



OPERATIONS

Priority-based Budgeting

Research reveals which governments can best benefit

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Priority-based budgeting (PBB) marks the latest attempt to revamp how local governments allocate their dollars among their departments. Implemented in over 300 municipalities across North America, PBB is designed to identify an organization's service-delivery programs and their associated costs, determine organizational priorities, rate the programs according to their alignment with said priorities and then reallocate budgetary resources from lower-priority programs to the higher priority ones.

PBB has been advertised as a budget reduction tool and a strategic alternative to align resources with organizational goals. For these reasons, PBB has been recognized by the

International City/County Management Association (ICCMA) as a leading practice and as a best practice by the **Government Finance Officers Association (GFOA)** and the **National League of Cities (NLC)**.

Does PBB fulfill its promise? A team of **University of Central Florida (UCF)** public budgeting scholars has partnered with **ResourceX**, the leading PBB consulting firm, to examine the departmental budgetary trends within 32 U.S. local governments that were among the earliest PBB adopters. Overall, the study determined that PBB led to a 2.4% reduction in funding for programs in the lowest quartile of priority while all others received a 2.2% budgetary increase. For the average local government

in the study, this difference translated to a \$900,000 transfer of funds within a \$73 million budget. While this level of reallocation is significant, it must be considered against the substantial upfront organizational burden to identify program costs and organizational priorities, which leaves some to question whether this level of reallocation is worth all the work.

However, further research indicated that PBB might work in some communities better than others. For instance, the more politically conservative communities in the study witnessed a 10.2% reduction in funding for their lowest-priority programs, almost 8% more than average. Those local governments that received the most federal and state assistance saw an 8% reduction for lower-priority programs. Communities with a smaller population, more affluence or less racial diversity each produced approximately 5% reductions. Interestingly, in all of these cases, there was not a fully corresponding increase for higher-priority programs, which means the reallocated funds were put toward capital projects, put toward organizational reserves or used to address budgetary deficits. Additional research is necessary to understand this dynamic better.

Likewise, the research indicates that PBB disproportionately impacts some municipal functions while others are largely exempt from the process. Core functions such as public safety and public works did not see significant budgetary reductions in their lower-priority programs, but the budget for higher-priority programs in these departments largely remained static as well. For these functions, broader factors such as shifts in community population, politics, income and age tended to drive budgetary changes. However, the more discretionary functions such as planning and development, quality of life and general administration encountered relatively deep cuts to their lower-priority programs, ranging from 4-6%. Higher-priority programs in these departments correspondingly received 1-4% budgetary increases, indicating that the logic behind PBB rings truer for discretionary functions.

Taken together, these findings indicate that PBB is not a “silver bullet” to slash budgets, align dollars with goals or achieve strategic objectives, because that silver bullet does not exist. However, it has proven to be a useful budgetary tool, especially in particular contexts. PBB appears to be most effective in more homogenous, resource-rich environments where budgetary conflict is less prevalent. Additionally, PBB looks to be more impactful for marginal, discretionary functions, working at the edges of government without threatening core services. Thus, while implementing PBB may not single-handedly eliminate a substantial structural budget deficit or overcome diverse and deep community divisions, the system can streamline municipal functions and free up significant funds to be reoriented toward organizational priorities. Local governments that find this appealing should also weigh these benefits against the often substantial organizational burden to implement PBB.

More and more local governments implement PBB each year and generate impressive success stories that indicate a staying power for the budgetary approach beyond the typical “management fad.” However, a savvy municipal leader recognizes that even the most effective tools work best only in certain contexts. Do you wish to overcome a fractious and divisive budgetary fight,

Priority-based Budgeting

LEADS TO:

↓ 2.4%

decrease in budget for low-priority programs

↑ 2.2%

increase in budget for high-priority programs

GREATER EFFECT:

▶ In communities that are:



Smaller



More affluent



More politically conservative



Less diverse

▶ On discretionary services

Source: University of Central Florida and ResourceX

dramatically revamp the organizational budget or implement PBB without sufficient fiscal and administrative capacity? PBB may not be for your organization. Do you wish to engage the community collaboratively to streamline government, make measured investment toward community goals and have sufficient capacity to implement? In this case, research has demonstrated that priority-based budgeting can make the difference in your organization achieving these budgetary and strategic goals.

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