Budgeting for Outcomes (BFO)

Missouri Municipal League
September 15, 2014
Agenda

• High level overview of budgeting for outcomes

• Case Studies:
  • Olathe – 130,000
  • Gardner – 20,000
Definition: 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.
“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
Budget Approaches

- **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

- **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

- **Performance Budget**: Focuses on goals, objectives, evidence, and results

- **Priority Budget**: Focused on aligning programs to community preferences and needs
Budget Evaluation

Budget

Effectiveness

Equity

Efficiency

Economy
BFO Changes the Game: Questions That Matter/Evaluation Criteria

- **Efficiency**: How much revenue - **what is the price of government we charge** our citizens?

- **Equity**: **What results matter most to our citizens** - what are the priorities of government we will deliver to citizens?

- **Economy**: How much should we **spend to achieve each result**?

- **Effectiveness**: How can we **BEST** deliver the results that citizens expect?
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
The BFO Process

1. Establish the Price of Government
2. Choose the Priorities of Government
3. Allocate Funds to Priorities
4. Create Requests for Results
5. Invite Offers from Sellers
6. Rank the Offers
7. Decide What to Buy
8. Present the Budget
Applying the Practices

1. Stakeholder Input
   - Citizen Survey, Roundtables, Cable TV & the Internet

2. Long Term Goals
   - Strategic Plan, Five Year Forecast
   - Strategy for the Future

3. Short-term goals
   - Short Term Action Steps

4. Direction to staff
   - Financial Policies, Budget Contingency Plan

5. Operating / budget Impacts
   - Proposed preliminary budget and Strategic Plans

6. Adopt budget
   - Program of Service, Budget In Brief & CIP

7. Monitor results
   - Monthly & Annual Financial Reports, Review Performance Measures

8. Adjust as necessary
   - Supplemental Appropriations
Organizing BFO Teams/Roles

1. City Council
2. Mayor/City Manager
3. Results Teams
4. Communications Team
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
City of Olathe, KS
Case Study
Challenges

- Aging infrastructure – sales tax initiative
- Changing community needs – changing demographics
- Sales tax dependency – diversify revenue stream
- Public engagement – role of technology?
- Organizational buy in- Helping employees to understand the value of the data
Applying the Practices

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The measurement results are rolled back up. The strategic priorities are cascaded down through the organization. The diagram illustrates bottom-up execution and top-down articulation. Setting the Standard for Excellence in Public Service is framed by Community Focus Areas and City Council Priorities. The diagram highlights areas such as Active Lifestyle, Diversity, Downtown, Economic Sustainability, Public Safety, Public Service, Transportation, and Service Delivery Support. The strategic priorities include:

- Citizens feel and are safe in person and property
- Match revenue requirements with priority-based, preferred level of service
- Pursue environmental and economic sustainability
- Ensure and sustain rideability of streets and visible traffic markings
- Improve mobility and transportation
- Meet the needs of changing populations in housing and land use patterns
- Achieve informed (fact-based, data-driven) decisions about growth

The diagram further breaks down into Organizational Objectives, focusing on Customer, Financial, Internal Business Processes, and Employee Learning & Growth, each with specific goals and initiatives.
- Performance Metrics (external & internal)
- Stakeholder Input
- Others

Feedback Loop

Community Strategic Plan

Organizational Scorecard
(City Council Priorities/ Organizational Objectives)

Department Scorecards
(Business Plans)

- **Department Objectives**
  What does department need to do to support & respond to organizational objectives and City Council priorities?

- **Department Initiatives**
  What activities, programs & projects must we undertake to achieve Department Objectives?

- **Measures & Targets**
  How will we know desired results are being achieved? What is the data we need to make decisions?

Resource Allocation
Budget Process

Program Scorecards
(Program Inventories)

Employee Scorecards
(Employee Performance Plans/ Evaluations)

Adjustments based on Resources Available

Comprehensive Plan

STRATEGIC CYCLE
## Budgeted Initiatives

<table>
<thead>
<tr>
<th>Budget Strategy</th>
<th>Annual Cost</th>
<th>Measures</th>
</tr>
</thead>
<tbody>
<tr>
<td>Addition of Bailiff</td>
<td>1 FTE</td>
<td>Fingerprinting completed on 100% of all cases required by state statutes</td>
</tr>
<tr>
<td></td>
<td>$62,695</td>
<td></td>
</tr>
<tr>
<td>Addition of Detective</td>
<td>1 FTE</td>
<td>Increase the number of Part 1 cases cleared by 50</td>
</tr>
<tr>
<td></td>
<td>$70,296</td>
<td></td>
</tr>
<tr>
<td>Addition of Firefighter/Paramedics</td>
<td>2 FTEs</td>
<td>3.5% of Total Medical Calls Responded to by the Squad</td>
</tr>
<tr>
<td></td>
<td>$139,257</td>
<td></td>
</tr>
<tr>
<td>Assume full funding for Mental Health Co-Responder Contract</td>
<td>$42,900</td>
<td>Reduce calls from repeat users to 12% or less</td>
</tr>
<tr>
<td>Addition of Part-Time Prosecutor</td>
<td>.5 FTE</td>
<td>Reduce the per prosecutor caseload by 10% creating greater efficiency</td>
</tr>
<tr>
<td></td>
<td>$47,020</td>
<td>and effectiveness in case management</td>
</tr>
<tr>
<td>Indicator</td>
<td>2010 Actual</td>
<td>2011 Actual</td>
</tr>
<tr>
<td>---------------------------------------------------------------------------</td>
<td>-------------</td>
<td>-------------</td>
</tr>
<tr>
<td>1. Overall Satisfaction</td>
<td>130</td>
<td>132</td>
</tr>
<tr>
<td>2. Crime Rate (Part 1 Total)</td>
<td>20.32</td>
<td>19.79</td>
</tr>
<tr>
<td>3. Overall value received for City taxes/fees</td>
<td>74%</td>
<td>76%</td>
</tr>
<tr>
<td>4. Bond Rating Index</td>
<td>9.0</td>
<td>9.0</td>
</tr>
<tr>
<td>5. Percentage of Cardiac Arrest Patients Arriving to Hospital with a Pulse</td>
<td>35%</td>
<td>19%</td>
</tr>
<tr>
<td>6. Fire Confined to Room of Origin</td>
<td>75%</td>
<td>73%</td>
</tr>
<tr>
<td>7. Percent of Time Water Meets Regulatory Standards</td>
<td>100%</td>
<td>99.98%</td>
</tr>
<tr>
<td>8. Parks &amp; Rec. Satisfaction</td>
<td>90%</td>
<td>88%</td>
</tr>
<tr>
<td>9. Neighborhood Health Index</td>
<td>102</td>
<td>101</td>
</tr>
<tr>
<td>10. Mobility Index</td>
<td>119</td>
<td>118</td>
</tr>
<tr>
<td>11. Private Investment in Downtown as a Percent of Total Dollars Invested (Public &amp; Private)</td>
<td>100%</td>
<td>4%</td>
</tr>
<tr>
<td>12. Actual Land Use Mix (residential/non-residential)</td>
<td>29.20%/70.79%</td>
<td>29.22%/70.78%</td>
</tr>
<tr>
<td>13. Solid Waste Diversion</td>
<td>34.45%</td>
<td>36.8%</td>
</tr>
<tr>
<td>14. Diversity Index (Baseline Year 2009 =100)</td>
<td>113</td>
<td>114</td>
</tr>
</tbody>
</table>
City of Gardner, KS
Case Study
Challenges Create Opportunity

Large overlapping debt from population growth

Backlog of unfunded maintenance and capital projects

Preparation for imminent growth:
  – Central location
  – Intermodal
  – Developable land

Refocus on economic development

Gardner is “open for business”
Previous Budget Process

Numerous work sessions

Line item variance review by department

Staff set an “in the weeds” expectation

Refocus Governing Body’s time and talents to visioning and strategic planning
Applying the Practices

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The Transformation

- Community Input
  - ID Strengths and Weaknesses
- Common Themes:
  - Mission statement, vision and strategic plan
  - More business friendly
  - Accept and focus on growth

- Set Long-Term Goals
Strategic Goals

1. Promote economic development
2. Improve quality of life
3. Fiscal stewardship
4. Infrastructure/asset management
Budgeted Initiatives

Promote Economic Development
Comprehensive Plan  est. $80,000
Economic Development Strategy  est. $25,000
  • Economic Development Tech. Studies  est. $30,000
  • Design New City Website  est. $20,000
  • EDC  est. $25,000

Improve Quality of Life
Railroad Quiet Zone  est. $35,000
Safety - Crossing Guard Contract  est. $38,200
  • Citizen Engagement Software  est. $10,000

Infrastructure and Asset Management
I.T. Business/Disaster Recovery Plan  est. $105,000

Promote Economic Development

Improve Quality of Life
Final Thoughts
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
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?
Remember:

The budget process is not about dollars….it’s the authoritative allocation of values
Budgeting for Outcomes

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http://www.gardnerkansas.gov/budget/
http://www.olatheks.org/budget