

Office of the Mayor  
M E M O R A N D U M

DATE: November 9, 2004  
TO: City Council Colleagues  
FROM: Council Members Freeman and Ojakian  
SUBJECT: Formalizing and Enhancing Certain Budget Practices

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We recommend that the City Council formalize and enhance certain budgeting practices, as identified below. By so doing, we believe that the budget process will be more productive for Council Members and the public.

We have focused on four areas in the budget process:

**1. Developing and Monitoring the Council's Top 5 Priorities**

The City Manager proposes a two year budget that must be reviewed and adopted by the Council annually. To ensure that the City Manager gets early input into budget preparation, the Council should formalize its practice of developing its "Top 5" Priorities (and milestones) early in each calendar year before the City Manager prepares the City's proposed budget. This Council session would also provide opportunities for citizen input into the "Top 5." The City Manager could then ensure that the proposed budget provides adequate funding for the "Top 5."

At the annual "Top 5" session, held early in the calendar year, the City Manager would provide budget preparation and review timelines for the Council and the public.

**2. Performance Measures in the Budget**

The budget proposals for the first and second years of the two-year budget should provide one workable set of on-going performance measures for each department. The City Manager, Administrative Services Department Director, and City Auditor plan to recommend performance measures from the Service Efforts and Accomplishments (SEA) Report as a base. (It would be beneficial for the two-year budget and the SEA Report to use the same measures, including customer satisfaction metrics, so there would be continuity in the measures.) Performance measures suggested by the Finance Committee for the 2003-2005 Budget will also be considered in the process.

**3. Identifying Which Capital Improvement Projects (CIP's) Have Policy Direction**

Currently, Capital Improvement Projects are included in a 5-year Capital Improvement Program and Budget. The proposed Capital Improvement Budget is considered at public hearings conducted by the Finance Committee and the City Council. A CIP is only “approved” for the current year it appears in the Capital Improvement Budget. It is only conceptually approved for the second year. It is not approved for years 3-5. This City of Palo Alto approach is considered “best practice” and meets the standards of the Government Finance Officers Association (GFOA).

Even though the City has received 10 years of budgeting awards from GFOA, we believe the CIP budget process can be enhanced in two ways:

- **Better describe multi-phase, multi-year projects in the 5-year Capital Improvement Program and Budget.** This suggestion would allow Council Members and the public to get a better sense of what is being proposed, especially if the CIP is a multi-year effort.
- **Develop criteria that would identify which projects have or have not received policy approval or direction from the Council and which are “place holders”.** The City Manager would recommend criteria that would be considered and approved by the Policy and Services Committee. Once applied, these criteria would help distinguish between CIP’s (both General Fund and Enterprise CIP’s) that already have Council policy direction or approval (e.g., annual street program, new park improvements) and those that have “place holder” funding in the 5-year Capital Improvement Budget but do not have general policy direction or approval by the Council (e.g., new power plant).

#### **4. Provide Summary of Adds and Drops in Funding.**

Finally, we recommend that a summary matrix of all department additions and deletions of on-going and one-time funding be developed. This will provide the council and the public with a quick “snapshot” of the annual budget revisions.

We have discussed these suggestions with the City Manager and the Administrative Services Director who are supportive.

***Recommendation: Direct the City Manager to formalize and implement these budgeting practices, after vetting the recommendations with the appropriate standing committee.***