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BUDGET BY PRIORITIES

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PROCESS OVERVIEW

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# Budget Process Overview

## 2021-2022 Preliminary Budget

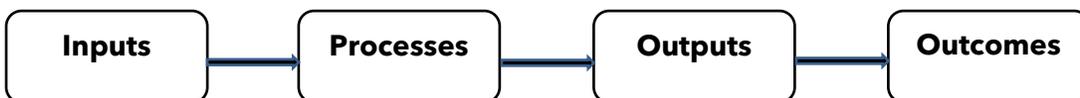


The Budget Process Overview discusses the City’s method for creating biennial budgets informed by input from the community, City Council, City leadership and staff. The current method was first implemented for the 2009-2010 biennial budget, and while striving for continuous improvement, the process has evolved over the past decade as outlined in this document. The overview begins with an explanation of why this method was selected, which is followed by a walkthrough of key inputs utilized in developing the budget and a detailed description of the process and adoption of the biennial budget.

Note that COVID-19 had a large impact on how the City interacts with civic and staff results teams and as such, the results teams’ responsibilities were modified for the 2021-2022 budget to fit the process’s timeline while keeping involved community members and city staff safe.

### Budgeting by Priorities

Challenged to provide a variety of services to a wide range of customers, the City opted to change its traditional budgeting method to a dynamic process that focuses budget decisions on community priorities. Budgeting by priorities (BP) is based on the relationship between available funding and outcomes the community desires, increases transparency into how government policies translate into spending and focuses more on the outcomes of a funded program, service or activity rather than the inputs. This contrasts with the traditional method of budgeting which simply adds or subtracts a percentage to the prior period’s budget without assessing if current services result in the outcomes the community expects.



While BP requires substantial outreach and involvement, data collection, reporting, planning and strategic decisions, these additional efforts allow the City to:

- Better align the budget with community priorities;
- Measure progress towards outcomes;
- Get the best value for each tax dollar;
- Foster continuous improvement and learning; and
- Build regional partnerships and cooperation.

### Budget Process, Strategies and Philosophy

The Budget by Priorities process requires additional resources to successfully navigate the development of a budget that aligns with current community priorities and the long-term vision for

the City. Community input is at the root of the BP process and strategies the City uses to create its budget. Despite impacts from COVID-19, the City was able to obtain information from residential and business community members through a variety of media. While information-gathering through these media was accomplished with minor changes for this budget, other parts of the BP process changed considerably due to effects of the pandemic. This section gives detail about the BP process, strategies and philosophy, spanning topics from budget strategies to creation of budget offers.

## Long-Range Financial Strategy

The long-range financial strategy is the framework the City of Redmond uses to align financial capacity with long-term service objectives. It encourages a deeper understanding of the City of Redmond service commitments to our community members and our plan to meet those commitments in a sustainable and responsible manner.

The long-range financial strategy provides insights into future financial capacity so that strategies can be developed to achieve long-term sustainability considering Redmond's service outcomes and financial challenges. As discussed previously in the Budget Process Overview, the City shifted the way we think about the budget. This shift moved us from a process that focuses on incremental cost to one that focuses on results.

## Revenue Philosophy

Coupled with the Long-Range Financial Strategy is Redmond's revenue philosophy outlined below:

- Assess and maintain fair, equitable and stable sources of revenue;
- Prioritize less volatile revenue sources over those more sensitive to changes in the economic climate, such as sales tax and sales tax on construction;
- Consider the "total" tax bill when increasing rates;
- Protect limits to taxation for residents and businesses; and
- Seek voter approval when a proposed tax increase is above historical rates.

Following this revenue philosophy allows the City to safeguard from unexpected revenue shortages and mitigate their impacts when they occur. It also ensures that residents and businesses receive city services at a fair rate and are not surprised by unexpected tax bills.

## Price of Government

The "Price of Government" is a measure of the cost of all government services citywide. It answers the question: How much does the Redmond community pay to the City in total? It is comprehensive and includes nearly all revenues generated by city taxes and programs; all city taxes, property taxes, special assessments, fees and charges are included. The measure serves as a financial index for the cost of public services in Redmond.

The annual receipts collected by the City are considered to represent the aggregate cost that Redmond taxpayers pay for public services. The "Price of Government" measures that cost for each fiscal year relative to city residents' personal income. The Long-Range Financial Strategy currently sets the Price of Government at 5.0% to 5.5% of aggregate personal income, exclusive of revenues that are one-time in nature.

## Community Engagement and Involvement

To initiate the BP process in 2008 an independent firm held four focus groups with Redmond residents to determine community priorities. The focus group participants were chosen at random based on gender, age and location of residence. Following the focus group discussions, the City held a community workshop for all community members to give further input and comment on the focus groups' identified priorities. Throughout 2019 and 2020 an additional four focus groups consisting of residents and business representatives were assembled by an independent firm to help the City understand evolving community needs and inform an update, to improve the priorities to reflect how the community now identifies them.

Based on community input the following list shows the city's updated priorities along with an accompanying value statement for each:

- **Healthy and Sustainable:** We value a healthy environment that supports an active community.
- **Safe and Resilient:** We value a thriving community where all people feel safe.
- **Strategic and Responsive:** We value a city that is welcoming, service oriented and fiscally responsible.
- **Vibrant and Connected:** We value a well-planned community that provides a sense of place.

As community engagement is a large part of the budget process, the City typically sends out a statistically valid survey of residents and businesses to gauge the effectiveness of City services. Due to forecasted revenue constraints as a result of COVID-19, the City also surveyed the community to understand which of the budget priorities were most important to them, as well as where they would rank the programs that support those budget priorities. This survey helped the City to understand how to allocate dollars across the budget priorities as well as what possible program reductions the community can tolerate, if reductions are necessary.

## Results Teams

Each biennium two results teams help to inform the budget process, the Staff Results Team and the Civic Results Team. The Staff Results Team is made up of one representative from each department in the City, for a total of nine members, in order to gain a broad perspective of City Operations and how the budget will impact services provided by each department. These staff went through training to help them view the budget through the eyes of community members and give their feedback through that lens.

For the 2021-2022 budget process the Staff Results Team's role was to provide feedback on the importance of each budget priority and the programs that support those priorities. They were asked to complete a survey related to the prioritization of city services and budget priorities, after which they held a group discussion to speak about their survey responses. The survey mimicked what was sent to the Redmond community at large as well as the Civic Results Team and focus groups. This team's work helped the City to understand how the community is affected by each budget priority with the added input of how possible reductions in budget would impact the effectiveness of city services to the community.

The Civic Results Team is made up of 28 representatives from the Redmond Community. For this budget cycle the Civic Results Team was asked a number of questions about the direction of Redmond, current needs of the community, how COVID-19 has impacted them and how the City should adapt to budgetary constraints caused by the pandemic. They were also asked to rank the importance of City services and how budget reductions should impact those services. The team gave feedback which helped the City understand how short-term cuts could affect long-term priorities. They were asked to make difficult decisions on programs they would cut if there was a revenue shortfall and speak to the impact of those cuts.

## **Performance Measurement**

As part of the accountability for the performance element of the City's budget process, a Performance Indicator Dashboard was developed in 2011; City Council and City leadership has continued to review this Dashboard used for budget guidance. In 2014, the City merged the Dashboard with its Community Indicators as both sought to present measures of outcomes for the community. Logic models, an additional performance component, were added to the budget process in 2014. Each budget offer included a logic model which described how the programs or services contributed to one of the City's key performance indicator dashboard measures.

In 2017 a team was convened to again review and update the dashboard indicators. Each existing dashboard indicator was evaluated to determine whether its effectiveness in analyzing the success of programs and the impact on outcomes sought by the community were appropriate for each of the budget priorities. The team also worked to identify indicators that needed to be added to more accurately gauge performance, the updated dashboard indicators were reviewed with Council as part of the 2017-2018 budget process.

## **Updated Materials for 2021-2022 Process**

In past budgets, logic models were required for each budget offer; these models showed the relationship between programs and measures within the offer and the outcome supported by the offer. In order to present the offers and measures that support each priority more clearly and uniformly, logic models were replaced by a priority-wide document showing the relationship between every offer in a priority, the measures for each offer and how those measures feed into dashboard indicators and outcomes for the priority.

## **Budget Offers**

A budget offer is a proposal by City staff in response to an Outcome Map that indicates how programs will meet the desired outcomes of the budget priority, how much it will cost and how the success of programs will be measured.

Offers can be for an existing program, new programs or improvements to existing programs. Innovation, process improvement, consolidation of services and cross-departmental collaboration are encouraged in the development of budget offers. Each offer was required to contain the following information:

- **Summary of the Offer:** Clear and concise description of program the offer provides;

- **Performance Measures:** Describes short and long-term benefits of an investment, consequences if not funded and measures to gauge success of the identified outcomes. Each budget offer contains at least two program measure and one dashboard indicator to show progress in addressing the associated budget priority;
- **Baseline Program Description:** Gives greater detail about each program and the services contained in the offer;
- **Above Baseline Requests:** Provides evidence to support higher funding levels for new programs or already-existing programs and gives a short explanation of how greater funding would affect services contained in the offer;
- **Below Baseline Reductions:** Provides options for lower funding levels and gives a brief explanation of how reduced funding would affect programs in the offer. All offers are required to provide this information for a 5% and 8% reduction in funding.

All City operating funds are included in budget offers: The General Fund, Utility Funds, Special Revenue Funds and Internal Service Funds. Therefore, all city programs and services, outside of the Capital Investment Program (CIP), receive the same level of scrutiny, regardless of the funding source. Due to their complex nature, CIP funds follow a different but similarly rigorous budgeting process, outlined below in the Capital Investment Strategy section.

## Capital Investment Strategy

In 2015 it was determined that the use of the City's adopted Vision Blueprint: Redmond's Capital Investment Strategy (CIS) could provide the alignment needed for the Capital Investment Program (CIP) and the budget process. The CIS looks at near-term investments that cover the same six-year timeframe as the City's Capital Investment Program, and also provides a mid and long-term outlook into Redmond's capital needs to advance the City vision.

The goal of the CIS is to provide a framework that aligns the City's capital activities with Redmond's 2030 Comprehensive Plan and spans all four areas of the City's investments including: preservation and maintenance; resolution of existing deficiencies; keeping up with growth consistent with current levels of service and enhancing community character with projects that enable community building and support economic vitality. Since CIS adoption in 2011 the goal has been to update the strategy every two years. Beginning with the 2017-2018 budget process staff has worked to revise the timing of the update of the first six-years of the CIS to align with the budget process schedule. In addition, project prioritization became a requirement of the update process.

In order to establish a method for project prioritization, staff started with the development of Thematic Strategies that focus on the key desired outcomes of capital investments for the next six years; these Thematic Strategies are reviewed and updated each biennium. The Thematic Strategies developed for the 2021-2026 CIP are as follows:

- Infrastructure preservation and replacement;
- Invest and upgrade facilities and infrastructure to improve reliability and resiliency;
- Invest in the extension and integration of light rail, as well as other projects that leverage light rail investments;
- Continue investing in Overlake;
- Maintain Downtown as a vibrant urban center;

- Neighborhood investments, including Marymoor Village;
- Continue to invest in preservation, restoration and enhancement of natural areas; and
- Continue investments in key opportunity projects that support economic and community vitality.

A foundational component of the process are the Principles to describe qualities that lead to improved effectiveness and results to the CIS and the CIP, as outlined below:

- Develop and implement a six-year Capital Investment Program that results from proactive project prioritization and alignment of delivery commitments with our funding and resource capacity;
- Provide good stewardship of existing City infrastructure to ensure that these assets are well-maintained and reliable;
- Use functional plans and Redmond’s Capital Investment Strategy as the primary source of planned capital investments;
- Continue to strategically leverage funds and capital investment opportunities working in partnership with other agencies and the private sector when consistent with the capital investment priorities of the City;
- Develop innovative strategies to fund infrastructure and strategically use all available resources; and
- Maintain an impact fee system to ensure that growth pays a proportionate share of the cost of capital facilities related to new development.

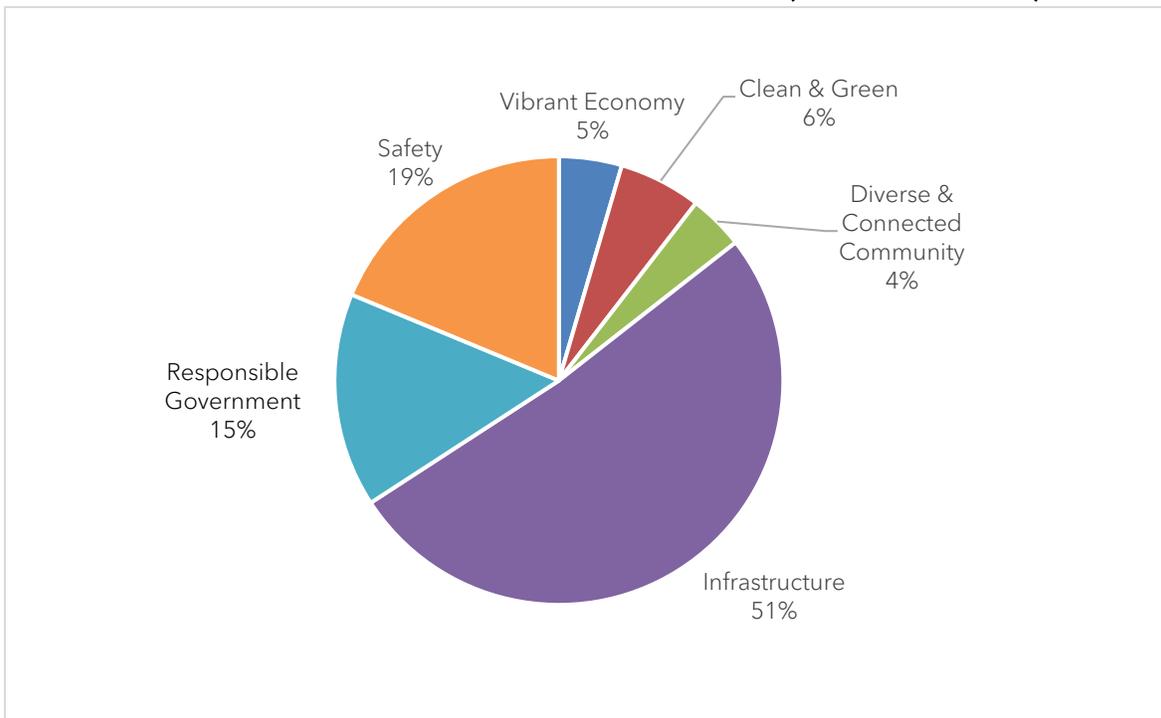
Each functional area (transportation, parks, general government and utilities) then submitted proposed projects for the next six-year period. The team ranked the projects against set criteria to determine a projects importance and urgency to develop a prioritized six-year citywide CIP. Through the application of the Thematic Strategies, Principles and Criteria staff presented a proposed 2021-2026 Capital Investment Program for consideration in the budget process. Due to the impacts of the COVID-19 pandemic, the revenue forecast for the 2021-2026 CIP was reduced and the proposed projects were reprioritized. The second prioritization focused on the City’s ability to maintain critical infrastructure, meet obligations required for light rail and on investments that improve safety for the community and staff.

## **Recommended Budget**

When final revenue forecasts for the 2021-2022 biennium were completed in August 2020, the Mayor worked for several weeks with the Directors Team to review budget offers and make adjustments to address revenue shortfalls from COVID-19, ensure synchronicity with strategic initiatives and make other vital refinements. The pandemic caused a challenging gap in funding and making decisions that reduced funding proved difficult; however, input from the Community Strategic Plan, results teams and community surveys provided essential information to advise the decision-making process. The Mayor and Department Directors finalized decisions necessary to present a budget to Council that is structurally balanced and responds to the outcomes sought for each community priority. The

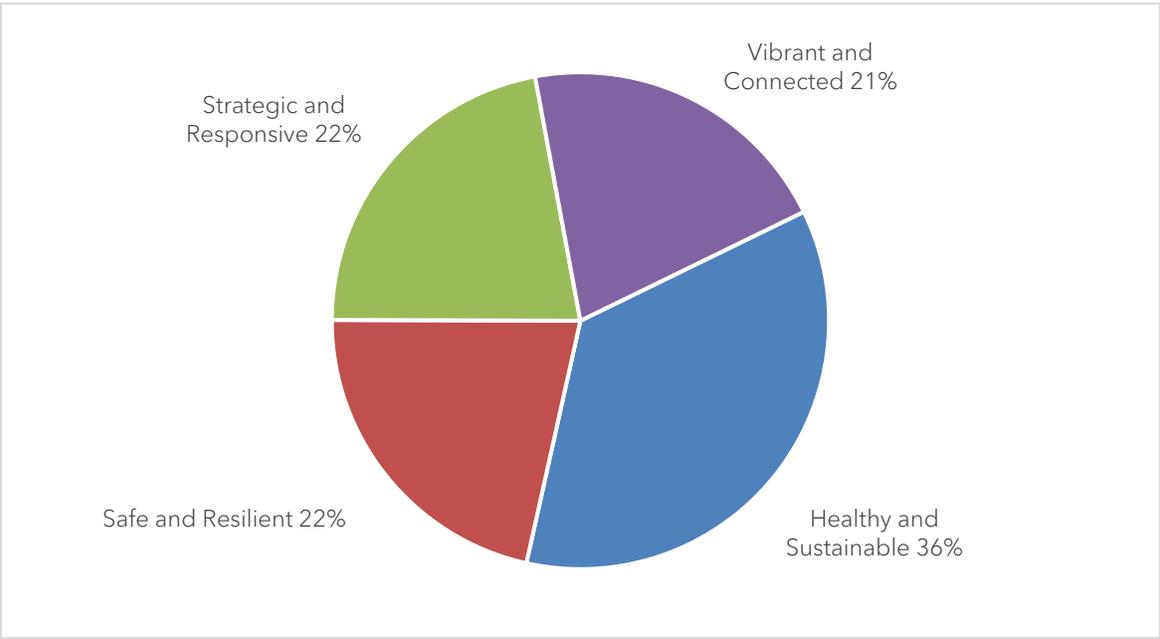
charts below show a comparison between the 2019-2020 budget and the 2021-2022 in terms of funding allocation for each priority<sup>1</sup>.

### ADOPTED 2019-2020 BUDGET BY PRIORITY (\$797.7 MILLION)



<sup>1</sup> As noted earlier in this document, the budget priorities were updated from the 2019-2020 budget to the 2021-2022 budget.

PROPOSED 2021-2022 BUDGET BY PRIORITY (\$799.2 MILLION)



**Conclusion**

The BP process has served Redmond well as a way to identify city programs that are most valuable to residents of Redmond. Through ongoing engagement with residents and businesses, the City is able to understand what the community values and how the City can improve programs and services it provides. While selected processes in this budget cycle were modified due to COVID-19, much of the work performed in the past, combined with engagement during this process allowed the City to create a budget that reflects the needs of the community while adjusting for impacts of the pandemic. The process described in the Budget Process Overview details all of the steps taken from community engagement to the Mayor’s recommended budget; next, the Mayor’s recommended budget will go to City Council for review and approval.