May 2002

Want to Balance Your Budget? Constraint Budgeting Works

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With the passing of each year, local government managers and administrators face the daunting challenge of balancing operating budgets with the ever-increasing desire among our citizens for enhanced service levels. Throw into the mix a downturn in the economy, tax-limiting citizen initiatives, and spiraling employee health care costs, and the challenge takes on a whole new level of magnitude.

In spite of these formidable financial barriers, Normandy Park, Washington, has successfully walked this financial tightrope by using “constraint budgeting” as its methodology for budget development since 1997.

I first encountered this budgeting method while working for Multnomah County, Oregon, in the late 1980s. To the best of my knowledge, David Warren, senior budget analyst at that time, was the person who coined the term “constraint budgeting.” This particular method was used to address a temporary revenue loss and was not continued.

In 1996, the finance manager for Normandy Park, Brenda Rolph, was developing the annual operating budget and became concerned that we were beginning to see a trend of decreasing state revenues. If in fact this were a trend, it would have major long-term impacts upon the financial stability of the city.

Normandy Park is a suburban Seattle residential community with minimal commercial development and is entirely devoid of industrial properties. The two primary sources of revenue are property-tax levies and per capita shared state revenues. Limited by a constricted revenue stream, and having good reason to believe that a key component of city revenues would keep on decreasing, we saw that we were at a key decision point for taking preventive action to ensure the city’s continued financial health.

Over the next few months, we devoted significant time to building what we thought was an effective and practical strategy. Through intense involvement with other members of the management team and with the council’s finance committee, we structured a two-pronged approach.

First, we agreed that a constraint budgeting process would be used in developing the 1997 annual operating budget, and, second, we decided to hire a consultant to help the city develop a long-term financial outlook and strategic plan.

The Methodology

We believed that paramount to success was the underlying need to keep the process as practical and straightforward as possible, particularly when involving the department managers in developing the budget. With this objective clearly in mind, we devised a three-stage implementation schedule.

Stage 1 involved the finance manager in working with each department manager on making revenue projections. At stage 2, the finance manager and the city manager reviewed the revenue projections and determined the fund expenditure budgets. These budgets then were established, with the caveat that the amounts of funds available for spending would be set at levels lower than revenues (in our case, 2 percent lower).

Finally, in stage 3, department managers were given their respective overall "constraint budgets," with the understanding that they had the flexibility to develop their detailed line-item budgets as they saw fit, within the framework of all regulatory requirements.

A critical component of this stage was communicating the underlying need to change our budget development methodology. Once we had made this need clearly understood, the finance manager devoted much time to helping department managers in developing their constraint budgets.

After the adoption of the annual operating budget, each department gave us positive feedback on the constraint budget methodology and its outcome. Common throughout the comments were an appreciation of knowing in advance the bottom-line budget amount, and of the flexibility to focus resources on the priorities of each department within its overall constraint budget.

Impacts of Constraint Budgeting

When we had completed our financial planning projections in August 1998, the fiscal outlook for the city looked bleak, with a projected $3 million deficit at the end of 10 years. As can be imagined, this realization was disturbing for the council and administration as we looked toward the future of Normandy Park.

After acting in early 1999 to update the Normandy Park 10-Year Financial Outlook and Plan, and recognizing a revenue increase resulting from the robust Puget Sound economy, we noted that the long-term budget situation had drastically changed. Effects of the constraint methodology and local revenue enhancements had greatly reduced the original $3 million projected deficit to an anticipated deficit of $955,762.

It was evident that our new form of budgeting was paying dividends in short order, with significant long-term impacts. A further critical eye was cast upon projected expenditures and past spending trends, and we were able to whittle down the projected deficit to $617,585 over 10 years.

Equipped with our new budgeting tool, we were reasonably confident that the projected long-term deficit could be addressed through moderate revenue growth in existing revenues, without the council levying new taxes. Because of this swing in the city's financial outlook, the administration had shown its ability to control spending in a reasoned manner, without compromising levels of service or staff morale.

Long-Term Benefits

Benefits of this methodology weave throughout the structure of the organization. Elected officials have gained an enhanced level of security and confidence in the process that is helpful on the policy front and that works to minimize pressures on the political front by showing the city's ability to balance budgets and control spending.

For department managers, there is a greater level of clarity to the budget system, an end to wasting time on wish lists, and the flexibility to manage their given resources in conjunction with departmental priorities. Last, from the chief executive's perspective, the system is simple, promotes fiscally responsible behavior, and is an effective aid in the decision-making process.

Lessons Learned from Implementation

Here are the basic insights that staff gained into the implementation of constraint budgeting:

- Devote ample time and energy to developing the constraint budgeting methodology, well in advance of starting the budget process.
- The manager must work closely with the chief financial officer throughout the development stage.
- Keep elected officials and department managers informed as to the rationale underlying the process.
- Constraint budgets must reflect the priorities and goals of the organization.
- The chief executive must embrace the motto "Just say no." Apply this advice often, with courtesy and with respect.
- Appreciate the challenges that the department managers will face.
- "Just say yes" when needs reflect changing priorities and goals of the organization.

- Departments must remain within the parameters of their constraint budgets, and these priorities must be set by the chief executive officer.

Concluding Observations

In spite of tax-limiting citizen initiatives and the recession, Normandy Park enjoys a firm financial footing in these indisputably tough economic times. The city's reserves are at a healthy level, and it has the financial wherewithal to meet organizational priorities, expand programs where needed, and improve employee welfare.

Given these results of constraint budgeting, I would encourage any jurisdiction facing a monetary challenge to consider using this process.

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