



Finance Committee

City of Arts & Innovation

TO: FINANCE COMMITTEE **DATE: MARCH 13, 2019**
FROM: FINANCE DEPARTMENT **WARDS: ALL**
SUBJECT: INTRODUCTION TO PRIORITY BASED BUDGETING - DIRECT SUBMITTAL

ISSUE:

Receive and provide input on a presentation on Priority Based Budgeting.

RECOMMENDATION:

That the Finance Committee receive and provide input on a presentation on Priority Based Budgeting.

BACKGROUND:

The City is facing significant financial challenges in light of flattening revenues and increasing costs, including the CalPERS Unfunded Accrued Liability (UAL). The General Fund Five-Year Financial Plan presented in the FY 2018-2020 Two-Year Budget projects shortfalls of \$15 to \$18 million in each year of the next two-year budget cycle. The City will be increasingly challenged to fund and achieve its strategic goals and objectives and meet service expectations of the Riverside community. A more dynamic and thoughtful budgeting process that aligns scarce resources with the City's strategic goals and objectives will be critical in future budget periods.

DISCUSSION:

Several professional organizations, including the Government Finance Officers Association (GFOA) and International City/County Management Association (ICMA), regard Priority Based Budgeting as a best practice. Numerous governmental agencies have adopted Priority Based Budgeting with great success, recognizing an improvement in financial health, citizen involvement, and progress toward strategic goals. Currently, the City practices incremental budgeting; City staff believes that this budget methodology will be inadequate to address the projected shortfalls of the next budget cycle while preserving essential programs and services that support the City's strategic goals and objectives.

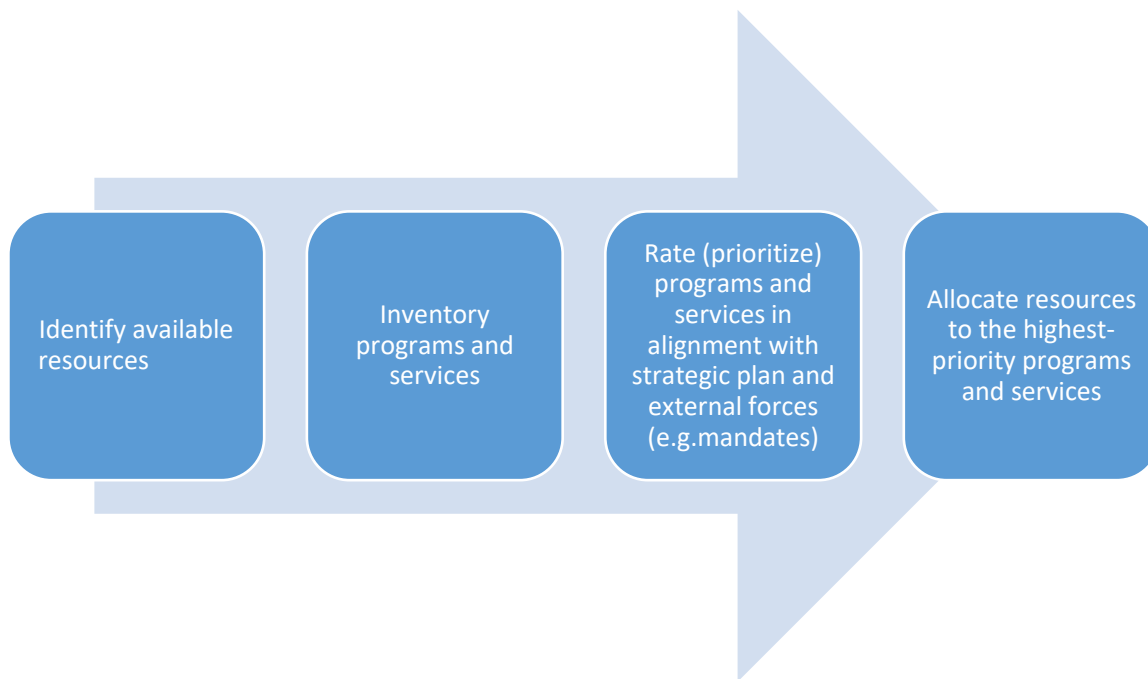
Incremental Budgeting

The City's traditional budget method is incremental based budgeting. This budget method relies upon minor adjustments to the currently adopted budget, such as updated revenue forecasts and projected cost increases. Budget shortfalls encountered during this process are usually resolved

with a directive of across-the-board budget cuts, which does not accommodate a discussion of City priorities and program or service impacts at a Citywide level.

Priority Based Budgeting (PBB)

Priority Based Budgeting creates a link between strategic planning and long-term financial planning. PBB picks up where the strategic plan leaves off, using the desired results stated in the strategic plan as a basis for formulating the long-term financial plan and upcoming budget. In summary, PBB assigns resources to programs and services that align with the City’s strategic plan and support the City’s strategic goals and objectives. PBB also helps to ground the decision-making process within the constraints of the existing fiscal environment.



Attachment 1, published by GFOA’s Research and Consulting Center, provides a detailed discussion of PBB philosophy and the PBB process. A high-level overview of PBB is as follows: PBB facilitates a collaborative approach to decision-making. Under PBB, departments will inventory their programs and rate the relevance of the programs to the City’s strategic goals or in response to external forces, such as legal mandates. Current program revenues and costs (both monetary and personnel resources) are identified. Programs are then subjected to a secondary rating process performed by designated peer groups, such as City Administration, City Council, selected Boards and Commissions, and/or community groups. After the rating of all City programs is finalized, the budget process can begin.

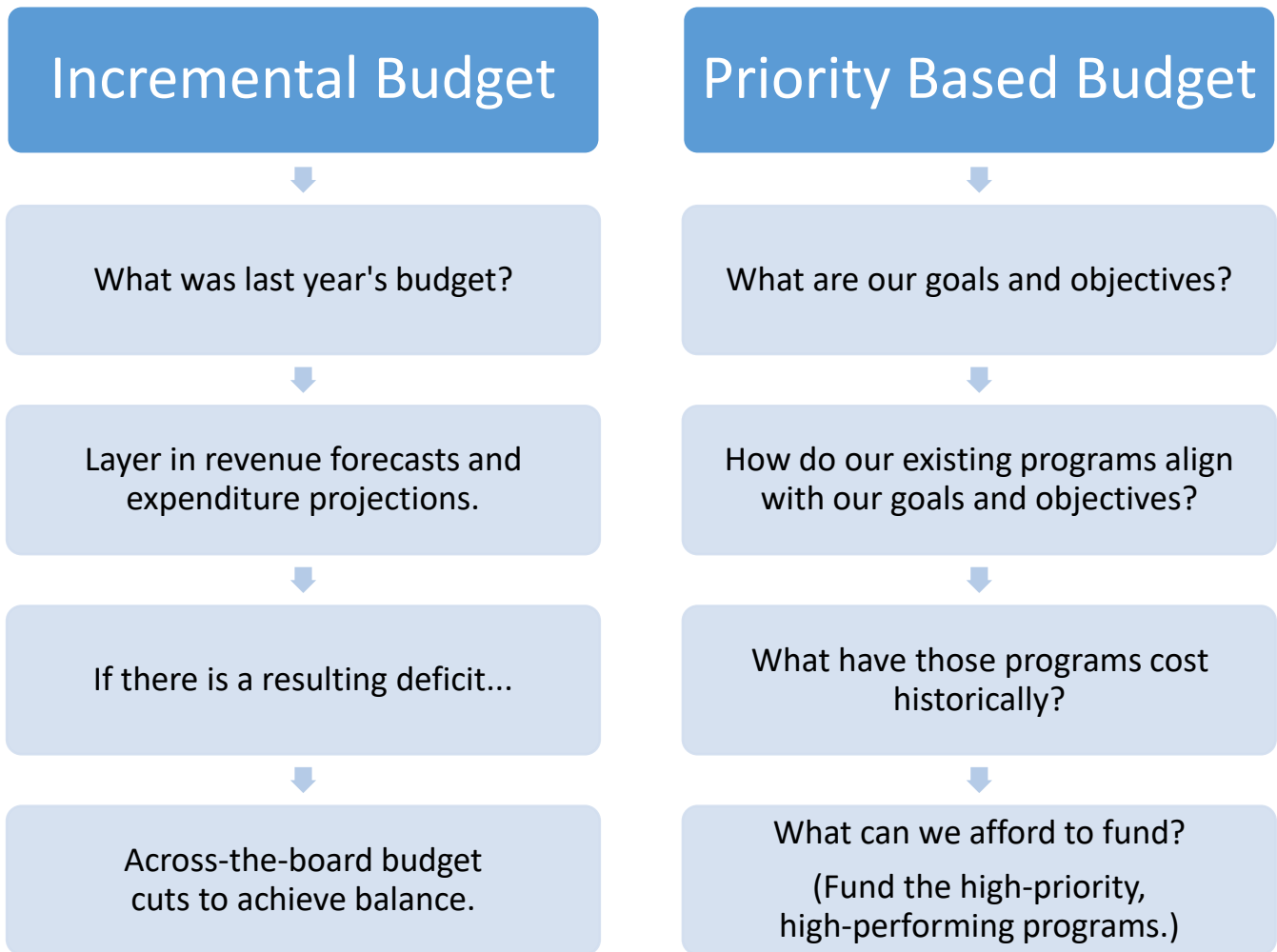
For the FY 2020-22 budget process, realignment of resources will be necessary to close the budget gap. This may include shifting monetary and personnel resources away from low priority or low impact programs to high priority programs, thereby discontinuing the defunded programs.

The benefit of the peer review process cannot be understated. Peer review shifts the focus from the silo department view to a Citywide view, leading to dynamic conversations, new appreciation for department programs, services, and needs, and innovative ideas for cross-functional collaboration.

Comparison of Budget Methodologies

While City staff does not opine on whether PBB will fully close the projected budget shortfalls, staff believes that this budget methodology will provide a long-term and sustainable process by

which City leadership direct the allocation of scarce resources to matters of greatest impact and importance. By adopting this methodology, the City can continue to fund progress toward strategic goals and incorporate accountability into the budget process.



Challenges in Moving to Priority Based Budgeting

PBB is a major shift from the City’s traditional budgeting methodology. It should be noted that PBB is not a process that will automatically correct structural deficits; rather, it is a methodology by which an organization approaches the resource allocation process. A clear understanding of the PBB philosophy and the willingness of City Leadership to conduct business and prepare budgets under this new thought process is critical to success. This is truly a cultural shift for the City where the focus is no longer on spending, but rather on budgeting to achieve results that support the City’s strategic objectives.

FISCAL IMPACT:

There is no direct fiscal impact associated with this report. The introduction of PBB as a new budget tool and methodology within the City is expected to have significant and positive impacts on the financial resilience of the City.

Prepared by: Kristie Thomas, Budget & Revenue Manager
Approved as to availability of funds: Edward Enriquez, Chief Financial Officer/City Treasurer
Approved by: Carlie Myers, Deputy City Manager
Approved as to form: Gary G. Geuss, City Attorney

Attachments:

1. Anatomy of a Priority-Driven Budget Process
2. Presentation