ANATOMY of a Priority-Based Budget Process
The traditional incremental approach to budgeting is not up to the financial challenges posed by the Great Recession. An incremental approach is workable (but not optimal) in periods of revenue growth because the new revenue increments can be distributed among departments and programs with relatively little controversy. There is much more potential for acrimony, though, when allocating revenue decrements during times of revenue decline. Hence, the popularity of across-the-board cuts — they are perceived as equitable and thus attenuate conflict. But by definition, across-the-board cuts are not strategic. They do not shape and size government to create value for the public.

Priority-driven budgeting (PDB) is a natural alternative to incremental budgeting. Using PDB, the government identifies its most important strategic priorities. Services are then ranked according to how well they align with the priorities, and resources are allocated in accordance with the ranking.¹

This article identifies the essential steps in a PDB process and the major levers that can be pushed and pulled to customize PDB to local conditions. The following organizations contributed to the Government Finance Officers Association’s research on PDB: the City of Savannah, Georgia; Mesa County, Colorado; Polk County, Florida; County, Washington; City of Walnut Creek, California; City of San Jose, California; and City of Lakeland, Florida.

**MAKING THE PROCESS YOUR OWN**

Designing a process that is fair, accessible, transparent, and adaptable is a challenge. However, it is also an opportunity to customize a PDB process that fits your organization best. The GFOAs research has identified five key customization questions that need to be answered as you design a PDB process:

- What is the scope? What funds and revenues are included? What is the desired role of non-profit and private-sector organizations in providing public services?

- What is the role of PDB in the final budget decision? Is it one perspective that will be considered among many, or is it the primary influence? By what method will resources be allocated to services?
What is the organizational subunit that will be evaluated for alignment with the organization’s strategic priorities? Departments, divisions, programs? Something else?

How will subunits be scored, and who will score them? The scoring mechanism is central to PDB.

How and where will elected officials, the public, and staff be engaged in the process? Engagement is essential for democratic legitimacy.

Jurisdictions can tailor the process to their needs so long as they stay true to the philosophy of PBD, which is about how a government should invest resources to meet its stated objectives. Prioritizing helps a jurisdiction better articulate why its programs exist, what value they offer citizens, how they benefit the community, what price we pay for them, and what objectives and citizen demands they are achieving. PDB is about directing resources to those programs that create the greatest value for the public.

STEPS IN PRIORITY-DRIVEN BUDGETING

A PDB process can be broken down into a few major steps. In addressing each step, there are several options for answering the five key customization questions.

1. Identify Available Resources. The organization needs to fundamentally shift its approach to budgeting before embarking on priority-driven resource allocation. An organization should begin by clearly identifying the amount of resources available to fund operations, one-time initiatives, and capital expenditures, instead of starting out by identifying the amount of resources the organization needs for the next fiscal year.

Many jurisdictions start developing their budgets by analyzing estimated expenditures to identify how much money the organizational units will need to spend for operations and capital in the upcoming fiscal year. Once those needs are determined, then the organization looks to the finance department or budget office to figure out how they will be funded. When adopting a PDB approach, the first step is to gain a clear understanding of the factors that drive revenues. Jurisdictions perform the requisite analysis to develop accurate and reliable revenue forecasts of how much money will be available for the upcoming year.

Once the amount of available resources is identified, the forecasts should be used to educate and inform all stakeholders about what is truly available to spend for the next fiscal year. As the organization begins developing its budget, everyone must understand and believe that this is all there is — that there is no padding beyond what is forecast. Sharing the assumptions behind the revenue projections creates a level of transparency that dispels the belief that there are always “secret funds” to fix the problem. This transparency establishes the level of trust necessary for PDB to be successful.

In the first year of implementing PDB, an organization might chose to focus attention on only those funds that appear to be out of alignment on an ongoing basis. This will usually involve the general fund, but the organization might decide to include other funds in the PCB process. Polk County, Florida, for instance, limits the scope to the general fund.

Intended Result: A common understanding throughout the organization about the amount of resources available, which limits how much can be budgeted for the upcoming fiscal year.

2. Identify Your Priorities. PDB is built around a set of organizational strategic priorities. These priorities are similar to well-designed mission statements in that they capture the fundamental purposes behind the organization — why it exists — and are broad enough to have staying power from year to year. The priorities are very different from a mission statement, however, in one respect: They should be expressed in terms of the results or outcomes that are of value to the public. These results should be specific enough to be meaningful and measurable, but not so specific that they outline how the result or outcome will be achieved, or that they will become outdated after a short time. Mesa County, California, has six priority results, which are expressed as citizen statements:

- **Economic Vitality.** “I want Mesa County to have a variety of industries that will promote a healthy and sustainable economy.”
- **Well- Planned and Developed Communities.** “I want plans and infrastructure that maintain quality of life.”
- **Self-Sufficient Individuals and Families.** “I want a community where citizens have opportunities to be self-sufficient.”
- **Public Safety.** “I want to feel safe any time, anywhere in Mesa County.”
- **Public Health.** “I want a healthy Mesa County.”
- **Public Resources.** “I want Mesa County to have well-managed resources.”

A strategic plan, vision, or mission statement can be the starting point for identifying the priority results. Grounding the priority results in these previous efforts can be helpful, as it respects the investment stakeholders might have in them and gives the priorities greater legitimacy.

Developing the priorities is a critical point of citizen involvement. The governing board must also be closely involved. Familiar tools such as citizen surveys, focus groups, and one-on-one interviews work well, too.

### Are Support Services a Priority?

The jurisdictions that participated in the GFOA’s research offered two alternatives for funding support services. Some suggested creating a “good governance” priority that addresses high-quality support services. This gives support services a clear place in PDB and allows them to evaluate program relevance against the strategic results they are asked to achieve. Here is how the City of Walnut Creek, California, defined its governance goals:

- Enhance and facilitate accountability and innovation in all city business.
- Provide superior customer service that is responsive and demystifies city processes.
- Provide analysis and long-range thinking that supports responsible decision making.
- Proactively protect and maintain city resources.
- Ensure regulatory and policy compliance.

Other participants envisioned moving to a system that would fully distribute the cost of support services to operating programs. Thus, the impact of any changes in the funding of these services would be tied to the prioritization of the operating services they support.

### Intended Result

A set of priorities that are expressed in terms of measurable results, are of value to citizens, and are widely agreed to be legitimate.

### 3. Define Your Priority Results More Precisely.

The foundation of any prioritization effort is the results that define why an organization exists. Organizations must ask what makes them relevant to their citizens. Achieving relevance — providing the programs that achieve relevant results — is the most profound outcome of a prioritization process.

The challenge is that results can be broad, and what they mean for your community can be unclear. Take, for instance, a result such as “providing a safe community,” which is shared by most local governments. Organizations talk about public safety, or the provision of a safe community, as if it were an obvious and specific concept. But is it?

In the City of Walnut Creek, California, citizens, together with city leadership, commonly identified issues of building safety specific to surviving earthquakes as an important influence on the safety of their community. In the City of Lakeland, Florida, however, not a single citizen or public official discussed earthquakes in their work to help define the very same
result. Hence, the uniqueness and relevance we seek is established through the specific definitions of the community’s results. The process of defining results reveals the community’s identity and the objective meaning of what is relevant.

Strategy mapping is a powerful method for defining results. It is a simple way to take a complex and potentially ambiguous objective — such as achieving a safe community — and create a picture of how that objective can be achieved. Sometimes referred to as cause-and-effect diagrams, or result maps, strategy maps can help an organization achieve clarity about what it aims to accomplish with its results.

Exhibit 1 shows a result map from the City of San Jose, California. The center of the map is the desired result — a green, sustainable city — and the concepts around the result are the definitions. The definitions help San Jose clearly articulate, “When the City of San Jose _____ (fill in the blank with any of the result definitions), then we achieve a green, sustainable city.”

The City of Walnut Creek approached the process of defining results knowing that citizens and community stakeholders needed to be involved. Its rationale was that its prioritization efforts would be valid only if the community members were responsible for establishing the results and their definitions. The city was successful in reaching out to the community (via radio, newspaper, city newsletters, and the city’s Web site) to invite any citizen who was interested in participating to attend one of several town hall meetings. After an orientation, citizens were invited to participate in a facilitated session where they submitted as many answers as they could to fill in the blank in the following question: “When the City of Walnut Creek _______ , then they achieve (the result the citizen was focused on).” The response from citizens was tremendous and generated a host of answers to the questions posed by the city. Members of the city government, who participated in the meetings, were then responsible for summarizing the citizens’ responses by developing result maps.

When defining the results that establish relevance in your community, consider if some results might be more important than other results. This could have an impact on how programs are valued and prioritized. Elected officials, staff, and citizens have participated in voting exercises where they receive a set number of “votes” (or dollars, or dots, etc.) that
they can use to indicate the value of one result versus another. This process should not be perceived as a budget allocation exercise (whereby the budget of a certain result is determined by the votes attributed to it). Instead, participants are communicating and expressing that certain results (and therefore the programs that eventually influence these results) might have greater relevance than others.

**Intended Result:** Revealing the identity of your community and the objective meaning of what is relevant to it through the process of defining results.

**What about Capital Projects?**

A priority-driven budgeting process can be used to evaluate capital projects or one-time initiatives in the same way it is used to evaluate programs and services. For instance, the capital improvement plan can be ranked against the priority results.

4. **Prepare Decision Units for Evaluation.** Evaluating the services against the government’s priority results is at the crux of PDB. First, the decision unit to be evaluated must be defined. A decision unit is the organizational subunit around which budgeting decisions will be made. For PDB, the decision unit must be broad enough to capture the tasks that go into producing a valued result for citizens, but not so large as to encompass too much or be too vague. If the decision unit is too small, it might capture only certain tasks in the chain that lead to a result, rather than the overall result, and might overwhelm the process with too many decision units and details. Traditional departments and divisions are not appropriate decision units for PDB because they are typically organized around functions rather than results. Hence, research subjects took one of two approaches to this issue: offers and programs.

**Offers.** Offers are customized service packages designed by departments (or cross-functional teams, or sometimes private firms or non-profits) to achieve one or more priority results. Offers are submitted to evaluation teams for consideration against the organization’s priority results.

Offers are intended to be different from existing organizational subunits for several reasons: to make a direct connection between the subunits being evaluated and the priority results; to encourage innovative thinking about what goes into an offer; and to make it easier for outside organizations to participate in the PDB process. For example, multiple departments can cooperate to propose a new and inventive offer to achieve a result instead of relying on past ways of doing things. A private firm could submit an offer to compete with an offer made by government staff.

**How Many Offers Are There?**

Research participants that used the offer approach averaged one offer for every $1.5 million in revenue that was available in the priority-driven budgeting process.

The drawback of offers is that they constitute a radical departure from past practice and might be too great a conceptual leap for some. This could increase the risk to the process, but if the leadership’s vision is for a big break from past practice, then the risk could be worth it. For example, Mesa County’s board is interested in having private and nonprofit organizations fully participate in its budget process at some point in the future, so the offer approach makes sense for that jurisdiction.

**Programs.** A program is a set of related activities intended to produce a desired result. Organizations that use the program method inventory the programs they offer and then compare those to the priority results. Programs are an established part of the public budgeting lexicon, and some governments already use programs in their financial management, so thinking in terms of programs is not much of a conceptual leap. This means less work and process risk. However familiar the concept, though, the programs need to be sufficiently detailed to allow for meaningful decision making. Generally speaking, if a program makes up more than 10 percent of total expenditures for the fund in which it is accounted for, then the program should probably be broken down into smaller pieces. If a program makes up 1 percent or less of total expenditures, or less than $100,000, it is probably too small and should be combined with others.

Also, the program approach might provide less opportunity for outside organizations to participate in the budgeting process. That’s because the starting point is, by definition, the existing portfolio of services. For that same reason, radical innovation in service design or delivery method is less likely.
Intended Result: Preparing discrete decision-units that produce a clear result for evaluation. Think about evaluating these decision-units against each other and not necessarily about evaluating departments against each other.

5. Score Offers/Programs against Results. Once the organization has identified its priority results and more precisely defined what those results mean in terms of meeting the unique expectations of the community, it must develop a process to objectively evaluate how the offers/programs achieve or influence the priority results. Scoring can be approached in several ways, but the system must ensure that scores are based on the demonstrated and measurable influence the offers/programs have on the results. In many organizations, such as the cities of Lakeland, Walnut Creek, and San Jose, programs were scored against all of the organization’s priority results. The idea was that a program that influenced multiple results must be a higher priority — programs that achieved multiple results made the best use of taxpayer money. Alternately, organizations such as Mesa County, City of Savannah, Polk County, and Snohomish County matched each offer with only one of the priority results and evaluated it based on its degree of influence on that result. Using this scenario, a jurisdiction should establish guidelines to help it determine how to assign an offer/program to a priority area and how to provide some accommodation for those offers/programs that demonstrate critical impacts across priority result areas. Both of these approaches have been used successfully in PDB.

There are two basic approaches to scoring offers/programs against the priority results. One approach is to have those who are putting forth the offers/programs assign scores based on a self-assessment. This approach engages the owners in the process and taps into their unique understanding of how the offers/programs influence the priority result. When taking this approach, it is critical to incorporate a peer review or other quality control process that allows review by peers in the organization and external stakeholders (citizens, elected officials, labor unions, business leaders, etc.). During the peer review, the owner of the offer/program would need to provide evidence to support the scores assigned.

A second approach to scoring establishes evaluation committees that are responsible for scoring the offers/programs against their ability to influence the priority result. Owners of offers/programs submit them for review by the committee, which in turn scores the programs against the result. The PDB process becomes more like a formal purchasing process based on the assumption that those doing the evaluations might be more neutral than those proposing the offers/programs. Committees could be made up entirely of staff, including people who have specific expertise related to the result being evaluated and others who are outside of that particular discipline. An alternate committee composition would include both staff and citizens to gain the unique perspectives of both external and internal stakeholders.

Regardless of who is evaluating the offers/programs and assigning the scores, there are two key points. To maintain the objectivity and transparency of the PDB process, offers/programs must be evaluated against the priority results as commonly defined (see step 3). Also, the results of the scoring process must be offered only as recommendations to the elected officials who have the final authority to make resource allocation decisions.

Organizations should establish the elected governing board’s role at the outset. In some jurisdictions, the board is heavily integrated into the PDB process, participating in the scoring and evaluation step. They can question the assigned scores, ask for the evidence that supports a score, and ultimately request that a score be changed based on the evidence presented and their belief in the relative influence that an offer/program has on the priority result it has been evaluated against. In other organizations such as Snohomish County, Washington, the PDB process is implemented as a staff-only tool that is used to develop a recommendation to the governing body.

6. Compare Scores Between Offers/Programs. A real moment of truth comes when scoring is completed and the information is first compiled, revealing the top-to-bottom comparison of prioritized offers/programs. Knowing this, an organization must be sure that it has done everything possible prior to this moment to ensure that there are no surprises, that the results are as expected, and that the final comparison of offers/programs in priority order is logical and intuitive.
In the City of San Jose’s peer review process, the scores departments gave their programs were evaluated, discussed, questioned, and sometimes recommended for change. The city established a review team specific to each of the city’s results. The review teams first went over the result map to ensure that each member of the team was grounded in the city’s specific definition of the result. Next, the review teams were given a report detailing every program that gave itself a score for the particular result under review. The teams met to discuss: whether they understood the programs they were reviewing; whether they agreed with the scores; whether they required further testimony or evidence to help them better understand the score given; and whether the score should stand, or if the team should recommend increasing or decreasing it. All programs were evaluated in this manner until a final recommendation was made regarding the final program scores.

What made San Jose’s approach noteworthy is that in addition to including peers within the organization to review the scores, the city also invited the local business community, citizens representing their local neighborhood commissions, and labor leaders. According to San Jose’s City Manager’s Office, “The participants found the effort informative as to what the city does; they found it engaging with respect to hearing staff in the organization discuss how their programs influence the city’s results; and, most interesting, they found it fun.”

Lastly, it is important to recognize that community stakeholders could be apprehensive about engaging in an evaluation that could result in losing support for their program. Even though program directors, or citizens who benefit from a particular program, might understand why their programs weren’t ranked highly, they still won’t be pleased with that outcome. Organizations must ask if the end result of their efforts in prioritizing programs is simply that finish line when it is clear what programs should be cut. Organizations such as the City of Lakeland have used prioritization not only to balance their budgets in a meaningful way, but also to understand how programs that might appear less relevant to the city as a whole might in fact be very relevant to other community stakeholders. These stakeholders might actually take responsibility for supporting or preserving a program. There are often opportunities to establish partnerships with other community institutions such as businesses, schools, churches, and non-profits.

Intended Result: A logical and well-understood product of a transparent process — no surprises.

7. Allocate Resources. Once the scoring is in place, resources can be allocated to the offers/programs. There are a number of methods for allocating resources. One method is to order the offers/programs according to their prioritization within a given priority result area and draw a line where the cost of the offers/programs is equal to the amount of revenue available (see Exhibit 2). Revenues can be allocated to each result area based on historical patterns or by using the priority’s relative weights, if weights were assigned. Those offers/programs that are above the line are funded, and those that are below the line are not. Discussion will ensue about the offers/programs on either side of the line and about moving them up or down, reorganizing them to move them above the line (e.g., lowering service levels), or even shifting resources among priority results.

An alternate method, used by the City of Lakeland, is to organize the offers/programs into tiers of priority (i.e., quartiles) and then allocate reductions by tier. For example, programs in the first tier might not be reduced, while programs in the lowest tier would receive the largest reductions. The programs could be forced to make the reductions assigned, or the reductions could be aggregated as a total reduction amount for each department, based on the programs within its purview (with the implication being that the department would weight its reductions toward the lower-priority pro-
grams, but this would provide more flexibility in deciding the precise reduction approach). Of course, under any PDB process, the prioritization is always just a recommendation to the governing board, and there is give and take to negotiate a final budget.

PDB can be used effectively for evaluating priorities in all funds, not just the general fund. One option is to handle special purpose funds (where there are restrictions placed on how monies can be used) separately. For example, perhaps enterprise funds or court funds would be evaluated on a different track or budgeted in a different way altogether. Another option is to rank offers/programs without respect to funding source, but then allocate resources with respect to funding source. Knowing the relative priority of all the offers/programs could generate some valuable discussion, even if there is no immediate impact on funding. For example, if a low-ranking offer/program is grant funded, is it still worth providing, especially if that grant might expire in the foreseeable future?

Intended Result: Aligning resource allocation with results of priority-driven scoring.

CREATING ACCOUNTABILITY

There can be a potential moral hazard in PDB; the owners of the offers/programs that are being evaluated might overpromise or overrepresent what they can do to accomplish the priority result. Create methods for making sure that offers/programs deliver the results that their positive evaluations were based on. Many of the GFOA’s research participants are striving toward performance measures for this purpose. For example, an offer/program might have to propose a standard of evidence or a metric against which it can be evaluated to see if the desired result is being provided.

Polk County has a conceptual approach to connecting priority result areas to key indicators (see Exhibit 3). However, none of the research participants have worked this situation out entirely to their satisfaction. For those just starting out, the lesson is to be cognizant of the place for evidence in your process design, but also to be patient about when this part of the process will be fully realized.

Intended Result: Making sure that those who received allocations are held accountable for producing the results that were promised.

CONCLUSIONS

Priority-driven budgeting is a big change from traditional budgeting. You should have strong support for the PDB philosophy before proceeding, especially from the chief executive officer (who proposes the budget) and, ideally, from the governing board (who adopts the budget). If you move forward, study PDB carefully so you can design a process that works for your organization. Keep in mind the major levers and decision points mentioned in this article and use them to create a process that fits your organization.

Notes:
1. Priority-driven budgeting is also known as budgeting for results, and the best-known method of implementing PDB is budgeting for outcomes (see “The City of Savannah Uses Budgeting for Outcomes to Address Its Long-Term Challenges” in this issue of Government Finance Review for more information about BFO). BFO was the subject of The Price Of Government: Getting the Results We Need in an Age of Permanent Fiscal Crisis by David Osborne and Peter Hutchinson (New York: Basic Books) 2006.

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