

Turning Off Autopilot on the Budget Process

Dave Lakly

dlakly@uga.edu

404-917-7943



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We'll begin at 10:00, but while we wait...

We are going to be talking about small and large ways to ***change*** your budget process...

Share in the chat some barriers you think you may experience when trying to make these changes.



Your Instructor



Dave Lakly, MPA

*Public Service Associate; University of Georgia's Carl Vinson
Institute of Government*

Dave Lakly provides financial management training for government officials and personnel as part of the faculty at the Carl Vinson Institute of Government's Financial Management Program. Dave coordinates and teaches in the Budget and Financial Management Certification Program, a series of courses for state government employees designed to offer an overview of the state's budget and fiscal management cycle. He also teaches financial topics to school and local government officials through various programs at the Institute. Dave is also a frequent webinar host and presenter for programs both in Georgia and nationally. Prior to arriving at the Institute of Government, Dave served as the education division director in the Governor's Office of Planning and Budget and as the deputy director for the Georgia Senate Budget and Evaluation Office.



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Learning Objectives

At the end of this session, you should be able to:

- Identify barriers to changing the budget process
- Describe some strategies to overcome barriers to change
- Evaluate different budget innovations
- Recall some resources related to budget



Polling Question #1

What grade would you give YOUR budget process?

- A. A+
- B. A-
- C. B
- D. C
- E. Prefer not to say!



Why Change?



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Rethinking Budget

Part of an ongoing GFOA initiative...

- Rethinking Revenue
- Rethinking Strategic Planning
- Rethinking Budgeting
 - Collaborative effort between GFOA, International City/County Management Association (ICMA), and National League of Cities (NLC)
 - Initiative will raise new and interesting ideas for how local government budget systems can be adapted to today's needs



The Rationale...

Traditional budgeting:

- Limits opportunities to revisit past decisions
- Creates barriers to being strategic
- Emphasizes winners and losers

Inputs Outputs

Outcomes



The Rationale...

Threats to the status quo:

- Stagnant or diminishing revenues
- Conflict
- Volatility



Ongoing Effort

GFOA has convened a group of government officials and leading academics to

- Conduct a deep investigation of key weaknesses of the conventional local government approach to planning, budgeting, and monitoring/reporting, and
- Seek innovative alternatives.



No Need to Wait!

*With that effort as our inspiration,
let's discuss some ways we can
improve our budget process!*



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Polling Question #2

Is your government receptive to change?

- A. Yes- we innovate all the time!
- B. Yes- as long as the changes aren't too big!
- C. Maybe- under the right circumstances.
- D. No- change is not part of what we do.



What are Barriers to Change?



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What Does Traditional Budgeting Have Going for It?

It's not all bad, right?

- Simplicity
- Control
- Predictability
- Flexibility
- Easy to align to accounting



What does the past tell us?

- Irene Rubin (2015) wrote about *Public Administration Review's* “greatest hits” on budget
 - “Toward a Theory of Budgeting” (Lewis, 1952)
 - “The Political Implications of Budget Reform” (Wildavsky, 1961)
 - “The Road to PPB: The Stages of Budget Reform” (Schick, 1966)
 - “Organizational Decline and Cutback Management” (Levine, 1978)



Rubin, I. (2015). Past and Future Budget Classics: A Research Agenda. *Public Administration Review*, 75(1), 25–35.

What is our baggage?

- Need to challenge our assumptions:
 - Assumption 1: Contracting out is a good way for governments to save money.
 - Assumption 2: States are responsible for the finances of their local governments and will help them avoid fiscal stress and ameliorate the stress that occurs.
 - Assumption 3: The formally declared budget process and legally iterated powers of the executive and legislature are accurate descriptions of what actually goes on.
 - Assumption 4: There is not much conflict in budgeting



Rubin, I. (2015). Past and Future Budget Classics: A Research Agenda. *Public Administration Review*, 75(1), 25–35.

Let's Identify Barriers

Why don't we
change?



Common Barriers

- Inertia/Status Quo
 - “That sounds hard!” or “If it ain’t broke...”
- Winners/Losers
 - Change may upset balance (between departments, “guardians/spenders”)
- Budget “Silos”
 - Change may require collaboration
- Shifting control/accountability
 - Do we really *want* empowered managers?



Common Barriers

- Compliance Requirements
 - State/Federal laws, GASB
- Political Difficulty
 - Lack of high-level political support
- Limited Resources/Structural Imbalance
 - Hard to make change if we're barely getting by
- Lack of information/data
 - Not interested in change for the sake of change!
Need good measures/evaluation

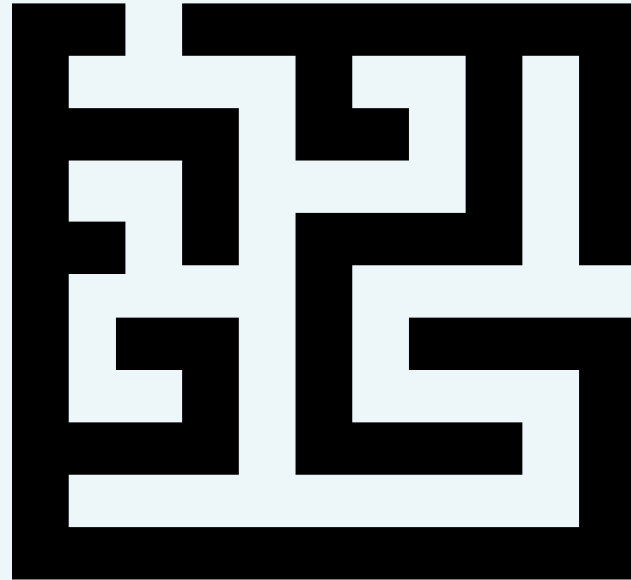


What Are Some Strategies to Overcome Barriers?



How Can We Address Barriers?

Status Quo



Our Ideal



Strategies to Overcome Barriers

- High-level Champion of Change
- Strategic Budgeting
- Sustainable Budgeting
- Strong Financial Policies



OECD Barriers

The Organization for Economic Cooperation and Development identified *strategic* and *technical* barriers to change

- Strategic
 - Lack of political support
 - Lack of coordination
 - Resistance to change
 - Lack of implementation strategy
 - Limited resource availability



<https://www.oecd.org/regreform/42112628.pdf> - intended for an international audience, but worth exploring here!

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OECD Barriers

The Organization for Economic Cooperation and Development identified *strategic* and *technical* barriers to change

- Technical
 - Legal complexity
 - Lack of human skills and capacities
 - Lack of understanding
 - Lack of information and data
 - Digital divide
 - Lack of standard procedures
 - Lack of measurement and evaluation mechanisms

<https://www.oecd.org/regreform/42112628.pdf> - intended for an international audience, but worth exploring here!



OECD Strategic Solutions

Lack of political support

- Use success stories: start small
- “Whole-of-government” approach
- Powerful support
- Quantifying costs and benefits

Necessary but not sufficient!



<https://www.oecd.org/regreform/42112628.pdf> - intended for an international audience, but worth exploring here!

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OECD Strategic Solutions

Lack of co-ordination

- Trade off centralization and ownership on reform efforts
- Watchdog at the core of government

Resistance to change

- Communication and promotion: transparency
- Ambassadors program / champions
- Defining clear targets and making institutions accountable



<https://www.oecd.org/regreform/42112628.pdf> - intended for an international audience, but worth exploring here!

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OECD Strategic Solutions

Lack of implementation strategy

- Planning – action plans and accountability
- Public consultation
- “No one size fits all”

Limited resource availability

- Efficiency gains
- Prioritization based on evidence-based analysis – opportunity cost



<https://www.oecd.org/regreform/42112628.pdf> - intended for an international audience, but worth exploring here!

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OECD Technical Solutions

Legal complexity

- Regulatory quality improvement –different from deregulation
- Multidisciplinary approach to law drafting

Lack of human skills and capacities

- Training, training, and training
- Multidisciplinary and focused
- Creativity approach. Reform attitude



<https://www.oecd.org/regreform/42112628.pdf> - intended for an international audience, but worth exploring here!

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OECD Technical Solutions

Lack of understanding

- Communication

Lack of information and data

- Development data collection strategies:
 - Surveys
 - User/consumer involvement
- International co-operation



<https://www.oecd.org/regreform/42112628.pdf> - intended for an international audience, but worth exploring here!

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OECD Technical Solutions

Digital divide

- Reduction of the digital divide as a broad policy priority

Lack of standard procedures

- Better regulation

Lack of measurement & evaluation mechanisms

- Data collection
- Indicators on government performance: Benchmarking, awarding
- Monitoring body/institution



<https://www.oecd.org/regreform/42112628.pdf> - intended for an international audience, but worth exploring here!

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Polling Question #3

How long have you worked in government?

- A. 0-5 years
- B. 6-10 years
- C. 11-15 years
- D. 16-20 years
- E. 21+ years



What Are Some Budget Innovations?

Share your experience in the chat as we go!



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Zero-based Budgeting

The idea: Justify your entire budget!

ZBB breaks down each budgetary entity, or decision unit, into a series of budgetary options, or decision packages.

- Base level
- Current level
- Enhanced level



<https://www.gfoa.org/materials/zero-base-budgeting>

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Polling Question #4

Did you just check out when I mentioned zero-based budgeting?

- A. Yes
- B. No



Zero-based Budgeting

NO ONE DOES THIS! WHY ARE WE TALKING ABOUT A DECADES OLD IDEA THAT ISN'T EVEN FEASIBLE???

Let's scrap academic definitions for a minute and discuss the point...

The idea: Justify your entire budget!

- How else can we achieve this goal?



Zero-based Budgeting

- Reduce the “decision packets”
 - Iowa in the 1990s: Gave agencies 75% of prior year, asked for justification for the rest
- Not annual
 - Maine in 2011: Created a 2-year prep phase
 - Georgia in 2012: 10-year approach
- Sunset programs
 - Programs “go away” after 3-5 years



Priority-based Budgeting

The idea: Fund what's most important!

A much more strategic process...

1. Identify resources
2. Identify costs of service-delivery programs
3. Identify community priorities
4. Score programs according to goal alignment



Mitchell, D., Larson, S. E., Henley, T., Spranger, A., & Myser, S. (2022). A reflection of changing priorities? The reallocative impact of priority-based budgeting in US municipalities. *Public Budgeting & Finance*, 42(3), 3–22.

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Priority-based Budgeting

More than 200 governments do this...Does it work?

- Let's look at the research Mitchell et al. (2022) conducted...



Mitchell, D., Larson, S. E., Henley, T., Spranger, A., & Myser, S. (2022). A reflection of changing priorities? The reallocative impact of priority-based budgeting in US municipalities. *Public Budgeting & Finance*, 42(3), 3–22.

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Priority-based Budgeting

Model selection

The formula for the non-parametric estimation approach can be found in Equation (1).

$$Y_{it} = \sum_{\tau=1}^{T_0} \beta_{\tau} I(\tau = 1) + \sum_{g=1}^G \gamma_g I(g = 1) + \delta D_{it-1} + \theta_k X_{tk} + \varepsilon_{it} \quad \forall t > T_0, \quad (1)$$

D represents the key determination of treatment, in this case being a low-priority department in a city that has implemented PBB, due to the nature of the coding of the dummy variables. The coefficient δ , or the average treatment effect for the treated, represents



Mitchell, D., Larson, S. E., Henley, T., Spranger, A., & Myser, S. (2022). A reflection of changing priorities? The reallocative impact of priority-based budgeting in US municipalities. *Public Budgeting & Finance*, 42(3), 3–22.

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Priority-based Budgeting

TL;DR-

- Costly and time-consuming, BUT
- It does appear to lead to reallocation

How do we decide on our communities' priorities?

- Can we make a stronger link between budget and strategic planning?



Program Budgeting

The idea: Fund outputs, not inputs!

Goals are defined and expenses are allocated based on defined goals.

- Like PBB (another form of output-focused budgeting), this form can be more strategic.

13.4. Marketing and Promotion

Purpose: The purpose of this appropriation is to manage the state's farmers markets, to promote Georgia's agricultural products domestically and internationally, to administer relevant certification marks, to provide poultry and livestock commodity data, to administer surety bonds, to provide information to the public, and to publish the Market Bulletin.

Total Funds	\$8,462,827
Other Funds	\$855,701
Other Funds - Not Specifically Identified	\$855,701
State Funds	\$7,607,126
Georgia Agricultural Trust Fund	\$1,884,774
State General Funds	\$5,722,352



Program Budgeting

Like cooking chicken...This approach doesn't lend itself well to partial measures.

Tradeoff alert!

- Decision makers can be more strategic, BUT
- Departments get more discretion (often paired with more accountability)



Performance Budgeting

The idea: Let's see how we're doing!

Often looks like a program budget + performance measure.

- Link “what we’re spending” + “how we’re doing”

Keep in mind that the selection of performance measures is one of the most critical elements of the performance measurement system. They must be chosen to “measure the right things” – that is, they must be relevant to program goals.



Performance Budgeting

At its simplest, we're adding performance measure data to the budget.

GFOA Distinguished Budget:

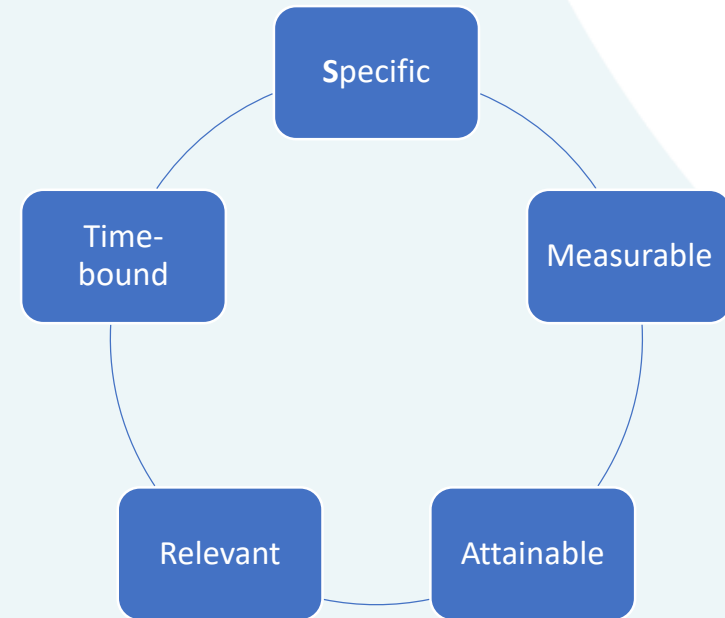
- #O6: Mandatory: Provide objective measures of progress toward accomplishing the government's mission as well as goals and objectives for specific departments and programs.



Performance Budgeting

This easy AND hard! How good are your measures?

- Effectiveness/Outcomes – measures how well a government accomplishes its goals and objectives as they relate to program and service delivery.
- Efficiency – measures how many resources a government consumes when achieving its goals and objectives as they relate to program and service delivery.
- Outputs – measures what the program or service produced in relation to its inputs. Customers can be internal or external depending on the type of good/service.
- Quality – measures the level of satisfaction of either internal or external customers in relation to the goods and services delivered to them.
- Workload Measures – measures the amount of outputs performed by a department, program, or service.



Performance Budgeting

What does discussion around your measures look like during the budget process?

Do you do any benchmarking?

- Share experiences in the chat!



Polling Question #5

Do you share performance data in an easily accessible way?

- A. Yes- both internally and publicly
- B. Yes- at least internally
- C. Let's define "easily" and "accessible"
- D. Not really



ICMA's Innovations

The International City/County Management Association recently wrote about “five standout practices that add an innovative touch to the budgeting process.”

- Transparent
- Citizen-Driven
- Equitable
- Efficient
- Recovery-Focused



<https://icma.org/blog-posts/five-innovative-budgeting-practices-strengthen-your-community>

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Participatory Budgeting

The idea: Citizen driven!

“The budget process is an important avenue for making resource allocation decisions, and thus, participatory budgeting allows citizens to have a say in how the taxpayers’ money is spent.”

“A binding public process in which residents decide how to spend a pot of public money.”



Guo, H. (David), & Neshkova, M. I. (2013). Citizen Input in the Budget Process: When Does It Matter Most? *American Review of Public Administration*, 43(3), 331–346.

Pape, M., & Lim, C. (2019). Beyond the “Usual Suspects”? Reimagining Democracy With Participatory Budgeting in Chicago. *Sociological Forum*, 34(4), 861–882.

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Participatory Budgeting

1. Citizens will better understand resource allocation decisions
2. Public officials learn citizens' preferences, and
3. Citizens review public officials' accountability



Guo, H. (David), & Neshkova, M. I. (2013). Citizen Input in the Budget Process: When Does It Matter Most? *American Review of Public Administration*, 43(3), 331–346.

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Participatory Budgeting

OpenGov breaks down the steps:

- The government first allocates a certain portion of the budget to the participatory process.
- The government then provides information to orient public knowledge to the specific budget items and issues involved.
- Citizens then deliberate and decide how the budgeted money should be spent.
- Ultimately, the government adopts and approves the budget.
- Finally, implementation progress is reported to the public.



<https://opengov.com/article/innovative-examples-of-participatory-budgeting-in-government/>

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Participatory Budgeting

What does this look like in Chicago:

“PB Chicago” – 4 wards are given discretionary “Menu Money” (around \$1.3 million in 2012)

- Research finds “the ‘usual suspects’ are indeed overrepresented” but lower socioeconomic status residents “were just as likely as affluent residents with a history of political and civic participation to be involved in the more demanding phases of PB Chicago, and sometimes even more so.”



Pape, M., & Lim, C. (2019). Beyond the “Usual Suspects”? Reimagining Democracy With Participatory Budgeting in Chicago. *Sociological Forum*, 34(4), 861–882.

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Participatory Budgeting

Greensboro, NC “allows residents to decide how to spend \$500,000 worth of City funds -- \$100,000 per City Council district.”

Contracted with the Participatory Budget Project to facilitate.

<https://www.participatorybudgeting.org/mission/>



<https://www.greensboro-nc.gov/departments/budget-evaluation/participatory-budgeting/about>

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Participatory Budgeting

When does it matter most?

Research study “results show that citizen participation in the budget process has greatest positive effect on organizational performance at both the early and ending stages of the budget process, namely, the stages of information sharing and program assessment.” (less important during discussion and decision)

What does this tell us?



Guo, H. (David), & Neshkova, M. I. (2013). Citizen Input in the Budget Process: When Does It Matter Most? *American Review of Public Administration*, 43(3), 331–346.

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Open Budget

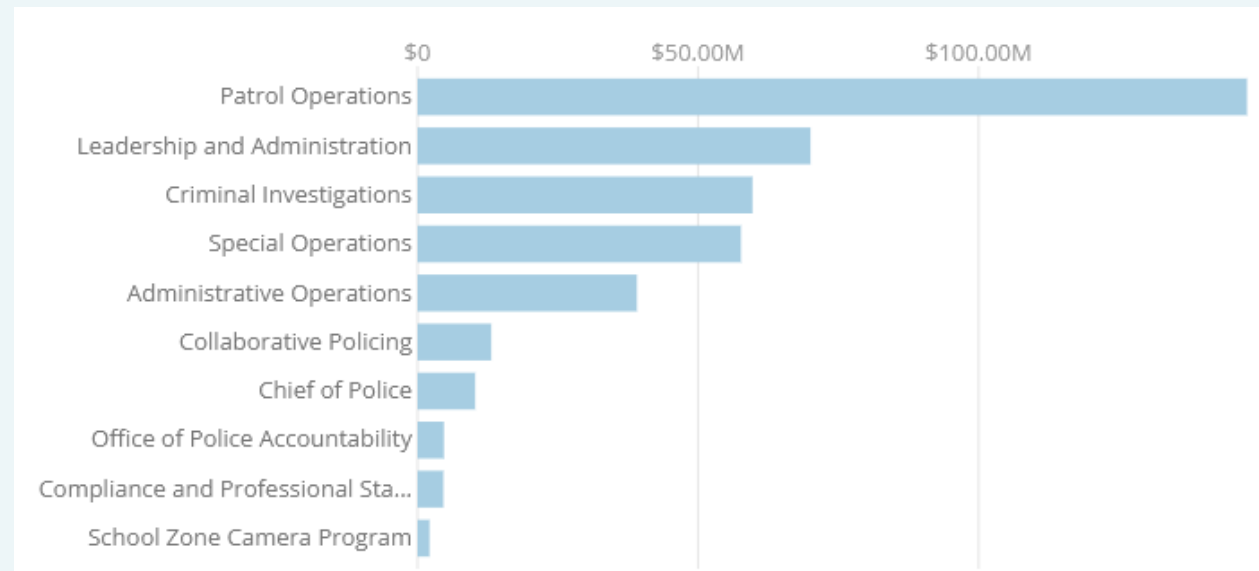
The idea: Transparency!

<https://openbudget.seattle.gov>

Let your public view the details

Pros and Cons?

- Share experiences in the chat!



Other Ideas

Stress Tests

<https://www.gfoa.org/materials/stress-tests-gfr10211111>

Budget Equity Tool

<https://www.sanantonio.gov/Equity/Initiatives/BudgetEquityTool>



What Are Some Resources?



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More Information

GFOA Rethinking Budgeting

- <https://www.gfoa.org/rethinking-budgeting>

OpenGov Participatory Budget Examples

- <https://opengov.com/article/innovative-examples-of-participatory-budgeting-in-government/>

ICMA Five Innovative Budgeting Practices

- <https://icma.org/blog-posts/five-innovative-budgeting-practices-strengthen-your-community>



Questions?

Dave Lakly

dlakly@uga.edu

404-917-7943



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