

# Budgeting for Outcomes

Association of Government Accountants  
*April 8, 2014*

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## Major Topics to Cover

- Overview of the Traditional Processes
- Common Elements in the Budget for Outcomes Process
- Budgeting Role Changes
- Case Study

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## Common Contemporary Budgeting Challenges

- Structural expenditure and/or revenue challenges
- Declining sales tax as a result of e-commerce
- State-based tax and expenditures limits
- Increasing health costs
- State funding not keeping pace with service needs
- Citizens unsupportive of tax increases
- Lack of consensus among elected officials
- Increasing demand for public safety and social services
- Economic downturn and related effects!
- Others?

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## Overview of Current Processes

What is a Performance Budget?

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## Budget Definition

*“The budget process consists of activities that encompass the development, implementation, and evaluation of a plan for the provision of services and capital assets.”*

Recommended Budget Practices  
National Advisory Council on State and Local Budgeting

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## The Challenge in Government

FROM: 20TH CENTURY BUREAUCRACY	TO: 21ST CENTURY GOVERNMENT
Statute & rule directed	Mission & results directed
Hierarchically driven	Team & network driven
Control centralized	Decentralization
Primarily accountable for conformance to rules	Primarily accountable for results for people
Manage costs	Manage value
Quality defined as adherence to standards	Quality is defined as meeting or exceeding customer expectations
Exclusive service mandate	Choice and competition
Focus on what's best for government	Focus on what's best for customers, citizens, and taxpayers

Source: Blue Cross and Alliance Business Hub

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## Contrasting Public and Private

### Private Sector

- Focus on products and some services
- Resources expected to be invested
- Failure can be kept secret
- Vested interests' influence minimized
- Familiar with innovation techniques

### Public Sector

- Focus on services and systems
- Resources reluctantly invested
- Failure can be very public
- Vested interests are powerful and influential
- Generally unfamiliar with innovation techniques

Source: Bev Stein and Shane Sasnow, PSG

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## Why budget?

- Legal and contractual requirements
- Goal setting and commitment of governing body
- Evaluate performance
- Citizen input and accountability
- Match resources and expenditures – one year basis, longer view

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## Why budget? (cont'd)

- Mechanism for setting goals and objectives
- Method to allocate resources necessary to achieve objectives
- Way to measure progress toward objectives
- Method for identifying weaknesses and inadequacies in the organization

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## Budget Choices Are Guided By

- Theory
- Hunch
- Politics
- Self-Interest
- Altruism
- Public Interest

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## Evaluating Budgets

Budgets are judged based on four important criteria

- **Economy:** How effectively government manages inputs in relation to costs. Does the budget allow for buying the best possible inputs with the money available?
- **Efficiency:** Does the budget allocate funds in such a way as to produce as many outputs as possible?

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## Evaluating Budgets

Budgets are judged based on four important criteria

- **Effectiveness:** Will the spending be effective in bringing about the outcomes it sets out to achieve? Will the money spent on health really lead to a healthier population?
- **Equity:** The government has an obligation to deliver services to the people that need it most. The government also has an obligation to manage resources in a way that is fair to all citizens.

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## History of Budget Development

1. Traditional, or Line Item Budgeting
2. Expenditure Control Budgeting
3. Zero Based Budgeting
4. Program budgeting
5. Performance budgeting
6. Priorities - Budgeting for Outcomes

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## Budget Approaches

- |             |   |   |
|-------------|---|---|
| Incremental | { | - Line Item Budgeting: Budget based on the object of the expenditure and inputs   |
|             |   | - Expenditure Control Budgeting: Control carry-forwards and focus only on "new" requests  |
| Cost-based  | { | - Zero-Based Budgeting: Meant to improve on incremental budgeting. Establish a base of zero and reauthorize all expenditures on an annual basis |
|             |   | - Program Budget: Develop organization-wide goals and design a budget around those priorities   |
| Strategic   | { | - Performance Budget: Focuses on goals, objectives, evidence, and results   |
|             |   | - Priority Budget: Focused on aligning programs to community preferences and needs  |

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## Government Challenges to Innovation

- Inertia
- Fear of negative publicity
- Lack of investment
- Those who benefit from the status quo
- Innovation is a private sector tool

Source: Bev Stein and Shane Sasnow, PSG

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## Organizations that thrive during tough times (according to ICMA)

- Establish early warning systems
- React quickly to trends and factors
- Have migration strategies to weather changing environments
- Apply rigor to determine whether programs are working
- Seek continuous improvement
- Prioritize based on community values

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## Budgeting for Outcomes: Common Elements

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### Redesign or wreck?

“The usual, political way to handle a projected deficit is to take last year’s budget and cut. It is like taking last year’s family car and reducing its weight with a blowtorch and shears. But cutting \$2 billion from this vehicle does not make it a compact; it makes it a wreck. What is wanted is a budget designed from the ground up.”

Seattle Times editorial, Nov 17, 2002 on Washington State’s use of a BFO process.

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**Characteristics of an integrated performance based budget process**

- Budgeted activities logically flow from objectives and planned strategies to address the important issues
- The budget links financial goals and long range plans with performance (operational) goals
- Performance measures are consistent with goals and are used to report progress and results
- Budget becomes a tool for monitoring rather than controlling performance

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**Priority-Based Budgeting Types**

Type	Driven By...
1. Political	1. Personalities & program popularity
2. Across the board	2. Status Quo, everything is a priority
3. Rules based	3. Whatever the law says
4. Outcomes	4. What's most effective at meeting citizen expectations

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## BFO Changes the Game: Questions That Matter

- How much revenue - what is the price of government we charge our citizens?
- What results matter most to our citizens - what are the priorities of government we will deliver to citizens?
- How much should we spend to achieve each result?
- How can we BEST deliver the results that citizens expect?

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## BFO Results

- State of Iowa: Used Budgeting for Outcomes to close an approximate \$350 million budget gap
- State of Washington: Closed a \$2 billion budget gap using Budgeting for Outcomes
- City of Fort Collins: Trimmed \$5 million from budget to meet shortfall. Successfully passed a ballot measure to fund a new library district due to increased transparency in the budget process

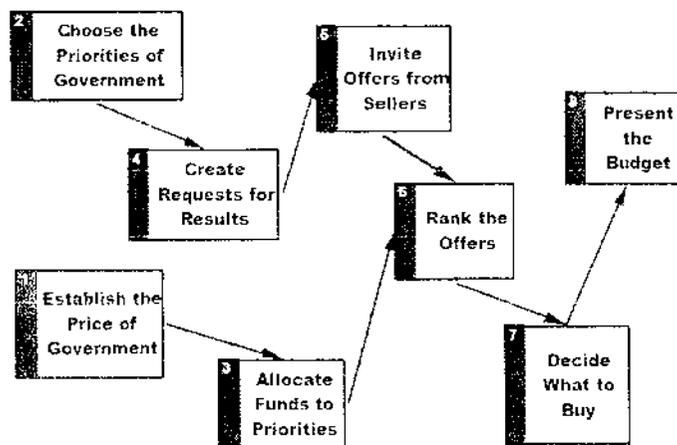
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## Getting Started: The First 3 Steps

- These 3 steps set the stage for the rest of the process
  - Determining total revenues
  - Setting the big priorities
  - Allocating revenues to these priorities
- Do at the beginning of the process
- These are key policy decisions and involve the key players

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## The BFO Process



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## BFO Step 1: The Revenue Decision

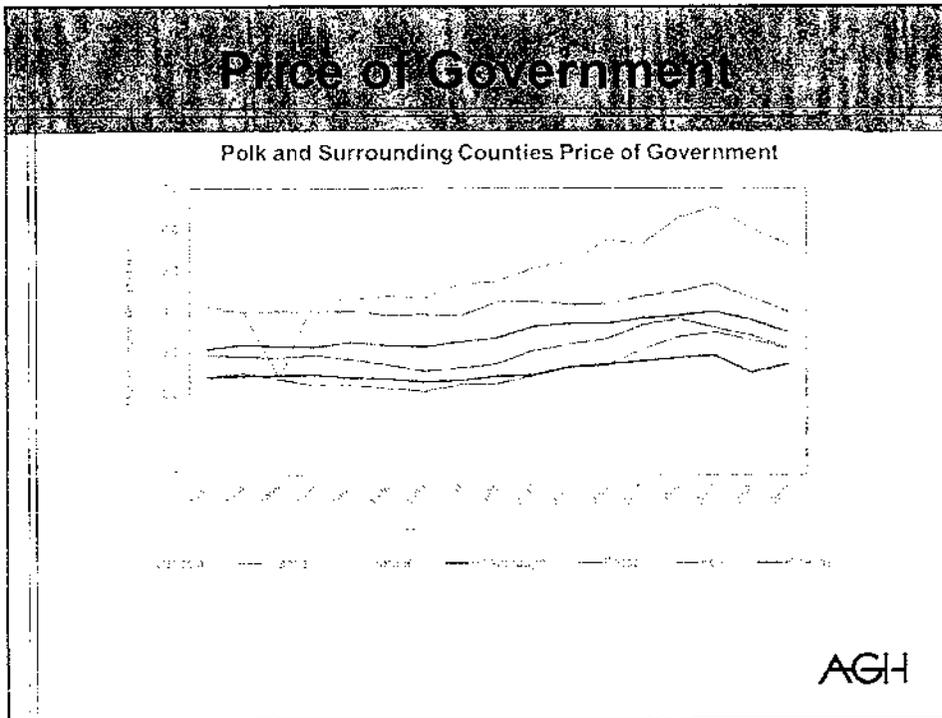
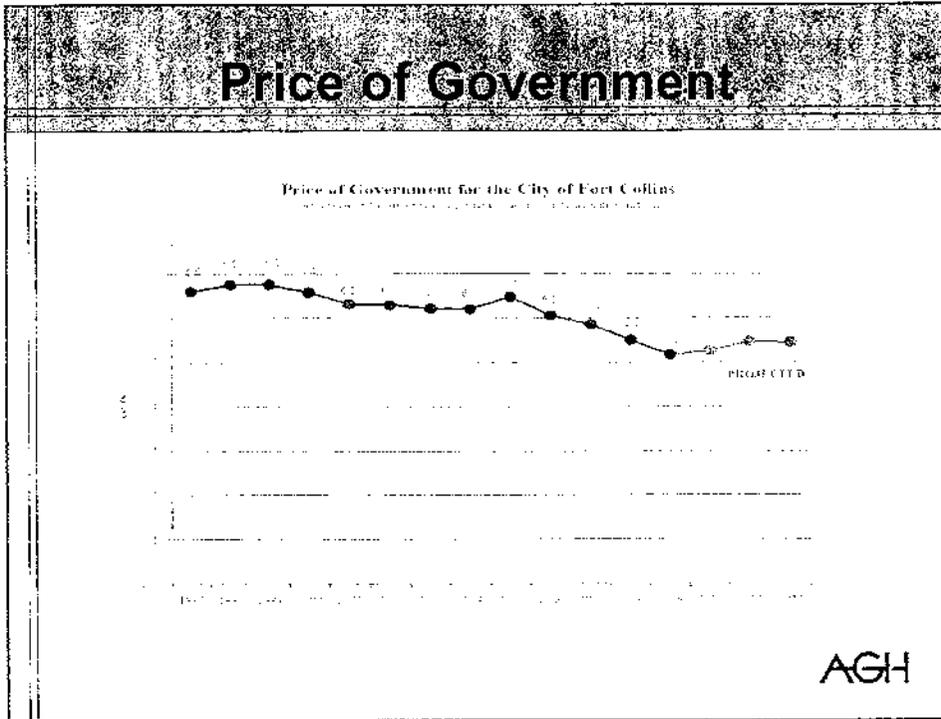
- Long-term financial planning
  - To understand your situation
- Look at the historical data
  - Citizens have been telling you how much they are willing to spend for decades
- Set a price of government
  - It must be acceptable, adequate and competitive

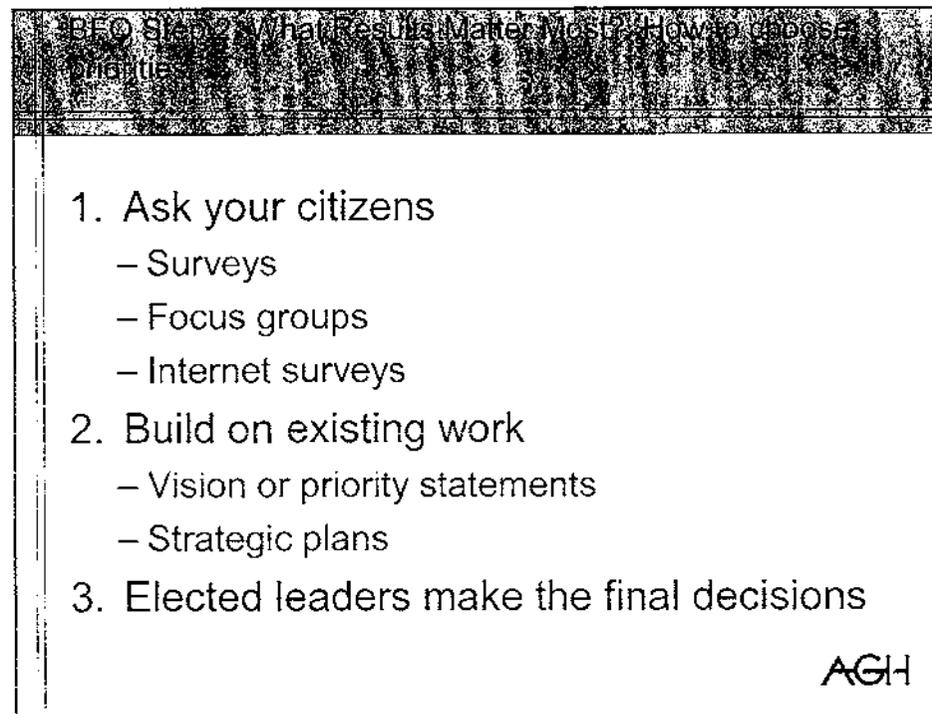
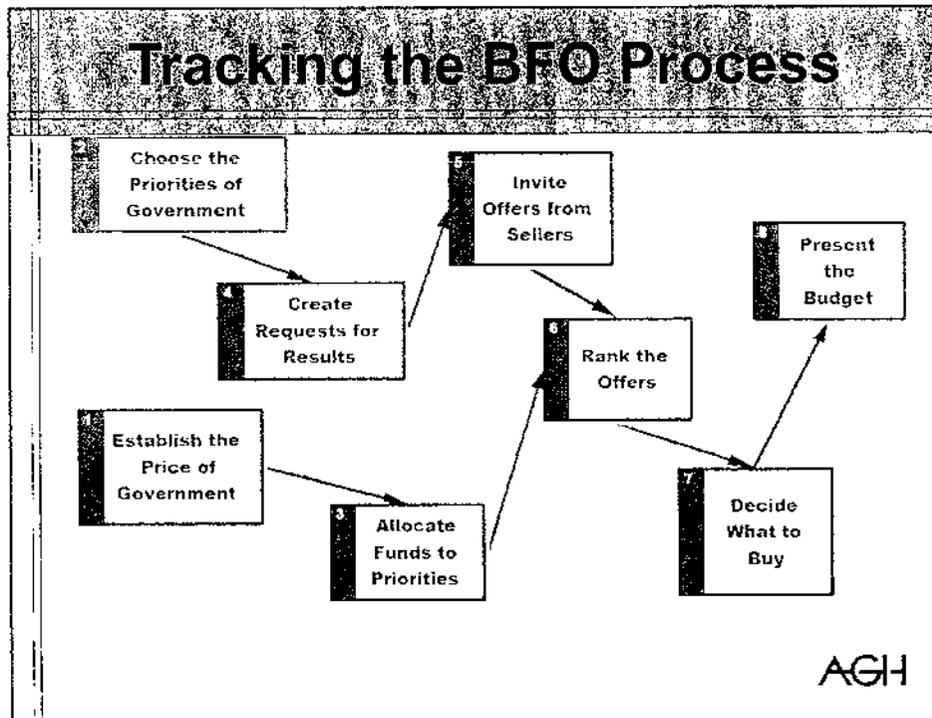
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## Setting the Price of Government

- Definition:
  - ALL taxes, fees and charges paid by citizens for government services, including all funds
  - Divided by Aggregate Personal Income
  - Equals a percent of aggregate income going to government.
- Price = Cents/\$ Personal Income for Government

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## Snohomish County's Citizen Priorities

- Transportation
- Safety
- Health & Vulnerability
- Community Services
- Community Utilities:
- Effective, Efficient, Trustworthy Government:
  - County Leadership &
  - General Services

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## Mesa County Citizens Priorities

**I want Mesa County to manage and preserve public resources.**

Continue to efficiently and effectively protect and manage all public resources.

**I want to feel safe anytime, anywhere in Mesa County.**

Continue to promote and protect public safety.

**Mission Statement**

In partnership with citizens, Mesa County will maintain and enhance quality of life by effectively providing community services that ensure public health, safety, and well being in a transparent and equitable way.

**I want Mesa County to have a Variety of industries that will promote a healthy economy.**

Promote economic vitality in Mesa County

**I want a community where citizens of all ages can be healthy and successful.**

Continue to promote and protect public health and the success of all citizens

**Slogan**

Mesa County—Creating a community of opportunities for all residents with a focus on the future.

**I want plans and infrastructure that maintain quality of life in the face of rapid growth.**

Create well-planned and developed communities



**MESA COUNTY**

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## Fort Collins Priorities of Government

- Improve economic health
- Improve environmental health
- Improve neighborhood quality
- Safer community
- Improve transportation
- A high performing government
- Improve cultural, recreational and educational opportunities

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## Choosing the Priorities

- Elected leaders identify the priorities that matter most to citizens: but avoid naming activities, programs, or organizations
- Involve citizens in the process if possible (surveys, focus groups, town meetings, the internet)
- Use consistent language that is understandable and compelling to citizens - 10 words or less
- No more than 10 priorities in total

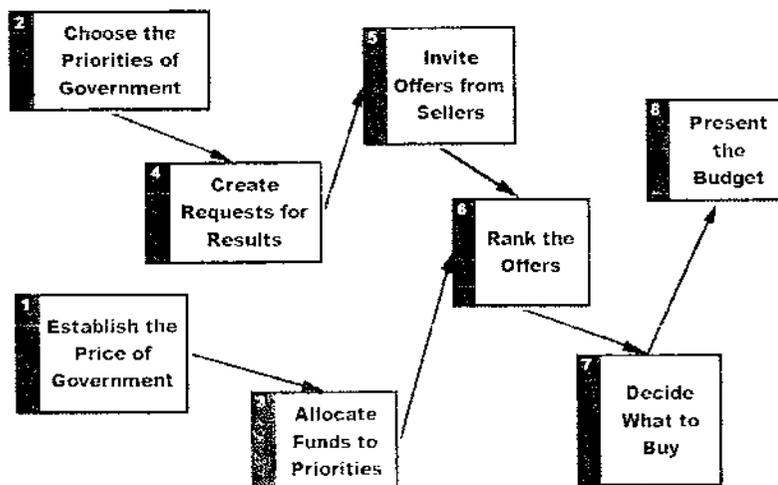
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## Choosing the Priorities cont

- Should be linked to existing goals and indicators used by the organization
- Understand the factors that cause or effect the priorities
- Include specific indicators/measures of success - otherwise they are just good intentions
- Decide how to handle internal support services - as citizens presumably do not explicitly value them

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## Tracking the EPO Process



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### 3) Pricing the priorities Allocating funds

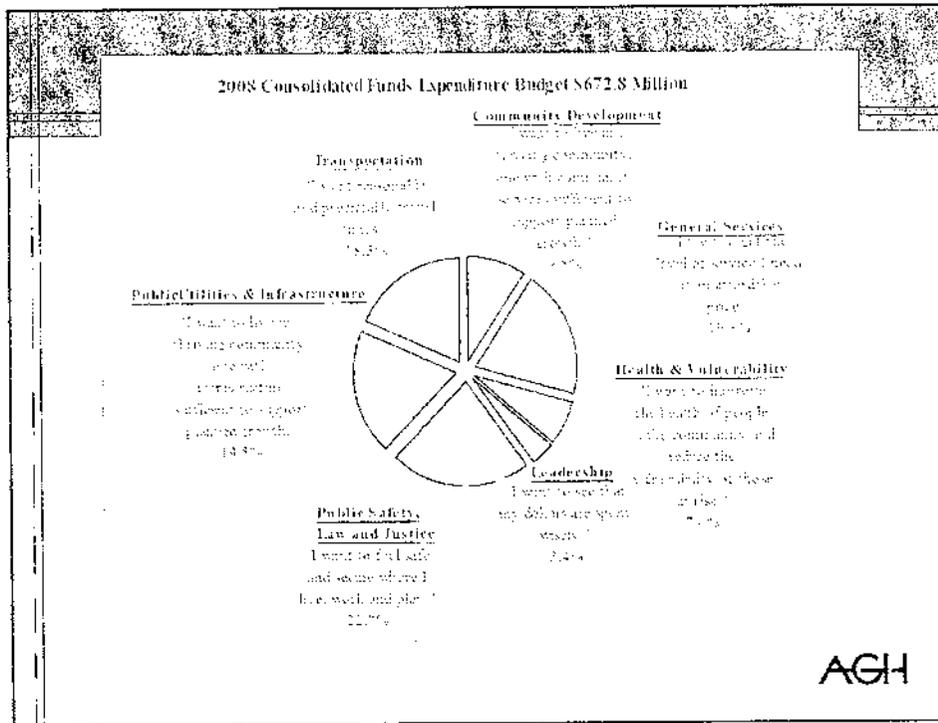
- How much is each priority worth?
- What are their relative values?
- This is not cost question (the old budget game)
- It's a value judgment, not science
- Citizen input valuable, not determinative
- Two conditions will be true: Total has to add to 100%, and that will not be enough.

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### Pricing the priorities, continued

- For comfort, do a historical check
- Fund integrity continues: Some funds have all priorities, some have only one.
- This is a policy laden allocation exercise.
- Keep it flexible!

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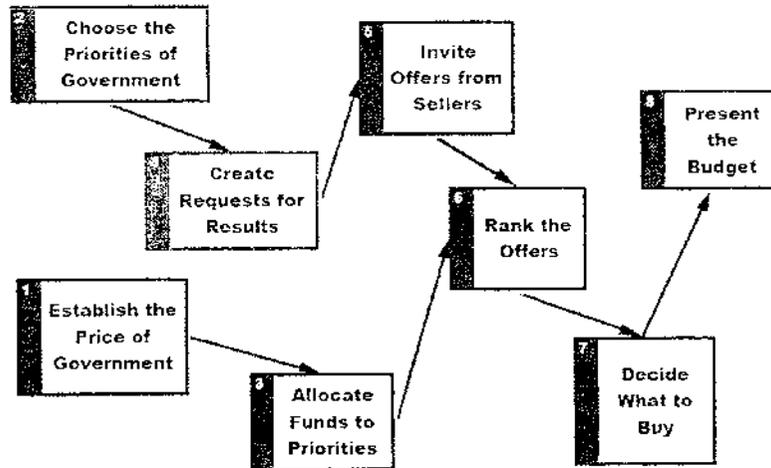


## Lessons Learned Pricing the Priorities

- You may have to lead people through their resistance. They'll want last year's numbers. They'll object that there's no basis for the decision.
- Assure them that they can revisit and adjust the numbers later in the process.
- Get public input, but don't let the public make the decision.

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## Tracking the BFO Process



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## BFO Step 4: Creating Requests for Results

### Establish Results Teams as "Buying Agents"

- Wear "citizen's hat"
- Best and brightest insiders plus some outsiders
- Challenge the status quo
- Encourage innovation and new ideas

### Request for Result for each priority

- Cause-and-effect map
- Indicators
- Purchasing strategies

### Turn RFRs into budget instructions

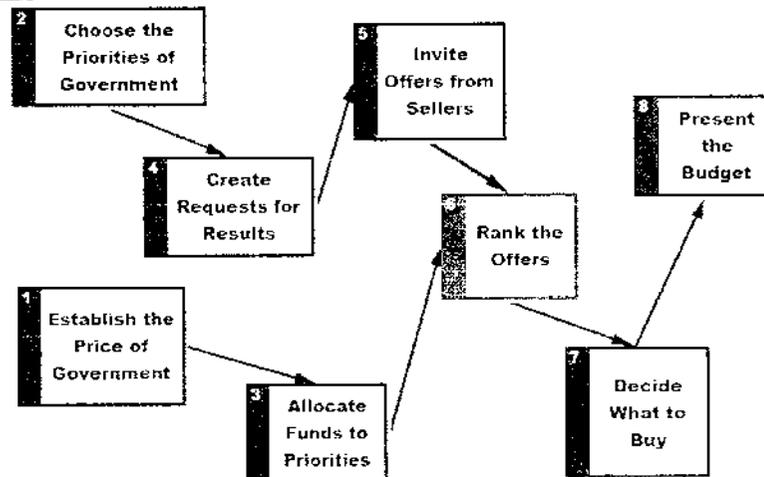
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## What Factors Contribute to Achieving Results?

- Not limited to what jurisdiction does
- A theory of causality based on proven or promising practice
- A visual representation of the path to the result speaks volumes

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## Tracking the BFO Process



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## BFO Step 6: Ranking Offers -- Buyers Seek the Most for the Money

- Rank order offers (Round One --- ignore mandates, Round Two --- tells a complete story)
- Start buying from the top and draw a line when run out of money
- Send offers back to “sellers” after Round One --ask them to improve them

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## How to Change the Game

1. Treat department budget submission as offers to deliver outcomes at a price
2. Measure each offer against outcomes important to citizens – Priorities of Government
3. “Buy” those offers that contribute most to the priority outcomes – leave the rest
4. BUDGET + the most outcome for the money

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## BFO Step 7: Deciding what offers to "Buy"

What gives the city the most value?

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### Budgeting for Outcomes Ranking by Results Team

Ranking by Results Team - Safety - Budget - \$ million

	Score	1 Mill	2 Mill	3 Mill
<b>Purchased</b> ⇒				
Police Dispatch	11	0		
Police Public Contact	11	0		
Emergency Triage & Operations	14	0		
Police Ops. Maint. & Operations	23	0		
Communications Center	11	0		
Medical Control Training	20	0	0	
Dispatch Monitoring	13	0	0	
Police Customer Management	11		0	
Firearms Training	11		0	
Medical Examiner	11		0	0
Police Support	11		0	0
<b>Not Purchased</b> ⇒				
Police Support (Training)	11		0	0
Alternative Community Justice	11		0	0
Police Support (Logistics)	11		0	0
Police Support (Security)	11		0	0
Police Support (Training)	11		0	0

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## Purchases - Keeps and Cuts (Washington State)

*Spends More*

**\$2.7 billion  
GF-S and  
Health  
Services  
Account**

Higher Priorities

**Key purchases:**

- Medicaid health care for 600,000 children and their families
- Washington's long-term care
- Behavioral health care for children and adolescents
- Public health services for youth and vulnerable populations and the safety net
- Medicaid at a net \$1,000 lower than private
- Expanded Medicaid for chronic diseases

**Examples of what's not purchased:**

- Basic Health Plan coverage for 14,000 adults
- Medicaid coverage for the mental health system
- Certain Medicaid services provided to women with disabilities
- Personal care services for non-elderly individuals

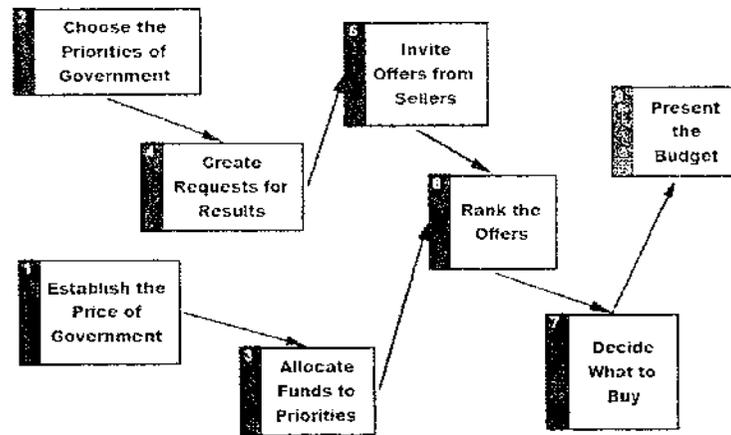
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## Remember

The budget process is not about dollars....it's the authoritative allocation of values

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## Tracking the BFO Process



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## 8) Presenting the Budget

- How do we best communicate the organization's challenges and priorities?
- How do we best communicate what we are doing to address those issues?
- What is important for someone on the outside looking in?

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## Questions to Ask About Outcomes

- Relationship between the intervention and the outcome
- Relationship between the investment and the outcome
- Relationship with the client
- Who gets credit for the outcome?
- Hardwiring outcomes
- Unit of Analysis Matters

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## Budgeting for Outcomes: Role Changes

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## Organizing BFO Teams/Roles

1. City Council
2. Mayor/City Manager
3. Results Teams
4. Project Team
5. Communications Team

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## City Council

- Sets price of government
- Decides citizen priorities
- Provides comments on Requests for Offers
- Conducts budget discussions based on
  - what works to achieve priorities
- Makes final budget decisions
- Supports the process

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## City Manager/Mayor

- Champions the process and assigns staff to carry it out including Results Teams
- Approves Requests for Offers
- Proposes a budget to elected body based on the rankings
- Trusts the process and uses results in proposed budget
- Keeps electeds advised about status of process

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## Results Teams

- Team for each priority
- Composition varies, but you want a combination of expertise and strategic thinking
- Pick your "best and brightest"
- A few members from outside the organization can be helpful in getting "outside the box"
- Wear a "citizens hat"

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## Project Team

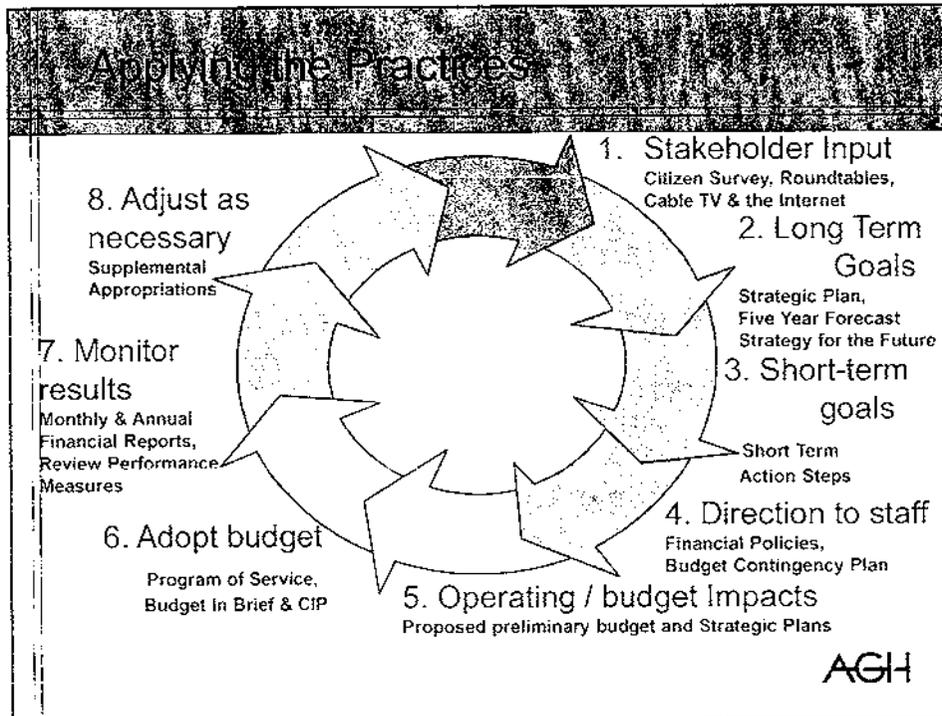
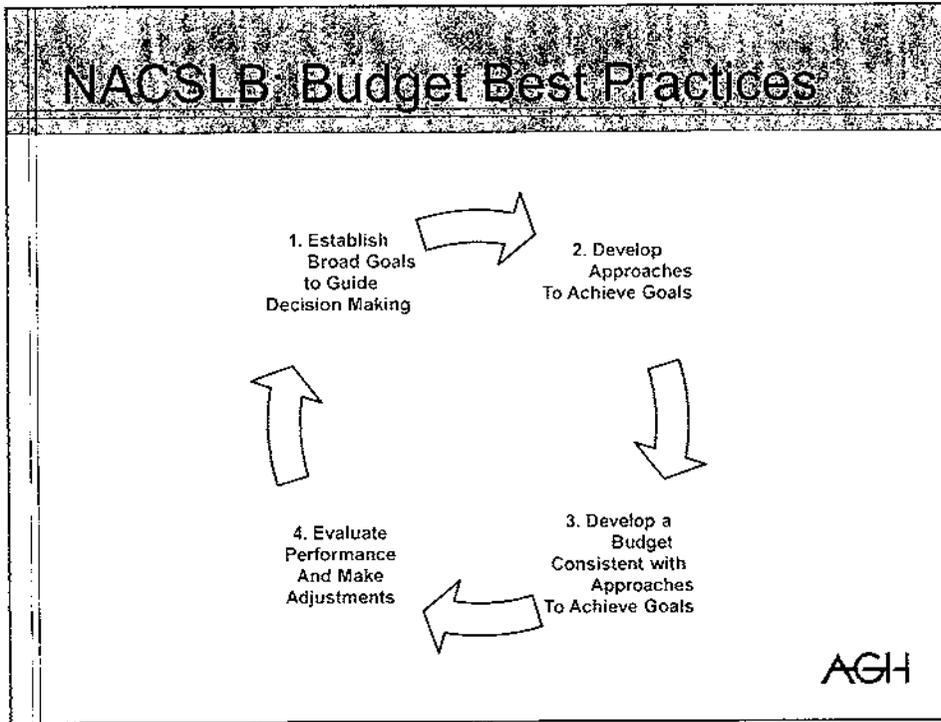
- Composition varies, but includes budget staff
- Oversees process and communications --  
- reviews materials, identifies problems, etc.
- Create a Communications Team
  - Organizes internal and external communications including rumor control

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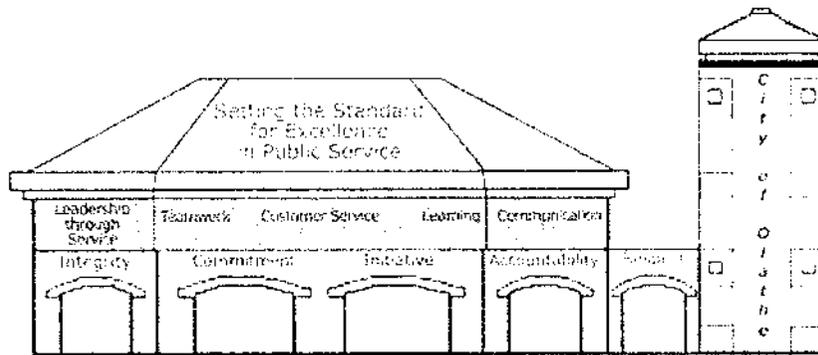
## Variations for Very Small Communities

- City Council can serve as Results Team
- Can use only one Results Team to prepare Requests for Offers for all results
- Can work together with other communities to combine resources

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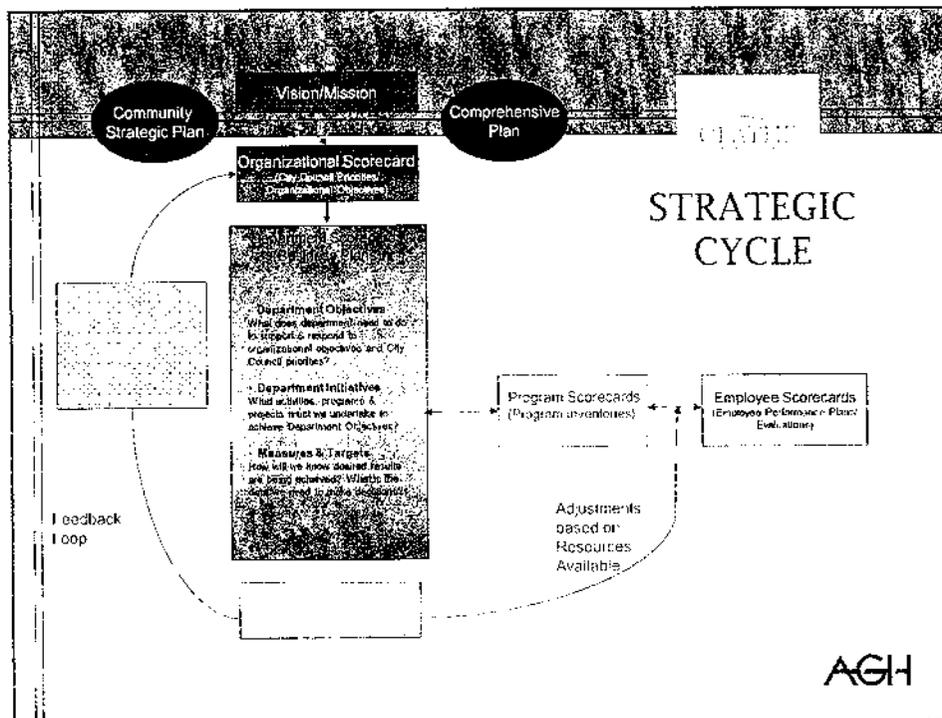
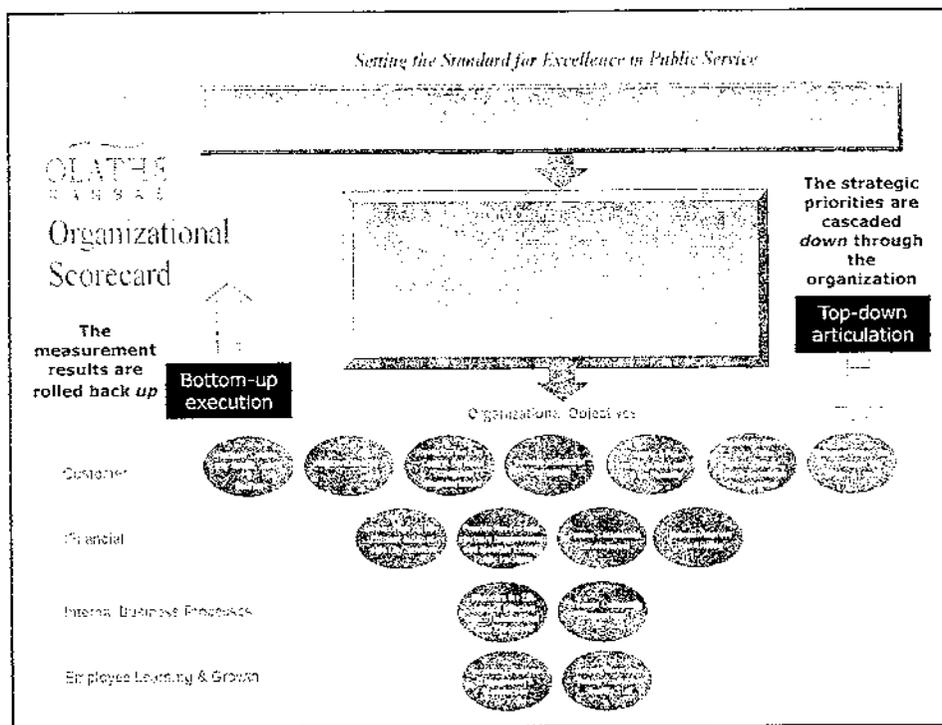


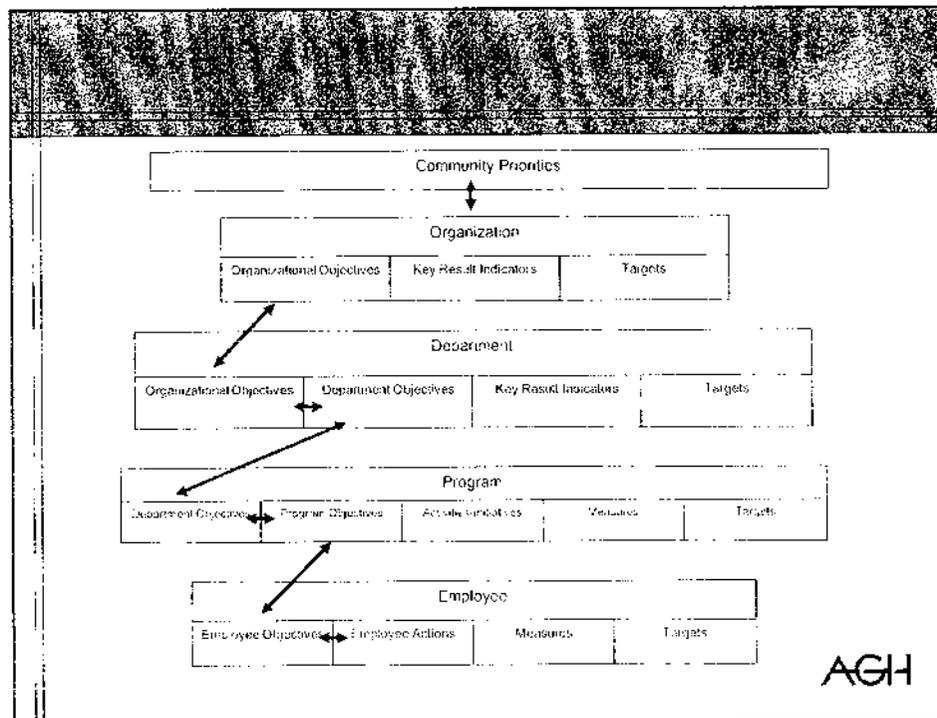
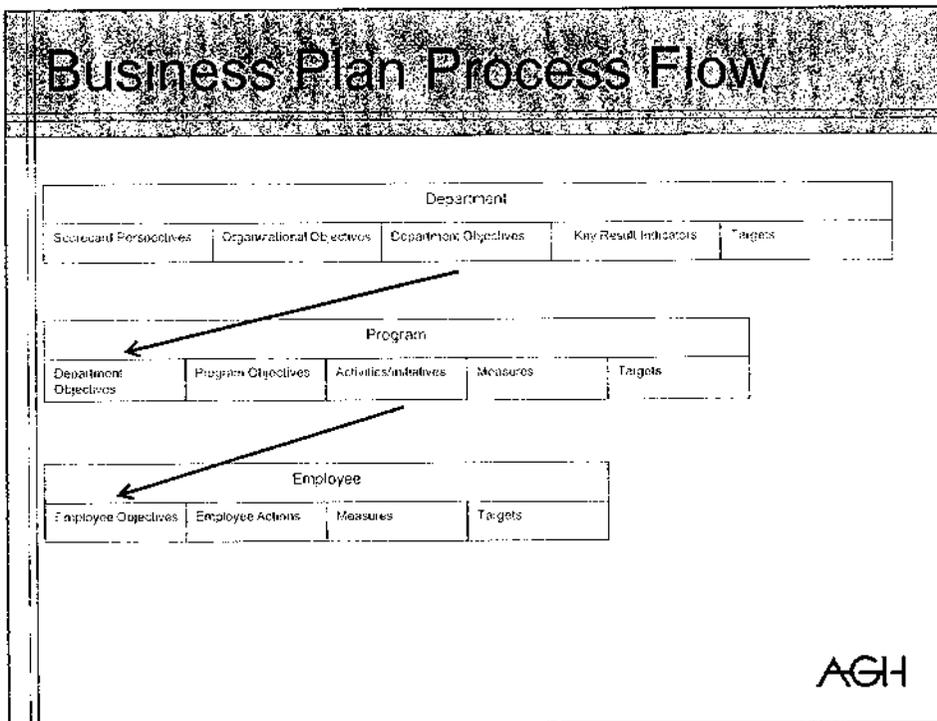
# City of Olathe, KS Case Study



The City of Olathe is proud to be a nationally recognized leader in public service.

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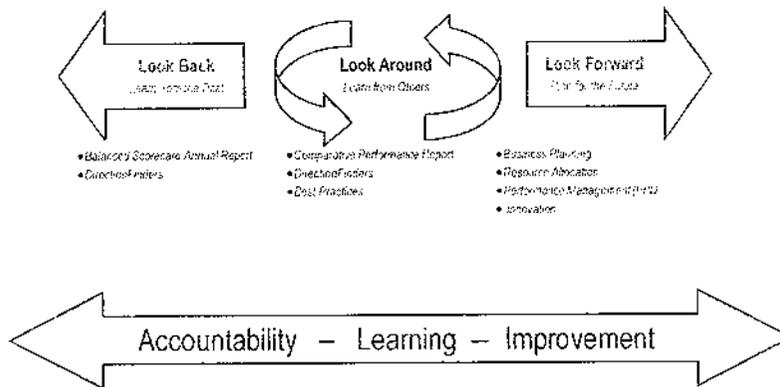
## Program cost summary

*Operating Budget Summary (Populated from Resource Allocation Worksheet)*

Expenditure Summary	FY 2009 Adopted	FY 2010 Proposed	FY 2011 Projected	FY 2012 Projected	FY 2013 Projected	FY 2014 Projected
Total						
Funding Source						
State General Fund						
Local General Fund						
Sub-Total						
Special Fund						
Total						
State General Fund						
Local General Fund						
Sub-Total						
Special Fund						
Total						

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## Dimensional Performance View



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## Balanced Scorecard Annual Report

**Format**

- Key Result Indicators
- Key Result Indicator Narratives
- Performance Measures by Key Result Area

**Visual Indicators**

- € Green: Meets target or shows a significant trend of improvement
- ⚠ Yellow: Not meeting target but showing stable or improving performance
- ⚡ Red: Not meeting target and showing little or no progress

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## Key Results Dashboard

Key Result Area	Target	Actual	Variance	Indicator
Financial Performance	24.58	26	1.42	€
Operational Efficiency	100	100	0	€
Customer Satisfaction	95	95	0	€
Employee Engagement	92	92	0	€
Quality Management	100	100	0	€
Health & Safety	45.06	53	7.94	€
Environmental Impact	475	475	0	€
Community Relations	675	675	0	€
Overall Performance	26.675	28.5	1.825	€
Strategic Alignment	112	112	0	€

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## Comparative Performance Report

- New benchmarking tool
- Compares us to similar cities locally and nationally
- Compares performance in Citizen Satisfaction and 12 Service Areas
- Multiple data sources
  - ETC DirectionFinder®
  - ICMA
  - Benchmark Cities

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## Issue: Public Safety

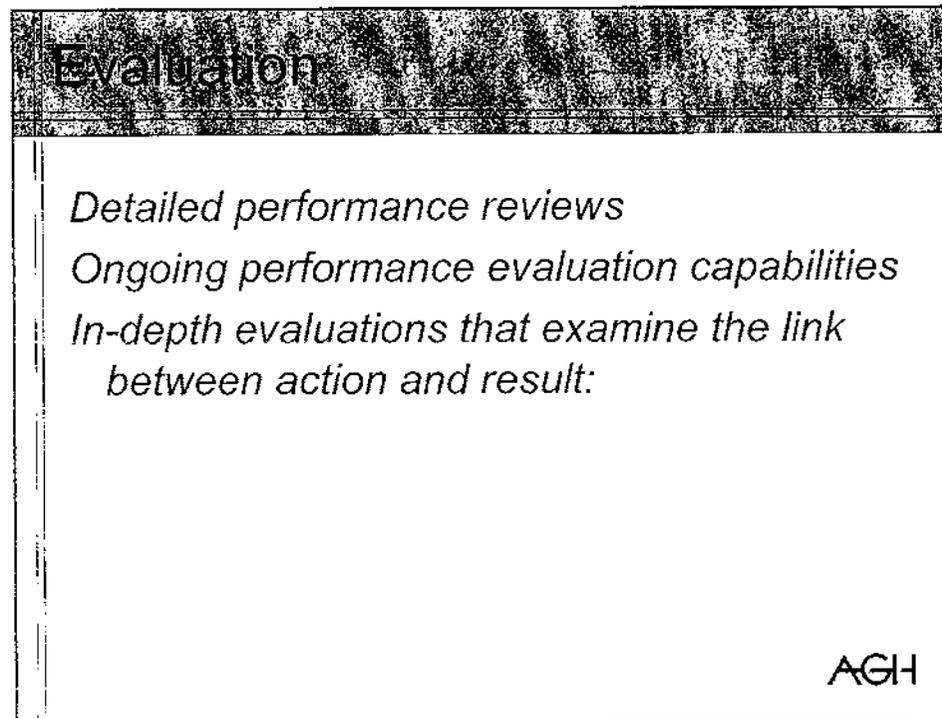
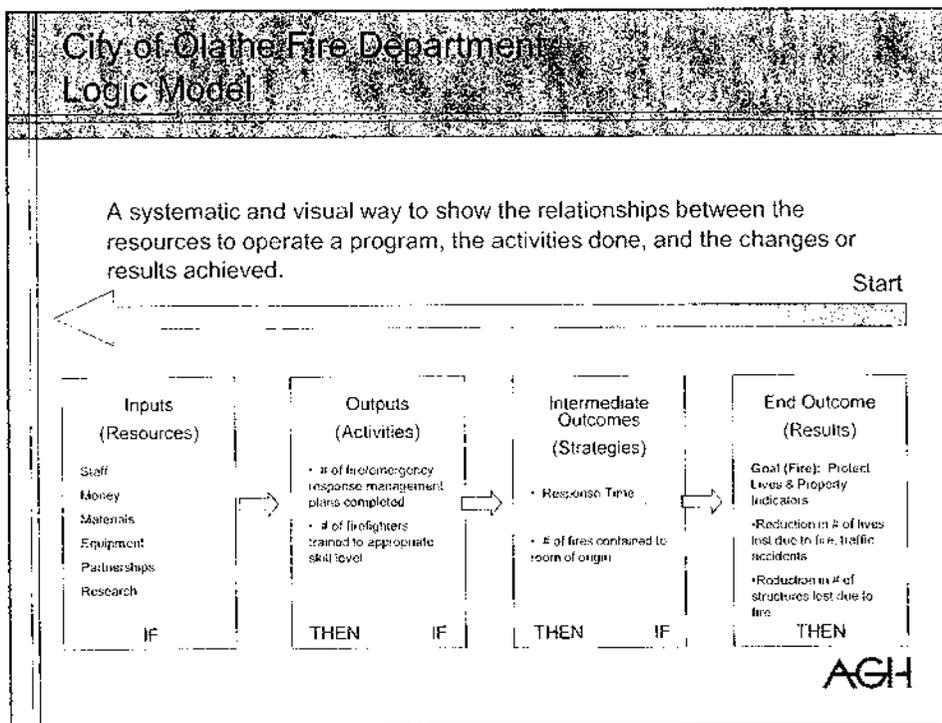
### Strategy:

- Protect lives and property

### Tactics:

- Reduction in # of lives lost due to fire, traffic accidents
- Reduction in # of structures lost due to fire.

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## Managing the Change

### Requirements:

- Sound Technical Approach
- A '*Workable*' Approach

“At its heart, performance management is an organizational improvement process that hinges on aligning employee interest with the organization’s objectives.”

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## Steps to Change Management

- Assess the organization's capacity for change
  - Previous success/failures
- Assess implementation risks
  - Consider response to threats of events, finances, cultural factors, timing
- Create a change management component
  - Assign responsibility

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## Steps to Change Management

- Establish a process for communication
  - Identify key audiences, messages, channels
- Provide coaching and individual attention to participants
  - Show them how they fit
- Manage resistance
- Celebrate success
  - Nurtures the fact that it is not a special program or a phase, but a new way of doing business

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## Key Stakeholders

- Elected Officials
- Budget Office Staff
- Department Managements
- Department Staff
- Public
- Interest Groups
- Media
- Others???

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## Key Issues to Implementation

- Proper planning / calendar
- Instructions and Training
  - New way of thinking
  - New skills that may not come easily
- Communication and expectations
- Additional Effort
- Evolving Process

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## Budgeting for Outcomes

Benjamin O. Hart, CPA  
Vice President  
(316) 291-4159

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