

Budgeting for Outcomes

Getting Citizens the Results They Want at a Price They are Willing to Pay

Peter Hutchinson
The Public Strategies Group
325 Cedar St., Suite 710
St. Paul, MN 55101
(651)227-9774; (978) 768 3244
www.PSG.us

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Overview

- I. The Problem: Government is Broke
(permanently) and Broken (currently)
- II. Budgeting for Outcomes
Get more results from the budget or keep losing
Set the price and buy results, NOT costs
- III. Success is Possible
- IV. Road to Transformation

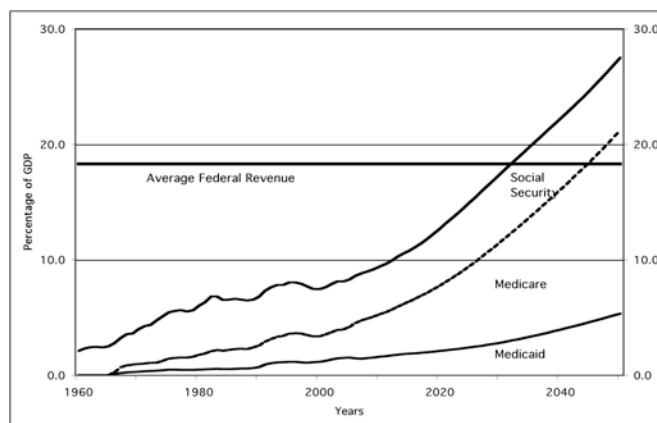
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I. The Problem

- ◆ Government is **broke!** And it's going to stay that way.
- ◆ Good management = balancing the budget by solving the math problem.
- ◆ Leadership = improving service to citizens while balancing the budget, by solving the value-for-money challenge.

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Federal Government is Broke Cumulative Percentage of GDP

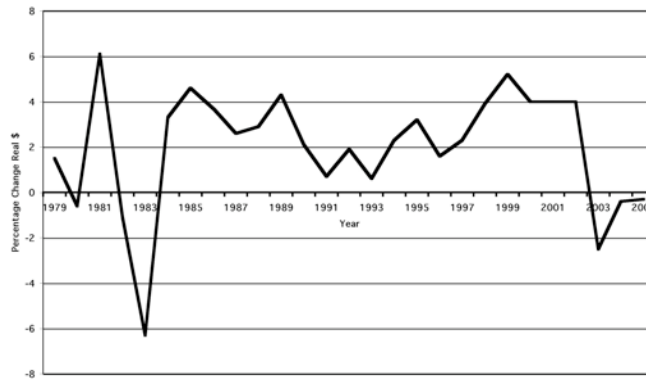


Source: Congressional Budget Office, Dec. 2003

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State Government is Broke

Percentage Change in General Fund, Real \$

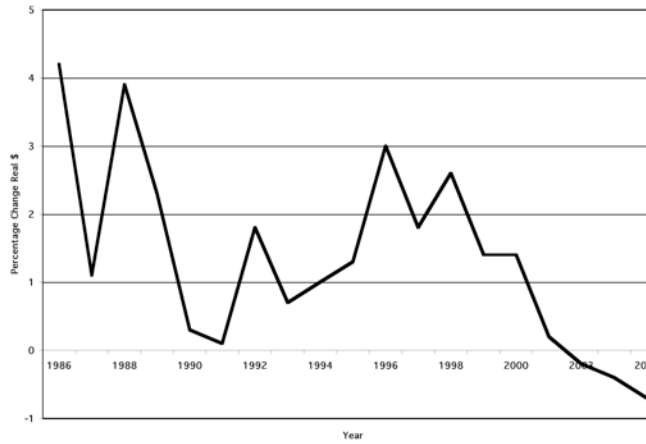


Source: NGA, NASBO April 2004

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Cities are Broke

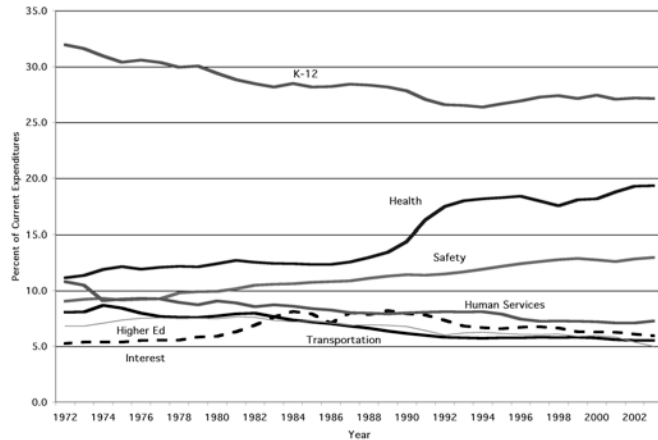
Percentage Change in General Fund, Real \$



Source: National League of Cities, August 2004

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State and Local 'Crowding Out'



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The Permanent Fiscal Crisis

A Public Finance "Perfect Storm:"

- ◆ Increased costs to educate, incarcerate, and MEDICATE
- ◆ Increased pension obligations as population ages
- ◆ Rising debt and debt service
- ◆ An obsolete revenue system
- ◆ Resistance to tax increases

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Government is Broken

- ◆ Government is losing the competition for public support - Public is cynical
- ◆ People believe government wants taxes to pay its costs (because it's broke)
- ◆ Citizens pay taxes and want results
- ◆ Government will win ONLY if it delivers the results citizens want at the price they are willing to pay

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II. Get more results from the budget...or keep losing

Insanity is doing the same thing over and over again - and expecting a different result.

-- Albert Einstein

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First - Get a Grip The Essential 5 X 5 Budget

	2005	2006	2007	2008	2009
Beginning Reserves					
Revenues					
Expenses					
Balance or Deficit	????	????	????	????	????
Ending Reserves					

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The Old Budget Game

Core question: How much will it cost to keep doing what you've been doing, in the way you've always done it, with the results you've always gotten?

Core answer: More
 Inflation
 Case loads
 Complexity

Result: Budget by cuts = Status Quo but Less

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Stop The Old Budget Game

- ◆ Play hide and go seek - SPAM in a Can
- ◆ All cuts, all blame, all the time

To Avoid Blame

- ◆ Steal funds from other accounts
- ◆ Lie in accounting for spending/ revenue
- ◆ Borrow - pay tomorrow for today's costs
- ◆ Use reserves/ sell off assets
- ◆ Make something up
- ◆ 'Thin the soup' across the board

A Game for Losers!

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Change the Game - Change the Questions

1. How much revenue - what is the price of government that our citizens will pay?
2. What results matter most to our citizens - what are the priorities of government we will deliver to citizens?
3. How much should we spend to achieve each result?
4. How can we BEST deliver the results that citizens expect?

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Change the Game

- ◆ Treat department budget submissions as offers to deliver results at a price
- ◆ Measure each offer against results important to citizens - Priorities of Government
- ◆ "Buy" those offers that contribute most to the key results - leave the rest
- ◆ BUDGET = the most result for the money

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Budgeting for Outcomes

States

- ◆ Washington
- ◆ Iowa
- ◆ South Carolina
- ◆ Oregon
- ◆ Michigan

Counties

- ◆ Snohomish, WA
- ◆ Multnomah, OR

Cities

- ◆ Azusa, CA
- ◆ Los Angeles, CA
- ◆ Spokane, WA

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Steps in Budgeting For Outcomes

1. Set the Price of Government
2. Establish Priorities of Government (Results)
3. Set the Price of Each Priority
4. Buying Teams: plan to purchase what works/matters most - issue Request for Results
5. Sellers - respond to Requests for Results - compete to deliver the most for the money
6. Budget buys results that deliver what citizens want at the price they are willing to pay

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Setting the Price of Government

Definition:

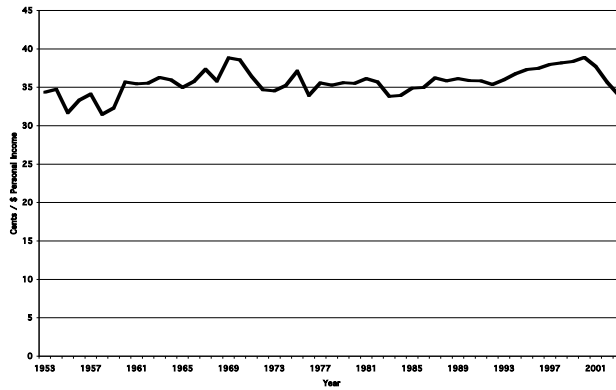
ALL taxes, fees and charges paid by citizens for government services, including all funds

...as a Percentage of Aggregate Personal Income

Price = Cents/\$ Personal Income for Government

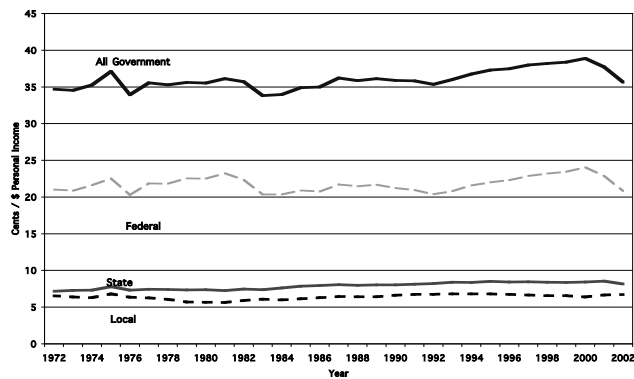
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US Price of Government All Governments, 1953-2003



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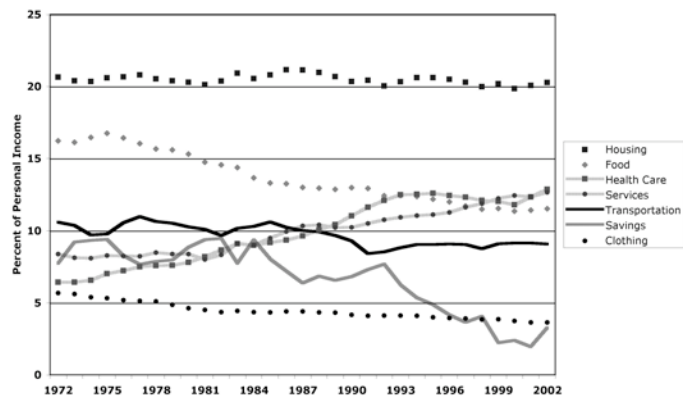
Price of Government By Level 1972-2002



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Govt's Price Competition

The Price of . . .
% Use of Personal Income



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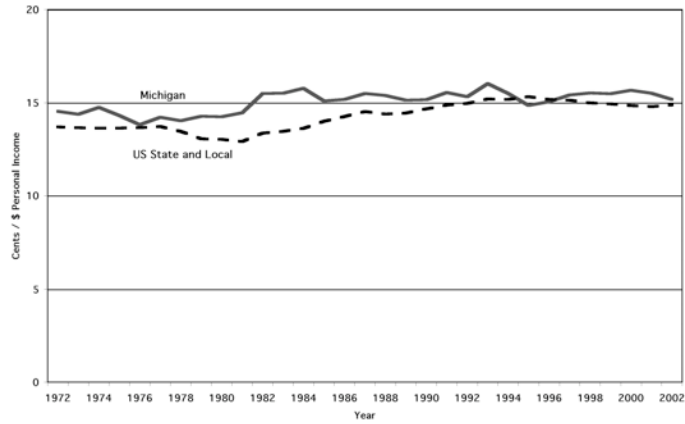
Setting the Price of Government

- ◆ It's a **choice**
- ◆ Set the price so that it is acceptable, adequate and competitive.

What's the right price for your government?

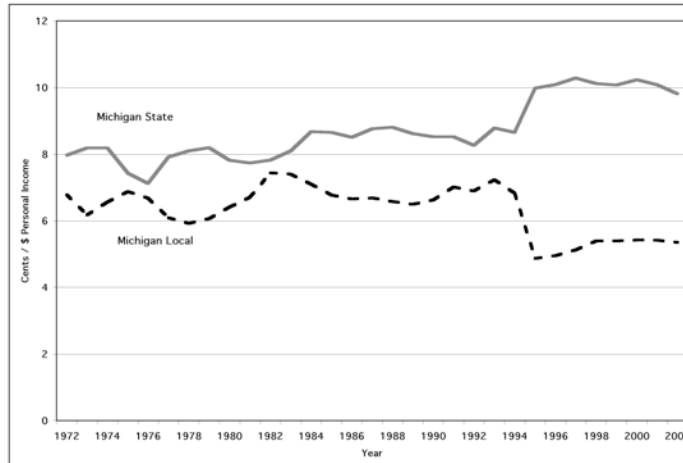
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MI Price of Government



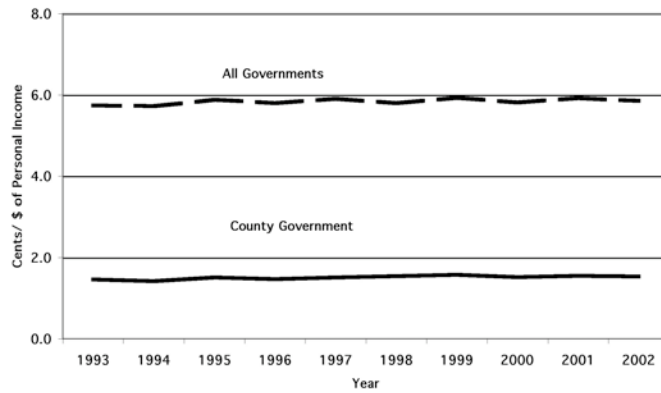
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MI State vs. Local Government



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Snohomish County Price of Government



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Spokane Price of Government



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Priorities of Government

- ◆ Results that matter most to citizens
- ◆ Not costs, activities, programs, organizations
- ◆ Specific indicators/ measures of success - otherwise they are just good intentions

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Snohomish Priorities of Government

Results - I want ...	Indicators
Reasonable and predictable travel times.	
To feel safe where I live work and play.	
Kids to pass state school achievement test.	
To improve health and reduce vulnerability.	
To live in a thriving community.	
My community to be prepared for emergencies.	
Effective, efficient, transparent government.	

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Spokane Priorities of Government

Results - I want ...	Indicators
The opportunity to learn and grow.	
The opportunity to lead a healthy life.	
Clean air, water, land with healthy parks.	
Strong, responsive leadership that gets results.	
To get where I want to go safe and on time.	
To reduce vulnerability of citizens at risk.	
To feel safe and secure.	
A healthy and growing economy.	

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Priorities of Government Results + Indicators

- | | |
|--|--|
| <ul style="list-style-type: none"> ◆ Educated students ◆ Successful workers ◆ Vital economy ◆ Safety/ security ◆ Healthy citizens ◆ Protect the vulnerable | <ul style="list-style-type: none"> ◆ Reliable mobility ◆ Quality natural resources ◆ Cultural/ recreational opportunities ◆ Efficient and effective government |
|--|--|

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Pricing the Priorities

- ◆ How much are they each worth - not how much do they cost
- ◆ It's judgment, not science

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Spokane Pricing its Priorities

Results - I want ...	Citizens Web Price
To get where I want to go safe and on time.	20%
To feel safe and secure.	20%
The opportunity to learn and grow.	12%
Clean air, water, land with healthy parks.	11%
A healthy and growing economy.	10%
The opportunity to lead a healthy life.	10%
To reduce vulnerability of citizens at risk.	8%
Strong, responsive leadership that gets results.	5%

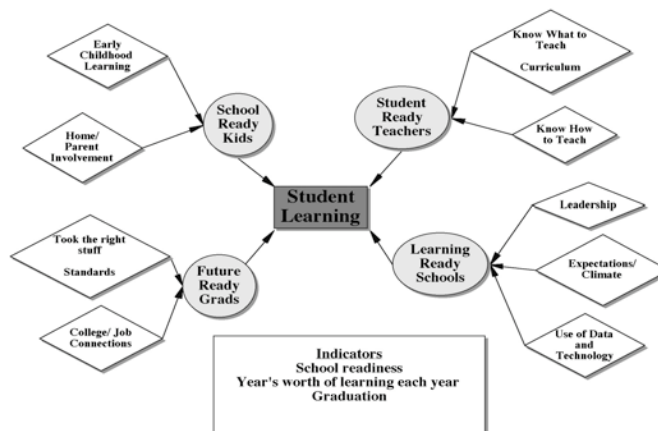
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Purchase Plan to Deliver Priorities at the Price

- ◆ Buyers: Teams as Buying agents for citizens
- ◆ Issue RFR - Request for Results - to sellers
 - Results map - what causes the result?
 - Purchase strategy - what matters most?
- ◆ Sellers : Departments, and perhaps others - offer to deliver results at a price
- ◆ Buyers: Rank offers by results/money, buy from the top - stop when the money's gone
- ◆ Budget = performance agreements with sellers

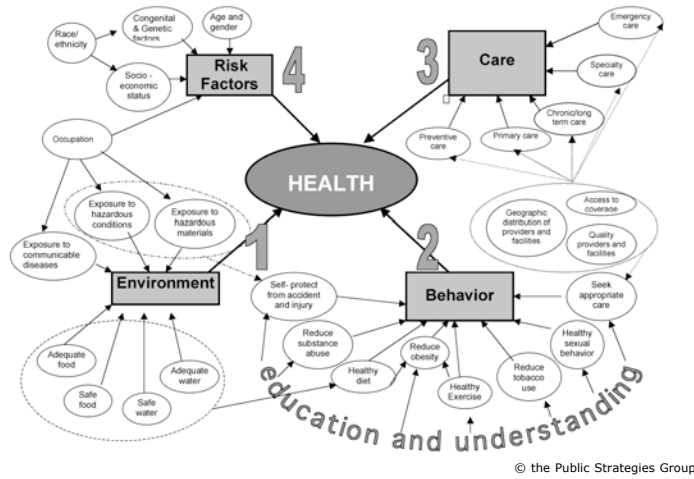
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Results Map for Learning

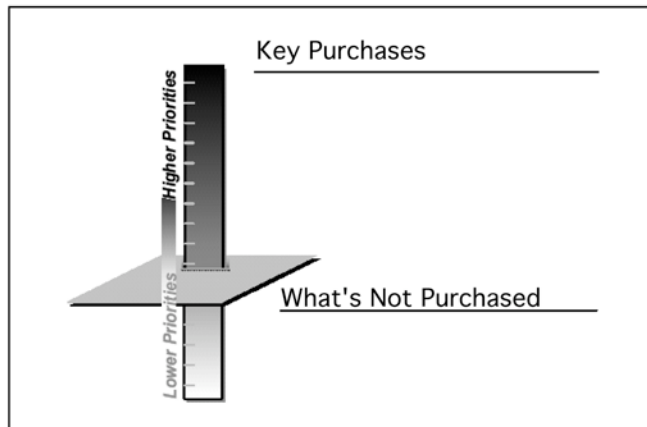


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Results Map for Health



Purchases - Keep the Best



Spokane Buying - Learn and Grow

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

After Budget Passes: Buyers Negotiate Performance Agreements/Contracts with Sellers

- ◆ Flexible Performance Agreements with own-government agencies
- ◆ Performance contracts with other government agencies, corporations, and non-profit organizations

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Final Result

- ◆ Balanced budget
- ◆ Focus on the 'keeps' not the 'cuts'
- ◆ Buy results not costs
- ◆ General interest trumps special interests
- ◆ Performance accountability
- ◆ Continuous reform/improvement
- ◆ "Makes sense" communications

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A Better Deal between Citizens and their Government(s)

- ◆ Deliver the results they value most at the price they are willing to pay.
- ◆ Budget = most value for the money.

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A Better Deal between Citizens and their Government(s)

- ◆ Better deal with their own citizens
 - Better results for their money

- ◆ Better deal between the state and local
 - More accountability for more flexibility

- ◆ Better deal among local governments serving the same citizens
 - It's all 'government' to them
 - Align governments to deliver results as 'one enterprise'

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III. Success is Possible

“The impossible task of cutting \$2 billion from state spending has been made possible....

“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 11/18/02

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III. Success is Possible

"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 about the budget than they've ever known before. That is a very healthy process."

--Spokane Inlander 7/29/04

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III. Success is Possible

"Priority-based budgeting is a dramatically new way of doing things, and doing it right promises to save the county millions in the long run."

--Everett Herald Editorial 4/28/04

"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 10/5/04 Letter to Editor from Guidance Team Member and recent County Executive political opponent

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IV. Summary: Road to Transformation

- ◆ Fiscal problems are not going away
- ◆ Change the budget game--or stay broke and broken
- ◆ Budget for Outcomes
 1. Set the price of government
 2. Define the priorities--results that matter most to citizens
 3. Set the price of each priority result
 4. Plan to purchase what works/matters most
 5. Make sellers compete to deliver value for money
 6. Buy results that deliver what citizens want at the price they are willing to pay

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IV. Transformation: Budgeting for Outcomes leads to organizations that...

- ◆ Focus on their core purpose and priorities
- ◆ Are accountable to their customers for results and price
- ◆ Experience their performance as consequential
- ◆ Use control as a tool not a weapon
- ◆ Operate in a culture of performance not bureaucracy

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Leadership for a Change

What is a Leader?

“A leader is someone who goes out and changes things to makes things better.”

Minneapolis 4th Grade Student

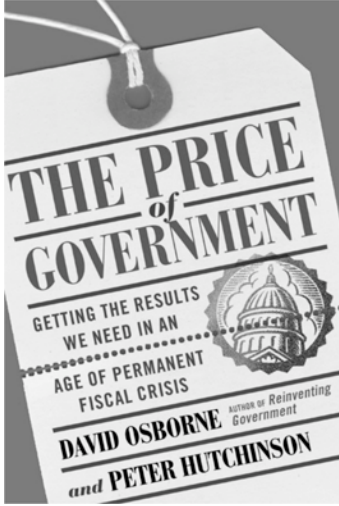
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The Bottom Line

When you're riding a dead horse,
the best strategy is to dismount.

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There's More ...



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