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OFFICE OF THE CITY CLERK  
OAKLAND

2017 FEB 16 PM 7:15 **AGENDA REPORT**

**TO:** Sabrina B. Landreth  
City Administrator

**FROM:** Sarah T. Schlenk  
Budget Department

**SUBJECT:** FY 2017-19 Budget Priorities

**DATE:** February 16, 2017

City Administrator Approval

Date:

2/16/17

### **RECOMMENDATION**

Staff Recommends That The City Council Accept This Informational Report To Continue Discussing City Council Priorities For The Fiscal Year (FY) 2017-19 Budget.

### **EXECUTIVE SUMMARY**

Pursuant to the adoption of the Consolidated Fiscal Policy Ordinance No. 13279, the Mayor and City Council are required to hold a biennial budget workshop to begin discussing priorities for the upcoming two-year budget cycle. The first City Council workshop for the Fiscal Year 2017-19 Budget was held on January 31, 2017. At the conclusion of that meeting, it was agreed that a second goal setting workshop would be scheduled, which is the purpose of today's workshop.

### **BACKGROUND/LEGISLATIVE HISTORY**

On December 9, 2014, the City Council adopted the Consolidated Fiscal Policy (Ordinance No. 13279 CMS). Section 3.1 of the Consolidated Fiscal Policy requires a 'Council Initial Budget Briefing and Priorities Discussion' workshop to be held in January of the biennial budget development cycle. The first workshop was held on January 31, 2017. This March 2, 2017 special meeting of the City Council was established to continue discussing budget priorities for the FY 2017-19 budget cycle.

### **ANALYSIS**

The purpose of the goal setting workshops is to provide the Mayor and Council with the opportunity to discuss priorities for the upcoming budget deliberations for the FY 2017-19 budget cycle. **Attachment A** provides Mayor/Council Budget consolidated priorities from the most recent FY 2015-17 budget cycle. **Attachment B** provides information on the status of the FY 2015-17 City Council policy directives and expenditure amendments as of the end of the second quarter of the 2016-17 fiscal year (December 31, 2016). Approximately two-thirds of the these tracked items are complete.

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According to a 1998 published document from the Government Finance Officer Association (GFOA) on "Recommended Budget Practices", a government should identify broad goals *based on its assessment of the community it serves* and its operating environment. **Attachment C** provides the Summary of Major Findings and a select number of PowerPoint slides from the Budget Priorities Polling results conducted in January 2017 and presented at the January 31, 2017 Special City Council meeting.

On September 13, 2016, the Budget Advisory Commission (BAC) provided a report to the Finance & Management Committee, in accordance with Section 3, Item 11 of the City's Consolidated Fiscal Policy (Ordinance 13279 C.M.S.), which requires the BAC submit a report on process feedback and continual improvement of the City's budget process. Item number 15 of this report addressed "...connecting spending to a clear set of priorities". Staff's response was to recommend that the City Council and Mayor adopt clearly articulated and ranked spending priorities.

Best practices recommended by the GFOA and by the UC Berkeley, Goldman School of Public Policy (GSPP) report on Oakland's Budget Process indicate that priorities or goals should be: 1) Shared – One Citywide List; 2) Ranked - Ordered by Significance; 3) Expressed in terms of results or outcomes. Priorities should be specific enough to be meaningful & measurable, but not prescriptive regarding the mechanism by which the result will be achieved.

**Attachment D** is a white paper from the GFOA on Priority-Based Budgeting, written by Shayne C. Kavanagh, Jon Johnson, and Chris Fabian. The white paper emphasizes (among other things):

*"Do the Important Things Well. Cut Back on the Rest. In a time of revenue decline, a traditional budget process often attempts to continue funding all the same programs it funded last year, albeit at a reduced level (e.g. across-the-board budget cuts). Priority-driven budgeting identifies the services that offer the highest value and continues to provide funding for them, while reducing service levels, divesting, or potentially eliminating lower value services."*

#### **ACTION REQUESTED OF THE CITY COUNCIL**

Staff recommends that the City Council accept this informational report to continue discussing Mayor and Council priorities for the FY 2017-19 Budget.

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For questions regarding this report, please contact SARAH T. SCHLENK, Budget Director, at 510-238-3982.

Respectfully submitted,



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SARAH T. SCHLENK  
Budget Director

Attachments (1):

- **Attachment A:** FY 2015-17 Mayor/Council Consolidated Priorities
- **Attachment B:** FY2016-17 Second Quarter Budget Implementation Matrix
- **Attachment C:** 2017 Budget Poll Summary of Major Finding and PowerPoint slides
- **Attachment D:** White paper from the GFOA on Priority-Based Budgeting, written by Shayne C. Kavanagh, Jon Johnson, and Chris Fabian

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## **2015-17 MAYOR AND CITY COUNCIL CONSOLIDATED PRIORITIES**

- **A Safe City:** that invests in Holistic Community Safety strategies.
- **A Vibrant City:** that makes strategic investments in infrastructure, public works and the arts to protect and enhance the quality of life for all neighborhoods.
- **A Just City:** that promotes equitable jobs and housing that protects and nurtures a diverse and inclusive community that cares for its youth, elderly, families, and the vulnerable.
- **A Prosperous City:** that values workers and fosters a diverse economy that creates equitable economic growth, jobs, and housing.
- **Trustworthy Government:** that provides quality municipal services, efficiency, transparency, and accountability, as well as respects municipal employees.

Tracking #	Purpose	Item Description	Dept. Responsible	Status	Target Date	Status and Next Steps Detail	Committee
<b>FY17 Implementation Matrix - Q2 Active and Recently Closed</b>							
CP#15	Holistic Community Safety	<b>Reduce Gun Violence &amp; Illegal Gun Dealing</b> - Special Investigation to Reduce Gun Violence & Illegal Gun Dealing FY 2015-16: \$500,000 FY 2016-17: \$500,000	OPD	Open	January 2017	A report was presented at the November 10, 2015 Public Safety Committee meeting and accepted at the November 17, 2015 City Council meeting. A Police Records Specialist has been hired. A recruitment is open for two limited-term Crime Analysts. OPD is having difficulty filling both Crime Analyst positions, as they are limited term. Finding qualified candidates who are interested in taking a temporary position has proven very challenging. At present, one candidate has been offered a position and the other remains vacant. A report and resolution for equipment was presented to the January 26, 2016 Public Safety Committee meeting and adopted by City Council on February 2, 2016. Nearly all equipment has been purchased.	Public Safety
CP#17	Holistic Community Safety	<b>Wildfire Prevention Funding</b> - Report on 2015 expenditures and a 2016 expenditure plan for vegetation management FY 2015-16: \$500,000 FY 2016-17: \$0	Oakland Fire Department (OFD)	Open	June 2017	The \$500,000 was reallocated for the goat grazing contract. Any fund balance from goat grazing shall be allocated for GIS development/OneStep replacement, and any remaining funds will be applied to the Vegetation Management Plan. The current goat grazing contract is valid through December 2017. OFD/ITD staff have been working on procuring a new records management system that provides a more seamless integration to GIS technology. The Vegetation Management Plan contract was approved by the Oakland City Council on July 19, 2016 and was executed later in 2016.	Public Safety
CP#18	Holistic Community Safety	<b>Expand Library Service</b> - Starting in July 2016 - Branches to be prioritized by those serving disadvantaged youths and should be geographical dispersed throughout the City FY 2015-16: \$0 FY 2016-17: \$500,000	Library	Open	September 2017	Gyroscope, Inc., a local Oakland-based architectural firm, was hired to work with OPL staff in the design and concept phase, and move the project forward. Focus groups with youth from East and West Oakland were completed. Staff will return to Life Enrichment Committee with an Informational Report on February 28, 2017. Final design is expected the first week of February with the build occurring in mid-to-late 2017.	Life Enrichment/ Education Partnership
CP#22	Holistic Community Safety	<b>Re-entry Job Corps Pilot Program</b> - matching funds to establish program with City/County FY 2015-16: \$350,000 FY 2016-17: \$0	Human Services	Open	Spring 2017	Former Council President is taking the lead in conversation with Alameda County to secure possible additional leverage funds for this project and is moving toward finalizing an agreement to employ the homeless in blight abatement.	Life Enrichment / Education Partnership
CP#11 - NGPF	Improve Quality of Life	HVAC Improvements to City-owned facility OACC FY 2015-16: \$100,000 FY 2016-17: \$0	EWD / OPW	Open	May 2017	The vendor has revised the quote to include (1) the second HVAC unit that is required for the space, and (2) the additional work to replace the roof top curb blocks that the units sit on. The revised quote (including the second HVAC unit and curb blocks) is \$91,500. Staff is attempting to schedule the work with the Oakland Asian Cultural Center Director for the Spring of 2017, when the rain subsides and weather conditions are more ideal.	N/A

Tracking #	Purpose	Item Description	Dept. Responsible	Status	Target Date	Status and Next Steps Detail	Committee
CP#29	Improve Quality of Life	<b>Graffiti Evidence Collection &amp; Enforcement</b> - Pilot Program in Council Districts 2 & 3 FY 2015-16: \$100,000 FY 2016-17: \$0	City Administrator's Office (CAO) /OPD / City Attorney (OCA)	Open	June 2017	The City has completed the Chinatown project, and intends to launch a similar pilot along East 12th and International Boulevard with the remaining District 2 funding in the first six months of 2017.  In District 3, staff are awaiting a developing proposal to incorporate youth from the West Oakland Youth Center into the pilot to provide them the opportunity to help with outreach and learn valuable job skills while working with businesses that are tagged with graffiti.	N/A
CP#30	Improve Quality of Life	<b>OPR Parks Prioritization study and conceptual plans</b> - development of plan to identify strategic funding needs FY 2015-16: \$185,000 (\$170k one-time) FY 2016-17: \$15,000	Public Works	Open	April 2017	The Park Project Prioritization list was approved by City Council on February 15, 2016. OPW contracted with a consultant in September 2016 to begin conceptual projects and prioritization evaluation. Staff are conducting community outreach for various sites, as required, to obtain input on desired scope for projects. This process is expected to be completed in April 2017.	Public Works
Midcycle D24	Protect Vulnerable	<b>Homeless Pilot Program</b> FY 2016-17: \$190,000	Human Services	Open	June 2017	The Compassionate Communities model for encampment support, and implementing grant agreements, was presented to Life Enrichment on October 25, 2016. Initial outreach for the pilot program began at the beginning of October. In the current pilot project, 19 individuals have been housed out of the original 42 identified. Extensive improvements have been made regarding health and safety for both campers and sheltered residents. The pilot is on-going, at least through March 2017.	Life Enrichment/ Public Education
Midcycle D30	Protect Vulnerable	Increase awareness, outreach and services for commercially sexually exploited minors FY 2016-17: \$100,000	Human Services	Open	June 2017	The CSEC Task Force has recommended training for all City staff who work with or encounter children during their daily work. Under HR leadership, a training RFP is being issued to hire a consultant to conduct the trainings. Staff conducted a site visit and is currently developing a scope of work and contract documents. Challenges with the fiscal agent have delayed the project.	Life Enrichment / Education Partnership
Midcycle D32	Protect Vulnerable	<b>Laney College "Tiny Homes" Project</b> FY 2016-17: \$80,000	Human Services	Open	December 2017	A grant agreement is planned for Life Enrichment Committee for approval on February 14, 2017, which will allow for project development over the next 12 months.	Life Enrichment / Education Partnership
PD#11	Trustworthy / Responsive Gov't	<b>Small Grant Processing - Develop Process</b> Improvements for Small Grants and other small grant program that reduces paperwork FY 2015-16: No Funding Allocated FY 2016-17: No Funding Allocated	CAO / OCA / Finance / EWD	Open	June 2017	Staff from the Office of the City Attorney, City Administrator's Office (including Contracts & Compliance) and the Cultural Art division met internally and identified several administrative business improvements that have been implemented. Changes implemented to-date are in place for the FY16-17 grant cycle, including procurement of a blanket insurance policy to cover individual artist grants. The Cultural Arts division recently hired a new Cultural Affairs Program Manager in the Fall of 2016. As it pertains to the Cultural Plan development process, the new Manager will work with Contracts & Compliance Department and other relevant staff to determine the need for further action to streamline the process, including any changes that require City Council approval, by June 2017. Additionally, the recently initiated Cultural Plan may produce additional policy recommendations that would be applicable to future grant cycles.	Life Enrichment / Education Partnership

Tracking #	Purpose	Item Description	Dept. Responsible	Status	Target Date	Status and Next Steps Detail	Committee
PD#14	Trustworthy / Responsive Gov't	Regulation and Taxation of Medical Cannabis Production FY 2015-16: No Funding Allocated FY 2016-17: No Funding Allocated	CAO / Revenue	Open	February 2017	At the November 14, 2016 Special City Council Meeting, the City Council directed staff to perform a race and equity analysis of medical cannabis regulations and return to council with revised ordinances. Staff intends on returning to council with this analysis and updated ordinances on February 21, 2017.	Finance and Management
PD#2	Trustworthy / Responsive Gov't	<b>Code Enforcement</b> - Prepare an info report on administrative systems to streamline reporting, noticing, re-inspection, and fine collection. FY 2015-16: No Funding Allocated FY 2016-17: No Funding Allocated	Planning and Building / CAO	Open	Spring 2017	Efforts continue to streamline processes, while providing clear information to property owners and residents through noticing, informational brochures and community outreach. The recent hiring of a project manager, with extensive experience working with Accela, will expedite necessary changes to our online Citizen Access module to improve public access to services. In addition, the new smart phone app, "Tell Us," will provide greater access to the community by allowing the use of smart devices to report blight and housing and zoning complaints, while allowing access to our database to check the status of complaints.	Community & Economic Development
PD#7	Trustworthy / Responsive Gov't	<b>Fine / Fee waiver Policies</b> - Shall be posted online and All City waivers, reductions, refunds, or reversal of issued fines/fees must be documented in writing in records maintained by the appropriate Department FY 2015-16: No Funding Allocated FY 2016-17: No Funding Allocated	Revenue / Controller / CAO - Budget/ All departments that have/waive fees	Open	March 2017	RMB currently maintains a record of all fees that have been waived since September 9, 2015. Staff is currently drafting a citywide policy to establish procedures for City sponsorship of events and funding for associated fine/fee costs.	N/A
Midcycle D31	Trustworthy / Responsive Gov't	<b>City Council Finance &amp; Budget Analyst</b> FY 2016-17: \$80,000	Council	Open	Spring 2017	An informational report was heard at the July 12, 2016 Finance & Management Committee to discuss options for filling this role. Council staff is working on developing a scope of services/job description.	Finance and Management
CP#8 - NGPF	Vibrant Sustainable Infrastructure	Add Front-load revolving fund for sidewalk repair which then bill private property owner FY 2015-16: \$400,000 FY 2016-17: \$0	Transportation (DOT)	Open	June 2017	OPW is working with the Office of the City Attorney to prepare a sidewalk liability ordinance. OPW also worked with Finance and Fiscal staff to confirm accounting practices and ensure processes are in place for the revolving fund. The Department of Transportation will be taking the lead on this item.	Public Works
PD#1	Trustworthy / Responsive Gov't	Quarterly budget Implementation Tracking Report with a line-item matrix FY 2015-16: No Funding Allocated FY 2016-17: No Funding Allocated	CAO-Budget	Ongoing	Quarterly	This report marks the fifth update as of the 2nd quarter of FY 2016-17.	Finance and Management

Tracking #	Purpose	Item Description	Dept. Responsible	Status	Target Date	Status and Next Steps Detail	Committee
PD#16	Trustworthy / Responsive Gov't	<b>Business License Tax Collection</b> - Expand and improve business license tax collection effectiveness, including from those not currently paying FY 2015-16: No Funding Allocated FY 2016-17: No Funding Allocated	Revenue	Ongoing	Ongoing	Revenue Management Bureau (RMB) will continue to bring noncompliant businesses into compliance through business license tax collection.	Finance and Management
PD#2a	Trustworthy / Responsive Gov't	<b>Code Enforcement</b> - Provide quarterly matrix of code enforcement activities (notices of violations sent, # of inspections scheduled; follow-up visits; fines collected; # of properties abated, etc.) FY 2015-16: No Funding Allocated FY 2016-17: No Funding Allocated	Planning and Building	Ongoing	Quarterly beginning October 2015	Quarterly reports were presented to the CED Committee on December 1, 2015, and July 12, 2016. The next report was anticipated to be presented in December 2016 but was postponed due to the 31st Avenue fire on December 2nd. Future code enforcement data will be presented in the context of the inter-departmental evaluation of code enforcement and safety inspection programs at a date to be determined.	Community & Economic Development
PD#3	Trustworthy / Responsive Gov't	<b>City-Wide "Paper Form Free" Policy</b> - development of policy to maximize efficiency, reduce redundancies, and enhance customer service in every City department FY 2015-16: No Funding Allocated FY 2016-17: No Funding Allocated	CAO	Ongoing	Spring 2017	The CAO will form a cross-departmental working group to identify paper forms frequently used by external and internal customers, and develop a plan for converting paper forms to a usable digital format that can be readily accessed and submitted via electronic mediums (e.g. email, Internet, workflows, etc.). A staff report to the Finance and Management Committee on the status of implementation discussed on November 15, 2016 resulted in a request for an update in 6 months.	Finance and Management
PD#6a/b	Trustworthy / Responsive Gov't	<b>Citywide delinquent revenue collections</b> - City departments shall refer delinquent collections to the Revenue Management Bureau and Controller's Bureau after 120 days. Provide an informational report on prompt implementation of this centralized system FY 2015-16: No Funding Allocated FY 2016-17: No Funding Allocated	Revenue / All Departments	Ongoing	June 2017	RMB collection staff is continuing to meet with other City departments to help expand RMB's collection program and building the infrastructure to move to a more traditional 30-60-90 day collection process. Oracle Collections is now live and accounts that are delinquent for 90 days are now automatically forwarded to RMB Collections.	N/A



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CP#9 - NGPF	Improve Quality of Life	<b>Mattress Recycling Pilot Program:</b> Collaborative effort with Stop Waste to reduce illegal dumping FY 2015-16: \$100,000 FY 2016-17: \$0	Public Works	Closed	Complete	<p>In January 2016, the City Council approved reallocation of this \$100,000 in funding for Illegal Dumping mitigation, with no less than 75 percent to be used for installation and use of cameras for illegal dumping enforcement. As a result, OPW, the City Administrator's Office, and the City Attorney's Office have been developing a trial program for cameras to deter illegal dumping via the interdepartmental Illegal Dumping Task Force (IDTF).</p> <p>Cameras have been installed at four initial locations where they have had some success identifying illegal dumpers. Staff is working with the vendor to make technical adjustments at each site and gathering experience on how to best utilize the camera equipment. Depending on the effectiveness of the program, staff may include a budget request for additional funding for cameras.</p>	N/A
PD#18	Trustworthy / Responsive Gov't	<b>Online Business Tax System -</b> Launch the previously Council-authorized online business tax payment system FY 2015-16: No Funding Allocated FY 2016-17: No Funding Allocated	Revenue / IT	Closed	Complete	The new local tax software system, including the ability to apply and pay online, was launched for business tax renewal and applications.	Finance and Management

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<b>FY17 Implementation Matrix - Closed in Previous Quarters</b>							
CP#1 - NGPF	Holistic Community Safety	Add Funding for Crossing Guards at schools with most significant pedestrian safety and traffic, safety problems FY 2015-16: \$200,000 FY 2016-17: \$200,000	Oakland Police Department (OPD)	Closed	Complete	This item was presented at Education Partnership Committee meeting on February 25, 2016. A desire was expressed to fund crossing guards at all OUSD and charter elementary schools in Oakland. Additional funding could be considered as part of the Midcycle budget.	Public Safety
CP#21	Holistic Community Safety	<b>Student Chronic Absenteeism</b> - Funding to reduce chronic absenteeism to reduce delinquencies and interrupts school-to-prison pipeline FY 2015-16: \$262,000 (\$187k one-time) FY 2016-17: \$112,000	Human Services	Closed	Complete	Two Case Manager IIs were hired by Human Services and started in March 2016. City Council also approved an MOU with OUSD in March. The project is underway and staff will provide periodic updates.	Life Enrichment/ Education Partnership
CP#24	Holistic Community Safety	<b>"Preschool for All"</b> - training to enhance early childhood education programs and increase school readiness FY 2015-16: \$200,000 FY 2016-17: \$0	Human Services	Closed	Complete	Two coaches worked throughout the school year providing CLASS coaching to teachers. Quality Rating & Improvement System (QRIS) ratings remain high. The Family Child Care Head Start Academy was launched in March 2016, with 21 providers attending evening and weekend seminars on key Head Start quality standards such as health as safety, school readiness, etc. Twenty family child care providers graduated in a celebratory event in June 2016 and received stipends for making quality improvements to their program. Update: Two graduates of the program have applied to be Head Start family child care providers in the new program year.	Life Enrichment/ Education Partnership
CP#26	Holistic Community Safety	Restore funding for NCPC Community Engagement and Outreach and West Oakland Biz Alert FY 2015-16: \$85,000 FY 2016-17: \$0	OPD / EWD	Closed	Complete	OPD worked extensively with the Controller's Office for several months. A process has been put in place for the NCPCs to use purchasing cards to expend the funds.	N/A
PD#15	Holistic Community Safety	<b>Police Retention / Recruitment</b> - Increasing Retention and Enhancing Recruitment for the Oakland Police Department and development of Ad-Hoc Committee on Police Recruitment FY 2015-16: No Funding Allocated FY 2016-17: No Funding Allocated	OPD / Human Resources (HRM) / CAO	Closed	Complete	The Ad Hoc Working Group on Police Recruitment (Ad Hoc Group) is a group of up to 16 members, informally appointed by the City Council (2 members per council member). The membership is focused on ideas to increase recruitment of people of color and Oakland residents. The group has met monthly since October 2015. Regular meetings were the 2nd Thursday of each month (and the 4th Thursdays, as needed). The meetings are open to the public. The Ad Hoc Group is staffed by the CAO, OPD and HRMD.  The group developed recommendations and a report, which was brought to the Public Safety Committee in September. This completes their work.  In October, OPD and HRM staff will bring a matrix and timeline for implementing the recommendations.	Public Safety

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PD#10	Holistic Community Safety	<p><b>Text-To-911</b> - Development of a Text-To-911 implementation plan that includes a timeline, costs, and staffing/training needs, etc.</p> <p>FY 2015-16: No Funding Allocated</p> <p>FY 2016-17: No Funding Allocated</p>	OPD / OFD / Information Technology (IT)	Closed	Complete	A report was presented to - and accepted by - the Public Safety Committee in conjunction with a report and resolution on wireless 9-1-1 on February 23, 2016.	Public Safety
CP#25	Holistic Community Safety	<p>GPF investment in Workforce Investment Strategies &amp; Programs to leverage additional support</p> <p>FY 2015-16: \$200,000</p> <p>FY 2016-17: \$0</p>	Economic & Workforce Development (EWD)	Closed	Complete	The Workforce Investment Board approved the funding allocation to LAO Family Service, YEP and Youth Uprising for 2015 summer youth services. This funding provided an additional 109 youth jobs over the summer.	Community & Economic Development
CP#27	Holistic Community Safety	<p>City/County Neighborhood Initiative (CCNI)</p> <p>FY 2015-16: \$50,000</p> <p>FY 2016-17: \$0</p>	Human Services	Closed	Complete	Completed. Funding will be fully expended by end of FY 2016-17.	N/A
CP#28	Improve Quality of Life	<p>Funds for Lake Merritt maintenance for Measure DD investment</p> <p>FY 2015-16: \$400,000</p> <p>FY 2016-17: \$400,000</p>	Public Works	Closed	Complete	Three (3) Gardener IIs were hired on March 12. Two (2) electric vehicles have been ordered and are expected to be delivered in early June for the Gardener IIs to use in their duties.	N/A
CP#31	Improve Quality of Life	<p>Grants and scholarships for low income youth to participate in OPR programs</p> <p>FY 2015-16: \$79,426</p> <p>FY 2016-17: \$0</p>	Oakland Parks & Recreation (OPR)	Closed	Complete	These funds were utilized for the 2016 Summer Youth activities. Funds were used as scholarship low income Oakland youth who meet free or reduced lunch and to transport summer youth to regional activities and camps.	N/A
PD#12	Improve Quality of Life	<p><b>Cal-Fire Grant</b> - Provide a report on the City's Cal-Fire grant for a tree inventory. Staff should apply for grants for tree planting / maintenance</p> <p>FY 2015-16: No Funding Allocated</p> <p>FY 2016-17: No Funding Allocated</p>	Public Works	Closed	Complete	The City was notified in July 2015 by the grantor that the City was not awarded the Cal-Fire Grant. Staff will continue to seek and apply for grants for tree planting / maintenance.	N/A
CP#32	Improve Quality of Life	<p>Administrative Grant to OPR Foundation</p> <p>FY 2015-16: \$50,000</p> <p>FY 2016-17: \$0</p>	OPR	Closed	Complete	Funds have been disbursed. The foundation will provide a report on use of funds to OPR following the end of FY 2015-16.	N/A
CP#33	Improve Quality of Life	<p>OPR subsidy for Feather River Camp</p> <p>FY 2015-16: \$40,000</p> <p>FY 2016-17: \$0</p>	OPR	Closed	Complete	J.N. Williams	Life Enrichment

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Midcycle D29	Improve Quality of Life	<b>Central Oakland Neighborhood Job Center</b> (Unity Council) FY 2016-17: \$100,000	EWD	Closed	Complete	The contract with Unity Council with the additional funding has been fully executed.	Community & Economic Development
Midcycle D33	Improve Quality of Life	Oakland Parks and Recreation Foundation Grant for administration support FY 2016-17: \$50,000	OPR	Closed	Complete	Funds were disbursed to OPRF in August 2016.	N/A
CP#34	Promote Equity & Inclusion	Establish Dept. of Race, Human Rights & Equity FY 2015-16: \$154,077 FY 2016-17: \$312,566	CAO / HR	Closed	Complete	The new Director of Race and Equity will start work on October 17, 2016.	Life Enrichment
CP#35	Protect Vulnerable	Add Homeless/PATH report high priority areas FY 2015-16: \$260,000 FY 2016-17: \$260,000	Human Services	Closed	Complete	The Winter Shelter served over 305 unduplicated clients for 7,500 bed nights, and with augmented services over 50 individuals found permanent housing. Staff is negotiating with St Vincent de Paul for every night winter shelter for next year. In June 2016, the Oakland Housing Authority approved expanded funding for the OPRI project including a step down pilot for stably housed clients thereby opening additional housing slots. Staff have also implemented hotel/motel vouchers for families, reunification funds, and expanded outreach.	Life Enrichment
CP#36	Protect Vulnerable	<b>Housing Exploited Children -</b> Housing services for Commercial Sexual Exploited Children with funding to be issued from Measure Z FY 2015-16: \$110,000 FY 2016-17: \$110,000	Human Services	Closed	Complete	DreamCatcher was awarded funding for housing, with a 2.5 year contract that began January 2016.	Public Safety
CP#37	Protect Vulnerable	Legal support grant to assist unaccompanied minors FY 2015-16: \$300,000 FY 2016-17: \$0	CAO	Closed	Complete	On November 17, 2015, Council authorized amendment to grant award with Centro Legal de la Raza. Grant Agreement was executed on November 21, 2015.	N/A
CP#13 - NGPF	Protect Vulnerable	Provide admin grant for Meals- on-Wheels FY 2015-16: \$50,000 FY 2016-17: \$0	Human Services	Closed	Complete	Completed.	N/A
CP#38	Trustworthy / Responsive Gov't	Conversion of Temporary Part- Time Employees FY 2015-16: \$300,000 FY 2016-17: \$700,000	CAO - Employee Relations	Closed	Complete	The City and SEIU reached an agreement in April 2016, which was approved by the City Administrator, to convert TPT positions to full-time or permanent part-time positions. An information report on the agreement was presented at Finance Committee on June 27, 2016.	Finance and Management

Tracking #	Purpose	Item Description	Dept. Responsible	Status	Target Date	Status and Next Steps Detail	Committee
PD#13	Trustworthy / Responsive Gov't	Ban on utilizing City resources to conduct raids on City Permitted Cannabis Facilities FY 2015-16: No Funding Allocated FY 2016-17: No Funding Allocated	CAO / OPD	Closed	Complete	The CAO is working with OPD to ensure that no City resources are used to assist with federal intervening of locally permitted cannabis facilities.  An email from Chief Whent on 04/27/16 stated: The Oakland Police Department does not and will not use City resources to conduct raids on City permitted cannabis facilities that are compliant with City ordinances and codes. Only if emergency assistance is requested will it be provided by OPD to our Federal or State law enforcement partners engaged in enforcement action at a City permitted cannabis facility.	N/A
PD#17	Trustworthy / Responsive Gov't	<b>Tax Payment Status - Review</b> of the tax payment status of all residential properties, which have changed hands since 2007 and which do not have a homeowner exemption filed with the County FY 2015-16: No Funding Allocated FY 2016-17: No Funding Allocated	Revenue	Closed	Complete	RMB staff sent out notifications of non-compliance to unregistered possible landlords on 10/13/2015. RMB licensed 4,300 unregistered rental property owners, resulting in \$7.5 m revenue for FY 2015-16 and \$1.5 m ongoing revenue for FY 2016-17 & forward.	N/A
PD#4	Trustworthy / Responsive Gov't	<b>Master Fee Schedule (MFS) -</b> Noticing one month in advance for adoption in March FY 2015-16: No Funding Allocated FY 2016-17: No Funding Allocated	Revenue	Closed	Complete	Staff initiated the MFS update for FY 2016-17 with Departments in December 2015. The MFS amendments were presented to the Finance Committee on March 8, 2016. The first reading of the MFS was heard at the April 5, 2016 City Council meeting with the second reading and adoption on April 19, 2016.	Finance and Management
PD#5	Trustworthy / Responsive Gov't	<b>Revenue Collections -</b> Addressing Gaps in Revenue Collection as part of the Quarterly Revenue and Expenditure Reports FY 2015-16: No Funding Allocated FY 2016-17: No Funding Allocated	Revenue	Closed	Complete	This item was addressed in the FY 2015-16 Q2 report in February 2016.	Finance and Management

Tracking #	Purpose	Item Description	Dept. Responsible	Status	Target Date	Status and Next Steps Detail	Committee
PD#9	Trustworthy / Responsive Gov't	<b>Budget Advisory Committee -</b> Implementation of Transparency & Accountability recommendations of Budget Advisory Committee FY 2015-16: No Funding Allocated FY 2016-17: No Funding Allocated	CAO - Budget	Closed	Complete	The Finance & Management Committee heard a presentation regarding the recommendations of the BAC and, the administrations response to those recommendations, and staff's plans to implement changes based on the administration's response. Staff agreed to inform F&M Committee if any of aforementioned changes could not be implemented as planned.	Finance and Management
CP#39	Trustworthy / Responsive Gov't	Restore prior-year staffing cuts for each Council office (.14 FTE), increase Administrative OH (10%); add (.44 FTE) Administrative Support for Office of President FY 2015-16: \$293,775 FY 2016-17: \$294,834	Council / HR	Closed	Complete	The additional FTE and operating funds were included in the adopted budget.	N/A
CP#42	Trustworthy / Responsive Gov't	7.5% GPF Emergency Reserve allocation FY 2015-16: \$347,451 FY 2016-17: \$0	Controller	Closed	Complete	The 7.5% Emergency Reserve reconciliation is conducted and provided during each quarterly R&E report.	N/A
CP#44	Trustworthy / Responsive Gov't	CAO Discretionary Pool for Labor Negotiations FY 2015-16: \$0 FY 2016-17: \$147,901	CAO - Employee Relations	Closed	Complete	A total of \$22.6 million was set aside in the adopted budget for labor negotiations over the two-year budget.	City Council
PD#8	Trustworthy / Responsive Gov't	Restore KTOP/Public Access to the Office of the City Clerk FY 2015-16: No Funding Allocated FY 2016-17: No Funding Allocated	CAO / City Clerk	Closed	Complete	KTOP was transferred to the City Clerk's Office as part of the budget implementation in July 2015.	Finance and Management
PD#19	Trustworthy / Responsive Gov't	<b>Revenue Reorg Plan</b> - Review of proposed Revenue Department reorganization plan FY 2015-16: No Funding Allocated FY 2016-17: No Funding Allocated	Revenue / CAO	Closed	Complete	This item is on hold and under the purview of the Finance Director vacancy.	N/A

Tracking #	Purpose	Item Description	Dept. Responsible	Status	Target Date	Status and Next Steps Detail	Committee
CP #5, #10, #12-NGPF CP#16, #19, #20, #23, #40, #41, #43	Various	Restore and add positions for the following programs: Keep Oakland Clean and Beautiful; Pothole/Seam Sealing Crew; Rent Adjustment; Tenant Protection; Code Enforcement; Crime Analysis; Police Evidence Technicians; Neighborhood Services; Revenue; Tax Enforcement; and Animal Services FY 2015-16: \$2,156,684 FY 2016-17: \$2,560,243	Various	Closed	Complete	Positions were funded in the adopted budget; Human Resources will include the status of recruitment for positions added by City Council through the budget in the semi-annual vacancy report.	Finance and Management
CP#2 - NGPF	Vibrant Sustainable Infrastructure	Alternative CIP Plan - --Reduce allocations fro non-paving projects and reprogram funds for paving projects FY 2015-16: (\$1,950,000) FY 2016-17: \$0	Public Works	Closed	Complete	Funding was reprogrammed for paving projects per Council direction as part of the adopted budget in July 2015.	Public Works
CP#3 - NGPF	Vibrant Sustainable Infrastructure	Reduce Department of Transportation (DOT) increase and reprogram to paving projects FY 2015-16: (\$250,000) FY 2016-17: (\$500,000)	CAO / Public Works	Closed	Complete	A portion of the DOT funding was reprogrammed for paving per Council direction as part of the adopted budget in July 2015.	Public Works
CP#4 - NGPF	Vibrant Sustainable Infrastructure	Add to amount of work on pothole blitz with overtime FY 2015-16: \$50,000 FY 2016-17: \$50,000	Public Works	Closed	Complete	Funding was reprogrammed for overtime for work on pothole blitzes per Council direction as part of the adopted budget in July 2015. These funds will help to increase the pothole blitz goals by 9% and "mill and filling" of streets by 20%. To date 3,451 pothole repairs and 12 City blocks of milling & filling (paving) have been completed.	Public Works
CP#6 - NGPF	Vibrant Sustainable Infrastructure	Add road repairs (seam sealing) weekends OT FY 2015-16: \$30,000 FY 2016-17: \$30,000	Public Works	Closed	Complete	Funding was reprogrammed for overtime for weekend road repair work per Council direction as part of the adopted budget in July 2015. Staff has completed 10.5 blocks of crack sealing to date. Staff will continue to aggressively seam seal streets in anticipation the upcoming wet weather season.	Public Works
CP#7 - NGPF	Vibrant Sustainable Infrastructure	Add funds for paving projects FY 2015-16: \$0 FY 2016-17: \$1,616,000	Public Works	Closed	Complete	FY 2016-17 funding was reprogrammed for paving projects per Council direction as part of the two-year adopted budget.	Public Works



# ***2017 City of Oakland Budget Priorities Survey***

Summary Report of  
January 2017 Telephone Survey

320-728

*Fairbank, Maslin, Maullin, Metz & Associates – FM3*

PUBLIC OPINION RESEARCH & STRATEGY



## SUMMARY OF MAJOR FINDINGS

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The survey results suggest that voters in Oakland are, overall, quite happy with life in their city, although they hold more tepid views of how the City government delivers services. Few residents pay significant attention to the City budget, but many say that they are interested in the city budget. Housing affordability has emerged as a clear top concern among residents, followed closely by public safety issues like crime and policing, education, and by economic development. Consistent with the 2015 poll, the 2017 poll shows that there are very few programs or services the most Oaklanders would not pay at least a little more to maintain or improve. The intensity of this sentiment has notably increased overall, though the relative view on specific programs and services has shifted somewhat.

Specifically:

Oakland residents hold very positive views of the city's quality of life (73% rate it "excellent" or "good") but continue to have mixed feelings about City service provision. While few feel the City is doing a poor job providing services, most see clear room for improvement (just 34% rate it "excellent" or "good").

However, very few pay particular attention to Oakland's City budget (16% follow the budget "extremely" or "very closely"), though many say they would like to learn more about the City's spending priorities (46% "extremely" or "very interested" in learning more).

While public safety remains a top spending priority of residents, concerns about housing affordability and homelessness have spiked. Residents would also like to see investment in economic development, chiefly job training.

Residents show a clear preference for continued or increased investment in nearly all City services and programs when faced with a choice between seeing cuts or paying more. Overall, this willingness has notably increased since 2015. The % of residents preferring to see cuts in services (averaged across all services polled) fell from 31% in 2015 to 19% in 2017

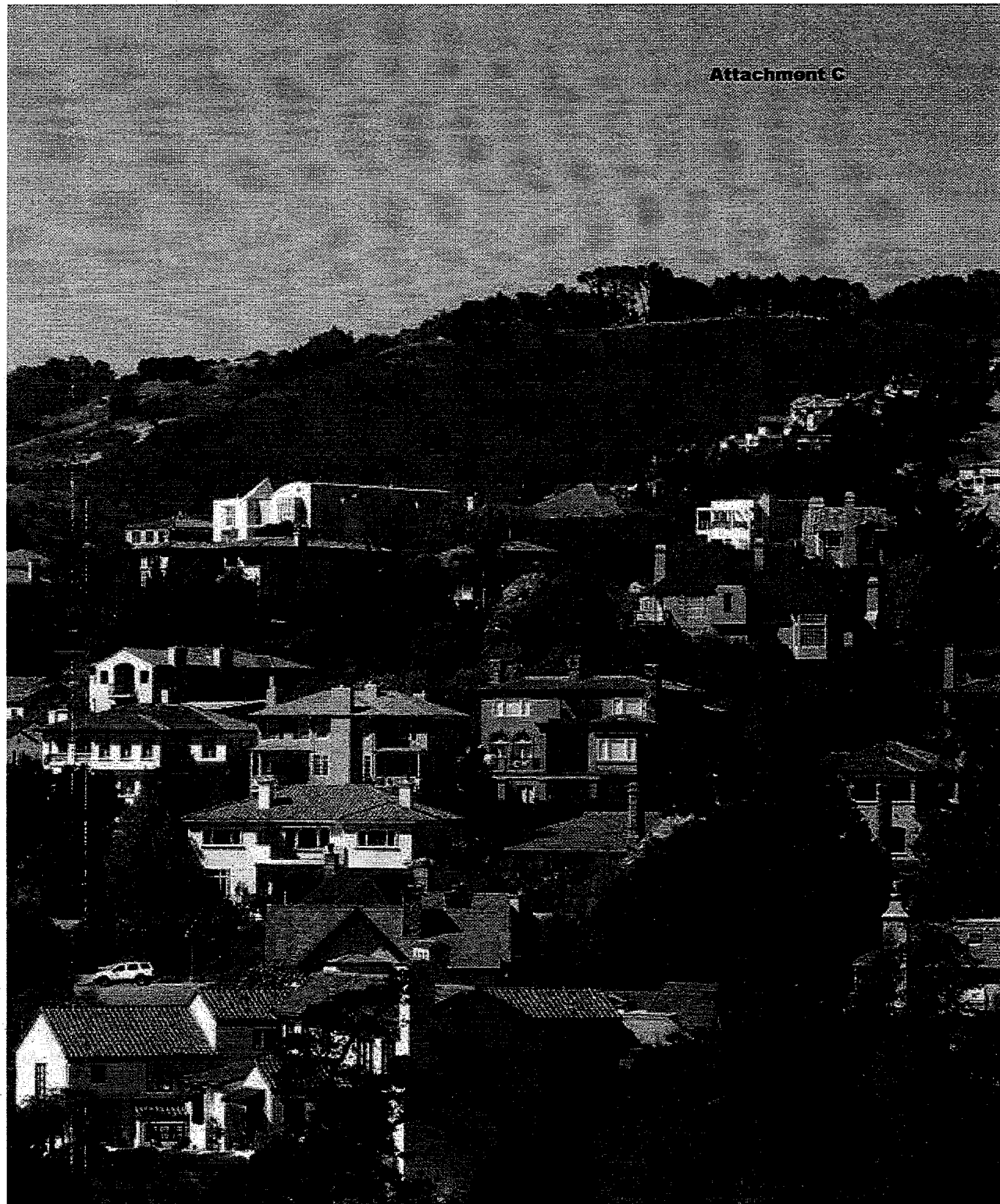
Finally, a clear majority prefers to access programs and services using the City's website (57%), with pluralities favoring this platform in every demographic subgroup. In addition to the website, older residents also select offline channels (in person, phone, mail) and younger residents say they are also comfortable with digital platforms (email, mobile apps).

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# **Specific Budget Priorities**

# Key Findings

- Broadly, housing costs, public safety, and jobs/economic development are seen as the top priorities for City investment.
- However, there are few things residents would prefer to see cut specifically – except efforts to keep sports teams.
- Oaklanders are about half as likely as they were in 2015 to prefer cuts to many programs and services over paying more.

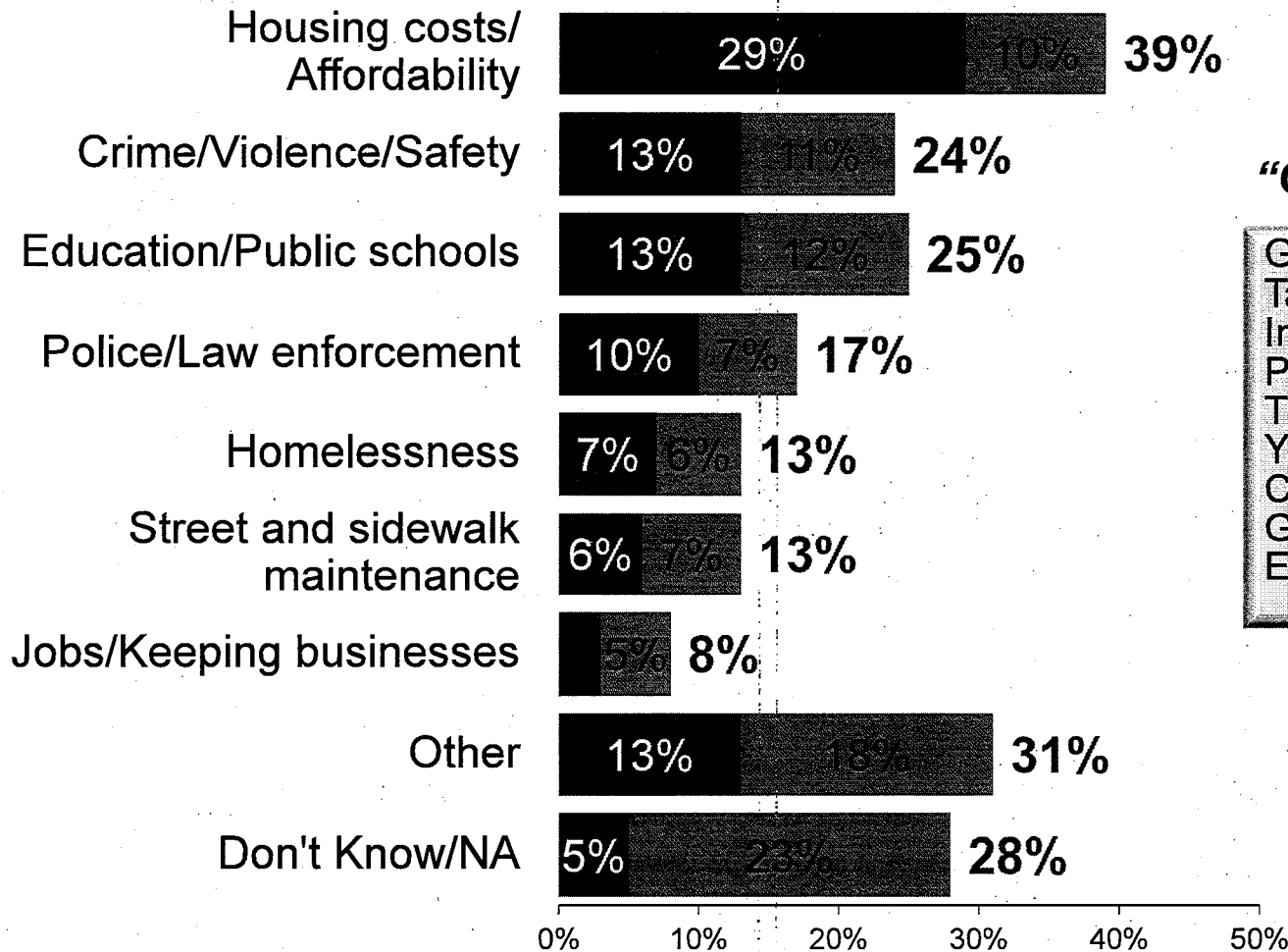


# Housing is residents' clear top priority.

*In the upcoming two-year budget, what are the two most important issues facing Oakland residents that you would like to see prioritized in the City government budget?*

(Open-Ended)

■ 1st Choice ■ 2nd Choice



***“Other” includes in part:***

Government waste/inefficiency  
Taxes too high  
Infrastructure  
Public transportation/Buses  
Traffic congestion/Traffic flow  
Youth activities  
Cleaner city  
Gentrification  
Environment

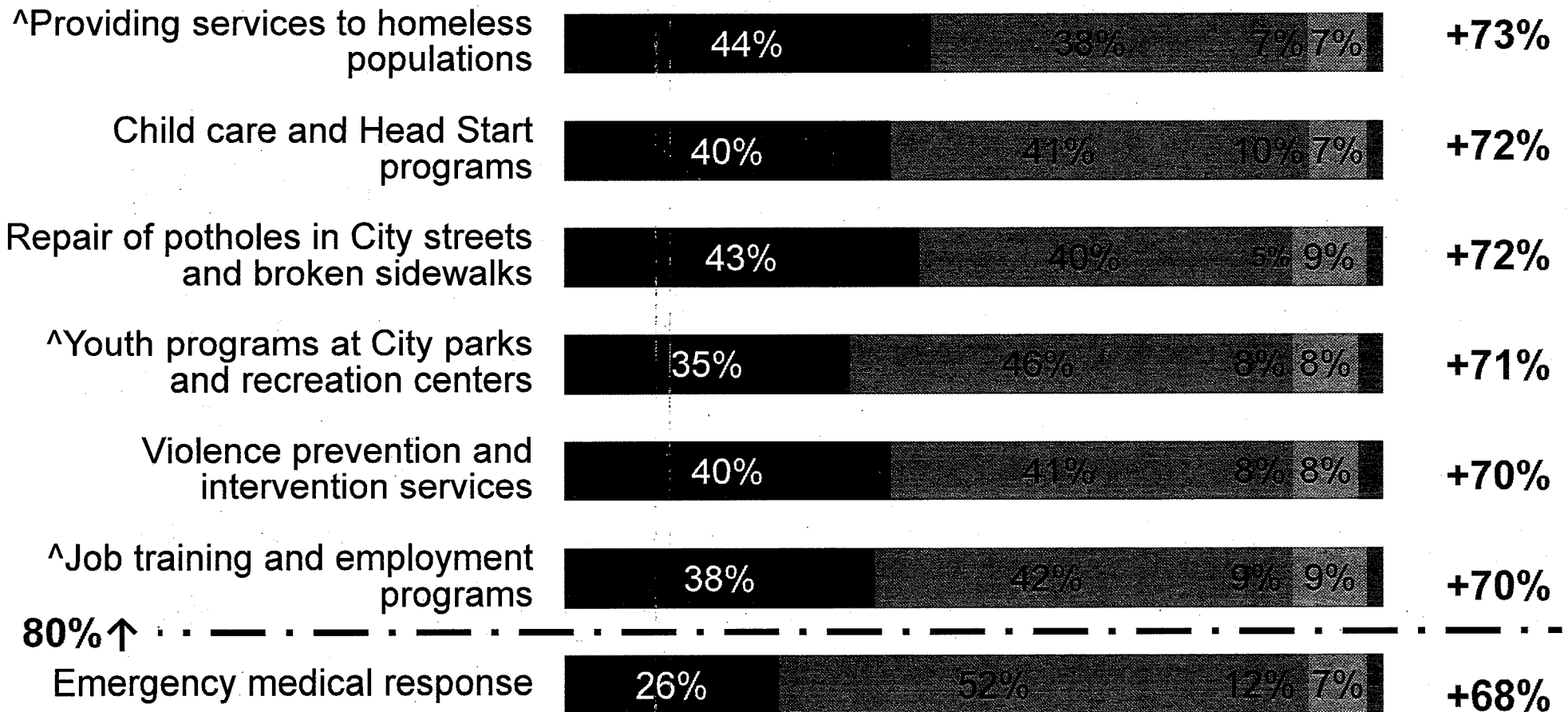
# Housing outpaced public safety & education, two historical top concerns. Attachment C

(1<sup>st</sup> Choice; 3% and Above Shown)

Issues	2000	2002	2005	2015	2017
Housing costs/Affordability	8%	12%	5%	10%	↑ 29%
Crime/Violence/Safety	19%	26%	22%	20%	↓ 13%
Education/Public schools	33%	14%	35%	17%	13%
Police/Law enforcement	NA	2%	2%	10%	10%
Homelessness	3%	4%	2%	2%	7%
Street and sidewalk maintenance	3%	4%	4%	8%	6%
Jobs/Keeping businesses	5%	3%	4%	7%	3%

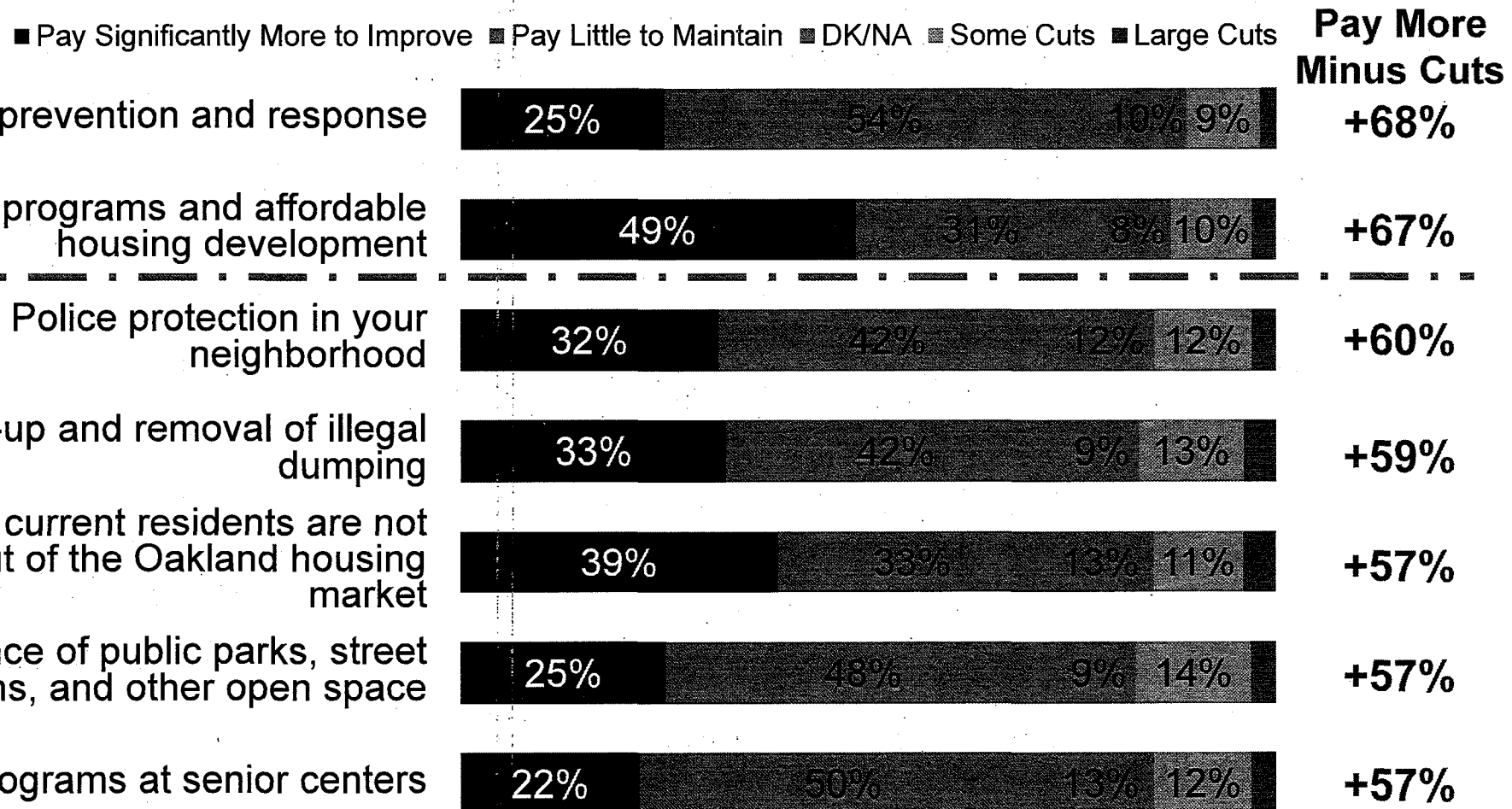
# Very few Oaklanders would make cuts to homeless, child services, or streets.

■ Pay Significantly More to Improve ■ Pay Little to Maintain ■ DK/NA ■ Some Cuts ■ Large Cuts **Pay More Minus Cuts**

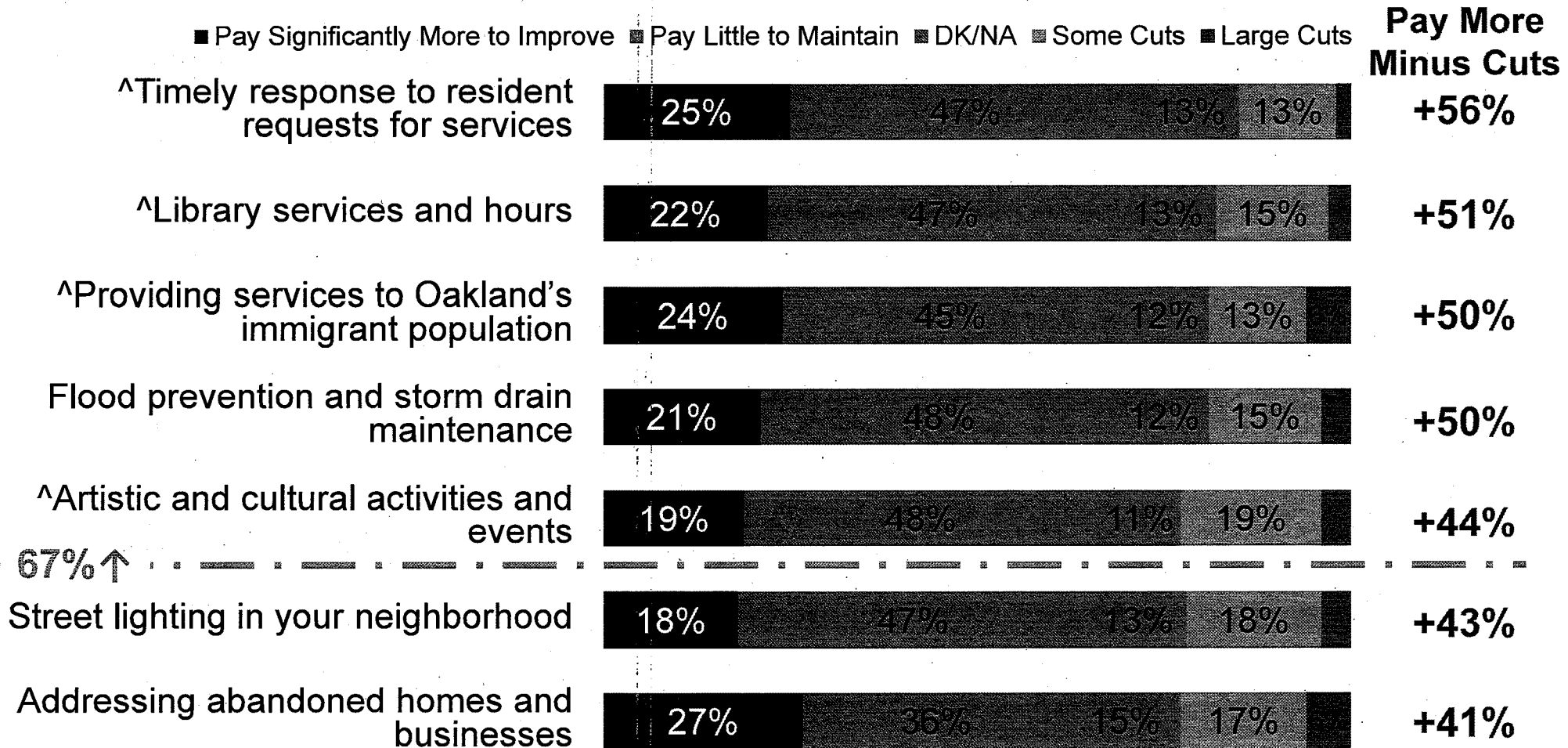




# Nearly half would pay significantly more to improve affordable housing.



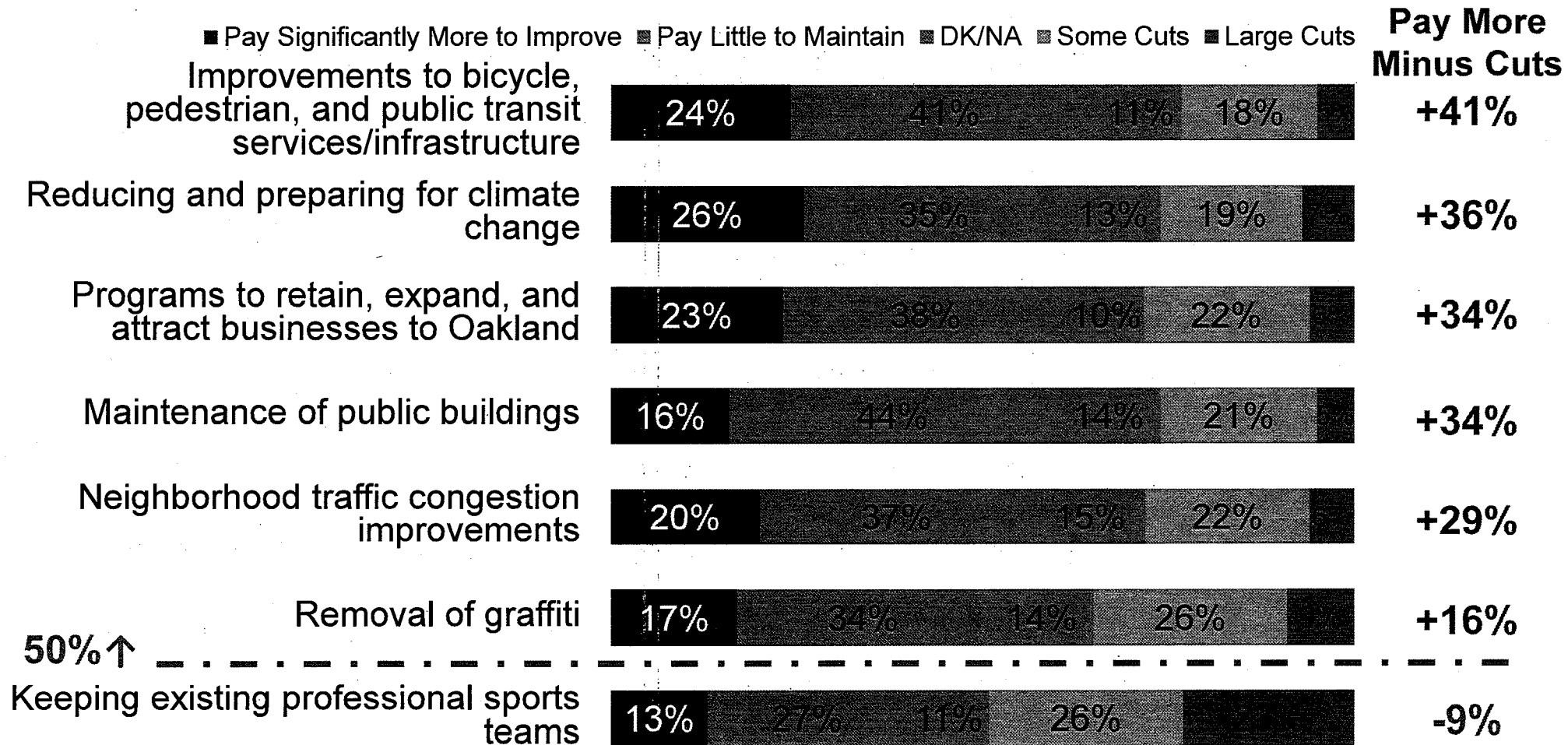
# There is less intensity around things like street lighting and storm drains.



Q7 a/c/d/f/o/s/u. am going to mention some of the services the City provides its residents. Every two years, the City faces hard choices about these services in order to balance its budget. Please tell me whether you think cuts should be made to that service in order to balance the budget, or whether you would be willing to pay additional taxes or fees to maintain or improve that service. ^Not Part of Split Sample



# The only priority that more would see cut than not is keeping sports teams.



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



## Credits

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# Priority-Driven

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## Anatomy of a Priority-Driven Budget Process

### Introduction

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

Priority-driven budgeting<sup>3</sup> is a common sense, strategic alternative to incremental budgeting. Priority budgeting is both a philosophy of how to budget scarce resources and a structured, although flexible, step-by-step process for doing so. The philosophy of priority-driven budgeting is that resources should be allocated according to how effectively a program or service achieves the

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

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

### Our Research Participants

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



## Leading the Way to Priority-Driven Budgeting

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

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

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

## The Philosophy of Priority-Driven Budgeting

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

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

is something worth actively supporting and voting for, rather than just a “least-worst” outcome in a time of revenue scarcity.<sup>3</sup> The leadership must also create a sense of urgency behind priority-driven budgeting by showing the financial forecasts, analysis, and other information that supports the need for a new approach to budgeting. Ensuring that a priority-driven budgeting process is successfully adopted requires organization-wide acceptance and a shared understanding of the entity’s financial condition. For example, the City of Savannah, Georgia, shared trends in major revenue sources, reserves, and long-term forecasts to show that the city’s revenues were entering a period of protracted decline. Of course, the case need not hinge on financial decline. A case can also be made based improving the value the public receives from the tax dollars government spends.

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

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

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

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

### Do You Have a Strategic Plan?

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

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

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

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

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

### Be Adaptable

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

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

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



## Steps in Priority-Driven Budgeting

There are eight major steps in a priority-driven budget process. Exhibit 1 provides a map for how the eight steps fit together, and the steps are more fully described in the following pages.<sup>7</sup> As the exhibit shows, the eight steps are not completely linear. Steps 1 and 2 can begin at the same time, and Step 8 comes into play at many different points of the process.

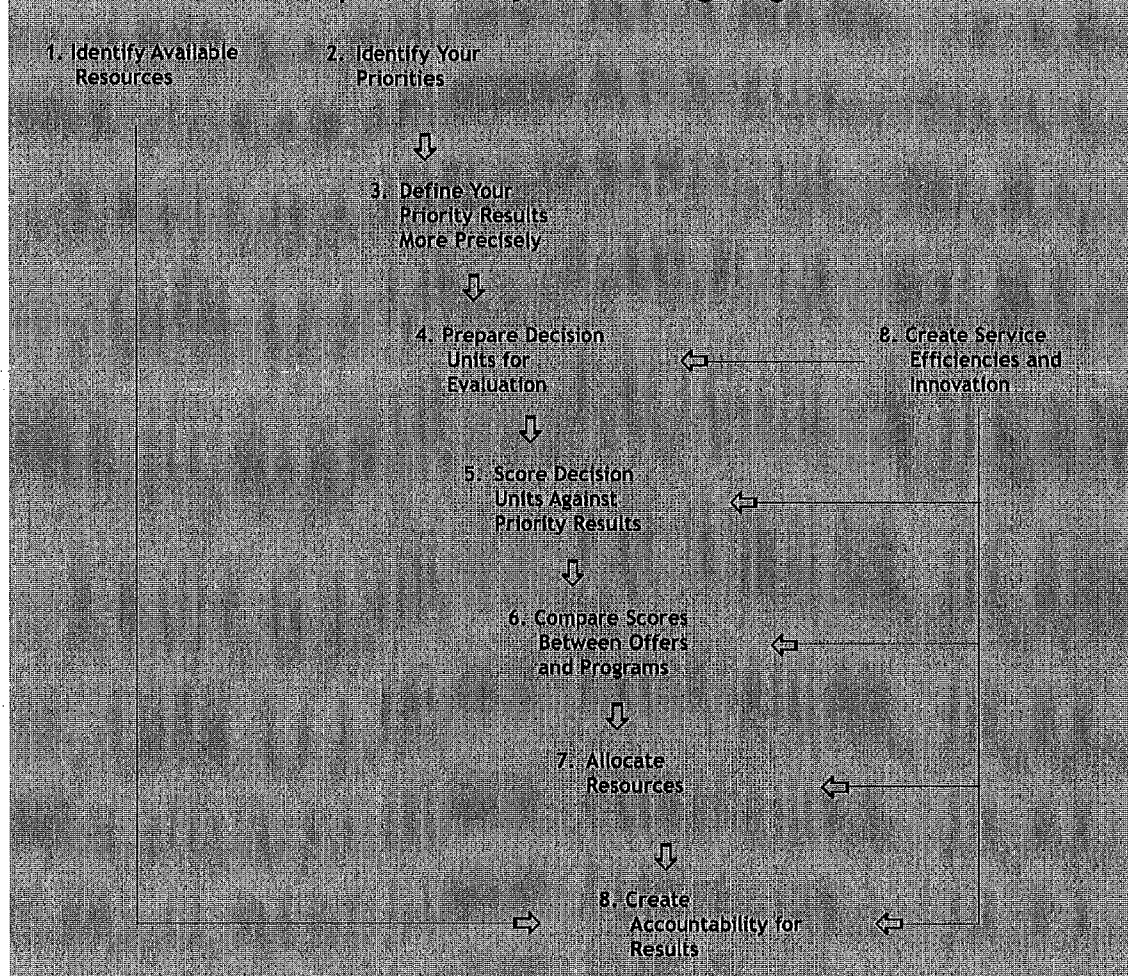
### 1. Identify Available Resources

Before embarking on priority-driven resource allocation, the organization must undergo a fundamen-

tal shift in its approach to budgeting. This shift, while subtle, requires that instead of first having the organization identify the amount of resources "needed" for the next fiscal year, it should first clearly identify the amount of resources that are "available" to fund operations as well as one-time initiatives and capital expenditures.

As their first step in budget development, many organizations expend a great deal of effort in completing the analysis of estimated expenditures to identify how much each organizational unit will need to spend for operations and capital

**Exhibit 1: Process Map for Priority-Driven Budgeting**



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

### The Price of Government

The “price of government” is a concept originated by David Osborne and Peter Hutchinson.<sup>9</sup> Government takes economic resources from the community to provide services and, hence, the total revenue that government receives is really the “price of government,” from the perspective of the citizen. This can be a useful concept in the first step of priority-driven budgeting because it asks decision-makers to think about the total tax and fee burden they are willing to place on the community to fund services – thus, putting revenues before expenditures.

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

Once the amount of available resources is identified, the forecasts should be used to educate and inform all stakeholders about what is truly available to spend for the next fiscal year. The organization must understand and believe that this is truly all there is as it begins developing the budget. Sharing the assumptions behind the revenue projections creates a level of transparency that

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

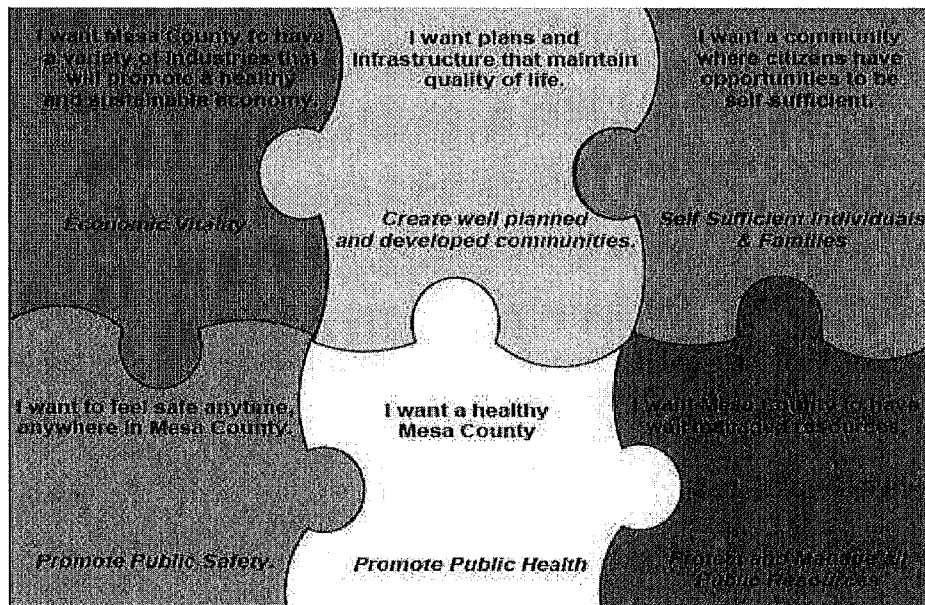
In the first year, an organization might choose to focus attention on only those areas that do not have true structural balance. For most organizations, this will often include the general fund, but the jurisdiction might decide to include other funds in the process. Both Polk County, Florida, and the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

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

### 2. Identify Your Priorities

Priority-driven budgeting is built around a set of organizational strategic priorities. These priorities are similar to a well-designed mission statement in that they capture the fundamental purposes for which the organization exists and are broad enough to have staying power from year to year. A critical departure from a mission statement is that the priorities should be expressed in terms of the results or outcomes that are of value to the public. These results should be specific enough to be meaningful and measurable, but not so specific as to say how the result or outcome will be achieved or become outmoded after a short time. Below are the five priority results determined by Mesa County, Colorado. Notice how these results are expressed in the “voice of the citizen.”

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



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

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

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

### Are Support Services a Priority?

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

- Enhance and facilitate accountability and innovation in all city business.
- Provide superior customer service that is responsive and demystifies city processes.
- Provide analysis and long-range thinking that supports responsible decision making.
- Proactively protect and maintain city resources.
- Ensure regulatory and policy compliance.

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

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

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

### 3. Define Your Priority Results More Precisely

The foundation of any prioritization effort is the results that define why an organization exists. Organizations must ask, “What is it that makes us relevant to the citizens?” Being relevant – providing those programs that achieve relevant results – is the key purpose and most profound outcome of a priority-driven budgeting process.

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

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

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

### Staff Teams in Priority-Driven Budgeting

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

A powerful method for defining results was established in *Strategy Maps* by Kaplan and Norton.”

Strategy mapping is a simple way to take a complex and potentially ambiguous objective – like achieving a safe community – and creating a picture, or map, of how that objective can be achieved. Sometimes referred to as cause-and-effect diagrams or result maps, strategy maps provide an effective way for an organization to achieve clarity about what it aims to accomplish with its results.

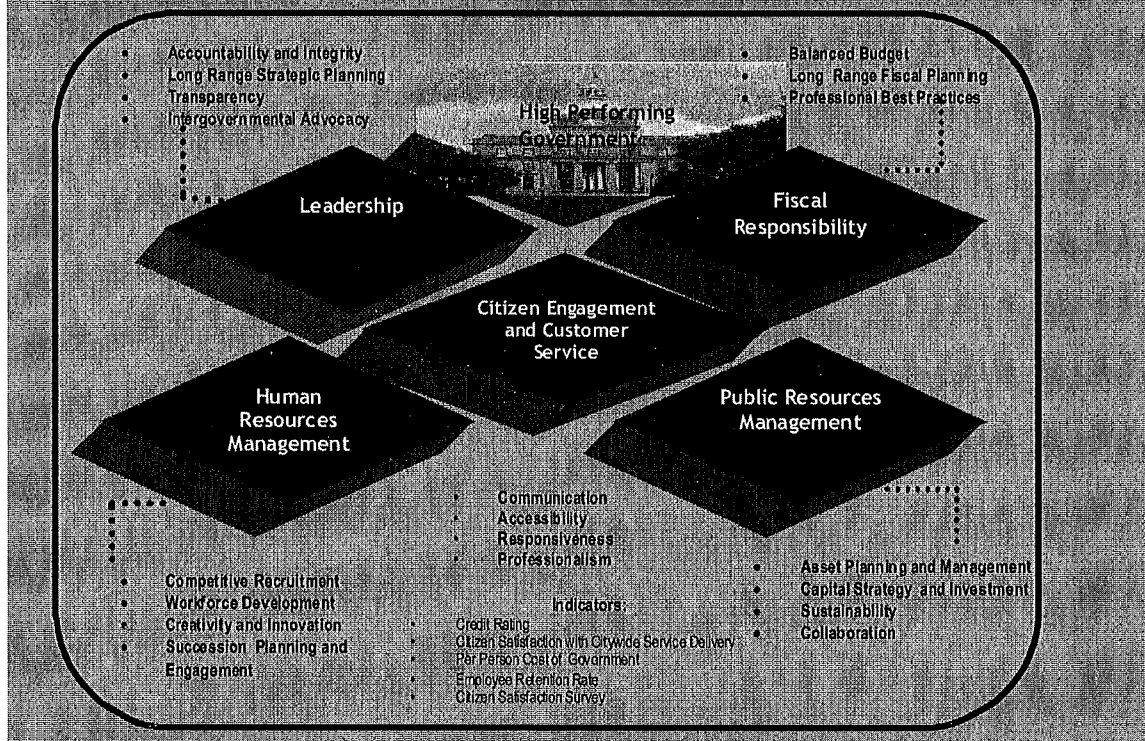
Strategy maps should be developed using cross-functional teams. Teams consist primarily of staff (both with subject matter expertise relating to the priority result and without), but they can also include elected officials and citizens.

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

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



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

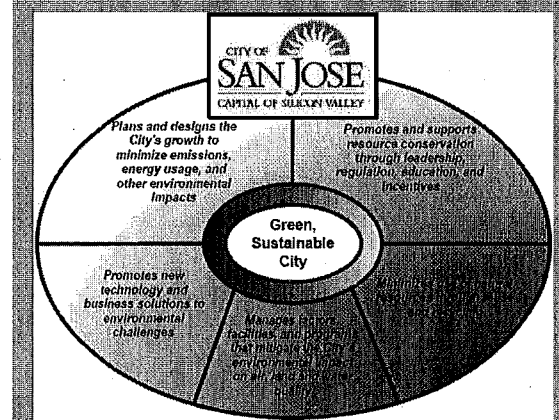


the result are the definitions – they help the city clearly articulate its priorities: “When the City of San Jose \_\_\_\_\_ (fill in the blank with any of the result definitions), then we achieve a Green, Sustainable City.”

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

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

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



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

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

### Define Your Priorities: A Quick Win

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

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

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

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

### 4. Prepare Decision Units for Evaluation

The crux of priority-driven budgeting is evaluating the services against the government's priority results. Thus, the decision unit to be evaluated must be broad enough to capture the tasks that go into producing a valued result for citizens, but not so large as to encompass too much or be too vague. Conversely, if the decision unit is too small, it may only capture certain tasks in the chain that lead to a result and might overwhelm the budget process with details. Our research subjects took one of two approaches to this issue: "offers" or "programs."

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

### How Many Offers Are There?

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

Offers are purposely intended to be different from existing organizational subunits (like departments, divisions, programs) to make a direct connection between the decision-unit being evaluated and the priority results, to encourage outside-the-box thinking about what goes into an offer, and to make it easier for outside organizations to participate in the process. For example, multiple departments can cooperate to propose a new and innovative offer to achieve a result instead of relying on past ways of doing things. A private firm could submit an offer to compete with an offer made by government staff.

The drawback of offers is that they are a more radical departure from past practice and may be too great a conceptual leap for some. This could increase the risk to the process, but if the leadership's vision is for a big break from past practice, then the risk might be worth taking. For example, Mesa County's board is very interested in having private and non-profit organizations participate fully in its budget process at some point in the future, so the offer approach makes sense for Mesa County.

**Programs.** A program is a set of related activities intended to produce a desired result.

Organizations that use the "program" method inventory the programs they offer and then compare those to the priority results. Programs are an established part of the public budgeting lexicon and some governments already use programs in their approach to financial management, so thinking in terms of programs is not much of a

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

Also, be aware that using programs might provide less opportunity for outside organizations to participate in the budgeting process because the starting point is, by definition, the existing portfolio of services. For that same reason, radical innovation in service design or delivery method is less likely.

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

## 5. Score Decision Units Against Priority Results

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

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

### Program Inventory: A Quick Win

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

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

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

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

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

### What about Capital Projects?

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

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

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



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

### Scoring Support Services

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

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

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

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

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

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

### 6. Compare Scores Between Offers or Programs

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

The City of San Jose engineered a peer review process through which the scores the departments gave to their programs were evaluated, discussed, questioned, and sometimes recommended for change. The city established a review team for each of its priority results. The team first reviewed the strategy map to ensure that each member of the team was grounded in the

city's specific definition of the result. Next, the review teams were given a report that detailed every program scored for the particular result under review. The teams met to discuss:

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

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

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

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

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

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

scores. Walter Rossman, from San Jose's City Manager's Office, described their effort this way: "The participants found the effort informative as to what the city does; they found it engaging with respect to hearing staff in the organization discuss how their programs influence the city's results; and, most interesting, they found it fun."

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

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

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

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

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

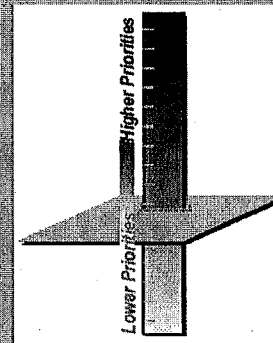
**Step 6 Intended Result:** The prioritized ranking of programs is a logical and well-understood product of a transparent process – no surprises.

## 7. Allocate Resources

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

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

**Exhibit 4: Drawing the Line**



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

Another method is to organize the offers or programs into tiers of priority (e.g., quartiles) and then allocate reductions by tier. For example, programs in the first tier might not be reduced, while programs in the lowest tier would see the largest

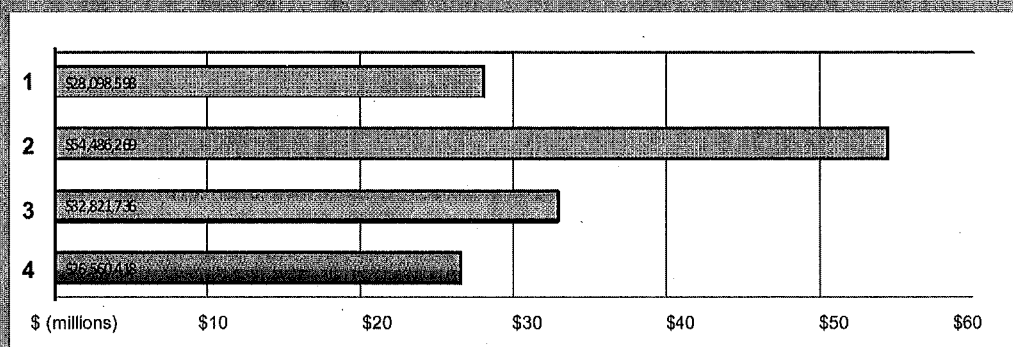
reductions. The programs could be forced to make assigned reductions, or each department could be given an aggregate total reduction target, based on the programs under its purview (with the implication being that the department will weight its reductions toward the lower-priority programs, although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

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

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

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

**Exhibit 5: Spending by Priority Tier**



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

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

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

#### **8. Create Accountability for Results, Efficiency, and Innovation**

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

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

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

#### **Exhibit 6: Polk County Concept for Key Performance Indicators**

##### **Basic Needs**

##### **Priority:**

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

##### **Indicators:**

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

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

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

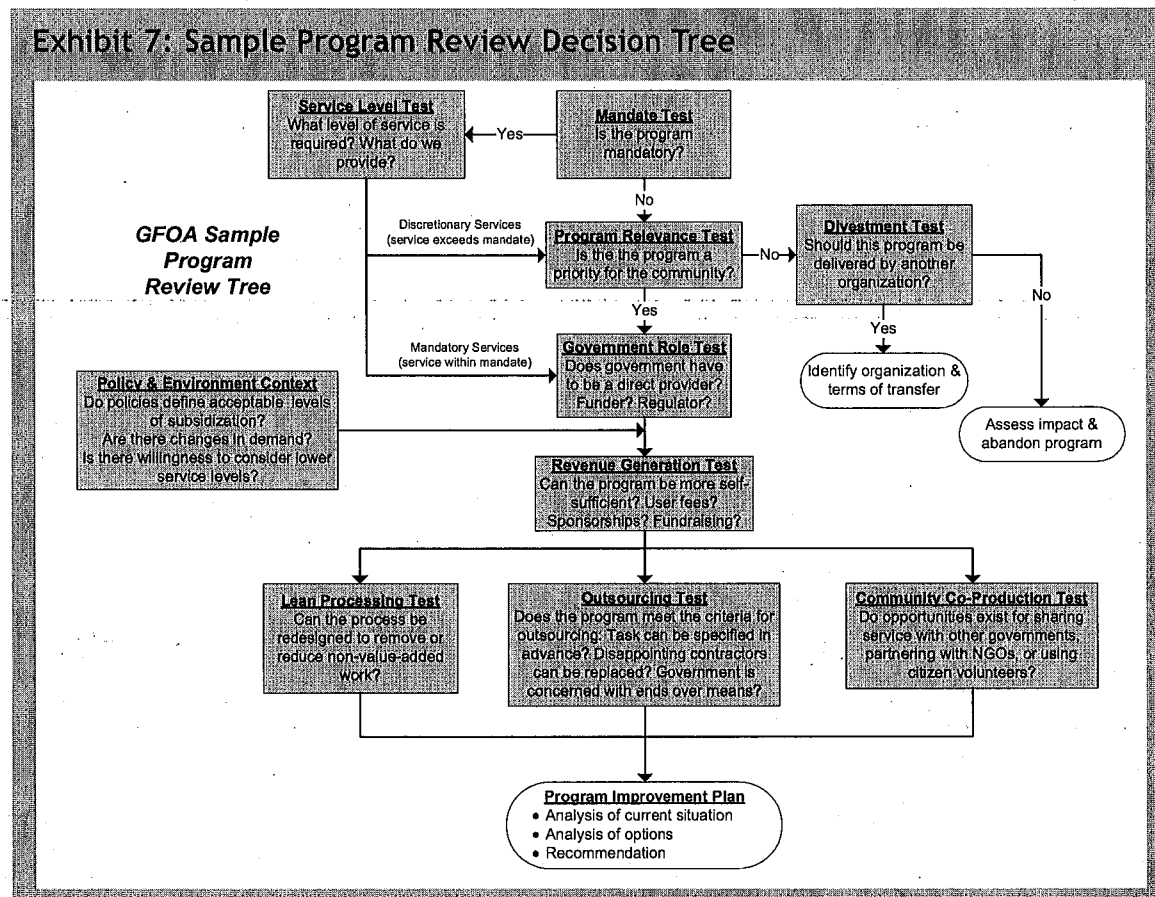


shows, a program is subjected to a series of tests to see if it is being provided efficiently. For example, can the service be shared with other governments? Can greater cost recovery be achieved through fees or fund raising? Can the private sector provide the service more efficiently? Can Lean process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

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

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

**Exhibit 7: Sample Program Review Decision Tree**



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

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

## Conclusion

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

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

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

## Appendix 1: Building a Program Inventory

### Introduction

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

### Steps to Take

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

### Program Costing Tips

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

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

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



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

- Alignment with strategic goals. Knowing how programs contribute to priority goals enables organizations to develop more strategic cutback strategies.
  - Service level. Describe the level of services provided to the public. If service is being provided at a premium level, perhaps service levels can be lowered to reduce costs.
  - Mandate review. List and clearly define any mandates a program is subject to. Then review the current service level against the mandate requirements. Perhaps the service level being provided is higher than what the mandate requires.
  - Demand changes. Is demand for a service going up or down? If demand is going down, perhaps the program can be cut back and resources shifted elsewhere. If demand is going up, steps can be taken to manage demand. For example, perhaps means testing can be applied to a social services program.
  - Support from program revenues. Describe the extent to which the program is supported by its own user fees, grants, or intergovernmental revenues. Is there an opportunity to achieve greater coverage of the full costs of the program?
3. **Develop forms and templates.** Create tools departments can use to describe their programs in a manner that is consistent and that captures the information needed to fulfill the purpose of the inventory. Consider testing the forms and templates with one or two departments and then distributing them to a wider group. Also consider providing training and an official point of contact for questions.
4. **Differentiate programs from functions.** Departments or divisions (i.e., public health, courts, public works, sheriff) are often described as functions or nouns. These are not programs, which are more often described
- with verbs – programs are action-oriented. For example, programs in a sheriff's office might include crime investigations, detentions, and court security. However, programs should not be described in terms of overly detailed tasks. For instance, "supplying a bailiff for court rooms" is a task within the court security program, not a program itself.
5. **Find the right level of detail.** A program is a set of related activities intended to produce a desired result. When constructing a program inventory, it can sometimes be challenging to find the right level of detail. If a program is too big or encompasses too much, it will not provide sufficient information – that is, it will be very difficult to describe the precise value the program creates for the public or to use program cost information in decision making. However, if program definitions are too small, decision makers can become overwhelmed with detail and be unable to see the big picture. In addition, tracking program costs for very small programs is generally not cost-effective.
- Generally speaking, if a program equates to 10 percent or more of the total expenditures of the fund in which it is accounted for, then the program should probably be broken down into smaller pieces. And if a program equates to 1 percent or less of total expenditures, or to \$100,000 or less, it is probably too small and should be combined with others. This is just a guideline – there could be valid reasons for going outside of these parameters. For example, a small program could be much more important than its cost suggests. Here are some other points that have proven helpful in identifying programs:
- A program is a group of people working together to deliver a discrete service to identifiable users.
  - A program groups all tasks that a customer of that program would receive and does not break one program or service into multiple items based on tasks.

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

### Examples of Program Inventories

#### Sample Health and Environment Programs

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

#### Sample Sherriff Programs

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

## Notes

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