Budgeting for Outcomes

GFOA of Missouri

Allen, Gibbs & Houlik, L.C.

Agenda

- High level overview
- Case studies
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

The Challenge in Government

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

Source: Bev Stein and Shane Sasnow, PSG
Budget Choices Are Guided By…

- Theory
- Hunch
- Politics
- Self Interest
- Altruism

History of Budget Development

Traditional, or Line Item Budgeting
Traditional Line Item

History of Budget Development

Traditional, or Line Item Budgeting

Expenditure Control Budgeting
Expenditure Control

- Controls inputs – output controlled by others
- Address deficit spending
- Focuses on the restriction of expenditures
- Budget checking a PO or requisition against budget.

History of Budget Development

- Traditional, or Line Item Budgeting
- Zero Based Budgeting
- Expenditure Control Budgeting
Zero Based - Positives

- Efficient allocation of resources
- Detects inflated budgets
- Every line item must be approved.
- Thorough review of the budget – line items
- Starts from a zero-base every year.

Zero Based - Negatives

- More time consuming than traditional
- Justification of every line item
- Training
- Big-Data can be overwhelming
History of Budget Development

- Traditional, or Line Item Budgeting
- Zero Based Budgeting
- Expenditure Control Budgeting
- Program Budgeting

Program Budgeting

- Detailed cost of every activity or program
- “set of activities with a single focus”

Focus:
- Objectives, outputs and expected results
History of Budget Development

- Traditional, or Line Item Budgeting
- Zero Based Budgeting
- Performance Budgeting
- Expenditure Control Budgeting
- Program budgeting
Performance Budgeting

- Looks back on how well program performed
- How many clients service/how much $
- Turned into a paper exercise

The Massachusetts Department of Environmental Protection sought to obtain funding from the state legislature to line unlined landfills. It justified the expenditure by reporting the product of the expenditure as the number of acres expected to be lined. This did not move the legislature, which turned down the request. The department then switched to a more outcome-based approach and justified the request in terms of gallons of leachate prevented. Legislators asked for a definition of leachate. When they found that it referred to potential pollutants leaked into the groundwater and water supply, they approved the funding request.¹

Urban Institute Pressss, Results Based Budgeting, 2006
History of Budget Development

Traditional, or Line Item Budgeting

Zero-Based Budgeting

Performance budgeting

Expenditure Control Budgeting

Program budgeting

Priorities - Budgeting for Outcomes

Budgeting for Outcomes

- Set an acceptable *Price of Government*
- Identify key community “results”
- Treat budget submissions as offers to deliver outcomes at a price
- Measure offers against key results
- “Buy” offers that contribute the most results – leave the rest
- Budget strives to get the most outcome for the money
**Question**

Which approach is your organization currently using?
- a. Line item / Expenditure Control
- b. Zero-based
- c. Program
- d. Performance/Priority
- e. None of the above

**Budget Approaches**

- Incremental
- Cost-based
- Strategic
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 expenditures annually.

**Program Budget**
Develop organization-wide goals and design a budget around those priorities.
Budget Approaches

Strategic

Performance Budget
Focuses on goals, objectives, evidence and results

Priority Budget
Focused on aligning programs to community preferences and needs

Why Outcomes?

Shift funds from other accounts
Borrow – shift costs to next generation
Pension contribution holiday
Use reserves/sell assets
Temporary cost cuts (freeze vacancies)
Defer capital replacement and maintenance
Across the board cuts
Budget Evaluation

Efficiency

Equity

Effectiveness

Economy

BFO Changes the Game: Questions That Matter/Evaluation Criteria

Efficiency
Maximizing the inputs related to outputs gained.
BFO Changes the Game: Questions That Matter/Evaluation Criteria

**Effectiveness**
How can we **BEST** deliver the results that citizens expect?

**Economy**
How much should we **spend** to achieve each result?
BFO Changes the Game: Questions That Matter/Evaluation Criteria

**Equity**

What results matter most to our citizens – what are the priorities of government we will deliver to citizens?

**Government Challenges to Innovation**

**Inertia**
Government Challenges to Innovation

Negative publicity

Government Challenges to Innovation

Lack of investment
Budgeting for Outcomes: Characteristics & Common Elements

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.
### Priority-Based Budgeting Types

<table>
<thead>
<tr>
<th>Type</th>
<th>Driven By…</th>
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</thead>
<tbody>
<tr>
<td>1. Political</td>
<td>1. Personalities &amp; program popularity</td>
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<tr>
<td>2. Across the board</td>
<td>2. Status Quo, everything is a priority</td>
</tr>
<tr>
<td>3. Rules based</td>
<td>3. Whatever the law says</td>
</tr>
<tr>
<td>4. Outcomes</td>
<td>4. What’s most effective at meeting citizen expectations</td>
</tr>
</tbody>
</table>

#### Performance-based budgeting:
Best practice for aligning spending to results

- Shifts perspective from internal organizational imperatives to community needs and priorities
- Shifts emphasis from inputs (line items) to objectives and outcomes (results)
- Establishes priorities and allocates resources to address the most important issues first.
- Creates an integrated system for planning, budgeting, and management
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

Budget for Outcomes

1. Establish Price of Government
2. Allocate Resources to Priorities
3. Identify & Refine Priorities
4. Create Requests for Results
5. Prepare Decision Packages
6. Rank Decision Packages
7. Present the Budget
Price of Government:
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

Price of Government:
The Revenue Decision

• All taxes, fees and charges paid by citizens for government services including all funds
• Divided by aggregate personal income
• Equals a percentage of aggregate income going to government
• Price = Cents/$ personal income for government
Polk County, Florida

1. Purpose: to look at the linkage between good business climate, economic development and the share of burden felt by an average citizen in the form of local taxes and fees paid.

2. Measures three items:
   – Change in total revenues
   – Change in personal income
   – Combination of both

3. Data sources for comparison:
   – Florida Dpt of Financial Services – Tax Info
   – US Bureau of Economic Analysis – personal income
   – Two year time lag (2012 information most recent)

4. Polk County Florida
Pricing the priorities: Allocating funds

- How much is each priority worth?
  - 2 additional patrol officers = ??,???
- What are their relative values?
  - 2 patrol officers = SRO’s placed in schools – crime prevention
- This is not cost question (the old budget game)
  - Pens, pencils, benefits, squeeze the bottom line
- It’s a value judgment, not science
  - Crime prevention moves what needle?
- Citizen input valuable, not determinative
- Two conditions will be true: Total has to add to 100%, and that will not be enough.
### Pricing the priorities: Allocating funds

#### 2015 Department Expenditures

- **Police, Municipal Court & Prosecution**: 30%
- **Public Works**: 16%
- **Fee Department**: 21%
- **Other Departments**: 33%

![Image of a dollar bill with箭头 indicating the allocation percentages]

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### Pricing the priorities: Allocating funds

#### 2015 Budget Additions

<table>
<thead>
<tr>
<th>Budget Addition</th>
<th>Annual Cost</th>
<th>Measures</th>
</tr>
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<tbody>
<tr>
<td>2 Street Maintenance Workers</td>
<td>2 FTEs $88,150 (Budgeted for 40% of year)</td>
<td>Achieve 75% citizen satisfaction with maintenance of city streets.</td>
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<td>$59,682</td>
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<td>1 FTE $104,964</td>
<td>Achieve an Average Network Overall Condition Index of 81.0 for city streets.</td>
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<tr>
<td>Brine Machine</td>
<td>$23,848</td>
<td>Achieve 97% satisfaction with Snow Removal on major City streets and 97% satisfaction with snow removal on residential streets.</td>
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</tbody>
</table>
Debt Service Forecast

2020-2024 assumes between $14m and $18m being bonded.

Pricing the priorities: Allocating funds

135th & Greenwood Turn Lanes

<table>
<thead>
<tr>
<th>Community Focus Area</th>
<th>Description</th>
<th>Funding Source(s)</th>
<th>Total Project Cost</th>
<th>Schedule</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transportation</td>
<td>Construction of an eastbound right turn lane at 135th &amp; Greenwood and right turn lanes on Greenwood into Alden Center. Also includes relocation of utilities and traffic signal pole.</td>
<td>GO BONDS, Street Excise Tax</td>
<td>$645,500</td>
<td>Design 2016 Construct 2017 Bond 2018</td>
</tr>
</tbody>
</table>

- Daily Traffic Volume=29,000; Annual Crash Rate=11.3
- Project selected based on capacity and increased traffic demand based on future development (Academy store, etc.);
- This project has been submitted for CMAQ funding, but projects and funding decisions have not yet been made by MARC.
Lessons Learned: Pricing the Priorities

- Lead people through their resistance. They'll want last year’s numbers. They’ll object that there’s no basis for the decision.
- No absolutes in the process.
- Get public input, but don’t let the public make the decision.

Identify and Refine Priorities: What Results Matter Most? How to choose priorities

1. Ask your citizens
   - Surveys
   - Focus groups
   - Internet surveys
2. Build on existing work
   - Vision or priority statements
   - Strategic plans
3. Elected leaders make the final decisions
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

Polk County, FL
Priorities of Government
Mesa County Citizens Priorities

**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 Mesa County to manage and preserve public resources.**
Continue to efficiently and effectively protect and manage all public resources.

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

**I want plans and infrastructure that maintain quality of life in the face of rapid growth.**
Create well-planned and developed communities.

**I want to feel safe anytime, anywhere in Mesa County.**
Continue to promote and protect public safety.

**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.

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Choosing the Priorities - Refining

- 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
Choosing the Priorities con’t

- 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

Creating Requests for Results

1. 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
2. Request for Result for each priority
   - Cause-and-effect map
   - Indicators
   - Purchasing strategies
3. Turn RFRs into budget instructions
Deciding on a decision package

What gives the city the most value?

vs.

Ranking/Scoring - Buyers Seek the Most for the Money

1. Budget submission = offers/decision package to deliver outcomes at a price
2. Measure 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
Remember:

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

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?
Applying the Practices

Adjust as necessary  Stakeholder input

Monitor results

Long-term goals

Adopt budget

Short-term goals

Operating & budget impacts

Direction to staff
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

City Council
Mayor / City Manager
Results Team
Communications Team
Organizing BFO Teams/Roles

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

Organizing BFO Teams/Roles

Mayor / City Manager
- Champions the process and assigns staff to carry it out
- Approves Requests for Offers
- Proposes a budget to elected body based on rankings
- Trusts the process and uses results in proposed budget
- Keeps electeds advised
Organizing BFO Teams/Roles

Communications Team
- Focus on external and internal communications
- Organizes talking points
- Rumor control

Results Team
- Team for each priority
- Composition varies
- Pick your “best and brightest”
- Adding members outside the organization is helpful
- Wear a “citizen’s hat”
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
The strategic priorities are cascaded down through the organization.

Organizational Scorecard

Bottom-up execution

Organizational Objectives

Customer

Financial

Internal Business Processes

Employee Learning & Growth

The measurement results are rolled back up.

Performance Metrics
- External & internal

Stakeholder Input

Others

Feedback Loop

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 need to be undertaken to achieve Department Objectives?
  
  Measures & Targets: What will be known when desired results are being achieved? What is the data we need to make decisions?

Program Scorecards
- Program Inventories

Employee Scorecards
- Employee Performance Plans/ Evaluations

Adaptations based on Resources Available

Resource Allocation
- Budget Process

Vision/Mission

Comprehensive Plan

Community Strategic Plan

STRATEGIC CYCLE
### 2015 Budget Additions

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</tr>
</tbody>
</table>

### Key Results Dashboard

<table>
<thead>
<tr>
<th>Indicator</th>
<th>2011 Actual</th>
<th>2012 Actual</th>
<th>2013 Target</th>
<th>2013 Actual</th>
<th>Met or Exceeded</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Overall Satisfaction</td>
<td>132</td>
<td>130</td>
<td>132</td>
<td>131</td>
<td>Met or Exceeded</td>
</tr>
<tr>
<td>2. Crime Rate (Part 1 Total)</td>
<td>19.74</td>
<td>20.54</td>
<td>19.20</td>
<td>19.06</td>
<td>Met or Exceeded</td>
</tr>
<tr>
<td>3. Citizen Satisfaction with the Overall Value that You Receive for Your City Tax Dollars and Fees</td>
<td>76%</td>
<td>76%</td>
<td>75%</td>
<td>74%</td>
<td>Met or Exceeded</td>
</tr>
<tr>
<td>4. Bond Rating Index</td>
<td>9.0</td>
<td>9.0</td>
<td>9.0</td>
<td>9.0</td>
<td>Met or Exceeded</td>
</tr>
<tr>
<td>5. Percentage of Patients Arriving at Hospital with a Pulmonary Index</td>
<td>19%</td>
<td>23.9%</td>
<td>14%</td>
<td>22%</td>
<td>Met or Exceeded</td>
</tr>
<tr>
<td>6. Percent of time Water Meets Regulatory Standards</td>
<td>73%</td>
<td>62%</td>
<td>72%</td>
<td>69%</td>
<td>Met or Exceeded</td>
</tr>
<tr>
<td>7. Percent of time Water Meets Regulatory Standards</td>
<td>99.98%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>Met or Exceeded</td>
</tr>
<tr>
<td>8. Citizen Satisfaction with the Overall Quality of City Parks and Recreation Programs and Facilities</td>
<td>80%</td>
<td>88%</td>
<td>85%</td>
<td>89%</td>
<td>Met or Exceeded</td>
</tr>
<tr>
<td>9. Neighborhood Health Index</td>
<td>101</td>
<td>100</td>
<td>101</td>
<td>102</td>
<td>Met or Exceeded</td>
</tr>
<tr>
<td>10. Mobility Index</td>
<td>117</td>
<td>121</td>
<td>121</td>
<td>121</td>
<td>Met or Exceeded</td>
</tr>
<tr>
<td>11. Private Investment in Downtown as a Percent of Total Dollars Invested (Public &amp; Private)</td>
<td>4%</td>
<td>11%</td>
<td>10%</td>
<td>10%</td>
<td>Met or Exceeded</td>
</tr>
<tr>
<td>12. Actual Land Use Mix (residential/non-residential)</td>
<td>70.22%</td>
<td>70.89%</td>
<td>70.19%</td>
<td>70.76%</td>
<td>Met or Exceeded</td>
</tr>
<tr>
<td>13. Solid Waste Diversion Rate</td>
<td>36.8%</td>
<td>37.67%</td>
<td>35%</td>
<td>38.3%</td>
<td>Met or Exceeded</td>
</tr>
<tr>
<td>14. Diversity Index (residential/non-residential)</td>
<td>114</td>
<td>108</td>
<td>&gt;100</td>
<td>111</td>
<td>Met or Exceeded</td>
</tr>
</tbody>
</table>
Business Plan Process Flow

Department
- Scorecard Perspectives
- Organizational Objectives
- Department Objectives
- Key Result Indicators
- Targets

Program
- Department Objectives
- Program Objectives
- Activities/Initiatives
- Measures
- Targets

Employee
- Employee Objectives
- Employee Actions
- Measures
- Targets

Community Priorities

Organization
- Organizational Objectives
- Key Result Indicators
- Targets

Department
- Organizational Objectives
- Department Objectives
- Key Result Indicators
- Targets

Program
- Department Objectives
- Program Objectives
- Activities/Initiatives
- Measures
- Targets

Employee
- Employee Objectives
- Employee Actions
- Measures
- Targets
### Operating Budget Summary (Populated from Resource Allocation Worksheet)

<table>
<thead>
<tr>
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<tbody>
<tr>
<td>Personal Services</td>
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<tr>
<td>Operating Expenses</td>
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<tr>
<td>Capital Outlay</td>
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<tr>
<td><strong>Total</strong></td>
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<tr>
<td>Funding Source</td>
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<tr>
<td>Non-General Fund</td>
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<tr>
<td>Fire Levy</td>
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<tr>
<td>Motor Fuel</td>
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<td>Storm Water</td>
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<tr>
<td>Water &amp; Sewer</td>
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<td><strong>Sub-Total</strong></td>
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<tr>
<td>General Fund</td>
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<tr>
<td>Fire Total</td>
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### Staffing Summary

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<tr>
<td>Total Regular FT</td>
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<tr>
<td>Total Regular FT + Benefits</td>
<td></td>
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</tr>
<tr>
<td>Total Full Time Equivalents</td>
<td></td>
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**City of Gardner, KS**

**Case Study**
Challenges Create Opportunity

Overlapping Debt
Backlog of Projects
Growth Preparation

Refocus on Development
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
The Transformation

Community Input
Identify strengths and weaknesses
Common themes
- Mission statement, vision, and strategic plan
- More business-friendly
- Accept and focus on growth

The Transformation

Set Long-Term Goals
- Promote economic development
- Improve quality of life
- Fiscal stewardship
- Infrastructure and asset management
Strategic Goals

1. Promote economic development
   - Business attraction/retention
   - Diversify tax base
   - Provide employment

2. Improve quality of life
   - Safety
   - Community/neighborhood quality
   - Leisure & cultural services

3. Fiscal stewardship
   - Customer friendly
   - Excellence in service to citizen
   - Efficiency, accountability

4. Infrastructure/asset management
   - Infrastructure and asset maintenance

Budgeted Initiatives

Promote Economic Development
Land Development Code Update
Economic Development Corporation Support
Incentive Strategy development (policy)

Improve Quality of Life
Downtown sidewalk ADA compliance

Infrastructure and Asset Management
Facility needs study
Aquatic center rehabilitation
Downtown water storage facility fence
Senior building rehab
### 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

### Changing 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.

Thank You!

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