

**Council Meeting: February 26, 2008****SUBJECT: Approval of Budget Priority Setting Tool, Process, and Schedule and Appointment of Council Sub-Committee****REPORT IN BRIEF**

On February 1, 2008, the City Manager presented to Council a proposal for budget priority setting at a conceptual level. Council approved the framework and directed staff to come back with the details in a public hearing setting. This report presents the details of the budget priority setting tool as well as a proposed process and schedule.

Staff recommends Council approve the ranking criteria as detailed in Attachments A and B, create and appoint members of a sub-committee to review the proposed priority rankings for all City services and projects, and approve the proposed implementation schedule as detailed in this report.

BACKGROUND

As part of this year's Study Issues/Budget Issues Workshop, the City Manager presented to Council a budget priority setting tool with three primary purposes. First, it provides a framework to deal with changing needs and lifestyles, yet stay within our financial means. Second, the tool allows a focus on the Council priorities for funding, rather than just maintaining the status quo. Finally, the tool will be useful in maintaining a sustainable fiscal and responsive environment.

The priority setting tool will provide Council a way to evaluate and meet the changing needs of the community. It is a mechanism for determining relative priorities when deciding funding appropriation. However, it does this in a targeted way, by considering only lower priority services/projects along with new demands and focusing on lower priority services Citywide, rather than within a program or department. It is important to note that this tool is not the mechanism to use to change service levels. Council has always had, and will continue to have, the ability to change service levels through the budget issues and budget supplements process during the development of the budget. Therefore, the priority setting tool only focuses on the existing, base service level for the City. This tool is designed to be used with, and does not replace, the City's performance based budget system.

EXISTING POLICY

Fiscal Sub-Element Budget Policies 7.1A.1.13: All competing requests for City resources should be weighed within the formal annual budget process.

DISCUSSION

The budget priority setting tool assigns a priority ranking with a total of 5 priority ranking levels. There are two sets of ranking criteria: one for services and one for projects. All services will be ranked at the activity level, grouped by programs and service delivery plans. For those within the lowest ranking, an additional evaluation will be performed using a score point system from 1 to 5, with least (1) to most important (5). All new and enhanced services and funding requests, as well as all unfunded projects will be ranked against those services and projects in the lowest ranking. All new services and projects will need to have a ranking assigned henceforth.

Following Council's approval of the framework for this budget priority setting tool, staff has further developed and refined the heart of the tool, the criteria for assigning services and projects to a priority ranking. "Council top priority," "revenues equal or exceed expenses," and "enhance productivity/efficiency/customer service" have been removed as criteria. "Council top priority" will come out through the use of this prioritization tool. Because the source of funding is essential to reviewing all services and projects, funding sources and dollar amounts will be provided for all services/projects and restricted funds will be noted, rather than using "revenues equal or exceed expenses" as a criterion. "Enhance productivity/efficiency/customer service" was removed because this occurs on an on-going basis as part of the City Manager's operating responsibilities. Two criteria have been added: "targets vulnerable population" and "directly enhances the City's fiscal health and vitality" to better delineate and prioritize many of the City's services. The detailed ranking structure and criteria are presented in Attachments A and B.

Council expressed interest in forming a sub-committee to provide an in-depth review of staff's rankings for all the services and projects and to provide the whole Council a final recommendation. As Council is aware, a Council sub-committee would consist of no more than three Council members. A sub-committee can be an efficient and effective way to implement this process, particularly in light of the tight timeframe for the current year. Therefore, the proposed schedule incorporates a Council sub-committee. If Council does not approve a sub-committee, the schedule would likely need to be modified to allow more time for Council review.

Priority Setting Schedule

February 26: Council approves ranking criteria and schedule, forms sub-committee

February 27 – March 14: Staff ranks all services and projects

March 17 – 28: Staff reviews and re-calibrates all rankings, prepares packets for Council sub-committee review

March 28: Packets delivered to Council sub-committee

April 5 and 12 (if necessary): Council sub-committee reviews all proposed rankings and makes adjustments as necessary (dates and times can be adjusted – a total of 8 hours is estimated)

April 29: Council sub-committee recommendation presented to full Council for approval

Early May: Approved Priority Ranking provided with City Manager's Recommended FY 2008/2009 Budget

In order to utilize this tool for the FY 2008/2009 Budget, the timeframe for implementation is tight. It will be critical to receive Council on these items tonight in order to stay on schedule.

FISCAL IMPACT

This budget priority setting tool does not have a fiscal impact on its own. It is important to recognize that this tool is not a process to reduce the budget or increase fees or taxes. In addition, the tool is not a process to reduce overall spending or service levels, or to optimize staffing or maximize operational efficiencies. These areas are dealt with on an annual basis through the normal development of the budget. Furthermore, the 15% of CDBG grant funds dedicated for outside group funding of human services will not be included in this priority setting tool because there is already an established process for evaluation of these funds.

Implementation of this tool will not have an impact on the current study issues schedule. However, due to the tight timeframe and because staff is in the middle of developing the two-year operating budget at the same time, the schedule has a considerable impact on the Finance Department staff. It is estimated an additional 100 hours of staff time will be required during this timeframe to oversee the process and provide administrative support.

PUBLIC CONTACT

Public contact was made by posting the Council agenda on the City's official-notice bulletin board outside City Hall, in the Council Chambers lobby, in the Office of the City Clerk, at the Library, Senior Center, Community Center and Department of Public Safety; posting the agenda and report on the City's Web site; and making the report available at the Library and the Office of the City Clerk.

ALTERNATIVES

1. Approve the ranking criteria as detailed in Attachments A and B.
2. Approve the ranking criteria as detailed in Attachments A and B with modifications.
3. Create and appoint no more than three Council members to a sub-committee to review the proposed priority rankings for all City services and projects.
4. Do not create a sub-committee. The whole Council will review the proposed priority rankings for all City services and projects.
5. Approve the proposed implementation schedule as detailed in this report.
6. Approve the proposed implementation schedule with modifications.

RECOMMENDATION

Staff recommends City Council approve Alternative 1: Approve the ranking criteria as detailed in Attachments A and B, Alternative 3: Create and appoint no more than three Council members to a sub-committee to review the proposed priority rankings for all City services and projects, and Alternative 5: Approve the proposed implementation schedule as detailed in this report.

Reviewed by:

Mary J. Bradley Director, Finance
Prepared by: Grace Leung, Finance Manager

Approved by:

Amy Chan
City Manager

Attachments

- A. Ranking Criteria – Operating
- B. Ranking Criteria - Projects

RANKING CRITERIA - OPERATING

1. **Highest**
 - Legally Mandated
Required by Federal, State, City Charter or Municipal Code
Example:
 - Wastewater Treatment
 - Hazardous Materials Safety Services

2. **High**
 - Health and Safety
Services that, were they not performed, would seriously jeopardize the health and safety of our residents
Example:
 - Solid Waste Collection and Disposal
 - Emergency Response to Police and Fire Calls for Service

 - Essential Services
Maintenance of core facilities and services for which the City is responsible and, if not done, will not be provided
Example:
 - Pavement Operations (Street Maintenance)
 - Land Use Planning

3. **High Mid-Range**
 - Functions for Proper Organizational Management
Critical Internal Systems to support base city operations
Example:
 - Payroll Services
 - Central Information Technology Systems and Networks

 - Typical Services Provided by Most Cities
Services expected by residents to be available for the benefit of all community members
Example:
 - Library Services for Children and Teens
 - Parks and Open Space Maintenance

4. Mid-Range

- Targets Vulnerable Populations
Fills a service void that is not the responsibility of other levels of government
Example:
 - Columbia Neighborhood Center Health Services
 - Case Management for Seniors

- Directly Enhances the City's Fiscal Health and Vitality
Example:
 - Economic Development Business Retention

5. Other

- All Remaining Services
(May be scaleable)

RANKING CRITERIA - PROJECTS

1. **Highest**
 - Legally Mandated
Example:
 - Americans with Disabilities Act (ADA) Curb Retrofit

2. **High**
 - Project Specifically Called for in General Plan
Example:
 - Grade Separations on Lawrence Expressway

 - Return on Investment in Seven Years or Less
Example:
 - Installation of LED Traffic Signal Lights

 - Primary Purpose is to Address Health or Safety Hazards
Example:
 - Department of Homeland Security Weapons of Mass Destruction Training

3. **High Mid-Range**
 - Address Functional Deficiencies in Essential Service
Example:
 - Repair of City Bridges and Culverts

 - Required to Support Continued Operations Based on the Priority in the Operating Program
Example:
 - HVAC System Replacement – Public Safety Building

4. **Mid-Range**
 - Improvements Will Reduce Future Cost or Cost Avoidance
Example:
 - City Water Lines Leak Detection Program

 - Significantly Enhances Quality of Life for Entire Community
Example:
 - Undergrounding of Overhead Utilities

5. **Other**