

# BUDGETING WITHIN OUR MEANS

## PRIORITY



## OVERVIEW

The chapter describes an improvement in the budgeting process. Used in a couple other states, the process allows legislators to make better use of the time spent generating and revising the proposed state budget. It is the second time this chapter has appeared in a Citizen's Budget.

## SAVINGS

No specific savings.

## ORIGINAL ARTICLE

The entire original chapter can be found at [http://tax.i2i.org/files/2010/11/CB\\_PriorityBudgeting.pdf](http://tax.i2i.org/files/2010/11/CB_PriorityBudgeting.pdf).

We recommend that the legislature move to a “priority-based budgeting” system. It is crucial that the structure for setting a state budget more closely conform to the reality of expected income for each year. Washington State and New Jersey have used this type of budget reform.

The process of creating a budget in Colorado would likely to evolve the current system into one that works somewhat differently. The role of the 94 legislators would expand in generating a budget, which would improve the process by providing broader information for the Joint Budget Committee (JBC) to use in its deliberations.

The move toward reforming and improving the budget process is not a partisan issue. For example, for years the Democratic Leadership Council actively has lobbied its members to embrace the related reform of outcome-based budgeting:

*That citizens want value for their money is no mystery. We all want*

*as much value as we can get from each dollar we spend—including what we spent on government. The price and value of government are up against the price and value of housing, food, clothing, health care and countless other goods and services that meet people's needs. The price of government is limited, therefore, by the value that citizens want—and get—from government, compared with the value they want and get elsewhere. Government can compete—and stay relevant—only by delivering more value per dollar. But the only way to accomplish this is to reinvent the way we do the public's business. Our public institutions must learn to work harder, but more important, they must learn to work smarter.<sup>1</sup>*

The states with the worst budget problems are New York, California, and Illinois. These worst-case states have, respectively, the 1st, 4th, and 11th highest state and local combined tax burdens.<sup>2</sup> Collecting more taxes does not shield a state from budgetary woes. Counter-intuitively, it even appears to exacerbate the woes.

Regardless of the mechanism through which priority-based budgeting is implemented, this change will require a new way of thinking that breaks the traditional mold of business-as-usual budgeting.

a. Currently, each program begins on a relatively equal footing simply because it was funded in the previous year. A small program that helps few people, or

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might be nearly incapable of reaching its goals, is afforded the same time and focus as one of the programs that make up the largest and most central of government responsibilities. A new system would deal first and foremost with the core functions.

- b. Programs would have to change from defending their costs, expenses or inputs, and would instead be defended by the extent to which stated outcomes are fulfilled. The JBC holds hearings with the cabinet officers for each department, and detailed discussions can focus on specific line items within a program budget. The process is long and involved, but frequently misses the bigger picture. This important description of the current process is addressed in the chapter on “Budget Process.”
- c. Many more clear choices and trade-offs would be available to legislators, who then would be able to concentrate on how

their decisions impact taxes and spending. They will be able to address such questions as: “Is it better to perform a program with lackluster support in order to add another program, or is it better to finance the more-highly desired program at the full level, even if it means ending or not starting another program?” There undoubtedly will be different conclusions reached at different times on trade-offs such as these, but the

recommended system likely would give focus to the real costs of legislative choices.

- d. The present system lacks priorities. The recommended system would provide them.

Colorado’s legislature—with support, cooperation and collaboration of the executive branch—would need to answer the following questions based on Washington’s model:

**1. What is the forecasted revenue for the next budget cycle?**

The expected revenues, as limited by the Constitution, establish the outer bounds of what can be spent. A small reserve to handle fluctuations must exist, too. Colorado already performs this step.

**2. What are the essential services the state must deliver to citizens?**

What should state government do, and in what priority? Colorado’s elected leaders should develop a meaningful set of core government principles. All existing programs should fit within one of the core functions, or they should be abolished. For each core function, measurable outcomes should be identified and agency activities prioritized.

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After core functions are identified, legislators prioritize activities within these functions to deliver the expected outcomes. Otherwise, state budgets resemble an iceberg, with decades worth of spending unseen and unexamined under the water. Meanwhile, the debate rages year after year over the small part that sticks out of the water. The longer state lawmakers continue to use the cost-plus model, the more “hardwired” their funding problems will become.

Taxpayers understand priority-based budgeting is the better way of doing business, but elected officials who urge its acceptance must explain the process in simple, compelling terms: If Colorado families and businesses must set priorities and live within their means, then state government can be expected to do the same.

This new type of budgeting protects the programs deemed most important from budget cuts. It holds agency directors responsible for spending taxpayers' dollars in the best way possible to deliver the best services possible. It protects vulnerable programs from election-year rhetoric. The worst solution is to absorb ever-more taxpayer dollars but not to deliver proportional improvements.

**3. How will the state measure its progress in accomplishing those goals?**

As priorities are established, elected leaders develop measurable outcomes for each of the identified core functions. Then agency programs can be prioritized further, based on how effectively and efficiently each will help meet the goals. A priority-based system must

include these indicators of success; and delivery of desired services must be measurable. The Budget Process section tackles in greater detail the need to move from focusing only on the cost inputs (e.g., how many employees, leased space, vehicles, etc.) to focusing on the outcomes of expenditures. Nowhere does the need become more clear than in a priority-based system. It also highlights that the governor's administration must accept the idea of change, since legislators do not have the staff, time or constitutional authority that would allow them to determine

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outcomes independently. One weakness in the transition is that a governor whose positions about spending reform are antithetical to the recommended change could drag out the process, or even thwart it.

**4. What is the most effective way to accomplish the state's goals with the funds available?**

The first three questions in performance-based budgeting are about developing meaningful and measurable goals. This question, by contrast, is about using market forces and competition to deliver those goals effectively and efficiently without compromising cost and quality.

To make the process functional, each state agency should develop what it believes to be its mission as established by law. Once its mission is defined, the agency must outline the goals and objectives necessary to accomplish it. Each activity should be categorized as high-, medium-, or low-priority, and performance indicators should be identified. The agency's budget request should reflect those priorities and guidelines. At the point where agencies complete an analysis of mission and goals, the legislature steps into action. It is the role of the legislature to review, and ultimately determine, the proper mission, objectives, and performance indicators for all agencies under their jurisdiction in order to determine whether or not they comply with the core functions of government adopted in the joint resolution.

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This step leads directly to legislators debating the "make or buy" issue. By following this budget process, a government "buy list" is created, directing the discussion away from "cuts" instead to what outcomes are being purchased. Performance-based budgeting provides a logical process for measuring the activities of government against desired performance outcomes and using that as a tool to make decisions accordingly. This budget process also greatly increases

spending efficiency and economy.

As described by an Evergreen Freedom Foundation report, Washington State instituted the process:

*Top managers used a three-point prioritization program to determine where the cuts should be made.*

*Managers defined the mission for each program, prioritizing major components. These priorities established the guidelines and criteria for budget-cutting decisions. Cuts in 'priority three' services were generally acceptable. 'Priority two' cuts would reduce the department's effectiveness and 'priority one' cuts would destroy its purpose.<sup>3</sup>*

At the margin, government leaders will be able to show they have been able to fund the most important functions. If the leaders wish to implore citizens to buy more public goods rather than keep the funds in the hands of families, the trade-offs will become clear. It is important that the structure reinforces the selection of the most important functions.

Washington State's agencies provided details on the specific services they delivered, who benefited, how much the services cost, and what results the agencies expected to achieve. Agencies further designated all their activities as high-, medium-, or low-priority, with at least one-third of the agency's expenditures in the low-priority category. By focusing on specific activities—not programs

or agencies—the governor's budget staff created lists across the entire government for each of the core functions and proposed to fund those activities which contributed most directly to each core function.

The results generated from this process surprised nearly everyone, especially those who initially believed it was just another public relations program. Its success scared agency directors, unions, many lobbyists, and lots

of lazy legislators who suddenly realized they had to pay attention and say "No" to special interests that could not prove high value for a dollar spent.

Colorado can achieve similar favorable results by following the

steps that Washington took. The legislature has yet to implement such a system, yet a large, and perhaps adequate, step in that direction has provided a very hopeful sign. Legislation adopted in 2010,<sup>4</sup> carried by the now-incoming Speaker of the House, promised to use the concepts of priority-based budgeting. Just as we lauded the commitment in the same legislation to use results-oriented measures, we call for leaders not to retreat from the intention to start a new process, but rather to embrace it enthusiastically.

A priority-based budgeting system would not reach its final form within one year. Rather, it will be an evolutionary process of improvement. Strong, visionary leadership is needed to push this reform forward and to keep it progressing. Implementation might unfold as follows:

- A. In the first, transitional year the budget already will have been prepared using the current methodology. Near the beginning of the 2013 legislative session, the General Assembly would have to come to a decision to modify the structure.
- B. Beyond arriving at a decision to alter the system, the only new action the legislature need accomplish would be to delineate core government functions and to place them in priority. The creation of a rather simple list would be immensely difficult and require scheduling by legislative leadership. The process likely would mean each body would caucus for one or two

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days before beginning the debate on the Resolution, which itself would probably absorb two or three days in each chamber.

- C. Establishing broad priorities reasonably early in the session should assist in defining the acceptable changes in the 2013-14 budget that must be approved before the end of the session in May. It also will set up the process for the next year.
- D. In the case where a downturn reduces the budget from one year to the next, a possible evolution

would involve the 10 Committees of Reference, or standing committees. Each of these committees is tasked with oversight of one or more executive branch departments.

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Within the limits laid down in the Resolution, each committee could propose cuts for the JBC to consider and compile. The emphasis would change from a question of "How do we fund everything?" to "How do we fund the most important mix of government services?"

## ACKNOWLEDGEMENTS

Penn R. Pfiffner of the Independence Institute and Brett Davis of the Freedom Foundation (formerly known as the Evergreen Freedom Foundation) in Olympia, Washington, were the original authors of this section.

## ENDNOTES

- <sup>1</sup> David Osborne and Peter Hutchinson, "Budgeting for Outcomes: How government can deliver more value for the tax dollars citizens spend." Blueprint Magazine (DLC ), May 7, 2004, <http://www.dlc.org/print0e32.html?contentid=252574>.
- <sup>2</sup> National Tax Foundation, "State and Local Tax Burdens: All States," October 23, 2012, <http://taxfoundation.org/article/state-and-local-tax-burdens-all-states-one-year-1977-2010>.
- <sup>3</sup> Evergreen Freedom Foundation, "The Washington State Budget, A Herd of Sacred Cows," 1995.
- <sup>4</sup> Colorado General Assembly, House Bill 10-1119.