

Creating a Better Budget: How to Use Budgeting for Outcomes

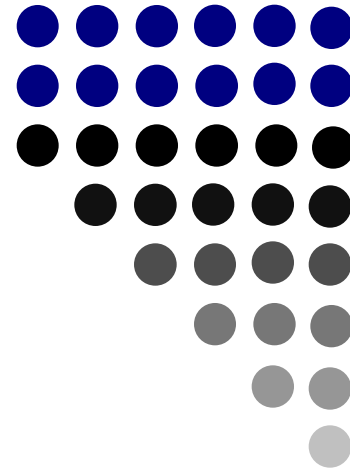


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3:00 – 3:45



Kansas Government Finance
Officers Association



washingtonpost.com

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Monday, September 29, 2008 | 7:00 p.m. ET Weather | Traffic | DC Webcam

House Rejects Bailout Markets Plunge

Lawmakers Scramble to Figure Out Next Move in Financial Crisis

Treasury secretary says bill is needed as soon as possible, and Republican and Democratic leaders trade charges as to why the legislation failed.

- » Paul H. O'Neill, Lori Montgomery, William Branigin | 5:12 p.m. ET
- Paulson Takes Action | VIDEO | Live Updates
- The Trail: Obama Urges Calm | McCain Blames Dems
- Live Q&A: Noon ET: What's Next for Congress?

Dow Suffers a Historic Drop, Falling 778 Points in Single Day

As rescue plan fails, stunned investors flee to relative safety of gold and U.S. Treasury bonds.

» Renae Merle | 5:46 p.m. ET

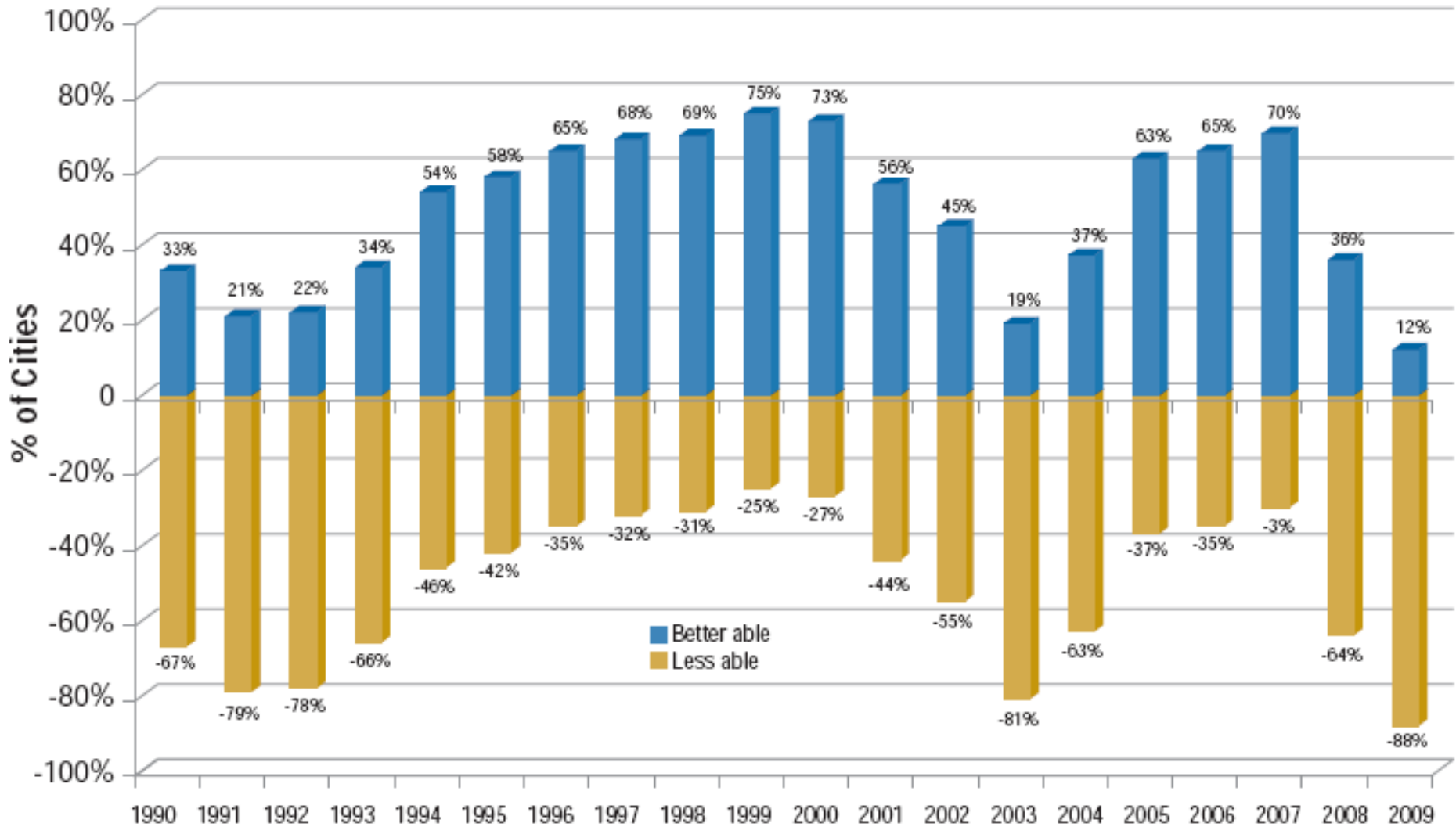


PHOTOS: Lawmakers Struggle to Agree
Passersby watch as stock market numbers are posted at the close of the market on the Nasdaq building in



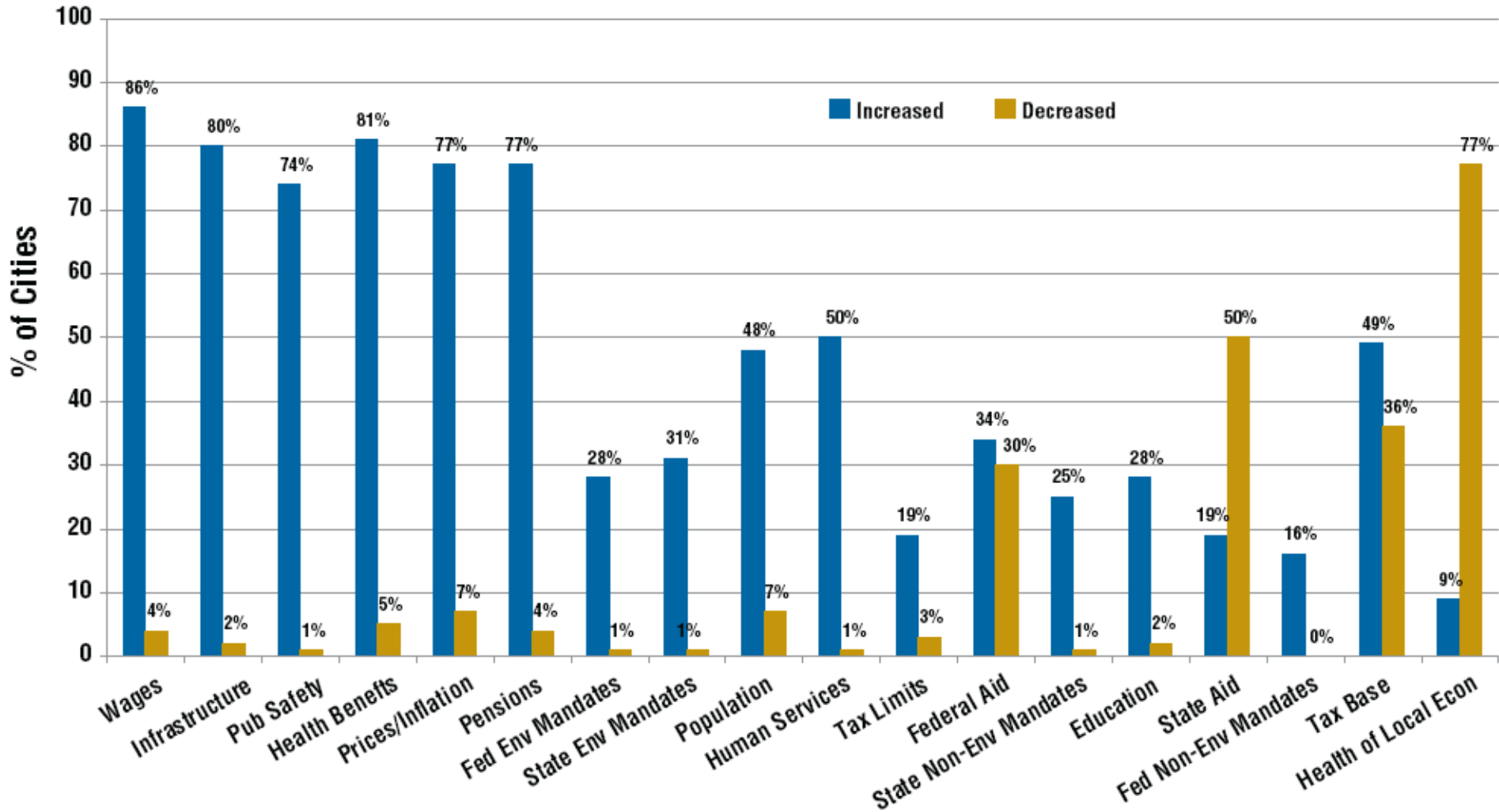


% of cities better/less able to meet citizen needs



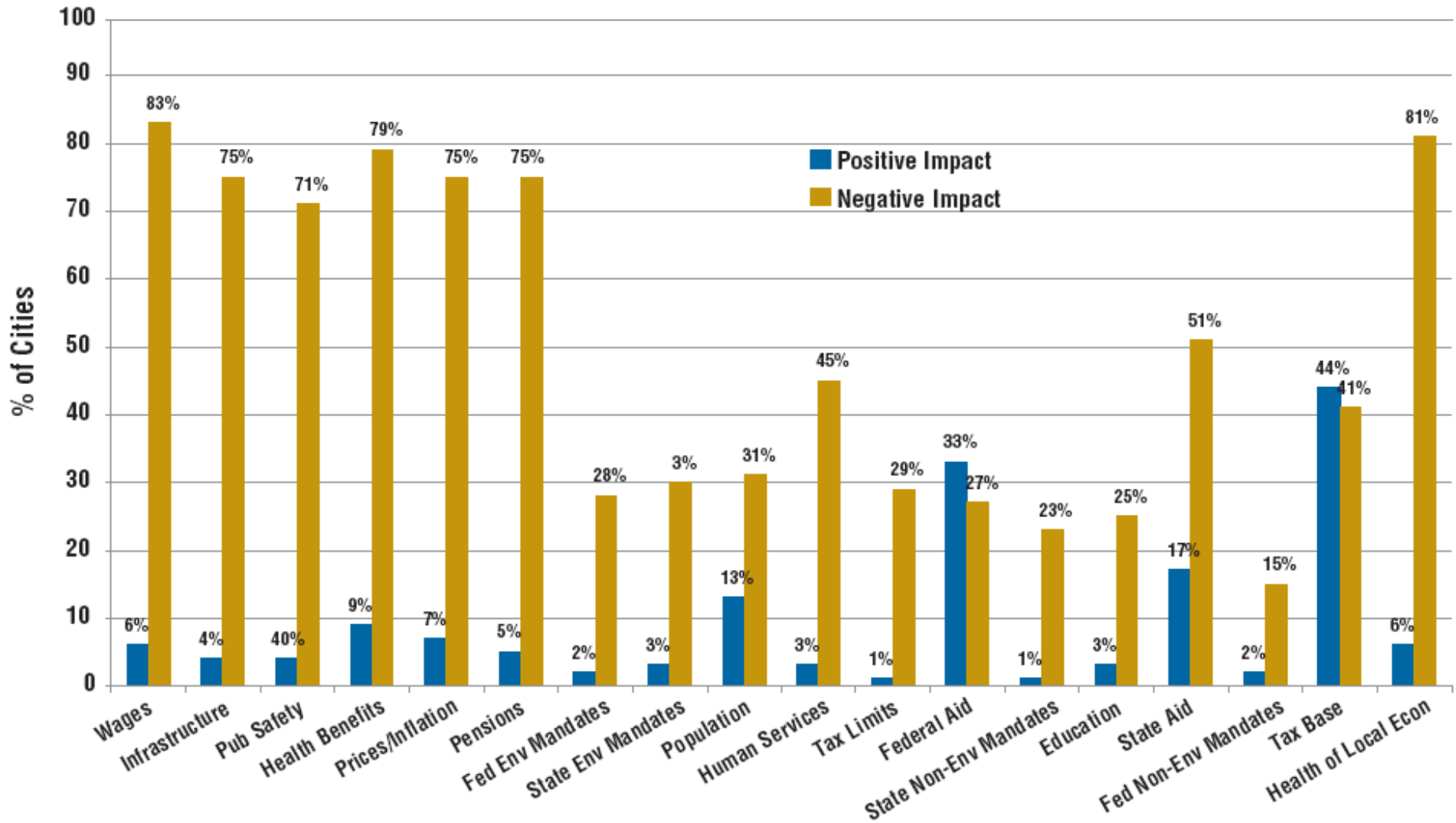
Source: National League of Cities: City Fiscal Conditions in 2009

% of Cities that had increase/decrease in the following



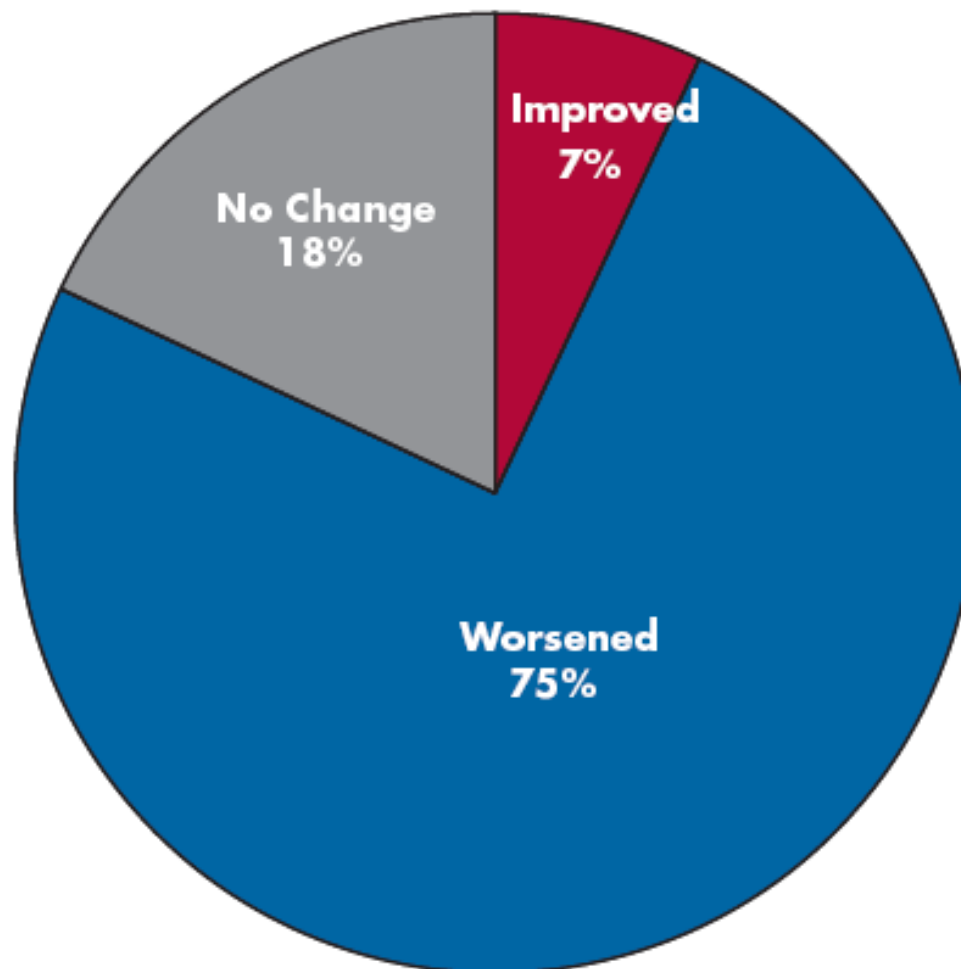
Source: National League of Cities: City Fiscal Conditions in 2009

Impact on Cities



Source: National League of Cities: City Fiscal Conditions in 2009

How have overall economic and fiscal conditions change over the last year?



Source: National League of Cities: 2010 *State of America's Cities*.



- 71% have cut personnel.
- 68% have delayed or cancelled capital projects
- **35% have mandated across the board cuts**
- 52% expect service levels to continue to decrease



- The effects of the Great Recession on local budgets will be felt most deeply from 2010 to 2012.
- Local government job losses in the current and next fiscal years will approach 500,000, with public safety, public works, public health, social services and parks and recreation hardest hit by the cutbacks.

Source: Study conducted by the National League of Cities (NLC), National Association of Counties (NACo), and the U.S. Conference of Mayors (USCM)



**Our current approach is
not sustainable**



Arizona Across the Board Cuts

- Every department faced budget cuts
- Arizona Department of Revenue was forced to cut \$25.6 Million
 - Lay-offs of 115 auditors and 93 collectors

Revenue Estimates

collectors bring in \$800,000

auditors bring in \$400,000

the state missed out on more than \$100 million
in tax collections last year (unofficial estimate)



The Mercury News

Across the Board Cuts Address \$14.5 Billion Shortfall

California Governor's Office:

- “Across-the-board approach spreads reductions as evenly as possible so no single program gets singled out.”



Cut 10% off of monthly expenses

| | | 10% | Priority-Based |
|-----------------|----------------|----------------|----------------|
| Mortgage ● | \$1,500 | \$1,350 | \$1,500 |
| Car ● | \$500 | \$450 | \$500 |
| Insurance ● | \$350 | \$315 | \$350 |
| Groceries ● | \$200 | \$180 | \$200 |
| Utilities ● | \$100 | \$90 | \$100 |
| Cable TV ● | \$120 | \$108 | 50 |
| Netflix ● | \$10 | \$9 | 0 |
| Entertainment ● | \$500 | \$450 | 252 |
| Total | \$3,280 | \$2,952 | \$2,952 |

Recent Study of citizen preferences



- 2 out of 3 residents surveyed said that state government could spend less and still provide the same level of service. Think cuts of 10-20% are appropriate
- 63 to 71% say they would be willing to pay higher taxes to keep essential services such as K-12 schools at current funding levels
57% would be willing to pay more for health and human services

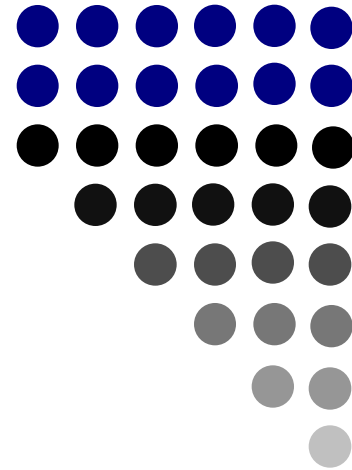


What is needed

- Look at our services with the eyes of a citizen
 - Determine priorities
- Evaluate the results of each program/service
 - How well does each contribute to desired results
- Funding is tied to results
- Reach outside our bureau/ department box

- **Prioritize!**

BFO is Different



What is Budgeting for Outcomes?



- BFO is a step-by-step budget development process that begins with a small number of community-based priorities
- Governments to align programs and funding with those priorities
- Budgets are prepared based on priority area, not department
- Departments are able to communicate results and are ultimately accountable for those results



Traditional Budgeting vs. BFO

| | Traditional Budgeting | BFO |
|--------------|-----------------------------------|-------------------------------------|
| Begins with | Last year's budget | Community priorities |
| Focus on | Cost of services | Value of services |
| Organized by | Department | Priority |
| Issues | Owned by departments | Departments cooperate to solve |
| Encourages | Low risk, same as before approach | New ideas, innovations, improvement |



Budget Roles Change

| | Traditional Budgeting | BFO |
|-------------------|--|--|
| Departments | Build up costs, make cuts hard | Link expenditures to results and priorities |
| Analysts | Find unnecessary costs | Improve service links |
| Elected Officials | Cut costs or raise taxes GET BLAMED! | Choose services that provide results citizens are willing to pay for |
| Citizens | Rally behind special interests | Help determine priorities |
| Driving force | Be fair, avoid pain | Get the best results that match priorities |



Quotes from BFO Governments

“By and large, most people distrust the traditional budget process, so people distrust the final product. Priority Driven Budgeting moves us from arguing about the validity of the budget to talking about priorities...The nature of our budget debate changed to outcomes.”

- Roger Neumaier, Snohomish County, Washington

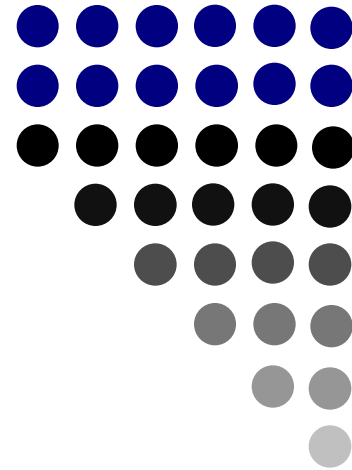


Quotes from BFO Governments

“BFO opens up the organization and opens up lines of communication. It’s an opportunity to educate everyone from line staff personnel to the CEO...It also forces difficult conversations that incremental budgeting doesn’t.”

- Stefani Conley, Mesa County, Colorado

The BFO Process





Typical BFO Process

- Establish “Price of Government”
- Identify Priorities
- Assign Dollars (as a %) to Priorities
- Identify Results
 - Create results teams
 - Prepare “request for results”
- Invite Offers from “Sellers”
- Initial Ranking of Offers
- Decide What to “Buy”/ Fund
- Finalize and Communicate

Step 1: Setting the Price of Government



- Long-term financial planning
- Citizen feedback
- Over the past 50 years
 - About \$0.35 for every \$1.00 of income
 - \$.20 for federal government
 - \$.08 for state
 - \$.07 for local
- Definition:
 - ALL taxes, fees and charges paid by citizens for government services, including all funds



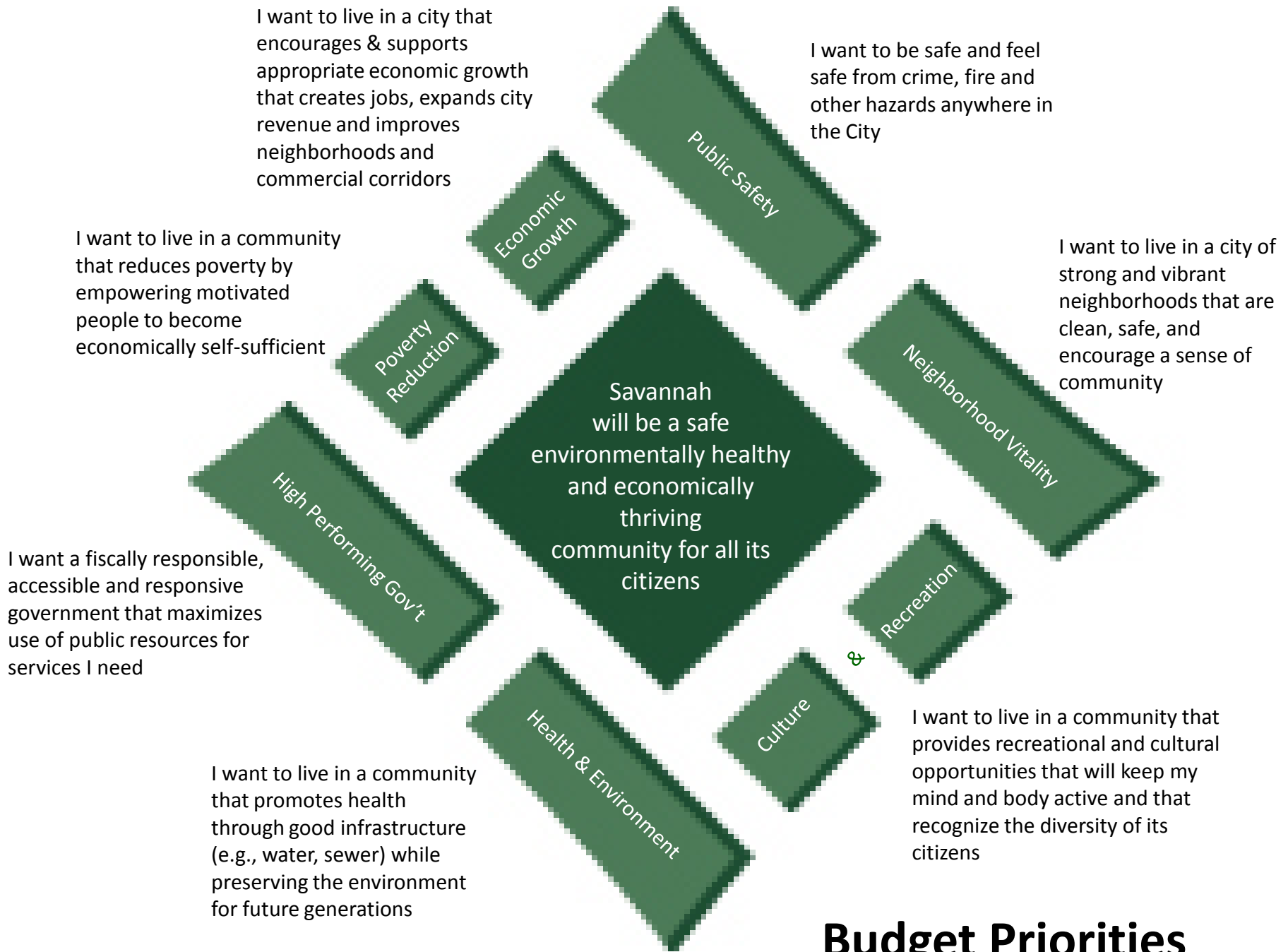
Simple Example:

- Budgeting for Outcomes with your family's budget
 - Annual Income \$100,000

Step 2: Identifying Priorities



- Ask your citizens
 - Surveys
 - Focus groups
- Build on existing work
 - Vision or priority statements
 - Strategic plans
 - Existing budget priorities
- **Elected leaders make the final decisions**
 - Need a formal identification of priorities



Budget Priorities



Mesa County 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

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

Promote economic vitality in Mesa County

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.

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

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.

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

Create well-planned and developed communities





Home Example: Priorities

- Housing
- Transportation
- Health
- Fun
- Savings



Step 3: 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
- **Remember, priorities are different than departments**
- Keep it flexible!

Asuza: Pricing its Priorities



| Outcome Goals | |
|--|-----|
| Improved economic vitality | 9% |
| A safer community | 30% |
| Better cultural, recreational, and learning opportunities. | 10% |
| A healthier environment | 13% |
| Improved neighborhoods | 8% |
| Improved mobility | 10% |
| Improved efficiency and customer focus | 18% |



Home Example: Priorities

- Housing (40%)
- Transportation (15%)
- Health (25%)
- Fun (10%)
- Savings (10%)

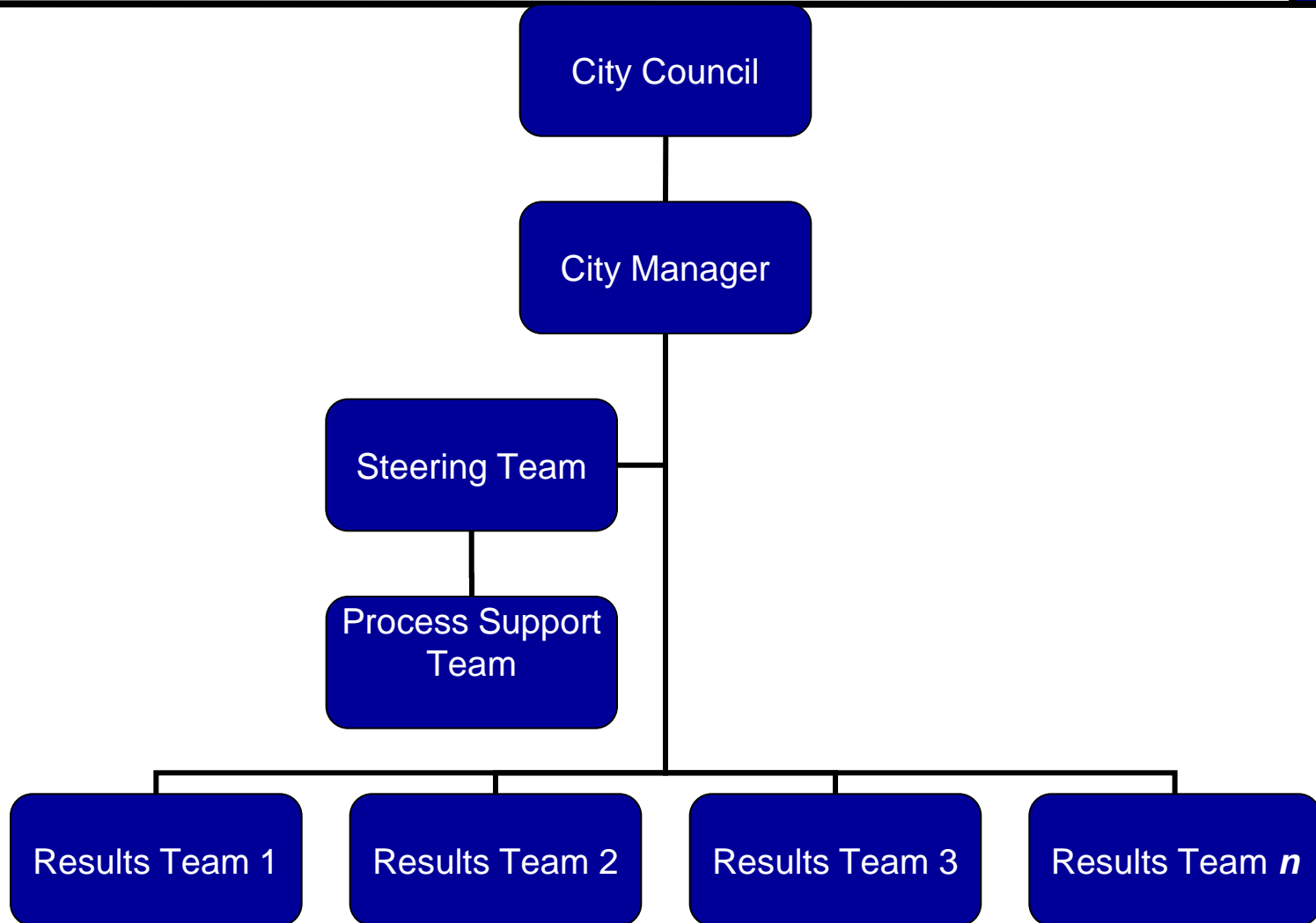
Step 4: Creating Requests for Results



- Establish Results Teams as “Buying Agents”
 - Wear “citizen’s hat”
 - Best and brightest insiders plus some outsiders
 - Cross departmental representation
 - Challenge the status quo
 - Encourage innovation and new ideas
- Request for Result for each priority
 - Cause-and-effect map
 - Indicators
 - Purchasing strategies
- The RFRs then turn into the budget instructions

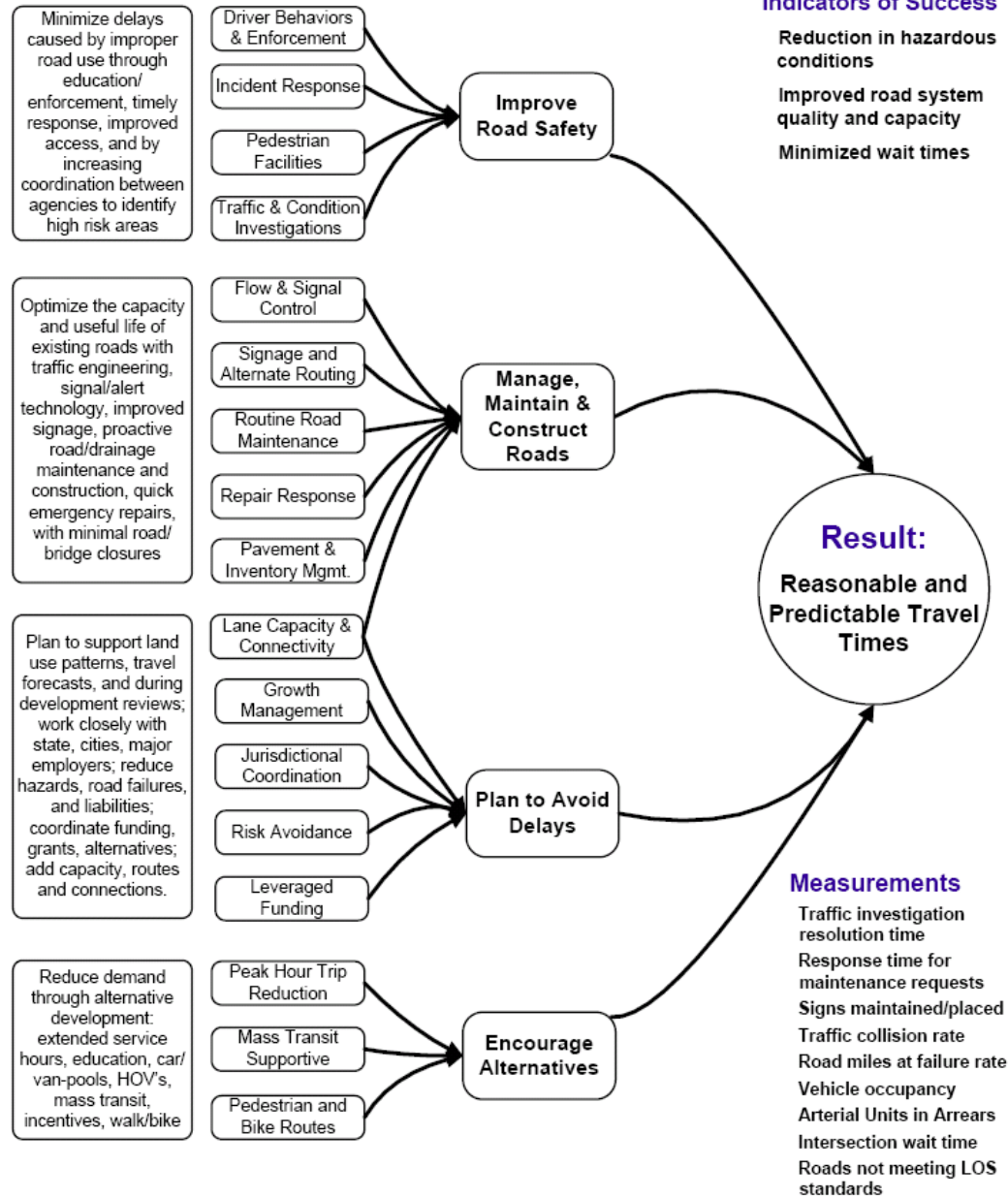


Typical BFO Structure



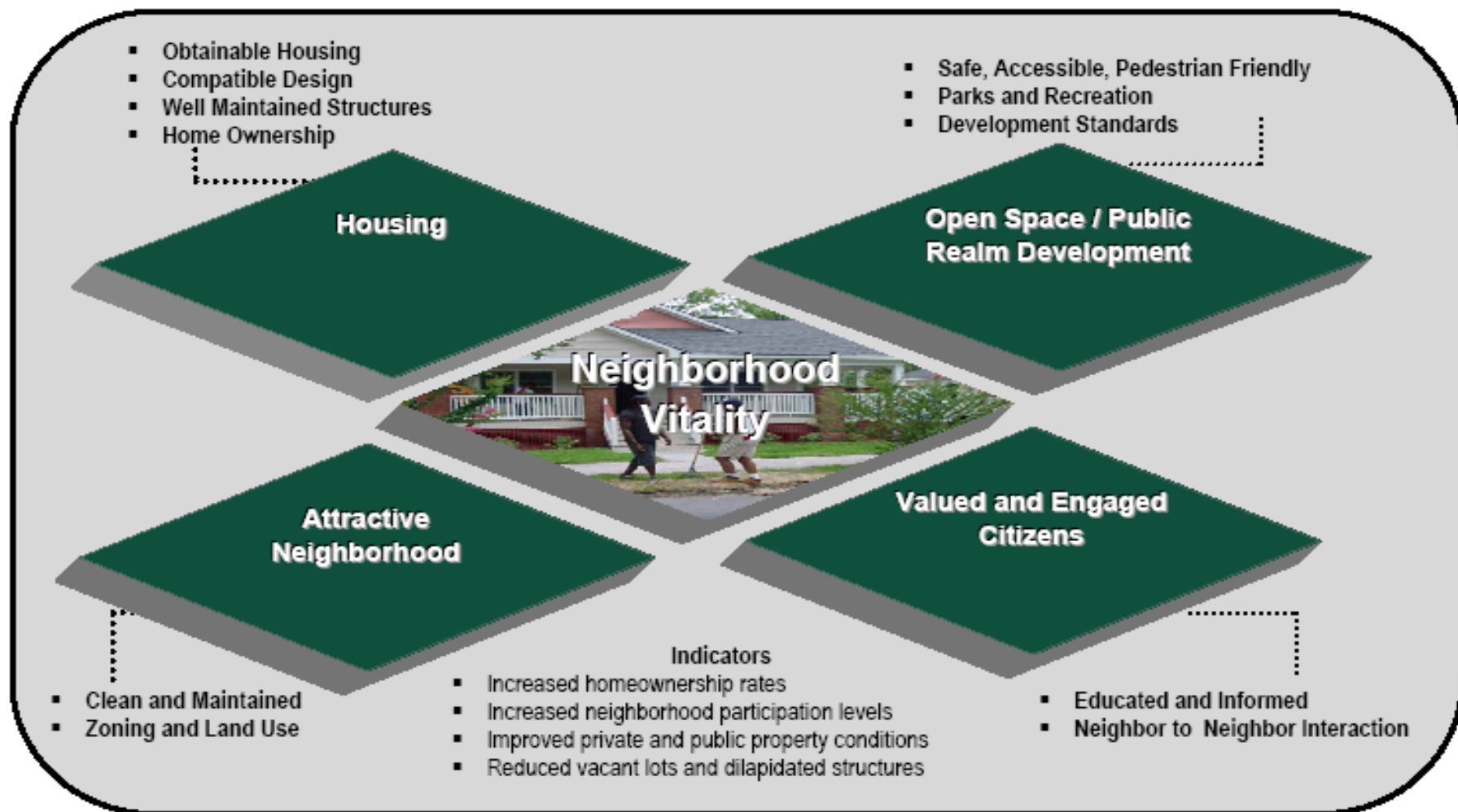
Transportation Results Team Strategy Map

Get There!



NEIGHBORHOOD VITALITY STRATEGY MAP

“I want to live in a city of strong and vibrant neighborhoods that are clean, safe, and encourage a sense of community.”



PURCHASING STRATEGIES



1. **Purchasing Strategy #1** – We are looking for offers that encourage and support Prevention, and are proactive, not just responsive to safety concerns. Specifically offers for/that:
 - a) Provide a safe environment (well-lit buildings, streets, parking lots, safe design and inspection of facilities, clean well kept non-residential areas, visible presence of safety personnel, flood control, fire prevention)
 - b) Provide programs/initiatives that influence driver behavior to promote responsible driving
 - c) Prevention programs to reduce crime
 - d) Provide programs for youth involvement
 - e) Prevention programs to reduce high risk behaviors or incidents
 - f) Programs that enhance people's feeling of safety

2. **Purchasing Strategy #2** – We are looking for offers that encourage and support Responsiveness to accidents, crimes, fires, Emergency medical services (EMS) and utility emergencies. Specifically offers for/that:
 - a) Provide for well-equipped, trained, caring response teams
 - b) Promote coordination and response by appropriate agencies
 - c) Provide for prompt restoration of services in emergency situations
 - d) Provide flexible, cost efficient, responses to developing community safety issues before they become significant problems

3. **Purchasing Strategy #3** – We are looking for offers that encourage and support Planning and Preparedness, enabling us to be forward thinking in our planning and preparations. Specifically offers for/that:
 - a) Enable appropriate staging of plans, personnel and equipment to deal with natural disasters, utility out ages and significant community events
 - b) Leverage the use of State and Federal Funding by regional agencies (FEMA, Homeland Security, etc.)
 - c) Reliable electric power and adequate flood management
 - d) Aid in business disaster preparedness and recovery
 - e) Promote strategic problem solving



Home Example: Allocating Funds

- Housing (40%)
 - Close to work
 - Big yard
 - 2 bedrooms
- Transportation (15%)
 - Get to work
 - Go shopping
 - Look cool
- Health (25%)
 - Medical care
 - Food
 - Prevention
- Fun (10%)
 - Travel
 - Entertainment
- Savings (10%)
 - Plan for Future
 - Plan for Uncertainty



Step 5: Making the offers

- Departments work independently or with other departments to propose services to achieve the results.
- Focused budget requests
- Departments trying to “win the business”
- What if.....?
 - It starts a discussion on how to improve.



Example: Accepting Offers

- Housing (40,000)
 - Mortgage 30,000
 - Utilities 5,000
 - New roof 5,000
 - New Carpet 3,000
- Transportation (15,000)
 - Honda Accord 8,000
 - Gas 3,000
 - Repairs
 - BMW 15,000
 - Bus 2,000
- Health (25,000)
 - Health Insurance 15,000
 - Food 10,000
 - Gym membership 3,000
- Fun (10,000)
 - Chicago Bears Tickets 2,000
 - Beach Vacation 5,000
 - Ski Vacation 5,000
- Savings (10,000)
 - Retirement 5,000
 - College Savings 3,000
 - Rainy Day 2,000
 - Save for Boat 3,000

Step 6: Ranking Offers



- Rank order offers
 - Round One - ignore mandates
- Start buying from the top and draw a line when run out of money for each priority
- Send offers back to “sellers” after Round One
 - Encourage offers that more closely tie services to results
 - Encourage cooperation between departments

Step 7: Deciding what offers to “Buy”

Points are awarded as follows: High 3 points, Medium 2 points, and Low 1 point

Safety

Purchased →

Not Purchased →

| | Score | (3) High | (2) Medium | (1) Low |
|-------------------------------|-------|-------------|---------------|------------|
| County Probation | 24 | 8 | | |
| Advanced Life Support | 24 | 8 | | |
| Emergency Mgmt & Operations | 24 | 8 | | |
| Radio Sys Maint. & Operations | 23 | 7 | 1 | |
| Communication Center | 23 | 7 | 1 | |
| Medical Control/Training | 22 | 6 | 2 | |
| Electronic Monitoring | 19 | 3 | 5 | |
| Radio Systems Management | 16 | | 8 | |
| Records/Billing | 16 | | 8 | |
| Medical Examiner | 15 | 1 | 5 | 2 |
| Animal Control | 12 | | 4 | 4 |
| County Delinquency Prevention | 10 | | 2 | 6 |
| Alternative Community Service | 10 | | 2 | 6 |
| Predisposition of Juveniles | 10 | | 2 | 6 |
| Facilities Security | 8 | | | 8 |
| Driver Education Trust Fund | 8 | | | 8 |

- Makes decisions and choices transparent
- **Evaluate value and cost of unfunded programs with “the last in” in other priority areas.**
 - Shift allocation between focus area if needed



Home Example: Deciding What to Fund



- Housing (40,000)
 - Mortgage 30,000
 - Utilities 5,000
 - New roof 5,000

 - New Carpet 3,000
 - Transportation (15,000)
 - Honda 7,000
 - Gas 4,000
 - Repairs 1,000
 - Bus 3,000

 - BMW 12,000
 - Health (25,000)
 - Health Insurance 15,000
 - Food 10,000

 - Gym membership 3,000
 - Fun (10,000)
 - Beach Vacation 5,000 (\$8,000)
 - Chicago Bears Tickets 2,000
 - Ski Vacation 5,000
 - Savings (10,000)
 - Retirement 5,000
 - Rainy Day 2,000
 - Save for Boat 3,000
 - College Savings 3,000
-



NEIGHBORHOOD LIVABILITY

221.1 Eastside & Westside Neighborhood Plans Update - Not Funded

2008 - \$171,000

2009 - \$0

This offer seeks to address those concerns most frequently expressed by residents of the historic Old Town East Side and West Side Neighborhoods, including at the recent BFO Citizen Open House, regarding the critical need for updated neighborhood plans, standards and guidelines to regulate new construction and alterations within these residential neighborhoods. The component parts of this offer are comprehensive updates of the (1985) East Side Neighborhood Plan and the (1989) West Side Neighborhood Plan concurrent development of standards and guidelines for alterations and new construction within specific areas of the East Side and West Side Neighborhoods.

223.1 Historic Preservation Neighborhoods - Funded

2008 - \$87,259

2009 - \$64,973

This offer builds upon historic neighborhood preservation services initiated in 2006-07 in four areas: Education, Regulatory Review, Planning, and Financial Incentives. It encourages quality housing and attractive neighborhoods by promoting citizens' appreciation of each neighborhood's unique history and architecture, and by providing concrete financial assistance for residential rehabilitation and preservation. Neighborhood character is protected through administration of the City's Land Use Code and demolition-alteration review processes, and future needs and neighborhood issues are identified through building surveys and plan updates. Additionally, these review processes and the financial incentives seek to address those concerns most frequently expressed by residents and at the BFO Citizen Open House, regarding scrape-offs and inappropriate development.

231.1 BNSF Railway Quiet Zone Study - Not Funded

2008 - \$60,000

2009 - \$60,000

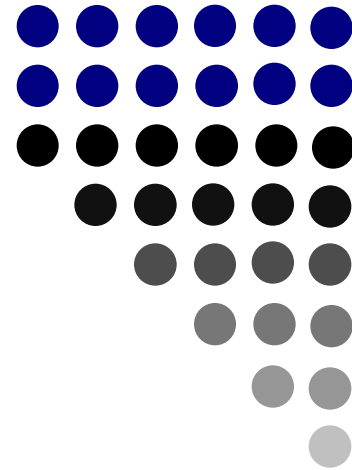
The City of Fort Collins, like many urban environments with increased population growth, has had an increase in residents adjacent to railroad tracks and crossings. As the area along the Burlington Northern Santa Fe rail corridor has transitioned from industrial to residential and recreational uses, the noise associated with the sounding of locomotive horns has become a major concern of residents and City officials. Train horns, especially during the nighttime hours, can have a significant negative impact on the quality of life to the residents and economic development goals for the center of town. This offer would fund a Quiet Zone Study and implementation program to improve the quality of life for residents and visitors located along the north-south central area of Fort Collins.

Unanticipated Consequences



- New leaders emerged
- The level of discussion and debate in the organization was elevated
- Finally linked performance measures directly to results
- Level of understanding and cooperation between departments increased substantially
- Elected officials felt much more involved in budget process
- Budget decisions are understood

Implementation Readiness





Keys to Success

- Everyone must understand their role in the process
 - Elected officials
 - Results teams
 - Departments
- Programs, Programs, Programs
 - Need to know (or be able to allocate) program costs
- Clear understanding of results
 - Essential to provide link to services



Additional Resources

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 - 312-578-2282

 - <http://www.gfoa.org>
 - <http://www.gfoaconsulting.org>