



City of Arts & Innovation

City Council Memorandum

TO: HONORABLE MAYOR AND CITY COUNCIL DATE: JUNE 22, 2021

FROM: CITY MANAGER'S OFFICE WARDS: ALL

SUBJECT: PRIORITY BASED BUDGETING – COMPLETION OF YEAR 1 AND TIMELINE FOR IMPLEMENTING YEAR 2 OF PRIORITY BASED BUDGETING

ISSUE:

Receive an update on the completion of the Year 1 Priority Based Budgeting process and the timeline for implementing Year 2 of Priority Based Budgeting.

RECOMMENDATIONS:

That the City Council receive an update on the completion of the Year 1 Priority Based Budgeting Year process and the timeline for implementing Year 2 of Priority Based Budgeting.

BACKGROUND:

Priority Based Budgeting (PBB) is a budget-decision methodology and data-analytic software created by Resource Exploration (ResourceX). PBB creates a link between strategic planning and long-term financial planning and picks up where the strategic plan leaves off by using the “results” or priorities stated in the strategic plan as a basis for formulating a City’s long-term financial plan and upcoming budget. PBB supports the decision-making process to assign resources to programs and services that align with the City’s strategic plan and support the strategic goals and objectives. PBB helps to ground the decision-making process for the upcoming budget cycle within the constraints of the existing fiscal environment.

In February 2020, the City Council began work on the development of a new strategic plan to establish a vision for the City over the next five-year period. The development of the strategic plan occurred over a nine-month period and consisted of one-on-one interviews with the Mayor, City Council and key City staff to identify priorities for the organization over the next five-year period. Two City Council workshops were held on July 14 and August 11, 2020 to discuss and refine priorities; and two City Council meetings were held on September 15 and October 20, 2020 to review, receive input, and ultimately approve the Envision Riverside 2020 Strategic Plan.

In anticipation of City Council’s approval of the Envision Riverside 2025 Strategic Plan, City staff began discussions with ResourceX on how to implement PBB in the City of Riverside to align the City’s budget with the City Council’s priorities identified in the strategic plan. The PBB software solution was identified as a necessary component to ensure the successful implementation of PBB, along with consulting services to facilitate the development and implementation of the City’s

PBB model. On August 4, 2020, a Professional Services and License Agreement for Priority Based Budgeting Software with ResourceX (Attachment 1) was approved by the City Council for a four-year term in an amount not to exceed \$300,000.

DISCUSSION

Project Charter

Upon approval of the Agreement with ResourceX, a multi-departmental Core Team consisting of staff from the City Manager's Office, Finance Department, Human Resources Department, and Public Utilities Department began working closely with ResourceX to develop a Project Charter (Attachment 2) that outlines the City's timeline and goals for the gradual implementation of PBB over a five-year period. The Project Charter identifies both short-term and long-term goals and includes strategies to plan and mitigate for challenges. The PBB goals included in the Project Charter are as follows:

Short Term PBB Goals (1 year or less)

- Establish communication and educate project stakeholders (internal, elected, public)
- Develop citywide support and understanding of the PBB process
- Achieve 100% participation and utilization from all departments
- Identify all programs and services that the City provides
- Understand where the City allocates its resources and how that aligns with the strategic plan
- Develop program insights and take initial steps to realign resources to support the City Council's priorities

Long Term PBB Goals (3-5 years)

- Change the way people think about budgeting; shift mindset to make decisions based on priorities of the entire City, not just one department
- Achieve a clear understanding and documentation of the City's programs and related resources
- Fully align funding priorities with programs and services that further the City Council's strategic priorities
- Create partnerships to provide programs more effectively and efficiently
- Be adept at realigning resources in times of fiscal challenge
- Assess the program effectiveness through performance measures
- Develop department/division level KPIs to track program success
- Consider inclusion of CIP budget in PBB

Year 1 Development Process

The substantial tasks associated with building a PBB model, combined with the culture change required to successfully implement PBB in an organization our size, led the Core Team and City Management to designate Year 1 of the PBB process as a "learning year" that focused primarily on developing citywide acceptance and understanding of PBB and completing all the necessary steps required to build the City's PBB model from the ground up. Additional steps to fully align the City budget with the strategic plan were identified as long-term goals in the Project Charter once the City team develops a greater understanding of the PBB process.

In September 2020, a team of approximately 50 Department Users from all City departments were selected to work with the Core Team and ResourceX to develop the City's PBB model, which consisted of five primary tasks:

1. *Program Inventory* – create an inventory of every program and service the City provides, both externally (Community Programs) and internally (Governance Programs).
2. *Cost Allocations* – determine the cost of each program by allocating revenues and expenditures (personnel and non-personnel) from the City's FY 2020/21 line-item budget to each program.
3. *Program Scoring* – identify how closely each program aligns with the strategic plan by rating the programs alongside the strategic priorities, cross-cutting threads and basic program attributes (see Scoring Matrix – Attachment 3) and assign a score to each program to reflect that alignment.
4. *Peer Review* – perform a secondary rating process by designated peer review groups to validate the original department rating.
5. *Program Insights* – create insights about programs to identify how the City can be more efficient and/or generate new revenue through the programs we provide.

Over the course of several months, the PBB team participated in numerous trainings with ResourceX to learn how to perform each of the above tasks and complete the necessary steps to develop a program inventory, identify the costs associated with each program, determine program scores, peer review each program score, and identify program insights to help realign resources with the strategic plan. Following the completion of these tasks and an extensive final review process to verify that tasks were performed correctly and to make necessary clean-up revisions, the PBB process was finalized for Year 1 in May 2021.

Year 1 Model

The PBB Year 1 model includes an inventory of 606 City programs spread amongst 17 departments (see Program Inventory – Attachment 4). Approximately 390 programs are identified as Community programs (external facing) and 216 programs are identified as Governance programs (internal facing).

Each program was scored and peer-reviewed alongside the City's strategic priorities, cross-cutting threads and basic program attribute categories on a scale of 0 - 4 (see Scoring Matrix – Attachment 3) and a final score was calculated using the combined scores from all categories. Based on the final scores received for each program, the programs were divided into one of four quartiles to determine how closely each program aligns with the strategic plan. A summary of the program alignment is provided in the table below.

CITY PROGRAM ALIGNMENT WITH STRATEGIC PLAN	
Number of Programs	Quartile Definition
93 programs	MOST aligned with strategic plan
234 programs	MORE aligned with strategic plan
172 programs	LESS aligned with strategic plan
107 programs	LEAST aligned with strategic plan

Dozens of insights about City programs were also identified by departments during the PBB development process and each department was asked to include their top three insights in their FY 2021/22 budget presentations. These insights included ideas about how departments can improve efficiencies in their programs, utilize programs to generate additional revenues, and align resources to support programs that advance the City Council's strategic priorities. These insights will be explored further in the Year 2 PBB development process and considered for future implementation.

While the City team achieved its goals for the Year 1 PBB development process, the data that came out of this process is still very raw and needs additional refinement before it can be used as an effective decision-making tool during the budget development process. As such, staff will be maintaining the PBB results in an internal data portal until additional edits can be made during the Year 2 PBB process to further refine the program inventory and clarify the program scoring guidelines to ensure consistent criteria is applied amongst all departments.

Year 2 Timeline

Staff has begun planning for Year 2 of PBB, which will kick off in July 2021 and is expected to be a four-month process. The Year 2 process will consist of reviewing and updating the program inventory, revising program costs to coincide with the Fiscal Year 2021/22 budget, re-doing program scoring and peer review to ensure both the departments and peer review teams have a shared understanding of the scoring criteria, and diving deeper into program insights to further identify ways to align the City budget with the strategic plan. At the end of the Year 2 process, we anticipate having a more refined PBB model to use for decision making purposes during the FY 2022-2024 budget development process, which will begin in December 2021.

FISCAL IMPACT:

There is no immediate fiscal impact with this recommendation. As the City further implements PBB strategies to help guide the budget development process for future fiscal years, the strategic plan will begin to play a more critical role in determining how city resources are allocated. It is anticipated that PBB and the strategic plan will have a significant fiscal impact in future years; however, the extent of the impact is unknown at this time.

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Attachments:

1. ResourceX Agreement
2. Project Charter
3. Scoring Matrix
4. Program Inventory
5. Presentation