



Office of Mayor Ted Wheeler
City of Portland

Date: November 17, 2017

To: City Bureau Directors

CC: City Elected Officials

From: Ted Wheeler, Mayor

Subject: FY 2018-19 Budget Guidance

We are now well into the ninth year of economic expansion, and the majority of Portland's economic indicators are at an all-time high. Unemployment is at an all-time low. Revenues are at record levels. Incomes are rising. The region continues to attract a highly skilled workforce.

Despite this great abundance, the City's budget continues to operate at a deficit as costs continue to grow faster than revenues. A new General Fund forecast will be released in early December. We anticipate that this forecast will include additional one-time resources and a modest surplus of ongoing revenue. While this is good news, the City's spending is projected to increase at an even faster pace.

PERS costs, higher inflation, new labor agreements, are just a few examples of the larger numbers we will see on the left side of the ledger. The City Budget Office currently predicts these additional costs could add between \$5 million and \$25 million to the City budget.

At the same time, we continue to face serious challenges in our community that require the focused attention of City Hall. As demand for housing outpaces supply, rents and home prices are pushed higher, creating housing pressures and increasing the overall cost of living in Portland. Addressing our housing and homelessness crises, along with providing adequate resources to public safety and critical infrastructure, will require hard choices.

Being good financial stewards requires us to make those choices now, in a year with a favorable forecast. Inevitably, the City will face a downturn and our jobs, as public servants, will be even more difficult, with disruptive, if not injurious, consequences.

Budget Guidance

This coming spring, I will propose a budget that will prioritize the urgent issues of today while making prudent shifts in programming that align spending with the core missions of each bureau. My budget will make measurable progress against our key priorities while ensuring that Portlanders are getting the most value and best service for the taxes, rates, and fees that we pay.

General Fund. To ensure that we can accommodate known costs and other emergent priorities, I am asking General Fund bureaus to submit 5.0% ongoing reduction proposals. Cutting our budgets is difficult because it means reducing or eliminating programs and services that people care about and that Council, at some point, directed your bureau to take on. What I am asking you to do with this reduction proposal is to give the Council a realistic look at what it will take to maintain the mission-critical programs of city bureaus while prioritizing investments in addressing the key challenges facing our community. I am confident that our bureau leadership will rise to the challenge.

Bureaus should submit reduction options that identify efficiencies, reduce or eliminate non-core services or services that do not scale well, eliminate City-imposed mandates that have not resulted in demonstrable benefits, and reduce indirect costs and administration that do not harm front-line services.

I direct all revenue generating programs to be held harmless from the requested reductions, but to demonstrate ongoing efficiency efforts and update return on investment calculations.

Voluntary Realignments. I am counting on all bureau directors, as stewards of public resources, to be partners in addressing our fiscal challenges as well as meeting the demands of our community. I expect bureaus to do a 'deep dive' into their base budgets and submit requested budgets that deliver an optimal mix of services – a mix that includes the highest priorities, new or old. To that end, bureaus should highlight as realignment packages areas where they are identifying efficiencies or shifting resources to better address changing priorities.

Ongoing Add Requests. While realignments allow bureaus to reprioritize services within their existing resources, ongoing requests allow Council to reprioritize services across the entire portfolio of City services. In an environment where new resources are limited and cuts are likely, I will only consider programs that are demonstrated to have a direct and measurable impact on the following key priorities:

- Increasing housing options and reducing homelessness;
- Maintaining the City's critical infrastructure;
- Enhancing livability;
- Increasing public safety and police accountability; and
- Continuing to pursue innovation and strengthening our resiliency posture.

In all cases, requests for new funding should represent a lower priority than the entirety of the bureau's realigned base budget.

One-Time Add Requests. Some amount of one-time General Fund resources may be available in the December forecast. Besides allocating half of the available one-time funding for major maintenance projects per City Financial Policy, I will look to use these one-time resources for the following priorities:

- Technology investments or investments in other operational efficiencies that reduce ongoing costs in the future;
- Projects or other one-time efforts that will increase General Fund revenues;
- Infrastructure investments that reduce future major maintenance needs; and
- Bridge funding for ongoing reductions.

Utilities

The utility bureaus – the Portland Water Bureau and the Bureau of Environmental Services – should adhere to the same guidelines as outlined above when developing their requested budgets and identify efficiencies and reductions to limit rate increases. The bureaus should work with the Portland Utility Board and Citizens' Utility Board of Oregon to develop prioritized reduction options for Budget Committee and Council consideration.

Office of Management & Finance Internal Services

OMF internal services – technology, fleet, risk management, printing and distribution, facilities – are critical to the delivery of front-line services to Portlanders. These internal services also represent significant costs to customer bureaus. For that reason, I am directing OMF to bring down rates by reducing bureau indirect charges and corporate charges. However, I am directing the CAO to propose changes which also prioritize the internal support necessary to ensure we can achieve our goals on the key priorities outlined above.

In addition to these reductions, OMF internal services may include in the requested budget add packages for new or enhanced service offerings that are broadly endorsed by the customer base. This endorsement should be given with the expectation that new costs will be absorbed within existing budgets or – for the General Fund components – be funded Citywide by reduction options offered by General Fund bureaus.

Finally, OMF's Requested Budget should include a list of all rates that are increasing by more than a percentage point above CPI, along with an explanation of the cost drivers.

Other Bureaus

Bureaus not covered by the preceding guidance should adhere to the same principles outlined above and look for efficiencies and reductions that will keep fees and rate increases as low as possible while delivering the established level of service to Portlanders. Any rates or fees that are requested to increase by more than the rate of inflation should be incorporated into decision packages.

Next Steps

As we await the December forecast, my office will provide additional guidance in the form of budget memos that will clarify the intent and process by which these priorities are implemented. I look forward to working with all of you as we craft the FY 2018-19 budget.