

A solution for uncertain times:

BY ANNE SPRAY KINNEY AND BEVERLY STEIN

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Most government budget processes follow a traditional path. In proposing the budget, the government's top executive starts with last year's spending and the programs that were funded in that previous year. When faced with budget gaps, the most common solution is to focus on how to cut 10 or 15 percent from an already "tight" budget. Across-the-board cuts are a too-frequent occurrence that doesn't distinguish what is working from what is not.

A better way?

Isn't there a better way to budget in such an uncertain economic environment? And isn't the real question: "How can we get the best value for our tax dollars?" Instead of starting with the previous year's budget and justifying increases or cuts from that base, Budgeting for Outcomes calls upon government leaders to start with a set of results that matter to citizens and then fund programs according to their value in achieving those results.

This approach assigns funding to the desired jurisdiction-wide results at the beginning of the process and then budgets for activities and programs deemed most likely to achieve those high-level results, without reference to organizational structure. States, cities, counties and school districts in the United States have adopted this approach. Examples include the City of Fort Collins, Colorado; Mesa County, Colorado; City of Redmond, Washington; Multnomah County, Oregon; the City of Dallas, Texas; State of Washington; Snohomish County, Washington; and Jefferson County Schools,



Budgeting for outcomes

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Colorado, among others.¹

After the State of Washington adopted this approach in 2002 and successfully used it to deal with a \$2 billion deficit, an editorial from the *Seattle Times* summarized the benefits:

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*, Nov. 17, 2002

Budgeting for Outcomes includes six key steps:

1. Set a revenue target. At the beginning of the budget process, the government conducts an analysis of the jurisdiction's historical revenue patterns and a comparison of a jurisdiction's "price of government" (taxes, fees and charges paid by residents and businesses as a percentage of aggregate personal income) to that jurisdiction's historical price and to neighboring jurisdictions to establish the amount of revenue that will be used as the basis for budgeting. The chief executive officer may set the revenue target, or it may be set with the agreement of the legislative body, depending on the jurisdiction's preferences.

2. Articulate results. The government then selects a relatively small number of high-level results that matter most to its residents. Results, in this process, are not the same as costs, activities, programs or organizations.

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Rather, they are outcomes: future conditions the government wants to achieve. Mesa County, Colorado, identified 10 priority areas through its process. Those priorities are in Exhibit 1 on page 13.

Governments base their priority results on needs assessments, and research about citizen preferences, using methods such as citizen surveys, "town hall" meetings and focus groups.

3. Allocate revenues to results. The third step in this system is to allocate all revenue from step 1 to the results established in step 2. Mesa County's percentage allocations are shown in Exhibit 2 on page 12.

Clearly this step requires judgment; there is no precise formula for this task. It is based on a combination of perceived citizen priorities, the realities of what the jurisdiction does and what has been allocated in the past. Snohomish County, Washington, allocated a small percentage to an education result because their surveys showed that people value education so highly. The county did this even though the county does not run the school system.

4. Ask service providers to propose activities and programs for achieving results. At this stage, the Budgeting for Outcomes approach diverges significantly from

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department-by-department budgeting. Rather than asking departments to develop their budgets consistent with overall priorities, as would be typical even in a performance budgeting system, teams are established for each priority. The teams “buy” activities or programs from whichever departments will best achieve the results.

In step 4, each team conducts research and analysis to identify factors and strategies that, according to evidence, are most likely to produce desired results. Teams use evidence from other governments, the private sector, and their own experience as subject matter experts. The teams then solicit proposals from the government’s agencies or departments. (External providers such as not-for-profit organizations and private firms may also be solicited if a government so chooses.)

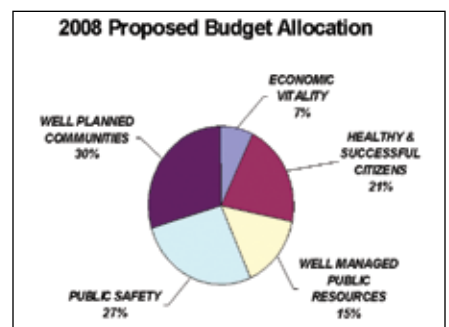
5. Submit proposals to achieve results. “Sellers” then submit their proposals to the teams describing the activities or services they would provide, how these activities would produce desired results, and at what cost — a promise of performance at a price. Because activities are selected both on their ability to achieve results and on their price, sellers have an incentive to control the cost of their proposals.

6. Rank proposals and fund the best proposals. Each team then ranks the offers from the sellers according to their assessment of perceived value (results per dollar spent). Offers on the ranking list are proposed for the budget down to the point where the money runs out.

An ongoing process

Does Budgeting for Outcomes work over time? The experience of Snohomish County, Washington, offers a helpful example. County Executive Aaron Reardon was a state legislator when the State of Washington initiated Budgeting for Outcomes. When he became county executive of Snohomish

Exhibit 2



County, he sought to duplicate the state's success in changing the budget process to a Budgeting for Outcomes approach. In a recent interview, Reardon's Finance Director Roger Neumaier discussed the county's

experience.²

Q: How long have you been doing Budgeting for Outcomes in Snohomish County?

A: Snohomish County has been using

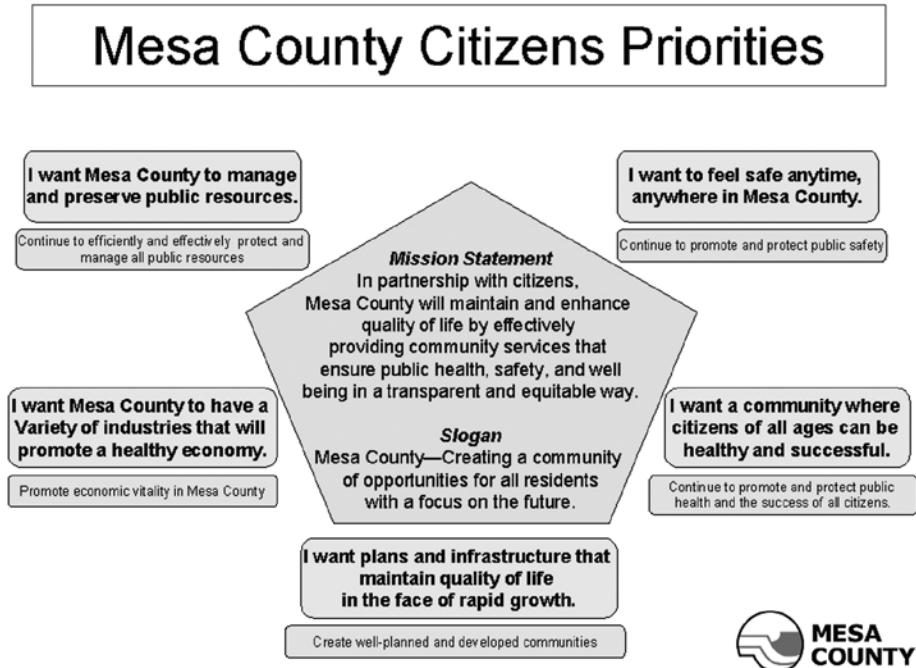
the Budgeting for Outcomes process since 2005 (budget year 2004). This year, we will complete our fourth budget with the process. We use the Budgeting for Outcomes process for all funds and all departments. Over the four years, the county has been stabilized fiscally as reflected in our bond rating.

Q: What has changed about how you use it over the last four years?

A: The first year, we were focused on learning the differences in approaches between Budgeting for Outcomes and a traditional budgeting process. Each year, we get better. There is less training. The first two years, each offer went through two iterations. By the third year, we were down to one. However, most importantly, the county culture now expects Budgeting for Outcomes. For example, the first year we heard a lot about mandates and how we were mandated to provide certain services. We went through a process where we documented all legal mandates and minimum level of services that were to be provided and found that there were very few. Because of Budgeting for Outcomes, Snohomish County now provides services to the community that citizens value versus

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Exhibit 1



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providing a service because we perceive we have to.

Q: What have been some of the key positive outcomes from using Budgeting for Outcomes?

A: Fewer complaints about what is in (and not in) the budget and a much broader and more comprehensive understanding of the county fiscal situation. Also, it is clear that we provide outcome-based services that have a value to the public. We do not fund processes; we fund outcomes. Culturally there has been a big shift at the county and it is only partially about budgeting — we have changed the way we think about government. We are now a county government that understands it exists to provide value to (rather than processes for) the public. If we are not providing sufficient value, we should stop providing a service.

Q: You have a Trailblazer Grant from the National Center for Civic Innovation — how will you use this to improve performance measurement and link to Budgeting for Outcomes in the future?

A: As a result of the Trailblazer Grant, we will be adjusting and improving our emphasis on performance measures. The executive

office and budget office will work directly with county programs to better define, develop and report outcome information. Additionally, we will hold a second round of public input by utilizing focus groups to better understand the types of performance measures the public is interested in.

Q: What advice would you give to other counties just starting the Budgeting for Outcomes process?

A: Know the purpose of your program. Knowing what your products/outcomes are has to be the starting point. Understand citizen expectations. The full support of senior management is essential. Having our county executive be the clear sponsor of the process gave us a level of momentum from the start that made a huge difference.

Conclusion

The contrast between traditional budgeting and the Budgeting for Outcomes approach is stark. Rather than having as the starting point what was funded — by department — in the previous budget, or what needs to be cut from each service, the starting point becomes the results the jurisdiction wants and needs to achieve for

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its residents and businesses.

The budget office works with teams to identify activities and programs most likely to achieve results, rather than the traditional task of cutting back departmental budget requests to fit the amount of revenue available. Elected officials spend more time making decisions based on what evidence produces the desired results and less time on deciding how much and where to cut the budget.

The incentives for agencies and departments change from making it difficult for the budget office to find places to cut their budgets to figuring out what activities work best to achieve results and how to provide those activities at the best price.

Embarking on this approach requires careful consideration of a government’s management capacity and risk tolerance. For governments that have adopted it, the benefits have been great. The logic of spending on results as opposed to traditional methods of cutting budgets is clear.

The Public Strategies Group, Inc. and the Government Finance Officers Association Research and Consulting Center jointly offer a Budgeting for Outcomes toolkit designed for smaller governments wishing to implement Budgeting for Outcomes. To request information on the toolkit and a short video demonstration, e-mail bfo@gfoa.org. ❖

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¹ The Budgeting for Outcomes approach is described in detail in David Osborne and Peter Hutchinson, *The Price of Government: Getting the Results We Need in an Age of Permanent Fiscal Crisis*, Cambridge, MA, 2004, Basic Books.

²This interview was excerpted from Beverly Stein, “Budgeting for Outcomes: The Right Results for the Right Price,” *Government Finance Review*, October 2007.