

CITY BUDGET OFFICE

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CITY OF PORTLAND, OREGON

Date: July 9, 2018

To: Mayor Ted Wheeler

From: Claudio Campuzano, Interim City Budget Director

RE: Budget Process Change

This memo is to confirm my understanding of the budget process changes you are exploring for FY 2019-20 budget development and to outline my recommended approach for achieving your stated objectives.

As I understand it, the key areas where you would like to make improvements are: a) having more robust priority setting and policy conversations with Council in the fall of each year to help focus the budget process, b) reorganizing community outreach around education about services more broadly and engagement in the trade-offs that are inevitably necessary across those services, and c) moving away from the decontextualized decision package approach that focuses exclusively on marginal decisions and toward a more contextual decision-making approach that looks at programs and priorities holistically.

Priority Setting

As discussed, in the version of the revised budget process that you outlined based in part on the consultant recommendations, the Chief Administrative Officer, as the convener of bureau directors, should facilitate Council's discussion of priorities and cross-cutting Citywide issues. CBO looks forward to partnering with the CAO to synthesize those discussions and, from them, formulate the key decisions that will be made by Council through the remainder of the process.

Budget Outreach

CBO has long been the entity responsible for structuring public involvement in the budget process. While we have successfully stewarded the status quo approach (i.e. BACs, budget forums, written testimony, and state law-required hearing), we have understood that that status quo does not meet the Council's needs with regard to gathering public input into Citywide priorities or feedback on proposed changes. CBO is a small office narrowly focused on budget and performance with little in the way of public engagement expertise. We look forward to working the Office of Community and Civic Life – as the City's outreach expertise – to structure more robust engagement that a) better meets Council's

needs, b) is well-synched with the process, and c) ultimately allows for meaningful impact on the decision-making. We can continue to be logistical and information support for these efforts; but we look forward to having a thought leader to help construct a more effective process.

Contextualized Decision-Making

While we are eager to work with the CAO and Civic Life in having better conversations, the greatest value that CBO can add in your effort to recraft the budget process is to ensure that we are structuring a timeline and developing materials that allow for well-informed discussion of trade-offs and that tee up key decisions.

Program Offers

It seems that the most critical component to your desired future state is to move the focus to 'program offers' and away from the relentless focus on decision packages. This shift would not materially change the outcome of the process – you and the rest of Council would continue to address priorities and trade-offs within the existing resource constraints. It would, however, change the nature of the conversation.

Under this approach, bureaus would build their budgets within a defined constraint (similar to Current Appropriation Level, or CAL, targets) through the lens of programs. These programs would represent the resources necessary to deliver specific services. Examples of such services might be Aquatics in Parks or Wastewater Treatment in BES or Street Preservation in PBOT.

The 'offers' would include, among other components, narrative on the desired outcomes, the delivery mechanism (i.e. how is the program structured and staffed), sources of revenue, and a discussion of performance. The offers would also include financial and performance data – historical and projected. Bureaus would be required – as they have been in the past – to rank their programs in priority order.

Fundamentally, a move to program offers would not be not a big change from a purely budgetary perspective. Bureaus already budget by service – there are roughly 450 services currently budgeted Citywide, including those mentioned as examples. The real challenges for bureaus will be a) ensuring that their current service budget is at a level sufficiently granular to allow for meaningful Council decision-making and b) developing the requisite narrative that meets Council's needs for understanding and making decisions regarding individual programs.

Concurrent with this process redesign, CBO is implementing new budget software. This is a great opportunity that should facilitate bureaus successfully adapting to the above changes.

Constraint Budgeting

The second key aspect of the process redesign that you have laid out is having bureaus work within a constraint to create their program offer budgets. Establishing constraints – and providing bureau management with the flexibility to build their program offer budgets within those constraints – is critical to removing the perennial uncertainty associated with the current process. Bureaus would build their program offer budgets with input from their advisory bodies, commissioners-in-charge, and other stakeholders.

Constraints in the General Fund have traditionally been expressed as CAL – often with some cut target. For rate- and fee-funded bureaus, the constraint could be expressed as a not-to-exceed increase to core rates.

Ideally, these constraints would be established as early as the adoption of the prior year's budget and no later than late summer prior to budget development.

Funding Priorities

Finally, it is my understanding that you are looking for a way to reliably create resources for you and the rest of Council to fund key priorities – particularly in the General Fund. The constraint approach outlined above could be structured to generate excess General Fund that could be used to fund enhanced or new programming.

Decision Making

The processes and mechanisms outlined above would accomplish and allow for the following:

- a) **Base Building.** The changes put the responsibility of meeting the established constraint largely with bureau directors through their program offers, but with sufficient lead time to do so in a thoughtful and intentional way.
- b) **Base Changes.** The changes would allow an opportunity for the Mayor and Commissioners to propose and approve changes to the details of those program offers as part of the budget process. CBO analysis of bureau budgets would ensure that all of Council is sufficiently supported in assessing program offers and making desired changes.
- c) **Enhancements.** The changes would put focus of the March work sessions on the discussion of funding specific priorities in the context of the available resources. The Mayor and Commissioners would put forward – or request to be developed by bureaus and/or CBO – what have traditionally been 'decision packages' in response to bureau presentations and the subsequent Council discussion.
- d) **Balancing.** The changes would focus the remainder of the process – the Mayor's Proposed, Budget Committee Approved, and City Council Adopted Budgets – on accommodating those funding priorities through the allocation of available ongoing General Fund (created through the established constraint or through natural General Fund growth) or through the use of one-time General Fund to bridge to the following year's constraint.

Additional CBO Recommendations for Successful Implementation

While the technical budgeting component would not change considerably under this approach, there would be a significant amount of change management at all levels of the City organization – especially since finance staff will be learning a new piece of software at the same time as this process change.

Change Management and the Initial Constraint

I recommend that, in order to smooth this transition, the Mayor's budget guidance for FY 2019-20 establish the constraint for General Fund bureaus as the Current Appropriation Level less the 1% efficiency requirement included in the FY 2018-19 budget. Absent any new off-cycle commitments made by Council or any significant downside in the forecast, this approach would allow bureaus a considerable

amount of stability as they adapt to the new process. It would also give Council the flexibility to fund new priorities with additional ongoing funds and one-time bridge funds.

Central Services and Overhead Functions

Appropriately sizing the City's internal service bureaus is a challenge under any circumstances. It will be even more so as we determine how to structure the constraints for these bureaus – particularly those funded with internal rates – and how to get customer input on program offers. I look forward to collaborating with the CAO and his staff as well as their bureau customers to work through the details on this challenging issue.

Bureau Administration Costs

Based on our past experience with a program-based approach and on feedback we've received from staff at Multnomah County who worked on their transition to program offers, the treatment of bureau administrative and indirect costs is challenging. Over the next several months we would need to work out the consistent guidance for and treatment of these costs.

Conclusion

Core to the City Budget Office's mission is to support the Mayor and Commissioners in constructing a budget that meets their priorities and deploys the public's resources as effectively as possible to achieve the greatest good. I am very excited to work with your office and the rest of Council, with the CAO and Civic Life director, and with my director colleagues in improving our Citywide decision-making process to achieve better outcomes.

Cc: Kristin Dennis, Office of the Mayor
Tom Rinehart, Chief Administrative Officer
Suk Rhee, Director, Office of Community and Civic Life