RESEARCH BRIEF
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Saving Money by Changing How We Spend Money: Budget Process Reform

In lean times, such as those endured by the state of California over the past decade, added scrutiny is focused on every item in the state budget—and even on the budget process itself. In the past 15 years, 18 study groups have offered more than 100 proposals for reforming at least one feature of the state's budget process. Many of these have focused on the detailed administrative mechanisms, or practices, by which the budget is put together each year. These practices govern how budget requests and proposals are developed in executive branch agencies or how budgetary information is communicated and refined within and between the executive and legislative branches.

The premise underlying such scrutiny is that current budget practices might be made more efficient, or that efficient practices could be adopted, so that taxpayer money could be freed up for other, more urgent state government functions. In *Budget Practices and State Expenditures: Lessons for California*, PPIC research fellow Jaime Calleja Alderete examined these propositions in depth. Measuring the experiences of other states and through other methods, he found that California might indeed save taxpayer money through adoption of certain budget practices. However, other practices he examined were unlikely to produce much in the way of savings, and some would probably cost more, in financial and other terms.

The specific budget practices analyzed included:

- **Funding targets:** These are the bottom-line budget numbers that executive branch agencies are told they must adhere to when developing their budgets, before the official budget is finalized and presented.
- **Legislative access:** Members of the state legislature are informed about executive agency budget requests before the annual budget is officially presented to them for debate and adoption.
- **Mid-session revision:** The budget submitted to the legislature is updated midway through the process to reflect more recent, and presumably more accurate, economic and financial data.
- **Performance measurement:** Government agencies use benchmarks of their success in carrying out their missions. These include such measures as test scores for education agencies or recidivism rates for corrections departments.
- **Performance management:** Performance measures are used more explicitly to guide and manage internal agency budgetary decisions and implementation of programs.
- **Performance budgeting:** Performance measures become the justification for most, if not all, funding decisions.

Of these, California uses only one—mid-session revision, known colloquially in the state as the "May revision." Although the use of the three performance-based practices has risen in popularity among other states over the last few years, California has not participated in this trend (except for a small, short-lived pilot program in the 1990s). Other high-population states, including Florida, Texas, and Illinois, use or allow the use of five of the six.

Budget Practices in Selected States, 2005

	California	Florida	Illinois	New York	Texas
Funding targets			✔	✔	
Legislative access		✔			✔
Performance measurement		✔	✔	✔	✔
Performance management		✔	✔	✔	✔
Performance budgeting		✔	✔	✔	✔
Mid-session revision	✔	✔	✔		✔

Budget Practices That Save Money

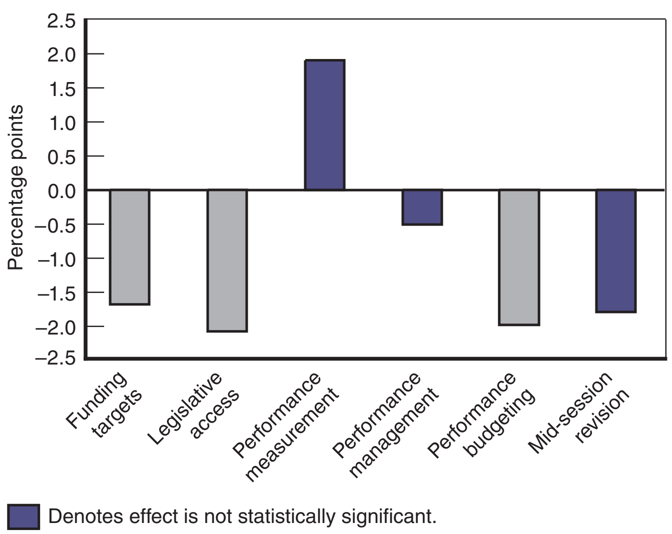
Calleja Alderete found that only three of the six practices saved any money. Legislative access had the greatest effect—2.1 percent savings per capita on average. In some categories of government services, legislative access provided even more savings. In the social services category, for example, savings were more than 7 percent. One possible explanation for this effect is that legislative access facilitates communication between the executive and legislative branches at an early stage in the budget process and thus makes for more efficient decisionmaking.

Funding targets, another mechanism that California does not use, also reduced expenditures, by 1.7 percent per capita. Again, the savings were more marked in some specific program categories, such as environment and housing, where savings were measured at more than 10 percent. However, funding targets also appeared to raise costs in two other spending categories, government administration and social services.

Performance budgeting reduced expenditures by 2 percent per capita on average. It appeared to reduce spending for K–12 education by about 8 percent, but it also appeared to raise costs for transportation and for environment and housing services.

Neither performance measurement nor performance management had a significant statistical effect on reductions in government expenditures. Similarly, states like California that used mid-session revision appeared to spend 1.8 percent less on average than states that did not but, again, these effects were not statistically significant. Statistically significant results appeared at different times and lasted for different durations.

The Effects of Budget Practices on State Expenditures per Capita



Policy Effects

Which practices might California policymakers consider adopting? Performance budgeting first requires the development of performance measures. These in turn require additional funds to create and implement, but the evidence indicates that these costs are not so high as to outweigh the reductions that would ultimately be derived from adopting performance budgeting.

Similarly, it appears as though the adoption of funding targets would contribute to leaner California budgets in the long run. The only consideration for the executive branch would be whether to incorporate targets explicitly as a permanent requirement in developing budget requests. Adoption might not necessitate substantial changes in current practices and would likely face little or no political resistance.

Legislative access, however, which could reduce expenditures in the long term, would likely face stiffer resistance. Much of the budgetary power in California, at least at the beginning of the process, rests with the executive branch. The confidentiality of executive agency budget requests stems from the need to keep executive unity and control of the budget—one of the main concerns when California's modern budgeting system was designed in the early twentieth century. Allowing members of the legislature an early look at the budgets proposed by executive branch agencies would likely require arduous political negotiations.

This research brief summarizes a report by Jaime Calleja Alderete, Budget Practices and State Expenditures: Lessons for California *(2007, 102 pp. $12.00, ISBN 978-1-58213-125-2). The report may be ordered online at www.ppic.org or by phone at (800) 232-5343 or (415) 291-4400 (outside mainland U.S.). A copy of the full text is also available at www.ppic.org. The Public Policy Institute of California is a private, nonprofit organization dedicated to independent, objective, nonpartisan research on economic, social, and political issues affecting California.*

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