
Strategic Budgeting

The District government continues to make important strides in financial management and significant improvement in service delivery. Balanced budgets and timely, clean Comprehensive Annual Financial Reports are the norm. As the District makes routine much of its financial activities, we continue to examine our business operations and seek to leverage our management reforms and other tools to improve the quality of the government and the services provided to residents, businesses, and visitors.

These initiatives range from very focused and targeted to a global reach. While there should be no illusions that any of these efforts are magic bullets and quickly turn the District's government into a world class organization, they do help the District build on the Mayor's success in stabilizing basic program delivery and reforming management practices that came from his first term in office.

No longer is the focus solely on the centralization of information for the purposes of planning and allocating resources. There is now an emphasis on empowering program, activity, and service managers with accurate real-time information so that they can make informed management decisions to deliver better results.

With Mayor and Council support, the Office of the Chief Financial Officer (OCFO) has initiated several projects to improve our budgetary, performance, and financial practices in

order to provide accurate real-time financial and performance data to decision-makers at the top for prioritizing programs and at the bottom for efficient execution of programs so that both groups can make informed management decisions in the best interest of the District. These projects have resulted in changes to our structures and methodologies for managing performance and budgets. This chapter outlines the current status of these initiatives.

Performance-Based Budgeting

The District is transforming the way it articulates what the government does and how it is funded, as well as how results are reported. Performance-based budgeting links spending to programs and activities instead of boxes on an organization chart, allowing results to be measured. This enables public officials, program managers, and the public to better monitor if

money is being spent wisely on a program that's doing its job, or if the money could be better spent elsewhere.

In FY 2001, Council passed legislation (DC 47-308.01) requiring the Mayor's budget to be performance-based. The law specified that the following must be included in the budget presentation:

- Program name
- Agency strategic result goals
- Estimated total program, activity, and service costs
- Program overview describing activities provided
- Program performance measures
- Estimated program costs
- Full-time equivalents for the prior, current, and next fiscal year
- Program benchmarks providing comparisons with other jurisdictions

Later legislation modified some of these requirements for specific agencies, including service-level costs and benchmarks.

Planned as a multi-year implementation, PBB replaces the existing organizational budget structure with a structure that shows programs, activities and services. These plans incorporate an agency's mission, major initiatives, and short and long-term goals with performance measures for the programs, activities, and services they provide. Building on the momentum created by the success of the first three phases of PBB, FY 2006 is intended to be the final year of transition, with the addition of 11 agencies in Phase IV. However, as new agencies are created, and existing agencies restructured, the implementation of PBB will continue as appropriate¹. Table 2-1 lists the fiscal year and the agencies transitioned.

**Table 2-1
District PBB Phases of Implementation**

FY 2003 - Phase I

Department of Public Works	Department of Transportation
Metropolitan Police Department	Department of Motor Vehicles
Fire and Emergency Medical Services Department	Department of Human Services
	Office of the Chief Financial Officer

FY 2004 - Phase II

Office of the Mayor	Office of the City Administrator
Office of Personnel	Office of Contracting and Procurement
Office of the Chief Technology Officer	Office of Property Management
Office of the Attorney General	Office of Planning
Department of Housing and Community Development	Office of the Deputy Mayor for Planning and Economic
Department of Employment Services	Department of Corrections
Department of Consumer and Regulatory Affairs	Office of Cable Television and Telecommunications
Department of Insurance, Securities, and Banking	Commission on the Arts and Humanities
D.C. Emergency Management Agency	Office of the Chief Medical Examiner
Department of Health	Office of Human Rights
Office on Aging	Department of Recreation and Parks
Department of Mental Health	Child and Family Services Agency
State Education Office	

¹ Not all agencies represented in the District's budget will be transitioned to PBB. Those not transitioning to PBB are regional enterprises and/or enterprise funds that do not report to the Mayor and/or Council.

Table 2-1(continued)

District PBB Phases of Implementation**FY 2005 - Phase III**

Office of the Secretary	Customer Service Operations
National Guard	Corrections Information Council
Commission on Judicial Disabilities and Tenure	Office of Motion Picture and Television Development
Office of Police Complaints	Criminal Justice Coordinating Council
Judicial Nomination Commission	D.C. Energy Office
Office on Latino Affairs	Office of Veteran Affairs
Office of Asian and Pacific Islander Affairs	D.C. Taxicab Commission
D.C. Lottery and Charity Games Board	D.C. Public Library
University of the District of Columbia	Office of the Peoples' Counsel
Public Service Commission	Office of Zoning
Alcohol and Beverage Regulation Administration	Board of Real Property Assessments and Appeals
D.C. Sentencing Commission	Office of Local Business Development

FY 2006 - Phase IV

Advisory Neighborhood Commissions	Office of the D.C. Auditor
Contract Appeals Board	Board of Elections & Ethics
Office of Campaign Finance	Public Employee Relations Board
Office of Employee Appeals	Office of the Inspector General
Office of Administrative Hearings	D.C. Office of Risk Management
Office of Finance and Resource Management	

PBB Impact on Budget Development and Budget Execution

Moving to PBB blurs the lines that have clearly marked the beginning (distribution of the budget instructions to agencies) and ending of the budget development period (Council/Congress adoption of the budget). PBB shifts the focus to a continuous process of planning, budgeting and evaluating programs. By putting planning activities before the budget process and program performance after budget adoption, the planning, financial management, and performance evaluation functions merge to become an effective agency management tool that also drives the budgeting process.

The technical elements of budgeting, such as estimating revenues, projecting personnel costs, and accounting for inflation, do not change within PBB. However, as PBB implementation matures with performance data collection and reporting processes, the budget development process is shifting focus from technical budgeting to program costs and program results.

Performance-based budgeting also impacts budget execution. Because an agency's new program structure aligns agency resources to the work the agency performs, agency spending is shown more clearly, allowing policy makers to know exactly where an agency is spending its allotted dollars.

The Mayor and Council can use the program structure to make decisions about where they should place additional resources, or where to reduce spending. The idea of targeted reductions based on policy priorities is not new. However, if structures are not in place to display the work performed, cuts are often made across the board or at the agency level without knowing what will be affected. It is much better policy to target specific areas for reduction than paring a little from everything. PBB enables such decisions.

Agency Management Program

An additional benefit of PBB is the ability of the District to track specific expenses across various agencies. In FY 2004, the Agency Management Program (AMP) was developed for PBB agencies to track costs for common administrative expenses

across the District. The completed PBB agency strategic business plans include the AMP and up to 13 of its associated activities, depending on whether the agency performs that function. Among these activities are :²

- **Personnel** - Provides human resource services to agencies so that they can hire, manage, and retain a qualified and diverse workforce.
- **Training and Employee Development** - Provides training and career development services to department staff so that they can maintain/increase their qualifications and skills.
- **Labor-Management Partnership** - Creates a structure in which agencies can collaboratively resolve workplace issues.
- **Property Management** - Provides real estate and facility services to agencies in a timely, efficient, and effective manner in keeping with current District operations, industry standards and best practices.
- **Information Technology** - Provides network, telephone, and computer hardware and software support and information services to departmental management and staff so that they can use technologies to produce, communicate, and manage information.
- **Financial Services** - Provides financial and budgetary information to departmental program/administrative units to ensure the appropriate collection/allocation, utilization and control of District resources.

The AMP brings consistency in budgeting and performance reporting for the District's administrative services and allows for more accurate tracking of administrative costs.

Agency Financial Operations

As part of the process for developing the FY 2005 proposed budget, the funding and FTE count for all OCFO FTEs assigned to the agencies was separated into a program called Agency Financial Operations (AFO). The purpose of the AFO program is to provide comprehensive and effi-

cient financial management services to and on behalf of all District agencies. This program is included in the program structure in the OCFO's strategic business plan to show the direct reporting relationships between agency financial personnel and the Chief Financial Officer (CFO). It also is being added to each of the strategic business plans for PBB agencies.³

Agency financial operations are managed by the Associate Chief Financial Officers (ACFOs) who serve as the key contact between the Office of Chief Financial Officer and the Deputy Mayors in managing the agency finances.⁴

The five ACFOs each represent one of the major appropriation titles in the District's budget, Government Direction and Operations, Economic Development and Regulation, Government Services, Human Support Services, and Public Safety and Justice. Agency fiscal officers report to their respective ACFO.

The Future of PBB

As agencies make the transition to PBB, the District is working toward a new level of performance integration - performance-based management. Some of the PBB Phases I, II, and III agencies will revisit their strategic business plans and update them as needed. While performance measures should ideally remain constant to provide historical information, agencies do have the opportunity to update their strategic goals, program, activities and services. These revisions may lead to updated or enhanced performance measures, as some agencies gain experience using performance measures throughout the year as a management tool. The implementation of service-level budgeting also requires agencies to reevaluate the ability to identify budget dollars along with FTEs for their services as originally identified. As agencies gain experience with the basic collection and reporting requirements associated with PBB, the District is leveraging the use of technology to realize the benefits of performance-based budgeting.

2 For a complete list, please see the glossary under Agency Management Program.

3 All financial positions within District agencies report to the Chief Financial Officer, though many of these employees work on-site at agency locations. For budgetary purposes, funding for these positions assigned to the agencies is included in the various agency budgets. This funding is not duplicated in the budget for the OCFO. For FY 2006, personal services and discrete financial costs (e.g., contracts) are included. In addition, the FTE's are also included in the agencies' FTE counts.

4 For more detail on the Agency Financial Operations program, please see the glossary.

Service-Level Budgeting

Performance-based budgeting has created a uniform structure within every agency for presenting the work that they do. Agencies manage programs, which are made up of activities, and activities consist of services. Previously, the District budgeted at the activity level. However, during the development of the FY 2005 budget, the District Council identified 20 services, for which it requested service-level costing information. Service-level budgeting has value in that it allows for greater clarity and transparency in agency budgets, informing stakeholders about the operations of government. It assists in identifying program cost drivers and unit cost information that may contribute to better-informed budget and management decisions.

Beginning with the FY 2006 budget development process, service-level budgeting will be phased in by appropriation title for all PBB agencies. The phase-in schedule is as follows:

FY 2006 - Public Works and Public Safety and Justice

FY 2007 - Governmental Direction and Support

FY 2008 - Public Education System and Economic Development and Regulation

FY 2009 - Human Support Services and all other remaining agencies

Rather than spending effort on services with few dollars, we are focusing on services most important to District residents and stakeholders. Therefore, service-level budgets are provided for any service that is part of an

Table 2-2

Service-Level Budgets for the FY 2006 Budget and Financial Plan

Department of Transportation	Metropolitan Police Department
Transportation Safety	Regional Field Operations
	Investigative Operations Support
Department of Public Works	Police Personnel
Public Space	Business Services
Sanitation Collections	Office of Professional Responsibility
Parking Regulations Enforcement	Property Management
Sanitation Disposal	Information Technology
Property Management	Fleet
Enforcement	
Fleet Consumables	Department of Corrections
	· Inmate Personnel
Department of Motor Vehicles	Inmate Health
Vehicle Inspections	External Security
· Ticket Processing	
	Office of the Attorney General
Fire and Emergency Medical Services	Enforcement
Fire/Rescue Operations	Administration & Customer Support
Emergency Medical Services Operations	

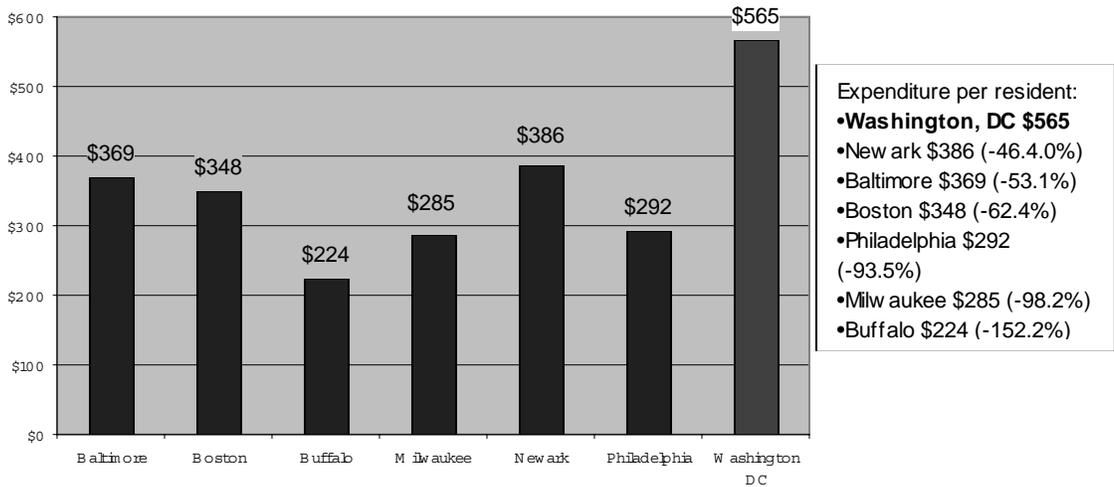
activity meeting the minimum threshold of \$5 million from the prior year's appropriation. Table 2-2 identifies which activities are presented at the service level in FY 2006.

For additional information about these services, and the methodologies used to develop the service-level budgets, please refer to the Service-Level Budgeting chapter in the Special Studies volume.

Benchmarking

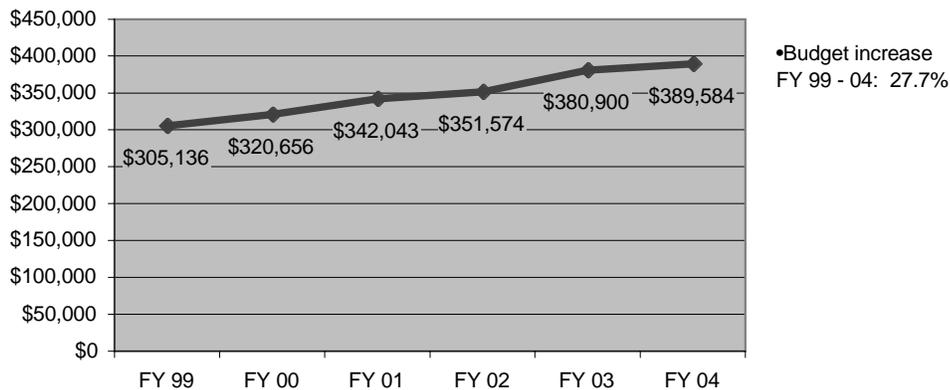
For the District, benchmarking is a comparison between District programs and comparable external governments to assess performance and efficiency. Benchmarking is a component of performance-based budgeting. Benchmarking helps identify potential program efficiencies by comparing them with similar programs in other cities. Another benefit is the development and

Figure 2-1
Comparisons against other jurisdictions



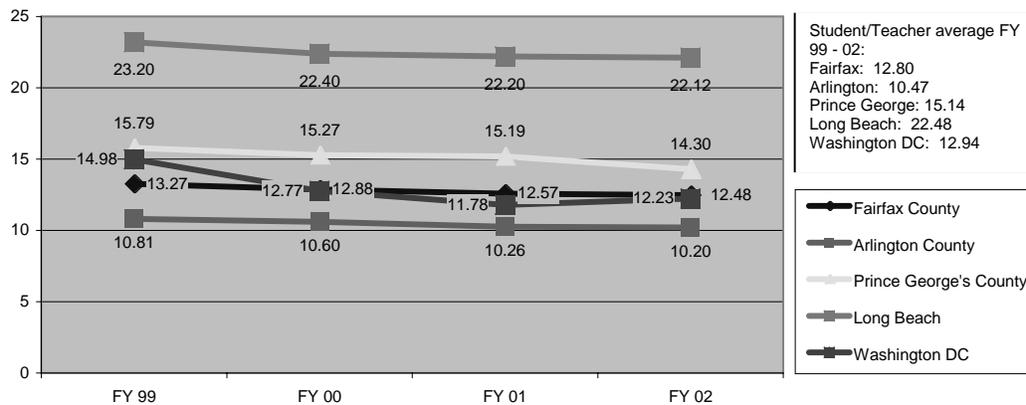
FY '98 - '02 Gross Operating Expenditures Per Capita Average. Population Data Source: FBI UCR, Expenditure Data Provided by Individual Jurisdictions, DC data from SOAR.

Figure 2-2
Trends over time



Dollars in Thousands. Includes Intra-District Funds. FY '99 - '04 Data: DC - SOAR.

Figure 2-3
Composite benchmark



Fairfax, Prince George's County, and Long Beach Enrollment and Teachers provided by individual jurisdictions. Arlington, Boston, Charlotte, and Washington DC Teachers: DCPS. Washington DC Enrollment: OCF0.

fostering of a culture of program management focused on continuous improvement.

The District uses three types of benchmarks. An example of each type follows.

Type I: Benchmark comparisons against other jurisdictions at a point in time

This type of analysis allows the District to compare results, outputs, demands, and efficiencies at a point in time with other jurisdictions to determine the efficiency and/or effectiveness of District programs.

Type II: Trends

Trends allow the District to focus on improvement relative to prior years allowing for historical analysis of agency programs.

Type III: Composite benchmark

Composite benchmarks allow for in-depth analysis of District performance relative to other jurisdictions.

As part of the FY 2006 budget requirements, PBB agencies were asked to develop benchmarks at the program level. These benchmarks are included in the Special Studies volume.

Strategic Partnership with the Office of the City Administrator

The Office of Budget and Planning (OBP) and the Office of the City Administrator (OCA) have embarked on a strategic partnership to integrate the finance and program elements of the District's performance management system.

The shared responsibilities of OBP and OCA include reviewing agency performance measures, facilitating the strategic business planning process, and most recently, establishing data quality control standards for District performance information. The ongoing implementation of a web-based Scorecard application for PBB agencies to house and report performance measures required strict documentation of data collection methodologies, as well as the formulas for performance measures. In addition, this effort provided an opportunity for OBP and OCA to work with the agencies to strengthen their ability to report the output and demand measures associated with the agencies' result measures.

The success of the District's performance management program relies on the integrity and integration of each component of the District's system. Together, OBP and OCA are realizing a new vision of program and financial management in District government that will improve the quality of program management and government services.

Integrating PBB into the District's Strategic Management Cycle

The District's Strategic Management Cycle represents the executive branch's management of agencies and programs to meet the goals and priorities

determined by the Mayor and District Council, working with the citizens of the District. The strategic priority areas of the District are:

- Strengthening Children, Youth, Families and Elders;
- Building Safer Neighborhoods;
- Promoting Economic Development;
- Making Government Work;
- Building Partnerships and Democracy; and
- Improving Public Education.

More information regarding these six policy priorities can be found in the District's strategic plan.

To be an effective component within the Strategic Management Cycle (Figure 2-4), PBB aligns with the District's strategic planning processes, both at the District and agency level. Together with the Office of Neighborhood Action and the OCA, PBB agencies develop strategic business plans that are linked to the Citywide Strategic Plan and Strategic Neighbor-

Figure 2-4
Strategic Management Cycle

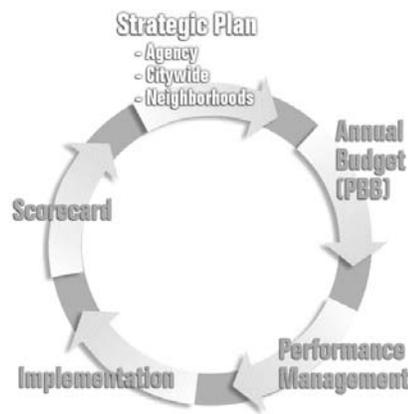


Figure 2-5
Aligning the Citywide, Budget, and Agency Plans



hood Action Plans (SNAPS). Figure 2-5 illustrates how the planning processes are integrated and linked to the budget presentation.

The District's implementation of PBB includes a concerted effort to align agency goals and key performance measures with the District's citywide strategic plan. For example, rather than reporting only the number of vehicles ticketed or streets cleaned, the Department of Public Works has the higher strategic goal of delivering 94 percent of its services in a timely manner. That goal, however, does not exist in a vacuum. It is tied to the broader citywide priority area of *Making Government Work* and its goal of delivering "all city services in a thorough, timely and efficient manner." In addition to integrating with the District's planning process, the PBB structure supports the District's performance management activities.

The linchpin for this alignment is the agency's strategic business plan. The business plan includes key elements that translate directly to the performance matrices reflected in the FY 2006 proposed budget, the citywide strategic plan and director performance contracts. For example, performance targets for medical service response time are reflected in the citywide strategic plan in the *Making Government Work* priority, the Fire Chief's performance contract, and the Fire and Emergency Medical Services Department's chapter in this budget book.

For PBB agencies, elements of agency strategic business plans are presented in the agency budget chapter narrative, including the mission statement, strategic result goals and key results measures.

Strategic result goals articulate the priority areas for the agency to make program decisions during the next two to three years. The agency will begin various initiatives in the current year to progress toward the strategic result goals. Key result measures represent the performance measures that an agency uses to demonstrate the annual success of a program. In many cases, meeting key result performance targets will demonstrate progress towards a specific agency strategic result goal. In short, key result measures show what will be accomplished with the proposed funding level. In addition to key result

measures, agencies have identified output, demand, and efficiency measures associated with each result measure.

These performance measures were developed for the program/activity structure developed in the business planning process. The program/activity structure in the business plan is the result of an effort to align the agency's resources appropriately to achieve the strategic goals of the agency. In the past, agency resources typically were aligned with organization units that did not represent discreet programs. While prior year data is available for performance measures in non-PBB and PBB phases I and II agencies, prior year performance data is unavailable for PBB phase III and IV agencies because their performance information is newly created. These measures can be found in the agency business plan for each activity.

CFO\$ource: Empowering Real-Time Decision-Making

Bringing information together into one place is the CFO\$ource Executive Dashboard, which OBP developed in FY 2004. The Dashboard provides agency heads, managers and their staff the ability to get financial and programmatic information to help them in their decision-making. This web-based application provides online standardized financial reports from SOAR, the District's financial system of record. Analytical cubes called "Dynamic Views" let users look at high-level financial data while drilling down to specific programs, activities, funds or objects for operating, capital and grants. Information related to budget, payroll, procurement, and agency performance is currently linked to the application. Links to published monthly financial reports and strategic business plans give users the necessary information to effectively monitor their agencies. Since its initial release in July 2004, upgrades were added in a new release, providing users enhanced tools for inquiring about vendor/procurement information. It allows users to filter, sort, and view history of procurements for any vendor. Future releases will provide District users with more detailed information on agency performance, cost drivers and payroll, as well as other key information.

Key Challenges

Individually, these financial and management initiatives will improve the practice of budgeting and management in the District. Collectively, these initiatives constitute a transformation of budgeting and management in the District. However, this transformation is not without its challenges.

- **People** - Our human resources must be up to the challenge. We continue to determine the impact service-level budgeting will have on our accounts for budget and CAFR purposes, though accounting for a single expenditure across numerous services would require an enormous staff effort. We must ensure that we have the proper level of staffing as well as training to ensure the success of service-level budgeting.
- **Technology** - Our technology systems must be up to the task. A new budget system with scalability to the service level is also important, and currently being developed. We are confident that combined with the aforementioned Scorecard application and CFO\$ource, our technology will be able to support our needs.
- **Training** - As the saying goes, "Old habits die hard." If the District is to maximize the benefits from these tools and new technologies, it must provide the proper training and support for the users of these tools. Fortunately, we have already established training vehicles and methods that have proved successful and on which we can build.
- **Performance linkage** - Recently, the agencies focused on strengthening the relationship between results, outputs, and demands. The next logical step is to improve the efficiency measures, which tie to the cost drivers.
- **Managing Expectations** - No one should be under the illusion that these improvements - either alone or collectively - are a panacea. There is no magic formula when it comes to improving government operations. But what we are doing and planning are important and significant strides in the District's budgeting and management practices.

Conclusion

The District has a vision for what a 21st century budget and financial operation should look like. With the new tools in place, not only will decision-makers have better information upon which to make policy and resource allocation decisions, service providers will have the necessary information to make effective decisions regarding the use of the District's resources on a daily basis. We are confident that as we successfully forge and implement these tools, the District will be better able to use its resources to meet the needs of citizens and stakeholders.