

DRAFT UPDATE July 2020

# **Attachment A**

## **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 5

Originally Developed November 2005

Presented

Mayor Angela Birney

**Draft Proposed to:**

Finance, Administration and Communications Committee of the Whole  
Vanessa Kritzer, Chair – Finance, Administration and Communications Committee  
of the Whole

## Foreword<sup>1</sup>

### *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 citizens 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, 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 ability to fund existing programs, a outcome-oriented approach will help insure results are sustainable and funding is allocated to priority programs and that a triple bottom line of "profit" (revenue), people and the planet are 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.
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.

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

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 and subject to frequent discussion with at least biennial review.

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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 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 2020, maps key work plan elements and provides guidance for the City's work. The major initiatives include Housing Choices, Environmental Sustainability, Cultural Inclusion and Infrastructure along 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)<sup>2</sup> 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 slated 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 arriving at stations in the Overlake and Downtown 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 to maintain and, if needed, expand the public infrastructure that is already in place.

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 8,000 new jobs are located in the area. 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 much like the recently-completed regional

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<sup>2</sup> Chapter 36.70A RCW

stormwater vaults and the construction of the pedestrian bridge over State Route 520 as well as other infrastructure investments by other entities, such as Sound Transit.

The Comprehensive Plan, 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, 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 built resiliency that enables the City to withstand downturns in the economy.

### 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 on-going 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 the service. 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, "Long Term Financial Planning"<sup>3</sup> 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 Plan (LRFS) is to insure smooth, uninterrupted delivery of services into the future.

The LRFS will evaluate the goals of the city's financial planning, the tools available to the City to do this work and 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 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 Council's work would start) of the policy parameters that Council preferred.

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

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

Another outcome from the development of the LRFS was a clarification of the revenue options available to the City and when the 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 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 Redmond<sup>4</sup>.

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"<sup>4</sup>, 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 continue 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 a citizen or business 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 use of taxes on transient lodging (hotel / motel tax) is restricted to enhancing the attractiveness of additional transient lodging activity.

In a different respect however, the 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

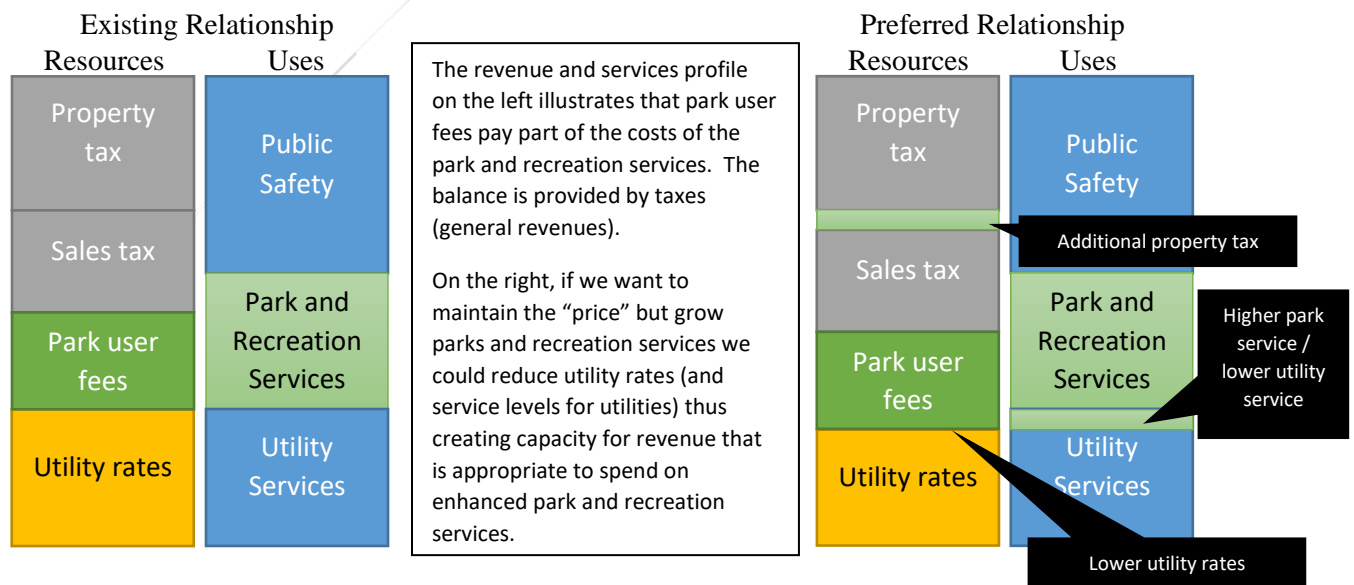
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<sup>4</sup> "The Price of Government", Osborne & Hutchinson, 2004



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.

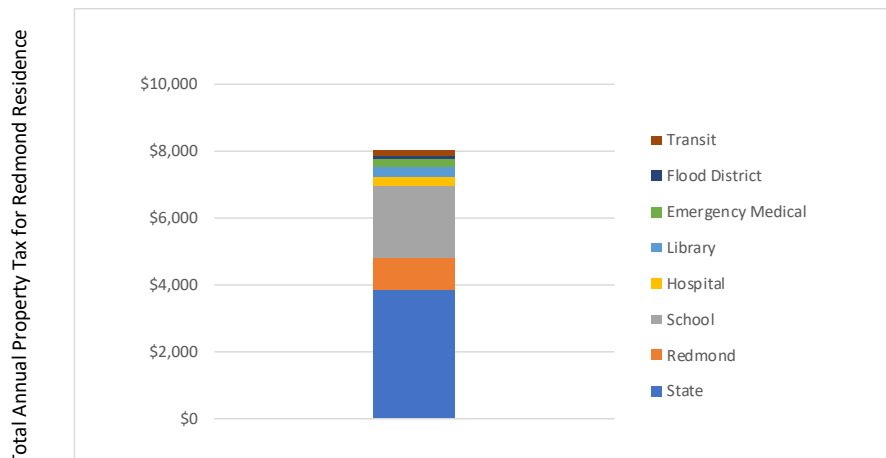
The following overly simplified illustration will clarify this point. A historic relationship exists between the different revenue sources and their appropriate uses. After some community input and policy discussion, council can adjust the sources of revenues in response to the desired mix of services 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 as of the 2020 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.

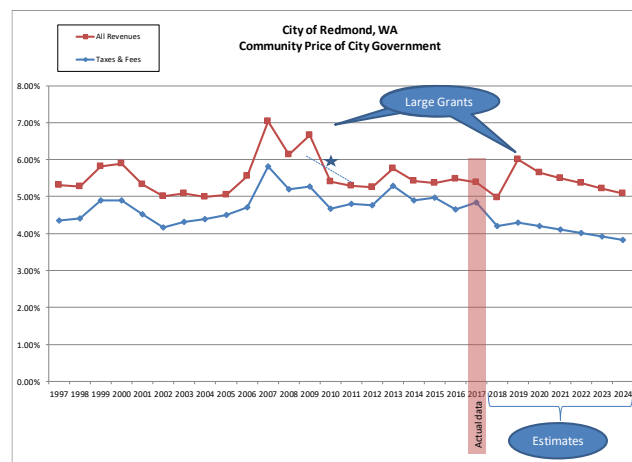
A community based approach relies on good feedback from the community about what it wants from its City government. The City of Redmond will work to maintain strong feedback from the community, in a variety of forms, as the basis for its spending choices. The resulting financial plans should illustrate 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 among 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 number can vary depending up on the economic conditions the City may find itself in, keeping in mind the economic recovery efforts currently being discussed.

Note that the analysis above projects the “price” out into the future. The up-tick 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 for the City as it works to provide financially sustainable services and amenities.

### Revenue Philosophy

In addition to established financial policies related to City revenues, the Council has developed the following philosophy related to City revenues. These philosophies are intrinsic in Council deliberations related to City revenues and are a foundation for establishing future and revised fiscal revenue policy. In this philosophy is a desire to build resiliency so that the City can adapt and grow through chronic stress to the system as well as look at the triple bottom line of "profit" (revenue), people and planet while 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 and sales tax on construction.**

Issues of volatility should be reflected in the decision-making process, whereas sources with a low volatility rating are prioritized. Core services should be provided via revenue sources with lower volatility.

- **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 income<sup>5</sup> and a shared understanding of the impacts of the price of government falling too low.

There should be a clear "value proposition" which enables 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 tax payers 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.

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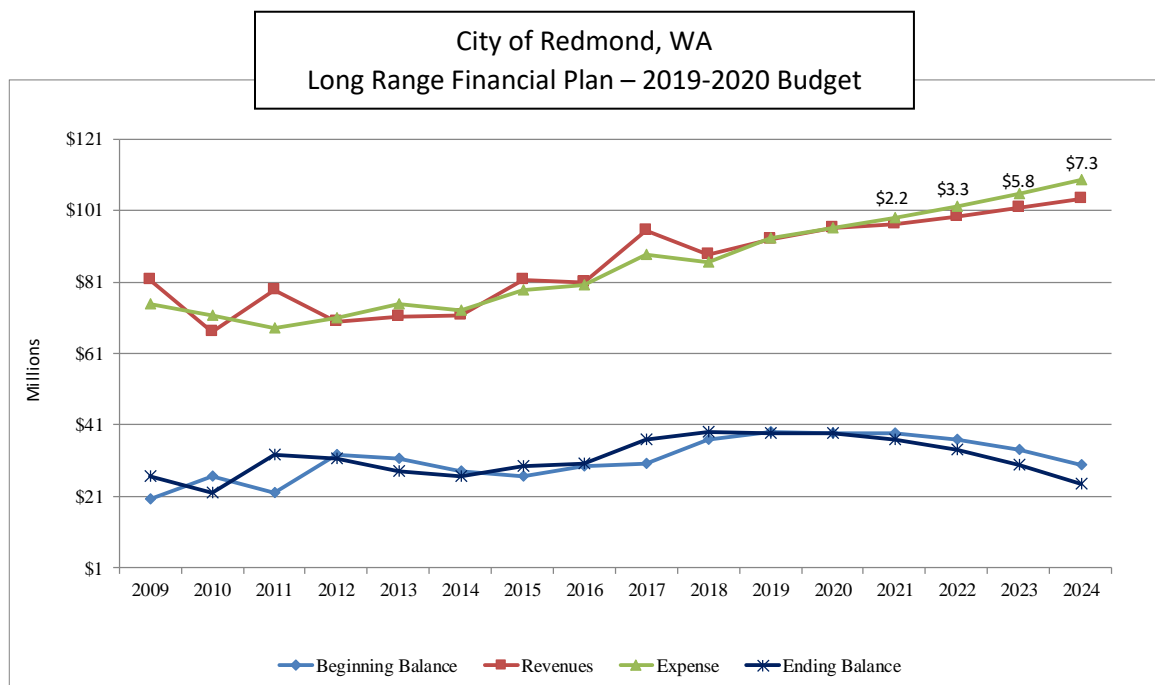
<sup>5</sup> See Appendix for how the "price of government" is determined

- **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 2019-2020 adopted budget and is illustrated below:



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 financial policies. These policies are found in each biennial budget (which is located on the City's web page – [www.redmond.gov/budget](http://www.redmond.gov/budget) ). The City will review and update these financial policies each biennial budget planning period.

It is the intent of the City that the combination of the strategies contained herein and the financial 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 preserve resources for unexpected circumstances. These resources, and their respective target levels, are found in the City's financial policies. Establishing these reserves is a GFOA best practice<sup>6</sup>. The City's financial policies call for a 12.5% reserve for general operations as well as various reserve levels for the utilities, capital equipment replacement and statutorily required reserve funds to guarantee debt service. These policies are reviewed during each budget cycle. The focus of the appropriate level of reserves is to provide for the continuity of operations where potential disruptions can come from economic seasons of distress to natural calamities.

### Budgeting by Priorities

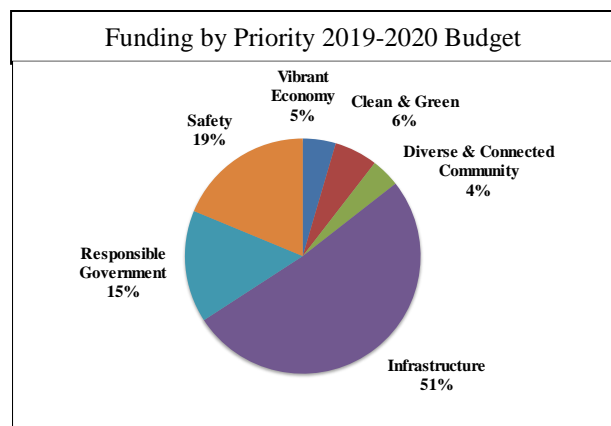
The City uses a Budgeting by Priorities (BP) type budget. This is also known as Budgeting for Outcomes. It is very similar as the methodology described in "The Price of Government" text.

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 into each priority area.

The six priorities are revalidated with each budget cycle through the annual citizens survey (in 2019 81% agreed that these remain the right priorities). During 2020, the priorities are being reevaluated based on additional feedback from the community.

The City conducts community outreach each budget cycle to also gather feedback about what types of investments are desired within each of the priority areas.



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

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.

#### *Buying Results*

BP focuses on results. Briefly, staff and community Results Teams describe the types of results being sought. These teams then evaluate budget proposals called Offers (as in an offer to deliver results) as to how well they illustrate the right results being delivered. The offers include a description of who benefits (the customer), what is being delivered, and why it is important to deliver this service to this customer (what for who and why). All community resources approved for spending on community services and amenities has this type of explanation.

These offers are then scrutinized by the Results Teams as to how well they describe the benefits of funding the service outcomes in the context of the priority. The Results Team provides candid feedback and a recommendation to the Mayor as to the priority outcomes to be funded. The Mayor has the ultimate responsibility to propose a balanced preliminary budget to the City Council<sup>7</sup>. The City Council has the ultimate responsibility to adopt a balanced budget for the ensuing biennium<sup>8</sup>.

#### *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.

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<sup>7</sup> RCW 35.33.055

<sup>8</sup> RCW 35.33.075

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 on-going 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/finance](http://www.redmond.gov/finance) ) and provides all its vendor payments (whether paid through check, wire transfer, or credit card) on its “open data portal” (see <http://data.redmond.gov> ).

Financial performance is measured through the City’s Comprehensive Annual Financial Report (CAFR) and measurements such as the current ratio (current assets to current liabilities), debt service ratio, unrestricted fund balance, net position and the capacity for infrastructure investments.

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](#) 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)<sup>9</sup>. 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.

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)<sup>10</sup>. 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 is to include utilities, transportation, and park and recreation facilities.

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, 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

<sup>9</sup> Growth Management Act – RCW 36.70A

<sup>10</sup> CFP required under RCW 36.70A.070



result, the CIS includes assessment of needed projects through 2030 to 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 City budgets 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 Plan*

The City 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, they require no further council approval 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 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.

## Tools

### Financial policies

As described above, the adoption of financial 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 control, 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 essential features of the budget development process and form, as well as principles that guide budgetary decision making.

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

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

### The Budget Process

As described above, the City uses a Budgeting by Priorities (BP) budget process for all city resources. This includes operations as well as capital investments. This approach helps to 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. Review of the Long Range Financial Strategy and the Price of Government for resource context
4. Budget planning retreats – administrative and / or council retreats to set the policy guidance for the upcoming budget
5. Council provides input to Mayor regarding overall policy approaches, allocation of resources, areas of emphasis for use in developing the preliminary budget.
6. Appointment of Results Teams – both staff and community teams
  - a. Results Teams develop preferred strategies to address priority areas
  - b. Capital Investment Strategy and Technology Strategy work product is also reviewed and updated at this time
7. Communication of parameters and instructions to staff for preparation of the budget and capital investment program
8. Development of budget offers
  - a. Preliminary review of offers
  - b. Final review and stratification of offers the Mayor and Directors Team.
9. Mayor and Director's Team review budget programs
  - a. Includes discussions with each team
10. Mayor and Directors finalize Preliminary Budget
11. Preliminary Budget presented to City Council
  - a. Public hearing on Preliminary Budget (RCW 84.55.120)
  - b. Council workshops to review and comment on Preliminary Budget
12. Council accepts Mayors recommendations and commences work on the final biennial budget<sup>11</sup>
  - a. Public hearing on final biennial budget
13. Council adopts Biennial Budget
14. 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.

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<sup>11</sup> RCW 35.33.061 Budget — Notice of hearing on final budget

## Revenues available to cities in Washington State

### Development Fees

Council supports the philosophy of full cost recovery for development fees. Development fees are to be updated annually for inflation and reviewed in each biennial budget cycle. A periodic review will be performed on the cost recovery basis for the fees.

### Parks and Recreation Fees

Council supports the pyramid methodology adopted in 2017 to set the levels of cost recovery for parks and recreation fees. 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 considerations such as, 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, but rather uses a business license fee and the business transportation tax based on the number of full-time equivalent (FTE) employees per business (see below).

### Business License Fee

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. Council will review the fees for inflationary increases during each biennial budget.

### The Business Transportation Tax \*

The Business Transportation Tax 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: The Business Transportation Tax revenues do not go to the general fund, rather the revenues help fund and go directly to the Capital Investment Program or to the Transportation Demand Management (TDM) budget.

### Utility Taxes

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

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, Council does not generally support levying a tax on City provided utilities.

### **Property Tax – Council Authority**

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 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**

A remaining piece of the financial strategy is the option to present property tax options such as a levy lid increase to the Redmond voters. Additional options include providing voters with questions regarding use of property taxes to support specific capital improvements (i.e. tax supported bond proposals) or operating programs.

Council placed a general levy lid increase before the voters in 2007 which was effective in 2008. The voters approved increases in the levy in the amount of \$5 million for improvements in fire, police and parks maintenance services. Additionally, council placed two different six-year, limited term property tax initiatives before the voters in the amount of \$.35 per \$1,000 of assessed value on the August 2015 ballot. The measure would have provided for safety and park improvements. The 2015 measures both fell short of the needed votes to pass.

### **Parks Bond Measure**

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. On an interim basis, 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**

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**

Other actions include a regular review of revenues consideration of a regular levy lid lift to stabilize property taxes and efforts with State Legislators to address additional revenue sources available to cities.

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

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.

Revenue Source	Current Rate	Authority Limit	Indexed?	Decision Maker	Volatility Rating
Property Tax	\$1.09/\$1,000 of AV	1% year	No	Council	Low
Limited Duration Levy Lid	0	\$3.10 / \$1,000	Yes	Voters	Low
General Levy Lid Increase <sup>1</sup>	0	\$3.10/ \$1,000	No	Voters	Low
Utility Tax <sup>2</sup>	6%	6%	No	Council	Medium
Tax on City Utilities	0%	None	No	Council	Low
Sales Tax	.85%	.85%	No	Council	High
Restricted Local Sales Tax	0%	0.1%-0.3%	No	Voters	High
Gross Receipts (B&O)	0%	.2%	Yes	Council	Medium
Business License <sup>3</sup>	\$50.00	None	Yes	Council	Medium
Business Transportation Tax <sup>4</sup>	\$67.00	None	Yes	Council	Medium
Development Review Fees	Full Cost Recovery	None	Yes	Council	High
Recreation Fees	Direct Cost Recovery	None	Yes	Council	Medium

1 “General levy lid increases” have been approved by voters as follows:

When	For What	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 of changes in utility taxes over the past twenty years includes:

When	For What	Service	Rate
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 changes in business license fees over the past ten years includes:

<b>When</b>	<b>For What</b>	<b>Rate</b>
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 of changes in business transportation tax over the past ten years includes:

<b>When</b>	<b>For What</b>	<b>Rate</b>
2019 (ord. 2940)	Transportation Capital Improvements	\$67.00
2018 (ord. 2940)	Transportation Capital Improvements	\$66.00
2015 (ord. 2770)	Transportation Capital Improvements	\$64.00
2013 (ord. 2667)	Transportation Capital Improvements	\$57.00
2011 (ord. 2567)	Transportation Capital Improvements	\$56.00
1996 (ord. 1924)	Transportation Capital Improvements	\$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

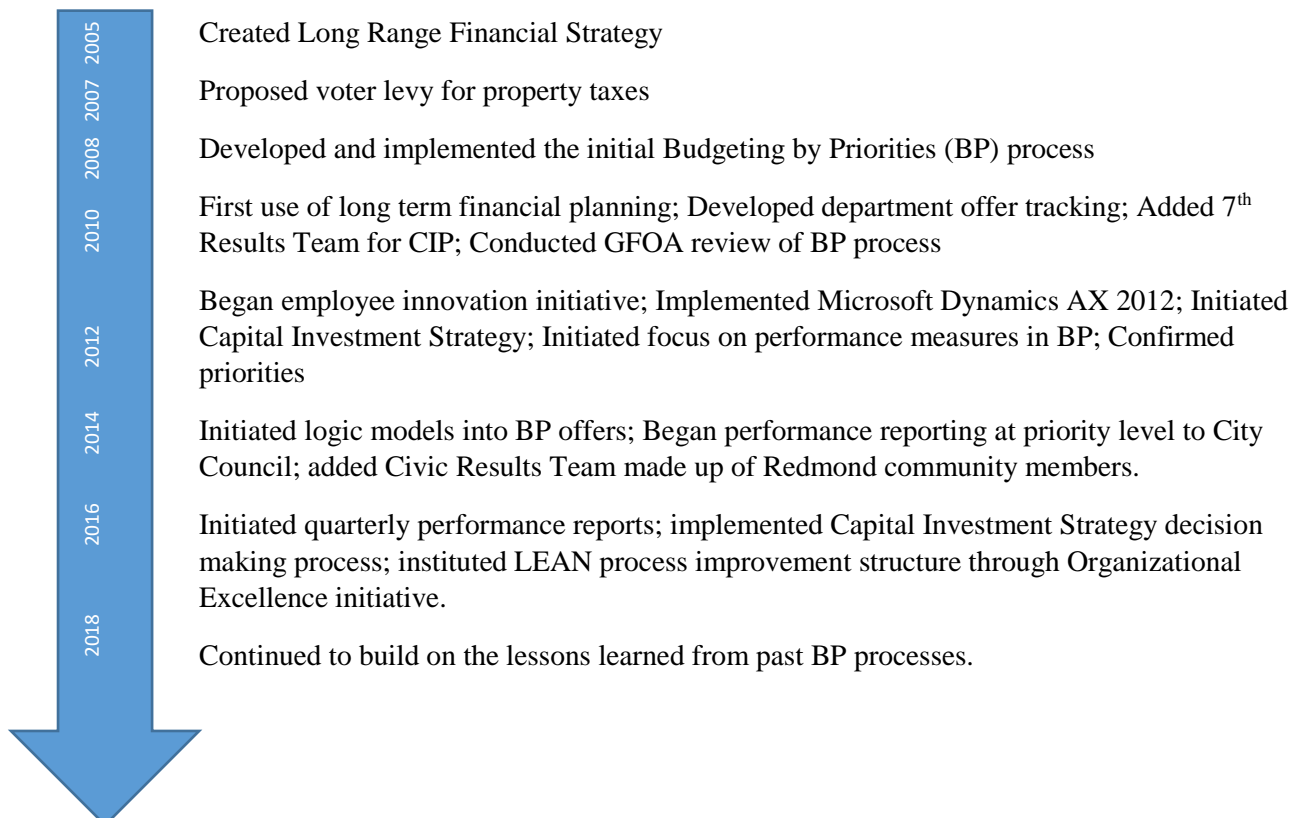
### A more detailed history of the LRFS

In 2005 the Redmond City Council was advised by the administration that a period of unusual fiscal stress was approaching. The Council wanted to be proactive in addressing any challenges. In addition, the Council wanted to provide longer-term, strategic policy direction to the administration regarding financial matters. The result was the development by the 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 Council was concerned with the sustainability of its decisions over time and under different types of fiscal stress.

Once developed, the LRFS provided Council with the context from which they would review proposals by the administration. As documented in the revenue history above, the 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 decision-made at that time.

Since then many changes have occurred. The chart below reflects the evolution of the City's financial management program in the context of the issues described within this document.





### 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 transfer 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 service, 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	2017
Taxes	\$75,508,267
Fees and Charges	\$102,365,539
Intergovernmental	\$17,152,510
Other	<u>\$3,241,662</u>
Total City Revenues	\$198,267,978
Community Income	
Per Capita Income	\$61,166
Population	\$60,168
Total Community Income	\$3,680,211,321
Price of Government	5.4%

## 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](http://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](http://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 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.

**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 BP budget approach. Results teams provide advice to the mayor in developing the preliminary budget. Results teams are made up of either cross department city staff and / or community members.

**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 places Redmond as a leader locally, regionally and nationally.