

Budgeting for Outcomes

The Practical Application



Benjamin Hart
Vice President, Assurance Services

December 2, 2014

The webinar will begin at 10:00 a.m. CST



Administration



**If you need CPE credit, please participate
in all polls throughout the presentation.**

Administration



A recording of today's webinar will be emailed for your reference or to share with others.

Administration



For best quality, call in by phone instead of using your computer speakers.

Administration



To ask questions during the presentation, use the questions box on the right side of your screen.

Administration



Please provide your feedback at the end of today's presentation.

About the Speaker



Benjamin Hart

- Provides dual insights of a governmental CFO along with experience of governmental auditing for a public accounting firm
- Brings extensive expertise in governmental budgeting, financial and internal controls, public sector leadership and more
- Consistently earned the GFOA certificate for Excellence in Financial Reporting with his CAFRs

Agenda



High level overview



Case studies

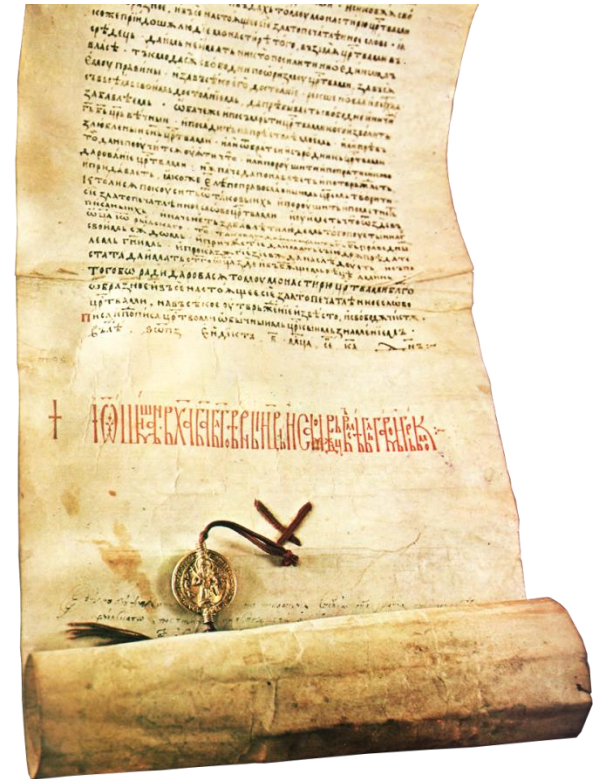
Definition: Redesign or Wreck?

“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.”

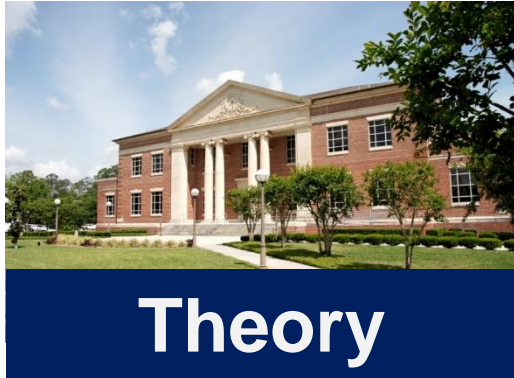
Seattle Times editorial, Nov. 17, 2002 on Washington State’s use of a BFO process.

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.**”



Budget Choices Are Guided By...



Budget Choices Are Guided By...



Theory



Hunch

Budget Choices Are Guided By...



Theory



Hunch



Politics

Budget Choices Are Guided By...



Theory



Hunch



Politics



Self Interest

Budget Choices Are Guided By...



Theory



Hunch



Politics



Self Interest



Altruism

History of Budget Development

Traditional, or
Line Item
Budgeting



History of Budget Development

Traditional, or
Line Item
Budgeting



Expenditure
Control
Budgeting

History of Budget Development

Traditional, or
Line Item
Budgeting

Zero Based
Budgeting



Expenditure
Control
Budgeting

History of Budget Development

Traditional, or
Line Item
Budgeting

Zero Based
Budgeting

Expenditure
Control
Budgeting

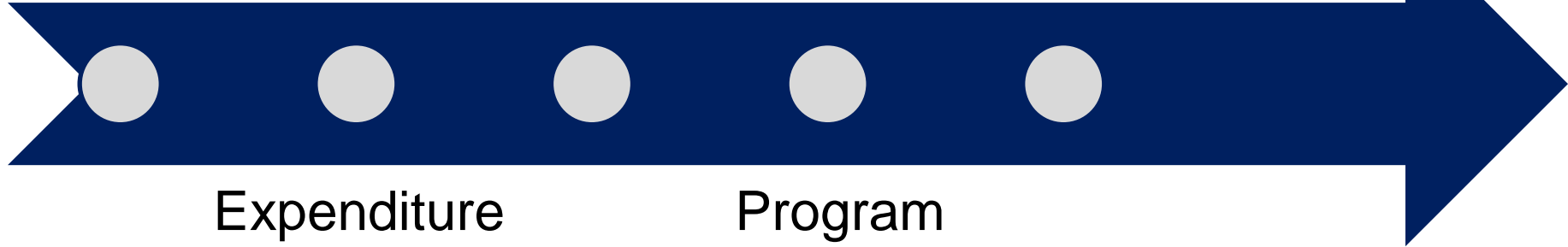
Program
Budgeting

History of Budget Development

Traditional, or
Line Item
Budgeting

Zero Based
Budgeting

Performance
Budgeting



Expenditure
Control
Budgeting

Program
budgeting

History of Budget Development

Traditional, or
Line Item
Budgeting

Zero-Based
Budgeting

Performance
budgeting

Expenditure
Control
Budgeting

Program
budgeting

Priorities -
Budgeting for
Outcomes

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

Budget Approaches

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

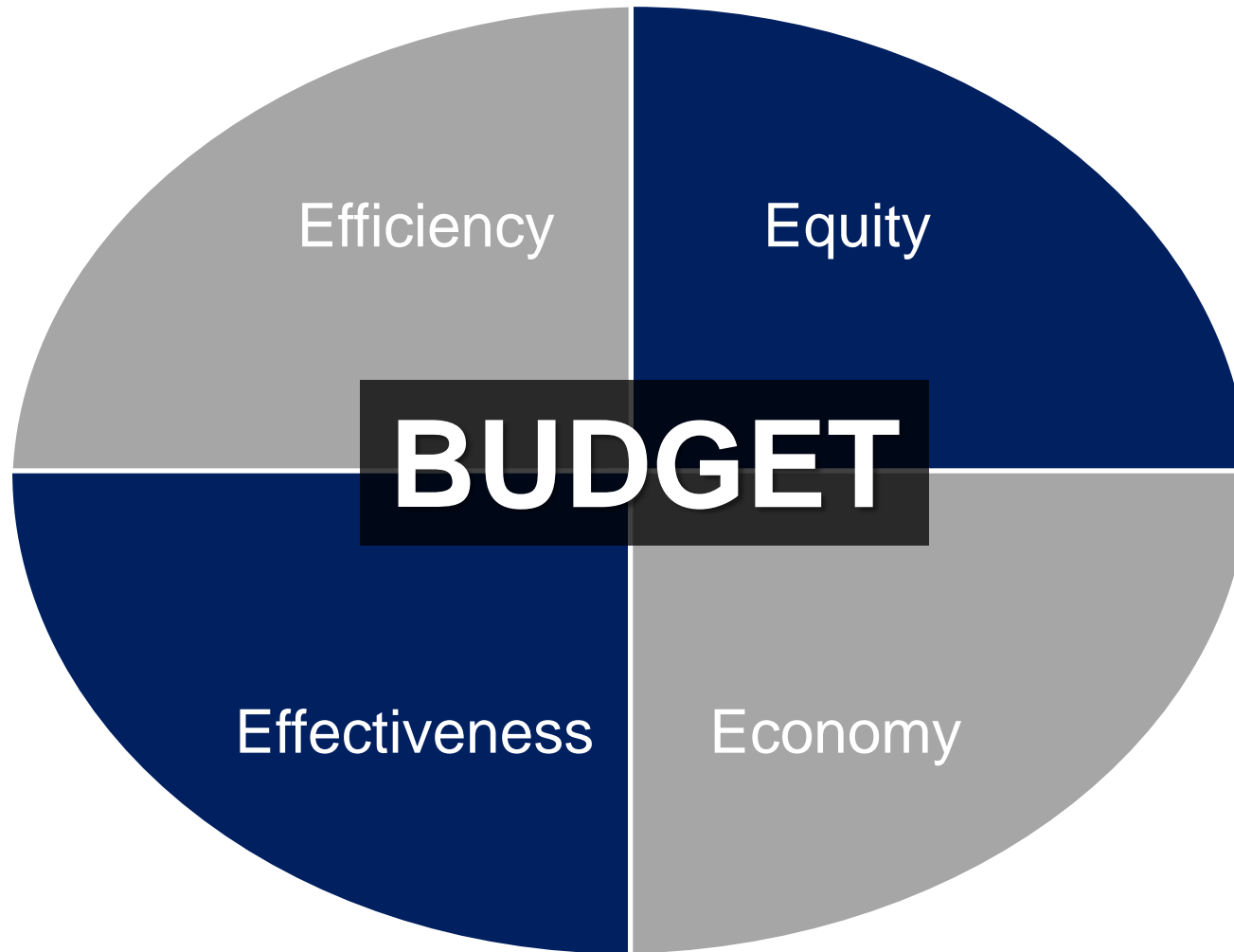
Focuses on goals, objectives, evidence and results

Priority Budget

Focused on aligning programs to community preferences and needs

Polling Question

Budget Evaluation



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

Equity

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

BFO Changes the Game: Questions That Matter/Evaluation Criteria



Economy

How much should we **spend**
to achieve each result?

BFO Changes the Game: Questions That Matter/Evaluation Criteria

Effectiveness

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

Government Challenges to Innovation



Inertia

Government Challenges to Innovation



Negative publicity

Government Challenges to Innovation



Lack of investment

Government Challenges to Innovation



Status quo beneficiaries

Government Challenges to Innovation



Private sector tool

Polling Question

The BFO Process



Establish the price
of government

The BFO Process

Choose the
priorities of the
government

Create
requests
for results

Invite
offers from
sellers

Invite offers from sellers

The BFO Process

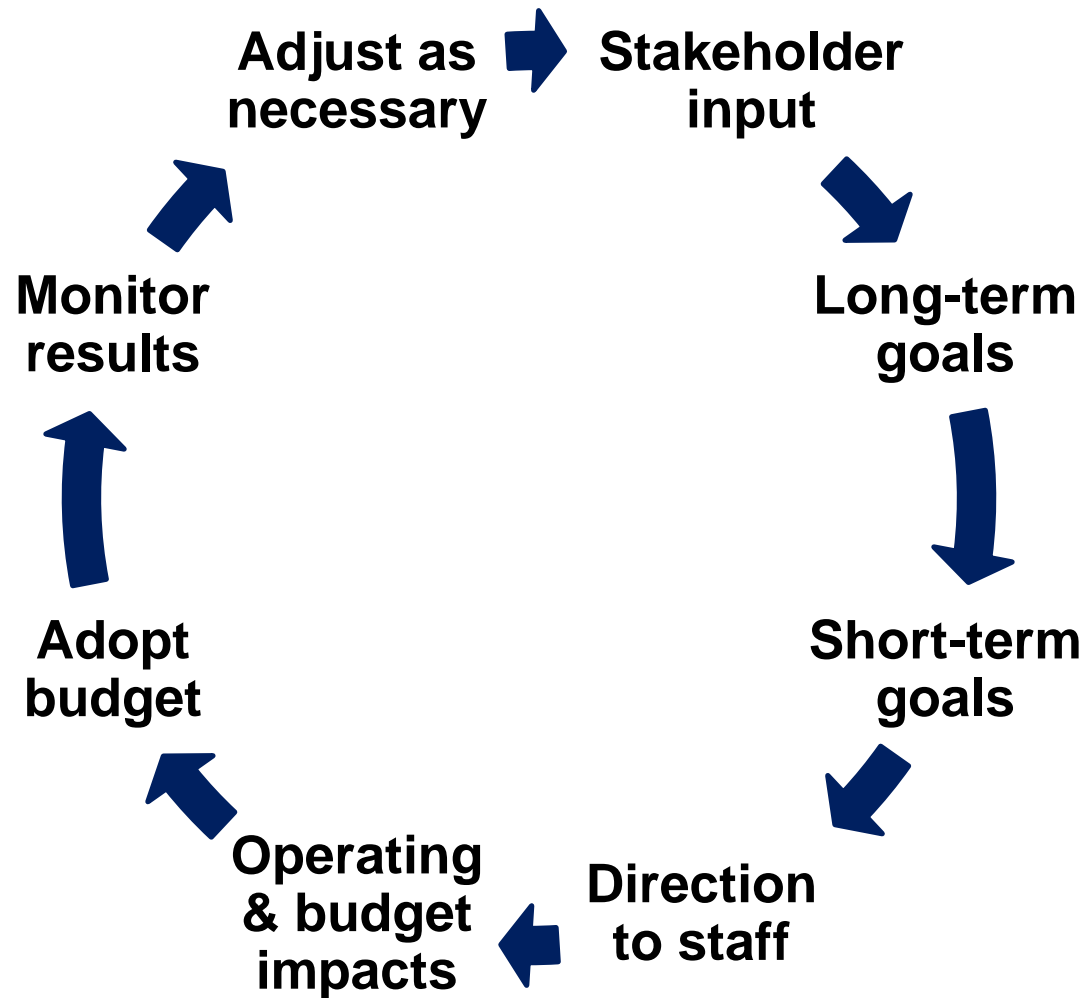


Rank the offers

Decide
what to
buy

Present
the budget

Applying the Practices



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

Organizing BFO Teams/Roles

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

Case Study



Case Study
City of Olathe, KS



AGH

Challenges



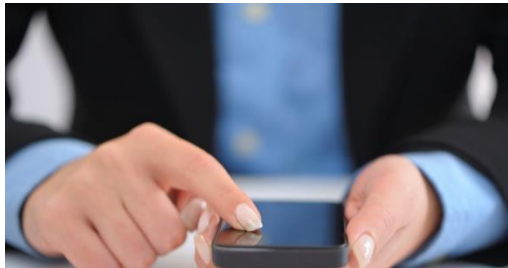
**Aging
Infrastructure**



**Changing
Needs**



**Tax
Dependency**

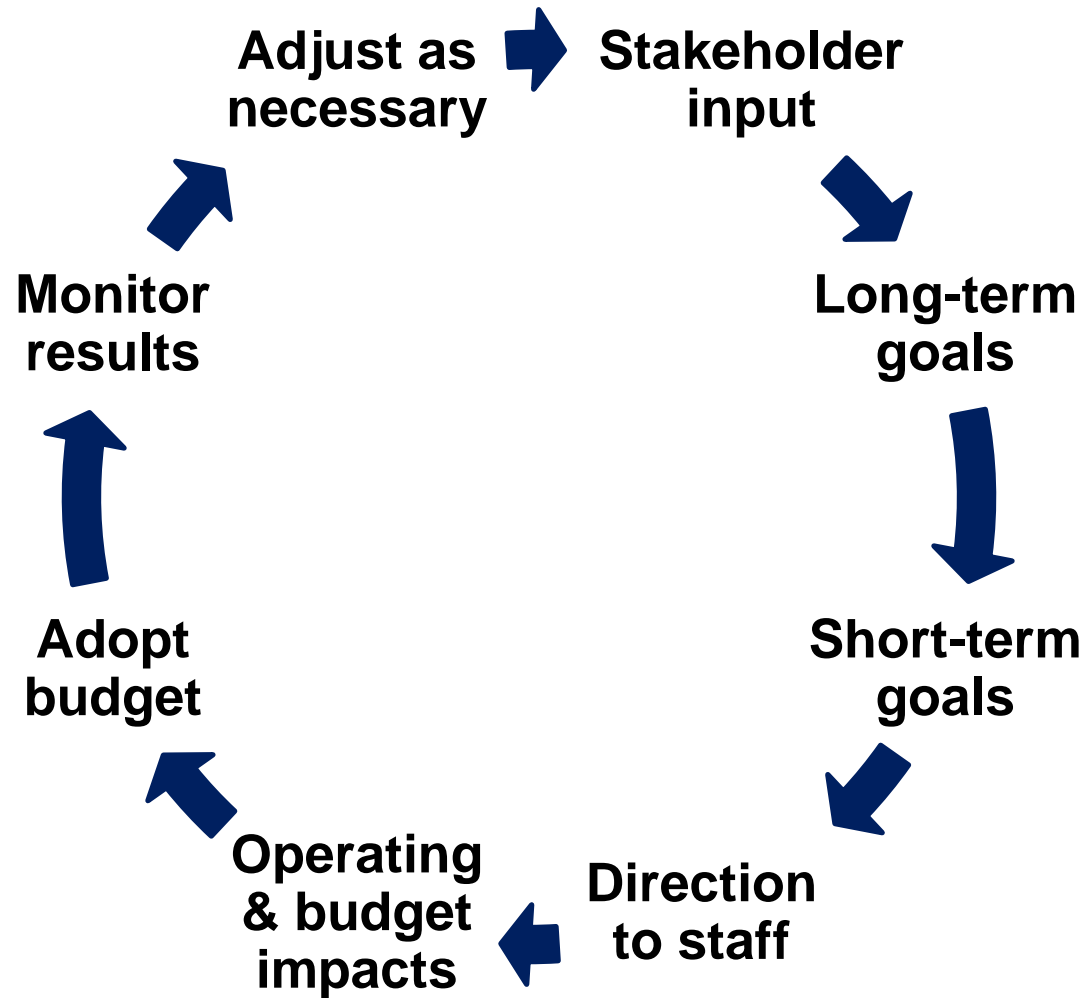


**Public
Engagement**



**Organizational
Buy-In**

Applying the Practices



Setting the Standard for Excellence in Public Service



Community Focus Areas

Active Lifestyle • Diversity • Downtown • Economic Sustainability • Public Safety • Public Service • Transportation • Service Delivery Support

City Council Priorities

- 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 ridability of streets and visible traffic markings.
- Improve mobility and transportation.
- Meet the needs of changing populous in housing and land use patterns.
- Achieve informed (fact based, data driven) decisions about growth.

The strategic priorities are cascaded down through the organization

Top-down articulation

Organizational Objectives

Customer

- Promote Community Health, Safety & Welfare
- Improve Mobility
- Revitalize the City's Central Core and Strengthen Neighborhoods
- Develop a Sense of Community
- Promote & Preserve Cultural and Ethnic Diversity
- Improve/Preserve Parks, Open Space, Historic Sites & Recreation Opportunities
- Improve/Protect the Environment (Air, Water & Land)

Financial

- Deliver High Quality, Efficient & Affordable City Services
- Provide Needed Infrastructure Improvements and Maintain Existing Public Facilities
- Pursue Sustainable Development
- Maintain/Improve Bond Rating

Internal Business Processes

- Maximize the Efficiency & Effectiveness of Internal Business Processes
- Promote Community Engagement

Employee Learning & Growth

- Increase Employee Engagement & Satisfaction
- Recruit, Develop & Retain Productive Quality Staff



STRATEGIC CYCLE



STRATEGIC CYCLE

Performance metrics
Stakeholder input



STRATEGIC CYCLE

Organizational Scorecard

Department Scorecards
(Business Plans)

Department Objectives

Department Initiatives

Measures & Targets

Performance metrics
Stakeholder input



STRATEGIC CYCLE

Organizational Scorecard

Department Scorecards
(Business Plans)

Department Objectives
Department Initiatives
Measures & Targets

**Program
Scorecards**

**Performance metrics
Stakeholder input**

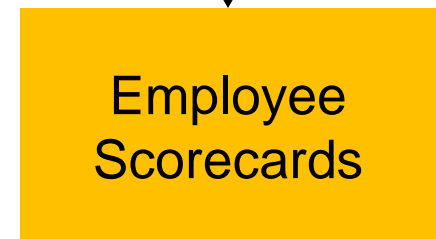
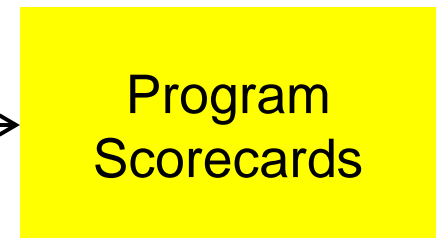




STRATEGIC CYCLE








Performance metrics
Stakeholder input





Budgeted Initiatives

Budget Strategy	Annual Cost		Measures
Addition of Bailiff	1 FTE \$62,695		Fingerprinting completed on 100% of all cases required by state statutes
Addition of Detective	1 FTE \$70,296		Increase the number of Part 1 cases cleared by 50
Addition of Firefighter/Paramedics	2 FTEs \$139,257		3.5% of Total Medical Calls Responded to by the Squad
Assume full funding for Mental Health Co-Responder Contract	\$42,900		Reduce calls from repeat users to 12% or less
Addition of Part-Time Prosecutor	.5 FTE \$47,020		Reduce the per-prosecutor caseload by 10%, creating greater efficiency and effectiveness in case management

Case Study



Case Study City of Gardner, KS

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

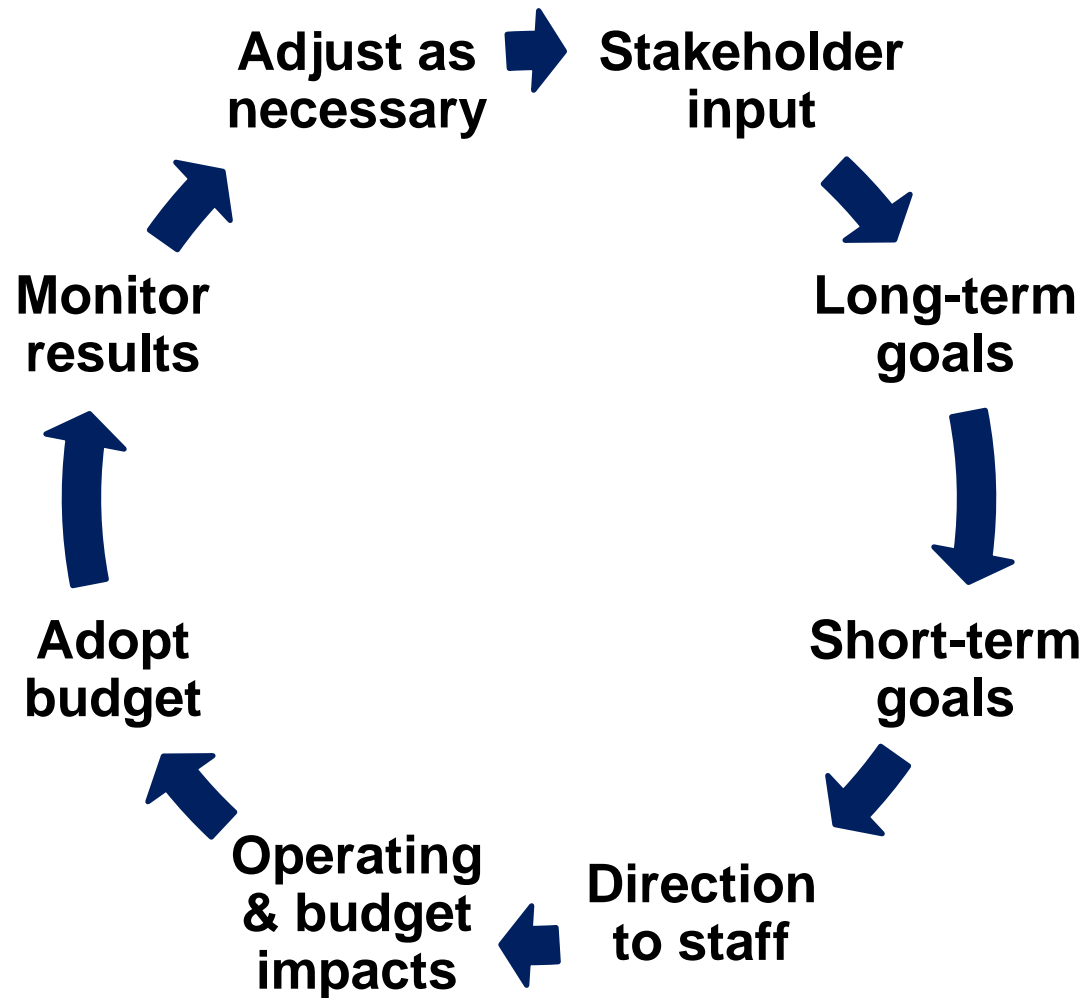


Staff set an “in-the-weeds” expectation



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

Applying the Practice



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

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

Polling Question

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?

Polling Question

Remember:



The budget process is not about dollars.

It's the authoritative allocation of values.

Thank You!

Ben Hart



(316) 267-7231



benjamin.hart@aghlc.com



<http://www.linkedin.com/in/benjaminhartcpa>

Questions NOT related to today's content?
mike.ditch@aghlc.com

Explore our other webinars!
<http://www.aghlc.com>