

# Introduction



## THINKING OUTSIDE THE BLACK BOX

Politicians like to make big promises, and the people want to believe them. I learned this in sixth grade, when a student council candidate named Darren McCants told a gym full of classmates that if they voted for him, they would get longer recesses and chocolate milk in the cafeteria. The crowd went wild, and Darren won in a landslide. Like many politicians who are better at campaigning than governing, Darren didn't deliver. This book is about how public servants can keep their promises by turning the most change-resistant bureaucracy in government—the budget process—from a force for unnecessary paperwork into a force for good.

My story begins in early 2008. The Great Recession had just begun (though we didn't know it yet), and I was sitting in the executive conference room of Baltimore's historic City Hall, waiting to interview with Mayor Sheila Dixon for the budget director job. All around me, hanging on the walls, were drawings of Baltimore's luminaries. The ones I recognized included Billie Holiday, Thurgood Marshall, Babe Ruth, and, of course, Edgar Allan Poe.

My knowledge of Baltimore didn't extend much beyond the Inner Harbor, the city's waterfront showpiece of tall ships, shops, restaurants, and the National Aquarium. I was not oblivious to Baltimore's challenges, though. Several years earlier, as a board

member of a nonprofit affordable housing lender, I had toured the Sandtown neighborhood on the west side (which in 2015 would be the epicenter of civil unrest following the death of Freddie Gray, a young black man in police custody). Chesapeake Habitat for Humanity was seeking financing to renovate vacant row houses, and I went to check out the project. What I saw and heard made a deep impression.

We drove through block after block of abandoned, boarded-up buildings and vacant lots, remnants of the city's depopulation. From a peak of nearly one million in 1950, Baltimore's population has fallen by more than a third. In the 1990s, Baltimore lost residents faster than any other large city, shrinking by 11.5 percent (for comparison, Detroit lost 7.5 percent of its residents during that decade). More devastating than the blight was hearing from the principal of a public elementary school, who told us that most of her students came to school hungry every day and many were abused and neglected by drug-addicted parents. The extreme social and emotional problems in the classroom made teaching and learning nearly impossible.

In part because of that visit to Sandtown, I was willing to take a large pay cut from my federal job at the Corporation for National and Community Service (the agency that runs the AmeriCorps volunteer program). However naïve the notion might have been, I thought I could help to solve Baltimore's problems. I had worked "inside the beltway" for nearly fifteen years and was itching to get closer to the front lines of public service, where I could have a more direct impact on people's daily lives.

I was also fed up with federal budgeting. I knew from having been deep inside the process, as a program examiner at the White House Office of Management and Budget, that I was powerless to bring order to the multitrillion-dollar mess in Washington. Baltimore's budget seemed like something I could get my arms around.

Mayor Dixon radiated energy. At fifty-four, she kept herself fit by riding her bike almost every day. She sat down for our interview, but I could tell she was the kind of person who would rather be up and moving. A former Head Start teacher, she put me at ease with her smile and started in.

"The budget is like a \$3 billion black box to me," she said. "The decisions brought to me are at the margins, which means that, as far as I know, 99 percent of the budget is basically on autopilot."

It is a common mayor's lament. When they are elected, mayors feel like they can change the world. Before long, they realize that changing the draperies in their office is complicated. City budgets are layered with the costs of decades of decisions, wise and foolish, and endless details that have to be pried out of wary bureaucrats. You can understand why a mayor would throw up her hands.

I was ready for this moment. On the first day of my federal career, as a budget analyst in the US Department of Transportation, I was sent to a "train the trainer" session on the new Government Performance and Results Act, or GPRA. GPRA requires federal agencies to set goals, measure results, and report on progress. As a twenty-four-year-old fresh out of public policy school, I soon found myself standing in front of rooms full of managers twice my age, teaching them how to develop performance measures for the programs they ran. If my fear didn't kill me, I thought my students might. They had seen management fads come and go, and had little patience for another one.

In spite of the indifference, cynicism, and even verbal abuse I encountered in my trainings, I was inspired by GPRA and have devoted my career to using performance measurement to improve the results government delivers to citizens. More specifically, I have sought to connect performance measurement to budget decisions so that government gets the most possible value for each tax dollar spent.

I became a voracious reader of books that almost nobody else reads—books about how to improve government management. One such book, *The Price of Government: Getting the Results We Need in an Age of Permanent Fiscal Crisis* by David Osborne and Peter Hutchinson, became my bible. It explains how Washington State's governor, Gary Locke, tried something called Budgeting for Outcomes (BFO) to allocate dollars in a way that better reflected citizens' priorities and rewarded programs that got proven results.

If I were a superhero, I would be called Good Government Guy. When a mayor needed help, I could remove my jacket and tie and

rip open my button-down to reveal a T-shirt with GGG emblazoned across the chest. I wasn't born on the planet Krypton, but my upbringing in Lansing, Michigan, imbued me with a civic spirit and a public finance bent. My mother ran a child abuse prevention nonprofit and served on the school board. My father was a government economist and ultimately became state treasurer. They showed me that with leadership from competent, compassionate people, government can do great things.

I didn't use the superhero routine with Mayor Dixon, but I told her that BFO would be a good fit for Baltimore, where getting the most out of every dollar is critical, because there are never enough of them. BFO would give her insight about how the city's money was spent and specific recommendations for redirecting funds to her priorities. She was no wonk, but she could see that BFO would give her more control of the city budget. Thus started the adventure that this book is all about.

Baltimore, Maryland, may seem an unlikely source of lessons on government innovation. It is affectionately called "Charm City," but its history of social disorder has given rise to mocking slogans like "Harm City" and "Bodystore, Murderland." A former mayor declared Baltimore "the City That Reads," which was quickly lampooned as "the City That Bleeds."

At a conference in Sydney, Australia, a few years ago, I found out that people halfway around the world know Baltimore, but only because of the HBO series *The Wire*, a crime drama that vividly depicts the city's drug trade, police bureaucracy, politics, schools, and other troubled institutions. As an aside, there is a city budget director character in *The Wire*, and I found myself laughing ruefully as he tried in vain to talk the mayor out of using the rainy-day fund to pay for police salary increases.

What viewers of *The Wire* probably don't know is that Baltimore is forging a new reputation for smart government. It pioneered the much-copied CitiStat to track agency performance and became a leader in BFO—which we came to call Outcome Budgeting. Thanks to these practices, together with long-term financial planning and

many tough decisions by Mayor Dixon and her successor, Mayor Stephanie Rawlings-Blake, no city has a better story of managing through the Great Recession. On the other side of that fiscal crisis, Baltimore had a larger fund balance, lower property taxes, reduced retiree benefit liabilities, a shrinking structural budget deficit, and a \$1 billion school modernization plan—not to mention a higher bond rating.

This book is about Baltimore, certainly, but it is more so about how to use budgeting to drive innovation and get great things done in cities, counties, states, and any other organization struggling to turn resources into real results. You will learn about

- making outcomes the starting point for budgeting;
- funding outcomes instead of organizational units;
- using data and evidence to make budget decisions;
- fostering competition and collaboration to get the best from your services;
- rewarding services that get results and repurposing dollars from those that don't;
- engaging citizens in the budget process;
- shifting the budget debate from squeaky wheels to value for money; and
- creating a culture of innovation.

Finally, you will learn about completing the performance circle by connecting strategic planning, budgeting, and accountability for outcomes. I call this OutcomeStat, and it represents a new idea for how to manage government.

My decade in Baltimore was arguably the most tumultuous in the city's long history, save for wartime. It was marked by political scandal, economic crisis, and civil unrest. The murder rate fell to the lowest point in generations, then exploded to record highs. New waterfront development and neighborhood investment brought hope of renewal, but the half-century trend of population loss paused only briefly.

Like the city, Outcome Budgeting remains a work in progress, and always will be. I didn't write this book to declare "Mission Accomplished." I wrote it in the hope that others could find lessons in the ups and downs and ins and outs of what Baltimore's been through so far. Just as we learned from Outcome Budgeting pioneers like Dallas; Fort Collins, Colorado; and Redmond, Washington, we were sought out for advice by Los Angeles, Atlanta, Seattle, Philadelphia, and other cities looking to spend smarter. I want to share what we told them with a broader audience.

I am also motivated by my belief that at a time when our politics seems more divided than ever, Outcome Budgeting can be a unifier. Even partisans can agree on the outcomes we want for communities, things like safer neighborhoods, healthier babies, more jobs, and shorter commutes. Conservatives will love how Outcome Budgeting uses data and evidence to prioritize government spending, drives more efficient service delivery, and shines a spotlight on waste. Liberals will love how Outcome Budgeting brings people together around long-term solutions to our toughest problems, makes room for investments that turn people's lives around, and rewards innovation. In our world of fake news and alternative facts, Outcome Budgeting is a return to reason.

I know I have thousands of compatriots around the country who want to revolutionize the way government works and overthrow the outdated thinking that holds us back from achieving great outcomes, or even just making the organization we work in a little more effective. I will introduce you to some of them in these pages. I will also tell you about many of the books that have shaped my thinking and inspired me to keep swinging my pickax to break down the resistance to change. If this book can do the same for a few others, I will consider it a success.

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## Outcome Budgeting 101



**Cartoon 1.1** Dilbert Cartoon Source: DILBERT © 2008 Scott Adams. Used By permission of ANDREWS MCMEEL SYNDICATION. All rights reserved.

**DILBERT CARTOONS ARE** funny because they hit so close to home. I started my job as Baltimore's budget director in April 2008, and within two weeks I was in front of the city council to defend a budget I had nothing to do with creating. It was trial by fire, but I survived and we got the budget passed on time. What happened next was comical.

After the budget was adopted, I was told by the finance director that one of my jobs was to explain how the budget supports the Mayor's Objectives. "Okay," I said, too embarrassed to admit that I had never heard of the Mayor's Objectives. I asked around the budget office and got blank stares. After a few days hunting through City Hall, I finally found them on the desk of the mayor's communications director. I asked him if I could make a copy. "You can have that one," he said, between bites of a sandwich.