#4 Budget for What Works

In Baltimore, B'More for Healthy Babies has taken shape within the context of a much broader shift toward spending on programs that get results, using one of the primary tools available to city leaders: the budget process.

In most cities—as well as in states and the federal government—the budget is a relic that typically reflects last year's levels of funding. City leaders get pressured to preserve the status quo; doing differently requires strong leadership.

Baltimore is taking a fresh approach, budgeting around outcomes that matter and programs that work. This common-sense way of budgeting is still rare today, but Baltimore's story can be instructional for other cities looking to make the shift.

A new way of budgeting in Baltimore dramatically changes how funding decisions are made

When former Baltimore Mayor Sheila Dixon hired Budget Chief Andrew Kleine in 2008, she had big changes in mind. "She saw the budget as a black box," Kleine says. "She didn't understand how decisions were being made."

Inspired by the outcomes-oriented budgeting process in Washington State (see sidebar on page 13, "Investing in 'what works'"), Kleine began to design a similar process for Baltimore. When Baltimore's current mayor Stephanie Rawlings-Blake took the helm, the Outcome Budgeting process came to life. The city released its first Outcome Budget in March 2010.

Instead of deciding funding levels by taking last year's budget and adjusting amounts up or down, Outcome Budgeting starts by identifying the outcomes the city seeks. It then identifies the services that most effectively and efficiently meet what residents want, allocates funds to provide those services, and works with agencies to meet their goals. Through this process, Baltimore has been able to increase funding for proven programs even during times of serious budget shortfalls.

As a first step to put Outcome Budgeting in place, Mayor Rawlings-Blake and her senior staff established the outcomes and goals the city would seek, focusing on six priority outcomes. The mayor and her staff then created six Results Teams composed of deputy department heads, a budget analyst, people from different disciplines, and—in an innovative move—a citizen representative. "Citizen members have proven to be some of the best," says Kleine. "No one is their boss, so they can feel free to ask questions."

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> ANDREW KLEINE, BUDGET CHIEF, BALTIMORE

On an annual basis, the Budget Office allocates a piece of the city's general fund to each Results Team. Agencies develop proposals for each of their services and submit them to the appropriate results team. It's possible one agency may send proposals to multiple teams. The teams then confer with the agencies and evaluate the proposals with the help of budget analysts and a rating rubric.

Once the teams have assessed the proposals, they make recommendations to the mayor, who ultimately decides funding levels. "One of the advantages of this is that the mayor is getting information about every single service, hearing input from the teams about how the service is performing, and making decisions based on how services help to achieve priority outcomes," says Kleine.

Even in times of serious budget shortfalls, Baltimore has resisted across-the-board reductions and managed to increase funding for programs that showed evidence of effectiveness in areas such as youth violence prevention, job training, pedestrian safety, and maternal and child health.

The city also has found funds to invest in innovation. "One of the outgrowths of Outcome Budgeting is our Innovation Fund," says Kleine. "[It's] a way to invest in projects that deliver. We are mostly focused on those that have a payback with cost savings or revenue. That has brought forward good ideas to improve business processes and automate our functions. . . . We have to be able to deliver services at lower cost and still achieve good results."

To carve out funds for innovation, the city took a common-sense step many of its peers around the country have struggled to take: it eliminated services that did not demonstrate value, such as a program designed to mentor children of prisoners and a program to help neighborhoods with development projects. While well-intentioned, these programs were not getting results.

A new tool for government to pay for performance: Social Impact Bonds

Social Impact Bonds (SIBs) turn the traditional government funding structure on its head. Instead of defining an activity and contracting with a vendor to execute it, a SIB promises compensation only when certain target outcomes are achieved that result in net cost-saving for the government.[1]

The SIB process begins when the entity launching the bond (generally government and nonprofit providers) identifies a key problem and evidence-based methods of preventing the problem (SIBs are particularly suited for areas where there are known interventions with a high probability of success). The program raises launch funds from private and/or philanthropic investors. It then delivers services. Independent evaluators rigorously measure outcomes. Depending on the level of performance and the savings realized for the government by improving outcomes, investors receive a rate of return on top of the repayment of their principal.

Pioneered by Social Finance UK, Peterborough was the first city to test SIBs, using them to reduce prisoner recidivism. Now, many US cities and states are exploring their potential. Here are two notable efforts:

In 2012, **New York City** launched the first SIB in the US. This SIB will fund services to about 3,000 adolescent men (ages 16 to 18) who are jailed at Rikers Island. The goal of the initiative, which will run from 2012 to 2015, is to reduce recidivism and its related budgetary and social costs.[2]

In **Fresno**, the California Endowment, a private foundation, has funded a two-year demonstration project to improve the health of low-income children with asthma and reduce the costs that result from emergency treatments. The goal of the project is to reduce emergency room visits by 30 percent and hospitalizations by 50 percent, and to yield a net savings of $5,000 per child per year.[3] If proven effective, this will lay the groundwork for launching a SIB, which would allow the intervention to scale to serve more youth.

New York and Massachusetts are the only states in the country that have launched SIBs, but seven more are receiving technical assistance from the Social Impact Bond Lab initiative at the Harvard Kennedy School, including Colorado/Denver, Connecticut, Illinois, Michigan, New York, Ohio, and South Carolina.

Although SIBs come with many implementation challenges, they offer many potential advantages. SIBs transfer risk away from government and taxpayers, since government is not on the hook for the payment if the outside organization fails to achieve the outcome. SIBs are a way for government to overcome the problem of silos, since pools of resources are re-oriented towards a single outcome. SIBs are also a way to scale effective interventions because they tap into larger pools of financing than cash-strapped cities typically have available.

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1 Social Finance, "What is a Social Impact Bond?," http://www.socialfinanceus.org/social-impact-financing/social-impact-bonds/what-social-impact-bond.

2 Andy Feldman's Gov Innovator, "New York City's Social Impact Bond, the first in the US: An Interview with Linda Gibbs, Deputy Mayor for Health and Human Services, New York City," August 12, 2013, http://govinnovator.com/linda_gibbs/.

3 Nonprofit Finance Fund, "Asthma Management Demonstration Project in Fresno, CA Paves Way for Social Impact Bond," September 5, 2013, http://payforsuccess.org/resources/asthma-management-demonstration-project-fresno-ca-paves-way-social-impact-bond.