

# **REPORT TO THE CITY COUNCIL**

## *City of Salinas, California*

DATE: May 6, 2014

FROM: Matt N. Pressey, Finance Director

SUBJECT: **PRIORITY BASED BUDGET – ADMINISTRATIVE REPORT**

### **RECOMMENDATION:**

It is recommended that the Council accept this administrative report and the presentation to be made during the Council meeting.

### **DISCUSSION:**

#### **Executive Summary**

With the leadership of the City Manager and City Council, staff has been working on a significant new way of allocating valuable City resources: Priority Based Budgeting. This cutting edge trend is now a best practice and is growing in the government sector because it is helping cities, counties and other governmental agencies allocate resources to programs that matter most.

Priority Based Budgeting has been declared a leading practice for government management by the International City/County Manager's Association (ICMA). Priority Based Budgeting is a strategic alternative to traditional budgeting. The philosophy of priority-driven budgeting is that resources should be allocated according to how effectively a program or service meets the City Council's goals and priorities and how effectively a program or service achieves the goals and objectives that are of greatest value to the community.

City Staff have progressed through the first four steps and are now in the final, fifth step of evaluating the model data. Staff will then begin to use the diagnostic tool to evaluate lower priority programs as potential areas from which to reallocate resources to higher priority programs or potentially recommend elimination of programs. The diagnostic tool used in the fifth step is being presented to the City Council at this May 6, 2014 meeting by Chris Fabian with the Center for Priority Based Budgeting as part of this administrative report.

The entire process has been a significant collaborative effort city wide including over 32 directors and managers, as well as other staff, from all departments.

As departments prepare their FY 2014-15 operating budgets, they are evaluating lower priority programs to determine if they should recommend reducing the lower priority programs or eliminating those programs. On June 3, 2014, the City Council will receive the first draft of the operating budget for their review and the departments' recommendations for reduction or elimination of lower priority programs will be included. Final adoption of the operating budget is scheduled for June 17, 2014.

## **Priority Based Budgeting – Progress through the 5 Steps**

As a reminder, there are five steps in priority based budgeting:

### 1. Determine “Results”

- What are the Goals and Objectives (Results) the City is in business to achieve?

### 2. Define Results

- “When the City does X , then the Result is achieved”

### 3. Identify Programs and Services

- Prepare a comprehensive list of programs and services
- Comparing individual programs and services as opposed to comparing departments that provide those services allows for better priority setting

### 4. Value Programs Based on Results

- Score the Programs based on their influence on Results

### 5. Allocate Resources Based on Priorities

- Using “Resource Alignment Diagnostic Tool”

## Step 1 – Determine Results

The first step in the priority based budget process is to identify the Results that most-effectively meet the City Council’s goals and priorities and which matter most to the community. For an accurate prioritization of programs to occur that reflect the organization’s stated goals and priorities, the City must identify the Results it seeks to achieve. On May 7, 2013, the City Council approved five goals that were the culmination of a strategic planning session held on January 12, 2013 and a follow-up review held on February 5, 2013 that focused on goals and objectives for the 2013-2015 time period. On January 25, 2014, during the Annual City Council Strategic Planning Session, the City Council made slight modifications to the objectives, but the five council goals remained the same.

These five goals translate well into the Results needed for the priority based budget methodology. With minor changes to the wording for two goals and splitting Quality of Life into separate Results, the Results are substantially the same:

<u>Council Goals</u>	<u>Results</u>
• Economic Diversity and Prosperity	• Economic Diversity and Prosperity
• Safe, Livable Community	• Safe, Livable Community
• Excellent Infrastructure	• Effective Mobility and Excellent

	Infrastructure
<ul style="list-style-type: none"> <li>• Quality of Life</li> </ul>	<ul style="list-style-type: none"> <li>• Healthy, Vibrant, Sustainable and Green Community</li> <li>• Family-Oriented Community with Diverse Recreational, Arts, Cultural, Educational and Leisure Opportunities</li> </ul>
<ul style="list-style-type: none"> <li>• Effective, Sustainable Government</li> </ul>	<ul style="list-style-type: none"> <li>• Good Governance</li> </ul>

The "Quality of Life" Goal was split nicely into two discrete Results within it, which are more descriptive and tangible for defining and measuring how well a program meets these Results.

Regarding wording changes, there is a slight clarification about the "Excellent Infrastructure" Result. As staff and the consultant looked at all of the input provided in the Strategic Plan, it appeared that while transportation and roads and mobility were identified as something important to the City, they were not totally obvious among the Results. Therefore, the "Excellent Infrastructure" Result was simply broadened to "Effective Mobility and Excellent Infrastructure". This gives more clarity for those participating in the Results Definition exercise what we need to define. For "Effective, Sustainable Government", this was translated into "Good Governance", for a unique Result for programs designed to support Governance. All programs should be efficient, effective, and sustainable.

## Step 2 – Prepare Result Definitions ("Result Maps") to Clearly Defines What Achieves the Results

On September 11, 2013, department directors and managers participated in a three hour workshop led by the Center for Priority Based Budgeting consultants. Participants were asked in the Results Definition exercise to help define each of the City's Results so that Result Maps could be created to be used in Program Scoring. The approach in the facilitated exercise was to ask open-ended questions about each Result, and have the staff provide their input to questions like, "When the City of Salinas does \_\_\_\_\_, (fill in the blank) then the Result of 'Safe, Livable Community' is achieved" (their job was to answer that question in as many ways as possible until we had a complete understanding of how all of the City's Results are achieved). Accordingly, there were approximately 694 individual responses captured on half sheets of paper and posted up on the wall and grouped in categories. Essentially, these categories ultimately became the 36 Results Definitions associated with the six Results. Each Result has between five and seven Result Definitions. On November 5, 2014, the City Council reviewed and approved the six Results and Result Definitions. As part of their review of the Result definitions and to become familiar with them, each City Council member completed the "\$600 Exercise" as homework prior to the City Council meeting. The exercise requested that the City Council allocate \$600 to each of the 36 result definitions.

### Step 3 – Identify Programs and Services

Departments prepared their comprehensive list of programs during October through December 2013. The objectives for developing program inventories were to:

- Create a comprehensive listing of all services offered by each operating division (*to both “external” and “internal” users*)
- Provide a better understanding of “***what we do***” to staff, management, elected officials and citizens
- Provide a framework to better understand how resources are used to support “***what we do***”
- Provide a valuable tool for staff, management and elected officials to use when faced with budgetary “*choices*” about how funds are distributed
- Allow for the preparation and discussion of a “***program budget***” rather than a “***line-item budget***”

Based on training provided by the Center for Priority Based Budgeting, each department was instructed to complete the list of programs.

### Step 4 – Value Programs Based on Results – Score the Programs based on their influence on Results

#### Department Scoring

First, after the program inventories were finalized by the department and finalized by the Center for Priority Based Budgeting, the departments were given a score card with all of their programs listed. Training on scoring was provided by the CPBB.

#### Peer Review Scoring

In a four week period, from the middle of February through the middle of March, 32 managers and directors participated in the Peer review process. For each of the five (5) Community Results, seven (7) Governance Results and five (5) Basic Attribute Results, a team was assigned to evaluate all of the programs for that single scoring criteria. Each peer review team was made up of three staff and three meetings were scheduled for each team. A total of 17 teams were formed (one for each scoring criteria) and a total of 51 meetings were scheduled. Each director and manger was on two teams each.

#### Costing Allocation

The city’s budget was loaded into the model and the departments assisted in providing allocations of the cost for each program.

### Step 5 – Allocate Resources Based on Priorities

We are now at the fifth and final stage of the process where the tool data can be reviewed and analyzed. The tool then can be used to drill down into programs to determine if resources should be reallocated or if programs should be deferred or eliminated.

## Davenport Institute for Public Engagement and Civic Leadership – Grant Award

The City Manager received news in mid-October that the City was 1 of 4 grant award recipients in the state to receive the Davenport Institute 2013 Public Engagement Grant. This is the sixth annual Public Engagement Grant Program.

The Davenport Institute planned to award 2-4 grants, with a maximum individual grant amount of \$20,000 for a total of around \$50,000 in funded consulting services. The City was awarded \$10,000.

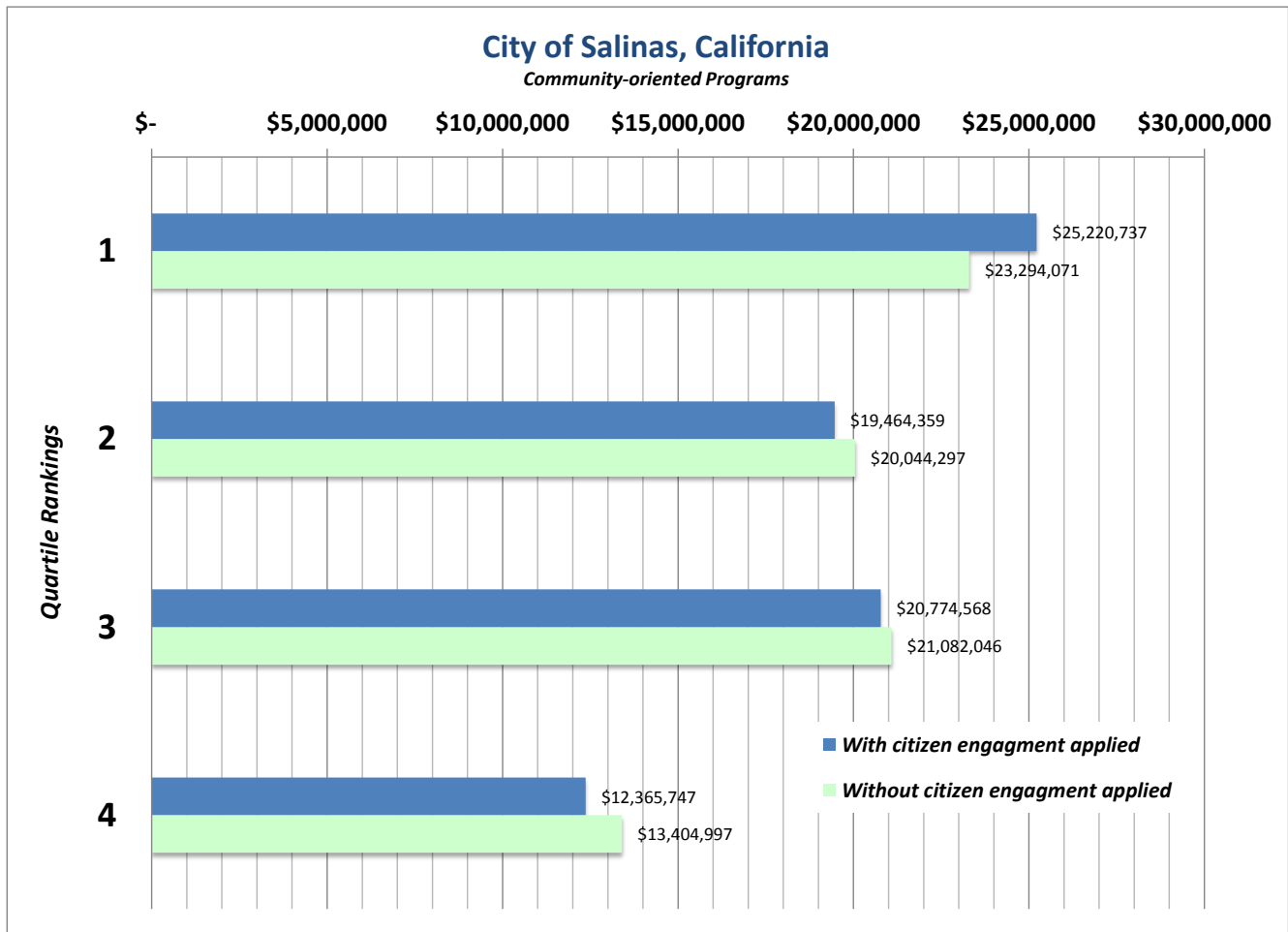
With the training, assistance and partnership of the Davenport Institute and the Center for Priority Based Budgeting, the City desired to effectively engage a high volume of the public to participate in the Priority Based Budgeting process. The City planned to gather public input and link it in a completely unique way to the City's budget process, so that budget decisions are directly influenced by public priorities. Through the "\$500 Exercise" (also called "Budget Challenge") (formerly the \$600 exercise) and through online and in-person outreach, the City brought the public into a position of influence as they've never experienced before.

In summary, the \$500 exercise had a direct influence on determining the overall priority and relevance of the City's programs. By extending this process to the citizens of Salinas, citizens were placed in a role of influence unlike any other budgeting process – their "investment" of the \$500 helped the City realize which Results are most important, and further guided the process of prioritizing the services offered by the City. It is a crucial role, and a true definition of participatory budgeting.

The City held three facilitated public forums and the virtual online public forum called "Open Town Hall" through Peak Democracy. The grant funded a portion of the Center for Priority Based Budgeting contract and all of the Peak Democracy online service. To maximize participation, a full array of media methods were used to get the word out. The full extent of the public outreach through the use social media (Facebook, Twitter), press releases, flyers, e-mail blasts, and regular mail is presented in a report by the City's media consultant Boots Road Group and is attached to this administrative report (*Web & Social Media Report*).

## Public Engagement Impact and Influence on the Priority Based Budget Scores

Prior to finalizing the priority based budget model, the consultant applied a weight to the Community and Governance Results based on the feedback from the community outreach. As mentioned above, the Departments scored all of their programs on how well they influence the Council goals (Results) and a peer review team also scored all of the programs. The total score from the online and in-person community meetings was tallied and was applied as a final weight to determine which Result mattered most to the community. The chart below shows the impact the weighting had on the programs and how the shift occurred before and after the weighting was applied. The striking observation and validation shown in the chart is that after applying the weight from the community input to the priority based budget model, programs shift from lower, less priority quartiles, to higher quartiles, which indicates the City is funding programs that matter most to the community.



**ISSUE:**

Shall the City Council accept this administrative report and the presentation to be made during the Council meeting?

**FISCAL IMPACT:**

The Contract with the Center for Priority Based Budgeting of \$38,500 plus travel is included in the current year budget. The City received \$10,000 in funding from the Davenport Institute 2013 Public Engagement Grant, which will go toward public outreach including engagement through the internet and through public meetings. There is no additional impact to the City’s General Fund with the Council’s acceptance of this Administrative Report.

## **CITY COUNCIL GOALS:**

Priority Based Budgeting promotes all five of the Council Goals of 1) Economic Diversity & Prosperity; 2) Safe, Livable Community; 3) Effective Sustainable Government; 4) Excellent Infrastructure; and 5) Quality of Life.

## **CONCLUSION:**

With the fiscal challenge of addressing the General Fund structural deficit of \$5 million in FY 2014-15 and then growing to over \$12.7 million by fiscal year 2019-20, the City needs a strategic approach to allocate limited resources according to how effectively a program or service achieves the goals and objectives that are of greatest value to the community.

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