

BUDGETING BY PRIORITIES PROCESS OVERVIEW

2011-2012 OPERATING BUDGET

CITY OF REDMOND

Why Budgeting
by Priorities?

Redmond is a unique city that has attracted significant worldwide businesses such as Microsoft, Nintendo, Honeywell and Medtronic (Physio Control). As a result, the City is the third largest employment center in King County with a business population of just over 90,000 and a residential population of approximately 53,680.

A process that is:
Transparent

Open

Citizen Priority Based

Approved by Council

Challenged to provide a variety of services to a wide range of customers, the City opted to change its traditional budget methods in 2008. It implemented an innovative approach to budgeting that fulfills the promise Mayor John Marchione made upon his election to office: “a transparent and open budget that is based on priorities developed with citizen input and approved by the Redmond City Council.” Mayor Marchione had five objectives for the Budgeting by Priorities (BP) process:

Objectives of BP

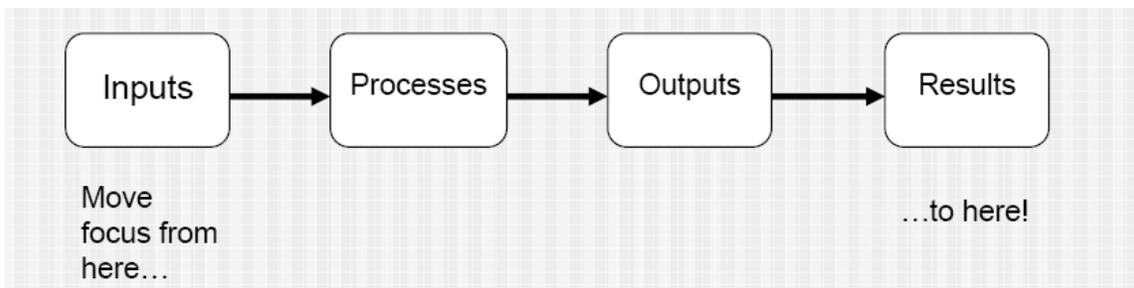
- Align the budget with citizen priorities
- Measure progress towards priorities
- Get the best value for each tax dollar
- Foster continuous learning in the City
- Build regional cooperation

Proven Process

Starts with Citizen
Priorities

Different from
Traditional Budgets

To move this vision forward, the City selected the BP process. BP was chosen because it focuses budget decisions on citizen priorities. This is in contrast to the traditional method of budgeting which adds a certain percentage to last year’s budget without assessing if the services result in the outcomes citizens expect. The starting point of the BP process is identifying the intended result of city services toward priorities developed through citizen interaction.



Review of the BP process

Review Conducted by GFOA

Long-Term Timeline Recommended

Council will Review and Adopt Long-Term Timeline in Early 2011

Example Suggestions

Improve Financial System Tools

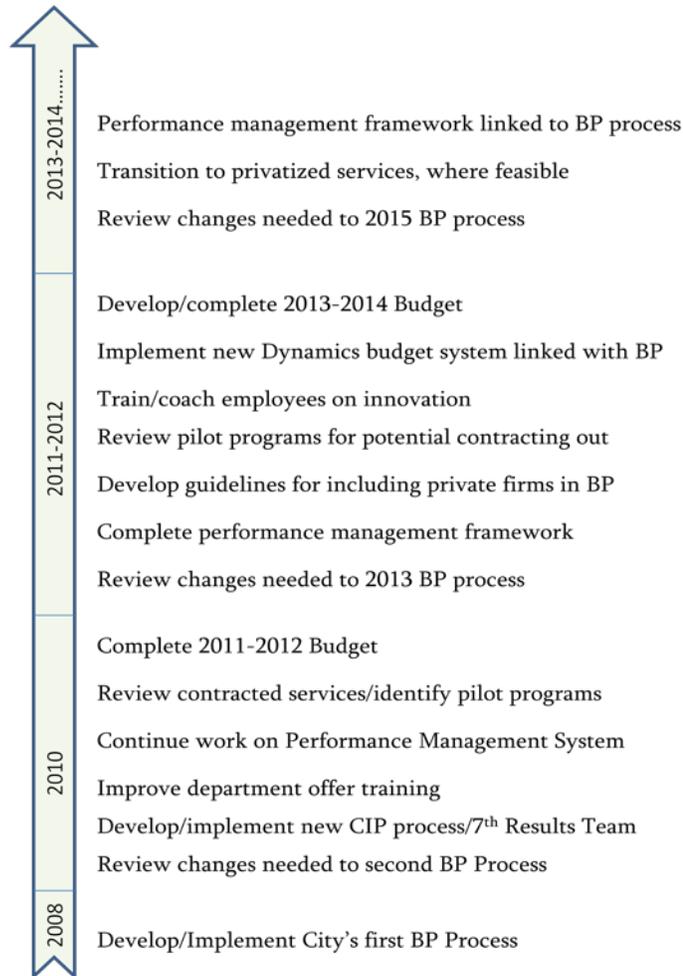
Begin Work on Outsourcing

Refine Performance Measures

Early in 2010 the City undertook a thorough review of the 2008 BP process. This review was conducted by the Government Finance Officers Association (GFOA) Research and Consulting Center. While the review affirmed that the 2008 BP process was a significant success, it did offer several suggestions for improvements in the future.

One of the key recommendations of the GFOA’s review was the development of a long-term strategy to continue to build out additional elements of BP over time. The draft timeline below was included as an element of the GFOA report. The City Council concurred with this recommendation and will be working to review and adopt a long-term BP strategy in early 2011. For now, this draft strategy helps the City to consider subsequent elements that will enhance the BP process in the future.

Timeline for Budgeting By Priorities Process



**Redmond's
BP Process**

Community Focus
Groups

To start the BP process in 2008 an independent firm held four (4) focus groups with Redmond residents to determine citizen priorities. The citizens were chosen at random based on gender, age, and location (east or west of Redmond Way). Following the focus group discussions the City held a community workshop where citizens and business owners were invited to give further input and comment on the focus groups' identified priorities.

Six Priorities were
Identified

Based on all this input, the Council approved the following six (6) priorities on March 4, 2008¹:

- **BUSINESS COMMUNITY**
I want a diverse and vibrant range of businesses and services in Redmond
- **CLEAN & GREEN ENVIRONMENT**
I want to live, learn, work, and play in a clean and green environment
- **COMMUNITY BUILDING**
I want a sense of community and connections with others
- **INFRASTRUCTURE & GROWTH**
I want a well-maintained city whose transportation and other infrastructure keeps pace with growth
- **SAFETY**
I want to be safe where I live, work, and play
- **RESPONSIBLE GOVERNMENT**
I want a city government that is responsible and responsive to its residents and businesses

Advisory
Committees

Once the six priorities were determined, the Mayor created several teams to guide the process:

BP Project Team

Project Team – Headed by the Mayor, included executive staff and the Financial Planning Manager to assist the Results Teams and guide the overall process

¹ The focus groups also identified education as a priority. However, because education in Redmond is the responsibility of the Lake Washington School District, the Council chose not to allocate limited resources to a priority over which it had no jurisdiction. Although, educational components are included in several of the six priorities approved by Council.

Results Teams | **Results Teams** – Six (6) Results Team groups were created and each group was assigned a priority. For the 2010 process, a seventh Result Team was created. This team focused exclusively on the **Capital Investment Strategy**. See more about this seventh Result Team later in this section.

Requests for Offers (RFOs) | The teams were made up of five (5) employees from cross-department disciplines and one (1) citizen. The role of the Results Teams was to fashion *Requests for Offers (RFOs)* based on the priority approved by Council. To ensure that citizen input was incorporated into the offers, all the data gathered from the focus groups and community workshops was made available to the Results Teams.

RFO Process | **REQUESTS FOR OFFERS**
Each Results Team designed “Requests for Offers” (RFOs) that related to its specific priority by identifying factors and sub-factors that contributed to that priority and developed purchasing strategies that answered the following questions:

- Where should the City focus its efforts and resources?
- Where can the City have the most impact?
- Where should Redmond influence others?
- Are there generic strategies that apply to all offers?

The Results Teams invited all departments to bid on the RFOs and respond to specific purchasing strategies with the understanding that department offers would be ranked by the Results Teams upon completion using the factors in the RFOs as criteria.

All City Funds Included | All funds were included in budget offers: General Fund, Capital Improvement Program (CIP), Utilities, and Special Revenue Funds. Therefore all city services received the same level of scrutiny no matter the funding source.

Offer Process | **OFFERS**
An offer is a proposal by a department in response to an RFO that indicates how the offer will meet the priority, how much it will cost, and how the success of the offer will be measured. An offer is a program or set of programs that helps achieve a priority.

Budget Request Process	Offers can be for an existing service or program, new programs or activities or improvements/changes to existing programs. Innovation was encouraged in all offers and collaboration between departments was emphasized in the RFOs.
All Budget Requests are Submitted as Offers	In the BP process, each department must make an offer to provide a service that relates to results (a priority that is citizen driven). Each offer must describe the following:
Offers to Include Consistent Data	<ul style="list-style-type: none"> • What are we doing? • Why are we doing it? • How are we doing it? • Measurements to track performance for each program • How can the offer be scaled – either up or down
Offers Submitted by Priority	<p>OFFER SUBMITTALS</p> <p>Department directors and their budget teams submitted offers based on the priorities that related to their departments. No outside competing offers were accepted in this BP process, but departments were encouraged to collaborate where possible to combine services if it was in the best interest of the City. Each offer needed to contain the following information:</p>
Contents of the Offer	<ul style="list-style-type: none"> • Description of the Offer – Simple, accurate, succinct, and complete • Performance Measures – Describe short and long term benefits; consequences if not funded, and measures to gauge the identified outcomes • Scalability – Scalable, provide logic and evidence to support various funding levels • Customer Service – Identify who the customer is and how the offer meets customer needs • Revenue Sources – Identify revenue support
City Staff Used an “Online” Tool Designed to Capture the Needed Information	<p>DASHBOARD INDICATORS</p> <p>In conjunction with the performance measures developed for each offer, the Mayor and Council created key indicators to measure the City’s progress toward the priorities. The indicators are high level and are not meant as individualized measures of performance, but rather intended to give elected officials and the community a big picture gauge of how well the City meets the goals of the priorities. After review by the City Council and the Budgeting by Priorities teams, the initial Dashboard Indicators were finalized for each priority.</p>

2010 Dashboard
Indicators for Each
Priority

The performance measures by priority form the “Dashboard”. The initial dashboard measures from the 2008 BP process have been updated by the Results Teams in 2010. However, the Dashboard remains a work in progress.

For 2011 / 2012 budget the Council Public Administration and Finance Committee will work to finalize the City of Redmond Dashboard.

The final dashboard will be used to develop an accountability report to be made available on the City’s web site.

Business Community:

- The number and percentage of businesses by category
- Citizens and employees of businesses within the City of Redmond satisfied with the range of businesses and services available in Redmond
- Number of businesses that have held a City of Redmond business license over seven (7) years

Clean & Green Environment:

- Percentage of neighborhoods with convenient access to parks and trails
- Percentage of streams with a Benthic Index of Biotic Integrity (B-BI) of 35 or better
- Tonnage of garbage per capita that goes to landfill

Safety:

- Crime Index: Number of Part 1 (crimes against persons) and selected property crimes (auto theft, auto prowl, and identity theft)
- The percentage of times the Redmond Police, Fire and Emergency Medical Services meet targets in managing calls for service by providing a safe response with the right people and necessary equipment in the appropriate amount of time
- Number of residents engaged in activities related to public safety

Community Building:

- Level of participation of Redmond residents volunteering within the community
- Percentage of Redmond residents reporting they feel informed about community events, programs, volunteer opportunities and issues
- Percentage of citizens who report they feel a sense of community and connection

Responsible Government:

- Percent of community responding positively to specific City-provided services
- Percentage of policy benchmarks included in the City’s fiscal policy that are met and significantly contribute to the maintenance of an excellent credit rating
- Number of programs or projects that seek and/or obtain relevant funding contributions from outside sources

Infrastructure & Growth:

- Number of triaged and successfully completed scheduled maintenance tasks, a reduction in unexpected work orders and mitigation of emergency responses in a timely manner
- Ratio of residential-to-employment populations
- Percent completion of 20-year functional plans relative to percent of 20-year growth targets achieved

Capital Investment Strategy

2008

Capital Investment Strategy

One of the observations from the first BP process in 2008 was that a different approach was necessary for the Capital Improvements Plan (CIP) as contrasted to the operating budget. In 2008 the six Results Teams had CIP offers to review along with the operating budget offers. The operating budget is for a period of two years while the CIP covers a six year term. Also, the source of funds for the CIP is more complex than that for the operating budget. For the 2010 process, the City made changes with the intent of improving the results for our capital plan.

2010 Changes

In 2010, an additional Results Team was established – the Capital Investment Strategy Results Team. This team was charged with developing additional criteria for the Results Maps for the six priorities (there was not an additional priority but rather just an additional Results Team). If an offer was intended as part of the CIP, it was passed through the priority Results Team to which the offer was submitted along to the Capital Results Team. The Capital Results Team reviewed the offer in the context of:

Additional Criteria
for Capital
Improvement Offers

- RFO criteria of the priority which it was originally submitted
- Additional criteria of the CIP
- Comprehensive Plan
- Vision for support of development in the urban centers
- Additional funding constraints applicable to capital projects

As a result, the Capital Results Team also ranked offers submitted as part of the Budgeting by Priorities process. For an overview of the City's Capital Improvement Program, please see the CIP section of this document.

Ranking the Offers

RANKING THE OFFERS

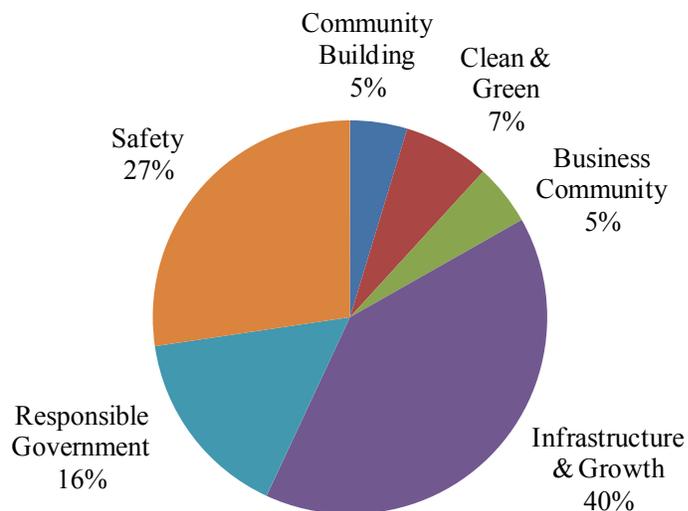
When the offers were first submitted the Results Teams met with the departments to seek clarity on issues and then critiqued and ranked the offers. During the first round of offer ranking, the Results Teams did not have funding allocations, nor were decisions based on mandates. The first round was used to give departments feedback on the content of their offer as well as a sense of where their programs would rank. It also gave the Results Teams some time to learn and understand their role in the process. Departments were then given the opportunity to improve their offers and make adjustments based on advice from the Results Teams. The second and final rankings were carried out with estimated funding allocations and attention was paid to those programs that were legally or contractually mandated.

Recommendation for Funding from Results Team by Priority

Allocations Provided by the Mayor to the Results Teams based on Past Experience and Interest in Reducing “Responsible Government” Element

Mayor’s Efforts to Develop the Adopted Budget

Recommendation for Funding Operations Results Team by Priority



RECOMMENDED BUDGET – ADOPTED BUDGET

In mid-August 2010, the Mayor received the Results Teams rankings, with suggested funding levels for the various offers. The Mayor met with all the Results Teams for their insights into the process and to understand how they arrived at their conclusions. With this information the Mayor led several conversations with department directors to fine-tune the offers and allocations.

Department
Directors Team
Involved

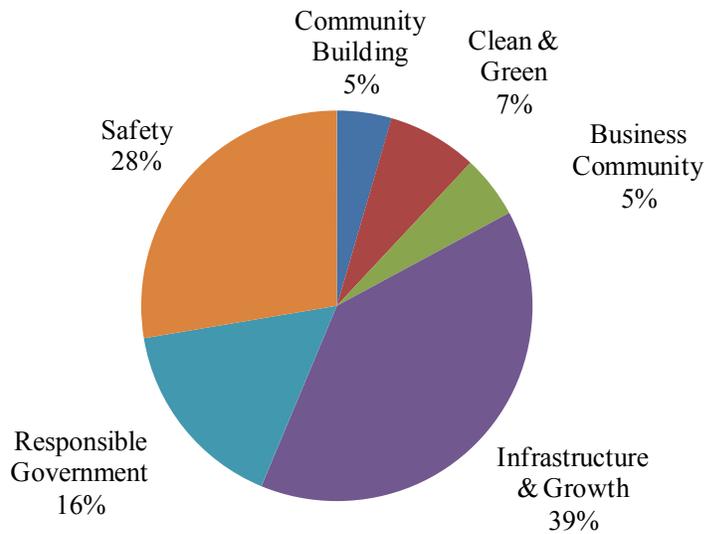
The Mayor worked for several weeks with the Directors Team to review the recommendations of the Results Teams and make adjustments to address revenue constraints and other needed adjustments.

Final Decisions
Developed

When the final revenue estimates for the 2011-2012 Budget became available in September the Mayor finalized the decisions necessary to present Council a budget that is structurally balanced, responds to the priorities recommended by citizens and approved by Council, as well as reflects the recommendations of the Results Teams.

Funding by Priority
in Adopted Budget

Funding of Operations by Priority in the Adopted Budget



SUMMARY

The Mayor's vision for the BP process has resulted in more than just a budget. The inclusion of the community in outlining the priorities and the creation of Results Teams to craft Requests for Offers has expanded the budget process to include many staff, as well as citizens who never had the opportunity to be engaged in their community or its government in this manner. Creating interdepartmental teams with a citizen on each allowed staff to better understand what other departments accomplish, while gaining citizen perspective on how the services are viewed by the public. City staff are included in the budget process to a much larger extent than in the past; those who were not directly involved meet with the Mayor regularly to ask questions and gain information.

**Contracted Services
and Outsourcing**

At the conclusion of the 2008 BP process the City Council asked staff to investigate the benefits of adding an “outsourcing” element to BP. Other jurisdictions using this budget model have found opportunities to improve service delivery value to the community through the contracting out of some services currently provided by the City.

GFOA Review

City staff asked that the GFOA include this direction by Council in their review of the BP process (discussed earlier in this section). The GFOA has extensive experience in both BP (which they refer to as Budgeting for Outcomes or BFO) and assisting governments who are considering outsourcing some services. The GFOA had the following observations and recommendations:

Recommendations
for Success with
Outsourcing

- Consistent with BFO approach – competitive offers help to improve results, hold down costs
- Outsourcing requires considerable planning to address resources and issues
- Several issues to consider:
 - “Level playing field” (for example, insurance requirements, indemnification, procurement requirements, costs of contract administration and monitoring)
 - Social policies incorporated into purchasing requirements (for example: living wage, working conditions, fair treatment)
 - Intangibles – if it isn’t in the contract it won’t be done; accessibility for changes to service, etc.
 - Many services require long-term contracts for savings (due to start-up costs)

Inventory of Current
Outsourcing Efforts

With this input from the GFOA report, staff determined to initiate an outsourcing effort by first developing an inventory of those services which include outsourcing today. Such an inventory is listed below. In addition to this inventory, those services where the City “in-sources” (provides services to other local governments) are also included.

Outsourcing
Inventory

The City currently outsources a variety of services as shown on the next page.

In-Sourcing

Public Safety

- Marine patrol services
- Jail services
- Fire dispatch services
- Hose and ladder testing
- Park security patrols
- Downtown parking enforcement
- Legal services

Repairs and Maintenance

- Technology hardware and software maintenance, including telephone systems
- Disaster recovery storage
- Landscape and irrigation maintenance
- Arboricultural services (tree removal and pruning around power lines)
- Pest control
- Insurance claims administration

Community Services

- Tourism marketing
- R-Trip commute management system
- Human services
- Public defender
- Hearing Examiner

Employee Services

- Training and organizational development
- Workers' compensation professional services and claims administration
- Actuarial services
- Health management administration

The City also provides services to other jurisdictions, including:

- Police dispatch to the Cities of Carnation and Duvall
- Crime analysis for the Cities of Bellevue and Kirkland
- Fire apparatus repair and maintenance to the Cities of Mercer Island and Bothell
- Fire suppression services to Fire District #34
- King County Advanced Life Support (ALS) services

Next Steps

The next steps include identification of pilot projects where the likelihood of success through outsourcing is highest. While not included as an element of this BP process, the City will pursue outsourcing through these pilot projects with the advice and guidance of the GFOA in mind.

BUDGET CALENDAR
2011-2012 BIENNIAL BUDGET
CITY OF REDMOND

TASK	2010 DATE
Budgeting by Priorities Briefing to City Council	February 23
Community Meeting #1	March 1
Request for Offers Development by Results Teams	March 1 - April 9
Council Briefing on Request for Offers (PAF Committee)	April 15
Community Meeting #2	May 3
Department Submit First Round of Offers	May 28
Public Hearing #1 – Budget and CIP	June 15
Departments Submit Final Offers	July 12
Council Briefing on Price of Government, Final Revenue Estimates, and Performance Measures	July 13
Utility (Water/Water and Stormwater) Rate Study Sessions before City Council	July-August
Budget Balancing with Mayor/Department Directors	July-August
Development of Preliminary Budget	August-September
Preliminary Budget and Six-Year Financial Forecast distributed to Council; Results Teams Briefed	October 5
Public Hearing #2 – Budget and CIP	October 19
City Council Study Sessions on 2011-2012 Biennial Budget	October 26 (T); Oct. 28 (Th) November 4 (Th); Nov. 9 (T); November 18 (Th)
Public Hearing #3 – Budget and CIP	November 16
City Council Adoption of the 2011-2012 Biennial Budget	November 30
City Council Adoption 2011 Property Tax Levy	November 30
Council Debrief of 2011-2012 BP Process	December - January

*Communication with employees was carried out throughout the process.