SUMMARY OF OUTCOME BUDGETING
The Reinventing Process
Catawba County, North Carolina

Introduction

In the summer of 1992, the book *Reinventing Government* was taking local governments by storm and several copies of the book were distributed among our department heads. After reading the book, we met to discuss the various concepts and look at the feasibility of implementing some or all of these concepts in Catawba County. The early discussions ranged from organizational culture to more specific changes in finance and personnel processes.

Through our discussions we identified factors that would be critical to making successful changes. The first and most obvious is the need to change. Unless a pressing need is prevalent, change will probably be superficial. The second factor we found to be critical was the political environment. Although it is very professional and financially sound, the local government structure in North Carolina is not inherently conducive to organizational change. The high level of regulation and turnover of political leadership are serious barriers to effective change. The third key factor is organizational culture. Is change a way of life in our organization, and is the relationship between manager and department heads and department heads and staff strong enough to endure change?

In analyzing our situation, we knew the need for change was there. While we felt overall we were a successful organization, slow growth in our revenues coupled with the increased cost of mandates and increased demand for other services had put us in a situation to question everything we had been doing and to look for improvement. In Catawba County, we have enjoyed stable and outstanding political and professional leadership and strong trusting relationships have been developed which enabled us to pursue change. Lastly, while it is hard to define and summarize an organization's culture, we felt department heads and employees demonstrated a culture that could accept change.

After several discussions about changing various policies, we decided to narrow our focus to the upcoming budget process and give ourselves enough time to implement changes before the budget process actually began in late 1992. Changing the budget process seemed to be the most straightforward starting point that would encompass many of the concepts of the book but still be manageable for immediate implementation. To get departments' attention and to let them know we were serious, the County Manager raised the limit on purchase orders and disbursement vouchers and delegated to department heads the authority to hire new employees above the minimum salary (within available funds). These were simple moves but they gave early credibility to our reinventing government effort and increased the expectation that real changes would be made in the budget process.

Changing the Budget Process

Once we had decided to focus on the budget process, we began looking at specific changes and realized that because of the number of people affected and the training they would need, this would be a major undertaking. We decided to implement these changes on a smaller scale by applying the new process to only a few departments. Six departments volunteered for this "pilot program": Finance (including Building and Grounds Maintenance, Garage, and Purchasing), Human Resources, County Manager (including Budget and Legal Services), Library, Emergency Services, and Public Health. We were satisfied with this mix of departments because they ranged in size and also in function; some serving internal customers and others offering services directly to the community.

Our outcomes were:

- To become a more mission driven organization by defining and achieving goals that support our mission;

- To place greater focus on the customer and impact of services;

- Achieve and sustain higher service levels with limited resources.

In order to meet our outcomes we needed to make basic changes that would change our focus from inputs to outcomes, increase authority and flexibility for departments, encourage better use of resources, and simplify and streamline the budget process. Flexibility and changing the focus to outcomes would be achieved by giving departments a lump sum without any analysis or controls at detail levels. For example, we would not be concerned with how much a department planned to spend on training, and there would be no controls to stop them from spending whatever they deemed necessary. The only financial control would be the inability to spend more than their total allotment. Eliminating analysis of inputs greatly simplified the budget process. The analysis was shifted to questions about what departments were going to accomplish and what the level of service would be. The analysis and negotiation focused on meaningful and measurable statements about what would be done for the customer. We called these statements simply "outcomes." To encourage better use of resources and ownership in decision-making, we allowed departments to retain all unexpended funds at the end of the fiscal year as long as they were able to demonstrate achievement of at least 90% of their outcomes.

Determining the Financial Budget

The first step in the new process was determining how much to fund the Reinventing Departments since they would no longer be justifying line item expenditures and because they would be allowed to retain all unexpended funds. This caused a situation where we had to determine a type of base budget that would give the department sufficient funds for existing services and take fluctuating capital needs into consideration while holding the County harmless.

By holding the County harmless we mean giving the County General Fund the money that departments typically didn't spend. For example, the Health Department averaged over the last five years a "turn back" (by either over collecting or underspending) of $180,000 per year. When preparing past budgets and projecting ending fund balances, we had counted on receiving this $180,000. Under the reinventing government program, the Health Department would be allowed to retain these funds, so to "hold the County harmless" we needed to take that money off the top, or in other words, budget much more closely to actual costs.

This meant doing things we had not done before like using a vacancy factor when budgeting salaries and benefits and reducing the general building maintenance accounts which typically were under spent. This caused some heartburn for department heads because although they seldom spent these built-in cushions, the knowledge that it was there offered a level of comfort during the year. To help ease their discomfort, we set up a special contingency under the control of the County Manager and designated it for unknowns in the Reinventing Departments.

From our financial analysis of how much these departments had turned back over the last five years, we had a good sense of where these cushions were, and we used the information to establish a brief policy stating what specific circumstances must exist before a Reinventing Department could go to the County Manager and ask for these contingency funds. Examples include: unexpected damage to a building, low nursing staff turnover in the Public Health Department, or an unusually high Countywide vacancy rate which would drive up the Human Resources Department's advertising outlays. These were events that had not happened in the last five years and were primary reasons these departments had turned back funds at the end of each year.

The new budget amounts were based on the Reinventing Departments' 1992/93 budgets. Then, from historic spending patterns, we made two adjustments to these amounts to arrive at a 1993/94 base budget. We called these modifications "Adjustment to Actual" and "Adjustment to Average Capital." The adjustment to actual would hopefully bring the budget more in line with actual expenditures and thus not affect the County's bottom line, yet provide a good base from which departments could carve out savings to keep. The adjustment to average capital was an increase or decrease based on whether the department had a high or low capital outlay in 1992/93 compared to the past five years. After these two one-time adjustments were made, we had a base budget to work with for 1993/94 and, in future years, we can simply use the prior year's budget as a base. The following chart shows how the actual numbers turned out.

	*County Manager	Human Resources	** Finance	**Emergency Services	Public Health	Library
1992/93 Budget	605,307	311,224	2,741,428	2,704,724	1,683,649	1,286,838
Adjust to 5yr Average						
Adjustment to Actual	(10,000)	(5,000)	(200,000)	(170,000)	(180,000)	(30,000)
Capital Adjustment	144	769	(360,425)	(34,468)	2,963	11,041
% Impact of Adj	-1.63%	-1.36%	-20.44%	-7.56%	-10.52%	-1.47%
1993/94 Base Budget	595,451	306,993	2,181,003	2,500,256	1,506,612	1,267,879

*County Manager includes Legal Services & Budget
** Finance includes Building & Grounds Maintenance, Vehicle Garage, & Purchasing
*** Emergency Services includes Ambulance Service, Fire Protection, Veterans' Services, & Animal Control

On top of the base budget we gave the departments two increases, one to cover Countywide COLA and benefit increases and another based on general revenue increases. The COLA increase averaged 2% and the revenue increase also came out to be 2%, so the pilot departments had a 4% increase to their base allotment and had a total dollar amount to achieve their outcomes.

Increased Authority and Flexibility

By budgeting a single allotment for the entire department and having no line item controls on those funds, typical budget bureaucracy such as transfer of funds was eliminated. The department head would have the authority to move funds wherever they were needed. Not only were the pilots relieved of line item controls, but they were also given the authority to create, delete, or move positions as they needed. Of course these authorities were ultimately controlled by the fact that they could not exceed their total department budget. They were also controlled by the outcomes they had agreed to achieve. What follows is the section of our budget ordinance which covers these issues.

Amendment to Procedures, Controls, and Authorities for Reinventing Departments

The following procedures, controls, and authorities shall apply to transfers, personnel, and adjustments within the budget for the Reinventing Departments, as determined by the County Manager:

A.   *As part of this process, the County's fund balance has been maintained by taking into account the average amount of unexpended funds turned back at the end of each year and reducing each Reinventing Department's allotment by that amount.*

B.   *The Board of Commissioners will appropriate funds for the Reinventing Departments based on approved outcomes to be achieved during the fiscal year.*

C.   *Department Heads are hereby authorized to transfer appropriations between activities or from special department contingencies under their jurisdiction.   Requests for transfers from the General Fund contingency must be approved by the County Manager.*

D.   *Department Heads within the Reinventing Departments are hereby authorized to reallocate existing positions between activities under their jurisdiction.*

E.   *Departments will be allowed to retain all unexpended allocations and/or revenues as defined by the County Manager.*

F.   *Reinventing Departments may create or abolish positions which impact the outcomes approved by the Board of Commissioners and within available revenues upon summary approval of the Board of Commissioners of the personnel change in the month of creation. Approval will come at the next regularly scheduled Board of Commissioners' meeting and will be attached and approved as part of the minutes.*

Encouraging Better Use of Resources

Once the budget was set, the departments would go into the year knowing they would be allowed to keep any funds they did not spend or any revenues they could collect over budget and, in essence, build their own fund balance. The underspending of funds is a straightforward incentive to save wherever possible and better use resources that can be reinvested in the department. On the other hand, the revenue side of the equation gives the departments an incentive to look for additional funding sources and to pursue enterprising services that could help support existing or new programs.

Changing the Focus to Outcomes

At the heart of reinventing is this fundamental trade-off of flexibility and authority for results and accountability. The outcomes that a department planned to achieve were critical because they would be held accountable for them. Accountability was achieved by writing adopted budget outcomes into employees' performance evaluations, and in particular, department heads evaluations would be closely tied to achieving results.

We knew that defining and measuring those results would not be easy, yet it would be central to the success of the entire program. We explored everything we could find from various cities and counties around the country who were into results or outcomes. The budget staff took pieces from the different approaches and put together a plan that defined an outcome and had a mechanism to help departments develop those outcomes.

The budget staff presented this plan to the department heads who had been involved in all of the reinventing government meetings. We quickly learned that from the 16 people in the meeting we had 16 different ideas of what an outcome was. The new budget process fell into a quagmire of outcomes, outputs, results, workloads, targets, etc. After more meetings and "back to the drawing board" sessions,

we decided to use the term "outcome" exclusively and developed a simple workbook to help departments identify outcomes for the coming year.

Five basic concepts served as a litmus test for an outcome:

1.   It must be specific and address the customers' needs.
2.   It must be measurable.
3.   It must be aggressive but attainable.
4.   It must be results oriented.
5.   It must be time bound.

To address the customers' needs we had to first identify the customers for every service we provide. Sometimes these customers were internal and sometimes they were external. Some activities serve more than one group of customers. We also found that we would have to use a lot of customer satisfaction surveys to gauge if we were really impacting the customer and if they were satisfied with our service or product. Making sure an outcome was measurable sometimes forced departments to start gathering and tracking information they hadn't used in the past, but in keeping with the spirit of streamlining the process, we consciously tried to keep "new paperwork" to a minimum.

To keep it attainable we sometimes had to abandon the "ultimate" outcome and settle for the outcome over which we have control. For example, the "ultimate" impact a cancer-screening program has on the customer is to decrease the number of people who die from or are impaired by cancer. The trouble with stating this as the outcome of a county cancer-screening program is that so many factors beyond your control will impact that number. You would also be faced with the monumental task of measuring such an outcome. In these cases we kept it simple by making a statement: "To increase the number of women, age 40 & above, from 138 to 218 who receive pap smears and breast exams." We knew that pap smears and breast exams are ways of detecting cancer early and getting treatment that is more likely to be successful. Therefore, we were satisfied with our outcome to increase those services based on the correlation between those services and the "ultimate" outcome of reducing cancer related deaths. We pushed departments to be aggressive with their outcomes and expected them to continually improve their outcomes and move closer and closer to the "ultimate" outcome of providing a service.

It is important that outcomes cover all activities and services because without line item justification, the outcomes themselves need to say to a citizen or Commissioner, "This is what you are getting for our $10.2 million investment in Social Services."

Examples of Fiscal Year 2013/14 Reinventing Outcomes:

County Manager
Effectively direct and supervise the administration of all County offices, departments, and agencies under the authority of the Board of Commissioners. County management will ensure that at least 90 percent of outcomes are achieved County-wide. (County-wide performance was 92 percent in Fiscal Year 2011/12.)

Cooperative Extension Service
Seventy-five individuals will adopt one or more environmentally sensitive landscaping practices as a result of participating in NC Cooperative Extension's educational programs. Programming will include composting, proper watering and fertilizing methods, erosion control, landscaping to encourage wildlife, conserving and protecting ground and surface water, and storm water management. Skills learned will reduce the negative impact of landscaping practices on the environment by minimizing soil and water contamination and improving environmental diversity.

Evaluation will be measured by success stories reported by clients, follow-up surveys, and evidence of practice adoption.

Library
To contribute to the local, state, and nationwide educational initiative focusing on increasing interest in science, technology, engineering, and math (STEM) oriented occupations, Main Library will support the STEM curriculum by offering at least six STEM interest programs throughout the fiscal year, where 70 percent of participants will report that their interest was piqued.

Human Resources
To enhance the recruitment process, Human Resources will develop and implement supplemental application questions to assist departments in selecting the most qualified and diverse applicants for interviews. Success will be measured by having 75 percent of hiring supervisors agreeing that the supplemental questions resulted in more qualified applicants being selected for interviews.

Social Services
To ensure the ongoing safety of children and to clearly identify specific safety concerns in children who are abused, neglected, or dependent, 90 percent (171 of 190) of families with findings or whose children have entered foster care, will identify behaviorally specific (Signs of Safety) statements and develop goals within 30 days of case decision regarding the cause, impact, risk and plan to keep their children safe during FY 2013-2014.

Simplifying and Streamlining the Budget Process

The elimination of line item justification and analysis obviously shredded the voluminous paperwork that had been the backbone of the budget process. The development and analysis of outcomes did fill some of the void left by the paper shredding, but it ended up only requiring about half the time and that time was much more productive because it focused people on customers and services instead of on numbers of positions, vehicles, etc.

While departments still used line items and entered numbers in the accounting system, the ability to move money and people as needed eliminated the entire transfer of funds procedure (a procedure that required a written report to be signed by four people) and the lengthy procedure needed to create a position during the year. At the time, the process was so streamlined that the budget staff was reduced by 33%; however, in the eighteen years since we started the reinventing process, we have experienced tremendous growth in Catawba County and in our budget. The budget staff currently consists of three permanent FTEs.

The Reinventing Departments were able to complete the biggest part of their budgets by mid March. This timetable was possible because the budget focused on services and outcomes, and there was no need to use the latest year-to-date figures because departments knew they could adjust their financial budget during the year as needed. The reinventing calendar also complemented the regular budget process because the heavy analysis and negotiations over non-reinventing budgets takes place in late March and April. This contributed to a fairly smooth budget process Countywide.

To monitor the achievement of their outcomes, departments developed measurement tools including customer surveys and pre- and post-tests. It also led to a new performance evaluation tool for all employees that is outcome driven and ties achievement of outcomes to performance.

21 Years Later...

Midway through the first year under Outcome Budgeting, we decided not to expand the process to all County departments as we had originally intended. Because services in county government are so diverse, we realized that we should not try to make one size fit all, but to be committed to at least two parallel budget processes. As such, two new departments (Social Services and Cooperative Extension) went to Outcome Budgeting and three of the original six Reinventing Departments (Public Health, Emergency Services, and Finance) went back to traditional budgeting. Public Health had not fully accepted the responsibility of writing results-oriented outcomes and therefore had to forfeit budget flexibility. Emergency Services was removed from reinventing in Fiscal Year 2002/03 as the County implemented a Public Safety strategic plan that resulted in increased investment and the need for more oversight. In Fiscal Year 2000/01, a decision was made to create a new department, Facilities. Facilities would include Fleet and Facility Maintenance which had previously been a part of Finance. With this change, Finance became a non-reinventing Department and Facilities joined the Reinventing process. In Fiscal Year 2003/04, due to severe budget cutbacks, the Facilities department was dissolved and once again became a non-reinventing department. There are currently five departments participating in reinventing: County Manager, Human Resources, Cooperative Extension, Social Services, and Library.

We have seen evidence of a more mission/outcome driven organization. In Fiscal Year 2011/12, the average success rate for all departments was 92%. Outcomes continue to be revised and improved each year as departments realize the merit in establishing measurable goals for their various program areas, allowing them to monitor improvement in the delivery of services from year to year. Departments have benefited from the ability to retain savings and use these funds to help them meet their outcomes or make improvements within their departments. Several departments have used funds for technology including upgrades and needed programming. Software for Human Resources, Payroll, and Finance was partially funded by departmental fund balances. Library fund balance paid the capital costs for the Conover Branch Library as well as increasing coverage to assist patrons at other branch libraries. Other enterprising efforts for the use of fund balance include: Building and Grounds contracted to maintain the building of a local non-profit organization; Social Services increased staff coverage to improve round-the-clock care at the Children's Group Homes; Human Resources improved employee recruitment by investing in an online application system that allows targeted skill related questions to improve applicant screening; and Risk Management purchased safer and more ergonomically correct furnishings.

The changes that have resulted from Catawba County's Outcome Budgeting have been widely embraced by the departments and also recognized through various awards and publications. Some of the changes include: a sliding scale for allowing departments to retain savings (below 70% achievement = 0%, 70% to 79% achievement = 60%, 80% to 89% achievement = 80%, 90% achievement or above = 100%); challenging departments by including the cost component as part of the outcome; identifying in the Budget Document those outcomes related to Board of Commissioners' goals; and requiring departments with fund balances greater than 8% to submit a written plan for the use of these funds. Savings have been generated that departments will carry over and use to achieve outcomes and enhance services. The County has been featured on a segment of the Government Services Television Network and in articles published in ICMA, Public Management Magazine, and County Lines. In 1994, we received the Ketner Award for Innovation.

We have unleashed the creativity of employees and have seen bottom up improvements in services and cost savings. There have been some lessons learned including the realization that Outcome Budgeting is not for every department and creating and tracking outcomes takes time and effort. We have also found that it is important that departments involved in Outcome Budgeting develop a spending plan for their fund balance. As departments continue to focus on their core mission and more effectively prioritize their present and future needs, we anticipate continued improvement in Catawba County's ability to thrive in a challenging and ever changing environment.

This information can be accessed on the Internet on Catawba County's home page as follows:

http://www.catawbacountync.gov/budget