



Office of the City Auditor

## INFORMATION CALENDAR

April 1, 2014

To: Honorable Mayor and Members of the City Council

From: Ann-Marie Hogan, City Auditor

Subject: Berkeley Based Budgeting: Report from Goldman School of Public Policy Students

### INTRODUCTION

Budget challenges in most local governments lead to elimination of staff positions that diminish oversight as well as direct services. The cash handling audit report on tonight's agenda illustrates the risk of diminishing oversight. When oversight positions are cut to save programs and services, management simply does not have the resources it needs to effectively monitor fiscal operations and follow best practices to protect City funds and programs.

The Auditor's Office has issued a number of reports to Council about the risk of cutting analytical and oversight positions. On [October 2, 2012](#)<sup>1</sup> and [October 30 2012](#)<sup>2</sup> Council discussed the risks and requested that the City Manager disclose internal control risks of recommended budget cuts in future budget proposals.

Since this problem is by no means unique to Berkeley, the Auditor's Office asked Cal's Goldman School of Public Policy for a report on alternative budgeting practices that Berkeley might consider in place of its modified "across the board" approach to General Fund budgeting. A team of four second-year graduate students submitted the attached report, "Berkeley Based Budgeting: Recommendations for Implementing Priority-Based Budgeting in the City of Berkeley."

The Goldman students did an excellent job of explaining national and statewide revenue trends, the likelihood of continued budget reductions for Berkeley, and the dangerous consequences of budget approaches that most cities use. For that reason, I've placed it on tonight's agenda.

This report represents the hard work, vision, and recommendations of four talented Goldman students and its conclusions are entirely their own. Their Priority-Based Budgeting proposal is aimed at assisting Council and management to evaluate programs and make difficult decisions among competing programs and services.

<sup>1</sup> [http://www.ci.berkeley.ca.us/uploadedFiles/Auditor/Level\\_3\\_-\\_General/A.4\\_Consent%20Calendar%20and%20Annual%20Report\\_Final.pdf](http://www.ci.berkeley.ca.us/uploadedFiles/Auditor/Level_3_-_General/A.4_Consent%20Calendar%20and%20Annual%20Report_Final.pdf)

<sup>2</sup> [http://www.ci.berkeley.ca.us/uploadedFiles/Auditor/Level\\_3\\_-\\_General/A.3.a\\_Info%20Item\\_and\\_Annual%20Report%20for%20Discussion\\_2012%20Final.pdf](http://www.ci.berkeley.ca.us/uploadedFiles/Auditor/Level_3_-_General/A.3.a_Info%20Item_and_Annual%20Report%20for%20Discussion_2012%20Final.pdf)

They note that some of the best practices and steps they recommend are already in place in Berkeley. One is the system for community agency evaluation used for staff and commission funding recommendations that Council uses in approving budgets.

A second example of important elements of priority-based budgeting is the community priority-setting and measurement system used by the City and the Berkeley School District in establishing and implementing the 2020 Vision for Berkeley's Children and Youth.

#### ENVIRONMENTAL SUSTAINABILITY

The particular recommendation about establishing and improving performance measures will be helpful as the city measures and monitors its progress on environmental goals such as Zero Waste by 2020.

#### POSSIBLE FUTURE ACTION

City staff and the commissions are already using performance-based budgeting in their evaluation of community agency performance and their recommendations to Council for agency funding. Council may want to evaluate whether the current process is helping them to make evidence-based budget decisions reflecting community priorities.

Building on Berkeley's past success in strengthening performance measures for city programs is a necessary first step in improving Council budgetary decision-making. The Auditor's Office will continue and increase our efforts to provide guidance for improving measuring and monitoring systems through our performance audits.

The Council could consider whether other recommendations in this report should be considered in the future.

#### FISCAL IMPACTS OF POSSIBLE FUTURE ACTION

Unknown. Current efforts to strengthen performance measurement and monitoring systems require staff resources. Further study of the feasibility of implementing the students' four recommendations and reorganization of government functions around programs would both be very staff intensive. A community visioning process would require significant resources from both Council and staff.

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#### Attachments:

- 1: Berkeley Based Budgeting: Recommendations for Implementing Priority-Based Budgeting in the City of Berkeley
- 2: Executive Summary/Handout

# Berkeley Based Budgeting:

## Recommendations for Implementing Priority-Based Budgeting in the City of Berkeley

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Goldman School of Public Policy

May 29th, 2013

## Table of Contents

Contents .....	1
Executive Summary.....	5
Project Background .....	5
Berkeley City Auditor .....	7
Introduction .....	8
<i>Figure 1. Number of Full Time Equivalent City of Berkeley Employees (FTEs)</i>	8
<i>Figure 2: Legislative Analysts Office Recovery Forecast</i>	9
<i>Figure 3. Actual and Project Growth in California Public Employees Retirement System (CalPERS)</i> .....	9
<i>Figure 4. City of Berkeley General Fund Deficit Without Balancing Measures</i>	10
<i>Figure 5 Adopted Fiscal Year 2012 and 2013 Budget Balancing Plan</i>	11
The Purpose of Public Budgets .....	14
Berkeley’s Budget Process .....	15
What Works in the Current Process .....	15
What Does Not Work Well .....	17
<i>Figure 5: Example Budget Impact Statement from FY 2013 &amp; FY 2013 Budget</i>	18
Alternative Budget Model: Priority-Based Budgeting	21
<i>What is Priority-Based Budgeting?</i> .....	25
Why Berkeley’s Budget Process is Not a Priority-Based Budgeting Process	27
Recommendation: Berkeley Based Budgeting (BBB)	29
<u>Recommendation 1</u> : Establish a Strategic Vision for Berkeley	29
<i>Figure 7: Example Out Statements for Los Angeles</i>	30
Benefits:.....	30

Costs: ..... 30

Impact on Good Governance:..... 31

Recommended Changes to the Work Plan: ..... 31

Recommended Changes to Budget Documents:31

Recommendation 2: Reorganize Government Functions Around Programs 31

Benefits:..... 32

Costs: ..... 32

Impact on Good Governance:..... 32

Recommended Changes to the Work Plan: ..... 32

Recommended Changes to Budget Documents: 30

Recommendation 3: Develop Performance Measures for Each City Program 33

*Figure 8: Example of Performance Measures from the City of Richmond, VA* 35

Benefits:..... 35

Costs: ..... 35

Impact on Good Governance:..... 35

Recommended Changes to the Work Plan: ..... 36

Recommended Changes to Budget Documents:36

Recommendation 4: Allocate Funding to Programs According to Performance and Priorities 36

*FIGURE 9: Example of the “Quartile Method” Used by the City of Walnut Creek* 37

*FIGURE 10: Example of the “Quartile Method” Used by the City of Grand Island, NE* 38

Benefits:..... 38

Costs: ..... 38

Impact on Good Governance:..... 39

Recommended Changes to the Work Plan: ..... 39

Recommended Changes to Budget Documents:39

Implementing Berkeley-Based Budgeting .....	39
Step 1: City Leadership Adopts the Philosophy of the PBB Framework:.....	39
Step 2: Establish Strategic Priorities .....	41
<i>Figure 11: Slide from City of Walnut Creek’s Budget Story: the Community’s Role</i>	41
Step 3: Reorganize Government Functions Around Programs	43
Figure 12: Example of Program Inventories (Hypothetical)	44
Step 4: Develop Performance Measures for Each Program/Activity	46
Step 5: Allocate Funding to Programs According to Performance and Community Priorities	46
Appendix 1: Government Finance Officers Association Budget Best Practices	49
<i>Figure A-1: GFOA Budget Best Practices .....</i>	49
Principle 1 – Establish Broad Goals To Guide Government Decision Making	49
Principle 2– Develop Approaches to Achieve Goals	50
Principle 3 – Develop a Budget with Approaches to Achieve Goals	50
Principle 4 – Evaluate Performance and Make Adjustments	50
Appendix 2: Berkeley’s City Government .....	51
<i>Figure A-2: City Of Berkeley Organizational Chart</i>	52
Appendix 3: Berkeley’s Budget Process .....	53
The Citywide Work Plan .....	53
The Budget Document.....	54
Appendix 4: Primary Elements of Priority-Based Budgeting	56
<i>Exhibit A-1: Common Elements of Priority-Based Budgeting</i>	56
<i>1. Strategic Prioritization and Planning Process is in Place</i>	56
<i>2. Organizational Structure is Built around Outcomes</i>	56
<i>3. Performance Metrics Established to Measure Outcomes and Objectives</i>	56
<i>4. Mechanism is in Place to Gather and Validate Performance Data</i>	57

<i>5. Budget Links Spending to Service Objectives</i>	57
<i>6. Accounting Systems Are Aligned with Budgeted Service Delivery Structures</i>	57
<i>7. Reporting and Active Use of Performance Data</i>	57
Appendix 5: Hidden Risks of Budget Cuts - Focus on Fraud	58
Appendix 6: Performance Data Already in Berkeley	59
Examples of performance measures from Berkeley	59
<i>1. City of Berkeley Department of Public Works General Plan (2003)</i>	59
<i>2. Berkeley Unified School District</i> .....	60
<i>2. Housing and Community Services</i> .....	61
Glossary of Key Terms for Performance-based Budgeting	63
Acknowledgements: .....	64
Bibliography .....	65

*“We are going to see a contraction of state money and an inevitable growth in costs, and it’s not clear that Berkeley and other California cities will be able to continue as they always have. When the resources go away, we can either do everything halfway or we can have a conversation about the most important things to do.”* – Former Berkeley City Manager<sup>1</sup>

## Executive Summary

In recent budget cycles, the City of Berkeley has used across-the-board cuts to balance its budget deficits. Under this practice, the City Manager asks each department to make the same percentage reduction from the prior year’s baseline, which equally spreads the pain of budget cuts across all of the City’s departments. From this baseline, the City Manager adjusts the final funding amount, based on a process and criteria that do not appear in the Budget Documents, and are essentially invisible to the public. This ‘black box’ appearance of government obscures the difficult trade offs inherent in the budget process, and increase divisiveness among stakeholders. While across-the-board cuts is a useful approach on a temporary basis, there is the strong potential for it to undermine the effectiveness and integrity of the City’s government in the long term. Such cuts undermine efforts to prioritize the use of limited resources, and present a range of very real long-term risks to the management of the City.

In the coming years, municipal officials across California will be facing a grim fiscal environment. Increasing pension and healthcare costs are projected to consume an increasingly large share of municipal budgets. The City of Berkeley faces increasing costs and flat revenues, which represent a major structural change to the budget environment.. The current budget system has worked well for small or occasional cuts, but is ill equipped to address major structural changes. There is no recent precedent for the difficult decisions about priorities and trade-offs that lay ahead. Given these challenges, Berkeley’s elected officials and public managers should re-tool the City’s budget process to ensure that government activity is aligned with the most important needs and values of the community.

We recommend that the City of Berkeley amend its budget process so that decision makers have the information they need to prioritize among competing proposals. The following recommendations are informed by the existing municipal finance literature, interviews with over twenty city managers and public budgeting experts, including current and former City of Berkeley employees, and a nationwide examination of dozens of city and municipal budget processes.

We call these recommendations “Berkeley Based Budgeting,” as they take into account the unique elements of Berkeley’s current budget process and community values. If implemented, these

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<sup>1</sup> Interview, March 28<sup>th</sup>, 2013.



recommendations will also give the City's leaders and managers the additional information they need to most effectively allocate the City's limited fiscal resources to support the highest priorities of Berkeley's residents.

Our recommendations are:

**1. Establish a Strategic Vision for the City and Communicate those Principles to the Public:** The City Council should identify the core values of the community and the role of government in supporting and advancing those values, and then establish priorities that reflect these goals. The priorities should be expressed in terms of the results or outcomes that the public value.

**2. Match Government Activities to Outcomes and Strategic Goals:** The City should reorganize the Work Plan, the Budget Document, and all departmental funding requests to appear according to program, as opposed to department. This process begins with the City Manager and staff creating a comprehensive directory of all City activities, and working with department heads to identify the outcomes that align with the Council's priorities. The City Manager should then create a document that maps out how these outcomes lead to strategic goals.

**3. Develop Measures to Evaluate the Progress of Each Program:** The City should develop performance measures that are readily collectible, reliable, and sufficient for accountability with the goal of assessing the performance of each program. Department heads should work with the City Council and the City Manager to develop performance metrics. These measures should be included in the Work Plan and the Budget Document.

**4. Allocate Resources by Program and Hold Programs Accountable Based on the Outcome Measures:** Departments should submit budget proposals to Council that itemize requests at the program level. This would allow the Council to evaluate budget requests in terms of programs and results. These requests would include the mission, the agreed upon outcomes, and the metrics used to measure progress for each program.

## Project Background

Ms. Ann-Marie Hogan, the Berkeley City Auditor, commissioned a team of four Master of Public Policy students from the University of California-Berkeley's Goldman School of Public Policy to analyze the City of Berkeley's budget process. Ms. Hogan requested that the analysis focus on examining how the City might use different budgeting practices as alternatives to the City's current budget process. The City Auditor is concerned that the City's current approach increases long-term risks to the City's integrity. These risks include fraud, efficiency loss, and even mission failure.

## Berkeley City Auditor

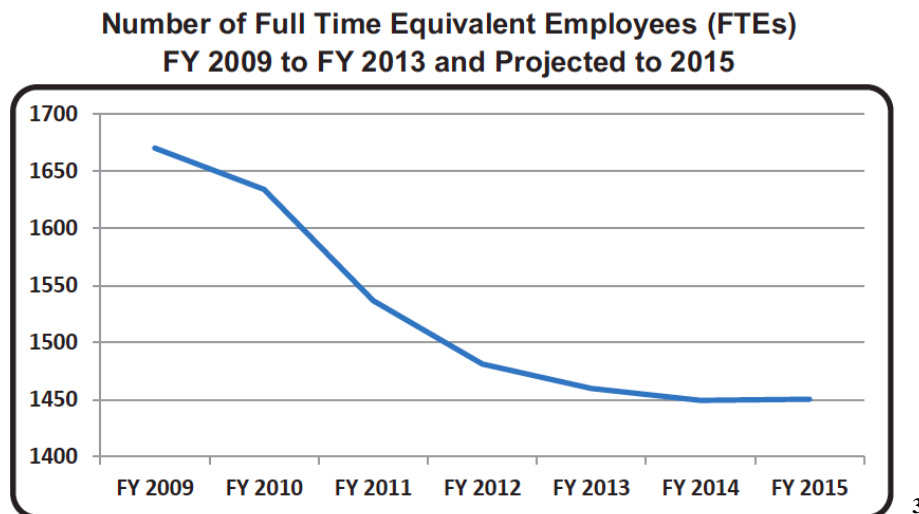
The City of Berkeley Auditor's Office is tasked with providing independent oversight of City activities. The mission of the Auditor's Office is to improve government effectiveness and accountability by providing the public with information and recommendations regarding the performance of City programming.

## Introduction

The City of Berkeley has a strong reputation for fiscal excellence. Both Standard & Poors and Moody's rate the City as one of the most fiscally responsible in all of California.<sup>2</sup> These ratings are a reflection of the City's commitment to timely and prudent budgeting through both good and bad economic times. But the combination of a lagging economy and increasing long-term costs is a deep structural change that threatens Berkeley's long-term fiscal condition.

The Great Recession hit the City hard and has forced continued budget cutting since 2008. Because 60-70 percent of City's General Fund goes toward labor costs, there has been a roughly 13 percent reduction in the City's workforce that can be seen in Figure 1, with further cuts projected through 2014.

**Figure 1. Number of Full Time Equivalent City of Berkeley Employees (FTEs)**



3

As seen in Figure 2, the economy is not projected to recover from the Great Recession until 2015 at the earliest, which is posing ongoing challenges for the City of Berkeley as the Berkeley economy continues to lag and state aid has been drastically reduced.<sup>4</sup> As noted in the Fiscal Year 2012 & 2013

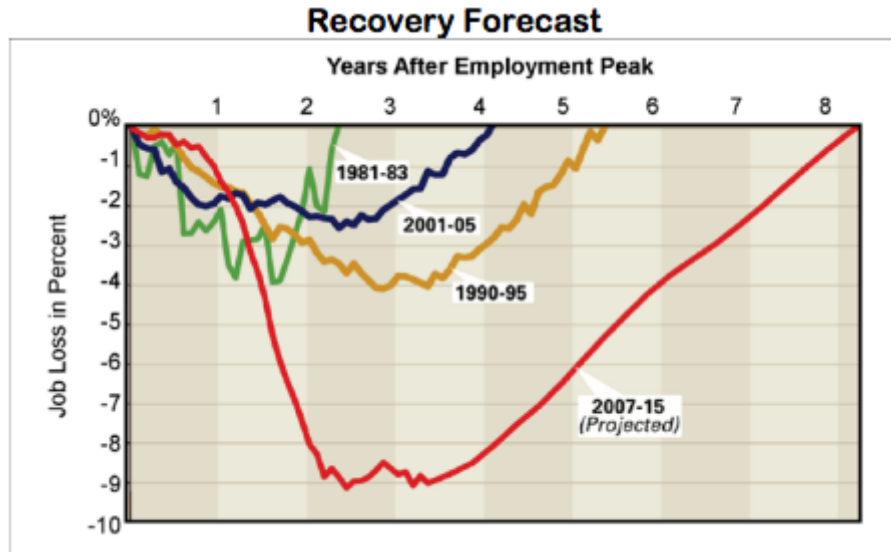
<sup>2</sup> City of Berkeley Fiscal Year 2014 & Fiscal Year 2015 Adopted Budget, page 30, available from: [http://www.ci.berkeley.ca.us/Clerk/City\\_Council/2013/05May/Documents/2013-05-07\\_Worksession\\_Item\\_01\\_Proposed\\_FY\\_2014\\_WEB\\_ONLY.aspx](http://www.ci.berkeley.ca.us/Clerk/City_Council/2013/05May/Documents/2013-05-07_Worksession_Item_01_Proposed_FY_2014_WEB_ONLY.aspx)

<sup>3</sup> City of Berkeley Fiscal Year 2014 & Fiscal Year 2015 Adopted Budget, page 7, available from: [http://www.ci.berkeley.ca.us/Clerk/City\\_Council/2013/05May/Documents/2013-05-07\\_Worksession\\_Item\\_01\\_Proposed\\_FY\\_2014\\_WEB\\_ONLY.aspx](http://www.ci.berkeley.ca.us/Clerk/City_Council/2013/05May/Documents/2013-05-07_Worksession_Item_01_Proposed_FY_2014_WEB_ONLY.aspx)

<sup>4</sup> In the most recent budget cycle, the City of Berkeley had to shoulder an additional \$1.6 million cost passed on from the state.

budget: “We [the City] avoided major layoffs by managing vacancies, and reducing services that had the least impact while anticipating an economic rebound. However, the expected recovery has not yet materialized, and all indicators continue to confirm that the recovery will be a slow one.”<sup>5</sup>

**Figure 2: Legislative Analysts Office Recovery Forecast**



6

The difficult local, state, and national economic trends are only part of the story, however. In addition to an underperforming economy, the City is also facing substantial increases in its pension and healthcare obligations due to recent policy changes at the California Public Employees Retirement System (CalPERS). These changes are increasing the pension contributions that municipalities are responsible for. The City is currently projecting that their pension costs will increase substantially by 2016, as seen in Figure 3.<sup>7</sup>

**Figure 3. Actual and Project Growth in California Public Employees Retirement System (CalPERS)**

The percentage of that department’s payroll that goes to CalPERS:

<sup>5</sup> City of Berkeley 2012 & 2013 Budget, page 4, available from:

<http://www.ci.berkeley.ca.us/uploadedFiles/Manager/Budget/FY%202012%20and%20FY%202013%20Adopted%20Budget%20Book.pdf>.

<sup>6</sup> City of Berkeley 2012 & 2013 Budget, page 4 available from:

<http://www.ci.berkeley.ca.us/uploadedFiles/Manager/Budget/FY%202012%20and%20FY%202013%20Adopted%20Budget%20Book.pdf>.

<sup>7</sup> Other experts have speculated that these CalPERS changes may cause pension obligations to increase by 50 percent for some municipalities. See: Ortiz, Jon, “The State Worker: CalPERS Approves Huge Pension Reform,” *The Sacramento Bee*, April 17<sup>th</sup>, 2013, available from: <http://www.sacbee.com/2013/04/17/5350170/the-state-worker-calpers-approves.html>.

### Fiscal Year 2014 & Fiscal Year 2015 CalPERS Rates (All Funds)

	CalPERS Actuals FY 2013	CalPERS Actuals FY 2014	Actuary Estimates FY 2015	% Increase*	\$ Increase* (in millions)
Police	42.0%	45.7%	45.9%	9.29%	\$ .858
Fire	29.1%	31.5%	32.0%	9.97%	\$ .429
Miscellaneous	19.2%	20.9%	21.1%	9.90%	\$ 1.6

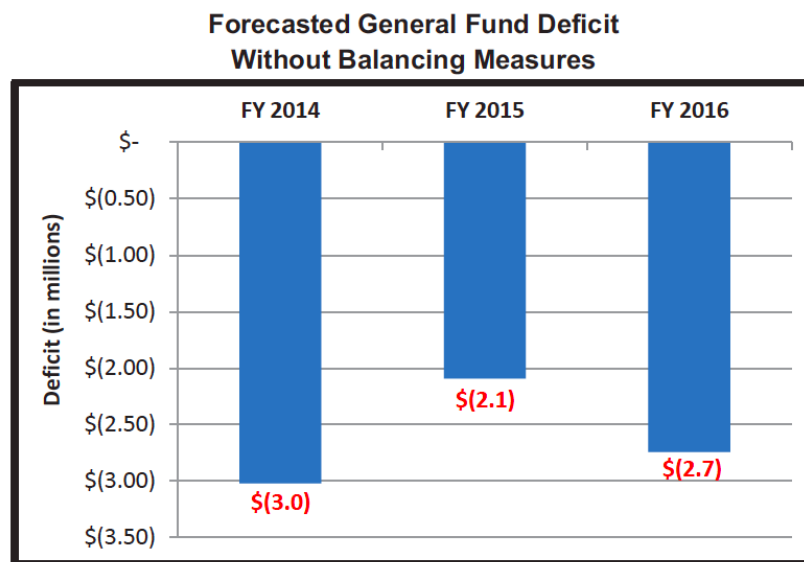
\*Two year increase from FY 2013 to FY 2015

8

The City Manager estimates that the City will need to spend an additional \$2.9 million over the next two years just to cover the costs of these increased CalPERS rates for those two years.<sup>9</sup>

This one-two punch of an underperforming economy and increasing long-term costs is a deep structural change that threatens Berkeley's long-term fiscal condition. Figure 4 shows how the City's projected general fund deficit is expected to hit to \$2.7 million by 2016 absent balancing measures.

**Figure 4. City of Berkeley General Fund Deficit Without Balancing Measures**



10

<sup>8</sup> City of Berkeley Fiscal Year 2014 & Fiscal Year 2015 Adopted Budget, page 11, available from: [http://www.ci.berkeley.ca.us/Clerk/City\\_Council/2013/05May/Documents/2013-05](http://www.ci.berkeley.ca.us/Clerk/City_Council/2013/05May/Documents/2013-05)

07\_Worksession\_Item\_01\_Proposed\_FY\_2014\_WEB\_ONLY.aspx

<sup>9</sup> Ibid, page 12.

In previous budget cycles, the City has primarily relied on spending cuts to balance its budgets. For example, in the most recent budget, the City was facing a two-year budget deficit of \$15.1 million dollars, equal to 2.2% of the City’s roughly \$700 million dollar biennial budget.<sup>11</sup> To balance this shortfall the City used a 14:1 mix of spending reductions and revenue increases, as seen in Figure 5.

**Figure 5 Adopted Fiscal Year 2014 and 2015 Budget Balancing Plan<sup>12</sup>**

**FY 2014 and FY 2015 Two-Year  
Balancing Plan for the General Fund  
(dollars in millions)**

Balancing Plan	FY 2014	FY 2015	2-Year Total
Reductions	2.8	0	2.8
Revenues	.2	0	.2
<b>Total Balancing Plan</b>			<b>3.0</b>

In recent budget cycles, the City has adopted an “across-the-board” approach to budget cuts, whereby every City department is asked to reduce their previous budget by the same overall percentage. In practice, the City Manager uses across-the-board cuts as a starting point in the budget process. The actual funding requests from each department are developed in consultation between the department heads and the City Manager. This approach is not uncommon, and cities including San Francisco use it to accomplish cuts in the short term.

We have several concerns with these across-the-board cuts. First, they have the potential to cause mission failure. That is, non-prioritized budget cuts threaten the City’s ability to deliver highly valued services. Instead of choosing to continue a core subset of services, the City attempts to maintain a large breadth of services with dwindling resources. Second, these cuts undermine the long-term integrity of City government. Departments may be more likely to cut administrative, support, and oversight functions in order to maintain government services. This atrophy of administrative functions comes with many long-term risks. As an example, reductions in program size and reductions in support staff both come with a significantly heightened risk of fraud (which is costly beyond dollar figures in terms of public opinion and confidence). Fundamentally, when the short-term imperative is closing budget deficits, long-term objectives are sidelined. Finally, across-the-board budget cuts have inequitable consequences. Cuts are never restored as they were implemented; “egalitarian” cuts are weighted in the favor of departments that stand to gain from redistribution.

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<sup>10</sup> City of Berkeley 2014 & 2015 Budget, page 9, available from:  
[http://www.ci.berkeley.ca.us/Clerk/City\\_Council/2013/05May/Documents/2013-05-07\\_Worksession\\_Item\\_01\\_Proposed\\_FY\\_2014\\_WEB\\_ONLY.aspx](http://www.ci.berkeley.ca.us/Clerk/City_Council/2013/05May/Documents/2013-05-07_Worksession_Item_01_Proposed_FY_2014_WEB_ONLY.aspx)

<sup>11</sup> Ibid, page 5.

<sup>12</sup> Ibid, page 5. The figure represents how the City’s General Fund was balanced. The other half of the budget cuts was dealt with special funds that have dedicated sources of funding.

We also found little support for the practice either in the academic literature or among other public managers we interviewed. As per Jimenez (2013), “Prioritizing equity over efficiency by implementing across-the-board cuts is generally viewed negatively in the literature, and considered a symptom of decision paralysis.”<sup>13,14</sup> The Government Finance Officers Association also describes the limitations of this type of incremental budgeting as “not up to the financial challenges posed by the new normal of relatively flat or declining revenues, upward cost pressures from health.” These concerns were echoed throughout many of our other with interviews.

The central problem with the status quo is that:

***Berkeley’s current budgeting system does not begin with setting formal strategic priorities that matter to the community, nor does it sufficiently allow decision makers to determine how different spending proposals will influence the ability of government to advance those priorities.***

The City of Berkeley is faced with the challenge of diminishing resources and increased expectation for services. Now more than ever, impending structural changes compel the City to implement best practices in the budget process.

The City Auditor’s Office asked us to conduct an analysis of budgeting best practices. We surveyed practices and determined that the strategy known as Priority Based Budgeting offers the best framework for addressing the political and economic problems facing Berkeley while respecting the uniquely community-oriented values of the City. This alternative involves developing a process to link City priorities to a strategic plan by means of a robust performance measurement system. City priorities must therefore drive programmatic goals, and these must be tied to the budget process through a commitment to agreed-upon targets.

In searching for alternative budget process models, we examined how other similar cities and municipalities – both in California and across the country - have incorporated elements of Priority-Based Budgeting (PBB). Cities have implemented this framework to better: 1)

***“Instead of keeping up with small items that surface all year long, it would be better to think about ways to invest and think strategically.”***  
Berkeley City Council Member<sup>15</sup>

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<sup>13</sup> Levine, H.C. (1985). “Police Management in The 1980s: From Decrementalism to Strategic Thinking.” *Public Administration Review*, 39: 691-700.

<sup>14</sup> Jimenez, B. (2013). Smart Cuts?: Strategic Planning, Performance Management and Budget Cutting in US Cities During the Great Recession. *Strategic Planning, Performance Management and Budget Cutting in US Cities During the Great Recession (April 3, 2013)*. Forthcoming in the *Journal of Public Budgeting, Accounting & Financial Management*.

<sup>15</sup> Interview, April 3<sup>rd</sup>, 2013.

identify their community's most important priorities, 2) improve their ability to make difficult tradeoffs 3) improve their government's operational efficiency and 4) improve government transparency and community engagement.

At its core, priority-based budgeting **“is defined by the use of performance data throughout the budget preparation process and by the commitment of decision makers to consider performance data when making resource allocation decisions.”**<sup>16</sup>

PBB will improve the City's budget process by:

- **Encouraging better and more frequent strategic planning to better align service delivery and spending with desired outcomes;**
- **Adding information to budget deliberations;**
- **Providing program managers and employees with information that can make them more efficient; and**
- **Demonstrating to the public that their government is committed to improving service quality.**

It is important to note, however, that priority-based budgeting is not a panacea or a silver bullet.

No PBB system can:

- **Solve a fiscal crisis;**
- **Remove politics from decision making;**
- **Reduce the influence of interest groups;**
- **Prevent poor management decisions; or**
- **Refocus citizen priorities.**

These limitations of PBB are, fundamentally, a reflection that all public budgeting is, at its center, a function of democratic politics. No budget process can generate answers to the difficult political questions that confront public officials and managers at every level of government. Examples of cost savings from performance benchmarking abound, but such savings are not guaranteed because of the unique nature of each PBB system and the complexity of factors involved in the stewardship of any budget process.<sup>17,18</sup> However, the information made available to public managers can support rational

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<sup>16</sup> Kelly, Janet and Rivenbank, William C., Performance Budgeting for State and Local Governments, M.E. Sharpe Inc., page 79-80.

<sup>17</sup> Ammons, D. N., & Rivenbank, W. C. (2008). Factors influencing the use of performance data to improve municipal services: Evidence from the North-Carolina benchmarking project. *Public Administration Review*, 68, 304-318.

<sup>18</sup> Jimenez, B. (2012). Strategic Planning and the Fiscal Performance of City Governments during the Great Recession. *American Review of Public Administration*.



decision-making. Performance data can especially help to enable politicized Mayor-Council cities to justify targeted cuts.<sup>19</sup>

Ultimately, priority-based budget policies can give elected officials and government managers more relevant facts and data when they are making difficult budget decisions. Therefore, this analysis does not make any normative recommendations about any of the hundreds of other decisions that comprise the City's budget process. The responsibility for those choices remains with the City's elected officials and professional managers. Our analysis instead recommends policies that will put more relevant information into the hands of budgetary decision makers as they confront the political and financial tradeoffs that are at the heart of any budget process.

## The Purpose of Public Budgets

All public budgets need to serve three different purposes simultaneously: 1) accurately reflect a community's values; 2) ensure operational effectiveness, i.e. make sure that government services are delivered; and 3) preserve the financial integrity of government in the short- and long-term. These different goals create an inherent tension in any budget process, as financial realities and effective management strategies have to be balanced against the competing, and often contradictory, democratic expressions of the public's values. A financially sound budget that does not reflect a community's values is problematic, just as is a budget that expresses a community's values but is financially unsound. The challenge for any budget process is to meet all of these three goals simultaneously.

To judge whether or not Berkeley's budget accomplishes these three goals, we analyze Berkeley's current budget process through the best practices framework developed by the GFOA National Advisory Council on State and Local Budgeting Budget Practices Policy (GFOA) defines an effective budget process as one that:

- Incorporates a long-term perspective,
- Establishes linkages to broad organizational goals,
- Focuses budget decisions on results and outcomes,
- Involves and promotes effective communication with stakeholders,
- Provides guidelines to management and employees, and

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<sup>19</sup> Jimenez, B. (2013). Smart Cuts?: Strategic Planning, Performance Management and Budget Cutting in US Cities During the Great Recession. *Strategic Planning, Performance Management and Budget Cutting in US Cities During the Great Recession* (April 3, 2013). Forthcoming in the *Journal of Public Budgeting, Accounting & Financial Management*.

- [Includes a] brief analysis discussing the current financial status, the immediate future status, and long-term trends.<sup>20</sup>

## Berkeley's Budget Process

According to the adopted budget, the stated goal of the budget process is to “assign resources to the goals, objectives, and community priorities set by the City Council...[and] under the City Charter, the City Manager prepares and recommends to the City Council an operating budget and a capital improvements budget for consideration and adoption.”<sup>21</sup>

Since 2000, the City has used a biennial budget process. The City Manager directs the budget development process, and “develops a balanced budget proposal for submission to the Mayor and City Council no later than the first Monday in May or at a date set in May through Council authorization.”<sup>22</sup> The proposed budget is then distributed to the public. The Council hosts eight separate budget workshops and two public hearings to examine and discuss the economic climate, revenue projections, state and federal cuts, and deficits facing the City. The budget incorporates forecasts of economic conditions, revenue, and fiscal liabilities.

The budget process revolves around several key documents—the proposed and adopted biennial budget, the current fiscal year's budget, and the Citywide Work Plan. These documents provide an overall assessment of the City's finances and describe changes in the economic and fiscal condition of Berkeley. They provide detailed financial breakdowns of each department's revenue and spending. The Citywide Work Plan provides a qualitative description of the City's ongoing operations, including summaries of the work accomplished by each of the City's departments.<sup>23</sup>

In other words, the Citywide Work Plan describes the ongoing work of each department, while the Budget explains where funding is being allocated and how the city is financing its operations.

## What Works in the Current Process

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<sup>20</sup> “Recommended Budget Practices: A Framework for Improved State and Local Government Budgeting,” *Government Finance Officers Association*, available from: [www.gfoa.org/services/df/budget/RecommendedBudgetPractices.pdf](http://www.gfoa.org/services/df/budget/RecommendedBudgetPractices.pdf).

<sup>21</sup> City of Berkeley, FY 2012 & FY 2013 Adopted Biennial Budget,” page 23, available from: <http://www.ci.berkeley.ca.us/uploadedFiles/Manager/Budget/FY%202012%20and%20FY%202013%20Adopted%20Budget%20Book.pdf>.

<sup>22</sup> *Ibid*, page 23.

<sup>23</sup> For a more detailed description of the City's budget documents, please see Appendix 3: Berkeley's Budget Process.

We should begin by noting that there are many aspects of Berkeley's budgeting process that work quite well when compared against the GFOA's budgeting best practices.<sup>24</sup>

**The City Council Has a Fiscal Framework:** In accordance with GFOA Principle 1 (See Appendix 1; GFOA Budget Best Practices), the City Council has adopted seven fiscal policies that guide the work of the Office of Budget & Fiscal Management's work in developing the City's Budget.<sup>25</sup> This ensures that the budget process is informed by some guiding principles from the City Council.

**Berkeley's Budget Process is Centralized and Coordinated:** In accordance with GFOA Principle 2, the Office of Budget & Fiscal Management has developed a centralized process that coordinates the efforts of the City Council, City Manager, and staff to produce a balanced biennial budget in a timely manner. This process enables the City to steer its finances responsibly and meets municipal Generally Accepted Accounting Practices.

**The Budget Process is Biennial:** Budgeting on a two-year cycle allows the City to take a longer term fiscal and planning perspective compared to an annual process. This approach is consistent with GFOA Principle 3. Budgeting on a two-year cycle allows the City to better plan for its financial future, as well as allowing budget staff to devote off-cycle time to assessing program performance and analyzing data during the interim between budget cycles.

**"We realized that there was no time to look at performance evaluation if we had a similar budget cycle every year... We decided that a two-year process would enable the City to spend a year doing more assessment."** – Former Berkeley Staffer<sup>26</sup>

**The Budget Process Prohibits Fiscal Mischief:** The City Council's framework prohibits any dramatic shifting of revenues or expenditures in several ways. First, it prohibits the use of dedicated funds to pay for one-time expenses and requires that any new city expenditures either be offset with spending cuts or additional taxes. The reserve requirement also ensures that the City has resources to respond to unanticipated changes in the state and national economy. This is also aligned with GFOA Principle 3.

**The Budget is Complemented by the Work Plan:** The Work Plan provides necessary information to the City Council and the public about what the City is accomplishing with its current resources. Work Plan documents allow the City Council and the public to better understand how the structure of the City's government has changed over time. This process is well aligned with GFOA Principle 4.

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<sup>24</sup> For the full list of the GFOA's budgeting best practices, see Appendix 1.

<sup>25</sup> See Appendix 3.

<sup>26</sup> Interview, March 28<sup>th</sup>, 2013.

## What Does Not Work Well

Although many of the City's current practices work well, there are serious shortcomings that require action.

**“Success in budgeting depends on the council having a unified set of priorities and strategic vision. This allows the City Manager to execute and achieve the Council’s goals.”** – Former Berkeley Senior Staffer<sup>27</sup>

**The Existing Fiscal Framework is only Loosely Connected to Specific Outcomes:** The Council's current fiscal framework is primarily focused on the mechanics of the budget process itself and is not tied to any specific outcomes or strategic goals for the City. While the current framework does an excellent job of guiding City Manager's development of the budget, it does not connect the budget process toward any specific outcomes.

**The Council Lacks a Unified Strategic Vision for the City:** The Council has not developed a unified strategic vision that identifies the desired outcomes the City is trying to achieve. This creates several problems. First, the Council is unable to provide the City Manager with a set of outcomes that the budget should lead towards. Without such a vision, it is difficult to judge competing budget proposals because it is difficult to prioritize the City's services.

**“Budgeting is a survival game for the elected and staff and the process can devolve into a ‘fixer’ mindset to solve temporary problems without keeping a strategic eye on the big picture— the long term.”** - Former Berkeley Senior Staffer<sup>29</sup>

**The City's Work Plan is Primarily Descriptive:** In addition to the lack of overarching strategic vision, it is not always easy to connect the qualitative and descriptive information contained in the Citywide Work Plan to information contained in the City's budget documents. The Work Plan succeeds in informing the Council and the public as to what each department has accomplished over the past year. However, it does not adequately explain how each department's work may change in the future and on what basis. The City Council and the public cannot be expected to make well-informed decisions without an understanding of possible goals and the relevant possible outcomes.

**Budget Impact Summaries Do Not Provide Critical Information:** The current system makes it difficult for decision makers to choose among budget proposals. Without a strategic vision and the ability to easily connect the dots between the budget and outcomes, decision makers are not able to easily prioritize among spending proposals.

<sup>27</sup> Interview, March 7<sup>th</sup>, 2013.

<sup>28</sup> Interview, April 2<sup>nd</sup>, 2013.

<sup>29</sup> Interview, April 2<sup>nd</sup>, 2013.

An example of this can be found in the “Budget Impact Summaries” section of the City’s most recent adopted budget, which shows how budget reductions will impact specific government programs and the delivery of government services. The impact statement in the first department listed is similar to that of other departments and illustrates the shortcomings with the current budget process.

**Figure 5: Example Budget Impact Statement from FY 2012 & FY 2013 Budget**

PROPOSED CHANGES	PROGRAMMATIC IMPACTS	GUIDING PRINCIPLES IN DECISION MAKING	LOOKING FORWARD: CORE PROGRAMMATIC ACTIVITIES
<p><b>City Attorney</b></p> <ul style="list-style-type: none"> <li>• FY 12 Eliminate vacant Legal Office Supervisor (1.0 FTE)</li> </ul>	<ul style="list-style-type: none"> <li>➤ Work will be absorbed by other staff.</li> </ul>	<ul style="list-style-type: none"> <li>➤ Focus on eliminating vacant positions</li> <li>➤ Propose proportional reductions in general government to reductions in direct services</li> </ul>	<ul style="list-style-type: none"> <li>➤ The City Attorney’s Office will continue to provide legal advice to minimize liability and ensure conformance to legal constraints.</li> </ul>
<p><b>City Auditor</b></p>			

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On one hand, it is encouraging that these impact statements draw connections between budgetary decisions, the motivations for those decisions, and the projected effect of each change on the department’s programmatic activities. Yet these descriptions are vague. For anyone reading this document, it would be difficult to know exactly how not filling this position will affect the City Attorney’s office. It also begs the question, if eliminating this position had no effect on services, why wasn’t the position eliminated sooner?

In general, we find that these Budget Impact Statements lack the specificity needed for decision makers to fully understand the tradeoffs involved for each of these budgetary decisions.

**Across-the-Board Cuts Are a Dangerous Consequence of These Process Shortfalls:** One oft-cited advantage of across-the-board cuts is that the process gives budget officers and decision makers necessary information about how much each department can eliminate from its budget while minimizing impacts on service delivery. However, this supposed benefit pales in comparison to the priority-based budgeting alternative. The latter not only involves a great deal more quantifiable information, but does so within a functional framework that ties rational priorities to funding decisions. In addition, departments may escape some cuts through negotiation; this incentivizes strategic behavior and therefore reduces the reliability of the information available.

<sup>30</sup> City of Berkeley, FY 2012 & FY 2013 Adopted Biennial Budget,” page 124, available from: <http://www.ci.berkeley.ca.us/uploadedFiles/Manager/Budget/FY%202012%20and%20FY%202013%20Adopted%20Budget%20Book.pdf>.

A second purported advantage of across-the-board cuts is that they achieve inter-departmental equity, as each department is asked to take on an equal reduction in spending. However, cuts that are benchmarked at a percent level have unequal effects across programs. Some programs are unaffected while others are virtually immobilized.<sup>33</sup> In addition, the “equity” of such cuts is undermined by the inequitable redistribution that inevitably occurs after across-the-board cuts. Such cuts are never refunded as they were implemented. Some departments even stand to benefit from politicized funding in the years after budget cuts, and may enjoy a net gain at the expense of less popular or less visible functions.

**“When you are repeatedly cutting like that [across-the-board]... the risk of mission failure increases substantially”.**  
– Bay Area City Manager<sup>32</sup>

Across-the-board cuts do not offer any particular advantages, with the exception that they are politically attractive. However, across-the-board cuts present serious long-term risks. As previously detailed, these include mission failure and failure of core government integrity, which includes a heightened risk of fraud (see pages 21 - 24 for a Special Focus on Fraud).

**Over-reliance on Incremental Baseline Budgeting:** We frequently heard from current and former Berkeley employees that the final version of the budget is essentially developed through a series of conversations between the City Manager and individual City Council members. Furthermore, only minute fractions of the budget are reviewed and subject to discussion by the City Council.

A former Berkeley budget official said in an interview that:

“In my first experience with the budget, the initial agreement was refused by a Council member. When we looked at their proposal, out of a \$180 million budget, the discrepancy was eighty thousand dollars- and that was considered a big difference. In reality, 99 percent of the budget is not even debated. But there is heated debate, and it is over peanuts.”<sup>34</sup>

Though this concrete example is dated, it is supported by current Council admissions that it is “embarrassing” how little of the budget is subject to review or debate. As a fraction of the overall budget in the example above, \$80,000 amounted to four one-hundredths of one percent of the budget. The City Council is not engaged with the development of the vast majority of the budget.

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<sup>31</sup> Interview, March 7<sup>th</sup>, 2013. (I don’t see an interview here)

<sup>32</sup> Interview, March 7<sup>th</sup>, 2013.

<sup>33</sup> Behn, B.D. (1980). “Leadership for Cutback Management: The Use of Corporate Strategy.” *Public Administration Review*, November/December: 613-20.

<sup>34</sup> Interview, March 28<sup>th</sup>, 2013.

While budget baselines allow decision makers to simplify a very complex series of decisions, over-reliance on last year's spreadsheets can undermine a strategic approach to spending decisions. In normal economic times, such baseline budgeting is not harmful in the very short run. However, in the long run, holistic re-adjustments and recalibrations of allocations can be revealing and helpful. Furthermore, prolonged budget shortfalls require structural change, reorganization, and streamlining beyond incremental cuts.

**“A one-size-fits-all budget cut does not treat programs and departments like the very different entities that they are... A department may have a stepwise cost function, and may scale or not scale.”** – California State budgeting expert<sup>35</sup>

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<sup>35</sup> Interview February 21<sup>st</sup>, 2013.

## Focus on Fraud: The Hidden Risks of Budget Cuts

It is unlikely that any single incremental budget cut will immediately threaten an organization's functionality, but the cumulative effects of budget cuts can be hard to measure until those risks manifest themselves as catastrophic failures. While service provision is the most obvious and immediate victim of budget cuts, budget cuts also create long-term and more "invisible" risks as well. The risk of fraud provides a good example of one of these hard-to-measure risks.

Common preventive measures for fraud, as outlined by the Office of Management of Budget (OMB) and other sources, can suffer significantly from budget cuts, even when the cuts do not affect service provision levels.<sup>36</sup> According to the Association of Certified Fraud Examiners' "2012 Report to the Nations," government and public administration agencies account for 10 percent of all reported fraud cases worldwide.<sup>37</sup>

The following examples of fraud risk factors outline their relationship to fiscal austerity measures, especially with regard to across-the-board cuts.

**1. Active Monitoring and Direct Management** – The most basic prevention mechanism against fraud consists of frequent supervisory checks conducted by supervisors or by colleagues. This is bolstered by the proximity of management to supervise tasks. In lean times, active checks and deliberate, methodical supervision can be sidelined in favor of basic service provision. The lack of adequate monitoring is a major risk factor in many fraud cases.<sup>38</sup> A lack of formal mechanisms to evaluate outcomes can allow unusual activity to continue unchecked.

**Risks to Berkeley:** All budget cuts threaten the resources that programs can deploy to monitor in-house activity. Across-the-board cuts as used in Berkeley are especially pernicious in that they (1) spread the City's resources thin across services, (2) incentivize individual programs to adopt a "quick fix" approach instead of restructuring activities, and (3) distract oversight personnel from monitoring staff behavior. Trimming a fixed percentage from programs often entails reducing the amount of time at staff's disposal for given tasks, such as monitoring. Indeed, monitoring is often the first activity to go out of the window when teams are put under pressure to meet basic tasks. In order to ensure the use of this prevention mechanism, we recommend the inclusion of monitoring activity in staff time

<sup>36</sup> Office of Management and Budget, "Control Environment Questionnaire," available from: <http://www.nd.gov/fiscal/docs/forms/OMBControlEnvironmentQuestionnaire.pdf>

<sup>37</sup> Association of Certified Fiscal Examiners, "Report to the Nations on Occupational Fraud and Abuse," available from: [http://www.acfe.com/uploadedFiles/ACFE\\_Website/Content/rtn/2012-report-to-nations.pdf](http://www.acfe.com/uploadedFiles/ACFE_Website/Content/rtn/2012-report-to-nations.pdf)

<sup>38</sup> Office of Management and Budget, "Control Environment Questionnaire," available from: <http://www.nd.gov/fiscal/docs/forms/OMBControlEnvironmentQuestionnaire.pdf>



## Focus on Fraud, Continued

allocation. In particular, we recommend the maintenance of regular formal checks in an integrated performance management system.

**2. Training, expertise, and infrastructure** – Fraud is more likely to occur when employees and managers do not have the training and expertise necessary to quickly understand their fiscal environment.

**Risks to Berkeley:** First, budget cuts can require transplanting staff to new departments or new positions, undermining the maintenance of institutional knowledge needed to prevent fraud and misallocation of resources. Second, the City’s software system, FUNDS\$, has been in use for over 2 decades, and requires keyed-in entry instead of conforming to modern point-and-click standards. It is outdated, frustrating for employees, and ill-suited to City needs. The system also presents security risks as it “lacks key data analysis, security, and specialized line-of-business functionality offered by modern best-of-breed software”.<sup>39</sup> In order to ensure the use of this prevention mechanism, we recommend an overhaul of the IT system. We also recommend regulating staff turnover during budget cuts in order to protect a baseline of human capital and expertise within individual programs.

**3. Division of responsibilities** - Task separation is a classic fraud prevention mechanism. However, as resources diminish, departmental functions become combined and personnel activities are less clearly delineated. The value of separation of duties as a preventative control depends on detective controls in place, especially with regard to the probability that these controls will detect fraud.<sup>40</sup>

**Risks to Berkeley:** Non-strategic across-the-board cuts often result in programs combining multiple staff activities into a single position. Instead of picking particular services to deliver safely and effectively, Berkeley’s 2 percent cuts have left individual employees responsible for increasingly large and independent chunks of program management. If the City wishes to maintain its commitment to protect the supply and integrity of government jobs, we recommend that priority-based budgeting be used to guide the distribution of reasonable task loads amongst feasible programs.

<sup>39</sup> FUNDS\$ Status Report, June 1, 2010, City of Berkeley

<sup>40</sup> New York State Office of the Comptroller, “Preventing Fraud and Abuse of Public Funds: Local Governments Need to Do Better, available from: <http://www.osc.state.ny.us/localgov/pubs/preventingfraud.pdf>

## Focus on Fraud, Continued

**4. Transparency** - In government, external transparency is sometimes considered as an alternative, or supplement, to internal organizational checks.<sup>41</sup> For example, financial accounts may be posted online for digestion by the media, the public, and other outside watchdog organizations. Transparency has the added advantage of contributing to democratic accountability.

**Risks to Berkeley:** Meaningful transparency requires systematic data collection and analysis for consumption. As detailed in the report overview, both Berkeley's current feedback process and documentation system leaves much to be desired in this regard. Importantly, background checks are not a substitute for institutional transparency. Fraud is overwhelmingly perpetrated by individuals with clean employment backgrounds.<sup>42</sup> We recommend that the City publish priority-based budgeting metrics and progress statements in order to benefit from the vigilance of its citizens.

**5. Detection Mechanisms** – Unfortunately, only a fifth of fraud cases are detected through formal internal controls. Success stories in fraud detection show that half of all fraud cases are detected through internal whistleblowers. External audits have a strong preventive effect, and are the most commonly implemented control, but only detect approximately 3% of all reported fraud cases, and rank poorly in limiting losses from fraud.<sup>43</sup>

**Risks to Berkeley:** With increasing work burdens and diminishing resources under budget cuts, employees have less time and attention to devote to the monitoring activities that lead to tips. Priority-based budgeting approaches can help to ensure that the staff does not face increasing work burdens. Beyond this, we recommend the use of a formal whistleblower program and protections for staff who supply tips.

**6. Size of an organization** - Budget cuts reduce the size of government departments, and the size of an organization is directly related to the incidence of fraud. Organizations under 100 employees have higher rates of fraud, with losses comparable to the losses incurred by the largest organizations.

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<sup>41</sup> Thomason, Andrew, "Local Governments in Illinois at Risk for Fraud," *Evanston Now*, April 26, 2012, available from: <http://evanstonnow.com/story/government/statehouse-news/2012-04-26/49309/local-governments-in-illinois-at-risk-for-fraud>

<sup>42</sup> Association of Certified Fiscal Examiners, "Report to the Nations on Occupational Fraud and Abuse," available from: [http://www.acfe.com/uploadedFiles/ACFE\\_Website/Content/rtnn/2012-report-to-nations.pdf](http://www.acfe.com/uploadedFiles/ACFE_Website/Content/rtnn/2012-report-to-nations.pdf)

<sup>43</sup> Association of Certified Fiscal Examiners, "Report to the Nations on Occupational Fraud and Abuse," available from: [http://www.acfe.com/uploadedFiles/ACFE\\_Website/Content/rtnn/2012-report-to-nations.pdf](http://www.acfe.com/uploadedFiles/ACFE_Website/Content/rtnn/2012-report-to-nations.pdf)

## Focus on Fraud, Continued

Smaller governments are particularly susceptible to fraud.<sup>44</sup> This is attributed both to the lack of human and financial resources in smaller units, and to the higher reliance upon trust between employees at the expense of recorded information.

**Risks to Berkeley:** Across-the-board cuts force programs to decrease in size. Although Berkeley enjoys a relatively large government, individual programs are eroded by indiscriminate cuts. As they decrease in size, the risk of fraud goes up. Priority-based budgeting can enable a City to maintain the size of select programs, and can also ensure that trust is supplemented by formal performance tracking.

This section suggests that the consequences of budget cuts are far from limited to service reductions alone. In focusing on fraud, we hope to illustrate one of the “invisible long-term risks” that accompany the current budget process used in Berkeley. As this focus section makes clear, these risks of diminished functionality and other hidden consequences become increasingly obscure without systematic, integrated, and data-driven controls. The tipping point is never clear in advance, and year-on-year layered budget cuts to government programs come at significant additional costs that will not be obvious until it is too late. Like the Wiley E. Coyote, city governments may run off a cliff, and not realize how perilous their position is until the eleventh hour. Given the challenging fiscal position of Berkeley and other cities across California, it is imperative that City Managers not ignore these very real risks. We believe that post-hoc fraud detection and a priori prevention and deterrence – such as work monitoring and transparency – can most easily be addressed by a priority-based budgeting framework. Focusing on a central role for performance information and active management thereof is an efficient and effective way to avoid bad surprises down the road.

## Alternative Budget Model: Priority-Based Budgeting

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<sup>44</sup> Huefner, R. (2011). Fraud risks in local government: An analysis of audit findings. *Journal of Forensic & Investigative Accounting*, 3(3), Available from [http://www.bus.lsu.edu/accounting/faculty/lcrumbley/jfia/Articles/FullText/2011\\_v3n3a5.pdf](http://www.bus.lsu.edu/accounting/faculty/lcrumbley/jfia/Articles/FullText/2011_v3n3a5.pdf)

Given these shortcomings with the City’s current budget process (and the fact that the City’s pension and employee benefit costs are projected to substantially increase in the near future), the City Council needs to explore alternative budget processes. Instead of relying completely on incremental budgeting, adopting priority-based budgeting (PBB) policies will help the City’s elected officials make more informed budget decisions as they confront the City’s growing structural deficits.

### What is Priority-Based Budgeting?

There is no single, universal definition of priority-based budgeting. Academics, public officials, and public administrators all have slightly different definitions. Additionally, our best practices review found that every PBB system is uniquely tailored to each city’s needs and available resources. Despite this lack of a universal definition, we found a few common themes in how various professional organizations define PBB:

**U.S. Government Accountability Office:** “[Priority-based budgeting is the] process of *linking budget levels to expected results*, rather than to inputs or activities.”<sup>45</sup>

**Government Finance Officer’s Association:** “[PBB] identifies critical issues and needs, sets performance targets, and *aligns spending with objectives* by identifying and articulating links between funded activities or programs and the desired results.”<sup>46</sup>

**Public Budgeting and Finance:** “[PBB is] the use of *performance information* in resources allocation derived from strategic planning.”<sup>47</sup>

**National Performance Management Advisory Commission:** “[PBB] emphasizes accountability for outcomes...*assuring that funding is directly linked to achieving high-priority results.*”<sup>48</sup>

**Pew Center on the States:** “[PBB is a] process by which states use appropriate performance metrics to decide *where and how they should spend their money to achieve desired results.*”<sup>49</sup>

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<sup>45</sup> GAO, “Performance Budgeting: Efforts to Restructure Budgets to Better Align Resources With Performance,” page 34, available from: <http://www.gao.gov/products/GAO-05-117SP>.

<sup>46</sup> Kinney, Anne Spray and Mucha, Michael J., “Performance Budgeting Linking Funding to Results,” in The State and Local Government Performance Management Sourcebook, Government Finance Officers Association, 2010

<sup>47</sup> Lu, Yi, “Performance Budgeting: the Perspective of State Agencies” in *Public Budgeting & Finance*, Winter 2007.

<sup>48</sup> “A Performance Management Framework for State and Local Government,” *National Performance Management Advisory Commission*, available from: <http://www.nasbo.org/publications-data/reports/performance-management-framework-state-and-local-government-measurement-an>.

<sup>49</sup> “Trade-Off Time: How Four States Continue to Deliver,” *Pew Center on the States*, available from: <http://www.pewstates.org/research/reports/trade-off-time-85899379345>.

**International Monetary Fund:** “[PBB] procedures or mechanisms are intended *to strengthen links between the funds provided to public sector entities and their outcomes and/or outputs* through the use of formal performance information in resource allocation decision-making.”<sup>50</sup>

In the simplest terms, priority-based budgeting incorporates performance information about the City’s government into all stages—planning, development, negotiation, adoption, and implementation— so that decision makers can better understand how their budgetary decisions will ultimately affect the delivery of government services. This performance information is then compared to the strategic, long-term priorities expressed by a community’s citizens and elected officials. Importantly, **strategic goals and associated performance information must be directly linked to the actual budget process**. This is accepted in the literature as the most effective way to channel resources to a government’s core service responsibilities.<sup>51,52</sup>

The connection between priorities and performance data allows the City and the public to decide:

“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.”<sup>53</sup>

Ideally, a comprehensive priority-based budget process should be able to quantify the cost of providing a unit of government service. Although “per dollar” cost measures are considered a best practice, such systems can be very expensive to implement and many municipal governments lack the necessary resources. Even partial PBB systems, however, can still substantially improve traditional municipal budgeting processes, by allowing decision makers to better understand the trade-offs of various budget options and, ultimately, to prioritize a community’s most-valued goals when making difficult budget decisions. PBB is a tool that puts the spotlight on the actual activity and results of government. This also means that department managers can use PBB to think about alternate allocation of resources within the department as well.

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<sup>50</sup> Robinson, Marc and Brumby, Jim, “Does Performance Based Budgeting Work? An Analytical Review of the Empirical Literature,” *International Monetary Fund*, available from: <http://www.imf.org/external/pubs/ft/wp/2005/wp05210.pdf>.

<sup>51</sup> Boyne, G.A., & Gould-Williams, J. (2003). “Planning and Performance in Public Organizations: An Empirical Analysis.” *Public Management Review*, 5: 115–32.

<sup>52</sup> Berry, F. S., & Wechsler, B. (1995). “State Agencies’ Experience with Strategic Planning: Findings from a National Survey.” *Public Administration Review*, 55: 159-168.

<sup>53</sup> “Anatomy of a Priority-Driven Budget Process”, *Government Finance Officers Association*, page 1, available from: [http://www.gfoa.org/downloads/GFOA\\_AnatomyPriorityDrivenBudgetProcess.pdf](http://www.gfoa.org/downloads/GFOA_AnatomyPriorityDrivenBudgetProcess.pdf).

## Why Berkeley's Budget Process is Not a Priority-Based Budgeting Process

The fundamental difference between Berkeley's current budget process and a priority-based budget process is illustrated in the Fiscal Year 2012 & Fiscal Year 2013 Adopted Budget. The Council's own definition of the City's Budget Development Process focuses on the "*assign[ment] of resources to the [government's] goals, objectives, and community priorities.*"<sup>54</sup> A priority-based budget process would not end with just the assignment of resources, but would collect and integrate performance and outcome data back into the City's budget process.

To be clear, the current budget process does not fully incorporate performance measures into how programs are funded. While departments do measure performance and report this data to the City Manager for evaluation, performance measures are not formally part of the budget development process. This reporting of data can also be scattershot, with certain departments reporting more outcome-oriented data than other departments.

Just as important, the City Council does not appear to have easy access to the performance data supplied by departments. One of the City Council members we interviewed said that, "we [the Council] don't have good evaluations of programs," noting that performance measures were unevenly used.<sup>55</sup>

In addition, the Adopted Budget's own stated policies and processes do not address the strategic goals of city programming. The current guidelines are:

- Focusing on the long-term fiscal health of the City by adopting a two-year budget and conducting multi-year planning;
- Building a prudent reserve;
- Developing long-term strategies to reduce unfunded liabilities;
- Controlling labor costs while minimizing layoffs;
- Allocating one-time revenue for one-time expenses;
- Requiring enterprise and grant funds to balance and new programs to pay for themselves;
- Any new expenditure requires revenue or expenditure reductions.

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<sup>54</sup> City of Berkeley, FY 2012 & FY 2013 Adopted Biennial Budget," page 23, available from:

<http://www.ci.berkeley.ca.us/uploadedFiles/Manager/Budget/FY%202012%20and%20FY%202013%20Adopted%20Budget%20Book.pdf>.

<sup>55</sup> Interview with City Council Members, April 3<sup>rd</sup>, 2013.

Note that these policies are primarily fiscal in nature; dictating how the City should plan for the future, maintain adequate reserve funding, etc. From a purely fiscal perspective, these principles ensure that the financial condition of the City remains sound as it imposes a long-term and prudent approach to developing the City's budget.

However, these are not priorities based on a clear articulation of community values and the core missions of government services. Any priority-based budgeting system would instead use a series of desired outcomes to inform the budget process. For example, the City of Walnut Creek lists their budget priorities as:

- High-Performing Government
- A Safe Community
- Culture, Recreation, and Learning Opportunities
- Stewardship of the Natural and Built Environment
- Economic Vitality
- Effective Transportation and Mobility Options
- Strong Neighborhood and a Sense of Community

As can be seen, the City of Walnut Creek constructs their budget off of the priorities they have identified within the community. Thus, each program and its associated funding level is organized around these priorities.

For these two key reasons (budget principles not tied to government priorities, performance measures not formally used in budget process) Berkeley's budget process cannot be considered a priority-based budgeting system.

## Berkeley Based Budgeting (BBB)

After reviewing the academic literature, existing budgeting best practices, and speaking to city managers from across the country, we identified elements that constitute an effective and appropriate priority-based budgeting framework for Berkeley. The elements are a synthesis of the best practices identified by GFOA, Harvey M. Rose Associates, and the Center for Priority Based Budgeting. Adopting our recommendations will allow Berkeley's budgeting process to better:

- **Identify the City's Resources**
- **Identify the Community's Short- and Long-Term Priorities (current & strategic)**
- **Set Priorities**
- **Organize the City's Bureaucracy According to Programs and Outcomes**
- **Assess the City's Programs**
- **More Efficiently Allocate Resources**
- **Evaluate Results**

**Based on these best practices, we offer four recommendations:**

### Recommendation 1: Establish a Strategic Vision for Berkeley

We recommend that the City Council, working with the public, City Manager, and the City's staff, identify the core values of Berkeley's residents and the key outcomes they want the City's government to achieve. To do this, the City Council should use community forums and community surveys to gather a wide range of citizen input. The surveys, in particular, will help the City Council to more rigorously record and quantify a larger set of citizen opinions and priorities. Many Bay Area cities use the National Community Survey and website-based surveys to solicit citizen opinions. Both the NCS and electronic surveys are a low cost (~\$10,000) way to gather information from a larger number of residents. This will allow the Council and other key decision makers to better understand the priorities of their constituents, not just the members of the community that show up to City Council meetings. The Council should produce a short list of community priorities called the **Statement of Community Priorities**. These priorities will encompass all government activity, so that any particular government activity should influence or advance at least one of these priorities. Council will invite citizens to participate in the detailed definition of each priority. There is more detailed information about this process in the implementation section.

Example: Community Priority could be "Safe and Green Transportation Options". Outcome definitions of what "Safe and Green Transportation Options" entails (as validated by the community) could include:

- Citizens are satisfied with the condition of streets.
- Private costs for vehicle maintenance are minimized.



- Streets and sidewalks are clean and aesthetically pleasing.
- Streets are safe for pedestrians and motorists.
- City streets, alleys and related throughways are in Good to Excellent conditions, as measured by standardized pavement condition indices.

**Figure 7: Example of Outcomes Statements for Los Angeles**

**Exhibit 2: Example Outcome Statements for Current City-wide Functions**

<b>City-wide Function <sup>(1)</sup></b>	<b>Example Outcome Statement <sup>(2)</sup></b>
Community Safety	Residents are safe and secure where they live, work and engage with the community.
Home & Community Environment	The City's public and private spaces are safe and clean and support strong communities.
Transportation	Streets, transit systems and supporting infrastructure enable safe and efficient mobility throughout the City.
Cultural, Educational and Recreational Services	Cultural, recreational and educational opportunities enrich the health and well-being of residents.
Human Resources, Economic Assistance and Development	Residents have opportunities to pursue financial security and contribute to and participate in a thriving economy.
General Administration and Support	An efficient and transparent City government delivers effective service to residents and City staff.

<sup>(1)</sup> These are existing Citywide functions.

<sup>(2)</sup> These outcome statements are presented for illustrative purposes. The final outcome statements used as the City implements PBB should be defined by the CAO and Chief Legislative Analyst and approved by the Mayor and City Council.

56

**Benefits:**

- Develops a clear set of priorities that will serve as a framework for the budget process and guide all budget decisions.
- Engages the citizens of Berkeley in developing the City Council's priorities.
- Creates a database of community opinion that can inform Council and other key decision makers.

**Costs:**

- Council must add work sessions devoted to debating and establishing priorities.
- Staff and Council must organize, host, and attend community forums.
- ~\$10,000 to administer National Community Survey (NCS) or website-based surveys.

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<sup>56</sup>Harvey M. Rose Associates, LLC. (2011). Blueprint for a Transition to Performance-based Budgeting in the City of Los Angeles, page 9.

- Staff and Council must devote time to organize and review data collected by NCS and public forums.

### Impact on Good Governance:

- Will formalize the relationship between the community's priorities and the City's budget process.
- Will increase the overall level of citizen participation in the City's budget process.
- Will provide a more comprehensive long-term vision for the City's elected officials.
- Will give decision makers a set of criteria to evaluate government programs and budget decisions.

### Recommended Changes to the Work Plan:

- Include the Statement of Community Priorities at the beginning of the Work Plan.
- Clearly organize all City departments by which priority their work aligns with.
- Indicate which priorities each department contributes towards.

### Recommended Changes to Budget Documents:

- Include the Statement of Community Priorities at the beginning of the budget documents.
- Indicate which priorities each department contributes towards.

## Recommendation 2: Reorganize Government Functions Around Programs

We recommend that the City reorganize the Work Plan, Budget Document, and departmental funding requests according to program. Currently departments function as *decision units*, in that funding requests occur at the department level. By changing the *decision unit* from department (which includes multiple programs) to program, all interested parties will be better able to identify the specific activities of government, and link the funding requests, awards, and activities between the various City documents.

**“Ideally, priority-based budgeting should mean that issues are categorized. Then you can divide programs into units that are easy to understand the value of and easy to budget for.”<sup>57</sup> – Former City Manager**

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<sup>57</sup> Interview, April 12<sup>th</sup>, 2013.

Example: The Public Works Department lists all of the programs within the department, such as the street sweeping program, pothole maintenance program, etc.

### Benefits:

- This process this will break down “silos” across departments by finding programs that are duplicating effort, as well as priorities that are not being addressed by current city programming.
- Changes the focuses of government from the administrative unit (Department) to the activity unit (program)
- Improves accountability, since observers can examine a more discrete unit of activity

**“We asked ourselves: How do we reorganize to make our departments more efficient? We flattened our organizational structure and reorganized by function rather than department. We were able to better maintain service delivery and avoid the risks of further across-the-board cuts.”**  
– Bay Area City Manager<sup>58</sup>

### Costs:

- Departments typically recognize programs within the Work Plan
- This recommendation simply standardizes the way the City tracks these programs.
- This reorganization of the budget documents would cost relatively little.

### Impact on Good Governance:

- Improves accountability
- Reduces the chance of duplicative efforts between departments
- More specifically connects the mission of the department to each employee

### Recommended Changes to the Work Plan:

In order to better align the Work Plan with its stated objective to provide a clear picture of the services the City is providing, we recommend the following changes:

- Create mission statements that relate specifically to Community Priorities.
- Standardize the content and format of each departmental summary.
- ⊖ Have each department standardize format for the following information: mission, responsibilities, outcomes, measures, total FTE for each department, as well as FTE by program.
- ⊖ In addition to describing the mission of each department, include a description of what outcomes each department is responsible for.
- ⊖ Include all of the City’s services and activities in the Work Plan, including the Auditor, Council, Mayor, Library, etc.

**“Part of our job is to demystify the budget process. People think it’s this back room, smoke-filled thing, and everybody goes, ‘where did that budget come from?’ We need to make the process clear.”** – Bay Area City Manager<sup>59</sup>

<sup>58</sup> Interview, March 7<sup>th</sup>, 2013.

<sup>59</sup> Interview, March 28<sup>th</sup>, 2013.

### Recommended Changes to Budget Documents:

- Standardize the way programs appear in the Budget Document, as well as standardizing the content and format for each program's spending allocation.
- Include the mission statements created for the Work Plan.
- ⊘ Include a description of what outcomes that each program is responsible for.
- ⊘ Include all of the City's services and activities in the Budget Document including the Auditor, Council, Mayor, Library, etc.
- ⊘ Make sure Budget Impact Summaries detail actual impacts (including no impacts) by program.

### Recommendation 3: Develop Performance Measures for Each City Program

Performance measures should be developed cooperatively between department staff and the City Manager, and proposed to Council. Measures will of course vary across departments and programs, but each measure should have these attributes:

- **Validity**: Does the measure really capture the intended concept?
- **Reliability**: Does the measure exhibit a minimum amount of error, changing only when the underlying concept changes?
- **Responsiveness to change** – Does the value of the measure change quickly when the underlying concept changes?
- **Ease of understanding** – Can the measure be easily explained and understood?
- **Economy of collection** – Does the benefit provided by collecting the information outweigh the cost of collection? How much additional cost will be required to calculate this measure on a more frequent basis?
- **Balance** – Are the measures as a group balanced along important dimensions? (results v. drivers, short-term v. long-term, etc.).<sup>60</sup>

It is also essential that the performance measures be meaningful to the programs in the sense that they represent important aspects of the problem's activities. The City Manager and Council must agree that they are sufficient for evaluation purposes.

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<sup>60</sup> Harvey M. Rose Associates, LLC. (2011). Blueprint for a Transition to Performance-based Budgeting in the City of Los Angeles, 17.

Performance measures should be targeted to the activity measured, tailored to the program, and should remain as minimal as possible to accomplish the objectives outlined above. A common pitfall of priority-based budgeting is that cities try to measure too much. If departments have to spend too much time, money, and effort measuring their performance, service delivery may suffer. Additionally, too much information can lead to analysis paralysis among key decision makers. In establishing measures, the City should weigh the additional information provided by the measure against the cost and hassle of measurement. Internal metrics not only need to be defined clearly and systematically, but must entail commitment and accountability. Examinations of resource allocation efficiency show that such metrics are a necessary first step before a government can adequately determine how to match inputs to outcomes.<sup>62</sup>

**“The goal is to measure the outcomes that citizens care about. It’s crucial for all departments to believe that what they’re measuring is important.” – Bay Area City Finance Manager<sup>61</sup>**

Each program should score itself according to how well its outcomes influence the Community Priorities, and these scores must be validated. The City can decide if it wants each program to be scored against all of the Community Priorities, or only the priority closely related to that program. Both approaches have been used successfully in other cities.<sup>63</sup>

In addition to scoring the programs against the Community Priorities, the City can include other criteria. For example, another criteria could involve whether the program is fee-supported. Ultimately, the exact criteria and scoring method used is flexible, and can be tailored to the exact needs of Berkeley. By occasionally reevaluating the measures, the City can drill down on what works best for the City. Ultimately, all performance measures are imperfect, but even imperfect measures provide important information to decision makers.

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<sup>61</sup> Interview March 13<sup>th</sup>, 2013.

<sup>62</sup> Halachmi, A. (2000). Strategic management for productivity, or is it the other way around? In J. Rabin, G. Miller, and W.B. Hildreth (Eds.) Handbook of strategic management (2nd ed., pages 249-272). New York, NY: Marcel Dekker.

<sup>63</sup> “Anatomy of a Priority-Driven Budget Process”, Government Finance Officers Association, 12.

**Figure 8: Example of Performance Measures from the City of Richmond, VA**

<i>Example from other jurisdiction</i>	
<i>The City of Richmond, VA operates a performance management program, RichmondWorks, which is integrated into its budget system to enable the use of performance data in budget decisions. The following are select measures used in the Public Works Department's budget presentation for Surface Cleaning:</i>	
<i>Street Cleaning:</i>	<i>Lane miles of streets swept</i>
<i>Street Cleaning:</i>	<i>Percent of street sweeping routes completed on schedule</i>
<i>Leaf Collection:</i>	<i>Tons of leaves removed from City streets</i>
<i>Leaf Collection:</i>	<i>Cost per ton of leaves collected</i>

64

### Benefits:

- City Councilmembers, the City Manager, department managers, and the public at large will be able to better understand what each of the City's departments and divisions are accomplishing.
- Performance information will allow decision makers to better understand how budget decisions will affect service delivery and outcomes.
- Will provide incentives for improving the efficiency of the City's operations.
- Will allow decision makers, department managers, and the public to track changes in performance over time.

### Costs:

- The creation and adoption of performance measures will require investments of time from the City Council, City Manager, and the departmental managers. Initially, in order to minimize these costs, we recommend that City Council find departments that are already collecting data that can be easily turned into performance measures.
- Data collection and monitoring costs will vary across departments.
- Independent auditing and review of performance data will require time either from the City Auditor, City Manager, or some outside, independent reviewer.
- The City will need to devote up to one FTE to developing, tracking, and reporting the performance measures.
- Scoring each program potentially requires significant staff time.

### Impact on Good Governance:

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<sup>64</sup> Harvey M. Rose Associates, LLC. (2011). Blueprint for a Transition to Performance-based Budgeting in the City of Los Angeles, page 30.

A number of Cities establish a “Good Governance” priority. Programs that provide internal services, such as administration and oversight, are scored against these “Good Governance” results. This process recognizes the importance of internal services, which the City intends to achieve different results than the programs intended to directly serve citizen.

### Recommended Changes to the Work Plan:

- Includes the specific measures developed by the department heads into the Work Plan.
- Indicate previous years’ performance and comparison to established targets.
- Create a “scorecard” to visualize and make program measurement simple. (See Appendix 4)

According to one budget analyst, data for performance-based budgeting is usually already present in any City, but is not being put to good use. **“For example, with [one City’s] department of planning, we looked at their current data collection. They had all the nuts and bolts of cost tracking and performance tracking, and just needed to ensure the information was being recorded.”**<sup>65</sup> - Local government budgeting expert

### Recommended Changes to Budget Documents:

- Include the scores of programs next to funding allocations.
- Add scorecards collected in the Work Plan to the Budget Document as well.
- For each program, explain briefly what the score means in meeting community priorities.

## Recommendation 4: Allocate Funding to Programs According to Performance and Community Priorities

Once all of the primary elements of priority-based budgeting have been implemented, the City Council should allocate funding based on the established metrics and expected outcomes. The City of Berkeley should inform this process using the “Quartile Method,” which we have seen used with great success in other cities.

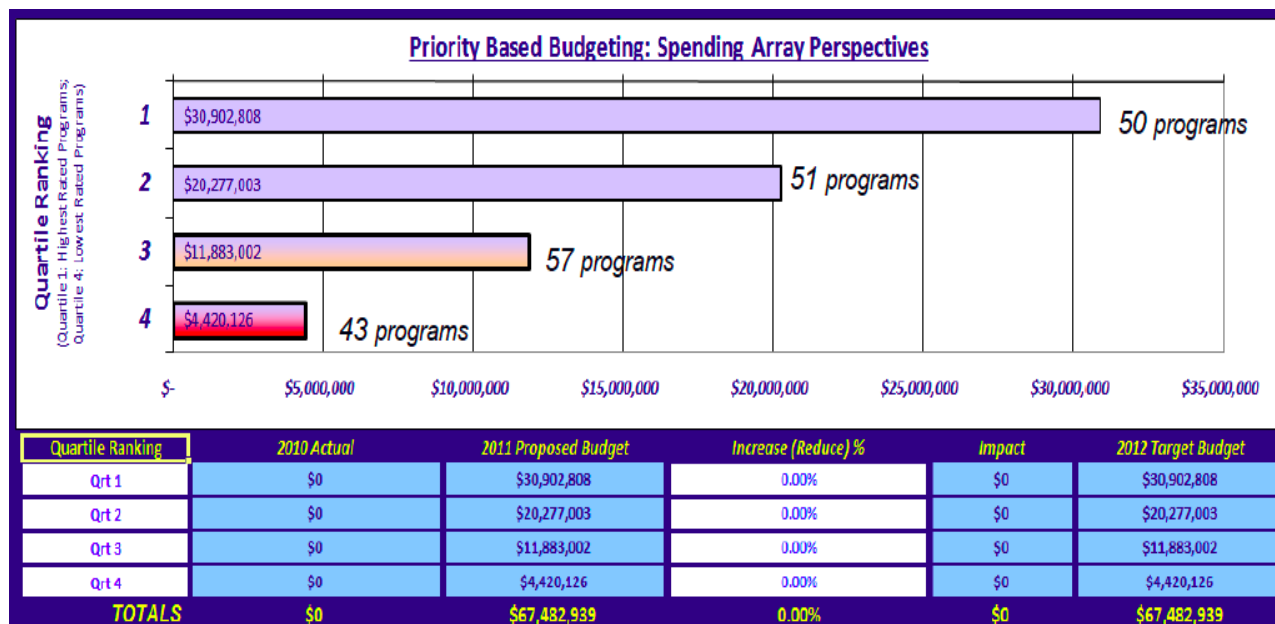
For example, the City of Walnut Creek evaluates programs based on metrics linked to performance and ranked priority, and sorts programs into quartiles. The bottom 25% of performing programs are

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<sup>65</sup> Interview, April 9<sup>th</sup>, 2013.

those in the fourth quartile. The City of Walnut Creek then uses vivid visual displays to report back to stakeholders on which programs have been the best-performing use of public resources.

**FIGURE 9: Example of the “Quartile Method” Used by the City of Walnut Creek**



66

With this information, the Council then has the opportunity to allocate budget resources in order to, for example, increase funding (or decrease by less of a percentage) allocated to higher-ranked programs; to assign less money to programs that are not performing up to expectations; or, if necessary, to augment the funds for priority programs that seem to be under-performing.

How should the Council decide the percentage of cuts each quartile should receive? The town of Grand Island, Nebraska faced that same problem. Not long after they implemented the Quartile Method, the town needed to make significant budget cuts in order to balance their 2012 Budget. Their Council set out to find about \$1 million in budget savings, so they created targeted cuts that took more funding from the bottom quartile and shielded the top two quartiles:

<sup>66</sup> Tinfow & Mosser, Office of the City Manager, (2013). City of Walnut Creek Priority-Based Budgeting & the 2012-2014 Budget Story. Available from: <http://issuu.com/walnutcreekarcs/docs/wcbudget?mode=window&viewMode=doublePage>.



### FIGURE 10: Example of the “Quartile Method” Used by the City of Grand Island, NE

The table shows the General Fund by Quartiles according to the 2011 Budget, the percent and amount needed to reduce the 2011 Budget to reach the 2012 Budget. The final column is the 2012 Budget appropriations.

Quartile Ranking	2011 Budget	Increase (Reduce) %	Impact	2012 Target Budget	2012 Approved Budget
Quartile 1	\$10,669,134	-1.00%	(\$106,691)	\$10,562,449	\$10,655,011
Quartile 2	\$11,734,266	-2.50%	(\$294,459)	\$11,483,884	\$11,367,863
Quartile 3	\$6,060,392	-7.00%	(\$421,143)	\$5,595,188	\$6,066,944
Quartile 4	\$3,429,705	-10.00%	(\$342,877)	\$3,085,896	\$3,308,652
<b>TOTALS*</b>	<b>\$31,893,497</b>	<b>-3.65%</b>	<b>(\$1,165,170)</b>	<b>\$30,727,417</b>	<b>\$31,398,470</b>

Quartile Ranking  
 Quartile 1: Highest Ranked Programs  
 Quartile 4: Lowest Ranked Programs

67

As you can see, the final budget differed somewhat from their “target” budget, and the third quartile even saw a slight bump in funding. There could be very good reasons for this: perhaps several programs were deemed critical despite not hitting targets. We consider this a strength of using the quartile method: it always allows for City officials to use their best judgment in how to administer cuts.

We recommend the City of Berkeley implement a similar system. The City Manager and her staff should create this document in the first budget cycle, and the City Council should be presented this information at the beginning of the budget session.

#### Benefits:

- Succinctly allows City officials to see which programs are performing best.
- Allows for the creation of a target budget based on outcomes.
- Maintains flexibility in allowing the Council to fund critical program even if they are not scoring highly.
- Avoids using the across-the-board cutting method on every program.

#### Costs:

- With recommendations one through four implemented, cost is minimal. The scoring mechanism can be as simple as a spreadsheet.
- Requires staff time to interpret findings.

<sup>67</sup> City of Grand Island. Finance Department, (2011). *City of Grand Island 2011-2012 Annual Budget*. Available from website: <http://www.grand-island.com/Modules/ShowDocument.aspx?documentid=3605>

### Impact on Good Governance:

- Provides a clear view of whether funding is going to high-performing programming.
- Allows for better detection of potential fraud by showing link between funding and performance.

### Recommended Changes to the Work Plan:

- Add previous cycle's quartile findings to the Work Plan.

### Recommended Changes to Budget Documents:

- Incorporate performance measures and scores, detailed by program, into proposed Budget.

## Implementing Berkeley-Based Budgeting

### Step 1: City Leadership Adopts Philosophy of the PBB Framework

The first step in implementing these reforms—above all else—is that the City’s leadership must embrace the philosophy of priority-based budgeting. If the City’s leadership, including the City Manager, department heads, and a majority of the City Council do not support adopting a priority-based budgeting process, the reforms will most likely fail.

It will take the support of a concerted majority of the Council, in conjunction with leadership from other segments of City government, for Berkeley to shift over to a priority-based budgeting system. Not everyone who is a part of the budget process needs to enthusiastically support the effort, but, at a minimum, the City’s leadership must be able to articulate why a priority-driven framework is worth supporting, and generate the momentum needed to prevent piece-wise implementation. The GFOA surveyed elected officials who adopted a priority-driven framework and found that a majority of these public servants said that their budget process reforms allowed them to achieve what inspired them to run for office in the first place—identifying the most important community priorities, implementing policy to achieve them, and identifying the results of their efforts.<sup>69</sup> We hope that the leaders of the City of Berkeley identify with these sentiments.

**“If all of us, every city staff person, through the ranks, was working from the same information, we would largely come to the same conclusions. Subjectivity would still exist—but on the other hand, a total lack of data means it is open season and total chaos in government. If we all have access to real numbers, at least folks will know that we’re spending a lot of money on a handful of people, and it could be spent a lot better.”** Former Berkeley Budget Manager<sup>68</sup>

In addition to the necessary political will to see these reforms through, the process requires the support of the City’s department heads and rank-and-file employees. Without their support, any priority-based reforms are also likely to fail. The implementation process must be collaborative. Rather than simply dictating what the reforms will be, department heads need to have a place at the table from the beginning, because implementing any of the suggested reforms will require a significant investment of staff time. It is especially important that each department head help the City Manager and City Council develop performance measures. If the measures do not make sense to department heads any reform will be seen as a distraction from achieving each program and department’s mission.

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<sup>68</sup> Interview, March 28<sup>th</sup>, 2013.

<sup>69</sup> “Anatomy of a Priority-Driven Budget Process”, Government Finance Officers Association, p. 3

## Step 2: Establish Strategic Priorities

Once sufficient buy-in from political leaders, managers, and employees exists, the City Council must work to develop a set of concrete, comprehensive, and long-term strategic priorities that will guide the rest of the budget reforms. To do this correctly, the City Council will need to engage Berkeley residents in the process. We recommend that in addition to organizing traditional community forums, the City use the National Community Survey as a means to gather a wide sampling of public opinion to ensure that a somewhat representative group of citizens' opinions are collected. Indeed, in addition to the NCS survey, the City could emulate the City of Hayward's approach of building a stand-alone website where citizens can fill out surveys on a wide variety of topics: health and quality of life, schools and education, clean and safe neighborhoods, infrastructure and services, etc.<sup>70</sup> Both the survey or website would be a feasible, low-cost option of soliciting a wide range of citizen opinions. Alternatively, the City of Walnut Creek invited residents to community goal-setting workshop and similarly used their input to develop strategic goals.

**Figure 11: Slide from City of Walnut Creek's Budget Story: the Community's Role<sup>71</sup>**



With the collected data, the City Council must then create strategic goals that are broad enough to encompass all of the City's departments, yet specific enough to evaluate the performance of each program. They should be expressed in terms of the outcomes that are meaningful to the community.

<sup>70</sup> "City of Hayward 2040 General Plan," *City of Hayward*, available from: <http://www.hayward2040.org/>.

<sup>71</sup> Tinfow & Mosser, Office of the City Manager, (2013). City of Walnut Creek Priority-Based Budgeting & the 2012-2014 Budget Story. Walnut Creek.

They should be specific enough to be measurable, but not so specific as to say how the outcome will be achieved, or become irrelevant after a short time. Setting priorities for administrative/oversight functions requires a slightly different approach, since the community survey is unlikely to identify “effective and timely internal communication” as a priority, for instance. Please see the appendix for examples of both internal and external strategic priorities.

Luckily, the City of Berkeley already has a good template for establishing strategic goals. In 2003, the City of Berkeley’s Planning Department created a General Plan that laid out principles to be followed when physically developing the city. They include:

1. Preserve Berkeley’s unique character and quality of life.
2. Ensure that Berkeley has an adequate supply of decent housing, living-wage jobs, and businesses providing basic goods and services.
3. Protect local and regional environmental quality.
4. Maximize and improve citizen participation in municipal decision-making.
5. Create a sustainable Berkeley.
6. Make Berkeley a disaster-resistant community that can survive, recover from, and thrive after a disaster.
7. Maintain Berkeley’s infrastructure, including streets, sidewalks, buildings and facilities; storm drains and sanitary sewers; and open space, parks, pathways, and recreation facilities.

We see this as a good model and proof the City can come together and agree on strategic goals. In general, though, the strategic goals should be straightforward and apply to all aspects of city governance. Take for example, the City of Walnut Creek lists their budget priorities as:

- High-Performing Government
- A Safe Community
- Culture, Recreation, and Learning Opportunities
- Stewardship of the Natural and Built Environment
- Economic Vitality
- Effective Transportation and Mobility Options
- Strong Neighborhood and a Sense of Community

These large community goals fit closely with the core services local government should provide, and one can start to see which metrics could be used to measure performance in these areas.

Departments have a role to play in this process as well. They should connect their mission statements to the community’s strategic goals. In Berkeley, most departments already engage in this kind of strategic planning. For example, as part of the current budget development process, the City Council has established “fiscal priorities” that guide the budget development. Council also

communicates a wealth of priorities, preferences, and concerns to the City Manager as the budget develops. We recommend that Berkeley consolidate and standardize the strategic planning process before the start of the Fiscal Year 2016 & 2017 budget cycle.

### Step 3: Reorganize Government Functions Around Programs

Once the City Council has agreed to a long-term strategic vision for the City, the City Manager should reorganize the City's departments by each strategic goal the City wants that department to achieve. As stated earlier, this means reorganizing the Work Plan, Budget Document, and departmental funding requests according to program.

This does not mean, however, that the City must be reorganized. In the short-term, the City can start the process by simply restructuring the Work Plan, as described below, with the goal of quickly showing how each department contributes to each applicable strategic goal.

We also recommend that this process start with the City Manager creating a program inventory. The GFOA describes this as a best practice by saying, "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 or efficiency."<sup>72</sup>

The next page shows an example of a program inventory provided by the GFOA.

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<sup>72</sup> "Anatomy of a Priority-Driven Budget Process", Government Finance Officers Association, 11

Figure 12: Example of Program Inventories (Hypothetical)

Examples of Program Inventories	
<b>Sample Health and Environment Programs</b>	<b>Sample Sherriff Programs</b>
Environmental Planning	Traffic
Air Quality Control	Patrol Precincts
Water Quality	Emergency Management
Ambulance Licensing	Transportation
EIP FoodNet	Court Security
Compliance & Community Safety	Work Release
Vital Statistics	Inmate Food/Medical Service
Immunization Grant	Civil/Fugitive/Warrants
Emergency Preparedness Response	Records
Non-grant Immunization	Dispatch (Communications Center)
Sexually Transmitted Disease (STD)	Academy
Food Protection	Executive
Cities Readiness Initiative	Directed Operations (DOU)
Zoonosis	Critical Incident Response
Cancer Control Initiative	Radio Maintenance
Communicable Disease	Grants Coordinator
Early Periodic Screening, Diagnosis and Treatment	West Metro Drug Task Force
Radon	Crimes Against Children
Health Care Program for Children with Special Needs	Crimes Against Persons
Women, Infants, and Children	Victim Services
Special Needs Nutrition Services	Training and Recruiting
Family Planning	Patrol Administration
Recreation	Criminalistics
Maternal & Child Health Block Grant	Detentions Administration
Prenatal Plus	Crimes Against Property
Housing & Institutions	Special Investigations
Adult Substance Abuse Counseling	Support
Fetal Alcohol Syndrome	Laundry/Custodial
Youth Substance Abuse Counseling	Inmate Worker Program
HIV Counseling & Testing	School Resource Officers (SROs)
Nurse Home Visitor	Operations/Booking
Specialized Women's Services	Animal Control
Tobacco Cessation	Inmate Welfare
Nutrition Services	Evidence
Adult Health	Accreditation
Home Visit/Maternity	Crime Analysis
International Travel Clinic	Investigations Administration
Heart Wise Grant	Professional Standards
Health Education	Internal Affairs
Healthy Wheat Ridge	Staff Inspection
Public Health Communications	Volunteer Programs
Home Visit/Children	Community Relations

73

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<sup>73</sup> Ibid, 22

The GFOA recommends the following steps to build a program inventory for all of the services government provides:

1. Define your objectives and goals for the program inventory
2. Decide what information the program inventory should contain, in addition to the basic description of the program
3. Develop forms and templates.
4. Differentiate programs from functions
5. Find the right level of detail.<sup>74</sup>

A clearly defined program inventory has the advantage of defining expenditures according to specific issue areas. This would improve transparency and accountability. A focus on programs would also enable the City Manager and other staff to quickly see where programs can coordinate or benefit from efficiencies of scale, and would generally ensure that the budget process is steered toward program-level deliverables.

As suggested in Recommendation 2, Berkeley could reorganize government functions around programming with relatively simple changes to the Work Plan and the Budget Documents. For the Work Plan, the City should:

- Create mission statements that relate specifically to the Community Priorities.
- Standardize the content and format of each departmental summary.
- ⊖ Have each department standardize format for the following information: mission, responsibilities, outcomes, measures, total FTE for each department, as well as FTE by program.
- ⊖ In addition to describing the mission of each department, include a description of what outcomes that each department is responsible for.
- ⊖ Include all of the City's services and activities in the Work Plan, including the Auditor, Council, Mayor, Library, etc.

For the Budget Documents, the City should:

- ⊖ The budget document should follow the structure listed above in the Work Plan, and,
- ⊖ Budget Impact Summaries should detail impact by program.

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<sup>74</sup> Ibid, page 20.



## Step 4: Develop Performance Measures for Each Program

Once the inventory is complete, the next step is to identify the outcomes that will measure progress toward achieving each of the City’s strategic goals. In developing each measure, decision makers and managers should be answering the question, “How do the activities of each program and department affect the lives of Berkeley residents?”<sup>75</sup>

A useful metric is one that is reliably correlated with the intended purposes of the program being assessed. It should also be relatively easy to collect and interpret. For example, the City of Richmond’s Planning and Zoning department uses the “average processing time for plans of development” and the “percent of Zoning Confirmation Letters issued within 30 days” as metrics to evaluate that office’s performance.<sup>76</sup> These measures do a good job of capturing valuable information, but do not require a large amount of time, effort, or money to collect. Certainly, it is easier to develop metrics for more narrowly defined goals (such as, provide timely and efficient service) than for broader ones such as, for example, Walnut Creek’s goals of “Stewardship of the Natural and Built Environment” and “Foster Strong Neighborhoods and a Sense of Community”. Part of the work of developing metrics is to develop logic models that reveal how narrowly defined goals support broader strategic priorities.

The City should develop a portfolio of measures that are informative, and cost effective. Some should be tied to immediate goals and others reflective of longer term, broader strategic priorities. Departments and programs are best placed to generate realistic metrics for use in the budget process. However, the City Manager should collaborate with these service leaders to ensure that measures are both informative to decision makers and reflective of program performance.

## Step 5: Allocate Funding to Programs According to Performance and Community Priorities

Ultimately, the goal of the budget process is to allocate limited resources. Steps 1 through 4 develop a process for how priorities are set and how decision makers organize and measure the City’s ongoing activities. The degree to which Berkeley links the information into how the City makes budget decisions is a crucial part of the implementation stage.

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<sup>75</sup> Ibid, page 8.

<sup>76</sup> Harvey M. Rose Associates, LLC “Blueprint for a Transition to PBB for the City of Los Angeles” page 30

At a minimum, if the City adopts Steps 1-4, the City will have a clearer articulation of the citizen's priorities, and ways to measure progress toward achieving those priorities, but it is possible that this does not end the practice of across-the-board cuts. On the other hand, the City could expressly link the scores that each program receives to the actual amount of funding awarded..

Take the examples of Walnut Creek, California and Grand Island, Nebraska, outlined in our recommendations section, that used a Quartile Method to visualize program performance and set percentage cuts for their target budget. Ultimately, their final budget decisions were still informed by various political considerations. We recommend the City of Berkeley implement the Quartile Method because it is a proven, established way to allocate resources under a priority-based system that allows for political flexibility.

However Berkeley decides to allocate its resources, adopting a the Berkley-Based Budgeting will result in better organized and useful information being made available to Council, City Manager and public, who will all be better able to compare budget proposals in terms of the values, outcomes, and strategic priorities that are most important to the community.

## Conclusion

The City of Berkeley faces serious economic hurdles, including a tripling of the General Fund deficit by 2016. The City's budget cannot sustain such fundamental structural challenges without addressing serious deficiencies in the budgeting process itself. The current policy of across-the-board cuts does not protect the community from the cost of austerity. Rather, such cuts compromise the City's ability to deliver core services. And these cuts also introduce insidious risks to the long-term integrity of government.

In stark contrast to across-the-board cuts, priority-based budgeting harnesses performance data to guide how the City allocates resources. This report recommends the adoption of a performance-oriented system called "Berkeley-Based Budgeting." Building from case studies and existing institutional examples within Berkeley itself, we advocate for the adoption of four modifications to the budget process. These recommendations will empower City leaders to effectively allocate increasingly limited resources in a rational, priority-driven way, instead of sacrificing the services that the Berkeley community holds dear.

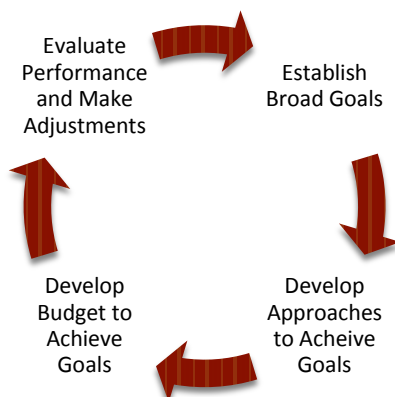
The recommendations in this report require political leadership and ownership, but the benefits are unmistakably clear. Coupling program-level performance measures to a strategic vision is a rational way to address coming challenges, and can be done in a bottom-up manner according to departmental expertise. A formal feedback mechanism within the budget process itself is essential to the success of these performance measures. In particular, decision makers would benefit both from programmatic performance indicators and from a formal gauge of citizen priorities. The City of Berkeley can leverage the prevailing infrastructure to meet these guidelines without starting from scratch.

While politically convenient for the time being, the current budgeting process in Berkeley will only delay unavoidable choices. Our recommendations offer an alternative vision for how the City can align the work of the government with the most important values and priorities of the citizens of Berkeley.

## APPENDICES

### Appendix 1: Government Finance Officers Association Budget Best Practices

**Figure A-1: GFOA Budget Best Practices**



#### Principle 1 – Establish Broad Goals to Guide Government Decision Making

*“A government should have broad goals that provide overall direction for the government and serve as a basis for decision making.”<sup>77</sup>*

No public budgeting process can be successful if there is no consensus on the broad strategic goals of an organization. These strategic goals serve as the fundamental basis for development of all subsequent budget policies and decisions, including service delivery, capital asset acquisition, and maintenance. These strategic goals should be developed after undertaking an assessment of a community’s preferences, external economic and financial factors, and a review of the internal operations of the government—including its services, capital assets, and management including its services, capital assets, and management practices. Based on this assessment of current and expected future economic and fiscal conditions, the opportunities and challenges facing the community and its government, elected officials and government managers need to develop broad strategic goals that define the preferred future state of the community. Without this strategic vision, it is nearly impossible to prioritize specific government programs and functions.

<sup>77</sup> “Best Practices in Public Budgeting,” *Government Finance Officers Association*, available at: <http://www.gfoa.org/services/nacslb/>.

## Principle 2– Develop Approaches to Achieve Goals

*“A government should have specific policies, plans, programs, and management strategies to define how it will achieve its long-term goals.”<sup>78</sup>*

While broad goals set the general direction of a government, it is the specific policies, plans, and programs that define how a government will go about accomplishing its strategic goals. As such, the development of all policies and programs must explicitly consider how they contribute to the achievement of the government's broader strategic goals. Additionally, measures should be developed to determine the progress being made by the government in achieving goals.

## Principle 3 – Develop a Budget with Approaches to Achieve Goals

*“A financial plan and budget that moves toward achievement of goals, within the constraints of available resources, should be prepared and adopted.”<sup>79</sup>*

This principle provides for the preparation of the city's financial plan, capital improvement plan, and budget options. Development of a long-range financial plan is essential to ensure that the programs, services, and capital assets remain affordable over the long run. Through the financial planning process, decision makers are able to better understand the long-term financial implications of current and proposed policies, programs, and assumptions and are better equipped to decide on a course of action to achieve the city's strategic goals.

## Principle 4 – Evaluate Performance and Make Adjustments

*“Program and financial performance should be continually evaluated, and adjustments made, to encourage progress toward achieving goals.”<sup>80</sup>*

This principle identifies practices that are needed to monitor and evaluate the government's progress in meeting both the financial and programmatic goals identified in the budget and strategic goals. Based on this review, a government may need to make adjustments to its budget, plans, and policies if there is not sufficient progress being made toward its long-term strategic goals..

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<sup>78</sup> Ibid.

<sup>79</sup> Ibid.

<sup>80</sup> Ibid.

Performance reviews undertaken through this principle should feed back into a city's goal development and review processes to ensure that goals remain relevant over time.

## Appendix 2: Berkeley's City Government

Berkeley uses a Council-Manager form of government and is authorized by the City Charter to perform the following government services: public safety (police and fire); highway and street maintenance; sanitation; social services; public improvements; planning and zoning; and general services. The financial responsibilities of the City also include the Berkeley Public Library, the Berkeley Housing Authority, and the Rent Stabilization Board, but these agencies are managed through a separate budget process.<sup>81</sup>

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<sup>81</sup> "City of Berkeley, FY 2012 & FY 2013 Adopted Biennial Budget," available from: <http://www.ci.berkeley.ca.us/uploadedFiles/Manager/Budget/FY%202012%20and%20FY%202013%20Adopted%20Budget%20Book.pdf>

The following organizational flow chart shows how the City’s Government authority is divided:

Figure A-2: City Of Berkeley Organizational Chart



82

<sup>82</sup> City of Berkeley, FY 2012 & FY 2013 Adopted Biennial Budget,” available from: <http://www.ci.berkeley.ca.us/uploadedFiles/Manager/Budget/FY%202012%20and%20FY%202013%20Adopted%20Budget%20Book.pdf>.

## Appendix 3: Berkeley's Budget Process

The City Council—comprised of eight council members and the mayor—is the legislative decision-making body for the City and must approve any budget proposal. The budget is developed, however, by the Office of Budget & Fiscal Management (OFB), at the direction of the City Manager, who is appointed by the City Council. Our analysis of the budget process focuses on the departments overseen by the City Manager and does not address the process used by the Rent Stabilization Board, Berkeley Housing Authority, or the Berkeley Library, or any of the City's citizen boards or commissions.

Berkeley uses a biennial budget process that culminates with the production of two key documents: the Citywide Work Plan and the Adopted Budget. The former is a summary of the ongoing work and accomplishments of each of the City's departments, and the latter is the financial document that directs the City's spending for the next two years. Both documents are released simultaneously at the beginning of each budget cycle, and are updated to ensure that the City Council can make adjustments as fiscal and economic conditions change.

### The Citywide Work Plan

The Citywide Work Plan is a tool that allows the City Council to review the ongoing work of the City's departments and inform the City Council's budget deliberations.<sup>83</sup> The document itself outlines the baseline and special project activities for every department under the supervision of the City Manager. According to the Work Plan itself, the purpose of the document is to give decision makers and the public, “a clear picture of the services the City is providing now, in order to make more informed decisions about allocating resources in the future.”<sup>84</sup> The Work Plan, however, does not include the activities for the Auditor, Library, Rent Board, Mayor, or Council.

Each department has a separate entry describing the department's mission, number of staff, primary programs or tasks, related citizen commissions, and distinguishes the department's work in terms of baseline, or “core” services. A separate column provides a description of the department's work and or service deliverables. Some departments list the number of full-time employees (FTE) by activity or responsibility, but not every department includes the total number FTEs. Many departments include some type of performance information, such as the number of criminal cases prosecuted, meetings attended, new files started, etc. Performance information is juxtaposed with the department's work goals, on-going responsibilities, and past accomplishments, but all of these descriptions lack a

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<sup>83</sup> City of Berkeley FY 2013 Adopted Budget, 2.

<sup>84</sup> City of Berkeley, “Citywide Work Plan,” available from: <http://www.ci.berkeley.ca.us/workplan/>.



standardized format. Some departments include key objectives for the entire department, but others do not. There are a couple of important implications we draw from this discussion of the Work Plan.

First, many departments already collect and report some form of performance information. This means that departments recognize the value in tracking and reporting their performance, a key part of any priority-based budgeting system. The majority of this information, however, is used in conversations between the City Manager and departmental managers during the budget process and is not published in the Work Plan. We see an opportunity to leverage this practice by formalizing the process by which departments establish performance measures. In some cases, departments may already track certain measures for internal purposes.

Second, the current format of the Work Plan makes it difficult for the reader to distinguish between goals, activities, and results.

### The Budget Document

The City provides the public with a variety of budget related documents. From the City Manager's website, the public can access the current fiscal year's budget, all City budgets from 2005 to the present, and the reports used to develop the current budget. The budget itself consists of three main documents: the adopted budget for the current fiscal year, the adopted budget for the current biennial budget cycle, and the adopted capital improvement document.<sup>85</sup>

All three of these documents contain detailed financial line-item descriptions of the City's departments and operations, as well as additional qualitative summaries written by the City Manager to put the financial information into context for both the City Council and the public at large. As is, these documents do an excellent job for financial and planning purposes, clearly showing how each department's budget is changing from the previous cycle and giving decision makers an understanding of the overall fiscal and economic health of Berkeley.

Of critical importance are the "Council Budget Development Policies," which are a set of guidelines developed by the City Council that provide guidance to the City Manager and Office of Budget & Fiscal Management's work as they develop the coming year's budget.

The current guidelines are:

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<sup>85</sup> City of Berkeley, "Budget Documents: Current Reports and Adopted Budgets," available from: <http://www.ci.berkeley.ca.us/2020vision/>.

- Focusing on the long-term fiscal health of the City by adopting a two-year budget and conducting multi-year planning;
- Building a prudent reserve;
- Developing long-term strategies to reduce unfunded liabilities;
- Controlling labor costs while minimizing layoffs;
- Allocating one-time revenue for one-time expenses;
- Requiring enterprise and grant funds to balance and new programs to pay for themselves;
- Any new expenditure requires revenue or expenditure reductions.

These policies are primarily fiscal in nature; directing the Office of Budget & Fiscal Management to plan for the future, maintain adequate reserve funding, etc. From a purely fiscal perspective, these principles ensure that the financial condition of the City remains sound as it imposes a long-term and prudent approach to developing the City's budget.

The other crucial qualitative sections are "Current Budget Situation" and "Overall View of the Plan to Balance the City's Budget." The former provides essential background information on the current state of the national, state, and local economy, and the latter is a specific summary of how the City plans to balance its budget. Both of these sections provide essential information to understand how the City's budget is responding to larger economic forces.

After these qualitative summaries, the majority of the budget document consists mostly of financial tables and charts that show changes in the City's revenue and spending. These descriptions are very detailed; showing the historical trends and adopted changes for each category of taxes and City department. These summaries provide an enormous amount of data and information. Of particular interest are the "Budget Impact Summaries" and budget summaries for each City department.

The Budget Impact Summaries are a series of tables that summarize all of the proposed budget changes in qualitative terms. These changes are broken down into four different categories: "Proposed Changes," "Programmatic Impacts," "Guiding Principles in Decision Making," and "Looking Forward: Core Programmatic Activities." Because the majority of the City's spending goes toward labor costs, nearly all of the proposed changes are either the loss of existing current employees or maintaining existing employee vacancies. The table explains how each of these decisions will affect programmatic activities in each department as well as the rationale for making that decision.

Following the Budget Impact Summaries, the adopted budget document concludes with a summary of each of the City's departments. Each of these summaries include a description of each department's mission, organizational structure, an overview of the department's work, its major accomplishments over the last budget cycle, key objectives for the upcoming budget cycle, and significant changes from the prior year's budget. Finally, each department overview concludes with a financial summary that breaks down each department's spending by type (salaries and benefits,

services and materials, capital outlay), by division, and the source of each department's funding (general fund, dedicated revenue, etc.).

## Appendix 4: Primary Elements of Priority-Based Budgeting

Despite variations in definition and application, most priority-based budgeting systems share common elements. Based on our review of the public finance literature and existing municipal PBB systems, we developed the following profile of the common components of priority-based budget processes. The results are presented in the following flow chart:

### Exhibit A-1: Common Elements of Priority-Based Budgeting

#### 1. Strategic Prioritization and Planning Process is in Place

- a) Identify the city government's enterprise-wide mission, outcomes, and objectives
- b) Determines priorities among these objectives
- c) Incorporates citizen input into the planning process

#### 2. Organizational Structure is Built around Outcomes

- a) Translate strategic plans and outcomes into specific missions, programs, service objectives, and activities throughout the city's government
- b) Organizational Structure is redesigned to support resource allocation and prioritization by being structured such that the objectives can be clearly measured in terms of efficiency and effectiveness at the departmental level
- c) New structure provides clear managerial accountability and authority

#### 3. Performance Metrics Established to Measure Outcomes and Objectives

- a) Each department develops a **modest** number of key metrics that measure each program's service objectives both in terms of efficiency and effectiveness
- b) Metrics are also developed that can measure progress made toward achieving desired outcomes
- c) Metrics are collectible, informative, understandable, and relevant to managers, legislators, and the public
- d) For programs delivered across departments, coordinated metrics are defined

#### **4. Mechanism is in Place to Gather and Validate Performance Data**

- a) The City develops reliable, independently validated performance data measuring systems
- b) Performance Data is collected at regular and salient intervals
- c) Performance Data is ensured to be valid, by external audit when necessary
- d) Adequate information technology systems are maintained for data storage and retrieval

#### **5. Budget Links Spending to Service Objectives**

- a) Budget document emphasizes specific and measurable service objectives and their inputs and outputs insofar as they are applied to achieve outcomes
- b) Determine budgets by linking services and service levels according to priorities
- c) Unit cost analysis informs appropriation decisions

#### **6. Accounting Systems Are Aligned with Budgeted Service Delivery Structures**

- a) The categories within which performance is measured must be aligned with the categories in which cost information is collected.
- b) All of the resources associated with a particular output or outcome must be captured in the accounting and budgeting systems.

#### **7. Reporting and Active Use of Performance Data**

- a) Performance data is mandated to be incorporated into the budget document
- b) “Real-time” reporting systems inform managers of resources used and progress on outcome
- c) The performance data informs decisions made by executive and legislative decision makers
- d) Performance data is used in conjunction with an incentive system that rewards staff based on their success achieving desired outcomes, reducing costs, and improving quality

e) The public is regularly engaged in a performance evaluation and improvement process.<sup>86</sup>

Figure A-2: Sample Department Scorecard, City of Walnut Creek<sup>87</sup>

POLICE DEPARTMENT											
Individual Department Program Scorecard		Evaluation Criteria									
		Basic Program Attributes				City of Walnut Creek Goals					
Directions: For all the programs in your department, please rate how these programs score in the four Basic Attributes and they influence the City's ability to achieve its Goals. When completed, please email the Program Scorecard back to <a href="mailto:info@walnutcreekca.gov">info@walnutcreekca.gov</a>		Mandated to Provide Program	Cost Recovery of Program	Change in Demand for Service	Reliance on City to Provide Service	A Safe Community	Culture, Recreation and Learning Opportunities	Economic Viability and a Sense of Community	Strong Neighborhoods	Stewardship of the Natural and Built Environment	Effective Transportation and Mobility Options
 Continue to <b>Scroll to the Right to Score Each of the Ten Evaluation Criteria</b>		0-4 Scale 0=Not at all 1=Minimal 2=Some 3=Significant 4=Extensive	0-4 Scale 0=Not at all 1=Minimal 2=Some 3=Significant 4=Extensive	0-4 Scale 0=Not at all 1=Minimal 2=Some 3=Significant 4=Extensive	0 to 4 Scale 0=Not at all 1=Minimal 2=Some 3=Significant 4=Extensive	0 to 4 Scale 0=Not at all 1=Minimal 2=Some 3=Significant 4=Extensive	0 to 4 Scale 0=Not at all 1=Minimal 2=Some 3=Significant 4=Extensive	0 to 4 Scale 0=Not at all 1=Minimal 2=Some 3=Significant 4=Extensive	0 to 4 Scale 0=Not at all 1=Minimal 2=Some 3=Significant 4=Extensive	0 to 4 Scale 0=Not at all 1=Minimal 2=Some 3=Significant 4=Extensive	
Department Providing Program	Program Name	Enter Score Below	Enter Score Below	Enter Score Below	Enter Score Below	Enter Score Below	Enter Score Below	Enter Score Below	Enter Score Below	Enter Score Below	
Police-Animal Services	Animal Services/Animal Control	0	0	0	0	0	0	0	0	0	
Police-Communications Division	Dispatching Services	0	0	0	0	0	0	0	0	0	
Police-Communications Division	Radio Operations	0	0	0	0	0	0	0	0	0	
Police-Community Policing Division	Community Outreach	0	0	0	0	0	0	0	0	0	
Police-Community Policing Division	Problem Solving-Special Enforcement Team	0	0	0	0	0	0	0	0	0	
Police-Community Policing Division	School Programs	0	0	0	0	0	0	0	0	0	
<b>SAMPLE SCORECARD: COMMUNITY PROGRAMS</b>											

<sup>86</sup> Harvey M. Rose Associates, LLC. (2011). Blueprint for a Transition to Performance-based Budgeting in the City of Los Angeles.

<sup>87</sup> "Balancing for the Future: A Balanced Budget for 2010-2012", Memo, City of Walnut Creek, page M-9.

## Appendix 6: Performance Data Already in Berkeley

While the City does not formally set community priorities or performance measures in the budget process, there are a number of identities in Berkeley that exhibit aspects of Priority Based Budgeting. We would like to call attention to a sample of these entities to suggest that implementing a PBB framework into the budget process would actually tap into a number of practices currently in place. We highlight three examples in particular.

### Examples of performance measures in Berkeley

#### 1. City of Berkeley General Plan (2003)

Per state law, the City established a General Plan to guide long-term thinking and decision making, specifically with regard to the built environment. In many ways, our recommendation for a PBB system mirrors the process and product inherent in the City's General Plan. But while the General Plan only relates to the built environment, a PBB framework would guide activity and budgeting with respect to the entire city government.

“Purpose of the Berkeley General Plan: The Berkeley General Plan is a comprehensive, long-range, and internally consistent statement of policies for the development and preservation of Berkeley. It is a statement of community priorities and values to be used to guide public decision-making in future years. The Berkeley General Plan is a compilation of goals, objectives, policies, and actions designed to manage change. The Plan's goals, objectives, and policies serve as a guide to the day-to-day decisions that are essential for responsive government. Decisions made by the Berkeley City Council and its advisory boards and commissions about the physical development of the city should be consistent with the goals, objectives, and policies of this Plan. The City Council and the Planning Commission will use the General Plan when evaluating land use changes and making funding and budget decisions.”<sup>88</sup>

“The Berkeley General Plan establishes seven major goals:

1. Preserve Berkeley's unique character & quality of life.
2. Ensure that Berkeley has an adequate supply of decent housing, living-wage jobs, & businesses

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<sup>88</sup> City of Berkeley. (2003). *City of Berkeley general plan: A guide for public decision-making*. Available website: <http://www.ci.berkeley.ca.us/contentdisplay.aspx?id=488>

providing basic goods & services.

3. Protect local & regional environmental quality.
4. Maximize & improve citizen participation in municipal decision-making.
5. Create a sustainable Berkeley.
6. Make Berkeley a disaster-resistant community that can survive, recover from, & thrive after a disaster.
7. Maintain Berkeley's infrastructure, including streets, sidewalks, buildings, & facilities; storm drains & sanitary sewers; & open space, parks, pathways, & recreation facilities".<sup>89</sup>

These are exactly the sort of goals we ask the Council to develop, goals that reflect the most important values and needs of the community. Like the process to develop the General Plan, the Council would engage with the community in establishing the goals, and solicit the public to more precisely define how these goals should be measured. We see this process of community engagement and goal setting as an excellent example of how the Council can set priorities to guide City activity, and frame budget decisions.

## **2. 2020 Vision for Berkeley's Children and Youth (City of Berkeley, Berkeley Unified School District, University of California and Community Agency Partners)**

Berkeley's "2020 Vision" provides a local example of government connecting goals to performance measures. 2020 Vision for Berkeley's Children and Youth is a multi-agency, citywide initiative aimed at closing the academic achievement gap that exists in Berkeley public schools. This initiative began with a "Vision Team" working with various stakeholders to develop priority recommendations for how to achieve the objective. The Vision Team next selected eight indicators to measure progress toward closing the achievement gap. Measures include Kindergarten Readiness, Third Grade Reading Proficiency, attendance, and so on. The Vision Team then selected three of these eight measures as "highest priority", and created a work plan built around each of the eight indicator measures to guide work in these areas. 2020 Vision partnered with the City of Berkeley IT Department to build a database to track performance measures, and reports the results in progress reports to Council. We note that it does not appear that these measures are used to allocate funding. Exhibit A-3 provides an example of a 2020 Vision goal and performance measure reporting toward that goal.

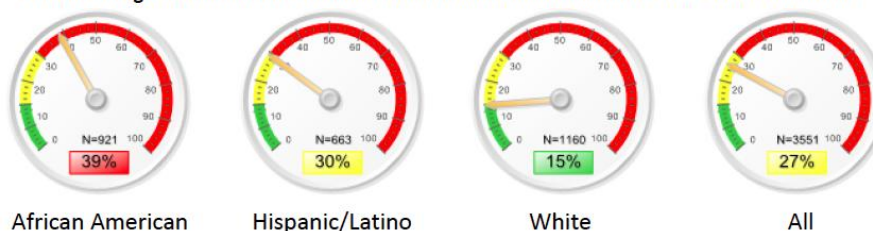
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<sup>89</sup> Ibid

Figure A-3: BUSD's Attendance Goal



Percent of High School Students that have Missed More than 10% of the 2010-2011 School Year\*



**GOAL:** By Spring 2013, the number of BUSD students that are chronically absent will be reduced by 10%, as measured by attendance data.



**2. Health, Housing and Community Services** The Department of Health, Housing and Community Services (HHCS) uses a “Service Measures and Deliverables” framework to monitor contracts with contracted providers of community services. A citizen omission oversees each area of community service, and is responsible for monitoring the contractors’ activities, and make recommendations to Council regarding these services. The Service Measures and Deliverables describe program type (Homeless shelter, legal service, etc.), the agency (Homeless Action Center), list of service measures (number of case management sessions, tutoring sessions, etc.), and satisfactory outcomes (clients remain stably housed, 70% of clients exit with a job, etc.).

In addition to listing outcomes and measures, the HHCS budget allocation in the FY 2012 indicates that funding amounts changed in each service category (Health, Homeless, Youth, etc.) from a 2% increase in Economic Development to a 29% decrease in Seniors (see Exhibit A-4). This seems to indicate that rather than cut services across-the-board, some entity evaluated the current priorities of the community and based the funding changes around these priorities. We believe that if Council was presented with budget proposals that were built around a similar array of priorities, outcomes, and measures, the Council would have more agency to authorize a similar set of more nuanced funding decisions. These funding decisions would reflect the priorities of the community, and reward those programs that best advanced those priorities. For these reasons we would like to cast the spotlight on the process that the HHCS and the associated commissions use to recommend funding changes.



**Figure A-4: CSA Funding Changes from FY 2012-2013 Adopted Budget**

<b>Funding by Category</b>	<b>FY 2011 All Sources</b>	<b>FY 2012 All Sources</b>	<b>% Change</b>
Arts	\$324,936	\$315,188	-3%
Childcare	\$584,616	\$541,621	-7%
Community Facilities Improvements	\$173,220	\$148,703	-14%
Community Media	\$230,710	\$230,710	0%
Disability Programs	\$1,192,707	\$1,207,237	1%
Economic Development	\$362,346	\$369,592	2%
Employment Training	\$375,963	\$334,038	-11%
Health	\$270,222	\$266,191	-1%
Homeless	\$3,107,720	\$2,810,919	-10%
Housing Dev & Rehab	\$545,199	\$402,357	-26%
Legal/ Advocacy	\$95,534	\$84,464	-12%
Other	\$231,184	\$239,831	4%
Recreation	\$19,383	\$18,898	-2%
Seniors	\$41,388	\$29,572	-29%
Youth	\$750,698	\$724,165	-4%
	<b>\$8,305,825</b>	<b>\$7,723,487</b>	<b>-7%</b>

90

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<sup>90</sup> City of Berkeley. Office of Budget and Fiscal Management, (2011). *Adopted 2012-2013 budget*. Available from website: <http://www.ci.berkeley.ca.us/uploadedFiles/Manager/Budget/FY 2012 and FY 2013 Adopted Budget Book.pdf>

## Glossary of Key Terms for Performance-based Budgeting

### **Activity:**

A process undertaken by an organization to convert inputs into outputs.

### **Berkeley-Based Budgeting:**

The set of budgeting principles and practices that this report recommends that the City of Berkeley adopt.

### **Community Priorities:**

The set of strategic goals, preferences, and values most important to the community. Expressed in terms of the results or outcomes that the public value. Defining these community priorities is a major component of establishing a strategic vision.

### **Function:**

A group of related Sub-Functions that comprise a common broad City service area. The highest level of budgetary organization in the City.

### **Incremental Budgeting:**

The practice of beginning each budget development from the baseline of the previous budget

### **Mission:**

An enduring statement of purpose; the organization's reason for existence. The mission describes what the organization does, and how and for whom its actions are carried out.

### **Outcome:**

The result of a program, service, set of activities, or strategy. An outcome is not a description of what was done; rather, it should be used to describe the impact of the service, set of activities, or strategy. Outcomes are often identified as immediate, intermediate, and long term.

### **Performance Management:**

A system of organization that uses performance measurement information to help set and achieve agreed-upon performance goals, allocate resources, and adjust policy as necessary. To be effective, performance management ideals should be integrated throughout the organization and involved in strategy, budgeting, and management decisions.

### **Performance Measurement:**

The process of measuring government performance by tracking progress toward specific quantitative and qualitative outcomes with an emphasis on accountability and improvement.

### **Program:**

A group of activities that performed together achieve the service objectives of the program. Programs are contained within individual departments.

### **Strategic Planning:**

Systematically addresses an organization's purpose, internal and external environment, value to stakeholders, and current and future plan for action.

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# Berkeley Based Budgeting:

Recommendations for Implementing Priority-Based Budgeting in the City of Berkeley

## Brief/Handout

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*“We are going to see a contraction of state money and an inevitable growth in costs, and it’s not clear that Berkeley will be able to continue as it always has. When the resources go away, we can either do everything halfway or we can have a conversation about the most important things to do.”*

– Former Berkeley City Manager<sup>1</sup>

## Executive Summary

In recent budget cycles, the City of Berkeley has used across-the-board cuts to balance its budget deficits. Under this practice, the City Manager asks each department to make the same percentage reduction from the prior year’s baseline, which equally spreads the pain of budget cuts across all of the City’s departments. From this baseline, the City Manager adjusts the final funding amount, based on a process and criteria that do not appear in the Budget Documents, and are essentially invisible to the public. This ‘black box’ appearance of government obscures the difficult trade offs inherent in the budget process, and increases divisiveness among stakeholders. While across-the-board cuts is a useful approach on a temporary basis, there is the strong potential for it to undermine the effectiveness and integrity of the City’s government in the long term. Such cuts undermine efforts to prioritize the use of limited resources, and present a range of very real long-term risks to the management of the City.

In the coming years, municipal officials across California will face a grim fiscal environment. Increasing pension and healthcare costs are projected to consume an increasingly large share of municipal budgets. Increasing costs and flat revenues represent a major structural change to the budget environment that the City of Berkeley faces. The current budget system has worked well for small or occasional cuts, but is ill equipped to address major structural changes. There is no recent precedent for the difficult prioritization decisions ahead. Given these challenges, **Berkeley’s elected officials and public managers should re-tool the City’s budget process to ensure that government activity is aligned with the most important needs and values of the community.**

We recommend that the City of Berkeley amend its budget process so that decision makers have the information they need to prioritize among competing proposals. The following recommendations are informed by the existing municipal finance literature, interviews with over twenty city managers and public budgeting experts, including current and former City of Berkeley employees, and a nationwide examination of dozens of city and municipal budget processes.

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<sup>1</sup> Interview, March 28<sup>th</sup>, 2013.

We call these recommendations “Berkeley-Based Budgeting,” as they take into account the unique elements of Berkeley’s current budget process and community values. If implemented, these recommendations will give the City’s leaders and managers the additional information they need to most effectively allocate the City’s limited fiscal resources to the highest priorities of Berkeley’s residents.

Our recommendations are:

**1. Establish a Strategic Vision for the City and Communicate those Principles to the Public:** The City Council should identify the core values of the community and the role of government in supporting and advancing those values, and then establish priorities that reflect these goals. The priorities should be expressed in terms of the results or outcomes that the public value.

**2. Match Government Activities to Outcomes and Strategic Goals:** The City should reorganize the Work Plan, the Budget Document, and all departmental funding requests to appear according to program, as opposed to department. This process begins with the City Manager and staff creating a comprehensive directory of all City activities, and working with department heads to identify the outcomes that align with the Council’s priorities. The City Manager should then create a document that maps out how these outcomes lead to strategic goals.

**3. Develop Measures to Evaluate the Progress of Each Program:** The City should develop performance measures that are readily collectible, reliable, and sufficient for accountability. Department heads should work with the City Council and the City Manager to develop performance metrics. These measures should be included in the Work Plan and the Budget Document.

**4. Allocate Resources by Program and Hold Programs Accountable Based on the Outcome Measures:** Departments should submit budget proposals to Council that itemize requests at the program level. This would allow the Council to evaluate budget requests in terms of programs and results. These requests would include the mission, the agreed upon outcomes, and the metrics used to measure progress for each program.

## Example Priority Based Budget Process: Walnut Creek

