



The Spread of Budgeting For Outcomes

With the paperback edition of [The Price of Government](#) just out, it's a good time for an update on Budgeting for Outcomes, the big new idea Peter Hutchinson and I unveiled in our 2004 book.

You may remember that the Public Strategies Group (PSG) developed Budgeting for Outcomes in Washington State, working with Governor Gary Locke and his staff, in the fall of 2002. When we finished the book a year later, Washington was still the only place that had implemented it.



Since then, Washington has been recognized as a finalist for the Harvard's prestigious Innovation in American Government Award and Budgeting for Outcomes has spread to three other states, large departments in two more states, five cities, two counties and two school districts. (If you know of others, let me know.) In rough chronological order, they are:

1. Azusa, California
2. Los Angeles, California
3. South Carolina (the Republican Governor)
4. Snohomish County, Washington
5. Spokane, Washington
6. Iowa (the Democratic Governor)
7. Michigan (the Democratic Governor and the Republican House)
8. Multnomah County, Oregon
9. Fort Collins, Colorado
10. Louisiana's Department of Culture, Recreation and Tourism
11. Jefferson County School District, Colorado
12. Dallas, Texas
13. Oregon's Department of Education
14. Billings School District, Montana

Why is this new approach to budgeting spreading so fast? Because it is the single most powerful tool we have seen to focus everything a government does on the results its citizens want, at a price they're willing to pay.

To put it simply, Budgeting for Outcomes (BFO) asks public leaders to set the price of government, find out what outcomes citizens most value, prioritize their tax dollars to purchase those results, and rethink the way their departments and agencies go about producing them. For a quick review of the steps involved, visit www.psg.us.



BFO gets you a balanced budget without use of the seven deadly deceptions we described in *The Price of Government*. More important, it helps you rethink what you're trying to achieve and whether you're using the most effective methods to achieve it.

When we helped **Iowa** adopt BFO, for instance, the Department of Corrections turned in a very traditional budget request. Cindy Eisenhower, the governor's chief of staff, asked the director: "Is this the best you can do?"

He asked her what she meant.

"Well, is this budget going to give you the Corrections Department of your dreams?"

His eyes widened. "Is that the question?"

"Absolutely."

So Corrections Director Gary Maynard and his staff went to work, developing a budget offer that called for fundamental redesign: more educational and work opportunities for inmates, a focus on restorative justice, an increase in substance abuse treatment programs, and a campaign to reduce recidivism. He promised to deliver a four percent reduction in recidivism and a 10 percent increase in the use of inmate labor on community service projects. The legislature passed the budget and the department went to work.

Iowa Governor Tom Vilsack's office launched a [website](#) designed to explain the new budget process and allow visitors to try their own hand at balancing the state budget. Vilsack's interactive website allows citizens access to the same information used by his office when developing the executive budget. Citizens can read the governor's "requests for results," the "results offers" submitted by state agencies, performance indicators, and even the "cause-and-effect maps" used by the budgeting team to explain the causal links between services, environmental influences and the end results desired by citizens.

Michigan was the first state in which the legislature developed a budget using BFO, rather than simply reacting to the governor's budget. Democratic Governor Jennifer Granholm pursued Budgeting for Outcomes on her own, while the Republican-dominated legislature hired PSG to help develop its own version. Though the Senate initiated the process, the chair of the Senate Appropriations Committee ultimately decided to use a more traditional approach. Meanwhile, the House—led by Appropriations Chair Scott Hummel—fully embraced the BFO approach. They established nine outcomes, assigned each state program to one of the outcomes then had Appropriation Committee members rank the programs with a letter grade (A to F) based on their assessment of how well that program contributed to the assigned outcome. The rankings were submitted anonymously to the non-partisan House Fiscal Agency, which compiled the results into a



consolidated ranking for each outcome. These top-to-bottom rankings were then shared with the entire Appropriations Committee and made available to the media and the public.

Because the Senate did not participate—and because Governor Granholm came to very different conclusions than the more conservative House—the final budget was a more traditional compromise between the three forces than in other states that have used BFO.

Multnomah County, Oregon's largest, faced a huge budget problem when it asked PSG for help last year. On June 30th, 2006, a temporary income tax surcharge put in place to deal with the fiscal crisis will expire and the county will lose \$30 million in revenues. County leaders, already placed on credit watch by Moody's, used budgeting for outcomes to pay down some of their debt, set aside a \$10 million reserve in anticipation of that loss, and correct a general fund structural deficit for fiscal years 2006 and 2007. Moody's was impressed enough to lift the credit watch.

Our PSG colleague Beverly Stein was the elected county executive and chair of the Multnomah County Board of Commissioners during the 1990s. For years she tried to combine a pre-trial supervision program the county ran, to keep tabs on people who had been indicted but were out on bail, with one the sheriff's department ran. Because the sheriff was elected separately, he was always able to fend off her efforts. Using what it dubbed a [Priority Setting Budget process](#), the county was finally able to combine the two programs. It also discovered three different anti-gang initiatives in three different departments, so it created an interdepartmental task force to coordinate their strategies. Because funds were so tight, the county also adopted electronic monitoring for low-risk offenders--using electronic ankle bracelets and global positioning satellite technology to detain them in their homes rather than in jail—thus freeing up jail beds for more dangerous offenders.

Spokane, Washington, is now in its third round of budgeting for outcomes. It began with a crash, six-week effort midway through fiscal 2004, to close an \$11 million hole. The effort has paid off in a bond rating increase from BBB to AA-, saving the city \$200,000 on an initial batch of bonds issued for street improvements. Like Iowa, Spokane has put all of the offers made to provide services in 2006 in an online "Budget Calculator," which allows citizens to try their hands at buying services with the money available.

Leaders in **Jefferson County School District**, Colorado's largest, face a \$6-7 million shortfall. But they chose to use BFO because they also want better results for the dollar. District leaders have launched the most aggressive effort yet to solicit priorities and ideas from their constituents. In each of Jefferson County School District's geographic areas, covering 15-20 schools each, they set up groups that gathered thousands of suggestions and filtered them for the best several hundred. Six work groups, representing different school grades and service functions, then combed these for the most valuable, which are



now being fed into a process to generate budget offers. To learn more about what Jefferson County calls Budgeting for Results, visit their [website](#).

One of my favorite BFO stories comes from **Fort Collins, Colorado**, a city of 135,000 an hour's drive north of Denver. Like many cities, Fort Collins offers Dial-a-Ride service for the elderly and disabled. But all offers made through BFO must include performance data, and when Dial-a-Ride's offer came in the numbers indicated that at night, when demand for the service was low, the average cost for one ride was \$90. Not surprisingly, the Results Team and City Manager ranked that portion of the offer below the cutoff line, which meant it would not be funded. When the City Council took up the budget, Dial-a-Ride users protested. Predictably, the Council asked City Manager Darin Atteberry if there wasn't some way to save the evening service. His office called a number of taxi companies and negotiated a contract with one for less than \$20 a ride—and evening Dial-a-Ride survived.

Overall, Fort Collins faced a \$5-6 million structural deficit. In preparing offers for the [2006-2007 budget](#), staff were asked to identify activities that they considered obsolete, because they didn't directly address the city's chosen outcome goals. These were put on a "[Stop Doing](#)" list, which precipitated 42 layoffs and the elimination of another 60-odd jobs that were vacant. Atteberry convinced the Council to devote almost three-quarters of the resulting \$6.1 million savings to a pay increase for staff, because he felt that a three-year pay freeze had threatened the city's ability to attract and retain high performers—a good example of how BFO helps leaders shift resources from old to new priorities.

The Benefits of Budgeting for Outcomes

The most obvious benefit is a balanced budget, but perhaps the most important is that BFO pushes leaders to rethink their priorities and managers to rethink the way they deliver services. As in the Dial-a-Ride example, there are often cheaper and better ways to achieve the same results, but normal budget processes don't force managers to look for them. Budgeting for Outcomes does. In addition:

- **It helps them stop doing things.** While the idea of killing off obsolete or low value activities seems like common sense to most of us, it is all too rare in government. BFO is designed to make it *inevitable*. If you stimulate more offers than there are dollars available, the low-value activities have to drop by the wayside.
- **It helps leaders find the money for important new investments.** Everyone in the public sector knows how hard it is to find funding for even the most important new investments. Look at how slowly the federal government has funded new strategies to protect us from terrorism--in our seaports, our airports, and our metropolitan regions, where police, fire, and hazardous materials officers often



can't use their radio systems to communicate across city and county lines. With BFO, if an investment is important, it rises to the top of the list, whether it is old or new. Other spending, which offers less value, falls off the list.

- **It helps the general interest trump the special interests.** In a normal budget process, when a line item comes up for review the interest groups that care about it show up and pound on the legislators involved. When they do so in a BFO process, those legislators are looking not at one line item but at a whole list of spending items to achieve a particular outcome, ranked by priority. The trade-offs involved in any budget become very clear. Typically, legislators ask the interest groups some interesting questions: “What program should we not fund so we can afford yours?” And: “Why do you think your program promises better results for the dollar than that program?”
- **It helps ensure accountability for performance.** If you don't deliver results, you don't get funded. What higher form of accountability is there?
- **It helps leaders talk about the budget in common sense terms.** If you've ever tried to read traditional budget documents, you know that to most of us they're Greek. But anyone can understand a BFO budget. Follow the newspaper trail within BFO jurisdictions and you'll discover just how transparent these budgets are. I'm convinced that's one reason they get such good press: they're the first budgets most reporters have ever been able to decipher.

Like the fiscal crisis, Budgeting for Outcomes is here to stay, because it keeps the focus on what really matters: purchasing the results citizens want at a price they're willing to pay.