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Priorities of Government

Debating, writing and approving a state budget is the primary task legislators must accomplish because the budget drives all policy. The governor and state agencies can't spend even one dollar without legislative approval.

Conventional thinking says lawmakers must adjust the current budget for inflation, add caseload increases, splice in a few new initiatives, and call it good for another legislative session. If revenue drops, the same conventional thinking allows for three budget balancing options: 1) raise taxes, 2) cut important services, or 3) a combination of both.

When budgets are built in this manner, without deliberative efforts to develop core governing principles first (see Chapter One), legislators become "enablers" for agencies and programs that likely have fundamental design flaws, or that may be providing services in direct conflict with lawmakers' policy values.

Even when agencies or programs "accidentally" are complying with what lawmakers would choose as their core governing principles, building budgets the conventional way assures overspending. It virtually guarantees an upward spending spiral, as individual bills are passed in committee without regard to whether or not they fit into the bigger picture.

Case study: Washington State

Washington state, like many others, began 2003-05 budget deliberations facing significant future deficits. But instead of struggling to maintain the state's existing

budget, which would force program cuts or increased taxes, Governor Locke and his budget-writing team, headed by director Marty Brown, decided to look for a better way. Locke and Brown determined to build a new state budget using *forecasted revenue*, and to wipe the chalkboard clean of previous spending assumptions. To do this, they decided they just ask and answer four very basic questions:

1. How much money does the state have?
 - What is the forecasted revenue for the next budget cycle?
2. What does the state want to accomplish?
 - What are the essential services state government must deliver to citizens?
3. How will the state measure its progress in accomplishing those goals?
 - What will success look like?
 - What measurable outcomes can be identified?
4. What is the most effective way to accomplish the state's goals with the money available?
 - If a service/program is a core function of government, what level of government should provide it?
 - How can services be provided efficiently and effectively?
 - How can market forces and competition be introduced into core functions, assuring costs are controlled and quality enhanced?

Question #1: How much money does the state have?

This is a superbly sensible question to answer before writing a state budget, but it is rarely where the process begins. In many states, standing committees meet, debate

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and pass bills with little or no relevant spending framework. Asking this question allows lawmakers to understand spending limitations in advance and could enhance the importance of standing committee hearings—not to mention save time and money.

We suggest legislators take 98 percent of the revenue forecast (putting 2 percent in reserve until it reaches 5 percent of the biennial budget, at which time a tax rebate would be issued) and assign a budget amount to each policy committee. This would enable policy committees to review each of their proposals against a budget, and would hopefully end the long-standing practice in many states of policy committees passing legislation without considering its fiscal impact or priority.

Question #2: What does the state want to accomplish?

Answering this question laid the groundwork for what Washington's Governor Gary Locke and his budget team believe to be the state's core responsibilities—what they call "Priorities of Government" (POG). They identified the following ten goals as the state's top priorities. These are the services they believe form the state's core duties to citizens:

1. Increase student achievement in elementary, middle and high schools.
2. Improve the quality and productivity of the workforce.
3. Deliver increased value from post-secondary learning.
4. Improve the health of Washingtonians.
5. Improve the condition of vulnerable children and adults.
6. Improve economic vitality of businesses and individuals.
7. Improve the mobility of people, goods, information and energy.
8. Improve the safety of people and property.
9. Improve the quality of Washington's natural resources.
10. Improve the cultural and recreational opportunities throughout the state.

Many state legislators in Washington will disagree with these core priorities. That's fine. They should use them as a starting place for a healthy debate about the state's responsibilities.

In some states, legislators may not wait for their chief executive to develop a list of core governing functions; they will do it themselves. And in other states it will be a joint endeavor between political parties and the two branches of government. *In all cases, the core governing principles adopted will be a negotiated product.*

While that statement may seem obvious, it is an important one to remember. Leaders of the process to determine the state's core functions must understand the fundamentals of their own ideological beliefs; they must have thought through what the end result of state policy should look like; and they must know how to distinguish between negotiables and non-negotiables. If they are not prepared, they will bring little to the debate and do little to maintain balance in the state's spending and goals.

Developing a meaningful set of core governing principles requires time and courage. Most officials will publicly embrace the notion of developing budgets around a model of more carefully prioritized spending, but most will also vigorously oppose or undermine that model in day-to-day operations. A model like POG puts all government spending on the negotiating table—a difficult reality for agency directors and their staff, and for policy analysts and lobbyists. It can be daunting to develop core functions in the face of differing ideological outlooks among lawmakers and obstinate "insiders" in the bureaucracy.

Once core governing functions for the state have been determined and ratified (which we believe should be done no later than four weeks after the legislative session begins), they will serve as a litmus test for the hundreds of agencies, boards, commis-

sions and programs currently funded. Agencies will be asked to submit their budgets based on delivering one or more of the state’s identified goals. If an agency or program is not advancing one or more of the state’s core priorities, it can be eliminated.

We believe legislators should adopt core functions and pass a House/Senate Concurrent resolution identifying them no later than four weeks into a legislative session. This is crucial for building a balanced and responsible budget. If legislators delay, they lose major opportunities for significant budget savings.

(For more information about determining government’s core functions, see Chapter One.)

Question # 3: How will the state measure its progress toward reaching its goals?

The next step for legislators after identifying the state’s important goals is to determine how they will measure their success in achieving those goals. To that end, Washington’s Governor Locke and his team developed measurable outcomes for each of their identified core functions and prioritized agency programs based on how effectively each would help meet those goals. These outcome measures are called “indicators of success,” and they look like this:

<i>Core Function/Goal</i>	<i>Indicators of Success</i>
1. Increase student achievement in elementary, middle and high schools.	<ul style="list-style-type: none"> • Reduced student gaps in achievement • Improved test scores • Increased high school graduation rate
2. Improve the quality and productivity of the workforce.	<ul style="list-style-type: none"> • Increased possession of skills and abilities required by employers • Increased employment rate • Increased earnings levels
3. Deliver increased value from post secondary learning.	<ul style="list-style-type: none"> • Increased % of adults completing certificates/degrees • Increased graduate/student satisfaction • Increased # of students prepared to meet workforce needs
4. Improve the health of Washingtonians.	<ul style="list-style-type: none"> • Improved index of epidemiological measures (Washington Report Card on Health) • Improved self-assessment of health • Improved access
5. Improve the condition of vulnerable children and adults.	<ul style="list-style-type: none"> • Increased % living above poverty line • Increased % living in permanent, safe home or community settings • Increased % who make progress toward self-sufficiency
6. Improve economic vitality of businesses and individuals throughout the state.	<ul style="list-style-type: none"> • Increased % of people employed • Increased % of prosperous individuals • Increased % of profitable businesses
7. Improve the mobility of people, goods, information and energy.	<ul style="list-style-type: none"> • Sufficient capacity/demand • Minimized delay and downtime • Fair and reasonable pricing
8. Improve the safety of people and property.	<ul style="list-style-type: none"> • Reduced preventable injury and loss • Increased emergency response • Increased citizen confidence of their safety in community
9. Improve the quality of Washington’s natural resources.	<ul style="list-style-type: none"> • Improved % of days with healthy air • Improved % of water bodies/sources that meet quality standards • Reduced rate of land converted to urban areas • Improved trends in fish stocks and wildlife populations
10. Improve cultural and recreational opportunities throughout the state.	<ul style="list-style-type: none"> • Increased availability/access • Increased participation • Increased satisfaction

We cannot stress enough that a careful review must be made of both the core functions of government and the indicators of success. These must be measurable.

Take, for example, number six above: “Increase the percentage of people employed.” How can legislators determine their success at increasing the percentage of people employed if they have no identified starting point? And how can they judge the worth of their spending if they have no target percentage to reach? What if employment increases by only one percent? Was that worth the cost, or should legislators have determined beforehand what their opportunity costs and targets were? A more meaningful outcome measure would be: “Increase the percentage of people employed to 96 percent of those eligible in state.”

The same rules should be applied to other broad indicators above like “Increase the percentage of profitable businesses,” and “Increase the percentage of prosperous individuals.” These must be well-defined to be meaningful and useful, not broad and vague.

Question #4: What is the most effective way to accomplish the state’s goals with the money available?

Lawmakers must decide whether the core functions they have agreed upon can be accomplished within forecasted revenue. While the first three questions in the POG process are about developing meaningful goals, the last is about using market forces and competition to deliver those goals effectively and efficiently without compromising cost and quality.

To restate a previous point, Washington Governor Gary Locke’s 2003-05 budget proposal assumed no new tax increases beyond currently forecasted revenue. This meant the governor’s team had to prioritize its spending. Team members had to identify the state’s most important activities, as well as the least important, to determine how to spend available resources as effectively as possible to accomplish the state’s core goals. This is what they came up with:

High Priorities (Purchased)	Low Priorities (Not purchased)
A bigger investment in early childhood education.	Most current non-basic education programs—including class size reduction.
Targeted spending of K-12 resources—aimed at improved achievement and accountability.	Continued incarceration
Major increase in higher education enrollments; linkage of new funding to changes in governance, credit transfer and course articulation.	Consumer protection activities and regulation of professional services.
Increased investment in public health systems.	Many advocacy groups and commissions.
Greater connection between employer needs and the workforce systems.	Workers’ compensation payments to the permanently disabled.
Expanded preservation of Washington’s natural resources.	Much of Basic Health Program and other medical coverage.
Tort reform.	
Additional new highway construction projects.	
Major reforms to regulatory processes.	
Greater targeting of all resources.	
Consolidation of funds and programs.	

To make this process functional, each state agency must develop what it believes to be its mission as established by law. Once its mission is defined, it must outline the goals and objectives necessary to accomplish its mission. Each of these activities should be categorized as *high, medium* or *low* priority, and performance indicators should be identified. The agency's budget request should reflect those priorities and guidelines.

Once agencies have completed this analysis of their mission and goals, legislative standing committees should review the mission statements, goals, objectives and performance indicators for all agencies under their jurisdiction to determine whether or not they comply with the core functions of government adopted in the joint resolution. They should carefully review agency priorities and budget requests.

This is when legislative standing committees should debate the "make or buy" issue. As lawmakers review agency goals, they should consider whether government must actually *deliver* the various services necessary to accomplish those goals, or whether government's duty is to simply *ensure that the goals are accomplished*.

Testimony should be requested from state agencies and other interested parties on how they propose to meet each goal and how they would answer each question.

Consider, for example, Washington state's K-12 education system. Governor Locke and his team decided the top priority is to "increase student achievement in elementary, middle and high schools." If legislators determine they agree with the governor (and most do), they should move to the next step of determining how the state can most effectively accomplish its education goals within forecasted revenue, and how market forces and competition can be used to do so. Rather than holding hearings on new mandates and programs, the K-12 Education Committee could hold

hearings to carefully review current programs and determine what value they are adding to students' education. They will then have the information they need to determine priorities and build an effective budget.

Conclusion

The POG model developed by Washington's governor asks the right questions, provides a logical process for determining the answers and prioritizes spending accordingly. It provides a logical place to begin meaningful debate. Cash-strapped states will find that a process like POG greatly increases spending efficiency and economy.

Of course, the different political and economic climates in the states mean timelines for adopting such a model will vary in every state. This is perfectly understandable, but a caution is in order: For a model like POG to work, it must be applied to the entire budget, not only the carefully selected, politically manageable portions.

That said, it may only be possible for lawmakers to tackle one large agency first, to demonstrate to themselves and their colleagues how the process works. It may be a strategic decision used to keep the process viable while political changes are underway. This type of segmenting will create vocal enemies inside the targeted agency and among certain lobbyists, while giving other agencies time to build a war trench around themselves. This is not the most favorable option, but if it is the only possible one, a vigorous public relations team must work side-by-side with the restructuring process.

If, in addition to the POG process, independent, comprehensive performance audits are part of the normal legislative procedure, accountability to taxpayers can be more readily assured.

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Budgeting using POG

Old Formula



400+ Agencies
Current programs
and spending levels



Inflation and
caseload increases



Budget
(Without regard to
existing revenue or
forecast)

New Formula

Core Principles

- 1-----
- 2-----
- 3-----
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400+ Agencies



Prioritize
agencies
and
programs
within
existing
revenue



Budget
(balanced within
existing revenue)