

LEGISLATIVE RESEARCH UNIT

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ZERO-BASED BUDGETING IN OTHER STATES

You asked whether other states use zero-based budgeting (ZBB), or modified versions of it, in their budgeting processes. On October 23, as a preliminary response to your inquiry, we e-mailed to you two reports from other sources on this topic:

- (1) "Staying the Course: The Use of Performance Measurement in State Governments" from the IBM Center for The Business of Government.
- (2) "Five Actions to Enhance State Legislative Use of Performance Information" from the National Conference of State Legislatures.

We describe below other reports on ZBB; recent Illinois bills proposing its use; and other states' laws. We also enclose another National Conference of State Legislatures report giving general information on ZBB and states' experiences with it.

Background

ZBB is a process in which the budget for every program and agency starts at \$0, and each program must be evaluated to decide whether it should be funded.¹ Some states use modified forms of ZBB, such as "sunset" laws under which entire agencies or programs must be periodically evaluated to decide whether they should continue.²

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Proponents of ZBB argue that it can be used to:

- focus on analysis and decision-making instead of the amount of incremental funding increases;
- eliminate or reduce low-priority programs;
- force managers to examine the cost-effectiveness of each program; and
- insure that agencies use existing resources effectively, slowing the growth rate of spending and taxes.

Opponents counter that ZBB will not work for the following reasons:

- most spending growth results from public assistance or other entitlement programs over which states have only limited control;
- paperwork and other required activities consume most cost savings;
- interest groups view ZBB as a threat to their objectives and will strongly oppose major cuts in their area of concern; and
- program managers will not readily provide information that could result in spending cuts.³

Illinois Bills

A search by computer⁴ for Illinois bills on ZBB from 1990 to 2008 found five, which we describe below.

In 1991, H.B. 163 (Bob Olson et al.) would have appropriated \$1 to the Bureau of Budget to study the merits of zero-based budgeting. It was recommended "do pass" in committee, but was tabled for lack of Third Reading by the deadline.

In 1994, H.B. 2920 (Stephens-Meyer-Moffitt-Biggert-M.Weaver et al.) proposed a "Zero-Based Budget Act" to change the process for the Governor, Bureau of the Budget, and executive agencies to assemble their budget request each year, phased in during the years 1995 to 1997. It was never assigned to a substantive committee. We describe its major provisions below.

The bill would have required identification and prioritization of "budget units." (That term was not defined in the bill, but is generally used in the ZBB context to mean government programs, activities, and functions that receive appropriations).⁵ For each budget unit, the executive agency involved

would have to assemble statements on all substantial aspects of agency operations, priorities, and activities, specifically including:

- a description of each program's objectives;
- a description of activities that are intended to accomplish those objectives;
- an indication of performance quantity and quality of those activities;
- a ranking of activities by priority;
- the funding and personnel required to accomplish each activity; and
- a statement of the effects⁶ if each activity were funded at 70% of its current level.

In addition to those statements, the bill would have required the Governor's budget to include the following:

- a summary of the items listed above for the current and last 3 fiscal years, including a detailed account of all funding sources for each fiscal year;
- a summary of measurements used to determine program performance and effectiveness, accompanied by a statement demonstrating the validity of those measurements;
- statements for each activity, listing separately the administrative costs and costs of providing services or benefits of the activity for the next year—and for the current and past years, actual and estimated administrative costs;
- a statement of cash and accrued liabilities of the General Revenue Fund and all special treasury funds;
- a statement of total authorized bond debt of the state, debt outstanding, and annual debt-service costs.⁷

In 1995, H.B. 486 (Schoenberg-J.Curry-Lang-Erwin-Feigenholtz et al.) proposed a "Zero-Based Budget Act." It would have required that 10% of budget units use ZBB by fiscal year 1997. It was referred to the House Committee on Appropriations—General Services and Government Oversight, but was re-referred to the Rules Committee for lack of action by the deadline.

In 1997, H.B. 499 (Schoenberg) contained similar provisions. It was referred to the House Executive Committee but re-referred to the Rules Committee for lack of action.

In 2008, Senate Bill 2470 (Murphy et al.) proposes to change Illinois' budgeting method to ZBB. It would create a ZBB task force with two tasks:

- (1) identifying steps needed to move all state agencies to ZBB, and
- (2) creating a timeline to implement ZBB by fiscal year 2011.

This bill has never been assigned to a substantive committee.

Other States' Laws

The 2008 edition of "Budget Processes in the States" from the National Association of State Budget Officers (NASBO) says that 17 states use ZBB.⁸ But a computer search of their laws found provisions on use of ZBB in no more than four. Six others use forms of sunset review; five others require justification for all expenditures for inclusion in the budget, or re-evaluation of program necessity; and the other two states (Georgia and Michigan) appear to have no laws requiring any form of ZBB (although Georgia has a bill proposing ZBB).

ZBB Laws and Bills

Delaware, Ohio, and Oklahoma require that ZBB be incorporated into budget proposals.⁹ Colorado does not mandate ZBB, but allows its Joint Budget Committee the option to require ZBB in budget proposals.¹⁰ Current bills in Georgia, South Carolina, and Utah would introduce ZBB into their budget processes.¹¹

Modified Zero-Based Budgeting

The most common form of modified ZBB is sunset review. Five of the states listed by NASBO (California, Florida, Maryland, Missouri, Montana, and Oregon) require sunset reviews of state programs and agencies before they are re-enacted.¹² Illinois' Regulatory Agency Sunset Act¹³ calls for review of various occupational and professional licensing acts, but not of state operational programs.

Justification or Re-evaluation of Expenditures

Another modified form of ZBB is requiring each agency or program to include in its budget proposals a justification of its expenditures or a re-evaluation of the priority of specific programs. This is different from traditional incremental budgeting, which merely requires a request for an amount of funding without explicit justification. Iowa, Maine, North

Dakota, South Carolina, and Wyoming require justification of expenditures, or re-evaluation of programs, in all budget proposals.¹⁴

We hope this information is helpful. Please let us know if we can be of further assistance.

Sincerely,



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Enclosure

National Conference of State Legislatures, "Questions and Answers on Zero-base Budgeting" (undated, provided by Judy Zelio, Program Director, Fiscal Affairs, National Conference of State Legislatures, Denver.)

Notes

1. "Fundamentals of Sound State Budgeting Practices" (June 1995, reviewed Jan. 2004, downloaded from National Conference of State Legislatures Internet site).
2. "Budget Process—State Budget Process" (downloaded Oct. 28, 2008 from Idaho legislative Internet site).
3. George W. Downs and Patrick D. Larkey, *The Search for Government Efficiency: From Hubris to Helplessness* (1986), pp. 174-175.
4. We searched Illinois bills from 1990 to 2008 by computer for any of the following terms: "zero" and "budget" in the same paragraph; "zero base__"; or "zero-based".
5. The literature on zero-based budgeting also describes budget units as government programs, activities, or functions. Traditionally, the only activities counted for zero-based budgeting purposes are those that get appropriations. See U.S. Office of Management and Budget, Bulletin 77-9 (April 19, 1977), reprinted in Albert C. Hyde and Jay M. Shafritz, eds., *Government Budgeting: Theory, Processes, Politics* (1978), pp. 306-321.
6. 88th General Assembly H.B. 2920, subsecs. 5(a)(2)(A) to (F).
7. 88th General Assembly H.B. 2920, subsecs. 5(a)(3) to (7).
8. "Budget Processes in the States" (summer 2008, downloaded from National Association of State Budget Officers Internet site).

9. Del. Code Ann., tit. 29, sec. 6334; Ohio Rev. Code Ann., sec 126.02; and Okla. Stat. ann., sec. 62-41.29.
10. Colo. Rev. Stat., sec. 2-3-207.
11. 2007 Ga. S.B. 12; 2007 S.C. H.B. 4623; and 2007 Utah S.B. 63.
12. Cal. Bus. & Prof. Code, sec. 474.2; Fla. Stat. Ann., secs. 11.901 and 11.902; Md. St. Gov. Code Ann., sec. 8-402; Mo. Rev. Stat., secs. 23.250 to 23.298; Mont. Code Ann., sec. 17-1-508; and Ore. Rev. Stat., sec. 291.214.
13. 5 ILCS 80/1 ff.
14. Iowa Code Ann., sec. 8.23; Me. Rev. Sta. Ann., tit. 5, sec. 1665; N.D. Cent. Code, sec. 54-44.1-06; S.C. Code Ann., sec. 11-11-30; and Wyo. Stat., sec. 28-1-115.