

ZERO-BASE BUDGETING DISCUSSION

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In conjunction with Finance, Accounting, Purchasing and Financial Systems
Departments

What is Zero-Base Budgeting

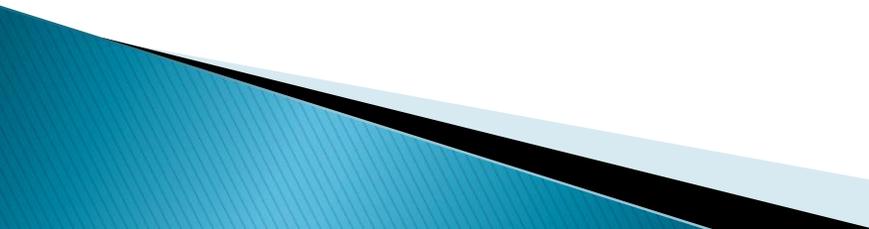
Zero-base budgeting (ZBB), in its original form, is a system of budgeting that begins every budget cycle at zero, rejecting any assumption that the activities that were funded in the last budget will continue in the coming one. It requires a rationale for each activity that will be funded for the new budget.



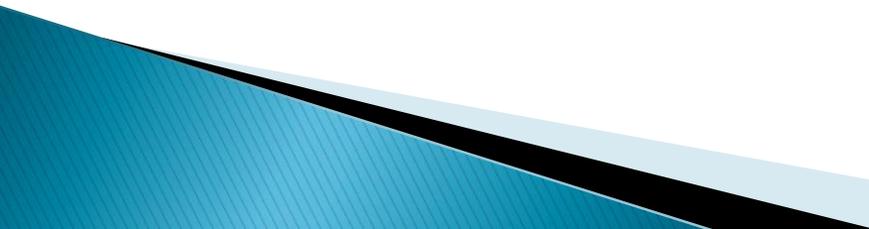
History Behind ZBB

- ▶ The process was actually developed by Peter A. Pyhrr in 1969 at Texas Instruments as a tool for planning, budgeting and control.
- ▶ He published an article about his budget experiences with Divisions of Texas Instruments that caught the attention of Jimmy Carter who was then Governor of Georgia State.
- ▶ Jimmy Carter implemented the ZBB budget system at the federal level in 1979. The system, however, did not continue for long and its formal application was stopped within a couple of years.
- ▶ During this time, many state and local governments did try to implement the ZBB budget system, however, most ended the implementation of the system due to the major complaint filed that it generated too much paperwork and there was too little time to examine the paperwork it did generate.

ZBB – How to develop?

- ▶ Zero-base budgeting requires decision packages to be developed for each program, service and/or business that is offered by the government.
 - ▶ The decision packages usually represent various tiers of funding and or service levels ranging from increasing or decreasing service levels or maintaining the same service level.
 - ▶ The packages are usually ranked by central budget authorities (e.g., city council, mayor, city manager) and funding is allocated accordingly.
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ZBB – Required for City of Plano

- ▶ At the City of Plano we have 23 departments
 - ▶ They have identified 449 programs or core businesses through our Core Business Matrix process.
 - ▶ Under the ZBB process, each program would be required to develop three different decision packages based on service levels and funding of each package.
 - ▶ This illustration translates into 1,347 decision packages that would be required to be analyzed at the City of Plano.
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Current Plano Budget Process– Past Three Years

Combination Target/Priority Base Budget System

- ▶ **Target–Base Budget (TBB)** is a derivative of ZBB. Each decision unit (program, department, division) is given a target and submits a budget for that amount. Decision packages are submitted that either reduce or increase the target budget based on various service level changes. Decision packages are ranked according to alignment with goals and objectives.
- ▶ **Priority–Base Budget (PBB)** identifies the most important strategic priorities, then ranks services according to how well they align with those priorities and finally allocates resources in accordance with the ranking. “Budgeting for Outcomes” is the most well known variant of PBB.

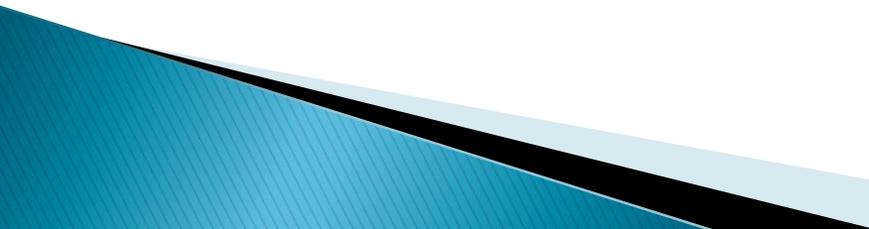
Current Plano Budget Process– Past Three Years

- ▶ The Strategic Plan developed by the City Council in June identifies the goals for the City
- ▶ The Core Business Matrix is updated in the Fall based on the goals of the Strategic Plan and the adopted budget
 - All programs/services are identified by the department, justified, provides expenditure and revenue levels, number of employees and priority within the department
- ▶ Council and Management reviews the CBM in early Spring to identify budget reductions/service level changes for next year budget
- ▶ Three-year Financial Forecast is prepared in March

Cont. – Plano Budget Process

- ▶ Based on the Financial Forecast, departmental budget targets are prepared and distributed to departments in late March
- ▶ Departments utilize supplements (decision packages) to provide justification, budget reductions, service level changes, etc. for adjustments to their target budget
- ▶ All budgets are prepared based at the cost center level within prescribed object codes
 - Detail and justification is provided for each object code
- ▶ End of July, City Manager presents his Recommended Budget which has combined the target and supplemental budget together
- ▶ City Council reviews Recommended Budget in August and adopts in September
- ▶ October 1st the process begins again

What would it take to implement Zero-Base Budgeting at the City of Plano??

- ▶ Would take at least two years to implement
 - ▶ Complete restructure of our JD Edwards OneWorld Financial System (*cost est. \$1M*) or purchase entire new financial system (*cost est. \$2M to \$3M*)
 - ▶ Complete restructure of Peoplesoft HR System (cost est. \$500K) in order to allocate employee time for projects
 - ▶ Will impact personnel time required to prepare annual budget. (*cost est. at least \$300K*)
 - ▶ Budget preparation time would need to be extended
 - ▶ Budget document may have to be tripled in size in order to accommodate the ZBB presentations.
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Financial System Changes

- ▶ Current financial system tracks departmental budgets, expenditures and revenues at the cost center level (e.g. Police Department) to the appropriate object code (e.g. office supplies)
- ▶ Zero-based budgeting would require that every single program have a cost center/program code number tied to it. Must have way to tie back to general ledger.
- ▶ Commodity codes would have to be set up in the Purchasing System in order to track inventory.
- ▶ Order approvals in the system would have to be completely restructured.
- ▶ A time allocation system through Peoplesoft HR System would need to be implemented in order to allocate time for payroll.
- ▶ A major cost allocation system would need to be purchased in order to allocate costs to programs. Current financial system does not have one.
- ▶ All financial and budget reports would need to be re-created in order to pull from new account structure.
- ▶ All security for access to the system would need to be reset in order for staff to access various programs. Currently set up by cost center.
- ▶ No way to convert historical financial data.

Rake Example

- ▶ Current System: the purchase of a rake is entirely recorded in one Cost Center – for example Ground Maintenance Services District #1 which serves East Plano



**\$8.75 rake
purchased in Cost
Center 644 –
Ground
Maintenance
Services District
#1**

Rake Example

- ▶ Zero Based Budgeting: to appropriately understand program costs, the rake's purchase would be distributed over a wide variety of accounting units.



\$2.85 rake purchased for
Park land maintenance

\$2.15 rake purchased for
median maintenance

\$1.90 rake purchased for
rights of way maintenance

\$1.85 rake purchased for
facility landscape bed
preparation

**\$8.75 rake
distributed
across a
variety of
units by
intended
use**

Police Officer Example

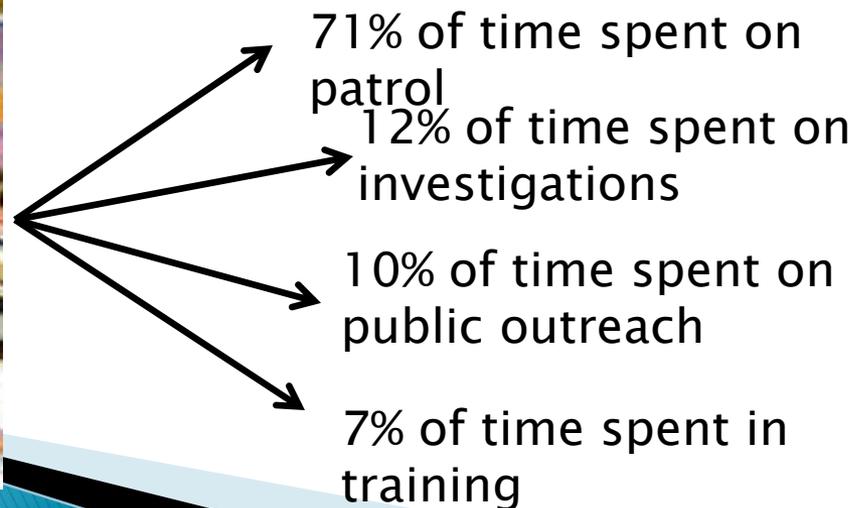
- ▶ Current System: a police officer's time is recorded in a single cost center for the Plano Police Department



All of a Plano Police Officer's cost is recorded in a single cost center

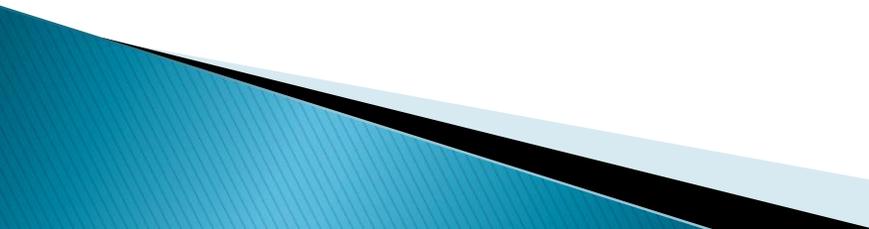
Police Officer Example

- ▶ Zero Based Budgeting: to appropriately understand program costs, the Police Officer's time would be distributed over a wide variety of accounting units.



Police Officer's time and associated cost distributed across a variety of units based on how time was dedicated

Departmental Budget Impact

- ▶ Would take departments two to three times longer to prepare budget. Would require extra staff time. (cost est. \$200K)
 - ▶ Budget Department would require at least two additional Budget Analysts (cost est. \$120K) in order to handle the review, coordination and volume of decision packages.
 - ▶ Would have to retrain all departments on new budget and financial system and budget process.
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What the Survey Says!!!

What form of budgeting does your city practice?

- ▶ Survey included 32 nationwide cities
- ▶ 0% said zero-base budgeting
- ▶ Most said some modified approach between target-base and priority-base/outcome-base
- ▶ Cities in the metroplex responses:
 - City of Dallas – Budgeting for Outcomes/Priority
 - City of Frisco – Target-base based on last year's budget
 - City of Carrollton – Combo target-base with elements of outcome
 - City of Richardson – Target-base
 - State of Texas – Combo Target-base/Performance-base
 - Farmers Branch – Combo target-base/Priority-base
 - Town of Addison – Target-Base

FY 2011–12 Budget Process

New Initiative

- ▶ Departments are updating their Core Business Matrix based on the FY 2010–11 Budget
- ▶ A new excel template is under construction which will allow for the prioritization of all core business/programs relative to each strategic goal and basic program attributes. The end result of this process will provide a priority listing of all core business/programs city-wide instead of within the department. Revised CBM will be ready by mid January.

Question's, Comments and Discussion