

CITY OF OAKLAND
OFFICE OF THE CITY CLERK
OAKLAND

AGENDA REPORT

2011 FEB 10 PM 8:04

TO: Office of the City Administrator
ATTN: Dan Lindheim
FROM: Budget Office
DATE: February 22, 2011

RE: Receive an Informational Report from the Budget Office Regarding
"Performance Based Budgeting," Including How the City may be able to Save
Money by Moving to Such a Model, Experiences of Other Cities that Have
Moved to a Performance Based Budgeting Model and Information of What the
Process Would be to Move the City Towards a Performance Base Budgeting
Model

SUMMARY

As requested by the City Council, staff prepared this informational report to explore the feasibility and process of adopting Performance Based Budgeting (PBB). A review of the research pertaining to the implementation and operation of PBB was conducted to begin assessing the practicality and possible impacts of putting into practice such a model for the City of Oakland.

Since 1993, with the adoption of the Government Performance Results Act (GPRA), the federal government has required states to implement project based PBB. Along that same line, many states and cities have adopted outcome driven budgeting processes. There is consensus throughout the research that measuring programs leads to additional oversight which can, when implemented properly, result in more strategic investments for communities. However, execution is not easy and budgetary savings is not guaranteed. Implementation is time and resource consuming; it also requires broad buy-in among policymakers with regard to process and priorities. Periods of budget cuts and declining revenue present added challenges and federal and state mandates often require continued investment despite uninspiring program performance.

Regardless, there are benefits to shifting towards a more data and outcomes driven budgeting process that make such a process worthy of consideration. Developing a city-wide strategic plan that aligns the needs of residents and businesses with departments and establishes the framework for guiding budget principles would be highly beneficial. Creating and refining existing outcomes and measurements for each priority program will allow for additional structure and more incisive analysis to inform budget decisions.

FISCAL IMPACT

This report is informational only; no fiscal impacts are included.

Item:
Finance and Management Committee
February 22, 2011

BACKGROUND

Brief History

A PBB differs from a traditional line item budget in that it displays expenditures by program outcomes rather than by the type of expense. This has the effect of shifting attention from the cost of specific types of expenditures (e.g. retirement, benefits, operations, etc.) to the costs of providing specific public services. Program outcomes and measurements are developed to gauge the effectiveness of the programs and to inform budgetary decisions. As a result, investments and cuts to programs are directly tied to service outcomes. This is distinct from performance management where the budget is still displayed as a line item and performance outcome data is used as management tool to understand departmental performance and may or may not be used to inform budget appropriation decisions.

PBB came to the forefront of public policy discussions in the early 1990's with the Government Performance Results Act of 1993 (GPRA). The Act, one of a series of laws, was designed to improve government project management by identifying areas of current and future efficiency. Since then, the Bush-Cheney Administration in 2000 and the Obama-Biden Administration have maintained outcome based budgeting as a component of the federal budgeting process. Many states and local governments, though the exact number is unclear as lots of variations on performance/outcomes based budgeting exist, have also adopted some form of PBB. The Reason Foundation, in a March 2010 report entitled "The Next California Budget: Buying Results Citizens Want a Price They Are Willing to Pay" identified five states, six counties, ten cities and two school districts nationally that are using a performance based, or budgeting for outcomes, model.^{1, 2} Locally, Sunnyvale gained national recognition decades ago for their work in this area and more recently the City of Concord has adopted a PBB process. Each city moved in this budgetary direction with an eye towards measuring and monitoring performance to improve service delivery results while reducing overall expenditures.

Implementation

Implementation of a PBB process requires upfront "buy in" by all local leaders. The determination of the priorities of the government, i.e. the outcomes that matter the most for local constituents, is critical. These are usually established through the development of a city-wide strategic plan that incorporates citizen and business needs and expectations, as well as departmental goals. The Plan becomes the frame for establishing guiding budgetary principles and identifying priority programs. Outcomes and performance indicators are determined for each program. In addition, city policymakers come to an agreement regarding the funds available to "purchase services" on behalf of residents. A unit cost analysis lays the foundation for

¹ States: Washington, Iowa, South Carolina, Michigan, Louisiana; Counties: Snohomish, WA, Multnomah, OR, Mesa County, CO, Folk County, FL, Larimer County, CO, Coconino County, AZ; Cities: Azusa, CA, Spokane, WA, Dallas, TX, Ft. Collins, CO, Northglenn, CO, Redmond, WA, Eugene, OR, Savannah, GA, Baltimore, MD, Tacoma Metro Parks, WA; School Districts: Jefferson County, CO, Billings, MT.

² The Urban Institute in the April 2001 report entitled, "Making Results Based State Government Work" reported 22 states as incorporating performance information in the state budgeting process.

hem: _____

Finance & Management Committee
February 22, 2010

determining the expense of each program and provides the ability to compare one program to another financially.

In alignment with the strategic plan and guiding budgetary principles, the costs, outcomes and performance measures then become the evaluation tools used to assess 1) the amount of resources currently used to meet priority program needs, 2) identify in/efficiencies and 3) determine the level of investment for the subsequent budget cycle(s). Regular dissemination and review of management reports that provide program outcome and expense data throughout the fiscal year is necessary to ensure proper management and understanding of programmatic trends.

Though implementation and ongoing operations can be established within the confines of a restricted budget, and savings from long-term efficiencies may be achieved, there is no avoiding upfront and ongoing operational costs. Implementation of PBB requires an investment of time, staff resources and technology. A significant amount of planning, which may include constituent focus groups or surveys, policymaker meetings and writing has to occur, as well as the staffing of ongoing analyses, reporting and oversight. In addition, the development of and/or expansion of existing database resources are also needed.

Considerations

As a whole, the available literature points favorably in the direction of adopting PBB. There are a substantial number of policy papers promoting its merits and outlining implementation steps. Many PBB related-reports speak to the likelihood of achieving improved service delivery results by adopting a measured management approach: intentionally aligning budget priorities with program and measuring performance and cost outcomes.

However, implementation and sustained practice are a challenge and staff was not able to locate evaluations regarding achieved efficiencies, cost benefit analyses of adopting such a process, or an assessment of programmatic impacts.³ Many state and local governments report on performance measures through a performance management process, but that data isn't used to inform or influence the budget. Others have adopted PBB to only change course during the recent budget shortfalls and modify their approach.⁴ Decisions and consensus simply become harder to achieve, even with guiding principles, during times of deficits. Fewer resources make the stakes higher and the impacts of cuts more pronounced. Tough political choices can lead some localities to continue to make investments in programmatic efforts despite lack luster data. In addition, budget decisions can be very constrained; for example, federal and state mandates often require continued funding, even for underperforming programs.

The given considerations underscore the need for broad buy-in and a well thought out approach when adopting PBB. If there is derision among policymakers when implementing the process,

³ The closest practitioner examination was located on the International City/County Management Association website in the Performance Based Budget section. A handful of policymakers discussed both their interests and frustrations with this topic. ICMA: http://transformgov.org/en/knowledge_network/questions/question/20175

⁴ ICMA site comments indicate Washington State may be revisiting performance based budgeting; Mississippi and Nevada are debating adopting the approach.
<http://www.clarionledger.com/article/20110130/NEWS/101300363/State-budget-overhaul-likely-to-die-in-House> ,
<http://www.elynews.com/articles/2011/01/21/news/news14.txt>.

e.g. budget principles, priority programs and outcomes, it will likely make the discussions and ultimately the decision making around resource allocation less effectual and the required upfront investment needed to adopt such a process a waste of resources.

KEY ISSUES AND IMPACTS

There are benefits that could be realized by adopting a budgeting process that is more data driven and closely aligned with program outcomes. Such a process could reveal areas of potential cost savings and identify programs where increased investment would likely bring greater benefits to Oakland residents.

An alternative to PBB, and perhaps a more realistic approach for Oakland, would be performance based management. This process would still provide City leadership the opportunity to refine existing budgeting principles, align program outcomes with constituent needs and identify priority areas. The outcome data could be used to inform budget decisions, as well as provide insight into management and create a culture of increased responsibility for the service outcomes. Several departments have embarked on developing a more outcome based management approach. For example, Oakland's Police Department strategic plan could be incorporated into the planning process for a more data driven budgeting approach. Leveraging existing work as much as possible will provide buy in and make the implementation more cost and time efficient.

The adoption of any new process or modification of the City's current approach to budgeting will require the consideration of a number of key issues:

1. Consider size. Oakland has a large and fairly complex budget, with active civic and business involvement. Other cities where PBB has realized some notoriety are less complicated. Sunnyvale, for example, is a third of the size of Oakland with different public demands on resources. Starting small might be an option. Begin with departments that have the most developed outcome and strategic planning process and phase in other programs in future years.
2. Achieve consensus. PBB, or an outcomes based budgeting process, requires broad consensus among policy makers. The analysis of the data and declining revenue will inevitably lead to difficult discussions and full participation is the only way to make the process effective.
3. Calculate the true cost of implementation. Long-term cost savings estimates are not easily and reliably calculated. Upfront investment in technology and staff will be needed. A cost benefit analysis should be completed to ensure the perceived change will truly lead to a meaningful transformation.
4. Develop a strategic approach. Given the size of the budget and number of services delivered, the process of building consensus and limiting priorities to a realistic workable number is essential. Effectiveness of the process will plummet as priorities and measurements become too unwieldy.

Item: _____

5. **Identify accurate measurements.** Decisions regarding appropriate measures and realistic timeframes for programmatic improvement will need to be created. Measures should be focused on achieving efficiencies and improving services. Undoubtedly redirecting resources, even those agreed to as priority areas, will be challenging during budget reductions. Redirection of resources for shrinking or a stable pool of funds creates winners and losers. Therefore, if funding is to be determined, or heavily informed, by programmatic measures then the measurements must provide an accurate, timely, reflection of performance.

6. **Acknowledge the lack of management control.** Frequently managers have limited control over much of their expenses. Salaries and benefits are costs that are assigned to positions through civil service and labor negotiation processes. While efficiencies can be achieved, substantial cost reductions are often unrealistic because the cost of labor falls outside the purview of program management.

SUSTAINABLE OPPORTUNITIES

There are no direct sustainable opportunities associated with this report.

DISABILITY AND SENIOR ACCESS

There are no direct disability and senior access opportunities associated with this report.

ACTION REQUESTED OF THE CITY COUNCIL

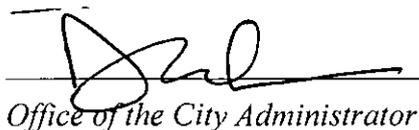
This is an informational report; therefore no Council action is required.

Respectfully submitted,



SABRINA LANDRETH
Budget Director

**FORWARDED TO THE
FINANCE AND MANAGEMENT COMTE:**



Office of the City Administrator

Item: _____
Finance & Management Committee
February 22, 2010