

CITY COUNCIL STUDY SESSION ITEM

SUBJECT

First in a series of discussions throughout the development of the 2017-2018 Budget and the 2017-2023 Capital Investment Plan. Tonight will provide an overview of the process, calendar, and budget “outcomes”.

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POLICY ISSUES

State Law:

- RCW 35A.13.080 and 35A.33 requires the City Manager to prepare and submit to the Council a Preliminary Budget and to be responsible for its administration upon adoption.
- RCW 35A.33.070 requires the City Council to adopt a budget in its final form and content prior to the beginning of the fiscal year.

City Practice:

- Consistent with past processes, the 2017-2018 Budget One process is designed to provide Council the opportunity for discussion, feedback and adjustments as the budget is developed. The 2017-2018 Budget process includes a series of review sessions/workshops on a variety of key underlying policy areas where Council will be asked to identify priorities, provide feedback, and direct desired changes. These sessions are intended to assimilate comprehensive Council direction which will then be used by the City Manager to prepare his Preliminary Budget.

DIRECTION NEEDED FROM COUNCIL

☐ Action

☒ Discussion

☒ Information

Tonight, staff is presenting an overview of the budget process, including confirmation of the Outcome categories that will frame the development of the 2017-2018 Budget. Staff seeks direction with regard to a proposal to revise the seven existing outcomes down to six based on feedback received during the 2015-2016 Budget One process.

Staff is also seeking input on areas of focus for the City Manager and staff to consider in the preparation of the 2017-2018 Operating Budget and the 2017-2023 CIP budgets.

BACKGROUND/ANALYSIS

Building on prior budgets, the City will again use the process called "Budget One" (a budgeting for outcomes approach) to develop the 2017-2018 Biennial Budget.

Budget One is a process that:

- 1) Identifies the community's priorities (called Outcomes);
- 2) Prioritizes services to meet those Outcomes; and
- 3) Funds those services with available monies.

As noted, Budget One puts the emphasis on community Outcomes, not departments. It involves a series of steps that create a government based on available funding, which is then connected to these Outcomes and their associated service delivery results. All current programs, services and activities must be submitted as "proposals" in order to retain ongoing funding, to expand existing funding or to receive new funding, and all proposals must align with one of the Outcomes.

In Budget One, the focus is on achieving desired "results" for each citywide Outcome. Result Teams (interdepartmental teams consisting of five members each) are created for each Outcome to rank proposals in the context of how well it relates to the Outcome and perform a metric analysis that will show how funding the proposals will achieve the results the community wants. The Council vision, along with the Comprehensive Plan, citizen and business surveys, and other adopted plans inform the basis of their work and Result Teams review and incorporate them into their Outcomes and products. The Leadership Team will review the work of the Result Teams and fiscal information and make a budget recommendation to the City Manager. The City Manager takes all information, including the feedback and direction from Council, and prepares his 2017-2018 Preliminary Budget. The City Manager's Preliminary Budget is presented to the City Council for its consideration, review, direction, and adoption.

Improvements to the Budget One 2017-2018 process:

The Budget One process, which is based on budgeting for outcomes (also known as priorities of government) continues to provide a budget to the community that is presented in an understandable framework (by Outcomes). One of the foundational elements of Budget One is presenting information that shows that the City is achieving the desired results for the community. In prior years, the Result Teams focused on prioritizing proposals to achieve each of the Outcomes, followed by balancing each Outcome.

For the 2017-2018 Budget, their work will involve ranking the proposals in order of influence on their primary outcome area. The Results Teams are being asked to place additional focus on performance metrics related to each proposal, and the impact on the outcomes they are intended to achieve. Based on the work of the Results Teams, the Leadership Team look across each of the outcomes and provide a budget recommendation to the City Manager to help inform the preparation of his Preliminary Budget.

Budget One Process Milestones:

The 2017-2018 Budget One Process (for both operating and capital) consists of:

Milestone/Process Point	2016 Month	Status
Budget Survey of citizens	Survey conducted in January; full report available in March	In progress
City website is updated to include a Budget One site for use in Public Engagement.	February	In progress
Council validates or revises the community Outcomes that will frame the budget development	February 1	Tonight
Results Teams develop Cause and Effect Maps and Requests for Results (RFR's) for each Outcome. Council vision, along with the Comprehensive Plan, citizen and business surveys, and other adopted plans inform the basis of their work and Result Teams review and incorporate them into their Outcomes and products.	February - March	
City Council provides policy direction and priorities during a workshop for the development of the operating and CIP budgets. Tentatively, this will include a review of the preliminary financial forecasts, budget survey data, and the work of Result Teams. Agenda will be confirmed at a later	(March) 4-hour Budget Workshop	

date. Information provided includes the City's major financial policies and a series of white papers.		
Service providers or proposal writers (which could be a cross-section of departments, work teams, partnerships, etc.) submit proposals to the Results Teams in alignment with the Outcomes.	April	
First Public Hearing	May	
Results Teams rank proposals in order of how they will achieve the results defined in the Outcome.	May to June	
The City's Leadership Team will begin the process of "buying" proposals using the ranking from the Results Teams, starting at the top of the list of ranked proposals and moving down the list, buying according to priority, until available funds are spent. The Leadership Team looks across the Outcomes to make a final budget recommendation to the City Manager.	July to August	
Second Public Hearing	July	
City Manager presents his proposed budget to the City Council.	October	
Council reviews, holds a third Public Hearing, deliberates, and adopts a final 2017-2018 Budget and 2017-2023 CIP.	October to December	

Budget One Outcome Areas:

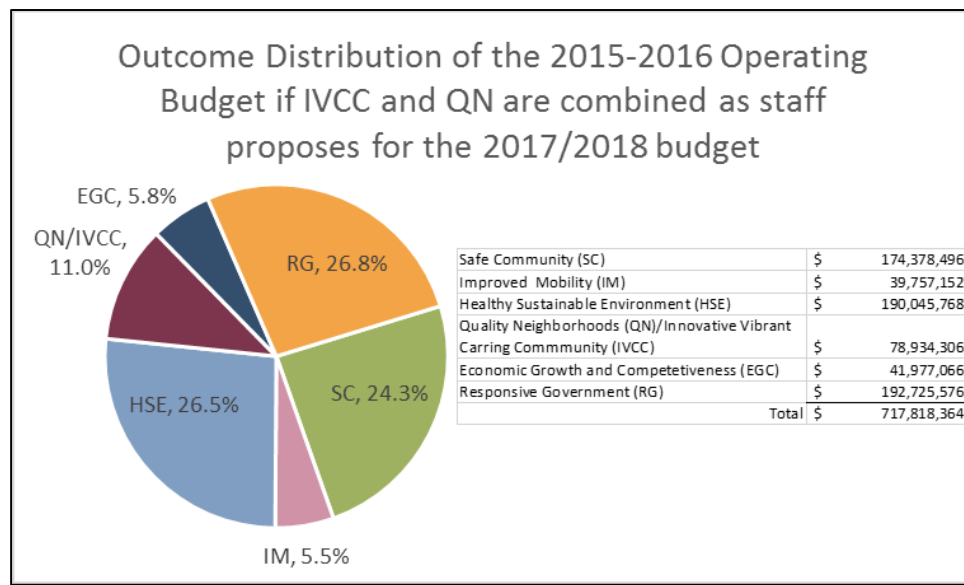
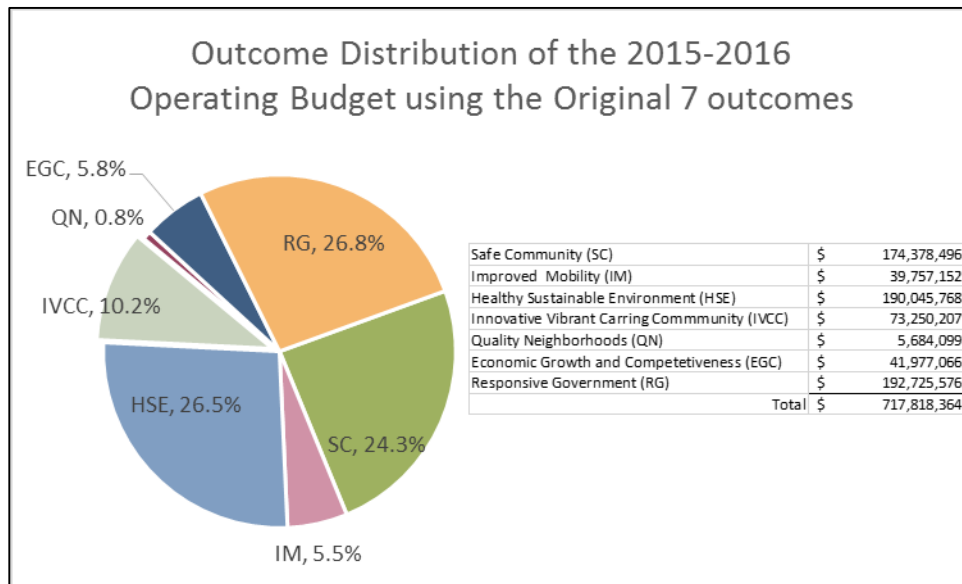
Previous cycles of Budget One have included seven outcomes to frame the budget – Safe Community, Improved Mobility, Healthy and Sustainable Environment, Innovative Vibrant and Caring Community, Quality Neighborhoods, Economic Growth and Competitiveness, and Responsive Government. These seven outcomes were developed through an extensive process in 2010 for the 2011-2012 Budget and have been used consistently since then.

In the 2015-2016 Budget Process, the Results Team recommended that two Outcomes be combined into one – Innovative Vibrant and Caring Community and Quality Neighborhoods. The reasoning from the Result Team was that the two Outcomes overlap and, after reviewing the proposals, the distinction between them was difficult to make. At the July 2014 Budget Workshop, Council indicated that it was a reasonable plan, yet gave clear direction to not lose the "neighborhood" component. Staff proposes to combine the two Outcomes using their existing names to retain the focus of both goals. In addition, Results Teams are receiving updates on new resources to consider when updating their Outcome materials, including the 2015 Comprehensive Plan Update, and current Council Vision and Strategic Target Areas.

Staff seeks Council approval to frame the 2017-2018 budget process with the following six outcomes:

- **Safe Community** - focusing on maintaining a safe place to live, work and play.
- **Improved Mobility** - focusing on existing and future infrastructure, traffic flow, built environment and travel options.
- **Healthy and Sustainable Environment** - focusing on preserving natural spaces and providing a healthy environment, which supports healthy living for current and future generations.
- **Quality Neighborhoods/Innovative, Vibrant, and Caring Community** - promoting "sense of community" with community engagement, fostering diversity and maintaining neighborhoods that support families and providing convenient access to day-to-day activities.
- **Economic Growth and Competitiveness** –planning for growth that will add value to the quality of the City and create a competitive business environment that supports entrepreneurs and creates jobs.
- **Responsive Government** - fostering stewardship of financial and property interests, reflecting sound business practices, and ensuring deployment of programs that are necessary to deliver the highest priority services.

The impact of combining Quality Neighborhoods (QN) with Innovative Vibrant and Caring Community (IVCC) using the 2015-2016 total Operating Budget is as shown below. QN/IVCC would have been one category of 11% of total expenditures, versus 0.8% and 10.2%, respectively.



Budget Challenges and Opportunities:

Staff anticipates that this budget process will have its challenges, for both operating and capital. Operationally, the impacts of the City moving to a “pay as you go” plan for LEOFFI retirees in 2019 (2.3M), the Affordable Care Act (2020), and the loss of \$1M in annexation funding (2022) should be planned for and anticipated in this budget process. External factors, such as legislative changes or economic impacts, may also pose challenges. On the capital side, as discussed in 2014, there is at least a billion dollars of potential projects and not enough funding to complete all of the project over the next 20 years. Those immediate needs will continue to be a factor in the near term.

Council Direction:

Staff seeks input on areas of focus for the City Manager and staff to consider in the preparation of the 2017-2018 Operating Budget and the 2017-2023 CIP.

Staff also seeks confirmation of the Outcome categories that will frame the development of the 2017-2018 Budget and 2017-2023 CIP, including a recommendation to revise the seven existing Outcomes down to six based on feedback received during the 2015-2016 Budget One process.