

BUDGETING FOR A PREFERRED PLACE: Improving Service, Accountability, and Efficiency With New Budgeting Tools



OFFICE OF THE CITY CONTROLLER
CITY OF PHILADELPHIA



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Budgeting for a Preferred Place

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JONATHAN A. SAIDEL
CITY CONTROLLER

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To the People of the City of Philadelphia
And the Commonwealth of Pennsylvania

Dear Friends:

After nearly a decade of expanding surpluses, Philadelphia now confronts budgetary stress. But the city must not only confront a challenge to balance its books, it faces a clear imperative to do more with less. After fifty years of population and job loss, it is abundantly clear that Philadelphia suffers from two interconnected problems: the high overall cost of living and doing business in the city has encouraged far too many to move beyond the city limits; while the overall quality of city services has not been high enough to attract and retain firms and families. It is, therefore, more crucial than ever to ensure that every dollar the city raises and spends creates positive results.

We must be mindful of the cost of everything we do as a city and we must carefully consider the value of everything we achieve. It is within this context that the Controller's Office undertook this project of examining the best examples of tools employed by other jurisdictions to focus government on high performance. By incorporating these tools into the city's budget process, Philadelphia can give elected officials, public managers, and the citizenry information — and incentive — to improve services, generate enhanced accountability, and focus government on efficient operations.

In recent years, the creation of new informational products helped the city's leadership move from the brink of bankruptcy to fiscal discipline — allowing the city to expand services and cut taxes. The Five-Year Financial Plan placed an emphasis on budgeting for the long term; the *Quarterly City Managers Report* generated new data on government operations; and *Mayor's Report on City Services*, helped link spending to governmental achievements. I am confident that we can continue this progress by enhancing the budget process with additional tools that are currently being used successfully in other jurisdictions.

Sincerely,

JONATHAN A. SAIDEL
City Controller





Budgeting for a Preferred Place

The City Controller's Ten Budgetary Tools For a Preferred Place

1. Set Goals
2. Use Benchmarks
3. Link Budget to Performance Measures
4. Expand Accountability
5. Use Activity-Based Costing
6. Illustrate Budget Tradeoffs
7. Create a Rainy-Day Fund
8. Use Dynamic Scoring
9. Implement Asset-Maintenance Schedules
10. Require Fiscal-Impact Statements

NATIONAL ADVISORY COUNCIL ON STATE AND LOCAL BUDGETING (NACSLB) Principles of Good Budgeting

1. Establish Broad Goals to Guide Government Decision Making

- Adopt processes and procedures to assess government and community needs.
- Develop and disseminate goals based on assessments

2. Develop Approaches to Achieve Goals

- Adopt financial policies, such as revenue-stabilization funds, for better fiscal management and revenue forecasting
- Create systems for better capital-asset maintenance
- Create management strategies to facilitate attainment of programs and goals

3. Develop a Budget Consistent with Approaches to Achieve Goals

- Develop a budget process that helps achieve goals
- Evaluate financial options that include long-term considerations

4. Evaluate Performance and Make Adjustments

- Adjust budget and management based on performance measurement
- Adjust broad goals to better reflect the most desired outputs and outcomes of government services

“The National Advisory Council on State and Local Budgeting (NACSLB) was formed in the spring of 1995. The Council was established with a three-year mission to improve state and local government budgeting through identification and dissemination of good budget principles and practices.”* Supported and promoted by the Government Finance Officials Association (GFOA), the NACSLB has influenced budget procedures in many jurisdictions. The NACSLB’s recommendations were based on four principles.

* National Advisory Council on State and Local Budgeting Practices, *A Framework for Improved State and Local Government Budgeting and Recommended Budget Practices*, 1998



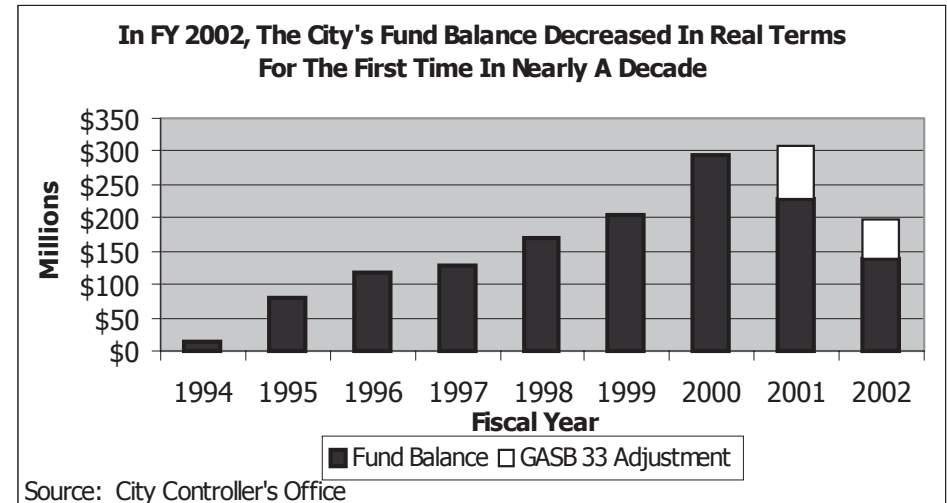
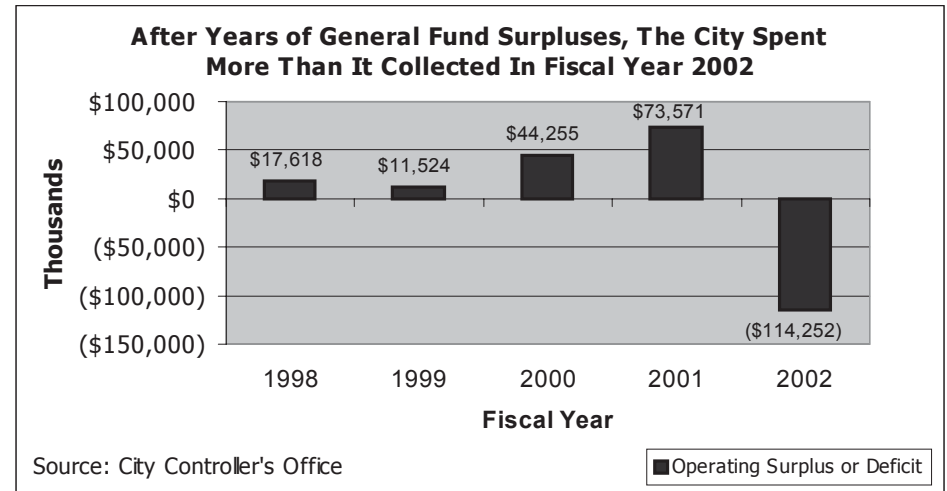


Philadelphia's Budget Stress Creates an Imperative to Improve

THE IMPERATIVE

After years of significant surpluses, Philadelphia's budget faces stress. Driven by a strong economy and controlled public spending, the city's fund balance grew substantially between Fiscal Year 1994 and Fiscal Year 2000. But, sluggish growth in tax revenues and a dramatic increase in city spending led to a large operating deficit in Fiscal Year 2002 and a dramatic reduction in the city's fund balance.

Over the course of the city's *Fiscal Year 2003-2008 Five-Year Plan*, the Mayor expects to almost completely deplete the fund balance. However, the current Five-Year Plan estimates do not include higher personnel costs, a result of the new contracts that will be negotiated for most city employees in the coming years. Similarly, estimates do not include funding for much-needed expansions of service-delivery efforts and additional tax cuts. Clearly, the city must find new ways to control spending and improve governmental efficiency. Philadelphia has a clear need for additional tools to enhance our ability to budget effectively and create positive results.





The Mayor Is Concerned About City Finances

THE IMPERATIVE

In addresses in November 2002 and January 2003, Mayor Street noted a range of difficulties confronting the city budget. Slow revenue growth and continuing increases in city spending have depleted much of the city's fund balance, leading to projected operating deficits for the next several years and driving Philadelphia toward a negative fund balance in the coming years.

Given the dire outlook articulated by the mayor, the city must rededicate itself to the tenets of efficient and effective government. Doing so will require new tools to help government work better and cost less.

"Across the nation, a deep and persistent recession has played havoc with federal, state and local budgets. Philadelphia is not immune. A bad economy is simultaneously driving down revenues and driving up costs."

– Mayor John F. Street, Budget Address, January 28, 2003

"We face a potential cumulative five year operating deficit of \$612 million by June 30, 2007, and unless we act to prevent fiscal chaos this circumstance could be more devastating than the 1991 financial crisis that almost ruined the city's future."

– Mayor John F. Street, Special Address to City Council, November 21, 2002.

"Philadelphia, like many other cities, stands at a crossroads between prosperity and peril, between fiscal health and fiscal calamity."

– Mayor John F. Street, Special Address to City Council, November 21, 2002.





We Need To Reduce Taxes and Improve Services

THE IMPERATIVE

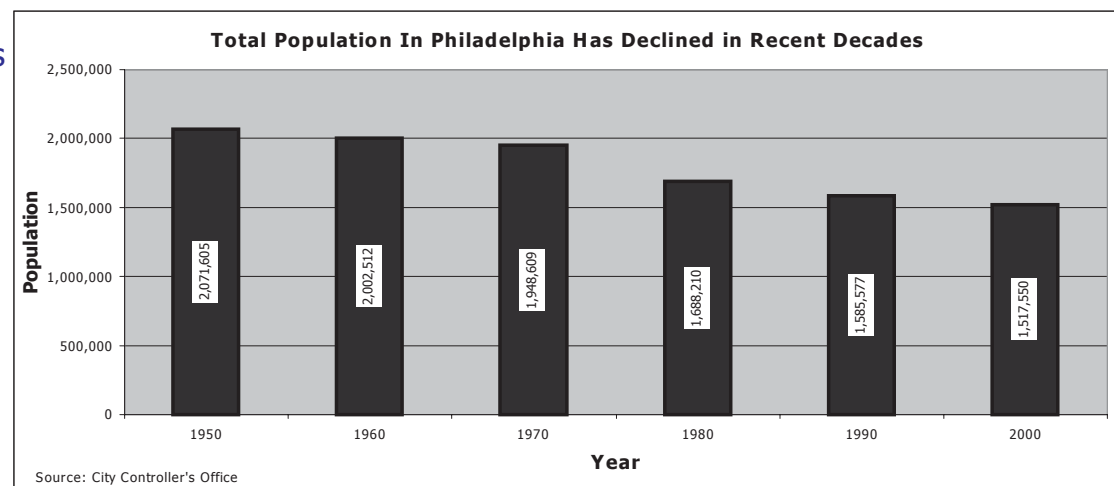
As Philadelphia faces significant budget challenges, the city must continue efforts to reduce taxes and improve services. Unless the city provides more value for its residents' tax dollars, it will continue to lose population and budgetary pressures will worsen.

In the last 50 years, hundreds of thousands of Philadelphia residents and jobs have left the city. Shifting demographics have altered the city's residential makeup, leaving the city's population older and poorer, with fewer people contributing to the tax base. Where factories once produced goods for familiar brands like *Stetson* and *Atwater Kent*, abandoned buildings remain as an eerie reminder of Philadelphia's former industrial glory. Neighborhoods and industrial areas once teeming with activity exist as virtual urban ghost towns. Blight and abandonment represent an epidemic problem for a city that lost about one quarter of its population and employment base in recent decades.

This downward cycle threatens the city's long-term fiscal stability. Every lost resident and job represents erosion of the tax base and creates pressure on the remaining residents and employers to continue to support the city's revenue demands.

"The area has not done as well as the nation in terms of either job growth or income growth, but it seldom does....Moreover, among the 50 largest metropolitan areas in the country, Philadelphia ranks near the bottom in terms of job growth over this expansion."

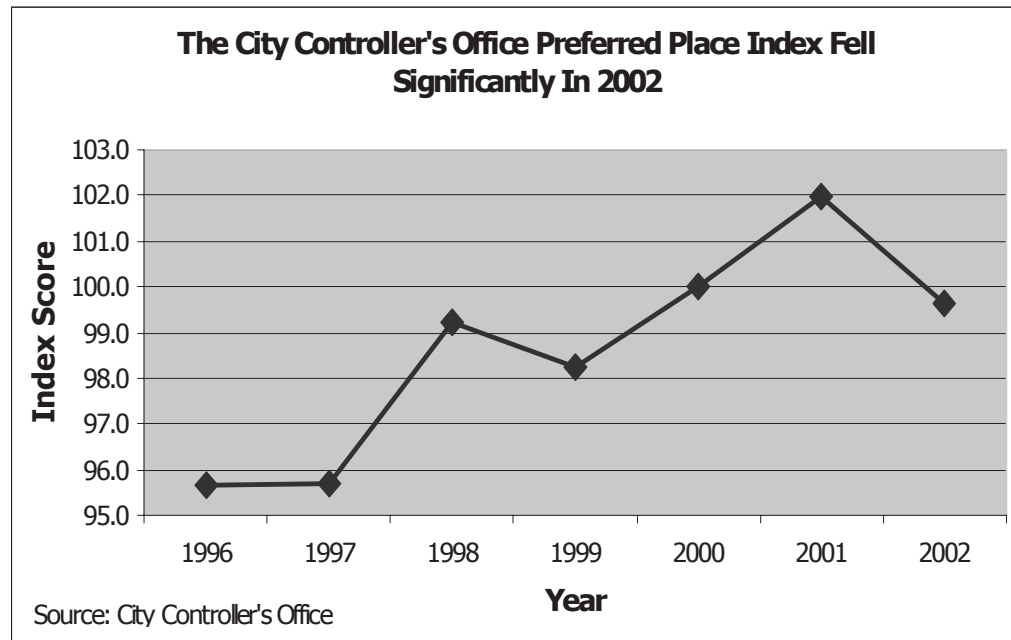
—Federal Reserve Bank of Philadelphia, *A Philadelphia Report Card*. (January 2001)



The Preferred Place Index Shows Troubling Decline



Philadelphia's challenge is not defined by the budgetary balance sheet alone. The city must improve its efforts to make Philadelphia a preferred place to live, work, and visit. To help gauge the city's progress the Controller's Office created the *Preferred Place Index* — including 25 measures of economic, social, and governmental trends — which offers a basis for comparing a broad range of city statistics from year to year. In addition to providing a regular update on the general progress of the city, the *Preferred Place Index* provides a starting point for tracking the city government's performance.



THE IMPERATIVE

It is troubling to note that the *Index*, which last year had climbed to its highest level, dropped significantly. In just one year, the *Index* has fallen below its 2000 level, giving back all of the gains made since that year and more. Weakness in the *Preferred Place Index* should raise warning flags for Philadelphia. The city must aggressively work to enhance the quality of life for its residents and to improve the city's outlook on the whole. Perhaps most of all, Philadelphia must stop the constant loss of residents that is robbing the city of its vitality. If the city cannot establish itself as a preferred place to live, work, and visit, it will struggle to improve its schools, attract and retain firms and families, and balance its budgets.

For more information about the Preferred Place Index see: www.philadelphiacontroller.org/ppi.htm





Why Should We Change Our Budgeting System?

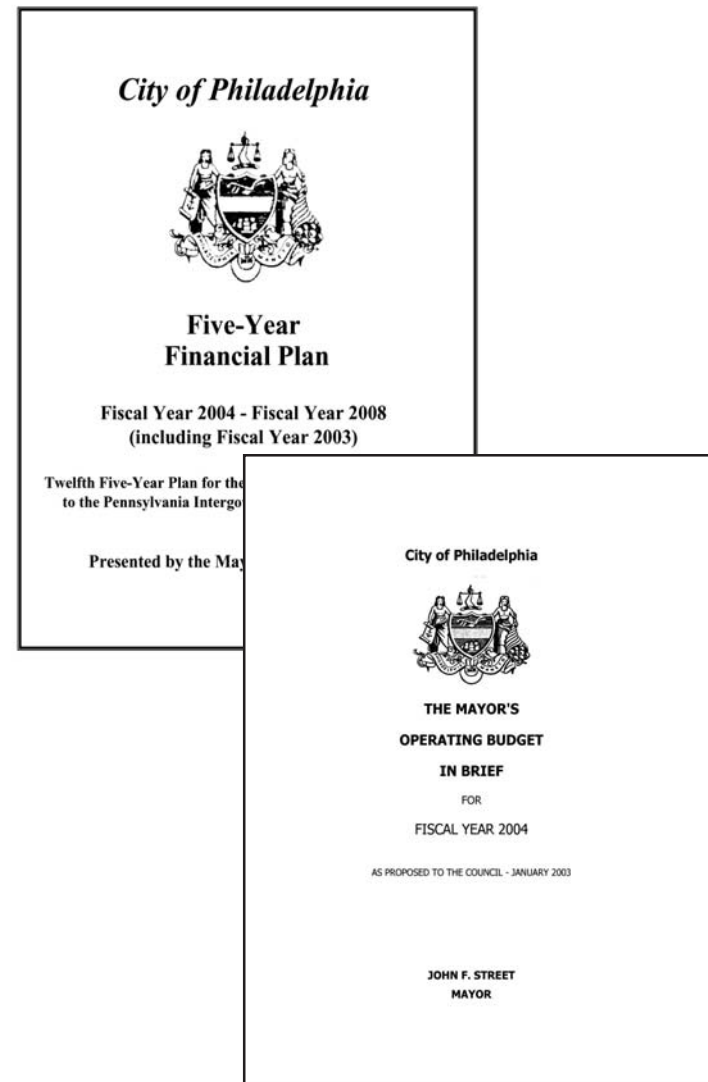
THE CHALLENGE

The Challenge

Currently, Philadelphia's budget is prepared largely within the mayoral administration with limited involvement from the public or their legislative representatives. The budget is often difficult for citizens to understand, and the process is difficult to access. Clear ties are often absent between policy goals and implementation at the departmental level. Tools tying performance measurement to budgets are difficult to understand or nonexistent. The mechanisms for protecting the city's fiscal health are not clear and provide less comfort to financial overseers. By altering the budget system the city can improve services, accountability, and efficiency to help make Philadelphia a preferred place.

At the most basic level, Philadelphia's budgeting process works. The city's elected officials publicly determine how to raise and spend money to serve the public. Revenues are collected, employees are paid, supplies are purchased, and services are delivered. This project asks the following questions:

- Government works under the current system, but does it work as well as it could?
- Is the public adequately involved in decisions surrounding how to raise and spend tax dollars?
- Do public officials have the right information before them to help guide decisions on how to use resources?
- Is Philadelphia government as efficient and effective as it can be?





What Changes Can Improve The System?

The Good News

Ten years ago, as the city confronted its fiscal crisis, it lacked many of the budgeting tools that we now take for granted. Policy makers now can benefit from:

- *The Five-Year Financial Plan;*
- *The Quarterly City Managers Report;*
- *The Mayor's Report on City Services;*

In addition, before the fiscal crisis, the Pennsylvania Intergovernmental Cooperation Authority (PICA) did not exist, and the Controller's Office provided less oversight of the budget process.

These new tools and this enhanced focus on budgeting matters have helped guide decisions that moved the city from the brink of bankruptcy to fiscal stability. They provide government officials and the public with an enhanced ability to consider city spending and its consequences.

The Opportunity

For this project, the Controller's Office sought to identify the best examples of efficient, accountable, and accessible government throughout the United States and the world. Rather than focusing on theoretical ways to improve government, this effort seeks the best practices in use elsewhere and proposes changes to adapt these practices to Philadelphia's needs.

This project identifies and recommends ten potential reforms that can improve the budget process. These tools and procedures can encourage high performance and excellent service, while generating data to inform efforts to reduce the cost of government. Such changes will make the budget more useful to public managers, elected officials, and the citizenry. These reforms can establish a government that responds to performance-based incentives rather than less outcome-oriented incentives.

THE OPPORTUNITY





The City Should Publicly Set Goals to Focus Government on Accomplishment

SET GOALS

While most government agencies and departments have well-articulated mission statements, few have established quantitative goals for their agencies to achieve. Setting goals for government outcomes and service levels helps focus managers and officials on performance and on the final outcomes of the government programs. Also, by including the public in the goal setting process, government services can better reflect the needs of the people they serve.

Although long-term, thoughtful goal setting is rare among governments, some have achieved notable success. The State of Oregon, in particular, has established a highly successful ongoing goal setting process, known as *Oregon Shines*. This program was started in 1989 and has provided significant guidance to the state's policy makers. These goals are directly tied to the benchmarking program developed by the Oregon Progress Board.

Minnesota has also been active in developing goals for government service. In its *Minnesota Milestones* report, the state government defines five principals, 19 broad goals, and 79 milestones.

RECOMMENDATIONS: Create a community-based goal setting process

The city should amend the Five-Year Plan to include goals established through formal goalsetting process that would stress public involvement.

Neighborhood goalsetting meetings could create a dialogue about proposed city programs.

A citizens' advisory panel could be created to provide input on the goals to be articulated in the Five-Year Plan.





How Do Other Jurisdictions Set Goals?

SET GOALS

13 – Abused or neglected children (per 1,000 children)

3.6	7.9	7.9	7.9	5.0	2.5
1980	1990	1995	2000	2010	2020

Explanation: Substantiated allegations of abuse or neglect are reported to the Minnesota Department of Human Services by county social service agencies for children 17 years old or younger. These numbers reflect only substantiated reports of maltreatment within the family unit and within facilities licensed by the department.

Discussion: Abuse and neglect are extreme behaviors that frequently result in physical injury, emotional illness or mental retardation. Treatment, even if effective, can be long and costly. If untreated, victims are more likely to exhibit anti-social behaviors that result in other large costs to society, such as criminal activity or chemical dependency. If victims become parents, they are more likely to abuse their children.

It is widely believed that abuse and neglect is underreported. As reporting practices improve, the rate may rise. The long-term goal is for the rate of actual abuse and neglect to decline.

In addition to the underreporting problems, the current reporting system also is limited. For example, it is not possible to determine

how many children are repeat victims of abuse or neglect after an initial report is made. Without that data, it is difficult to determine the effectiveness of child and family protection systems.

Source: This data is reported annually by the Minnesota Department of Human Services.

Recommendation: The Minnesota Department of Human Services should proceed with plans to collect data on the number of victims who are subjected to recurring abuse or neglect after an initial report involving either the victim or the perpetrator.

Percentage of Children Who Have Been Victims of Family Violence

"Has any adult in your household ever hit you so hard or so often that you had marks or were afraid of that person?"

6th grade	11%
9th grade	14%
12th grade	12%

Source: 1992 Minnesota Student Survey

Minnesota Planning

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OREGON BENCHMARKS

EDUCATION

	1980	1990	1991	1992	1993	1994	1995	1996	2000	2010
KINDERGARTEN THROUGH 12										
22. High school drop out rate		6.6	6.5	6.8	5.7	6.6	7.1		5.7	4.6
23. Percentage of 8th graders who achieve established skill levels										
a. Reading			80%	84%	82%	87%	87%	80%	92%	100%
b. Math			73%	84%	82%	82%	84%	84%	89%	100%
24. Percentage of 3rd graders who achieve established skill levels										
a. Reading			80%	80%	80%	90%	89%	93%	90%	100%
b. Math			73%	84%	85%	84%	87%	86%	90%	100%
25. Percentage of high school students that have completed a structured work experience, including a practicum, clinical experience, community service learning, or school-based enterprise program										
					9%	13%	21%		63%	100%
POST SECONDARY										
26. Percentage of Oregon adults (age 25 and older) who have completed a baccalaureate degree										
	18%	22%		22%		20%		29%	33%	43%
27. Percentage of Oregon adults (age 25 and older) who have completed high school or an equivalent program										
	70%	85%		82%		89%		91%	94%	100%
28. Percentage of Oregon adults (age 25 and older) who have completed some college										
	30%	33%		33%		38%		40%	48%	60%
29. Percentage of Oregon adults (age 25 and older) who have completed an associate degree in professional-technical education										
						6%		6%	8%	10%
SKILL DEVELOPMENT										
30. Percentage of all adult Oregonians with intermediate literacy skills										
a. Prose									48%	55%
b. Document									49%	55%
c. Quantitative									47%	55%
d. Oral Listening										
e. Writing										
31. Percentage of Oregonians who report they use a computer to create or edit documents or graphics, or to analyze data										
						20%		28%	61%	70%
32. Percentage of Oregonians in the labor force who received at least 20 hours of skills training in the past year										
						41%		71%	79%	100%

This page from the *Minnesota Milestones* report describes the previous rates of child abuse or neglect and sets goals of decreased incidence per 1,000 children in the future. Reducing child abuse and neglect are good examples of an outcome of effective government service. It is important to set outcome oriented goals, as they help keep government focused on the "big picture."

www.mnplan.state.mn.us/mm

In *Oregon Shines II*, specific indicators are tracked and target goals are established for the future. Here, educational goals are established for the state to achieve.

www.econ.state.or.us/opb





The City Should Benchmark to Compare its Effort to Best Practices

USE BENCHMARKS

Benchmarking involves establishing objective standards as targets for achievement by departments. These benchmarks can be based on historical trends, results in other locations, or an array of other types of data. The International City/County Management Association (ICMA) maintains a benchmarking program that provides a range of benchmarks for all aspects of government. ICMA collects data from over 130 member jurisdictions, including more than 60 American cities and counties with populations exceeding 100,000.

Oregon has also been a leader in the active use of benchmarking to improve government performance. Closely related to its *Oregon Shines* reports, the state also publishes *Oregon Benchmarks*, a document which outlines 259 indicators. The City of Portland and Multnomah County are also leaders in benchmarking and goal setting, where they generate reports on government service in the Portland Multnomah Progress Board's benchmarks and *2001 Review*.

RECOMMENDATIONS: Introduce benchmarks to city services

The City of Philadelphia should join the ICMA performance measurement program.

City performance measures should be compared against ICMA and other benchmarks.

Program level benchmarks should be tied to department and citywide goalsetting efforts.





How Do Other Jurisdictions Benchmark?

106 / FY 2001 DATA REPORT

© ICMA CENTER FOR PERFORMANCE MEASUREMENT

FIGURE 5-5 FIRE EQUIPMENT AND MINIMUM STAFFING PER APPARATUS (PAGE 1 OF 2)

EXPLANATORY INFORMATION

- Total staffing does not necessarily relate directly to the number of fire and EMS vehicles, apparatus, or stations because many of these are used for special purposes only or are held in reserve (e.g., for when another apparatus is being repaired). Apparatus of the same type may be staffed at different levels depending on such factors as proximity of other stations, fire risk in the area, or use of volunteer staffing.

NOTE: For precise definitions of service-specific terms, see glossary at beginning of chapter.

Jurisdiction	State	Fire Pop. Served	Ladder trucks		Pumpers/engines		Quints/comb.		Ambulances		Minimum staffing for in-service equipment				Minimum: constant or variable				Peak-load staffing for ambulances on daily or weekly basis		
			No. Regular/ in-service	No. Standby/ part-time/ reserve	No. Regular/ in-service	No. Standby/ part-time/ reserve	No. Regular/ in-service	No. Standby/ part-time/ reserve	No. Regular/ in-service	No. Standby/ part-time/ reserve	Ladder trucks	Pumpers/engines	Quints/comb.	Ambulances	Total	Ladder trucks	Pumpers/engines	Quints/comb.		Ambulances	
Los Angeles	CA	3,845,400	49	12	146	53			93	38	5	4	2	939					C	Yes	Yes
Phoenix	AZ	1,350,453	13	16	53	20	0	0	29	8	4	4	2	355	C	C	C	C	C	Yes	Yes
San Antonio	TX	1,232,400	16	4	47	11	0	0	25	20	4	3	2	340	C	V	C	C	C	Yes	Yes
Fairfax County	VA	981,299	12	3	31	21	4	0	40	27	3	4	4	297	C	C	C	C	C	Yes	Yes
San Jose	CA	948,800	8	3	31	7	0	0	0	0	5	4	2		C	C	C	C			
Calgary	AB	876,519	11	2	30	5	0	0			3	4	0	902	C	C	C	C	Yes	No	
San Francisco	CA	776,733	19	6	42	11	0	0	23	11	5	4	2	354	C	C	C	C	C	Yes	Yes
Austin	TX	662,967	11	4	38	11	2	0	19	10	3	3	6	171	C	C	C	C	C	Yes	No
Las Vegas	NV	582,000	2	1	11	1	0	0	11	10	3	3	2	100	C	C	C	C	C	Yes	Yes

The ICMA Benchmarking program tracks participating cities' services and other indicators to help municipal leaders determine the strength of their programs. Here, fire services in several cities are shown and compared.

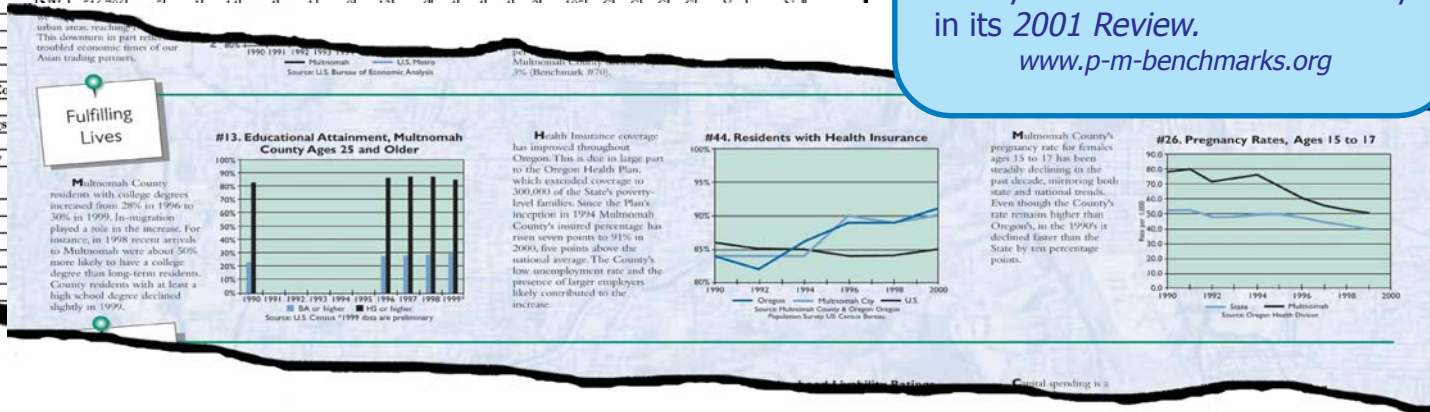
www.icma.org

The City of Portland's Progress Board reports on benchmarked measures with the surrounding county and the rest of the country in its 2001 Review.

www.p-m-benchmarks.org

USE BENCHMARKS

Oklahoma City
Tucson
Long Beach
Virginia Beach
Santa Barbara Co
Minneapolis
Colorado Springs
Wichita
Sarasota County
Prince William County
Corpus Christi
Riverside
Reno
Norfolk
Vancouver
Lubbock





The City Should Formally Link Performance to the Budgeting Process to Encourage Achievement

LINK BUDGET TO PERFORMANCE MEASURES

Philadelphia's Five-Year Plan tracks various performance measures for city agencies. While these performance measures are a strong tool in tracking service, they can still be improved. By measuring departmental and program outcomes, it is possible to target resources for areas and projects that work particularly well or that need additional assistance. When performance measurement is tied to budgets, departments are driven to improve and to use their funding well. On a regular basis, Philadelphia's Finance Department officials meet with high-level representatives of each department to discuss progress on performance measurements and potential impacts on departmental budgets. However, this process is not public and has not resulted in a clear link between performance and budget. To bring meaningful change to the city budget process, performance measurement must be linked *publicly* to budget details and reinforced with incentives to improve and consequences for poor performance.

In addition, performance measurement must focus on the achievement of outcomes, rather than simply departmental outputs. Philadelphia and many other cities have been developing more meaningful measures intended to focus attention on the outcomes that matter to residents and others. For example, rather than measuring the square yardage of roadway repaired, a more meaningful measure might be the percentage of roads in good condition. Similarly, recidivism rates in homeless shelters may be more important than the number of shelter beds available. Managers must increasingly be held accountable for the outcome results of the work they perform, and the administration must collect these data as the first step towards achieving greater accountability.

RECOMMENDATIONS: Link performance measures to the budget process

The city should publicly link agency performance to budget details and use those links to create incentives for improvements and consequences for poor performance.

The city should include more measures that track both agency outputs as well as outcomes and should be developed for all new initiatives and programs in the Five-Year Plan.



How Do Other Jurisdictions Tie Performance to Budgets?



LINK BUDGET TO PERFORMANCE MEASURES

City of Sunnyvale Program Performance Budget				
Program 322 - Solid Waste				
	<u>Costs</u>	<u>Products</u>	<u>Work Hours</u>	<u>Product Costs</u>
Activity 322300 - Operate SMaRT Station				
Product: A Ton Received				
FY 2002/2003 Adopted	\$7,395,359.77	289,748.00	2,713.00	\$25.52
FY 2003/2004 Adopted	\$7,415,592.67	289,478.00	2,713.00	\$25.62
Activity 322310 - Refuse Disposal				
Product: A Ton Landfilled				
FY 2002/2003 Adopted	\$10,359,233.09	212,496.00	1.00	\$48.75
FY 2003/2004 Adopted	\$10,507,504.31	212,496.00	1.00	\$49.45
Activity 322320 - SMaRT Station Revenue Distribution				
Product: Revenue Distributions				
FY 2002/2003 Adopted	\$1,595,568.00	0.00	0.00	\$0.00
FY 2003/2004 Adopted	\$1,806,103.00	0.00	0.00	\$0.00
Totals for Service Delivery Plan 32203:				
	<u>Costs</u>		<u>Work Hours</u>	
FY 2002/2003 Adopted	\$19,350,160.86		2,714.00	
FY 2003/2004 Adopted	\$19,729,199.98		2,714.00	
Totals for Program 322:				
FY 2002/2003 Adopted	\$45,084,064.61		21,702.00	
FY 2003/2004 Adopted	\$45,490,649.01		21,702.00	

This page from the Sunnyvale, California budget illustrates how the solid waste disposal budget links performance and expenditures. The performance of the previous year, in this case measured in tons of trash received by the SMaRT Station and landfill, is compared to goals for the upcoming year. This system of budgeting was one of the inspirations for the federal government's Government Performance Results Act (GPRA), which requires federal agencies to track performance measures with expenditures.

www.ci.sunnyvale.ca.us/budget-plan/index.htm





The City Should Expand Accountability Programs to Improve Services

EXPAND ACCOUNTABILITY

In jurisdictions focused on high performance, government managers are increasingly being held accountable for the performance of their agencies. For several years, the City of Philadelphia has published an annual report on the performance of city government in the *Mayor's Report on City Services*. While this report is clearly a step in the right direction in establishing greater accountability, there is ample opportunity to improve. To expand accountability and increase productivity, statistics and information documenting the performance of government programs must be monitored closely and frequently. Data must then be used to assess outcomes in a way that generates constructive feedback to guide necessary corrective action.

The City of Philadelphia's CompStat program is an excellent example of using performance measurement and statistical information to hold managers accountable. CompStat is a process in which the Police Department leadership convenes bimonthly meetings with district commanders to discuss regularly collected crime statistics and performance measures in the districts. By processing timely data, police can effectively divert resources of the department toward creating positive results. CompStat effectively creates a system for holding district commanders and police officials accountable for results.

Two years ago, the City of Baltimore adapted the CompStat process citywide into its much-lauded CitiStat. CitiStat requires each department head in the City of Baltimore to track and report a variety of metrics associated with the service they provide. Managers are then held accountable for results and given the opportunity, in the CitiStat conference, to explain poor performance or share effective management techniques.

Philadelphia, building on the current success of CompStat, could track performance measures and data on a more regular basis similar to Baltimore's CitiStat conferences. Such a program could enhance accountability throughout the city.

RECOMMENDATIONS: Expand accountability with performance measurement and data collection

The city should utilize frequent and regular measurement of relevant statistics affecting and affected by city services.

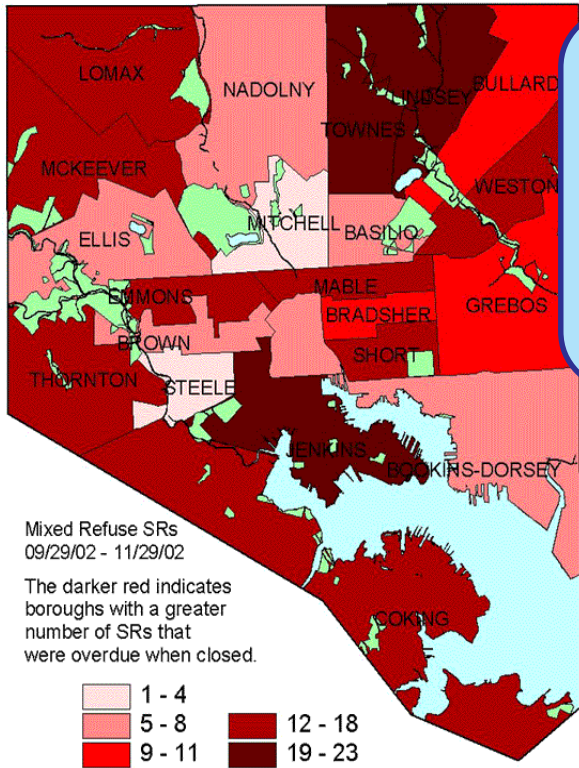
To hold managers accountable and help direct service to problem areas, the city should convene regular CitiStat-like conferences.



How Do Other Jurisdictions Hold Managers Accountable?



EXPAND ACCOUNTABILITY



CitiStat uses Geographic Information Systems (GIS) to map the performance and impacts of government service. In this example, trash collections are presented by boroughs of Baltimore. Sophisticated GIS can display information by an almost infinite variety of geographic areas including neighborhood, census block, zip code, and electoral district.
www.ci.baltimore.md.us/news/citistat

CitiStat also requires government agencies in Baltimore to track and report their performance biweekly.

Volume 1 Number 65 DPW - SOLID WASTE

BALTIMORE CITISTAT
REPORTING PERIOD: November 16, 2002 through November 29, 2002

CITIZEN COMPLAINTS

	TWO-WEEK REPORTING PERIODS				% CHANGE	Average	YEAR-TO-DATE			Periods
	10/5-10/18	10/19-11/1	11/2-11/15	11/16-11/29			Minimum	Maximum	Total	
ILLEGAL DUMPING (other than Land)	353	349	403	348	-13.6%	284.3	26.0	594.0	18,193.0	64
MIXED REFUSE	161	141	162	202	24.7%	108.3	9.0	268.0	6,932.0	64
RECYCLING	89	198	123	99	-19.5%	129.0	10.0	635.0	8,253.0	64
BULK TRASH (SCHEDULED)	21	19	26	30	15.4%	71.4	0.0	451.0	4,569.0	64
ENFORCEMENT	672	591	551	507	-8.0%	326.4	7.0	873.0	13,383.0	41
GRAFFITI	23	23	23	19	-17.4%	87.3	2.0	650.0	3,580.0	41
CORNER CANS	3	9	5	6	20.0%	4.7	0.0	36.0	284.0	60
RATS	285	255	248	202	-18.5%	152.6	26.0	423.0	9,310.0	61
PARKS	35	18	4	5	25.0%	7.5	0.0	43.0	479.0	64
REFERRALS TO HCD	24	5	20	33	65.0%	20.4	0.0	191.0	1,203.0	59
TOTAL COMPLAINTS	1,666	1,608	1,565	1,451	-7.3%	1,030.7	345.0	2,495.0	64,932.0	63

MIXED REFUSE COLLECTION OPERATIONS

	TWO-WEEK REPORTING PERIODS				% CHANGE	Average	YEAR-TO-DATE			Periods
	10/5-10/18	10/19-11/1	11/2-11/15	11/16-11/29			Minimum	Maximum	Total	
MIXED REFUSE (TONS)	7,835.57	7,650.81	8,046.48	7,733.34	-3.9%	8,009.9	6,367.2	8,906.8	504,621.1	63
AVG. O.T. PER ROUTE	0.17	0.06	0.16	0.03	-81.3%	0.6	0.0	2.6	40.4	63
LOST MAN-DAYS	55	52	70	59	-15.7%	71.4	20.0	226.0	4,500.0	63
AVG. ROUTE TIME	6.23	5.83	6.05	6.00	-0.8%	6.3	5.6	7.4	395.7	63
TOTAL OVERTIME	126.0	50.5	116.0	23.0	-80.2%	496.8	23.0	1,926.8	31,299.3	63





The City Should Use Activity-Based Costing to Illustrate the Cost of Government Programs

USE ACTIVITY-BASED COSTING

By determining the true cost of governmental initiatives, it is possible to compare programs and the return on their costs. Under the current budget system, departments are not compelled to determine the actual costs of their activities. At times, Philadelphia has used activity-based costing to determine costs for specific programs, however it has not been used citywide or on a large scale.

The City of Austin utilizes activity-based costing in the preparation of its budget. For each major activity in a department, such as code compliance, the activity budget is outlined along with the related performance measures (past, current, and projected). Austin's activity-based costing system allows comparison of the costs of activities and ties the activities to departmental goals.

The experience in Austin and elsewhere has demonstrated the value of this tool. Activity-based costing is an essential element in the management of the city's budget, either on a targeted or budget-wide basis, because it can provide previously unknown data on the cost of governmental activities. In Philadelphia, this data can illuminate the public debate on the city's spending priorities and needs. Similarly, such data can establish valid and fair criteria that can be used comparing costs with other jurisdictions or other providers.

RECOMMENDATION: Include activity-based costing in budget process

The city should determine the true cost of different government activities and include activity-based costing procedures in department and citywide budgets.



How Do Other Cities Use Activity Based Costing?



USE ACTIVITY-BASED COSTING

The City of Austin, Texas presents a budget that goes beyond showing the expenditures for each department by including expenditure information for each programmatic activity. Here, the activity budget for the code compliance division of the Neighborhood Planning and Zoning department is shown.

Neighborhood Planning and Zoning-2002-03

Activity: Code Compliance
Activity Code: 72CC
Program Name: CODE COMPLIANCE

Requirements and FTE	2000-01 Actual	2001-2002 Amended	2001-2002 Estimate	2002-03 Proposed	2002-03 Approved
General Fund	\$975,992	\$1,091,445	\$1,132,394	\$1,113,060	\$1,113,060
Total Requirements	\$975,992	\$1,091,445	\$1,132,394	\$1,113,060	\$1,113,060
Full-Time Equivalents	19.00	18.00	18.00	18.00	18.00

Activity Performance Measures:

Performance Measures:	Type	2000-01 Actual	2001-2002 Amended	2001-2002 Estimate	2002-03 Proposed	2002-03 Approved
Cost per case investigated	Efficiency	\$294	\$266	\$464	\$392	\$392
O&M expenditures per capita for code enforcement	Efficiency	\$1.47	\$1.65	\$1.71	\$1.68	\$1.68
Number of housing cases investigated	Output	1,300	1,340	1,340	1,340	1,340
Number of zoning cases investigated	Output	2,011	2,758	1,100	1,100	1,100
Average number of calendar days to Result resolve housing and dangerous building code violation cases from case initiation to voluntary compliance		108	180	100	100	100
Average number of calendar days to Result resolve zoning violation cases from case initiation to voluntary compliance		91	275	120	120	120

Activity History and Description: This activity is a core activity. Section 13-8-600 of the Land Development Code adopts the Uniform Housing Code and section 13-8-700 of the Land Development Code adopts the Dangerous Building Code as the standards for Austin. This activity includes zoning and housing inspections and enforcement of the Dangerous Buildings Code. The first zoning ordinance was approved in 1931. In 1977 the Housing Code and Dangerous Building Code were significantly revised. In 1991, state legislation gave the Building and Standards Commission significantly more authority and created the emergency boarding authority.

Activity Objective: The purpose of the Code Compliance activity is to provide housing and zoning investigations and enforcement for neighborhoods so they can have a higher degree of compliance with City Code.

Services of the Activity:

The cost per activity is presented along with the performance measures in both program outputs and results.
www.ci.austin.tx.us/budget





The City Should Illustrate Budget Tradeoffs to Help Guide Decisions

ILLUSTRATING BUDGET TRADEOFFS



New York City's Independent Budget Office has produced the *Guide to the Budget*, a report showing the costs of various government services. According to the report, \$10 million can pay for 8,900 summer jobs for youth, salaries for 153 teachers, or 1,300 subsidized day care slots. This information can be used by policy makers and the public to judge the value provided by different government programs. While New York seems to be unique in producing this report, it does provide valuable comparisons for policy makers and the public. The tradeoffs are relatively easy to calculate for many government services. A similar budget-tradeoff document for Philadelphia could illuminate the discussion about budget spending priorities.

Making Tradeoffs
What \$10 Million Buys

In New York City's Budget \$10M could have funded any one of the following:	Child Care	1,300 subsidized day care slots with the Administration for Children's Services for low-income families
	Debt Service	9 days of General Obligation debt service payments
	Education	153 teachers
	Employment	8,900 summer jobs for youth
	Homeless Services	313 homeless family shelter units
	Hospitals	Hospital stays for 1,000 uninsured individuals
	Libraries	250 librarians
	NYC Transit	6 new high technology subway cars*
	Parks	266 city park workers
	Police	149 police officers
	Prisons/Corrections	Incarcerating 188 inmates in city jails
	Public Assistance	The city portion of the annual Family Assistance grant for 5,800 families**
	Sanitation	54 new dual-bin recycling trucks*
	Tax Relief	Personal Income Tax (PIT) savings of \$2.86 per NYC taxpayer (on average)

Source: IBO

Note: All numbers are approximations based on an average funding level for fiscal year 2001; figures for the numbers of teachers, librarians, park workers, and police officers are based on a fiscal year 2001 average salary plus estimated fringe benefits and pension costs. An asterisk (*) denotes Capital Budget items.

** Based on the maximum Family Assistance grant for a family of three.

budget basics

RECOMMENDATION:
Include budget-tradeoff discussions in budget documents

The city should include information about budget tradeoffs in public documents so that policy makers and the public can better understand budget priorities and the budget process.

www.ibo.nyc.ny.us

The City Should Create a Rainy-Day Fund to Protect the City's Finances



The establishment of a rainy-day fund can insert discipline into the political process of budget making. By restricting the use of some surplus funds, the city will be less able to increase spending frivolously in times of plenty and better able to weather a slow economy.

Many cities and states currently use rainy-day funds. Approximately 46 states have established rainy-day funds or similar revenue-stabilization mechanisms. In addition, many major cities, including New York City, Houston, Detroit, Baltimore, and San Antonio, have similar funds. Throughout the country, rainy-day funds have provided cities with important budgeting flexibility during difficult economic times.

In Philadelphia, the establishment of a rainy-day fund would provide the city with additional fiscal discipline, helping to ensure that funds would be available for needed city services during economic downturns. Furthermore, the establishment of a rainy-day fund could improve the city's bond rating and reduce the cost of borrowing for capital improvements.

A rainy-day fund could be created within the framework of the city charter. To encourage structural balance, funds could be deposited in the fund when revenue collections exceed long-term economic growth rates and withdrawals could be allowed only when revenue collections lag long-term economic growth rates. In addition, the rainy-day fund could be capped at a percentage of the total budget. Although the cap varies significantly among governments, a cap of five percent is often considered to be a good target amount.

RECOMMENDATION: Create a Rainy-Day or Revenue-Stabilization Fund

The city should create a budget mechanism, such as a Rainy-Day Fund or Revenue-Stabilization Fund, to set money aside in times of plenty to create reserves for use during economic downturns.

CREATE A RAINY-DAY FUND





The City Should Utilize Dynamic Scoring to Illustrate Consequences of Policy Decisions

USE DYNAMIC SCORING

The process for preparing the budget and the Five-Year Plan can be amended to require or encourage a focus on achieving structural balance and more accurately reflect the future costs and benefits of government programs. Currently, the Five-Year Plan provides a framework for long-term budgeting. By explicitly tying actions in the short term to their results in the long term, the budget process can be made more meaningful.

There are many instances when the long-term effects of government spending are not reflected in the budget. For example government spending on programs to reduce juvenile delinquency in year one should result in decreased incarceration and court costs in later years. Budgets, however, rarely reflect this. On a larger scale, many major capital projects, such as Philadelphia's new convention center, have been justified with efforts to identify and weigh costs and benefits of the project and both should be incorporated into the Five-Year Plan. Finally, government programs that have clear costs to the city, such as the Community Development Corporation Tax Credit, are not always reflected in budget projections. If this program will reduce Business Privilege Tax collections by \$1 million, this impact should be reflected in budget revenue projections.

To address the impact of government spending on future budgets and the economic base, as well as improve budget forecasts several states have begun to use a concept known as dynamic scoring. This mechanism attempts to predict the changes in economic activity that result from a change in government policy. For example, a reduction in taxes will be partially offset by an increase in economic activity — if taxes are lower, more businesses will expand and residents will stay. Revenue projections must, therefore, reflect both the projected loss in revenue from lower tax rates and the improved economic conditions offset the decrease. Texas and California use dynamic scoring to more accurately predict the costs of state programs.

RECOMMENDATION: Use dynamic scoring for budget forecasts

The city should use dynamic scoring and other economic forecasting tools to improve efforts to predict the effects of current policies on future budgets.



The City Should Impelment Asset-Maintenance Schedules to Best Plan for the Future



The city does not formally budget for the maintenance needs of new or existing city assets. Including asset-maintenance schedules in the Five-Year Plan can both enhance the accuracy of the city's budgeting efforts and provide for needed upkeep in later years. Thus, if the city builds a recreation center, it should budget for maintenance costs into the future. Although comprehensive asset-maintenance schedules are relatively rare, some jurisdictions including New York City, maintain long-term capital-asset budgets. New South Wales, Australia has designed a system, known as Total Asset Management 2000 (TAM2000), intended to provide a strategic plan for all assets throughout their useful life.

DEPT. OF HOMELESS SERVICES - 071					
Project Type : HOMELESS SERVICES					
SHELTERS : 59					
Total Assets in AIMS : 59					
Report on Estimated Cost for Repairs, Replacements, Major Maintenance					
CAPITAL BUDGET		FY 2004 - 2007	FY 2008 - 2013		
• Exterior Architecture		26,785,000		9,044,000	
• Interior Architecture		10,100,000		2,584,000	
• Electrical		529,000		4,719,000	
• Mechanical		3,519,000		19,024,000	
Total		\$40,933,000 *		\$35,372,000	
• Priority A		26,785,000		9,044,000	
• Priority B		9,033,000		25,354,000	
• Priority C		5,115,000		974,000	
Total		\$40,933,000 *		\$35,372,000	
EXPENSE BUDGET		FY 2004	FY 2005	FY 2006	FY 2007
• Exterior Architecture		1,387,000	220,000	239,000	1,200,000
• Interior Architecture		1,104,000	174,000	125,000	33,000
• Electrical		1,081,000	1,005,000	884,000	948,000
• Mechanical		1,358,000	684,000	1,158,000	793,000
• Elevators/Escalators		326,000	326,000	326,000	326,000
Total		\$5,255,000	\$2,409,000	\$2,732,000	\$3,299,000
• Priority A		1,387,000	220,000	239,000	1,200,000
• Priority B		3,039,000	2,025,000	2,410,000	2,079,000
• Priority C		829,000	164,000	83,000	21,000
• Priority D					
Total		\$5,255,000	\$2,409,000	\$2,732,000	

RECOMMENDATION:
Include asset-maintenance schedules in Five-Year Plan

The city should include asset-maintenance schedules in its Five-Year Plan to budget for all existing and new government buildings and capital equipment.

IMPLEMENT ASSET-
MAINTENANCE SCHEDULES

Fleet Management

Philadelphia's own Office of Fleet Management has set the standard nationwide for efficient fleet operation. When a new vehicle is purchased, its scheduled maintenance and asset life-span are programmed into a computer system to track the vehicle's progress and encourage adherence to the schedule. By extending such capabilities citywide, Philadelphia could better maintain its assets and budget for maintenance and replacement costs.

AIMS: New York City has created Asset Information Management System (AIMS), a program that demonstrates yearly asset strategies for each city department.

www.nyc.gov/html/omb/html/budpubs.html





The City Should Require Fiscal-Impact Statements for New Legislation to Illustrate Future Costs

FISCAL-IMPACT STATEMENTS

Bills introduced in state and local legislatures often have a significant effect on budgets, but the impact is not always estimated by any independent authorities. To ensure that legislators have access to accurate estimates of costs of legislation, several states and some cities have created programs requiring an analysis of fiscal impacts of every bill. Both Ohio and Arizona have established programs to determine financial implications of legislation. This requires policy makers to examine the true cost of legislation and the public and stake holders can use and access the information on-line.

The State of Arizona requires legislation that will have an impact on the finances of the state to provide a *Financial Note*. *Financial Notes* include the cost of implementing the legislation and provide analysis of the long-term financial effects of the bill.

In Philadelphia, these analyses would provide detail on the estimated costs of legislation to members of city council and the mayor. In addition, they would provide background detail and a consistent format to better compare the costs of the legislation.

RECOMMENDATION: Require Fiscal-Impact Statements

The city should require fiscal-impact statements for legislation that has the potential to significantly impact city finances.

BILL # HB 2079
SPONSOR: Gleason
REQUESTED BY: House
TITLE: driver license renewal; education; testing
STATUS: As Introduced
PREPARED BY: Bob Hull

	FISCAL YEAR		
	2002	2003	2004
EXPENDITURES			
State Highway Fund ^{1/}	\$-0-	\$-0-	\$76,400
REVENUES			
State Highway Fund ^{2/}	\$-0-	\$-0-	\$-0-

^{1/} Annual program cost is estimated to stabilize around a 2-fiscal year average of \$194,500 beginning in FY 2009, due to delayed effective dates.
^{2/} Annual revenue is estimated to stabilize around the current level of revenue over a 2-fiscal year average beginning in FY 2009, due to a delayed effective date.

FISCAL ANALYSIS

Description

Effective July 1, 2004, the bill would change from 5-year driver licenses to 2-year driver licenses for people 75 years and older. The bill would also require the Arizona Department of Transportation (ADOT) to implement an assessment center pilot program in Maricopa County by January 1, 2003, and to report on the assessment center pilot program to the Legislature and the Governor by July 1, 2004.

Estimated Impact

The bill would have a one-time cost of \$76,400 to the State Highway Fund in FY 2004, followed by an annual increased cost totaling about \$194,000 to the State Highway Fund beginning in FY 2005, due to delayed effective dates. See the "Summary of Revenues and Expenditures for State Highway Fund" table in the Assumptions section, for a year-by-year breakout of costs for FY 2004 through FY 2010. In addition, Highway User Revenue Fund distributions to local governments would decrease by \$(154,400) in both FY 2005 and FY 2006, and by \$(51,500) in both FY 2007 and FY 2008, before stabilizing around the current level in FY 2009.

Assumptions

Arizona requires *Financial Notes* for all legislation that will have an impact on state budgets.

www.azleg.state.az.us





Conclusion, Costs, and Efficiency

The recommendations presented in this document are currently helping other jurisdictions improve government services by increasing the transparency of the budget process, holding public managers accountable for performance, and improving the amount and quality of the information available to public officials in making budget decisions. With a few changes in the budget process and systems, Philadelphia can enhance accountability and better focus government on improving service delivery.

Setting priorities and goals for the government should be a well-designed public process. New and better measurements should be established and tracked to judge the performance of government agencies. The city should measure the outcomes of our government activities, not just the output of our agencies. Philadelphia should invigorate its efforts to understand the costs of its government activities and present that information in an understandable manner.

While improving performance, Philadelphia must also protect the city's fiscal health, by instituting a rainy-day fund and enhancing the accuracy of budget projections. The creation of an effective

citywide asset-maintenance system and a better understanding of the costs of legislation can assist these efforts.

There are costs associated with some of these recommendations. For example, the implementation of CitiStat in Baltimore required investments in information technology, telecommunications, and managerial systems. There are also "indirect" costs associated with these reforms.

The greatest indirect cost is the cost incurred when people are reluctant to change how they work. Entrenched interests may seek to prevent the creation of a budget system that decreases their ability to influence the process. Altering attitudes that are opposed to change will take an investment of leadership — an investment that will pay dividends of efficiency and accountability.

The foundation for an outstanding budget system already exists in Philadelphia. By adding several components to the system, the city's budget can be transformed into a driving force for efficient, accountable, and accessible government.

CONCLUSION

