

***The Price of Government
and
Budgeting for Outcomes***

***Make Results Worth the Price
Citizens Pay***

Little Hoover Commission
Roadmap for Reform

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“The trouble with our times is
that the future is not what it
used to be.”

Paul Valery, French poet

Overview

- I. The Challenge
Gov't Is Broke and Broken

- II. Reform the Budget Game
(The current game is for losers!)
Set the price and buy results, don't pay for costs.

- III. Budgeting for Outcomes Tools

- IV. Make a Better Deal between Citizens and their Governments

- V. What Success Feels Like

I. The Challenge

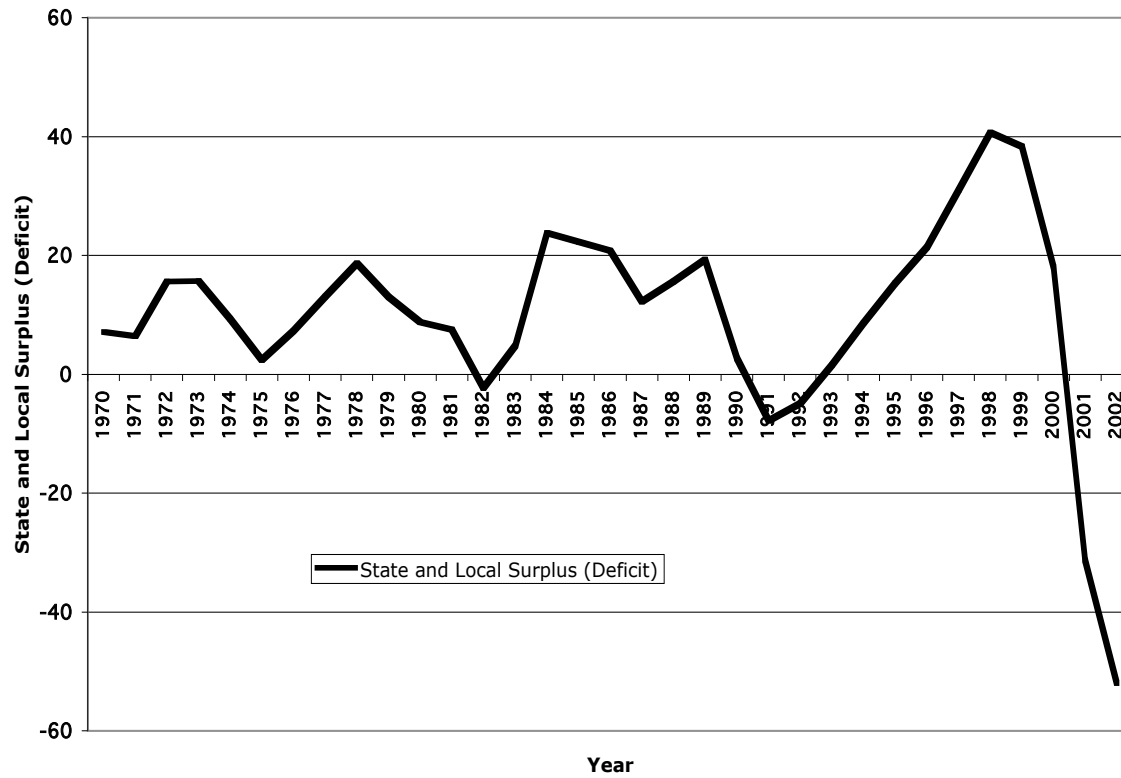
Government is **broke!** And it's going to stay that way.

Government is **broken** - losing the competition for public support.

Good management = balancing the budget - solving the math problem.

Leadership = improving service to citizens and earning their trust while balancing the budget - solving the value/ money problem.

Government is Broke



Permanent Fiscal Crisis

Public finance “perfect storm” -
convergence of:

Increased costs to educate, medicate,
incarcerate.

Pension obligations as population ages.

Rising debt and debt service.

Weakened revenue from tax cuts/
resistance to increases.

Government is Broken

Public is cynical.

Government wants taxes to pay costs
(because its broke).

Citizens pay taxes and wants results.

Government is losing the competition for
public support.

Government will win **ONLY** if it delivers the
results citizens want at the price they are
willing to pay!

II. Reform the Budget Game...or Lose

Insanity is doing the same thing over and over again - expecting a different result!

Actions governments take to balance their budgets

Short Term

Steal funds from other accounts

Lie in accounting for spending/ revenue

Borrow - pay tomorrow for today's costs

Use reserves/ sell off assets

Make something up

Temporarily cut costs

Temporarily increase revenue

Long Term

Cut spending permanently

Increase revenue permanently

The Current Game

It's A Set Up

Cost- Based Budget

Starting Point	Last Year = BASE costs
Focus	Add/ Subtract costs re: BASE
Addition	Autopilot increases = new BASE Plus "needs"
Subtraction	"Cut" from <u>new</u> BASE

The Current Game (cont')

Submission	Justification for needs/ costs - plus a little extra
Incentives	Build up costs - make cuts hard
Analyst's job	Find hidden/ unnecessary costs
Elected's job	Choose to cut services, OR Raise taxes to cover costs GET BLAMED! Or Blame Someone Else!!
Debate	What to cut What to tax

WA Changed the Game

\$2.5 billion shortfall.

Budgeting by referendum.

Used up all the tricks.

And now for something completely
different!!!!

Gov. Locke Changed the Game

4 Questions That Matter

1. How much revenue - what is the price of government we charge our citizens?
2. What results matter most to our citizens - what are the priorities of government we will deliver to citizens?
3. How much should we spend to achieve each result?
4. How can we BEST deliver the results that citizens expect?

Gov. Locke Changed the Game

Treated agency budget submissions as offers to deliver results at a price.

Measured each offer against results important to citizens - Priorities of Government.

“Bought” those offers that contributed most to the key results - left the rest.

BUDGET = the most result for the money.

Gov. Locke Changed the Deal with Citizens

Priorities of Government delivered at the Price of Government.

Results for Money.

New Game

Budgeting for Outcomes

Starting Point	The Price of Government
Focus	Buying results - Priorities of Government
Addition	NA
Subtraction	NA

New Game (cont.)

Submission	Results to be achieved for the price
Incentives	Produce results that matter
Analyst's job	Validate or find better choices
Elected's job	Choose results that citizens value at a price they are willing to pay
Debate	How to get better results

Price of Government

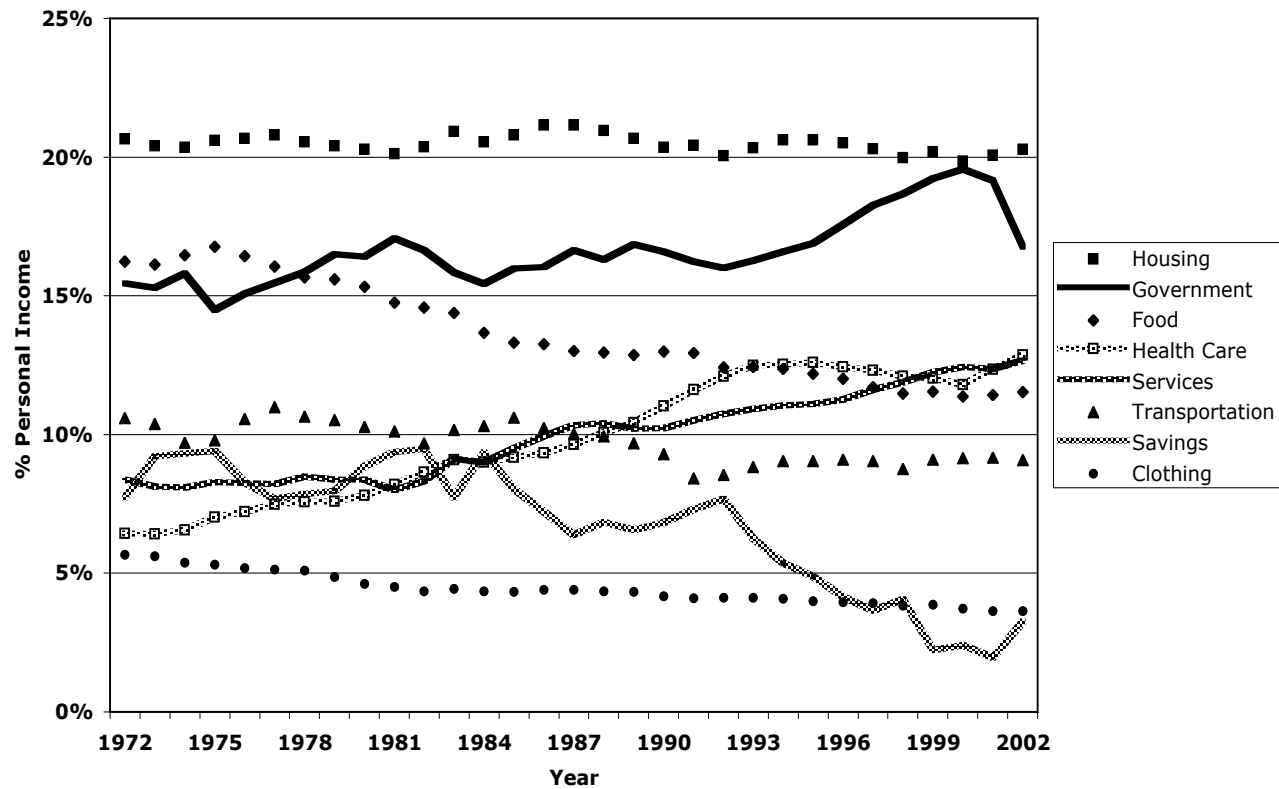
ALL taxes, fees and charges paid by citizens for government services

State and local

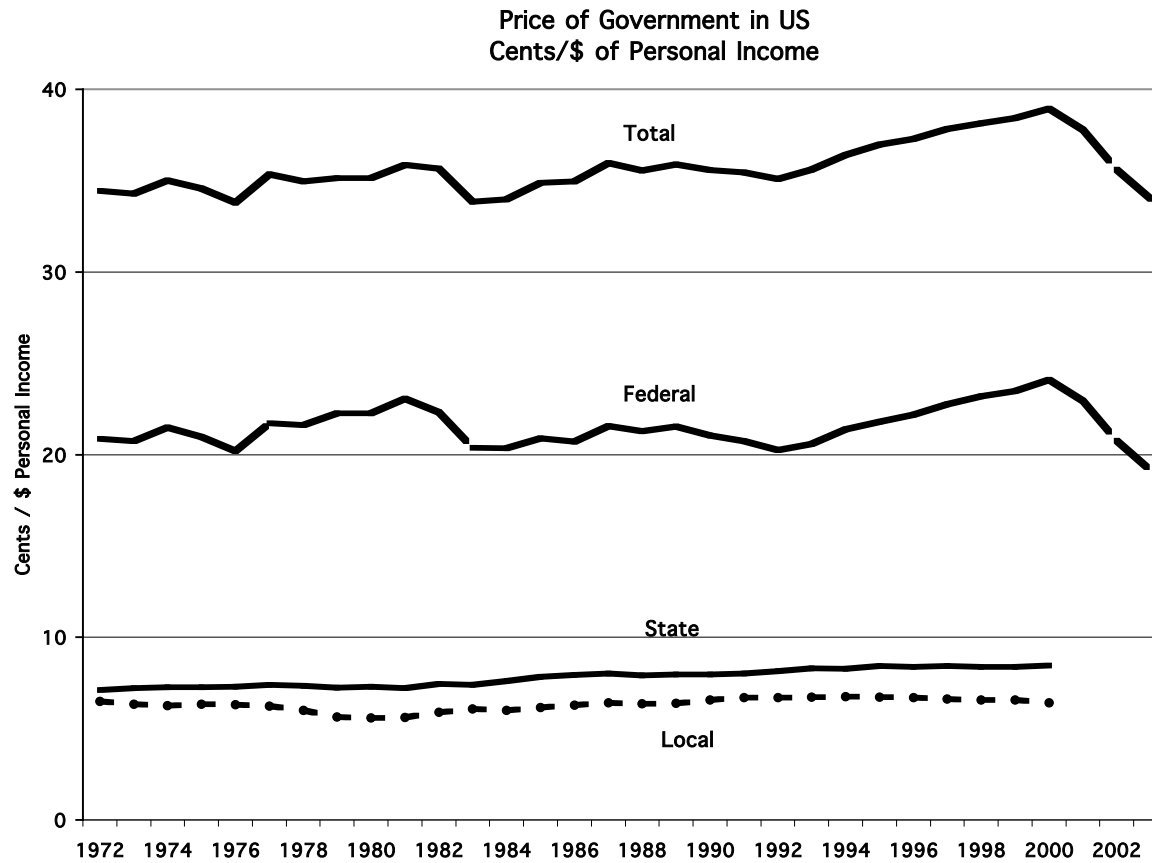
	% Rev.	% Exp.
State General Fund	40%	25%
State Dedicated Funds	20%	20%
Local	40%	55%

Govt's Price Competition

The Price of . . .
% Use of Personal Income

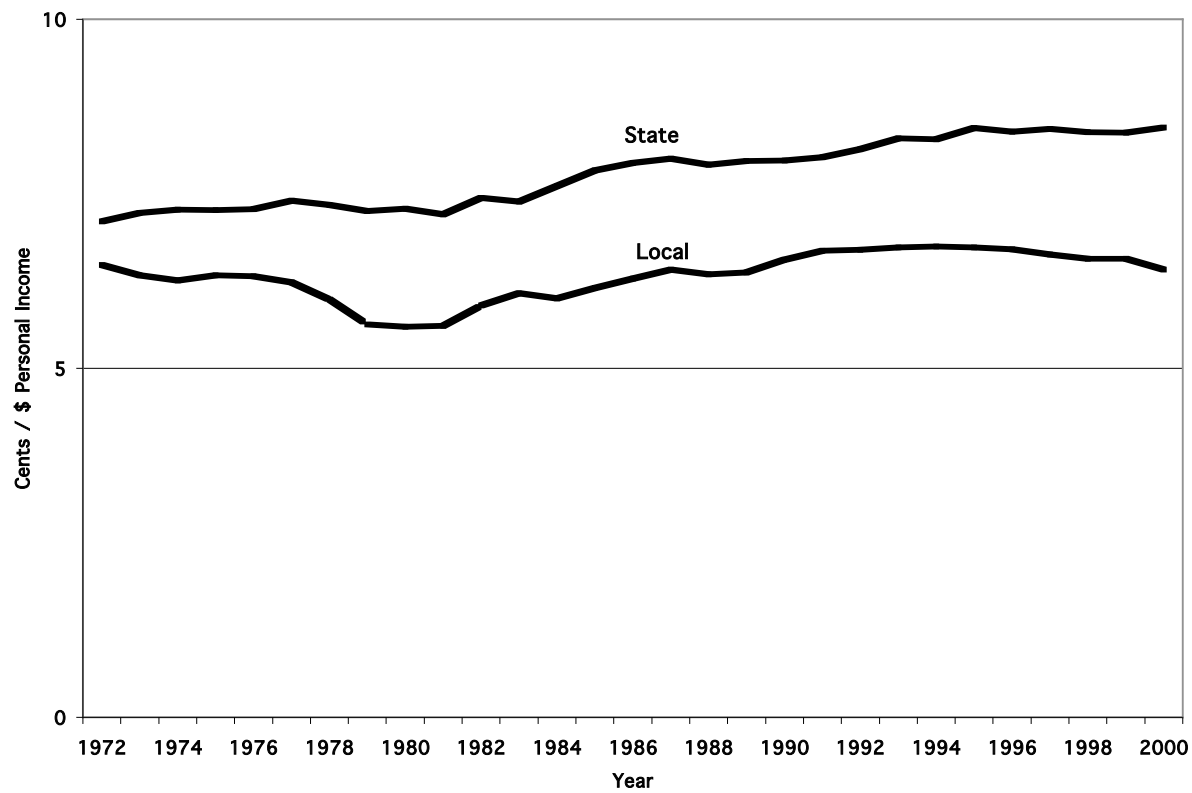


Price of Government

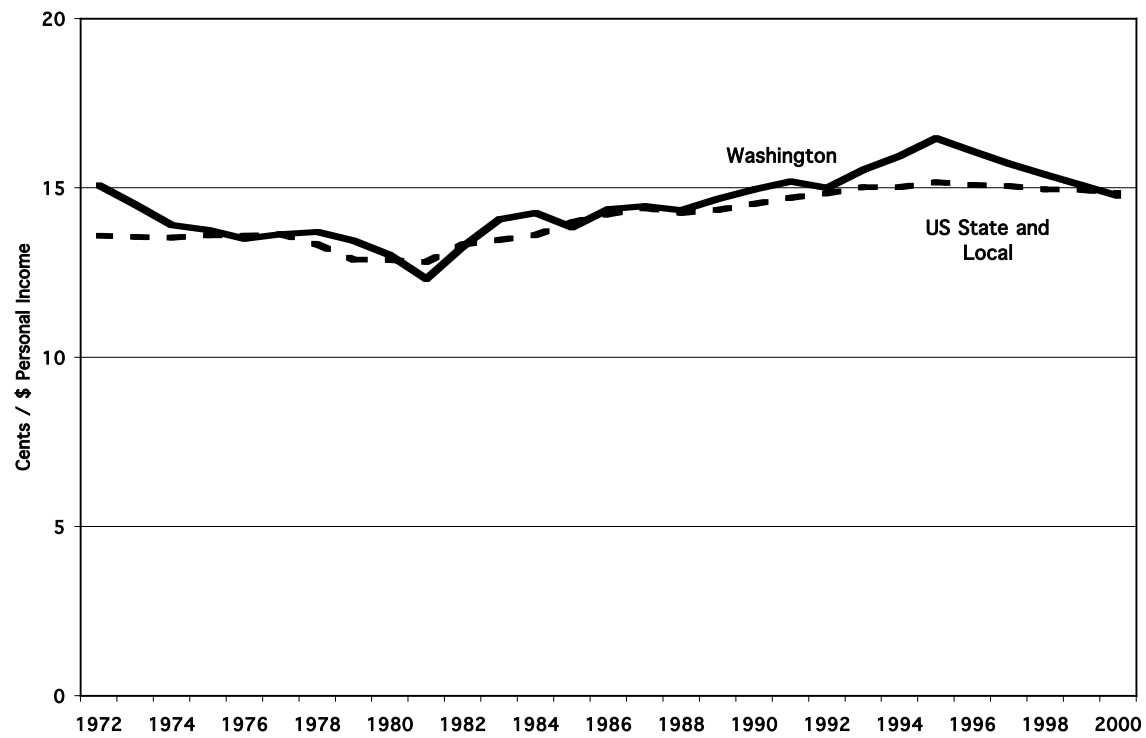


Price State vs. Local

US State and Local Price of Government



WA Price of Government



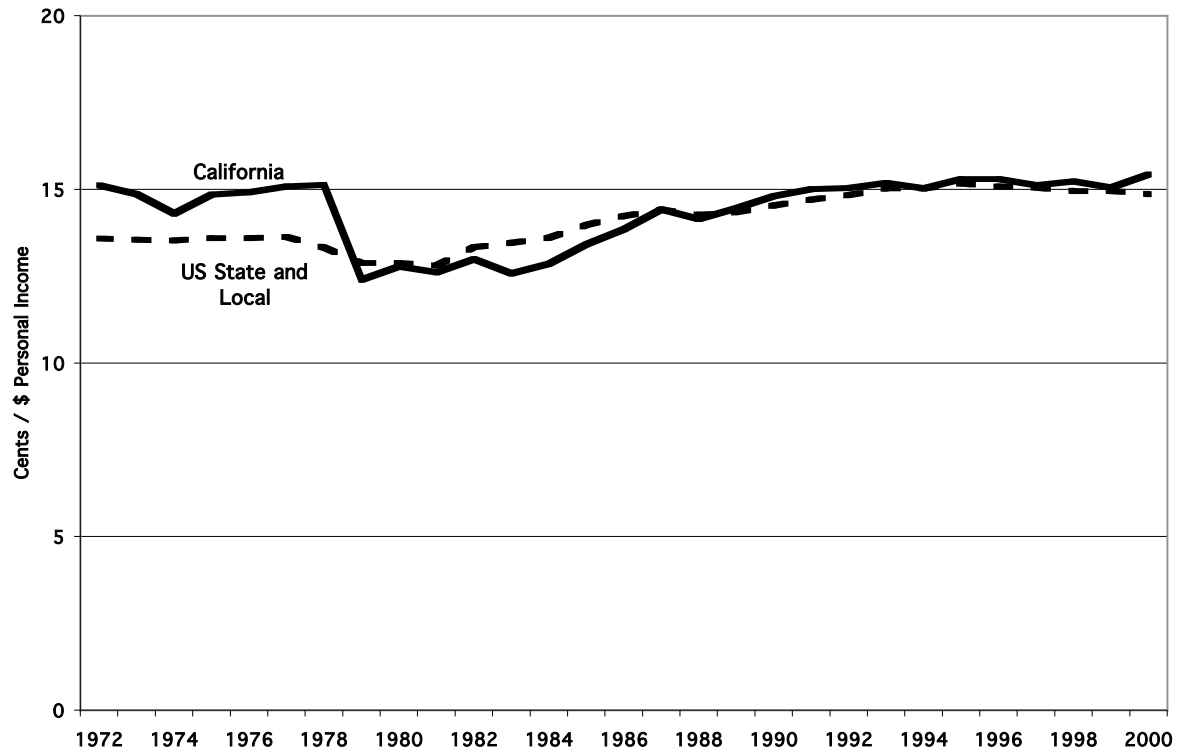
Setting the Price of Government

It's a choice

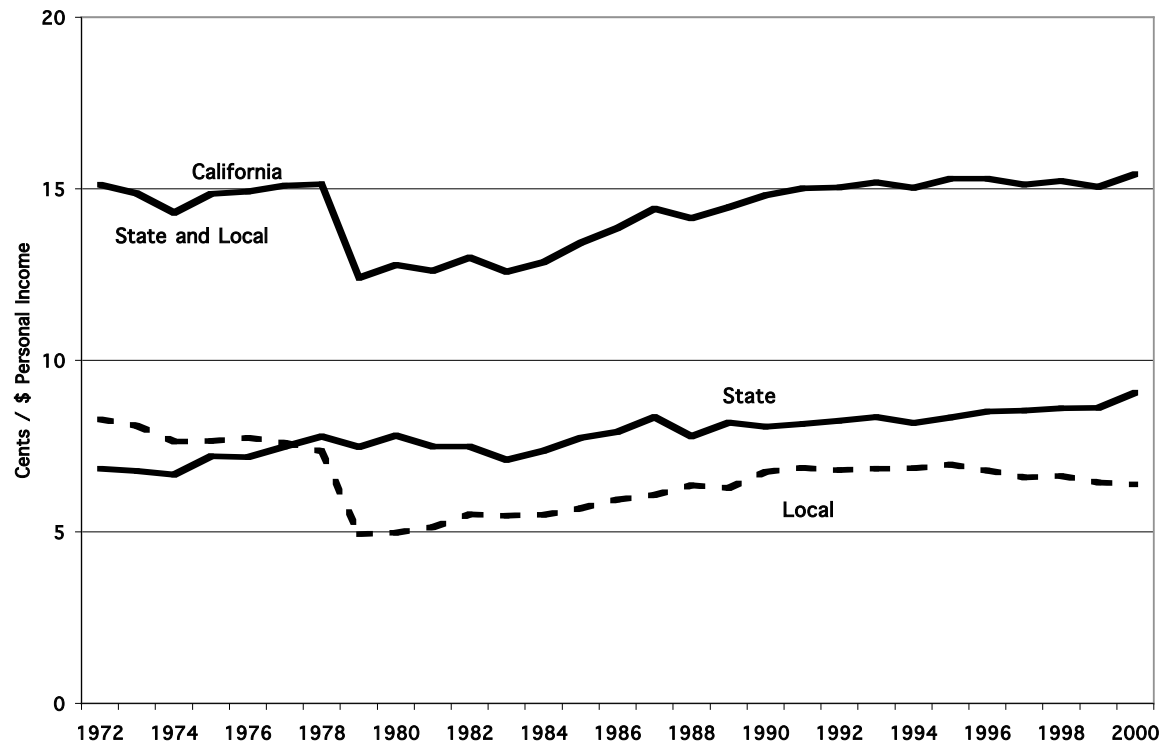
Set the price so that it is acceptable,
adequate and competitive.

What's the right price in your state?

CA Price of Government



CA Price of Government



Priorities of Government

Results that matter most to citizens.

Results not costs, activities, programs, organizations.

Specific indicators/ measures of success - otherwise they are just good intentions.

WA Priorities of Government

Results	Indicators
Increase student achievement K-12.	
Improve the quality and productivity of the workforce.	
Deliver increased value from post secondary learning.	
Improve the health of Washingtonians.	
Improve the condition of vulnerable children and adults.	

WA Priorities of Government

Results	Indicators
Improve economic vitality.	
Improve the mobility of people, goods, information and energy.	
Improve the safety.	
Improve the quality of WA's natural resources.	
Improve cultural and recreational opportunities.	

Pricing the Priorities

How much are they each worth - not how much do they cost

It's judgment, not science

WA Pricing its Priorities

Results	
Increase student achievement K-12.	29%
Improve the quality and productivity of the workforce.	6.5%
Deliver increased value from post secondary learning.	9%
Improve the health of Washingtonians.	11%
Improve the condition of vulnerable children and adults.	10%

WA Pricing its Priorities

Results	
Improve economic vitality.	5.5%
Improve the mobility of people, goods, information and energy.	12%
Improve the safety.	8.5%
Improve the quality of WA's natural resources.	5%
Improve cultural and recreational opportunities.	3.5%

Purchase Plan to Deliver Priorities at the Price

Buyers: Executive Policy/Budget/ Results
Teams (Buying agents for citizens)

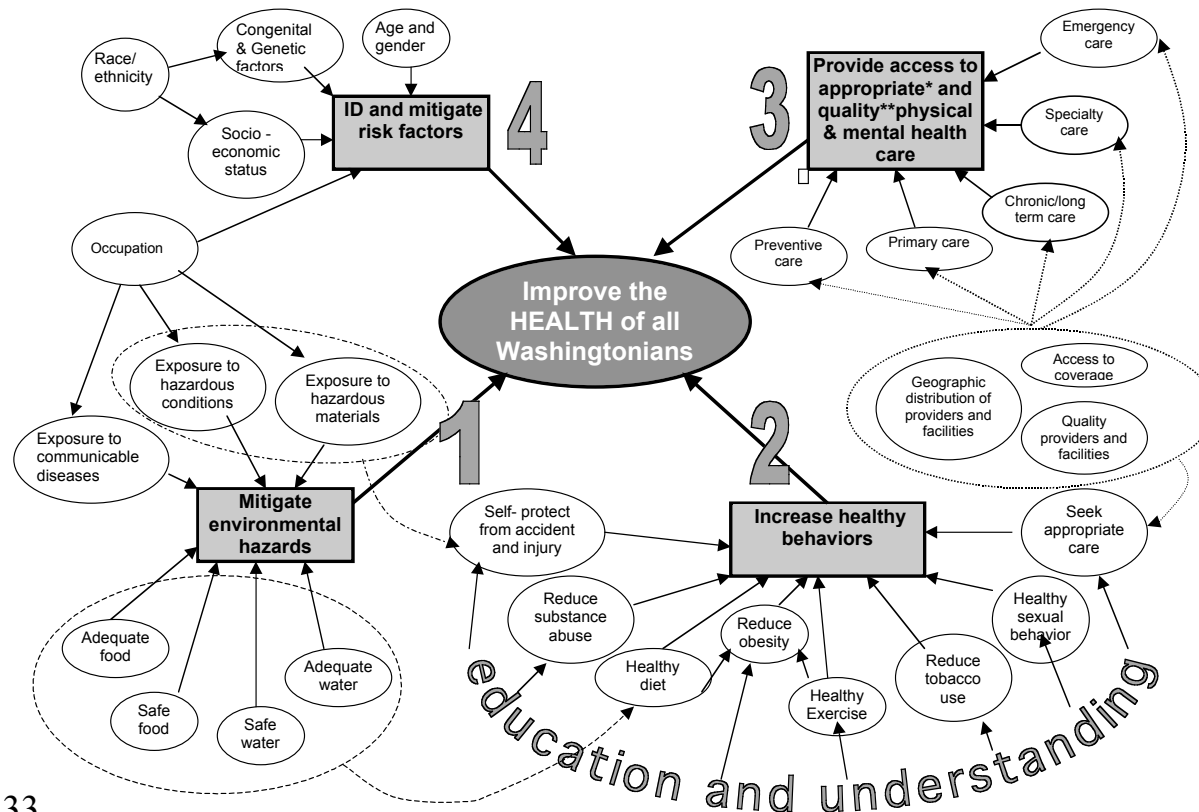
Issue RFR - Request for Results - to sellers

- Results map - what causes the result?
- Purchase strategy - what matters most?

Sellers : State agencies, local governments,
non-profits, for profits - offer to deliver results at
a price

Buyers: Rank proposals by results/money, buy
from the top - stop when the money's gone

Results Map - Improve Health



Final Result

Balanced budget

Focus on the 'keeps not the cuts'

Buy results not costs

Continuous reform/ improvement

New game with new rules

"Makes sense" communications

In WA - It passed!!!

III. Budget for Outcomes Tools

Smarter Sizing: It Does Matter

1. Divesting to Invest
2. Consolidating: Smart Mergers
3. Rightsizing: Right Work, Right Way, Right Staff

Smarter Spending: Buying Value, Not Cost

4. Buying Competitively
5. Rewarding Performance, Not Intentions
6. Putting Customers in the Driver's Seat
7. Not Buying Mistrust - Eliminating It

III. Budget for Outcomes Tools

Smarter Management: Reforming the Inside
to Improve Performance on the Outside

8. Using Flexibility to get Accountability
9. Making Administrative Systems Allies, Not Enemies
10. Smarter Work Processes

Managing Change in an Age of Permanent
Fiscal Crisis

11. Leadership for a Change
12. Politics: Truth, Lies and the Campaign for Public Support

IV. A Better Deal between Citizens and the State

Deliver the results they value most at the price they are willing to pay.

Budget = most value for the money.

IV. A Better Deal between State and Local Governments

Local governments impact the state's Price and Priorities of Government.

The Current Deal = Money + Mandates

New Deal = Value for Money

Differentiate state vs local priority results.

For state priorities, local governments OFFER budget proposals to deliver results at a price.

State chooses best offers.

Budget = most value for the money.

V. What Success Feels Like

“The impossible task of cutting \$2 billion from state spending has been made possible....

The usual, political way to handle a projected deficit is to take last year's budget and cut. It is like taking last year's family car and reducing its weight with a blowtorch and shears. But cutting \$2 billion from this vehicle does not make it a compact; it makes it a wreck. What is wanted is a budget designed from the ground up.”

Seattle Times 11/18/02

V. What Success Feels Like

“If you want to change where a debate in the Legislature ends, change where it starts.”

Tacoma News Tribune 6/8/03

“In four hours, we have heard the whole budget presented. I understand the trade-offs considered, and the strategy chosen. This is unbelievable.”

Business leader on the review team

“The ‘brilliance’ of the POG exercise, in Representative Fred Jarrett’s view, was to reconcile everything at once instead of letting agency people or constituent groups fight to preserve all their favorite programs.”

Governing 9/03

Summary: Road to Reform

Fiscal problems are not going away.

Change the budget game - or stay broke and broken.

Budget for Outcomes

- Set the price of government.
- Define the priorities - the results that matter most to citizens.
- Set the price of each priority result.
- Plan to purchase what works/ matters most.
- Make sellers compete to deliver the most for the money.
- Buy results that deliver what citizens want at the price they are willing to pay.