



Aligning Budgets with Priorities

Rethinking budgeting to drive impact and value



Introduction

As federal stimulus funding winds down, state and local governments face the twin challenges of balancing tighter budgets and aligning scarce resources with key initiatives. To meet these challenges, jurisdictions are adopting priority-based budgeting (PBB) methodologies and software to fund ambitious goals and still save money.

“If governments can thoughtfully change their business and revenue models through priority-based budgeting, we can build the communities we want without falling short because of resource scarcity,” says Chris Fabian, senior director of ERP budgeting product strategy for Tyler Technologies.

What Is Priority-Based Budgeting?

Unlike traditional line-item budgeting models, PBB aligns resources and funding with community priorities and outcomes. It gives government leaders tools to analyze spending, reallocate funds to initiatives their community values most, and build for the future with the right programs in place. The approach examines programs and services holistically across departments to determine their broader impact, enabling leaders to make better-informed budget decisions.

“PBB takes the line-item budget and translates it to the organization’s priorities,” Fabian says. “For government leaders to come through on their commitments, they need a budget that’s aligned to those priorities.”

In challenging fiscal conditions, PBB helps leaders allocate resources strategically and create new funding models for lower-priority programs. However, governments face challenges adopting PBB, given the complexity of their budgeting processes and the potential disruption to existing programs.

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“When you make a change of this magnitude, you need to understand from a cultural change perspective that some parts of the organization have benefitted from traditional budgeting,” Fabian says.

The limitations of existing financial systems also pose barriers. Governments must preserve the line-item budgeting found in these systems while aligning expenditures with cross-cutting priorities. “What we want to do is still have a line-item budget which existing systems do well, but also have the flexibility to connect programs and services to higher-level priorities in ways that might not fit into a general ledger account,” Fabian says.



Strategies for Implementation

Government leaders should use PBB to make strategic decisions, not slash budgets. “The first choice is not to cut lower-priority programs and eliminate staff,” Fabian says. “In order to accomplish a priority-based budget, all departments must see a way to win.”

Instead of cutting or eliminating programs, PBB can encourage departments to develop new revenue sources, creative partnerships, and alternative funding models. For example, one Wisconsin county’s parks and recreation department used PBB to shift a range of programs to fee-based models and cost-sharing approaches with private sector, public sector, and nonprofit partners. The approach enabled the department to maintain service levels and make its programs 100% self-sustaining, which allowed general fund resources to be reallocated to other county priorities.

“They called it their fiscal independence plan,” Fabian says. “The key for the department was the feeling of empowerment — opening up possibilities on how the programs were funded allowed them to control their destiny.”

To take advantage of the latest technology and security, choose a cloud-based PBB application that runs on Amazon Web Services (AWS). A PBB solution will integrate with existing financial systems to analyze budget data and help government leaders make evidence-informed decisions. In addition, an advanced PBB application will use artificial intelligence (AI) and machine learning (ML) capabilities to automate the correlation of budget line items and staffing to programs, cost, and impact. For example, a solution using AI/ML could help police departments see how staff devoted to areas such as patrol, investigations, and administration also support broader goals — and connect the budget line items for personnel and other expenses to those priorities.

“What you don’t want is a shell of a system that the government has to populate from scratch,” Fabian says. “You want solutions from your solutions.”

PBB applications can also aggregate historical information from other jurisdictions to predict opportunities for budget savings. “Solutions that leverage AI provide a playbook and implementation guidance based on the experience of others in the PBB community,” Fabian says. “That’s a tremendous first step in terms of saving time and energy.”

Finally, governments can use consultants to navigate the transition to PBB. Some providers offer fractional staffing, allowing a jurisdiction to work with a PBB expert part time to implement new budgeting processes.

Making an Impact

PBB is already making a difference for state and local governments. Many communities are using PBB to optimize expenditures in challenging fiscal environments. A major city in the Pacific Northwest is piloting PBB in key departments to reallocate resources and identify new revenue streams in the face of a projected \$250 million budget shortfall. Another community in the Mid-Atlantic region is using PBB to implement a cross-cutting climate action plan that was adopted by city leaders but not directly funded.

With PBB, governments can focus on the real-world value of programs instead of line-item budget minutiae.

“What organizations want out of the budget transformation is to get the juice from the squeeze — to focus on the impact of programs with sound quality data,” Fabian says. “The goal is to provide maximum benefit with limited resources. That creates innovation and ingenuity to meet the community’s needs.”

To learn more about PBB, visit the Government Finance Officers Association’s Rethinking Budgeting initiative at www.gfoa.org/rethinking-budgeting.

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