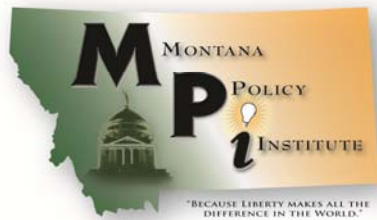


# Priority Budgeting For Montana

## Select Committee on Efficiency in Government 9/10/2012

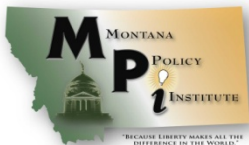


Carl Graham  
CEO  
Montana Policy Institute

# Bottom Line

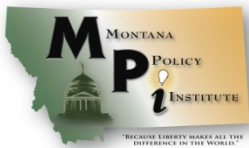
## Why Now, Why This?

- Sailing into a perfect storm
  - Structural deficit
  - Off-Budget spending
  - Revenue Volatility
  - Medicaid
  - Pensions
  - Federal funding uncertainties
- “Present Law” system inadequate
  - Assumes current spending is necessary and efficient
  - Creates “Iceberg” effect focused on visible changes, not bulk of current programs and spending
  - “Inputs” Focused



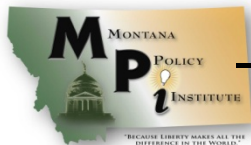
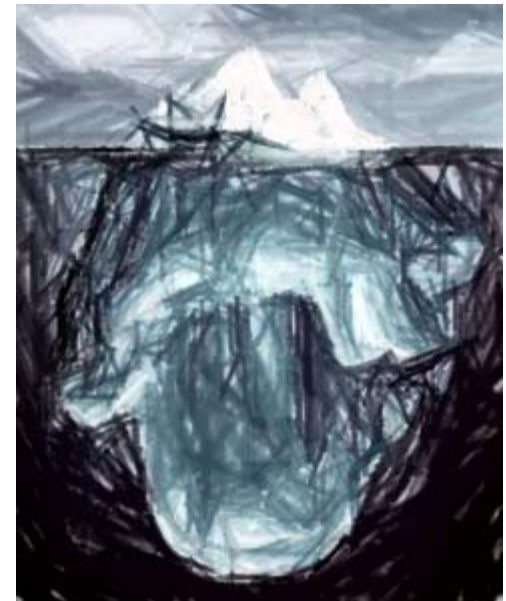
# The Coming Storm

- Structural Deficit
  - Compares ongoing spending w/ ongoing revenues
  - P&L vs. Balance Sheet approach
- General Fund budget in deficit 6 years running
- 2013/2015 revised upwards w/ 2015 forecast
- Revision carries significant risks
  - Natural resource revenue volatility
  - Pension obligations
  - Healthcare costs (Medicaid expansion)
- Can no longer count on GF ending balance for budget stabilization during downturns



# Inadequacies of Present Law

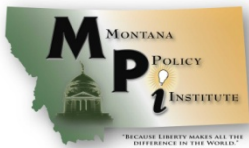
- “Ratcheting” effect
  - Baseline increases in good years, doesn’t decrease in lean years
  - Encourages gimmicks, short term fixes
- Assumes all current spending efficient and effective
  - Performance measures possible
  - Status quo has inherent advantage
- Only addresses proposed changes
  - Tip of the iceberg spending
  - Reduces legislative oversight
- Doesn’t prioritize all spending
  - Special Revenue (Off Budget)
  - Federal



# Off Budget Trends

Year	Dedicated Revenues	General Fund	Total Revenue	Dedicated revenue/ Total Revenue %
1990	961	346	1307	73.5
2000	665	1055	1720	38.7
2005	616	1385	2001	30.8
2011	855	1695	2549	33.5

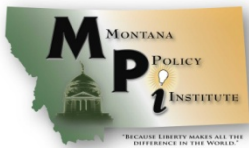
- ✓ Lack of transparency/accountability
- ✓ Lack of legislative oversight
- ✓ “Special” protected status in the budgeting process
- Cannot compare to other priorities
- Requires positive action to change



# Matching Resources and Requirements

## Priority Budgeting

- Focuses spending on desired functions
  - Explicit statement of priorities
    - Separates “wants” from “needs”
    - Prioritizes both
  - Methodical program review and assessment
    - Forces effective metrics and measurement
    - Identifies successes and failures
  - Eliminates haphazard outcomes of across the board cuts
- Enables comparative analysis of spending alternatives
  - What can, should, must state government do?
  - What is the best way to do it?
    - Means
    - Results



# Priority Budgeting: What Does It Look Like?

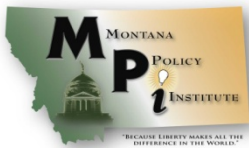


**How will the state measure progress and success?**

**How much is available to spend?**

**How can essential services be delivered efficiently and effectively?**

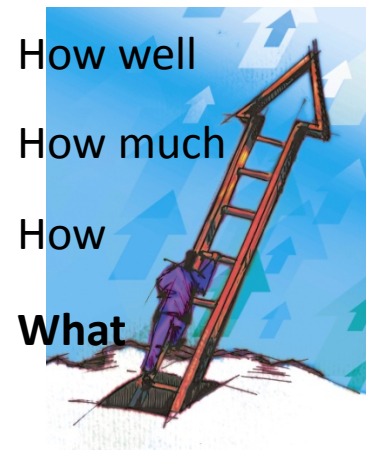
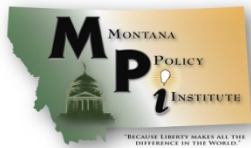
**What must the state accomplish?**



# What Must the State Accomplish?

- Identify core state functions
  - Constitutional requirements
  - Consensus-based: Broad cross section of citizens
  - Priority-order
  - Typically the most difficult part

## Examples





# What Must the State Accomplish

## What?

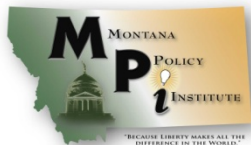
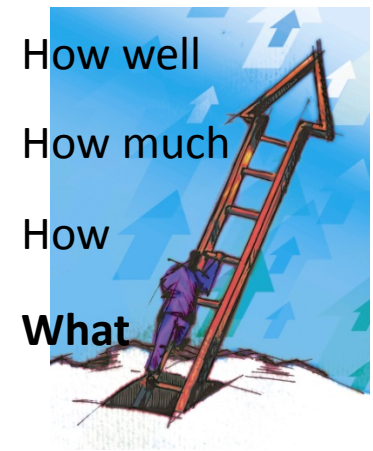
### WA State Core Functions

- Student achievement
- Health of Washingtonians
- Security of most vulnerable
- Economic vitality
- Mobility of people, goods
- Safety of people/property
- Quality of natural resources
- Culture/recreation
- Govt efficiency/effectiveness

## How?

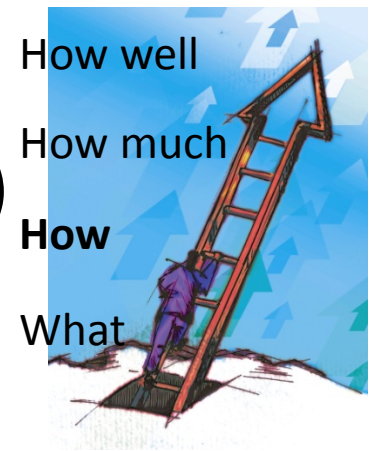
### LA Streamlining Commission

- 238 recommendations
- Hundreds of millions \$\$
- 19% reduction in spending
- 89 bills for implementation



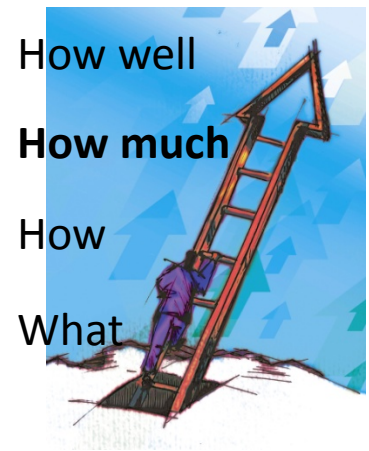
# How: Efficiency and Effectiveness

- Core function review:
  - Outcome based, not agency
  - Program identification, evaluation and ranking
  - Duplication identified, addressed
- Agencies report:
  - What services (programs) are provided
  - Why are these services required
  - Who is benefiting from these services
- Identify, rank, fund outcomes (programs)
- “Make or Buy” decision



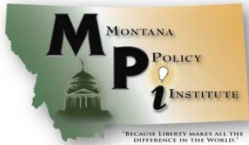
# How Much: Performance-Based Budgeting

- Determine top line spending amount
  - Revenue estimates: All sources
  - Spending caps/growth limits
- Allocate spending to core functions
  - Align programs under core functions
  - Prioritize programs
  - Above the line: Fund
  - Below the line: Can't afford
- Focus is on outcomes, not inputs



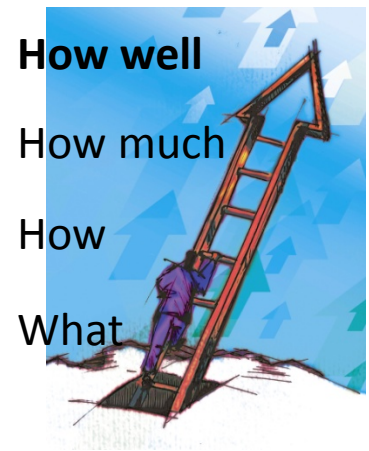
# How Much: Program Racking and Stacking

Student Achievement 30%	Public Safety 20%	Citizen Mobility 30%	Public Health 20%
<b>Program Outcome A</b>	Program	Program	Program
Program	Program	Program	Program
Program	Program	Program	Program
Program	Program	Program	Program
Program	Program	Program	Program
Program	Program	Program	Program
Program	Program	Program	<b>Program Outcome A</b>
Program	Program	Program	Program



# How Well: Measuring Performance

- Performance-based – outcomes, not activities
- Clear missions and goals – related to core functions
- Performance measures: Specific, measurable results
- Institutionalized process
- Methods vary
  - Sunset Advisory Commission (CO)
  - Competitive sourcing
  - Performance audits: internal/external



# Priority Budgeting

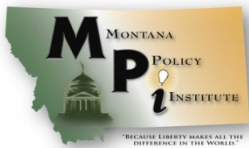


**How will the state measure progress and success?**

**How much is available to spend?**

**How can essential services be delivered efficiently and effectively?**

**What must the state accomplish?**



# Priority Budgeting Summary

## Key Benefits

- Explicit definitions:
  - Goals
  - Core functions
- Explicit prioritization
- Comprehensive: no iceberg
- Systematic review
- Focus is on outcomes rather than inputs
- Effectiveness/Efficiency not a partisan issue

## Key Enablers

- Spending limits
  - Revenue-based
  - Growth limits
- All-inclusive
  - Revenues
  - Spending
- Consensus-based approach
- Transparency
  - Process
  - Products

## Key Challenges

- Legacy programs
  - Stakeholders
  - Constituents
- Bureaucratic inertia
- Reaching consensus
  - Goals
  - Missions
  - Metrics



# Are We The First?

## Nope

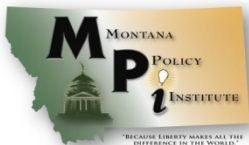
- Alaska: Considering legislation
- California: Implementing via Executive Order
- Florida: Implemented by Governor
- Georgia: Implementing in 10% increments
- Illinois: Budgeting For Results law but not much progress
- Iowa: Implementing for K-12
- Kansas: Considering legislation
- Minnesota: Considering legislation
- Mississippi: Considering legislation
- Montana: Partial implementation – Missions/goals
- Nevada: Passed 2011
- New Hampshire: Considering legislation
- Ohio: Considering legislation
- Oregon: Considering legislation
- South Carolina: Governor intent to implement
- Utah: Bill to be introduced 2013





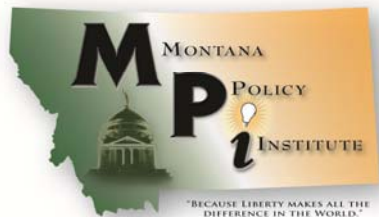
# Other Resources

- NCSL has a number of resources that provide detailed information on performance based budgeting along with state experiences with PBB. Please see the following list of links and attachments.
  - *Legislative Performance Budgeting*, <http://www.ncsl.org/default.aspx?tabid=12617>
  - *Asking Key Questions: How to Review Program Results*, <http://www.ncsl.org/default.aspx?tabid=21387>
  - *Five Actions to Improve State Legislative Use of Performance Information*(attached)
  - *Legislating for Results*, <http://www.ncsl.org/default.aspx?tabid=12672>
  - *Governing for Results in the States: 10 Lessons*, <http://www.ncsl.org/default.aspx?tabid=12607>
- ALEC State Budget Reform Toolkit. See Section II "Tools to Modernize State Budgeting" [http://www.alec.org/wp-content/uploads/Budget\\_toolkit.pdf](http://www.alec.org/wp-content/uploads/Budget_toolkit.pdf)
- New Mexico Legislative PBB resources (<http://www.nmlegis.gov/lcs/lfc/lfcperfbdg.aspx>)
- New Mexico Governing for Results: Presentation to the Government Restructuring Task Force (<http://www.nmlegis.gov/lcs/handouts/GRTF%20Cathy%20Fernandez%20and%20Dannette%20Burch.pdf>)
- Montana Policy Institute will publish “Budgeting for Results: A Fiscal Road Map for Montana” in October 2012. The study will include detailed analyses of Montana’s budgeting process and challenges, along with a roadmap for Priority Based budgeting in the state.



# Priority Budgeting For Montana

## Select Committee on Efficiency in Government 9/10/2012



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