ZERO-BASED BUDGET MANUAL

FISCAL YEAR 2015

HOWARD COUNTY
PUBLIC SCHOOL SYSTEM

FY 2015 ZERO-BASED BUDGET MANUAL

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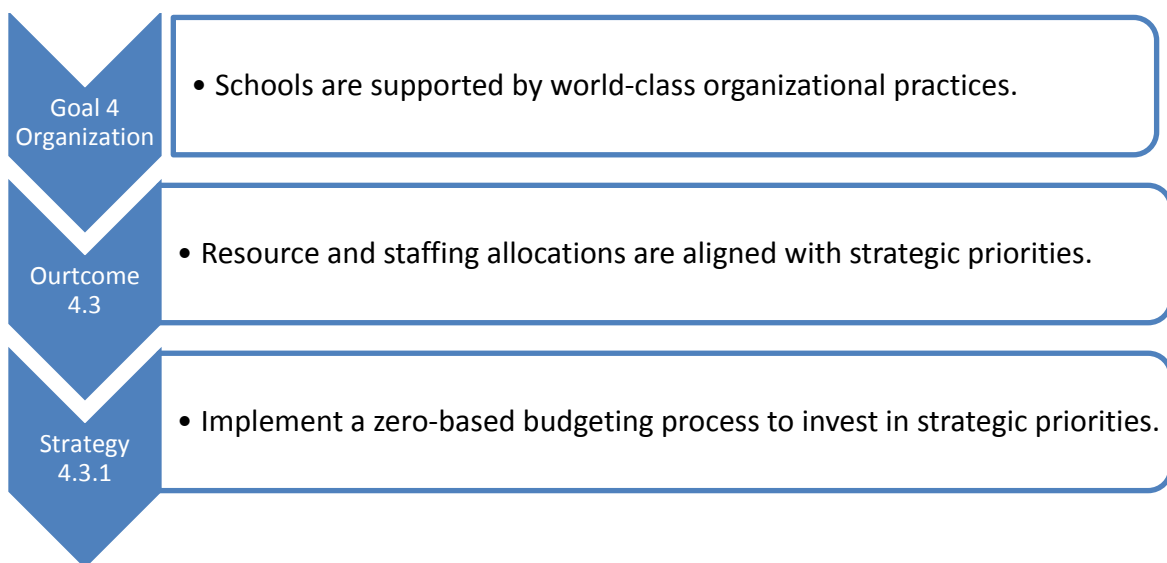410-313-6746

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INTRODUCTION

In June 2013 our Superintendent, Dr. Foose, presented to the Board of Education the Howard County Public School System (HCPSS) Strategic Plan, *Vision 2018: Fulfilling the Promise of Preparation*. This marks the exciting beginning of a new era for our school system. To begin implementation of our strategic plan, we start with the Operating Budget which is the resource allocation component of HCPSS's strategic plan. It is the mechanism for allocating funds to pay for the resources needed to achieve the goals outlined in plan.

As we prepare the Superintendent's Proposed Operating Budget to the Board of Education, we are committed to fostering inclusive budget discussions centered on the four goals of the school system:

HCPSS STRATEGIC GOALS

GOAL 1: *Students*   *Every student achieves academic excellence in an inspiring, engaging, and supportive environment.*

GOAL 2: *Staff*   *Every staff member is engaged, supported, and successful.*

GOAL 3: *Families and the Community*   *Families and the community are engaged and supported as partners in education.*

GOAL 4: *Organization*   *Schools are supported by world-class organizational practices.*

This year, we will be implementing zero-based budgeting with the FY 2015 budget cycle in support of the HCPSS Strategic Plan. Using a zero-based budget process is aligned with the following goal, outcome, and strategy:

Goal 4 Organization	• Schools are supported by world-class organizational practices.
Ourtcome 4.3	• Resource and staffing allocations are aligned with strategic priorities.
Strategy 4.3.1	• Implement a zero-based budgeting process to invest in strategic priorities.

ZERO-BASED BUDGETING OVERVIEW

Zero-based budgeting is a technique used for developing annual budgets that complement the budget planning and review process. Zero-based budgeting allows top-level strategic goals to be implemented into the budgeting process by tying them to specific functional areas of the organization. Due to its flexibility, this method of budgeting allows department heads to identify alternative ways to utilize limited resources through a systematic review.

A zero-based budget starts from a "zero base" and every function within an organization is analyzed for its needs and costs—all expenses must be justified. The budget is built based on the needs for the upcoming year, regardless of whether the new proposed budget is higher or lower than the previous one. Once developed, the budget is balanced given funding constraints.

Zero-based budgeting is a method of budgeting in which all expenses must be justified and every function within an organization is analyzed for its needs and costs. The purpose of the ZBB analysis is to assess a particular program's activities against its statutory responsibilities, purpose, cost to provide services, and desired performance outcomes. Some of the advantages of ZBB are that it:

- Facilitates efficient allocation of resources, as it is based on needs and benefits rather than history.
- Drives managers to find cost effective ways to improve operations.
- Increases staff motivation by providing greater initiative and responsibility in decision-making.
- Increases communication and coordination within the organization.
- Identifies and eliminates wasteful and obsolete operations.
- Requires programs to identify their purpose and their relationship to strategic goals.
- Helps in identifying areas of wasteful expenditure, and if desired, can also be used for suggesting alternative courses of action.

ZERO-BASED BUDGET ANALYSIS PROCESS

The zero-based budget development, review and analysis process will require collaboration among the HCPSS staff, the Budget Office, and the Executive Team. This new process will be rolled out in stages to allow time for training staff on the necessary tasks. The results of the ZBB analysis will be presented to the Superintendent during the fall budget development process. A final report of the ZBB analyses will be published in conjunction with the Superintendent's Proposed Budget request to the Board of Education.

Account managers will complete the following ZBB budget steps for each program they manage:

1. **Identifying Activities**

   - Identify key activities of the program.
   - Identify alignment with the Strategic Plan, Vision 2018: Fulfilling the Promise of Preparation.
   - Identify staff performing the key activities and the percentage of their time on each key activity.

2. **Identifying Resource Needs**

   - Analyze program budget and expenditures by identifying all non-salary costs to perform each activity within the program.
   - Identify proposed program enhancements and/or new program initiatives.

3. **Providing Program Summary**

   - Prepare a concise narrative of the program's key activities.

4. **Measuring Program Performance**

   - Identify program goals and performance measures used to evaluate the success of each key activity.

Step 1: Identifying Key Activities

Departments will be asked to discuss their program's key activities, explain why the program and its activities are critical, and identify how each key activity aligns with the HCPSS Strategic Plan. To assist account managers, the Budget Office will distribute the prior year program pages. Reviewing the narrative description of the program may assist in identifying the program's key activities.

Departments will also be asked to identify the staff working on each key activity and the percentage of their time spent on each activity. Staff time may be split between one or more key activities. The form will be pre-populated with the staffing currently assigned to the program.

Some questions to consider when evaluating the key activities and related information include:

Key Activities

- How does the activity align with the HCPSS goals articulated in the *strategic plan*? Identify the goal(s) supported by the activity.
- Is the activity concentrated in one particular department or school, or is it implemented consistently across the system?
- Is there any historical context for the activity that is important for decision makers to know?
- Is there a Board policy related to the activity and program?
- What are some alternative ways of delivering the services of the program? Are there trade-offs with the alternative methods?
- How do the key activities relate to the program's purpose?
- Is this a new initiative or new project? (Initiatives are intended to be ongoing while projects have a start and end date). If so, is it elective or mandated (by policy, law or regulation)?

Statutory Authority

- Is HCPSS statutorily required to perform the activity?
- Is the statutory authority specific to the activity or is the activity being performed within the broader general powers and authority of the department?
- What are the legal consequences of not performing the activity? Consider any local, state, or federal, regulation/requirements.

Step 2: Identifying Resource Needs

Departments will be asked to identify all non-salary costs to perform each activity within the program. In addition, departments will have the opportunity to identify proposed program enhancements or new budget initiatives with identification of their related costs.

Analysis of the Program Budget and Expenditures

The financial analysis of a program will examine historical expenditures. The goal of the analysis is to show the cost effectiveness (return on investment) of the program when compared to the outcomes established in the performance metric analysis. Departments will be asked to review prior year expenditure data as well as the FY 2014 budget.

Departments will be asked to explain in detail the expenditures and identify the major cost centers for each program. The following are questions to consider when reviewing prior year expenditures and the current budget.

Salaries and Wages

- Are salary and wage expenditures primarily for full-time or temporary/part-time staff?
- Could more functions of the program be performed by part-time rather than full-time staff? Why?
- Does the department use contractors to fulfill activities that could be done with staff?
- How have budget reductions over the last few years affected personnel as compared to contracted services, supplies and materials, other charges, and equipment?

Contracted Services

- What services are contracted?
- Could any of these services be provided using existing staff?
- What contracts are valued at greater than $25,000? Have each of these contracts been approved by the Board?
- For existing contracts, what is the contract length and when does the contract expire?
- Are there services currently performed by full-time staff that could be provided more efficiently through a contract?
- Are funds for contracts spent in a timely manner, or do contracts act as a "parking lot" for funds between years and take more than one fiscal year to spend down?
- Are contractors working on specific time-limited projects or ongoing routine work?
- What, if any, space is leased? Identify the square footage, price per square foot, geographic locations, and details of the rental agreement. Are there penalties to relocating certain offices or consolidating space with other departments or locations?
- What, if any, equipment is leased? Identify details of the rental agreement. Is it more cost effective to lease versus purchase? Are there penalties for terminating the lease?
- Are any contracts open for bid in FY 2015?

Contracted Services, continued

- If there are services contracted at set rates, how have the rates been determined and how do they compare to what other Maryland school districts pay for the same services?
- Are there major repairs funded through this object class that could be funded through the Capital Budget?
- Does the department perform repairs and maintenance in house or are these functions contracted out? Could savings be achieved by outsourcing (or insourcing) these items?
- Could print publications be reduced or eliminated by making them available electronically?
- Could forms be consolidated to reduce the number or types of forms printed?
- Have all software purchases been approved by the Technology Department in accordance with the software approval process?

Supplies and Materials

- Have all contracts valued over $25,000 been approved by the Board?
- What method was used to calculate the supply budget? How are these supplies procured? How does the department ensure the lowest available price is paid for supplies?
- Does the department make use of the Stores Inventory to purchase at bulk savings?
- Does the department require use of HCPSS negotiated contracts with Staples and Office Depot for supplies purchased through these vendors? If not, why?
- Are there unusual items required for this program, or are there cyclical buying cycles for supplies?
- How have supply expenditures changed over the last two years?

Other Charges

- How have utility costs changed over the last several budget cycles? Have increases in utility costs resulted in reduced spending in other programs or projects?
- Has the department found ways to reduce utility costs to offset increases in rates?
- Does HCPSS have a staff member who reviews all communications billings each month? Has the department thoroughly evaluated the inventory for which it is billed to determine if there are terminals/phone lines that are unused that should be disconnected?
- Are there other telecommunication or computer charges that are critical to the delivery of program services?
- Are travel costs monitored to ensure staff chooses the most cost-effective arrangements?
- What processes does the department have in place to select conferences with the best value for the cost?
- Does the department review staff schedules to ensure staff minimize travel (mileage)?
- Has the department limited meeting refreshments in accordance with HCPSS cost containment steps?
- What types of dues are paid by the department?

Other Charges, *continued*

- How does the department determine who it will pay dues for and what dues it will pay?
- Do subscriptions paid by the department align with department activities?
- What professional development/training is included in the budget?

Equipment

- Is this a large cost center for the program?
- What is the age of equipment inventory? Is an inordinate amount spent to repair older equipment? Would it be more cost effective to repair existing equipment or purchase new?

Unique Object Classes

- Why was a unique object class created?
- What account codes are charged for expenditures?
- How are the funds used?

Other questions for consideration:

- Has the department targeted one area of spending for reductions over the last several budget cycles, or have they made cuts across the board?
- Has the program sustained greater budget cuts compared to other HCPSS programs, or has the department sought to limit cuts in the program?
- Has the program's effectiveness diminished due to cost reductions, or has the program operated more efficiently?
- Is the program currently performing any activities that are not statutorily authorized? What would be the impact of halting those activities? Conversely, are there activities not occurring that are required by law/statute?
- Can the program or its activities be implemented more efficiently? Are there alternative/less costly ways the program could be implemented?
- Does this program or activity have to be provided by HCPSS? Could the service be provided by the non-profit or private sector or another level of government?
- Is this program or any of its services duplicative or similar to other programs or services the county, state or another entity outside of HCPSS already offers?
- Given the cost verses outcomes, is it a program HCPSS should continue to fund?
- Would any laws need to change to end or alter the activity to increase efficiency?

Step 3: Providing Program Summary

Department managers will be asked to prepare a program summary.

In preparing a program summary, the following questions should be considered:

- What is the program's purpose?
- What is the overview description of the program?
- What are the program performance expected and the key measures of those performances which merit inclusion?
- What accomplishments can be noted which display success in achieving key outcomes?
- What are the specific program goal(s), outcomes, and strategies as they align to ***Vision 2018: Fulfilling the Promise of Preparation***?

Step 4: Measuring Program Performance

Performance metrics are an integral part of a zero based-budget analysis and are used to assess the workload, efficiency, and effectiveness of an activity and/or program. As part of the ZBB process, each department will identify appropriate performance measures for their programs and related activities. The Budget Office will work with the Executive Team to conduct a thorough review of the measures. This collaborative review will help develop a common understanding of the programs purpose and ensure that the performance measures identified are sufficient. If changes are recommended, the department will be asked to offer alternative measures.

Performance measures should be selected based on their overall value for providing meaningful information to decision makers. **Please meet with your division chief to develop meaningful performance measures for your program.** Ideally, performance measures will demonstrate outcomes aligned with the strategic plan.

Quality performance measures are clear (understandable to a general audience), valid (measurable), and relevant to the core purpose of the program. To the extent possible, include four years of actual data. Such data will enable the department to explain trends in outcomes over time and consequently, the program's effectiveness. Where historical data is available, the department will be asked to review performances trends and consider factors contributing to that performance. In instances where the ZBB process results in a new measure that the department does not currently track, the Budget Office will work with the department to design a plan for tracking the measure.

In summary, the process should include:

1. A review of existing and historical measures for the program.

2. The development and evaluation of measures for each key activity.

While the ZBB process focuses on performance at the program level, one should not lose sight of existing HCPSS and MSDE performance metrics to which the program contributes. When selecting possible measures, staff should include applicable state indicators and federal benchmarks as supporting measures.

At the end of this process, the budget request for each program will reflect the best possible measures for the program's activities and provide the Executive Team with the information needed to assess performance and improve operations.

Questions for consideration:

- Based on the measures identified, how effective is the program and its activities?
- What factors may be causing a program to be less effective then desired, and what would need to change to increase effectiveness? This could include changes to law, funding, etc.
- Is the data provided for the measure reliable and accurate?
- Can the department document the sources used for the data?
- What are the limitations of the data, if any?

ZERO-BASED BUDGET CALENDAR AND DEADLINES

These are key dates and deadlines in the ZBB budget process (*dates are subject to change*).

August 29	Budget training on ZBB (Board Room A & B, 10:00-11:00 a.m.)
September 30	ZBB Budget requests due to Budget Office
October 31	Program Summary due to Budget Office
November	Superintendent's review of budget requests
December	Budget book prepared and printed
January 7	Superintendent presents budget (7:30 p.m.)
January 30	Public hearing on Superintendent's budget (7:00 p.m.)
February 4	Board of Education budget work session (7:00 p. m.)
February 6	Board of Education budget work session (1:00 p. m.)
February 11	Board of Education budget work session (7:00 p. m.)
February 18	Board of Education budget work session (1:00 p. m.)
February 25	Board adopts budget request (7:30 p.m.)
by March 15	Budget to County Executive
March	Performance Measurement Form distributed
by April 15	County Executive submits budget to County Council
May 8	Board of Education public hearing (7:30 p.m.) on budget changes
May 15	Possible Board of Education work session (7:30 p.m.) on budget changes
Late May	County Council approves budget
May 22	Board adopts approved budget (7:30 p.m.)

APPENDIX A

PROCUREMENT CONSIDERATIONS

As the HCPSS begins the process of developing a budget using the new zero-based budgeting format, the Purchasing Office would like to make account managers aware of the following:

The Board of Education established policies and procedures for the proper and efficient acquisition of goods and services to assist school staff to deliver a world-class education.

When developing a budget request, please give consideration to and factor in what available procurement methods will be used to obtain the goods and services required. Factors such as the source of funds, e.g. grants – local, state and federal may have conditions and qualifications that may be a condition of receipt and use of the funds. These conditions may include time limits on availability of funds, or requirements to use certain vendors.

Procurement methods for contracts over $25,000 will involve the formal advertising of either a Request for Proposal (RFP) or Invitation for Bids (IFB). The Purchasing Office has prepared a Procurement Manual that provides greater detail and more information and may be accessed through the purchasing web site.

The Purchasing Office is here to address any questions account managers may have such as the best procurement method to use, time allowance for a procurement action for timely deliveries and other related information that will assist account managers in the development, planning and implementation of their program initiatives.

TECHNOLOGY CONSIDERATIONS

Technology can be impacted by new budget requests / projects / initiatives in the following ways:

- New end user hardware (e.g. student iPads requiring new network firewalls for security).

- New end user software with valid licenses (e.g. new software must be licensed for intended use, COMAR approved and compatible with existing software).

- New end user on-line services (e.g. Google docs).

- New network equipment (e.g. additional servers for Exchange, Moodle, Alfresco, Communications Portal).

- New network capacity (e.g. increased bandwidth or additional wireless access).

- New technology resources (e.g. new Exchanges email system administrator).

- Additional time and scheduling to implement the above (e.g., time for computer technicians to setup new hardware or software).

The impact is especially critical for system wide projects (e.g., on-line access for new curriculum) or initiatives that occur when all technology resources are already committed (e.g., start of school).

New end user hardware must be tested for compatibility with existing technology (e.g. existing software or systems still operated on new type computer) and new image created to operate the new hardware which can take considerable time.

Floor space rearrangements frequently require repositioning of / or additional data and telephone jacks as well as electrical outlets (e.g. school labs moved or personnel changes that require new data or telephone jacks).

Please contact the Technology Department during the planning stages of your budget / project / initiative to insure all technology aspects critical to its success are considered and documented.

After contacting the Technology Department, the account manager should clearly identify any requested funds in your budget for new technology and indicate what impact it will have to existing technology and/or the Technology Department.