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# Better Budgeting Practices

Presentation to the  
**Pennsylvania Joint Performance Evaluation  
and Expenditure Review Committee**  
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## Presentation Outline

- **Current Snapshots**
- **Budget Approaches**
  - Types
  - Pros and Cons
- **Better Budgeting Practices**
  - Finding common ground
  - Developing a system
  - Common mistakes to avoid

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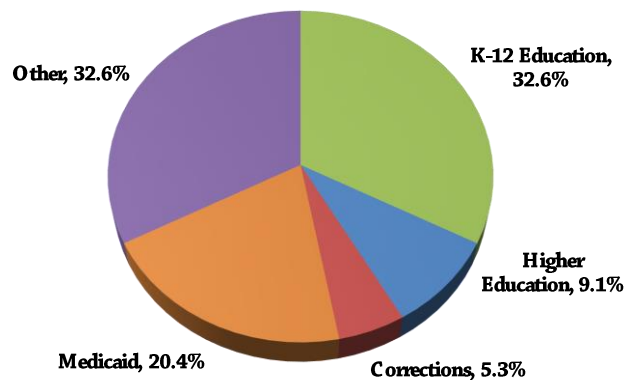
## Budgeting Principles

- Resources are limited, but demands are nearly infinite.
- Spending must be prioritized.
- The budget must be balanced.
- Effective and efficient use of public funds must be ensured.
  - Transparency
  - Accountability

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## Major Components of General Fund Appropriations, FY 2014



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## Budget Cycle

- Annual budget: 31 states
- Biennial with two annual budgets: 15 states
- True biennial budget: 4 states

The **success** of a budget cycle seems to depend on the **commitment** of state officials to **good implementation** rather than on the method itself.

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## Revenue Forecasts

- Consensus forecast: 22 states
- Executive forecast: 17 states
- Other process: 11 states
- Official forecast binds the budget: 26 states



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## When State Budgets are Late

- Continuing resolutions: 9 states
- Certain payments continue: 12 states
- Government shuts down: 23 states
- No provision/untested: 12 states
- Other (e.g., session extended): 6 states

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## Executive Authority to Cut the Enacted Budget

- No restrictions: 12 states
- Across-the-board cuts only: 9 states
- Maximum percentage reduction: 7 states
- Must consult legislature: 12 states
- Other: 29 states



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## Types of Budget Approaches

- **Traditional/Incremental**
  - Line-item, incremental changes
- **Performance-Based**
  - Set goals
  - Review effectiveness
  - Provide flexibility
- **Zero-Based Budgeting (ZBB)**
  - Start each budget item at zero
- **Hybrid**
  - Case Study: Georgia

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## Traditional/Incremental Budgeting

- **In typical budget process, budget analysts:**
  - Review dollar changes in agency/program
  - Look at FTE changes
  - Calculate percentage changes
  - Analyze cost per service recipient
  - Review program history
  - Other?

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## Traditional/Incremental Budgeting

- Focus is on *what money buys* (an input) rather than on the *service that is provided* (an outcome).
- Outcomes can be considered, but traditional budgeting does not *encourage* it.

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## What are the benefits of performance budgeting?

- Better understanding of state programs;
- Explanations of previous funding decisions;
- Program effectiveness (outcomes);
- Program efficiency (costs and benefits);
- The justification for new funding decisions;
- The identification of potential savings;
- Quantitative evidence of program success and shortcomings; and
- Communicating what is received in return for the investment of tax dollars.

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## What does performance budgeting do for legislators?

- A powerful tool to improve government management
- Helps meet legislators' and voters' needs for:
  - Accountability
  - Orientation to service
  - Quality measurement
- Encourages long-term perspective

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## Who decides on performance measures?

- Must involve Legislature and Executive Agencies together
- Difficult for agencies to shift from activity measures to performance measures
  - Lack of historic data to provide a basis of comparison
  - Lack of expertise in measurement

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## Budget Process

- Focus on **programs** rather than line item expenditures
- Focus on **performance**, not who-does-what
- Focus on **outcomes**, not what goes into agency programs

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## Zero-Based Budgeting

- **Pure** ZBB does not exist.
- **Modified** ZBB is also known as *alternative budgeting* or *targeted budgeting*.
- Agencies make requests at various percentages of their previous funding (i.e., at 90%, 100% and 110% – and analyze what effects those levels would have on their programs).



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## So Why Does Traditional Budgeting Survive?

- Provides predictability and stability for agency and program planning.
- Time constraints
- Budgeting is complicated. Budgets must respond to many different competing needs and goals, which can be difficult to measure.

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## Better Budgeting Principles: Managing the State's Finances

- Balance the budget.
- Avoid (long-term) borrowing to finance the operating budget.
- Agree on the basic budget numbers
  - Establish a binding revenue forecast process
  - Establish a process to forecast the figures that drive the budget
  - Establish a process to define the budget base and agree on the amount

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## Better Budgeting Principles: Developing a system

- **Account for and review tax expenditures:**
  - Account for all tax expenditures in a comprehensive tax expenditure budget,
  - Establish a process to review tax expenditures on a regular cycle.
- **Develop clear guidelines for capital budgeting.**

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## Better Budgeting Principles Common Mistakes to Avoid

- **Beware of quick fixes that create long-term problems**
  - Be very cautious when spending reserve funds.
  - Don't intentionally overestimate revenue or underestimate expenses, especially when it comes to the retirement system.
  - Don't expect too much from early retirement incentives.
  - Don't make short-term budget decisions with considering the long-term effects.
  - Protect the tax base through good and bad times.

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## Resources and Contact

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