

DRAFT UPDATE March 2024

Redmond's Financial Strategy

A six-year long-range financial strategy

A joint work product of the Mayor and City Council
of the City of Redmond Washington

Revision Number 6

Originally Developed November 2005

Presented

Mayor Angela Birney

Draft Proposed to:

Finance, Administration and Communications Committee of the Whole
Steve Fields, Chair – Finance, Administration and Communications Committee of
the Whole

Foreword¹

What is a long-range financial strategy?

The long-range financial strategy is the framework which the City of Redmond uses to align financial capacity with long-term service objectives. It encourages a deeper understanding of the City of Redmond service commitments to our community and our plan to meet those commitments in a sustainable and responsible manner.

How does the development of this financial strategy help us?

A long-range financial strategy provides insights into future financial capacity so that strategies can be developed to achieve long term sustainability in light of Redmond's service outcomes and financial challenges. As a result, the City has shifted the manner in which we think about the budget. This shift moved us from a process that focuses on incremental cost to one that focuses on results. Our community understands what it expects from its city and our budget should directly focus on these expectations.

Why did we change the budgeting paradigm?

Local government fiscal environments are always changing. The traditional budget model, incremental budgeting focused on expenditures, leads to a spending profile that attempts to sustain existing programs and services, without the financial resources to support those services or the mechanisms to easily explain the need for new resources.

A budget should be predicated on what the community values economically, socially and environmentally to meet the needs of the present without compromising the ability of future generations to meet their own needs. Budgeting by priorities asks what the community desires based on their values. Cities struggle to sustain programs when revenues do not keep pace with costs. A budget that first asks what results our community desires, stratifies those results in order of importance, and then allocates the limited resources across those results which is preferable to the traditional incremental cost approach. In this way, regardless of the City's ability to fund existing programs, an outcome-oriented approach will help ensure that results are sustainable, that funding is allocated to priority programs, and that a triple bottom line of economic, social and environmental impacts is taken into account.

What are the guiding philosophies for this long-range financial strategy?

1. Recognize that there is a limited amount of resources that any community wants to invest in its governmental services.
2. Acknowledge the relationships between taxes, the economics of businesses and individuals, perceptions, and the services delivered to the community.
3. Focus on aligning organizational resources to bridge the gap between present conditions and the envisioned future in the Community Strategic Plan.

¹This forward is based in part on that which was included in the "Navigating the Rapids" documenting the City Council's Long-Range Financial Strategy dated November 2005. For more information on this previous work see Appendix B.

- 4. Continue to shift the City of Redmond’s financial planning towards service priorities and results in support of the community’s expectations.
 - 5. Define the priorities for services to be delivered from the perspective of the service recipient.
- With these issues and philosophies in mind, the Redmond City Council, in partnership with the Mayor and the Directors Team, developed this long-range financial strategy. It is intended to be a working framework document that is subject to frequent discussion and biennial review at a minimum.

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Purpose and Background

Our Vision for the Community and its Government

The vision of Redmond is a connected community that enhances livability, sustains the environment and places Redmond as a leader locally, regionally and nationally. To fulfill our vision, the Mayor and City Council build relationships with the Community, serve on regional boards on behalf of the City or Sound Cities Association and represent the Community on policy issues. The creation and adoption of the Community Strategic Plan in 2019 and revised in 2024, maps key work plan elements and provides guidance for the City's work. The major initiatives include Environmental Sustainability, Diversity, Equity and Inclusion (DEI), Public Safety and Infrastructure including housing choices along ~~with associated~~ with associated objectives, strategies, measures, and actions that will be implemented within the community over a specific period of time. The Community Strategic Plan is an important building block in the City's overall planning framework.

Redmond city government is committed to engaging with the community as we strive to understand its needs and interests. The work of the City isn't done in isolation. This work occurs in the context of the role of a city as described by the State of Washington. The Growth Management Act (GMA)² clarifies that cities are urban service providers. The GMA calls for the setting of growth targets for cities as well as a planning model for providing services to meet resulting community needs and interests. The adopted growth targets for core cities in King County calls for the absorption of 40% of the increased population by 2050. Of that increase, 67% is slated to occur in the urban centers of the Downtown and Overlake areas. Sixty percent of new commercial space is expected to occur in the urban centers as well. As a result, our vision needs to preserve the character of our community while accommodating the growth that is projected to occur.

Consistent with the Community Strategic Plan, the City's infrastructure investments reinforce livability in the urban centers, Downtown and Overlake, as the primary growth areas and preserve the character of Redmond's residential neighborhoods. Light rail ~~will be began~~ arriving at stations in the Overlake in 2024 and will be complete in Downtown and SE Redmond Urban Centers in 2023 and 2024, respectively, generating additional growth. Also anchored by a new light rail station, the emerging urban center of Marymoor Village is further anticipated to add over 1,400 dwelling units and one million square feet of new office space by 2030. Redmond's neighborhoods are a key focus area in terms of maintaining the public infrastructure and expanding it, if needed.

Development of the Downtown urban center is progressing, with thousands of new housing units having come online and many hundreds more programmed over the next several years, complemented by strategic investments in the new Downtown Park and reconfiguration of Redmond Way and Cleveland Streets. Planning efforts are currently focused on the City's Comprehensive Plan update through 2050.

Overlake is thoughtfully evolving into the envisioned urban center. Major redevelopment of the Microsoft campus will generate new opportunities and new challenges for the city's infrastructure and services as more than an estimated 810,000 new jobs are located in the area. The project is expected to be complete in 2025. Other large projects like Esterra Park, for example, have seen this largely suburban area start to take on a more urban feel, replete with needs for large-scale infrastructure investments like the recently-

² Chapter 36.70A RCW

completed regional stormwater [vaults infrastructure](#), the construction of the pedestrian bridge over State Route 520, and other infrastructure investments by other entities such as Sound Transit.

The Comprehensive Plan ([Redmond 2050](#)), which is currently being updated, articulates the vision for growth in our centers that is supported by state law, regional planning approaches, several functional area plans, and numerous project-specific efforts that implement our vision. ~~It is important to note that the Long Range Financial Strategy update is being done in a time of economic and social stress as a result of the pandemic. However,~~ Redmond has a history of conservative financial practices and economic resiliency that enables the City to withstand downturns in the economy [and strategically plan for the future](#).

Why we maintain a Long-Range Financial Strategy

Cities operate in a continuum of intended financial stress. By design, cities are challenged to meet a wide range of community needs and desires while utilizing as little of the community's resources as possible. This stress is evidenced by the ongoing debates over what services and levels of those services are really needed by the community and how much should they have to pay (in taxes and in other forms) for their city government to provide these services. A budget is the political process where these policy issues get debated and resolved.

In order to accomplish this important policy responsibility, the City can look to "best practices" for guidance in how to do it well. The Government Finance Officers Association is a recognized leader in such matters. Their best practice for "Long Term Financial Planning"³ states that "financial planning is the process of aligning financial capacity with **long-term** service objectives" (emphasis added). To state it another way, providing sustainable, long-term services requires sound financial planning. The intent of the Long-Range Financial Strategy (LRFS) is to ensure smooth, uninterrupted delivery of services into the future.

The LRFS will evaluate the city's financial planning goals, the tools available to the City to do this work, and the results of how we intend to use these tools to manage this important responsibility.

A brief history of the Long-Range Financial Strategy

Redmond's LRFS got its start in 2005 when some members of the Redmond City Council felt the need to clarify policy guidance for future budget development. At the time, the subtitle of the LRFS was "*Navigating the Rapids*" referring to the challenges of keeping the city's fiscal ship afloat (and avoid the known problem areas ahead). There was significant concern that fiscal stress was going to be severe for the next biennial budget. The City Council wanted to prepare for the upcoming budget process, in part, by having the policy discussions about level of service and amounts of needed community revenue early. One aspect of this approach was to advise the Mayor (who is charged with proposing a preliminary budget from which the City Council's work would start) of the policy parameters that City Council preferred.

While the initial effort accomplished the goal of clarifying policy intent, it did not result in some of the desired organizational changes. The budget process was largely consistent with past efforts (focusing on incremental costs and not adequately addressing community outcomes). The clarification of policy intent

³ Long-Term Financial Planning - Best Practice, approved by GFOA's Executive Board: February 2008

was more instrumental in the 2008 budget process (for the 2009/2010 biennial budget). It was then that many of the tools and processes cited in the current LRFS got their start.

Another outcome from the development of the LRFS was a clarification of the revenue options available to the City and when the City Council might find it advisable to make changes to the revenue profile. Examples of resulting changes include submitting a property tax levy lid lift to the voters (passed in 2007) and other changes in taxes and fees which were at the City Council's discretion. A more complete history of the LRFS and the changes in the revenue profile can be found in Appendix A.

The Philosophy

Balancing the financial burden on the community with the level of service

The City of Redmond believes the city exists to deliver our community's priorities in support of a dynamic Redmond⁴.

In order to excel at service delivery, the city requires resources. These resources come primarily in the form of taxes and user fees (representing 20% and 25% of total resources respectively). Balancing the amount of resources required with the value of the services provided is an important policy responsibility of the Redmond City Council.

In their book, "The Price of Government, Getting the Results We Need in an Age of Permanent Fiscal Crisis"⁴, David Osborne and Peter Hutchinson suggest that finding the right "price of government" is the policy art-form of balancing revenue requirements with real community needs. They observe that if the "price" is too high then communities will object to the high tax and fee rates. If the rates, and resulting resources, are too low then the services being provided will likely not meet community expectations. Finding this right "price of government" is a key policy obligation of the City.

Also note, Osborne and Hutchinson include the phrase "an Age of Permanent Fiscal Crisis" in the title of the book. This is recognition of the ongoing challenge of making the case for local government resources with a skeptical public. The tension between finding the right "price" and addressing the right levels of service for community priorities is healthy but difficult. While there may (or may not) be a "permanent fiscal crisis," the City of Redmond recognizes the importance of building strong credibility with our community with regard to spending community resources on outcomes that matter to them. It is essential that the City continues to focus on the priorities of the people and businesses that live and work within its borders, especially in times of fiscal and social stress being felt currently and in the future.

Being intentional in how the revenues are structured

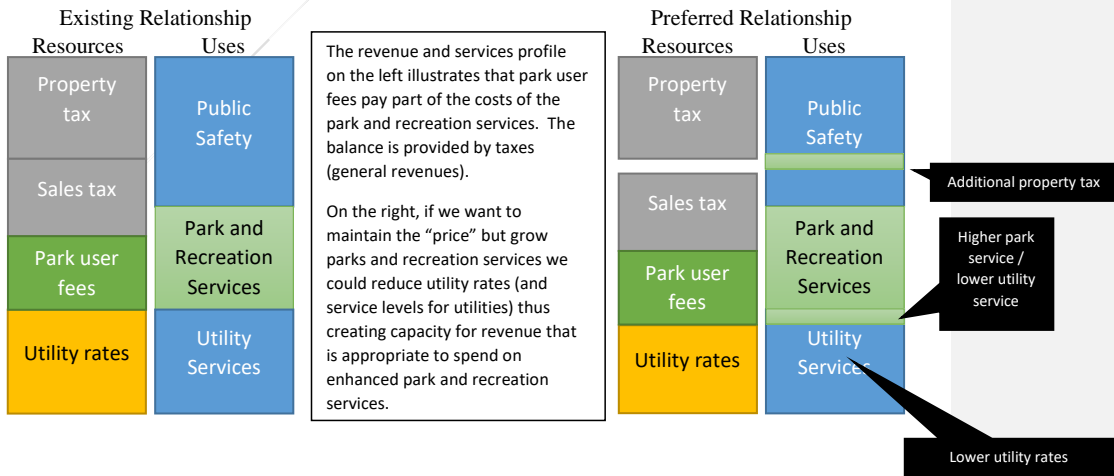
The "Price" is made up of all the resources available to the city, not just taxes. From taxpayer perspective, there is no clear distinction between many of the different taxes or fees collected by the city. They all add up to represent the financial burden on the community for the provision of services. In one respect, the City has very limited options for its tax related revenues. Within the constraints of state law (and some federal laws) the city is confronted with several limitations and procedural requirements as to how it can raise tax revenues. User fees (such as utility rates or park user fees) generally experience fewer imposed constraints by other levels of government. Additionally, the uses of certain taxes and fee revenues are restricted to certain types of services to be provided by the city. For example, water rate revenues can only be used for those costs associated with providing water service to the community. A tax related example is the lodging tax (hotel/motel tax), which is restricted to tourism promotion, acquisition of tourism-related facilities, and operation of tourism-related facilities.

In a different respect, however, the City Council has significant discretion in aligning the levels of taxes and fees with the corresponding level of city services. For example, if the city had a very high level of water service (and corresponding higher rates), it could choose to forgo future increases in water rates (or even lower the water rates) and lower the amount or quality of water related services to the community. This revenue capacity (from a community wide perspective) could then be shifted to an area where higher

⁴ "The Price of Government", Osborne & Hutchinson, 2004

service levels were desired. This ability to manage the levels of service among city services by adjusting the corresponding tax and fee rates is an important consideration in structuring city revenues.

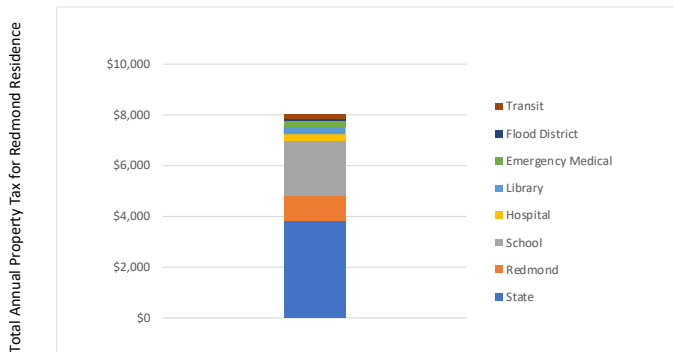
The following overly simplified illustration will clarify this point. A historic relationship exists between the different revenue sources and their appropriate uses. After some community input and policy discussion, the City Council can adjust the sources of revenues in response to the desired mix of services and service levels as illustrated on the right.

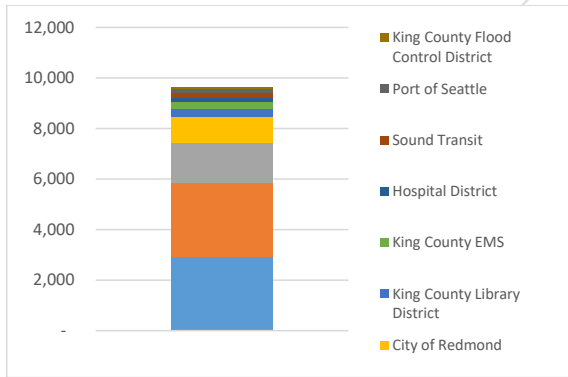


In addition, the City does not work in a vacuum of governmental service providers. Other levels and types of governmental agencies are also assessing taxes and fees of different types. King County, the Lake Washington School District, and the State of Washington are just a few of the other jurisdictions that levy some type of fee or tax on Redmond residents and businesses.

While the City of Redmond does not yield its responsibility to address the community services that the city provides, it is aware of how these different layers of governance interact. The overall governmental burden on our community is important to understand. The City may choose to interact with these other governments with regard to the overall mix of tax and fee burden while addressing community needs.

This illustration portrays the property tax burden on a typical Redmond resident for the 2024 tax year.





The Strategy

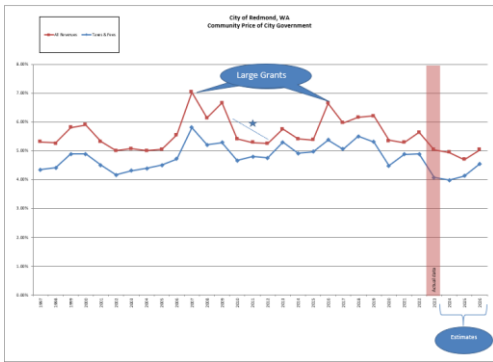
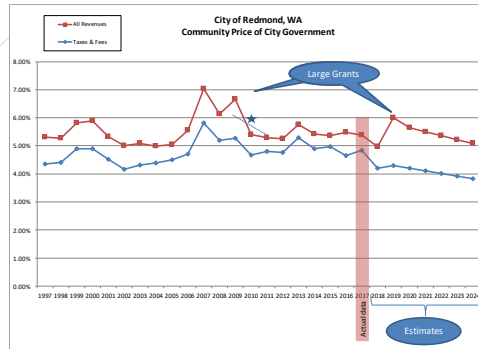
Community based budgeting – the context for our approach

The City provides services to the Redmond community. Some City services are required by state law, while other services are essential in an urban environment. Additionally, the City provides optional services that are important to its residents and businesses. In all cases, the services provided by the City should be of value to the community. The City of Redmond uses a community-based budgeting approach that validates the use of public resources to meet community needs and interests. It is likely that all elements of the community won't agree on the right set of services to be provided by the City. Therefore, the City should strive to find the right mix and level of services that address the majority of the community's interests.

A community-based approach relies on good feedback from the community about what it wants from its City government. The City of Redmond will work to maintain strong feedback from the community in a variety of forms as the basis for its spending choices. The resulting financial plans should illustrate how this community input results in the spending choices made by the City.

The Price of Government

Osborne and Hutchinson devote a significant amount of space in their book to finding the right "Price of Government". As previously described, the right "price" is essential to maintaining support for the level of services provided to the community. To arrive at a "price of government" they divide all the governments' revenues by "community income" (per-capita income times the population). The resulting ratio reflects how much of the community income is invested by that community in city services.



In Redmond, we have analyzed the “price” going back to 1997. The chart depicts that ratio over time broken into three different types of city revenues. Each layer is additive such that the total “price” is typically between 5% and 6% of community income. A few exceptions occur in the form of large one-time contributions or spikes in the economy as described in the chart.

The analysis of the “price” looks primarily at the City’s own history rather than at comparisons or external benchmarks. Each city is unique and attempts to compare cities are frustrated by these unique characteristics.

A sense of the total burden of City revenue on the Redmond community helps the “how much revenue is enough” policy discussion that every city council should have.- In Redmond, the City Council has evaluated this data and determined that the “right price of Redmond City government is between 5% and 5.5% of community income. This percentage can vary significantly depending on economic conditions (e.g., high level of development activity or disruption caused by a pandemic), .

Note that the analysis above projects the “price” out into the future. The uptick in the price in 2016 is attributable to one-time revenues (real estate excise tax and impact fees) from the development surge the City experienced. Other drivers such as the Microsoft development agreement for the redevelopment of the company’s campus and the Sound Transit light rail construction will also figure into the price.

A sense of the anticipated burden on the Redmond community along with alignment to longer term financial planning helps the City prepare for economic changes. The goal is to create stability for the community (as to the “price” and the services provided) and for the City as it works to provide financially sustainable services and amenities.

Revenue Philosophy

In addition to established fiscal policies related to City revenues, the City Council has developed the following philosophy related to City revenues. These philosophies are intrinsic in City Council deliberations related to City revenues and are a foundation for establishing future and revised fiscal revenue policy. This philosophy encompasses a desire to build resiliency so that the City can adapt and grow through chronic stress to the system and to look at the triple bottom line of economic, social and environmental impact when making decisions.

- **Assess and maintain fair, equitable and stable sources of revenue**

Given the parameters in State law, the City needs to look for stable and progressive tax streams in the context of the price of government.

- **Prioritize less volatile revenues sources over revenues more sensitive to changes in the economic climate, such as sales tax (particularly construction-related sales tax).**

Issues of volatility should be reflected in the decision-making process, with core services being primarily funded by revenue sources that are less volatile.

- **The “total” tax bill should be considered when increasing rates**

When assessing total tax impacts to taxpayers, increases in non-general fund rates need to be included in the total cost. Additionally, broader tax and utility fee obligations imposed by all taxing jurisdictions should be considered, recognizing that Redmond has little control of these assessments.

- **Limits to taxation**

There is an acknowledgement that there is a limit to total revenues available to operate Redmond city government. The residents are pressured by an increasing cost of living from many factors, plus increases in taxes from other levels of government. There should be an appropriate and community-accepted “price of government” expressed as a percentage of personal income⁵ and a shared understanding of the impacts of the price of government falling too low.

⁵ See Appendix for how the “price of government” is determined

There should be a clear “value proposition” which enables the evaluation of the benefit received for being located in Redmond versus the cost of doing business in Redmond. There is a risk that increasing the cost of doing business in Redmond will cause businesses to move or shift some of their functions to other locations. If tax and fee increases are too significant, the result could cause a net decrease in revenue.

• Voters should be asked to approve tax increases when the proposed increase is above historical rates

It is the policy of the City of Redmond to fully include Redmond taxpayers in deliberations over service level options and tax rate increases, particularly where tax rates approach the limits of the acceptable price of the services the City intends to provide with those tax revenues.

• Assess regional approaches to funding capital improvements

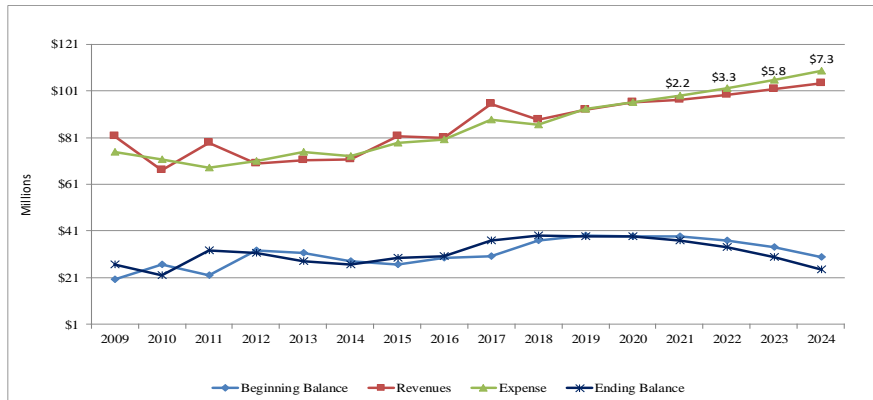
To achieve high value for the dollars invested, apply a more regional approach by leveraging internal dollars with those available from other governments and organizations through grants and partnerships.

Long-range financial planning

The GFOA’s best practice cited earlier calls for governments to plan “five to ten years into the future.” In their book, Osborne and Hutchinson recommend a “five by five” where five essential numbers are forecasted five years into the future (the 5 essential numbers are beginning fund balance, revenues, expenditures, net difference and ending fund balance). The City of Redmond has been developing a long-range financial plan for several years now. This plan is the basis for illustrating the interconnection between revenues, anticipated expenditures (to maintain current services) and the financial burden on the community (the “price”). The most recent long-range financial plan is contained in the 2023-2024 adopted budget.

(to be updated with adopted budget)

Commented [KC1]: Update with Adopted budget



Consistent with our adherence to other elements found in “The Price of Government” the City uses a “five by six” approach in its long-range financial plan. The five essential numbers over a period of six years to coincide with Redmond’s biennial budget.

The long-range financial plan illustrates a common principle known as “the crossing lines.” Commonly in local government the incremental costs of doing business typically exceed the anticipated incremental revenues. Budgets balance these “gaps” every biennial budget cycle.

Financial planning goals

Managing the long-term financial well-being of the city is enhanced by consistent focus on certain goals. These include stability in resources, equity in the financial burden imposed on our community, sustainability of core programs and services, and others.

To meet these goals the City has adopted fiscal policies. These policies are found in each biennial budget (which is located on the City’s web page – www.redmond.gov/budget). The City will review and update these fiscal policies, if needed, each biennial budget planning period.

It is the intent of the City that the combination of the strategies contained herein and the fiscal policies result in stable, long-term predictability of the City’s revenue (tax) burden, services, and financial well-being.

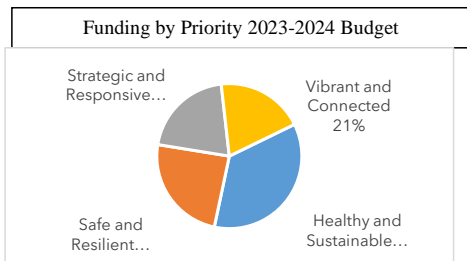
Maintaining Reserves

One way the City addresses the financial and service goals above is to reserve resources for unexpected circumstances such as economic downturns and natural calamities. These resources and their respective target levels are found in the City’s fiscal policies. Establishing these reserves is a GFOA best practice⁶. The City’s fiscal policies call for at least a 12% General Operating Reserve and at least a 5% Economic Contingency as well as various reserves for the utilities, capital equipment replacement, and debt service. These policies are reviewed during each budget cycle.

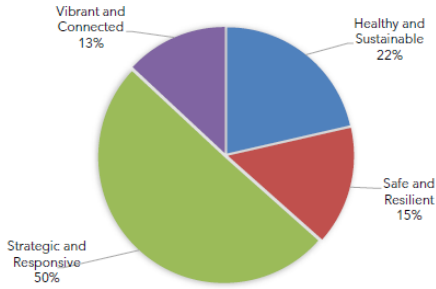
Budgeting by Priorities

The City uses a Budgeting by Priorities (BP) type budget. This is also known as Budgeting for Outcomes. It is very similar as the methodology described in “The Price of Government” text. In Redmond we use BP for several different reasons, including:

Focusing the budget on community priorities (not City departments) – Cities typically budget based on last year’s funding levels (incremental budgeting) and around the construct of how they are organized (departments) rather than community needs (priorities). At the City of Redmond, several community meetings in 2008 formed the basis for the six priority areas which are the focus of the City’s budget planning. These priority areas are depicted in the chart below (and illustrated in each budget) in a way that indicates the amount of community resources invested in each priority area.

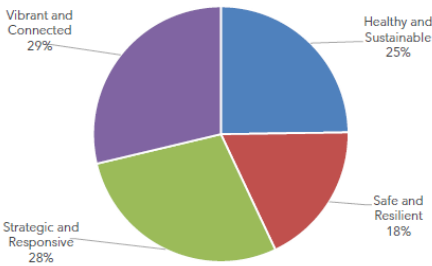


⁶ Appropriate Level of Unrestricted Fund Balance in the General Fund - Best Practice, approved by GFOA's Executive Board: September 2015



(to be updated with adopted budget)

Funding by Priority 2025-2026 Budget



Commented [KC2]: Update with Adopted total

The community priorities are revalidated with each budget cycle through the periodic community survey (in 2024~~19~~, 86% agreed that these remain the right priorities).- The City conducts community outreach each budget cycle to also gather feedback about what types of programs and investments are desired within each of the priority areas.

Commented [KC3]: Final numbers available 10/30

Citywide Collaboration – Most city budgets are a “win/lose” proposition. Departments are motivated to “win” more of the budget resources so that they can deliver more service. (The fact that departments are motivated to deliver more service is a positive testament to the desire for public servants to provide service). However, this does not always result in the best overall outcome for the city. Those that “play the budget game” better than others tend to get the resources.

Redmond uses BP to encourage a citywide approach to building “the best budget for the City”. In this way we ask participants to think about the City as a whole and not just their program, service or department. We also ask staff to think about the budget from the community’s perspective. This is unusual in local government budgeting as well. In fact, budget offers (proposals) encourage interdepartmental cooperation to deliver value to taxpayers.

Increases the Level of Financial Awareness – As described below, the City uses Results Teams to help develop recommendations to the Mayor for the preliminary budget. These teams are made up of staff and community members who would otherwise not be exposed to the issues described in this financial strategy. The increased level of financial awareness helps sensitize City staff to the importance of using community resources as wisely and carefully as possible.

Value Delivered – As described next, BP is focused on value.- Most budgets describe what is being spent. Few budgets describe what value is being delivered.

The “Value Proposition” (performance measurement)

In order to ensure the result being delivered is of the right quantity and quality, the City will use a robust performance measurement program, integrated with the budget offers. The “value proposition” has been defined as $\text{value} = (\text{quality} + \text{quantity}) / \text{cost}$. For example: If the cost is constrained, typically the quality or quantity of a service will also be constrained.

The value of a budget proposal is illustrated within each priority. The measures illustrate what the desired outcome of the priority is and how the City’s programs will move the Community towards the vision as outlined in the Community Strategic Plan. It is the desire of the City to look at a triple bottom line approach as described earlier in this document.

The City uses performance measures to evaluate the value being delivered to the community by each offer within the budget. Redmond aspires to use the analysis of the data contained in the models in an ongoing assessment of the value actually being delivered to the community. To this end, the City seeks to develop the means to adjust service delivery methods and quantities to meet the needs and expectations of the Redmond community.

Financial and Performance Reporting

The City has a long tradition of transparency and accountability. Redmond publishes its financial results each month on its web site in a timely fashion. The City provides an in-person review of financial results to the City Council each quarter (see [www.redmond.gov/Financial Reports](http://www.redmond.gov/Financial_Reports)) and the City’s financial condition is reflected in the City’s Annual Comprehensive Financial Report (ACFR).

The City has provided performance reporting as well. Redmond staff aspire to provide performance reporting as thoroughly and frequently as appropriate as many of the performance indicators do not change much from month to month. Reports will be focused on a citywide performance dashboard or measures illustrating the desired results at the overall priority level. Beyond that, reports will reflect the many indicators of successful results and/or gaps illustrated in the budget offers.

Capital Investments

One of the more important choices the city makes is investments in capital facilities. While the City provides services and programs, it also provides public facilities such as parks and recreation centers, transportation systems (roads, sidewalks, trails and bikeways), utility infrastructure (water, wastewater and surface water systems), technology infrastructure and other amenities. Once created, these facilities need to be maintained in a safe manner and preserved to maximize the investment value.

Maintaining the prior investments

One of the top priorities of the City is to maintain the facilities that have already been developed. In the feedback from our community described above, the City consistently hears that maintaining the value of prior investments is very important to the Redmond community. In fact, maintaining what we have is consistently the top concern of our community with regard to capital investments. As a result, Redmond conducted a facilities strategic plan cataloging the maintenance needs of all city facilities which has been an integral part of future investments.

The Capital Facilities Plan as an element of the Comprehensive Plan

The [Comprehensive Plan](#) (update to Redmond 2050 after adoption) is a comprehensive land use policy described earlier in this strategy. The plan interprets the obligations of the City within the context of the state Growth Management Act (GMA)⁷. The plan adopted by the City describes how the City will manage the growth and provide the required amenities of a city under the GMA. An important element of the Comprehensive Plan is the permitted land uses around the City and how those land uses are to be enabled (and even prosper) by City investments in necessary facilities.

Commented [HN4]: This is Redmond 2030...will change to Redmond 2050 after adoption

To make this connection between planned land uses, development of a city and the needed capital investments each Comprehensive Plan is required to include a [Capital Facilities Plan](#) (CFP)⁸. The CFP includes (a) an inventory of existing capital facilities owned by public entities, including locations and capacities; (b) a forecast of the future needs for such capital facilities; (c) proposed locations and capacities of expanded or new capital facilities; (d) at least a six-year plan that will finance such capital facilities within projected funding capacities including anticipated resources; and (e) a requirement to reassess the planned land uses if funding falls short of meeting needs. The CFP includes utilities, transportation, and park and recreation facilities.

Commented [HN5]: Need to update this link as well.

The City of Redmond embraces the opportunity presented by the GMA in both its management of the overall city planning as well as the CFP. Consistency with the Comprehensive Plan is the primary criteria for the development of the City's Capital Facilities Plan.

The Capital Investment Strategy

To realize the potential of the role that capital facilities can play in encouraging the type of development desired by the City and documented in the Comprehensive Plan (Page 12-10), the City has created a [Capital Investment Strategy](#) (CIS). The CIS describes the long-term projects, costs, sequence, forecasted revenues, and strategic actions needed to deliver Redmond's long-term vision. While the Capital Facilities Plan under the GMA calls for a six-year plan of capital investments, the City of Redmond believes that looking six years into the future is not sufficient. The CIS planning horizon mirrors the Comprehensive Plan. As a result, the CIS includes the assessment of needed projects through 2050 to

⁷ Growth Management Act – RCW 36.70A

⁸ CFP required under RCW 36.70A.070

provide for the needed public facilities to support the land uses provided for under the Comprehensive Plan.

The CIS is the capital investment planning context for the City's biennial budget and is used to provide the necessary analysis to construct the six-year Capital Investment Program (CIP). This element of the CIS will comply with state law regarding identification of the planned capital investments.

The Capital Investment and Business Technology Programs

The City's biennial budget will include a Capital Investment Program. This plan, once approved by City Council as part of the budget, represents the anticipated capital investments for the next six years. The plan will be balanced with anticipated resources. In order to be included in the CIP, a project must cost \$50,000 or more, have a useful life of five years or more, be a cost directly related to a project and/or be a planning effort that results in a specific capital improvement.

The first two years of planned investments will be included in the appropriation ordinance approving the budget. As a result, no further City Council action is required prior to the expenditure of funds. The projects can take a variety of forms. For instance, a project may contain planning, design and construction elements of buildings or other infrastructure. Additionally, a project may provide funds leveraged with other partners to further the City's affordable housing goals. The CIP clearly illustrates the level of approval for each project.

In a similar fashion, in 2020, the City ~~will be planning the established a Business Technology & Investment Program to identify technology projects that represent a short and mid-term plan for technology implementations to fully support the City's strategic goals, long-term outlook for technology investments needed.~~ These investments ~~will include on premise and software as a service programs to further the City's technology goals.~~ serves to advance the City's vision for a livable, environmentally sustainable, and connected community that places Redmond as a leader locally, regionally, and nationally

Tools

Fiscal policies

As described above, the adoption of fiscal policies is a best practice recommended by the GFOA. The GFOA recommends that the policies include the following topics:

1. *General fund reserves.* Policies governing the amount of resources to be held in reserve and conditions under which reserves can be used.
2. *Reserves in other funds.* Policies for other funds (especially enterprise funds) that serve a similar purpose to general fund reserve policies.
3. *Grants.* Policies that deal with the administration and grants process.
4. *Debt.* Policies that govern the use of government debt, including permissible debt instruments, conditions under which debt may be used, allowable levels of debt, and compliance with continuing disclosure requirements.
5. *Investment.* Policies that provide guidance on the investment of public funds, including permissible investment instruments, standards of care for invested funds, and the role of staff and professional advisors in the investment program.
6. *Accounting and financial reporting.* Policies that establish and guide the use of an audit committee, endorse key accounting principles, and that ensure external audits are properly performed.
7. *Risk management and internal controls.* Policies that address traditional views of risk management and internal controls as well as more modern concepts of enterprise risk management.
8. *Procurement.* Policies that are most essential for adoption by the governing board in order to encourage efficient, effective and fair public procurement.
9. *Long-term financial planning.* A policy that commits the organization to taking a long-term approach to financial health.
10. *Structurally balanced budget.* Policies that offer a distinction between satisfying the statutory definition and achieving a true structurally balanced budget.
11. *Capital.* Policies that cover the lifecycle of capital assets, including capital improvement planning, capital budgeting, project management, and asset maintenance.
12. *Revenues.* Policy guidance through the designing of efficient and effective revenue systems that guarantee the generation of adequate public resources to meet expenditure obligations.
13. *Expenditures.* Policies addressing a range of issues around how the money is expended, including personnel, outsourcing, and funding long-term liabilities.
14. *Operating budget.* Policies that describe the essential features of the budget development process as well as principles that guide budgetary decision making.

Governing Magazine (an authoritative resource for local government management) publishes “[Guides to Financial Literacy](#).” In volume 2, they identify the adoption of financial policies as a way to improve organizational financial health.

The City will review its fiscal policies during each biennial budget cycle. This review will start with a staff review, followed by a review by the designated City Council Committee (currently the Finance, Administration and Communications (FAC) Committee) and, if changes are proposed by the FAC Committee, the full City Council.

The Budget Process

As described above, the City uses a Budgeting by Priorities (BP) process for all city resources. This includes operations as well as capital investments. This approach helps ensure that all community resources are invested in community programs, services or amenities in the context of community priorities and input.

The budget process is a key decision-making framework for any local government. The type of budget process helps determine how investing public resources align with desired outcomes. The City's use of

BP requires more effort and time than the traditional incremental approach. However, as described above, the City uses a BP approach to achieve unique benefits as previously described.

Each budget cycle will start with the development of a calendar to describe the elements for that budget. The calendar will be reviewed by the Finance, Administration and Communications Committee and adopted by the City Council. The primary elements of the budget process in Redmond, in chronological order, are:

1. Development of a budget calendar with City Council approval
2. Initial community input, including a statistically valid community survey
 - a. Community input may also include other forms such as neighborhood meetings, focus groups, on-line feedback, etc.
3. Budget planning retreats – administrative and/or City Council retreats to set the policy guidance for the upcoming budget
4. City Council provides input to Mayor regarding overall policy approaches, allocation of resources, areas of emphasis for use in developing the preliminary budget
5. Appointment of Results Teams – both staff and [community-civics](#) teams
 - a. Results Teams develop preferred strategies to address priority areas
 - b. Capital Investment Strategy and [Business](#) Technology Strategy work products are also reviewed and updated at this time
6. Communication of parameters and instructions to staff for preparation of the budget and capital investment program
7. Development of budget offers
 - a. Preliminary review of offers
 - b. Final review and stratification of offers by the Mayor and Directors Team
8. Mayor and Director's Team review budget programs
 - a. Includes discussions with each team
9. Mayor and Directors finalize Preliminary Budget
10. Preliminary Budget presented to City Council
 - a. Public hearing on Preliminary Budget (RCW 84.55.120)
 - b. City Council workshops to review and recommend changes to the Preliminary Budget
 - c. City Council's questions and suggestions are captured in a working matrix for documentation purposes
11. City Council commences work on the final biennial budget⁹
 - a. Public hearing on final biennial budget
12. City Council adopts Biennial Budget
 - a. All Community and City Council comments regarding the Preliminary Budget are documented in the Budget Adoption packet.
13. Administration implements the Biennial Budget

An assessment of the effectiveness of the budget process is conducted at the end of each budget cycle with all the participants. The feedback helps inform changes for subsequent processes. As a result, the above process is expected to change, to some degree, each budget cycle.

⁹ RCW 35.33.061 Budget – Notice of hearing on final budget

Revenues available to cities in Washington State

Development Fees

City Council supports the philosophy of full cost recovery for development fees. Development fees are to be updated annually either by Consumer Price Index (CPI) or the Cost-of-Living adjustment for salary, whichever is higher, for inflation and reviewed in each biennial budget cycle. All fees shall be reviewed and adjusted every five years to ensure the rates are equitable and cover the full cost of service. A periodic review will be performed on the cost recovery basis for the fees.

Parks and Recreation Fees

City Council supports the pyramid methodology adopted in 2017 to set the levels of cost recovery for parks and recreation fees. City Council believes a basic level of park and recreation service is free (supported by tax revenues) and fees are a responsible and necessary supplement. In addition, programs that support the community as a whole should be tax supported while those that support individuals should be funded through fees. In terms of cost recovery, the larger the individual benefit the higher the cost recovery rate will be, taking into account economic climate, alternative providers and market rates. Finally, fee reductions will be available in the case of economic need.

Business & Occupation Tax – Gross Receipts Tax

The City does not levy a Gross Receipts Business and Occupancy Tax, utilizing instead a business license fee coupled with a business transportation tax based on the number of full-time equivalent (FTE) employees per business (see below).

Business License Fee

City Council believes the concept of a business license fee based on Full Time Equivalent (FTE) employees is a positive structure based on relative business size. City Council will review the fees for inflationary increases during each biennial budget. Business license fees will be adjusted biennially based on the Consumer Price Index, with an additional adjustment to account for any cumulative changes in the CPI over the two-year period. City Council will review the fees ~~for inflationary increases~~ during each biennial budget.

The Business License Transportation surcharge is assessed in the same manner as the business license fee and shall be considered and adopted concurrent with the business license fee. These fees are to be updated annually for inflation in line with the budget.

Eligible uses of the Business Transportation Tax shall include all programs and services identified in the Transportation Improvement Program/Transportation Facilities Plan (TIP/TFP), including maintenance of transportation infrastructure and travel options programs, as well as expenses related to traditional transportation capital investments.

Note that the Business Transportation Tax revenues go directly to the Capital Investment Program or to the Transportation Demand Management (TDM) budget.

Utility Taxes

In 2006 the City Council increased the utility tax rate to 6% of gross revenues for electric, gas, and telecommunications utilities as allowed by law (note: the utility tax rate can exceed 6% with a vote of the people). City Council instituted a 3% utility tax on cable services in 2015 and then increased it to 6% in 2019.

City Council understands in the future that a utility tax could be levied on the City provided utilities (water, sewer, storm drainage). At this time, however, City Council does not generally support levying a tax on City provided utilities.

[In 2025, the City proposed to impose a new utility tax of 1% on the City's stormwater, wastewater, and water utilities to support public safety needs in the General Fund.](#)

Sales & Use Tax (In Progress)

Commented [HN7]: In progress

Property Tax – City Council Authority

City Council intends that the total price of government not exceed the policy boundaries discussed elsewhere in this document. To that end, alternative assumptions related to property taxes will be included in the long-range financial forecasts as part of this strategy. Adopting longer term thinking will enable the City Council to balance the intent of keeping property taxes low with maintaining services within the overall price of government. A review of different scenarios will illustrate the overall effect of each assumption.

Property Tax – Voted

There are two types of voted property tax levies: levy lid lifts and excess levies. Levy lid lifts can be used to fund operations or capital projects, and they have a simple majority voter approval requirement. Excess levies are used to pay the debt service (principal and interest) on unlimited tax general obligation (UTGO) bonds, which have been issued to fund one or more capital projects. They have a 60 percent voter approval requirement.

City Council placed a levy lid lift on the ballot in November 2007, which was approved by voters, taking effect in 2008. The levy- was for- \$4.46 million in improvements to fire, police and parks maintenance services. In August 2015, City Council placed two different six-year, limited term property tax initiatives on the ballot amounting to \$0.35 per \$1,000 of assessed value.- Both measures, which would have provided for safety and park improvements, failed.

[A new public safety levy lid lift needs to go to the voters in November 2022, because the revenue generated by the November 2007 levy lid lift no longer cover the costs of the services funded by the levy due to the 1.0 percent annual levy increase limitation.](#)

Parks Bond Measure

City Council has contemplated a ballot measure to fund Parks acquisition and development as a priority. The Parks Board and Parks & Recreation Department have been working towards identifying the proper levels of service and facilities needed to provide a regional and Redmond-centric park and recreation program. The City has leased space to relocate Redmond's Community Center and is in discussions regarding the financing of a new Senior Center.

Transportation Bond Measure

City Council has identified mobility of people and property as a top priority and recognizes that adequate infrastructure adds to the economic vitality of the City. The City Council reserves the option to ask voters to support a transportation bond measure to secure funding to implement the Transportation Master Plan.

Other User Fees

The City will periodically review other fees and charges to ensure those costs for services have been taken into consideration in terms of its overall revenue strategy.

Additional Options

City Council could consider the formation of a Metropolitan Park District, which requires voter approval, as a funding strategy for regional park facilities.

[City Council could also consider a Transportation Benefit District as authorized by state law.](#)

The table on the next page illustrates the revenue options described above.

(to be updated with adopted budget)

Revenue Source	Current Rate	Authority Limit	Indexed?	Decision Maker	Volatility Rating
Property Tax	\$1.09/\$1,000 of AV	1% year	No	City Council	Low
“Multi-Year Bump” Levy Lid Lift (can exceed 1% limitation for up to 6 consecutive years)	0	\$3.10 / \$1,000	Yes	Voters	Low
“Single Year Bump” Levy Lid Lift (can exceed 1% limitation in first year of levy only) ¹	0	\$3.10/ \$1,000	No	Voters	Low
Utility Tax (Electric, Gas, Telephone, Cable) ²	6%	6%	No	City Council	Medium
Utility Tax (City Utilities) ²	0.1%	None	No	City Council	Low
Sales Tax	0.895%	0.985%	No	City Council	High
Restricted Local Sales Tax	0%	0.1%-0.3%	No	Voters	High
Gross Receipts (B&O)	0%	0.2%	Yes	City Council	Medium
Business License Fee ³	\$6050.00	None	Yes	City Council	Medium
Business Transportation Tax ⁴	\$6781.00	None	Yes	City Council	Medium
Development Review Fees	Full Cost Recovery	None	Yes	City Council	High
Recreation Fees	Direct Cost Recovery	None	Yes	City Council	Medium

Commented [HN8]: In process

¹ “Single year bump” levy lid lifts have been approved by voters as follows:

When	Purpose	Amount (Historical)
2007	Fire Service	\$2,201,858
2007	Police Service	\$2,051,300
2007	Parks Maintenance & Operations	\$205,806
1989	Parks Maintenance & Operations	\$300,000

These amounts are now part of the base city property tax levy.

² The history utility tax rate changes over the past twenty years is shown below:

When	Purpose	Service	Rate
2025	General Government Public Safety Purposes	Stormwater	1%
2025	General Government Public Safety Purposes	Wastewater	1%
2025	General Government Public Safety Purposes	Water	1%
2018 (ord. 2942)	Cable Services	Cable	6%
2014 (ord. 2769)	Cable Services	Cable	3%
2014 (ord. 2716)	Fire Suppression Services	Water	0%
2013 (ord. 2673)	Fire Suppression Services	Water	8.53%
2010 (ord. 2545)	Fire Suppression Services	Water	9.23%
2006 (ord. 2281)	General Government Purposes	Elec. Tele. Nat. Gas	6.0% (was 5.8%)
2004 (ord. 2239)	General Government Purposes	Elec. Tele. Nat. Gas	5.8% (was 5.5%)
1996 (ord. 1923)	General Government Purposes	Elec. Tele. Nat. Gas	5.5% (was 4.5%)
1995 (ord. 1867)	General Government Purposes	Elec. Tele. Nat. Gas	4.5% (was 5.5%)

³ The history of business license fee changes over the past ten years is shown below:

When	Purpose	Rate
2026	General Government Purposes	\$69.00
2025	General Government Purposes	\$66.00
2024	General Government Purposes	\$60.00
2023	General Government Purposes	\$56.00
2022 (ord. 3025)	General Government Purposes	\$52.00
2021 (ord. 3025)	General Government Purposes	\$51.00
2019 (ord. 2940)	General Government Purposes	\$50.00
2018 (ord. 2940)	General Government Purposes	\$49.00
2017 (ord. 2862)	General Government Purposes	\$48.00
2016 (ord. 2862)	General Government Purposes	\$45.00
2015 (ord. 2770)	General Government Purposes	\$42.90
2013 (ord. 2667)	General Government Purposes	\$35.00
2004 (ord. 2238)	General Government Purposes	\$28.25
2000 (ord. 2088)	General Government Purposes	\$12.50
1998 (ord. 2003)	General Government Purposes	\$10.00

⁴ The history business transportation tax changes over the past ten years is shown below:

When	Purpose	Rate
2026	Transportation & Transportation Demand Management Programs	\$91.00
2025	Transportation & Transportation Demand Management Programs	\$87.00
2024	Transportation & Transportation Demand Management Programs	\$81.00
2023	Transportation & Transportation Demand Management Programs	\$76.00
2022 (ord. 3025)	Transportation & Transportation Demand Management Programs	\$70.00
2021 (ord. 3025)	Transportation & Transportation Demand Management Programs	\$68.00
2019 (ord. 2940)	Transportation & Transportation Demand Management Programs	\$67.00
2018 (ord. 2940)	Transportation & Transportation Demand Management Programs	\$66.00
2015 (ord. 2770)	Transportation & Transportation Demand Management Programs	\$64.00
2013 (ord. 2667)	Transportation & Transportation Demand Management Programs	\$57.00
2011 (ord. 2567)	Transportation & Transportation Demand Management Programs	\$56.00
1996 (ord. 1924)	Transportation & Transportation Demand Management Programs	\$55.00

Other City plans in relation to the financial strategy

Within the context of the Comprehensive Plan are functional area plans. These are detailed professional assessments of existing conditions, current and future facility needs, service targets, and projected funding to implement the Comprehensive Plan. These plans are adopted by the City Council and incorporated into the Comprehensive Plan's Capital Facilities element by reference.

As an element of the Capital Facilities Plan, the functional area plans indicate anticipated future improvements to provide for the growth and development of the City. They provide context for consideration of future investments in the development of the City's Capital Investment Strategy.

Appendix A

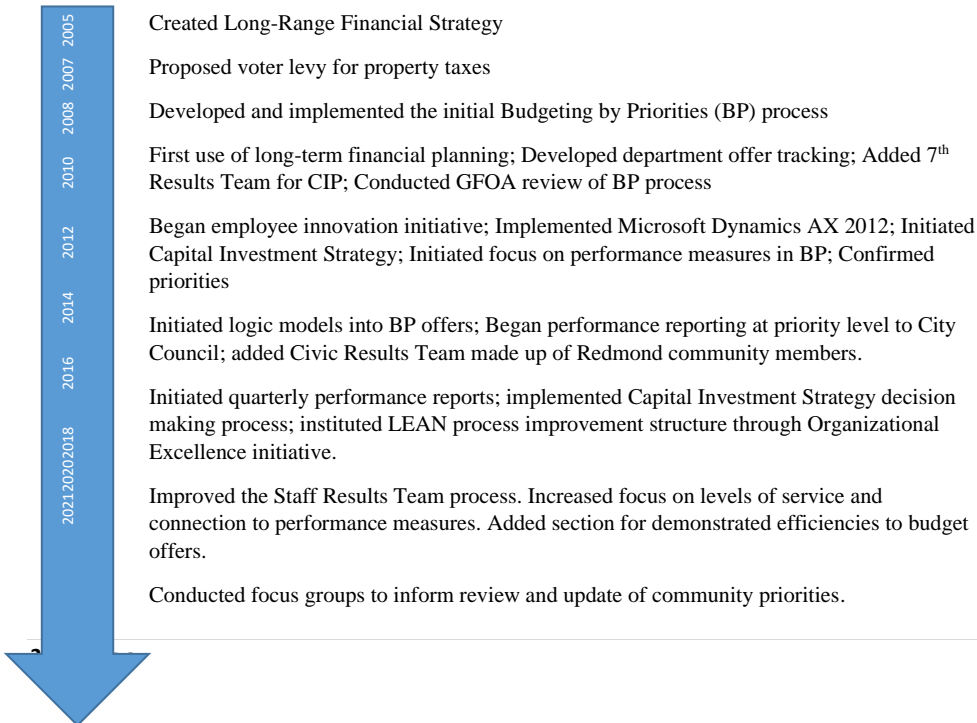
A more detailed history of the LRFS

In 2005 the Redmond City Council was advised by the administration that a period of unusual fiscal stress was approaching. The City Council wanted to be proactive in addressing any challenges. In addition, the City Council wanted to provide longer-term, strategic policy direction to the administration regarding financial matters. The result was the development by the City Council’s Public Administration and Finance Committee of the first Long-Range Financial Strategy.

Known at that time as “Navigating the Rapids,” the strategy was intended to acknowledge that the expected fiscal issues were somewhat similar to navigating a waterway through a period of “rapids.” The expectation was that while the upcoming fiscal stress may represent a limited period of time, the longer-term view was very important. The City Council was concerned with the sustainability of its decisions over time and under different types of fiscal stress.

Once developed, the LRFS provided City Council with the context from which they would review proposals by the administration. As documented in the revenue history above, the City Council has taken action several times since the initial LRFS to maintain a current revenue profile to provide for community needs. The actions taken soon after 2005 are a direct reflection of the influence of the LRFS on the policy decisions made at that time.

The chart below reflects the evolution of the City’s financial management program in the context of the issues described within this document.



Updated community priorities, outcome maps and performance measures. Revised budget narratives and expanded community involvement in the Civic Results Team process. Added a section to the budget document to communicate the Business Technology Investment Program.

Improved reporting, communication, and budgeting processes for the Capital Investment Program.

Proposed voter levy for Public Safety.

[Budgeting for Equity program implemented.](#)

The Price of Government (POG) Calculation

The price of government is the total city resources divided by community income. The 2018 price of government calculations are below.

Calculation Explanations

- Taxes make up 40% of all revenues. Other taxes include real estate excise tax, transient lodging tax, gambling tax and leasehold tax.
- Permits are primarily for development while licenses are primarily business licenses.
- User charges are the fees paid directly by beneficiaries of city services, including water, wastewater and surface water utility customers.
- Development user charges include such things as plan review, entitlements, etc.
- Intergovernmental covers capital grants and payments for intergovernmental services.
- Total resources are divided by community income.
- Community income is per-capita income times the population.
- Per-capita income is provided by the American Community Survey (a division of the US Census Bureau).
- Forecasts for future years use estimates from the State Office of the Forecast Council and the City’s financial forecasts.

POG Calculation Components	2023
Total Revenue	\$280,620,041
(less) Capital Contributions and Debt Proceeds	\$ (14,259,523)
	\$266,360,519
Redmond Community Income	
Per Capita Income (CPI-W Increase)	\$ 69,372
Population (1% Increase)	80,280
Total Community Income	\$5,569,197,695
Price of Government (All Revenue)	5.804%
Price of Government (All Revenue Less Capital Contributions and Debt Proceeds)	4.78%

(to be updated with adopted budget)

Glossary of Select Terms

Best practice – Generally a point of reference for a recommended approach. Specifically the Government Finance Officers Association (GFOA) provides a variety of “best practices” as a result of research and analysis. The GFOA best practices are recommended by member committees and adopted by their executive board. The GFOA best practices can be found at www.gfoa.org.

Budget by Priorities (BP) – Also known as Budgeting for Outcomes, this method of budget organizes the development, decision making and reporting around community priorities or desired outcomes.

Budget offers – A proposal for a program or service within the City’s BP system to accomplish specific results.

Capital Facilities Plan (CFP) – The CFP is a required element of Comprehensive Plans under the Growth Management Act. The CFP is to identify existing facilities as well as the needed future facilities that enable growth and development consistent with the goals of the Comprehensive Plan.

Capital Investment Strategy (CIS) – A method to align necessary or desired capital projects that enable the City to pursue the goals of the Comprehensive Plan. The difference between the CFP and the CIS is the length of the plan and the strategy to align funding with needed infrastructure investments.

Comprehensive Plan – The official land use plan of the City under the Growth Management Act in the State of Washington. The Comprehensive Plan is the foundation of many other policy decisions including needed infrastructure to support growth, growth targets and strategies, and functional area plans to describe specific service needs.

Fund – A method of differentiating the financial activities from one purpose to the next. Funds are specifically used to segregate different resources and tracking that those resources were used on related expenditures. Examples of funds where the resources are restricted to a specific expenditure would be utility fund (water fund or stormwater fund), capital funds, and special revenue funds (hotel / motel fund, real estate excise tax fund). Examples of a fund where the restriction on use of resources is only limited to legal governmental purposes is the City’s general fund.

Growth Management Act (GMA) – A state law adopted in the mid-80’s setting the stage for much of the capital improvement budgeting and planning in Washington cities. For example, the GMA requires a Capital Facilities Plan to provide for infrastructure needs that enable the growth called for in the Comprehensive Plan.

Government Finance Officers Association (GFOA) – An international association of finance professionals providing research, guidance, consulting services and other resources to enable and improve the quality of financial management within state and local government. The GFOA has a membership of about 18,000. www.gfoa.org

Infrastructure – Term used to capital assets intrinsic to systems. In this context, infrastructure refers to streets, roadways, sidewalks, trails, parks, utility systems and other capital assets required to enable the related services.

Long Term Financial Planning (LTFP) – A method of budget planning extending at least two years beyond a budget period. GFOA recommends LTFP of at least five years. The Price of Government authors recommend a LTFP of five years (in their “five by five” description.)

Long-Range Financial Strategy (LRFS) – A summary of history, philosophy, high level choices and policy guidance adopted by the City Council to provide clarity and advice to the City administration and the community regarding the City's fiscal affairs.

Mission – A statement of purpose for an organization. [The mission of the City of Redmond is:- Fusing compassion and ethics with innovation to champion a thriving, resilient, and inclusive community.](#)

Navigating the Rapids – The title to the 2005 version of the Long-Range Financial Strategy referring to the anticipated fiscal challenges of the period.

Price of Government – The amount that a community is willing to pay for governmental services. Mathematically it is total city resources divided by total community income.

Results Teams – Part of the budget approach. Results teams provide advice to the Mayor in developing the preliminary budget. Results teams are made up of a cross department city Staff Results team and Civic Results Team.

The Price of Government – A book written by David Osborne and Peter Hutchinson which is the basis for much of the City of Redmond's approach to financial management. The Price of Government can also refer to the amount a community pays for the services it receives.

Vision – A statement of future intent for an organization. The vision of the City of Redmond is: [A connected community that enhances livability, sustains the environment, and leads locally, regionally, and nationally.](#)~~A connected community that enhances livability, sustains the environment and places Redmond as a leader locally, regionally and nationally.~~