

CHAPTER 4:

Budget Analysis

Some scholars differentiate program analysis from budget analysis, maintaining that the former is concerned only with new policy directions reflected in the state budget, while the latter focuses on planned management operations.¹ However, this distinction is arbitrary; program and budget analyses are co-dependent activities. While there are analysts who review only management operations, their reviews cannot escape the fiscal consequences of their conclusions and recommendations. All good budget reviews must also consider program implications. Good analysts, regardless of the branch of government where they work, prepare sound budget analyses, including both program and fiscal considerations, for use by decisionmakers in making resource allocation choices.

In addition to knowledge about the agency being studied, a good budget analyst needs to be able to use various analytical techniques, find alternative funding mechanisms, use different tools, utilize a variety of information sources, and be aware of the use of questionable budget practices.

Good Budget Analysis

The primary job of a budget analyst is to know the agency and what it does. This familiarity requires knowledge about its history, mission, statutes, operations, staff strengths and weaknesses, constituencies and interest groups, and other challenges facing the agency. A good analyst will study reports produced by or about the agency, court cases affecting the agency, federal laws affecting it and its programs, newspaper articles, and reports on how the agency's programs operate in other states. It is this body of knowledge that is referred to as institutional memory. Institutional memory is important in helping a new governor transition into the job and is one of the major reasons that executive budget staff is never replaced by a new administration, regardless of political party. Legislative budget staff serve both political parties and their longevity likewise contributes to the institutional knowledge that will help in transitions that result from legislative term limits.

Legislative Objectivity

Unlike the executive branch budget reviewer, the legislative analyst does not have the benefit of clear-cut objectives when reviewing the governor's budget request. The governor can set explicit ob-

jectives for the executive budget analyst to meet. For example, the governor could decide that higher education spending should be held to a fixed dollar limit. With this instruction, the higher education analyst in the central budget office is guided on a predestined course. The legislative analyst, on the other hand, serves a multitude of different and competing interests and seldom has any single guide. To some extent, this makes the legislative analysis more objective, although possibly less pleasant, since it will be impossible to please everyone.

Another difference is that the legislative process is much more open than the executive process. The work of the analyst is readily available to the affected agencies, their constituencies, and other interested parties as well as to the legislators for whom the material was prepared, thereby increasing the need for objectivity and concern for accuracy. Nevertheless, the techniques of analysis are identical, whether the work is intended for the executive or legislative branch of government.

Analytical Techniques

A budget analyst needs to be prepared to review and question agency claims about needs and problems, as well as the agency's mission, goals, and objectives, and how its organization and staffing patterns contribute to their achievement. The analyst needs to understand agencies and programs sufficiently to offer program and service delivery alternatives and to assess their political implications. An analyst needs to be able to cost out personnel and other proposals, identify alternative methods of financing, review how agency operations compare to other states, and analyze historical spending patterns in real and constant dollars. Special analytical techniques need to be applied in reviewing new programs.

Needs and Problems

Good budget analysis involves scrutinizing agency policies and raising questions about the specific issues, needs, or problems that are under the agency's purview and what it is doing, or should be doing, to solve them. The analyst's source of information for this kind of review includes interviews with clients, surveys, study reports, general academic research, and a review of sources of information about how other states attack the same issues and problems. The National Association of State Budget Officers has identified five fundamental steps in good policy analysis. These steps can be applied to policy questions at any level of government.

1. **Defining the problem.** What is the issue? Why is it a problem? Who is affected, and how are they affected? To what extent is it a problem? Needs should be examined in terms of whether they are supported by normative, comparative data, or whether they are simply expressed needs.
2. **Determining the current policy.** What are the statutory requirements, constitutional provisions, regulations, executive orders, court orders, federal mandates, and other requirements related to the problem? What is currently being done? What resources are allocated to it and what are the results of programs and services that address the problem?
3. **Researching the issue.** What do the people affected by the problem want? What do experts currently think based on normative or comparative data? To what extent are other states, public and private entities, and nonprofit organizations successfully dealing with the problem?
4. **Developing alternatives or options.** The range of alternatives usually includes maintaining the

status quo and letting the private sector resolve the problem, in addition to more activist solutions.

5. **Assessing each alternative.** What are the advantages and disadvantages? What are the costs and benefits to both the public and private sectors? Who supports and who opposes each alternative? How high a priority is this for the governor, legislators, and taxpayers? How would it be implemented? What resources are needed to implement each alternative?²

Mission, Goals, and Objectives

Understanding an agency's mission, why it was created, and whether it is carrying out its original mission is important. A good analysis examines whether times have changed and whether the agency has responded to those changes. An agency may need to review how it is organized to do its job or even alter its mission. Can an agency's program(s), or even the entire agency, be abolished? Has the agency informally expanded its purposes beyond the scope of statutory intent? Is the legislative intent for the agency clearly being carried out? Would more or less money help to accomplish its goals? A good analysis of agency mission can lead to needed internal restructuring and budget shifts, reductions, or expansions.

Large state agencies have multiple goals and provide more than one government service. A program may become buried in a complex agency when it could be more efficiently or effectively carried out in a different organizational setting. Even in single purpose agencies there is the possibility that the same tasks could be done better and at lower cost through a different organizational structure. Budget analysis can provide options for meeting goals and objectives that could lead to cost savings or better service.

Costing Out Personnel

One way of computing personnel costs is to divide total expenditures on salaries, wages, and benefits in a fiscal period by the average number of filled positions during that period. This kind of analysis is useful in comparing costs for similar functions between agencies. For example, while there can be reasons for differences between the average cost for information technology personnel and maintenance workers, an average cost analysis can provide the basis for raising questions about staffing levels and operational efficiency. This kind of analysis is also useful in comparing past and present costs and in determining the cost of filling vacant or newly proposed positions. Another way of estimating the cost of filling positions is to examine the state compensation plan and cost out the position based on where a new hire would be placed in the plan, assuming the new employee would start on the first step on the compensation schedule, absent information to the contrary.

Benefit costs are fairly standard among agencies. Benefits are stated in terms of a percentage, which represents the average costs statewide of salaries and wages.

Costing Out Other Expenses

Depending on the degree of accuracy that is needed, costs for items other than personnel can be calculated in different ways. For some purposes, it is sufficient to calculate the total cost of all recurring, as opposed to one-time, maintenance items in an agency's budget, expressed as a percentage of salaries and wages. This percentage can then be assigned to the cost of a new employee as an add-on to the salaries, wages, and benefits costs to provide a more accurate depiction of the costs of a new hire.

When costing out a new program, after calculating personnel costs, a more detailed analysis of other costs can be undertaken. A standard approach is to identify specific kinds of maintenance and equipment items, such as travel, communications, office space, and equipment rental or purchase, that are normally associated with that kind of program. A determination should be made of what factors normally drive the cost of the program, such as clients, employees, and service units. Based on historical information, or information gathered from agencies operating similar programs in other states, the unit cost can be determined and then multiplied by the number of units. In addition, any one-time costs, such as the purchase of equipment, should be identified and typical costs determined. This approach was developed by the National Association of State Budget Officers and is illustrated in Table 4-1.

Table 4-1: Sample Calculation for Each Category of Cost

COST DRIVER UNITS X	COST PER UNIT X	LIFE OF PROGRAM	ANTICIPATED COST
2,000 Clients	\$10 Travel Expense	Two-year Program	\$40,000 Travel Cost
10,000 Information Requests	\$2 Printing/Supplies	One-time Cost	\$20,000 Printing & Supply Cost
50 Employees	\$2,000 Rent	Two-year Program	\$200,000 Office Rent

Source: National Association of State Budget Officers, Overview of State Budgeting, Washington, DC, 1998.

Program and Service Delivery Alternatives

Besides reviewing an agency's budget to find more efficient and effective ways of providing a government service, the service itself can be analyzed to determine whether economies are possible. An analyst should ask not only whether the program could be combined with a similar program in another agency, but whether it should be performed at all. If a determination could be made that incremental dollars spent in one of the programs yielded greater measurable societal benefits than incremental dollars spent in the other program, the decision to eliminate the program with lesser benefits in favor of the program with greater benefits would be easy. Unfortunately, such definitive conclusions cannot always be reached. Not only are benefits difficult to quantify, but also program cost data are frequently unavailable.

Political Implications

All budget actions have political implications that need to be identified as a part of budget analysis. The political effects of a budget decision can include partisan or regional conflicts, executive-legislative branch conflicts, conflicts with individual legislators, or conflicts between units of local government and the state. Good analysis will always consider what effect an agency proposal has on the political decision-making environment. Analysts can gain information about the political environment through regular contacts with interest groups and their newsletters, from agency legislative staff, and from newspapers and other media sources. It is especially important to recognize when a proposal will affect an individual legislator's district and to be certain that the legislator is made aware of the potential impact before a budget decision is finalized.

Alternative Methods of Financing

When an agency proposes spending General Revenue Fund (GRF) moneys, an analyst should also

try to determine whether there are alternative methods that could be employed to fund the program or activity. A basic rule in state budgeting is that the GRF is to be protected as the only completely discretionary revenue source available to the state. This imperative is especially important since agencies are the source of revenue estimates for virtually all other funds. Since there is only a limited review of these forecasts, it may be to the advantage of the agency to underestimate its anticipated receipts from federal and other non-GRF sources. Underestimation could result in an increased “demonstrated need” for GRF moneys.

Comparisons to Other States

The late United States Supreme Court Justice Louis D. Brandeis was the first to describe states as “laboratories of democracy.”³ Accordingly, it is always important to understand how other states address the same societal problems, what programs they have developed to help solve them, how they are administered, and at what cost. There is no need to “reinvent the wheel” when a creative solution may already exist next door. For most comparative purposes, analysts study states of the same general size and economic condition. It is usually useful to compare Ohio with Illinois, Indiana, and Michigan. However, if the comparison is for a best-practices review, then an analyst would try to locate the states that are considered to be leaders in the particular area under review. The National Conference of State Legislatures and the National Association of State Budget Officers can be useful resources when conducting such a review.

Historical Spending Patterns

Analyzing historical spending patterns of agencies, programs, and activities is basic to determining how efficiently and effectively they are operating. To be most useful, the historical spending analysis will be related to the mission of the agency, the services it performs, and the clients that it serves as described in supporting program and performance information and data. What this kind of analysis should seek to discover is the relationship between funding and meeting client needs. Figure 4-1 features typical questions for this kind of analysis.

Figure 4-1: Analytical Historical Spending Questions

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| <ul style="list-style-type: none"> • Is spending in line with the amounts budgeted for a particular activity or function? • How has spending changed over time? Are these changes attributable to known events? • Do the activities represented in the expenditures fit within the mission of the agency? | <ul style="list-style-type: none"> • Are the position allocations consistent with the activities of the agency, and are they funded at the proper amounts and from the proper funding sources? • Are the revenue forecasts consistent with historical patterns? • What statutory or regulatory changes have occurred, and how will they affect the agency's mission, activities, | <ul style="list-style-type: none"> and spending patterns? • How many customers are being served, and will this number change? • Is there a more effective and efficient approach to delivering services? • Are mandated services, activities, or programs appropriately funded? • Do past expenditures reflect any major one-time items? |
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Source: Adapted from National Association of State Budget Officers, Overview of State Budgeting, Washington, D.C., 1998.

Historical Spending in Constant Dollars

Comparing a spending request with past expenditures can be misleading. Agency budget requests are not stated in real dollars, which would translate a budget request into its real value at current market prices. While current numbers are usually larger than historical spending, they may represent less buying power than previous years. Increased spending can result because of inflation rather than because of service expansion or a reduction in efficiency. By using the United States inflation indexes, an analyst can calculate true expenses without the effects of inflation. This kind of analysis translates current dollars into “constant” dollars.

The most common inflation index is the Consumer Price Index, which is compiled and reported monthly by the U.S. Bureau of Labor Statistics. It measures changes in a shopping bag of products typically purchased by consumers and is often used in collective bargaining negotiations to justify wage increases. However, for analyzing government spending, it is not as useful as the Implicit Price Deflator (IPD), which is compiled by the U.S. Department of Commerce’s Bureau of Economic Analysis. It reports on changes in the price of the types of goods and services that governments purchase. These deflators are published regularly in the *Survey of Current Business*.

The following is the formula used to convert current dollars to constant dollars using the Implicit Price Deflator (IPD) and a selected base year.

$$\begin{array}{l} \text{Current dollar revenue} \\ \text{or expenditure} \end{array} \times \frac{\text{Base Year IPD}}{\text{Current IPD}} = \begin{array}{l} \text{Current revenues or expenditures} \\ \text{in base year dollars} \end{array}$$

Proposals for New Spending

Analyzing proposals for new spending is different from analyzing current or expansion funding requests. Much more attention needs to be devoted to determining how critical the new spending is to the mission of the agency and the achievement of its goals, whether it goes beyond existing state law, and how it fits into state policy priorities of the governor or the legislative leadership. The *Operating Budget Guidance* issued by the Office of Budget and Management sets the parameters for the inclusion of new requests in an agency’s budget. The grim realities of FY 2012–2013 budget preparation provided a particularly limiting definition of “new spending.” The Office of Budget and Management required agencies to answer a series of questions in their agency budget submission for each extended program requesting General Revenue Fund (GRF) support up to 100 percent of FY 2011 appropriation levels or for non-GRF funding beyond the 100 percent limit. Governor John Kasich maintained this approach in each of his succeeding biennial budgets. When economic conditions improved, the governor still found it useful to maintain stringent criteria for new program spending. The required questions relating to new spending are asked in terms of whether the funding is needed to maintain or expand current services, or whether it would be used to provide entirely new services. Questions for the FY 2020–2021 budget included:

Maintaining or Expanding Current Services

1. Describe the purpose of the extended funding and whether it is required by state or federal law.
2. Estimate the volume of services or activities that would be provided at this funding level, including the number of people served, the amount of assistance provided, and the number of awards and amounts to be made.
3. Describe the funding sources for the extended request. Are these funding sources dedicated solely to this initiative, or do they support other programs as well?
4. Do any federal grants support the extended request and, if so, list them? Describe whether the extended request meets any state match or Maintenance of Effort requirements.
5. Describe the impacts if the extended request is not granted.

Expanding into New Services

6. Explain the purpose of the extended request, including the public service or need that the service or activity addresses.
7. Explain the population served by the activity or service.
8. Describe the services or activities provided.
9. Provide estimates of the services or activities provided at the requested funding level, including the number of people served, the amount of assistance provided, and the number of awards and amounts to be made.
10. Describe the funding sources for the extended request. Are these funding sources dedicated solely to this initiative, or do they support other programs as well?
11. Do any federal grants support this extended request and, if so, list them? Describe whether the extended request meets any state match or Maintenance of Effort requirements.
12. Does this request pass funds through to other state or local entities? If so, describe the distribution methodology and legal authority.
13. Describe any internal or external factors contributing to the costs of the request, including demographic trends, caseloads, technology, and any changes in federal or state funding or regulations.
14. Do any other state programs interact with the request, and, if so, describe these programs. What efficiencies and service delivery have been made to best meet the purpose and intended outcome of the program.
15. Describe how the effectiveness of this initiative will be gauged.

Executive or legislative analysts will be concerned with assessing workload and performance measurement data that accompanies the request for new spending, as well as the agency's explanation of why it cannot absorb the cost within existing resources. A projection of future costs is especially critical; future costs could be significantly higher than start-up costs and commit the state to unsustainable future increases.

Constituent groups and other outside sources that request new spending from legislators should be expected to provide the same kind of justification and data that agencies proposing new programs provide. The agency that would be administering the new program needs to be consulted to verify the data and also to make its own independent assessment of the program, both financially and programmatically. It is also useful to review other states' experience with similar programs.

Analytical Tools

Specialized forms of analysis have evolved as budget review has itself evolved from exclusively being concerned with the budget as a control mechanism to a planning and management resource. These budgeting techniques include cost-benefit analysis, productivity analysis, performance measurement, benchmarking, and investment decision making.

Cost-Benefit Analysis

Cost-benefit analysis is a way of estimating a limited, well-defined set of costs and gains that would result over time from alternative courses of action. It is most useful when it is possible to state costs and benefits in financial terms, such as when the costs of reducing air pollution are weighed against the public health benefits as assessed in financial terms. It is much less useful in assessing situations that are difficult to quantify, such as the value of clean air to endangered species of wildlife. However, even when defensible financial numbers cannot be assigned to alternatives, the analysis itself may help to clarify the issues.

Cost-benefit analysis cannot help in setting spending priorities, but it is useful in charting the fiscal advantages and disadvantages of a particular course of action. The result is a comparison of expected outcomes with expenditures needed to get there. This kind of analysis is useful in a variety of situations, especially when evaluating proposed new programs or activities.

The usual approach to a cost-benefit analysis is to begin with an assessment of the current situation. There needs to be a clear understanding of what the desired end is. Often, it is the solution to an important societal problem. The next step is to define all possible alternatives to reaching the desired end result. Direct and indirect costs of each alternative need to be estimated after an appropriate costing methodology is selected and assumptions are made. The same approach is used to evaluate the benefits of each alternative.

An analyst must decide what benefits are to be assessed. This is not an easy task. In general, only real or technological benefits, that is, benefits that increase real output and not pecuniary benefits, should be included in the analysis. Pecuniary benefits are excluded because they do not constitute real increases in output or cost reductions and often simply represent a redistribution of existing resources. For example, in the case of mass transit, the construction of a subway system may result in a reduction in expenditures for highways and a net reduction in transportation costs for individuals. These constitute real, definable benefits. Another benefit may be that businesses near the subway system may experience increased land values and sales activity, but this may occur through a reduction in similar activities for businesses located elsewhere. These would be considered pecuniary benefits and are excluded from the cost-benefit analysis.

Estimating the value of direct benefits will vary. When a user charge is imposed for a service, such as a toll on a bridge, estimates can be developed based on experiences with other bridges in terms of what individuals might be willing to pay to cross the bridge. The maximum the bridge users are willing to pay in tolls will constitute the dollar estimate of the value of direct benefits provided by the bridge. In the case of a dam to be used exclusively for irrigation, there will be indirect benefits, such as the creation of swimming and fishing facilities and the preservation of the scenic beauty of a lake, which could also enhance property values. However, estimating these benefits concretely would be quite difficult.

Analysts must take care to use the ratio of benefits to costs properly once the financial analysis is completed. It is not always most beneficial to choose the alternative that maximizes the cost-benefit ratio. Other considerations enter into that choice such as the size of the project.

Productivity Analysis

There are continuous pressures on government to increase its productivity by “doing more with less.” Productivity is defined as the ratio of inputs to outputs. Both must be measured in order to determine whether productivity has increased or decreased. A classic example of productivity analysis is found in early time and motion studies, in which there was a systematic review of organizational processes to determine whether steps in the processes could be eliminated or improved, thereby reducing costs and improving efficiency.

A typical question an analyst would ask would be how many staff hours are required to produce a unit of service, such as processing an application, stocking a fish pond, or patrolling a highway. The analysis would go further and examine whether computerized methods are used, how old a vehicle is and what its gas mileage is, whether materials are purchased in bulk with appropriate discounts taken, and how much time is spent on activities unrelated to the assigned task. After these variables are analyzed, the quality of the end product is taken into consideration. It is here that analysts can be most faulted if they conclude that simply by increasing workloads or reducing funding, the same product quality can be obtained. The state may end up paying less, but clients may also end up getting less.

Measurements of the effects on quality should also be taken when employees are pushed to work harder and smarter. For example, if an economic development program is proposed to place more clients into jobs, appropriate questions might include whether the jobs are sustainable, provide a living wage with reasonable advance opportunities, and carry adequate health care and other benefits. Indexes can be developed, adding these quality components to a productivity analysis. Quality measures, such as customer satisfaction surveys, can also be taken independently and added to the analysis. Productivity analysis is most useful when linked to performance budgets that define and measure the quality as well as the quantity of program outputs over time.

Performance Measurement

Taxpayers expect government to be accountable for the use of their money. In the past, governmental accountability was determined by defining how money was spent, on which programs and on what defined objects of expenditures, such as personnel, supplies, equipment, or buildings. Increasingly, government accountability is focused on results: what taxpayers are getting for their moneys in terms of benefits to their lives and the lives of others for whom they care, and how efficiently and effectively this is being achieved through spending those funds. Government is being held responsible not only for its actions but also for the results of those actions. In other words, what is the return on taxpayer investment? New measurement and reporting systems, alternately called “performance measurement systems,” “performance accountability systems,” or “outcome measurement systems” have been developed as a result. The following steps are essential to performance measurement:

1. **Identifying desired outcomes.** This step typically consists of applying the strategic planning process after an agency identifies the outcomes it wishes to achieve through its programs.
2. **Selecting measures or indicators.** The Government Accounting Standards Board has developed

a categorization of service measures as shown in Figure 4-2.

3. **Setting standards for performance and outcomes.** Actual program outcomes or results are compared to some agreed upon standards.
4. **Reporting results.** Regular public reporting is essential, using a report format and including content that is tailored toward the intended audience, whether it be decisionmakers or the general public.
5. **Using outcome and performance information.** The information generated should be used regularly in: (a) program planning to re-evaluate goals and objectives and to adjust priorities; (b) managing for results to promote continuous improvements in program operations and results; and (c) performance budgeting systems.

Figure 4-2: Service Efforts and Accomplishments (SEA) Measures

ELEMENTS OF SEA PERFORMANCE MEASURES	DEFINITION	EXAMPLE
Measures of Service Efforts		
Input Measures	Measure the amount of financial and nonfinancial resources applied to a service	Financial—cost of road maintenance Nonfinancial—total lane-miles of roads used in providing a service
Measures of Service Accomplishments		
Output Measures	Measure the quantity of services provided; a quality requirement may be included	Number of lane-miles of road repaired or the number of lane-miles of road repaired to a certain minimum satisfactory condition
Outcome Measures	Measure the results associated with the provision of services; may include measures of public perceptions of results	Percentage of roads in good or excellent condition, or the residents' rating of the smoothness of the roads
Measures Relating Service Efforts to Service Accomplishments		
Efficiency Measures	Measure the resources used per unit of output or the cost per unit of output	Cost per lane-mile of road maintained or, more specifically, resurfaced, or seal-coated
Cost-outcome Measures	Measure the resources used per unit of outcome or result, or the cost per unit of outcome or result	Cost per lane-mile of road maintained in good or excellent condition

Source: Concepts Statement No. 5: Service Efforts and Accomplishments Reporting, an Amendment of GASB Concepts Statement No. 2, Governmental Accounting Standards Board, Issued November 2008.

Performance Analysis and Budgeting

As the use of performance indicators becomes more and more widespread within all levels of government, budget analysts are becoming more involved in assisting agencies in developing appropriate performance measures. Analysts are increasingly relying on efficiency, quality, and outcome measures included in the budget request when examining agency budget requests and presenting alternatives to the governor and the legislature. To make performance measurement truly useful, agencies producing the data must know that it is going to be meaningfully used by legislative bodies, top government

managers, and the public. When performance data becomes part of the oversight and policymaking processes, there will be compelling reasons to ensure that high-quality data are produced. Budget analysts can assist in this process by incorporating performance data into the budget process.

While the use of performance measurement in budgeting is widely recommended as a critical component in results-based management, there is no clear answer as to how decisionmakers should use the information. If an organization produces well-documented results with fewer inputs because of the sound application of strategic planning and performance-based management, should that organization receive fewer financial resources or more? If the agency or program is rewarded with more resources, it can be argued that poor or unsubstantiated performers risk being denied the resources they need to improve or document their performance. Alternatively, it can be argued that providing more resources to the poor performer will demoralize the good performer and hinder further improvement. Producing such data carries a good deal of risk when cost-effective performance may fare less well than the more traditional approach of finding ways to disguise poor performance. Yet, failure to identify the outcomes of good performance will result in skepticism about the process of producing large quantities of data if they are not used in subsequent decision-making. Results should improve if the measures are used by government employees for self-correction and continuous improvement, without risk of punishment and with some prospect for reward.

Performance Measurement in Ohio

Governor George Voinovich made a commitment to performance review analysis by authorizing the Office of Budget and Management to begin conducting performance reviews of selected state programs during the FY 1996–1997 biennium. The Office of Budget and Management worked with selected state agencies in the development of clear program goals, in identifying measurable objectives to determine if desired outcomes were being achieved, and in establishing data-collection procedures and capabilities necessary to measure the established objectives. Subsequently, in the FY 1998–1999 budget, performance review reports were incorporated into the Executive Budget Request for six major state agencies.

The Taft Administration largely abandoned performance measurement. An exception was the Ohio Department of Job and Family Services with its Performance Center, but it was largely focused on substantive policy concerns rather than budgetary ones. The same was true of the Strickland Administration's performance contracts, which emphasized accountability to the Governor's strategic vision. However, during both administrations and into the administration of Governor John Kasich, higher education funding did become increasingly less driven by enrollment and cost considerations and more so on performance measures. At least initially, this was based more on the strategic interests of the higher education community than on central budget office or legislative considerations.

It is important to note that performance measurement differs from performance auditing in that it is an ongoing enterprise. Performance auditing, described in Chapter 7, was authorized in Ohio for the first time during the FY 2012–2013 biennium. It is a non-recurring examination of economy, efficiency, and effectiveness of government programs and functions.

Benchmarking

Related to performance measurement is the concept of benchmark reviews, also called best practices. This kind of analysis examines specific governmental services and compares their performance with cost-effective and innovative practices in order to create a framework for benchmarking future performance. Instead of focusing on organizational and performance deficiencies, the best-practices approach collects and highlights evidence of success in delivering services, defining success as achieving the highest level of desired effectiveness at the lowest cost.

Even with extensive information available about comparative performance and best practices to help in setting program spending levels, decisionmakers still have the problem of choosing between alternatives in the allocation of limited resources. If, for the same investment, one agency proposes an increase in spending for a highway safety program based on increasing the number of lives saved, and another agency promises improvement in the number of students passing a proficiency test, how is a budget decisionmaker to decide which investment to choose? Recognizing the importance of this issue, the Alliance for Redesigning Government developed a process called “investment decision making.”

Investment Decision Making

Investment decision making combines program outcome measurement with jurisdictional benchmarking and adds a mechanism for estimating the return on investment for public spending, a critical ingredient to aid decisionmakers in making choices on where to allocate resources.⁴ The Alliance for Redesigning Government offered the following example of how the process works:

Assuming a community benchmark is to reduce the percentage of families living in poverty from 15 percent to 5 percent in the next five years, there might be two alternative governmental initiatives. One would have a goal of moving 50,000 poor families out of poverty through a combination of job training programs, tax incentives to employers, and individual development accounts. The other plan would seek to prevent the formation of impoverished families through a combination of health, education, and mentoring programs that would reduce the number of teen births from 3,300 to 600 per year. The investment decision-making process recommends estimating the cumulative monetary value of achieving each type of outcome. The values are calculated at three levels:

- Value to the individual (increase in earnings, avoidance of child care costs).
- Value for government (increase in taxes paid, decrease in human services expenditures).
- Value to society (increased domestic spending, reduced crime).

Performance-based budgeting provides estimates on the average unit cost to the government for each outcome. Comparing the cumulative value of the outcome to the cost helps to calculate the return on investment to the individual, government, and society. Decisionmakers can then determine whether the value of the outcome over time substantially outweighs current costs of the program or service. If one of the strategies offers a much greater return on investment, then decisionmakers might be justified in shifting priorities and spending more in that area.

Requiring the reporting of the unit cost of an outcome also permits decisionmakers to determine whether particular programs are good investments. An example would be in choosing a job training

program in which to invest. One choice might be to invest in a job placement service that has a low cost per client served, but a high unit cost per outcome, because very few of its clients find jobs that will move them out of poverty. Another choice would be to invest in a high-cost registered apprenticeship program that is very successful in placing its graduates in good jobs, yielding a better outcome. An investment in the latter might be justified in meeting a goal of moving families out of poverty.

Financing Alternatives

One objective of budget analysis is to find ways of financing meritorious proposals. Financing alternatives can be developed at every level of analysis: internal agency budget review, central executive agency review, or legislative budget review. However, while agencies are usually limited to considerations which are internal to their operations, the central budget office can look to options between agencies. There are also legislative options to add the possibility of changing existing legislation if necessary. Whatever the level of analysis involved, the menu of available options remains the same: (1) reduce proposed expenditures for programs and agencies; (2) broaden the existing tax base either by expansion or by eliminating tax expenditures; (3) make budget and accounting changes; (4) accelerate revenue collections; (5) increase rates of existing taxes; (6) levy new taxes; (7) increase existing or impose new user charges, fees, fines, and forfeitures; (8) increase budget balances; or (9) raise revenue forecasts.

Budget Cutting

Agency and program budget review always consists of “looking for fat” in the budget, regardless of whether the state treasury is empty or full. There are various approaches to determining where budget weaknesses exist. Figure 4-3 provides examples of typical kinds of questions that may help uncover these weaknesses.

Figure 4-3: Sample Budget Cutting Questions

Are all personnel in a new or expanded program likely to be hired immediately upon passage of the appropriations act?

Traditionally, an agency planning a new or expanded program will request funds for a full 24-month period for the salaries, wages, and benefits of new employees. However, historically, it has been shown that at least one-fourth of funds budgeted for new employees goes unspent because of delays in recruitment, gaining needed approvals for hiring, and the vagaries of the state personnel system.

Are the assumptions used in the continuation budget reasonable, or can they be altered?

Numerous assumptions are made in setting an agency's continuation budget. Some of these are internal, and others are incorporated in the Office of Budget and Management's Operating Budget Guidance. Each has fiscal implications that can be challenged. For example, if the assumption used in calculating personnel costs is that all employment is fixed as of a certain date, changing the date will change the amount required for salaries, wages, and benefits. Changes in assumptions about inflation have a similar effect on maintenance costs.

Is allowance made for the so-called “washout factor”?

It is appropriate to assume that when an employee leaves state service, the employee will not be immediately replaced and that the new employee, once hired, will be paid at a lower wage rate, particularly if the former employee retired. Under the state’s pay plan, seniority increases the rate of pay for most employees each year. The costs of employee promotions are, as a general rule, said to equal or “wash out” the savings from employee attrition. Funds budgeted for promotions can be eliminated, or past experience with employee turnover can be weighed against the cost of promotions, with the difference removed from the budget request.

Can contracting for a government service instead of using state employees to provide the service, or vice versa, save money?

Sometimes agencies embark on a short-term activity that could be carried out more economically by contract with a consulting firm or even another state agency to do it. At other times, the opposite may be true. In recent years, some major governmental functions, such as certain prison operations of the Ohio

Department of Rehabilitation and Correction, have been provided by service contractors in the interest of cost savings. Personal service contracts should be scrutinized to determine whether they are necessary and whether they are the most economical way of providing the service.

Does the law require all of the budgeted services?

Often a state agency will justify an expenditure stating that it is a requirement of state or federal law or of a court decision. The original source for such a claim should always be examined. If no source is cited, and in the absence of other evidence submitted by the agency, it can be assumed that the program or service is optional and thus subject to reduction or elimination.

Is there duplication within the same agency or between agencies in performing a service?

If it is determined that more than one agency is administering programs or performing activities with the same objective, the duplication should be noted to determine whether one or more services can be combined, reduced, or eliminated.

Tax Base Enhancement

Tax expenditures are deductions, exemptions, and credits to taxes that have the effect of reducing state revenues. A list of exemptions, their statutory basis, and an estimate of the revenue lost to the state General Revenue Fund as a result is prepared each biennium and submitted as Book Two of the Executive Budget Request. Tax expenditures are described more fully in Chapter 2. A review of the history of selected tax expenditures can reveal that the original justification for granting them may have expired. Some serve only a single business. For others, the competitive arguments on which they were originally established may no longer be valid. These are ideal candidates for sources of revenue for spending proposals. However, budget analysts should be aware that eliminating most tax expenditures would simply not be politically palatable, regardless of what an analysis might suggest.

Budget and Accounting Changes

There are ways of changing budget and accounting practices to increase state revenues, such as in these two examples:

- Generally accepted accounting principles permit the accrual of revenues for which the payee’s liability is established on a modified basis. Artificially accruing such revenues would raise the amount of state revenues available for spending, but at some risk to the state’s bond rating.

- Encumbrances are obligations incurred for which moneys have not yet been expended. Generally, an agency has five months to spend prior-year encumbrances for operating expenses, although some encumbrances have been left open for many years. Reviewing open encumbrances to determine whether the expenditure will really be obligated, or paying them out of current appropriations, can release moneys for other uses. A statewide change in the rules that govern how long an encumbrance can remain open would have the same effect; applying such a statute generally could raise substantial amounts of money.

Revenue Collections

Unpaid revenues due to the state total hundreds of millions of dollars. In some cases, the money is not paid because it is more economically advantageous to the debtor to pay penalty and interest charges, which are often less than the yield from investing the money owed. In some instances, there is fraud or error and the delinquent taxpayer has simply escaped detection. There are ways of addressing all of these problems. Some states have chosen to utilize a tax amnesty program that permits one-time payments without penalties. Ohio used a tax amnesty program for the first time in 2006, resulting in the collection of nearly \$60 million. The FY 2012–2013 budget included a provision for a consumer's use tax amnesty program to be administered by the Ohio Department of Taxation. The FY 2018–2019 budget included a tax amnesty program with respect to delinquent sales and use, individual income, commercial activity, cigarette and other tobacco, financial institutions, and alcohol taxes, as well as local sales and use, school district income, and alcohol and cigarette taxes. Other approaches to collecting unpaid tax obligations include adoption of new collection procedures, hiring additional enforcement officers, and changing the schedule of penalties and delinquent charges.

Tax Rate Increases

Increasing the rates of major state taxes is much more problematic than increasing those of minor taxes. In the major taxes, such as the sales and use and individual income taxes, even a small rate increase yields so much public attention and scrutiny that it requires considerable effort to convince legislators to overcome their natural tendency to resist rate increases. Even if these objections are overcome, a massive campaign to sway public opinion is inevitable, since every tax increase dating back to the 1970s not offset by an equal or larger decrease in another tax has been followed by a referendum or initiative proposal to repeal it. While the temporary one-cent sales tax that was in effect for FY 2004 and FY 2005 was not challenged by a voter referendum, there was a movement to repeal it before its expiration. The permanent continuation of a one-half-cent increase was accompanied by a reduction in individual income taxes and for that reason it was not challenged. However, those tax law changes provoked the legislature into enacting a state appropriation limit to be applied beginning with the FY 2008–2009 budget. That statute, though unenforceable as described in Chapter 1, was enacted to forestall a constitutional amendment, which would have set a more restrictive spending limit, from being placed on the November 2006 ballot.

Legislators have been somewhat more amenable to applying a “surcharge” to an existing tax rate, sometimes on a temporary, one- or two-year, basis to address a downturn in the economy. The way a surcharge operates is that a percentage increase is applied at the end of the tax liability. Thus, if a taxpayer calculates what is owed to the state in individual income taxes after all deductions and credits are taken, then the surcharge would be applied to add an extra percentage to that liability. This procedure can be applied to many other taxes, though not to the sales tax, which has on occasion been raised “temporarily.” An advantage to the surcharge approach is that it can be earmarked or

dedicated, making it a candidate to support a particular governmental function, program, or proposal.

There are numerous possibilities for raising the rates of the other taxes described in Chapter 2, especially to raise smaller sums of money.

New Taxes

A new tax base can be the source of general revenue increases to fund programs or activities. Finding a new tax source that is somehow related to the program or activity to be funded can be crucial to generating needed legislative support. For example, a statewide tax on lodging could be proposed as a source for funding a statewide housing or homeless sheltering program.

The state Department of Taxation is the main resource used by the executive branch to develop alternative sources of new revenues in Ohio. The Legislative Service Commission is used for the same purpose by the Ohio General Assembly. Other sources of information include reviewing the tax structures of other states as well as studies of taxation that have been done in Ohio and elsewhere.

Analysts should be cautioned regarding the increasing difficulty in gaining executive and legislative approval of a new tax, regardless of its fairness or merit, particularly if it is for the purpose of enhancing revenues. In 2005, a new major tax on commercial activity was instituted while the state simultaneously phased out the corporate franchise tax. This major change, described in Chapter 2, shifted the focus of business tax structure from manufacturing to services to reflect changes in the Ohio economy. However, while important, it was not enacted for the purpose of increasing resources. Similarly, in 2012, a new financial institutions tax was enacted concomitant with the repeal of the dealers in intangibles tax. In addition to banking institutions, other financial institutions that paid the commercial activity tax became subject to the new tax.

User Fees

The usual rule of thumb in applying a user charge is to determine whether the governmental service being provided inures more to the benefit of society as a whole or to a group that uses the services most widely. If society benefits more, than a general tax should pay for the service; but if a small group benefits more than society in general, then a user charge should pay for part or all of the costs. The challenge for budget analysis is to identify the specific services to which the rule of thumb should be applied. One illustration of this principle is the use of fishing licenses as a revenue generator for state expenditures to stock ponds and improve access for fishermen. Society in general has only a relatively small interest in seeing ponds and lakes stocked with fish; the major beneficiaries are fishermen. Therefore, a user fee is applied to pay the full costs of wildlife preservation and related state services.

Another example involves the provision of higher education facilities and services. Public policy has determined that the state should pay for only a portion of higher education costs; students who benefit by improving their future lifetime incomes also pay a portion of those costs, with the portion rising as the level of education increases. Thus, graduate and professional students at public universities pay more than their undergraduate student counterparts, who in turn pay more than community college students.

The state has a large number of charges for licenses and fees that, taken in total, raise substantial

sums of money. Most of those fees are dedicated for use by the agencies that raise them and are earmarked for specific purposes. For example, fees that are charged for licensing various professions and occupations may go to defray the costs of examinations given to potential licensees or to defray the costs of license renewals. Even if the rates of these were increased, it would be difficult to overcome objections to using the proceeds for anything besides their current use. A similar approach has also been used to pay for “linked” programs or activities. For example, the state’s Crime Victims Compensation program is financed by a surcharge on traffic violations; marriage license fees were increased to support domestic violence shelters; and a surcharge on death certificate fees is dedicated to the Children’s Trust Fund.

Budget Balances

Part of the job of a budget analyst is to monitor budget balances carefully and to establish a safety zone to accommodate possible adverse contingencies, such as a faulty revenue forecast or a dip in the economy. Maintaining a reserve such as the Budget Stabilization Fund, the state’s rainy-day fund, serves both to insure sufficient cash flow to meet daily obligations and to retain a high bond rating. When balances rise faster than necessary to insure those purposes, reducing the reserve can be justified.

Revenue and Spending Forecasts

Just as budget balances need to be monitored consistently and regularly, so do revenue forecasts. Both the Office of Budget and Management and the Legislative Service Commission publish monthly reports comparing actual and estimated revenues and expenditures from the General Revenue Fund. When a pattern of collections exceeding estimates or expenditures that are lower than appropriations is found, an official forecast revision will be made, thereby officially releasing additional money to be used to reduce taxes or increase state spending. The tendency of revenue forecasters is to resist such revisions until there is little doubt that they represent an immutable trend as opposed to an unexplained aberration.

New Funding Source Analysis

Identifying new funding sources is only part of an analyst’s job. It is also essential that the analyst recognize where opposition to the use of that funding source will come from and what the arguments of the opposition will be. The following case study illustrates the difficulty that can be encountered even after successfully locating viable new sources of revenue to pay for a legitimate public purpose.

Case Study: The Housing Trust Fund

Ohio has provided funding for low- and moderate-income housing programs through county recordation fees since 2004. It took 14 years for the state to arrive on a permanent funding source for these programs after voters approved a referendum in 1990. The constitutional amendment made housing a public purpose, thus permitting the use of state tax dollars to support it. Thus, in 1991, the legislature created the Housing Trust Fund to implement this constitutional amendment by providing loans and grants to assist low- and moderate-income persons with their housing needs. However, a new revenue source was still needed to provide a permanent source of funding. The enabling legislation created the Governor's Advisory Committee on Financing of the Housing Trust Fund and charged it with coming up with recommendations on how to pay for the loan and grant program.

The committee examined how other states funded similar trust funds, used the resources of both the Ohio Department of Taxation and the Legislative Service Commission and outside consultants, and came up with a list of possible revenue sources. These included increasing the real estate conveyance fee by one mill, establishing a surcharge on the estate tax, and collecting the interest income on tenant security deposits. Each of the recommendations was intentionally related to the purpose of the trust fund in the belief that this would enhance its likelihood of successful passage. In fact, either the opposition generated against each revenue source, or a lack of commitment on the part of the legislature to the "trust fund" concept resulted in failure to adopt any of these permanent revenue sources. So, the legislature relied upon annual appropriations from a variety of different sources each biennium to fund the Housing Trust Fund.

In FYs 1992 and 1993, legislators appropriated moneys the state received from funds such as savings accounts, safety deposit boxes, and stocks that remained unclaimed by their owners. The following biennium, they made direct appropriations from the General Revenue Fund (GRF). In succeeding biennia, interest from the state's Budget Stabilization Fund and other surplus funds were used. Finally, in FY 2004, county recording fees took the place of GRF funding.

This source would eventually prove problematic as well. Revenues dropped steadily over time because of the nature of the per-page recording filing fee being used to support the program. In the FY 2018–2019 budget, the House of Representatives attempted to modernize and stabilize the fee structure by moving to a per-document fee, but the provision was stripped out of the final budget approved by the conference committee.

Is It Doable?

Identifying and producing a list of financing alternatives is an essential task. Selecting which alternatives from that list are doable can provide a greater challenge, as the taxpayers and the beneficiaries of the tax are not always the same. For political leaders, the real question is almost always whether the good will generated by the object of expenditure to which the increased revenue will be applied is sufficient to overcome the ill will that will be generated by the persons who will have to pay the increased tax. This translates into an assessment of the numbers and the intensity of voters affected on both sides of the equation.

Every interest group or legislator proposing a revenue increase will have a claim on the funds generated and will have to prove that the benefits outweigh the disadvantages in individual cases. In the absence of an understanding as to how revenues are to be applied, it is useful to know whether the

idea has been floated successfully in the past. It is a political axiom in Ohio that new ideas, when first launched, are seldom adopted. Like fruit, they must ripen before they are seriously considered or eventually adopted.

If identifying viable financing alternatives is difficult enough, selling it can be Herculean. The job of budget analysis does not end with identifying the alternatives. It includes finding ways of making them doable.

Some Questionable Budgetary Practices

Another task of a budget analyst is to identify and guard against the use of questionable budget practices. Such practices include the avoidance of lapses by agencies, executive rewriting of the budget, budget gimmicks, dedicated funding, and the preeminence of fiscal policy.

Avoidance of Lapses

Appropriations cannot exceed 24 months, according to the Ohio Constitution. However, obligations incurred near the end of a fiscal period may not be discharged for a number of legitimate reasons. A delivery of goods that have been ordered may be stalled. Consultants employed to produce a report may become ill. Liabilities incurred near the end of a fiscal period may not be able to be paid before the end of the period. Because of these and similar realities, state accounting practices permit the encumbrance of appropriation authority for as long as five months after the completion of a fiscal period. All unspent and unencumbered moneys lapse at the end of a fiscal period; that is, they will become part of the beginning balance for the succeeding fiscal period in the fund from which they were to be drawn. Exceptions are made for federally sourced funds that are awarded on a federal fiscal year basis.

For accountants, lapses are part of a process whereby agencies are held accountable for their expenditures. If appropriated moneys cannot be expended for the purpose they were intended and within the time limit set, then they should be withdrawn. For budget analysts, lapses are seen as a source of moneys available for alternative use in a current fiscal year or as funds that can be used as part of an opening cash balance in a future fiscal year. For agencies, however, lapses are something to be avoided at all costs. They are the visible demonstration of the agency's failure to live up to its promises.

There is a bureaucratic mindset holding that once moneys are appropriated, they must be spent or else be lost to the agency and program forever. Failure to use appropriated moneys could, it is feared, make it difficult to obtain appropriations in the future. Asking for a "re-appropriation" of lapsed moneys in the next fiscal period entails explaining why the moneys lapsed with an ensuing fear that the explanation will lead to castigation of program administrators for not working diligently. Another fear is that substantial lapses will jeopardize future appropriations requests by encouraging the conclusion that the agency typically overstates its spending needs. As the process for requesting the carryover of excess funds at the end of a fiscal year is more of a penalty for an agency, it is understandable why an agency would go on a spending spree prior to the end of the year. Thus, the phenomenon of "use it or lose it," as illustrated in the following case study:

Case Study: Use It or Lose It

In 1989, Governor Richard Celeste proposed reorganizing the administration of the state's alcohol and drug abuse services by transferring moneys appropriated to several state agencies to a new cabinet-level agency, along with additional moneys appropriated by the legislature. These were appropriated to the Controlling Board, contingent on the passage of separate legislation to form a new cabinet-level Ohio Department of Alcohol and Drug Addiction Services. The funds were finally transferred to the new department nine months after the appropriation became effective. Thus, one year's appropriation was made available with only three months to spend it. Most of the agency's funds were to be released to counties that would actually administer the drug and alcohol programs. So local agencies were given only a few weeks to plan and establish programs to spend millions of new dollars. However, the alternative for the state agency would have been to lapse the funds and thereby threaten its future budget needs.

The full year's money was released to the counties. They managed to spend most of it in three months by buying materials, supplies, and equipment, and conducting spending needs assessments and specialized training. The question is whether this was the wisest use of these moneys or an example of the "use it or lose it" phenomenon.

Executive Rewriting of the Budget

In Ohio, when the legislature is unable to balance the budget and keep it in balance, it relies on the governor to do so, essentially authorizing an executive rewrite of the budget. One power granted to the governor in this respect is through the allotment process. After passage of an appropriations act, the Office of Budget and Management divides the appropriations and allots the authority to separate programs, activities, and line items within agencies. The governor can use this allotment process to un-allot, or withhold, appropriated funds, sometimes eliminating an entire program that the legislature had funded and other times making it impossible to carry out legislative intent.

Another opportunity for executive budget rewriting occurs when the governor establishes a new activity or program by executive order and directs agencies, by interagency voucher transfer, to provide moneys to pay for the new program. In this way, one agency bills another for services which may or may not have been contemplated during the legislative appropriations process. Paying for such a service can have adverse fiscal effects. It enables spending to occur in an area not previously legislatively reviewed or authorized and, in the process, reduces the money available for the program from which the donor agency takes it to fund the new activity.

Finally, when revenues are not keeping pace with expenditures, the governor is empowered to reduce expenditures through executive order to bring the budget into balance. While some items, such as debt service, are always immune from such executive reductions, governors can effectively rewrite the budget by exempting certain policy areas. In balancing the state budget in FY 1993, Governor George Voinovich exempted schools because of the intense backlash he had taken for previous cuts to primary and secondary education. As a result, higher education bore a large share of the executive imposed reductions. This is described more fully in Chapter 10.

Selective use of the power to cut appropriations to prevent total spending from exceeding available revenues has enabled governors to make major changes in whole categories of spending. However,

in defense of executive budget rewriting is the fact that the legislature could overturn an executive decision at any time that it wished to do so.

Use of Budget Gimmicks

The straightforward approach to setting a balanced budget calls for initially determining how much should be spent for what purposes and then deciding how much needs to be raised to pay for that spending. However, raising taxes is politically painful. Resorting to easier, but questionable, ways of financing programs is often tempting. Budget gimmicks, disguised as fiscal realities, can include holding bills for goods and services over from one fiscal year to the next; failing to encumber moneys for planned expenditures; centrally forcing agency lapses; extending the life of long-term bonded indebtedness; securitization of moneys due the state, such as through the Tobacco Master Settlement described in Chapter 11; speeding up the payment schedule for collecting individual taxes to get more money into the current fiscal year; holding up the processing of tax refunds; transferring balances from one fund to another; and transferring second-year appropriations to the first year. All of these budget gimmicks and more have been used in Ohio to avoid budget cuts or increased taxes. For the most part, the use of budget gimmicks simply postpones difficult decisions and can have the effect of accentuating them.

Dedicated Funding

Virtually all legislative analysis focuses on the General Revenue Fund (GRF), where the greatest discretion and incentive exists to either hold down spending or reallocate resources. When funds are set aside in a non-GRF fund, scrutiny of the appropriation is effectively eliminated. This can be a useful strategy to protect these resources from being subject to budget cuts or redirection. If done excessively, however, it can have a constraining effect on the GRF and budget management.

Having dedicated funding does not guarantee security to an agency when it encounters powerful interests on the other side. Funding for the Office of Consumers' Counsel was more than halved in the FY 2012-2013 budget. The stated rationale was because the office duplicated some functions of the Public Utilities Commission of Ohio (PUCO). However, in fact, the Consumer Counsel's primary function is to provide opposite counsel to the utilities in rate setting cases before the PUCO, which acts as the adjudicating body.

During the depths of the Great Recession in 2009, the Strickland Administration raided surpluses in 70 dedicated purpose accounts to obtain \$120 million, funds that would be used to help close a \$1.9 billion shortfall. The governor had to pledge to return \$2.7 million of these funds earmarked to thwart childhood blindness and to help solve the shortage of organ donations when these cuts became public.⁵ Faced with a significant, if smaller, budget shortfall in finalizing the FY 2018-2019 budget, the legislature authorized a cash raid of dedicated funds of eight state agencies of up to 2 percent of their FY 2017 appropriations. Business groups and labor organizations were especially critical of the provision with regard to the dedicated funds of the Bureau of Workers' Compensation and the Industrial Commission.

Fiscal Policy Preeminence

A proposed new program can be fully justified in terms of solving a defined societal problem and

can have all the political support needed, but it can still fail to be established because of its costs. A fiscal note prepared by the Legislative Service Commission can result in the referral of substantive legislation to the standing finance committees of the House or Senate, even before the completion of a substantive policy discussion, in order to get a fiscal review. The result of such a referral is frequently a death knell to the legislation.

This singular focus on fiscal policy implications affects the nature of the policy debate and makes the question of what it will cost and how to pay for it more important than what it will buy and how worthwhile it is. It also means that more and more major policy issues are either resolved when the state budget is under review as part of the budget debate, or often not resolved at all because they cannot be woven into the budget process. Program initiation often must await the next budget, when it will be considered within the context of weighing fiscal priorities.

Summary

Both in the literature of budgeting and the budget development process, a good deal of attention is given to the format within which a budget is presented. Equal or more attention should be placed on quality program and budget analyses. These are extremely useful tools in the budget allocation process, but they are only as good as the analysts performing them. Techniques, tools, and resources are only guides analysts must use to balance their expertise with political realities. They must understand that analyses should not be performed just for the sake of being performed or just because they can. Often analyses are performed because they can be and not because they should. If it is clear that political judgments have already been made about a program, its usefulness, or its level of funding, it is a futile exercise to conduct elaborate analyses. Good analysis requires a major investment of time, and that time should not be used unproductively.

Equally important is knowledge of what kind of analysis is required. In many circumstances, a quick and simple review of historical spending and percentage change is all that is needed, while in other circumstances a detailed and more time-consuming performance measurement review or cost-benefit analysis is desirable. An analyst can become overly involved in gathering data and applying sophisticated research and analytical techniques for their own sake rather than because they will be used in decision-making. Also, relevant to this consideration is the matter of timeliness. An analysis, no matter how sophisticated and sound, is of no use if it cannot be presented before a policy or budget issue is to be decided.

Finally, and especially critical, is the format for presentation of the analysis. Decisionmakers need information presented to them clearly, concisely, and in a well-reasoned and easily understood manner. A budget analysis should clearly identify all of its assumptions and recognize its weaknesses, as well. Should the analysis be relied upon, the analyst is protected by having identified the limitations of the work so that decisionmakers clearly know the risks they take in accepting it.

If public budgeting is to result in well-reasoned rational judgments, it will in part be because program and budget analyses have improved through the employment of well-qualified staff regularly trained in the newest and best analytical techniques. Success also necessarily depends, however, on the willingness of decisionmakers to better utilize the talents and resources that they do have. Very few administrative agencies actively maintain research staff to develop and assess policy alternatives. The legislature has been even more reluctant in recent years to use its nonpartisan budget staff on substantive policy development or even for the analysis of new executive branch policies. Instead, they are too often underutilized on tasks that are largely technical in character.

Endnotes

- ¹ Thomas D. Lynch, *Public Budgeting in America*, Prentice-Hall, Inc., Englewood Cliffs, New Jersey, 1979.
- ² National Association of State Budget Officers, *Overview of State Budgeting*, Washington, DC, 1999.
- ³ Michael S. Greene, "Laboratories of Democracy: Anatomy of a Metaphor," *AEI Online*, March 31, 2001.
- ⁴ This discussion is based on information provided by the National Academy of Public Administration Foundation in its review of materials included in Jack Brizius and The Designing Team's book, *Deciding for Investment: Getting Returns on Tax Dollars*, Alliance for Redesigning Government, National Academy of Public Administration, 1994.
- ⁵ Joe Hallett, "Donations for Blind, Organs Were Rerouted to Balance State Budget," *Columbus Dispatch*, August 21, 2009.

