



COUNTY COMMISSION

Monday, February 2, 2015

1:00 PM

Administrative Center – Basement Conference Room

Special Meeting - Budget

Order of Business

- I. **Opening**
 - A. **Call to Order**
 - B. **Clerk Records the Roll**

- II. **County Commission Planning Session**
 - A. **Anticipated Reduction in 2016 Oil and Gas Production Tax**
Report/Discussion

 - B. **Wage and Benefit Study**
Report/Discussion

 - C. **Strong Towns Enclosure page 5**
Report/Discussion

D. Sales Tax
Report/Discussion

E. DeLisa's Billing Service [Enclosure](#) [page 11](#)
Discussion – Follow-up from 2015 Budget Sessions

F. 2016 Budget Priorities from Commission Perspective
[Enclosure](#) [page 14](#)

III. Adjournment



Meeting Memo

To: County Commission
From: Greg Sund
CC: Order of Business Recipients
Date: 1/30/2015
Re: Order of Business for February 2, 2015 Special Meeting - Budget

- A. Anticipated Reduction in 2016 Oil and Gas Production Tax** – As has been discussed recently, the Oil and Gas Production Tax is part of the County’s ad valorem tax. It is based on the price of oil as established on January 1 of each year by the State PVD office. Because of the considerable drop in oil prices over the last several months, there is concern that this revenue could be reduced by $\frac{1}{2}$ or more. We are hoping to have verification of the price set by the PVD before the meeting, but at the time the packet was put together, we did not have them. It was curious to learn that there are several prices set by PVD each of which is based on the specific gravity of the well. I believe we need to have a serious discussion about how the County is going to react to this potential loss of revenue. Originally, I thought that if the County does nothing, it may result in the burden for the loss of this tax shifting to the real estate side of the oil and gas tax. However on second thought, I think this loss will translate into a reduction in assessed value which means a hike in the mill levy to cover the loss equal to three to five mills.
- B. Wage and Benefit Study** – The study is taking considerably longer than I anticipated, but I regularly get new questions and comments from department heads that I communicate to the consultants. I realize doing this has extended the study, but I firmly believe answering questions up front is far better than trying to make adjustments after the study is complete.
- C. Strong Towns** – This is a movement to raise awareness in the United States that since World War II, we have built a transportation system in this Country that we cannot afford to maintain properly, let alone improve. We are all aware of the threat to federal funding for local road and bridge improvements. Ellis County has benefited greatly over the years from federally funded road and bridge projects. Without it we would be challenged greatly to keep up with road and bridge maintenance needs. In 2013, the County sold bonds to improve two sections of Old Highway 40. Without taking on that

debt, it is doubtful we would be able to engage these projects. This is clear by the fact that the east project exceeded the engineer's estimate and consumed enough of the project funding to make us take a breath and engage in more planning before we can consider the west project. We have received grants to reconstruct three bridges in the County since I started with the County. While it is possible we will receive more grants in the future, they will in no way provide sufficient funding to properly maintain the County's 200+ bridges. To show how attitudes are changing toward transportation systems, I have included two stories from the www.StrongTowns.org website. One is from their mission statement. The other is a story about a rural subdivision and how they control development/maintenance of roads by covering all the costs themselves rather than thinking the County is obligated to do so for them.

- D. Sales Tax** – For the last several months, I have had conversations with Mike Graf about ways to enhance funding for road maintenance. This conversation is a good follow-up to the Strong Towns discussion and the challenge we have in providing sufficient maintenance funding for our 1,340 miles of roads. In light of the anticipated reduction in the Oil and Gas Production Property Tax due to lower oil prices, I think this is a good time to discuss a possible 1% sales tax that we would after the County's current sales tax goes off. My thought is to move Oil and Gas Production Tax revenues directly to the Special Road and Bridge Fund. In recognition of the fact that with a sales tax put on by the County, we would only receive about 42% of the revenue. The majority of the revenue would go to the cities in the County. This is why we would need a 1% tax. For the last several years, our Oil and Gas Production Property Tax revenue has been about \$3.3 million, which is fairly close to what 42% of a 1% sales tax would produce. We would need to coordinate something like this with the cities in the County, but based on the fact that the three smaller cities in the County kept their share of the ½%, I am sure they could use the money.
- E. DeLisa's Billing Service** – last Summer, Commissioner Haselhorst stated interest in contracting an EMS billing service used by Ford County. It is called DeLisa's Billing Service. In the end, I simply think we ran out of time to sufficiently discuss this service, so I agreed with the owner of the service to put it on this agenda to determine if it is something Ellis County is still interested in or would like to drop at this time.
- F. 2016 Budget Priorities from Commission Perspective** – As during the last two years, I ask the Commission to review the priorities set last year and determine if any adjustments need to be made. As I have raised during the last few budget sessions, I think it is important given our budget challenges to employ at least some aspects of Priority-based Budgeting. I am enclosing information about this budgeting method that I have included in past budget planning packets.

Greg Sund

Following World War II, the United States embarked on a great social and financial experiment that we know as suburbanization. It created tremendous growth, opportunity and prosperity for a generation of Americans that had just lived through economic depression and war.

What we seemingly didn't stop to consider at the time was that the way we were building our places – spread out across the landscape – would be extremely expensive to sustain, far greater than the relative wealth the approach would generate.

Local governments today are being crushed by their long term obligations. To solve today's cash problems, they are being encouraged to take on even more liabilities. We desperately need to find a different approach.

A study of the traditional development pattern – the way humans built cities for thousands of years – reveals much hidden wisdom. Our ancestors knew how to build financially strong and resilient places. Their existence depended on it. This was a knowledge gained painfully through trial and error, understanding we should not casually disregard.

America's challenge is to update this wisdom for the 21st century. We are not going to abandon the automobile, but we must urgently begin the process of stitching our communities back together at a human scale.

The Strong Towns approach is a fundamental rethinking of how we work together to build lasting wealth and prosperity within our communities. A strong America is made of strong cities, towns and neighborhoods.

JOHNNY SANPHILLIPPO IS A STRONG TOWNS MEMBER LIVING IN SAN FRANCISCO AND DOING SOME AMAZING BLOGGING AT [GRANOLA SHOTGUN](#). WE PULLED THIS POST OF HIS OFF OUR [MEMBER BLOGROLL](#) AND SHARE IT HERE WITH HIS PERMISSION.

What would our neighborhoods look like if we voluntarily reduced the amount of infrastructure? This isn't a purely academic question. As municipal, state, and federal budgets get squeezed there's going to be a point at which we have no choice but to stop building new roads and even reduce the amount of maintenance on the roads we already have. We could approach this situation with dread and a sense of loss, or we could embrace it as an opportunity to get a better quality of life for a whole lot less money.

I grew up in New Jersey. Like most states the New Jersey Highway Trust Fund is just about bankrupt this year. Unless the gas tax is raised all revenue will go exclusively to debt service. If revenue were to drop below a certain point, due to lower gas prices or lower demand for gas, there won't be enough money to service the debt either. We're likely to see triage one way or another.

This is the historic Water Witch subdivision above Sandy Hook that was first built in 1895, not too far from New York City. Twenty five years ago I had friends who bought an old house here when the neighborhood was only beginning to come back after a long period of decline. Back then the houses were old and in varying states of disrepair. My friends saw the potential and started renovating their place and helped spearhead a revitalization of the neighborhood. These days it's a posh address with rather expensive homes. But notice the narrow gravel roads.

Water Witch is a private community, although it isn't "gated" in the contemporary sense. That means the HOA members pay



to maintain the roads not the government. This is a really important distinction. When people believe their property tax money entitles them to certain things they often have high expectations. They tend to have a very different attitude when they know they're going to be writing a check directly for the level of service they ask for. This difference in who pays for the roads leads to different outcomes.





Back in the late 1980's I was privy to HOA meeting debates where some members demanded that the roads be paved. They were tired of the ruts, mud puddles, and problems of snow removal. The dirt roads were one of the things that had kept property values depressed for decades. So a consulting engineer was brought in and explained exactly what it would cost to pave the roads. It would be many millions of dollars divided by the forty two homes in the community.

That conversation came to a halt instantly. So much for paved roads at Water Witch. The compromise was to maintain the gravel roads to a slightly higher standard with annual adjustments that were far more cost effective. The resulting bucolic country lanes twist up the hill and provide a feeling of retreat from both the nearby city as well as the surrounding suburban sprawl. It also ensures that no one will ever be tempted to speed since the roads won't physically allow it. This keeps the neighborhood safe for pedestrians and cyclists. And it also happens to be more ecological as an extra bonus.

Now, there were some people in the HOA that didn't even want to pay for the annual gravel upgrades. These weren't what you would call poor people, but no one wants to pay for anything if it isn't absolutely necessary. It was suggested that the community clubhouse could be rented out for special events to generate the needed revenue to pay for road maintenance. Other people objected. Why live in a private community if an army of strangers would come marching in day and night?

So the HOA found a sweet spot. The clubhouse would be rented for only twelve events per year between April and October. Valets would be hired at the expense of the renters to manage traffic. Those twelve days would bring in enough money to pay for the road work each summer. It was a reasonable compromise and a good financial deal for everyone. The fact that Water Witch was distinctive and countryfied compared to the unrelenting highways and strip malls of most of New

Jersey made it that much more desirable for people looking for a unique event space. People pay extra for charm.



By the way, notice how some people have paved their private



driveways with asphalt or stone while the HOA roads and the parking lot at the Clubhouse are gravel. It matters who's responsible for paying for things and how those decisions are made.

In contrast, here's a newer upscale residential subdivision not far from Water Witch. Notice the massively wide paved roads and enormous cul-de-sac. I have to ask... What does all that paving really do for the neighborhood? You could land an Airbus A380 on this much tarmac. But what's the point? You can be quite sure that when these roads become cracked and potholed the wealthy well-connected residents of these grand homes will mobilize and bang heads at the public works department. Somehow the government will be made to absorb the expense of repave things even if the (very high) property taxes from these specific homes doesn't come close to covering the real cost of maintenance. Would these home owners accept a different standard if they were directly responsible for maintaining their own road?



Now let's look at a more reasonably priced home in a middle class neighborhood. This is my sister's house in another part of the state.

She and her family live in a respectable 1960's tract house on a half acre lot. Look at the cul-de-sac in front of her place. It's nearly a half acre as well. Look how tiny the parked cars are compared to the amount of pavement. Again, what exactly does the neighborhood get out of this arrangement other than a massive heat island effect in summer, a storm water runoff problem, and a lot of high speed traffic that puts children, pedestrians, and cyclists in danger? Think of all the ways that much land could be put to better use to add value to the neighborhood instead of just chipping away at the county budget.

At a certain point hard choices are going to have to be made. The current political conversation involves questions about how to raise taxes while lowering levels of service. But there is another way. We could spend a whole lot less money both publicly and privately and still get a higher quality of life. I'm not sure we as a society are really ready to have that conversation.





History: This message has been replied to and forwarded.

Mr. Sund,

The last time we spoke I mentioned that DeLisa's Medical Billing can provide other services in addition to the Complete Practice Management. Working with DeLisa's Medical Billing is *ensuring legality* of the report and *financial benefits* . I know we can increase reimbursement by working together.

In the past we have noticed from reviewing runs there can be discrepancies. I listed some examples below and I remind clients that , "The ambulance run is the patient's medical record and it is a legal document and must be handle as so. "

Listed below are some examples of problems we have ran across that could initiate an audit or not be upheld in a court of law.

Examples:

The chief complaint may list syncope , then looking at the narrative there is no notation of syncope or any indication of syncope

The type of transport indicates an ALS, with no other supporting documentation in the chart.

We remind our clients that an ALS Assessment performed *does not* immediately make it an ALS level of service.

Lack of detailed documentation, the chart might lack detail in what was performed, how it was done and who done it.

To help prevent discrepancies and the issues listed above we will provide:

1. Review of chart for completion
2. Review chart for discrepancies
3. Review chart for correct coding
4. Communicate with client

Help with unpaid accounts or problem claims:

With one of our clients we began filing only problematic claims for them, which was Railroad Medicare; within 4 months we took over all the billing.

1. Review and resubmit denied claims
2. Complete appeals if needed

3. Contact insurance companies
4. Contact patient if needed

Provide coding and documentation support

Provide communication and education regarding HIPAA and coding policies.

We are not about replacing employees positions, but to help them with problem areas or issues that would actually benefit the ambulance service financially .

Sincerely,

DeLisa Merry, RHIT

DeLisa's Medical Billing Service, Inc.

118 W. 2nd Street

Delphos, KS 67436

(877) 212-2642 Ext 101

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DeLisa's Medical Billing Service

DeLisa Merry, RHIT | 118W 2nd, Delphos, KS 67436 | (877) 212-2642 Ext 101 | dmbs@twinvalley.net

November 6, 2014

Mr. Sund,

Here we are at the end of 2014 and close to starting a New Year. I hope that you would consider DeLisa's Medical Billing Service, Inc. to help make your next year more profitable.

In today's economy with the Medicare and Medicaid cuts and demands, Healthcare Providers have to struggle to receive the reimbursement they deserve. Here at DeLisa's Medical Billing Service we can make your job less demanding and at the same time increase your reimbursement.

Why am I confident that we could increase reimbursement for Ellis County Ambulance?

- ✓ RHIT (registered health information tech) on staff
- ✓ Filing ambulance claims for over 18 years
- ✓ Our clients consider us a very reputable billing service
- ✓ Established in 1996

If you would allow us, we would be happy to offer a general consultation, or a review, free of charge. This review would help determine the amount that could be reimbursed compared to what was the actual reimbursement.

If you would like more information, please refer to the contact information above.

Thank you for your time and consideration to this matter.

Sincerely,

DeLisa Merry, RHIT

County Commission Priorities Identified January 22, 2014

1. Water

Swede Said Ellis does not recognize the concerns he sees.
He plans to attend the KAC Supper in Colby to talk to the State Water Office people.
We need to review water use and needs
Said water is controlled by the State, which is tough.

Barb Make low flow shower heads available
Encourage installation of low flow toilets.

Bill Ring – need more education on water conservation and other issues.

Dick Klaus - Asked if oil companies would every move to salt water for drilling. Dean said probably not any time in the near future.

2. Safe Community

Make money available for operation during projects.

When people break the law, it affects the community.

Costs and activities are expected to grow.

3. Economic Development

Barb – Look at possible change in direction/focus on zoning/planning

Dean Truck Stop at Exit 157 and improvement of 230th and Feedlot Road

4. PTO Management

5. Asset Management

6. Union Negotiations

Barb – Health Insurance cost is out of control. May have to change structure to keep affordable.

Anatomy of a
**Priority-
Driven**
Budget Process



Credits

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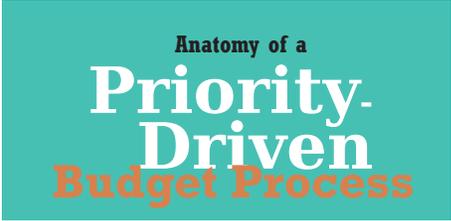
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GFOA's Research and Consulting Center

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You can learn more about us and contact us at www.gfoaconsulting.org or 312-977-9700.



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Anatomy of a Priority-Driven Budget Process

Introduction

The traditional approach to governmental budgeting is incremental: The current year's budget becomes the basis for the next year's spending plan, and the majority of the organization's analytical and political attention focuses on how to modify this year's spending plan based on revenues anticipated in the next year.¹ An incremental approach is workable, if suboptimal, in periods of reasonably stable expenditure and revenue growth because the current level of expenditures can be funded with relatively little controversy. However, the incremental approach to budgeting is not up to the financial challenges posed by the new normal of relatively flat or declining revenues, upward cost pressures from health care, pensions, and service demands, and persistent structural imbalances.²

Priority-driven budgeting³ is a common sense, strategic alternative to incremental budgeting. Priority budgeting is both a philosophy of how to budget scarce resources and a structured, although flexible, step-by-step process for doing so. The philosophy of priority-driven budgeting is that resources should be allocated according to how effectively a program or service achieves the

goals and objectives that are of greatest value to the community. In a priority-driven approach, a government identifies its most important strategic priorities, and then, through a collaborative, evidence-based process, ranks programs or services according to how well they align with the priorities. The government then allocates funding in accordance with the ranking.

The purpose of this paper is to describe factors that have led governments to adopt priority budgeting and to identify the essential concepts and steps in such a process, including the adaptations individual governments have made to customize priority-driven budgeting to local conditions. The paper is based on the experiences of the governments below, which were selected for variety in organization size, type of government, and approach to budgeting.⁴ This paper builds on prior publications about priority-driven budgeting by taking a step back from specific approaches to budgeting and describing the major steps in the process and then outlining options for putting those steps into operation. It is GFOA's hope that this paper will give those who are new to priority-driven budgeting a solid base from which to get started, and to provide veterans of priority-driven budgeting with ideas for further adapting and sustaining priority-driven budgeting in their organizations.

Our Research Participants

City of Savannah, Georgia	(pop. 131,000)
City of Walnut Creek, California	(pop. 64,000)
Mesa County, Colorado	(pop. 146,093)
City of San Jose, California	(pop. 1,023,000)
Polk County, Florida	(pop. 580,000)
City of Lakeland, Florida	(pop. 94,000)
Snohomish County, Washington	(pop. 683,655)

Leading the Way to Priority-Driven Budgeting

Priority budgeting represents a fundamental change in the way resources are allocated. The governing body and the chief executive must understand and support the process and communicate that support throughout the organization. In addition, these officials must be willing to carry out their decision-making responsibilities in a way that is consistent with a priority-driven process. The change an organization desires to bring about by virtue of implementing priority-driven budgeting won't happen overnight, so those leading the move to priority budgeting must make it clear that this type of budgeting is not a one-time event – it is the “new normal.” To see the change through for the long-term, leaders must have a passion for the philosophy underlying priority-driven budgeting, but at the same

time, they must not be overly committed to any particular budgeting technique or process. They must remain adaptable and able to respond to the circumstances while remaining true to the philosophy. If the organization doesn't have this type of leadership, it might be better to delay priority-driven budgeting or look to another budgeting reform that has greater support. The “Philosophy of Priority-Driven Budgeting” sidebar describes the philosophy of priority-driven budgeting and its central principles. Use these principles to test the support among critical stakeholders and to build a common understanding of the tenets the budget process will be designed around.

Of course, not everyone in the organization can be expected to immediately accept priority-driven budgeting with the same enthusiasm. The leadership must articulate why a priority-driven budget

The Philosophy of Priority-Driven Budgeting

The underlying philosophy of priority-driven budgeting is about how a government entity should invest resources to meet its stated objectives. It helps us to better articulate why the services we offer exist, what price we pay for them, and, consequently, what value they offer citizens. The principles associated with this philosophy of budgeting are:

- **Prioritize Services.** Priority-driven budgeting evaluates the relative importance of individual programs and services rather than entire departments. It is distinguished by prioritizing the services a government provides, one versus another.
- **Do the Important Things Well. Cut Back on the Rest.** In a time of revenue decline, a traditional budget process often attempts to continue funding all the same programs it funded last year, albeit at a reduced level (e.g. across-the-board budget cuts). Priority-driven budgeting identifies the services that offer the highest value and continues to provide funding for them, while reducing service levels, divesting, or potentially eliminating lower value services.
- **Question Past Patterns of Spending.** An incremental budget process doesn't seriously question the spending decisions made in years past. Priority-driven budgeting puts all the money on the table to encourage more creative conversations about services.
- **Spend Within the Organization's Means.** Priority-driven budgeting starts with the revenue available to the government, rather than last year's expenditures, as the basis for decision making.
- **Know the True Cost of Doing Business.** Focusing on the full costs of programs ensures that funding decisions are based on the true cost of providing a service.
- **Provide Transparency of Community Priorities.** When budget decisions are based on a well-defined set of community priorities, the government's aims are not left open to interpretation.
- **Provide Transparency of Service Impact.** In traditional budgets, it is often not entirely clear how funded services make a real difference in the lives of citizens. Under priority-driven budgeting, the focus is on the results the service produces for achieving community priorities.
- **Demand Accountability for Results.** Traditional budgets focus on accountability for staying within spending limits. Beyond this, priority-driven budgeting demands accountability for results that were the basis for a service's budget allocation.

is something worth actively supporting and voting for, rather than just a “least-worst” outcome in a time of revenue scarcity.⁵ The leadership must also create a sense of urgency behind priority-driven budgeting by showing the financial forecasts, analysis, and other information that supports the need for a new approach to budgeting. Ensuring that a priority-driven budgeting process is successfully adopted requires organization-wide acceptance and a shared understanding of the entity’s financial condition. For example, the City of Savannah, Georgia, shared trends in major revenue sources, reserves, and long-term forecasts to show that the city’s revenues were entering a period of protracted decline. Of course, the case need not hinge on financial decline. A case can also be made based improving the value the public receives from the tax dollars government spends.

Two groups in particular that must be recruited to support priority-driven budgeting – elected officials and senior staff. Elected officials need to show consensus and support for priority-driven budgeting to make it through the challenges in the budget process that will inevitably occur. Ideally, at least one or two elected officials will be attracted to the philosophy so they can champion the idea with other officials. Elected officials may be particularly drawn to the fact that priority-driven budgeting allows them to set the organization’s key priorities and see how services align or don’t align with their priorities. This puts elected officials in an influential policy-making role – perhaps more powerful than under a traditional budgeting system. Elected officials who have experienced priority-driven budgeting consistent-

ly say one of the main reasons they endorse it is because it allows them to achieve what inspired them to run for office in the first place – identifying the results and implementing the policies that are most important to their community.

Senior staff must support the process as well because priority-driven budgeting requires a significant time commitment from staff. If the board and CEO are behind priority-driven budgeting, it will go a long way toward getting senior staff engaged. Staff members who have experienced priority-driven budgeting say they support it because it gives them a greater degree of influence over their own destinies. Staff no longer passively awaits judgment from the budget office; instead, they create their own solutions because priority-driven budgeting invites them to articulate their relevance to the community.

To raise awareness about the move to priority-driven budgeting and to build support for it among all stakeholders, the governments that shared their experiences for this paper emphasize the importance of a communications and risk mitigation strategy. The strategy identifies major stakeholders, their potential concerns, and messages and actions that can assuage those concerns. For example, employees might want to know if their job tenure will be affected, and citizens might want to know the implications for service offerings. The need for transparency in the process cannot be emphasized enough – many organizations create a specific Web page to provide employees and citizens with regular and timely updates on the process as it unfolds. Involving key stakeholders – such as the Chamber of Commerce, labor union leaders, editorial staff from the media, and leaders of community groups and neighborhood groups – at appropriate stages in the process often provides the best form of “informal” communication to the rest of the public. In communities such as Boulder, Colorado, and Fairfield, California, a town hall format was used as a communication device. The first group was asked to invite others to subsequent meetings, and not only did they invite friends and family, but they brought them to the event.

Do You Have a Strategic Plan?

If you already have a strategic plan that identifies community priorities, you may be able to use it as launching pad for priority-driven budgeting. Elected officials will likely be interested in a budget system that promises to decisively connect resource use to their priorities. In fact, some officials might be frustrated with an incremental budget system that doesn’t effectively align resources with evolving strategic priorities. This dissatisfaction with the status quo provides a natural segue to priority-driven budgeting.

Perhaps the primary risk to successful priority-driven budgeting that officials and other stakeholders might reject of the process because they see it as insufficiently legitimate – the process is thought to be flawed in some way that makes it a poor basis for allocating resources. Mitigate this risk by conferring “democratic” and substantive legitimacy onto priority-driven budgeting.⁶ Democratic legitimacy means that the process is consistent with the will of the public. Engage the elected officials, the public, and employees in the process to achieve democratic legitimacy. When a budget process is seen to have democratic legitimacy, it gives elected officials permission to resist narrow bands of self-interest that seek to overturn resource allocation decisions that are based on the greater good.

Substantive legitimacy means that priority-driven budgeting is perceived to be based on sound technical principles. Use Government Finance Officers Association (GFOA) training and publications to

demonstrate that this kind of budgeting is consistent with best practices, but, most of all, devote time to intensely study priority-driven budgeting. Some of the research participants for this article studied it for two years before moving forward. While two years of study will not be necessary for every government, becoming fluent in priority-driven budgeting allows the leadership to speak convincingly on the topic and lead an honest discussion about the feasibility of priority-driven budgeting for the organization. If the organization decides to move forward, the leadership’s expertise will allow it to design a credible process, define the roles of staff in priority-driven budgeting, lead others through it, and adapt to the pitfalls and curveballs that will be encountered.

The next section describes the major steps in a priority-driven budgeting process and provides options for answering the six questions – listed below – for customizing priority-driven budgeting to your organization.

Be Adaptable

Snohomish County, Washington, met with some resistance from the County Court. To move the process forward, the county designed a separate but parallel version of priority-driven budgeting for the courts. With time and the delivery of a consistent, transparent message, it effectively became the “new normal” in making resource allocation decisions.

Designing a process that is fair, accessible, transparent, and adaptable is a challenge. However, it is also an opportunity to customize a priority-driven budgeting process that fits your organization best. This research has identified six key customization questions you should answer as you design a process:

1. **What is the scope of priority-driven budgeting?** What are the fundamental objectives of your process? What funds and revenues are included? What is the desired role of non-profit and private-sector organizations in providing public services?
2. **How and where will elected officials, the public, and staff be engaged in the process?** Engagement is essential for democratic legitimacy. Giving stakeholders a clear understanding of their role in the process gives them greater confidence in the process and eases the transition.
3. **What is the decision-unit to be evaluated for alignment with the organization’s strategic priorities?** Functional units, work groups, programs? Something else?
4. **How will support services be handled?** The research participants agreed that budgeting for support services like payroll and accounting was one of the foremost challenges of designing a process. Support services need to be perceived as full participants in priority-driven budgeting, but at the same time, accommodations must be made for the fact that they potentially exist to achieve different results than those services that have a direct impact on the public.
5. **How will decision-units be scored, and who will score them?** The scoring mechanism and process is key implementing priority-driven budgeting successfully.
6. **What is the role of priority-driven budgeting in the final budget decision?** What method will be used to allocate resources to services? Will the methodology lead to “formula-driven” allocations or allow for flexibility and discretion in formulated recommendations?

in the upcoming fiscal year. Once that “need” is determined, then the organization looks to the finance department or budget office to figure out how these needs are to be funded. An integral part of the priority-driven budgeting philosophy is to spend within your means, so the first step in developing a budget should be focusing on gaining a clear understanding of the factors that drive revenues and doing the requisite analysis to develop a reasonably accurate and reliable revenue forecast in order to understand how much is available to spend for the upcoming fiscal year.

The Price of Government

The “price of government” is a concept originated by David Osborne and Peter Hutchinson.⁸ Government takes economic resources from the community to provide services and, hence, the total revenue that government receives is really the “price of government,” from the perspective of the citizen. This can be a useful concept in the first step of priority-driven budgeting because it asks decision-makers to think about the total tax and fee burden they are willing to place on the community to fund services - thus, putting revenues before expenditures.

Resources must also be clearly differentiated in terms of ongoing revenues versus one-time sources. The organization must be able to identify any mismatch between ongoing revenues and ongoing expenditures (operations) as well as between one-time sources and one-time uses (one-time initiatives, capital needs, fund balance reserves). This analysis will ensure that the entity can pinpoint the source of its structural imbalance and address it in developing its budget. This will also ensure that a government does not unknowingly use fund balance (a one-time source) to support ongoing expenditures.

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. The organization must understand and believe that this is truly all there is as it begins developing the budget. Sharing the assumptions behind the revenue projections creates a level of transparency that

dispels the belief that there are “secret funds” that will fix the problem and establishes the level of trust necessary to be successful.

In the first year, an organization might choose to focus attention on only those areas that do not have true structural balance. For most organizations, this will often include the general fund, but the jurisdiction might decide to include other funds in the process. Both Polk County, Florida, and the City of Savannah took steps to limit the scope of implementation. For example, Polk County concentrated on the general fund, and Savannah excluded capital projects from the process.

Step 1 Intended Result: Adopt a “spend within your means” approach - meaning there is a common understanding of the amount of resources available and that there is a clearly established limit on how much can be budgeted for the upcoming fiscal year.

2. Identify Your Priorities

Priority-driven budgeting is built around a set of organizational strategic priorities. These priorities are similar to a well-designed mission statement in that they capture the fundamental purposes for which the organization exists and are broad enough to have staying power from year to year. A critical departure from a mission statement is that the priorities 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 as to say how the result or outcome will be achieved or become outmoded after a short time. Below are the five priority results determined by Mesa County, Colorado. Notice how these results are expressed in the “voice of the citizen.”

A strategic plan, vision, and/or mission statement can serve as the ideal starting point for identifying the priority results. If you have an existing strategic plan, it might be helpful to ground the priority results in these previous efforts to respect the investment stakeholders may have in them and to



give the priorities greater legitimacy. If you don't have an existing plan, developing one as a prelude to priority-driven budgeting can provide a stronger grounding for the priorities. It might also help increase the enthusiasm of elected officials and senior staff for priority-driven budgeting, as they seek a way to connect the new plan to decisions about annual resource allocations.

The governing board also needs to be closely involved in setting the priorities. The priorities are the foundation of priority-driven budgeting,

so that the governing board must fully support them. The role of an elected official is to set the results the organization is expected to achieve. Developing the priorities might also be a good place to involve citizens. Some communities have used traditional means of doing this, such as citizen surveys, focus groups, and town hall meetings to engage citizens in helping establish the expected results for their community. Others are being innovative. The City of Chesapeake, Virginia, recently asked citizens viewing a result-setting exercise on their public access channel to

Are Support Services a Priority?

Our research subjects offered two alternatives for prioritizing support services. Most commonly, entities created a "good governance" priority that addresses high-quality support services. This gives support services a clear place in priority-driven budgeting and allows the relevance of these services to be tested against the organization's priorities. 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.

Alternatively, other participants envisioned moving to a system that would fully distribute the cost of support services to operating programs so support services would be affected according to how the operating services they support are prioritized.

participate online and share their thoughts on “what does the city exist to provide.” Cities such as Walnut Creek, California, and Blue Ash, Ohio, set up kiosks in city facilities and asked citizens to participate in a brief survey that helped validate the city council’s established results and to “weight” the relative importance of those results to the community.

Step 2 Intended Result: A set of priorities expressed in terms of measurable results that are of value to citizens and widely agreed to be legitimate by elected officials, staff, and the public.

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 is it that makes us relevant to the citizens?” Being relevant – providing those programs that achieve relevant results – is the key purpose and most profound outcome of a priority-driven budgeting process.

The challenge with results is that the terms can be broad, and precisely what they mean for each individual community can be unclear. For instance, take a result like “Providing a Safe Community,” which is shared by most local governments. Organizations talk about public safety or providing a safe community as if it is an obvious and specific concept. But is it?

In the City of Walnut Creek, citizens and city leadership identified building standards for surviving earthquakes as an important influence on providing a safe community. In the City of Lakeland, Florida, however, not a single citizen or public official discussed earthquakes to define the very same result. In the City of Grand Island, Nebraska, the city highlighted community acceptance and cohesiveness as intrinsic to achieving a safe community (acknowledging their initiatives to help integrate a growing and important population of their community – immigrant farm workers). However community integration was not a relevant factor that would

contribute to the safety of the community in Walnut Creek. Hence, the specific definitions of the community’s results is where the identity of your community and the objective meaning of what is relevant is revealed.

Staff Teams in Priority-Driven Budgeting

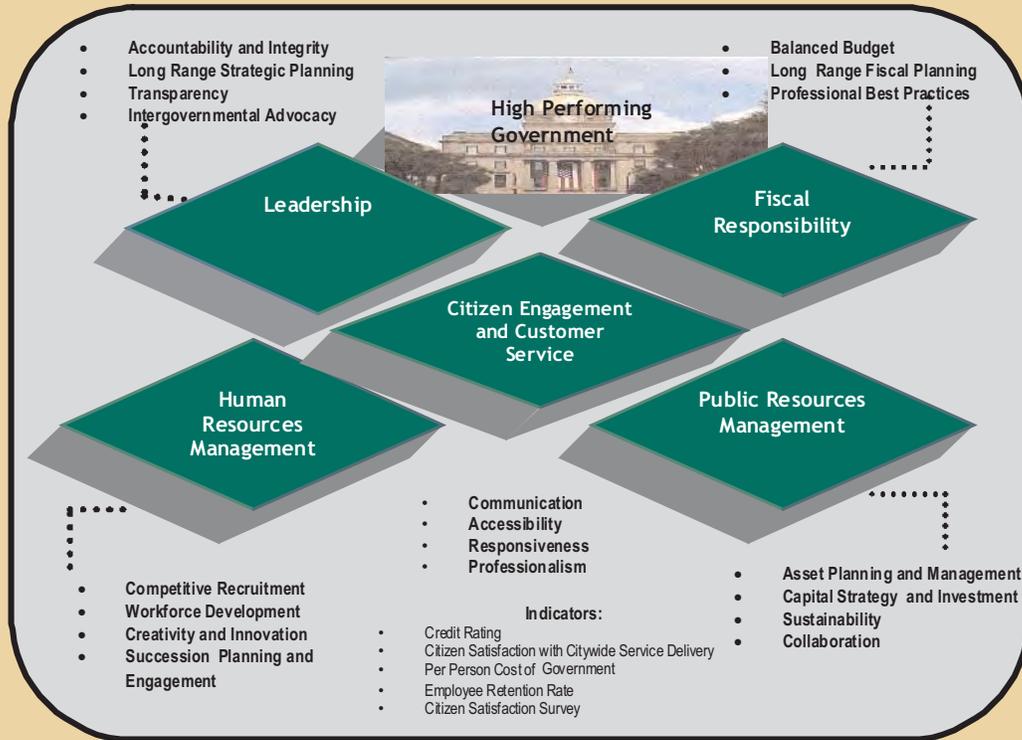
Creating strategy maps is the first significant role for cross-functional staff teams in the process. Such teams have repeated and important uses, so their members need to be highly skilled and sufficiently supported. A number of our research subjects engaged consultants to train and/or directly assist the teams. Many organizations use that as an opportunity to involve the “up and coming” leaders in the process to ensure its long-term sustainability.

A powerful method for defining results was established in *Strategy Maps* by Kaplan and Norton.¹¹ Strategy mapping is a simple way to take a complex and potentially ambiguous objective – like achieving a safe community – and creating a picture, or map, of how that objective can be achieved. Sometimes referred to as cause-and-effect diagrams or result maps, strategy maps provide an effective way for an organization to achieve clarity about what it aims to accomplish with its results. Strategy maps should be developed using cross-functional teams. Teams consist primarily of staff (both with subject matter expertise relating to the priority result and without), but they can also include elected officials and citizens.

Exhibit 2 (on the following page) provides an example of a strategy map from the City of Savannah for “high-performing government” (Savannah’s equivalent of the “good governance” result described in the earlier sidebar). Savannah’s map includes performance indicators to help gauge if the priority result is being achieved.

Exhibit 3 (on the following page) is a picture of a slightly different style of strategy map from the City of San Jose, California, for its “Green, Sustainable City” priority result. The center of the map is the result, and the concepts around

Exhibit 2: High Performing Government Strategy Map from the City of Savannah



the result are the definitions – they help the city clearly articulate its priorities: “When the City of San Jose _____ (fill in the blank with any of the result definitions), then we achieve a Green, Sustainable City.”

Consider San Jose’s result map relative to your own community. Would your community define the relevance of your organization by its ability to achieve a green, sustainable community? Would your community define a result like a green, sustainable community in a similar or different way?

One of the challenges local governments face is trying to address what can seem like a growing (and seemingly limitless) expectation for programs and services. One of the benefits of developing strategy maps is that local governments can give citizens a more precise description of

Exhibit 3: Green City Strategy Map from the City of San Jose



the results that make local government relevant. This will establish a shared foundation, a common context for evaluating and prioritizing the programs and services the jurisdiction offers. A service's relative priority can be evaluated only through a common belief about the results local government is striving to achieve.

The City of Walnut Creek knew that citizens and community stakeholders needed to be involved in defining the priority results. The rationale was that the city's priority results would be legitimate only if community members were responsible for establishing the results and their definitions. The city reached out to the community on the radio, in the newspaper, and through the city's newsletters and Web site to invite any citizen to participate in one of several town hall meetings. At the meeting, citizens were asked to submit answers to the 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. City government staff members (who participated in the meetings) were then responsible for summarizing the citizen's responses by developing strategy maps.

Define Your Priorities: A Quick Win

If the organization has not already clearly defined its priorities, just getting through this step could be a major accomplishment. Knowing the priorities can help an organization make better resource allocation decisions, even in the absence of a true priority-driven budgeting system.

Lastly, when defining the priority results, consider whether some results might be more important than others. This could have an impact on how programs are valued and prioritized. Elected officials, staff, and/or citizens can participate in ranking exercises, where each participant is given a quantity of "votes" (or dollars, or points, etc.) and can allocate their votes among all the priority results to indicate the relative value of one result versus another. It is important to make

clear to participants that this ranking process is not a budget allocation exercise (whereby the budget of a certain result is determined by the votes given to a result). Through such a ranking, participants can express that certain results (and therefore the programs that eventually influence these results) may have greater relevance to the community than others.

Step 3 Intended Result: Reveal the identity of your community and the objective meaning of what is relevant to it through the process of defining priority results.

4. Prepare Decision Units for Evaluation

The crux of priority-driven budgeting is evaluating the services against the government's priority results. Thus, the decision unit to be evaluated 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. Conversely, if the decision unit is too small, it may only capture certain tasks in the chain that lead to a result and might overwhelm the budget process with details. Our research subjects took one of two approaches to this issue: "offers" or "programs."

Offers. Offers are customized service packages prepared by departments (or perhaps designed by cross-functional staff teams or even private firms or non-profits) to achieve one or more priority results. Offers are submitted to evaluation teams (typically comprising a cross functional group of staff, but possibly citizens as well) for consideration against the organization's priority results. Often, the evaluation team will first issue a formal "request for results" that is based on the strategy map and defines for departments, or others who are preparing offers, precisely what the evaluation team is looking for in an offer.

How Many Offers Are There?

Our research participants who used the "offer" approach averaged one offer for every \$1.5 million in revenue that was available to fund offers.

Offers are purposely intended to be different from existing organizational subunits (like departments, divisions, programs) to make a direct connection between the decision-unit being evaluated and the priority results, to encourage outside-the-box thinking about what goes into an offer, and to make it easier for outside organizations to participate in the process. For example, multiple departments can cooperate to propose a new and innovative 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.

The drawback of offers is that they are a more radical departure from past practice and may 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 might be worth taking. For example, Mesa County's board is very interested in having private and non-profit organizations participate fully in its budget process at some point in the future, so the offer approach makes sense for Mesa County.

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 approach to financial management, so thinking in terms of programs is not much of a

Program Inventory: A Quick Win

If the organization does not have a sense of the programs it provides, then simply developing a fully costed (direct plus indirect costs) program inventory should provide immediate benefits. A program inventory can be used to help decision-makers understand the full breadth of services provided and their costs, and might help the organization recognize immediate opportunities for efficiency. Appendix 1 provides additional information on how to build a program inventory.

conceptual leap, or perhaps not a leap at all. This means less work and process risk. However, even when the concept of programs is familiar, be sure the "programs" (or offers) are sized in a way that allows for meaningful decision making. Programs that are too big are often too vague in their purpose to be accountable for results, and it can be difficult to fairly judge the impact of a program that is too small. Generally speaking, if a program equates to 10 percent or more of total expenditures of the funds in which it is accounted for, then the program should probably be broken down into smaller pieces. If a program equates to either 1 percent or less of total expenditures or \$100,000 or less, it is probably too small and should be combined with others.

Also, be aware that using programs might provide less opportunity for outside organizations to participate in the budgeting process 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.

Step 4 Intended Result: Prepare discrete decision-units that produce a clear result. Think about evaluating these decision units against each other and not necessarily about evaluating departments against each other.

5. Score Decision Units Against Priority Results

Once the organization has identified its priority results and more precisely defined what those results mean, it must develop a process to objectively evaluate how the program or offer achieves or influences the priority results. Scoring can be approached in several ways.

The first variation to consider is if a program or offer will be scored against all the organization's priority results or just the one it is most closely associated with. The cities of Lakeland, Walnut Creek, and San Jose scored against all of the priority results. The belief was that a program that influenced multiple results must be a higher prior-

ity – every tax dollar spent on a program that achieved multiple results was giving the taxpayer the “best bang for the buck.” Alternatively, organizations like Mesa County, the City of Savannah, Polk County, and Snohomish County matched each program or offer with only one of the priority results and evaluated it against its degree of influence on that result. Under this scenario, guidelines should be established to help determine how to assign a program or offer to a priority area as well as provide some sort of accommodation for those programs or offers that demonstrate important effects across priority result areas. Both of these approaches have been used successfully, so the right choice depends on which approach resonates more with stakeholders.

In addition to scoring the offers or programs against the priority results, some organizations have included additional factors in the scoring process. Examples include mandates to provide the service, change in demand for the service, level of cost recovery for the service, and reliance on the local government to provide the service (as opposed to community groups or the private sector). The governments believed that a program should be evaluated more highly if there was a mandate from another level of government,

if there was an anticipated increase in demand for the program or that program received fees or grant dollars to significantly cover the costs to provide it. Finally, if the citizen had to rely solely on the government to provide the program or service and there was no other outside option available, then a program was believed to be of a slightly higher priority.

The next variation is how to actually assign scores to programs or offers. One approach is to have owners of the programs or offers (e.g., department staff) assign scores based on a self-assessment process. This approach engages the owners in the process and taps into their unique understanding of how the programs influence the priority results. Critical to this approach is a quality control process that allows the owner’s peers in the organization (other departments) and/or external stakeholders (citizens, elected officials, labor unions, business leaders, etc.) to review the scoring. The peer review group challenges the owner to provide evidence to support the scores assigned. A second approach to scoring establishes evaluation teams that are responsible for scoring the programs or offers against their ability to influence the priority results. Owners submit their programs or offers for the

What about Capital Projects?

For most organizations, outlays for capital projects and one-time initiatives are a significant part of their budgeting process. A priority-driven budgeting process can be used to prioritize these major one-time expenditures in the same way it is used to evaluate ongoing programs and services. The starting point is a capital improvement plan (CIP) that includes all the potential capital projects from across the organization. Ideally, it should include not only major capital construction, capital improvement, or capital equipment purchases, but also significant one-time expenditures items such as major studies, comprehensive plan updates, and software upgrades that are planned for the next five years. In addition to the strategic results, other evaluation factors for capital projects might include:

- Is the project mandated by some other governmental agency?
- Is it a continuation of an existing project that has already been approved?
- Is it an integral component of the organizations Comprehensive Plan for future community growth?
- Is it being fully or partially funded by another agency or private interest?
- Is the project responding to an emergency situation or critical need of the organization?

When evaluated in this way, projects that are of a higher priority have assurance of funding in the next five-to-ten year period over those that are of a lower priority, especially when there are limited one-time resources available to fund them. This method also avoids funding a current-year project that is of a low priority instead of setting aside funds to ensure the successful completion of the higher-priority capital need in a future year.

teams to review, and the teams score the programs against the results. The priority-driven budgeting process becomes more like a formal purchasing process, where the departments are analogous to vendors and the evaluation teams are like buyers. Evaluation teams could be made up entirely of staff, with representation both from staff members who have specific expertise related to the result being evaluated and others who are outside of that particular discipline. An alternative team composition would include both staff and citizens, to gain the unique perspectives of both external and internal stakeholders. This second approach brings more perspectives into the initial scoring and encourages cross-functional teamwork via the evaluation teams.

Scoring Support Services

As mentioned earlier, a number of our research subjects established a priority result for “good governance.” Those programs that provided internal services were scored against these governance results in a parallel evaluation process. These governments believed that internal services were important, but were expected to achieve different results than those programs or offers intended for citizens.

Another consideration is the particular scoring method to be used. For example, will evaluators have to use a forced-ranking system where programs/offers are fit into a top-to-bottom ranking or will each program be scored on its own merits, with prioritization as a natural byproduct? Each system has its advantages, but the important thing is to make sure the scoring rules are clear to everyone and applied consistently.

The role of the elected governing board in this step is another point of potential variation in the scoring. In some organizations, the board is heavily integrated into the process and participates in the scoring and evaluation step. They have the opportunity to question the scores that have been assigned by the owner or the evaluation team, ask for the evidence that supports that score, and ultimately request that a score be changed based on the evidence presented and

their belief in the relative influence that program or offer has on the priority results it has been evaluated against. In other organizations, the process can be implemented as a staff-only tool that is used to develop a recommendation to the governing body. Snohomish County uses this approach, as its culture and board-staff relation supports it.

Regardless of which variations are selected, there are three important points to establish. The first is that to maintain the objectivity and transparency of the process, programs or offers must be evaluated against the priority results, as they were defined collectively by stakeholders (see step 3). Secondly, scores must be based on the demonstrated and measurable influence the programs or offers have on the results. Finally, the results of the scoring process will be provided as recommendations to the elected officials, who hold the final authority to make resource allocation decisions.

Step 5 Intended Result: Each decision unit (offer or program) should have a score that indicates its relevance to the stated priorities.

6. Compare Scores Between Offers or Programs

It is a “moment of truth” in priority-driven budgeting, when the scoring for the offers or programs is compiled, revealing the top-to-bottom comparison of prioritized offers or programs. Knowing this, an organization must be sure that it has done everything possible up to this moment to ensure that the final scores aren’t a surprise and that the final comparison of the offers or programs in priority order is logical and intuitive.

The City of San Jose engineered a peer review process through which the scores the departments gave to their programs were evaluated, discussed, questioned, and sometimes recommended for change. The city established a review team for each of its priority results. The team first reviewed the strategy 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 that detailed every program scored for the particular result under review. The teams met to discuss:

- whether they understood the programs they were reviewing;
- whether they agreed with the score given by the department (the departments scored their own programs);
- whether they required further testimony or evidence from the department to help them better understand the score given; and
- whether the score should stand, or if the team would recommend an increase or decrease.

All programs were evaluated in this manner until a final recommendation was made on program scores.

The city invited the local business community, citizens representing their local neighborhood commissions, and labor leaders to review the

ask them to decide which programs should be cut or which ones should be preserved. They framed the discussion very simply: Evaluate how our programs help us achieve our results, and to what degree. The outcome of prioritization was therefore expected and self-evident, based on the common understanding of the programs and how the programs influence results.

Stakeholders could be concerned that their favored programs might lose support in the course of priority-driven budgeting. Even when a program director or a citizen who benefits from a particular program understands why that program ranked low, they are not going to be pleased about it. Invite stakeholders from all sides, from within the organization and even the community, to understand the process. Include stakeholders at various points in the process so they might influence the outcome. Constantly communicate progress, throughout the process. Program directors, stakeholders of a particular program, organizational leadership, and staff might not enjoy seeing their program prioritized

San Jose framed the discussion very simply: Evaluate how our programs help us achieve our results, and to what degree.

scores. Walter Rossman, from San Jose's City Manager's Office, described their effort this way: "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."

San Jose's story is important because it demonstrated how stakeholders from various perspectives and political persuasions can all productively participate in the priority-driven budgeting process. San Jose didn't ask these stakeholders to come together and rank programs. They didn't

below other programs, but if they understand it, if they've had a chance to influence the process, and, most importantly, if they are aware of actions they might take to improve the priority ranking of their program, the process will have a great chance for success.

Lastly, consider if the scoring of the programs or offers will be used only to decide where to make budget reductions. Organizations such as the cities of Lakeland and Walnut Creek have used prioritization not only to balance their budgets, but also to understand how services that might appear less relevant to the city government might

be relevant to other community groups. These groups might take responsibility for supporting or preserving a service. There could be great potential in engaging other community institutions – businesses, schools, churches, non-profits – about partnership opportunities.

Peter Block has focused much attention on this issue in his book, *Community: The Structure of Belonging*.¹² Citing the way we sometimes unduly rely on government to meet the community's needs, he highlights citizens' experiences of taking accountability for the results they hope to see achieved. This occurs when cohesion is built between local government, businesses, schools, social service organizations, and churches. A complete and successful priority-driven budgeting process doesn't conclude when the budgets for low-priority services are reduced – rather, it brings together otherwise fragmented institutions in society to find ways of providing services that may still be relevant to the community, even if they are less important to the priority results a local government seeks to achieve.

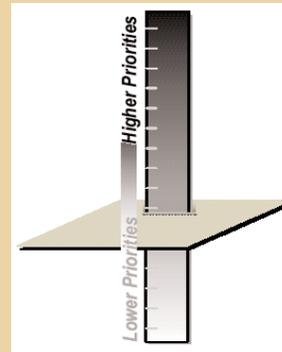
Step 6 Intended Result: The prioritized ranking of programs is a logical and well-understood product of a transparent process - no surprises.

7. Allocate Resources

Once the scoring is in place, resources can be allocated to the offers or programs. This can be done in a number of ways. One method is to first allocate revenues to each priority result area based on historical patterns or by using the priority's relative weights, if weights were assigned. Allocating resources to a priority result area can be controversial because, as we will see, this allocation determines the number of offers or programs that will be funded under that priority area (e.g., how many public safety programs will be funded). There are no easy answers to this issue. As such, the designer of the process should look for ways to mitigate controversies associated with how much funding is allocated to one result versus another and to prevent these allocations from becoming new types of organizational silos. For

instance, the designer should think about ways priority result areas can share information during the evaluation of programs or offers, and/or ways to jointly fund programs or offers.

Exhibit 4: Drawing the Line



Then, the offers or programs can be ordered according to their prioritization within a given priority result area and the budget staff draw a line where the cost of the most highly prioritized offers or programs is equal to the amount of revenue available (see Exhibit 4). The offers or programs above the line are funded, and the ones that fall below the line are not. The board and staff will have discussions about the programs on either side of the line and about moving those offers or programs up or down, redesigning them to make more space above the line (e.g., lowering service levels), or even shifting resources among priority results. Variations on the approach are possible – for example, there could be multiple lines representing multiple levels of funding certainty. In the City of Redmond, Washington, programs above a top line were categorized as “definitely fund,” while programs in between the top line and a bottom line were open to additional scrutiny.

Another method is to organize the offers or programs into tiers of priority (e.g., 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 see the largest

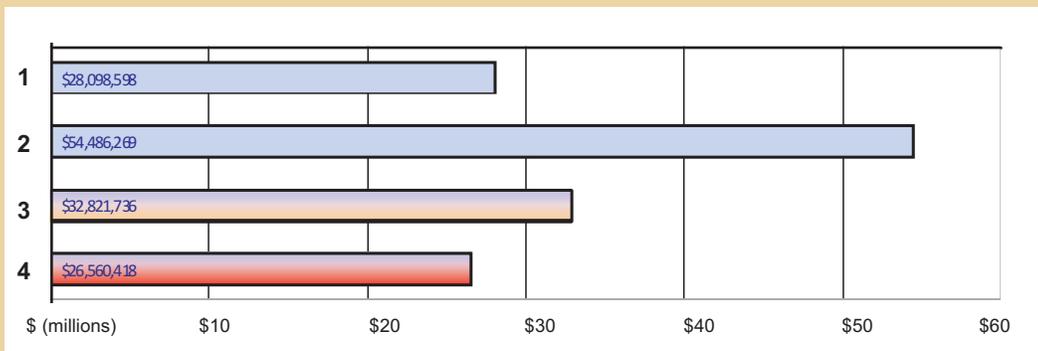
reductions. The programs could be forced to make assigned reductions, or each department could be given an aggregate total reduction target, based on the programs under its purview (with the implication being that the department will weight its reductions toward the lower-priority programs, although it would have more flexibility to decide the precise reduction approach than if the cuts were not done within the department). This tier approach generates discussion among board and staff about how much money is spent on higher versus lower tier services in aggregate, as well as on resource allocation strategies for individual departments and programs. Exhibit 5 presents an example of the value this analysis can provide. It shows the total amount of money one city had historically spent on its highest priority programs (e.g., the top tier) versus the others. This city was spending significantly less on the top tier than it was spending on the second tier, and less than it was spending on the third tier, as well. This raises interesting questions about spending patterns in the organization and builds a compelling case for change.

Organizations also need to consider the funding of support services. Many of our research participants elected to fund support services based on historical costs, making some reduction that was consistent with the reduction the rest of the organization was making. The magnitude of the

reduction applied to any particular support service was based on its priority relative to other support services. A couple of our participants envisioned moving to a system wherein the cost of support services would be fully distributed to operating programs so support services would be affected according to the prioritization of the operating services they support.

Another question is how to handle restricted monies (e.g., an enterprise fund). One option is to handle special purpose funds (where there are restrictions on how the money can be used) separately. For example, enterprise funds or court funds might be evaluated on a different track or budgeted in a different way altogether. Another option is to rank programs or offers without respect to funding source, but then allocate resources with respect to funding source. Knowing the relative priority of all the offers or programs might generate valuable discussion, even if there is no immediate impact on funding. For example, if a low-ranking offer or program is grant funded, is it still worth providing, especially if that grant expires in the foreseeable future? Ideally, participants will become less fixated on funding sources, realizing that the government has more flexibility than it might think. For example, if a low-priority service is funded by a special earmarked tax, is there a way to reduce or eliminate that service and its tax, and increase a

Exhibit 5: Spending by Priority Tier



general tax by an analogous amount? As the government becomes more proficient at expressing the value it is creating for the community, it should be better able to articulate these potential trade-offs to the community.

Of course, no matter what method is selected to allocate resources, remember that priority-driven budgeting, like any budgeting process, is still a political process. As such, it will not and should not lead to “scientific” or “apolitical” allocation of resources – rather, it should change the tone of budget discussions, from a focus on how money was spent last year to a focus on how the most value can be created for the public using the money that is available this year.

Step 7 Intended Result: Align resource allocation consistent with the results of priority-driven scoring.

8. Create Accountability for Results, Efficiency, and Innovation

The owners of the programs or offers being evaluated might over-promise or over-represent what they can do to accomplish the priority result. To address this potential moral hazard, create methods for making sure programs or offers deliver the results they were evaluated on. Many of our research participants anticipate using performance measures for this purpose. For example, a program or offer might have to propose a standard of evidence or a metric to be evaluated against, so the organization can see if the desired result is being provided. Exhibit 6 is Polk County’s conceptual approach for connecting its priority result areas to key performance indicators. However, none of the research participants have reached what they would consider a completely satisfactory state in this area. For those just starting out, the lesson is to understand where evidence is needed in your process design, but also to be patient with respect to when this part of priority-driven budgeting will be fully realized.

Other issues to consider as part of the priority-driven budgeting design are the efficiency of pro-

grams or offers, and innovation in the design of programs or offers. Although priority-driven budgeting will identify which programs or offers are best for achieving priority results, it does not speak directly to the efficiency with which those programs or offers are delivered or to innovative approaches to program delivery (although it might indirectly encourage these things).

Exhibit 6: Polk County Concept for Key Performance Indicators

Basic Needs

Priority:

People in Polk County who are at risk because of their health or economic status will get their basic needs met, and are as self-sufficient as possible.

Indicators:

Poverty Level	<i>Improving</i>
Homeless Population	<i>Maintaining</i>
No Health Coverage	<i>Improving</i>
County versus State	<i>Improving</i>

As such, the designers of the process might need to consider specific techniques for ensuring program efficiency. A proven model for improving efficiency helps avoid cost-cutting techniques that also cut productivity and degrade the results a program produces. For instance, a systematic method for reviewing and improving business processes could be implemented along with priority-driven budgeting. One such method that GFOA research has shown to be effective for local governments is “Lean” process review – a system for identifying and removing or reducing the non-value added work that can be found in virtually any business process. You can learn more about Lean at www.gfoaconsulting.org/lean.

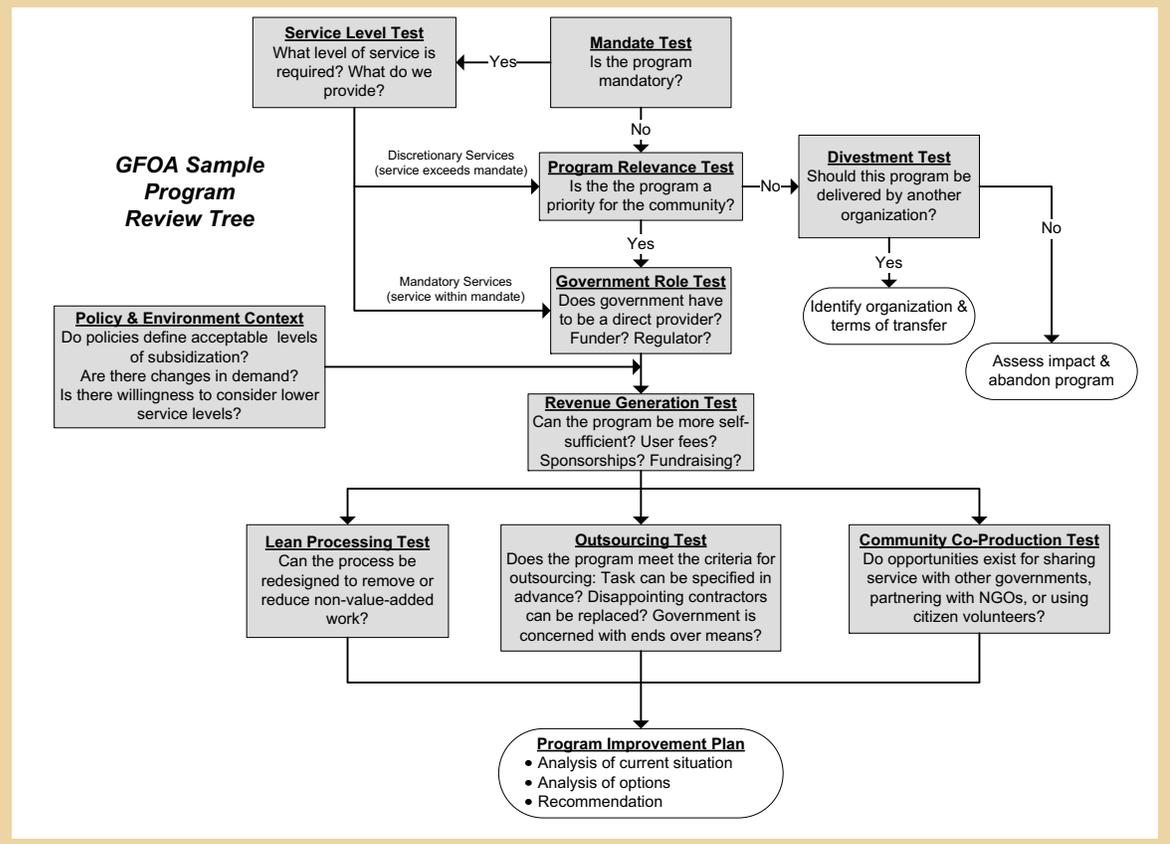
Business process improvement can also be incorporated into a more comprehensive approach to reviewing program efficiency. Exhibit 7 (on the following page) provides a sample program review decision tree that is inspired by work from the City of Toronto, Ontario. As the exhibit

shows, a program is subjected to a series of tests to see if it is being provided efficiently. For example, can the service be shared with other governments? Can greater cost recovery be achieved through fees or fund raising? Can the private sector provide the service more efficiently? Can Lean process improvement techniques be applied? Exhibit 7 also shows how the review might be linked to priority-driven budgeting – discretionary services are subject to a relevance test that asks the above questions about each priority program, while non-priority programs go through a divestment test.

Finally, innovation tends to be the exception rather than the rule in the public sector, so the designers of the priority-driven budgeting

process should consider how to encourage new ways of structuring programs or offers to best achieve the government’s priority results. Some research argues that innovation is a “discipline, just like strategy, planning, or budgeting.”¹¹ Public managers who want to encourage innovation will need to develop and institutionalize dedicated processes to generate ideas, select the best ones, implement them, and spread the benefits throughout the organization. Along the way, public managers will need to make use of a variety of implementation strategies, including those that rely on the organization’s own resources and those that seek to harness resources from outside. Public managers will also have to create an organizational culture that is not just conducive to innovation, but actively encourages and even

Exhibit 7: Sample Program Review Decision Tree



demands it. *The Public Innovator's Playbook* describes one approach to encouraging innovation in this kind of systematic way.¹²

Step 8 Intended Result: Make sure that those who received allocations are held accountable for producing the results that were promised. Find ways to directly encourage efficiency and innovation.

Conclusion

Priority-driven budgeting represents a major shift from traditional budgeting methods. A clear understanding of the priority-driven budgeting philosophy should be in place before proceeding down this path, along with a strong level of support – especially from the CEO (whose role is normally to propose the budget) and, ideally, the governing board (whose role is to adopt the budget). Priority-driven budgeting is not a process that is brought in to fix a structural deficit; instead, it becomes the way an organization approaches the resource allocation process. It brings with it an important cultural shift – moving from a focus on spending to a focus on achieving results through the budget process. Priority-driven budgeting should be perceived by all stakeholders as a process that improves decision-making and changes the conversations around what the organization does (programs and services), how effective it is in accomplishing its priority results, and how focused it is on allocating resources to achieve its results. The success of your process design rests on a clear understanding of the principles of priority-

driven budgeting, outlined in the eight steps presented in this paper. A priority-driven budgeting process can be approached in several ways, so keep in mind the major levers and decision points to create a process that works best for your culture and environment, and that embraces the concepts of democratic and substantive legitimacy. The governments that participated in this research show that there are opportunities to introduce flexibility in the process – but keep in mind that with that flexibility comes risk, if changes are made that don't embrace the basic principles of priority-driven budgeting.

Research what other organizations have done and ask them about their long-term success in shifting to the “new normal” in local government budgeting. Understand that priority-driven budgeting is a process that will evolve and improve over time – don't expect perfection in the first year. Engage outside help where needed to design the process, develop successful communication plans, incorporate citizen involvement, and institute a process. Enjoy new conversations that were not possible before, and embrace the transparency in decision-making that accompanies the priority-driven budgeting process. As your organization adapts to the new normal, the process will guide decision-makers in making resource allocations that fund the programs that are most highly valued by the organization and, more importantly, by the citizens who depend on those programs and services for their well being, comfort, and expected quality of life.

Appendix 1: Building a Program Inventory

Introduction

Financial constraints have forced many governments to take a hard look at the services they offer. A fundamental step is to inventory all the service programs a government offers. A program inventory clarifies the breadth of services provided and, ideally, highlights key characteristics of each program (e.g., the full cost of providing the program and the level of revenues that program directly generates to support its operations). The inventory provides the basis for discussion about the services that should be provided.

Steps to Take

1. Define your objectives and goals for the program inventory. Identifying a program is as much art as it is science – an inescapable amount of subjectivity is involved. Therefore, to make judgments as effectively as possible, make sure you are clear on why you are developing a program inventory. Some of the potential purposes are:
 - Understanding the complete scope of services government provides.
 - Communicating the scope of services to the public in a format that is easy to understand and can be digested by the average citizen (i.e., not too detailed).
2. Decide what information the program inventory should contain, in addition to the basic description of the program. Options to consider include:
 - Drawing distinctions between the results (that matter to citizens) provided by different programs. To achieve this, programs cannot be too large or vague.
 - Beginning to show the true cost of doing business by describing what government does on a meaningful level, and then identifying costs for those programs.
 - Laying the groundwork for priority-driven budgeting, where programs receive budget allocations based on their contributions to the government's priority objectives.
 - Laying the groundwork for program review, where programs are subjected to efficiency tests to determine if the service delivery method employed is optimal.

Program Costing Tips

Precise costs for each program might not be achievable without a great deal of work (or a new financial management system). For purposes of priority-driven budgeting, accessible and widely used cost allocation methodologies allow for relatively accurate costing of each program is possible. If you have a formal cost allocation plan, this would be the best place to start assigning program costs. Otherwise, start with direct costs. Remove any one-time costs (e.g., capital) to make sure you are capturing only ongoing expenditures related to a given program. However, you can assign the operating and maintenance costs of the assets employed by a program to the direct costs, if doing so is logical and consistent with the way these costs are being handled for other programs.

Cost allocation plans may be the most cost effective way to produce a reliable overhead allocation figure. In the inventory document, displaying the overhead costs separately from the direct costs can provide flexibility to those who use the information.

In making the transition from department or division budgets to program costs, use an allocation method that is intuitive and therefore would enjoy legitimacy among the users of the costing system (e.g., the number of FTEs or percentage of employee time devoted to a program). Whatever the allocation methodology, the finance or budget staff needs to be able to prepare a reconciliation.

cost recovery for a given service. Full costing is especially important if the government envisions eventually going to a priority-driven budget process.

- Alignment with strategic goals. Knowing how programs contribute to priority goals enables organizations to develop more strategic cutback strategies.
 - Service level. Describe the level of services provided to the public. If service is being provided at a premium level, perhaps service levels can be lowered to reduce costs.
 - Mandate review. List and clearly define any mandates a program is subject to. Then review the current service level against the mandate requirements. Perhaps the service level being provided is higher than what the mandate requires.
 - Demand changes. Is demand for a service going up or down? If demand is going down, perhaps the program can be cut back and resources shifted elsewhere. If demand is going up, steps can be taken to manage demand. For example, perhaps means testing can be applied to a social services program.
 - Support from program revenues. Describe the extent to which the program is supported by its own user fees, grants, or intergovernmental revenues. Is there an opportunity to achieve greater coverage of the full costs of the program?
3. **Develop forms and templates.** Create tools departments can use to describe their programs in a manner that is consistent and that captures the information needed to fulfill the purpose of the inventory. Consider testing the forms and templates with one or two departments and then distributing them to a wider group. Also consider providing training and an official point of contact for questions.
4. **Differentiate programs from functions.** Departments or divisions (i.e., public health, courts, public works, sheriff) are often described as functions or nouns. These are not programs, which are more often described

with verbs – programs are action-oriented. For example, programs in a sheriff's office might include crime investigations, detentions, and court security. However, programs should not be described in terms of overly detailed tasks. For instance, "supplying a bailiff for court rooms" is a task within the court security program, not a program itself.

5. **Find the right level of detail.** A program is a set of related activities intended to produce a desired result. When constructing a program inventory, it can sometimes be challenging to find the right level of detail. If a program is too big or encompasses too much, it will not provide sufficient information – that is, it will be very difficult to describe the precise value the program creates for the public or to use program cost information in decision making. However, if program definitions are too small, decision makers can become overwhelmed with detail and be unable to see the big picture. In addition, tracking program costs for very small programs is generally not cost-effective.

Generally speaking, if a program equates to 10 percent or more of the total expenditures of the fund in which it is accounted for, then the program should probably be broken down into smaller pieces. And if a program equates to 1 percent or less of total expenditures, or to \$100,000 or less, it is probably too small and should be combined with others. This is just a guideline – there could be valid reasons for going outside of these parameters. For example, a small program could be much more important than its cost suggests. Here are some other points that have proven helpful in identifying programs:

- A program is a group of people working together to deliver a discrete service to identifiable users.
- A program groups all tasks that a customer of that program would receive and does not break one program or service into multiple items based on tasks.

- As far as possible, a program is individual – a program with its own name, customers, and staff team. Each program stands alone and is distinct from like programs in a similar service area.
- Programs that are handled by less than 1 FTE are combined with other existing programs.
- A program uses an existing name that is familiar to customers and staff, and/or it uses a name that could stand on its own and would be understandable to the average reader.

Examples of Program Inventories

Sample Health and Environment Programs

Environmental Planning
 Air Quality Control
 Water Quality
 Ambulance Licensing
 EIP FoodNet
 Compliance & Community Safety
 Vital Statistics
 Immunization Grant
 Emergency Preparedness Response
 Non-grant Immunization
 Sexually Transmitted Disease (STD)
 Food Protection
 Cities Readiness Initiative
 Zoonosis
 Cancer Control Initiative
 Communicable Disease
 Early Periodic Screening, Diagnosis and Treatment
 Radon
 Health Care Program for Children with Special Needs
 Women, Infants, and Children
 Special Needs Nutrition Services
 Family Planning
 Recreation
 Maternal & Child Health Block Grant
 Prenatal Plus
 Housing & Institutions
 Adult Substance Abuse Counseling
 Fetal Alcohol Syndrome
 Youth Substance Abuse Counseling
 HIV Counseling & Testing
 Nurse Home Visitor
 Specialized Women's Services
 Tobacco Cessation
 Nutrition Services
 Adult Health
 Home Visit/Maternity
 International Travel Clinic
 Heart Wise Grant
 Health Education
 Healthy Wheat Ridge
 Public Health Communications
 Home Visit/Children

Sample Sherriff Programs

Traffic
 Patrol Precincts
 Emergency Management
 Transportation
 Court Security
 Work Release
 Inmate Food/Medical Service
 Civil/Fugitive/Warrants
 Records
 Dispatch (Communications Center)
 Academy
 Executive
 Directed Operations (DOU)
 Critical Incident Response
 Radio Maintenance
 Grants Coordinator
 West Metro Drug Task Force
 Crimes Against Children
 Crimes Against Persons
 Victim Services
 Training and Recruiting
 Patrol Administration
 Criminalistics
 Detentions Administration
 Crimes Against Property
 Special Investigations
 Support
 Laundry/Custodial
 Inmate Worker Program
 School Resource Officers (SROs)
 Operations/Booking
 Animal Control
 Inmate Welfare
 Evidence
 Accreditation
 Crime Analysis
 Investigations Administration
 Professional Standards
 Internal Affairs
 Staff Inspection
 Volunteer Programs
 Community Relations

Notes

- 1 The concept of incremental budgeting was developed by Aaron Wildavsky. See, for example: Aaron Wildavsky, *The Politics of the Budgetary Process* (Boston: Little, Brown, 1964).
- 2 Robert Behn discusses the shortcomings of incremental budgeting in a cutback environment in the following article: Robert D. Behn, “Cutback Budgeting,” *Journal of Policy Analysis and Management*, Vol. 4, No. 2 (Winter, 1985).
- 3 Priority-driven budgeting is also known as “budgeting for results” and “budgeting for outcomes,” although the latter is used to describe a specific method of priority-driven budgeting.
- 4 Personal interviews were conducted with the managers who led priority-driven budgeting at these entities.
- 5 Behn.
- 6 Mark Moore emphasizes that these two sources of legitimacy are essential to making any big public policy change. Mark Moore, *Creating Public Value* (Boston: Harvard University Press, 1997).
- 7 Diagram inspired by Eva Elmer and Christopher Morrill, “Budgeting for Outcomes in Savannah,” *Government Finance Review*, April 2010.
- 8 Budgeting for outcomes 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, 2004).
- 9 Robert S. Kaplan and David P. Norton, *Strategy Maps: Converting Intangible Assets into Tangible Outcomes* (Boston: Harvard Business Press, 2004).
- 10 Peter Block, *Community: The Structure of Belonging* (San Francisco: Berrett-Koehler Publishers, 2008).
- 11 William D. Eggers and Shalabh Kumar Singh, *The Public Innovator’s Playbook: Nurturing Bold Ideas in Government* (New York: Deloitte, 2009).
- 12 Eggers and Singh.




Guiding Your Organization Strategically through Priority Based Budgeting

Center for Priority Based Budgeting
Jon Johnson & Chris Fabian

Wednesday, November 2, 2011

TODAY'S PRESENTERS

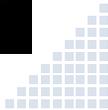


JON JOHNSON



CHRIS FABIAN

2

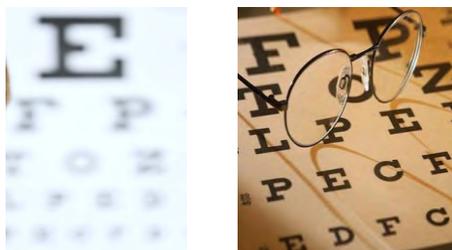


Local Governments Achieving Fiscal Health & Wellness

- Blue Ash, OH
- **Boulder, CO (2 yrs)**
- Chandler, AZ
- **Chesapeake, VA (2 yrs)**
- **Christiansburg, VA (2 yrs)**
- Douglas County, NV
- Delray Beach, FL
- Fairfield, CA
- Fort Collins, CO
- **Grand Island, NE (2 yrs)**
- Green River, WY
- **Lakeland, FL (3 yrs)**
- **Larimer County, CO (3 yrs)**
- **Longmont, CO (3 yrs)**
- Manitou Springs, CO
- Mission Viejo, CA
- **Monterey, CA (2 yrs)**
- Pasco County, FL
- Placentia, CA
- Plano, TX
- **San Jose, CA (2 yrs)**
- **Seaside, CA (2 yrs)**
- **Thornton, CO (Fiscal Health)**
- **Tualatin, OR (Fiscal Health)**
- **Walnut Creek, CA (2 yrs)**

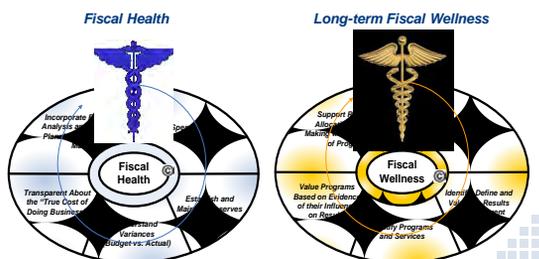
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BRINGING VISION INTO FOCUS WITH A NEW "LENS"



4

Achieving Fiscal Health & Wellness[®] *2 Strategic Initiatives*



5



Publications on Fiscal Health and Wellness *(published by ICMA, GFOA and the Alliance for Innovations)*



The Mercury News

From 2007

Across the Board Cuts Address \$14.5 Billion Shortfall

- **California Governor's Office:** "Across-the-board approach spreads reductions as evenly as possible so no single program gets singled out."
- **Reaction:** "the governor's approach would be like a family deciding to cut its monthly mortgage payment, dining-out tab and Netflix subscription each by 10%, rather than eliminating the restaurant and DVD spending in order to keep up the house payments."

7



According to Moody's:



- Across-the-Board versus Targeted Budget Cuts
 - "Across-the-board cuts can be a way to avoid tough decisions"
 - "Targeted cuts require a **serious discussion of community values, relative benefits of different services, and long-term implications**"
- Moody's wants to see how local governments plan for and respond to financial challenges over the long term
 - "Making targeted cuts can demonstrate a more **strategic approach to managing the fiscal crisis**"

8



GOVERNING

CONNECTING AMERICAN LEADERS

"Across the board cuts spreads the pain evenly and also evenly spreads the mediocrity"

- Budget Director for the State of Louisiana

9



ACHIEVING LONG-TERM FISCAL WELLNESS



Steps to Successful Prioritization

- **1.) Determine Results**
 - Accurate prioritization of programs, reflecting the City's stated objectives, depends on the comprehensive identification of the Results we are in business to achieve
- **2.) Clarify Result Definitions**
 - Precision in prioritization results from the articulation of the cause and effect relationship between a program and a Result
 - With clearly defined Result Maps, detailing the factors that influence the Results we are in business to achieve, we can seek to minimize subjectivity in the process of linking programs with Results
- **3.) Identify Programs and Services**
 - Differentiating programs and services we offer, as opposed to comparing the departments who provide those services allows for better Prioritization
- **4.) Value Programs Based on Results**
 - With the right Results, and with clear definitions of those Results, we can more accurately place a value on a program relative to its influence on achieving Results
- **5.) Allocate Resources Based on Priorities**
 - Using "Resource Alignment Diagnostic Tool"

11

Strategic Questions

1. What are we in "business" to do?

12

Step 1: Determine Results

City of Grand Island, NE

Quality of Life
Stewardship of the Environment
Safe Community
Strategic, Sustainable and Maintained Development
Effective, Efficient and Sustainable Organization
Accessible and Transparent Organization
Stewardship of Resources

Community Results

- Used to Differentiate Programs Offered to the Community
- Not All Programs Achieve these Results
- Programs that Achieve Many Results, with a High Degree of Influence, Achieve Highly in Prioritization (demonstrate high degree of relevance)

Quality Service Results

- Every Program Should Achieve these Results (though potentially, not every program does)
- Not Used to Differentiate the Relevance of Programs in Prioritization

Governance Results

- Used to Differentiate Programs Designed to Support Governance

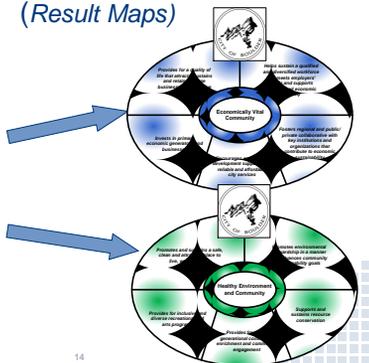
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Step 2: Clarify Result Definitions

(Result Maps)

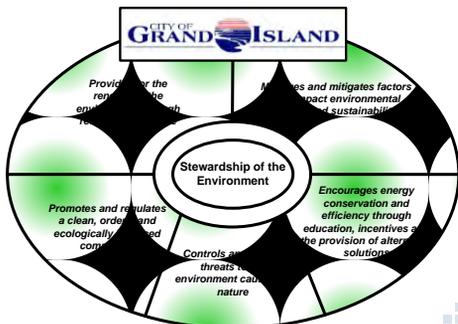
City of Boulder, CO Results

- Accessible & Connected Community
- Economically Vital Community
- Healthy Environment & Community
- Inclusive & Socially Thriving Community
- Safe Community



14

Identify and Define Results



15

Strategic Questions

1. What are we in "business" to do?
2. What exactly do we do?

19



Step 3: Identify Programs and Services

- > Departments develop their own program inventories
- > When defining programs, be clear on the objectives of what inventory will be used for
- > Not too big, not too small, just right!
 - Measure relative size based on costs, people associated with program
 - Departments and Divisions = too big
 - Tasks = too small

CITY OF BOULDER, COLORADO
Department Program Inventory
 Monday, July 25, 2010

Directions: For all of the programs and services in your department, identify the program name. When completed, please e-mail the Program Inventory back to Jim Reaser

Dept No	Department Providing Program	Program Name
000	Community Planning & Sustainability	General Business Assistance
000	Community Planning & Sustainability	Business Retention and Expansion
000	Community Planning & Sustainability	Business Incentive Programs
000	Community Planning & Sustainability	Business Partnerships and Sponsorships
140	Community Planning & Sustainability	Energy Decarbonization
140	Community Planning & Sustainability	Green Job Creation
140	Community Planning & Sustainability	Climate Adaptation Planning
112	Community Planning & Sustainability	Comprehensive Planning
112	Community Planning & Sustainability	Intergovernmental Relations
112	Community Planning & Sustainability	Historic Preservation
112	Community Planning & Sustainability	Ecological Planning

20



Strategic Questions

1. What are we in "business" to do?
2. What exactly do we do?
3. How do we figure out what is "core" OR What is of the highest importance?

21



Step 4: Score Programs on Basis of Results & Basic Program Attributes

Basic Program Attributes

- Mandated to Provide the Service
- Reliance on the City to Provide the Service
- Self-Sustainability (Program Revenue)
- Change in Demand for Service

City of Boulder's Results

- Accessible & Connected Community
- Economically Vital Community
- Healthy Environment & Community
- Inclusive & Socially Thriving Community
- Safe Community

22

Simple Scoring Scale – “Degree” of Relevance to a Result

- 4 = Program has an **essential** or **critical** role in achieving Result
- 3 = Program has a **strong** influence on achieving Result
- 2 = Program has **some** degree of influence on achieving Result
- 1 = Program has **minimal** (but some) influence on achieving Result
- 0 = Program has **no** influence on achieving Result

“High Degree” of Relevance

“Lower Degree” of Relevance (still a clear connection)

No Clear Connection



Identify “Value” of Program Based on their Influence on Results

Program	Program	Basic Program Attributes				Stratification Criteria				
		Mandated to Provide Program	Cost Recovery of Program	Change in Demand for Service	Reliance on City to Provide Service	Safe City	Progressive Economy	Green, Sustainable City	Attractive, Vibrant Community	Reliable, Well-Maintained Infrastructure
		0-1-2-3-4	0-1-2-3-4	0-1-2-3-4	0-1-2-3-4	0-1-2-3-4	0-1-2-3-4	0-1-2-3-4	0-1-2-3-4	0-1-2-3-4
Office of Economic Development	Business Attraction/Development	4	2	4	4	2	4	3	2	0
Office of Economic Development	International Business Development	0	1	2	2	0	2	1	1	0
Office of Economic Development	Economic Strategy, Policy	1	2	4	2	0	3	3	2	0
Office of Economic Development	Operations Management	1	2	4	4	3	2	0	3	4
Office of Economic Development	Arts / Festival Grants and Events	1	1	3	0	1	3	1	4	1
Office of Economic Development	Public Works	0	0	2	0	1	2	0	4	0
Office of Economic Development	Cultural Planning, Policy and Initiatives / Arts	1	0	2	4	1	3	1	4	1
Office of Economic Development	Public Works	1	1	2	0	1	2	2	4	3
Office of Economic Development	Public Works	1	1	3	0	1	2	1	4	2

24

Strategic Questions

1. *What are we in "business" to do?*
2. *What exactly do we do?*
3. *How do we figure out what is "core" **OR** What is of the highest importance?*
4. **What do you want to "keep" (not "What do you want to cut") - THE ROLE OF CITIZENS**

25



3 Keys to Public Engagement

- 1.) Determine Your Objective for Engaging the Public
 - Is it a "Means to an End" or an "End in and of Itself?"
- 2.) Determine a Role for the Public Where they Can Have Meaningful Influence
- 3.) For Greatest Participation, Go to Them



Many Challenges Inherent to Engaging Public

Where would YOU find \$51 million?
Building the Citizens' Budget

WHO MAKES THE CUT—YOU HELP DECIDE
POLICE OR POOLS? FIREMEN OR FEES?



Here's the challenge!

- The City of Cincinnati has a \$51 million deficit—How can we balance the budget while still having the services we need?

Your voice is important!

- City Council wants and needs your input to make budget decisions that best reflect the values of our citizens.
- Come talk with other citizens—together you will decide what is most important for our community.

- Level of discussion too "Big Picture"
- Conversation is framed contentiously (and possibly with "fear")
- Unclear about "how" citizens will be able to participate



Engaging Public in New Discussion About "What They Want to Keep"



Valuing the Results of Government

Invest \$100 in Results, according to their relative importance

Thursday, February 04, 2010

Valuing the Results of Government
Giving Emphasis to the Priorities of Government

Directions: The results that our Government strives to achieve are identified in the table below. As a citizen, your job is to help the City understand clearly the results that you value most. For this exercise, you are to imagine having \$100 to invest in achieving the City's results. Where would you invest your money? You can distribute the funds evenly to all results, you can invest all of your money in one single result, or you can invest your money toward the achievement of certain results emphasizing those which are most important to you. Spend the \$100 until it's gone by typing the amount you intend to invest in a result into the empty box to the "right" of the Result Statement.

Money You Started With:
 Money You Have Invested:
 Money You Have Left: (When this box reads "0" you have completed Step 1.)

Results of Government	Amount of Money Citizen Intends to Invest in Result
A Safe Community	\$ 30
Strong Neighborhoods and a Sense of Community	\$ 5
Economic Vitality	\$ 20
Culture, Recreation and Learning Opportunities	\$ 15
Stewardship of the Environment	\$ 10
Effective Transportation and Mobility Options	\$ 20

Strategic Questions

1. What are we in "business" to do?
2. What exactly do we do?
3. How do we figure out what is "core" **OR** What is of the highest importance?
4. What do you want to "keep" (not "What do you want to cut") - THE ROLE OF CITIZENS
5. How do we know we are successful?

Budgets Guided by Community Values

On July 19, 2013, the [Center for Priority Based Budgeting](#) launched priority based budgeting with the City of Shawnee, Kansas. At that time we wrote.....



The CPBB kicks-off **Priority Based Budgeting** with the City of Shawnee, Kansas today!

The [Center for Priority Based Budgeting](#) is leading the City of Shawnee through a facilitated exercise to develop comprehensive definitions for the City's Results. These Results will define what every community must ask themselves: **What are we here to do?** See initial Shawnee PBB launch agenda packet [here](#).

Participants in the "brainstorming" exercise will contribute by expressing all of the many ways that the organization's Results can be achieved, and then organizing all of those answers into similarly themed groups that form the basis for each of the Result definitions.

The technique is called Affinity Diagramming - a proven and powerful method that: a) gathers large and comprehensive amounts of information about all of the different ways the City's Results can be achieved, and b) does so in an extremely efficient manner that makes the most optimal use of the participant's time while still producing complete definitions.



City of Shawnee, KS City Hall

Following the exercise, CPBB will produce draft "Result Maps" for each of the City's stated Results. These "Result Maps" provide a simple, graphic way to organize and articulate the concepts identified in the facilitated exercise as the definitions around each Result. "Result Maps" serve as one of the key criteria for program scoring.

Now the City of Shawnee has [published the culmination of their work](#). And by tying the city's work plan to their priority based budget, the City of Shawnee is taking priority based budgeting to new levels! Congratulations

City of Shawnee on a superb implementation of priority based budgeting!

Budgets Guided by Community Values

Over the course of the last year, the City of Shawnee, Kansas began the Priority Based Budgeting (PBB) process with the [Center for Priority Based Budgeting](#) (CPBB). PBB is a process used to understand our larger community values, and then budget according to those values. This process will enable us to reassess our priorities and assist us in making sound, long-term funding decisions. As the PBB staff say, the PBB process provides a new lens for staff and the Governing Body to review expenditures by continuously focusing on the results that are most relevant to Shawnee and the programs that influence those results to the highest possible degree.

What's Already Happened?

On April 13, 2013, the Governing Body discussed community values and the priorities of our community. These priorities - or Results - were defined by staff and affirmed by the Governing Body. The Results identified are:

- [Attractive, Healthy, and Well-Maintained Community](#)
- [Economic Growth and Vitality](#)
- [Effective Mobility and Reliable Infrastructure](#)
- [Environmentally Sustainable and Well-Planned Community](#)
- [Quality Cultural and Recreational Opportunities](#)
- [Safe Community](#)
- [Good Governance](#)



Over the past months, a comprehensive review of existing services, or 'programs', was conducted, including allocating costs to each Program (based on the 2014 Budget). Then, each program was assigned a score based on a systematic scoring process and weighted on its contribution to desired Results and key Attributes of the program. To view a list and description of each city program, please visit our [Program Inventory](#) page.

On May 6, 2014, The Center for Priority Based Budgeting presented the culmination of all of this work to the Council Committee. To view the PowerPoint and hear the presentation please visit our [Agendas](#) page. The resource allocation diagnostic tool that was presented will be used by staff and the Governing Body in the future to look at our Budget through different "lenses." Please click on the icon at the top of this page to access the resource allocation diagnostic tool.

The City's [Work Plan](#) includes projects for 2014 and 2015 and ties together the City's work with PBB as well as projects that move the City forward in meeting Results.

Gardner Implements Priority-Based Budgeting

by Laura Gourley



Laura Gourley

With a population of just over 20,000, Gardner is the seventh largest among the 21 communities in prosperous Johnson County and continues to be one of the fastest growing cities in the state. As a full-service city with its own municipal utilities, the City incurred significant debt during the last decade to expand its streets, utility infrastructure, and parks facilities to accommodate an influx of new residents.

Further, due to Gardner's direct access to a unique combination of interstate, air and rail infrastructure, its proximity to the newly opened Burlington Northern Santa Fe intermodal "inland port" facility, ample developable land, professional staff, and a governing body dedicated to economic development, this growth is expected to continue.

However, this growth creates both opportunities and challenges. The economic recession halted the previous, annual double-digit growth of the City's tax base and severely reduced the once robust excise tax and utility impact fee revenues created by the flurry of building activity in the "boom" years prior to 2008; it was these revenues that were needed to pay for the previously incurred debt. Using the same tactics as many cities faced with similar revenue shortfalls, Gardner's short-term solution was to reallocate resources to pay for the debt by deferring maintenance and capital projects, reducing personnel, and implementing a three-year salary freeze for remaining employees.

After City Administrator Cheryl Harrison-Lee took the helm of Gardner upon her arrival in July of 2012, her assessment of the City began immediately. She engaged in a series of business community workshops to gain input regarding the City's image and challenges and quickly deduced that the previous solutions had resulted in a backlog of unfunded capital projects and severe understaffing resulting in a decline of customer service, as well as an unhappy business community and citizenry.

A seasoned veteran of municipal management from the progressive east coast with 30 years of municipal experience including planning and economic development, Ms. Harrison-Lee knew that to manage the pending growth wave caused by accelerating activity from the intermodal facility on Gardner's doorstep and a recovering economy, the City needed to prepare by visioning, planning, and appropriately staffing in order to be proactive instead of reactive

to opportunities. Obviously, it was no longer sufficient to continue the previous practice of creating a budget by merely increasing or decreasing expenditures from the previous year. That previous line item variance review process was inefficient and wasted the governing body's time and talents, which were better spent in creating a vision to guide the City.

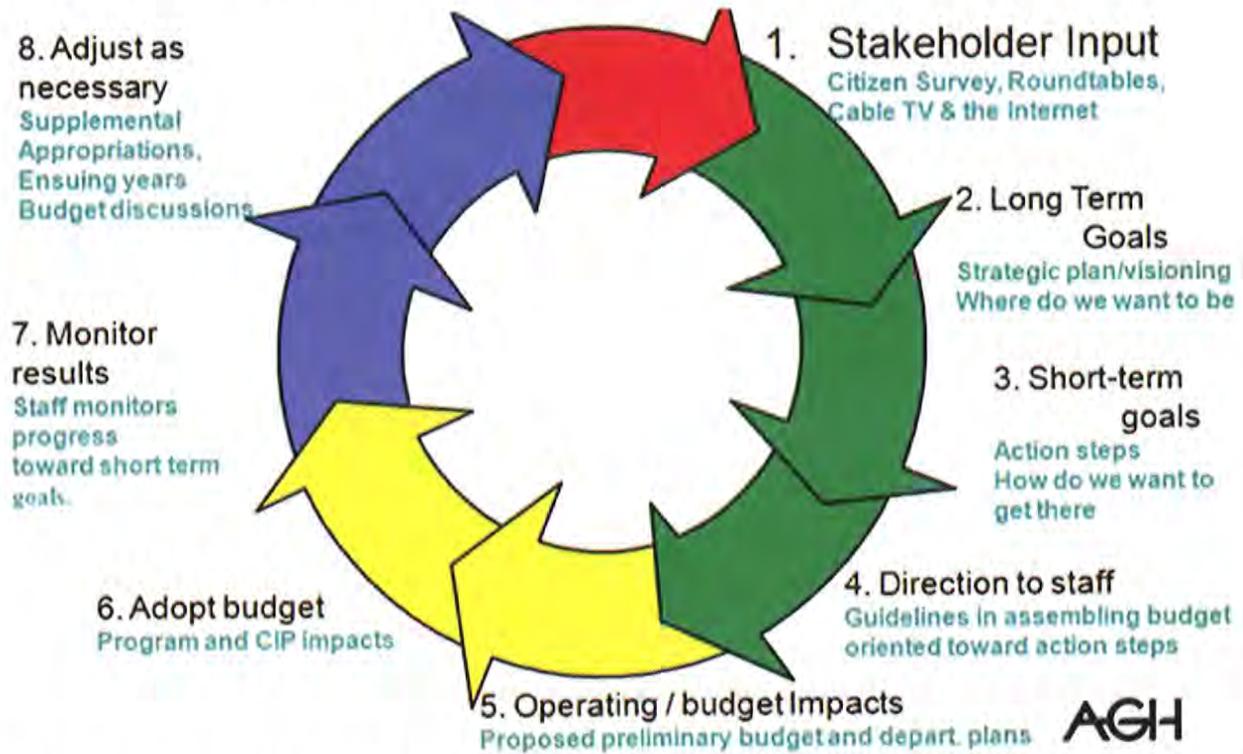
A much more strategic process would be required to balance maintaining quality of life for the citizens while maximizing economic opportunities. Ms. Harrison-Lee's oft-quoted mantra, "If you don't know where you're going, any road will take you there", became the impetus for Gardner's implementation of the best practice of Priority-Based Budgeting. Due to her experience with ICMA best practices, Ms. Harrison-Lee knew the process was the perfect answer to Gardner's problems: it is proactive instead of reactive; it involves community input; the budget is created using vision and strategic goals; and resources are budgeted to support those strategic goals.

Priority-Based Budgeting is a long, multi-year planning process that includes evaluating results and adjusting the process as needed. It is an 8-step, cyclical process illustrated by a diagram Gardner obtained from its consultants at Allen, Gibbs & Houlik, L.C. shown on next page. The Priority-Based Budgeting process enables the governing body and staff to be excellent stewards of taxpayers' dollars by making strategic decisions with limited resources while monitoring and correcting to ensure the validity and sustainability of those decisions.

As stated by Robert L. Bland in his book, *A Budgeting Guide for Local Government: Third Edition*, "When formulating a budget, the manager must balance what is economically best, politically expedient, and administratively possible." From her assessment, Ms. Harrison-Lee knew Gardner's next growth wave was imminent, and with assistance from a committed and experienced staff, she wasted no time implementing Priority-Based Budgeting into her first budget cycle for Fiscal Year 2014. In slightly less than one year, she guided City staff and the governing body through the implementation by gathering input from the business community, organizing a series of educational workshops from area experts, and facilitating the governing body's determination of their strategic goals to guide staff's creation of strategic initiatives and alignment of resources to support those goals.

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Priority-Based Budgeting Cycle



Stakeholder Input – Business Community

City Administrator Harrison-Lee gathered stakeholder input from September through December of 2012 beginning with a series of Chamber “Meet & Greets”, which included members of the local business community representing market segments for large retail, financial institutions, small business, manufacturing, and medical services. These sessions were used to discern the business community’s view of Gardner’s strengths, weaknesses, opportunities, and challenges.

At the conclusion of these meetings, common themes were recognized and three priorities were presented for consideration by the governing body for use in determining strategic goals and priorities to guide the City’s 2014 budget process. These priorities were: for the City to implement a mission statement, vision, and strategic plan; to become more business friendly; and to accept and focus on growth. The stakeholder input process took four months.

Stakeholder Input – Staff and Governing Body

From January through April of 2013, Ms. Harrison-Lee organized a series of educational workshops designed to assist City staff and the governing body with understanding how imminent and significant the changes resulting from the pending growth wave were going to be. This information would be critical to the governing body’s development of their vision and strategic, long-term goals to guide the City.

In January, the governing body heard presentations from City staff and a panel of area experts in economic development to give them a comprehensive picture of Gardner’s challenges, potential, and relationship to both the Kansas City metropolitan and surrounding region. The information included Gardner’s demographics for population breakdown and growth trends, educational attainment, household income, and need for a daytime economy and jobs. Johnson County Chairman Ed Eilert presented county-wide information regarding population, employment, business expansion

and comparisons to other metro counties, and major manufacturers of the county and their impact. Presentations from Bob Marcusse of the Kansas City Area Development Council and from Mary Birch and Pete Heaven of Lathrop & Gage included area economic development information with emphasis on the BNSF intermodal facility’s pending impact to Gardner.

Long-Term Goals

In March and April of 2013, additional workshops to facilitate the development of the governing body’s long-term goals were conducted. During these workshops, City staff presented the business community’s input and priorities, and consultants Ben Hart and Derrick Nielsen of Allen, Gibbs & Houlik discussed the governing body’s role in the Priority-Based Budgeting process as that of visioning and setting strategic goals for the community. They also provided a recap of the environmental analysis the governing body received from City staff and area experts, explained the future steps of the process, and provided a future view of a mature Priority-Based Budgeting process, including the eventual development of department business plans. Finally, Mr. Hart and Mr. Nielsen facilitated an exercise that culminated with the governing body’s determination of four strategic goals to support their vision of Gardner and guide the budget process:

1. Promote economic development
2. Improve the quality of life
3. Maintain fiscal stewardship
4. Infrastructure/asset management

The development of the governing body’s long-term goals took four months.

Short-Term Goals

Following the determination of the governing body’s long-term, strategic goals, City staff spent two months identifying short-term initiatives and projects that would support these long-term goals

and created a preliminary budget draft that realigned resources to pay for the short-term projects. These projects were presented for the governing body's review during two work sessions. Staff's presentations illustrated how the short-term projects were associated with and supported each of the long-term goals.

Direction to Staff / Budget Impacts

Following the presentations, staff facilitated the governing body's consensus approval to pare down the number of projects to a level of funding that enabled Ms. Harrison-Lee to further realign any additional resources and staffing needed to ensure successful implementation of the approved short-term projects within the 2014 Proposed Budget.

Following review of the Proposed Budget, the governing body made their final consensus for project funding approval, and the finalized Proposed Budget was presented to the citizens for public hearing; because the Priority-Based Budgeting process is so thorough and interactive, no comments were received from the public.

Adopt Budget

The governing body subsequently adopted the 2014 budget in early August having successfully implemented the best practice of Priority-Based Budgeting to strategically align resources to support their vision and long-term goals created from stakeholder and expert input in just one budget cycle.

Monitor Results/Adjust as Necessary

After the budget is approved and implemented, ongoing monitoring ensues and adjustments are made, including supplemental appropriations in future budget discussions or changes to short-term initiatives.

As a testament to their commitment to their long-term goals, two strategic 'road map' projects, each with significant funding requirements, were approved by the governing body: the development of a Comprehensive Plan and an Economic Development Strategy. Both of these will be used to guide decisions

for future economic development opportunities. Further, the governing body also exhibited their commitment to infrastructure and asset management by approving significant funding for a major overhaul of the City's IT network and the creation of a disaster

Four strategic goals to support the budget process

1. Promote economic development
2. Improve the quality of life
3. Maintain fiscal stewardship
4. Infrastructure/asset management

recovery and business continuity plan. The importance of the IT project cannot be overstated as the City's network supports every aspect of services to citizens.

City Administrator Harrison-Lee reflected on the success of the implementation of the best practice stating, "The Governing Body's best use of their time and talents is as a visioning body. This budget process and the accompanying legacy projects will move Gardner boldly into the future as a quality city. I am proud to be a part of this exciting time and to work with progressive leaders and staff."

 *Laura Gourley is the Finance Director for Gardner, Kansas and can be reached at lgourley@gardnerkansas.gov. A digital copy of the 2014 Adopted Budget is available at www.gardnerkansas.gov/budget.*



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Develops, maintains and enhances parks, trails, bike paths and open space, ensuring they are vibrant, attractive, well-kept, safe and accessible

Offers a variety of recreational activities that meet the interests and needs of the community and promote a healthy, active lifestyle

Encourages and promotes vibrant and secure commercial centers, full of thriving businesses that support the community's economic stability

**ATTRACTIVE,
HEALTHY and
WELL-
MAINTAINED
COMMUNITY**

Monitors the physical, mental and socio-economic well-being of the community, actively partnering with others to improve the situations of those in need

Promotes and encourages strategically planned and well-designed new development and redevelopment

Invests in public facilities and infrastructure that are attractive, functional, long-lasting and safe; providing gathering places and connecting the community

Promotes and sustains an inclusive and welcoming community of well-kept and safe neighborhoods, offering diverse housing options where residents share in a sense of community pride

Attracts and retains a diverse mix of business by offering appropriate incentives, "business-friendly" processes, and an attractive environment

Creates and sustains a desirable environment to live, work, play, and visit

Promotes high quality, diverse job creation, and attracts a skilled workforce that meets the needs of employers

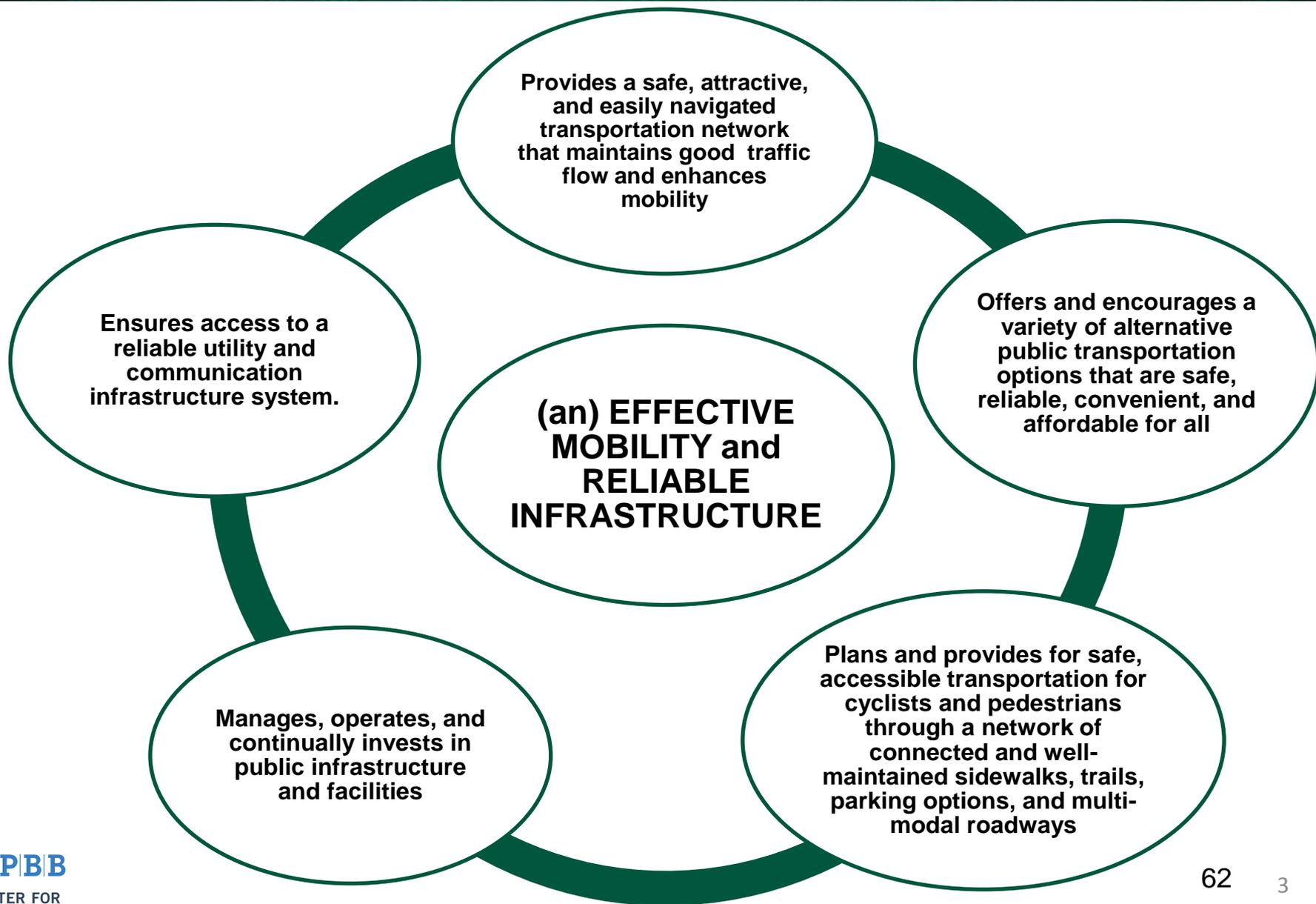
ECONOMIC GROWTH and VITALITY

Preserves financial well-being by diversifying the revenue base, engaging the community, and seeking innovative options to fund community growth

Encourages well-planned development, revitalization, and preservation of existing commercial areas

Cultivates a thriving downtown and vibrant commercial centers with a variety of dining, shopping, and entertainment opportunities

Provides well-maintained public infrastructure networks that support the growth of the community





Promotes inclusive and diverse community events to connect the community and provide "things to do" for all ages

Promotes civic engagement, citizen involvement, and community stewardship to instill a sense of community pride and sustain a safe and healthy place to live

Celebrates and promotes cultural enrichment and our historical heritage through a variety of activities and quality, life-long learning opportunities

QUALITY CULTURAL and RECREATIONAL OPPORTUNITIES

Develops and maintains its parks, open spaces, bike paths, and walking trails and public facilities to serve the needs of the entire community

Offers a variety of recreation programs and activities that promote a healthy and active lifestyle for everyone

Offers protection from harm, enforces the law, fairly administers justice, and reduces the occurrence of wrong-doing

Fosters a feeling of personal safety through a visible and approachable public safety presence, proactive prevention, community caretaking, and education

Develops and systematically implements regulations that ensure the safe design and construction of all structures in the community

SAFE COMMUNITY

Provides for a well-planned, effective and prompt response to emergencies of all kinds, including individual calls for service, fires, public safety threats and natural disasters

Designs, constructs and properly maintains a stormwater system that protects from flooding and enhances water quality

Designs, constructs and properly maintains a transportation network that is safe and offers good accessibility and mobility

Informs and involves citizens and businesses so they can share in the responsibility for a safe and welcoming environment

Supports well-kept neighborhoods and thriving businesses that are clean, healthy, and visually appealing

Ensures parks, open spaces, and public areas are designed with safety in mind, well-lit, well maintained, and actively monitored

