

***Performance-Based Budgeting for
North Carolina Public Transportation
Systems***

Final Report

Prepared for the

**North Carolina Department of Transportation
Public Transportation Division**

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<p>16. Abstract</p> <p>The North Carolina Department of Transportation, Public Transportation Division (NCDOT/PTD) intends to take performance measurement and benchmarking at NC public transportation systems to the next level—performance-based budgeting (PBB). This intention is driven by the Division's goal to continuously improve the performance of these transit systems and to help direct public funding toward programs and services that best achieve desired results. In addition, NCDOT/PTD's goal is to provide good stewardship of local, state and federal public funding dollars.</p> <p>PBB is a management and budgeting system used by many state, county and local governments as well as by the federal government to link budgetary decision making with performance. It is designed to integrate the allocation of budget resources with the achievement of agency goals and objectives based on measurable performance results.</p> <p>The objectives of this study were to:</p> <ul style="list-style-type: none"> • Extend the concept of performance measurement and benchmarking into transit agency budgeting practices. • Evaluate the use of PBB in various public transportation and governmental agencies. • Develop a PBB process for use by the public transportation agencies in North Carolina. • Produce a guidebook to help the agencies conduct performance-based budgeting. <p>Anticipated benefits from the use of PBB include:</p> <ul style="list-style-type: none"> • A closer linkage between agency goals and objectives, performance, and budgetary decision making and resource allocation. • Enhanced ability to improve individual transit system performance. • Increased accountability for the use of public funds. <p>Interested readers are also referred to a separate document, an accompanying <i>Performance-Based Budgeting Guidebook</i>, for detailed information about a recommended approach and process for implementing PBB.</p>			
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Executive Summary

Introduction

The North Carolina Department of Transportation, Public Transportation Division (NCDOT/PTD) intends to take performance measurement and benchmarking at North Carolina public transportation systems to the next level—performance-based budgeting (PBB). This intention is driven by the Division’s goal to continuously improve the performance of these transit systems and to help direct public funding toward programs and services that best achieve desired results. In addition, the NCDOT/PTD’s goal is to provide good stewardship of local, state and federal public funding dollars.

The objectives of this study were to:

- Extend the concept of performance measurement and benchmarking into transit agency budgeting practices.
- Evaluate the use of PBB in various public transportation and governmental agencies.
- Develop a PBB process for use by the public transportation agencies in North Carolina.
- Produce a guidebook to help the agencies conduct performance-based budgeting.

Anticipated benefits from the use of PBB include:

- A closer linkage between agency goals and objectives, performance, and budgetary decision making and resource allocation.
- Enhanced ability to improve individual transit system performance.
- Increased accountability for the use of public funds.

Literature Review

PBB is described as a management and budgeting system used by many state, county and local governments as well as by the federal government to link budgetary decision making with performance. It is designed to integrate the allocation of budget resources with the achievement of agency goals and objectives based on measurable performance results.

A number of conclusions emerged from the literature review:

- PBB is widely practiced at all levels of government—local, state and federal.
- PBB has a clear potential to produce important organizational benefits such as creating a more rational allocation of scarce resources through improved budget decision making, more closely aligning budgets with strategic plans and organizational goals, and providing increased accountability both internally and externally. However, its experience in reducing costs is mixed. While some organizations have achieved overall cost savings by using PBB, many others have not. It should therefore more realistically be viewed in the context of its many other benefits, not as a method for cutting bottom-line costs. Its effect is more likely to be a shifting of scarce resources to higher-priority or higher-performing uses.

- Like budgeting itself, PBB is both an art and a science. While it involves numbers, facts, mathematics, well-developed accounting and financial reporting systems, and computer software, it also involves judgments, assumptions, estimates, projections, guesses and “politics.” Although it seems both logical and desirable to use performance as a basis for budgetary decisions, performance will never be the only determinant. Many other “influences” will exist, including the capability of staff to collect and analyze performance information, external influences such as from local elected officials or legislative mandates, or simply the inertia of doing things the way they’ve always been done. As stated by Kelly and Rivenbark:

“Performance budgeting is a budget preparation and adoption process that emphasizes *performance management*, allowing allocation decisions to be made *in part* on the efficiency and effectiveness of service delivery.”

They go on to state that performance budgeting does not “determine” where budget dollars are allocated. Instead it “expands managerial capacity in the organization. It unifies the two dimensions of accountability that pertain to public services in a way that enhances productivity and encourages innovation without sacrificing political accountability. When operational accountability and financial accountability are separated, the organization suffers.”

- In order to produce real benefits, PBB has to be treated as more than simply adding some performance data or measures to the budget document (what some observers have referred to as “window dressing”). It needs to become part of an integrated planning, performance measurement, and budgeting system. As noted by Kelly and Rivenbark:

“Performance budgeting is not a stand-alone system but the logical and appropriate extension of the collection, auditing, and reporting of the performance information that every public manager needs to make good decisions.”

- It should be realized that performance budgeting is not a cure-all for fundamental managerial, organizational or financial problems. However, it can provide significant benefits if it is implemented in a comprehensive way with thoughtful, careful planning.

Case Studies

The study included five case studies of agencies that use some form of “performance-based budgeting.” These agencies, and a brief summary of their budgeting approach, are listed below:

1. AC Transit (Oakland, CA). AC Transit only recently embarked on the implementation of a performance-based budgeting process, a consequence of the long-term implementation plan of their Critical Business Outcomes-based strategic management model.

2. Catawba County. Catawba County uses a “hybrid” budgeting approach that includes both a traditional line item budget for some departments, and an approach that provides more managerial flexibility for “reinventing” departments. (The latter approach was inspired by the 1992 book *Reinventing Government*.)
3. Charlotte/Charlotte Area Transit System (CATS). Charlotte/CATS uses a relatively unique budgeting approach that includes the “balanced scorecard” concept. This concept encourages organizations to use four different “perspectives” in budget development:
 - Customer needs
 - Financial viability
 - Efficient and effective resource utilization
 - Internal learning and growth
4. City of Hickory. Hickory not only uses performance measures as an integral part of its budgeting process, it also “benchmarks” its performance on many city services against other NC municipalities.
5. Triangle Transit Authority (TTA). TTA has significantly restructured its budgeting process in recent years in order to ensure that the budget is much more closely “aligned” with its goals and objectives. Each department develops its own mission and associated goals. The goals are, wherever possible, “quantifiable and measurable.”

Analysis of the Planning, Accounting, Budgeting and Performance Measurement Systems of NC Public Transportation Systems

In order to better understand how North Carolina public transportation systems currently plan and budget, interviews were conducted with individuals from six representative transit agencies as well as from the NCDOT/PTD about their planning, accounting, budgeting and performance measurement systems. In addition, various materials and documents were obtained and reviewed. Following is a summary of the questions that were explored.

Are Planning or Goal-Setting Processes Used to Set a Direction at the Beginning of Each Year?

There was a mixture of practices on this. Some transit system representatives described their planning/goal-setting/budgeting method as an integrated, continuous process of looking at needs, issues, problems, performance and finances, and then developing a budget accordingly. Others basically start with the current budget, determine if any additional funds will be available for new service, and then develop the budget for the following year.

Do the Plans or Goals Include any Performance Measures?

All of the transit systems consider performance in some manner. In particular, typical factors such as ridership and cost of service are commonly analyzed. Only a few systems use the more difficult and complex efficiency and effectiveness measures.

Are the Plans or Goals Linked to the Budgeting Process?

For the most part, those transit systems that conduct some kind of planning or goal-setting process before beginning the budget cycle use those plans and goals to formally or informally influence the budget development process.

Does the Budget Document Include Any Performance Measures?

None of the transit systems appear to incorporate any performance measures in their budget documents.

What Accounting System is Used?

Some of the transit systems use the NCDOT/PTD's Uniform Public Transportation Accounting System (UPTAS). Some of the systems use the MUNIS financial system utilized by many counties and municipalities, and then make manual adjustments as needed when submitting information to the NCDOT/PTD. One transit system that is a unit of a larger non-profit agency uses the accounting system of that agency.

What Kind of Performance Reporting is Performed During the Budget Year?

Most of the monthly, quarterly or annual reporting involves only financial performance. Some reporting includes other performance information but it tends to be in the form of "outputs" such as ridership, service miles, etc., or information about such items as customer complaints and safety data.

Conclusions

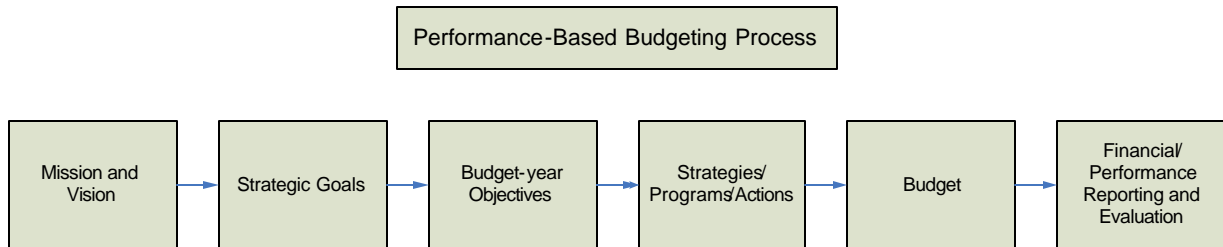
In addition to the conclusions described under the literature review above, a number of other conclusions emerged from the study:

- North Carolina transit systems use a variety of planning, goal-setting, performance measurement, budgeting and accounting systems and practices. They are also of greatly different size, are either urban or rural in nature, and may be a unit of city or county government. They also may be a public transportation authority or a non-profit agency. Finally, they may operate service directly, or through a contract operator. This suggests that a performance-based budgeting process designed for public transportation systems throughout the state will have to be adaptable to a great variety of system types and sizes.

- Few transit systems in North Carolina use formal performance-based budgeting. In fact, this study only identified two systems that use some form of it—CATS in Charlotte and the Triangle Transit Authority. This is not to say that it is not used by any other systems, only that the researchers were unable to locate any. Nor is it to say that only CATS and TTA use performance in their various management, planning and budgeting activities. Many if not all transit systems use performance in some way, formally or informally, as part of their ongoing management and operation of the systems.
- There is a “next level” of PBB that would involve realigning accounting and financial reporting systems with the programs and services that are the focus of performance measurement. This could even involve combining PBB with “program budgeting,” the creation of accounting and financial reporting structures that allow information to be collected and aggregated across departmental boundaries. This is generally a substantial undertaking and may be appropriate for the larger, more complex transit systems after they have gained some experience with PBB. It is probably not a level that would be either necessary or feasible at smaller systems with limited staff and resources.
- Finally, performance budgeting should be looked at as a *process*, not a new budget format. A performance-based budget may not look significantly different than a traditional line item budget; however, the process to develop the budget will be informed by the organization’s performance.

Recommended Approach

An approach for implementing PBB is recommended. The simplified and conceptual diagram below shows a proposed series of steps for an effective PBB process.



These steps are briefly explained below:

1. Create a mission statement and vision statement for the organization (or review the existing ones).
2. Develop long-term strategic goals that are “aligned” with the mission and vision.
3. For each strategic goal, develop more detailed and specific budget-year objectives for the upcoming budget year. These should include performance measures that will help gauge whether the objectives are being achieved.

4. Decide on the strategies, programs and/or actions that will be necessary to achieve the budget-year objectives.
5. Estimate the costs of the strategies, programs and actions and incorporate these costs in the proposed budget.
6. Once the budget year has started, report and monitor actual results (both financial and performance). If the results are not in line with what was expected or planned, make adjustments as necessary.

In developing the vision, mission and strategic goals, consideration should be given to the statewide vision and goals of the NC Department of Transportation.

Introduction

The North Carolina Department of Transportation, Public Transportation Division (NCDOT/PTD) intends to take performance measurement and benchmarking at North Carolina public transportation systems to the next level—performance-based budgeting (PBB). This intention is driven by the Division’s goal to continuously improve the performance of these transit systems and to help direct public funding toward programs and services that best achieve desired results. In addition, NCDOT/PTD’s goal is to provide good stewardship of local, state and federal public funding dollars.

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- Increased accountability for the use of public funds.

This remainder of the report includes the following sections:

- Literature Review
- Case Studies
- Analysis of North Carolina Transit Agency Goal-setting, Performance Measurement, Budgeting and Accounting Systems
- Conclusions
- Recommended Methodology

The reader is also referred to a separate document, an accompanying *Performance-Based Budgeting Guidebook*, for detailed information about a recommended approach and process for implementing PBB.

Literature Review

This section provides information from the literature on the following topics:

- Definitions and purposes of Performance-Based Budgeting;
- Benefits realized from the use of Performance-Based Budgeting;
- General usage;
- Performance-Based Budgeting in North Carolina;
- Performance-Based Budgeting methodology;
- Key considerations in the implementation of a Performance-Based Budgeting system;
- Challenges faced when implementing a Performance-Based Budgeting system;
- Misconceptions about Performance-Based Budgeting; and
- Conclusions.

Definition and Purpose

There are many definitions of Performance-Based Budgeting (often simply referred to as Performance Budgeting). One good definition is as follows:

“Performance budgeting is a system of planning, budgeting and evaluation that emphasizes the relationship between money budgeted and results expected.” (Government of Alberta)

Another definition is:

“Performance budgeting is a budget preparation and adoption process that emphasizes *performance management*, allowing allocation decisions to be made *in part* on the efficiency and effectiveness of service delivery” (Kelly and Rivenbark, p.4).

The Reason Public Policy Institute provides still another definition, somewhat more complex:

“Performance budgeting is an exercise that ‘costs out’ various activities that attempt to achieve an end outcome. It enables the correlation of results to expenditures. There are three components of performance budgeting: the result (end outcome), the strategy (ways to achieve the end outcome), and activity/outputs (what is actually done in order to achieve the end outcome). Performance budgeting establishes a link between the rationales for specific activities and the end outcome results.” (Segal and Summers, p. 4)

Traditional line item budgets focus on inputs, e.g., labor, materials and supplies, contractual expenses, etc. They were originally developed as a way of better controlling costs by identifying the amount of inputs required to provide various products or services. Correspondingly, the historical orientation of most budgeting processes has been on controlling expenses, particularly in the public sector. This remains true for many current budgeting processes as well.

The general purpose of Performance-based Budgeting (PBB) is to reorient the budget process away from a focus on inputs and towards a focus on service delivery and performance. It is intended to more closely link decisions about resource allocation with results. PBB is also intended to provide more information to public officials and citizens about what they are getting for their money. As stated by Young (2003, pp.12-13), "...many experts in public finance believe that the cardinal aim of PBB is accountability. Performance information and data used in budgeting holds public officials, especially program managers, accountable for service quality, cost-efficiency, and program effectiveness."

It is important to note that line item budgeting and PBB are not mutually exclusive. In fact, PBB is consistent with and most appropriately builds on the foundation of the existing line item format. (Kelly and Rivenbark, pp.8, 44) This makes sense on at least two levels. First, the inputs represented by budget line items are quite useful in PBB. Among other things, they are often the basis for subsequent efficiency and effectiveness measures. Second, retaining the existing line items as the basis for PBB causes the least disruption to current budgeting and financial reporting systems, thereby making implementation of PBB that much easier. *PBB should be looked at as an extension of line item budgeting, not as a replacement.*

PBB is not a new or different budgeting format; it builds on line item budgeting and can also be used in connection with "program budgeting." Also, PBB should not be considered to be a new approach to budget presentation, in which performance measures are simply added to the budget document to make it look more professional. As Kelly and Rivenbark note (p. 48), "performance is not the only relevant factor in budget preparation. Political mandates, fiscal constraints, and prior year budget decisions also play important roles in allocation decisions. A commitment to performance budgeting requires only that performance is part of the deliberation process for making allocation decisions, along with the political, fiscal, and legal demands present in every state and local government budgeting process."

Benefits

A number of benefits of performance budgeting have been identified by various authors. Kelly and Rivenbark cite four key benefits (pp.11-12):

- Performance budgeting can align service priorities and service spending (by making the connection between organizational priorities and the budget process more explicit and formal).
- Performance budgeting can add an information dimension to budget deliberations.
- Performance budgeting can motivate program managers and employees by recording their progress toward service delivery goals.
- Performance budgeting can help demonstrate to citizens that their public service providers are interested in improving service quality.

John Mercer, who has done a great deal of work helping to implement PBB at the federal level, has defined the following potential benefits from its use (2002, pp.7-8).

- *Provides a valuable diagnostic tool.* It assists in better understanding the relationship between resources applied and performance achieved.
- *Helps to justify the budget.* It helps decision-makers by providing greater transparency in regard to a program's operational performance.
- *Serves as the foundation for a comprehensive performance management system.* Done within the context of an agency-wide strategic plan, it can provide management with a starting point for monitoring organizational performance.
- *Provides comparative unit costs.* Unit costs can be very useful in benchmarking and best practices methodologies.

Richard Young describes a number of related benefits (p.21):

- Provides accountability to the public.
- Drives redesign of programs (focuses on improvement).
- Helps agencies link their daily activities to overall governmental outcomes and similar activities of other agencies.
- Helps align spending with overall goals.
- Compares cost effectiveness between programs.

In general, most of the above benefits have been realized at least to some degree by organizations that have implemented PBB. Note, however, that none of the above benefits include cost savings. Here the results are more mixed. While some cost savings have undoubtedly been realized, more often they have not. One study of the use of PBB by states found that while state spending decreased by at least two percentage points for states using PBB (as measured by spending per capita), not all programs were affected equally—some budget categories experienced spending increases. (Crain, p.167) Often, it is simply not possible to determine cause and effect—there are too many other variables involved. It makes more sense to look at PBB as a way of encouraging the allocation of funds to higher priority or better performing uses rather than as a way to cut overall costs.

General Usage

PBB is widely used in government at the federal, state and local level. At the federal level, the first formal effort to enact performance budgeting was when the Congress mandated its use for the newly-formed Department of Defense in 1949 (National Security Act of 1949), and passed the Budget and Accounting Procedures Act of 1950. These Acts were subsequently reinforced by the Hoover Commission's Report on Budget and Accounting in 1956 which called for the strengthening of the management review and budgeting functions of the Bureau of the Budget.

PBB has been used in various forms by federal agencies since that time. It was given significant impetus by the Government Performance and Results Act (GPRA) of 1993, and it became one of the keystones of Vice President Gore's efforts to improve the performance of government via the National Performance Review initiative (which subsequently became the National Partnership for Reinventing Government).

More recently, President George W. Bush incorporated the principles of PBB as part of his President's Management Agenda, the agenda's Budget and Performance Integration initiative, and the Program Assessment Rating Tool (PART) used by the Office of Management and Budget (OMB). (This tool is currently used extensively by the U.S. Department of Transportation for its budget submissions to OMB and Congress.) (U.S. Department of Transportation)

At the state level, a 1998 study found that 47 of the 50 states practice some form of PBB. (Melkers and Willoughby, 1998, p.67) Thirty-one of these states were required to do so by state legislation, and 16 states instituted it administratively. (At the time of this study, North Carolina was one of the states that mandated PBB through legislation. However, as described in more detail below, the General Assembly repealed this requirement in 2001 due to a state fiscal crisis. It is being administratively reinstated by the state's budget office in 2006.) By 2004, a follow-up study revealed that all 50 states had either a legislated or administrative PBB requirement (33 and 17 states respectively). (Melkers and Willoughby, 2004, p.12)

At the local level, numerous municipalities and counties have implemented PBB, far too many to try to describe here. However, a few North Carolina examples are included in the section on PBB in North Carolina below.

Although PBB has largely been a creature of the public sector, the private sector has begun to recognize the need for it as well. As Peter Drucker, the well-known management guru noted in a 1993 article in *The Wall Street Journal*:

“Managements need budgets that relate proposed expenditures to future results but also provide follow-up information that shows if promised results have actually been achieved.”

Performance-Based Budgeting in North Carolina

Performance-based budgeting, instituted at the state level in the mid-1990s by the North Carolina General Assembly, was repealed by the General Assembly in 2001 when the state fiscal crisis forced the state to cut the performance planning section of the budget office. In 2006, it was reinstated by the Office of State Budget and Management (OSBM) for the Fiscal Year (FY) 2007-2009 state budget (the name has been changed to “Results-Based Budgeting”).

OSBM articulated several goals for the implementation of Results-Based Budgeting:

- **Improve the public's and decision makers' understanding of agency missions, goals, activities, impacts, and funding** by integrating fiscal information, results indicators, and descriptions of government services, and by improving the analytical content, graphics, and readability of budget documents.
- **Improve the clarity, consistency, and analysis of budget requests** by collecting standardized supporting documentation, including measurable indicators.
- **Relate expansion budget requests directly to the governor's agenda and to departmental goals**, as appropriate.

- **Enable analysis of effectiveness** in order to improve funding, planning, and management decisions. (Office of State Management and Budget, p.3).

Clearly, these goals would apply to most PBB systems. In future years, OSBM has plans to link this process more closely with best practices in strategic planning.

At the municipal and county level, there have been several efforts to implement PBB. A few of these are summarized below.

Catawba County

As part of an effort to reward departments and managers that are both accountable and effective, Catawba County developed a system that gives them greater managerial flexibility. In 1993, as part of the budget process, departments were given the option to volunteer for the opportunity to gain greater budget flexibility. This meant that they had to provide with their budget requests a description of what they intended to accomplish and what performance levels they expected to achieve in the next budget year. In return, they were given the flexibility to:

- Shift funds between line items in order to meet service demands.
- Create, eliminate or reassign positions within their approved budgets.
- Carry over unused funds to the next fiscal year for capital purchases.

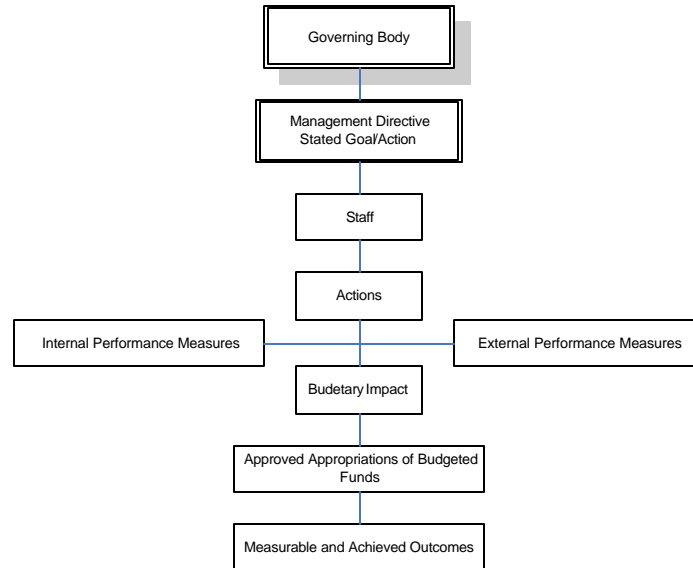
In subsequent years, the departments used carryover funds for various purposes including development of workshops on customer service, improvements to the county library, and purchase of a 15-passenger van for a 4-H summer program. (Rivenbark and Ammons, p.14-15)

Davidson County

Catawba's County's experience led to a similar effort in nearby Davidson County that began in 2001. Managers who achieve their performance objectives and remain within their overall budget are given increased flexibility very similar to that in Catawba County, i.e. the ability to shift funds, hire part-time or temporary workers, and carry over funds. Interesting features of the Davidson effort include the involvement of the County Board in the setting of key operating objectives, and the preparation by the Budget Director of an annual performance "scorecard" for the County Commissioners and the citizens of the County. (Rivenbark and Ammons, pp.16-19)

City of Hickory

The City of Hickory has implemented a comprehensive performance management approach that makes "performance the primary focal point for the basic functions of management, including planning, organizing, staffing, budgeting, and evaluation." (Kelly and Rivenbark, pp.71, 75) The process is depicted in the figure on the following page (Berry):



Of interest, the external performance measures include a benchmarking process with other similar government units.

Performance-Based Budgeting Methodology

Most observers believe that an important aspect of PBB is that it starts with the setting of organizational and departmental goals and objectives. This might be through a strategic planning process, or simply through an annual goal-setting process by an organization’s board and management. The first step is the setting of broad organizational goals. More specific objectives are then developed that support the goals, and this process is cascaded through the organization’s departments and units. The next step is to attach performance measures or indicators to the goals and objectives so that performance can be assessed. Budgets are then developed that are linked to the goals and objectives.

Another PBB process, slightly different, is described as follows:

“First, PBB sets a goal, or a set of goals, to which monies are ‘connected,’ i.e. allocated. From these goals, specific objectives are delineated and funds are then subdivided among them. Second, PBB provides information and data on past performance and thereby proceeds to allow for meaningful comparisons between ‘expected’ and ‘actual’ progress. Third, adjustments to programs are made either at this point or during a future budget preparation cycle to close any performance gaps that may exist. Fourth, as an ancillary yet important characteristic, PBB provides an opportunity for regular (or ad hoc) program evaluations. When utilized, these evaluations are valuable in that they give independent and verifiable information to budget decision-makers and program managers alike.” (Young, p.12)

Most practitioners of PBB regard strategic planning as its beginning point. For example, in its instructions to federal agencies for FY 2005, the federal Office of Management and Budget stated:

“[Strategic plans] are to be considered the template for an integrated ‘performance budget’ for 2005. The annual performance plan and the budget justification will become an integrated document organized by strategic plan goals. For each goal, the plan analyzes the relationships from goal to outcomes to programmatic effects on outcomes to resource requests...”
 (Mercer, 2003, p.5)

There are a wide variety of structures and terms used to move from strategic plan or agency-wide goals to more specific objectives, performance measures and budgets. For example, Mercer suggests the following structure for developing strategic plan goals and objectives (2003, p.6):

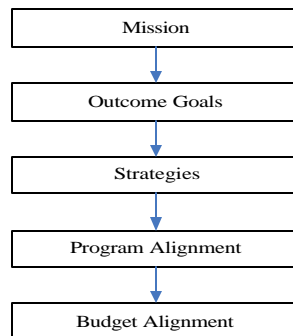
- Strategic Goal 1 (broad, long-term goal)
 - Strategic Objective 1.1 (more specific, shorter-term objective)
 - Strategic Performance Goal 1.1.1 (performance goal relating to the objective and including a performance measure and target)
- Etc., etc.

An example of these, for a public environmental safety agency, is:

- Strategic Goal 1: The public will be protected from unsafe practices that pose serious threats to their local environment.
 - Strategic Objective 1.1. Local communities will be assured of the safe and proper handling of dangerous toxic chemicals.
 - Strategic Performance Goal 1.1.1. By FY 2008, achieve a reduction of 24% from the 2005 baseline in the number of adverse incidents designated as “serious” in the transportation and storage of Class A1 and A2 toxic chemicals.

Another approach uses the following “strategic management model.”

Strategic Management Model



In this top-down model, the organization sets goals and level of service (what it wants to achieve), and then decides on what strategies to use to achieve these. In the subsequent budget process, the organizational units align their programs and plans with the

organization’s goals and strategies. Their budget requests then represent a “costing out” of the strategic plan. (Segal and Summers, p.6)

Regardless of the structure or terminology, what’s important is to move from broad organizational goals down to more specific sub-goals or objectives that include associated measures or targets that can be used to determine whether desired results are achieved. These objectives are then used by the organization’s various departments or units to shape their budget requests.

There are several different types of performance measures that can be used as part of PBB. Typically these are thought of as input, output or outcome measures. One report describes four basic types of data that could be used (Reason Public Policy Institute, p.10):

- *Input Indicators.* The amount of resources used for an activity or program.
- *Output/Workload Indicators.* The amount of items produced or services provided.
- *Intermediate Outcome Indicators.* Measures that track the key strategies or precursor factors that lead to desired “bottom-line” results. These are often efficiency or effectiveness measures.
- *End Outcome/Effectiveness Indicators.* The “bottom-line” result or end-goal that the agency or program is trying to achieve.

The report gives some examples of these, including for transit and fleet management (pp.19, 22):

Transit Measures

Measures	Rationale
<p><i>Inputs:</i></p> <ul style="list-style-type: none"> ▪ Total operating expenditures ▪ Total capital expenditures ▪ Total full-time equivalents (FTEs) 	<p>Provides information on funds and labor resources used to provide services.</p>
<p><i>Outputs:</i></p> <ul style="list-style-type: none"> ▪ Annual vehicle miles traveled ▪ Annual revenue collected 	<p>Provides a measure of workload and activity level.</p>
<p><i>Intermediate Outcomes:</i></p> <ul style="list-style-type: none"> ▪ Percentage of trips on schedule ▪ Frequency of service ▪ Cost per passenger ▪ Cost per mile ▪ Condition of fleet 	<p>Attempts to track progress in effecting the changes necessary to produce the end outcome.</p>
<p><i>End Outcomes:</i></p> <ul style="list-style-type: none"> ▪ Quantitative measure: reduction of traffic congestion ▪ Qualitative measure: customer satisfaction rating (comfort, convenience, etc.) ▪ Quantitative measure: number of passengers 	<p>The bottom-line result the program desires to achieve.</p>

Fleet Management Measures

Measure	Rationale
<i>Inputs:</i> <ul style="list-style-type: none"> ▪ Total operating expenditures ▪ Total capital expenditures ▪ Total full-time equivalents (FTEs) 	Provides information on funds and labor resources used to provide services.
<i>Outputs:</i> <ul style="list-style-type: none"> ▪ Total number of vehicles maintained ▪ Average miles/use of vehicle ▪ Average breakdown of vehicle types 	Provides a measure of workload and activity level.
<i>Intermediate Outcomes:</i> <ul style="list-style-type: none"> ▪ Average cost per maintenance request ▪ Average maintenance cost per vehicle ▪ Average cost per mile ▪ Average time spent per work order 	Attempts to track progress in effecting the changes necessary to produce the end outcome.
<i>End Outcomes:</i> <ul style="list-style-type: none"> ▪ Quantitative measure: average percentage of vehicle fleet availability ▪ Qualitative measure: condition of fleet 	The bottom-line result the program desires to achieve.

As mentioned previously, in general the goal is to focus on outcome indicators where possible rather than the simpler measures of inputs or outputs. An outcome is the end result desired from a program or service. However, these can sometimes be difficult to identify or measure (e.g. a reduction in traffic congestion or air quality). “Intermediate” outcomes may be more feasible instead, or they may be helpful in gauging progress toward an end outcome. Even input and output measures can be quite useful when they are used to develop measures of efficiency or effectiveness such as cost per vehicle hour or passengers per vehicle mile.

Some organizations have included the “balanced scorecard” concept as part of the PBB process. This concept was developed by Kaplan and Norton as a way of ensuring that more than just the financial bottom line is considered when the goals from strategic plans are translated into action plans. It does this by dividing the action plans into four key quadrants: financial accountability, internal business processes, innovation and learning, and customers.

The various organizational subunits use this action plan for reconciling their strategic goals and service delivery goals with the overall direction of the organization. Performance measurement is used to track organizational and programmatic progress over time. The premise is that program improvements across the organization accumulate into overall organizational-wide improvement, allowing the organization to move in the direction identified in the strategic plan by building on the interrelated connections of strategy, action, budgeting, and performance.

Although developed originally for the private sector, more and more public sector organizations are now using this concept as well. One nearby example is the City of Charlotte. (Kelly and Rivenbark, pp.87, 98-118)

Some organizations have even taken performance measurement and budgeting to the next level—explicitly tying employee performance appraisals to the larger performance management system. As would be expected, when individual promotions and salary adjustments are tied to the achievement of departmental and organizational goals and objectives, the effect can be very powerful.

A key consideration in PBB (or in any system using performance data and measures) is the quality of the underlying data. If the data foundation is not good, then neither is anything built on top of it. Kelly and Rivenbark have suggested that at minimum, good performance data should be “accurate, reliable and comparable.”¹ (p.189) They propose that one way of dealing with this issue is to conduct performance data audits. (pp.203-213) These might be performed by internal auditors or by external auditors or parties.

Key Implementation Considerations

Regardless of the specific approach used to implement PBB, there are a number of practices that should be used to help obtain the best results. A White Paper by the SAS Institute suggests the following (p.11):

- Limit the number of measures used. *(This will depend to some extent on the size of the organization or organizational unit, and the nature of what is being measured. The number selected will be somewhat arbitrary but should be realistically manageable. Too many measures will result in data and analysis overload. Too few may result in important performance issues being overlooked.)*
- Focus on the basics: results and outcomes.
- Benchmark with other departments, agencies and states.
- Plan for the capacity and resources required to manage your initiatives.
- Focus on what you want to achieve in the long term, despite short-term hurdles.

In addition, that White Paper recommends two other important considerations for effectively implementing PBB (p.11):

- *Manageability*: don’t design a process that overburdens either agency staff or budget decision makers. Don’t repeat the manual burdens of failed attempts of the past like zero-based budgeting.
- *Scalability*: similarly, scale the process in way that it can start small and then evolve slowly as experience and capability are gained.

¹ “Accurate” data are error free. “Reliable” data basically means that there are no variations over time caused by changes in the calculation methodology or the interpretation of data definitions. “Comparable” data are based on the same service dimensions and similar service characteristics, thereby allowing “apples to apples” comparisons with other agencies or industry standards.

In a 1997 study of performance measurement, benchmarking and strategic planning, the National Performance Review (NPR) identified nine key considerations in regard to successfully implementing a PBB process (Young, pp.20-21):

1. “Leadership” is of the utmost importance. Agency heads, managers and board members should be actively involved.
2. An organized, comprehensible “framework” should be established. An easily understood manual and timetable are necessary.
3. Agencies that foster communications, both internal and external, are the most successful.
4. Accountability is a primary factor in PBB initiatives. Employees must not only be held accountable for “actions” but also for “results.”
5. PBB is about “intelligence gathering,” not simply data collection.
6. Rewards, whether compensation or simply recognition, should be related to performance.
7. PBB should not be punitive in nature. The goal is improvement, not punishment.
8. Progress and the accomplishments of results should be communicated to all participants and to the public at-large.
9. Finally, PBB is not a panacea—it’s useful but not a cure-all. In addition, it will require continuous upkeep and adaptation.

Kelly and Rivenbark offer four key components of a successful PBB system (p.246):

1. Commitment by top elected and appointed officials to the principles of performance-based decision making, during good times and bad, in all funding decisions.
2. Leadership by department or agency managers to develop meaningful measures of service performance that align with the organization-wide goals and reflect the department’s strategies for achieving those goals, and to create appropriate incentives for employees to achieve them.
3. Recognition that performance budgeting requires expertise that can be achieved only through employee training and continuing education.
4. Performance budgeting is not easy or cheap. There are considerable start-up costs, one of which is staff with the skills to use performance budgeting to produce the kind of data that managers at all levels need for decision making.

Challenges

There are a number of key challenges to successful implementation of PBB. John Mercer cites several challenges to implementation of PBB at the federal level (Mercer, 2002, pp.9-10). Some of these apply to state or local implementation as well. For example, good cost accounting information can be integral to effective PBB.² This helps managers

² Cost accounting can be important in several respects. First, in large organizations with many different programs and projects, it can be important to understand and track the costs of those programs. If the accounting system does not collect and report costs for those programs, it will be impossible to understand their true costs. For example, if a particular department has several programs, and expenses are collected and reported only at the department level, then it won’t be possible to know what the various programs within the department actually cost.

to determine the true cost of programs and activities. However, many agencies do not have well-developed cost accounting systems. Similarly, PBB may require a change in the accounting, budgeting and financial reporting structures so that they are appropriately aligned with the structure used for PBB. This also provides managers with relevant information so that actual performance can be monitored throughout the year. As stated by Paul Posner of the General Accounting Office:

“Successful performance budgeting is predicated on aligning performance goals with key management activities. The closer the linkage between an agency’s performance goals, its budget presentation, and its net cost statement, the greater the reinforcement of performance management throughout the agency and the greater the reliability of budgetary and financial data associated with performance plans. Clearer and closer association between expected performance and budgetary requests can more explicitly inform budget discussions and shift the focus from inputs to expected results.” (Posner, p. i)

Another challenge is that an important ingredient of PBB is accountability. However, many managers would rather not be held accountable or have their performance constantly monitored. Such resistance is a key obstacle that must be understood and overcome. One way to do this is to make it clear that PBB is not about blame or punishment. Instead, it is about organizational learning and improvement. It should be seen as a way for managers to become better managers. Another way to overcome resistance is to provide incentives for using PBB. For example, in the Davidson and Catawba County examples described above, departments that participated in PBB were given more flexibility in regard to how they could use their budgeted funds, including the ability to carry over “saved” funds to the next fiscal year. (If saved funds were to be forfeited, the motivation to cut costs could be considerably diminished.)

Misconceptions

It is important to avoid any misconceptions as to what PBB may be. PBB is *not* a new budget format that takes the place of a line item budget. Rather, PBB incorporates a discussion of performance into typical line item expenditures, and better informs the budget decision-making process.

Merely inserting performance measures into budget documents does not constitute PBB. While PBB incorporates performance measures into the budget development and

Second, a good accounting system will include not just the direct cost of a program or service, but also the appropriate indirect costs that should be allocated to it. (Sometimes this is referred to as “fully-allocated costs.”) As one example, this can be important when calculating certain efficiency or effectiveness measures such as cost per vehicle mile, or cost per passenger trip.

Third, if an organization is using benchmarking with peer organizations as a component of performance measurement, it is important that the costs of the programs or services that are being compared within the peer group include the same kinds of cost components so that the comparison is as “apples to apples” as possible.

evaluation processes, it utilizes an assessment of performance to better inform budget decisions. PBB acknowledges the important roles of prior year appropriations, fiscal constraints in the budget process, and politics; it serves to better inform decisions. PBB cannot substitute for leadership in preparing an annual budget. It expands the budget process to include elements of performance management in the financial allocation decisions.

Conclusions

PBB has a clear potential to produce important organizational benefits such as developing a more rationale allocation of scarce resources through improved budget decision making, more closely aligning budgets with strategic plans and organizational goals, and providing increased accountability both internally and externally. However, its experience in reducing costs is mixed. While some organizations have achieved overall cost savings by using PBB, many others have not. It should therefore more realistically be viewed in the context of its many other benefits, not as a method for cutting bottom-line costs. Its effect is more likely to be a shifting of scarce resources to higher-priority or higher-performing uses.

In order to produce real benefits, PBB has to be treated as more than simply adding some performance data or measures to the budget document (what some observers have referred to as “window dressing”). It needs to become part of an integrated planning, performance measurement, and budgeting system. As noted by Kelly and Rivenbark (p.218):

“Performance budgeting is not a stand-alone system but the logical and appropriate extension of the collection, auditing, and reporting of the performance information that every public manager needs to make good decisions.”

It should be realized that performance budgeting is not a cure-all for fundamental managerial, organizational or financial problems. However, it can provide significant benefits if it is implemented in a comprehensive way with thoughtful, careful planning.

Finally, a critical consideration in any process that relies on performance data and measures is the quality of the underlying data. Some kind of data verification is called for. One appropriate method is a process that has been referred to as “performance data auditing.”

Case Studies

As part of the study, case studies were conducted of five agencies that use some form of “performance-based budgeting.” These agencies, and a brief summary of their budgeting approach, are listed below:

1. AC Transit (Oakland, CA). AC Transit only recently embarked on the implementation of a performance-based budgeting process. It is a consequence of the long-term implementation plan of their Critical Business Outcomes-based strategic management model. AC Transit uses a biennial budget process.
2. Catawba County. Catawba County uses a “hybrid” budgeting approach that includes both a traditional line item budget for some departments, and an approach that provides more managerial flexibility for “reinventing” departments. (The latter approach was inspired by the 1992 book *Reinventing Government*.)
3. Charlotte/Charlotte Area Transit System (CATS). Charlotte/CATS uses a relatively unique budgeting approach that includes the “balanced scorecard” concept. This concept encourages organizations to use four different “perspectives” in budget development:
 - Customer needs
 - Financial viability
 - Efficient and effective resource utilization
 - Internal learning and growth
4. City of Hickory. Hickory not only uses performance measures as an integral part of its budgeting process, it also “benchmarks” its performance on many city services against other NC municipalities.
5. Triangle Transit Authority (TTA). TTA has significantly restructured its budgeting process in recent years in order to ensure that the budget is much more closely “aligned” with its goals and objectives. Each department develops its own mission and associated goals. The goals are, wherever possible, “quantifiable and measurable.”

Information obtained for the case study systems included interviews with the following individuals. A more detailed discussion of each agency follows.

Transit System	Individual
AC Transit (Oakland, CA)	Hernan Vargas, Budget Manager
Catawba County	Judy Ikerd, Budget Director
City of Charlotte/Charlotte Area Transit System (CATS)	Mike Nail, Manager, Operating Budget (CATS)
City of Hickory	Karen Hurley, Budget Analyst
Triangle Transit Authority	Saundra Freeman, Director, Finance and Administrative Services

AC Transit

AC Transit is a large transit system operating in the East Bay area of San Francisco. It provided 67 million passenger trips during FY 2006, using almost 700 vehicles, in a service area with a population of 1.5 million. It only recently began to implement performance-based budgeting after a three-year process of planning and preparation. Use of PBB is a consequence of the long-term implementation plan of their Critical Business Outcomes (CBOs)-based strategic management model that is aimed at positioning the agency “as a premier high-performance and efficient provider of reliable, safe and courteous transportation services to the East Bay Community.” (Because it is a significant change for the agency, and because AC Transit is a large organization, it took several years to develop the process, achieve understanding and get acceptance from the many stakeholders, and then educate those involved in the budgeting process.)

In planning and developing the process, AC Transit referred to performance-based budgeting processes being used by several organizations including the University of California at San Diego, the University of Missouri at Kansas City, the City of Sunnyvale in California, and a balanced scorecard system being used by the MTR Railroad in Hong Kong. They also looked at materials from a Performance Measurement Conference in Irvine, California, and a performance-based budgeting recommendation from a civic group regarding the budgeting process at the Chicago Transit Authority.

In deciding to proceed with implementation of performance-based budgeting, AC Transit concluded:

- The external business environment is increasingly uncertain, and AC Transit needs to be ready to deal with the uncertainties.
- The Critical Business Outcomes’ (CBOs) key priorities need to be identified and measured so agency staff know if the planned strategy is working, and all customers are satisfied.
- AC Transit needs to “breathe” its CBOs, and measuring in a systematic, balanced manner helps to accomplish that.
- Continuous improvement also means improving the management framework constantly.
- Other Bay Area transit agencies were embarking on similar projects.
- Key stakeholders have great expectations for AC Transit.

AC Transit identified a number of advantages to be realized from implementing performance-based budgeting:

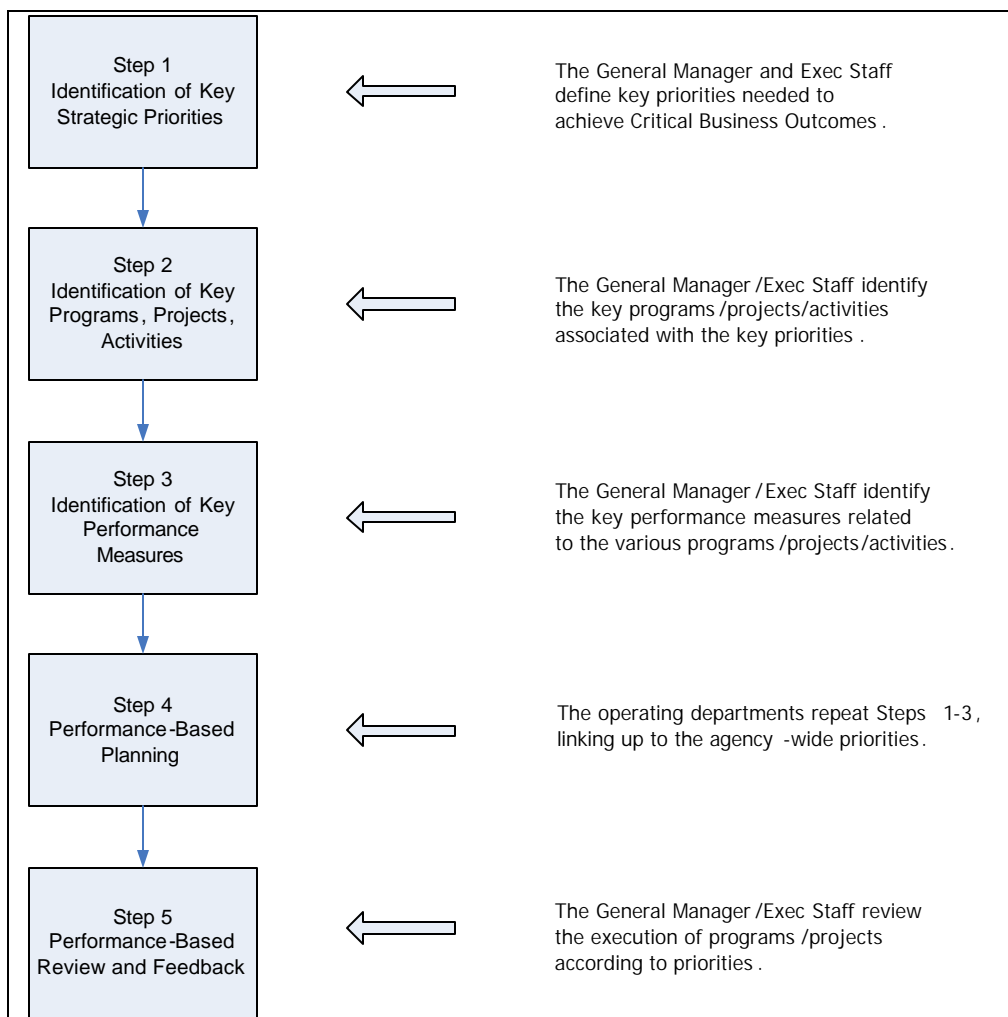
- Managers will have a means of evaluating the programs/projects/activities for which they are responsible. They will be able to do this by monitoring the performance measures that are developed for these programs.
- It will enhance the communication of what the agency’s Critical Business Outcomes mean.
- It will significantly increase managers’ ownership of the process and their accountability for results.
- It will help uncover untapped areas in need of improvement and foster a collaborative approach for seeking solutions.

- It could greatly enhance the image of the agency with major stakeholders.

A number of possible disadvantages were also identified:

- It could be a very time-consuming process, especially for managers not used to managing in terms of programs/projects/activities.
- If managers are not made part of the process from the beginning, that could lead to wasted time and disenchantment.
- It could be extremely difficult to implement if deadline constraints and technology challenges hinder needed flexibility.

The planning process that AC Transit uses in connection with performance-based budgeting is shown graphically below:



An example of how AC Transit believes the performance-based budgeting process could be used by managers is provided on the following page.

Example of the Application of the Model:

Critical Business Outcome: Provide Reliable and Customer-oriented Transportation Service

Outcome: Service Reliability

Assumption: The District identifies that one of the key attributes of service reliability, from the customer perspective, is Trips completed On Schedule

Assumption: The District, after careful analysis and discussion, identifies that Trips Completed On Schedule is derived from two key indicators of customer satisfaction:

- On Time Performance
- Trips Completed

Let's suppose we are focusing on the second one, Trips Completed

Further analysis and discussion arrives at the conclusion that Trips Completed are mostly a function or result of Buses not breaking down during the course of their trip.

Therefore, the District decides that one of the key strategic priorities for the next two years will be "Increase the mean # of miles between roadcalls to X by the end of FY 2008-09"

Key Strategic Priority: Increase the mean # of miles between roadcalls to X by the end of FY 2008-09"

Assumption: The District, in the course of its analysis of the key factors behind why roadcalls happen (or why buses break down), discover that effective and efficient preventive maintenance (or lack thereof) is the single most significant contributor to a higher or lower interval between roadcalls.

Therefore, the District decides that it will implement an effective and efficient preventive maintenance program for each of the fleet and buses operated in each division

Key Strategic Program: Design and implementation of an effective and efficient world-class preventive maintenance program

Assumption: The District discusses how it is going to make sure the program is world-class, is effective and is efficient. It also discusses how the program should be deployed districtwide, and how each department and function in the District contributes to the success of the program. Therefore, the District decides that the program has to be controlled by fleet and bus unit in every fleet, with a performance measure that tracks the outcome by fleet/bus and the cost of doing preventive maintenance by fleet/bus.

Therefore, the District decides that it will use the following structure to make sure the program is achieving the desired outcome:

- Program controlled at the fleet/bus level
- Performance Measures used to assess the successful implementation of program:
 - * Roadcalls between miles (or # of miles between roadcalls) by fleet/bus
 - * \$ Cost of preventive maintenance activities by fleet/bus

Key Performance Measures: - Miles between roadcalls by fleet/bus
- \$ Cost of preventive maintenance activities by fleet/bus

Planning and implementation responsibilities:

Assumption: The District, after extensive discussion and analysis, decides that the following departments have direct responsibilities for planning and implementing the program:

Maintenance Department:

- Prepare preventive maintenance plan using hours of maintenance labor to be devoted to do PM activities by fleet/bus
- Prepare preventive maintenance plan allocating cost of bus parts required to do PM activities by fleet/bus

IT/HR/Finance Departments:

- Prepare plan for implementation of a systems infrastructure to support the information needs of the Maintenance Dptm, using hours of required labor by task for this program

These departments at the same time have to decide what initiatives and performance measures will have to be designed and put in place to assure the successful implementation of their part of the program.

Finally, Exhibit 1 provides more detailed information about the rationale behind the process, a description of it, and the calendar used to develop and adopt a budget.

Exhibit 1

AC TRANSIT

BIENNIAL BUDGET DEVELOPMENT PROCESS FY 2007-08 & FY 2008-09

Introduction

On March 7th, 2007, the Board of Directors approved the Biennial Budget Development Process for FY 2007-08 & FY 2008-09. The Budget Department is therefore pleased to kick-off this new process. This process is the natural consequence of the long-term implementation plan of our Critical Business Outcomes-based (CBOs) strategic management model, which seeks to position our agency as a premier high-performance and efficient provider of reliable, safe, and courteous transportation services to the East Bay community.

The main characteristics of the new budget process are as follows:

- It is directly linked to outcomes, priorities, and activities, as expressed in the CBOs, and for the first time, it clearly specifies key strategic priorities that will be the focus of the action for the upcoming two fiscal years, making explicitly clear the programs and projects that will drive the allocation of labor and non-labor resources. As operating departments districtwide have been working on developing their CBO activities in the past few years, they will find easy to relate the activities performed by the programs and projects as required by the budget process.
- It promotes more focused and cohesive direction to the District, fostering a teamwork environment as the strategic priorities, programs and projects in many cases transcend departmental boundaries and require systemic, comprehensive and collaborative solutions.
- It helps identify in a more effective and efficient way the key areas where the District should allocate required funding in order to maximize the return on the expenditure levels and achieve optimized performance. At the same time, it validates the funding levels for the ongoing non-priority but also important programs and projects, as it requires explicit justification and linkage to critical business outcomes as measured by clear performance metrics.

Description of the Budget Development Process

We will now proceed to detail the basic guidelines to be used in order to navigate through the process in an effective and efficient way. The rest of this document is organized like this:

1. Key assumptions concerning funding sources for the upcoming budget period
2. Description of the Strategic Priorities defined by the Executive Staff and approved by the Board for the Biennial Budget
3. Budget Process – Step One – Guidelines for Exec Staff and their Department Managers
4. Budget Process – Step Two – Guidelines for Operating Department Managers
5. Calendar of Activities and Deadlines for Budget Process

1.- Key assumptions concerning funding sources for the Biennial Budget

- Managers must be mindful that Revenue funding will be much lower during the next couple years due to the loss of the Preventive Maintenance – Bus Deferral Income subsidies received from MTC. This situation is already reflected in the District's current 2nd Quarter projection approved by the Board on March 7th, 2007.
- Unfortunately, there is a significantly high probability that the Nation, and therefore the State and the Region experience a severe economic downturn in the very near future, which in turn would significantly reduce our funding levels coming from Local and State sources. The approved 2nd Quarter projection does not include the effect of this potential major downside. Managers must be mindful that hard and drastic choices might need to be made if the District were to realize the seriousness of the situation.

2.- Description of the Programs included as part of the Strategic priorities

Note: In all cases, programs are comprised of all costs associated with labor time (hours expected to be worked or consumed) and non-labor resources (like services, materials and others) to be utilized in executing activities and projects conducive to the achievement of expected outcomes as measured by specific performance metrics associated with the strategic priorities. Also, please be mindful that the descriptions of the programs as defined below are intended to provide a broad, brief explanation of the key aspects behind it; for more detailed explanations please refer to your Executive Staff Officer.

Optimized Ridership

- o Establish baseline: to assess what the actual annual ridership is at the route and District level
- o Develop reliable measures: to identify ridership performance metrics and an ongoing process to generate them that can be validated and used systematically throughout the District
- o Expanded marketing efforts: to identify and implement specific projects that will yield measurable ridership optimization in key routes/geographical areas
- o Improve route effectiveness (speed & load): to identify and implement most effective and efficient speed and load factors in order to yield ridership optimization in key routes/geographical areas
- o Deploy resources to optimize ridership: to secure proper funding of projects based on impact on ridership optimization
- o Promote agency image: to identify and implement promotional campaign projects based on impact on ridership optimization and specific metrics of community support
- o Measure number of riders by market share: to design and implement a process to continuously monitor and assess the ridership performance of the District in terms of market share of riders in the service area compared to other mass transit providers and other transportation means

Reliable Service

- o Develop reliable measures of on-time performance: to identify the factors and metrics to be used to monitor On-Time performance at the lowest level of detail and a system to generate them in a secure and verifiable manner with access to all required users
- o Establish baselines: to assess what the actual on-time performance is at

the route and District level

o On-time performance: to design and implement a process to execute the continuous monitoring of On-Time performance at the lowest level of detail and to identify the root cause for deviations, prompting immediate corrective action

o Schedule adequate running time: to design and implement a scheduling process that systematically promotes adherence to on-time performance and optimizes compliance, effectiveness and efficiency of operations

o Maintenance schedules/procedures: to identify performance metrics that impact on-time performance, to design and implement a process/program to promote efficient and effective maintenance operations to optimize on-time performance and fleet availability, and to design and execute effective and efficient maintenance driven by ridership optimization

o Workforce size: to identify the proper levels of the workforce in order to secure efficient and effective operations and administrative support on the basis of desired districtwide outcomes in regards system reliability

Customer Satisfaction

o Identify reliable measures for baseline development: to identify the factors and metrics to be used to monitor Customer Satisfaction performance at the lowest level of detail and a system to generate the data on an ongoing basis with access districtwide in a secure and verifiable manner

o Increase customer commendations & reduce complaints: to design and implement a process that systematically promotes adherence to relevant Customer Satisfaction performance metrics and optimizes compliance, effectiveness and efficiency of Customer Service operations

o Improve customer contacts: to develop and execute a process that optimizes the ways and means used in establishing communications with customers

o Hire and train for good customer service: to review, redesign and relaunch the process by which the District identifies, hires, trains, rewards and retains human resources most likely to sustain their performance based on selected Customer Satisfaction metrics

o Safety and security on/around buses: to review, redesign and relaunch the process by which the District chooses and deploys safety and security activities and resources, based on selected Customer Satisfaction metrics and the effectiveness and efficiency of operations

o Equipment design and assignment: to review, redesign and relaunch the process by which the District designs equipment characteristics and the assignment of buses to specific service areas, schedules and routes responsive to selected Customer Satisfaction metrics and the effectiveness and efficiency of operations

o Best maintenance practices (clean, safe, reliable coaches) to review, redesign and relaunch the process by which the District executes maintenance activities, based on Customer Satisfaction metrics related to cleanliness, safety and reliability and the effectiveness and efficiency of operations

Financial Viability

o Determine optimal reserve level: to assess the optimum level of net assets, capital strength and liquidity for the current and future period

- o Rebuild reserves: to design and implement a process to monitor and safeguard the optimum reserve level as defined above
- o Advance financial systems to enhance financial control and adherence: to design and implement a process and system architecture that provides relevant, timely and reliable financial information using an open and user-friendly interface at an optimum cost per transaction for all managers and stakeholders districtwide, assuring compliance and promoting achievement of priorities
- o Improve project management systems: to design and implement a process and system architecture that provides relevant, timely and reliable financial information on projects using an open and user-friendly interface at an optimum cost per transaction for all project managers districtwide, assuring compliance and fostering achievement of project outcomes
- o Enhance local, state and federal grant opportunities: to design, implement and consistently execute a plan to promptly identify new available funding opportunities and optimize the process to maximize the probability of securing funding from those sources
- o Pursue revenue generating service opportunities: to design, implement and consistently execute a plan to promptly identify new potential service opportunities that are conducive to optimizing ridership, farebox recovery ratios or funding from new direct subsidies that at the minimum cover marginal costs

Employee Development

- o Engaged and productive employees: to review, redesign and launch the processes and programs involving training, incentives and other activities to optimize collaboration, teamwork, productivity and performance
- o Enhanced communication: to design and execute a process and system that fosters openness, sharing, collaboration and transparency in formal and informal communications throughout the District
- o Wellness and safety: to develop and implement a plan to optimize the wellness and safety of the District's employees

3.- Budget Process - Step One - Guidelines for Executive Staff level program/project deliberations with their Department Managers:

- Follow same process as in the selection of the Key Strategic Priorities.
- The objective is to identify the very few specific projects and metrics in your area of responsibility that will move your group/department/area/unit/team towards desired outcomes as set forth in the priorities and programs.
- No figures or numbers are explicitly used or needed in this part of the process, the idea is to mobilize the organization in a common direction and identify at the department level what needs to happen, how and when, the best performance metric to be used to monitor the proper achievement of the desired outcomes, a preliminary idea of resources required (labor and non-labor) and the feasibility of receiving funding for them, given revenue constraints.

4.- Budget Process - Step Two - Guidelines for Operating Department Manager level budget preparation after program/project deliberations with their Executive Staff Officers:

- The Budget department will be providing direct support and guidance during the entire process. The departments/operating managers will use the resources

- available from the budget department as if they were internal consultants. Budget will not make any determination or judgment as to the approval or rejection of any program/project at this point in the process.
- The District recognizes that not all operating expenses can be allocated or associated to the specific pre-approved programs/projects in the step above. There are programs and projects that support other CBO activities that are important and consume or use labor and non-labor resources. All operating expenses (labor and non-labor) that are considered important and can be justified in terms of CBO activities will be included as part of this first cut. Still, planning and budgeting for these non-priority operating expenses requests will have to follow the same process as explained below.
 - Operating managers have to focus on clearly identifying the very few metrics and resources that will guide their requests for allocations. Specific measures and benchmarks of activity, production or utilization will be required as an integral part of the process.
 - The focus of the process is in PLANNING to make sure that the probability of achieving desired districtwide strategic outcomes is very high. Specific planning assumptions will be required as part of the process.
 - Salaries and Wage figures will be allocated to programs/projects on the basis of the expected utilization rate in terms of hours of work of the department/org code per program/project. The operating department manager will be responsible for providing this information as part of the planning process. Budget will provide the baseline available total hours based on baseline available headcount. Requests for new positions/headcount have to be clearly identified separately and be strictly associated to a specific program/project. Certain specific salaries and wages will require more direct involvement from the Budget Department, as per coordination to be made with the specific departments (Transportation and Maintenance mainly).
 - Fringe benefits budgeting and allocations will be handled directly by the Budget department.
 - Non-labor expenses will be budgeted and allocated on the basis of their direct identification or association to specific priorities/programs/projects.
 - As discussed at the beginning of this section, labor and non-labor expenses that cannot be directly or logically associated with a pre-approved prioritized program/project will be eventually allocated to a non-priority on-going program/project category, for consolidation and reporting purposes. As discussed before, these expenses have to be justified using the same process as for all others. Improperly justified or allocations lacking a justification based on specific metrics or outcomes based on programs/projects supporting CBO activities could be at a risk of being cut in the first round of reviews.
 - No data input into any system will happen until the end of the preliminary planning stage. Budget will advise as to when that step will be done.

5.- CALENDAR OF ACTIVITIES FOR THE BIENNIAL BUDGET DEVELOPMENT PROCESS FY2007-08 & FY 2008-09 (tentative)

April 6th to May 9th * Executive Staff Officer to deliberate with their respective Department Managers on specific Programs/Projects linked to the Strategic Priorities to be executed during next two years, and on the selection of the performance metrics to be used to track

execution of those programs. Guidelines from the Budget Dptm. for process are attached. **Deadline: April 12th, 2007**

* Executive Staff Officers to submit to Budget list of Programs and associated Projects to be designed and executed during biennial budget period – **Deadline: April 13th, 2007**

* Department managers to prepare preliminary biennial budgets to support the specific programs/projects pre-approved in the step above. Guidelines from Budget Department are attached. **Deadline: May 3rd, 2007**

* Executive Staff Officer to discuss and review with their respective Department Managers the pre-approved programs/projects as budgeted, and after feedback, pre-approved biennial budgets are adjusted and presented again for review to Executive Staff Officer before presentation to GM. **Deadline: May 9th, 2007**

May 10th to May 14th * Review of departmental biennial budgets with GM, Executive Staff Officer and their department managers, CFO, and Budget. Approved Biennial Budgets are adjusted, if needed.

May 15th to May 16th* GM reviews preliminary adjusted consolidated Biennial Budget

May 23rd * Work Session open to Public Input for review and presentation of Biennial Budget to Board by GM. After feedback from Public and Board, adjustments are made to the operating biennial budgets. GM reviews adjusted consolidated budgets and prepares recommended biennial budget.

June 6th * Review and action to be made by Board on adoption of Recommended Biennial Budget

Catawba County

Catawba County utilizes a “hybrid” budget process involving two different approaches: “reinventing,” a more flexible and creative approach, and “non-reinventing,” a traditional line item form of budgeting. The reinventing approach, an outgrowth of the book *Reinventing Government* (1992), gives participating departments greater managerial flexibility.

In 1993, as part of the county budget process, departments were given the option to volunteer for the opportunity to gain greater budget flexibility. Known as “reinventing departments,” this meant that they had to provide with their budget requests a description of what “outcomes” they intended to accomplish and what performance levels they expected to achieve in the next budget year. In return, they were given the flexibility to:

- Shift funds between line items in order to meet service demands.
- Create, eliminate or reassign positions within their approved budgets.
- Carry over unused funds to the next fiscal year.

In subsequent years, reinventing departments have used carryover funds for various purposes including development of workshops on customer service, improvements to the county library, and purchase of a 15-passenger van for a 4-H summer program.

The budget process begins in October when the County Board has a retreat at which they discuss issues and set goals and priorities for the following year. This is followed by a similar retreat by management in December. At mid-year, the Budget Department makes revenue and expense projections for the current year and following year. This provides an idea of whether any money will be available for new needs or whether budget cutbacks will be necessary. Management then starts to develop a budget that is aligned with the goals and priorities established at the retreats. Based on the revenue and expense projections, the departments are given a target funding amount that they will have available to spend.

Departments that choose not to participate in the reinventing program follow a traditional line item budget process. They are able to ask for additional funds beyond the target amount, but they will be in competition with other departments for any additional funds that are available (if any). Their approved budgets look and are monitored like traditional line item budgets. If any funds are unused at the end of the year, they lose them.

Reinventing departments, on the other hand, must live within the targeted amount. They are not allowed to ask for more funds (except in rare circumstances such as when the County Library added a new branch library). In return, they receive the flexibility to use the funds as they see fit in order to achieve their goals, and to keep any unused funds at the end of the year. The only budget negotiation is about the promised “outcomes”—there is no negotiation about the dollar amount. The result, according to the Budget Director, is that reinventing departments have been very creative in terms of saving funds, doing more with less, etc.

The strength of Catawba's reinventing approach is that it shifts the emphasis from line item inputs to outcomes. Outcomes are not mere measures of "output" or "workload," but meaningful program results to be achieved. Some example outcomes are:

From the Social Services Department's Work First Program...

Outcomes

1. To cause 94% of Catawba County Work First citizens who leave Work First due to employment (108 persons) to remain off assistance for one year as compared to the State benchmark of 90% for FY 2006-07.
2. To enable 300 families (compared to the State expectation of 222) to avoid welfare dependency as a result of providing appropriate preventive services (i.e. Benefit Diversion, 200% services, referrals, etc.) during FY 2006-07.

From the Social Services Department's Nutrition Services Program...

Outcomes

4% of the 60+ Catawba population (1,084 persons) receiving nutrition services will experience health/nutrition awareness, reduced isolation, and increased independence by June 30, 2007. (Benchmark: 2.2% is the average percentage of the 60+ population receiving the same services in comparable counties.)

In retrospect, the Budget Director believes that the reinventing departments should not be allowed to keep 100 percent of any budget surplus they generate. Some departments have created a large fund balance this way and this can be hard to justify when other departments are being forced to cut back. A better approach would be to share any surplus, e.g. 50/50, with the County.

The schedule that Catawba County used in developing a budget is as follows (FY 07):

December 15, 2005

Budget Kickoff

December 2005

Budget training as needed

January 6, 2006

Mid-year report on outcomes due from all departments

February 10, 2006

All budgets and outcomes are due from departments, schools, and outside agencies. All requests keyed into system, including all detail and justification sheets.

March 20, 2006

Recommended budget sent to County Manager

April 4-6, 2006

First round budget hearings with County Manager

April 11, 2006

Second round hearings with County Manager as needed

May 26, 2006

County Manager's recommended budget sent to Board of Commissioners

June 7, 2006

Press conference

June 14-15, 2006

Board of Commissioners' hearings with departments

June 15, 2006

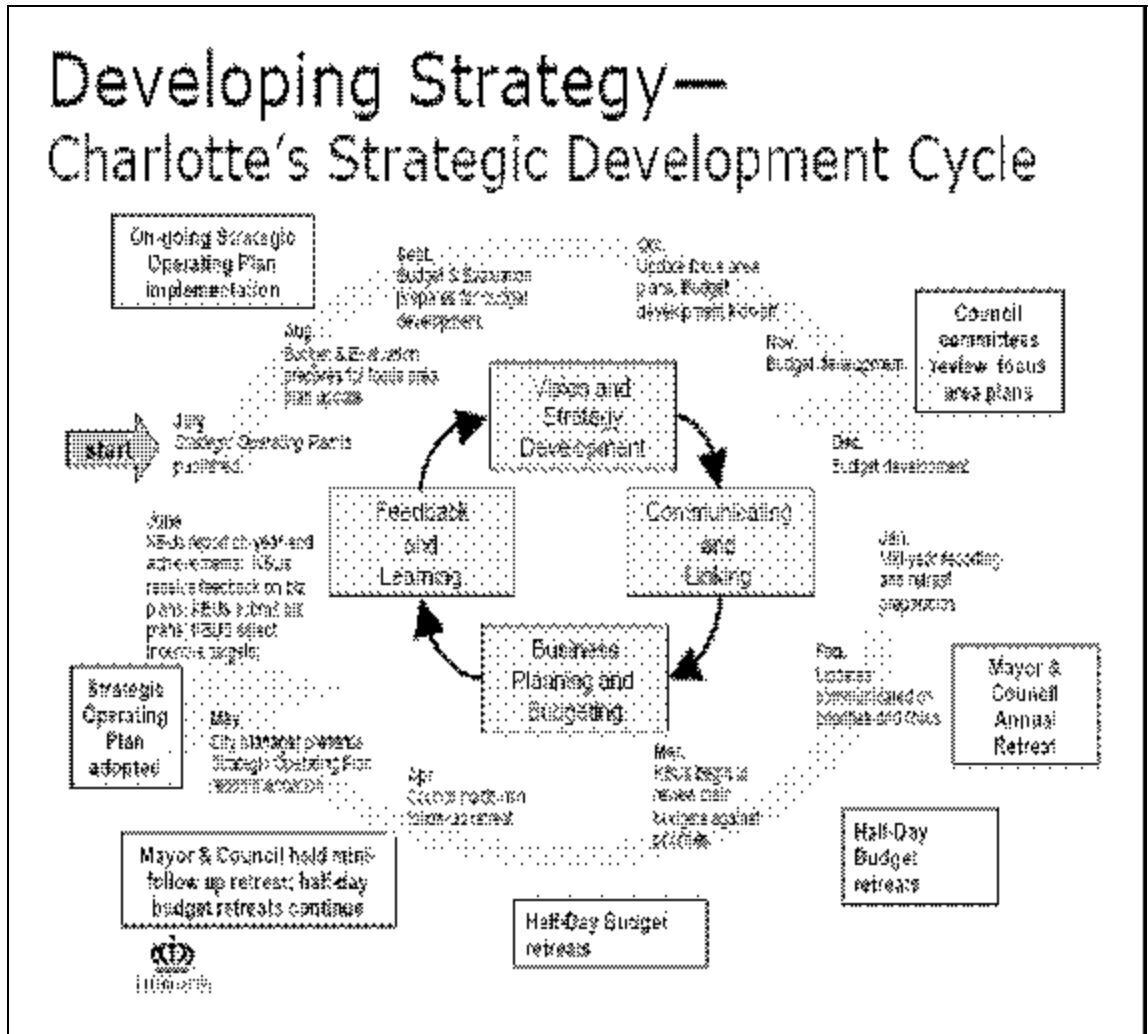
Public Hearing and Wrap-up

June 19, 2006

Budget Adoption

Charlotte/Charlotte Area Transit System (CATS)

The City of Charlotte employs a very sophisticated planning and budgeting process that includes a strategic development cycle and a Balanced Scorecard. The strategic development cycle is illustrated below:



As shown in the diagram, the strategic development cycle incorporates four general steps in the strategic planning and budgeting process—1) vision and strategy development, 2) communicating and linking priorities for the next budget, 3) business planning and budgeting, in which the city-wide strategies and priorities are incorporated into strategic plans, goals, performance measures and targets for each of the city's key business units, and, 4) feedback and learning, during which results are reported and evaluated for future planning purposes.

This process results in strategic plans at both the city-wide and the business unit levels that are linked not only to each other, but also to the city budget. In that way, city priorities and resources are linked to accomplish strategic objectives.

In 1996, Charlotte implemented a Balanced Scorecard system at the initiative of the City Manager (it was the first municipality to do so). Balanced Scorecard is a system created by Robert Kaplan and David Norton that encourages organizations to look beyond the financial bottom-line in evaluating their success.³ In essence, the Balanced Scorecard calls for an organization to use four “perspectives” to evaluate its operations:

- Customer perspective—are customers getting what they want?
- Financial perspective—is the organization being run in a way that is financially viable?
- Internal process perspective—are the various business processes being conducted efficiently and effectively?
- Learning and growth perspective—is the organization able to learn and improve?

Charlotte slightly recast these perspectives as follows:

- Serve the customer
- Run the business
- Manage resources
- Develop employees

Charlotte then applied this concept to the five city “focus areas” that had been identified as the top priorities by the City Council:

- Community Safety
- City-Within-A-City (strong families and neighborhoods)
- Economic Development
- Transportation
- Restructuring Government

More specific objectives were then established within each Balanced Scorecard perspective that linked to one or more of the five focus areas. For example, an objective under the Customer Perspective that relates to the Transportation focus area is “Provide Convenient Transportation.”

Each of Charlotte’s Key Business Units (KBUs) develops its annual budget within the context of a Strategic Operating Plan that also includes a balanced scorecard with objectives and measures for each of the focus areas. Among other benefits of this planning and budgeting process, it serves to focus attention on what the City Council wants it focused on. City Council committees are reported to be “rigorously involved” in monitoring Scorecard measures.

The following pages are taken from the City of Charlotte’s FY 07 Strategic Operating Plan Summary which indicates some of the key statistics, performance measures and budget information in regard to the Charlotte Area Transit System (CATS). Note: this is not the budget, but merely part of the path to the more detailed line item budget.

³ Robert Kaplan and David Norton, *The Balanced Scorecard: Translating Strategy into Action*, 1996.

CATS Performance Summary Report

Charlotte Area Transit System

Summary

Charlotte Area Transit System (CATS) provides public transit services to the Charlotte-Mecklenburg community. CATS is the largest transit system in the Carolinas. Service is provided via local, express, neighborhood, activity center and regional bus services, vanpool, ADA paratransit, and human services transportation.

	FY05	FY06	FY07
Budget	\$99,535,538	\$107,184,451	\$111,049,236
Positions	242.25	289.75	380.75

Accomplishments

- Seven consecutive years of ridership increases with a 50.0% increase since 1998
- Replacement of 3,800 bus stop signs and installation of 197 bus shelters and 51 benches
- Accident rate per 100,000 miles reduced by 53% since 2000
- Federal appropriations totaling \$91.6 million and \$44.6 million from NCDOT

Vital Statistics

- 19.0 million riders annually
- 60,000 passengers daily
- CATS bus fleet now totals 326 buses with an additional fleet of 160 paratransit and vanpool vans for a total vehicle fleet of 486 vehicles
- Customer and community communications including safety educational programs and how-to use LRT activities
- Bus fleet is 100% wheelchair and bicycle accessible

SERVICE DELIVERY CHALLENGES

2025 Plan Implementation

The most significant challenges of this period will be to maintain the budget and schedule for the South Corridor Light Rail Project. CATS will achieve a successful implementation of light rail service in early FY08 by completing the following:

- Recruitment and training of staff for Light Rail Transit (LRT) and customer service functions
- Startup/testing/debugging activities for LRT operations
- Feeder bus service changes
- Customer and community communications including safety educational programs and how-to use LRT activities

CATS will also focus on completion of the environmental/conceptual engineering studies in the other corridors and achieving Metropolitan Transit Commission (MTC) decisions on:

- Technology in the Southeast and West Corridors
- Final alignment configurations for each corridor
- Which corridors will be advanced for implementation consistent with FTA criteria/requirements
- A revised phased implementation plan for the selected rapid transit improvements and a companion revised long-term financing plan for construction of the transit system

Sustaining Growth in Transit Ridership

CATS will seek to sustain growth in ridership through:

- Improving customer satisfaction with key service attributes and products
- Addressing top deterrents to using CATS for non-customers
- Continued improvements in bus maintenance
- Expanded Transit Demand Modeling (TDM) Program activities in the context of regional TDM initiative
- Implementation of expanded security strategy

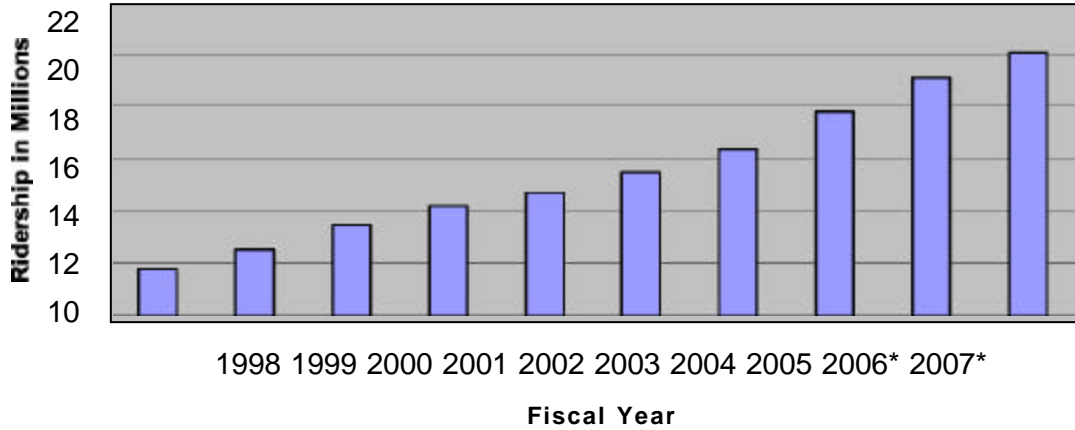
Performance-Based Budgeting for North Carolina Transit Systems

Performance Measures

Performance Achievement

	FY04 Actual	FY05 Actual	FY06 Target	FY07 Target
Transportation Services				
Provides day-to-day public transportation services across the Charlotte region. Conducts operations planning, vehicle maintenance, route scheduling, facilities security, and management.				
◆ Increase transit ridership	5.7%	8.2%	5%	5%
◆ Number of bus shelters and benches installed	131	6	50	TBD
◆ Increase passengers per service hour	21.8	22.2	22.2	24.2
Transit Development				
Provides for planning and development long-range rapid transit systems outline in the 2025 integrated Transit/Land-Use Plan.				
◆ Complete the South Corridor Light Rail Transit project and start revenue service	n/a	n/a	n/a	Fall 2007
Marketing and Communications				
Provides customer service, public relations, communications, and service marketing. Develops market research and develops sales and promotional activities.				
◆ Increase number of pass sales outlets	+20%	27%	10%	8%
◆ % of customer complaint responses within 5 days	96%	93%	93%	93%
Executive and Administration				
Provides leadership and management of the public transit program and support for the Metropolitan Transit Commission. Manages financial planning, federal and state grants administration, budget, finance, procurement, technology, and human resources.				
◆ Secure funding needed to carry out 2025 Plan Improvements	6-5-03 State FFGA for SC	5-6-05 Federal FFGA for SC	6-30-06 Funding strategy for remaining corridors	6-30-07 Long Range Plan update
◆ Targeted cost per service hour	\$68.56	\$69.15 (unaudited)	\$82.50	\$88.88

CATS Historical and Projected Ridership



Budget Summary		FY05	FY06	FY07
Transportation Service	Budget	\$60,041,626	\$71,459,347	\$78,522,547
	Positions	125.25	167.75	257.75
Transit Development	Budget	-\$8,227	\$481,700	\$415,519
	Positions	56.00	49.00	43.00
Marketing and Communications	Budget	\$3,310,552	\$3,821,146	\$3,914,105
	Positions	30.00	32.00	36.00
Executive and Administration	Budget	\$4,410,475	\$5,951,777	\$6,408,652
	Positions	31.00	41.00	44.00
Sub Total CATS		\$ 67,754,426	\$ 81,713,970	\$ 89,260,823
Contributions to Capital and Debt Service		\$31,781,113	\$25,470,481	\$21,788,413
Total CATS		\$ 99,535,539	\$ 107,184,451	\$ 111,049,236
Total Positions		242.25	289.75	380.75

Explanation:

Decreases

\$379,541 is reduced by eliminating four positions previously supporting South Corridor Planning, Development Administration, and Planning and Special Operations.

Increases

\$4,328,781 adds 82 positions and resources for recruitment, training, start-up, and testing for light rail operations. Service implementation is anticipated the fall of 2007.

\$1,021,587 funds planned security enhancements to create a 24/7 coverage of CATS' riders, vehicles and facilities. Seven positions are added for safety compliance and fare inspection, as well as 8 additional officers in CMPD and contracts for police services (2 in FY07 and 6 in FY08).

\$446,879 adds resources for maintenance of additional CATS facilities. One position is added to supervise the overall right-of-way maintenance program.

Performance-Based Budgeting for North Carolina Transit Systems

\$328,440 supports bus route service expansions.

\$314,500 funds service and safety marketing associated with the existing transit and trolley system as well as for light rail transit.

\$214,971 adds electronics technicians and parts clerks to support the Bus Operations Division.

\$92,678 adds a Services Planning Supervisor for bus services.

\$94,045 adds 4 positions late in FY07 for expansion of call center hours and in anticipation of handling the increased call volume anticipated with implementation of light rail.

Unfunded

None

CATS is one of Charlotte’s Key Business Units (KBUs). Its business strategies and plans directly support two of Charlotte’s focus areas—*Transportation* and *Economic Development*—and through these focus areas Charlotte’s policies and Smart Growth strategies. As shown graphically below, the CATS Balanced Scorecard graphically indicates the various linkages between Charlotte’s and CATS’ focus areas, strategic goals/themes, and objectives.

CATS FY 2007 Balanced Scorecard

<p>CATS’ Mission <i>To improve the quality of life for everyone in the Greater Charlotte region by providing outstanding community-wide public transportation services while proactively contributing to focused growth and sustainable regional development.</i></p>				Council Focus Areas				Corporate Scorecard Objectives										
				Transportation				X			X	X	X	X	X	X	X	X
				Economic Development				X	X	X					X			
CATS’ Vision																		
Achieve increasing share of transit competitive markets.	Achieve value for citizens by benefiting whole community through exemplary service.	Committed, competent and motivated employees.	Contribute to innovative, effective and community-focused regional development.		Provide Transportation Choices	Strengthen Neighborhoods	Promote Economic Opportunity	Enhance Customer Service	Improve Technology Efficiencies	Develop Collaborative Solutions	Deliver Competitive Services	Expand Tax Base and Revenues	Achieve Positive Employee Climate	Promote Learning and Growth	Recruit and Retain Skilled, Diverse Workplaces			
X	X	X		Customer Focus				X			X			X				
X			X	System Development				X	X	X	X		X			X		
X	X			Fiscal Responsibility							X		X	X				
	X		X	Community Benefits					X	X								
	X	X		Prepare for the Future							X	X	X					
	X	X		Invest in Employees										X	X	X		
				CATS Strategic Goals/ Themes				Serve the Customer		Run the Business		Manage Resources		Develop Employees				

Source: CATS FY 2007 Strategic Operating Plan, Feb. 2006.

The Strategic Goals and Scorecard Objectives are linked to programs and related performance measures for each of the four strategic goals/themes as illustrated below:

Strategic Goal/Theme: *Serve the Customer*

Objective	Actions	Measures
Provide Transportation Choices	Deliver safe, high quality services	<ul style="list-style-type: none"> • System ridership increase • Customer performance vs. importance scores • Vehicular accident rate
	Advance Corridor System Plan rapid transit projects	<ul style="list-style-type: none"> • Corridor Preliminary Engineering and Environmental Studies completion
Strengthen Neighborhoods/ Promote Economic Opportunity	Improve transit service to neighborhoods	<ul style="list-style-type: none"> • Service improvements implemented • Completion of community transit centers
	Implement 2025 Corridor System Plan	<ul style="list-style-type: none"> • Identify alignment profiles and station locations along rapid transit lines
Promote Economic Opportunity	Implement changes/improvements to DBE/SBE programs	<ul style="list-style-type: none"> • No. of firms certified • Goal attainment

Strategic Goal/Theme: *Run the Business*

Strategic Objective	Actions	Measures
Enhance Customer Service	Improve basic passenger facilities	<ul style="list-style-type: none"> • No. of bus shelters and benches installed • Facility maintenance program full implementation
	Improve basic customer services	<ul style="list-style-type: none"> • % of customer complaint responses within 5 days • No. of pass sales outlets • No. of schedule rack locations • Call Center abandonment rate
Improve Technology Efficiencies	Pursue technology and process improvements to enhance service delivery	<ul style="list-style-type: none"> • Achievement of Technology Plan milestones

Strategic Goal/Theme: *Manage Resources*

Strategic Objective	Actions	Measures
Deliver Competitive Services	Improve service delivery capacity and systems	<ul style="list-style-type: none"> • Completion of Park-n-Ride lots
	Effective management of transit program finances	<ul style="list-style-type: none"> • Cost per service hour • Passengers per service hour
Expand Tax Base and Revenues	Secure funding needed to carry out 2025 Plan improvements	<ul style="list-style-type: none"> • State capital funding • Federal capital funding • Debt policies

Strategic Goal/Theme: *Develop Employees*

Strategic Objective	Actions	Measures
Recruit and Retain Skilled, Diverse Workforce	Create an atmosphere where CATS is an employer of choice	<ul style="list-style-type: none"> • Turnover rate • % of 1st-choice candidates that accept job
Promote Learning and Growth	Make employee development planning an integral part of CATS culture	<ul style="list-style-type: none"> • No. of promotional opportunities filled internally

Each of these strategic objectives and measures then becomes part of a “Balanced Scorecard Measurement Validation” process” that is illustrated by the following form.

System Ridership		
Corporate Objective : Provide Transportation Choices		
KBU Initiative : Deliver safe high quality services		
Measure and Target: System ridership 5% increase		
Units of Measure : Individual rider		
Measurement Intent: The measure includes people who choose alternative commute and travel modes.		
Measurement Formula: Actual count of each time an individual rides any of CATS’ services.		
Data Elements and Sources: Data retrieved from bus fare boxes, monthly calculation of Vanpools (10 daily riders times the number of workdays in the month), Mobile Data Terminals from STS, report from DSS.		
Source for and Approach to Setting Targets : Monthly report from bus operating division, email from STS, DSS and Vanpool sections.		
Data Contact: Jane Doe		
Target Setting Responsibility: CATS Leadership Team and CATS Senior Management	Accountability for Meeting Target: CATS Leadership Team	Tracking/Reporting Responsibility: Jane Doe
Notes/Assumptions :		

The above scorecard and performance measures “influence” budget development and decision-making. This means that the knowledge obtained from the process of setting goals and priorities, and measuring performance, helps management make more informed decisions about where resources may need to be added or where expenses can be cut.

Instead of simply “influencing the budget process,” more directly driving the budget are the CATS’ Financial Policies and associated measures which are shown on the following page. For instance, if the recovery ratio is projected to fall under 20 percent, then budget decisions will have to be made that will either increase revenues (e.g. increasing the fare), or decrease expenses.

Financial Policy Performance Indicators

Performance Indicator	FY 2007 Adopted
Operating Ratio (Revenues/Expenses = 20%)	23.76%
Operating Balance—Months (= 1 months Operating Expense)	2.93
Passengers per Hour (= 20)	22.90
Cost Growth (Cost per Hour)	\$88.88
Administrative Overhead (= 15%)	11.13%
Capital Investment Level (= 20% of sales tax revenue)	34.77%
Net Debt Service Coverage (= 1.15)	1.20
Gross Debt Service Coverage (= 3.0)	3.44

A key part of performance-based budgeting is not just including performance information in developing the budget, but also reporting on performance after the budget is adopted. CATS does this on a quarterly basis.

An example of one of their Balanced Scorecard Reports for the reporting period July 1, 2006-March 31, 2007 is shown below and on the next two pages. Such reporting helps to “close the loop”—from goals to budget-year objectives to strategies to performance measures to budgets to performance monitoring and finally to making necessary adjustments if performance is not according to plan.

Excerpt from CATS Quarterly Performance Report

Corporate Objective	Key Business Unit Initiative	Measure	Prior Year Actual	Lead or Lag	Performance Data			Comments/ Explanation
					Target	Year-to-Date	Status*	
Provide Transportation Choices	Deliver safe, high quality services	System ridership	7/8%	Lag	5.0%	2.2% thru March	-	Achieving year end results of 5% will be a stretch this year. March, ridership was up 4%.
		On-time performance average for last quarter of FY 2007		Lag	80%	74.6%	+	YTD the system has achieved a 74.6% on-time rating. The March rating was 79.7%. This is lower than the rating for February, 80.23%. Traffic congestion associated with the CIAA tournament could have been one factor affecting on-time performance for March.
		Rude and discourteous complaints per 100,000 riders		Lag	1.65 per 100k	2.2 per 100k	0	The rude and discourteous complaints for March were 1.08 per 100,000 riders.
		Vehicular accident rate (all modes— preventable, per 100,000 miles)	0.69	Lag	.62	.54	-	The preventable accident rate is down YTD and also for the month of March, with a YTD preventable accident rate of .54 and .24 for the month per 100,000 miles driven.
	Advance Corridor System Plan Rapid Transit Projects & implement 2025 Corridor System Plan	Adopt Updated Implementation Plan		Lead	11/30/2006	Complete	+	MTC adopted the updated Corridor System Plan at the November meeting.

* A “+” sign indicates all is well

A “-“ sign indicates that the status is not where expected or that the current status is in trouble. An explanation is required.

An “x” indicates this target will not be or is not met. An explanation is required.

City of Hickory

The City of Hickory has been involved in performance measurement for over 10 years. It started with Hickory’s participation in the Local Government Performance Measurement Project being conducted by the Institute of Government at UNC-Chapel Hill. This project is aimed at helping local governments develop performance measures that are useful in managing their programs and services more efficiently and effectively, and for demonstrating to citizens the results being achieved. In addition, local governments are able to “benchmark” their performance against other similar local governments in North Carolina.

As stated in its FY 2006-2007 budget document (p.225):

“The City of Hickory places a strong emphasis on quality improvement through performance measurement. Performance measures identify the results achieved and the benefits to citizens and indicate how well government resources are being used.”

Hickory has integrated the concept and tools of performance measurement with its budgeting process. As described in a recent book on the subject:

“The City of Hickory has been successful in creating a performance budget by developing a comprehensive performance management approach to service delivery. Performance is discussed in connection with organization-wide and programmatic goals, in comparison to historical, current, and projected outputs and outcomes, and with evaluation of programmatic services in regard to economy, efficiency, and effectiveness.” (Kelly and Rivenbark, pp. 71-75)

The process is depicted in the figure below (from a presentation by Hickory’s City Manager, Mick Berry):

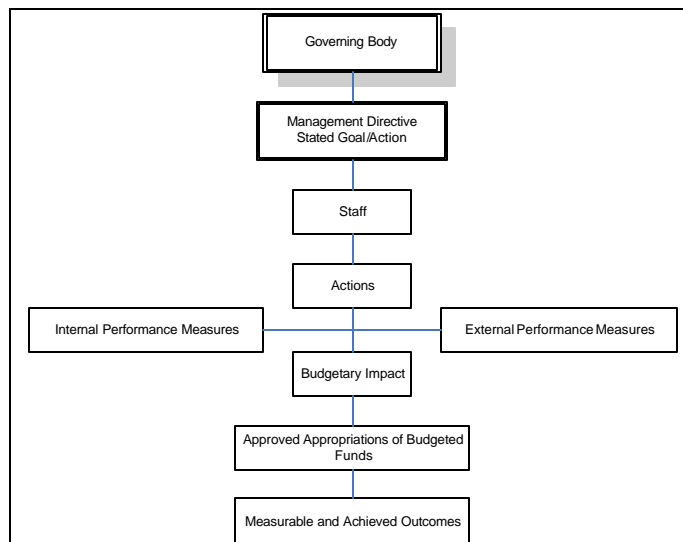


Exhibit 2 at the end of this case study provides an example of how agency goals, objectives and performance measures are incorporated in the budgeting process. As can be seen, the budget document describes the unit's mission, its previous year accomplishments, its budget-year goals and objectives, and its performance measures. The performance measures include "workload," "efficiency" and "effectiveness" measures. In addition, key financial and staffing level data are provided.

In addition to the mission, goals and objectives associated with the various budgeted functions, in FY 2005-2006 Hickory included a new "Performance Measurement" section in its budget document. This section compares (benchmarks) Hickory's performance with the performance of other North Carolina municipalities in regard to a number of different service areas (e.g. residential refuse collection, household recycling, police and fire services, and fleet maintenance).

In the City Manager's performance-based budgeting presentation, he noted the following benefits from using performance measures as part of the city's budgeting process:

- Links departments/divisions to the overall goals of the governing body.
- Departments develop and tie internal measures to track and report progress toward goals.
- Measures the cost, effectiveness and efficiency of services.
- By tracking the measurement over time, inefficiencies in service levels are identified as well, and may be indicative of poor use of resources/budget dollars.
- Provides a basis for decision making.
- Ties back to an appropriation of funding in the budget.
- Provides a tool and format to report progress to governing body.

The budget planning process used by the City for its FY 07 budget is described below (from the FY 07 Adopted Budget document).

Budget Planning

Phase I (Initial Budget Planning Stage)

- Budget planning for the FY2006-2007 Annual Budget began in August 2005 with the formation of an "Annual Budget Process Improvement Team" which was made up of City coworkers from various departments who were in some way involved in the budgeting process.

This team made recommendations on improving the budget development process for FY2006-2007. Recommendations made by this team resulted in an improved budget development cycle and budget development calendar. This improvement team meets annually at the beginning of each budget development process to critique the budget development cycle just completed and to recommend improvements for the next cycle.

Phase II

- In October of 2005, projections of personnel expenditures and projections of risk management insurance expenditures were made for the upcoming fiscal year. This information is used to determine what new revenues would need to be produced to maintain current staffing levels and to maintain current risk management insurance policies. These projections are done early due to the significant dollar value involved with these items and the vital role they play in the overall budget development process.

Phase III

- In December of 2005, there was a “Budget Kick-off Meeting” held with all departments. At this meeting, departments were given the FY2006-2007 budget manuals, FY2006-2007 budget calendar, FY2006-2007 personnel projections, FY2006-2007 risk insurance projections, instructions for performance measurement reporting, and initial operational target budgets each department was to balance to.

Phase IV

- In December of 2005, debt projections were made by the Finance Department for FY2006-2007.
- All new personnel requests were due to the Human Resources Department by December 1, 2005.

Phase V (Final Budget Planning Stage)

- Annually, the Hickory City Council adopts their Priorities and Action Plan, which are derived from the Council-Staff Session. This document is used throughout the year as a guiding tool to ensure that the philosophy defined by the City Council is advocated and carried out by City departments as they deliver services to the public. Also, the Priorities and Action Plan guides City officials in budget development and planning for the upcoming and future budget years. In short, this policy document provides the structure by which the City of Hickory functions during the fiscal year.
- On February 15th and 17th, the City of Hickory held its 21st annual Council-Staff Retreat at the Highland Recreation Center at Stanford Park. Discussions centered on a broad budget review and economic development activities in Hickory. The Retreat discussions helped formed the basis for the new City Council Priorities and Action Plan for FY2006-2007.
- Revenue needs for the annual budget were then determined by totaling the financial resources which would be required to implement City Council Priorities and Action Plan along with ongoing personnel, operational, capital and debt service requirements anticipated for the upcoming fiscal year.
- Budget planning for the FY2006-2007 budget was completed at this point and the development of the FY2006-2007 recommended annual budget began.

How the Budget Process Works

Basis of Accounting and North Carolina Local Government and Fiscal Control Act

The budget is prepared using the modified accrual method of accounting for all funds. This approach to accounting recognizes revenues when they become measurable and expenditures at the time the liability is incurred. All revenues and expenditures must be included in the annual budget ordinance or the appropriate capital and/or grant project ordinances. Any operational appropriations that are not expended or encumbered shall lapse. The City of Hickory uses the modified accrual method as the basis for budgeting and for accounting.

The North Carolina Local Government Budget and Fiscal Control Act (LGBFCA) controls how cities budget and spend money. The major effects of the LGBFCA on the budgetary process are as follows:

Budget Preparation Calendar

The LGBFCA establishes the dates by which each stage in the annual budget process is to be completed

(G.S. 159-10 through 13). These dates are as follows:

- Departmental requests must be submitted to the budget officer by April 30.
- Revenue estimates must be submitted to the budget officer by April 30.
- The recommended annual budget must be submitted to the Governing Board by June 1.
- The Governing Board must adopt the annual budget ordinance by June 30.

Budget Forms and Procedures

The budget officer must prescribe the forms and procedures for the departments to use in preparing their requests; in the words of G.S. 159-10, requests “shall be made in such form and detail, with such supporting information and justifications, as the budget officer may prescribe.” G.S. 159-10 also requires that a budget request show actual expenditures for the prior year, estimated ones in the current year, and requested ones for the coming budget year.

Departmental Requests

G.S. 159-10 requires that the budget request for a department include revenues or fees that it will collect in the budget year.

Recommended Budget

G.S. 159-11 requires that the budget officer’s recommended budget be balanced unless the Governing Board insists that an unbalanced budget be submitted. It is also required that the budget be submitted to the Governing Board with a budget message. G.S. 159-11(b) states that the message should include:

- A concise explanation of the governmental goals fixed by the budget for the budget year.
- Important features of the activities anticipated in the budget.

- The reasons for stated changes from the previous year in program goals, programs, and appropriation levels.
- Any major changes in fiscal policy.

Board Review

Once the recommended budget is presented to the Governing Board, several general legal provisions apply to Board review and adoption of the budget ordinance.

- At least 10 days must pass between the submission of the recommended budget and adoption of the budget ordinance.
- On the same day the budget is submitted to the Governing Board, the budget officer must file a copy of it in the City Clerk's Office where it is made available to the public and press.
- The City Clerk must publish a notice that the budget has been delivered to the Governing Board and is available for public inspection. This advertisement must also note the time and place of the required public hearing.
- During the time between submission and adoption, the Governing Board may conduct its review at both regular and special meetings. At least one of these dates must be a public hearing at which any person who wishes to comment may.
- The Open Meeting Law (G.S. 143-318.9 through 318.18) applies to the budget preparation and adoption process.

Adoption of the Budget Ordinance

The budget ordinance must contain the appropriations, the estimated revenues, and the property tax levy as well as the property tax rate.

Budget Adoption and Amendment

The operations conducted by the City are guided by the annual budget ordinance adopted in accordance with the provisions of the North Carolina Local Government Budget and Fiscal Control Act. The Budget Ordinance must be balanced and adopted prior to the beginning of the Fiscal Year. Adoption of the budget by City Council establishes the legal authority to incur expenditures in the ensuing fiscal year.

After the adoption of the Budget Ordinance, the City Manager (Budget Officer) is authorized to transfer appropriations between line item expenditures within a department without making an official report to the City Council. He may also transfer amounts not to exceed \$1,000 between functional areas, including contingency appropriations, within the same fund. These transfers, however, require an official report at the next regular meeting of City Council. All other revisions or budget amendments must be approved by the City Council through legislative action. All amendments affecting the original budget ordinance not within the scope of the authority granted to the City Manager require two readings for City Council approval.

In developing and adopting the budget, the City uses the following budget schedule.

Budget Calendar

- **October 31, 2005** Personnel expenditures projected by Human Resources
- **October 31, 2005** Worker's Compensation, Property and Liability insurance projected by Risk Management
- **December 1, 2005** New position requests and reclassification requests due to Human Resources (per Personnel Ordinance)
- **December 5, 2005** Master Plan and Neighborhood Plan Costs are projected by the Executive Assistant over Development
- **December 5, 2005** Debt projected by Finance (existing debt only)
- **December 5, 2005** City Council Financial Policy expenditures (transfers and contingency) projected by Budget Office
- **December 5, 2005** External appropriation request letters sent out
- **December 14, 2005** FY 06-07 Budget Manuals distributed to departments
- **December 17, 2005** Budget Kick-off Meeting in Council Chambers:
Budget Development Process Overview
Performance Measurement Diskettes Distributed
- **January 3 – 24, 2006** Departments may request to meet with the City Manager to make additional budget requests or to negotiate budgets
- **January 7, 2006** Departments to have entered FY06-07 operational budget requests into H.T.E. Requests to balance to department's initial budget allocation
- **January 7, 2006** Departments to have entered FY06-07 capital budget requests into H.T.E.
- **January 14, 2006** Projected revenues entered into H.T.E. by Budget Office
- **January 31, 2006** External Appropriation requests due
- **January 31, 2006** Fleet Management to review and make recommendations on new capital equipment requests
- **January 31, 2006** City Engineer to review and make recommendations on capital construction requests
- **January 31, 2006** Information Technology Director to review and make recommendations on technology requests
- **February 2, 2006** Fee Schedule sent to departments for FY06-07 changes
- **February 15, 2006** Board & Commission workplans due
- **February 15, 2006** City Council Meeting:
External appropriation requests presented
- **February 18, 2006** 5-year CIP to be entered into H.T.E. by departments
- **February 28, 2006** Departments to return FY06-07 Fee Schedule changes to Budget Office
- **March 1, 2006** City Council Meeting:
Board & Commission workplans presented
- **March 4, 2006** Performance Measurement diskettes due to Budget Office from departments
- **March 4, 2006** City Manager's Recommended Budget balanced
- **May 16, 2006** City Council Meeting:

Present City Manager's Recommended Budget

Call for public hearing on Recommended Budget

- **May 17, 2006** Publish notice of public hearing and make a copy available to news media in the County
- **June 7, 2006** City Council Meeting
Public Hearing on Recommended Budget
FY06-07 Budget approved on 1st reading
- **June 21, 2006** City Council Meeting
FY06-07 Budget adopted on 2nd reading
- **June 22, 2006** Notification of tax rate sent to Tax Administrators in Burke, Caldwell and Catawba Counties
- **June 22, 2006** Notify organizations who requested appropriation of City funds of funding status
- **July 1, 2006** Fiscal Year 2006-2007 begins

Once the budget is adopted, a quarterly report on both financial and non-financial performance is sent to department heads, the City Manager, and the City Council. The non-financial performance is based on the performance measures contained in the budget document (workload, efficiency and effectiveness measures). Actual performance is sometimes also used in evaluating and recommending amendments to the budget.

It should be noted that Hickory's budget has received awards from the Government Finance Officers Association for "distinguished budget presentation."

An interesting aspect of Hickory's budget performance measurement process is the "benchmarking meetings" that are part of the Institute of Government's Performance Measurement Project. Participants in this project agree to measure the performance of various service areas and an average is developed for certain performance measures in each of the service areas. Participants can then assess their own performance in relation to the average. At the annual benchmarking meetings, participants get together and discuss what's might be behind either good or poor performance. In addition, "best practices" meetings are held at least annually where ways of improving performance are discussed and shared.

Exhibit 2



Public Transit Department

Additional Information about the Public Transit Department may be obtained by calling Cynthia McGinnis, Transit Manager, at 828-464-9444 or cmcginnis@ci.hickory.nc.us

Functional Area: Transportation

Mission Statement:

To provide reliable, safe, inexpensive and cost effective mass transportation to the general public.

2005/2006 Accomplishments:

- Five heavy-duty state-of-the-art transit buses were ordered.
- A major service change was instituted 8/1/2005 that expanded the transit service area.
- A new logo was created for Piedmont Wagon.
- The transfer site at Union Square will be relocated to a temporary location to accommodate the new buses.

2006/2007 Goals and Objectives:

Goal: To provide enhanced passenger amenities to transferring passengers in Downtown Hickory.

Objective: Complete the downtown transfer station project.

Goal: To increase ridership and passenger revenue.

Objective: Place the new buses in service and adjust fares; begin marketing the service.

Goal: To facilitate transit efforts in the four-county region.

Objective: Implement recommendations of the transit regionalization implementation study.

Performance Measures	2003-2004	2004-2005	2005-2006	2006-2007
	Actual	Actual	Estimated	Goal
<i>Work Load</i>				
Total Number of Trips	148,806	159,683	150,000	165,000
Rides Per Hour	12.3	10	10	12
<i>Efficiency</i>				
Cost Per Trip	\$17	\$17	\$17	\$17
<i>Effectiveness</i>				
Per Cent Farebox Recovery	13%	12%	12%	12%

Exhibit 2 (Cont')



Public Transit Department

The Transit Department operates the Piedmont Wagon bus system. Bus schedules can be obtained at City Hall, Parick Beaver Memorial Library, the Department of Social Services and area hospitals. Door-to-door van service is available for persons with disabilities. Buses operate Monday through Saturday. The City of Hickory, Newton, Conover and Catawba County operate Piedmont Wagon jointly.

Expenditure by Type	2004-2005 Actual	2005-2006 Budgeted	2006-2007 Budgeted	Percent Change
Personnel	968,243	1,033,535	1,058,000	5%
Operations	551,562	525,048	507,747	54%
Capital	14,583	1,770,117	245,500	-86%
Pro-Rata Reimbursements	98,188	126,183	140,000	16%
Expenditure Total	1,632,576	3,454,883	2,951,247	-34%
Per Capita	32	59	59	

Revenues by Type	2004-2005 Actual	2005-2006 Budgeted	2006-2007 Budgeted	Percent Change
Restricted Intergovernmental	1,290,299	3,018,249	2,012,795	-33%
Sales and Services	125,388	118,000	117,458	12%
Other Financing Sources	105,033	102,500	107,100	6%
Revenue Total	1,520,720	3,238,749	2,237,353	-39%

Authorized Personnel	2004-2005 Actual	2005-2006 Budgeted	2006-2007 Budgeted	Percent Change
Full Time	22	22	23	5%
Part Time	6	6	13	117%
Total	28	28	36	29%

Triangle Transit Authority (TTA)

In recent years the TTA has done much to restructure its budget process to help ensure that the agency budget is aligned with its mission and goals. In fact, the Finance Director described the effort to align the two as one of her major challenges.

The process begins with the development of the General Manager's Work Plan each year. This is reviewed by the Board and it then becomes a primary consideration as TTA's various departments develop their mission and goals for the forthcoming year. These missions and goals (and related performance measures) are then used in the budget development and decision-making process. An effort is made to make all goals "quantifiable and measurable."

As an example, the Bus Operations Department has developed the following proposed Mission and Goals for its Regional Bus Program for FY 2008:

Mission

- Develop a comprehensive regional bus service consistent with the Regional Transit Plan.
- Provide regional bus service connecting the local bus systems, the region's major cities, outlying communities, universities and technical colleges, and employment centered near RDU (Raleigh-Durham Airport) and RTP (Research Triangle Park).
- Provide exemplary customer service for bus customers and telephone inquiries.
- Provide clean, safe and reliable transit vehicles.
- Provide cost-effective service.
- Provide ADA service in concert with other area transit agencies.
- Procurement and maintenance of TTA's vehicle and equipment.

Goals for FY 2008

- Increase regional bus ridership by 8%.
- Reduce vehicle accident ratio through remedial training.
- Maintain a 90% on-time preventive maintenance schedule.
- Work towards improving on-time performance of scheduled trips by adjusting time schedules as needed.
- Maintain over 12,000 miles between service interruptions.
- Maintain a 100% service pull-out rate.
- Respond and resolve customer complaints within two business days.
- Reduce customer complaints by 20%.
- Maintain electronic farebox system through the Regional Farebox Repair Shop.
- Deliver accessible transportation services that are coordinated throughout the Triangle region.
- Maintain on-time performance for accessible service.
- Achieve a farebox recovery ratio of 12%.
- Explore and pursue the latest transit technology in regards to our vehicles and transit amenities that we offer the riding public.

- Explore and pursue practical energy-efficient practices, alternatives and transit equipment.
- Work with local transit agencies to purchase shared bus stop signs and install transit amenities.
- Complete retrofitting of the Thomas buses with electrical radiator cooling fans to reduce breakdown time during the summer season.
- Utilize biodiesel fuel to the extent possible.
- Complete bus facility expansion.
- Maintain bus operator pay hours per operating revenue hour to not more than 1.60.
- Improve dispatch communications between local transit agencies.
- Establish common operator training, bus stop procedures, and safety and security procedures for all local transit agencies.
- Increase security and safety awareness throughout the organization.

TTA develops monthly and quarterly “Report Cards” that report actual performance compared to performance goals on the following key customer and operational items. An example of such a report is shown below (for December 2005).

Measure	Performance
Ridership	<ul style="list-style-type: none"> ▪ 59,532 Regional Bus customers served (goal of 62,500) ▪ 738 Paratransit customers served (goal of 500) ▪ 33,280 Vanpool customers served on 63 vans (goal of 32,000)
Safety	<ul style="list-style-type: none"> ▪ 4 accidents on Regional Bus ▪ 0 accidents on Paratransit ▪ 0 accidents on Vanpool (goal of zero accidents per month)
Customer Satisfaction	<ul style="list-style-type: none"> ▪ One complaint per 13,364 customers (goal of one complaint per 3,500 customers)
Revenue	<ul style="list-style-type: none"> ▪ \$60,889 of bus fare revenue for month (budgeted \$79,667) ▪ 10.0 farebox recovery rate for month (budgeted 12.4%; goal of 15%)
Bus On-Time Performance	<ul style="list-style-type: none"> ▪ 79.4% on-time for month (goal of 80% for all trips)
Bus Cost per Hour	<ul style="list-style-type: none"> ▪ \$78.49 (budgeted cost of \$84.32)
Miles Between Service Interruptions	<ul style="list-style-type: none"> ▪ 21,783 miles (goal of 12,000 miles)
Customer Inquiries	<ul style="list-style-type: none"> ▪ 3,952 phone calls handled (goal of 2,500) ▪ 84,517 website page visits (goal of 85,200)
Successful Ridematches	<ul style="list-style-type: none"> ▪ 226 successful ridematches (goal of 500)
Total Number of Service Hours To-Date	<ul style="list-style-type: none"> ▪ 47,224 or 51.3% of annual budgeted hours (goal of 50.0% and annual budgeted hours)

In addition, performance is reported in the agency’s Annual Report.

As for benefits of the process, the Finance Director said that it helps to “paint the picture” of where the agency wants to go, what resources are needed to do this, and the results that

are expected. In addition, it allows better monitoring and control, and helps the Board and management to understand and be more comfortable with the budget numbers.

Analysis of NC Transit Agency Goal-setting, Performance Measurement, Budgeting and Accounting Systems

In order to better understand how performance-based budgeting might best be implemented in North Carolina, an analysis was made of the goal setting, budgeting, accounting and performance measurement processes used by six representative North Carolina transit systems. Interviews were conducted with key representatives of each system, and pertinent materials were obtained and reviewed. The six systems were:

Agency	Type of System	Person(s) Interviewed
AppalCART (Watauga County)	City/County	James Harrison, III, Finance Officer; Chris Turner, Director
Cabarrus County Transportation Services	Large Rural (County)	Randy Bass, Transportation Director; Lori Denney, Administrative Supervisor; Bob Bushey, Legal
Cape Fear Public Transportation Authority (Wave Transit)	Urban	Arlanda Rouse, Assistant Director
Gates County Inter-Regional Transportation System	Small Rural (County)	Patrice Taylor-Lassiter, Transportation Manager
Haywood County (Mountain Projects)	Medium Rural (Non-profit)	Richard Pittman, Chief Financial Officer; Susan Anderson, Transportation Director
Iredell County Area Transit System	Medium Rural (County)	Ben Garrison, Transportation Director

(Note: two additional systems that were originally identified for this effort declined to participate.)

None of the transit systems interviewed uses performance-based budgeting (PBB). Most of the systems interviewed use a fairly traditional form of budgeting. (In fact, only two NC transit systems have been identified that do use PBB, or some approximation thereof—the Charlotte Area Transit System and the Triangle Transit Authority.) These two systems were therefore used for the more in-depth case studies that were also part of the study.)

Highlights of the findings from the interviews and the review of materials are described below.

Are Planning or Goal-Setting Processes Used to Set a Direction at the Beginning of Each Year?

There was a mixture of practices on this. Some systems described their planning/goal-setting/budgeting method as an integrated, continuous process of looking at needs, issues,

problems, performance and finances, and then developing a budget accordingly. Other systems basically start with the current budget, determine if any additional funds will be available for new service, and then develop the budget for the following year.

Do the Plans or Goals Include any Performance Measures?

All of the systems consider performance in some manner. In particular, typical factors such as ridership and cost of service are commonly analyzed. Only a few systems use the more difficult and complex efficiency and effectiveness measures.

Are the Plans or Goals Linked to the Budgeting Process?

For the most part, those systems that conduct some kind of planning or goal-setting process before the budget cycle begins use those plans and goals to formally or informally influence the budget development process.

Does the Budget Document Include Any Performance Measures?

None of the systems appear to incorporate any performance measures in their budget documents.

What Accounting System is Used

Some of the systems use the NCDOT/Public Transportation Division's Uniform Public Transportation Accounting System (UPTAS). Some of the systems use the MUNIS financial system utilized by many counties and municipalities (that has an available performance budgeting module), then make manual adjustments as needed when submitting information to the Public Transportation Division. One transit system that is a unit of a larger non-profit agency uses the accounting system of that agency.

What Kind of Performance Reporting is Performed During the Budget Year?

Most of the monthly, quarterly or annual reporting involves only financial performance. Some reporting includes other performance information but it tends to be in the form of outputs such as ridership, service miles, etc., or information on such items as customer complaints and safety data.

Additional details regarding the transit agencies' budgeting processes are summarized in the table on the next page.

Summary Information from Transit System Interviews

Agency	Planning/Goal-Setting Process?	Performance Measures Included?	Linkage of Plans, Goals to Budgets?	Budget Includes Performance Measures?	Accounting System Changed?	Reporting Process?	Comments?
AppalCART	Continuous process of looking at current issues, problems, making adjustments, etc.	Daily/weekly reports on ridership (route by route). Trips/hour & mile, trips per “round”, etc.	Continuous process of evaluating needs for new service, adjustments to service, required new vehicles.	No.	Uses UPTAS* with minor internal adjustments (to show revenue sources).	State invoice each month. Monthly reports to Board. CY & FY summaries. Budget variance analysis every 6 months (informal).	Monthly Operating Summary and Fleet Performance Reports include some performance measures.
Cabarrus County	County sets broad goals. Transportation program has to mesh with these.	Uses several goals, objectives and measures related to customer needs, safety and out-of-county trips. **	They influence the budget process.	Not directly linked to budget line items.	County uses the MUNIS financial and accounting system. Numbers are translated manually to what PTD needs.	Daily reporting for internal management. Reporting on an annual basis to county.	System performance is used in performance appraisals of Transp. Director and staff.
Cape Fear (Wave Transit)	Uses a “baseline” budgeting approach—last year’s budget adjusted for inflation, service changes, etc.	No. A “route committee” is used to decide on what service changes to recommend.	See column 2.	No.	Uses UPTAS.	Monthly reports to Board (financial only).	
Gates County	Previous year requests for new or modified service are used to develop budget.	Some efficiency and effectiveness measures looked at?	See previous columns.	Not really. More the traditional use of additional resources needed for new service (personnel, fuel, etc.).	Uses the county system and manually adjusts to fill out the PTD forms.	Monthly and quarterly reporting to the Advisory Board. Semi-annually to county.	Reports include some data on complaints and customer satisfaction.

Performance-Based Budgeting for North Carolina Transit Systems

Agency	Planning/Goal-Setting Process?	Performance Measures Included?	Linkage of Plans, Goals to Budgets?	Budget Includes Performance Measures?	Accounting System Changed?	Reporting Process?	Comments?
Haywood County	First looks at estimated revenues vs. expenses, then decides what can be added, if anything.	Some use of complaints and requests for new service.	See column 2.	No.	Uses the accounting system of the umbrella non-profit, then translates that into UPTAS codes.	Bi-monthly to Board, quarterly to TAC and county.	
Iredell County	Goals, measures, and budget all part of an integrated "organic" process.	Trips and costs are religiously monitored.	Budget is carefully balanced in view of limited funding available.	No	Uses the MUNIS system, then manually converts as necessary to PTD codes.	At least quarterly to Asst. County Manager.	

* UPTAS: Uniform Public Transportation Accounting System (NCDOT/Public Transportation System)

** Cabarrus County goals, objectives and measures:

Goal: To meet all customer needs to the best of our ability, identify ways to increase service, reduce customer complaints, and better meet clients' needs in all areas.

- Objective: To have a higher percentage of compliments than legitimate complaints on all levels of service.
- Objective: To keep a record of customer compliments and legitimate complaints.
- Objective: Review log on a regular basis to identify patterns, and solutions for comparison of compliments and complaints.

Measures:

- Record the number of customer calls.
- Percentage of calls that were compliments vs. complaints.

Goal: Make safety the number one objective of transportation.

- Objective: To reduce preventable accidents by one or less every 500,000 miles.
- Objective: Hold monthly safety meetings with the safety supervisor and safety committee.

Measures:

- Keep a record of the number of accidents/incidents.
- Insure all drivers attend safety classes including Defensive Driver Course (DDC-4) and Smith System.

Goal: To increase the number of trips shared with surrounding counties, and to utilize more surrounding county services.

- Objective: To schedule and participate in meetings with bordering counties.
- Objective: To identify opportunities where we can work together to provide needed services for individuals outside our borders.

Measures :

- Reports on out-of-county trips provided by surrounding county services.

Note: Most of the reporting is more traditional financial and related reporting, not reporting on performance measures. Also, most of the performance measures used are output measures (ridership, service miles and hours, etc.) rather than efficiency and effectiveness measures.

Conclusions

A number of conclusions emerged from the literature review, the case studies, and the analysis of the planning/performance measurement/budgeting/accounting systems of a representative group of North Carolina public transportation agencies. These conclusions are described below.

- Performance-based budgeting (PBB) has a clear potential to produce important organizational benefits such as producing a more rational allocation of scarce resources through improved budget decision making, more closely aligning budgets with strategic plans and organizational goals, and providing increased accountability both internally and externally. However, its experience in reducing costs is mixed. While some organizations have achieved overall cost savings by using PBB, many others have not. It should therefore more realistically be viewed in the context of its many other benefits, not as a method for cutting bottom-line costs. Its effect is more likely to be a shifting of scarce resources to higher-priority or higher-performing uses.
- In order to produce real benefits, PBB has to be treated as more than simply adding some performance data or measures to the budget document (what some observers have referred to as “window dressing”). It needs to become part of an integrated planning, performance measurement, and budgeting system. As noted by Kelly and Rivenbark (p. 218):

“Performance budgeting is not a stand-alone system but the logical and appropriate extension of the collection, auditing, and reporting of the performance information that every public manager needs to make good decisions.”

- PBB, like budgeting itself, is both an art and a science. While it involves numbers, facts, mathematics, well-developed accounting and financial reporting systems, and computer software, it also involves judgments, assumptions, estimates, projections, guesses and “politics.” Although it seems both logical and desirable to use performance as a basis for budgetary decisions, performance will never be the only determinant. Many other “influences” will exist, including the capability of staff to collect and analyze performance information, external influences such as from local elected officials, legislative mandates, or simply the inertia of doing things the way they’ve always been done. As Kelly and Rivenbark well state:

“Performance budgeting is a budget preparation and adoption process that emphasizes *performance management*, allowing allocation decisions to be made *in part* on the efficiency and effectiveness of service delivery.” (p.4).

They go on to state that performance budgeting does not “determine” where budget dollars are allocated. Instead it “expands managerial capacity in the organization. It unifies the two dimensions of accountability that pertain to public services in a way

that enhances productivity and encourages innovation without sacrificing political accountability. When operational accountability and financial accountability are separated, the organization suffers.” (p.6)

- North Carolina transit systems use a variety of planning, goal-setting, performance measurement, budgeting and accounting systems and practices. They are also of greatly different size, are either urban or rural in nature, and may be a unit of city or county government. They also may be a public transportation authority or a non-profit agency. Finally, they may operate service directly, or through a contract operator. This suggests that a performance-based budgeting process designed for public transportation systems throughout the state will have to be adaptable to a great variety of system types and sizes.
- Few transit systems in North Carolina use formal performance-based budgeting. In fact, this study only identified two systems that use some form of it—CATS in Charlotte and the Triangle Transit Authority. This is not to say that it is not used by any other systems, only that the researchers were unable to locate any. Nor is it to say that only CATS and TTA use performance in their various management, planning and budgeting activities. Many if not all transit systems use performance in some way, formally or informally, as part of their ongoing management and operation of the systems.
- There is a “next level” of PBB that would involve realigning accounting and financial reporting systems with the programs and services that are the focus of performance measurement. This could even involve combining PBB with “program budgeting,” the creation of accounting and financial reporting structures that allow information to be collected and aggregated across departmental boundaries. This is generally a substantial undertaking and may be appropriate for the larger, more complex transit systems after they have gained some experience with PBB. It is probably not a level that would be either necessary or feasible at smaller systems with limited staff and resources.⁴
- It should be emphasized that performance budgeting is not a cure-all for fundamental managerial, organizational or financial problems. However, it can provide significant benefits if it is implemented in a comprehensive way with thoughtful, careful planning and management.
- Finally, performance budgeting should be looked at as a *process*, not a new budget format. A performance based budget may not look significantly different than a traditional line item budget; however, the process to develop the budget will be informed by an organization’s performance.

⁴ At least two financial management software packages have performance-based budgeting modules or capabilities—“SAS for Performance-Based Budgeting,” and “MUNIS,” a financial management package used by many city and county governments.

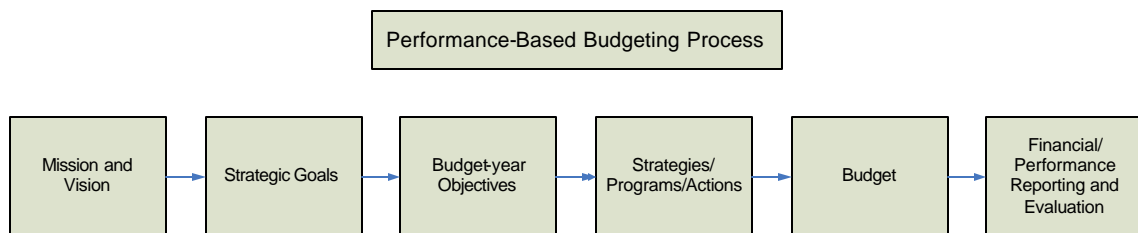
Recommended Methodology

Following is a simplified, conceptual model for implementing PBB. A much more detailed description of a recommended PBB process is provided in the accompanying *Performance-Based Budgeting Guidebook for North Carolina Transit Systems*.

Performance-based budgeting (PBB) is most effective when it starts with the setting of broad organizational goals and objectives. This might be through a strategic planning process, or simply through an annual goal-setting process by an organization's board and management. The first step, if this has not already been accomplished, is to create an organizational mission statement and a vision statement.

The next step is the setting of broad strategic goals for the organization. More specific objectives are then developed that support the goals, and this process is cascaded through the organization's various departments and units. Performance measures or indicators should then be attached to the objectives so that performance can be assessed. Strategies/programs and/or actions designed to accomplish these objectives are then developed. Next, budgets are developed that incorporate the proposed strategies, programs and actions. Finally, a financial and performance reporting process helps management to ensure that the budget is being met and desired performance is being achieved. If not, appropriate mid-course corrections can be made.

This general process is shown below.



A more detailed description of this process follows.

Agency Mission and Vision

An agency may already have a mission statement of some kind. Many organizations have created one by now. If not, this would be a good time to create one. A mission statement can be defined as:

A description of the basic purpose of the agency, its primary “reason for being.” The mission statement usually includes what services the agency provides, and what it wants to accomplish.

Example:

“The mission of the ABC Transit Agency is to provide convenient, affordable and safe demand-response transportation to our human service client agencies and to the general public throughout XYZ County.”

An agency may or may not have created a vision statement. An organizational vision can be defined as:

A concrete image or picture of the agency’s desired future. The vision statement should describe, in as vivid and compelling a way as possible, what the agency wants to become in the mid- to long-term future.

Example:

“The ABC Transit Agency intends to become a highly-valued member of the community, strongly supported by its riders, employees, the local business community and the community at large, by providing highly efficient and effective public transportation services throughout the county.”

A vision statement is not absolutely necessary, but can be very helpful in setting organizational direction and priorities.

Strategic Goals

Because the mission and vision statements describe the basic purpose of an organization and its desired future, they are usually considered a good starting point for the next step, the setting of strategic goals. Such goals are typically long-range, fairly broad, and involve multiple departments or units of the agency. (They are sometimes called “strategic initiatives.”) They should be “aligned” with the agency’s mission and vision.

In addition to being aligned with the with the agency’s mission and vision, to the degree possible the strategic goals should also consider and be aligned with the articulated vision and goals of the NC Department of Transportation.

Depending on the agency’s mission and vision, some examples of strategic goals might be:

Examples:

- Strategic Goal #1: To increase ridership on evenings and weekends.
- Strategic Goal #2: To increase the cost recovery ratio to 40 percent.
- Strategic Goal #3: To increase customer satisfaction to 90 percent or more.
- Strategic Goal #4: To increase the use of alternative fuels and vehicles.

Strategic goals should be limited in number to a manageable few. Otherwise, organizational energy is likely to become too diffused.

Note: Ideally, developing the mission, vision and strategic goals would involve the agency board, and would be addressed as part of a strategic planning process. Alternatively, strategic goals could be developed as part of an annual goal-setting process involving the agency's board.

Budget-Year Objectives

Budget-year objectives are, as the name implies, shorter term than strategic goals. They are also generally more detailed and specific. They describe the “results” that are expected to be achieved during the budget year, and they are often developed not just at the agency level but at the level of departments or units.

Ideally, objectives are “SMART”—i.e. Specific, Measurable, Agreed-upon, Realistic and Time-based.⁵ One way to help make objectives “SMART” is to use performance measures or benchmarks in their formulation. In particular, benchmarks such as timeframes/deadlines, or board-set target goals, are often useful in this connection as shown in the examples below.

Examples:

- Objective #1 (supporting Strategic Goal #1): Ridership will be increased by 10 percent on evening and weekend service during 200X.
- Objective #2 (supporting Strategic Goal #2): The recovery ratio will be increased from its current 20 percent to 30 percent by the end of 200X.
- Objective #3 (supporting Strategic Goal #3): Customer satisfaction, as measured by the percentage of riders strongly or very satisfied with our service, will be increased by at least 10 percent in 200X.
- Objective #4 (supporting Strategic Goal #4): The agency will purchase and test four hybrid-electric buses during 200X.

Note: if the agency is already using a performance measurement/benchmarking system, many of these measures and benchmarks will be valuable here.

In general, the goal is to focus on “outcome” measures where possible rather than the simpler measures of inputs (e.g. labor or materials) or outputs (e.g. vehicle miles). An “outcome” has more to do with the ultimate result desired (e.g. number of passengers carried, or a reduction in traffic congestion). However, even input and output measures can be quite useful when they are used to develop measures of efficiency or effectiveness such as cost per vehicle hour or passengers per vehicle mile.

⁵ SMART:

- Specific: well-defined and clear.
- Measurable: can tell whether and when the objective is achieved.
- Agreed-upon: those involved understand and agree on what the objective is.
- Realistic: can be achieved within the resources and time available.
- Time-based: the objective relates to a specific timeframe or deadline.

Strategies/Programs/Actions

Strategies/Programs/Actions are those things that will be undertaken during the budget year to help the agency achieve its goals and objectives, i.e. to produce desired results. Here too, performance measures or benchmarks should be used where appropriate in order to indicate when or how they will be achieved.

Examples:

- In support of Objective #1, the Marketing Department will institute a comprehensive marketing program aimed at potential riders employed at the new industrial park on Hwy 131. This marketing program will be in place by September 30, 200X.
- In support of Objective #2, fares will be increased from \$.75 to \$1.00 on October 1, 200X.
- Etc.

A recommended method for developing appropriate strategies or actions for achieving the budget-year objectives is to use a formal problem-solving or decision-making process. This is a good way of developing a course of action that will be the most effective in achieving an objective. A simple problem-solving/decision-making methodology is described in the Appendix.

Budget

The budget should reflect the estimated cost of the strategies, programs, projects and services that are proposed for the year. In general, a budget is primarily composed of a continuation of the “status quo”—the activities and services that go on year after year. However, the budget should also reflect important changes such as the addition of new services or programs, or the curtailment or elimination of existing ones. Some of these changes may be the outcome of the PBB process. The cost (or savings, or revenues) of these changes should be highlighted and described in the budget document.

Financial/Performance Reporting and Evaluation

It is important to not just report financial results, i.e. whether expenses and revenues are in line with the budget. Performance results, i.e. whether the objectives that were considered in budget development and adoption are actually being achieved, should also be reported. This can be done on either a monthly, quarterly or semi-annual basis. If actual results are not in accord with the budget or plans, necessary adjustments can be made.

Note: Some organizations have even taken performance measurement and budgeting to the next level by explicitly tying employee performance appraisals to the larger performance management system. As would be expected, when individual promotions and salary adjustments are tied to the achievement of departmental and organizational goals and objectives, the effect can be very powerful. However, this is something that is

probably more appropriately attempted after a PBB system has been in place for several years. Trying to implement it at the same time as PBB may be too ambitious for most organizations.

Integrating PBB with the NCDOT/PTD Budget Application Process

Transit agencies should provide a summary of their performance-based budgeting process and results to the NCDOT/PTD annually. This report should be provided as part of their budget submissions each year along with other required supplemental materials (e.g. for rural systems, this includes the Authorizing Resolution, Federal/State Certifications & Assurance, Title VI Program Report and Documentation of Public Involvement).

At a minimum, this report should include a description of the following:

1. How transit agency strategic goals are determined or set, plus a listing of the current goals. This should include who was involved in the process (management? board? external stakeholders?), and how they were involved.
2. How the strategic goals are translated into more specific goals and objectives for the upcoming fiscal year, and a listing of them. This should include a discussion of how actual performance in the current fiscal year was used in setting goals and objectives for the upcoming year.
3. Strategies, programs or actions that are proposed for the next fiscal year in order to achieve the goals and objectives.
4. The performance measures or benchmarks that will be used to assess progress.
5. The budgetary impact of the proposed strategies, programs or actions. (Note: some of these may not have a budgetary impact but can be accomplished within existing resources.)

As appropriate, relevant documents from each agency's budget process can also be included.

Two examples of such a report are provided below, one for a rural system, one for an urban system. (The examples are greatly simplified and purposely omit or overlook many details.)

Rural System Example

Our Process:

The ABC Transit Agency holds a board/management retreat each May. At the retreat, strategic goals and more specific objectives for the agency are developed for the fiscal year that begins 13 months later. Included in the discussion at the retreat is a review of performance in the current year. To the extent that problems are identified, these are considered in the goal-setting process.

Between May and September, management develops the strategies and programs that will be necessary to achieve the goals and objectives. In addition, performance measures,

targets and budget estimates are developed for the various goals, objectives, strategies and programs. The budget estimates are incorporated as appropriate in the proposed budget which is submitted to the board in October for their review and approval (after adjusting as necessary to reflect actual year-end financial and performance results for the previous year).

The approved agency budget is then used to develop the annual budget application to the NCDOT Public Transportation Division in November.

The Results:

At the board/management retreat last May, the following strategic goals were developed:

- To expand service to the entire county.
- To increase ridership by the general public.
- To reduce the cost per passenger trip.
- To add service on Saturdays.
- To decrease the large expense related to out-of-county, non-emergency medical trips.

In addition, system performance problems were identified as follows:

- Vehicle utilization data analysis revealed that our vehicles are very underutilized compared to our peer group.
- Similarly, the number of no-shows and cancellations at our system is much higher than for our peers.

In view of the strategic goals and in response to the performance problems described above, the following budget-year objectives were developed for FY 200Y:

1. Service will be started in the unserved northeast quadrant of the county.
2. General public ridership will be increased to 15% (from 10%).
3. The cost per trip will be reduced by at least 5%.
4. Saturday service will be tested for the last six months of the year.
5. The number of uncoordinated out-of-county medical trips will be reduced by 25%.
6. Two underutilized vans will be reassigned.
7. No-shows and cancellations as a percentage of total trips will be reduced from 15% to 10%.

In order to achieve these goals, the following strategies or actions were recommended:

1. In support of Objectives #1 & #6, two new part-time drivers will be hired to allow expansion of service to the northeast quadrant using the two reassigned vans.
2. In support of Objective #2, a marketing and public relations campaign will be conducted throughout the county to inform all citizens of the availability of our service.
3. In support of Objective #3, new scheduling and dispatching software that will allow more efficient grouping of rides will be purchased and installed.

4. In support of Objective #4, a pilot project will be planned and implemented to test Saturday service. This will include the development of criteria by which the test will be judged successful or not.
5. In support of Objective #5, out-of-county medical trips to Durham and Chapel Hill will be coordinated with X and Y counties.
6. In support of Objective #7, a clear policy will be developed and implemented regarding no-shows and cancellations. Dispatchers will receive appropriate training about its application, and all riders and client agencies will be informed of its provisions.

The impact of these strategies and actions on the administrative/operating budget in FY 200Y is summarized in Table 4 below:

Table 4: Example of Actions on Budget

Budget Item	Revenue	Expense	Net Budget Impact
New service—northeast quadrant	\$7,000	\$30,000	\$23,000
Marketing/public relations campaign		\$4,000	\$4,000
New scheduling and dispatching software and training		\$15,000	\$15,000
Savings from more efficient scheduling		-\$10,000	-\$10,000
New Saturday service pilot (6 months)	\$2,000	\$7,500	\$5,500
Medical trip coordination to Durham and Chapel Hill	-\$3,500	-\$8,000	-\$4,500
Implementation of no-show/cancellation policy (savings)		-\$3,500	-\$3,500
Net Budget Impact	\$5,500	\$35,000	\$29,500

These amounts represent changes to the “status quo” budget which would then be factored into the overall budget request for FY 200Y.

Urban System Example

Our Process:

The XYZ Transit Agency develops a strategic plan every five years. Each year, the plan is reviewed and updated at a board/management retreat in January. The strategic plan includes broad strategic goals for the agency for the next several years. At the retreat, more specific objectives for the following fiscal year are discussed and set. Included in the discussion at the retreat is a review of performance in the current year. To the extent that problems are identified, these are considered in the goal-setting for the following year.

Between February and June, management develops the strategies and programs that will be necessary to achieve the goals and objectives for the upcoming fiscal year. In addition, performance measures, targets and budget estimates are developed for the various goals, objectives, strategies and programs. The budget estimates are incorporated as appropriate in the proposed budget for the following year which is submitted to the board in June for their review and approval (after considering year-to-date financial and performance projections for the current year).

The approved agency budget is then used to develop the annual budget application for SMAP funds that is sent to the NCDOT Public Transportation Division in January-February.

The Results:

At the board/management retreat in May, the following strategic goals from the 200X strategic plan were reviewed and affirmed:

- To increase ridership on evenings and weekends.
- To increase the cost recovery ratio to 40%.
- To increase customer satisfaction to 90% or more.
- To increase the use of alternative fuels and vehicles.

In addition, system performance problems were identified as follows:

- A trend analysis revealed that passenger trips per vehicle mile have been steadily declining, and the cost per passenger has been increasing at a rate far greater than inflation. A peer group comparison also revealed that our performance on cost per trip is 15% below our peers.
- Our on-time performance has been declining, from 92% last year to 85% this year.

In view of the strategic goals and in response to the performance problems described above, the following budget-year objectives were developed for FY 200Y:

1. Ridership will be increased by 10% on evening and weekend service.
2. The recovery ratio will be increased from its current 20% to 30 %.
3. Customer satisfaction, as measured by the percentage of riders strongly or very satisfied with our service, will be increased by at least 10%.
4. The agency will purchase and test four hybrid-electric buses.
5. Passenger trips per vehicle mile will be increased by at least 10%.
6. On-time performance will be increased to at least 90%.

In order to achieve these goals, the following strategies or actions were recommended:

1. In support of Objective #1, the Marketing Department will institute a comprehensive marketing program aimed at potential evening and weekend riders. This marketing program will be in place by September 30, 200X.

2. In support of Objective #2, adult fares will be increased from \$.75 to \$1.00 on October 1, 200X. However, in support of Objective #1, the adult fare will remain at \$.75 for off-peak riders.
3. In support of Objectives #3 & #6, on-time performance will be improved by conducting a training program for all drivers that stresses the importance of on-time performance and provides tips for operating on time.
4. In support of Objective #4, a hybrid-electric bus mechanic will be hired in January.
5. In support of Objective #5, service on four poorly-performing routes (Routes 3, 8, 11 and 16) will be reduced from 15-minute to 30-minute frequency.

The operating budget impact of these strategies and actions in FY 200Y is summarized in Table 5 below:

Table 5: Example of Actions on Budget

Budget Item	Revenue	Expense	Net Budget Impact
Marketing Program for evening/weekend riders	\$10,000	\$15,000	\$5,000
Fare increase (3/4 year)	\$25,000		-\$25,000
On-time performance training program		\$2,500	\$2,500
Hybrid-electric bus mechanic (1/2 year)		\$15,000	\$15,000
Service reduction on four routes	-\$3,000	-\$15,000	-\$12,000
Net Budget Impact	\$32,000	\$17,500	-\$14,500

These amounts represent changes to the “status quo” budget which would then be factored into the overall budget request for FY 200Y.

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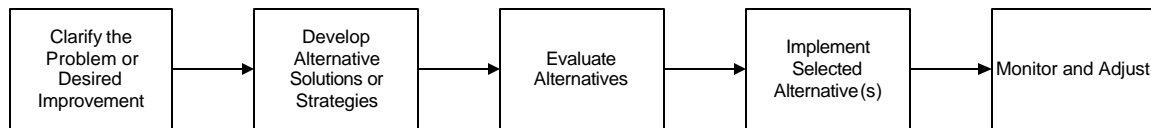
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Appendix: Problem-Solving/Decision-Making Process

If a determination is made that there is a problem in an organization that needs to be addressed, or something that needs improvement, a good practice is to form a small team of people who have responsibility and/or expertise in that area. The team then conducts a problem-solving or decision-making process to address it. Typically, such a process involves the following steps:

Problem-Solving/Decision-Making Process



These steps are more fully explained below:

1. *Clarify the problem or improvement desired.* Make sure that the exact nature of the problem (or desired improvement) is clearly understood and agreed to by everyone. If it is a problem being addressed, dig down to determine the underlying root causes of the problem. Make sure that there is a cause and effect relationship.
2. *Develop alternatives for solving the problem or achieving the desired improvement.* If a problem, ideally this would include preventing the problem in the future rather than just fixing the current problem.
3. *Evaluate the alternatives and select the best one(s).* It can be useful as part of this effort to have the team develop and agree on the evaluation criteria that will be used to choose the best alternative(s).
4. *Implement the selected alternative(s).* It is important to have individuals who have responsibility for implementing the changes on the team. This helps them to understand and accept what is proposed.
5. *Monitor the results and make adjustments as necessary.* A key to implementing change is to monitor actual results to make sure that they are what was intended. If not, make necessary adjustments.