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BUDGETING FOR OUTCOMES: BETTER RESULTS FOR THE PRICE OF GOVERNMENT

Governments are facing a permanent fiscal crisis. The costs of running governments are rising, especially the costs to educate, incarcerate, and medicate. But the price citizens will pay is fixed. Consequently, government is broke. Traditional budgeting only makes matters worse. Our customary approach leads to a budget that provides for the status quo—only less. The focus (and the acrimony) settles on the small percentages to cut, but the great majority of spending escapes examination. And next year our problems return. In the end, our citizens not only think we are broke, they know we are broken.

Budgeting for outcomes changes this equation. It asks different questions—and gets very different answers. This report explains how local governments can create a budget designed to give residents the results they really want and need—at a price they are willing to pay.

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Publishing and Information Resources

Ann I. Mahoney, *Director*
Christine Ulrich, *Editorial Director*
Jane Lewin, *Editor*
Dawn Leland, *Production Director*
Charlie Mountain, *Graphic Designer*

Author Contact Information

David Osborne and Peter Hutchinson
Public Strategies Group
325 Cedar Street
Suite 710
St. Paul, MN 55101
Phone: 651/227-9774
Fax: 651/292-1482
E-mail: reinvent@psg.us

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Budgeting for Outcomes: Better Results for the Price of Government

This report is adapted from the book, The Price of Government: Getting the Results We Need in an Age of Permanent Fiscal Crisis, by David Osborne and Peter Hutchinson. David Osborne, a senior partner in Public Strategies Group, has coauthored several earlier books; among them are Reinventing Government, Banishing Bureaucracy, and Reinventor's Fieldbook. Peter Hutchinson is a founder of Public Strategies Group, a consulting firm whose mission is transforming governance. Both authors have advised and consulted with public organizations at all levels in the United States and worldwide.

Native Americans have many sayings, and one of the wisest is: “When you’re riding a dead horse, the best strategy is to dismount.” The tradition of cost-focused budgeting is the dead horse of the public sector. When we budget for costs, we get more of them. What we don’t get is the innovation and accountability for results we need if we are to win the campaign for public support. Winning back public support is in fact the greatest challenge facing government today.

Governments across the country find themselves in a fiscal crisis that will continue because the price—the percentage of personal income—that Americans are willing to pay for their government through taxes, fees, and charges is fixed, whereas the costs of running the government are rising inexorably.

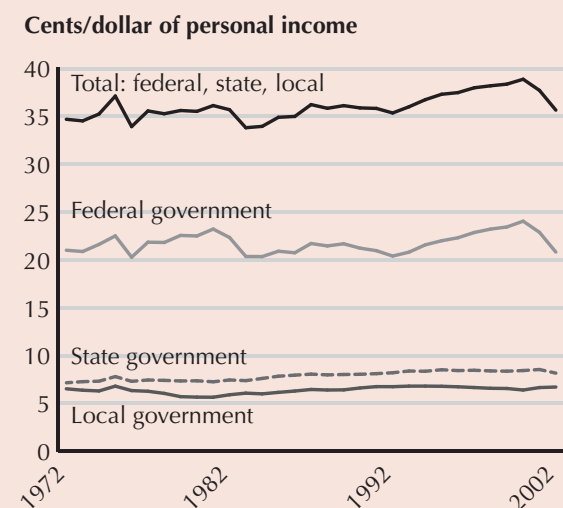
For the past 50 years Americans have committed the equivalent of 35 to 37 cents of every dollar of annual personal income to buy services from their local, state, and federal governments. For those five decades—through good economic times and bad, through arguments from the right about spending too much on bloated bureaucracy and arguments from the left about spending too little on essential services—Americans have stuck with about 36 cents per dollar. We will call this “the price of government.” Americans have continued to put 36 cents aside for government in the face of competition for their dollar from food, clothing, housing, health care, transportation, services, and savings. The 36 cents works like the set point on a thermostat. If the price gets too high, as it did in the middle to late 1990s when President Clinton and Congress raised it to eliminate the deficit, tax cuts are sure to follow. If it gets too low, appeals for new revenue to improve services succeed.

Not only is the overall price fixed for the nation as a whole, but the separate prices for federal, state, and local governments are also fixed. Figure 1 shows that the prices

for state and local governments are even more stable (as a whole) than the price for the federal government. Furthermore, each state and local government has its own price and its own thermostatic comfort range.

But even though the price of government is fixed, the costs of government are not. The costs to educate, incarcerate, and medicate are rising faster than state and local government revenue. Added to these costs are those that governments will bear as the increasing number of retirements makes unfunded pension obligations come due. Furthermore, under current trends, social security, Medicare, and Medicaid will consume the entire federal

Figure 1 Price of Government in the United States, by Level of Government



Source: U.S. Census Bureau, U.S. Bureau of Economic Analysis.

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budget in the next 25 years and crowd out programs that help local governments. On top of all that will be the costs to cover the debt obligations that are piling up as governments borrow from the future to meet today's spending commitments. A fixed price and rising costs means that the fiscal crisis facing government today is not really a crisis but a permanent condition.

BUSINESS AS USUAL WON'T WORK

Traditional budgeting begins with the question "How much will it cost to keep doing what we've been doing in the way we have always done it with the results we have always gotten?" The answer: More! More to cover inflation, case load increases, and added services. When all these "needed costs" are added up, they greatly exceed the available revenue. So the challenge becomes how much to cut (5 percent, 7 percent, 10 percent or more), or how much to tax to reconcile the costs of the status quo with revenues. In such a process, all of the focus (and opposition by interest groups) is on the small percentage to cut, while the 90 percent, 93 percent, or 95 percent of continuing spending escapes examination. Consequently, the connection between spending and results seldom gets consideration.

In the heated politics of budget cutting, the goal is to avoid blame and pain. Too often the course of least resistance leads to politically expedient budget and accounting practices that "solve" the budgetary math problem by creating what public finance experts call a fiscal illusion that makes budgets look better than they really are. Seven such illusions are particularly harmful:

1. Robbing one fund to plug a hole in another
2. Using accounting tricks
3. Borrowing long term to spend short term
4. Selling off assets
5. Making something up
6. Nickel and diming expenses
7. Delaying maintenance and replacement of assets.

When these actions fail to relieve the pain, governments often resort to across-the-board cuts—a process that cuts no one in particular but "thins the soup" for everyone. In the end, the budget may appear to be balanced. Of course, when the crisis reappears the following year, the public's cynicism deepens.

In 2002 the *Seattle Times* captured the heart of the problem in these words:

The usual, political way to handle a projected deficit is to take last year's budget and cut. It is like taking last year's family car and reducing its weight with a blowtorch and shears. But cutting \$2 billion from this vehicle does not make it a compact; it makes it a wreck. What is wanted is a budget designed from the ground up.

—*Seattle Times*, November 17, 2002

These blowtorch-and-shears practices may help solve the math problem and allow governments to claim that their budgets are balanced. But they fail utterly to address the leadership problem: how to deliver the results that citizens want at the price they are willing to pay.

A BUDGET DESIGNED FROM THE GROUND UP: THE WASHINGTON STATE EXPERIENCE

In fiscal 2002 and 2003, Washington State's general-fund revenue declined for the first time in 30 years. Thus, halfway through this biennium, Democratic Governor Gary Locke and the legislature had to trim \$1.5 billion and eliminate 1,340 jobs. In looking ahead to the next biennium, the governor was facing an estimated \$2.1 billion deficit in the general fund—almost 10 percent—plus another \$600 million deficit in the health-services account. Frustrated with across-the-board cuts, the governor wanted to focus on the big question: What should state government do and what should it stop doing? "Closing the \$2 billion gap we face in the next biennium would require an across-the-board cut of 15 percent—if that's all we did," he announced. "And that is not what we are going to do. I don't want to thin the soup. I want state government to do a great job in fulfilling its highest priorities."

In August 2002, with ten weeks left to design a new budget, Governor Locke's chief of staff asked the Public Strategies Group (PSG) for help in shifting the focus from spending cuts and tax increases to buying the best possible results for citizens with the funds that would be available.

PSG proposed *budgeting for outcomes*—that is, starting with the results citizens wanted, not the programs the agencies funded; not with last year's spending, but with the outcomes that mattered most to the public. PSG urged the governor and his staff to focus not on how to cut 15 percent but on how to maximize the results produced with the remaining 85 percent.

With PSG's help, the governor's budget staff designed a process to answer five key questions:

1. Is the real problem short or long term?
2. How much are citizens willing to pay?

3. What results do citizens want for their money?
4. How much will the state pay to produce each of these results?
5. How best can that money be spent to achieve each of the core results?

These questions become the five key challenges in budgeting for outcomes, and they were the challenges that Washington addressed in preparing its next state budget.

1. Get a grip on the problem. Washington's fiscal staff defined the problem as the convergence of three forces: a deep economic recession that slashed revenues; permanent limits on revenue and spending growth imposed by antitax activists through statewide initiatives; and rising costs for the core activities of the state—"education, medication, and incarceration."¹ Of the three forces, only the recession's effect on revenue could be termed cyclical, likely to turn around someday. The other two were more or less permanent. Thus, staff decided that solutions had to be more or less permanent.

2. Set the price of government (determine the amount citizens are willing to spend). Determining how much citizens were willing to spend on their government was the purview of a guidance team made up of senior executive branch policy people as well as several leaders from business and private think tanks. (Organized labor was invited to participate but chose not to.) The team's first big decision was that the budget would be built on the basis of revenues expected under existing law, without new taxes. In early November, despite heavy lobbying by the governor, voters had soundly defeated a gas tax increase to pay for long-needed transportation projects. This antitax reality—plus a fear that tax increases would further depress the state's economy—led the team to advise the governor against raising taxes.

3. Set the priorities of government. A staff team made up of senior people from the Office of Financial Management worked with the guidance team to define the key results they believed Washington's citizens most wanted from state government. (For more information about teams, see Appendix A.) The guidance team then refined these into ten desired outcomes: the priorities of government. These priorities consisted of improvements in

- Student achievement in elementary, middle, and high schools
- The quality and productivity of the workforce

- The value of a state college or university education
- The health of Washington's citizens
- The security of Washington's vulnerable children and adults
- The vitality of businesses and individuals
- Statewide mobility of people, goods, information, and energy
- The safety of people and property
- The quality of Washington's priceless natural resources
- Cultural and recreational opportunities.

4. Allocate available resources across the priorities. The next challenge was to decide how to allocate the state's entire budget across the ten results. The two teams set aside 10 percent of the budget for overhead functions, such as pension contributions and internal services, and then parceled the rest out among the ten results, using a citizen's point of view; that is, they focused on perceived value rather than past practice. In some areas the teams' choices reinforced past patterns, but in a few areas they made changes—allocating more resources to economic vitality, for example, and fewer to public safety.

5. Develop a purchasing plan for each result. The staff team then put together ten results teams, one for each outcome, made up of knowledgeable people from agencies involved in the relevant policy area. Governor Locke asked the results teams to forget their loyalties to the agencies they represented. He challenged them to be like citizens and tell the governor where to put the money to get the best results. Teams were free to suggest everything from program consolidation to elimination and beyond.

Each team started by choosing three indicators to measure progress toward their assigned outcome. Then they developed a cause-and-effect map that diagramed the *factors* (not government programs) that lead to or affect the result. With the cause-and-effect map in hand, they laid out the strategies or "purchasing plans" they thought the state should use to produce the outcome.

This process stimulated creativity that is absent from traditional budget development. For example, team members dealing with K–12 education said they needed to purchase more early childhood education, start the shift to a pay-for-skills compensation system for teachers, and move away from across-the-board school funding toward targeted funding for those schools and kids most in need. The health team decided that the highest-impact strategies focused on *prevention*: mitigating environmental hazards, improving food sanitation, providing public health clinics, and the

¹ Marty Brown, Director of the Office of Financial Management, State of Washington.

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like. They proposed spending more on these strategies and less on health insurance for childless adults.

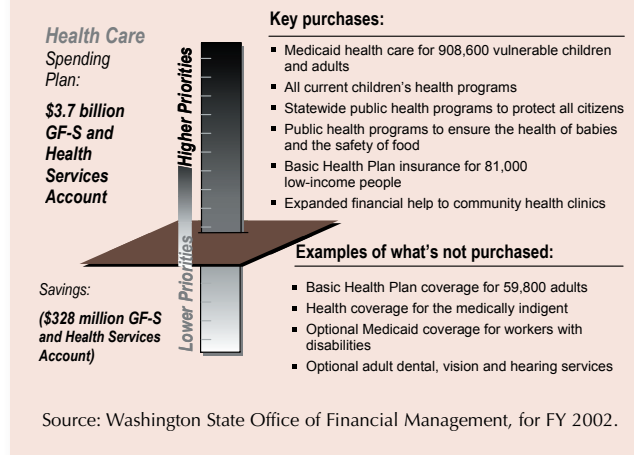
Next, the results teams turned to existing state activities—the place where traditional budget processes start. Each results team was given a subset of the 1,300 state activities funded by the traditional budget. “Their mission,” the governor explained, “was to get more yield on less acreage.” To do so, the members of each team had to put together a detailed purchasing plan based on their cause-effect diagram, indicating four things:

- What they would buy—both new and existing activities
- What else they would buy if they had more money
- What they would eliminate first if they had less money
- What they would not buy.

Finally, the ten results-team leaders met to talk about what they needed to purchase from one another. The higher-education team decided to use some of its funds to pay for better K–12 education in order to better prepare its incoming students. Two teams jointly bought increased efforts to protect water quality in order to improve both health and natural resource outcomes. Several teams decided to use some of their money to fund prisons in order to reduce the number of low-risk prisoners who would have to be released early. The cross-team buying was necessary because the work of state government is so interconnected. Spending in one area contributes to outcomes in other areas.

Following this meeting of the ten leaders, the results teams completed their purchase plans. These plans gave the staff team and the guidance team a prioritized ranking of all existing activities of state government based on the degree to which the results teams believed these activities contributed to producing the results desired. Using these and comparable rankings provided by the agencies, the staff and guidance teams made final recommendations to the governor. The result was, in effect, ten strategic programs for state government, each of which linked desired results, indicators of progress, strategies to achieve the results, and purchase plans. The governor embraced the product and generally followed the purchase plans in completing his budget proposal. Under each of his ten priority results (those identified in challenge number 3, setting priorities of government), his budget showed the activities that would be purchased and the ones that would not. This budget was clear and easy to understand, and it explained in simple terms why some activities were retained and others were eliminated. (See Figure 2 for an example of the clarity.)

Figure 2 Health Care Purchasing Plan with Priorities Clearly Stated, State of Washington



The 2003 budget caused pain. It proposed to eliminate health insurance for nearly 60,000 poor working people; dental, hearing, and optometric coverage for adults on Medicaid; and 2,500 state jobs. It would suspend cost-of-living increases for state employees, eliminate pay increases for teachers, and suspend a \$221 million class-size-reduction effort mandated by a citizens' initiative. University tuition would rise by 9 percent a year for two years, 1,200 low-risk felons would leave prison early, and a series of smaller programs would be shut down.

Yet the media response was overwhelmingly positive. As former chief of staff Joe Dear put it, “Never has such bad news been received so well.” “Gov. Gary Locke’s budget is a big step forward for Washington,” declared the *Seattle Times*. Governor Locke’s 2000 gubernatorial opponent, Republican John Carlson, wrote an opinion piece for the *Seattle Times* in which he noted that Locke’s “budget for the next two years is a work of bold, impressive statecraft. . . . He is willing to face down the most powerful interest groups in his own party to bring this budget in without a major tax increase. Genuine leadership is doing what must be done when you don’t want to do it. And I think the governor is doing that.”

Public reaction was similar. “When we’ve taken this [to the] public, no matter what the setting—business, labor, social services advocates, health care, the classroom, the rotary meeting—people understand what we’re doing and not doing in a much more fundamental way than ever before,” according to Wolfgang Opitz, deputy director of Washington’s Office of Financial Management. “When they say, ‘Well, I don’t like that cut,’ I say, ‘Okay, then what from above this line do you not want to do?’ And the response is usually ‘Oh. . . . Well, I’m learning to like the

cut a little more now.’ It seems to be helping resubscribe everyone to the basic business of state government.”

Perhaps most important, budgeting for outcomes can help public leaders win back some of the support government has lost in recent decades. The Everett *Herald* put it well: “The public is not in a forgiving mood. It still holds a grudge for a government it sees as wasteful and unresponsive. Locke’s plan, or one like it, might be a good step toward proving otherwise. The more thrifty government becomes, the more generous voters might be at the ballot box.”

IMPLEMENTING BUDGETING FOR OUTCOMES IN LOCAL GOVERNMENT

Washington State is continuing to improve the process it started in 2003. Local governments in Washington (and elsewhere) have followed suit: Snohomish County and the City of Spokane have both implemented their own versions of budgeting for outcomes (as have Azusa, California, and Multnomah County, Oregon). Although the details vary from place to place, the seven steps discussed below constitute the core of budgeting for outcomes. See Appendix B for a sample process schedule for budgeting for outcomes.

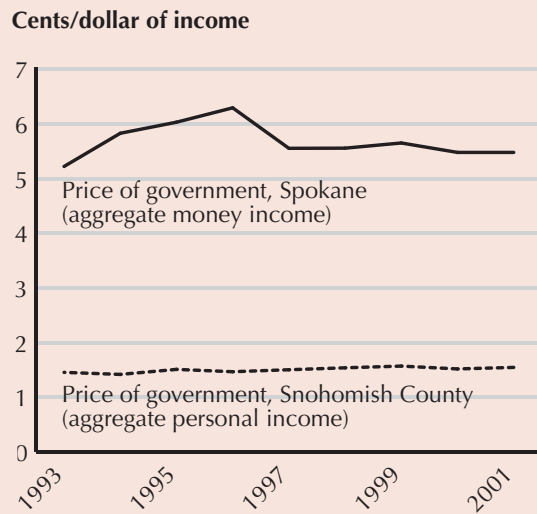
1. Set the Price of Local Government

The price of government represents the amount of purchasing power a community is willing to commit to its governments. There is no “right” price of government any more than there is a “right” price for Cheerios. There is, however, an acceptable price, which may vary from one jurisdiction to the next depending on a jurisdiction’s wealth, history, culture, and values.

Finding that acceptable price is the job of elected officials. This job is just as challenging for them as it is for executives at General Mills. If those executives price the Cheerios too high, consumers will tell them—by buying Corn Flakes or Rice Krispies instead—that they’re out of line. If they price the Cheerios too low, the business falls apart. Similarly, when the price of government gets too high, citizens let government know. They oust incumbents, elect antitax candidates, or embrace antitax initiatives. When the price of government gets too low, critical public services like schools, roads, and police begin to fray. Allow this decline to reach a breaking point and citizens push the price of government back up, either by electing representatives committed to improving services or by approving referenda to pay more for services they care about.

In PSG’s budgeting for outcomes, the precise definition of the price of government is the sum of all taxes, fees, and

Figure 3 Price of Government in Snohomish County and Spokane, Washington



Source: U.S. Census Bureau, U.S. Bureau of Economic Analysis.

charges collected directly by a given jurisdiction divided by the jurisdiction’s total economic resources.

The numerator in this calculation should consist of all taxes, fees, and charges collected by the jurisdiction for all funds.

For the denominator, the measure PSG uses most often to represent total economic resources is aggregate personal income, but money income is sometimes used.² Taken together, these data on revenue and buying power allow us to estimate the price of government over time and, as a result, give leaders a good sense of the trends. (For more information on calculating the price of government, see Appendix C).

Figure 3 shows the price of government for Snohomish County and the city of Spokane in Washington. Note how the thermostat governs the price of government over time.

Tables 1 through 4 in Appendix D show the price of government in 2000 for all 50 states and the District of Columbia, the 50 largest cities, the 50 largest counties, and 9 large city-county combinations. It is important to keep in mind that a higher price is not “better” or “worse” than a lower price. People in different jurisdictions make different

² Personal income and money income are related but not identical. Both represent the buying power of those living within the jurisdiction, but personal income is more comprehensive. It consists of wages and salaries, dividends, interest, rents, and the value of transfer payments. Money income consists only of the cash part of personal income; it excludes employer-paid health, retirement, and pension programs as well as the value of in-kind or noncash assistance.

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choices about what public services they want, at what level of quality, and at what price. In addition, some jurisdictions have access to revenues, such as oil and gas extraction taxes, that are “exportable” to nonresidents. Furthermore, apropos of city and county budgets, about half include schools and half do not (the latter do not because the school districts raise their revenue separately).

The message in these figures and tables is that the price of government is not something that elected leaders can set at any level they choose. Citizen tolerance, both for taxation and for an acceptable level of service, acts as a constraint. That tolerance, of course, is affected by the health of the economy at any given time, but in the long run, the price of government stays fairly constant. The price must be acceptable to those who pay it and must be adequate to deliver the results that citizens demand. The choices citizens make over time about the price of their government reflect their unique judgments about the value of public services.

With this understanding, how should you as a government leader go about setting your overall levels of revenue as you prepare your budgets?

First, assemble and graph the data, over time, on the taxes, fees, and charges paid to all governments serving citizens in your area, expressed as a percentage of the aggregate income of that area. Show both the overall price of government that citizens pay and the share paid to each governmental unit.

Second, chart the downturns and upticks to see what price levels have triggered resistance (and commensurate reductions in service) and what levels have prompted a willingness to pay (and provide) more.

Third, to arrive at a price appropriate for your area, evaluate this historical information in the context of two sets of data: trends in your local economy (particularly in personal income) and the price of government in competing jurisdictions. (To help you reach your decision, you may want a process of public education and consultation.) Government leaders should definitely not passively accept the status quo. You may decide that your citizens will embrace a reasonable increase in taxes or fees to restore services or that your citizens are already at the point of rebellion and need taxes reduced. The trend analysis used for understanding the current price of government provides the best basis on which to make these decisions.

Next, consider the share of the price of government paid to each government. In the best of all worlds, you would do this jointly with other overlapping local governments. Demonstrate to citizens that you and your colleagues recognize that there is in fact a limit to the price of government and that, together, the relevant governments are striving to provide the best value for citizens’ money.

For several years the major jurisdictions in Ramsey County, Minnesota—the county, the city of Saint Paul, and the Saint Paul Public Schools—have met annually to jointly set their property tax limit. When this collaboration has worked as it should, it has raised the public’s level of confidence that the governments involved are accountable for citizens’ annual tax bills.

If you can’t set the price of government jointly, at least demonstrate that you know there is a limit to the collective price of government. Tell citizens out loud what you think that number is, and announce that you will set your share of it at what appears to be an acceptable portion of the total. Once the target price of government is established, it can be multiplied by a forecast of community income to determine the overall revenue to be used in budgeting.

Ultimately, next year’s price of government is a choice. Once the choice is made, it can and should drive all other decisions throughout the budget process. Deciding on revenue levels from all sources up-front turns the traditional budget process on its head and liberates budgeters to focus on an even more important step: buying results that citizens value.

2. Set the Priorities of Government

Citizens don’t think in terms of programs or activities (and certainly not in terms of departments). They want results—things like safety, jobs, and health. Government officials need to define the outcomes that matter most to citizens, along with indicators to measure progress. How? By listening effectively to the people they serve. There are many ways to do this.

- Polling—random sampling of public opinion
- Focus groups—sit-down discussions with randomly selected participants
- Town hall sessions—public discussions with whomever shows up (facilitated by experienced staff)
- Civic journalism—news media initiatives to engage readers, listeners, and viewers in interactive discussions, debates, and feedback about priorities
- Web sites—feedback collected online in response to efforts to heighten awareness.

All of these can be useful, but they need to be handled carefully. Polling and focus groups provide access to “regular” citizens. The results will embody, in citizens’ own words, what they think they want from government. The results will also show that citizens don’t think about government the same way people in government do. Citizens don’t think about programs or line items but about results. They also don’t know about agencies, departments, or even the differences among jurisdictions. To them it is all govern-

ment. This may be frustrating to government officials, but it is reality. (A sample guide to moderating a focus group of regular citizens can be found at <http://bookstore.icma.org/freedocs/43043>.)

Town hall sessions will attract advocates and interest groups. It is important to hear from them. It is also important not to confuse their input with that of regular citizens. Both kinds of input are valuable for determining a government's priority results. It is also important to share the different perspectives publicly so that the advocates hear from regular citizens and vice versa. For more on engaging citizens in discussion of public policy, see *Smart Democracy: How to Engage Citizens* (IQ Report, September 2004, item no. 43041).

In developing priorities from this listening, you should generally select ten or fewer outcome goals (i.e., the priority results discussed above). In the end, you should express these priorities in citizens' terms, using indicators that citizens would use to assess progress. In choosing indicators,

- Include both subjective and objective measures (citizens' perceptions of safety and the crime rate, for example).
- Don't settle for activity data that are readily available; commit to indicators of real results, and make a plan to start gathering the data for those indicators.
- Use an index, if necessary, to capture multiple sources of related data. For instance, Washington developed an index of health that combines data on the incidence of major diseases.

In the end, the acid test is whether the priorities and indicators you have chosen make sense to citizens. Snohomish County in Washington stated its priorities and indicators in terms that citizens actually used:

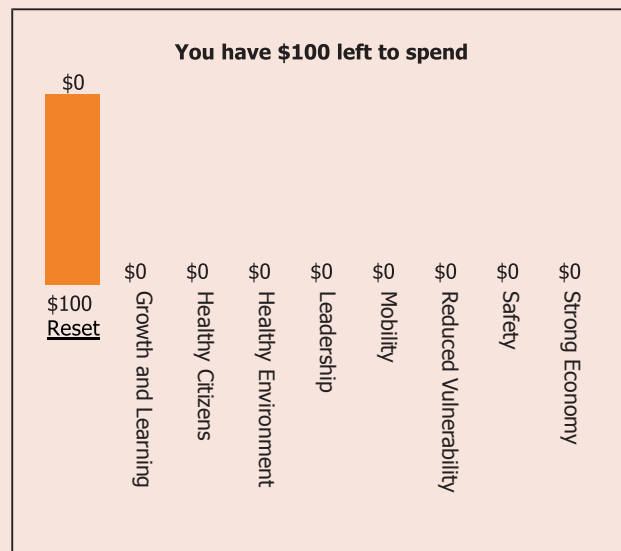
1. I want reasonable and predictable travel times.
 - Improved travel time
 - Same trip time every time
2. I want to feel safe where I live, work, and play.
 - Increased citizen confidence that their community is safe
 - A reduction in crime (per capita statistics for comparable demographics)
 - Decreased risk factors and increased protective factors relating to public safety
3. I want kids in my community schools to pass the state school achievement tests.
 - Increased percentage of Snohomish County students pass the Washington Assessment of Student Learning/other state achievement tests

- Increased high school graduation rate
 - Continual improvement in a Community Education Environment index designed to measure how conducive and supportive the community is to education
4. I want to improve the health of people in the community and reduce vulnerability of those at risk.
 - Reduced proportion of unhealthy people (composite measure of standard health indicators from the Washington State Health Report Card)
 - Improved safety and other supports for vulnerable people (composite measure of percentage of people in vulnerable situations)
 - Reduce the percentage of households with incomes indicating poverty or risk of poverty (measure at twice the national poverty level to reflect local conditions)
 5. I want to live in a thriving community, one with infrastructure sufficient to support planned growth.
 - Increase the level of individual and business income by both the percentage of people employed and the increase of their median income
 - Measure the infrastructure quality by public satisfaction with services such as water, sewer, solid waste, transportation facilities, and communications, and by citizen usage and access to cultural and recreational facilities such as parks, libraries, and open space
 6. I want my community to be prepared to respond to emergencies.
 - Number of people who are self-reliant for three days during an emergency
 - Countywide disaster exercise that involves multiple first-responder agencies
 - Effective communications systems for citizens and emergency responders
 7. I want to get the level of service I need at an affordable price and see that my dollars are spent wisely.
 - Leadership
 - Trust and confidence
 - Fairness and equity
 - Responsible stewardship of public funds
 - Internal support services
 - Customer satisfaction as measured from feedback received through survey tools

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Figure 4 List of Priorities, Spokane, Washington

Here's your task. You have \$100 to spend on City government. Tell us how much money you want to spend on each of the following priorities. Your total should add up to \$100. You can't go over.



Enter your budget amount for each priority in whole dollars or use the arrows to increase and decrease your amount in \$5 increments.

- Growth and Learning** I want the opportunity to learn and grow.
Examples: libraries, recreation programs, and cultural programs
- Healthy Citizens** I want the opportunity to lead a healthy life.
Examples: water, trash collection, and health programs
- Healthy Environment** I want clean air, water, and land with healthy parks.
Examples: sewers, park maintenance, and environmental planning
- Leadership** I want strong and responsive leadership that gets results.
Examples: Mayor & City Council, internal support services, and neighborhood councils
- Mobility** I want to get where I want to go in a safe and timely manner.
Examples: street maintenance, traffic signals, and bike trails
- Reduced Vulnerability** I want to reduce the vulnerability for citizens at risk.
Examples: homeless assistance, low-income housing, and job training
- Safety** I want to feel safe and secure at home, work and play.
Examples: police, fire, and domestic violence prevention
- Strong Economy** I want a healthy, growing economy.
Examples: zoning, business licenses and permitting, and tourism promotion

Source: City of Spokane, Washington, 2004.

- High ranking on Executive Compliance Report Card
- Progress in productivity and cost measures
- Progress in each department's own performance measures, including outputs and outcomes
- Success in all other results team indicators.

Spokane developed a similar list of priorities with accompanying indicators and organized its four legally mandated budget hearings around these priorities, ultimately showing the “keeps” and “cuts” by priority.

3. Set the Price of Each Priority

With the available revenue and priorities established, the next step in budgeting for outcomes is to divide the total revenue among the priority outcomes on the basis of their relative value to citizens. Here again it is useful to ask citizens for guidance. Give them \$100 or 100 percent to divide among the priorities according to their assessment of relative value (see Figure 4).

This can be done as part of the focus groups described above. It can also be done as part of a survey using a random sample. The city of Spokane even created a Web site

Choosing Strategies to Achieve Desired Safety Outcomes

In Snohomish County, the safety results team realized in its initial discussions that achieving the result “to feel safe where I work, live, and play” involved strategies to create both actual safety and the perception of safety. Team members also acknowledged that they would have to address both preventive and reactive factors. As a result they proposed strategies that encouraged and supported responsible citizenry, fostered community livability, and provided responsive services.

Further, their research into prevention led them to an approach that combined reducing *risk* factors (e.g., substance abuse, absence from school, teen pregnancy, association with friends who engage in problem behavior) with increasing *protective* factors that buffer, inoculate, or protect against the negative consequences of exposure to risks.

at which citizens could “vote” on how to allocate resources among the city’s list of priority outcomes.

There is no right answer to the question of how to allocate resources among priorities. Rather, it is a matter of judgment. The goal is to put a relative value on each result sought by citizens.

The question most often asked when governments get to this step is “What did we spend on this last year?” There is no answer to this question. Yes, careful records are kept, but they are kept by organizational units (departments or divisions), not by results. How much the police department and public works spent is clear, but not how much went to make people safe, to make them healthy, or to ensure mobility on our streets. Thus, the answer to the question “How much is each of these results worth?” will be a judgment based on the relative value—not the relative cost—of each result. In some cases the answer will be that a result is worth more than it costs and in others it will be that a result is worth less than it costs. It is this tension between value and cost that makes budgeting for outcomes powerful.

Executives must make the final call, but knowing what citizens think makes their job a lot easier.

4. Develop a Purchasing Plan for Each Priority

Perhaps the most powerful shift brought about by budgeting for outcomes is the shift from paying for costs to buying results. The process of developing a purchase plan for each result begins with a map of the factors that lead to or impact the result. Creating such a map requires those involved (the buyers) be clear about what factors add up to results and which ones matter most. Doing so means collecting and debating available evidence, information on best practices,

Choosing Strategies to Achieve Desired Health Outcomes

Washington State’s health team identified four possible strategies: increasing healthy behaviors (getting citizens to eat better, drink less, quit smoking, get more exercise, etc.); mitigating environmental hazards (ensuring cleaner water and air and healthier food); identifying and mitigating risk factors related to gender, socioeconomic hardships, and genetic predispositions; and providing access to appropriate physical and mental health treatment.

When the team ranked these strategies in terms of their contributions to the result, it decided that mitigating environmental hazards was most important, increasing healthy behaviors was second, providing access to health care was third, and mitigating risk factors was fourth. With limited resources, it decided to increase the state’s emphasis on the first two strategies. Research data had convinced team members that this was the way to get the most bang for the state’s buck, even though that choice meant reducing spending on more traditional—and highly expensive—patient care. In fact, the team’s analysis showed that the two strategies selected would yield a 16 to 1 return on investment.

The old budget game would have led the health team to focus on the strategies with the greatest costs. The new approach required the team members to ignore the previous year’s numbers and figure out where the best results could be obtained for the money available.

and professional expertise. This is exactly the kind of debate the budgetary process should stimulate.

This kind of debate requires participants to answer questions such as “When it comes to the health of citizens (or decreasing congestion, or improving sense of community safety), which factors have the most impact, and how do different factors interact?” When the answers are compiled into cause-and-effect maps, they provide the basis for decisions about which strategies to follow to achieve the desired result. The maps help purchasers choose from among many possible strategies and assign a relative priority to each (see sidebars on this page).

There is no one right way to do a results map. Figures 5 and 6 are examples from two jurisdictions. What is crucial is that they answer the fundamental cause-effect questions on the basis of available evidence.

To be successful, those who do this purchase planning must wear a “citizens’ hat” at all times. They must also be ready to follow the evidence wherever it leads—even if where it leads is contrary to business as usual. For these reasons, each team should

- Be small—no more than ten people
- Have a specific charter (a prototype results-team charter is available at <http://bookstore.icma.org/freedocs/43043>)

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- Include both a leader and a facilitator
- Have diverse backgrounds represented, and include some members who are knowledgeable about programs related to the result and some who are not
- Have access to research and best-practices information from around the world.

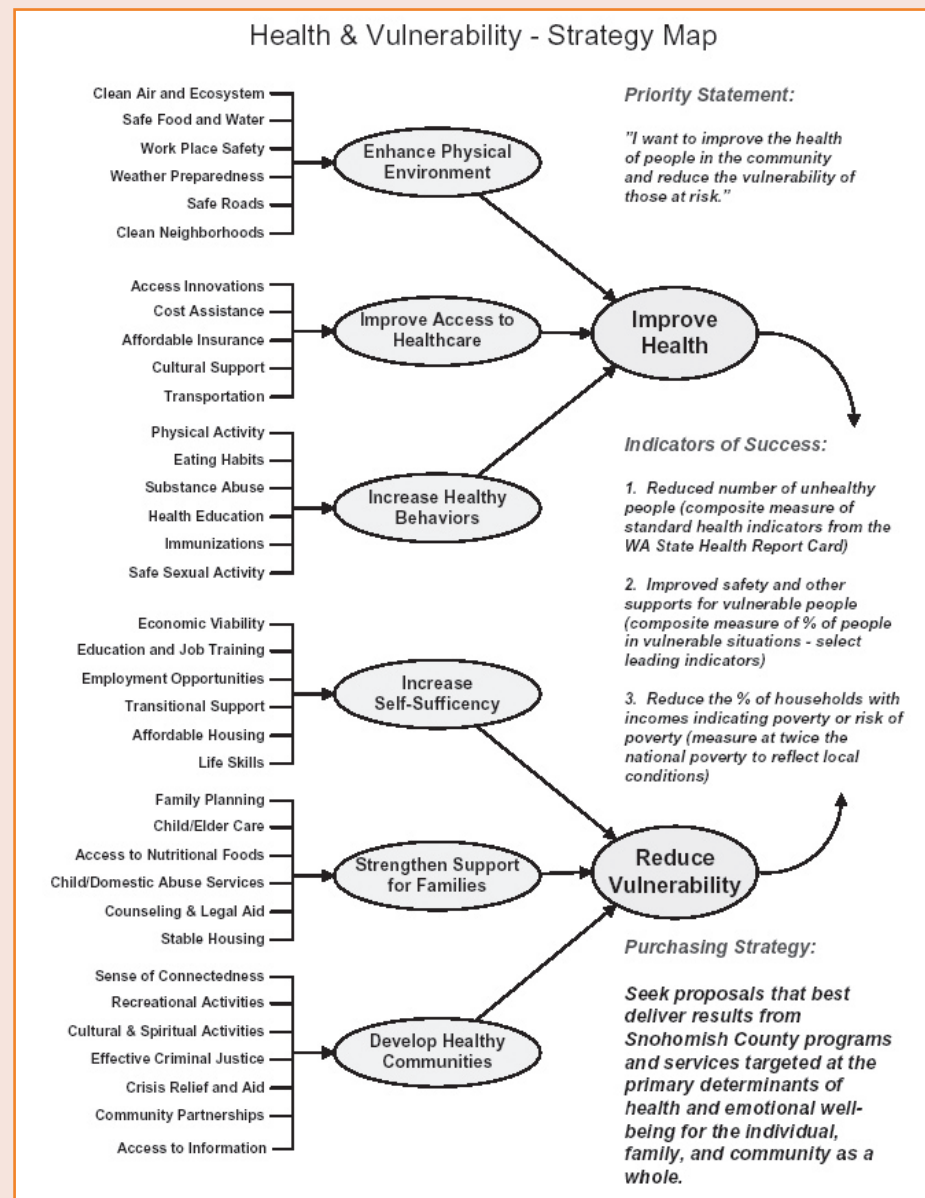
5. Solicit Offers from Providers to Deliver the Desired Results

At this point the buyers have finished the first part of their work—laying out the factors that matter most and choosing the strategies they believe will allow their jurisdiction to deliver the results that citizens want at the price they are willing to pay. Now the emphasis shifts to the providers or sellers.

With their priority-outcome goals and strategies clearly in mind, buyers then solicit offers to see who can deliver the most results for the money. This is the step that departs most radically from traditional budgeting. Instead of asking divisions or departments to add to or subtract from the previous year's costs, the buyers (acting as purchasing agents) incorporate the results (outcomes), price, and purchasing strategy they have settled on into something like a request for proposals. This "request for results" replaces the traditional budget instructions.

An important decision that needs to be made at the outset is who can bid: who can offer proposals? Each request for results can and should be sent beyond the traditional department "bidders" or "sellers" to *all* agencies and departments, to other governments (a city proposing to deliver results to a county or school district, for example, and vice versa), even to unions, nonprofits, and for-profit

Figure 5 Strategy Map by the Health and Vulnerability Results Team, Snohomish County, Washington

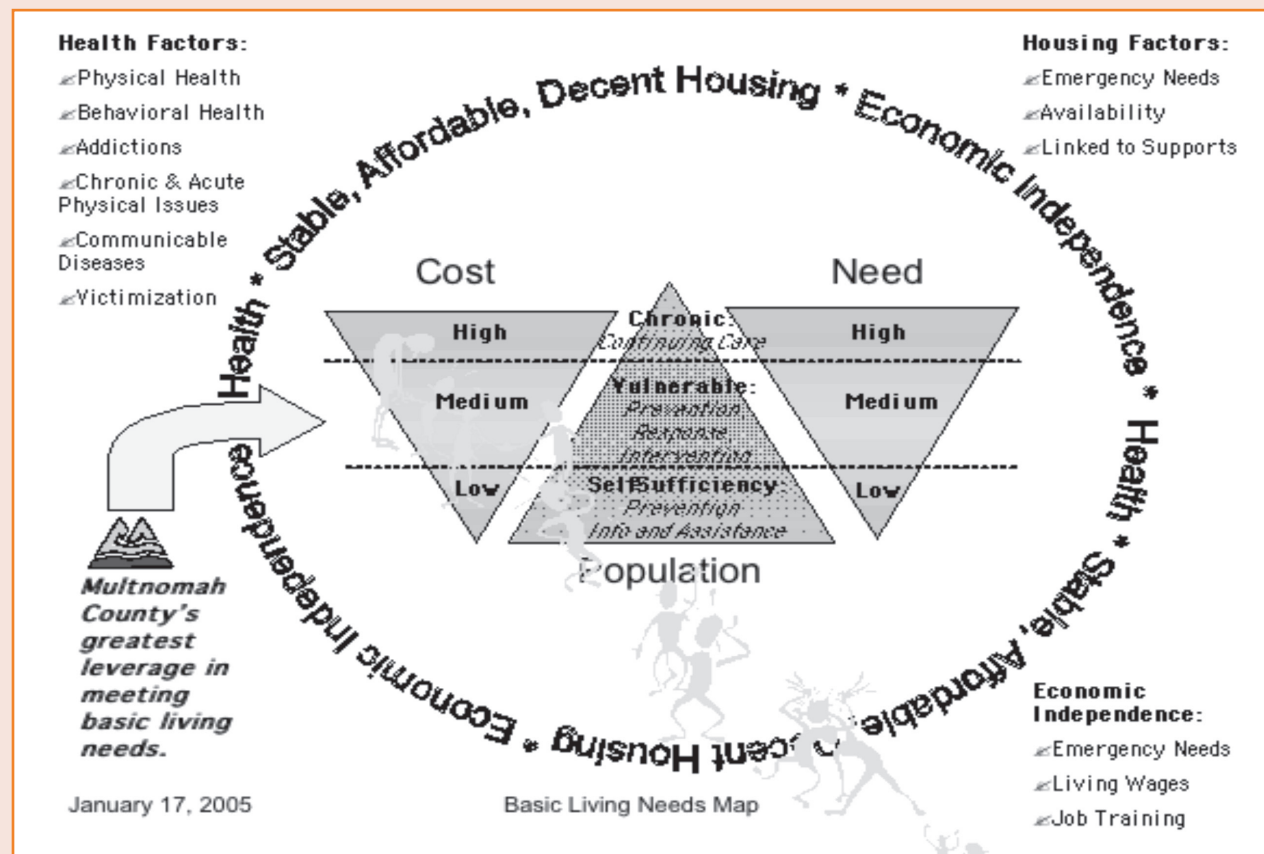


Source: Snohomish County, Washington, 2004.

organizations. The greater the number of potential proposers or sellers, the more options there will be; the more proposals, the more and better the competitive choices. Opening the process up to more and different providers may be hard, but it will produce both service improvements and cost savings.

The request for results asks each potential supplier to identify how it can deliver the expected results and at what price.

Figure 6 Results Map by the Basic Needs Team, Multnomah County, Oregon



Source: City of Spokane, Washington, 2004.

In developing their responses, sellers need not, and indeed cannot, take anything for granted. Using last year's information and simply fitting it to the new process is a recipe for failure. Sellers must assume that for each result there will be many proposals from many potential sellers. If a seller expects to get funded, it has to offer up a proposal that delivers the needed results at a competitive price. Since an individual bidder may choose to submit multiple proposals (for its various programs and activities), it is in a sense competing against itself. This forces it to challenge its own practices, to make them as competitive as possible.

Furthermore, sellers are not limited by the past. The process encourages them to come up with new approaches and creative twists. Some will forge partnerships across departments or agencies, with other governments, and with nongovernmental organizations. The bidding process also encourages them to consider ways they could contribute to more than one of the priority outcomes. Although the process is challenging to bidders, it also liberates them.

Technology can make the process of submitting proposals relatively easy. The buyer can create a simple standard

form as part of a database into which proposers can enter both financial and descriptive information. (See Appendix E for a reproduction of Spokane's input form.)

Because of what takes place in the next step, it is also recommended that buyers use technology or forms to limit the information required so as not to overwhelm either the proposers or the results teams that will ultimately review each proposal against the request for results. Teams can gather more information as needed by inviting proposers to clarify their offers or to provide additional information in writing.

6. Buy the Best, Leave the Rest

After the proposals are in, the results teams, again acting as buyers, must first rank the proposals in order of their contribution per dollar to the result. Because teams could end up with 50 or more proposals, technology can be a great assist. An effective way to help a team arrive at its ranking is to give each member a ranking form on a Web site. (See Figure 7 for Spokane's form.)

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Using this form, teams are asked to divide all the proposals into three equal groups: high contribution to the result, medium, and low. Once all of the team members have individually ranked the proposals, the system computes an average score for each proposal, ranks them, and identifies those for which there is greatest divergence (see Figure 8). The team members should then discuss the differences among their rankings, clarify understandings, and then re-rank using the same method.

Once the re-ranking is done, the process of purchasing can begin. In some cases, buying teams do their ranking as a recommendation to the executive. In others, the ranking is done directly by the executive. Regardless of the method, the mechanics are the same.

Up to the point of buying, all proposals and all money are the same color: green. But when the time comes to buy, the differences between kinds of activities and sources of funds become important. Among the most important categories are these:

- **Mandates**—Some activities are mandated by law, charter, or regulation. Mandates may include prescriptions about the existence of an activity, the level of the activity, the means of conducting the activity, or the level of spending. Mandates must be respected. Consequently, the first buying decision involves iden-


tifying the mandates and deciding (given an activity's ranking and the nature of the mandate) what scope of activity and spending to support. When mandates give jurisdictions choices about scope and means, these choices are especially important. Finding flexibility

Devising a Request for Results

Snohomish County traditionally has not explicitly involved itself in education or seen that it had a real role in educating children. However, because education was a high priority for citizens, an education results team was formed. The members soon realized that in fact the county ran a school at the juvenile detention facility and that educational success for children was influenced by county health programs, juvenile crime programs, family support, and community livability. They described their strategy as "From Doorbell to School Bell" to indicate the comprehensive approach they were taking.

To find the county's best leverage, the team then tailored its request for results by asking the question "How can county programs help education and lead to reductions in demand for county spending?" The team then sought proposals to build partnerships among educational institutions in the county, create interactions between county employees and schools, create opportunities for early-childhood education, develop more educational programs outside traditional months and hours, improve student wellness (safety, health, and nutrition), and promote school attendance.

Figure 7 Site Ranking Form, Spokane, Washington


[POG Voting Home](#) | [Voting Results](#)

Growth and Learning I want the opportunity to learn and grow. Examples: libraries, recreation programs, and cultural programs

		Budget	Bids	
			Received	Expenditures
		\$2,965,975.00	18	\$3,640,618.00

Bid No.	Name	Department	H	M	L
214	Strengthen Arts Community	Arts	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
223	Visual Arts Program – Gallery, Collections, Promot...	Arts	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
225	Find Art Campaign	Arts	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
243	Neighborhood Library Service	Library	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
247	Outreach Library Service to Seniors	Library	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
250	Downtown Library Service	Library	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
252	Increase Downtown Library Hours	Library	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
254	Preschool Outreach	Library	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
256	Improve Speed in Delivery of New Library Materials...	Library	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
329	Joe Albi Stadium	Entertainment Facilities	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
341	Increase Neighborhood Library Hours	Library	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
386	Chase Youth Commission	Youth Department	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
395	Teen Advisory Council	Youth Department	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
403	Youth Empowerment Zones	Youth Department	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
452	Aquatics	Parks and Recreation	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
458	Other Recreation	Parks and Recreation	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
462	Special Interest Classes	Parks and Recreation	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
465	Therapeutic Recreation	Parks and Recreation	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Required Totals: 6 6 6
Vote Totals: 0 0 0


Source: City of Spokane, Washington, 2004.

Snohomish County's Budget Message to Department Heads

Keys to creating the most competitive proposals are:

1. Remember these priority packages are responses to results teams requests for results (RFRs). They are not about process—they are about outcomes. Read the RFRs carefully—what sort of results are they looking for? Make sure your responses emphasize what is provided to the county, not what process happens within government.
2. Your performance measures will be reviewed carefully. If your performance measure counts something that is not meaningful, it will hurt the probability of funding success.
3. Scalability—Indicate in your priority package how increases or decreases will affect outcomes. Below are brief illustrations of this approach:
 - “For an extra 20 percent in funding, the outcomes can increase by 40 percent.”
 - “If funding is cut by 25 percent, expect outcomes to be reduced by 25 percent.”
4. In addition, explain where an additional investment can create multiple benefits—e.g., “If we purchased a county-wide license for an extra 20 percent, the software would have value to all departments, not just one unit. This would equate to a 50 percent increase in functionality.”
5. Explain the short-term *and* long-term benefits, for example, “It will allow us to respond to this requirement, but it will increase overall productivity by 15 percent within five years.”
6. Make sure that your package is clear and understandable. Have someone who is not an expert read it. Does it make sense? Is it compelling? Are the justifications solid?
7. Develop proposals without regard to department structure or boundaries, i.e., make them functionally based, not departmentally based.
8. Don't be limited to your own area—propose ideas for doing things better outside the scope of what is traditional for your department.
9. Consider interdepartmental opportunities. What if you partner with another department to work together to get triple the output for double the cost? Many successful packages will depend on cross-departmental synergies.
10. Consider partnering with the private sector or nonprofits where feasible.
11. Consider innovations in technology to increase efficiency.
12. State the actions that your department would be willing to take if targets are not achieved. For example, “The department would be willing to recommend ending this activity if stated quantifiable performance measurement targets are not achieved by 9/1/05.”
13. Look for revenue-producing ideas, e.g., is there a grant that will fund this? Will a business pay us to provide this service?
14. Look for opportunities to move functions online so members of the public can serve themselves (Web, kiosks, etc.).

Figure 8 Ranking of Growth and Learning Results, Spokane, Washington


www.spokanecity.org

[POG Voting Home](#) | [Voting Results](#)

Growth and Learning I want the opportunity to learn and grow. Examples: libraries, recreation programs, and cultural programs						Budget	Bids		
						\$2,965,975.00	Received	Expenditures	
							18	\$3,640,618.00	

Bid No.	Name	Department	Total Expenditures	Rank	Score	Votes Cast		
						H	M	L
243	Neighborhood Library Service	Library	\$1,454,107.00	1	46	14	2	0
250	Downtown Library Service	Library	\$1,115,040.00	2	45	13	3	0
386	Chase Youth Commission	Youth Department	\$45,391.00	3	43	12	3	1
452	Aquatics	Parks and Recreation	\$127,400.00	4	41	9	7	0
458	Other Recreation	Parks and Recreation	\$55,300.00	5	40	9	6	1
465	Therapeutic Recreation	Parks and Recreation	\$60,800.00	5	40	9	6	1
247	Outreach Library Service to Seniors	Library	\$77,005.00	7	37	7	7	2
341	Increase Neighborhood Library Hours	Library	\$108,426.00	8	35	7	5	4
462	Special Interest Classes	Parks and Recreation	\$196,500.00	9	35	6	7	3
214	Strengthen Arts Community	Arts	\$28,325.00	10	34	6	6	4
252	Increase Downtown Library Hours	Library	\$77,071.00	11	32	7	2	7
395	Teen Advisory Council	Youth Department	\$29,017.00	12	30	4	6	6
254	Preschool Outreach	Library	\$12,292.00	13	29	3	7	6
403	Youth Empowerment Zones	Youth Department	\$19,716.00	14	28	4	4	8
223	Visual Arts Program – Gallery, Collections, Promot...	Arts	\$20,888.00	15	27	3	5	8
225	Find Art Campaign	Arts	\$45,840.00	16	25	2	5	9
256	Improve Speed in Delivery of New Library Materials...	Library	\$15,500.00	16	25	2	5	9
329	Joe Albi Stadium	Entertainment Facilities	\$152,000.00	18	22	1	4	11

☐ = Bids that received a high/low vote disparity

Source: City of Spokane, Washington, 2004.

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within mandates is a key challenge in ensuring that the budget produces results that citizens value, not just compliance with mandates.

In the end, though, it is likely that some low-ranking, mandated activities will be purchased. These should become candidates either for initiatives for repeal or for amendments to the mandates themselves.

- **Matching**—Matching programs are the first cousins of mandates. Often these activities are not required, but if a jurisdiction wants the match money it has to comply with the associated rules and regulations. Rankings of such programs should be based on their contribution to the results, not their contribution to the treasury. Once the programs are ranked, however, the buyers must be clear about the fiscal implications of buying or not buying. A no-buy decision releases local dollars for higher priorities but sacrifices the receipt of nonlocal revenues. The ranking process is designed to force the question “Will we accept this low-ranking activity just because it comes with money attached?” (The same applies to programs and activities that generate revenue. If such a program is ranked low, should it continue just because it pays for itself?)

- **Designated or dedicated funds**—The general fund by definition has the most flexibility in how it can be used. Other funds are generally designated for specific purposes. Before the buying process starts, it is critical to establish the limits of each fund. It is best to begin buying with designated funds, leaving the general fund to purchase the high-priority proposals that cannot be purchased by any other means.

As with mandates, it will probably happen that a low-priority activity can be purchased because designated funding is available. In this case, since these activities are not mandated, the jurisdiction has to decide whether to keep the funding and the low-priority activity or cut both.

The buying process itself starts at the top of the ranked proposals and moves down the list, buying according to priority until available funds have been exhausted. Then draw a line (see Figure 9). Proposals above the line are in, and the rest are out (unless they are being purchased because they are mandated or can be purchased with specifically designated funds). This buying plan becomes the budget. It is a list of keeps, not cuts—positive choices for spending the citizens’ resources to buy the citizens’ results.

Laying out the budget this way is another radical departure. In tough times, the traditional process puts 100 percent of time and energy into finding the 5 to 15 percent to cut, and when that is done, the list of cuts is published—and the attacks by the interests that are directly affected start. In budgeting for outcomes, however, the energy goes into deciding what to keep and where to draw the line. At the end of the budget process, the support of those whose programs are above the line can counterbalance the opposing arguments of those whose programs are below it.

7. Negotiate Performance Agreements with the Chosen Providers

Step 7 completes the work of budget development. The budget, now a collection of purchasing decisions, provides an improved opportunity to man-

Figure 9 Buying Results, Spokane, Washington

<input checked="" type="checkbox"/>	Funded	Bid No.	Name	Department
<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	243	<u>Neighborhood Library Service</u>	Library
<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	250	<u>Downtown Library Service</u>	Library
<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	386	<u>Chase Youth Commission</u>	Youth Department
<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	452	<u>Aquatics</u>	Parks and Recreation
<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	458	<u>Other Recreation</u>	Parks and Recreation
<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	465	<u>Therapeutic Recreation</u>	Parks and Recreation
<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	247	<u>Outreach Library Service to Seniors</u>	Library
<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	341	<u>Increase Neighborhood Library Hours</u>	Library
<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	462	<u>Special Interest Classes</u>	Parks and Recreation
<input type="checkbox"/>	<input type="checkbox"/>	214	<u>Strengthen Arts Community</u>	Arts
<input type="checkbox"/>	<input type="checkbox"/>	252	<u>Increase Downtown Library Hours</u>	Library
<input type="checkbox"/>	<input type="checkbox"/>	395	<u>Teen Advisory Council</u>	Youth Department
<input type="checkbox"/>	<input type="checkbox"/>	254	<u>Preschool Outreach</u>	Library
<input type="checkbox"/>	<input type="checkbox"/>	403	<u>Youth Empowerment Zones</u>	Youth Department
<input type="checkbox"/>	<input type="checkbox"/>	223	<u>Visual Arts Program – Gallery, Collections, Promot...</u>	Arts
<input type="checkbox"/>	<input type="checkbox"/>	225	<u>Find Art Campaign</u>	Arts
<input type="checkbox"/>	<input type="checkbox"/>	256	<u>Improve Speed in Delivery of New Library Materials...</u>	Library
<input type="checkbox"/>	<input type="checkbox"/>	329	<u>Joe Albi Stadium</u>	Entertainment Facilities

Source: City of Spokane, Washington, 2004.

age for results. Think of developing each purchasing decision into a real performance agreement with the selected proposer. Each performance agreement should spell out the expected outputs and outcomes, the ways they will be measured, the consequences for performance (or non-performance), and the flexibilities granted to help the provider maximize performance. As a result, accountability is built into the budget itself.

IT WORKS

In summary, budgeting for outcomes focuses on the programs kept, not the programs cut. It ensures that the 90 percent of the budget that will continue to be spent buys as much for citizens as possible. Moreover, the *whole* budget:

- Buys results, not costs
- Puts the general interest of citizens first, before any special interests
- Emphasizes performance accountability
- Promotes continual reform and improvement
- Communicates in common-sense language.

“We’re looking at things that everyone likes, everyone wants to do, that aren’t going to get funded,” Mayor West said. “As we go through this process, we’re learning an awful lot. More people know [more] about the budget than they’ve ever known before. That is a very healthy process.”

—*Inlander* (Spokane), July 29, 2004

A member of the guidance team and a recent political opponent of the county executive wrote in a letter to the editor:

This new budget process wasn’t perfect, but it worked well. And it worked in a way that serves the citizens of Snohomish County better by focusing on the results they want, not the programs government administers.

—*Everett Herald*, October 5, 2004

FURTHER INFORMATION

David Osborne and Peter Hutchinson. *The Price of Government: Getting the Results We Need in an Age of Permanent Fiscal Crisis*. New York: Basic Books, 2004.

On ICMA’s Web Site

See <http://bookstore.icma.org/freedocs/43043> for a prototype results-team charter and a sample guide to moderating a focus group of regular citizens.

Other Web Sites

Washington (State) Office of Financial Management:
www.ofm.wa.gov/

City of Spokane, Wash.: www.spokanecity.org

Snohomish County, Wash.: www.co.snohomish.wa.us/

Public Strategies Group, Inc.: www.psg.us

APPENDIX A: ROLES OF TEAMS AND ELECTED OFFICIALS

Compared with the traditional cost-based approach, budgeting for outcomes involves different people in different roles over a different schedule. Chief executives and elected officials, too, have different roles to play.

Teams

Five kinds of teams are key to making budgeting for outcomes successful.

Guidance team. The role of the guidance team is to guide the overall process to ensure that purchasing choices deliver the results that matter most to citizens for the price. Guidance teams include eight to ten citizens who provide advice or feedback, generally to the chief executive, on key components of the budgeting-for-outcomes process (i.e., the price of government, citizen priorities, allocation of resources to individual priorities, and purchasing plans).

Results teams. The purpose of the results teams is to recommend how funds allocated to the particular priority outcome should be used to produce the intended results. Results teams develop cause-and-effect theories, identifying the factors that contribute most to producing the desired result. From a factor map that diagrams these theories, results teams develop their purchasing plans. Purchasing plans describe the jurisdiction's procurement intentions to achieve a result (i.e., the types of programs and services the team would like the jurisdiction to buy, given the cause-effect theory, in order to produce the desired result). Each results team then submits to the chief executive a rank-ordered recommendation of the programs and services it believes are most likely to contribute to the result, while also accounting for mandates, fund limitations, obligations, and other purchasing constraints.

Staff team. The role of the staff team is to support the guidance and results teams. This may include providing teams with budget and performance information on current programs, recommending enterprise-wide strategies, supporting the integration of the teams' work into other budget development activities, and providing facilitation or logistical support to the teams. Staff teams typically include members of the budget and finance staff.

Communication team. The role of the communication team is to support internal and external communication

of the budgeting-for-outcomes effort by providing both citizens and employees with opportunities to give input and receive feedback.

Consulting team. The purpose of a consulting team is to shape the process to fit the specific needs of the jurisdiction and then to provide overall guidance, training, and feedback to each team in the development of its specific deliverables. A consulting team can provide valuable insights on the challenges involved at each step of the process, in addition to thinking through implications for budget management after a budget has been developed through the budgeting-for-outcomes process.

Chief Executives and Elected Officials

Budgeting for outcomes also requires different roles for chief executives and elected officials.

Mayors and chief executives retain their traditional role of making ultimate decisions on what to include in the budget they propose to their councils or commissions. Given the significant degree of departure from traditional budgeting processes, elected officials and chief executives will be challenged to support both the process and (in large part) the recommendations of the results teams. Experience has shown that employees feel undercut, and challenge the credibility of the process, if their strategy development and purchasing plans see limited use in the recommended budget. It is essential at the front end that the top elected leader confirm his or her intention to follow the recommendations that emerge from the process—and then do so.

The elected councils or commissions, when faced with a budget developed through this process, should take a hard look at the cause-and-effect theories and the purchasing strategies that result from them to see if they (the elected officials) fundamentally agree with them (the theories and strategies). If they do, they should similarly scrutinize program rankings to decide if the programs chosen are truly the ones most likely to achieve the results desired. In the ideal world they would then engage with the mayor or chief executive in a rich discussion of results, strategies, and programs, a discussion that would include suggestions that certain programs should go above the funding line with a corresponding movement of other programs to below the line.

APPENDIX B: SAMPLE PROCESS SCHEDULE FOR IMPLEMENTING BUDGETING FOR OUTCOMES

Week	Element
	1. Develop budget road map and communications effort to guide the work
	2. Conduct citizen listening sessions about the price, priorities, indicators, and performance of government
	3. Engage other elected officials and other jurisdictions if possible
	4. Create guidance team
	5. Define initial price, priorities (results), indicators, and allocations
	6. Define enterprise-wide strategies to be pursued in support of delivering the most outcomes within the revenue
	7. Adapt the budget system to accommodate and support budgeting for outcomes
	8. Develop internal consulting resource to support results teams and departments (staff team)
	9. Have departments prepare initial results and price data on programs and activities
	10. Create results teams, one for each result (the buyers)
	11. For each priority, define the result target, diagram factors in the cause-effect relationship for each result, create a purchase plan and a purchasing RFR
	12. Have agencies prepare proposals in response to the results team RFRs (the sellers)
	13. Have buyers make initial ranking and buying decisions
	14. Have sellers (departments) submit revised proposals
	15. Have buyers create second set of rankings and buying decisions
	16. Have buyers share draft decisions, considering intra-result effects
	17. Have buyers submit purchasing recommendations
	18. Have staff team review purchasing recommendations and forward to the executive
	19. Develop initial budget and budget message
	20. Communication
	21. Perform follow-on implementation
	22. Gather evaluation and feedback to improve next budget process

APPENDIX C: CALCULATING THE PRICE OF GOVERNMENT

Through taxes, fees, and charges, governments use economic resources to provide services for citizens. Those taxes, fees, and charges constitute the price of government (POG). Since they are paid out of the economic resources of the community (its income), we can express the price as a ratio: the sum of taxes, fees, and charges divided by the total income of the community. The price represents the number of cents out of every dollar in the community that are committed to paying for government services:

$$\text{POG} = (\text{taxes} + \text{fees} + \text{charges}) / \text{community income}$$

Measuring the price of government allows us to track the burden of government on the economy. It also reminds us that the price can go up or down in two ways: first, government revenues can increase or decrease. This has been the traditional focus. The second way in which the price of government can change is by the local economy's growing or shrinking. The connection between the health of the local economy and the price of government is crucial to reminding government managers and citizens alike that they have a common stake in making the economy as robust as possible.

This appendix examines three aspects of the price of government: its components, its calculation, and ways of using it.

State and Local Personal Income Data

The data for the aggregate personal income of a state, region, and county can be found on the Web page of the Bureau of Economic Analysis (<http://www.bea.doc.gov/bea/regional/reis/>). Personal income summaries are found in section CAI-3.

Information on personal income is not available for cities, school districts, or other local jurisdictions. For these jurisdictions, money income will be a better measure. Money income can be calculated from per capita income and population, both of which can be obtained from the U.S. Census Bureau. When per capita income and population are multiplied, they produce aggregate money income. Per capita income is available only every ten years (through the census). Population estimates are available more often.

State and Local Revenue Data

For calculating the price of government, all revenues collected by the jurisdiction and used to deliver services should be included. Revenue means all revenues to all funds except for intergovernmental revenues, interfund revenues, and bond proceeds used for capital purposes.

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The range of funds managed by jurisdictions can be quite extensive, for it reflects the diversity of a jurisdiction's services and enterprises. On the one hand this diversity makes it hard to compare jurisdictions directly. On the other hand the full range of services and the price for them reflect the unique choices made by each jurisdiction.

For comparisons over time, it is best to review historical information going back at least ten years in order to take several economic cycles into account.

The first step in calculating revenues is to determine what revenues to include and what to exclude (see above).

Included should be

- Property taxes
- Other taxes (including local option)
- Licenses, fees, and service charges
- Fines
- Sale and lease of property
- Other operating revenue
- Interest.

Excluded should be

- Intergovernmental revenue/transfers
- Interfund transfers
- Debt proceeds.

The Calculation

As noted above, one calculates the price of government by dividing the jurisdiction's revenues (minus intergovernmental revenues, interfund transfers, and debt proceeds) by its aggregate personal income. For individual cities or school districts, the revenue should be divided by the aggregate money income. For overlapping jurisdictions (e.g., all the cities and schools within a county), the revenues should be divided by the personal income or the money income of the larger jurisdiction.

The numbers used in the calculation should all be expressed in the same scale (e.g., \$ millions) so that the resulting decimal is interpreted as cents per dollar (e.g., .012 = 1.2 cents per dollar of personal income).

Ways to Use the Price of Government

The price of government in a jurisdiction reflects the unique choices made about what services to provide, how to provide them, and how much to pay for them. There is substantial variation in the prices that governments have chosen (see Appendix D). In each case the price reflects the jurisdiction's choices about what is adequate, affordable, and competitive.

A jurisdiction can develop a target price of government for itself that it can use to project revenues and program expenditures based on:

- The price of government in the jurisdiction over time (this will show trends and the community's norm)
- The price in other jurisdictions of similar size (this will show how other jurisdictions have weighed adequacy, affordability, and competitiveness in choosing their government services)
- The price in overlapping jurisdictions—those that draw their revenue from the same community, that is, all the governments in a county, region, or state (this will show the price of one jurisdiction in the context of the total price for government paid by the community and of the trends in the relative shares taken by each of the jurisdictions).

However, it cannot be stressed enough that care is needed when comparisons are being made. One price is not better or worse. Prices are different mostly because of the choices being made about adequacy, affordability, and competitiveness.

APPENDIX D: PRICE OF GOVERNMENT IN ALL STATES, SELECTED CITIES, SELECTED COUNTIES, AND SELECTED CITY-COUNTY COMBINATIONS

Price of Government in the 50 States

State Price of government 2000—Cents/dollar of personal income (Own source general revenue/aggregate personal income)

Alabama 15.1	Indiana 14.9	Nevada 13.9	Tennessee 12.3
Alaska 40.6	Iowa 15.8	New Hampshire 11.4	Texas 13.1
Arizona 14.0	Kansas 14.8	New Jersey 13.7	Utah 17.2
Arkansas 14.9	Kentucky 15.1	New Mexico 19.3	Vermont 15.5
California 15.4	Louisiana 16.7	New York 17.2	Virginia 13.7
Colorado 13.8	Maine 17.7	North Carolina 14.7	Washington 14.8
Connecticut 13.7	Maryland 13.5	North Dakota 17.4	West Virginia 16.6
Delaware 17.9	Massachusetts 13.2	Ohio 15.0	Wisconsin 16.7
District of Columbia 17.4	Michigan 15.7	Oklahoma 15.1	Wyoming 19.3
Florida 14.1	Minnesota 16.5	Oregon 16.5	All States 14.9
Georgia 14.1	Mississippi 16.9	Pennsylvania 14.3	
Hawaii 16.9	Missouri 13.2	Rhode Island 14.8	Sources: U.S. Bureau of the Census;
Idaho 15.8	Montana 17.1	South Carolina 15.8	U.S. Bureau of Economic Analysis
Illinois 13.3	Nebraska 15.4	South Dakota 13.4	

Price of Government in the 50 Largest Cities

City Price of government 2000—Cents/dollar of money income (Own source general revenue/aggregate money income)

Albuquerque 4.4	Dallas 5.9	Minneapolis 6.1	Seattle 5.7
Anaheim 4.7	Detroit 10.8 ^a	New Orleans 7.2 ^b	St. Louis 11.6 ^b
Arlington, TX 2.8	El Paso 4.4	Oakland 8.7	Tampa 5.8
Atlanta 9.4	Fort Worth 4.8	Oklahoma City 5.6	Toledo 4.9
Austin 4.4	Fresno 4.5	Omaha 3.3	Tucson 4.4
Baltimore 9.1 ^{a,b}	Houston 4.6	Phoenix 4.6	Tulsa 6.5
Boston 9.0 ^{a,b}	Kansas City, MO 8.4	Pittsburgh 5.7	Virginia Beach 6.8 ^a
Buffalo 4.9 ^a	Las Vegas 2.8	Portland 5.2	Wichita 3.1
Charlotte 4.6	Long Beach 7.9	Sacramento 5.9	
Chicago 5.7	Los Angeles 5.9	Saint Paul 5.2	Source: U.S. Bureau of the Census
Cincinnati 8.6	Memphis 4.0	San Antonio 3.8	a includes schools
Cleveland 10.3	Mesa 3.0	San Diego 5.4	b includes county functions
Colorado Springs 6.2	Miami 6.7	San Jose 4.3	
Columbus 5.3	Milwaukee 3.6	Santa Ana, CA 5.0	

Price of Government in the 50 Largest Counties

County Price of government 2000—Cents/dollar of personal income (Own source general revenue/aggregate personal income)

Alameda County, CA 1.2	Fairfax County, VA 4.3 ^a	Montgomery County, MD 6.2 ^a	Santa Clara County, CA 1.0
Allegheny County, PA 1.1	Franklin County, OH 1.3	Nassau County, NY 3.0	Shelby County, TN 3.9 ^a
Baltimore County, MD 5.2 ^a	Fresno County, CA 1.7	Oakland County, MI 0.5	St. Louis County, MO 1.1
Bergen County, NJ 0.9	Fulton County, GA 2.6	Orange County, CA 1.2	Suffolk County, NY 2.7
Bexar County, TX 1.6	Hamilton County, OH 2.1	Orange County, FL 3.6	Tarrant County, TX 1.2
Broward County, FL 2.7	Harris County, TX 1.3	Palm Beach County, FL 2.1	Travis County, TX 1.0
Clark County, NV 4.1	Hennepin County, MN 1.6	Pima County, AZ 2.0	Wayne County, MI 1.5
Contra Costa County, CA 1.8	Hillsborough County, FL 3.6	Pinellas County, FL 2.1	Westchester County, NY 2.8
Cook County, IL 1.0	King County, WA 1.6	Prince George's County, MD 5.5 ^a	
Cuyahoga County, OH 1.9	Los Angeles County, CA 1.8	Riverside County, CA 0.7	Sources: U.S. Bureau of the Census;
Dallas County, TX 1.2	Macomb County, MI 0.8	Sacramento County, CA 2.4	U.S. Bureau of Economic Analysis
DuPage County, IL 0.7	Maricopa County, AZ 1.0	Salt Lake County, UT 1.6	a Includes schools.
Erie County, NY 3.9	Miami-Dade County, FL 6.1	San Bernadino County, CA 1.9	
Essex County, NJ 1.2	Milwaukee County, WI 1.7	San Diego County, CA 0.7	

Price of Government in the Largest Combined City-County Governments

City-County Price of government 2000—Cents/dollar of personal income (Own source general revenue/aggregate personal income)

Anchorage 5.3	Indianapolis 4.4	New York 9.8	Sources: U.S. Bureau of the Census;
Denver 6.7	Jacksonville/Duval 4.1	Philadelphia 6.8	U.S. Bureau of Economic Analysis
Honolulu 3.2	Nashville/Davidson 5.9	San Francisco 6.5	

**APPENDIX E: REPRODUCTION OF ELECTRONIC PROPOSAL SUBMISSION FORM—
SPOKANE, WASHINGTON**

Priority: [pull-down menu] _____

Lead department name: [pull-down menu] _____

Bid name: _____

Bid type: [pull-down choices = Basic, Enhancement, New Stand-Alone] _____

Linked to: [pull-down shows up if Enhancement is chosen as the Bid Type, with Basic Bids shown as choices] _____

Executive summary (limited to 50 words or less): _____

Bid description (activities to be performed; other departments collaborating [if relevant]): _____

Bid justification (how bid contributes to priority; evidence of capability to deliver): _____

Performance measures (1–3 measures that indicate the quantifiable results citizens should expect from this program): _____

Other factors:

 Legal/contractual mandate (if yes, specify the source and nature of the mandate

 Competing bid (if yes, specify name of department you are competing with and the name of its relevant bid)

Bid Expenditures and Revenue Impacts

Bid expenditures	2004 Actual		2004 Actual	
	GF	Non-GF	GF	Non-GF
Total expenditures	\$	\$	\$	\$
Direct personnel & benefits	\$	\$	\$	\$
Administrative personnel & benefits	\$	\$	\$	\$
Internal service charges allocated to bid	\$	\$	\$	\$
Other costs allocated to bid	\$	\$	\$	\$
No. of FTEs (direct & administrative total)	\$	\$	\$	\$
Explanation of expenditures (if needed)				

Revenue impacts	2004 Actual	2004 Actual
Total revenue to city generated by this program	\$	\$
Revenue to the general fund	\$	\$
Revenue to other city funds	\$	\$
Explanation of revenue (source, key conditions, or constraints)		

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