

Sharpening Fiscal Foresight.... Through the Lens of Priority Based Budgeting

“Seeing things differently”



*CSMFO Annual Conference
February 15, 2022*

Fiscal Foresight Principal #4

“What exactly do we do... and how much does it cost to do it?”

Identifying Programs and What They Cost



What exactly do we do & what does it cost?

Identifying Programs and What They Cost

DO YOU...

- *Have a “program inventory” that lists all the programs each department provides?*
- *Understand what it costs to provide each individual program you offer (both direct and indirect costs)?*
- *Establish fees that recapture appropriate level of total cost of providing that service?*
- *Manage and maintain the resources utilized in providing your programs?*
 - *Human*
 - *Financial*
 - *Physical*
 - *Technology*



Fiscal Foresight Principal #4

Identifying Programs and What They Cost

DO YOU...

- Have a “program inventory” that lists all the programs each department provides?
 - Develop **COMPREHENSIVE** list of what you “do”
 - Both Externally- focused and Internally-focused programs/services
 - Excludes one-time projects or initiatives
 - Responsibility of each department to develop
 - Focuses on comparative value of “programs” rather than “departments”
 - Use “Goldilocks and the Three Bears” Standard –
 - **NOT TOO LITTLE, NOT TOO BIG, BUT JUST RIGHT**
 - TOO BIG = Departments or Divisions
 - TOO SMALL = Tasks or processes
 - JUST RIGHT = More discrete break down of how people “spend their time” and how resources are used relative to total resources available



Identifying Programs and Services

“What exactly do we do?”

- Comparing individual programs and services as opposed to comparing departments that provide those services allows for a better understanding of what the organization “does”





What is a “Program”?

~~Local Government Organization~~

~~Departments~~

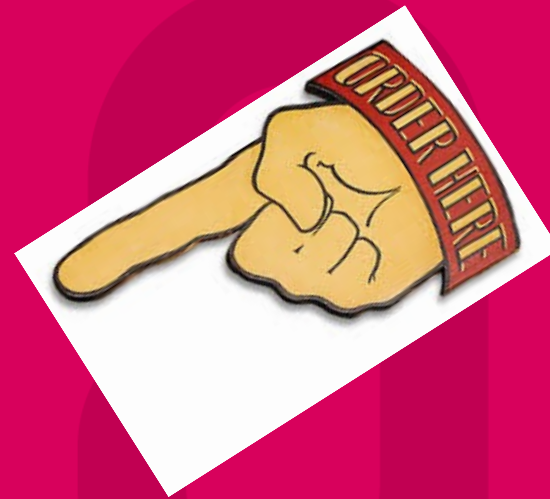
~~Divisions~~

Programs

~~*Tasks, Activities, Line Items*~~

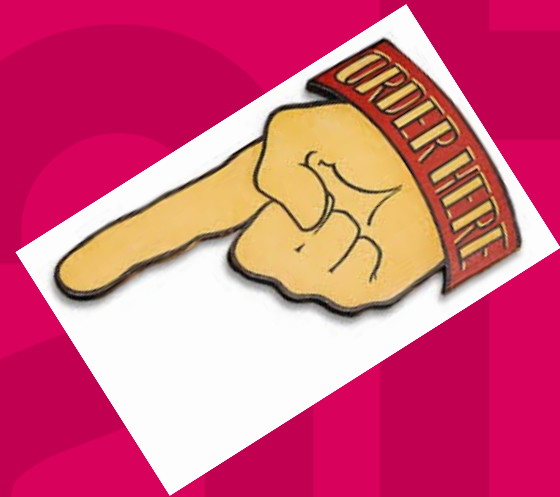
Alice's Restaurant Menu Selections

- *Entree*
- *Side Dish*
- *Beverage*



Alice's Restaurant Menu Selections

- *Entree*
 - *Chicken*
 - *Beef*
- *Side Dish*
 - *Starch*
 - *Vegetable*
- *Beverage*
 - *Something in a Cup*
 - *Something in a Glass*



Alice's Restaurant Menu Selections

Chicken

Chicken Marsala
Fried Chicken
Chicken Teriyaki

Beef

Filet Mignon
Pot Roast
Ground Sirloin

Seafood/Fish

Lobster
Trout
Catfish



• *Side Dish*

- *Baked Potato*
- *Sweet Potato*
- *Rice Pilaf*
- *Caesar Salad*
- *Green Beans*
- *Squash*

• *Beverage*

- *Coffee*
- *Tea*
- *Wine*
- *Beer*



OBJECTIVES for Developing Program Inventories

- Create a comprehensive listing of all services offered by each operating division (*to both “external” and “internal” users*)
- Provide a better understanding of **“what we do”** to staff, administration, elected officials and citizens
- Provide a framework to better understand how resources are used to support **“what we do”**
- Provide a valuable tool for staff, management and elected officials to use when faced with budgetary *“choices”* about how funds are distributed.
- Allow for the preparation and discussion of a **“program budget”** rather than a **“line-item budget”**

Defining Programs

- To determine “*just right*”, look for “**differences**” that might help determine if an service can be defined as a “**stand-alone**” program
 - “**Who**” are you offering the service to?
 - Does it benefit a specific demographic group or population?
 - “**Where**” are you offering the service?
 - Does it impact a specific area, location or environment
 - “**What**” are you doing the service to?
 - Does it affect a specific property or asset (infrastructure, facility, etc.)
 - “**How**” is it funded? – Is there someone paying for it?
 - Are there revenue sources associated directly with the program (“**Program Revenues**”)

Defining Programs

- Has someone told us we ***“have to do it”***?
 - Are there statutes, ordinances, resolutions, or other legislative documents that require us to provide the service?
- What ***“type”*** of service are you providing?
 - Preventative, Replacement; Repair/Maintenance; Instruction; Protection; Informative; etc.
- “Is there someone outside the organization that ***“does the same thing”***?
 - Does a private business offer a similar service (***“Yellow Pages test”***)
- Do we ***“advertise”*** that we do it?
 - Is there a separate phone directory or website reference to the service?

Defining Programs

- **WHAT TO WATCH OUR FOR**

- A “facility” or “location” is not normally considered to be a program – *i.e. Golf Course; Airport, Recreation Center, Fire Station, etc.*
- A “line item” in the budget is not normally considered to be a program – *i.e. Equipment Maintenance; Utilities; Travel & Training. etc.*
- Revenue sources are not programs
- Program names should not be the same as the name of an organizational unit *i.e. Branch, Department, Division, Section, etc.*
- *Don't be afraid of breaking down too far – easier to “roll-up” than to “pull apart”*



Program Examples

THESE ARE PROGRAMS...

- Adult Swimming Lessons
- Patrol Response to Emergency Calls
- Commercial Building Permitting
- Fire Suppression
- Payroll Processing
- Storm Drain Cleaning
- Graffiti Removal
- Traffic Sign Maintenance
- Desktop Support / Help Desk
- Household Hazardous Waste Drop-Off
- Sidewalk Maintenance
- Trail Development
- Median Mowing & Landscaping

THESE ARE NOT...

- Aquatic Center
- Police Patrol
- Utilities
- Professional Development
- Fire Station
- Human Resources
- Contracted Services
- Storm Drainage
- Code Enforcement
- Trash Trucks
- Open Space
- Time Sheet Review
- Staff Supervision

“Do’s & Don’t’s” of Program Inventory

- **DO –**
 - Provide a **PROGRAM NAME** that is concise and easily understood
 - Comprehensively identify programs and services that each department **OFFERS** to the community it specifically serves
 - Provide a brief **DESCRIPTION** of the program
- **DON’T –**
 - Use **ACRONYMS or ABBREVIATIONS** that are unfamiliar to others
 - Identify **TASKS, BUDGET LINE ITEMS or ORGANIZATIONAL UNITS** as a program
 - Don’t write a justification of the program – just a description!



Common Program Attributes or Characteristics

- *Mandated to Provide Program*
- *Reliance on City/County to Provide Program*
 - *Change in Demand for Program*
 - *Cost Recovery of Program*
- *Portion of Community Served by Program*

Basic Program Attributes: Mandated to Provide Program

- *Programs that are mandated by another level of government (i.e. federal, state or county) can be differentiated from programs that are mandated solely by the City/County or have no mandate whatsoever.*

4 = Required by Federal, State or County legislation

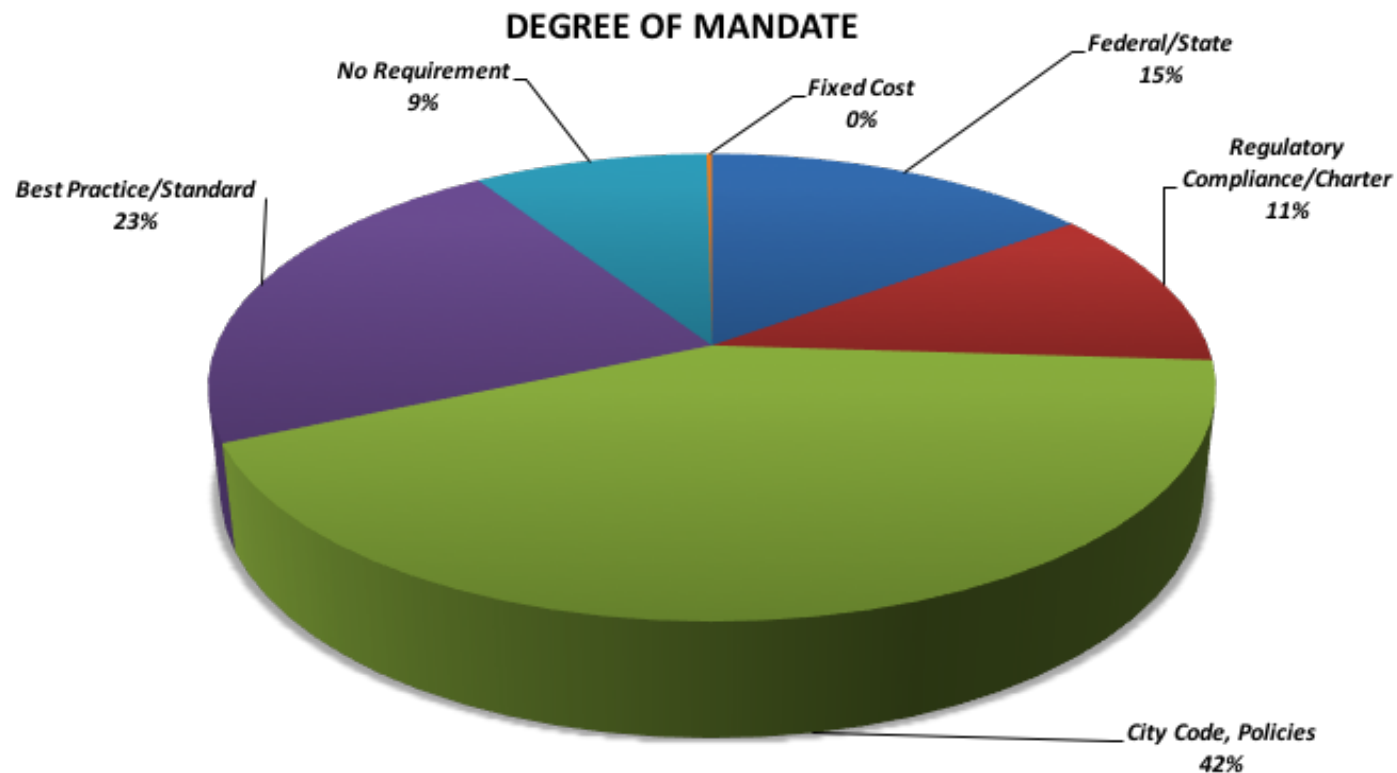
3 = Required by Charter or incorporation documents **OR** to comply with regulatory agency standards

2 = Required by Code, ordinance, resolution or policy **OR** to fulfill executed franchise or contractual agreement

1 = Recommended by national professional organization to meet published standards, other best practice

0 = No requirement or mandate exists

Basic Program Attributes: Mandated to Provide Program



Basic Program Attributes: Cost Recovery of Program

- *Programs that demonstrate the ability to “pay for themselves” through user fees, intergovernmental grants or other user-based charges for services can be differentiated from programs that generate limited or no funding to cover their cost.*

4 = Fees generated cover 75% to 100% of the cost to provide the program

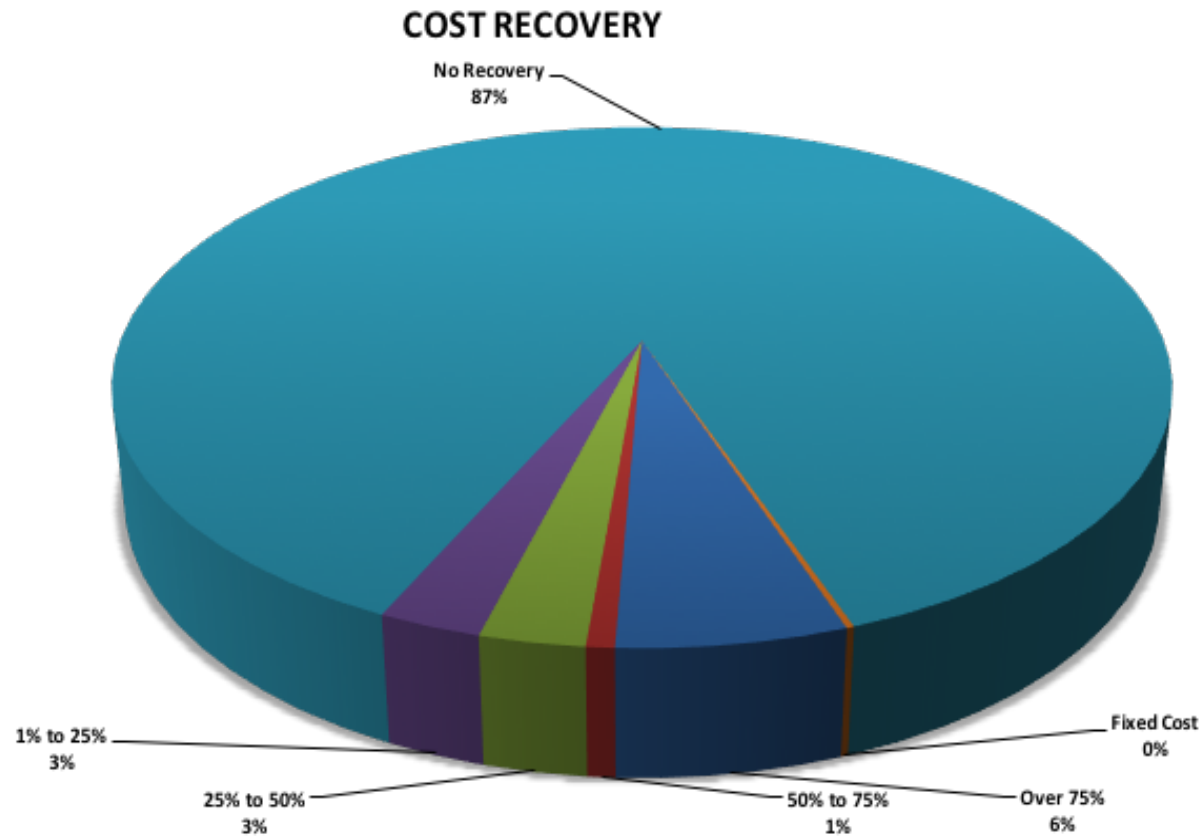
3 = Fees generated cover 50% to 74% of the cost to provide the program

2 = Fees generated cover 25% to 49% of the cost to provide the program

1 = Fees generated cover 1% to 24% of the cost to provide the program

0 = No fees are generated that cover the cost to provide the program

Basic Program Attributes: Cost Recovery of Program

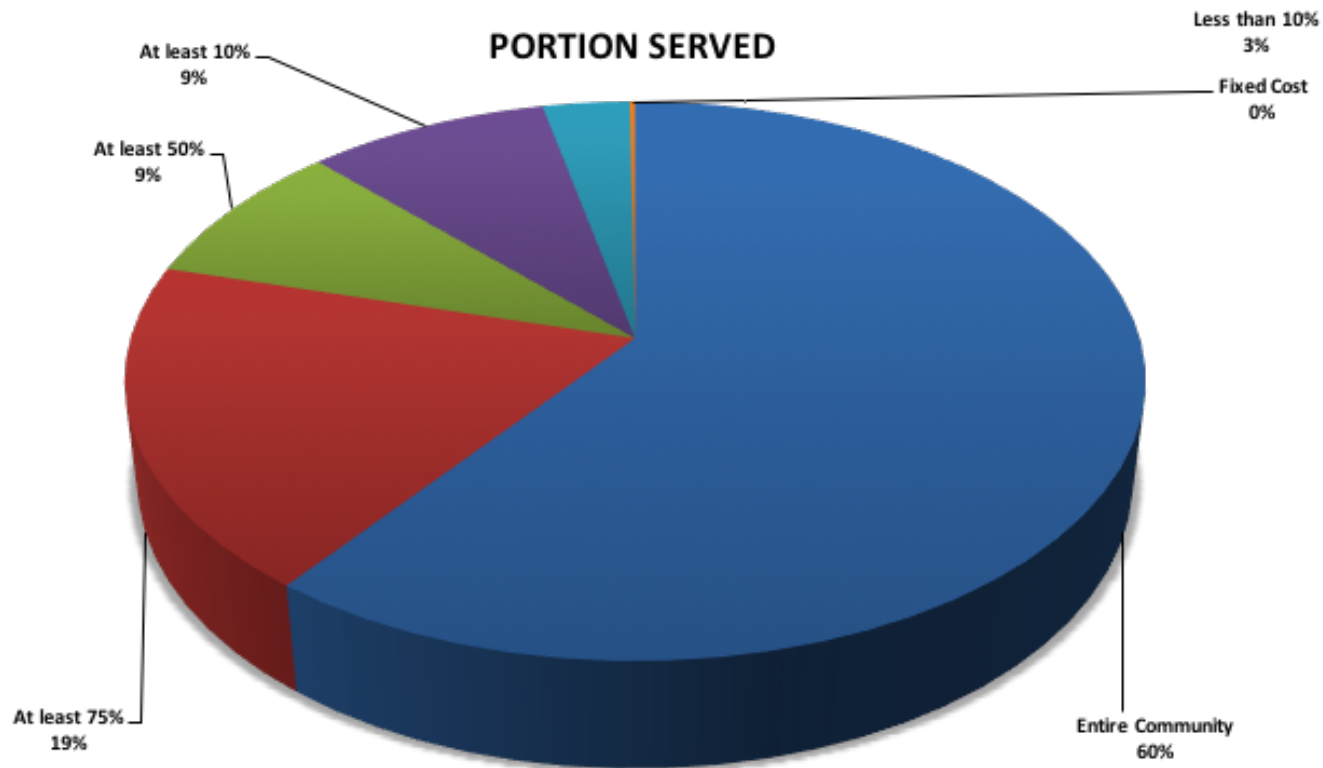


Basic Program Attributes:

Portion of Community/Organization Served by Program

- *Programs that benefit or serve a larger segment of City/County residents, businesses and/or visitors can be differentiated from programs that benefit or serve only a small segment of these populations.*
 - 4** = Program benefits/serves the **ENTIRE** community (100%)
 - 3** = Program benefits/serves a **SUBSTANTIAL** portion of the community (at least 75%)
 - 2** = Program benefits/serves a **SIGNIFICANT** portion of the community (at least 50%)
 - 1** = Program benefits/serves **SOME** portion of the community (at least 10%)
 - 0** = Program benefits/serves only a **SMALL** portion of the community (less than 10%)

Basic Program Attributes:
Portion of Community Served by Program



Basic Program Attributes:

Reliance on City/County to Provide Program

- Programs for which residents, businesses and visitors can look only to the City/County to obtain the service can be differentiated from programs that may be similarly obtained from another intergovernmental agency or a private business.*

4 = City/County is the sole provider of the program and there are **no** other public or private entities that provide this type of service

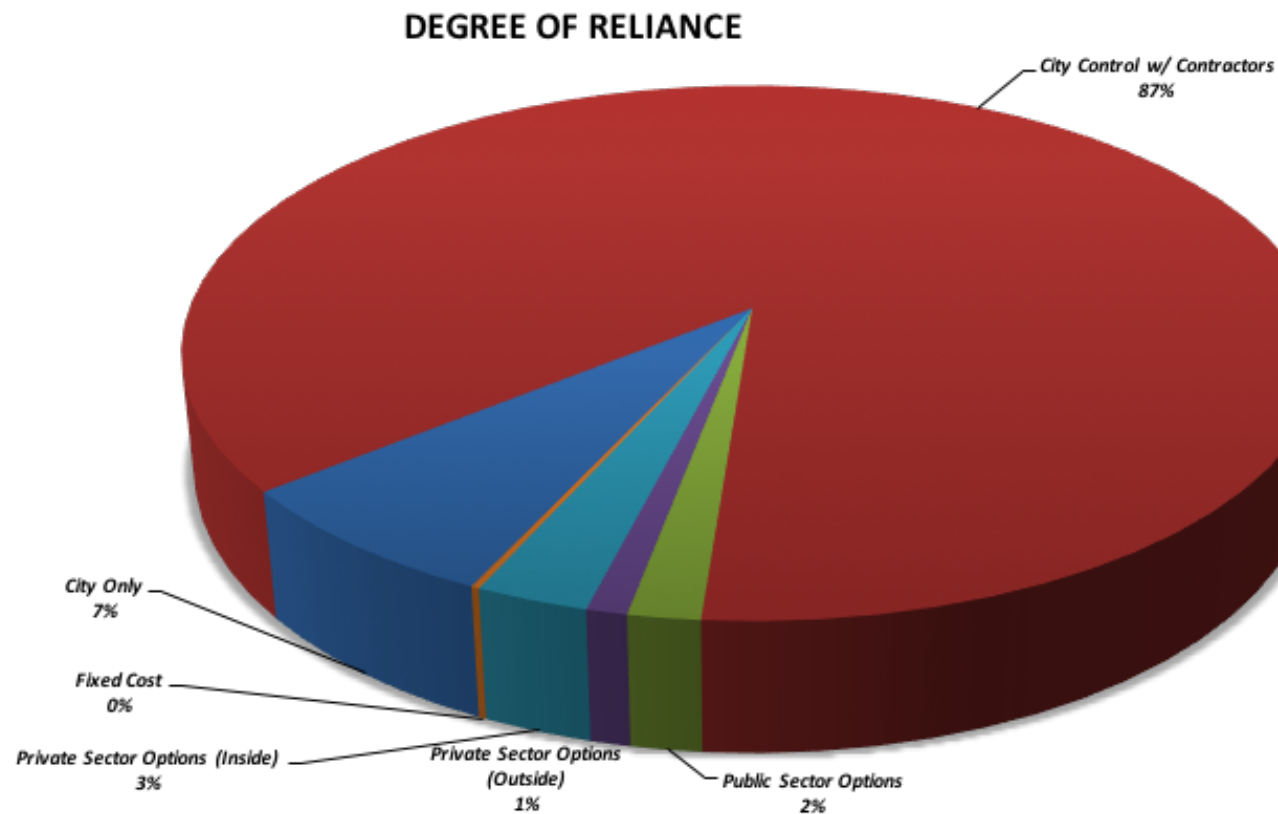
3 = City/County is currently the sole provider of the program but there are other public or private entities that could be contracted to provide a similar service

2 = Program is also offered by another governmental, non-profit or civic agency

1 = Program is offered by other private businesses but none are located within the City/County limits

0 = Program is also offered by other private businesses located within the City/County limits

Basic Program Attributes: Reliance on City to Provide Program



Basic Program Attributes: Change in Demand for Program

- *Programs demonstrating an increase in demand or utilization can be differentiated from programs that show no growth in demand for the program or a decrease in demand or utilization.*

4 = Program experiencing a **SUBSTANTIAL** increase in demand of 25% or more

3 = Program experiencing a **SIGNIFICANT** increase in demand of 15% to 24%

2 = Program experiencing a **MODEST** increase in demand of 5% to 14%

1 = Program experiencing a **MINIMAL** increase in demand of 1% to 4%

0 = Program experiencing **NO** change in demand

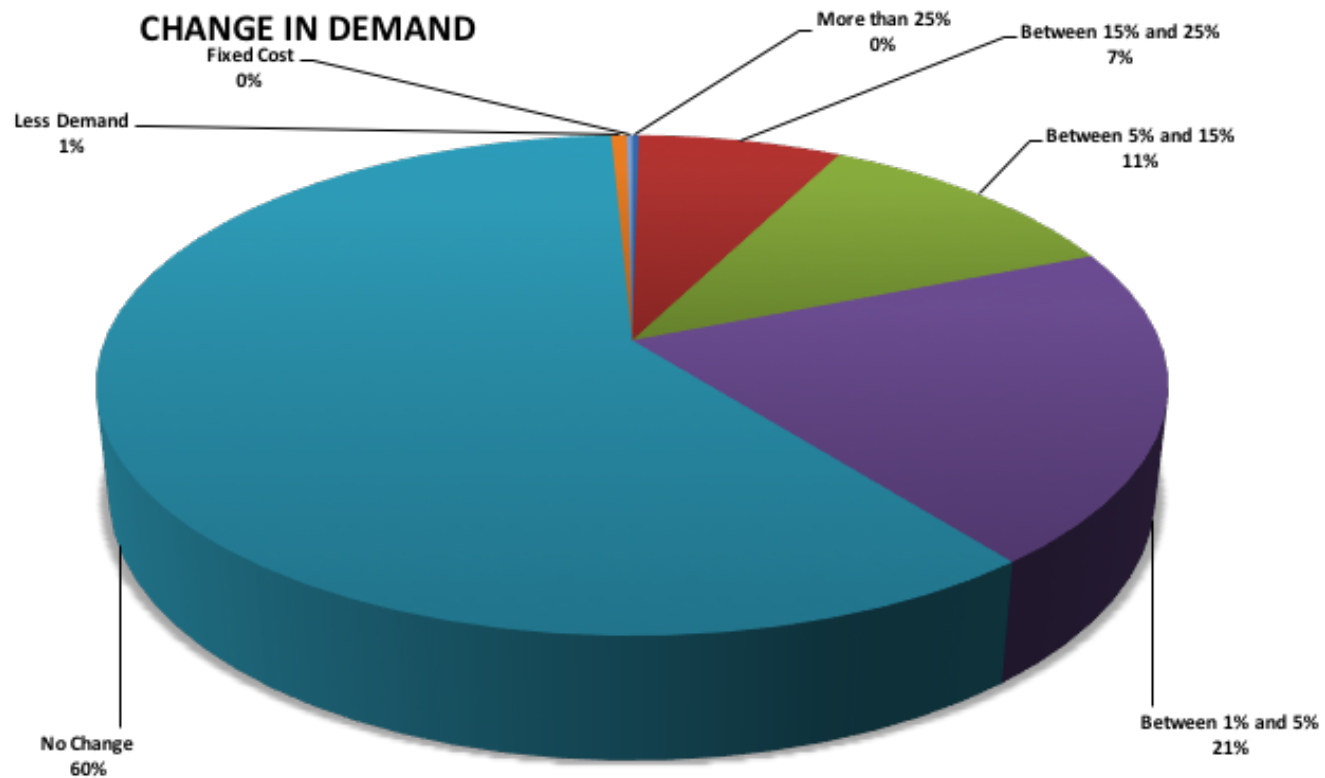
-1 = Program experiencing a **MINIMAL** decrease in demand of 1% to 4%

-2 = Program experiencing a **MODEST** decrease in demand of 5% to 14%

-3 = Program experiencing a **SIGNIFICANT** decrease in demand of 15% to 24%

-4 = Program experiencing a **SUBSTANTIAL** decrease in demand of 25% or more

Basic Program Attributes: Change in Demand for Program



Identifying Program Costs

“How much does it cost to do what we do?”

- Developing reasonable estimates of what it costs to provide individual programs and services as opposed to only looking at total department budgets or individual line items provides a more transparent perspective of “where the money goes”



Alice's Restaurant Menu Selections

- *Chicken*
 - *Chicken Marsala*
 - *Fried Chicken*
 - *Chicken Teriyaki*
- *Beef*
 - *Filet Mignon*
 - *Pot Roast*
 - *Ground Sirloin*
- *Seafood/Fish*
 - *Lobster*
 - *Trout*
 - *Catfish*



- *Side Dish –*
 - *Baked Potato – Plain*
 - *Baked Potato – Loaded*
 - *Rice Pilaf*
 - *Caesar Salad*
 - *Green Beans*
 - *Squash*
- *Beverage*
 - *Water*
 - *Coffee or Tea*
 - *Wine*
 - *Beer*

But how much do these items cost? Do they all cost the same amount?

Will my budget let me have Filet or Hamburger?, a Plain or Loaded Potato?

The logo consists of the letters 'a' and 'f' in a white, stylized, sans-serif font. The 'a' is lowercase and the 'f' is lowercase. They are positioned on a solid magenta background that has a slight diagonal cut on the right side.

How to Identify Program Costs

- 1) Associate *Salary and Benefit Costs* with your *Personnel*
- 2) Assign *Personnel* to the *Programs* they provide
- 3) Associate *Non-Personnel Costs* with *Programs*
- 4) *Line item* Budget is now expressed as a *Program* Budget!



Developing Program Costs:

- ***Associate Total Compensation (Salary and Benefits) with Personnel/Positions***
 - Create listing of every position/person that reconciles to approved FTE count
 - Reconcile with total personnel line items in the budget
 - Identify ***Total Compensation*** for each position/person that includes:
 - *Salaries and wages*
 - *Employer-paid taxes*
 - *Employer-paid insurance*
 - *Employer-paid retirement/pension contributions*
 - *Stipends and allowances*

Developing Program Costs:

- **Assign Personnel to the Programs they Provide**
 - Allocate % of time staff person spends providing each identified program on an annual basis
 - *Not a “time study” – need “reasonably accurate” estimates rather than “precise” calculations*
 - *Allocate 100% of the employees’ time (even if they believe they are “overworked”!)*
 - May “discover” new programs when allocating staff’s time
 - Double check that each staff member’s time has been 100% allocated - no more no less



Developing Program Costs:

- ***Allocate Non-Personnel Costs to Programs***
 - Allocate each “non-personnel” line item in your budget to the programs you offer
 - *i.e. Supplies, Services, Repairs & Maintenance; Professional Development, Utilities & Phone, etc.*
 - *Exclude Capital Expenditures; One-Time Expenditures; Debt Service; Insurance Claims, Interfund Transfers, etc.*
 - Choice between 2 reasonable allocation methodologies
 - *Allocate using FTE allocation percentages (i.e. supplies)*
 - *Allocate directly to programs (i.e. contracted services)*



Developing Program Costs:

- **Associate “Program Revenues” Programs**
 - Revenues collected from end user that are meant to “offset” the cost of providing the program
 - *i.e. Fees; Charges for Services; Grants*
 - *Exclude Designated Taxes; Fines & Forfeitures, Interfund Transfers; Interdepartmental Cost Allocations; Insurance Claims or Settlements*
 - Rules of Thumb –
 - *The revenue “goes away” if the program is discontinued*
 - *Designated revenues are not program revenues – can choose which program they offset*
 - *End user understands they are “paying for” the program*



So.....

***Where
do I
start?***



Get Started on the Path to Fiscal Health...



- **Develop a list of “what you do” (i.e. Program Inventory)**
 - *Needs to be comprehensive (don’t be afraid of too many programs)*
 - *Not a list of tasks but a “menu” of services provided*
- **Identify “how much” it costs to “do what you do (i.e. Program Costing)**
 - *Assign resources (financial, staff) to programs*
 - *Use basic cost allocation principles – solid estimates vs. precise values*
 - *Shift budget discussion from “line items” to programs*
- **Review fees for service in relation to identified program costs**