



CITY OF

PORTLAND, OREGON

Sam Adams, Mayor
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October 5, 2011

TO: City Bureau Directors
City Budget Managers

FROM: Mayor Sam Adams
Commissioner Nick Fish
Commissioner Amanda Fritz
Commissioner Randy Leonard
Commissioner Dan Saltzman

DATE: October 3, 2011

SUBJECT: FY 2012-13 Budget Guidance

Portland, along with other local governments, has been impacted by the national recession. As a City, we have taken targeted cuts to reduce ongoing expenditures while judiciously using one-time funds to smooth out the worst of the service impacts, assist Portlanders who are most in need, and invest in economic development and capital projects that create jobs. With your help, bureaus have found efficiencies and made prudent budget reductions that have positioned the City to emerge from the national recession as a stronger, more resilient City.

Budget Outlook

Once it receives updated revenue projections, the Office of Management and Finance will present its five-year General Fund financial forecast to the City Council on December 7th. However, we want to provide you with guidance as early as possible so that you can prepare for the FY 2012-13 budget process.

In anticipation of a protracted national economic recession or slow recovery, the Adopted Budget in FY 2012-13 included a \$9 million rainy day fund, with \$5 million of those funds available in FY 2012-13 and the remainder spread through the rest of the five-year forecast.

Even though we have been fiscally prudent, most economic indicators are trending downward and will likely have a negative impact on the next forecast. Nationally, economic growth has been anemic in the first three quarters of 2011. Unemployment is still very high (August: 9.1% nationally, 8.7% in Multnomah County), and the economy has not grown at the rate needed to bring unemployment down. There is an increased

possibility of a “double-dip” recession, and even if the economy continues to grow, very few economists are predicting the type of growth that would significantly increase business license tax revenue in the near term. The international debt crisis and federal political dysfunction have increased overall market volatility, dampening investment and hampering economic growth. Inflation has also been trending higher, at least in the short term, which may increase COLA costs above forecast.

To reduce the national debt, the federal government is preparing deep cuts to programs, and many of those cuts will directly impact services provided by the City. Last week, Governor John Kitzhaber asked state agencies to prepare budget cut packages of 5% and 10%.

Locally, we face some tough trends as well. Housing prices continue to fall, impacting property tax revenue collections as more and more commercial and residential properties are subject to property tax compression. Multnomah County is also considering putting a permanent rate library district on the May 2012 ballot. If voters approve such a district it would result in a significant ongoing decrease in property tax revenue for the City, starting in FY 2012-13. We anticipate the potential impact of a permanent rate library district to be at least \$5-6 million annually to the General Fund.

Budget Directions

As a result of the global, national, and local factors that may impact the City and the uncertainty surrounding the economic outlook, we are asking bureaus not to request budget add packages and to prepare significant program cuts for FY 2012-13.

Since it is not clear at this point exactly what level of cuts will be necessary in order to balance, we are asking bureaus for a tiered approach of 4%, 6%, and 8% reductions. It is our hope that providing early guidance will give bureaus time to fully vet the potential reductions with their employees, public-sector partners, key stakeholder groups and the public.

Bureaus should prepare the following as part of their FY 2012-13 Requested Budgets:

- Bureaus receiving General Fund support** (discretionary resources or cash transfer): Ongoing reduction packages of 4%, 6%, and 8% based off of FY 2012-13 General Fund CAL targets. CAL targets will be released December 8th.

- OMF Internal Service Funds** (BTS, CityFleet, P&D, Facilities, Worker’s Compensation, Risk Management, EBS Services): Ongoing reduction packages of 4%, 6%, and 8% based off of FY 2012-13 base budgets.

- Non-General Fund fee-supported bureaus** (BOEC, BDS, PBOT, FPD&R): 0% reductions to non-General Fund portions of their budgets. BOEC, BDS and PBOT will submit reduction packages for their General Fund support in the 4%, 6%, and 8% increments identified above.

•**Rate-supported utility bureaus** (Water, BES): Guidance regarding budget targets for utility bureaus will be distributed in a future communication. It is likely the utility bureau operations will be asked to find efficiencies and reduce costs for ratepayers.

The tiered approach of 4%, 6%, and 8% cuts will provide Council with the flexibility to cut more deeply if economic conditions continue to deteriorate, or take fewer reductions if conditions improve.

We want to underscore this point: add packages for new or expanded programs or services will not be considered. Bureaus may request one-time funding to continue existing one-time funded programs or services. New programs will only be considered if they are achieved through efficiency savings above and beyond the cut targets noted above.

For all bureaus, we expect you to achieve your reductions through efficiencies and realignments wherever possible. Since program cuts will be necessary under any of these scenarios, we encourage bureaus to look closely at your program rankings and cut in areas that will have the least impact on your core programs and services.

Cross-Jurisdictional Collaboration

As we move forward as a City during these tough economic times, we need to look for ways to improve cooperation and collaboration among all of the entities that provide services to Portland residents (city, county, state, federal, and special districts along with non-governmental organizations).

We are finalizing the Portland Plan - the 25 year plan for the City – which is scheduled to come before Council in early 2012. The Plan focuses on a limited set of priorities and outlines strategies to create well-paying jobs, advance social equity, improve educational outcomes, and support healthy connected communities. As the City's strategic plan it looks at the city as a whole system and recognizes how each of the pieces of that system impacts one another. Our collective actions must be better aligned and designed to produce multiple benefits. This will require cross-jurisdictional collaboration, more effective partnerships and integrated solutions.

For the FY 2012-13 budget process, we will ask the noted jurisdictions to join with city bureaus to align budget priorities on specific topics:

- 1) Transportation (PBOT, BPT, ODOT, BES, Port, Metro, TriMet, County Health Department);
- 2) Economic Development (PDC, BPS, Port, Metro, Business Oregon);
- 3) Public safety (Police, Fire, BOEC, Multnomah County Sheriff, Local Public Safety Coordinating Council)

This process will familiarize staff from all jurisdictions with the budgets and strategic plans of their counterparts. With the goal to achieve the emerging Portland Plan five-year action items, the process will form a basis for bureaus to work with their partners to improve efficiency, service delivery, and intergovernmental coordination.

Bureaus that are involved in this process will be responsible for reporting outcomes from these meetings in their Requested budget. The attached document provides more information on this process, and further direction will be sent to all bureaus.

Summary

These remain uncertain times. The City has responsibly managed its resources to date, and we will continue to pursue a prudent, financially sustainable path going forward while we work to ensure a more prosperous, resilient and equitable city. We appreciate the diligent efforts of City bureau directors, managers, and staff in providing services to citizens and support in the workplace through these tough times.

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