

PUBLIC HEARING
ON
PERFORMANCE-BASED BUDGETING (PBB)

Before the
Committee on the Judiciary
Council of the District of Columbia

The Honorable Kathy Patterson, Chair

March 30, 2004, 9:00 a.m.
Council Chamber



Testimony of
Bert Molina
Deputy Chief Financial Officer
Office of Budget and Planning
Office of the Chief Financial Officer

Natwar M. Gandhi
Chief Financial Officer
Government of the District of Columbia

Good morning, Madam Chair and members of the committee. My name is Bert Molina, and I am the deputy chief financial officer for the Office of Budget and Planning (OBP). I am here today to testify on the District's performance-based budgeting (PBB) implementation. With me is Hyong Yi, director for operations and planning for OBP.

One of the biggest frustrations facing managers in the District is not having accurate and timely financial and performance information so that they can make informed management decisions about the programs they run. Over the past several years, with support from the Mayor and Council, the Office of the Chief Financial Officer has worked to provide managers with the tools to do exactly that.

Performance-based budgeting (PBB), as well as CFO\$ource and ARGUS, is a critical component of realizing this vision. In addition, PBB is part of the District's accountability cycle, used by the City Administrator to assess agency and agency director performance. It is also embodied in agency strategic business plans. Lastly, it is a critical component of the District's budgeting process, defining the budget structures around which agencies allocate their resources.

As you may realize, PBB is an important tool at the District's disposal to improve not just the quality of program budgets and performance measurement information, but more importantly management decision-making capacity. In this regard, PBB is one of many initiatives that the Office of Budget and Planning is implementing to understand better what we spend our money on and what we are getting in return in terms of results. However, once you incorporate it as part of the District's

overall budget and management processes, its value is even greater.

Currently, the Office of Budget and Planning is developing a new budget system, called ARGUS, which builds on the program, activity, and service structures of every agency. This same structure will serve as the basis for reporting agency performance results. ARGUS not only will improve the mechanics of performance reporting, but it also has functionality to assist agencies in managing performance, which is of even greater value. Likewise, CFO\$ource's management dashboard, a powerful financial and performance management tool, will draw from ARGUS and PBB for the data to provide accurate and real-time information so that managers can make more informed financial and program decisions.

Individually, each initiative can have an impact on the District's management of its financial resources. Collectively, the significance of each is greatly magnified. While we still have a long way to go, we have made significant progress in developing a program and budget structure that more accurately reflects the work that agencies do, and more closely links the funding of programs to the results that they yield. This helps us to more accurately assess the value being generated by these programs. While this transition is not yet complete, these are important steps in the District's evolution to a world-class budget operation.

Service-level budgeting, benchmarking, and program cost driver analysis are three other important tools that we are exploring to assist us in this evolution. While there are many operational challenges in implementing these initiatives, these are important tools that, if used properly, can help the District's elected officials make more informed decisions regarding funding levels based on performance results, and can help program managers to make more informed management decisions to

maximize the value of their funds and determine where opportunities for improvement exist.

In conclusion, I want to emphasize three points about PBB. First, it is a fundamental component of the OCFO's vision for improving financial and performance management in the District of Columbia. I believe that we are well on our way to successfully completing the transition of all agencies to PBB in the District. Second, whether alone or in conjunction with ARGUS and CFO\$ource, PBB is not a magic bullet. By itself, it will not reduce spending pressures or improve service delivery. It provides a roadmap for agencies and agency staff to follow to improve key performance results, and managers must manage effectively to achieve these results. PBB only provides a framework in which that can occur. Finally, it is an accountability tool both from a budgetary and performance perspective that brings transparency to government. I am confident that the successful implementation of these initiatives will improve how the District budgets for and assesses program results.

Thank you, Madam Chair. I am available to answer questions.

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Good morning, Madame Chair and members of the committee. My name is Hyong Yi, and I am the director of operations and planning for the Office of Budget and Planning. I am pleased to be able to testify before this committee on the work that we have done in implementing Performance-Based Budgeting (PBB) in the District of Columbia.

Today, I would like to highlight some of our accomplishments, as well as the challenges that lie ahead. In addition, PBB is an important component of the Office of Budget and Planning's budget system implementation. I would like to discuss how PBB and ARGUS, the new budget system, improve the District's budgeting capabilities and provide the Mayor and Council with better information on which to make informed management decisions.

Background

PBB starts not with the budget, but with the programs. As the first step in the budgeting process before any budgeting is done, the Office of Budget and Planning works with agencies to draft agency strategic business plans. These plans outline the program structures for the agencies, as well as link funding to key result measures. OBP staff work with agency program and financial staffs to develop these structures, and, in turn, these structures serve as the basis for agency PBB budgets.

Accomplishments to Date

During the past three years, we have accomplished the following:

- Transitioned a total of 57 agencies, representing more than 60 percent of the

budget. (The attachment at the end of this testimony lists the agencies and the year in which they were transitioned.) In FY 2003, we transitioned an initial group of seven agencies. In FY 2004, we transitioned an additional 26. For the FY 2005 Budget and Financial Plan, we transitioned another 24.

- In the FY 2005 Budget and Financial Plan, you will see the results of this transition. PBB agency narratives show a great deal of information by program and activity, including funding, FTE levels, program and activity descriptions, and performance measures.
- Developed benchmarks for 39 programs in 18 agencies, including public safety, health and human services, public works, and government operations. This process is another step in understanding our performance.
- Working with appropriate agency financial personnel, developed service-level budgets for 20 services in five agencies. (Both the agency benchmarks and service-level budgets are in the Special Studies volume, also new for this year.)

In addition, we've developed a strategic partnership with the Office of the City Administrator to work with agencies to institutionalize the transformation of how we approach budgeting and performance management in the District. Through the Performance Management Council, which consists of performance management representatives from all PBB agencies, we work with agencies to communicate and collaborate on how to improve our PBB processes.

Next Steps for PBB

While we have accomplished much, there is still a great deal of work ahead. Some

of the major remaining activities include:

- Transitioning the remaining 16 agencies, including the District Council, to PBB format. We plan to transition these agencies this summer for the FY 2006 budget cycle;
- Extending the benchmarking initiative to include more programs;
- Refining agency key result measures to more explicitly develop the relationships between result, output, demand, and efficiency measures for migration to ARGUS: Scorecard, the performance management module of the new budget system. An added benefit of this is that we will be able to more closely link program/activity budgets with specific outputs so that we can calculate efficiency measures; and
- Developing a standard methodology for service-level budgeting that can be applied to agencies, programs, and activities.

Service-level budgeting

As you know, the Council mandated the inclusion of 20 service-level budget items in the Mayor's proposed FY 2005 budget. We have worked with the agencies to develop this information. It is worth noting that in the 57 existing PBB agencies, there are 224 programs. In these 224 programs, there are 1, 256 activities. In these activities, there are 12,602 services.

Building service-level budgets for these 12,602 services would be a daunting enough task, but the complexity of this task is multiplied by the number of different perspectives: fund types, object classes, revenues, and FTEs. All of these take work to calculate and bring the total number of accounts above 500,000.

Service-level budgeting, if used selectively, can add a great deal of value to the work that is being performed, as well as help to inform the decision-making of the executive and legislative branches. As we continue with the implementation of service-level budgeting, we would recommend developing such budgets for key services only, not all services. To identify key District services in FY 2006, we suggest the following criteria:

- Dollar threshold – The service should be important and have a substantial budget. Working with the Council, we can establish a minimum dollar threshold rather than spending effort on services with few dollars. We would want to focus on services most important to District residents and stakeholders.
- Policy significance – Focus on policy areas of significance, as agreed to by the Mayor and Council.

Conclusion

With budget and management tools, such as ARGUS, and processes, such as PBB, not only will decision-makers have better information on which to make policy and resource allocation decisions, but agency service providers will also have 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.

Attachment 1 : PBB Agencies by Implementation Year

FY 2003 – Phase I

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

FY 2004 – Phase II

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

FY 2005 – Phase III

- Office of the Secretary
- National Guard
- Commission on Judicial Disabilities and Tenure
- Office of Citizen Complaint Review
- Judicial Nomination Commission
- Office on Latino Affairs
- Asian and Pacific Islander Affairs
- D.C. Lottery and Charity Games Board
- University of the District of Columbia
- Customer Service Operations
- Corrections Information Council
- D.C. Advisory Commission on Sentencing
- Criminal Justice Coordinating Council
- D.C. Energy Office
- Office of Veteran Affairs
- D.C. Taxicab Commission
- D.C. Public Library
- Office of the People's Counsel

- Public Service Commission
- Alcohol and Beverage Regulation Administration
- Office of Motion Picture and Television Development

- Office of Zoning
- Board of Real Property Assessments and Appeals
- Office of Local Business Development

FY 2006 – Phase IV

- Council of the District of Columbia
- Advisory Neighborhood Commissions
- Contract Appeals Board
- Office of Campaign Finance
- Office of Employee Appeals
- Office of Administrative Hearings
- Forensic Health and Science Laboratory
- D.C. Public Schools

- Office of the D.C. Auditor
- Human Resources Development
- Board of Elections & Ethics
- Public Employee Relations Board
- Office of the Inspector General
- D.C. Office of Risk Management
- Office of Finance and Resource Management