

Presentation to Task Force on Structural Change

Budget Methods and Reforms: Making Better Decisions

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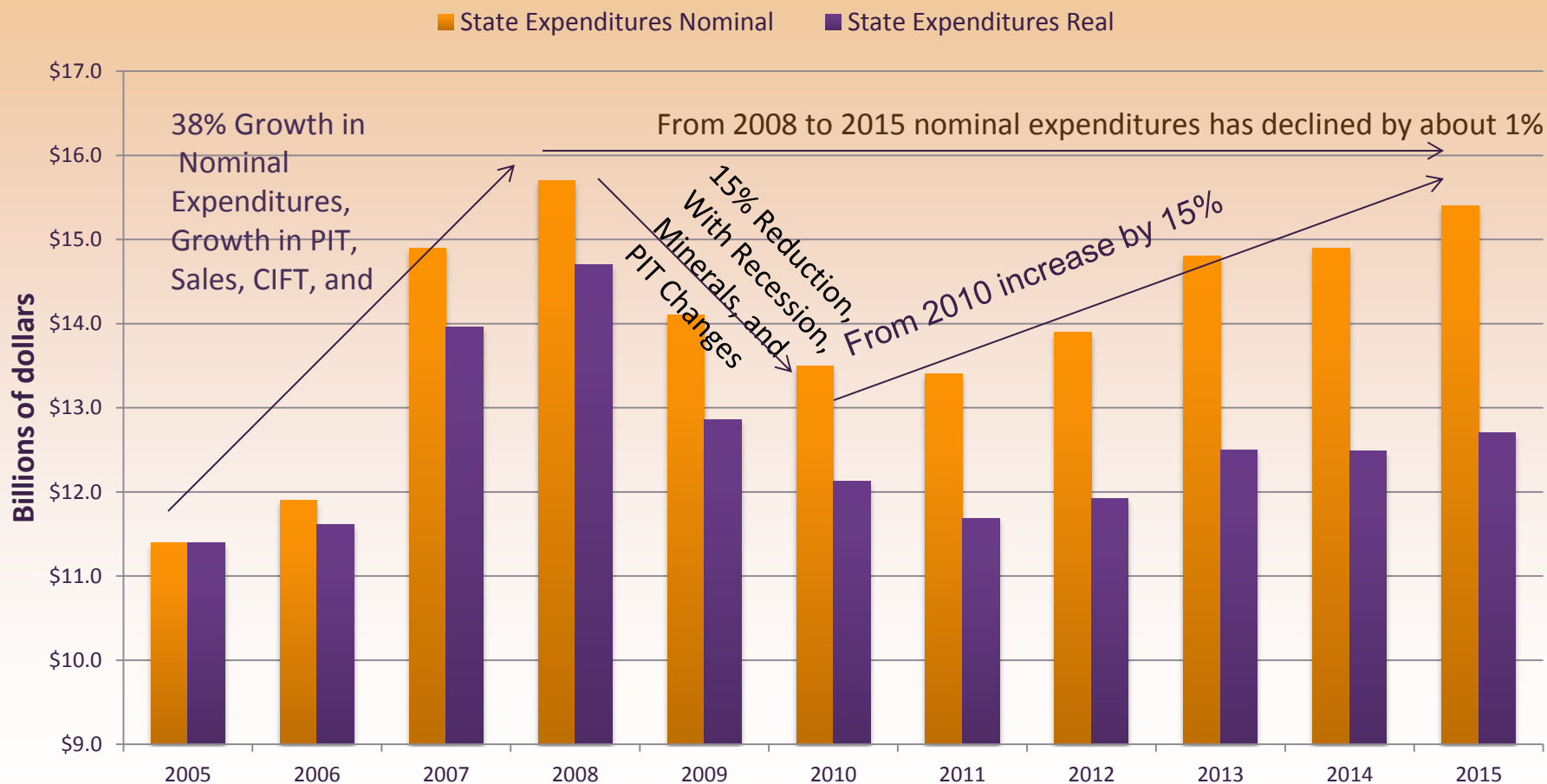


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Budgeting Process

- ◆ Budgeting Process is Ongoing.
- ◆ *Process for fiscal 2018 is about to start*
- ◆ Process includes
 - **Chief Executive will state his/her chief goals**
 - Projection of autonomous inputs such as inflation, population of service groups, etc.
 - Projection of costs of program—salaries, services, etc.
 - Different Sources of Revenues
 - Procedures for all agencies to follow
 - Time schedule to be followed
 - Starting point: last year's budget, a stated amount, etc.
- ◆ Budget Justification: What will program do for state

Nominal and Real State Expenditures, 2005 - 2015



Comparison of Sources of Funds

Year	State General Fund	Fees and Self-Generated	Statutory Dedications	Federal
1997	45.6%	11.9%	11.5%	31.0%
2005	38.2%	12.3%	15.6%	33.8%
2008	34.9%	7.8%	13.9%	43.4%
2013	33.6%	9.1%	13.0%	44.4%

Comparison of Expenditures

Year	BESE/MFP	Higher Education	Health and Hospitals	Public Welfare	Transportation	Others
1997	22.4%	15.0%	38.6%	5.8%	2.6%	15.6%
2005	23.5%	13.3%	37.4%	5.7%	2.4%	17.8%
2008	19.2%	10.1%	27.0%	4.0%	1.8%	37.8%
2013	22.5%	12.5%	39.1%	3.3%	2.2%	20.2%

Using Budgeting Process to

Make Better Choices:

And Budgeting is About Making Choices

**FOCUS ON WHAT ARE WE GETTING, NOT
JUST WHAT WE ARE BUYING**

Budgeting Alternatives

- Traditional Performance Budgeting
- Planning, Programming, Budgeting—1960s
- Zero-Based Budgeting—1970s
- Performance Based Budgeting
 - Model 1
 - Model 2
 - Model ???

Performance Budgeting

- Agency lays out budget—its request for dollars
- Agency notes its performance—what is being accomplished
- Establishing performance objectives
- Some decisions based on projected costs alone
 - Medicaid expansion under Jindal
 - Medicaid Expansion under Edwards
- Major decisions based on other factors—major changes in charity hospitals in Louisiana
- **Measuring performance**
- “Medicare Proposal Takes Aim at Diabetes”
 - <http://nyti.ms/22E94dj>
 - Testing proposal before enacting
- GRAD Act, Board of Regents entered into six-year agreement with each of the participating institutions in exchange for tuition authority
 - Focus on student-mission
 - How about research-mission

Budgeting Alternative

- **Zero-Based Budgeting**
- Budget for 2018 is constructed without reference to 2017 budget
- Idea was to implement a review of entire budget and not just the increments being requested
- ZBB makes you reconsider your priorities and programs
- Not practical in many ways
 - public institutions have long-term missions
 - improve at the margin
 - Time involved—is ZBB an effective budgeting technique?
- Has not been used much since the Carter Years at the federal level
- Local governments may use to some extent
- State governments have not spent much time on ZBB
- **Performance Base Budgeting**
- **Re-inventing Government: David Osborne and Ted Gaebler, early 1990s**
- Focus is on what is being provided to society, not how it is being provided
- Multi-year plans identifying fundamental mission of agency with
 - Mission statement
 - Goals and objectives
 - How goals will be accomplished
 - Outside factors that may affect accomplishment of goals
 - Program evaluations of programs
- Annual performance plans
- Performance reports made to appropriate committees

Use of Benefit-Cost Analysis

- Public programs have multi-year time dimensions
 - Building a bridge—used for 50 years
 - Environmental improvement—forever
 - School building—multi-year development
- Similar to firm making investment
- Costs are incurred over time
 - One time costs—construction
 - Recurring costs-maintenance
- Benefits accrue over time

Use of Benefit-Cost Analysis

- Issues
 - Costs are typically known-especially upfront costs and even maintenance are somewhat predictable
 - Benefits are not as easily quantifiable
 - Choice of the appropriate discount rate
- \$1,000,000 to be received in 20 years
 - Value today if discount rate is 2%: \$672,971
 - Value today if discount rate is 10%: \$148,643
- Benefit-cost analysis can give guidance, but cannot provide indisputable answers

Appropriate Budgeting Processes Assist Us in Making Better Decisions

But Budgeting models do not replace the importance of
decision-making by public officials nor provide the
fundamental values of society