.
- 3) **Economic Vitality** It is the City's goal to create and maintain a vibrant, diversified economy that provides jobs, income, and wealth; and generates revenues for the City to support City services and our quality of life.
- 4) **Environmental Mandates and River Renaissance** Federal and state river-related mandates are likely to require major investments, which should be coordinated through River Renaissance to achieve broader benefits.
- 5) Lack of Local Authority for Local Action Build support coalition with other local governments and public/private partnerships with constituent groups.
- 6) **Public Safety** Includes heightened security concerns from 9/11, demographic changes and their impacts on service delivery, and traffic safety.
- 7) **Intergovernmental Roles and Responsibilities** Improving coordination and minimizing overlap in mission and services provided by peer governments.



Work teams were assigned to each priority, and the Council and bureau directors agreed to meet quarterly to review progress on these issues. In addition, the Mayor released her *Provisional Guiding Principles*, which are intended to provide bureau directors with clear direction on which programs, services, and activities make up the City's core mission. The current budget cycle is the first in which this strategic guidance has been available.

These efforts are a dramatic step forward for the City. In order for the City to realize the full benefit of these efforts, however, it is essential that budgetary decisions in the bureaus, in FPD, and by the Mayor and Council be made based on strategic need. There are always going to be more worthwhile projects than there are resources. One of the keys to managing for results is that "worth" is not a sufficient justification for funding a project. Projects must be both worthwhile and move the City toward its strategic goals in order to be considered for funding.

Recommendations (Strategic Planning)

Establish an Unambiguous Link Between the *Vision and Values Statement* and **Bureau Budgets.** Bureaus should include narrative in each version of the budget explaining how its programs, projects, and services are designed to meet the City's strategic goals. Bureaus should be required to justify both current service level requests and decision packages on this basis.

Many bureaus have developed their own vision and values, as well as their own strategic plans. Although laudable, undertaking strategic planning at the bureau level can create inconsistencies with the City's overall vision and impede collaboration between bureaus.

In addition, most bureaus inadequately explain the link between decisions made in the budget cycle and strategic needs. Each bureau, in a section of the budget entitled "Strategic Direction," is supposed to identify the significant issues that led to changes in funding levels. Unfortunately, the link back to strategic goals in the narrative is weak; operational (rather than strategic) considerations receive more prominence. In order to effectively communicate the service impacts of budgetary changes, this link should be strengthened and be made explicit.

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In its budget overview, the FPD presents a clearer link between major funding decisions and strategic goals, but it is by no means comprehensive. Only one page in the budget overview is dedicated to establishing this linkage. In contrast, seven pages in the overview are dedicated to explaining how decisions affect the General Fund.

FPD analysts should also be instructed to base their issue papers on how well a bureau request is designed to meet strategic goals. Most importantly, bureaus should be asked to provide a compelling reason (i.e., regulatory mandate, worker safety) for any major expenditure that does not promote the City's strategic goals.

Proceed With *Future Focus II* or **Another Strategic Planning Effort.** Portland Future Focus is the name of the strategic planning effort that the City conducted in the early 1990s. Future Focus II is the name of a new planning effort that is under consideration but has yet to be adopted. A strategic planning process that incorporates citizen input, comprehensive land use planning, and long-term financial planning would provide the bureaus with valuable set of guidelines for a wide range of operational and budgetary decisions.

3.5 FIVE-YEAR FINANCIAL PLANS

Finding: The five-year financial plans are valuable tools that are currently being underutilized.

The major bureaus—Fire, Police, Parks and Recreation, Housing and Community Development, Transportation, Environmental Services, Development Services, and Water Works—produce five-year financial plans at the beginning of the budget process. Within OMF, many agencies develop five-year plans, including Communications, Technology, Facilities Services, Parking Management, Printing and Distribution, and Vehicle Services. The five-year plans are intended to encourage the bureaus to identify potential long-term issues and challenges and develop strategies to address them. The plans examine "environmental" trends that affect the entire bureau, as well as those specific to each fund within the bureau. They forecast revenues and expenditures by program in each fund based on current service levels, and examine the potential impacts of new services or requirements on the long-term position of each fund. The overall goal is to evaluate the degree to which each fund is structurally balanced.

Somewhat surprisingly, there is little consensus on the value of the five-year financial plans. Over half of all respondents viewed the process positively, while 41 percent held a neutral or negative view. It is worth noting that FPD staff and the staff of elected officials were more likely to view the process positively than bureau staff.

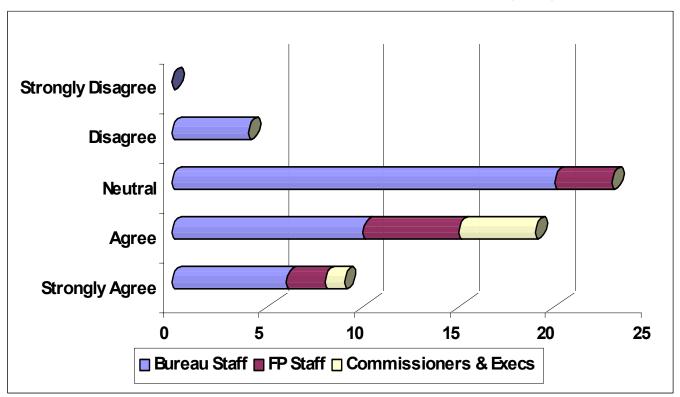
One source of dissatisfaction with the five-year plans may be the disconnect between strategic needs and the environmental analyses. In the focus groups held by GFOA, analysts and managers noted that there is not a clear link between Council priorities and bureau financial plans. The five-year plans effectively examine economic and demographic trends and their likely impact on the bureau's financial position, but they do not successfully communicate how that trend will impact the bureau's ability to achieve either bureau or Citywide strategic goals.

Another source of dissatisfaction may stem from the fact that the City Council takes no formal action on the plans. Bureau analysts devote months to the development and presentation of these plans, yet the Council devotes only one open session to the review of the plans. Such a rapid review makes it unlikely that the process effectively informs decision-making. And since the Council takes



no action on the plans, it does not provide direction on the rate forecasts and decision packages. If Council were to formally approve each five-year financial plan, it would provide better strategic direction and expedite the request development process.

Exhibit 3.6 Five-Year Financial Plans Facilitate Better Budgeting





Perhaps more importantly, analysts and managers see only a weak link between the first year of the financial plan and what ends up in the bureau's budget request. If the bureaus were to present preliminary financial data with each decision package included in the five-year plan, the Mayor and Council would have the information necessary to provide some preliminary guidance. Bureaus cannot be expected to present these packages at the same level of detail as they would in a budget request, but they should provide decision makers with a general understanding of the options that will be before them.

Incorporating preliminary cost data into their explanation of anticipated decision packages would be beneficial for several reasons. First, it would give the Mayor and Council an opportunity to provide guidance on what they would like to see (or do not want to see) in major bureau budget requests, prior to the bureaus preparing those requests.

Second, it would expedite deliberation over the proposed budget, since the Council will already have a sense of the choices before them.

Third, it would help to ensure that analysts do not waste time working on projects that lack political support. It may also prompt questions about the packages, and potential alternatives, well in advance of the process itself, allowing the bureaus to address them as part of their request, rather than rush to respond to them during budget deliberations.

And lastly, the five-year plans do an excellent job of analyzing each fund, but make no effort to aggregate those results up to the bureau level. This creates an artificial barrier to the reader, whose fundamental question is, "Overall, how is the bureau doing?"

Recommendation (5-Year Plans)

Designate the Five-Year Financial Plans As the Primary Planning Document for Major Bureaus. The five-year plans are primarily internal planning documents designed to encourage long-term structural budgetary balance. GFOA's consulting team recommends that the financial plans play a more prominent role by serving as a mechanism for providing long-term direction to the bureaus. Bureaus should present preliminary financial data with each decision package included in the five-year plan. The City Council should then amend and/or adopt each plan by resolution.

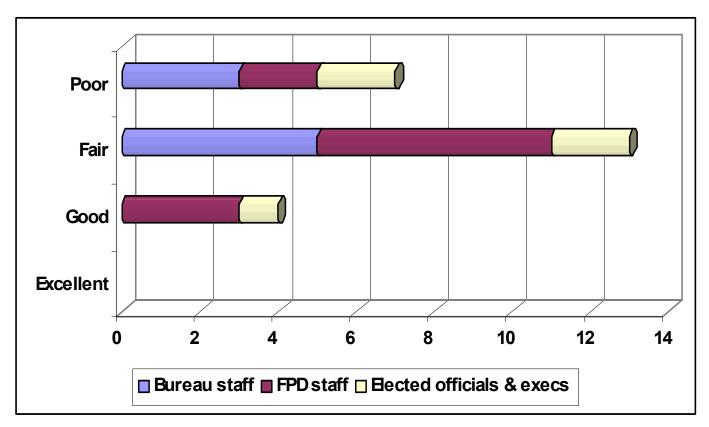
3.6 CAPITAL BUDGETING

Finding: Recent changes to the capital project prioritization criteria have aligned that process with the City's strategic goals.

Volume Three of the budget is the City's five-year capital improvement plan, the first year of which is the capital budget. Projects are financed or funded through a variety of sources, including general fund revenues, grants, fees and charges, and the issuance of debt.

Not all analysts and managers have capital budgeting responsibilities. Those who do, though, generally have a neutral to negative view of the process.

Exhibit 3.7 Effectiveness of the Capital Budget Review Process



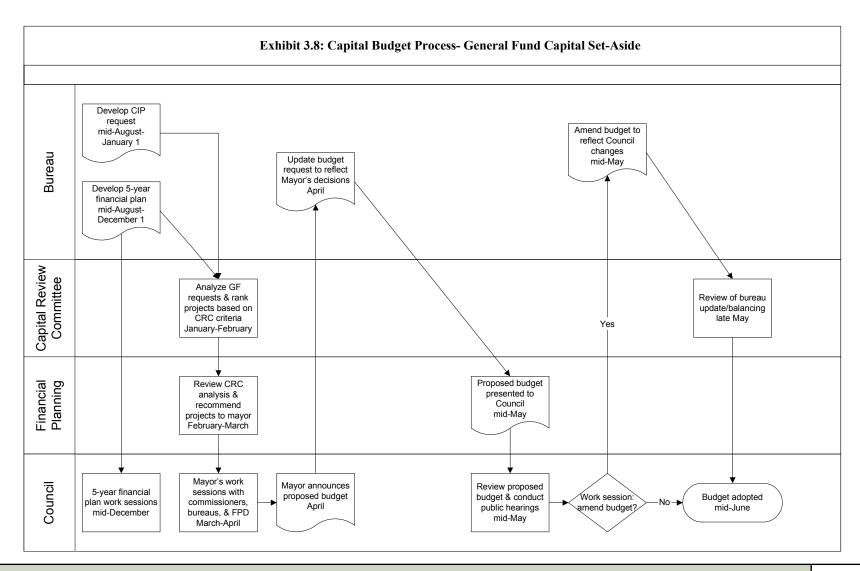
This dissatisfaction is a result of several factors. First, bureaus spend three and a half months planning and developing their capital budget requests. As noted previously, this timeline ensures that capital bureaus are constantly engaged in some type of budgeting. Second, the criteria by which projects are prioritized have not been consistent, meaning that the bureaus frequently must develop their requests without knowing until late in the process the grounds on which it will be judged. Third, funds that are set aside for capital projects have been declining. Finally, IBIS does not allow for project budgeting, so the capital bureaus are forced to operate a parallel system to meet their needs.

In the mid-1980s, City Council adopted a policy, known as the *general fund capital set-aside*, which dedicated \$3 million in general fund revenue annually to "fund the maintenance, repair, replacement, and expansion of the City's capital assets and infrastructure." In 1996, Council updated that policy to dedicate an additional \$1 million to the set-aside, also on an annual basis. The fund was to increase at that rate until the Office of Finance and Administration (now OMF) determined that the fund was sufficient to meet "planned capital requirements." At its peak, the set-aside reached \$7 million.

As the economic climate changed and City revenues declined, the set aside was reduced to its current level, \$4.6 million. Capital analysts expect that the City will maintain that level for the foreseeable future.

¹ City of Portland Resolution No. 35526, "Increase the General Fund Set-aside for Capital Projects," Adopted June 12, 1996.

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The Capital Review Committee, comprised of the bureaus seeking General Fund set-aside funds, is charged with reviewing requests and recommending projects to the Mayor and City Council. FPD analysts also review the recommendations of the committee and submit their analyses to the Mayor and Council.

NACSLB capital budgeting practices call for the prioritization of potential projects according to explicit criteria developed by the jurisdiction. In the most recent budget cycle, the Capital Review Committee found these criteria to be lacking, and asked FPD to prepare a new set of weighted criteria to better reflect the City's needs. FPD identified six weighted criteria:

Aging infrastructure
☐ Safety
☐ Mandated
☐ Leveraged Funds
☐ Growth/Economic Development/Livability

These criteria are consistent with the City's strategic priorities, making it far more likely that capital investments will be targeted toward those priorities. This change in criteria is one of the City's first steps toward realizing their Managing for Results ambitions.

Recommendation (Capital Budgeting)

A sin a Infrastrus

☐ River Renaissance

Capital Project Requests Should Include Reserves for Major Maintenance Costs. Currently, the City examines the operating and maintenance costs associated with a new capital project over the first five years of its useful life. Most bureaus do not analyze major maintenance costs in the "out" years, as assets age and major repairs becomes necessary. As a result, Portland—like many cities that use this practice—is building a long-term structural imbalance into its budget. Major maintenance costs should be included in feasibility analyses and budget requests; bureaus should build contributions to a major maintenance reserve into their requests.

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3.7 THE OPERATING BUDGET

Finding: The City produces two budget documents: the budget itself and the program surveys.

Over the last two budget cycles, FPD has been moving away from presenting its budget by line-item and toward presenting it by program. Program budgets are far more effective in terms of framing choices for decision makers, since it is far easier to see the link between an appropriation and a program. This improved transparency makes it far easier to manage for results and execute cutback management strategies that reflect a government's priorities.

Presenting expenditures by program rather than by line-item can be a complicated endeavor. It requires a reconfiguration of how financial data is tracked, as well as a re-mapping of the process by which the Citywide budget is aggregated from individual bureau requests. Managing such a substantial change is a challenge for any organization.

FPD's strategy for facilitating this change was the program surveys. This effort required the bureaus to develop narrative describing all of their programs. It also required that the bureaus and FPD collaborate on mapping their expenditures to be able to present them on a programmatic basis. This effort will ease the transition to program budgeting greatly, since the most fundamental changes have already been implemented. Expenditures in the five-year plans are also now presented by program.

Bureau budgets, at present, are based on line-item expenditures that cross programs. Most performance measures for the City are centered on the program as the unit of analysis. Since expenditures are not calculated at the same unit of analysis as performance measures, it is difficult to establish a direct link between an expenditure and a program outcome.

Recommendation (Operating Budgets)

Complete the Transition to Program Budgeting. Program budgeting is far more effective in terms of framing choices for decision makers since expenditures are presented by program rather than line-item. A program and activity structure in the operating budget would allow the City to more effectively link resources with results achieved. The service impacts of decision packages could be presented to Council, supporting arguments for or against service reductions or increases. Program budgeting also provides the ability to make "surgical incisions" rather than "meat axe cuts" when budget reductions are necessary. And finally, completing this transition will allow the City to stop producing the program surveys.

3.8 POSITION CONTROL

Finding: The City faces challenges in managing its personnel costs due to the method by which it manages and controls positions.

Operating departments, human resources staff, and the finance department of public sector agencies typically have different perspectives on personnel budgeting and management: operating departments need to ensure that they have sufficient staff to deliver programs and services; the human resources function seeks to fill positions in a manner consistent with established policies, procedures, and agreements; and the finance department usually seeks to ensure that agency expenditures remain within budget.

Since personnel expenditures make up such a significant portion of the total cost of government, position budgeting and control are critical tools for effectively managing resources. As is the case with other public sector agencies relying on aging technology and multiple systems that are not integrated, the City's ability to monitor and manage positions is limited. IBIS does have some position control functionality, and OMF and BHR are exploring opportunities to make better use of that functionality.

Nonetheless, there are fundamental weaknesses in how the City develops personal service budgets and how it monitors positions. First, Portland budgets personal services based on payroll information, not authorized positions. And since there are several ways for an employee to be added to the payroll, existing controls do not restrict increases in headcount only to authorized positions.

Second, the time needed to assemble personal services data limits its usefulness. Due to the limitations of IBIS, the Bureau of Technology Services (BTS) must begin extracting payroll data in October. As a result, the City is using October payroll data to estimate payroll for the following July. This ten-month gap creates a need for bureaus to manually adjust their requests to reflect any changes in personnel, which is a complicated process prone to error. Modern budgeting systems are designed to simplify and expedite this process. It is likely that if the City were to implement new budget software, FPD could develop these data sets and make the necessary adjustments without the assistance of BTS.

There are other weaknesses in the current process. Most notably, the personal services data that is sent out to the bureaus excludes vacant positions, which each bureau must add into their requests based on a separate master list of positions. In addition, while full-time, permanent positions are closely scrutinized during the budget process, the City needs the ability to budget and manage multiple position types (e.g., temporary or seasonal employees), as well as the ability to view positions that are over or under filled. Personnel services costs are allocated based on the unit of appropriation, the budget code. This prevents analysts from being able to query the system based on other useful characteristics, such as positions under a certain supervisor, positions that are grant-funded, or personnel cost per activity. The ability to easily pull these kinds of basic data out of the system is essential to effective program management.

Exhibit 3.9 identifies some of the additional challenges related to position budgeting and control.

Exhibit 3.9 Challenges in Position Budgeting and Control

☐ Personal services are budgeted based on payroll information, not authorized positions		
☐ The time needed to assemble personal services data limits its usefulness		
☐ Bureaus must track vacant positions outside of IBIS in order to add them to budget requests		
☐ Analysts and managers have only limited capacity to budget and manage multiple positions types (e.g., temporary or seasonal employees)		
☐ Personal services costs cannot be queried based on characteristics such as over or under-filled positions, positions under a certain supervisor, grant-funded positions, or personnel cost per activity		
☐ Lack of comprehensive and integrated human resources and payroll system		
☐ Bureaus are dissatisfied with the format and use of personal services worksheets		
☐ The budget monitoring process focuses on revenues and expenditures, not positions		
☐ Fringe benefit calculations and estimates are completed by employee, not by position, using payroll data		
☐ Differences in definitions, business rules, and interpretations complicate interactions between the bureaus, BHR, and FPD		
☐ Bureau and FPD staff want online, real-time access to data on positions budgeted, filled, vacant, etc.		
☐ Bureaus must complete multiple forms related to personnel budgeting		
☐ IBIS cannot currently report on the number of authorized full-time positions or salary detail by job classification		

The City's position control working group is focusing on many of these issues. While improvements in technology would address many of these issues, changes in internal policies and procedures are necessary to allow managers to have the information they need to do their jobs effectively.

Recommendations (Position Control)

Establish Strong Position Control and Staffing Analysis Functionality in the New Budget Software Package. Since public sector service delivery is so labor intensive, it follows that sound position control and analysis of staffing patterns are critical to overall financial control. In its evaluation of budgeting software, the City should establish position control functionality as a core criterion, especially since many budgeting products are weak in this area.

Budget Based on Positions, Not Payroll. Only City Council can create or eliminate a position. However, since budgets are developed based on payroll data, a key bureau strategy to "forcing" the funding of a new position is to get a person on the payroll rather than into an authorized position. For example, an employee may be hired at the end of the year because of salary savings available from vacancies—even though a full year of funding for that employee is not appropriated. BHR and FPD should work together to strengthen position control and close the staffing loopholes.

Report on All Positions in the Budget and Budget Monitoring Process. Currently, these processes only report on full-time, permanent positions. Bureaus should be required to estimate seasonal, temporary and part-time employees.

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3.9 INTERAGENCY AGREEMENTS

Finding: Bureaus are dissatisfied with the internal service cost calculation process.

In an effort to cut costs and streamline administrative processes, the City has centralized a number of services. Operating bureaus are required to contract with these centralized service providers through interagency agreements. Currently, OMF operates eight internal service funds: printing and distribution, communication services, fleet services, insurance and claims, workers' compensation self-insurance, facilities services, health insurance, and information technology. These funds accounted for over \$81 million in financial activity in FY 2000-2001.

BHR and Debt and Treasury are also funded through interagency agreements, although they do not have separate funds. Also, it is important to note that bureaus outside of OMF also provide services to internal customers, but the focus of this section is on issues common to the OMF funds.

Analysts and managers have consistently expressed dissatisfaction with internal services. Although it is likely that bureau dissatisfaction is due in part to a loss in managerial flexibility and discretion, OMF should address several issues that frustrate bureau staff and slow the budget development process.

Bureaus consider the process by which interagency agreements are built to be too time-intensive. Some also feel that the interagency agreements come out too late in the budget process to facilitate the the development of their requests. In order to meet their budget development deadlines, bureaus currently must estimate interagency costs based on previous years, and adjust those costs once real numbers are available in January. In addition, service levels have to be adjusted to reflect changes between the requested, recommended, and approved budget. Each of these balancing exercises are time consuming.



Bureau analysts and mangers widely believe that internal service charges are arbitrary and exorbitant. They are frustrated because although they have funding responsibility for these functions, they have no managerial authority over them. However, almost all of OMF's cost formulas generate unit costs or hourly rates, which bureaus can use to calculate affordable levels of service. Only two internal service costs, BHR and BTS, are not allocated in this manner. OMF is developing unit and service based costs for BTS, but does not have plans to do so for BHR.

As for the cost of services, charges are designed to recover the full cost of providing each service. This reflects sound financial management, in that OMF should not be required to subsidize bureau operations by absorbing the indirect costs of internal service delivery. Rates are based on the City's *Cost of Service Guidelines*, which OMF presents annually as a part of its rate modeling workshop.

The City Auditor's office has conducted several studies that have found that Portland's costs are largely consistent with those of other jurisdictions or the private sector. Regardless, bureau managers consider service charges to be excessive, which they attribute to inefficiencies due to the service providers' "monopoly" position. Many bureau managers would welcome the opportunity to explore outsourcing services widely available in the private sector.

Internal service charges were scrutinized as part of the Administrative Service Review process, and changes in the administration of these funds have resulted in reductions in charges over the last three years. However, rate oversight during the budget process is limited, due to the complexity of the agreements and the brief time in which FPD analysts must develop their issue papers. In addition, the only time that the Mayor and Council have oversight is when they are deliberating over the OMF budget.

Recommendations (Interagency Agreements)

Improve the Transparency of Interagency Charges. The term "transparency" refers to both parties in a transaction or business relationship having equal amounts of information. The City should take three steps to improve transparency in the area of interagency agreements:

Bureau managers, both in finance and the operating bureaus, should attend the OMF rate modeling workshop.
OMF should facilitate a forum between internal service providers and customers, focusing on service delivery issues
The interagency taskforce recommendations, which are intended in part to improve transparency in interagency
billings, should be finalized.

Benchmark Internal Service Costs Against Private Sector Comparables. The City Auditor has compared the cost of many of Portland's internal services against those of other jurisdictions, as well as some private companies, and found that its cost structure is generally competitive. However, the comparison with private sector firms has not been as extensive as the comparison with other governments. Benchmarking, after all, is a process that seeks to "set the bar" rather than encourage organizations to meet "averages" in their peer group. The City should compare these costs more extensively, and determine if some services may be candidates for outsourcing. Internal services that lend themselves to outsourcing typically are widely available in the private sector, do not require substantial programmatic oversight, and can easily be broken into components for bid. Finally, the current "benchmark" information that has been collected is sixyears old and should be updated.

3.10 PERFORMANCE MEASUREMENT

Finding: The City devotes significant resources to measuring performance, but the results of that effort are underutilized.

Portland has undertaken a number of performance measurement efforts that could be consolidated into the Managing for Results initiative.

Portland-Multnomah Progress Board Benchmarks

Biennial reports on community benchmarks are issued based on the *Portland Future Focus*. This effort is a visioning-style of benchmarking often called "targets as benchmarks." It measures progress toward broad social and economic goals, ranging from increasing personal income to enhancing environmental quality. These benchmarks are designed to assist City Council in establishing goals and priorities for the budget process.

Service Efforts and Accomplishments (SEA) Report

The SEA effort has resulted in twelve years of validated historical data, based on goals outlined in *Portland Future Focus*. It measures spending, staffing, workload, and results (which rely on citizen survey and comparative City results). Eight bureaus—Fire, Rescue, and Emergency Services; Police; Parks and Recreation; Transportation; Environmental Services; Water; Planning; and Housing and Community Development—voluntarily participate in the process.

The Annual Operating Budget

As a part of the annual budget process, bureaus report workload, efficiency, and effectiveness measures. These measures are separate from the other measurement efforts, and are listed toward the end of each bureau's budget.

ICMA Comparative Performance Measurement Consortium

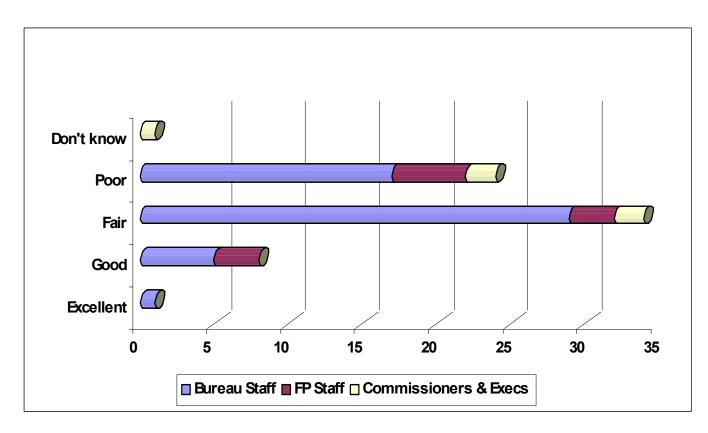
The consortium is a venue for 130 cities across the country to compare performance in core municipal services, such as police, fire and emergency services, neighborhood services, support services, and youth services. The City has participated in the ICMA project in four of the last five years.

Not surprisingly, managers and analysts see the City's performance measurement efforts as redundant, and are frustrated that although they must devote significant resources to tracking and reporting on the measures, they are rarely used to inform decision-making. In fact, 85 percent of those who responded to the GFOA survey view the City's current performance measurement efforts negatively (Exhibit 3.10).

In addition, some bureaus claim to have missions poorly suited to performance measurement. The outcomes of the efforts of the Bureau of Planning, for instance, will only be known in the distant future, while performance measures are usually reported quarterly or annually. As a result, the bureau measures what is tangible, which are inputs. Unfortunately, these types of measures are less useful for decision-making.

Performance measurement is a tool, and all tools have limitations. It is difficult to measure intangible outcomes, long-term performance, and non-routine activities. Bureaus must work around these limitations to find measures that can be linked to strategic goals. In Planning, this means focusing on short-term measures, just as it currently does with the number of new housing units built and the Citywide livability rating.

Exhibit 3.10 How Do You Rate the Performance Measurement Efforts?



It is possible to measure the seemingly intangible as well. For example, in the City Attorney's office, while it is next to impossible to report on the quality of attorney services, turnaround times for ordinance/resolution preparation and legal opinions could be tracked and reported. Success rates could also be monitored, in terms of collection rates on claims and other funds owed the City, recovery rates for delinquent taxes, percentage of lawsuit settled, percentage of litigation avoided, favorable disposition rates, successful abrogation rates, amount of judgment or settlement as a percentage of the amount demanded of the municipality by claimants, payout ratios, and cases affirmed on appeal.

Recommendations (Performance Measurement)

Replace Most of the Measures Currently Reported in the Budget With SEA Measures. Replacing the current measures with those from the Service Efforts and Accomplishments (SEA) Report (released annually by the City Auditor) will increase the quality of the measures, as well as reduce bureau workload. Of course, some measures presented in the budget document are useful, and they should either be folded into the SEA process or tracked independently.

Expand the Number of Bureaus Reviewed in the SEA Report. Eight bureaus voluntarily participate in this process. All of the *major* bureaus should participate in this initiative. In order to minimize the impact of this new reporting responsibility on the bureaus, the City Auditor's office should collect the data that is readily available in the central accounting system, and expect that the bureaus will provide the remaining data.

Expand the Use of Progress Board Performance Benchmarks in the Budget. The Portland Multnomah Progress Board is a regional benchmarking effort that encompasses a broad range of economic, social and fiscal indicators. Only seven bureaus cite goals and/or performance measures from the Progress Board. Out of the 14 measures described, only three are actually reported with performance results.

3.11 CITIZEN PARTICIPATION

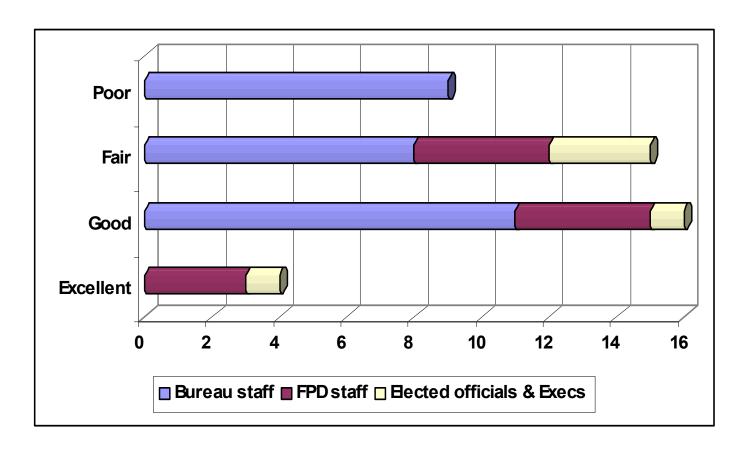
Finding: The citizen participation process successfully measures citizen preferences, but it is conducted too late in the process to inform the development of bureau budget requests.

Every two years, the City engages in an extensive effort to measure citizen preferences called *Your City-Your Choice* (YCYC). The process includes a scientific survey of the citizenry, as well as a series of community budget forums. The community budget forums are designed to put the citizen in the role of a commissioner, prioritizing between competing programs and services.

Scattered throughout the process, there are a number of other citizen participation initiatives. Several bureaus, including Police; Fire, Rescue, and Emergency Services; Transportation; and Housing and Community Development have citizen budget advisory committees. These committees advise the bureaus as they develop their requests. There are two formal bodies that provide input and oversight over the City's utilities: the Public Utility Review Board (PURB), and the Stormwater Advisory Committee. In addition, the City conducts at least two public hearings during the budget process.

Bureau staff see far less value in the citizen participation process than the other survey respondents. In focus groups, managers and analysts consistently raised two issues. First, too few citizens participate in the community forums for them to be effective. In addition, they feel that those who do attend typically lack the background in City operations to be able to offer constructive input. Second, the results of the citizen survey are not available until the end of January, just days before bureau requests are due.

Exhibit 3.11 Effectiveness of the Citizen Participation Process





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OMF tracks the number of citizens who attend the community forums. In 2000, an average of 80 citizens attended each of the five forums. In 2002, an average of 69 citizens attended each of the five forums. These numbers, although not overwhelming, certainly do not seem indicative of widespread citizen apathy. Nearly all who attend evaluate the forums positively, indicating that there is strong citizen support for the efforts.

Managers tend to view the opinions expressed in the community forums as impractical, since citizens cannot develop sufficient context through an overview presentation to make informed budgeting decisions. To address this need, some staff have expressed an interest in developing a Citywide budget advisory committee, trained in the nuances of public sector budgeting, to provide "expert citizen" input. Developing such a committee could address some of the bureau dissatisfaction with the current outreach efforts.

Recommendations (Citizen Participation)

Link Citizen Participation to Budgeting. Through the "Your City, Your Choice" process, Portland has developed a number of mechanisms for identifying stakeholder concerns, needs, and priorities. Unfortunately, these efforts are only loosely tied to budgetary decision-making. The bureaus should point out how priorities and funding allocation decisions have been affected by citizen input.

Continue to Host the Community Budget Forums. Community Budget Forums are vehicles for citizen participation that are conducted bi-annually. Some bureaus expressed frustration that too many of their staff were required to attend given the level of citizen participation. Yet our review of attendance indicates sufficient interest in the forums to justify their continuation. Satisfaction ratings indicate that citizens consider the forums worthwhile.

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3.12 SUMMARY

Portland already has one of the more ambitious and sophisticated budget processes among local governments. In addition, it is engaged in two major efforts that would improve the current process: the managing for results initiative, and the evaluation of new budgeting software. Both of these efforts will dramatically affect how the City makes budgetary decisions and how it assembles its budget document.

In spite of these strengths and the City's commitment to innovation, the current process has some shortcomings. The City should shorten and streamline its budget process, and should distribute its analytical tasks more evenly throughout the year. Recent efforts to update the City's strategic goals are an essential first step in this streamlining process, though the City would benefit from a full-scale update of *Portland Future Focus*. The budget process could also be streamlined if there were greater deliberation over the five-year financial planning process.

In terms of the operating budget, the City's gradual transition to program budgeting will make it far clearer to decision makers how expenditures are linked to programs and services. The City devotes substantial effort to measuring performance, but does not regularly base decisions on that data. Finally, the City's citizen participation efforts are laudable, but portions of the program should be conducted earlier in the budget process.



Chapter 4

Budget Roles and Responsibilities



4.0 OVERVIEW

Portland's form of government is unique. According to the International City/County Management Association (ICMA), only two percent of cities with populations exceeding 2,500 have a commission form of government. This percentage is undoubtedly lower for large cities, making Portland's situation all the more rare. Rare as it may be, the commission form of government is not going anywhere. In May of 2002, Portland residents overwhelmingly defeated a measure to change the form of government to a "strong mayor" system.

The distinguishing characteristic of the commission form of government is that elected officials act as both legislators and administrators. Portland is governed by five non-partisan Commissioners who are elected at-large to four-year terms. Collectively, the Commissioners comprise Portland's legislative body, the City Council. Individually, they manage one of the five City departments as assigned by the Mayor. Traditionally, the Mayor is the commissioner of Finance and Administration, and is thus designated by City Code to propose a budget. As such, the Mayor is the closest thing the City has to a chief executive. Unlike most local government chief executives, however, Portland's Mayor does not have direct authority over all, or even most, bureaus and activities.

The Financial Planning Division (FPD) is the City's central budget office. By City Code, its responsibilities include "financial planning, reporting, forecasting, publishing the budget, and other services the Council or the CAO may assign." The FPD manager is designated as the City's budget officer for the purposes specified in the Oregon Revised Statutes. The bureau's mission reads as follows: "We provide financial planning guidance and consultation to our customers. We conduct analysis with a Citywide perspective to aid our customers in reaching decisions. We do this to ensure long-range financial health so that the City can provide quality services."

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4.1 RESPONSIBILITIES OF THE FINANCIAL PLANNING DIVISION

FPD's self-stated responsibilities, as listed in the budget document, include the following

Operating and capital budget planning, development, and monitoring, including operational review of the City utilities in			
concert with the Public Utility Review Board.			
☐ Long-range financial forecasting for the general fund and related funds.			
Conducting and/or participating in a variety of Council and/or bureau financial and economic studies.			
☐ Assisting the Bureau of Human Resources in costing out collective bargaining proposals and employee group classifica			
compensation studies.			
Financial review and analysis of state legislation.			

The form of government affects the budget process. For example, while the Commissioners adopt a budget for the City as a whole, they each have a vested interest in seeing that their departmental priorities are included in the spending plans. This dynamic discourages Commissioners from approaching the budget from a Citywide perspective and can make it difficult to reach budgetary consensus. A second challenge posed by the commission form of government is that no individual can compel the bureaus to meet budgetary deadlines, since the Mayor does not have direct authority over each of the bureaus. As a result, FPD lacks the political and administrative backing necessary to hold the bureaus to budget deadlines and otherwise obtain their cooperation on budget development. As a result, some bureaus consistently miss budget deadlines, which reduces the time available for FPD analysis and compresses the budget calendar.

Of course, FPD must meet its deadlines and play by the same rules if it expects the cooperation of the bureaus. This has not been the case in years past—a fact recognized by FPD and the bureau analysts alike. This must change if FPD and Portland's other administrative bureaus are to obtain better cooperation from the operating bureaus.



The project team addressed this challenge with its recommendation in Chapter 3 that the City Council adopt the budget calendar at the beginning of the process. Formal adoption of the budget calendar demonstrates the Council's commitment to smooth process, and expresses its expectation that managers and analysts throughout the City meet its deadlines.

4.2 LOCATION OF THE BUDGET OFFICE

Finding: Stakeholders are generally satisfied with Portland's "top-down" budgeting structure, as well as with FPD being located in OMF.

Academics typically classify budgeting functions as either centralized or decentralized structures. A centralized budget function employs a "top-down" approach, in which the chief executive (or the governing body) identifies priorities, sets spending targets, and issues guidelines and instructions for submitting budget requests. The chief executive and his or her budget staff then review and modify agency requests to achieve organization-wide goals within resource constraints. Decentralized budget functions begin the process with agencies developing their requests. As such, agencies—not the chief executive or the governing body—dictate the priority-setting process. The degree to which the budget function is centralized tends to increase in times of fiscal austerity.

A more practical way of thinking about structure is in terms of the location of the central budget office. GFOA's research in this area shows that state and local governments typically place their central budget offices in one of the following four locations, each of which are briefly discussed below.

Freestanding Central Budget Office

Large governments sometimes give departmental status to their central budget offices. Departmental status confers a greater level of autonomy to a CBO than the other three alternatives. The separation from the chief executive and financial and administrative functions enhances the perception of independence and objectivity. By the same token, this strategy can make coordination between the central budget office and other core financial activities (e.g., accounting, debt administration, treasury management) more difficult.

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CBO within the Chief Executive's Office

Making the budget function a subunit of the chief executive's office introduces a high degree of centralization into the budget process and gives the chief executive more direct control over budgeting activities. This strategy may also have the effect of increasing the policy/political orientation of the budget office. As in the previous case, this type of arrangement can isolate the budget function from other core financial activities.

CBO within a Department of Finance

Many governments include the CBO in a department of finance that has responsibility for core financial activities. Under this structure, the budget officer can be either the finance director or the head of the budget office. This arrangement may insulate the budget function from politics and policymaking, increase its technical/professional orientation, and enhance coordination among core financial activities.

CBO within a Department of Administration

The CBO can also be located in a general administration department that includes functions such as accounting, fleet management, human resources, information technology, purchasing, and risk management. The budget officer typically reports to chief administrative officer who, in turn, reports to the chief executive. This strategy tends to give the central budget office more of an administrative role and less of a policy role. In this respect, it is very similar to locating the budget function in a department of finance.

There is no "best" location for the central budget office. In general, larger governments tend to place the budget office in the chief executive's office or make it a freestanding department, while smaller governments tend to locate the budget office inside the finance department. One major consideration in deciding where in the organization to locate the central budget office is who should



have direct responsibility for the budget function—the chief executive (CEO) or the chief financial officer (CFO). There are a number of advantages and disadvantages to each alternative, which are summarized in Exhibit 4.1.

Exhibit 4.1 Budget Office Location: Under the CEO or the CFO?

	Advantages	Disadvantages
Budget Office under CFO	 □ Should increase coordination of financial activities □ Single individual can be held accountable for financial management □ Should enable the government to hire better leadership talent 	 □ May lead to a fragmentation of power between the CEO and CFO □ Budgeting function may be given a lower priority by the CEO □ CFO may give a higher priority to non-budgetary functions
Budget Office under CEO	 □ Allows CEO to have direct control over the budget □ Budget office may have more active role in policy development □ Budget office may obtain better responsiveness and cooperation from operating departments □ Better suited to integrate decision-making, priority setting into the budget process □ Budgeting function may be given a higher priority by the CEO 	 □ May become embroiled in the day-to-day crises faced by the CEO and lose long-term view □ May find it difficult to develop a reputation for objectivity □ Budget staff may tend to be generalists with less financial expertise □ May not receive the supervisory review that it would from a CFO □ Possible lack of coordination between the budget office and the finance director

Recommendation (Location of the Budget Office)

Continue to House the Financial Planning Division in the Office of Management and Finance. FPD is part of the Bureau of Financial Services. Given the City's size, complexity, commitment to objective fiscal analysis, and overall satisfaction with the current location of FPD, there is no compelling reason to reconstitute FPD as a separate bureau or move it to another location.

4.3 ASSIGNMENT OF ROLES AND RESPONSIBILITIES

The literature in the field makes some sweeping generalizations about the roles and responsibilities of the principal actors in the budget process. At the beginning of the budget process, the chief executive establishes priorities and issues guidance for the agencies to use in developing their spending requests. While the governing body may also set priorities, it usually plays a more reactive role—except when pet projects or politically charged issues are at stake. The agencies initiate budgetary deliberations by submitting their funding requests to the chief executive through the central budget office. Analysts in the central budget office review the requests for consistency with the policies and priorities of the chief executive and for reasonable cost. Agency requests are adjusted and consolidated into the executive budget document, which is transmitted to the governing body for consideration. The agencies normally have an opportunity to justify their requests to the governing body before it officially adopts the budget.

The preceding paragraph is a tidy way of summarizing the roles and responsibilities of the major players in state and local government budgeting. Of course, state and local government budgeting is anything but tidy. These roles can and do vary significantly from government to government depending on size, form of government, organizational structure, and a litany of other factors.

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This is especially true of the role of the central budget office. At one end of the spectrum, the budget office acts simply as a coordinator of the budget process, keeping the process on schedule, designing standard forms, and verifying the accuracy and completeness of budget requests. At the other end of the spectrum, the budget office not only has a larger role in the budget—evaluating department requests, balancing revenues and expenditures, and monitoring the implementation of the budget—but also takes on activities that are closely related to budgeting, such as capital planning, grant management, program evaluation, and debt analysis. Exhibit 4.2 lists the various activities associated with the three potential roles of a central budget office: coordination, policy guidance, and supervision of budget implementation.

Exhibit 4.2 Core Activities of the Budget Office

Increasing Responsibility

Coordination

- 1. Develops budget calendar or schedule.
- 2. Designs budget worksheets and forms.
- 3. Assists departments to formalize performance measures (if applicable).
- 4. Develops budget worksheet instructions for department heads.
- Reviews finished worksheets for accuracy and completeness.
- 6. Prepares or assembles revenue estimates.
- 7. Presents budgetary materials to chief executive for review.
- 8. Assists chief executive official to prepare recommended budget for elected officials.
- 9. Coordinates activities and schedules meetings.

Policy Guidance

- 1. Issues guidelines to departmental officials regarding acceptable levels of service increases or decreases and expected cost limitations.
- 2. Evaluates departmental requests and adjusts them to policy guidelines.
- 3. Develops budget objectives of the locality including any constraints that may be imposed.
- 4. Ensures consistency of requests within and among departments.
- 5. Balances expenditure request with available revenues.
- 6. Makes recommendations for budget action to legislative body.

Supervision of Budget Implementation

- 1. Ensures that departments do not exceed budget limits by conducting periodic projections of expenditures and comparing them to available resources.
- 2. Reviews all requests to transfer from one budget item to another.
- 3. Maintains and updates manual of budget procedures.
- 4. Prepares reports on budgetary performance for the use of legislative body, chief executive, and departments.
- 5. Closely monitors departmental performance to determine potential adverse trends.



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Finding: Although stakeholders typically understand their role in the budget process, they often do not understand those of the other participants.

What is important is not how budgetary roles are defined, but that they are defined and clearly understood by all of the participants in the process. Portland could improve its budget process and increase internal stakeholder satisfaction by more clearly defining the roles and responsibilities of the major players in the process.

It became clear through the focus groups that the roles of the major players in the budget process are not defined sufficiently. While each of the major internal stakeholders—the Mayor, Commissioners, FPD analysts and bureau analysts—indicated that their budgetary roles are clearly defined, they all have different expectations as to what others are supposed to be doing. As a result, the City's budget function suffers from a sort of "identity crisis" that is fueling dissatisfaction among internal stakeholders.

Since FPD is responsible for coordinating the budget process Citywide, it is the focal point of this identity crisis. Although its mission statement and job description define its role as one of providing consultation and guidance, the reality is that analysts spend much of their time on the mechanical aspects of budgeting, such as data entry and formatting.

FPD's mandate to facilitate effective decision-making through rigorous analysis appears to have been lost in the pressure to meet budgetary deadlines and produce a budget document. Although the problem is partly a function of the workload associated with the budget process itself, it is also a function of the lack of clarity as to roles and responsibilities in the budget process.

Bureau Perception of the Role of FPD

Among the bureaus, there is a widely-held sentiment that FPD adds little value to the budget process. It is seen as a coordinator and a conduit for budgetary information. In a focus group, one bureau analyst noted that "financial planning analysts do not analyze, they merely summarize." Some bureau staff went so far as to question the need for a central budget office, since in their view all it really does is reformat agency budget requests for publication in the proposed and adopted budget. Not surprisingly, FPD analysts do not share this view. Accurate or not, the City must confront this perception by clarifying its roles and responsibilities both within and outside of the budget process.

Exhibit 4.3 FPD Staff Make My Job Easier

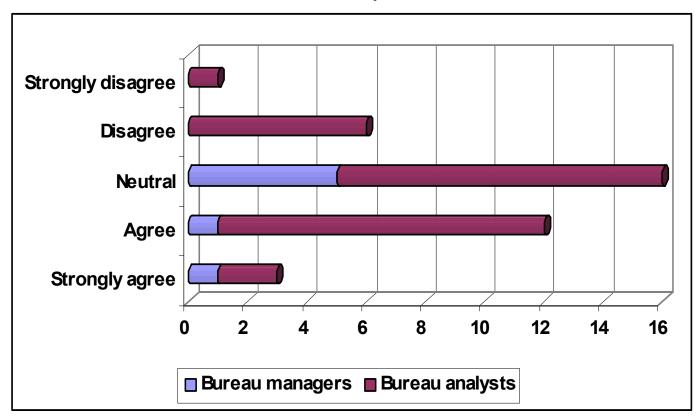
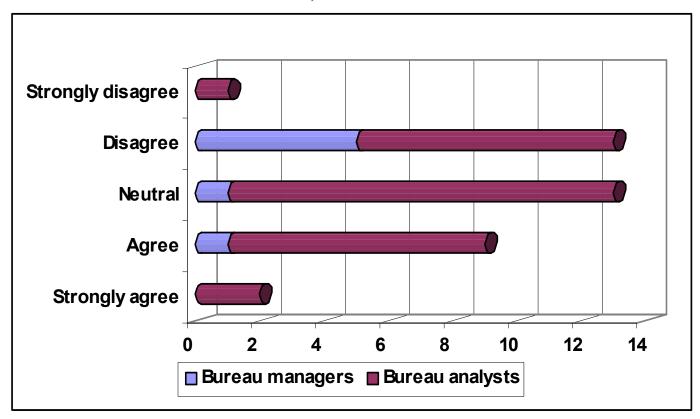




Exhibit 4.4
FPD Staff Have Sufficient Understanding of Bureau Operations,
Issues, and Concerns

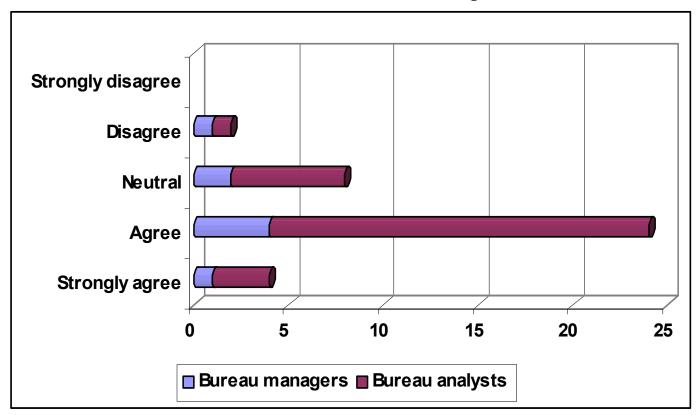


Another widespread belief among the bureaus is that FPD analysts should be advocates for their portfolio of bureaus. Bureau managers have a sense that the "real" budgeting decisions are not made until the Mayor sits down with FPD to review each request, and that if their FPD analyst does not advocate on their behalf, their request will be cut. This thinking runs counter to the traditionally accepted role of a central budget office. In this model, analysts review agency requests for consistency with policies and priorities, modifying the requests as needed to reconcile competing priorities with resource constraints. The value of the central budget office lies in its independence from the agencies and its government-wide perspective.

That some bureaus expect FPD to defend instead of objectively review and modify their budget requests may reflect a feeling that they do not have an adequate opportunity to explain and justify their requests before the Mayor and Council. Although bureau managers participate in budget work sessions with the Mayor, they still feel like their FPD analyst is their only real voice in budget deliberations. Again, accurate or not, the City must confront this perception.

It should be emphasized here that while bureau staff express concern about the value of FPD and confusion over its proper role in the budget process, they do not doubt the abilities of its staff. Bureau budget staff agree that in general, FPD personnel are qualified, dedicated, and professional. (Exhibit 4.5) So while the bureaus tend to think highly of the analysts themselves, FPD as an institution is not held in particularly high regard.

Exhibit 4.5 FPD Staff are Qualified and Competent



Council Perception of the Role of FPD

The Council does not share the same degree of dissatisfaction with FPD as the bureaus. Council staff expressed confidence in the quality of FPD work and described its analysts as competent, professional, courteous, and responsive. However, while this group praised FPD for its fiscal analysis (i.e., balancing the budget and monitoring spending), it expressed some frustration about the usefulness of its program analysis. Also, Council does not consider FPD analysis to be particularly helpful in making informed policy decisions based on results.

FPD Self-perception

Interestingly, FPD staff share the frustration of the Council and the bureaus when it comes to planning and analysis. While the analysts would prefer to bring their knowledge and skills to bear on analyzing bureau programs, the time required to put the budget document together often prevents them from doing so.

Recommendations (Assignment of Roles and Responsibilities)

Clarify the Role of the Financial Planning Division (FPD) in the Budget Process. The role of FPD is not clearly understood by participants in the budget process. In particular, some bureaus expect their analysts to serve in an advocacy role, especially since bureaus perceive their role in the work sessions to be minor. FPD is charged with the responsibility of serving as an objective analyst of bureau budget requests. This demands an arm's length relationship with the bureaus. Since it is inconsistent for FPD to simultaneously play an organization-wide budget "gatekeeper" role and a bureau-specific "advocacy" role, the bureaus themselves should be the primary advocates for their respective budgets by having a greater role in work sessions.



Redefine the Mission of FPD. Some FPD analysts are experiencing an "identity crisis." This problem begins with FPD's mission statement, which is too vague to guide the activities of the division or communicate its role to outside parties. The mission statement speaks of "customers" without identifying them. Are they the bureaus? The Mayor? The City Council? The citizens? It also defines FPD's role as providing financial planning *guidance* and *consultation*. Although the most successful bureaus actively seek the guidance of FPD, historically this has not been its primary role. FPD should redefine its mission, as well as its goals and objectives, to more effectively communicate its purpose in the organization.

Finding: FPD has adopted multiple approaches to dividing budgetary responsibility.

FPD has drawn from a number of models in its distribution of budgetary responsibility. As in the case of the location of the budget office, there is no "best practice."

Typically, budget offices assign complex bureaus to their experienced analysts, and the less complex bureaus to their novice analysts. Portland is no exception. This approach ensures that the analysts with the greatest institutional knowledge are evaluating its most difficult functions. The primary disadvantage of this approach is that the less complex bureaus are continually being shifted to newer analysts, meaning that bureau analysts frequently have greater process and operational knowledge than those assigned to review their requests.

It is also common for governments to divide their budget offices by function. Typical groupings include public safety, public works, and health and human services. This allows analysts to specialize in a particular aspect of City operations and to analyze complete "business" processes. Having a holistic understanding of how services are delivered creates a better context in which an analyst can make budgetary recommendations. In a rough sense, this is how FPD is currently organized. Two analysts typically split responsibility for each service area, with each one being responsible for one or two additional bureaus, usually small, that may or may not be part of their major bureau service area.



Alternatively, some governments divide their budget offices into units specializing in operating or capital budgeting. FPD has done this as well, since its service areas correlate roughly to the breakdown between capital-intensive and general fund bureaus.

Like many CBOs, FPD also assigns analysts budgetary responsibilities in addition to their portfolio of bureaus, such as the coordination of interagency agreements, database management, template development, or document production. These are critical components in the overall process, but they are specialized processes that do not require an in-depth understanding on the part of every analyst.

Alternative Models for Organization

In our focus groups, some stakeholders expressed an interest in examining alternative models for distributing budgetary responsibility in FPD. One alternative would be for FPD to organize by department. In this model, an analyst would work with a set of bureaus that report to the same commissioner. This approach could facilitate the development and review of budget requests, since there would be greater familiarity among the participants in the process. This model shares the same benefit as organizing along service area, since the departments equate roughly to service areas. However, the departmental model has the potential to be unstable, since the Mayor has the authority to reorganize them at any time. As a result, any change in political organization would likely necessitate a reorganization in FPD, which would reduce its effectiveness, at least in the short-term, as analysts become acquainted with their new bureaus. In addition, organizing along departmental lines would result in an uneven distribution of work among analysts, particularly for those responsible for reviewing larger departments. In light of these potential drawbacks, GFOA recommends against this course.



Another alternative would be to develop a specialized program analysis unit within the budget office. Such a unit would enhance the City's capacity to conduct program analysis and expedite the analysis of special projects. However, given the current level of dissatisfaction with workload, pulling analysts from core budgetary tasks to create a program analysis unit seems unrealistic. A more realistic approach would be to streamline the existing budget process, so that analysts have time outside of the budget season to conduct program analysis.

Recommendation (Assignment of Roles and Responsibilities)

FPD Should Maintain Its Current Model for Assigning Budgetary Responsibility. FPD has drawn upon the best features of several models in its assignment of internal responsibilities (e.g., bureau portfolios, administrative responsibility, performance measurement) to its analysts. Analysts and managers are largely satisfied with the current arrangement, so the project team did not recognize a compelling reason to change current practice.

Finding: There is a need to clarify budgetary responsibilities throughout the City.

Some governments specify budgetary roles and responsibilities in their budget documents. GFOA analyzed several of these documents to determine how they distribute responsibility among the major players in the budget process. Based on this analysis and previous GFOA research in this area, the project team has developed a model for assigning budgetary responsibilities (Exhibit 4.6).

Exhibit 4.6 Model for Assignment of Budgetary Responsibility

Mayoral Responsibilities
Conduct council retreat to establish annual goals and objectives based on the City's strategic priorities. Communicate those goals and objectives to the bureaus at the beginning of each budget cycle. Review FPD analysis of bureau budget requests. Meet with bureaus to review and discuss their budget requests. Present a proposed budget and deliver budget message. With the City Council, conduct public hearings to solicit stakeholder input on the budget. With the City Council, approve rates for taxes, fees, and charges. With the City Council, attend TSCC hearing on the approved budget.
With the City Council, review and approve adjustments to the adopted budget.



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Commissioner Responsibilities					
Attend Council retreat to establish annual goals and objectives based on the City's strategic priorities. Communicate those goals and objectives to their departments at the beginning of each budget cycle. Provide strategic and tactical direction to department as bureaus develop their budget requests. Review bureau budget requests before they are submitted to FPD. Conduct public hearings to solicit stakeholder input on the budget. Approve rates for taxes, fees, and charges. Attend TSCC hearing on the approved budget. Approve and adopt the budget. Attend post-budget feedback session to consider improvements to the process. Review and approve adjustments to the adopted budget.					



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FPD Responsibilities

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Ц	Prepare short and long-term revenue and expenditure forecasts.
	Develop the budget calendar, design worksheets and forms, and provide guidelines for the submission of
	bureau budget requests.
	Train bureau budget staff on the budget process, request development, and budget technology.
	Coordinate citizen participation in the budget process.
	Under the direction of executive leadership, issue budget targets to be used by bureaus in the development
	requests.
	Provide independent, objective review and analysis of five-year financial plans, capital improvement plans,
	and operating budget requests.
	Review interagency agreements.
	Work with bureau staff to adjust requests to reflect mayoral priorities and balance expenditure requests with
	available resources.
	Work with the Mayor to prepare the proposed budget, and adjust budget support systems to reflect proposed
	budget.
	Perform ad hoc analysis of programs, services, and management processes as directed by the Mayor and
	Council.
	Prepare and publish the approved and adopted versions of the budget, and adjust budget support systems to
	reflect each version.
	Monitor compliance with the adopted budget and review requests for adjustments.
	Prepare and publish BMPs, and adjust budget support systems to reflect them.
	Update and maintain the operating and capital budget manuals, forms, and templates.
	Develop a strong understanding of bureau operations, funding sources, and strategic needs.



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Bureau Responsibilities
Know the budget process and calendar, and develop a working knowledge of the systems used to prepare requests.
Develop five-year financial plans and capital improvement plans/requests.
Analyze service needs and develop interagency agreements.
Participate in citizen forums, public hearings, and other citizen outreach efforts.
Model scenarios in order to propose sufficient rates and charges.
Develop, track, and report on performance measures that reflect strategic priorities.
Develop current service budget requests and decision packages, and submit all required forms on time and according to the instructions and guidance of the Mayor and FPD.
Submit balanced budget requests that are consistent with the target budget, council priorities, administrative direction, and bureau goals.
Work with FPD to modify budget requests to reflect mayoral priorities.
Present budget requests to the Mayor and council, using an executive summary to highlight key policy issues and budget themes.
Monitor compliance with the adopted budget, and request adjustments as part of the BMP.
Educate FPD analysts about bureau operations, funding sources, and strategic needs.

Recommendations (Assignment of Roles and Responsibilities)

"Small" Bureaus Should Continue to Meet Budgetary Reporting Requirements. Analysts in the small bureaus suggested that the City should exempt them from some budgetary reporting requirements. These bureaus are already exempt from preparing five-year financial plans, and most small bureaus have minimal capital obligations. Budgeting is too critical a function to have inconsistent reporting requirements across agencies.

Instead, FPD should take several steps to assist small bureaus with their reporting requirements. First, it should establish and retain narrative templates that can be reviewed and edited each budget cycle. Second, it should strengthen its commitment to FPD and bureau analyst training (as recommended in Chapter 5). Third, if FPD analysts were required to spend a portion of the year learning bureau operations (as recommended in Chapters 4 and 5), bureau analysts will not face this need in the midst of the budget season. Lastly, if the City chooses to implement new budgeting software, analyzing and reporting on financial data should become easier.

Clarify the Responsibilities of FPD, the Bureaus, and Elected Officials in the Budget Process. It should be the role of the Mayor to facilitate the overall budget process, establish Citywide strategic priorities, guide the development of budget requests within her office and bureaus, propose the budget, and work with the Council to achieve consensus on a final budget. It should be the role of the Council to establish Citywide strategic priorities, guide the development of budget requests within their departments, review and amend the Mayor's proposed budget, and adopt the final budget. FPD should be responsible for the development of instructions, guidelines and other supporting materials, training bureau analysts, reviewing plans and requests, conducting program analysis, publishing each version of the budget, and managing the BMP process. Finally, the bureaus should be responsible for developing requests, justifying those requests to decision makers, tracking performance, and adjusting the budget. (This list is by no means inclusive. For a more complete list, consult Exhibit 4.6, "Model for Assignment of Budgetary Responsibility.")

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4.4 COMMUNICATION AND COORDINATION

Bureau analysts feel that one of FPD's greatest strengths is how it coordinates the budget process and communicates budgetary instructions.

However, bureau analysts and managers consistently expressed frustration with the level of communication between elected officials and the operating bureaus. They want stronger strategic direction prior to the budget process, greater opportunity to defend their requests, and a mechanism to manage the questions raised during the review of budget requests.

In its recommendations related to streamlining the process, the project team recommended that citizen participation data and draft interagency agreements be distributed earlier in the process. These recommendations would not only streamline budget development, they would also improve coordination between OMF and the bureaus. GFOA also recommended that the City establish a mechanism for the management of the question and answer process, which would also greatly improve coordination and communication.

Recommendations (Communication and Coordination)

Include Mayoral and Council Policy Objectives in the Budget Kickoff. Bureaus assert that they begin the budget process with too vague an understanding of the Mayor and Council's priorities and points of concern for the next budget cycle. If the Mayor were to prepare a statement of expectations, as part of the yearly budget instructions, bureaus could focus their analytical efforts on decision packages that are likely to receive serious consideration. Similarly, if the City Council were to reaffirm (or adjust) its strategic goals at the beginning of the planning process, bureau managers would have a stronger understanding of their expectations. Combined, these efforts could expedite budget development in the bureaus and the review process in FPD.



Work With the Enterprise Bureaus to Develop Useful Tools and Templates. Currently enterprise bureaus (e.g., water, sewer) must customize existing budget preparation templates to meet their needs. Regardless of whether the City chooses to implement new budgeting software or continue with its current applications, enterprise bureaus will continue to require their own tools and templates. FPD should work with the bureaus to develop tools and templates that meet their needs, but that also can be rolled up into the Citywide system.

Enhance opportunities for bureaus to explain and defend their budget requests to the Mayor and Council.

Recognizing the need for greater communication with the bureaus and Council, the Mayor has established a series of work sessions throughout the budget process. The bureaus present their budgets during these sessions, and the Mayor and Commissioners have the opportunity to question bureau managers and analysts regarding their requests. Nonetheless, some bureaus feel that the format of the sessions does not provide an adequate opportunity to fully explain and defend their requests.

The work sessions occur during the busiest portion of the budget calendar, making it difficult to significantly increase the time devoted to the work sessions. Regardless, the time devoted to the work sessions should be expanded. In addition, FPD should work with the bureaus and the Mayor to determine if a more effective format could be developed.

FPD should instruct the bureaus to address "ongoing issues," either as stand-alone reports or as part of their budget request. Every budget cycle, the Mayor and Council seem to be interested in many of the same broad, organizational questions: what cooperative efforts with outside agencies could produce savings? Which take home vehicles can be eliminated? How does each bureau anticipate its overtime needs? Typically these questions require significant analytical resources in order to be addressed appropriately. Raising them during the review process dramatically increases analyst stress levels, since they are forced to prepare rushed responses, in addition to meeting their regular budgetary responsibilities. FPD should work with the Mayor and Council to identify these points, and instruct the bureaus to address them either before making, or as a part of, their budget request.

4.5 SUMMARY

Analysts and managers are generally fully aware of their role in the budget process, as well as their responsibilities. However, it became clear throughout the focus groups that these internal stakeholders lack sufficient knowledge about how each contributor fits into the Citywide process, and how each piece adds value to the process.

GFOA found that FPD must clarify its role in the process. Too often it is viewed as an advocacy agency, when it was designed be a gatekeeper. In addition, the project team identified a number of areas where improved communication and collaboration could expedite budget development and evaluation.

Having a clear understanding of the division of roles and responsibilities is essential to managing stakeholder expectations. Regardless of how clearly the roles are defined, however, no budget process will be successful unless the analysts involved in the process have the time, tools, and training necessary to produce good budgets. This is the focus of Chapter 5, "Job and Staffing Analysis."



Chapter 5

Job and Staffing Analysis



5.0 OVERVIEW

Budget processes are more likely to achieve objectives when employees at every level of the organization recognize their value and are actively engaged. Employees must understand their role, their responsibilities, and the process itself in order to do their jobs effectively. In addition, employees must be provided the resources—be it time, analytical tools, or skill sets—necessary to fulfill their role and meet assigned responsibilities. Portland's budget analysts, whether from the bureaus or the FPD, feel overburdened. They feel that there is simply too much work for too few people to do, in too compressed a timeframe. They find the process is characterized by redundancies, their responsibilities uncertain but growing, and their tools lacking. In this chapter, the project team examines staffing levels, the responsibilities of a budget analyst, the distribution of work among analysts and between budget functions, and analyst skill sets.

5.1 COMPARISON OF STAFFING LEVELS

In order to develop a context in which to evaluate analyst concerns regarding workload, we first asked the simple questions: Is FPD fully staffed? Are FPD staffing levels consistent with those of similar jurisdictions?

FPD is budgeted for fourteen positions: twelve analysts, one manager, and one administrative position. All of these positions are currently filled. However, FPD has recently under filled some senior and principal analyst positions with staff who, although talented, may not have broad or extensive experience in budget analysis. As a result, FPD may not have all of the analytical muscle that it may require to meet the needs of decision makers. It almost certainly will not be able to take on additional analytical responsibility.



In order to determine if FPD staffing levels were consistent with those of comparable municipalities, GFOA compared FPD against central budget offices (CBOs) in similar jurisdictions. Consistent with the benchmarking analysis conducted by the City's Budget Process Review Advisory Group for other issues, GFOA compared FPD against the following cities:

☐ Austin, Texas
☐ Charlotte, North Carolina
☐ Kansas City, Missouri
☐ Long Beach, California
☐ Phoenix, Arizona

The project team considered the following ratios: (1) CBO staff in relation to the total budget, and (2) CBO staff in relation to the number of budget reporting departments or agencies within the City.

These measures are rough proxies for workload distribution, and they are by no means perfect. Budget offices have varying degrees of responsibility, depending upon their internal resources and the structure of the organization. The underlying assumption in this analysis is that cities with budgets of comparable size have similar workloads that result in similar staffing levels.

Finding: Staffing levels are comparable to those of other similar jurisdictions.

FPD is fully staffed, and its staffing levels are consistent with those of similar cities (Exhibits 5.1 and 5.2). The managing for results initiative will increase workload for the remaining analysts and place an additional strain on FPD's analytical capacity, but if FPD implements many of the recommendations set forth in this report, staffing levels should be sufficient for FPD to meet its core workload related to the budget process.



Portland's ratio of FPD staff to its *all funds budget* is almost exactly the peer group mean, with 0.86 staff for every \$100 million in revenue. When comparing the number of central budget staff per agency, Portland had one of the lowest ratios (2.50)

Exhibit 5.1 Ratio of CBO Staff to Total Budget

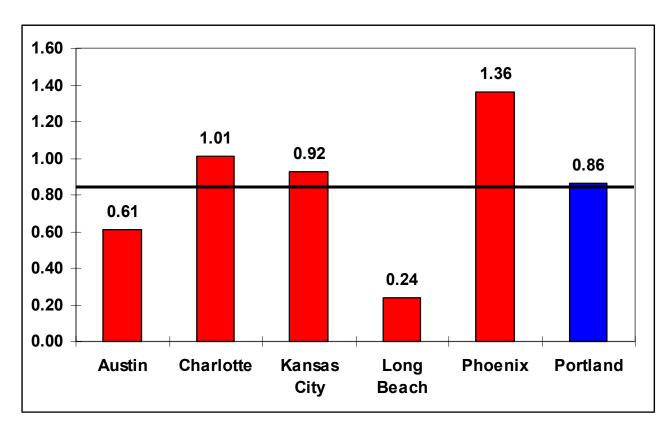
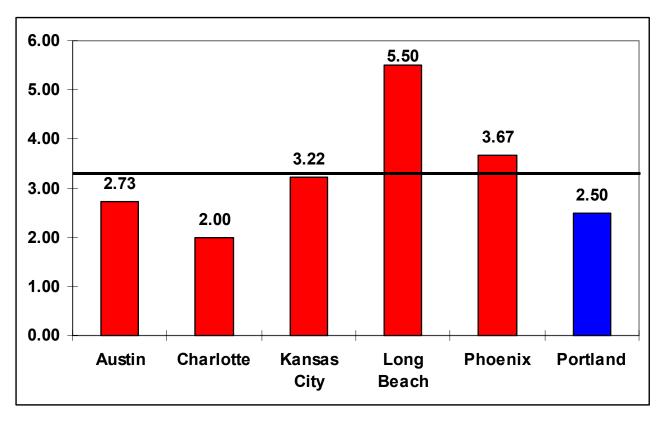




Exhibit 5.2
Ratio of CBO Staff to Agencies



Recommendation (Comparison of Staffing Levels)

Staffing Levels Are Sufficient. FPD is fully staffed, and its staffing levels are consistent with those of similar cities. If FPD implements the recommendations set forth in this report, staffing levels should be sufficient for it to meet its core workload related to the budget process.

5.2 BUDGETARY WORKLOAD AND DISTRIBUTION

GFOA recognizes that analysts, especially those in the bureaus, have responsibilities that extend beyond the budget process. Nonetheless, this analysis focuses only on tasks related to the budget process. The goal is to determine if the budget process could be improved by reorganizing the distribution of tasks throughout the organization.

GFOA considered redistributing workload from two perspectives: first, in terms of how tasks are scheduled throughout the process, and the administrative and analytical burden these tasks pose to analysts; and second, in terms of the division of budgetary responsibility between FPD and the bureaus. The GFOA consulting team found significant room for improvement with the former, but found the formal division of responsibility to be appropriate. The distribution of budgetary responsibility among FPD, the bureaus, and elected officials is addressed in more detail in Chapter 4.

This chapter focuses on how each task in the process affects overall workload at any given time. Exhibit 5.3 depicts both bureau and FPD analyst workload throughout the budget process.

Exhibit 5.3: Workload Distribution in Bureaus and FPD October November December September August Council five-Major bureau development of five-year financial plans (some bureaus begin this process in September) year plan work Due to FPD: December 1. sessions Bureaus develop capital improvement plans. Due to FPD: January 1. Ongoing preparation of operating budget request, Revenue forecasting, scenario analysis, and decision package analysis for including balancing needs to target, personnel cost analysis operating budget request Bureau planning for interagency agreements Update program surveys Due to FPD: late November Fall BMP & supplemental budgets (if necessary) Attend training on OFA Publisher (primarily new analysts) Analysis of Economist provides five-year five-year Council work plan forecasting & trend data to financial sessions bureaus plans **Budget kick**off: release Update budget calendar, Prepare OFA Publisher Economist prepares 5-year GF forecast & targets & budget & BMP manuals & guidelines, templates & documents updates PSWs forms, & CIP database PSWs, GF forecast Compile program Send narrative & program-based financial data to bureaus for program surveys; work surveys & distribute to with bureaus to ensure that five-year data is accurately mapped to programs. decision makers Fall BMP Train bureau analysts on Your City-Your Choice **OFA Publisher** (biannual)

	January	February		March			April	
	Q&A with FPD on CIP requests Capital Review Committee analyzes and ranks capital project requests for GF set-aside (staffed by FPD)							
	Ongoing preparation of operating request, including adjustments due to interagency agreements & presentation to the commissioner-in-		-	sessions with ayor & council	the	proposed	ts to reflect	Proposed budget
	charge Due to FPD: early February.	Q&A with mayor, council, & FPD					sessions FPD	presented to council
	Winter BMP & supplemental budgets (if necessary)							
~								
	Q&A with bureaus on CIP requests	Analysis of CIP requests & C recommendations; review submitted and council	RC I to mayor					
				sessions with	the			
	OMF distributes interagency agreements Provide clarification & assistance to bureaus, as requested	Analysis of operating budget red Q&A with bureau staff, activation of tracking model	uests,	Presentation of issue papers to mayor & council	Q&A wir mayor o	& budget	Balancing meetings with bureaus	Proposed budget presented to council
	Winter BMP & supplemental budgets (if necessary)							
	Your City-Your Choice (biannual) YCYC report to council							

May				June		
Council adjustments & balancing work session Public hearings, including PURB utility rate hearing	Council approves budget	Technical adjustm	ents to reflect council anges	TSCC/Council public hearing	Council ad	opts budget
Council Q&A						
Council adjustments & balancing work						Council adopts
session Public hearings, including PURB	Council approves budget	Affirm technical ad	ljustments & balance	TSCC/Council TSCC public hearing certificatio		
utility rate hearing Council Q&A			Prepare adopted bu	ıdget		budget
Spring BMP & supplemental	(if needed)					

Bureau Stress Points

Although bureau analysts have budgetary responsibilities that extend throughout the year, the busiest time for the bureaus begins in September and lasts through January. Mid-September through mid-October are particularly busy, as bureaus are simultaneously preparing the Fall BMP, their five-year financial plan, and the CIP request. At the same time, they are updating program surveys, forecasting interagency needs and costs, and planning their operating budget request. December and January are most intensive in terms of the development of the actual budget, with CIP requests due January 1st and operating requests due February 1st.

Bureau workload from February through mid-April is dependent upon FPD and the Mayor. Their review of bureau requests generates lists of questions, many of which require substantial resources to address. FPD analysts are charged with responding to these questions, but frequently lack the data or operational understanding necessary to do so. As a result, they depend upon bureau analysts to respond to many of these requests. This phase of the process concludes with the presentation of the Mayor's proposed budget.

Once the Mayor proposes the budget, the bureaus adjust their versions to reflect her changes. This requires a series of changes not just to the document itself, but also to all of the supporting information in IBIS and the various stand-alone systems. This process is repeated for the approved budget as well.

From mid-April through June, bureau analysts respond to a third round of questions and requests for analysis, in this case from the commissioners. Again, FPD analysts are charged with conducting this analysis, but are highly dependent upon bureau analysts to do so.

Some staff have expressed an interest in bringing bureau analysts into FPD at key stages in the budget process. Such an arrangement would strengthen coordination between FPD and the bureaus in responding to budgetary questions and requests for analysis. It could also expedite FPD review of requests, since the FPD analyst could consult the bureau analyst more frequently and more easily.



However, the project team anticipates that bureau analysts would strongly resist such an arrangement. First, bureau analysts do not know the operations of other bureaus, so they would only be able to work on issues related to their bureau. Given that, most analysts would likely feel that they can do better analysis from the bureau, where they have easy access to their source materials.

Second, bureau analysts could only participate in FPD's initial review of bureau requests, since it is unrealistic to expect them to recommend that their own request be cut. Bureau analysts already participate in responding to budgetary questions and requests for analysis, so a change in location may not improve the quality of analysis or the speed at which it is produced.

Finally, even once the bureaus have submitted their operating requests, they still have ongoing budgetary responsibilities. In addition to assisting FPD with interpreting the operating request, most bureau analysts have responsibilities related to the capital budget request, responding to questions prior to the work sessions, and preparing for the work sessions themselves. In addition, once the proposed budget is released, the bureaus must make a series of technical adjustments to reflect changes. This process must be repeated once the budget is approved by the Council. Given all of these responsibilities, bureau analysts would find it difficult to be assigned to FPD for an extended period.

Nonetheless, in order for the budget process to work, there must be real coordination and cooperation between bureau and FPD analysts. Bureau analysts should be expected to brief FPD analysts on their requests, and be available to answer questions on a regular basis. Bureau analysts should also be expected to collaborate on the responses to inquiries made by elected officials. Regularizing these interactions through working groups may be a more effective method for improving coordination without creating confusion as to roles or generating resentment among bureau analysts.

FPD Stress Points

The development, adoption, monitoring, and adjustment of the budget is a year-round job for FPD. However, the budget season kicks-off in earnest in December, and lasts through June, when the budget is adopted. The busiest time is from January through mid-April, as FPD conducts its review of bureau requests and assists the Mayor with the preparation of her proposed budget.

If the City were to undertake the recommendations set forth in this report, it would alleviate many of its workload issues. Amending the calendar to better meet the needs of stakeholders, as recommended in Chapter 3, would improve the distribution of workload. Implementing new budgeting software, as recommended in Chapter 6, would also help to alleviate workload issues, as modern budgeting solutions facilitate analysis and expedite budget preparation. Finally, designating the five-year financial plans as primary planning documents, as recommended in Chapter 3, would provide strategic and programmatic direction, which would expedite the budget request preparation process. This process would also serve as a catalyst for the kinds of broad questions that make managing analyst workload during the review process challenging. Being able to address these questions early in the process would help to ensure that they are analyzed appropriately.

5.3 IMPACT OF STAFFING REDUCTIONS, TURNOVER, AND TRANSFERS

In any work environment, job satisfaction directly impacts the rate of turnover and transfers, which in turn impacts organizational productivity. Human resource experts assert that job satisfaction is a function of an employee's compensation, workload, sense of accomplishment, and sense of contributing to something greater than themselves. In the public sector, many employees also derive satisfaction from contributing to the betterment of their community. Although the magnitude of the impact of these factors varies by individual, it is important to understand that organizations that ignore these factors run the risk of losing their staff to more progressive workplaces. Such is the case with the City of Portland's FPD staff.



Like many bureaus, FPD lost staff—one full-time analyst—as part of the Administrative Service Review (ASR). In addition, responsibility for grant administration was transferred to FPD, but only two of the original three positions dedicated to this task were transferred along with that responsibility. In this budget cycle, FPD took on responsibilities related to the Managing for Results initiative, but did not add staff. Overall, the result of these changes is a reduction in the number of staff dedicated to budget development and analysis, while at the same time FPD administrative responsibility and analytical workload is growing.

Although FPD is fully staffed, it has recently experienced significant turnover. In the last fiscal year, three analysts, including two principal analysts, either transferred to other bureaus or left the City entirely. Over the last several years, FPD has lost an average of 1-1½ analysts per year.

In surveys and focus groups, FPD analysts consistently attributed turnover rates to intense workloads, long hours, and unreasonable expectations. These factors have created a dynamic in which analysts frequently spend one or two budget cycles in FPD, and then transfer to bureau analyst positions, which pay the same and are perceived to have a more reasonable workload. Although this creates problems for FPD, this pattern is common to major cities whose budget office is used as a training ground for future departmental fiscal staff.

Some have suggested that rotating analysts between FPD and the bureaus would reduce the staffing stresses for FPD. Although appealing, the project team believes that this approach would have strong negative consequences for the bureaus. The development of a budget request requires an intimate understanding of operations, and a rotation system would prevent the bureaus from establishing the institutional knowledge necessary to have a smooth process. In short, rotating analysts would take FPD's problem and spread it throughout the bureaus. In addition, with each rotation, every analyst would in essence become a rookie again, which would dramatically increase stress levels and may even exacerbate turnover.

Shifting Portfolios

Every FPD analyst is responsible for a portfolio of bureaus, usually ranging from two to five agencies, depending upon their complexity. In addition, each analyst is assigned one or two other projects, such as database maintenance, template production, or liaison responsibilities. More seasoned analysts are typically assigned to the more complex bureaus, in order to take full advantage of their organizational and analytical expertise. Although this is a common and logical approach to staffing a central budget office, it has drawbacks. First, the departure of a single analyst can have a "domino effect" throughout the office. Second, it also results in smaller, less complicated bureaus consistently being assigned to less experienced analysts. These bureaus feel that it becomes their responsibility to "break-in" these analysts, a responsibility that should rest with FPD. This practice, though done out of necessity, results in a dynamic that hastens the departure of the more senior analysts to bureaus and other organizations, and leaves many of the City's bureaus to be analyzed by less experienced staff.

More experienced analysts are given the bureau budgets that are more complex and which require more analytical work, resulting in increased workloads and increased amounts of stress. At the same time, experienced FPD analysts comprise the staffing pool from which bureaus frequently recruit their analytical staff. The bureau analyst positions tend to be more stable and less stressful, and thus are highly desirable among analyst staff. Because of the high stress and volatility, many analysts within FPD seek to transfer to the bureaus, contributing to a dearth of experienced analysts within FPD.

Although an ideal scenario would allow for the adequate transitioning and training of new analysts, time constraints and staffing needs often result in experienced analysts being replaced with less experienced analysts, who often have limited understanding of the various budget systems, raw analytical skills, and an insufficient understanding of the operational issues specific to their portfolio. The result is that some bureaus feel, with some validity, that their analysts are ill-prepared to speak to the specific needs of their bureaus with any degree of proficiency. For the rookie analyst, these staffing issues contribute to a sense of being overwhelmed, unprepared, and stressed, which reduces morale and productivity.

Recommendation (Impact of Staffing Reductions, Turnover, and Transfers)

OMF and FPD Should Continuously Seek to Improve the Work Environment. In spite of reductions in analyst staffing levels, managers in OMF and FPD are actively seeking to improve the FPD work environment. Through the budget software initiative, they are attempting to give analysts the tools they need to do their jobs more effectively. Through studies such as this one, they are attempting to better manage workload, eliminate redundancies, and streamline the budget process. These types of initiatives should continue.

Delay the Adoption of Multi-Year Budgeting. Some local governments have found that developing a two-year budget reduces staff time spent on budget preparation, providing analysts more time for other tasks. Portland has developed multi-year budgets in the past, but has abandoned the approach when uncertainty in the revenue climate prevailed. Given the magnitude of the reforms recently undertaken by the City, as well as those proposed here, the GFOA consulting team recommends that the City delay transitioning to a multi-year budget.

5.4 ANALYST SKILL SETS

GFOA asked budget analysts throughout the City to assess their proficiency at a number of tasks. The project team also asked their supervisors to rate their skills. Each response was assigned a value, which is shown in parenthesis next to the rating: expert (5), highly proficient (4), proficient (3), somewhat proficient (2), or not proficient (1). Exhibit 5.4 describes the most frequent responses of each stakeholder group. In situations where multiple responses occurred with the same frequency, the scores were averaged.

Finding: Analyst skill sets are strong, but program analysis skills are needed.

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Overall, analysts consider themselves to be proficient to highly proficient at the tasks that make up their jobs, and their managers agree. Interestingly, supervisors and managers Citywide almost always rated the skill sets of their staff higher than the analysts rated themselves. FPD identified three areas in which it could improve its skill sets: analyzing work methods and organizational structures (i.e., program analysis), applying analytical techniques, such as cost-benefit analysis, and cost accounting and analysis. Bureau managers also consider their ability to analyze work methods and organizational structures to be insufficient.



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Exhibit 5.4 Assessment of Analyst Skill Sets

	FPD analyst self- assessment	FPD supervisor assessment	Bureau analyst self- assessment	Bureau manager assessment
A. Knowledge of municipal accounting & finance concepts & practices	3	4	3.5	4
B. Knowledge of municipal budgeting concepts & practices	3	4	3	4
C. Familiarity with the city's organization, mission, operations, policies, & procedures	3	4	4	4
D. Written communication skills	3	3	3	3.5
E. Oral communication skills	3	3	3	4
F. Planning & prioritizing concurrent projects	3	4	4	4
G. Establishing & maintaining effective working relationships with others	3.5	4	4	4
H. Planning, directing, & reviewing the work activities of subordinates	3.5	4	4	4
I. Proficiency in using the financial management system (IBIS)	4	4	3	4
J. Proficiency in using desktop application software (e.g., Microsoft Office)	4	4	4	4
K. Interpreting & applying legal, quasi-legal, & financial information	3	3	4	4
L. Developing performance measures & analyzing performance data	4	4	3	4
M. Evaluating program efficiency & effectiveness	4	4	3	4
N. Analyzing work methods & organizational structures	3	2.3	3	2
O. Applying analytical techniques (cost-benefit analysis, net present value analysis, etc.)	2	3	3	4
P. Revenue & expenditure forecasting & analysis	3	3	4	4
Q. Budget variance analysis	4	4	4	4
R. Fiscal impact analysis	4	4	4	4
S. Cost accounting & analysis	3	2.7	4	4
T. Capital improvement programming	3	3	1	4

Recommendation (Analyst Skill Sets)

Enhance Bureau and FPD Capacity to Perform Program Analysis. The City must clear three hurdles in order to be able to conduct better program analysis. First, analysts must have the time needed to do the analysis. Second, analysts must have the skills needed to effectively analyze programs. Third, performance measures must be tied to programs, so that analysts can explore the link between intended and actual outcomes. GFOA has addressed each of these issues in other recommendations.

5.5 TRAINING NEEDS

Every budget analyst, whether a novice or a veteran of several budget seasons, brings a different set of skills and experiences to their position. In order for the City to produce sound, consistent analysis, it is essential that those preparing and reviewing the budget be well versed in the City's policies, procedures, and operations. In addition, they must have the skills necessary to meet the analytical needs of decision makers, as well as the ability to concisely communicate their findings. Ensuring that every analyst has the same base of skills facilitates more consistent analysis, minimizes mistakes and delays, and expedites the review process.

Successful organizations regularly invest extensive time and resources in developing and presenting training programs. Regardless of whether an analyst is in FPD or a bureau, he or she must understand the types of analysis conducted by the jurisdiction, the tools it uses to conduct that analysis, the organization of the jurisdiction, and its budget process. It is equally important that central budget office analysts develop an in-depth understanding of the operational needs of the bureaus that they analyze, as well as its primary revenue sources, and expenditure trends.



Although stakeholders are generally content with the analytical capacity of budget staff, there are some weaknesses that could be addressed through changes in hiring criteria (i.e., requiring that applicants have an undergraduate degree in a field related to public administration) and current training programs. This chapter addresses those weaknesses, and presents recommendations to alleviate them.

Finding: Analysts would benefit from increased training on analytical tools.

Analysts throughout the City must be comfortable with the systems used in the budget process. An inability to employ the full functionality of existing systems can slow the analytical process significantly. In spite of the strong scores in the skills assessment, many analysts cited software proficiency as an impediment in the budget process. Analysts are comfortable with common applications, such as those in Microsoft Office, but have consistently expressed frustration with IBIS and OFA Publisher. In response to these complaints, OMF trains new analysts on OFA Publisher, and offers additional training to experienced analysts at the beginning of each budget process. It has been OMF's experience that few experienced analysts take advantage of this opportunity.

Given how essential the IBIS system is to the development and monitoring of the budget, OMF should provide similar training opportunities in IBIS. In addition, should the City decide to invest in new budgeting software, analysts should be provided extensive opportunities to be trained on that software.

Finally, OMF and FPD have begun to use pivot tables in Microsoft Excel to expedite two time consuming processes: the roll-up of personal service worksheets and the analysis of interagency agreements. Unfortunately, too few analysts are comfortable using this advanced feature. In order for the City to realize the benefit of this effort, it is essential that analysts be trained in their use.



Finding: As a result of recent and upcoming changes, analysts would benefit from training in process, policies, and procedures.

No matter how well designed, a process, policy, or procedure is useless if it is not followed. One of the most fundamental responsibilities of a budget analyst is to ensure that requests are consistent with the City's policies and procedures, and that requests are developed within the context of the overall process. Understanding the structural and cultural nuances of a bureau is essential to conducting good analysis.

One drawback of Portland's ongoing improvement efforts is that its policies, procedures, and processes are constantly in flux. Effective communication is essential to keeping analysts and managers throughout the organization up to speed on current practice. This will be especially true in the coming months, as the City updates its comprehensive financial management policy, as well as the recommendations contained in these pages.

Finding: Many FPD analysts would benefit from greater training in bureau operations.

In order to understand the specific needs and issues of their bureaus, FPD analysts must set aside time to become familiar with their operations. In many jurisdictions, central budget analysts initiate this process by requesting budgetary and programmatic orientations, which expose the analyst to the specific services that are provided by the bureaus, as well as the issues that arise in the service delivery process. This provides the analyst with a context in which to interpret and analyze each bureau's budget request.

In addition, these meetings tend to promote collaboration in the development and review of requests, as bureaus have greater confidence in analysts that understand their needs. It also expedites the three question and answer loops built into the budget process, as the analyst must ask fewer questions, and is better prepared to address issues raised by the Mayor and City Council.

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Recommendations (Training Needs)

Strengthen Training on Analytical Tools and Technologies. Analysts lose too much time attempting to make the City's budgeting systems work. This is both a systems problem and a training problem. As it does for OFA Publisher, FPD should provide ongoing training on IBIS, and BHR should offer advanced training for Microsoft Office, particularly in Excel and Access. As the City considers the purchase of a new budget development module, comprehensive training on the use of this system will be imperative.

Strengthen Training on City Processes, Policies, and Procedures. As changes occur in budgetary policies and procedures, it is important that analysts are updated on them and provided a forum to ask questions related to their implementation. This will be particularly important in the spring, should the Council choose to update the comprehensive financial management policy. Also, as the City considers the numerous recommendations that are included in this operational analysis, it is important that analysts be apprised and trained on any resulting procedural and policy changes.

FPD Managers Should Build Analyst Visits to the Bureaus Into the Summer Schedule. As a result of significant turnover in FPD staff, too few analysts have an in-depth understanding of the operational issues of their bureaus. The current practice of encouraging analysts to visit their bureaus is not working. FPD cannot fulfill its mission unless its analysts are well versed in bureau operations, and therefore should require its analysts to do so.

5.6 SUMMARY

FPD staffing levels should be sufficient to manage the budget process and produce an effective document. This will only be true, however, if FPD and the bureaus take concrete steps to streamline the process and distribute workload more evenly throughout the year. Recommendations from other chapters, such as streamlining the question and answer process, should ease the collective burden imposed by each of these tasks. Providing additional opportunities for analysts to develop their skills on the City's tools, acquaint themselves with City operations, and familiarize themselves with new policies and procedures, will also be essential to reducing workload stress.



Chapter 6

Budget Technology



6.0 OVERVIEW

The City of Portland utilizes a series of stand-alone software applications to support its budget function. Financial forecasting, strategic planning, goal setting, program analysis, and performance reporting remain separate activities functionally. These separations create an artificial barrier to using financial and budgetary data to facilitate effective resource planning.

Recognizing that technological constraints are a significant barrier to a more efficient budget process, the City has initiated a process to purchase and implement new budgeting software. It has analyzed the packages available in the marketplace, issued a request for proposals (RFP), and vendors have submitted their responses. The City plans to implement the system on a pilot basis initially, and then roll it out enterprise-wide over two additional phases. The implementation will occur over a three-year period, concluding in December of 2005. The implementation schedule is summarized in the RFP as follows:

Phase I - Pilot: Initial implementation in three bureaus chosen to represent different aspects of the City's budget process.

Office of Transportation: large operating bureau with multiple funding sources and large capital programs.
Office of Neighborhood Involvement: small operating bureau funded entirely through the general fund with few capital
programs. Bureau of Vehicle Services: medium-sized bureau providing internal services, funded via rates, service agreements, and overhead allocation charges.

Phase II – Bureau Rollout: Assuming the success of the pilot phase, Phase II will begin implementing the new budgeting system out Citywide. This phase will bring many, but not all, bureaus on-line with the new software.

Phase III – Complete Citywide Implementation: The remaining bureaus will implement the software. It is likely that this group will include the large enterprise bureaus, which may need a longer period of time to implement the system. Allowing these bureaus to be the last to implement will reduce the risk of failure.

6.1 CURRENT COMPUTING ENVIRONMENT

In preparation for the release of the budget software RFP, the City has undertaken an aggressive effort to understand the limitations of the current budgeting "system" and gauged the viability of new technologies to support the City's budget process. GFOA has reviewed the City's work and has found it to be supportive of system replacement.

The current budget "system" can best be described as a centralized mainframe accounting system that records expenditures against the appropriated budget, a series of Excel spreadsheets used for data collection and analysis, several stand-alone database systems, a document publishing application, and a large dose of "human glue" that ties these systems together. Each of these systems is designed to accomplish one task within the budgeting process, but is not integrated to support a cohesive budget process. In addition, many of the bureaus have developed stand-alone systems to support their own internal budget development needs. Collectively, the budget system is a patchwork of different systems, which fragments the central budget function and limits operational planning.

The main financial system and backbone of the current environment is the IBIS accounting system. The system was originally purchased in 1989 from a software vendor that was acquired by the GEAC Computer Corporation, who currently supports the software. While the IBIS system adequately supports the City's accounting functions, it is not capable of supporting the budget process. The budget module in the IBIS system does not support position budgeting, cannot be used to conduct budgetary analysis, and is used strictly as a means of establishing a baseline budget of current service levels. Personnel planning, capital budgeting, budget analysis, and development of decision packages are maintained in separate systems.

The primary tool used to augment IBIS is the Excel spreadsheet. The City uses Excel to develop financial forecasts, plan personnel expenditures, analyze decision packages, and perform other similar types of analysis. Excel is an effective tool for forecasting revenues and expenditures. However, the data and assumptions used to build those forecasts are used throughout the budget process, and Excel does not allow these assumptions to be keyed once and "cascade" through the various budget development systems. As a result, economic and financial assumptions are not easily rolled into budget development activities.

The City plans and analyzes its personnel expenditures on spreadsheets as well. FPD has developed personnel services worksheets (PSWs) that are populated with data from the IBIS payroll system and updated to reflect changes in union contracts, cost of living adjustments, and PERS rates. PSWs are then distributed to bureaus to develop their personnel service requests. After bureaus submit their personnel budget requests, data is loaded into another set of Excel files called Personnel Service Upload Templates that consolidate information for analysis. After personnel expenditures are approved, the data is uploaded into IBIS, where it is stored.

The City also relies on a spreadsheet system to develop "decision packages" for budget preparation. FPD provides standardized templates for the bureaus to make funding requests, document projected service costs and justify new services. The same templates are used to analyze potential reductions or shifts in expenditures. Data used to support the development of these decision packages is assembled from other systems and manually entered into spreadsheet templates. Once the bureaus submit decision packages, their status is monitored through an Access database referred to as the decision-tracking model. FPD uses the model to simulate how various combinations of packages would impact the overall budget. After decision packages are proposed by the Mayor and approved by Council, they are reconciled against the IBIS system and uploaded into the publishing system for inclusion in the budget document.

The capital budget process is supported by a stand-alone database running on a Microsoft SQL Server. Five-year capital improvement plans are developed within the CIP database and are then re-keyed into the publishing system. However, the first year of the CIP plan must be manually keyed into the IBIS system for operating impact expenditures. The CIP database provides adequate support for developing capital improvement projects, but does not link to OFA Publisher (although it is linked to GIS software). As a result the development of the CIP document remains isolated from the development of the operating budget document.

The City uses a document publishing system called the Component Publisher to produce the annual budget document, including the CIP. Through various methods, data from all the budget systems are fed into the publishing system. The IBIS budget module is directly interfaced with the publishing system. However, every other component of the budget system requires some type of manual upload process or manual re-key process to get data into the Component Publisher. Because this is the only place where

comprehensive budget data can be stored, the City tends to utilize the system as a central repository, and all four versions of the budget (recommended, proposed, approved, and adopted) are compiled here. Unfortunately, the system capabilities are limited to formatting information and printing a budget document. The Component Publisher is not designed to query data or analyze budgets.

6.2 CHARACTERISTICS OF NEW BUDGETING TECHNOLOGIES

Budget software applications have advanced well beyond simple data collection tools to comprehensive planning systems shared by the entire enterprise. Functionality common to the leading software packages include:

Integration With Other Applications

Modern budgeting systems are capable of being integrated with multiple IT systems. By uploading historical financial data from the general ledger, accessing position counts in the human resource system, and retrieving salary and benefit data from the payroll system, budgeting applications can be pulled into a centralized location for analysis. Most applications are built on open database architecture and follow the industry standard of being ODBC (open data base connectivity) compliant. This enables the budget system to access data that resides in other IT systems through an automatic data transfer process that operates on a real-time basis. New budgeting systems are also compatible with desktop applications and come with easy upload and download functions to and from spreadsheets. While power users are much less likely to need to pull information in and out of Excel, this feature enables infrequent users or personnel without assigned software licenses to get data into and out of the system.

Flexible Roll-up Structure

Accounting systems do a good job of capturing detailed financial transactions, but are intentionally designed so that data cannot be modified or manipulated without additional transactions being recorded within the system. Thus information is not usually available in ways that are useful for budgeting. However, because new budgeting systems are specifically designed to extract data from the

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accounting system, information can be reorganized in user-defined categories (e.g., overtime expenditures by department across fiscal years). As data is transferred from the general ledger to the budget system, it goes through a mapping process that matches chart of account segments with organizational variables that are defined by system users. While data collected is still dependent on the chart of accounts design, information can be organized by any data element captured by the chart of accounts. The mapping of different account segments to consolidated or reorganized budget data enables organizations to analyze information by different levels of organizational detail than the accounting system would traditionally permit.

Such a change in IBIS would require that each bureau use a common organizational design and a common coding structure. Finding it easier to design a system around the current design of the organization, the City built an intermediate level center code (IML) to allow the tracking of multi-fund and multi-bureau projects.

Exhibit 6.1 System Integration

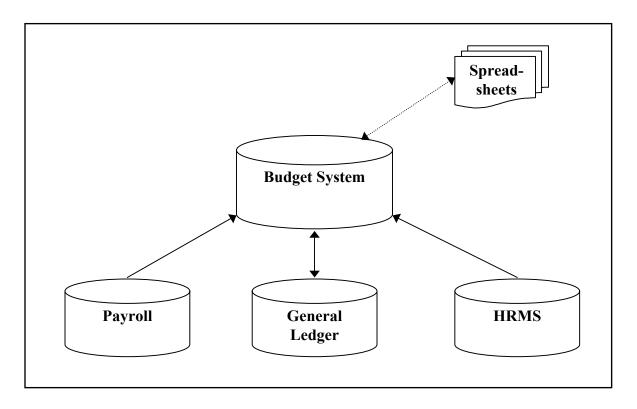
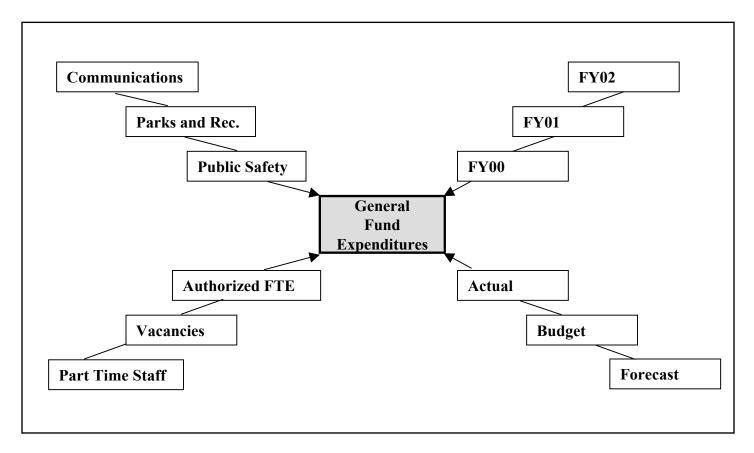


Exhibit 6.2 Budget Roll-up Structure



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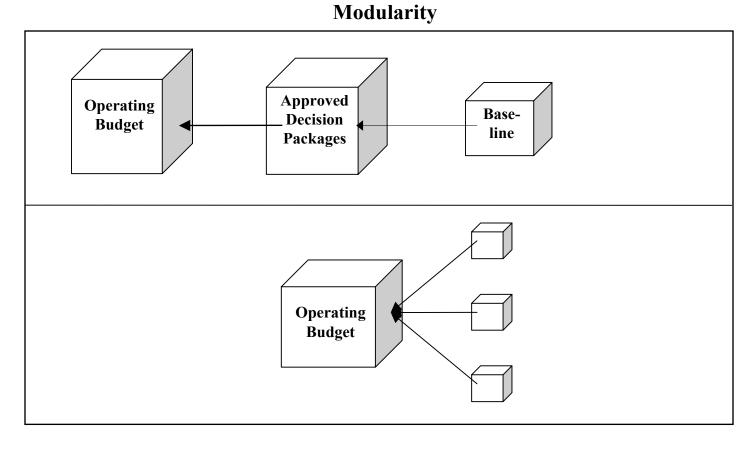
Modular Design

Budget software packages are similar to Excel spreadsheets in their flexibility to customize data collection templates, but are designed for use throughout an entire organization. Instead of using macro programming to link spreadsheets and consolidate information, they use powerful development tools that allow different modules to link data together through an integrated data transfer process. This gives the system the flexibility to design modules around specific budget functions such as capital budgeting or personnel planning, but automatically links those modules within the system. Modules can be built to feed data to each other, thus growing in size and complexity as more functions are pulled in; or functions can remain separated and can be fed into a centralized, independent module.

Distributive Budget Development Tools

Utilizing client/server or web-based technologies, new budgeting systems are able to provide online connections from off-site locations. Departments, operational staff, the central budget office, and executive decision-makers can track, document, and summarize expenditure requests and revenue estimates throughout the entire budget process. Transacting information across a network or through the use of the web allows new systems to operate organization-wide and fosters enterprise-wide collaboration in developing the budget, spending priorities and strategic direction. System users can remain informed in the budget process, even after they have contributed their part. Users can be given restricted access to view the draft budget as it moves forward within the organization for approval and final adoption, but are prohibited from making any changes or adjustments to their original budget requests.

Exhibit 6.3



Customizable Budget Worksheets

Most software packages come equipped with development tools that can allow for customization of data-entry screens. By distinguishing the different data elements required for different organizational units, new budgeting systems can simplify budget worksheets by including only the necessary data elements as input fields on user screens. There are additional advantages to web-based applications that are designed with additional flexibility for configuring how information is presented or data is collected. Web-based applications are designed to be intuitive and self-supporting, and do not require end-user training for budget development tasks. These systems can deliver on-line "help" functions that provide guidance and field-level data entry instructions to end-users.

Workflow Automation

Workflow, the electronic routing of documents, is typically associated with transactional processes, such as accounting or purchasing. However, workflow can also be a valuable tool within the budget process. The document handoff and approval process that accompanies the budget can be complex, and version control is always a concern. Workflow routing of different versions of the budget can document and control the process for how the budget is exchanged between multiple parts of the organization. It can also institute certain business rules that can improve the efficiency of the budget process. Business rules can be established to prompt users to complete their part of the process; they also provide visibility to all system users to identify what stage to which the budget has progressed.

Budget Monitoring

Integration with the general ledger enables budgeting systems to monitor budget execution. Because accounting data is already mapped to specific business units within the budget development process, it is easy to continue to pull data from the general ledger on an ongoing basis. Information is already organized in a capacity necessary to budget, so monitoring budget execution within the budget system is usually much easier. However, it is important to note that just because the budget system is integrated with the

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general ledger, it does not ensure access to real-time data. If the general ledger is not integrated with other accounting functions (accounts payable, accounts receivable), the budget system will be limited to whatever is the most recent data within the general ledger system.

Analytical Calculation Engine

New budgeting systems contain programming functions that allow end-users to conduct complex mathematical calculations. These calculation engines provide menu-driven analytical tools (NPV, linear regression, exponential growth, etc.) that allow end-users to select an analytical tool from a predetermined menu. As a result, fewer formulas must be customized, and the opportunity for error is reduced. These calculations generate a "what-if" type scenario that provides users with potential budgetary impacts without changing the underlying data in the system.

Text Processing

New budgeting systems can provide the ability to attach text to specific units of financial data. Because the budget is a reiterative process that requires explanations for financial decisions, the ability to associate text with financial data is very important. New budgeting applications can collect and report narratives that support mission statements, goals and objectives, service levels and performance measures.

6.3 FINDINGS AND RECOMMENDATIONS

While FPD has successfully developed a series of different systems to support the City's budget process, there is little doubt that its current technology capabilities are limited. The following points summarize the key functional weaknesses regarding the budget system and the processes that support budgeting and financial planning.

Finding: The City's ability to control its budget is limited by a lack of real-time data.

Budget control is maintained through the IBIS accounting system. However, based on the batch-processing nature of mainframe systems, information contained in the general ledger is not always timely, and as a result budget staff lack access to accurate financial data. For example, vendor payments are posted from the accounts payable module to the general ledger weekly. Even if these transactions were posted daily, however, there would still be delays in the process, as bureaus must approve the payment of each invoice. Business processes built into newer accounts payable modules automate this process and eliminate batching, making the data in the financial system current.

Finding: The budget development functions are inefficient.

Because the City relies on multiple systems to collect, compile and present budget data, City staff spend an enormous amount of time transferring data between systems. Due to the limitations in the centralized budget systems (IBIS, PSWs, decision packages) bureaus often use "side-systems" to support their internal budget development needs. These systems range from basic spreadsheets that support simple budget calculations to homegrown programs that seek to provide greater analysis capabilities. However, these systems do not link data back into the primary budget systems, and they require data to be manually re-entered into the other systems. Even after data is entered into the primary budget systems, FPD staff must coordinate data exchange between these systems, which requires a significant manual effort. The technology systems that support the budget function are limited to capturing and storing information and do not automate any of the work associated with budget preparation, development and analysis.

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Finding: The City's planning and analytical capacity is weak.

Financial planning staff spends a disproportionate amount of time assembling information and not enough time analyzing it. Managing the multiple systems that support budget development occupies the vast majority of staff time. Coordinating baseline budgets in IBIS, uploading personnel data from PSW worksheets, tracking various decision packages, merging capital budget requests with the operating budget, and formatting multiple versions of the budget document dominate FPD staff time. In addition, the City's budget calendar only allows for a very short period of time to review, analyze and consolidate bureau budget requests before the recommended budget needs to be assembled. Because the budgeting system is so cumbersome, FPD staff spends the majority of this time on the administrative functions necessary to assemble the recommended budget and have very little time for program analysis or service-level planning.

While the HRMS system maintains comprehensive position data, this information must be extracted from the system in order to manage, plan or forecast personnel. Position data cannot be loaded into the IBIS accounting system, and appropriated positions are not recorded in the budget module. So while FPD is responsible for estimating the costs of personnel, it is cumbersome to do so. Personnel services are tracked by lump sum expenditures at the bureau level in the accounting system. Position control is maintained by comparing total current personnel expenditures against budgeted appropriations, although FPD and BHR are working to set up guidelines for implementing position tracking. While BHR regulates the hiring of new full-time employees, current policy allows bureaus to utilize part-time, seasonal and temporary employees at their own discretion. As it is currently used, the system does not allow the City to administer position control by budgeted appropriations or authorized positions and is limited to monitoring personnel commitments to after-the-fact reporting outside of IBIS.

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Finding: The City's current system does not support scenario analysis.

One of the central features of the City's budget process is the development of decision packages that are added to the baseline budget, but the City does not have the technology to support it. While the combination of Excel spreadsheets (used to develop individual packages) and an Access database (used to track these individual decision packages) is innovative, it simply does not provide the analytical capabilities to support this type of budgeting. The value of separating decision packages from baseline budget requests is to gain an understanding for how new services will impact the overall budget and to evaluate and prioritize which decision packages will be adopted. However, because there is no centralized budget system where comprehensive data is stored, it is extremely difficult to analyze how individual packages actually affect the bottom-line. Excel is not an effective tool for conducting this type of scenario analysis. Spreadsheets do not inherently link information stored in different files unless linked by macro programs. While macros are great for individual users, they are extremely difficult to maintain with multiple users. Simple changes such as adjusting an expenditure request or creating a new program can entail an arduous error-checking process. Thus, the City's reliance on spreadsheets to develop and maintain decision packages extremely limits its ability to support scenario budget analysis. The reality is that the current system requires more administrative work to assemble data than it provides assistance in analyzing it.

The data structure in the IBIS financial system consists of a series of flat files that are difficult to query and report against. As a result, a series of standardized reports has been developed for budget monitoring purposes that can be executed by end-users. However, any information not provided by these standard reports is difficult to obtain. Ad-hoc data queries and custom report generation are extremely limited within the system, although the City's data warehousing project should help to address this limitation

Finding: IBIS lacks effective version control and audit trail capability.

None of the current budgeting systems provide adequate audit trail capabilities that track changes made to various versions of the budget. The system has no ability to track what changes have been made or to document how various versions of the budget differ from one another.

The current system does not support the collection of performance data and development of sound performance measures. Bureau's are responsible for developing their own measures and utilize a series of different spreadsheets or customized databases to support their efforts. These individual systems must be re-entered into the Document Publishing system, and are not integrated with the various other systems that are used during budget development. As a result performance measurement reporting occurs independent on the budget process and is primarily used to promote accountability not budgeting. Information is not available to guide the budget process or promote decision-making.

Recommendations (Budgeting Technology)

Acquire New Budgeting Software. Modern technology is supposed to facilitate analysis and expedite budget preparation. In Portland, existing technology constrains analytical capacity and slows budget preparation. Analysts spend too much time struggling with OFA Publisher, upload templates, and redundant worksheets. New budgeting software will reduce workload by improving workflow and analytical capacity. The City should move forward with its current software selection process or consolidate that process if and when it decides to replace IBIS.

Enhance IBIS to Accommodate Budgeting Software. New budget preparation software will enhance the City's ability to meet many of the recommendations and process changes made in this report. However, there are other changes that may require "enhancements" to the current accounting system (e.g., movement to program budgeting, tracking costs to activities, position budgeting). In the short-term, the City may have to consider custom enhancements to IBIS.

Re-evaluate the Replacement of IBIS. Some of the comments made in focus groups and interviews conveyed the frustration of bureau finance staff of maintaining numerous standalone "shadow" systems to support deficiencies in IBIS. A considerable amount of data entry redundancy and re-keying into the budget system would be eliminated with a new financial management or Enterprise Resource Planning (ERP) system. GFOA's earlier *Financial System Needs Assessment* conducted for the City of Portland in 1999 should be reexamined in light of the recommendations in this study. Indeed, a replacement of IBIS would reduce the chances that a budget package is chosen now would be incompatible with an accounting system in the future.

6.4 SUMMARY

New budgeting technology can help to alleviate many of the challenges in the current process. Modern systems have robust analytical and reporting functionality, can be queried in real-time, and have effective version control and audit trail capability. Software in the marketplace today facilitates position control, performance measurement, and other non-financial aspects of budgeting. A new system would be more user-friendly and intuitive, which would expedite the development process significantly.

Budgeting permeates an organization, and as a result many of the project team's recommendations depend on the City moving forward with this software initiative. This investment alone, however, will not be enough. In order to realize the benefits of the software, the City will likely need to make adjustments to IBIS during the implementation. Finally, it is important to recognize that investing in new budgeting software will not completely resolve the City's budgeting challenges. In order to maximize the value of the software, the City will eventually need to replace IBIS with a modern accounting system.



Chapter 7

NACSLB Fit-Gap Analysis



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7.0 OVERVIEW

In 1998, GFOA teamed up with seven other professional associations representing elected officials and public administrators, as well as representatives from academia, the public finance industry, and public employee unions to form the National Advisory Committee on State and Local Budgeting (NACSLB). The NACSLB developed a set of recommended practices "to serve as a blueprint for governments that want to make improvements in their budget process." This initiative resulted in the drafting of 59 recommended practices, which are shown in Exhibit 7.2 below.

Building on the work of the Budget Process Review Advisory Group, the project team evaluated the City's current policies and procedures to determine the degree to which they are consistent with those recommended by the NACSLB. For the purposes of this analysis, GFOA considered the language in the City's updated *Comprehensive Financial Management Policy* to be current. For those areas where GFOA found room for improvement, the project team set forth specific steps that the City could take to close the gap.

The citizens of Portland should take heart in the fact that so many of the City's practices are consistent with those widely perceived as "best practices." It should also be noted that "room for improvement" does not mean "non-compliant." GFOA set the bar fairly high in its evaluation. It was not enough for the City to simply have a policy. If the project team found that, for a given practice, there was significant room for improvement in existing policy, it did not rate that practice as consistent.

Exhibit 7.1 Summary of Consistency between Portland and NACSLB Recommended Practices

	Percentage Consistent with NACSLB	Percentage Showing Room for Improvement
1.0 Assess Community Needs, Priorities, Challenges, & Opportunities	50%	50%
2.0 Identify Opportunities & Challenges for Government Services, Capital Assets, & Management	33%	66%
3.0 Develop & Disseminate Broad Goals	100%	
4.0 Develop Approaches to Achieve Goals	100%	
5.0 Develop Programmatic, Operating, & Capital Policies & Plans	50%	50%
6.0 Develop Programs & Services that are Consistent with Policies & Plans	40%	60%
7.0 Develop Management Strategies	66%	33%
8.0 Develop a Process for Preparing & Adopting a Budget	60%	40%
9.0 Develop & Evaluate Financial Options	80%	20%
10.0 Make Choices Necessary to Adopt a Budget	100%	
11.0 Monitor, Measure, & Evaluate Performance	83%	17&
12.0 Make Adjustments as Needed	100%	
Total	77%	22%



Exhibit 7.1 summarizes the rate at which Portland's policies are consistent with those of the NACSLB, and Exhibit 7.2 identifies the NACSLB practices with which the city is either "consistent" or has "room for improvement."

Exhibit 7.2 Consistency Between Portland and NACSLB Recommended Practices¹

	Consistent	Room for Improvement
1.1 Identify stakeholder concerns, needs, and priorities		√
1.2 Evaluate community condition, external factors, opportunities and challenges	√	
2.2 Assess services and programs, and identify issues, opportunities, and challenges		√
2.2 Assess capital assets, and identify issues, opportunities, and challenges		√
2.3 Assess governmental management systems, and identify issues, opportunities, and challenges	√	
3.1 Identify broad goals	√	
3.2 Disseminate goals and review with stakeholders	√	
4.1 Develop policy on stabilization funds	√	
4.2 Develop policy on fees and charges	√	
4.3 Develop a policy on debt issuance and management	√	

¹ GFOA found that there is room for improvement related to two additional recommended practices, but did not address them because, although important, they are not directly related to the budget function. They are: 9.2(c) "Analyze Tax and Fee Exemptions," and 9.3 "Document Revenue Sources in a Revenue Manual."



Research and Consulting Center Room for Consistent **Improvement** 4.3(a) Develop policy on debt level and capacity 4.4 Develop policy on use of one-time revenues 4.4(a) Evaluate the use of unpredictable revenues 4.5 Develop policy on balancing the operating budget 4.6 Develop policy on revenue diversification 4.7 Develop policy on contingency planning 5.1 Prepare policies and plans to guide the design of programs and services 5.2 Prepare policies and plans for capital asset acquisition, maintenance, replacement, and retirement 6.1 Develop programs and evaluate delivery mechanisms 6.2 Develop options for meeting capital needs and evaluate acquisition alternatives 6.3 Identify functions, programs, and/or activities of organizational units 6.4 Develop performance measures 6.4(a) Develop performance benchmarks 7.1 Develop strategies to facilitate attainment of program and financial goals 7.2 Develop mechanisms for budgetary compliance 7.3 Develop the type, presentation, and time period of the budget 8.1 Develop a budget calendar



Research and Consulting Center Room for Consistent **Improvement** 8.2 Develop budget guidelines and instructions 8.3 Develop mechanisms for coordinating budget preparation and review 8.4 Develop procedures to facilitate budget review, discussion, modification, and adoption 8.5 Identify opportunities for stakeholder input 9.1 Conduct long-range financial planning 9.2 Prepare revenue projections 9.2(a) Analyze major revenues 9.2(b) Evaluate the effect of changes to revenue source rates and bases 9.2(c) Analyze tax and fee exemptions 9.2(d) Achieve consensus on a revenue forecast 9.3 Document revenue sources in a revenue manual 9.4 Prepare expenditure projections 9.5 Evaluate revenue and expenditure options 9.6 Develop a capital improvement plan 10.1 Prepare and present a recommended budget 10.1(a) Describe key policies, plans, and goals



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	Consistent	Room for Improvement
10.1(b) Identify key issues	√	
10.1(c) Provide a financial overview	√	
10.1(d) Provide a guide to operations	√	
10.1(e) Explain the budgetary basis of accounting	√	
10.1(f) Prepare a budget summary	√	
101(g) Present the budget in a clear, easy-to-use format	√	
10.2 Adopt the budget	√	
11.1 Monitor, measure, and evaluate program performance		1
11.1(a) Monitor, measure, and evaluate stakeholder satisfaction	√	
11.2 Monitor, measure, and evaluate budgetary performance	√	
11.3 Monitor, measure, and evaluate financial condition	√	
11.4 Monitor, measure, and evaluate external factors	√	
11.5 Monitor, measure, and evaluate capital program implementation	√	
12.1 Adjust the budget	√	
12.2 Adjust policies, plans, programs, and management strategies	√	
12.3 Adjust broad goals, if appropriate	√	



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Finding: Portland has embraced the findings of the NACSLB, and was an early implementer of many of its recommended practices. Although there is room for improvement, Portland's practices are far more consistent with those of the NACSLB than most jurisdictions.

The following addresses the practices for which GFOA found "room for improvement." Each section references the chapter in which the issue or challenge is explored in greater detail.

1.1 Identify Stakeholder Concerns, Needs, and Priorities

Practice: A government should develop mechanisms to identify stakeholder concerns, needs, and priorities.

Through the "Your City, Your Choice" process, Portland has developed a number of mechanisms for identifying stakeholder concerns, needs, and priorities. Not surprisingly, some are more effective than others. More importantly, however, these efforts are only loosely tied to decision-making. The bureaus would be well suited to follow the example set by the Mayor, who uses her budget message to point out how decisions have been affected by citizen input. Citizen participation, and a recommendation to link citizen input to budget development, are addressed in more detail in Chapter 3.

2.1 Assess Services and Programs, and Identify Issues, Opportunities, and Challenges

Practice: A government should identify and assess the programs and services that it provides, their intended purpose, and factors that could affect their provision in the future.

Regardless of role or place in the organization, stakeholders are nearly unanimous in stating that the City would benefit from improving its program analysis capacity. Through the program surveys, FPD and the bureaus have developed a comprehensive inventory of the programs administered by the City. However, its ability to conduct effective program analysis is limited by the budget process, which takes 11 months to complete, and its performance measurement efforts, which are not tied to programs. Chapters 3 and 5 of this report address the need for enhancing the City's capacity to perform program analysis.

2.2 Assess Capital Assets, and Identify Issues, Opportunities, and Challenges

Practice: A government should identify and conduct an assessment of its capital assets, including the condition of the assets and factors that could affect the need for or ability to maintain the assets in the future.

In spite of its ongoing review of capital needs, some bureaus, particularly those that are capital intensive, have a backlog of deferred maintenance needs. The decision to defer maintenance in favor of other priorities is common, especially in times when revenues are scarce. The City has taken steps to avoid adding to the backlog. In order to better understand the long-term costs of new capital projects, the City evaluates costs over a five-year period. Capital analysts would also like major maintenance costs to be considered when a project is initially evaluated, and for reserves to be built to address them. OMF currently does this.

Major maintenance typically is not necessary within the current five-year window of analysis, but it is inevitable, and is often expensive. Failing to plan for these costs builds a structural imbalance into the capital program, which exacerbates the deferred maintenance challenge. In Chapter 3, GFOA recommends that the City consider major maintenance costs in its evaluation of each capital project.

5.1 Prepare Policies and Plans to Guide the Design of Programs and Services

Practice: A government should develop and adopt policies and plans to guide the design of specific programs and services.

This practice outlines considerations for the design and implementation of programs and services. Again, elected officials, managers, and staff strongly believe that the City would benefit from enhanced program analysis capacity. This issue is explored in more detail in Chapter 3.

6.1 Develop Programs and Evaluate Delivery Mechanisms

Practice: A government should develop programs and services that are consistent with policies and plans and should evaluate alternative delivery mechanisms.

This practice reinforces that programs should be created and continued based on their moving the City toward its strategic goals. It calls for ongoing analysis of program effectiveness, and suggests that existing efforts be weighed against the potential of alternative programs. Again, the City's extended budget cycle prevents the bureaus and FPD from conducting extensive program analysis.

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6.4 Develop Performance Measures

Practice: A government should develop and utilize performance measures for functions, programs, and/or activities.

Portland is engaged in four performance measurement projects, including two benchmarking projects. However, measures are not connected to strategic goals and objectives. As a result, funding decisions are rarely made based on program results. In addition, the City does not monitor its progress toward performance goals as frequently as they monitor revenues and expenditures. More frequent reporting would allow bureau managers to make adjustments to meet programmatic goals. Portland's performance measurement efforts are addressed in Chapter 3.

6.4(a) Develop Performance Benchmarks

Practice: Performance benchmarks should be developed to aid in assessing how well a function, program, and/or activity is provided and how well it meets needs.

Portland benchmarks itself against its own historical performance, and also against a group of similar cities in the Auditor's SEA report. Again, however, it does not tie those findings back to budgetary decision-making. Even the measures in the budget document are separated from the narrative outlining bureau priorities and spending decisions. Performance measurement is addressed in Chapter 3.

7.1 Develop Strategies to Facilitate Attainment of Program and Financial Goals

Practice: A government should develop an organizational structure and management strategies to facilitate attainment of program and financial goals.

Providing incentives to achieve goals, such as allowing bureaus to retain significant portions of year-end balances for one-time expenses, and giving employees the tools they need to do their jobs, will facilitate the attainment of program and financial goals. Improvements in information technology, such as those discussed in Chapter 6, and continuous workforce development, as discussed in Chapter 5, can further improve the City's capabilities in this regard.

8.1 Develop a Budget Calendar

Practice: A government should publish a comprehensive budget calendar that specifies when budget tasks are to be completed and that identifies timelines for those tasks.

A quirk of Portland's form of government is that it provides no mechanism by which the Mayor, chief administrative officer, or budget director can enforce the timeline established in the budget calendar. In order to increase the level of importance of the budget calendar throughout the organization, GFOA recommends that the City council adopt the calendar by resolution prior to the budget kickoff. In addition, the project team recommends that a detailed calendar be distributed widely throughout the organization and, at a useful level of detail, to the public. Chapter 3 addresses this issue.

8.2 Develop Budget Guidelines and Instructions

Practice: A government should prepare general policy guidelines and budget preparation instructions for each budget cycle.

Bureau analysts generally consider budget guidelines and instructions to be good, but they have expressed an interest in improving the forms used in budget development. They would like to see the redundancies across forms reduced, and for differences in operating and revenue structure to be reflected in the forms. In some cases, bureaus use budget forms internally that are far more sophisticated than those produced by FPD. In others, the existing forms overwhelm bureau analysts. Regardless of whether the City decides to implement new software for budgeting, the project team recommends that bureau and FPD analysts develop a working group outside of the budget season to balance the need for continuity in roll up with the need to streamline development and expedite the question and answer process.

11.1 Monitor, Measure, and Evaluate Program Performance

Practice: A government should periodically evaluate the performance of the programs and services it provides.

Again, tying program performance to funding decisions is essential in managing for results. Chapter 3 addresses performance measurement in more detail.



Chapter 8

Summary of Recommendations and Next Steps



Chapter 8 - Summary of Recommendations and Next Steps

Research and Consulting Center

Streamlining the Budget Process

Recommendation	Priority	Next Steps	
1-1 Conduct the Citizen Survey Earlier in the Budget Process. If bureau managers are going to be encouraged to develop budgets that reflect citizen preferences, then managers must have access to survey data prior to completing their requests. Currently, the citizen survey is conducted in December, and data is not available until the end of January. Conducting the survey in October would allow bureau managers to have the data by the end of November, in time to incorporate citizen input into their budget request.	Moderate	The Council has full use of survey data as it considers the proposed budget, so citizen input does receive consideration. This change should be implemented in conjunction with the other changes to the budget calendar.	
1-2 Compress the timeline for CIP development. Bureaus begin planning and developing their CIP requests in mid-August (according to our interview and focus-group findings). Although some level of capital planning occurs throughout the year, based on our experience few governments have fiscal staff that spend 4 ½ months just developing CIP requests. Capital bureaus currently maintain separate systems—one to meet their own needs and another for FPD. The implementation of new budgeting and financial software, for example, would eliminate redundant data entry, thereby compressing the timeline for CIP development.	High	Reconfiguring the budget calendar is essential to improving the process, and should be undertaken with the next budget cycle.	
1-3 Eliminate the Program Surveys. Program surveys are used to convert line-item budgetary detail to the program level and contain narrative describing each program. They have been essential in preparing Portland to transition to program budgeting. Making the transition to program budgeting (scheduled for FY 04-05) would eliminate the need for the program surveys.	High	Implementing program budgeting in the next budget cycle will make the production of a separate program survey redundant.	

Chapter 8 - Summary of Recommendations and Next Steps



Research and Consulting Center

Recommendation	Priority	Next Steps
1-4 Adopt the Budget Calendar Prior to the Budget Kickoff. A budget calendar is used by many local governments to set expectations and deadlines for agencies and other stakeholders. In recent years, the City (both bureaus and FPD) have had difficulty adhering to the budget calendar. The City Council should express its commitment to a smooth and orderly process by adopting the budget calendar by resolution, and making the bureau managers responsible for meeting deadlines.	High	This is a relatively simple change that should be implemented as part of the next budget cycle.
1-5 Distribute Draft Interagency Agreements at the Budget Kickoff. Interagency agreements are put in place so bureaus can compensate internal service functions for the cost of specific services (e.g., fleet, printing). Historically, OMF has distributed the first drafts of the interagency agreements late in the budget development process (the first week of January). This leaves the bureaus only three weeks to adjust their internal service demands to reflect budgetary constraints, finalize their agreements, and update their budget requests to reflect the final agreements. This is a significant challenge, given that each bureau must negotiate as many as seven agreements with OMF, in addition to its agreements with other operating bureaus. The distribution of draft agreements at the budget kickoff would help address these issues.	High	These adjustments are a major driver of bureau delays. This change should be implemented with the next budget cycle.
1-6 Establish a Mechanism for the Management of the Question and Answer Process. The City should take four steps to expedite this process. First, at the conclusion of the work sessions, the Mayor and City Council should generate a list of prioritized questions. Second, budget work sessions should be organized to facilitate greater dialogue between bureau managers and the elected officials. Third, bureau managers should also identify issues that are raised every budget cycle, and address those issues, either as part of their requests or as a stand-alone report prior to the budget process. And finally, elected officials should be encouraged to recognize that the ideal time to evaluate the effectiveness of existing programs, as well as alternative means of providing a service, is outside of budget deliberations.	High	The question and answer loops contribute significantly to spikes in workload and analyst stress, yet provide insufficient decision support. Addressing this issue in the next budget cycle would expedite the process dramatically.

Recommendation	Priority	Next Steps
1-7 Include Mayoral and Council Policy Objectives in the Budget Kickoff. Bureaus assert that they begin the budget process with too vague an understanding of the Mayor and Council's priorities and points of concern for the next budget cycle. If the Mayor were to prepare a statement of expectations, as part of the yearly budget instructions, bureaus could focus their analytical efforts on decision packages that are likely to receive serious consideration. Similarly, if the City Council were to reaffirm or adjust its strategic goals at the beginning of the planning process, bureau managers would have a stronger understanding of their expectations. Combined, these efforts could expedite budget development (somewhat) in the bureaus and the review process in FPD.	High	Other recommendations address this communication and coordination issue as well.
1-8 Work With the Enterprise Bureaus to Develop Useful Tools and Templates. Currently enterprise bureaus (e.g., water, sewer) must customize existing budget preparation templates to meet their needs. Regardless of whether the City chooses to implement new budgeting software or continue with its current applications, enterprise bureaus will continue to require their own tools and templates. FPD should work with the bureaus to develop tools and templates that meet their needs, but that also can be rolled up into the Citywide system.	High	Enterprise bureaus must run parallel systems. Implementing new budgeting software may eliminate the need for this effort.
1-9 Delay the Adoption of Multi-Year Budgeting. Some local governments have found that developing a two-year budget reduces staff time spent on budget preparation, providing analysts more time for other tasks. Portland has developed multi-year budgets in the past, but has abandoned the approach when uncertainty in the revenue climate prevailed. Given the magnitude of the reforms recently undertaken by the City, as well as those proposed here, the project team recommends that the City delay transitioning to a multi-year budget. The City should revisit multi-year budgeting once it has transitioned to program budgeting and the revenue climate has stabilized.		



Recommendation	Priority	Next Steps
1-10 Remove the Summaries of the Five-Year Financial Plans From Volume Two of the Budget Document. This reporting is redundant, and if FPD and the bureaus were to present the plans on their Websites, removing the plans would cut the size of the budget document by fifty pages. The analyst time to prepare these summaries could be eliminated.	Low	Implementing this recommendation could easily be achieved in this budget cycle.
1-11 Enhance opportunities for bureaus to explain and defend their budget requests to the Mayor and Council. Recognizing the need for greater communication with the bureaus and Council, the Mayor has established a series of work sessions throughout the budget process. The bureaus present their budgets during these sessions, and the Mayor and Commissioners have the opportunity to question the bureaus regarding their requests. Nonetheless, some bureaus feel that the format of the sessions does not provide an adequate opportunity to fully explain and defend their requests.	High	A number of recommendations in this report address the need to improve communication and coordination in order to expedite the process. This could be implemented as part of the current budget process, in part to cut down on the number of formal responses that must be generated by FPD and the bureaus.
The work sessions occur during the busiest portion of the budget calendar, making it difficult to significantly increase the time devoted to the work sessions. Regardless, the time devoted to the work sessions should be expanded. In addition, FPD should work with the bureaus and the Mayor to determine if a more effective format could be developed.		



Recommendation	Priority	Next Steps
1-12 FPD should instruct the bureaus to address "ongoing issues," either as stand-alone reports or as part of their budget request. Every budget cycle, the Mayor and Council seem to be interested in many of the same broad, organizational questions: what cooperative efforts with outside agencies could produce savings? Which take home vehicles can be eliminated? How does each bureau anticipate its overtime needs? Typically these questions require significant analytical resources in order to be addressed appropriately. Raising them during the review process dramatically increases analyst stress levels, since they are forced to prepare rushed responses, in addition to meeting their regular budgetary responsibilities. FPD should work with the Mayor and Council to identify these points, and instruct the bureaus to address them either before making, or as a part of, their budget request.	High	Addressing these ongoing issues prior to the budget process would address two common frustrations expressed by the Council executives. First, it would provide some of the in-depth program analysis that decision makers have been seeking. And second, it would provide that analysis in a timeframe that allows the Mayor and Council to take an action other than that which is proposed by the bureaus. This change cannot be achieved in a single cycle, but FPD and the bureaus should begin this process prior to the next cycle.

Research and Consulting Center

Connect Long-Term Planning to Budgeting

Recommendation	Priority	Next Steps
2-1 Designate the Five-Year Financial Plans As the Primary Planning Document for Major Bureaus. Currently, five-year plans are primarily internal planning documents designed to encourage long-term structural budgetary balance by having bureaus think about the future consequences of current funding decisions. GFOA recommends that the financial plans play a more prominent role in providing long-term direction to the bureaus. Bureaus should present preliminary financial data with each decision package included in the five-year plan. The City Council should then amend and/or adopt each plan by resolution.	High	Providing preliminary guidance to the bureaus on potential decision packages would expedite the bureau development process. This should be implemented as part of the next budget cycle.
2-2 Establish an Unambiguous Link Between the Vision and Values Statement and Bureau Budgets. Bureaus should include narrative in each version of the budget explaining how its programs, projects, and services are designed to meet the City's strategic goals. Bureaus should be required to justify both current service level requests and decision packages on this basis. FPD analysts should also be instructed to base their issue papers on how well a bureau request is designed to meet strategic goals. Most importantly, bureaus should be asked to provide a compelling reason (i.e., regulatory mandate, worker safety) for any major expenditure that does not promote the City's strategic goals.	High	Linking expenditures to strategic priorities is the bedrock needed to manage for results. This should be implemented as part of the next budget cycle.
2-3 Proceed With <i>Future Focus II</i> or another Strategic Planning Effort. Portland Future Focus is the name of the strategic planning effort that the City conducted in the early 1990s. Future Focus II, a new planning effort that currently under consideration, has yet to be adopted. A strategic planning process that incorporates citizen input, comprehensive land use planning, and long-term financial planning would provide the bureaus with valuable set of guidelines for a wide range of operational and budgetary decisions.	Moderate	Strategic planning requires significant staff time. Portland should move forward with this effort once it has implemented the high-priority recommendations.

Research and Consulting Center

Managing for Results

Recommendation	Priority	Next Steps
3-1 Link Citizen Participation to Budgeting. Through the "Your City, Your Choice" process, Portland has developed a number of mechanisms for identifying stakeholder concerns, needs, and priorities. Unfortunately, these efforts are only loosely tied to budgetary decision-making. The bureaus should point out how priorities and funding allocation decisions have been affected by citizen input.	Moderate	Again, the Council has full use of survey data as it considers the proposed budget, so citizen input does receive consideration. This change should be implemented in conjunction with the other changes to the budget calendar.
3-2 Continue to Implement the Managing for Results Initiative. Managing for Results is an effort to focus decision making on the City's mission and goals, and to encourage the use of performance measurement information in decision-making and reporting. For Portland to fully realize the benefits of the Managing For Results model, performance measures and benchmarks must be connected to programs and also reflect strategic goals. Without this link, it is far more difficult to base funding decisions on program results. In addition, managers should be able to monitor their progress toward performance goals as frequently and as easily as they monitor revenues and expenditures. More frequent reporting would allow bureau managers to make adjustments throughout the year to meet programmatic goals.	High	Cities that fully embrace this model will develop a competitive advantage over those who do not. This effort should be the focus of FPD's reform efforts over the next several years.
3-3 Complete the Transition to Program Budgeting. Program budgeting is far more effective in terms of framing choices for decision makers since expenditures are presented by program rather than line-item. A program and activity structure in the operating budget would allow the City to more effectively link resources with results achieved. The service impacts of decision packages could be presented to Council, supporting arguments for or against service reductions or increases. Program budgeting also provides the ability to make "surgical incisions" rather than "meat axe cuts" when budget reductions are necessary.	High	This transition will have a dramatic impact on other processes and recommendations, and therefore should be implemented in the next budget cycle.



Recommendation	Priority	Next Steps
3-4 Capital Project Requests Should Include Reserves for Major Maintenance Costs. Currently, the City examines the operating and maintenance costs associated with a new capital project over the first five years of its useful life. Most bureaus do not analyze major maintenance costs in the "out" years, as assets age and major repairs becomes necessary. As a result, Portland—like many cities that use this practice—is building a long-term structural imbalance into its budget. Major maintenance costs should be included in feasibility analyses and budget requests; bureaus should build contributions to a major maintenance reserve in their requests.	Moderate	This would require a relatively simple change in the City's financial policies, as well as in its forms and evaluation approach. It should be implemented as part of the next project prioritization process.
3-5 Replace Most of the Measures Currently Reported in the Budget With SEA Measures. Replacing the current measures with those from the Service Efforts and Accomplishments (SEA) Report (released annually by the City Auditor) will increase the quality of the measures, as well as reduce bureau workload. Of course, some measures presented in the budget document are useful, and they should either be folded into the SEA process or tracked independently.	High	This will increase the quality of the measures, as well as reduce bureau workload. This should be implemented during the next budget cycle.
3-6 Expand the Number of Bureaus Reviewed in the SEA Report. Eight bureaus voluntarily participate in this process. All of the <i>major</i> bureaus should participate in this initiative. In order to minimize the impact of this new reporting responsibility on the bureaus, the City Auditor's office should collect the data that is readily available in IBIS (the central accounting system), and expect that the bureaus will provide the remaining data.	Moderate	Given the magnitude of this undertaking, and other proposed reforms, it may be prudent to gradually expand the program over the next several budget cycles.



Recommendation	Priority	Next Steps
3-7 Expand the Use of Progress Board Performance Benchmarks in the Budget. The Portland Multnomah Progress Board is a regional benchmarking effort that encompasses a broad range of economic, social and fiscal indicators. Only seven bureaus cite goals and/or performance measures from the Progress Board. Out of the 14 measures described, only three are actually reported with performance results.	Moderate	Gathering this data, but not using it to inform budgetary decision-making, limits effectiveness. This should be implemented over the next several budget cycles.
3-8 Continue to Host the Community Budget Forums. Community Budget Forums are vehicles for citizen participation that are conducted bi-annually. Some bureaus expressed frustration that too many of their staff were required to attend given the level of citizen participation. Yet our review of attendance indicates sufficient interest in the forums to justify their continuation. Satisfaction ratings indicate that citizens consider the forums worthwhile.	Moderate	

Research and Consulting Center

Modernize Budgeting Technology

Recommendation	Priority	Next Steps
4-1 Acquire New Budgeting Software. Modern technology is supposed to facilitate analysis and expedite budget preparation. In Portland, existing technology constrains analytical capacity and slows budget preparation. Analysts spend too much time struggling with OFA Publisher, upload templates, and redundant worksheets. New budgeting software will reduce workload by improving workflow and analytical capacity. The City should move forward with its current software selection process or consolidate that process if and when it decides to replace IBIS.	High	This implementation will be a significant change management effort, with impacts throughout the organization. This effort should be a major focus of FPD over the next two years.
4-2 Enhance IBIS to Accommodate Budgeting Software. New budget preparation software will enhance the City's ability to meet many of the recommendations and process changes made in this report. However, there are other changes that may require "enhancements" to the current accounting system (e.g., movement to program budgeting, tracking costs to activities, position budgeting). In the short-term, the City may have to consider custom enhancements to IBIS.	High	The City may not be able to realize the full benefits of new budgeting software without these changes. These factors should receive significant consideration as the City selects a vendor.
4-3 Re-evaluate the Replacement of IBIS. Some of the comments made in focus groups and interviews conveyed the frustration of bureau finance staff of maintaining numerous standalone "shadow" systems to support deficiencies in IBIS. A considerable amount of data entry redundancy and re-keying into the budget system would be eliminated with a new financial management or Enterprise Resource Planning (ERP) system. GFOA's earlier <i>Financial System Needs Assessment</i> conducted for the City of Portland in 1999 should be re-examined in light of the recommendations in this study. Indeed, a replacement of IBIS would reduce the chances that a budget package chosen now would be incompatible with an accounting system in the future.	High	Even with new budgeting software, OMF and FPD will still have limited financial and analytical reporting capability for functions that contribute to the budget process. Even if it is only in the long-term, the City should plan to replace IBIS.

Improvements to Interagency Agreements

Recommendation	Priority	Next Steps
5-1 Improve the Transparency of Interagency Charges. The term "transparency" refers to both parties in a transaction or business relationship having an equal amount of information. The City should take three steps to improve transparency in the area of interagency agreements:		These steps would address a fundamental frustration of bureau analysts and managers, and should be implemented in time for the next budget cycle.
 Bureau managers should attend the OMF rate- model workshop. OMF should facilitate a forum between service providers and customers. The Interagency Taskforce recommendations, which also improve transparency in interagency billings, should be finalized. 	High	
5-2 Benchmark Internal Service Costs Against Private Sector Comparables. The City Auditor has compared the cost of many of Portland's internal services against those of other jurisdictions, as well as some private companies, and found that its cost structure is generally competitive. However, the comparison with private sector firms has not been as extensive as the comparison with other governments. Benchmarking, after all, is a process that seeks to "set the bar" rather than encourage organizations to meet "averages" in their peer group. The City should compare these costs more extensively, and determine if some services may be candidates for outsourcing. Internal services that lend themselves to outsourcing typically are widely available in the private sector, do not require substantial programmatic oversight, and can easily be broken into components for bid. Finally, the current "benchmark" information that has been collected is six-years old and should be updated.	Low	The City Auditor has benchmarked costs against the market, and found that its cost structure is generally comparable. As a result, this is not as urgent as it otherwise might be.

Changes to the Financial Planning Division

Recommendation	Priority	Next Steps
6-1 Continue to House the Financial Planning Division (FPD) in the Office of Management and Finance (OMF). FPD is part of the Bureau of Financial Services and reports to the CFO. Given the City's size, complexity, commitment to objective fiscal analysis, and overall satisfaction with the current location of FPD, there is no compelling reason to reconstitute FPD as a separate bureau or move it to another location.		
6-2 FPD Should Maintain Its Current Model for Assigning Budgetary Responsibility. FPD has drawn upon the best features of several models in its assignment of internal responsibilities (e.g., bureau portfolios, administrative responsibility, performance measurement) to its analysts. Analysts and managers are largely satisfied with the current arrangement, so GFOA's Consulting Team did not recognize a compelling reason to change current practice.		
6-3 Clarify the Role of FPD in the Budget Process. The role of FPD is not clearly understood by participants in the budget process. In particular, some bureaus expect their analysts to serve in an advocacy role, especially since bureaus perceive their role in the work sessions to be a minor one. FPD is charged with the responsibility of serving as an objective analyst of bureau budget requests. This demands an arm's length relationship with the bureaus. Since it is inconsistent for FPD to simultaneously play an organization-wide budget "gatekeeper" role and a bureau-specific "advocacy "role, the bureaus themselves should be the primary advocates for their respective budgets by having a greater role in work sessions.	High	FPD could update the narrative in the budget document to better define its role in the process. This could be implemented as part of the current budget cycle.

Recommendation	Priority	Next Steps
6-4 Redefine the Mission of FPD. Some FPD analysts are experiencing an "identity crisis." This problem begins with FPD's mission statement, which is too vague to guide the activities of the division or communicate its role to outside parties. The mission statement speaks of "customers" without identifying them. Are they the bureaus? The Mayor? The City Council? The citizens? It also defines FPD's role as providing financial planning <i>guidance</i> and <i>consultation</i> . Although the most successful bureaus actively seek the guidance of FPD, historically this has not been its primary role. FPD should redefine its mission, as well as its goals and objectives, to more effectively communicate its purpose in the organization.	High	Mission statements do not solve problems, but they can help to define them. Again, FPD could update the narrative in the budget document to better define its mission. This could be implemented as part of the current budget cycle.
6-5 Clarify the Responsibilities of FPD, the Bureaus, and Elected Officials in the Budget Process. It is the role of the Mayor to facilitate the overall budget process, establish Citywide strategic priorities, guide the development of budget requests within her office or bureaus, propose the budget, and work with the Council to achieve consensus on a final budget. It is the role of the Council to establish Citywide strategic priorities, guide the development of budget requests within their departments, review and amend the Mayor's proposed budget, and adopt the final budget. FPD should be responsible for the development of instructions, guidelines and other supporting materials, training bureau analysts, reviewing plans and requests, conducting program analysis, publishing each version of the budget, and managing the BMP process.	High	Internal documents clarifying the division of budgetary responsibilities, such as those set forth in Chapter 4, would provide stakeholders with a clearer understanding of how each of the pieces fit together.
6-6 "Small" Bureaus Should Continue to Meet Budgetary Reporting Requirements. Analysts in the small bureaus suggested that the City should exempt them from some budgetary reporting requirements. These bureaus are already exempt from preparing five-year financial plans, and most small bureaus have minimal capital obligations. Budgeting is too critical a function to have inconsistent reporting requirements across agencies. Instead, FPD should assist small bureaus with their reporting requirements.		

Research and Consulting Center

Staffing and Workload Improvements

Recommendation	Priority	Next Steps
7-1 Staffing Levels Are Sufficient. FPD is fully staffed, and its staffing levels are consistent with those of similar cities. If FPD implements the recommendations set forth in this report, staffing levels should be sufficient for it to meet its core workload related to the budget process.		
7-2 Enhance Bureau and FPD Capacity to Perform Program Analysis. The City must clear three hurdles in order to be able to conduct better program analysis. First, analysts must have the time needed to do the analysis. Second, analysts must have the skills needed to effectively analyze programs. Third, performance measures must be tied to programs, so that analysts can explore the link between intended and actual outcomes. GFOA has addressed each of these issues in other recommendations.	High	With a streamlined process, analysts should have time to conduct program analysis. FPD and BHR should develop opportunities, either in-house or by contract, for bureau and FPD analysts to take training on analytical techniques.
7-3 Strengthen Training on Analytical Tools and Technologies. Analysts lose too much time attempting to make the City's budgeting systems work. This is both a systems problem and a training problem. As it does for OFA Publisher, FPD should provide ongoing training on IBIS, and BHR should offer advanced training for Microsoft Office, particularly in Excel and Access. As the City considers the purchase of a new budget development module, comprehensive training on the use of this system will be imperative.	High	OMF, FPD, and BHR should develop opportunities, either in-house or by contract, for bureau and FPD analysts to become more comfortable using the City's systems. This should be done outside of budget season.
7-4 Strengthen Training on City Processes, Policies, and Procedures. As changes occur in budgetary policies and procedures, it is important that analysts are updated on them and provided a forum to ask questions related to their implementation. This will be particularly important in the spring, should the Council choose to update the comprehensive financial management policy. Also, as the City considers the numerous recommendations that are included in this operational analysis, it is important that analysts be apprised and trained on any resulting procedural and policy changes.	High	OMF and FPD should develop a seminar for bureau and FPD analysts to learn the City's new processes, policies, and procedures. This should be done prior to the next budget season, but after the City adopts its comprehensive financial management policy.

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Recommendation	Priority	Next Steps
7-5 FPD Managers Should Build Analyst Visits to the Bureaus Into the Summer Schedule. As a result of significant turnover in FPD staff, too few analysts have an in-depth understanding of the operational issues of their bureaus. The current practice of encouraging analysts to visit their bureaus is not working. FPD cannot fulfill its mission unless its analysts are well versed in bureau operations, and therefore should require its analysts to do so.	High	This is essential to conducting effective analysis, and should begin as soon as possible, and no later than this summer.
7-6 OMF and FPD Should Continuously Seek to Improve the Work Environment. In spite of continuing reductions in analyst staffing levels, managers in OMF and FPD are actively seeking to improve the FPD work environment. Through the budget software initiative, they are attempting to give analysts the tools they need to do their jobs more effectively. Through studies such as this one, they are attempting to better manage workload, eliminate redundancies, and streamline the budget process.	Moderate	OMF and FPD are making strides, as indicated. This must be an ongoing effort, and therefore does not fit well into a prioritization framework.

Strengthening Position Control

Recommendation	Priority	Next Steps
8-1 Establish Strong Position Control and Staffing Analysis Functionality in the New Budget Software Package. Since public sector service delivery is so labor intensive, it follows that sound position control and analysis of staffing patterns are critical to overall financial control. The City is already pursuing an effort to evaluate software. The recommendation here is that this consideration be taken into account in package selection especially since many budgeting products are weak in this area.	High	Vendors should be asked to demonstrate their personnel control and management functionality as part of the software selection process.
8-2 Budget Based on Positions, Not Payroll. Only City Council can create or eliminate a position. However, since budgets are developed based on payroll data, a key bureau strategy to "forcing" the funding of a new position is to get a person on the payroll rather than into an authorized position. For example, an employee may be hired at the end of the year because of salary savings available from vacancies—even though a full year of funding for that employee is not appropriated. BHR and FPD should work together to strengthen position control and close the staffing loopholes.	High	Personnel expenditures compose a significant portion of the budget, and decision makers should have as complete an understanding as possible of those costs. Regardless of the software decision, this should be implemented as part of the next budget cycle.
8-3 Report on All Positions in the Budget and Budget Monitoring Process. Currently, these processes only report on full-time, permanent positions. Bureaus should be required to estimate seasonal, temporary and part-time employees.	High	Again, personnel expenditures compose a significant portion of the budget, and decision makers should have as complete an understanding as possible of those costs. Regardless of the software decision, this should be implemented as part of the next budget cycle.