The Sacramento Bee

Date: Tuesday, April 20, 2010
Location: SACRAMENTO, CA
Circulation (DMA): 279,032 (20)
Type (Frequency): Newspaper (D)
Page: A11
Keyword: Reason

DAVID OSBORNE | **Special to The Bee**

Make state programs compete for funds

California often leads the nation, and the current fiscal crisis is no exception. With its repeated use of borrowing and fiscal sleights of hand, the Golden State has become a poster boy for irresponsibility.

Californians are sick of watching their leaders kick the state's fiscal problems into the future. They are also tired of sterile debates about how much to spend on X vs. Y, with no attention to the results these expenditures produce or the long-term liabilities they create for the state.

One big factor contributing to fiscal paralysis has been the two-thirds requirement, in both houses of the Legislature, to approve a budget. Yet without some other form of fiscal discipline, citizens are not likely to consider repeal. To create that discipline, California's elected leaders might consider a new approach, called "Budgeting for Outcomes." It helps leaders rank programs according to how cost-effective they are at achieving the results citizens want, then eliminate the low-ranked activities.

The Public Strategies Group developed this approach to help Washington Gov. Gary Locke close a nearly 15 percent budget gap in 2003. Since then, it has spread to more than 20 other states, cities, counties and school districts.

David Osborne, a senior partner at the Public Strategies Group, is author of a new report by the Reason Foundation on "Budgeting for Outcomes" in California.

As with other reforms, its success depends on leaders' courage to make hard choices. But it can help them make those decisions in a more rational and transparent way.

It starts where most budget processes end: Elected leaders decide how much they want to spend next year. They make a policy decision, up front, whether to raise or cut taxes and fees. (They can revisit this decision at the end of the process, of course.) Then they work with citizens to define the eight to 10 results most important to them – a better economy, better schools, better health, better safety, better mobility, a cleaner environment, and so on. They decide how much each of these outcomes is worth and divide the money among them.

This creates eight to 10 finite pots of money, for which programs must compete based on their value, the results they produce per dollar. This is the real magic: Competition for scarce resources forces creativity.

For each pot of money, leaders assign a team of experts with no ax to grind or budget to protect. These "results teams" act as buyers for the citizens. Their task is to produce the outcome, not to fund programs.

"Better mobility" might not mean more money for the Highway Patrol or the Department of Transportation; it might mean congestion pricing on toll roads and more fiber optic cable.

Results teams start by researching what factors most affect their desired outcome. Given that analysis, they recommend what strategies the state should pursue. Then they ask program managers – the sellers in this marketplace – to make their best offers.

These offers define the program, its results (or evidence that it will produce results, if it is a new idea), and its price. All tax expenditures – tax breaks for particular activities – are treated as offers, just like other spending programs.

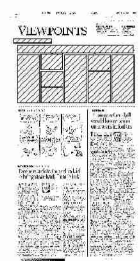
The results teams rank their offers from most cost-effective to least, draw a line where the money runs out, send the rankings back out and ask for better offers. At this point government managers wake up, particularly if their requests are ranked near or below the line. When they realize their jobs are at risk, they scour the globe for new ways to produce better results with less money.

When the second offers come in, the results teams again rank them, buy from the top and draw a line when the money runs out. They send their rankings to the elected leaders, who use them to put together the budget. (Normally the executive does this and presents the budget to the legislature, but given California's political stalemate and two-thirds requirement, the governor and legislative leaders might be wise to collaborate.) Adjustments to reality are always necessary: Some low-ranked programs are mandated by the courts, for instance, or by voter initiative. But most of the rankings hold, and the budget thus proposes to fund those programs that will produce the best results.

It can be summarized in one page per outcome: a list of programs to be funded, a line, and below that, a list of programs the state can no longer afford, because they don't produce enough value. Every citizen can understand it, because it reflects common sense and taxpayers' priorities.

This process does not eliminate pressure from interest groups, but it does force them to fight on new turf. At budget hearings, legislators ask them questions like, "What program should we move below the line to accommodate your program, and why would your program produce better results?"

And that is exactly the kind of debate we need, if California is to avoid insolvency.



© 2010 Sacramento Bee
All Rights Reserved.

Account: 6569XP (2559)
CA-549

To order reprints, go to theygsgroup.com/mcclatchy. For instant permission to use this content, go to copyright.com or call 978-750-8400