

# CITY BUDGET OFFICE

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## CITY OF PORTLAND, OREGON

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**TO:** Mayor Charlie Hales  
Commissioner Nick Fish  
Commissioner Amanda Fritz  
Commissioner Steve Novick  
Commissioner Dan Saltzman  
Auditor LaVonne Griffin-Valade

**FROM:** Andrew Scott  
City Budget Director

**DATE:** March 12, 2013

**SUBJECT:** **City Budget Office FY 2013-14 Budget Reviews**

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Attached are the City Budget Office (CBO) reviews of the FY 2013-14 requested bureau budgets. These reviews analyze and highlight the budgetary issues that CBO believes Council should consider as we move forward through the budget process. The reviews are structured to address key issues first, followed by a detailed discussion of the bureau's decision packages.

### **Forecast**

The December five-year forecast projected that the City would need to make ongoing reductions of \$25 million in FY 2013-14 (roughly 6.5% of General Fund discretionary spending), and that no one-time resources would be available. Bureaus were asked to use a modified zero-based budgeting approach and submit requested budgets at 90% of their FY 2013-14 General Fund discretionary targets. Bureaus then were allowed to request the 10% as programmatic add-backs. Even though no one-time funding is forecast for next fiscal year, bureaus that received one-time funding in FY 2012-13 for ongoing programs were allowed to request continuation of that funding so that Council could prioritize those programs against other City add-backs.

### **CBO Recommendations**

In total, bureaus requested \$42.8 million in add-backs, including the one-time funded programs. As of the December forecast, there is only \$11.7 million available for add-backs.

The CBO has made a series of recommendations in these reviews that, in total, would produce the necessary \$25 million in ongoing reductions to balance the City's budget. We encourage you to read the full reviews to understand the context for each particular recommendation.

The Mayor sent out a list of his budget priorities in January, and asked bureaus to focus on these priorities as they develop their requested budgets:

- Focus on core City services
- Minimize administration and overhead
- Protect public safety
- Enhance intergovernmental collaboration
- Support economic development
- Enhance the City's performance management.

In addition to these priorities, CBO uses 12 criteria in our review process based on the City's financial policies (see attached list). Overall, most of the \$11.7 million in recommended add-backs go to Police, Fire, and BOEC given the critical nature of the work they perform. However, even though these bureaus receive the bulk of the add-backs, there is still not enough funding to prevent large cuts in public safety services: the closing of four fire stations, the elimination of 61 sworn and 27 non-sworn positions in the Police Bureau, and only enough funding in BOEC to meet the bureau's minimum staffing requirements. A small amount of funding was recommended for Housing, Parks, and Development Services, and over \$250,000 was added to the \$1.4 million already budgeted for General Fund contingency.

### **Other Areas for Consideration**

The exercise that we went through to allocate the \$11.7 million shows how difficult the FY 2013-14 budget will be. As we have discussed throughout the budget process, there are four primary means of balancing a municipal budget:

- Cuts to City programs and services
- Citywide cost-savings in areas such as personnel or contracting
- Citywide efficiencies and process changes
- Additional revenue

The current set of CBO recommendations deal only with the first category of program and service reductions. In some of the bureau reviews we refer to efficiencies, process changes, or new revenues specific to that bureau, but in most cases we made recommendations on the packages that bureaus presented for consideration. The CBO recommends that the Mayor and Council seriously consider other savings options in order to mitigate the overall programmatic cuts. The Mayor and Council also might identify additional cuts or efficiencies within the bureaus' 90% base budgets. The topical subcommittees that Council will be involved in during March should provide an opportunity to explore some of these options.

- **City of Portland/Multnomah County collaboration.** The Mayor is working with Multnomah County to review areas of overlap in services provided by both the City and the County. In addition, once the City determines the reductions that are needed in order to balance our budget, it is possible that the County may have capacity to pick up some of those programs that are consistent with the County's mission.

- **Review of ongoing Special Appropriations.** There are \$5.6 million in ongoing Special Appropriations at the 90% level. CBO does not recommend any of the 10% add-backs for these programs. In addition, we believe there may be potential for cutting more deeply in some non-core areas.
- **Personnel Savings.** The Mayor and Council are in active contract negotiations with our labor partners, and thus we are not making recommendations on ideas that are currently under discussion. But in the General Fund, personnel services make up 62% of the FY 2012-13 Revised Budget. Personnel services expenditures also have grown 14% since FY 2007-08 in spite of the recession. To the degree that the City is able to restrain the growth in personnel costs – either through labor negotiations, reductions in overtime spending, organizational restructuring, or statewide PERS reform – it will reduce the overall deficit and allow for smaller programmatic reductions.
- **New Revenue.** Sources of new revenue are difficult to identify and usually unpopular. The budget office would be happy to assist council in analyzing and forecasting all revenue ideas.

## **Conclusion**

The CBO recommendations are intended to provide a starting framework for Mayor and Council deliberations on the budget. The recommendations are not intended to represent a draft budget, as they do not take into account the additional mechanisms that the Mayor and Council have to balance the budget, as noted above.

There is still important information that will come out during the public budget forums, Council budget work sessions, and further discussions with bureau management and our labor partners. CBO also will issue an updated, final FY 2013-14 forecast in April. We look forward to working with you as you craft the Mayor's Proposed and Council Approved budgets over the next three months.

Please do not hesitate to contact me with any questions.

## **FPD Comprehensive Financial Management Policies: Top 12 Criteria for budget review and analysis**

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- 1. Support essential city services** - *FIN 2.02; ORS 221 Cost Sharing for Cities; City Council's Goals for the City of Portland – FY 2011-12 Adopted Budget*
- 2. Maintain and protect City's infrastructure** (existing assets given priority over acquisition of new assets) - *FIN 2.02 and 2.03*
- 3. Identify future maintenance needs and operating costs** – *FIN 2.03*
- 4. Maintain and enhance City's credit ratings** - *FIN 2.02 and 2.12*
- 5. Maintain financial stability** (avoid unexpected future costs and material cost variances) - *FIN 2.02*
- 6. Promote fiscal sustainability** (revenue source maximization and diversification) - *FIN 2.06*
- 7. Avoid one-time resources to fund ongoing programs** (including grant funding) - *FIN 2.04 and 2.06*
- 8. Support long term city needs** – *FIN 2.04*
- 9. Utilize conservative revenue projections**– *FIN 2.03 and 2.06*
- 10. Evaluate fully loaded costs** (e.g. direct costs, bureau overhead, GF overhead, loss of interest, depreciation). - *FIN 2.03 and FIN 2.08*
- 11. Leverage other funding sources** (efficient and effective coordination with other public and private service providers) - *FIN 2.04 and 2.06*
- 12. Support City's equity goals** - *Portland Plan Proposed Draft*