



CITY OF PORTLAND

OFFICE OF MANAGEMENT AND FINANCE

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**OMF Funding Methodology Review
Joint OMF Advisory/ Stakeholder Workgroup
Tuesday, July 11, 2017**

OMF Advisory Committee Members: Amy Bowles, PTE 17; Lois Cohen, Public Member; Rebecca Esau, BDS; Mike Greenfield, Public Member; Julian Massenburg, OMF; Ernest Stephens, Public Member.

Stakeholder Workgroup: Jonas Biery, BES; Jay Guo, Fire; Crystine Jividen, City Attorney's Office; Jeramy Patton, PBOT; Catherine Reiland, Police; Larry Nelson, OMF BHR; Shelli Tompkins, OMF BRFS;

OMF Leadership: Jeff Baer, BTS; Jane Braaten, OMF; Anna Kanwit, BHR; Tom Reinhart, OMF; Ken Rust, BRFS.

Project Staff: Linda Lewis, Facilitator, Framework LLC; Aaron Rivera, OMF.

Subject Matter Experts: Katie Shifley, CBO; Larry Pelatt, BRFS.

This was the second meeting with the two project stakeholder groups. We reviewed preliminary findings, desired outcomes for any solution, and discussed possible funding strategies. Following is a summary of comments, by meeting topic:

Comments on findings

- Many City functions are funded using General Fund overhead. There is a misconception that OMF is the primary recipient of overhead funds.
- There is confusion about the difference between base services (funded through overhead) and additional services that are purchased through Interagency Agreements.
- Our discussions may be missing a key point. Internal services should be adequately funded to meet City needs and reflect City priorities. Desired service levels and measures of success should be established by the Council, and funded accordingly. Internal services should be "right sized" as part of this exercise to change funding mechanisms.

Comments on desired outcomes

- Bureaus need the ability to better manage resources from year to year. The current budget process is annual. Bureaus need information to help them plan and budget for longer-term events (for example, increases in the CIP budget.)
- Our solutions should be adaptable to growth, changes in demand. This includes the ability to respond to, and manage, spikes in demand.
- Meeting attendees indicated that the following outcomes were most important to them:
 - Adaptable to growth, changes in demand.
 - Resource predictability
 - Performance-driven
- Ease of administration is important for some (including OMF) but less important to other bureaus. Solutions that distribute costs more accurately or precisely may be more difficult to administer. We will need to

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consider the tradeoff between precision and cost. Some suggested that lack of precision in the methodology can be offset by improving visibility to methods and costs.

- Providing an adequate base of services should be part of the desired outcomes. As noted earlier, internal services should be “right sized” as part of the exercise to change funding mechanisms. This outcome could be included as part of the “performance-driven” group.
- The “performance-driven” outcome should also include a statement that parties should know whether performance has been achieved or met.
- Better communication and planning is extremely important. Council should be fully informed about budget and service-related agreements made between bureaus. Communication must be broader than between “budget types” and should include bureau management. It is difficult for bureaus to describe service needs, requirements because they do not always understand how services and related costs are calculated.
- Council needs to understand the investments that are required to provide a basic level of services.
- This project could benefit from use of a Six Sigma/Kaizen process. Six Sigma balances money, time and quality, and links desired project outcomes with specific measures of performance. The continuous improvement process used in Six Sigma would also be useful here.

Comments on possible strategies

We reviewed and discussed some of the possible strategies that could be considered. (These were offered for discussion only, and have not been fully evaluated.) Some comments from attendees:

Adjust CAL Target

- This strategy requires a “right sizing” exercise, to make sure that basic services are defined, described, and funded.
- Other entities in the City (Parks, for example) use something like this.

Allow Carry-Forward

- General Fund bureaus would like to have this available by default.
- The slide suggests that programmatic carry-forward would not directly impact bureaus, but there is an impact. Bureaus receive any General Fund savings in the true-up process each year. Savings are currently refunded to bureaus; General Fund bureaus may not see this.
- Carry-forward would also impact the General Fund Capital Set Aside.
- Private sector firms often create incentives for internal services units. (For example, savings realized or performance achieved are rewarded with the ability to keep funds.)
- Carry-forward would be an extremely important tool to aid with contingency planning, management.

Improve Budget Decision Support

- Improvements to decision packages could be useful if they applied City-wide. Otherwise, things won't change much.
- Better decision packages could result from better communication between bureaus and with Council.
- Decision packages are useful once basic service levels are defined and “right sized”. If done correctly, they become a tool for prioritizing services.
- We will still need to address what happens when there are contractions in General Fund revenues but growth or increases in Enterprise Funds.

Create Internal Services Funds

- In 2004-2005 Procurement was an internal service fund. We've already tried this.
- Revenues may contract, reducing available resources.
- There is no guarantee that funds will be granted position or expenditure authority, even if money is available.
- This strategy might work if Procurement and BHR were "right-sized" first.

Increase Use of Interagency Agreements (IAs)

- A small proportion (5%) of Procurement Services and BHR revenues are from Interagency Agreements. But, these tend to cause the most problems.
- Interagency Agreements could be made more performance-based, and used in conjunction with other strategies.

Define Base Level Service

- This strategy is important to the success of most, if not all, of the others.

Change Service Delivery Model

- Those bureaus who have money can already buy an out stationed FTE position.
- The BHR centralized service delivery model may not be right for us anymore, but any changes to it should be driven by HR best practices and not by budget or this project.
- Once a base level of services is clearly defined, this could be part of the discussion.

Next steps

- Stakeholder Workgroup meets on 7/25 and 8/15 to develop and evaluate options.
- Joint OMF Advisory Committee/Stakeholder Workgroup meets on 8/29 to review and comment on recommendations.