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Budget Memo #2
FY 2009-10

TO: Elected Officials, Bureau Directors, Budget Managers, and Budget Contacts

FROM: Andrew Scott, Interim Financial Planning Manager

DATE: December 5, 2008

SUBJECT: Detailed Guidance for the FY 2009-10 Budget Process

This budget memo follows up and elaborates on Budget Memo #1, dated October 17, 2008. In that memo, bureaus were directed to develop 2.5% and 5.0% reduction packages, with a focus on eliminating or reducing services and programs that are not core to the bureau mission or high community priorities. This memo provides more detail on the FY 2009-10 budget process.

Overall, bureaus are required to take the following steps as they develop their budget submissions:

1. Define bureau programs and services.
2. Rank those programs and services on two scales: core mission and community priority.
3. Develop cut packages of 2.5% and 5.0% by first looking for efficiencies and then using the above rankings to determine which programs and services should be reduced and/or eliminated.
4. Convene a bureau Budget Advisory Committee (BAC) made up of management, labor, and internal and external stakeholders that will review and comment on the bureau's efforts on each of the above steps.

A Citywide Budget Process Design Committee has met three times to discuss the details of the FY 2009-10 budget process. The committee, which is made up of selected bureau directors, labor leaders, Council executives, and outside stakeholders, has agreed upon the following guidance.

1. Bureau Program/Service Definition

Each City bureau has already submitted to FPD a draft list of their programs and services. FPD has reviewed these program lists and been working with bureaus where changes are necessary based on the following criteria:

- Programs are a set of activities and projects that seek to accomplish a common objective and can be tied to specific outputs/outcomes.
- Programs are something that bureaus will track over time (i.e., not a one-time expenditure).
- Programs should correspond with the bureau's SAP budget structure.
- In general, programs should be under \$3 million each. Some programs will be larger than \$3 million, but for large programs bureaus should evaluate whether the program information would be more useful for Council if it was broken into smaller pieces.

Administration and bureau overhead do not need to be listed as separate programs; these costs will be

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spread among each bureau's activities. The ultimate goal is to develop and maintain a consistent citywide definition of administrative and overhead costs, and FPD will issue additional guidance on the treatment of these costs by December 15th.

As part of the budget submission, bureaus will be asked to provide additional details about each program such as capital and operating budget, FTE, assets and infrastructure, program output measures, and SEA survey data (where applicable). FPD will also issue additional guidance regarding the required program information details by December 15th.

2. Program Ranking Process

As part of the budget submission (due February 2, 2009) bureaus will be required to rank all of their programs and services on two scales: core mission and community priority.

Core Mission. The first scale ranks each program and service against the bureau's core mission. Although in many cases all of a bureau's activities could be considered core activities, in this forced ranking exercise each program must be ranked sequentially in terms of "most core" to "least core" service. The intent of this ranking is to provide Council with information as to which services and programs are central to the bureau's mission, and which might be considered peripheral or less important in completing the central mission of the bureau.

Bureaus should take into account their bureau mission, goals, and values when completing this ranking. In addition, bureaus should consider City Charter as well as state and federal mandates. Bureaus should not consider a program or service's funding source when completing the core mission rankings. All services should be ranked on the same criteria whether they are General Fund supported, one-time funded, paid for through rates, or completely self-funded.

Community Priority. The second scale ranks programs and services against community priorities. An initial concept that was discussed by the Budget Process Design Committee was to rank programs based on economic, social, and environmental sustainability criteria. However, after some initial feedback it was decided that the concept needed additional development. Instead, bureaus should rank their programs and services in terms of overall utilization/popularity. Since this is a more subjective ranking, bureaus have significant latitude in terms of how they define these measures. Bureaus should use the information that they currently have available such as participation rates, customer feedback surveys, previous public surveys, VisionPDX, or the annual Service, Efforts, and Accomplishments survey. Bureaus that do not provide front-line services to the public should focus on customer feedback surveys.

Bureau BACs will be an important sounding board to ensure that each bureau has taken into account the utilization and popularity of each program or service. Bureaus will need to document in their budget submissions the criteria and source data that were used in the community priority ranking.

Both of these rankings should guide the bureau in the development of cut packages. Those programs or services that rank towards the bottom of both scales should be the ones that are identified first for reduction or elimination; those that rank high on both scales should be protected from cuts. The City Council has expressed a desire to avoid "across-the-board" reductions, instead focusing the reductions on those programs that are least core to a bureau's mission and the lowest community priority.

3. Bureau Reductions

As previously communicated in Budget Memo #1, all bureaus should be developing cut packages of 2.5% and 5.0%. For bureaus that receive General Fund revenues, the Current Allocation Level (CAL) targets have been loaded into BRASS and the cut targets were sent November 20th. Non-General Fund bureaus should work with their FPD analyst to agree on cut targets of at least 2.5% and 5.0%. Some bureaus may need to take larger cuts if their projections of external revenues show a sharp decline in FY 2009-10. In general, non-General Fund bureaus may exclude direct debt service payments and capital projects from their base operational budget upon which their cuts will be based.

At this point, bureaus should take funding source into account when determining which programs or services to cut, since General Fund bureaus will need to cut General Fund expenses in order to hit their targets. In addition, bureaus may choose to preserve programs that are completely self-sustaining, even if they are not core to a bureau's mission or a high community priority.

4. Other Decision Packages

In addition to the mandatory cut packages, bureaus have the option of submitting four other types of decision packages: efficiency packages, realignments, revenue enhancements, and one-time requests.

Efficiency packages are decision packages that result in savings in a program or service but do not significantly impact service delivery. For instance, if a bureau determines that it can do the same job with one less staff person, they should submit that reduction as an efficiency package. These packages are not limited to those programs and services that ranked towards the bottom of each list.

Realignment packages are decision packages that reorganize a bureau program or division. These do not necessarily need to result in immediate savings, they may just result in increased efficiency or savings in future years.

Revenue Enhancements are decision packages that increase existing revenues or propose new revenues to fund existing programs or services. Bureaus will receive credit towards their 2.5% and 5.0% cut targets for revenue enhancements. However, bureaus that submit revenue packages must also submit "mirror" cut packages for Council consideration. In other words, if a bureau submits a revenue package equal to 1.0% of their operating budget, they must also submit a cut package of the same amount. The cut package will only move forward if Council decides not to support the revenue enhancement. Bureaus should also work with their FPD analysts on their revenue estimates before submission.

One-time funding requests will be limited to capital projects and those items that are listed as "shadow obligations" from the FY 2008-09 process (see attached, column 2). At this time, there is approximately \$2.5 million in one-time funding expected for FY 2009-10, so very few bureau requests will be funded. As noted above, bureaus will be ranking one-time funded services and programs along with all of their other activities. Therefore, any one-time activity that ranks high should be funded out of existing ongoing funding and replaced with a lower bureau priority. For example, if a bureau has a \$100,000 position on the shadow obligations list and determines the position is core to the bureau's mission, that position should be funded in the bureau's base budget. The bureau will be allowed to submit a one-time funding request in the same amount for a lower priority activity.

Other bureau add packages will not be considered as part of the FY 2009-10 budget process.

5. Bureau Budget Advisory Committee (BACs)

As noted in Budget Memo #1, all bureaus are required to convene a BAC for the FY 2009-10 budget process. The committee should consist of bureau management, labor representatives, and internal and external customers. In addition, bureaus should invite their FPD analysts to their BAC meetings. If a bureau already has a similar committee, it may be used as the bureau's BAC. For instance, many bureaus have a Labor Management Committee in place, and they can temporarily add internal and external customers in order to use it as a BAC.

Each bureau BAC should review and comment on each of the tasks listed in this memo, including each bureau's list of programs and services, its ranking of those programs and services, and the budget reduction packages. As part of their budget submissions, bureau BACs will need to submit a brief written report noting that they have completed the above tasks as well as any comments that the BAC has on the bureau's overall budget.

6. Timeline

On November 26th, Council approved a resolution adopting the budget calendar for FY 2009-10. Attached is the relevant exhibit that lays out the major dates, as follows:

- **Feb. 2:** **All budget materials submitted to Financial Planning, including five-year financial plans and CIPs. Early submittals of all or parts of your required materials are always welcome.**
- March 6: FPD analyst reviews due.
- March 9-27: Council review of bureau budgets, including PDC (detailed schedule under development).
- April 28: Mayor's Proposed Budget decisions announced.
- May 20: Council convenes as Budget Committee to receive Mayor's Proposed Budget.
- May 27: Budget Committee approves budget; FPD submits the "change memo" to TSCC the next day.
- June 17: TSCC hearing.
- June 18: Council adopts budget.

Public outreach is scheduled for February 18-28, with a public hearing on May 21st. Details of the public outreach will be forthcoming. The budget schedule is posted on the Electronic Budget Center.

This year's budget will be difficult as the City makes significant reductions in order to address the revenue shortfall caused by the economic downturn. It is likely that a number of specific questions will arise that are not answered in this memo. In general, bureaus should address those issues in a way that provides additional information and transparency to both Council and the public and facilitates the ultimate decision process.

I look forward to working with each of you as we craft the FY 2009-10 budget. Please feel free to contact me or your FPD analyst with any questions about the upcoming process.