



Wolfgang Opitz

Results-Based Budgeting: Making Ends Meet in Washington State

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Opportunities to change the fundamental approach to budgeting comes around only rarely. For years we have preached the critical importance of focusing on results – and we are heartened by the overwhelmingly positive response from the press, the public and the legislature in Washington. When leaders demonstrate that the tough decisions they have made are designed to deliver the results most important to citizens, citizens respond.

“The usual, political way to handle a projected deficit is to take last year’s budget and cut. It is like taking last year’s family car and reducing its weight with a blowtorch and shears. But cutting \$2 billion from this vehicle does not make it a compact; it makes it a wreck. What is wanted is a budget designed from the ground up.”

—*Seattle Times* editorial, Nov. 17, 2002

“S tates face the most dire fiscal situation since World War II,” the National Governors Association and the National Association of State Budget Officers declared in November 2002. In fiscal 2002, state revenues actually declined for the first time since the associations began keeping records. They cited four converging factors: an explosion of health care costs, a collapse of capital gains tax revenues, slow economic growth, and outdated revenue systems that tax less and less of the new economy. “Many states have exhausted budget cuts and drawing down rainy-day funds,” the report concluded, “and the most difficult decisions still lie ahead.”

By late February, with only four months left in fiscal 2003, states still faced deficits of \$30 billion. Fiscal 2004 looked even worse, with states reporting \$82 billion in expected shortfalls. In most states, no easy choices remained to plug these holes. The rainy day funds were dry. Across-the-board cuts had been made. Expenses and payments had

been shifted into future years.

Washington State was no exception. In the 2001-03 biennium, general fund revenue declined for the first time in 30 years. Halfway through the biennium the governor and legislature had to cut \$1.5 billion and eliminate 1340 jobs.

The process frustrated Democratic Gov. Gary Locke and his staff. “Every step we took, we asked ourselves, why are we so focused on the cuts and not on the keeps?” says Marty Brown, director of the Office of Financial Management (OFM). “We were missing something. We knew it in our guts.”

Gov. Locke was tired of across-the-board cuts. He wanted to focus on the big question: What should state government do and what should it stop doing? In the upcoming biennium, he faced an estimated \$2.1 billion deficit in the general fund – almost 10 percent – plus another \$600 million in the health services account. “Closing the gap we face in the next biennium would require an across-the-board cut of 15 percent – if that’s all we did,” the governor announced. “And that is not what we are going to do. I don’t want to thin the soup.

I want state government to do a great job in fulfilling its highest priorities.”

In August 2002, Locke’s chief of staff, Fred Kiga, asked The Public Strategies Group, Inc. (PSG) for help. “PSG made Washington State an unreasonable proposal,” says PSG’s Peter Hutchinson. “In the time available—which was ten weeks—we were not going to help them find cuts equivalent to 15 percent of their general fund budget. We shifted the focus from spending cuts to helping them buy the best possible results for citizens with the resources they did have.”

Like most governments, Washington traditionally started with last year’s budget and added money to cover inflation, caseload increases, and the like. Then it asked each agency to propose cuts. “But this familiar approach accepts, with little question, most of the status quo level of spending,” said Marty Brown, Director of OFM, “and leads quickly to discussions about how fairly we’ve treated each agency’s programs in the cut exercise.”

In contrast, Hutchinson proposed a top-to-bottom review of everything state government did— from the citizens’ per-



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spective, not the agencies'. He proposed to start by focusing not on last year's spending but on the results or outcomes the governor wanted to produce for the citizens of his state. He urged the governor and his staff to focus not on how to cut 15 percent but on how to maximize the results produced with the remaining 85 percent. Gov. Locke decided this unreasonable approach was the only reasonable thing to do.

Turning The Budget Process On Its Head

PSG helped the governor's budget staff design a process to answer four key questions:

- How much are citizens willing to spend?
- What results form the core of what must be done and done well to serve the citizens of Washington?
- How much will the state spend to produce each of these priority outcomes?
- How best can that money be spent to achieve each of these outcomes core results?

These four questions evolved into a four part plan of action for the budget.

1. Set the price of government.

Setting the price, or judging what Washington citizens were willing to spend, was the first task of a Guidance Team, made of up senior cabinet members, including Chief of Staff Fred Kiga, and several leaders from business and private think tanks.

In early November of the previous year, despite heavy lobbying by Locke,

led the team to advise the governor against raising taxes. So Gov. Locke chose to build the budget on expected revenues, with no tax increases.

The Guidance Team also decided that the process should include all available funds, widening attention beyond the state's general fund to include its dedicated funds and revolving funds, as well as monies raised and spent locally by cities, counties and schools. Thus, the price of government was set at current revenues from all sources for all governments in the state.

2. Set the priorities of government.

Here a Staff Team made up of senior people from the Office of Financial Management assisted the Guidance Team. Working together and using information from the Governor's office, they identified the key results they believed the citizens most wanted from government in Washington. The Guidance Team improved on that list, which the governor subsequently called the "Priorities of Government." These 10 results challenged government in Washington to deliver to citizens improvements in:

- Student achievement in elementary, middle and high schools;
- The quality and productivity of the workforce;
- The value of a state college or university education;
- The health of Washingtonians;
- The security of Washington's vulnerable children and adults;

voters had soundly defeated a gas tax increase to pay for long-needed transportation projects — another in a string of successes for a powerful anti-tax coalition. This reality — plus a fear that tax increases would further depress the state's economy —

- The vitality of businesses and individuals;
- Statewide mobility of people, goods, information and energy;
- The safety of people and property;
- The quality of Washington's natural resources; and
- Cultural and recreational opportunities.

3. Allocate available resources across the results areas.

The next challenge was to decide how to allocate the available resources (the price) among the 10 results. The two teams set aside 10 percent of the budget for overhead functions, such as pension contributions, debt service and internal services. Then they parceled the rest out among the 10 results, using a citizen's point of view — based on perceived value — rather than an analysis of past practice. In some areas their choices reinforced past patterns, but in a few they made strategic changes — allocating more resources to student achievement, for example, and fewer to public safety.

4. Develop a purchasing plan for each result.

The Staff Team then put together 10 "Results Teams," one for each outcome. The job of each Results Team was to produce a purchasing plan, to procure the best possible results for citizens, given their available resources. Teams included knowledgeable people from agencies involved in that policy area. A senior staff member from the Office of Financial Management chaired each team.

"We asked them to forget the loyalties they have to the agencies they represent," said Gov. Locke. "Be like citizens," we said. "Tell us where to put the money, so we get the best results. Tell us what similar programs can be consolidated. Tell us what programs don't make a large enough difference in getting the results we want."

Each of the 10 Results Teams went through three tollgates — or check-ins with the Guidance Team. Ahead of each

tollgate, the Staff Team looked at the Results Teams' work and suggested ways to improve it. After each tollgate, the teams received feedback from the Staff and Guidance Teams, to guide their next submission.

At the first tollgate, teams had to present three concrete indicators they would use to measure progress toward their outcome. They also had to present a "strategy map," backed by evidence of best or promising practice, to show an explicit cause-effect way to achieve their desired outcome.

At the second tollgate, each team had to present its general purchasing plan - the five or six key purchases and/or strategies it would use to achieve the desired outcome. Both these steps stimulated a kind of creativity that is absent from traditional budget processes. Asking how to produce specific results, rather than how to cut budgets, elicited far more strategic thinking about the best uses of public money.

For example, the team responsible for improving student achievement said they needed to purchase more early childhood education, started to move to a "pay for skills" compensation system for teachers, and moved away from an across-the-board basis of funding toward targeted funding for those schools and kids most in need. The health team decided the highest impact strategies focused on *prevention* — mitigating environmental hazards, improving food sanitation, providing public health clinics, and the like. They proposed spending more on these strategies and less on health insurance for childless adults.

Before tollgate three, the 10 Results Team leaders met together to talk about what they needed to purchase from one another. The higher education team decided to use some of its funds to pay for better K-12 education to improve the educational competencies (and minimize remediation needed) among its incoming students. Two teams jointly bought improved water quality, to leverage both health and natural resources outcomes.

Several teams decided to use some of their money to fund prisons, to reduce the number of low-risk prisoners who had to be would have been released early. This cross-team buying was important because the work of state government is so interconnected.

Finally, the process turned to existing state activities — where traditional budget processes start. Each Result Team was given a subset of the 1300 state activities funded by the traditional budget. "Their mission," the governor explained, "was to get more yield on less acreage." To do so they had to put together a detailed purchasing plan, indicating four things:

- what they would buy now — both new and existing activities;
- what else they would buy if they had more money;
- what they would eliminate first if they had less money; and
- what they would not buy.

This third product gave the Staff Team and Guidance Team a prioritized ranking of all existing activities of state government. Using these and similar rankings provided by the agencies, they made final recommendations to the governor. The result: 10 sets of recommendations for state government that linked key results, success indicators, strategies and purchase plans.

The governor embraced the product, following the purchase plans closely in finalizing his budget proposal. Under each of his 10 priority results, his budget showed those activities that would be purchased and those that would not. It was clear, easy to understand, and it explained why some activities continued and others were eliminated.

The governor held back some of the more far-reaching reform proposals, such as the K-12 education reforms mentioned earlier, for further work. He proposed a joint legislative-executive study of the K-12 financing system to examine the options more carefully and build the

political support necessary for reform.

"Never Was Such Bad News Received So Well"

Gov. Locke had warned that the budget would be painful, and it was. It proposed to eliminate health insurance for nearly 60,000 of the working poor, dental, hearing and optometric coverage for poor adults on Medicaid, and 2,500 state jobs. If passed, it would suspend cost-of-living increases for state employees, eliminate teacher pay increases, and suspend a \$221 million class-size-reduction effort mandated by a citizen initiative. University tuition would rise by 9 percent a year for two years; 1200 low-risk felons would leave prison early; and a series of smaller programs would shut down.

Yet, the editorial response was overwhelmingly positive. As former chief of staff Joe Dear put it, "Never has such bad news been received so well."

"Gov. Gary Locke's budget is a big step forward for Washington," declared the *Seattle Times*.

"Few Washingtonians will find much to like about the brutal state spending plan Gov. Gary Locke recommended Tuesday," added the *Tacoma News Tribune*. "But as ugly as the result was, there's a lot to like about the way Locke and his staff arrived at it, using a new process that forced hard choices about the core priorities of state government."

Liberal interest groups such as labor objected strenuously to the deep cuts. But conservatives applauded. "Three cheers!" said the conservative Evergreen Freedom Foundation. "OFM's model will revolutionize state spending and take necessary steps toward assuring accountability to taxpayers."

After six years in office, Gov. Locke had been widely seen as a status-quo manager. But by setting clear priorities and making tough choices — while refusing to raise taxes or make across-the-board cuts — he transformed his image. When Republican John Carlson ran against him in 2000, his central message

was that Locke had failed to show any leadership. Soon after the budget was released, he wrote a column indicating he had changed his mind. Locke's "newly proposed \$22.9 billion budget for the next two years is a work of bold, impressive statecraft," he wrote. He told the *Seattle Times*: "He is willing to face down the most powerful interest groups in his own party to bring this budget in without a major tax increase. Genuine leadership is doing what must be done when you don't want to do it. And I think the governor is doing that."

In a late January survey, voters agreed. Sixty-four percent endorsed the following statement: "Whether or not I agree with all of the Governor's budget recommendations, I respect his leadership and vision to solve the current problem and get the state's economy back on track." Only 29 percent disagreed.

Republicans in the legislature also liked the new budget format. "It was astounding," said OFM Director Brown. "I've never been to a set of hearings where the reception was so positive, despite the amount of bad news we had to deliver." With the budget framed around 10 desired results and all activities listed in order of importance – including those that would survive and those that would be eliminated – legislators found the budget documents very clear. "They seemed to understand the whole picture. I think there have been a lot of 'aha' moments when we've presented it to the public and to interest groups: Here's the \$24 billion we're buying and the \$2.4 billion we're not."

One committee chair asked what would happen if a proposed revenue change in health care were not approved, OFM Deputy Director Wolfgang Opitz, recalled. "I said: 'Move the line up by \$389 million. That shows you what's still on the list and what's off.' There was no hemming and hawing. It made it very clear that amending a recently passed public initiative was better than cutting deeper into the Medicaid program."

So, How Did It All Turn Out?

In early April, when the state Senate released and passed its own budget, it

began with the words: "Following the Governor's Lead." Public reaction was similar. "When we've taken this to the public, no matter what the setting – business, labor, social services advocates, health care, the classroom, the Rotary meeting – people understand what we're doing and not doing in a much more fundamental way than ever before," according to Opitz. "When they say, 'Well, I don't like that cut,' I respond by asking, 'Then what from above this line do you not want to do?' And the response is usually 'Oh... Well, I'm learning to like the cut a little more now.' It seems to help re-subscribe everyone to the basic business of state government."

But as clear as some of the choices may have seemed, the decisions of the legislature were anything but easy. Though often deeply divided on whether to increase taxes to pay for popular public initiatives or to restore expiring tax exemptions to stimulate the economy, the Legislature ended up with a budget that was remarkably close to Gov. Locke's original proposal. Legislators approved Locke's major sentencing reform in criminal justice and his proposed delay in popular publicly passed initiatives that would have further reduced class sizes in K-12 and guaranteed automatic pay increases for teachers. They also agreed to amend another public initiative-backed plan to expand health insurance coverage in the state basic health plan, to allow its revenue to go toward current programs.

Upon the passage of the operating budget, Gov. Locke commented, "When I proposed the Priorities of Government spending plan, I knew this budget had plenty of pain to go around. I know it was hard for the Legislature to enact these difficult solutions. But our legislators passed a responsible budget well suited for difficult times – a budget that sets priorities and does not rely on gimmicks or tricks. I'm proud of what they accomplished in a bipartisan fashion. In many cases they adopted my priorities, and in a number of cases they worked creatively to improve on what I proposed."

Legislative floor speeches, editorials, and columnists all highlighted the impor-

ance of the Governor's initial budget. "Locke changed this year's budget debate before it began," veteran political reporter Peter Callaghan said in his *Tacoma News Tribune* column. "...the building blocks were placed by Locke."

As the June 8, 2003 editorial in *The Seattle Times* went on to say, "The Governor's priorities-of-government plan was a success. Automatically raising taxes to bolster a deficit is old school budgeting. In the template Locke offered and the Legislature approved, the budget doesn't raise general taxes. The budget brings pain to many programs, but the priorities-of-government approach will be with us awhile."

Presented in the terse prose of a budget proviso, POG, the priorities of government approach to budgeting now has formal endorsement from the Legislature, adding momentum toward the permanent adoption of this approach. Section 128(2) of the 2003-05 operating budget said, in part, "By November 15, 2003, the office of financial management shall report...on the ten general priorities of government upon which the 2005-07 biennial budgets will be structured. Each priority must include a proposed set of cross agency activities with definitions and outcome measures. For historical comparisons, the 2001-03 expenditures and 2003-05 appropriations must be restated in this format and organized by priority, activity, fund source, and agency."

Looking Back, Looking Forward

At the conclusion of the legislative session, Deputy Director Opitz reflected on a few key ingredients he considered vital to Washington State's success, starting with "Leadership counts!" In Opitz's opinion, having all three key leaders of the budget development process – Gov. Locke, Chief of Staff Kiga, and OFM Director Brown – solidly on board made it clear that they were serious – and energized the many leaders at other levels of the process. Other key lessons to which Opitz ascribes their success:

- **Do your homework.** For Opitz, it was important to come to grips with the size of the budget problem and with the need for a radically different

approach. Then, “we shared our information and analysis with everyone we could think of to get a wide understanding of the depth of the problem.”

- **Take the enterprise-wide view.** Like most, Washington was used to looking primarily at the General Fund, which in this case was only 40 percent of all monies available. Looking across the whole enterprise made more visible the contributions to the ten results from different agencies and from the different funds. Opitz says, “An agency-specific approach would have focused much more energy on likely have resulted in concerns about a “fair” distribution of the budget pain, rather than on the Governor’s ten but would not have been as clear about our priorities.”
- **Encourage creativity over precision.** To get out of its their large budget gap, state government they could NOT do things as they it had. Opitz says, “Believe it or not, it was important to lower our standards. In an ideal world, an activity based costing model would have been tested, data definitions agreed upon, systems built, instructions issued, training conducted, and analysis performed. This time, we relied on a sense for when we had *sufficient* information upon which to base a decision. We found the phrase ‘progress not perfection’ to be a good motto.” Encouraging innovation over precision helped them get clear about the end results that mattered – and the best minds focused on how produce them.
- **Use time constraints to your advantage.** The POG process imposed unreasonable time frames and unreasonable demands on people. This effort caused all involved to leave their comfort zones. But the tight time frame helped force the hard choices. “The shorter time line created urgency – and finality – in the decision process,” said Opitz. “This added pressure, but also added pace and focus.”
- **Bring in communications and policy people up front.** POG was not just a budget exercise – it was a fundamental reexamination of the state’s priorities.

Opitz advises others to “get communications and external relations staff involved from the outset. Doing so ensured that we talked about the approach consistently and effectively” to the media and the public.

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The staff in the Office of Financial

Management – who already deserve enormous credit for seeing this transformation through to this point – will need this public support to complete the task of permanently reinventing the way Washington budgets. There is much work left to be done, including definition and measurement of the results of every strategy funded by the budget. Major system changes, development of new analytical tools, and a basic culture change in the way decisions are made are all well underway.

There are great benefits to seizing this golden moment. Perhaps most important, this results-based budgeting help public leaders win back some of the support government has lost in recent decades. In December 2002, when Locke introduced his budget, the *Everett Daily Herald* put it well: “The public is not in a forgiving mood. It still holds a grudge for a government it sees as wasteful and unresponsive. Locke’s plan, or one like it, might be a good step toward proving otherwise. The more thrifty government becomes, the more generous voters might be at the ballot box in years to come.”

Bios

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