



# City of San Antonio Budget Methodologies Evaluation

## Final Report

**PFM Group Consulting, LLC**

May 7, 2025

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# Report --- Overview

PROJECT OVERVIEW &  
INTRODUCTION OF PROJECT TEAM

SAN ANTONIO CORE SERVICES ANALYSIS

EVALUATION OF CURRENT BUDGET PROCESS

REVIEW OF ALTERNATE BUDGET METHODS

RECOMMENDED BUDGET PROCESS



# **Project overview & Introduction of project team**

# What We Do





## PFM's Management and Budget Consulting (MBC) Team

- MBC is a team of professionals whose mission is to help local government, state government, and non-profit leaders overcome their toughest financial challenges, improve the efficiency of their day-to-day operations, and align their resources to their community's long-term goals.
- We work with our clients to strengthen their finances, improve operating performance, and increase capacity to deliver services effectively.
- We are unique in our ability to view policy and operational issues in a fiscal context, understanding that efficiency needs to be in the service of achieving larger goals. That's why virtually all of our major local government engagements focus on the point of intersection between operations, policy, and budget.
- In just the last three years, our MBC practice has worked with over 80 local governments on a variety of engagements.
- Over the years, PFM has supported the City on a variety of projects, including workforce, collective bargaining, American Rescue Plan Act support.



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## Project Overview

- PFM was engaged by the City of San Antonio to analyze the City's current budget process and identify opportunities to integrate alternative budgeting approaches — such as zero-based budgeting, performance-based budgeting, and outcomes-based budgeting.
- The goal is to establish a more transparent and data-driven budgeting process that provides greater insight for informed decision-making, ultimately improving the quality of critical services and ensuring that investments are more meaningful and impactful for the City.
- The work involved four phases:
  - **Core Services Review**: Identified and assessed the City's core services to ensure alignment with budgeting priorities.
  - **Budget Process Evaluation**: Analyzed the current budget process by reviewing the existing timeline, key steps, and engaging with City staff and leadership to identify strengths and opportunities for improvement.
  - **Budgeting Methods Research**: Researched Zero-Based Budgeting, Performance-Based Budgeting, and Outcomes-Based Budgeting to identify key components of these methodologies that could enhance the City's current process.
  - **Recommendation of Alternative Budgeting Methodology**: For Council consideration to be implemented in FY2027.
- Throughout this process, the PFM team actively collaborated with City leadership and staff to gain additional insight. The PFM team worked closely with Deputy City Manager Maria Villagomez and Budget Director Justina Tate. We also interviewed key department leadership and are working with the City Attorney's Office.
- PFM also conducted an internal workshop with PFM staff who have significant experience in implementing various budgeting methods. The session provided valuable insights on what worked well, what didn't, and key considerations for the successful implementation of alternative budgeting approaches.



## Overview of Staff and City Departments Engaged

Department	City Staff Member
Animal Care Services	Jon Gary, Director; Shannon Oster, Assistant Director
Arts	Krystal Jones, Director
City Attorney	Andy Segovia, City Attorney
Convention Sports and Entertainment	Patricia Muzquiz-Cantor, Director; Monica Ramos, Assistant Director
Development Services/ Code Enhancement	Amin Tohmaz, Director
Economic Development	Brenda Hicks-Sorensen, Director; Ana Bradshaw, Assistant Director
Finance	Troy Elliot, Deputy Chief Financial Officer; Melanie Seale, Assistant Director
Fire	Chris Monestier, Deputy Chief
Human Resources	Renee Frieda, Director; Krystal Strong, Assistant Director
Human Services	Melody Woosley, Director
Neighborhood and Housing Services	Veronica Garcia, Director
Parks	Homer Garcia, Director
Police	Robert Blanton, Assistant Chief; Rick Riley, Assistant Director
Public Works	Razi Hosseini, Director; Ana Resendez, Fiscal Administrator
Solid Waste	Josephine Valencia, Director; Gilbert Ramirez



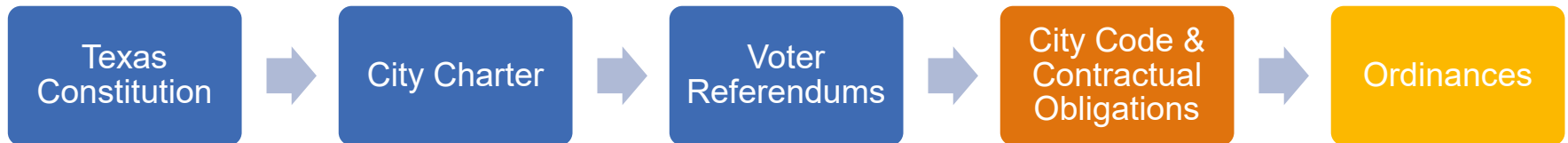
# **San Antonio Core Services**





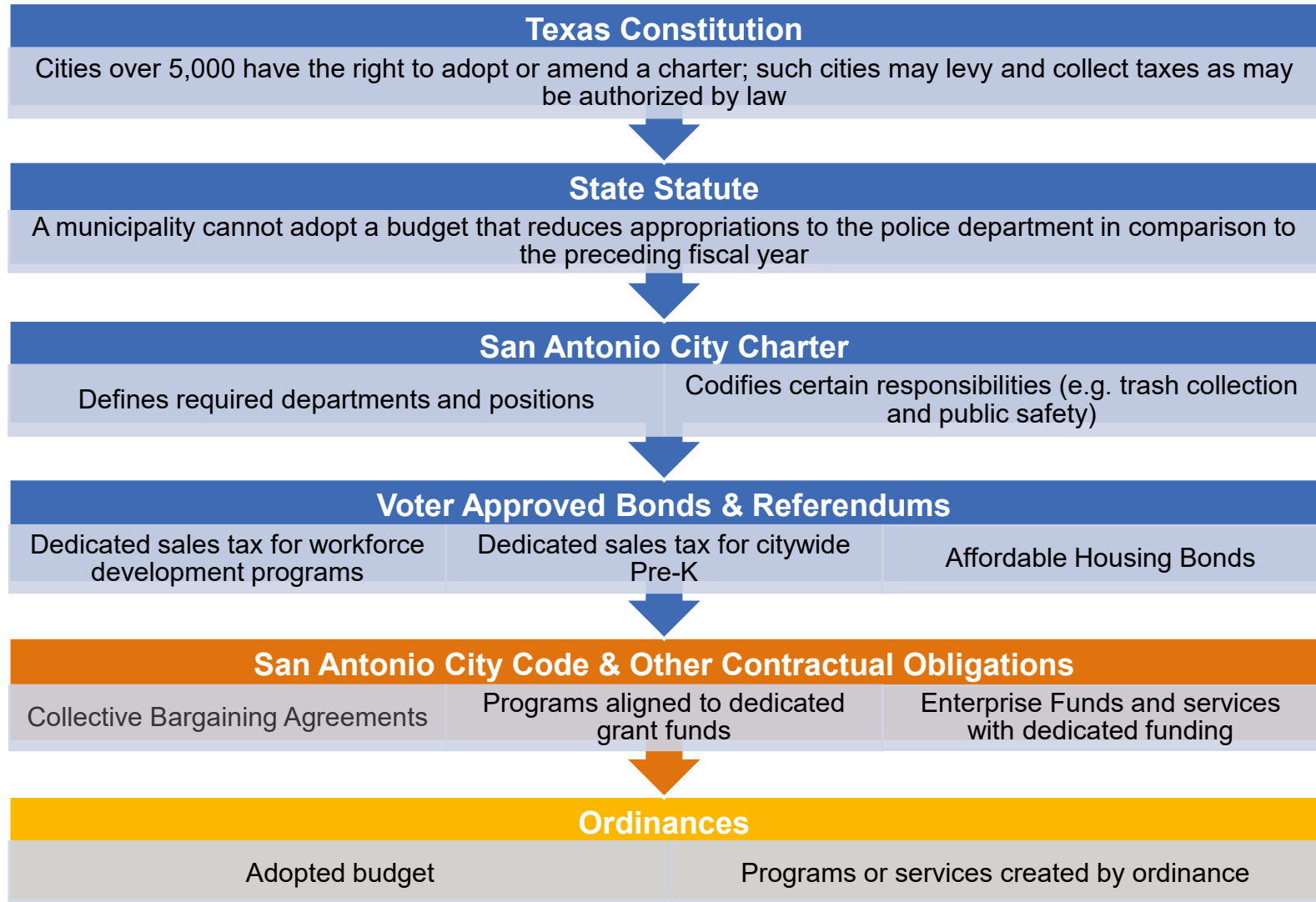
## Evaluation of Core Services

- As a part of the PFM team's review of the City's current budgeting practices and consideration of other budget methodologies, such as zero-based budgeting (ZBB), the Team worked with City management to define the City's core services.
- For the purposes of our analysis, core services are defined as departments, programs, functions or services that the City is required to provide. These mandated services are outlined in the City's Charter and State Code. The services may also be codified through referendum.
- The graphic below demonstrates the various enabling mechanisms leveraged by the City to authorize services, programs, and personnel.
- The following slides provide additional detail on the nature of each of the below core service mechanisms.
- It is important to note that for the purposes of our analysis, the authorizing frameworks in **blue** (i.e. the Texas Constitution, City Charter, and Voter Referendums) outline the City's most essential mandates with the little to no flexibility.
- Conversely, the City Code and contractual obligations have more flexibility for city administration and council to make changes. While ordinances direct action and fund services, they have the most flexibility and items authorized in this manner would not be considered as core or mandated services for the purposes of ZBB.





## Hierarchy of Authority for San Antonio





# San Antonio Core Services – State Constitution & Statutes

## Texas Constitution

- Local governments in Texas derive all legal powers from the state government, beginning with the Texas Constitution.
- Article 11, Sec. 5 gives cities with a population of greater than 5,000 the power to create, adopt and amend charters as long as they do not adopt any laws that conflict with state law.
- The Constitution does not specifically prescribe details around level of service for specific municipal governments, but rather the general parameters for which a local charter can be enacted.

## Texas State Code

- The Texas Local Government Code, which contains enacted state statutes relating to local governments, includes additional regulations and laws governing the operations of local governments.
- Sections include Chapter 109, which defines a "defunding municipality" as one who adopts a budget that reduces the appropriation to the police department compared to the previous fiscal year.
  - Similarly, Section 26 of the Tax Code prohibits a governing body of a "defunding municipality" from adopting a property tax rate for the current tax year that exceeds the lesser of its no-new-revenue tax rate or voter-approval tax rate for that tax year.
  - These sections illustrate an example of a 'core service' the City cannot zero out in the ZBB exercise – by state law, the City must maintain the same level of appropriations (if not exceed) to the police department as the previous fiscal year.



## San Antonio Core Services – Required by City Charter

- ◆ In Texas, cities with a population over 5,000 are able to establish a City Charter – a governing document that defines and limits the powers, duties, and responsibilities of the local government.
  - **All city council ordinances and resolutions, as well as voter-approved bonds and referendums, must adhere to the limits defined in the San Antonio City Charter (in addition to applicable state law).**
- ◆ The City Charter states that the Mayor and City Council have the authority by ordinance to establish, discontinue, or redesignate other administrative departments or offices.
- ◆ The Charter leverages specific terminology to identify services the City must provide and services that the City can provide. This distinction is typically qualified by “shall” for mandated services and “may” for optional services.
- ◆ Even with these distinctions, **the Charter does not explicitly outline the level of service or the magnitude of department powers, programs and offerings**, and mainly refers to general terms such as enforcing “the laws of the state and all ordinances and regulations relating to” their department.
- ◆ A key consideration for the City when evaluating core service levels for the purposes of seeking efficiencies, reducing services, or evaluating levels of services is to define what elements of the aforementioned core departments are truly mandated and consider how those services should be provided.
- ◆ The definition of “core services” can vary significantly depending on individual perspectives. For some, services established by prior Council actions may be viewed as core.
- ◆ For clarity and consistency in this analysis, services resulting from ordinances or resolutions previously passed by the San Antonio City Council are not classified as core or mandated services.

*Note: Section 50 of the Charter also notes that in addition to the specific departments created under the control of the City Manager, the Charter states “the council shall have power by ordinance to establish, discontinue or redesignate other administrative departments or offices.”*



## Voter Referendum Required Projects and Services

- **Voter approved referendums and ballot initiatives are considered "core services" because they represent a contract made between the City of San Antonio and taxpayers, supported by a majority of local voters.**
- In 2020, San Antonio voters agreed to redirect a portion of the local sales tax revenue from greenway trail development to create the job development and workforce training program "San Antonio Ready to Work." In 2024, the City's Workforce Development office announced \$32.5 million of additional funding to expand its' network of employment partners and apprentice programs.
- In 2012, San Antonio voters agreed to increase the sales tax charged in city limits by 1/8th of a cent to fund the Pre-K 4 SA program for eight years, which included the creation of Pre-K Education Centers throughout the City, and the creation of a Competitive Grants Program, which awards funds to education providers throughout the region, including public/charter schools, private and parochial schools, and child development centers.
- These programs are "core services" in the context of this engagement, as they are agreements between the city and residents, existing under conditions set by state statute.
- Furthermore, voter-approved referendums and bonds are considered a higher level of authority than city council passed resolutions or ordinances, as those can be changed with a simple vote of council – items approved by residents of San Antonio carry greater weight.



## Bond Referendum Required Projects and Services

- Voter-approved bonds are considered a "core service" as they represent a contract made between the City of San Antonio and taxpayers – a contract approved by a majority of local voters.
- Voter-approved bonds represent the City's commitment to dedicate real dollars to programs and capital projects approved by voters. San Antonio typically operates on a five-year bond funding cycle and has had four elections in recent years (2007, 2012, 2017, 2022).
- The most recent bond election in 2022 included a total funding amount of \$1.2 billion spread across six different service areas, including:
  - \$150 million toward affordable housing
  - \$472 million for streets, bridges, and sidewalks
  - \$272 million for parks and recreation
  - \$170 million for drainage and flood control
  - \$78 million for public safety facilities
  - \$58 million for library and public art facilities
- In each of these categories, there are further commitments the City has made to residents, such as \$45 million to help homeowners with repairs, or \$35 million to build and buy rental housing.
- Because these are specific financial promises made by the City and approved by the voters, they are considered 'core services' for the purposes of this engagement.



# Current Budget Process



## Evaluation of the City's Current Budget Structure

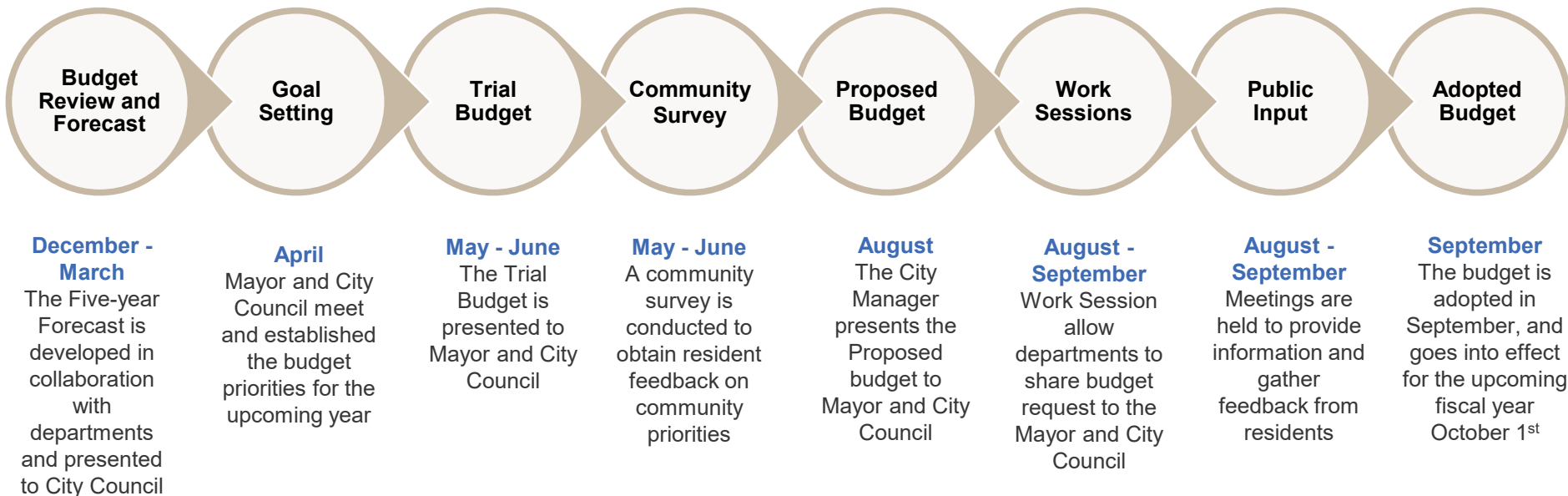
- **Reviewing the current budget process is essential to identify inefficiencies, areas for improvement, and to ensure that the City's budgeting approach aligns with both the current and future needs of the community.** A thorough evaluation also allows for more informed decision-making, ensuring better alignment of resources with strategic goals.
- As part of this project, the PFM team conducted an in-depth analysis of the City's current budget process to understand its existing state, identify what works well, and pinpoint areas for improvement.
- We also explored how best practices are already integrated and evaluated potential opportunities to integrate elements of Zero-Based Budgeting (ZBB), Priority-Based Budgeting, Outcome-Based Budgeting, along with other budgeting methodologies.
- To conduct this analysis, we:
  - Reviewed several key documents, including the budget timeline, the current budget, and reports stemming from community engagement surveys and town hall feedback;
  - Engaged with the budget team to gain a deeper understanding of the process; and
  - Met with various departments to gather insights from their perspective and identify areas where alternative budgeting methods could be beneficial.
- Using the information gathered, we developed a new budget strategy that retains the successful elements of the current process, while incorporating components of other budgeting methodologies.
- This approach aims to improve efficiency, enhance decision-making, and ensure more impactful resource allocation.





## Current Budget Process and Timeline

- The City's current budget process includes various steps beginning in December with the budget review and development of the City's five-year forecast and ending in September with Council's adoption of the budget.



**Note:** The current process timeline is adjusted to accommodate an election year.



## Budget Monitoring

- The budget team develops and presents several documents to the San Antonio Mayor and City Council to provide a current overview of the City's budget status. These reports are essential tools for monitoring the progress of the budget and keeping the Mayor and Council informed on financial health and performance. Here are some of the key documents presented to the Mayor and Council:
  - **Quarterly Financial Reports (Three Plus Nine and Six Plus Nine Reports):** These reports provide a detailed analysis of the City's budget performance over a three-month or six-month period, depending on the report. They include projections for the next nine months, offering insights into revenue trends, spending patterns, and any adjustments that may be needed.
  - **Quarterly Performance Measures (Three Plus Nine and Six Plus Nine Performance Measures):** This provides a set of performance indicators across seven categories to provide an overview of how the City is delivering key services to residents. Each measure provides a summary of what the measure captures, why it is important and the City's target in addition to current and prior years performance.
  - **Quarterly Budget Initiatives (Three Plus Nine and Six Plus Nine Budget Initiatives):** This document lists all of the improvement initiatives and details a summary of the initiatives, the anticipated results of the initiatives, the status, and completion percentage.



## Best Practices in Action

- The City's current budget process incorporates several best practices that promote transparency, fiscal responsibility, and long-term sustainability. This includes practices such as:
  - **Five Year Forecast:** Utilizing financial forecasts to anticipate future revenue and expenditure trends beyond the current fiscal year to make informed decisions and prepare for potential fiscal challenges.
  - **Goal Setting:** Establishing broad goals and priorities for that city to guide the decisions made during the budget process. This will ensure that budget allocations are in alignment with the City's goals and ensure.
  - **Budget Data Gathering:** Relying on comprehensive data around current staffing, revenue, and expenditure levels to inform decision-making.
  - **Community Survey and Public Input:** Involving residents, community groups, and other stakeholders in budget discussions to ensure that the budget captures the current needs, priorities, and concerns of residents.
  - **Performance Management:** Utilizing performance measures helps a city track progress, improve services, and provides data-driven insights into how to effectively meet community goals.
  - **Budget Monitoring:** Continuously assess budget performance to ensure that financial resources are used effectively and that the budget adapts to changing circumstances.

*GFOA Recommended Budget Practices*



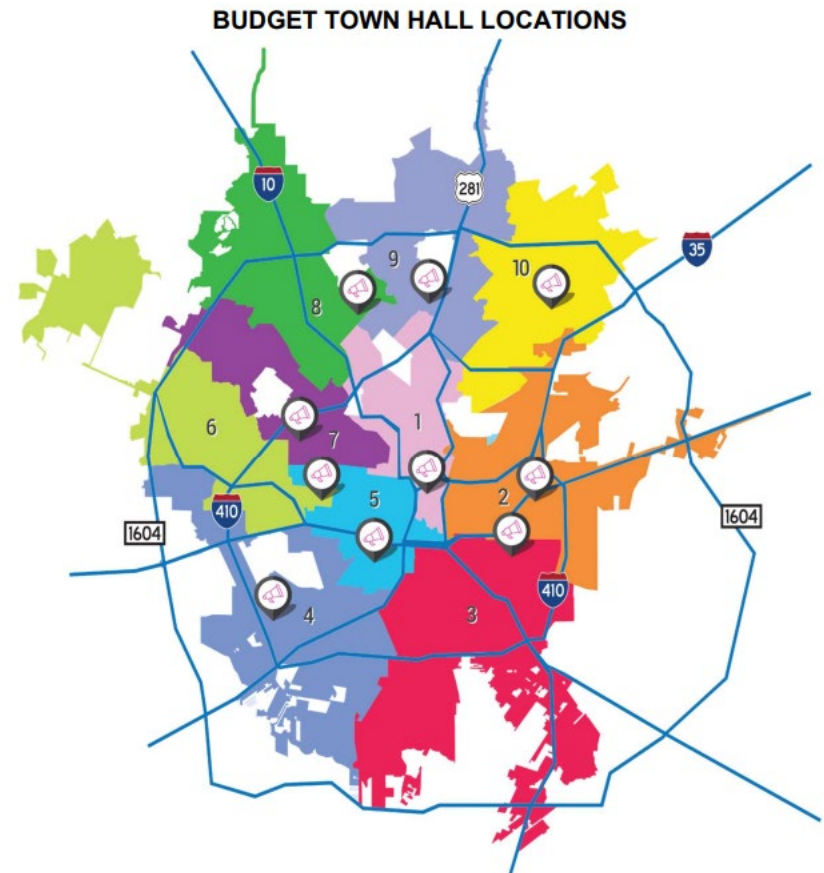
## Budget Requests and Prioritization

- The budget request process begins with departments filling out a budget request template or worksheet, which outlines their operational needs, expected expenditures, and any funding required for new programs, projects, or personnel.
  - These requests include justifications for the funding, often supported by performance data, past budget outcomes, and specific goals for the upcoming year.
  - Departments are required to align their requests with the city's strategic priorities, and each request must demonstrate how it supports city objectives like public safety, infrastructure, or economic development.
  - Equity has been incorporated into the budget process. In addition to budget requests, departments also respond to budget for equity questions that assess how a department's efforts impact communities.
- Once submitted, the budget team reviews these requests to ensure they are reasonable, justified, and consistent with available resources. The City Manager may work with departments to adjust or refine their proposals before compiling them into a proposed budget. This proposed budget is then presented to the Mayor and City Council for review and consideration.
- The Mayor and City Council consider several factors when evaluating and prioritizing requests, including alignment with the City's long-term goals, the fiscal health of the city, and the performance and effectiveness of existing programs. Requests that are deemed critical for the city's functioning or that have high community impact tend to be prioritized.



## FY 2025 Community Engagement

- Communications & Engagement collaborated with each of the ten City of San Antonio Council Districts to select locations in their districts and promote the budget town halls.
- The City of San Antonio, in partnership with each City Council District, hosted ten in-person town halls and one youth town hall.
- The town halls featured panels comprised of key City department leaders and were moderated by each Councilmember. The panels were tailored to suit the unique needs and priorities of each council district.
- The town halls were available in English and offered Spanish and American Sign Language interpretation.
- Social media, email marketing, neighborhood engagement, advertising, door hanger distribution.
- Through these town halls and engagement strategies, the City was able to garner input from residents around their top priorities.



[FY 2025 Proposed Operating & Capital Budget Community Input](#)



## Comprehensive Budget Review

- The Budget Department and Innovation Office are working with various departments to conduct a comprehensive budget review. The process is currently being divided into stages, with four departments undergoing the review at a time.
  - Parks and Recreation
  - Metro Health
  - Human Services
  - Public Works
- The review begins by identifying all services provided by the department and determining if they are core services, defined as activities that are legally mandated.
- Next, funding sources are identified for each activity, followed by a detailed review of each line item in the most current budget to isolate the cost of each service.
- This new review process takes a more fundamental, service/program-based approach, questioning not just how much is spent, but why it's spent—creating an opportunity to rethink service delivery and funding at a granular level.
- **The City's Comprehensive Budget Review approach mirrors key principles of Zero-Based Budgeting** by requiring departments to justify all services and associated costs from the ground up, rather than relying on historical spending. It emphasizes transparency, cost justification, and alignment with strategic goals, all of which are core to ZBB methodology.
- The review process creates a framework to identify inefficiencies, reduce redundancies, and reallocate resources more effectively.
- It can be leveraged to support the Mayor and City Council's goal of increasing efficiency by evaluating newer programs and services, as well as assessing a department's overall service delivery and resource alignment.



## Current Budget Process City Department's Feedback – Findings

- Discussions with departments revealed several challenges in developing the budget. While the current process allows departments to gather input and priorities from both the Mayor and City Council and San Antonio residents, tight timelines and operational constraints often limit the ability to make strategic, data-informed decisions.
- The following summarizes key themes and recurring challenges identified during those stakeholder conversations.
  - **The increase in population has led to a greater demand for city services**, resulting in growing pressures on departments to expand programming and services.
  - **Departments often work in silos, which may lead to duplication in services, as well as inefficiencies** in how resources are allocated and programs are evaluated.
    - i.e. Parks and Human Services departments both providing senior programming/services
  - **Budget decisions are some times impacted by last-minute requests**, causing inefficiencies and strain on resources.
    - These requests may come without increases to provide additional support administrative support needed to execute/implement the new request.
  - **Communication between council and departments needs improvement** to ensure a more efficient prioritization process. A structured approach is needed to prioritize the most impactful programs when new ones are added, while also ensuring that existing commitments are maintained and resources are not stretched too thin.
  - **A structured approach is needed to re-prioritize** high-impact programs as new initiatives are introduced, while ensuring that existing commitments are maintained and resources are not stretched to thin.



## Current Budget Process City Department's Feedback – Key Considerations

- The **new process should not overcomplicate or add additional workload for departments**, which are already stretched with time and resources. It's **essential to design a process that's efficient, straightforward, and manageable** within existing staff capacity.
- The new process should be flexible enough to adapt to changes in priorities, external factors, or unforeseen challenges without requiring significant overhauls each year. This will help ensure the budget process is responsive and adaptable.
- Any changes made to the budget process should **consider the time and resource constraints of both the budget office and departments**. Proper training, support, and change management strategies will be needed to ensure that the process is implemented smoothly.
- The new process should **reaffirm structured opportunities for collaboration between departments, city management, and the Mayor and City Council**.
- While addressing immediate budgetary needs is important, the new process should also be **designed with long-term goals in mind, allowing for strategic planning, foresight, and sustainability**.
  - Department strategic plans should be considered when identifying priorities for better alignment through the City and to more effectively meet the needs of residents.





## Budget Development Challenges

- The budget development process is shaped by a range of organizational and political dynamics that make strategic planning and resource allocation increasingly complex.
- During the budget development period, staff must synthesize departmental requests, prepare financial forecasts, align proposals with strategic priorities, and navigate feedback from leadership and stakeholders.
- From staffing constraints to conflicting priorities and expanding service demands, the challenges are both operational and structural.

### Staffing Challenges

- High turnover within the budget office leads to a lack of continuity and institutional knowledge, complicating the process.
- The office often struggles with extended hours and increased workload during peak periods.

### Prioritization

- There is often difficulty in reducing or eliminating lower-priority services to make room for higher-priority items, as the Mayor and Council and departments are hesitant to make cuts.
- There is a challenge in balancing conflicting priorities, especially when council members and residents have different views on what should be prioritized.

### Budget Complexity

- As departments expand services to meet growing demands, budget complexity increases. New services or expanded services are sometimes added without the sufficient administrative support.

- The following slide provides an analysis of the current budget process and highlights its strengths, weaknesses, opportunities, and threats.



## SWOT Analysis

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### Strengths:

- ◆ The current process is well established, with clear timelines and provides stability for the budget office and departments.
- ◆ The current process integrates numerous best and promising practices and is seen as a model amongst its peers.
- ◆ Incorporates input from staff, the Mayor and Council, and residents – ensuring the budget reflects a wide range of needs and objectives.
- ◆ The current process provides two major forums for residents to contribute to the development of the budget, which allows for the budget to reflect the needs and desires of residents.
- ◆ Departments consider the impacts of major budget changes for communities within the City through the request process.
- ◆ Relies heavily on data to review existing revenue and expenditure trends, around with forecasts to help plan for potential budget challenges.



## SWOT Analysis – Current Budget Process

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### Weaknesses

- It can be difficult to justify changes to budget allocations not associated with changes to priorities.
- Programs and services may continue to grow without an analysis of whether the intended goal of the program has been completed.



## SWOT Analysis

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### Opportunities

- ◆ General willingness by Mayor and City Staff (departments and budget team) to try new strategies that may improve processes and outcomes.
- ◆ May be capacity to build in additional opportunities for the City Manager to provide insight to the Mayor and Council before priorities are set to make more informed budget decisions.
- ◆ There is an opportunity to incorporate more robust data and performance metrics into the budget process, improving how departments can justify budget requests and demonstrate the benefits of their programs.
- ◆ A more flexible and adaptable budget process could better account for future growth, emerging needs, and evolving priorities, making the City more resilient to unforeseen challenges.



## SWOT Analysis

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### Threats

- Given the City's limited resources and the absence of clearly defined outcomes, the current budgeting process may struggle to meet the community's needs. Without a clear emphasis on intended results, this approach risks exacerbating existing challenges and may lead to inefficiencies or unmet priorities within essential services.
- Without a method to evaluate whether services are aligned and optimally provided, the city may continue to fund fragmented or overlapping services, which reduces the overall effectiveness of service delivery.
- The current incremental budgeting method tends to focus on short-term adjustments, which can limit the ability to plan for long-term goals or address emerging issues.
- An inconsistent understanding of core and ideal service levels may justify or demand higher levels of investment despite attempts to identify efficiencies and savings.



# Budgeting Practices



## Overview of Alternate Budget Methodologies

- ◆ PFM researched various budget methodologies, as well as cities who implement these strategies, to gain key insights around:
  - What methodologies may work for what type of budgetary goal;
  - What major hurdles exist; and
  - What can be applied to San Antonio's budget process.
- ◆ There are numerous budgeting methodologies for consideration and many of them with overlapping principles and themes. For the purposes of our review, the PFM reviewed the below concepts.
  - Incremental
  - Performance-based
  - Outcomes-based
  - Zero-based
  - Priority-based
  - Targeted-based
- ◆ While there is considerable overlap between the above methodologies, the PFM team aimed to apply only the most relevant components of each to San Antonio's revised budgeting process.
- ◆ For each of the methodologies included in the forthcoming slides, the team has provided:
  - An overview of the methodology;
  - Relevant examples and lessons learned from municipalities who have leveraged the methodology; and
  - Pros and cons of the methodology.



## Incremental Budgeting

- Incremental budgeting has long been the primary method of budgeting among local governments.
- With this process, the previous year's budget is used as the starting point for next year's budget, with incremental changes at the margin according to changes in revenue.
- This method has been criticized for being slow to adapt to changing conditions for a local government, and not providing as much transparency into how municipal performance is tied to budgeted funds as other methods.
- Additionally, incremental budgets are typically more difficult for the average reader to understand, as the revenues and expenditures may not be described in terms of performance or department activity.
  - Specific city services and the level of service residents feel is not readily understood based on simple line-item amounts.
- However, incremental budgeting has multiple strengths which has allowed it to stay the primary form of budgeting for local governments:
  - It is the simplest method of budgeting and the most widely understood in the municipal budgeting space.
  - It provides easy to understand information regarding line-item spending.
  - It is flexible in accommodating changing administrations and political priorities.





## Zero-Based Budgeting

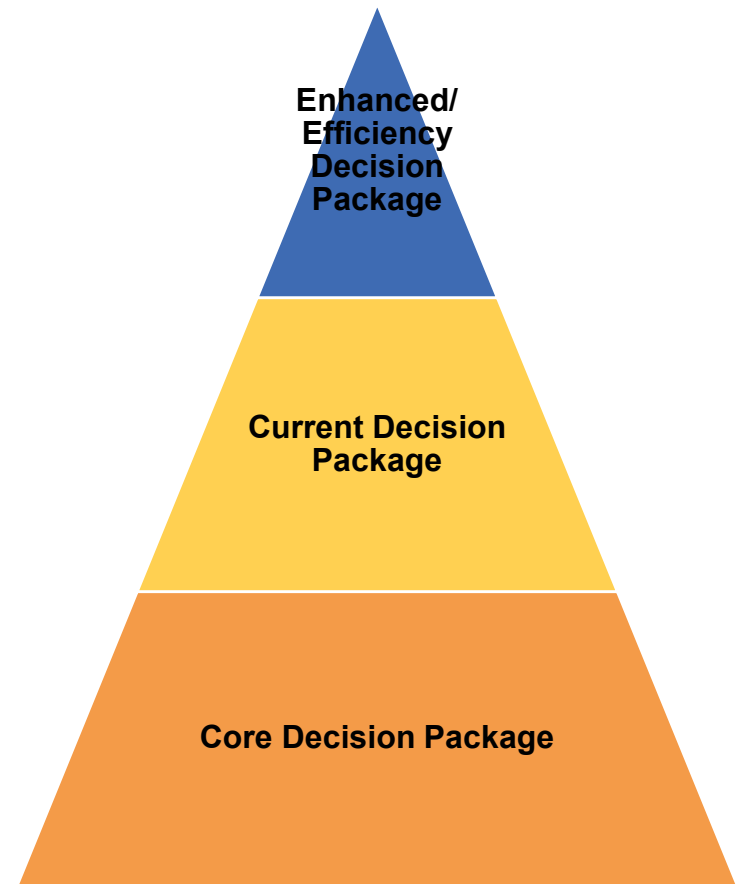
- Zero-based budgeting (ZBB) is a budgeting method where every department or program must justify its budget from scratch, regardless of previous budgets. Instead of using the prior year's budget as a baseline and making incremental changes (as is done in traditional budgeting), ZBB starts at "zero," meaning each department or service must justify every expense.
- Each city department or program must explain and justify all of its expenditures. This includes detailing the costs for personnel, materials, services, and any other needs. Each item is analyzed to determine whether it's still necessary, efficient, and aligned with city goals.
- Budget staff in each department create detailed descriptions of services and activities it performs and the spending needed to achieve certain goals, and compile this information into "decision-packages."
- "Decision-packages" show various spending levels that represent different levels of service and cost, and are typically organized across three levels:
  - Base package – meeting the most fundamental and core level of service
  - Current decision-package – meeting the current level of service
  - Enhanced package – expanding service levels beyond current levels
- After justifying each expense, city officials prioritize and rank decision-packages based on their importance, goals, and impact. This means less critical programs may receive fewer resources, or even be eliminated, in favor of higher-priority projects.
- Resources are allocated based on the decision-packages ranking, ensuring that funds are directed toward programs and services that offer the most value and align with city priorities. The goal is to eliminate waste and ensure efficiency.



# Zero-Based Budgeting In Practice

## City of San Diego, CA

- The City of San Diego started a ZBB pilot for the Performance & Analytics and the Facilities Division within the Public Works Department for the FY2017 budget.
- At the time, San Diego was applying elements of ZBB by requiring departments to use a ZBB approach when developing line items for the following: non-discretionary accounts, information technology discretionary accounts, and non-standard hourly funded positions.
- The decision packages developed by the Public Works divisions participating in ZBB were categorized as:
  - **Core Decision Package** – budget requests that support the department's programs, activities and services that are mandatory by local, state and federal law.
  - **Current Decision Package** – combined with the core decision package, this should reflect current budget levels and prior year adopted budget levels minus any one-time adjustments.
  - **Enhanced/Efficiency Decision Package** – built onto current decision packages, this should also include requests for funding to enhance or maintain programs, activities and service levels, as well as budget reductions due to line-item reductions.



Source: San Diego Office of the Independent Budget Analyst, *Zero-Base Budgeting Concepts and Examples*



# Zero-Based Budgeting In Practice

## Takeaways in San Diego

- San Diego staff produced the following conclusions after the implementation of a pilot ZBB program:
- Considerably more staff time was spent on ZBB-related activities vs. Non-ZBB related activities – in the Facilities Division, 287.5 hours of staff time was used on ZBB related budget development activities, compared to 80 hours for non-ZBB related activities.
- City staff ultimately recommended the City of San Diego not move forward with the ZBB pilot due to staffing and resource constraints across the City.
- Staff instead recommended the City study the use of a hybrid ZBB approach for future budgeting needs like police overtime, fleet vehicle purchasing, or other non-personnel expenses with large budget-to-actuals variances.
- Today, San Diego predominantly uses priorities-based budgeting methods, whereby city council and the Mayor agree on priorities and goals prior to the draft budget being prepared.

## • Benefits of ZBB in San Diego:

- City staff found it helpful to be engaged at a more granular level with their department budget, vs a more higher-level management in budgeting process.
- Staff appreciated moving away from incremental budgeting in some areas, and felt encouraged to think in a more proactive, long-term way in forming the budget.
- ZBB allowed budget decision-makers to more clearly choose between different service levels.

## • Challenges of ZBB in San Diego

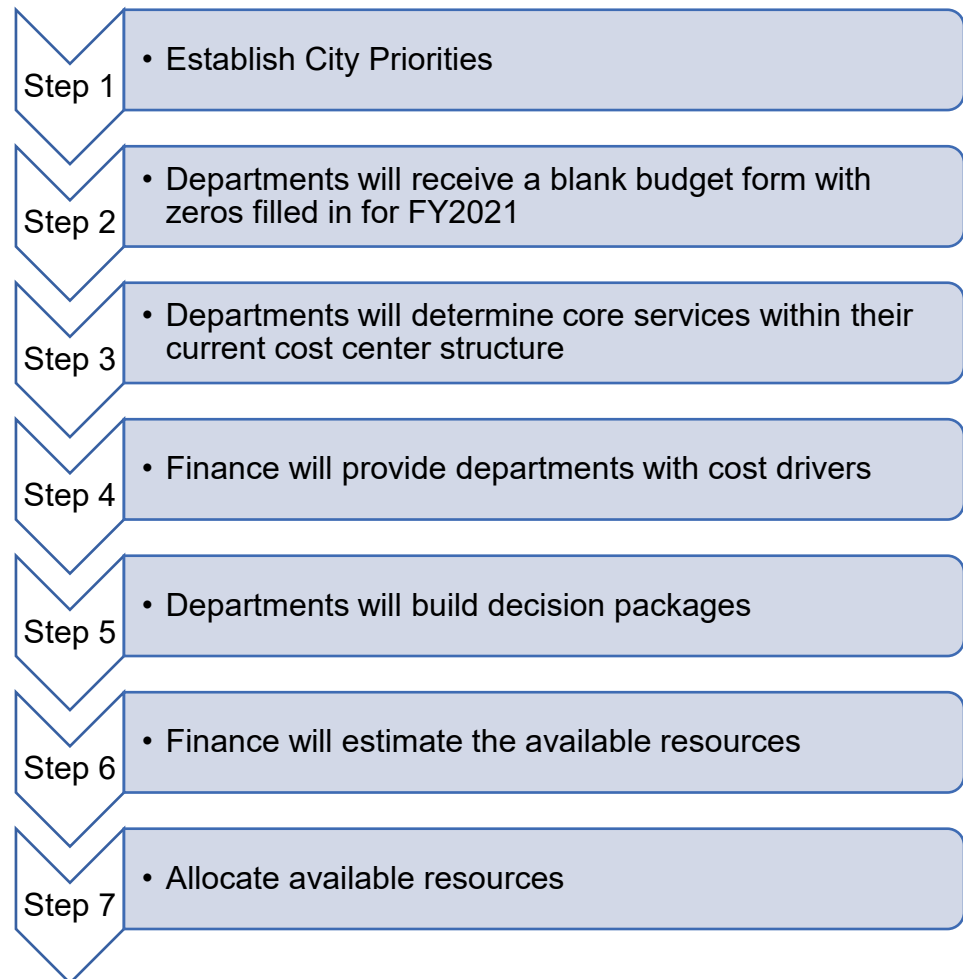
- Required significant staff time for developing multiple decision packages within a department or division.
- Required accurate and helpful performance data across the City, with a uniform understanding of what the data means for the budget.
- Created costly and complex processes for City staff, particularly in the information and data gathering process.



# Zero-Based Budgeting In Practice

## City of Houston, TX

- Facing growing financial constraints leading up to the FY2020 budget, Houston City Council passed a budget amendment stating the City shall adopt a zero-based budgeting method for FY2021 only, with an implementation plan to be delivered prior.
- As part of that implementation plan, the City of Houston created a step-by-step process for bringing methods of ZBB into their existing budgeting process.
- The budget amendment directing the City to implement ZBB dictated ZBB would be in-place for the FY2021 budget process only – Houston has since moved to a more outcomes-based budgeting approach which they continue to use today.



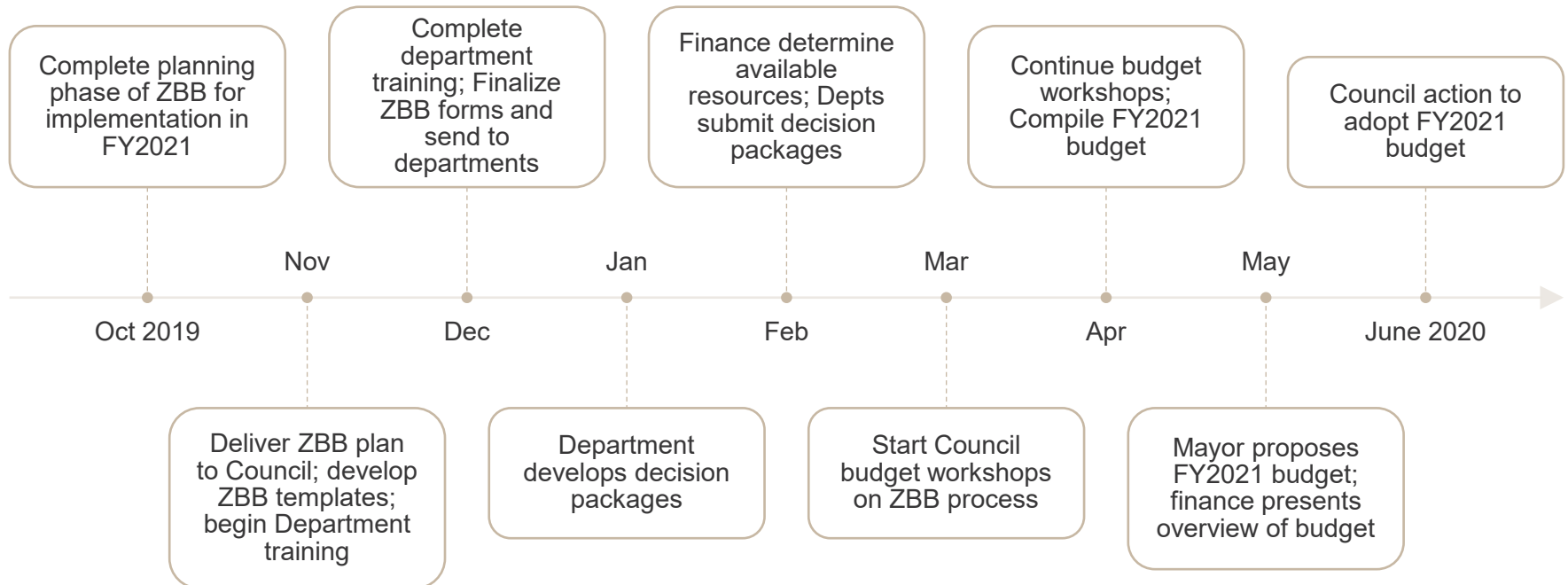
Source: City of Houston. *Zero-Based Budgeting Implementation Plan for FY2021*. Oct 2019



# Zero-Based Budgeting In Practice

## City of Houston, TX

- The implementation plan also recognized that determining core services would be the most time-consuming aspect of the new ZBB process.
  - The existing financial system in Houston did not support budgeting by services and programs, which was noted as a reason manual spreadsheet work by staff would be needed.
- Houston ultimately created the following modified budget timeline to accommodate the additional time needed for ZBB.



Source: City of Houston. *Zero-Based Budgeting Implementation Plan for FY2021*. Oct 2019



# Pros and Cons of Zero-Based Budgeting

## Pros

- Allows for greater flexibility in prioritizing certain services that can still maximize impact while considering costs. This approach **creates a rational and comprehensive means of reducing expenditures while maintaining core services.**
- ZBB provides additional insight around department services and related costs, which improves decision-making.
- ZBB requires additional reviews of existing service levels and **can allow a City to have a more critical approach to evaluating different service**, rather than relying on the status quo or perceived value of a program or service.
- **ZBB increases transparency since service levels are annually reviewed, and impact is tracked** through the use of performance measures. Both City leadership and residents have better insight into the detailed activities of the departments and related costs.

## Cons

- **The major con of ZBB is the amount of resources used to develop decision packages.** This requires dedicated time from staff within each division to identify services, develop, review, and rank decision packages.
- The packages developed can be influenced by a manager's perception or preference for certain programs.
- Financial accounting software must be set up to accurately capture revenues and expenditures across programs and activities, rather than department-specific line items.
- Performance measures must be consistent and uniformly understood across City departments to ensure the data being used for building a budget is accurate and productive towards meeting department goals.
- Department leadership may be apprehensive in developing packages that are below current spending levels.



## Concerns with Incorporating Zero-Based Budgeting

- The City of San Antonio has attempted to implement strategies of zero-based budgeting in the past but ran into capacity and timing issues that required reevaluating the effort going forward.
- There is concern about the level of effort required to implement zero-based budgeting across all departments, as it can be very labor-intensive. Some departments may not have the capacity to complete quality work under ZBB, which would lead to additional work for the budget office to rectify.
- Departments have acknowledged that in some cases, a true ZBB approach may expose the need for additional staff and increased budgets.
  - Some departments have reported that over time, they've expanded the services they provide to meet additional requests from City Council and to offer more community support, all without receiving extra funding to sustain these expanded services.
  - Under these conditions, a ZBB analysis might reveal the necessity for budget increases, rather than simply uncovering opportunities for improving efficiency.
- The importance of clearly established service level expectations was also emphasized.
  - There is a concern that, without sufficient distinction between service level expectations and what is considered vital, there could be confusion, particularly for services that have become essential to residents (especially for services that are not considered core services).
  - This will require Mayor and Council to evaluate and make difficult decisions about which services should receive additional funding, while also determining the service level expectations for residents—essentially making hard choices about which services are prioritized and how they are funded.



## Performance-Based Budgeting

- Performance-based budgeting (PBB) is a budgeting approach where funding decisions are made based on the outcomes and results that departments or programs achieve, rather than just the costs or historical spending patterns. PBB ties the allocation of funds to the measurable performance of services, ensuring that resources are directed toward programs that deliver the best results for the community.
- Each city department or program establishes clear, measurable goals and performance indicators. These goals are often aligned with broader city priorities, such as improving public safety, enhancing infrastructure, or boosting economic development. The objectives could be things like reducing crime rates, improving traffic flow, or increasing access to parks and recreation.
- City departments must track and report on specific outcomes that reflect their performance against these established goals.
- The City allocates funding based on the ability of departments to achieve their performance targets.
  - If a department is performing well and meeting its objectives, it may receive additional funding or continued support.
  - Conversely, if a department is underperforming, it may face budget cuts or be required to reallocate resources to improve outcomes.
- Performance-based budgeting encourages ongoing monitoring and improvement. Departments that are not meeting performance targets are often required to develop plans to improve and justify why additional funding is necessary. If a program is not delivering value, funds may be reallocated to more effective programs.
- **San Antonio** is currently utilizing components of performance-based budgeting in the budget process, requiring departments to create a list of performance measures they build their budget around, as well as undergoing comprehensive budget reviews with a set list of departments, doing a line-by-line budget review of all department expenses.





# Performance-Based Budgeting In Practice

## City of San Francisco, CA

- In 2003, voters passed Proposition C, which mandated the City Controller's Office to monitor the level and effectiveness of city services. The Performance Program, housed in the City Performance Unit of the Controller's Office, produces an annual performance report on city agency efficiency and effectiveness. The City continues this practice to this day.
- Performance Office staff utilize International City/County Management Association (ICMA) criteria to develop performance measurements and future goals, including the use of inputs, outputs, and outcomes, as seen in the chart below. The City emphasizes the "S.M.A.R.T." Model in developing performance measures: Specific, Measurable, Achievable, Results Oriented/Relevant, and Time based.

Measure Type	Definition	Examples
Inputs	Resources expended to produce services and products	Dollars spent
		Staff hours used
Outputs	Products and services delivered	Eligibility interviews conducted
		Library books checked out
		Children immunized
		Purchase orders issued
Efficiency	Ratio of cost to amount of output, or vice versa	Cost per appraisal
		Plans reviewed per reviewer
Outcomes	Results, benefits, or effectiveness of an activity or program for customers or the public	Percent of job trainees who hold a job for more than six months
		Percent of juveniles not reconvicted within 12 months

Source: City of San Francisco City Controller's Office, City Services Auditor. *Guide to Good Measures*. April 2015



## Performance-Based Budgeting In Practice

### City of Charlotte, NC

- The City of Charlotte currently utilizes aspects of performance-based budgeting by guiding their budgetary decision making around the City Council's Strategic Priorities – Well-Managed Government; Great Neighborhoods; Safe Communities; Transportation, Planning, and Environment; and Workforce and Business Development – which are set each fiscal year.
- The City publishes a year-end performance report each fiscal year to map the City's progress towards previously agreed-to performance measures. Examples of strategic priorities and their associated performance measures are included in the chart below.

Strategic Priority	Performance Measure	Specific Measure
Well-Managed Government	Minimize the cost of incurring debt to finance capital projects	Credit rating from external rating agency
Great Neighborhoods	Preserve and increase affordable housing	Number of new affordable housing units funded
Safe Communities	Timely response to calls for service	Percent of calls for Fire response responded to within six minutes
Transportation, Planning and Environment	Provide transportation choices	On-time bus performance
Workforce and Business Development	Increase business relocations and expansions	Dollar amount of private investment in the city

- For example, Charlotte added an additional \$50 million from their Affordable Housing Bond to the City's Housing Trust Fund to support a performance specific measure within their "Great Neighborhoods" priority, growing the budget for additional units of affordable housing.



# Pros and Cons of Performance-Based Budgeting

## Pros

- Provides **greater accountability** for local taxpayers around where their dollars are being spent.
- Allows for the quantification of specific goals, allowing both taxpayers and city officials to **more easily see relationships between funding and performance**.
- Allows cities to **directly link inputs and outputs** as they relate to the defined mission and shared values of the City.

## Cons

- Relies on a set of **performance measures that are not always easily agreed upon** across large city governments due to a lack of uniform costs.
- Once the inputs and outputs have been defined, there is **less flexibility than with other budget methods**.
- Theoretically allows for city departments to manipulate data to reach certain goals or create a system where the goal itself is the sole focus of the department (a teacher focusing on reaching a certain score for a standardized test, rather than other important aspects of teaching, for example).



## Priority-Based Budgeting

- Priority-based budgeting is a budgeting process focused on service areas and outcomes rather than traditional line-items.
- Priority-based budgeting evaluates the importance of specific programs and services instead of entire departments.
- Allows cities to prioritize the high-value programs and services while reducing funding for lower-value programs and services.
  - Unlike incremental budgeting, priority-based budgeting forces budget discussions within the constraints of available funds to the city.
  - Reinforces a philosophy that resources should be allocated according to how effectively services achieve certain goals.
- In addition to a focus on accountability for staying within financial means, priority-based budgeting prioritizes accountability for meeting priorities and goals that were set as the basis for funding allocations.



# Priority-Based Budgeting in Practice

## City of Duluth, MN

- With limited ways to raise revenues and facing a growing gap between future revenues and expenditures, the City of Duluth incorporated priority-based budgeting in 2017.
- Prior to 2017, Duluth operated under a "shared sacrifice" method of cutting funds citywide and sharing the burden across departments – in 2018 \$1.7 million was cut from the General Fund, with each city department determining what service cuts would be made.
- As the budget was incremental and line-item based, there was limited knowledge surrounding the effectiveness of certain programs and services, making cuts potentially more damaging to the ability for residents to receive services.
- In the two years leading up to the implementation of priority-based budgeting, the City was developing the strategic *Imagine Duluth 2035* plan.
  - As part of this, the City reached out to over 70 area small businesses, ran a community survey for four months with over 3,500 respondents and held more than 50 community events gathering resident input on what future City priorities should be in the annual budgets.
- With this information, the City determined the priority areas of focus for future budgets to be on culture and recreation, infrastructure, the economy, livable neighborhoods and affordable housing, and green space and energy conservation.
- Duluth continues to use priorities established by the *Imagine Duluth 2035* plan in budget development but stated in the FY2025 budget process they are working to continuously update priorities with the Mayor's office.
- City staff worked to identify over 600 program areas offered by the City, and costs were allocated based on how essential each program was to achieving the priorities determined by the City.



## Priority-Based Budgeting in Practice

### City of Duluth, MN

- Acknowledging recent staff reductions would slow down implementation plans, coupled with department staff moving over to an entirely new way of thinking about budget allocations, Duluth created a priority-based budgeting implementation timeline for the first planning year, outlined below:

2017	2018						Annually	2018-present
December PBB Boot Camp	January Program Creation	Feb/March Cost and Revenue Allocations	May Departmental Scoring Process	June Peer Review Scoring	August Departmental Opportunities	Nov/Dec Internal Program Mapping	Clean Up Programs and Costs	Use PBB for Decision- Making

Source: GFOA

- City officials stressed the strong leadership from the Mayor of Duluth and other City leaders made this process much stronger, with the Chief Financial and Chief Administrative Officers joining the Mayor in encouraging collaboration between departments throughout the implementation process.
- Duluth's decision-making process changed after implementing priority-based budgeting – before, the City would simply increase or reduce lines in the budget, whereas now the City uses a method that shows exactly what programs departments were working on and how much the programs cost.
  - For example, the City could see that the Police Department was spending 14% of its' time on reporting activities, so staff could then study where greater automation could be utilized.
- Duluth continues to implement components of priority-based budgeting, ensuring all funding requests from departments relate to city priorities established by the Mayor and the *Imagine Duluth 2035* plan.

Source: City of Duluth. *Priority Based Budgeting (PBB) in Duluth*



# Pros and Cons of Priority-Based Budgeting

## Pros

- **Prioritizes programs and services over departments**, which allows for a more focused allocation of resources.
- Provides greater transparency into government services and how much it costs to provide those services.
- Examines programs and spending across departments, giving city leaders and residents a broader look of the budgeted funds.
- **Encourages fiscal responsibility** by challenging historical spending patterns and operating within the constraints of available revenues.
- **Shows how personnel are impacted with different programs**, making it clearer to understand where City staff are spending their time.

## Cons

- Department leadership must ensure there is citywide buy-in with established priorities in order for the budget process to be most effective.
- **Priorities must be clearly defined** in order to avoid departments from including certain non-core services in their priority budgets.



## Outcomes-Based Budgeting

- Outcomes-based budgeting (OBB) is a budgeting approach where the allocation of funds is directly tied to the achievement of specific, measurable outcomes or results.
- This approach prioritizes the long-term goals and impact of programs and focuses on the outcomes that they are intended to achieve. Cities using this approach will focus on funding programs that have a proven or potential impact on achieving desired community outcomes.
- In OBB, the first step is to clearly define the outcomes that the city wants to achieve. The outcomes are typically aligned with the city's long-term strategic objectives and community priorities.
- The focus is on measuring the impact of a program or service in terms of how it contributes to achieving these desired outcomes.
- OBB requires measuring and evaluating how effectively a program or service is achieving its intended outcomes. This involves tracking specific indicators that show whether a program is moving the needle on the desired result.
- Resources are allocated based on the demonstrated ability of programs to achieve these outcomes. If a program is successful in achieving the desired outcomes, it may receive continued or increased funding. Conversely, programs that are not delivering the intended results may face reductions in funding or be redesigned.
- OBB encourages regular monitoring and feedback to ensure that outcomes are being achieved. This helps to identify issues early and make adjustments to programs as needed to improve their impact. It also allows for reallocation of funds to programs that are more effective at achieving the desired outcomes.





# Outcomes-Based Budgeting In Practice

## City of Boulder, CO

- In 2022, the City of Boulder adopted outcomes-based budgeting as a key element of its Sustainability, Equity, and Resilience Framework.
- This approach was established to create a strong strategic foundation for all city policies, programs, and projects, ensuring that resources are invested in a way that drives meaningful outcomes aligned with the City’s vision for a sustainable, equitable, and resilient community.
- The Framework is built around several overarching goals that emphasize environmental sustainability, social equity, and community resilience. To ensure that budgetary decisions reflect these priorities, the City incorporated this framework directly into the budgeting process.
- Each city department identifies specific outcomes that are directly tied to at least three of the key goals outlined in the Framework. These outcomes are designed to capture the impact of the department’s work in measurable terms.
- To ensure accountability and transparency, each outcome is paired with a performance measure that tracks progress toward achieving the established goals.
- The City publicly shares this data through the [Budgeting for Resilience and Equity Dashboard](#)

PROGRAM SELECTION							
After selection of a department, the relevant programs will be displayed. Please select the specific program you wish to view by clicking on the corresponding button							
All							
SER Goal	Program	Outcome	Measure	Unit of Measure	Target 2024	Actual 2024	Target 2025
Responsibly Governed	Administration (Responsibly Governed)	CAO programs are staffed and funded appropriately	CAO programs are funded and staffed appropriately to support City initiatives	Ratio of support staff to attorneys and attorneys to departments	N/A	N/A	N/A
Responsibly Governed	Administration (Responsibly Governed)	CAO equipment, file maintenance, and reporting tools are updated timely for effective use	Ensure CAO equipment needs, file maintenance, and reporting tools are kept updated to be used effectively by all CAO programs	Percentage of uptime on all CAO equipment and tools for use	80%	N/A	85%
Responsibly Governed	Administration (Responsibly Governed)	Ensuring Continuing Legal Education (CLE) focused on Municipal Client Departments	Percentage of CAO staff who complete at least one relevant CLE or training session annually	Percentage of Staff completion	80%	N/A	80%

Source: City of Boulder. *Budgeting for Resilience and Equity*



# Outcomes-Based In Practice

## Montgomery County, MD

- Montgomery County, Maryland uses an outcomes-based budgeting method which uses priority outcomes as a focal point for budgeting and funds departments necessary to achieve those outcomes.
- The County evaluates programs and services based on performance as well as contribution to achieving the County priority outcomes established by the County Executive.
- Montgomery County defines a "program" as having five distinct features:
  - Has identifiable costs for budgeting purposes
  - Has a clear public purpose and measurable results
  - Has clear lines of accountability for performance and financial management
  - Is discrete and not overtly dependent on other services to achieve results
  - The story of the program can be told in five measures or less
- Montgomery County departments use these characteristics to formulate their programs for review during the budget process.

Source: Montgomery County. *Sep Introduction to Outcomes Based Budgeting.*



# Outcomes-Based In Practice

## Montgomery County, MD

- ◆ In 2019, Montgomery County set seven priority outcomes as part of their outcomes-based budgeting process, each with specific indicators used to measure certain outcomes.

<b>Thriving Youth and Families</b> <ul style="list-style-type: none"><li>• % of children ready for kindergarten</li><li>• Academic achievement gap</li><li>• Life expectancy gap</li></ul>	<b>A Growing Economy</b> <ul style="list-style-type: none"><li>• Number of net new businesses</li><li>• Number of family sustaining jobs</li><li>• Employment gap</li></ul>	<b>A Greener County</b> <ul style="list-style-type: none"><li>• Greenhouse gas emissions</li><li>• Recycling rate</li><li>• Resident satisfaction with code enforcement</li></ul>	<b>Easier Commutes</b> <ul style="list-style-type: none"><li>• Average commuting time</li><li>• % using alternative transportation</li><li>• % of roads rated in "good" condition</li></ul>
<b>A More Affordable and Welcoming County</b> <ul style="list-style-type: none"><li>• % of households that are housing burdened</li><li>• Access to affordable child care</li><li>• Food insecurity rate</li></ul>	<b>Safe Neighborhoods</b> <ul style="list-style-type: none"><li>• Number of gang-related violent activities</li><li>• Property crime rate</li><li>• Number of pedestrian-involved traffic accidents</li></ul>	<b>Effective, Sustainable Government</b> <ul style="list-style-type: none"><li>• % of county contracts with minority, female, disabled-owned and local business</li><li>• Resident satisfaction with value for tax dollars</li><li>• Bond rating</li></ul>	

Source: Montgomery County. *Sep Introduction to Outcomes Based Budgeting*



# Outcomes-Based In Practice

## City of Baltimore, MD

- Facing multiple budget challenges, the City of Baltimore created an outcome-based budgeting system in 2010.
- Realizing that during times of economic distress residents rely on particular city services even more, Baltimore shifted to a focus on results-driven and evidence-based solutions.
- Outcomes-based budgeting has allowed Baltimore to focus on specific results they want to achieve while properly supporting programs and services that achieve those results.
  - Through a continued focus on home visits for at-risk expected mothers, Baltimore has reduced its' maternal mortality rate (a key outcome) from 13.5 to 8.4 deaths of children less than a year of age per 1,000 births between 2009 and 2015.
  - Increasing the City's tree canopy was a key outcome for Baltimore, so the City invested additional funds in proactive tree pruning, which resulted in the increase of healthy trees in the City increasing from 72 percent in 2013 to 94 percent in 2016.
- Outcomes-based budgeting also allows Baltimore to think creatively in how to provide City services.
  - The Housing Department took over the administration of burglar alarm registration from the Police Department, which resulted in revenue nearly doubling from \$330,000 to \$620,000 in just one year.
  - The Baltimore Health and Baltimore Fire Departments collaborated to assign registered nurses to specific local 911 callers who frequently seek assistance, which reduced calls by 50 percent.
- The City of Baltimore continues to use underlying principles of outcomes-based budgeting in its' current budget process, which adheres to an annual cycle of developing a strategic plan, allocating resources informed by the strategic plan, and tracking service performance against the plan.



# Outcomes-Based In Practice

## City of Baltimore, MD

- Baltimore utilizes the following seven steps in its' outcomes-based budgeting process:
  1. The Mayor establishes city priorities based on input from citizens surveys, public outreach, and other external means (recent examples include Thriving Youth and Families, Safe Neighborhoods, Vibrant Economy, Sustainable Infrastructure)
  2. During the fall of that year, the Mayor and leadership teams determine total spending amounts for each of the outcome categories for the upcoming fiscal year. The Baltimore budget team uses Monopoly board game money to assist city leaders in determining financial priorities by answering the question "How would you allocate funding in a perfect world?" City leaders are then able to identify how certain goals differ from actual allocations.
  3. Once each outcome has a total spending amount assigned, in September of that year the City forms "Results Teams" to develop guidance documents for department leaders. These documents include key indicators and strategies to achieve desired results for each priority outcome. Results Teams are teams of roughly eight members who apply to participate and include a cross-section of City department staff, a mayoral representative, budget and performance staff, and two citizen members. Results Teams issue guidance documents in October.
  4. City departments have until early December to use Results Teams documents and financial parameters set by the Mayor to draft and submit budget proposals for the Results Team.
  5. The Results Teams then meet with each department to discuss proposals, request additional information and ultimately rank all requests for a given priority outcome by the end of March.
  6. The Baltimore Bureau of the Budget and Management Research compiles all recommendations and presents a balanced budget to the Mayor and leadership, who then make final decisions in February regarding the Mayor's proposed budget to City Council.
  7. Throughout April, May, and June, the Board of Estimates and City Council both hold hearings on the proposed budget and votes to approve or amend.



## Pros and Cons of Outcomes-Based Budgeting

### Pros

- Removes frustrations found in line-item budgeting by **defining clear outcomes** that are measurable for priority programs and services.
- Provides city residents with transparency by showcasing specific budget allocations and the **measurable outcomes** those allocations provide.
- City staff more clearly understand the outcomes they are responsible for and how they are being measured.
- Outcomes-based budgeting **allows for City Council and other leadership to have more specific and productive conversations about budget allocations**, as the outcomes resulting from allocations are readily available to review.

### Cons

- Similar to performance and priority-based budgeting, outcomes-based budgeting **requires strong buy-in** across the City to ensure each department is working to meet priority outcomes in the same way.
- It can be difficult for departments city-wide to agree on outcome expectations and for department leadership to fully understand what staff capacity is at the time of outcome setting.



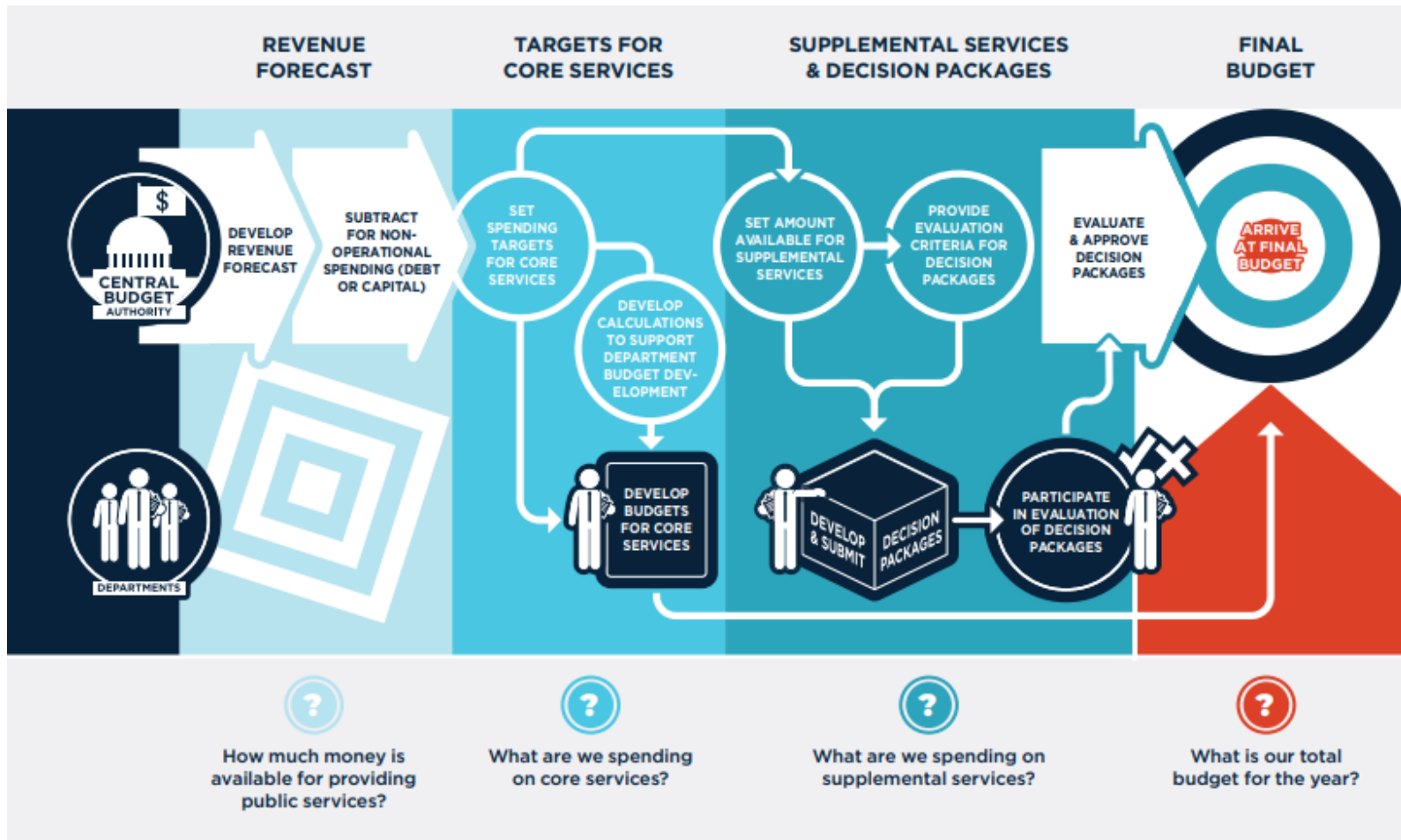
## Target-Based Budgeting

- Target-Based budgeting has been highlighted as a promising practice by the GFOA in recent years due to its ability to align resources with priorities, transparency, and accountability. The process blends aspects of zero-based budgeting and priority-based budgeting and applies them to a specific set of services.
- Target-Based budgeting relies on clear, set funding targets provided to City departments to compile annual budgets.
  - Budget staff typically provide a funding target for department core services that is often less than the total budget from the previous year, which includes core services and supplemental services.
  - If departments wish to receive more funding, they must submit "decision-packages" to budget decision-makers, who compare other department decision-packages from across the City.
- Target-based budgeting provides departments with greater independence in creating annual budgets and creates clear and objective avenues for requesting additional funding.
- Target-based budgeting puts an emphasis on forecasted available revenues instead of actual expenditures from previous years.
- Budget decision-makers have a more unified process in evaluating supplemental funding requests, with decision-packages following a similar format and providing similar information across departments.
- The graphic in the following slide shows a typical target-based budget implementation timeline.



## Target-Based Budgeting

- A typical process for target-based budgeting is as follows:



Source: GFOA





# Target-Based Budgeting in Practice

## Oak Harbor, WA

- Oak Harbor follows many of the typical target-based budgeting processes, beginning with a projection of revenues and reserves and overall financial capacity prior to the beginning of the new biennial period.
- Beginning in the 2023-24 biennial budget process, operating accounts that were determined by City staff to be directly under the control and discretion of individual departments were identified, as well as an aggregate not-to-exceed amount based on previous trends and inflation.
  - Any amounts requested above the "base" rate are developed into "Decision Package Form," to be evaluate by the Mayor and executive staff.
  - The Mayor and staff meet with individual departments to learn more about requests within the Decision Packages and to help determine which packages will supersede others.
- Once decisions are made, funding amounts are entered into the City's accounting system and a draft Budget Document is presented to City Council and the public.



# Target-Based Budgeting in Practice

## State of New Jersey

- The State of New Jersey Governor's Budget utilizes components of both priority-based and target-based budgeting.
- Each year's budget process begins with a review of the Governor's priorities and economic forecasts, which are provided to individual state agencies.
  - Agencies then prepare official budget planning documents, which describe the agency's ability to provide current programs and services within the set budget targets, as well as any reduction of services if requested.
  - If agencies wish to expand existing programs and create new programs, "priority packages" are developed which include associated costs and logistics of the programs.
- The Governor's staff within the Office of Management and Budget meet with individual agencies to evaluate funding requests, ask questions regarding funding amounts or specific programs, and ultimately establish funding targets across the agencies.
- After reviewing and deliberating budget recommendations, the Governor submits a final Budget Message to the State Legislature on or before the third Thursday following the first legislative meeting.



## Pros and Cons of Target-Based Budgeting

### Pros

- **Provides individual departments with considerable independence in drafting a budget for core services**, allowing greater autonomy in the management of internal affairs.
- Helps to control spending growth within local governments by setting targets for core spending below total available revenues.
- **Provides clear boundaries to city departments**, by setting targets with which to operate in and clear budgets for decision-packages when requested.
- **Provides clear forecasts for future revenues**, which in turn provides all city decision-makers with greater insights into future abilities to provide services.

### Cons

- **The process of setting specific department targets can be somewhat arbitrary**, depending on the evaluation method used to determine available funds.
- Departments can sometimes stretch the definition of "core services" to ensure certain programs and services are included in the set targets.
- The reliance on future revenue forecasts can sometimes produce issues if the forecast is incorrect – rather than using a conservative forecast in traditional budgeting, target-based budgeting emphasizes a more objective forecast since it directly impacts available funds.



## Comparing Budgeting Methodologies

Method	Approach
Incremental Budgeting	Departments use the prior year's budget as a baseline and make small, incremental adjustments for factors like population growth, demand changes, inflation, or other predictable costs.
Zero-Based Budgeting	Requires departments to justify each expenditure from scratch each budget cycle. They break the organization into units, create and rank decision packages, and central budget authorities make the final allocations.
Performance-Based Budgeting	Budget allocations are based on the outcomes and performance departments experience, rather than historical spending patterns. Departments establish specific performance measures that are aligned with broader city priorities such as reducing crime, improving traffic, or boosting the local economy.
Outcomes- Based Budgeting	Budget allocations are determined based on expected outcomes or impacts for programs or services. Departments organize the budget by services and align the goals of the services to the City's priorities.
Priority-Based Budgeting	Budget allocations are based on the priority of programs and services. Departments rank services according to their importance and alignment with organizational goals, and funding is distributed based on these priorities.
Target-Based Budgeting	Departments receive a target budget for core services and submit options for supplemental services, varying in effort and cost. Central budget authorities review and select which supplemental services to fund.



## Comparing Budgeting Methodologies

Method	Pros	Cons
Incremental Budgeting	Simplest form of budgeting, is flexible in accommodating changing administrations and political priorities, provides easy to understand line-item information.	More difficult for the average reader to understand, can be slow to adapt to changing conditions for local governments, does not provide as much transparency into program success or ROI.
Zero-Based Budgeting	Allows for greater flexibility in prioritizing certain services that can maximize impact, requires additional reviews of service levels which creates a more critical approach to budgeting, increases transparency due to the use of performance measures to track performance levels.	Very time-consuming process requiring dedicated staff time across departments to identify, develop and rank decision packages; decision packages can be influenced by a manager's preference for certain programs; financial accounting software must be set up to support revenues and expenditures of programs (vs. Line-items)
Performance-Based Budgeting	Provides greater accountability for local taxpayers around where their dollars are being spent, requires the quantification of specific goals which allows residents and officials to see relationships between funding and performance.	Relies on a set of performance measures that are not always agreed on or uniform across departments, once inputs and outputs have been defined there is less flexibility than other budget methods.



## Comparing Budgeting Methodologies

Method	Pros	Cons
Outcomes- Based Budgeting	Provides greater transparency by showcasing specific budget allocations and the measurable outcomes those allocations provide, removes frustrations in line-item budgeting by defining clear outcomes that are measurable for priority services.	Requires strong buy-in across the City to ensure each department is working equally to meet priority outcomes, can be difficult for departments to agree on outcome expectations and for leadership to fully understand department capacity to provide services when setting outcomes.
Priority-Based Budgeting	Prioritizes programs and services over departments which gives a broader look into spending, encourages fiscal responsibility by challenging historical spending patterns, shows how personnel are impacted by different programs.	Department leadership must ensure there is citywide buy-in with the established priorities for the process to be most effective.
Target-Based Budgeting	Provides individual departments with independence in drafting budgets for core services within funding targets, helps to control spending growth in local governments by setting targets below available revenues, provides clear forecasts for future revenues.	Process of setting specific department funding targets can be somewhat arbitrary, departments can sometimes stretch the definition of "core services" to fund certain programs, reliance on future forecasts can produce issues if forecasts are incorrect.



## San Antonio's Current Budget Approach

- San Antonio currently utilizes components of multiple budgeting methodologies in its' existing budget process:
  - Fiscal year revenue budgets are developed by city departments as part of the Five-Year Forecast. Departments develop projections based on historical trends, economic conditions, and contract terms.
  - Fiscal year expense budget drafts are built by setting a base budget, which updates personnel expenses, removes one-time investments, and adds in the second year of improvements. Additional adjustments are made as needed, similar to **incremental budgeting**.
  - As part of the departmental Comprehensive Budget Review process, City budget and department staff work together to review each line item in the budget for effectiveness and efficiencies, similar to **zero-based** budgeting.
  - As part of the FY2025 budget process, San Antonio budget staff requested departments submit three programs for reductions, with a focus on "programs that are not efficient or have a lower demand for service or programs that can be re-aligned to create efficiencies," similar to **performance-based** and **outcomes-based** budgeting.
  - Each year as part of the budget process, the Mayor and City Council hold a Budget Goal Setting Session, developing a list of key priorities that are utilized to develop a trial budget during budget deliberations, similar to **priority-based** budgeting.
- Because San Antonio currently uses components of various budgeting methodologies, PFM believes the City will be successful in implementing a hybrid budgeting approach that contains many of these components that have already been deemed a success for San Antonio.



## Takeaways

- While there is no one size fits all approach to budgeting, there are specific considerations San Antonio should keep in mind when comparing various budgeting methodologies.
- Many of the budgeting methods that differ from incremental budgeting can be very time intensive for budget and department staff – San Antonio should ensure strong procedures are set to support staff through any new, and extended, budget process.
- Budgeting methodologies that rely on programs and services rather than traditional line-items must be supported by an accounting system that can accurately capture this different kind of information.
- City leadership should emphasize to departments that program and service redundancies should be studied, with a particular emphasis on ways departments can shift service responsibilities around to reduce redundancies and save additional funds.
- City leadership should ensure all departments with independent budget document responsibility has the staff capacity necessary to take on additional analysis responsibilities during the future budget process.
- Ultimately using a combination of zero-based, performance-based and outcomes-based budget methodologies will allow San Antonio leaders to make better informed and strategic decisions on annual budget allocations.





# Proposed Budget Methodology



## The Need for a Hybrid Approach

- A hybrid approach will help the City be more efficient, transparent, and strategic in how it allocates resources to meet its goals.
- By combining components of zero-based, performance-based, target-based, and outcomes-based budgeting – while maintaining aspects of the current budget process that are effective – the City will be able to make more informed, data-driven decisions.
- This approach ensures that resources are allocated based on the current priorities of the Mayor, Council, and departments, while also evaluating the effectiveness and impact of programs.
- By integrating performance metrics and outcome assessments, the City will be able to identify which services are delivering the most value, whether existing programs are still needed, and where improvements can be made.
- A hybrid approach holds departments accountable for their performance, while also providing the Mayor and City Council with the necessary data to make evidence-based decisions.
- This creates a system that is both flexible and results-oriented, ensuring that the City can adjust its focus as circumstances change and new priorities emerge.

Alignment with  
Goals

Transparency and  
Accountability

Enhanced  
Efficiency

Strategic  
Allocations

Improved  
Decision-making



## Key Elements of Current Budget System to Integrate



### Budget Forecasting

Continue developing a five-year forecast.



### Goal and Priority Setting

Continue the process of establishing goals and priorities for the City



### Community Engagement

Continue gathering community input around goals and priorities.



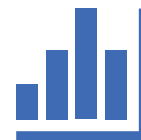
### Performance Measures

Continue utilizing performance measures.



### Budget Transparency

Continue ensuring all residents, staff, and stakeholders understand how funds are allocated.



### Utilize Data

Continue to utilize data to inform decisions.



## Preliminary Recommendations

### Hybrid Budget Process

A hybrid approach that strategically implements more outcomes-based budget practices and creates the structure for deeper goal setting so that City leadership can provide greater clarity to departments at the front end on which services, programs or priorities need to be reduced.



***Maintain elements of community engagement, multi-year forecasting, and priority-based budgeting already in practice.***



***Deploy longer council goal setting sessions to define priorities and outcomes for the next two to four years.***



***Instead of using across the board ZBB, create a defined criteria for programs and services that are poised for ZBB.***



***Implement comprehensive budget reviews for departments on a rolling basis (a set of departments each year) to ensure all services are reviewed for efficiency and effectiveness.***



***Deploy more rigorous training and standards on performance measurement setting and tracking.***



## Programs or Services Poised for ZBB

- It is important to identify the right programs or services for the ZBB review process. Doing so will avoid time-consuming evaluations of programs that do not require a deep reexamination or the examination of programs or services that are mandated. This ensures a more efficient use of time and effort through the budget process. The following bullets identify the types of programs or services that should be considered for ZBB.
  - ***Programs Not Recently Evaluated:*** Programs that have not undergone a formal review or evaluation in the recent past, to ensure ongoing effectiveness and alignment with current needs.
  - ***Programs Created in Response to Specific Needs:*** Programs established to address specific needs or crises at a particular time but now need to be reassessed to determine if they have fulfilled their original purpose or continue to meet their goals effectively.
  - ***Non-Core Services:*** Only supplemental programs—those that do not fall under the category of essential or core services—will be considered for the ZBB process. Core services, being critical to the City’s operations, will be excluded from this review.
  - ***High Interaction with Non-Core Services:*** Programs that have significant overlap with or contribute to the delivery of non-core services, where resource allocation may need reevaluation to ensure optimal impact.
  - ***Programs with Potential Overlap:*** Programs that potentially duplicate or overlap with other work being conducted within the City, raising concerns about efficiency, resource use, or potential for consolidation.
  - ***Programs with Efficiency Concerns:*** Programs with questions around their efficiency or effectiveness in achieving intended outcomes will be included in the review, focusing on identifying opportunities for improvement, scaling back, or eliminating wasteful practices.



## Departments Undergoing CBR

- Over the course of a four to five-year rotating cycle, a set of departments will undergo the CBR process each year. This approach allows the City to conduct an in-depth review of each department to ensure effectiveness and alignment with overall City priorities.
- Each year, departments will be selected to participate in the process based on various criteria – which can include the size of their budgets, staffing levels, or operational similarities.
  - For example, departments that closely collaborate or address related core issues – such as fire, police, emergency management, and municipal courts – may be reviewed together as part of a public safety group for one year.



## Proposed Budget Timeline

- The following slides outline the reimagined budget process, which introduces two distinct cycles:

### **Transitional Budget Process**

*(Year One - to be repeated every five years)*

The transitional budget process is an expanded process occurring once every five years and is designed to support the development of longer-term goals and strategic priorities. It aligns with the four-year election and council term cycles, allowing for a comprehensive reset of budget priorities. The additional steps in this process are intended to frame long-term goals and outcomes to inform broader (multi-year) budget planning.

During Year One of the cycle, departments are grouped and prioritized for an in-depth comprehensive budget review that would take place each year of the four-year cycle.

### **Regular Budget Process**

*(To be repeated annually in years Two, Three and Four)*

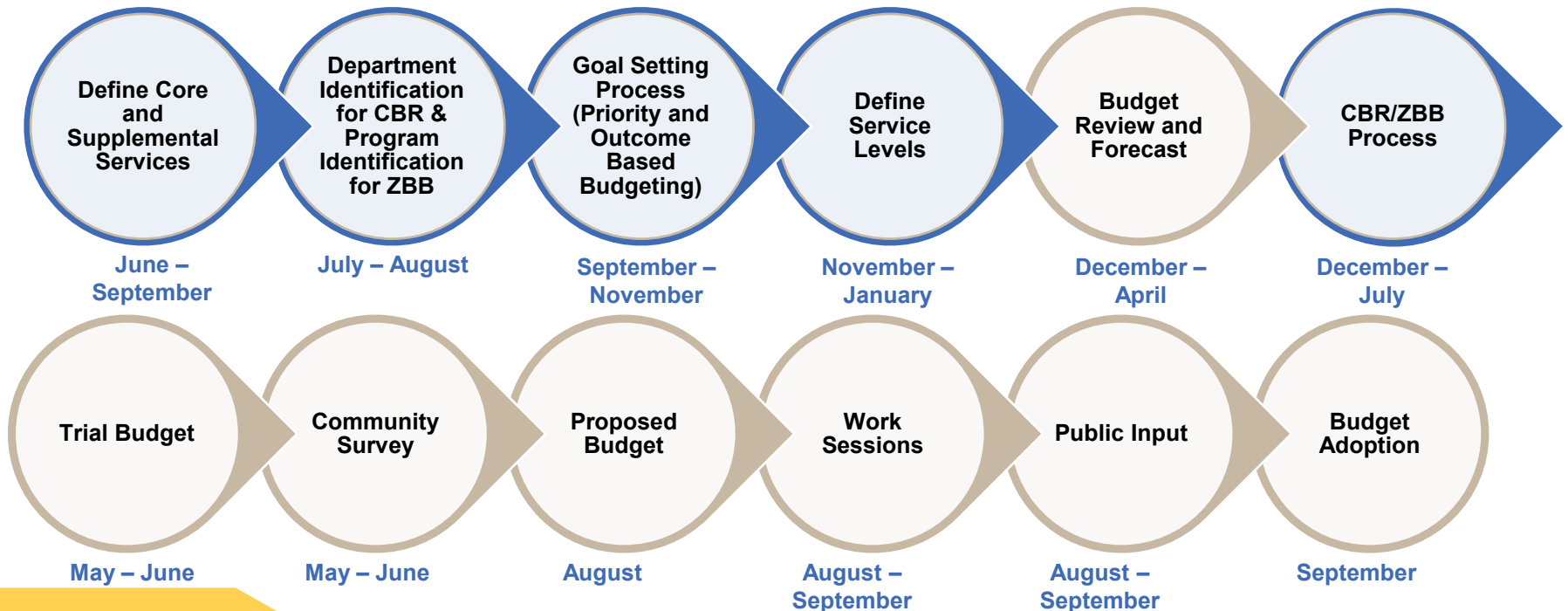
In the years between transitional cycles, the regular budget process takes place. This shorter cycle focuses on reevaluating the goals and outcomes of the transitional budget year and making targeted adjustments to the transitional year. Identifying new annual priorities along with making adjustments for current year budget realities will also be the focus for non-transition budget years.

Each year a new set of two to five departments are subject to a comprehensive budget review.



## The New Budget Process – Transitional Year (Year One)

- The following graphic introduces the reimagined process for the transitional year (year one), which incorporate additional steps to the existing budget process to allow for a more thorough review of programs and services and for Council to have more time to define priorities and outcomes. This new process incorporates aspects of zero-based, target-based budgeting, and priority-based budgeting.
- The steps outlined in blue indicate new steps within the budget process. Steps outlined in tan are already existing parts of the budget process.
- While the goal setting process exists in the current budget process, the new process adds additional time and steps to identify priorities and outcomes, and to identify programs to undergo the ZBB process.
- The goal setting process during the transitional year will also be informed by existing public input channels.

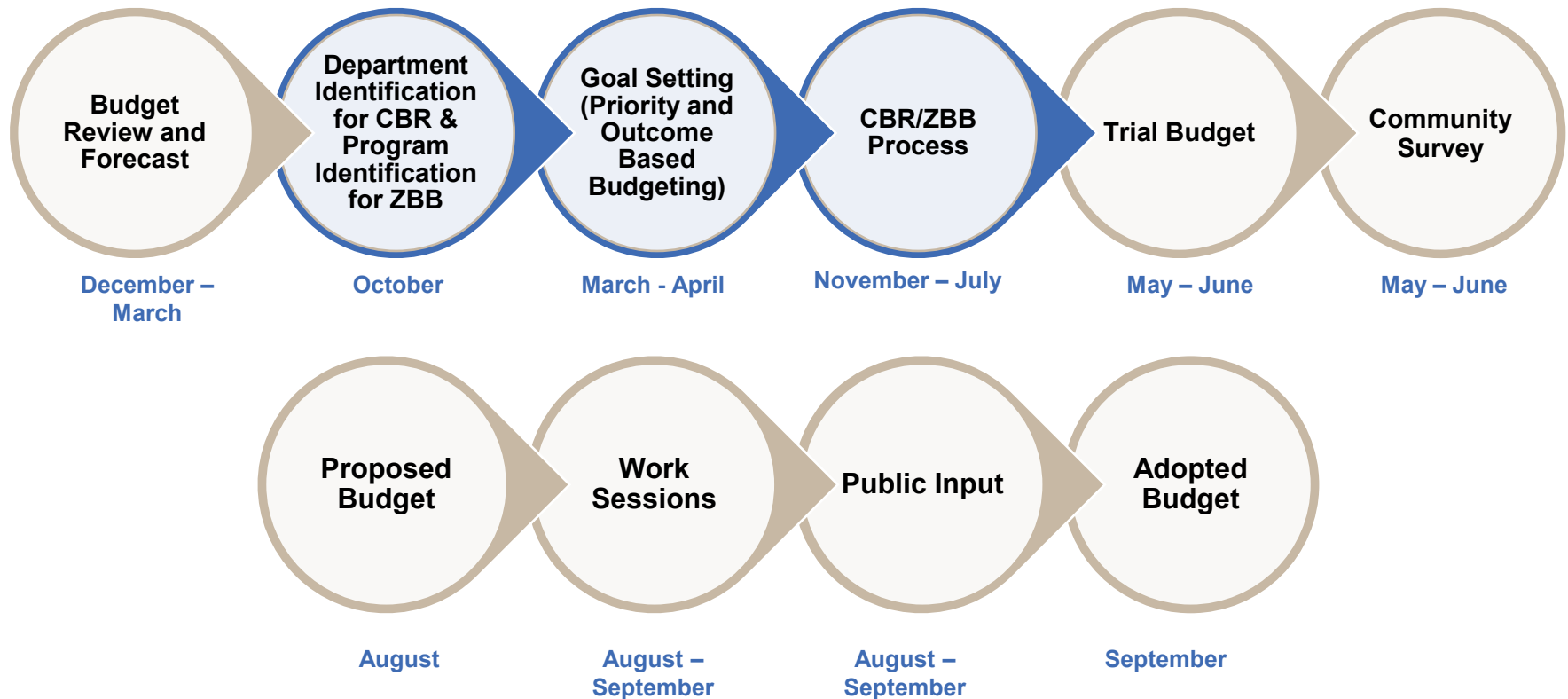






## The New Budget Process – Regular Budget Years (Years Two, Three and Four)

- The following graphic introduces the reimagined process for the regular budget years taking place during years two, three and four. This process still incorporates additional steps from the current budget process that will allow for the City to have time to reaffirm priorities and outcomes while also identifying services and programs to undergo ZBB.





## Timeline of New Steps – Transitional Year

### 1. Define Core and Supplemental Services (*June - September*)

The new approach will apply several elements from ZBB and the CBR to relevant services and programs. Departments begin identifying their core and supplemental services with the support of the Legal team. This step establishes what services are essential to the City's mission and which are additional or discretionary. Only supplemental programs or services will be eligible for ZBB.

*Budget Office, Innovation Office and Departments with support from Legal*

### 2. Department Identification for CBR and Program Identification for ZBB (*July – August*)

The Budget team, in collaboration with City Management and input from Department Leaders, identifies specific programs or services that will undergo a ZBB review. They will also select which departments will undergo the comprehensive budget review (CBR) process along with when they will go under review over the four-year period. The CBR will analyze the entire department – not just specific programs, to ensure that core services are evaluated for efficiency. A small number of departments (potentially up to five) will be reviewed each year on a rolling basis.

During the regular budget years (years two, three and four), this step in the process is less time consuming, since departments selected for CBR year are determined and planned in the transitional year.

*Budget Office, City Management with input from Department Leadership*



## Timeline of New Steps – Transitional Year

### 3. Goal Setting Process (*September – November*)

The Mayor and City Council launches the goal-setting process, informed by departmental strategic plans and updates on current core and supplemental services. Mayor and Council's role will be integral in determining which services and priorities move forward. For these identified priorities, the Mayor and Council will also be tasked to define key outcomes. This will be a thoughtful and effort-intensive process, requiring careful deliberation. Not all services can be prioritized – difficult choices will need to be made as the Mayor and Council balance limited resources with the City's evolving needs and long-term goals.

- (*September*) Mayor and Council begin by defining overarching priorities and hearing from departments as they present current strategic priorities and share existing updates on both core and supplemental services. The Mayor and Council will identify preliminary priorities and desired outcomes for each department. The Mayor and Council will also compile key questions and requests for additional information from departments and city management team.
- (*October*) Departments begin to align core services and programs to the Mayor and Council's priorities keeping in mind the desired outcomes. Departments work to respond to Mayor and Council's questions and share preliminary insights on impacts to current operations, services, and programs. The Mayor and Council also review and confirm the preliminary list of services and programs for ZBB.
- (*November*) Departments clarify what core services are currently funded and what remains unfunded in relation to Council's priorities. The Mayor and Council finalize the priorities and outcomes to serve as the foundation for citywide budget development.

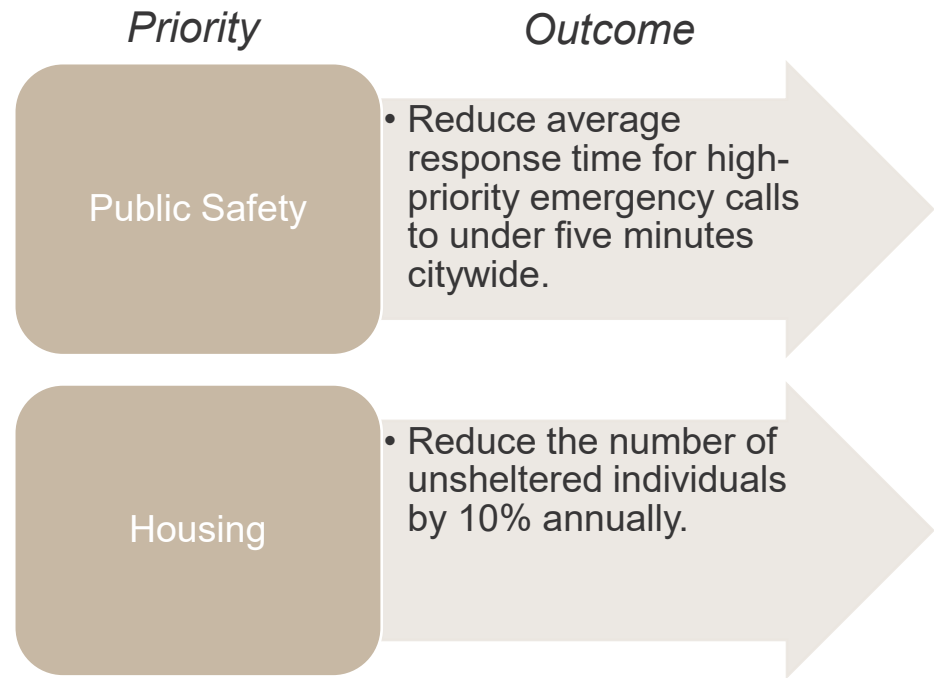
*The Mayor and City Council with support from City Manager*



## Priorities and Outcomes

- The transition to the new budget process will require the Mayor and City Council to develop clearly defined priorities and outcomes to ensure that spending aligns with the most relevant community needs.
  - The priorities will define what issues or services to focus on.
  - The outcomes will define what success will look like. Outcomes will center around results
- Outcomes should directly support the broader strategic priorities of the City and be used to determine the levels of funding allocated to a program.
- Outcomes should also consider what is achievable given the available resources.

### Example Priority and Outcome





## Timeline of New Steps – Transitional Year

### 4. Define Service Levels *(November – January)*

Once relevant services or programs appropriate for Zero-Based Budgeting (ZBB) are identified, the City Manager will develop standard service level options for each program. These tiered service levels will guide departments in preparing decision packages for programs undergoing ZBB. The Mayor and City Council will then review and select preferred service levels from the options presented, with facilitation and support from the City Manager. Departments and the City Manager will determine what these levels look like under the context of programs from the respective departments.

- Tier 1: This represents the essential, non-negotiable services and activities that must be maintained to meet core objectives, council priorities, and other compliance requirements. These services are critical to the programs or department's basic functions.
- Tier 2: This tier includes important services that enhance the program's effectiveness but are flexible and can be adjusted depending on available resources. These services contribute significantly to meeting goals but can be scaled or modified as needed.
- Tier 3: This represents the highest level of service for program and includes optional enhancements that improve performance or outcomes but can be deferred or eliminated if necessary to allocate resources to more critical functions.

By categorizing programs or services into these tiers, this approach provides the Mayor and City Council with the opportunity to prioritize which services to fund and which to defer during the year. This enables the Mayor and City Council to align resource allocation with the City's goals while ensuring that budget requirements are met.

*City Manager with input from Mayor and City Council*



## Timeline of New Steps – Transitional Year

### 5. Budget Review and Forecast (*December – April*)

The Budget Office reviews early budget data, including personnel costs and expenditure history. This phase includes developing a Five-Year Forecast to provide a financial outlook for the City. Through this review, the budget team will be able to share a target budget number for all core services.

*Budget Office*

### 6. Zero-Based Budgeting (ZBB) Process (*December – July*)

Departments with programs or services identified to complete the ZBB process start by reviewing all program costs and justifying funding based on need and alignment with strategic outcomes. Departments or leads of programs and services will develop decision packages for the programs or services that are under ZBB that will display the three service level options that align with the service levels defined by the Mayor and City Council. All options defined will have a corresponding cost. The Budget Office will review the decision packages. The Mayor and City Council will then be required to select the service level from the decision packages prepared by the departments.

*Departments and Budget Office*



## Timeline of New Steps – Transitional Year

### **7. Trial Budget (May – June)**

Using ZBB results and Council priorities, the Budget team prepares a Trial Budget that outlines preliminary allocations for core and supplemental services. This draft is shared with departments and the City Manager for initial review.

*Budget Office*

### **8. Community Survey (May – June)**

A citywide community survey is conducted to collect resident input on priorities. A minimum of 100 responses per Council District is required, with surveys available in English and Spanish via mail, phone, and online. Residents may also submit feedback through SASpeakUp.com.

*Budget Office with Community Engagement Department*



## Timeline of New Steps – Transitional Year

### **9. Proposed Budget (*August*)**

The City Manager presents a Proposed Budget to the Mayor and City Council, focusing on the funding of core services and including data from the ZBB review, community survey, and Trial Budget.

*City Manager with Budget Office*

### **10. Work Sessions (*August – September*)**

Departments present their budget requests to the Mayor and City Council during work sessions. These sessions focus on program-level decision packages and provide justification for both core and supplemental funding requests.

*Departments with Budget Office*





## Timeline of New Steps – Transitional Year

### **11. Public Input (*August – September*)**

Public townhalls are held across all Council Districts to gather community input on the Proposed Budget, giving residents a final opportunity to share feedback before adoption.

*City Council, City Manager, Budget Office, and Community Engagement Department*

### **12. Budget Adoption (*September*)**

The Mayor and City Council formally adopts the budget. The final budget must be balanced, ensuring that expenditures do not exceed available revenues.

*Mayor and City Council*



## Budget Process Roles by Stakeholder

Residents	Mayor and City Council	City Manager	Budget Team	Departments
<ul style="list-style-type: none"> <li>• Provide input around City goals and priorities through the community survey</li> <li>• Provide input through townhall events on the Proposed Budget</li> </ul>	<ul style="list-style-type: none"> <li>• Set citywide goals and priorities</li> <li>• Define desired outcomes</li> <li>• Select service levels for all supplemental services that align with budget targets</li> <li>• Define areas of investment, along with spending and revenue goals</li> <li>• Adopt budget</li> </ul>	<ul style="list-style-type: none"> <li>• Facilitate Council discussion for identification of desired outcomes</li> <li>• Identify programs poised for ZBB</li> <li>• Review and confirm departments for CBR review</li> <li>• Adjust the budget to align with desired outcomes set by Mayor and City Council</li> <li>• Present the proposed budget to City Council</li> </ul>	<ul style="list-style-type: none"> <li>• Budget review and five-year forecast</li> <li>• Assist in identifying programs to go under ZBB review</li> <li>• Developing Trial and Proposed Budgets for review</li> <li>• Prioritize departments for CBR review</li> </ul>	<ul style="list-style-type: none"> <li>• Provide strategic plan information and updates around existing services</li> <li>• Provide subject matter expertise around current initiatives and programs for Goal Setting</li> <li>• Develop service level packages under ZBB for City Council</li> <li>• Participate in CBR progress</li> <li>• Present budget requests</li> </ul>



## SWOT Analysis – New Budget Process

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### Strengths

- ◆ Provides departments, Mayor, and Council with a longer view of priorities for better alignment and decision-making.
- ◆ Ability for the Mayor and Council to determine desired program outcomes and establish expectations around service level.
- ◆ Uses a tiered approach to help City council make informed decisions around service prioritization.
- ◆ Provides departments with additional opportunities to share their subject matter expertise on the services they provide, along with insights into how residents are experiencing these services.
- ◆ Utilizes strategic plans, performance data, and financial forecasts to enable the Mayor and City Council and departments to make more informed, data-driven decisions.
- ◆ Offers a systematic approach for evaluating departments through the CBR process along with individual programs and services through targeted ZBB.



## SWOT Analysis – New Budget Process

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### Weaknesses

- ◆ The process places a significant burden on the Mayor and City Council to make difficult decisions about which services to prioritize and fund. This could lead to political challenges or disagreements around priorities.
- ◆ While the ZBB process will be limited to select programs, it will still require time and effort from department staff to review supplemental services and develop decision packages.
- ◆ Limiting ZBB to only supplemental services may cause departments to overlook inefficiencies in mandatory services.
- ◆ Implementing this new process with additional steps could overwhelm departments and City Council members.



## SWOT Analysis – New Budget Process

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### Opportunities

- The tiered service levels of the decision packages give the City more flexibility with programs to allow for services to be scaled up or down depending on funding availability and community need. This ensures resources are used effectively, even in the face of budget constraints.
- This budget process increases the collaboration between the budget team, Mayor, City Council, and departments to develop more informed budget decisions.
- The process can help identify duplicated services across departments, improving the efficiency of supplemental services and eliminating redundancies.
- May allow the budget team earlier opportunities to share budget targets and constraints to departments and the Mayor and Council. This in turn may cut down on back and forth between the budget team and departments to set the initial proposed budget.



## SWOT Analysis – New Budget Process

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### Threats

- There may be external pressure from various stakeholders who have a vested interest in specific services (longstanding community partners, vocal residents, businesses, etc.).
- There may be potential backlash from residents if certain supplemental services that they have grown to enjoy or even depend on are cut as a result of ZBB.

# Thank you!

